ENGAGING SUPPLY CHAINS ON THE DECARBONIZATION JOURNEY

A SUPPLEMENTARY RESOURCE TO THE SBTi SUPPLIER ENGAGEMENT GUIDANCE

SPEAKER SCRIPT: INTRODUCTION TO THE SCIENCE BASED TARGETS INITIATIVE

May 2023

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INTRODUCTION

This speaker script together with its presentation was developed by the Science Based Targets initiative (SBTi). These are supplementary resources of the guidance Engaging Supply Chains on The Decarbonization Journey: A Guide to Developing and Achieving Scope 3 Supplier Engagement Targets, for companies engaging and educating their suppliers on science-based targets setting. This resource is publicly available on the SBTi website and should not be altered.

The presentation is divided into two sections and lasts approximately 120 minutes. The estimated time for each section is broken down below:

Introduction to the Science Based Targets initiative
I.	About the Science Based Targets initiative (SBTi)	10 min
II.	SBTi Progress to date	10 min
III.	Who is eligible to join the SBTi?	10 min
IV.	What are the benefits of joining the SBTi?	10 min
V.	How can companies set science-based targets?	55 min

Additional sections
VI.	Introduction to the GHG Protocol	10 min
VII.	Scopes 1, 2 and 3 accounting	15 min

SLIDE 1 | COVER PAGE

Welcome

SLIDE 2 | ABOUT THIS PRESENTATION AND SPEAKER SCRIPT

Notes for companies with supplier engagement targets to take into account when using these resources:

- This slide deck and the speaker script are intended for companies with science-based

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targets - including supplier engagement targets - to use when educating and engaging their suppliers on science-based target setting.
- These are complementary resources for companies to use as part of their engagement programs.
- The SBTi encourages companies to also familiarize with other key [SBTi resources](#) to ensure you know the basics of what science-based targets are, the criteria, and how to set them.

SLIDE 3 | AGENDA

The objective of this presentation is to introduce you to the Science Based Targets initiative.

Through this presentation, we will be covering the following topics:

    I.   About the Science Based Targets initiative (SBTi).
   II.   SBTi Progress to date.
  III.   Who is eligible to join the SBTi?
  IV.   What are the benefits of joining the SBTi?
   V.   How can companies set science-based targets?
  VI.   Introduction to the GHG Protocol.
 VII.   Scopes 1, 2 and 3 accounting.

SLIDE 4 | SECTION TRANSITION SLIDE: I. ABOUT THE SCIENCE BASED TARGETS INITIATIVE

SLIDE 5 | ABOUT THE SCIENCE BASED TARGETS INITIATIVE (SBTi) AN UNPRECEDENTED COLLABORATION

In 2015, while the world's governments signed the Paris Agreement to avoid the catastrophic impacts of climate change, the Science Based Targets initiative, or SBTi for short, emerged.

It is a collaboration between four of the world's most respected environmental organizations: CDP, the United Nations Global Compact, World Resources Institute (WRI) and World Wild Fund for Nature (WWF), and is one of the We Mean Business coalition commitments.

There is no time to lose. To stand a fighting chance of maintaining a habitable planet for ecosystems and humankind, we must urgently act on the clear warnings from climate science.

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The SBTi mobilizes companies, financial institutions and small to medium enterprises to set science-based targets and boost their competitive advantage in the transformation to a net-zero economy.

SLIDE 6 | ABOUT THE SCIENCE BASED TARGETS INITIATIVE (SBTi) WHAT DOES IT DO?

Let's start by defining what science-based targets (SBTs) are.
Science-based targets are greenhouse gas emissions reduction targets that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C.

Therefore, the Science Based Targets initiative:

1. Defines and promotes best practice in emissions reductions and net-zero targets in line with climate science.
2. Provides expert resources to companies who set science-based targets in line with the latest climate science.
3. Brings together a team of experts to provide companies with independent assessment and validation of targets.

Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas emissions, helping prevent the worst impacts of climate change and future-proof business growth.

SLIDE 7 | THE NEED TO MAINSTREAM SCIENCE-BASED TARGETS

According to the United Nations Environment Programme (UNEP) Emissions Gap Report of 2020, in 2019 greenhouse gas emissions reached a new record high, and even though the number of countries that committed to net-zero emissions in 2020 has been the most significant and encouraging climate policy development, to really make significant progress towards achieving the long-term temperature goal of the Paris Agreement, near-term emissions reductions are critical.

Companies are key non-state actors with a vital role to play in closing the gap left by country commitments, to enable the global economy to halve emissions by 2030 and achieve net-zero before 2050.

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The planet is at an inflection point when it comes to climate change. The scientific evidence is clear. Global heating has already caused dangerous disruption in nature, human well-being, businesses and economies across all regions. And the window to limit global warming to 1.5°C, and avoid more catastrophic impacts, is nearly shut.

Given the increasing urgency for climate action and the rapid growth in the adoption of science-based targets by the corporate sector, in 2022 the SBTi raised the ambition of science-based target setting. This means companies are now required to set emissions reduction targets in line with 1.5°C.

SLIDE 8 | SECTION TRANSITION SLIDE: II. SBTi PROGRESS TO   DATE

SLIDE 9 | SBTi PROGRESS TO DATE

Since the SBTi was founded in 2015 there has been a surge in corporate climate ambition, with companies setting science-based targets leading the way.

Despite the challenges posed by COVID-19, adoption of science-based targets continued to accelerate through from 2020. In 2021, the SBTi High Impact Sample – which represents the largest companies by market capitalization and emissions worldwide – reached a critical mass, surpassing the threshold with more than a quarter (27%) setting science-based targets.

Furthermore, companies with science-based targets have delivered emissions reductions in the real economy at scale: there is now evidence that companies' science-based ambition is backed up by real emissions reductions.

Already businesses representing more than a third of the global economy - $33 trillion – have at least committed to set science-based targets. Achieving that goal for commitments. Now the SBTi needs those which have made a commitment but not yet set targets to set targets as soon as possible.

The amount of scope 1 and 2 emissions covered by the SBTi has increased more than ten-fold between 2015 and 2021, from 145 million to 1.5 billion tonnes of CO_2e. This is equivalent to the annual emissions from Japan and Brazil combined in 2020.

At the end of 2021, 2,253 companies across 70 countries and 15 industries, representing more than one third ($38 trillion USD) of global market capitalization, had approved emissions reductions targets or commitments with the SBTi.

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Finally, the SBTi has around 2,440 companies with commitments (30% of the goal) and around 2,870 with a validated target - 15% of SBTi's goal.

SLIDE 10 | PROGRESS REPORT BY 2021

SBTi COMPANIES NOW REPRESENT:

At the end of 2021:

- 2,253 companies across 70 countries and 15 industries, representing more than one third ($38 trillion USD) of global market capitalization, had approved emissions reductions targets or commitments with the SBTi.
- The SBTi reached a critical mass globally and in key regions, with more than a quarter (27%) of high-impact companies setting science-based targets.
- The total committed annual emissions reductions across all approved science-based targets was 53 million tonnes CO_2, which is equivalent to taking 11 million cars off the road each year.
- The number of SBTi companies increased at a record pace in 2021 – three times faster than in 2020. More than 1,300 companies set and committed to science-based targets, at a rate of over 110 companies per month, compared with 35 companies per month in 2020.
- The rate of companies' target validation more than doubled, from 20 per month on average in 2020, to 49 in 2021, reflecting the initiative's increasing technical capacity and resources to meet demand.

Since its foundation, the SBTi has validated science-based targets of more than 2,730 organizations worldwide - including sector leaders. Some examples are listed below.

SLIDE 11 | PROGRESS REPORT BY 2021
2022: THE SBTi's MOST SUCCESSFUL YEAR YET

- In 2022, more companies and financial institutions had their targets validated than in the previous six years combined.
- The SBTi has almost 200 companies validated in line with its highest level of ambition - the Net-Zero Standard. And, these include some of the biggest, most impactful companies in the world.
- Science-based targets from financial institutions quadrupled in 2022.
- The amount of emissions covered reached 3 GT. That represents about 15% of scope 1 + 2 emissions of listed companies.
- 96% of SBTi targets to date and over 98% of validated targets in 2023 so far include scope 3.

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- The SBTi also saw particularly impressive growth in the uptake of science-based targets from businesses based in Asia.
- By the end of May 202, over 2,865 companies and financial institutions had validated targets and over 2,440 more had committed to do so.
- We urge you to commit to set a target immediately - you can do it on the SBTi website - and join the thousands of other trailblazers from across the globe.

SLIDE 12 | SECTION TRANSITION SLIDE: III. WHO IS ELIGIBLE TO JOIN?

SLIDE 13 | WHO IS ELIGIBLE TO JOIN? - STANDARD COMPANIES

The SBTi encourages financial institutions and companies from all sectors and of all sizes to develop science-based targets. The SBTi acknowledges differences between business areas, which is why they offer sector-specific guidance.

The SBTi is especially keen to welcome companies in the highest-emitting sectors, who play a crucial role in ensuring the transition to a zero-carbon economy.

The current exceptions are fossil fuel companies and automakers:
- Commitments and validations for fossil fuel companies have been paused while sector guidance is developed.
- Near- and long-term target validations and target updates for automakers are paused until 1.5˚C scope 3 targets for use-phase emissions from new road vehicles are developed and approved. Automakers are still able to commit to set targets.

Small and Medium Enterprises (SMEs) can validate their near-term and net-zero targets and become part of the initiative by submitting to the streamlined target validation system for SMEs. The SBTi reserves the right to perform due diligence before and after accepting new commitments and while reviewing submitted targets.

SLIDE 14 | WHO IS ELIGIBLE TO JOIN?
SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

The SBTi also welcomes targets from Small and Medium sized Enterprises (SMEs).

A small and medium-sized enterprise is defined as an independent, non-subsidiary company with fewer than 500 employees.

The SBTi's streamlined route for SMEs enables them to bypass the initial stage of committing to set a science-based target and the standard target validation process. SMEs can immediately set science-based targets (near-term and long-term options available) by choosing from one of the predefined target options available in the SME science-based target setting form. Unlike larger companies, the near-term option does not require SMEs to set targets for their scope 3 emissions; however, SMEs must commit to measure and reduce their scope 3 emissions.

For the purposes of target validation by the SBTi, an SME is defined as a non-subsidiary, independent company with fewer than 500 employees. Note that this does not include Financial Institutions and Oil & Gas companies.

SLIDE 15 | SECTION TRANSITION SLIDE: IV. WHAT ARE THE BENEFITS OF JOINING THE SBTi?

SLIDE 16 | BENEFITS OF SETTING SCIENCE-BASED TARGETS
THE CASE FOR PLANET, PEOPLE & BUSINESSES

Reducing GHG emissions in line with climate science is good for the planet and for companies. Science-based target setting makes business sense. Besides accelerating the transition to a net-zero economy and avoiding the worst effects of climate change, science-based targets are good for business, too.

Setting science-based targets is good for the planet and for the people.

- Global warming is caused by a pollution blanket that traps heat around the Earth, causing the Arctic ice to melt, raises sea levels, and makes storms, wildfires and droughts stronger. Setting SBTs reduces the pollution blanket around Earth.
- When greenhouse gas emissions from fossil fuels are gradually reduced it contributes to protecting human's health; to prevent the damage to our economy due to extreme weather and higher food prices; and to protect all types of animal and plant life on every continent from anticipated increased temperatures.

In this section we are going to find out the benefits a company can expect to see from setting a science-based target, as well as learn from some case studies.

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SLIDE 17 | BUSINESS BENEFITS SETTING SCIENCE BASED TARGETS
PREPARE FOR SHIFTS IN PUBLIC POLICY AND BUILD BUSINESS RESILIENCE

SBTi companies confirm that science-based targets are good for business with other interesting highlights including:

- Build *resilience against regulation,* as national governments continue to work to implement the Paris agreement – and to ratchet up the ambition of their country-level pledges. Companies with SBTs can:
  - Reduce their exposure to growing public policy,
  - Better influence policy decisions.
  - Out-compete competitors when climate change regulations become more stringent.
- Almost a third of SBTi companies are already seeing bottom-line *savings.* By setting such a target companies are ensuring their operations remain lean and efficient, and are *building resilience* against a future where resources – particularly those derived from fossil fuels – will become increasingly scarce and expensive.

SLIDE 18 | BUSINESS BENEFITS SETTING SCIENCE BASED TARGETS
DRIVE INNOVATION AND BUILDS EXTERNAL CREDIBILITY

Additionally, SBTi companies highlight other interesting benefits such as:

- <u>Brand reputation growth</u>, as consumers become increasingly aware of the effects their choices have on the environment and ethical consumption continues to grow as a hot topic.
- <u>Boosts investors' confidence</u>, *as* investors are increasingly taking interest in businesses' environmental policies, while looking to shore up their investments for the future.
- Science-based targets are leading companies to develop new products and services to be net-zero, <u>increasing innovation</u>.
- As the trail-blazers of the net-zero transition, companies committing to the SBTi have a <u>competitive advantage</u>, while demonstrating concrete sustainability commitments to increasingly-conscious consumers.

SLIDE 19 | SBTi BUSINESS CASE:
BECOMING A STANDARD BEYOND THE PRIVATE SECTOR

In just seven years the SBTi has become the gold standard for establishing corporate climate pledges.

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An example of how this standard overpassed the private sector is the policy the UK Government set when calling for potential sponsors of COP26 in 2021, allowing only companies with 'strong climate credentials' evidenced by science-based targets, to become sponsors.

Another example in the private sector is financial institutions setting science-based targets and aligning their lending and investment activities with the Paris Agreement, as they are increasingly recognizing the extent of climate risks, their impact on every market sector and the special influence over other actors through their investment and lending services.

The trend in government action continued to grow, particularly with big announcements during COP27 in 2022:

- The White House announced its intention to require all suppliers of the federal government to set science-based targets. The federal government is the largest purchaser in the world, meaning that this rule change will bring hundreds of companies in to set science-based targets and lead to a significant reduction of real-world emissions.
- The US also announced a hugely significant step forward with the formation of the Net-Zero Government Initiative alongside 18 other nations worldwide, which promises a roadmap to achieve net-zero commitments with interim targets by COP28.
- This comes just weeks after Norway became the first country in the world to announce a plan for all state-owned companies to set science-based targets. Additionally, suppliers of the UK government are already required to have net-zero targets for 2050 or earlier.

SLIDE 20 | SECTION TRANSITION SLIDE: V. HOW CAN COMPANIES SET SCIENCE-BASED TARGETS?

SLIDE 21 | HOW TO SET A TARGET
TWO DIFFERENT ROUTES TO SET SCIENCE-BASED TARGETS?

The SBTi has developed two different routes to set science-based targets and demonstrate companies' climate leadership by cutting their greenhouse gas emissions - which we are going to explain on the following slides:

1. A route for large companies and financial institutions, and
2. Another one for Small and Medium-Sized Enterprises (SMEs).

The standard route is for large companies and financial institutions to follow a five-step process to set science-based targets; and then we have the Small and Medium-Sized Enterprises route.

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Before we continue, let's define what an SME is for the SBTi. It is a non-subsidiary independent company with fewer than 500 employees.

SLIDE 22 | TRANSITION SLIDE: STANDARD ROUTE: LARGE COMPANIES

SLIDE 23 | HOW TO SET A TARGET
STANDARD ROUTE: LARGE COMPANIES AND FINANCIAL INSTITUTIONS

Large companies and financial institutions should follow this five-step process to set SBTs and reduce their greenhouse gas emissions:

1. First your company has to commit, that is, you should submit a letter establishing the intention of the company to set a science-based target.
2. After committing, your company should develop a target, which means you have to work on an emissions reduction target in line with the SBTi's criteria.
3. Once you have defined the target, you should present it to the SBTi for validation. You should reserve a date for your target validation service to begin through SBTi's booking system.
4. After your target is validated by the SBTi, your company should announce the target and inform your stakeholders.
5. And last but not least, your company should report its complete emissions inventory and track target progress annually.

SLIDE 24 | HOW TO SET A TARGET
STEP 1: COMMIT

- Companies have to register online and submit a commitment letter where they indicate that they will work to set a science-based emission reduction target aligned with the SBTi's target-setting criteria.
- Companies can download the letter in the *Resources* section of the SBTi webpage: https://sciencebasedtargets.org/resources/files/SBT-Commitment-Letter.pdf.
- Once the SBTi Team receives the commitment letter, the SBTi will recognize the company as "Committed" on the website and partner websites CDP and We Mean Business.
- Once committed, a company has 24 months to complete steps 2-3.

SLIDE 25 | HOW TO SET A TARGET
STEP 1: COMMIT

When a company signs [the commitment letter](#) the company is required to set a near-term science-based target.

Net-zero science-based targets are an additional commitment. This means that in addition to setting a near-term target, companies can choose to also set a net-zero target. To commit to setting a net-zero science-based target, companies must check the "set net-zero targets" option in the commitment letter.

Companies that commit to setting net-zero science-based targets automatically join the Race to Zero* campaign.

Race to Zero is a global campaign rallying companies, cities, regions, financial, educational, and healthcare institutions. Each member is committed to the same overarching goal: reducing emissions, across all scopes, in line with the Paris Agreement.

Race to Zero is a partnership of networks and initiatives, such as the SBTi. All companies that commit to net-zero through the SBTi are welcomed into the Race to Zero.

SLIDE 26 | HOW TO SET A TARGET
STEP 2: DEVELOP THE TARGET - KEY RESOURCES WHERE TO FIND

To develop a target(s) in line with the SBTi science-based criteria, the initiative offers comprehensive guidance to assist companies in this process and encourages them to access a series of resources that have been developed for a better understanding of the process.

To access these resources, go to the SBTi website: www.sciencebasedtargets.org and on the main menu, click on "*Resources*". There you will find out the resources presented according to the stage in which they will be used: *commit, develop, submit, learn and background.*

SLIDE 27 | HOW TO SET A TARGET
STEP 2: DEVELOP THE TARGET - KEY RESOURCES OVERVIEW

Companies are encouraged to start with an overview of the target development process in the [SBTi How-To Guide](#), the [Foundations of Science-based Targets](#), and [Science Based Targets Corporate Manual](#) to understand how the SBTi has leveraged newly available science to align its

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methods with 1.5°C and well-below 2°C pathways; go in more detail through the steps to join the initiative, and develop targets for scopes 1, 2 and 3.

Afterwards, continue by reviewing the requirements of target setting in the [SBTi Criteria and Recommendations](#), as companies are validated against these criteria.

Finally, to understand these requirements in more depth, companies should then review the [Target Validation Protocol](#), to understand how the team checks and classifies targets against the SBTi Criteria, and use the [target setting tool](#) to begin developing targets. For some sectors/industries, separate sector-specific methodologies, frameworks and requirements have been developed to help through the target-setting process, and can be consulted at: https://sciencebasedtargets.org/sectors.

SLIDE 28 | HOW TO SET A TARGET
STEP 2: DEVELOP THE TARGET - OVERVIEW OF METHODS FOR VARIOUS SECTORS

The SBTi provides companies with a range of resources to support them through the target-setting process. For some sectors / industries, separate sector-specific methodologies, frameworks, and requirements have been developed.

To date, the SBTi Team has developed Guidance and Target Setting Tools for the following industries:

- Apparel and Footwear
- Cement
- Financial institutions
- Forest, Land and Agriculture (FLAG)
- Information and Communication Technology (ICT)
- Maritime
- Power

And they are developing tools for many other sectors, which right now could set targets based on the Absolute contraction approach, such as: Aluminium, Aviation, Buildings, Chemicals, Oil and Gas, Steel and Transport.

If your sector is not listed here (or if your sector-specific project is not finalised), you should use our core methodologies and resources to set your targets.

To go into details and learn which methodology your company should use, according to your sector and other criteria you can reach out [page three of the SBTi How-to Guide](#).

SLIDE 29 | HOW TO SET A TARGET
FOUR CONSIDERATIONS FOR SETTING NEAR-AND LONG-TERM SBTs

The criteria to set a science-based target can be summarised in the following points; however, this is only a summary and not a comprehensive overview. Companies are encouraged to refer to the SBTi website for the full criteria and recommendations.

1. <u>Boundary</u> refers to how much coverage is required from your emissions inventory. Near-term boundary for scope 1 and 2 targets is 95% and for scope 3 is 67%, should your scope 3 emissions cover more than 40% of your total inventory. For long-term targets, scope 1 and 2 boundary continues to be 95% while for scope 3 this is increased to 90%.
2. <u>The level of ambition for scopes 1 and 2</u> should be at a minimum – consistent with the level of decarbonization required to keep temperature increase to 1.5°C. For scope 3 near-term minimum ambition can still be well-below 2°C. However, for long-term targets all scope 1, 2 and 3 targets need to align with 1.5°C pathways.
3. <u>The timeframe</u> to set any near-term target should be 5-10 years into the future. The minimum forward-looking ambition of targets must be consistent with reaching net-zero by 2050, assuming a linear absolute reduction, linear intensity reduction, or intensity convergence between the most recent year and 2050 (not increasing absolute emissions or intensity). For long-term targets the target year should be at the latest 2050.
4. The last column highlights <u>various methods</u> that are available for scope 1, 2 and 3 target setting. Also noting that there are some methods, for example supplier/customer engagement method, that are not available for long-term targets.

The next slides will go into some details on available methods.

SLIDE 30 | HOW TO SET A TARGET
STEP 2: DEVELOP THE TARGET - METHODS FOR SCOPE 1 & SCOPE 2

Absolute-based approach is a method for setting absolute targets that uses contraction of absolute emissions, where all companies reduce their absolute emissions or economic emissions intensity (e.g., tonnes GHG per unit value-added) at the same rate, irrespective of initial emissions performance, and do not have to converge upon a common emissions value.

Understanding that absolute emissions reduction target is defined in terms of an overall reduction in the amount of greenhouse gases emitted to the atmosphere in the target year, relative to the base year (for example reduce annual GHG emissions 35% by 2025, from 2018 levels).
This method is a simple, straightforward approach to set and track progress toward targets that is applicable to most sectors.

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While sector-based approach is a method for setting physical intensity targets that uses convergence of emissions intensity. This approach looks at sector specific carbon budgets determined by how the sector intends to reduce emissions, the technology used and production projections. The basis of a sector-based approach is to allow the carbon intensity for all companies in a specific sector to converge towards the same level to meet the carbon budget for the sector. The reduction responsibilities allocated to a company vary depending on its initial carbon intensity and growth rate relative to those of the sector, as well as the sector-wide emissions intensity compatible with the global emissions pathway. An intensity target is defined by a reduction in emissions relative to a specific business metric, such as production output of the company (for example, tonnes of carbon dioxide equivalent per tonne product produced).

The minimum target ambition, expressed in intensity terms, varies by company base year emissions intensity, projected activity growth, and sectoral budgets. In addition to a reduction in emissions relative to a specific production output of the company (emissions intensity), for example, tonnes of carbon dioxide equivalent per MWh), it also provides absolute emissions reduction targets.

SLIDE 31 | HOW TO SET A TARGET
STEP 2: DEVELOP THE TARGET - FAQ

If you have any questions about how to develop a target and some other information about the initiative, you can go into the FAQ section of the SBTi webpage: www.sciencebasedtargets.org, which you can find in the upper right corner.

You can also visit SBTi's YouTube channel where you will find a wide variety of videos that can help you on your journey to set science-based targets.

SLIDE 32 | HOW TO SET A TARGET
STEP 3: SUBMIT - TARGET VALIDATION PROCESS

Once you have developed the science-based target, your company has to submit a target submission form (or the equivalent for financial institutions or SMEs). Then, you should reserve a date for your target validation service to begin through the SBTi booking system.

The SBTi Team of technical experts will review your submission, validate it against the SBTi criteria and communicate their decision with in-depth feedback through a Target Validation Report.

SLIDE 33 | HOW TO SET A TARGET
STEP 3: SUBMIT - TARGET VALIDATION BOOKING SYSTEM

Companies reserve a slot to have targets validated through the validation booking system. The booking system allows companies to:

- Upload their complete submission forms to the SBTi.
- Screening questions to confirm submission is in line with basic SBTi requirements.
- Reserve a date for their SBTi target validation service to begin.
- Provide payment information.

SLIDE 34 | HOW TO SET A TARGET
STEP 3: SUBMIT - TARGET VALIDATION SERVICE FOR NET-ZERO

Companies that are submitting long-term net-zero targets need to be aware of the three documents that are required as part of the net-zero long-term target submission.

1. Net-zero target submission form part I (Word document): contains questions about: Validation type, Business activities, Bioenergy emissions, Exclusions, Near-term and long-term target, Neutralization/Beyond Value Chain Mitigation.
2. Net-zero target submission form part II (Excel document): companies enter full GHG inventory for base year and most recent year (including optional, bioenergy, and FLAG emissions). Document auto-calculates boundary coverage of targets.
3. Net-zero tool: the data needed to calculate net-zero target with the SBTi Tool includes scope 1, 2 and 3 emission inventory (broken down by activity/sector if modelling multiple targets), Base Year and Base Year Output.

SLIDE 35 | HOW TO SET A TARGET
STEP 3: SUBMIT - DOCUMENTS FOR NET-ZERO TARGET VALIDATION

For net-zero targets validation companies need to submit three documents to the SBTi:

- The SBTi Net-Zero Target Submission Form Part I, which is a Word document.
- The SBTi Net-Zero Target Submission Form Part II, which is an Excel spreadsheet.
- And, the Net-Zero target-setting tool.

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To avoid delays, the SBTi encourages companies to review the available resources carefully and complete the forms clearly and accurately. Once these forms are ready, companies have to submit them and select a validation date through SBTi's Booking System.

SLIDE 36 | HOW TO SET A TARGET
STEP 3: SUBMIT - TARGET VALIDATION PROCESS DETAILED

When the SBTi receives a Target Submission Form, it goes into an initial screening to determine if all necessary information is provided and/or to assess if the target meets the basic criteria. Afterwards, the lead reviewer performs the desk review to assess the targets against the SBTi criteria and sends queries if needed. And sends it to the appointed approver who reviews the assessment done by the lead reviewer.

Then, in a weekly meeting the Target Validation Team discusses the target and the desk review completed by the lead reviewer. Finally the team sends the company a target validation report and a decision letter within 30 working days for near-term targets and 60 working days for long-term targets, provided that the company responds to queries within 2 working days.

SLIDE 37 | HOW TO SET A TARGET
STEPS 4: COMMUNICATE GUIDELINES

Step 4 is the step where companies can now communicate on their target upon successful validation.

- Once a target has been approved, the SBTi will publish it on the [beta version of the SBTi's Target Dashboard](#) and [partner](#) websites.
- The publication of the targets is done one month after approval, unless otherwise instructed.
- A company's approved target must be made public within six months of approval, or it will require revalidation to ensure it is in line with the latest science-based criteria.
- What happens if a company doesn't know how to announce an approved target? Don't worry! Once a target is approved, the company will receive a welcome pack with advice on how to communicate its new target.

SLIDE 38 | HOW TO SET A TARGET
STEPS 5: DISCLOSE

Following approval, the company should disclose its emissions annually and monitor progress on reaching the target.

Recommendations for reporting include disclosure through CDP, annual reports, sustainability reports and the company's website.

SLIDE 39 | TRANSITION SLIDE: SMALL AND MEDIUM-SIZED ENTERPRISES: SMES ROUTE

SLIDE 40 | HOW TO SET A TARGET
SMES ROUTE

The SBTi is aware of the potential lack of skills, capacity and/or resources of SMEs to set science-based targets, that is why it has developed an exclusive route for SMEs.

This route enables SMEs to bypass the regular target validation process and to immediately set science-based near-term targets for scope 1 and 2 and long-term targets which include scope 3 as well.
The SME Target Setting Letter has predefined options to set the base year and target, and these cannot be different from the predefined.

Oil and gas companies and financial institutions cannot set targets through the SME's route, even if they fit the SME definition.

SLIDE 41 | SMES ROUTE

If your company is a non-subsidiary independent company with fewer than 500 employees, the SBTi considers it a Small and Medium-Sized Enterprises, and here I will explain step by step how to submit a science-based target.

First of all your company has to submit through the SME Target Validation Booking Systems, choose a target and provide an answer for all criteria-related questions.
Secondly a thorough review will be performed by the SBTi to ensure all information is complete and accurate. Incomplete information or inconsistencies will cause a delay in the overall process.

After passing this due diligence, an email will be sent to confirm the target approval and share the Terms and Conditions. Once the Terms and Conditions are signed, the SBTi team will send the payment details to the SME.

Upon receiving the payment confirmation, the deposit is verified with the SBTi Finance Team. A final confirmation is sent to the SME, confirming the approval and registration of the target. The email contains a communications pack and relevant details regarding the target publication.

Last, but not least, the targets will be published on the SBTi website as well as the partners' websites at CDP and We Mean Business.

SMEs setting science-based targets should report its GHG inventory and progress against targets on an annual basis.

SLIDE 42 | LEAD THE WAY TO A GLOBAL NET-ZERO FUTURE!

We only have a few years to halve global emissions and meet the requirements of the Paris Agreement. We need a race to the top, led by pioneering companies. This will empower peers, suppliers and customers to follow suit and drive governments to take bolder action. Join the companies taking action and build together a sustainable and resilient future!

For more information on science-based targets, contact the SBTi on info@sciencebasedtargets.org

SLIDE 43 | ANNEX TRANSITION SLIDE: ADDITIONAL SECTIONS

SLIDE 44 | SECTION TRANSITION SLIDE: VI INTRODUCTION TO THE GHG PROTOCOL

SLIDE 45 | GHG PROTOCOL
UNDERSTANDING THE GHG PROTOCOL

The Greenhouse Gas (GHG) Protocol is an international standard for corporate GHG accounting and reporting.

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This GHG Protocol establishes comprehensive global standardized frameworks to measure and manage greenhouse gas emissions from private and public sector operations, value chains and mitigation actions.

It provides an accounting platform for virtually every corporate GHG reporting program in the world.

SLIDE 46 | GHG PROTOCOL
STANDARDIZED FRAMEWORKS TO MEASURE GHG

Companies interested in setting science-based targets need to complete an inventory of their major greenhouse gas emissions in accordance with the GHG protocol standards.

With the tools and online learning solutions that the GHG Protocol provides, companies are able to develop comprehensive and reliable inventories of their GHG emissions.

SLIDE 47 | SECTION TRANSITION SLIDE: VII SCOPE 1, 2 AND 3 ACCOUNTING

SLIDE 48 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
WHAT ARE SCOPE 1, 2 AND 3 EMISSIONS?

Before setting science-based targets the companies should do an inventory of their GHG emissions and identify those emissions with their operations, to classify them as direct or indirect emissions and determine the scope of accounting.

Company's greenhouse gas emissions are classified in three scopes.

Scope 1 are direct emissions from company-owned and controlled resources. That is, emissions released to the atmosphere as a direct result of a set of activities, at a firm level. For example, the GHG emissions produced by the energy used on-site.

Scope 2 emissions are indirect emissions from purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

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Finally, <u>scope 3</u> emissions are all indirect emissions that are not included in scope 2, and occur in the value chain of the reporting company. That means emissions that are linked to the company's operations.

It's important to remember the following in the inventory calculations:

- <u>Offsets </u>must be excluded from inventory and do not count towards science-based targets.
- <u>Avoided emissions must</u> be excluded from inventory and do not count towards science-based targets either.
- Direct CO2 <u>emissions from bioenergy</u> must be reported separately from inventory.

SLIDE 49 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
FOCUS ON SCOPE 1 & SCOPE 2 EMISSIONS

According to the SBTi criteria, all company-wide Scope 1 and 2 GHG emissions should cover over 95%.

Since 15 July 2022, targets must align with 1.5°C pathways.

Companies may set targets on the procurement of renewable electricity.

SLIDE 50 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
FOCUS ON SCOPE 3 EMISSIONS

According to the SBTi criteria, companies need to complete at least a scope 3 screening for all relevant scope 3 categories. If scope 3 is over 40% of total emissions, an emissions inventory must be provided (estimations at minimum) and a scope 3 target is required. Companies must cover 67% of their scope 3 emissions for near-term targets and 90% for long-term targets.

To calculate a comprehensive first screening of your company's scope 3 carbon footprint, you may use the GHG Protocol screening tool at: https://quantis-suite.com/Scope-3-Evaluator/

Also important to remember that *optional scope 3 emissions* must be reported separately from emissions in the minimum boundary of each scope 3 category in the Target Submission Form. and all *relevant scope 3 sources* must be calculated before submitting targets to the SBTi.

SLIDE 51 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
GHG INVENTORY CONSOLIDATION APPROACHES

Business operations vary in their organizational structures; they include wholly owned operations, incorporated and unincorporated joint ventures, subsidiaries, and others.

In setting organizational boundaries, a company has to select an approach to consolidate GHG emissions and then apply the selected approach to define those businesses and operations that constitute the company for the purpose of accounting and reporting GHG emissions.

For corporate reporting, there are two distinct approaches that can be used to consolidate GHG emissions: the equity share and the control approaches.

1. Under the equity share approach, the company accounts for GHG emissions from operations according to its share of equity in the operation.
2. While, under the control approach, a company accounts for 100% of the GHG emissions from operations over which it has control. It is to be noted that control can be defined in either financial or operational terms.

   - <u>Financial control</u> refers to those companies who have control over the operation if the former has the ability to direct the financial and operating policies of the latter with a view to gaining economic benefits from its activities.
     Under this approach, the economic substance of the relationship between the company and the operation takes precedence over the legal ownership status, that means that the company may have financial control over the operation even if it has less than a 50% interest in that operation.
   - <u>Operational control</u> refers to those companies that have operational control over an operation if the former or one of its subsidiaries has the full authority to introduce and implement its operating policies.
     Under this approach, a company accounts for 100% of emissions from operations over which it or one of its subsidiaries has operational control.

SLIDE 52 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
TRACKING EMISSIONS OVER TIME

Usually, companies go into significant structural changes such as acquisitions, divestments, and mergers, that alter a company's historical emission profile, making meaningful comparisons over time difficult.

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In order to maintain consistency over time, or in other words, to keep comparing "like with like", historic emission data will have to be recalculated.

The first step in tracking emissions is choosing a base year for which verifiable emissions data are available and can be used as a basis for setting and tracking progress towards a GHG target. This base year should be the earliest relevant point in time for which the company has reliable data. After setting a base year, companies shall develop a base year emissions recalculation policy, and clearly articulate the basis and context for any recalculations. Recalculation of base year emissions may arise do to:

- Structural changes in the reporting organization that have a significant impact on the company's base year emissions.
- Mergers, acquisitions, and divestments.
- Outsourcing and insourcing of emitting activities.
- Changes in calculation methodology or improvements in the accuracy of emission factors or activity data.

SLIDE 53 | SCOPES 1, 2 AND 3 EMISSIONS ACCOUNTING
LEARNING MORE ABOUT GHG ACCOUNTING STANDARDS

If you want to learn more about greenhouse gas accounting standards, visit the Greenhouse Gas Protocol webpage: www.ghgprotocol.org, where you will find online learning solutions to calculate GHG emissions and develop your company's GHG inventory, in order to set science-based targets.

SLIDE 54 | THANK YOU!

We only have a few years to halve global emissions and meet the requirements of the Paris Agreement. We need a race to the top, led by pioneering companies. This will empower peers, suppliers and customers to follow suit and drive governments to take bolder action. Join the companies taking action and build together a sustainable and resilient future!

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