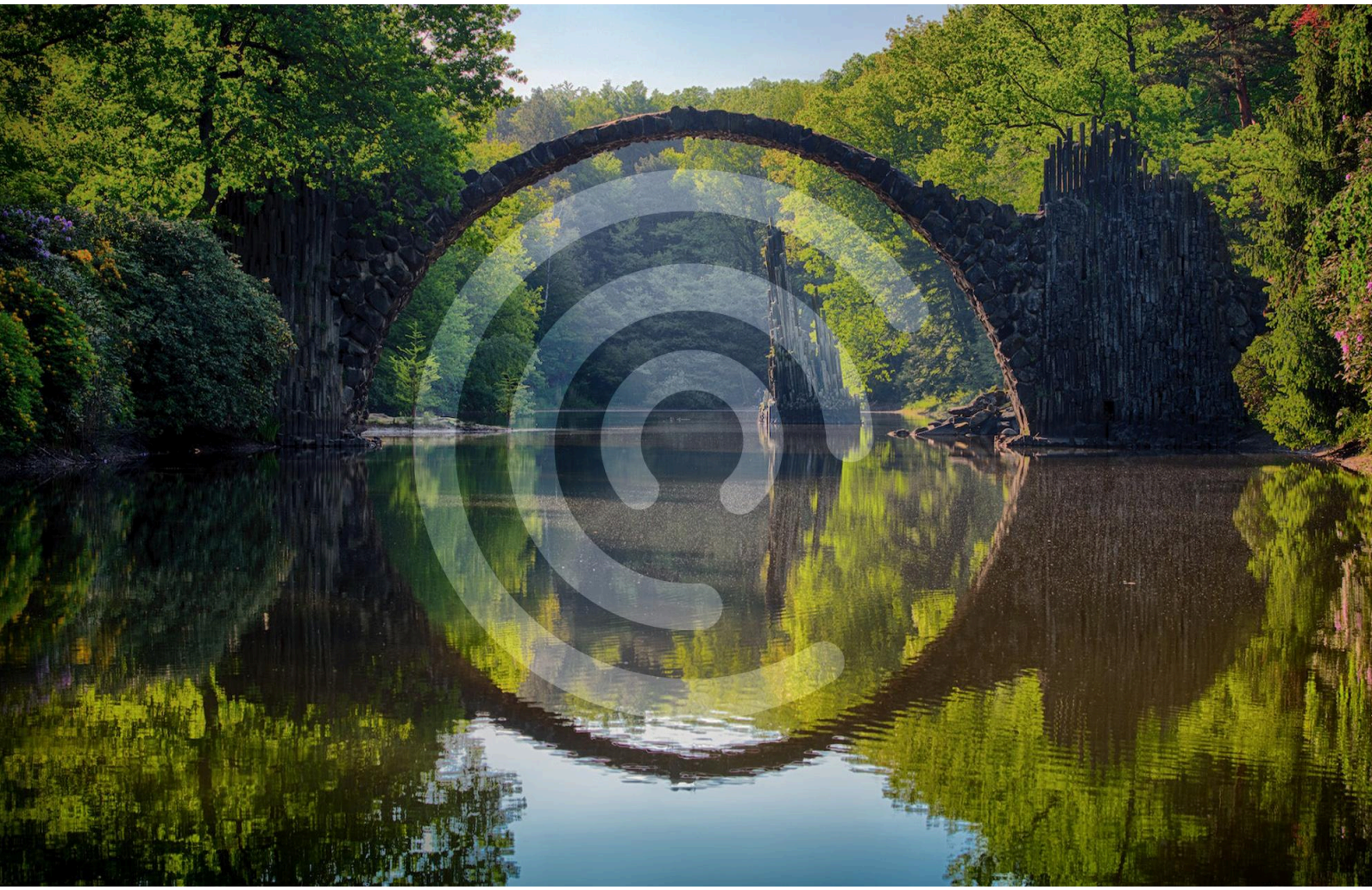

Clarity AI - Climate Transition Credibility Assessments

Methodology Document

Version 1.0, June 2026

Version History

Methodology Title	Transition Credibility Assessment
Version Number	1.0
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Key Changes from Previous Version	Not applicable, initial version

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Overview

The Transition Credibility Assessment is a sector-specific analytical framework designed to evaluate the credibility of corporate plans to decarbonise their business models in line with global net-zero goals.

The primary objective is to help investors identify companies exposed to low-carbon transition risks and opportunities, particularly those with carbon-intensive business models, and to support their decision-making across three key use cases: portfolio monitoring and risk management, stewardship and engagement, and regulatory compliance.

The approach is industry-specific, integrating a quantitative assessment of corporate performance with an evaluation of climate-related disclosures. This combined approach enables a more comprehensive assessment of transition plan credibility.

- **Performance:** Criteria assessing how the company performs relative to net-zero pathways, its own emissions targets or sectoral benchmarks
- **Disclosure:** Criteria evaluating how the company discloses key elements of a climate transition plan, including emissions and targets data, decarbonisation measures or financial commitments.

All evaluation criteria and technical screening criteria were chosen from recognised corporate transition plan disclosure and assessment frameworks or industry standards, including the Transition Plan Taskforce (TPT) Disclosure Recommendations, the Climate Action 100+ Net Zero Company Benchmark, or the International Energy Agency (IEA).

The methodology produces credibility assessments — rated **High, Medium, or Low** — for companies in certain emissions-intensive sectors, including

- Steel Producers,
- Cement Producers,
- Electric Utilities,
- Oil & Gas Producers, and
- Passenger Airlines

The company data for this analysis is sourced from publicly available reports including sustainability reports, specific climate reports or Integrated Reports, or publicly available databases such as that of the Science Based Targets Initiative (SBTi).

Glossary of Terms

Term	Definition
ACT	Assessing Low-Carbon Transition; a voluntary initiative that assesses the alignment of corporate climate strategies with low-carbon pathways.
CapEx / Green CapEx	Capital expenditure; Green CapEx refers to capital investments aligned with sector-specific decarbonisation levers.
CCS	Carbon Capture and Storage; technologies designed to capture carbon dioxide emissions from industrial processes and store them permanently to prevent atmospheric release.
Clinker-to-cement ratio	The proportion of clinker relative to the total mass of finished cement. As clinker production is the most carbon-intensive stage of cement manufacturing, reducing this ratio by incorporating supplementary cementitious materials (SCMs)—such as fly ash, slag, or natural pozzolans—is a primary sector-specific decarbonization lever.
CSRD	Corporate Sustainability Reporting Directive; an EU regulatory framework governing sustainability disclosures.
EAF	Electric Arc Furnace; a steelmaking process that uses electric arcs to melt raw materials, significantly reducing direct emissions compared to conventional blast furnaces.
GHG Protocol	A globally recognised standard for the accounting and reporting of greenhouse gas emissions, defining Scope 1, 2, and 3 categories.
H-DRI	Hydrogen-based Direct Reduction; a steel production process that uses hydrogen as a reducing agent instead of fossil fuels to produce direct reduced iron.
High-Impact Sector	A sector with significant greenhouse gas emissions where decarbonisation is essential to meeting global climate goals. High-impact sectors covered by this methodology: Steel Producers, Cement Producers, Electric Utilities, Oil & Gas Producers, Passenger Airlines, Aluminium Producers, Automobile Manufacturers, and Marine Shipping. Companies outside these sectors are assessed under the sector-agnostic methodology.
IEA NZE Scenario	International Energy Agency Net Zero Emissions by 2050 Scenario; provides sector-specific decarbonisation pathways used as performance benchmarks.
LDAR	Leak Detection and Repair; a process used in oil and gas operations to identify and mitigate fugitive methane emissions.

Term	Definition
Methane Intensity	The volume of methane emissions from upstream oil and gas sources as a proportion of the volume of natural gas produced, expressed as a percentage.
Near-Term Target	An emissions reduction target with a deadline before 2035.
NLP	Natural Language Processing; AI-based models used to extract qualitative information from corporate disclosures.
NZIF	Net Zero Investment Framework, issued by the Institutional Investors Group on Climate Change (IIGCC); a guide for investors to align with net zero goals.
OGDC	Oil and Gas Decarbonization Charter; an industry initiative with a collective upstream methane intensity target of below 0.2% by 2030.
Paris Agreement	The 2015 international climate treaty aiming to limit global warming to well below 2°C, preferably to 1.5°C, above pre-industrial levels.
Physical Emissions Intensity	Greenhouse gas emissions per unit of physical output (e.g., tCO2e per tonne of steel, gCO2e per kWh).
SAF	Sustainable Aviation Fuel; a renewable or waste-derived aviation fuel used as a lower-carbon alternative to conventional jet fuel.
SBTi	Science-Based Targets initiative; an organisation that validates corporate emissions reduction targets against science-based standards.
Thermal Substitution Rate (TSR)	The percentage of total thermal energy required for clinker production in a cement kiln that is derived from alternative, lower-carbon fuels (e.g., biomass, waste-derived fuels, hydrogen) rather than conventional fossil fuels like coal or petroleum coke. Increasing this rate is a key lever for reducing energy-related emissions.
TPT	Transition Plan Taskforce; a UK-led initiative that developed disclosure recommendations for credible corporate climate transition plans.

1. Analytical Framework

1.1. Methodology Overview

The Transition Credibility Assessment framework evaluates over 500 companies across high-impact sectors, including Steel, Cement, Electric Utilities, Passenger Airlines, and Oil & Gas. The framework is designed for further expansion to include additional industries and a specialized sector-agnostic model.

The methodology utilizes a dual-component assessment architecture, evaluating entities based on standardized performance and disclosure criteria:

Performance criteria include:

- Emissions performance in line with sector-specific 1.5°C aligned pathways
- Projected future emissions (intensity) in line with emissions targets
- Low-carbon technology deployment in line with sectoral pathways (where applicable).

Disclosure criteria include:

- Disclosure of a long-term net zero ambition
- Disclosure of near term emissions targets
- Disclosure of Scope 1, 2 and material Scope 3 emissions
- Target verification
- Disclosure of quantified, sector-specific decarbonisation measures
- Disclosure and level of quantified financial commitments towards the transition
- Disclosure of climate-related corporate governance (board oversight and executive compensation)

Certain criteria rest on backward-looking data (e.g., the use of historical emissions to project future performance against targets, or the disclosure of past emissions), whilst others are forward-looking data (e.g., long-term ambition, or emissions targets). The criteria on decarbonisation measures and financial commitments integrate elements of forward- and backward looking information.

1.2. Rating Levels Overview

The framework employs a **three-tiered ordinal scale**. Meeting the criteria for a lower tier is a prerequisite for achieving a higher one.

Table 1: Rating levels and associated criteria

Credibility Rating	Criteria Required	Description
High	Company meets all performance and all disclosure criteria	The company meets all emissions performance, target achievement, and low-carbon technology criteria (if applicable), as well as all disclosure criteria covering emissions, ambition & targets, decarbonisation strategy, financial, and governance criteria.

Credibility Rating	Criteria Required	Description
Medium	Company meets key disclosure criteria but not all performance criteria	The company meets disclosure criteria for emissions, ambition & targets, decarbonisation strategy, financial commitment, and board oversight.
Low	All other cases	The company meets the minimum requirements to generate a credibility assessment.

The rating system is hierarchical; a company must satisfy the full list of disclosure requirements to be eligible for a HIGH credibility designation. Companies only meeting some but not all performance criteria cannot achieve a HIGH rating.

A HIGH credibility assessment signifies a robust alignment with net-zero objectives. It indicates that an entity not only maintains high transparency in its climate-related disclosures but also demonstrates operational performance consistent with sector-specific 1.5°C pathways, including emissions intensity reduction, target achievement, and where applicable, low-carbon technology deployment.

A MEDIUM credibility assessment recognises comprehensive disclosure and the establishment of ambitious targets. However, it indicates that the company has not yet demonstrated empirical performance alignment with its decarbonisation pathway. Notably, a company may satisfy the disclosure criterion for Green CapEx, reporting quantitative capital expenditure data aligned with sector-specific decarbonisation levers, without meeting the applicable sector-specific threshold. Similarly, board-level oversight of climate issues is required, but disclosure of executive compensation linked to climate KPIs is not.

A LOW credibility assessment reflects an assessment where only basic disclosure requirements are met, lacking the comprehensive data coverage across the required strategic and financial criteria.

Entities failing to meet the foundational data requirements are classified as "Insufficient Data" and are excluded from the formal rating scale.

Please note that our ratings are primarily rules-based, rather than analyst-driven assessments. In the very limited instances when humans are involved, their role is to compare the outcome of automated models against detailed and standardized rubrics to ensure model accuracy. We do not produce individual credibility assessments or opinions. Our ratings are updated and made available to users at regular intervals through the Clarity AI platform. Clarity AI updates its transition plan credibility ratings biannually. A change in an entity's rating between scheduled updates will only occur exceptionally if new entity-specific information becomes available or if there is a material change to the methodology.

1.3. Methodology Details

1.3.1. Minimum Data Requirements

For a credibility assessment to be produced, the following minimum data availability requirements must be met by the assessed company:

1. **Physical Emissions Intensity:** The company must report a physical emissions intensity metric comparable to the relevant sector-specific scenario, with a data history covering at least three consecutive years.
2. **Emissions Targets:** The company must report a near-term (<2035) emissions reduction target (absolute or intensity-based) and provide data for the target base year and a data history of at least three consecutive years.
3. **Reporting:** The latest available corporate sustainability disclosures must not be older than two years.

Companies that do not meet these requirements receive an "Insufficient Data" result and are excluded from the full assessment.

1.3.2. Assessment Criteria and Performance Indicators

The disclosure criteria and related KPI selection were informed by recognised frameworks for climate transition plan disclosure and assessment, including the Transition Plan Taskforce (TPT) Disclosure Recommendations and the Climate Action 100+ Net Zero Company Benchmark.

The selection of performance criteria is grounded in widely adopted market practices for corporate climate assessment. These criteria specifically measure a company's emissions performance relative to either sector-aligned decarbonization pathways or its proprietary emissions reduction targets. The quantitative performance thresholds and necessary sectoral pathway data are sourced from authoritative bodies, such as the International Energy Agency (IEA), or established industry standards.

The credibility assessment is based on the questions shown in table 2.

Table 2: Assessment criteria overview

Evaluation Criterion	Key Performance Indicator (YES/NO)
Performance	
Performance against sector-specific, 1.5°C alignment emissions reduction pathways	**Is the company currently on track to align with the sector-specific pathway by 2030?**
Performance against targets	**Is the company on track to achieve its stated emissions reduction target?**

Evaluation Criterion	Key Performance Indicator (YES/NO)
Low-carbon technology deployment	**Is the company currently on track to align with the sector-specific net zero technology adoption pathway?**[1]
Emissions disclosure	
Emissions disclosure (Scope 1+2)	**Does the company disclose its Scope 1+2 emissions?**
Emissions disclosure (Scope 3)	**Does the company disclose its material Scope 3 emissions?**
Physical emissions intensity disclosure	**Does the company disclose a physical emissions intensity metric aligned with industry standards?**
Disclosure of Ambition & Targets	
Long-term ambition	**Does the company disclose a long-term net zero ambition by 2050 or sooner?**
Near-term targets	**Does the company disclose a near-term emissions reduction target?**
Target verification	**Have the company's near-term targets been validated by the Science Based Targets initiative (SBTi)?**
Decarbonisation Strategy	
Decarbonisation measures	**Does the company disclose quantifiable, sector-specific decarbonisation measures targeting the main sources of emissions across its value chain?**
Financial Commitment (Green CapEx)	
Green CapEx disclosure	**Does the company disclose quantitative data on its Green CapEx aligned with sector-specific decarbonisation levers?**
Green CapEx level[2]	**Does the company's Green CapEx meet the applicable sector-specific threshold?**
Climate Governance	

[1] Low-carbon technology deployment metrics are currently applicable to the following sectors: Cement Producers, Electric Utilities, Oil & Gas Producers, and Passenger Airlines. For companies operating outside these sectors, this indicator is considered not applicable and is excluded from the credibility assessment.

[2] Although this indicator measures performance, it is classified under the Disclosure section as it falls outside the scope of emissions and technology-related assessments.

Evaluation Criterion	Key Performance Indicator (YES/NO)
Board oversight	**Does the company disclose evidence of Board or Board committee oversight of climate change issues?**
Executive compensation	**Does the company disclose executive compensation incentives linked to climate-related KPIs**?

1.3.3. Assessment Criteria Details

Our methodology integrates quantitative models to evaluate entity performance against predefined criteria.

Performance against sector-specific, 1.5°C alignment emissions reduction pathways: *Is the company currently on track to align with the sector-specific pathway by 2030?*

We benchmark current physical emissions intensity (e.g., tCO2e/tonne of cement produced) against 1.5°C-aligned sectoral decarbonisation pathways. An entity satisfies this criterion if its most recent reported intensity falls at or below the sectoral benchmark, or if it demonstrates a downward trend over the past three years while maintaining intensity levels within a 15% tolerance of the current pathway.

Performance against targets: *Is the company on track to achieve its stated emissions reduction target?*

To evaluate alignment with stated decarbonization goals, we project future emissions intensity using linear regression of historical data. Alignment is confirmed if the projected intensity at the target year is equal to or lower than the stated reduction target.

Low-carbon technology deployment: *Is the company currently on track to align with the sector-specific net zero technology adoption pathway?*

Technology adoption is evaluated by comparing reported ratios or volumes against sector-specific transition benchmarks. An entity satisfies this criterion if its most recently reported value meets the requirements of the sector-specific pathway, or if it has demonstrated a consistent improvement over the past three years and its most recently reported value is not more than 15% below or above (depending on the technology) the sectoral target. The technologies currently being assessed are:

- the clinker-to-cement ratio (cement)
- the thermal substitution rate (cement)
- the upstream methane intensity (oil & gas)
- the use of sustainable aviation fuel (SAF) (passenger airlines), and
- the share of coal and gas of total electricity generation (electric utilities)

Green CapEx level: *Does the company's Green CapEx meet the applicable sector-specific threshold?*

Sectoral Green CapEx thresholds are determined via a "best-in-class" framework. We set thresholds at the 75th percentile of reported Green CapEx within each sector, with a heightened 95th percentile benchmark applied to Electric Utilities and Oil & Gas Producers. This methodology is informed by established external frameworks, specifically the Assessing Low-Carbon Transition (ACT) initiative for

Electric Utilities, and principles of Paris Agreement alignment regarding the incompatibility of continued fossil fuel exploration for the Oil & Gas sector.

Decarbonization Strategy: *Does the company disclose quantifiable, sector-specific decarbonisation measures targeting the main sources of emissions across its value chain?*

In evaluating a corporate **decarbonisation strategy**, Clarity AI identifies material, sector-specific levers to mitigate the risk of greenwashing within disclosures. To receive a positive rating, an entity must provide quantifiable evidence—such as specific ratios, volumes, or shares—pertaining to these key strategic actions. These levers address the most significant emissions sources within the company's operations or value chain, reflecting the specific materiality of its business activities.

2. Rating Product Specifics

2.1. Materiality Objectives & Dimensions

The primary objective of the Transition Credibility Assessment is to evaluate whether companies have credible plans to decarbonise their business models in line with global net-zero goals. **The rating is primarily impact-focused**: it assesses the current and future climate-related impacts of the rated entities, specifically their greenhouse gas emission trajectories and the robustness of their transition strategies.

Financial transition risk, defined as the potential financial exposure of a rated entity arising from the low-carbon transition of the global economy, is **captured indirectly**. The premise is that a company without a credible transition plan faces higher regulatory risk (e.g. carbon pricing), future capital expenditure exposure, and stranded assets risk in a carbon-constrained world. A transition plan credibility assessment therefore, signals both stronger climate impact alignment and reduced transition-related financial risk.

The double materiality principle is integrated qualitatively: impact materiality is the primary driver of the assessment, with risk materiality captured as a derivative consequence of climate-performance misalignment.

2.2. Factor Scope & Specific Issues

The scope of this rating covers the Environmental (E) and related Governance (G) factors. On the environmental dimension, the methodology assesses companies' alignment with climate change mitigation pathways, covering Scope 1, 2, and material Scope 3 greenhouse gas emissions as well as sector-specific technology adoption trajectories and other emissions, ambition and targets disclosure. On the governance dimension, the methodology assesses the existence of board-level oversight of climate issues and the integration of climate-related KPIs into executive compensation structures, both of which are considered indicators of the institutional commitment underlying a credible transition plan.

2.3. EU-Taxonomy Alignment

Where available, data reported by companies under Regulation (EU) 2020/852 (EU Taxonomy) or comparable non-EU taxonomies for environmentally sustainable activities is utilized to measure compliance with the financial commitment criterion. This assessment considers both the presence

of the disclosure and the quantitative level of capital expenditure (CapEx) allocated to mitigation activities. To achieve a Medium or High credibility assessment, an entity must disclose its Green CapEx and satisfy the applicable sector-specific thresholds, in addition to meeting all other core criteria.

2.4. Weighting & Aggregation Logic

The assessment utilizes a boolean compliance model to determine the credibility assessment (High, Medium, or Low). Entities are evaluated based on their adherence to a predefined set of binary (YES/NO) climate transition criteria. The methodology employs a cumulative, tiered approach: meeting all criteria for a Medium rating is a prerequisite for achieving a High rating. Entities that do not satisfy the minimum data requirements are assigned an "Insufficient Data" classification and are excluded from the quantitative credibility assessment scale.

2.5. Alignment with EU Reporting Standards

The Transition Credibility Assessment covers the CSRD topics of Climate Change: Mitigation (Scope 1, 2, and 3 emissions) and Corporate Governance, the latter through the assessment of board oversight of climate issues and executive compensation linked to climate KPIs. Physical climate risk adaptation and all other CSRD topics are outside the scope of this methodology.

2.6. Assessment Model

The rating is expressed in absolute values on an ordinal scale of three categories: High, Medium, and Low. This is not a relative ranking against peers but an absolute compliance assessment against pre-defined criteria derived from recognised external frameworks.

A High rating requires meeting all performance and disclosure criteria. A Medium rating requires meeting a defined subset of disclosure criteria — covering emissions, ambition and targets, decarbonisation strategy, Green CapEx disclosure, and board oversight — but does not require meeting performance criteria. A Low rating is assigned in all other cases where minimum data requirements are met.

2.7. International Agreement Alignment

This methodology is explicitly grounded in the climate mitigation objectives of the 2015 Paris Agreement, specifically the goal of limiting global warming to 1.5°C above pre-industrial levels. This 1.5°C limit serves as the foundational reference point for selecting sector-specific emissions reduction and technology deployment pathways.

Furthermore, it is integral to the assessment of ambition and science-based targets, as the concept of achieving "net zero" by 2050 or sooner is recognized as the necessary trajectory for aligning with the 1.5°C goal.

2.8. Industry Classification Standards

Company-to-sector mapping is facilitated through Clarity AI's proprietary internal classification system, which comprises 169 sub-industries. This system is technically anchored in the Global Industry Classification Standard (GICS)[3] level 4, but features refined categorizations designed to

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

more granularly capture specific sustainability and impact characteristics in key carbon-intensive industries.

2.9. Scientific Evidence

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 wherever possible. Any gaps or ambiguities in standards are addressed on the basis of scientific findings from reputable publications.

The key scientific and industry standards informing this methodology include:

- **IEA Net Zero Emissions by 2050 Scenario (NZE)** — primary benchmark for sector-specific performance pathways;
- **Transition Plan Taskforce (TPT) Disclosure Recommendations** — basis for disclosure and governance criteria;
- **Climate Action 100+ Net Zero Company Benchmark** — informs disclosure criteria selection;
- **Science-Based Targets initiative (SBTi)** — used for determining company SBT status; frameworks inform emissions target boundary definitions.
- **GHG Protocol Corporate Standard** — defines Scope 1, 2, and 3 emissions categories;
- **World Steel Association CO2 data collection methodology** — informs steel sector emissions intensity boundary definitions;
- **Oil & Gas Decarbonization Charter (OGDC)** — source for methane intensity pathway for Oil & Gas;
- **Assessing Low-Carbon Transition (ACT) methodology** — basis for electric utilities Green CapEx threshold of 95% (Note: This 95% threshold also applies to the Oil & Gas sector, based on normative considerations).

3. Data Sourcing & Quality

3.1. Data Sourcing

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."

For this methodology Clarity AI uses third-party company data from the Science-Based Targets initiative (SBTi) target data for assessing the SBTi approval status.

3.2. Data Quality & Reliability

Clarity AI operates a 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 dedicated Raw Data Team performs a 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, subject to prioritization and verification.

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 during the collection process. For GHG emissions metrics, automated tooling is used to detect restated values at source. For other ESG 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.

3.4. Missing Data & Estimations

This methodology does not use estimates to replace missing data. The assessment of transition plan credibility is dependent on what companies choose to disclose; the absence of information is itself treated as a signal of lack of credibility, not a gap to be filled. Where a company has not disclosed data for a given indicator, that indicator is scored accordingly rather than estimated or imputed.

3.5. Handling of Major New Information

The valid time horizon of the rating is defined as the time between Clarity AI data releases, which is biannually in the case of the transition credibility ratings. 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. A material change to an individual rating is triggered by the ingestion of updated corporate disclosures or third-party data, significant modifications to the rules-based analytical framework, or the remediation of identified data errors.

4. Artificial Intelligence (AI) Usage

Artificial intelligence may be used in data collection and methodology implementation:

Data collection

Clarity AI uses AI, specifically Large Language Models (LLMs), to support the extraction of ESG data points from unstructured corporate disclosures (e.g., annual and sustainability reports). This extraction process is always grounded in the underlying source document.

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 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 value 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.

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 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 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 method assumes that the credibility of a climate transition plan depends on achieving an emissions pathway compatible with the **1.5°C target**. Given the actual level of global warming that is expected, this may represent an overly ambitious expectation.

The methodology relies 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, quantified decarbonization measures, or green capital expenditures are substantively **integrated into the entity's core business strategy** rather than serving merely as communicative gestures.

Furthermore, the methodology assumes that **historical emissions trajectories are a valid basis** for projecting near-term performance against emissions reduction targets, subject to the constraint of limited historical data series.

Lastly, the methodology assumes that specific indicators have a **universal meaning**. In particular, the methodology assumes that "board oversight" or "executive compensation linked to climate issues" operates identically and carries the same transition value across different jurisdictions, potentially ignoring local cultural and legal frameworks.

5.2. Limitations in Data Sources

The methodology is **grounded in publicly available climate data and information** disclosed by companies or sourced from third-party providers (e.g., SBTi). Due to the global variation in corporate disclosure standards, the data is not consistently available or directly comparable.

However, this **limitation is mitigated** within the methodology through the application of standardized indicators, which are based on uniform, sector-specific and industry standards.

Nonetheless, **temporal inconsistencies and reporting lags** are inherent to corporate sustainability disclosure cycles, which may affect the timeliness of the information used in the rating process.

Regarding individual indicators, the sector-specific pathway assessment relies solely on historical data, not on corporate targets. This is because **corporate targets are often expressed in a manner that is not directly comparable** to the sector-specific pathway (e.g., different scope coverage, or net vs. gross emissions distinctions). To preserve transparency and traceability, our performance assessment related to emissions is divided into two components: a comparison against the sector pathway using historical data, and an evaluation of target tracking using projections.

Another specific limitation is the **inconsistent availability of authoritative low-carbon technology deployment pathways** for all technology types. Consequently, this indicator cannot be measured consistently across all sectors and technologies.

SBTi verification of emissions targets cannot be universally assessed, as the SBTi lacks target-setting guidance and verification frameworks for certain sectors, such as Oil & Gas.

Science-based benchmarks necessary to measure the **alignment of capital allocation (CapEx)** with net-zero trajectories are generally unavailable. This absence of robust scientific standards constrains the methodology's current capacity to appropriately evaluate entities against this criterion in a robust manner.

Finally, corporate **disclosures regarding decarbonization plans** are often unstructured and lack transparency. This presents challenges for data extraction and may result in an incomplete representation of an entity's tangible transition actions.

5.3. Limitations in Methodologies and Models

The assessment does not currently incorporate scenario-level assessments (e.g., 1.5°C vs 2°C pathway consistency) beyond the IEA NZE benchmark. **Use of an alternative, higher warming scenario** could produce different results.

The analysis currently **excludes local and current developments** at the political, macroeconomic, or technological level. The credibility of transition efforts is assessed independently of local circumstances and evolving conditions (e.g., changes in trade or environmental policy). Incorporating these factors could lead to a different interpretation of credibility.

The binary (YES/NO) scoring model does not capture **the degree of progress within each criterion**. A company that narrowly satisfies a criterion and one that far exceeds it receive the same assessment for that criterion.

The methodology does not currently assess the credibility of corporate transition plans against **other credibility dimensions** (such as climate policy engagement or just transition), **physical climate risks, or adaptation pathways**. It focuses exclusively on transition plan credibility as defined by the criteria above.

Additional methodological limitations include:

Performance Assessment

- For the performance-against-target projection model, a linear extrapolation from a short historical series may not accurately reflect non-linear emissions reduction trajectories, particularly in sectors undergoing rapid technological change.
- In the Electric Utilities sector, the low-carbon technology assessment is based on the share of coal and gas generation as a proportion of total generation, not on absolute production volumes. As a result, two companies with the same generation share are treated equivalently regardless of their absolute levels.
- Companies reporting only net emissions intensity are excluded from sector-specific pathway performance scoring, as their figures are not comparable to the gross emissions basis on which the pathway is constructed. We do not estimate their gross emissions intensity. This is particularly relevant for cement companies.

Disclosure Assessment

- **Decarbonisation Strategy:** While quantifiable disclosures of decarbonisation actions (i.e., specifying amounts, shares, volumes, etc.) help prevent greenwashing, this requirement carries the risk of penalising companies for insufficient reporting, even when they have implemented the relevant measures.Quantification is required but the type of quantification is not differentiated. Forward-looking quantitative data is not strictly required; companies may satisfy the criterion with quantitative data on past actions.
- **Green Revenues:** We do not presently incorporate an explicit assessment of green revenue exposure within the transition plan credibility evaluation. 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

Clarity AI maintains a robust methodology governance framework designed to ensure that all rating methodologies remain independent, rigorous, systematic, and impartial. 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 users 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 users, 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. Information about material changes to the methodologies is made available to users and rated entities, accompanied by a clear explanation of the change's motivation and its expected impact analysis.

Engagement Process

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.

To the extent this Document describes Clarity AI's ESG rating methodologies, ESG ratings, derived from applying said methodologies to the relevant information, represent Clarity AI's opinion at the date of issuance and are issued on a non-solicited basis unless otherwise disclosed. They are not statements of fact regarding the sustainability characteristics, risks or impacts of a rated item and should not be interpreted as predictions or guarantees of future ESG performance, financial performance or other outcomes. Different ESG rating providers may apply different methodologies and data sources and may therefore reach different conclusions regarding the same rated item. The disclosure of this methodology does not predetermine any ESG rating outcome or create an obligation for Clarity AI to assign a particular ESG rating to any rated item.

Where applicable, Clarity AI's ESG rating activities are governed by Regulation (EU) 2024/3005. Clarity AI maintains governance and organisational measures designed to safeguard the independence, integrity and impartiality of its ESG rating activities and manage conflicts of interest. Further information, including Clarity AI's public disclosures, is available at https://clarity.ai/eu-esg-ratings-regulation/.