CEIP ESG RISK RATING MODEL

Below is an example of the output of the CEIP risk rating process:

	Current (Variable) 1-5	Importance (Fixed) 1-5	Net Risk	Oppor-tunities 1-5	Target (Variable)	Target Net Risk
ENVIRONMENT						
Carbon Footprint	3	2.6	7.9	**4**	2	5.3
Energy Usage	5	3.5	**17.5**	**4**	3	10.5
Water Usage	4	0.6	2.5	2	4	2.5
Waste management	3	2.3	6.8	3	2	4.5
Toxic emissions	5	1.5	7.5	2	3	4.5
Green Revenue	4	4.0	**16.0**	**4**	3	12.0
Climate Risk Mitigation	4	3.0	**12.0**	**4**	2	6.0
			10.0	4.0		6.5
SOCIAL						
Health & Safety	5	3.5	**17.5**	**4**	2	7.0
Gender & Diversity	5	3.0	**15.0**	3	4	12.0
Employee Satisfaction	3	3.0	9.0	**4**	3	9.0
Community relations	2	1.3	2.5	**4**	2	2.5
Human rights	2	0.8	1.5	1	2	1.5
Supply Chain	2	3.0	6.0	3	2	6.0
Training/Career Development	3	2.5	7.5	**4**	3	7.5
			8.4	3.3		6.5

	Current (Variable) 1-5	Importance (Fixed) 1-5	Net Risk	Oppor-tunities 1-5	Target (Variable)	Target Net Risk
GOVERNANCE						
Internal Controls / Reporting	3	3.0	9.0	**4**	3	9.0
Cybersecurity / Data Protection	3	1.8	5.3	**4**	2	3.5
Transfer Pricing	1	0.9	0.9	1	1	0.9
Anti Bribery / AML	3	1.8	5.3	3	2	3.5
Code of Conduct / Ethics	2	2.3	4.5	2	2	4.5
Risk Management	3	3.0	9.0	**4**	2	6.0
Tax Policy	2	2.3	4.5	2	2	4.5
			5.5	2.9		4.6
Overall Average Rating			**8.0**	**3.4**		**5.8**

Importance Levels

Two elements of the Importance of the risk are considered: financial and reputational:

- Financial: Potential financial cost / opportunity costs / penalties:
  Zero = 1, 1% of EBITDA = 2,>1%< 2% = 3, >2%<3%= 4, >3% = 5
- Reputational:
  No risk = 1, Some reputational risk = 3, Critical reputational risk = 5

The two elements should be added together, divided by two and multiplied by the probability of the risk having such an impact in the life of the investment. The probability is a subjective estimate of the likelihood of either element of the risk materialising during the life of the investment. This value should be 100% unless there are specific reasons to reduce this (already on entry). This should arrive at the Importance risk level.

An example is shown in the table below:

	Financial	Reputational	Probability	IMPORTANCE
ENVIRONMENT				
GHG emissions	3	4	50%	1.75
Energy usage	2	3	75%	1.88
Water usage	4	4	100%	4.00
Waste management	2	2	75%	1.50
Toxic emissions	2	4	75%	2.25
Green revenue	5	5	100%	5.00
Climate risk mitigation	3	4	100%	3.50
				2.84
SOCIAL				
Health & Safety	1	5	75%	2.25
Gender & Diversity	3	3	100%	3.00
Employee Satisfaction	4	4	75%	3.00
Community relations	3	4	75%	2.63
Human rights	1	5	25%	0.75
Supply Chain	2	3	50%	1.25
Training/Career Development	4	3	100%	3.50
				2.34
GOVERNANCE				
Internal Controls / Reporting	3	3	100%	3.00
Cybersecurity / Data Protection	4	3	50%	1.75
Transfer Pricing	4	3	25%	0.88
Anti Bribery / AML	4	4	75%	3.00
Code of Conduct / Ethics	3	3	75%	2.25
Risk Management	4	4	75%	3.00
Tax Policy	4	3	75%	2.63
				2.36
Overall average				**2.51**

The product of the current risk and the importance risk gives the overall net risk of a business. While the Criticality of a risk may vary over time, the main focus for CEIP will be on the impact, where it should be possible to influence the risk levels to some extent.

The Importance element of the risk remains fixed throughout the life of the investment.

Current Levels

The current risk is a variable element of the risk and can be impacted by risk mitigation or changes of circumstances. The measurement of the current risk is carried out in accordance with the following guidelines:

ENVIRONMENT	
Carbon footprint (Scope 1/2)	1 = Carbon footprint <25 ton per EUR million of sales, 5 = >300 tons per EUR million of sales
Electiricity usage	1 = Electricity < 50,000 KWh per year, 5= > 1 GW per year
Water usage	<1,000m^3 per year = 1, >5,000m^3 = 5
Waste management	Total waste < 1 ton per employee = 1, Total waste > 10 tons = 5
Toxic emissions	<0.1 tons = 1, >1 ton = 5
Green revenue	1 = 80-100% green revenue, 3= 40-60% green revenue, 5= 0-20% green revenue
Climate risk mitigation	1 = Full Climate Risk Mitigation Policy, 5 = No policy
SOCIAL	
Health & Safety	1 = Zero accidents annually, 5 =>2 accidents per 100 employees (accidents > 3 days work absence
Gender & Diversity	1 = 50/50, 5= >80/20
Employee Satisfaction	1 = Absenteeism < 2.5%, 5= Absenteeism >7.5%
Community relations	1 = High level charity/community activity / 5= zero activity
Human rights	1 = No human right issues / 5= More than 2 human right breaches
Supply Chain	1 = No at risk suppliers, 5 = >20% of suppliers at risk
Training/Career Development	1 = training hours per employee > 30 hours, 5 = zero hours
GOVERNANCE	
Internal Controls / Reporting	1 = Listed company standards, 5 = No documented internal controls
Cybersecurity / Data Protection	1 = Full Cybersecurity / DP policy, 3 = 1 policy, 5 = no policy
Transfer Pricing	1 = No intragroup transfers, 3 = transfers and documentation, 5 = transfers and no documentation
Anti Bribery / AML	1 = Full ABC/AML policies, 3 = One policy, 5= No policies
Code of Conduct / Ethics	1 = Fully implemented policy, 5= No policy
Risk Management	1 = Fully implemented policy, 5= No policy
Tax Policy	1 = No tax penalties (5 years), 5 = Significant penalties

The product of the Current risk and the Importance risk result in the Net Risk. This can have a theoretical value between 1 and 25. Any value above 10 should be regarded as red risk and mitigation initiatives should be planned over the life of the investment.

Opportunities:
Opportunities are measured purely subjectively and are not built into the overall net risk rating or targets. The level of opportunity is measured on a scale of 1-5, with 1 being low level opportunity and 5 being high level. When rating each category, the following factors should be considered:

- The ease of applying initiatives to reduce the net risk level for this risk category;
- The possible cost savings resulting from risk reduction (e.g., waste management, improved employee productivity, more efficient governance);
- Potential revenue opportunities in products or services which create positive environmental or social impact (e.g., renewable energy, resource conservation, decarbonisation);
- Enhancing the brand or reputation of the company.

Target
The target is set on entry to the investment and should reflect the estimated Current risk rating level on exit. This should consider all risk mitigating initiatives agreed between CEIP and the portfolio company management. The Target Net Risk is produced by multiplying the Target risk by the Importance risk, which remains fixed.
The key objectives of the risk rating process are:

1. To create specific ESG objectives for portfolio company management to achieve during the life of the investment.
2. To provide data for the ESG risk materiality matrix required by the Corporate Sustainability Reporting Directive.