

ISS ESG WATER RISK RATING

The Water Risk Rating (WRR) provides a holistic assessment of companies' overall freshwater-related risk. The rating provides an aggregated score indicating a company's management of water-related risks, using a company-specific exposure as the baseline (Water Risk Exposure Classification) from which a company can take steps to mitigate freshwater-related risks (Water Risk Management Performance Score).

The Water Risk Exposure Classification assesses a company's exposure to freshwater-related risks based on three input factors: an industry risk exposure (based on potential adverse impacts on freshwater quality and quantity), a physical risk exposure (based on the geographical footprint of own operations and respective baseline water stress levels), and a supply chain risk exposure (based on dependency on supply chains with high potential adverse impacts on freshwater).

The Water Risk Management Performance Score measures to what extent a company manages to mitigate risks stemming from adverse impacts of its business model on water, taking into account its risk management practices along the value chain as well as its potential involvement in controversies.

Outputs

The Water Risk Rating provides qualitative assessments in the form of scores and categories.

By combining the Water Risk Exposure Classification and the Water Risk Management Performance Score, the Water Risk Rating assesses, on a scale from 0 (significant unaddressed risks) to 100 (negligible and/or well-managed risks), the extent to which a company addresses and mitigates its existing risks.

The rating allows the categorization of companies accordingly into four groups: High unaddressed risks (0-24), Medium / inadequately managed risks (25-49), Low / adequately managed risks (50-74), Negligible /well-managed risks (75-100).

Research Process

The Water Risk Rating is based on qualitative assessments of quantitative and qualitative data from the ISS ESG's Corporate Rating as well as scores and signals representing qualitative assessments of controversies from Norms-Based Research. In addition, geographical and financial data found in company's balance sheets is paired and modeled with external data on baseline water stress to determine a company's physical risk exposure.

For more details regarding data collection in the underlying products, please refer to the respective descriptions.

Use of Estimated Data

The Water Risk Rating leverages the above data sets. In the Corporate Rating, some types of indicators allow for estimations if no (precise) reported data is available but assumptions with medium to high certainty can be made. In addition, estimations on coverage (i.e. the reach of content) can be made based on contextual information. No estimations on raw data (e.g. consumption data, intensities or targets) are made. Norms-Based Research relies on stakeholder allegation, i.e. reported data. The Physical Risk Score is a modelled, i.e. an approximate score based

on company reported geographical and financial data as well as external data on baseline water stress, satellite nightlight intensity and population data.

For more details regarding the use of estimated data within those solutions, please refer to the respective descriptions.

Last Updated: June 2022

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