



# **STANDARD ETHICS: THE BIG PICTURE**

*Annual Report 2022*

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Standard Ethics Research Office, London



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# 1.Introduction

Sustainable and global financial markets are entering a new year of uncertainty that is likely to be a watershed for the many demands that have emerged over the course of 2022. The pandemic aftermath, which continues to effect world economies, the ongoing conflict in Ukraine, and the urgent climate crisis have disrupted the strategic priorities and expectations of governments, business leaders, corporations, investors and society itself. The influence of this difficult and ever-changing international and socio-political environment, marked by extremely delicate international relations, has increasingly placed the onus on the supranational organisations (**EU, UN, OECD**) to act diplomatically in the **interests of the planet and future generations**.<sup>1</sup> Interests that are also part of the broader notion of Sustainability, as defined by the Brundtland Report in 1987, and endorsed by **Standard Ethics**, analyst-driven **sustainability** rating agency.

The most important European and global regulatory authorities have continued to work on installing a standardisation framework for **ESG** opinion providers, where the demands for transparency and honest disclosure are paramount. This is yet another confirmation of how compelling it has become to narrow the information gap and the misunderstanding around **ESG** methodologies and assessments, generated to date in the market. This discrepancy has already been highlighted by **Standard Ethics** in its paper "*Post-crisis ESG: from a Ptolemaic approach to a Copernican vision*"<sup>2</sup> published in 2019, and the Agency continues to contribute actively to the many ongoing European consultations on the subject as well as run its own business in alignment with the voluntary requirements established.

As a European sustainability rating agency, the position of **Standard Ethics** has always remained steadfast and well-anchored to the international indications on Sustainability provided by the **UN, OECD** and **European Union**.

From the outset it has taken a firm stance on measuring the alignment of individual companies, nations or security issues with the standards disseminated on a global scale. Its model is centred on the notion of Sustainability<sup>3</sup> and its research activity has dealt with 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);<sup>4</sup>
- ii. regulatory standards for an algorithmed **ESG** analysis (very different from a KPI approach);

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<sup>1</sup> On 18<sup>th</sup> of January 2023, the Standard Ethics Research Office acknowledged that the Observatory against Greenwashing, a coalition of experts and NGOs, which includes WWF, ECOS, BirdLife, Transport&Environment, Chemsec, Milieudefensie, Legambiente and Ecologistas en Acción, had launched its own **independent taxonomy**. The Observatory communicated that, thanks to its methodological note, investors and banks will be able to verify on a "scientific basis" whether their investments are truly green. The initiative was taken after the EU noted, in its Taxonomy, of the utility that gas and nuclear power hold in this phase of energy transition towards renewable sources. According to the Observatory against Greenwashing, the EU Taxonomy would be "another tool to deceive consumers".

Their initiative proves, once again, how much it is necessary to clarify the notion of Sustainability.

It is always interesting to observe other points of view from authoritative experts and to understand how greedy the ESG scoring business is, determining the possibility of gaining credit in the world of finance through self-designed models.

It is the opinion of Standard Ethics that when we talk about Sustainability and the Energy Transition, we are dealing with a common interest, we are referring to the interests of future generations and the planet. It is not the position of an NGO, an Asset Manager or a single evaluator to decide what is sustainable or not for the whole world and companies operating in different economic industries. This role depends on whoever has received the mandate from citizens and nations to do so. The evaluators should focus on measuring the effective distance between individual companies and what the UN, OECD or EU indicate as the way forward.

<sup>2</sup> For further details:

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

<sup>3</sup> "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>

<sup>4</sup> 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.

- iii. the distinction between **scoring** and **rating** (two distinct notions which are often confused)<sup>5</sup>;
- 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**<sup>6</sup>;
- vi. highlighting the differences between credit rating agencies and sustainability rating agencies.

During the sixth edition of “**The Social Impacts Investment International Conference**” at La Sapienza University of Rome on 2 December 2022, **Standard Ethics** contributed with the speech “**When ESG investor opinions become a negative factor**”, which focused on the need to separate investor **ESG** opinions from those provided by independent agencies in the market. This distinction is fundamental because there are significant differences in the methodologies by which these opinions are processed; the management of conflicts of interest with clients and recipients as well as the use of the opinions themselves. The lack of distinction between these two types of **ESG** opinions creates problems for the market, for listed companies and makes scientific analysis less reliable.<sup>7</sup>

**Standard Ethics** is also collaborating with many different universities, including La Sapienza University of Rome to ensure that even internal company assessments such as supplier evaluations are compliant with the international sustainability indications established by the **UN, OECD** and **EU**, and that adequate attention is also paid to the roles that **small and medium-sized enterprises (SMEs)** play in their management. Below is the University's contribution to the topic of 'supply chain management for SMEs.

SMEs play key roles in supply chain management: they supply raw materials, produce products, and distribute finished goods to customers. Many studies of supply chain management focus on large firms, while SMEs are treated mostly from the viewpoint of larger firms (Chopra and Meindl, 2001; Kukalis, 1989; Lambert and Cooper, 2000).

Recent literature has been controversial over the benefits of supply chain partnerships for SMEs. In fact, while participation in supply chains could help SMEs improve their business, it involves engaging costly activities. Since SMEs often lack resources, gaining benefits from supply chain partnerships is difficult: SMEs must be able to meet strict quality and delivery standards, and, at the same time, they must be able to compete on either costs or innovative elements (Hong and Jeong, 2006). Put simply, to be viable along supply chains, SMEs are required to undertake investments, whose timing is set by the larger firms.

Being compliant with ESG standards requires investments, that may absorb resources in difficult times, especially in the case of SMEs: for example, they have to make use of special materials, update packaging, innovate on transportation modes, and so on (Carter and Easton, 2011). Thus, initiatives for sustainability improvement need synergy and cooperation with suppliers (Darnall et al., 2008).

In fact, large firms and governments have attempted to provide assistance to SMEs in terms of financial resources, capabilities, know-how and expertise. However, empirical evidence suggests that such strategies and approaches are not always effective (Pedersen, 2009). Usually, they can be classified as monitoring/control and mentoring (Vachon, 2007 and Vachon and Klassen, 2006): the monitoring/control approach requires less time and fewer resources, but it does not enable or verify the suppliers' actual sustainability performance, that is it may induce 'green-washing' behavior; the mentoring approach is more effective, but it requires large firms to allocate resources and investment to improve their suppliers' environmental performance (Rao and Holt, 2005).

Standard Ethics has started a scientific cooperation with Fineteca, a company whose mission is to facilitate access to financial markets for SMEs operating along supply chains.

<sup>5</sup> 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.

<sup>6</sup> 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>

<sup>7</sup> For further details on this position: <https://www.standardethics.eu/fr/component/edocman/when-esg-investor-opinions-become-a-negative-factor/viewdocument/758?Itemid=0>

## 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;
- **Standard Ethics** does not provide institutional investors with advice, analysis or data regarding companies it is currently rating, to ensure its **independency from the financial market**;
- **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

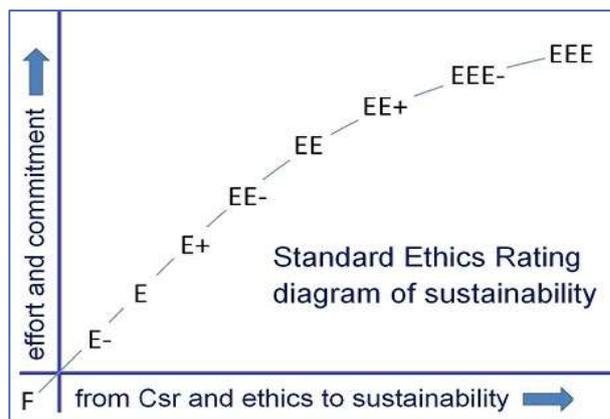
The **Standard Ethics Rating** (SER) is an evaluation of the level of compliance of companies and sovereign nations on matters such as governance and Sustainability as indicated by documents and guidelines provided by the **United Nations**, the **OECD** and the **European Union**.

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	

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:

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

- **$c_{EU}$**  = 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
- **$Id_{EU-OECD}$**  = 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 **2022**. 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 three 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

Standard Ethics: The Big Picture – Annual Report 2022



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

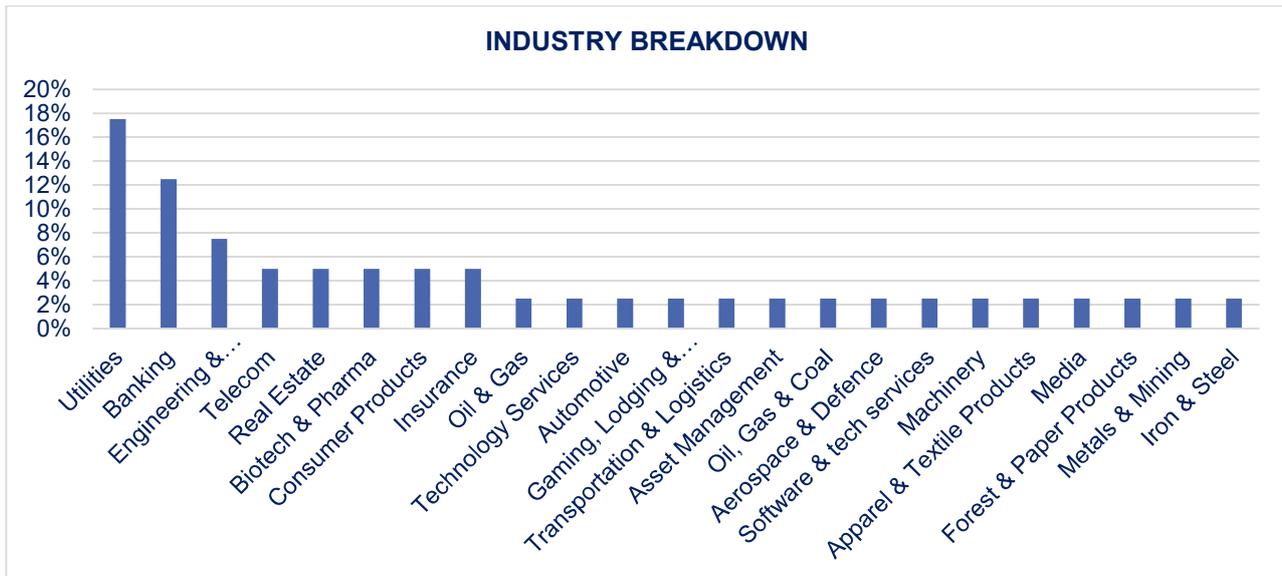


The last action on the Kingdom of Spain's Country SER was on 25 September 2017. The rating was prudently revised as a result of internal matters relating to the Catalonia Region. This has not impacted Spain's excellent overall Country Rating. The Country's path to Sustainability over the last few years 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.

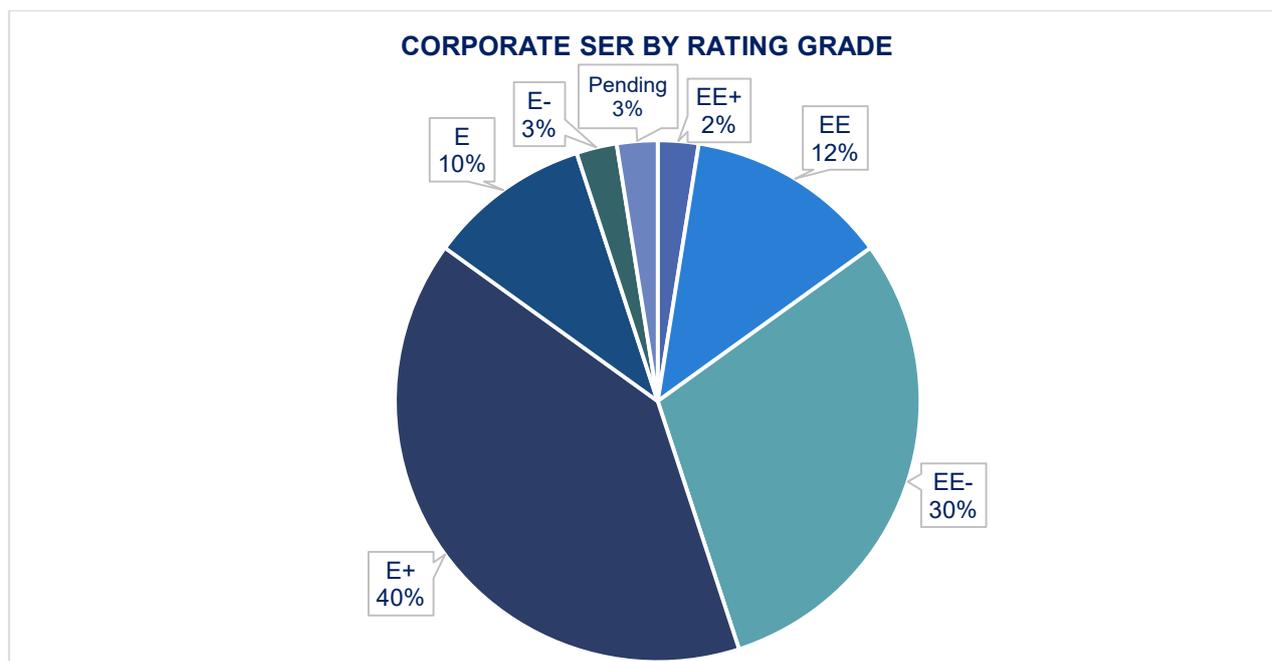
In 2013, **Standard Ethics** launched the **SE Spanish Index**, composed of the 35 main listed companies in Spain. To date, the **SE Spanish Index** counts 40 components. The last review of the **SE Spanish Index** was published on 30 September 2022. In 2022, **Standard Ethics** launched the **SE Mid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

#### 1. Industry breakdown (Spain)



The bar chart shows the breakdown by sector of the **SE Spanish Index** components. Each **Standard Ethics** index is an *Open Free Sustainability Index* and provides full disclosure: the methodology, selection criteria and calculation formula are public and can be freely used, free of charge, as a benchmark by decision-makers and stakeholders. The SE indices have been applying the same methodology since 2004 and are self-financed. The **SE Spanish Index** includes the top 40 listed companies by market capitalisation and was last updated on 30 September 2022. The chart indicates that 3 sectors stand out in the distribution: Utilities (18%), Banking (13%), and Engineering & Construction (8%). Telecommunications, Real Estate, Biotech & Pharma, Consumer Product and Insurance together account for 25% of the sample. Each of these accounts separately for 5% of the sample. The other sectors included are each worth 3% of the sample.

## 2. Corporate SER by rating grade (Spain)



The pie chart above represents the distribution of company ratings across the 9 Standard Ethics rating grades.<sup>8</sup>

The pie chart shows that 2% of the *SE Spanish Index* constituents are rated EE+, 12% EE, 30% EE-, 40% E+, 10% E, 3% E- and 3% are pending. Currently, no companies hold EEE; EEE- and F corporate ratings: this means that the distribution tends to converge towards the "mid rating grades".

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*; while **Sustainable<sup>9</sup> Grade** companies represent 44% of the same Index.
- A third 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 a half (40%) 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**.

<sup>8</sup> **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/>.

<sup>9</sup> Please note that the term "Sustainable" as used in the text refers specifically to the rating grades as defined by Standard Ethics.

### 3. SE Spanish Index constituents (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Merlin Properties	ES0105025003	E+		Aena*	ES0105046009
EE		Amadeus IT Group	ES0109067019	E+		Acerinox	ES0132105018
EE		BBVA	ES0113211835	E+		ArcelorMittal	LU1598757687
EE		Cellnex Telecom*	ES0105066007	E+		Bankinter	ES0113679137
EE		Iberdrola	ES0144580Y14	E+		Caixabank	ES0140609019
EE		IAG International Consolidated Airlines Group	ES0177542018	E+		Endesa	ES0130670112
EE		R.E.C. Red Electrica Corporacion	ES0173093024	E+		Grifols	ES0171996087
EE-		Acciona	ES0125220311	E+		Inmobiliaria Colonial	ES0139140174
EE-		Banco de Sabadell	ES0113860A34	E+		Melia Hotels International	ES0176252718
EE-		Enagas	ES0130960018	E+		Naturgy Energy Group	ES0116870314
EE-		Ence Energia y Celulosa	ES0130625512	E+		Tecnicas Reunidas	ES0178165017
EE-		Ferrovial	ES0118900010	E+		Fluidra	ES0137650018
EE-		Indra	ES0118594417	E+		Grupo Catalana Occidente	ES0116920333
EE-		Repsol	ES0173516115	E+		Ebro Foods	ES0112501012
EE-		Siemens Gamesa Renewable Energy	ES0143416115	E+		Almirall	ES0157097017
EE-		Telefonica	ES0178430E18	E		ACS Actividades de Construccion y Servicios	ES0167050915
EE-		Viscofan	ES0184262212	E		CIE Automotive	ES0105630315
EE-		Corporacion Financiera Alba	ES0117160111	E		Mediaset Espana	ES0152503035
E+	Pos.	Banco Santander	ES0113900J37	E-		Inditex	ES0148396007
E+	Pos.	Mapfre	ES0124244E34	Pending		Acciona Energia	ES0105563003

\*Please note that the rating of these companies has been updated in January 2023

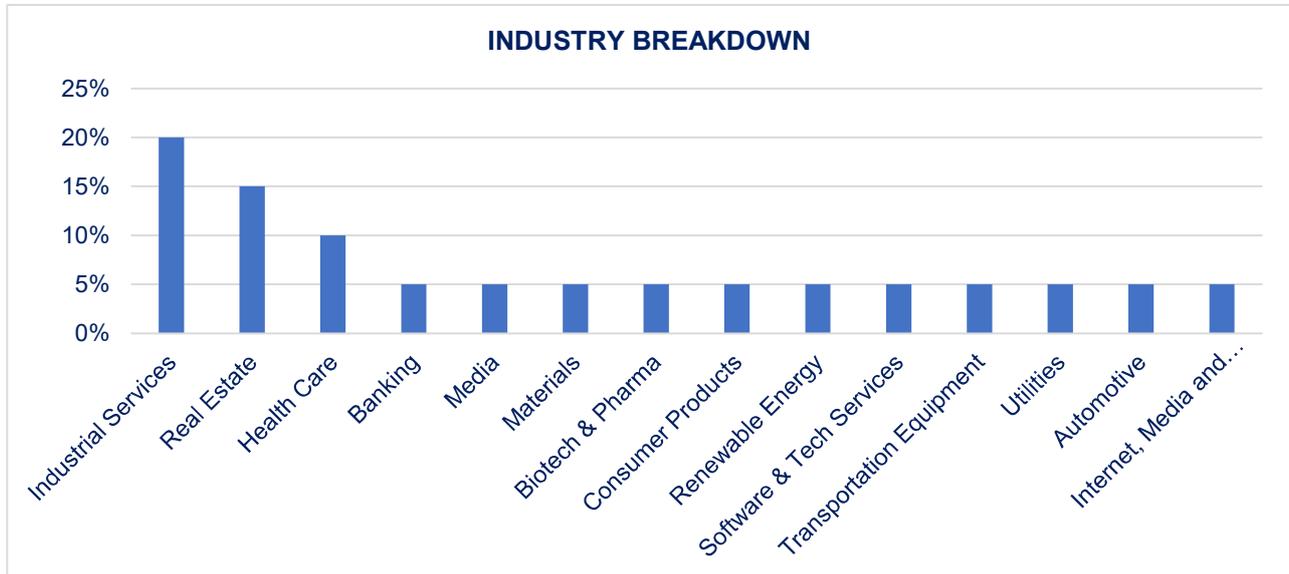
More details on the SE Spanish Index constituents:

- In the top rating layer of the SE Spanish Index distribution, we find the following companies: Merlin Properties (rated EE+), Amadeus IT Group, BBVA, Cellnex Telecom, Iberdrola, International Consolidated Airlines Group, Red Electrica Corporacion, which are all rated EE.
- The remaining **Sustainable Grade** companies are the following: Acciona, Banco de Sabadell, Corporacion Financiera Alba, Enagas, Ence Energia y Celulosa, Ferrovial, Indra Sistemas, Repsol, Siemens Gamesa Renewable Energy, Telefonica, Viscofan, which all have an EE- rating.
- Acerinox, Aena, Almirall, ArcelorMittal, Bankinter, Caixabank, Ebro Foods, Endesa, Fluidra, Grifols, Catalana Occidente, Inmobiliaria Colonial, Melia Hotels Group, Naturgy Energy Group and Tecnicas Reunidas are all rated E+, which is a **Not Fully Sustainable Grade**. Banco Santander and Mapfre currently have a Positive Outlook.
- Some companies show room for improvement: ACS Servicios, CIE Automotive and Mediaset Espana 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

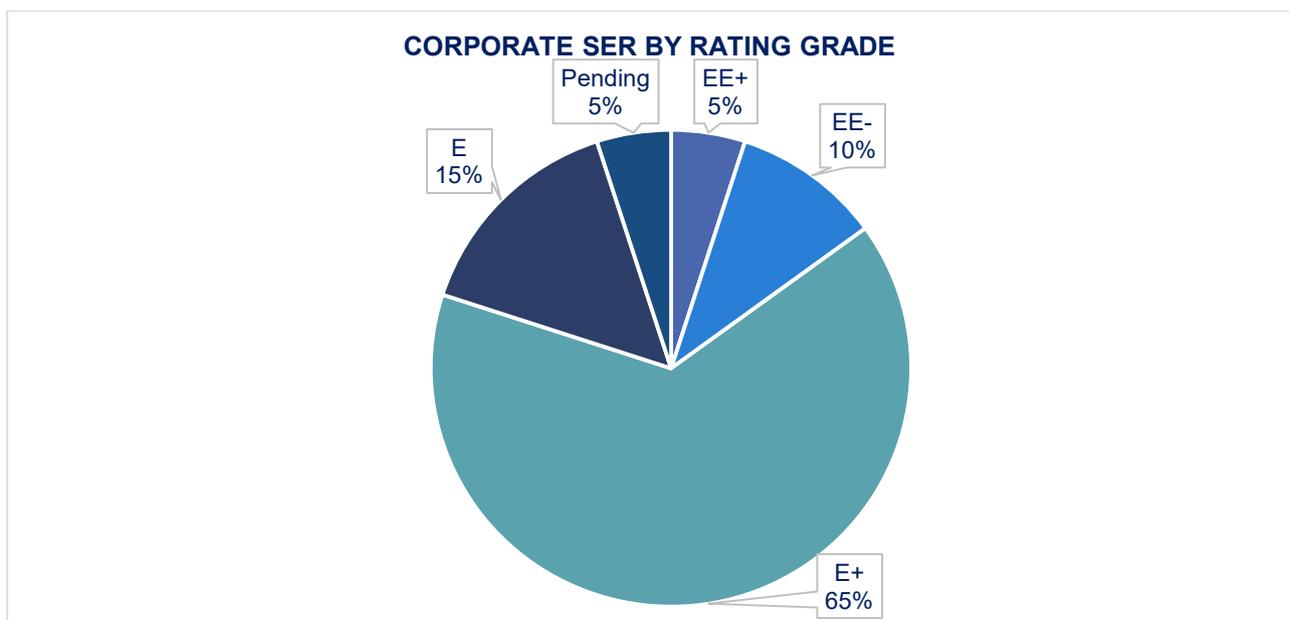
Most issued Corporate SER: E+

### 1. Industry breakdown (SE Mid Spanish Index)



The bar chart shows the industry breakdown of the *SE Mid Spanish Index* constituents. The Index includes 20 listed mid-cap Spanish companies, it is open, free and was published on 14 November 2022. The graph highlights 3 main industry: Industrial Services (20%), Real Estate (15%), and Health Care (10%). All other sectors, i.e. Banking, Media, Materials, Biotech & Pharma, Consumer Products, Renewable Energy, Software & Tech Services, Transportation Equipment, Utilities, Automotive and Internet, Media & Services each account for 5%. All these sectors together account for 55% of the Index distribution.

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



The pie chart above represents the distribution of the *SE Mid Spanish Index* Corporate SERs through Standard Ethics 9 different rating grades. The pie chart shows that 65% of Index constituents are rated E+, 15% have an E rating, 10% have an EE- rating, and 5% have an EE+ rating. No companies are rated EEE and F, while one company is Pending. This means that the distribution tends to converge to the “mid-rated” grades. Of all

the ratings, there is a high number of E+ rating grades which represents almost two-thirds of the total. Regarding the level of **Sustainable Grade**<sup>10</sup>, it accounts for 15% of the ratings assigned, whereas the **Not Fully Sustainable Grade** is 80%. There is no rating classified as a **Not Sustainable Grade**.

### 3. SE Mid Spanish Index constituents (last updated in November 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Applus Services	ES0105022000	E+		Metrovacesa	ES0105122024
EE-		Faes Farma	ES0134950F36	E+		Neinor Homes	ES0105251005
EE-		Grenergy Renovables	ES0105079000	E+		Pharma Mar	ES0169501022
E+		Aedas Homes	ES0105287009	E+		Sacyr	ES0182870214
E+		CAF	ES0121975009	E+		Solaria	ES0165386014
E+		Edreams Odigeo	LU1048328220	E+		Unicaja Banco	ES0180907000
E+		Gestamp Automocion	ES0105223004	E		Atresmedia Corporacion	ES0109427734
E+		Global Dominion Access	ES0105130001	E		Miquel y Costas & Miquel	ES0164180012
E+		Laboratorios Farmaceuticos Rovi	ES0157261019	E		Prosegur	ES0175438003
E+		Logista Holdings	ES0105027009	Pending		DIA	ES0126775032

Within the *SE Mid Spanish Index*:

- Applus Services (EE+), Faes Farma and Grenergy Renovables (EE-) are the only Mid Spanish companies with a **Sustainable Grade**.
- The following companies are rated E+; a **Not Fully Sustainable Grade**: Aedas Homes, CAF, Edreams Odigeo, Gestamp Automocion, Global Dominion Access, Laboratorios Farmaceuticos Rovi, Logista Holdings, Metrovacesa, Neinor Homes, Pharma Mar, Sacyr, Solaria and Unicaja Banco.
- Other **Not Fully Sustainable Grade** companies are the following: Atresmedia Corporacion, Miquel y Costas & Miquel and Prosegur, which are all rated E.
- DIA's rating is Pending.

<sup>10</sup> **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/>.

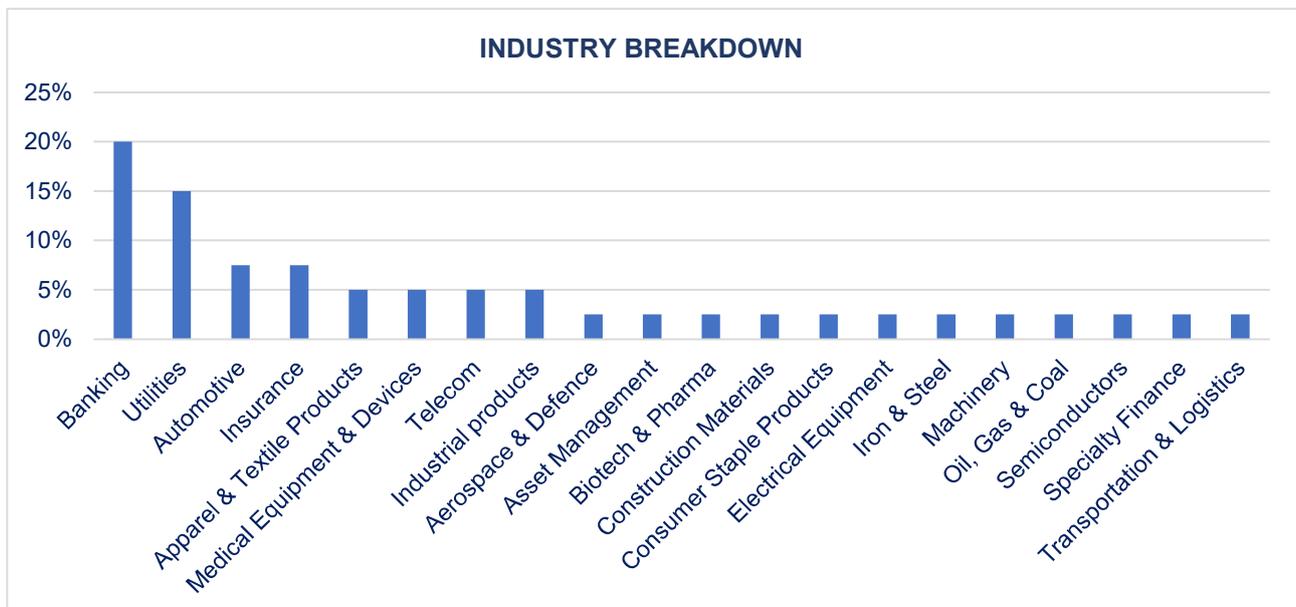
[Country (SER): **EE+**] Most issued rating: **E+** 

The last action on the Republic of Italy's Country (SER) was on 19 October 2022. Italy's Country SER was confirmed (see chapter 3 on Country SER for details). As in other European countries, the dialectics of populist parties on Euroscepticism is still ongoing, but in the case of Italy, 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.

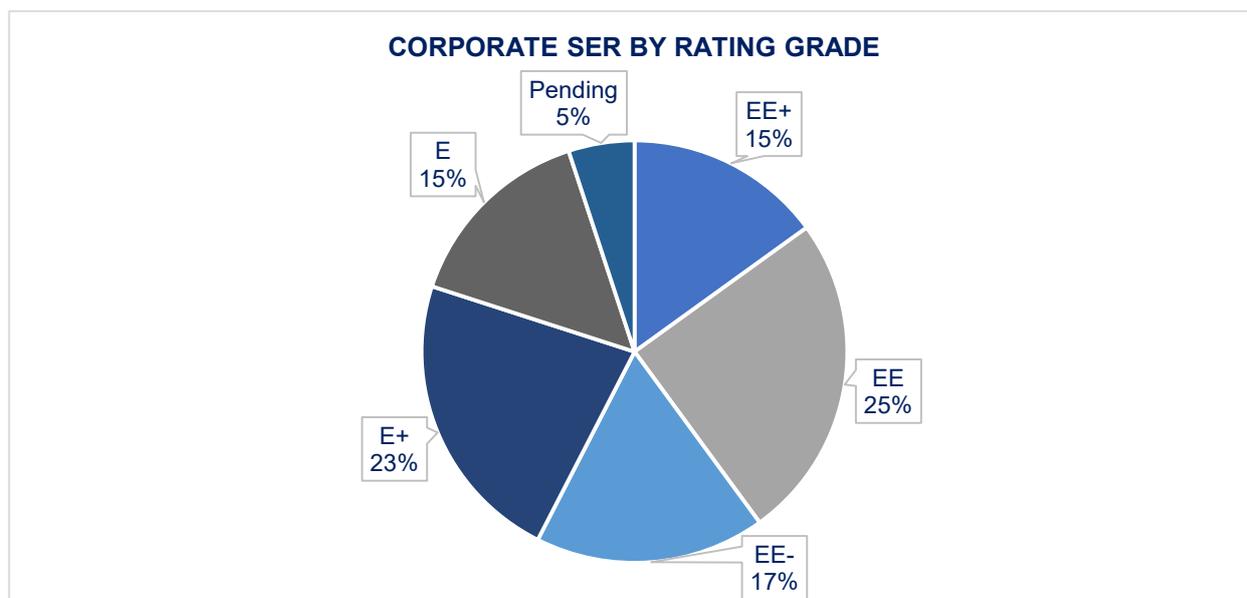
In 2014, **Standard Ethics** launched the **SE Italian Index**, composed of the 40 main listed companies in Italy. To date, the **SE Italian Index** counts 40 components. The last review of the **SE Italian Index** was published on 30 September 2022. In 2022, Standard Ethics launched the **SE Mid Italian 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 updated on 30 September 2022. It shows that the distribution highlights 4 top industries: Banking (20%), Utilities (15%), Automotive (8%) and Insurance (8%). Apparel & Textile Products, Medical Equipment & Devices, Telecom and Industrial Products together account for 20% of the sample. Each of these accounts separately for 5% of the sample. The other sectors included are each worth 3% 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.<sup>11</sup>

The pie chart shows that 15% of the *SE Italian Index* constituents are rated EE+, 25% are rated EE, 17% are rated EE-, 23% are rated E+, 15% 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 **57%** constituents that hold a **Sustainable<sup>12</sup> Grade** (i.e. rated EE+, EE or EE-) and **38% Not Fully Sustainable Grade** (i.e. rated E+ or E).
- A quarter of the *SE Italian Index* components 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* components 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**.

<sup>11</sup> **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/>.

<sup>12</sup> 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 components (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		A2A	IT0001233417	EE-		Moncler	IT0004965148
EE+		Banca Generali	IT0001031084	EE-		Banca Mediolanum	IT0004776628
EE+		BPER Banca*	IT0000066123	EE-		Interpump Group*	IT0001078911
EE+		Eni	IT0003132476	EE-		Ferrari	NL0011585146
EE+		FinecoBank	IT0000072170	E+	Pos.	CNH Industrial	NL0010545661
EE+		Prysmian	IT0004176001	E+		Amplifon	IT0004056880
EE+		UniCredit	IT0005239360	E+		Azimut Holding	IT0003261697
EE+		UnipolSai	IT0004827447	E+		Buzzi Unicem	IT0001347308
EE		Terna	IT0003242622	E+		Italgas	IT0005211237
EE		Enel	IT0003128367	E+		Pirelli & C.	IT0005278236
EE		Generali	IT0000062072	E+	Under Monitoring	Poste Italiane	IT0003796171
EE		Intesa Sanpaolo	IT0000072618	E+		Recordati	IT0003828271
EE		Leonardo	IT0003856405	E+		Stellantis	NL00150001Q9
EE		STMicroelectronics	NL0000226223	E	Pos.	Nexi	IT0005366767
EE		Unipol Gruppo	IT0004810054	E	Pos.	Salvatore Ferragamo	IT0004712375
EE		Banco BPM	IT0005218380	E		Campari	NL0015435975
EE		Snam	IT0003153415	E		INWIT Infrastrutture Wireless Italiane	IT0005090300
EE-		DiaSorin	IT0003492391	E		Telecom Italia	IT0003497168
EE-		Hera	IT0001250932	E		Tenaris	LU0156801721
EE-		Mediobanca	IT0000062957	Pending		Iveco Group	NL0015000LU4

\*Please note that the rating of these companies has been updated in January 2023

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: A2A, Banca Generali, BPER Banca, Eni, FinecoBank, Prysmian, UniCredit, UnipolSai.
- In the top rating layer of the Index distribution, sit: Enel, Generali, Intesa Sanpaolo, Leonardo, STMicroelectronics, Unipol Gruppo, Banco BPM, Terna and Snam (with a Positive Outlook).
- The remaining **Sustainable Grade** companies are: DiaSorin, Hera, Mediobanca, Moncler, Banca Mediolanum, Interpump Group and Ferrari.
- CNH Industrial, Amplifon, Azimut Holding, Buzzi Unicem, Italgas, Pirelli & C., Poste Italiane, Recordati and Stellantis are all rated E+, a **Not Fully Sustainable Grade**.
- CNH Industrial currently has a Positive Outlook. It could become a **Sustainable Grade** company in the next few months.
- The most significant margins for improvement are – according to **Standard Ethics'** analysts – with regard to: Nexi, Salvatore Ferragamo, Campari, Infrastrutture Wireless Italiane, Telecom Italia and Tenaris.

## Focus: Standard Ethics Italian Banks Index

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

\*Please note that the rating of this company has been updated in January 2023

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*: 15% of Italian banks are rated EE+, 25% of Italian banks are rated EE, 25% of Italian banks are rated EE-, 5% of Italian banks are rated E+, 15% of Italian banks are rated E and the remaining rated 15% are currently “pending”.

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: **51% of the European banks** are **Sustainable Grade**, **38% are Not Fully Sustainable Grade**, **5% are Not Sustainable Grade** and the remaining **5% are “suspended”**. Considering the SE European Banks Index rating grades, they are distributed as follows: **5%** of the Index constituents are rated EE+, **18%** have an EE rating, **28%** are rated EE-, **26%** have an E+ rating, **12%** are rated E, **5%** have an E-rating and the remaining **5%** is “**pending**”.<sup>13</sup> Finally, no banks at the European level are rated EEE and 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 **14%** of Hong Kong’s listed banks, components of the SE Hong Kong Index, have a **Sustainable Grade**, **72%** of the Index’s banks hold a **Not Fully Sustainable Grade** and the remaining **14%**, a **Not Sustainable Grade**. The rating grades are therefore: **14%** EE, **29%** E+, **43%** E and **14%** E-.

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

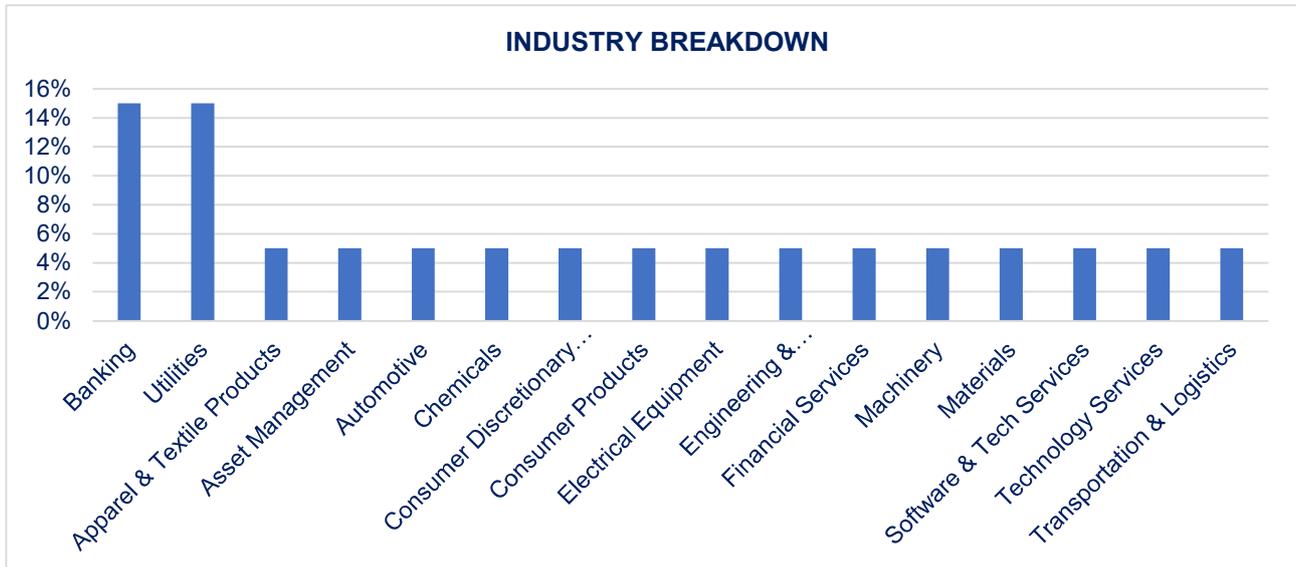
- Italian banks are **voluntarily** complying with global Sustainability recommendations. This can be noted when looking at corporate governance practices, as well as at the Italian banks’ corporate **Codes of Conduct**, formally including references to the global standards on Sustainability;
- The Italian 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 even when comparing them to **Hong Kong banks**.

<sup>13</sup> Those companies which do not comply with the indications provided by the United Nations, OECD and EU, or do not release enough information, or are facing major changes, do not receive ratings and are included amongst the “pending” issuers.

## Focus: Standard Ethics Mid Italian Index

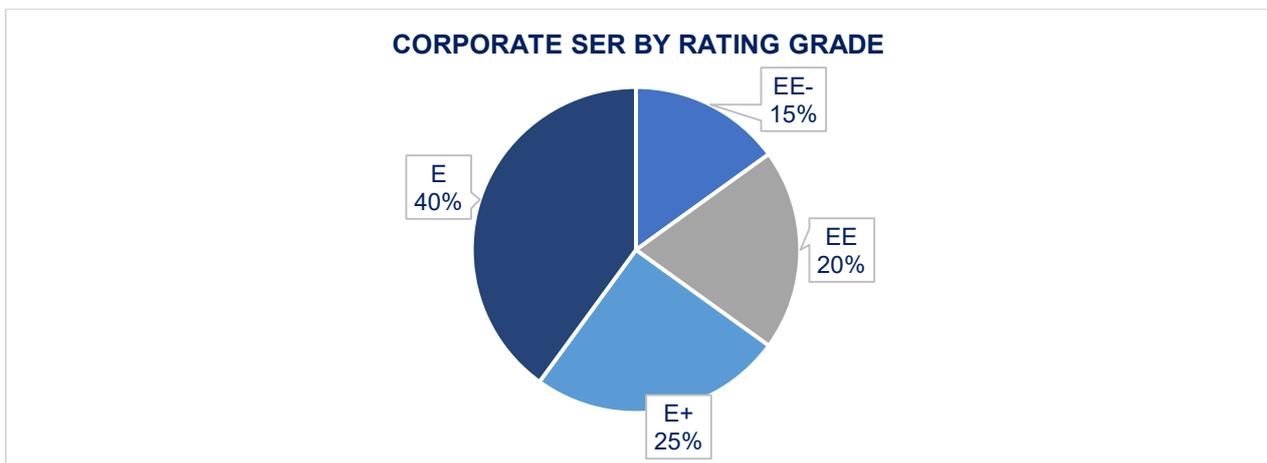
Most issued Corporate SER: E

### 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 on 30 November 2022. It shows that the distribution highlights 2 top industries: Banking (15%) and Utilities (15%). The remaining 70% 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 4 different rating grades.<sup>14</sup> The chart shows that 40% of the *SE Italian Index* components are rated E, 25% are rated E+, 20% are rated EE and 15% are rated EE-. No companies are rated EEE; EEE-, EE+ and F. This means that the distribution tends to converge to the “mid-rated” grades. The level of **Sustainable Grade** accounts for 35% of the ratings assigned, whereas the **Not Fully Sustainable Grade** is 65%. There is no rating classified as a **Not Sustainable Grade**.

<sup>14</sup> **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. SE Mid Italian Index (last updated in November 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE	Pos.	Acea	IT0001207098	E+		Technogym	IT0005162406
EE		Anima Holding	IT0004998065	E+		Webuild	IT0003865570
EE		Banca Popolare di Sondrio	IT0000784196	E	Pos.	Credito Emiliano	IT0003121677
EE		ENAV	IT0005176406	E		BFF Bank	IT0005244402
EE-	Pos.	Tamburi Investment Partners	IT0003153621	E		Carel Industries	IT0005331019
EE-		Brembo	IT0005252728	E		De'Longhi	IT0003115950
EE-		Brunello Cucinelli	IT0004764699	E		Gruppo MutuiOnline	IT0004195308
E+	Pos.	ERG	IT0001157020	E		GVS	IT0005411209
E+		Iren	IT0003027817	E		Reply	IT0005282865
E+		SOL	IT0001206769	E		Zignago Vetro	IT0004171440

When observing the *SE Italian Index*:

- At present there are no EEE- ratings. The companies with the highest Corporate SER are: Acea, Anima Holding, Banca Popolare di Sondrio and Enav.
- The remaining **Sustainable Grade** companies are: Tamburi Investment Partners, Brembo and Brunello Cucinelli.
- ERG, Iren, SOL, Technogym and Webuild are all rated E+, a **Not Fully Sustainable Grade**.
- ERG has a Positive Outlook. It could become a **Sustainable Grade** company in the next few months.
- The most significant margins for improvement are – according to **Standard Ethics'** analysts – with regard to: Credito Emiliano, BFF Bank, Carel Industries, De'Longhi, Gruppo MutuiOnline, GVS, Reply and Zignago Vetro.

#### **Focus: Standard Ethics Food&Beverage Sustainability Italian Benchmark**

On 18 March 2022, **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:

- 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).

The results and analysis of the study have been presented at Villa Necchi in Milan on the 23<sup>rd</sup> of May 2022 during the Global Summit "*La Sostenibilità Fattore Di Crescita Delle Aziende Nel Settore Agro-Alimentare*" organised by the **Gambero Rosso Foundation**.

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

Rating	Outlook	Company	Rating	Outlook	Company
EE		Illycaffè	E+		M. Zanetti Beverage
EE-	Pos.	Gruppo Casillo	E+		Mutti
EE-		A. Loacker	E+		Newlat Food
EE-		Bolton Group	E+		Orsero
EE-		Eurovo	E	Pos.	Sammontana
EE-		La Doria	E		Bonterre
E+	Pos.	Bauli	E		Campari
E+		Barilla	E		De Cecco
E+		Cereal Docks	E		Gruppo Amadori
E+		Colussi	E		Gruppo Cremonini
E+		Conserve Italia	E		Gruppo Veronesi
E+		Ferrero	E		Pastificio Rana
E+		Fileni Alimentare	E		Salumificio F.lli Beretta
E+		Granarolo	E		San Benedetto
E+		Lavazza	E		Unigra

- In the top rating layer of the distribution of the *SE Italian Food&Beverage Index* sit: Illycaffè (EE), Gruppo Casillo (EE- with a positive outlook), A.Loacker (EE-), Bolton Group (EE-) and Eurovo (EE-). All these companies are **Sustainable Grade**.
- La Doria, 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)
- Bonterre, 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 2022



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



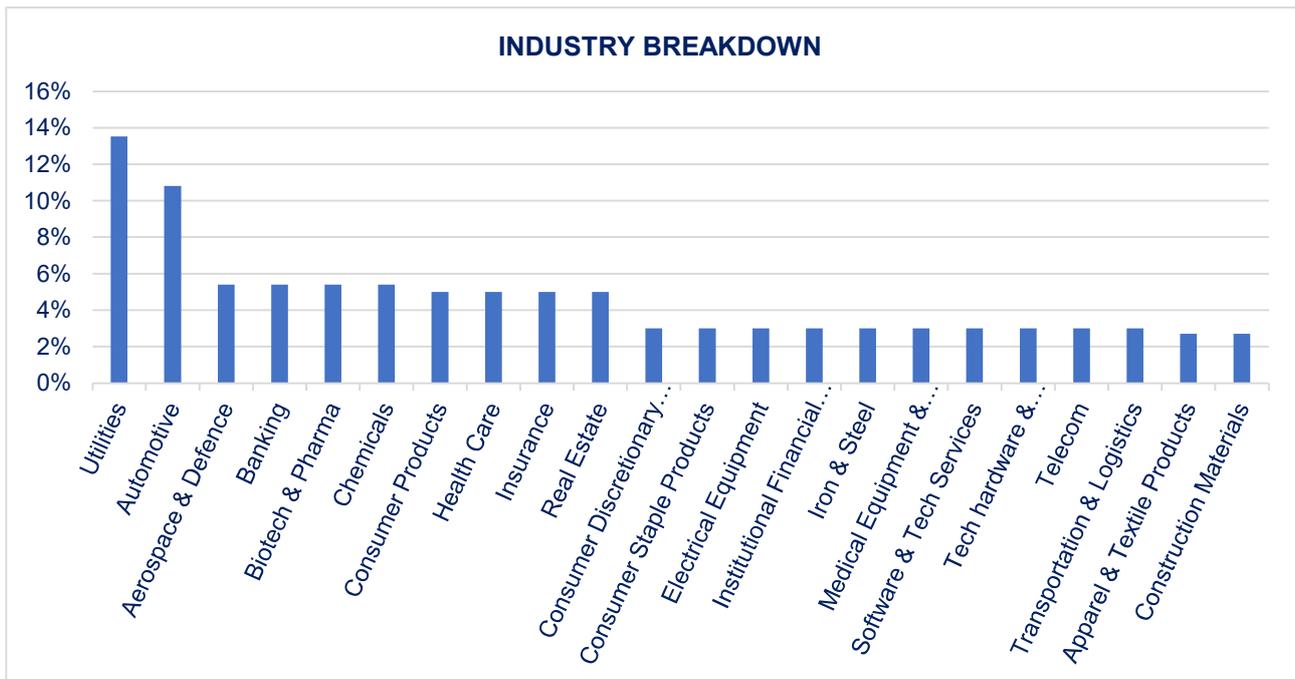
The last action on the Federal Republic of Germany’s Country SER was on 7 April 2014 with a confirmation of the EE+ rating. Germany was downgraded in 2013 from EEE- to EE+ due to its inner political inflexibility, which somehow opposed the Single European Market political economy.

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.

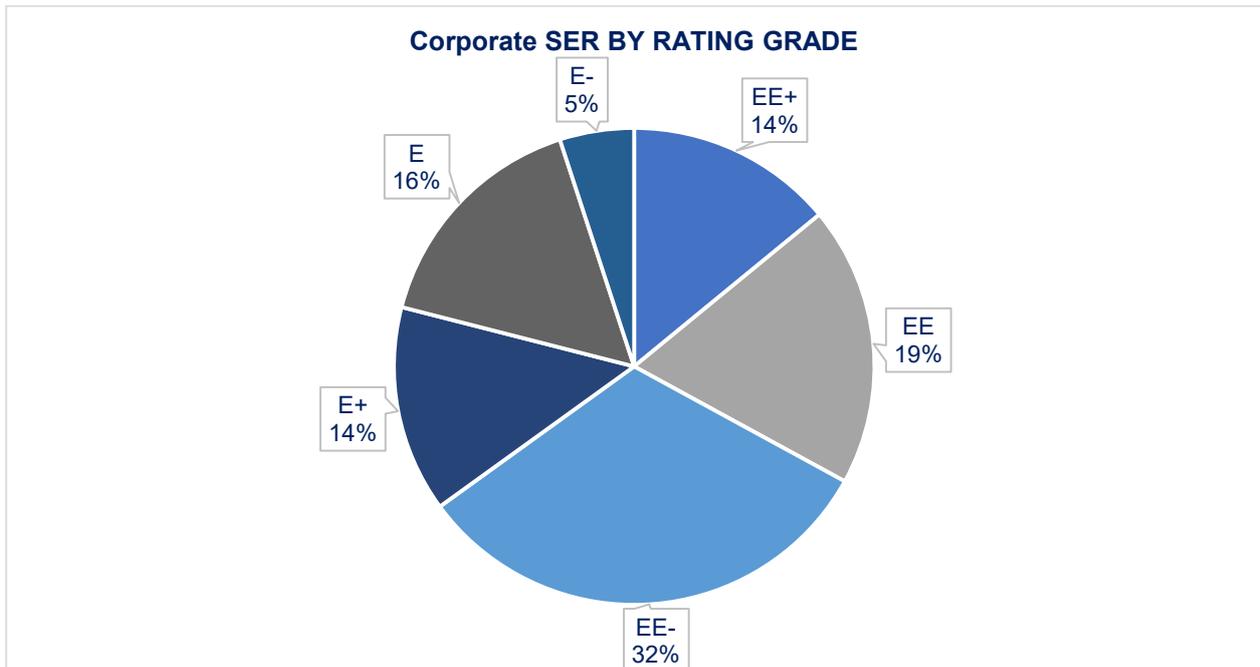
In 2015, Standard Ethics launched the **SE German Index**, composed of the 30 main listed companies in Germany. The last review of the Index was published on 30 September 2022.

## 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 updated on 30 September 2022. It indicates that 2 top industries stand out: Utilities (13%), and Automotive (11%). Industries such as Banking, Biotech & Pharma, Chemicals, Consumer Products, Health Care Facilities & Services, Insurance, and Real Estate are all worth 5% of the sample and together make up 40% of the *SE German Index*. The Index’s remaining 36% 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.<sup>1</sup>

The pie chart shows that 14% of the *SE German Index* constituents are rated EE+, 19% are rated EE, 32% are rated EE-, 14% are rated E+, 16% are rated E and 5% are rated E-. No companies are rated EEE; EEE- and F: this means that the distribution tends to converge to the “mid.rated” grades. Specifically, 51% of the Index constituents are distributed amongst two different rating grades, both a **Sustainable<sup>2</sup> 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 **65%** of constituents having a **Sustainable Grade** (i.e. rated EE+, EE or EE-), **30%** a **Not Fully Sustainable Grade** (i.e. rated E+ or E) and **5%** 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 **72%** of the *SE UK Index* and **65%** of the *SE German Index*.
- Almost a quarter 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 more than a third of the *SE German Index* constituents are rated EE- (**32%**), 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 (last updated in September 2022)

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-		Vonovia	DE000A1ML7J1
EE		Adidas	DE000A1EWWW0	E+		Bayer	DE000BAY0017
EE		Allianz	DE0008404005	E+		Daimler	DE0007100000
EE		BASF	DE000BASF111	E+		Fresenius SE & Co.	DE0005785604
EE		E. ON	DE000ENAG999	E+		Siemens Healthineers	DE000SHL1006
EE		Linde Plc	IE00BZ12WP82	E	pos	Beiersdorf	DE0005200000
EE		Munich RE	DE0008430026	E	pos	Henkel	DE0006048432
EE-		Airbus	NL0000235190	E		Fresenius Medical Care AG & Co.	DE0005785802
EE-		BMW	DE0005190003	E		Co.HeidelbergCement	DE0006048432
EE-		Continental	DE0005439004	E-		Deutsche Bank	DE0005140008
EE-		Deutsche Boerse	DE0005810055	E-		Volkswagen	DE0007664005

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, Deutsche Lufthansa and Munich Re and Adidas, all rated EE.
- The remaining **Sustainable Grade** companies are: BMW, RWE, Continental, Commerzbank, Deutsche Borse, Deutsche Telekom, Merck, Siemens and Vonovia.
- Daimler, Fresenius SE, Bayer, Siemens Healthineers and Thyssenkrupp, are all rated E+ with a **Not Fully Sustainable Grade**.
- Beiersdorf and Henkel have been rated E with a Positive Outlook.
- Fresenius Medical Care AG & Co. and Heidelberg Cement are all rated E with a **Not Fully Sustainable Grade**.
- Deutsche Bank and Volkswagen are rated E- with a **Not Sustainable Grade**.

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

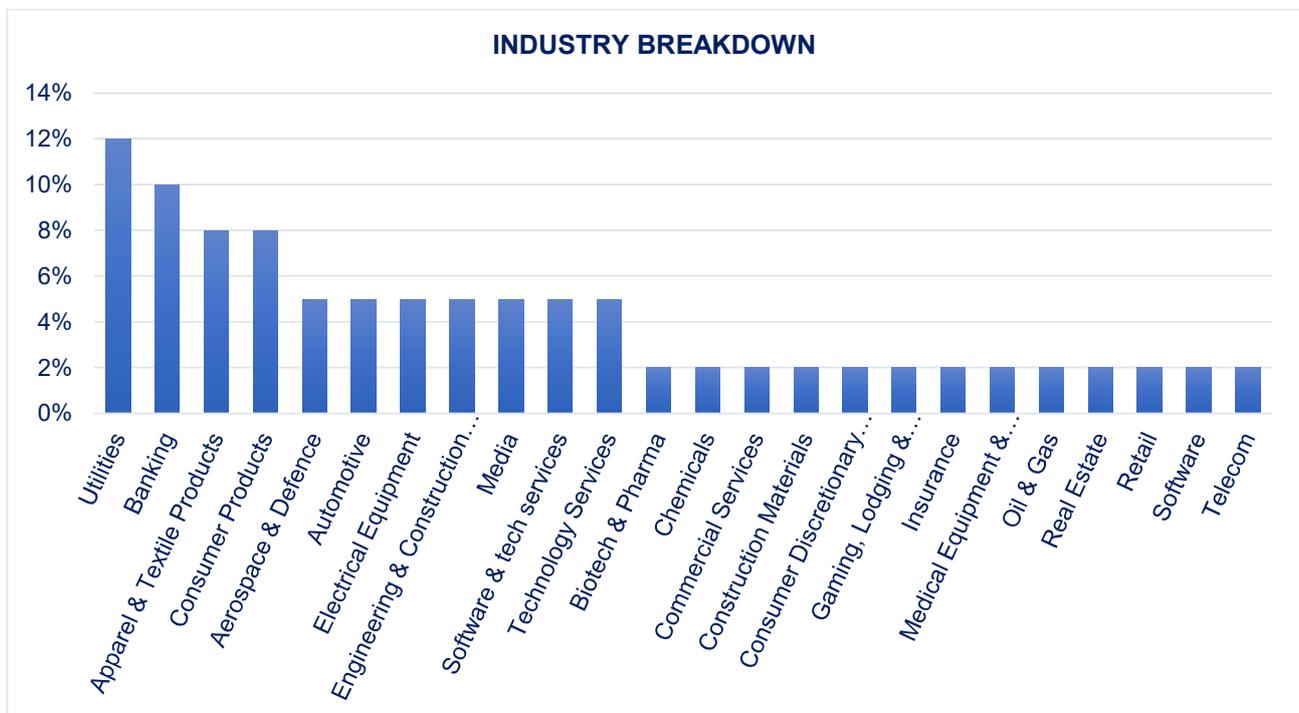


The last action on the French Republic's Country SER was 7 April 2014 when the EEE- rating was confirmed.

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.

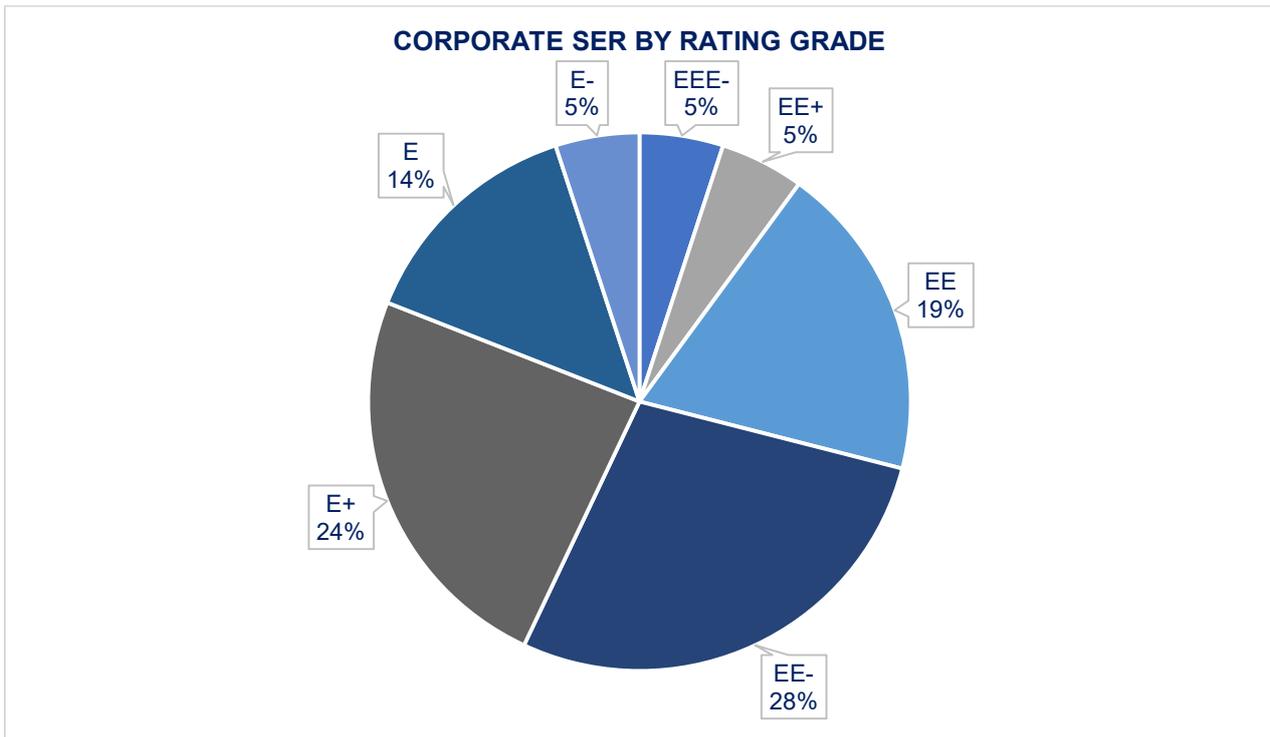
The **SE French Index** was launched on 30 of June 2015 and comprises 40 major listed companies. The last review of the Index was published on 30 September 2022.

## 1. Industry breakdown (France)



The bar chart shows the industry breakdown of the Index's constituents. The Index includes the main 40 listed French companies per market capitalisation; is public, free of charge and was last updated on 30 September 2022. The graph highlights 4 major industries: Utilities (12%), Banking (10%), Apparel & Textile Products (8%) and Consumer Products (8%). Each of the following industries: Aerospace & Defence, Automotive, Electrical Equipment, Engineering & Construction, Technology Services and Media are worth 5% of the sample. Biotech & Pharma, Chemicals, Construction Materials, Consumer Discretionary Services, Gaming, Lodging and Restaurants, Insurance, Medical Equipment & Devices, Oil & Gas, Real Estate, Retail, Software & Tech Services and Telecom each represent 2% of the sample.

## 2. Corporate SER by rating grade



The pie chart above represents the distribution of the *SE French Index* Corporate SERs through 9 different SE rating grades.<sup>1</sup>

The pie chart shows that the most issued Corporate SER in France is EE- (28%). The pie chart shows that 5% of companies are rated E-; 5% are rated EE+; 19% are rated EE; 24% are rated E+; 14% are rated E and 5% are rated E-. Comparing France with the Corporate SER distribution of other European countries, it is important to underline that, on the one hand, the high percentage of E- ratings (5%) is only exceeded by the UK, whilst on the other hand, the percentage of EE+ ratings (5%) is lower. When taking into consideration the remaining ratings, France is in line with the other European markets analyzed in this work.

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 **57%** of its constituents having a **Sustainable<sup>2</sup> Grade** (i.e. rated EEE-, EE+, EE or EE-), **38%** a **Not Fully Sustainable Grade** (i.e. rated E+ or E) and **5%** a **Not Sustainable Grade** (i.e. rated E-).
- **Sustainable Grade** rated companies account for most of the *SE French Index* constituents.
- In comparison with the biggest European markets, 5% of the French Index constituents have a rating of EEE-, a **Sustainable Grade** with an **excellent** level of compliance with the global sustainability standards provided by the **UN**, the **EU** and the **OECD**. No other indices analyzed in the Report comprise companies rated more than EE+ on the **Standard Ethics** rating scale.
- It can be noted that ratings which are of a **Sustainable Grade**, account for 72% of the *SE UK Index*, 65% of the *SE German Index*, and 57% of the *SE French Index*. Finally, the *SE Italian Index* and the *SE Spanish Index* respectively contain 57% and 44% of rated companies with a **Sustainable Grade**.
- A third of the *SE French Index* constituents are rated EE- (**28%**), which denotes the willingness of main French listed companies to continue aligning 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**.

### 3. Standard Ethics French Index constituents (last updated in September 2022)

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-		Worldline	FR0011981968
EE+		Michelin	FR0000121261	EE-	Neg.	Carrefour	FR0000120172
EE		AXA	FR0000120628	E+	Pos.	L'Oreal	FR0000120321
EE		BNP Paribas	FR0000131104	E+		Alstom	FR0000051807
EE		Danone	FR0000120644	E+		ArcelorMittal	LU1598757687
EE		Legrand	FR0010307819	E+		Credit Agricole	FR0000045072
EE		Publicis Groupe	FR0000130577	E+		Dassault Systemes	FR0000130650
EE		Saint-Gobain	FR0000125007	E+		LVMH	FR0000121014
EE		STMicroelectronics	NL0000226223	E+		Pernod Ricard	FR0000120693
EE		Veolia Environnement	FR0000124141	E+		Renault	FR0000131906
EE-	Pos.	Vinci	FR0000125486	E+		Safran	FR0000073272
EE-		Accor	FR0000120404	E+		Stellantis	NL00150001Q9
EE-		Airbus Group	NL0000235190	E		EDF	FR0010242511
EE-		Atos	FR0000051732	E		Hermes International	FR0000052292
EE-		Bouygues	FR0000120503	E		Thales	FR0000121329
EE-		Engie	FR0010208488	E	Neg.	Vivendi	FR0000127771
EE-		EssilorLuxottica	FR0000121667	E-		Kering	FR0000121485
EE-		Sanofi	FR0000120578	E-		Orange	FR0000133308

When observing the *SE French Index*:

- Capgemini and Unibail Rodamco-Westfield have a Corporate SER of EEE-.
- AirLiquide, with a Corporate SER of EE+ together with Michelin are in the top layer of **Sustainable Grade** rating distribution.
- AXA, BNP Paribas, Danone, Legrand, Publicis Groupe, Saint-Gobain, STMicroelectronics and Veolia Environnement are all rated EE, which is a **Sustainable Grade**.
- Vinci is currently rated EE-, a **Sustainable Grade**, and also has a Positive Outlook.
- Accor, Airbus Group, Atos, Bouygues, Engie, EssilorLuxottica, Sanofi, Schneider Electric, Soci t  Generale, Worldline are all rated EE-, a **Sustainable Grade**.
- Carrefour's current Corporate SER is EE-, with a Negative Outlook.
- L'Oreal currently has an E+ rating, a **Not Fully Sustainable Grade**, with a Positive Outlook.
- ArcelorMittal, Credit Agricole, Dassault Systemes, LVMH, Pernor Ricard, Renault, Safran, Alstom and Stellantis are all rated E+, a **Not Fully Sustainable Grade**.
- Hermes International, EDF and Thales are all rated E, a **Not Fully Sustainable Grade**.
- Vivendi's current Corporate SER is E, a **Not Fully Sustainable Grade**, with a Negative Outlook.
- Kering and Orange are rated E-, a **Not Sustainable Grade**.

# UK In-depth Analysis

Standard Ethics: Big Picture – Annual Report 2022



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

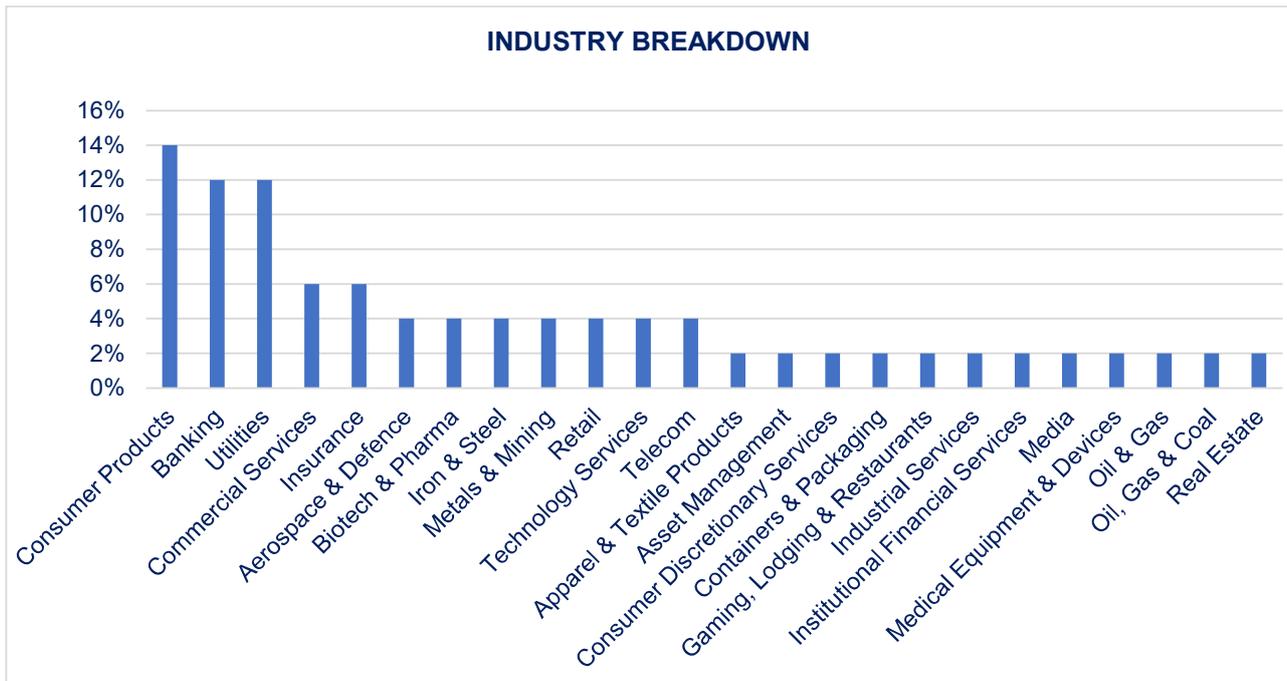
The last rating action on the United Kingdom was on 15 March 2017 when it was assigned EEE-.

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 for the United Kingdom, and it will be remembered for the Queen’s death and the record of the shortest government in British history. Moreover, the economic crisis associated with political uncertainty, has triggered trade union struggles and once again opened the debate on Brexit.

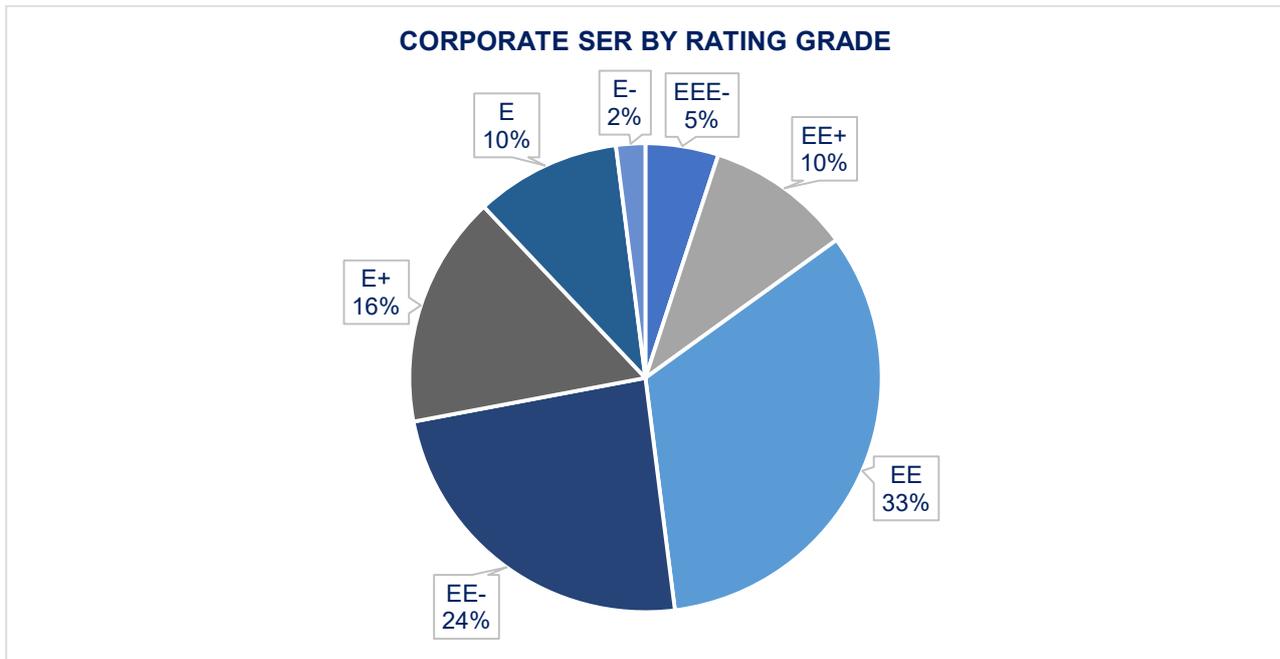
The **SE UK Index** was published on 30 June 2017 with 50 major listed companies. The last review of the Index was published on 30 September 2022.

## 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 updated on 30 September 2022. The distribution highlights 3 industries: Consumer Products (14%), Utilities (12%), and Banking (12%). Insurance and Commercial Services follow suit and each industry accounts for 6% of the sample. Aerospace & Defence, Biotech & Pharma, Iron & Steel, Metals & Mining, Retail, Technology Services and Telecom each account for 4% and less than 30% as a whole. Finally, Apparel & Textile Products, Asset Management, Containers & Packaging, Gaming, Lodging & Restaurants, Industrial Services, Institutional Financial Services, Media, Medical Equipment & Devices, Oil & Gas, Oil, Gas & Coal, Real Estate and Retail & Wholesale – Staples account for 2% of the sample; together, these industries represent 24%.

## 2. Corporate SER by rating grade



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

The pie chart shows that the most issued Corporate SER in the UK is EE (33%). 5% of the *SE UK Index* is rated EEE-; 10% is rated EE+; 33% is rated EE; 24% is rated EE-; 16% is rated E+; 10% is rated E and 2% is rated E-. The statistical distribution of the *SE UK Index* highlights that **57%** of the Index constituents are concentrated in two **Sustainable<sup>2</sup> 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*:

- **72%** of the *SE UK Index* constituents have a **Sustainable Grade** (i.e. rated EEE-, EE+, EE or EE-), **26%** 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 (**72%**) of the *SE UK Index* constituents.
- In comparison with the biggest European markets, **5%** 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**.
- 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 (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EEE-		Intertek Group	GB0031638363	EE-		AstraZeneca	GB0009895292
EEE-		London Stock Exchange Group	GB00B0SWJX34	EE-		BP	GB0007980591
EEE-		Vodafone Group	GB00BH4HKS39	EE-		Compass Group	GB00BD6K4575
EE+		Kingfisher	GB0033195214	EE-		CRH	IE0001827041
EE+		Land Securities Group	GB00BYW0PQ60	EE-		Lloyds Banking Group	GB0008706128
EE+		Mondi plc	GB00B1CRLC47	EE-		Next	GB0032089863
EE+		WPP	JE00B8KF9B49	EE-		Ocado Group	GB00B3MBS747
EE+	Neg.	Experian	GB00B19NLV48	EE-		Prudential	GB0007099541
EE		3i Group	GB00B1YW4409	EE-		Shell plc	GB00B03MLX29
EE		Aviva	GB0002162385	EE-		Standard Chartered	GB0004082847
EE		BAE Systems	GB0002634946	EE-		Unilever	GB00B10RZP78
EE		BT Group	GB0030913577	E+	Pos.	National Grid	GB00BDR05C01
EE		Diageo	GB0002374006	E+		British American Tobacco	GB0002875804
EE		Ferguson	JE00BJVNSS43	E+		Fresnillo	GB00B2QPKJ12
EE		HSBC Holdings	GB0005405286	E+		Imperial Brands	GB0004544929
EE		Informa	GB00BMJ6DW54	E+		Schroders	GB0002405495
EE		International Consolidated Airlines Group	ES0177542018	E+		Barclays	GB0031348658
EE		Legal & General Group	GB0005603997	E+		Flutter Entertainment	IE00BWT6H894
EE		Reckitt Benckiser Group	GB00B24CGK77	E+		GSK	GB0009252882
EE		RELX	GB00B2B0DG97	E+		Rio Tinto	GB0007188757
EE		Rolls-Royce Holdings	GB00B63H8491	E		Anglo American	GB00B1XZS820
EE		Smith & Nephew	GB0009223206	E		Associated British Foods	GB0006731235
EE		SSE	GB0007908733	E		BHP Group plc	GB00BH0P3Z91
EE		Tesco	GB0008847096	E		Glencore	JE00B4T3BW64
EE-		Ashtead Group	GB0000536739	E-		Natwest Group (formerly Royal Bank of Scotland Group)	GB00B7T77214

- 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, WPP, 3i Group, Aviva, BAE Systems, BT Group, Ferguson, HSBC Holdings, Informa, International Consolidated Airlines Group, Legal & General Group, Reckitt Benckiser Group, RELX, Diageo, Rolls-Royce Holdings, Smith & Nephew, SSE and Tesco are all rated EE; a **Sustainable Grade**.
- Experian is rated EE+, a **Sustainable Grade** but with a Negative Outlook.
- Ashtead Group, AstraZeneca, BP, Compass Group, CRH, Next, Ocado Group, Prudential, Royal Dutch Shell, Lloyds Banking Group and Standard Chartered and Unilever are all rated EE-, a **Sustainable Grade**.
- National Grid is currently rated E+; a **Not Fully Sustainable Grade**, but with a Positive Outlook.
- British American Tobacco, Fresnillo, Imperial Brands, Schroders, Barclays, Flutter Entertainment, GlaxoSmithKline, and Rio Tinto are all rated E+; a **Not Fully Sustainable Grade**.
- Anglo American, Associated British Foods, BHP Group plc and Glencore 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 2021



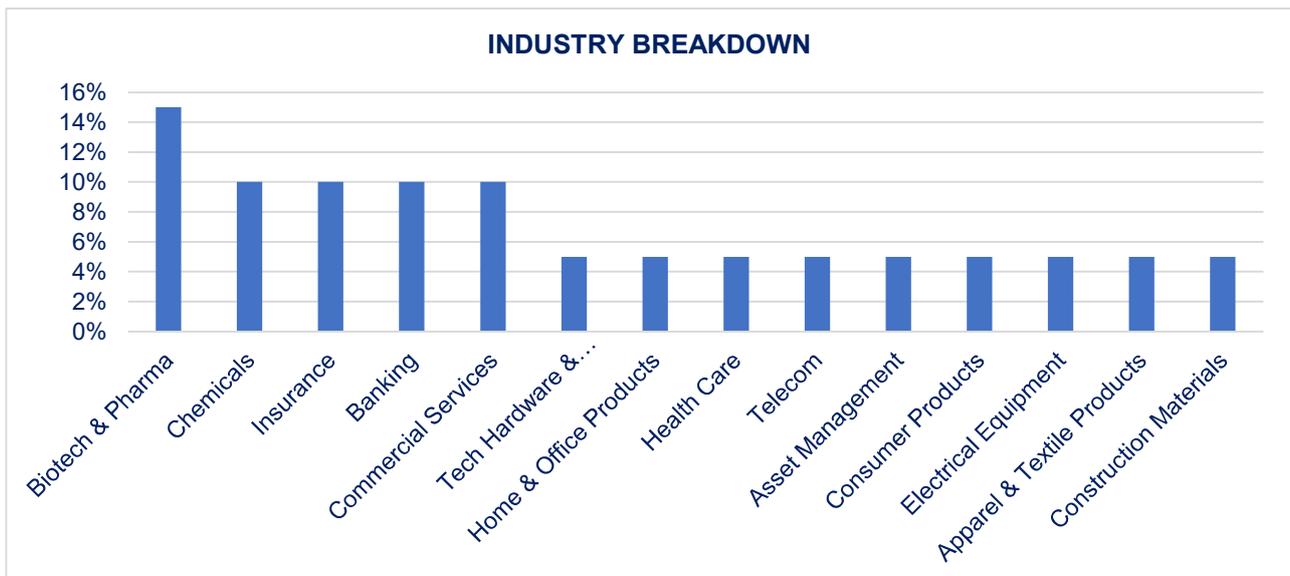
The other countries included in this section are all constituents of **Standard Ethics Open-Free Sustainability Indices**. The Research Office has therefore decided to include them in the Report with the remit of focusing on the five major European markets, seen previously (i.e. UK, France, Germany, 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



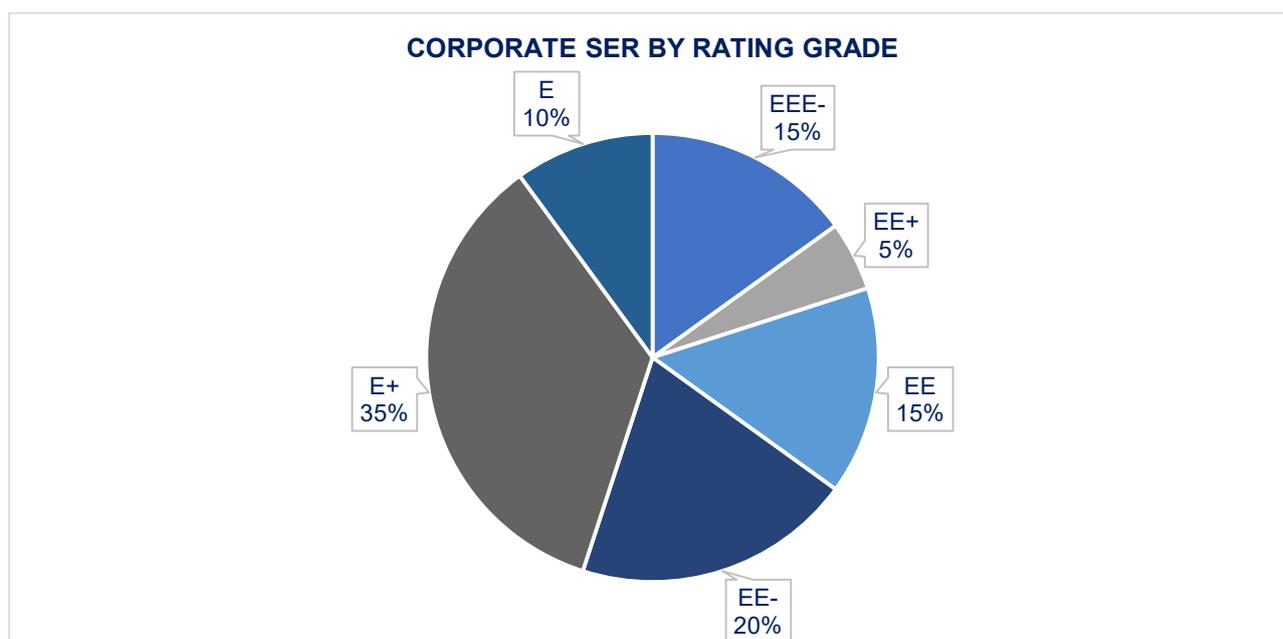
Most issued Corporate SER: **E+**  
Country SER: **EE+**

### 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 updated on 30 September 2022. The graph highlights 5 main industries: Biotech & Pharma (15%), Chemicals (10%), Insurance (10%), Banking (10%), and Commercial Services (10%). All other sectors, i.e. Tech Hardware & Semiconductors, Home & Office Products, Health Care, Telecom, Asset Management, Consumer Products, Electrical Equipment, Apparel & Textile Products and Construction Materials each account for 5%. All these sectors together account for 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 35% of Index components are rated E+, 20% have an EE-rating, EEE- and EE each have a percentage of 15%, 10% have an E rating and 5% have an EE+ rating. No companies are rated EEE and F. This means that the distribution tends to converge to the “mid-rated” grades. Among all the ratings, there is a high number of E+ ratings which are almost double compared to the second most widespread rating. Regarding the level of the **Sustainable Grade**<sup>15</sup>, it accounts for 55% of the ratings assigned, whereas the **Not Fully Sustainable Grade** is 45%. This means that Switzerland is characterized by 100% of Corporate SERs being of an adequate grade. There is no rating classified as a **Not Sustainable Grade**.

## 3. SE Swiss Index constituents (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EEE-	Pos.	Adecco Group	CH0012138605	E+		Alcon	CH0432492467
EEE-		Geberit	CH0030170408	E+		Credit Suisse Group	CH0012138530
EEE-		Swiss Re	CH0126881561	E+		Novartis	CH0012005267
EE+		Zurich Insurance Group	CH0011075394	E+		Partners Group Holding	CH0024608827
EE		ABB	CH0012221716	E+		Roche Holding	CH0012032048
EE		Givaudan	CH0010645932	E+		Sika	CH0418792922
EE-		Compagnie Financiere Richemont	CH0210483332	E+		Swisscom	CH0008742519
EE-		Lonza Group	CH0013841017	E		UBS Group *	CH0244767585
EE-		Nestlé	CH0038863350	E		Holcim	CH0012214059
EE-		SGS	CH0002497458	Pending		Logitech International	CH0025751329

\*Please note that the rating of this company has been updated in January 2023

<sup>15</sup> **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/>.

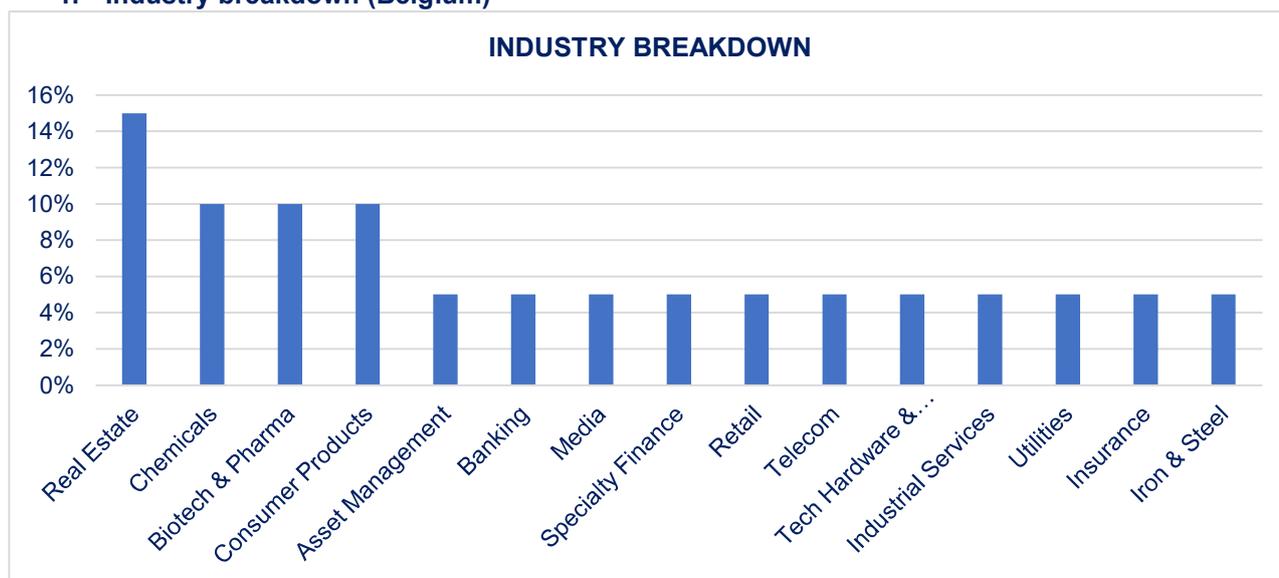
Within the *SE Swiss Index*:

- Adecco Group (rated **EEE-**) is currently the sole **EEE-**. It also has a positive Outlook.
- In the top rating layer of the *SE Swiss Index* distribution, sit: Geberit and Swiss Re, which are both rated **EEE-**.
- Zurich Insurance Group is rated **EE+**, a **Sustainable Grade**.
- ABB and Givaudan are rated **EE**, a **Sustainable Grade**.
- Other **Sustainable Grade** companies are the following: Compagnie Financiere Richemont, Lonza Group, Nestlé, SGS which are all rated **EE-**.
- Alcon, Credit Suisse Group, Novartis, Partners Group Holding, Roche Holding, Silka and Swisscom are all rated **E+**; a **Not Fully Sustainable Grade**.
- UBS Group and Holcim are rated **E**; a **Not Fully Sustainable Grade**.
- Logitech International rating is Pending.

## Belgium

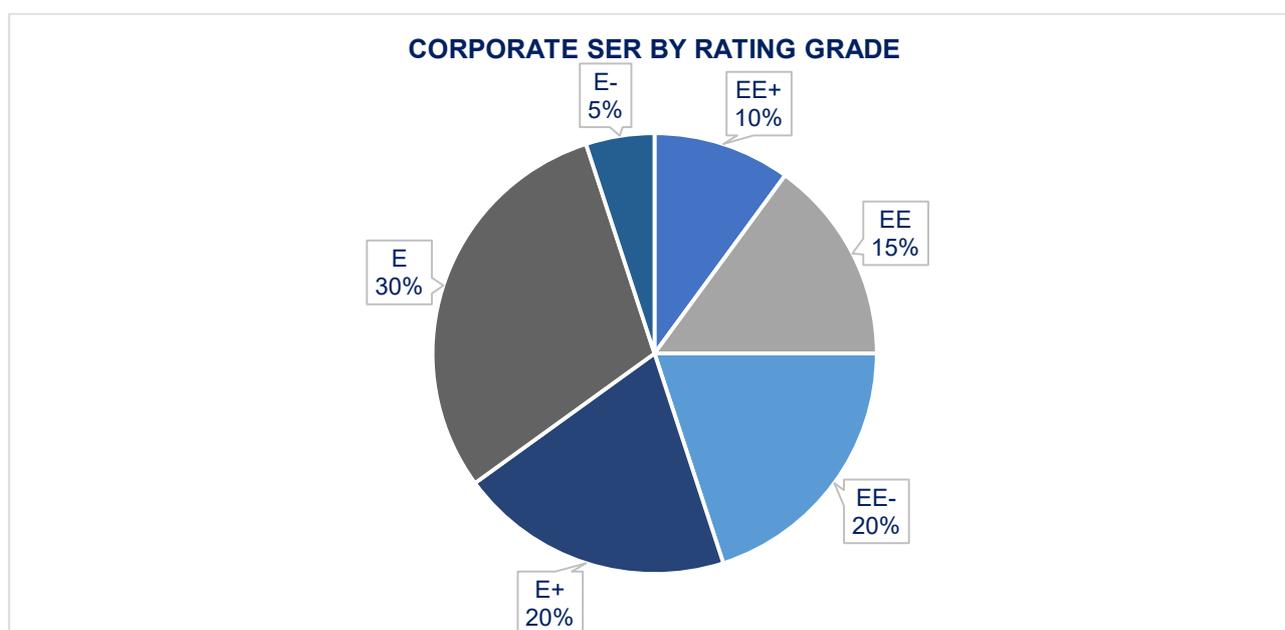
 Most issued Corporate SER: **E**  
Country SER: **EEE-**

### 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 updated on 30 September 2022. The graph shows that the distribution highlights 4 major industries: Real Estate (15%), Chemicals (10%), Biotech & Pharma (10%), and Consumer Products (10%). All other sectors, i.e. Asset Management, Banking, Media, Specialty Finance, Retail, Telecom, Tech Hardware & Semiconductors, 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 E, those rated EE- and E+ each have a percentage of 20%, 15% have an EE rating, 10% are rated EE+, and 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-rated” grades. When analysing the ratings, it is noticeable that there is quite a high number of E ratings compared to others. With reference to the level of Sustainability<sup>16</sup>, those with a **Sustainable Grade** account for 45% and with a **Not Fully Sustainable Grade** 50%. This means that Belgium is characterized by 95% of its Index constituents holding an adequate grade. Only 5% of the rating distribution is a **Not Sustainable Grade** (E-).

## 3. SE Belgian Index constituents (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Cofinimmo	BE0003593044	E+		Aperam	LU0569974404
EE+		Umicore	BE0974320526	E+		Melexis	BE0165385973
EE		Proximus	BE0003810273	E+		Warehouses de Pauw (WDP)	BE0974349814
EE		Solvay	BE0003470755	E	Pos.	Galapagos	BE0003818359
EE-		Aedifica	BE0003851681	E		Colruyt	BE0974256852
EE-		Argenx	NL0010832176	E		KBC Group	BE0003565737
EE-		Elia Group	BE0003822393	E		Sofina	BE0003717312
EE-		UCB	BE0003739530	E		Telenet Group Holding	BE0003826436
E+	Pos.	Ageas	BE0974264930	E	Neg.	Groupe Bruxelles Lambert	BE0003797140
E+		Ackermans & van Haaren	BE0003764785	E-		AB Inbev	BE0974293251

Within the *SE Belgian Index*:

- Cofinimmo and Umicore are both rated EE+.
- Proximus and Solvay are the only Belgian company rated EE, a **Sustainable Grade**.

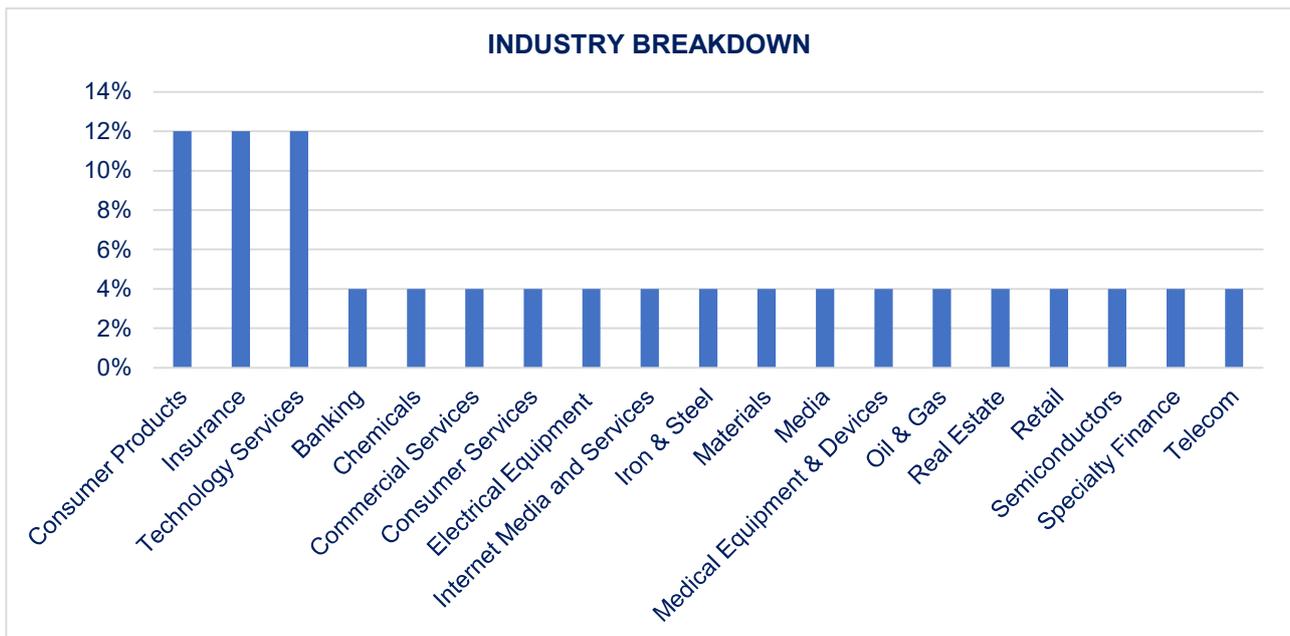
<sup>16</sup> **Sustainable Grade** comprises the rating grades from EEE up to EE- (i.e. EEE; EEE-; EE+; EE; EE-), **Not Fully Sustainable Grade** comprises the rating grades from E+ up to E (i.e. E+; E), **Not Sustainable Grade** comprises the rating grades from E- up to F (i.e. E-; F). For the complete explanation of Standard Ethics Grades, please visit the company presentation on <https://www.standardethics.eu/>.

- The other **Sustainable Grade** companies are: Aedifica, Argenx, Elia Group and UCB which are rated EE-.
- Ageas is the only Belgian company, whose rating is E+, a **Not Fully Sustainable Grade**, with a Positive Outlook.
- Ackermaans & van Haaren, Aperam, 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.
- Colruyt, KBC Group, Sofina and Telenet Group Holding 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 rating is E-, a **Not Sustainable Grade**.

## The Netherlands

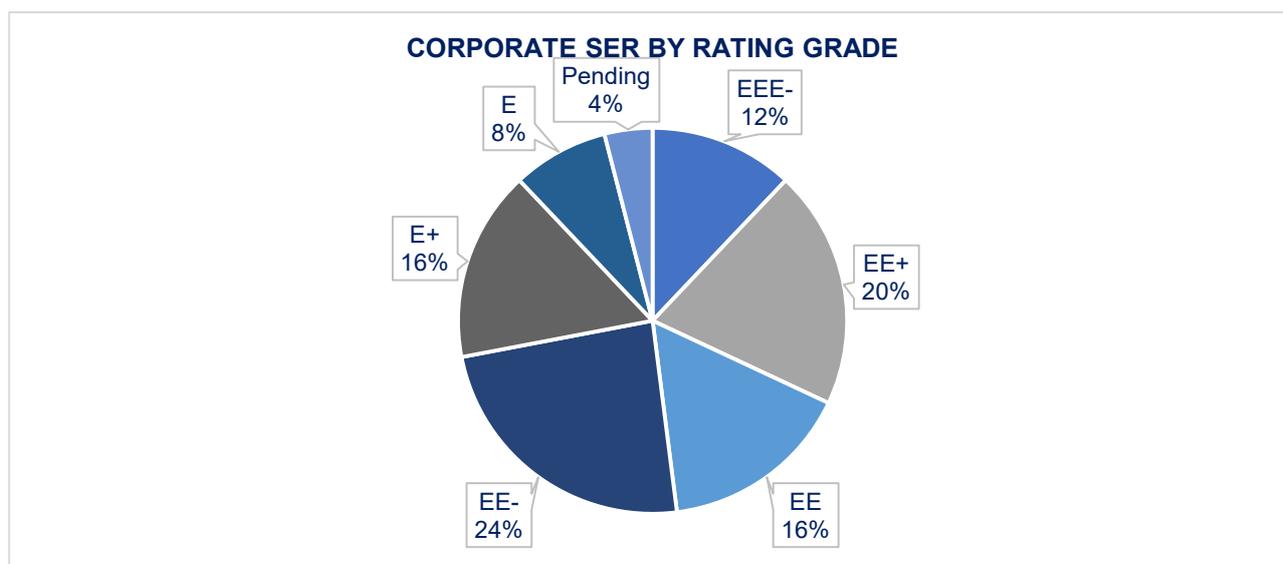
█ Most issued Corporate SER: EE-  
█ Country SER: EE+

### 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 updated on 30 September 2022. The graph shows that distribution is divided into three main industries and that the other sectors are very homogeneous with each other. Consumer Products, Insurance and Technology Services are the most highlighted industries with a distribution of 12% each. The other industries represented are: Banking, Chemicals, Commercial Services, Consumer Services, Electrical Equipment, Internet Media and Services, Iron & Steel, Materials, Media, Medical Equipment & Devices, Oil & Gas, Real Estate, Retail, Semiconductors, and Speciality Finance and Telecom; 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 24% of the Index constituents are rated EE-, 20% have an EE+ rating, EE and E+ account for 16% each, EEE- is distributed with a percentage of 12%, E account for 8% of the constituents and 4% is pending. 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 Sustainability<sup>17</sup>, the **Sustainable Grade** represents 72% of the chart and the **Not Fully Sustainable Grade** 24%. This means that The Netherlands is characterized by 96% of the Corporate SERs being of an adequate grade of Sustainability. There are no Index constituents with a **Not Sustainable Grade**.

## 3. SE Dutch Index constituents (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EEE-		NN Group	NL0010773842	EE-		Ahold Delhaize	NL0011794037
EEE-		Unibail-Rodamco-Westfield	FR0013326246	EE-		ASR Nederland	NL0011872643
EEE-		Wolters Kluwer	NL0000395903	EE-		Heineken	NL0000009165
EE+	Pos.	BE Semiconductor	NL0012866412	EE-		Shell	GB00BP6MXD84
EE+		Aegon	NL0000303709	EE-		Unilever	GB00B10RZP78
EE+		Akzo Nobel	NL0013267909	E+		ArcelorMittal	LU1598757687
EE+		ASML Holding	NL0010273215	E+		ING Groep *	NL0011821202
EE+		Signify	NL0011821392	E+		KPN	NL0000009082
EE	Pos.	Philips	NL0000009538	E+		IMCD	NL0010801007
EE		DSM	NL0000009827	E		Just Eat takeaway	NL0012015705
EE		Randstad	NL0000379121	E		Prosus	NL0013654783
EE		RELX	GB00B2B0DG97	Pending		ASM International	NL0000334118
EE-		Adyen	NL0012969182				

\*Please note that the rating of this company has been updated in January 2023

<sup>17</sup> **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*:

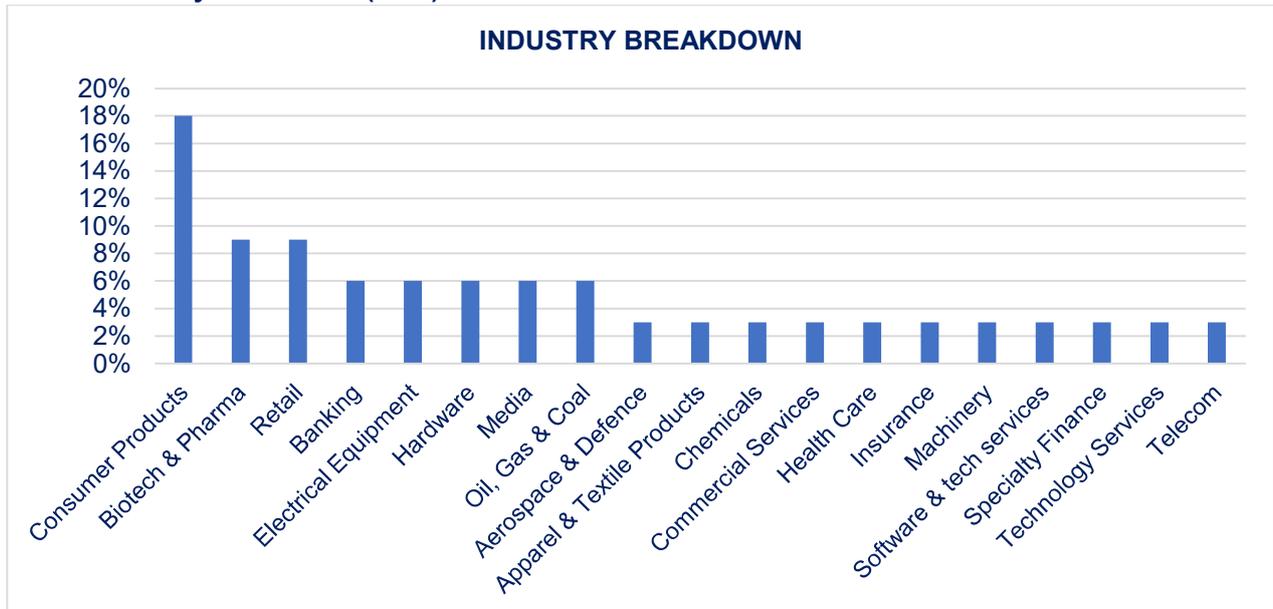
- **NN Group, Unibail-Rodamco-Westfield and Wolters Kluwer** are rated **EEE-**.
- In the top rating layer of the *SE Dutch Index* distribution, BE Semiconductor is the sole company rated EE+ with a Positive Outlook, and the following companies: Aegon, Akzo Nobel, ASML Holding and Signify, are all rated EE+; a **Sustainable Grade**.
- Philips is the sole company rated EE with a Positive Outlook.
- DSM, Randstad and RELX are all rated EE; a **Sustainable Grade**.
- Other **Sustainable Grade** companies are the following: Adyen, Ahold Delhaize, ASR Nederland, Heineken, Shell and Unilever, all rated EE-.
- ArcerlorMittal, ING Groep, KPN and IMCD are all rated E+; a **Not Fully Sustainable Grade**.
- Just Eat Takeaway and Prosus are rated E, with a **Not Fully Sustainable Grade**.
- ASM International rating is Pending.

## The United States of America



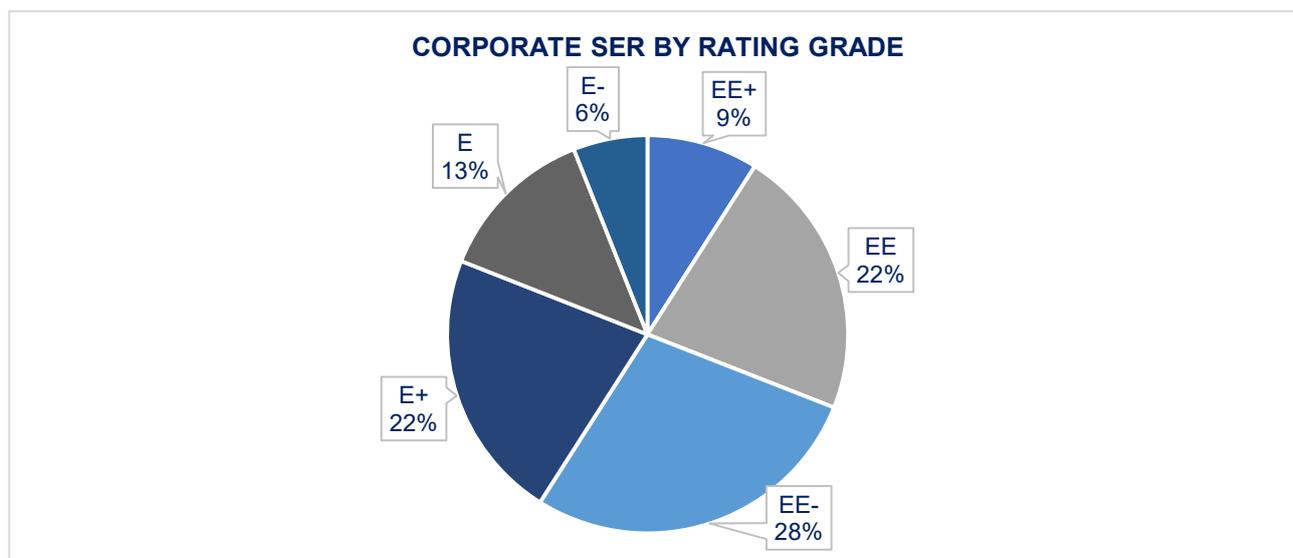
Most issued Corporate SER: **EE-**  
Country SER: **EE with Negative Outlook**

### 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 updated on 30 September 2022. The distribution highlights 3 industries: Consumer Products (18%), Biotech & Pharma (9%) and Retail (9%). Banking, Electrical Equipment, Hardware, Media and the Oil, Gas & Coal industries (with each industry accounting for 6% of the *SE US Index*), making up 30% of the total distribution. Aerospace & Defence, Apparel & Textile Products, Chemicals, Commercial Services, Health Care, Insurance, Machinery, Software & tech services, Specialty Finance, Technology Services and Telecom (with each industry accounting for 3% of the *SE US Index*), making up 33% 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.<sup>1</sup>

The pie chart shows that the most issued rating in the US is EE- (28%). There is also a high percentage of EE (22%) and E+ (22%) ratings. The wide majority (59%) of US companies, constituents of the *SE US Index*, have a **Sustainable Grade**. A relative minority (35%) have a **Not Fully Sustainable Grade**. Only 6% have a **Not Sustainable Grade**.

## 3. SE US Index constituents (last updated in September 2022)

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

Within the *SE US Index*:

- Cisco Systems, The Travelers Companies and IBM are all rated EE+.
- In the top rating layer of the distribution, sit: Coca-Cola Company, Procter & Gamble, 3M, Intel Corporation, Microsoft Corporation, VISA and Walt Disney. They all hold EE ratings.

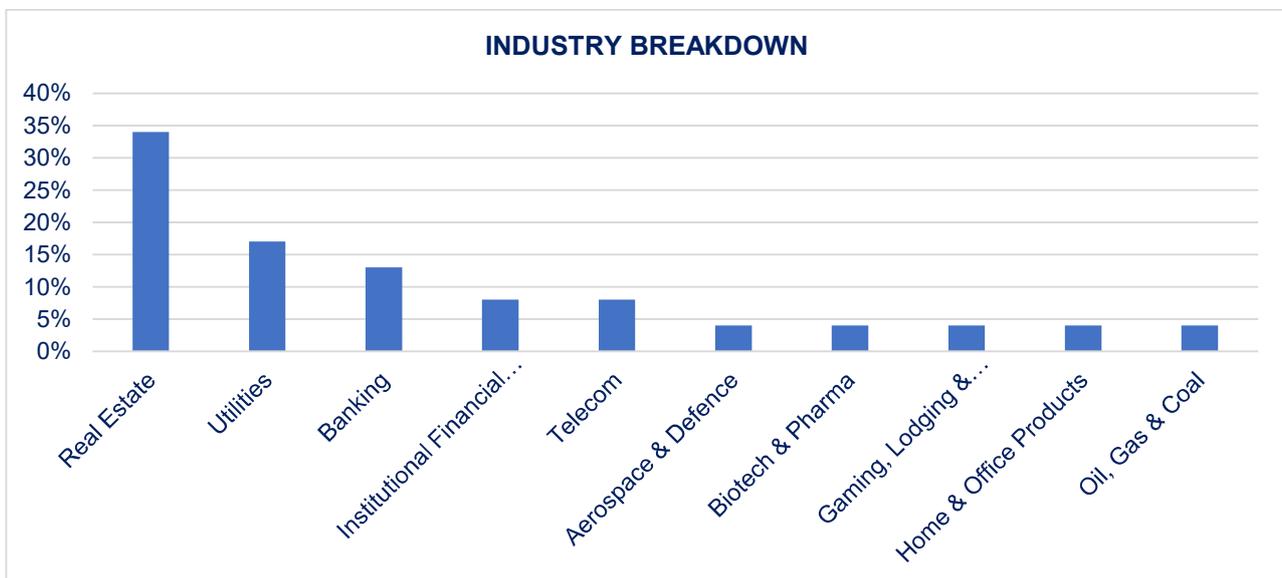
- 9 companies: Nike, Dow, American Express, Amgen, Apple, Caterpillar, Chevron Corporation, salesforce.com and Verizon Communications have a **Sustainable Grade** with an EE- rating.
- Apple is still **Under Monitoring**.
- 6 companies have a **Not Fully Sustainable Grade** with an E+ rating: Goldman Sachs Group, Home Depot, JPMorgan Chase &Co., McDonald's Corporation, Merck & Co., and Walgreens Boots Alliance.
- Amazon.com Inc, Boeing Company, Johnson & Johnson and UnitedHealth Group have an E rating.
- Currently, Honeywell International Corporate SER is pending.

## Hong Kong



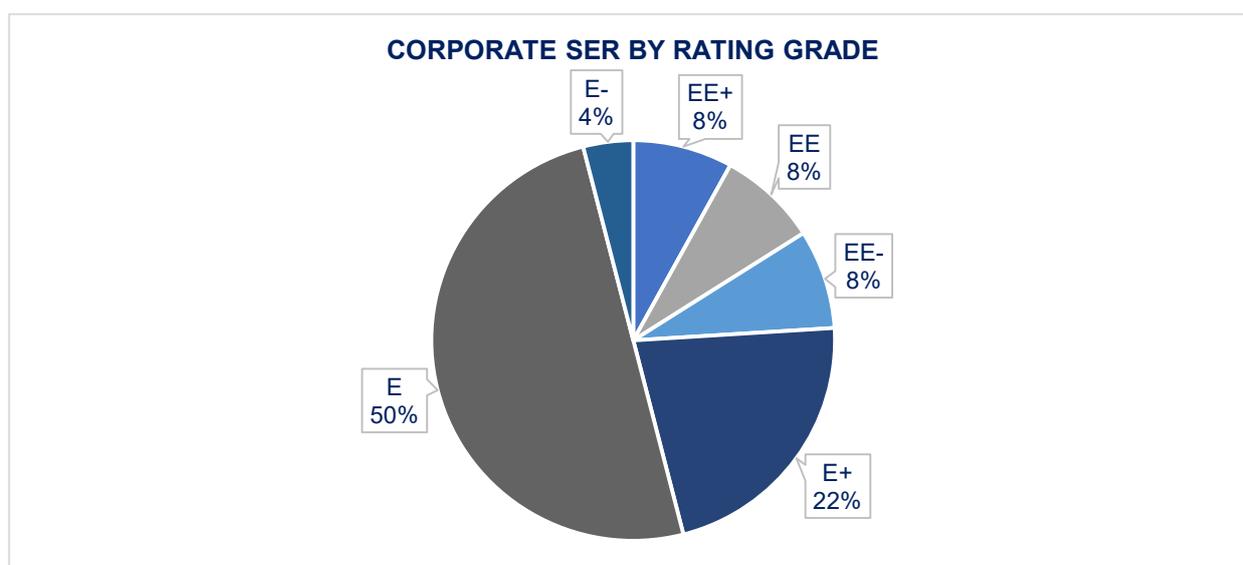
Country SER: **(Not Applicable)**  
Most issued Corporate SER: **E**

### 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 updated on 30 September 2022. The distribution highlights the following industries: Real Estate accounts for more than a third of the *SE Hong Kong Index* (34%), whereas the Utilities industry accounts for 17% and Banking industry for 13%. Institutional Financial Services and Telecom both make up 8% of the Index. Biotech & Pharma, Gaming, Lodging & Restaurants, Home & Office Products, Oil, Gas & Coal, and Passenger Transportation, are all sectors which account for 4% of the industry breakdown.

## 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.<sup>1</sup> 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 are constituents of the *SE Hong Kong Index* have a **Not Fully Sustainable** or a **Not Sustainable Grade** (76%). In the main, 24% have a **Sustainable Grade** and 72% a **Not Fully Sustainable Grade**.

## 3. SE Hong Kong Index constituents (last updated in September 2022)

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		Hong Kong Exchanges and Clearing (HKEX)	HK0388045442	E		CLP Holdings	HK0002007356
EE		AIA Group	HK0000069689	E		Country Garden Holdings	KYG245241032
EE		HSBC Holdings	GB0005405286	E		CSPC Pharmaceutical Group	HK1093012172
EE		Link REIT	HK0823032773	E		Galaxy Entertainment Group	HK0027032686
EE-		MTR Corporation	HK0066009694	E		Geely Automobile Holdings	KYG3777B1032
EE-		New World Development Company	HK0017000149	E		Hang Lung Properties	HK0101000591
E+		Bank of China Hong Kong Holdings	HK2388011192	E		Henderson Land Development	HK0012000102
E+		CK Asset Holdings	KYG2177B1014	E		Hengan International Group	KYG4402L1510
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-		Xiaomi	US1609W1027
E		Bank of Communications	CNE100000205	E-		Alibaba Group Holding	KYG9830T1067
E		China Construction Bank Corporation	CNE1000002H1	E-		Bank of China	CNE1000001Z5
E		China Life Insurance Company	CNE1000002L3	E-		CNOOC Ltd	HK0883013259
E		China Mengniu Dairy	KYG210961051	E-		Industrial and Commercial Bank of China (ICBC)	CNE1000003G1
E		China Mobile	HK0941009539	E-		Ping An Insurance Group Co of China	CNE1000003X6
E		China Overseas Land & Investment	HK0688002218	E-		Sinopec Corp	CNE1000002Q2
E		China Resources Land	KYG2108Y1052	E-		Tencent Holdings	KYG875721634
E		China Unicom (Hong Kong)	HK0000049939	Pending		BYD Company	CNE100000296
E		CITIC Limited	HK0267001375	Pending		ENN Energy Holdings	KYG3066L1014
E		CK Infrastructure Holdings	BMG2178K1009	Pending		Semiconductor Manufacturing International Corporation (SMIC)	KYG8020E1199

- 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**.
- 7 companies are rated E+, a **Not Fully Sustainable Grade**: Bank of China HK Holdings, CK Asset Holdings, Hang Seng Bank, Hong Kong and China Gas, Techtronic Industries, Power Asset Holdings and Wharf REIC.
- 25 companies are rated E, a **Not Fully Sustainable Grade**: Bank of Communications, China Construction Bank Corporation, China Life Insurance Company, China Mengniu Dairy, China Mobile, China Overseas Land & Investment, China Resources Land, China Unicorn (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, 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**: Xiaomi, Alibaba Group Holding, Bank of China, CNOOC Ltd, Industrial and Commercial Bank of China (ICBC), Ping An Insurance Group Co of China, Sinopec Corp. and Tencent Holdings.
- 3 company ratings are pending: BYD Company, ENN Energy Holdings and Semiconductor Manufacturing International Corporation (SMIC).

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

### 1. SE European Banks Index

The Index - launched in March 2017 and updated on 30 September 2022 - includes a selection of 40 of the largest listed banks in Europe.

Standard Ethics' analysts note that 5% of the Index components are rated EE+, 20% have an EE rating, 27% are rated EE-, 33% 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-grade" ratings, concentrating mainly on the ratings EE- and E+. With reference to the grades of Sustainability<sup>18</sup>, the **Sustainable Grade** represents 52% of the Index and the **Not Fully Sustainable Grade** 43%. This means that the *SE European Banks Index* is characterized by 95% of the Corporate SERs being of an adequate grade of Sustainability. Only 5% of the Index components obtained a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		FinecoBank	IT0000072170	EE-		Swedbank	SE0000242455
EE+		UniCredit	IT0005239360	E+	Pos.	AIB Group	IE00BF0L3536
EE		Banca Monte dei Paschi di Siena	IT0005218752	E+	Pos.	Banco Santander	ES0113900J37
EE		Banco BPM	IT0005218380	E+		Banco Comercial Portugues*	PTBCP0AM0015
EE		BBVA	ES0113211835	E+		Bank of Ireland Group	IE00BD1RP616
EE		BNP Paribas	FR0000131104	E+		Bank Pekao	PLPEKAO00016
EE		HSBC Holdings	GB0005405286	E+		Barclays	GB0031348658
EE		Intesa Sanpaolo	IT0000072618	E+		CaixaBank	ES0140609019
EE		Nordea Bank	FI4000297767	E+		Credit Agricole	FR0000045072
EE		Svenska Handelsbanken	SE0007100599	E+		Erste Group Bank	AT0000652011
EE-		ABN AMRO Bank	NL0011540547	E+		ING Group	NL0011821202
EE-		Banco de Sabadell	ES0113860A34	E+		Natixis	FR0000120685
EE-		Commerzbank	DE000CBK1001	E+		Raiffeisen Bank International	AT0000606306
EE-		Julius Baer Group	CH0102484968	E+	Neg.	UBS Group*	CH0244767585
EE-		Lloyds Banking Group	GB0008706128	E		Credit Suisse Group	CH0012138530
EE-		Mediobanca	IT0000062957	E		Danske Bank	DK0010274414
EE-		PKO Bank Polski	PLPKO0000016	E		DNB	NO0010031479
EE-		Skandinaviska Enskilda Banken	SE0000148884	E		KBC Group	BE0003565737
EE-		Societe Generale	FR0000130809	E-		Deutsche Bank	DE0005140008
EE-		Standard Chartered	GB0004082847	E-		Natwest Group	GB00B7T77214

\*Please note that the rating of this company has been updated in January 2023

### 2. SE European Utilities Index

The Index - launched in June 2020 and updated on 30 September 2022 - includes a selection of 30 of the largest listed utility companies in Europe.

Standard Ethics' analysts note that 3% of the Index constituents are rated EE+, 37% have an EE rating, 23% are rated EE-, 30% have an E+ rating, and 7% have an E rating. No companies are rated EEE and F.

The distribution tends to converge to the "mid-high graded" ratings, concentrating mainly on the ratings EE and EE-. With reference to the grades of Sustainability, the **Sustainable Grade** represents 63% of the Index and the **Not Fully Sustainable Grade** 37%. This means that the *SE European Utilities Index* is characterized

<sup>18</sup> **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/>.

by 99% 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+		Fortum	FI0009007132	EE-		Engie	FR0010208488
EE	Pos.	United Utilities Group	GB00B39J2M42	EE-		RWE	DE0007037129
EE		E.ON	DE000ENAG999	EE-		Suez	FR0010613471
EE		Enel	IT0003128367	EE-		Uniper	DE000UNSE018
EE		Iberdrola	ES0144580Y14	E+	Pos.	BKW	CH0130293662
EE		Orsted	DK0060094928	E+	Pos.	EDP Renovaveis	ES0127797019
EE		Red Electrica Corporacion	ES0173093024	E+	Pos.	National Grid	GB00BDR05C01
EE		Snam	IT0003153415	E+		EDP - Energias de Portugal	PTEDP0AM0009
EE		SSE	GB0007908733	E+		Endesa	ES0130670112
EE		Veolia Environnement	FR0000124141	E+	Pos.	ERG	IT0001157020
EE		Verbund	AT0000746409	E+		Italgas	IT0005211237
EE		Terna	IT0003242622	E+		Naturgy Energy Group	ES0116870314
EE-		Centrica	GB00B033F229	E+		Neoen	FR0011675362
EE-		Elia Group	BE0003822393	E		CEZ	CZ0005112300
EE-		Enagas	ES0130960018	E		Electricite de France (EDF)	FR0010242511

### 3. SE European Multi-Utilities Index

The Index - launched in June 2020 and last updated on 30 September 2022 - includes a selection of 15 of the largest listed multi-utility companies in Europe.

**Standard Ethics'** analysts note that 13% of the Index components are rated EE+, EE and EE- each have a percentage of 33%, E+ and E each have a percentage of 7%, and 7% is pending. No companies are rated EEE and F. The distribution tends to converge to the "high" rating grades, concentrating mainly on the ratings EE and EE-. With reference to the grades of Sustainability, the **Sustainable Grade** represents 79% of the Index and the **Not Fully Sustainable Grade** 14%. This means that the *SE European Multi-Utilities Index* is characterized by 93% of the Corporate SERs being of an adequate grade of Sustainability. There are no Index components with a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN	Rating	Outlook	Company	ISIN
EE+		A2A	IT0001233417	EE-	Pos.	MVV Energie	DE000A0H52F5
EE+		Pennon Group	GB00B18V8630	EE-		Engie	FR0010208488
EE	Pos.	Acea	IT0001207098	EE-		Hera	IT0001250932
EE	Pos.	United Utilities Group	GB00B39J2M42	EE-		Suez	FR0010613471
EE		Severn Trent	GB00B1FH8J72	E+		Iren	IT0003027817
EE		SSE	GB0007908733	E		EnBW Energie Baden-Wuerttemberg	DE0005220008
EE		Veolia Environnement	FR0000124141	Pending		Gelsenwasser	DE0007760001
EE-	Pos.	EVN	AT0000741053				

### 4. SE European Football Index

The Index - launched in March 2022 and last updated on 30 September 2022 - includes a selection of 14 of the largest listed football clubs in Europe.

**Standard Ethics'** analysts note that 7% of the Index components are rated EE-, 7% have an E+ rating, 64% 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%. This means that the SE European Football Index is characterized by 78% of the Corporate SERs being of an adequate grade of Sustainability, while 21% of the Index components obtained a **Not Sustainable Grade**.

Rating	Outlook	Company	ISIN
EE-		Borussia Dortmund	DE0005493092
E+		Juventus Football Club	IT0000336518
E	Pos.	AFC Ajax	NL0000018034
E		Manchester United	KYG5784H1065
E		Galatasaray Sportif	TRAGSRAY91X9
E		Besiktas	TRABJKAS91X6
E		Olympique Lyonnais	FR0010428771

Rating	Outlook	Company	ISIN
E		Celtic Football Club	GB0004339189
E		S.S. Lazio	IT0003621783
E		Benfica	PTSLB0AM0010
E		Brondby	DK0010247956
E-		Fenerbahce Futbol	TREFBAH00019
E-		Trabzonspor	TRETRBZ00016
E-		Sporting CP	PTSCP0AM0001

## 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.

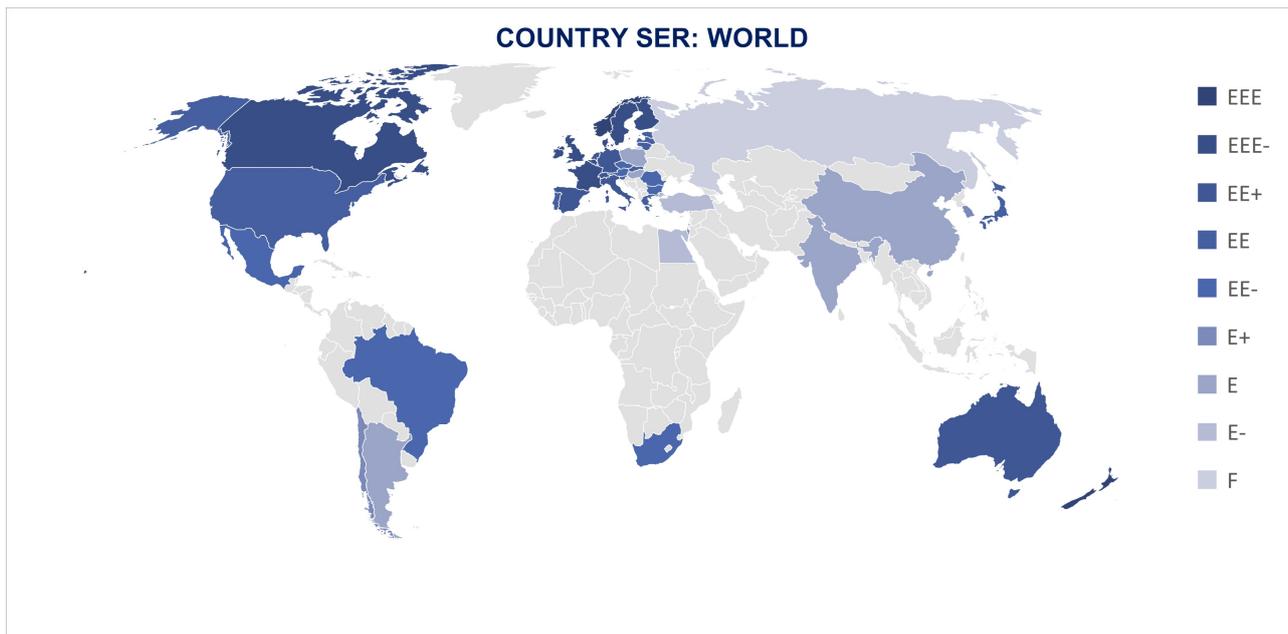
### A brief note on methodology

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. 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.

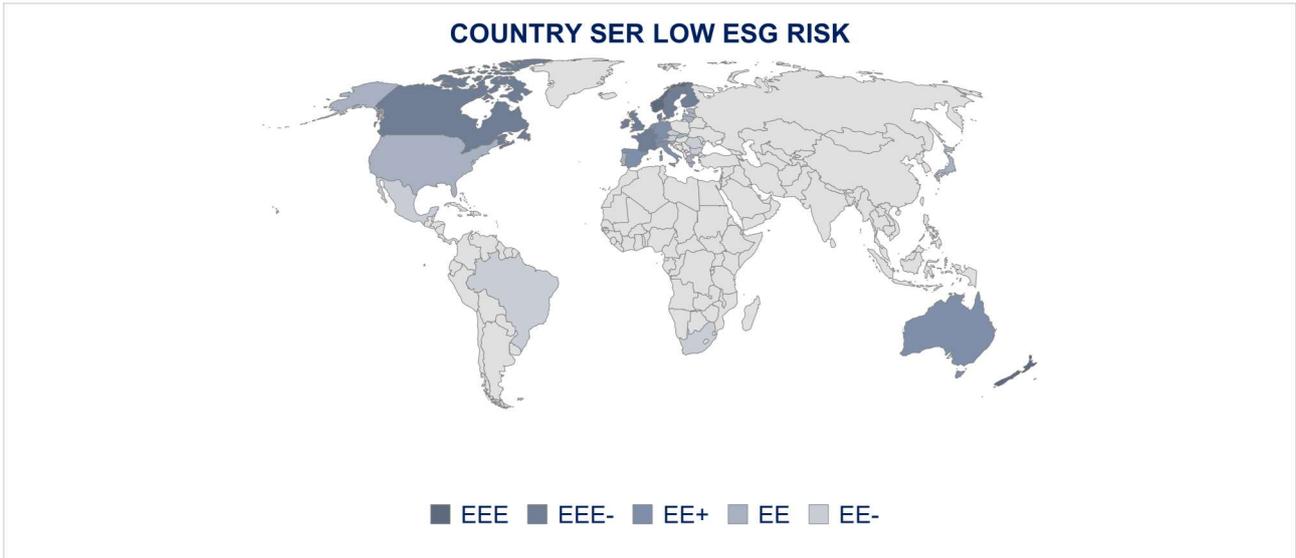
Politically, even if the first institutional steps, such as the appointments of the presidents of the two houses of parliament are the subject of criticism and perplexity, Italy's constitutional quality is beyond question. Analysts also highlight the centrality of the presidency of the republic, one 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.<sup>19</sup>

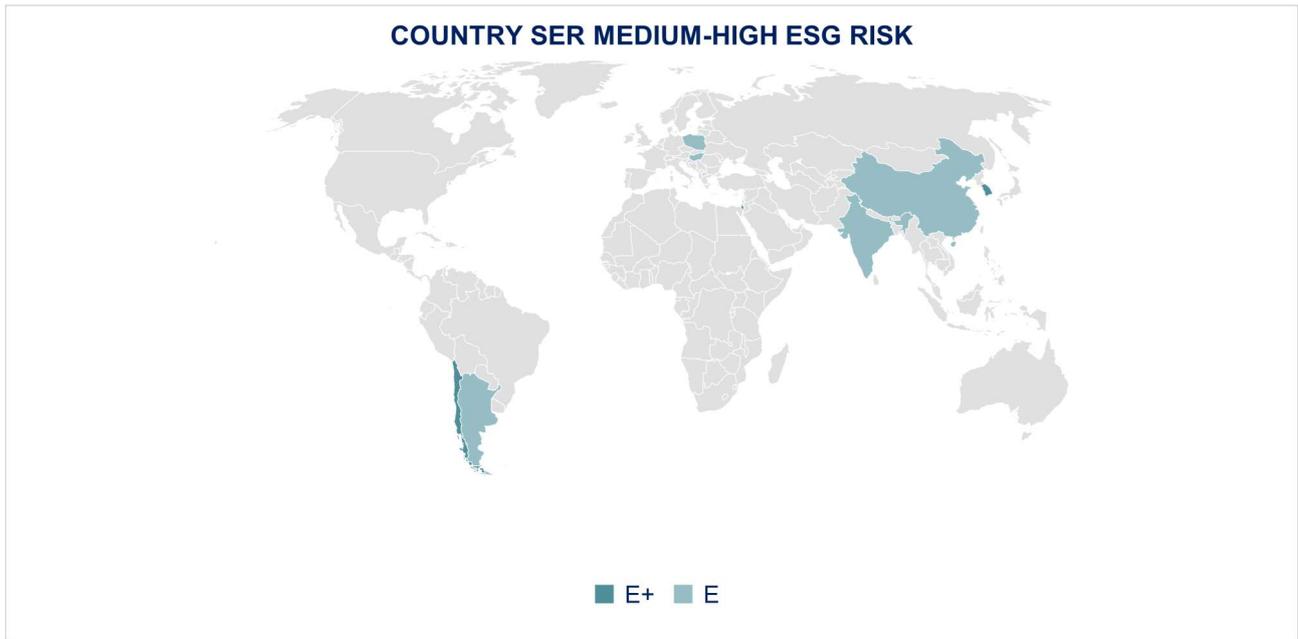
<sup>19</sup> Overseeing a slowdown in the Italian GDP on a yearly basis, the Credit Rating Agency Moody's issued a Negative Outlook to Italy's Sovereign Rating on August 5 2022. Differently, on October 18 2022 Standard Ethics confirmed Italy's Sustainability Rating, projecting the capacity of the Republic 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

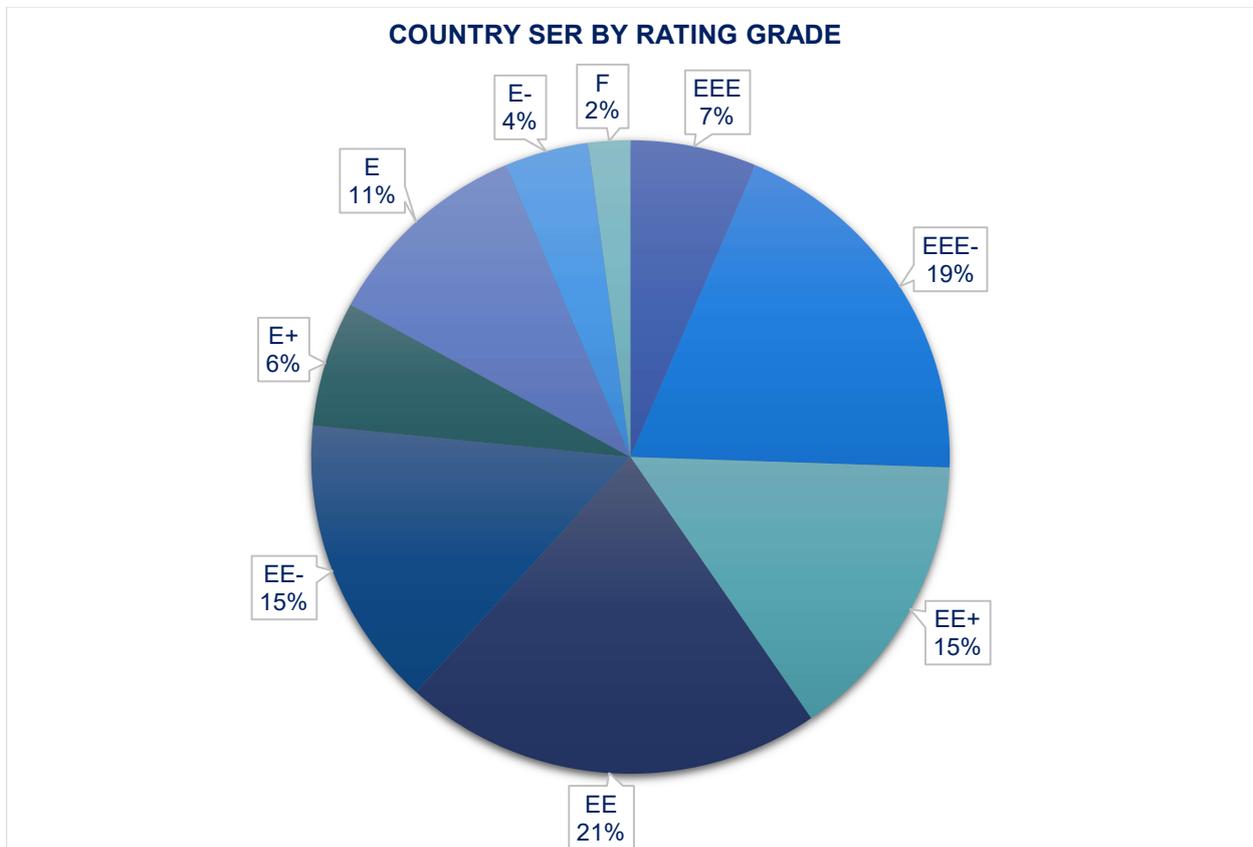
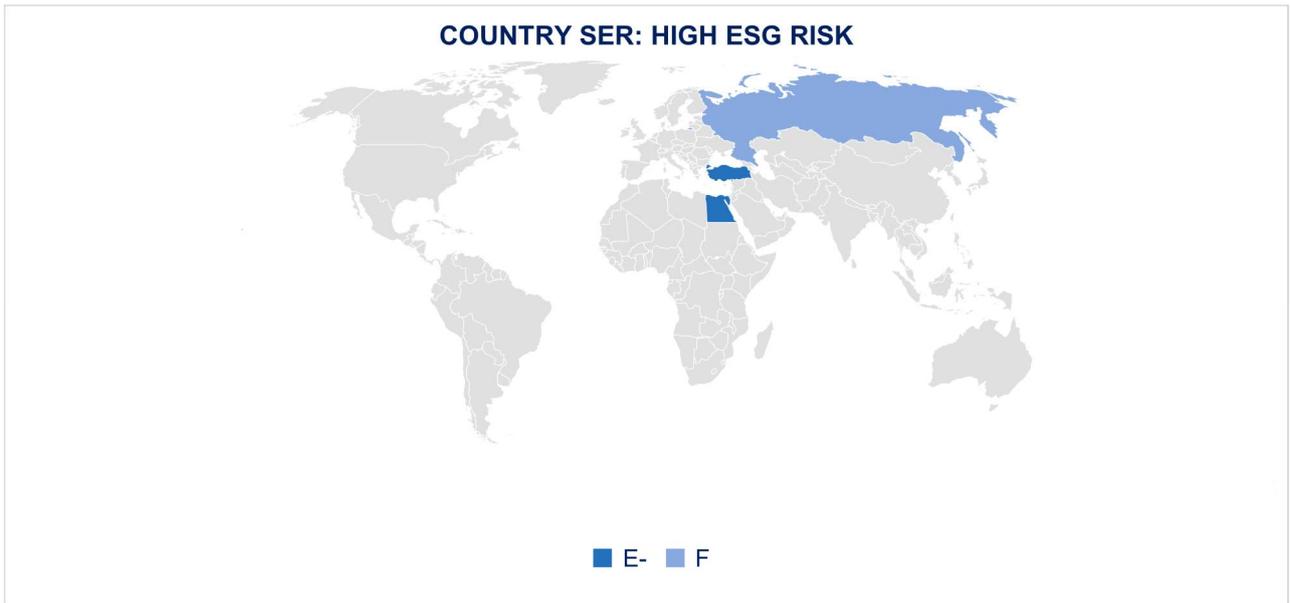
**Focus: Country SER Russian Federation**

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**)<sup>20</sup> have been taken.<sup>21</sup>

<sup>20</sup> 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.

<sup>21</sup> 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).



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 2022.
- 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.

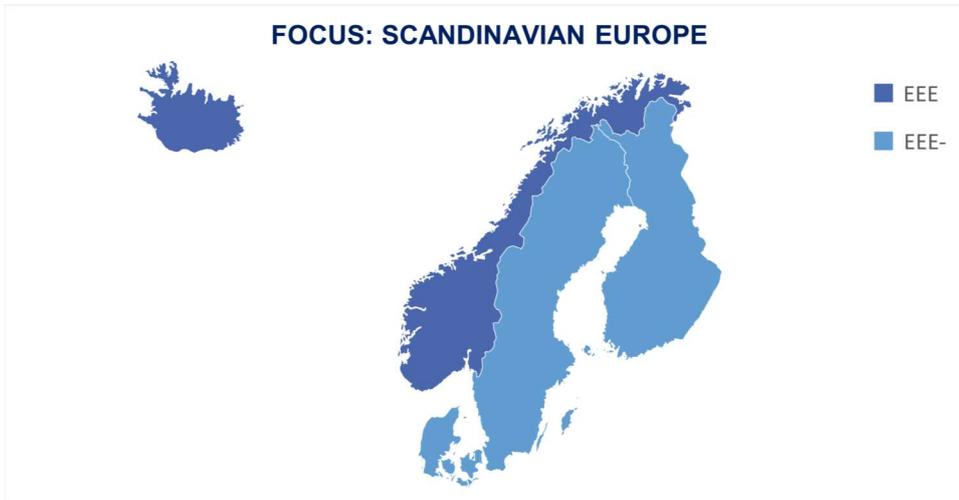
## A Focus on European countries

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+		

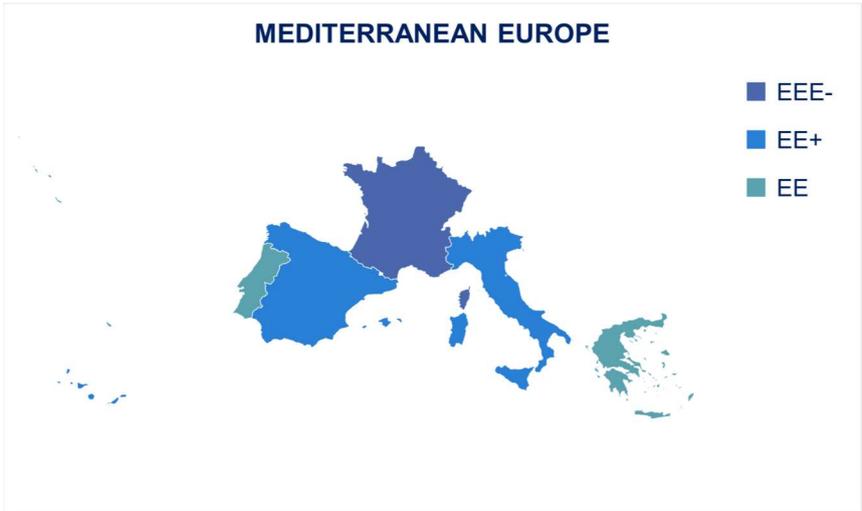
Country SERs will now follow in their different categories to enable an overall assessment on Country SERs in Europe. The first area to be analysed is Scandinavian Europe.

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-.



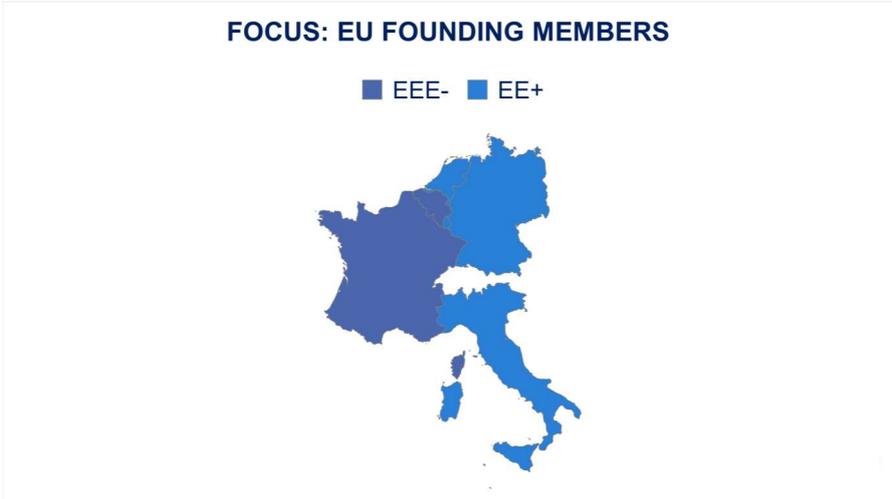
COUNTRY	RATING
Iceland	EEE
Norway	EEE
Denmark	EEE-
Finland	EEE-
Sweden	EEE-

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

## 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** has 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?

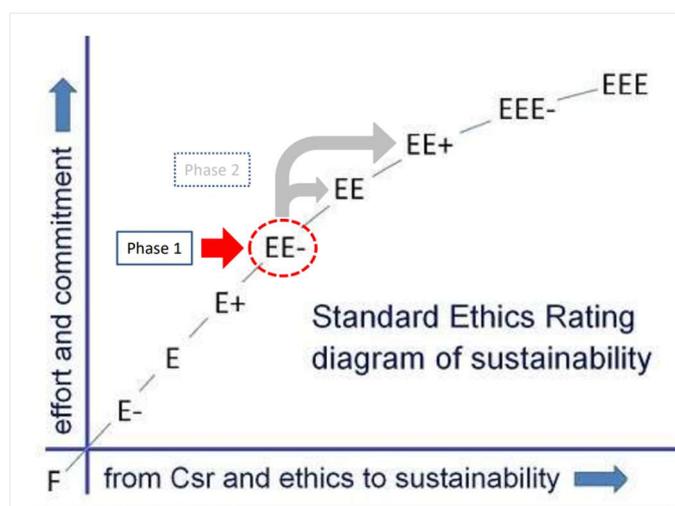
In **Standard Ethics'** opinion, an "EE-" rating (or above) qualifies the debt instrument as suitable for an ESG/SRI portfolio.

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 – in compliance with the EU DNSH principle (“Do No Significant Harm”) – 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 substantial<sup>22</sup> 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 substantial<sup>23</sup> 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

<sup>22</sup> 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.

<sup>23</sup> 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.

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.

$$\left[ \frac{(F_{c_{EU}} + S_a + I_{d_{EU-OECD}} + M_w \cdot f(S_a) \cdot f(I_{d_{EU-OECD}}) + C_{g_{UN-OECD-EU}} \cdot f(F_c) \cdot f(I_{d_{EU-OECD}}))}{10} + k \right] + g (C_{g_{UN-OECD-EU}})$$

**Phase 1**
**Phase 2**

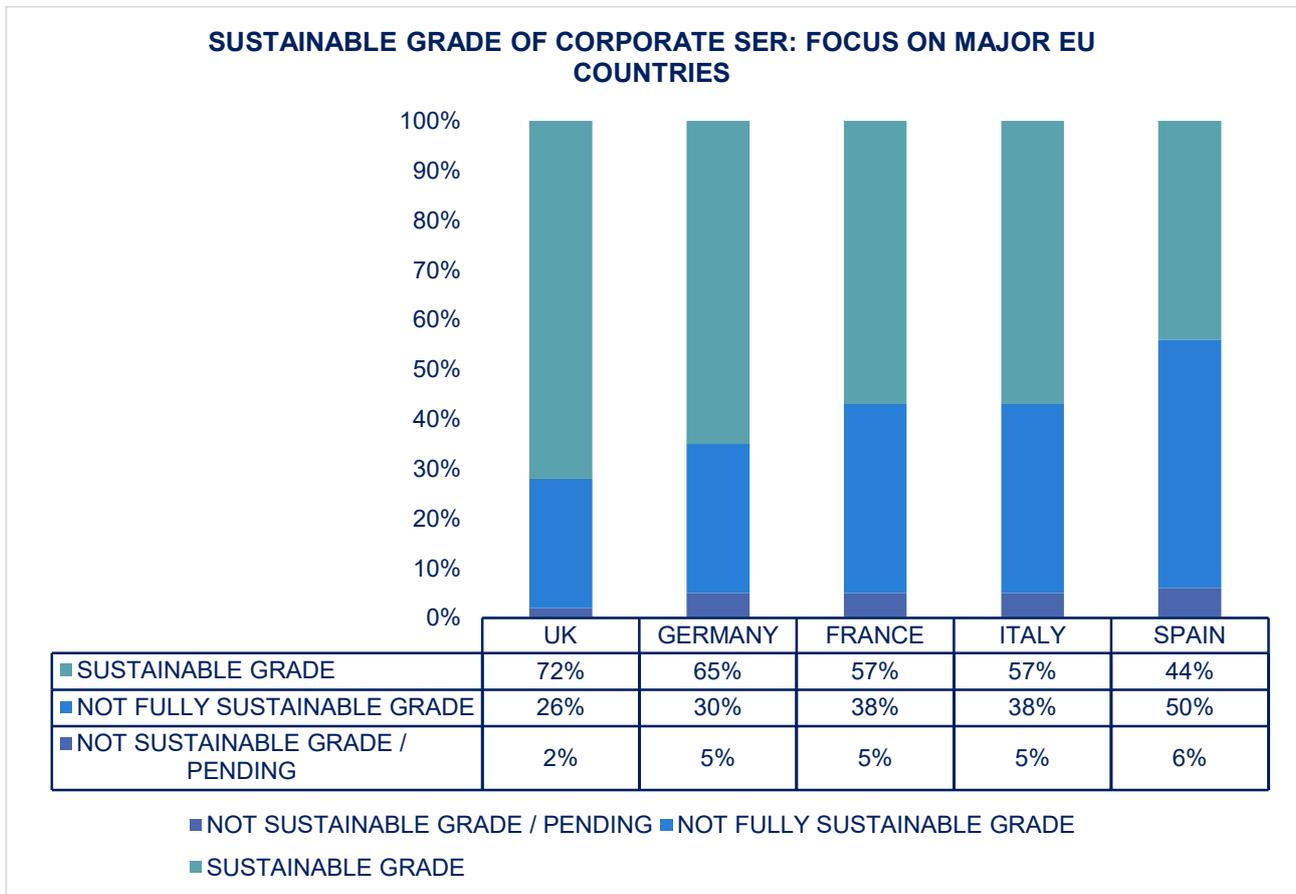
The **Security SER** is an extremely flexible tool, which also provides **Standard Ethics** with the opportunity to investigate some of the most topical and delicate issues that confront today's international business and society.

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 **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).

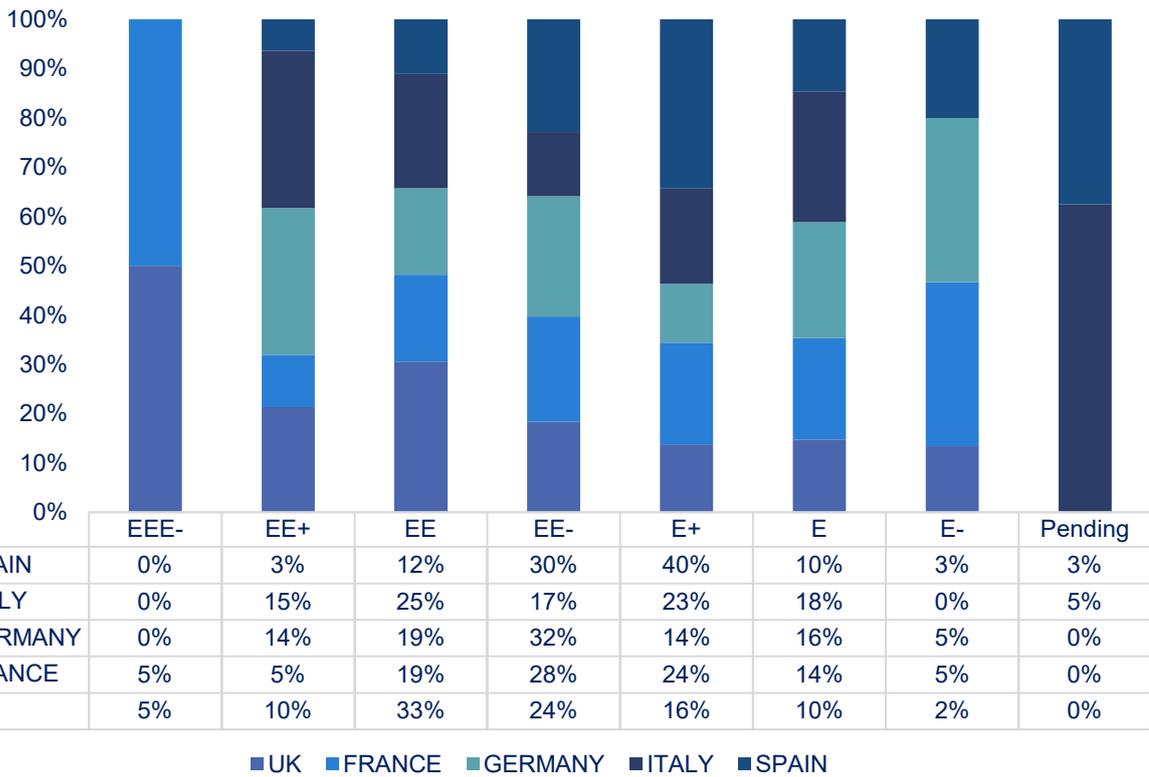
## 5.Statistical Issues

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 (72%), followed by Germany (65%) then France (57%), Italy (57%) and finally Spain (44%). 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** (50%) or a **Not Sustainable Grade** (6%). Confronting such data with the rest of the sample, it can be seen that less than circa a third of both UK (28%) and German (35%) companies have a **Not Fully Sustainable** or **Not Sustainable Grade**. Conversely, the percentage of companies which have a **Not Fully Sustainable** or a **Not Sustainable Grade** in France (43%) and Italy (38%) amount to less than 50%.

### FOCUS EU COUNTRIES RANKED BY RATING GRADES



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 5% 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 (15%) rated EE+. **Germany** (14%) and the **UK** (10%) followed by **France** (5%) and finally **Spain** (2%).
- In **Germany**, 32% of rated companies are EE- that corresponds to an adequate level of compliance with international Sustainability standards.
- In **France** and **Italy**, respectively 24% and 23% of companies are rated E+, corresponding to a low compliance with international Sustainability standards.
- In **Italy**, 15% of rated companies is rated E that corresponds to a low level of compliance with international Sustainability standards.
- In **Germany**, 5% of rated companies is E- that corresponds to a poor level of compliance with international Sustainability standards.

### Corporate SER Global Distribution 2019-2022

The table below summarizes the number of rating actions (Corporate SER) in the last 4 years.

	2019	2020	2021	2022
N* action (excluding pending and suspended)	109	129	110	126
N* action (including pending and suspended)	114	132	113	133
	2019	2020	2021	2022
EEE-	2%	3%	2%	0%
EE+	7%	6%	6%	6%

EE	17%	14%	18%	15%
EE-	20%	25%	27%	19%
E+	22%	23%	32%	29%
E	22%	25%	12%	27%
E-	9%	3%	3%	5%

The following empirical considerations can be made:

- In the last 3 years, the number of companies rated **EEE-** (a **Sustainable Grade**, with an excellent level of compliance) is stable: it has never been above 5%.
- The wide majority of companies (Index constituents) sit between the lowest **Sustainable Grade** level **EE-** and the highest **Not Fully Sustainable Grade** level **E+**. On average, in the last three years, 23% of **Standard Ethics** index constituents have been rated **EE-**, whereas on average 26% have been rated **E+** in that same time frame.
- The percentage of **Not Fully Sustainable Grade E+** ratings has increased by 6 percentage points from 2019 to 2022. The opposite trend can be observed for the rating class **E**, which has decreased by 10 percentage points in the last three years.

	2019	2020	2021	2022
<b>SUSTAINABLE GRADE</b>	46%	48%	53%	40%
<b>NOT FULLY SUSTAINABLE GRADE</b>	42%	48%	59%	56%
<b>NOT SUSTAINABLE GRADE</b>	9%	3%	3%	4%

The final table above shows the distribution of Corporate SERs from 2019 to 2022 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 slight decrease of ratings with a **Sustainable Grade** since 2021. Such change is estimated as -13%.
- The time frame 2019-2022 has seen a major increase in Corporate SERs with a **Not Fully Sustainable** and a **Not Sustainable Grade**. The variation in percentage corresponds to +9%.
- 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 2022.
- In 2020, 51% of the rated companies had a **Not Fully Sustainable** or **Not Sustainable Grade**.
- From 2019 up to 2021, 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. In parallel, SE analysts note a slump in **Sustainable Grade** Corporate SERs between 2021 and 2022. As mentioned, 2021 and 2022 saw a higher number of legally binding as well as voluntary provisions concerning global Sustainability standards. In other words, between 2021 and 2022 more and more companies are thought to be pursuing an increase in voluntary parameters which pertain to increased sustainability challenges.

## 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.<sup>24</sup>

INDUSTRY	Number of companies	Sustainable Grade %	Not Fully Sustainable Grade %	Not Sustainable Grade %
<b>Number of companies</b>	<b>494</b>	<b>49%</b>	<b>47%</b>	<b>4%</b>
Consumer Products	72	32%	65%	3%
Banking	64	47%	47%	6%
Utilities, Multiutilities & Renewable Energy	44	59%	39%	2%
Biotech & Pharma	23	43%	57%	0%
Real Estate	23	39%	61%	0%
Machinery, Iron & Steel and Electrical Equipment	22	55%	45%	0%
Insurance	19	74%	21%	5%
Apparel & Textile Products	16	56%	31%	13%
Automotive	16	31%	63%	6%
Telecom	15	53%	40%	7%
Hardware, Tech Hardware & Semiconductors	14	71%	21%	7%
Oil, Gas & Coal	14	50%	21%	29%
Chemicals	13	77%	23%	0%
Other (Football)	13	8%	69%	23%
Aerospace & Defence	12	75%	25%	0%
Media & Internet Media and Services	12	33%	67%	0%
Technology Services	10	80%	10%	10%
Industrial Products & Industrial Services	9	44%	56%	0%
Asset Management	7	29%	71%	0%
Commercial Services	7	100%	0%	0%
Engineering & Construction Svcs	7	57%	43%	0%
Health Care	7	29%	71%	0%
Other	7	43%	57%	0%
Software & Tech	7	57%	43%	0%
Transportation & Logistics	7	29%	57%	14%
Institutional Financial Services	6	100%	0%	0%
Medical Equipment & Devices	6	67%	33%	0%
Construction Materials	5	40%	60%	0%
Gaming, Lodging and Restaurants	5	20%	80%	0%
Specialty Finance	5	60%	40%	0%
Metals & Mining	4	0%	100%	0%
Transportation Equipment	3	33%	67%	0%

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.

<sup>24</sup> **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**”.
- “**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**”.
- 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
- “**Other (Football)**” includes the main listed football clubs in the world, whose Corporate SER has been assigned by SE in 2022.

INDUSTRY	Number of companies	Sustainable Grade %	Not Fully Sustainable Grade %	Not Sustainable Grade %
Commercial Services	7	100%	0%	0%
Institutional Financial Services	6	100%	0%	0%
Technology Services	10	80%	10%	10%
Chemicals	13	77%	23%	0%
Aerospace & Defence	12	75%	25%	0%
Insurance	19	74%	21%	5%
Hardware, Tech Hardware & Semiconductors	14	71%	21%	7%
Medical Equipment & Devices	6	67%	33%	0%
Specialty Finance	5	60%	40%	0%
Utilities, Multiutilities & Renewable Energy	44	58%	39%	2%
Software & Tech	7	57%	43%	0%
Engineering & Construction Svcs	7	57%	43%	0%
Apparel & Textile Products	16	56%	31%	13%
Machinery, Iron & Steel and Electrical Equipment	22	55%	45%	0%
Telecom	15	53%	40%	7%
Oil, Gas & Coal	14	50%	21%	29%
Banking	64	47%	47%	6%
Industrial Products & Industrial Services	9	44%	56%	0%
Biotech & Pharma	23	43%	57%	0%
Other	7	43%	57%	0%
Construction Materials	5	40%	60%	0%
Real Estate	23	39%	61%	0%
Media & Internet Media and Services	12	33%	67%	0%
Transportation Equipment	3	33%	67%	0%
Consumer Products	72	32%	65%	3%
Automotive	16	31%	63%	6%
Health Care	7	23%	71%	0%
Transportation & Logistics	7	23%	57%	14%
Asset Management	7	23%	71%	0%
Gaming, Lodging and Restaurants	5	20%	80%	0%
Other (Football)	13	8%	69%	23%
Metals & Mining	4	0%	100%	0%
<b>Number of companies</b>	<b>434</b>	<b>49%</b>	<b>47%</b>	<b>4%</b>

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 “**green zone**” there are: Technology Services, Chemicals, Aerospace&Defence, Insurance, Hardware, Tech Hardware & Semiconductors, Medical Equipment and devices, Specialty Finance, Utilities, Multiutilities & renewable energy, Software & Tech, Engineering & Construction Services, Apparel & Textile Products, Machinery, Iron and Steel and Electrical Equipment and Telecom.

In the “**light green to light red**” area there is a group of industries, which account for 50% of Corporate SERs with a **Sustainable Grade**: Oil, Gas & Coal.

Finally, the “**red zone**” highlights: Banking, Industrial Products & Industrial Services, Construction Materials, Real Estate, Media & Internet Media and Services, Transportation Equipment, Consumer Products, Automotive, Health Care, Transportation & Logistics, Asset Management, Gaming, Lodging and Restaurants, Football and Metals & Mining.

Undoubtedly, the Banking sector performs better at the European level<sup>25</sup> than at the global level.

## Final Remarks on the SE Annual Report 2022

### 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, Passenger Transportation, Medical Equipment & Devices** and the **Oil & Gas** industry) include a wide number of **Sustainable Grade**<sup>26</sup> companies.
- ❖ **Standard Ethic’s** 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 CO<sub>2</sub> emissions), as often happens in the **Transportation & Logistics** industries, as well as in the **Iron & Steel, Metals & Mining** and **Materials** industries.

<sup>25</sup> Please refer to the Italy In-Depth Analysis and the findings related to the Italian Banking Industry.

<sup>26</sup> 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

- ❖ 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.
- ❖ 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 products are very different, have very similar results. In the case of the **Industrial Products & Industrial Services** and the **Biotech & Pharma** for example: 56% of the former industry has a **Not Fully Sustainable Grade**; whereas 57% of the latter industry has a **Not Fully Sustainable** or **Not Sustainable Grade**.
- ❖ **Biotech & Pharma, Health Care Facilities & Svc, Health Care** are most likely to be involved in controversial cases linked to antitrust and patent issues.
- ❖ The number of **Sustainable Grade** companies is surprisingly lower than expected in some industries: in the **Banking** industry for example, although **47%** of companies have a **Sustainable Grade**, **47%** 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**, the firm majority of companies (**71%**) 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<sup>27</sup>.
- ❖ 2022 UN “Conference Of Parties” (COP27) in Egypt 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**.

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<sup>27</sup> 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.

- ❖ Some industries have been traditionally endorsing the Sustainability roadmap as promoted by the international organizations. However, empirical data confirms this “**green attitude**” in the **Forest & Paper Products** industry and the **Renewable Energy** industry only.
- ❖ **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 Staples 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 do not perform as expected. This can already be observed in the food and beverage sector. The same can be said about the SE **Football** index, which includes the major listed football clubs in the world, and presents the following results: the number of clubs with a **Sustainable Grade** is 8%, whereas 69% are **Not Fully Sustainable** and 23% are **Not Sustainable**.

### Highlights per countries

- ❖ The **Italian stock market** is characterized 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)<sup>1</sup> 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.

<sup>1</sup> 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 2021, 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.
- ❖ **France** is characterized 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 characterized 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.

- ❖ The **UK** system is the most international of the European systems and the one most consistent with **OECD governance principles**. It also appears to be very attentive to fundamental sustainability principles such as diversity, gender equality and independence at Board and Top Management level. It pays adequate attention to **reporting** and **transparency**.  
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. In recent years, there has been a marked improvement by UK listed companies in ESG reporting, which has been continually standardizing in accordance with international best practices.
- ❖ **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 65% 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.
- ❖ In 2022, numerous companies were delisted from Euronext Milan; the highest regulated stock market in **Italy**. This appears to be a trend shared by other **European** and **US** stock exchanges, as the low cost of borrowing makes it convenient for companies to exit securities markets and raise capital elsewhere. Moreover, in **Italy** there is also a historical pattern of major companies (such as Ferrero, Barilla, etc.) preferring not to rely on the securities market to fund themselves. **Standard Ethics** analysts have registered the delistings from the **public equity** markets and, in some cases, have suspended the companies from the relevant index, whilst in other cases, some companies that have been **delisted** are still included in one of **Standard Ethics'** indexes (e.g. the Food&Beverage Italian Sustainability Benchmark).
- ❖ **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.

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**. Overall, it is the SE index 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. 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.

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 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.

## 6.Next steps

- The *SE European Fashion&Luxury Index*

On 8th September 2022, Standard Ethics announced the launch of the *SE European Fashion&Luxury Index*. The Index constituents will be **20** among the largest **European listed companies in the fashion and luxury sector**, identified primarily by economic dimension.

Index constituents will be shortlisted from the **24 companies** indicated below:

Adidas	H&M	Next Plc
Brunello Cucinelli	Hermès	Prada
Burberry	Hugo Boss	Puma
Capri Holdings	Inditex	Salvatore Ferragamo
Compagnie Financière Richemont	JD Sports Fashion	Superdry Plc
Ermenegildo Zegna	Kering	Swatch Group
Geox	LVMH	Tod's Group
Gerry Weber	Moncler	Van de Velde NV

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 components** 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**.

The announcement of the *SE European Fashion&Luxury Index* anticipates the official Index release in the first semester of 2023. The Index will be updated in September and March.

The *SE European Fashion&Luxury Index* aims to provide 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.

**Selection of the companies** to be included in the *SE European Fashion&Luxury Index* will be made over the next few months, during which time the relevant Corporate SERs will be assigned.

- **Standard Ethics** reserves the possibility to extend its already initiated observations in the world of Football, Formula 1 and Food&Beverage in the near future.

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This analysis is based on documents and public information available as of 31.12.2022. 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.

For inquiries or comments about supposed errors or discrepancies, please contact the Standard Ethics at the following e-mail address: [research@standardethics.eu](mailto:research@standardethics.eu)



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