SIX 1.5°C CLIMATE EQUITY FLAG

REVIEW METHODOLOGY

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CONTENTS

1 INTRODUCTION

1.1 PURPOSE AND SCOPE

This product methodology defines the process requirements for SGS's SIX 1.5°C Climate Equity flag review services and ensures that work is completed in a controlled, consistent and effective manner.

This product methodology applies to all SIX 1.5°C Climate Equity flag review activities performed by SGS. The SGS Management System Manual and Global System Procedures define, generically, practices and procedures applicable to all SGS audit and certification activities. This product methodology defines additional requirements specific to SIX 1.5°C Climate Equity flag reviews.

This document outlines the methodology used to provide an external review of a company's alignment with the SIX 1.5°C Climate Equity flag requirements.

1.2 ABOUT SGS

SGS is the world's leading testing, inspection and certification company. We are recognized as the global benchmark for sustainability, quality and integrity. Our 99,600 employees operate a network of 2,600 offices and laboratories around the world.

Our Sustainability Solutions help our customers improve their environmental, social, and governance (ESG) performance and reduce their risks while increasing their value to society.

1.3 BACKGROUND

Developed by the SIX Swiss Exchange AG, the SIX 1.5°C Climate Equity flag helps Swiss-listed companies demonstrate how they can be expected to remain a contributor toward limiting global warming to 1.5°C, as per the Paris Agreement. This is because an approved, external sustainability expert has concluded that continued implementation of the emissions plan for the company's entire value chain emissions is credible.

SGS is a SIX-approved reviewer, authorized to assess a company's alignment with the SIX 1.5°C Climate Equity flag requirements.

This review is a qualitative, forward-looking validation to express an opinion on the plausibility of alignment with the requirements. To avoid doubt, this service is not an audit, assurance or verification exercise. The review relies on data provided by the company and additional work relating to assurance to ensure the accuracy of the company's submitted data and its inclusion as a value-added service.

While the review does not include an opinion on other environmental (e.g. biodiversity) or social risks, SGS may highlight significant risks specific to the sector, geography, supply chain or asset type, based on our analysis.

2 OUR APPROACH AND METHODOLOGY

2.1 OVERVIEW

Our review evaluates the degree to which a company's emissions strategy aligns with the criteria specified in the SIX 1.5°C Climate Equity flag requirements, as analyzed by SGS. The assessment consists of three elements: **Impact**, **Financials** and **Disclosures**.

The final assessment will be presented on a four-tier scale that reflects our opinion of the company's efforts and plans for transitioning to a low-carbon future. The following sections explain how we determine the Impact, Financials and Disclosures scores that form our overall assessment.

As a result of the review, a company can be found to align or not align with the requirements. If the latter, SGS will conclude that the company does not align with the requirements, resulting in a negative opinion. In such a case, SGS will provide detailed documentation explaining the reasons for the negative conclusion.

Conversely, if the company aligns with the requirements, it will be given a positive opinion and assigned one of three possible tiers. Each tier corresponds to a different level of maturity in the company's efforts toward contributing to a 1.5°C-aligned future. Each tier is explained in the following table.

Opinion	Score	Definition
Positive	Tier 1: Pioneer	The company has a 1.5°C-aligned, credible climate transition plan based on scientific consensus and can demonstrate a leading-edge governance structure and track record to achieve these targets. More than 75 percent of annual revenues come from 1.5°C-aligned activities, and over 75 percent of the company's annual investments (sum of OPEX and CAPEX) are deployed into 1.5°C-aligned activities. The company's disclosures in the assessment report reference public disclosures and have been verified by a third party.
	Tier 2: Mature	The company has a 1.5°C-aligned, credible climate transition plan based on scientific consensus and can demonstrate a strong governance structure and track record to achieve these targets. More than 50 percent of annual revenues come from 1.5°C-aligned activities, and over 50 percent of the company's annual investments (sum of OPEX and CAPEX) are deployed into 1.5°C-aligned activities. The company's disclosures in the assessment report reference public disclosures.
	Tier 3: Emergent	The company has a 1.5°C-aligned, credible climate transition plan based on scientific consensus and can demonstrate a sufficient governance structure and track record to achieve these targets. More than 50 percent of annual revenues come from 1.5°C-aligned activities, and more than 50 percent of the company's annual investments (sum of OPEX and CAPEX) are deployed into 1.5°C-aligned activities. The company's disclosures in the assessment report are complete.
Negative	Tier 4: Not Aligned	The company does not meet at least one SIX 1.5°C Climate Equity flag requirement.

Table 1: Tiered Assessment Output

The review is valid for one year. A reassessment will be carried out when the SIX 1.5°C Climate Equity flag is renewed.

2.2 Assessment Component 1: Impact

This assessment covers four key sub-areas:

1. Soundness of greenhouse gas (GHG) accounting and estimation approaches
2. Alignment of the company's GHG and fossil-fuel targets and transition plans with science-based methodologies
3. Strength of governance and track record to achieve plans
4. Credibility and feasibility of actions and financing plans

2.2.1 Soundness of GHG accounting and estimation approaches

For the first sub-area, SGS will review the company's Scope 1, 2 and, if significant, Scope 3 emissions. This assessment will leverage our expertise in **ISO 14064-1 Organisational GHG Assessment.**

This review will check the emissions reporting boundary's completeness and the reported emissions' plausibility. These checks are based on analyzing the company's organizational structure and high-level supply chain. SGS may also benchmark relevant industry emissions intensities and any other secondary research. To avoid doubt, this assessment does not review the accuracy of the emissions reported.

Once the reported emissions are assessed as plausible, all analyses rely on the company's self-reported information to make our assessment. This check aims to ensure that the reported emissions are likely accurate, ensuring that the foundation for target-setting is sound.

2.2.2 Alignment of company's GHG and fossil-fuel targets and transition plans with science-based methodologies

For the second sub-area, SGS will evaluate whether:

- The company's current GHG emissions targets align with recognized 1.5°C pathways
- The GHG emissions targets of fossil-fuel activities align with recognized 1.5°C pathways
- The plan provides specific (short-, medium- and long-term) targets

This assessment will leverage our expertise in **ISO 14068-1 Carbon Neutrality Assessment**. The evaluation will also review the company's reduction pathway. This includes their short-, medium- and long-term[1] targets with specified dates and their carbon reduction and removal plans. Additionally, SGS will review whether the scope of the reduction target is sufficient, based on the company's reported emissions. In cases where most emissions occur outside of the company's direct operations, companies should show evidence of engagement with supply chain partners to create a transition plan and reduction targets, focused on their supply chain emissions, i.e. Scope 3 emissions.

This assessment will be conducted at an entity level if the company's business value chain is sufficiently homogenous. However, sub-analyses may be undertaken to account for specific targets and contexts based on different geographies, supply chains, sectors or asset types. For example, a target to transition to LNG may be considered viable in a 1.5°C-aligned future in developing economies, while the same cannot be said for developed economies.

Generally, the assessment will require the company to provide evidence that its targets reference net-zero standards or guidance to prove that its GHG targets follow a recognized science-based, net-zero trajectory.

[1] Short, medium and long are defined as one to three years, four to 10 years and more than 10 years, respectively.

For example, companies may reference the ***Science Based Targets initiative (SBTi)*** or sector-specific tools, such as the ***Carbon Risk Real Estate Monitor (CRREM)***, as supporting evidence.

2.2.3 STRENGTH OF GOVERNANCE AND TRACK RECORD TO ACHIEVE PLANS

For the third sub-area, SGS will evaluate whether sound governance and procedures are in place to enact change.

This assessment will leverage our **SGS ESG Health Check Assessment**. This review will require interviews and reviews of documented policies and procedures on GHG emissions management by the company. SGS will assess the level of governance based on identified best practices. SGS adopts the ACT assessment, which includes board oversight of climate change issues, board commitment to the climate transition plan, management incentives to reduce GHGs, and board expertise and capability of developing new business models to transition the company. Examples of evidence for strong governance will include practices, such as evidence of GHG targets being approved by the board, clear organizational systems and controls to implement GHG reduction goals, competency and expertise in the management of climate change in the board and senior management, and linkage of emissions reduction targets to executive pay.

Generally, the assessment will require the company to provide evidence that strong governance controls have been implemented. Companies may reference the ***Carbon Disclosure Project Assessing Low-Carbon Transition (CDP ACT) initiative***, ***Climate Bonds Initiative (CBI)***, ***Transition Plan Taskforce (TFP)*** and ***UN's Race to Zero Starting Line Criteria (UNFCCC)*** to develop such internal controls.

2.2.4 CREDIBILITY AND FEASIBILITY OF ACTIONS AND FINANCING PLANS

For the final sub-area, SGS will evaluate whether:

- The emissions plan details associated actions, addresses the implied financing needs and is embedded in the overall business strategy
- The short-term actions are being undertaken
- Implementation of the plan is not overly optimistic

This assessment will review three factors: i) the clarity of the plan, ii) the planned distribution of resources, and iii) the extent to which the plan is integrated into the business model and strategy. In the first factor, the review will assess whether the company has clarity on the exact decarbonization levers and timescales to achieve the stated targets. SGS will also conduct secondary research to ensure decarbonization levers can plausibly be deployed based on cost-effectiveness and technological availability. In the second factor, the review will assess whether appropriate stakeholders have approved planned financial and human resources. In the final factor, the evaluation will determine whether such implementations have been clearly integrated into the company's overall business strategy and risk management systems. In particular, the company will have to show that they have considered the potential impact on their business in the future and how their emissions plans may need to be adapted. The company may also create sub-strategies for different regions, supply chains, sectors and asset types to address context-specific challenges. This review will also analyze recent GHG mitigation plans and activities to assess whether short-term actions have resulted in, or are likely to result in, credible emission reductions.

Generally, the assessment will require the company to provide evidence that its emissions plan is clear, well-resourced and future-proofed. To strengthen their plan, companies may reference the ***Carbon Disclosure Project Assessing Low-Carbon Transition (CDP ACT) initiative***, ***Climate Bonds Initiative (CBI)***, ***Transition Plan Taskforce (TFP)*** and ***UN's Race to Zero Starting Line Criteria (UNFCCC).***

2.3 Assessment Component 2: Financials

This assessment covers two key sub-areas:

1. Activities providing annual revenues
2. Activities invested in (sum of CAPEX and OPEX)

Based on SGS's analysis, any activity that complies with the technical screening criteria for climate mitigation based on the ***EU Taxonomy*** will be considered 1.5°C-aligned. For companies with activities primarily outside the EU, other local taxonomies[2] may be used to opine on whether the activity is 1.5°C-aligned. Where taxonomies are unavailable or not applicable, SGS may consider geography or sector-specific net-zero guidance to evaluate whether an activity has a place in a 1.5°C-aligned future. For example, requirements for renovating existing buildings to be considered 1.5°C-aligned in the EU may look different in other geographies. The EU Taxonomy mandates that building renovations in the EU must meet applicable standards for "major renovation" or lead to a reduction of primary energy demand (PED) of at least 30%.[3] However, building activities outside the EU may only need to meet its local energy-efficiency benchmarks, provided they are science-based and facilitate a transition to a 1.5°C-aligned future.

2.4 Assessment Component 3: Disclosures

This assessment covers two key sub-areas:

1. Completeness of the disclosures in the assessment report, based on SIX 1.5°C Climate Equity flag requirements
2. Quality of disclosures

In the first sub-area, SGS will assess whether the company has disclosed all required information based on the SIX 1.5°C Climate Equity flag requirements. To avoid doubt, we will not evaluate the accuracy or reliability of the disclosures. In the second sub-area, SGS will score the disclosures on whether they reference past publicly available reports or statements by the company and whether the reported indicators have been assured or verified by a third party.

[2] In particular, the Common Ground Taxonomy may provide a more consistent categorization of 1.5°C-aligned activities. SGS will continue to watch for internationally recognized benchmarks to assess whether an activity has a place in a 1.5°C-aligned future.

[3] The initial primary energy demand and the estimated improvement are based on a detailed building survey, an energy audit conducted by an accredited independent expert or any other transparent and proportionate method and validated through an Energy Performance Certificate. The 30% improvement results from an actual reduction in primary energy demand (where the reductions in net primary energy demand through renewable energy sources are not considered) and can be achieved through a succession of measures within a maximum of three years.

2.5 AGGREGATION – FINAL ASSESSMENT

Based on our analysis, the company will receive an individual score for each component: Impact, Financials and Disclosures. SGS will form a conclusive opinion based on the combination of the three scores. This reflects our opinion on the degree to which a company's emissions strategy aligns with the criteria specified in the SIX 1.5°C Climate Equity flag requirements.

3 STEPS OF WORK

3.1 PREPARATION

During the review preparation, the SGS consultant(s) shall collect the following information:

- Sustainable Performance Indicators as stipulated by SIX 1.5°C Climate Equity flag requirements
- Supporting documents, such as sustainability policies, where relevant
- Details of relevant stakeholders concerned with the project

In addition, the SIX 1.5°C Climate Equity flag checklist (LF0501) shall be customized to guide the audit. The checklist shall be customized based on:

- The availability of local sustainable taxonomies in the geographies where the company undertakes business activities
- Additional environmental (e.g. water pollution, biodiversity) or social (e.g. child labor) risks specific to the sector, geography, supply chain or asset type

3.2 DOCUMENT REVIEW AND INTERVIEWS

During the document review process, SGS consultant(s) will review documents and conduct interviews with stakeholders from departments, such as:

- Finance
- Sustainability
- Strategy and Risk Management

This stage's objective is to review internal documents and processes to assess the degree to which a company's emissions plan aligns with the criteria specified in the SIX 1.5°C Climate Equity flag requirements. In addition, SGS consultant(s) will rely on public disclosures and secondary research, where required.

To ensure robust review outcomes, SGS consultant(s) must comply with the personal competence and ethical requirements set out in ISO/IEC 17021 and must hold technical competency related to green finance, sustainability management and reporting, including expertise in inside-out materiality and sustainability taxonomies, or management of climate change-related risks.

3.3 SGS INTERNAL QUALITY CONTROL REVIEW

The SGS Internal Quality Control Review is an important control mechanism to ensure the quality of the final opinion and deliverable (i.e. the assessment report). Independent quality control reviewers must be senior, qualified employees with sufficient technical expertise.

During this process, the SGS Internal Quality Control Reviewers will evaluate matters including, but not limited to, the following:

- Quality check to identify errors and/or omissions
- A final evaluation that due professional care and judgment have been applied to the company’s documented information and processes by the SGS consultant(s)
- Assess that the review work conducted by the SGS consultant(s) is in line with the stated methodology
- Assess that the evidence gathered during the review engagement is sufficient to support the final opinion and assessment report
- Assess that review engagement has been sufficiently documented to support the final opinion and consistency between the working files, such as the LF0501 checklist and assessment report
- An appropriate review opinion has been issued

If, after an SGS Internal Quality Control Review, it is found that SGS's opinion cannot be reasonably substantiated, the SGS Internal Quality Control Reviewer shall request further information and review any new information presented. If necessary, the SGS consultant(s) shall request further clarification from the client.

After completing the SGS Internal Quality Control Review, the Reviewer will decide whether to accept or reject the final opinion and assessment report.

- If the Reviewer accepts the final opinion, the SGS consultant(s) shall submit the assessment report for approval by the Business Manager or any other suitably appointed person. Subsequently, the report will be issued to the client

- If the Reviewer does not accept the final opinion, the SGS consultant(s) shall promptly inform the client of this outcome and issue a report detailing reasons for a negative opinion

Disclaimer

SGS S.A.

We, SGS S.A. ("SGS"), adopt quantitative and qualitative approaches to analyze and evaluate the process for the external review. We adhere to the highest quality standards customary in responsible research worldwide. In addition, we create an assessment report on the security instruments based on the data from the issuer ("Data").

The Bases of Our Opinion

This assessment report provides an independent opinion on the sustainability credentials and requirements of the relevant security, rendered upon the data available to SGS by the issuer. SGS hereby represents that we do not test, inspect or verify the accuracy of the Data, or conduct any audits on-site. SGS has no responsibility to ensure the Data's accuracy, reliability or validity and, to the fullest extent permitted by laws, disclaims all liability arising from the statements based on the inaccuracy, unreliability and invalidity of the Data made available to us. The issuer shall be fully responsible for ensuring the Data's accuracy, reliability and validity, and issuing it in compliance with the relevant policies, laws and regulations.

No Representation on Investment Advice

This assessment report does not address any financial and investment risks, including, but not limited to, credit risk, liquidity risk, market risk, political risk or volatility risk.

The assessment report is not investment advice and shall not constitute an offer, solicitation to offer or recommendation of any investment product or opportunity. The opinions delivered in the assessment report are neither a guarantee, assurance nor warranty for the financial performance of the security. SGS is not liable for any induced consequences for financial damages, loss of profits, loss of opportunity or damage to reputation arising from any investment decision or commercial transaction connected to using this assessment report, either directly or indirectly.

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Protection of Copyright

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SGS Business Assurance