

Climate Transition Assessment Description For B3 Ações Verdes

Sept. 3, 2024

This report does not constitute a rating action

Overview

- A Climate Transition Assessment (CTA) is our qualitative opinion of how consistent with a low carbon, climate resilient future we expect an entity's economic activities will be once the planned transition changes are realized and potential material implementation risks are considered.
- Analytical outputs from CTAs are used to assess alignment of listed Brazilian companies or those in the process of an IPO to the requirements set by the B3 Ações Verdes (BAV) green equity designation.
- The BAV follows the World Federation of Exchanges Green Equity Principles guidelines. Only activities eligible under the EU Taxonomy are counted toward the thresholds for BAV.

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B3 Ações Verdes (BAV) green equity designation's objective is to recognize companies whose activities contribute to environmental protection and climate risk mitigation and adaptation. The BAV follows the World Federation of Exchanges Green Equity Principles guidelines.

CTAs are our opinion of how consistent with a low carbon, climate resilient future we expect an entity's economic activities are likely to be once the planned transition changes are realized and potential material implementation risks are considered. The first analytical component in our assessment as defined by the CTA Analytical Approach: Climate Transition Assessment (CTA AA) is to consider the mix of the entity's current activities and determine how consistent they are with a low carbon, climate resilient future. We express our opinion on the alignment of current activities to a low carbon, climate resilient future using Shades of Green ranging from red to dark green as defined in "Analytical Approach: Shades of Green Assessments".

We offer a CTA Green Equity add-on, which is an opinion as to whether there is alignment with the Green Equity Principles used by various stock exchanges. The CTA Green Equity add-on is our assessment for companies wishing to pursue the BAV green equity designation.

The add-on leverages the same underlying analysis that we use in our CTA. We use our analysis of the consistency of activities with a low carbon, climate resilient future to determine what qualifies as green.

Our CTA reports provides transparency on the negative environmental impacts and risks of the company, either in our shading assessment of current activities or in the implementation driver's section.

Our review considers whether the financial data and information disclosed by the company meets the defined thresholds embedded in the principles. Our review relies on the information presented by the company and we do not provide any assurance of this data, including what the company discloses, for any taxonomy alignment.

BAV Guidelines

For companies seeking the BAV green equity designation we use our Shades of Green applied to the most recently reported revenue, capital expenditure (capex), and operating expenditure (opex) for a full financial year using the approach to assessing financials described in the CTA AA.

We associate activities assigned a Dark, Medium, or Light green shade to be contributing to the green economy as defined by BAV. We do not consider activities assigned a Yellow, Orange, or Red shade to meet this definition. We consider if the company's green activities are listed in the "Sectors" and "Activities" items in the EU Taxonomy for Sustainable Activities. As per the requirement by BAV only activities that are eligible for the EU taxonomy can be included in the below 50 % thresholds. S&P Global Ratings does not provide any assurance on the EU taxonomy relevant reported data. Using these associations, we determine if the following BAV thresholds are met:

- More than 50% of the company's annual revenues contribute to the green economy.
- More than 50% of the company's annual investments (capex) and operating expenses contribute to the green economy.

In addition, we review alignment with the BAV requirement that less than 5% of the company's annual revenues are derived from fossil fuel activities.

Alignment with BAV requirements is reconfirmed on an annual basis via an updated CTA, pursuant to the company's request.

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