EYG Supply Chain Services

Science-Based Target training

Building a better working world

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Agenda

Agenda item

01 Introduction and objectives

02 EY's net-zero commitment and expectations

03 Impact of climate change

04 Overview of SBTi

05 Guidance on setting and achieving SBTs

06 Next steps and Q&A

EY Global Services Limited Speakers

Steve Varley
Global Vice Chair
Sustainability

EYG Supply Chain Services

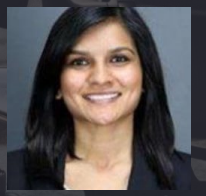
Larry Phelan
Global Chief Supply Chain Officer

Theresa Harrison
ESG Services Leader

Andrea Regina
ESG Services, Assistant Director

Climate Change and Sustainability Services

Lauren Rogge
Senior Manager



Dipti Patel
Manager

Brian Matthews
Senior

What is the EY net-zero commitment and supplier engagement target?

EY organization is committed to be carbon negative in 2021 and net-zero in 2025

EY organization will achieve this by significantly reducing our absolute emissions and then removing or offsetting more than the remaining amount of our emissions, every year.

EY organization will reduce our absolute emissions by 40% across Scopes 1, 2 and 3 by FY25, against a FY19 baseline, consistent with our 1.5°C science-based target, approved by the Science-Based Targets initiative (SBTi), enabling us to reach net-zero in FY25.

Our new carbon ambition activates our purpose and contributes value

01

The climate science is conclusive

We face significant, irreversible human-made changes to the climate. Urgent action is needed to limit temperate rise to 1.5˚C, averting catastrophe and protecting the planet for future generations.

02

EY teams have the courage to lead

Businesses are taking action, but current commitments aren't enough. Some need to go further, faster, and our purpose and ambition compel us to lead.

03

Our ambition helps support long-term value

We're shifting to value-led sustainability, turning decarbonization into a business opportunity that contributes and protects long-term value for all EY stakeholders.

Our net-zero commitment contains seven key components

EY organization will be net-zero in 2025

EY organization will achieve this by:

1. Providing all of EY client project teams with tools that enable them help to calculate, then work to reduce, the amount of carbon emitted in carrying out their work for the client
2. Reducing our overall office electricity usage, and procuring 100% renewable energy for our remaining needs, earning RE100 membership by FY25
3. Structuring our electricity supply contracts, through virtual PPAs, to introduce more renewable electricity than we consume into national grids
4. Using nature-based solutions and carbon-reduction technologies to remove or offset more carbon from the atmosphere than we emit, every year

And we'll go even further by:

5. Providing all of EY client project teams with tools that help enable them to calculate, then work to reduce, the amount of carbon emitted in carrying out their work for the client
6. Requiring 75% of our suppliers, by spend, to set Science-Based Targets by no later than FY25
7. Investing in EY services and solutions that help clients profitably decarbonize their businesses and provide solutions to other sustainability challenges and opportunities

Why is ESG important to EY?

EY is now carbon negative - YouTube

What does the SBT target mean for EY's suppliers?

What is EY goal on suppliers regarding SBT?
EY organization have a target that 75% of our suppliers, by spend, will set a science-based target by FY25. Suppliers have until 2025 to set a science-based target.

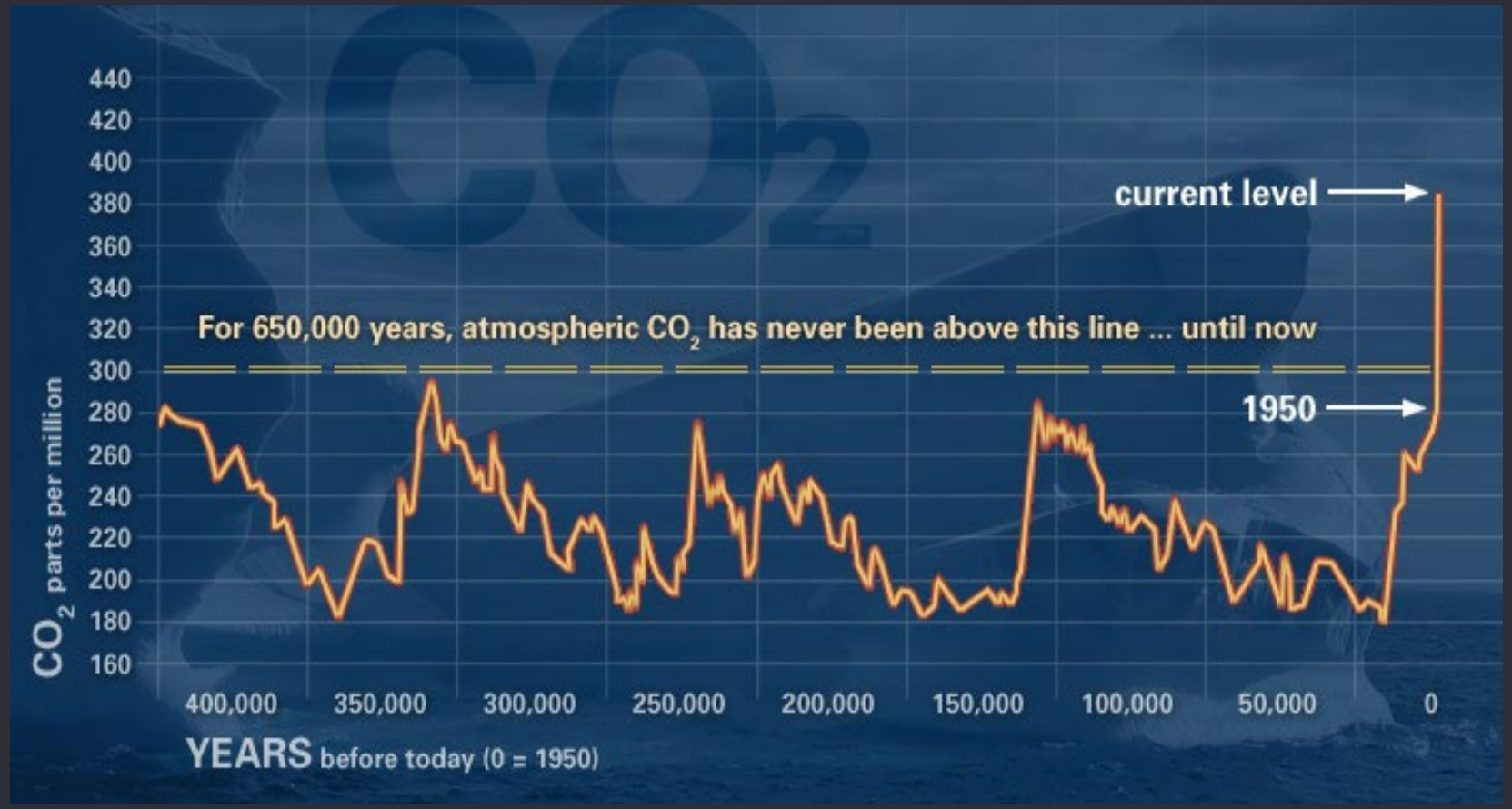
What is expected of EY's suppliers?
EY organization suppliers are expected to set an SBT by 2025. Suppliers should inform EY once the commitment letter is signed and after the company's target is approved by the SBTi.

How is this changing EY's decision to engage with suppliers?
Asking our suppliers if they have set an SBT or if they plan on setting one by 2025. This will factor in our decision-making process and can help differentiate a supplier during the selection process.

How will EY organization support suppliers during this process?
EY's Supply Chain Services teams will begin to engage with suppliers on SBT's and will be equipped with a general knowledge of the process to answer supplier questions on both the SBT and EY's commitment. EY's Climate Change and Sustainable Services practice provides services to support companies set a Science-Based Target.

What is the impact of climate change?

Climate change impacts on business and society



Since the industrial revolution, human activity has greatly increased the concentration of greenhouse gases (GHG's) in the atmosphere primarily through the combustion of fossil fuels.

Unchecked and uncontrolled GHGs impact human health and exacerbate global warming.

As the global temperatures rise, extreme weather events increase, resource scarcity drives socioeconomic instability, and natural habitats become endangered.

Source: UC Riverside, "Down To Earth Climate Change"

IPCC Climate Change 2022: Impacts, Adaptation and Vulnerability special report

More than 200 authors and review editors from 67 countries prepared the Working Group II report of the Intergovernmental Panel on Climate Change (IPCC) sixth assessment report, which draws on 34,000 studies to report latest climate science as a result of human activity. Results of the IPCC special report from February 2022:

01

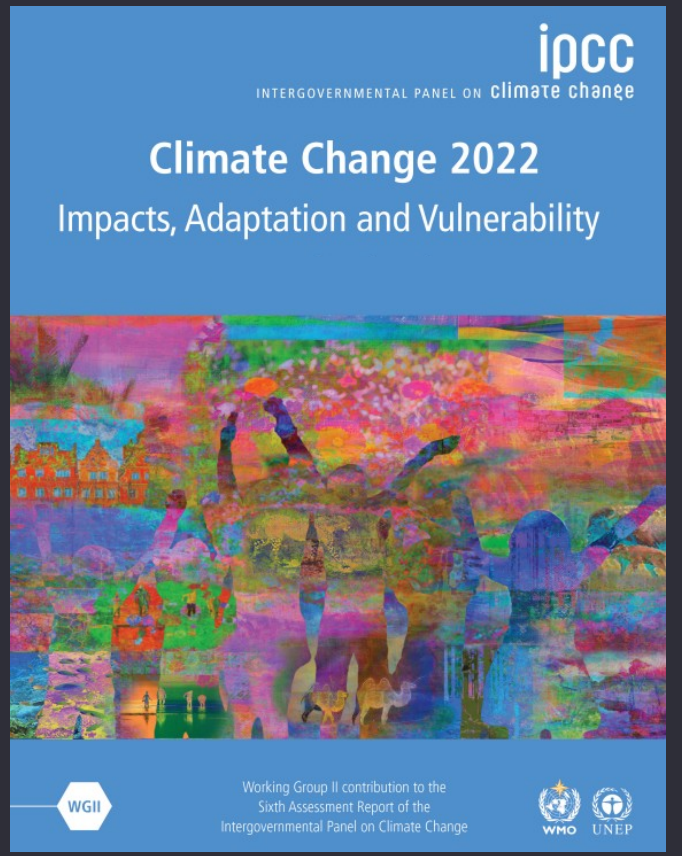
Climate change is already causing widespread disruption in every region in the world with just 1.1 degrees C (2 degrees F) of warming.

02

Adaptation needs will reach $127 billion and $295 billion per year for developing countries alone by 2030 and 2050, respectively.

03

Approximately 3.3 to 3.6 billion people live in areas that are highly vulnerable to climate change. Global hotspots include Small Island Developing States, the Arctic, South Asia, Central and South America and sub-Saharan Africa.

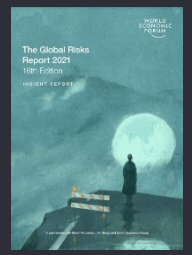


1 "Climate Change 2022, Impacts, Adaptation and Vulnerability (IPCC) website, Sixth Assessment Report (ipcc.ch), accessed 18 March 2022.
2 "Climate Change 2021, the Physical Science Basis (IPCC) website, Sixth Assessment Report (ipcc.ch), accessed 17 August 2021.
3 "Global Warming of 1.5°," IPCC website, https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf, accessed 10 June 2019.

Climate tops the World Economic Forum's top 10 risks in terms of likelihood and impact

The World Economic Forum's Global Risk Report[2]

- Climate-related issues dominate the top-five long-term risks in terms of likelihood.
- Near term impacts of climate change add up to a planetary emergency.
- Over 20 million people a year have been forced from their homes by extreme weather between 2008-2016.
- Climate change will lead to increased health spillovers, burdening already stretched health systems.
- Crop yields will likely drop in many regions, undermining the ability to meet rising demand.
- In the US alone, climate-related economic damage could reach 10% of gross domestic product (GDP) by the end of the century.



Growth and emissions must be decoupled and transition risks managed in an urgent evolution to a low-carbon economy

Top 10 risks in terms of Likelihood[1]	Top 10 risks in terms of Impact[1]
Extreme weather	Infectious diseases
Climate action failure	Climate action failure
Human environmental damage	Weapons of mass destruction
Infectious diseases	Biodiversity loss
Biodiversity loss	Natural resources crises
Digital power concentration	Human environmental damage
Digital inequality	Livelihood crises
Interstate relations fracture	Extreme weather
Cybersecurity failure	Debt crises
Livelihood crises	IT infrastructure breakdown

Categories

Economic
Environmental
Geopolitical
Societal
Technological

Source:
1. World Economic Forum Global Risks Report 2021
2. World Economic Forum Global Risks Report 2020

Introduction to greenhouse gas (GHG) emissions

Definition of GHGs	GHGs are gases that absorb and emit radiant energy within the atmosphere.
Common GHGs	• Carbon dioxide (CO_2) • Methane (CH_4) • Nitrous oxide (N_2O) • Fluorinated gases (e.g., hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF_6) and nitrogen trifluoride (NF_3)
Factors influencing GHGs and associated impacts	• **Concentration (or abundance),** i.e., the amount of the particular gas in the air • **Duration,** i.e., the number of years the GHG can remain in the atmosphere • **Effectiveness or Global Warming Potential (GWP),** i.e., the effectiveness of the GHG relative to other gases in making the planet warmer and "thickening the Earth's blanket[1]"

Simplified figure of the GHG effect

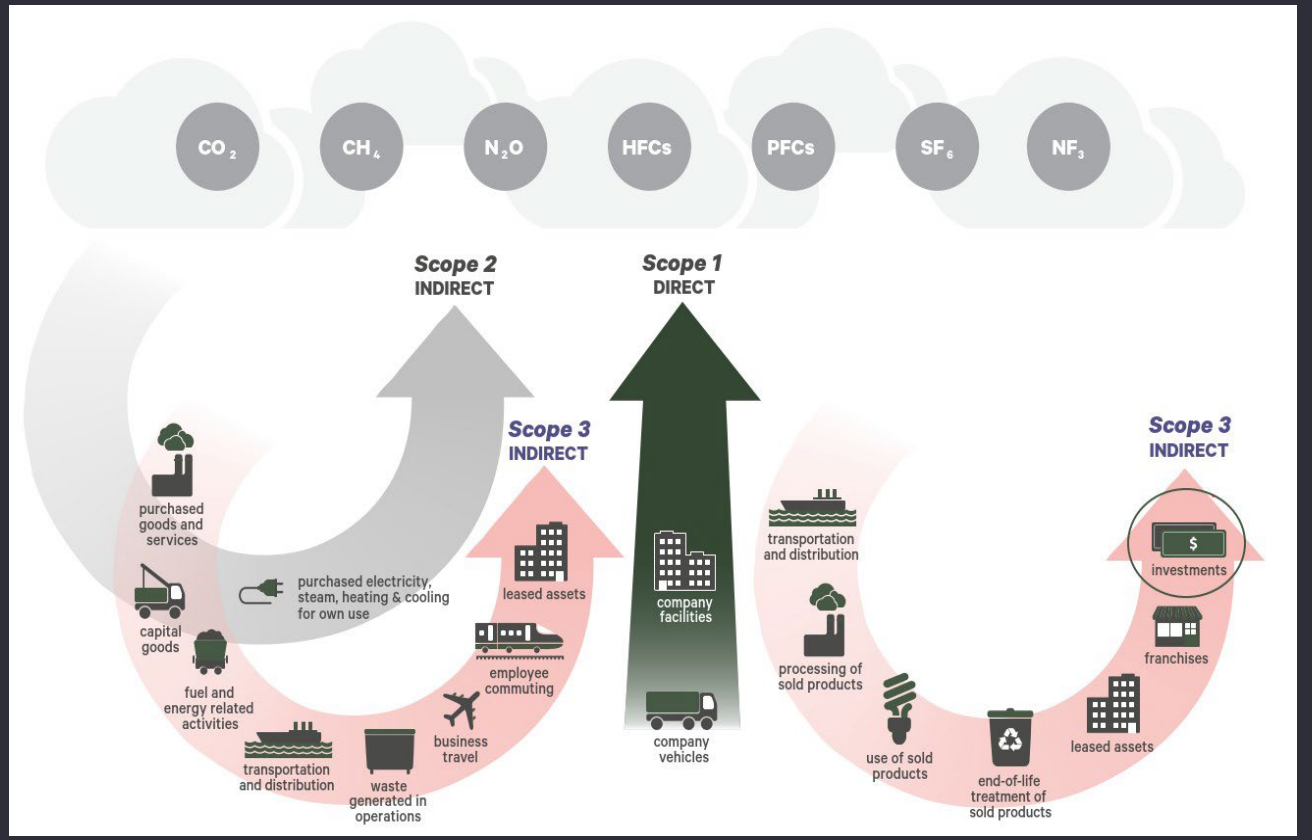
Source: National Institute of Environmental Health, "Greenhouse Gases and the Greenhouse Effect"

[1] US Environmental Protection Agency, "Overview of Greenhouse Gases"

Overview of Scope 1, Scope 2 and Scope 3 GHG emissions

Scope 1

Scope 1 emissions are **direct emissions from owned or controlled sources**. Scope 1 includes emissions from on-site fossil fuel combustion and fleet fuel consumption.



Scope 2

Scope 2 emissions are **indirect emissions from owned or controlled sources**. Scope 2 includes emissions that result from the generation of electricity, heat, or steam purchased from a utility provider.

Scope 3

Scope 3 emissions are all **indirect emissions** (not included in Scope 2) **that occur in the value chain** of the reporting company, including both upstream and downstream emissions.

[1] Source: Greenhouse Gas Protocol: https://ghgprotocol.org/standards/scope-3-standard

Differentiating between carbon neutral, carbon negative and net-zero goals

01

Carbon neutral

Carbon neutral is a commitment to ensure the amount of carbon emitted is matched by the same amount of carbon offsets (e.g., carbon removal).

02

Carbon negative*

Carbon negative requires an organization to remove more emissions than they emit.

*Some companies may refer to this as "Climate Positive"

03

Net-zero

Achieving net-zero emissions is the state when there is no net accumulation of carbon dioxide in the atmosphere and no net-impact from other GHG emissions.

Initiatives to achieve targets

04

Science-Based Targets

Targets are considered "science-based" if they are in line with the level of decarbonization required to keep average global temperature increase to 1.5°C compared to preindustrial temperatures.

05

RE100

The global corporate renewable energy initiative bringing together hundreds of leading companies to commit to 100% renewable electricity.

What is the SBTi?

What are the drivers behind the SBTi?

In 2015, world governments adopted the Paris Agreement to avoid the worst impacts of climate change by limiting global temperatures to 1.5°C above pre-industrial levels, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5).

During the same negotiations in 2015, **the SBTi was founded to mobilize the private sector to play a key role in achieving the Paris Agreement goals.**

SCIENCE BASED TARGETS

Who are the founding members of the SBTi?

SBTi is a partnership between four of the most prestigious environmental organizations:

- **CDP** – world´s largest environmental disclosure platform
- **UN Global Compact** – world´s largest sustainability platform
- **World Resources Institute** – largest environmental think-tank
- **WWF** – largest environmental NGO

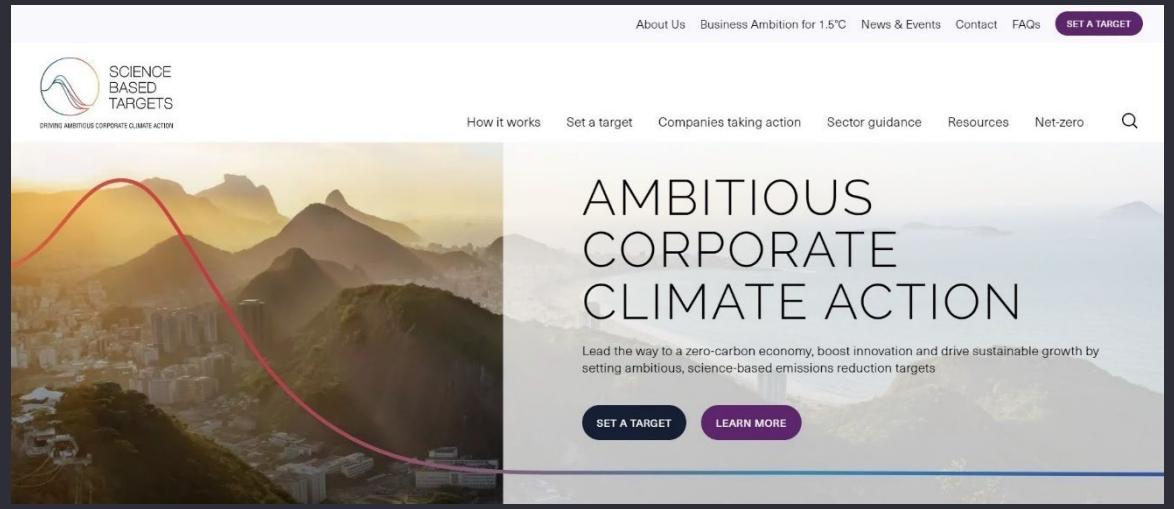
in collaboration with the We Mean Business Coalition, intending to embed the implementation of the Paris Agreement into the real economy by driving the adoption of science-based targets.

The SBTi:

- Independently assess and approves companies' targets
- Showcases companies that set science-based targets
- Provides resources, case studies and other professional help to set and meet SBTs

What are the goals of the SBTi?

Ambitious corporate climate action – Science-Based Targets



What are "science-based targets"?

Science-based targets provide a clearly-defined pathway for companies to reduce GHG emissions, helping prevent the worst impacts of climate change and future-proof business growth.

Targets are considered "science-based" if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.

Why companies should take action?

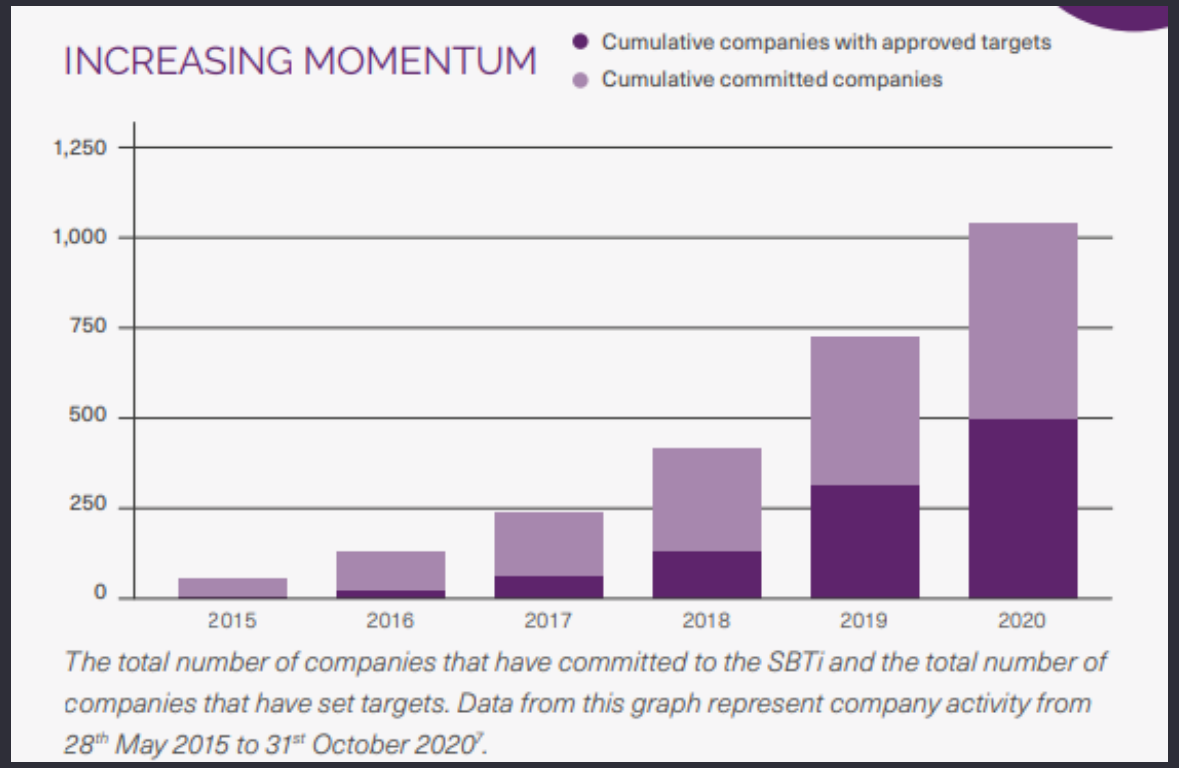
Through the 2015 Paris Agreement, world governments committed to curbing global temperature rise to 1.5°C above pre-industrial levels. In 2018, the Intergovernmental Panel on Climate Change warned that global warming must not exceed 1.5°C to avoid the catastrophic impacts of climate change.

To achieve this, GHG emissions must halve by 2030 – and drop to net-zero by 2050. We have limited time for action and the private sector has a crucial role to play – every sector in every market must transform. Companies with science-based targets are already **cutting emissions at scale;** all businesses must now join them.

Over 1,000 companies, making up 20% of global market capitalization, have now set, or committed to set, a science-based target

Five years on from the signing of the Paris Agreement and amid the urgent challenges of COVID-19, 2021 will be a key year for accelerating climate action.

- As of January 2021, 1465 companies have formally committed to setting an SBT and 729 companies have approved SBTs.
- From November 2019 – October 2020, 370 organizations joined SBTi – average rate of 31 companies per month (more than double rate from 2015-2019).
- On this trajectory, commitments by SBTi companies could cover almost a quarter of total global emissions from energy and industry within the next five years.



The total number of companies that have committed to the SBTi and the total number of companies that have set targets. Data from this graph represent company activity from 28th May 2015 to 31st October 2020[7].

What are the benefits of joining the SBTi?

Build business resilience and increase competitiveness

SBTs challenge businesses to re-align with the net-zero economy, capitalizing on changing consumer preferences and opportunities beyond cost savings and avoiding stranded assets.

Drive innovation and transform business practices

As SBTs include long-term vision, companies can think beyond the near-term, common solutions for GHG emissions reductions.

Build credibility and reputation

Companies with SBTs are often lower-risk options for long-term investment since they can demonstrate that their plans align with latest climate science.

Influence and prepare for shifts in public policy and investor pressure

Companies that have SBTs are much better positioned to respond to future regulator adjustments as governments ramp up action and investors increase pressure to disclose.

How do you set and achieve a science-based target?

What is the process for setting a science-based target?

GHG emissions reduction targets are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to 1.5°C above pre-industrial levels.

Companies can set a science-based target by following the five-steps below:

Step 1	Steps 2–4 up to 24 months			Step 5
Commit	**Develop a Target**	**Submit for Validation**	**Announce Target**	**Disclose**
Sign commitment letter indicating intent to set SBTi and obtain recognition on the SBTi website for committing and "taking action"	Develop SBT by completing a GHG inventory, selecting approaches, identifying their ambition level, and selecting a target year	Submit commitment to the SBTi for validation, undergoing the review protocol and earning approval	Announce the target in coordination with the SBTi and use the SBTi branding/logo to support their credibility	Disclose emissions and progress against targets annually on company reports, webpages, and reporting frameworks such as CDP

What are the key requirements of a science-based target?

In July 2021, SBTi established a new strategy increasing the ambition for corporate reduction pathways and has updated criteria and requirements for organizations when setting an SBT:

General requirements

- Targets should cover a minimum of five years and a maximum of 10 years from date target is submitted to SBT
- GHG inventory must be in line with the GHG Protocol's best practices
- Disclose company-wide GHG emissions inventory and progress against its targets on an annual basis
- Offsets must be excluded and do not count towards SBTs

Scope 1, 2 and 3 requirements

Emissions of an SBT should, at minimum, cover scopes 1 and 2 (>95%) and be in line with GHG Protocol.

Align reductions with 1.5°C decarbonization pathways (minimum 4.2% annual reduction) for scope 1 and 2 emissions.

Set a target if scope 3 is greater than 40% of total scope 1, 2, and 3 emissions.

What are the different approaches to setting a science-based target?

While SBTi permits companies to set targets using an intensity approach, **companies should utilize an absolute emissions reduction approach** as they are the most environmentally robust and credible to stakeholders.

Absolute targets

- A reduction in the total amount of GHG being emitted (e.g., reduce absolute scope 1 and 2 GHG emissions 55% by 2030 from a 2018 base year)
- Targets that are consistent with decarbonization needed to achieve 1.5°C pathway
- While intensity targets can lead to absolute increase in emissions, absolute targets do not allow for worse GHG performance

Physical intensity target

- A reduction in emissions relative to a specific business metric, such as production output (e.g., reduce GHG emissions per pair of shoes 30% by 2030 from 2017 base year)
- More suitable for companies that create a uniform product (e.g., steel or cement)
- Must lead to absolute contractions in line with 1.5°C or in the case of scope 3, well below 2°C

Economic intensity target

- A reduction in emissions relative to financial performance of the company
- GHG Emissions per Value Added (GEVA) are formulated by an intensity reduction of tCO2e/$ value added
- Must lead to absolute contractions in line with 1.5°C or in the case of scope 3, well below 2°C

Supplier or customer engagement targets

- Targets to drive the adoption of science-based emissions reduction targets by a company's suppliers
- Companies can engage their suppliers based on spend and/or emissions impact

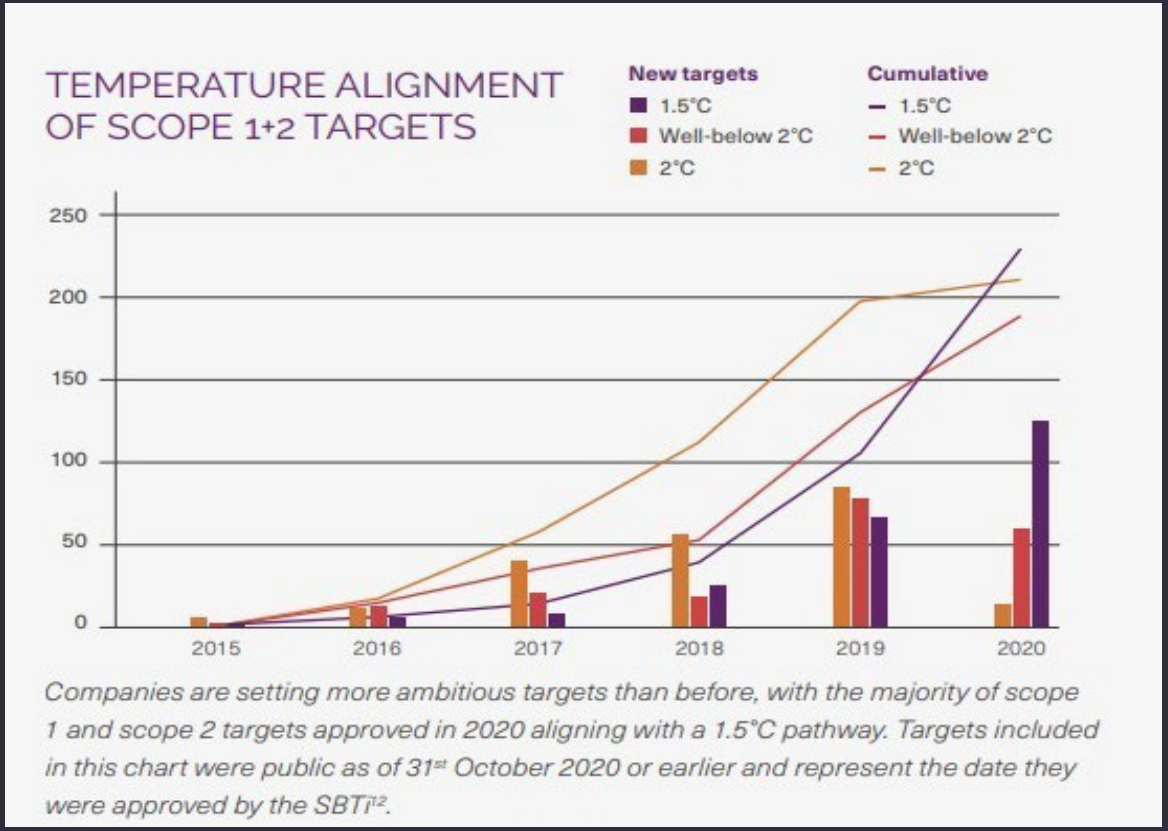
What are the advantages and disadvantages of the four science-based target setting approaches?

	Absolute Target	Physical Intensity Target	Economic Intensity Target	Supplier or Customer Engagement Target – Scope 3
Advantages	• Most environmentally robust and credible targets • Designed to reduce quantity of GHGs emitted to atmosphere by specific amount • Environmentally robust and more credible to stakeholders as it entails a commitment to reduce total GHGs by a specified amount; leads to more predictable and transparent global emission reduction • Do not allow for worse GHG performance	• Reflects GHG performance and efficiency improvements independent of business growth or decline • May increase the comparability of GHG performance amongst companies	• Suitable for companies that generate a diverse product and service mix • Beneficial for fast-growing companies	• Relatively low data requirement • Can enable early actions from companies with limited data • Targets can scale up adoption of science-based emission reduction targets globally
Disadvantages	• Does not allow comparisons of GHG intensity/efficiency to that of peers • Reported reductions can result from declines in production/output rather than improvements in performance • Target may be more challenging to achieve if the company grows and growth is linked to GHG emissions	• Risk of being seen as less credible to stakeholders because absolute emissions may rise even if intensity decreases (e.g., because of output increases more than GHG intensity decreases)	• Can be less environmentally robust due to volatility of economic metrics • Economic intensity indicators are subject to external factors that can lead to apparent changes in company's carbon intensity and not linked to environmental performance (e.g., commodity price changes, inflation)	• Scope of targets can be limited if companies focus on scope 1 and 2 emissions of their value chain • As target metric is percentage of suppliers engaged, amount of emission reductions is less clear • Available strategies to achieve targets are limited given that target focuses on engagement

As the number of companies joining the SBTi has increased, so has ambition

- SBTi recently raised the decarbonization ambition:
  - **Scope 1 and 2:** Increasing the minimum Scope 1 and Scope 2 ambition temperature classification from well below 2°C to 1.5°C
  - **Scope 3:** Increasing the minimum scope 3 ambition temperature classification from 2°C to well below 2°C
- As of January 2021, 41% of all companies with SBTs have targets aligned with a 1.5°C pathway for scopes 1 and 2
- 94% of companies with approved SBTs have set Value Chain Targets (Scope 3)

Companies that had approved targets in 2020 or earlier will have until 2025 to update their targets with the latest guidance. Companies with targets approved after 2020 will need to follow the new guidelines and update their targets at least once every five years.



Companies are setting more ambitious targets than before, with the majority of scope 1 and scope 2 targets approved in 2020 aligning with a 1.5°C pathway. Targets included in this chart were public as of 31st October 2020 or earlier and represent the date they were approved by the SBTi[12].

Source: SBTi Progress Report 2020 (sciencebasedtargets.org)

Introducing our ambitious, new climate strategy – Science Based Targets

Examples of science-based targets set by EY's suppliers

Microsoft

- Continue annually **source 100% renewable electricity** through 2030
- **Reduce scope 3 GHG emissions** intensity per unit of revenue 30% by 2030 from a 2017 base year and to avoid growth in absolute scope 3 emissions
- Consistent targets covering GHG from company operations (scopes 1 and 2) **with reductions required to keep warming to 1.5°C**

Hilton

- Hilton became the **1st major hotel company to have SBTs approved in 2018**
- **Reduce Scope 1 and 2 GHG emissions** 61% per square meter by 2030 from a 2008 base-year
- Work with its franchisees to **reduce Scope 3 GHG emissions from Franchises 52% per square meter** by 2030 from a 2008 base-year
- Consistent targets covering GHG from company operations (scopes 1 and 2) **with reductions required to keep warming to 2°C**

Tchibo

- **Reduce absolute scope 1 and 2 GHG emissions** 51% by 2030 from a 2018 base year
- **Reduce absolute scope 3 GHG emissions** 15% by 2030 from a 2018 base year
- Consistent targets covering GHG from company operations (scopes 1 & 2) **with reductions required to keep warming to 1.5°C**

What are the requirements for small and medium-sized enterprises to set science-based targets?

In 2020, the SBTi released guidance to streamline the submission process for small and medium-sized enterprises (SMEs) that may lack resources and capabilities needed to set targets and monitor progress against them

Streamlined pathway for SMEs

- Bypass the initial stage of committing to set a science-based target and validation process
- Complete comprehensive GHG inventory following GHGP: describe activities generating scope 1 and 2 emissions, and after approval, publicly report company-wide scope 1 and 2 GHG emissions inventory and progress against published targets on an annual basis
- Immediately set an SBT for scope 1 and 2 emissions by choosing the 1.5°C option in the SME Target Setting Letter
- SMEs must commit to measure and reduce scope 3 emissions although Scope 3 targets are not required
- Must choose a base year of 2018, 2019 or 2020 (only absolute targets are included) if using the SME route

Next steps

Next steps

- Engage with your EY Supply Chain Services contact to answer any outstanding questions and update them on the progress of your SBT journey
- Learn more about the SBTi and setting a target using the following resources:

FAQs – Science-Based Targets

Resources – Science-Based Targets

Final Thoughts

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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