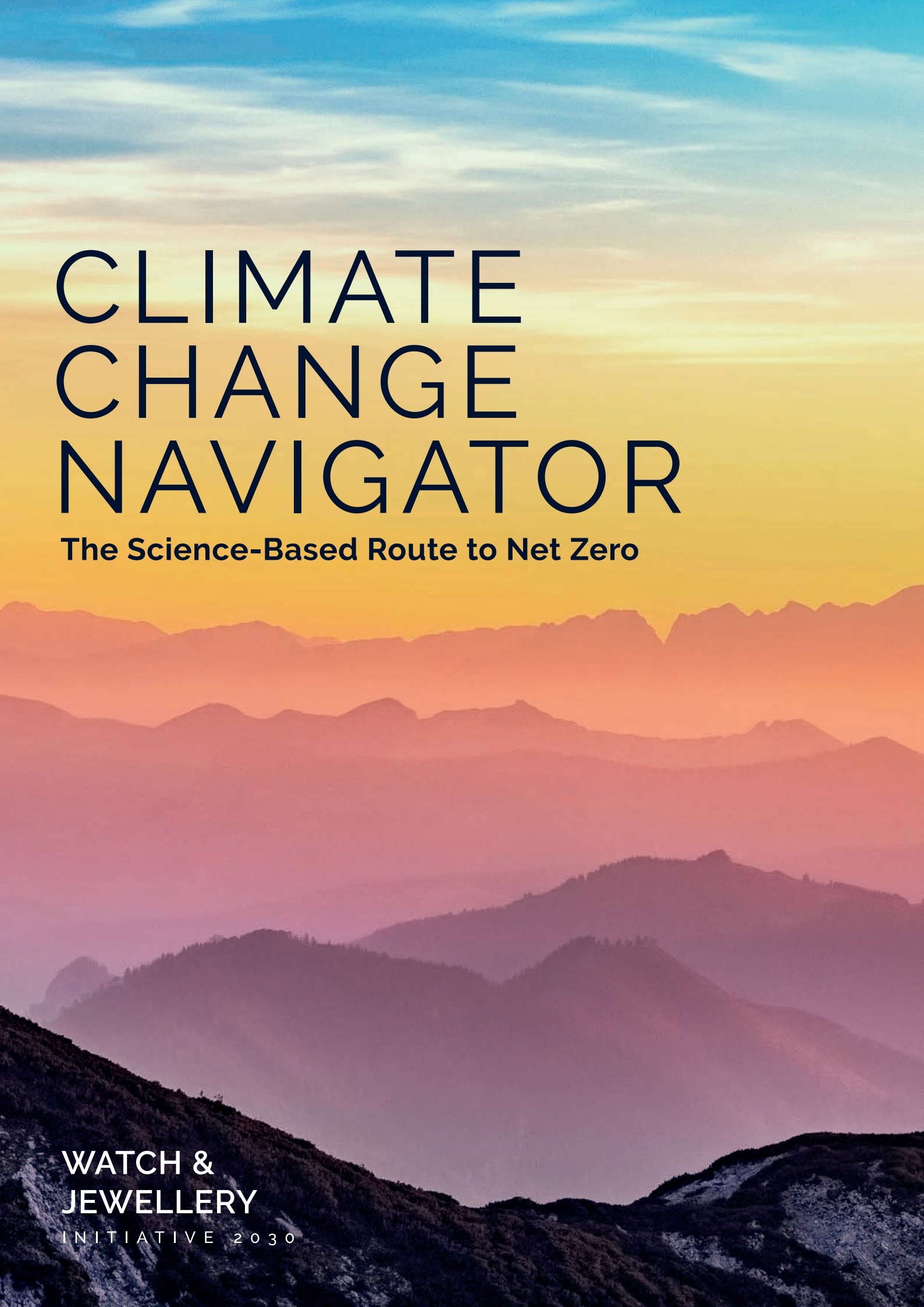

CLIMATE CHANGE NAVIGATOR

The Science-Based Route to Net Zero

WATCH & JEWELLERY
INITIATIVE 2030

FOREWORD

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Executive Director & Secretary General WJI 2030

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Chair of the WJI 2030 Climate Resilience Action Committee

We are almost halfway through the critical decade for climate action, and the need for collective action to drive the scale and depth of change required has never been more pressing. The Science-based Targets Initiative (SBTi), which plays a leading role in driving and supporting corporate best practice on decarbonisation, saw huge growth in commitments in 2023, with a 102% increase year-on-year, showing that businesses are stepping up. As WJI 2030, we have asked our members to make this commitment, as a requirement of membership, and we have been energized by the positive response we have witnessed from companies of all types and sizes.

Deep collaboration and cross-industry guidance and support will be vital in helping to drive and accelerate climate-focused actions across the watch and jewellery sector and, importantly, in supporting our business partners as they also navigate the complexities of an economy in transition. We estimate that around 85% of emissions are attributed to our supply chain partners – that is, are classified as Scope 3 emissions – in our sector, highlighting that we aren't going to deliver the scale of change needed through the actions of a few. Rather, progress is likely to come from collective and convergent actions and through the relationships, built on common understanding and commitments, we develop and nurture across our supply chains. We can't do this work in isolation; we need shared goals and collective efforts.

At the same time, we need to recognise that this work will likely require deep and substantial changes in the way we do business. It will also require us to look at the interconnectedness between different challenges, such as biodiversity, physical climate impacts, natural resource and waste management, and social development, inclusion and equity. Widening our awareness of these risks and impacts - and the scale of our ambitions for positive change - will, inevitably, be challenging but will also present significant opportunities. Focusing on decoupling potentially destructive resource usage from growth by embracing clean energy and expanding the role of the circular economy within our businesses, whilst building new partnerships to facilitate these changes, can also prompt new ways of thinking and operating. This will require creativity and innovation, but that is something that has always been at the heart of our sector.

"Progress is likely to come from collective and convergent actions and through the relationships, built on common understanding and commitments, we develop and nurture across our supply chains."

We also need to be clear on what a *just transition* means for this industry. We need to accept a burden of responsibility that for many of us, as producers and purveyors of luxury goods operating mainly in developed economies and wealthy markets, may seem quite distant or remote. We can't shy away from the power differentials within our sector and across our supply chains. But there is value to be gained from examining and questioning how we approach our supplier and stakeholder relationships. Building long-term, resilient relationships with trusted suppliers will allow us to think beyond the short-term and enable us to move together in a more convergent direction towards our shared goals. Consumers, investors and wider society will value those suppliers and brands that have the integrity and confidence to demonstrate greater transparency as they consider how to work in tandem to develop solutions. And as the sector innovates and adapts, we expect that progress will be achieved via such mutually supportive business relationships, working together to help build the foundations needed to transition to a Net Zero carbon economy.

Finally, there is an opportunity to advocate more strongly and more coherently. We encourage our members and industry leaders to advocate through their supply chains – locally, national, and globally – for greater and broader transparency, making the case for clearer, more consistent disclosures on climate actions and wider sustainability performance.

We are proud of the progress that WJI 2030 members have made already on this journey, and we are committed to continue working with them to maintain and accelerate that progress. As with all sectors of the economy, we need to acknowledge the impacts we have on the planet and take responsibility for driving the changes needed to deliver a 1.5˚C pathway. We hope that this Climate Navigator, including practical tips and guidance, can help you get started or support you on your ongoing journey as your business strives to contribute to a decarbonised economy and a safer, cleaner, fairer world.

About Watch & Jewellery Initiative 2030

Co-founded by Kering and Cartier, Watch & Jewellery Initiative 2030 serves as a multi-stakeholder action platform dedicated to advancing climate resilience, preserving resources, and fostering inclusiveness. We welcome all industry stakeholders worldwide, including Maison's, retailers, distributors, traders, manufacturers, service providers, industry associations, as well as third parties such as NGOs and academic institutes, to support our mission.

Our work aligns closely with the 17 Sustainable Development Goals of the 2030 Agenda. We believe that no one can tackle today's challenges alone, which is why we champion a multi-stakeholder platform for engagement. We see ourselves as part of a broader community across industries, striving to deepen the conversation and leverage the expertise of change agents to support our members and the wider industry in taking action and measuring progress on climate resilience, resource preservation, and inclusiveness.

WJI 2030 adheres to globally accepted standards, frameworks, and regulatory expectations across themes such as climate, nature, human rights, gender, and equity. Each member is required to achieve minimum commitments across three pillars—building climate resilience, preserving resources, and fostering inclusiveness—within a defined period and report on their progress.

For more information please visit www.wjinitiative2030.org

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1. INTRODUCTION

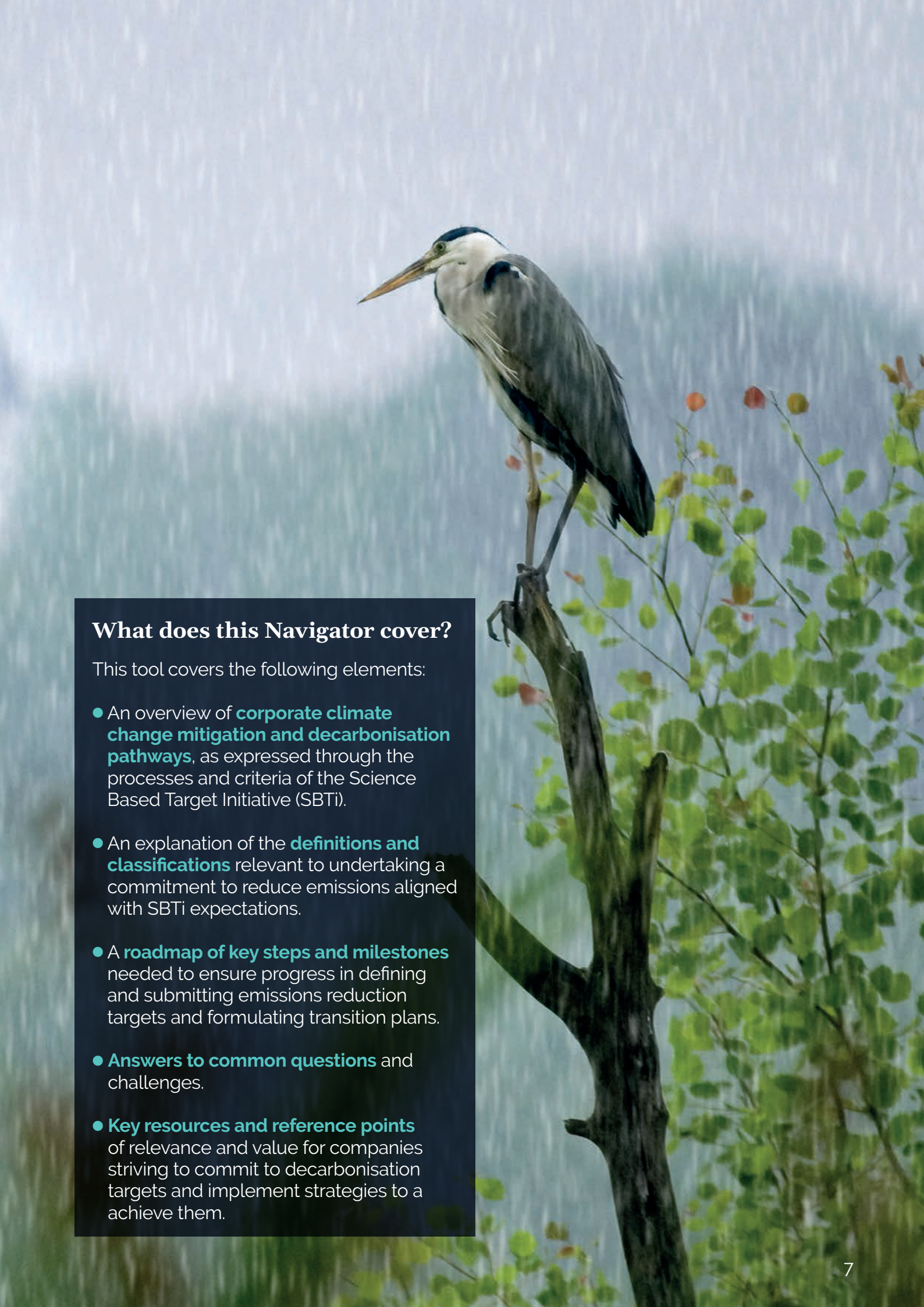
There is now widespread recognition that companies need to recognize the impact of their business operations on climate, as well as to ensure their operations, outputs and value remain robust in the context of physical, social and market changes driven by climate impacts. There is also a case for broad alignment and coherence across market participants to ensure sectoral progress on climate-focused actions. WJI 2030 member companies will need to remain mindful of both physical and transition risks. As an initial focus, there is a **need to define and implement corporate strategies to support decarbonisation in line with science-based climate targets**. This is a core pillar of the WJI 2030's objectives to support the watch and jewellery industry in better managing its environmental impacts, and also reflective of the growing obligations of responsible businesses to comply with national and international regulatory changes.

The latest climate science tells us that, to have a good chance of limiting global warming close to 1.5C above the preindustrial average, we need to achieve net zero GHG emissions by 2050 and to halve emissions by 2030. Simply put, in the immediate future we can no longer add to the greenhouse gases (GHGs) in the atmosphere beyond the levels that are removed from the atmosphere.

The challenge for watch and jewellery supply chains is to ensure key market participants are increasingly aligned along a similar pathway and able to show they are committed to positive actions to decarbonise the global economy. It is hoped that demonstrable and coordinated progress by WJI 2030 member companies may therefore have a catalysing effect on other participants along the value chain.

The *Climate Change Navigator* aims to provide practical guidance, tools, and insights to help companies advance on their journey towards a Net Zero economy. It represents an actionable toolkit to enable watch and jewellery companies of all sizes to prepare and submit emissions reduction targets and take actions to align with SBTi guidance and requirements.

"The *Climate Change Navigator* aims to provide practical guidance, tools, and insights to help companies advance on their journey towards a Net Zero economy."



What does this Navigator cover?

This tool covers the following elements:

- An overview of **corporate climate change mitigation and decarbonisation pathways**, as expressed through the processes and criteria of the Science Based Target Initiative (SBTi).
- An explanation of the **definitions and classifications** relevant to undertaking a commitment to reduce emissions aligned with SBTi expectations.
- A **roadmap of key steps and milestones** needed to ensure progress in defining and submitting emissions reduction targets and formulating transition plans.
- **Answers to common questions** and challenges.
- **Key resources and reference points** of relevance and value for companies striving to commit to decarbonisation targets and implement strategies to a achieve them.

1. INTRODUCTION

What is Net Zero and what does it mean for businesses?

Simply put, 'net zero' means cutting the GHG emissions from your company's outputs and activities to as close to zero as possible. More specifically, SBTi requires most companies to reduce emissions relative to their baseline by at least 90% by 2050 – science-based targets (SBTs) must cover at least 95% of company-wide Scope 1 and 2 emissions, and 90% of Scope 3 emissions.

To ultimately reach a net zero target, those indirect (typically, Scope 3) emissions that cannot be reduced from a business and its supply chain will need to be removed – i.e. permanently 'neutralised' or offset by compensatory actions. However, most advisors suggest this strategy should be considered once all 'in-value chain' emissions reduction actions (across Scopes 1, 2 and 3) have been completed.

When setting a net zero target, companies must also have a near-term SBT, which is in line with 1.5˚C pathways and typically is at least a 50% reduction by 2030. For these targets, mitigation pathways inform the rate of emissions reduction, while for long-term SBTs, they inform the total level of required emissions reduction. This means a company's near-term reduction target will differ (and adapt) depending on the target year, but its long-term reduction target will not.

As such, a SBT covers the following:

- Defined **baseline year and emissions inventory**, as well as **target year**
- Defined **emissions reduction pathway** (with **near-term reduction targets**)

Set in line with what current climate science identifies as necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5˚C above pre-industrial levels (note that the earlier Paris-aligned target of 'well below 2˚C' is no longer eligible for SBTi validation).

WJI 2030 members should familiarise themselves with the information and tools in this document and the SBTi's accompanying online guidance. The following notes aim to assist you in navigating through that process by signposting key points and steps.

Why the SBTi route to Net Zero?

The SBTi is a global body enabling businesses and financial institutions to set ambitious emission reductions targets in line with climate science. It is focused on accelerating the pace at which companies across the world can halve emissions before 2030 and achieve net-zero emissions before 2050.

The initiative is a collaboration between four of the world's most respected environmental organizations: CDP, the *United Nations Global Compact, World Resources Institute* (WRI) and the *Worldwide Fund for Nature* (WWF) and is one of the We Mean Business coalition commitments.

The SBTi **defines and promotes best practice in science-based emissions reduction target setting**, offers resources and guidance to reduce barriers to adoption, and independently assesses and approves companies' targets. For many companies, the simplest way of expressing a corporate commitment to implementing emissions reduction actions is via compliance with the SBTi's *Corporate Net-Zero Standard*.

Surveys by We Mean Business have indicated that the majority of corporate leaders agree that science-based targets (SBTs) keep companies on track to specific timelines. Furthermore, transparent climate targets and aligned actions are seen as offering substantial risk reduction benefits, avoiding income loss (from supply chain disruption and a shifting customer base) and helping with the retention of talent.

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

For an overview of the SBTi's *Corporate Net-Zero Standard*, see https://sciencebasedtargets.org/net-zero

1. INTRODUCTION

GHG Protocol Scope 1, 2 & 3 Emissions

The emission "scopes", developed by the Greenhouse Gas (GHG) Protocol, are the classifications used in the standard frameworks for carbon accounting:

Scope 1 emissions
GHG emissions that a company makes **directly** whilst operating (i.e. the emissions that it 'owns/controls')

Scope 2 emissions
Emissions a company makes **indirectly** from the **electricity it buys** to power its operations and for heating and cooling, etc.

Scope 2 covers the electricity consumed by the end-user BUT Scope 3 covers the energy used (and lost) by suppliers (utility companies) during power transmission and distribution.

Scope 3 emissions
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. In other words, emissions are associated with a company's operations but indirectly, from its value chain - **the emissions created by its suppliers or how its products are used by consumers**.

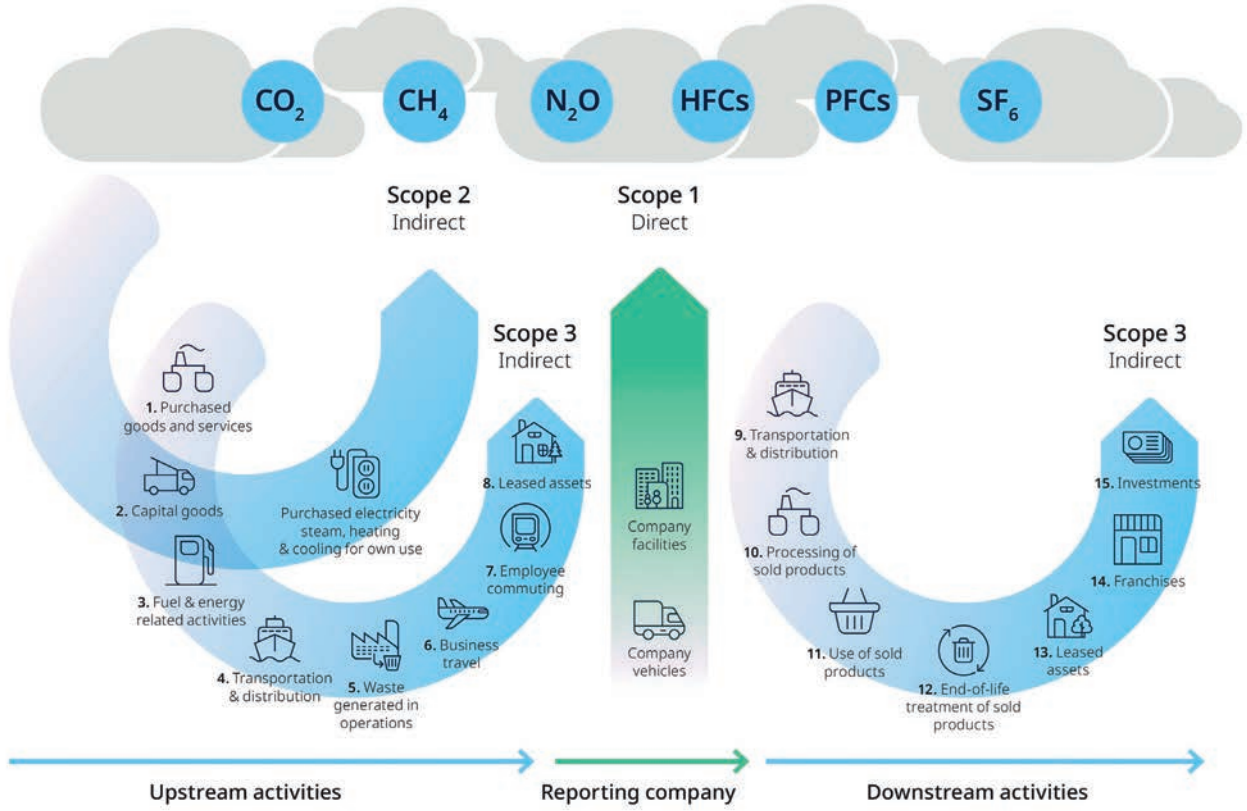
Analysis indicates that material emissions reduction across the watch and jewellery supply chain will largely depend on the actions of upstream (mining) companies. This makes consideration of Scope 3 (supply chain) emissions highly relevant.

Although many companies - particularly SMEs - may, for the sake of simplicity and practicality, initially focus on estimating their Scope 1 and 2 emissions, there is also specific guidance here on the challenges associated with Scope 3 emissions target setting.

GHG Protocol Scope 1, 2 and 3 Emissions

15 Scope 3 Category Emissions

Source: GHG Protocol



Upstream Scope 3 Category Emissions

1. Purchased goods and services
2. Capital goods
3. Fuel and energy use
4. Upstream transport and distribution
5. Waste generated in company operations
6. Business travel
7. Employee commuting
8. Upstream leased assets

Downstream Scope 3 Category Emissions

9. Downstream transport and distribution
10. Processing of sold products
11. End-use of sold goods and services
12. Waste disposal and treatment of products
13. Downstream leased assets
14. Operation of franchises
15. Operation of investment

2. THE SBTI ROUTE TO NET ZERO THE BASICS

The Science Based Targets initiative (SBTi) Commitment is a pledge for organizations to align their emission reduction targets with the latest climate science, ensuring that their goals are in line with the Paris Agreement's aim to limit global warming to well below 2°C above pre-industrial levels, and ideally to 1.5°C. This commitment requires organizations to develop specific, measurable, and time-bound targets based on rigorous carbon accounting and scientific methodologies. The importance of this commitment lies in its structured and credible approach to achieving net-zero emissions. By adhering to the SBTi framework, organizations not only demonstrate their dedication to combating climate change but also gain access to a clear roadmap for reducing their carbon footprint. This pathway is highly recommended because it provides a scientifically validated method for companies to contribute meaningfully to global sustainability efforts while enhancing their own resilience and competitiveness in a rapidly evolving market.

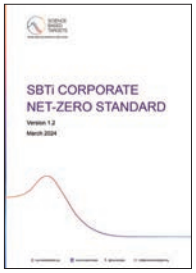
Committing to set net-zero targets is a crucial first step for any organization aiming to align its operations with global efforts to combat climate change. By signing the Science Based Targets initiative (SBTi) Commitment Letter, your organization publicly pledges to set a science-based target for reducing greenhouse gas emissions. This commitment is not just a symbolic gesture; it marks the beginning of a comprehensive journey toward measurable climate action.

The below steps summarize the key steps of the journey:

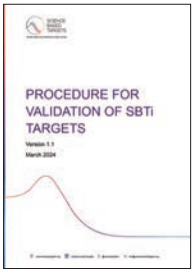
- Commit to set net-zero targets by signing the **SBTi Commitment Letter**.
- Set a science-based target – following the SBTi's steps:

SBTi resources

Detail to understand how to set a net-zero target aligned with climate science.



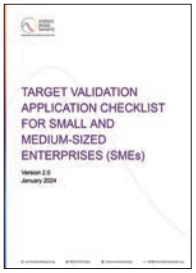
The SBTi commitment letter.



How SBTi validates targets.

Detail to understand how to set a near-term target aligned with climate science.

FAQ for SMEs looking to set a SBTi validated target.



Provides details on the information SMEs need to set an SBTi target.

1. Commit
As described above, although this step can be skipped by SMEs (see below)

2. Develop targets
The key step that likely requires most effort and resources

3. Submit for validation
The SBTi have documented the procedure for target validation; for SMEs, an online form aims to direct smaller companies through validation steps (see The SME Route on page 14)

4. Communicate
Signal the company's commitment and explain intended actions to key stakeholders

5. Disclose

Please refer to appendix B for more detailed information on the submission process.

2. THE SBTI ROUTE TO NET ZERO: THE BASICS

Engaging your organisation for success

Delivering on your Science Based Targets

Conduct a Baseline Assessment:
Evaluate current greenhouse gas (GHG) emissions and environmental impact to establish a baseline for setting science-based targets.

Secure Executive Buy-in:
Engage and educate senior leadership on the importance and benefits of adopting SBTs, ensuring alignment with overall business strategy.

Monitor and Report Progress:
Establish a robust monitoring and reporting system to track progress towards SBTs, ensuring transparency and accountability through regular updates and disclosures.

Engage Stakeholders:
Communicate the goals, progress, and benefits of SBTs to internal and external stakeholders, including employees, investors, customers, and suppliers, to garner support and collaboration.

Set Science-Based Targets:
Develop and commit to specific, measurable, achievable, relevant, and time-bound (SMART) targets that align with the latest climate science and international frameworks such as the Paris Agreement.

Integrate into Business Strategy:
Embed the SBTs into the core business strategy, ensuring they are considered in decision-making processes and long-term planning.

Implement Emission Reduction Initiatives:
Identify and execute projects and initiatives across operations, supply chains, and products that reduce GHG emissions in line with the set targets.

Continuous Improvement:
Regularly review and update targets and strategies based on new scientific findings, technological advancements, and feedback from stakeholders to ensure ongoing relevance and effectiveness in reducing environmental impact.

The SME route

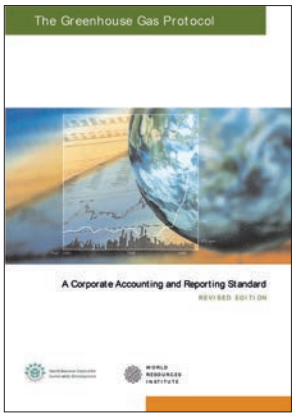
Please note the SBTi state the first step – joining SBTi by submitting a Commitment Letter – is not applicable to Small-to-Medium Enterprises (SMEs), who are instead requested to immediately set science-based targets by choosing from one of the predefined target options available in the SBTi's Target Validation Application Checklist for SMEs. An online form - **SME Streamlined Target Validation Route** – aims to direct companies through validation steps.

An SME is defined by the SBTi as a non-subsidiary, independent company with <250 employees, turnover of <€50 million, and assets of <€25 million. See here and also the **SME FAQs** for additional definition criteria and explanations.

3. CARBON ACCOUNTING & TARGET SETTING

While the overall process is typically described as sequential, initiated by a public corporate commitment or target submission, it might be helpful to consider the early steps in parallel. That is, a commitment is easier to make if an organisation already has a solid understanding of its emissions profile (carbon footprint) and therefore has greater confidence in its ability to meet its emissions reduction targets.

Once a commitment (from larger companies) has been made, the most significant processes involve those associated with defining baseline emissions levels and the corresponding emission reduction targets.



The basic process

1. Defining **material** emission sources across Scopes 1, 2 and 3. (Scope 3 emissions are defined as material if greater than 40% of a company's total emissions.)

2. Define your carbon accounting '**boundaries**'. These boundaries determine the parameters and extent of the business that your carbon accounting relates to and needs to be consistent over time.

3. Collecting, organising, and reviewing emissions and other **carbon accounting input data**.

4. Performing carbon calculations to convert an organisation's other greenhouse gas (GHG) emissions into CO_2e.

5. Set **near- and long-term targets** based on a rate / level of emissions reduction that is consistent with keeping the increase in global temperature below or at 1.5 ˚C compared to pre-industrial temperatures. The SBTi's documented **criteria for setting near-term targets** is a key reference when seeking to ensure methodologies are aligned with the organisation's expectations.

The 5 Principles of GHG/Carbon Accounting

Companies should base their emissions accounting processes on the following principles:

1. Relevance - Ensure the GHG inventory appropriately reflects the GHG emissions of the company and serves the decision-making needs of users – both internal and external to the company

2. Completeness - Account for and report on all GHG emission sources and activities within the chosen inventory boundary. Disclose and justify any specific exclusions.

3. Consistency - Use consistent methodologies to allow for meaningful comparisons of emissions over time. Transparently document any changes to the data, inventory boundary, methods, or any other relevant factors in the time series

4. Transparency - Address all relevant issues in a factual and coherent manner, based on a clear audit trail. Disclose any relevant assumptions and make appropriate references to the accounting and calculation methodologies and data sources used

5. Accuracy - Ensure that the quantification of GHG emissions is systematically neither over nor under actual emissions, as far as can be judged, and that uncertainties are reduced as far as practicable. Achieve sufficient accuracy to enable users to make decisions with reasonable assurance as to the integrity of the reported information.

(Source GHG Protocol)

3. CARBON ACCOUNTING & TARGET SETTING

Quantifying emissions

A key step for all companies – pre-requisite to target setting - is the **calculation and quantification of company GHG emissions** in accordance with the GHG Protocol's Corporate Accounting and Reporting Standard.

The basic equation for the calculation of emissions is as follows:

GHG Emission = Activity Data x Emission Factor

Activity Data: *data indicating the level or quantity of an activity that generates (or impacts) GHG emissions.*

Emission Factor: *a metric or coefficient that specifies the quantity of GHG that is emitted per unit of (GHG-producing) activity.*

There are a number of commercial digital carbon accounting systems on the market to assist with carbon inventory estimations. And for companies, particularly smaller SMES, that lack internal capacity, and not able to commission an external consultancy, **the SME Climate Hub offers free tools and resources**, including a Business Carbon Calculator (powered by the established *Normative* software).

Companies might also consider the GHG Protocol's calculation and emissions factor tools to assist with the process of quantifying emissions, and there are additional freely available tools such as the US Environmental Protection Agency (EPA)'s useful **simplified calculation tool** to help SMEs estimate and inventory their annual GHG emissions.

Scope 3 emissions

The bulk of watch and jewellery companies' emissions are likely to fall under the Scope 3 emission category and, specifically, the upstream items (mined materials) associated with suppliers of purchased goods and services (that is, *Category 1 and 2* Scope 3 emissions). This can pose substantial challenges when seeking to obtain accurate and consistent data on emissions from sources over which a company may have little control or influence (or from suppliers that have little understanding of the nature of the emissions data being requested).

While in recent years more granular data has become available to assist in quantifying these emissions, the challenges in obtaining sufficient and accurate data on indirect emissions can also inhibit the confidence companies have when striving to set credible reduction targets.

Primary data sources (supplier-specific data) are typically preferred as likely offering greater accuracy and consistency, and the **GHG Protocol's Supplier Engagement Guidance** suggests how the process of obtaining enhanced data might be managed. However, in instances and locations where suppliers and customers may be less able to measure and report emissions, secondary reference sources – industry averages and/or emissions factor databases – may represent the best available data.

GREENHOUSE GAS PROTOCOL

A workbook with cross-sector emission factors and conversions that can be used to estimate emissions from sources that cannot provide CO_2e figures

4. CARBON ACCOUNTING KEY CONSIDERATIONS

Boundary definitions

Companies need to set boundaries to accurately report on their GHG emissions. These boundaries determine their responsibility for different types or sources of emissions.

There are two main ways to define these boundaries:

1. Equity Share:
Here, a company's GHG emissions are accounted for based on its percentage of ownership in the operation. If ownership is complex or unclear, the company's actual economic interest in the business is considered more important than the formal ownership structure.

2. Control:
This approach considers a company to 'own' the GHG emissions from operations it controls. It doesn't include emissions from operations it has a financial stake in but doesn't control (these could be counted as Scope 3 emissions). Control can be either financial or operational:

- **Financial Control:** Companies take responsibility for emissions from assets or activities where they bear most of the risk and benefit financially. This is about more than just owning more than half of a business; it's about having the power to direct its financial and operating policies and profit from its operations.

- **Operational Control:** Companies take responsibility for emissions from assets or activities over which they have the authority to create and implement operating policies. This is often the most common way to set boundaries.

  However, having operational control doesn't always mean a company can make all decisions about an operation, especially if other partners share financial control. So, a company can have joint financial control over an operation but not exercise operational control.

  The operational control approach is often preferred because it focuses on a company's ability to take decisive action. Even if a company owns something, if it doesn't have operational control, it may not be able to reduce the carbon emissions it produces.

Boundary definitions can be applied at different levels of the reporting process, but they should be applied consistently at the highest level. Any changes in boundary definitions should be clearly flagged and explained, as they can significantly impact the scale and importance of certain category emissions.

Baseline definitions

Companies need to set a baseline or reference point to track their emissions – and the impacts of their asscoaited reduction actions - over time. This baseline is usually the year they started reporting their emissions or when reliable data became available. It's important to choose a baseline year that accurately reflects the company's operations and emissions, not a year that was unusual or exceptional.

Companies might set different baselines for their Scope 3 emissions, which are emissions they don't directly control, compared to their Scope 1 and 2 emissions, which they do control. Setting a baseline can be tricky, especially for Scope 3 emissions, but it's more practical to have a representative baseline than to strive for perfect accuracy. A baseline also shows a company's commitment to reducing emissions and allows progress to be measured.

Revising baselines and 'significance thresholds'

Companies should also set a ***significance threshold*** for when they'll recalculate their baseline emissions. This threshold is a set of criteria that, if met, will trigger a recalculation. Common triggers include structural change to business plans, mergers and acquisitions, outsourcing business activities, or using a new method to calculate carbon emissions. However, normal changes in the company, even big ones, usually don't trigger a recalculation.

If a company recalculates its baseline, often choosing a more recent year, it should clearly explain why and how it chose the new baseline year. It should also discuss the impact of the recalculations on its overall emissions and on specific Scope 3 categories.

4. CARBON ACCOUNTING – KEY CONSIDERATIONS

Materiality

When considering Scope 3 emissions, companies need to understand the different significance of the 15 categories of Scope 3 emissions. This requires an evaluation of the size, relevance, and risks of each category. This is known as determining their materiality. Materiality is a key concept in accounting, legal decisions, and now in environmental, social, and governance (ESG) and GHG emissions disclosures. It's assessed using a mix of quantitative and qualitative factors.

Although we have suggested that upstream (e.g. category 1 and 2) emissions may be more material to most watch and jewellery companies, there is an argument for initially assuming all 15 Scope 3 categories are significant. Then, a structured process is used to determine the materiality of each type or source of 'category emissions'. This process considers several factors:

- **Size:** The emissions of the category as a percentage of Scope 3 and overall emissions.
- **Influence:** The potential to reduce emissions in the category or to obtain data on these emissions to track progress.
- **Risk:** How the emissions in the category relate to potential financial, regulatory, supply chain, product and customer, legal, or reputational risks.
- **Stakeholders:** How the emissions in the category align with the expectations and priorities of consumers, suppliers, investors, and society.
- **Sectoral Guidance:** How the emissions in the category align with the objectives and priorities identified in existing sector-specific guidance.

Most guidance suggests 5% of total as a starting point for determining materiality. This aligns with the SBTi guidance for Scope 1 and 2 emissions. However, materiality estimates will also likely reflect more qualitative factors.

Companies should also disclose and justify any **exclusions** and periodically reassess the materiality of excluded Scope 3 categories. This ensures their accounting and reporting reflects their evolving emissions profile.

Decisions on materiality may also be based on the 'reasonable person' standard from tort law. This means material information is what a reasonable investor would consider important in making an investment decision. If the volume of emissions is substantial, the materiality threshold might need to be reduced. Variations in threshold levels can be explained with reference to the criteria listed above.

Regarding total Scope 3 emissions, however, if the sum of all category emissions is a smaller portion (less than 40%) of total company emissions, as is the case for at least some gold miners, then the weight and priority given to Scope 3 emissions reduction targets, at least in the near term, is diminished

5. TARGET VALIDATION

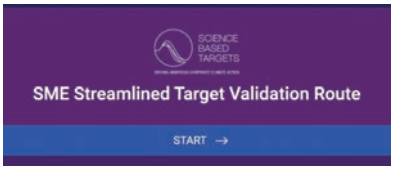
The **target validation** process requires larger companies to submit science-based targets **within 2 years of submitting their commitment letter** (although WJI 2030 members should strive for validation at the earliest opportunity).

Targets should include both:

- **Near-term (5-10 year) emissions reductions** in line with a 1.5˚C pathway
- **Long-term emissions reductions** to reach Net Zero by/before 1.5˚C pathway

As described above, SMEs benefit from a **streamlined process for target validation** allowing them to choose from one of several predefined target options. The basic process is as follows:

- **Upload submission forms** to the SBTi
- Confirm submissions are in line with basic SBTi requirements
- **Provide payment** information
- **Reserve a date** for the SBTi target validation service



Timing and costs

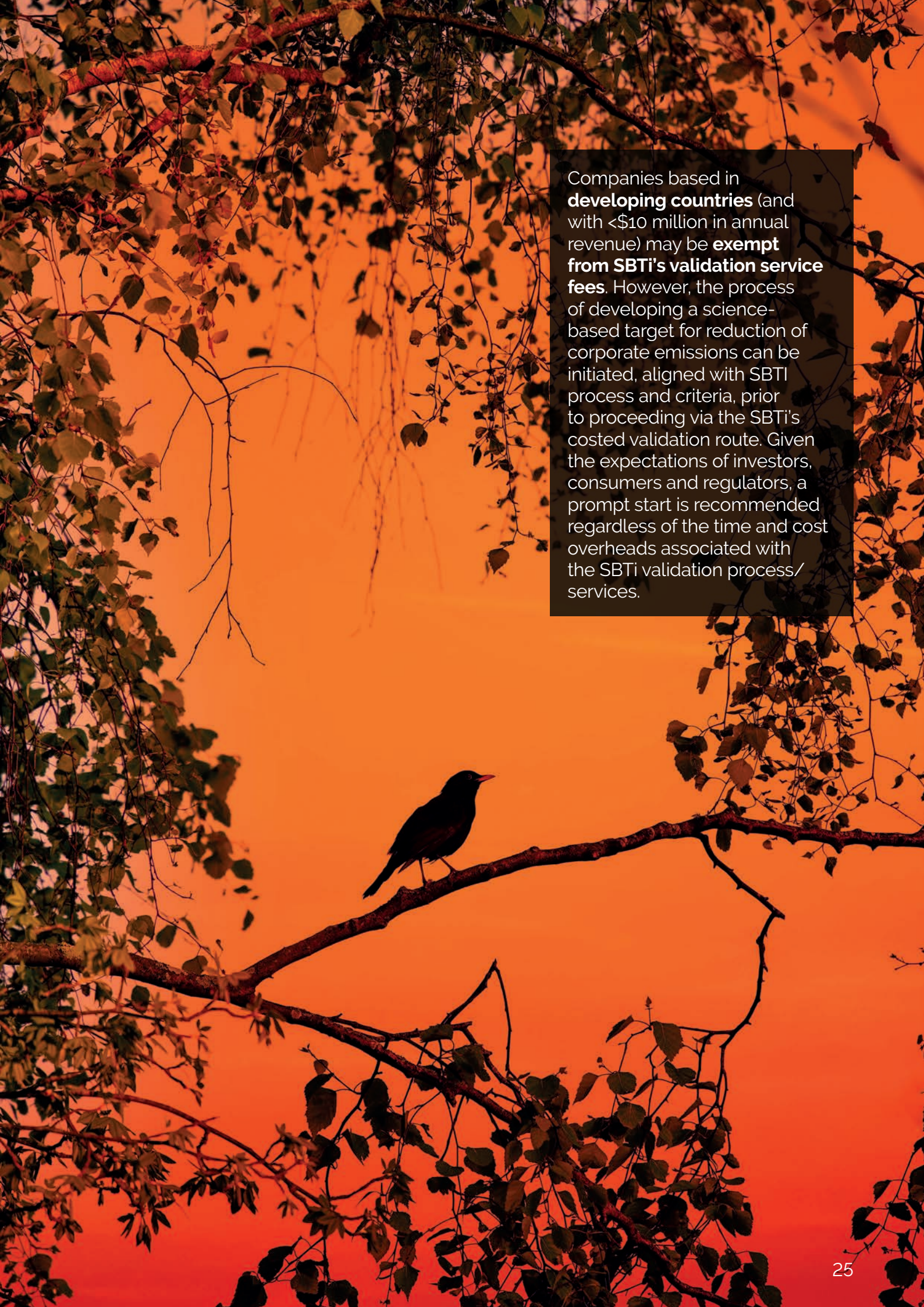
When a company submits its targets for validation, the SBTi strives to review and approve/reject the targets **within 30 days**. If not successful, there is no defined timing by which a company must revise and again submit its targets. However, if it re-submits for a **second assessment within six months** of the first submission, it comes at no extra cost.

The SBTi provides a range of fees for target validation services (**SBTi target validation service offerings**), but the following services are probably those of more immediate relevance (and/or indicative of the range of likely costs) to be faced by the majority of WJI 2030 members:

- **Near-term** science-based target validation: $9,500
- **Long-term** (net-zero) target submissions: $9,500
- **Package deal for setting both** near-term and long-term target: $14,500
- **Update or edit previously approved** targets: $4,750

As for the validation process, SMEs benefit from advantageous service fees:

- **Near-term** science-based target submission: $1,250
- **Long-term** Net-zero target submission: $1,250



Companies based in **developing countries** (and with <$10 million in annual revenue) may be **exempt from SBTi's validation service fees**. However, the process of developing a science-based target for reduction of corporate emissions can be initiated, aligned with SBTI process and criteria, prior to proceeding via the SBTi's costed validation route. Given the expectations of investors, consumers and regulators, a prompt start is recommended regardless of the time and cost overheads associated with the SBTi validation process/ services.

6. REPORTING AND DISCLOSURE

Companies should report company-wide emissions and progress against their targets on an annual basis, and companies with approved (validated) SBTs are encouraged to disclose via established reporting frameworks and platforms (with CDP, an SBTi 'partner' organisation, often singled out – albeit it is more tailored to capturing the climate actions of larger corporations). Reports should be based on GHG Protocol standards, be publicly available and easily located on the company website. This enables customers, investors and other stakeholders to see a transparent view of your decarbonisation pathway.

The now closed Taskforce for Climate-related Financial Disclosures (TCFD) established four key recommendations to encourage coherence and consistency in corporate climate reporting and that should be central to the report. These pillars have also been adopted as the basic structure for the more recent IFRS ISSB sustainability standards (The ISSB has taken on the outputs from the TCFD) and are as follows:

Governance The business' governance around climate related risks and opportunities

Strategy The actual and potential impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk Management The processes used by the organisation to identify, assess and manage climate-related risks.

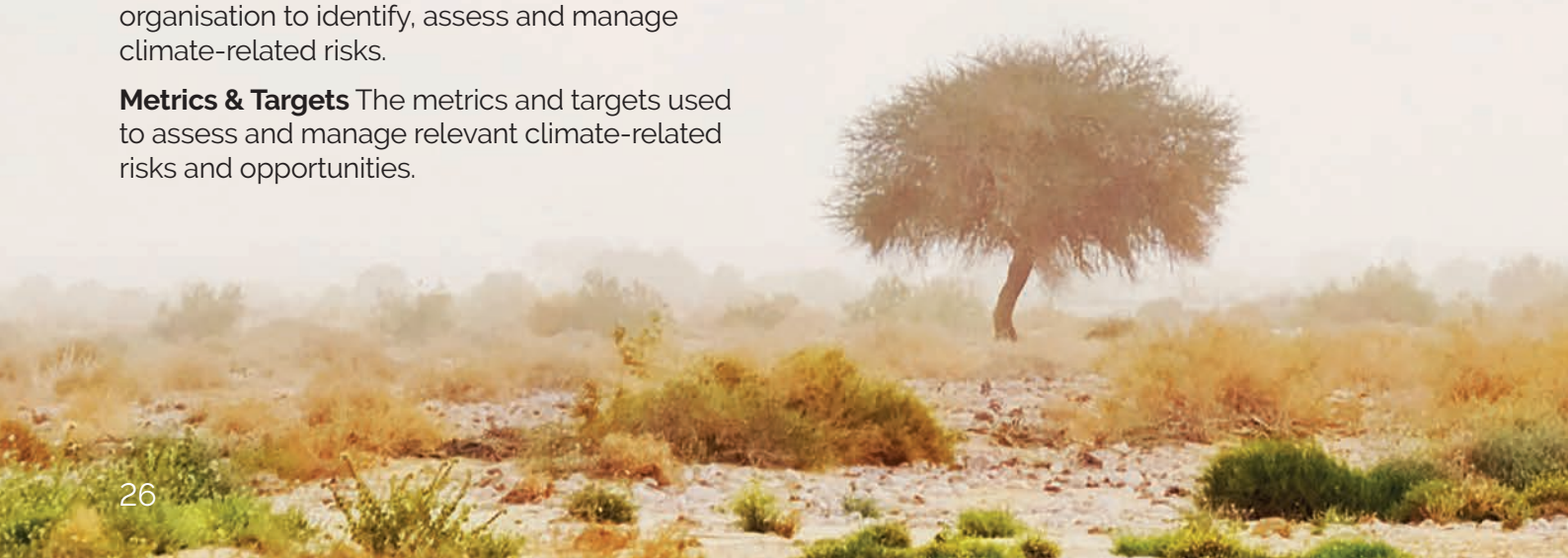
Metrics & Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The ISSB also recently published its inaugural standards, IFRS S1 and IFRS S2, which fully incorporate the TCFD recommendations. The four pillars of the TCFD recommendations can be used to guide companies in how to arrive at (and communicate) credible corporate climate change transition plans.

Your sustainability report, will as a minimum provide an overview of:

- Current emissions mapped against the baseline year, split out according to scopes and ideally using the GHG Protocol categorisation.
- Emissions abatement targets and progress against them.
- Summary of actions that have delivered results in the previous 12 months.
- Planned actions for the coming 12 months and significant initiatives in the medium term.
- Climate related risks, opportunities and strategies in line with the 4 pillars above.

See Pandora's sustainability report as a good practice example.



Key European legislation

There are a number of key EU regulations that have entered into force in recent years and that will continue to shape the landscape for sustainability reporting in the future. The 3 key Initiatives to be aware of are:

- The EU's Corporate Sustainability Reporting Directive (CSRD) is driving greater transparency and standardisation in reporting by setting out reporting requirements and obligations. See the EU Commisson page to stay on top of developments and for further information.

- The European Sustainability Reporting Standards (ESRS) sets the framework and methodology for reporting for all CSRD eligible businesses. See EFRAG's guidance on ESRS and to stay on top of updates.

- The Corporate Sustainability Due Diligence Directive (CSDDD) - CSDDD and CSRD sit alongside each other with CSDDD focusing on expectations on businesses for human rights and environmental issues within their operations. The EU defines due diligence as *'identifying and addressing potential and actual adverse human rights and environmental impacts in the company's own operations, their subsidiaries and, where related to their value chain(s), those of their business partners.'* For more information on the relationship between CSDDD and CSRD see CDP's overview.

Setting a science based target is a core tenet of both CSRD and CSDDD, with CSDDD for example requiring, '*a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement as well as intermediate targets under the European Climate Law.*'

Eligibility
Large companies that meet two of the following three conditions are required to comply with CSRD:

1. €50+ million in net turnover.

2. €25+ million in assets.

3. 250+ employees.

4. In addition, non-EU companies that have a turnover of above €150 million in the EU will also have to comply.

The CSRD also applies to small and medium-sized enterprises (SMEs) that are listed on European markets and meet at least two of the following three conditions

1. €8+ million in net turnover.

2. €4+ million assets.

3. 50+ employees.

SME CASE STUDY:

TOM WOOD

Tom Wood is based in Norway and has been operating for over 10 years. They have circa 50 employees and have traditionally been primarily a B2C business, with a focus on premium retailers. They have been committed to sustainability since they started and have been externally reporting through their Responsibility Report for a number of years.

From Figure 1 we can see that the vast majority of Tom Wood's emissions come from Scope 3, primarily from business travel which makes up 54% of their total emissions currently. This is therefore a key area of action for them and they have a number of projects in the works to reduce such emissions. An area of notable success has been a 78% reduction of CO2e in their jewellery supply chain by sourcing 100% recycled precious metals, demonstrating the impact that targeting hotspots has. Key to Tom Wood's success has been their sustainability manager having a key seat at the table with leadership, and cross-functionally, enabling the company's s sustainability objectives and goals to also influence innovation strategies across its business.

In the coming years, Tom Wood are anticipating changes to their emissions profile, however, with growth in their B2C business, including several new retail outlets. This could bring higher scope 2 emissions, requiring a focus on renewable energy sourcing and ideally choosing to locate in retail sites that are already being served by renewables. It will also require a focus on circular sourcing strategies for retail construction.

"An area of notable success has been a 78% reduction of CO2e in their jewellery supply chain by sourcing 100% recycled precious metals, demonstrating the impact that targeting hotspots has."

Figure 1. Tom Wood 2023 emissions

https://www.tomwoodproject.com/gb_en/responsibility/

SCOPE	Emissions (tCO2e)	Proportion of total emissions
Scope 1	0	0%
Scope 2	4	1%
Scope 3	352	99%

SCOPE 3 BY CATEGORY	Emissions (tCO2e)	Proportion of total emissions
Jewellery	30.8	0%
Upstream transportation & distribution	83.4	23%
Business travel	193.7	54%
Packaging	20.4	6%
Office supplies	17.4	5%
Fuel-and-energy related activities	1.9	1%
Employee commuting	4.2	1%

SUPPLIER ENGAGEMENT CASE STUDY:

KERING

Kering has developed an Environmental Profit & Loss methodology which aims to measure and quantify environmental impacts and use the data to guide decision making, but also to engage with suppliers and stakeholders. It converts what can often feel like difficult concepts into something that the entire business understands. In this case, it is monetary values that enable comparison across the business on new initiatives and decisions. All brands in the group are now using this strategy to formulate their strategies.

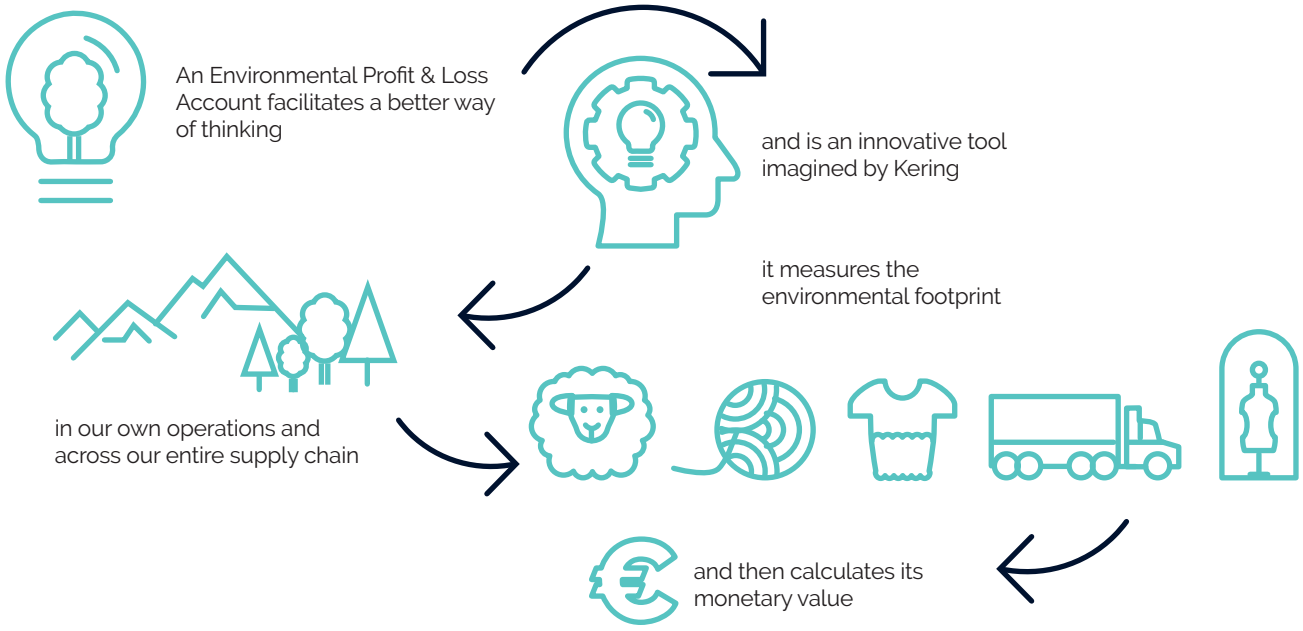
Kering has taken the decision to open up this methodology to suppliers and peers for them to utilise. This is a demonstration of leadership from Kering, highlighting that this work requires collaboration and partnership to drive the scale of change needed. It also makes it easier for suppliers to feel that they can be open and transparent about data, without fear of negative impacts on the trading relationship, knowing that all other suppliers are doing the same.

The jewellery sector need suppliers and brands to open up their data to make sure that all actors across the value chain can report as accurately and consistently as possible. This will also help the industry collaborate and develop solutions together to achieve the scale of change we all need.

"This is a demonstration of leadership from Kering, highlighting that this work requires collaboration and partnership to drive the scale of change needed."

What is an EP&L?

https://www.kering.com/en/sustainability/measuring-our-impact/our-ep-l/



APPENDIX A

ACTION CHECKLIST

Prepare

- [ ] **Gain leadership buy-in** You need leaders to understand the intentions, the targets and the interactions you will need across teams, as well as to champion the targets internally at the outset.

- [ ] **Discuss with operational leads** Gather insights from across the business to understand where leaders are in their thinking and knowledge of climate action. Work with them to understand how to engage their teams effectively.

- [ ] **Complete carbon accounting** Depending on the size of your business this is going to be either through an external consultant or through a platform such as the SME Small business hub. Identify hotspots and communicate with leadership. Refer to p10-19 for guidance, review the GHG Protocol Standard and for SMEs get started through the SME Business Carbon Calculator.

- [ ] **Life cycle assessment (LCA)** If resource and capacity allows, explore conducting a product LCA on key products to refine data collection and target decarbonisation efforts.

Submit

- [ ] **Submit targets through SBTi** See Appendix B for full details

- [ ] **Governance system** Establish a formal system to ensure accountability for goals and to monitor progress.

- [ ] **Build your climate action roadmap** Work cross-functionally to develop your decarbonisation plan and ensure governance and budget requirements are in place. Review data monitoring and analysis requirements.

- [ ] **Double materiality assessment** For large businesses that are impacted by the EU's Corporate Sustainability Reporting Directive (CSRD) an assessment that reviews both the impact of your business on environmental and social factors, as well as the impact of these factors on your business is required. EFRAG is a key resource for all EU related sustainability updates and provides more information on the process.

Engage

- [ ] **Stakeholder mapping** Use your hotspots analysis to identify which teams and individuals have the power to drive the changes you need to deliver on the plan and set up a regular meeting cadence.

- [ ] **Communication narrative** Understanding your narrative for different parts of the business is key and identifying how to integrate climate goals with the strategic goals of different parts of the business.

- [ ] **Leadership engagement** Continue to generate internal consensus around the targets and the roadmap to achieve them.

- [ ] **Materiality assessment** A materiality assessment is a stakeholder engagement exercise to understand the issues that are material to your stakeholders. It helps to ensure that you are providing stakeholders with what they need to make decisions and assess impact. There are some useful materials on the SBTN site to support this.

- [ ] **Review your emissions inventory** Collect and review the reliability of emissions inventory data from across the business on a periodic basis.

- [ ] **Celebrate wins** Communicate about your goals and progress externally and internally. This can create a virtuous cycle, through which increased engagement leads to increased action.

Operate - Ongoing

- [ ] **Mapping against other goals** Understand intersections between climate goals and biodiversity, human rights, waste and other ESG goals. Review SBTN's guidance on SBTs for Nature and SBTi's FLAG guidance.

- [ ] **Integrate into business planning process** Where possible integrate into new project development, innovation plan or business case processes to assess emissions impact of new initiatives before committed. See Kering's Environmental Profit & Loss as an example.

- [ ] **Engage suppliers** Share your ambition with suppliers, where possible gather primary data and work with them to target low-carbon innovation.

- [ ] **Manage** data collection systems, process, technology and other operational requirements

- [ ] **Disclosure and reporting** Review progress with leadership on at least a quarterly basis and then externally report on an annual basis. Obtain external assurance over disclosure and reporting and update key stakeholders. Review the WWF review of the Watch and Jewellery sector for insight on expectations around transparency and reporting

- [ ] **Communicate progress to customers** Engage your customers in your journey. Review EU Green Claims Directive and UK Green Claims code for how to communicate effectively

- [ ] **Identify best practice** Conduct ROI assessments against emission reduction initiatives and communicate across the business

- [ ] **Review targets** consistently through your governance structure and update where relevant.

APPENDIX B

SME SBTI GUIDANCE

SBTi uses a simple online form in order for you to submit your targets. The form can be accessed here.

Before you start the process you need to have the following to hand:

- Company details including employee headcount.
- Company accounts for the previous financial year.
- Your carbon accounting report, including information on your organisational boundaries, base year, and information on whether you have used market or location based data[1] for your scope 2 reporting.

Target setting

Near term targets are pre-populated by SBTi and are dependent on your base year as to which you will select. You will be committing your business to the following:

'Our company commits to reduce absolute scope 1 and scope 2 GHG emissions by 50% from a 2018 base year / 46% by a 2019 base year / 42% thereafter (by 2030), and to measure and reduce its scope 3 emissions'.

Note that there is no requirement to set a target reduction for scope 3 as a SME but SMEs can set ambitious scope 3 targets and communicate them on their website or other public channels; however, these will not be validated by the initiative.

[1]**Market based and location based reporting:**

A location-based method - *'reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data)'.*

A market-based method - *'reflects emissions from electricity that companies have purposefully chosen (or their lack of choice). It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims'.* https://ghgprotocol.org/sites/default/files/2022-12/Scope2_ExecSum_Final.pdf

- **Direct Action, not offsets** - As a reminder the SBTi '*requires that companies set targets based on emissions reductions through direct action within their own boundaries or their value chains… Offsets are only considered to be an option for companies wanting go finance additional emissions reductions beyond their science based target'*

- **Absolute reductions** - Note the focus on absolute emissions reduction targets, rather than intensity targets. The reason for this is that *'Intensity targets do not necessarily lead to reductions in absolute emissions. This is because increases in business output can cause absolute emissions to rise even if efficiency improves on a per unit basis.'* Read SBTi's Target Setting Manual for more guidance

- **For net zero targets** - SMEs need to have a near term target in place aligned to a 1.5˚C pathway, in order to subsequently set a net zero target. To set a net zero target, the ambition of the business needs to be at least a 90% reduction by 2050. However, SBTi also provides the option for businesses to set their net zero target for up to 100% and within a closer time horizon.

Corporate SBTI process note

Scope 2 target setting - Targets to actively source renewable electricity at a rate consistent with 1.5˚C scenarios are an acceptable alternative to scope 2 emission reduction targets over emissions from the generation of procured electricity. 24 The SBTi has identified 80% renewable electricity procurement by 2025 and 100% by 2030 as thresholds (portion of renewable electricity over total electricity use) for this approach. Read the SBTi Corporate Net Zero Standard for more guidance.

Scope 3 target setting - If a company's relevant scope 3 emissions are 40% or more of total scope 1, 2, and 3 emissions, they shall be included in near-term science-based targets

RESOURCES

Carbon accounting:

- GHG Protocol Standard For full guidance on aligning carbon accounting with the GHG Protocol.
- GHG Protocol Scope 2 guidance How to measure and report on Scope 2 emissions.
- GHG Protocol Scope 3 guidance How to measure and report on Scope 3 emissions and how to focus value chain emissions reduction efforts.
- GHG Protocol collection of tools and guidance
- GHG Protocol Product Life Cycle Standard - Guidance on LCA reporting at a product level and how to utilise it to target decarbonisation efforts.
- The Business Carbon Calculator Through the SME Climate Hub. Particularly useful for small businesses doing carbon accounting for the first time.
- WEF net-zero value chain hub Support and guidance on scope 3 value chain decarbonisation planning.

Setting Science-based targets:

- SBTi Corporate near term criteria Provides an overview of all criteria for setting near term targets.
- SBTi assessment indicators List of the criteria SBTi assesses targets against and required documentation.
- SBTi target validation checklist for SMEs
- SBTi SME target setting application link
- SBTi SME FAQs
- SME Climate Hub Non-profit global initiative to support SMEs on their decarbonisation journey. Includes lots of helpful resources and guidance to get started.

Additional inspiration / follow up reading

- SBTi Business case studies A list of different businesses and how they are approaching decarbonisation, as well as processes such as supplier engagement.
- WBCSD Circular Transition Indicators Guidance on measuring circularity within businesses
- Science Based Targets Network Additional guidance and inspiration on a variety of accounting, decarbonisation planning and sustainability engagement.
- EFRAG Key resource for all EU related sustainability legislation updates.
- EU Green Claims Directive and UK Green Claims code Guidance on how and what you should be communicating.
- SBTs for Nature Guidance on the new Science-based Targets for Nature
- SBTi Forest, Land and Agriculture Guidance on implementing science based targets in FLAG sectors.
- WWF Time for Change NGO review of standards and expectations for the sector to drive transparency.
- International Sustainability Standards Board (ISSB) Further reading from the primary international body established to drive alignment around sustainability reporting standards.

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WATCH & JEWELLERY

INITIATIVE 2030