



Assurance Statement

About this statement

For the fourth year running, Sustainability Advisory was engaged by ERM to provide independent assurance of ERM's Sustainability Report.

Assurance focus

This year, ERM asked us to focus specifically on the following topics:

- **Ambition and leadership:** To what extent are ERM's aspirations and actions (as reflected in strategy, implementation, targets and KPIs) evidencing the stated leadership position in ESG/sustainability.
- **ESG/sustainability governance:** To what extent does ERM's ESG/sustainability governance align with best practice expectations.
- **Changing stakeholder expectations.** How well is ERM responding to changing stakeholder expectations on ESG/sustainability.
- **New reporting and disclosure requirements.** How effectively is ERM responding to changing reporting and disclosure requirements (mandatory, voluntary and best practice).

In conducting our work, we were mindful of ERM's commitment to report in accordance with Global Reporting Initiative Standards (2021) and to adhere to the reporting guidance issued by the Task Force on Climate-related Financial Disclosures (2017). We have further noted ERM's commitment to contribute to the UN's Sustainable Development Goals (2015) and its signatory status of UN Global Compact (2010). Our work was cognizant of the AA1000 Guiding Framework of Principles for Sustainability Management (2018), which it defines as Inclusivity, Materiality, Responsiveness and Impact.

This statement is provided for ERM's management as well as ERM's sustainability report readers. Beyond this engagement, we have no other financial relationship with ERM. Information about our qualifications and client relationships can be found here www.sustainabilityadvisory.net.

Responsibilities

ERM has sole responsibility for the preparation of the report and its contents. We were not involved in the preparation of any part of the report; however, we did review and provided feedback on pre-publication drafts. We have not evaluated the reliability of reported data or related data collection processes. We did not review underlying data or related processes or ERM's compliance with standards and frameworks such as GRI and TCFD.

In addition to this public statement, a separate Management Report will be issued and presented to ERM's Executive Committee Sustainability Working Group. This provides further observations and recommendations relating to the below commentary.



How we formed our opinion

We undertook the following activities to produce this statement:

- We reviewed ERM's processes for determining material impacts and how identified material topics were considered in strategy formation, decisions on targets and goals, management approaches to material topics and reporting on performance against them.
- We conducted interviews with members of ERM's Executive Committee, including the CEO, and key staff involved in the preparation of ERM's sustainability report. In all, 17 senior staff were interviewed.
- We reviewed and commented on drafts of the Sustainability Report as well as previously published Sustainability Reports; documentation describing ERM's approach to materiality analysis and stakeholder engagement, various sustainability related policy documents, as well as previous assurance statements and associated management reports.

Commentary

The below provides our commentary with respect to the four questions ERM asked us to focus on in this year's assurance engagement.

Ambition and leadership – To what extent are ERM's aspirations and actions evidencing the stated leadership position in ESG / sustainability.

The previous period saw a number of significant developments in ERM, most notably KKR, a global investment company, becoming the main owner of the Group followed by a change in leadership with Tom Reichert having been appointed as CEO.

Following the change in leadership, ERM's core ambition, its stated purpose, of 'shaping a sustainable future with the world's leading organizations' has been reaffirmed and reinforced by a set of new commitments (see discussion about targets and goals below) and accelerated investments into, for instance, new acquisitions, development of especially climate-related and digital services and a significant recruitment drive.

However, the report's strategy section itself remains somewhat limited. Useful new content is provided in the 'Perspectives' section offering insight into how ERM perceives its sustainability context and which trends are informing its engagements with clients and the development of the Group's own strategy and programs. However, the strategy narrative continues to focus heavily on what ERM *does* rather than what ERM *stands for* as the largest 'pure play' sustainability professional service company. The firm's statement that it has adopted a leadership position ought to be further expanded on by an explanation as to what ERM considers leadership means for the firm. We believe that in the increasingly crowded market in which ERM operates such a definition is becoming more and more essential. In the absence of such a definition, it will continue to remain challenging to measure ERM's impact from its client work or to define robust criteria for client and project selection – both of which ERM, and many of its stakeholders, have identified as key priorities for the firm.

For the first time, ERM has elevated the ESG concept to the same level of prominence as sustainability. Going forward, it would be helpful for the reader to gain a deeper understanding how ERM understands the difference between these two notions, including any different drivers behind them for ERM.



Following a full materiality analysis (see further below), ERM also reviewed its annual targets and longer-term goals. All targets and goals from previous year were recommitted to, and in many cases, performance expectations raised higher. Commendably, formal targets and goals were set to enhance ERM's measurement of sustainability impact from client work; integration of ESG criteria into Executive and Partner performance management system; and, continued development and implementation of revised approach to client and project selection.

To strengthen its commitment to its people, ERM introduced new talent development, well-being and DE&I -related targets and goals. In a post-covid work environment where competition over sustainability and ESG talent is getting increasingly intense, employee retention and attraction remain among the most critical success factors for ERM. Coupled with competitive HR hygiene factors, the ability to differentiate and maintain a credible and inspiring sustainability driven employer brand will remain fundamental to that success.

ESG / sustainability governance – To what extent does ERM's ESG / sustainability governance align with best practice expectations.

Following the change in ownership, a number of governance changes have been implemented. KKR is now strongly represented on the Board, occupying more than half of the seats, including chairmanship. Sustainability is now formally represented on the Board by the Global Director of Services, Brand and Communications; and a new ESG Risk and Sustainability Steering Group has now been set up. The Steering Group consists of a mix of Board and Executive members, representatives from KKR and ERM executives representing brand, risk and though leadership.

In March 2022, the Board updated ERM's Corporate Governance Principles and Terms of Reference to reflect the Wates Corporate Governance Principles for Large Private Companies (2018). The document is anchored around ERM's business purpose and values (as described in the report) and it formalizes the Board's oversight for sustainability and ESG performance.

Targets and goals aligned with best practice sustainability governance have been committed to, including development and integration of ESG criteria into the Executive Committee and Partner performance management system (FY23 target) and for all line managers (FY26 goal). Further, a goal has been set to increase transparency of Board ESG metrics.

For some time now, in our view, risk management has been under-resourced. This is now in the process of being addressed. Following a comprehensive enterprise risk assessment exercise during the period, a new management role of Global Head of Risk has been created. Beyond typical tasks for such a role, their responsibility includes the further development of a structured process for assessing ERM's client and project portfolios against the firm's ESG commitments.

At the more operational level, ERM has continued its efforts to embed management of sustainability issues into regional level management structures and processes. This is evident, for instance, in how responsibility for DE&I has been further integrated into Business Unit level responsibilities and targets. At Group level, a new Global Head of DE&I has been appointed, they in turn are now supported by senior DE&I Leads at Business Unit level as well as 18 Employee Resource Groups across the regions.



Changing stakeholder expectations – How well is ERM responding to changing stakeholder expectations on ESG / sustainability.

ERM identifies the following as its key stakeholders: clients, senior management and partners, employees, lenders and investors, contractors and suppliers, industry peers, thought leaders and academics, nongovernmental organizations, and community members.

The report provides detail on how ERM engages with various stakeholders as part of its on-going management processes and as part of the development of the report and related materiality assessment. The report highlights key issues raised by different stakeholder groups and points to related response from ERM. The report and the supporting materiality assessment methodology paper further elaborate on how stakeholders have been engaged specifically to inform report content and the review of ERM's material topics.

In general, ERM's responses to changing expectations appear reasonable. New and on-going topics such as DE&I performance, client and project selection criteria, and increased ESG disclosure expectations have been acknowledged and, in most cases, disclosures have been enhanced and / or new targets and goals committed to. Further evidence of stakeholder responsiveness is provided by ERM's decision to expediate its materiality assessment cycle to ensure that rapidly evolving stakeholder expectations are identified in a timely manner. The report would, however, benefit from further inclusion of these 'voices' – for instance, additional references to employee survey results or direct quotes from key stakeholders would add color and nuance to the current disclosures.

We continue to encourage ERM to increase the visibility of two increasingly significant stakeholder groups, namely employees from recent acquisitions and subcontractors. Both groups are material in both number and importance.

New reporting and disclosure requirements – How effectively is ERM responding to changing reporting and disclosure requirements (mandatory, voluntary and best practice).

ERM has made a formal commitment to leading sustainability reporting related standards and guidelines, chief among them Global Reporting Initiative (GRI), the Task Force for Climate-related Financial Disclosures (TCFD) and UN Global Compact.

As referred to earlier, to respond to changes in both the internal and external environments, ERM expediated its 3-year materiality assessment cycle and carried out a full analysis to ensure continued alignment with expectations. In doing so, ERM wanted to ensure that its assessment methodology aligned with GRI's revised requirements to determining material impacts and considered the concepts of 'double materiality' (from the proposed European Corporate Sustainability Reporting Directive, CSRD) and 'dynamic materiality' (as advocated by e.g., World Economic Forum).

The assessment led to a revised set of material issues and to ERM's first effort to identify and define its impacts according to GRI and CSRD guidance. This is a good step forward. However, the assessment would benefit from more explicit differentiation between 'single materiality' (inside out) and 'double materiality' (outside in) impacts and their level of significance. Further specificity on double materiality would also serve



the needs of ESG reporting by enhancing clarity on expected actual and potential financial impacts of material topics on ERM's business.

For the second year running, ERM published a separate TCFD report in addition to the TCFD Index. Although ERM's direct GHG emissions are not significant, its potential and actual positive impact on combating climate change through its client work is clearly substantial. Informed by a business-wide scenario analysis, these impacts are explored in detail both in the sustainability and TCFD reports, and a commitment made to continue the development of the impact measurement methodology going forward. Again, further quantification especially of financial impacts would also serve ESG reporting needs in the future.

A new target has been set to develop a roadmap for early adoption of emerging standards for FY23 reporting. As especially mandatory requirements are likely to increase in the near term in many jurisdictions that ERM operates in (e.g., UK, EU, US, Australia to name a few), the importance of this mapping cannot be underestimated.

This year, ERM commissioned independent verification of its GHG emissions related data and underlying processes. This is a good step towards a more holistic assurance framework, and will no doubt be welcomed by a number of stakeholders. Calls for external verification of data are likely to increase especially over metrics that have a potential bearing on financial performance or access to finance / financial services.

We encourage ERM to reconstitute an independent stakeholder panel to contribute to the assurance of the sustainability report. This would enhance stakeholder representativeness of the process, and, based on the experience from previous two cycles, enhance the breadth of insight and robustness of the assurance outcome. Perhaps the Advisory Board referred to in the CEO's statement could play a such a role.

Finally, we wish to acknowledge ERM's commitment to continuous improvement and its openness to external feedback. The last four reporting cycles have shown that reporting for ERM is not just an external exercise in transparency but an important internal platform for pushing the sustainability agenda forward.

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