



JOHANNESBURG STOCK EXCHANGE
SRI Index



2011 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 – mouse over “About Us” or “Products” to access the SRI drop-down menu).

2. Data provision for 2011 review

During the 2011 review, EIRIS will again 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 increasing the transfer of knowledge and building capacity, USB will handle the research of most companies this year. 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 2011 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 makes use of MBA students and contract researchers 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.

3. Eligible companies in 2011

The eligible universe for the 2011 review is the FTSE/JSE All Share Index as at March 2011. The Top 100 (FTSE/JSE Top 40 and Mid Cap) companies, as well as the 2010 SRI Index constituents will be automatically assessed bringing the automatic universe to a total of 104 companies. The remaining Small Cap companies can elect to be assessed following confirmation to the JSE **by Monday 6 June 2011**.

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 broad 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.

Climate change criteria are included as a focus area, 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.

Generally, 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 from 2012 reporting indicators must be found in the public domain.

4.1. Criteria changes for 2011

For the 2011 review, the following changes have been made to the criteria:

- **Environmental reporting**

To ensure that the environmental criteria have incremental levels of stringency for varying impact categories (i.e. higher impact companies should meet a higher threshold) and in order to maintain consistency in the quality of research, the environmental reporting requirements in 2011 will be as follows:

- Overall
 - The definition of ‘the whole group’ will accept >95% (as opposed to the previous 100%).
- High impact
 - Reporting requirement limited to coverage of the whole group (as per definition above).
 - ‘Text of environmental policy’ is required as one of the core indicators that a high impact company should meet.
- Medium impact
 - No changes
- Low
 - ‘Text of environmental policy’ is specified instead of ‘description of main impacts’.

- **Climate change**

- Two new indicators have been included: policy context and trend data.
- Policy context aims to establish the extent to which the company's policy takes cognisance of the context within which the company operates, so local regulatory developments, global trends, sectoral issues, and the like. For 2011 this will be a best performance level indicator.
- Trend data considers whether companies are collecting data to identify trends over a period of time. This has been added as an aspirational indicator this year, and does not form part of the threshold for either entry level or best performance.

5. Qualification thresholds

Thresholds across all four areas must be met to qualify for inclusion in the SRI Index, as follows:

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.

	High impact	Medium impact	Low impact
Policy	Policy must be publicly available, and: <ul style="list-style-type: none"> • <u>All five</u> core indicators plus at least one desirable; or • <u>Four</u> core plus two desirable indicators. 	<u>Four</u> indicators, <u>at least three</u> of which must be core	Must have published a policy statement including at least <u>one</u> core or desirable indicator, <u>OR</u> meet either the management or reporting requirement.
Management / performance	Depending on coverage of EMS: <ul style="list-style-type: none"> • <u>Six</u> indicators, and quantified targets; or • <u>five</u> indicators, including documented objectives and targets in all key areas. ISO certification or EMAS registrations are considered to meet all indicators.	Depending on coverage of EMS: <ul style="list-style-type: none"> • <u>four</u> indicators; or • <u>six</u> indicators, including documented quantitative objectives and targets. ISO certification or EMAS registrations are considered to meet all indicators.	Must have completed an initial / baseline review to identify significant impacts, <u>OR</u> meet either the policy or reporting requirement.
Reporting	The report must cover the whole group ¹ , and meet at least two core indicators (including text of environmental policy), plus one desirable reporting indicator.	The report must cover the whole group ² , and include text of environmental policy plus <u>one</u> other reporting indicator.	The report must cover the whole group ² , and include text of environmental policy <u>OR</u> meet either the policy or management requirement.

¹ "Whole group" is defined as <95% of operations

Society

- Companies must meet the following:
 - Majority of all indicators, core and desirable (half plus one)
 - One third of indicators that are met, must be core
 - At least one core must be met in relation to BEE (only companies that have operations in South Africa)
 - At least one core must be met in relation to HIV/Aids (only companies that have operations in countries that are high risk for HIV/Aids)

Governance & related sustainability concerns

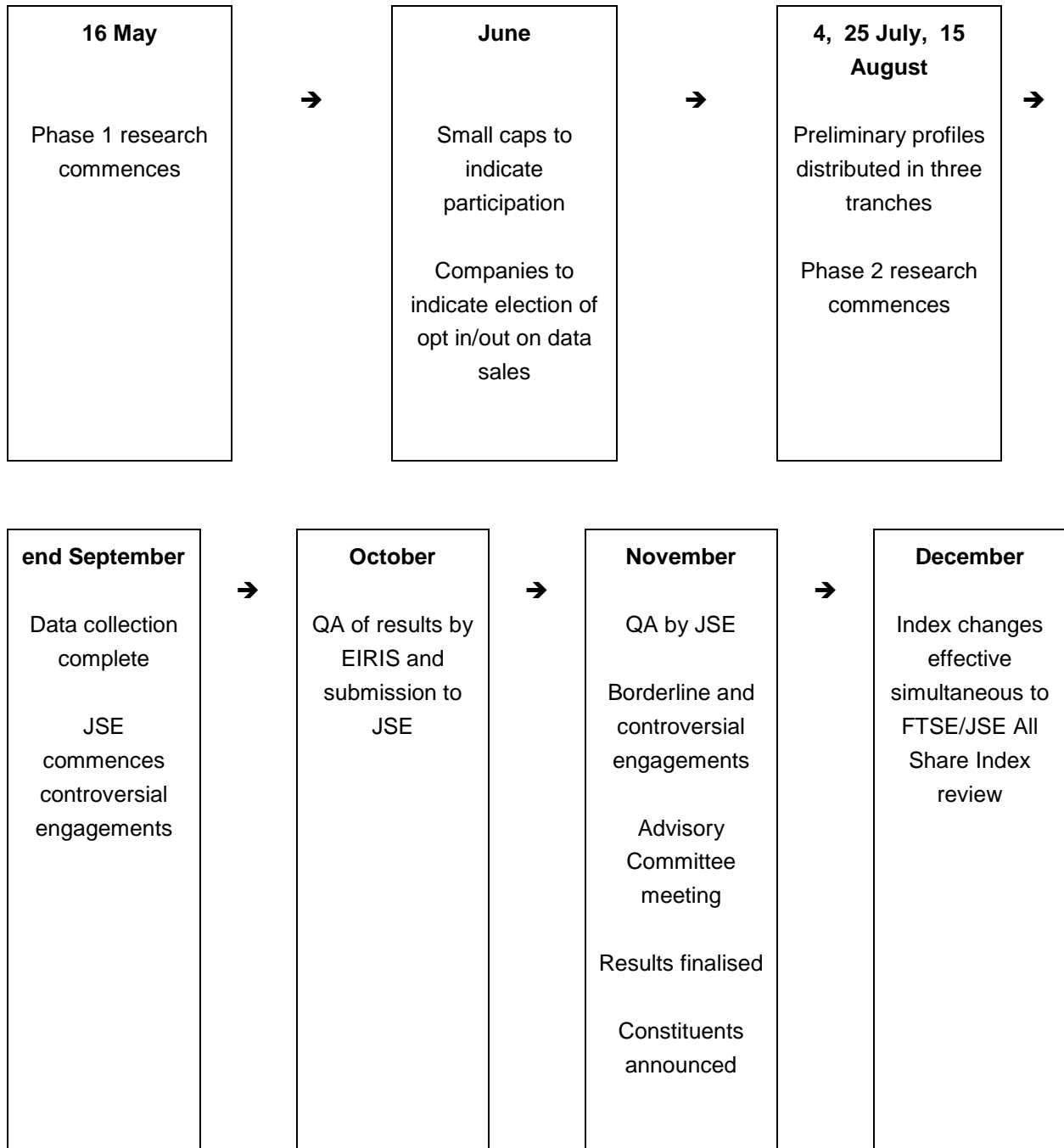
- Companies must meet the following:
 - Majority of all indicators, core and desirable (half plus one)
 - One third of indicators that are met, must be core

Climate change

- No impact classification initially
- Threshold based on meeting three specific indicators
 - Senior responsibility for climate change related issues
 - Commitment to climate change
 - Emissions disclosure (absolute or normalised)

Full details of the indicators and qualification thresholds for 2011 are available in the Background and Criteria document on the web site, or directly from the JSE at sri@jse.co.za.

6. 2011 Process timeline



The review will comprise the second half of the year commencing with the first phase of research on May 16 and ending with the announcement of the 2011 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 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 – 4 July 2011
- Tranche 2 – 25 July 2011
- Tranche 3 – 15 August 2011

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 (although companies are requested to complete the climate change survey for database and development purposes). 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).

- 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.
 - 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 our web site for the process for dealing with borderline cases. In summary, during late October/early November the JSE will engage with each borderline company regarding the borderline indicator, and may request additional evidence relating to that issue only. The company has **three working days** to respond. 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 threshold for best performance (referred to as “**BP level**” in summary sheets and company profiles) has again been raised this year. For the first time in the 2011 review, a best performer threshold will be incorporated in the environmental pillar.

Best performer (“BP”) threshold

Best performers will be those companies that have met all of the following:

- The BP environmental threshold relevant to the company’s impact and the extent of coverage of its environmental policy, systems and reporting (see further details below);
- all core indicators in relation to the social themes;
- all core indicators in relation to governance & related sustainability concerns;
- having an independent chairman; and
- all indicators in relation to climate change, *excluding* “trend data”.

BP Environmental threshold

A company must meet the best performance requirement in ONE OF Policy, Management Systems or Reporting, which for each impact category would be as follows:

Impact category	Policy	Management Systems	Reporting
HIGH	All 5 core indicators plus 3 desirable indicators (including ‘moves to environmental sustainability’).	6 indicators, (including quantitative objectives and targets); OR Over 66% coverage for ISO14001; OR EMAS registered.	All 4 core indicators plus independent verification and 3 other desirable indicators.

Impact category	Policy	Management Systems	Reporting
MEDIUM	<p>Policy must be publicly available, cover the whole group² and meet either:</p> <ul style="list-style-type: none"> All 5 core indicators plus at least 1 desirable <p>OR</p> <ul style="list-style-type: none"> 4 core indicators plus 2 desirable. 	<ul style="list-style-type: none"> If EMS is applied to between one and two thirds of company activities: 6 indicators must be met (including quantified targets); OR If EMS is applied to more than two thirds of company activities: at least 5 indicators must be met (including documented objectives and targets in all key areas). <p>ISO certification or EMAS registrations are considered to meet all indicators.</p>	<p>The report must cover the whole group and include:</p> <ul style="list-style-type: none"> Text of environmental policy 1 more core indicator plus 1 desirable indicator

Impact category	Policy	Management Systems	Reporting
LOW	<p>Policy must cover the whole group plus at least 4 indicators, at least 3 of which must be core.</p>	<ul style="list-style-type: none"> If EMS covers at least one third of company activities: 4 indicators must be met; OR If EMS covers less than one third of company operations: 6 indicators must be met. <p>ISO certification or EMAS registration are considered to meet all indicators.</p>	<p>The report must cover the whole group and include text of environmental policy plus 1 other reporting indicator (core or desirable).</p>

² The definition of 'Whole group' accepts >95% for both policy and reporting areas

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. Please refer to the Ground Rules available from our web site for the process for dealing with controversial issues. In summary, from September the JSE will engage with companies identified as having controversial stories which the JSE deems to be significant enough so as to potentially affect inclusion of the relevant company in the Index. The company has **seven working days** to respond. The JSE will also consult EIRIS and 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 2011 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 is currently 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 each annual review in response to the EIRIS climate change survey, is invaluable in determining the approach in relation to the introduction of further climate change indicators to the Index.

To ensure that we maintain a complete database of company performance in relation to climate change, which will be continually 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 covers all EIRIS climate change criteria, but will 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

In the same vein as property companies above, the JSE is working on the development of 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.

9.3. Reporting

Notice is being given that as from the 2012 review all reporting indicators must be met by evidence being available in the public domain. The JSE will investigate any practical implications around this which may be affected by the timeline of reporting or any additional criteria introduced in 2012, and will provide more information in this regard closer to the next review.

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 Charlotte Hine who can be contacted on jse@eiris.org.