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Guidance for Small and Medium Enterprises (SMEs)

Setting Science-Based Targets (SBTs)

February 2025



Introduction



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Please note that science-based targets guidance and processes are updated periodically. For the most up-to-date guidance, please consult the Science-Based Target initiative's website.





INTRODUCTION

Why are we asking you to set a science-based target?



Deloitte is committed to achieving <u>net-zero</u> emissions, aligned with definitions published by the Science-Based Targets initiative (SBTi), and extending our impact beyond ourselves through <u>empowering our people</u> and <u>engaging our ecosystems</u>. **The goods and services** we buy are the single biggest contributor to our emissions.



Our suppliers play a vital role in our sustainability journey. As part of our net-zero targets, we committed that **67% of our suppliers** by emissions will have **set a science-based target** by FY25.

Science-based targets (SBTs) are **validated by the SBTi (or equivalent)** as being in line with a **1.5°C decarbonisation pathway.** Companies that set and meet science-based targets are contributing to keeping climate change below dangerous levels, in line with the internationally ratified Paris Agreement.



Why are we doing this now?



Since the Industrial Revolution, when humans started wide-scale burning of fossil fuels for energy, the concentration of greenhouse gases in Earth's atmosphere has risen. Carbon dioxide levels are now higher than any time in the last 800,000 years.



<u>Global temperatures have risen as a result</u>. **The last nine years** have been the <u>warmest since modern records began in 1880</u> and 2024 was the <u>hottest year on record</u>.



Global warming **puts life as we know it at risk**. The **4 most severe long-term risks** identified in 2025 by the <u>World Economic Forum</u> **all link to global warming:** extreme weather events, biodiversity loss and ecosystem collapse, critical change to Earth systems and natural resource shortages.



Addressing these risks takes collaboration. The 2015 Paris Agreement aims to limit global temperature rise to well below 2°C above preindustrial levels, with efforts to cap warming at 1.5°C.



To achieve this, global GHG emissions must halve by 2030 and drop to <u>net-zero</u> by 2050. **Net-zero** is reached when the amount of CO_2 emitted globally is equal to the amount being removed

Net-zero for corporations is defined as when a company releases no more greenhouse gas emissions into the atmosphere than it reliably removes (see fuller definition on slide 10).

Global average temperature change against cumulative global CO2 emissions



Cumulative global CO2 emissions

Global average temperature anomaly relative to 1961-1990

Data sources:

Cumulative global CO2 emissions: <u>Global Carbon Budget (2024)</u> – with processing by Our World in Data Global average temperature change: <u>Met Office Hadley Centre (2025)</u> – with processing by Our World in Data



Brand and Regulation



of company execs have seen brand reputation boosted by SBTs¹



of execs reported that setting SBTs increased their resilience to upcoming regulation¹

Economic Opportunity

In 2020, global financial institutions, holding nearly **US\$20 trillion** in assets, called on companies to set SBTs²



of execs stated their SBT commitment boosted investor confidence in their business¹

Client Expectations

 Like Deloitte, many firms now expect their suppliers to set credible climate and sustainability targets and communicate robust plans to deliver on them.

Physical risks of climate change

Increasingly severe weather events, including hurricanes, heatwaves and floods, are disrupting global operations, exposing vulnerabilities in supply chains, risking resources, damaging corporate reputations and prompting questions about the viability of insurance-dependent risk mitigation strategies.⁴ By setting and acting on a science-based target you play your part in mitigating these risks.

Talent

of Gen Zs and Millennials say environmental credentials are important when considering an employer⁴

<mark>2 in 1</mark>0

>70%

Gen Zs and Millennials plan to change jobs due to environmental concerns. Another 2 in 10 already have.³

Increase innovation

63%

of respondents say setting a SBT is already driving innovation¹

50%

expect at least half of their products and services to be low carbon by 2030¹

¹2018 YouGov Survey of 185 company executives from SBTi committed businesses ² Investors urge companies producing 25% of global emissions to set science-based targets – CDP ³Deloitte 2024 Gen Z and Millennial Survey

⁴ Why resilience is key to climate action in a disrupted world | World Economic Forum



SBTs for SMEs

An Overview



What are science-based targets?



FUNDING PARTNERS













IN COLLABORATION WITH

The Science Based Target initiative (SBTi) sets the standard on credible corporate climate action. SBTi independently validates that businesses' net-zero targets are science-based in alignment with 1.5°C limit on global warming defined in the Paris Agreement. Targets validated by SBTi are known as 'science-based targets'.

SERVICES

SBTi services is a wholly-owned subsidiary of SBTi. It is responsible for checking and validating the science-based targets of corporates, financial institutions and SMEs.



Key terminology

The terminology below is important to understand and will be used throughout the following slides.

GHG – an acronym for "greenhouse gas"

GHG Protocol – a widely used, standardized framework for reporting greenhouse gas emissions, which includes guidance on how to differentiate, measure and report on scope 1, 2 and 3 emissions. Within the wider framework, a <u>GHG Protocol Corporate Standard</u> has been designed specifically to support Corporations.

GHG inventory – another way of referring to a company's GHG emissions.

Scope 1 emissions – greenhouse gases directly emitted from operations owned or controlled by the reporting company. For example, emissions from boilers or vehicles with internal combustion engines.

Scope 2 emissions – indirect greenhouse gas emissions associated with the reporting company's operations: for example, greenhouse gases emitted to produce electricity the company purchases.

Scope 3 emissions – indirect GHG emissions not covered in scope 2 that occur up and down the value chain of the reporting company. For example, greenhouse gases emitted from extracting or processing raw materials used by the company, or when customers use a company product.

Emissions profile – the proportion of scope 1, 2 & 3 emissions and the nature of activities driving these emissions

Net-zero – when a company releases no more greenhouse gas emissions into the atmosphere than it reliably removes

(NB: the SBTi Corporate Net Zero Standard allows for an organisation to emit up to 10% of its baseline emissions footprint at the point in time at which they declare net-zero emissions as long as they remove an equivalent volume of emissions from the atmosphere and permanently store it to counterbalance the impact of said unabated emissions)

Base year – The 'start' date against which emissions are tracked over time. This is usually the earliest year for which the company has reliable and comparable emissions data.

Target year – The year by which the company commits to have met its science-based target.



What are the criteria for using the SME route?

There are two main routes for setting a science-based target with SBTi: the standard route for large companies and financial institutions and a streamlined SME route for qualifying small and medium-sized enterprises. Companies that meet the SME eligibility criteria can choose either.

Companies are eligible to use the SME route if:

Main Qualification Criteria (all 4 should be true)

- 1. Scope 1 and 2 emissions $<10,000 \text{ tCO}_2\text{e}$
- 2. Not Financial Institutions (FIs) and Oil & Gas (O&G)
- 3. Doesn't meet SBTi sector specific criteria
- 4. No parent company in standard validation route

Additional Qualification Criteria (> 3 should be true)

- 1. Employ <250 employees
- 2. Turnover of <€50 million
- 3. Total assets of <€25 million
- 4. Are not in a mandatory FLAG (Forest, Land and Agriculture) sector

Aligned to the European Union's Corporate Sustainability Reporting Directive (CSRD) SME criteria. These figures were updated in December 2023 in line with the latest CSRD definitions and thresholds for SMEs.

How can I calculate my emissions?

There are several online calculators that can help you start estimating your carbon emissions. The <u>SME</u> <u>Climate Hub</u> provides tools to help SMEs get started include a variety of <u>Business Carbon Calculators</u> and a <u>Reporting Tool</u>.

Introducing the Greenhouse Gas (GHG) Protocol

SBTi requires companies to follow guidance from the **GHG Protocol** – a widely used, standardized framework for GHG emissions accounting – when calculating emissions and setting targets. You can find the GHG Protocol's Corporate Standard here, along with additional tools and resources on the GHG Protocol website.



What are my options as an SME?

SMEs can choose to follow the standard corporate route to setting SBTs or select from the targets summarized below. **You'll find more information about these targets on slides 17-19.**

Targets SMEs can select from:

- Near-term targets: commitments to deliver an absolute reduction in scope 1 and 2 GHG emissions from a predefined base year within a 5-10-year timeframe and to measure and reduce scope 3 emissions (without any specific numerical target attached).
 - Near-term maintenance targets: if an SME has already achieved zero scope 1 and/or 2 emissions, they can commit to keeping scope 1 and 2 emissions at 0 until a defined end date alongside strengthening their efforts to reduce other emissions.
- 2. Net-zero targets: commitments to reduce scope 1, 2 and 3 GHG emissions from a predefined base year by at least 90% and to neutralize any unabated emissions by the target year.
 - These usually operate over a longer timeframe than near-term targets, but SMEs with the capacity to achieve net-zero in a shorter period can set a net-zero target with a near-term timeframe.
 - To be eligible to set a net-zero target, SMEs must have already set near-term targets aligned to a 1.5°C pathway.

For SMEs, the **key difference between a nearterm target and net-zero target** is that netzero targets include a commitment to reduce scope 3 emissions by a specific amount within a specified timeframe; whereas near-term targets only include a general commitment to measuring and reducing scope 3 emissions.



Setting a target alone is not enough to mitigate climate change. You will be expected to develop a clear and realistic plan to achieve your reductions target and to report on progress at least annually.

NB: SMEs can choose to set **both near-term and net-zero targets** at the same time.

ME Guidance: Setting SBTs 11



The process for SMEs:

More Detail



Overview: How do we register our target?

Please see the following slides for additional guidance on each step listed below

Register your company: all entities must register on the SBTi Service <u>Validation</u> <u>Portal</u> and provide company details as outlined in <u>this manual</u>.

- Here is a three-minute tutorial on navigating the Validation Portal.
- 2 **Calculate your emissions:** gather data on your company's energy use, fuel consumption and, if relevant, value chain emissions, then use the Greenhouse Gas Protocol, a widely-used carbon accounting framework, to categorise this data into scope 1, 2 and 3 emissions.
- 3) Choose your target: select the most appropriate target for your organisation.

Submit your target using the <u>Validation Portal</u>.

- Please see SBTi's fees for validating targets as of October 2024 in the table on the right.
- 5 **Communicate:** Once validated, your target will be published on the SBTi website and you will receive a welcome pack with guidelines on how to communicate it.
 - **Disclose:** Your organization must disclose emissions annually and monitor progress towards achievement.



Table 2. Services cost

Selected service	Price
Set new near-term targets or update near-term targets (reduction or maintenance targets)	\$1,250 USD**
Set new net-zero targets ONLY (only companies with previously set 1.5°C near-term targets are eligible for this option or selecting a target year within a 5-10 year timeframe)	\$1,250 USD**
Set near-term targets AND net-zero targets	\$2,500 USD**

**These fees are reduced fee options compared to the standard fee of \$9,500 USD and up (+applicable VAT). Companies with yearly gross revenue of under \$10 Million USD who are headquartered in developing countries and economies in transition, as defined by



Reminder – SME criteria

To set targets through the streamlined validation route for SMEs, companies must confirm that they meet the SME eligibility criteria

Recap: SME Eligibility Criteria

Main Qualification Criteria

- 1. Scope 1 and 2 emissions <10,000 tCO₂e
- 2. Not Financial Institutions (FIs) and Oil & Gas (O&G)
- 3. Doesn't meet SBTi sector specific criteria
- 4. No parent company in standard validation route

Additional Qualification Criteria (> 3 should be true)

- 1. Employ <250 employees
- 2. Turnover of <€50 million
- 3. Total assets of <€25 million
- 4. Are not in a mandatory FLAG sector

Before getting started, we recommend some brief reading material to familiarize yourself with the topic.

Understand the basics

- <u>Short training</u> to understand the basics provided by the UK Business Climate Hub
- <u>Short training</u> design to help SMEs reduce their carbon emissions
- SMEs frequently asked questions (FAQs)

General resources

- The SME validation route can be found here
- Online calculators can help you calculate your scope 1 and 2 emissions baseline
- <u>Here</u> you can find sector specific guidance (if applicable) relevant to heavy emitting industries

Company and contact information

At registration, you are requested to **provide relevant documentation** as attachments to your application as detailed in the SBTi <u>Registrations Manual</u>.

Confirmation of GHG Reporting and Target Criteria

Companies registering to set SBTs must confirm that they will:

- Use the GHG Protocol Corporate Standard and Scope 2 Guidance to estimate and report GHG emissions
- Not use offsets or avoided emissions*
- Not exclude from the GHG inventory more than 5% of scope 1 and 2 emissions
- Publicly report on your emissions and progress against targets

Terminology

- 'GHG' stands for 'Greenhouse Gas'
- The GHG Protocol is a widely used, standardized framework for reporting greenhouse gas emissions, which includes guidance on how to differentiate, measure and report on scope 1, 2 and 3 emissions. Within the wider framework, a <u>GHG Protocol</u> <u>Corporate Standard</u> has been designed specifically to support Corporations.
- 'GHG inventory' is another way of referring to a company's GHG emissions.
- Please consult the <u>Terminology Guide</u> on slide 8 if you are unsure about any other terms used on this slide

General resources

- Please find the GHG Protocol Corporate Standard <u>here</u> and Scope 2 Guidance <u>here</u>.
- Please find <u>here</u> a helpful training webinar on the GHG Protocol

*Companies sometimes try to quantify the favourable environmental impact generated from their product existing vs a world where it didn't exist – this is described as 'avoided emissions'. Offsetting: carbon credits can be bought by organisations (or individuals) to offset emissions they are yet to abate. Each carbon credit leads to the removal or avoidance of one tonne of greenhouse gas emissions – for example through land use change or renewable energy generation. Carbon credits can support the change the world needs to see; for example, by giving organisations the funding they need to carry out conservation work that will also help address the nature and climate emergency. However, whilst a company can make positive change by supporting such projects through the purchase of high-quality carbon credits and in so doing 'compensate' for emissions not yet abated within their own value chain as they transition to net-zero, these credits should not be seen as an alternative to cutting emissions and do not count as a value chain emission reduction for the purchasing company.



Emissions Profile

- 1. Determine your organization's "boundaries" using the consolidation approach (see box to right)
- 2. Describe the key operations and activities contributing to emissions in scope 1 and 2
- 3. Gather relevant data (examples below)
 - **Scope 1:** Fuel purchase records, Gasoline receipts, purchase records
 - Scope 2: Electricity utility bills, Utility bills for heating or cooling, Renewable energy certificates
- 4. Use this data to calculate Scope 1 and 2 emission using the <u>Greenhouse Gas Protocol</u> as guidance
- 5. Annual reporting
 - Select the method you would use to annually report, market-based or location-based (see box to right)

- There are several online calculators that may help you calculate your scope 1 and 2 emissions baseline.
- The <u>GHG Protocol Corporate Standard</u> explains how to define organization boundaries using the consolidation approach.
- The GHG Protocol has developed <u>training webinars</u> to support with using the Protocol.
 - Section 3 on Organizational Boundaries provides further information on determining organisational boundaries using the consolidation approach.
 - Section 4 Operational Boundaries explains what emissions to include in an inventory, how to categorise them, and the difference between location-based and market-based calculation of Scope 2 emissions.

GREENHOUSE GRE PROTOCOL	GREENHOUSE GAS PROTOCOL
Learning Objectives In this lesson, you will learn: • How to determine which of your company's operations to include in your invertory • Two approaches to determine a company's organizational boundaries • Why an entity might choose one approach over another	Learning Objectives In this lesson, you will learn: • Which sources of emissions to include in an inventory • The difference between direct and indirect emissions • How to classify emissions under Scopes 1, 2, and 3 • How to prevent double-counting emissions • How to classify emissions from leased assets
A Corporate Accounting and Reporting Standard	A Corporate Accounting and Reporting Standard O 🔮 WORLD RESOURCES INSTITUTE



Step 3 – Choose your Target

¹Option available for companies that already have SBTi approved near-term targets in place (OR are setting net-zero targets within a 5-10 year timeframe) ²Option for SMEs seeking net-zero validation that have to update near-term targets to align with net-zero prerequisites

Below are the types of target you can select as an SME. The following slides include more detail and examples of targets set by other SMEs.

Near-ter	m targets	Net-zero targets Net-zero targets focus on reducing scope 1, 2 and 3 emissions within a longer timeframe to reach net-zero emissions overall.			
Near-term targets focus on r emissions within a 5-	educing scope 1 and 2 GHG -10-year timeframe.				
New or updated near-term targets	New or updated near-term maintenance targets (these confirm that a company with zero Scope 1 and 2 emissions will maintain this)	Net-zero targets only ¹	New or updated near-term targets AND a net-zero target ²		
Template text: "Our company commits to reduce scope 1 and scope 2 GHG emissions _% by 20 from a 20 base year, and to measure and reduce its scope 3 emissions."	Template text: "Our company commits to maintain zero scope 1 and scope 2 emissions through 20, and to measure and reduce its scope 3 emissions from a 20 base year."	Template text: "Our company commits to reach net-zero latest by 20 As part of this, it commits to reduce absolute scope 1, 2 and 3 GHG emissions% by 20from a 20 base year."	Template text: "Our company commits to reduce scope 1 and scope 2 GHG emissions% by 20 from a 20 base year, and to measure and reduce its scope 3 emissions. Our company commits to reach net-zero by 20 As part of this, commits to reduce scope 1, 2, and 3 emissions % by 20 from a 20 base year."		



Near-term targets

Near-term targets are commitments to reduce Scope 1 and 2 GHG emissions by a specific amount from a predefined base year within a 5-10-year timeframe; and to measure and reduce Scope 3 emissions. When setting a near-term target you do not need to specify a target for reducing Scope 3 emissions, but this is recommended.

Targets for reducing Scope 1 and 2 emissions must:

- Cover a period of a **minimum of 5 years** and a **maximum of 10 years** from the date the target is submitted to SBTi Services for validation.
- Meet or exceed the minimum targets outlined in the table below.
- Have the same **base year**, which **cannot be earlier that 2015**.

Base / Target Year	2028	2029	2030	2031	2032	2033	2034
2015	54.6%	58.8%	63.0%	67.2%	71.4%	75.6%	79.8%
2016	50.4%	54.6%	58.8%	63.0%	67.2%	71.4%	75.6%
2017	46.2%	50.4%	54.6%	58.8%	63.0%	67.2%	71.4%
2018	42.0%	46.2%	50.4%	54.6%	58.8%	63.0%	67.2%
2019	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%	63.0%
2020	33.6%	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%
2021	33.6%	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%
2022	33.6%	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%
2023	33.6%	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%
2024	33.6%	37.8%	42.0%	46.2%	50.4%	54.6%	58.8%

Table 1. Minimum near-term scope 1 and 2 ambition

What is a net-zero target?

Net-zero targets are a commitment to reducing Scope 1, 2 and 3 emissions to zero or a residual level consistent with reaching global netzero emissions **and** permanently neutralizing any residual emissions at the net-zero target year and any emissions released thereafter.

Net-zero targets must:

- Have a base year no earlier than 2015.
- Use the same base year as any previously approved near-term targets.
- Have an emissions reduction ambition of at least 90% (up to 100%)
- Have a target year no later than 2050

SMEs can only set net-zero targets if they a) already have an SBTiapproved near-term target at the time of application that meets all prerequisites for net-zero validation; b) could achieve net-zero emissions within a 5-10 year timeframe; or c) are setting a near-term target at the same time as a net-zero target.



Here are some examples of SME science-based targets as published on the <u>SBT website</u>.

SME	Target Wording	Target Type	
Verstegen Spices & Sauces, NL	Verstegen spices & sauces commits to reduce absolute scope 1 and scope 2 GHG emissions 30% by 2030 from a 2018 base year, and to measure and reduce its scope 3 emissions.	Near-term	
ENERLIS, France	ENERLIS commits to reduce scope 1 and scope 2 GHG emissions 42% by 2030 from a 2020 base year, and to measure and reduce its scope 3 emissions. ENERLIS commits to reach net-zero greenhouse gas emissions across the value chain by 2050 from a 2020 base year.	Near-term AND net-zero	
Elite Plastics, UK	Elite Plastics Ltd commits to reduce scope 1 and scope 2 GHG emissions 46% by 2030 from a 2019 base year, and to measure and reduce its scope 3 emissions. Elite Plastics Ltd commits to reach net-zero by 2035. As part of this, Elite Plastics Ltd commits to reduce scope 1+2+3 emissions 95% by 2035 from a 2019 base year.	Near-term AND net-zero	
Encon, Belgium	Encon NV commits to reduce absolute scope 1 and scope 2 GHG emissions 50% by 2030 from a 2018 base year, and to measure and reduce its scope 3 emissions.	Near-term	
Emisoft, Norway	Emisoft AS commits to reduce scope 1 and scope 2 GHG emissions 42% by 2030 from a 2023 base year, and to measure and reduce its scope 3 emissions.	Near-term	

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Contract and T&Cs

This information is required for all companies, even if you are seeking a payment waiver¹

Finalize the Terms and Conditions before submitting your Streamlined Target Validation form

SBTi Due Diligence

Upon receipt of this application, the SBTi will conduct due diligence. The process generally takes 10 business days

Results and Payment

If your application passes due diligence tests, SBTi will actively validate your target. <u>This usually takes up to 30</u> <u>days</u> but timelines can vary.

Once your application is approved, SBTi will send you an invoice (if applicable) for the target validation service.

Final Confirmation

A final confirmation will be sent along with the communications pack and relevant details regarding the target publication.

The targets will be published on the SBTi website.



¹SMEs with less than US\$10 million in annual revenue that are headquartered in developing countries and economies in transition, as defined by the listed on United Nations Secretariat's Department of Economic and Social Affairs page 153-154, will have the option to request a waiver for their target submission fee.

What's next?



Make a plan to meet your target



Take action to reduce emissions

Share progress annually

(4)

Helpful resources

SBT resources

- SBT SME route webpage: Target Validation Services for SMEs SBTi Services
- Overview of target-setting for SMEs: <u>https://docs.sbtiservices.com/resources/TargetValidationApplicationChecklistforSMEs.pdf</u>
- Outline of how SME targets are assessed for validation: https://docs.sbtiservices.com/resources/SMECriteriaAssessmentIndicators.pdf
- Sector-specific guidance: <u>Standards and guidance Science Based Targets Initiative</u>
- FAQs answered by SBTi: FAQs for SMEs
- Validation portal: <u>https://validation.sbtiservices.com/login</u>
- Company details required when registering on the validation portal: https://docs.sbtiservices.com/resources/SBTiServicesRegistrationsManual.pdf

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- Glossary of key terms: <u>SBTi Glossary V1.2</u>
- Case studies: <u>Case Studies Science Based Targets Initiative</u>

Wider resources

- GHG Protocol Corporate Standard: <u>https://ghgprotocol.org/corporate-standard</u>
- GHG Protocol Scope 2 Guidance: https://ghgprotocol.org/scope-2-guidance
- GHG Protocol Training on the Corporate Standard: <u>https://ghgprotocol.org/corporate-standard-training-webinar</u>
- SME Climate Hub: <u>SME Climate Hub</u>
- Training on how SMEs can reduce carbon emissions: <u>Climate Fit SME Climate Hub</u>
- Financial Support for SMEs: <u>https://smeclimatehub.org/financial-support/</u>
- Support with setting GHG organization boundaries from the US EPA
- The 1.5C Business Playbook: https://exponentialroadmap.org/1-5-business-playbook/
- UK Business Climate Hub training on the basics: <u>Understand the basics UK Business Climate Hub</u>
- UK Business Climate Hub: Finance and Support: https://businessclimatehub.uk/finance-and-support/

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