



Solicited Sustainability Ratings

GUIDE TO **STANDARD ETHICS SCORING MODEL** ESSENTIALS

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ABOUT THIS GUIDE

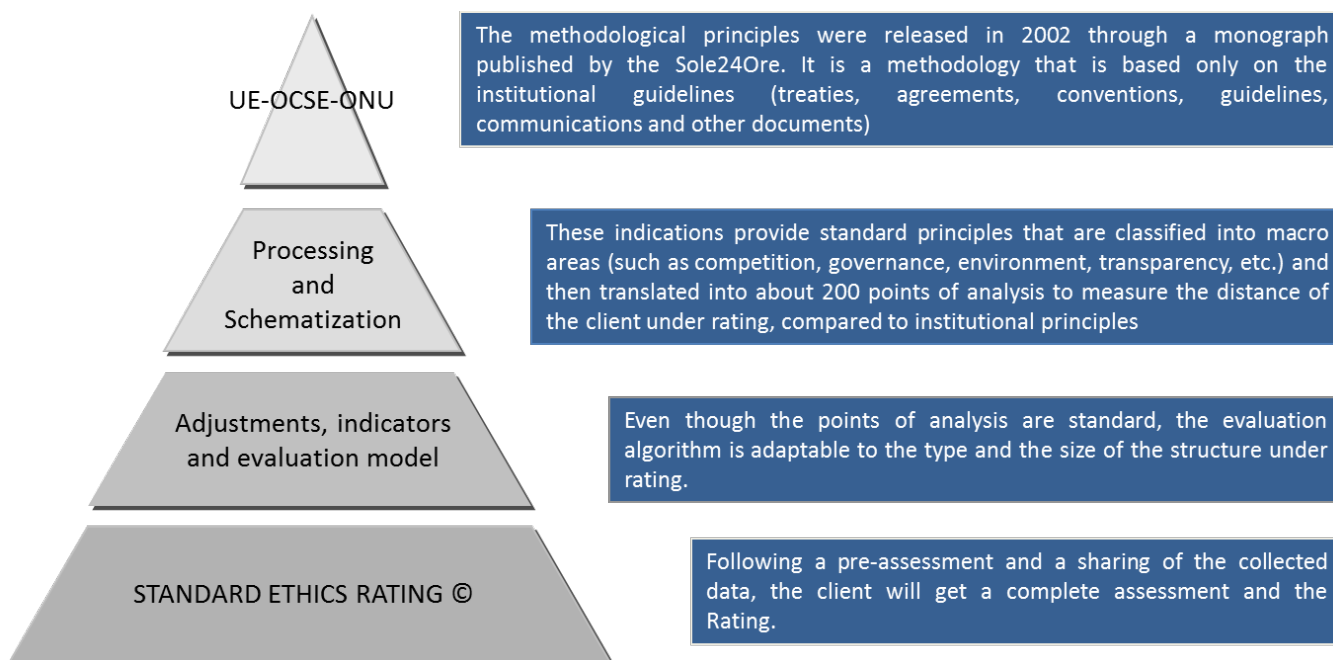
This guide is designed to provide an understanding of the evaluation model.

This guide:

1. Helps explain the ESG methodology.
2. Provides information on the score model.
3. Describes how a company under unsolicited rating can move to a solicited rating.

METHODOLOGY: A TOP-DOWN APPROACH

Standard Ethics developed an analysis methodology using a top-down approach:



The methodology used by Standard Ethics in the issuance of ratings falls into the family of the **Analytic Hierarchy Process**¹, the theory developed in the early seventies useful to analyse the decision flows through hierarchical structures, according to a series of levels of abstraction ranging from the general to the particular. In the case of Standard Ethics has been applied to the economic field, for the first time, in 2002, this methodology is fully integrated in the context of systemic approaches, top-down.

In details, the hierarchy is broken down into four levels:

- 1) At the highest level are the general evaluation criteria, based on key elements of CSR and of Corporate Governance that come from voluntary institutional guidelines of the European Union, the

¹ See the studies of Prof. T.L. Saaty, University of Pittsburgh, USA.

OECD, the United Nations. They are on top of an ideal pyramid addressing the issue of fair competition and requiring also the ownership to be compliant with these principles. Principles that should guide the company toward those rules that the internal guidelines of Standard Ethics define as: **internal voluntary rules** (IVR).

- 2) At the second level of the hierarchy the goal is to "operationalize" the concepts: each evaluation criteria is generally ordered in a single element under investigation, called subject (sometimes referred to as "theme"). It represents a certain observable portion of the general evaluation criteria. The subject, if necessary, can be further broken down into a sub-category or sub-subject. This facilitates the creation of evaluation criteria that allow you to make assessments more accurate and precise.
- 3) At the third level every observable portion (or subject and sub-subject) is further broken down into single questions, as listed in the guidelines, and called analysis points.
- 4) Finally, each answer to the analysis points (which may be quantitative and / or qualitative) is recorded. Each answer can be evaluated either by entering a numeric value, or in qualitative form, with terms such as "high", "medium", "low", or through single letters that identify intervals. The goal is to sort out the data and get a comparable ranking.

To be noted that the weight of each analysis points is primarily determined by the importance of the topic, then, by the type of company under evaluation, and finally, by economic dimensions.

The **weights** constitute the algorithm. The compliance to the international guidelines provides a measure of the rating.

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**.

STANDARD ETHICS GUIDELINES

Standard Ethics Guidelines are what the analysts use in collecting the information and then assessing a company.

The Analysis Unit (composed of two analysts with different tasks) goes through the *Analysis, Rating & Report Stage* (to evaluate internal voluntary rules and companies policies) in compliance with the SE Chinese Walls and following a SE Guideline.

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*.

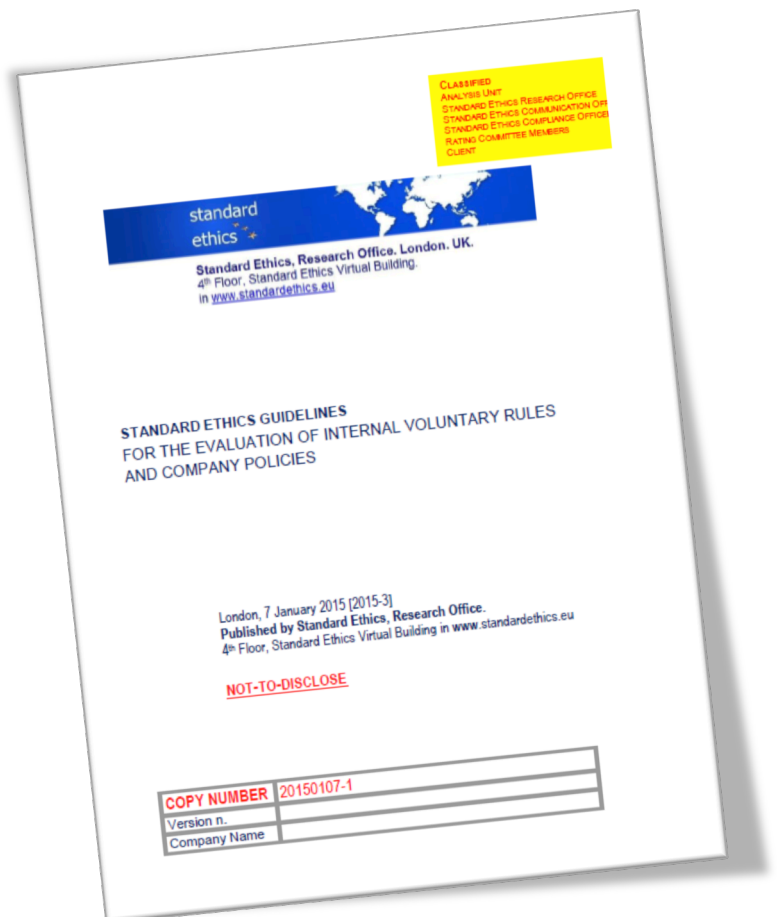
Guidelines are divided in three Chapters and an Appendix:

- **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 guidelines use as checklist or form administered to the counterpart. In total, guidelines content 21 subjects, divided more than 200 analysis points (questions).

Every single analysis point, composing each subject, generally does not have the aim to gather quantitative information.



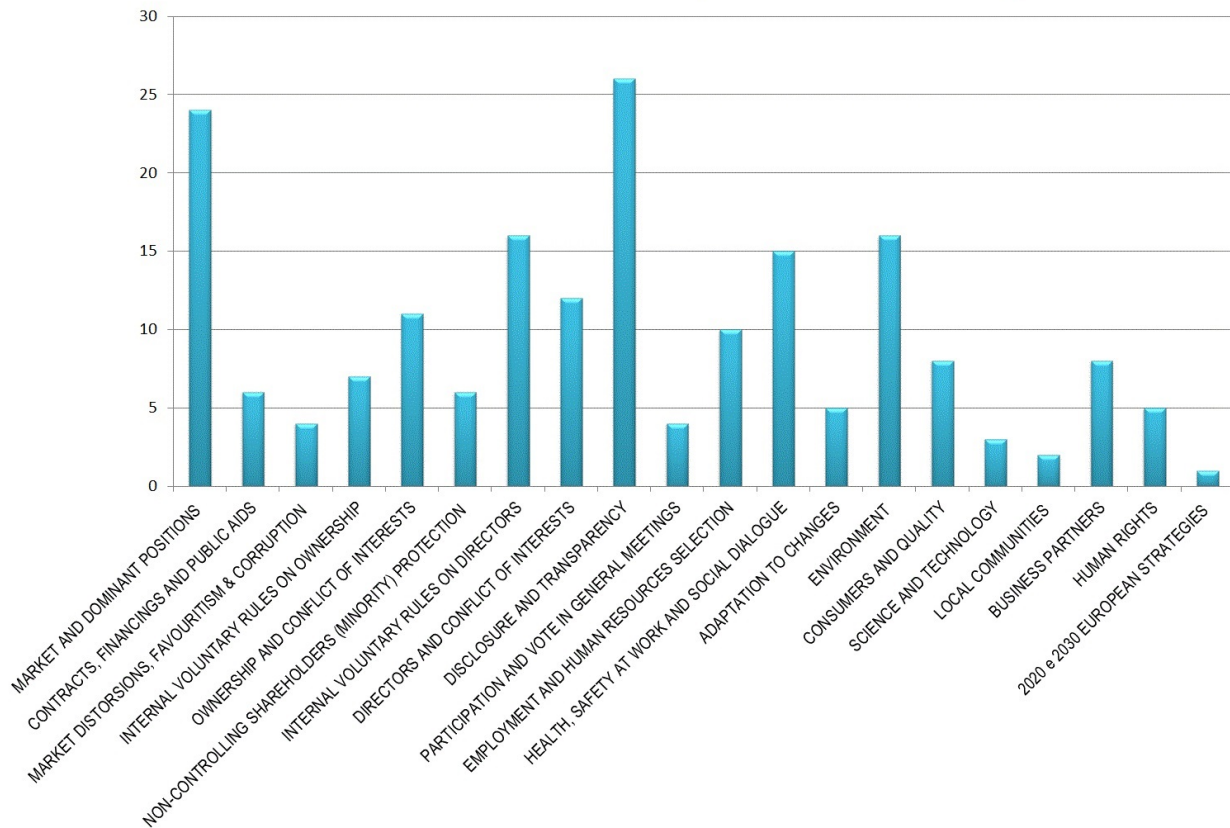
This information (i.e. number of accidents at workers or frequency of board’s meetings) is requested in the documents listed in appendix. However, analysis points (questions) could be appropriately re-formulated in other backgrounds (as questionnaires) with the intention of producing quantitative information and become also indicators.

The analysis points (questions) formulation has been conceived to observe the concrete application - in company’s governance – of CSR’s 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 generic expression of principle 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
<p style="text-align: center;">Subjects</p> <ul style="list-style-type: none"> • MARKET AND DOMINANT POSITIONS • CONTRACTS, FINANCINGS AND PUBLIC AIDS • MARKET DISTORSIONS, FAVOURITISM & CORRUPTION 	<p style="text-align: center;">Subjects</p> <ul style="list-style-type: none"> • INTERNAL VOLUNTARY RULES ON OWNERSHIP • OWNERSHIP AND CONFLICT OF INTERESTS • NON-CONTROLLING SHAREHOLDERS (MINORITY) PROTECTION AND DIRECTORS APPOINTMENT • DISCLOSURE AND TRANSPARENCY 	<p style="text-align: center;">Subjects</p> <ul style="list-style-type: none"> • 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 PARTNERS • HUMAN RIGHTS • 2020 EUROPEAN STRATEGY

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

Number of SE dedicated “Analysis Points” and basic weights



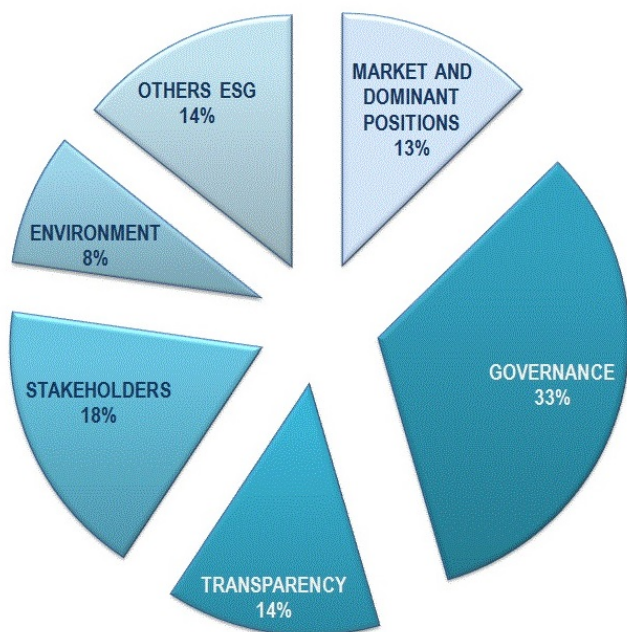
Each single analysis point (questions) is followed by explication notes with details, brief comments and sources description (as already said, sources used are official documents adopted by European Union; OECD; United Nations).

The sources could be taken into consideration only if they can be adopted by enterprises on voluntary basis. Generally, these documents concerning - fully or just in part – CSR and sustainable development’s issues, with consequences on corporate governance, concerning competition, enterprise’s management, and ownership.

For each single point examined, it has been specified the source that brought up the matter. In this sense, the purpose of questions is to verify if indications or proposals made by sources has been rightly received from the enterprise.

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

SE Basic Weights



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

For example, in a chemical industry the “environment” subject has a great importance, while it has less importance for a bank, that is instead much more sensible to “relations with consumers”. In the same way the effort for increasing partners participation in “shareholder’s meeting” has a different importance if the analysed enterprise is a public company or if it is owned by one or very few share-holders. Another example could be made with the “safety and health on work” subject with the consequent adoption of ILO Agreements, which application needs a little

engagement in the case of an European firm operating in the modern services sector (where European Agreements are binding as internal laws), but it has a great importance in the case of an enterprise operating in developing countries.

Present guide give a simple sketch, in three steps, that can be used for each subject, in order to allow an evaluation of counterpart’s corporate governance adequateness, including among the examined variables that one regarding enterprise’s type:

1. to verify if the subject has for the enterprise a big or little importance;
2. to assess if enterprise’s answer is:
 - a. adequate
 - b. inefficacious
 - c. inadequate
3. to give the enterprise:
 - a. a positive judgement

- b. a neutral judgement
- c. a negative judgement

Evaluation of each single subject will allow a first judgement on competition, ownership and management.

SUBJECT with regard to counterpart's nature	ANSWER Actions taken by the counterpart regarding the subject		<i>Evaluation</i>
With regard to company or ownership's nature, the subject has no importance or doesn't require specific actions	D	NON EXISTENT (subject has not been examined)	Neutral judgement
	C	INADEQUATE (subject has been examined in an inadequate and erroneous way)	Negative judgement
	B	INEFFICACIOUS (subject has been generically examined without presence of internal regulating body or compliance office, or without power)	Neutral judgement
	A	ADEQUATE (subject has been examined in an adequate way)	Positive judgement
With regard to company or ownership's nature, the subject has a great importance and requires corrective actions or prevention policies	DD	NON EXISTENT (subject has not been examined)	Negative judgement
	CC	INADEQUATE (subject has been examined in an inadequate and erroneous way)	Negative judgement
	BB	INEFFICACIOUS (subject has been generically examined without presence of internal regulating body or compliance office, or without power)	Partially positive
	AA	ADEQUATE (subject has been examined in an adequate way)	Positive judgement



Solicited Sustainability Ratings



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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 SER had been made public. If the Client does not adequately publicise the changes to the public **SER**, Standard Ethics reserves the right to make the changes, suspension or revocation known.