



ESG CORPORATE RATING

Methodology and Research Process

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Introduction

This document is intended to provide a comprehensive overview of ISS ESG's approach to evaluating the sustainability performance of companies through the ISS ESG "[ESG Corporate Rating](#)". A methodology summary can be accessed [here](#).

ESG Corporate Rating Objective

The ESG Corporate Rating is designed to enable institutional investors to support their investment strategies by assessing the environmental, social, and governance (ESG) performance of corporate issuers. In the context of the ESG Corporate Rating, ESG performance refers to a company's demonstrated ability to adequately manage material ESG risks, mitigate negative and generate positive social and environmental impacts, and capitalize on opportunities offered by transformation towards sustainable development. The ESG Corporate Rating measures performance on [an absolute twelve-point letter and underlying numerical scale](#) from A+/4.00 (excellent performance) to D-/1.00 (poor performance). In addition to aggregated rating scores, the underlying data components can be leveraged to support tailored applications at the discretion of subscribing investors.

Methodological Foundations

The ESG Corporate Rating methodology builds on international normative frameworks, including the [United Nations \(UN\) Global Compact Principles](#), the [Organisation for Economic Co-operation and Development \(OECD\) Guidelines for Multinational Enterprises](#), and the [UN Guiding Principles on Business and Human Rights](#), as well as the [UN Sustainable Development Goals \(SDGs\)](#). The methodology also takes into account disclosure standards such as the Global Reporting Initiative (GRI); the Sustainability Accounting Standards Board (SASB), which is now part of the IFRS Foundation; the Task Force on Climate-Related Financial Disclosures (TCFD); and the CDP, as well as regulatory changes and technological developments. This approach and the resulting scores enable institutional investors to align their investments with global standards.

The ESG Corporate Rating considers ESG risks, opportunities, and impacts along the entire corporate value chain, including a company's supply chain, its own operations, and use phase and, where applicable, disposal of products. For instance, the ESG Corporate Rating includes [a dedicated SDG-based component](#) that measures the positive and negative impacts of an issuer's products and services. [Controversies](#) and violations of global norms are also considered within the assessment.

Materiality

The ESG Corporate Rating applies a holistic and forward-looking concept of materiality that focuses on long-term value creation through a double materiality lens. The rating approach acknowledges that both financial and impact materiality are closely interconnected, as impacts resulting from companies' business operations on stakeholders and/or the environment can affect the economic value of a company over the short, medium, or long term. Consequently, the rating incorporates a broad range of standard and industry-specific sustainability topics designed to ensure that salient and emerging ESG risks and opportunities are captured.

Generally, ESG risks and opportunities map to financial risks and opportunities. Some examples are as follows:

- Market risks/opportunities – Changing consumer preferences for sustainable products and services can directly impact a company's revenue, market share, and profitability.
- Operational risks/opportunities – Failure to establish safe workplace conditions can disrupt operations and reduce worker morale leading to financial losses.
- Credit/counterparty default risk – Innovation towards low-carbon alternatives can decrease the risk of stranded assets and/or the likelihood of significant unexpected capital expenditure, either or both of which can occur when a company is based on carbon-intensive technology.
- Reputational risks/opportunities – Negative publicity or controversies related to ESG issues can damage a company's reputation, brand value, and market position. Conversely, companies that adequately manage ESG risks can enhance their reputation, attract, and retain customers and employees, and improve stakeholder trust.
- Legal/regulatory risk – As governments and regulators introduce new ESG-related policies, laws, and regulations (existing and emerging), companies that fail to comply may face legal and financial penalties.

Methodology Reviews

The ESG Corporate Rating methodology is subject to periodic reviews and updates that are overseen by ISS ESG's [Methodology Review Board](#) which is comprised of experienced methodology and research leaders across jurisdictions. Reviews consider factors including regulatory developments, existing and emerging disclosure standards, increasing stakeholder expectations, academic research, and scientific and technological developments. Going forward, ISS ESG will undertake open surveys to elicit the views of key stakeholders on methodological foundations and future potential methodology enhancements. Relevant upcoming methodology changes are communicated to clients on a quarterly basis.

Industry Classification

ISS ESG recognizes that each business model has a unique set of risks, opportunities, and impacts. To capture and reflect these characteristics, an industry- and a sub-industry-specific approach is applied using a proprietary industry classification system. This classification system is currently made up of 73 industries (a full list of industries including descriptions can be found in the [Annex](#)).

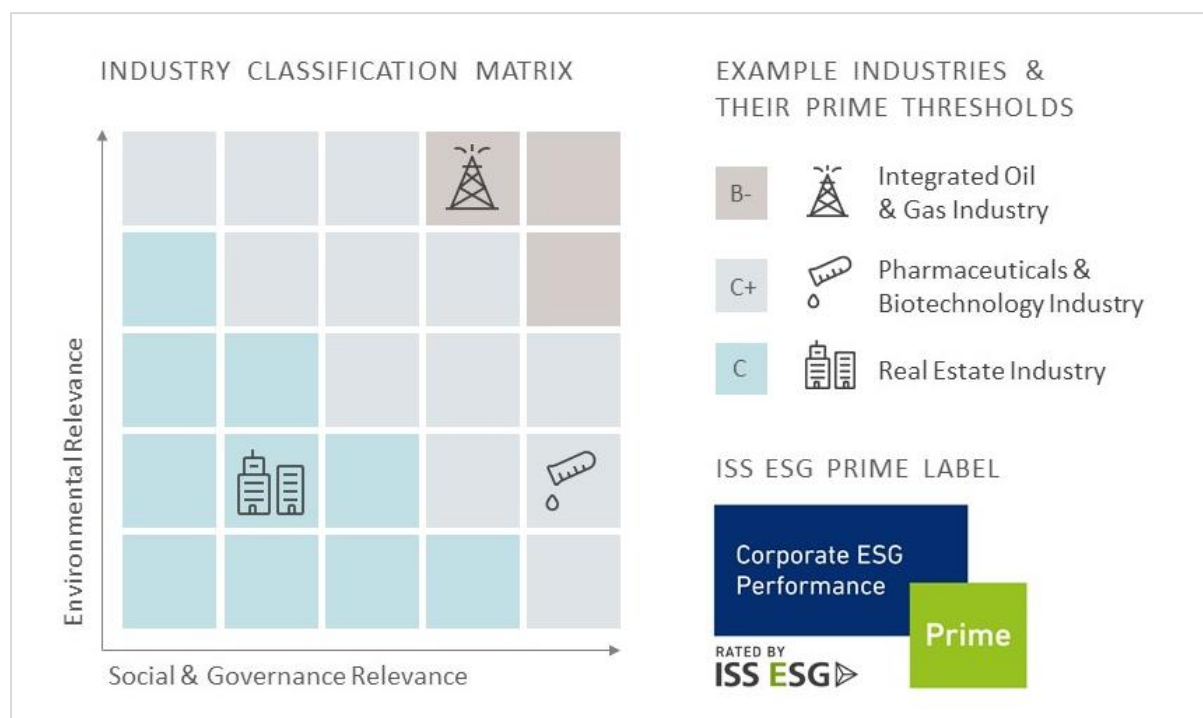
The industry-/sub-industry-specific approach uses the Global Industry Classification Standard (GICS) as a starting point. However, the final assignment of a company to an industry is designed to ensure that there is a sufficient level of homogeneity in assigned companies' material ESG risks and opportunities, rather than what GICS has determined to be the companies' principal business activities.

Industry Classification Matrix and Determination of *Prime* Thresholds

To account for variations in ESG risk profiles between industries, ISS ESG has developed an Industry Classification Matrix which spans two dimensions: Social and Governance Relevance and Environmental Relevance. This matrix assigns each industry to a particular position based on an assessment of the industry's overall magnitude of risk exposure, stakeholder impacts, and footprint along the value chain. The industry's position within the matrix determines the relative weighting of the two dimensions of the ESG Corporate Rating (see 'Rating Structure, Weightings, and Key Issues' section) as well as the *Prime* threshold.

Prime status is granted to companies with an ESG performance in line with or above the *Prime* threshold, which is a defined industry-specific letter grade of either B-, C+, or C (see *Figure 1*), with C+ applying to most industries. Companies belonging to industries associated with greater ESG exposure must meet higher thresholds to be categorized as *Prime*.

Figure 1: Industry Classification Matrix



Source: ISS ESG

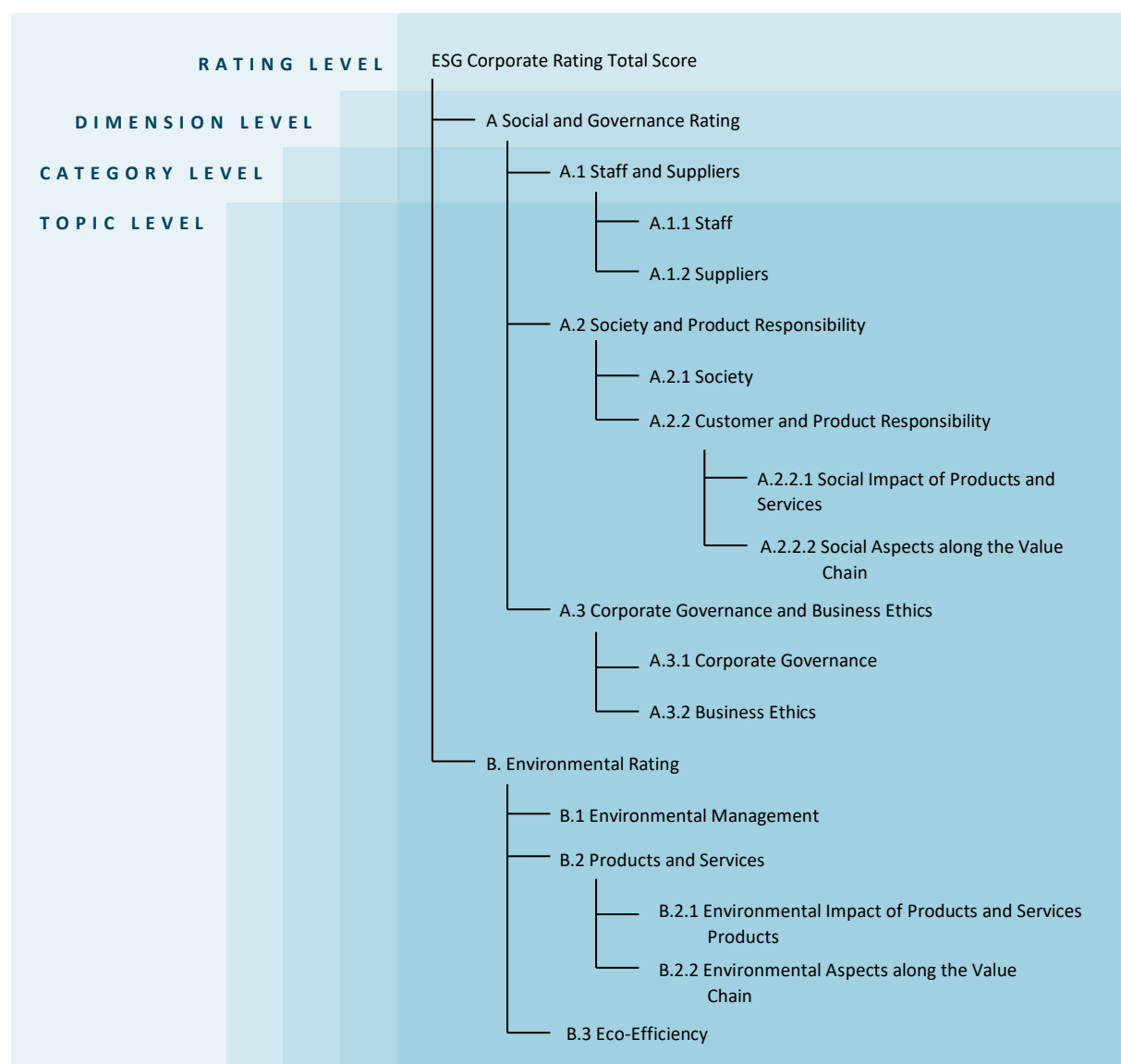
In rare cases, when companies exhibit significantly different risk profiles yet are classified within the same industry, they may be assigned a different *Prime* threshold. For example, given their cleaner production processes and lower environmental footprint, companies focusing on metals recycling are assigned a *Prime* threshold of C+, whereas the standard *Prime* threshold of those in the *Metals Processing and Production* industry is B-.

Rating Structure, Weightings, and Key Issues

Industry-Specific Rating Assessment Approach

At the highest level, the ESG Corporate Rating is made up of two dimensions, the Social and Governance Rating and the Environmental Rating. Each dimension is subdivided into three categories and further broken down into topics and indicators that can be located at different layers of the rating hierarchy (see *Figure 2 below*). All indicators are individually assessed based on clearly defined [performance expectations](#). All other layers of the rating hierarchy – dimensions, categories, topics, and the overall rating – are aggregated scores based on the underlying indicator assessments. Companies grouped within the same ESG Corporate Rating industry generally have the same set of indicators, which enables comparability of ESG performance among industry peers. The top-level hierarchy shown in *Figure 2* is consistent across industries.

Figure 2: Consistent Top-Level Hierarchy of the ESG Corporate Rating



Source: ISS ESG

Standard and Industry-Specific ESG Indicators

Drawing on a pool of approximately 700 indicators, each industry-specific rating structure contains both standard and industry-specific indicators, with a total of approximately 100 assessed indicators per overall rating. Standard indicators generally account for around 40% of the indicators used in the rating, while industry-specific indicators account for around 60%. Standard indicators assess performance regarding ESG topics relevant for all companies regardless of industry.

Examples of indicators and topics considered under each high-level topic are shown in the following *Table 1*.

Table 1: Thematic Structure and Content of Main Rating Topics

Main Rating TOPICs	Description	Examples of indicators and topics
A.1.1 Staff	Covers topics/indicators relating to labor rights and working conditions for the company's workforce, on-site contractors, and employees of franchisees	<ul style="list-style-type: none"> Equal opportunities and non-discrimination Freedom of association and the right to collective bargaining Health and safety Training and education Work-life balance
A.1.2 Suppliers	Covers indicators relating to labor rights and working conditions in the supply chain	<ul style="list-style-type: none"> Supplier standard with regard to labor rights and working conditions Procedures to ensure compliance with the supplier standard on labor rights and working conditions Measures to enable key suppliers to safeguard labor rights and improve working conditions
A.2.1 Society	Covers topics/indicators relating to external stakeholders of the company, excluding customers	<ul style="list-style-type: none"> Human rights Community Relations with governments and influence on public policy Stakeholder dialogue
A.2.2.1 Social impact of products and services	Covers the SDG-based assessment of the social impact of the company's product portfolio	<ul style="list-style-type: none"> Social impacts of the product portfolio Strategy shift towards a more socially beneficial product portfolio
A.2.2.2 Social aspects along the value chain	Covers topics/indicators relating to business model-specific customer and product responsibility issues	<ul style="list-style-type: none"> Product safety Data privacy and information security Responsible marketing
A.3.1 Corporate governance	Covers topics/indicators relating to corporate governance	<ul style="list-style-type: none"> Board composition and independence Remuneration Shareholder rights Auditing and accounting practices

A.3.2 Business ethics	Covers indicators relating to responsible business conduct and compliance	<ul style="list-style-type: none"> Code of business ethics Compliance procedures
B.1 Environmental management	Covers topics/indicators relating to general managerial approaches concerning environmental aspects	<ul style="list-style-type: none"> Environmental management system Energy management Climate change strategy Water risk and impact Environmental management in the supply chain
B.2.1 Environmental impact of products and services	Covers the SDG-based assessment of the environmental impact of the company's product portfolio	<ul style="list-style-type: none"> Environmental impacts of the product portfolio Strategy shift towards a more environmentally beneficial product portfolio
B.2.2 Environmental aspects along the value chain	Covers topics/indicators relating to business model-specific environmental risks and impacts	<ul style="list-style-type: none"> Biodiversity management Product lifecycle Material efficiency Substances of concern
B.3 Eco-efficiency	Covers quantitative indicators on resource use and emission intensities	<ul style="list-style-type: none"> Carbon intensity Nitrogen oxide, Sulfur oxide, Particulate matter emission intensities Freshwater intensity

Source: ISS ESG

Notably, industry-specific considerations may be applied to standard indicators as well. For instance, while the topic of labor rights and working conditions in the supply chain (A.1.2 Suppliers) is assessed in all industries, the methodology acknowledges the varying materiality of the topic across industries. For example, in industries which have been assessed by ISS ESG as having a higher risk, such as *Textiles & Apparel*, this topic is the most heavily weighted individual topic, and companies must meet additional performance requirements to achieve higher scores. In contrast, in the *Commercial Banks & Capital Markets* industry, only a core set of performance requirements are applied, and the topic has a much lower weight, as it is considered less relevant in the context of this industry (see the following Table 2). Further details on weighting can be found in the following section.

Table 2: Example of Materiality-Adjusted Approach towards Assessing Labor Rights and Working Conditions in the Supply Chain

Indicator	Sub-INDICATORS	ABSOLUTE WEIGHT		
		Textiles & Apparel	Automobile	Commercial Banks
A.1.2.1 Supplier standard with regard to labor rights and working conditions	Core set	3%	2.7%	0.8%
	Optional criteria		N/A	N/A
A.1.2.2 Procedures to ensure compliance with supplier standards on labor rights and working conditions	Core Set	6%	5.3%	0.8%
	Optional criteria		N/A	N/A
A.1.2.3 Measures to enable key suppliers to safeguard labor rights and improve working conditions	Core Set	6%	N/A	N/A
A.1.2.4 Social controversies relating to supplier activities	N/A		0% to 12%*	0% to 1.2%*
Total A.1.2 Suppliers		15%	8%	1.5%

* Controversy indicators can be assigned up to 80% of the weight of A.1.2 Suppliers depending on the existence and severity of relevant controversies (see *Controversies*).

Source: ISS ESG

Weighting of Indicators and Topics

To adequately reflect the relative importance of topics, ISS ESG develops weighting scenarios that apply to each industry-specific rating structure.

Multiple factors influence the final weight attributed to individual topics and indicators, including the following:

- Characteristics of the business model, such as exposure to supply chain risks, or the geographic breakdown of operations
- Track record of and exposure to controversies
- Recognition of the topic's materiality by corporate issuers, as well as by external disclosure standards such as GRI, SASB, TCFD, and the CDP
- The product portfolio's impact on the Sustainable Development Goals (SDGs)
- Existing and emerging regulations
- Academic research and scientific and technological developments

Identification of Industry-Specific Key Issues

The first step in defining weight distribution and materiality for each industry is to identify the key ESG issues. Key issues can vary in complexity and can consist of a single topic or a combination of several topics and/or indicators in the rating structure. Both standard and industry-specific indicators may be included in a key issue; an example is shown below.

EXAMPLE OF INDUSTRY-SPECIFIC KEY ISSUES

In the *Electric Utilities* industry, the *Promotion of a sustainable energy system* is identified as a key issue and is made up of a granular set of performance indicators designed to ensure that the issue is comprehensively covered.

Standard indicators:

- *Position on climate change*
- *Greenhouse gas emission inventories*
- *Greenhouse gas emission reduction targets and action plans*
- *Disclosure of climate change risks and mitigation strategy*
- *Controversies relating to climate change*
- *Environmental impacts of the product portfolio*
- *Strategy shift towards a more environmentally beneficial product portfolio*

Industry-specific indicators:

- *Incentives offered to customers to increase energy and water efficiency and to promote reduction and recycling of waste*
- *Energy generation by source*
- *Share of renewable energy in electricity generation*
- *Share of renewable energy in total energy sales*
- *Development of renewable energy in electricity generation*
- *Strategy to promote renewable energy*
- *Development of innovative energy technologies*
- *Carbon intensity of energy generation*
- *Development of the carbon intensity of energy generation*
- *Thermal efficiency of fossil-fired power plants*
- *Integration of renewable energy sources into the electricity grid*

Cumulatively, the key issues generally account for at least 50 percent and up to 80 percent of the rating weight, with individual key issue weight typically ranging between 5 and 40 percent. Examples are presented in *Table 3*.

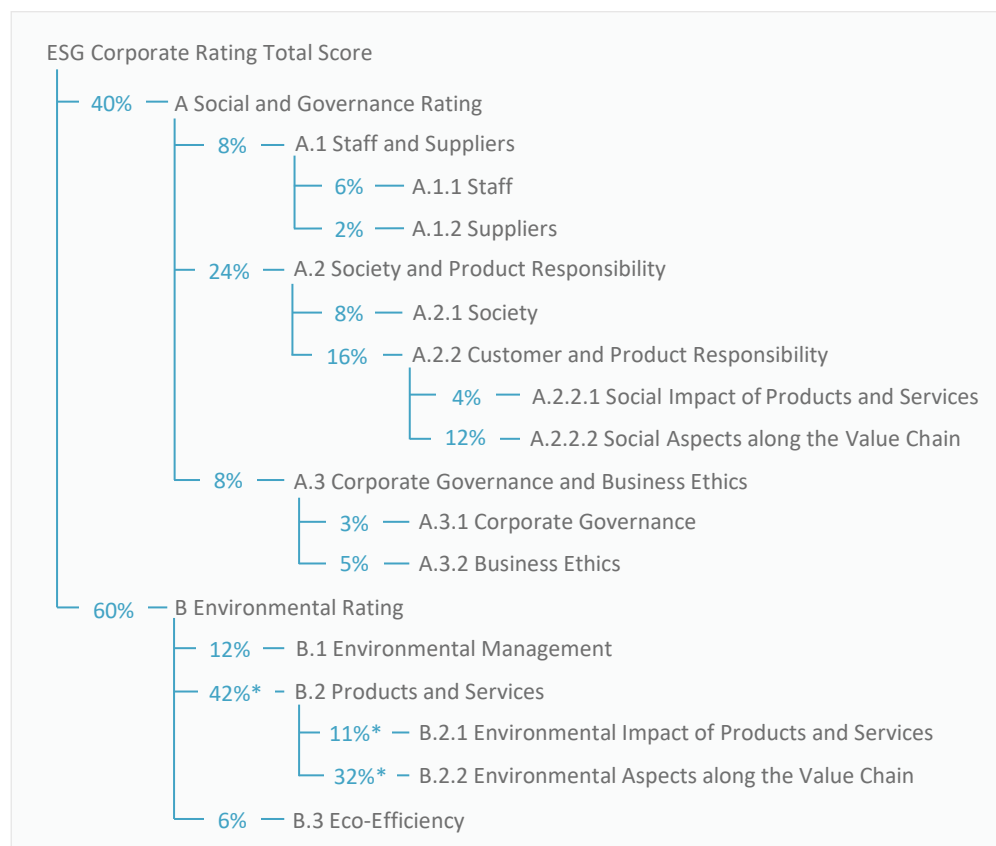
Table 3: Examples of Key Issues and Associated Average Weight in Select Industries

Industry	Key Issues	Weight
Commercial Banks & Capital Markets	Sustainability impacts of lending and other financial services	34.9%
	Customer and product responsibility	12.7%
	Sustainable investment criteria	11.5%
	Labor standards and working conditions	8.1%
	Business ethics	6.7%
	Total	73.9%
Electric Utilities	Promotion of a sustainable energy system	40.3%
	Environmentally safe operation of plants and infrastructure	11.9%
	Protection of human rights and community outreach	7.3%
	Accessibility and reliability of energy supply	6.5%
	Worker safety and accident prevention	3.1%
	Total	69.0%
Food Products	Impacts on soil and biodiversity along the value chain	16.9%
	Customer health and safety	15.7%
	Labor standards and working conditions	13.7%
	Mitigation of direct and indirect climate impacts	13.1%
	Conservation of aquatic ecosystems and water along the value chain	
	Total	71.1%

Source: ISS ESG

Industry-Specific Allocation of Weights

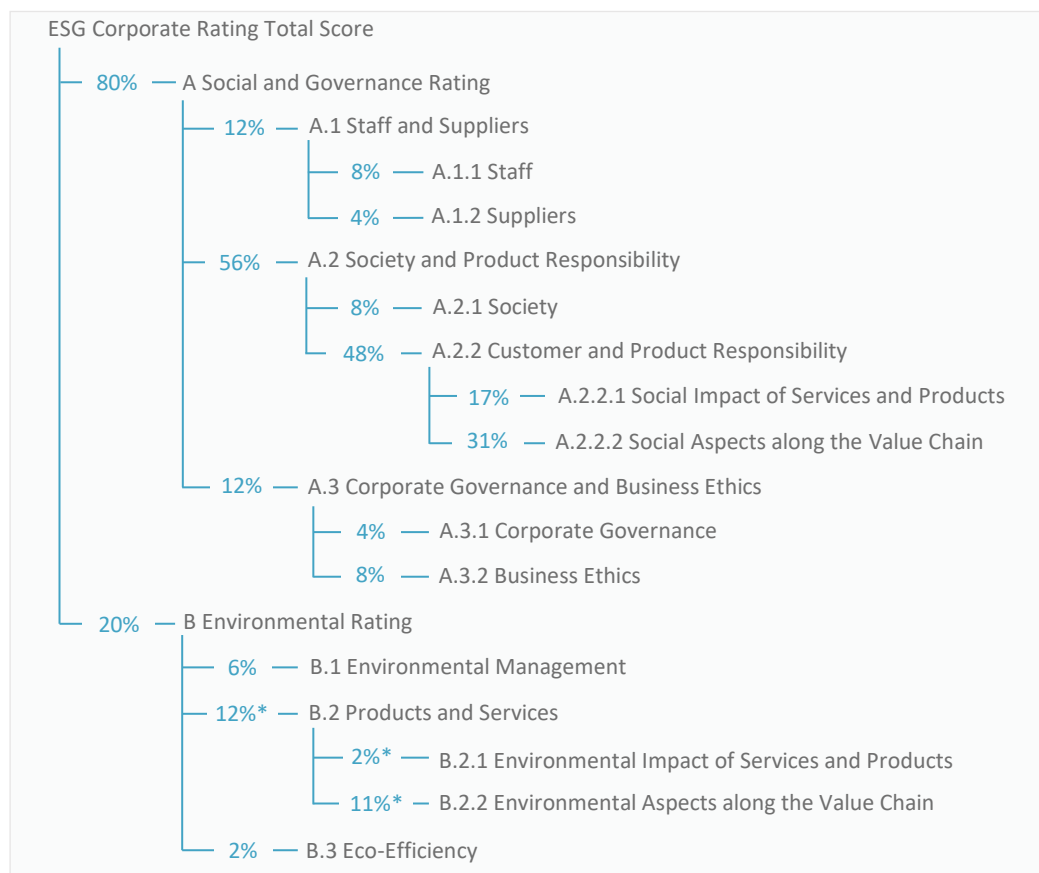
Weights of individual topics and indicators are allocated along the rating hierarchy at the dimension, category, topic, and indicator level. For example, in the *Electric Utilities* industry, the high weight on the environmental dimension (60 percent) facilitates the allocation of adequate weight on indicators assigned to the key issue *Promotion of a sustainable energy system*, e.g., Environmental impact of the products and services (see *Figure 3*).

Figure 3: Illustrative Weight Distribution in the Electric Utilities Industry

* Differences in total and sums of components are due to rounding.

Source: ISS ESG

In industries where the major ESG risks, opportunities, and impacts are tied to social issues, the social and governance dimension has a higher weight. For example, in the *Pharmaceuticals & Biotechnology* industry, this ratio is particularly tilted toward the social and governance dimension (80 percent), where four of the five identified key issues are related to social impacts (see *Figure 4*). These four key issues are *Business ethics, lobbying and ethical marketing; Health benefits of products and drug safety; Ethics in research and development; and Access to medicine in underserved regions*.

Figure 4: Illustrative Weight Distribution in the Pharmaceuticals & Biotechnology

* Differences in total and sums of components are due to rounding.

Source: ISS ESG

Additionally, the SDG impact assessment of products and services, which may be a key issue in the rating, can have a weight of 10-50 percent, depending on the magnitude of the impact in comparison to the overall risk exposure.

Generally, indicators relating to measures, procedures, and strategic positioning are assigned higher weights than those related to corporate policies, to emphasize the importance of the implementation of the principles that companies have committed to upholding.

Differentiated Weighting Scenarios for Specific Business Models

Weights may be adjusted for companies within the same industry that have different business models, to reflect the specific ESG risk exposures and levels of materiality of individual ESG topics. An example is shown below.

EXAMPLE OF DIFFERENTIATED WEIGHTING SCENARIOS

In the *Pharmaceuticals & Biotechnology* industry, companies exhibit various business models, ranging from pure R&D companies and service provider companies, such as contract manufacturing or research organizations, to traditional large pharmaceutical companies. Specific applicability and weighting scenarios are applied to account for the resulting differences in materiality of the individual social and environmental topics.

While most *Pharmaceuticals & Biotechnology* companies share a common set of key issues such as business ethics and ethics in research and development, other topics such as responsible marketing and product safety are only material for companies whose products have been placed on the market already. Furthermore, some companies have a lower risk exposure due to the nature of their products. For companies exclusively developing and producing biodegradable biopharmaceuticals (such as antibody drugs) topics such as the elimination of active pharmaceutical ingredients from production wastewater are set to not applicable and thus are not attributed any weight.

Consideration of Non-standard Business Models

In some circumstances, the addition of topics and indicators to a rating structure is necessary to capture business activities that are not typically associated with an industry. The addition of these elements is prompted by one of the two following circumstances:

1. More than 20 percent of a rated company's revenue is generated in business areas that pose ESG-related risks, opportunities, and impacts that are not adequately captured by the industry's default rating structure.
2. Business activities accounting for less than 20 percent of total revenue that have significantly higher social and environmental risks and impacts compared to the company's core business activities.

As an example for the first circumstance, if a company is primarily active in the *Household & Personal Products* industry but also sells food products accounting for more than 20 percent of its total revenue, the company will first be assessed against the indicators selected for the *Household & Personal Products* industry. To help ensure that the risks, opportunities, and impacts associated with the company's food product business are also adequately reflected, additional indicators may be added: *Position on health and nutrition aspects of products; Nutrition targets relating to product portfolio; Nutrition labelling; Strategy to reduce critical additives in food and beverages; Implementation of a food safety management system; Certification of the food safety management system; Animal welfare standards; and Measures to ensure and promote animal welfare*. We believe this approach to considering non-standard business models allows for a more comprehensive assessment of a rated company's ESG risks.

As an example for the second circumstance, a company who is mainly active in the *Insurance* industry and also operates a natural gas transportation and storage business generating less than 20% of total revenue. Due to additional and significantly higher environmental risks of the natural gas business as

compared to the insurance business, the company will be assessed against additional indicators: *Position on biodiversity conservation and responsible land use; Pipeline integrity and safety management; Environmentally safe operation of facilities; Process and facility safety management; Emergency response and preparedness.*

Assessment Rules

Performance Expectations

Absolute performance expectations are defined for each indicator along the rating scale with the goal to facilitate objective, reproducible, and comparable assessments, informed by the following standards:

SETTING OF PERFORMANCE EXPECTATIONS

Aligned with international norms, standards, and regulations such as:

- UN Global Compact Principles
- UN Guiding Principles on Business and Human Rights
- Fundamental Conventions of the International Labor Organization
- OECD Guidelines for Multinational Enterprises
- UN Sustainable Development Goals
- EU Sustainable Finance Taxonomy
- Science Based Targets initiative

Informed by standard-setting organizations such as:

- Global Reporting Initiative
- Sustainability Accounting Standards Board (now part of IFRS Foundation)
- Task Force on Climate-related Financial Disclosures

Consideration of industry-specific standards such as:

- International Finance Corporation Performance Standards
- A diverse range of certification schemes such as the Forest Stewardship Council, the Roundtable on Sustainable Palm Oil, and Responsible Care
- Industry associations such as the International Council on Metals & Mining, the International Petroleum Industry Environmental Conservation Association, and the Responsible Business Alliance

Types of Indicators

As previously discussed, to obtain meaningful assessments at the topic level, a combination of indicators suited to measure ESG performance in the respective topics are used. A basic distinction can be made between qualitative and quantitative indicators (see *Figure 5*).

Figure 5: Types of Quantitative and Qualitative Indicators



Source: ISS ESG

About 75 percent of all indicators in the ESG Corporate Rating are qualitative, focusing on policies and standards, management systems, the implementation of relevant structures and measures, strategic positioning towards key issues, and controversial business conduct. The remaining 25 percent of indicators focus on quantitative analysis. Where appropriate, trend assessments are complemented by an evaluation of the company's performance against publicly available or proprietary benchmarks, which may be general or industry specific.

Examples of quantitative indicators and their underlying assessment approaches are displayed in Table 4.

Table 4: Examples of Quantitative Indicators

Type	Example	ASSESSMENT APPROACH
Trend & Benchmark	Greenhouse gas emission intensity (iron ore and/or steel production)	Assesses both the trend of the intensity over the last three to five years as well as how the intensity compares to the average for this specific business activity.
Benchmark	Gender distribution	Assesses the level of female representation in management positions and the executive management team.
Distribution	Energy generation by source	Granular assessment of the energy mix (e.g., renewable sources, natural gas, coal) of electric utilities, taking into account environmental and social impacts.

Source: ISS ESG

Structure and Assessment Approach of Indicators

As a general approach, indicators are evaluated and scored based on both *content* and *coverage*. Both *content* and *coverage* data points have a weight of 50 percent in the final indicator assessment, following the general approach:

$$\text{Content grade} * 50\% + \text{Coverage grade} * 50\% = \text{Indicator grade}$$

Typically, coverage refers to the percentage of relevant employees or operations to which the content applies. For some indicators, however, coverage can refer to other parameters, such as key suppliers.

For instance, if a best practice supplier standard applies to less than 50% of key suppliers only, the overall indicator assessment reflects both the content and the coverage assessments, i.e.,

$$\text{Content grade (4)} * 50\% + \text{Coverage grade (2)} * 50\% = \text{Indicator grade (3)}$$

Additional rules exist for situations where the grades of the content and coverage data points differ significantly. These rules are designed to ensure balanced assessments and avoid overly favorable assessments of either a high content assessment associated with a very low coverage assessment or, conversely, a rather poor content assessment that applies to the entire company.

For the coverage assessment, the following grading applies:

Table 5: Coverage Assessment

COVERAGE (OF E.G., EMPLOYEES OR OPERATIONS)	>0% - <20% or not specified	≥20% - <50%	≥50% - <80%	≥80% - 100%
GRADE*	1	2	3	4

* See [Absolute rating](#) for the numerical scale used in the rating.

Source: ISS ESG

Treatment of Disclosure Gaps

The ESG Corporate Rating measures performance and as such requires relevant information, on which an objective and reproducible assessment can be based. Relevant information is either information exactly matching the data requirements or sufficiently robust evidence allowing for an assessment or making reasonable estimates. In absence of relevant information, the performance of an indicator cannot be positively assessed, resulting in a grade of 1 (D-). Assessments in the ESG Corporate Rating are not derived from modelling, nor does the absence of controversies lead to positive scores.

In addition to company disclosures, relevant information may be retrieved from alternative [sources](#). For example, when a company has more than 80 percent of its employees located in one or several countries with high legal and factual standards with regard to certain ESG topics, this information is taken into account in the assessment according to clear rules and evaluation guidelines. This method can also benefit some low-transparency companies in these regions as selected topics (as identified by ISS ESG) are assessed positively. Indicators for which high legal and factual standards in countries of operations are considered, based on sources such as national legislation, OECD reports, ILO databases, government web pages, information provided by European Commission, comprise the following:

- Policy on freedom of association and collective bargaining
- Policy on non-discrimination
- Implementation of a health and safety management system
- Workplace flexibility and working time reduction
- Dependent care and special leave
- Payment practices

- Policy on employment security and responsible workforce restructuring
- Measures to ensure responsible workforce restructuring

Use of Estimated Data

Estimations based on robust evidence may be made under the following conditions:

- For those quantitative indicators that are based on percentage assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance on how and in what instances estimations may be made. No estimations are made regarding absolute quantitative data (such as consumption data or intensities).

Example of concrete evidence to base percentage estimations on:

When assessing the [sustainability impact of products and services](#) and in the absence of precise disclosure, analysts adhere to established estimation rules by using a 5 percent revenue share interval for certain products. For instance, a company reports that it generates 25 percent of revenues through its "Beverages" segment. The majority of the products come from alcoholic beverages and only one of their products from non-alcoholic beverages. Each of the product types generates a different sustainability impact, therefore, to capture both in the estimation, a 5 percent revenue share interval (the minimum) is allotted to the non-alcoholic products and the remainder (20 percent) to the alcoholic products.

- If coverage is not clearly specified by the company, estimations are made based on contextual information, provided reasonable assumptions can be made with medium to high certainty. The share of estimations in coverage assessments is between 10 and 15 percent.

Example of concrete evidence to base coverage estimations on:

A company states that relevant anti-discrimination programs are implemented at its domestic operations. It does not provide a concrete breakdown of employees by country but discloses that domestic operations account for the majority of global production volumes. Based on this contextual information, the coverage assessment will provide an estimation that more than 50% of employees are covered by these programs. Without robust evidence, no estimations could be made and the coverage data point would be assessed as unspecified (lowest grade).

All estimations are made transparent in the ESG Corporate Rating report. The overall share of estimated data based on robust evidence across ESG Corporate Ratings data is generally between 5 and 10 percent.

Small and Medium-Sized Companies

Disclosure and performance requirements for certain indicators are adjusted for small and medium-sized enterprises (SMEs) to prevent systematic disadvantages due to financial or capacity constraints. For instance, certifications of management systems are generally not required for SMEs. SMEs are defined as companies with a workforce of less than 500. Additional adjustments for disclosure and performance requirements are defined for small (<100 employees) and very small (<10 employees) companies.

Sustainability Impact of Products and Services

The social and environmental impact of products and services is a key element of the ESG performance assessment. Dedicated indicators assess the impact of a company's products and services in the context of seven social and eight environmental sustainability objectives that are based on the SDGs. The assessment is based on the share of net sales generated with relevant products or services that contribute to or obstruct the achievement of one or more of the objectives covered.

Figure 8: 15 Sustainability Objectives Aligned with the UN SDGs



Source: ISS ESG

Controversies

The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of a company's involvement in ESG controversies, sourced from ISS ESG's [Norm-Based Research](#) (NBR).

NBR assesses corporate involvement in alleged or verified failures to respect established norms on human rights, labor standards, environmental protection and business malpractice set out in authoritative standards on responsible business conduct. The core normative framework consists of the [Principles of the UN Global Compact](#), the [OECD Guidelines for Multinational Enterprises](#), and the

[UN Guiding Principles for Business and Human Rights](#) and is embedded in the [Sustainable Development Goals](#).

NBR signals and scores are informed by a combination of three indicators—Verification, Remediation, and Severity:

- **Verification:** Contextualizes the status and prospective review of a complaint raised by stakeholders against a company, indicating the stage which the controversy is in: Complaint, Under investigation, Verified (under appeal), or Verified.
- **Remediation:** Presents the status of efforts by the company to address the allegations, on a scale of: No measures announced, Commitment expressed, Measures initiated, and Credible measures adopted.
- **Severity:** Presents a measure of the reported risk to or impact on society or the environment, considering corporate responsibility, on a scale of: Potential, Moderate, Severe, and Very Severe.

The involvement in a controversy may lead to a downgrading of the relevant section in the ESG Corporate Rating.

Table 6: Controversy-Induced Downgrading Mechanism

Severity Level UNDER NBR	Downgrading Impact at topic level*	Impact on Topic with assumed A+ Performance
Potential	No downgrading applied	A+ / 4.00
Moderate	20%	A- / 3.40
Severe	50%	B- / 2.50
Very severe	80%	D+ / 1.60

* The table displays the standard approach for the incorporation of controversies into the rating. To account for company- or industry-specific considerations, a rules-based approach and procedures are in place which, accordingly, result in adjusted weightings.

Controversies applied to the “A.1.1. Staff,” “A.2.2.2. Social aspects along the value chain,” and “B.2.2. Environmental aspects along the value chain” topics may not directly relate to specific underlying topics but to the overall subject area more generally. To avoid an asymmetric impact on the overall performance assessment at the upper level of the rating, a more modest downgrading mechanism of 5/10/20% instead of 20/50/80% is applied.

Source: ISS ESG

Rating Outputs and Signals

The ESG Corporate Rating report contains the overall absolute rating grade as well as additional signals and outputs. To allow companies and investors to fully understand these results, ISS ESG discloses in the ESG Corporate Rating report, made available to the assessed issuer free of charge and to clients on a subscription basis, the grade and weight of all indicators which contribute to the overall grade.

Primary Rating Outputs and Signals

Absolute Rating

The rating scale applies ranges from D- to A+ and measures absolute performance, in an effort to assess all companies within an industry in a comparable way. Underlying these letter grades is a numerical scale ranging from 1 to 4. The letter grades are thus equivalent to intervals of 0.25:

Figure 9: Numerical Scale, Alphabetical Rating, and Performance Level

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+
1.00 - <1.25	1.25 - <1.50	1.50 - <1.75	1.75 - <2.00	2.00 - <2.25	2.25 - <2.50	2.50 - <2.75	2.75 - <3.00	3.00 - <3.25	3.25 - <3.50	3.50 - <3.75	3.75 - 4.00
Poor			Medium			Good			Excellent		

Source: ISS ESG

Prime Status

Prime status is granted to companies with an ESG performance in line with or above a defined industry-specific letter grade (see *Industry Classification Matrix and Determination of Prime Thresholds*). This designation refers to a company's demonstrated ability to adequately manage material ESG risks, mitigate negative and generate positive social and environmental impacts, and capitalize on opportunities offered by transformation towards sustainable development.

ESG Performance Score

The ESG Performance Score allows for easy identification of the *Prime* status as well as for cross-industry comparisons of the overall rating using a normalized *Prime* threshold. The ESG Performance Score is a numerical expression of the alphabetic overall rating (A+ to D-) on a scale of 0 to 100, with 50 representing the normalized *Prime* threshold. Companies with values equal to or greater than 50 have been assigned *Prime* status.

Conversion to the ESG Performance Score numerical scale normalized to the *Prime* threshold of the respective industries results in differing performance score intervals corresponding to letter grades for industries with different letter grade *Prime* thresholds, as illustrated in *Table 7*.

Table 7: Transposition of Letter and Numerical Scales to ESG Performance Score per Prime Threshold

Letter Scale	Numerical Scale	PERFORMANCE SCORE CONVERSION FOR DIFFERENT PRIME THRESHOLDS		
		C	C+	B-
A+	3.75 - 4.00	≤ 100	≤ 100	≤ 100
A	3.50 - <3.75	< 93.75	< 92.86	< 91.67
A-	3.25 - <3.50	< 87.50	< 85.71	< 83.33
B+	3.00 - <3.25	< 81.25	< 78.57	< 75.00
B	2.75 - <3.00	< 75.00	< 71.43	< 66.67
B-	2.50 - <2.75	< 68.75	< 64.29	< 58.33
C+	2.25 - <2.50	< 62.50	< 57.14	< 50.00
C	2.00 - <2.25	< 56.25	< 50.00	< 41.67
C-	1.75 - <2.00	< 50.00	< 40.00	< 33.33
D+	1.50 - <1.75	< 37.50	< 30.00	< 25.00
D	1.25 - <1.50	< 25.00	< 20.00	< 16.67
D-	1.00 - <1.25	< 12.50	< 10.00	< 8.33

Source: ISS ESG

Decile Rank

The Decile Rank complements the absolute rating by providing insight into how companies perform compared to their industry peers. This dynamic ranking indicates in which decile (tenth part of total) the individual rating ranks within its industry, from 1 (best – company's rating is in the first decile within its industry) to 10 (worst – company's rating is in the tenth decile within its industry) (Figure 10).

Figure 10: ISS ESG Decile Rank

10	9	8	7	6	5	4	3	2	1
Low relative performance								High relative performance	

Source: ISS ESG






The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by 10, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are ESG Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal absolute score are classified in the higher decile, resulting in a smaller number of ratings in the decile below.

Supplementary Ratings Outputs

ESG Momentum

ESG Momentum provides a signal on the year-on-year trend of a rated entity's overall rating. It is calculated based on the difference between the numerical grade of the current final rating and the numerical grade of the last regular final rating. ESG Momentum is classified into five levels, from significantly negative to significantly positive, depending on the numeric grade change (*Table 8*).

Table 8: Calculation of ESG Momentum

DELTA	ESG MOMENTUM	Symbol
$\Delta \leq -0.5$	Significantly negative	
$\Delta \leq -0.25$	Negative	
$\Delta > -0.25 - < 0.25$	Stable	
$\Delta \geq 0.25 - < 0.5$	Positive	
$\Delta \geq 0.5$	Significantly positive	

Source: ISS ESG

Table 9: Examples of ESG Momentum

EXAMPLES	GRADE ANNUAL UPDATE YEAR X	GRADE ANNUAL UPDATE YEAR Y (X + 1)	DELTA	ESG MOMENTUM
Company A	1.684	1.697	$1.697 - 1.684 = 0.013$	Stable
Company B	2.550	2.050	$2.050 - 2.550 = -0.5$	Significantly negative
Company C	2.248	2.510	$2.510 - 2.248 = 0.262$	Positive

Source: ISS ESG

Transparency Level

The Transparency Level identifies the extent to which the ESG Corporate Rating is based on tangible information on a company's performance, including information disclosed by the company or retrieved from third-party sources, as listed under [sources of information](#) below. It takes into consideration the availability of information for specific indicators, including information made available as part of the rating feedback process, as well as the indicator's materiality as reflected in its absolute weight in the rating. The calculated percentage is classified into five transparency levels following the scale in *Figure 11*.

Figure 11: Transparency Levels

0% - <20%	20% - <40%	40% - <60%	60% - <80%	80% - 100%
Very Low	Low	Medium	High	Very High

Source: ISS ESG

For example, if information is available for indicators with a cumulative absolute weight in the rating of 23 percent, then the rating's Transparency Level is "Low." The Transparency Level thus helps in understanding the extent to which a low scoring in the rating may be due to a lack of disclosure and information.

Analyst Opinion

Each ESG Corporate Rating is summarized in an Analyst Opinion that considers:

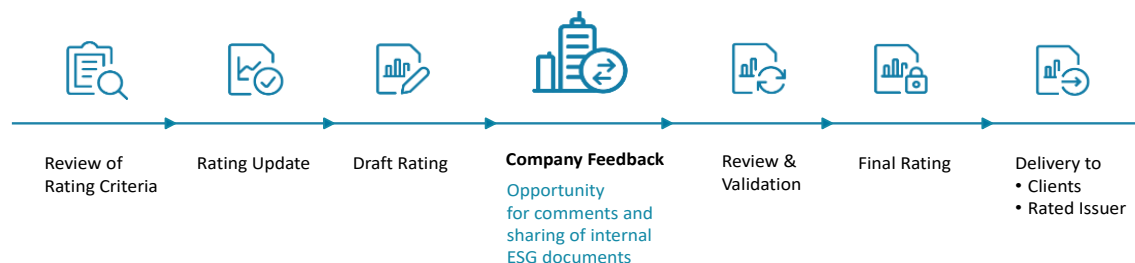
- **Opportunities:** Provides a summary of the quality and share of revenue from a company's products and services that contribute to or obstruct the achievement of sustainability development objectives.
- **Risks:** Provides a summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, particularly regarding its industry's key issues.
- **Governance:** Provides an overview of the company's governance structures and measures and the quality and efficacy of policies regarding ethical business conduct.

Rating Process

Rating Process and Company Dialogue

Data collection and analysis for the ESG Corporate Rating is exclusively conducted in-house by trained and specialized analysts who adhere to comprehensive evaluation guidelines for each indicator assessment.

As part of the rating process (*Figure 12*), companies are contacted both when they are rated for the first time and every two to three years thereafter for a voluntary review of their rating, which includes verification and validation of the information reported. The company dialogue process includes a notification of their upcoming ESG rating, where the company confirms whether it intends to participate in this process. If the company opts in, they receive the opportunity to review the draft rating report and supply additional input on the assessed indicators. Apart from public documents, companies can provide non-public information in line with [ISS ESG's Non-Public Information Framework](#).

Figure 12: ISS ESG's Rating Process**Source: ISS ESG**

In addition to solicited feedback, companies covered in the ESG Corporate Rating universe can access their rating free of charge via the [Governance Analytics platform](#)¹ and submit unsolicited feedback via the [ESG HelpDesk](#) at any time.

Rating Reviews and Updates

ESG Corporate Ratings are generally reviewed on an annual basis. In addition to these scheduled updates, additional updates are conducted on the following occasions:

- Significant developments or reporting on key ESG issues that are identified or brought to the attention of ISS ESG (e.g., the company's first sustainability report is released, or new targets in material ESG topics are set)
- Corporate actions such as mergers, acquisitions, or spin-offs
- Incidents such as controversies or accidents

Sources of Information

ESG Corporate Ratings data is primarily sourced from publicly available information, including a company's own disclosure and reporting, proxy statements, media sources (both international and local), governmental and international institutions, recognized international or local non-governmental organizations, and databases such as the CDP.

ISS ESG accepts supplementary non-public official company documents in accordance with the Non-Public Information Framework.

¹ The Governance Analytics platform is available to all corporate issuers and managed by ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS. Due to a potential conflict of interest between these business units, ISS has implemented a firewall which separates ICS from ISS.

Quality Assurance

ISS ESG has established a quality management system featuring the following quality controls for the ESG Corporate Rating:

- The ESG Corporate Rating is based on a consistent and rigorous rating methodology designed to yield comparable scores across companies and industries for industry-agnostic or standard rating topics and indicators, as well as comparable scores across peer-to-peer companies in the same industry for industry-specific topics and indicators.
- The methodology and scoring approaches are built into proprietary software utilized by the analysts and designed in a way to ensure objectivity, consistency, and comparability of assessments.
- A global team of specialized analysts in local markets spanning the Americas, Europe, and Asia helps to ensure diversity in observing and interpreting ESG trends.
- All analysts undergo a rigorous training program.
- All ratings are systematically proofread by experienced analysts who are intimately familiar with the rating methodology and assessment rules.
- A dedicated global ESG Methodology team oversees the consistent application of the methodology. Additionally, the team initiates and coordinates methodological developments in cooperation with sector leads and ESG topic specialists who keep abreast of the continually evolving international sustainability trends in their fields of expertise.
- Changes to *Prime* status by small margins are subject to review and approval by a committee including senior staff from across ESG Research as well as the Global ESG Methodology & Quality team.
- A Methodology Review Board consisting of experienced methodology and research leaders has been established with the goal of having a robust and consistent methodology development process and structure and to guide and vet the methodology development strategy and process.

Annex – Industries Overview

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
Aerospace & Defense	Manufacturers of aerospace products (e.g., aircraft, aircraft components, space equipment) and military equipment (e.g., weapon systems, weapon components). Further includes companies manufacturing naval surface vessels and submarines.	2.25/C+	40:60*	<ul style="list-style-type: none"> Environmental impact of products Government relations and prevention of corruption Resource-conserving production Product safety Responsible trade practices
Air Freight & Logistics	Companies providing predominantly air freight transport or multiple modes of transportation. Also includes companies offering logistic services other than transport (such as warehousing) and mail service companies (e.g., to-door delivery, parcel lockers).	2.25/C+	30:70	<ul style="list-style-type: none"> Climate protection Pollution prevention Labor standards and working conditions Transport safety and stakeholder responsibility
Airlines	Companies whose main business activity is air passenger transport, such as airline operators. These vary from well-known large airline companies to smaller helicopter companies. Some companies also offer air freight transport to a smaller extent.	2.25/C+	30:70	<ul style="list-style-type: none"> Climate protection Pollution prevention Labor standards and working conditions Transport safety and stakeholder responsibility
Asset Management & Brokerage	Companies engaged in the investment management of third-party assets and/or related custody and securities fee-based services, as well as brokerage services. Includes companies operating, e.g., mutual funds, closed-end funds, unit investment trusts, and investment trusts/companies, which are comparable to some companies in the <i>Multi-Sector Holdings</i> industry.	2.00/C	50:50*	<ul style="list-style-type: none"> Sustainable investment criteria Customer and product responsibility Social and environmental impacts of products and services Employee relations and work environment Business ethics

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
Auto Components	Companies manufacturing products for the automobile industry. The product range extends from components for the power train and bodywork, to the interior lining and car seats, to electronic products and tires.	2.25/C+	40:60	<ul style="list-style-type: none"> Environmental impact of products Resource-conserving production Product safety Social challenges in the supply chain
Automobile	Companies manufacturing vehicles (passenger cars, light trucks, motorcycles) with combustion engines or electric drives.	2.25/C+	40:60	<ul style="list-style-type: none"> Vehicle fleet fuel consumption Sustainability standards in the supply chain Vehicle life cycle analyses Alternative drive systems and mobility concepts Product safety and automotive cybersecurity
Auxiliary Financial Services & Data	Companies that do not have financial products on their own balance sheet and provide services to financial companies. Includes collection agencies, rating agencies, research agencies, retailers of financial products, and platform and application providers.	2.00/C	70:30	<ul style="list-style-type: none"> Customer and product responsibility Labor standards and working conditions Sustainability standards for products and transactions Business ethics
Beverages	Manufacturers of alcoholic and non-alcoholic beverages: distillers, vintners, brewers, and producers of soft drinks, juices, and mineral water.	2.25/C+	50:50	<ul style="list-style-type: none"> Customer health and safety Impacts on soil and biodiversity along the value chain Labor standards and working conditions Mitigation of direct and indirect climate impacts Water and wastewater management
Chemicals	Producers of basic chemicals (petrochemicals, polymers, and inorganic chemicals), specialty chemicals, and other related materials. Includes industrial gas manufacturers and agrochemical producers (seeds, pesticides, and fertilizers).	2.5/B-: Industry default 2.25/C+: Applies to Biotechnology,	40:60	<ul style="list-style-type: none"> Chemical and product safety Climate protection and energy efficiency Facility and transport safety Alternative raw materials Worker safety and accident prevention

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
		Flavors & Fragrances, and Industrial Gases companies		
Coal & Consumable Fuels	Companies active in the mining and processing of thermal coal and uranium.	2.5/B-	40:60	<ul style="list-style-type: none"> Environmental risks and impacts of operations Climate protection and contribution to the energy transition Business ethics and relations with governments Protection of human rights and community outreach Worker safety and accident prevention
Commercial Banks & Capital Markets	Companies providing a broad range of financial services for institutional, corporate, and retail clients. This includes lending, project finance, investment banking, asset management, and counseling services.	2.00/C	50:50*	<ul style="list-style-type: none"> Sustainability impacts of lending and other financial services/products Customer and product responsibility Sustainable investment criteria Labor standards and working conditions Business ethics
Commercial Support Services	Companies providing equipment rental and maintenance services (e.g., storage-container rental providers, infrastructure maintenance providers, outdoor advertisers), facilities management services, and security and alarm services (e.g., prison and immigration detention center operators). Also includes providers of funeral products and services.	2.25/C+: Industry default 2.00/C: Applies to Equipment Rental and Maintenance companies	70:30*	<ul style="list-style-type: none"> Socially responsible service provision Fair, safe, and non-discriminatory working conditions Environmental impacts of services and supplies Business ethics and government relations

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
Construction	Companies active in engineering and construction work ranging from mainly residential or mixed-use developments to infrastructure projects (e.g., roads, airports, power stations, industrial sites). Also includes real estate developers.	2.25/C+	50:50	<ul style="list-style-type: none"> Energy and resource efficiency Labor standards and working conditions Protection of human rights and community outreach Business ethics Impact on land use and biodiversity
Construction Materials	Producers of construction materials (e.g., cement/concrete, bricks/stones) and building products (e.g., glass/ceramics, insulation, sanitary ware). Includes producers of infrastructure components such as electricity poles or storage tanks. Does not include manufacturers of largely wood-based building products (<i>Furniture & Fittings</i>).	2.25/C+	40:60*	<ul style="list-style-type: none"> Eco-efficiency of production Labor standards and working conditions Products and services with environmental benefits Business ethics Environmental impacts of raw material extraction
Development Banks	Local, national, or multilateral financial institutions, whose goal is the promotion of economic, social and, environmental development either in specific regions or internationally. The banks provide theme-specific loans, subsidies, and guarantees for the private and public industry and/or make (impact-oriented) equity investments. In addition, the industry includes export and import finance institutions.	2.00/C	40:60	<ul style="list-style-type: none"> Sustainability standards for financial products and services Goal-oriented promotion of sustainability issues Climate change and related risks Labor standards and working conditions
Digital Finance & Payment Processing	Companies providing payment transaction processing services and facilitating digital payments for consumers, merchants, financial institutions, and other stakeholders to enable the authorization, clearing, and settlement of transactions. Also includes companies providing cross-border, peer-to-peer money transfer services that allow	2.25/C+	70:30	<ul style="list-style-type: none"> Employment security and employee wellbeing Business ethics and responsible client management Data protection and information security Customer protection and reliable provision of services

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
	customers to send and receive funds with or without bank accounts.			<ul style="list-style-type: none"> Energy management of data centers
Education Services	Companies providing educational services, either on-line or through conventional (off-line) teaching methods. Includes private universities, primary schools, kindergartens, after-school tutoring, correspondence teaching, cram/prep schools, language schools, vocational schools, providers of educational materials, and other education services.	2.00/C	80:20*	<ul style="list-style-type: none"> Products and services with social benefits Employee relations and work environment Resource-conserving campus operations High-quality and inclusive educational services
Electric Utilities	Companies that are primarily involved in the generation of energy (electricity or heat). Includes companies that, in addition to energy generation, engage in the distribution and/or transmission of electricity or heat; the sale of natural gas; energy trading; the provision of energy-related services (e.g., products and consultancy in relation to energy efficiency, renewables, or sustainable buildings); or the extraction of coal, oil, or natural gas. Does not include companies that operate gas distribution and/or transmission networks (<i>Gas and Electricity Network Operators</i>) or energy utilities with an exclusive focus on renewable energy facilities (<i>Renewable Electricity</i>) (unless they operate large-scale hydropower plants).	2.5/B-	40:60*	<ul style="list-style-type: none"> Promotion of a sustainable energy system Environmentally safe operation of plants and infrastructure Protection of human rights and community outreach Accessibility and reliability of energy supply Worker safety and accident prevention
Electrical Equipment	Companies active in the design and production of components, equipment, and systems for conventional and renewable energy generation, storage, and distribution. These range from electrical cables and wires and electrical components or equipment to power-	2.25/C+	40:60*	<ul style="list-style-type: none"> Environmental impact of products Resource-conserving production Product safety Occupational health and safety

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
	generating equipment and other heavy electrical equipment, including power turbines, heavy electrical machinery intended for fixed use, and large electrical systems. In addition, it includes companies that design and build turnkey power plants.			
Electronic Components	Companies that develop and manufacture a broad range of electronic components. This includes components for consumer electronics and household appliances (e.g., cables, power packs), measurement instruments (e.g., high-precision instruments, sensors), electrical and digital building infrastructure (e.g., lighting products and solutions), power electronics and energy management solutions (e.g., switchboard and circuit breakers), renewable energy equipment (e.g., inverters and energy storage for photovoltaic systems), and industrial automation controls and specialized components (e.g., embedded computer technology).	2.25/C+	50:50*	<ul style="list-style-type: none"> ▪ Labor standards and working conditions ▪ Substances of concern ▪ Resource-conserving production ▪ Responsible sourcing of raw materials
Electronic Devices & Appliances	Companies active in the production, marketing, and sale of electronic devices and appliances. These range from consumer electronics and computers (e.g., TVs, laptops, tablets) through various communication technologies (e.g., mobile phones, routers, telecommunication infrastructure) to household appliances (e.g., refrigerators, washing machines, electric stoves). Includes companies that produce and/or market final products and have direct customer relationships (B2B or B2C). Does not include so-called ODM (original design	2.25/C+	50:50*	<ul style="list-style-type: none"> ▪ Labor standards and working conditions ▪ Resource-conserving production ▪ Take-back and recycling ▪ Eco-design of products ▪ Responsible sourcing of raw materials

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
	manufacturers) and OEM (original equipment manufacturers) (<i>Electronic Components</i>).			
Financial Exchanges	Companies operating financial exchanges, commodities exchanges, or other trading platforms for financial instruments. Typical business areas are pre-listing services, listing, trading and clearing, post-trading services, market data and research services, and related information technology and IT services.	2.00/C	50:50	<ul style="list-style-type: none"> Sustainable products and services Environmental and social aspects in listing rules Labor standards and working conditions Product responsibility and protection of market participants Energy efficiency of IT infrastructure
Food Products	Companies active in the production and processing of raw materials through agriculture, aquaculture, fisheries, and livestock farming as well as manufacturers of finished and packaged products (e.g., frozen pizza, soups, ice cream) including milk products, functional foods, and confectionery. Further includes companies that produce food-related ingredients (e.g., starches, sweeteners).	2.25/C+	50:50*	<ul style="list-style-type: none"> Impacts on soil and biodiversity along the value chain Customer health and safety Labor standards and working conditions Mitigation of direct and indirect climate impacts Conservation of aquatic ecosystems and water along the value chain
Furniture & Fittings	Companies manufacturing and/or distributing furniture products, furniture components (e.g., hinges, veneer, and upholstery), and interior fixtures (e.g., ceiling systems, flooring products, and sanitary equipment).	2.25/C+	50:50	<ul style="list-style-type: none"> Design for environment Environmental Impacts of production Customer health and safety Labor standards and working conditions Sustainable sourcing
Gas and Electricity Network Operators	Companies that are primarily engaged in the transmission and/or distribution of electricity and/or natural gas. Besides the focus on operating power grids and/or natural gas pipelines, the companies may be involved in related secondary activities (e.g., power generation, natural gas extraction, and processing).	2.25/C+	60:40*	<ul style="list-style-type: none"> Promotion of a sustainable energy system Environmentally safe operation of plants and infrastructure Protection of human rights and community outreach Accessibility and reliability of energy supply

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
Health Care Equipment & Supplies	Manufacturers of non-pharmaceutical medical products used for diagnosis and treatment. Includes producers of diagnostic testing equipment and laboratory supplies	2.25/C+	60:40*	<ul style="list-style-type: none"> Worker safety and accident prevention Health benefits of the product portfolio Environmental impact of products Product safety Marketing and business ethics Substances of concern
Health Care Facilities & Services	Providers of medical care to patients, diagnostic services and support to pharmaceutical companies, elder care and assisted living, and other services which promote health through illness prevention and wellness programs.	2.00/C	70:30*	<ul style="list-style-type: none"> Health benefits of the product portfolio Quality and patient safety Employee relations and work environment Energy and waste management
Health Care Technology & Services	Companies providing information technology services primarily to health care providers. Includes companies providing applications, systems, and/or data processing software, internet-based tools, and IT consulting services to doctors, hospitals, or businesses operating primarily in health care.	2.00/C	70:30	<ul style="list-style-type: none"> Products and services with social and environmental benefits Employment security and employee wellbeing Data protection and information security Customer protection and digital inclusion Energy management of data centers
Heavy Trucks & Construction & Farm Machinery	Manufacturers of heavy-duty trucks, rolling machinery, earth-moving, and construction equipment, and related parts. Also includes manufacturers of non-military shipbuilding and agricultural and farm-related machinery, as well as motorcycle and caravan/camping trailer/RV manufacturers.	2.25/C+	40:60*	<ul style="list-style-type: none"> Environmental impact of products Resource-conserving production Product safety Occupational health and safety
Household & Personal Products	Manufacturers of household, personal care, and hygiene products. Products range from household cleaners, soap, cosmetics, menstruation products, and diapers to household appliances, gardening tools, and stationery products.	2.25/C+	50:50	<ul style="list-style-type: none"> Product safety Environmental impact of products Sustainable raw materials Responsible marketing Animal testing

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
Human Resource & Employment Services	Companies providing temporary staffing, permanent recruitment, and other human resource services (e.g., payroll and benefit support services and retirement support services).	2.00/C	80:20	<ul style="list-style-type: none"> Fair, safe, and non-discriminatory working conditions Socially responsible service provision Business ethics and government relations Environmental impacts of services and supplies
Industrial Conglomerates	Highly diverse manufacturing companies active in multiple sectors (e.g., energy, medical equipment, transport, or digital offerings). Usually, these companies have business activities in three or more sectors, none of which contributes a majority of revenues.	2.25/C+	50:50	<ul style="list-style-type: none"> Environmental impact of products Environmental impact of production processes Product safety Corruption prevention and business ethics Worker safety and accident prevention
Industrial Machinery & Equipment	Manufacturers of machinery/material handling/building material equipment and components for industrial applications. Includes companies that manufacture presses, machine tools, compressors, pollution control equipment, elevators, escalators, insulators, pumps, roller bearings, and other metal fabrications.	2.25/C+	40:60*	<ul style="list-style-type: none"> Environmental impact of products Resource-conserving production Product safety Occupational health and safety
Industrial Support Services	Companies providing equipment rental, engineering, and field services to the aerospace and defense, industrial machinery, oil and gas, nuclear power, and construction industries.	2.25/C+	50:50	<ul style="list-style-type: none"> Environmental impacts of services and supplies Socially responsible service provision Fair, safe, and non-discriminatory working conditions Business ethics and government relations
Insurance	Companies providing life and/or health insurance and/or property & casualty insurance; reinsurance companies, and insurance brokers	2.00/C	50:50	<ul style="list-style-type: none"> Customer and product responsibility Sustainability standards for insurance and reinsurance Sustainable investment criteria

ISS ESG RATING INDUSTRY	INDUSTRY DESCRIPTION	PRIME THRESHOLD (NUMERICAL/ LETTER GRADE)	DEFAULT TOP-LEVEL WEIGHT AS % OF TOTAL WEIGHT (SOCIAL & GOVERNANCE RATING: ENVIRONMENTAL RATING)	KEY ISSUES
				<ul style="list-style-type: none"> Climate change and related risks Employee relations and work environment
Integrated Oil & Gas	Companies active along the entire oil and gas value chain. That is production, storage/transportation, and refining.	2.5/B-	40:60	<ul style="list-style-type: none"> Climate protection and contribution to the energy transition Environmental risks and impacts of operations Business ethics and relations with governments Protection of human rights and community outreach Worker safety and accident prevention
Interactive Media & Online Consumer Services	Companies providing online media and consumer services, including social media, online marketplaces, and other online consumer platforms. Also includes gaming and online gambling providers and developers.	2.25/C+	80:20	<ul style="list-style-type: none"> Customer protection, responsible marketing, and digital inclusion Labor standards and working conditions Data protection and information security Business ethics Energy management and water use
IT Consulting & Other Services	Companies providing IT consultancy and management and customized software development services. Often in relation to digital transformation, systems integration, cybersecurity, and cloud migration.	2.00/C	70:30	<ul style="list-style-type: none"> Products and services with social and environmental benefits Employment security and employee wellbeing Data protection and information security Customer protection and digital inclusion Energy management of data centers
Leisure	Comprises a wide range of different business models that provide almost the entire range of services along the tourism value chain. Includes accommodation providers, tour operators, travel agencies, operators of cruise ships,	2.25/C+	60:40*	<ul style="list-style-type: none"> Climate protection Labor standards and working conditions Accessible and safe leisure operations Environmental impacts of tourism

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	casinos, theme parks, cinemas, and other more specialized entertainment or leisure facilities (e.g., sports facilities/clubs, providers of gambling services). Does not include betting/gambling agencies that provide their services exclusively online (<i>Interactive Media & Online Consumer Services</i>).			<ul style="list-style-type: none"> Social and ethical impacts of tourism
Leisure Products	Companies engaged in the production, marketing, distribution, and sale of leisure products. Includes toys and games, sporting goods (e.g., golf clubs, fitness equipment, or bicycles), musical instruments, outdoor and camping gear, and recreational vehicles such as leisure boats or motorhomes. Manufacturing of products may be in-house or outsourced.	2.25/C+	50:50	<ul style="list-style-type: none"> Resource-conserving production Labor standards and working conditions Environmental impacts of products Product safety
Managed Health Care	Companies active in the provision of health insurance and pharmacy benefits management for private and corporate customers and state health care programs.	2.00/C	80:20	<ul style="list-style-type: none"> Social benefits of products and services High-quality care Business ethics and political influence Sustainability in health care provision and investments Data protection and information security
Marine Transportation	Companies active in dry bulk shipping, transport of oil and gas, and containerships services.	2.25/C+	30:70	<ul style="list-style-type: none"> Climate protection Labor standards and working conditions Biodiversity protection Pollution prevention Transport safety
Media	Companies engaged in mass communication through media content production (entertainment, fiction, non-fiction, scientific, advertisement) and dissemination via various channels (print, TV, movies, radio, online).	2.25/C+	70:30*	<ul style="list-style-type: none"> Resource efficient processes Responsibility for recipients and access to media

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				<ul style="list-style-type: none"> Staff diversity, safety and employment security Editorial responsibility Paper sourcing
Metals Processing & Production	Companies active in processing raw materials (usually encompassing smelting or refining activities) and producing metal products. Also includes companies engaged in metal recycling by producing scrap metal products or providing recycling services to third parties.	2.5/B-: Industry default 2.25/C+: Applies to companies primarily active in metals recycling	50:50	<ul style="list-style-type: none"> Responsible sourcing of raw materials Climate protection, energy efficiency, and recycling Environmental risks and impacts of operations Business ethics Worker safety and accident prevention
Mining & Integrated Production	Companies active in raw material extraction, mineral processing, and metals production. Includes both companies only engaged in mining, as well as integrated companies active in mining and further metal production.	2.5/B-	50:50	<ul style="list-style-type: none"> Environmental risks and impacts of operations Protection of human rights and community outreach Business ethics and government relations Climate protection, energy efficiency, and recycling Worker safety and accident prevention
Mortgage & Public Sector Finance	Companies that provide capital to the real estate market. Most companies are mortgage banks or regional banks with a strong focus on mortgage lending. Also includes covered bond issuers, refinancing institutions, and REITs focusing on mortgage-backed securities.	2.00/C	50:50*	<ul style="list-style-type: none"> Sustainability impacts of lending and other financial services/products Customer and product responsibility Statutory ESG-standards linked to the geographical allocation of the lending portfolio Employee relations and work environment

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Multi-Sector Holdings	Companies with significantly diversified holdings across three or more sectors, none of which contribute a majority of revenues. Composed of investment companies, which hold majority and minority shares in other companies for a specified and limited amount of time before they are sold, as well as conglomerates, which invest in different sectors strategically. Excludes investment companies with active asset management segments that comprise the majority of the net assets (<i>Asset Management & Brokerage</i>), and conglomerates that are mainly active in industrial sectors (e.g., industry, machinery, plant construction) (<i>Industrial Conglomerates</i>).	2.00/C	40:60*	<ul style="list-style-type: none"> Sustainable investment criteria and responsible ownership activities Investments with social and/or environmental benefit Climate change and related risks Transparency on portfolio companies Labor standards and environmental management in own operations
Multi-Utilities	Companies that are engaged in various utilities activities and services, including energy generation, electricity, heat and gas distribution, network operation, waste management, water treatment, and wastewater treatment. Occasionally, some companies are also engaged in fossil fuels extraction (coal, oil & gas) or LNG production.	2.5/B-	40:60*	<ul style="list-style-type: none"> Promotion of a sustainable energy system and resource efficiency Environmentally safe operation of plants and infrastructure Accessibility and reliability of energy and water supply Protection of human rights and community outreach Worker safety and accident prevention
Oil & Gas Equipment/Services	Companies that provide support services, manufacture equipment, or are contract drillers for oil and natural gas exploration and production (E&P) companies.	2.5/B-: Industry default 2.25/C+: Applies to services	40:60	<ul style="list-style-type: none"> Environmental impacts of oil and gas activities Worker safety and critical incident prevention Sustainable product design

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		companies not engaged in contract drilling as well as equipment production companies		<ul style="list-style-type: none"> Government relations and prevention of corruption
Oil & Gas Exploration & Production	Companies active in the exploration and production of oil and gas.	2.5/B-	40:60	<ul style="list-style-type: none"> Climate protection and contribution to the energy transition Environmental risks and impacts of operations Business ethics and relations with governments Protection of human rights and community outreach Worker safety and accident prevention
Oil & Gas Refining & Marketing	Companies active in the production of (mostly) transportation fuels. Includes producers of biofuels.	2.5/B-: Industry default 2.25/C+: Applies to producers of biofuels	40:60	<ul style="list-style-type: none"> Climate protection and contribution to the energy transition Environmental risks and impacts along the value chain Business ethics and relations with governments Worker safety and accident prevention Protection of human rights and community outreach
Oil & Gas Storage & Pipelines	Companies active in storage and pipeline transportation of oil and gas. Does not include companies exclusively transporting gas.	2.5/B-	50:50	<ul style="list-style-type: none"> Environmental risks and impacts along the value chain

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				<ul style="list-style-type: none"> Climate protection and contribution to the energy transition Protection of human rights and community outreach Worker safety and accident prevention Business ethics and relations with governments
Packaging	Companies engaged in the design and manufacturing of packaging solutions (e.g., bottles, cans, boxes, wrap) made from different materials (e.g., plastic, paper, metal, and glass). They supply many industries (e.g., food, beverages, pharmaceuticals, tobacco, and retail).	2.25/C+	30:70	<ul style="list-style-type: none"> Environmental impacts of production Resource-conserving production Responsible sourcing of raw materials Packaging life cycle Product safety
Paper & Forest Products	Manufacturers/producers of pulp, paper, fiberboard, or other wood-based materials. Companies often also own/manage forests and plantations. Includes companies that only grow wood without processing it further. Does not include companies that manufacture mainly personal care (<i>Household & Personal Products</i>), other packaging materials (<i>Packaging</i>), or housing (<i>Furniture & Fittings</i>) products.	2.25/C+	40:60*	<ul style="list-style-type: none"> Environmental impacts of wood processing Sustainable wood/fiber sourcing Protection of human rights and livelihoods Worker safety and accident prevention Sustainable management of forests and plantations
Pharmaceuticals & Biotechnology	Companies active in the research, development, production, and/or commercialization of pharmaceutical products (e.g., prescription and over-the-counter pharmaceuticals, vaccines, animal health drugs). Also composed of producers of traditional Chinese medicine, supplements, and cannabis-based drugs. Further includes companies providing specialized services for the pharmaceutical industry, in particular, outsourced	2.25/C+	80:20*	<ul style="list-style-type: none"> Health benefits of products and drug safety Business ethics, lobbying, and ethical marketing Ethics in research and development Water management and pharmaceutical residues Access to medicine in underserved regions

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	manufacturing and/or clinical trial services. Does not include biotechnology companies not active in healthcare (these are evaluated in the relevant manufacturing industries).			
Public & Regional Banks	Companies providing a broad range of financial services such as lending, project finance, asset management, and counseling services for institutional, corporate, and retail clients. Includes banks that are regionally bounded and/or banks that are state-owned/private-owned (e.g., co-operative bank, state bank).	2.00/C	50:50	<ul style="list-style-type: none"> ▪ Sustainability impacts of lending and other financial services/products ▪ Customer and product responsibility ▪ Sustainable investment criteria ▪ Labor standards and working conditions ▪ Business ethics
Rail Transportation	Companies providing passenger and/or freight rail transportation.	2.25/C+	30:70	<ul style="list-style-type: none"> ▪ Climate protection ▪ Labor standards and working conditions ▪ Pollution prevention ▪ Transport safety and stakeholder responsibility
Real Estate	Companies managing real estate portfolios and leasing office, retail, residential, and industrial properties, as well as other property types. Includes companies that, in addition to the above, plan, build, or commission new real estate projects. Excludes companies generating major shares of revenue from the development, construction, and subsequent sale of buildings (<i>Construction</i>); real estate brokerage; or facility management services (<i>Commercial Support Services</i>).	2.00/C	50:50	<ul style="list-style-type: none"> ▪ Green building considerations ▪ Climate protection, energy efficiency, and renewables ▪ Occupational health and safety ▪ Environmental and social aspects in site selection ▪ Health and well-being of occupants
Renewable Electricity	Companies that are exclusively involved in energy generation from renewable energy sources, such as wind power, solar power, small-scale hydro, geothermal,	2.25/C+	30:70	<ul style="list-style-type: none"> ▪ Promotion of a sustainable energy system ▪ Labor standards and working conditions

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	and/or biomass. Does not include energy utilities involved in the operation of large-scale hydropower plants or conventional energy generation facilities (e.g., fossil- and/or nuclear-fired power plants) (<i>Electric Utilities</i>).			<ul style="list-style-type: none"> Responsible land use and biodiversity management Protection of human rights and community outreach
Research & Consulting Services	Companies providing research and consulting services (e.g., management consulting services, business information or scientific research, marketing, and testing and certification services). Further includes companies that provide real estate services and vehicle fleet managers.	2.00/C	60:40	<ul style="list-style-type: none"> Environmental impacts of services and supplies Fair, safe, and non-discriminatory working conditions Socially responsible service provision Business ethics and government relations
Restaurants	Companies that are engaged in the manufacturing/selling of food and beverages served in canteens, cafes, and restaurant chains.	2.25/C+	60:40	<ul style="list-style-type: none"> Customer health and safety Mitigation of direct and indirect climate impacts Labor standards and working conditions Impacts on soil and biodiversity along the value chain Conservation of aquatic ecosystems and water along the value chain
Retail	Companies that purchase goods or products in large quantities from manufacturers directly or through wholesalers, and then sell smaller quantities to consumers. Does not include wholesalers who normally sell their goods to other businesses (<i>Trading Companies & Distributors</i>). Retailing can be done in either fixed locations like stationary stores or through e-commerce.	2.25/C+	60:40	<ul style="list-style-type: none"> Labor standards and working conditions Minimization of environmental impacts across the lifecycle of products Products with environmental or social benefits Mitigation of direct and indirect climate impacts Customer information and protection

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Road Transportation	Companies that provide freight or passenger land transportation. Includes companies providing vehicle rental and taxi services.	2.25/C+	30:70	<ul style="list-style-type: none"> Climate protection Pollution prevention Labor standards and working conditions Customer responsibility and transport safety
Semiconductor Equipment	Companies that manufacture semiconductor equipment, including manufacturers of the raw material and equipment used in the solar power industry.	2.25/C+	40:60	<ul style="list-style-type: none"> Environmental impact of products Resource-conserving production Product safety Occupational health and safety
Semiconductors	Companies that design and produce semiconductors, also known as microchips or microprocessors. Production of semiconductors is done in highly specialized factories ("fabs") which could either be in-house or outsourced. Companies usually offer products that are used in the medical and renewable energy industries, while some are specialized in aerospace and military solutions.	2.25/C+	50:50*	<ul style="list-style-type: none"> Labor standards and working conditions Resource-conserving production Hazardous substances Responsible sourcing of raw materials
Software & Diversified IT Services	Companies providing IT-related products and services that often include office and systems software (e.g., cloud-based solutions), cybersecurity solutions, merchant solutions, data center hosting/collocation services, and AI-technology software, among others, to both individual customers and enterprises.	2.00/C	70:30	<ul style="list-style-type: none"> Products and services with social and environmental benefits Employment security and employee wellbeing Data protection and information security Customer protection and digital inclusion Energy management of data centers
Specialized Finance	Financial services companies that focus on a specific type of asset or a specific mission. Includes companies with business models in royalties, microfinance, leasing, infrastructure, and small consumer loans, but also	2.00/C	50:50*	<ul style="list-style-type: none"> Products and services with social and environmental benefits Customer and product responsibility Sustainability impacts of lending and other financial services/products

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	sustainable finance institutions, religious banks, and so-called “bad banks.”			<ul style="list-style-type: none"> ▪ Labor standards and working conditions
Telecommunications	Companies providing telecommunication products and respective services to business and residential customers, regardless of whether they own networks. Additionally, includes companies designing, building, and maintaining telecommunication infrastructure, such as towers and cable networks, as well as companies offering satellite-based telecommunication services.	2.25/C+	70:30	<ul style="list-style-type: none"> ▪ Climate protection ▪ Sustainability aspects of distributed hardware ▪ Responsible access to products and services ▪ Customer protection and service ▪ Data protection
Textiles & Apparel	Companies that are involved in different stages of the textile and apparel value chain. These stages include the production of yarn and fabrics; the manufacture of garments or other textile or fashion-related products; or the design, marketing, and distribution of these products. Includes footwear, accessories, leather goods, and jewelry and watches companies. Does not include textile and apparel retailers that mainly sell third-party brands instead of their own brands (<i>Retail</i>).	2.25/C+	50:50	<ul style="list-style-type: none"> ▪ Labor standards and working conditions ▪ Resource-conserving production ▪ Responsible sourcing of raw materials ▪ Circular Economy ▪ Substances of Concern
Tobacco	Companies active in producing tobacco or other nicotine-containing products.	2.25/C+	60:40	<ul style="list-style-type: none"> ▪ Consumer health and responsible marketing ▪ Sustainable agricultural practices ▪ Labor standards in the supply chain ▪ Prevention of deforestation ▪ Transparency on lobbying activities
Trading Companies & Distributors	Wholesalers and distributors (B2B) active in a specialized sector (e.g., pharmaceuticals, chemicals, food products, automobiles, electronic components, textiles, etc.) with diversified sales channels and no or only limited	2.25/C+	60:40	<ul style="list-style-type: none"> ▪ Sustainable product portfolio ▪ Supply chain management ▪ Safe and efficient transport and distribution

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	manufacturing activities. Includes pharmaceutical wholesalers. Also includes diversified distributors active in several sectors which have diversified their portfolios to include activities such as raw materials extraction, manufacturing of diverse goods, infrastructure and energy projects, etc.			<ul style="list-style-type: none"> Product safety
Transportation Infrastructure	Companies providing transportation infrastructure and related services to ensure the smooth running of passenger and freight transport. The following types of operators are common for the industry: rail network operators; toll road, road, and highway operators (including operators of parking infrastructure); airport operators; port operators; and operators with mixed infrastructure types.	2.25/C+	40:60	<ul style="list-style-type: none"> Reduction of air emissions Worker health and safety and product safety Stakeholder responsibility Business ethics and government relations Responsible land use and biodiversity management
Water and Waste Utilities	Companies providing drinking water supply, wastewater treatment, and waste management services to residential, municipal, governmental, business, and/or industrial customers. Services can range from drinking water purification and supply, wastewater and sewage sludge treatment, and sewer system operation to waste collection, transport, treatment, incineration, and recycling.	2.25/C+	50:50	<ul style="list-style-type: none"> Energy management and resource efficiency Accessibility and reliability of water supply Environmentally safe operation of plants and infrastructure Worker safety and accident prevention

* Differing top-level weights exist for business models in the industry that are associated with a distinct profile of ESG risks, opportunities, and impacts.

Source: ISS ESG

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