

Opinion on Sustainability

Summary



Rank in Sector	9/60
Rank in Region	62/1620
Rank in Universe	67/4880

ESG Reporting Rate	97%
Sector Average	82%



As of December 2020, AAA obtains an A1+ rating, based on an overall score of 85/100. AAA ranks within the top 2% of all companies rated by V.E worldwide (4,880 in total) and ninth within the Electric and Gas Utilities sector. The company's overall score has decreased by 1 point since our 2019 review, notably due to an increase of allegations related to customer relations. AAA displays advanced willingness and capacity to integrate ESG factors into its strategy, operations and risk management, with outstanding results on issues related to human capital.

AAA is a company involved in the generation and sale of power from nuclear and renewable sources. It operates natural gas transportation, storage and distribution networks and facilities, and provides energy services for local authorities, individual and professional customers. In July 2020, the group announced a plan to sale EUR 2 billion of assets in the frame of its strategy to refocus on renewable energies.

ESG AND RISKS MANAGEMENT PERFORMANCE (./100)



STRENGTHS

- » Outstanding management of human rights related issues
- » Advanced environmental strategy
- » Improving trend in the ratio of sharing added value between employees and shareholders

WEAKNESSES

- » Recurring controversies involving anti-competitive practices, on which the Group does not systematically report.
- » Energy consumption of the gas network increased by 20% between 2019 and 2020 and no group-wide reduction target appear to be set in this respect.

KEY TAKEAWAYS

Impacts: 70% of 2019 CAPEX were dedicated to renewable energies and solutions to mitigate energy consumption. While the Group’s carbon footprint is considered intense, the carbon factor demonstrates a continuous decrease since 2015.

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

Management: AAA appears to pro-actively integrate ESG factors into its strategy and operations. Its approach is supported by quantified targets and a broad level of stakeholder involvement. State-of-the-art means and processes address the most material challenges. Due to persistent controversies regarding anti-competitive practices and frequent allegations about customer relations issues, associated to overall non-communicative responsiveness, AAA’s capacity to safeguard its relationships with stakeholders is considered weak.

Impacts

VALUE CREATION AND SHARING

<p>Share of investments in activities creating sustainable value [Major, Significant, Limited, None]</p>	<p>Major</p>	<p>In 2019, growth CAPEX amounted to EUR X million, including:</p> <ul style="list-style-type: none"> » EUR X billion dedicated to renewable energies, including: <ul style="list-style-type: none"> • EUR X million of CAPEX dedicated to renewable energy projects (wind, solar, biomass-biogas, geothermal and R&D), • EUR X million to energy efficiency (including heating, cooling and R&D), • EUR X million to clean mobility. » EUR X billion for networks projects, including EUR X million for network development and installation of intelligent gas meter. » EUR X billion in acquisitions of energy saving solution providers, that aim to promote customer energy savings for the most part. <p>In total, investments in activities creating sustainable value is estimated to represent around 60% of AAA’s capital expenditures in 2019.</p>
<p>R&D investments [Increase, Stable, Decrease]</p>	<p>Increase</p>	<p>AAA’s investments in Research and Development have increased by 11% from 2017 to 2019, from EUR X million to EUR X million, and represented 0.31% of AAA’s revenue in 2019.</p> <p>This ratio is below the sector average of 0.62% in 2019 (22 companies within the sector report on this ratio).</p> <p>Among others, AAA:</p> <ul style="list-style-type: none"> » devoted EUR X million to renewable energies R&D projects, EUR X million to energy efficiency and EUR X million to clean mobility: these amounts were collected via a Green Bond issued in 2019. » established in 2019 a partnership with an environmental institute, to study various scenarios for adapting its business to climate change. » Has identified several emerging sustainable technologies, including CO2 capture from the air and compressed air storage that are likely to enter the market before 2030

Ratio of employee wages and benefits vs shareholder dividends [Increase, Stable or No Clear Trend, Decrease]	Increase	The ratio of payments to employees vs shareholders has increased by 40% between 2017 and 2019.
Transparency on tax payments [Major, Significant, Limited, None]	Significant	AAA's tax reporting in 2019 includes: <ul style="list-style-type: none"> » taxes paid in key countries of operation: AAA reports on the taxes paid for its 13 main countries of operation, representing 92.1% of the total amount of taxes paid in 2019. » sales per zone: the same 13 countries represent 83.8% of the total turnover in 2019. » number of employees per zone: AAA reports its total number of employees in North America, Latin America, Europe, Asia, Africa, Middle East and Oceania. In 2020, AAA adhered to the principles of responsible taxation advocated by B-Team, which seven principles are considered best in class practices by V.E.
Operations in offshore financial centres (OFC), including non-compliant OECD jurisdictions [No Operation in OFC, Justified Operations in OFC, Unjustified Operations in OFC]	Justified Operations in OFC	AAA has justified activities in Turkey (electricity generation), Indonesia (geothermal development) and Andorra (telecoms infrastructure and digital facilities). These countries are considered as partially compliant on tax transparency rules by the OECD.

SOCIAL & ENVIRONMENTAL IMPACTS

Environmental impacts :

V.E considers AAA's carbon footprint to be intense and the company therefore receives a **grade D** (fourth on a four-level scale) in this regard. AAA obtains an energy transition score of 60/100, which is above the average performance of the Electric and Gas Utilities sector (37/100). This performance results from our assessment of AAA's efforts in terms of development of renewable electricity, reduction of atmospheric emissions from fossil-based generation activities, management of GHG emissions from transmission and distribution activities and energy demand-side management.

Carbon factor (total) [Decrease, Stable or No Clear Trend, Increase]	Decrease	AAA's total carbon factor has decreased by x% from 2015 to 2019 (from 445.7kg CO ₂ /MWh in 2015 to 248.7CO ₂ /MWh in 2019). This ratio is above the sector average of 218.1kg CO ₂ /MWh of the Electric and Gas Utilities (24 companies in the sector reported on this indicator in 2019).
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Social impacts:

Organic growth of employment [Positive, Stable, Undisclosed]	Stable	The organic growth of employment remained stable (-0.3%) between 2017 and 2019. Of note, no other company of the Electric and Gas Utilities sector reported on this information in 2019.
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		The total number of employees in the workforce has increased by 10% over the past three years, from X employees in 2017 to X employees in 2019.
Percentage and trends of women in management [Increase, Stable or Unclear, Decrease or Undisclosed]	Increase	<p>The percentage of women in management positions has increased by 1.5 points over the last five years, from 22% in 2015 to 23.5% in 2019.</p> <p>This ratio is aligned with the average of the Electric and Gas Utilities sector, which stood at 23.64% in 2019 (46 companies in the sector reported on this indicator).</p>
Annual training budget per employee [Increase, Stable, Decrease or Undisclosed]	Decrease	<p>The annual training budget per employee has decreased by 45% over the past five years and by 14% over the last three years. It stands at EUR X per employee in 2019.</p> <p>This amount is below the Electric and Gas utilities sector average of around EUR X in 2019 (27 companies in the sector reported on this indicator).</p> <p>Of note, the company states that annual expenses per employees effectively trained in 2019 amounted to EUR X (around 70% of employees benefited from a training in 2019).</p>
Injury frequency rate [Decrease, Stable or Unclear, Increase or Undisclosed]	Stable	<p>AAA's lost-time injury frequency rate (LTIFR) increased by 6% between 2017 and 2019 to stand at 0.74 injuries per 200,000 hours worked in 2019. This ratio is stable compared to 2015.</p> <p>This rate is above the Electric and Gas Utilities sector average of 0.64 per 200,000 hours worked in 2017 (37 companies in the sector report on this indicator).</p>
Injury frequency rate for subcontracted labour [Decrease, Stable or Unclear, Increase or Undisclosed]	Decrease	<p>AAA's lost-time injury frequency rate (LTIFR) for contractors remained stable between 2017 and 2019 and stands at 0.46 injuries per 200,000 hours worked in 2019. This ratio decreased by 32% compared to 2015.</p> <p>This rate is below the sector average of 0.70 per 200,000 hours worked in 2019 (20 companies in the sector report on this indicator).</p>

IMPACTS OF PRODUCTS & SERVICES

AAA is considered to have a significant percentage of renewable electricity within its total electricity generation mix, and this ratio increased by 4.5 percentage points since our 2019 review. The group's contribution to the UN Sustainable Development Goals concern the objectives 7 (Affordable and clean energy), 11 (Sustainable Cities & Communities, and 12 (Sustainable Consumption and Production).

Share of electricity generation from renewable sources [Major, Significant, Minor, Inexistent or Undisclosed]	Significant	<p>In 2019, the share of electricity generation from renewable sources stood at 22.5%, an increase of 4.5 percentage points compared to 2015.</p> <p>This share stands below the sector average of 45% in 2019 (26 companies in the sector report on this indicator).</p>
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<p>Share of products and services contributing to reduce customer demand for energy [Major, Significant, Minor, Inexistent or Undisclosed]</p>	<p>Minor</p>	<p>Through its Client Solutions Business Line, AAA provides among other services that provide customers with data on their energy consumption and solutions enabling them to reduce energy consumption. The Client Solutions Business Line represented 17% of the group's EBITDA in 2019, but percentage of turnover derived from activities actively contributing to reduce customer demand for energy is not disclosed. As a result, it has been estimated below 10% of turnover.</p>
<p>Performance trend in terms of access to energy [Increasing, Stable or Unclear, Decreasing, Undisclosed]</p>	<p>Stable</p>	<p>AAA provides technical and financial support to projects enabling access to energy for vulnerable populations. The entity, certified B Corp, manages a portfolio of X companies active in Europe, Africa, Latin America and Asia. The invested companies are engaged in off grid clean collective energy, households clean energy solutions, clean cooking, circular economy and energy efficiency and sobriety projects.</p> <p>The Fund invested EUR X million in 2019 to support projects in 15 developing countries. The fund companies had contributed to provide access to energy to more than X million of beneficiaries worldwide as of 2020.</p>
<p>Involvement in armament [None, Minor, Significant, Major]</p>	<p>Minor</p>	<p>AAA does not appear to be involved in the production, sale and/or financing of prohibited weapons.</p> <p>2 AAA subsidiaries appear to be involved in supplying military equipment or services, with revenues estimated at below 5% of total turnover:</p> <ul style="list-style-type: none"> » BBB supplies military radio and satellite communication networks. Products can be used by aerial, land and navy surface vessels and submarines. » CCC supplies the armed forces with services including repair and maintenance of military equipment, construction of new facilities, refurbishment of land vehicles, etc. <p>These activities are not subject to any controversy.</p>

Risks

RISK FACTORS

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

- Access to Energy
- Business Ethics (corruption and anti-competitive practices)
- Career Management
- Climate Change
- Employee Health and safety
- Industrial Safety
- Governing rules and independence of the Board of directors



Our analysis reveals that AAA has comprehensively addressed most of these challenges.

Access to Energy

Access to reliable, sustainable, affordable energy services is part of the United Nations' Sustainable Development Goal 7. As a worldwide producer and distributor of electricity and gas, AAA has a major role to play in promoting access to energy. Such efforts may positively impact the company's image, especially in developing countries, which represent a significant part of the group's markets (20% of AAA's turnover was made in Latin America, Africa, Middle-East and Asia in 2019) and important area of potential growth, whereas European markets display decreased demand.

AAA displays an advanced strategy to **promote access to energy and prevent fuel poverty**, based on a comprehensive commitment, which visibility is strengthened by partnerships with relevant stakeholders (such as the xxx, an international NGO working to address the challenges of poverty and inequality). The Group dedicates advanced means to this topic, including technology transfer, off-grid solutions and financial support to companies involved in promoting access to energy.

Business Ethics

AAA is active in countries having a high corruption perception index (such as xxx, xxx and xxx), and interacts with government official as well as external partners. These transactions might be exposed to material risks of corruption. In addition, as a historic gas operator, AAA is subject to high scrutiny from the European Commission as impediments to free competition remain common, while fines for anti-competitive behaviour can reach up to 10% of a company's overall turnover.

With respect to Business ethics, AAA shows a pro-active approach of corruption issues, but its management of anti-trust controversies appears weak. **Corruption and anti-competitive practices** are addressed by comprehensive commitments, implemented by a dedicated organisation involving the Board's Ethics and Sustainable Development Committee as well as the ethics and compliance department. AAA's commitment to prevent corruption is strengthened by the involvement of external stakeholders (such as Transparency International France). More than 90% of senior managers received a corruption-related training since 2017, and 86% of executive managers were trained on this subject in 2019. In addition, adequate internal controls measures are in place and include external audits in the frame of the Group's ISO 37 001 certification. Results are affected by eight anti-trust controversies, an increase of five cases compared to our last evaluation. AAA communicates transparently on four of them but does not report on related corrective measures and is considered non-communicative on four cases (a detailed analysis of these controversies is provided on page 14).

Career Management

AAA's activities are conducted in an industry where technologies are evolving rapidly. To remain competitive and complete its proposed transformation, AAA needs to adapt employees' skills to new technologies linked to renewable electricity generation and digital equipment, amongst others. In this context, providing employees with useful tools to ensure their career development may enhance talent attraction and retention.

AAA's advanced approach towards **career management** is likely to represent a strong competitive advantage. The company's commitment is outstanding and addresses all its responsibilities, and its visibility is reinforced by the global framework agreement signed in 2010 with employee representatives. The career management system appears advanced and covers the majority of the Group's employees. Results are mixed: the employee turnover rate increased by 2.9 percentage points between 2017 and 2019 while the internal mobility decreased by 2 percentage points over the same period. A majority of employees received a training in 2019 (69.2%), a slight increase compared to previous year.



Climate Change

AAA's comprehensive efforts to mitigate its climate impacts may strengthen its position on renewable electricity markets, reduce its exposure to commodity price volatility and mitigate CO2 emissions costs. The group activities having an intense climate footprint, AAA has a key role to play in the fight against climate change by promoting and accompanying the energy transition.

- » AAA aims to reduce 80% of its direct CO2 emissions by 2050 (from 2012) to align with the 2°C objective, an objective monitored by the Steering committee and cascaded down to each Business Unit. In February 2020, in the frame of the Science based Target Initiative, AAA has set the following targets for 2030 (taking 2017 as baseline year): to reduce GHG emissions from power generation (related to scopes 1, 2 and 3), by 52% per kWh and to reduce absolute emissions from use of sold products (related to scope 3) by 34%.
- » Electricity from renewable sources represented 22.5% of AAA's total electricity generation in 2019. While this rate is below the sector average, AAA has set new targets in 2019: to increase its renewable energy portfolio by 9GW by 2021, to reach 12GW of wind power, 4GW of solar power, and 0.5GW of offshore wind power. In line with the Science-Based target 2030 scenario, the group intends to increase its share of renewable electricity capacities by 58% by 2030.
- » AAA has reduced the percentage of coal-based electricity in total capacity from 15% in 2015 to 6% in 2019. Despite limited involvement in combined cycle and cogeneration technologies (22.6% of fossil fuel generation capacity in 2019), AAA's thermal carbon factor stood at 541 kg CO2/MWh in 2019, in the second quartile of the sector, a decrease of 18% compared to 2015.
- » Comprehensive measures are implemented to promote energy savings amongst customers, although reported KPIs do not display any clear trend.
- » One area for improvement is the reduction of emissions from transmission and distribution activities, as AAA does not disclose any group-wide quantified targets in this regard. Although comprehensive means are in place to ensure the gas network's effectiveness, energy consumption of the gas T&D network increased by 13% from 2017 to 2019, and stood at 0.0129 Gigawatt hours per kilometre.

Employee Health and Safety

75% of AAA's 171,000 employees are operatives and therefore more vulnerable to hazards linked to working in power generation facilities or on gas network (such as accidents from operating mechanical equipment, professional disease linked to carrying heavy loads, repetitive movements, exposure to high temperatures and hazardous substances, etc.). Any severe accident in one of its plants would expose AAA to legal sanctions and possible fines, as well as affect its reputation as an employer.

The group shows a pro-active management of employee health and safety risks. AAA's commitment is embedded in the Global Health and Safety Agreement signed with employee representatives and includes quantitative targets (including a Lost Time Injury Frequency Rate of less than 3 for group employees). Advanced health and safety measures (including employee incentives, a certified management system and stress support instruments) are in place. AAA faces two controversies (a trial for an accident in a coal mine and allegations regarding employees' stress); it responded in a pro-active manner to the first case and is considered reactive to the second one. Over the last five years, KPIs related to safety show stable (Injury frequency rate) to decreasing trend (Injury frequency rate for subcontracted labour).

Industrial Safety

AAA's subsidiary DDD operates two nuclear power plants, representing 10% of the company's generation mix in 2019. In addition, 39% of the company's EBITDA comes from gas infrastructure operations. Any safety incident could severely impact the continuity of service to customers. In addition, since the Fukushima events increasing transparency is required from companies on nuclear safety, and any allegation relating to a potential breach of safety regulations could affect AAA's legal security and brand image.

AAA's robust industrial safety management system may protect the continuity of its operations and prevent legal risks linked to potential breaches of the regulatory framework. Comprehensive resources including the involvement of external experts are allocated to both industrial and nuclear safety. In addition, 84.5% of revenue are reportedly covered by emergency prevention and crisis management plans. number of nuclear safety deviations (level 1) classified on the International Nuclear Event Scale has decreased between 2015 and 2019, from 8 to 2 accidents in 2019.

Board of directors

The composition of the Board of Directors (including the diversity, 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 its ability to exercise control over the management and foster the company's long terms competitiveness and profitability, as well as shareholders' and other stakeholders' interests.

Advanced practices are observed at Board of Directors' level, such as the separation of CEO and Board Chairman roles, the independence of the Board Chairman, and the presence of three employee representatives. In addition, a third party evaluates annually the performance and functioning of the Board and the results are publicly disclosed. The number of women in the Board declined since our last review, decreasing from 42% to 31% in 2020. On a positive note, the percentage of independent Board members increased over the same period to exceed 50% in 2020 (56%), in accordance with international standards of good governance advocated by V.E. However, a minority of the Nomination, Compensation & Governance Committee and Audit Committee members are considered independent.

RISK MANAGEMENT

No major change has been identified in AAA's risk management since our last review. The system still appears comprehensive and covering the group's most material ESG risks. It includes:

- » **Annual group-wide risk mapping** supervised by the risk department, by which all Business Units (BU) are required to assess their own risks. In addition, the risk department identifies transversal and major risks for the group via interviews with Executive Committee members, as well as with CEOs and Chief Risk Officers of BUs. Risks are then classified into three categories (weak, average or priority), depending on their potential impacts on the company's financial results. 100 internal and external stakeholders were consulted to create the first version of this materiality matrix in 2017. The **assessment of emerging risks is conducted via consultation of prospective economic sources**. Risks of increasing importance include cyber-security and geopolitical risks.
- » V.E positively notes that the most material ESG risks (such as climate, industrial and nuclear safety, human resources transformation) are considered as priority risks. Climate-change related transition risks are part of the risk mapping since 2019, and the physical impacts of climate change are taken into account in all projects' risk assessment and in mid-term BU development plans. The energy mix is considered as a priority risk in the context of transition to low carbon economy. However, according to the company, this mix heavily depends on State legislation, which AAA states is likely to impact further developments and research in emerging technologies such as biogas, biomethane or biogenic energy.
- » The **internal controls system** covers most of AAA's material ESG risks including Climate Change, Health and Safety, Pollution Prevention, Anti-competitive Practices, Corruption, Community Relations and Talent Retention. In addition, processes dedicated to the management of ESG risks include:
 - CSR risk management trainings for members of the risk unit, project managers and developers.



- Monitoring of key CSR risk indicators at BU level. These key CSR indicators have been updated in 2020 and gathered in the 2030 CSR objectives.
 - The CSR Department checks conformity of all Group-wide projects with the Group’s CSR risks criteria, while conformity of Business Units’ projects falls under the responsibility of each said Sustainability Officer. The assessment is based on a scorecard covering environmental, social and community matters. Due diligence on ethical issues is conducted before each potential acquisition, and risks related to the physical impacts of climate change are systematically integrated in project risk assessments
- » The **risk department reports to the Executive Committee, the Audit Committee and the Board** on the group risk management plan. In addition, each BU’s Chief Risk Officer presents their own risk management plan to the Executive Committee and Audit Committee at least once a year. The management of risks related to ethical matters, supply chain, human and labour rights, as well as environmental topics such as biodiversity is supervised by the Board’s Ethics, Environment and Sustainable Development Committee. The existence of a governance body in charge of overseeing the full spectrum of risks could strengthen the group’s ability to integrate all risks stemming from its activities in strategic decisions.
- » **A confidential hotline** covering human and labour rights as well as health and safety and ethical subjects is in place throughout the group. An annual report is made to the Executive Committee, as well as to the Ethics and Sustainable Development Committee of the Board, on the number and types of reported cases.
- » AAA’s answer to the covid-19 crisis included the creation of committees dedicated to risks examination at supply chain level, and the implementation of a EUR 15 million provision to help suppliers in case of cash deficiency. Regarding cybersecurity, additional layers of protection have been added to prevent potentially raising risks due to teleworking

REPUTATION

REPUTATION (/100)	
	61
Access to energy	78
Fundamental human rights	74
Social standards in the supply chain	70
Shareholders	55
Social and economic development	54
Responsible Lobbying	54
Biodiversity	52
Executive remuneration	51



OPERATIONAL EFFICIENCY

OPERATIONS (/100)	
Environmental strategy	61
Board of directors	80
Audit and internal controls	77
Customer relations	73
Air emissions from combustion power plants	66
Energy demand-side management	56
Renewable energy	53
GHG emissions from transmission and distribution activities	46
	37

HUMAN CAPITAL

HUMAN CAPITAL (/100)	
Fundamental labour rights	76
Social dialogue	84
Non-discrimination	82
Reorganisation	79
Health and safety	75
Career management	72
	66

LEGAL SECURITY

LEGAL SECURITY (/100)	
Corruption	59
Industrial accidents and pollution	78
Anti-competitive practices	52
	47

Weak: from 0 to 29

Limited: from 30 to 49

Robust: from 50 to 59

Advanced: from 60 to 100

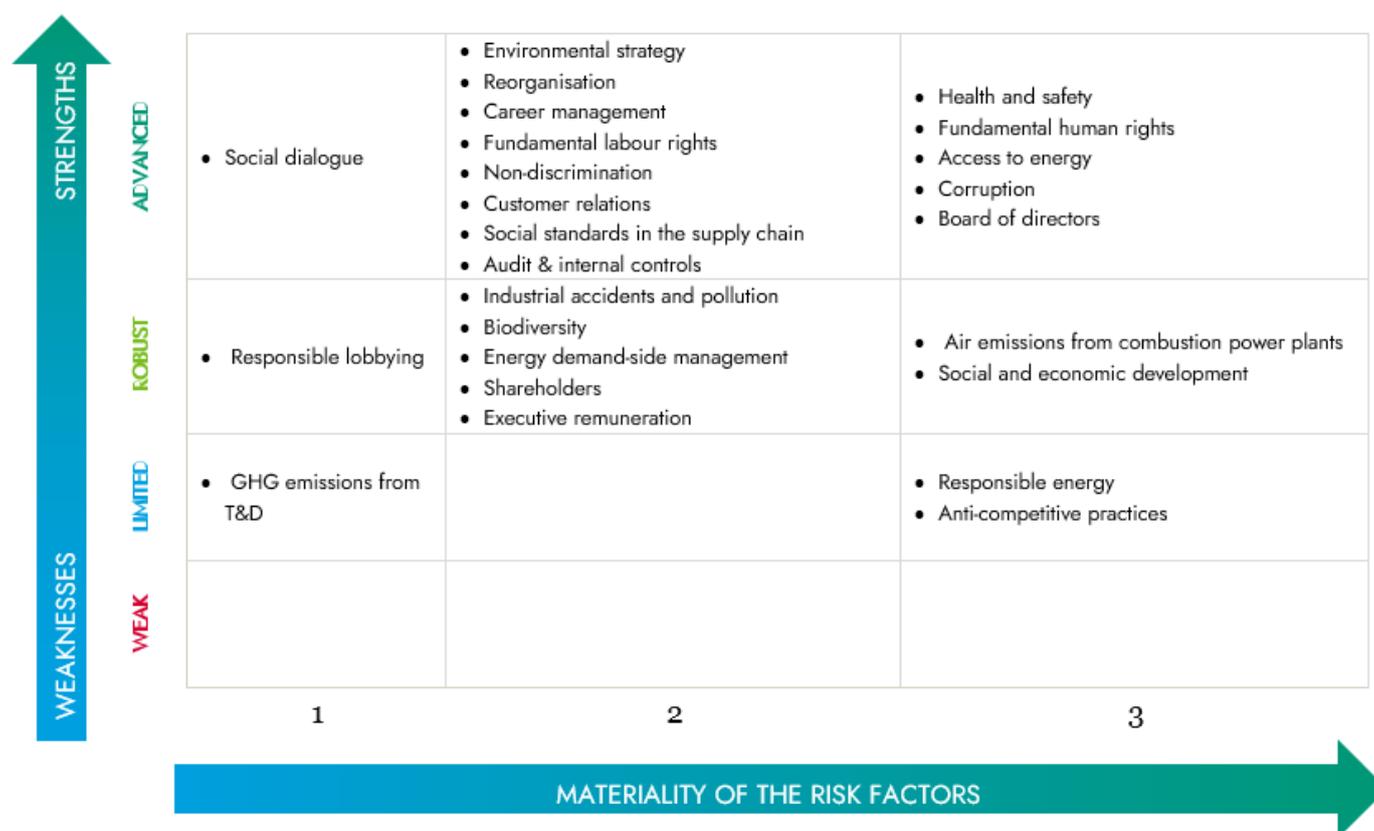
Management

INTEGRATION OF ESG FACTORS INTO CORPORATE GOVERNANCE

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

- » At Board level, a specific committee (the Ethics, Environment and Sustainable Development Committee) is responsible for the company's CSR policies, action plans and proposals, as well as the supervision of CSR risks. The head of CSR makes regular reports to the Ethics, Environment and Sustainable Development Committee. While health & safety is systematically discussed at Board meetings, most other material ESG issues (climate change, industrial safety, anti-competitive practices, corruption and community relations) are addressed by the dedicated ESG committee.
- » At management level, the Head of CSR reports to the Chief Financial Officer, a member of the Executive Committee, which is also in charge of Corporate Social Responsibility since 2019. This move is likely to enable a more systematic integration of extra-financial criteria in the decision-making process.
- » In 2019, AAA established a new set of CSR objectives for 2030. Despite implying a lack of continuity in the follow-up of certain indicators, these new KPIs have been designed to allow a more granular follow-up as well as broadening their scope of coverage, and chosen after consultation of relevant stakeholders (such as employees, NGOs such as France Nature Environnement or GRET, investors)
- » AAA's CSR strategy, including its purpose (raison d'être) and CSR 2030 objectives, was presented to shareholders and investors at the 2020's AGM. This presentation also included a strong focus on the Covid-19 impacts and management. AAA discloses a public report on its most material CSR issues, with an independent third-party assessment of the reliability of key performance indicators, with reasonable level of assurance.
- » In addition, the company's reporting is compliant with TCFD recommendations. In February 2020, AAA submitted targets to the Science Based Targets (SBT) initiative and these have been considered consistent with a 2° warming scenario for the scopes 1 & 2: for 2030, and taking 2017 as baseline year, the Group committed to reduce GHG emissions from power generation (i.e. scopes 1 and 2 emissions) by 52% per kWh, and to reduce absolute scope 3 emissions from use of sold products by 34%. In addition, AAA reports to CDP on its carbon and water footprint.
- » The company publishes all elements of its executive remuneration on an individual basis, in accordance with the standards advocated by V.E., however the visibility of principles linking Executive remuneration to company CSR performance remains limited: CSR performance objectives appear to be considered in the determination of the CEO's variable remuneration (increase in the share of renewable energy, reduction of CO2 emissions, and increase customer satisfaction), but the related performance targets are not disclosed.
- » CSR risks are covered by the internal controls system, which entails comprehensive risk mitigation processes (these are analysed in detail in the "risk management" part on p8 of this document).

ESG MATERIALITY AND PERFORMANCE MATRIX



ENVIRONMENT

Strengths	Weaknesses
<p>The set-up of GHG emission reduction targets within the SBT increases stakeholders' visibility on the company strategy in this respect.</p> <p>Increasing investments in the development of renewable electricity capacity may strengthen the company's position in a quickly evolving market.</p> <p>The systematic implementation of an integrated environmental management at site level, concerted with local stakeholders, may prevent negative impacts of industrial accidents from affecting AAA's legal security and license to operate.</p>	<p>An employee representative expressed concerns to V.E regarding the level of investment in R&D, which he said has dramatically decreased at group level since 2008. Data disclosed by the company reflect that R&D expenses and related headcount decreased by respectively 20% and 18% from 2012 to 2014 and remained stable since then. The Group does however not provide any explanation for this trend.</p> <p>Energy consumption of the gas T&D network increased by 13% from 2017 to 2019, which question the effectiveness of the measures in place to reduce this type of impact.</p>



SOCIAL

Strengths	Weaknesses
<p>The advanced health and safety management system may protect the company’s legal security, an opinion strengthened by the absence of legal issues on these matters.</p> <p>Outstanding means and processes to ensure collective bargaining may facilitate the success of AAA’s ongoing transformation.</p> <p>Highly relevant strategy and comprehensive measures to prevent discrimination and promote diversity may strengthen employee attraction and retention.</p> <p>Adequate resources to integrate social factors in the supply chain may prevent related reputational damages and preserve the company’s legal security.</p>	<p>As of December 2020, AAA faces three controversies regarding customer relations, including one of high severity (a 100m EUR fine for abuse of dominant position on gas and electricity markets in France for which the group is reactive), and two other minor or significant controversies for which it did not provided a detailed answer. The allegations weaken V.E’s confidence on the group’s capacity to ensure fair treatment to customers.</p> <p>Although the majority of employees receive training each year, KPIs related to career management (trainings budget and time, employee turnover rate and internal mobility) show deteriorating trends.</p>

GOVERNANCE

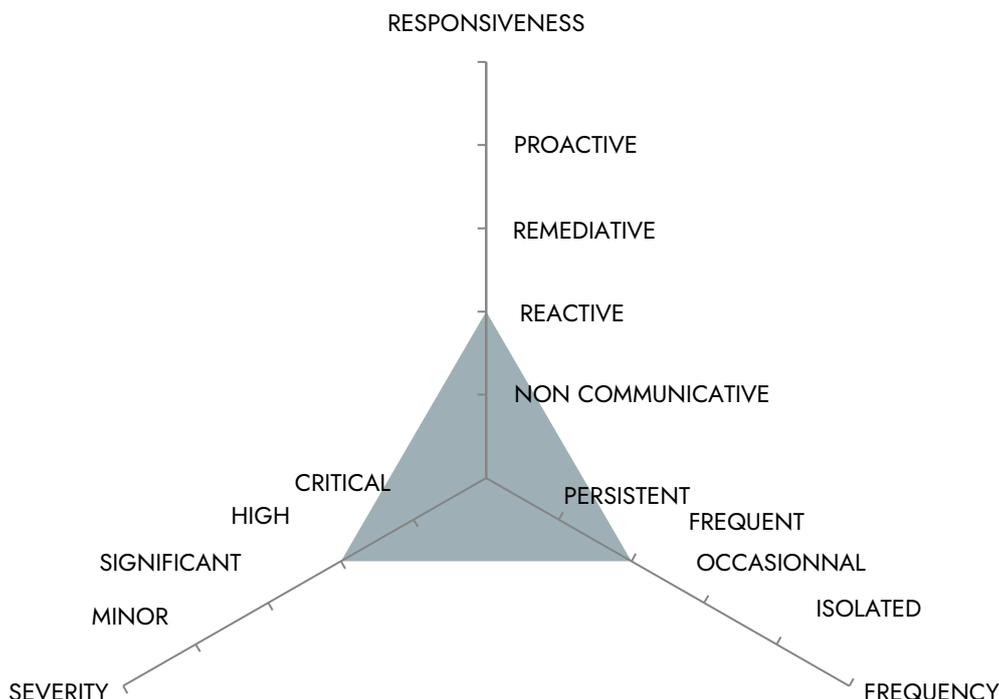
Strengths	Weaknesses
<p>Good practices are observed at board level (56% of board members are independent Board members, the roles of CEO and Board Chairman are separated, the Bard Chairman is considered independent and the presence of three employee representatives sit on the Board), which may reinforce its capacity to exercise effective oversight on the top management’s work</p> <p>Strong integration of CSR topics in risk mapping and internal controls may in a context of business reorganisation protect the company’s ability to ensure long-term profitability.</p> <p>The ratio of payments to employees vs. shareholders continuously increased between 2017 and 2019.</p>	<p>AAA faces 8 controversies related to anti-competitive practices (five resulting in condemnations and one in a settlement), and the Group is considered non communicative on half of these cases.</p> <p>AAA indicates that CSR objectives are linked to the attribution of short-term bonuses but does not disclose the related quantitative targets. More comprehensive disclosure could improve the company’s reputation with shareholders.</p>

DETAILED EXPOSURE TO CONTROVERSIES

ESG Issues	Number of companies facing associated cases within the sector	Company exposure	Company reactivity
Customer relations	19	Yes	Non-Communicative
Social standards in the supply chain	0	Yes	Non-Communicative
Prevention of corruption	4	No	N/A
Anti-competitive practices	14	Yes	Non-Communicative
Responsible lobbying	1	No	N/A
Respect for human rights standards	2	No	N/A
Fundamental labour rights	0	No	N/A
Non-discrimination and diversity	1	No	N/A
Environmental strategy	0	No	N/A
Industrial accidents and pollution	7	Yes	Proactive
Development of renewable energy	0	No	N/A
Biodiversity	7	No	N/A
Management of energy consumption and GHG emissions from T&D activities	0	No	N/A
Air emissions from combustion power plants	3	No	Reactive
Energy demand-side management	1	No	N/A
Social and economic development	2	yes	Remediative
Access to energy	2	No	N/A
Board of Directors	0	No	N/A
Audit & internal controls	3	No	N/A
Shareholders	0	No	N/A
Executive remuneration	1	No	N/A
Social dialogue	0	No	N/A
Reorganisation	1	No	N/A
Career management	0	No	N/A
Health and safety	3	Yes	Remediative



CONTROVERSY MANAGEMENT



AAA faces 13 controversies, four of which are considered severe, while the others are considered of minor or significant severity.

- ▶ In line with our 2019 assessment, the high-severity allegations concern industrial accidents, anti-competitive practices and the group’s tax strategy
- ▶ Five other minor or significant allegations concern anti-competitive practices

Given the frequency and severity of allegations faced by the company, our opinion on its ability to ensure balanced relationships with stakeholders is weak.

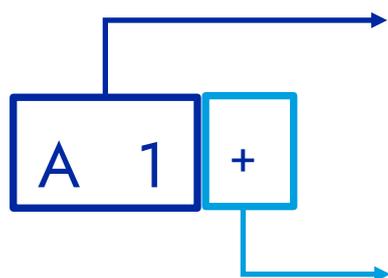
Methodology

Corporate Rating Scale

V.E’s 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.



First dimension: positions the issuer’s overall ESG performance within V.E’s research universe, on a 12-level scale:

- The **letter** (A, B, C or D) positions the issuer’s ESG score within one of the four quartiles of V.E’s overall research universe
- The **number** (1, 2 or 3) positions the issuer’s ESG score in relation to its’ peers within the same quartile.

Second dimension: the + or - symbol positions the issuer’s domain performance in relation to its’ regional sector peers.

Definition of Strategic Assets

Each sustainability criterion of our rating framework affects issuers’ non-material strategic assets with a different intensity. V.E 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.

V.E 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 AAA is weighted at 2 or 3
- “W”: Weight allocated to the asset under review within each sustainability driver

$$R_y = \frac{\sum (S_y \times W_y)}{\sum W_y}$$

Risk Typology – The 4 main categories

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



	<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>
Legal Security	<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 V.E's 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

V.E 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, V.E 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.

V.E 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 V.E's 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 V.E's 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 CO₂ 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.

Data

The main source of GHG emissions data is the Carbon Disclosure Project (CDP) and V.E's own company research. When data is not available via these two processes, V.E 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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