EGX Model Guidance for Reporting on ESG Performance and SDGs

First Draft

For Discussion and Comments

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Introduction

Being a pioneer exchange in promoting sustainability, the Egyptian Exchange (EGX) strives to improve transparency in Egyptian Capital Market, and ensure that sustainability is well defined and disclosed by listed companies. The recommendations in this guide are designed to assist listed companies in EGX in integrating environmental, social and governance (ESG) information into effective capital market communication. There are no formal obligations associated with this guide. The guidance is not designed to constitute mandatory new procedures for company's disclosure that apply to listed companies on EGX.

- ✓ **To provide practical, useful guidance.**
- ✓ **To facilitate voluntary reporting.**
- ✓ **To complement existing standards**

This guide describes the rationale for, and offers practical guidance for developing more comprehensive, investor-focused ESG information reporting on a voluntary basis.

Purpose of this guide

ESG information already available in the market has not yet been standardized. The ESG could be defining as a part of Sustainability Development Goals umbrella, which include 17 Goals with 169 targets. This guide will help listed companies address topics related to environmental, social and governance (ESG) issues in their periodical disclosure, as these aspects are among the factors influencing investment decisions today by institutional and retail investors, also these factors are being used by EGX in evaluating the transparency and disclosure (T&D) of active companies in reviewing and balancing EGX sustainability index.

Reading this guide will also encourage issuers to focus and limit their ESG-related reporting to the content that is really material (“less is more”). This is because investors/analysts are not interested in too detailed or irrelevant information.

Nevertheless, despite the universal approach embodied by this guide, companies should bear in mind that the substance of their disclosures will depend on their industry or sector and on an individual analysis of the materiality of the information to their specific stakeholders.

How to Use the Guidance

Using the guidance for preparing ESG information report will help listed companies in achieving a more effective way to comply with the international sustainability reporting standards and requirement such as GRI and UNGC, as it follows the International Accepted Reporting Frameworks, and SSE ESG information report guidance.

The guidance came into three sections; the first section includes a brief on rationale for ESG information disclosure, and what is the environment, social and governance "ESG" concept? And why ESG matters for the Egyptian Exchange, listed companies and financial market. Section two presents the responsibility and oversight of sustainability reporting in listed companies, thus determining who within a company is best placed to be involved in creating the report is a crucial step before engaging in ESG reporting. This section also covers the role of board of directors (BoD) in incorporating sustainability into corporate values and strategies, which assist in embedding sustainability activities into day-today business activities.

Section three presents the recommended steps for preparing an effective ESG information report according to SSE model guidance on ESG reporting, and internationally accepted reporting frameworks, these steps will include the followings:

1. Enabling Sustainability in the company
2. Engaging Board of Directors.
3. Engaging the Stakeholders.
4. Identifying the Issues (and assessing performance).
5. Identifying Issues by Sector/Industry:
6. Identifying Material Issues.
7. Disclosing Relevant Performance Indicators.

Finally, the guidance presents three main appendixes; the first represents the SDGs, second covers some recommended Key Performance Indicators (KPIs) for listed companies to guide them through reporting on ESG, and the third appendix represents principles/ initiatives listed companies need to consider for their business operations while reporting on ESG.

Section One

Rationale for ESG Information Disclosure

Due to the global financial crisis, business leaders and financial practitioners have been forced to rethink the fundamentals of mainstream asset pricing and business models. The crisis exposed the vulnerability of global capital markets and national economies to systemic shocks and the devastating effect these have on economic growth and stability.

Sustainability/ESG issues should not be viewed on a standalone basis and separately from the way an organization operates. Companies gain the most benefits when they successfully embedded sustainability practices with the organization.

The exposure of markets to shocks has brought to light the importance of Listed Companies and financial institutions incorporating systemic environmental, social and governance (ESG) factors into fundamental financial analysis and business planning.

Integrating environmental, social and corporate governance (ESG) policies and practices into a company's daily operations is increasingly essential to its long-term value. Information on how a company manages ESG risks and opportunities is therefore part of its value proposition, and this information should be shared with investors for more transparent market.

The Egyptian Exchange (EGX) provides this guidance on how listed company can approach the reporting process, in order to effectively disclose ESG information to investors.

At the core of preparing sustainability and ESG information disclosure is a focus on the process of identifying material events– based, among other factors, on the Materiality Principle. ***Material events are those that reflect the***

organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders.

• What is ESG?

While ESG issues are at times called 'non-financial' or 'extra-financial,' how a company manages them undoubtedly can have financial consequences. They can impact companies' revenue growth and market access, cost savings and productivity, access to capital, risk management, license to operate, human capital, brand value and reputation.

Which ESG issues impact a company may vary by company, industry and location, and over time. Thus international institutions and initiatives adopted a range of potential ESG issues for companies, such as the Global Reporting Initiative's G4 Sustainability Reporting Guidelines[1] (with over 140 indicators), as well as standards issued by the Sustainability Accounting Standards Board (SASB) on material issues by sector (with an average of seven topics per industry).

When exploring what ESG means, it is important to note that while this document primarily uses the term 'ESG' because it is common among investors, other stakeholders may use different terms. Many companies, as well as UN and government bodies, use the term 'sustainability.' Other terms used may include, but are not limited to: corporate social responsibility, corporate citizenship and stewardship, sustainability or sustainable development, sustainable business, business responsibility, shared value or triple bottom line[2].

[1] GRI's G4 Sustainability Reporting Guidelines

[2] SSE Model Guidance to Companies on Reporting ESG Information to Investors,

• Why ESG?

ESG factors are increasingly recognized as important for investors and issuers alike, providing voluntary guidance to issuers on reporting these considerations can be a direct and influential opportunity for exchanges to facilitate effective corporate communication.

A. For The Egyptian Exchange (EGX):

Exchanges promoting greater transparency of high-quality ESG information are:

- Developing well-functioning markets, which are more resilient and less volatile.
- Contributing to stronger, more transparent listed companies that are better able to identify and manage risks and opportunities.
- Creating more attractive markets where investors can better evaluate fundamental drivers of value creation, and as more investors recognize the value of ESG information, they will direct more of their activity to exchanges that foster it.
- Helping companies navigate, comply with or stay ahead of regulations that require disclosure of financially material ESG information.
- Assisting companies in differentiating themselves on ESG matters, which is quickly becoming a competitive imperative.
- Contributing to the achievement of national and international sustainable development commitments and priorities, such as the UN Sustainable Development Goals, and steering investment towards sustainable development priorities.

B. For The Listed Companies

Improve Access to Capital:

- Integrating sustainability aspects can result in better strategies and organizational strengths, for listed companies which may in turn translate into improved investment returns, and enhance company's ability to attract long-term capital and favorable financing conditions.
- Enhance the company's ability to attract longer-term investors, including major institutional investors such as pension funds.

Profitability and Growth:

- Generate financial value for the company by identifying opportunities for cost savings, revenue generation, and risk mitigation.
- Drive continuous improvement by creating accountability and fostering collaboration with stakeholders.
- Create a deeper understanding of stakeholder needs, which could drive innovation and enhance market differentiation and competitiveness.
- Enable management and board scrutiny of ESG opportunities and risks, and promote company-wide alignment on goals.

Enhance Compliance and Risk Management:

- Sustainability management and reporting enables companies to identify risks from an integrated perspective and to develop appropriate mitigation strategies.
- Corporate sustainability disclosure enables investors / analysts to define the risk / return profile of a potential investment target more accurately. In an investment portfolio, leveraging opportunities while incurring limited risk may lead to a risk-adjusted above-average return.

- Help the company stay ahead of emerging ESG and disclosure regulations.

Enhance Corporate Reputation and Branding:

- Demonstrate corporate commitments to responsibly managing environmental, social, and economic impacts.
- Exhibit corporate adherence to industry ethical standards and national and international frameworks on corporate sustainability and sustainable development, particularly in light of the UN Sustainable Development Goals.
- Enhance corporate reputation by improving stakeholders' perception of a company through reporting-related stakeholder engagement.
- Improve employee perception of the company, helping to attract, retain, motivate and align new and existing employees.

Increase Employee Engagement:

- Sustainability helps companies to improve human resources policies, and indirectly improve employee morale and loyalty.

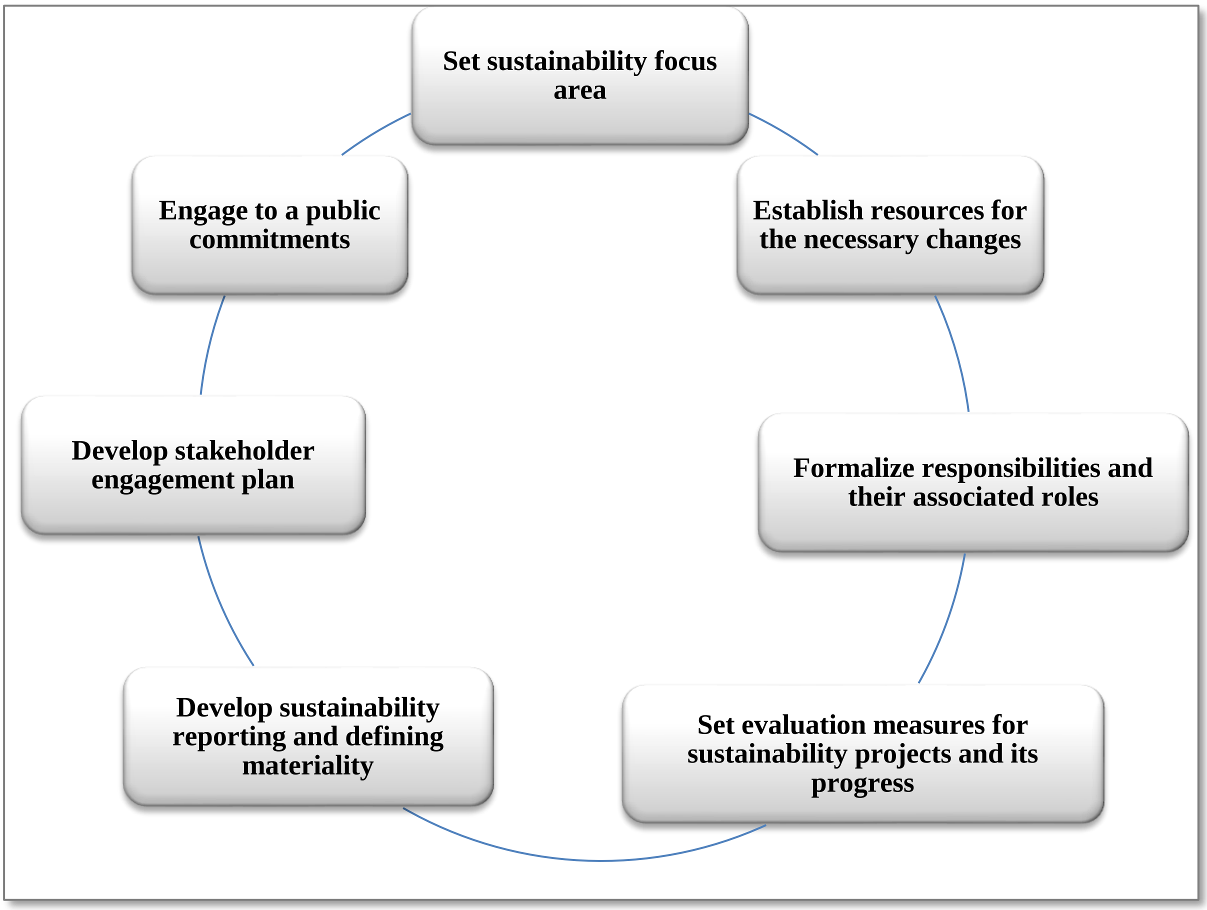
Section Two

Responsibility and Oversight

Introduction:

The well-functioning companies with effective sustainability strategies have one thing in common- their sustainability strategies are incorporated into their corporate values and strategies, which assist in embedding sustainability activities into day-today business activities, which will support effective monitoring and measuring of the associated impacts of the sustainability activities.

First: Organization responsibility towards sustainability:



1. Set sustainability focus area:

The sustainability team, senior management and the board have to review various inputs and agree upfront on what sustainability means for their business, the key issues and challenges they may face. Adopting sustainability as a business strategy often requires a cultural change. Developing a Sustainability Policy is crucial in translating strategies and commitments into objectives and management guidelines. The policy should state the organization's aims and procedures in sustainability management.

The organization should set clear and objective targets for specific indicators, publish them, and ensure that they can easily tracked both internally and by external stakeholders.

The company needs to adapt its corporate commitments and management systems, as well as its performance assessment system. Management systems is required to monitor company implementation via processes and procedures by selecting and computing appropriate indicators.

2. Establish Resources for the Necessary Changes:

Resources required aiming to support sustainability efforts of an organization should be identified and included in the company's budgeting process. Resources include financial assets and property, employees, raw materials, customers and intellectual property. 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 organization requires alignment and identify the existing structures, processes and systems that should be kept because they are already adequate to the new strategy.

3. Formalize Responsibilities and Their Associated Roles

A formalized sustainability structure with clearly defined employees, their associated roles and responsibilities and job descriptions with updated key performance indicators can be developed. A formalized sustainability reporting and governance structure can help derive sustainability maturity in the organization.

4. Set evaluation measures for sustainability projects and its progress

A defined set of criteria, which may include process and impact measures to assess sustainability projects along with targets, can be created to provide clarity to the management or board when selecting sustainability projects for adoption. Feasibility studies are conducted to support decision making on whether to implement projects.

To assess the success or the failure of projects, metrics or a dashboard should be defined for different stakeholders. It is good practice for companies to communicate their sustainability targets and metrics to relevant stakeholders to support achievement of targets.

5. Develop Sustainability Reporting and Defining Materiality

Develop internal reporting templates, guidelines, processes, and responsibilities to ease the compilation and analysis of data that will support both internal and external sustainability reporting. assurance/ external verification should also be conducted to increase credibility of the report. This should be done according to materiality. 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.

6. Develop Stakeholder Engagement Plan

Stakeholder engagement demonstrates a visible commitment to sustainability and a company should clearly determine the purpose of stakeholder engagement when embarking upon this. The company's key stakeholders and their main concerns should be identified, prioritized and mapped to help identify the material sustainability issues for the company. Outcomes of the stakeholders' engagement should be reviewed and reported.

7. Engage to a 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. There are commitments, such as U.N. Global Compact, Women's Empowerment Principles-WEPS, and Global Investor Statement on Climate Change. It offers practical proposals on how the contribution may be accelerated and increased through appropriate action. The important thing is for each organization to find the sectoral or thematic commitments that are relevant to its core activities.

Second: Board of director's role in promoting Sustainability[3]:

A company's board of directors plays an important role in developing a roadmap for sustainability governance. Good planning of implementation procedures and proper governance mechanisms can help a broad successfully integrate sustainability into its mandate. Below is a roadmap developed for boards that are starting out and boards that are ready to take it to the next level.

Stage One: For boards just starting out

1. Build sustainability into the firms's mission and values

Establish sustainability mission, vision, values, prinviples, and polices in consideration or stakeholder priorities and international standards

2. Communicate board's commitments

Communicate the Board's sustainability commitments internally and to stakeholders.

3. Build sustainability into risk manegment

Include social and enviromental considerations in risk and opportunity identification , management, and monitoring

4. Integrate sustainability into businessstrategy and provide overssight

Integrate sustainability into business strategy and corporate plans, set goals, objectives, and targets, and monitor performance aganist targets

5. Mandate a committee with sustainability resposibility

Include a sustainability mandate within a pre-exisiting committe, or establish a new committe with a clear mandate

6. Report to stakeholdrs on sustainabilityperformance

Review and approve third party audited sustainability report for distribution to shareholders and stakeholders ensure sustainability report complies with international sustainability reporting standards

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[3] Bursa Malaysia. *Powering Business Sustainability: A Guide for Directors*. 2010.

Stage Two: For boards ready to take sustainability to the next level

7. Reward executives for sustainability performance

Incorporate non- financial/ long term objectives into executive compensation, ensure performance manegment systems reward sustainability performance

8. Recruit directors with sustainability perspectives

Explicitily include sustainability in director recruitment.

9. Orient and train directors on sustainability

Include sustainability in director orientation, training and education, and board evaluation, ensure board is provided with adequate sustainability expertise and information to make informed decisions

10. Provide mechanisms for stakeholder input

Ensure mechanisms are developed for board consideration of unfiltered input from stakeholders

11. Recruit CEOs with sustainability competency

ensure CEO candidates are assessed for sustainability awerness and competency

12. Consider sustainability in major business decisions

include consideration of sustainability in major acquisitions, bussiness partnerships, mergers and investments

Third: Proposed Governance and sustainability committee mandate:

The Governance and Sustainability Committee assists the board in fulfilling its oversight responsibilities relating to the company’s corporate governance matters

General Responsibilities:

- **Policies:** review and recommend sustainability policies and management systems. Monitor compliance with policies, commitments, and regulations.

- **Strategy:** review/ recommend sustainability strategies and plans provide guidance to management on objectives and targets, provide oversight and guidance on sustainability performance/ progress.
- **Trends:** Monitor and provide recommendations on public policy, consumer, stakeholder, corporate, and general public trends, issues, and developments that could impact the company.
- **Risk Management:** monitor and oversee sustainability risk management plans, review effectiveness of issue identification and management.
- **Stakeholder Engagement:** Review and monitor stakeholder relations, consider opportunities for direct stakeholder input into committee deliberations.
- **Sustainability Report:** Determine overall scope of provided input on and recommend board adoption of board sustainability report.
- **Incident management:** review incidents and remedial actions and monitor crisis readiness and emergency plans.
- **Sustainability assessment:** review and make recommendations on sustainability impacts to support the sustainable growth of the company's business decision.

Structure and Organization

- The committee will be composed solely of directors who are independent of the management of the company and are free of any relationship that may interfere with their exercise of independent judgment as a committee member.
- The committee will consist of at least three members of the board of directors. Committee members and the committee chair serve at the direction of the board of directors.
- The committee is expected to have a minimum of four meetings a year or more frequently as deemed appropriate. The committee may ask members of management or others to attend the meetings and provide pertinent information as appropriate. Meetings are generally held in person but may also be held by video or telephone conference if necessary.

- The committee has the authority to retain and terminate any search firm used to identify director candidates and to retain or obtain the advice of independent legal or other advisors, in each case as the committee may deem appropriate, including the authority to approve the firms' fees and other retention terms. The company will provide funding for such advice.
- The committee or the board may reassign the responsibilities of this committee to a sub-committee or another committee of the board's choosing as long as the committee or sub-committee is composed entirely of independent directors.

Section Three

ESG Information Report Preparation

Introduction:

The Egyptian Exchange is providing ESG guidance and recommendation for listed companies complying with the SSE-Model Guidance for Reporting on ESG, also EGX is encouraging listed companies to adopt internationally accepted reporting frameworks, such as the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, in disclosing company's sustainability performance.

Reporting on ESG should start with enabling the sustainability concept in company's daily activities, and engaging both, the board of directors and the stakeholders in prioritizing and identifying sustainability goals and objects of the listed company.

Then defining and determining the material issues for reporting, and identifying the KPIs which company should monitor and effectively report them on a periodical base. The followings are recommended steps for preparing ESG information report.

1. Enabling Sustainability in the company

With the increase demand for inclusive economic growth and sustainability, the leading companies should embedded sustainability into ongoing business practices.

Listed companies could start to enable sustainability in the ongoing business activities, which will support effective monitoring and measuring the impact of sustainability activities. The enabling process could include the followings[4]:

1. Define Sustainability Strategy.

[4] Bursa Malaysia. *Powering Business Sustainability: A Guide for Directors*. 2010.

2. Establish annual resource need.
3. Formalize responsibilities and report structure.
4. Set evaluation criteria.
5. Use relevant measures to monitor progress of sustainability activities.
6. Develop a stakeholder engagement plan.

2. Engaging Board of Directors

The board of directors' responsibility for the strategic direction of a company includes integrating ESG considerations in the company's strategy.[5] By embedding sustainability into their core duties, directors are uniquely positioned to ensure the mainstreaming of ESG issues into business strategy, organizational culture, and operational practices in a way that supports the long-term profitability and viability of the company[6]. It is common for companies to involve board of directors in defining ESG rationale and objectives, and provide governance mechanisms for addressing ESG issues across all levels of the organization.

As investors increasingly acknowledge that properly managing ESG issues is vital to a company's long-term value creation, the boards' fiduciary duty to protect shareholder interests clearly includes the oversight of these issues. Consequently, boards have an essential role to play in ensuring that corporate reporting addresses ESG issues that are critical to investors' decision-making. Depending on national regulations and exchange rules, board members may also have specific obligations to ensure and certify that disclosures do not misrepresent or omit material information.

While the board plays a key role in overseeing activities at each stage of the reporting process, from the investors' point of view, its role in two areas is particularly critical. First, the board holds the ultimate responsibility to establish which stakeholders are material to the company (and therefore should compose its reporting audience) as

[5] .Singapore Stock Exchange. Guide to Sustainability Reporting for Listed Companies. 2011.
[6] UN Global Compact Board Programme. 2015.

well as what ESG issues are material (and therefore should compose its reporting content). Secondly, the board oversees report assurance. In this regard, the company may consider obtaining assessment and/or assurance by a stakeholder panel and/or credible external assurance provider. Making board approval a part of the report finalization process (e.g., through an audit committee review) ensures high-level accountability for ESG disclosure. In addition to discussing the findings of assurance with management and assurance providers, directors may oversee the implementation of third party recommendations on disclosure processes and content.[7]

In addition to overseeing the reporting process, the board may directly communicate the company's ESG priorities and processes to investors by issuing a statement. This statement clarifies the board's position on which stakeholders are most significant for the long-term interests of the corporation and what issues are material. It could include insights on how the board determined the relative importance of different stakeholders and issues, as well as within what time frame it made these judgments.[8] Developing this statement is also an opportunity for the board to reflect on the company's role in society and sustainable development. Such a statement can provide transparency regarding the board's position on and oversight of the company's ESG risks and opportunities, and strengthen the company's credibility when communicating on ESG issues

3. Engaging Stakeholders.

[7] Bursa Malaysia. *Powering Business Sustainability: A Guide for Directors*. 2010.
[8] Eccles and Krzus. *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality.* 2014.

It is no longer enough for companies to focus on managing only their shareholders; they also need to engage other stakeholders. Managing key stakeholders such as regulators, customers, suppliers, business partners, employees and communities are becoming more increasingly important.

Stakeholders can have a significant impact on a company's market value especially its intangible value. Instances of product boycotts, employee strikes and anti-product campaigns can cause the market value to fall.

Stakeholder engagement helps a company communicate openly which makes it easier to build trust between a company and its stakeholders.

While it is ultimately the responsibility of a company’s board of directors to establish which ESG issues should be reported, stakeholder engagement can be a beneficial action.

A. Benefits of Stakeholder Engagement:

- Proactively engaging can help a company identify, mitigate, and manage ESG risks.
- Better relationships within the community, helps understanding sustainability concerns.
- Helps identify emerging issues that may influence market conditions.
- Disclosing a company’s engagement process will help investors understand if and how well a company is integrating ESG risks and opportunities into planning and operations,
- Can be a source of innovation, future opportunities and new partnerships that fuel strategic growth.
- Better engagement helps companies to get external feedback and advice from stakeholders.

B. Identifying Stakeholders:

The world business council for sustainability development highlighted two categories of stakeholders[9]:

1. Direct stakeholders include shareholders and employees, often considered to be an organization's most important asset.
2. Indirect stakeholders include all the individuals and organizations within the company's sphere of influences, such as customers, suppliers, NGOs, capital markets, financial analysts, government agencies and local communities.

Stakeholders have varying information needs and means of interaction depending on their role and focus area. The listed company should decide its primary target audience. The following is a summary to illustrate the information needs of common stakeholders[10]:

Stakeholder	Information Needed
Capital Markets, shareholders	• Information to support long-term investments. • Sustainability performance. • Governance monitoring and reports.
Government	• Regulatory purpose and control. • Formulation of policies. • Compliance • Social and environment impact.

[9] World Business Council for Sustainability Development, "Striking the Balance" Report, 2002.

[10] Bursa Malaysia. *Powering Business Sustainability: A Guide for Directors*. 2010.

Stakeholder	Information Needed
Employees	• Social, economic and environment performance of the company. • The benefits and impact of sustainability initiatives implemented. • Environmental performance of the company. • Employee engagement results. • Gender equality performance.
Customers	• Social, economic and environment impact of the products and services. • Corporate values and practices. • Pricing • Raw materials and packaging material used. • Supply chain performance. • Quality of products and services. • Feedback on customer satisfactions.
Suppliers	• Human rights. • Product impact • Business operations. • Working conditions • Ethic, accountability and disclosure.
NGOs	• Company's position on social and environmental responsibilities such as environment protection, human rights and corruption.

Stakeholder	Information Needed
Community at large	• Impact of the operations to the community and environment. • Human Rights • Social impact. • Employment and business opportunity.

C. Stakeholders Engagement Methods:

Engaging stakeholder could be done through four major methods and relationships between listed company and stakeholders:

1. **Communication**: any manner of information-sharing with stakeholders' trough one-way, non- iterative processes.
2. **Consultations**: through gathering information or advice from stakeholders and taking those views into consideration.
3. **Dialogue**: an exchange of views and opinion to explore different perspectives, needs and alternatives, with a view to fostering mutual understanding, trust and cooperation on a strategy or initiative.
4. **Partnership**: in the context of sustainability interactions, partnership has been defined as "people and organizations from some combination of public, business and civil constituencies who engage in common societal aims through combining their resources and competencies sharing both risks and benefits.

4. Identifying Issues.

Listed company can decide the relevant scope and content of its ESG disclosures. The depth and breadth of the disclosure will also depend on its business model, geographic presence, established reporting objectives, as well as resources and other unique characteristics. The language used and the way the issues are presented should resonate with the target audience.

It may not be desirable or possible to provide information on every facet of a company's ESG performance. An effective, targeted report will cover ESG issues that are relevant to business strategy and will illustrate the link to long-term financial value. Thinking through each step of a company's value chain can help develop a comprehensive understanding of the ESG issues that could potentially be relevant for disclosure. This will help increase the likelihood that investors will use the information, as well as detect trends in how their needs are changing before or as they shift, rather than after the fact.

A company can use a variety of national and international resources to develop an initial list of ESG issues, for example a company looking at human rights should review the United Nations Guiding Principles Reporting Framework[11]. These are a good starting point because they are often based on consensus reached through years of discussions in multi-stakeholder forums. These resources can be used in complementary ways to inform different types of disclosure targeted to various audiences.

Below is a list of categories and aspects of GRI report guidance, which listed companies can use in identifying the scope and issues to be reported in the ESG report.

[11] Shift and Mazars. The UN Guiding Principles Reporting Framework. 2015

Category	Economic		Environmental	
Aspects III	• Economic Performance • Market Presence • Indirect Economic Impacts • Procurement Practices		• Materials • Energy • Water • Biodiversity • Emissions • Effluents and Waste • Products and Services • Compliance • Transport • Overall • Supplier Environmental Assessment • Environmental Grievance Mechanisms	
Category	**Social**			
Sub-Categories	**Labor Practices and Decent Work**	**Human Rights**	**Society**	**Product Responsibility**
Aspects III	• Employment • Labor/Management Relations • Occupational Health and Safety • Training and Education • Diversity and Equal Opportunity • Equal Remuneration for Women and Men • Supplier Assessment for Labor Practices • Labor Practices Grievance Mechanisms	• Investment • Non-discrimination • Freedom of Association and Collective Bargaining • Child Labor • Forced or Compulsory Labor • Security Practices • Indigenous Rights • Assessment • Supplier Human Rights Assessment • Human Rights Grievance Mechanisms	• Local Communities • Anti-corruption • Public Policy • Anti-competitive Behavior • Compliance • Supplier Assessment for Impacts on Society • Grievance Mechanisms for Impacts on Society	• Customer Health and Safety • Product and Service Labeling • Marketing Communications • Customer Privacy • Compliance

5. Identifying Issues by Sector/Industry:

Listed companies also can identify the key sustainability focus areas per sector/ industry as follows:

Industrial products:

Safety, clean internal combustion, energy efficiency and proper disposal options for retired products are key issues for this sector. Improving the efficiency and having the ability to prepare for present and future carbon constraints are essential considerations when developing products.

Occupational health and safety, human rights and equality are also other challenges present in the industry especially as the workforce tends to be culturally diverse.

Exposure to human rights and abuse issues are key considerations as suppliers penetrate emerging markets.

Trading/ services:

Some key issues across this sector are energy efficiency, greenhouse gas (GHG) emissions, the availability of clean water and waste management. Threats to biodiversity and the management of ecosystems need to be addresses. Equal employment opportunities and the eradication of gender bias are other issues faced by companies in this sector.

Consumer products:

Climate change issues are of primary importance. They affect the supply chain and the source of many consumer products. Ethically sourced products have also gained importance amongst various stakeholders although supply costs may increase. It is essential for consumer product groups to constantly engage and maintain stable relationships with their suppliers in the long term in order to ensure that transparent reporting exists throughout the supply chain process.

Properties:

Energy efficiency and climate change are major concerns for the property sector. Increasing energy costs have made the amount of operational energy used in buildings a distinctive factor for their attractiveness. Limited land availability, threats to biodiversity and the supply and usage of sustainable materials are other key concerns.

Construction:

The difficulty in establishing proper controls over energy usage, responsible use and management of resources and organizational health and safety issues have always been key areas of concern. Water scarcity and energy consumption are key in establishing the resource conscious status of construction services providers. Proper codes of conduct established and implemented in a company can prevent involvement in anti-trust and bribery cases.

Plantation

Primary challenges include ensuring responsible management of forests and plantations and responsible sourcing. Other issues include minimizing environmental impact of operations, complying with labor legislation, talent attraction and retention, occupational health and safety as well as identifying suppliers with similar sustainability values. Threats to indigenous communities, chain of custody issues, GHG emissions and management of ecosystems are issues that are gathering focus.

Finance:

Accountability and transparency have become increasingly important in building competitive advantage in the finance industry. Established compliance and risk management standards have become vital. In addition, climate change, changes in an economy's demography and disintermediation of value chains will continue to impact the economic environment. Talent retention will persist as an issue for the industry.

Technology:

Key issues include conservation of energy and resources, reusing and recycling programmers, waste management and proper waste disposal. Security over the use of information technology and confidential data is also an issue in relation to client privacy. Other sustainability issues include the use of hazardous materials and maintaining fair working conditions.

Hotels:

Most hotels groups have acknowledged that climate change, employment practices, community welfare, waste management and sustainable buildings are main issues. Integration into local cultures, the sustainability of franchisees, the climate change impacts of tourist travel and sex tourism are rarely considered.

Mining

The major challenges for industry include managing the environmental and regulatory requirements, improving mining safety and increasing operating costs due to the shortage of skilled workers. Management and reduction of GHG emissions as well as occupational health and safety remain major issues. Mine closure planning has recently gained momentum and requires structured stakeholder engagement activities as well as sophisticated modeling.

6. Identifying Material Issues:

The sustainability report should reflect the company's significant economic, environmental, and social impacts. Relevant (or 'material') topics for a reporting companies should include those topics that have a direct or indirect impact on its ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders, the environment, and society at large.

Thus identifying the material of sustainability issues is a crucial step ahead of reporting on ESG information. EGX will depend on GRI guidance in defining the materiality in the context of a sustainability report.

The sustainability report should cover aspects that:

- *Reflect the organization's significant economic, environmental and social impact or*
- *Substantively influence the assessments and decisions of stakeholders.*

The Materiality Principle of the GRI Guidance

As GRI stated in material report[12], "The materiality focus of sustainability reports is broader than the traditional measures of financial materiality". In financial reporting, materiality is commonly thought of as a threshold for influencing the economic decisions of those using an organization's financial statements – investors in particular.

[12] "**Materiality: what topics should organizations include in their reports**?", Draft Report, GRI.

Materiality in sustainability reporting is not limited to those sustainability topics that have a significant financial impact. Determining materiality for a sustainability report includes considering economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations.

A material reporting enables external stakeholders to understand companies' true value, and tangible and intangible assets, providing a critical source of information for affected communities and stakeholders. Material reporting mitigates and improves companies' impact on society, local economy and environment.

In the absence of a universal understanding of which ESG issues are material, as mentioned previously the board of directors of a company is responsible for making adequate decisions with respect to the application of the materiality principle and its effects on the content of its ESG disclosure.

Also, material information could be defined using The Corporate Reporting[13] (CRD) definition. *"The material information is any information which is capable of making a difference to the evaluation and analysis at hand*". The definition of materiality focuses on the material information needs of the primary stakeholders for the report being issued.

7. Disclosing Relevant KPIs.

Once a company has established which ESG issues to report on (e.g. human rights) it will need to develop performance indicators to measure and track progress (e.g. percentage of personnel receiving human rights training). These indicators may be generic, industry-specific, or company-specific. Guidance from reporting organizations mentioned throughout this document suggests relevant indicators for many ESG issues.

[13] The Corporate Reporting Dialogue (the Dialogue) is an initiative designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. http://corporatereportingdialogue.com/

From the investor perspective, relevant, consistent, comparable, balanced and reliable information is key; as is linking it to the organization's overall strategy, and when feasible, financial performance.[14] Quantitative data is also in high demand because it can be easily compared with similar data from other organizations and incorporated within investment valuation and credit rating models. A crucial underpinning to all of this is that the information is contextualized. For example, ESG data for any given year should be supported with comparisons to historic trends, future goals and industry averages. For a list of proposed KPIs, See Appendix (1).

Visual representation also matters greatly and a company may wish to engage communication and graphics specialists from an early stage. Thoughtful presentation formats can improve the usability of corporate disclosure. Using info-graphics to illustrate processes, clearly organized and defined tables, and concise writing to can enhance stakeholders' comprehension of the ESG disclosure.

[14] Ernst & Young. "Tomorrow's Investment Rules." 2014.

Appendix (1)

Sustainable Development Goals[15]

Goal 1. End poverty in all its forms everywhere.

Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3. Ensure healthy lives and promote well-being for all at all ages.

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5. Achieve gender equality and empower all women and girls.

Goal 6. Ensure availability and sustainable management of water and sanitation for all.

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 10. Reduce inequality within and among countries.

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12. Ensure sustainable consumption and production patterns.

Goal 13. Take urgent action to combat climate change and its impacts.

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

[15] For more details about SDGs: https://sustainabledevelopment.un.org/post2015/transformingourworld

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Appendix (2)

Recommended KPIs for ESG Disclosure

The Exchange encourages listed companies to consider and provide disclosure on the following matters, where material to their business operations:-

- **General**

1. Sustainability policy and goals, including milestones, plans for achieving goals, and long-term aspirations;
2. Corporate accountability and seniority of decision-making on sustainability issues;
3. Corporate stance on bribery and corruption;
4. Assessment of sustainability impacts, risks, or opportunities;
5. Risk management policies and processes arising from environmental and social concerns;
6. Relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders, including fines, sanctions, prosecution, and accidents for non-compliance with environmental laws and regulation;
7. Issues and future challenges for the specific industry sector that the company operates in as observed by peers and competitors;
8. Performance assessment against stated goals, peers, and industry benchmarks;

1. Environmental:

a. Climate change disclosures e.g. business or legal developments related to climate change mitigation or adaptation that may have an impact on the organization;

b. Biodiversity management;

c. Environmental management systems;

Q	What should be considered for assessing Conduct on Environmental Aspects
1	Environmental performance in operational MD&A or operational analysis
2	Emissions of greenhouse gases
3	Emissions of ozone-depleting substances
4	NOx, SOx and other emissions
5	Physical or regulatory risks associated with climate change
6	Policy on management of emissions or regulatory risks associated with climate change
7	Defined targets relating to emission
8	A committed carbon credit programme
9	Incidents of, and fines or non-monetary sanctions for, non-compliance with applicable environmental regulations
10	Environmental impact of type of transportation used for logistical purposes
11	Explicit environmental policy
12	Management system/certification regarding environmental practices (that is status on ISO 14001 certification)
13	Efforts to preserve biodiversity (e.g. plantation of tree)
14	Policy/initiatives taken for management of hazardous waste
15	EMS in all location/ facilities and 100 % ISO 14001 certification

2. Social :

a. Labor practices and relations;

b. Diversity and inclusion;

c. Programs and practices that assess and manage the impacts of operations on communities; and

d. Product responsibility policy and practices.

Q	What should be considered for assessing Conduct on Social Aspects
1	Stated commitment to recognize corporate responsibility standards
2	CEO statement regarding corporate responsibility/CSR
3	Signatory to recognized global CSR conventions (e.g. Global Compact, Global Sullivan)
4	Publication of CSR report
5	CSR report audited or independently assured
6	Social performance in operational MD&A or operational analysis
7	Explicit policy/statement regarding community investment
8	Initiatives on community awareness or education
9	Company participation in public-private initiatives for community development
10	Description/Amount of total contributions/donations to charitable initiatives (health, education etc)
11	Information on policy/rules relating to non-financial benefits to employees (including housing etc.)
12	Information on policy/rules relating to healthcare
13	Policy/Rules relating to employee separation and lay off
14	Policy/Rules for profit sharing (stock options etc.) with lower management/employee
15	Policy on code of conduct for protecting human rights
16	Initiatives to enforce the above policy
17	Explicit health and safety policy
18	Policies/goals/initiatives on employee health and safety
19	Policy on discrimination in employment/treatment of employees affected with diseases
20	Policy/Rules to address incidence of sexual harassment and recourse
21	Policy on addressing rights of indigenous people affected by company operations
22	Information relating to product life cycle
23	Policy/procedures on recall of product
24	Policy/procedures on customer education regarding product/service provided
25	Policy/procedures for protection of customer confidentiality/privacy

26	Annual expenditure incurred on customer awareness initiatives
27	Number of customer satisfaction surveys conducted in a year
28	Mechanism for redressing grievances and feedback from customer

3. Governance:

a. Ownership Structure and Shareholder Rights;

b. Financial and Operational Information

c. Business Ethics and corporate responsibility

d. Board and Management Structure and Process

Template for Assessing Conduct on Governance of Egyptian Companies[16]

• Ownership Structure and Shareholder Rights

Shareholder Capital
Disclosure of:

1. The number of issued and outstanding ordinary shares disclosed.
2. The number of issued and outstanding other shares disclosed (preferred nonvoting)
3. The par value of each ordinary share disclosed.
4. The identity of the largest shareholder
5. The identity of holders of all large stakes (blocking :> 25%, controlling :> 50%).
6. The identity of shareholder holding at least 25% of voting shares in total.
7. The identity of shareholders holding at least 50% of voting shares in total
8. The identity of shareholders holding at least 75% of voting shares in total
9. The number and identity of shareholders each holding more than 10%.
10. Shareholding in the company by individual senior managers.
11. Shareholding in the company by individual directors.
12. The description of share classes provided.
13. A review of shareholder by type.
14. Cross-ownership.

Extra Point Question

[16] List of KPIs for S&P/EGX ESG index

Disclosure that:

1. Company's articles of association or by-laws are accessible over the web

Shareholder rights
Disclosure of:

15. The contents of any corporate governance charter or code of best practices.
16. Existence of a Code of business conduct and ethics.
17. The contents of the Code of business conduct and ethics.
18. The changes in company's articles of association
19. The existence of voting rights for each voting or nonvoting share.
20. The transparency of the way that shareholders nominate directors to the board.
21. The transparency of the way by which shareholders convene an extraordinary general meeting.
22. The transparency of the procedure for initiating inquires with the board.
23. The transparency of the procedure for putting forward proposals at shareholders meetings.
24. A formalized dividend policy
25. The existence of a review of the last shareholders meeting.
26. Full general shareholders meeting (GSM) minutes.
27. The existence of a calendar of important shareholders dates.

• Financial and Operational Information

Financial Information
Disclosure of:

28. The company's accounting policy.
29. The accounting standards it uses for its accounts.
30. Whether the accounts meet local accounting standards.
31. Annual financial statements according to an internationally recognized accounting standard (IFRS/U.S. GAAP).
32. Notes to annual financial statements according to IFRS/U.S. GAAP.
33. Independent auditors report with regard to annual financial statements according to IFRS/U.S. GAAP.
34. Unqualified (clean) audit opinion with regard to annual financial statements according to IFRS/U.S. GAAP.
35. Disclosure of related party transactions (RPTs): sales to/purchases from, payables to/receivables from related parties.
36. Indication that RPTs are made on market or non-market terms.
37. Interim (quarterly or semiannual) financial statements according to an internationally recognized accounting standard (IFRS/U.S. GAAP).

38. Notes to such financial statements.
39. Whether these financial statements are audited or at least reviewed.
40. A basic earning forecast of any kind.
41. A detailed earnings forecast.
42. Financial information on a quarterly basis.
43. Segment analysis (results broken down by business line).
44. Revenue structure (detailed breakdown).
45. Cost structure (high degree of detail).
46. The name of company's auditing firm.
47. A copy of the auditors report.
48. How much the company pays in audit fees to the auditor
49. Non-audit fees paid to the auditor.
50. Whether there are consolidated financial statements or whether only the parent or holding company is audited.
51. Methods of asset valuation.
52. Information about the method of calculating fixed-asset depreciation.
53. A list of affiliates in which the company holds a minority stake.
54. The ownership structures of affiliates.

Extra Point Questions

Disclosure that:

2. Company's independent auditor reports directly to an independent audit committee (at least 66% independent)
3. Auditor does not also provide non audit services greater in value than 25% of total audit fees
4. Auditor does not provide any non audit services

Operational Information

Disclosure of:

55. Details of the kind of business the company engages in.
56. Output in physical terms (values of sales for services sector companies)
57. Characteristics of fixed assets employed.
58. Efficiency indicators.
59. Any industry-specific ratios.
60. A discussion of corporate strategy.
61. Any plans for investment in the coming years.
62. Detailed information about investment plans in the coming years.
63. An output forecast of any kind.
64. An overview of trends in its industry.
65. The market share for any or all of the company's businesses.

- ## Board and Management Structure and Process

Board and management information

Disclosure of:

66. The list of board members (names).
67. Details about directors other than name and title.
68. Details about other employment and position of independent directors
69. Details about the directors' previous employment and positions.
70. When each director joined the board.
71. A named chairman listed.
72. Details about the chairman, other than name and title.
73. Details about role of the Board of Directors at the company.
74. A list of matters reserved for the board.
75. A list or board committees.
76. Names of all members of each existing committee.
77. Whether there are internal audit functions besides the Audit Committee.
78. Attendance record for board meetings.
79. The list of senior managers not on the Board of Directors.
80. The backgrounds of senior managers.
81. The non-financial details of the CEO's contract.
82. The number of shares held in other affiliated companies by managers.

Extra Point Questions

Disclosure that:

5. Independent directors constitute more than 33% of the board.
6. Independent directors constitute more than 50%of the board.
7. Independent directors constitute more than 67% of the board.
   (Note here the incremental build up of points if all three are answered positively, which is another way to provide weightings of independence. This should be regardless of whether or not the CEO is also Chairman)

8. Board size is no less than 7 and no more than 18.
9. CEO and Chair is not the same person.
10. Voting in AGM's takes place by poll rather than by a show of hands
11. Audit committee is over 50% independent
12. Audit committee is at least 66% independent
13. Audit committee is 100% independent
14. Nomination or governance committee is over 50% independent
15. Nomination or governance committee is at least 66% independent
16. Nomination or governance committee is 100% independent
17. Compensation committee is over 50% independent

18. Compensation committee is at least 66% independent
19. Compensation committee is 100% independent
20. A risk management committee exists at the board level
21. No directors sit on more than 3 other public company boards
22. All board members have attended more than 75% of board meetings
23. All board members have attended more than 90% of board meetings
24. Board conducts regular self evaluation.
25. Independent board members regularly meet together independently of the company's executive management
26. Board meets more than 4 times per year.

Board and management remuneration

Disclosure of:

83. The decision-making process for directors' pay.
84. The specifics of directors' pay, including the salary levels.
85. The form of directors' salaries, such as whether they are in cash or shares.
86. The decision-making process for determining managerial (not board) pay.
87. The specifics of senior management (not board) pay, such as salary levels and bonuses.
88. Performance related indicators guiding senior management compensation.

Extra Point Question

Disclosure that:

27. Board has a formal training program for directors or provides external training

- ## Business Ethics and corporate responsibility

Corporate Governance

Disclosure of:

89. Policy and procedures on whistle blowing
90. Policy and procedures on insider trading
91. Contribution to political parties

Corruption

Disclosure of:

92. Disclosure on policy and procedures on bribery and corruption

Leadership

Disclosure of:

93. Stated commitment to recognize corporate responsibility standards
94. CEO statement regarding corporate governance
95. CEO statement regarding corporate responsibility/CSR
96. Signatory to recognized global CSR conventions (e.g. Global Compact, Global Sullivan)

Business Ethics

Disclosure of:

97. Publication of CSR report
98. CSR report audited or independently assured
99. Report under GRI framework
100. Social and environmental performance in operational MD&A or operational analysis

Appendix (3)

Principles/Initiatives Issuers Need to Consider for Their Business Operations

- UN GLOBAL COMPACT

The UN Global Compact, a voluntary framework, helps businesses align their operations and strategies with ten principles in the areas of human rights, labor, environment and anti-corruption.

Begun in 2000, the UN Global Compact now has over 10,000 participants, including over 7,000 businesses from 145 countries around the world who commit to following the principles.

The UN Global Compact does not assess performance. It can, however, remove companies when it substantiates an external complaint or when a participating company fails to submit a progress report within two years.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labor

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

- United Nations Principles of Responsible Investing (UN PRI):

The UN PRI "aims to help investors integrate the consideration of environmental, social and governance (ESG) issues into investment decision making and ownership Practices, and thereby improve long-term returns to beneficiaries.". The PRI has nearly 1400 Signatories representing over US$59 trillion in assets under management[17].

Signatories to the PRI commit to the following six (6) principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

[17] https://www.unpri.org/page/signatory-base-aum-hits-59-trillion

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the Investment Industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

- ISO 26000 – Guidance Standard on Social Responsibility[18]:

ISO 26000 Guidance Standard on Social Responsibility (Guidance Standard) provides voluntary guidance to help businesses operate in a socially responsible manner.

This Guidance Standard addresses seven core subjects of social responsibility. These subjects are:

- Organizational governance
- Human rights
- Labor practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

This Guidance Standard is not a prescriptive standard against which businesses can be certified.

- Global Reporting Initiative (GRI):

[18] http://www.iso.org/iso/iso26000

GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others.

GRI produced the world's most trusted and widely used standards for sustainability reporting, **the GRI Guidelines**[19]**,** which enable organizations to measure and understand their most critical impacts on the environment, society and the economy. Thousands of reporters in over 90 countries use GRI's Standards – a free public good – for their reporting.

> Sustainability reporting is carried out by companies and organizations of all types, sizes and sectors. Of the world's largest 250 corporation, 93% report on their sustainability performance and 82% of these use GRI's Standards to do so. The GRI Sustainability Disclosure Database is a collection of all sustainability reports of which GRI is aware, and is available to all members of the public.

- CDP:

CDP (formerly the Carbon Disclosure Project) is a global not-for-profit organization, founded in 2000 and headquartered in London. CDP requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as 'CDP signatories'. These shareholder requests for information encourage companies to account for and be transparent about environmental risk.

- Climate Disclosure Standards Board (CDSB):

CDSB is a consortium of eight business and environmental organizations: CDP; CERES; The Climate Group; The Climate Registry (TCR); The International Emissions Trading Association (IETA); World Council for Business and Sustainable Development (WCBSD); World Economic Forum (WEF); and World Resources Institute (WRI). The organization is supported by a Technical Working Group consisting of business, accountancy bodies, the major accountancy firms, academia and others, as well as

[19] https://www.globalreporting.org/standards/Pages/default.aspx

investors. It works to develop and promote the CDSB Climate Change Reporting Framework to make it easier for companies to communicate and investors to understand climate change-related information in mainstream reports. CDSB's ambition is to provide policy-makers and others with standard-ready material in the form of our Climate Change Reporting Framework and other resources designed to provide clear, reliable information for robust decision-making. Its work is designed to provide clarity, trust in information and greater stability in financial markets.

- International Integrated Reporting Council (IIRC):

The IIRC is a group of international leaders from the corporate, investment, accounting, securities, regulatory, academic, standard-setting and civil society areas with a mission to create the Integrated Reporting framework. The Framework will provide material information about an organization's strategy, governance, performance and prospects in a concise and comparable format, a fundamental shift in corporate reporting.

- Sustainability Accounting Standards Board (SASB):

SASB, a non-profit US-based organization, has a mission to create and disseminate accounting standards that reporting issuers can use to disclose material sustainability issues in filings with the Securities and Exchange Commission. Developing provisional standards for more than 80 industries in 10 sectors, SASB researches material issues within industries, convenes industry working groups, and conducts a public comment period to establish accounting metrics, and provides education on recognizing and accounting for material nonfinancial issues. SASB plans to release provisional sustainability standards for all sectors and industries by 2016. The SASB Materiality Map™ is a visual tool that helps users identify SASB disclosure topics on an industry-by-industry basis and compare the potential materiality of various sustainability issues across different industries and sectors.