



STANDARD ETHICS: THE BIG PICTURE

Annual Report 2023

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Recycled Paper



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1.Introduction

The year 2023 has witnessed a transformative shift in **Environmental, Social and Governance (ESG) regulations**, also marked by a notable need for the integration of **Artificial Intelligence (AI)** in business operations across all sectors. If correctly governed, this dynamic evolution reflects a growing recognition of **AI's** potential to enhance transparency, Sustainability, and ethical practices within businesses.

As organizations navigate this changing landscape, it becomes crucial to explore the implications, challenges and opportunities arising from the intersection of **ESG** and **AI**. **Standard Ethics' 2023 Research "Unmasking Sustainability in AI: an overview of global company practices"**¹ demonstrates this clearly, and the **European Commission** closed the year by pioneering a blueprint AI regulation law.²

Throughout 2024, the imperative for transparency within the sustainable and financial markets will continue to gain momentum, underlining a critical juncture in the global economic landscape. As stakeholders increasingly recognise the intrinsic link between **Sustainability** and financial success, the demand for comprehensive, accessible information is set to intensify. **ESG ratings**, despite last year's widespread

A timeline of significant ESG rating regulatory activities

To address concerns about the lack of scrutiny and standardisation in **ESG** ratings offered globally, regulation and policy development has increased substantially.

In 2021, **IOSCO** [1] undertook a fact-finding exercise that revealed a **lack of transparency** around the **methodologies** underpinning ESG ratings or data products as well as an **uneven coverage of products offered across industries and geographical areas**. It observed that this could lead to **gaps and inconsistencies** when applied to investment strategies and raised concern around the **management of potential conflicts of interest**, such as **fee structures** and **insufficient separation of business lines** that provide **advisory services to issuers** to improve their **ratings performance**.

This stimulated further activity in the UK, through the **Financial Conduct Authority (FCA)**, where a new set of voluntary rules were proposed as a foundation for a **Voluntary Code of Conduct on ESG Rating Agencies** [updated version].

At the same time, **The ESG Data and Ratings Code of Conduct Working Group (DRWG)**, supported by the International Regulatory Strategy Group (**IRSG**) and the International Capital Market Association (**ICMA**), launched for consultation a draft voluntary Code of Conduct for ESG data and rating providers.

The **EU**, on the other hand, opted for **hard regulation**. **The Impact Assessment of the EU Commission accompanying the proposal of a regulation for ESG Rating Agencies** (i.e. ESG RAs) cited as best practice the public methodologies of MSCI, EcoVadis, CDP and **Standard Ethics**, while affirming a clear-cut distinction in the different ESG RAs **business models**. [2] The Proposal of a European Regulation on the matter followed, containing pre-emptive provisions to **avoid an oligopoly** in the ESG ratings market, with the idea of creating an **authorisation regime for ESG RAs** to be supervised by the **European Securities and Market Authority (ESMA)**.

In October 2023, the **European Parliament's Committee on Economic and Monetary Affairs (ECON)** proposed new rules that could bring about a positive transformation. [3] **Transparency** and **accountability** are at the forefront of these amendments, with ESG RAs compelled to **disclose their methodologies** and to be held **accountable** for their opinions on companies ESG grades. But the novelty is the requirement for **users** of ESG ratings who employ more than one evaluation tool to also utilise **smaller agencies**, to increase **competition** and open doors for more agencies to enter the market.

Finally, at the end of last year, the **European Parliament** proposed a legislation; "**Draft Rules on ESG Ratings**", where MEPs voted to break down ESG ratings into separate **E, S, and G evaluations**.¹ Moreover, rating providers will be required to include the international sustainability guidelines promoted by the **UN**, the **EU** and the **OECD** in their rating methodologies, and disclose more information on their methodologies, and assumptions.

¹ "(E) where the ESG rating includes KPIs covering the E factor, information on whether that rating considers the alignment of the business model and strategy of the company with the objectives of the transition to a sustainable economy and with the limiting of global warming, in line with the Paris Agreement pursuant to the latest recommendations of the IPCC and the European Scientific Advisory Board on Climate Change (...)". Source: COM (2023)0314 – C9-0203/2023 – 2023/0177(COD)).

"(S) where the ESG rating covers the S factor, information on whether that rating considers the compliance of the rated entity with International Labour Organisation core conventions on Right to Organise and Collective Bargaining as well as compliance with relevant due diligence legislation". Source: COM (2023)0314 – C9-0203/2023 – 2023/0177(COD)).

"(G) where the ESG rating covers the G factor, whether the rated entity aligns with international standard on tax evasion and avoidance and whether the remuneration criteria for management align with the sustainability strategy of the entity (...)". Source: COM (2023)0314 – C9-0203/2023 – 2023/0177(COD)).

¹ <https://www.standardethics.eu/media-en/research-methodology/unmasking-sustainability-in-ai-an-overview-of-global-company-practices>

² <https://www.europarl.europa.eu/news/en/headlines/society/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence>

criticism and the regulatory changes currently in progress, still emerge as pivotal tools in assisting this success, and offer a standardised metric to evaluate companies' ethical and sustainable practices.

Standard Ethics has been offering standardised, transparent and comparable sustainability ratings since 2004. Its in-depth studies into fundamental **E, S, G** areas such as the **Governance of Gender Equality**³, launched on **Class CNBC's W Leadership tv special in June 2023**, and the **Environmental and Social impact of important business sectors such as the rail infrastructure management industry**⁴ are just some of the activities it has carried out over the course of 2023.

As the Agency enters its **20th Anniversary year**⁵, it remains committed to the best-practice pillars that make up its foundation, where to talk about Sustainability⁶ means to comply with strategies, strategies such as those arising from the recent **United Nations Climate Change Conference (COP 28)**, the **OECD Guidelines for Multinationals** and other sustainable principles established by the **European Union** and the **Council of Europe**. It aims, therefore, to continue measuring the alignment of individual companies, nations or security products with globally-disseminated standards and implement its own ongoing research into key industry themes such as:

- i. the distinction between the **applicant-pay model** and the investor-pay model and major differences in methodology (almost always ignored in literature on the subject);⁷
- ii. regulatory standards for a publicly-disclosed, algorithmed **ESG** analysis (very different from a KPI approach);
- iii. the distinction between **scoring** and **rating** (two distinct notions which are often confused)⁸;
- iv. the role of credit rating agencies and consultancy firms in the **ESG** sector (analysing various conflicts of interest);
- v. what should or **could be** a non-financial **sustainability solicited rating**⁹;
- vi. highlighting the differences between credit rating agencies and sustainability rating agencies.

³ <https://www.standardethics.eu/media-en/research-methodology/the-state-of-gender-equality-in-major-european-listed-companies>

⁴ <https://www.standardethics.eu/media-en/research-methodology/making-tracks-towards-sustainability-an-overview-of-the-european-rail-infrastructure-management-industry>

⁵ <https://www.standardethics.eu/company/profile>

⁶ "Sustainable Development policies are about the generations of the future; they have taken on a global dimension; and they are implemented on a voluntary basis. It is up to the main supranational organisations, officially recognised by nations across the globe, to establish the definitions, guidelines and ESG strategies related to sustainable development through science. Economic entities pursue - to the extent deemed possible - aims, strategies and guidelines on Sustainability, they do not define them":

<https://www.standardethics.eu/company/esg-definitions>

⁷ The **applicant-pay model** consists of a business model for which the valuer is engaged by the client-company on which it will express a creditworthiness opinion, (i.e. an assessment in absolute terms of the issuer's default risk). This assessment is extended to bond issuances on which the valuer also gives an opinion on such risk. The purpose of this model, which we are all familiar with by now, is to maintain the **valuer's independence from the market**. It is a universally accepted model that offers the market an independent, third-party opinion on creditworthiness. The opposite is the **investor-pay model**. In this case, external consultants are hired, and one or more investors pay for the service. The latter instructs the evaluator with a set of specific, tailor-made criteria who then provides an **"investor-oriented" judgement** to his clients, thereby renouncing the two-fold independence of Credit Rating Agencies: on the one hand, the evaluator and on the other hand its assessment. Methodologically, the outcome is different: the assessment is a "scoring" and not a "rating". Traditional finance chose the applicant-pay model about 100 years ago, delegating the *problem* of objective creditworthiness assessments to Credit Rating Agencies. The Market chose the applicant-pay model. Market Authorities addressed the risk of potential conflicts of interest between the applicant and the evaluator. Issuers accepted to be "rated" by independent Credit Rating Agencies. Nevertheless, the crossroads between the applicant-pay model and the investor-pay model in the sustainability rating arena appears inextricable and has not yet been overcome.

⁸ The differences between rating and scoring, as well as between applicant-pay model and investor-pay model, have also recently begun to be highlighted by academic research; La Torre et al. (2021) shows that, in the last three years, there has been a significant increase in the number of studies published on ESG ratings, with a peak of publications in 2021. In this regard, please refer also to La Torre M., Cardi M., Leo S., Schettini J., "ESG Ratings in the Financial Sector: a Systematic Literature Review", Preliminary version presented at the *5th Social Impact Investments International Conference*, Rome 2-3 December 2021.

⁹ For further details, please see **"POST-CRISIS ESG - From a "Ptolemaic" approach to a "Copernican" vision" - ESG Methodological Overview Second Edition**:

<https://www.standardethics.eu/media-en/research-methodology/second-edition-post-crisis-esg-from-a-ptolemaic-approach-to-a-copernican-vision>

Focus: 20 years of Standard Ethics

In 2002, a book published in Italy entitled 'Etica, futuro e Finanza', set out the general concept on which agency ratings would be based. This proposal was innovative because for the first time, **ESG** ratings were theoretically required to adhere to standard ethics and thus, to those international environmental, social, and governance indications established, naturally, by international organisations, and it contested the possibility of constructing comparable ESG metrics based on the Stakeholder Theory. According to the authors, it became in fact impossible to construct a common fixed-point metric for all evaluated entities. Only sectoral comparisons or arbitrary and subjective ethical judgements (such as exclusions) were deemed feasible at the very most. The need to make a distinction between a subjective vision of the company (and its closest stakeholders) was raised, as was the consideration of global objectives to be set in the interest of future generations, which by their very nature transcended the opinions of individual economic players. In 2004, with this *modus operandi* as the foundation, Standard Ethics, with its own proprietary algorithm, was launched.

Over the course of these years, Standard Ethics continues to be **the only ESG Rater** to have consistently made its ratings public, while its algorithm has not been modified, offering the longest series of public, consistent and absolute-based ratings in existence globally. The algorithm has, by definition, the ability to align itself with the new guidelines and targets created from time to time by international organisations. At the time the Agency's experts began their work, only a few international sustainability documents existed, such as the **OECD Guidelines for Multinational Enterprises**, the **UN Global Compact** and the **European Commission's 2001 Green Paper**. The absolute-based metrics used by Standard Ethics were pioneering and innovative in a world of ethical evaluators or relative scoring-based metrics, which were in turn based on comparisons between companies in the same economic sector; perhaps functional options for the choices of asset managers, but inadequate for a uniform and general comparison.

Today, 20 years later, it is increasingly evident that there is a universal convergence for all companies on Sustainability issues, just as it is clear that sectoral differences only determine the degree of economic, technological and organisational commitment to connect on the same objectives. The goal of reducing one's climate-altering emissions is universal, as is the respect for human rights or equal gender opportunities. A company that considers itself sustainable can not disregard these global goals. Attention to these will vary according to the sector: an environmental focus will prevail in energy-intensive or high-impact sectors, while the financial or service sectors (to give two examples) are likely to turn their efforts to consumer rights issues. Ultimately, however, these overarching objectives will be regarded by all companies. It is, therefore, clear that using sector medians as benchmarks on these individual themes produces scoring on a relative basis that, although appropriate for investment choices, does not say much on a general level. In fact, an industry metric pushes companies to compete with competitors, but has much less effect on the overall global demands. It is also possible that an entire sector such as that of banking in 2008, acts in a self-referential way by going in the wrong direction and misjudging the importance of certain aspects and risks in the ESG area.

The direction that Standard Ethics has taken to apply an absolute and integrated algorithmic methodology, which seemed pioneering 20 years ago, now appears to be one of the most convincing ways to meet the need for an international sustainability rating system that is **homogenous, comparable, transparent and scientifically credible**. Moreover, when observing the proposed **European regulation for the future register of ESG Raters**, Standard Ethics appears to be **forward-looking** with regard to other topics such as the exact definition for the scientific use of Sustainability and ratings; the operational distinction of its business scope in reducing conflicts of interest - it was one of the first ESG rating agencies to use the Applicant-Pay Model, thereby avoiding any interference of consultancy activities or the sale of data to third parties - all important issues that the **European Commission** has decided to highlight.

To commemorate these 20 years, the table below lists the trend in ratings issued to Italy's largest listed companies (the Agency's first test market) together with the relevant rating actions made public from 2004 to the present day. It summarises the progressive alignment of these companies with the international recommendations on Sustainability.

Company	Today	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	
A2A	EE+	EE+	EE+	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-							
Amplifon	E+	E+	E+	E+	E+	E+																
Azimut Holding	E+	E+	E+	E+	E+	E+	E+	E+	E+	EE	EE	EE	EE	EE								
Banca Generali	EE+	EE+	EE+	EE	EE	EE	EE-	EE-	EE-													
Banca Mediolanum	EE-	EE-	EE-	E+	E+	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	E-	
Banco BPM*	EE+	EE+	EE	EE	EE-	EE-	EE-	EE-	P	P	P	P	P	P	EE	EE	EE	EE	EE	EE	EE	
BPER Banca**	EE+	EE+	EE	EE	EE-	EE-	EE-	EE-	EE-	EE	EE	EE	EE									
Campari	E	E	E	E	E	E+	E+	E+	E+	EE-	EE-	EE-	EE-	EE-	EE-							
CNH Industrial	E+	E+	E+	E+	E+	E+	E	E	E	E	E	E+										
DiaSorin	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	E+	E+								
Enel	EE	EE	EE	EE	EE	EE	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE	EE	EE	EE	EE	EE	EE	EE-	EE-
Eni	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EEE-	EEE-	EEE	EEE-	EEE-	EEE-	EE+	EE+	EE+	EE+	EE+	EEE-	EEE-	EEE-	
ERG	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	
Ferrari	EE-	EE-	EE-	E+	E+	E+	E+	E	E													
FinecoBank	EE+	EE+	EE+	EE+	EE+	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	E+
Generali Ass	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	EE-	EE-	E+	E+
Hera	EE-	EE-	EE-	EE-	EE-																	
Interpump Group	EE-	EE-																				
Intesa Sanpaolo	EE	EE	EE	EE	EE	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	E+	E+	E	E	E	E	S	E	
INWIT Infra. Wireless It.	E+	E+	E	E																		
Italgas	EE-	EE-	E+	E+	E+	E+	E+	E+														
Iveco Group	EE-	EE-																				
Leonardo***	EE	EE	EE	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	EE-	S	S	EE-	EE-	EE-	EE-	S	S	S	
Mediobanca	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	E+	E+	E+	E+	E	E	E	E	E	E	E	E	
Moncler	EE-	EE-	EE-	EE-	EE-	E+	E+	E+	E	E	P											
Nexi	E	E	E	E	E																	
Pirelli & C.	E	E	E+	E+	E+	E+	DEL	DEL	DEL	EE	EE-	E+	E+	E+	E+	E+	E+	E+	E+	E	E	
Poste Italiane	E+	E+	E+	E+	E+	E+	EE-	EE-	EE-													
Prysmian	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE	EE	EE	EE	EE-	E+	E+	S	S	S				
Recordati	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	
Saipem	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE	EE	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	
Snam	EE	EE	EE	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE-	EE	EE	EE	EE	EE	EE	EE
Stellantis	E+	E+	E+	E+																		
STMicroelectronics	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	S
Telecom Italia	E	E	E	E	E	E	E	E	S	E+	EE-	EE-	EE-	EE-	EE-	EE-	E	E	E+	E+	E	
Tenaris	E	E	E	E	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+	E+							
Terna	EE	EE	EE	EE (1)	E+	E+	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	
UniCredit	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE	EE	EE-	EE	EE	EE	EE	EE	EE	EE-	EE-
Unipol Gruppo	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE-											
UnipolSai****	EE+	EE+	EE+	EE+	EE+	EE+	EE+	EE	EE	E+	E	P	P	P	EE-	EE-	EE-	EE-	EE-			

Legend:

* Formerly Banca Popolare Milano ** Formerly Banca Pop. Emilia Romagna *** Formerly Finmeccanica

**** Rating Fondiaria-Sai fino al 2010 (1) In 2021 EE- positive Outlook then EE

P = Pending S = Suspended DEL = Removed because delisted

Standard Ethics is continuing, moreover, to pursue its collaborations with a variety of international universities, including **La Sapienza University** of Rome, who has provided the Agency with an analysis of the key outtakes from last year's United Nations COP28 event in Dubai; a useful insight to apply when assessing the challenges that companies will face over the next five years to reach climate change targets.

COP28: Analysis of Global Stocktake and the Challenges of Sustainable Finance

The UN Conference of the Parties (COP28) is noted for its various viewpoints on sustainable strategies.

One of the key elements is the Global Stocktake (GST), a mechanism found within Article 14 of the Paris Agreement, which is a fundamental tool for monitoring and directing global efforts to meet the 1.5-degree targets.

Its main function is to monitor the commitments made on a five-year basis by the countries party to the agreement, to reduce emissions and achieve their own climate change targets. The GST consists of three phases: the data collection phase, the technical assessment phase, and the results consideration phase during which member countries discuss the results of the assessment and the consequent policy directions to be taken. This latter phase took place for the first time during 2023's COP28 in Dubai.

During the two intense weeks of negotiations, five versions of the Global Stocktake (GST) text were released, each representing a key step on the path to a meaningful climate agreement. Below is a summary of the red, yellow, and green flag versions:

- "red flags" identified the text signal the most critical issues and possible areas of conflict. For example, the removal of reference to the 1.5-degree Celsius temperature limit as the "North Star" of the GST could raise concerns about the overall direction of action. The inclusion of new concepts, such as the recognition of "transition fuels," raises questions about compatibility with emission reduction targets.
- "yellow flags," on the other hand, point to issues that require attention, but can be the subject of further discussion. Less funding, in line with the Paris Agreement from both developed and developing countries, as well as concerns about unilateral trade measures, indicate a heightened sensitivity to broad economic perspectives in which climate policies are placed.
- "green flags," represent the positive elements emerging from the different versions of the text. The presence of new provisions in the section on climate change-related social losses and damages, which now includes recognition of slow-onset events, displacement, relocation, and migration, is a positive sign. In addition, the inclusion of deadlines for reducing emissions of non-carbon-based greenhouse gases, such as N2O and fluorinated gases, provides a more comprehensive vision in the fight against climate change.

The chronology and analysis of the versions of the GST text highlight the challenges and opportunities faced during the negotiations.

The process of getting to the final version of the text was not easy, but the end result demonstrates how the path to environmental sustainability requires a shared global commitment and confirms the importance of the Global Stocktake (GST) as a key tool in the fight against climate change.

Standard Ethics

Standard Ethics is a **Self-Regulated Sustainability Rating Agency** that issues **non-financial sustainability ratings**. It focuses **exclusively** on issuance activities and is self-regulated, through statutory rules and procedures, on the model of credit rating agencies.

In the main:

- Standard Ethics' **clients** are the companies that **apply** for a rating (**Applicant-pay Model**) where the rating is freely publishable by the Applicant;
- In order to remain **third party** and **independent** from the market, and also to be in line with the requirements of the draft European Regulation on future ESG rating agencies, Standard Ethics does not carry out any consultancy activities, nor does it provide or sell data on rated companies to third parties; furthermore, it is not connected to companies that carry out credit analyses or issue credit ratings;
- Standard Ethics uses a proprietary algorithm based on international sustainability indications (UN; OECD; EU) which provides consistency in its ratings. By applying this methodology, Standard Ethics' approach can be considered as '**ethically neutral**';
- Standard Ethics' **analysts** directly guide the process **without** using **Artificial Intelligence** or software, and without requiring questionnaires to be filled in or the provision of additional documentation (**Analyst-driven Process**);
- **The reporting** offered by Standard Ethics through the Final Report aims to provide the client (requesting a **solicited rating**) with publishable material from an independent source that **adequately** represents the client's commitment to Sustainability;
- Chinese Walls, procedures, compliance offices and independent committees are part of Standard Ethics' governance structure.

Standard Ethics also issues **unsolicited ratings** where it intends to conclude the analysis of a group of companies and offer decision-makers and stakeholders indices-benchmarks. Standard Ethics' indices are

Open Free Sustainability Indexes, which are self-funded, public and freely available both in their constituents and in the ratings assigned to each constituent.

Standard Ethics Rating

The Standard Ethics Rating (SER) is an evaluation of the level of compliance of companies and sovereign nations on matters such as governance and sustainability as indicated by documents and guidelines provided by the **United Nations**, the **OECD** and the **European Union**.

There are 3 different types of SER, all of them based on a **scale comprising 9 letter grades**:

- CORPORATE
- SECURITY (bond or other General-Purpose debt instruments)
- COUNTRY (sovereign entities)

EEE	EEE-	EE+	EE	EE-	E+	E	E-	F
	Excellent	Very Strong	Strong	Adequate	Low	Very Low	Unsatisfactory	

Sustainable	Not Fully Sustainable	Not Sustainable
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Each single rating classification can have a positive or negative **Outlook**. Whenever a company or country is downgraded to an “F”, holding its securities may have a negative impact, and a **Security Segregation Impact Notice (SSIN)** will disclose details.

In the opinion of Standard Ethics, a rating of EE- (or higher) qualifies a company as **Sustainable** and therefore **consistent** with an **ESG/SRI** strategy.

Standard Ethics Proprietary Algorithm

To ensure accuracy and comparability, **Standard Ethics does not use weights and KPI-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”. The method has been extensively tested and is specifically calibrated when unlisted companies are rated.

The standards assessed are:

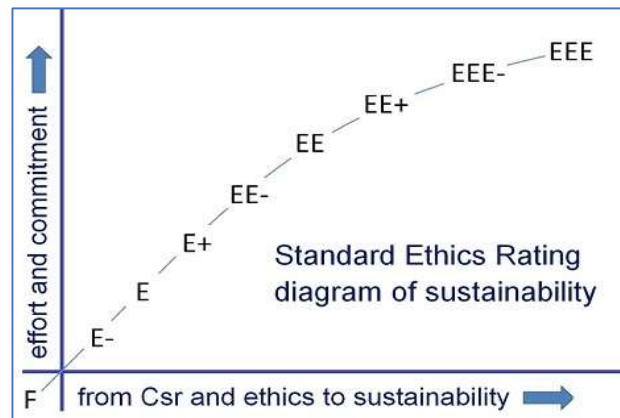
$$\frac{(Fc_{EU} + Sa_{EU-OECD} + Id_{EU-OECD} + Mw * f(Sa_{EU-OECD}) * f(Id_{EU-OECD}) + Cg_{UN-OECD-EU} * f(Fc_{EU}) * f(Id_{EU-OECD}))}{10} + k$$

- **C_{EU}** = Fair competition, including dominant positions, market distortions, controversies
- **Sa_{EU-OECD}** = Voting rights, shareholders' agreements, conflicts of interest
- **MW** = Market weight & shareholding structure, including major investor analysis
- **Id_{EU-OECD}** = Independent directorship, including ESG Risk and Control Management
- **Cg_{UN-OECD-EU}** = Corporate Governance, Governance of Sustainability, ESG policies
- **k** = Sustainability at Risk (SaR)

Italy, where Standard Ethics established its first customers (listed and unlisted companies), has been the commercial test market since 2014/2015.

A final **methodological premise** seems necessary before proceeding to read the below report.

The main purpose of this document is to provide the market and its various stakeholders (from institutions to listed and unlisted companies, from universities to the media) with a general and more in-depth picture of the



research activities conducted by **Standard Ethics** over the course of **2023**. It also should be specified that the research's main focus continues to be on Europe.

After an initial Agency overview to include its business model and rating methodology, the report will present data gathered from the global **Corporate Standard Ethics Rating (SER)** assigned over the last five years as well as the **Country SER** and the **Security SER**, and in doing so will highlight some interesting findings and comparisons.

2. Corporate SER

Spain In-depth Analysis

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[Country SER: **EE+**]; Most issued Corporate SER: **E+**

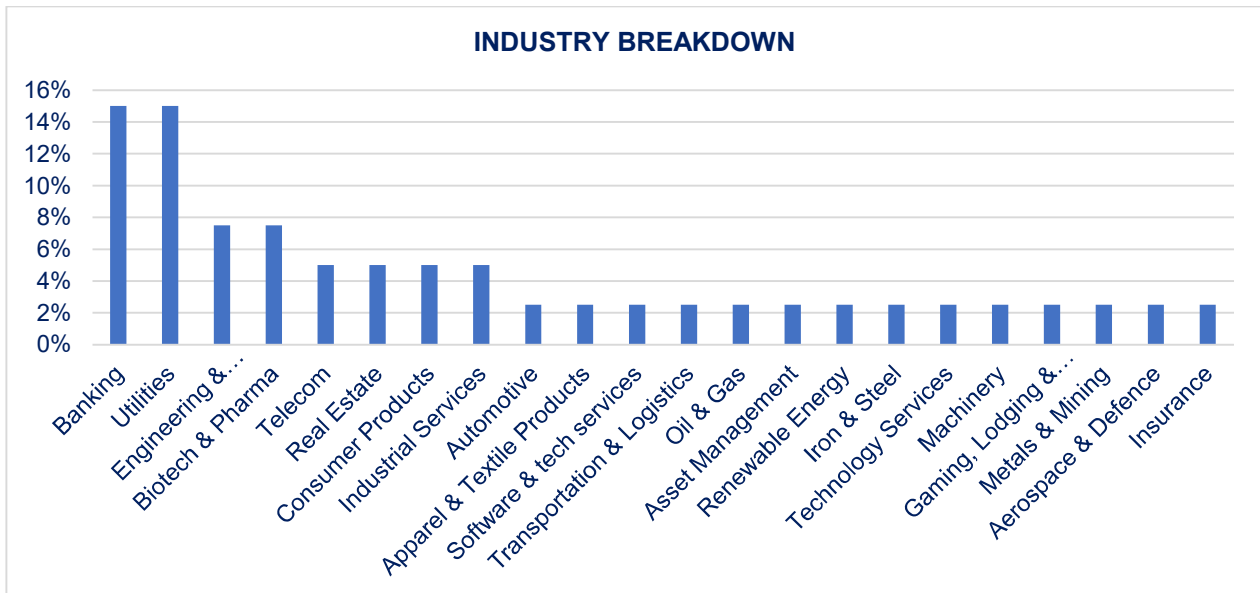


The last action on the Kingdom of Spain's Country (SER) was on 25 September 2017. The rating was prudently revised as a result of internal matters relating to the Catalonia Region. This has not impacted Spain's excellent overall Country Rating. The Country's path to Sustainability over the last few years has been ambitious and coherent with international standards. The Climate Law approved by the Spanish Parliament in 2021 testifies this. Regional rifts are still producing political instability.

Spain became a member of the United Nations in 1955, it joined the OECD in 1961 and it entered the European Union in 1986.

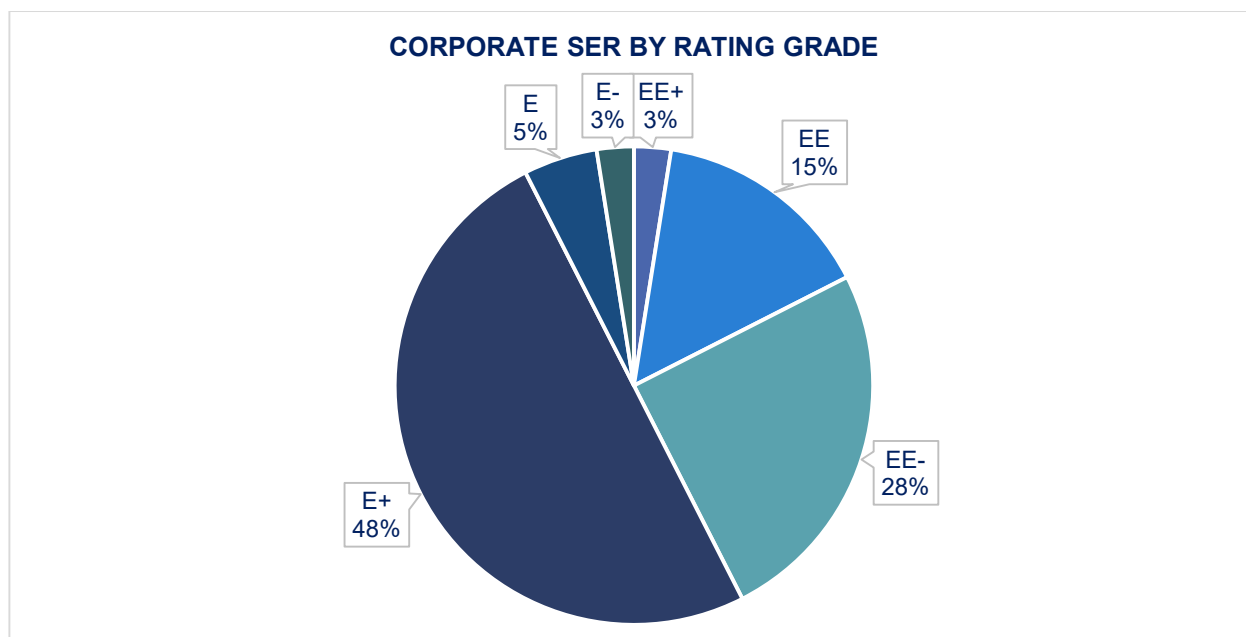
In 2013, Standard Ethics launched the **SE Spanish Index**, composed of the 35 main listed companies in Spain. To date, the **SE Spanish Index** counts 40 components. The last review of the **SE Spanish Index** was published on 30 September 2023. In 2022, Standard Ethics launched the **SE Mid Spanish Index**, composed of 20 listed mid-cap Spanish companies. This too was last reviewed on 30 September 2023.

1. Industry breakdown (Spain)



The bar chart shows the breakdown by industry of the **SE Spanish Index** constituents. The Index includes the main 40 listed companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The chart indicates that two sectors stand out in the distribution of the components: Banking (15%) and Utilities (15%). These sectors are followed by Engineering & Construction and Biotech & Pharma, each representing almost 8%. These industries are followed by Telecom, Real Estate, Consumer Products and Industrial Services with 5% each. The other industries represented are: Automotive, Apparel & Textile Products, Software & Tech Services, Transportation & Logistics, Oil & Gas, Asset Management, Renewable Energy, Iron & Steel, Technology Services, Machinery, Gaming Lodging & Restaurants, Metal & Mining, Aerospace & Defence and Insurance; each have a distribution of 3%.

2. Corporate SER by rating grade (Spain)¹⁰



The pie-chart above represents the distribution of *SE Spanish Index* Corporate SERs across the 9 different Standard Ethics rating grades. The pie-chart shows that 48% of the Index constituents are rated E+, while 28% are rated EE- and 15% are rated EE. The remaining constituents of the Index are rated E (5%), EE+ (3%) and E- (3%). Currently, no companies hold EEE; EEE- and F ratings: this means that the distribution tends to converge towards the "mid rating grades". With reference to the grades of Sustainability¹¹, the **Sustainable Grade** represents **46%** of the chart and the **Not Fully Sustainable Grade 53%**.

Through comparison of the biggest European markets covered by Standard Ethics within its national indices (France, Germany, UK, Spain, Italy), the following can be stated with regards to the *SE Spanish Index*:

- As one of the largest European markets, Spain is the country with the highest number of **Not Fully Sustainable Grade** and **Not Sustainable Grade** companies, representing 56% of the *SE Spanish Index*.
- More than one quarter (28%) of the constituents of the *SE Spanish Index* are rated EE-, which denotes a willingness of the main Spanish listed companies to comply with global sustainability standards.
- Almost half (48%) of the constituents of the *SE Spanish Index* are rated E+. Consequently, companies rated E+ could be considered as candidates for a future Sustainable Grade level.
- Overall, there is still room for improvement for Index constituents to align with the international sustainability guidelines defined by the OECD, the EU and the UN.

¹⁰ Please note that in some of the graphs and calculations, it was necessary to make approximations in order to obtain a whole percentage number. Therefore, in some cases, the final number may slightly exceed 100%.

¹¹ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating classes from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating classes from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

3. SE Spanish Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Merlin Properties	ES0105025003	E+	Pos.	Mapfre	ES0124244E34
EE		Amadeus IT Group	ES0109067019	E+		Acerinox	ES0132105018
EE		BBVA	ES0113211835	E+		Aena	ES0105046009
EE		Cellnex Telecom	ES0105066007	E+		Almirall	ES0157097017
EE		IAG International Consolidated Airlines Group	ES0177542018	E+		ArcelorMittal	LU1598757687
EE		Iberdrola	ES0144580Y14	E+		Ebro Foods	ES0112501012
EE		Red Electrica Corporacion (Redeia)	ES0173093024	E+		Endesa	ES0130670112
EE-	Pos.	Telefonica	ES0178430E18	E+		Fluidra	ES0137650018
EE-		Acciona	ES0125220311	E+		Grifols	ES0171996087
EE-		Acciona Energia	ES0105563003	E+		Inmobiliaria Colonial	ES0139140174
EE-		Banco de Sabadell	ES0113860A34	E+		Laboratorios Farmaceuticos Rovi	ES0157261019
EE-		Banco Santander*	ES0113900J37	E+		Logista	ES0105027009
EE-		Corporacion Financiera Alba	ES0117160111	E+		Melia Hotels International	ES0176252718
EE-		Enagas	ES0130960018	E+		Naturgy Energy Group	ES0116870314
EE-		Ferrovial	ES0118900010	E+		Sacyr	ES0182870214
EE-		Indra	ES0118594417	E+		Solaria	ES0165386014
EE-		Repsol	ES0173516115	E+		Unicaja Banco	ES0180907000
EE-		Viscofan	ES0184262212	E		ACS Actividades de Construccion y Servicios	ES0167050915
E+	Pos.	Bankinter	ES0113679I37	E		CIE Automotivo	ES0105630315
E+	Pos.	CaixaBank	ES0140609019	E-		Inditex	ES0148396007

*Please note that the rating of these companies has been updated in January 2024

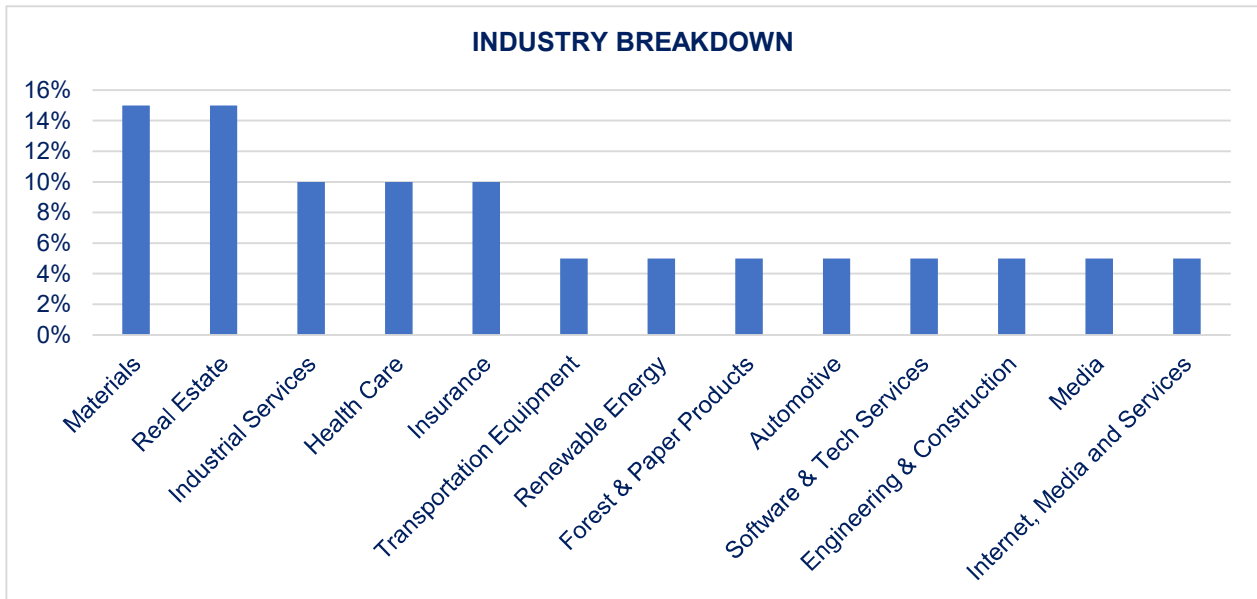
Within the *SE Spanish Index* constituents:

- Merlin Properties (rated EE+) is currently the highest Corporate SER registered.
- In the top rating layer of the *SE Spanish Index* distribution, we find the following companies: Amadeus IT Group, BBVA, Cellnex Telecom, International Consolidated Airlines Group, Iberdrola, and Red Electrica Corporacion, which are all rated EE; a **Sustainable Grade**.
- Telefonica is the only Spanish company, whose rating is EE-, a Sustainable Grade, with a Positive Outlook.
- The remaining **Sustainable Grade** companies are the following: Acciona, Acciona Energia, Banco de Sabadell, Banco Santander, Corporacion Financiera Alba, Enagas, Ferrovial, Indra, Repsol and Viscofan, which all have an EE- rating.
- Bankinter, CaixaBank and Mapfre are all rated E+, which is a **Not Fully Sustainable Grade**, with a Positive Outlook.
- The remaining companies rated E+ are: Acerinox, Aena, Almirall, ArcelorMittal, Ebro Foods, Endesa, Fluidra, Grifols, Inmobiliaria Colonial, Laboratorios Farmaceuticos Rovi, Logista, Melia Hotels International, Naturgy Energy Group, Sacyr, Solaria and Unicaja Banco.
- ACS Servicios and CIE Automotivo are all rated E, a **Not Fully Sustainable Grade**.
- Inditex is the only Spanish company whose rating is E-, a **Not Sustainable Grade**.

Focus: Standard Ethics Mid Spanish Index

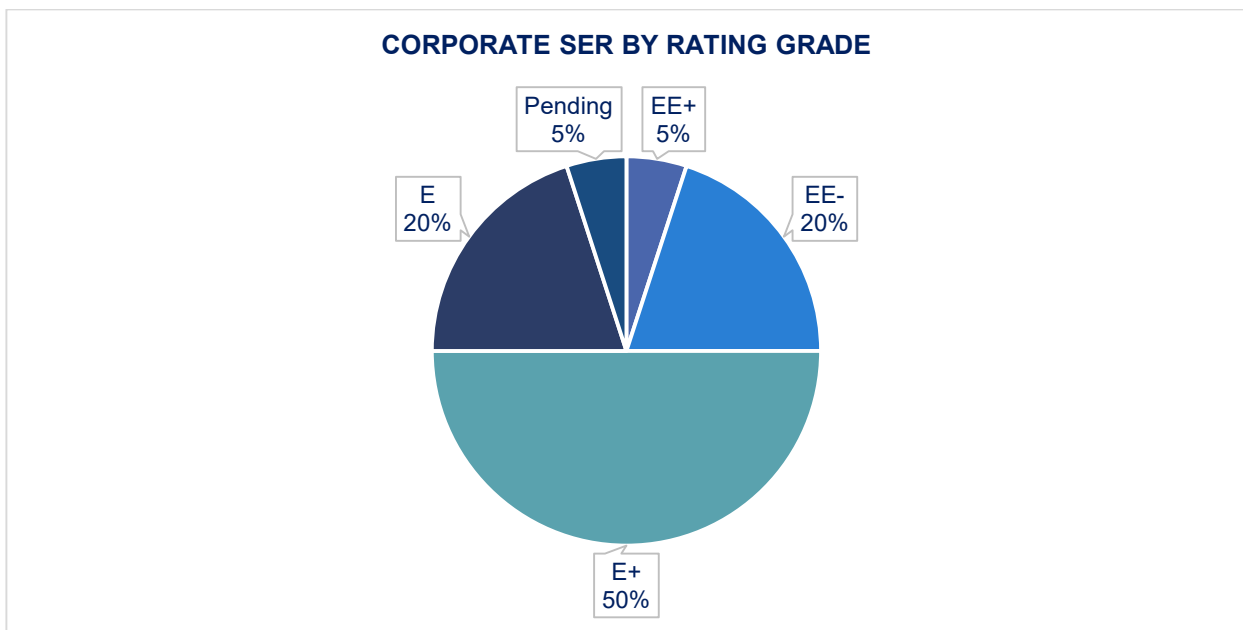
Most issued Corporate SER: E+

1. Industry breakdown (SE Mid Spanish Index)



The bar chart shows the breakdown by industry of the *SE Mid Spanish Index* constituents. The Index includes 20 mid-sized listed Spanish companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The chart indicates that two industries stand out in the distribution of the constituents: Materials (15%) and Real Estate (15%). These sectors are followed by Industrial Services, Health Care and Insurance, each representing 10%. The other industries represented are: Transportation Equipment, Renewable Energy, Forst and Paper Products, Automotive, Software & Tech Services, Engineering & Construction, Media and Internet, Media and Services; each with a distribution of 5%.

2. Corporate SER by rating grade (SE Mid Spanish Index)



The pie-chart above represents the distribution of *SE Mid Spanish Index* Corporate SERs across the 9 different Standard Ethics rating grades. The pie-chart shows that 50% of the Index constituents are rated E+, while E- and E each have a percentage of 20%. The remaining constituents of the Index are rated EE+ and Pending, each with a percentage of 5%.

EE+ (5%) and Pending (5%). Currently, no companies hold EEE; EEE-; EE and F ratings: this means that the distribution tends to converge towards the "mid rating grades". With reference to the grades of Sustainability¹², the **Sustainable Grade** represents 25% of the chart and the **Not Fully Sustainable Grade** 70%.

3. SE Mid Spanish Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Applus Services	ES0105022000	E+		Grupo Catalana Occidente	ES0116920333
EE-		Ence Energia y Cellulosa	ES0130625512	E+		Metrovacesa	ES0105122024
EE-		Faes Farma	ES0134950F36	E+		Neinor Homes	ES0105251005
EE-		Grenergy Renovables	ES0105079000	E+		Pharma Mar	ES0169501022
EE-		Línea Directa Aseguradora	ES0105546008	E+		Tecnicas Reunidas	ES0178165017
E+		Aedas Homes	ES0105287009	E		Atresmedia Corporacion	ES0109427734
E+		CAF - Construcciones y Auxiliar de Ferrocarriles	ES0121975009	E		Miquel y Costas & Miquel	ES0164180012
E+		Edreams Odigeo	LU1048328220	E		Prosegur	ES0175438003
E+		Gestamp Automocion	ES0105223004	E		Vidrala	ES0183746314
E+		Global Dominion Access	ES0105130001	Pending		Tubacex Group	ES0132945017

Within the *SE Mid Spanish Index* constituents:

- Applus Services (rated EE+) has currently the highest rating SER in the Index.
- In the top rating layer of the *SE Mid Spanish Index* distribution, we find the following companies: Ence Energia y Cellulosa, Faes Farma, Grenergy Renovables and Línea Directa Aseguradora, which are all rated EE-; a **Sustainable Grade**.
- Aedas Home, CAF, Edreams Odigeo, Gestamp Automocion, Global Dominion Access, Grupo Catalana Occidente, Metrovacesa, Neinor Homes, Pharma Mar and Tecnicas Reunidas are all rated E+, which is a **Not Fully Sustainable Grade**.
- Atresmedia Corporacion, Miquel y Costas & Miquel, Prosegur and Vidrala are all rated E, a **Not Fully Sustainable Grade**.
- Tubacex Group is the only Spanish company whose rating is Pending.

¹² **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating classes from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating classes from E- up to F (i.e. E-, F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

[Country (SER): **EE+**] Most issued rating: **E+**

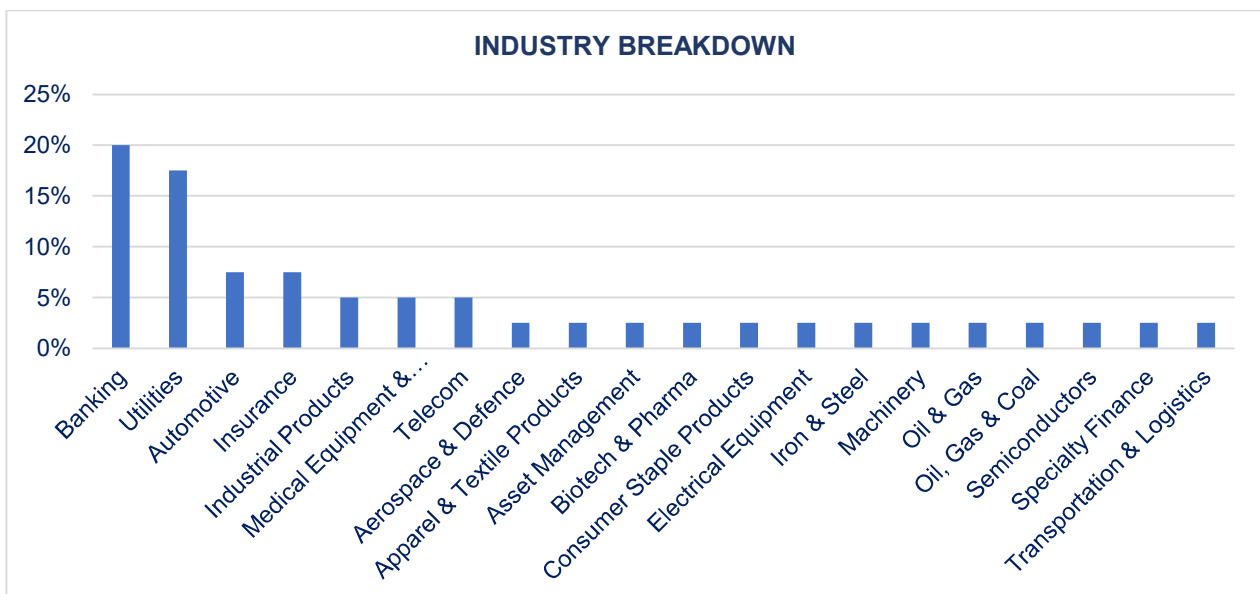


The last action on the Republic of Italy's Country (SER) was on 13 March 2020. Italy's Outlook was improved from "Negative" to "Stable" due to its reaction to the pandemic and consequent management, praised by the European Commission as an example for other countries to follow. The National Recovery and Resilience Plan (NRRP), launched in 2021, captures the Country's coherence in its Sustainability strategy. As in other European countries, the dialectics of populist parties on Euroscepticism is still ongoing, but in the Italian case it seems non-significant.

Italy was one of the founding nations of the European Coal and Steel Community, it became a member of the United Nations in 1955, it joined the OECD in 1960.

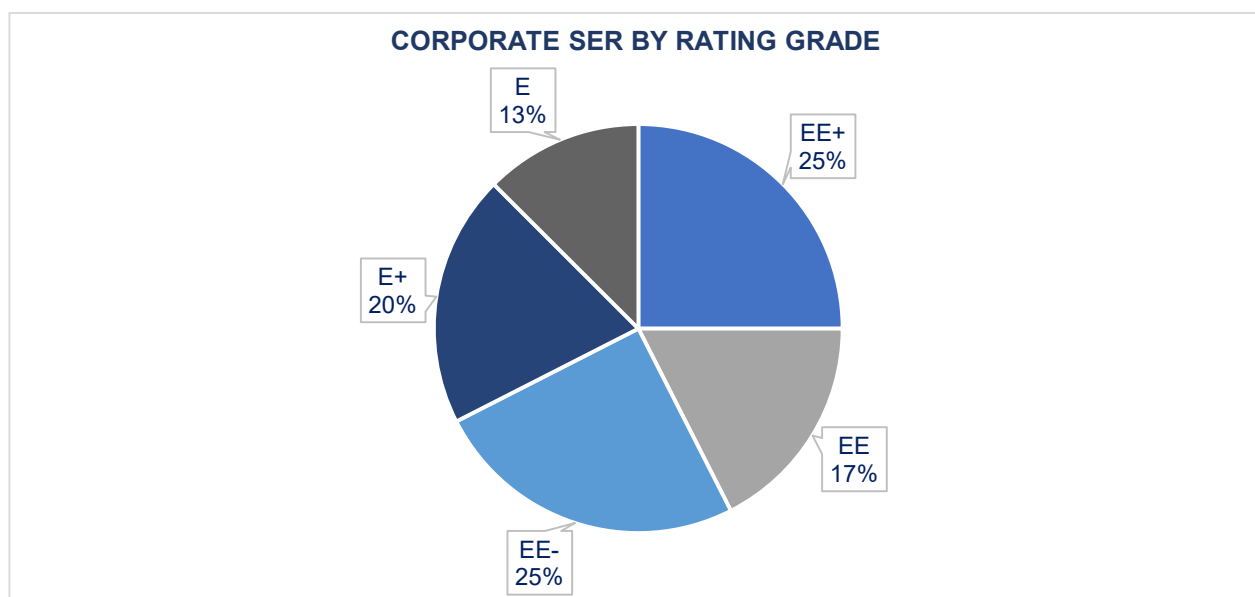
In 2014, Standard Ethics launched the *SE Italian Index*, composed of the 40 main listed companies in Italy. To date, the *SE Italian Index* counts 40 constituents. The last review of the *SE Italian Index* was published on 30 September 2023. In 2022, Standard Ethics launched the *SE Mid Italian Index*, composed of 20 listed mid-cap Italian companies.

1. Industry breakdown (Italy)



The bar chart shows the industry breakdown of the *SE Italian Index* constituents. Each Standard Ethics index is an *Open Free Sustainability Index* and offers full disclosure: the methodology, selection criteria, and calculation formula are public and can therefore be used for free as a benchmark for decision-makers and stakeholders. The *SE Italian Index* includes the main 40 listed companies per market capitalisation and it was last reviewed in September 2023. It tells us that the distribution highlights 4 top industries: Banking (20%), Utilities (17.5%), Automotive (7.5%) and Insurance (7.5%). Industrial Products, Medical Equipment & Devices and Telecom together account for 15% of the sample. Each of these accounts separately for 5% of the sample. The other sectors included are each worth 2.5% of the sample.

2. Corporate SER by rating grade (Italy)



The pie chart above represents the distribution of the *SE Italian Index* Corporate SERs through 5 different rating grades.¹³

The pie chart shows that 25% of the *SE Italian Index* constituents are rated EE+, 17% are rated EE, 25% are rated EE-, 20% are rated E+, 13% are rated E. No companies are rated EEE; EEE- and F.

Through comparison of the biggest European markets covered by Standard Ethics within national indices (France, Germany, UK, Spain, Italy), the following can be stated with regards to the *SE Italian Index*:

- The *SE Italian Index* is distributed with **67%** constituents that hold a **Sustainable¹⁴ Grade** (i.e. rated EE+, EE or EE-) and **33% Not Fully Sustainable Grade** (i.e. rated E+ or E).
- A quarter of the *SE Italian Index* constituents are rated EE+, which denotes the willingness of the major Italian listed companies to maintain compliance with global Sustainability standards.
- Almost a quarter of the *SE Italian Index* constituents are rated E+. This means that if these companies continue to improve their level of compliance with global standards on Sustainability, they could soon reach a **Sustainable Grade**.
- Overall, there is still room for improvement for Index constituents to align with the international sustainability guidelines provided by the OECD, the EU and the UN.

¹³ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

¹⁴ Please note that the term "Sustainable" as used in the text refers specifically to the rating grades as defined by Standard Ethics.

3. SE Italian Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+	Pos.	FinecoBank	IT0000072170	EE-		Hera	IT0001250932
EE+	Pos.	UnipolSai	IT0004827447	EE-		Interpump Group	IT0001078911
EE+		A2A	IT0001233417	EE-		Iveco Group	NL0015000LU4
EE+		Banca Generali	IT0001031084	EE-		Mediobanca	IT0000062957
EE+		Banco BPM	IT0005218380	EE-		Moncler	IT0004965148
EE+		BPER Banca	IT0000066123	EE-		Saipem	IT0005495657
EE+		Eni	IT0003132476	EE-		Italgas	IT0005211237
EE+		Generali	IT0000062072	E+	Pos.	Amplifon	IT0004056880
EE+		Prysmian	IT0004176001	E+	Pos.	CNH Industrial	NL0010545661
EE+		UniCredit	IT0005239360	E+	Pos.	ERG	IT0001157020
EE	Pos.	Terna	IT0003242622	E+		Azimut Holding	IT0003261697
EE		Enel	IT0003128367	E+		INWIT Infrastrutture Wireless Italiane	IT0005090300
EE		Intesa Sanpaolo	IT0000072618	E+	U.Monitoring	Poste Italiane	IT0003796171
EE		Leonardo	IT0003856405	E+		Recordati	IT0003828271
EE		Snam	IT0003153415	E+		Stellantis	NL00150001Q9
EE		STMicroelectronics	NL0000226223	E	Pos.	Nexi	IT0005366767
EE		Unipol Gruppo	IT0004810054	E		Campari	NL0015435975
EE-	Pos.	Banca Mediolanum	IT0004776628	E		Pirelli & C.	IT0005278236
EE-	U. Monitoring	DiaSorin	IT0003492391	E		Telecom Italia	IT0003497168
EE-		Ferrari	NL0011585146	E		Tenaris	LU0156801721

When observing the *SE Italian Index*:

- At present there are no **EEE-** ratings, but the level is high and expectations for the future are positive. The companies with the highest Corporate SER are: FinecoBank, UnipolSai, A2A, Banca Generali, BPER Banca, Eni, Prysmian, UniCredit. Banco BPM and Generali.
- In the top rating layer of the Index distribution, sit: Enel, Intesa Sanpaolo, Leonardo, Snam, STMicroelectronics, Terna, Unipol Gruppo.
- The remaining **Sustainable Grade** companies are: Banca Mediolanum, DiaSorin, Ferrari, Hera, Interpump, Iveco Group, Mediobanca, Moncler, Saipem and Italgas.
- CNH Industrial, ERG, Azimut Holding, INWIT Infrastrutture Wireless Italiane, Amplifon, Poste Italiane, Recordati and Stellantis are all rated E+, a **Not Fully Sustainable Grade**.
- Amplifon, CNH Industrial and ERG currently have a Positive Outlook. Therefore, they could become **Sustainable Grade** companies in the next few months.
- The most significant margins for improvement are – according to Standard Ethics' analysts – for: Nexi, Campari, Pirelli & C., Telecom Italia and Tenaris.

Focus: Standard Ethics Italian Banks Index

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+	Pos.	FinecoBank	IT0000072170	EE-	Pos.	illimity Bank	IT0005359192
EE+		Banca Generali	IT0001031084	EE-		Banca Mediolanum	IT0004776628
EE+		BPER Banca	IT0000066123	EE-		Mediobanca	IT0000062957
EE+		UniCredit	IT0005239360	E+	Pos.	BFF Bank	IT0005244402
EE+		Banco BPM	IT0005218380	E+		Banca Profilo	IT0001073045
EE	Pos.	Banca Popolare di Sondrio	IT0000784196	E	Pos.	Credito Emiliano	IT0003121677
EE		Banca Monte dei Paschi di Siena	IT0005218752	E		Banca IFIS	IT0003188064
EE		Intesa Sanpaolo	IT0000072618	E		Banca Sistema	IT0003173629
EE-	Pos.	Banco Desio e Brianza	IT0001041000				

In the past, **Standard Ethics** has published several studies on the Italian banking sector, including detailed analyses (such as the one on cooperative banks in 2014 – please see the Bibliography at the end of the Report). Today, the industry presents a very advanced level of alignment on Sustainability. Data shows that over **70%** of **Italian banks** are **compliant** with the sustainability standards defined by the **EU**, the **UN** and the **OECD**. When looking at the open-free sustainability *SE Italian Banks Index*: almost 30% of Italian banks are rated EE+, almost 20% of Italian banks are rated EE, approximately 25% of Italian banks are rated EE-, just over 10% of Italian banks are rated E+ and the remaining close to 15% are currently rated E.

In order to make a concrete comparison, SE analysts evaluated and contrasted Italian banks with the European banking sector. **Standard Ethics** launched the **SE European Banks Index** in 2017. Its constituents are distributed as follows: **55%** of the **European banks** are **Sustainable Grade**, **40%** are **Not Fully Sustainable Grade**, **5%** are **Not Sustainable Grade**. Considering the SE European Banks Index rating grades, they are distributed as follows: **12.5%** of the Index constituents are rated EE+, **15%** have an EE rating, **27.5%** are rated EE-, **30%** have an E+ rating, **10%** are rated E, **5%** have an E- rating.¹³ Finally, no banks at the European level are rated EEE or F.

On the other side of the spectrum are the banks belonging to the **SE Hong Kong Index**, which was launched in 2020. At the moment of writing this report, only **12%** of Hong Kong's listed banks, constituents of the SE Hong Kong Index, have a **Sustainable Grade**, **66%** of the Index's banks hold a **Not Fully Sustainable Grade** and the remaining **22%**, a **Not Sustainable Grade**. The rating grades are therefore: **2%** EE+, **6%** EE, **4%** EE- **16%** E+, **50%** E and **22%** E-.

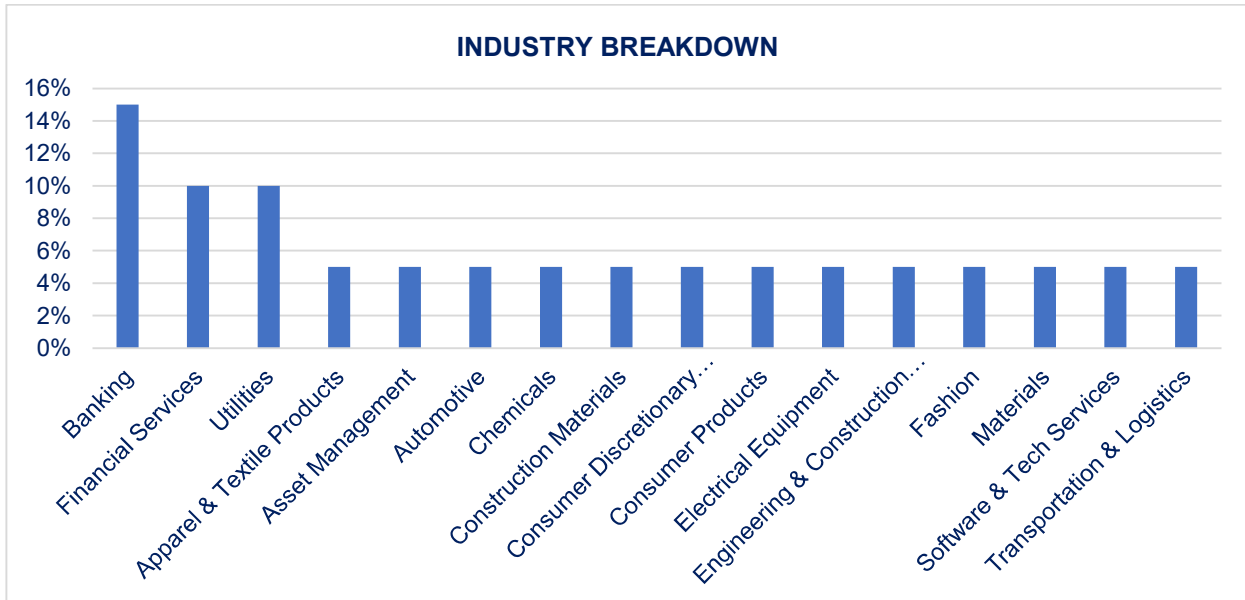
Having made an overall comparison of the banking sector worldwide, the following can be stated regarding Italian banks:

- Italian banks are voluntarily complying with global Sustainability recommendations. This can be noted when looking at corporate governance practices, as well as at the Italian banks' corporate Codes of Conduct, formally including references to the global standards on Sustainability;
- The Italian banks, whose previous legal status was cooperative, have been keeping their long-term attention on local communities and stakeholders, thus focusing on the 'S' (social) area of the ESG acronym;
- Some Italian banks have been increasingly addressing the Sustainability challenges indicated by the EU, making concrete steps towards gender equality in their governance structures;
- On average, Italian banks show a higher level of Sustainability Grade than their European peers and this appears even more evident when comparing them to Hong Kong banks.

Focus: Standard Ethics Mid Italian Index

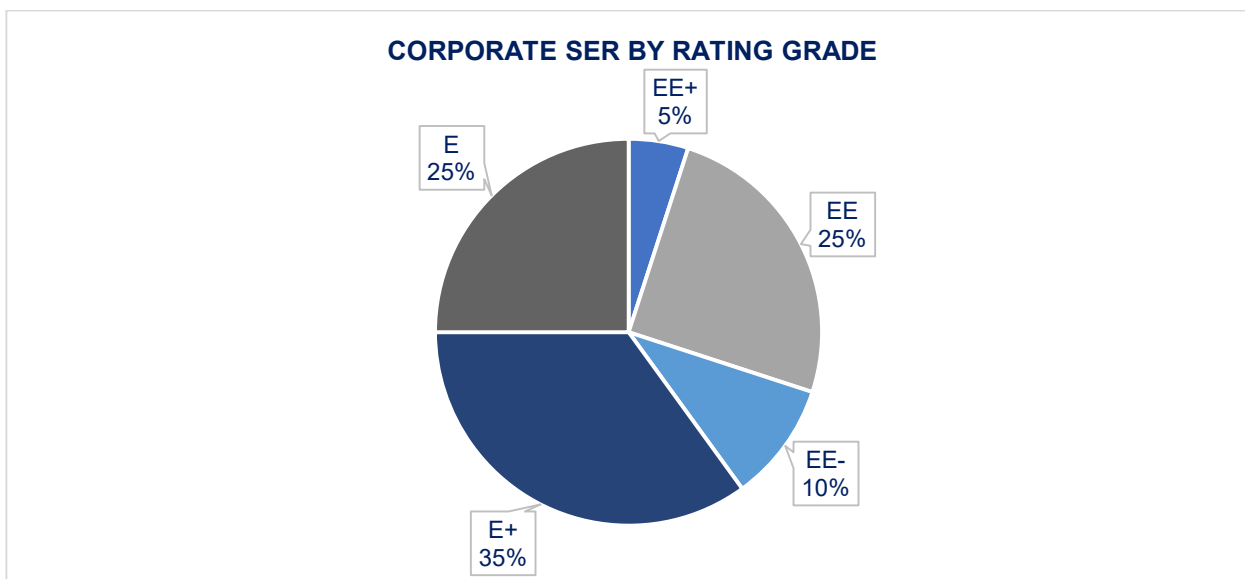
Most issued Corporate SER: E+

1. Industry breakdown (SE Mid Italian Index)



The bar chart shows the industry breakdown of the *SE Mid Italian Index* constituents. This is a thematic Index which includes 20 mid-sized listed companies, selected on the basis of their market size, and it was last updated in September 2023. It tells us that the distribution highlights a few top industries: Banking (15%) Financial services (10%) and Utilities (10%). The remaining 65% of the Index is composed of different industries, each of which is worth 5% of the sample.

2. Corporate SER by rating grade (SE Mid Italian Index)



The pie chart above represents the distribution of the *SE Mid Italian Index* Corporate SERs through 5 different rating grades.¹⁵ The chart shows that 35% of the *SE Italian Index* constituents are rated E+, 25%

¹⁵ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+;E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-

are rated EE and E, 10% are rated EE-, 5% are rated EE+. No companies are rated EEE; EEE- and F. This means that the distribution tends to converge to the “mid-rated” grades. The level of Sustainable Grade accounts for 40% of the ratings assigned, whereas the Not Fully Sustainable Grade is 60%. There is no rating classified as a Not Sustainable Grade.

3. SE Mid Italian Index (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Acea	IT0001207098	E+		Iren	IT0003027817
EE	Pos.	Anima Holding	IT0004998065	E+		Salvatore Ferragamo	IT0004712375
EE	Pos.	Banca Popolare di Sondrio	IT0000784196	E+		SOL	IT0001206769
EE		Banca Monte Paschi Siena	IT0005218752	E+		Technogym	IT0005162406
EE		ENAV	IT0005176406	E+		Webuild	IT0003865570
EE		Tamburi Investment Partners	IT0003153621	E		Credito Emiliano	IT0003121677
EE-		Brunello Cucinelli	IT0004764699	E		Carel Industries	IT0005331019
EE-	Neg.	Brembo	IT0005252728	E		De'Longhi	IT0003115950
E+	Pos.	BFF Bank	IT0005244402	E		Reply	IT0005282865
E+		Buzzi Unicem	IT0001347308	E		Zignago Vetro	IT0004171440

When observing the *SE Mid Italian Index*:

- At present there are no EEE- ratings. The companies with the highest Corporate SER are: Acea, Anima Holding, Banca Popolare di Sondrio, Banca Monte Paschi Siena, Enav and Tamburi Investment Partners.
- The remaining **Sustainable Grade** companies are: Brembo and Brunello Cucinelli.
- Buzzi Unicem, Iren, Salvatore Ferragamo, SOL, Technogym, Webuild and BFF Bank are all rated E+, a **Not Fully Sustainable Grade**.
- The most significant margins for improvement are – according to Standard Ethics’ analysts – for: Credito Emiliano, Carel Industries, De’Longhi, Reply and Zignago Vetro.

Focus: Standard Ethics Food&Beverage Sustainability Italian Benchmark

Launched in March 2022 and last reviewed on 30 September 2023, **Standard Ethics** published the *Food&Beverage Sustainability Italian Benchmark*. This is a thematic Benchmark for companies in the **food sector**, useful for monitoring its alignment with international voluntary sustainability guidelines (**UN**, **OECD** and **EU**). The Corporate Standard Ethics Rating (Corporate SER) assigned to each of the Benchmark’s constituents is part of an analysis framework comprising **50** of the largest companies operating in the Italian food industry, from which **30** companies have been selected. **Standard Ethics’** analysts examined various aspects such as: corporate sustainability strategies; elements of fair competition; quality of the ESG disclosure with particular attention to sustainability and corporate governance; controversial events; product reporting and other factors.

From the Benchmark study, it has emerged that, in general, great care and attention are paid to the principles of sustainability of the **product and supply chain** along with a broad application of good ESG practices in terms of **production processes**. Nevertheless, the adoption of these principles when inherent to the producer, its governance models and its shareholders, appears rather weak.

Specifically:

;F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

- in all cases examined, the **quality** and sustainability of the product appear aligned with international guidelines and are adequately reported. The Italian industry remains a global reference point when it comes to quality and creativity.
- best practices in the areas of manufacturing and correlated areas of sustainability are common: including traceability in and along the supply chain; packaging; occupational health and safety; quality control; operational risk management; use and reporting of raw materials; animal welfare; consumer information and more. Also, in this instance the Italian industry appears to be significantly reliable and technologically advanced.
- at a strategic and corporate level, however, the notion of Sustainability is often confused with philanthropy, and its subjective principles of an **ethical** nature, or with the concept of Corporate Social Responsibility (CSR) or simply with legal obligations, thus generating ambiguities in nomenclature and terminology. These are approaches that often ignore central themes, such as, for example, ESG risk management, gender equality, the qualitative and quantitative selection of Board members and fiscal matters, to name but a few.
- once again, at a strategic and corporate level, whilst there is a widespread narration of company history, there is a lack of attention to the multilingual technical disclosure of information about governance structures, management models (including ESG risks), shareholders, and the governance of Sustainability (roles, functions, board committees). It is not uncommon for global brands to leave basic information, such as the composition of the Board of Directors, out of the data available on corporate websites.
- There is also room for improvement in the overall quality and availability of ESG information, covering the company's actual positioning in relation to international targets (environmental, social and governance) and the associated timeframes.

In conclusion, the individual Corporate SER evaluations are almost never affected by product and production related issues where already a high level of quality is apparent. By contrast, the analysis of a number of Corporate SERs is affected by uncertainties regarding the sustainability of the producer itself, given that these are companies with significant turnovers and a high number of employees. To give an emblematic and current example, it is impossible not to notice how the dramatic Ukrainian crisis (caused by the Russian invasion) is at the root of repercussions on the prices and on the availability of raw materials, of heavy sanctions against Russian companies and individuals, and how important it would be - for many stakeholders - to have readily available corporate information (from shareholders to Board members).

Currently, 7% of the Index constituents are rated EE, 13% are rated EE-, 43% have an E+ rating and 37% have an E rating. No companies are rated EEE and F. The distribution tends to converge to the “low” rating grades, concentrating mainly on the ratings E+ and E. With reference to the grades of Sustainability, the **Sustainable Grade** represents **20%** of the Benchmark and the **Not Fully Sustainable Grade 80%**. There are no Benchmark constituents with a **Not Sustainable Grade**.

Below is a list of the SE Food&Beverage Sustainability Italian Benchmark constituents with their assigned Corporate SERs.

Rating	Outlook	Company
EE		Casillo Group
EE		Illycaffè
EE-		A. Loacker
EE-		Bolton Group
EE-		Eurovo
EE-		La Doria
E+	Pos.	Bauli
E+		Barilla
E+		Cereal Docks
E+		Colussi
E+		Conserve Italia
E+		Ferrero
E+		Fileni Alimentare
E+		Granarolo
E+		Lavazza

Rating	Outlook	Company
E+		M. Zanetti Beverage
E+		Mutti
E+		Newlat Food
E+		Orsero
E	Pos.	Sammontana
E		Campari
E		De Cecco
E		Granterre (formerly Bonterre)
E		Gruppo Amadori
E		Gruppo Cremonini
E		Gruppo Veronesi
E		Pastificio Rana
E		Salumificio F.lli Beretta
E		San Benedetto
E		Unigra

- In the top rating layer of the distribution of the *SE Italian Food&Beverage Index* sit: Casillo Group and Illycaffè (EE), A.Loacker (EE-), Bolton Group (EE-), Eurovo (EE-) and La Doria (EE-). All these companies are **Sustainable Grade**.
- Barilla, Cereal Docks, Colussi, Conserve Italia, Ferrero, Fileni Alimentare, Granarolo, Lavazza, M. Zanetti Beverage, Mutti, Newlat Food and Orsero are all rated E+ with a **Not Fully Sustainable Grade**.
- Bauli has been rated E+ (with a Positive Outlook)
- Granterre, Campari, De Cecco, Gruppo Amadori, Gruppo Cremonini, Gruppo Veronesi, Pastificio Rana, Salumificio F.lli Beretta, San Benedetto and Unigra are all rated E with a **Not Fully Sustainable Grade**.
- Sammontana has been rated E (with a Positive Outlook).
- No companies currently have a **Not Sustainable Grade**.

Germany in-depth Analysis

Standard Ethics: The Big Picture – Annual Report 2023



[Country SER: **EE+**]; Most issued Corporate SER: **EE-**



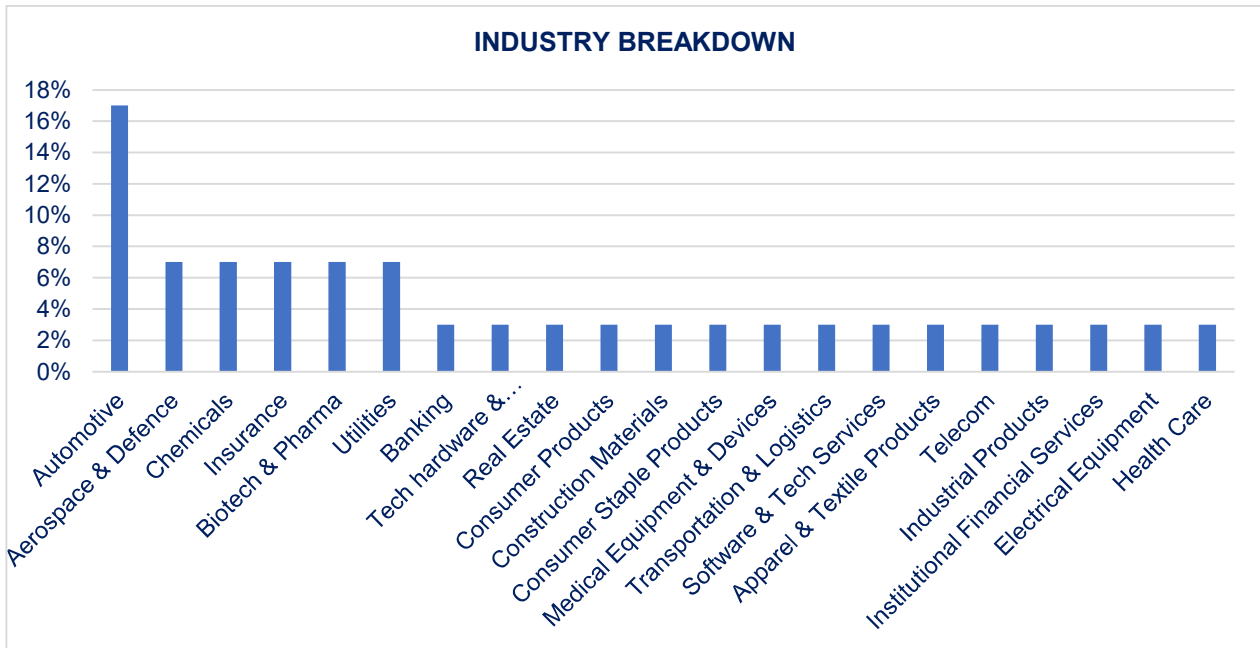
The last action on the Federal Republic of Germany’s Country SER was on 7 April 2014 with a confirmation of the EE+ rating. Germany was downgraded in 2013 from EEE- to EE+ due to its inner political inflexibility, which somehow opposed the Single European Market political economy.

Over recent years, Germany has been taking the Sustainability challenge very seriously, especially regarding compliance with international standards: the Country has met most of its national environmental objectives and international environmental commitments.

Germany was one of the founding nations of the European Coal and Steel Community, it became a member of the United Nations in 1973, it joined the OECD in 1961.

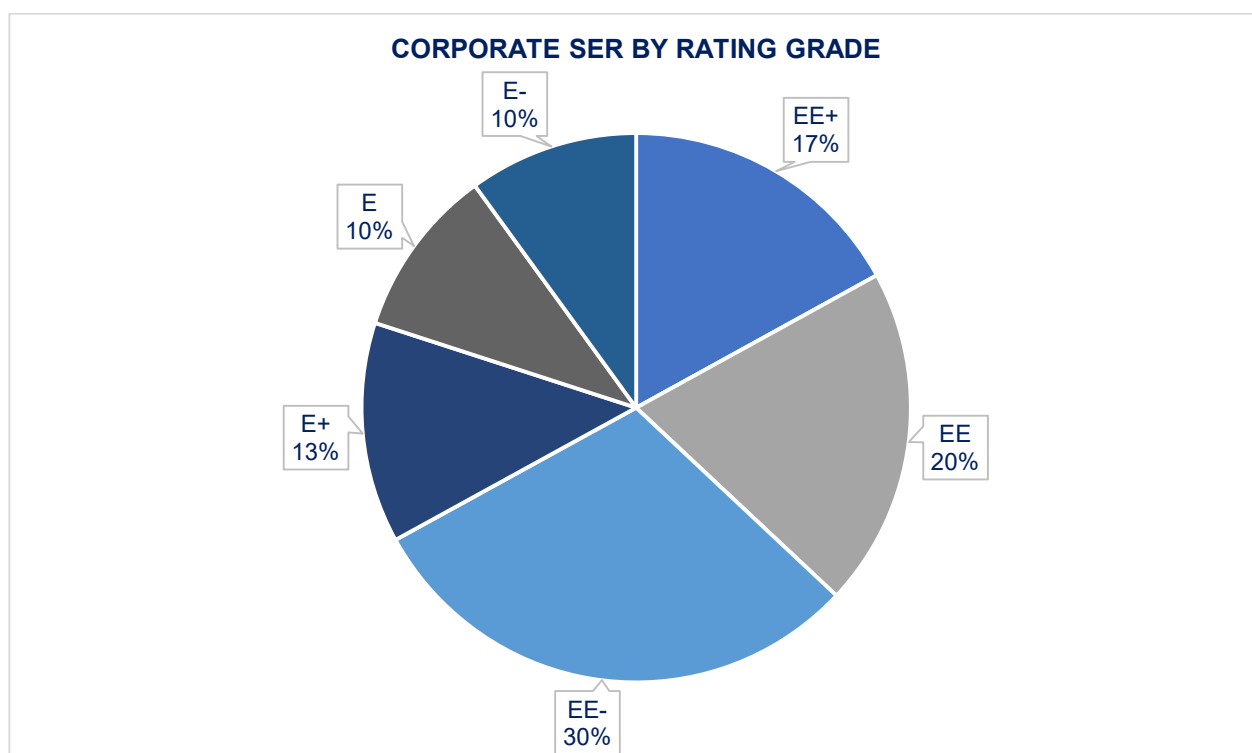
In 2015, Standard Ethics launched the **SE German Index**, composed of the 30 main listed companies in Germany. The last review of the Index was published on 30 September 2023.

1. Industry breakdown (Germany)



The bar chart shows the industry breakdown of the *SE German Index* constituents. Each Standard Ethics Index is an *Open Free Sustainability Index* and offers full disclosure: the methodology, selection criteria, and calculation formula are public and can therefore be used for free as a benchmark for decision-makers and stakeholders. The Index includes 30 of the main German listed companies per market capitalisation, and it was last reviewed on 30 September 2023. It indicates that one industry stands out: Automotive (17%). Industries such as Aerospace & Defence, Chemicals, Insurance, Biotech & Pharma and Utilities are all worth 7% of the sample and together make up 35% of the *SE German Index*. The Index’s remaining 48% is composed of different industries. Each of them makes up 3% of the sample.

2. Corporate SER by rating grade (Germany)



The pie chart above represents the distribution of the *SE German Index* Corporate SERs through 9 different SE rating grades.¹

The pie chart shows that 17% of the *SE German Index* constituents are rated EE+, 20% are rated EE, 30% are rated EE-, 13% are rated E+, 10% are rated E and 10% are rated E-. No companies are rated EEE, EEE- and F: this means that the distribution tends to converge to the “mid rating grades”. Specifically, 50% of the Index constituents are distributed amongst two different rating grades, both a **Sustainable² Grade (EE- and EE)**.

Through comparison of the biggest European markets covered by Standard Ethics within national indices (France, Germany, UK, Spain, Italy), the following can be stated with regards to the *SE German Index*:

- The *SE German Index* is distributed with **67%** of constituents having a **Sustainable Grade** (i.e. rated EE+, EE or EE-), **23%** a **Not Fully Sustainable Grade** (i.e. rated E+ or E) and **10%** a **Not Sustainable Grade** (i.e. rated E-).
- The wide majority of the *SE German Index* constituents are rated companies with a **Sustainable Grade**.
- In comparison with the biggest European markets, the UK and Germany are the two countries with the highest number of **Sustainable Grade** companies, accounting for **74%** of the *SE UK Index* and **67%** of the *SE German Index*.
- A fifth of the *SE German Index* constituents are rated EE. This means that these companies have an adequate level of compliance with the OECD, the EU and the UN sustainability recommendations.
- Slightly less than a third of the *SE German Index* constituents are rated EE- (**30%**), which denotes the willingness of the main German listed companies to continue aligning with global Sustainability standards.
- Overall, the German companies, who are constituents of the *SE German Index*, are making concrete steps in their compliance with the international sustainability guidelines defined by the OECD, the EU and the UN.

3. SE German Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Covestro	DE0006062144	EE-		Deutsche Telekom	DE0005557508
EE+		Deutsche Post	DE0005552004	EE-		Merck	DE0006599905
EE+		Infineon Technologies	DE0006231004	EE-		RWE	DE0007037129
EE+		MTU Aero Engines	DE000A0D9PT0	EE-		Siemens	DE0007236101
EE+		SAP	DE0007164600	EE-		Rheinmetall	DE0007030009
EE		Adidas	DE000A1EWWW0	E+	Pos.	Bayer	DE000BAY0017
EE		Allianz	DE0008404005	E+		Mercedes-Benz Group (Daimler)	DE0007100000
EE		BASF	DE000BASF111	E+		Fresenius SE & Co.	DE0005785604
EE		E.ON	DE000ENAG999	E+		Siemens Healthineers	DE000SHL1006
EE		Munich RE (Münchener Rück AG)	DE0008430026	E	Pos.	Beiersdorf	DE0005200000
EE		Vonovia	DE000A1ML7J1	E	Pos.	Henkel	DE0006048432
EE-		Airbus	NL0000235190	E		HeidelbergCement	DE0006047004
EE-		BMW	DE0005190003	E-		Volkswagen	DE0007664005
EE-		Continental	DE0005439004	E-		Deutsche Bank	DE0005140008
EE-		Deutsche Boerse	DE0005810055	E-		Porsche	DE000PAG9113

When observing the *SE German Index*:

- There are 5 EE+ companies: MTU Aero Engines, Infineon Technologies, Deutsche Post, Covestro and SAP.
- In the top rating layer of the distribution of the *SE German Index* sit: E.ON, Allianz, BASF, Adidas, Munich RE (Münchener Rück AG) and Vonovia, all rated EE.
- The remaining **Sustainable Grade** companies are: Airbus, BMW, RWE, Continental, Deutsche Boerse, Deutsche Telekom, Merck, Siemens and Rheinmetall.
- Daimler, Fresenius SE & Co. and Siemens Healthineers are all rated E+ with a **Not Fully Sustainable Grade**. Also, Bayer is rated E+ but with a Positive outlook.
- Beiersdorf and Henkel have been rated E with a Positive outlook.
- HeidelbergCement is rated E with a **Not Fully Sustainable Grade**.
- Deutsche Bank, Volkswagen and Porsche are rated E- with a **Not Sustainable Grade**.

[Country SER: **EEE-**] Most issued rating: **EE**

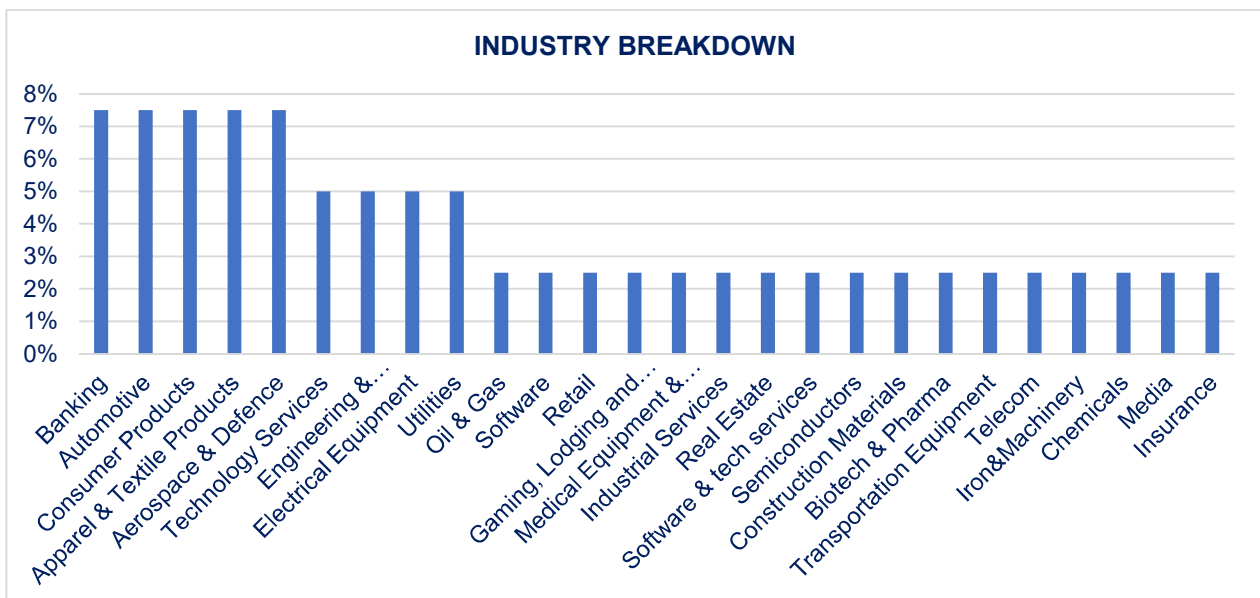


The last action on the French Republic's Country SER was 7 April 2014 when the EEE- rating was confirmed.

France has been a member of the United Nations (UN) since its foundation in 1945. The Country has been a member of the Organization for Economic Cooperation and Development (OECD) since 1961 and the OECD headquarters is in Paris. France has been a member of the European Union (EU) since 1993 and was previously a member of the European Economic Community (EEC) in 1958.

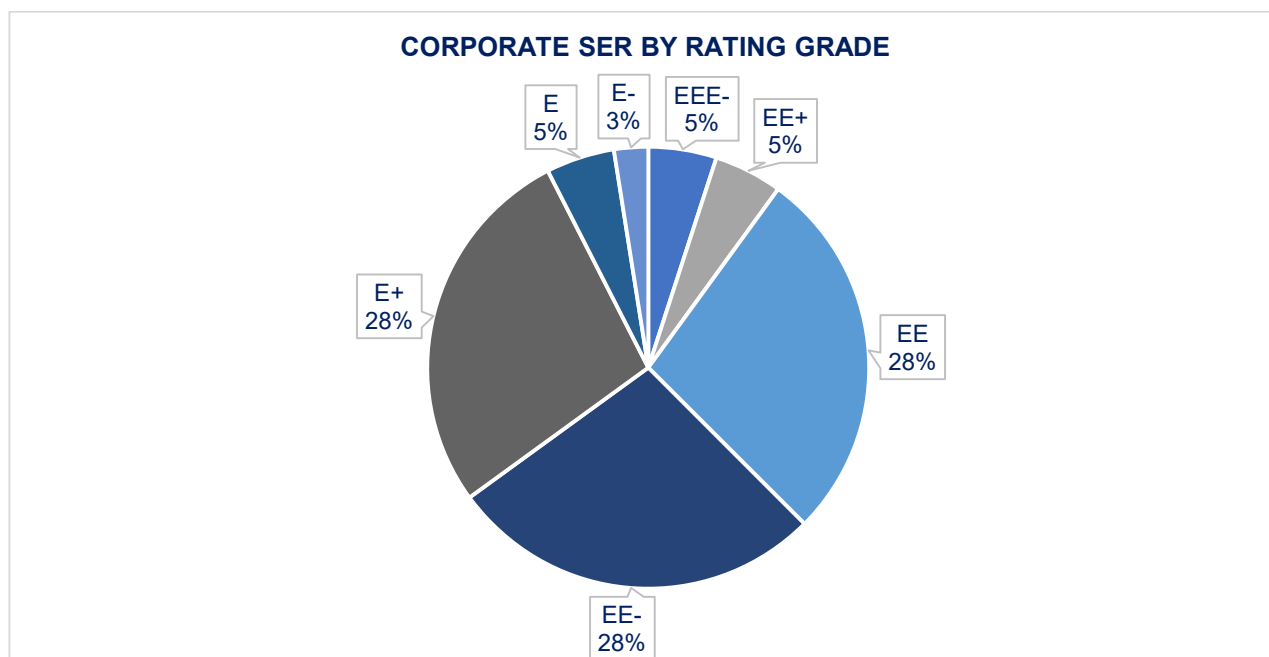
The **SE French Index** was launched on 30 of June 2015 and comprises 40 major listed companies. The last review of the Index was published on 30 September 2023.

1. Industry breakdown (France)



The bar chart shows the industry breakdown of the *SE French Index* constituents. The Index includes the main 40 listed companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The graph shows that distribution is divided into five main industries and the other sectors that are quite homogeneous with each other. Banking, Automotive, Consumer Products, Apparel & Textile and Aerospace & Defence are the industries most highlighted with a distribution of almost 8% each. These industries are followed by Technology Services, Engineering & Construction, Electrical Equipment and Utilities with 5% each. The other industries represented are: Oil & Gas, Software, Retail, Gaming, Lodging and Restaurants, Medical Equipment & Devices, Industrial Services, Real Estate, Tech Services, Semiconductors, Construction Materials, Biotech & Pharma, Transportation Equipment, Telecom, Iron & Machinery, Chemicals, Media and Insurance; each have a distribution of nearly 3%.

2. Corporate SER by rating grade (France)¹⁶



The pie chart above represents the distribution of the *SE French Index* Corporate SERs through the 9 different Standard Ethics rating grades. The pie chart shows that the grades EE, EE- and E+ have each 28% of the Index constituents, while the grades EEE-, EE+ and E each have a percentage of 5%, and 3% are rated E-. No companies are rated EEE and F. This means that the distribution tends to converge to the “mid-high” rating grades, concentrating mainly on the ratings EE, EE- and E+. With reference to the grades of Sustainability¹⁷, the **Sustainable Grade** represents **66%** of the chart and the **Not Fully Sustainable Grade** **33%**.

Through comparison of the biggest European markets covered by Standard Ethics within national indices (France, Germany, UK, Spain, Italy), the following can be stated with regards to the *SE French Index*:

- The *SE French Index* is distributed with **66%** constituents that hold a **Sustainable Grade**, compared with 74% of the *SE UK Index*, 67% of both the *German* and the *Italian* Indexes and 46% of the *SE Spanish Index*.
- A third of the *SE French Index* constituents hold a **Not Fully Sustainable Grade**, this shows that there is still room for improvement for Index constituents to align with global Sustainability standards.
- Overall, the French companies, who are constituents of the *SE French Index*, are making concrete steps to comply voluntarily with the international sustainability guidelines provided by the OECD, the EU and the UN.

¹⁶ Please note that in some of the graphs and calculations, it was necessary to make approximations in order to obtain a whole percentage number. Therefore, in some cases, the final number may slightly exceed 100%.

¹⁷ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

3. Standard Ethics French Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EEE-		Capgemini	FR0000125338	EE-		Schneider Electric	FR0000121972
EEE-		Unibail-Rodamco-Westfield	FR0013326246	EE-		Societe Generale	FR0000130809
EE+		Air Liquide	FR0000120073	EE-		Vinci	FR0000125486
EE+		Michelin	FR0000121261	EE-		Worldline	FR0011981968
EE		AXA	FR0000120628	EE-	Neg.	Accor	FR0000120404
EE		BNP Paribas	FR0000131104	EE-	Neg.	Carrefour	FR0000120172
EE		Danone	FR0000120644	E+	Pos.	Dassault Systemes	FR0000130650
EE		Edenred	FR0010908533	E+	Pos.	L'Oreal	FR0000120321
EE		EssilorLuxottica	FR0000121667	E+		Alstom	FR0000051807
EE		Legrand	FR0010307819	E+		ArcelorMittal	LU1598757687
EE		Publicis Groupe	FR0000130577	E+		Credit Agricole	FR0000045072
EE		TotalEnergies	FR0000120271	E+		Hermes International	FR0000052292
EE		Saint-Gobain	FR0000125007	E+		LVMH	FR0000121014
EE		STMicroelectronics	NL0000226223	E+		Pernod Ricard	FR0000120693
EE		Veolia Environnement	FR0000124141	E+		Renault	FR0000131906
EE-		Airbus Group	NL0000235190	E+		Safran	FR0000073272
EE-		Atos	FR0000051732	E+		Stellantis	NL00150001Q9
EE-		Bouygues	FR0000120503	E		Kering	FR0000121485
EE-		Engie	FR0010208488	E		Thales	FR0000121329
EE-		Sanofi	FR0000120578	E-		Orange	FR0000133308

Within the *SE French Index*:

- Capgemini and Unibail-Rodamco-Westfield have **the highest rating in the Index**, they are both rated EEE-.
- In the top rating layer of the *SE French Index* distribution, Air Liquide and Michelin are all rated EE+; a **Sustainable Grade**.
- AXA, BNP Paribas, Danone, Edenred, EssilorLuxottica, Legrand, Publicis Groupe, TotalEnergies, Saint-Gobain, STMicroelectronics and Veolia Environnement are all rated EE; a **Sustainable Grade**.
- Other **Sustainable Grade** companies are the following: Airbus, Atos, Bouygues, Engie, Sanofi, Schneider Electric, Societe Generale, Vinci and Worldline, all rated EE-.
- Accor and Carrefour are rated EE- as well, with a Negative Outlook.
- Dassault Systemes and L'Oreal are rated E+ with a Positive Outlook; a **Not Fully Sustainable Grade**.
- Other **Not Fully Sustainable Grade** companies are the following: Alstom, ArcelorMittal, Credit Agricole, Hermes International, LVMH, Pernod Ricard, Renault, Safran and Stellantis, all rated E+.
- Kering and Thales are rated E, a **Not Fully Sustainable Grade**.
- Orange is rated E-, a **Not Sustainable Grade**.



[Country SER: **EEE-**] Most issued Corporate SER: **EE**

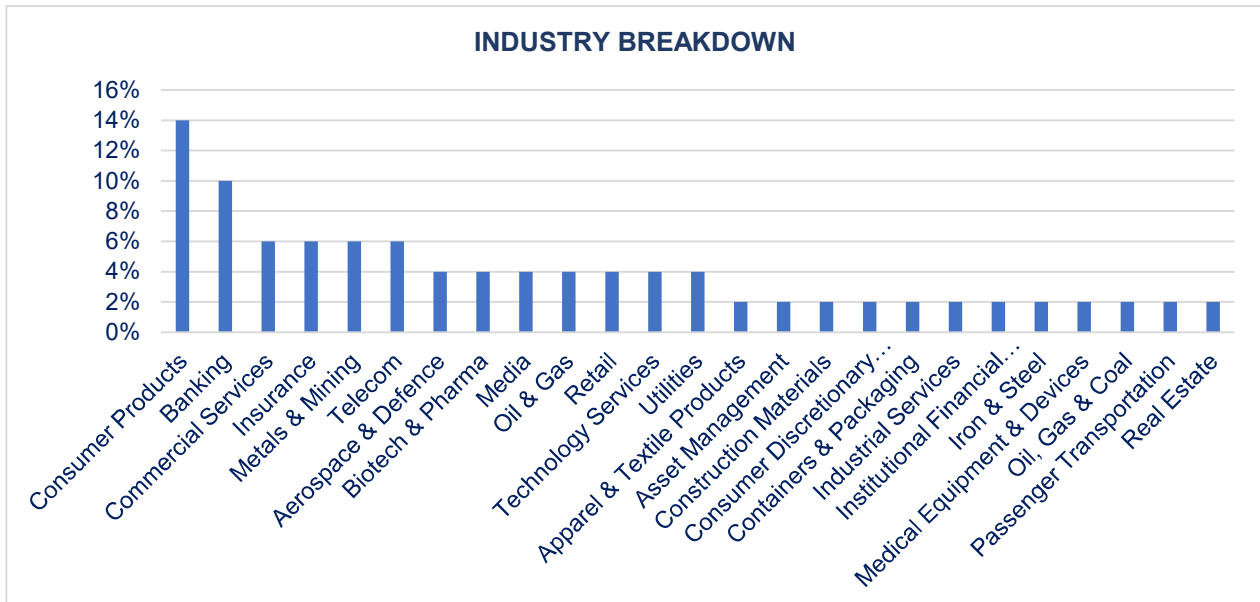
The last rating action on the United Kingdom was on 15 March 2017 when it was assigned EEE-.

The UK has been a member of the United Nations (UN) since its foundation in 1945. The country has been a member of the Organization for Economic Cooperation and Development (OECD) since 1961. The UK was a member of the European Union (EU) until 31 January 2020 following a long negotiation process starting with the referendum in 2016.

The social and economic impact of Brexit will be evaluated over the long term. 2022 year was quite complicated and tough for United Kingdom, and it will be reminded for Queen’s death and the record of the shortest government in British history. Moreover, the economic crisis associated with political uncertainty triggered trade union struggles and opened again the debate on Brexit.

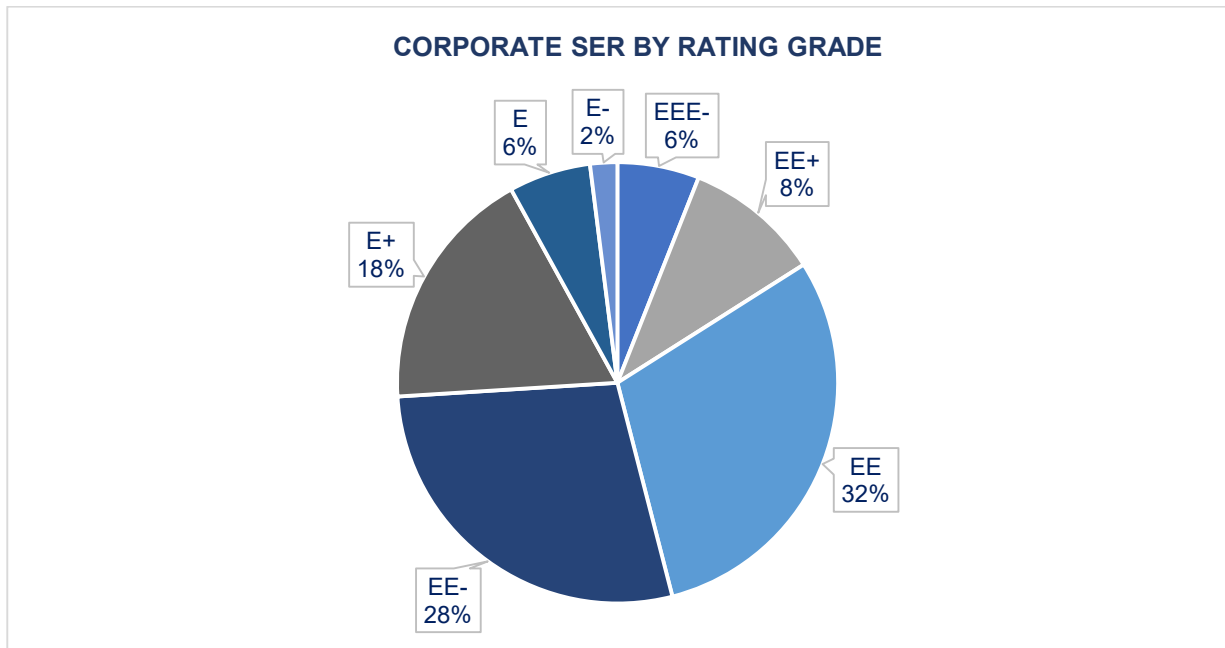
The **SE UK Index** was published on 30 June 2017 with 50 major listed companies. The last review of the Index was published on 30 September 2023.

1. Industry breakdown (UK)



The bar chart shows the industry breakdown of the *SE UK Index* constituents. Each Standard Ethics index is an *Open Free Sustainability Index* and offers full disclosure: the methodology, selection criteria, and calculation formula are public and can therefore be used for free as a benchmark for decision-makers and stakeholders. The index includes the main 50 listed companies per market capitalisation and was last reviewed in September 2023. The distribution highlights two industries: Consumer Products (14%) and Banking (10%). Commercial Services, Insurance, Metal & Mining and Telecom follow suit and each industry accounts for 6% of the sample. Aerospace & Defence, Biotech & Pharma, Media, Oil & Gas, Retail, Technology Services and Utilities each account for 4% and less than 30% as a whole. Finally, Apparel & Textile Products, Asset Management, Construction Materials, Consumer Discretionary Services, Containers & Packaging, Industrial Services, Institutional Financial Services, Iron & Steel, Medical Equipment & Devices, Oil, Gas & Coal, Passenger Transportation and Real Estate account each for 2% of the sample; together, these industries represent 24%.

2. Corporate SER by rating grade (UK)



The pie chart above represents the distribution of the *SE UK Index* Corporate SERs through the 9 different SE rating grades.¹

The pie chart shows that the most issued Corporate SER in the UK is EE (32%). 6% of the *SE UK Index* is rated EEE-; 8% is rated EE+; 32% is rated EE; 28% is rated EE-; 18% is rated E+; 6% is rated E and 2% is rated E-. The statistical distribution of the *SE UK Index* highlights that **60%** of the Index constituents are concentrated in two **Sustainable² Grade** rating grades: EE- and EE. UK companies appear to have a higher level of sustainability than other European companies and are making concrete steps to voluntarily align with the EU, UN and OECD sustainability recommendations.

Through comparison of the biggest European markets covered by Standard Ethics within national indices (France, Germany, UK, Spain, Italy), the following can be stated with regards to the *SE UK Index*:

- **74%** of the *SE UK Index* constituents have a **Sustainable Grade** (i.e. rated EEE-, EE+, EE or EE-), **24%** have a **Not Fully Sustainable Grade** (i.e. rated E+ or E) and **2%** have a **Not Sustainable Grade** (i.e. rated E-).
- **Sustainable Grade** rated companies account for the wide majority (**74%**) of the *SE UK Index* constituents.
- In comparison with the biggest European markets, **6%** of the Index constituents have an EEE-rating, a **Sustainable Grade**, which represents an excellent level of compliance with the global sustainability standards promoted by the UN, the EU and the OECD.
- Almost a third of the *SE UK Index* constituents are rated EE. This means that these companies are well aligned with the international sustainability indications provided by the OECD, the EU and the UN.

3. SE UK Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN
EEE-		Intertek Group	GB0031638363
EEE-		London Stock Exchange Group	GB00B0SWJX34
EEE-		Vodafone Group	GB00BH4HKS39
EE+		Kingfisher	GB0033195214
EE+		Land Securities Group	GB00BYW0PQ60
EE+		Mondi plc	GB00B1CRLC47
EE+		WPP	JE00B8KF9B49
EE		3i Group	GB00B1YW4409
EE		Aviva	GB0002162385
EE		BAE Systems	GB0002634946
EE		BT Group	GB0030913577
EE		Diageo	GB0002374006
EE		Experian	GB00B19NLV48
EE		HSBC Holdings	GB0005405286
EE		Informa	GB00BMJ6DW54
EE		International Consolidated Airlines Group	ES0177542018
EE		Legal & General Group	GB0005603997
EE		Reckitt Benckiser Group	GB00B24CGK77
EE		RELX	GB00B2B0DG97
EE		Rolls-Royce Holdings	GB00B63H8491
EE		Smith & Nephew	GB0009223206
EE		SSE	GB0007908733
EE		Tesco	GB0008847096
EE-	Pos.	Unilever	GB00B10RZP78
EE-		Ashtead Group	GB0000536739

Rating	Outlook	Company	ISIN
EE-		AstraZeneca	GB0009895292
EE-		BP	GB0007980591
EE-		Compass Group	GB00BD6K4575
EE-		CRH	IE0001827041
EE-		Imperial Brands	GB0004544929
EE-		Lloyds Banking Group	GB0008706128
EE-		National Grid	GB00BDR05C01
EE-		Next	GB0032089863
EE-		Ocado Group	GB00B3MBS747
EE-		Prudential	GB0007099541
EE-		Shell plc	GB00B03MLX29
EE-		Standard Chartered	GB0004082847
E+		Fresnillo	GB00B2QPKJ12
E+		British American Tobacco	GB0002875804
E+		Schroders	GB0002405495
E+		Barclays	GB0031348658
E+		Flutter Entertainment	IE00BWT6H894
E+		GSK	GB0009252882
E+		Rio Tinto	GB0007188757
E+		Anglo American	GB00B1XZS820
E+		Harbour Energy	GB00BMBVGQ36
E		Glencore	JE00B4T3BW64
E		Associated British Foods	GB0006731235
E		Airtel Africa Plc	GB00BKDRYJ47
E-		Natwest Group (formerly Royal Bank of Scotland Group)	GB00BM8PJY71

*Please note that the rating of this company has been updated in January 2024

- Within the *SE UK Index*, the following companies: Intertek Group, London Stock Exchange Group, Vodafone Group are rated EEE-.
- In the top rating layer of the distribution sit: Kingfisher, Land Securities Group, Mondi plc and WPP with EE+.
- 3i Group, Aviva, BAE Systems, BT Group, Diageo, Experian, HSBC Holdings, Informa, International Consolidated Airlines Group, Legal & General Group, Reckitt Benckiser Group, RELX, Rolls-Royce Holdings, Smith & Nephew, SSE and Tesco are all rated EE, a **Sustainable Grade**.
- Ashtead Group, AstraZeneca, BP, Compass Group, CRH, Lloyds Banking Group, Next, Ocado Group, Prudential, Shell, Standard Chartered, Imperial Brands and National Grid all have an EE-.
- Unilever is currently rated EE- with a Positive outlook.
- Fresnillo, British American Tobacco, Schroders, Barclays, Flutter Entertainment, GlaxoSmithKline, Rio Tinto, Anglo America and Harbour Energy are all rated E+; a **Not Fully Sustainable Grade**.

- Glencore, Associated British Foods and Airtel Africa are all rated E; a **Not Fully Sustainable Grade**. Natwest Group is rated E-; a **Not Sustainable Grade**.

Other Countries' Analysis

Standard Ethics: The Big Picture – Annual Report 2023



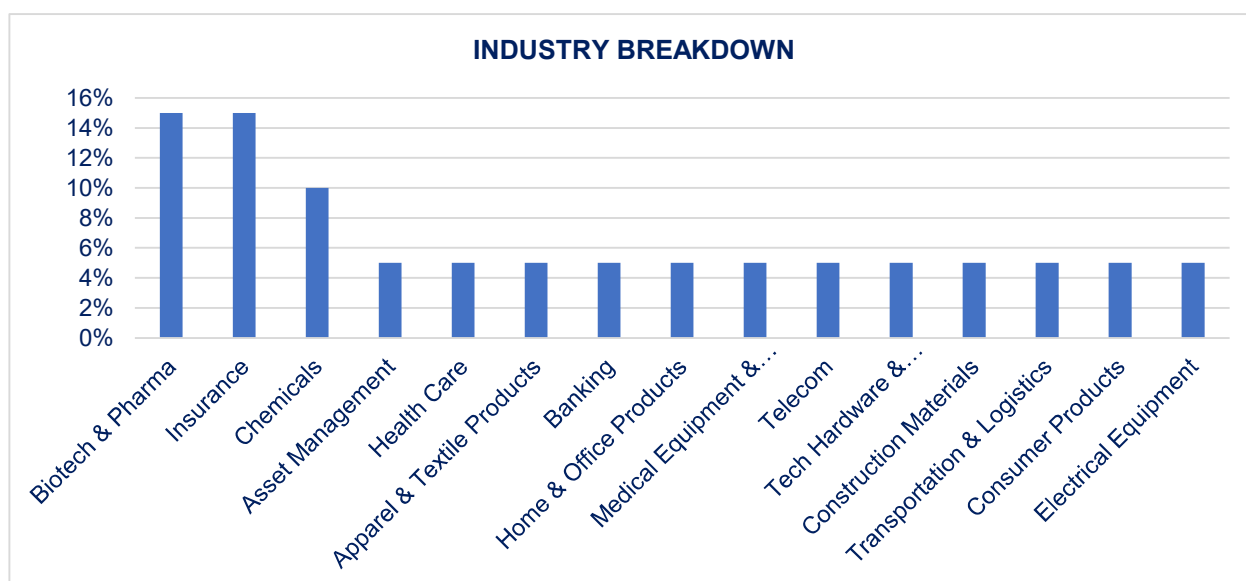
The other countries included in this section are all constituents of **Standard Ethics Open-Free Sustainability Indices**. The Research Office has therefore decided to include them in the Report with the remit of focusing on the five major European markets, seen previously (i.e. UK, France, Germany, Italy and Spain). The countries analyzed in this part of the Report are the following: Belgium, the Netherlands and Switzerland inside Europe, whereas, outside Europe, the United States of America and Hong Kong.

Switzerland



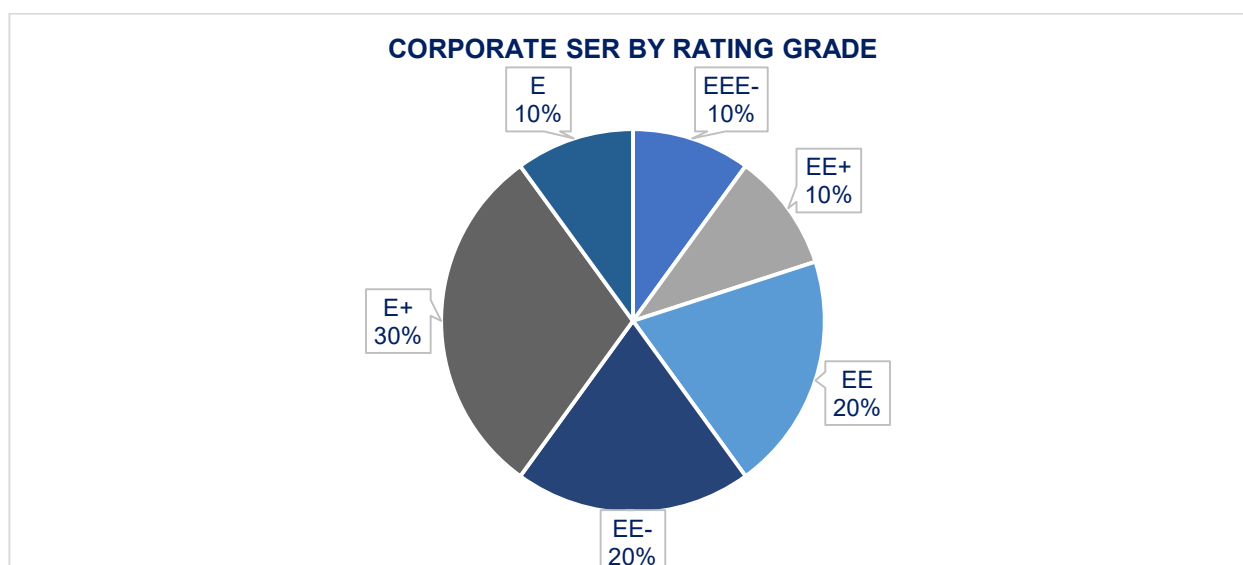
Most issued Corporate SER: **E+**
Country SER: **EE+**

1. Industry breakdown (Switzerland)



The bar chart shows the industry breakdown of the *SE Swiss Index* constituents. The Index includes the main 20 listed companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The graph shows that the distribution highlights three major industries: Biotech & Pharma (15%), Insurance (15%) and Chemicals (10%). All other sectors, i.e. Asset Management, Health Care, Apparel & Textile Products, Banking, Home & Office Products, Medical Equipment & Devices, Telecom, Tech Hardware & Semiconductors, Construction Materials, Transportation & Logistics, Consumer Products and Electrical Equipment, and are equally distributed with 5%. All these sectors together account for more than 50% of the Index distribution.

2. Corporate SER by rating grade (Switzerland)



The pie chart above represents the distribution of the *SE Swiss Index* Corporate SERs through Standard Ethics 9 different rating grades. The pie chart shows that 30% of Index constituents are rated E+, while EE and EE- each have a percentage of 20%, and EEE-, EE+ and E each have a percentage of 10%. No companies are rated EEE and F. This means that the distribution tends to converge to the “mid-rated” grades. Among all the ratings, the most issued SER is E+. Regarding the level of the **Sustainable Grade**¹⁸, it accounts for **60%** of the ratings assigned, whereas the **Not Fully Sustainable Grade** is 40%. There is no rating classified as a **Not Sustainable Grade**.

3. SE Swiss Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EEE-		Geberit	CH0030170408	EE-		Compagnie Financiere Rlichemont	CH0210483332
EEE-		Swiss Re	CH0126881561	EE-		Nestlé	CH0038863350
EE+		Sonova Holding	CH0012549785	E+		Alcon	CH0432492467
EE+		Zurich Insurance Group	CH0011075394	E+		Kuehne + Nagel	CH0025238863
EE		ABB	CH0012221716	E+		Novartis	CH0012005267
EE		Givaudan	CH0010645932	E+		Partners Group Holding	CH0024608827
EE		Logitech International	CH0025751329	E+		Roche Holding	CH0012032048
EE		Swiss Life Holding	CH0014852781	E+		Swisscom	CH0008742519
EE-	Pos.	Sika	CH0418792922	E		Holcim	CH0012214059
EE-		Lonza Group	CH0013841017	E		UBS Group	CH0244767585

Within the *SE Swiss Index*:

- Geberit and Swiss Re have the highest rating in the Index, they are both rated EEE-.
- Sonova Holding and Zurich Insurance Group are rated EE+, a **Sustainable Grade**.
- ABB, Givaudan, Logitech International and Swiss Life Holding are rated EE, a **Sustainable Grade**.

¹⁸ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

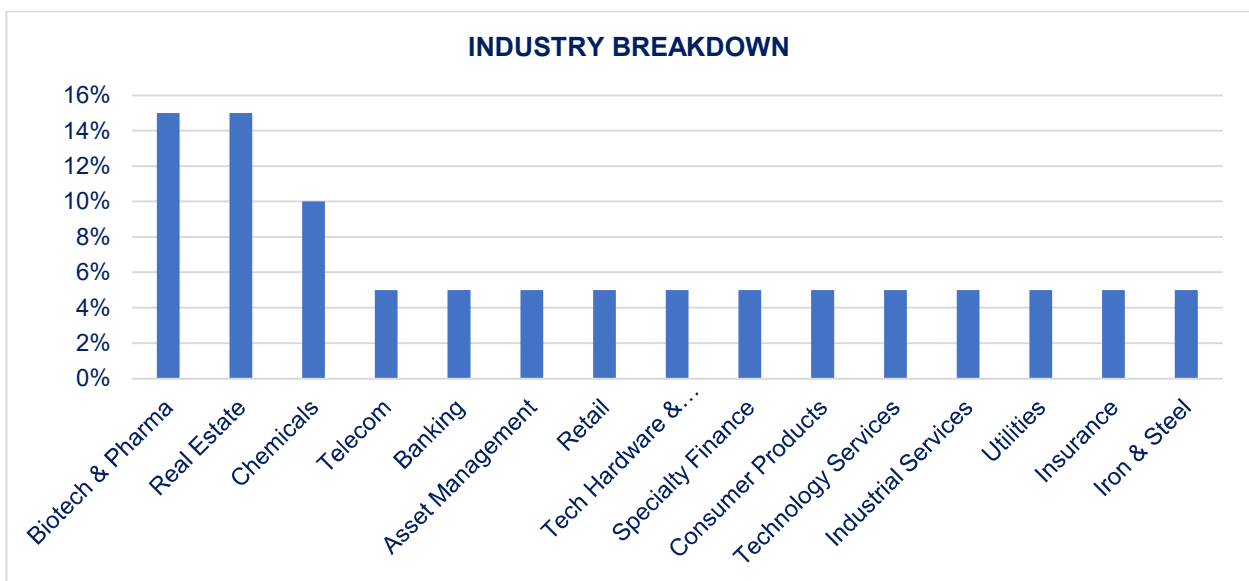
- Sika is rated EE-, with a Positive Outlook.
- Other **Sustainable Grade** companies are the following: Lonza Group, Compagnie Financiere Richemont and Nestlé, which are all rated EE-.
- Alcon, Kuehne + Nagel, Novartis, Partners Group Holding, Roche Holding and Swisscom are all rated E+; a **Not Fully Sustainable Grade**.
- Holcim and UBS Group are rated E; a **Not Fully Sustainable Grade**.

Belgium



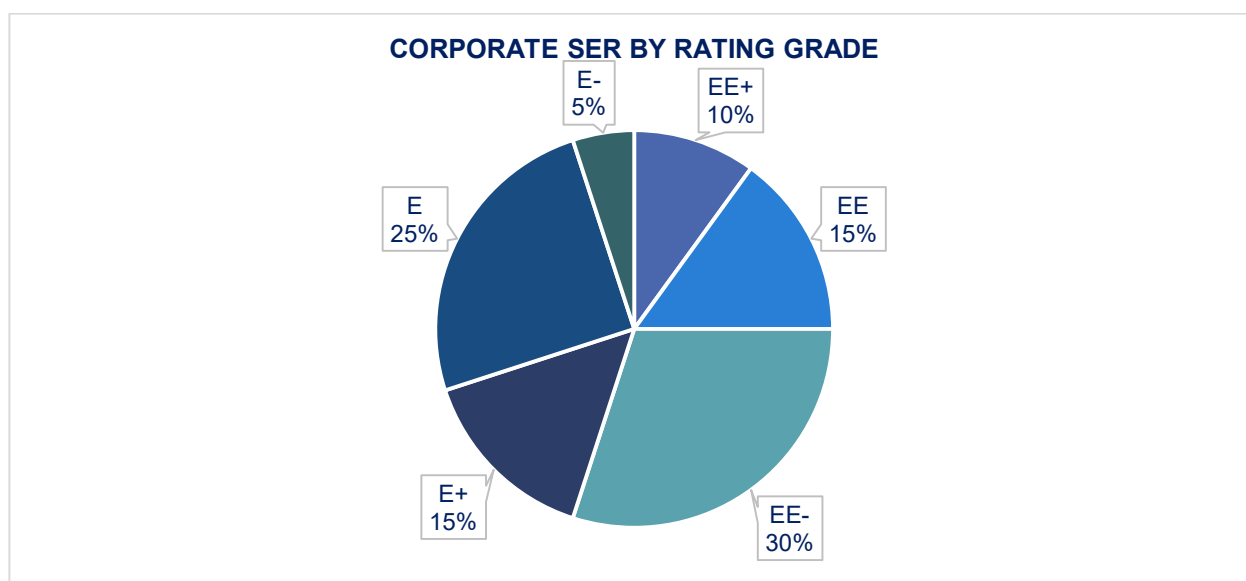
Most issued Corporate SER: **EE-**
Country SER: **EEE-**

1. Industry breakdown (Belgium)



The bar chart shows the industry breakdown of the *SE Belgian Index* constituents. The Index includes the main 20 listed companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The graph shows that the distribution highlights three major industries: Biotech & Pharma (15%), Real Estate (15%) and Chemicals (10%). All other sectors, i.e. Telecom, Banking, Asset Management, Retail, Tech Hardware & Semiconductors, Specialty Finance, Consumer Products, Technology Services, Industrial Services, Utilities, Insurance, and Iron & Steel, are equally distributed with 5%. All together account for more than 50% of the Index distribution.

2. Corporate SER by rating grade (Belgium)



The pie chart above represents the distribution of the *SE Belgian Index* Corporate SERs through the 9 different SE rating grades. The pie chart shows that 30% of Index constituents are rated EE- and 25% are rated E. The rating grades of EE and E+ have both a percentage of 15%, while 10% of the Index constituents are rated EE+, and the grade E- only accounts for 5% of the total distribution. No companies are rated EEE, EEE- and F. This means that the distribution tends to converge to the “mid-rating” grades. When analysing the ratings, it is noticeable that there is a quite high number of E ratings compared to other countries. With reference to the level of Sustainability Grade¹⁹, the **Sustainable Grade** accounts for 55% and the **Not Fully Sustainable Grade** for 40%. 5% of the rating distribution is a **Not Sustainable Grade** (E-).

3. SE Belgian Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Cofinimmo	BE0003593044	EE-		UCB	BE0003739530
EE+		Umicore	BE0974320526	E+		Ackermans & Van Haaren	BE0003764785
EE		Barco	BE0974362940	E+		Melexis	BE0165385973
EE		Proximus	BE0003810273	E+		Warehouses de Pauw (WDP)	BE0974349814
EE		Solvay	BE0003470755	E	Pos.	Galapagos	BE0003818359
EE-	Pos.	Ageas	BE0974264930	E		D'leteren Group	BE0974259880
EE-		Aedifica	BE0003851681	E		KBC Group	BE0003565737
EE-		Aperam	LU0569974404	E		Sofina	BE0003717312
EE-		Argenx	NL0010832176	E	Neg.	Groupe Bruxelles Lambert (GBL)	BE0003797140
EE-		Elia Group	BE0003822393	E-		AB Inbev	BE0974293251

Within the *SE Belgian Index*:

- Cofinimmo and Umicore are both rated EE+.
- Barco, Proximus and Solvay are rated EE, a **Sustainable Grade**.

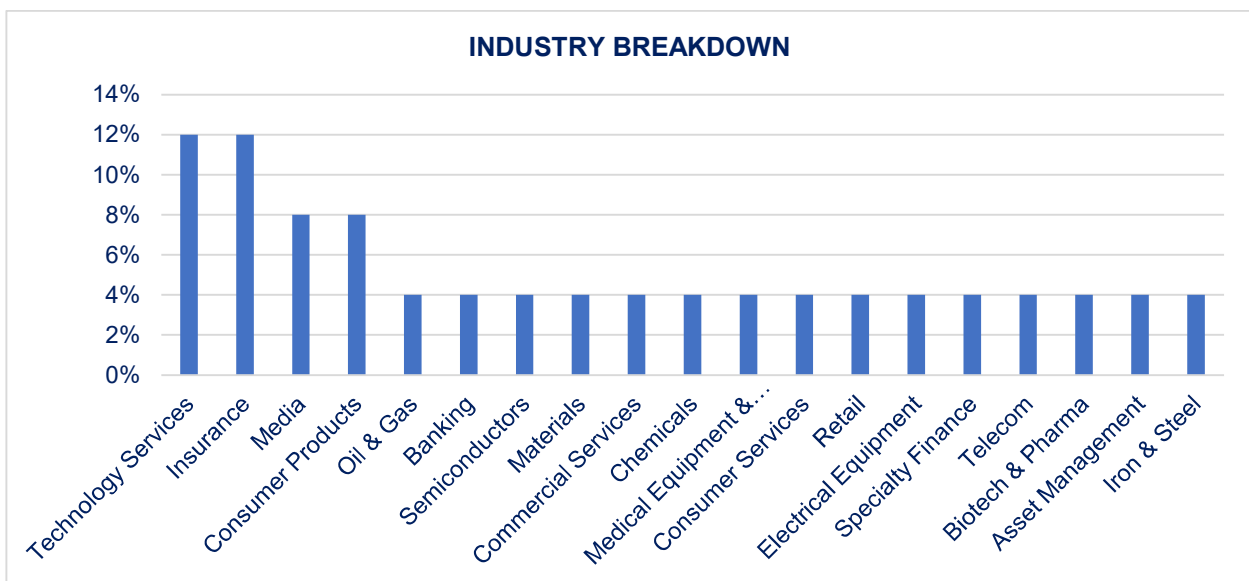
¹⁹ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

- Ageas is the only Belgian company, whose rating is EE-, a **Sustainable Grade**, with a Positive Outlook.
- The other **Sustainable Grade** companies are: Aedifica, Aperam, Argenx, Elia Group and UCB which are rated EE-.
- Ackermaans & van Haaren, Melexis and Warehouses de Pauw (WDP) are rated E+, a **Not Fully Sustainable Grade**.
- Galapagos is the only Belgian company, whose rating is E, a **Not Fully Sustainable Grade**, with a Positive Outlook.
- D'Ieteren Group, KBC Group and Sofina are all rated E, a **Not Fully Sustainable Grade**.
- Groupe Bruxelles Lambert has an E rating, a **Not Fully Sustainable Grade**, with a Negative Outlook.
- AB Inbev is the only Belgian company whose rating is E-, a **Not Sustainable Grade**.

The Netherlands

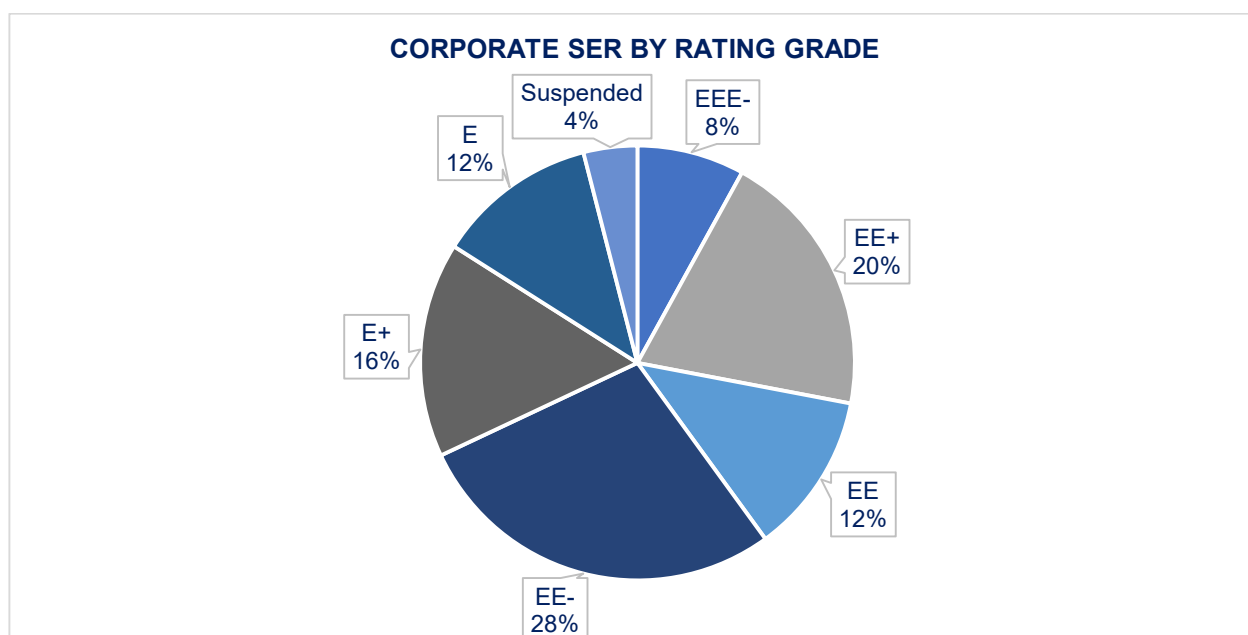
- Most issued Corporate SER: **EE-**
- Country SER: **EE+**

1. Industry breakdown (The Netherlands)



The bar chart shows the industry breakdown of the *SE Dutch Index* constituents. The Index includes the main 25 listed companies per market capitalisation, it is open, free and was last reviewed on 30 September 2023. The graph shows that distribution is divided into four main industries and the other sectors that are very homogeneous with each other. Technology Services and Insurance are the industries most highlighted with a distribution of 12% each, followed by Media and Consumer Products with 8% each. The other industries represented are: Oil & Gas, Banking, Semiconductors, Materials, Commercial Services, Chemicals, Medical Equipment & Devices, Consumer Services, Retail, Electrical Equipment, Speciality Finance, Telecom, Biotech & Pharma, Asset Management and Iron & Steel; each have a distribution of 4%.

2. Corporate SER by rating grade (The Netherlands)



The pie chart above represents the distribution of the *SE Dutch Index* Corporate SERs through the 9 different SE rating grades. The pie chart shows that 28% of the Index constituents are rated EE-, 20% have an EE+ rating, 16% are rated E+, EE and E account for 12% each, EEE- is distributed with a percentage of 8% of the constituents and 4% is suspended. No companies are rated EEE and F. This means that the distribution tends to converge to the “mid-high” rating grades, concentrating mainly on the ratings EE- and EE+. With reference to the grades of Sustainability²⁰, the **Sustainable Grade** represents **68%** of the chart and the **Not Fully Sustainable Grade 28%**. There are no Index constituents with a **Not Sustainable Grade**.

3. SE Dutch Index constituents (updated ratings as of 31 December 2023)

Rating	Outlook	Company	ISIN
EEE-		NN Group	NL0010773842
EEE-		Wolters Kluwer	NL0000395903
EE+	Pos.	BE Semiconductor	NL0012866412
EE+		Aegon	NL0000303709
EE+		Akzo Nobel	NL0013267909
EE+		ASML Holding	NL0010273215
EE+		Signify	NL0011821392
EE	Pos.	Philips	NL0000009538
EE		Randstad	NL0000379121
EE		RELX	GB00B2B0DG97
EE-	Pos.	Unilever	GB00B10RZP78
EE-		Adyen	NL0012969182
EE-		Ahold Delhaize	NL0011794037

Rating	Outlook	Company	ISIN
EE-		ASM International	NL0000334118
EE-		ASR Nederland	NL0011872643
EE-		Heineken	NL0000009165
EE-		Shell	GB00BP6MXD84
E+		ArcelorMittal	LU1598757687
E+		ING Groep	NL0011821202
E+		KPN	NL0000009082
E+		IMCD	NL0010801007
E		Exor	NL0012059018
E		Prosus	NL0013654783
E		Universal Music Group	NL0015000IY2
Suspended		DSM Firmenich	CH1216478797

²⁰ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

Within the *SE Dutch Index*:

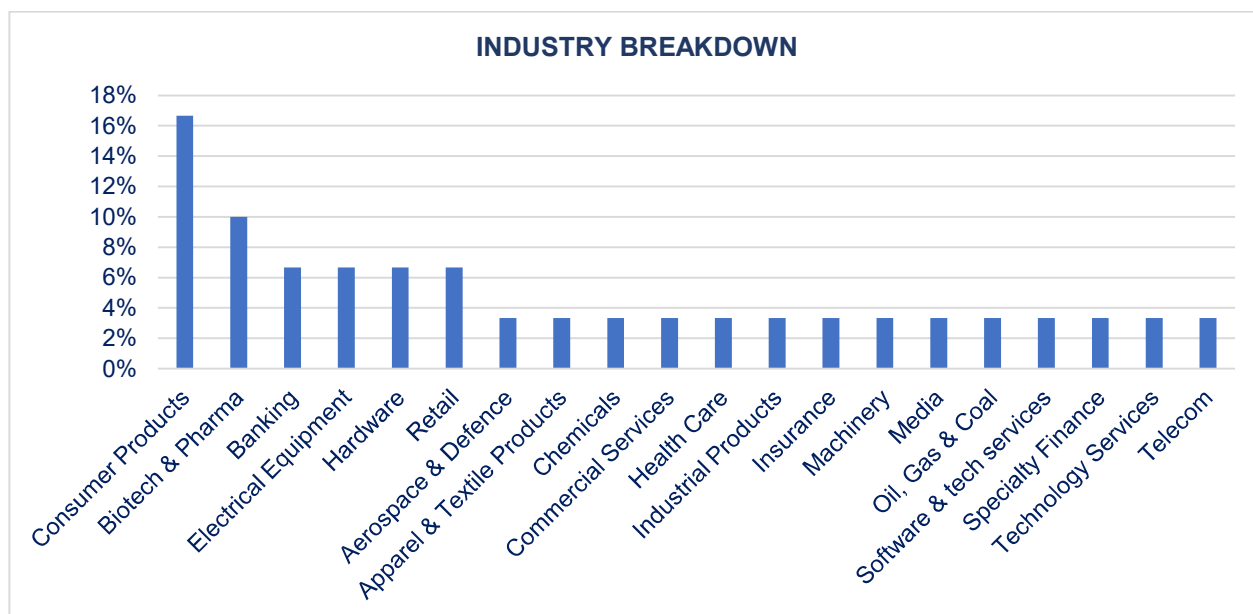
- NN Group and Wolters Kluwer have the highest rating in the Index, they are both rated **EEE-**.
- In the top rating layer of the *SE Dutch Index* distribution, BE Semiconductor is the sole company rated **EE+** with a Positive Outlook, and the following companies: Aegon, Akzo Nobel, ASML Holding and Signify, are all rated **EE+**; a **Sustainable Grade**.
- Philips is the sole company rated **EE** with a Positive Outlook.
- Randstad and RELX are all rated **EE**; a **Sustainable Grade**.
- Unilever is the sole company rated **EE-** with a Positive Outlook.
- Other **Sustainable Grade** companies are the following: Adyen, Ahold Delhaize, ASM International, ASR Nederland, Heineken and Shell, all rated **EE-**.
- ArcerlorMittal, ING Groep, KPN and IMCD are all rated **E+**; a **Not Fully Sustainable Grade**.
- Exor, Prosus and Universal Music Group are rated **E**, with a **Not Fully Sustainable Grade**.
- DSM Firmenich's rating is Suspended.

The United States of America



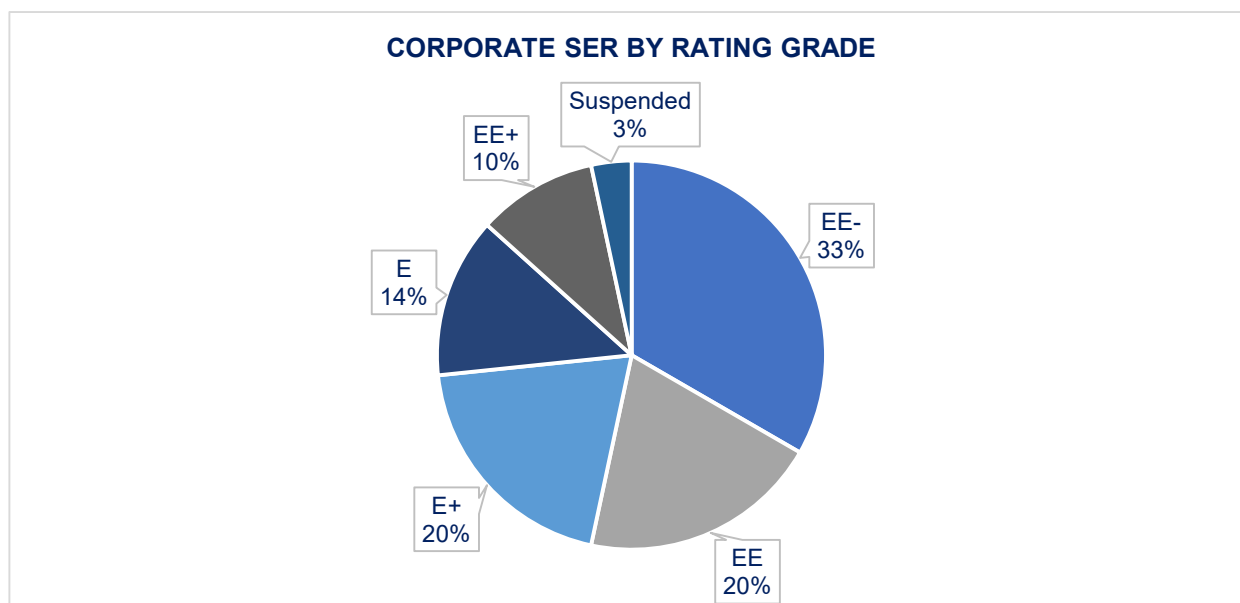
Most issued Corporate SER: **EE-**
Country SER: **EE with Negative Outlook**

1. Industry breakdown (USA)



The bar chart shows the industry breakdown of the *SE US Index* constituents. The Index includes 30 of the major US listed companies per market capitalisation, it is open, free and was last reviewed in September 2023. The distribution highlights two industries: Consumer Products (17%) and Biotech & Pharma (10%). Banking, Electrical Equipment, Hardware and Retail account for 7% each. Aerospace & Defence, Apparel & Textile Products, Chemicals, Commercial Services, Health Care, Industrial Products, Insurance, Machinery, Media, Oil, Gas & Coal, Software & Tech Services, Specialty Finance, Technology Services and Telecom industries (with each industry accounting for 3% of the *SE US Index*), make up 42% of the total distribution.

2. Corporate SER by rating grade (USA)



The pie chart above represents the distribution of the *SE US Index* Corporate SERs through the 9 different SE rating grades.²¹

The pie chart shows that the most issued rating in the US is EE- (33%). There is also a high percentage of EE (20%) and E+ (20%) ratings. The wide majority (63%) of US companies, constituents of the *SE US Index*, have a **Sustainable Grade**. A relative minority (34%) has a **Not Fully Sustainable Grade**.

3. SE US Index constituents (updated ratings as of December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Cisco Systems	US17275R1023	EE-		Dow	US2605571031
EE+		IBM (International Business Machines Corporation)	US4592001014	EE-		Nike	US6541061031
EE+		The Travelers Companies	US89417E1091	EE-		salesforce.com	US79466L3024
EE	Suspended	3M	US88579Y1010	EE-		Verizon Communications	US92343V1044
EE		Coca-Cola Company	US1912161007	EE-		Honeywell International	US4385161066
EE		Intel Corporation	US4581401001	E+		Goldman Sachs Group (G.S. Group Inc)	US38141G1040
EE		Microsoft Corporation	US5949181045	E+		Home Depot	US4370761029
EE		Procter & Gamble	US7427181091	E+		Merck & Co.	US58933Y1055
EE		Visa	US92826C8394	E+		Walgreens Boots Alliance	US9314271084
EE		Walt Disney	US2546871060	E+		JPMorgan Chase & Co.	US46625H1005
EE-		American Express	US0258161092	E+	Neg.	McDonald's Corporation	US5801351017
EE-		Amgen	US0311621009	E		Boeing Company	US0970231058
EE-	U.Monitoring	Apple	US0378331005	E	U. Monitoring	Johnson & Johnson	US4781601046
EE-		Caterpillar	US1491231015	E		UnitedHealth Group	US91324P1021
EE-		Chevron Corporation	US1667641005	E		Amazon.com Inc	US0231351067

²¹ **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating classes from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating classes from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

Within the *SE US Index*:

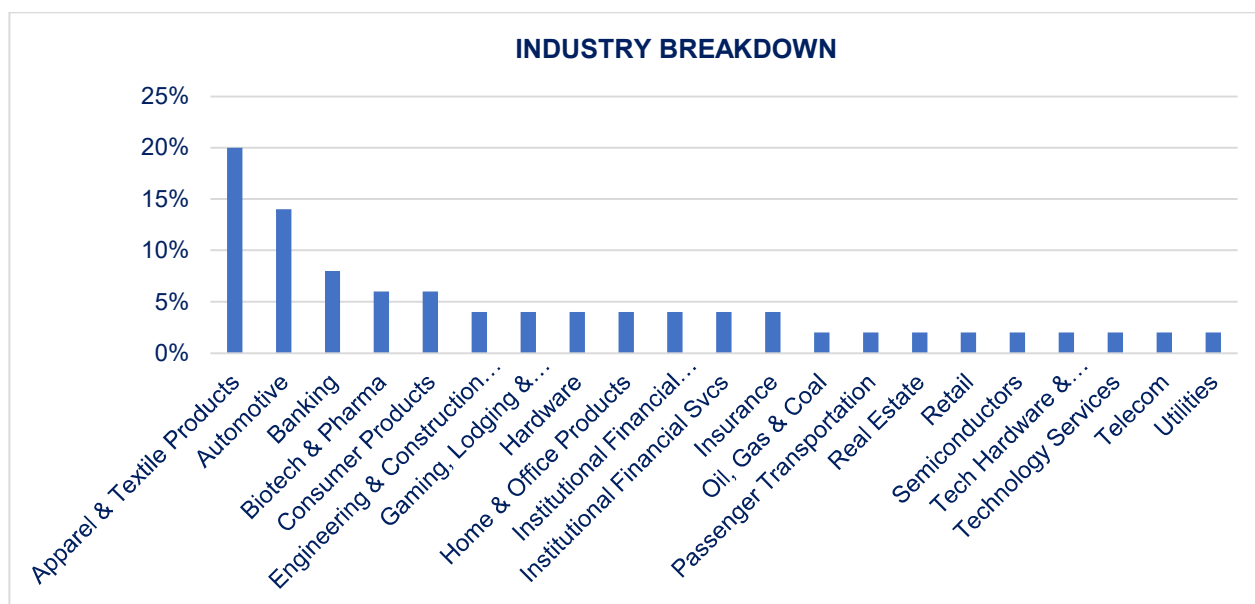
- Cisco Systems, IBM and The Travelers Companies are all rated EE+.
- In the top rating layer of the distribution, sit: Coca-Cola Company, Procter & Gamble, 3M (which is currently suspended), Intel Corporation, Microsoft Corporation, Procter & Gamble, VISA and Walt Disney. They all hold EE ratings.
- 9 companies: American Express, Amgen, Apple, Caterpillar, Chevron Corporation, Dow, Nike, salesforce.com, Verizon Communications and Honeywell International have a **Sustainable Grade** with EE- rating.
- Apple is still **Under Monitoring**.
- 6 companies have a **Not Fully Sustainable Grade** with E+ rating: Goldman Sachs Group, Home Depot, McDonald's Corporation, Merck & Co., Walgreens Boots Alliance and JPMorgan Chase &Co.
- Boeing Company, Johnson & Johnson, UnitedHealth Group and Amazon.com Inc have an E rating.

Hong Kong



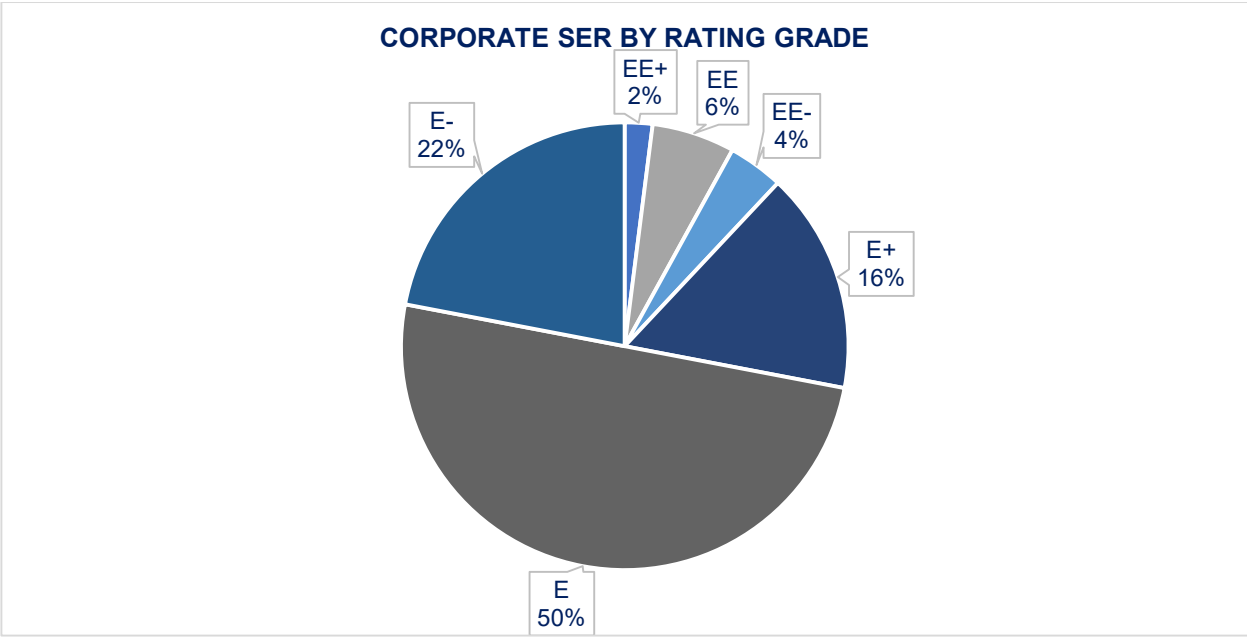
Country SER: **(Not Applicable)**
 Most issued Corporate SER: **E**

1. Industry Breakdown (Hong Kong)



The bar chart shows the industry breakdown of the *SE Hong Kong Index* constituents. The Index includes 50 of the major Hong Kong listed companies per market capitalisation, it is open, free and was last reviewed in September 2023. The distribution highlights the following industries: Apparel & Textile Products (20%) and Automotive (14%), whereas the Banking industry accounts for 8%. Biotech & Pharma and Consumer Products both make up 6% of the Index. Engineering & Construction Services, Gaming, Lodging & Restaurants, Hardware, Home & Office Products, Institutional Financial Services, Insurance, are all sectors which account for 4% of the industry breakdown. Oil, Gas & Coal, Passenger Transportation, Real Estate, Retail, Semiconductor, Tech Hardware & Semiconductors, Technology Services, Telecom and Utilities account each for 2% of the sample.

2. Corporate SER by rating grade (Hong Kong)



The pie chart above represents the distribution of the *SE Hong Kong Index* Corporate SERs through the 9 different SE rating grades.¹ It shows that the most issued rating in Hong Kong is E (50%). There is also a high percentage of E- ratings (22%). Most of the Hong Kong companies which compose the *SE Hong Kong Index* have a **Not Fully Sustainable** or a **Not Sustainable Grade** (88%) and 12% have a **Sustainable Grade**.

3. SE Hong Kong Index constituents (updated ratings as of December 2023)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Hong Kong Exchanges and Clearing (HKEX)	HK0388045442	E		Country Garden Holdings	KYG245241032
EE		AIA Group	HK0000069689	E		CSPC Pharmaceutical Group	HK1093012172
EE		HSBC Holdings	GB0005405286	E		Galaxy Entertainment Group	HK0027032686
EE		Link REIT	HK0823032773	E		Geely Automobile Holdings	KYG3777B1032
EE-		MTR Corporation	HK0066009694	E		Hang Lung Properties	HK0101000591
EE-		New World Development Company	HK0017000149	E		Henderson Land Development	HK0012000102
E+		Bank of China Hong Kong Holdings	HK2388011192	E		Hengan International Group	KYG4402L1510
E+		CK Asset Holdings	KYG2177B1014	E		Lenovo Group	HK0992009065
E+		CK Hutchison Holdings	KYG217651051	E		PetroChina	CNE1000003W8
E+		Hang Seng Bank	HK0011000095	E		Sands China	KYG7800X1079
E+		Hong Kong and China Gas	HK0003000038	E		Shenzhou International Group Holdings	KYG8087W1015
E+		Power Assets Holdings	HK0006000050	E		Sino Biopharmaceutical	KYG8167W1380
E+		Techtronic Industries	HK0669013440	E		Sun Hung Kai Properties	HK0016000132
E+		Wharf REIC	KYG9593A1040	E		WH Group	KYG960071028
E	Pos.	Sunny Optical Technology Group	KYG8586D1097	E-		Alibaba Group Holding	US01609W1027
E		China Construction Bank Corporation	CNE1000002H1	E-		Bank of China	CNE1000001Z5
E		China Life Insurance Company	CNE1000002L3	E-		BYD Company	CNE100000296
E		China Mengniu Dairy	KYG210961051	E-		China Petroleum & Chemical Corporation (Sinopec)	CNE1000002Q2
E		China Mobile	HK0941009539	E-		CNOOC Ltd	HK0883013259
E		China Overseas Land & Investment	HK0688002218	E-		ENN Energy Holdings	KYG3066L1014
E		China Resources Land	KYG2108Y1052	E-		Industrial and Commercial Bank of China (ICBC)	CNE1000003G1
E		China Unicom (Hong Kong)	HK0000049939	E-		Ping An Insurance Group Co of China	CNE1000003X6
E		CITIC Limited	HK0267001375	E-		Semiconductor Manufacturing International Corporation (SMIC)	KYG3066L1014
E		CK Infrastructure Holdings	BMG2178K1009	E-		Tencent Holdings	KYG875721634
E		CLP Holdings	HK0002007356	E-		Xiaomi	KYG9830T1067

- With reference to the *SE Hong Kong Index*, Hong Kong Exchanges and Clearing (HKEX) is the only company rated EE+.
- 3 companies are in the top rating layer: AIA Group, HSBC and Link REIT, with ratings of EE.
- MTR Corporation and New World Development Company, both rated EE-, are the remaining companies with a **Sustainable Grade**.
- 8 companies are rated E+, a **Not Fully Sustainable Grade**: Bank of China HK Holdings, CK Asset Holdings, CK Hutchison Holdings, Hang Seng Bank, Hong Kong and China Gas, Power Assets Holdings, Techtronic Industries, and Wharf REIC.
- 25 companies are rated E, a **Not Fully Sustainable Grade**: Sunny Optical Technology Group, China Construction Bank Corporation, China Life Insurance Company, China Mengniu Dairy, China Mobile, China Overseas Land & Investment, China Resources Land, China Unicom (Hong Kong), CITIC Limited, CK Infrastructure Holdings, CLP Holdings, Country Garden Holdings, CSPC Pharmaceutical Group, Galaxy Entertainment Group, Geely Automobile Holdings, Hang Lung Properties, Henderson Land and Development, Hengan International Group, Lenovo, PetroChina, Sands China, Shenzou International Group Holdings, Sino Biopharmaceutical, Sun Hung Kai Properties and WH Group.
- 8 companies are rated E-, a **Not Sustainable Grade**: Alibaba Group Holding, Bank of China, BYD Company, Sinopec Corp., CNOOC Ltd, ENN Energy Holdings, Industrial and Commercial Bank of China (ICBC), Ping An Insurance Group Co of China, SMIC, Tencent Holdings and Xiaomi.

Standard Ethics' thematic Sustainability Indices: rating distribution through the 9 different Corporate SER grades.

1. SE European Banks Index

The Index - launched in March 2017 and reviewed on 30 September 2023 - includes 40 among the largest listed European banks.

Standard Ethics' analysts note that 13% of the Index constituents are rated EE+, 15% have an EE rating, 30% are rated EE-, 28% have an E+ rating, 10% are rated E, and 5% have an E- rating. No companies are rated EEE and F. The distribution tends to converge to the "mid" rating grades, concentrating mainly on the ratings EE- and E+. With reference to the grades of Sustainability²², the **Sustainable Grade** represents 56% of the Index and the **Not Fully Sustainable Grade** 40%. Only 5% of the Index constituents obtained a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN
EE+	Pos.	FinecoBank	IT0000072170
EE+		Banco BPM	IT0005218380
EE+		BPER Banca	IT0000066123
EE+		Svenska Handelsbanken	SE0007100599
EE+		UniCredit	IT0005239360
EE		Banca Monte dei Paschi di Siena	IT0005218752
EE		BBVA	ES0113211835
EE		BNP Paribas	FR0000131104
EE		HSBC Holdings	GB0005405286
EE		Intesa Sanpaolo	IT0000072618
EE		Nordea Bank	FI4000297767
EE-	Pos.	Commerzbank	DE000CBK1001
EE-		ABN AMRO Bank	NL0011540547
EE-		Banco de Sabadell	ES0113860A34
EE-		Banco Santander*	ES0113900J37
EE-		Julius Baer Group	CH0102484968
EE-		Lloyds Banking Group	GB0008706128
EE-		Mediobanca	IT0000062957
EE-		PKO Bank Polski	PLPKO0000016
EE-		Skandinaviska Enskilda Banken	SE0000148884

Rating	Outlook	Company	ISIN
EE-		Societe Generale	FR0000130809
EE-		Standard Chartered	GB0004082847
EE-		Swedbank	SE0000242455
E+	Pos.	CaixaBank	ES0140609019
E+		Banco Comercial Portugues	PTBCP0AM0015
E+		Bank Pekao	PLPEKAO00016
E+		Barclays	GB0031348658
E+		Credit Agricole	FR0000045072
E+		Erste Group Bank	AT0000652011
E+		ING Groep	NL0011821202
E+		Natixis	FR0000120685
E+		OTP Bank	HU0000061726
E+		Raiffeisen Bank International	AT00000606306
E+	Under Monitoring	Bank of Ireland Group	IE00BD1RP616
E		Danske Bank	DK0010274414
E		DNB	NO0010031479
E		KBC Group	BE0003565737
E		UBS Group	CH0244767585
E-		Deutsche Bank	DE0005140008
E-		Natwest Group	GB00BM8PJY71

*Please note that the rating of these companies has been updated in January 2024

2. SE European Utilities Index

The Index - launched in June 2020 and reviewed on 30 September 2023 - includes 30 among the largest listed utility European companies.

Standard Ethics' analysts note that 7% of the Index constituents are rated EE+, 37% have an EE rating, 33% are rated EE-, 20% have an E+ rating, and 3% have an E rating. No companies are rated EEE and F. The distribution tends to converge to the "mid-high" rating grades, concentrating mainly on the ratings EE and EE-. With reference to the grades of Sustainability, the **Sustainable Grade** represents 77% of the Index and the **Not Fully Sustainable Grade** 23%. There are no Index constituents with a Not Sustainable Grade.

²² **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

Rating	Outlook	Company	ISIN
EE+		Fortum	FI0009007132
EE+		United Utilities Group	GB00B39J2M42
EE	Pos.	Terna	IT0003242622
EE		Centrica	GB00B033F229
EE		E.ON	DE000ENAG999
EE		Enel	IT0003128367
EE		Iberdrola	ES0144580Y14
EE		Orsted	DK0060094928
EE		Red Electrica Corporacion	ES0173093024
EE		Snam	IT0003153415
EE		SSE	GB0007908733
EE		Veolia Environnement	FR0000124141
EE		Verbund	AT0000746409
EE-		Acciona Energia	ES0105563003
EE-		BKW	CH0130293662

Rating	Outlook	Company	ISIN
EE-		Elia Group	BE0003822393
EE-		Enagas	ES0130960018
EE-		Engie	FR0010208488
EE-		Italgas	IT0005211237
EE-		National Grid	GB00BDR05C01
EE-		RWE	DE0007037129
EE-		Suez	FR0010613471
EE-		Uniper	DE000UNSE018
E+	Pos.	EDP Renovaveis	ES0127797019
E+	Pos.	ERG	IT0001157020
E+		EDP - Energias de Portugal	PTEDP0AM0009
E+		Endesa	ES0130670112
E+		Naturgy Energy Group	ES0116870314
E+		Neoen	FR0011675362
E		CEZ	CZ0005112300

3. SE European Multi-Utilities Index

The Index - launched in June 2020 and was last reviewed on 30 September 2023 - includes 15 among the largest listed multi-utility European companies.

Standard Ethics' analysts note that the index constituents rated EE+, also EE and EE- each have a percentage of 27%. Whereas E+, E and E- each have a percentage of 7%.²³ No companies are rated EEE and F. The distribution tends to converge to the "high" rating grades, concentrating mainly on the ratings EE+, EE and EE-. With reference to the grades of Sustainability, the **Sustainable Grade** represents 81% of the Index and the **Not Fully Sustainable Grade** 14%. Only 7% of the Index constituents have a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN
EE+		A2A	IT0001233417
EE+		Acea	IT0001207098
EE+		Pennon Group	GB00B18V8630
EE+		United Utilities Group	GB00B39J2M42
EE		EVN	AT0000741053
EE		Severn Trent	GB00B1FH8J72
EE		SSE	GB0007908733
EE		Veolia Environnement	FR0000124141

Rating	Outlook	Company	ISIN
EE-	Pos.	MVV Energie	DE000A0H52F5
EE-		Engie	FR0010208488
EE-		Hera	IT0001250932
EE-		Suez	FR0010613471
E+		Iren	IT0003027817
E		EnBW Energie Baden-Wuerttemberg	DE0005220008
E-		Gelsenwasser	DE0007760001

²³ Please note that in some of the graphs and calculations, it was necessary to make approximations in order to obtain a whole percentage number. Therefore, in some cases, the final number may slightly exceed 100%.

4. SE European Football Index

The Index - launched in March 2022 and was last reviewed on 30 September 2023 - includes 14 among the largest listed European football clubs.

Standard Ethics' analysts note that 7% of the Index constituents are rated EE-, 71% are rated E, and 21% have an E- rating. No companies are rated EEE and F. The distribution tends to converge to the "low" rating grades, concentrating mainly on the ratings E and E-. With reference to the grades of Sustainability, the **Sustainable Grade** represents only 7% of the Index and the **Not Fully Sustainable Grade** 71%. 21% of the Index constituents obtained a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE-		Borussia Dortmund	DE0005493092	E		Celtic Football Club	GB0004339189
E		AFC Ajax*	NL0000018034	E		S.S. Lazio	IT0003621783
E		Juventus Football Club	IT0000336518	E		Benfica	PTSLB0AM0010
E		Manchester United	KYG5784H1065	E		Brondby	DK0010247956
E		Galatasaray Sportif	TRAGSRAY91X9	E-		Fenerbahce Futbol	TREFFBAH00019
E		Besiktas	TRABJKAS91X6	E-		Trabzonspor	TRETRBZ00016
E		Olympique Lyonnais	FR0010428771	E-		Sporting CP	PTSCP0AM0001

* Please note that the rating of these companies has been updated on 1st February 2024

5. SE European Fashion & Luxury Index

The Index - launched in March 2022 and was last reviewed on 30 September 2023 - includes 14 among the largest listed European football clubs.

Standard Ethics' analysts note that 10% of the Index constituents are rated EE, 40% are rated EE-, 35% have an E+ rating, 10% are rated E, and 5% have an E- rating. No companies are rated EEE and F. The distribution tends to converge to the "mid" rating grades, concentrating mainly on the ratings EE- and E+. With reference to the grades of Sustainability, the **Sustainable Grade** represents 50% of the Index and the **Not Fully Sustainable Grade** 50%. This means that the SE European Fashion & Luxury Index is characterized by 50% of the Corporate SERs being of an adequate grade of Sustainability. There are no Index constituents with a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE		Adidas	DE000A1EWWW0	E+	Pos.	Tod's	IT0003007728
EE		Burberry	GB0031743007	E+		Capri Holdings	VGG1890L1076
EE-		Brunello Cucinelli	IT0004764699	E+		Hermès International	FR0000052292
EE-		Compagnie Financière Richefont	CH0210483332	E+		JD Sports Fashion	GB00BM8Q5M07
EE-		H&M	SE0000106270	E+		LVMH	FR0000121014
EE-		Hugo Boss	DE000A1PHFF7	E+		Salvatore Ferragamo	IT0004712375
EE-		Moncler	IT0004965148	E+		Swatch Group	CH0012255151
EE-		Next Plc	GB0032089863	E		Ermenegildo Zegna	NL0015000PB5
EE-		Prada	IT0003874101	E		Kering	FR0000121485
EE-		Puma	DE0006969603	E-		Inditex	ES0148396007

3. Country SER

This section of the Standard Ethics Annual Report will look at Country Standard Ethics Ratings (SER).

The **Country SER** evaluates the **OECD nations** to which the following have been added over time: Argentina, Brazil, Bulgaria, China, Egypt, India, Romania, Russia, South Africa and the Vatican City State.

In assessing nations, Standard Ethics favors those with a stable and proven democracy that meets the highest standards in terms of human rights, environmental policies, relations with developing countries, and sustainable economic structures, capable of guaranteeing a high level of substantive and formal democracy and common security.

In the incoming section, SE analysts will firstly examine how country ratings are distributed at a global level and then, in line with the other sections of the Report, they will make an ulterior focus on Europe.

The global distribution of Country SERs will be analyzed according to a “high”, “medium” or “low” risk of Sustainability.

A brief note on methodology

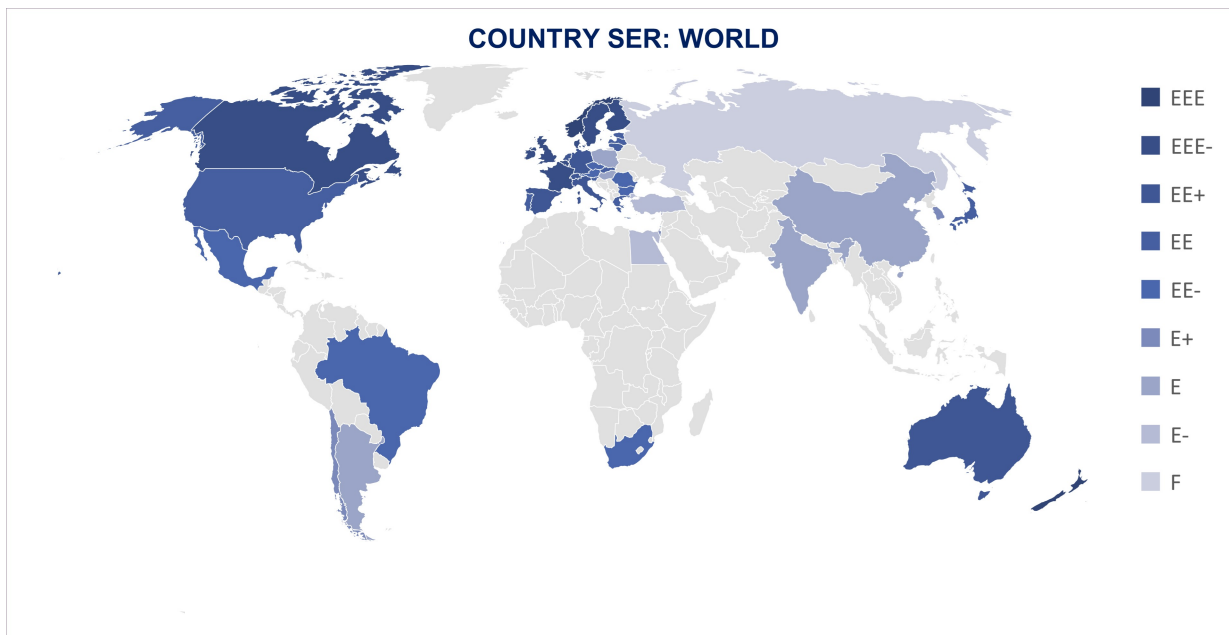
Country SERs are based on a proprietary methodology that has been tested and used by the Agency for almost 20 years. A preliminary study and explanation on methodology was published (i.e. “*States Rating. A methodological note*”. Standard Ethics Aei Research Office - Brussels, 27th November 2010). The methodology is divided into two levels and builds upon the *Analytic Hierarchy Process*; AHP model developed by Prof. T.L. Saaty (Pittsburgh University) and then processed by the Italian Academic Prof. Luciano Bozzo, professor of International Relations and Strategic Studies at the University of Florence.

The 4 first level evaluations include: internal democracy, international democracy, internal security and international security. The first level evaluations are based upon 13 sub-criteria, including the following: political rights, civil liberties, peace keeping mission participation and electoral monitoring, international organizations membership, level of political integration, public aid transfer, organized crime and micro crime, economic inequality and social security, involvement in conflict and territorial disputes, membership to international alliances or collective defense systems, economic and cultural integration.

Country and Corporate SER

It should be specified that a Country SER does **not impact by default** the Corporate SERs of national companies with registered offices in that country – as is the case with credit ratings. **Direct** or **indirect** impacts may occur only in relation to lower ratings, where a country does not achieve a **Sustainable Grade** (EE- or above):

- **Indirect impacts** are possible because a company operating in a country with low democratic or free market standards may be less inclined to adopt voluntary sustainability policies promoted by the **UN**, **OECD** or the **EU**. The extent of this impact is observed on a case-by-case basis, by studying the **ESG** strategies that companies implement.
- **Direct impacts** are related to Corporate Governance: if a company is owned by a national state without a **Sustainable Grade**, **Standard Ethics** analysts will take this into account, assuming that the company cannot act against the interests (and strategies) of its ownership. This is an additional complication to evaluate.
- Finally, if a country has an “**F**” rating, which is the absolute lowest Sustainability Grade, all issuers with investments in that country would be subject to a **negative impact**.



Focus: rating action on Italy Country SER

On 19 October 2022 **Standard Ethics** confirmed the Corporate Rating “**EE+**” to **Italy**. The first Country Standard Ethics Rating assigned to Italy was in 2004.

The actions envisaged by the PNRR and agreed between the **European Commission** and the **Italian government**, if implemented correctly and without any increase to public debt, will bring about the necessary reforms to improve the quality of the Italian institutional and economic system. Once implemented, a positive rating modification could be carried out.

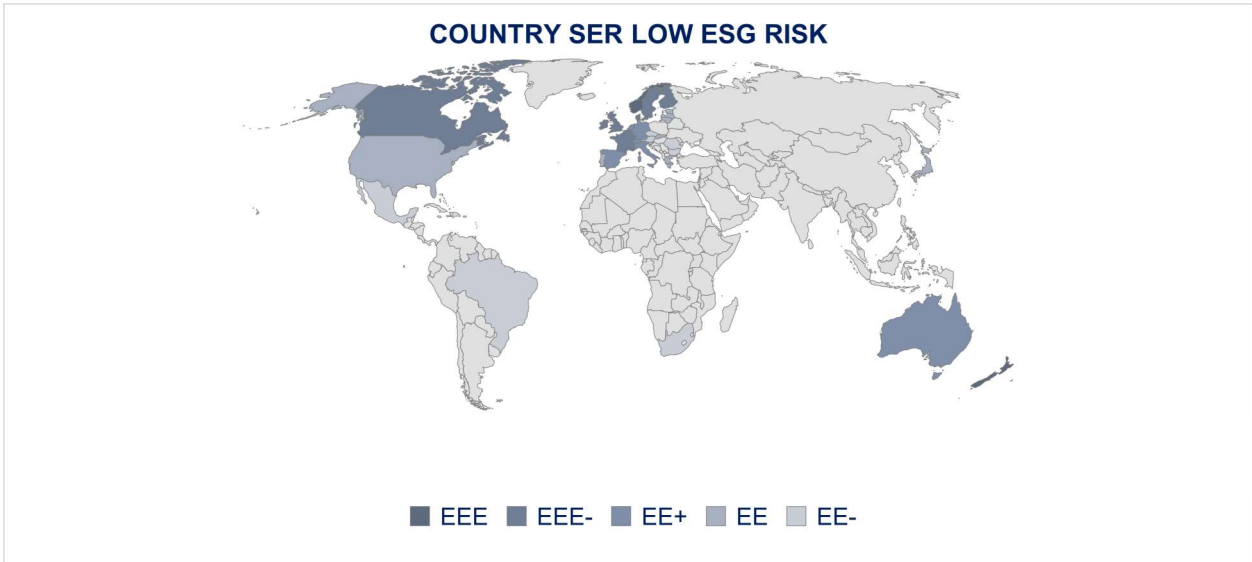
Economically, the weakness stemming from the country’s energy dependence, and thus its vulnerability to international crises such as the current one, appears to be offset by the flexibility that Italian industry has historically shown in the face of inflation. In this respect, there is no cause for overt concern when compared to what can be seen in other **OECD**-area economies.

Politically, even if the first institutional steps, such as the appointments of the presidents of the two houses of parliament are the subject of criticism and perplexity, Italy’s constitutional quality is beyond question. Analysts also highlight the centrality of the presidency of the republic, one of the most authoritative and competent institutions internationally.

The nascent government has the parliamentary majority to implement organic and long-term policies. The quality of these policies and their consistency with the European project will be the subject of future assessments.

The readiness of the incoming executive to constructively dialogue with its continental partners, with other external observers, and with the opposition will also be observed. It is well known that, in the case of nations belonging to the **Union**, an electoral victory or national independence are - under no circumstances - admissible justifications for undermining the principles that define a democracy. In Europe, principles such as the secular nature of the state, judicial independence, media autonomy and basic rights are as important as the right to vote.²⁴

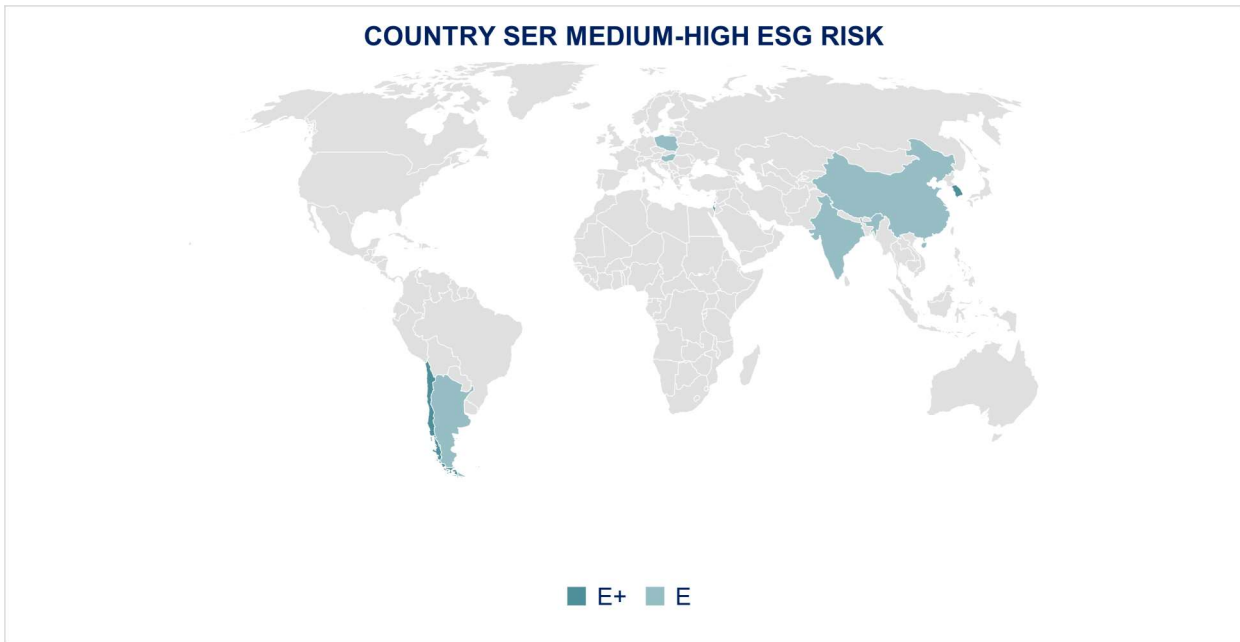
²⁴ Overseeing a slowdown in the Italian GDP on a yearly basis, the Credit Rating Agency Moody’s issued a Negative Outlook to Italy’s Sovereign Rating on August 5 2022. Differently, on October 18 2022 Standard Ethics confirmed Italy’s Sustainability Rating, projecting the capacity of the Republic of Italy to coexist with inflationary pressures. On October 21 2022 the Credit Rating Agency Standard&Poor’s confirmed Italy’s Sovereign Rating, with a warning over the implementation of the National Resilience and Recovery Plan. On November 18 2022 the Credit Rating Agency Fitch Ratings confirmed the Republic of Italy’s Sovereign Rating “**BBB**” with a Stable Outlook, revising upwards its GDP’s growth forecasts for 2022.



The table shows the Country SERs above EE- on the Agency's rating grade scale.

The Country SERs can be divided into three different levels: a full compliance to Sustainability standards, which involves three nations rated EEE (i.e. Iceland, New Zealand and Norway) and the European Union; an excellent or very strong compliance comprising nine different nations rated EEE- (i.e. Belgium, Canada, Denmark, Finland, France, Ireland, Scotland, Sweden and the United Kingdom) and seven different nations rated EE+ (i.e. Australia, Germany, Italy, Luxembourg, Netherlands, Spain and Switzerland). Finally, the third layer is formed by those nations, whose level of alignment is strong or adequate: in this respect, eleven nations are rated EE (ie. Estonia, Greece, Japan, Latvia, Lithuania, Portugal, Slovakia, Slovenia, the Vatican City and the United States of America) and six nations are rated EE- (i.e. Austria, Brazil, Bulgaria, Czech Republic, Mexico and Romania).

European Union	EEE	Estonia	EE
Iceland	EEE	Greece	EE
New Zealand	EEE	Japan	EE
Norway	EEE	Latvia	EE
Belgium	EEE-	Lithuania	EE
Canada	EEE-	Portugal	EE
Denmark	EEE-	Slovakia	EE
Finland	EEE-	Slovenia	EE
France	EEE-	United States of America	EE
Ireland	EEE-	Vatican City	EE
Scotland	EEE-	Austria	EE-
Sweden	EEE-	Brazil	EE-
United Kingdom	EEE-	Bulgaria	EE-
Australia	EE+	Czech Republic	EE-
Germany	EE+	Mexico	EE-
Italy	EE+	Romania	EE-
Luxembourg	EE+		
Netherlands	EE+		
Spain	EE+		
Switzerland	EE+		



The maps above show the geographical breakdown of nations with Country SERs below EE-. In this case, there are three different groups of countries, categorized by their respective sustainability risk level, according to a **Not Fully Sustainable Grade** (E+; E) or a **Not Sustainable Grade** (E-; F). The former group includes: Chile, Israel and South Korea (all rated E+); whereas the latter involves: Argentina, China, Hungary, India and Poland (all rated E). Finally, Egypt, and Turkey (rated E-), together with Russia (F) are countries holding a serious sustainability risk.

COUNTRY	RATING
Chile	E+
Israel	E+
South Korea	E+
Argentina	E
China	E
Hungary	E
India	E
Poland	E
Egypt	E-
Turkey	E-
Russia	F

Focus: Country SER Russian Federation

Following serious armed violation of Ukrainian sovereignty by the Russian Federation, the massive international impact this has, and the sanctions approved by the world's major democracies, the Russian Federation's Standard Ethics Rating has been lowered to the minimum level: issuers, banks, funds and other entities holding securities in the Russian Federation or in major Russian companies may in turn find their own Standard Ethics Rating (SER) negatively affected. Further Security Segregation Impact Notices (**SSIN**)²⁵ have been taken.²⁶

²⁵ Standard Ethics publishes Technical Provision 1 of the "Security Segregation Impact Notice (SSIN)" put in place following the downgrade of the Russian Federation to "F" on 24 February 2022. It is part of a package of measures that will be completed within the next few months to revise some rating metrics.

As of today, citizens of the Russian Federation will be classified as "non-independent" on the Boards of Standard Ethics-rated companies due to the legal constraints they face. It is believed that they are not free to carry out their duties, ignoring the policies imposed by their government, without compromising their security and personal freedom. This measure may contribute to weakening some SERs (Standard Ethics Rating). A similar decision was already taken and applied in 2021 to citizens of the People's Republic of China.

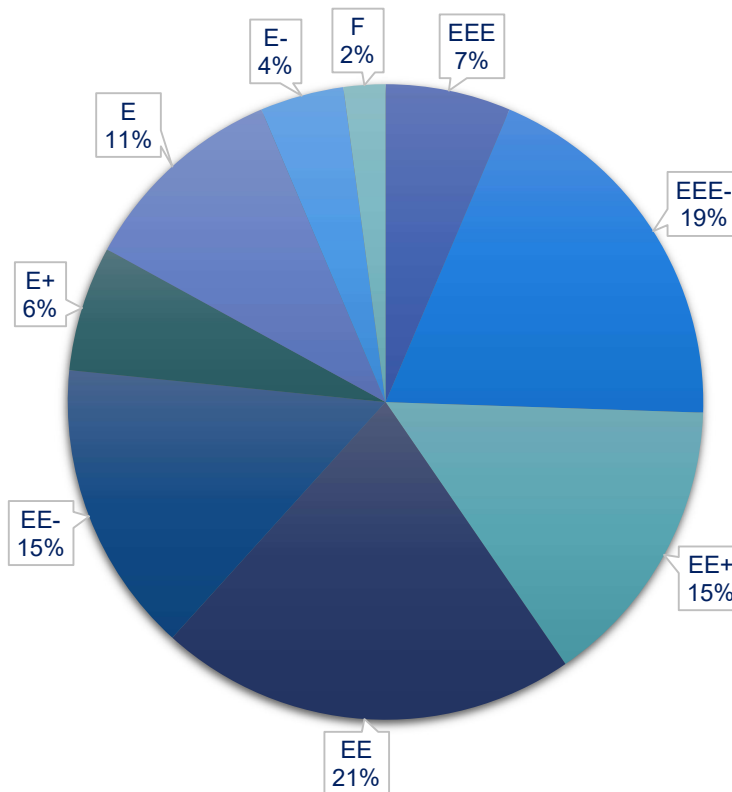
²⁶ Standard Ethics publishes Provision 2 of the Security Segregation Impact Notice (SSIN) put in place after the downgrade of the Russian Federation's Country Standard Ethics Rating (SER) to 'F' on 24 February 2022. These provisions are part of a package of measures that will be completed within the next few months to revise some rating metrics. Provision 2, published on 12 April 2022 follows on from Provision 1 "Russian citizens calculated as non-independent Board members" published on 7 March 2022. Nations trading embargoed products with the Russian Federation, allowing it to bypass the economic sanctions imposed by the European Union, the UK, the US and other OECD nations following its invasion of Ukraine, will have their country ratings downgraded from one to two notches over the next six months, on a case-by-case evaluation. This decision takes into account the three resolutions on Russia adopted by the UN Assembly: 2 March (resolution condemning the invasion); 24 March (for an immediate cessation of hostilities); 7 April (suspension of Russia from the Human Rights Council). This Provision may contribute to the weakening of some Corporate SERs (Standard Ethics Rating).

COUNTRY SER: HIGH ESG RISK



■ E- ■ F

COUNTRY SER BY RATING GRADE



An overall assessment can be made through the pie chart above, showing the distribution of country ratings. Some considerations follow:

- There have been **over 100** different country rating actions between 2013 and 2023.
- The wide majority of countries rated by **Standard Ethics** have a **Sustainable Grade**. Standard Ethics country ratings (Country SER) cover **nearly 25% of the total number of countries** worldwide.

A Focus on European countries

In this part of the Report, there is a focus on European countries (more specifically, **geographical Europe**). In order to compare and contrast the European countries, SE Analysts decided to divide Europe's geographical area into a set of subgroups with geopolitical affinities: **Scandinavian Europe**, **Mediterranean (or MED) Europe**, the **EU Founding Members** and the **Visegrad (V4) Countries**. The table below summarises the Country SERs in Europe.

COUNTRY	RATING	COUNTRY	RATING
Iceland	EEE	Estonia	EE
Norway	EEE	Greece	EE
Belgium	EEE-	Latvia	EE
Denmark	EEE-	Lithuania	EE
Finland	EEE-	Portugal	EE
France	EEE-	Slovakia	EE
Ireland	EEE-	Slovenia	EE
Scotland	EEE-	Vatican City	EE
Sweden	EEE-	Austria	EE-
United Kingdom	EEE-	Bulgaria	EE-
Germany	EE+	Czech Republic	EE-
Italy	EE+	Romania	EE-
Luxembourg	EE+	Hungary	E
Netherlands	EE+	Poland	E
Spain	EE+		

Country SERs will now follow in their different categories to enable an overall assessment on Country SERs in Europe. The first area to be analysed is Scandinavian Europe.

As shown in the table above, the 5 Scandinavian countries have a full or excellent level of compliance with sustainability standards. Moreover, two countries (Iceland and Norway) are rated EEE, meaning they fully comply with international sustainability standards. Denmark, Sweden and Finland have a Country SER of EEE-.



COUNTRY	RATING
Iceland	EEE
Norway	EEE
Denmark	EEE-
Finland	EEE-
Sweden	EEE-

Mediterranean Europe (Italy, France, Spain, Greece, Portugal) display a heterogeneous distribution of Country SERs: France has the highest Country SER (EEE-), Italy and Spain (rated EE+) show a very strong level of compliance, whereas Portugal and Greece (rated EE) appear well aligned.



COUNTRY	RATING
France	EEE-
Italy	EE+
Spain	EE+
Greece	EE
Portugal	EE

Among the founding members of the European Union, the two most virtuous nations in terms of compliance with sustainability standards are France and Belgium (both rated EEE-), whereas the other 4 nations (Germany, Italy, Luxembourg and the Netherlands)

are all rated EE+. To date, none of the EU founders is rated less than EE+.



COUNTRY	RATING
Belgium	EEE-
France	EEE-
Germany	EE+
Italy	EE+
Luxembourg	EE+
Netherlands	EE+

The Visegrad Group countries (VG4) **Sustainability Grade** levels are very different. Between the V-4 countries, only **Slovakia** (whose rating is EE) has a strong level of compliance with international sustainability standards, the **Czech Republic** (rated EE-) is adequately aligned. **Hungary** and **Poland** (rated E) could be grouped with those countries comprising a medium – high risk of sustainability.



COUNTRY	RATING
Slovakia	EE
Czech Republic	EE-
Hungary	E
Poland	E

Focus: Country SER Republic of Turkey

Taking into account the dramatic impact caused by the major earthquake on 6 February 2023, Standard Ethics suspended the Negative Outlook assigned on 7 September 2017 to the rating of the Republic of Turkey. The Republic of Turkey's Country Standard Ethics Rating "E-" was confirmed.

4.Security SER

The Security Standard Ethics Rating (SER)

General-Purpose Securities: why a Sustainability Rating?

Standard Ethics believes that "all debt must be sustainable" and that - in some way - all financing of business plans should be consistent with global environmental and social policies. It would not make sense for a company that wants to be sustainable to issue Green Bonds on the one hand and finance projects that follow a completely different philosophy on the other. Moreover, in the opinion of **Standard Ethics**, SDG-Linked Bonds or ESG-Linked Bonds do not in any way meet this requirement.

In 2020, **Standard Ethics** introduced the Security Standard Ethics Rating to the market because debt financial products - unlike ICMA's well-regulated green bonds and similar instruments - are not covered by specific and comparable ESG evaluations and form a significant gap in the market. After a trial to analyse the statistical frequency of data made available by listed companies directly, and after defining a hierarchy according to the importance given by international organisations, an algorithm and an analysis methodology were developed. Emissions were selected over the course of 2020. The analysis was started in the summer of 2020. It was then partly made public in October 2020. In November 2020, it was applied to a first solicited case: **Snam**. One of the world's leading energy infrastructure operators. In the aftermath of the pandemic and with the transition towards a new economy, **Standard Ethics** believes that **all debt must be sustainable** and that all funding of industrial plans is coherent with global environmental and social policies.

How is a Security Standard Ethics Rating assigned?

In **Standard Ethics'** opinion, an "EE-" Security SER level (or above) qualifies the instrument as "sustainable" according to the Standard Ethics methodology.

EEE	EEE-	EE+	EE	EE-	E+	E	E-	F
	Excellent	Very Strong	Strong	Adequate	Low	Very Low	Unsatisfactory	
Sustainable					Not Fully Sustainable		Not Sustainable	

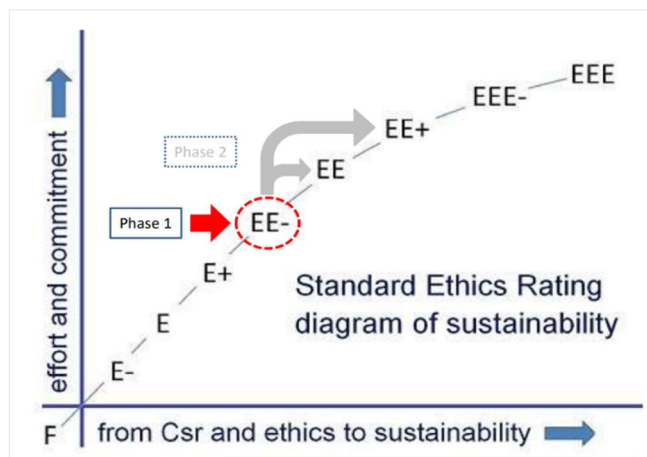
Phase 1: Issuer evaluation

Issuer evaluation is carried out by analysts based on about **40 standard markers** used to measure (according to the **Standard Ethics** methodology) the alignment of ESG policies and the governance of Sustainability with **UN, OECD, and EU** indications concerning: fair competition, market, dominant positions, market distortions; shareholders' agreements, ownership and shareholders; market weight, participation and voting at general meetings; directorships, Board of directors, independence and conflict of interest; governance of Sustainability, governance, ESG policies, ESG disclosure; human rights.

The result of the analysis is then synthesized and entered into the Standard Ethics Proprietary Algorithm. A Baseline Rating on the company is then internally calculated.

Phase 2: issue evaluation

Phase 2 is about the Issue and uses the Baseline Rating as a starting point. It is carried out by analysts through the application of other standard markers in order to evaluate whether the strategic & industrial plans and sustainability plans (financed by the debt instrument) are aligned with



Sustainability Policies determined by **UN, OECD, and EU**.

The evaluation points are the following: main features of the financial instrument; future ESG and financial impacts, with particular regard to the following strategic macro-areas: carbon neutrality (based on the strategic & industrial plans & ESG reporting); circular economy (based on the strategic & industrial plans & ESG reporting); gender equality (based on the strategic & industrial plans & ESG reporting); additional targets.

Phase 2: Policy for increasing Baseline Ratings

If a very substantial²⁷ part of proceeds is allocated to value-added sustainable activities (given the company industry), then the Baseline Rating could be raised by two notches. If a substantial²⁸ part of proceeds is allocated to value-added sustainable activities (given the company industry), then the Baseline Rating could be raised by one notch. If there is no traceable report or specification on the allocation of the proceeds, or if the company's strategic & industrial plans do not improve the future positioning of the issuer with respect to the principles of Sustainability, according to analysts, the final Security Standard Ethics Rating will correspond to the Baseline Rating.

Technical Note: Security Standard Ethics Rating Algorithm

To ensure accuracy and comparability, **Standard Ethics** does not use weights and KPI based analyses or indicators, but uses a more sophisticated method based on its own proprietary six-group variable algorithm. 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**). **g** = Use of General-Purpose Bond proceeds.

$$\left(\frac{(F_{cEU} + S_a + I_{dEU-OECD} + M_w \cdot f(S_a) \cdot f(I_{dEU-OECD}) + C_{gUN-OECD-EU} \cdot f(F_c) \cdot f(I_{dEU-OECD}))}{10} + k \right) + g(C_{gUN-OECD-EU})$$

Phase 1
Phase 2

The **Security SER** is an extremely flexible tool, which also provides **Standard Ethics** with the opportunity to investigate some of the most topical and delicate issues that confront today's international business and society.

In the **Energy Industry** sector, the invasion of Ukraine by the Russian Federation on 24 February 2022, has raised **new challenges** concerning security and diversification of supplies. In this scenario, Energy Companies play an active role supporting European Union and National Governments strategies which ought to be considered in a Sustainability perspective. Against this backdrop, Security SERs covering operations carried out by **Gas Companies** included considerations regarding their contribution to the

²⁷ This variable is calculated on the basis of the business of the company, its geographical position, sector of activity and the extent and duration of the issue.

²⁸ Equally, this variable is calculated on the basis of the business of the company, its geographical position, sector of activity and the extent and duration of the issue.

energy security and independence as well as their outcomes on local communities, along with issues arising from **climate change** and **energy transition**.

Another branch of analysis has concerned projects implemented by companies to foster the **green and digital transitions**, mostly in the **energy** and in the **financial** sectors. The analysis included – but was not limited to – operations falling within the framework of the **EU Recovery and Resilience Facility (RFF)**.

The Security Standard Ethics Rating: an adaptable ESG metrics to measure the Sustainability of an ESG instrument or a project. Wedging on the cases of EBS, Mastercard, Save Your Home and Snam.

Focus: Eco Sisma Bonus Securitisation Programme

In 2021, Standard Ethics (SE) was asked by **EBS Finance** (the Applicant) to issue a Security SER (Standard Ethics Rating, to be renewed annually) on the **Eco Sisma Bonus Securitisation Programme** (the “Transaction”). The Transaction – launched by **UniCredit** in **May 2021** with an initial amount of **EUR 500m** – is linked to tax credits arising from a recent Italian law (“Rilancio Decree”) facilitating certain properties renovation. The maturity of the Transaction is linked to the exhaustion of the tax receivables portfolio (deadline for their deductibility). EBS Finance is a Special Purpose Vehicle (SPV) established pursuant to the Italian Securitisation Law (Law 130/1999) exclusively for the purpose of the Transaction. It is a company consolidated in UniCredit’s corporate financial statements. The Transaction is a **securitisation** with unique nature involving, in various ways, four Main Transaction Players (MTPs): **Republic of Italy** (Country SER EE+); **EBS Finance** (the Applicant); **Centotrenta Servicing** (Corporate SER EE-); **UniCredit** (Corporate SER EE+). The assessment of the Transaction started by analysing - from an **ESG** perspective - the four MTPs to identify a baseline. It then went on to study the “transaction” in its philosophy, governance and reporting. In the absence of other similar transactions on which to make statistical comparisons, the likely major direct and indirect **social** and **environmental** effects were directly examined. It is the opinion of Standard Ethics that the Transaction is aligned with European environmental and social strategies and it is in line with the most relevant ESG principles promoted by the OECD and the UN. Annual monitoring, and evaluation of the changes introduced, lead analysts to confirm the current rating grade.

Focus: Mastercard Track Business Payment Service

Standard Ethics (SE) was asked by **Mastercard Europe** (the Applicant) to issue a Security SER (Standard Ethics Rating) for the **Mastercard Track™ Business Payment Service** (the “ecosystem”). The ecosystem – launched by **Mastercard Inc.** in **2018** – is aimed at smaller and larger enterprises seeking to ease and digitalise payments’ systems.

The Ecosystem is a **specialised financial service** with unique nature involving, in various ways, four Main Transaction Players (MTPs): **Mastercard Europe** (the Applicant); **Mastercard Inc.**; the **European Union** (Country SER “EEE”); and the **United States** (Country SER “EE”). The assessment of the Ecosystem started by analysing – from an **ESG** perspective – Mastercard Inc. to identify a baseline Standard Ethics Rating - “SER”. It then went on to study the “ecosystem” in its structure, nature and impacts – even among the **users** (i.e., payment agents, buyers and suppliers). In the absence of other similar transactions on which to make statistical comparisons, the likely major direct and indirect **social** and **environmental** effects were examined directly.

It is the opinion of Standard Ethics that the Ecosystem is aligned with European environmental and social strategies and the most relevant ESG principles promoted by the OECD and the UN. The **Security SER “EE”** assigned to the Ecosystem is therefore issued. Further developments and impacts will be constantly monitored. The medium and long-term vision is positive.

Focus: SYHO Social Impact One

Save Your Home (SYHO) Srl (a private limited liability company) has requested **Standard Ethics Ltd** to issue a **Security Standard Ethics Rating** (Security SER or Rating) on the operation called “**SYHO Social Impact One**”, linked to the issuance of a 5-year, single-tranche dematerialised bond to be placed with qualified investors for the purchase of mortgage NPLs of private (single name) clients. The transaction is conducted in accordance with the **Italian law** regulating what is known as “social impact securitisation” with respect to “non-performing loans”. The designated beneficiaries of the law are individuals unable to meet the repayment terms and conditions of a **mortgage loan** contracted with a credit institution for a residence

they wish to continue occupying. The procedure allows debtors to initiate the procedure with an application through the appropriate channels.

The parties involved, known as the **Main Transaction Players – MTPs**, have distinct roles and functions. They are: The Republic of Italy, Save Your Home (SYHO) Srl, SYHO Start SPV, SYHO RE Srl, Centotrenta Servicing SpA, Esdebitami Retake SpA, and the APS, CODICI – Centro per i Diritti del Cittadino (a non-profit association).

A complex operation, the transaction cannot be compared to other financial transactions given the recent introduction of the law in question. Moreover, the law itself provides no statistics regarding its concrete application. Some aspects are open to different interpretations, with the MTPs given ample leeway to apply good sustainability practices. The complexity and innovative character of the operation support the decision by Standard Ethics to issue an initial Adequate rating, which shall be subsequently reassessed, taking into account both the cases handled and the concrete application of ESG principles. The beneficial impacts for recipients will be assessed against debt management governance, and in social terms, by the extent of home retention by the defaulted debtor. The transactions themselves have no direct environmental impacts.

Focus: SNAM ESG Euro-Commercial Paper Programme for the Issuance of Notes and ESG Notes

Snam is a worldwide energy infrastructure operator. The Company's activities involve transportation, regasification and storage of natural gas. Snam is the issuer of the Euro-Commercial Paper Programme for the issuance of Notes and ESG Notes ("the Programme"), the subject of the Security Standard Ethics Rating.

The Company is playing a key role in Italy and Europe to ensure the 'Security of Supply' with regards to the gas supply crisis due to the Russian invasion of Ukraine. Snam is clearly committed to the Energy Transition and the technological development of biomethane and hydrogen-based resources. It has launched a set of initiatives, mainly in the energy and environmental sectors, with a high technical, scientific and innovative content in order to reduce climate-altering gas emissions (carbon dioxide and methane).

Snam's corporate bodies enjoy a high level of independence and show diversity of skills. The Company's Governance of Sustainability and Sustainability strategies are in line with UN, OECD and EU guidelines.

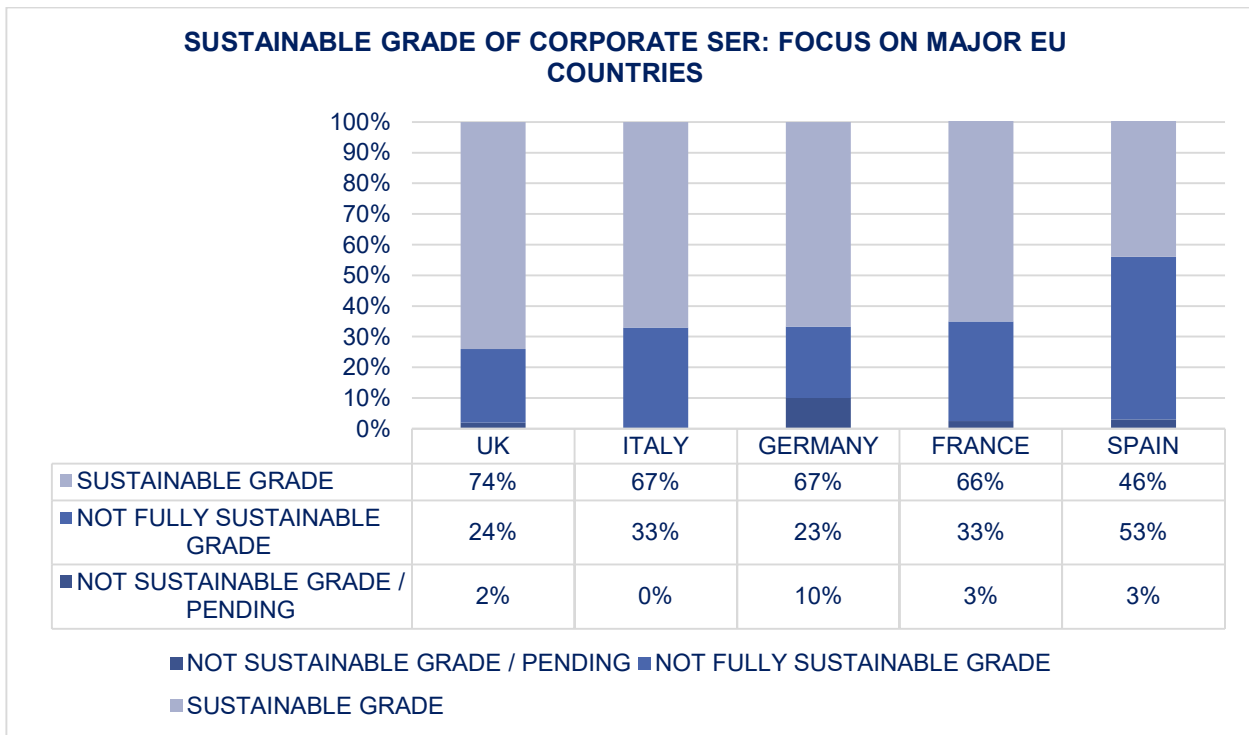
ESG (Environmental, Social and Governance) reporting and ESG Risk Management follow European best practices.

Snam's new Commercial Paper Programme seems to be supporting the financing of the Company's Sustainability targets and the implementation of its various initiatives. The Programme does not show features that could have a negative impact on the company's strategic targets and it increases the Company's financial resilience, especially in a stressful phase as the current one.

Overall, the Security Standard Ethics Rating tool was also used for the evaluation of projects related to European tenders originating from the Next Generation EU and the National Resilience and Recovery Plan. To give an example, this is the case of Publiacqua: a utility controlled by Acea SpA that operates in Tuscany covering the provinces of Florence Prato, Pistoia and Arezzo. Publiacqua presented a project to reduce water losses through distretisation and digitisation measures in implementation of National Resilience and Recovery Plan objectives which was under the Security SER. The project will develop an innovative integrated and digital system that holistically addresses all aspects and methods of water loss containment and it is financed by the Italian National Resilience and Recovery Plan.

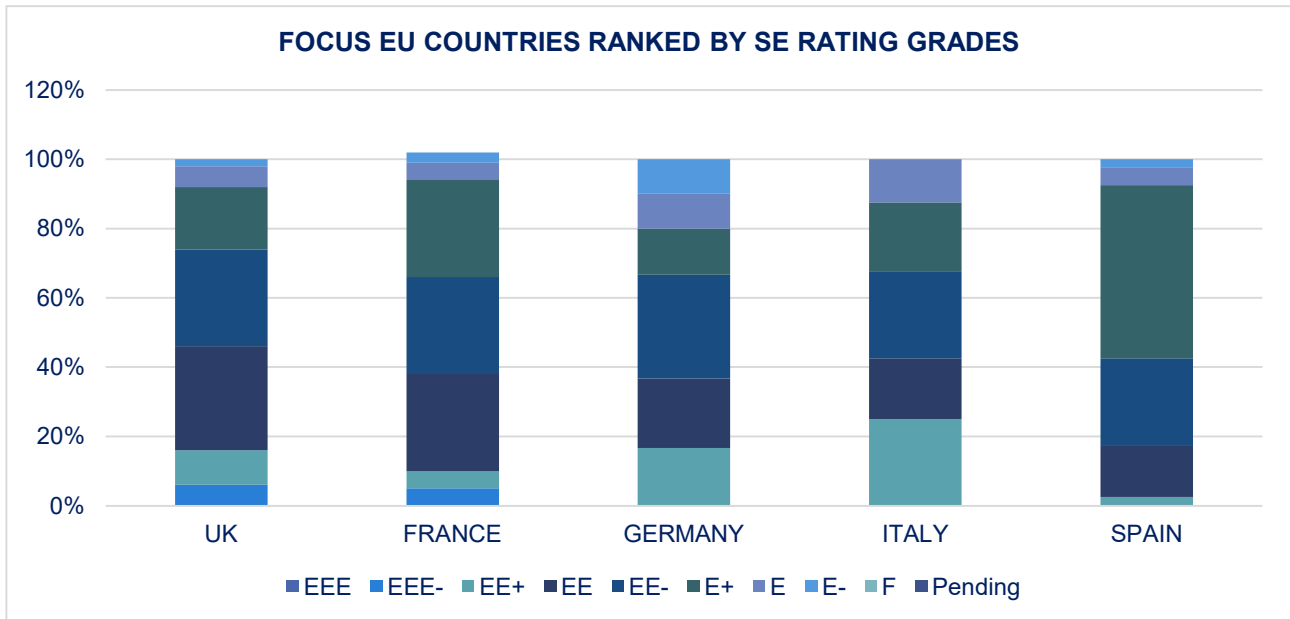
5.Statistical Issues

A focus on the biggest European markets



The bar chart represents Corporate SERs in the major European countries, divided into Sustainability grades.

The sample is made up of circa 200 companies, constituents of: the *SE German Index*, the *SE Italian Index*, the *SE UK Index*, the *SE Spanish Index* and the *SE French Index*. The bar chart shows that the highest number of Corporate SERs with a **Sustainable Grade** is in the UK (74%), followed by Italy and Germany (67%), France (66%) and finally Spain (46%). This latter case is surprising, since only the minority of Standard Ethics rated companies demonstrate an adequate (or higher) level of compliance with international standards on Sustainability. Nonetheless, 56% of Spanish companies rated by Standard Ethics currently have a **Not Fully Sustainable** (53%) or a **Not Sustainable Grade** (3%). Confronting such data with the rest of the sample, it can be seen that circa a third of both French (36%), German (33%) and Italian (33%) companies have a **Not Fully Sustainable** or **Not Sustainable Grade**. Conversely, slightly more than ¼ of UK companies has a **Not Fully Sustainable** or a **Not Sustainable Grade** (26%), whereas slightly more than ½ of Spanish companies has a a **Not Fully Sustainable** or a **Not Sustainable Grade** (56%).



Further considerations follow with a second bar chart, showing this time, the distribution of Corporate SERs not by Sustainability Grade, but by the 9 different SE rating grades:

- Currently, only 6% of UK companies and 5% of French companies have an EEE- Corporate SER.
- Currently, **no company** has a Corporate SER higher than EE+ in **Germany, Italy** and **Spain**.
- **Italy** has the highest number of companies (25%) rated EE+. **Germany** (17%) and the **UK** (10%) followed by **France** (5%) and finally **Spain** (3%).
- **UK** has the highest number of companies rated EE (30%). **France** (28%) and **Germany** (20%), then **Italy** (18%), followed by **Spain** (15%).
- In **Germany**, 30% of rated companies are EE- that corresponds to an adequate level of compliance with international Sustainability standards.
- On the one hand, in **France** only 28% of companies are rated E+, corresponding to a low compliance with international Sustainability standards; on the other hand, 50% of **Spanish** companies are rated E+.
- In **Italy**, 13% of rated companies is rated E that corresponds to a low level of compliance with international Sustainability standards.
- In **Germany**, 10% of rated companies is E- that corresponds to a poor level of compliance with international Sustainability standards.

Corporate SER Global Distribution 2019-2023

The table below summarizes the number of rating actions (Corporate SER) in the last 5 years.

	2019	2020	2021	2022	2023
N* action (excluding pending and suspended)	109	129	110	126	98
N* action (including pending and suspended)	114	132	113	133	102
	2019	2020	2021	2022	2023
EEE-	2%	3%	2%	0%	0%
EE+	7%	6%	6%	6%	12%
EE	17%	14%	18%	15%	18%
EE-	20%	25%	27%	19%	28%
E+	22%	23%	32%	29%	13%
E	22%	25%	12%	27%	13%
E-	9%	3%	3%	5%	4%

The following empirical considerations can be made:

- In the last 5 years, the number of companies rated **EEE-** (a **Sustainable Grade**, with an excellent level of compliance) is stable: it has never been above 3%.
- In 2023, the wide majority of companies (Index constituents) sit between the lowest **Sustainable Grade** level **EE-** and in the following rating class **EE**. On average, in the last five years, 24% of **Standard Ethics** index constituents have been rated **EE-**, whereas on average 16% have been rated **EE** in that same time frame.
- The percentage of companies upgraded from **E+ (Not Fully Sustainable Grade)** to **EE- (Sustainable Grade)** has changed significantly in the last two years: in 2022 the number of **E+** rated companies exceeded of 10% the **EE-** rated companies, whereas the opposite trend can be observed in 2023, when the percentage of **E+** rated companies was 15% less than **EE-** rated companies.

	2019	2020	2021	2022	2023
SUSTAINABLE GRADE	46%	48%	53%	40%	58%
NOT FULLY SUSTAINABLE GRADE	42%	48%	59%	56%	34%
NOT SUSTAINABLE GRADE	9%	3%	3%	4%	4%

The final table above shows the distribution of Corporate SERs from 2019 to 2023 grouped by the level of Sustainability Grade. The sample regards: the **solicited** and **unsolicited** Corporate SERs of index constituents.

The following can be noted:

- There has been a sharp increase of ratings with a **Sustainable Grade** between 2022 and 2023. Such change is estimated as +18%.
- The time frame 2019-2023 has seen a clear decrease in Corporate SERs with a **Not Fully Sustainable** and a **Not Sustainable Grade**. The variation in percentage corresponds to +13%.
- The number of companies with a **Not Sustainable Grade** expressed in the percentage of global rating actions has been decreasing with a 5% difference between 2019 (the baseline year) and 2023.
- In 2021 and 2022, more than 60% of the rated companies had a **Not Fully Sustainable** or **Not Sustainable Grade**, differently in 2023 the snapshot has positively changed: only 38% of rated companies had a **Not Fully Sustainable** or **Not Sustainable Grade**.
- From 2019 up to 2023, the number of companies with a **Sustainable Grade** has been increasing. This finds evidence in the fact that companies are more willing to **comply voluntarily with international sustainability standards**. As far as European companies are concerned, the European Sustainability legal binding standards have raised the bar: for instance, the European Green Deal, which Europe's biggest companies will have to comply with in the following years.

Global industry breakdown

Further significant data can be retrieved by observing the **industry breakdown of the Corporate SERs** issued. The sample of Corporate SERs issued by the Agency includes almost **500 unsolicited** and **solicited** Corporate SERs. **All** companies in the sample are SE index constituents.

In the table below, the industries are ordered by number of companies. The last line in **bold** shows the distribution of Standard Ethics Ratings (SER) at a global level.²⁹

²⁹ **Methodological note.** Concerning methodology, the Standard Ethics Research Office has decided to merge a few industries in order to make a statistically significant comparison, capturing the global, industry-wide sustainable grade levels and trends.

In order to build a statistical cluster, whose number is more than 3 companies, the Research Office has categorised some industries and combined them with other industries counting more than 3 companies. Here is the list:

- Retail & Wholesale Staples, Consumer Staple Products, Retail Staple Products, Retail & Wholesale Staples, Consumer Discretionary Svcs, Retail and Consumer Products have been merged in "Consumer Products". In the main:
 - Consumer services has joined "Consumer discretionary services"
 - Consumer staple products has joined "Consumer Products".
- "**Media & Internet Services**" assembles Media and Internet media and services
- Passenger Transportation has joined "**Aerospace & Defence**";
- Health Care Facilities and Svcs and Health Care have been merged in "**Health Care**"
- Utilities and Renewable Energy now form the category: "**Utilities, Multiutilities and Renewable Energy**".

Industry	N° of Companies	Sustainable Grade %	Not Fully Sustainable Grade %	Not Sustainable Grade %
Banking	65	48%	46%	6%
Consumer Products	61	33%	66%	2%
Utilities, Multiutilities & Renewable Energy	45	62%	33%	4%
Apparel & Textile Products	25	52%	40%	8%
Biotech & Pharma	24	46%	54%	0%
Machinery, Iron & Steel and Electrical Equipment	24	54%	46%	0%
Real Estate	24	38%	63%	0%
Insurance	21	81%	14%	5%
Automotive	17	29%	53%	18%
Hardware, Tech hardware & Semiconductors	16	63%	25%	13%
Oil, Gas & Coal	16	56%	19%	25%
Telecom	16	50%	44%	6%
Other (Football)	13	8%	69%	23%
Media & Internet Media and Services	13	38%	62%	0%
Aerospace & Defence	13	77%	23%	0%
Industrial Products & Industrial Services	13	62%	38%	0%
Chemicals	12	83%	17%	0%
Technology Services	12	83%	8%	8%
Consumer Services	12	33%	58%	8%
Transportation Logistics & Equipment	12	33%	58%	8%
Asset Management & Financial Services	8	38%	63%	0%
Engineering & Construction Svcs	8	50%	50%	0%
Software & Tech Services	8	50%	50%	0%
Commercial Services	7	100%	0%	0%
Medical Equipment & Devices	7	71%	29%	0%
Health Care	7	29%	71%	0%
Construction Materials	6	50%	50%	0%
Gaming, Lodging & Restaurants	5	20%	80%	0%
Metals & Mining	5	0%	80%	20%
Institutional Financial Services	5	100%	0%	0%
Others ³⁰	4	75%	25%	0%
Materials	4	0%	100%	0%
Specialty Finance	4	50%	50%	0%
Number of Companies	532	50%	45%	5%

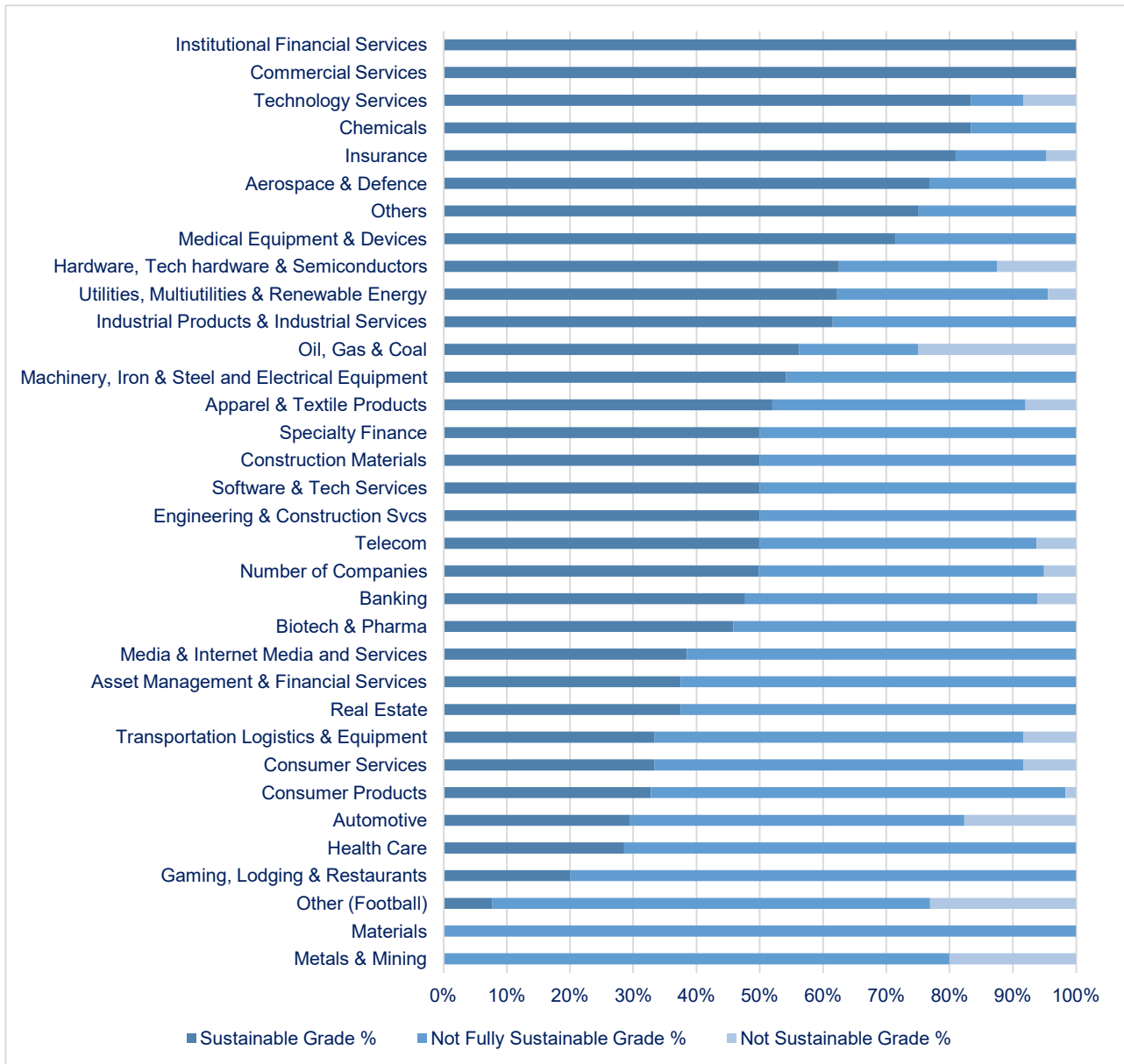
To simplify the representation of the industry breakdown, each industry is highlighted by its grade of Sustainability, focusing on the industries which have Corporate SERs holding a 50% or higher Sustainability Grade.

Once again, it is important to pinpoint that – in line with the SE methodology – the Corporate SER measures a company’s level of compliance with global standards on Sustainability as promoted by the **EU**, the **UN** and the **OECD**.

The industries whose Corporate SERs have a Sustainable Grade which is higher than 50%, are highlighted in green, whereas the “mid-rated” values are in light green (close to, but still above 50%) and in light red (close to, but still below 50%). Finally, the industries with Corporate SERs whose Sustainability Grades are lower than 50%, will be highlighted in red.

- Software and Software & Tech have been merged in “**Software & Tech**”
- Manufactured Goods and Electrical Equipment have been merged in “**Electrical Equipment**”
- Machinery, Iron&Steel and Electrical Equipment have been merged in “**Machinery, Iron & Steel and Electrical Equipment**”
- Hardware, Semiconductors & tech hardware and Semiconductors have been merged in “**Hardware, tech hardware & semiconductors**”
- “**Oil, gas & coal**” includes Oil&Gas and Oil
- Industrial Products and Industrial Services have been merged in “**Industrial Products & Industrial Services**”
- “**Other**” includes the following: **Home & OfficeProducts, Forest & Paper Products and Materials and Consumer&Packaging**
- Transportation & Logistics and Transportation Equipment, together with Transportation Logistics now form the category: “**Transportation Logistics & Equipment**”
- Financial Services has joined Asset Management, so it becomes “**Asset Management & Financial Services**”.
- “**Other (Football)**” includes the main listed football clubs in the world included in the “**Standard Ethics European Football Index**” and whose Corporate SERs have been lastly updated by SE Research Office in 2023.

³⁰ As explained in the **Methodological Note**, in order to make statistically significant comparisons, the category “**Others**” includes the following industries: **Home & OfficeProducts, Forest & Paper Products, Materials and Consumer&Packaging**.



The table above thus summarises the overall global trend of Corporate SERs and their Sustainability Grades.

The most sustainable industries so far seem to be Commercial Services and Institutional Financial Services. Some other industries preserve their high compliance with Sustainability standards defined at an international level: in this “dark blue zone” there are: Commercial Services, Institutional Financial Services, Chemicals, Technology Services, Insurance, Aerospace & Defence, Others, Medical Equipment & Devices, Hardware, Tech hardware & Semiconductors, Utilities, Multiutilities & Renewable Energy, Industrial Products & Industrial Services, Oil, Gas & Coal, Machinery, Iron & Steel and Electrical Equipment, Apparel & Textile Products.

In the “light blue to blueish” area there is a group of industries, which account for 50% of Corporate SERs with a **Sustainable Grade**: Telecom, Engineering & Construction Svcs, Software & Tech Services, Construction Materials and Specialty Finance.

Finally, the “sky blue zone” highlights: Banking, Biotech & Pharma, Media & Internet Media and Services, Real Estate, Asset Management & Financial Services, Consumer Services, Transportation Logistics & Equipment, Consumer Products, Automotive, Health Care, Gaming, Lodging & Restaurants, Other (Football), Metals & Mining and Materials.

Undoubtedly, the Banking sector performs better at the European level³¹ than at the global level.

³¹ Please refer to the Italy In-Depth Analysis and the findings related to the Italian Banking Industry.

Final Remarks on the SE Annual Report 2023

Highlights per industry

- ❖ **Standard Ethics' ethically-neutral approach** does not exclude any industry from the rating assessment, nor does it eliminate those sectors traditionally considered **controversial** by the Sustainable Finance sector on an **ethical basis**.
In fact, data shows that according to the Agency's proprietary methodology, a set of **controversial** industries (**Aerospace & Defence, Medical Equipment & Devices** and the **Oil & Gas** industry) include a wide number of **Sustainable Grade**³² companies.
- ❖ **Standard Ethics'** position concerning the energy transition, is that if a company correctly pursues the global Sustainability standards defined by the supranational organisations, it will have the correct instruments to face the energy transition challenge.
- ❖ Empirical data shows that a group of industries is suffering from structural risks concerning the ESG ecosystem. Such risks occur due to Environmental issues (i.e. long supply chain and high CO₂ emissions), as often happens in the **Transportation Logistics & Equipment** industries, as well as in the **Iron & Steel, Metals & Mining** and **Materials** industries.
- ❖ With regard to Social issues (i.e. labour conditions or human rights), often companies belonging to industries such as **Apparel & Textile Products, Iron & Steel, Metals & Mining** and **Consumer Products**, risk falling into incorrect practices linked to the supply chain and worker health & safety conditions where international rules and regulations are not always respected.
- ❖ As far as the **Apparel & Textile Products Industry** and the **Consumer Products Industry** are concerned, and given this year's **geopolitical impacts** on **global supply chains**, SE analysts have noted a considerable sense of resilience from the industry at a global level, pressurised often by the "responsible" and "ethical" choices of customers and consumers. Moreover, in the light of the **EU Critical Raw Materials Act (CRMA)**, **Critical raw materials** outsourcing risks are still a topic to be treated carefully when observing companies' sustainability practices. Specifically, **Long Supply chains**³³ policies as well as **due diligence** processes have ultimately assumed remarkable importance for the **Apparel & Textile Products Industry**, the **Consumer Products Industry** the **Hardware, Tech hardware & Semiconductors industry** and the **Automotive industry**.
- ❖ No matter which specific industry companies are in, one of the next sustainability challenges is to produce a clear-cut differentiation between **philanthropic activities** and **sustainable practices**. Whenever this process is yet to be undertaken, Standard Ethics analysts believe that this could lead to underlying inaccurate **management of risks** and often related **reputational crises**.
- ❖ Similar mispractices occur in the **Financial Services, Media, Specialty Finance, Software and Tech**, and **Telecom**, regarding **Governance** issues (i.e. the independence of the Board of Directors, internationality, and gender equality). These factors are something these industries historically have in common.
- ❖ Some industries, whose end businesses are very different, have very similar results. In the case of the **Utilities, Multiutilities & Renewable Energy** and the **Industrial Products & Industrial Services** for example, since 62% of companies in both these industries have a **Sustainable Grade**.
- ❖ **Biotech & Pharma** and **Health Care** are most likely to be involved in controversial cases linked to antitrust and patent issues.

³² In Standard Ethics opinion, a Sustainable Grade; a rating of EE- (or higher), qualifies a company as Sustainable and therefore consistent with an ESG/SRI strategy

³³ For a further focus on the topic of Sustainable Supply Chain Management, Long and Short Supply Chains please refer to Gornati B. and Morello M. "Sustainable supply chain management (SSCM) and the UN sustainable development goals (SDGs): definitions and interconnections" in Leal W., Viera Trevisan L. et al. "*Sustainable Supply Chain Management and the UN Sustainable Development Goals: Exploring Synergies towards Sustainable Development*", the TQM Journal – 23 October 2023. DOI 10.1108/TQM-04-2023-0114; ISSN: 17542731. This study was funded by the Inter-University Sustainable Development Research Programme (IUSDRP) and is part of the "100 papers to accelerate the implementation of the UN Sustainable Development Goals" Initiative.

- ❖ The number of **Sustainable Grade** companies is surprisingly lower than expected in some industries: in the **Banking** industry for example, although **48%** of companies have a **Sustainable Grade**, **46%** have a **Not Fully Sustainable Grade** and **6%** a **Not Sustainable Grade**.
- ❖ Artificial Intelligence has become a key sustainability issue. Even though only a few European banks have implemented a related policy or addressed the topic in their corporate policies, SE analysts have appreciated the effort made by the **Italian Banking industry** in taking a step toward voluntary policies addressing it as a consistent part of their **governance of Sustainability**.
- ❖ In the field of **Asset Management & Financial Services**, the firm majority of companies (**63%**) have a **Not Fully Sustainable Grade**. In these industries, many companies still pursue **ethical** criteria or **responsible** strategies rather than the **systemic** sustainability standards promoted by the **EU**, the **UN** and the **OECD**.
- ❖ Despite the entry into force of the Sustainable Finance Disclosure Regulation – “**SFDR**”, SE analysts noted that there is still a lot of confusion between **ethical** approaches and **sustainable** investing in the **Credit** and **Asset Management Industry**. Banks and Asset Management companies tend to confuse “ethical exclusions” in **SRI** approaches with **Sustainable** Investing. It is the opinion of **Standard Ethics** that only the latter takes into account the international guidelines on Sustainability in ESG portfolio construction.³⁴
- ❖ 2023 UN “Conference Of Parties” (COP28) in Dubai has put forward the **Biosphere** as one of the main emergencies to be addressed globally. **Standard Ethics** analysts expect more voluntary policies and initiatives from companies in this sense, at a **global level**.
- ❖ **The Tax Policy** is a key sustainability topic, included in the governance of Sustainability recommendations promoted by the **EU** and the **OECD**. **Standard Ethics** analysts have thus noted that Big Corporations (mostly in the **Software and Tech.** and **Consumer Products** Industry) are very often subject to **fiscal** controversies. Such events impact their **Sustainable Grade**, leading to more prudent Corporate SERs.
- ❖ Other industries that preserve their high potential are performing better than expected. This can already be observed in the Fashion sector. The opposite can be said about the *SE Football Index*, which includes the major listed football clubs in the world and presents the following results: most of them (93%) are not compliant with international indications and therefore have a **Not Fully Sustainable** or a **Not Sustainable Grade**.
- ❖ Globally, banks are obliged to promote ‘**ESG-linked**’ terms of financings concerning debt instruments (i.e., especially loans and bonds). However, whenever the **use** and **management of proceeds** are not well assessed through the voluntary standards promoted by the **International Capital Market Association**’ rules, **greenwashing** risks as well as **aggressive marketing** practices are likely to damage the sustainable debt market. Recalls and early warnings to the banking industry have called the attention of **market regulators** and **supervisors** at the **EU** and **UK** level so far. Overall, **ESG-linked financial instruments** are a growing but still controversial category of investments.

³⁴ Please see “Early Warning” credit sector OECD countries on <https://standardethics.eu/>.

On 5 April 2022, Standard Ethics launched an “Early Warning” on the credit sector in OECD countries. As part of its regular analysis, Standard Ethics has noted that institutional investors, engaged on the ESG front, are asking the listed banks in their portfolios to intervene in credit policies. Often, however, the requests cross the boundaries of the Sustainability principles provided by the supranational organizations (UN, OECD and EU) and invite the adoption of an ethical approach that may result in the exclusion of certain economic sectors (such as defence, natural gas distribution, alcohol, contraceptive medicine and others). Such an approach may be reflected in ESG scoring systems operated by the investors themselves or in ESG indices. It is Standard Ethics’ view that these purely ethical demands pose systemic risks. There are two main reasons for this: • firstly, there is no way of knowing whether a decision that is not compliant with the UN, OECD and EU sustainability guidelines is of shared interest. Thus, there is concern that this practice may produce arbitrary discrimination in the credit market. For example, a winegrower or a manufacturing SME in the defence industry cycle might have less access to credit than others without a shared sustainability rationale; • secondly, it is believed that by introducing non-standard ethical principles that are not in line with international indications, the industrial systems of the world’s major democracies could add unjustified additional costs to the already existing costs of energy transition. It is also important to consider that any position on ESG which differs from that indicated by the UN, OECD and EU could be influenced not only by transparent ethical choices, but also by undisclosed economic interests, or could be based on a hierarchy of values to which the UN and countries guided by the rule of law do not subscribe.

- ❖ The European rail infrastructure management industry is going to manage and benefit from the **Next Generation EU Plan** and the **National Recovery and Resilience Plan** at the EU level. In previous research published at the end of 2023, SE Analysts noted that the industry is yet to be ready to fit in the challenges of the next few years. Not only because the rail industry must address **gender imbalances** and enhance **disclosure** practices to promote a more sustainable and transparent sector, but also because technological advancements, such as **electrification** and **sustainable infrastructure development** or the incoming **AI-driven solutions**, are crucial for achieving EU-wide sustainable mobility goals. Also, more investments in secondary and peripheral rail lines are essential to broaden **transportation accessibility** and foster **inclusive mobility solutions**.
- ❖ Finally, in the **fashion and luxury sector**, Standard Ethics analysts have noted that approx. 50% of the constituents of the *SE European Fashion & Luxury Index* obtained a Sustainable Grade, this means that companies operating in this business still have ample room for growth to achieve advanced levels of sustainability.

Highlights per countries

- ❖ The **Italian stock market** is characterised by the presence of numerous **financial and banking institutions** if compared to other countries. Competition in the banking sector is very strong and medium and small banks are also present. This, combined with a strong sensitivity to international best practices and the measures taken by regulators after the 2008 crisis, has led the banking system to rapidly align with the principles of Sustainability indicated by international guidelines. The sector is very dynamic. It should also be noted that many large Italian listed companies are former **state-owned companies** (e.g. ENI, ENEL, Terna, Snam) that have essentially become **public companies** with a strong international presence and a strong propensity for stakeholder dialogue.

It is also interesting to observe the geographical and temporal distribution of academic research on the specific topic of ESG ratings and scores. According to a recent bibliometric literature review by La Torre et al. (2021)¹ conducted on a sample of 113 articles published in the time span between 2013 and 2021, it emerges that almost 90% of the studies were published in the last three years, with a particular increase in 2021 (46%). The same study shows that the specific topic of ESG ratings is investigated by researchers worldwide. Europeans are the most active, with a total of 88 publications; in Europe, Italians are the leader with 26 works.

¹ La Torre M., Cardi M., Leo S., Schettini J., "ESG Ratings in the Financial Sector: a Systematic Literature Review", Preliminary version presented at the 5th Social Impact Investments International Conference, Rome 2-3 December 2021.
- ❖ Compared to previous years, SE analysts welcomed a higher number of the **less represented gender** (i.e. **women**) in top tier company boardrooms. Italian companies (mainly Italian Banks) are taking concrete steps towards Gender Equality as a Sustainability topic.
- ❖ The Italian Food & Beverage industry appears to be the one where more room for improvement is necessary. Companies in this sector are often not listed on regulated markets; therefore, are not required to disclose sustainability information. Best practices in this sector are sometimes lacking in the overall ESG reporting standards, transparency and disclosure area.
- ❖ **France** is characterised by companies with large **industrial** groups and a high presence in **foreign** markets. There is a traditional presence of the **French State**, which shows interest in the main **European social and environmental issues**. There is also a strong tradition of best practice in **ESG reporting** and measurement models. The fact that France is host to the **OECD** and the **European Parliament** demonstrates its sensitivity to international institutions. Very often, and positively, employees of French enterprises are involved in company ownership structures (this makes "Double Voting Rights" consistent in many cases). Throughout **Standard Ethics'** analyses, it has been noted that in France many CEO/Chairmen are not independent – this is often counterbalanced by the presence of Independent Lead Directorships.
- ❖ As far as **Germany** is concerned, the market is characterised by companies with a high **international** profile. The German industrial system directly involves its **workers**, which makes for some peculiarities that are absent in other systems, such as a strong and fruitful dialogue with **trade unions**. This, however, means that many listed companies appear less sensitive to certain principles of **corporate governance** (such as those linked to internationality, diversity and the independence of senior management), and less inclined to bring the favourable working conditions that can be seen at a domestic level to its foreign branches and subsidiaries. Sometimes, it seems that there is more attention paid to the conditions of national employees and communities than to those of foreign employees and their local context.
- ❖ **UK companies** are part of the most international systems in Europe and also appear to be the most compliant with **OECD** principles of corporate governance. UK companies also seems to be focused on fundamental sustainability principles such as diversity, gender equality and independence within their boards and top management. Companies in the UK generally pay adequate attention to transparency and reporting. In recent years, there has been a marked improvement by UK listed companies in ESG reporting, which has been continually standardising in accordance with international best practices. Moreover, the UK regulators are currently proposing a regime of **soft regulation** for ESG rating providers. Such system will clarify what an ESG rating provider should evaluate in the first place, while also boosting more transparency in the market and addressing traditional conflicts of interest among ESG raters. Finally, it can be noted

that some companies tend to promote their governance activities and projects way in advance of the changes and implementation of a company's organization and/or structure.

- ❖ **Spain** has only recently started accelerating towards Sustainability. The largest listed companies can be found in the **Banking** and **Utilities** industries. While the Banking sector still retains a strong 'responsible' footprint, the Utilities sector maintains a high level of good practice, in line with the standards set by the UN, the OECD and the European Union. Several utilities companies are converting, at least for part of their business and activities, to renewable energy sources and at the same time, are embracing best ESG practices with respect to international guidelines. Overall, **Spanish companies** tend to have good **ESG reporting standards, transparency and disclosure**. Nonetheless, good practices are lacking in the overall **Corporate Governance** area. For instance, especially, but not solely in Spanish mid-cap companies, Board of Directors hold a minority of independent directorships, with modest internationality, diversity and, in the wide majority of cases, have not yet achieved the level of gender equality recommended by the **EU in its sustainability** guidelines.
- ❖ Drawing some insights from the comparison of the two **mid cap** indices in Italy and Spain, which represent countries with a somewhat comparable economic structure, the following observations can be made:
 - the *SE Mid Italian Index* currently counts on a higher percentage of virtuous companies that have obtained a **Sustainable Grade**, but also prevails in the percentage of companies with the lowest rating (E) assigned in the two indices;
 - the structure of the *SE Mid Spanish Index* is more homogeneous, with 50% of companies obtaining the same rating (E+) which is equivalent to a **Not Fully Sustainable Grade**;
 - in both indices, the majority of ratings are rated as **Not Fully Sustainable**, which means that in general, mid cap companies in both countries still have relevant gaps to close on their path to an adequate level of Sustainability.
- ❖ Overall, **European small-medium enterprises (SMEs)** are required to implement new reporting rules by 2030 due to the **European Corporate Sustainability Reporting Directive ("CSRD")**. The SMEs analysed by **Standard Ethics** in Italy and Spain show some room for improvement in the areas of Corporate Governance and in the governance of Sustainability. However, **Standard Ethics** analysts note that Italian and Spanish SMEs have a very high potential concerning Sustainability. Some of them are already on the right Sustainability route.
- ❖ **US** companies (compared to European companies) tend to favour an approach that is closer to the Freeman doctrine and therefore more linked to classic **Corporate Social Responsibility** practices. This can be seen from the fact that they select objectives that are consistent with their expectations of the future, but are not always consistent with the international strategies set by the **UN**, the **OECD** and the **EU**. At a national level, the **fluctuating US participation in international organisations** has been noted. Much more debate has surrounded the US companies' approach to ESG. A previously latent ideological dichotomy is on the rise due to the approaching Presidential Elections and, most importantly, it is now directly influencing company strategy on Sustainability. This furthermore shows how key it is for companies to separate CSR, philanthropy and Corporate Ethics from Sustainability: only the latter is promoted by international organisations and can thus be coherently measured. Issues such as **taxation** (in large technology companies for example), or the transformation of companies, and therefore, the protection of stakeholders because of potential production centre closures or company restructuring, seem to have been underestimated. Issues that, according to the **OECD** and the **EU**, are an important part of Sustainability.
- ❖ **Hong Kong** companies seem to favour **environmental** objectives. They almost always appear at the centre of their policies. On the other hand, issues such as **human rights and privacy, gender equality** (even in top management), **taxation** and **tax avoidance** (resulting from offices headquartered in tax havens), are – on the whole – largely ignored, even though they are central to the principles of Sustainability as defined by the **UN**, the **OECD** and the **European Union**.

On the whole, the *SE Hong Kong index* is the furthest from international sustainability standards. Furthermore, disclosure relating to corporate governance is something Hong Kong companies

could improve on by aligning with the international indications for standard financial and non-financial reporting.

- ❖ **Swiss** companies tend to take a national position when defining the independence of their Board of Directors, but what should be considered are the international guidelines both for their definition of independence, ESG reporting and sustainability policies.
- ❖ **Dutch** companies look good overall, as nearly 70% of them have a **Sustainable Grade**. However, **taxation**, a key Sustainability issue highlighted by the **OECD Guidelines**, is a structural liability, even in companies whose Corporate SERs are within the top tier of the *SE Dutch Index*. Dutch companies appear more prone to paying attention to favourable working conditions at a domestic level, and less to foreign branches and subsidiaries. Corporate governance reporting could be improved.
- ❖ **Belgian** companies are good observers of the **EU** recommendations on Sustainability. Generally, they have transparent ESG reporting even if, in some cases, non-financial reporting tends to adopt national guidelines instead of international ones. Often corporate policies comply with the **UN**, the **EU** and the **OECD** standards. However, corporate governance structures are often lacking in the areas of gender equality, internationality and independence.
- ❖ Generally speaking, all enterprises in Europe will have to face the challenges posed by ESG ratings regulation. In fact, buyers currently demanding an **ESG score** to suppliers are likely to be left outside of the regulatory spectrum. This is why SE analysts foresee challenges encompassing **supply chain finance** in general.

Overall, Sustainability is becoming an important goal and ambition for many companies and the way they run their business. Some of them still need to find their way to truly understanding it and weave it into their corporate practices. The Standard Ethics Rating (SER) serves the above-mentioned purpose by providing companies with a feasible roadmap to navigate the global journey to Sustainability.

To give some broader examples, listed companies are increasingly linking top management long-term incentive plans to corporate sustainability long term targets. Corporate sustainability policies often focus on trending topics such as Artificial Intelligence, Gender Equality, Biodiversity and Circularity. Company governance practices are expanding towards a better dialogue with shareholders and other stakeholders. Code of Conducts are systemically including references to the international Sustainability guidelines. Finally, perhaps the most promising factor is that companies are willing to apply for a Solicited Sustainability Rating in order to measure their efforts and move faster towards becoming an ideal model of Sustainability.

Appendix 1 – Standard Ethics’ Research

Standard Ethics' ongoing research activity covered a number of current hot topics during 2023, from gender equality to Artificial Intelligence to the complex transport sector.

- [The state of gender equality in major European listed companies \(June 2023\)](#)

The Gender Equality Study compares the results of research conducted on 20 of Europe's largest listed companies selected from the top five economies (Spain, UK, France, Germany and Italy). The analysis, conducted by Standard Ethics on a sample of 100 European companies, was based on three markers: i) quantitative composition of the main managing Board in relation to the genders represented; ii) publication of a specific Gender Equality Policy; iii) alignment of the Policy with international indications dedicated to gender equality.

Here to see the full research and the main findings: <https://www.standardethics.eu/media-en/research-methodology/the-state-of-gender-equality-in-major-european-listed-companies/viewdocument/839>

- [Unmasking Sustainability in AI: an overview of global company practices \(November 2023\)](#)

The Research provides insight into the governance of Artificial Intelligence (AI) by the world's largest listed companies (a sample of 245), of which 98 were from the EU area and 147 from outside the EU. The Research was based on four questions ('markers') that can be summarised as follows: i) whether Artificial Intelligence has been acknowledged as having an ethical (and ESG) impact and is therefore referred to within Codes of Ethics; ii) whether companies have felt the need to publish a Policy on AI in order to be accountable to stakeholders for their practices; iii) whether companies disclose secondary documents on the subject, even if less comprehensive than a specific Policy; iv) whether any policies dedicated to AI are clearly aligned with international guidelines.

Here to see the full research and the main findings: <https://www.standardethics.eu/media-en/research-methodology/unmasking-sustainability-in-ai-an-overview-of-global-company-practices/viewdocument/894>

- [Making tracks towards Sustainability: an overview of the European rail infrastructure management industry \(December 2023\)](#)

The aim of the study is to provide an overview of the level of Sustainability achieved by the leading rail infrastructure managers in the European Union (excluding Cyprus and Malta, which have no railway lines) and in a number of non-EU countries such as Norway, Switzerland and the United Kingdom. The sample comprises a total of 28 companies: 25 companies from the 27 EU countries and 3 non-EU operators (Norway, Switzerland and the United Kingdom). The Study was based on 4 'questions' (Markers) that can be summarised as follows: i) whether gender equality has been achieved at senior management and Board level; ii) whether a gender 'equality' policy is in place; iii) whether a public commitment linked to specific environmental objectives has been made; iv) whether an Artificial Intelligence policy has been introduced.

Here to see the full research and the main findings: <https://www.standardethics.eu/media-en/research-methodology/making-tracks-towards-sustainability-an-overview-of-the-european-rail-infrastructure-management-industry/viewdocument/917>

Appendix 2 – Standard Ethics’ Next Steps

- The *SE Global Railway Manufacturers Index*

Standard Ethics will launch a new open-free sustainability Index with the aim to offer an overview of the level of Sustainability within the industry and to assess its progress to date. The analysis will allow companies to compare their current sustainability strategies with those of other players in the sector, and consider ways of improving their ESG approach in line with global guidelines.

In addition to dimension, analysts will take into consideration the overall approach to Sustainability (both with regard to product and supply chains), as well as areas such as the governance of Sustainability (including the quality of Codes of Ethics) and ESG risk management and control.

The weights of the individual constituents will be derived from the solicited or unsolicited Corporate **Standard Ethics Rating (SER)** assigned to each company. The **Corporate SER**, if necessary, will be revised or issued **in the first semester of 2023**.

Further details on the potential constituents of the Index will be provided in the first quarter of 2024.

- Corporate SME Rating

Standard Ethics Rating will soon launch a corporate rating dedicated to small and medium-sized enterprises. According to the European Commission's definition in the Commission Recommendation of 6 May 2003 as well as the amendments contained in the Commission Delegated Directive (EU) 2023/2775 of 17 October 2023³⁵ concerning the definition of micro, small and medium-sized enterprises, these are all “unlisted companies with a turnover of €50 million or less”.

Standard Ethics will apply its analyst-driven process, typical of rating agencies, to lead the issuance of a corporate rating for small and medium enterprises.

This new Product will enable small and medium-sized enterprises to have a snapshot of their positioning with respect to UN, OECD and EU sustainability guidelines and provide their stakeholders with accurate information. While forging a relationship with an ESG rating agency allows the SME to have continuous control and monitoring of its progress by a dedicated group of analysts, it also incentivises stakeholders to collaborate with the company in a common and constructive challenge oriented towards internationalisation and based on ever-stronger compliance.

- Standard Ethics is open to evaluating new subject areas and ready to go more in detail in the near future into those already covered.

³⁵ On 17 October 2023, the European Commission (EC) adopted a Delegated Directive amending the Accounting Directive to adjust the monetary size criteria (balance sheet and net turnover) for micro, small, medium-sized and large companies by at least 25%, thereby reducing the number of companies subject to full reporting obligations. Consequently, fewer companies will become subject to related legislation, such as the Corporate Sustainability Reporting Directive (CSRD).
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This analysis is based on documents and public information available as of 31.12.2023. A possible margin of error of no more than 0.5% is estimated by the Research Office. A value around the estimate does not affect the validity of the results.

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