

TCFD report

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 Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and methodology, which we will further adopt going forward.

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TCFD report

As a sustainability leader, SGS is committed to a climate change strategy and to helping our customers transition to a low carbon economy.

Introduction

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 the provision of consistent information to financial market participants that assess and value climate-related risks and opportunities.

This increases our transparency and will help our stakeholders make more informed decisions when engaging with SGS. It also aligns 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.

During the last three years, we have worked on embedding climatic risks and opportunities in our company decision making. In 2022 we quantified the financial impact of some of our key transition risks and opportunities and in 2023 we performed a quantitative assessment of the direct impact of physical climate risks on a selection of 80 buildings owned by SGS.



Inspector, Industries & Environment, Belgium.

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Governance

Board 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 2023, the Sustainability Committee met four times. During these meetings, the members of the Board receive reports on progress against our corporate targets and information about specific projects targeting key sustainability matters, including climate-related issues.

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 gets 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


Our Operations Council, chaired by the CEO, formulates, approves and implements group strategy. It also approves and implements more detailed strategies, policies and targets through all operations across the Group including those related to climate change. During the Operations Council's monthly meetings, sustainability and climate change are usually 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 provide insight in relation to our functions (for example, the chief compliance and 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.

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.

 **For more information,** please see pages 85-87

Risk management

Identifying and assessing risks

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: analyzes, anticipates and prepares 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, 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.

Executive vice presidents of each of our business lines consider climatic risks when defining the strategy of the business line and in their financial planning. In most cases, where a portion of the business could be disrupted due to market or regulatory changes, this includes diversifying into other services or geographies, 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.

Integration with risk management

We manage climatic risks in our operations through our risk management framework.

 **For more information,** please see page 25

The objective is to ensure that the 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.

Strategy

Main climate-related risks and opportunities

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.

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

Main climate-related risks identified

	Risk category & risk	Impact description	Mitigation	Time horizon and geography
Regulatory	Increasing price of carbon	An increase in the price of carbon off-sets (to maintain our carbon neutrality) and an increase in carbon taxes from governments.	Reduce our carbon emissions and energy consumption through our climate change mitigation strategy. Implement a strategy to mitigate the increase in carbon off-sets and increase 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 business line 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 Business Assurance (prev. Knowledge): risks associated with transition-related new markets 	We are diversifying our market segment, to increase sales from markets that will be developing as a result of climate change. Key to this are our sustainability services, 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

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	Risk category & risk	Impact description	Mitigation	Time horizon and geography
Reputation	Climate reputation	Failing to address appropriately our impact on climate change, or to comply with climate regulations, 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
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 sales, 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 sales, 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. This also contributes to tidal flooding and storm surges.	Given that rising sea levels is a slow phenomenon, we continually assess when it will be necessary to move affected facilities.	Long term Global

Main climate-related opportunities identified

	Opportunity category & opportunity	Impact description	Strategy to maximize opportunity	Time horizon and geography
Technology	New and more affordable low carbon technologies	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 with 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

	Opportunity category & opportunity	Impact description	Strategy to maximize opportunity	Time horizon and geography
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 business line, are: <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 Business Assurance (prev. Knowledge): opportunities to increase our energy efficiency, carbon pricing, green building and climate-related reporting services clients 	Through our sustainability services we will be proactive about maximizing the opportunities presented by climate change, enhancing existing services and creating new ones.	Short, medium, and long term Global

Scenario analysis and quantification of financial impact

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.

Analyses are carried out in accordance with TCFD recommendations, which indicate that at least two scenarios should be used. These should include one scenario aligned with the Paris Agreement and another based on business as usual.

Scenario	Temperature rise	Transition risks	Physical risks	Rationale
RCP ¹ 2.6	1.5-2°C	✓	✓	All climate commitments made by governments for 2030 targets and longer-term net zero and other pledges will be met
RCP ¹ 4.5	2-3°C	✓		More conservative benchmark for transition risks, because it does not take for granted that governments will reach all announced goals
RCP ¹ 8.5	>3°C		✓	Only current climate policies are implemented. Paris Agreement targets are not met. It is an extrapolation of what could happen if no additional measures were taken

1. Representative Concentration Pathway.

Transition risks

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

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

The estimated values presented in the table below represent the total discounted value of future sales 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 (CHF). Where financial projections were denominated in another currency, these have been converted to CHF 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.

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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	-29	-25	-54	-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.

Physical risks

In 2023, we performed a physical risk assessment considering our top 80 key owned buildings, including offices, laboratories and warehouses scattered around the world. The results of this first quantitative assessment will help us identify key assets highly exposed and vulnerable to physical risks, as well as their respective hazard(s) of concern.

The analysis was limited to the property value itself and therefore, no capital equipment (within the building) was considered. We have assessed the exposure and vulnerability assessment of direct physical risks (direct damage caused to the assets) and therefore, indirect physical risks were not considered (e.g. the loss of worker productivity due to high temperatures).

The climate risk assessment was conducted by analyzing:

- Hazards: the probability of occurrence of a hazardous event at a given intensity
- Exposure: number of assets present in a given location potentially affected by the selected hazard, and
- Vulnerability: expected value loss of the asset, should an event of a specific intensity occur

Qualitative overview of the results¹:

- Europe is the region with the highest exposure, primarily driven by floods (fluvial, pluvial and tidal), as well as wind and high temperatures, to a lower extent. Finland, Belgium and the Netherlands will be the countries most impacted
- North America is the region with the second highest exposure, mainly driven by pluvial and fluvial flooding
- Latin America is the region with the third highest exposure, driven by floods (fluvial and pluvial) in Brazil and Colombia
- Asia Pacific is the region with the fourth highest exposure, driven by floods (all types), as well as wind and high temperatures
- Africa Middle East is the region least exposed to hazards, which will be driven by fire and high temperatures

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 sales, 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.

➔ For more information see our risk management section, pages 25-27

Finally, each business line 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.

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.

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, 2 and 3 greenhouse gas (GHG) emissions and the related risks provided for historical periods to allow for trend analysis
- Key climate-related targets

1. Qualitative results considering RCP 8.5 and time horizon 2050.