



JOHANNESBURG STOCK EXCHANGE
SRI Index



2010 Annual Review: Briefing Information for Eligible Companies

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1. Introduction

This document is intended to serve as a practical reference guide to the review process for eligible companies. It is advisable to read the information contained in this document in conjunction with the Criteria and Ground Rules, which are available from the JSE or from the web site (www.jse.co.za (click on “About Us” or “Products” to access the SRI section, and then refer to “Criteria” in the right hand menu)).

2. New development: Involvement of local partner in 2010 review

The JSE and EIRIS are delighted to announce that during the 2010 review, EIRIS will be assisted in the research process by the University of Stellenbosch Business School’s Unit for Corporate Governance in Africa (“USB”), headed by Daniel Malan. The involvement of a local partner is a significant step forward in the building of capacity in South Africa around ESG knowledge and research.

As part of the process of transferring knowledge and building capacity, USB will handle the research of a large percentage of companies this year, while the remainder will be handled by EIRIS. The intention is that in due course USB will be responsible for the bulk of the research. EIRIS remains responsible for the oversight of the entire research process and the final quality assurance of the analysis. The allocation of companies to USB in 2010 is being determined by EIRIS and USB with reference to the available resources and dealing with potential conflicts of interest where USB has done ESG work with or for companies recently.

USB will make use of MBA students to conduct the basic research, with oversight by permanent staff of the USB unit who will work with EIRIS to deliver a seamless service to the JSE. The process as far as companies are concerned, will remain unchanged (as set out in the remainder of this document), with the exception that those companies selected to be researched by USB, will be contacted by a local researcher from USB rather than one from EIRIS in the UK as before.

The JSE, EIRIS and USB are working closely together to ensure the smooth running of the review this year, and to find ways of further enhancing the research while streamlining the process going forward. We appreciate all feedback from companies in this regard.

3. Eligible companies in 2010

The eligible universe for the 2010 review is the FTSE/JSE All Share Index as at March 2010. The Top 100 (FTSE/JSE Top 40 and Mid Cap) companies, as well as the 2009 SRI Index constituents will be automatically assessed bringing the automatic universe to a total of 103 companies. The remaining Small Cap companies can elect to be assessed following confirmation to the JSE by the 14th July 2010.

If a company is excluded from the FTSE/JSE All Share Index at any time during the process or after the review, it will not be eligible for the SRI Index.

4. Criteria overview

The basic criteria are based on a holistic triple bottom line sustainability approach and are structured along three pillars, namely environment, society and governance & related sustainability concerns.

Introductory climate change criteria have been included for the assessment for the first time during the 2010 review, and forms another area of measurement for index qualification. The aim with the climate change criteria is to gauge the extent to which companies consider what risks they face from climate change, and to encourage more action in this regard.

Indicators are made up of **core and desirable** indicators –

- Core elements represent the minimum a company should strive to meet. The Index qualification threshold may not require meeting of all core indicators, but we believe that these are the areas that companies should aspire to meet as a minimum.
- Desirable indicators are aspirational or developmental aspects. As the criteria become more demanding over time, these may move to core.

Each basic pillar of the criteria (environment, society and governance) measures **policy, management & performance and reporting** –

- For policy indicators, evidence should ideally be publically available and would typically include stated commitments, policy documents, documents referencing undertakings, strategies etc.
- Management and performance typically looks at implementation of systems, objectives and targets, monitoring and measurement, etc.
- The reporting indicators refer to content that must be reported – please note that reporting indicators should ideally be found in the public domain, and in future rounds internal reporting may not be accepted any longer.

For the 2010 review, the following changes have been made to the criteria:

- Governance & related sustainability concerns
 - For inclusion in the Index, the JSE will accept the appointment of a Lead Independent non-executive Director in cases where the Chairman of the Board is not independent. This becomes core management and reporting requirements under Board Practice. (Please note as set out in section 8.2 below that to be a best performer, an independent chairman is still required).
 - In recognition of the growing importance of governance around technology, the Business value and Risk management area sees the introduction of desirable policy and reporting indicators on senior responsibility for IT governance.
- New focus area: climate change
 - Assessments will be made on the basis of a selection of six introductory indicators, to be expanded over time. The indicators measure **policy & governance, management & strategy** and **disclosure**. Performance and innovation indicators will follow later.

5. Qualification thresholds

Thresholds across all four areas must be met to qualify for inclusion in the SRI Index.

Environment

- Impact classification of high / medium / low based on company activities in relation to five key issues: climate change, air and water pollution, waste, water consumption.
- Threshold based on
 - impact classification;
 - coverage of policy, systems and reporting; and
 - number of indicators met in policy, management and reporting.

Society

- Threshold at three levels (two for companies who don't have operations in South Africa)
 - Majority of all indicators, core and desirable (half plus one)
 - One third of indicators that are met, must be core
 - At least one core in relation to each of BEE and HIV/Aids (only companies that have operations in South Africa and those that are high risk for HIV/Aids)

Governance & related sustainability concerns

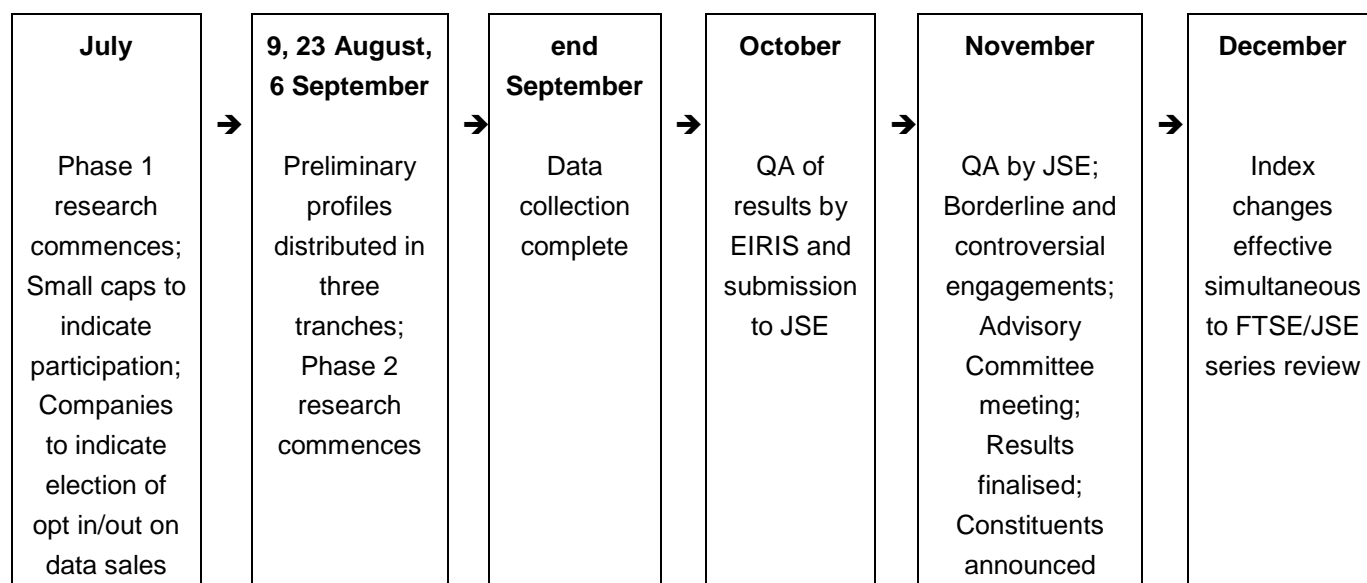
- Threshold at two levels
 - Majority of all indicators, core and desirable (half plus one)
 - One third of indicators that are met, must be core

Climate change

- No impact classification initially
- Threshold based on meeting two specific indicators
 - Senior responsibility for climate change related issues
 - Commitment to climate change

Full details of the indicators are available in the background and criteria document on the web site, or directly from the JSE at sri@jse.co.za.

6. 2010 Process timeline



The review will comprise the second half of the year commencing with the first phase of research in July, and ending with the announcement of the 2010 constituents by the end of November.

7. Research process

7.1. Phase 1 research

The first phase of research comprises a review of public information by EIRIS, during which a company profile is compiled.

- Information sought in the public domain is the most recently available, and typically includes web sites, latest annual reports, etc.
- The profile provides a brief overview of company operations and a preliminary assessment (based on public information) against the criteria.

Companies are assessed in three tranches. The scheduling of the tranches take account of financial year ends, consideration of the anticipated extent of data that can be expected to be submitted as well as incorporating the involvement of the of the local partner. The covering email informs companies which tranche they will fall in, and this can also be confirmed with the JSE or EIRIS. Given the tight timeline and the complexity of compiling the tranches, it is preferred that no further moves of companies between tranches occur, however, we can consider requests on merit.

The distribution dates of preliminary profiles to companies are as follows:

- Tranche 1 – 9 August
- Tranche 2 – 23 August
- Tranche 3 – 6 September

7.2. Phase 2 research

Companies will receive a preliminary profile and survey questionnaires from a specific researcher (who for some companies will be from USB as set out in 2 above).

Please note:

- It is not compulsory to complete the survey questionnaires in full for the index assessment. Each company should review its profile and if it deems necessary, supplement its submission by providing comments and/or any additional evidence.
- Notwithstanding the above, we are requesting companies to complete the extended climate change survey, which EIRIS will distribute to all companies. Please refer to section 9 below in this regard and future developments in relation to climate change.

Supplementing can occur in various ways, and the company can decide which option works best for its situation:

- Directly on the profile document by inserting comments, information or references to additional evidence (e.g. using track changes, inserting comments, highlighting new text or using a different font colour).
 - o This approach typically works well where there are few remaining indicators to meet, or little additional evidence to be supplied, e.g. where company reporting is fairly advanced.
- Full completion of the survey questionnaires, or partial completion of the survey questionnaires to the extent necessary – e.g. by only completing the questions to the indicators indicated in the profile as not having been met.
 - o This approach can be followed where the company is uncertain of what is being looked for in relation to the indicators that have not yet been met, or where reporting is limited.

Any supplementary documentary evidence should then be supplied separately.

Companies have three weeks from the date of receipt of the preliminary profile to respond. Extensions will be considered by EIRIS on merit and only in extreme cases. Responses and submissions should go directly to the researcher who sent the preliminary profile.

Any new information will be incorporated into the profile by EIRIS. The final profiles will be distributed once the results have been announced.

7.3. Evidence

The following are guidelines as to the typical information serving as evidence of meeting an indicator:

- Policy
 - The actual document or text of the policy
 - Proof of stated commitment or undertaking, e.g. board resolution, minutes of meeting, documentation on action taken, etc.

- Management
 - Evidence of existence of system and extent of coverage
 - Training information/documents
 - Proof of senior responsibility – designation/title, job description, appointment details
 - Documentation indicating existence of targets, goals, objectives
 - Review reports, meeting minutes etc. indicating monitoring of performance, review of targets/objectives, feedback, corrective mechanisms
- Reporting
 - Public documents
 - Internal reporting mechanisms / documents

7.4. Confidentiality

Any documentation submitted that the company considers confidential, must be clearly marked as such. EIRIS will consider the content, and capture the analysis in the company profile for purposes of the Index assessment, but will not capture the information in its database. Please also refer to the briefing document on the data sales in relation to the removal of confidential information from the profile for purposes of making the analysis available to investors.

8. Salient matters

8.1. Borderline companies

A borderline company is a company that is highlighted by EIRIS to the JSE as being marginally close to qualifying for inclusion in the Index, but falling short e.g. on one indicator. Please refer to the Ground Rules available from www.jse.co.za/sri for the process for dealing with borderline cases. In summary, the JSE will engage with each borderline company regarding the borderline indicator, and may request additional evidence relating to that issue only. Based on this and after consultation with a subcommittee of the Advisory Committee, the JSE will determine whether the company should be included in the Index or not. A company that is borderline for two successive annual reviews will be asked to meet additional criteria relating to the borderline issue, and will not be included in the Index if it is borderline for a third time and is not showing clear steps to improve.

8.2. Best performers

The Advisory Committee has seen fit to raise the threshold for best performance. For the 2010 review, best performers will be those companies that have met all of the following:

- the environmental threshold relevant to that company considering its impact level and the extent of coverage of its environmental policy, systems and reporting;
- all core indicators in relation to the social themes;
- all core indicators in relation to governance & related sustainability concerns and having an independent chairman; and
- all six indicators in relation to climate change.

8.3. Controversial events and negative news stories

EIRIS conducts comprehensive news searches flagging major issues pertaining to environmental contraventions, health and safety, human rights violations, competition issues, etc. The JSE reviews the EIRIS report and engages with selected companies on those stories which it deems to be significant enough so as to potentially affect inclusion of the relevant company in the Index, and will also consult a sub-committee of Advisory Committee members in this regard before making a final decision. Incidents are considered on their severity and potential impact, with local impact being considered more severely.

Should a company be excluded from the Index as a result of a controversial event or negative news story, re-entry into the index at the next annual review will be subject to meeting of additional criteria relating to the specific incident. Issues will be considered on a case by case basis.

EIRIS delivers a comprehensive report to the JSE by the end of July to allow for engagement and consultation during the review process. A subsequent spot search will take place by the end of September to pick up on any new issues that warrant consideration.

8.4. Investment holding companies

Some holding companies do not have employees and/or reporting by the holding company is limited and does not reflect the activities and policies of principal subsidiaries. Where this is the case, EIRIS will conduct a full assessment of the subsidiary generating the largest proportion of the holding company's revenue, which is then attributed to the holding company's assessment. Where the subsidiary contributing the largest amount of revenue discloses little information, the second largest subsidiary may be considered as part of the assessment. The data provider will also consider all policies and practices that exist at holding company level, and specifically will consider evidence from the listed holding company in relation to Board practice for those criteria.

Please also refer to section 9 below regarding future developments in relation to holding companies.

8.5. Property holding/investment companies

The All Share Index contains a number of property companies that are either property unit trusts (PUTs) or property loan stock (PLS) companies. A number of these companies do not have employees and outsource all property or asset management, rendering some indicators irrelevant or incapable of application. For the 2010 review, these companies will be assessed as per the normal process, however, please refer to section 9 below regarding future developments in relation to these companies. In view of these developments, we are requesting property companies to please respond to their profiles and supply us with as much information as possible to assist in the development process.

9. Developmental issues

The JSE will be developing the following areas for implementation in future reviews. We are requesting companies to please participate to the fullest extent possible where they may be affected by one of these areas, to enable the JSE to gather sufficient data to inform the development process.

9.1. Climate change

The data gathered during the 2007 – 2009 reviews in response to the EIRIS climate change survey, was invaluable in determining the approach in relation to the introduction of climate change to the Index. Companies which EIRIS typically regard as 'low impact' have not been assessed against the full set of EIRIS indicators, however, we are seeking to gather this data from this year, as well as to update the data already gathered from the remaining companies.

To ensure that we maintain a complete database of company performance in relation to climate change, which will then be relied upon to inform the incremental introduction of further indicators on climate change, EIRIS will distribute the complete climate change questionnaire to all companies (regardless of impact). The survey will clearly indicate which questions relate to the indicators relevant for the review, while the remainder of the survey is for developmental purposes. All companies are therefore kindly requested to complete the climate change survey in full.

9.2. Investment and property companies and companies without employees

Given the inapplicability of a number of indicators, the JSE needs to develop an approach that will either exempt certain companies from certain indicators, or develop specific criteria for these types of companies. We are aiming to gather as much information as possible regarding the level to which these companies are dealing with sustainability issues, and therefore request affected companies to participate in full in the research process, and supply whatever information may be available in this regard. This will help the JSE establish baseline data of what these companies are capable of meeting, and inform the development of specific criteria over time.

10. Contact details

For any further information, the JSE can be contacted on 011 520 7022 (Makhiba Mollo) or sri@jse.co.za. The project leader at EIRIS is Yumika Mochizuki, who can be contacted on jse@eiris.org.