# 3.4 Methodology

## 3.4.1 SCOPES

| | Fully-consolidated companies | Voluntary companies | Divested companies |
|---|---|---|---|
| Environmental and social impacts improvement program | | X | X |
| SDG assessment | X | | |
| Climate risks | X | | |
| Non-Financial Performance Statement | X | | |



## 3.4.2 ENVIRONMENTAL AND SOCIAL IMPACTS

### SCOPE AND APPROACH

19 companies are included in the measurement of reduced impacts in 2020: AccorHotels (divested in 2018), Asmodee (divested in 2018), CPK, Elis (divested in 2019), Foncia (divested in 2016), Planet, Seqens and Sommet Education for Eurazeo Capital, Groupe C2S and Grape Hospitality for Eurazeo Patrimoine, and the Colisée group (divested in 2017), Dessange International, In'Tech Médical, Léon de Bruxelles (divested in 2019), MK Direct, Orolia, Péters Surgical, Vignal Lighting Group (divested in 2018) for Eurazeo PME.

The calculations were carried out over a period extending from the first full year in which Eurazeo held the company until 2020 inclusive (excluding divested companies).

The indicators subject to impact calculations were selected in accordance with the existence of progress approaches within the Company, and in accordance with materiality, availability and data quality criteria for the relevant years.

Four indicators are measured, three relating to environmental issues (water, energy, fuel), and a fourth bearing on employee-related items (absenteeism).

Reduced impacts are calculated on the scope of the Company (direct impacts), as well as beyond through the measurement of the environmental and economic benefits of specific initiatives that have an impact outside the Company's scope (indirect impacts).

### CALCULATION METHODOLOGIES

A size unit is chosen to measure the business volume of each company. It is used to calculate a consumption ratio. Where possible, this unit is an operational unit (e.g. kg of laundry washed for Elis, nights for Grape Hospitality, number of students for Sommet Education, number of covers served for Léon de Bruxelles or quantities produced for Seqens). In the absence of an operational indicator, the calculations were based on revenue.

The consumption ratio for the reference year defines the "basic indicator". The difference between the ratio for year Y and this "basic indicator" corresponds to improved or worsened performance. By multiplying this difference by the company's business volume for year Y, we receive the environmental savings for the year in question. Progress was measured and aggregated each year in relation to the reference year.

### CLARIFICATIONS ON INDIRECT IMPACTS

#### AccorHotels (divested in 2018): Plant for the Planet

As part of the Plant for the Planet program, hotel guests of the AccorHotels group are encouraged to reuse their towels when staying more than one night. Half of the money saved on laundry is donated to reforestation projects. In 2014, AccorHotels conducted an impact assessment of the Plant for the Planet program since its launch in 2009. It showed that the projects implemented to date will, over a reference period of 100 years, allow the sequestering of 450,000 metric tons of $CO_2$ equivalent. $CO_2$.

#### Foncia (divested in 2016): energy efficiency work

Avoided impacts were measured in 2015 thanks to the performance of maintenance work by Foncia to improve the energy performance of buildings. This work resulted in over 210,000 households enjoying total annual savings in excess of €26 million, over €110 million in four years.

#### CPK: optimizing goods transport

In 2019, the Group approached several suppliers to group together their goods transport and limit the number of trucks on the road. This initiative has helped avoid over 3,000 metric tons of $CO_2$. The gains linked to this optimization were evaluated at nearly €500,000.

## 3.4.3 SDG ASSESSMENT

The SDGs constitute a comprehensive blueprint to tackle social, environmental and economic development challenges facing the world. Adopted in 2015 by the Member States of the United Nations, the SDGs comprise 17 sustainable development goals (SDG), broken down into 169 targets and 232 measurement indicators.

An SDG-based analysis seeks to identify positive contributions and negative impacts (or obstructions) of companies.

Eurazeo conducts this assessment for companies' operations and for products and services. An assessment is systematically performed for each investment to clarify the decision-making process and define ESG progress plans during the holding phase.

In the absence of a baseline methodology to perform impact measurements, Eurazeo has developed a methodology which takes into account the related targets and objectives to assess operations and uses the Impact Management Project (IMP) framework for products and services.

### RISKS OF SDG WASHING

The defining principles of our methodology are aimed at preventing the following SDG-washing risks:

- **Positive contribution bias effect**: consists in highlighting a product's positive contributions (e.g. electric mobility) while ignoring the negative impacts in the value chain (e.g. raw material extraction, product waste and second life) or how the company manages its operations (e.g. decent working conditions);
- **Magnifying glass effect**: consists in focusing on a positive aspect of an activity, even if it only represents a small percentage (e.g. an eco-designed product which represents 1% of overall revenue, the remainder being generated by standard products);
- **Offsetting effect**: consists in reporting a neutral impact by offsetting the positive and negative impacts (e.g. production of medicine). The positive (healthcare) and negative (pollution) impacts are real and as such should be taken into consideration separately.



### ASSESSMENT OF OPERATIONS

Eurazeo selected 7 SDGs and 8 targets to assess company operations:

- SDG 4 - Quality education
  - 4.4. Increase the number of youth and adults who have relevant skills, including technical and vocational skills
- SDG 5 - Gender equality
  - 5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making
- SDG 8 - Decent work
  - 8.5.Achieve decent work for all women and men
  - 8.8. Protect labour rights and promote safe and secure working environments for all workers
- SDG 10 - Reduced inequalities
  - 10.4. Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality
- SDG 12 - Responsible consumption and production
  - 12.2. Achieve the sustainable management and efficient use of natural resources
- SDG 13 - Climate action
  - 13.1Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
- SDG 16 - Peace, justice and strong institutions
  - 16.5. Substantially reduce corruption and bribery in all their forms.

The score is calculated for each portfolio company for each of the 8 targets. The targets are then aggregated with an equal weighting for each SDG.

The impact score comprises two factors:

- **The theoretical impact level**, determined according to the significance and criticality of the target in the considered business sector. This assessment is conducted by an external firm to ensure quality and objectivity.
- **The probability of the impact's occurrence**, which depends on the measures adopted by each company to either mitigate a negative impact or strengthen a positive impact. The probability for the various selected SDG targets is derived from the indicators of the ESG reporting collected by Eurazeo from its portfolio companies. These indicators can be quantitative or qualitative:
  - 16 quantitative indicators from the reporting are used (e.g. percentage of trained employees, percentage of women in management bodies, accident frequency rate, carbon intensity, etc.),
  - 16 qualitative indicators from the reporting are used (e.g. set-up of environmental policies (water management, energy efficiency, impacts on biodiversity, etc.), Responsible Procurement, Code of Conduct, Audit Committee policies, etc.).

The scoring system has four levels, from 0 (immaterial impact) to 3 (strong impact).

| | |
|---|---|
| **IMPACT LEVEL** | Determined by the company's activities (i.e. intrinsic impacts) |
| **X** | |
| **PROBABILITY** | Determined by measures adopted by the company to improve positive impacts or reduce negative impacts |

**SDG IMPACT SCORE**



### PRODUCTS AND SERVICES

The impact of products and services is assessed based on the Impact Management Project (IMP) guidance which sets out a framework for analyzing how the management of both positive and negative impacts in relation to the SDGs is measured, reported and improved.

Firstly, the SDGs on which products and services sold by each company may have an impact are identified. Three of the five IMP dimensions - What, Who and How much - are then analyzed to assess the impact of products and services.

| IMPACT DIMENSION | QUESTIONS WHICH EACH IMPACT DIMENSION SEEKS TO ANSWER |
|---|---|
| **WHAT** | • WHAT outcome does the impact drive?<br>• How important is the outcome to the stakeholders experiencing the impact? |
| **WHO** | • WHO experiences the impact?<br>• To what extent were these stakeholders underserved in relation to the outcome? |
| **HOW MUCH** | • What is the scale, depth and duration of the impact? |

The product or service impact score for an SDG target depends on the response given to each dimension, as summarized in the following table.

| | | | | | |
|---|---|---|---|---|---|
| **WHAT** | Important negative outcomes | | Mitigation outcomes | Important positive outcomes | |
| **WHO** | Various | | | Various | Undeserved |
| **HOW MUCH** | High degree of negative change | Moderate degree of change | High degree of mitigation | Moderate degree of positive change | High degree of positive change |
| **Classification of mpact** | May cause significant harm | May cause harm | Act to avoid harm | Benefit stakeholders | Contribute to solutions |
| **Score** | - 3 / - 2 | - 1 | 1 | 2 | 3 |

The impact of a company's products and services is measured in relation to the SDGs identified for their positive contribution and their obstruction. It should be noted that positive and negative impacts are not offset.

## 3.4.4 CLIMATE RISKS

Climate risk analysis is based on financial and non-financial information (sector, location, type of facility, revenue and number of employees). It covers physical risks and energy transition risks in accordance with the French Energy Transition Law and Task Force for Climate-related Financial Disclosure (TCFD) recommendations.

Each of the five risks is assessed on a scale from 1 to 3 (1: low risk to 3: high risk). Risk assessment is based on each company's sector, geographical location and activity.

| Type | Climate risks | Potential financial impacts [1] |
|---|---|---|
| **PHYSICAL RISKS** | Physical risks result from climate change impacts: rising temperatures, drought, extreme weather events, rising sea levels worldwide.<br>Physical risks are assessed by combining their probability of occurrence and their severity. | Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions)<br>Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism)<br>Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations)<br>Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants)<br>Increased capital costs (e.g., damage to facilities)<br>Reduced revenues from lower sales/output<br>Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations |
| **TRANSITION RISKS** | **POLICY AND LEGAL** | |
| | Increased pricing of GHG emissions<br>Enhanced emissions-reporting obligations<br>Mandates on and regulation of existing products and services<br>Exposure to litigation | Increased operating costs (e.g., higher compliance costs, increased insurance premiums)<br>Write-offs, asset impairment, and early retirement of existing assets due to policy changes<br>Increased costs and/or reduced demand for products and services resulting from fines and judgments |
| | **TECHNOLOGY** | |
| | Substitution of existing products and services with lower emissions options<br>Unsuccessful investment in new technologies<br>Costs to transition to lower emissions technology | Write-offs and early retirement of existing assets<br>Reduced demand for products and services<br>Research and development (R&D) expenditures in new and alternative technologies<br>Capital investments in technology development<br>Costs to adopt/deploy new practices and processes |
| | **MARKET** | |
| | Changing customer behavior<br>Uncertainty in market signals<br>Increased cost of raw materials | Reduced demand for goods and services due to shift in consumer preferences<br>Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment)<br>Abrupt and unexpected shifts in energy costs<br>Change in revenue mix and sources, resulting in decreased revenues<br>Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations) |
| | **REPUTATION** | |
| | Shifts in consumer preferences<br>Stigmatization of sector Increased stakeholder concern or negative stakeholder feedback | Reduced revenue from decreased demand for goods/services<br>Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions)<br>Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention)<br>Reduction in capital availability |

(1) Source: TCFD 2017. Report of the Task Force on Climate-related Financial Disclosures, INDEFI analyses.

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## 3.4.5 NON-FINANCIAL PERFORMANCE STATEMENT

### PERIOD AND FREQUENCY

The report covers the calendar year from January 1 to December 31, 2020. Eurazeo's Non-Financial Performance Statement has been included in its Universal Registration Document every year since 2011.

### SCOPE

Section 3.2 meets the requirements of the Non-Financial Performance Statement, covering Eurazeo and the companies that are fully consolidated in the Eurazeo balance sheets and income statements. The portfolio companies are included in ESG reporting as of the end of the first full year of ownership.

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Information relating to Eurazeo is presented separately for clarity. Reference to "Eurazeo" covers Eurazeo's activity in France, China, the United States and Luxembourg, Eurazeo PME's activity in France and Idinvest Partners' activity in France.

The list of investments reviewed in respect of 2020 with respect to Non-Financial Performance Reporting is as follows: **2Ride Group, Groupe C2S, CPK, Dessange International, EFESO Consulting, Elemica, Eurazeo, Eurazeo PME, Grape Hospitality, Idinvest Partners, Intech, MK Direct, Nest New York, Orolia, Péters Surgical, Planet, Redspher, Seqens, Sommet Education, Vitaprotech** and **WorldStrides**.

The 2020 reporting scope includes the following changes compared with 2019: Following their divestment, CIFA and Iberchem are no longer included in the reporting scope. Elemica was recently added. These changes preclude trend analysis between 2019 and 2020.

The rules for the inclusion of entities in the reporting scope are identical for Eurazeo's reporting and the reporting of contributing companies:

- Divestments made during the course of the year are removed from the 2020 reporting scope;
- Acquisitions made during the course of the year are not taken into account in reporting in respect of 2020. They will be included in 2021 reporting;
- Companies with exceptional difficulties during the course of the year are removed from the 2020 reporting scope; They will be included in 2021 reporting;
- Reporting is broken down by entity; each entity is responsible for producing its non-financial data.

The reporting scope defined by the 2020 Non-Financial Performance Reporting law covers a total of 21 companies, broken down into 85 separate entities in 17 countries, involving over 160 contributors.

### 3.4.5.1 METHODOLOGICAL DETAILS RELATING TO RISK AND OPPORTUNITY ANALYSIS

The analysis of ESG issues that create risks and opportunities was published for the third time in this document to satisfy the Non-Financial Performance Reporting regulation.

#### ESG ISSUES CREATING RISKS AND OPPORTUNITIES FOR EURAZEO

Thirteen issues were identified using the risk matrix prepared jointly by the ESG, Legal, Digital, IT and Risk Departments.

This matrix corresponds to the risk universe that is systematically used for due diligence procedures to identify and prioritize the material issues of an investment target. The 13 issues extracted from this matrix correspond to the major priority issues that may confront Eurazeo as investor with regard to labor, the environment, ethics and human rights. Each of these issues may create various risks and opportunities which will be prioritized annually according to the changes in the Eurazeo portfolio.

The list of ESG issues that create risks and opportunities for Eurazeo is available in Section 3.2.1. The risks and opportunities relating to these issues as well as the policies and procedures rolled out are described in the Universal Registration Document in the relevant sections on each issue.

#### PERFORMANCE INDICATORS

Eurazeo identified the material indicators that can be used to enhance risk and opportunity assessment for each issue.

These indicators can be used to monitor how risks are taken into account and managed by the portfolio companies.

#### RISK ASSESSMENT AND ISSUE PRIORITIZATION

Risks were assessed for each portfolio company based on a cross-assessment of each issue between the probability of occurrence (external assessment using international sector and country indices) and the potential severity (internal assessment based on Eurazeo's knowledge of its investments, evaluated during due diligences and monitoring).

The severity assessment was weighted compared to the weight of the companies in the NAV.

Based on this assessment work, Eurazeo has prepared for each company a matrix of the ESG issues creating risks and opportunities as well as a consolidated matrix for Eurazeo, designed to prioritize issues and the portfolio companies.

The example initiatives to help illustrate the descriptions of the main issues were chosen based on the materiality of the topic for the company amongst the entire Eurazeo portfolio.

### 3.4.5.2 ORGANIZATION OF PERFORMANCE INDICATOR COLLECTION

The collection approach is set out in a protocol customized by each company.

In every company, the relevant departments manage the collection of non-financial data. Eurazeo's ESG Department coordinates the process and consolidates the information.

#### REPORTING TOOL

To collect and consolidate non-financial information, Eurazeo used an online collection, processing and consolidation tool for quantitative and qualitative data. The ESG reporting software breaks down the indicators into four themes: labor impacts, environmental impacts, respect of human rights and governance and ethics.

#### DATA CONTROL, CONSOLIDATION AND VERIFICATION

In each company, entity managers carry out the necessary checks to ensure the accuracy and reliability of the data. Local managers perform initial validation of the data using the reporting software. The software also contains the data from previous years to facilitate consistency checks, with an alert system when a 10% variation appears between the current year and the previous year. Each indicator is accompanied by a precise definition in French and English.

At Eurazeo, several internal controls have been established to ensure data reliability:

- Consistency check with the data of the previous year;
- Automatic calculation of ratios and totals in the software;
- Comparison with market and/or external data.

Finally, the consolidated data are also subject to consistency checks on consolidation. PwC, a Statutory Auditor appointed as an independent third party by Eurazeo, reviewed the ESG information published in this report. Its opinion is provided in Section 3.5.

#### CHOICE OF INDICATORS

Eurazeo's choice of ESG indicators is aimed at achieving two main objectives: managing the ESG performance of Eurazeo and its portfolio companies, and meeting reporting requirements as laid down by the Non-Financial Performance Reporting regulation. The indicators are reviewed each year with a view to achieving continuous progress. In 2020, Eurazeo's reporting framework comprised more than 100 quantitative and qualitative indicators.

The indicators formulated as yes/no questions are consolidated in accordance with one of the following two methods: (1) the answer is deemed to be "yes" for a company when units responding "yes" within the Company represent more than 50% of its reference scope (revenue for environmental indicators and total workforce for social indicators); or (2) only the holding company's response is taken into account.

#### FRAMEWORKS USED

The indicators were defined by Eurazeo in accordance with the Non-Financial Performance Reporting law requirements in collaboration with the Statutory Auditors and the portfolio companies. Eurazeo also took into account the Global Reporting Initiative (GRI) and the Advanced level of the United Nations Global Compact.

A cross-reference table (see Chapter 9, Section 9.7) indicates the cross-references with different standards used:

- The **NFPS (Non-Financial Performance Statement) law**, presented in Section 3.2;
- The **Disclosure regulation,** which introduces transparency requirements for financial market players regarding the integration of sustainability risks in their investment process, consideration of the negative impacts of their investment decisions and financial products that "promote environmental or social characteristics" or have a "sustainable investment objective";
- **Article 173 of the law on the Ecological and Energy Transition**, which establishes the duties of disclosure for institutional investors regarding their management of climate-related risks, and more generally the inclusion of environmental and social parameters in their investment policy;
- The **TCFD** (Task Force on Climate-related Financial Disclosures) which includes 4 guidelines to reinforce transparency on the consideration of climate issues within businesses;
- The **Global Reporting Initiative** standards, an international reference framework for non-financial reporting. Eurazeo voluntarily uses this framework with "essential compliance";
- The **United Nations Global Compact**, a voluntary commitment framework through which companies are invited to comply with the ten principles covering human rights, labor standards, the environment, and anti-corruption. As a signatory since 2014, Eurazeo offers Advanced reporting on its progress regarding the Compact's universal principles;
- The **United Nations Sustainable Development Goals (SDG)**, a framework defining global priorities for 2030. Eurazeo uses this framework voluntarily to measure its impacts compared to these objectives;
- The **France Invest Charter of Commitments for Investors in Growth**, which defines 16 commitments to disseminate ESG best practices in the private equity sector. Eurazeo has been a signatory of this charter since its publication in 2008.

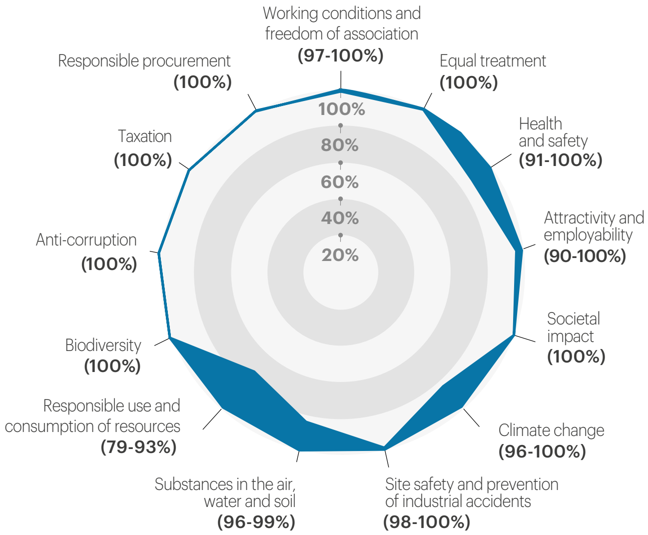
Eurazeo has chosen to incorporate these international and French reference standards into its cross-reference table to make its non-financial statement easier to understand.

### COVERAGE RATE

The data covers all or part of the total scope. For this reason, a coverage rate is calculated for each indicator. It is calculated on the basis of a reference scope completed by each reporting entity: revenue (environmental component), total workforce (social component) and total purchases (purchasing component). For each indicator, the contributor enters the scope covered, which allows the coverage rate to be calculated (equal to the scope covered divided by the reference scope). Thus, when data is not available for an entity, its coverage rate is 0%.

Some indicators are not applicable to all companies. The entities for which these indicators are not applicable are removed from the associated coverage rates.

**Coverage rates by issue for the Non-Financial Performance statement scope for Eurazeo and its portfolio companies**




## 3.4.6 EUROPEAN REGULATIONS ON SUSTAINABLE FINANCE

In March 2018, the European Commission adopted its action plan for sustainable finance which has 3 primary objectives:

1. Reorient capital flows towards sustainable investment;
2. Manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues;
3. Foster transparency and long-termism in financial and economic activity.

A key instrument of this action plan is Regulation (EU) 2019/2088 on sustainabilityrelated disclosures in the financial services sector ("Disclosure" regulation) that was adopted in November 2019 by the European Parliament. The Disclosure regulation was supplemented in June 2020 by Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment ("Taxonomy" regulation). This second regulation determines what is an environmentally sustainable economic activity.

Implementing acts should be adopted in 2021 to clarify the enforcement of the aforementioned regulations.

This new regulation amends the Eurazeo ESG policy framework. The Group is therefore closely monitoring the procedure for drafting the implementing acts and conducting work so as to comply with the regulations. The first clauses will come into effect as of March 10, 2021.

The following initial work was carried out:

- Summary of how sustainability risks within the meaning of the Disclosure regulation are taken into account in the Eurazeo investment process;
- Analysis of consistency between the ESG indicators used by Eurazeo and the sustainability indicators laid down in the Disclosure regulation to assess the adverse impacts of investment decisions;
- Initial assessments of investment compliance with criteria defined in the draft delegated act of the Taxonomy regulation used to determine if an economic activity can be considered as environmentally sustainable;
- Development of funds whose investments focus on key sustainable development sectors (see funds described in Section 3.1.2).