

CAPITALCOM 4TH ANNUAL BAROMETER ON CSR: (CORPORATE SOCIAL RESPONSIBILITY)

CSR PERFORMANCE: AN INCREASING STRATEGIC MANAGEMENT TOOL?



A few days ahead of the opening of the Socially Responsible Investment (SRI) week, which will take place between the 10th and 16th October, Capitalcom, Integrated Communications Agency (Corporate, Financial, Non-financial), publishes its 4th Annual Barometer on CSR. It appears clearly, that for French big caps, the “CSR value” is clearly upwards, in spite of an acute financial crisis in the euro zone.

Caroline de La Marnierre, President of Capitalcom, declares: *“The increasing reliability of CSR indicators and the concern for transparency showed by companies prove the strengthening of a real improvement process. However, proof of this engagement resides in the indexation, alas still not systematic, of the executives’ bonuses on CSR performance. This could contribute to a fairer distribution of value added ...”*

The 6 key trends identified by the Barometer are:

1. CSR indicators: CAC 40 companies faster than the administration!
2. 1/4 of CAC 40 firms dare communicate on missed CSR targets
3. What should be the fair share of CSR performance in executives’ bonuses?
4. Moving towards a social governance
5. HR managers....finally in the first circle!
6. Employee shareholding: 5% cap on!

Top 5 companies*



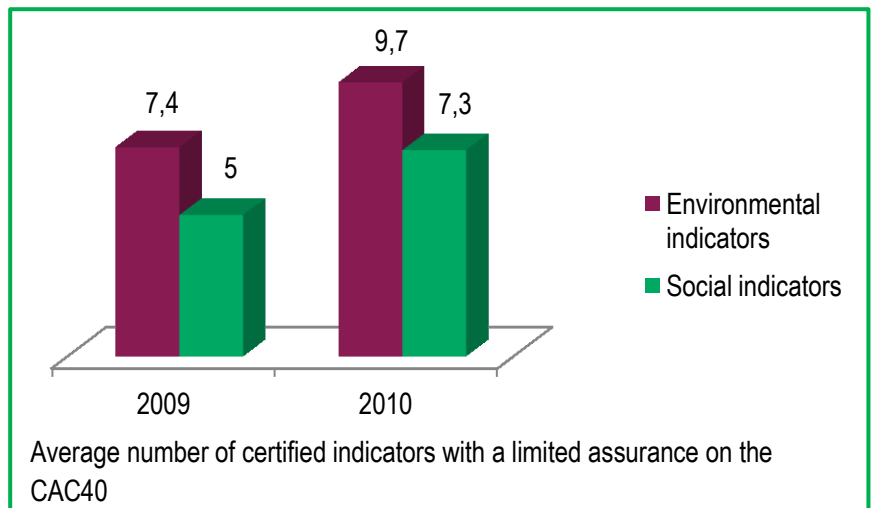
* The Top 5 companies of Capitalcom 3rd Annual Barometer on CSR were: GDF SUEZ, AXA, BNP Paribas, France Télécom-Orange and Lafarge.

1 CSR indicators: CAC 40 companies moving faster than the administration!

This year, **35 CAC 40 companies** have had some of their non-financial indicators certified or audited by auditors or an independent third party, against 31 last year. For the record, the Article 225 of the Act of July 12th, 2010, so-called Grenelle II (**decree of application yet unpublished**), states that "social and environmental information included or to be included in terms of legal and regulatory obligations are subject to audit by an independent third party on terms fixed by decree in Conseil d'Etat.»

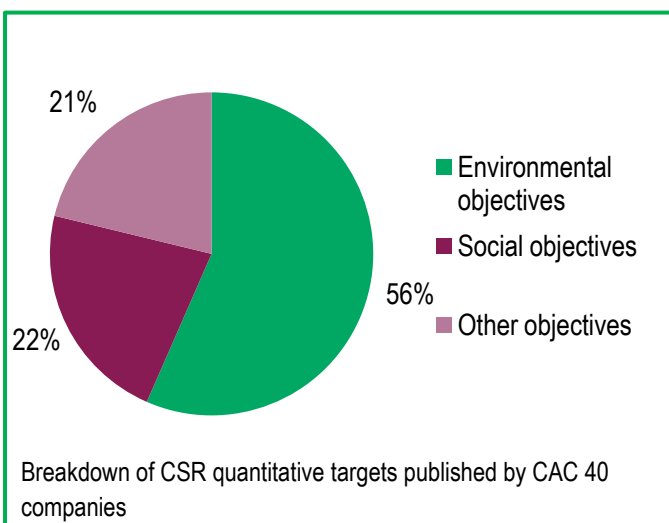
Our Barometer reveals that companies are more likely to publish the non-financial data that they have had certified: on average, the number of indicators that companies have had certified with a "limited assurance" is on the rise: while groups published an average of 7.4 certified environmental indicators for the year 2009, they published an average of 9.7 this year. As for the published certified social indicators, they went from 5 to 7.3 in 2010.

Groups who have chosen to certify their indicators with a "reasonable" level of assurance (greater level of reliability), however, remain a small minority. They are six this year, **GDF SUEZ, France Télécom-Orange, LVMH, Renault, Veolia Environnement** and **SUEZ ENVIRONNEMENT** and they publish an average of 7.8 indicators with a reasonable assurance. **GDF SUEZ, France Télécom-Orange** and **SUEZ ENVIRONNEMENT** are the only groups to publish social indicators that are certified with a reasonable assurance (2.7 on average).



Finally, the study unveils the progress of CAC 40 companies in terms of formalization and standardization of non-financial reporting: in **2010, 85% of companies in the index said they follow the Global Reporting Initiative (GRI*) guidelines**, against 78% in 2009. Four companies have reached the highest level of compliance with the GRI (A +): **France Télécom-Orange, Lafarge, PSA Peugeot-Citroën** and **STMicroelectronics**.

2 1/4 of CAC 40 firms dare communicate missed CSR targets



This year, 12 companies (including **Accor, ArcelorMittal, Crédit Agricole, Danone, LVMH, Renault, Saint-Gobain, Schneider Electric** and **Vivendi** ...) communicate CSR objectives that were not met (between 1 and 3 unmet goals per company). It is observed that **50% of these objectives are environmental, while only 6% of the social targets have been missed**.

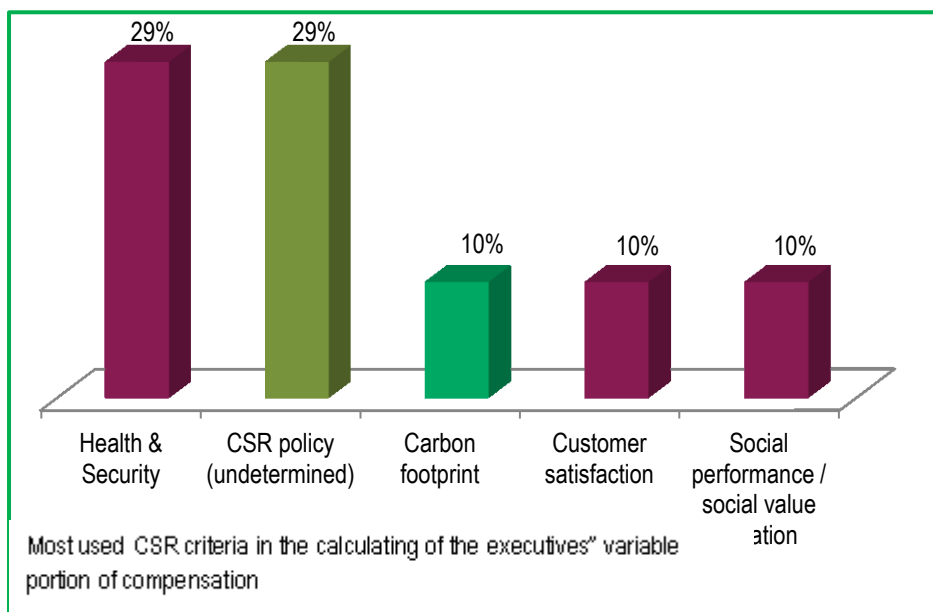
In their publications, groups justify these mixed results by invoking the economic and financial crisis, or the anticipation of the Grenelle II provisions, which will be in effect in 2012. **Unibail-Rodamco**, which has not reached 8% of his goals this year, said that the group "set the bar high to challenge its teams to outperform and innovate, even though this comes at the expense of a perfect score sheet". It believes that "the considerable

performance improvements made since 2006 demonstrate the relevance of this approach".

3 What should be the fair share of CSR performance in executives' bonuses?

In 2010, half of the CAC 40 companies have indexed the bonuses of the members of their Boards of Directors and / or their executives on non-financial criteria, against 17 in 2009 and 12 in 2008. However, leaders and executives are not always housed in the same boat:

- Indeed, only five companies index the compensation of the members of their Boards of Directors and of their executives on non-financial criteria. At **Air Liquide**, for instance, the variable compensation of executives and managers is partly based on objectives related to sustainable development, such as security, energy efficiency and diversity.
- Within seven companies, the members of the Board of Directors are the only ones to see the variable portion of their compensation being indexed on CSR targets, such as **EADS**, **GDF SUEZ** (15% of the variable depends on a "solidarity objective"), **Lafarge** or **Technip**.
- Finally, in nine other companies, only executives' bonuses are indexed on ESG (Environment Social Governance) criteria: **Schneider Electric** (carbon footprint reduction), **PPR** and **PSA Peugeot-Citroën** among others.



Besides, the share of executives' variable compensation that depends on CSR is not a constant. **If nearly 30% of CAC 40 companies index on average 15% of the members of the Board of Directors' variable compensation on such indicators**, this share can amount to 1/3 of the variable remuneration in companies such as **Danone** and **France Télécom-Orange**. **Danone** uses the rule of thirds (1/3 based on economic, 1/3 of social and environmental goals, 1/3 on individual performance) to evaluate the performance of his 1,400 senior executives.

Meanwhile, our Barometer reveals that the CSR indicators conditioning these bonuses are most often reported in a qualitative - instead of quantitative - way, which does not allow a precise analysis of the performance goals set at the beginning. Groups evoke indeed goals such as "health", "security", "solidarity", and "carbon footprint reduction." Given that the indicators that comprise these objectives are not always defined, it was not possible for Capitalcom to verify whether they had received a certification. It can be observed, however, that these performance indicators are most CSR areas as social and societal sphere environmental: half the groups index the bonus of its officers and / or its managers on a performance indicator for social or societal. These criteria are high on social security, health, customer satisfaction and diversity. To date, **France Télécom-Orange** is the only group to have developed a composite corporate social performance indicator, taken into account in the calculating of the variable portion of remuneration of the 800 top managers in France. This indicator combines equally management indicators, such as absenteeism, and indicators drawn from the results of the social barometer carried out twice year by the company.

If **Air Liquide** combines social and environmental indicators in the calculation of the variable remuneration of its directors and its managers, there are **only three other companies that consider one or more environmental criteria**: at **EDF**, for example, bonuses are tied to three criteria, namely lower power consumption sites, travel plans and business waste recycling. **Schneider Electric** and **Michelin** take into account the carbon footprint reduction.

Finally, other companies declare, without providing further clarification, that they index the members of their Boards of Directors and / or their executives' bonuses on "environmental", "sustainable development" or "corporate social responsibility" objectives. **Vinci**, which aims at introducing non-financial criteria in variable compensation, claims to have designed in 2010 a methodology for this purpose.

Moving towards a social governance

For several years, Boards of Directors have been opening to CSR themes with notably the creation of "CSR Committees." This year we noted an increasing integration of HR policies in the work of Boards of Directors. **In 2010, more than a third of CAC 40 groups examined, as part of their committee of "Appointments / Governance" or Committee of "Compensation", their Human Resources policy and, in particular, the development of their employee shareholding.** Only 25% of the CAC 40 had such an approach in 2009.

In its Compensation Committee, **GDF SUEZ** reviews at least once a year the convergence of the employment conditions between former employees of Gaz de France and SUEZ, as well as their competitiveness relative to comparable groups of global dimension. The Governance and CSR Committee of **France Télécom-Orange** monitors the definition of indicators that measure social performance and quality of service. At **L'Oréal**, the Appointments and Governance Committee has expanded its mission to the Human Resources policy at large, including social relations, recruitment, diversity, talent management, and employee retention. Finally, the Appointments and Corporate Governance Committee of **Vinci** has heard the director of human resources in 2010 on the establishment of a system of Human Resource Management Group.

Meanwhile, there is an increasing integration of CSR risks in the work of the Boards' Audit. Non-financial issues are increasingly addressed in the work of the "Audit" or "Risk" Committees: in 2010, **25% of companies have incorporated CSR as part of their "Audit" or "Risk" Committee**, generally in terms of environmental, social and ethics, against 15% last year. **L'Oréal** states for example that *"in 2010, the Committee first examined the conditions of the control of industrial and environmental risks and those related to quality and safety in product design."*

The steering of CSR risks goes beyond the framework of governance. **GDF SUEZ** advocates such careful management of non-financial risks, whether ethical, environmental, social or security. The world's leader of utilities estimates that *"the risk management results in reduced exposure, and in turn, reduced weighted cost of capital."* **BNP Paribas** goes further, integrating SRI in the scope of its global risk management, *"in Risk Analysis Credit and Operational Risk, BNP Paribas integrates environmental, social and governance (ESG)."*

This integration of ESG issues at the highest levels of risk control and corporate governance reflects the belief that CSR would allow companies to better understand their risks and strategic issues. To a "finance-centric" approach, which advocates that financial criteria alone can properly analyze the economic situation of a company, succeeds an **"integrated finance"**, which the **environmental, social and governance criteria** takes into account, **with therefore a better anticipation and more accurate assessment of business risk.**

5 HR managers....finally in the first circle!

The trend grew strong over the years: **HR executives are now members of Executive or Steering Committees.** In 2010, they are 34 in the CAC 40 companies. Despite a persistent myth, **only 29% of them are women!** They were only 18% in 2009.

This integration of HR and social policies at the group's highest level is also reflected in a greater willingness to "bring up" HR information to the direction, as evidenced by **the widespread use of internal employee surveys.** In 2010, **nearly 2/3 of the CAC 40 companies have implemented or pursued the implementation of social barometers.** **PSA Peugeot-Citroën** has conducted for many years a barometer of inner perception among its cadres in France and among all its executives around the world since 2008. In **France Télécom-Orange**, a social barometer was set up in 2010 as a semi-annual survey by an external company, which seeks to assess the satisfaction of Group employees. Meanwhile, **Saint-Gobain** won the French trophy of Human Capital in the "Social Dialogue" category for its policy in this area.

6 companies conducted a survey of engagement (including **BNP Paribas, Danone, Renault** and **Vivendi**). However, only **Danone** releases "Rate commitment" (87%). EADS Reports, for its part, the increase in this rate (50% in 2010 vs. 2009).

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The social partners have their say!

This year, the study found that **75% of CAC 40 companies have implemented measures to encourage dialogue with social partners.**

Note the example of **Lafarge**. In its Annual and Sustainable Development report, both a statement of the collective stakeholder panel group and the intervention of a member of the panel on social indicators of the Group are included: *"The number of out-sourced employees increased to 30%! Lafarge should explain the reason for the decrease in employment and the increase in outsourcing as well as how they make sure that subcontractor working conditions comply with Lafarge standards. In addition, Lafarge should report the gender breakdown of out-sourced employees as it might become evident that outsourcing is a gender issue, with women being the main victims of outsourcing."*

Some groups have even set goals in this area. **Danone** intends to sign two additional agreements and achieve the goals of each subsidiary in the action plans; **France Télécom-Orange** wants to implement social dialogue on the Group's entire perimeter, with means adapted to local contexts. Finally, **Vinci** aims to integrate societal and environmental issues in social relationships and improve the structures of employee representation in the Group.

6. Employee shareholding: 5% cap on!

Within the CAC 40 index, **the rate of employee shareholding** (the share of capital which is held by employees) grew from 3.35% in 2010 to 3.88% in 2011, an **increase of 15%**. However, rates of employee ownership are disparate: for 18 groups rates are comprised between 0.1% and 2.9%. They are six to display a rate of between 5% to 9.9% (**AXA, BNP Paribas, Cap Gemini, Essilor, Saint-Gobain, Societe Générale**). Only **Bouygues, Safran** - new entrant in the CAC 40 index - and **Vinci** stand out, with employee shareholding rates amounting to respectively 19%, 16.10% and 10%.

Nearly half of the CAC 40 companies have implemented a bonus shares program in 2010 and / or 2011, explaining this growth: **AXA, BNP Paribas, Carrefour, Crédit Agricole, EADS, GDF SUEZ, L'Oreal, Publicis, Sanofi, Société Générale, Suez ENVIRONMENT** or **Total** have implemented such measures in 2010 or 2011. In total, eight groups have established bonus share plans for the benefit of all their employees.

Only **GDF SUEZ** and **Schneider Electric** have set targets for employee ownership. **Schneider Electric** stands that *"the Group has committed since 1995 in the establishment of an international employee shareholding representative of its diversity and that will ultimately provide a shareholding by employees of around 5% (currently 4.11% employee shareholders =capital)."*

Capitalcom

Methodology

Annual Barometer on CSR is compiled from material produced by the CAC 40 companies for 2010: registering documents, annual and CSR reports, CDP (Carbon Disclosure Project), GRI (Global Reporting Initiative), websites, social reports... The Barometer is based on a grid of around a hundred criteria like SRI (Socially Responsible Investment) indexes, certification of non-financial indicators by auditors, CSR goals, marketing "responsible" offers, non-financial governance, social performance...

Integrated Communications Agency (Corporate, Financial and Non-Financial), Capitalcom has developed a **unique approach to performance** based on the integration of **the Economic / Financial, human and environmental capital of companies**. Founded in 2005 by Caroline de La Marnierre, formerly CEO of Publicis Consultants Ecom, Capitalcom supports its customers **to design and implement effective communication**, whose main objective is to contribute to **the enhancement of the company in all its dimensions**.

Designer and director of the **"Grand Prix de l'Assemblée Générale de l'Année"** and author of four annual barometers on shareholders, CSR and diversity, Capitalcom also created and launched a movement: **"For a new social pact based on trust and performance"** and a Think Tank: **"For Employee Ownership in the heart of the company's project"**, with major stakeholder groups.

With more than twenty employees, Capitalcom feeds this expertise based on the five values and commitments that the Agency displays since its creation: **Efficiency, Responsiveness, Loyalty, Independence and Ethics**. The Agency has expanded its range of services by creating two subsidiaries: **Capitalcom Evénements**, which produces high-scale responsible events and **Capitalcom Interactions**, dedicated to the design, organization and media coverage of financial events.

The Top 5 CAC 40 companies



- Communication of 10 CSR objectives (including 7 environmental objectives and 3 social ones);
- Limited assurance of the Independent Auditors on 9 environmental indicators and 3 social indicators and reasonable assurance on 2 environmental indicators and 2 social indicators;
- CSR department answerable to the Executive Committee;
- Executive Vice President Group Human Resources and Deputy Chief Executive Officer Quality, Corporate Social Responsibility members of the Group's General Management Committee;
- Governance and Corporate Social Responsibility Committee within the Board of Directors;
- Composite corporate social performance indicator taken into account in calculating the variable portion of remuneration of the 800 top managers in France;
- Launch of the first Bilan Carbone® (carbon footprint assessment) in France;
- Marketing of "responsible products": telemetry systems, mobile offerings for the lowest income groups...;
- Objective to launch a socially responsible investment fund in 2012;
- Sponsorship through the Orange Foundation;
- Introduction of a social barometer in 2010 to assess employee satisfaction within the Group in France;
- Information on the distribution of value added in the registering document;
- Free share award benefiting 160,000 employees included in the "Conquests 2015";
- Publication of dedicated sustainability report;
- Compliance with the GRI guidelines, A+ application level;
- Presence in 4 SRI indexes;
- Disclosure of the Carbon Disclosure Project;
- Signatory of the Global Compact.



- Communication of 15 CSR objectives (including 10 environmental objectives and 5 social ones);
- Limited assurance of the Independent Auditors on 12 environmental indicators and 19 social indicators;
- Executive Vice President Human Resources member of the Group's Executive Committee;
- Social Responsibility Committee within the Board of Directors;
- Non-financial indicators taken into account in calculating the variable portion of remuneration of the Group's management;
- Development of the Danprint tool for measuring products' carbon footprint;
- Publication of a non-financial objective in the 2010 annual results press release;
- Marketing of "responsible products": products targeting the lower half of the pyramid (Casa Buna, Pureza Aga...);
- Three socially responsible investment funds;
- Employee Barometer survey sent to all Group's employees in 2010 and publication of 87% engagement rate;
- Capital increase reserved for employees in May 2010;
- Publication of dedicated sustainability report;
- Compliance with the GRI guidelines, B+ application level;
- Presence in 3 SRI indexes;
- Disclosure of the Carbon and Water Disclosure Projects;
- Signatory of the Global Compact.



- Communication of 10 CSR objectives (including 3 environmental objectives and 6 social ones);
- Limited assurance of the Independent Auditors on 8 environmental indicators and 14 social indicators and reasonable assurance on 14 environmental indicators and 10 social indicators;
- Three non-financial targets published in the 2010 annual results press release;
- One employee shareholding objective : 3% share of capital held by employees before 2015;
- Strategy and Sustainable Development Director and Human Resources Director members of the Executive Committee;
- Committee for Ethics, the Environment and Sustainable Development within the Board of Directors;
- Non-financial indicators taken into account in calculating the variable portion of remuneration of the Group's management;
- Marketing of "responsible products": DolceVita 2 énergies Nature, AlpEnergie, Electrabel Vert, Tarif Spécial Solidarité...;
- Social Commitment through the "GDF SUEZ Rassembleurs d'Energies" initiative, which includes a SRI fund;
- Free share award in august 2010;
- Publication of dedicated sustainability report;
- Compliance with the GRI guidelines, B+ application level;
- Presence in 1 SRI index;
- Disclosure of the Carbon Disclosure Project;
- Signatory of the Global Compact.



- Communication of 4 environmental objectives;
- Limited assurance of the Independent Auditors on 17 environmental indicators and 12 social indicators;
- AXA Group General Counsel and Head of Group Human Resources member of the Executive Committee;
- Ethics and Governance Committee within the Board of Directors;
- Non-financial indicators taken into account in calculating the variable portion of remuneration of the Group's management;
- Marketing of "responsible products": M&S Green Product, Green loans, micro-assurance...;
- Social Commitment through the AXA Foundation;
- Annual employee satisfaction survey AXA Scope;
- Employee shareholding plan Shareplan 2010;
- Publication of dedicated sustainability report;
- Compliance with the GRI guidelines;
- Presence in 3 SRI indexes;
- Disclosure of the Carbon Disclosure Project;
- Signatory of the Global Compact.



- Communication of 13 CSR objectives (including 8 environmental objectives and 5 social ones) within the framework of the Planet & Society Barometer;
- Limited assurance of the Independent Auditors on 11 environmental indicators and 10 social indicators;
- Executive Vice-President, Global Human Resources member of the Management Team;
- Non-financial indicators (carbon footprint reduction) taken into account in calculating the variable portion of remuneration of the Group's management;
- Marketing of "responsible products": Green Premium products...;
- Social Commitment through the Schneider Electric Foundation;
- Annual employee satisfaction survey AXA Scope;
- Employee shareholding plan Shareplan 2010;
- Publication of dedicated sustainability report;
- Compliance with the GRI guidelines;
- Presence in 3 SRI indexes;
- Disclosure of the Carbon Disclosure Project;
- Signatory of the Global Compact.