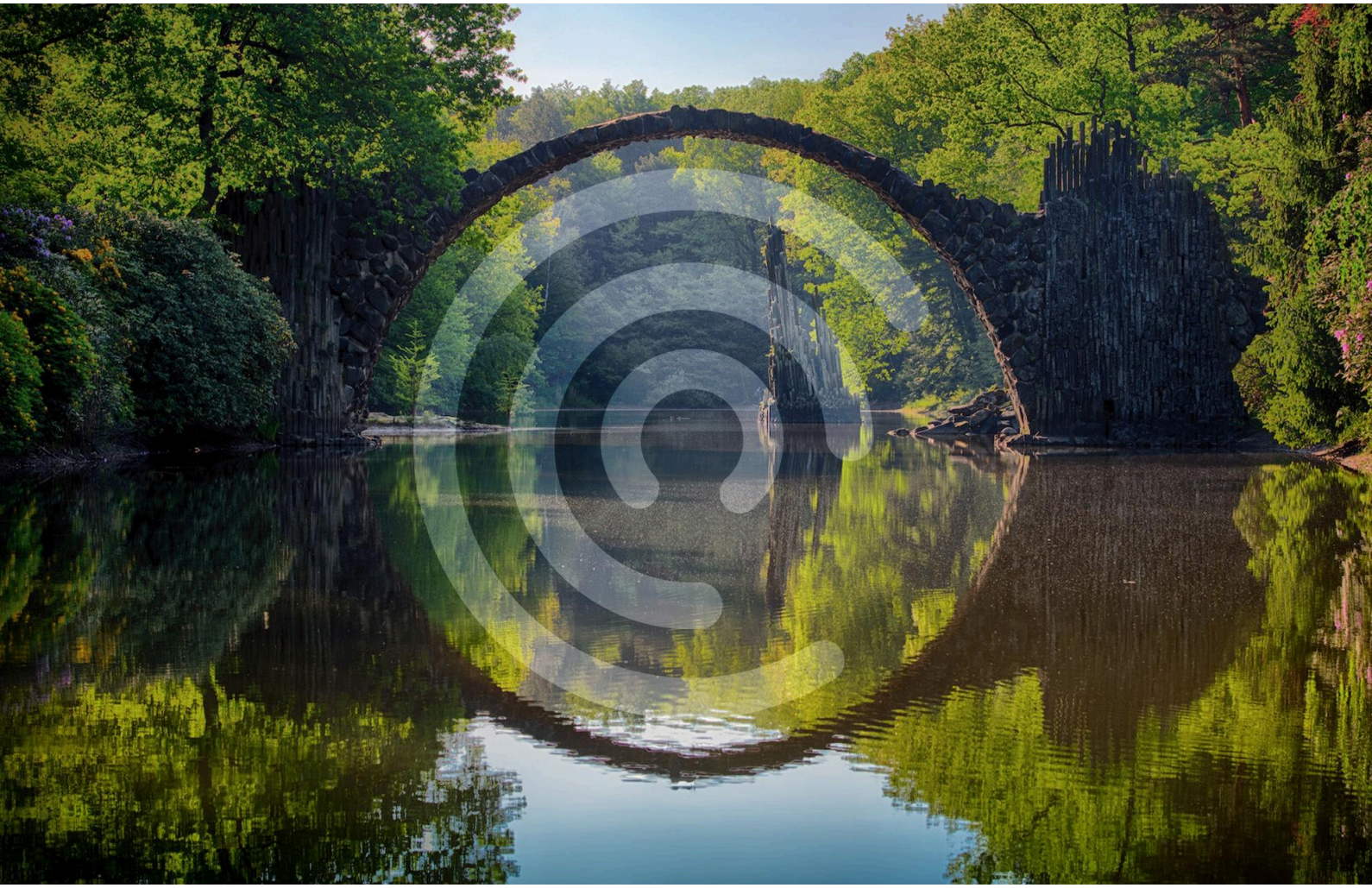

Clarity AI - Net Zero Alignment Ratings

Methodology Document

Version 1.0, June 2026

Version history

Methodology Name	Net Zero Alignment Ratings
Version Number	1.0
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Overview

The Climate Transition – Net Zero Alignment rating is a forward-looking analytical product designed to evaluate the alignment of companies' decarbonization trajectories with the net zero trajectories required by the Paris Agreement.

The primary objective is to support investors and ESG managers in analysing corporate climate performance, monitoring portfolio alignment, and informing engagement strategies as part of their decarbonisation planning. Grounded in the **Net Zero Investment Framework (NZIF)** issued by the Institutional Investors Group on Climate Change (IIGCC), the methodology uses a rules-based, primarily impact-focused model, prioritizing real-economy GHG emission reductions as the key to mitigating systemic financial transition risks.

Companies are assessed based on **five core NZIF criteria**:

- Criterion 1 (Ambition): Long-term net zero commitment (by 2050 or sooner);
- Criterion 2 (Targets): Existence of 5-10 year science-based reduction targets;
- Criterion 3 (Performance): Quantitative assessment of being "on track" to meet targets;
- Criterion 4 (Disclosure): Transparency regarding Scope 1, 2, and material Scope 3 emissions; and
- Criterion 5 (Decarbonization Plan): Verification of tangible actions in a transition plan

The rating culminates in an **ordinal maturity scale of four categories**: Aligned to a net zero pathway (the highest currently attainable), Aligning to a net zero pathways, Committed to Aligning, and Not Aligned. This framework uses a rules-based, proprietary interpretation of the NZIF criteria, with ratings updated at regular intervals on the Clarity AI platform.

Glossary of Terms

Term	Definition
CapEx	Capital Expenditures
CDP	A global disclosure platform/non-profit organization that provides temperature scores and target data.
CSRD	Corporate Sustainability Reporting Directive; a regulatory disclosures framework.
GICS	Global Industry Classification Standard; used as an anchor for Clarity AI's proprietary internal classification system.
GHG	Greenhouse Gas
High-Impact Companies	Companies listed by Climate Action 100+, classified into IIGCC high-impact sectors, or banks/real estate entities.
ITR	Implied Temperature Rise; a metric relating corporate emissions target ambition to a global warming outcome (e.g., 1.5°C).
KPIs	Key Performance Indicators; indicators mapped to five NZIF criteria.
Material Scope 3	Emissions found to be relevant for specific sectors based on the Climate Action 100+ application classification.
ML	Machine Learning; models used for data estimation, particularly for Scope 1 and Scope 2 corporate emissions.
NLP	Natural Language Processing; models used to extract information from CSR and other reports.
NZIF	Net Zero Investment Framework; a guide used by investors to set targets and produce related net zero strategies and transition plans.
SBT	A science-based emissions reduction target verified by the Science Based Targets initiative (SBTi).
TCFD	Task Force on Climate-related Financial Disclosures; climate-related disclosure guidance used as a data source.

1. Analytical Framework

1.1. Methodology Overview

The methodology is informed by the NZIF framework for listed equity and corporate fixed income.

It utilizes both backward-looking data (on historical emission reductions, emissions disclosures) and forward-looking data (net zero by 2050 pledges, 5-10 year emissions targets), including an assessment of corporate decarbonisation plans.

The methodology produces an ordinal ranking system that consists of four categories:

- Achieving net zero **(not currently assigned)**
- Aligned to a net zero pathway **[= best result]**
- Aligning to a net zero pathways
- Committed to Aligning, and
- Not Aligned **[= worst result]**

The NZIF criteria underpinning the net zero alignment assessment are shown in table 1. Clarity AI assigns a net zero alignment maturity level to approximately 12,000 global companies.

Table 1: Criteria and alignment maturity levels of the Net Zero Investment Framework (NZIF)

Criteria	Committed to aligning	Aligning to a net zero pathway	Aligned to a net zero pathway	Achieving net zero
Asset with emissions intensity required by the sector and regional pathway for 2050 and whose operational model will maintain this performance.				✓
Emissions performance: Current absolute or emissions intensity is at least equal to a relevant net zero pathway.			✓	✓
***Capital allocation alignment:** A clear demonstration that capital expenditures are consistent with a relevant net zero pathway.			✓	✓
***Decarbonisation plan:** A quantified set of measures exists to achieve short and medium term science-based targets by reducing GHGs and increasing green revenues, when relevant.		✓	✓	✓
Disclosure: Disclosure of operational scope 1, 2 and material scope 3 emissions.		✓	✓	✓
Targets: Short and medium term science-based targets to reduce GHG emissions.		✓	✓	✓
Ambition: A long term goal consistent with the global goal of achieving net zero by 2050.	✓	✓	✓	✓

**Additional alignment criteria that a corporate within a high impact material sector needs to meet.*

Source: Institutional Investors Group on Climate Change (IIGCC), June 2024

Currently, we do not assign the highest NZIF maturity level, "Achieving Net Zero" to any company as a precautionary measure to mitigate potential greenwashing risks, given existing limitations in accurately measuring forward-looking operational performance across sectors. Consequently, "Aligned to a net zero pathway" represents the maximum attainable rating within Clarity AI's implementation of the framework.

For parent-subsidiary linkages, a subsidiary inherits the rating of its direct parent if it does not disclose minimum information (i.e. either a net zero ambition or a valid short or medium term emissions target) independently.

1.2. Alignment maturity assessment details

The methodology evaluates a company's alignment maturity level based on five core NZIF criteria:

- Ambition,
- Near-term Targets,
- Emissions Performance,
- Disclosure, and
- Decarbonisation Plan (must only be met by companies classified as high-impact material sectors, as defined by the NZIF (see appendix B for details).

The criterion for Capital Allocation Alignment is currently excluded from the calculation due to the lack of robust sectoral standards required to consistently determine capital expenditure alignment with a net zero pathway.

As the NZIF does not strictly prescribe a specific calculation or assessment model for each criterion, the detailed **approaches presented herein represent Clarity AI's proprietary interpretation and modeling**. For every criterion, our model generates a **boolean compliance assessment (Yes/No)** indicating fulfillment of the requirement.

Criterion 1 – Ambition

This criterion assesses the existence and timeline of a company-level long-term commitment (pledge or goal) consistent with the global goal of net zero emissions by 2050.

Clarity AI uses several different sources to obtain this information, as described below:

- Clarity AI collected data: We leverage both Large Language Models and human collection processes to obtain disclosure data from companies' public reports.
- Science-Based Targets Initiative (SBTi): We look for companies that have an SBTi-approved Net Zero target.

Scoring Methodology: Compliance with this criterion requires that an entity formally reports a commitment to achieve net zero emissions by 2050 at the latest, as verified through the

aforementioned data sources. Entities failing to meet these requirements are classified as "not aligned" and are subsequently ineligible to attain any higher maturity level within the framework.

Criterion 2 – Near-term targets

This criterion assesses if the company has a short- or medium-term (5-10 year horizon) emissions reduction target and whether that target has an ambition that is in line with the goals of the Paris Climate Agreement of keeping global warming to well-below 2°C compared to pre-industrial levels.

Clarity AI externalizes the assessment of corporate emissions targets, utilizing temperature scores and curated target data from the Science Based Targets initiative (SBTi) and CDP, with SBTi temperature ratings prioritized.

Their temperature scores expressed in °Celsius reflect the potential global temperature rise by the end of the century compared to preindustrial levels if all economic actors adopted and met emission reduction targets with a similar scope and level of ambition.

The SBTi assesses corporate emissions reduction targets through a rigorous process. Companies submit their proposed targets, which are evaluated based on scientific criteria, ensuring they align with the latest climate science. It publishes temperature scores for Scope 1 and 2 targets in the categories 1.5°C, well below 2°C and 2°C.

However, the initiative does not generally publish temperature assessments for Scope 3 reduction targets. Still, the assessment criteria stipulate that Scope 3 emissions must be included in the targets for most companies, albeit with a slightly lower level of ambition (2°C; previously well below 2°C). Due to the lack of transparency regarding the Scope 3 assessments, we follow a precautionary approach and assign a Scope 3 temperature score of 2° to all companies with a SBTi Scope 1+2 score.

If no temperature rating from the SBTi is available for a company, we use the temperature ratings from CDP. Together with the WWF, CDP has developed a publicly available, science-based methodology to assess any GHG reduction target in terms of its alignment with global warming pathways. To this end, CDP uses detailed reports from companies to the global disclosure platform on reduction targets with information that is not typically published in corporate sustainability reports.

CDP also follows a rigorous approach to scoring various types of targets reported by companies. In addition to standard target data such as on the base year, target year, and targeted reductions, CDP also analyzes in detail which emissions within a specific scope are covered by the target in order to counteract greenwashing in target reporting.

To compare the ambition levels with global temperature rise pathways, CDP uses sector-specific and science-based scenarios from the International Energy Agency (IEA) for companies in emissions-intensive sectors. For all other companies, CDP uses benchmarks constructed from various IPCC scenarios.

CDP issues temperature ratings for companies on a scale of 1.5 to 3.4 degrees Celsius based on Scope 1+2 and Scope 3. CDP's worst score of 3.4 is typically assigned to companies that did not disclose any target data to CDP or whose disclosed information was insufficient.

Clarity AI categorizes the °Celsius temperature scores received from the SBTi and CDP for the NZIF alignment maturity assessment as follows:

- 1.5ºC Aligned: Temperature alignment of 1.5ºC
- 2ºC Aligned: Temperature alignment between 1.5ºC and 2ºC
- Above 2ºC: Temperature alignment between 2ºC and 3ºC
- Well above 2ºC: Temperature alignment exceeding 3ºC

Scoring Methodology: The "Aligned" and "Aligning" levels in the NZIF framework require targets to be in line with a net zero pathway. To be considered in line with a net zero pathway, and therefore compliant with this criterion, company targets must:

1. have a 1.5ºC aligned temperature score for Scope 1 and 2 targets, and
2. have a 2ºC aligned temperature score for Scope 3 targets.

Companies with higher °C temperature scores cannot achieve the "Aligned" or "Aligning" levels.

Please note that users of our software application can determine compliance with this criterion either with or without the inclusion of Scope 3 targets for companies with material Scope 3 emissions. Without taking Scope 3 targets into account, only the level of ambition of Scope 1+2 targets is relevant.

Criterion 3 – Emissions Performance

Clarity AI assesses if the company is **On track** or **Delayed** in terms of achieving its Scopes 1 and 2 target. It compares the company's actual emission reductions to its target and the time elapsed since the target's base year, using the same target as in Criterion 2.

Thus, we do not carry out point-in-time assessments or the calculation of company-specific emissions pathways as suggested by the NZIF, as these dimensions are inherently integrated within the SBTi and CDP target evaluations utilized in our framework. By quantifying current target achievement levels, the methodology effectively satisfies the objectives of the NZIF "Emissions Performance" criterion while maintaining internal consistency with our assessment of near-term targets.

For this, the **target progress rate** is compared with the **target's time frame that has elapsed**. The progress rate for emissions reduction for absolute and intensity targets is calculated as follows:

$$Target\ progress\ rate\ absolute\ = \frac{Emissions\ in\ base\ year - Emissions\ in\ reporting\ year}{Emissions\ in\ base\ year\ x\ Reduction\ ambition}$$

$$Target\ progress\ rate\ intensity\ =\ \frac{Intensity\ value\ in\ base\ year\ -\ Intensity\ value\ in\ reporting\ year}{Intensity\ value\ in\ base\ year\ x\ reduction\ ambition}$$

Regarding targets derived from CDP, the target progress rate is utilized as a direct input, calculated by CDP based on the specific emissions figures disclosed by corporate entities through the global disclosure platform's annual assessment cycle.

The proportion of the target's elapsed time frame is calculated as follows:

$$Share\ of\ target\ timeframe\ elapsed\ =\ \frac{Reporting\ year\ -\ Base\ year}{Target\ Year\ -\ Base\ Year}$$

To be considered **On track**, a company's **progress rate must be higher or equal to its target's elapsed time frame**, with a 10% threshold. This threshold is applied to take into account the non-linearity of actual reductions in time and the potential delay between decarbonization implementation and reporting.

See the below box for an example of determining the emissions performance criterion.

Company example

- Committed Scope 1+2 target: 100% reduction by 2030, from a 2019 base year
- Target's time frame: 11 years, from 2019 to 2030
- Covered emissions in base year: 1,272,214 tCO_2e
- Covered emissions in reporting year: 1,127,151 tCO_2e in 2020

- → Progress rate: $\frac{1{,}272{,}214 - 1{,}127{,}151}{1{,}272{,}214\ x\ 100\%}$ = 11.4%
- → Share of target's elapsed time frame: $\frac{2020-2019}{2030-2019}$ = $\frac{1}{11}$ = 9%

The progress rate is higher (with a 10% tolerance) than the share of the target's elapsed time frame so KIA Motors Corp is considered on track to achieve its Scope 1+2 target.

Scoring Methodology: The "Aligned" and "Aligning" levels in the NZIF framework require targets to be in line with a net zero pathway. A company complies with this criterion if it is considered to be **On track** to meet its target based on the model described above.

Criterion 4 – Disclosure

For this criterion, Clarity AI tracks whether a company has **publicly disclosed its Scopes 1 and 2 emissions and material Scope 3 emissions**. The Scope 3 criterion applies only for companies in sectors with material Scope 3 emissions as defined by the NZIF (see Appendix C).

Clarity AI employs a robust data collection and quality assurance process for greenhouse gas (GHG) emissions data. Our collection universe encompasses 16,000 companies, from which we gather self-reported GHG data through various sources including annual reports, sustainability reports, TCFD reports, and publicly-available CDP disclosures. Our proprietary data collection platform integrates both human collectors and automatic collection using Natural Language Processing (NLP).

Scoring Methodology: For a positive assessment, the company must publicly disclose its Scope 1 and 2 and material Scope 3 emissions, where applicable.

Criterion 5 – Decarbonization Plan

Under this criterion, Clarity AI tracks whether a company demonstrates it has developed a **low-carbon transition plan** or defined concrete **decarbonisation actions**. We use the following sources to assess this criterion:

- For certain companies in emissions-intensive sectors, we employ generative AI to assess whether a company publicly reports tangible decarbonisation actions as part of its decarbonisation plan. The model looks for quantifiable information linked to key decarbonisation levers using elements from the CA100+ Net Zero Company Benchmark.
- We assess all other companies based on whether they disclose quantifiable decarbonisation measures, without applying sector-specific criteria.

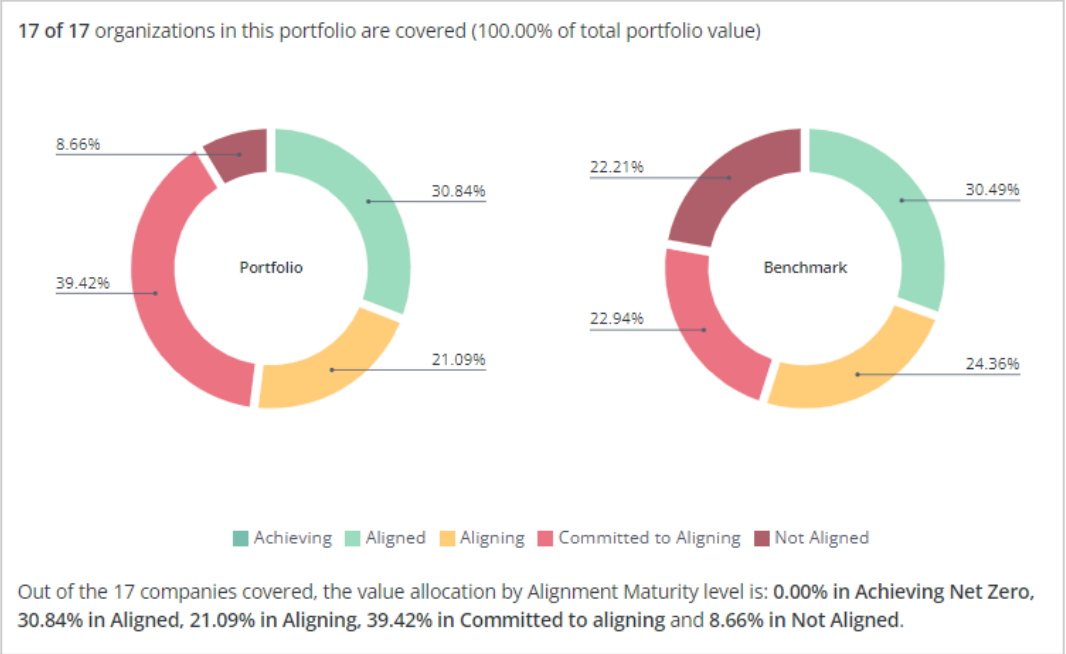
Scoring Methodology: High-impact companies comply if they are verified to have publicly disclosed tangible decarbonisation actions via Clarity AI's proprietary assessment.. This criterion is not applied to low-impact companies.

Investment portfolio aggregation

Following the determination of individual corporate alignment maturity levels, results are aggregated at the investment portfolio level to facilitate portfolio-level target setting and performance monitoring.

Portfolio aggregation is conducted by summing the individual portfolio weights of all corporate listed equities and corporate bonds corresponding to each alignment maturity level. This results in a portfolio breakdown presented by maturity levels as shown below.

Chart: Example of a portfolio-level breakdown by alignment maturity level



2. Rating Product Specifics

2.1. Materiality Objectives & Dimensions

The primary objective of the Climate Transition – Net Zero Alignment rating is to determine the degree to which a company's strategic commitments and operational performance align with science-based net zero trajectories. Its analytical framework is primarily impact-focused, prioritizing the assessment of an entity's contribution to real-economy greenhouse gas (GHG) emissions reductions.

Impact materiality is assessed through a multi-criteria evaluation of the company's effect on the environment, specifically its long-term climate ambition, the robustness of its near-term science-based targets, and its actual historical emissions performance compared to 1.5°C/2°C-aligned pathways. Financial transition risks—defined as the potential financial impacts on the rated entity arising from the shift toward a low-carbon economy—are captured indirectly. The methodology is founded on the core premise that the systemic financial risks posed by climate change to an individual entity can only be effectively mitigated through the actual reduction of GHG emissions in the real economy.

Consequently, the integration of these dimensions is qualitative rather than through a quantitative split: the assessment treats corporate alignment with net zero pathways (impact) as a prerequisite for and a proxy of the entity's readiness to manage long-term financial transition risks. A high maturity rating signifies that the entity is managing its transition risk by aligning its business model

with the required global decarbonization trajectories.

2.2. Factor Scope & Specific Issues

The scope of this rating is focused on the Environmental (E) factor, specifically the single issue of corporate alignment to net zero pathways. It covers the theme of climate change mitigation, including Scope 1, 2, and material Scope 3 emissions.

2.3. Key Performance Indicators (KPIs)

The methodology utilizes indicators mapped to five NZIF criteria: Long-term Net Zero Ambition, Near-term Science-Based Targets, Emissions Performance (progress against targets), Disclosure of material emissions, and the existence of a quantified Decarbonization Plan. A full list of indicators can be found in Appendix A.

2.4. EU-Taxonomy Alignment

Whilst Clarity AI's client web-based interface shows data related to capital expenditures (CapEx) aligned with Climate Mitigation in the EU Taxonomy, this criterion is not currently factored into the Alignment Maturity Scale Assessment (see section on Limitations for more details). Therefore, there is currently no correlation of the overall maturity rating with EU Taxonomy alignment.

2.5. Weighting & Aggregation Logic

Alignment maturity levels are determined using a boolean compliance assessment (Yes/No) for each underlying criterion. Companies must fulfill cumulative requirements to progress through the scale as shown in table 1 above (e.g., "Aligned" requires fulfillment of all five criteria, while "Aligning" requires ambition and targets but allows for delayed performance).

Please note that users of our software application can set a user-specific rating that takes into account Scope 3 targets (Criterion 2) for companies with material Scope 3 emissions.

2.6. Alignment with EU Reporting Standards

The rating builds on the Net Zero Investment Framework and measures a company's alignment to net zero pathways. Therefore, it corresponds to the CSRD topic of "Climate Change: Mitigation (Scope 1, 2, and 3 emissions) and adaptation strategies".

2.7. Assessment Model

The rating is expressed in absolute values on an ordinal maturity scale. The scale and scoring thresholds are derived from the Net Zero Investment Framework as described above.

2.8. International Agreement Alignment

The rating explicitly incorporates the targets and objectives of the Paris Agreement, as the

foundational Net Zero Investment Framework (NZIF) is designed to align investment activities with these global climate goals.

The methodology also systematically assesses alignment by evaluating corporate commitments and performance against publicly disclosed emissions targets (see below for further details).

2.9. Industry Classification Standards

The analytical framework utilizes **two primary industry classification systems** to ensure sectoral alignment maturity is accurately assessed:

- Institutional Investors Group on Climate Change (IIGCC): Used for the definition of high-impact sectors within the Net Zero Investment Framework (NZIF) as of October 2024.
- Climate Action 100+: Employed to determine the materiality of Scope 3 emissions for specific high-impact sectors, based on the March 2021 benchmark indicators.

Company-to-sector mapping is facilitated through Clarity AI's proprietary internal classification system, which comprises 169 sub-industries. This system is anchored in the Global Industry Classification Standard (GICS)[1] level 4, but features categorizations designed to more granularly capture specific sustainability and impact characteristics in key carbon-intensive industries.

2.10. Scientific Evidence Overview

At Clarity AI, we prioritise aligning our methodology and selecting metrics in accordance with science-based standards. Where such scientific standards are lacking, we rely on recognised industry standards or best practices wherever possible. Any gaps or ambiguities in standards are addressed on the basis of scientific findings from reputable publications.

The underlying NZIF framework of this methodology ensures that scoring criteria and asset-level assessments for listed equities and corporate bonds are grounded in scientific evidence, supported by the following foundational arguments:

- **Scientific Rigour:** A core guiding principle of the framework is the requirement for rigour, which explicitly requires alignment to be based on sound evidence and data consistent with the best available climate science.
- **Adherence to 1.5°C Pathways:** The criteria are designed to support decarbonization pathways that limit global average temperature rise to 1.5°C above pre-industrial levels with a high probability. To ensure this, the framework recommends using pathways from established scientific and international bodies, including:
    - The IPCC 1.5°C Special Reports
    - The IEA's Net Zero by 2050 roadmap
    - The One Earth Climate Model

[1] The Global Industry Classification Standard (GICS) is an industry taxonomy developed by MSCI and Standard & Poor's (S&P).

- **Science-Based Target Requirements:** For a corporate asset to be categorized as "Aligning" or "Aligned" to a net zero pathway, it must have science-based targets. While NZIF does not strictly require validation by the Science Based Targets initiative (SBTi), it mandates that targets be equivalent in terms of robustness.
- **High-Impact Sector Stringency:** Stringent evaluation criteria are applied to high-impact material sectors, which are scientifically identified as critical for global net zero objectives due to the substantial GHG emissions inherent in their value chains.
- **Real-Economy Impact:** The methodology prioritizes driving tangible GHG reductions in the real economy—financing reduced emissions—rather than simple portfolio reweighting, ensuring that investment strategies address systemic financial risks identified by physical climate science.

3. Data Sourcing & Quality

3.1. Data Sourcing

Data is **primarily sourced from public company disclosures** (CSR reports, annual reports, TCFD, and Sustainability reports) and **third-party datasets on emissions targets including SBTi and CDP**.

In line with its data quality standards, Clarity AI sources company data directly from a variety of corporate disclosures, including but not limited to sustainability and integrated reports. This includes, where applicable, regulatory disclosures prepared under frameworks such as the Corporate Sustainability Reporting Directive (CSRD), as well as other reporting standards. These reports may or may not have been subject to an external assurance assessment.

For primary data collection, Clarity AI has developed a proprietary platform that allows custom data collection combining human collectors and automatic collection (natural language processing): Igloo. Human collectors are typically a mix of external resources (outsourced service) and internal resources that are in charge of quality controls and collection of more complex data that requires in-depth expertise or has a high error rate when outsourced. The platform has embedded quality controls supported by machine learning models and a menu of different workflows (e.g., double manual entry; comparison of automated extraction with manual entry) to ensure only high-quality data inputs are processed further.

Clarity AI also uses third-party data (i.e., information collected by others and licensed as a data package to Clarity AI) for certain metrics, primarily company reference data (e.g., industry code) and fundamental data (e.g., revenues, headcount). The selection of third-party data follows a specific outsourcing procedure. Clarity AI performs a lifecycle assessment of third-party providers (“Data Vendors”) to ensure competent, duly authorized, and capable provider selection and supervision, as well as effective monitoring and control of outsourced collection activities and associated risks.

Specific sources relevant to this methodology include the SBTi Target Dashboard (monthly updates), and a customized and more detailed version of the CDP Net Zero Alignment Dataset (annual updates) . The provided data points on targets, temperature alignment, commitments and decarbonisation plans are not subject to external assurance.

3.2. Data Quality & Reliability

Clarity AI operates a structured data validation and quality control framework applied at each stage of the data ingestion, processing, and release process. The framework covers pre-release validation of raw data, validation of ratings, a defined remediation process, and a policy for the revision of historical data. The validation process is reviewed and updated at least annually.

Prior to each data release, the Raw Data Team performs a systematic validation of the candidate raw data dataset proposed for release (CAS). The validation covers all metrics in scope for the release. The following checks are applied:

Coverage checks: unexpected losses in metric, provider, or entity coverage relative to the prior release are investigated. Losses affecting priority metrics are treated as release blockers;

Value range checks: data points are verified against pre-defined acceptable ranges for each metric. Points outside those ranges are flagged for review;

Absolute value change checks: individual data point values are compared between the candidate release and the version in production. Unexpected deviations are flagged for review;

Historical series consistency: Z-scores are calculated per metric for each entity across all available years. Year-on-year changes are also monitored, with large deviations between consecutive years triggering a flag on both affected data points;

Related metrics consistency: internal consistency across logically related metrics is verified, for example, by checking that the sum of component values does not exceed the corresponding total;

Policy metric checks: transitions in policy values are monitored, with particular attention to losses of previously reported policies. Data points inconsistent with the prevailing industry profile are subject to sample-based review.

Data points that fail validation checks are added to a provisional blacklist, blocking them from the release. All blocked data points are documented and tracked in dedicated tickets. Issues that cannot be resolved within the validation window result in a rollback to the previously released version of the affected dataset, on a case-by-case basis. Following raw data validation, relevant experts perform additional product-level checks on ratings, including automated threshold-based tests.

Data is updated through full releases, which follow the complete validation process described above, and targeted releases, which cover specific datasets or corrections and follow an accelerated validation timeline. Urgent corrections addressing factual errors in the data are incorporated on an ad hoc basis through the quality inventory, subject to prioritization and verification.

Within the analytical framework of this methodology, particularly regarding the evaluation of Criterion 2, CDP's annual temperature alignment dataset undergoes a rigorous manual review by subject matter experts. This quality gate is designed to identify and rectify any anomalies, statistical outliers, or structural errors prior to the formal ingestion of data into our systems.

3.3. Data Revision Policy

Clarity AI maintains a policy for the revision of historical data, reflecting the fact that companies regularly restate previously reported figures. Restatements are classified by reason — corrections, methodology updates, boundary updates, fiscal year adjustments, or unspecified — and are identified systematically during the collection process. For GHG emissions metrics, automated tooling is used to detect restated values at source. For other metrics, the standard approach is to collect the first published value, with restatements incorporated upon identification. All restatements are documented and traceable, and restated values undergo the same quality controls as current-year data before being reflected in the platform. Where a restatement is material, it may trigger a broader review of affected ratings.

The analytical framework of this methodology **rests on the most current data disclosed** by corporate entities within their public reporting cycles or via specialist platforms, specifically the Science Based Targets initiative (SBTi) and CDP. Capture of historical emissions data restatements would only be relevant regarding Greenhouse Gas (GHG) emissions metrics utilized in the quantitative evaluation of performance under Criterion 3 in rare cases where companies restate their target base year emissions.

3.4. Missing Data & Estimations

This methodology **primarily relies on self-disclosed data for determining company performance on the relevant criteria**. However, for measuring performance against targets (criterion 3), we may use in-house estimated Scope 1 and Scope 2 GHG emissions data for estimating target base year emissions in the absence of company reported data.

Clarity AI uses an advanced machine learning (ML) model to estimate greenhouse gas emissions for companies that do not publicly disclose this data. The model learns from reported data to identify complex patterns between a company's emissions and core characteristics like its business activities, geographical footprint, financial revenue, or employee headcount. To ensure fair comparisons across different organizations, the model calculates these emissions as an intensity ratio relative to company size.

To guarantee high output quality, the model is built in collaboration with sustainability experts and undergoes strict validation. It is rigorously tested on a hidden dataset of real company info to evaluate performance on completely unseen data..

Beyond GHG emissions, CDP assigns a default ITR of 3.4ºC—corresponding to a "Well above 2ºC" categorization—to entities that fail to disclose near-term target data.

3.5. Handling of Major New Information

Ratings are continuously monitored and updated as new information becomes available from company disclosures or third-party data sources (SBTi and CDP).

The valid time horizon of the rating is defined as the time between Clarity AI data releases, which is typically two weeks. Please note that our ratings are rules-based, rather than analyst-driven assessments. They are updated and made available to users at regular intervals through the Clarity AI platform, following the data releases process and calendar (typically every two weeks, aligned with underlying data updates). A material change to an individual rating is triggered by the ingestion of updated corporate disclosures, significant modifications to the rules-based analytical framework, or the systematic remediation of identified data errors.

4. Artificial Intelligence (AI) Usage

4.1. Data Collection

Clarity AI leverages Large Language Models (LLMs) within this methodology for the systematic collection of quantitative emissions data and net zero policy information, as well as the extraction of qualitative insights regarding decarbonization plans and tangible, quantified transition measures from corporate public disclosures.

The use of AI in this context involves inherent limitations and risks. These include the risk of "hallucination" (producing a plausible but unsupported value), "misinterpretation" (confusing units or materially different figures), and performance degradation over time ("drift") as reporting formats or the underlying LLMs evolve. Additionally, accuracy may be uneven across different sectors, languages, or company sizes (disparate performance). Extractors are also limited by the quality and content of the source documents provided.

These risks are systematically mitigated by designing our internal data extraction platform around the principle that AI outputs must be measured, reviewed, traceable, and reversible.

Quality and Consistency: Every new extractor version is rigorously tested against human-verified "ground-truth" annotations before deployment. All extractors running in production are under ongoing human monitoring, with review intensity adapted based on the extractor's historical performance. This continuous monitoring helps us catch drift and disparate performance proactively.

Transparency and Governance: Every prediction is transparently linked back to its source; most values are returned with the supporting quote and page location, ensuring full traceability. Strict human oversight is enforced through a two-stage workflow where only designated experts can approve and deploy an extractor version. This creates an auditable record of which AI configuration produced any given data point at any time, and allows for the quick disabling or downgrading of an extractor if input distributions change.

4.2. Data estimations

For measuring compliance with Criterion 3 (Emissions performance), this methodology may use in-house estimated GHG emissions data generated by Machine Learning (ML) models for estimating emissions in the absence of company reported data.

The deployment of advanced ML models is necessary to close data gaps, introducing specific methodological risks which we manage through a standardized operational and Data Governance framework designed to systematically validate model outputs.

Advanced ML models, while highly accurate, capture complex relationships but can sometimes obscure the reasoning behind an output (the "black box" problem). To ensure auditability and trust, we enforce strict documentation protocols and invest in systematic explainability tools.

Furthermore, every automated validation check is mapped back to clear, real-world domain knowledge, ensuring the rejection or flagging of any estimate can be diagnosed.

We actively prevent the generation of unreliable data for industries with low public disclosure by enforcing strict minimum reporting thresholds. If an industry falls below the required data volume, the ML estimate is automatically suppressed to prevent unwarranted statistical extrapolation.

To prevent algorithms from predicting impossible scenarios, we integrate "Essential" validation checks that enforce physical constraints, automatically blocking outputs that violate physical realities, such as estimations of negative waste generation.

To ensure stable historical trends for financial applications, we apply temporal validations that detect and cap extreme year-on-year variations against expected industry distributions. This prevents artificial volatility and enforces trend consistency.

Finally, to actively mitigate the risk of algorithmic bias that could inadvertently facilitate greenwashing, our models are not solely optimized for prediction error minimization. Instead, we prioritize the accurate differentiation between industry leaders and laggards (relative rank preservation). We only deploy a complex ML model if it achieves a substantial performance gain (defaulting to a >20% improvement) over simpler, existing methods, ensuring the investment in complexity is justified.

4.3. Methodology Implementation

Clarity AI integrates AI-assisted software development tools to facilitate the translation of approved ESG rating methodologies into production-ready code. In this capacity, AI functions as an engineering support tool to optimize efficiency and code quality by assisting with logic drafting, unit test generation, refactoring, and the systematic identification of potential edge cases or implementation defects.

AI is not deployed as an autonomous decision-maker; it does not independently define or modify rating methodologies. All methodology design, regulatory interpretation, and final deployment decisions remain the sole responsibility of our engineers and methodology owners, governed by

established review protocols.

The integration of AI into methodology implementation introduces specific risks, including potential misinterpretation of requirements, subtle calculation errors, or the creation of technical debt through unmaintainable logic. Furthermore, there is a risk of over-reliance leading to insufficient independent validation or reduced traceability if implementation decisions are not rigorously documented and peer-reviewed.

These implementation risks are systematically mitigated through our standard software development lifecycle (SDLC) and rigorous engineering controls.

Human Accountability and Review: All AI-assisted implementations are fully owned and validated by Clarity AI engineers. AI tools are prohibited from approving code or deploying changes. Every methodology-related code change undergoes mandatory peer review to ensure correctness against approved requirements, architectural consistency, and data integrity.

Testing and Validation: AI-assisted code must adhere to a comprehensive testing pyramid, including unit tests for specific calculations, integration tests for data pipelines, and regression tests to ensure historical stability. Deterministic logic is validated against predefined test cases and controlled datasets to confirm the implementation aligns with the intended methodology behavior.

Good Engineering Practices: We apply standardized MLOps and engineering safeguards, such as version control, continuous integration, and static analysis. By enforcing small, reviewable pull requests and clear ownership of code changes, we maintain high standards of transparency and allow for the rapid rollback of production changes if anomalies are detected.

Traceability and Governance: Every technical implementation is transparently linked back to its underlying methodology documentation and acceptance criteria. AI-generated suggestions are only promoted if they are traceable to approved inputs, ensuring that AI remains a constrained tool within our broader methodology governance framework.

5. Assumptions & Limitations

5.1. Key Assumptions

The analytical framework of this methodology is predicated on several foundational assumptions. Central to the Net Zero Investment Framework (NZIF) is the **premise** that an entity's alignment maturity can be accurately represented through the systematic evaluation of specific, albeit potentially non-exhaustive, assessment criteria.

Furthermore, both the NZIF and Clarity AI's implementation **rely on the integrity of corporate self-disclosures**, treating such transparency—or the absence thereof—as a reliable proxy for actual operational behavior. A key assumption is that formally disclosed commitments, such as net zero pledges by 2050, emissions targets or quantified decarbonization measures, are substantively

integrated into the entity's core business strategy rather than serving merely as communicative gestures.

Regarding **parent-subsidiary linkages**, the methodology assumes that in the absence of independent reporting, a subsidiary's strategic direction is implicitly aligned with and governed by the parent entity's overarching climate strategy.

At the level of individual assessment metrics, the application of a **uniform 10% tolerance threshold to account for the non-linearity of emissions reductions** assumes a standardized rate of implementation across all sectors. This margin establishes a uniform baseline for monitoring performance, even while recognizing that decarbonization pathways are not identical across all fields. Stable sectors might necessitate lower thresholds, whereas carbon-intensive industries may require higher tolerances as they wait for critical technological advancements.

5.2. Limitations in Data Sources

A persistent constraint is the **lack of high-quality, standardized reporting for Scope 3** emissions by companies. Due to current deficiencies in data reliability and consistency, the methodology does not presently incorporate a quantitative assessment of corporate performance against Scope 3 reduction targets.

Furthermore, **science-based benchmarks required to measure the alignment of capital allocation** with net zero trajectories are generally unavailable. This absence of robust sectoral standards limits the current capacity to appropriately evaluate entities against this specific NZIF criterion.

Exclusion of the highest NZIF maturity level ("achieving net zero") is necessary due to inherent data limitations and the lack of reliable benchmarks needed for consistently assessing forward-looking business model alignment across diverse sectors.

Temporal inconsistencies, or **reporting lags**, are inherent to corporate sustainability disclosure cycles, which may impact the timeliness of the information utilized within the rating process.

The lack of, or incomplete, disclosure of GHG emissions by companies may necessitate the **use of emissions estimates,** which can compromise the quality of the criteria assessment.

Finally, **disclosures regarding decarbonization plans are often unstructured** and lack transparency. This poses challenges for data extraction and may lead to incomplete representations of an entity's tangible transition actions.

5.3. Limitations in Methodologies and Models

The methodology is predicated on the **foundational premise** that the NZIF assessment framework and its core criteria provide a sufficient proxy for evaluating corporate alignment with net zero pathways. However, it is recognized that this model may not fully capture the inherent complexity of the broader business and regulatory context. Specifically, entities in certain sectors face systemic dependencies—such as the future scalability of low-carbon technologies and shifting political

framework conditions—which may constrain their capacity to meet emissions targets compared to peers in less carbon-intensive industries.

While the NZIF does not explicitly preclude user-led assessments of these external factors, there is a current **absence of robust, science-based standards** required to consistently evaluate individual entities against dimensions of technological feasibility, economic implications, and geopolitical circumstances.

A further methodological constraint of the NZIF framework involves its **cumulative logic** for determining alignment maturity. Under this rules-based approach, entities without a formal long-term net zero commitment are ineligible to progress through the maturity scale, irrespective of their performance against other criteria. Consequently, while a long-term goal is a critical strategic anchor, this structure may not fully reflect the operational performance of entities lacking such public pledges.

Moreover, the framework **relies on the integrity of corporate self-disclosures** regarding net zero commitments and reduction targets. Given the potential for greenwashing and the absence of formal sanctioning mechanisms, there is a risk that disclosed data may serve promotional purposes rather than a reflection of actual operational behavior, potentially impacting the precision of the alignment assessment.

[Requirement under Annex III, 2 (a)(iv); users and rated items] related to methodological shortcomings.

Additional methodological limitations include:

- **SBTi Intensity Targets**: We currently do not calculate the target progress rate for companies with SBTi-approved intensity-based targets as the underlying intensity metrics are not available in a standardized format. As a result, such companies cannot achieve the “aligned” level.
- **Additional NZIF Criteria**: Clarity AI does not presently incorporate an evaluation of non-core NZIF dimensions, such as climate policy engagement, corporate climate governance, just transition considerations, or climate-related financial disclosures. Consequently, while the methodology focuses on core alignment pillars, it does not systematically capture the entirety of secondary assessment criteria proposed within the broader NZIF framework.
- **Green Revenues**: Clarity AI does not presently incorporate an explicit assessment of green revenue exposure within the evaluation of Criterion 5 (Decarbonization Plan). This focus on operational decarbonization may result in a non-exhaustive representation of an entity's broader decarbonization efforts across the entire value chain.

6. Methodology Governance

6.1. Governance Process Overview

Clarity AI maintains a robust methodology governance framework designed to ensure that all rating methodologies remain independent, rigorous, systematic, and objective. To uphold these core principles, Clarity AI subjects its methodologies to a structured development, review, and approval process overseen by dedicated internal governance bodies, in line with our ESG Ratings Governance Policy.

Process and Frequency for Revising Methodologies

Methodologies are reviewed on a regular basis and at least annually to verify that they remain fit for purpose, aligned with emerging regulatory requirements, and reflective of market trends. The revision process follows a systematic approach divided into three core phases: Preparation, Development & Testing, and Review & Approval.

The Review & Approval Phase includes a formal peer review and mandatory final approval by the Methodology Committee before any update can be deployed.

Clarity AI is committed to transparent communication to clients and rated entities, and makes information about its methodologies publicly available. The Chief Research Officer (CRO) oversees that methodology related documentation intended for disclosure meets external transparency requirements.

Clarity AI does not run market consultations in respect to its methodologies, however once the methodologies are disclosed clients, rated entities and other stakeholders may submit their feedback in respect thereof via the existing communication channels.

Conditions for Determining a Revision

Clarity AI has established specific conditions that trigger an official review and potential material modification of its rating methodologies. A review is initiated when there are updates to external sustainability standards or regulatory frameworks that directly impact the assessment criteria. It can also be driven by the availability of new or improved data sources, or conversely, by modifications, additions, or the discontinuation of data from third-party providers. Furthermore, enhancements to internal quantitative engines or underlying assessment models necessitate a review. Lastly, the governance framework mandates that formal complaints or external stakeholder feedback are reviewed by the Methodology Committee to determine if specific methodological adjustments are required.

Assessing Rating Impact

To prevent arbitrary adjustments, changes to existing methodologies are implemented via new or adapted algorithms and are automatically applied across the entire rated sample, including corporate, financial instruments, or sovereign scores. When a methodology modification is deemed

material, Clarity AI mandates that a comprehensive impact assessment be conducted prior to the scheduled data release. This ensures that any subsequent rating shifts are fully traceable to verifiable data processing or predefined methodological adjustments rather than qualitative overrides. Furthermore, material changes are communicated to clients, rated entities, and regulators in advance, accompanied by a clear explanation of the change's motivation and its expected impact analysis.

6.2. Engagement Process

This methodology has not been subject to market consultation. The methodology is applied to the assessed universe on an unsolicited basis, relying exclusively on publicly available information. Rated items do not participate in the assessment process. Once the rating is issued, Rated items can access Clarity AI's platform for free to review it, including the underlying data used to calculate the rating, and to submit complaints in case there are any errors.

Appendices

Appendix A: Key Performance Indicators (KPIs)

KPI Name	Description
Ambition Pledge	Presence of a commitment to reach Net Zero by 2050 or sooner.
Near-Term Target	Science-based reduction targets for 5-10 year timeframes.
Absolute Progress Rate	Percent reduction of total GHG emissions relative to target and time elapsed.
Intensity Progress Rate	Percent reduction of emissions per intensity unit relative to target.
Disclosure Coverage	Verification that material Scope 1, 2, and 3 emissions are publicly reported.
Decarbonization Plan Actions	NLP-confirmed tangible measures to achieve GHG reduction targets.

Appendix B: High-impact companies

The NZIF Maturity Level is measured differently for companies considered to be "High Impact".

We follow the NZIF 2.0 definition of "High impact companies" which are companies complying with at least one of the following conditions:

- Company is on the Climate Action 100+ focus list[2]
- Company belongs to the high-impact sectors listed by the IIGCC[3]: Agriculture, forestry, and fishing, Airlines, Automobiles, Banking, Cement, Chemicals, Consumer goods, Coal & Diversified Mining, Electric Utilities, Food Producers, Industrials, Oil and gas (plus distribution), Paper, Real Estate, Shipping, Steel, Transportation

[2] List available on the Climate Action 100+ website
[3] We use the high impact sector mapping provided by the IIGCC to its members in October 2024

Appendix C: Material Scope 3 emissions

Criteria 2 (Near-term targets) and **Criteria 4** (Disclosure) are evaluated differently depending on the materiality of Scope 3 emissions. Some sectors' most relevant emissions can be captured in Scope 1 and Scope 2, while others have a larger share of Scope 3 emissions which must be assessed.

We rely on the *Climate Action 100+ Scope 3 emissions application classification*[4] to identify those sectors in which Scope 3 emissions are found to be relevant since the initiative is highly aligned with the Net Zero Investment Framework.

Table: Climate Action 100+ Scope 3 emissions emissions application in high-impact sectors

Cluster	Sector	Scope 3 applicable
Energy	Oils and gas	Yes (use of sold product)
	Oils and gas distribution	Yes (use of sold product)
	Electricity utilities	Yes - Utilities with oil/gas distribution businesses (use of sold product from distribution businesses)
	Coal Mining	Yes (use of sold product)
Transport	Autos	Yes (use of sold product)
	Airlines	No
	Shipping	No
	Other transport	Yes (use of sold product)
Industrials	Aluminium	No
	Cement	No
	Steel	No

[4] Climate Action 100+ Scope 3 emissions application classification

Cluster	Sector	Scope 3 applicable
	Chemicals	Yes (purchased goods and services and use of sold products)
	Paper	No
	Diversified mining	Yes - Processing of sold products; for coal manufacturers also use of sold products
	Other industrials	Yes - On a case-by-case basis (non-electricity use of sold product)
Consumer goods & services	Consumer goods and services	Yes (purchased goods and services)

Climate Action 100+ Scope 3 emissions application classification

On top of these industries, **we also include the Financial industry** (except Insurance) given Scope 3 represents the largest part of their total emissions, especially Category 15 "Investments".

Appendix D: Temperature Alignment

Temperature scores of companies

The temperature scores available in our product are based on companies' **publicly stated emission reduction targets** which were analyzed to determine how much a given company intends to reduce its emissions (intensity) along its value chain within near-term timeframes of 5 to 10 years.

This level of target ambition was then compared with **science-based emissions pathways** for the economy as a whole or economic sectors associated with certain scenarios for global warming by the end of the century. The output derived from this assessment are company-specific temperature scores on a **range from 1.5 to 3.4**[5] expressed in degrees Celsius.

Clarity AI's temperature alignment metrics show the global temperature increase that could be expected under certain conditions if all economic players worldwide were to commit to the same emission reductions as the companies in which the portfolio is invested.

[5] The default score was 3.1 before 2023.

Clarity AI does not assess corporate emissions targets data internally but instead leverages temperature scores and curated target data by the Science Based Targets initiative (SBTi)[6] and CDP.

For our solution, SBTi temperature ratings are preferred to those of CDP.

The SBTi assesses corporate emissions reduction targets through a rigorous process. Companies submit their proposed targets, which are evaluated based on specific criteria, ensuring they align with the latest climate science. It publishes temperature scores for Scope 1 and 2 targets in the categories 1.5°C, well below 2°C[7] and 2°C.

However, the initiative does not generally publish temperature assessments for Scope 3 reduction targets. Still, the assessment criteria stipulate that Scope 3 emissions must be included in the targets for most companies, albeit with a slightly lower level of ambition (well below 2°C; previously 2°C).

Due to the lack of transparency regarding the Scope 3 assessments, we follow a precautionary approach and assign a Scope 3 temperature score of 2° to all companies with a SBTi Scope 1+2 score.

If no temperature rating from the SBTi is available for a company, we use the temperature ratings from CDP.

Together with WWF, CDP has developed a publicly available methodology[8] to assess any GHG reduction target in terms of its alignment with global warming pathways. To this end, CDP uses detailed reports from companies to the global disclosure platform on reduction targets with information that is not typically published in corporate sustainability reports.

CDP also follows a rigorous approach to scoring various types of targets reported by companies. In addition to standard target data such as on the base year, target year, and targeted reductions, CDP also analyzes in detail which emissions within a specific scope are covered by the target in order to counteract greenwashing in target reporting.

[6] The SBTi is a global organization that helps companies set credible, science-based emissions reduction targets aligned with the goals of the Paris Agreement to limit global warming to well below 2°C, preferably to 1.5°C.
[7] "Well below 2°C" SBTi targets are displayed at company level as "2°C aligned" because they are not exactly aligned with 1.5°C pathways
[8] CDP & WWF methodology for temperature ratings

To compare the ambition levels with global temperature rise pathways, CDP uses sector-specific scenarios from the International Energy Agency (IEA) for companies in emissions-intensive sectors. For all other companies, CDP uses benchmarks constructed from various IPCC[9] scenarios.

CDP issues temperature ratings for companies on a scale of 1.5 to 3.4 degrees Celsius based on Scope 1+2 and Scope 3. The worst score of 3.4 is typically assigned to companies that did not disclose any target data to CDP or whose disclosed information was insufficient.

Portfolio Aggregation

The company-level temperature scores are aggregated at portfolio level using a portfolio-weighted approach, whereby the weights are determined by the respective share of total financed emissions attributable to each company.

CDP considers various approaches **based on financed emissions** to be more favorable than other, simpler approaches. From these approaches, we have selected the 'ECOTS' approach based on the Enterprise Value including Cash (EVIC) metric, as EVIC is also used in other portfolio carbon account standards.

The portfolio level temperature score is calculated as follows:

$$\sum_{n}^{i}\left(\left(\frac{\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i}\times issuer's\ GHG\ emissions_i}{\sum_{n}^{i}\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i}\times issuer's\ GHG\ emissions_i}\right)\times issuer's\ Temperature\ Rise\ value_i\right)$$

where,

- current value of investment: is the value invested in the issuer's security, in USD,
- issuer's EVIC: is the issuer's enterprise value including cash
- issuer's GHG emissions: is the issuer's GHG emissions, which can be scope 1+2 or scope 3 depending on the Portfolio Temperature Alignment shown.

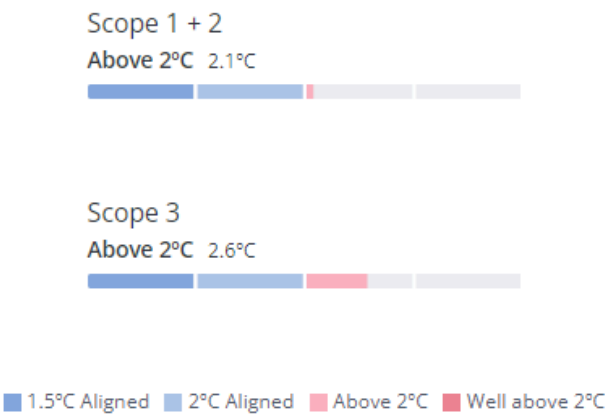
The portfolio-level Temperature Alignment is provided in two ways:

- As a decimal figure (e.g. 2.2ºC)
- As an ordinal rank (1.5ºC Aligned, 2ºC Aligned, Above 2ºC, Well above 2ºC)

Below an example of how this is shown in Clarity AI's web application:

[9] Intergovernmental Panel on Climate Change

For Scope 1 + 2, **17 of 17** organizations in this portfolio are covered (100.00% of total portfolio value) and for Scope 3, **17 of 17** organizations in this portfolio are covered (100.00% of total portfolio value)



This portfolio has a **Temperature Alignment of 2.1°C** for Scope 1 + 2 and has a **Temperature Alignment of 2.6°C** for Scope 3.

Data Sources

The data sources for company-specific temperature assessments include the Science Based Targets Initiative (SBTi) and CDP. We leverage the SBTi's public Target Dashboard file for information on SBTi-approved targets and respective temperature scores. The data from CDP is obtained under a special licensing agreement.

Temperature Alignment	Data source	Explanation	Frequency of update
Near-term targets	SBTi	Existence of a near-term target from SBTi's company dashboard	Monthly
	CDP	CDP Net Zero Alignment Dataset	Annually

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