

# Opinion on sustainability

## Summary



Rank in Sector	1/84	ESG Reporting Rate	98%
Rank in Region	7/1604	Sector Average	60%
Rank in Universe	7/4906		



As of July 2019, XYZ obtains an A1+ rating, based on an overall score of 69/100. XYZ ranks within the top 1% of all companies rated by Vigeo Eiris worldwide (4,906 in total) and first within the Financial Services – Real Estate Europe sector. The company’s overall score has increased by 4 points since our 2019 review. XYZ displays advanced willingness and capacity to integrate ESG factors into its strategy, operations and risk management, with outstanding results on drivers that may impact human capital cohesion.

XYZ manages a diversified European real estate portfolio including offices, residential building and hotels. In December 2018, XYZ completed the merger with ABC an Italian real estate Company.

### ESG AND RISKS MANAGEMENT PERFORMANCE (././100)



### STRENGTHS

- ▶ Advanced strategy to improve portfolio’s energy efficiency and reduce CO<sub>2</sub> emissions
- ▶ Outstanding management of issues related to human capital (diversity, career, health and safety)
- ▶ Board of Directors’ governing rules aligned with most stringent governance standards

### WEAKNESSES

- ▶ Limited disclosure regarding customers satisfaction.
- ▶ CSR targets conditioning the allocation of executives’ variable remuneration are not public

### KEY TAKEAWAYS

**Impacts:** XYZ displays an advanced energy transition score. KPIs related to its social footprint (in terms of gender diversity, career management, health and safety and employment) display positive trends. XYZ’s portfolio includes a major share (above 50%) of buildings certified to stringent environmental standards (such as BREEAM or HQE) which represents a positive contribution to UN 2030 Agenda objectives N°9 (Industries, Innovation and Infrastructure), N°11 (Sustainable Cities and Communities) and N°13 (Climate Action).

**Risks:** XYZ’s risk management system appears comprehensive, covering its most material ESG risks. The company displays an advanced capacity to safeguard and enhance its reputation, human capital cohesion, operational efficiency and legal security.

**Management:** XYZ appears to pro-actively integrate ESG factors into its strategy and operations. Its approach is supported by quantified targets and cooperation with relevant stakeholders (tenants and public authorities). Comprehensive means and processes address the most material challenges. The absence of controversies reinforces our assurance on the company’s ability to manage its relations with stakeholders.

## Impacts

### VALUE CREATION AND SHARING

<p><b>Amount of investments and trends</b></p> <p>[Increase, Stable, Decrease]</p>	<p><b>No clear trend</b></p>	<p><b>Main investments conducted in 2018 include:</b></p> <ul style="list-style-type: none"> <li>▶ Eur 1.4 billion investments in Group Share representing around 6% of the Group total assets, including: <ul style="list-style-type: none"> <li>- Eur 1.2 billion acquisitions to expand presence in Major European cities (offices in Italy and France, Hotels in UK, residential in Germany)</li> <li>- Eur 194 million of Capex mostly related to development projects in Paris and Milan</li> </ul> </li> <li>▶ Eur 16 billion of development projects (representing a: 80% rise compared to 2017) broken down in 31 projects covering 280,000 m<sup>2</sup> of offices, 790 hotel rooms and 454 housing units (mostly located in Paris, Berlin and Milan).</li> <li>▶ Investments made in the frame of the merger with ABC effective in December 31, 2018. Prior to the merger, XYZ purchased 7.5% of the share capital of ABC for Eur 263 million of equivalent assets.</li> </ul>
<p><b>Share of investments dedicated to activities likely to generate sustainable value and/or to products with measurable green, social or sustainable goals</b></p> <p>[Major, Significant, Limited, None]</p>	<p><b>Significant</b></p>	<p><b>Investments to foster innovation include:</b></p> <p>Annual costs of the company's Innovation Department created in 2016 (1 full-time equivalent) which ensures a permanent watch on innovative real estate services</p> <ul style="list-style-type: none"> <li>▶ Development of innovative buildings: launch of XYZ's co-working brand "Wellio" in March 2018 and "XYZ to Share" a co-living offer in Germany. Investments related to the launch of these brands are not disclosed.</li> <li>▶ Development of infrastructures ensuring improved connectivity: As an example, the Symbiosis project (20,500 m<sup>2</sup> of offices for the first phase) includes a sustainable and innovative transport programme entailing the creation of a cycle track, free public bicycle stations and a fleet of autonomous minibuses linking buildings to the Milanese public transport system. XYZ reports to have spent Eur 94 million of infrastructure work for this project.</li> <li>▶ Digitalisation: XYZ has been using Building Information Modeling (BIM) since 2014, a 3D building database to improve operational management of the buildings by facilitating interior design and access to fixtures (geolocation of equipment) in some of its recent development projects. The tool enables traceability of materials and equipment, so they can be reused.</li> <li>▶ Partnership with Impulse Partners: an incubator for start-ups working on innovative solutions of comfort and well-being inside buildings, to explore new growth opportunities. The budget allocated to this partnership is not disclosed.</li> </ul> <p>Creation of "XYZ PropTech" a dedicated fund which aims at developing new concepts, products and services intended to improve client satisfaction and meet their new expectations. XYZ reports that the maximum budget allocated for this fund is Eur 20 million over three years.</p> <p><b>Investments in services likely to have a positive environmental or social impact:</b></p> <ul style="list-style-type: none"> <li>▶ <b>Test of new responsible labels:</b> <ul style="list-style-type: none"> <li>- XYZ tested the Ready to Service label (R2S), recognizing buildings' connectivity with particular attention brought to attractiveness, accessibility and well-being).</li> <li>- XYZ obtained the BiodiverCity label (which promotes projects that improve quality of life while taking ecosystems into account)</li> </ul> </li> </ul>

		<p>for one French project and launched certification for a project in Milan.</p> <p>Amounts invested to obtain these labels are not disclosed.</p> <p><b>Development of projects in requalification area:</b></p> <ul style="list-style-type: none"> <li>▶ Vitae project, a project with high environmental value recognised by C40 (a network of the world's megacities committed to addressing climate change) contributes to the regeneration of an old industrial district in Milan on more than 10,000 m<sup>2</sup>. XYZ reports a budget of Eur 40 million of infrastructure works by 2022.</li> </ul> <p><b>Partnership with associations:</b> XYZ is working with several associations to implement innovative solutions in particular on environmental features such as SBA (Smart Building Alliance), Alliance HQE-GBC France and Orée.</p>
<p><b>Ratio of employee wages and benefits vs shareholder dividends</b></p> <p>[Increase, Stable or No Clear Trend, Decrease]</p>	<p><b>Stable</b></p>	<p>The ratio of wages and benefits vs shareholder dividends has remained stable over the past 3 years, varying from 0.08 in 2016 to 0.07 in 2018.</p> <p>Over the same period, employee wages and benefits have slightly increased from Eur 22.9 million in 2016 to Eur 23.5 million in 2018. while dividends paid have increased by 17,6% from Eur 286,6 million in 2016 to Eur 337 million in 2018</p>
<p><b>Transparency on tax payments</b></p> <p>[Major, Significant, Limited, None]</p>	<p><b>Major</b></p>	<p>XYZ reports on turnover, number of employees and income taxes paid for key countries of operations (Germany, France and Italy).</p> <p>The company reports on the differences between tax rate actually paid and expected tax rate for each of these countries.</p>
<p><b>Operations in offshore financial centres (OFC), including non-compliant OECD jurisdictions</b></p> <p>[No Operation in OFC, Justified Operations in OFC, Unjustified Operations in OFC]</p>	<p><b>No Operation in OFC</b></p>	<p>The Company does not operate in any location considered by the IMF as 'offshore financial centres' and/ or in jurisdictions considered by the OECD as not compliant enough on tax transparency rules.</p>

## SOCIAL & ENVIRONMENTAL IMPACTS

### Environmental impacts :

Vigeo Eiris considers XYZ's direct carbon footprint to be moderate and the company therefore receives a **grade A** (first on a four-level scale) in this regard. XYZ obtains an energy transition score of **73/100**, which is above the average performance of the diversified Financial Services – Real Estate sector (33/100). This performance results from our assessment of XYZ's efforts to improve the energy efficiency of its property, portfolio, and to cooperate with tenants on the reduction of environmental impacts related to the use of properties by end consumers.

<b>Trend of CO<sub>2</sub> emissions linked to the Company's portfolio</b> [Decrease, Stable or No Clear Trend, Increase]	<b>Decrease</b>	CO <sub>2</sub> emissions (direct and indirect) linked to energy consumption of the Company's property's portfolio, normalised to the surface area, have decreased by 46% from 34 kgCO <sub>2</sub> /m <sup>2</sup> in 2014 to 18.5 kgCO <sub>2</sub> /m <sup>2</sup> in 2018.
<b>Trend of the energy consumption linked to the Company's portfolio</b> [Decrease, Stable or No Clear Trend, Increase]	<b>Decrease</b>	The energy intensity of the company's property portfolio has decreased - by 32% from 0.211 Mwh/m <sup>2</sup> in 2014 to 0.144 Mwh/m <sup>2</sup> in 2018.

### Social impacts:

<b>Organic growth of employment</b> [Positive, Stable, Undisclosed]	<b>Positive</b>	The total number of employees in the workforce at constant perimeter has increased by 15% from 728 in 2016 to 838 in 2018. This increase is mainly due to job creations in France and Germany to support growing and new businesses (coworking, residential development, etc.).
<b>Percentage and trends of women in management</b> [Increase, Stable or Unclear, Decrease or Undisclosed]	<b>Increase</b>	The share of women in management positions has increased by 5.2 percentage points from 44% in 2016 to 49.2% in 2018.  This ratio is above the Financial Services – Real Estate sector of 40% in 2018 (19 companies out of 84 in the sector communicated on this indicator).
<b>Average number of training hours per employee</b> [Increase, Stable, Decrease or Undisclosed]	<b>Increase</b>	The average number of training hours per employee has increased by 139%, from 10 hours of training in 2014 to 23.9 hours in 2018.  This ratio is above the Financial Services – Real Estate sector average of 18.88 hours in 2018 (16 companies in the sector reported on this indicator).
<b>Absenteeism rate</b> [Decrease, Stable or Unclear, Increase or Undisclosed]	<b>Decrease</b>	The absenteeism rate has decreased by 1.4 percentage points, from 3.9% in 2016 to 2.5% in 2018.  This ratio is below the sector average, of 3.2% in 2018 (13 companies in the sector communicated on this data).

## IMPACTS OF PRODUCTS & SERVICES

XYZ is considered to have a major percentage (above 50% of turnover) of services contributing to sustainable development. These products contribute to Sustainable development N°9 (Industries, Innovation and Infrastructure), N°11 (Sustainable Cities and Communities) and N°13 (Climate Action).

<p><b>Share of services contributing to sustainable development in total turnover</b> [Major, Significant, Minor, Inexistent or Undisclosed]</p>	<p><b>Major</b></p>	<p><b>Green buildings:</b> At the end of 2018, the share of environmentally certified properties was 84.4% for the company's French offices, 67.1% for its Italian offices and 51.5% for its European hotels. Properties are certified to BREEAM and/or HQE standards. In relation to the total asset value, environmentally certified buildings account for 72% of the company's property portfolio.</p> <p><b>Tenant support programs:</b> In France, XYZ organises Sustainable Development Committees with tenants to support them in the implementation of their CSR strategy (on energy, carbon, water, waste, transport, biodiversity, etc). In 2018, the Sustainable Development Committees covered 251 hotels (representing 66% of the hotel portfolio) and more than 120 offices buildings in France (representing 68% of the France Offices portfolio).</p>
<p><b>Indirect impacts on employment (company-specific indicator)</b> [Increase, Stable or No Clear Trend, Decrease]</p>	<p><b>Increase</b></p>	<p>In cooperation with a third party, XYZ works to quantify the impacts of its activities on employment. The number of jobs indirectly supported (job supported through the generated economic activity for its service providers and suppliers) in France increased by 17.3% from 2,643 in 2016 to 3,100 in 2018. Data are disclosed only for the past two years for Italy (1,146 in 2017 and 1,000 in 2018) and only for 2018 for Germany (3,000 jobs created).</p> <p>However, information related to the nature of contracts (permanent, fixed term) and the categories of people covered by these job creation (gender, age, employment of people with disabilities) is not disclosed.</p>
<p><b>Sites' connectivity</b> [Increase, Stable or No Clear Trend, Decrease]</p>	<p><b>Increase</b></p>	<p>The percentage of French Offices (in value terms) that were located less than 10 minutes by foot (1km) from public transportation has increased by 1.6 percentage points from 98% in 2016 to 99.6% in 2018.</p>
<p><b>Sites' accessibility</b> [Increase, Stable or No Clear Trend, Decrease]</p>	<p><b>No Clear Trend</b></p>	<p>The percentage of French offices accessible to people with reduced mobility has slightly increased by 0.8 percentage points from 83% in 2017 to 83.8% in 2018.</p> <p>The percentage (in Group share value) of Italian offices accessible to people with reduced mobility has slightly decreased by 0.8 percentage points from 98% in 2017 to 97.1% in 2018.</p> <p>Data is not disclosed for 2016.</p>
<p><b>Water consumption</b> [Increase, Stable or No Clear Trend, Decrease]</p>	<p><b>Increase</b></p>	<p>The estimated water consumption of the company's portfolio, normalised to the surface area, has increased over the past three years by 24% from 0.44 m<sup>3</sup>/m<sup>2</sup> in 2014 to stand at 0.51 m<sup>3</sup>/m<sup>2</sup> in 2018.</p>

## Risks

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### RISK FACTORS

XYZ's most material risk and opportunity factors relate to:

- Board of Directors' composition and operating rules
- Business ethics
- Employment and competencies management
- Environmental impacts of buildings
- Integration of environmental and social factors in the supply chain
- Social and economic development

A detailed description of these risk factors is provided in the Appendices on pages 16-17. Our analysis reveals that XYZ has comprehensively addressed most of these challenges.

#### **Board of Directors' composition and operating rules**

The composition and governing rules of XYZ's Board may foster the group's long-term profitability, while preserving shareholders' and other stakeholders' interests. The separation of roles between the Board chairman and the CEO, the high level of independence of Board members (60%) and its specialized committees may support the Board's ability to exercise effective control over the top-management. Regular evaluation of Board performance, by a third party and with disclosure of the results may ensure its efficiency and accountability towards shareholders. The presence of 40% women and Board member with expertise in environmental law could positively affect the Company's reputation and support the implementation of efficient non-discrimination and environmental strategies. In addition, in 2018, XYZ adapted its governance rules to be in line with the last recommendations of the AFEP-MEDEF Code which advocates for a better consideration of environmental and social issues by the Board of Directors.

#### **Business ethics**

XYZ displays an advanced performance in the management of business ethics issues which is strengthened by the absence of controversies in that regard.

- ▶ The company's commitment to prevent corruption, updated in 2018, is exhaustive and has been reviewed by a third-party to ensure its regulatory compliance with Sapin law. Its implementation is overseen by the Internal Audit and Control Department and a Group Compliance Officer was appointed in 2018. In addition, Ethics officers reporting directly to the CEO are in place in France, Germany and Italy to disseminate an ethics culture among employees and manage the confidential reporting system.
- ▶ Relevant and wide-covering training tools involve all employees on corruption and fraud prevention. Internal control measures appear comprehensive and the know your customers process has been reinforced to fight tax evasion.
- ▶ An external expert was mandated to conduct a specific corruption risk mapping at European level, overseen by the Internal Audit and Control function, main recommendations regarded efforts to deploy an internal culture of business ethics at group level. A corrective action plan has been adopted and the Group Audit Committee and the Management Committee of each country are responsible to monitor their adequate implementation. Internal anti-fraud audits are regularly conducted, the alert procedure is open to suppliers and partners. The company reports that global training sessions on prevention of corruption and frauds are planned for 2019.

#### **Employment and competencies management**

XYZ's advanced performance with respect to career management may foster talent attraction and retention. The company commits to support all employees in their career pathway through training and coaching. All employees have regular performance assessment and career counselling interviews. In 2019, the company launched a specific "career development interview" which will be conducted at least every two years by managers to collect employees' expectations and trigger action plan from Human resources department. The average number of training hours per employee has increased. Results KPIs are positive since 78% of employees received at least a training in 2018, while the turnover rate in France has increased over the past 4 years.



### Environmental impact of buildings

XYZ's advanced performance to minimize the environmental impacts of its buildings and foster energy efficiency in cooperation with tenants may protect the long-term value of its real estate portfolio by reducing operating expenses, in addition to increasing clients' satisfaction.

- XYZ has set the objective to reduce the energy consumption of its France offices portfolio by 40% and CO<sub>2</sub> emissions by 20% by 2020 (baseline 2008). In addition, the Group has adopted targets to reduce greenhouse gases emissions of buildings under its direct management by 35% by 2030 (baseline 2017) and to reduce the carbon emissions by 34% by 2030 (baseline 2010) on scopes 1, 2 and 3 for all activities in Europe (construction, renovation and exploitation). Finally, the Company commits to have 100% of new developments certificated to HQE or BREEAM, from 2018 on.
- XYZ has been working with the Scientific and Technical Centre for the Construction Industry (CSTB) – a French public institution in charge of ensuring buildings' quality and safety- to adopt a climate strategy compatible with the 2°C scenario. The 2030 carbon roadmap which covers development activities, and renovation of existing portfolio and portfolios in operation was externally verified by Ernst & Young et Associés and approved by the Science Based Targets initiative. An action plan will be defined in 2019/2020 and deployed in 2020.
- The company demonstrates high level of cooperation with tenants to reach environmental targets set for its properties on energy and water consumption, CO<sub>2</sub> emissions and waste. In France, XYZ has introduced environmental annexes to leases' contracts since 2010, anticipating the regulation which made it mandatory in 2013 for all leases covering areas of more than 2,000m<sup>2</sup>. XYZ goes beyond the legal requirement by introducing such annexes in some leases having a surface area inferior to 2,000m<sup>2</sup>. These annexes set duties to the tenants and the landlord regarding environmental aspects as well as the obligation to share environmental data (related to energy, carbon, water, waste, transport and biodiversity). In addition, Sustainable Development Committees (composed of at least one representative of the Landlord and one representative of the Lessee) are organized to exchange on the environmental performances of the buildings and identify areas for improvement. In 2018, the Sustainable Development Committees covered 251 hotels representing 66% of XYZ's hotel portfolio and more than 120 buildings in the Company's France Offices portfolio.
- Results are positive since the energy intensity of the property portfolio has decreased by 32% over the past five years and its CO<sub>2</sub> emissions by 46%. At the end of 2018, the share of environmentally certified properties (against HQE, BREEAM or LEED) was 84.4% for the company's French offices (compare to 65.3% in 2016), 67.1% for its Italian offices (compared to 31.9% in 2016) and 51.5% for its European hotels (compare to 26.8% in 2016).

### Integration of environmental and social standards in the supply chain

XYZ's advanced performance to integrate environmental and social standards in the supply chain may protect its legal security and reputation. The Group has formalised a Responsible Purchase Charter which has been signed by 371 suppliers (representing 80% of XYZ expenses) and independent advisors as of December 2018. Buyers are trained to responsible purchasing practices. Questionnaires to assess CSR strategy are sent to French suppliers and answers are audited annually by a third party. In 2018, no severe anomalies were detected and 16% of suppliers received recommendations. XYZ targets to extend this practice to the rest of the Group in 2019. CSR clauses are integrated to all new contracts with suppliers and cover topics such as waste management, use of ecological materials, environmental and health and safety standards. However, the share of suppliers covered by these contractual clauses is not disclosed. XYZ does not perform on-site CSR audits for its suppliers but monitors subcontracted workforce accidents across all its development and renovation operations. The accidents frequency rate is disclosed for 2018 only and was 25.5, (/1,000,000 hours worked), below the average figures for the construction industry of 29.3 calculated by the French National Health Insurance Fund.

### Social and economic development

XYZ's advanced performance to promote social and economic development may enhance its reputation and brand attractiveness amongst local and regional authorities, tenants and suppliers. XYZ is committed to bring positive contribution to local communities by ensuring high connectivity, creating jobs and promoting innovation including around the smart city concept in its projects. In Milan, XYZ is involved in the regeneration and development of new tertiary zones through projects promoting smart city concepts. The company also cooperates with local authorities to ensure sites' connectivity and foster sustainable transports. In Addition, to meet clients' growing need for flexibility, XYZ has launched Wellio, its own brand of coworking spaces. XYZ has worked with an external expert to measure its regional socio-economic contribution since 2014 in France and has extended the scope of its work to Italy and Germany. Indicators disclosed regard the number of direct jobs created, indirect jobs created via tier 1 and tier 2 suppliers and induced impacts on job creation resulting from the salaries paid to employees and suppliers. The trend looks positive since through its Offices and Residential businesses, in 2018, XYZ reported to have supported 15,100 jobs across France, Germany and Italy, and generated Eur 900 million in GDP compared to 7,042 indirect jobs created in France and Italy and Eur 452 million in contribution to GDP in 2017.

## RISK MANAGEMENT

XYZ's risk management system appears comprehensive and covers the group's most material CSR risks.

- ▶ Group-wide risk mapping is renewed from scratch every two years by the Internal Audit and Control Department and updated every year. While the company discloses only most material risks identified in its public documentation, this mapping appears to cover some CSR risks including cyber, health, environmental, fraud and corruption risks. Human Resources related risks do not appear to be covered. The findings of this mapping are shared with the Management Committee and presented to the Board's Audit Committee once a year.
- ▶ A CSR risk mapping was conducted internally for the first time in 2018 by the Sustainable Development Department in coordination with the Internal Audit and Control Department. The exercise involved operational or functional departments of all XYZ's sites. Each risk identified was rated according to three parameters: impact on reputation, frequency and level of control. The risk mapping which highlighted nine highly material CSR topics, was validated by the Management Committee, and reviewed by the Board of Directors in November 2018. Some of the CSR risks identified namely integration of buildings into the sustainable city, societal change, responsible supply chain, skills and diversity do not appear to be covered in the group-wide risk mapping disclosed by XYZ in its public documentation.
  - The CSR department regularly updates its materiality matrix integrating the opinion of stakeholders collected during the year including employees, tenants, shareholders, suppliers and, local authorities.
- ▶ Internal audits of risk-management processes are in place:
  - For each risk requiring additional corrective measures, an action plan is defined by the Internal Audit and Control Department and validated by the Board of Directors. Progresses on action plans are monitored monthly by the General Management and annually by the Audit Committee.
  - An internal incident database has been set up in France, Germany and Italy to enable employees to report any kind of incidents (issue with tenants, health and safety problems, external fraud attempts etc.)
  - A specific team within the Internal Audit and Control department is in charge of validating and updating internal procedures and to monitor the adequacy of internal control processes and tools, including the management of the incident database and the monthly monitoring of corrective measures.
  - A Compliance officer was appointed in 2018 to ensure adequate dissemination of an internal culture of ethics at European level
  - A confidential hotline managed by the Internal audit department and two local representatives in Germany and Italy is available to all employees to report on a broad type of incidents including accounting practices, corruption, discrimination and harassment. Anonymous alerts can be processed if the facts are sufficiently detailed.
- ▶ Reporting on risk management is conducted by Internal Audit and Control Department to the Chief Executive Officer and the Audit Committee
  - Reporting on CSR risks is conducted monthly by the Head of CSR department to the Chief Operating Officer and quarterly to the Chief Executive Officer. These three members compose the Sustainable Development Steering Committee which reports once a year on the achievement of the CSR strategy to the Board of Directors.
  - Reporting to stakeholders is made via the annual Reference Document, which includes relevant CSR indicators on key material issues and has been reviewed by Ernst & Young et Associés who expressed a limited assurance
- ▶ Several factors strengthen our assurance on the effectiveness of XYZ's risk management system:
  - In 2018, the duties of the Audit Committee have been amended in line with the recommendations of the AFEP MEDEF to include the review of environmental and social risks'assessment and mitigation measures adopted.
  - Both the nomination and remuneration committee and the Audit Committee are composed of at least 80% of independent members.
  - No controversy questioning the efficiency of the Audit and Internal Controls have been identified.
- ▶ Areas for improvement concern:
  - the establishment of a CSR committee at Board level composed of a majority of independent members which may ensure the integration of CSR issues to the highest decision-making body.



- the full disclosure of the group-wide risk mapping to evidence the integration of all material CSR risks to the Group risk management framework.

## REPUTATION

REPUTATION (/100)	
Shareholders	68
Executive remuneration	90
Promotion of social and economic development	65
Promotion of social and economic development	73
Social accessibilities of properties	67
Integration of social factors in the supply chain	58
Protection of biodiversity	65
Cooperation with tenants on the reduction of environmental impacts from the use of buildings	57

## OPERATIONAL EFFICIENCY

OPERATIONS (/100)	
Energy efficiency of buildings	69
Energy efficiency of buildings	90
Environmental strategy and responsible property investment	88
Board of Directors	75
Promotion of labour relations	64
Audit & Internal Controls	66
Transparency and integrity of influence strategies and practices	28

## HUMAN CAPITAL

HUMAN CAPITAL (/100)	
Respect for freedom of association and the rights to collective bargaining	72
Respect for freedom of association and the rights to collective bargaining	74
Career management and promotion of employability	76
Non-discrimination and diversity	73
Improvement of health and safety conditions	71
Responsible management of restructurings	69

## LEGAL SECURITY

LEGAL SECURITY (/100)	
Prevention of corruption and money laundering	61
Prevention of corruption and money laundering	76
Responsible Customer Relations	45

Weak: from 0 to 29

Limited: from 30 to 49

Robust: from 50 to 59

Advanced: from 60 to 100

## Management

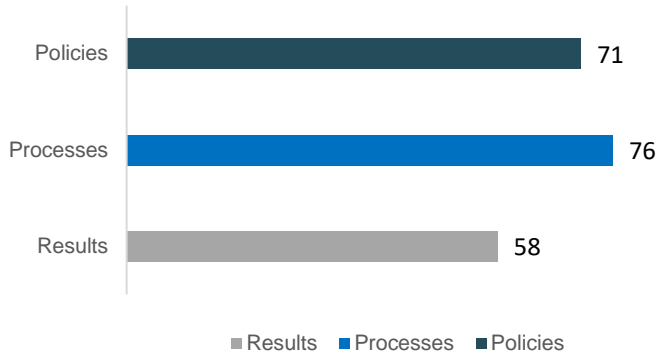
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### INTEGRATION OF ESG FACTORS INTO CORPORATE GOVERNANCE

Most factors under review demonstrate XYZ's advanced willingness and capacity to integrate ESG factors into its governance structure and decision-making processes.

- ▶ There is no CSR committee at Board level, but the CEO which is a member of the Sustainable Development Steering Committee and sits on the Board brings CSR issues to the attention of the Board. In addition, an independent Board member has recognized expertise on CSR issue (since she is an Environmental lawyer and President of the Orée Association). However, the presence of a CSR Committee at Board level would enable a systematic consideration of these topics by the Board and a plurality of visions on these issues. In 2018, CSR topics discussed at Board regarded mainly energy efficiency and accessibility of buildings, human resources policy, diversity and the review of the CSR risks mapping.
- ▶ Management Committee' members in coordination with the Sustainable Development Department are responsible for the implementation of the CSR 2020 action plan, including the achievement of quantitative environmental and societal targets related to sustainable buildings. In addition, the social pillar of the CSR strategy regarding the development, diversification and retention of human capital is also discussed during each Management Committee. During interviews conducted by Vigeo Eiris, XYZ reported that a work is ongoing at Management committee's level to define XYZ's raison d'être in the framework of the French "Pacte" Law.
  - At Operational level, the Sustainable Development Steering Committee which oversees the implementation of the Group CSR strategy is composed of the Chief Executive Officer, the Chief Operating Officer and the Sustainable Development Officer. This committee meets monthly and report to the Management committee. In addition, one to one meetings between the Head of Sustainability and Chief Country Officers are organised quarterly in Germany and 2 to 3 time a year in Italy to ensure smooth deployment of the CSR strategy at European level.
  - Environmental topics and buildings' accessibility are systematically assessed in each investment decision.
- ▶ CSR risks are covered by the **internal controls system**, which entails adequate risk mitigation processes (these are analysed in detail in the "risk management" part on page 8 of this document).
- ▶ XYZ has presented its CSR strategy and non-financial ratings to shareholders and investors during its Annual General Meeting (AGM). The presentation tackled material CSR issues including energy efficiency, human resources policy, economic and social development. In addition, ESG investor roadshows have been conducted since May 2016 by the Chief Financial Officer and Head of Sustainability. The Chief Operating Officer also carries out governance roadshows prior to AGM.
- ▶ **Executive remuneration** appears to integrate several CSR components:
  - CSR performance objectives on most of the company's material CSR challenges are considered in the determination of senior executives' annual variable remuneration including the percentage of green assets, turnover rate and gender balance.
  - The annual variable remuneration of the Chief Executive Officer includes some qualitative CSR targets related to portfolio's environmental performance, diversity and talent management.
  - However, performance targets associated to these objectives are not disclosed.

**ESG MANAGEMENT PERFORMANCE**



XYZ’s policies and processes scores are advanced and rank amongst the best performances within Vigeo Eiris’ research, while the company’s results are robust.

XYZ has disclosed public commitments addressing the 21 CSR criteria assessed by Vigeo Eiris. The Group’s Reference document entails relevant commitments towards a majority of CSR challenges related to human capital (freedom of association, career management, employees’ health and safety), community relations (promotion of social and economic development and accessibility of products) and responsible customer relations. Integration of environmental and social issues in the supply chain is addressed in the responsible purchasing charter while commitments to prevent Corruption and discrimination are embedded in the Code of Ethics. Two agreements signed with employee representatives on Quality of life at work and freedom of association enhance the visibility of the Company’ strategy on these issues. Quantitative targets set at group level regarding energy consumption of construction processes and GHG emissions of buildings reinforce the relevance of the Group’s commitment on these highly material challenges. The only areas for improvement concern social dialogue where XYZ’s commitment appears general and responsible lobbying where no formalized commitment is visible in the group’s public documentation.

XYZ reports comprehensively on the dedicated means addressing its CSR challenges. Adequate to highly effective measures covering a majority of operations appear to address most challenges under review. Means addressing social dialogue, non-discrimination and the integration of environmental factors in the supply chain received the maximum score (100/100), while environmental strategy, energy efficiency of buildings, respect for freedom of association, and integration of social factors in the supply chain show outstanding performance (above 85/100), revealing a high level of maturity on these issues. The only subjects receiving limited to weak scores concern responsible customer relations and responsible lobbying, where allocated resources do not appear to cover a majority of operations.

Results scores appear more heterogenous. Advanced performance is seen on majority of subjects due to the absence of allegation and positive trends shown by result KPIs. This concerns human capital (social dialogue, reorganisations, freedom of association, community relations, social and economic development, accessibility of property) and environment (protection of biodiversity and energy efficiency of buildings) related matters. Conversely, responsible lobbying, integration of social factors in the supply chain and responsible customer relations show limited performance due to a lack of reporting on related KPIs. The minimum score (15/100) received on the reduction of impacts from the use of building is due to a negative trend observed in terms of average water consumption of properties and a partial reporting on KPIs reflecting properties’ waste production.

**ESG MATERIALITY AND PERFORMANCE MATRIX**

STRENGTHS	ADVANCED	<ul style="list-style-type: none"> <li>Social dialogue</li> <li>Biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>Career management</li> <li>Reorganisation</li> <li>Health and safety</li> <li>Fundamental labor rights</li> <li>Non-discrimination and diversity</li> <li>Accessibility of buildings</li> <li>Environmental standards in the supply chain</li> <li>Audit &amp; internal controls</li> <li>Shareholders</li> <li>Executive Remuneration</li> </ul>	<ul style="list-style-type: none"> <li>Environmental strategy</li> <li>Energy</li> <li>Social and economic development</li> <li>Corruption and money laundering</li> <li>Board of Directors</li> </ul>
	ROBUST			<ul style="list-style-type: none"> <li>Social standards in the supply chain</li> <li>Cooperation with tenants</li> </ul>
WEAKNESS	LIMITED		<ul style="list-style-type: none"> <li>Customer relations</li> </ul>	<ul style="list-style-type: none"> <li>Reorganisation</li> </ul>
	WEAK		<ul style="list-style-type: none"> <li>Responsible Lobbying</li> </ul>	
		1	2	3
<b>Level of materiality</b>				

**ENVIRONMENT**

Strengths	Weaknesses
<p>XYZ has deployed significant efforts to adopt an environmental strategy in line with the 2°C scenario, which will apply through the entire portfolio and has been approved by the Science Based Targets initiative. This may positively affect operational efficiency and brand recognition.</p> <p>Advanced measures in place to mitigate risks linked to environmental regulations (on soil pollution, asbestos, etc.) may protect XYZ's legal security. These means include risk assessments, internal audits and reporting on non-conformities overseen by a dedicated Environmental department.</p> <p>XYZ's strong endeavour to involve tenants in the achievement of environmental targets set for its properties (in terms of energy consumption, as well as waste production) may positively impact operational costs and foster brand recognition.</p>	<p>The average water consumption of XYZ's properties, has increased by 24% from 2014 to 2018, which may reflect an area for improvement in terms cooperation with tenants in this respect. Such issue may increase in significance in the coming years, as climate change may lead to water restrictions in XYZ's main countries of operations (France, Italy and Germany)</p>

**SOCIAL**

Strengths	Weaknesses
<p>State-of-the-art measures to promote diversity and ensure career development may foster talent attraction and retention.</p> <p>Extensive measures in place to protect employees' health and safety and prevent stress may positively affect human capital cohesion and, in turn, operational efficiency.</p> <p>XYZ's highly relevant commitment and pro-active efforts to contribute to social and economic development of communities surrounding its operations is a key component of the Group's reputation and license to operate.</p> <p>XYZ's significant efforts to improve buildings' connectivity may strengthen its market position, in a context where local authorities are striving to mitigate environmental impacts of individual transportations.</p>	<p>The Group's commitment towards social dialogue appears general. Disclosing a relevant group-wide strategy of dialogue with employee representatives could further strengthen human capital cohesion and Group's capacity to involve employees in its strategy.</p>

**GOVERNANCE**

Strengths	Weaknesses
<p>Strong integration of CSR issues within the company's internal controls system may strengthen its overall ability to mitigate related risks.</p> <p>Good practices observed at Board level (including, the high level of independence of Board member, the separation of Board chairman and CEO's role and the independence of Board chairman) may ensure its ability to exercise an effective control over the top management.</p> <p>Highly relevant commitment and advanced measures to prevent corruption, including the appointment of a Compliance officer to disseminate an internal culture of business ethics may protect the company's reputation and legal security.</p>	<p>An area for improvement regards the disclosure of information related to principles and processes guiding XYZ's influence strategies and practices.</p> <p>The limited disclosure of CSR objectives considered in the allocation of variable compensation of Executives may weaken the credibility of the Group's CSR strategy to shareholders and investors.</p>

**ACCOUNTABILITY & REPORTING**

XYZ reports to CDP on its carbon footprint and is listed as a committed participant in the Science Based Targets (SBT) initiative. XYZ's 2018 Reference document presents the United Nations Sustainable Development Goals and addresses 8 out of the 17 SDGs. The document also includes a dedicated European Public real Estate (EPRA) reporting, a table of correspondence with GRI, CRESO, Global Compact, ISO 50001 and TCFD standards where all or most relevant categories are addressed.

As of April 2019, XYZ is included in four of Vigeo-Eiris indices: Vigeo France 20, ESI Excellence Europe, Vigeo Europe 120, Vigeo Eurozone 120, Vigeo World 120.

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## DETAILED EXPOSURE TO CONTROVERSIES

ESG Issues: Generic Name	Number of companies facing associated cases within the sector	Company exposure	Company reactivity
Customer relations	1	No	N/A
Environmental standards in the supply chain	0	No	N/A
Social standards in the supply chain	0	No	N/A
Prevention of corruption	2	No	N/A
Responsible Lobbying	0	No	N/A
Fundamental labour rights	0	No	N/A
Non-discrimination and diversity	0	No	N/A
Environmental strategy	0	No	N/A
Biodiversity	1	No	N/A
Energy	0	No	N/A
Cooperation with tenants	0	No	N/A
Social and economic development	0	No	N/A
Societal impact of products/ services	0	No	N/A
Board of Directors	0	No	N/A
Audit & internal controls	2	No	N/A
Shareholders	1	No	N/A
Executive remuneration	2	No	N/A
Social Dialogue	0	No	N/A
Reorganisation	0	No	N/A
Career management	0	No	N/A
Health and safety	0	No	N/A

As of June 2019, no controversy involving XYZ has been observed. This strengthens Vigeo Eiris' assurance on the company's ability to manage its relations with stakeholders.



## Detailed Risks Factors

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### Board of Directors' composition and operating rules

The composition of the Board of Directors (including the diversity, separation of roles between the Board Chairman and the CEO, independence and competency level of its members), as well as its functioning rules (including board members' training and performance evaluation, the frequency of their elections, etc.) could impact the company's ability to exercise control over the management and foster its long terms competitiveness and profitability as well as shareholders' and other stakeholders' interests.

### Business Ethics

XYZ as French player of the real estate sector is subject to Sapin 2 law and must ensure its internal policy and processes comply with the regulatory requirements in order to preserve its legal security. In addition, the sector remains exposed to corruption and money laundering in particular in activities such as procurement. Operational and legal risks linked to potential employees' misconduct may materialise in significant fines and impact the company's reputation and market position.

### Career Management

Real estate is a dynamic sector in terms of employment, characterised by a highly skilled workforce and a high turnover rate. Efforts to attract and retain talents may represent a strong competitive advantage. Consequently, XYZ's ability to ensure efficient management of **employee training and career development** is key for its competitiveness.

### Environmental impacts of buildings

According to data released in January 2019 by the European Commission, buildings are responsible for 40% of energy consumption and 36% of CO2 emissions in the European Union. To align their climate strategy with a 2°C scenario, Real estate companies are expected to integrate environmental considerations in their investments and development decisions and to deploy efforts to improve the energy efficiency of existing portfolio. The cooperation with tenants (mainly large companies located in France and Italy) is also an essential element to improve the environmental performance of buildings. As a result, reduction of energy consumption from its building is a key driver for cost-reduction, reputation and customer loyalty.

### Integration of environmental and social factors in the supply chain

Real estate companies often rely on a large number of **suppliers and subcontractors** operating in various sectors to conduct activities of maintenance (such as cleaning, waste management, security services etc.). Hence, integration of environmental and social criteria (including green certification, environmental and social clauses etc) in activities must be taken into consideration in their CSR strategy. In addition, XYZ which has been expanding its activities works also with suppliers to conduct construction' activities which require strong vigilance on monitoring health and safety risks. Unadequate processes to prevent environmental and social risks in the supply chain may expose XYZ to operational risks such as work stops (in case of for example accident on a construction site), and reputational damage.

### Social and economic development

XYZ's main activities are located in large European cities in France, Italy, Germany and the United Kingdom. In France and Italy where XYZ operates mainly in the Office segment, the company has the opportunity to foster revitalisation of the local economy by conducting projects in requalification zone, in cooperation with stakeholders (including public authorities, association, universities etc). The success of such projects is closely linked to XYZ's ability to ensure connectivity, accessibility and positive impacts of its properties on surrounding communities. An insufficient consideration of these variables may affect the attractiveness of XYZ's assets, impact the group's long term profitability and reputation

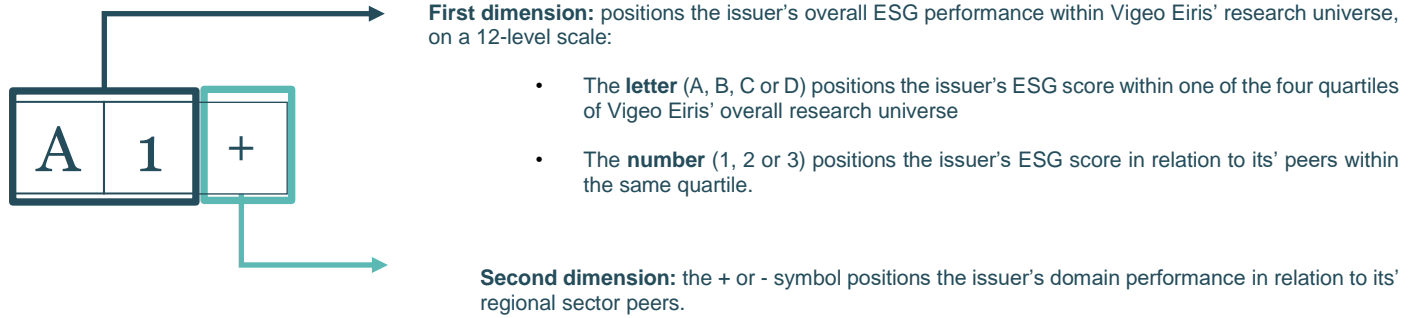
# Methodology

## Corporate Rating Scale

Vigeo Eiris' consolidated rating scale ranges from A1+ to D3-

The consolidated rating translates the overall and relative ESG performance of an issuer according to 2 elements:

- Quartile performance and position within this quartile;
- Position in relation to its' peers.



## Definition of Strategic Assets

Each sustainability criterion of our rating framework affects issuers' non-material strategic assets with a different intensity. Vigeo Eiris has categorised these non-material assets into 4 classes: reputation, human capital cohesion, operational efficiency and legal security. The intensity of each sustainability driver on each asset class translates into a weight from 0 to 3.

Vigeo Eiris postulates that a correlation exists between an issuer's level of commitment towards each of the sustainability criteria analysed and its ability to protect and develop these 4 classes of strategic assets.

From the ESG scores obtained by an issuer on different sustainability criteria, we infer a level of risk mitigation of these strategic assets. This level is given a score which is calculated using the following formula:

- "R": Level of risk mitigation
- "Y": Asset under review (reputation, human capital cohesion, legal security, operational efficiency)
- "S": Sustainability criteria score for which the weight of the asset X is weighted at 2 or 3
- "W": Weight allocated to the asset under review within each sustainability driver

$$Ry = \frac{\sum(Sy \times Wy)}{\sum Wy}$$

## Risk Typology – The 4 main categories

<b>Reputation</b>	<ol style="list-style-type: none"> <li>1. Brand recognition, level and variation of brand image and organisation, its leaders and consulting shareholders</li> <li>2. Outbreak, persistence, reduction or elimination of rumours, allegations and controversies</li> <li>3. Licence to operate, degree of social acceptability (approval of the implementation and/ or extension of the company, receipt and maintenance of operational permits and licences from public authorities or ordering parties)</li> <li>4. Talent attraction</li> <li>5. Variation of levels of shareholder support and satisfaction</li> </ol>
<b>Human Capital Cohesion</b>	<ol style="list-style-type: none"> <li>1. Stability of labour relations and social conflict mitigation</li> <li>2. Retention of skills and know how; skills development</li> <li>3. Attraction and mobilisation of core skills</li> <li>4. Company culture and values</li> </ol>
<b>Operational Efficiency</b>	<ol style="list-style-type: none"> <li>1. Production cost management (work accidents, competencies, reducing energy consumption etc)</li> <li>2. Competitiveness of products and services (training, waste reduction, employee training and participation)</li> <li>3. Organisational and process effectiveness (audits and control mechanisms, environmental strategies etc)</li> </ol>

	<p>4. Innovation and preventing production and organisational process techniques from becoming obsolete; prevention of technological obsolescence</p> <p>5. Security and quality of supplies and revenues</p>
<b>Legal Security</b>	<p>1. Recourse and complaints, litigation, legal proceedings, trials and fines</p>

## Controversies

We continuously monitor controversies involving the social responsibility of the issuers we assess. We promptly disseminate our detailed opinion on the severity and possible consequences of the controversies in question. This service is designed to inform investors and asset managers about unexpected changes in issuers' risk profiles and enable them to make informed decisions.

We assess issuers' capacity to mitigate risks arising from allegations, media campaigns, lawsuits, or social movements related to environmental, social, ethical, supply chain, human rights and governance issues, which involve their products, services or behaviours. We provide an opinion on issuers' controversy risk mitigation based on the analysis of three systematic factors: the **severity** of the controversy regarding the social responsibility norms and standards applicable to the issuer and the rights and expectations of its stakeholders; the **frequency** of similar allegations involving the issuer; the issuer's **responsiveness** and its ability to take appropriate, corrective and preventive measures. Depending on their topic, controversies are categorised into 106 different themes.

This service provides access to our Controversy Journal, which is permanently available and categorises entries by social responsibility theme and factor, company, sector, and country. It also offers a "Warning List", identifying companies involved in the most critical controversies which, due to the frequency of allegations to which they are subject and/ or their weak level of responsiveness, require issuers to be more vigilant. The reference universe for Vigeo Eiris' controversy analysis is based on our exclusive Equitics© research. The Controversy Database is updated daily and involves correspondence with issuers.

## Contribution to the UN Sustainable Development Goals

Vigeo Eiris measures issuers' level of contribution towards the Sustainable Development Goals (SDGs), set by the United Nations in 2015. As these 17 goals are interdependent, complementary and indivisible, Vigeo Eiris has developed an analytical framework, based on its generic reference framework, that companies can use to assess their level of commitment regarding their SDG responsibilities.

The sustainability criteria rated are categorised into 8 themes: Business Ethics, Governance, Wellbeing, Decent Work, Basic Needs, Clean Technology, Natural Resources and Development Tools. The analysis reviews and balances issuers' degree of contribution to the SDGs against their governance, operations, and the specific nature and footprint of their products and services. The assessment is based on the premise that contributing to the SDGs forms an integral part of issuers' social responsibility and must therefore be integrated into their frameworks of commitments, risk management, stakeholder dialogue and reporting.

Vigeo Eiris provides a final opinion on companies' overall level of contribution to the SDGs on a 5-level scale: very positive, positive, marginal, negative or very negative. The reference universe is based on Vigeo Eiris' Equitics© research and is updated at the same time as Equitics©.

## Energy Transition Strategy score

By taking into account the size, sector of activity and nature of its products and services, we assess a company's willingness and capacity to adopt a clear, documented and measurable transformation strategy regarding its behaviour, products and services; with the objective of reducing its carbon footprint and creating sustainable value based on low-carbon activities that are in line with international climate objectives such as the 2 degrees policy.

Each issuer receives an Energy Transition Strategy score resulting from the analysis of criteria defining its responsibilities regarding the fight against climate change. These criteria stem from an authoritative framework of international norms and standards and consider the best practices that make up our Equitics© framework: green products, energy, atmospheric emissions, transportation, use and disposal of products, and societal impacts of products & services. The reference universe is based on Vigeo Eiris' Equitics© research and is updated at the same time as Equitics©.

## Carbon Footprint

A company's carbon footprint is the total volume of Greenhouse Gas (GHG) emissions in tonnes of CO<sub>2</sub> equivalent (Scope 1 + Scope 2) emitted by the issuer.

### Emissions

- Scope 1 covers direct GHG emissions originating from sources that are owned or controlled by the issuer.
- Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting perimeter.
- Scope 3 covers other indirect emissions (not included in Scope 2) from the entire value chain, both upstream and downstream.

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## Data

The main source of GHG emissions data is the Carbon Disclosure Project (CDP) and Vigeo Eiris' own company research. When data is not available via these two processes, Vigeo Eiris estimates the Carbon Footprint of the company based on the size and the nature of the issuer's activities, using three main modeling processes: regression analysis, sector-specific factors and average sector emission ratios. The research on non-sovereign issuers is updated twice a year.

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