

Example Ltd.

ESGgen Audit Report™ 2020

DRAFT



ESGgen°

Unlocking the value of ESG for SMEs

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Independent Limited Assurance Statement

TO: THE STAKEHOLDERS OF EXAMPLE LTD

Introduction and objectives of work

ESGgen Ltd has been engaged by EXAMPLE LTD (the Business) to provide limited assurance over selected Environmental, Social and Governance (ESG) performance data for calendar year [year]. This assurance statement applies to the related information included within the scope of work described below.

Scope of Work

Reported ESG performance in the Business's report covers its global operations. The scope of our work was limited to assurance over the information provided for the ESGgen Scorecard™ (the 'Selected Information') included in this report ('the Report').

Reporting criteria

The Selected Information has been prepared in accordance with the 'ESGgen Reporting Criteria', as set out in the methodology section of this report.

Limitations and Exclusions

Excluded from the scope of our work is any verification of information relating to:

- activities outside the defined reporting period or scope;
- positional statements (expressions of opinion, belief, aim or future intention by the Business) and statements of future commitment; and
- other information included in the Report other than the scope defined above.

This limited assurance engagement relies on a risk-based selected sample of ESG inputs and source data and the associated limitations that this entails. This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist.

Responsibilities

This preparation and presentation of the Selected Information in the Report are the sole responsibility of the management of the Business. ESGgen's responsibilities were to:

- provide limited assurance about whether the Selected Information has been prepared in accordance with the Reporting Criteria;
- draft of the Report for use by the Business based on ESGgen generated criteria;
- form an independent conclusion based on the assurance procedures performed and evidence obtained; and
- report our conclusions to the management of the Business.

International Standard

We performed our work in accordance with a comprehensive internal protocol that guides our verification activities. Our methodology is based on international best-practice and incorporates the requirements from the International Standard on Assurance Engagements (ISAE) 3000 Revised. Our conclusions are for 'limited' assurance as set out in ISAE3000.

Summary of work performed

As part of our independent verification, our work included:

1. Testing the appropriateness of the Reporting Criteria for the Selected Information;
2. Verifying documentary evidence provided by the Business;
3. Calculating a selection of the Selected Information against the corresponding source documentation; and
4. Performing aggregate calculations of the Selected Information.

Conclusion

On the basis of our methodology and the activities described above, nothing has come to our attention to indicate that the Selected Information is not fairly stated in all material respects and that it has not been prepared in accordance with the Reporting Criteria.

Statement of Independence, Integrity and Competence

ESGgen is an independent professional services company that specialises in ESG accountability. Its assurance team has extensive experience in conducting verification over ESG information, systems and processes in companies of all sizes.

ESGgen maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

ESGgen implements and applies the Code of Ethics of the Institute of Chartered Accountants of England and Wales, across the business to ensure that its employees maintain integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and high ethical standards in their day-to-day business activities. The assurance team for this work does not have any involvement in any other ESGgen projects with the Business.



For and on behalf of ESGgen Limited

[Date]

Directors' Statement

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors are responsible for preparing the ESG statements in accordance with applicable law and regulations.

The directors must not approve the ESG statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the ESG impact of the company for that period. In preparing these ESG statements, the directors are required to:

- select suitable policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the ESG statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate records that are sufficient to show and explain the company's ESG statements and disclose with reasonable accuracy at any time the ESG impact of the company. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ESGgen Audited Score™

STATEMENT OF ESG SCORE FOR THE YEAR ENDED 31 DECEMBER 2020

We measure ESG impact using a proprietary scorecard of 29 measures. There are 8 environmental, 15 social, and 6 governance measures. The data used to compile the scorecard is verified by Chartered Accountants who have also been certified in ESG.

The ESGgen Audited Score highlights the number of measures that are meeting, falling short or exceeding best-practice benchmarks for each component of E, S, G and overall. This helps managers to identify specific opportunities to unlock value hidden in the business.

To calculate and analyse a company's ESG performance against benchmarks a score is assigned as follows: on or above benchmark = 1, below benchmark = -1. A net score is calculated for each component of the E, S and G (right-hand side of table). The net scores are added to calculate a company's overall score (below).

Net ESG Impact **3**

The ESG measures are made up of two forms of data points: numeric and Boolean. To analyse and report the achievement of ESG benchmarks in the current year, Boolean data points are converted to default numeric values as follows: on or above benchmark = 1, below benchmark = -1. The advantage of Boolean scoring is that it highlights the number of measures that are achieving benchmark for each component of E, S, G and overall.

Environmental		
	ESGgen Measure	Scoring
E1	CO2 Emissions (Scope 1, 2)	1
E2	Renewable Energy	-1
E3	Waste Recycling	-1
E4	Recyclable Packaging	-1
E5	Water Usage	1
E6	Energy Efficient Vehicles	-1
E7	Supply Chain CO2 (Scope 3)	1
E8	Total Expenditure on Improving Environmental Impacts	1
Net Environmental Impact		0

Social		
	ESGgen Measure	Scoring
S1	Number of Employees	N/A
S2	Net Employment Creation	N/A
S3	Salaries and Wages	1
S4	Gender Diversity	-1
S5	Ethnic Diversity	-1
S6	Gender Pay Gap	-1
S7	CEO Salary Gap	-1
S8	Employee Support	1
S9	Employee Training	1
S10	Supply Chain ESG	-1
S11	Customer Complaints	-1
S12	Management of Personal Data	1
S13	Responsible Marketing	1
S14	Product & Service Quality	-1
S15	Total Expenditure on Improving Social Impacts	1
Net Social Impact		-1

Governance		
	ESGgen Measure	Scoring
G1	External, Independent Advisors	1
G2	Board Gender Diversity	-1
G3	Board Meeting Attendance	-1
G4	Tax Interventions	1
G5	Business Ethics	1
G6	ESG in Decision Making	1
P1	UNGC/OECD Monitoring	1
P2	Whistleblower	1
Net Governance Impact		4

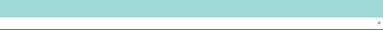
ESG Performance

STATEMENT OF ESG PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2020

ESG performance is measured against best-practice benchmarks. These benchmarks use a mix of primary and secondary methodologies and sources such as government data, professional bodies, industry best practice and leading-edge academic research. Calculations are unique to each measure and are regularly updated in line with best practice and changing regulations.

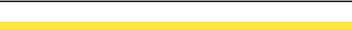
The tables below set out the ESGgen Measures (columns 1 and 2), benchmarks (column 3) company performance for the financial year (column 4), the percentage of the benchmark achieved (column 5). Finally, the check marks in column 6 indicate whether the benchmark was met or exceeded during the year.

Environmental

	ESGgen Measure	Benchmark	Actuals	Benchmark achieved %		Benchmark met
E1	CO2 Emissions (Scope 1, 2)	2,472 kg	1,931 kg		128%	✓
E2	Renewable Energy	100%	64%		64%	
E3	Waste Recycling	100%	60%		60%	
E4	Recyclable Packaging	100%	30%		30%	
E5	Water Usage	250 m ³	200 m ³		125%	✓
E6	Energy Efficient Vehicles	100%	60%		60%	
E7	Supply Chain CO2 (Scope 3)	3,800 kg	3,500 kg		109%	✓
E8	Total Expenditure on Improving Environmental Impacts	£10,000	£15,000		150%	✓

100%

Social

	ESGgen Measure	Benchmark	Actuals	Benchmark achieved %		Benchmark met
S1	Number of Employees	N/A	30	N/A		N/A
S2	Net Employment Creation	N/A	5	N/A		N/A
S3	Salaries and Wages	£35,000	£42,000		120%	✓
S4	Gender Diversity	50%	35%		70%	
S5	Ethnic Diversity	25%	20%		80%	
S6	Gender Pay Gap	100%	85%		85%	
S7	CEO Salary Gap	7 Times	8 Times		88%	
S8	Employee Support	£20,000	£25,000		125%	✓
S9	Employee Training	£10,500	£10,500		100%	✓
S10	Supply Chain ESG	100%	80%		80%	
S11	Customer Complaints	0%	5%		95%	
S12	Management of Personal Data	0	0		100%	✓
S13	Responsible Marketing	4.4 Stars	4.5 Stars		102%	✓
S14	Product & Service Quality	0%	6%		94%	
S15	Total Expenditure on Improving Social Impacts	£25,000	£35,000		140%	✓

100%

N/A = Not Applicable N/D = Not Disclosed * = Estimated using national averages

ESG Performance (cont'd)

STATEMENT OF ESG PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2020

Governance

	ESGgen Measure	Benchmark	Actuals	Benchmark achieved %		Benchmark met
G1	External, Independent Advisors	50%	55%		110%	
G2	Board Gender Diversity	50%	10%		20%	
G3	Board Meeting Attendance	100%	95%		95%	
G4	Tax Interventions	0	0		100%	
G5	Business Ethics	0	0		100%	
G6	ESG in Decision Making	Yes	Yes		100%	
P1	UNGC/OECD Monitoring	Yes	Yes		100%	
P2	Whistleblower	Yes	Yes		100%	

: 100%

N/A = Not Applicable N/D = Not Disclosed * = Estimated using national averages

Historical Progress Against Benchmarks

To provide context, ESG performance for the current financial year is compared to prior year (columns 3 and 4). Additionally current year percentage achievement against benchmark is compared to prior year (columns 5 and 6).

Environmental

	ESGgen Measure	2020 Actuals	2019 Actuals	2020 Benchmark achieved %	2019 Benchmark achieved %
E1	CO2 Emissions (Scope 1, 2)	1,931 kg	2,318 kg	128%	107%
E2	Renewable Energy	64%	47%	64%	47%
E3	Waste Recycling	60%	50%	60%	50%
E4	Recyclable Packaging	30%	45%	30%	45%
E5	Water Usage	200 m ³	190 m ³	125%	132%
E6	Energy Efficient Vehicles	60%	75%	60%	75%
E7	Supply Chain CO2 (Scope 3)	3,500 kg	4,000 kg	109%	95%
E8	Total Expenditure on Improving Environmental Impacts	£15,000	£14,000	150%	140%

Social

	ESGgen Measure	2020 Actuals	2019 Actuals	2020 Benchmark achieved %	2019 Benchmark achieved %
S1	Number of Employees	30	25	N/A	N/A
S2	Net Employment Creation	5	3	N/A	N/A
S3	Salaries and Wages	£42,000	£40,000	120%	114%
S4	Gender Diversity	35%	30%	70%	60%
S5	Ethnic Diversity	20%	40%	80%	160%
S6	Gender Pay Gap	85%	95%	85%	95%
S7	CEO Salary Gap	8 Times	6 Times	88%	86%
S8	Employee Support	£25,000	£30,000	125%	150%
S9	Employee Training	£10,500	£5,000	100%	48%
S10	Supply Chain ESG	80%	60%	80%	60%
S11	Customer Complaints	5%	10%	95%	90%
S12	Management of Personal Data	0	3	100%	0%
S13	Responsible Marketing	4.5 Stars	4.6 Stars	102%	105%
S14	Product & Service Quality	6%	8%	94%	93%
S15	Total Expenditure on Improving Social Impacts	£35,000	£20,000	140%	80%

N/A = Not Applicable N/D = Not Disclosed * = Estimated using national averages

Historical Progress Against Benchmarks (cont'd)

Governance				
ESGgen Measure	2020 Actuals	2019 Actuals	2020 Benchmark achieved %	2019 Benchmark achieved %
G1 External, Independent Advisors	55%	60%	110%	120%
G2 Board Gender Diversity	10%	5%	20%	10%
G3 Board Meeting Attendance	95%	90%	95%	90%
G4 Tax Interventions	0	0	100%	100%
G5 Business Ethics	0	0	100%	100%
G6 ESG in Decision Making	Yes	No	100%	0%
P1 UNGC/OECD Monitoring	Yes	Yes	100%	100%
P2 Whistleblower	Yes	No	100%	0%

N/A = Not Applicable N/D = Not Disclosed * = Estimated using national averages

Description Tables

The tables below help stakeholders to understand the ESGgen Scorecard™, the source data used to calculate company performance, the definition of best-practice benchmarks deployed in the analysis and the sources of the benchmarks.

Columns 1 and 2 set out the measures in the ESGgen Scorecard. Column 3 defines each measure. Column 4 sets out the source of the data that each measure is based on. Column 5 explains the current best-practice benchmark for each measure. Column 6 indicates the primary source of each benchmark.

Environmental					
ESGgen Measure	What is it?	What data is it based on?	What is the benchmark?	What evidence is the benchmark based on?	
E1	CO2 Emissions (Scope 1, 2)	Total carbon dioxide (CO2) and CO2 equivalents emissions	Utility bills, mileage from company vehicles, business travel, waste disposal	Paris Agreement to reduce CO2 emissions by 50% by 2030 factoring in revenue growth	Government
E2	Renewable Energy	Percentage of renewable energy purchased and produced	Utility bills and Tariff information	100% of energy used to come from renewable sources	Industry best practice
E3	Waste Recycling	Percentage of waste recycled	Invoices for bin collection	100% of waste produced to be recycled	Industry best practice
E4	Recyclable Packaging	Percentage recyclable packaging used in supplying the company's products and services	Supplier invoices	100% of packaging used for production and distribution of goods/services to be recyclable	Industry best practice
E5	Water Usage	Total water withdrawal in cubic metres	Utility/Water bills	UN target to reduce water usage by 25% by 2030	Government
E6	Energy Efficient Vehicles	Total environmentally-friendly vehicles registered	V5 Logbook. Supplier invoices. Expense claims. Monthly/weekly P11s.	Convert 100% of fleet to be electric	Government
E7	Supply Chain CO2 (Scope 3)	Total carbon dioxide (CO2) and CO2 equivalents emissions for the supply chain	Accounting systems	Reduction in CO2 emissions by 50% by 2030 factoring in revenue growth	Government
E8	Total Expenditure on Improving Environmental Impacts	Total investment and/or spend switched to reducing negative environmental impacts (or increasing positive impacts)	Varied sources	Percentage of revenue to be spent on environmental impacts	Industry best practice

Description Tables (cont'd)

Social

	ESGgen Measure	What is it?	What data is it based on?	What is the benchmark?	What evidence is the benchmark based on?
S1	Number of Employees	Number of employees (include all types of employment such as part-time and full-time employees)	HR records and Financial statements	N/A	N/A
S2	Net Employment Creation	Employment growth over the last year	Financial statements	N/A	N/A
S3	Salaries and Wages	Average value of salaries and wages paid to all employees and officers (including all benefits, payments and allowances)	Payroll records and Financial statements	In line with upper quartile of industry average wage	Professional bodies
S4	Gender Diversity	Percentage of female employees	HR records and Financial statements	Assumes equal gender representation	Professional bodies
S5	Ethnic Diversity	Percentage of BAME employees	HR records and Financial statements	In line with the average % BAME (of working age) – varies by local area	Government
S6	Gender Pay Gap	Percentage of remuneration of women to men	Payroll records	Equal pay regardless of gender	Professional bodies
S7	CEO Salary Gap	CEO's (or the highest salary) total remuneration compared to average employee remuneration	Payroll records	The difference between the highest paid employee to be no more than 7 times the average pay of all staff	Academic research
S8	Employee Support	Employee benefits and support (including working conditions)	Payroll records and Supplier invoices	Percentage of gross salaries to be spent on supporting employees	Academic research
S9	Employee Training	Investments in employee training	Supplier invoices	The average spend for a business on training its employees in the UK	Government
S10	Supply Chain ESG	Requests for requirements and disclosures of social impacts from supply chain (over the value of £10,000)	Accounting systems	100% of all suppliers (above £10k) to be assessed on their ESG activity	Industry best practice
S11	Customer Complaints	Customer complaints as a percentage of sales	Complaints received across all channels	Business (ideally) to aim for nil complaints	Professional bodies
S12	Management of Personal Data	Number of reportable incidences (internal and external) about company's use of personal data	GDPR log	Business to aim for nil data breaches	Industry best practice
S13	Responsible Marketing	Brand ranking/Customer satisfaction	Social media rankings	Business to aim to have a 5-star brand rating	Industry best practice
S14	Product & Service Quality	Sales refunds due to faulty or deficient products or service failure	Customer credit notes	Business (ideally) to aim for nil customer returns or refunds	Industry best practice
S15	Total Expenditure on Improving Social Impacts	Total investment and/or spend switched to increase positive social impacts (or reduce negative impacts)	Varied sources	Percentage of revenue to be spent on social impacts	Industry best practice

Description Tables (cont'd)

Governance					
ESGgen Measure	What is it?	What data is it based on?	What is the benchmark?	What evidence is the benchmark based on?	
G1	External, Independent Advisors	Percentage of strictly independent Board members or Advisors	Public information	The majority of the board to be independent	Industry best practice
G2	Board Gender Diversity	Percentage of females on the Board	Public information	Assumes equal gender representation on the Board	Industry best practice
G3	Board Meeting Attendance	Average overall attendance of Board meetings	Minutes or notes of Board meetings	All Board meetings to be attended by all Board members	Industry best practice
G4	Tax Interventions	Number of interventions with tax authorities that have resulted in further taxes being demanded/paid	Tax authority correspondence	A target of nil tax interventions by Tax authorities	Industry best practice
G5	Business Ethics	Number of involvements with regulatory bodies that have necessitated reformative actions	Correspondence with Regulators and Fines or penalties paid	A target of nil regulatory interventions from regulatory bodies	Industry best practice
G6	ESG in Decision Making	Inclusion of relevant non-financial indicators and KPIs in the company's decision making	Incentive and bonus packages. Board minutes or notes	Business to include ESG in its decision making	Industry best practice
P1	UNGC/OECD Monitoring	Is there material evidence to support systems and procedures to handle violations and grievances/complaints in relation to UNGC principles and OECD guidelines (e.g. policies, meeting notes, stakeholder correspondence)	N/A	N/A	OECD
P2	Whistleblower	Reporting person as defined in Article 5(7) of Directive (EU) 2019/1937	N/A	N/A	United Nations



UID A1234

Congratulations on your 2021 ESGgen Audit Mark

Simply saying you are 'green' doesn't cut it anymore. An independent audit is the most convincing way to prove to your stakeholders that you are not greenwashing. The ESGgen Audit Mark is the new gold standard for ESG data and results, audited by a Chartered Accountant who has also been certified in ESG.

Display your Audit Mark with pride

Prove your business has been ESG audited by displaying the Audit Mark on your website, brochure and marketing collateral. Just let us know how you're planning to use it. Then, just like with financial reports, we can verify that you're using it correctly (we turn around requests within 24 hours). Then go for it... and satisfy your customers, investors, lenders and supply chain managers who are demanding more ESG transparency and accountability than ever before.

A unique identifier for realtime assurance (and data)

Each of our Audit Marks has a unique identifier (UID) which is automatically generated to ensure its authenticity. The UID makes it possible for any of your stakeholders to access your Audit Report and data in realtime on the ESGgen platform, if you want them to. Your Audit Mark can also be scanned using QR codes on packaging and marketing materials.

You decide on the level of access

We keep a central register of all Audit Marks we issue. You decide on the level of granularity you want people to have access to: top-line ESG data or your annual ESG results, or the full Audit Report. It's your choice.

Any questions?

If you have any questions about using your ESGgen Audit Mark or need any help – please contact us at: info@esggen.com

Methodology

ESG Audits

All our auditors are Chartered Accountants who have also been certified in ESG. They check the original source data and conduct audit tests to verify it's real – just like they do with financial accounts – before producing an ESGgen Audit Report and awarding the ESGgen Audit Mark.

An annual ESGgen Audit Report gives managers unique insights that help to unlock value hidden in the business and gives investors, lenders and enterprise partners the data (and confidence) they need for their ESG disclosures. The ESGgen Audit Mark helps SMEs and Startups prove to their customers that they are not 'greenwashing'.

Audit calculations

In line with methods used in the Scope 3 Calculations Guidance*, ESGgen uses the **hybrid method** in order to assess both the ESG impacts and their economic value to the business. Unlike other methodologies that rely on the **spend based** and **usage based** methods, our proprietary hybrid methodology builds on the strengths of each and minimises their respective weaknesses.

The calculations use a mix of primary and secondary methodologies and sources such as government data, professional bodies, industry best-practice and leading-edge academic research. Calculations are unique to each measure and are regularly updated in line with best-practice and changing regulations.

ESGgen Scorecard™

We measure ESG impact using a proprietary scorecard of 29 measures developed by Marc Lepere (Founder and Chief ESG Officer) as part of his research at King's College London. There are 8 environmental, 15 social, and 6 governance measures. The data used to compile the scorecard is verified by **Chartered Accountants who have also been certified in ESG**.

The ESGgen Scorecard was developed in four steps:

- I. Fifty measures were selected from the Refinitiv database (of 400+) and mapped to the World Economic Forum Framework (September, 2020).
- II. Each measure was assessed against 6 ESG disclosure properties. Only measures that fulfilled all 6 properties qualified.
- III. The 27 qualifying measures were tailored to SMEs & Startups in workshops and 2 measures were added.
- IV. The final selection of 29 measures was cross-checked with EU mandatory disclosure requirements. The data is Sustainable Finance Disclosure Regulation (SFDR) and scope 3 'compliance ready'. When company-specific or industry-specific data are required, we include additional measures in the scorecard.

The methodology was tested and refined with the University of Edinburgh and Redrice Ventures, a private equity venture capital company working with the British Business Bank.



THE UNIVERSITY
of EDINBURGH



REDRICE



*Issued by the Greenhouse Gas Protocol



Unlocking the value of ESG for SMEs

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