The S&P Global Sustainable1 Climate Action Framework

Methodology

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Introduction and Content

The S&P Global Sustainable1 (S1) Climate Action Framework (or 'Climate Action Framework') evaluates companies' ability to adeptly manage the complex challenges of transitioning to a low-carbon economy. As stakeholders (including regulators, investors, and consumers) intensify their focus on climate-related issues and as the tangible impacts of climate change grow, businesses are increasingly compelled to embed robust climate governance, strategies, and practices into their core operations.

This document presents a comprehensive methodology to assess corporate performance across three key pillars: **Climate Governance and Strategy**, **Physical Risk Adaptation Strategy**, and **Climate Risk Mitigation and Alignment**. Utilizing this framework, the methodology employs a five-tier classification system to evaluate company progress and effectiveness in implementing low-carbon strategies. The framework categorizes companies from "Transition Strategic", exemplifying outstanding alignment with sustainability goals, to "Transition Limited", indicating significant areas for improvement.

Data Sources and Collection

The Climate Action Framework methodology relies on a wide range of data sources. These include the most recent data points from:

S&P Global Trucost Paris Alignment: The S&P Global Trucost Paris Alignment dataset assesses company-level alignment with the Paris Agreement goal to limit global warming to well below 2°C from pre-industrial levels. The approach taken by S1 is a transition pathway assessment, which examines the adequacy of emissions reductions over time required in order to meet either a 1.5°C or 2°C carbon budget.

S&P Global ESG Raw Data: The S&P Global ESG Raw Data package provides access to granular sustainability-related data points collected as part of the S&P Global Corporate Sustainability Assessment (CSA) process from public and additional disclosures. The dataset combines company disclosures checked against reliable public sources, media and stakeholder analysis, and in-depth company engagement.

S&P Global Media & Stakeholder Analysis: S&P Global's controversies research is rooted in the Media and Stakeholder Analysis ('MSA'), which forms an integral part of the S&P Global Corporate Sustainability Assessment ('CSA'). The MSA enables S&P Global to monitor companies' sustainability performance on an ongoing basis by assessing current controversies with potentially negative reputational or financial impacts.

S&P Global Business Involvement Screens: S&P Global Business Involvement Screens (BIS) are a comprehensive assessment of companies' direct and indirect revenue exposures to specific products and services. The dataset can be used to identify companies that operate in controversial sectors.

S&P Global Trucost Environmental: The S&P Global Trucost Environmental dataset measures environmental impact across key dimensions for over 20,000 listed companies and approximately 5,000 private companies. This data can be used to assess environmental costs, identify, and manage environmental and climate risk as well as conduct peer and portfolio analysis from a climate and environmental perspective. Metrics are standardized and presented through a financial lens using proprietary modelling.

Methodology Overview

Approach and Output

The Climate Action Framework applies a score-based screening assessment based on the underlying data sources to assess companies' performance in managing and preparing for the transition to a low-carbon economy.

The assessment is based on three key pillars (I) Climate Governance and Strategy (II) Physical Risk Adaptation Strategy and (III) Climate Risk Mitigation and Alignment as each addresses a critical dimension of climate transition.

- **Climate Governance and Strategy** evaluates the availability of effective climate governance structures and integrated risk management processes within the company.
- **Physical Risk Adaptation Strategy** evaluates a company's capacity to prepare for the tangible impacts of climate change and withstand extreme weather events and other physical hazards.
- **Climate Risk Mitigation and Alignment** evaluates a company's initiatives to reduce carbon emissions and compliance with evolving climate regulations, crucial for sustaining long-term operations in a low-carbon economy.

Each pillar categorizes company performance based on a three-tier classification system (Poor, Basic and Advanced), using the scoring method described below.

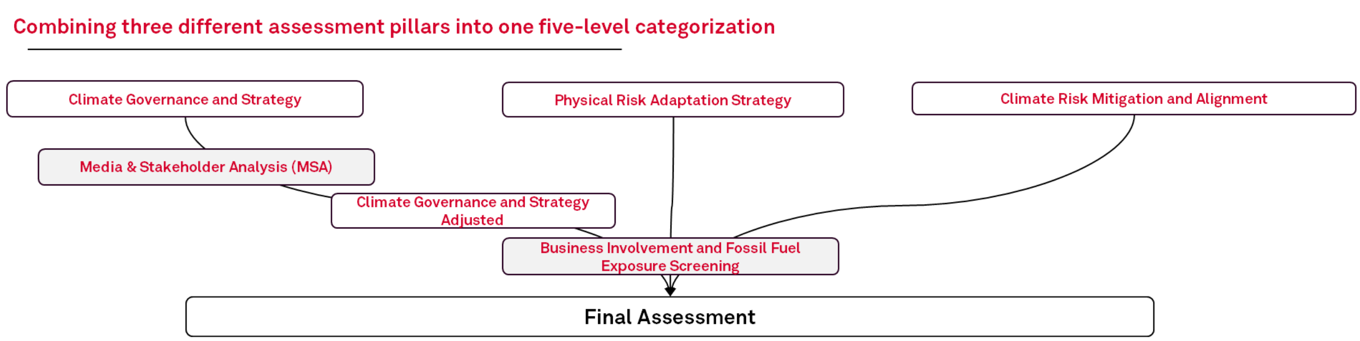
These assessments can be revised based on a series of screening criteria which includes an assessment of a company's involvement in environmental or governance related controversial events (i.e., Media & Stakeholder Analysis or 'MSA') or the company's involvement in controversial sectors (i.e., Business Involvement and Fossil Fuel Exposure Screening) which may conflict with an effective strategy towards a low-carbon future. Please see Table 1 in the Annex for more information on these screening criteria.

Based on the revised assessment, companies are defined as follows:

Final Category	Definition	Rationale
Transition Strategic	A company that is assessed as being "Advanced" in all three pillars.	These companies demonstrate exceptional climate governance and strategy, showcasing a deep understanding of the risks and opportunities associated with climate change. They have a robust climate governance structure in place, with a specialized committee overseeing climate-related issues, and a comprehensive risk management process that is integrated into their overall strategy. Their long-term focus and commitment to reducing greenhouse gas emissions are evident in their alignment with a 2-degree or below temperature increase trajectory. These companies are truly leading the way in addressing climate-related challenges and opportunities, and are well-positioned to thrive in a low-carbon economy.
Transition Proactive	A company that is assessed as being "Basic" in one of the three pillars but assessed as "Advanced" in the other two. This indicates that the company is demonstrating strong performance in more than one area, but still has room for improvement in other.	These companies demonstrate a strong foundation in climate governance and strategy, with some exceptional performance in specific areas. They have a solid governance structure in place, with a clear understanding of climate-related risks and opportunities. While they may not be leaders in all areas, they are making significant strides in reducing their greenhouse gas emissions and are aligned with at least a 2-3 degree temperature increase trajectory or have made significant commitment to the net zero goals. With some additional focus and investment, these companies have the potential to become leaders in climate governance and strategy.
Transition Developing	A company that is assessed as being "Basic" in all three pillars, or as "Basic" in two pillars and as "Advanced" in one, with no pillars assessed as being "Poor". This indicates that the company is meeting the minimum requirements for climate governance	These companies demonstrate a good understanding of climate-related risks and opportunities but may not be taking a proactive approach to addressing them. They do not excel nor perform poorly on any key climate related issue. With some improvement in their approach to climate transition preparedness, these companies can reduce their climate-related risks and capitalize on opportunities in the low-carbon economy.

Final Category	Definition	Rationale
	and strategy, but it is far from being exceptional across all areas.	
Transition Initiating	A company that is assessed as being "Poor" in one pillar.	These companies demonstrate some weaknesses in their climate transition strategy, which may be impacting their ability to effectively manage climate-related risks and opportunities. These companies fail in one of the key pillars – whether it is governance, climate adaptation or mitigation. With some targeted improvements, these companies can address their weaknesses and move towards a more robust climate transition approach.
Transition Limited	A company that is assessed as being "Poor" in at least two of the three pillars. ***A transition limited company is also one that fails the BIS assessment, regardless of the other assessments.***	These companies demonstrate significant weaknesses in their climate governance and strategy, which may be putting them at risk in the low-carbon economy. They may not have a basic governance structure in place, or may be lacking in multiple areas, such as risk management, long-term planning, and greenhouse gas emissions reduction. These companies may be struggling to understand and manage climate-related risks and opportunities, which could impact their financial performance and reputation. Immediate attention is needed to address these weaknesses and develop a more robust climate governance and strategy.

Pillar Scoring Method



Pillar 1: Climate Governance and Strategy

This pillar evaluates the availability of effective climate governance structures and integrated risk management processes within the company.

Climate Governance indicates the availability of a climate dedicated Board-level or management-level committee.

- Score 2: Board-level committee references climate-related keywords.
- Score 1: Management committee references climate-related keywords.
- Score 0: No committees reference climate-related keywords.

Climate Strategy evaluates a company's availability and integration of climate initiatives in its overall strategy.

- Score 2: The climate change strategy is integrated across the company.
- Score 1: The strategy exists but follows a specific process.
- Score 0: No clear climate strategy is present.

Strategy Time Horizon focuses on the time horizon of the climate strategy.

- Score 2: The strategy includes short, medium, and long-term horizons.
- Score 1: The strategy includes at least two-time horizons.
- Score 0: No clear time horizon is present for the strategy or only one term is addressed.

Value Chain Management examines how operational areas are included in the climate strategy.

- Score 2: All three operational areas (upstream, own operations, downstream) are included in the climate strategy.
- Score 1: Two areas are included in the climate strategy.
- Score 0: One or no areas are included in the climate strategy.

Additionally, companies can earn two additional points if they link CEO KPIs to monetary incentives for reducing emissions, highlighting a commitment to sustainability and accountability at the executive level.

The total score (10) is the sum of the scores from these categories, leading to a classification of Advanced (total score of 8 or more), Basic (a score between 2 and 7), or Poor (a score below 2).

Importantly, a negative Media & Stakeholder Analysis (MSA) screening may demote a company to a 'Poor' classification despite initial scores. This adjusted assessment is included in the Climate Governance Strategy Adjusted field. This ensures that companies not only meet governance standards but are held accountable through continuous monitoring.

Pillar 2: Physical Risk Adaptation Strategy

This pillar evaluates a company’s capacity to prepare for the tangible impacts of climate change and withstand extreme weather events and other physical hazards.

Physical Risk Adaptation Plan assesses the availability of a plan for physical risk adaptation.

- Score 2: The company has a context-specific plan or the adaptation plan is not applicable, and the company has provided evidence to support this.
- Score 1: The company has an overall adaptation plan.
- Score 0: The company has no adaptation plan.

Scenario Assessment assesses whether the company has conducted a quantitative, qualitative or a mixed-method scenario study to assess the impact of future climate change scenarios.

- Score 1: The company employs scenario analysis that is either qualitative, qualitative and quantitative, or purely quantitative.
- Score 0: No scenario analysis is performed.

The total score, a sum of these assessments, leads to a classification of Advanced (Score of 3), Basic (a score of 1 or 2) and Poor (a score of 0).

Pillar 3: Climate Risk Mitigation and Alignment

This pillar evaluates a company's initiatives to reduce carbon emissions and compliance with evolving climate regulations, crucial for sustaining long-term operations in a low-carbon economy.

- Advanced: Companies aligned with targets of <1.75°C, <1.5°C, or 1.5-2°C.
- Basic: Companies aligned with 2-3°C or 2-2.7°C in a low impact climate sector (according to the EU classification[1]) or those not Paris Aligned but with SBTI verified or Science Based Net Zero targets for Scope 1, 2, and 3 emissions.
- Poor: Companies aligned with 2-3°C, 2-2.7°C, or >2.7°C in a high climate impact sector with no Net Zero targets, or a temperature alignment above 3 degrees with no Net Zero targets.

Final Assessment

The final assessment considers the above three pillars and aggregates the assessment to define the company's performance in managing and preparing for the transition to a low-carbon economy.

Category	Description	Criteria
5	Transition Strategic	All pillars are assessed as 'Advanced'.
4	Transition Proactive	Two pillars are assessed as 'Advanced' and one pillar is assessed as 'Basic'.
3	Transition Developing	Either two pillars are assessed as 'Basic' and one pillar is assessed as 'Advanced' or all three pillars are assessed as 'Basic'.
2	Transition Initiating	One pillar is assessed as 'Poor' regardless of the other assessments.
1	Transition Limited	Two or more pillars are assessed as 'Poor' regardless of the other assessment or the company fails any of the Business Involvement and Fossil Fuel Exposure screenings[2] regardless of the outcome of the assessment of the three pillars

Double Materiality

The Climate Action Framework incorporates double materiality across all its pillars.

In the Climate Governance and Strategy and Physical Risk Adaptation Strategy pillars, the methodology evaluates how companies integrate climate-related risks and opportunities into their governance and decision-making processes. These pillars focus on resilience planning, assessing how well companies anticipate and prepare for climate-related risks that can affect the company financials.

[1] Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1–39) https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32006R1893

[2] Refer to Annex for the details related to the controversial business involvement screening.

The Climate Risk Mitigation and Alignment and the Climate Governance and Strategy[3] also address companies' contribution to climate change evaluating companies' efforts to reduce emissions.

This dual focus ensures that companies not only understand their potential vulnerabilities but also recognize their responsibility in promoting climate related practices.

Monitoring and review

The Climate Action Framework undergoes quarterly monitoring and review to evaluate the methodology's performance, address potential biases or limitations, and identify opportunities for improvement.

S1 conducts validation and statistical testing across a broad range of sustainability indicators to demonstrate that, on a larger scale, companies that are considered transition ready have better sustainability-related performance than companies that are considered as less prepared for the transition. In more details, the statistical tests aim to show that on average, the environmental performance[4] of companies in categories considered "transition-ready" is superior to that of companies in less transition-prepared groups.

This validation procedure is done to ensure the methodology can successfully indicate that companies considered as better prepared for transition perform better on different climate related indicators that (e.g., future carbon earnings at risk, current level of emission intensities, including non-GHG air pollutants).

All new methodologies and any material changes to existing methodologies are reviewed and approved by an independent methodology governance committee.

Assumptions and Limitations

The trade-off between delivering a decision-useful framework and the potential depth of analysis means that some complexities and sector-specific nuances may not be fully captured by the analysis. To mitigate this risk, S1 have designed the methodology to ensure the assessment of companies' performance takes into account the materiality posed by the transition related challenges e.g., physical risk, emission reductions.

The climate change mitigation Paris Alignment framework primarily focuses on direct emissions, with Scope 3 emissions evaluated only based on companies' comprehensive Net Zero commitments. S1 may consider including Scope 3 emissions in the Paris Alignment assessment when such data becomes available. Although Scope 3 emissions are not currently included, validation tests ensure that companies considered to be better prepared for the transition typically exhibit lower carbon intensities across all reporting scopes and a reduced percentage of earnings at risk from carbon activities by 2050.

The accuracy of the assessments heavily depends on the quality and availability of company reported data. Discrepancies in data reporting and disclosure can lead to variations in scoring and classification.

Finally, climate regulations and standards are continually evolving and will be shaping the transition path to a low-carbon economy. The methodology may require frequent updates to ensure it remains aligned with the latest regulatory requirements and best practices. Similarly, rapid changes in market dynamics and technological advancements can impact a company's transition strategy and may not be immediately reflected in the assessments.

[3] See assessment of CEO monetary incentives to reduce emissions.

[4] Environmental metrics include scope 1, 2 and 3 greenhouse gas intensity, environmental disclosure, air pollutant emissions, and future earnings at risk derived from carbon activities.

Maintenance/updates

The dataset is updated on a quarterly basis.

Annex

Table 1 Negative Screenings

MSA Criteria	Criteria	Rationale	Assessment
Media & Stakeholder Analysis (MSA)	Involvement in Governance Controversies	Companies involved in any major and severe Governance controversies for the past three years.	Company is assessed as 'Poor' in *Climate Governance Strategy* ***Adjusted*** pillar.
	Involvement in Environmental Controversies	Companies involved in any medium, major and severe Environmental controversies for the past three years.	Company is assessed as 'Poor' in *Climate Governance Strategy* ***Adjusted*** pillar.
BIS Dimension	**Criteria**	**Potential Responses**	**Assessment**
Business Involvement and Fossil Fuel Exposure Screening	Oil Fuels[5]	More than 10% of revenues generated from oil fuels or 50% from gas fuels.	Company is classified as Transition Limited
	Controversial Business Industries	More than 1% of revenues generated from coal activities including supporting activities and more than 1% of involvement in artic drilling, tar and sands oil and ultra deep-sea drilling.	Company is classified as Transition Limited
	Power Generation[6]	More than 50% of revenues from generating energy from fossil fuels.	Company is classified as Transition Limited

[5] Oil and Gas fuels revenues are calculated from the Trucost Environmental Dataset
[6] Power generation is calculated from the Trucost Environmental Dataset

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