SPANISH STOCK EXCHANGE'S VOLUNTARY MARKET GUIDANCE FOR LISTED COMPANIES FOR CORPORATE REPORTING ON **ESG INFORMATION**

BME
BOLSAS Y MERCADOS ESPAÑOLES

INTRODUCTION

Why is Environmental, Sustainability and Corporate Governance (ESG) reporting important?

Sustainable Stock Exchanges Initiative

Environmental, Sustainability and Corporate Governance (ESG) issues are grounded in the premise that public and private organisations as well as individuals have commitments to society.

Investors who tend to have a longer investment time horizon increasingly examine business issues related to ESG factors. Thus, financial performance is no longer the only measure of a company's value and a good equity investment.

Pressures to manage and disclose environmental and social issues material to the business may come from stakeholders, the directors or trustees of issuers, senior management and/or employees. They see positive bottom line benefits—for example, cost savings, increased revenue streams through innovative products, an advantage in attracting, retaining and motivating employees, improved risk management, enhanced reputation and customer loyalty.

They increasingly consider the bottom line impacts that these factors can have on revenues, costs, product offerings, customer and employee loyalty, reputation and governmental and regulatory approvals. They also want to understand if the issuer has business opportunities and competitive advantages related to environmental and social issues.

They may look beyond the issuer, too, and consider how environmental and social issues might impact the issuer's supply chain and thereby potentially impact the issuer's reputation and/or ability to source needed inputs on a timely basis.

These are the principles that underlie responsible investment, whose ultimate goal is to identify the risks and opportunities associated with a specific company or segment, thereby refining the asset pricing process.

To integrate ESG information into investment decision-making activities, investors want high-quality and relevant data to assess company risks and opportunities relative to peers.

How exchanges can contribute to the ESG cause

Companies understand that improving long-term shareholder value is achievable by including sustainability into their long-term strategy and by disclosing fully their sustainability performance to investors. Here stock exchanges and listing authorities have a crucial role to:

- Encourage better internal corporate governance within companies, such as improving the independence and quality of boards of directors
- Consult with companies on how they should be integrating sustainability into long-term strategic decision-making
- Share guidance for companies on material sustainability issues, global initiatives and other opportunities that encourage ESG disclosure; and
- on material sustainability issues, global initiatives and other opportunities that encourage ESG disclosure; and on the sustainability report or strategy.

Another driver of responsible investment is the growing supply of products and services to help investors manage portfolios, and at the same time to disseminate best practices among business organisations. Sustainability indexes and special listing segments on securities exchanges, as well as research firms and rating agencies that specialise in ESG have expanded exponentially.

Because of their involvement with a wide array of market participants, exchanges in particular increasingly play the role of protagonists in defining the rules and best practices that reflect the aspiration of these participants and of society as a whole. They encourage companies to adopt best practices in corporate governance, supporting the creation of new markets, and building a social agenda.

BME's contribution to ESG

In the case of BME, as the operator of the Spanish stock exchange, the company gears its management towards obtaining an optimal performance from all the assets at its disposal in a responsible and sustainable manner.

As a result of this corporate vision, since 2006 BME has joined several international initiatives in the area of sustainability which contain commitments and principles that add to and complement those that emanate from its corporate vision. These initiatives are as follows:

- The European Code of Conduct for Clearing and Settlement (since 2006)
- The Carbon Disclosure Project (since 2007)
- The Code of Best Tax Practices (since 2010)
- The United Nations Global Compact (since 2011)
- United Nations SSE Initiative (since 2015)

As a natural consequence of its commitment to sustainable development, BME is constantly deepening its understanding of its contribution to society and promoting initiatives designed to ensure that sustainability is an integral part of its management, products, services and relationships. Stakeholder engagement, education and information are key elements of this effort.

The promotion of corporate sustainability permeates through the whole senior leadership. This effort to spread sustainability awareness throughout all layers of the company is shared by the senior managers throughout the group.

BME's view of sustainability is based on our commitment to companies, investors and all other parties involved in securities markets, including to society at large. In this regard, BME's primary responsibility is constantly to strengthen the key attributes of a sound and efficient stock market: transparency, integrity, innovation, education and investor protection, especially protection of individual investors.

BME aims to advance sustainability in our markets through projects that encourage companies to adopt socially responsible business practices as well as through training, which is regarded as a cornerstone for the sustainable development of a financial market.

In 2015 BME joined the Sustainable Stock Exchanges (SSE) Initiative, which is co-organised by UNCTAD, the UN-Global Compact, the UN-supported Principles for Responsible Investment and the UNEP Finance Initiative. Launched in 2009 by UN Secretary-General Ban Ki-moon, the SSE initiative is a peer-to-peer learning platform for exploring how exchanges (in collaboration with policymakers, regulators, investors and companies) can promote transparency among listed companies – and in turn their efficiency – in connection with corporate governance and social and environmental responsibility, as well as promoting responsible investment.

Based on this model, by publishing its own Voluntary Market Guidance for Corporate Reporting on ESG Information BME strengthens its commitment to fostering business sustainability in Spain and to offer examples for similar action by other exchanges worldwide.

10 RECOMMENDATIONS TOWARD SUSTAINABILITY

The race to make sustainability part of the business agenda is a race without a finishing line. New demands will arise every day, leading to a process of permanent evolution. On the other hand, while specific issues may be more significant for certain economic sectors, generating a greater or less impact on business, there is a range of basic criteria that apply to all business activities.

The purpose of the following recommendations is precisely to describe these criteria and point out the best practices for each one, so as to help companies reflect on their practices and find ways of improving them still further regardless of the stage they are currently at in the process of incorporating sustainability.

Para que la agenda sobre sostenibilidad

1

Start by involving top management

If the sustainability agenda is to be effective and add value for your company, the decision to implement it must come from top management. It is the board's responsibility to define and control key topics and key performance indicators that reflect the company's economic, environmental, social and governance impacts.

Adopting sustainability as a business strategy often entails a cultural change, which is why it must be championed by the leaders of the organization. Their job is to explain its significance and support any adjustments required. This means that senior management needs to set the sustainability agenda and make sure that line organisations understand and embrace the goals that have been set and the targets that have been agreed. A proof point may be whether a board member is able to explain sustainability data and their business implications in a one-on-one situation.

Ideally this should happen as a result of a strategic planning process, so that sustainability is put on the organisation's agenda. Its aspirations should always go beyond compliance with the law and extend to new business development.

2

Find out what needs to change

A sustainability diagnosis is a must. It will detect any gaps in the company and serve as a basis for a short-, medium- and long-term action plan. This process will also pinpoint the areas in which the organisation requires alignment and identify the existing structures, processes and systems that should be kept because they are already adequate to the new strategy.

An assessment of your corporate documents, organisational structure and management system is a good place to start. But it's also crucial to look at more tacit areas in the organisational culture by interviewing managers in all areas and consulting with stakeholders.

There are several consulting firms that specialise in this type of service, helping companies identify opportunities and areas for improvement. On the other hand, this is an exercise that can also be done in house. For example, you can set up a committee with representatives of several departments to discuss the sustainability agenda.

The company can also sign up to voluntary global standards and commitments for the industry or market in which it operates. The most important point is that diagnosis and assessment should become a regular exercise for the organization.

3

Set priorities

The next step following diagnosis is to establish priorities. This should be done according to materiality. The materiality of the content is a key factor in reporting sustainability information.

If the principle of materiality is ignored, there is a risk of reporting too much information on the one hand, or irrelevant information on the other. Both of these make it difficult for investors to draw conclusions from the reported data. This recommendation helps to define and recognise materiality.

The concept of materiality is widely used in law and accounting, and is also increasingly applied to the definition of corporate sustainability agendas and strategies. An issue is said to be material when it has a significant impact on a company's financial performance and/or on its image and reputation. In other words, a sustainability issue can be considered material when it is important and a priority for stakeholders, for commercial viability and/or for efficient administration of the company.

It will usually help to take a look at the GRI Aspects and Indicators as well as the GRI Sector Supplements, where you will find a broad range of possible material issues.

Typically, the organisation can efficiently identify between four and eight material issues, but the number varies depending on the size of the firm, its sector, its market niche, and its maturity in terms of the work already done on the sustainability agenda.

It is important to note that material issues should be identified case by case and reviewed at predetermined intervals, which can be once a year or every two years, for example.

4

Make public commitments

A number of collective commitments, which may be general or sectoral, can also help your company formulate a sustainability strategy and develop management processes in this direction, as well as including it in a network of learning and interaction with stakeholders. For instance, BME made a public commitment to sustainability in 2015 when it joined the UN - SSE Initiative and in 2016, when it made a Voluntary Commitment to publish its own Voluntary Market Guidance for Corporate Reporting on ESG information by the end of the year 2016.

The U.N. Global Compact, launched in 2000, which BME joined in 2011, is yet another example. It requires signatories to commit to ten internationally accepted principles in human rights, labor relations, environmental management and corruption prevention.

5

Establish Sustainability Governance

Balancing economic, social and environmental results entails addressing dilemmas and making decisions for the long term as well as the short term. To do all this, it's necessary to create a governance structure for sustainability encompassing all levels of the organisation.

How many instances are needed to implement this agenda, enabling new initiatives to be developed, practices enhanced and the entire organisation aligned, will depend on the size of the organization and how it's structured. However, the Board of Directors (top management) should be given final responsibility for these decisions.

Another recommendation is that outsiders should be invited to sit on the committees involved. They can be representatives of important stakeholders and/or experts on the subject.

We also suggest your company relies on the work of a **Sustainability Committee**, made up of members of the Board of Directors responsible for developing and overseeing the implementation of sustainability strategy and guidelines, as well as monitoring performance and decision making. The department heads and managers should then be responsible for assuring coordinated execution of the sustainability actions established by the said committee, as well as for an exchange of information among departments and business units.

Depending on the size of the organisation, the facilitator may be a professional in the field or even a sustainability structure in the organisation chart, and should have access to top management, albeit not necessarily reporting to the CEO. Depending on the sector and the maturity of the company's sustainability agenda, the sustainability facilitator or team is typically subordinated to one of the following departments:

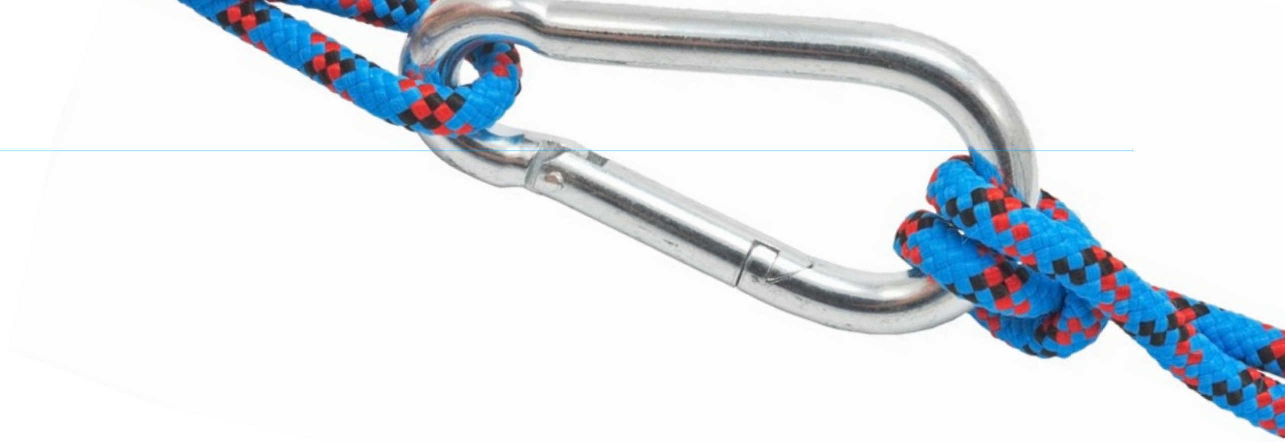
- Financial / Risk
- Corporate Affairs
- Communication
- Human Resources
- Operations

6

Check identity

When you reach this stage, you'll realise your organisation is no longer the same as it was when the journey began. Inserting sustainability into strategy and management undoubtedly influences your objectives and stakeholder relations.

This is an excellent point at which to check whether the company's identity, its mission, vision and values, reflects its new commitments. If not, it may be the right time to propose adaptations.



7

Engage with stakeholders

Corporate and Social Responsibility and sustainability reporting cater for the needs of many **stakeholders** with differing requirements and expectations in terms of topics, as well as the format and granularity of data. As a subset of the general sustainability audience, investors and financial analysts are economic stakeholders with distinct needs and expectations who are primarily interested in those ESG factors that are material, i.e. which have a significant impact on the company's value.

Analyse stakeholder interests

By engaging and dialoguing with stakeholders, the company will acquire a better understanding of how its activities impact the environment and society. This is of great utility in developing ways to mitigate or offset any negative impacts.

An analysis of relevant stakeholders' concerns and interests helps to explore stakeholder expectations and adapt to subsequent changes. Maintaining a dialogue and engagement with important stakeholders is critical for tracing those (changing) expectations. It enables a company to react in good time and to adapt its corporate strategy to the needs of society and changing values.

Stakeholder dialogue also offers guidance for identifying the content of sustainability reporting.

Investors' needs regarding the type and content of information, including the way such information is disclosed, should be decisive; other stakeholders such as clients, regulators and representatives of civil society should also be taken into account, based on their relevant importance. Investors / analysts are interested in sustainability information in relation to the company's financial reporting; sustainability information is useful for an investor only if it fits into other strategic information relevant for an investment decision, such as an assessment of risks and opportunities.

Disclosure content should not just be available on demand. Integrating ESG data into general information can only add value for stakeholders if they are aware that this information exists. Hence, sustainability information should be an integral part of general corporate information communicated via established corporate communication channels. This should also include investor relations: investor relations officers should be aware of economic, environmental and social value drivers.

In the future, investor relations will increasingly have the opportunity (but will also be faced with the task) of explaining a company's capital market story using arguments from the field of ESG. This requires a reliable database, measurable goals and comparable figures.

As already noted, this dialogue is an essential part of the process of identifying material issues. Engagement and dialogue should be the job of both operating units and the corporate level. In the former case, the stakeholders are typically members of the surrounding community, suppliers and local customers, as well as other regional players.

Corporate engagement will be with government, regulators, major customers and partners, representatives of employees and contractors, and civil society.

In both cases, however, the identification and prioritisation of stakeholders should follow a specific methodology and take into consideration:

- Responsibility
- Influence
- Proximity
- Dependency
- Representativity

7

The organisation already interacts with stakeholders in various ways, of course, through channels such as one-on-one or group meetings, workshops, conferences, public hearings, councils or committees, collective bargaining, an ombudsman and customer care center, and so on, not to mention web-based social networks. The point is to optimise the existing channels and leverage them to establish a more comprehensive structure for engaging with stakeholders, finding out what they want, and building all this information into strategy and management. Here are a few examples of the practices typically used by organisations that want to evolve and be part of a process of engagement for sustainability:

- Customer satisfaction surveys
- Supplier assessment and qualification
- Organizational climate surveys
- Collective bargaining
- Meetings with investors and analysts

Serve information sources of stakeholders

Information on a company's sustainability profile should also be made available through public sources: Research and rating agencies use data to evaluate sustainability profiles. In particular, institutional investors buy sustainability data for their own evaluation tools. Thus, the more accurate and up-to-date the company profile is, the better investors / analysts will be informed about that company's sustainability performance. Companies should therefore be familiar with the primary sources used by capital market relevant stakeholders to obtain sustainability information for their investment decisions. Companies should prioritise the sources and provide them with timely and accurate news about their sustainability performance.

Expert Panel

Setting up an Expert Panel is a more focused way to identify and prioritise material issues. Experts in aspects of sustainability relevant to the company and its sector meet periodically to discuss a structured agenda under the watchful eyes of the organization's senior executives. Ideally the experts should be capable of reflecting what stakeholders want as well as contributing technical views. The results of these meetings should feed into the organization's business strategy and serve as a compass for the sustainability action plan.

For any corporate strategy to be successful, alignment of the entire organisation is indispensable, so that everyone is on the same page and working to achieve the same goals.

This applies a fortiori to the implementation of a sustainability agenda.

But how to guarantee this alignment? Time and resources have to be invested in creating a new corporate culture that reflects the commitments made to further the sustainability agenda.

Various initiatives can be introduced to attain this goal, such as developing and upgrading training programs that deal with social and environmental issues, reviewing and disseminating the code of ethics, and adapting the company's hiring procedures to prioritise the selection of candidates who already have an affinity with the agenda.

Employee awareness can also be raised, and internal stakeholders engaged with generally, by means of communication campaigns that highlight the urgency of the sustainability agenda and its constant presence in people's everyday lives, both at work and elsewhere.

8

Develop a Sustainability Policy

Developing a Sustainability Policy is a key step in translating strategies and commitments into objectives and management guidelines. The policy should state the organization's aims and procedures in sustainability management, so as to facilitate the planning and execution of the relevant actions by all departments and business units.

A good policy is brief, objective and disseminated to all stakeholders, internal and external, starting with the former.

Another option is to implement economic incentives by including socio-environmental objectives in performance assessment systems, with a direct impact on variable remuneration and on employee career paths. Departments and managers should have goals for sustainability issues as well. These should be balanced with economic targets to demonstrate that the company genuinely adopts a triple bottom line approach.

All such initiatives reinforce each other and should be developed with the common objective of encouraging employees at all hierarchical levels to find and propose solutions aligned with sustainability.

9

Adjust management systems

As the company incorporates sustainability into its business strategy and organisational culture, it needs to adapt its corporate commitments and management systems, as well as its performance assessment system, as noted in the previous section.

New corporate policies will therefore need to be formulated and disseminated for the relevant areas. These include a **Sustainability Policy** – mentioned earlier - (which may replace and extend existing environmental, climate change and social policies), an **Intangible Asset Policy**, and a **Risk Policy** (including regulatory and image risks), among others. These policies require management systems to monitor their implementation via processes and procedures, and by selecting and computing appropriate indicators.

Processes and procedures are important in this stage of strategy development, because they ensure that the commitments made will be integrated into the day-to-day lives of employees, and even those of third parties if deemed necessary. They also tend to institutionalise and enforce corporate policies, strengthening the organisation's culture in the sphere of sustainability and reducing compliance risk.

Indicators are typically suggested by the company's "sustainability facilitator" after consulting all the main departments and business units. They should be computed both for the organisation as a whole and for specific operations or activities.

The indicators should be tracked not just at the operational level but also at the management level. They should be periodically reported to the Board (at least once a year).

Organisations that are beginning this process will find the GRI Indicators helpful and an important source of information.

10

Report your achievements and challenges

To win the trust of your stakeholders you must be transparent. And the best way to demonstrate transparency and accountability is by publishing reports.

Publicly traded companies are required to publish annual management reports and file them with the market supervisor. These reports focus on the company's financial performance in the previous year. On the other hand, more and more organisations now also issue sustainability reports with detailed information on non-financial performance, especially ESG. These publications are useful tools for stakeholder engagement and broader social accountability, but they can also be used as management tools, helping the organisation monitor and report indicators and articulating sustainability strategy, governance and management in a consistent fashion.

Integrated reports are increasingly important, however. These present economic, social and environmental results in an integrated format, ideally also reflecting an integrated strategy.

Revisiting materiality in your reports

When starting to prepare a report, companies should be clear about the material issues identified in the strategy and management development exercise. Not everything that is material for management purposes will be material for the report depending on its readership, and vice-versa. It is essential to keep the report short and concise while addressing the most relevant issues, as this will ensure it is read and understood, especially by investors and market analysts. Secondary issues and detailed explanations of more static policies and processes should be reported only on the company's website and linked to the printed report or main section on the website.

Global trends also point to increasingly frequent use of various different types of report according to the people each one is designed to reach. Thus a company may opt to publish an annual sustainability report focusing on material issues, and supplement this report during the year with updates to demonstrate accountability. These statements or reports can be specifically tailored to the needs of internal stakeholders, customers, suppliers, communities, government etc.

Define materiality for your company

Material information in business reporting is defined as matters that may influence the assessment of the company's ability to create and sustain value or that already do so. In financial reporting, information is considered material if its omission or misstatement could influence decisions by the users of financial statements. In sustainability reporting, this scope is extended to environmental, social, political, legal and commercial topics and indicators.

The scope, weighting and granularity of reported topics may vary due to a company's unique characteristics (e.g. its business model or operating environment), industry-specific trends, as well as the level of a company's sustainability performance.

To identify material information in the wide range of topics and indicators available for ESG reporting, companies should consider the following criteria, among others:

What are the key value drivers of our business process?

What are the material issues for relevant stakeholders?

What are the most important internal and external factors identified as having an impact on the company's value creation – in both the short and the long term?

Internal factors may include the company's ability to respond to changing conditions; external ones may be political, market-related, environmental, social, technological, or legal. Once material topics have been identified, the task is then to prioritise them by the magnitude of their effect on the company and the likelihood of their occurrence, and to present them accordingly in the report. Information that is not material should therefore be omitted.

Employ an integrated approach to disclosing material information

To emphasise the interdependence of financial and non-financial information, a set of key performance indicators should be provided in a single document. It is important to demonstrate the linkages between a company's corporate strategy, its governance model and its social, environmental and financial performance. In short, sustainability information should be an integral element of a company's reporting, rather than a set of data and targets published / communicated separately from / not linked to the company's core business.

Reporting principles

To make your reports credible and effective as a means of guaranteeing disclosure to stakeholders in accordance with the expected standards of transparency and accountability, as well as a tool for internal management, you should follow the internationally accepted guidelines developed by the GRI. Some of the most important are set out below.

- **Balance**
  The report should be balanced, presenting both positive and negative facts about the company. Highlighting the challenges faced during the year is positive because it is a demonstration of transparency on the part of the organization.

- **Comparability**
  The themes and indicators presented should enable performance to be analysed year by year and compared with market standards and with companies in the same sector. The reader should be able to understand the context for the information.

- **Reliability**
  The process of collecting information up until publication of the report should be consistent, and should permit simple checking and possibly an external verification process.

- **Precision**
  The information provided should be precise and detailed enough to enable stakeholders to make a fair assessment of the company's performance. The use of estimates should be duly noted and their premises explained.

BME Renta Variable

5 BEST PRACTICE STEPS

Complementing the 10 recommendations set out earlier, we encourage issuers to follow five practical steps for corporate sustainability reporting which can be helpful and are designed to support companies in developing a more holistic, integrated corporate reporting with the objective of effective capital market communication. They are divided into two sections: the first three deal with disclosure content (what to report), while the other two refer to reporting principles (how to report).

As with the 10 recommendations, no formal obligations associated with these steps. They are not designed to constitute mandatory new procedures for capital market communication that apply to listed issuers on BME's platforms. Instead, they should be seen as a useful tool in aligning the complex issue of sustainability with the concrete information requirements of investors / analysts by taking capacity constraints at corporate level into account.

Al elaborar informes, las compañías
Al elaborar informes, las compañías deben concentrarse en una cantidad reducida de criterios de control contable/ financiero de la gestión. Estos deben ser relevantes para la dirección, estar

1

Concentrate on a handful of key indicators and explain the link between non-financial data and financial performance

In their reporting, companies should concentrate on a small number of management accounting / financial control measures. These should be relevant to management, linked to the corporate strategy and illustrate the impact of ESG drivers on the company's financial results. They should also be backed up by a clear description. Consideration and / or prioritisation of the key performance indicators (KPIs) by management will highlight the company's unique selling points.

With the emergence of integrated reporting (the intelligent combination of financial and sustainability reporting), companies are assessing the link between non-financial data (incl. ESG) and financial performance. The more companies focus on a small number of compelling linkages between financials and non-financials, and seek to describe how ESG drives value, the more fit-for-purpose ESG aspects will be for investors.

2

Focus on a "risk and return" approach

Company analysis by the investment community considers and relies not just on key financial data and economic merits, but also on the quality of ESG-related content. Companies should provide reliable information on material components of value creation (financial and non-financial), critical interdependencies between them and how those factors are integrated into the strategy, governance and operations of a company. Taking responsibility seriously requires understanding the risks and opportunities created by environmental, social and corporate governance issues.

Communicate effective risk management and mitigation

By paying attention to material issues for different stakeholders, companies are better equipped to foresee upcoming risks and to manage them when they occur.

Managing risk – whether environmental, social, or operational – should be an integral element of business operations as a normal part of business

and risk culture. Systems and policies should therefore be in place throughout all operations.

Responsible business practices can enhance performance and reduce the cost of external funding. Vice versa, a negative ESG-related event could mean not just a sustained period of underperformance and higher costs of external funding, but may entail reputational damage, require changes in senior management and lead to increased regulatory activity – or even takeover.

A company is acting responsibly when it is ready to measure and manage its impact on society and the environment. In addition, there are several links between good governance and a positive value performance: greater transparency enhances investors' confidence and positively influences valuations. A responsible and results-based culture embraced by the top management as well as tighter supervision by the Board can help avoid a number of unfavourable strategic decisions such as overly expensive acquisitions, poor diversification, management short-termism etc.

Communicate sustainability-related business opportunities

Companies face a wide range of challenging business trends, e.g. scarcity of Natural resources, new regulations, impacts of innovation and new technologies etc. These require new solutions and hence innovative products and services that meet societal challenges and may therefore lay the basis for future growth.

These sustainability-related innovations may represent unique selling propositions and should be communicated accordingly. Among other things, properly managing environmental, social and corporate governance issues strengthens a company's industry positioning and return on capital. Sustainability practices are thus becoming crucial in order to stay competitive in the future.

Highlight measures to reduce risks and leverage opportunities

Responsible business practices not only facilitate risk reduction but also contribute positively to operational and share price performance. Actions undertaken to improve the performance of the company are therefore critical for assessing the potential increase in the returns of the company in the short, medium and long term. Examples of such measures include accommodating customer needs, increasing innovation in products, attracting and retaining skilled labour, increasing productivity, reducing negative impacts on the environment, securing limited key natural resources, having globally accepted ethical labour conditions along the value chain etc. Furthermore, policies, training programmes and activities directed at reducing risks – including an anti-corruption policy, whistle-blower programmes, good employee relations, monitoring the value chain for key environmental and social issues etc. – may lead to lower costs of debt and to higher credit ratings.

All in all, higher performance, better returns, lower risks and lower cost of capital should lead to a higher company valuation and a better risk / return profile.

Providers of capital assess the attractiveness of an investment based on the quality of management, which is by and large reflected in the quality of the company's corporate disclosures. Hence, it is ultimately the responsibility of the company itself to highlight the financial value of its sustainability strategy. The better the quality of the information, the more easily it can be appreciated by the market, which in turn implies a more favourable risk-adjusted return on the company's shares.

3

Give preference to quantitative data

All content should be presented in a way that meets investors'/ analysts' requirements.

Its structure must be clear and the organisation of the report must be comprehensive, e.g. by providing information in form of an executive summary, with key messages listed in a table or in bullet points.

Complement KPIs with relevant context information

Quantitative data is better than qualitative data because it can be compared with similar data from other organisations. If at all possible, sustainability-related data should be presented in the same format as traditional financial information. Issuers should therefore try to "simplify" reality in an effort to provide hard, objective, numerical data, bearing in mind that the language of the financial markets should be applied when discussing sustainability as an investment topic.

Investors / analysts with a focus on sustainability appreciate well-arranged charts or tables indicating the company's ESG performance. This should – if necessary – be accompanied by a narrative description of why certain KPIs increased or decreased, whether this is a good thing or a bad thing, and an indication of the expected future performance 3). Keep this narrative as short and simple as possible.

Sometimes, working with qualitative information is unavoidable. However, if a qualitative narrative is used, it should always be supplemented by quantitative data, benchmarks and targets.

Be as specific as possible

The metrics that are regarded as being the most useful in corporate sustainability disclosures are those that quantify financial impact, measure business opportunities and risks, and are transparent about the calculation methodology. If a company is facing other issues that are more difficult to quantify, information on mitigation activities or actions designed to exploit new opportunities would also be an alternative way of improving disclosure.

Provide monetary information on ESG performance, if possible

Some sustainability initiatives represent a long-term investment on the part of a company and it may be difficult to measure their effects immediately in monetary terms. However, there is always a business case for sustainability. It can be explored by linking the ESG perspective to the financial (fundamental) perspective and vice versa. Whenever possible, explain how ESG performance and financial performance influence each other.

Define specific measurable ESG targets

In their annual reporting, companies should define measurable targets using both absolute data (e.g. total tons of CO_2 per year) as well as ratios (e.g. kilograms of CO_2 per passenger kilometre) for their material topics. Also targets link the ESG perspective with the economic dimension of sustainability (e.g. sustainability related products as a percentage of total sales). In general, sustainability targets should show a clear link to the optimisation of stakeholder value, while at the same time being consistent with the company's long-term strategy. Ideally, appropriate sustainability metrics should be linked to management reward systems to increase the credibility of the targets.

In reality, targets cannot always be achieved. Reporting should reflect both positive and negative aspects of an organisation's sustainability performance to enable a complete assessment of its overall performance.

Provide an outlook and talk about challenges and opportunities

Investors are interested not only in past performance but also in the future outlook, especially as regards expected industry trends and corporate strategies for facing upcoming challenges. Forward-looking sustainability metrics play a crucial role in reporting. Investors expect companies to disclose information on how they plan to sustain and create mid- to long-term value with regard to their corporate strategy.

As part of this exercise, companies should try to assess the impact of their industry and of market trends on the future of their sustainability performance.

Companies should also disclose the risks they face in meeting their sustainability targets. This should include a definition of the risks and the way risks are mitigated and managed.

4

Refer to standards (international /national)

The five steps in this guide are generally applicable to any existing standard as they substantiate the capital market perspective. Therefore, the guide describes how to use existing reporting standards / guidelines / frameworks more effectively.

Build on widely acknowledged frameworks

There is a variety of standards governing sustainability reporting available in the market and companies have to decide which one(s) match best to its company needs. As a consequence there currently is a certain lack of comparability. On the positive side, this means a lot of flexibility for companies. However, to facilitate assessment by investors, it is useful to build on internationally or nationally recognised standards to make reported KPIs comparable as far as possible.

Using standards has one great advantage. They give companies initial guidance on which data should be published, based on a consensus that has been reached in years of discussions in international multi-stakeholder forums. Such a framework may serve as a helpful preparation / instruction to involve other departments / colleagues in developing a more holistic corporate reporting.

Present material topics according to market usage

Many investors and their service providers use their own assessment criteria and questionnaires. Hence, despite the existence of reporting standards, companies still have to formulate and publish their own KPIs that are relevant to their specific industry sector and corporate strategy. Even within standards, it is increasingly recognised that the materiality of information differs between industry sectors and that the disclosure of non-material information is – at least for investors / analysts – of no added value.

A standard should therefore be seen as general guidance that should be thoroughly reviewed by a company to facilitate the identification and prioritisation of material topics as well as to decide on relevant KPIs and disclosure usage best reflecting its specific industry challenges and corporate strategy.

5

Pay attention to presentational issues

With regard to existing corporate reporting practice, a coherent (combined) presentation of financial and non-financial information instead of publishing a separate sustainability report seems to be an efficient solution as it offers the investor / analyst an extensive source of information.

Forms of presentation

After identifying the material sustainability aspects and the relevant indicators, as well as any contextual information that needs to be reported (e.g. benchmark data), the next question that arises is one of presentation. Investors and analysts who are focused on financial KPIs will prefer ESG data to be presented in a condensed format that is clearly arranged (table). Ideally, it should be provided simultaneously with the (standard) financial reporting highlighting the interdependencies.

Explain changes in the selection or development of KPIs

It is essential for companies to demonstrate the application of a clear and consistent methodology to any type of corporate reporting (financial, sustainability, integrated). KPIs should be defined, compiled and reported consistently. They should help stakeholders to analyse changes in sustainability performance over time and enable an assessment relative to the company's peers.

However, if a methodology is refined, changes should be presented so that investors can still draw comparisons with previous years, i.e. companies should restate – where possible – current disclosures alongside historical data (or vice versa). Likewise, if a company is introducing new KPIs or discontinuing old ones, it should disclose the reasons for this and illustrate the benefit for stakeholders.

CONCLUSION

Material ESG aspects in capital market communication are part and parcel of today's investment decisions. This is because a more comprehensive picture of a company on the one hand helps evaluate its current risk profile and indicates how it is prepared to mitigate future risks. On the other hand, actively communicating sustainability-related key figures and business opportunities, as well as how these translate into unique selling propositions, raises awareness of corporate strengths and competitiveness. It allows investors and analysts to gain a more accurate and robust assessment of a company and its risk and return profile. Furthermore, it delivers additional arguments to invest in that company and increases confidence and trust. Sustainability disclosure tends to become a major principle for state-of-the-art corporate communication, providing for a well-balanced capital market story.

The 10 recommendations, including the 5 best practice examples, illustrate an approach that aims to achieve more holistic corporate reporting, using limited resources that will effectively meet the needs of the capital markets.

The challenge is:

- to identify a small number of KPIs that are relevant for management and evaluation purposes;
- ideally, to present them using quantitative metrics, providing relevant context, illustrating interdependencies between financial data and ESG information, as well as with the financial reporting; and
- to systematically omit information that is not material (and that would merely obscure key messages and / or confuse investors and analysts).

The Guide is designed to help issuers provide investors and analysts with this information efficiently and effectively and, by doing so, to enable better-informed investment decisions.

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