

SIX 1.5 °C CLIMATE EQUITY FLAG

REVIEW METHODOLOGY

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1 INTRODUCTION

1.1 PURPOSE & 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 requirements of the SIX 1.5 °C Climate Equity Flag.

1.2 ABOUT SGS

SGS is the world's leading testing, inspection, and certification company. We are recognised 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 own 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 towards 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 an SIX-approved reviewer authorised to assess a company's alignment with the SIX 1.5 °C Climate Equity Flag requirements.

This review is a qualitative, forward-looking validation exercise to express an opinion on the plausibility of alignment to the requirements. For the avoidance of 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 data submitted by the company can be included 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 analysed by SGS. The assessment consists of two parts: **Impact**, and **Disclosures**. The final evaluation 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 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 SIX 1.5 °C Climate Equity Flag requirements. In the latter case, 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 towards contributing to a 1.5 °C-aligned future. The definition of each tier is explained in the table below.

Opinion	Score	Definition
Positive	Tier 1: Pioneer	The corporation 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. The organisation's disclosures in the assessment report reference public disclosures and have been verified by a third party.
	Tier 2: Mature	The corporation has a 1.5 °C-aligned, credible climate transition plan based on scientific consensus and is able to demonstrate a strong governance structure and track record to achieve these targets. The organisation's disclosures in the assessment report reference public disclosures.
	Tier 3: Emergent	The corporation has a 1.5 °C-aligned, credible climate transition plan based on scientific consensus and is able to demonstrate a sufficient governance structure and track record to achieve these targets. The organisation's disclosures in the assessment report are complete.
Negative	Tier 4: Not Aligned	The corporation 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 re-assessment 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 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 & 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 organisation's Scope 1, 2, and, if significant, Scope 3 emissions. This assessment will leverage our expertise in **ISO14064-1 Organisational GHG Assessment**.

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

Once the reported emissions are assessed to be 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 if

- The current GHG-emissions targets of the company align with recognised 1.5 °C-pathways
- GHG-emissions targets of fossil-fuel activities align with recognised 1.5 °C-pathways
- Plan provides specific (short-, medium-, and long-term) targets

This assessment will leverage our expertise in **ISO14068-1 Carbon Neutrality Assessment**. The evaluation will also review the company's reduction pathway. This includes their short, medium and long-term¹ 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.

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

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 recognised science-based net-zero trajectory. For example, companies may make reference to the **Science Based Targets Initiative** or sector-specific tools such as **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 if 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 organisational systems and controls to implement GHG reduction goals, competency and expertise in the management of climate change in the board and senior management, 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 **United Nations Race to Zero Starting Line Criteria (UNFCCC)** to develop such internal controls.

2.2.4 CREDIBILITY & FEASIBILITY OF ACTIONS AND FINANCING PLANS

For the final sub-area, SGS will evaluate if

- Emissions plan details associated actions, addresses the implied financing needs and is embedded in the overall business strategy
- Short-term actions are being undertaken
- Implementation of the plan is not over-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 if the organisation has clarity on the exact decarbonisation levers and timescales to achieve stated targets. SGS will also conduct secondary research to ensure decarbonisation 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 if 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 analyse recent GHG mitigation plans and activities to assess whether short-term actions have been or are likely to result in credible emission reduction.

Generally, the assessment will require the company to provide evidence that its emissions plan is clear, well-resourced, and futureproofed. 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 United Nations Race to Zero Starting Line Criteria (UNFCCC)

2.3 ASSESSMENT COMPONENT 2: 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 if the company has disclosed all required information based on the SIX 1.5 °C Climate Equity Flag requirements. For the avoidance of 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.

2.4 AGGREGATION – FINAL ASSESSMENT

Based on our analysis, the company will receive an individual score for each component: Impact and Disclosures. SGS will form a conclusive opinion based on the combination of the two 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 customised to guide the audit. The checklist shall be customised based on the following:

- 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 labour) risks specific to the sector, geography, supply chain or asset type.

3.2 DOCUMENT REVIEW & INTERVIEWS

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

- Finance
- Sustainability
- Strategy & 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 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. 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 which include, but are not limited to, the following:

- Quality check to identify errors and/or omissions
- A final evaluation that due professional care and judgement have been applied by the SGS consultant(s) of the company's documented information and processes
- 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 in order to support the final opinion and the consistency between the working files, such as the LF0501 checklist and the 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 Reviewer, 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 analyse and evaluate the process for the external review. We adhere to the highest quality standards customary in responsibility 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 either test, inspect, or verify the accuracy of the Data or conduct any audits onsite. SGS has no responsibility to ensure the Data's accuracy, reliability, or validity and, to the fullest extent permitted by laws, disclaim 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 relevant policies, laws, and regulations.

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SGS Business Assurance