Guidelines for Developing a Credible Transition Plan

Practical step-by-step roadmap

2026

About these Guidelines

These non-binding Guidelines were developed by the Baltic banking associations to support companies and financial institutions in preparing climate transition plans. They do not create any legal, regulatory, supervisory, or contractual obligations.

The recommendations and examples are for guidance only. They should be applied proportionately, considering each organisation's circumstances, sector, business model, and ambitions. They do not prescribe specific targets, timelines, technologies, business decisions, or financing outcomes. Each organisation remains responsible for complying with applicable requirements and deciding which measures are appropriate.

Banks aim to support companies as partners in the transition to a more sustainable economy. The Guidelines are intended to encourage constructive dialogue and informed decision-making, not to establish supervisory or controlling functions.

The Baltic Banking Associations accept no responsibility for decisions made based on the Guidelines. They reflect publicly available information and market practices at the time of publication.

Dear reader,

21st century has presented the humanity with a completely new type of challenge – the climate change.

Although climate change is not unique in the history of the Earth, it presents radically new challenges and threats in the modern world where in our everyday lives we all rely on thousands of technologies, functionality of built infrastructure, and wide availability of diverse resources.

That makes us ask – what can we do to mitigate these threats and better adjust to what is happening around us. The key answer is – minimise our own impact on climate change and adapt to the already occurring environmental transformation. That requires us being able to transition from current "business as usual" approach in our industries or individual companies to more sustainable and resilient business models.

That is what a transition plan is about.

Having a sound transition plan in place also plays an increasingly important role in financing decisions. Therefore we, the Baltic banking associations consider it our responsibility to support you in this path and give you the necessary background and tools for you to be ready for any transition plan discussions with your financial counterparties – banks, investors, and others.

These guidelines are intended to provide you with an understanding what a credible transition plan should contain and how you can develop one in your business.

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Glossary

Definitions[1]
1.5 °C aligned scenario: Scenario in which global average temperature increase is limited to 1.5 °C above pre-industrial levels with no or limited overshoot.
1.5 °C aligned target: A science-based climate target derived from a 1.5 °C aligned scenario using an approved target-setting method.
Absolute emissions: Quantity of greenhouse gas (GHG) emissions in terms of mass of GHG or tonnes of carbon dioxide equivalent. Used to calculate current emission level or emission reduction for a company. Another approach includes calculating emission intensity (see below).
Climate change mitigation: The process of reducing GHG emissions to hold the increase of global average temperature below 1.5 °C above pre-industrial levels.
Decarbonisation levers: Aggregated mitigation actions (categories of emission reduction measures) such as energy efficiency, electrification, switching to renewables, fuel switching, product design changes and supply chain decarbonisation.
Emissions intensity: Emissions per a specific unit, for example: tCO_2e per EUR million invested, tCO_2e per MWh of energy consumed, tCO_2e per tonne of goods produced, tCO_2e per EUR million company revenue, etc. Used to calculate current emission level or emission reduction for a company. Another approach includes calculating absolute emissions (see above).
Greenhouse gases (GHGs): Gases that absorb and re-emit infrared radiation, trapping heat in the atmosphere. Includes CO_2, CH_4, N_2O, HFCs, PFCs, SF_6 and NF_3. To simplify for accounting and reporting purposes, all GHGs are expressed in CO2e or carbon dioxide equivalent units and categorised across three scopes – Scope 1, 2, and 3.

Direct GHG emissions:
The release of GHG into the atmosphere.

Indirect GHG emissions:
GHG emissions that occur at sources owned or controlled by another entity (e.g., energy supplier, raw material supplier, waste management company, logistics partners, etc.) but arise as a consequence of the company's activities. Indirect emissions are categorised under Scope 2 and 3 emission categories explained in Section 1.

GHG Protocol:
Comprehensive global standardized framework to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions. Provides the most widely used GHG accounting standards.

Locked-in GHG emissions:
Carbon lock-in occurs when high-emission infrastructure or assets continue to be used, despite the possibility of substituting them with low-emission alternatives, thereby delaying or preventing the transition to near-zero or zero-emission alternatives.

Net-zero science-based target:
A net-zero science-based target is a GHG mitigation target that means the following:

- Reducing Scope 1, Scope 2 and Scope 3 emissions to zero or to a residual level consistent with global net zero or with sector level pathways aligned with 1.5°C.
- Permanently neutralising any residual emissions in the net zero target year and any GHG emissions released into the atmosphere afterwards.

Paris Agreement:
Legally binding international treaty on climate change adopted under the United Nations Framework Convention on Climate Change (UNFCCC) in 2015. It commits countries to limit global temperature increase to well below 2 °C and pursue efforts to limit warming to 1.5 °C while strengthening adaptation and increasing ambition over time.

Climate scenario:
A specialised scenario that describes potential future climate conditions based on different greenhouse gas emission trajectories, policy choices and socio-economic pathways. It provides quantified projections such as temperature rise, precipitation patterns or physical hazard intensity to support climate-related risk and opportunity assessment.

[1] Definitions in this glossary are sourced from ESRS regulation and SBTi glossary

Step 1

Establish the Baseline – Understand your Emissions, Risks, and Capabilities

To develop a transition plan, first, the company needs to define a baseline against which the future actions will be measured. That includes:



Measuring its carbon footprint or, in other words, calculating the greenhouse gas (GHG) emission level.



Identifying climate risks and opportunities and assess the company's exposure to them. Climate risks may disrupt the company's operations and negatively affect its future outlook, development opportunities and/or financial situation, and use of opportunities may, vice versa, increase competitiveness.



Reviewing the company's current focus and future capacity – processes and actions that support reduction of GHG emissions and/or climate risk mitigation (if any).

Basically, if GHG emissions show how you as a company impact climate change, then climate risks and opportunities show how climate change impacts your business and processes. Actions show what you already do or can do about both.

1.1
Measure your carbon footprint

Sections 1.1.1-1.1.3 mainly apply to companies which are in their starting point and just getting ready to calculate their GHG emissions (Level 1).

If you have already calculated your emissions (Level 2 or Level 3), you may skip the sections or review them to make sure your approach is reasonable and relevant for your business.





1.1.1 Methodology[2]

According to the GHG Protocol, three types or scopes of emissions are calculated (see Figure 3. GHG Protocol – all scopes.):

Scope 1

Direct emissions occurring in company's own operations (typically – from own heat production, transport use and use of refrigerants or other specific chemical substances that emit GHGs).

Scope 2

Indirect emissions created in production of heat/cool and electricity purchased from grid. Those are considered indirect emissions as they occur because the company needs a certain amount of energy to operate but the GHG emissions are emitted elsewhere.

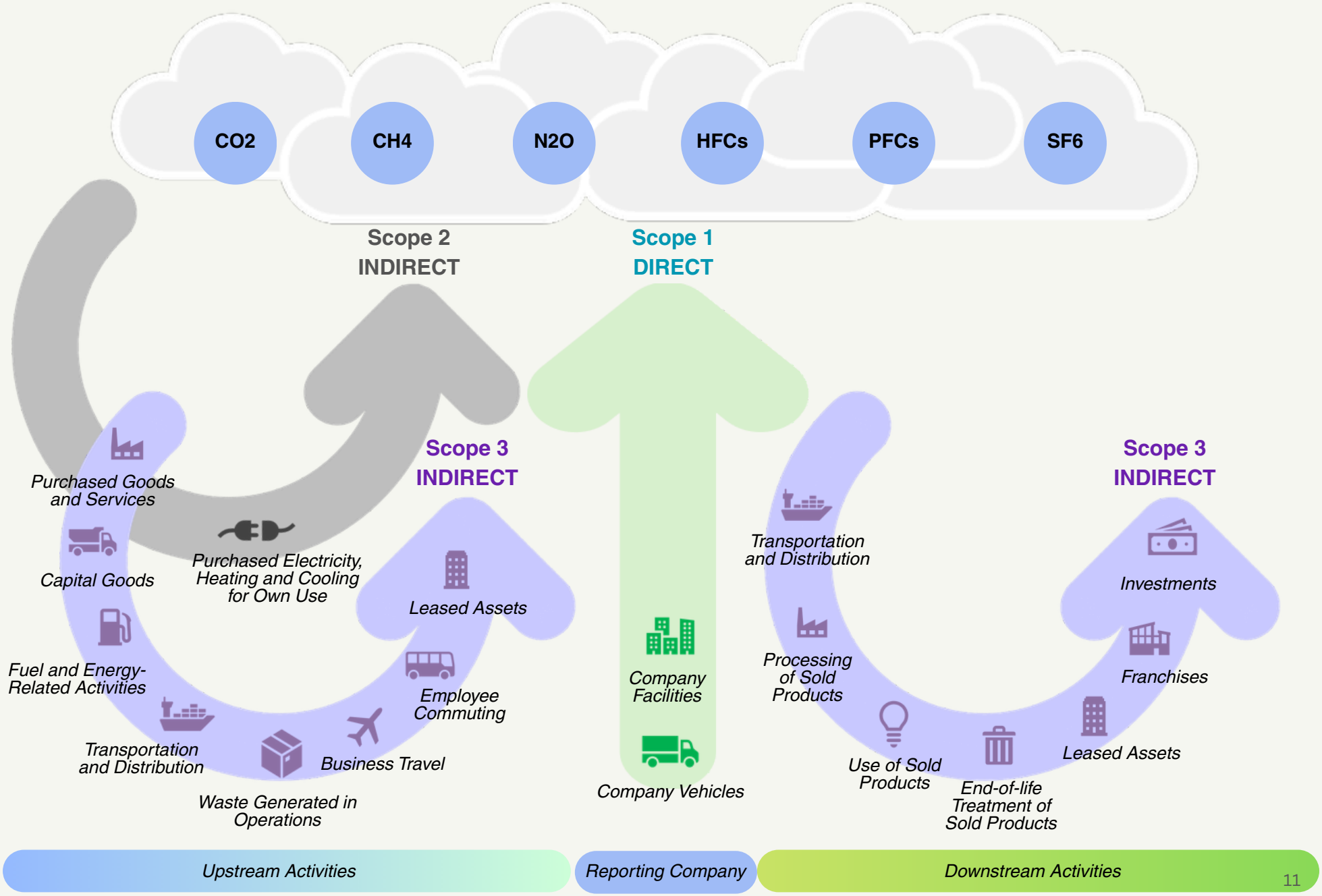
Scope 3

Indirect emissions in the value chain which are further split into 15 categories and categorised according to their "place" in value chain. Upstream value chain is related to processes that happen before the company's own operations or are related to its suppliers, and downstream value chain covers processes that occur after goods or services have "left" the company's premises or investments that are invested in other businesses which create emissions in their operations.

There are multiple gases that create the greenhouse gas effect and have an impact on climate, but for the simplicity purposes the GHG Protocol methodology allows to calculate them using one measurement unit – CO_2 equivalent unit or CO_2e.

[2] GHG Protocol methodology

Figure 3. GHG Protocol – all scopes.



1.1.2
Scope 1 and 2 calculations

For Scope 1 and 2, all subcategories apply to any company depending on assets the company owns or directly controls (boiler plants, cars, other machinery, own energy generators, etc.) and types of energy it uses.

These emissions are the very baseline for climate action, and practically any company needs to know its Scope 1 and 2 emissions, therefore, this section does not depend on the company maturity level. However, the data accuracy may differ.

To calculate Scope 1 and 2 emissions, the company needs to:

1) Collect energy resource consumption data – litres of fuel, m^3 or tons of natural gas, tons of biomass, kWh or MWh of consumed energy, etc. The data is usually available from invoices the company pays for these resources.

- Alternatively, the company may collect monetary information (i.e. how much money it has spent for each of the energy resources) but, in further calculation steps, this information will not provide as precise result as the actual consumption data.

Note: energy supply is a regulated market, and therefore the invoice may contain information on tariff per item (e.g., kWh of supplied energy), thus you may be able to convert financial information into consumption data even if you do not have this information directly available. Also, the energy tariff may be available on the regulator / municipality / energy supplier website.

2) Identify appropriate coefficients or emission factors from external sources to transform the consumption data into created emissions. Note that the emission factors for grid energy (heat/cool and electricity) differ in various countries – depending on the local energy mix. For fuels the company uses in its own facilities or vehicles the factors do not differ as much because, for example, a litre of petrol creates a similar amount of emissions wherever it is used (although there may be slight differences depending on the weather conditions and other factors, but that does not create a material difference in calculations).

Note: Be careful to align the units of emission factors and consumption data. E.g., if you have data on natural gas consumption in tonnes, then you should also use an emission factor of CO_2e per tonne of natural gas (or recalculate the consumed amount to other units for which you can obtain a relevant emission factor).

For purchased energy, your energy supplier may be able to submit the specific emission factor for the energy it produces. Ask them, and you may improve the calculation accuracy. In addition, if you intentionally buy renewable energy your emission factor will also be different from regular energy purchase agreements.

3) Calculate emissions by multiplying consumption data with the relevant emission factors:

$$\textit{Emission amount } (CO_2\ e) = \textit{Consumption Data} \times \textit{Emission Factor}$$

To find suitable emission factors, you may use multiple tools or databases. Some of the most relevant ones are listed in Table 2:

Table 2. Sources and tools for emission calculation

Tool/ source of information	Type	Scope	Geographical Coverage
GHG emission calculator developed by Baltic banking associations	Calculator	1 & 2	Lithuania, Estonia, Latvia
European residual energy mix by countries	Market-based emission factor database for electricity	1 & 2	Europe
International Energy Agency (IEA)	Emission factor database (some information may be paid)	1 & 2	Global
IPCC database	Emission factor database	1, 2 & 3	Global
DEFRA database	Emission factor database	1, 2 & 3	Global
Climatiq - API for Carbon Footprint Calculations	Emission factor aggregator (paid)	3	Global

There are also paid databases which companies may use to find more specific emission factors depending on their operational processes, as well as diverse cloud-based tools, however, a clear mapping between the energy consumption data and relevant emission factors still needs to be conducted by the company itself. You may also check the online tools (emission calculators, ESG reporting tools, etc.) which provide Scope 3 calculation opportunities – for example, SME Climate Hub, Baltic-originated Mitigate ESG Platform and/or Climatiq. Larger companies using standard enterprise resource planning (ERP) systems such as SAP, Microsoft Dynamics, Horizon, and others may talk to their providers and see if they offer GHG calculation capabilities within the system.

Role of the calculations in further decision making

The results of Scope 1 and 2 GHG emission calculation provides you with structured insight on energy mix your company uses and the greenhouse gas effect it creates – in total and by separate subcategories. That allows you to identify:

1) Where you should **save energy** and thus **create less emissions** (i.e. energy efficiency measures), and

2) Where you should consider **changing technologies** **or** **energy resources** to other alternatives which have **lower emissions**.

For example:

- switching from a natural gas boiler house to a biomass-powered one;
- purchasing green, renewable electricity instead of general power from the grid;
- changing the vehicle fleet from diesel-powered cars to electric vehicles;
- building your own solar plant to generate renewable energy; or other suitable actions.

1.1.3
Scope 3 categories and considerations

Scope 3 categories are not equally applicable to all businesses and need to be assessed before data collection and calculations. According to the GHG Protocol methodology, there are 15 Scope 3 categories which relate to emissions being created by a company's suppliers, logistics partners, users of its products, emissions which occur in rented facilities or other stages in the value chain, and which are at least partly dependent on the company's business choices. All 15 categories are depicted in Figure 4. Specific considerations on relevance of these categories to certain industries are included in the sector-specific annexes to these guidelines. General considerations on Scope 3 categories and data collection and processing are included in Annex A: General considerations on Scope 3 categories.

Figure 4. Scope 3 emission categories



As explained in Methodology, companies being in the starting point of emission stocktaking and/or smaller businesses may omit their Scope 3 emissions in the first years of their decarbonisation journey. However, it is advisable to review the categories to identify processes in your operations which have impact on overall GHG emissions.

For manufacturing companies in particular, it is useful to start with a material flow diagram which shows the inflows and outflows of materials. For other sectors, an assessment of generally applicable Scope 3 categories and their materiality for the business is usually the starting point.

Like Scope 1 and 2, the company needs to find relevant emission factors for each category which can be found on an IPCC, IEA, DEFRA and multiple other databases mentioned in the previous section. The company may need to combine different databases for calculation of different Scope 3 categories.

Note: There are some Scope 3 categories which seem to overlap with Scope 1 and 2, however, the attribution of emissions is different. For example, if you fill the fuel tank of your petrol car and drive from Vilnius to Tallinn for business purposes, the emissions created by use of fuel during the drive will account for Scope 1 (direct emissions). However, when you buy that car from a dealer you include the emissions that were created during manufacturing of the car in Scope 3, Category 2 (Capital goods). And if you rent a car for this purpose, the emissions will fall into Scope 3, Category 6 (Business travel).

The company always needs to make sure that it has excluded double accounting, and that each emission source is calculated just once.



1.1.4
Do you have to externally verify the calculations?

The GHG emission calculations (or methodology for their calculation) may be externally verified. There are accredited entities who can provide external review and verification for that. That is not mandatory though. At the same time, if you use the information in communication with your stakeholders – e.g., banks – you need to demonstrate that the calculations are credible and can be trusted, and verification may ensure such credibility.

If the company prepares a sustainability report which includes information on GHG emissions in a given year and it has obtained external assurance (audit) for this report, then the information on GHG emissions is also externally reviewed and demonstrates higher credibility to stakeholders.

1.1.5 Frequency of calculations

GHG emission amount changes in line with business operations, use of certain energy resources, external conditions (e.g., warm winter vs very cold winter) and other factors, therefore the emissions need to be calculated at least on an annual basis. It is worthwhile treating the emission calculations equally as financial data – they also provide an understanding of where your business stands and what is the progress compared to the previous period.

More frequent calculations (e.g., quarterly depending on your business cycles, operations and processes) may help with internal decision making but are not usually required by external stakeholders. If a company decides to conduct such calculations, it is advisable to introduce automated data collection and processing algorithms to minimise manual work.

1.1.6 Setting the baseline

Once you have calculated the emissions your business creates across Scope 1, 2 and, potentially, 3, it is time to set the baseline against which you will compare all your next steps and efforts in emission reduction.

If you have calculated the emissions for the first time, it is reasonable to set the respective year as a baseline. For example, you have made first calculations for 2025, and you will compare all your next efforts for 2026, 2027 and beyond against year 2025.

Note: According to the SBTi methodology, the baseline should be reviewed every five years together with recalculation of the remaining pathway (pace of emission reduction) to net zero target. Otherwise you may compare your actions against old data, non-relevant practices, or an outdated business model which has already changed and thus the data does not provide a clear and sufficient understanding on your progress.

Although the SBTi standards advise always using the most recent emission inventory year as the baseline, in a couple of instances a different baseline may be advised. That may require backwards calculation for your emissions in the previous years. Some of these cases may include:

Sector-specific requirements

E.g., if there are national or regional regulations requiring your sector to reduce GHG emissions by X% compared to, for example, 2020. To demonstrate that you are moving towards this target you may need to calculate your emissions for 2020 based on historically stored data on your energy consumption.

Major strategic or business model changes in your company

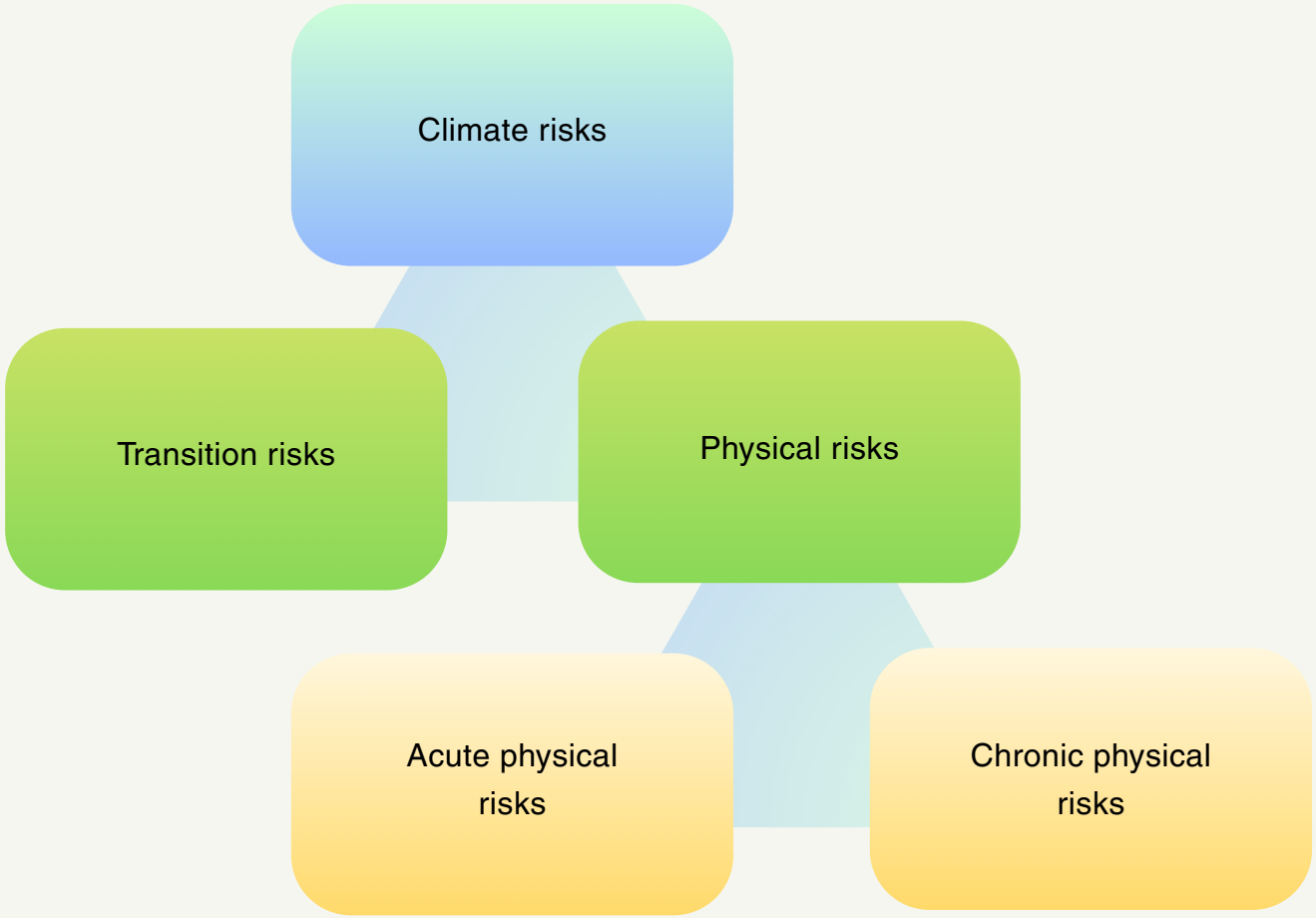
If your company has made radical changes, let's say, in 2023 (for example, acquired new, significant businesses, entered completely new business segments, etc.) you may want to compare your GHG emission progress against that period to demonstrate full business cycle and its impact. In that case, you may also need to conduct backwards calculations of emissions in the given year.

Note: In case backwards calculations are applied, advisable to include only Scope 1 and 2, as calculating Scope 3 would require too much unreasonable effort.

1.2
Identify climate risks and opportunities

According to Task Force on Climate-Related Financial Disclosures[3], climate risks are classified into two main categories: transition risks and physical risks. Physical risks are further split into acute physical risks and chronic physical risks.

Figure 5. Climate risks



[3] See Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, 2017

Transition risks – risks caused by policy, legal, technological, and market changes and trends which stem from the overall global and regional commitments of transitioning to lower-carbon economy. In other words – the company may face transition risks if it does not react to external changes and requirements to introduce climate-friendlier processes, technologies, and products fast enough.

For example, a transition risk for a fossil-fuel based energy company is that it may lose the market due to increasing regulatory demands and other businesses transitioning to renewable energy resources, if it does not diversify its energy production portfolio and continues using fossil fuels only. It may also experience rising carbon taxes driving up operational costs, thus affecting the bottom line even more.

Compared to traditional risk management frameworks, transition risks are similar to strategic and financial risks because their management usually requires strategic decisions and may require respective investments.

Physical risks – risks occurring due to extreme or untypical weather conditions caused by the changing climate. For example, windstorms or floods damaging the company's warehouses or disrupting its usual logistics routes. Compared to traditional risk management frameworks, physical risks are similar to operational risks because they usually disrupt daily processes and may cause losses.

- **Acute physical risks** – specific weather-related extreme or unexpected events which disrupt the society's and businesses' daily operations. For example, heavy rainfall or a storm which occurs at a specific time. These risks may require damage control measures during the event or after it – to collect debris, clean territories, dry premises, repair roofs, etc. It may also be partly managed through insurance against the specific risk;
- **Chronic physical risks** – longer-term shifts in climate patterns like increased precipitation, chronic heat waves, droughts, water stress / shortages, rising sea level, etc. which may cause limited access to certain resources, influx of untypical animal and plant species, etc. long-standing processes and their consequences. These risks may require adaptation of business processes, logistics routes, working conditions, incorporation in strategic decision-making processes and other measures to ensure long-term resilience.

Similarly, the company may also look at the opportunities created by climate change. Opportunities are usually related to transition pathways and adaptation measures that include significant technological or process changes improving overall resilience towards unexpected climate events, improving efficiency, and strengthening the company's position in the market.

Note: flood risk may be related not only to river floods but also to increased, very intense rainfalls. Therefore, it is useful to analyse the information on regional and district-based projections for annual rainfall, number of days with heavy or very heavy rainfall, and other data.

Compared to GHG emission accounting described in the previous subsection, for climate risk there is no universal methodology or databases. However, multiple global, regional, and national institutions are analysing and projecting climate change patterns which provide sufficient background for informed climate risk and opportunity analysis on the business level.

Identifying opportunities linked to the low-carbon transition[4]

Opportunities arise from the same forces that drive transition risk. As policy, technology and market expectations shift, companies can gain advantages by improving resource efficiency, switching to low-emission energy sources and developing new products and services.

Many organisations lower operating costs by increasing efficiency in energy use, materials, water and waste management, supported by technologies such as efficient motors, heat solutions, circular systems and retrofits.

Moving toward low-emission energy sources opens further savings and stability as renewable energy becomes cheaper and more accessible. Companies that innovate can also capture demand for low-emission products and services, expand into new markets shaped by climate policy and strengthen resilience by redesigning processes or supply chains. These opportunities vary by sector and region but together form a core part of preparing for the transition.

[4] See Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, 2017

1.2.1 Information sources for transition risk (and opportunity) analysis

The main information sources for transition risk analysis (and identification of related opportunities) are policy planning documents, regulations, research and analytical materials, which show what are the current and expected trends in five main transition risk subcategories: Policy, Legal, Technological, Market, and Reputational.

The potential information sources and considerations are listed in Table 3.

Table 3. Information sources for transition risks (and opportunities)

Tool/ source of information	Type	Scope
Policy risks	• European Union policy planning documents, such as the Green Deal (2019) and the Clean Industrial Deal (2025) and the documents stemming from them • The European Commission work programme and political priorities • EU climate strategies and targets for 2030, 2040, and 2050 • National development strategies, such as: ◦ For Estonia – General Principles of Climate Policy until 2050, Climate Change Adaptation Development Plan until 2030, and Estonia 2035 development strategy ◦ For Latvia – Strategy of Latvia for the Achievement of Climate Neutrality by 2050, National Development Plan 2021 to 2027, and Latvian National Plan for Adaptation to Climate Change until 2030 ◦ For Lithuania – State Progress Strategy Lithuania's Vision for the Future "Lithuania 2050" and National Energy Independence Strategy	Identifying: • Key changes that will happen or are intended to be introduced in your economy and/or specific sector to achieve lower-carbon operations (for example, requirements to eliminate use of certain types of energy resources, to increase renewable energy share, or cut a certain amount of GHG emissions); • Key changes that will be required of your business (for example, changing your vehicle fleet, manufacturing processes, cutting use of certain chemicals, etc.); • Expected implementation timeline; Initial understanding of the financial resources that requires.

Policy risks (continued)	• National Energy and Climate Plans for all EU member states (In case your company works internationally (in various markets or is heavily exporting to certain markets), it is also worth looking at your target markets' energy and climate plans.) • National regulations, such as (but not limited to): ◦ For Estonia: Energy Sector Organisation Act, Climate Resilient Economy Act and National Risk Assessment ◦ For Latvia: Climate Resilience and Economic Sustainability Act, and Energy Efficiency Law ◦ For Lithuania: Energy Efficiency Law • Sector-specific regulation and policies that might directly or indirectly apply depending on which sector the company operates in, for instance, EU Emission Trading System, Carbon Border Adjustment Mechanism, Ecodesign for Sustainable Products Regulation, Energy Performance of Buildings Directive, Common Agricultural Policy, Water Framework Directive, Nitrates Directive, methane reduction rules, EU Packaging and Packaging Waste Regulation, Circular Economy Act, Waste Framework Directive, Landfill Directive and others. • Other global, regional or national policy planning documents which define the main goals and targets industries need to implement to achieve overarching climate goals • Regulations (EU Regulations, Directives, national laws, government regulations, municipality regulations, etc.) stemming from the policy planning documents above Note:The Estonian-language version of General Principles of Climate Policy until 2050 is available at: Kliimapoliitika põhialused aastani 2050 the Estonian-language page contains a wider range of information than the translated version. Same for : Climate Change Adaptation Development Plan	
Legal risks	• Regulations noted in the previous row	• Identifying non-compliance costs and losses your company may face if it does not implement the required measures or does not do that in the expected timeline.

Technological risks	• Information about global, regional, and national research and development (R&D) efforts to develop new technologies in your sector and/or technologies which can support significant energy efficiency efforts • EU or state grants, other funding or targeted programmes that support investment in development of certain technologies and therefore may indicate technology uptake. For example, nuclear energy, hydrogen, biomethane production, green hydrogen and ammonia production • Information on Best Available Techniques across diverse sectors • Your own market trends research	• Identifying upcoming technologies which may replace current approaches your company uses. Adoption delays or, vice versa, pioneering in technology adoption may hinder or fast-forward your position in the market. At the same time, the development level and reliability of the new technologies may be debatable and therefore risky.
Market risks	• Scientific or applied research, customer surveys, customer sentiment analysis and other sources indicating if and how customer attitudes and behaviours change (in particular, relative to climate change, sustainable products, etc.)	• Identifying existing or upcoming customer sentiments which may affect their purchase and consumption decisions. Review of your product or service portfolio and considering its adaptation to such trends may turn out to be a valuable exercise.
Reputation risks	• May be caused by non-compliance with the above-mentioned policies, requirements, and expectations and/or by false claims of the company on its climate ambition or actions (also called greenwashing). Although the EU has currently dropped the so called “Green Claims Directive” which would prohibit making false sustainability claims, the Unfair Commercial Practices Directive (2004/29/EC) and the following Green Transition Directive (2024/825) establishing better consumer protection are in force.	• Identifying areas where the current practices, marketing slogans, communication claims, etc. may not be fully aligned with the actual practices and/or in contradiction with the external requirements. Reputation risk management may require broader engagement of functions across the organisation an awareness-raising on what the consequences for having false claims on the company’s climate actions may be.

In addition, it is worth analysing this information together with your GHG emission data and the sectoral data. For example, Statistics Estonia provide an overview of key GHG emissions indicators, Latvia's Climate Change Dashboard provides an overview of GHG emissions, energy consumption, achievable targets, and sectors affected by climate change and the Lithuanian Climate Change Portal provides specific BI-powered information on GHG emissions for various sectors: Švieslentės – Klimato kaita. Combining the information available on these portals, your own GHG emission data, and the regulatory requirements and policy priorities, you will also see where some of the most important transition risks for your business may occur.

The information you will obtain through this analysis will show which are the most prominent climate-related changes you can expect in your business. You can plan for adaptation measures accordingly.



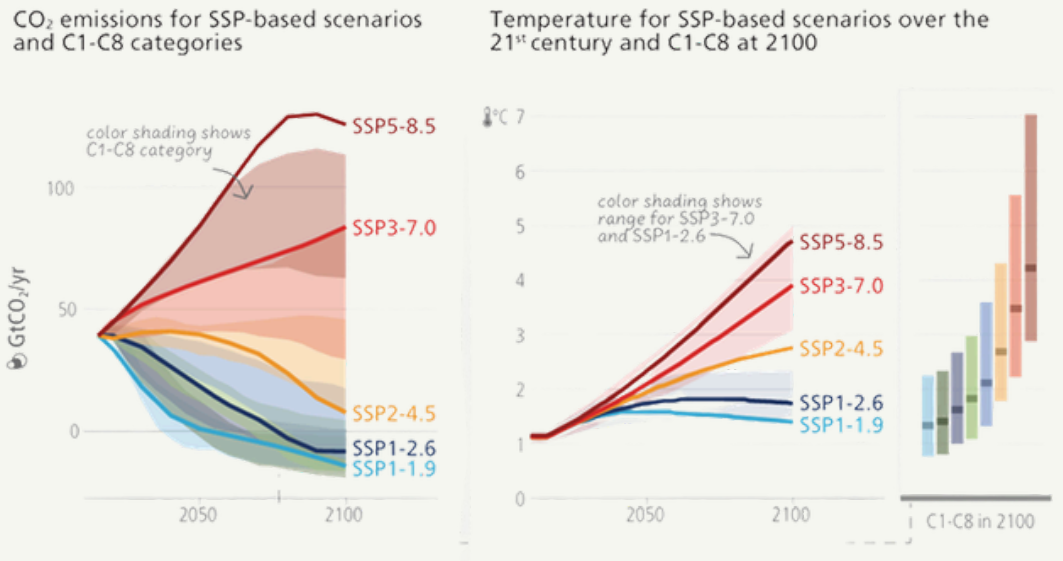
1.2.2
Information sources for physical risk analysis

1.2.2.1
Global and regional climate projections[5]

Physical climate risk analysis is based on global climate change projections developed by the Intergovernmental Panel on Climate Change (IPCC). The organisation renews most recent projections every few years and analyses them in line with several development scenarios or so-called Socio-Economic Pathways (SSP) which stem from existing and potential CO_2 concentration in the atmosphere.

SSPs reflect on projected global average surface temperature increases in the world, related socio-economic consequences these changes may cause, and the potential impact of relevant global climate-related policies. SSP trajectories are shown on Figure 6.

Figure 6. SSP scenarios
(Source: IPCC 6th assessment report)



[5] Intergovernmental Panel on Climate Change (IPCC). Climate Change 2023. Synthesis Report

The best-case scenario is to limit the global air temperature increase well below 2 degrees, ideally reaching 1.5 degrees Celsius (SSP1-1.9 or SSP1-2.6 in the illustration above) as it is defined in the Paris Agreement. However, the most probable projections are closer to more dramatic changes in the global temperature and, as a consequence, other processes in the nature (for example, increasing heatwaves, precipitation and/or droughts in different parts of the world).

Data IPCC has analysed is available online for free and can be used to understand the most important climate change processes.

The IPCC projections are further used by regional and national climate analysts to define more specific changes in certain parts of the world.

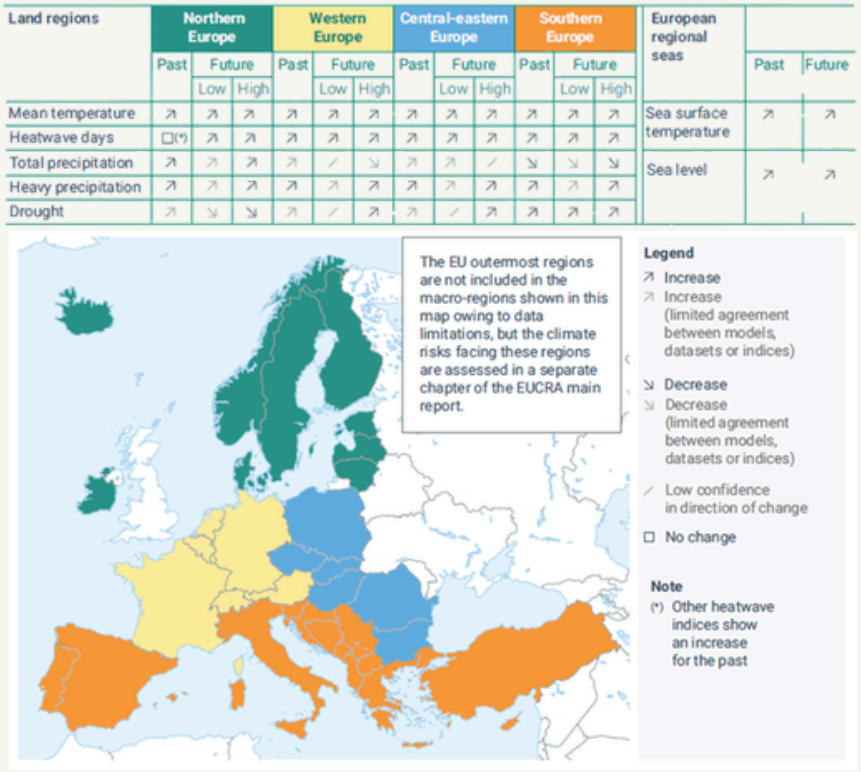
In the EU, the European Environmental Agency has developed the European Climate Risk Assessment which outlines the most probable scenarios for our region. The regional climate projections are shown on Figure 7.

The report includes the Baltic states in the Northern part of Europe and indicates that, compared to other EU regions, our region will experience less drought but more extreme precipitation. Combined with increased temperature and heatwaves, that indicates increasingly humid climate with frequent weather changes and occasional extreme weather events.

As a consequence, the report indicates more pressure on infrastructure capabilities to withstand such conditions (such as transport, energy, wastewater and other infrastructure), increased damage risk to different assets (buildings, vehicles, machinery, etc.), and increased pressure on working conditions and work schedules (necessity to reschedule active workday – in particular, during hot season, as well as the necessity to always be on guard and be able to mobilise employees in extraordinary situations).

More information on climate change aspects and specific data sets can also be found on the EU Copernicus Climate Change Service (C3S) portal and, in particular, its datasets.

Figure 7. Observed and projected trends in key climatic risk drivers in different European regions (Source: European Climate Risk Assessment, 2024)



1.2.2.2
Climate projections for Baltics

Each of the EU countries develops its national climate projections based on the IPCC projections described above, historical information on weather patterns, and other modelling data. Most countries publish projections for at least two of the climate change scenarios (SSPs as mentioned in the previous subsection) and for the time period covering the whole 21st century, i.e., until 2100. Usually, the information is split into shorter periods to ensure that industries and individual companies can analyse the time span that is most relevant for their operations.

Regional scientific assessments as EURO-CORDEX modelling[6] (Coordinated Regional Climate Downscaling Experiment – European domain) reviewed in recent Baltic-wide studies, show a strong warming trend, especially in winter, and a clear intensification of the hydrological cycle. Warming is projected to be most pronounced in the northern parts of the Baltic Sea region, with winter temperatures rising the fastest (relative to the historical data). Precipitation is expected to increase across most of the region, particularly during winter months, while summer precipitation trends vary: northern areas such as Estonia and Latvia are expected to increased summer rainfall intensity, whereas areas in the southern Baltic region may experience drier summers or greater weather variability. These climate changes reflect robust features detected across regional atmospheric models and are consistent with IPCC-level projections for northern Europe.

[6] Christensen, O. B., Kjellström, E., Dieterich, C., Gröger, M., and Meier, H. E. M. (2022). Atmospheric regional climate projections for the Baltic Sea region until 2100, Earth Syst. Dynam., 13, 133–157.

It is important to note that, although the Baltic region is experiencing an overall warming trend, this does not eliminate the possibility of extreme weather events such as heatwaves or unusually cold winters[7]. In fact, the increasing variability and intensity of such extremes is itself a well-documented consequence of climate change[8]. For instance, a recent joint Baltic study "Long-term changes in heat wave parameters in the eastern Baltic region" shows distinct regional differences in the frequency of hot days. Coastal areas and highland regions of Estonia and Latvia experience only a small number of days above the heatwave temperature threshold, while inland areas record significantly more – on average around ten hot days per year. Southern Lithuania experiences the highest frequency, with up to 18 hot days annually. These contrasts are largely driven by the cooling influence of the Baltic Sea – the cooler sea surface moderates coastal air temperatures, making extremely high temperatures much less common along the coastline.

Increasing storm frequency in the Baltic Sea region heightens risks to coastal infrastructure, transportation, and energy systems. The combined effects of warming air temperatures, reduced snow cover, and altered freeze–thaw cycles can affect forestry operations, agricultural productivity, and logistics. Rising summer heat extremes may increase cooling demand, strain energy systems, and elevate workplace health risks. Long-term warming of the Baltic Sea alongside decreasing sea-ice extent further intensifies coastal vulnerability and can disrupt marine transport and fisheries[9], [10]. These climate shifts collectively point to rising physical risks for businesses, particularly those with supply chain dependencies, vulnerable real estate portfolios, or operations requiring climate-sensitive infrastructure. For country-specific climate projections for Lithuania, Latvia and Estonia please refer to Annex B: National climate projections.

For financial institutions and companies operating in the wider Baltic region, these projections underscore the importance of using scenario-based climate risk assessment, incorporating mid-range and high-impact IPCC pathways into due diligence, investment planning, asset-level risk screening, and long-term resilience strategy[11]. That, in turn, means that the financial sector will increasingly require climate risk-related information from its clients.

[7] Winter 2025-2026 Weather Overview in Latvia
[8] Climate Change in the Baltic Sea. 2021 Fact Sheet.
[9] European Environment Agency report on Arctic and Baltic sea ice
[10] How is climate change affecting the Baltic Sea?
[11] Climate change, nature loss and banking supervision

Besides the regional and national climate risk projections, a useful tool for physical risk analysis is the climate hazard checklist included in the EU Taxonomy Regulation. The Regulation lists sustainable economic activities across different sectors and, among other things, requires assessing the most significant climate hazards.

Not all hazards listed in the Regulation are relevant for the Baltic region, based on the national climate projections for the 21st century. In Table 4 below the most relevant hazards are marked blue.

Consider which of these hazards may disrupt your "business as usual" processes and assess how significant each of the related risks is to your operations.

Table 4. Typical climate hazards (based on the EU Taxonomy)

	Temperature-related	Wind-related	Water-related	Solid mass-related
Chronic hazards	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise*	
			Water stress**	
Acute hazards	Heat wave	Cyclone, hurricane, typhoon	Drought**	Avalanche
	Cold wave/frost	Storm (including blizzards, dust and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	

**More prominent in Estonia and Latvia due to their long coastal areas. Less significant in Lithuania.*

*** There are contradictory messages and projections related to drought and water stress (water shortage). In general, these are not perceived to be the most significant hazards in the Baltic region, however, may exhibit themselves occasionally or increase in the future, or be specific to certain locations – not the whole country. However, the Aqueduct Water Risk Atlas indicates water stress as a potential threat. Other water related risks such as floods, soil or coastal erosion, or sea level rise are also characteristic to our region.*

Source: EU Taxonomy delegated regulations

1.2.2.3
Climate risk and opportunity assessment

To assess the most significant climate risks for a particular business, the company first needs to identify key transition risks along the value chain which may affect its business and key physical risks relevant for its locations and business processes. That should also include considerations if the company's assets are located or people are working outside, if the buildings and machinery are well protected, which types of physical risks may impact their operations within the company itself and across its value chain – for example, are there any risks which may hinder supplies, disrupt the usual logistics routes, affect the downstream supply chain, etc.

If the company has a risk management framework in place, it is advisable to use the same risk assessment approach as for all other business risks. For example, if you assess all risks from 1-5 based on their probability (likelihood) and impact (consequences), use the same approach with climate risks. However, you may want to adjust the traditional approach accordingly:

- Depending on timeframes your company uses for business risk assessment, consider using longer time spans for probability assessment of the climate risks. If you assess traditional risks in the future of 1-2 years, the period may be too short to correctly assess climate risks some of which are expected to exhibit themselves in a longer run;
- Split the usual "impact" assessment in two parts – exposure (how significant part of your business or assets may be affected – e.g., the whole company, just one business line, or a specific machine or building) and vulnerability (what is the expected level of damage – e.g., all operations would cease for some time, operations will be paused for a short period of time, or operations would not be significantly affected);
- You may also want to add the financial aspect to the assessment – what is the expected monetary losses if the specific risk materialises.

Alternatively, you can use tools developed by international organisations, such as World Bank Group Climate and Disaster Risk Screening Tools, AXA insurance group Altitude Finance climate risk assessment tool, and others.

As a result of climate risk assessment, you should come up with the most significant transition and physical risks and opportunities that affect your business and a general understanding of how you can adapt and manage them better.

1.3
Review your current focus and future capacity

Once you have completed the GHG accounting as per section 1.1 and assessed the climate risks as per section 1.2, take a step back and **review if any of these aspects are already managed by your company**. For example:

GHG emissions are clearly linked to energy mix your company uses and energy consumption patterns. Note down any plans, policies, certificates or any other commitments where you have already stated your:

- **Energy efficiency goals and improvement measures** (for example, changing lighting, insulating your facilities, changing old electricity or heating installations, changing machinery or other appliances to more energy efficient alternatives, introducing smart meters, educating your employees about better energy consumption matters, etc.). Check if these commitments are linked to specific investments and expected energy savings (in kWh or MWh, or proportionate to your current energy consumption). These actions are often initially driven by cost saving, but they also have a valuable effect on emission reduction. The actions address Scope 1 and/or 2 emissions, depending if you generate energy within the company or purchase it from external suppliers;

- **Alternative energy resource use** (for example, installing your own solar panels, concluding direct Power Purchase Agreements with renewable energy producers, buying green energy from the grid, changing your current boiler houses from fossil resources to renewables, etc.). Even if some of these intentions are initially driven by cost saving in the longer run, emission reduction is a positive side-effect. The actions address Scope 1 and/or 2 emissions, depending if you generate energy within the company or purchase it from external suppliers;
- **Changing existing technologies to low-carbon or zero-emission alternatives** (for example, changing your fleet or part of it to electric or hybrid vehicles, or other alternatives, changing gas-powered machinery to electric alternatives, testing new technologies powered by hydrogen or synthetic gases, etc.). The actions mainly address Scope 1 emissions but may also cover certain Scope 2 emissions if the technologies are powered with purchased energy;
- **Fulfilling customer requirements to deliver lower-emission alternatives** (for example, ensure green deliveries, providing less carbon-intensive materials, building more energy efficient buildings, etc.). The actions may cover both Scope 1 & 2 as well as Scope 3 emissions depending on processes involved;
- Other initiatives your company already has which support renewable energy use and lower energy consumption in general.

Note: If you have ISO 50001 or sector-specific sustainability certificates, they most probably already include certain energy efficiency and emissions reduction requirements – either directly or indirectly

Climate risk management is often linked to siting decisions (where to locate our business operations), insurance decisions, or emergency and business continuity plans within the company. Note down any plans, policies, action points or any other commitments where you already consider weather-induced aspects when:

- Deciding on a new facility or asset;
- Reconstructing / renewing existing infrastructure or assets;
- Insuring your property and business activities;
- Selecting your suppliers;
- Adjusting your products or services for specific regions;
- Compiling your business risk list and mitigation measures;
- Developing your emergency plans;
- Any other actions where climate risks are considered in advance.

Note: It is ok if you have not considered these aspects before. Most companies in Northern regions just start acknowledging how climate may impact their businesses in the future.

As a result of these steps, you will probably recognise that you are already making some initial steps to manage your climate impact, risks, and opportunities.

Next, identify **who in the company is (or should be) responsible for climate matters** and ensure that this person or department has **cross-functional capabilities and sufficient authority** in the company to collaborate with other departments, request data, and engage in meaningful discussions about specific climate change related actions. Remember that further transition plan development will require engagement of multiple functions across the company – it is not and cannot be the function of one person or department only.

Considering your previous experience with GHG accounting and climate risk assessment as described above, **assess data gaps and discuss how to improve data collection and analysis**. Do not hesitate to have a look at other companies' experience and approach to GHG reduction – that may give you additional ideas and impulse for action.

Identify crucial **skills or resource gaps** that must be fixed in the organisation before engaging in further transition planning and implementation processes but also remember that transition planning and implementation of relevant actions are ongoing processes and the engaged experts' skillset should be continuously developed.

Step 2
Define the Direction

Step 2 helps turning the GHG emission baseline into a reduction trajectory and setting clear targets. In other words – the company needs to clearly define how fast and by how much it will reduce its GHG emissions in the following years. The basic rule is to reduce emissions compared to the previous period (e.g. to the previous year). However, you may never know if the reduction pace you have chosen is sufficient and aligned with the global needs – therefore it is advisable to use external methodologies to set a reasonable and, at the same, sufficiently ambitious GHG reduction path.

The most recognised standards, guidelines and tools which provide such confidence are developed by the Science Based Targets Initiative (SBTi) offering a clear science-based framework developed through multi-stakeholder consultation process. It defines fixed reduction rates, GHG scope coverage rules and sector pathways consistent with global and EU climate goals. The science-based approaches recognise the global climate ambition defined by the Paris Agreement that, to keep the Earth habitable for the humanity and other live beings, it is necessary to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. Thus, the emission reduction trajectories developed by SBTi are aligned with this definition and are fully compatible with it.

Another methodology which may be used by certain sectors is the International Energy Agency Net Zero Emissions by 2050[12] which also references Paris-aligned approaches.

The companies may also base their GHG reduction efforts on the national climate goals which tend to be aligned with the global pathways.

The following section explains how to choose the most appropriate of the science-based trajectories and what does it require from the companies.

Note 1: SBTi corporate standard has been significantly updated in 2026. The below information is based on the most recent SBTi Corporate Net Zero Standard. In case you choose SBTi for target setting, make sure you use the most recent guidance available.

Note 2: If your company is engaged in a larger supply chain (e.g. delivers goods, materials or products to a larger company), the climate commitments of that business partner may also be binding to you. It is therefore worthwhile to ask your partners if and what kind of commitments and actions they expect from you and consider those for your transition plan.

[12] See International Energy Agency (IEA) Net Zero by 2050 and, specifically, the latest 2023 update.

2.1
Decide on an ambition level (trajectory) and set targets[13]

The ambition level defines the pace and depth of decarbonisation a company will follow. First, the company needs to choose a relevant pathway for emission reduction from the already globally defined pathways – that will represent the ambition level how fast and to what extent the company aims to reduce its emissions. Second, it needs to choose a timeframe for fulfilling this ambition, scope coverage (remember that the emissions are calculated in three scopes as explained in Step 1), and relevant metrics for progress measurement.

According to the SBTi, three time horizons should be followed when setting your climate targets:

Current period:
the nearest 5 years (near-term targets according to SBTi)

Next periods:
targets for each consecutive 5 year period (part of long-term NetZero guidance by SBTi)

Net Zero target:
the ultimate target for the sequence of 5 year periods mentioned before; needs to be achieved by 2050 or earlier, depending on sector requirements

[13] The New Corporate Net Zero Standard, Version 2.0

In line with the goals of the Paris Agreement, the Science Based Targets initiative (SBTi) sets out the following approach to target-setting in its latest net-zero methodology[14]:

- **For all emissions scopes covered by the company's targets, the company should aim to achieve net-zero emissions no later than 2050.** As noted above, this does not mean eliminating all emissions from the company's operations, but reducing them to the greatest extent possible and neutralising any residual emissions through credible and recognised carbon removal mechanisms;
- The period up to 2050, or an earlier target year, should be **divided into five-year periods**;
- **At the beginning of each five-year period,** the required emissions reduction trajectory up to 2050, or an earlier target year, should be recalculated using the latest available GHG emissions inventory. This should include determining the **average annual absolute emissions reduction rate, expressed as a percentage.**
  - Simplified example: if, according to its 2025 GHG emissions inventory, a company's emissions in one of the scopes amount to 2,500 tCO_2e and the company sets a target to achieve net-zero emissions by 2050, it would need to reduce its emissions in that scope by an average of 100 tCO_2e, or 4%, per year over the 25-year period. Consequently, emissions in that scope would need to decrease by a total of 20% over each five-year period.
  - At the beginning of each new five-year period, the company should recalculate the pace of the remaining trajectory. If, for example, the company reduces its emissions in the relevant scope more rapidly than initially planned during the first five-year period—for instance, by 30% in total rather than the 20% referred to above—the remaining trajectory would, for illustrative purposes, be calculated as follows:

Remaining emissions in absolute terms: 2,500 – 30% = 1,750 tCO_2e
Remaining period until the 2050 net-zero target: 20 years
Average annual reduction required for the remaining emissions: 1,750 tCO_2e ÷ 20 years = 87.5 tCO_2e, or 5% *(although the annual reduction in absolute terms would be lower than during the preceding period, it would represent a higher percentage of the remaining emissions)*

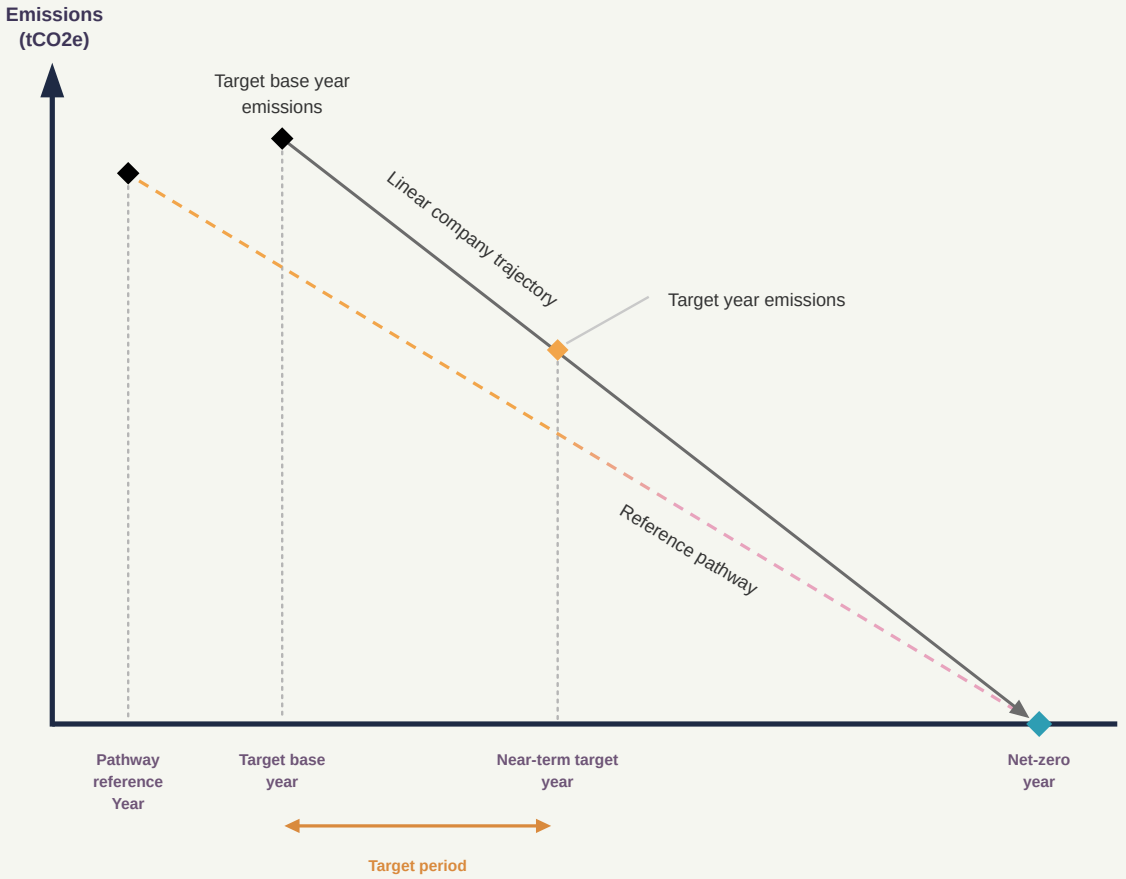
A similar calculation can be performed if the company has not succeeded in reducing its emissions as rapidly as planned during the first five-year period.

[14] A science-based reduction pathway describes how quickly a company must reduce emissions to align with a specific temperature goal. Source: The New Corporate Net Zero Standard, Version 2.0.

This approach to reducing absolute emissions is referred to as a linear emissions reduction trajectory. It is based on the need to stabilise the global climate rather than on factors specific to an individual company or country. A somewhat different approach may be applied to reducing emissions intensity; however, this approach is applicable only in certain sectors (see the next page for further details).

Illustratively, the approach may be shown as follows:

Figure 8. Illustration of a linear reduction trajectory



Note: If a company has previously set emissions reduction targets and has already achieved significant emissions reductions, its future reduction trajectory does not need to be as steep as that of companies that are only beginning to set targets and implement emissions reduction measures.

Absolute and intensity metrics

GHG emission reduction targets may be set in absolute numbers or intensity metrics.

Absolute emissions represent the total amount of GHG emitted in a given year or reduced over a period of time. This remains the most applicable method for assessing GHG reduction ambition and alignment with global temperature outcomes.

Intensity metrics reflect emissions relative to an activity, for example, GHG emissions per product unit, per MWh of energy consumed, per employee or per euro of revenue. Intensity improvements indicate efficiency gains, but they cannot replace absolute emission reductions. A company may reduce emission intensity while increasing overall emissions due to business expansion, which is why absolute emissions must remain the central metric for target-setting.

Note: The linear trajectories described above are determined using an absolute emissions reduction approach. SBTi allows for intensity reduction targets in certain sectors where absolute emissions are not a relevant measure – however, those are generally exceptions.

Target-setting also requires defining the scope coverage. Science-based targets must include Scope 1 and Scope 2 emissions in all cases (targets for each scope separately). **Scope 3 are usually applied to large corporates only, covering emission categories which constitute at least 5% of total Scope 3 emissions**[15]. Scope 1 and Scope 2 reductions tend to be more controllable and often provide quicker gains. Scope 3 reductions depend on collaboration with suppliers, logistics partners, customers and other actors within the value chain. Understanding the nature of these emissions helps companies form realistic yet ambitious expectations for their emission reduction pathways and clarifies what actions are needed to achieve them.

For more detailed information on target-setting please refer to the SBTi standards and guidance.

Sector specific pathways

Some sectors must apply fixed decarbonisation slopes defined by SBTi Sector Standards or national climate plans. These include power generation, heavy industry, buildings, and transport.

[15] The New Corporate Net Zero Standard, Version 2.0

2.2
Identify dependencies and key enablers to decarbonise

Emission reductions do not happen in isolation. They depend on the availability of clean energy, the readiness of suppliers, maturity of technologies, structure of the value chain and the broader regulatory environment. Understanding these factors early on helps the company focus on actions it can directly influence and prepares it for cooperation where external support is required.

Once the company has defined its overall ambition level for emission reduction, it needs to realistically assess the potential directions of action. A specific action plan will be built in the next step, however, on a strategic level the company already needs to assess the key areas it will focus on.

The first step is to **identify the main emission hotspots and clarify what level of control (influence) the company has over them**. Some reductions can be implemented internally, such as improving energy efficiency or switching to renewable electricity. These are usually the “low hanging fruits” and should be prioritised because they deliver fast results and reduce overall dependency on external actors.



Other reductions depend on infrastructure or technologies that **the company cannot influence alone or cannot change in the short run**. For example, electrifying heat, transport or production requires stable access to renewable electricity, sufficient grid capacity and functioning charging or heating networks. If these preconditions are not in place, even the most ambitious internal actions will be limited. **Employee awareness and market conditions** also play a role. Switching to low carbon materials or logistics depends on whether employees understand the necessity and suppliers can provide them at scale and with reliable emissions data.

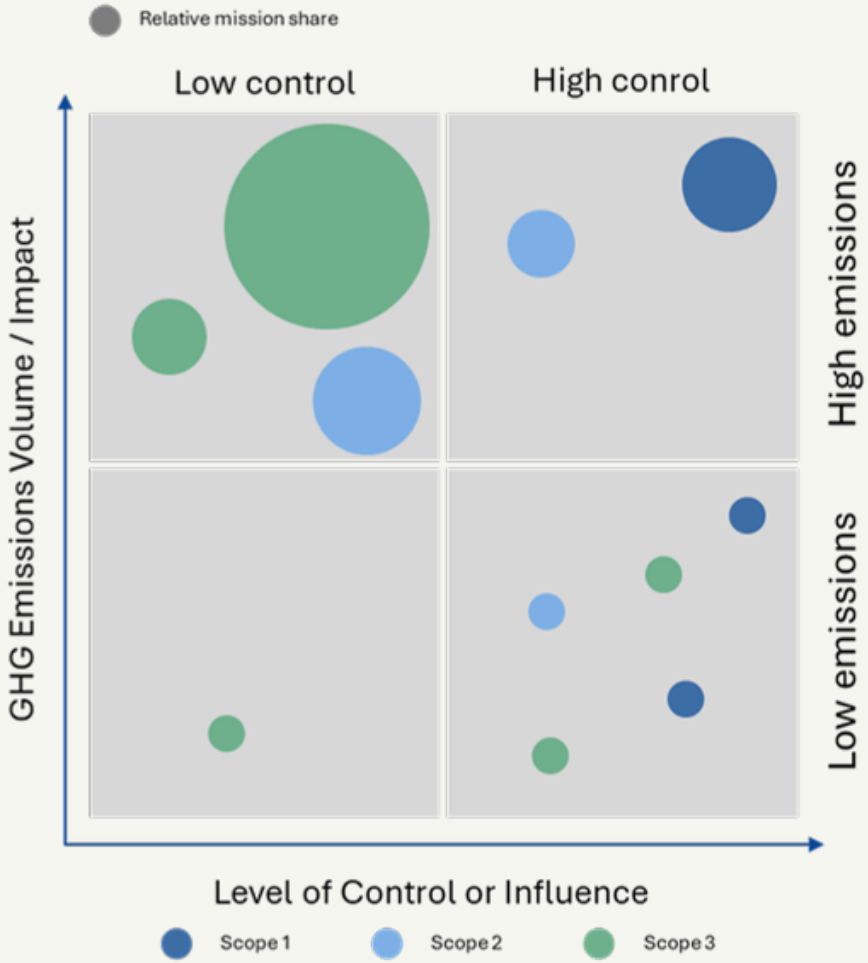
A significant share of dependencies sits within the supply chain. Many companies have the largest emissions in Scope 3, which means that **reduction depends on suppliers adopting new technologies, changing fuels or improving their own data and reporting**, as well as it depends on client demand for low-carbon products in the downstream value chain. This cannot be achieved through internal measures alone and the company has lesser control (influence) over these processes. **Decarbonisation requires supplier engagement, joint programmes, clear procurement rules and long-term cooperation**. In some cases, sector collaboration or shared initiatives may be needed to unlock solutions that no single company can create independently.



A credible transition plan describes all key enablers and dependencies openly and explains how the company intends to manage them. This includes securing long term renewable electricity contracts, investing in on-site generation, establishing supplier improvement programmes, supporting capability development in the value chain or engaging with policymakers when progress depends on regulatory support. By identifying these dependencies, the company can further select actions that are achievable, understand which parts of its reduction pathway rely on cooperation and reduce the risk of delays during implementation.

Figure 9 presents an illustrative approach to defining GHG emission volume relative to control (influence) the company has over the specific emission sources.

Figure 9. Emission hotspots and level of control (influence) (Source: Futurcene)



2.3
Embed climate considerations into strategy

Once the emission reduction pathway is defined and key action directions are clear, **the company needs to translate the expected emission reduction numbers into a strategic direction**. Targets describe the pace of decarbonisation, but they do not explain how the organisation will achieve them or how it will operate in a low carbon economy. A strategy provides this link. It outlines what the company intends to become as it decarbonises, how its business model will change, and which activities will increase or decline during the transition journey. Considering the companies' maturity levels, a phased approach may be applied, first focusing on key areas and later adding more aspects the company is able to influence.

The starting point is to understand how the core business model aligns with the defined targets. Some activities may remain important but will require technological shifts such as electrification, efficiency improvements or increased use of renewable energy. Other business activities may become less viable in a low carbon economy and will need to be phased out altogether or replaced with lower-emission alternatives. New opportunities may also emerge, including low carbon materials, circular product models, clean energy solutions or redesigned logistics systems. The transition vision should reflect these possible shifts and show how the company intends to position itself in the future.

For example, a construction company may highlight how its climate ambition will change the choice of materials it uses, if and how that will require changes in its supply chain, how it will adjust the construction processes to minimise onsite emissions, etc. Together, this story provides a clear picture for the company itself as well as external stakeholders on what the transition pathway actually means for the company's core business.

The vision should also clarify priorities. Some companies may focus on growth in low emission markets. Others may aim to strengthen operational resilience through improved efficiency, energy independence or supplier diversification. Whatever the focus, the vision should be realistic and based on the company's capabilities, while still supporting long term competitiveness. The aim is to describe not only how the company reduces emissions but also how it adapts and evolves strategically.

As companies mature, their transition visions become more detailed and look further ahead. Early in the process it is enough to outline how the company expects to meet its 2030 targets and what changes that implies. As capabilities grow, the vision should describe long-term horizons, reflecting the structural transformation required over time. At the most advanced stage, the vision covers the full 2030–2050 pathway or beyond and shows how the company's long-term development, regulatory expectations and business growth will align with its decarbonisation trajectory. That should clearly be reflected in the transition plan or other relevant document where the company defines this vision.

Embedding climate considerations into strategy is a natural extension of the transition vision. This means ensuring that **the vision is used to guide planning, investment choices, procurement decisions and operational priorities**. When climate ambition is reflected in these processes, it moves from a theoretical concept to a practical driver of day-to-day decision making. The transition vision thus becomes the reference point for the next step, where the company selects and sequences the actions required to deliver the reductions described in Step 2.

Step 3

Translate Strategy into Action

Step 3 describes how the organisation moves from ambition to delivery. It identifies the most effective decarbonisation levers, evaluates their financial implications and builds a realistic implementation roadmap.

The step also includes adaptation and resilience considerations to ensure that the company remains prepared for changing climate conditions. This step moves from **“what we want to achieve”** to **“how we will do it”** combining emissions reduction, financial planning, operational readiness, risk and opportunity management, and social responsibility into one plan.

3.1
Identify and prioritise decarbonisation levers

A decarbonisation lever is any measure that reduces emissions in a sustained and measurable way. Most of these levers either require investments (CapEx) in technologies and equipment or have an impact on operational expenses (OpEx) through changes in processes, behaviour, procurement, logistics or maintenance.

Once potential levers are identified, each must be assessed for impact, cost, and feasibility.

Impact
describes the expected emission reduction either in absolute terms or through improved emission intensity.

Costs
refer to the investment or operational expenditure required to achieve these reductions.

Feasibility
reflects how realistic the lever is to implement within the organisation given current technological advancement.

Each lever should also be linked to short-term, medium-term and long-term timeframes that support the pathway defined in Step 2 (remember that a phased approach may be applied and you do not have to implement all relevant actions across all timeframes at the same time).

Some levers may deliver **immediate reductions**. Others **may require preparation**, supplier engagement or infrastructure development, which makes them more suitable for later stages.

Dependencies must also be considered. Some levers depend on **supplier readiness, technology availability, or regulatory developments**. These external factors determine how soon a lever can be implemented and what support will be needed. Mapping these dependencies early allows the company to avoid delays and plan cooperation with suppliers, partners or public institutions.



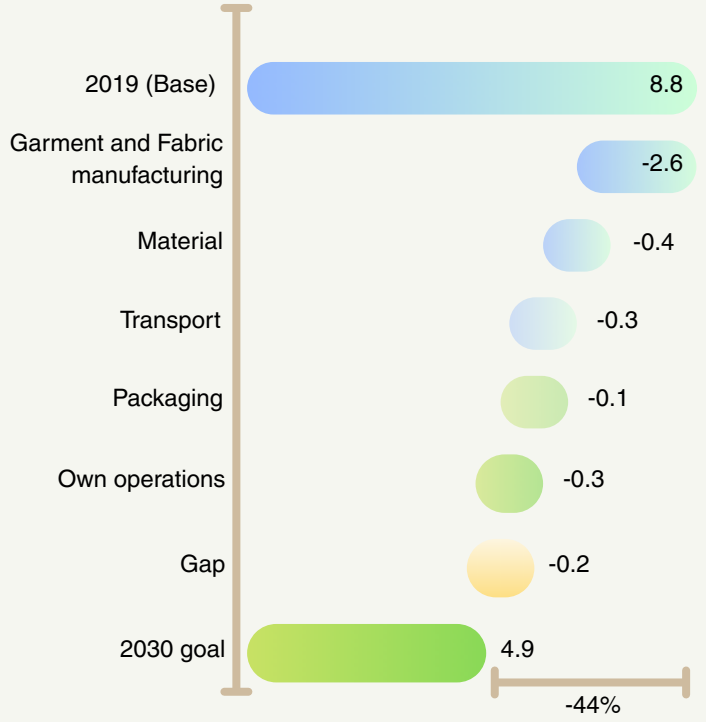
Illustrative example: Decarbonisation Levers and Rationale

Company X's SBTi-approved climate target commits to reducing absolute Scope 3 GHG emissions by **44% by 2030** (relative to the 2019 baseline). According to the GHG accounting analysis, around 99 % of the company's total emissions come from its value chain (Scope 3), mainly from materials' sourcing and manufacturing. This explains why the company focuses almost entirely on the **upstream value chain**, where both the emission volume and the potential for direct influence are greatest.

The company identifies five core **decarbonisation levers**, each contributing a defined share of the total emission reduction required to meet the 2030 goal. The remainder is a gap, depicted as the 6th position in the illustration.

Lever	Why Prioritised
Garment and fabric manufacturing	Identified as the **largest single source of emissions**. The company has **strong leverage over suppliers** through energy-efficiency programmes, renewable energy sourcing, and coal-phase-out initiatives.
Materials	Raw-material and fibre choices are directly determined by the company's design and sourcing strategy. The plan calls for **100% recycled or sustainably sourced materials by 2030**, supporting regenerative agriculture and circularity.
Transport	Emission reduction through **modal shift and low-carbon fuels**; the company controls global logistics contracts and routing decisions.
Packaging	Fully within operational control, the company reduces virgin plastics and increases recycled packaging content.
Own operations and others	Though minor in footprint, the company targets **100% renewable electricity (already 94 % achieved in 2023)** and continuous energy-efficiency upgrades.
Gap to target / innovation	Represents new technologies, electrification of supply-chain heat, and digital-traceability improvements still under development.

Figure 10. Company X Value Chain Decarbonisation levers



Most common sector-agnostic decarbonisation levers

While each industry has its specifics, some decarbonisation levers are relevant for almost all companies. These can be grouped into six broad categories.

Table 5. Categories of decarbonisation levers

Category	Key action	Category	Key action
1. Energy efficiency	• Upgrade or change machinery, HVAC, and lighting systems • Use energy management systems and sensors • Recover heat from industrial processes • Train employees to reduce unnecessary energy use	**4. Material and product efficiency**	• Redesign products for lower material use, reuse and recycling • Increase recycled content in packaging and inputs • Introduce circular or reuse models • Standardise components for easier recycling
2. Renewable and low-carbon energy	• Purchase renewable electricity (Power Purchasing Agreements (PPA)) or Guarantees of Origin (GO)) • Install onsite solar, wind or other renewable energy generation systems • Replace fossil fuels with electrified or bio-based systems (e.g. heat pumps, biomass, biogas)	**5. Supplier and value chain engagement**	• Collaborate with suppliers on emission measurement and reduction • Add sustainability criteria to procurement • Offer incentives or partnerships for low-carbon technologies
3. Fleet and logistics optimisation	• Replace internal combustion engine (ICE) vehicles with electric or hybrid options • Optimise delivery routes and logistics loads • Shift to low-carbon transport modes (rail, sea) • Partner with logistics providers to set emission targets and together deliver on them	**6. Digitalisation and related behavioural measures**	• Implement monitoring systems for energy, water, and waste • Use analytics to identify and eliminate inefficiencies • Digitise internal processes and client services • Run employee awareness and training programs

3.2
Link decarbonisation levers with financials

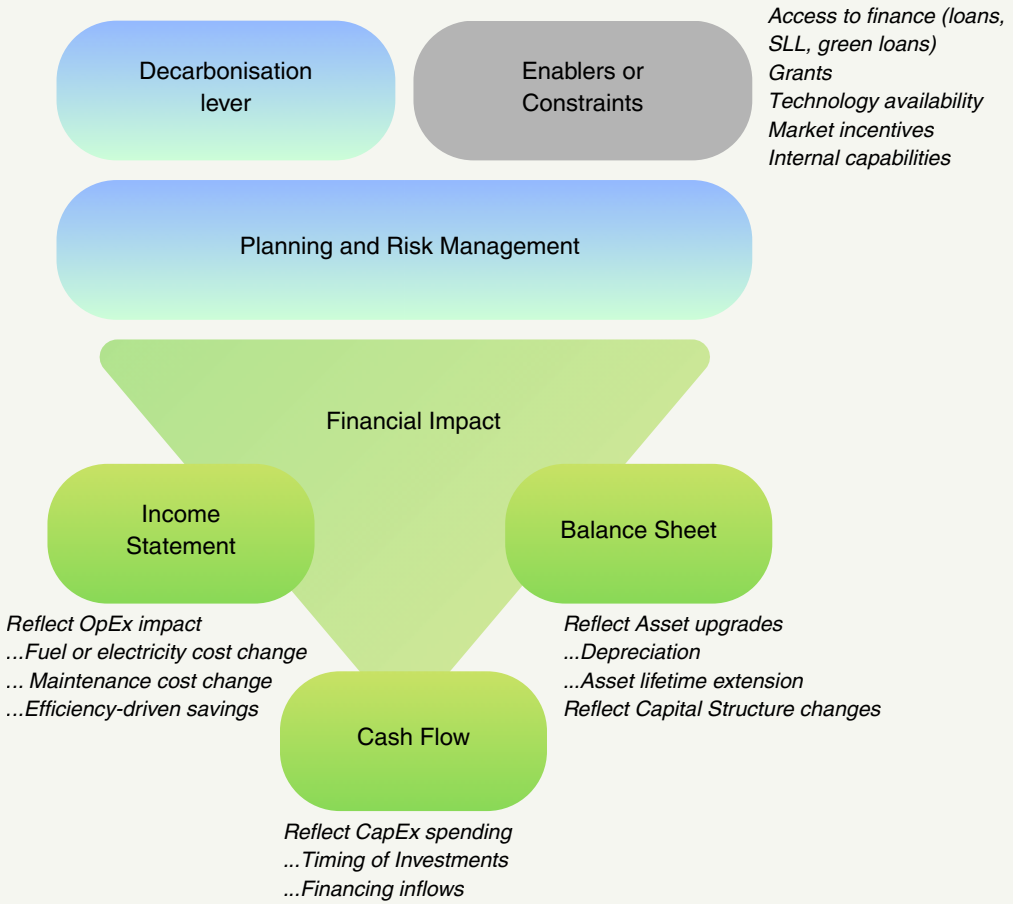
Before a company can build an implementation map, it must first understand the **financial rationale behind its decarbonisation choices**.

Every measure designed to promote sustainability or reduce emissions carries a cost, a saving, or both. These effects should be quantified and **integrated into the company's financial planning** to test their viability against the current business model. At this stage, you should engage the financial department – if they have been engaged in transition planning so far.

Doing so ensures that climate ambition is not treated as a separate initiative but becomes a measurable part of financial decision-making. In many cases, this exercise also helps reveal where the business model itself may need to evolve – for instance, shifting from energy-intensive production to more circular or less carbon intensive models over the long term.

The approach to financial impact assessment is shown on Figure 11.

Figure 11. Linking Decarbonisation Actions to Financial Outcomes (Source: Futurcene)



An illustrative example of the financial assessment is provided in Estimating emissions and financial impact (example: LED lighting). It allows you to walk through an example of quantifying the emission savings from installing LED lighting, starting from how to estimate emissions and then assessing the financial impact.

Note: Not every emission-reduction project generates immediate financial returns. Energy-efficiency measures such as LED lighting upgrades often pay back within a few years, but renewable-energy and electrification projects usually require high upfront capital and only become profitable when future carbon costs, compliance risks, or asset obsolescence are factored in. For instance, replacing a gas boiler with a heat pump might not seem attractive at current electricity prices, but once future carbon-price exposure and a longer asset lifetime are considered, the investment becomes economically sound.

Gradually, the focus must shift from short-term cost savings to long-term value creation. Achieving the expected 22–33% operational savings as shown in Annex C: Estimating emissions and financial impact (example: LED lighting) requires careful capital allocation. With “low-hanging fruits” gone (implemented) capital-intensive projects with longer payback periods remain on the agenda. Integrating decarbonisation into the existing asset-renewal cycles is essential to maintain investment returns while meeting climate targets.

3.3
Funding the transition

Once emission reductions and financial impacts are quantified, the question is how to finance the transition. Financing the transition means building a diversified funding structure aligned with each project's maturity, cost, and strategic role. The aim is to ensure that every euro invested drives both emission reduction and long-term business value, turning decarbonisation from a cost item into a source of resilience and competitive strength.

Every decarbonisation plan needs a credible funding strategy that explains where the capital will come from, how it will be allocated, and how financing decisions are linked to emission-reduction priorities.

Internal financing and capital allocation

For most companies, the starting point is internal funding. Decarbonisation projects can be financed through existing investment budgets, maintenance reserves, or operational cost savings generated by other efficiency measures. Embedding these projects into the company's annual budgeting process ensures they compete for capital on the same basis as any other strategic investments.

External financing instruments

The Paris Agreement which is at the heart of all decarbonisation strategies, requires not only emission reduction measures but also mobilisation of public and private financial sources to facilitate faster and smoother transition across diverse sectors. Therefore, the financial institutions have developed sustainable finance instruments which support transition activities.

Sustainable finance instruments which support transition activities, include, for example:

Sustainability-linked loans (SLLs)

Credit facilities for general corporate purposes tied to specific performance indicators such as emission intensity or energy efficiency. When targets are met, the company benefits from a lower interest margin. Such targets are included in the loan agreements.

Green loans

Instruments aimed at financing specific environmentally-sustainable activities (for example, purchase of electric vehicles, installation of solar panels, insulation of buildings, etc.). Often these instruments are linked to the EU Taxonomy Regulation which defines clear criteria for an investment to be called truly sustainable. Sometimes that stems from the financial institution's own funding framework (e.g., investment raising through green bonds or other instruments);



Besides sustainability-linked and green loans, the companies may also use some of the instruments listed below:

- **Green bonds** – suitable for larger portfolios of assets such as multiple plant upgrades or renewable-energy projects. These instruments require a Green Bond Framework and external verification of use-of-proceeds.
- **Sustainable investment funds** – dedicated investment funds which are aimed at sustainable companies and/or projects or aimed at investing in companies which need to become more sustainable over time (often that is included in an investment agreement).
- **EU and national grants** – public funding remains a cornerstone of industrial and municipal transition.

Role of the EU Taxonomy

While not mandatory for every company, having a basic understanding of the EU Taxonomy Regulation is increasingly important when communicating with banks, investors, or public institutions. The EU Taxonomy provides a unified classification system that defines which economic activities are considered environmentally sustainable.

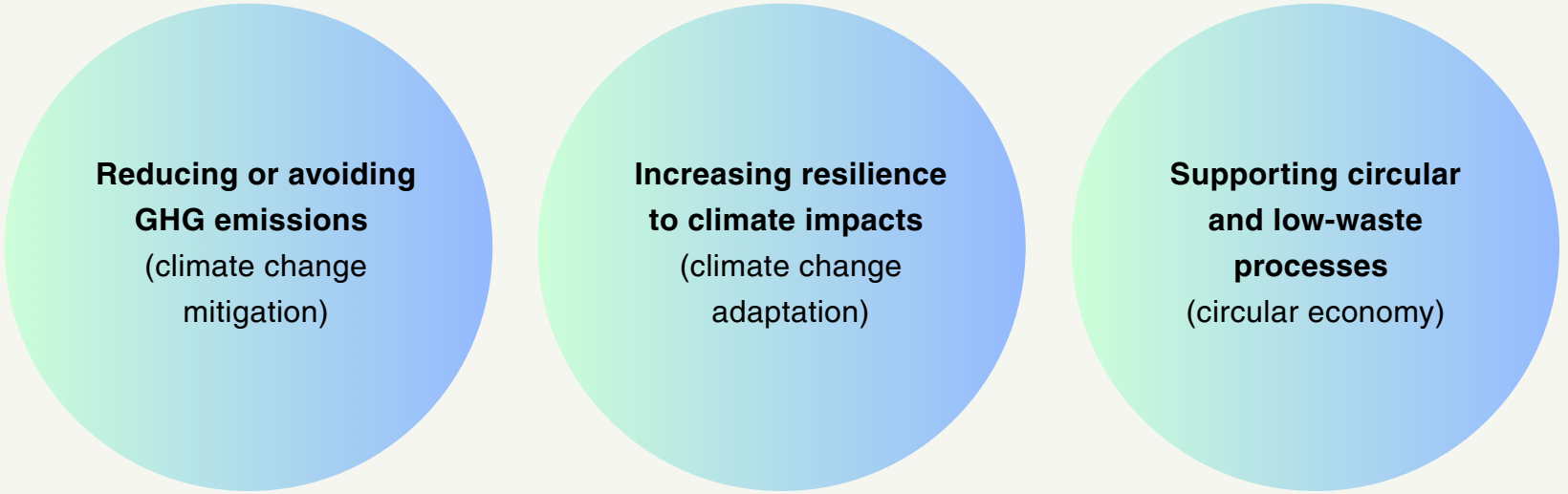
For companies seeking green or sustainability-linked financing, the Taxonomy acts as a **common language between business, finance, and policy**, showing if the objective you want to use financing for is aligned with the environmentally sustainable goals. For that, you may want to assess a specific CapEx stemming from your transition plan against the Taxonomy criteria.

The EU Taxonomy sets out criteria for economic activities that make a **substantial contribution** to one or more of six environmental objectives listed in Table 6.

Table 6. Environmental objectives included in the EU Taxonomy Regulation

EU Environmental Objective	Examples of eligible activities
Climate change mitigation	Use of renewable energy and introduction of relevant technologies, energy efficiency upgrades across multiple sectors (manufacturing, real estate, waste management, transport, etc.)
Climate change adaptation	Climate-resilient infrastructure and other resilience measures
Sustainable use of water and marine resources	Sustainable water treatment, leakage reduction
Circular economy	Reuse, repair, recycling systems
Pollution prevention and control	Elimination of specific pollutants, harmful substances and waste
Biodiversity and ecosystems	Restoration projects

For transition planning, the following **three environmental objectives** listed in the EU Taxonomy and respective activities are the most relevant:



These principles are directly aligned with the EU Green Deal, which aims to make Europe the first climate-neutral continent by 2050 and thus are compatible with the Paris Agreement commitments.

More information on use of the Taxonomy is included in Annex D: Assessing Taxonomy-eligibility and alignment.

3.4
Build adaptation and resilience measures

A complete transition plan must prepare the company not only for emission reduction but also for the adaptation to the already occurring climate change. The climate risk assessment in Step 1 showed which sites, assets, processes and supply-chain elements are exposed to weather events and climate trends.

The first task is to prioritise the risks that can cause operational disruption, financial losses or safety concerns. This may include exposure to heatwaves, floods, storms, water scarcity or supply-chain interruptions. For each priority risk, the company should determine what needs to be reinforced, redesigned or insured. Examples include strengthening buildings, upgrading cooling or drainage systems, protecting equipment, relocating sensitive assets or improving fire and flood management procedures.

Resilience also depends on the wider system in which the company operates. If suppliers, logistics partners or critical infrastructure are located in high-risk areas, the company should assess alternatives. This can involve diversifying suppliers, creating backup sourcing options, building higher inventory buffers or securing agreements with alternative transport routes.

Climate risk management must be **linked to business continuity plans**. Climate-related scenarios should be incorporated into continuity planning so that the company can continue operating during extreme events or recover quickly after disruptions. This requires **clear roles, communication protocols and tested response procedures**.

Addressing physical and transition risks **strengthens operational stability and protects long-term value**. It ensures that decarbonisation is implemented in a way that supports resilience, reliability and preparedness for future climate conditions.

3.5
Develop an implementation roadmap

Once the company has identified and prioritised its decarbonisation levers and identified climate risk adaptation measures, the next step is to translate these actions into a structured delivery plan. An implementation roadmap connects the strategy with day-to-day execution. It shows how the measures are scheduled, who leads them, and what resources are required. The roadmap also creates a common understanding across the organisation about the timing, dependencies and expected outcomes of the transition. Here it is essential to **integrate these actions into the company's management system**, ensuring that decarbonisation becomes part of regular business practice rather than a parallel, unconnected workflow.

A good implementation roadmap begins with clear responsibilities. Each major lever or initiative needs an owner, usually a department or a specific function. Responsibilities should cover technical delivery, coordination with finance, supplier engagement and internal reporting. This ensures that decarbonisation tasks are distributed in a realistic way and aligned with existing roles.

The next step is to convert the levers into tangible projects. Larger levers may require several coordinated initiatives, such as audits, pilot tests, procurement decisions, system upgrades or supplier programmes. The company should estimate the number of initiatives needed to reach near-term, mid-term and long-term targets, and assess how they fit with operational cycles, production schedules or maintenance work.

Time planning is essential. **The roadmap should outline:**

- **What needs to happen in short term**, i.e., first 1-2 years – such as data improvements, feasibility studies and early efficiency upgrades;
- **Medium-term period**, usually 3-5 years, that includes rollout of major investments, implementation of renewable energy contracts, supplier engagement programmes, and process changes;
- **Long-term period** covers structural transformations, introduction of new technologies, or major infrastructure investments.

Each milestone should have a target date, a responsible unit / person, and a performance indicator linked to emission reduction or operational improvement.

To ensure credibility, the roadmap must be integrated into overall business planning. Decarbonisation should align with capital-expenditure cycles, technology-renewal schedules and other strategic initiatives. This avoids conflicts between sustainability and business priorities and allows the company to coordinate investments more effectively.

Finally, the implementation roadmap should highlight the key resources needed to deliver the plan. These include people, technical expertise, external partners and data systems. Identifying resource needs early helps avoid delays and allows management to plan training, procurement or additional support in advance. Where dependencies exist, such as access to renewable energy, supplier readiness or regulatory timelines, the roadmap should reflect these factors and plan around them.

A well-prepared implementation roadmap turns climate ambition into a practical and coordinated sequence of actions. It provides clarity, accountability and structure, ensuring that each decarbonisation lever moves from idea to delivery in a timely and efficient way.

Examples for such roadmaps are shown on Figure 12 and Table 7.

Figure 12. Roadmap example for short-term targets (2025-2027) (Source: Futurcene)

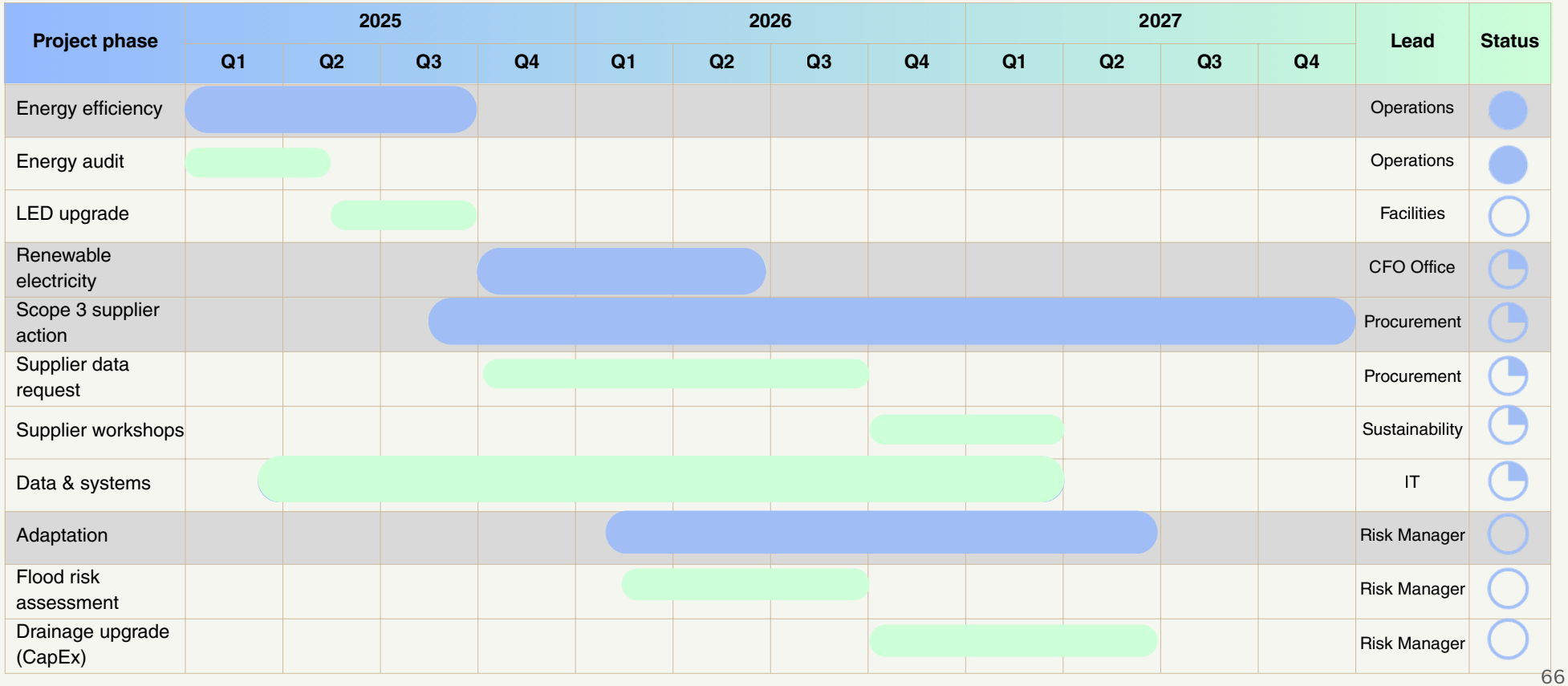


Table 7. Company X Decarbonisation and Adaptation Roadmap Covering Short-, Medium- and Long-Term Measures (2025–2050) (Source: Futurcene)

Lever or Measure	Initiative	Timeframe	Target Date	Owner	Supporting Roles	Integration in Management System	Resources Needed	KPIs
Energy efficiency	Full energy audit	Short term	Q3 2025	Operations	Finance, Procurement	Maintenance cycle	Audit provider	Savings identified (MWh)
Energy efficiency	LED lighting upgrade	Short term	Q3 2025	Facilities	Procurement, Finance	CapEx cycle	CapEx	Electricity use per unit
Renewable electricity	PPA negotiation	Short term	Q4 2026	CFO Office	Legal, Procurement	Contracting cycle	Advisory budget	Share of renewable electricity
Scope 3 supplier actions	Supplier data request	Short term	Q4 2026	Procurement	Sustainability	Supplier management	Templates	Supplier data coverage
Scope 3 supplier actions	Supplier workshops	Short term	Q2 2027	Procurement	Sustainability	Engagement workflow	Trainer	Supplier readiness
Data & systems	Central GHG data system	Short term	Q4 2026	IT	Sustainability, Operations	Data governance	Software license	Data completeness
Adaptation	Flood risk assessment	Short term	Q2 2026	Risk Manager	Engineering firm	Risk system	Consulting	Assessment delivered

Adaptation (CapEx)	Drainage upgrade	Short term	Q4 2027	Risk Manager	Finance, Procurement	CapEx cycle	CapEx	Flood risk reduction
Renewable electricity expansion	Onsite solar installation (Phase 2)	Mid term	Q4 2034	Operations	Finance	Asset management	CapEx	Onsite renewable generation
Fleet and equipment	Full EV transition for light vehicles	Mid term	Q4 2032	Logistics	Finance, IT	Vehicle replacement cycle	CapEx	Scope 1 reductions
Supplier decarbonisation	Long-term supplier transition program	Mid term	Q4 2033	Procurement	Sustainability	Supplier engagement	Programme budget	Supplier emission reduction
Industrial decarbonisation	Electrification of boilers, furnaces	Long term	2040	Operations	Engineering	Asset renewal plan	High CapEx	Scope 1 decline trajectory
Infrastructure	Transition to fossil-free backup systems	Long term	2050	Operations	Engineering	Long-term replacement plan	CapEx	Residual emissions level
Circularity / materials	Full recycling and waste heat recovery	Long term	2045	Operations	Engineering	Manufacturing cycle	CapEx + Opex	Energy recovered (MWh)
Net-zero alignment	Company-wide residual emissions neutralisation	Long term	2050	Sustainability	Finance, Operations	Net-zero governance	Offsets + contracts	Net-zero achievement

3.6
Establish supporting systems and capacity

Delivering the transition plan requires strong internal systems, reliable data and people who can manage the changes. Climate action must be built into daily operations, not treated as a one-off project.

A core part of this foundation is reliable **GHG data management**. The company should have a system for collecting and storing accurate activity data that influence Scope 1, 2 and, if applicable, Scope 3 emissions. This can be a digital platform, automated data flows or simple, but well-structured templates. High-quality data ensures that progress is measured correctly and that management decisions are based on evidence.

Investment planning should also reflect the transition pathway. All new investments should be screened for their emission impact, even if they are not initially part of the transition plan. This helps avoid locking in technologies or assets that increase emissions or contradict the chosen reduction trajectory. A simple screening step in capital budgeting is enough for most companies. Larger projects can include a more detailed assessment, such as projected lifetime emissions or exposure to future carbon costs.

Procurement processes should also be adapted, in particular, if the company has set Scope 3 targets. Suppliers may need to provide emission information, environmental product declarations or evidence of energy efficiency. This helps reduce Scope 3 uncertainty and supports a consistent approach across the value chain.

People and skills remain central. Employees responsible for energy, purchasing, product design, logistics and financial planning should understand how their decisions influence emissions. Targeted training and clear internal guidelines can help teams incorporate climate considerations into their everyday work. Depending on company size, a dedicated coordinator or cross-functional climate working group may be needed.

Moreover, it is worth assessing how the defined transition plan, its targets and actions will affect the company's workforce. Some roles may change as operations become more digital or energy efficient. New skills may be needed for electrified systems, automated equipment or resource-efficient production. A simple skills assessment helps identify which roles may require training, upskilling or redeployment. Managing these impacts early on helps avoid disruption and builds long-term support for the transition. Transparent communication with employees is essential. Workers should understand why the transition is happening, how it supports long-term competitiveness and how the company plans to support them during the change.

Internal oversight closes the loop. Regular reviews of emission data, progress reports and checks against the reduction pathway help uncover issues early. These review mechanisms ensure that the transition plan remains on track and that the organisation continues to build the capabilities needed to deliver it.

Building this supporting system ensures that the company does not undermine its own transition efforts. It embeds climate considerations into how decisions are made, how capital is allocated and how people work. This creates a stable foundation that will remain effective as the company develops and conditions change.



Step 4

Monitor, Govern and Communicate Progress

Step 4 ensures that the transition plan remains credible and aligned with the targets defined in Step 2.

It builds on the implementation roadmap (Step 3) and establishes a structure for tracking progress, reviewing performance and communicating results. This step keeps the plan dynamic in execution while maintaining stable ambition.

4.1
KPIs, monitoring and analysis

Oversight begins with the roadmap created in Step 3 and translates it into a monitoring system that shows whether actions are being completed and whether emissions are decreasing at the expected pace.

The company should select a concise group of indicators that track total emissions, emissions by scope and relevant intensity metrics as seen in Table 8 (illustrative example of KPIs from a retailer). These KPIs show progress against the defined reduction pathway and allow the company to see whether the execution is bringing the intended results.

Operational KPIs may also help track the underlying drivers of emissions, such as energy use, renewable energy share, supplier engagement or progress on key actions in the roadmap. Monitoring should also include explanations for increases or decreases in emissions that deviate from the initial plan, distinguishing between business growth, genuine efficiency gains or delays in implementation.

Deviations from the expected trajectory must be analysed and acted upon. Monitoring should support corrective actions, not changes to ambition. Targets remain fixed and reflect the pathway defined in Step 2. Adjustments focus on improving delivery rather than lowering expectations.

Table 8. Illustrative example of KPIs from a retailer

KPI	Base value	Target value	Result for Period				
			2026	2027	2028	2029	2030
Scope 1 and 2 GHG emissions	2 284 827 tCO_2e in 2019	-50 percent by 2030, -70 percent by 2040					
Total Scope 3 emissions	136 816 011 tCO_2e in 2019	-32 percent by 2030					
Renewable electricity share	0 percent in 2019	100 percent by 2030					
Energy consumption intensity (kWh/m^2)	528 kWh/m^2 in 2019	-27.5 percent by 2030					
Refrigerant emissions	1 126 299 tCO_2e in 2019	-50 percent by 2030, -80 percent by 2040					
Emissions from use of products sold	16 629 934 tCO_2e in 2019	-27.5 percent by 2030					

4.2
Governance and oversight

Governance ensures that responsibility for the transition plan is clear, and that progress is reviewed consistently. Oversight must match the company's maturity and the scope of its targets.

In early stages, someone in the company must be clearly assigned to track emissions, follow progress on the roadmap and ensure that information reaches management. As maturity increases, governance becomes more structured. This includes formal roles for reviewing progress, approving adjustments to actions and coordinating work across departments.

At the highest maturity level, governance is embedded into management and board structures and, ideally, their remuneration systems. Transition progress is reviewed in strategic discussions, financial planning and risk management. Governance effectiveness should be reviewed regularly to ensure that roles and decision processes continue to support the transition pathway.



4.3
Review and update the transition plan, and communicate externally



Insights from monitoring and governance are used to keep the plan relevant. The transition plan must evolve as new technologies, regulations or market conditions emerge. Updates should **improve execution but not reduce the ambition**.

Short term adjustments may include rescheduling actions, reallocating resources or addressing bottlenecks. Broader updates follow a clear review cycle, ensuring that the plan continues to align with the long-term pathway defined in Step 2.

External communication maintains transparency and credibility. The company should report its transition plan (preferably make the information or an abbreviated version of it public), implementation progress, risks and next steps in a consistent and clear format. Stakeholders must be able to understand how the company is performing relative to its pathway and how it responds to challenges.

The companies may use internationally acknowledged standards and frameworks for their reporting. For example, the European Sustainability Reporting Standards stemming from the CSRD or its “lighter version” – Voluntary SME Standards. These are the most widely used frameworks for Europe. Globally, companies also use Global Reporting Initiative guidelines, framework developed by the Task Force on Climate-Related Financial Disclosures, the new sustainability standards developed by the International Financial Reporting Standards Board, or other frameworks. GHG Protocol methodology also provides guidance on how to report on emissions and their reduction over time.

Annexes

Annex A: General considerations on Scope 3 categories

Scope 3 emissions category	General explanation and considerations	Required data and their collection opportunities	Potential role of the calculations in further decision making
Part of the value chain: Upstream			
1. Purchased goods and services	Every company purchases goods and services from third parties. Manufacturers and service providers generate emissions in production and delivery processes. Like Scope 2, it may be considered that the suppliers create these emissions because the specific company needs the goods or services. This category may relate to anything starting from purchased chemicals, raw materials or already processed materials to office supplies, work uniforms, cleaning services etc. The category applies to almost any company.	To calculate the emissions, you need to identify the key supplies your company purchases and identify relevant emission factors* based on: • Units purchased (e.g. tons, kilograms, metres, litres, etc. measurements), or • Amount of expenditure (e.g. thous. EUR). In some cases, your suppliers may be able to provide exact information on how much emissions manufacturing of a specific product creates. That is possible if they have conducted life-cycle assessment and obtained Environmental Product Declaration (EPD) for their product. Ask your key suppliers if they have EPDs for products they deliver to you.	You can identify which are the most emission-intensive purchases in your supplies. Depending on that, you can either consider avoiding or decreasing consumption of certain goods or services or look for less emission-intensive alternatives in the market, or – in some cases – engage researchers in your own R&D processes or develop partnerships to create an alternative solution.
2. Capital goods	This category is similar to the previous one but relates to goods which are considered and accounted for as long-term assets on the company's balance sheet. It may include machinery, vehicles, buildings, etc. The category applies to almost any company.	Similar approach as described above.	Similar use as described above – in particular, in relation to capital goods which are purchased with a certain regularity.

3. Fuel and energy related activities	Compared to Scope 2 emissions which cover production of the energy resource you use (e.g., natural gas used to produce heat/cool or electricity), this category calculates emissions occurring in transmission and distribution of that energy resource to your facilities. The category applies to almost any company.	The same energy consumption data you will have already collected to calculate Scope 1 and 2 emissions.	The same conclusions as described for Scope 1 and 2 emissions.
4. Transportation and distribution	This category is most applicable to companies directly hiring logistics service providers who deliver their supplies to the company's facilities or distribute the produced goods. The category does not apply if the following factors are in place: • Supplies (included in category 1 above) are delivered and logistics is paid for by the supplier, and • The company does not produce goods that need to be distributed to clients OR it does not organise delivery of such goods (clients collects and organises further logistics themselves).	To calculate the emissions, you need to obtain the information about: • Type of transport used (air, road, rail, ferry, etc.); • If possible, the type of road transport engine (petrol, diesel, LNG, CNG, etc.); • Distance travelled (km); • Goods transported (amount). Some logistics companies are able to provide their clients with very precise data as listed above and sometimes even ready-made GHG emission calculations.	You can make informed decisions on less emission-intensive alternatives for transportation routes (e.g. using a different transport mode than before) and/or setting requirements to your logistics partners to ensure zero-emission or low-emission transport alternatives.
5. Waste generated in operations	The category applies to almost any company which generates any type of waste. The calculations include emissions that are created during decomposing of waste in landfills, recycling to return them to the economy, or processed in any other way.	To calculate the emissions, you need to identify key categories of waste generated by your business, such as: • Household waste; • Construction waste; • Hazardous waste; • Packaging, etc. Depending on further treatment of this waste, you can apply different emission factors – landfilled waste will have a different emission factor than recycled one. If you do not have this information, you can ask your waste management company or apply a conservative approach and assume that all or most of the waste go to landfill.	You can identify which categories of waste are more important to be avoided, minimized, or recycled to minimise emissions and facilitate material recovery and reuse.

6. Business travel	Each type of transport used as well as accommodation creates a certain amount of emissions. If business travel is organised using company's own cars, the related emissions are typically included in Scope 1 and do not have to be specifically calculated here.	To calculate the emissions, you need to obtain the information about: • Destination; • Type of transport used (air, road, rail, ferry, bus, car, etc.); • Distance travelled (km); • Number of employees travelling; • Nights spent in the final destination (or several destinations, if applicable). Some transport companies (e.g. airlines or car rentals, or travel agencies) are able to provide their clients with GHG emission calculations for each travel.	You can review your business travel policies, defining less emission-intensive options as first choice (e.g., train instead of airplane if possible), and review the necessity to travel (instead joining meetings online).
7. Employee commuting	Depending on the scale and location of the company, its employees may create significant emissions just by getting to work and back home. Identifying the typical daily commute options will help calculate the emissions.	Usually, companies conduct employee surveys to analyse how they commute. You may include first choice transport and second choice in the survey, ask on the average days of remote work and other information which may help you estimate average number of km per day and the transport mode mix. You can extrapolate the obtained data to all employees with a disclaimer on the proportion of the actual survey respondents.	You can consider introducing organised transport (e.g. bus) collecting people before work and bringing them to your facilities together or promote carpooling. If you consider changing location of company's operations, you may use this information to identify a location which is in a walking distance to most employees or easily reached by public transport. Finally, you can also use this information as an internal communication message and encourage employees reconsidering their daily habits (if reasonably possible).
8. Leased assets	This category applies to companies using appliances, machinery, vehicles, buildings, etc. assets which it does not own and does not control on a daily basis but occasionally rent from another entity. Use of energy required to operate the assets creates GHG emissions. (Avoid double accounting if the emissions are already accounted for in Scope 1 and/or 2.)	To calculate the emissions, you need to obtain data about: • Type of energy resource used to power the respective asset; • For vehicles – average fuel consumption and distance travelled; • For machinery – average fuel consumption per motor-hour and motor-hours worked for your needs; For premises (e.g., offices, warehouses, stores, etc.) – either kWh or MWh of heating/cooling and electricity consumed or m2 and an assumption on average consumption of heat/cool and electricity.	You can identify the most emission-intensive assets you use and consider potential alternatives. In some cases, you may require your suppliers providing such alternatives.

Part of the value chain: Downstream			
9. Transportation and distribution	Although similar to category 4, this category is applicable to companies whose clients collect and organise further logistics themselves (i.e. your company does not take charge of that and do not pay for that). This category mostly applies to manufacturing companies whose output is physical goods.	To calculate the emissions, you need to obtain the information about: • Type of transport used (air, road, rail, ferry, etc.); • If possible, the type of road transport engine (petrol, diesel, LNG, CNG, etc.); • Distance travelled (km); • Goods transported (amount). Sometimes clients may provide such information, however, this is one of the Scope 3 where it is most complicated to obtain reliable information.	You can reconsider your distribution facilities, decentralise them and/or position them in easily reachable and well connected areas to minimise the resulting emissions.
10. Processing of sold products	Some products are intermediate goods which are further processed, transformed and recreated in a different end-product. If that is the case (e.g., your company produces a material which needs to be further welded, sawed, melted, etc.), emissions occur and may be estimated in this phase too. This category mostly applies to manufacturing companies whose output is physical goods.	To calculate the emissions, you need to identify key categories of end-products your intermediate product may be incorporated into (no need to identify every last bit of potential use; advisable to consider 80% or most of the product use). Estimate or ask your direct clients what processing approaches are used and how much energy is consumed for that purpose. You can also use external databases to identify reliable estimations and proxies for that.	You can identify the processes where your product experiences the greatest and most emission-intensive transformation and consider if you can modify the product at your end to require less processing in the next stages.

11. Use of sold products	Some products are intended to use energy resources for their operation. For example, a coffee machine, a computer or a refrigerator will consume energy when used. This category mostly applies to manufacturing companies whose output is physical goods – mainly electric appliances, machinery, and vehicles.	To calculate the emissions, you need to identify key categories of end-products you manufacture which consume energy during their operations and: • Estimate their expected life-cycle (i.e. how long they are reasonably used – e.g., 2 years, 5 years, 10 years, etc.); • Estimate or precisely calculate energy consumption per use and other data if necessary (e.g., how much electricity a coffee machine consumes to make a cup of coffee and how many cups of coffee it is reasonably expected to make per day). For this category, the estimations on patterns of use of your product are rather deliberate but you need to make a reasonable guess.	You can use this information to identify which of your products are more important to be more energy efficient. Also, you can use the information in your client communication and encourage them applying energy efficiency measures in their daily lives to ensure longer life for their appliance or machinery and to save on energy.
12. End-of-life treatment of sold products	After the end of their life-cycle, the products become waste and are processed – either as complete waste that is disposed of in a landfill or incinerated, or disassembled and recycled when possible. This category mostly applies to manufacturing companies whose output is physical goods.	To calculate the emissions, you need to make informed assumptions on the recycling rate of your product and the materials that can be recycled, as well as the proportion of the product which can only be disposed of. Similar to category 5, you can apply appropriate waste treatment emission factors to estimate the emissions created in this process. Considering you cannot know how long a certain product will be used by its end-user and when it will be disposed of, the emissions are included in calculations for the year when the product is sold.	You can use the information to identify which parts of your product are currently non-recyclable, identify potential alternatives and re-design the product accordingly. You may also want to engage in research activities or partnerships to find better recycling opportunities or alternative materials for your products.

13. Leased assets	Although similar to category 8, this category applies to companies renting their appliances, machinery, vehicles, buildings, etc. assets out to some other, non-related entities. Use of energy required to operate the assets creates GHG emissions. (Avoid double accounting if the emissions are already accounted for in Scope 1 and/or 2.)	To calculate the emissions, you need to obtain data about: Type of energy resource used to power the respective asset; For vehicles – average fuel consumption and distance travelled by the entity which used it; For machinery – average fuel consumption per motor-hour and motor-hours worked for the other entity's needs; For premises (e.g., offices, warehouses, stores, etc.) – either kWh or MWh of heating/cooling and electricity consumed or m2 and an assumption on average consumption of heat/cool and electricity.	You can identify the most emission-intensive assets you own and tend to rent out, and consider potential alternatives. In some cases, you may face requirements of your clients to provide such alternatives.
14. Franchises	This category applies to companies owning franchises and selling them to other businesses.	To calculate the emissions, you need to obtain data about Scope 1 and 2 emissions of the respective franchise holders (e.g., if you hold a supermarket chain franchise – how much and what type of energy consumes a certain company operating a store with your brand).	You can use this information to define more specific franchise rules to your business partners, that include certain energy- and climate-related requirements.
15. Investments	This category applies to companies investing in equity of other businesses (not consolidated group companies).	To calculate the emissions, you need to obtain data about Scope 1 and 2 emissions of the respective investees.	You can use this information to define more specific requirements to your investees and/or your overall investment portfolio, that include certain energy- and climate-related requirements.

Annex B: National climate projections

Climate projections for Estonia

Estonia's climate change assessments are firmly grounded in IPCC projection methodologies[16], relying on global climate model ensembles (CMIP5 (scenarios based on Representative Concentration Pathways (RCPs)) and CMIP6 (the focus is on the five scenarios SSP1-1.9, SSP1-2.6, SSP2-4.5, SSP3-7.0, and SSP5-8.5))[17] and long-term national climate records. These projections are developed and refined primarily by the Estonian Environment Agency, which provides national climate data and publishes assessments on the Estonian Environment Portal. Internationally recognised platforms, including the World Bank Climate Change Knowledge Portal (CCKP), also publish Estonia-specific CMIP6 projections. Together, these resources form Estonia's publicly accessible climate projection landscape.



[16] Estonia | Country Profiles | Discover the key services, thematic features and tools of Climate-ADAPT Climate-ADAPT
[17] IPCC Sixth Assessment Report – Chapter 4: Future Global Climate: Scenario-based Projections and Near-term Information

Recent climate observations clearly show that Estonia's environment is steadily warming, consistent with broader global and regional trends. Globally, average temperatures have already risen by 1.3 °C since the pre-industrial period, and without substantial policy changes, warming could reach around 3.5 °C by 2100. Although Estonia lacks complete pre-industrial measurement records, long-term data show that the country's average temperature has increased by 1.5 °C compared to the 1901–1930 baseline. Due to its geographical location, Estonia is warming faster than the global average, reflected in the frequent positive temperature anomalies recorded in recent decades[18].

The Estonian Environment Agency has also developed a Climate Atlas, accessible through the Estonian Environment Portal. The Atlas currently provides interactive maps and long-term monitoring data on key climate variables, including air temperature, precipitation, wind speed, air humidity, river flow, and water temperature. It is a useful tool for gaining a broad overview of historical climate conditions across Estonia. Note that the Climate Atlas is currently in its first phase of development -- future climate scenarios (projections) are planned to be included in the second phase of development, which is under preparation.

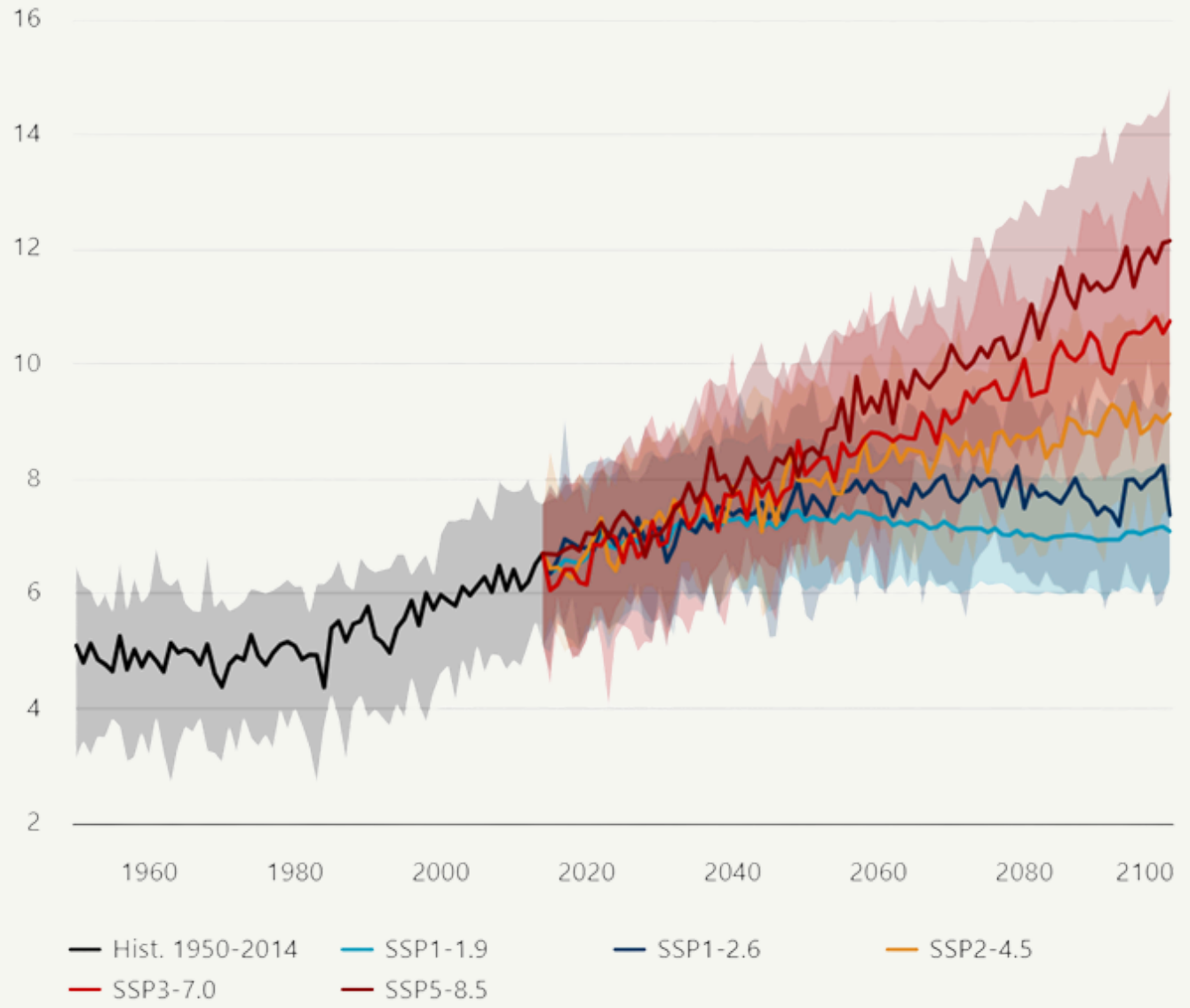
Companies using the Atlas should therefore complement it with the projection sources described in this section (Estonian Environment Portal climate overview and the World Bank CCKP) until scenario-based projection data becomes available on the Atlas.

Climate models consistently indicate that Estonia will experience warming across all seasons, with winter temperatures rising the fastest. Winters are projected to become significantly milder and wetter, with more precipitation falling as rain rather than snow, leading to a pronounced reduction in snow cover. Autumns and winters are expected to see the greatest increases in precipitation, including a higher frequency of extreme rainfall events. Springs will continue to warm earlier in the year, while summers, though warming at a slower rate than winter, will face increased heat extremes and a higher risk of short-term drought due to intensified evaporation.

[18] Environmental overview – weather and climate | Environment Portal

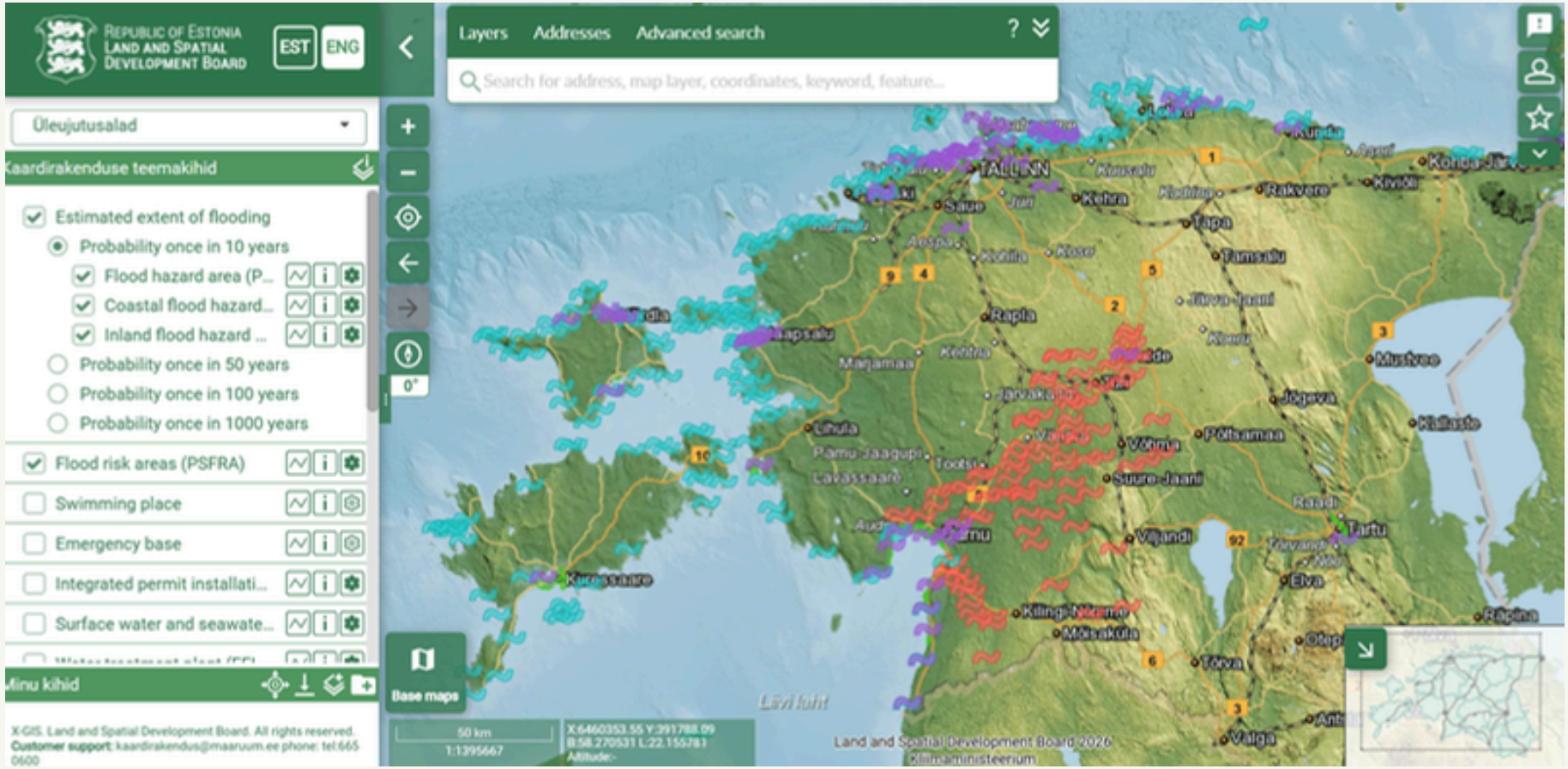
Seasonal modelling from CMIP6 and regional studies shows that warming and precipitation changes will be uneven across Estonia, with coastal and inland areas responding differently based on geography.

Figure 13. Projected timeseries of average mean surface air temperature in Estonia (Source: World Bank Climate Change Knowledge Portal)



Estonia has also developed comprehensive flood risk maps, which are publicly available through the Estonian Land and Spatial Development Board's Flood Hazard Map. The highest risks are concentrated in coastal regions (influenced by storm surges from strong south-westerly and westerly winds) as well as in urban areas such as Tallinn, Tartu, and Pärnu, where impermeable surfaces amplify stormwater flooding during heavy rainfall events. Figure 14 provides an illustrative example of flood risk areas in Estonia.

Figure 14. Flood risk predictions for Estonia (Source: Estonian Land and Spatial Development Board)



Climate projections for Latvia

In Latvia, national climate projections are developed and published by the Latvian Environment, Geology and Meteorology Centre (LVGMC). LVGMC analyses both historical and future climate trends and publishes the results, together with interactive tools and datasets, on Latvia's Climate Portal. Internationally recognised platforms, including the World Bank Climate Change Knowledge Portal (CCKP), also publish Latvia-specific CMIP6 projections. Together, these resources form Latvia's publicly accessible climate projection landscape.

LVGMC has assessed multiple climate change scenarios, aligned with IPCC Shared Socioeconomic Pathways (SSPs). These include "minor" (SSP1-2.6), "medium" (SSP2-4.5) and "significant" (SSP3-7.0) climate change scenarios, corresponding to increasing levels of global emissions and warming. Projections cover key variables such as temperature, precipitation, snow cover, and sea level rise, with results available up to the end of 21st century (i.e. year 2100) and compared against historical baselines (1961 to 1990 and 1991 to 2020).

Not only future projections, but also historical observations show that climate change is taking place in Latvia. From 1961 to 2020, there has been a steady increase in air temperature, which is pronounced both in the values of the average air temperature and in the values of the minimum and maximum air temperatures. For example, the climatic standard norm (1991-2020) of the average air temperature is 1.1 °C higher than the average annual air temperature of the climatic reference period (1961-1990). In addition, precipitation has also increased due to the climate change. The climatic standard norm (1991–2020) of annual precipitation is 18.9 mm higher than the norm of annual precipitation in the climatic reference period (1961–1990).

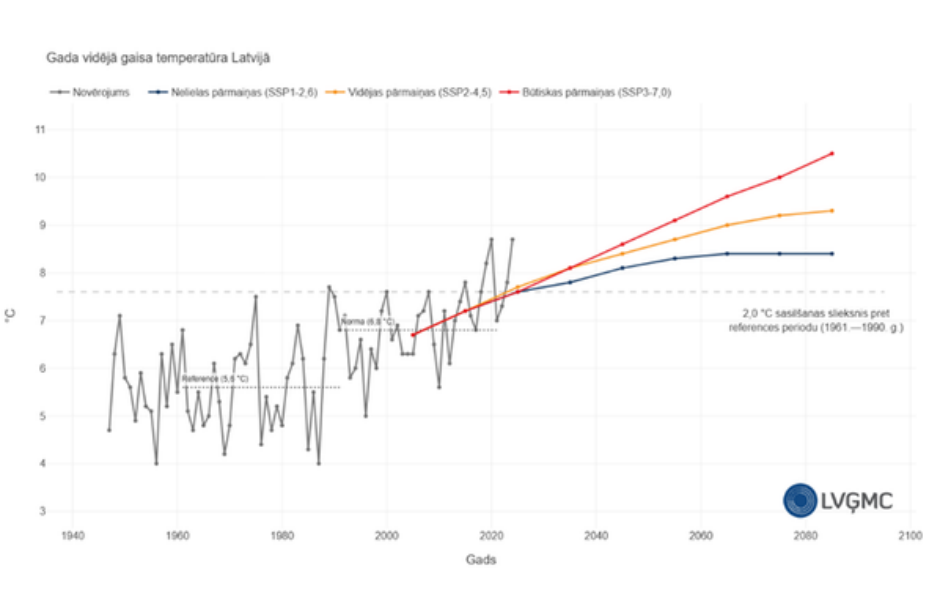
Users of Latvia's Climate Portal may:

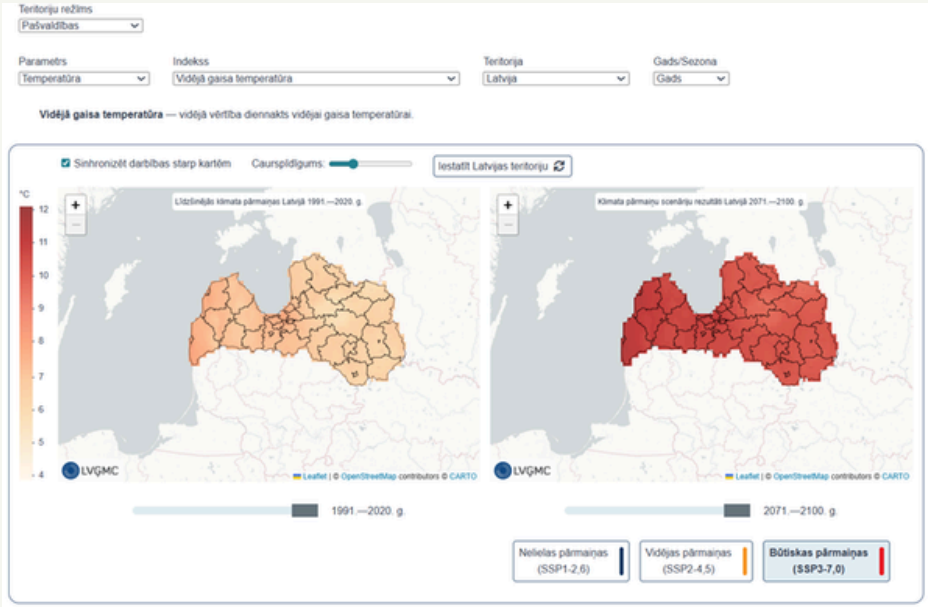
- Analyse future temperature and precipitation changes for different climate scenarios (minor, medium, significant climate change)
- Assess seasonal and annual changes for periods extending to 2100
- Information on the climatic indicators for each region and municipality based on LVGMC meteorological observations and future climate models
- Examine changes at regional and national scales, including temperature, precipitation, snow cover, and coastal impacts; and
- Use coastal and climate risk tools such as Flood Risk Information System (PRIS), Air Temperature Tool, Precipitation Tool to assess local vulnerabilities and climate risks.

Illustrative opportunities available on the Climate Change Portal are depicted on Figure 15.

Overall, climate projections for Latvia indicate a significant increase in average temperature across all seasons, alongside notable increases in annual precipitation, especially in winter. At the same time, snow cover continues to decline, and sea level rise contributes to coastal erosion, affecting low lying coastal regions. Summers are projected to become hotter, raising drought risks in some regions despite overall higher precipitation totals.

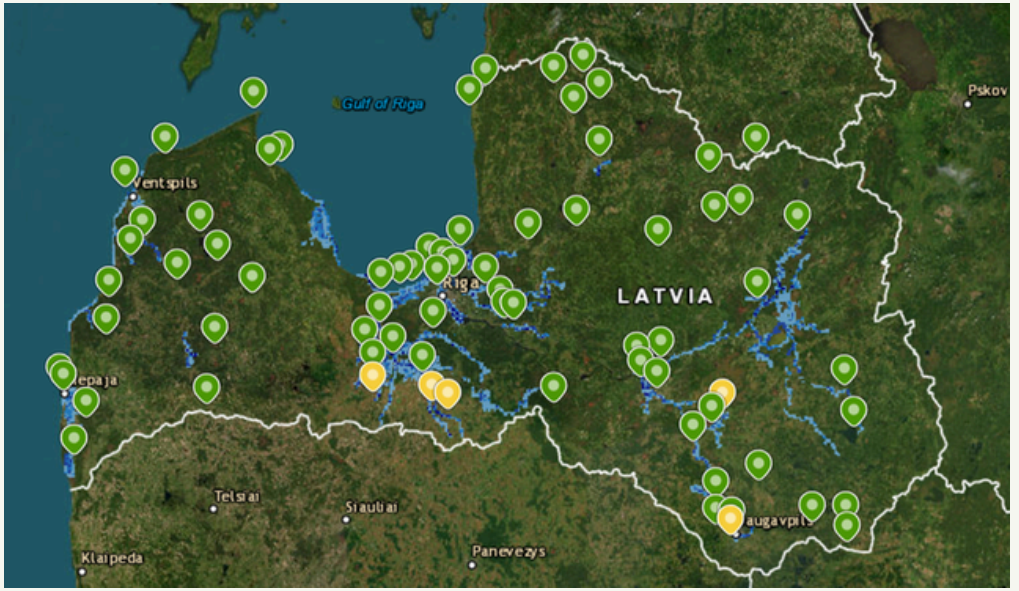
Figure 15. Climate change predictions for Latvia (Source: [Climate Change Portal – average annual air temperature])





LVGMC has also published flood-related information (also available as Flood Risk Information System (PRIS)) that is based on short-, medium- and long-term predictions grounded in historical flood data. PRIS is a real-time civil protection and spatial planning tool that provides state and local authorities with high-quality digital cartographic data, enabling them to integrate flood-risk information efficiently and accurately into spatial planning documents at all levels. It also supports institutions responsible for flood response by supplying reliable, up-to-date information needed to coordinate actions during flooding events. Figure 16 provides an overview of flood risk scenarios for 2100 in Latvia. Historical flood data show that the highest flood risks are concentrated in several key areas: Jelgava, Riga and Jēkabpils, where river and urban flooding have repeatedly occurred in recent years and Lubāna region. These areas should be carefully assessed by companies and investors when evaluating exposure to physical climate risks and potential financial losses.

Figure 16. Flood risk projections for Latvia in 2100 (Source: PRIS)



Businesses operating in Latvia (or considering investments) can use the Climate Portal tools to check whether specific facilities or potential investment sites may be exposed to future flooding, erosion, or other climate impacts, helping improve risk adjusted decision making and long-term resilience planning. It is important to consider the maps in this annex together with regional precipitation-change maps, as this provides a more complete understanding of flood risks capturing not only potential river flooding but also flooding driven by changing precipitation patterns[19].

[19] Bank of Latvia (2023). Climate risk stress tests: focus on flood risk

Climate projections for Lithuania

In Lithuania, national climate projections are modelled and published by the Lithuanian Hydrometeorological Service (LHMT) under the Ministry of Environment. The Service publishes its climate projections in the interactive tool Meteo LT klimato prognozės. Internationally recognised platforms, including the World Bank CCKP, also publish Lithuania-specific CMIP6 projections. Together, these resources form Lithuania's publicly accessible climate projection landscape.

Until 2026, Lithuanian authorities analysed two climate change scenarios: RCP4.5, which is considered quite probable, and RCP8.5, which projects more extreme climate change trends. In October 2026, the Lithuanian Hydrometeorological Service published new climate change projections based on the Shared Socioeconomic Pathways (SSP) and CMIP6 models. The projections are available in the interactive tool "Meteo LT klimato prognozės" under two scenarios: SSP2-4.5 (intermediate emissions) and SSP3-7.0 (high emissions).

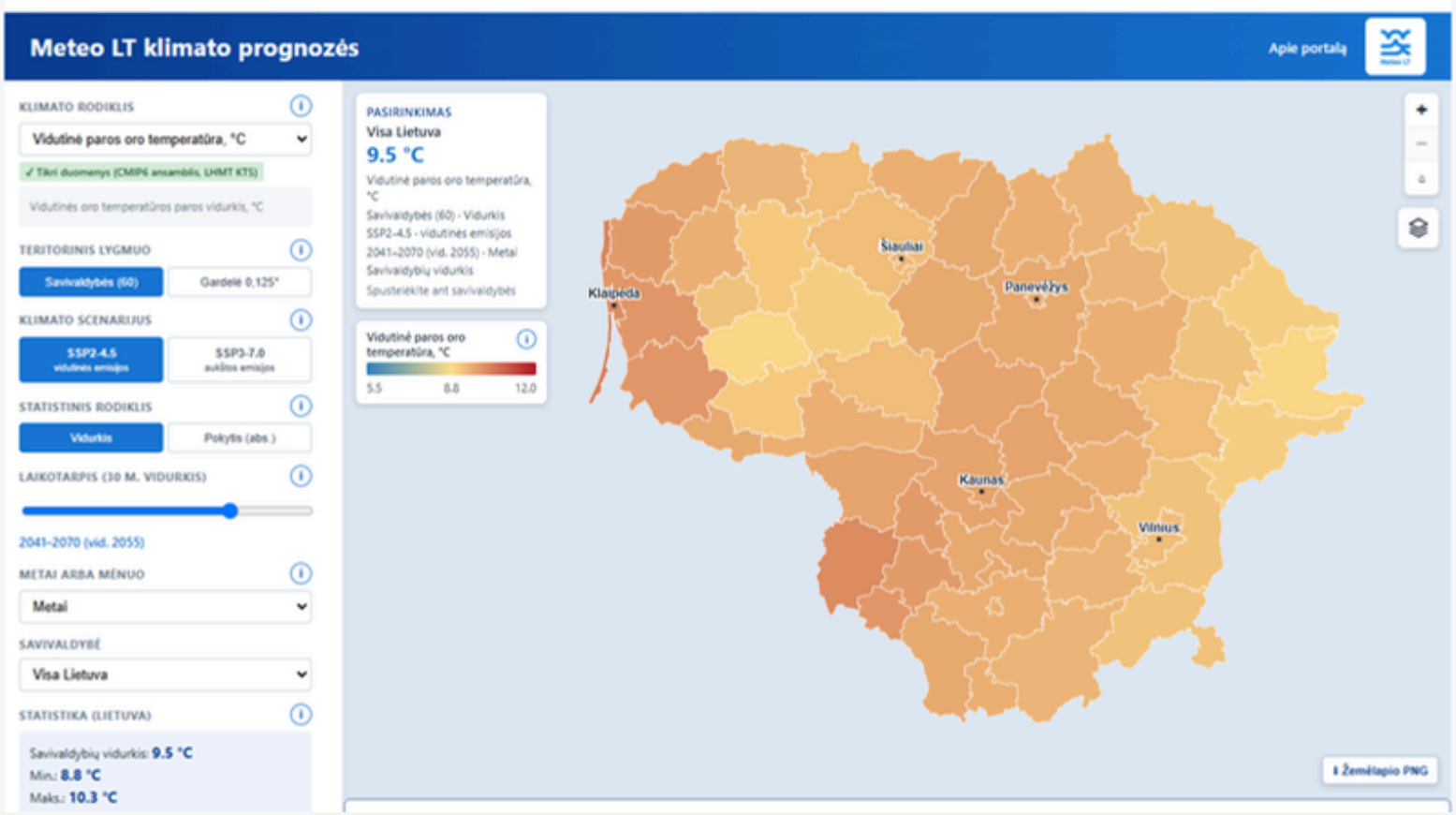
Users of the "Meteo LT klimato prognozės" tool may:

- Compare the data for both scenarios mentioned above;
- Analyse potential changes by year or their occurrence in a specific month;
- Select a 30-year average for any period between 1961 and 2100;
- Analyse changes by municipality (60) or on a 0.125° grid; and
- Select a climate indicator (e.g. daily mean air temperature) and download the data in CSV format.

Illustrative opportunities available in the “Meteo LT klimato prognozės” tool are depicted in Figure 17.

Overall, the climate change projections for Lithuania indicate increase in average temperature (across all seasons), decrease of cold periods and snow cover which leads to decrease of a heating season. At the same time, cooling season is expected to increase with more frequent heat waves and tropical nights. Although increased precipitation is projected, in certain areas of the country droughts and water stress may also be quite significant. For example, under the SSP2-4.5 scenario, the daily mean air temperature in Lithuania in 2041-2070 will reach about 9.5 °C (about 9.8 °C under SSP3-7.0), compared to about 6 °C in 1961-1990.

Figure 17. Daily mean air temperature in Lithuania in 2041-2070 under the SSP2-4.5 scenario (Source: LHMT, Meteo LT klimato prognozės)



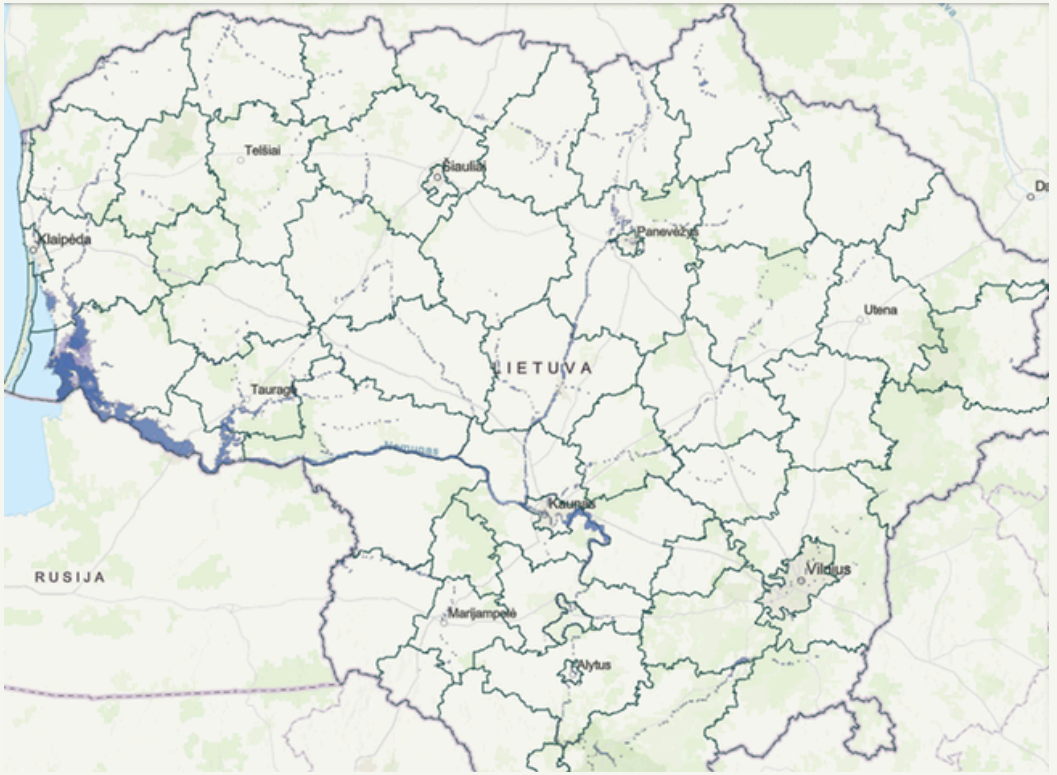
In addition, the Environmental Protection Agency (Aplinkos apsaugos agentūra) has prepared flood risk maps which indicate which areas in Lithuania are the most vulnerable to river floods.

According to Figure 18, the highest flood risks are in the vicinity of Nemunas River, in particular, near Kaunas, south of Klaipėda and along the border with Kaliningrad (Karaliaučius).

You can check specific locations of your facilities on the map and see if they may be affected by flooding in the future and thus more prone to creating financial losses. You can also check a specific location you are considering buying or investing in and see if the potential deal does not create additional risks for your business.

Note: flood risk may be related not only to river floods but also to increased, very intense rainfalls. Therefore, it is useful to analyse the information on regional and district-based projections for annual rainfall, number of days with heavy or very heavy rainfall, and other data.

Figure 18. Flood risk map for Lithuania
(Source: Environmental Protection Agency, flood risk map)



Annex C: Estimating emissions and financial impact (example: LED lighting)

Please be aware this example is illustrative and is designed to highlight the calculation elements. It does not necessarily reflect the actual calculation of similar projects.

Quantifying emission savings

Before linking levers with financials, it is useful to show in a simple and transparent way how emission reductions are calculated in practice. LED lighting is a typical **Energy efficiency** lever. It reduces electricity use and therefore Scope 2 emissions and depending on the product choice it can also influence Scope 3 emissions.

Emission reductions should always be measured **relative to an established baseline**, usually the same base year as the overall climate target. For lighting, the relevant baseline is the electricity consumption of the existing system.



General formula to quantify emission reduction

For an efficiency measure that reduces electricity use, the annual emission reduction is:

$$\text{Annual Emission Reduction } (tCO_2e) = (E_{baseline} - E_{new}) \times EF$$

Where:

- $E_{baseline}$ is annual electricity use before the measure (MWh per year)
- E_{new} is annual electricity use after the measure (MWh per year)
- EF is the emission factor for electricity (tCO_2e per MWh, market based, or location based)

If the exact post upgrade consumption is not yet known, it can be estimated using an expected efficiency gain (for example 30 percent lower energy use):

$$E_{new} = E_{baseline} \times (1-\eta)$$

Combined, this gives a shortcut relative to the baseline:

$$\text{Annual Emission Reduction } (tCO_2e) = E_{baseline} \times \eta \times EF_{electricity}$$



Estimating emission reductions

Assumptions:

- Baseline lighting system: fluorescent lamps in office and production area:

$$E_{baseline}=1000\ MWh\ per\ year$$

- Expected efficiency gain from LED system:

$$\eta=30\%$$

- Electricity emission factor (market-based):

$$EF_{electricity}=0.25\ tCO_2\ per\ MWh$$

- Technical lifetime of new LED system: 10 years

Step 1. Estimate new electricity use

$$\boldsymbol{E_{new}= 1000\times(1-0.30)=700\ MWh\ per\ year}$$

Step 2. Calculate baseline and new emissions

$$\boldsymbol{Baseline\ emissions=1000\times0.25=250\ tCO_2e\ per\ year}$$

$$\boldsymbol{Emission\ after\ LED=700\times0.25=175\ tCO_2e\ per\ year}$$

Step 3. Calculate annual and cumulative savings

$$\boldsymbol{Annual\ emission\ reduction=250-175=75\ tCO_2e\ per\ year}$$

Assuming performance is maintained over 10 years:

$$\boldsymbol{Cumulative\ emission\ reduction\ (10\ years)\sim 750\ tCO_2e}$$



In reporting terms, the company will show a 75 tCO_2e annual reduction in Scope 2, relative to the baseline year, which contributes to the emission reduction pathway.

How this links to other levers and scopes

At first glance this is a classic energy efficiency lever that affects Scope 2. In practice, it can also touch other lever categories and Scope 3:

- **Product and material choice (Category 4: Material and product efficiency)**. Different LED lamps have different embodied emissions, material content, and recyclability. Choosing lamps with higher recycled material share, lower critical metal content, and a certified recycling or take back scheme can reduce **Scope 3, category 1 (Purchased goods and services) and category 12 (End of life treatment of sold products)**.
- **Supplier and value chain engagement (Category 5)**. Requiring environmental product declarations (EPDs) or life cycle assessment (LCA) information from lighting suppliers can improve the quality of Scope 3 data and support better product selection over time.

In reality, these Scope 3 effects are harder to quantify precisely because LCAs and EPDs are not fully standardised and can differ by supplier and geography. They are often used for **relative comparison** between options rather than exact absolute numbers. The core logic remains the same: the direct use phase saving is captured in Scope 2, while product design and material choices influence Scope 3.

Estimating financial impact

The LED retrofit is a CAPEX-type lever (energy-efficiency project) with one-time investment and recurring annual savings. The project is one of the few decarbonisation measures that is both profitable and low risk, generating energy savings that exceed the upfront investment.

Financial modelling assumptions

Item	Description	Example value
CAPEX	Purchase and installation of new LED lighting system	€ 200 000 (one-time, year 0)
Electricity Price	Lithuania electricity price as of 11/11/2025	€ 147 /MWh
OPEX	Annual maintenance and replacements	€ 5 000 / year
Savings	Reduced electricity cost (300 MWh × €147 / MWh)	€ 44 100 / year
Net annual saving	Savings - OpEx	€ 39 100 / year
Payback period	CAPEX ÷ net annual saving	≈ 5.11 years
Lifetime emission saving	75t × 10 years	750t CO_2e
Cost per tCO_2e avoided	(CapEx + OpEx – Savings) ÷ lifetime saving	– €255 / t CO_2e
Cost of Capital	Company's or project cost of capital	8%

As shown in the calculations, the cost per tonne of CO_2e avoided is negative **(– €305 / t CO_2e)**, meaning that the savings outweigh the initial investment. This is not usually the case for other emission-reduction investments. Many levers show a positive cost per tonne of CO_2e avoided, indicating that the initial investment and subsequent savings do not fully offset the cost within the asset's useful life.

It is also important to account for the **cost of capital** when evaluating such projects. Some initiatives—though not in this example—may have a dedicated cost of capital, especially when financed through banks or sustainability-linked loans. In those cases, the project's true financial performance should reflect both the financing cost and the expected return over time.

The next step, after defining the main financial assumptions for a decarbonisation lever, is to **integrate the projected investments (CAPEX)** and **operating expenses (OPEX)** into the company's overall budgeting process. This ensures that the transition plan is financially realistic and consistent with existing business plans. The best practice is to validate the expected **EBITDA and CAPEX impact** within the company's financial model to confirm whether cash flows and current funding can support the project and to understand how it will affect profitability in practice.

When linking financials and calculating the cost per tonne of CO_2e avoided, some projects may initially appear too costly or offer limited financial returns. However, the analysis should also account for the value of compliance and the cost of non-compliance. Future carbon-related expenses, such as the purchase of ETS allowances, escalating fossil fuel costs or penalties for exceeding emission thresholds, can significantly change a project's long-term value. Including these potential future costs in the analysis provides a more realistic assessment of economic viability and helps ensure that today's investment decisions remain resilient under future carbon-pricing scenarios.

Annex D: Assessing Taxonomy-eligibility and alignment

The EU Taxonomy is essentially the financial framework of the Green Deal which translates climate policy into measurable, investable activities. Banks, investors, and other financiers are increasingly assessing their portfolios against the EU Taxonomy aiming to increase the aligned part of the portfolios.

From eligible to aligned — how to assess

EU Taxonomy alignment (or the assessment if a specific activity – e.g., an investment project – is aligned with the Taxonomy) can be conducted in four steps outlined below:

Step	Question	Outcome
1. Eligibility	Is the activity I am planning to implement listed in the EU Taxonomy?	Yes → proceed to screening; activity is **Taxonomy-eligible**
2. Substantial contribution	Does the activity make a measurable contribution to at least one of the six objectives (e.g., reducing GHG emissions to a certain extent)? In other words, does it meet all the criteria listed in the EU Taxonomy for that specific activity?	If yes → continue (note that some activities are explicitly labelled “transition activities” in the Taxonomy)
3. Additional criteria: Do No Significant Harm (DNSH)	Does the activity avoid harming the other five objectives (specific DNSH criteria listed in the EU Taxonomy)?	If yes → continue
4. Additional criteria: Minimum safeguards	Does the company respect basic social and governance standards (e.g., OECD, UN Guiding Principles)?	If yes → activity may be considered fully **Taxonomy-aligned**

How to use it in practice

When preparing funding applications, investor briefings, or sustainability reports:

1) Identify whether each project (e.g., LED retrofit, heat-pump installation, solar system) is Taxonomy-eligible, i.e., listed in the Taxonomy;

2) Check the technical screening criteria for that activity (available in the Delegated Acts) and document evidence for alignment;

3) Document evidence for DNSH and minimum safeguards;

4) Be able to explain the Taxonomy alignment of your projects to an external stakeholder – for example, a bank.
This process helps investors understand the credibility of your transition investments and improves access to green finance instruments.

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