

# NET ZERO OUR CARBON NEUTRALITY STATEMENT

## 1 | 2013: A CARBON NEUTRAL YEAR

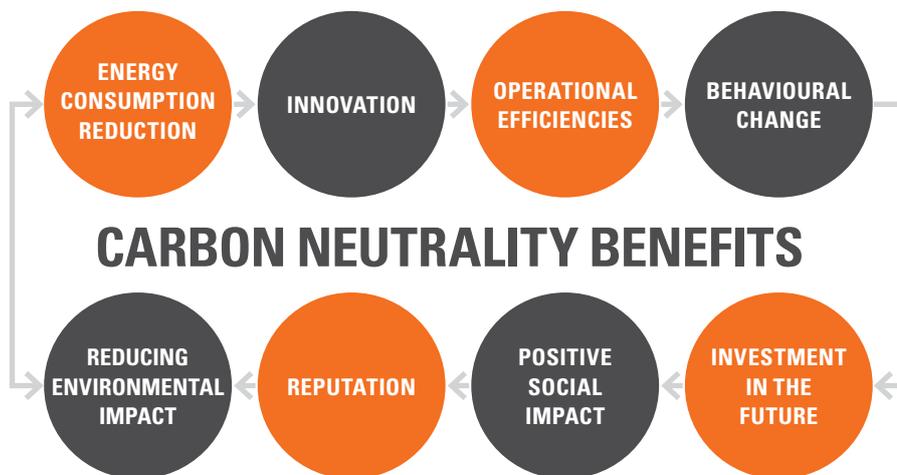
SGS is on a journey to reduce its carbon emissions and minimise its impact on climate change. In addition to sourcing renewable energy and increasing energy efficiency, we've offset all CO<sub>2</sub> emissions associated with operations in our major countries<sup>1</sup> for 2013. We're now sourcing a set of offsetting projects which combine carbon saving with local community development to cover the emissions from the remaining countries.

## 2 | WHY CARBON NEUTRAL?

SGS employees have repeatedly shown their enthusiasm for the environment through volunteer community projects, such as tree-planting initiatives, and energy efficiency and waste reduction projects in SGS offices and laboratories. In recognition and support of this passion, the company has made a commitment to carbon neutrality.

We believe going carbon neutral has three main benefits:

- **Taking action now**  
Energy efficiency and carbon intensity reduction projects are key to tackling climate change. But carbon emissions continue while we wait for these to take effect, and each tonne of carbon eliminated today is more valuable than one removed at some point in the future. Carbon neutrality bridges the gap between the current reality and a more sustainable future
- **Quantifying carbon costs**  
We identify sustainability priorities by quantifying the costs associated with different sustainability challenges in our Green Book, but the economic cost of carbon is currently hard to quantify. Carbon neutrality enables a clear cost of carbon to be assigned. We incentivise affiliates to re-double their efficiency efforts by requiring each to pay to offset their emissions
- **Community commitment**  
Supporting carbon offsetting projects which benefit local communities aligns with our investment strategy for community development



Find out more about our Energy Efficiency in Buildings, Green IT, Green Travel and Green Cars projects in our 2013 Sustainability Report<sup>2</sup>.

<sup>1</sup>Our Trend 1 and Trend 2 countries, representing more than 91% of Group revenue and 92% of headcount

<sup>2</sup><http://www.sgs.com/en/Our-Company/Corporate-Sustainability/Sustainability-Report/Energy-and-Climate-Change/Our-Approach-to-Energy-and-Climate-Change.aspx>

### 3 | CARBON BALANCE SHEET: TREND 1 AND 2 COUNTRIES

We believe transparency in the reporting of carbon data is an essential part of meeting the climate change challenge. SGS provides greenhouse gas (GHG) accounting services to major clients around the world. We also strive to make our own carbon reporting as straightforward as possible:

SCOPE* OF EMISSIONS	SOURCES, OR OFFSETS, OF EMISSIONS	CO <sub>2</sub> EMISSIONS (TONNES)			
		2010	2011	2012	2013
Scope 1	All fuels	86,417	89,601	98,249	98,552
	Vehicle fuel	64,020	65,748	71,030	75,601
	Non-transport fuel**	22,397	23,853	27,219	22,951
Scope 2	Electricity	117,310	134,620	154,635	170,520
Scope 3	All sources	20,953	21,084	22,835	22,384
	Air travel	20,074	20,302	21,963	21,518
	Train travel	880	782	872	866
<b>GROSS EMISSIONS</b>	Scopes 1, 2 and 3	224,681	245,305	275,719	291,455
Deductions	Total renewable energy and offsets	(3,382)	(20,007)	(27,092)	(291,455)
	Guarantees of Origin	0	(12,497)	(17,738)	(21,756)
	Local renewable electricity	(3,382)	(7,510)	(9,354)	(178)
	Emission Reduction Units	0	0	0	(269,521)
<b>NET EMISSIONS</b>		221,298	225,298	248,627	0

\*See glossary for an explanation of terms

\*\*For example, natural gas for heating and diesel use in generators

For more information on the Guarantees of Origin and Emission Reduction Units projects, please see Appendix 1.

For more information on our carbon data, visit our online Data Bank<sup>3</sup>.

#### 3.1 HUNDERFOSSEN: AN EXAMPLE OF A GUARANTEES OF ORIGIN PROJECT

We believe that renewable energy projects should be sensitive to the needs of the local environment, community and economy. One of the plants from which we source guarantees of origin is the Hunderfossen Power Plant in Norway, which produces 600 GWh of renewable energy annually. For one local farmer, the new road constructed to serve the plant enabled him to develop the Hunderfossen Family Park. The park's Energy Information Centre, focussing on hydropower and other renewable energy, along with the power plant itself, are popular attractions for school visits and tourists, furthering renewable energy education.

Local biodiversity impacts can be a concern with hydropower plants, as with any large infrastructure project. At Hunderfossen, a 170 metre fish ladder and fish hatchery have been built to compensate for the spawning grounds and fish habitat that were lost when the power plant was established. This has increased the numbers of large brown trout in the river and in Lake Mjøsa.

<sup>3</sup><http://www.sgs.com/en/Our-Company/Corporate-Sustainability/Sustainability-Report/Data-Bank/Environment-Data/Carbon-Emissions.aspx>

## 4 REMAINING COUNTRIES

Emissions from the remaining countries, representing less than 9% of Group revenue and 8% of headcount, are estimated to be 18,370 tonnes of CO<sub>2</sub> for 2013. Offsetting these provides an opportunity for us to select specific microcredit and microinsurance projects which will support the development of local communities in countries where SGS operates.

Examples of the types of projects we are interested in supporting include:

- Microcredit:
  - Forestry protection – providing alternative ways of earning a livelihood to local communities that rely on forests for fuel and income
  - Cookstoves – enabling families in developing countries to afford more fuel efficient cookstoves, cutting the serious health impacts of indoor smoke inhalation, reducing deforestation, and reducing the time spent gathering fuel which otherwise can be used for education and economic development
- Microinsurance:
  - Providing low income people with essential insurance products, such as insurance against crop loss for farmers, or access to health insurance schemes
- Helping households in some of the world's poorest regions to insulate their homes and reduce heating requirements and deforestation

## 5 FURTHER STEPS

In the future, SGS plans to continue on the carbon neutrality path. We believe that everyone has a role to play in tackling climate change, and we will actively promote carbon neutrality and reduction initiatives to our stakeholders.

As further steps, we plan to:

- Continue to reduce our CO<sub>2</sub> emissions through efficiency measures
- Increase the geographical diversity of our offsetting portfolio to reflect the spread of our operations
- Select specific offsetting projects which are focussed on supporting the development of local communities
- Assist our NGO partners in developing new offsetting projects

## 6 APPENDIX: CARBON-SAVING PROJECTS

### 6.1 GUARANTEES OF ORIGIN

In an ideal world, we would all have renewable energy generators connected straight to our homes and workplaces. As this is not possible, SGS consumes renewable energy by buying Guarantees of Origin from ECOHZ, proving that an equivalent amount of electricity to that used by SGS in our European operations has been generated from renewable sources and fed into the European electricity grid.

In early 2014, SGS cancelled 69,164 Guarantees of Origin, thus reducing emissions by 21,756 tonnes of CO<sub>2</sub> for the 2013 calendar year. The renewable energy is sourced from three hydropower projects in Norway, which use rivers to generate renewable energy.

### 6.2 EMISSION REDUCTION UNITS

In early 2014, SGS purchased 269,521 ERUs from Amsterdam Capital Trading BV, offsetting 269,521 tonnes of CO<sub>2</sub> for the 2013 calendar year. The project which generates these ERUs is based in Russia. It takes the petroleum gas from oilfields, the majority of which was previously flared off, and uses it to generate electricity. Although CO<sub>2</sub> emissions are still generated, the gas turbine combustion is more efficient, meaning no methane is released. Overall, the project reduces GHG emissions by an average of 8,334,300 tonnes of CO<sub>2</sub> per year.

PROJECT NAME	DESCRIPTION	NUMBER OF UNITS	ASSOCIATED CO <sub>2</sub> EMISSIONS (TONNES)
Hunderfossen	 <p>This run-of-river hydropower plant is near the Lillehammer ski resort. Using the Hunderfossen waterfall in the Gudbrandslaagen river, it generates approximately 598 GWh of electricity per year. The impact on the local wildlife is reduced by a fish ladder, which allows fish to migrate past the plant</p> <p><i>Photo: ECOHZ</i></p>	41,084	(12,923)
Rendalen	 <p>This reservoir hydropower plant is in Rendalen, an area of mountains, forests and the large Østerdalen valley with farmland and small communities. This brand new plant uses the water of the Glomma, Norway's longest river, to generate approximately 715 GWh of renewable energy each year</p> <p><i>Photo: Eidsiva vannkraft</i></p>	25,138	(7,907)
Savalen	 <p>Also in the Rendalen valley, this storage hydropower plant uses the water of the Sivilla river to generate 169 GWh of electricity per year</p> <p><i>Photo: Laila Thunes</i></p>	2,942	(925)
		69,164	(21,756)

<sup>4</sup>European affiliates have bought 467 MWh of electricity (equivalent to 178 tonnes of CO<sub>2</sub>) from renewable sources. The Guarantees of Origin cancelled do not cover this energy.

## 7 | APPENDIX: ACCOUNTING APPROACH

We apply the methodology from “The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)” to the collection of our activity data and subsequent emissions calculations. We use the ‘financial control’ consolidation approach. Data is consolidated for Trend 1, Trend 2 and the remaining countries, as indicated.

Our carbon emissions calculations cover emissions of carbon dioxide gas (CO<sub>2</sub>). Emissions conversion factors for fuels, and air and train travel, are sourced from the “2006 IPCC Guidelines for National Greenhouse Gas Inventories”. Emissions conversion factors for national grid electricity are taken from the most recent edition of the International Energy Agency’s “CO<sub>2</sub> Highlights”. Global warming potentials are extracted from the “IPCC Fourth Assessment Report” (AR4 - 50 year).

## 8 | APPENDIX: GLOSSARY

<b>CARBON DIOXIDE (CO<sub>2</sub>)</b>	One of the most prevalent gases associated with climate change. Emitted through the combustion of carbon-based fuel to provide electricity, heat and locomotion
<b>CARBON NEUTRAL</b>	When an organisation balances the carbon emissions associated with its activities by removing an equal amount of carbon from the atmosphere, that organisation is considered to be “carbon neutral”
<b>EMISSION REDUCTION UNITS</b>	Tradable emissions credits generated by a Joint Implementation project to reduce greenhouse gas emissions, under the terms of the Kyoto Protocol. Each ERU represents a reduction of one tonne of CO <sub>2</sub> equivalent
<b>GROSS EMISSIONS</b>	Total emissions before any offsetting is taken into account
<b>GUARANTEES OF ORIGIN</b>	Guarantees that prove that a certain quantity of electricity has been generated from renewable sources
<b>LOCAL RENEWABLE ELECTRICITY</b>	Some of our affiliates choose to source renewable electricity locally. The negative CO <sub>2</sub> value associated with this represents the carbon saving made from sourcing renewable electricity compared to the national grid average carbon intensity
<b>NET EMISSIONS</b>	The remaining emissions after offsets are taken into account. Gross emissions minus offsets equals net emissions
<b>OFFSETS</b>	Quantified reductions in carbon emissions from the atmosphere intended to compensate for an organisation’s emissions
<b>SCOPE 1 EMISSIONS</b>	Emissions from sources owned by the company, e.g. combustion of fuels in fleet vehicles, boilers or generators
<b>SCOPE 2 EMISSIONS</b>	Emissions associated with the consumption of purchased electricity
<b>SCOPE 3 EMISSIONS</b>	Emissions associated with business travel