SIX 1.5°C CLIMATE EQUITY: QUESTIONS & ANSWERS

1. **Why does SIX 1.5°C Climate Equity help a company communicate its climate contribution?** The transition to a low-carbon economy of a company's entire value chain (encompassing scopes 1-3 as classified in the Greenhouse Gas Protocol) is increasingly becoming a central focus for regulators and standard-setting bodies. This can be seen in initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD), the International Sustainability Standards Board (ISSB), the UN Race to Zero, the European Union's Corporate Sustainability Reporting Directive (CSDDD), and the Swiss Ordinance on Climate Disclosures. SIX 1.5°C Climate Equity aims to support companies in meeting the evolving expectations for climate-related transparency and action from both the public and investors.

   SIX 1.5°C Climate Equity Flag helps companies provide additional supporting evidence that their entire value chain is a contributor towards limiting global warming to 1.5°C above pre-industrial level. This means that SIX 1.5°C Climate Equity helps to benchmark the climate efforts across the company's entire value chain—often called climate transition plan—against the target of limiting global warming to 1.5°C.

   Additional evidence can be helpful. The public and investors may not thoroughly analyze the climate ambition and credibility of every company's value chain. And given that the corporate world has a history of falling short on its proclaimed emissions targets,[1] it may well be assumed by default that companies they haven't thoroughly examined are not contributing.

2. **How does SIX 1.5°C Climate Equity provide additional supporting evidence that the entire value chain is a contributor towards limiting global warming to 1.5°?** The primary reason SIX 1.5°C Climate Equity provides additional evidence is that an approved sustainability expert has confirmed that the company can reasonably be expected to continue the implementation of its 1.5°C-aligned transition plan.

   A further reason a company with a SIX 1.5°C Climate Equity Flag can be expected to remain a contributor is that its business model already significantly tilts towards activities that contribute towards limiting global warming to 1.5°C. The Flag requires (i) that more than 50% of revenues are already coming from 1.5°C-aligned activities and (ii) that more than 50% of investments (OPEX and CAPEX) are already deployed on 1.5°C-aligned activities.

3. **What activities qualify as a "1.5°C-aligned activity"?** To qualify, the activity's entire value chain emissions (encompassing scopes 1-3) must align with a recognized 1.5°C-pathway. This means that a company's emissions must be below the annual carbon budget available for this type of activity. Under this definition, there are two distinct categories of 1.5°C-aligned activities.

   Firstly, a 1.5°C-aligned activity can amount to an activity whose unavoidable emissions are sufficiently low so that it has a role in an ideal long-term vision of a low-carbon, climate-resilient future. 1.5°C-aligned activities in this category have emissions that are already at, or are reducible to, such a low level that the activity can be said to belong in an ideal long-term vision of a low-carbon, climate-resilient future (i.e., these activities are capable of operating with low emissions). Potential activities include Solar-power plants or Energy-efficient buildings.

   Secondly, a 1.5°C-aligned activity can amount to an activity whose unavoidable emissions are not sufficiently low to belong into an ideal long-term vision of a low-carbon, climate-resilient future. The reason for nonetheless attributing a share of the global carbon budget to these types of activities is that keeping some of them in operation can deliver substantial near-term social and/or climate benefits. 1.5°C-aligned activities in this category will have to be stopped eventually (in some cases earlier than 2050), which is why they are sometimes called "transitional activities" or "interim activities." Potential activities include:

[1] See e.g. Ethos, 2023, Ethos Climate Transition Rating: Methodik (June 2023), page 22.

- Activities for which low-carbon alternatives are not yet available, which do not hamper development of low-carbon alternatives, and which are necessary for a just transition (e.g., best-in-class cement manufacturing).
- Activities which are necessary to replace higher-emission activities in the short term, which do not hamper development of low-carbon alternatives, and which result in a substantial emissions reduction (e.g., hybrid road vehicles replacing internal-combustion road vehicles).
- Activities which enable other activities (along the value chain) to achieve emissions reductions (e.g., manufacturing of equipment for the construction of solar panels, manufacturing of equipment for the construction solar-power plants, manufacturing of wind turbines).

4. **Why doesn't SIX 1.5°C Climate Equity prescribe specific "(sub-)sectoral 1.5°C-pathways"?** The prevailing consensus is that to stay within the world's carbon budget in practice, and thus limit global warming to 1.5°C, the world needs to reach net-zero Greenhouse Gas ("GHG") emissions by 2050, to reduce its GHG emissions compared to 2010 level by 50% in 2030, and by 90-95% in 2050. The logic behind the latter decarbonization target is that negative-emissions solutions are largely untested at scale and should thus reasonably be projected to only remove 5-10% of GHG emissions.

   Despite the consensus at the global level, there is no consensus on a specific pathway for each (sub-)sector.[2] This is why SIX 1.5°C Climate Equity maintains a neutral position and does not prescribe a specific pathway for any (sub-)sector. A degree of consensus, however, appears to emerge on emissions pathways that are deemed incapable of limiting global warming to 1.5°C (i.e., on the criteria that (sub-)sectoral emissions pathways must fulfill). This is why SIX 1.5°C Climate Equity forbids certain (sub-)sectoral emissions pathways by requiring that (sub-)sectoral pathways fulfill certain criteria.

   SIX 1.5°C Climate Equity may therefore permit multiple (sub-)sectoral emissions pathways for a given (sub-)sector. This means that different reviewers may select different (sub-)sectoral emissions pathways when assessing the same company. And it also means that companies with an identical mix of activities may be assessed against different (sub-)sectoral emissions pathways.

5. **Why does SIX 1.5°C Climate Equity allow for exceptions to full corporate scope 3 disclosure under certain conditions?** While the ideal scenario involves companies directly measuring and estimating their emissions to provide full scope 3 disclosure, the framework recognizes that this may not always be feasible Experienced reviewers can, in some cases, assess scope 3 alignment even with limited company disclosures by combining their sector-specific knowledge with their own access to measured and estimated emissions data. This is why SIX 1.5°C Climate Equity empowers reviewers to use their expert judgment to determine, on a case-by-case basis, if they can evaluate the alignment with the 1.5°C target of a company's entire value chain (which includes scope 3 emissions), even without full scope 3 disclosure by the company

   SIX 1.5°C Climate Equity aims to complement governments' mandatory non-financial disclosure requirements. We believe this approach can support transparency by encouraging broader participation in external reviews. To maintain accountability, reviewers must provide explicit justification for their assessments and clearly indicate whether full scope 3 data was disclosed by the company. This ensures transparency for investors, who can then make informed decisions based on both the reviewer's expertise and the level of disclosure provided by the company.

6. **Which type(s) of review(s) are used in SIX 1.5°C Climate Equity?** SIX allows companies to choose the type of review that best matches their (investors') needs. The chosen type of review (e.g., independent opinion, limited assurance, reasonable assurance) is clearly indicated in the assessment report.

7. **Why does SIX 1.5°C Climate Equity approve multiple reviewers?** SIX allows companies to choose the reviewer that best matches their (investors') needs. A specific reviewer may not cover all sectors. Some reviewers may have expertise or experience in specific sectors and/or geographies (e.g., in-

[2] See, e.g., SBTi, 2020, Foundations for science-based net zero target setting the corporate sector (September 2020), page 6, "Translating planetary climate science into actionable criteria at the level of an individual company requires some normative decisions that do not directly emerge from the science."

depth knowhow of applicable laws and local sustainability certifications). A specific reviewer may not have the capacity to meet requests from several companies. And a company's investors may already have experience with a specific reviewer. The chosen reviewer is clearly indicated in the assessment report.

8. **How does SIX 1.5°C Climate Equity compare to existing approaches to transition-plan credibility assessments?** While there is currently no internationally recognized methodology for assessing transition plans, the criteria have been defined to reflect the emerging consensus among widely used methodologies and standards. Reference is made, most notably, to the Carbon Disclosure Project Assessing Low-Carbon Transition (CDP ACT Initiative), Climate Bonds Initiative (CBI), Science Based Target initiative (SBTi), and the UN Race to Zero Starting Line Criteria. This ensures that investors can easily understand SIX 1.5°C Climate Equity and that they can compare it with flags, labels, and certifications established by other institutions.

9. **Is SIX 1.5°C Climate Equity the same as an SBTi certification?** No. Organizations that validate targets, such as the Science Based Target initiative (SBTi), only evaluate whether emissions targets are aligned with the latest climate science. SBTi does not assess whether it is reasonable to expect the continued implementation of this 1.5°C-aligned transition plan.

   SIX 1.5°C Climate Equity, in contrast, evaluates whether the plan's emissions targets are aligned with the latest climate science as well as whether this 1.5°C-aligned transition plan can reasonably be expected to continue to be implemented.

10. **How does SIX 1.5°C Climate Equity relate to the Swiss Climate Scores?** The Swiss Climate Scores aim to create best-practice transparency for investment products in order to foster investment decisions that contribute to reaching the climate goals. SIX 1.5°C Climate Equity requires companies to disclosure specific sustainability-related data points for the same reason. Whenever feasible, SIX 1.5°C Climate Equity follows the same definitions and data points as in the Swiss Climate Scores.

11. **How does SIX 1.5°C Climate Equity relate to the WFE Green Equity Principles?** The essence of SIX 1.5°C Climate Equity lies in the evaluation of the company's climate transition plan, activity-based requirements play a supportive role. The Flag combines recognized requirements on the climate transition plan with additional requirements that arise from the application of the WFE Green Equity Principles (2023) to climate-change mitigation.

    The Flag aligns with the WFE Green Equity Principles (2023) in the following manner: it adheres to the five core pillars (Activity-based revenue threshold, Taxonomy, Governance, Assessment, and Disclosure). However, the Flag explicitly and solely focuses on a company's climate-change mitigation efforts. The Flag may, therefore, not necessarily reflect "activities that contribute to the green economy" as defined in para. 18 of the WFE Green Equity Principles (2023). The distinction depends on the specific interpretation of "green." For the taxonomy, reference is made to the definitions, in particular to the definition of 1.5°C aligned activity in combination with the definition of Recognized (sub-)sectoral 1.5°C pathway.

12. **Does SIX 1.5°C Climate Equity consider other environmental and social goals?** SIX 1.5°C Climate Equity only indicates that the company can reasonably be expected to continue to contribute towards limiting global warming to 1.5°C. This means that a company's contribution to, and impact on, other environmental (e.g., biodiversity) and social goals (e.g., diversity, decent work) is only considered in as much as it has a (positive or negative) impact on CO2 emissions.

    The methodologies of the approved reviewers and/or the recognized 1.5°C-Pathways can go beyond a sole focus on global warming and give independent consideration to the impact on other sustainability goals.