



## Shades of Green methodology description for Nasdaq Green Designations

May 2023

Shades of Green, formerly part of CICERO, now a part of S&P Global, Company Assessments enable markets to consider climate risk in investment decisions and track companies' transition efforts over time. 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 impact how a company meets its green ambition.

Our company climate risk assessments are a practical tool for investors, lenders and public authorities for understanding climate risk, including in preparation for green equity listings, green IPOs, TCFD reporting and developing corporate sustainability strategies.

Shades of Green, formerly part of CICERO, now a part of S&P Global, is an approved reviewer for the Nasdaq Green Designation program that encompasses Nasdaq Green Equity Designation and Nasdaq Green Equity Transition Designation.

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, the EU Taxonomy, and the Nasdaq Green Equity Principles. Our review is not an audit, and we do not opine on the accuracy of the information provided to us by the company.

### **About Shades of Green, formerly part of CICERO, now a part of S&P Global**

In December 2022, S&P Global acquired the Shades of Green business from CICERO, Norway's foremost institute for interdisciplinary climate research. In the coming months, Shades of Green will be integrated into S&P Global Ratings and further expand the breadth and depth of its SPO offerings. Shades of Green, formerly part of CICERO, now a part of S&P Global, provides independent, research-based Second Party Opinions (SPOs) of green financing frameworks as well as climate risk and impact reporting reviews of companies. At the heart of Shades of Green's SPOs is the multi-award-winning Shades of Green methodology, which assigns shadings to investments and activities to reflect the extent to which they contribute to the transition to a low carbon and climate resilient future. The Shades of Green team will continue to use its existing methodology until it is formally integrated into S&P Global Ratings.











### **Shading corporate turnover and investments**

[In this document, for information purposes, we provide a summary of certain aspects of the Company Assessment methodology. Our view is that the green transformation must be financially sustainable to be lasting at the corporate level. Our Company Assessments therefore include green shading of the company's turnover, as well as investments and operating expenses.

The approach for Company Assessments is an adaptation of the Shades of Green methodology for the green bond market. The Shade of Green allocated to a green bond framework reflects how aligned the likely implementation of the framework is to a low carbon and climate resilient future, and we assess investments and turnover similarly. We allocate a shade of green to the underlying activities<sup>1</sup> for turnover and investments according to how these streams reflect alignment of the underlying activities to a low carbon and climate resilient future.

The Company Assessment methodology was developed in the research project Sustainable Edge<sup>2</sup>. 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<sup>3</sup> and project participants. The analysis methodology that was developed is rooted in CICERO's climate science. The Shades of Green methodology takes into account scenarios used for the IPCC assessment reports to assess levels of transition and physical climate risk<sup>4</sup>. Our Dark Green Shading is aligned with the Paris Agreement target to limit global warming to less than 2°C. Shades of Green has commercialized project results and further developed the assessment approach.

On the top end of our shading scale, a Dark Green shading indicates an activity that already aligns with a near-zero carbon future and builds in climate resiliency. In contrast, Light Green indicates an activity that significantly reduces greenhouse gas emissions but that does not shift underlying infrastructure away from fossil fuels. For activities that we do not consider green, we use Yellow to indicate cautionary activities that represent some level of climate risk, and Red to indicate activities that are significantly harmful to the climate such as new fossil fuel infrastructure.

SHADES OF GREEN	EXAMPLES
 <p><b>Dark green</b> is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future.</p>	 <p>Solar energy projects</p>
 <p><b>Medium green</b> is allocated to projects and solutions that represent steps towards the long-term vision but are not quite there yet.</p>	 <p>Green buildings with a high level of certification and energy efficiency</p>
 <p><b>Light green</b> is allocated to transition activities. These projects and solutions could have lower emissions, but do not by themselves represent or contribute to the long-term vision.</p>	 <p>Substantially more efficient manufacturing of fossil fuel intensive materials</p>
 <p><b>Yellow</b> is allocated to projects and activities that do not contribute to transition. These activities could have some emissions and be exposed to climate risks. This category also includes activities with too little information to assess.</p>	 <p>Efficiency in fossil fuel infrastructure</p>
 <p><b>Red</b> is allocated to projects and activities that have no role to play in a low-carbon and climate resilient future. These are heaviest emitting assets, with the most potential for lock-in of investments and risk of stranded assets.</p>	 <p>New infrastructure for coal</p>

**Governance assessment**

In addition to the shading, 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)

<sup>1</sup> For activities directly tied to asset ownership we assess the underlying assets  
<sup>2</sup> <https://cicero.oslo.no/en/posts/projects/sustainable-edge-climate-risk-assessment-for-companies>  
<sup>3</sup> ENOVA is a Norwegian government enterprise responsible for promotion of environmentally friendly production and consumption of energy.  
<sup>4</sup> See CICERO Shades of Risk report <https://cicero.oslo.no/en/climateriskreport>.

strategy, policies and governance structure; 2) lifecycle considerations including supply chain policies and environmental considerations towards 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. Included in our review of governance is 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 grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. 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 Company Assessments we provide transparency on preliminary alignment with the EU Taxonomy. The latest information available and latest published delegated acts from the EU are considered. For an activity to be aligned with the EU Taxonomy, it must meet three aspects: 1) the environmental thresholds as defined for climate mitigation or adaptation (with criteria for other objectives forthcoming), 2) the do-no-significant-harm (DNSH)-criteria on other sustainability objectives, and 3) the minimum social safeguards.

In order to qualify as a sustainable activity under the EU regulation 2020/852 certain minimum safeguards must also be complied with. The safeguards entail alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights. Shades of Green completes a light touch assessment of the above social safeguards with a focus on human rights and labor rights risks<sup>5</sup>. We take the sectoral, regional and judicial context into account and focus on the risks likely to be the most salient social risks.

Our assessment of alignment against the EU Taxonomy is based on a desk review of the documents listed in the sources section of our reports and information provided by the company against the EU Taxonomy Delegate Acts.

## Nasdaq Green Equity Principles

To assess eligibility of a company for the designations, the shares of green turnover and investments are compared against the requirements outlined in the Nasdaq Green Equity Principles. In addition, transparency is provided on the degree of alignment with the EU Taxonomy. We also assess the company's environmental strategies and targets through our governance assessment.

To assess alignment with the Nasdaq Green Equity Principles, Shades of Green uses information provided by the company to analyze the activities and investments of the company. Once the Shades of Green method has been applied, we can determine if alignment with the principles is met:

- More than 50% of the company's turnover stems from green activities (activities that are assessed as Light, Medium or Dark Green according to the Shades of Green methodology)

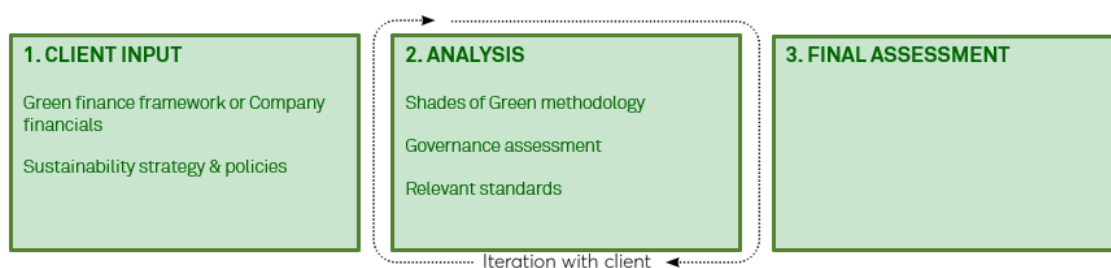
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<sup>5</sup> Shades of Green, formerly part of CICERO, now a part of S&P Global, is in the process of further developing its assessment method to ensure that it encompasses the object and purpose of the minimum social safeguards. For the time being we assess alignment with the key features of due diligence requirements embedded in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights. The issues covered are Human Rights, Employment and Industrial Relations including the ILO Declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights. Our general assessment focuses on environmental aspects and thus covers this section in the OECD Guidelines for Multinational Enterprises. We do not currently assess issues related to corruption or taxation (combating bribery, bribe solicitation and extortion), consumer interests, science and technology and competition.

- Less than 5% of the company’s turnover is derived from fossil fuel activities (activities that are assessed as Red<sup>6</sup> according to the Shades of Green methodology)
- More than 50% of the company’s investments are green (activities that are assessed as Light, Medium or Dark Green according to the Shades of Green methodology)
- Transparency on alignment of the company’s activities with the EU Taxonomy is provided via our assessed based on information provided by the company on environmental thresholds, DNSH and social safeguards.
- Transparency on the company’s environmental targets and KPIs is provided (and analyzed via our Governance Assessment, which can include e.g. SDGs, science-based targets, etc.)

Information on alignment as determined by our assessment is then fed back into the Nasdaq ESG Data Portal along with the company-provided information. Alignment with the Nasdaq Green Equity Principles is re-confirmed on an annual basis via an updated company assessment.

### Assessment process



Our assessments are based on a review of documentation of the client’s policies and processes, as well as information provided to us by the client. The below figure 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 our assessment is based 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 non-financial reporting, including any assurance by a third party. We analyse turnover, operating costs and investments, however there is typically not an explicit link between sustainability and financial data<sup>7</sup>. Our shading often requires allocating line items in financial statements to projects or products, 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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<sup>6</sup> The Red Shade is allocated to activities directly linked to fossil fuel activities that have no role in the low-carbon and climate-resilient future. This includes, but is not limited to, all steps in a “business as usual” fossil fuel supply chain: upstream (exploration, extraction, and production), midstream (transportation and storage) and downstream (refining and marketing). Significant improvements in fossil fuel infrastructure and activities indirectly linked to the fossil fuel supply chain can qualify for a different shade.

<sup>7</sup> Most accounting systems do typically not provide a break-down 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.

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