APPENDIX A - STANDARD EXPLANATION:

Q1: Location Information

The standard asks SMEs to provide their location because it provides valuable context for understanding local emissions sources, regulatory requirements, and mitigation opportunities. By knowing the postcode of the SME's main operational site, stakeholders can better assess the regional environmental challenges it faces. Additionally, knowing whether the location is owned or rented offers further insight into the SME's ability to implement emissions reduction measures, such as energy efficiency upgrades or renewable energy installations. This information helps create a more precise emissions profile and aligns with regional sustainability efforts.

Q2: SIC Codes

The standard asks for SIC codes because they provide a standardised framework to classify businesses based on their economic activity, which helps stakeholders understand the nature of a business and its potential environmental impact. The SIC system enables sector-level analysis, allowing for the identification of emissions-related risks and opportunities.

However, we acknowledge that the current SIC codes may not fully capture the emergence of green or net-zero-enabling industries, which may incorrectly be categorised as high-emitting. To address this, we recommend reform of the SIC classification system to better represent industries actively contributing to net-zero and sustainability goals, such as wind turbine manufacturers. Additionally, the inclusion of an 'other' option allows businesses to provide more context via free text, helping ensure that all industries are accurately represented.

Q3: Employment Headcount

Including employee numbers in the standard helps provide a clear context for understanding the scale of a business's operations. As employee count often correlates with the

size and complexity of a business, this data helps assess emissions in proportion to workforce size. It supports more accurate benchmarking against similar businesses and ensures consistency in how emissions are reported across various sectors. Additionally, it enables comparability and accountability, making it easier for stakeholders to evaluate sustainability efforts relative to the business's capacity and resources. This information may also be used by data 'users' to calculate emissions intensity ratios.

Q4: Floorspace and Revenue (Emissions Intensity)

The emissions intensity ratio enables stakeholders to assess emissions in relation to business growth, ensuring that improvements in emissions efficiency are recognised, rather than focusing solely on total emissions, which may increase as the business expands. This ratio is calculated using the total floorspace in the UK (in square metres), the company's total revenue from the previous year (in GBP), and the employee headcount provided, as these figures reflect the scale and performance of the business.

Q5, Q6, & Q7: Energy Usage

The request for respondents to share their renewable, non-renewable, and gas usage is crucial for verifying the accuracy of reported Scope 1 and 2 emissions. This breakdown allows data users to assess the organisation's environmental impact, view its progress in transitioning to cleaner energy compared to similar businesses, and gain valuable sector-specific insights to benchmark performance and identify opportunities for improvement.

Electricity supplied from Nuclear Energy sources is counted with renewable energy, as both are zero-carbon sources and this standard is prioritising the measuring of emissions in the first instance.

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Q8 & Q9: Scope 1 and Scope 2

Sustainability data would not be meaningful without including Scope 1 and 2, as they cover the most direct and immediate sources of an organisation's emissions. For this reason, we ask all SMEs to report on these as a core part of their disclosure.

Q10: Scope 3 (PPN006 Mandated)

To align with PPN006 (formerly PPN06/21), we are mandating responses to the five Scope 3 categories included in this standard. This ensures consistency with the UK government's major procurement requirements and will make it easier for both government and, eventually, the wider market to adopt this disclosure standard. As a compromise and recognising the SME-first bottom-up nature of our work, SMEs can still respond with a 'not currently recorded' option for these categories. SME respondents will not be penalised if they cannot provide a quantitative answer to this question.

Mandating responses to these Scope 3 categories will not necessarily mean that SMEs will be able to provide the required information. A significant number are likely to select the 'not currently recorded' option, as many do not yet have the necessary data available. The challenges SMEs face in recording and sharing this information were highlighted in a recent FSB survey, where X% of SMEs reported being unable to measure their emissions. Nevertheless, an SME selecting 'not currently recorded' remains valuable, as it gives data users insight into the scale of the challenge facing SMEs and helps assess whether interventions to support Scope 3 disclosure are having the desired impact.

Q11: Scope 3 (remaining 10 categories)

The remaining ten Scope 3 categories will remain optional – it will be up to an SME whether they respond. This reflects the complexity involved in calculating Scope 3 emissions and acknowledges the challenges SMEs often face in terms of cost, data availability, and determining which categories are most relevant to their operations.

Q12: Net Zero Target

We've included a question on whether an SME is committed to reaching net zero by 2050, along with any associated targets. This provides useful context for data users and indicates whether the SME is actively thinking about net zero and potentially planning to implement measures to reach a target. It helps build a picture of current demand and ambition across the market.

Q13: Narrative

The narrative question is included to give additional context on the types of actions SMEs are taking, if any, towards reducing their emissions. While entirely optional, it offers a space for organisations to share practical steps, challenges, or successes, helping to build a fuller picture of where SMEs are on their journey.