

Example Ltd.

ESGgen Value & Risk Report™ 2020

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ESGgen[•]

Unlocking the value of ESG for SMEs

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ESG Value & Risk™ Summary

This summary reveals how ESG is material to the business. It helps managers understand the value created (left-hand table below), and the value of risk managed (right-hand table), through the company's performance on ESG. The report is designed to help managers unlock value hidden in the business.

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.

Value Created		Risk Managed	
	Definition of financial value created during the fiscal year		Value in 2020
E1	£ Value saved by reducing CO2 emissions vs prior year	£	334
E2	£ Value saved by using renewable energy	£	144
E3	£ Value saved by waste recycling	£	756
E4	£ Value saved by using recyclable packaging	£	2,700
E5	£ Value saved in water usage vs prior year	£	171
E6	£ Value saved by using electric vehicles	£	5,700
E7	£ Value saved by reducing CO2 emissions in supply chain vs prior year	£	499
E8	£ Value gained by reducing negative environmental impacts vs prior year	£	3,507
S1	£ Change in EBITDA contribution per employee vs prior year	£	7,276
S2	£ EBITDA contribution from new employees/savings on employment reduction	£	36,380
S6	£ EBITDA benefit for reducing the pay gap	£	23,175
S7	£ EBITDA loss to CEO salary gap vs prior year	£	(8,571)
S11	£ Value loss to customer complaints	£	(3,416)
S13	£ Value of responsible marketing	£	9,801
S14	£ Value loss of poor product and service quality	£	(10,992)
S15	£ Value gained by reducing negative social impacts vs prior year	£	10,032
G2	£ Value of performance and reputational uplift of a gender-diverse board	£	42,874
G6	£ Estimated value of ESG decision making and implementation	£	12,000
Total value created from ESG		£	132,370
S3	£ Potential cost of replacing talent (averaged across administrative, operational and management)	£	30,090
S4	£ Potential cost of replacing talent lost as a result of staff not identifying with organisational values (e.g. gender, sexual orientation, religion)	£	22,567
S5	£ Potential cost of replacing talent lost as a result of staff from ethnic backgrounds not identifying with organisational values	£	22,567
S8	£ Potential value of staff retention achieved through expenditure on staff support and benefits	£	29,323
S9	£ Potential value of staff retention achieved through expenditure on staff training	£	29,757
S10	£ Potential exposure to ESG underperformance by suppliers, distributors and partners (upstream and downstream)	£	64,000
S12	£ Potential loss of GDPR non-compliance	£	24,080
G1	£ Potential reputational value of Board quality and oversight	£	70,400
G4	£ Potential cost of tax avoidance	£	12,081
G5	£ Potential cost of unethical and irresponsible behaviour	£	9,199
Total risk managed and/or mitigated by ESG		£	314,065

*Issued by the Greenhouse Gas Protocol

ESG Value & Risk™ Data

This statement sets out the value created and risk managed for each measure in the ESGgen Scorecard™. It gives managers unique insights into how they can leverage ESG to help guide and prioritise business decisions that can reduce costs, drive sales and motivate employees to upgrade overall business performance.

Environmental

	ESGgen Measure	Definition of financial value achieved during the fiscal year	Value in 2020
E1	CO2 Emissions (Scope 1, 2)	£ Value saved by reducing CO2 emissions vs prior year	£ 334
E2	Renewable Energy	£ Value saved by using renewable energy	£ 144
E3	Waste Recycling	£ Value saved by waste recycling	£ 756
E4	Recyclable Packaging	£ Value saved by using recyclable packaging	£ 2,700
E5	Water Usage	£ Value saved in water usage vs prior year	£ 171
E6	Energy Efficient Vehicles	£ Value saved by using electric vehicles	£ 5,700
E7	Supply Chain CO2 (Scope 3)	£ Value saved by reducing CO2 emissions in supply chain vs prior year	£ 499
E8	Total Expenditure on Improving Environmental Impacts	£ Value gained by reducing negative environmental impacts vs prior year	£ 3,507

Social

	ESGgen Measure	Definition of financial value achieved during the fiscal year	Value in 2020
S1	Number of Employees	£ Change in EBITDA contribution per employee vs prior year	£ 7,276
S2	Net Employment Creation	£ EBITDA contribution from new employees/savings on employment reduction	£ 36,380
S3	Salaries and Wages	£ Potential cost of replacing talent (averaged across administrative, operational and management)	£ 30,090
S4	Gender Diversity	£ Potential cost of replacing talent lost as a result of staff not identifying with organisational values (e.g. gender, sexual orientation, religion)	£ 22,567
S5	Ethnic Diversity	£ Potential cost of replacing talent lost as a result of staff from ethnic backgrounds not identifying with organisational values	£ 22,567
S6	Gender Pay Gap	£ EBITDA benefit for reducing the pay gap	£ 23,175
S7	CEO Salary Gap	£ EBITDA loss to CEO salary gap vs prior year	£ 8,571
S8	Employee Support	£ Potential value of staff retention achieved through expenditure on staff support and benefits	£ 29,323
S9	Employee Training	£ Potential value of staff retention achieved through expenditure on staff training	£ 29,757
S10	Supply Chain ESG	£ Potential exposure to ESG underperformance by suppliers, distributors and partners (upstream and downstream)	£ 64,000
S11	Customer Complaints	£ Value loss to customer complaints	£ 3,416
S12	Management of Personal Data	£ Potential loss of GDPR non-compliance	£ 24,080
S13	Responsible Marketing	£ Value of responsible marketing	£ 9,801
S14	Product & Service Quality	£ Value loss of poor product and service quality	£ 10,992
S15	Total Expenditure on Improving Social Impacts	£ Value gained by reducing negative social impacts vs prior year	£ 10,032

Governance

	ESGgen Measure	Definition of financial value achieved during the fiscal year	Value in 2020
G1	External, Independent Advisors	£ Potential reputational value of Board quality and oversight	£ 70,400
G2	Board Gender Diversity	£ Value of performance and reputational uplift of a gender-diverse board	£ 42,874
G3	Board Meeting Attendance	N/A	£ N/A
G4	Tax Interventions	£ Potential cost of tax avoidance	£ 12,081
G5	Business Ethics	£ Potential cost of unethical and irresponsible behaviour	£ 9,199
G6	ESG in Decision Making	£ Value of ESG integration into business	£ 12,000

ESG Data

STATEMENT OF ESG DATA FOR THE YEAR ENDED 31 DECEMBER 2020

ESG Data shows your company's ESG impact for the year on each of our 8 Environmental, 15 Social and 6 Governance measures. This is the base audited data from which the ESG Value & Risk is calculated.

Environmental

	ESGgen Measure	What is it?	2020	2019	% Change
E1	CO2 Emissions (Scope 1, 2)	Total carbon dioxide (CO2) and CO2 equivalents emissions	1,931 kg	2,318 kg	-16.7%
E2	Renewable Energy	Percentage of renewable energy purchased and produced	1,236 kg	1,082 kg	14.3%
E3	Waste Recycling	The percentage of waste recycled	60%	50%	20.0%
E4	Recyclable Packaging	Percentage of recyclable packaging used in supplying the company's products and services	30%	45%	-33.3%
E5	Water Usage	Total water withdrawal in cubic metres	200 m3	190 m3	5.3%
E6	Energy Efficient Vehicles	Total environmentally-friendly vehicles registered	60%	75%	-20.0%
E7	Supply Chain CO2 (Scope 3)	Total carbon dioxide (CO2) and CO2 equivalents emissions for the supply chain	3,500 kg	4,000 kg	-12.5%
E8	Total Expenditure on Improving Environmental Impacts	Total investment and/or spend switched to reducing negative environmental impacts (or increasing positive impacts)	£15,000	£14,000	7.1%

Social

	ESGgen Measure	What is it?	2020	2019	% Change
S1	Number of Employees	Number of employees (include all types of employment such as part-time and full-time employees)	30	25	20.0%
S2	Net Employment Creation	Employment growth over the last year	5	3	66.7%
S3	Salaries and Wages	Average value of salaries and wages paid to all employees and officers (including all benefits, payments and allowances)	£42,000	£40,000	5.0%
S4	Gender Diversity	Percentage of female employees	35%	30%	16.7%
S5	Ethnic Diversity	Percentage of BAME employees	20%	40%	-37.5%
S6	Gender Pay Gap	Percentage of remuneration of women to men	85%	95%	-10.5%
S7	CEO Salary Gap	CEO's (or the highest salary) total remuneration compared to average employee remuneration	8 Times	6 Times	33.3%
S8	Employee Support	Employee benefits and support (including working conditions)	£25,000	£30,000	-16.7%
S9	Employee Training	Investments in employee training	£10,500	£5,000	110.0%
S10	Supply Chain ESG	Requests for requirements and disclosures of social impacts from supply chain (over the value of £10,000)	80%	60%	33.3%
S11	Customer Complaints	Customer complaints as a percentage of sales	5%	10%	-50.0%
S12	Management of Personal Data	Number of reportable incidences (internal and external) about company's use of personal data	0	3	-100.0%
S13	Responsible Marketing	Brand ranking/Customer satisfaction	4.5 Stars	4.6 Stars	-2.2%
S14	Product & Service Quality	Sales refunds due to faulty or deficient products or service failure	6.0%	7.50%	-20.0%
S15	Total Expenditure on Improving Social Impacts	Total investment and/or spend switched to increase positive social impacts (or reduce negative impacts)	£35,000	£20,000	75.0%

ESG Data (cont'd)

STATEMENT OF ESG DATA FOR THE YEAR ENDED 31 DECEMBER 2020

Governance					
	ESGgen Measure	What is it?	2020	2019	% Change
G1	External, Independent Advisors	Percentage of strictly independent Board members or Advisors	55%	60%	-8.3%
G2	Board Gender Diversity	Percentage of females on the Board	10%	5%	100.0%
G3	Board Meeting Attendance	Average overall attendance of Board meetings	95%	90%	5.6%
G4	Tax Interventions	Number of interventions with tax authorities that have resulted in further taxes being demanded/paid	0	0	100.0%
G5	Business Ethics	Number of involvements with regulatory bodies that have necessitated reformative actions	0	0	100.0%
G6	ESG in Decision Making	Inclusion of relevant non-financial indicators and KPIs in the company's decision making	Yes	Yes	N/A
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)	Yes	Yes	N/A
P2	Whistleblower	Reporting person as defined in Article 5(7) of Directive (EU) 2019/1937	Yes	No	N/A

How to use this report to drive business performance

This table is designed to help managers take actions on ESG drivers to help unlock value hidden in the business.

The first and second columns set out the measures exactly as they are in the ESG Data statement (page 4). Column three provides examples of the types of day-to-day activities in your business that are driving each measure – whether you know it or not.

Column four gives examples of the outcomes for the business of having a positive or negative E, S or G impact. For example, if your goal is to reduce costs you can use more renewable energy; or if you need to reduce your recruitment costs you can improve staff retention through actions like reducing the pay gap and improving employee support.

Environmental		
ESGgen Measure	Example of business activities that drive ESG impact	Business Outcomes
E1	CO2 Emissions (Scope 1, 2)	Running machinery, fuelling cars, running office lights, business travel
E2	Renewable Energy	Utility suppliers producing alternative energy such as wind, solar, and hydro. Includes businesses that are producing electricity and selling energy surplus back onto the grid
E3	Waste Recycling	The waste produced or received by the business, such as paper, plastics and packaging that can be recycled
E4	Recyclable Packaging	Packaging used to wrap and deliver goods and services that can be recycled
E5	Water Usage	Water used in the day-to-day running of the business or the production of its products and services
E6	Energy Efficient Vehicles	Personal or fleet vehicles that are electric or hybrids
E7	Supply Chain CO2 (Scope 3)	Production of CO2 in the supply chain by third-party providers
E8	Total Expenditure on Improving Environmental Impacts	Total investments to promote the environmental impact of the business
		Businesses gain a cost savings by reducing their emissions, energy usage, recycling waste, using eco-friendly packaging in the production of goods/services, reducing water usage and by switching their fleet and company cars to electric
		As part of a global effort to transition to sustainable energy sources, all businesses can contribute by trying to reduce their CO2 emissions and carbon footprint
		The businesses' environmental impacts are critical to upgrading overall performance

How to use this report to drive business performance (cont'd)

Social

ESGgen Measure	Example of business activities that drive ESG impact	Business Outcomes
S1 Number of Employees	Maintaining the right number of employees by enabling a good work-life balance while meeting the demands of an ever-changing workload	Incorrect staffing may result in personal fatigue, loss of morale, excessive sick leave, reduced productivity and increased production errors. Ultimately, overworked employees leave resulting in losses and a high employee turnover
S2 Net Employment Creation		
S3 Salaries and Wages	Remunerating employees fairly relative to market leaders and local culture	Underpaying employees may lead to high employee turnover, higher replacement costs, lower productivity, loss of expertise and know-how which negatively impacts the overall business performance
S4 Gender Diversity	Poor hiring practices that fail to be inclusive and provide equal opportunities for all	A diverse workforce brings a balance of opinions and solutions. A lack of diversity affects businesses reputation, staff turnover, productivity, and can expose the businesses' to grievances and lawsuits
S5 Ethnic Diversity		
S6 Gender Pay Gap	Remunerating all employees equally based on roles and responsibilities regardless of gender	
S7 CEO Salary Gap	Remunerating the Executives a fair salary compared to the average salary of employees	Fair and reasonable Executive pay can show great leadership in a business, resulting in better reputation with customers, employees, investors and regulators
S8 Employee Support	Neglecting things like health insurance, maternity/paternity leave, holiday leave, team-building activities, sufficient breaks, subsidised meals	Supporting employees can increase staff retention, productivity, loyalty, and improve employee wellbeing
S9 Employee Training	Skill workshops, personal development plans, regular performance reviews, work-related projects, training courses, events, accreditations and management mentorship	An adequately trained and empowered workforce is more effective and is proven to be a driver of staff retention and motivation
S10 Supply Chain ESG	Ensuring business partners such as suppliers and partners are considering and recording their ESG impact	Encouraging suppliers and partners to focus on their ESG impact can increase the businesses' reputational value among customers and mitigate corporate exposure to grievances, lawsuits and PR disasters
S11 Customer Complaints	Inadequate Service Level Agreements (SLAs), poor or flawed product or service quality, failing to meet customer expectations, lack of or poor customer communication	Limited customer complaints can ensure customer loyalty, repeat business and boost a company's reputation
S12 Management of Personal Data	Ensuring all personal data is managed in an ethical and secure manner. Only collect necessary data. Only store the data for the required amount of time. Use the data in a transparent way	GDPR is a legal requirement. Not complying with GDPR will result in fines and reputational damage for public data breaches
S13 Responsible Marketing	Advertise products or services accurately, include extensive detail and be transparent about pricing, ingredients, sources, materials and the role of other suppliers	Companies that are actively engaged in responsible and transparent marketing deepen customer loyalty, are less exposed to PR disasters, protect and enhance their reputation and are less likely to deal with complaints
S14 Product & Service Quality	Ensure all products and services meet regulatory standards and are of a quality expected by most reasonable customers	Ensuring good product and service quality can reduce refunds, recalls, complaints, credit notes and other discounts. Businesses that provide high-quality goods and services and will benefit from deeper customer loyalty, better brand recognition and reputation
S15 Total Expenditure on Improving Social Impacts	Total investments to promote the social impact of the business	The businesses' social impacts are critical to upgrading overall performance

How to use this report to drive business performance (cont'd)

Governance

	ESGgen Measure	Example of business activities that drive ESG impact	Business Outcomes
G1	External, Independent Advisors	A majority of the Board of Directors needs to be independent of the business	Maintaining an independent board is critical to the long-term success of the business and is a focus for investors
G2	Board Gender Diversity	Board of Directors needs to be diverse	Maintaining a diverse board is critical to the long-term success of the business and is also a key focus for investors
G3	Board Meeting Attendance	Directors need to attend most of the meetings where they are required	Maintaining a highly engaged Board demonstrates good oversight and a well-managed business
G4	Tax Interventions	Mistakes made on tax submissions that result in money owed to tax authorities	Mistakes made will cause fines, reputational damage, possibly additional costs and will use up staff time in sorting out the problems rather than growing the business
G5	Business Ethics	Unethical practices performed by the business such as non-compliance with industry regulation or bending the rules	Unethical practices will cause fines, reputational damage, grievances and lawsuits and use up staff time dealing with the consequences rather than growing the business
G6	ESG in Decision Making	Does management use ESG measures and drivers in their decision making	The businesses' environmental, social and governance impacts are interlinked and are critical to upgrading overall performance

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
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