

We are leading the way on climate change.

This report presents SGS’s governance, strategy, management practices and metrics in relation to climate change and its impact on the organization. This report follows TCFD recommendations and methodology, which we will further adopt going forward.

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Introduction

Our stakeholders already require detailed and comprehensive information on our sustainability performance, including climate change related analysis and discussion, much of which you can find in our 2022 Integrated Report. To add to our industry leading sustainability performance and reporting, and to meet future reporting requirements, we are publishing our TCFD report.

The purpose of the TCFD is to promote international financial stability through consistent information provided to financial market participants that assess and value climate-related risks and opportunities. The additional reporting in this document includes: our strategy to address climate related risks and opportunities, the results of our scenario analysis, and our main climatic risks and opportunities and related impact in our organization.

As a sustainability leader, SGS is committed to a climate change strategy and to help our customers transition to a low carbon economy. This supports our purpose of enabling a better, safer and more interconnected world.

This increases our transparency and will help our stakeholders make more informed decisions when engaging with SGS. It will also help us align with the Swiss regulation, according to which, from 2024, large Swiss firms will be legally bound to report on climate issues including climate-related risks and opportunities.

Helping in the fight against climate change through changing our company behavior and the provision of services to our customers is a key factor in our purpose of enabling a better, safer and more interconnected world. This is reflected by the upgrade in 2022 of our science-based targets, from 2.0°C to 1.5°C by 2030, and our commitment to achieve Net Zero by 2050.

This whilst also continuing to compensate our remaining carbon emissions, further developing our Sustainable Solutions Framework and maintaining our capital allocation decisions and management incentivization to sustainable criteria.

During 2022, we also continued to embed climatic risks and opportunities in our company decision making, and quantified the financial impact of some of our key risks and opportunities.



Governance

Board oversight

Structural overview

The competencies sought by the Group for its Board of Directors include the experience of senior executive leadership in international businesses, strategic planning, finance, technology, cybersecurity, digital, innovation and sustainability. When selecting candidates for the Board of Directors, the company has due regard to experience, professional qualifications, areas of expertise, age, gender, national background and leadership style, so that at all times, the Board and its committees have the required skills.

The directors bring a wide range of experience and skills to the Board. They participate fully in decisions on key issues facing the Group including risks from and services provided to customers to address climate change. Their combined expertise in the areas of finance, commercial law, digital, innovation, strategy and sustainability, and their respective positions of leadership in various industrial sectors are important factors contributing to the successful governance of SGS.

In 2022, a Sustainability Committee of the Board was created to reflect the growing importance of sustainability to all our stakeholders and build on the substantial progress already made by the company and its employees.

The Sustainability Committee assists the Board in defining the group policies and strategies relating to sustainability, including matters relevant to the Group non-financial reporting and targets of reduction of greenhouse gas emissions.

⊕ Please refer to the Corporate Governance section of our 2022 Integrated Report for more information

Oversight

The SGS Board of Directors is ultimately responsible for the direction of the Group. This includes assessing risks facing the business and reviewing risk management and mitigation policies. The Board is ultimately responsible for SGS's group strategy, mission and values, including those related to climate change.

In 2022, the Sustainability Committee met three times. In addition, the members of the Board regularly receive reports on progress against our corporate targets.

Our 2030 Sustainability Ambitions were approved by the Board and include specific climate targets for 2023 and 2030.

These targets include our science-based targets, that we upgraded in 2022, moving from a 2°C ambition to 1.5°C. This made us the first TIC company to receive approval for our 1.5°C and net-zero targets from the Science Based Target initiative (SBTi).

Our sustainability ambitions are embedded in our remuneration policy with 20% of the long-term incentive based on the key priorities of decarbonization, health and safety and diversity.

The risk assessment and evaluation of climate change risks is integrated within the Group's risk assessment model and follows the same paths and procedures of evaluation. In this regard, as part of our risk assessment strategy, we assess the climate change risks for the entire organization twice a year, and corrective and follow-up actions are planned to mitigate the climate-related risks.

The Board of Directors, the Sustainability Committee and the Audit Committee review, discuss and approve our climate change risk strategy and assess the effectiveness and appropriateness of the Group's risk management, internal controls and governance processes as well as the reliability of internal financial and operational information. They also review and guide our risk management policies and ensure that the standards and policies of the Group are respected. The cross-membership organization of the board contributes to the robustness of discussions and transparency.

By reviewing and guiding risk management policies, the Board gains the information it needs to follow up on climate change risk issues and give direction to the organization, as this information enables it to mitigate risks and identify potential areas for improvement.

Management's role

Structural overview

Our Operations Council is made up of five executive vice presidents, seven Chief Operating Officers and two functional Senior Vice Presidents, as well as our CEO, CFO and General Counsel. The council formulates, approves and implements group strategy, approving and implementing more detailed strategies, policies and targets through all operations across the Group and including those related to climate change.

The Operations Council, which is chaired by the CEO, typically meets every month.

Sustainability and climate change are an agenda item and the corporate sustainability team often attends these meetings to present and discuss sustainability and climate change topics.

The Operations Council is comprised of a wide range of senior management representing the full breadth of the SGS Group:

- The chief operating officers provide insight in terms of our operations at a regional level (e.g. the impact that a climate mitigation program could have on the regions or how to best implement it)
- The executive vice presidents provide insight in relation to our services (e.g. how to maximize the opportunities that climate change brings in relation to our service offer)
- The senior vice presidents (including the SVP of Corporate Communications, Sustainability & Investor Relations) provide insight in relation to our functions (for example, the chief compliance & legal officer advises on the legal implications of climate change and associated regulation), processes and risks, including those related to climate change.
- These are monitored on an ongoing basis by the Board of Directors with the approval of the Operations Council.

Governance

continued

In addition, an annual risk assessment process is conducted as follows:

- Main divisions and functions at local, regional and global levels proceed to identify potential risks. The risks are then classified and evaluated by their criticality (magnitude of impact and likelihood of occurrence), also reflecting SGS's risk appetite and risk tolerance levels. The respective lines of business and functions also define and implement required mitigation actions to address the existing risks.
- After risks are identified, the Group Risks Steering Committee, followed by Operations Council, chaired by our CEO, validates the results. The results and conclusions are also shared with the Board of Directors and the Audit Committee
- The Board of Directors and the Audit Committee review and discuss with management the outcome of the above risk assessment and propose further actions. Special focus is placed on ensuring that all main risks (whether internal or external) relevant to SGS organizations, are sufficiently covered, with proper action plans in place to regularly monitor the impact and mitigation of such risks.

Incentive structure

Environment, social and governance (ESG) metrics are included in the long-term incentive scheme for all executive members and local management teams across the organization, accounting for 20% of the incentive opportunity.

These ESG metrics have been selected by the Board of Directors in line with the Company's sustainability ambitions, in the areas of diversity and inclusion (women in leadership positions), health and safety (Lost Time Incident Rate), and environment protection (CO₂ emissions).

The vesting level for the ESG metrics is defined based on the Company's achievements against pre-defined performance levels, and can range between zero (in case the performance of two of the metrics is below target) and 150% (in case the performance of all three metrics is at maximum or above).

In addition, the drivers of our short-term variable incentive include annual financial performance, individual performance against leadership competency model and sustainability metrics.

Strategy

Time horizons

We have defined the following time horizons for climate-related risks and opportunities:



These horizons were chosen because they are aligned with our business and sustainability strategies.

Impact on business, strategy and financial planning

Identifying and quantifying impacts

Climatic risks and opportunities are identified through various channels:

- Climatic scenario analysis: through climatic analysis models, market trends, upcoming regulations and megatrends
- Our operations: they are up to date with market changes that can result in risks and/or opportunities
- Business continuity team: they analyze, anticipate and prepare the organization for potential business disruption, which includes extreme weather events

Identified climatic risks include upstream and downstream activities across the supply chains for all our stakeholders, which are input into our risk intelligence tool for evaluation.

Managing impact

In addition to identifying and evaluating potential risks, for all our operations and functions at local, regional and global levels are required to explain the associated mitigation programs, in order to define the residual risks. These residual risks are then evaluated against SGS risk appetite and risk tolerance level.

In addition to the process described in section 2.2, executive vice presidents of each of our divisions take climatic risks into consideration when defining the strategy of the division and in their financial planning. In most cases, this includes diversifying into other services or geographies where a portion of the business could be disrupted due to market or regulatory changes, and investing where new opportunities are likely to appear or where there may be an increase in demand for an existing service.

These risks and opportunities are prioritized depending on this assessment. An example of how we are investing to capture these opportunities is our sustainability solutions.

Our Sustainability Solutions Framework has been designed to support our customers as they respond and adapt to societal and environmental challenges by implementing sustainable, safer and more efficient processes across their value chains.

As well as enhancing service visibility for customers, the new framework also enables us to quantify and track revenue from sustainability activities and helps with our process of measuring the value to society that these services provide.

Strategy continued

Main risks and opportunities

Below are the main risks and opportunities that could have a financial impact on the organization:

Main climate-related risks

Risk category & risk		Impact description	Mitigation	Time horizon	Geography
Regulatory	Increasing price of carbon	Due to an increase in the price of carbon off-sets (to maintain our carbon neutrality) and to an increase in carbon taxes from governments.	Reducing our carbon emissions and energy consumption through our climate change mitigation strategy. Implementing a strategy to mitigate the increase in carbon offsets and increasing self-generation of renewables.	Medium term	Global
	Increased compliance costs	Higher operational costs to comply with climate related legislation (e.g. EU Taxonomy, adoption of TCFD recommendations, etc.).	We take a proactive approach and adopt best-in-class practices towards climate change mitigation and adaptation.	Short term	Global
Technology	Failing to adapt to new low carbon technologies	Not adopting low carbon technologies (such as low carbon vehicles, energy efficiency measures for our buildings or renewable energy generation) would reduce our competitiveness and affect our reputation.	Our climate change mitigation strategy ensures that we continuously innovate, for example through our energy efficiency in buildings program or our vehicle emissions policy.	Medium term	Global
Market	Shifts in service demand	Market changes due to climate change can have a significant impact on client demand for SGS services, either directly or indirectly. Some of the specific potential shifts we have identified by division are: <ul style="list-style-type: none"> Natural Resources: risks associated with coal phaseout and different types of crops in several regions, and with climate change regulation and market demands Connectivity & Products: two potential risks associated with carbon pricing and changes in customer behavior Industries & Environment and Knowledge: risks associated with transition-related new markets 	We are diversifying our market segment, to increase revenues from markets that will be developing as a result of climate change. Cornerstone to this are our sustainability solutions, a wide range of services that help organizations to implement better and more efficient processes, address stakeholder concerns, address risks and accomplish their sustainability goals. The impact of this mitigation measure is displayed as an opportunity below, under "main climate-related opportunities."	Medium term	Global
Reputation	Climate reputation	Failing to address appropriately our impact on climate change or to comply with climate regulation would impact the value of our brand and imply the loss of clients.	Our sustainability team ensures that our approach to addressing climate change is best-in-class and credible. Our sustainability and legal teams ensure that we stay up to date with legislation and comply with all regulations.	Long term	Global

Risk category & risk		Impact description	Mitigation	Time horizon	Geography	
Acute physical	Extreme weather	Extreme weather conditions, such as cyclones, hurricanes or floods, can affect our business performance and continuity, by forcing us to close sites disrupting our logistics, etc.	We have business continuity guidelines and a global emergency management standard which our affiliates must implement at local level. This ensures that 100% of our revenues, as well as any new operations, are protected against extreme weather-conditions. Business continuity programs across SGS define roles and responsibilities in case of crisis and provide guidelines and group procedures to organize a coordinated response in case of emergencies.	Short, medium, and long term	Global	
	Chronic physical	Increase in mean temperatures	Higher mean temperatures result in higher energy consumption and usage of refrigerant gases, which translate into CO ₂ emissions.	Through our energy efficiency in buildings program we implement measures to optimize energy consumption in our facilities. Our energy efficiency in buildings program covers our entire operations, ensuring that 100% of our revenues, as well as any new operations, are protected against the increase in mean temperatures. We are also working on reducing the fugitive emissions of refrigerant gases.	Short, medium, and long term	Global
		Rising sea levels	Our coastal facilities could be impacted, requiring relocation.	Given that rising sea levels is a slow phenomenon, we continually assess when it will be necessary to move affected facilities.	Long term	Global

* The financial impact related to shifts in service demand covers SGS's services related to renewable energies, electric vehicles and minerals required for clean energy transition.

Strategy

continued

Main climate-related opportunities

Opportunity category & opportunity		Impact description	Strategy to maximize opportunity	Time horizon	Geography
Technology	New and more affordable low carbon technologies	An increased demand for low carbon technologies is resulting in new technologies appearing, being developed faster and being made more affordable, in most cases.	Adopting these technologies will help us implement our climate change mitigation strategy, also reducing costs associated with energy and carbon.	Medium term	Global
	Cost savings associated to climate strategy implementation	Reducing the energy that we consume in our buildings, as well as the amount of employee travel, will not only reduce our carbon emissions but also the associated costs (such as the cost of energy, the trip and carbon offsets).	Reducing our carbon emissions and energy consumption through our climate change mitigation strategy (including amongst others our energy efficiency in buildings program and our vehicle emissions policy).	Short, medium, and long term	Global
Market	Shifts in service demand	<p>Market changes due to climate change can have a significant impact on client demand for SGS services, either directly or indirectly.</p> <p>Some of the specific potential shifts we have identified, by division, are:</p> <ul style="list-style-type: none"> • Natural Resources: opportunities associated with energy and water efficiency, and several opportunities associated with different types of crops in Eastern Europe, the Mediterranean region and North East Asia • Connectivity & Products: several opportunities associated with electric mobility, supply chain certification and higher demand for product testing • Industries & Environment and Knowledge: opportunities to increase our energy efficiency, carbon pricing, green building and climate-related reporting services clients 	Through our sustainability solutions we will be proactive about maximizing the opportunities presented by climate change, enhancing existing services and creating new ones.	Short and medium term	

Quantification of financial impact

As transition risks and opportunities are those expected to have the largest impact on the Group operations, we have quantified the estimated financial impact of :

- Increasing price of carbon (risk)
- Cost savings associated to climate strategy (opportunity)
- Shifts in service demand (risk and opportunity)

Two climatic scenarios (2°C and 1.7°C) (explained in details in the following section) as well as a 2050 time horizon were used, while two distinct operational scenarios have been assessed:

- Business as usual, through which SGS remains on its current level of climate strategy ("gross financial impact")
- Climate strategy, through which SGS fully reaches its climate targets ("net financial impact")

The estimated amounts presented in the table below represent the total discounted value of future revenues and costs driven by transition risks and opportunities, for the period from 2023 to 2050, using a weighted average discount rate of 7.4%.

The calculated financial impact on SGS is denominated in Swiss francs. Where financial projections were denominated in another currency, these were converted to Swiss francs by using forward exchange rates from Oxford Economics.

Where projections were made in real terms, inflation expectations for Switzerland were considered, taken from Oxford Economics.

Risk category & risk	IEA STEPS 2050		IEA APS 2050	
	Gross financial impact (CHF million)	Net financial impact (CHF million)	Gross financial impact (CHF million)	Net financial impact (CHF million)
Regulatory Increasing price of carbon	(31)	(24)	(60)	(25)
Market Shifts in service demand	(6)*	(6)*	(140)*	(140)*

Opportunity category & opportunity	IEA STEPS 2050		IEA APS 2050	
	Gross financial impact (CHF million)	Net financial impact (CHF million)	Gross financial impact (CHF million)	Net financial impact (CHF million)
Technology Cost savings associated to climate strategy implementation	0	515	0	510
Market Shifts in service demand	419*	577*	656*	944*

* The financial impact related to shifts in service demand covers SGS's services related to renewable energies, electric vehicles and minerals required for clean energy transition.

Strategy continued

Scenario analysis and resilience strategy

Scenario analysis

As part of our climatic risk and opportunity management process, we conduct scenario analysis to improve our strategic resilience and explore climate vulnerabilities that might impact our business.

We conducted a first climate scenario analysis in 2021, using 4°C and 2°C scenarios, which helped us identify some of our most significant risks and opportunities.

In 2022, a second scenario analysis was conducted, using 2.5°C and 1.7°C scenarios, that were more suitable for the purpose of quantifying the financial impact of some of these significant risks and opportunities.

Analyses are done following TCFD recommendations, which indicate that at least two scenarios should be used, including one scenario aligned with the Paris Agreement, while the other is based on business as usual.

The scenario analysis takes into consideration existing and emerging regulatory requirements related to climate change as well as other relevant factors, such as market trends.

Regarding time horizons, our 2021 scenario analysis used 2030 since the models we used were defined for that specific year and this horizon was aligned with the timings of our Sustainability Ambitions 2030. Our 2022 scenario used 2050 as longer-term models were available and this timing is aligned with our Net Zero commitment.

Scenarios used during 2022 scenario analysis

IEA Announced Pledges Scenario (RCP 2.6/SSP 1-2.6)

This scenario assumes that all climate commitments made by governments (as of September 2022) for 2030 targets and longer term net zero and other pledges will be met, leading to a global warming of 1.7°C.

Carbon prices to significantly rise

Strong government policy

Technology advancements in low carbon processes

Increased investor and customer climate expectations and behaviors

Fossil fuels become uncompetitive due to high price backlash

Strong buy-in for low carbon products from customers and suppliers

IEA Stated Policies Scenario (RCP 4.5/SSP 1-2.6)

This scenario provides a more conservative benchmark for the future, because it does not take for granted that governments will reach all announced goals, leading to a global warming of 2.5°C.

Value chain disruption on an unprecedented scale

Asset impairments increase as value of sites decrease

Significant impacts on productivity via worker health and safety

Insurance premiums rise exponentially (or coverage cannot be provided)

Asset resilience requirements increase exponentially

Changes to operating and/or distribution seasons

Scenarios used during 2021 scenario analysis

	~4°C world	~2°C world
Physical impacts of climate change	Emissions continue to rise at current rates Catastrophic climate-related impacts Based on scenario: FAO SSS (IPCC RCP8.5)	Emissions decline by 45% by 2030 Managed climate-related impact Based on scenario: FAO TSS (IPCC RCP4.5)
Carbon price	CO ₂ prices stagnate to USD 30/ton	CO ₂ prices in OECD markets reach USD 340/ton in 2030 Based on scenarios: IPCC SR1.5 and RCP1.9-SSP5
Energy mix	<p>Mtoe</p> <p>20 000 15 000 10 000 5 000 0</p> <p>2018 2030 2040</p> <p>● Coal ● Oil ● Gas ● Nuclear ● Renewables ● Biomass</p>	<p>Mtoe</p> <p>20 000 15 000 10 000 5 000 0</p> <p>2018 2030 2040</p> <p>● Coal ● Oil ● Gas ● Nuclear ● Renewables ● Biomass</p>
Regulation, Certifications	Development of emissions trading systems (ETS) around the world More stringent standards and performance certifications are required in different sectors (power, transport, industry) White certificate scheme and voluntary energy efficiency agreements are generalized in the EU Renewable purchase obligations are implemented	Mandatory standards become stronger in all sectors Accelerated retrofit in order to achieve energy efficiency Strong regulatory constraints in transport sector Wider hosting of international projects to offset CO ₂ emissions

Resilience strategy

In order to enhance our resilience, SGS’s framework aims to minimize climatic risks and maximize climatic opportunities.

To minimize risks, for each identified risk in which the gross risk level is unacceptable (i.e. the risk can have a significant impact on business revenues, profit margin, business continuity, reputation or operations), mitigation programs are defined in order to manage them and bring the residual risk level to an acceptable level.

In addition, our global business continuity strategy aims to enable us to respond to any disruption efficiently and effectively, while minimizing the impact on our operations in terms of our sites, processes and service delivery. See the risk intelligence section page 43 of this report for more information.

Finally, each division takes into consideration identified risks and the results of our scenario analysis to define our business strategies and ensure that we anticipate any market or regulatory changes, and that we also exploit any new opportunities. An example of this is our Sustainability Solutions Framework.

Our resilience strategy also includes the programs that we have in place to reduce our CO₂ emissions and our dependency on energy. Some examples are our energy efficiency in buildings program and our vehicle emissions policy.

Risk management

We manage climatic risks in our operations through our risk management framework. The objectives of which to ensure that risks faced by SGS are managed properly, to reduce the impact of negative risks while increasing the impact of opportunities, and to provide a tool for reporting risk to key stakeholders, senior management, the Board of Directors and our external community.

To ensure that the system is more efficient and effective, we have improved the organizational structure and related roles and responsibilities, and we have optimized the risk model and management process. As a result, a clear focus will be placed on key risks. Climate change risks are included in this risk-management process.

The Company's risk management process is conducted as follows:



Metrics and targets

The following information can be found in the “Non-financial statements” section of this Integrated Annual Report:

- The key metrics used to measure and manage climate-related risks and opportunities
- Scope 1, Scope 2 and Scope 3 GHG emissions and the related risks provided for historical periods to allow for trend analysis
- Key climate-related targets

In 2020, we linked the long-term incentive to ESG performance targets. These targets include CO₂ emissions per unit of revenue.

While we are working to reduce CO₂ emissions from our operations as much as possible, we compensate for any residual emissions with our carbon off-setting strategy. This enables us to bridge the gap between our current emissions levels and the more sustainable future which we are working hard to achieve.