

# Shades Of Green Methodology Description For B3 Ações Verdes

June 10, 2024

*This report does not constitute a rating action*

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## Overview

- The Shades of Green Company Assessment analyzes the consistency of a company's revenues and investments to a low-carbon economy.
- The Company Assessments are used to assess alignment of listed Brazilian companies or those in the process of an IPO to the requirements set by the B3 Ações Verdes (BAV) green equity designation.
- The BAV follows the World Federation of Exchanges Green Equity Principles guidelines. Only activities eligible under the EU Taxonomy are counted toward the thresholds for B3 Ações Verdes.

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S&P Global Ratings Shades of Green's Company Assessments provide an in-depth look into companies' environmental impact, evaluating the greenness of corporate activities and their transition efforts. We explicitly link environmental and financial aspects by assigning a Shade of Green to a company's turnover, operating costs, and investments. We also assess the corporate governance of environmental issues that can affect how a company meets its green ambition. The Company Assessments are used to assess alignment of listed Brazilian companies or those in the process of an IPO, to the requirements set forth for by the Brazilian Stock Exchange (B3) for its B3 Ações Verdes green equity designation. B3's green equity designation's objective is to recognize companies whose activities contribute to environmental protection and climate risk mitigation and adaptation. The BAV follows the World Federation of Exchanges Green Equity Principles guidelines.

We base our Company Assessments on climate science. The Shades of Green methodology was originally developed through the CICERO Center for International Climate Research-led research project, Sustainable Edge, in iterative collaboration with financial sector partners and companies.

Information provided by the company on activities, associated turnover and investments, and corporate level sustainability targets and policies form the factual basis for this assessment. The assessment is not a validation of the data provided by the company, but rather an assessment of the data against our Shades of Green methodology and the B3 Ações Verdes requirements. Our review is not an audit, and we do not opine on the accuracy of the information provided to us by the company.

## Assigning shades to corporate turnover and investments











In this document, for informational purposes, we provide a summary of certain aspects of the Company Assessment methodology. We believe the green transformation must be financially sustainable to be lasting at the corporate level. Our Company Assessments therefore include shades assigned to the company's revenue, as well as investments and operating expenses.

The Shades of Green Company Assessment methodology was developed prior to the integration of Shades of Green with S&P Global Ratings. It was developed in the research project Sustainable Edge. The project was led by CICERO Center for International Climate Research in partnership with Shades of Green and leading Norwegian financial institutions. The initial project phase was funded by the Norwegian Research Council, later stages were funded by ENOVA and project participants. ENOVA is a Norwegian government enterprise responsible for promotion of environmentally friendly production and consumption of energy. The analysis methodology that was developed is rooted in CICERO's climate science. The Shades of Green methodology considers scenarios used for the IPCC assessment reports to assess levels of transition and physical climate risk. Our Dark Green Shading is aligned with the Paris Agreement target to limit global warming to less than 2°C.

We assign a shade of green to the underlying activities for turnover and investments according to how these streams reflect alignment of the underlying activities to a low carbon and climate resilient future. There are five possible Shades that can be designated to an activity: Dark green, Medium green, Light green, Yellow and Red. The Shades are a scale that reflects how consistent an activity is with achieving a low-carbon climate resilient (LCCR) future. For example, Dark green activities will likely be consistent with achieving an LCCR future, while Red activities are likely to impede the world's ability to achieve an LCCR future.

Chart 1

Company Assessments Shades of Green

Assessments				
 <b>Dark green</b>	 <b>Medium green</b>	 <b>Light green</b>	 <b>Yellow</b>	 <b>Red</b>
<b>Description</b>				
Is allocated to projects and solutions that correspond to the long-term vision of a low-carbon and climate-resilient future.	Is allocated to projects and solutions that represent significant steps toward the long-term vision but are not quite there yet.	Is allocated to transition activities that do not lock in emissions. These projects reduce emissions or have other environmental benefits in the short term rather than representing low-carbon and climate-resilient long-term solutions.	Is allocated to projects and solutions that do not explicitly contribute to the transition to a low-carbon and climate-resilient future. This category also includes activities with too little information to assess.	Is allocated to projects and solutions that have no role to play in a low-carbon and climate-resilient future. There are the heaviest emitting assets, with the most potential for lock-in of emissions and highest risk of stranded assets.
<b>Example projects</b>				
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 New oil exploration

Our assessment considers an activity's entire value chain since material climate and environmental risks and benefits can manifest there. Both upstream and downstream risks and benefits can affect the Shade we designate.

Typically, consideration of climate risk forms the core of our analysis because it represents the main driver of an activity's role in an LCCR future. However, other environmental risks and benefits can influence the Shade we determine for an activity, or become the primary focus of our analysis, if they are sufficiently material. We consider the environmental risks posed by an activity, such as water pollution and biodiversity loss, and could determine the Shade to be lower on the scale than would otherwise be the case, if we regard those environmental risks as material. Similarly, we consider an activity's environmental benefits, such as reducing water pollution, which could have a positive impact on the Shade we determine.

Environmental risk exposure can influence the Shade assigned to climate-focused activities. For example, windfarms can interfere with bird migration patterns, large solar projects can interfere with flora and fauna, and new hydropower reservoirs necessarily entail a range of environmental impacts. Where there is potential for high environmental risks and we consider the entity conducting the activity to have insufficient procedures and policies in place to mitigate those risks, or we know that the entity has not considered such risks, that could have an impact on the Shade we determine.

## Governance Assessment

Shades of Green also includes a governance score to show the robustness of the environmental governance structure. When assessing the governance of a company, we look at five elements: 1) strategy, policies, and governance structure; 2) lifecycle considerations including supply chain policies and environmental considerations toward customers; 3) the integration of climate considerations into their business and the handling of resilience issues; 4) the awareness of social risks and the management of these; and 5) reporting. In our review of governance, we include an assessment of relevance and ambition level of environmental targets, and how the corporate strategy supports implementation of these. Based on these aspects, an overall grade is given on governance strength falling into one of three classes: Fair, Good, or Excellent. A weakness in sustainability governance, for example lack of relevant targets or transparent reporting would impact the governance score and be noted in our assessment report. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

## EU Taxonomy

In our assessment for an issuer's alignment with the BAV, we provide transparency on the eligibility of the company's activities to EU Taxonomy. The latest information available and latest published delegated acts from the EU are considered. In our report, we specify the relevant EU taxonomy activities and the share of revenue, operating expenditure (opex) and capital expenditure (capex) that is eligible. We do not assess alignment with the criteria of the EU taxonomy for the categories nor the minimum social safeguards.

## BAV Guidelines

To assess alignment with the BAV requirements, we consider activities assigned a Shade of Green— Dark green, Medium green, or Light green— to be contributing to the green economy. As per B3 Ações Verdes requirements we refer to the "Sectors" and "Activities" items in the EU Taxonomy for Sustainable Activities in our calculation for the B3 Ações Verdes. Only activities eligible under the EU Taxonomy are counted toward the thresholds for B3 Ações Verdes. Once the Shades of Green method for EU taxonomy eligible activities has been applied, we determine if the B3 Ações Verdes requirements are met:

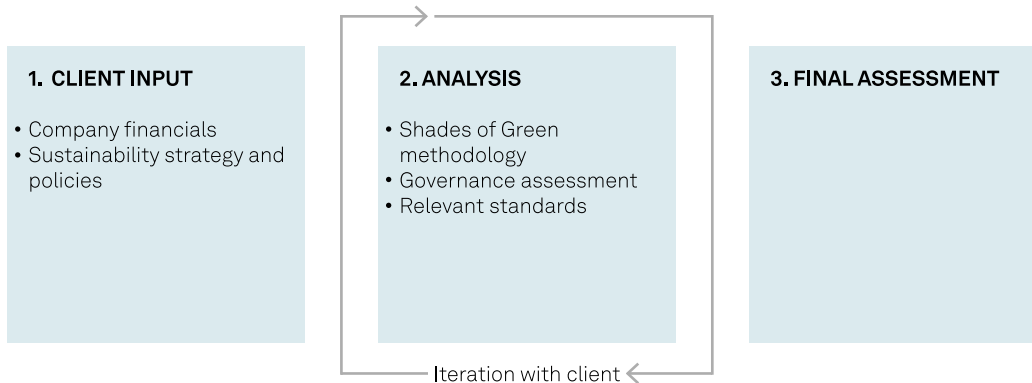
- More than 50% of the company's annual revenues contribute to the green economy.
- More than 50% of the company's annual investments (capex) and operating expenses contribute to the green economy.
- Less than 5% of the company's annual revenues are derived from fossil fuel activities.

Our Company Assessment reports provides transparency on the negative environmental impacts and risks of the company, either in our shading assessment or governance section. Alignment with BAV requirements are re-confirmed on an annual basis via an updated company assessment.

# Assessment Process

Chart 2

## BAV Assessment Process



We base our assessments on a review of documentation of the client's policies and processes, as well as information provided to us by the client. The figure above illustrates our assessment process and timeline. The assessments are undertaken in dialogue with the company to facilitate the most accurate assessment results.

Investors should note that we base our assessment on data reported or estimated by the company and has not always been verified by a third party. The assessment report will provide transparency on the company's nonfinancial reporting, including any assurance by a third party. We analyze revenue, operating costs, and capital expenditures, however there is typically not an explicit link between sustainability and financial data. Most accounting systems do typically not provide a breakdown of turnover and investments by environmental impact, and the analysis may therefore include imprecisions and may not be directly comparable with figures in the annual reporting. Determining shades often requires allocating line items in financial statements to projects or products, and for this we rely on the company's internal allocation methods. In addition, there are numerous ways to estimate, measure, verify, and report (e.g. data on emissions), which may make direct comparisons between companies or regulatory criteria difficult and somewhat uncertain.

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