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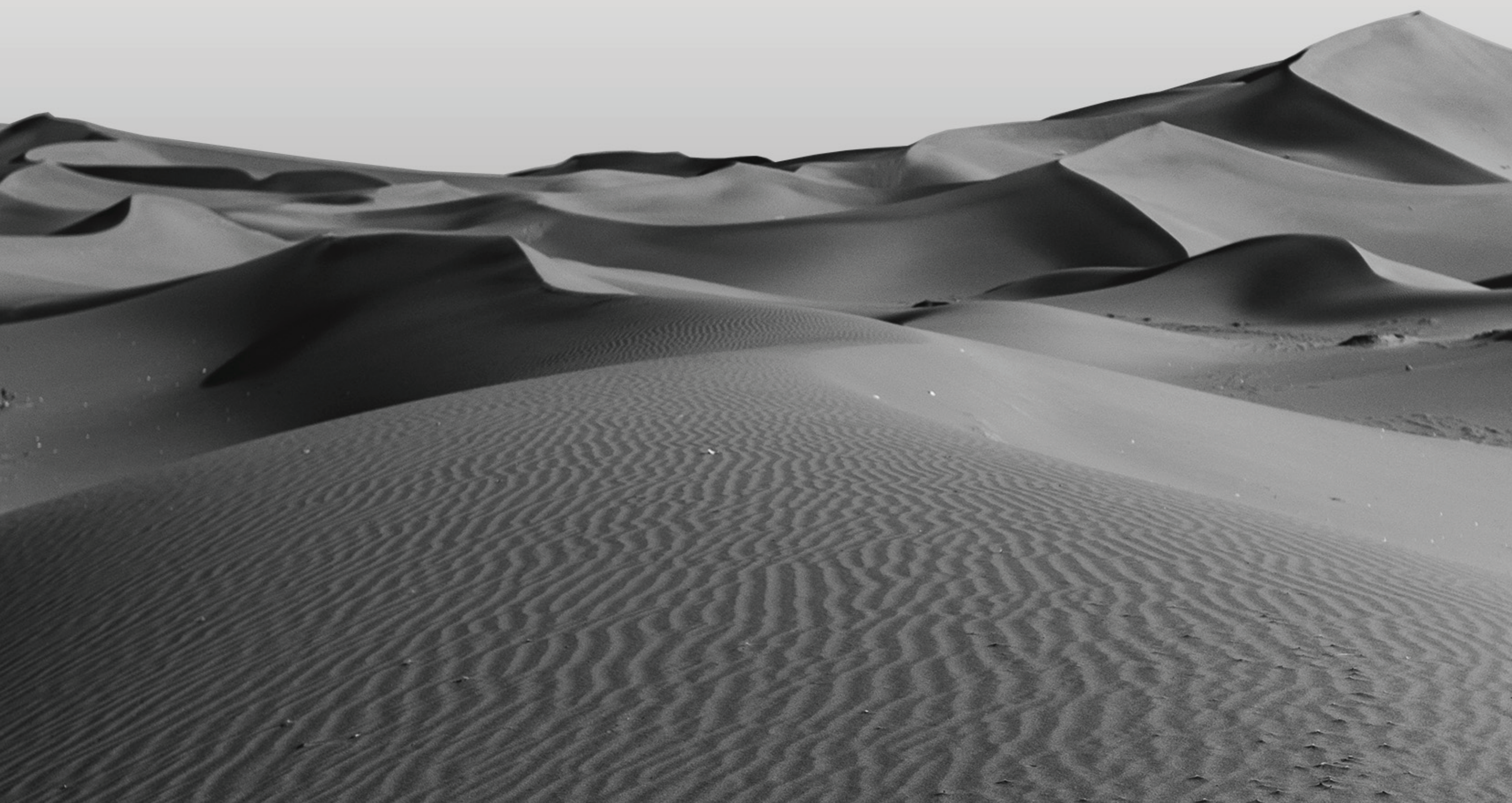

Environmental, Social & Governance (ESG) Rating Methodology

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OVERVIEW

This rating methodology describes Tassnief's approach to assessing Environmental, Social & Governance (ESG) ratings, applicable to corporate entities and financial institutions. The ESG rating reflects an assessment of risks that may affect an entity's ESG profile. A high ESG rating indicates that an entity is relatively less prone to experiencing material ESG risks. Furthermore, the rating assesses the degree to which an entity's strategy aligns with ESG-related factors, which can positively or negatively affect its ESG profile over the medium to long-term. Additionally, these ratings provide insight into the entity's ability to leverage ESG growth opportunities.

The term ESG first emerged in 2004 as an investing principle that prioritised environmental issues, social issues and governance issues as investing principes.[1] Today, it is defined by three dimensions comprising environmental, social and governance. The importance of ESG is underpinned by rising carbon dioxide emissions, fossil fuels accounting for two-thirds of all electricity generated, and resultant rise in global average temperature. [2]

- The **environmental** dimension focuses on resources consumed by an entity, including energy consumption, waste it releases into the environment (including greenhouse gas (GHG) emissions), and resulting impact on the environment.
- The **social** dimension covers an entity's engagement and reputation with its employees and within the community in which it operates. Key stakeholders in this dimension include employees, community members and institutions, as well as customers.
- The **governance** dimension involves the practices and procedures implemented by an entity to ensure effective governance. The main objective of these practices include overseeing environmental, social, and governance (ESG) matter, facilitating decision-making, ensuring compliance with regulations, and addressing the need of external stakeholders.

1 United Nations (2004). Who Cares Wins. [online] Available at: https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf.

2 Gates, B. (2020). How to Avoid a Climate Disaster. London: Penguin Books.

To support the goal of compliance to ESG investing requirements and oversight, the following key reporting standards have been developed and are widely used.

- **Sustainability Accounting Standards Board (SASB)** Standards identify sustainability-related issues most relevant to investor decision-making in 77 industries.[3] These can be integrated into regulatory filings to different securities and exchange commissions across the world. They are overseen by International Sustainability Standards Board (ISSB) of IFRS Foundation.
- **Global Reporting Initiative (GRI) Standards** allow entities to report on their impacts on the economy, environment and people.[4] These are used by some companies to provide additional specific disclosures in their regulatory filings. They are overseen by Global Reporting Initiative (GRI) Foundation.
- **Task Force on Climate-related Financial Disclosures (TCFD)** is a framework specifically for disclosing climate-related risks and opportunities. It was maintained by Financial Stability Board (FSB) will November 2023, after which FSB requested IFRS Foundation to take over the responsibility for maintaining it.[5]

3 SASB (n.d.). SASB Standards overview. [online] SASB. Available at: https://sasb.ifrs.org/standards/.

4 GRI (2021). GRI Standards. [online] Globalreporting.org. Available at: https://www.globalreporting.org/standards/.

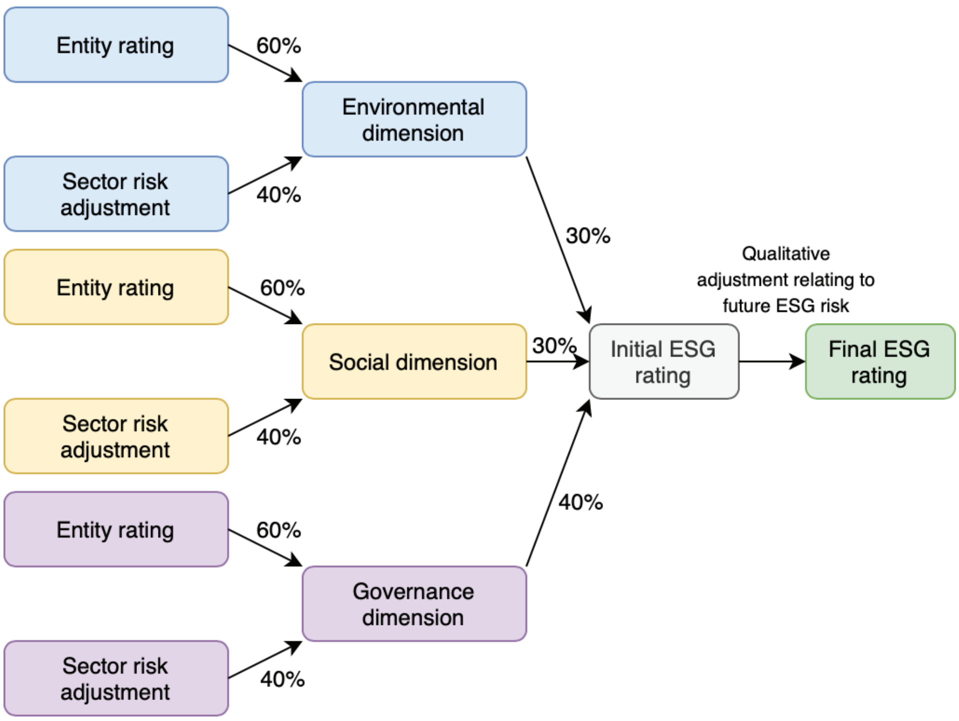
5 TCFD (2022). TCFD recommendations. [online] Task Force on Climate-Related Financial Disclosures. Available at: https://www.fsb-tcfd.org/recommendations/.

Tassnief's ESG rating assessment framework

Tassnief assigns ESG ratings on a scale of "ESG 1" to "ESG 10". The highest rating, "ESG 1" indicates that exposure to ESG risk is very low and alignment of ESG in strategy is of excellent standards. The lowest rating, "ESG 10" indicates that exposure to ESG risk is very high and alignment of ESG in strategy is of weak standards.

Rating Scale	Definitions
ESG 1 ESG 2	Exposure to ESG risk is very low and alignment of ESG in strategy is of excellent standards
ESG 3 ESG 4	Exposure to ESG risk is low to moderate and alignment of ESG in strategy is of above average to good standards
ESG 5 ESG 6	Exposure to ESG risk is medium and alignment of ESG in strategy is of average standards
ESG 7 ESG 8	Exposure to ESG risk is high and alignment of ESG in strategy is of below average standards
ESG 9 ESG 10	Exposure to ESG risk is very high and alignment of ESG in strategy is of weak standards

The initial ESG rating is derived from a weighted average of sub-scores for environmental dimension (allocated a weight of %30), social dimension (allocated a weight of %30), and governance dimension (allocated a weight of %40). The final ESG includes a qualitative adjustment relating to future ESG profile risk.



The rating for each dimension (such as environmental dimension) is derived from a weighted average of the sector risk adjustment (allocated a weight of %40), and the entity rating (allocated a weight of %60) of each dimension.

The sector risk adjustment is based on rating scale of "very low", "low", "moderate", "moderate to high" and "high" sector risk. It is based on a ranking of each sector, against other sectors, in terms of various factors.

The ESG rating uses a scale of "ESG 1" to "ESG 10" and evaluates the standalone performance of an entity relative to others in the same sector on a global scale. However, the final ESG rating may be adjusted upwards or downwards based on entity-specific factors where appropriate.

Environmental dimension

The sector risk adjustment for environmental dimension of each sector is based on sector-wide scope 1 and scope 2 emissions intensity as a percentage of total global emissions, the extent of control that entities have over emissions reduction, the methods available for reducing emissions, and the feasibility of those pathways.

The entity rating for environmental dimension is derived from a weighted average of sub-factors. The rating of each sub-factor is based on a weighted average of the ratings of indicators for that sub-factor. In specific cases, scope 3 emissions may also be considered.

Sub-factors	Indicators
Circularity and impact on ecology	- Recycled raw material usage as a percentage of total raw material usage -Percentage of raw material usage from sustainability certified sources -Commitment to sustainability demonstrated through business strategy
Waste release and hazardous emissions	- Waste intensity (waste released in relation to total production volume) - Hazardous waste as a percentage of total waste - Nitrous oxides intensity (emission in relation total production volume) - Sulphur oxides intensity (emission in relation total production volume) - Particulate matter intensity (emission in relation total production volume)
Water consumption efficiency and recycling	- Water intensity (water consumed in relation to total production volume) - Recycled waste water consumption as a percentage of total water consumed - Number of non-compliances with waste water regulations
Energy usage and GHG emissions	- Scope 1 intensity (scope 1 emissions in relation to total production volume) - Scope 2 intensity (scope 2 emissions in relation to total production volume) - Energy intensity (energy consumed in relation to total production volume) - Renewable energy consumed as a percentage of total energy consumed

Social dimension

The sector risk adjustment for social dimension of each sector is based on relationships with employees, people and institutions within the community, and customers. For employees, the key factors are safety risk, gender diversity and employee satisfaction. For people and institutions within the community, key factors are local employment, charitable cash contributions and incidents of conflicts with community members. For customers, the key factor is general trend in consumer preferences, how the sector caters to those preferences, and demand risk if any for products of the sector.

The entity rating for social dimension is derived from a weighted average of sub-factors. The rating of each sub-factor is based on a weighted average of the ratings of indicators for that sub-factor.

Sub-factors	Indicators
Human capital management	- Local employees as a percentage of total employees - Female employees as a percentage of total employees - Voluntary and involuntary turnover rate - Training hours spent per employee
Civic engagement	- Charitable cash contributions as a percentage of net income - Sustainability certified sources of raw material in relation to all sources of raw material
Health and safety	- Lost time injury frequency rate - Total recordable incident rate - Severity rate - Number of fatalities

Governance dimension

The sector risk adjustment for governance dimension is primarily based on the general regulatory and compliance requirements relating to governance for entities operating within the sector, as enforced by jurisdictions across the world. It also examines trends in the interaction between sector entities and regulatory bodies. including impositions of fines, incidences of misconduct and breaches of regulatory rules.

The entity rating for governance dimension is derived from a weighted average of sub-factors. The rating of each sub-factor is based on a weighted average of the ratings of indicators for that sub-factor.

Sub-factors	Indicators
Human capital management	- Local employees as a percentage of total employees - Female employees as a percentage of total employees - Voluntary and involuntary turnover rate - Training hours spent per employee
Civic engagement	- Charitable cash contributions as a percentage of net income - Sustainability certified sources of raw material in relation to all sources of raw material
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