Solicited Sustainability Ratings

GUIDE TO

EXPLAINING CORPORATE SOLICITED RATINGS

ESSENTIALS

INDEX

ABOUT THIS GUIDE

This guide is designed to provide an understanding of Corporate Solicited Ratings.

This guide:

1. Helps explain the deliverables and the documents that the company under Solicited Rating will receive at the end of the analysis.
2. Describes the scope and the use of the deliverables for the company.
3. Helps explain the structure of the process set out by Standard Ethics to issue a Corporate Solicited Rating.
4. Provides an overview of the Chinese wall to mitigate conflict of interests.
5. Describes how a company under Unsolicited Rating can request a Solicited Rating.

OUTCOME AND DELIVERABLES

The applicant under **Corporate Solicited Standard Ethics Rating** (**Corporate SOL SER**) at the end of the assessment process will receive:

1) The **Guidelines**;
2) The **Corporate SOL SER**;
3) The **Final Report**.

1. Guidelines

The Corporate SOL SER Guidelines are compiled and drafted by Standard Ethics' analysts based on public or publishable data, meetings and interviews with the Applicant, both at the Applicant's offices and remotely. They are a working document containing observations on Applicant's ESG positioning, as well as recommendations and evaluations. Standard Ethics and the Applicant ensure that this document will not be made public or disclosed to third parties.

The objectives of the Corporate SOL SER Guidelines are twofold.

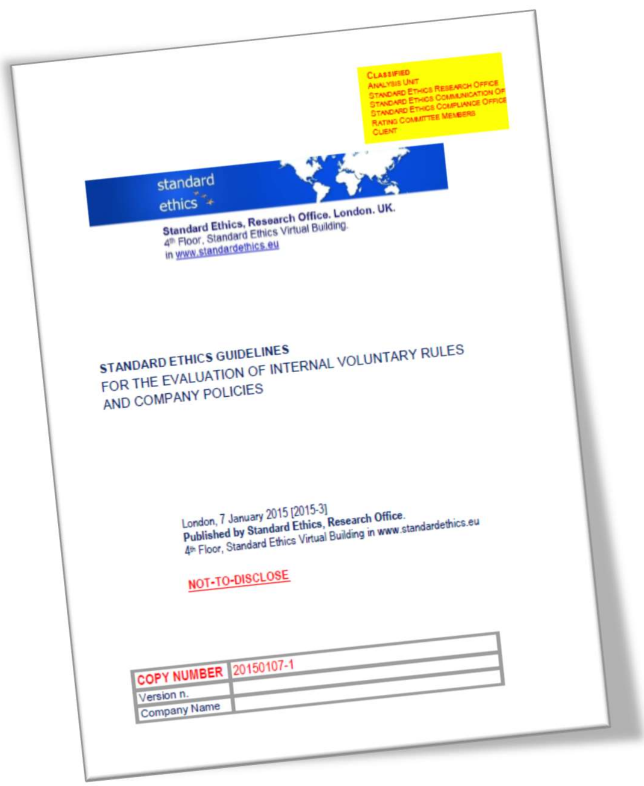
The first is to guide the Standard Ethics analyst properly in collecting data and making comments. The aim is to "operationalize" the concepts and individual elements of analysis (the subjects) representing a specific sector under observation. In top-down methodologies, each area of analysis represents a sub-area (or a sub-problem) to be analysed. If necessary, this can be further separated into sub-categories, thereby facilitating the creation of evaluation criteria that allow for more accurate and precise evaluations. Each sector under observation (or area of analysis) is broken down into individual questions, which are listed as Analysis Points. The Guidelines contain about 220 of them. Each of them is linked to an indication or recommendation issued by one of the three organizations (UN, OECD or EU) and its value is processed and put into the algorithm.

The second objective is to share with the Applicant - ensuring total autonomy from third parties - the assessments, in order to enable Applicant to gain full knowledge of its potential (or, alternatively, of any gaps that need attention). With this process SER Guidelines fulfil the function of providing Self-Knowledge and Gap Analysis.

The Guidelines therefore provide a valid technical contribution to:

- measure the gap between the company and the international sustainability indications provided by the EU, UN and OECD.
- enable Applicant to improve and identify its ESG long-term strategy and assess investors' demands by identifying the most unexpected, misleading or volatile ones;
- decide on operations needed in the sphere of corporate governance;
- make communication with stakeholders more effective;
- publish, if needed, a sustainability rating and therefore disclose an independent, fully documented and formally requested opinion on its own ESG credibility.

Corporate SOL SER Guidelines further details: The Analysis Unit (composed of two analysts with different tasks) goes through the *Analysis, Rating & Report Stage* (to evaluate internal voluntary rules and company policies) in compliance with the SE Chinese Walls and following a Standard Ethics Guideline.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STANDARD ETHICS GUIDELINES
FOR THE EVALUATION OF INTERNAL VOLUNTARY RULES
AND COMPANY POLICIES

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At the end of the analysis, the Guidelines filled in by the analyst are delivered to the Research Office beginning the *Check, Approval & Release Stage*.

Guidelines are divided in three Chapters and an Appendix:

- **Competition**
- **Ownership**
- **Management**
- Appendix (documents list)

At the beginning of each chapter there is a focus on background information. Then we find specific subjects: 3 for competition; 4 for ownership; 14 for management.

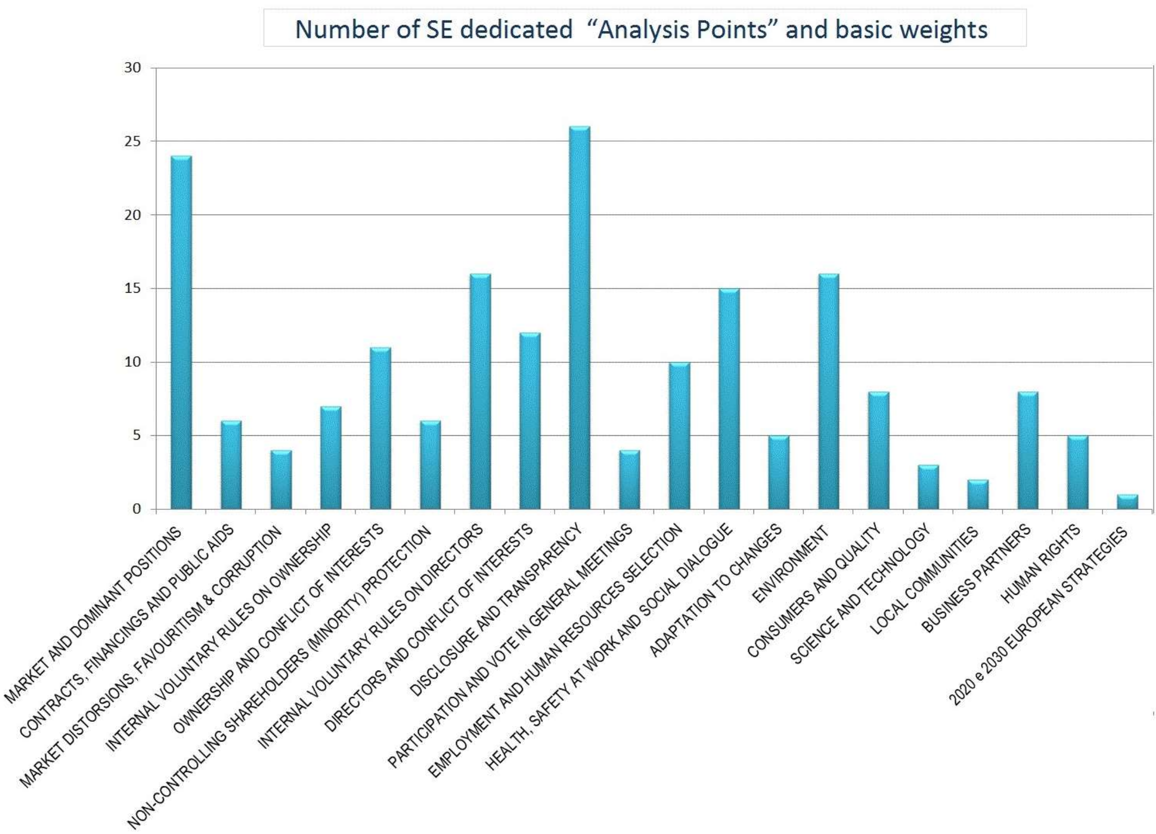
For each subject there are different **analysis points**, numbered and presented as questions, in order to facilitate the guidelines' use as a checklist or form administered to the counterpart. In total, guidelines contain 21 subjects, divided by more than 200 analysis points (questions).

Every single analysis point, composing each subject, generally does not aim to gather quantitative information. This information (i.e. number of accidents at work or frequency of Board meetings) is requested in the documents listed in the appendix. However, analysis points (questions) could be appropriately re-formulated in other backgrounds (as questionnaires) with the intention of producing quantitative information and also becoming indicators.

The formulation of analysis points (questions) has been conceived to observe the concrete application - in a company's governance – of Sustainability principles and verify if the subject has been managed with the correct incisiveness. In other words, to stimulate the company and to verify if it has adopted only a generic expression of the principles on the subject or if it has found the right operative instruments to guarantee its concrete adoption.

I competition	II ownership	III management
MARKET AND COMPETITORS	**SHAREHOLDERS CAPITAL AND OWNERSHIP**	**BOARD OF DIRECTORS & MANAGEMENT**
Subjects	Subjects	Subjects
• MARKET AND DOMINANT POSITIONS • CONTRACTS, FINANCINGS AND PUBLIC AIDS • MARKET DISTORSIONS, FAVOURITISM & CORRUPTION	• INTERNAL VOLUNTARY RULES ON OWNERSHIP • OWNERSHIP AND CONFLICT OF INTERESTS • NON-CONTROLLING SHAREHOLDERS (MINORITY) PROTECTION AND DIRECTORS APPOINTMENT • DISCLOSURE AND TRANSPARENCY	• IVR ON DIRECTORS • DIRECTORS AND CONFLICT OF INTERESTS • DISCLOSURE AND TRANSPARENCY • PARTICIPATION AND VOTE IN GM • EMPLOYMENT AND HUMAN RESOURCES SELECTION • HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE • ADAPTATION TO CHANGES • ENVIRONMENT • CONSUMERS AND QUALITY' • SCIENCE AND TECHNOLOGY • LOCAL COMMUNITIES • BUSINESS PARNERS • HUMAN RIGHTS • OECD & EUROPEAN STRATEGIES

Some chapters and subjects have different size. That does not depend on their importance, but on the fact that some aspects are not yet fully covered by European and national laws and leave less room for voluntary innovative proposals.



Each single analysis point (question) is followed by explanatory notes with details, brief comments and source descriptions (as already cited, sources used are official documents adopted by the European Union; OECD; United Nations).

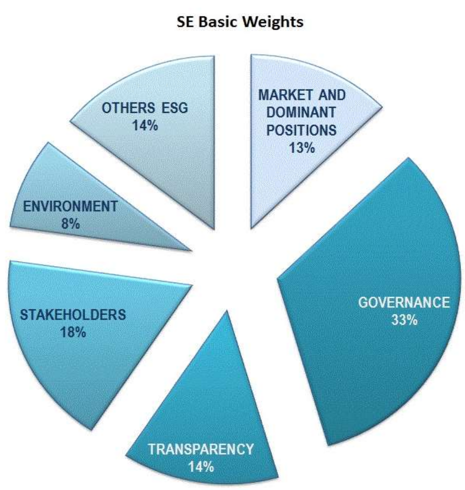
These sources can be taken into consideration only if they are adopted by enterprises on a voluntary basis. Generally, these documents concern - fully or just in part – sustainability and sustainable development issues, with consequences on corporate governance, competition, company management, and ownership.
For each single point examined, the relative source has been specified. In this sense, the purpose of the questions is to verify if indications or proposals made by sources have been correctly received from the enterprise.

The formulation of guidelines is finalized to judge the level of awareness and engagement for each individual company under examination, taking into account that different subjects have a different level of importance, according to circumstances.

For this reason, a **first evaluation** of the incidence of each subject is needed.

For example, in a chemical industry the subject of “environment” is of great importance, while it holds less importance for a bank, which is instead much more sensitive to “relations with consumers”. In the same way, the effort for increasing partners’ participation in “shareholder’s meetings” has a different importance if the analysed enterprise is a public company or if it is owned by one or very few shareholders. Another example could be made with the “safety and health on work” subject following the consequent adoption of ILO Agreements, whose implementation needs little engagement in the case of a European firm operating in the modern services sector (where European Agreements are binding as internal laws), but it is of much greater importance in the case of an enterprise operating in developing countries.

The analysis points which Standard Ethics call '**markers**' and help the agency to better evaluate the company under rating, are grouped into further macro areas. The following chart shows their relative percentages, which are subsequently weighted by the Standard Ethics Proprietary Algorithm.



These percentages are not related to the weight the topic has in the assessment, they simply represent the complexity of the topic to be investigated. It is always the Standard Ethics Proprietary Algorithm that dictates the weights.

2. Corporate SOL SER

The deliverable of the work carried out is the Corporate SOL SER expressed in nine letter grades from EEE to F (see the document “Sustainability Rating Definitions” for specifics).

The Applicant is entitled to the full and immediate right to use, publish and exploit the Rating (with its logo) from the moment it is issued and until its expiry date. If the Applicant wishes to be included in or is already a constituent of one or more Standard Ethics indices, the Rating class must be published on the Standard Ethics website.

The Standard Ethics Rating model is the first to be based on a standard Proprietary Algorithm.

Standard Ethics Algorithm ©

$$\frac{(Fc_{EU}+Sa+Id_{EU\text{-}OECD}+Mw \ast f(Sa) \ast f(Id_{EU\text{-}OECD})+Cg_{UN\text{-}OECD\text{-}EU} \ast f(Fc) \ast f(Id_{EU\text{-}OECD}))}{10} + k$$

To ensure accuracy and comparability, Standard Ethics does not use weights and KPIs based analyses or indicators, but a more sophisticated method based on its own six-group variable algorithm, five “standards” and a premium variable called “k”. Standard Ethics does not use Artificial Intelligence in its analysis or decisional process.

- The first variable of the formula (**Fc**) is related to competition, which positively evaluates the company that competes and faces the market in an appropriate way. While it views negatively risky elements such as antitrust, investigations, fines or sanctions, tax evasion or simply a position of privilege that could, in the long run, prove problematic.
- The metric of the second and third variables (**Sa** and **Mw**) is also linked to typical considerations for many long-term institutional investors and analyses the importance of sensitive aspects for minority shareholders or for new shareholders, for example, with regards to shareholder agreements (not justified by operational needs), double voting rights, the presence of a controlling shareholder, conflicts of interest, and low contendibility.
- The fourth variable (**Id**) looks at managerial scope, risk management and control as well as the reporting models and the composition of the Board of Directors, including areas such as independence and gender equality.

- The fifth (**Cg**) focuses on ESG factors: to see if the company is aligned with strategies such as the Paris COP21 for the reduction of climate effects or the OECD guidelines for multinational enterprises as examples.

k = Sustainability at Risk (**SaR**)

The relationship between these variables is significant: it would be inconsistent for a company to propose itself as sustainable with the aim of publicising environmental factors, if at the same time it made it difficult for investors because of little transparency, or if it infringed the rules of the market with unfair fiscal or competitive practices.

The Sustainability package, as we are reminded by the OECD and the EU, is complete if it includes all the factors that make the company an asset for future generations. This Proprietary Algorithm evaluates these elements and weighs them in a harmonious way making the rating of Standard Ethics a best practice of comparable, public and several-times-a-year analysis on sustainability.

3. Final Report

The rating is supported by a thorough **report**, the deliverable with the details explaining the final assessment. The Final Report is a document that the **Applicant may publish at its own discretion**. It contains the Standard Ethics Rating the Expected Long-Term Rating, a description of the evaluation and analysis, a summary of the values attributed and included in the Standard Ethics Algorithm. It is the detailed document on sustainability-related investment grade that is the final result of the process.

STANDARD ETHICS RATING: A SYNTHESIS OF THE ISSUANCE PROCESS

The time required to issue a rating is 6/8 weeks and the steps are:

- Identification of contacts & Planning.
- Data and Information Collection (Analysis and discussions with employees: kick-off and wrap-up meetings).
- Final check of data & Initial «Gap Analysis».
- Initial assignment of values to standards and data sharing with Client.
- Assessment & Issue.

Offices involved in the issuance process are:

- Research Office
- Analysis Unit
- Reviewer
- Communications Office
- Compliance Officer
- Rating Committee

The **Research Office** is the Process Owner and:

1. Selects the Analysis Unit and, according to the Client, it sets the timetable.
2. Notifies the Board, the Analysis Unit, the Compliance Officer, the Rating Committee and the Communications Office on the decisions taken.

The **Communications Office:**

3. Administers and maintains the documents of the issuance process.
4. Manages the publication of reports and ratings.

The **Rating Committee**:

5. Examines the outcome of the analysis and the fairness of the rating given by the Research Office.

The **Compliance Officer**:

6. Oversees the process.

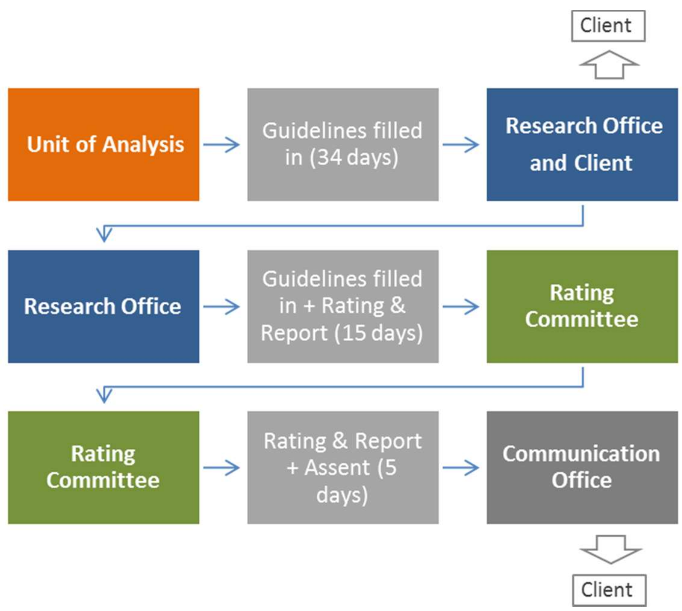
The whole process is under the assessment of the Compliance Officer and is covered by **7 Procedures**.
The Client can report to the Compliance Officer any alleged violation of the process or of the rules of release.

First stage			*Second Stage*		
Analysis	Rating	Report	Check	Approval	Release
Unit of Analysis	Research Office		Rating Committee (tacit consent)		Communic. Office

Compliance Officer's Checkpoint 1 to 4

The Research Office selects the Analysis Unit and, sets the timetable, follow the **procedure of assignment** and fill in the Checklist for the assignment of the Analysis Unit.

The Analysis Unit is composed of two analysts and a reviewer with different tasks.



The analyst starts the *Analysis, Rating & Report Stage* and – in compliance with the SE Chinese Walls.

At the end of the analysis, the SER Guidelines filled in by the analyst are delivered to the Research Office beginning the *Check, Approval & Release Stage*.

Compliance Officer's Checkpoint 5 to 6

The Rating Committee receives the rating and the report from the Research Office. It has a limited time to raise objections or send requests for clarification. During this period the Committee can interrupt the process. At the end of the period, after final approval by the Research Office and the Rating Committee, the Communications Office discloses the final report and the rating to the client.

SWITCHING TO A CORPORATE SOLICITED RATING FROM A CORPORATE UNSOLICITED RATING

Companies under Unsolicited Rating may request at any time to switch to a Solicited Rating.

- The Corporate Solicited Standard Ethics Rating is annual and renewable.
- The cost of the rating depends on the size and type of the Applicant.
- The Solicited Standard Ethics Rating belongs to the Applicant.
- The Applicant decides whether to disclose the rating.
- Disclosure of the Standard Ethics Rating (SER) grants access to the Standard Ethics Indices.
- Standard Ethics can deliver different types of reports and various supporting materials to disclose and communicate the rating.
- Standard Ethics uses an analyst-driven rating process, so the work to be carried out does not require applicants to fill out forms and questionnaires or draft other documentation in addition to existing information. Standard Ethics analysts will gather the required data.

For more information about Standard Ethics and its methodology, and to have a general summary of the opinions reflected by the rating please see the **Sustainability Rating Definitions Guide**.

HOW STANDARD ETHICS RATINGS ARE DISCLOSED

In general, Standard Ethics does not publish **Solicited Standard Ethics Ratings** because they belong to the Applicant who can decide whether to disclose them or not. This is not the case for **Ratings** issued to listed companies that are constituents of Standard Ethics Indices, whether they are solicited or unsolicited.

Standard Ethics follows standard procedures to disclose the ratings. The release of new ratings, downgrades and upgrades are communicated through **press releases**, which take into account **Press Release Guidelines published by ESMA**.

MANAGING POTENTIAL CONFLICTS OF INTEREST

As in the case of credit rating agencies, critics here point out that both models have the potential for conflicts of interest since the entities paying for the rating, investors and companies, may attempt to influence the ratings opinion.

In order to mitigate that, Standard Ethics has taken a number of steps to protect against potential conflicts of interest: self-regulates based on the model of the credit rating agency, adheres to the **Applicant-pay Model** and does not act as a consultant to investors or investment funds.
These measures include, for example, a clear separation of function between those who negotiate the business terms for the ratings assignment and the analysts who conduct the analysis and provide the ratings opinions.
Another safeguard is the **Rating Committee** process that limits the influence any single person can have on Standard Ethics' ratings opinions. The role of the Committee is to review and assess the analyst's recommendation for a new rating or a rating's change as well as to provide additional perspectives and checks and balances regarding adherence to the agency's ratings criteria. Standard Ethics client business managers, who respond to applicants' rating requests and deal with commercial matters such as pricing, contract negotiations, and maintaining client relationships, do not participate or vote in rating committees.

A further safeguard is the appointment of the **Compliance Officer** that has access to all documentation of the Company for which she/he deems necessary to carry out his controlling and supervisory role and can independently report likely conflicts of interest.

Finally, the **Board of Directors** (complying with the international guidelines on diversity of nationality, professional skills and gender equality) establishes clearly defined policies and procedures. To ensure the maximum level of independency, the Board is not involved in the issuing rating process, but appoints the Compliance Officer and the Rating Committee.

Sustainability in Governance & Policy

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Important Legal Disclaimer.

 The Standard Ethics Rating (SER) is assigned by Standard Ethics Ltd in accordance with its established methodology on Sustainabilitybased on the principles provided by the European Union, the OECD and the United Nations. More information is provided on www.standardethics.eu.

Solicited Ratings are assigned on a Client's request through a direct and regulated bilateral relationship.
Unsolicited Ratings are issued through official press releases only and for statistical or scientific purposes. Currently, to update Indices, as well as OECD countries ranking (including Brazil, China, Russia, India, South Africa, Egypt, Romania, Argentina, Bulgaria and Vatican City).

By issuing a Solicited or Unsolicited Rating, or publishing Indices, Standard Ethics Ltd does not supply financial, legal, tax or investment consultancy. The opinions and analyses by Standard Ethics Ltd are not, even indirectly, invitations or solicitations to purchase or sell securities or to make investment decisions. Under no circumstances will Standard Ethics Ltd be liable for damages to, loss, or reduction in the value of shares of companies following or as a result of its analyses, its Indices or Ratings.

Standard Ethics Ltd will not be held responsible for any conflict arising from the use of information or data issued by customers relating to its Standard Ethics Rating. In particular, Standard Ethics Ltd is not answerable in any way whatsoever for any decisions and/or assessments made by companies on the basis of the above-mentioned data related to the Rating service. The Standard Ethics Rating is for information purposes only and companies under Rating will be wholly responsible for any decision made on the basis of the information arising from the Rating itself.
In no event shall Standard Ethics be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of its opinions, analyses and ratings.

The Standard Ethics Rating, if there are no other indications, is valid for twelve months from the date of issue. Standard Ethics reserves the right to modify, suspend or revoke a previously assigned Rating at any time.

The **Standard Ethics Rating** can be renewed by requesting annual visits by Standard Ethics' analysts without having to start the entire assignment procedure again. Unless updated, the **Rating's** validity ends on its natural expiry date, at which point the Client loses the right to use and publicise the Rating.
The final decision on changes to, or suspension or revocation of, the **Rating** will be communicated to the Client in writing and in a confidential manner. There will also be a request to bear the changes, suspension or revocation in mind in related company communications if the Standard Ethics Rating has been made public. If the Client does not adequately publicise the changes to the public **Rating**, Standard Ethics reserves the right to make the changes, suspension or revocation known.