SGS IS THE WORLD'S LEADING TESTING, INSPECTION, AND CERTIFICATION (TIC) COMPANY
Wherever you are in the world, in whatever industry, you can rely on our international teams of experts to provide specialized solutions to make your business faster, simpler and more efficient.

**OUR INTEGRATED REPORTING APPROACH**

The Integrated Reporting Framework <IR> aims to create a reporting cycle that leads to greater financial stability and sustainability. For the fourth consecutive year we have integrated our financial, operational and sustainability information in a single report – measuring our financial and non-financial performance across the six <IR> capitals. In addition to the information presented in this report, more detailed sustainability information is provided in our 2019 Sustainability Report www.sgs.com/cs-report-2019

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**EMPLOYEES**

+94 000

**OFFICES AND LABORATORIES**

+2 600

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Dear Shareholders,

We are pleased to announce a year of good results across the SGS Group. Our total revenue increased to CHF 6.6 billion on a constant currency basis and our adjusted operating margin improved to 16.1%. We achieved solid organic growth of 2.6% across our business lines. The investments we made in the strategic evolution of the Group in 2019 put SGS in a strong position as we enter the final year of our Mission 2020 and beyond. It will also ensure our industry leadership position in the TIC Industry, sustainably creating long-term value for employees, customers, shareholders and for society at large.

MISSION 2020 NEARING COMPLETION
In 2019, we reached a number of strategic milestones. We made 11 acquisitions, in line with our strategy to accelerate our mergers and acquisitions activity (see page 41). Notably, our purchase of Maine Pointe brings greater diversification to our Certification and Business Enhancement service. In addition, we refocused our portfolio through the disposal of Petroleum Services Corporation, which we acquired in 2004. Under SGS it grew strongly and we expect it to remain a successful business for its new owners.

These actions, combined with our continued organic investment in, for example, electrical and electronics or the expansion of our food network are helping to evolve our portfolio. This will enable SGS to benefit from new growth drivers, including connectivity, nutrition, health and wellness, mobility, cybersecurity and sustainability and climate.

We also announced structural optimization measures which have been undertaken in the second half to remove duplication of overheads across our global network. This, together with the adoption of an Economic Value Added (EVA) framework to augment our business performance management, has helped to achieve an improvement in profitability and support our 2020 ambitions.

Our continuing investment in initiatives, such as, World Class Services and Add Value with Lëss, as well as, automation, digital and robotics will enable SGS to grow profitably in the long term.

NEXT GENERATION SERVICES
As the leading TIC player, we are enhancing our traditional services, as well as, developing the next generation of services for our customers. For example, in 2019, our TransitNet customs solution delivered 600,000 transactions through a 100% digital solution, we carried out 30,000 remote inspections using smartphone-based technology and we collected 4.3 million data points daily to measure air quality. In Oil and Gas, we monitored 15 million data points for consignment tracking.

We also opened a new cyber laboratory in Graz, Austria as part of our strategy to develop a global cybersecurity network. The laboratory in Austria is a unique partnership with the Graz University of Technology and focuses on three core areas: providing testing and certification services for product and system security, training IT security experts and analyzing IT system security for our customers.

The development of our digital trust services is supported by a favorable regulatory environment. New cybersecurity regulations were introduced in Europe and the USA, while China brought in a regulation focused on cryptography, an essential element in secure data systems.

The digitalization of the TIC industry will continue to accelerate over the coming years, supported by technological and regulatory evolution. As the industry leader, we will lead this transformation. Together with investment in automation and robotics and operational efficiency improvements, we will continue to deliver profitable growth.

SUSTAINABILITY LEADERSHIP
SGS is now a well-established global sustainability leader. In 2019, we were named a leading company in the Dow Jones Sustainability Indices for the sixth year in a row, maintained our status in the FTSE4Good Index and received the Platinum medal recognition from EcoVadis. Additionally, we were included in the prestigious CDP (formerly the Carbon Disclosure Project) A List for our commitment to climate-change mitigation and our adoption to the Task Force on Climate-Related Financial Disclosures. Our purpose-driven leadership puts sustainability at the heart of our company culture and policies, while together with our services, we continue to add value to society, enabling a better, safer and interconnected world.

DRIVING AHEAD IN 2020
We are very focused on delivering the 2020 objectives. Looking ahead, a great deal of work has already gone into planning the next stage of the SGS strategy, which our management team looks forward to presenting later in the year. We would like to thank our shareholders for their support through this journey.

This continued investment in the strategic evolution will ensure growth at an attractive level of returns. It will also cement our leadership position in the TIC Industry, which helps our customers to source responsibly, manage their environmental impacts and adhere to operational sustainability principles.

Our exceptional capability is due to our expert colleagues across the world. We would like to thank them all for their dedication and hard work. Only with their support and determination can we continue to sustainably create long-term value for our customers, shareholders and for society.

PETER KALANTZIS
Chairman of the Board

FRANKIE NG
Chief Executive Officer
SUBSEQUENT EVENTS

The following acquisition and disposal activity was completed after 31 December 2019:

• The acquisition of Thomas J. Stephens & Associates, Inc. (Stephens) in the USA, providing safety and efficacy testing and contract research services.
• The disposal of Pest Management and Fumigation services in Belgium and the Netherlands.

On 1 January 2020, all Transportation activities were allocated and integrated across multiple business lines to generate operational synergies and reinvigorate their growth profiles.

On 4 February 2020, the von Finck family disposed of a large portion of their holding, resulting in their participation falling below the threshold of 3% of the share capital and voting rights.

MANAGEMENT CHANGES

Dominik de Daniel joined SGS Group as Chief Financial Officer. Fabrice Egloff, Chief Operating Officer of Africa, has taken on an extended role to include Western Europe. Christoph Heidler, Chief Information Officer, has been appointed to the Operations Council (see page 99).

During 2019, Carla de Geyseleer (formerly Chief Financial Officer), Pauline Earl (formerly Chief Operating Officer of Western Europe) and Francois Marti (formerly Chief Operating Officer of North America) left the Group. Thomas Klukas, Executive Vice President of Transportation, left the Operations Council (see page 101). The Management would like to thank them for their dedication and service.

BOARD CHANGES

Luitpold von Finck, Calvin Grieder and Kory Sorenson were appointed to the Board of Directors during the Annual General Meeting held in March 2019. August von Finck and Christopher Kirk did not stand for re-election. SGS would like to thank both for their support and direction (see page 92).

DISTRIBUTION TO SHAREHOLDERS

The SGS Board of Directors will recommend to the Annual General Meeting (to be held on 24 March 2020) the approval of a dividend of CHF 80 per share.

SIGNIFICANT SHAREHOLDERS

To the knowledge of the Company the shareholders owning more than 3% of its share capital as at 31 December 2019, or as the date of their last notification as per Article 20 of the Swiss Stock Exchange Act were:

<table>
<thead>
<tr>
<th>(% of detention)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groupe Bruxelles Lambert (acting through Serena SARL and URDAC)</td>
<td>16.73%</td>
<td>16.60%</td>
</tr>
<tr>
<td>Mr. August von Finck and members of his family (acting in concert)</td>
<td>15.66%</td>
<td>15.52%</td>
</tr>
<tr>
<td>BlackRock, Inc.</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>MFS Investment Management</td>
<td>3.81%</td>
<td>3.02%</td>
</tr>
</tbody>
</table>

1. The ultimate beneficial owners of the Groupe Bruxelles Lambert are Stichting Administratekantoor Frère-Bourgeois, Paul Desmarais Junior and André Desmarais.

2. The Company was informed on 4 February 2020, that the von Finck family has disposed of a large portion of their holding, resulting in their participation falling below the threshold of 3% of the share capital and voting rights.
Delivering solid organic growth.

Ensuring strong cash conversion.

Achieving an adjusted operating income of above 17%.

Maintaining best-in-class return on invested capital.

Targeting accelerating mergers and acquisitions and remaining disciplined on returns.

At least maintaining the dividend or growing it in line with the improvement in net earnings.
FINANCIAL AND SUSTAINABILITY HIGHLIGHTS

Financial Results
Revenue by Region
Group Achievements
Revenue by Business
Adjusted Operating Income by Business
Sustainability Achievements
Sustainability Ambitions 2020
FINANCIAL RESULTS

Group revenue growth in 2019 was 1.2\%\(^1\), of which 2.6\%\(^1\) was organic. Our successful strategic positioning delivered solid organic growth across the SGS business portfolio.

CHF 6.6bn
Revenue +1.2\%\(^1\) (+2.6\% organic)

CHF 1 063mio
Adjusted Operating Income\(^2\) +4.6\%\(^1\)

16.1%
Adjusted Operating Income Margin\(^2\)

CHF 702mio
Profit for the Period +1.7%

CHF 87.45
Basic Earnings per Share +3.4%

CHF 80
Proposed Dividend per Share

CHF 870mio
Free Cash Flow\(^3\) +9.3%

25.5%
Return on Invested Capital\(^4\)

Acquisitions completed in 2019

---

1. Constant currency (CCY).
2. Before amortization of acquired intangibles and non-recurring items.
3. Cash flow from operating activities, net of capital expenditure.
4. Profit for the period / (Non-current assets + Net working capital), excluding IFRS 16 impact.
ACTIVE PORTFOLIO MANAGEMENT

11 acquisitions and 4 disposals were completed during 2019 as we pursued our strategy to accelerate our mergers and acquisitions activity, making additions that support our business goals and giving our portfolio a stronger focus on higher-value-added-services.

STRUCTURAL OPTIMIZATION PLAN

Implemented at a cost of CHF 73 million. On track to deliver annualized recurring savings of at least CHF 90 million. CHF 15 million already delivered in 2019.

ECONOMIC VALUE ADDED APPROACH

Applied to internal performance management and active portfolio management, which combined with continued investment in our World Class Services initiative, automation and digitalization, is enabling SGS to deploy capital for growth at attractive levels of returns in the long term.

DELIVERING PROCESS IMPROVEMENT

The investments in Maine Pointe and Leansis expand our footprint in the Process Improvement field.

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## REVENUE BY BUSINESS

<table>
<thead>
<tr>
<th>Business</th>
<th>2019 (CHF million)</th>
<th>2018 (CHF million)</th>
<th>Change in CCY %</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Food and Life</td>
<td>1 074</td>
<td>1 034</td>
<td>3.9</td>
<td>1 063</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>172</td>
<td>167</td>
<td>3.0</td>
<td>171</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>16.0</td>
<td>16.2</td>
<td>16.0</td>
<td></td>
</tr>
<tr>
<td>Minerals</td>
<td>753</td>
<td>726</td>
<td>3.7</td>
<td>750</td>
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<tr>
<td>Adjusted Operating Income¹</td>
<td>128</td>
<td>117</td>
<td>9.4</td>
<td>121</td>
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<tr>
<td>Margin %¹</td>
<td>17.0</td>
<td>16.1</td>
<td>16.1</td>
<td></td>
</tr>
<tr>
<td>Oil, Gas and Chemicals</td>
<td>1 075</td>
<td>1 203</td>
<td>(10.6)</td>
<td>1 220</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>120</td>
<td>113</td>
<td>6.2</td>
<td>116</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>11.2</td>
<td>9.4</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Consumer and Retail</td>
<td>1 021</td>
<td>966</td>
<td>5.7</td>
<td>987</td>
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<tr>
<td>Adjusted Operating Income¹</td>
<td>262</td>
<td>249</td>
<td>5.2</td>
<td>257</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>25.7</td>
<td>25.8</td>
<td>26.0</td>
<td></td>
</tr>
<tr>
<td>Certification and Business Enhancement</td>
<td>447</td>
<td>395</td>
<td>13.2</td>
<td>404</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>91</td>
<td>79</td>
<td>15.2</td>
<td>80</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>20.4</td>
<td>20.0</td>
<td>19.8</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>930</td>
<td>904</td>
<td>2.9</td>
<td>940</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>112</td>
<td>81</td>
<td>38.3</td>
<td>84</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>12.0</td>
<td>9.0</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td>Environment, Health and Safety</td>
<td>540</td>
<td>504</td>
<td>7.1</td>
<td>517</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>67</td>
<td>55</td>
<td>21.8</td>
<td>57</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>12.4</td>
<td>10.9</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>500</td>
<td>518</td>
<td>(3.5)</td>
<td>541</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>66</td>
<td>79</td>
<td>(16.5)</td>
<td>83</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>13.2</td>
<td>15.3</td>
<td>15.3</td>
<td></td>
</tr>
<tr>
<td>Governments and Institutions</td>
<td>260</td>
<td>272</td>
<td>(4.4)</td>
<td>284</td>
</tr>
<tr>
<td>Adjusted Operating Income¹</td>
<td>45</td>
<td>76</td>
<td>(40.8)</td>
<td>81</td>
</tr>
<tr>
<td>Margin %¹</td>
<td>17.3</td>
<td>27.9</td>
<td>28.7</td>
<td></td>
</tr>
</tbody>
</table>

1. Before amortization of acquired intangibles and non-recurring items.
2. Constant currency (CCY).

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Find out more about our corporate sustainability achievements at SGS.com.

**SUSTAINABILITY ACHIEVEMENTS**

- **CHF 1.41mio**
  Invested in communities and 17,197 hours of community volunteering performed by SGS employees

- **0.44**
  Total Recordable Incident Rate (calculated over 200,000 hours) decreased by 60% since 2014

- **NET POSITIVE COMPANY**
  For the third year running, SGS is a net positive company

- **CARBON NEUTRAL**
  SGS maintained its status as a carbon neutral company

**SUSTAINABILITY AMBITIONS 2020**

- **PROFESSIONAL EXCELLENCE**
  - Link management incentive plan to sustainability
  - Deliver measurable sustainable value to society

- **PEOPLE**
  - Maintain a natural turnover rate of no more than 15%
  - 30% of leadership positions will be held by women
  - Reduce our TRIR and LTIR by 50%*

- **ENVIRONMENT**
  - Reduce our annual CO₂ emissions (per FTE) by 20%*
  - Reduce our annual CO₂ emissions (by revenue) by 20%*

- **COMMUNITY**
  - Increase our investment in communities around the world by 30%,* with a focus on volunteering

* Against 2014 baseline.
CDP (formerly the Carbon Disclosure Project) provides the global disclosure system that measures and scores corporate and supply chain environmental impacts. Through this mechanism, it aims to encourage investors, companies and cities to take the actions needed to build a sustainable economy.

“This year we named SGS on our prestigious A List for climate change, a recognition that we only give to the world’s leading companies in terms of their environmental stewardship. “SGS is one of just 179 high performing companies to achieve A List status. SGS has received this award based on its comprehensive disclosure of climate data, thorough awareness of climate risks, demonstration of strong governance and management of those risks, and demonstration of market-leading best practices.

“Working towards its 2020 science-based emissions reduction targets, approved by the Science Based Target initiative, SGS is demonstrating its strong commitment to mitigating global climate change impacts. SGS’ response to environmental challenges and market needs goes beyond both awareness and management. It has reached a level where tangible actions to mitigate and manage climate risks and to maximize associated opportunities are being implemented across its operations.

“SGS goes a step further than assessing the impacts of its direct operations by looking at its supply chain as well. As a reflection of this, we are also pleased to recognize SGS with a place on our Supplier Engagement Leaderboard, which is designed to evaluate and spur action on corporate supply chain engagement on climate issues. SGS is contributing to driving emissions reductions through its global value chain, by engaging with its suppliers and customers.

“We would like to congratulate SGS for the level of transparency in its climate disclosure and work in the areas of both climate change risk management and supply chain engagement. It is among a small group of global leaders for their corporate climate action.”

MAXFIELD WEISS
Director, Corporate Engagement of CDP Europe
The TIC industry is pivotal in bringing value to society and as industry leaders, we play a leading role. Our business model and sound governance are built on 141 years of heritage and insight, while our 2020 objectives continue to guide our short-term ambitions. Everything we do is undertaken through the ethical framework of our Business Principles. This is the bedrock that enables our business to offer unparalleled support to the industries that we serve.
MISSION 2020

BRAND
A brand not only differentiates a company, it unites it. The SGS brand offers our customers the peace of mind that comes from knowing they are working with the market leader. It means our employees are rallying behind the same cause and pulling in the same direction. Finally, it means that we are bound by a shared commitment to provide the highest quality services.

GROWTH
The continued growth of our global network and its unrivaled physical footprint is a key competitive advantage, both to our business and to our shareholders.

INNOVATION
SGS will continuously stretch the boundaries of the TIC industry in order to retain our position as market leader.

EXPERTIZE
A business’ ability to attract and retain the best talent is a cornerstone of its success. At SGS, we believe in our people, and we are serious in supporting their long-term development.

INVESTMENT
Investment in research, innovation, talent and technology has to be at the core of our business model.

OPERATIONAL EXCELLENCE
Applying continuous improvements across our business operations, improving performance and utilizing the best possible sustainable business practices provide our competitive edge.

BUSINESS PRINCIPLES

INTIMACY
Making sure we build trust. We act with integrity and behave responsibly. We abide by the rules, laws and regulations of the countries we are operating in. We speak up: we are confident enough to raise concerns and smart enough to consider any that are brought to us.

HEALTH AND SAFETY
Making sure we establish safe and healthy workplaces. We fully protect all SGS employees, contractors, visitors, stakeholders, physical assets and the environment from any work-related incident, exposure and any kind of damage.

LEADERSHIP
Making sure we work together and think ahead. We are passionate entrepreneurial people with a relentless desire to learn and innovate. We work in an open culture where smart work is recognized and rewarded. We foster teamwork and commitment.

RESPECT
Making sure we treat all people fairly. We respect human rights. We all take responsibility for creating a working environment that is grounded in dignity, equal opportunities and mutual respect. We promote diversity in our workforce and do not tolerate discrimination of any kind.

SUSTAINABILITY
Making sure we add long-term value to society. We use our scale and expertize to enable a more sustainable future. We ensure that we minimize our impact on the environment throughout the value chain. We are good corporate citizens and invest in the communities in which we operate.

QUALITY AND PROFESSIONALISM
Making sure we act and communicate responsibly. We embody the SGS brand and its independence in our everyday behavior and attitude. We are customer-focused and committed to excellence. We are always clear, concise and accurate. We strive to continually improve quality and promote transparency. We respect customer confidentiality and individual privacy.

SGS Business Principles are the cornerstone on which all of our activity rests. They are held to be fundamental, overarching beliefs and behaviors that guide our decisions and allow us to embody the SGS brand in everything we do. www.sgs.com/principles
We are organized into lines of business and we operate across different geographic regions. Each business is led by an Executive Vice President and each region is led by a Chief Operating Officer. The Operations Council comprises the Executive Vice Presidents, Chief Operating Officers and functional Senior Vice Presidents, as well as the Group’s Chief Executive Officer, Chief Financial Officer and General Counsel. They meet regularly throughout the year to determine group-wide strategies and priorities and review performance.

The full biographies of the members of the Operations Council can be found in the Corporate Governance Report on page 99.
PURPOSE-DRIVEN LEADERSHIP

Our value to society is to enable a better, safer and interconnected world.

SUPPLY CHAIN
We add value to society by working with suppliers to ensure high standards of quality, integrity and sustainability and building partnerships to drive innovation.

DIRECT OPERATIONS
We add value to society by striving to optimize our operational performance while reducing negative impacts from our day-to-day business.

SERVICES
We add value to society by helping our customers to be more efficient and productive while improving safety and achieving their sustainability objectives.

We create value to society for and through our stakeholders

EMPLOYEES AND SUPPLIERS
We add value to our employees by offering them training, nurturing their potential and encouraging them to work across multiple functions and geographies during their careers. We offer our suppliers financial strength that adds stability to their businesses and brings indirect benefits to society.

INVESTORS
We create value for our investors by being a robust, sustainable business with a 140-year track record. Our transparency, strong leadership and commitment to long-term sustainability make us a sound investment.

CUSTOMERS
We provide our customers with leading services, which helps make their businesses more efficient, profitable and sustainable. This value is passed on to society in the form of job security for employees, higher-quality products and better environmental management.

GOVERNMENTS AND INDUSTRIES
We add value to the industries we operate in by driving supply chain innovation. We provide governments with tax revenues, create employment and train local people. We also provide services that directly support governments around the world.

CONSUMERS
We add value to consumers through the services we provide to our customers because they are able to trust the products and services they buy. From a product’s quality and safety to its authenticity, our services help protect consumers.

COMMUNITIES AND THE PLANET
We help nurture the communities we operate in and strongly support local volunteering, through donations and disaster relief efforts. Our sustainability endeavors are recognized as being among the very best – both regionally and in the TIC industry. Through our services and operations, we attempt to protect our planet and its limited resources.

For more information on how SGS is continuously developing sustainability throughout our value chain, see the Sustainability Report 2019: www.sgs.com/cs-report-2019.
How we create value to society through our leading testing, inspection and certification services

Our services add value to society by reducing risk, improving efficiency, safety, quality, productivity and sustainability, as well as advancing speed to market and creating trust.

Our value to society is enabling a better, safer and interconnected world

SGS has outlined five megatrends (see page 20-21) that are influencing the way we live and do business.

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The Testing, Inspection and Certification (TIC) industry is not widely understood by the general public, yet our activities as members of this industry interweave with almost everything that a consumer touches. The breadth and reach of the industry is perhaps unparalleled. Look around you. The furniture that you are using, the clothes that you are wearing, even the paper you are holding or the screen you are looking at, have most likely all been touched at some stage by the TIC industry.

From verifying that the olive oil in your cupboards is unadulterated extra virgin to ensuring that the paint on a toy will not be harmful to your child’s health, the TIC industry is involved in assuring safety, quality and sustainability in a way most people have never considered.

It is not just individuals that rely on the TIC industry to provide assurance services. Governments and businesses need companies like SGS for support with everything from precision farming to mine decommissioning.

The market has two main driving mechanisms. The first is the constantly evolving regulatory and legal environment. Businesses not only need to conform to market regulations but need to demonstrate to their customers and investors that they are managing their supply chains ethically and sustainably.

The second market mechanism is often simply pragmatic, with firms finding that companies such as SGS are able to offer more efficient and effective services than they are capable of reproducing in-house. The independence of third-party providers offers peace of mind on a range of issues to companies and government departments of all sizes. That is why we frequently say that our main product is ‘trust.’

SGS is the TIC industry leader; the leading provider of ‘trust’ in the global market. Our customers benefit from our global network, our deep pool of expertise and the technological capabilities we can draw upon. Our services become a cornerstone of innovation and operational excellence for our customers, as well as giving them far greater control over their risk.

Our services add value to society by helping our customers to simultaneously optimize their business and sustainability performance (see page 30). This is the value of the TIC industry.
MEGATRENDS

SGS has outlined five megatrends that are influencing the way we live and do business.

These trends are interconnected, and while the pace and impact of changes may vary, our responsibility is to anticipate them. We design our strategy using this long-term thinking, while at the same time remaining agile and adjusting our operations and services in line with new developments.

OUR INDUSTRIES

SGS is active in virtually all sectors of the economy. We provide a wide range of inspection, verification, testing and certification services across all stages of the value chain.

AGRICULTURE AND FOOD
Innovative safety, quality and sustainability solutions for supply chains.

CHEMICAL
Innovation, optimization and efficiency in everything from feedstocks to finished products.

ENERGY
Powering processes in renewables and conventional energy.

OIL AND GAS
Innovative solutions that add up along the value chain.

MINING
Delivering expert services to improve speed to market, manage risks and maximize returns.

MINING
Delivering expert services to improve speed to market, manage risks and maximize returns.

INDUSTRIAL MANUFACTURING
Making manufacturing more productive and profitable.

Rapid Urbanization

Currently, the majority of global GDP is generated in cities, and more than half of the world’s population lives in metropolitan areas – a trend that will intensify. Urbanization provides opportunities to increase productivity and attract talent, but the need for resources and space impacts the economy, environment and quality of life. Governments and businesses are using technologies and data to build smart cities, towns and villages as well as to deliver smart mobility, advance economic growth and improve infrastructure and community services.

Climate Change

Extreme weather conditions and climate change can cause droughts and flooding that affect natural resources, such as water, energy, minerals, metals and food. This is especially true for some developing countries, where population growth trends further accelerate the demand for natural resources. Governments are responding by developing new regulations, meaning businesses and communities will need to develop actionable strategies that reduce the impact on climate change while supporting new demographic structures and securing the supply of resources.
The world’s population is projected to rise by more than 1 billion by 2030, bringing the total to over 8 billion. 97% of this growth will come from emerging or developing countries. This pace of change poses significant challenges for governments and businesses. Empowering the next generation of workers is critical to meeting these social challenges. Businesses and communities need strategies that can support the new demographic structure.

Over the last two centuries, the global economy has become 20 times larger and it is estimated to increase six-fold by 2050. The economy’s primary challenge is to balance our desire for economic growth and prosperity with finite natural resources. On the consumer side, the production and disposal of items with a short lifespan can cause environmental damage and impact people’s health, while the progress of emerging economies increasingly influences the global consumption pattern. To support economic growth, businesses must invest in sustainability, human capital and promote fair access to the workplace, technology and markets.

The billions of devices that are connected to the internet, interacting and sharing data on an entirely new scale, have huge potential to save time and money. Moreover, advanced technology – such as robotics, artificial intelligence and big data – is revolutionizing our personal and professional lives. As much as these advances are improving societies and economies, the security risks are significant. Personal data has become a valuable asset and attacks on security gaps can cause considerable damage. Adequate cybersecurity is one of the basic requirements for a digital society: people need to be able to trust that their digital devices are secure and that their data is private and safe. Any company that works with data needs to provide the infrastructure and security measurements to avoid data breaches and maintain uninterrupted business operations.

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WE CREATE VALUE TO SOCIETY

OUR BUSINESS MODEL

ENABLING A BETTER, SAFER AND INTERCONNECTED WORLD

Testing, inspection and certification services allow businesses around the world to make informed decisions. Our experts enable businesses to make positive impacts on society.

- **Testing**: CHF 1.468mio
- **Inspection**: CHF 2.2bn
- **Certification**: CHF 435mio

**Testing, Inspection, Certification**

**Testing**

**Inspection**

**Certification**

**OUR GLOBAL DRIVERS**

**FINANCIAL**

The pool of funds available to us (see page 32)

CHF 690mio | CHF 290mio | CHF 6 327mio

- Profit (prior year)
- CAPEX
- Total assets

**MANUFACTURED**

Infrastructure, equipment and tools (see page 42)

+2 600 | CHF 2.2bn

- Offices and laboratories
- Procurement spend

**INTELLECTUAL**

Organizational, knowledge-based intangibles (see page 50)

43 | CHF 1 468mio | SGS

- Innovation projects
- Goodwill and other intangible assets
- SGS Campus

**HUMAN**

The skills and know-how of our employees (see page 56)

+94 000

- Employees
- SGS Recruiter Academy
- SGS Rules for Life

**SOCIAL AND RELATIONSHIP**

Our relationships with our stakeholders (see page 66)

+800 000

- SGS Community Program
- Customers
- Global Stakeholder Survey

**NATURAL**

The natural resources we need to operate (see page 74)

451GWh | 1.9mio m² | 483GWh

- Electricity consumed
- Water consumed
- Fuel consumed

**OUR BUSINESS**

9 BUSINESSES

SEE PAGE 11

11 INDUSTRIES

SEE PAGE 20

6 BUSINESS PRINCIPLES

SEE PAGE 16

+140 COUNTRIES

**OUR INPUTS**

**OUR VALUE TO SOCIETY**

9 BUSINESSES

SEE PAGE 11

11 INDUSTRIES

SEE PAGE 20

6 BUSINESS PRINCIPLES

SEE PAGE 16

+140 COUNTRIES

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OUR OUTPUTS

FINANCIAL
Long-term shareholder value creation

- CHF 6.6bn
- CHF 870mio
- 16.1% revenue
- Free cash flow
- Adjusted operating income margin

MANUFACTURED
Efficient and sustainable services

- 1st laboratory moved to automated AI
- 20 laboratories using World Class Services

INTELLECTUAL
Expertise and innovative solutions

- 4.6mio hours of training
- SGS Cyberlab
- SGS IoT Center

HUMAN
Diverse leaders in a safe working environment

- 26.7% women in leadership
- 0.44 total recordable incident rate
- 13.6% natural turnover

SOCIAL
Meaningful stakeholder engagement and strong brand and reputation

- 1.41mio community investment
- 91% satisfaction score in our Voice of the Customer surveys

NATURAL
Carbon neutrality, limited waste and wastewater

- 159 800 metric tonnes of CO2e
- 54 000 metric tonnes of total waste generated

OUR VALUE

- CHF 306mio taxes paid to governments
- CHF 604mio in dividends proposed to our shareholders
- CHF 3 357mio paid in wages to our employees

- Enhancing infrastructure efficiency, integrity and safety
- Emphasizing sustainable capital investment
- Facilitating safer and cleaner mobility

- Enhancing career opportunities, through training
- Improving knowledge through innovation
- Empowering clients through training and education

- Protecting the health of employees through Operational Integrity excellence and well-being programs
- Reducing social risks by reinforcing human rights compliance
- Ensuring food, medicine and product safety

- Creating trust in society with our services
- Bringing peace of mind to our customers
- Offering local community support
- Helping governments combat fraud and protect resources

- Having a carbon neutral strategy
- Minimizing resource depletion
- Protecting the environment
EXTERNAL RISKS
These include economic, market, geopolitical, climate change, legal and regulatory, natural disaster and public relations risks. External risks are mitigated in various ways including but not limited to:
- Insurance policies
- Business Continuity planning
- Sustainable Supply Chain initiative
- Legal and Compliance team
- Economic and geopolitical risk analysis

INTERNAL RISKS

STRATEGIC RISKS
These include business model, intellectual property, advertising, structural, product life cycle, resource allocations and social responsibility risks. Strategic risks are mitigated in various ways including but not limited to:
- Business and development plans
- Mergers and Acquisitions Policy
- Legal and Compliance
- Investor Relations
- Communications and sustainability

PROCESS RISKS
These risks include business interruption, environmental, compliance, health and safety, knowledge loss, contractual, taxation, talent acquisition and retention, employee and third-party fraud, and data integrity among others. Process risks are mitigated in various ways including but not limited to:
- Business Continuity planning
- Operational Integrity, policies and training
- Sustainability, internal communications and community investment
- Legal and Compliance policies
- IT committee, policies, training and architecture
- Employee branding, global HR strategy

FINANCIAL RISKS
These risks include counterparty, credit, equity, foreign exchange, interest rate, liquidity, commodities and opportunity cost among others. The specific process for financial-risk management is described in detail in the 2019 Results section (see pages 157–162).

RISK GOVERNANCE
The SGS Board of Directors and Operations Council oversee risk management in the organization. The Operations Council is ultimately responsible for identifying company risks and integrating the management of these risks into key business planning processes. The Board of Directors reviews these risks and ensures that the company has a solid strategic approach to mitigating them (see page 98).

To enable better decision making in response to risks, the Group employs a comprehensive, integrated approach to identifying and articulating risks to the business. This is achieved through our Risk Management Framework that is overseen by the Company’s Risk Management Oversight Committee. Chaired by the CEO, the Committee gathers executive members, including the CFO, CCO and CIO, together with operational function representatives from departments such as Human Resources, Operational Integrity and Sustainability. The Committee is expected to meet twice a year and on an ad-hoc basis as necessary, and reports directly to the Board.

Our Risk Management Framework also places responsibility and accountability for managing risk close to our operations, with “Risk Champions” owning risk in their jurisdictions. In addition, it integrates a broad array of risk categories (see the charts on the left) directly into the management process. This results in a robust and comprehensive approach to risk management at SGS, which balances value preservation with value creation.

RISK OVERSIGHT
To support our Risk Management Framework, the Group has a customized Governance Risk and Compliance platform named ANTARES. This tool enables affiliates, local business lines and operations to assess, taking a bottom-up approach, our potential risks and the mitigation actions we have in place should these risks materialize at a local level. Additionally, at Group level, we also take a top-down approach with the objective of identifying and assessing future global risks to the company that could potentially be overlooked in the bottom-up evaluation.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
In 2019, we began to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as part of our corporate reporting on climate change. We introduced the four-pillar framework proposed by the TCFD: Governance, Strategy, Risk and Opportunity Management, and Metrics and Targets. The TCFD is a market-driven initiative established to develop guidance for voluntary and consistent climate-related financial risk disclosures in mainstream filings. The TCFD aim to increase the measurement of climate-related risks and in turn the corporate responses to these risks. We use this guidance to evaluate and price the risks and opportunities associated
with climate change, and make this information available to investors, credit institutions and insurance companies. We recognize that by having an in-depth understanding of these risks and opportunities, by establishing effective mitigation strategies and by implementing these strategies throughout the SGS Group, we are maximizing our value to society.

**2019 RISK ASSESSMENT RESULTS**

Our risk assessment for 2019 demonstrated that the vast majority of leading risks remain the same and that they are being adequately mitigated in SGS. These risks include identifying, acquiring and retaining the right talent to achieve objectives, which continues to be a challenge; global competition, with the evolution of customer needs and pricing requiring constant attention; the accelerating pace of technology and the ease of mass data collection challenges; our ability to manage risks related to data as more sophisticated cyber-attacks require constant monitoring to avoid disruption and harm to our reputation; and finally, data privacy, data ethics and data sustainability, which continue to grow in relevance.

As part of our assessment process, we also identify emerging risks that are likely to impact our business in the long term (3–5 years). Examples of these risks are cyber-attacks and extreme weather events. Both risks are already being mitigated across the Group. To protect SGS against cyber-attacks, we have protection strategies in place that we continuously test and update, while our Business Continuity plans ensure that we are fully prepared for any extreme weather eventuality.
### BUSINESS MATERIAL TOPICS

At SGS, we are committed to adding value to society through and for our stakeholders. As part of our assessment process to identify material topics, we engage with our stakeholders on a regular basis to inform our strategy and find out more about their expertise, expectations, feedback and priorities. We do this through various communication channels that are explained in detail in our 2019 Sustainability Report.

#### MATERIALITY ASSESSMENT

In 2019, we carried out an in-depth stakeholder engagement exercise to gather inputs to update our Business Materiality Matrix. The exercise involved consultations with over 800 stakeholders in 74 countries, including customers, employees, suppliers, investors, non-government organizations and sustainability professionals. Alongside the survey, we conducted a detailed benchmark review of globally relevant and sector-specific sustainability issues and trends. As a result, we obtained a list of relevant topics for our stakeholders applicable to our organization.

The risks have been integrated into the list of relevant topics for the company, as determined by the Risk Management and Oversight Committee and Board of Directors, and as assessed by the Operations Council, in order to determine the impact on the organization, considering the effect each topic would have on the business if not managed appropriately. The outcome of this comprehensive process was the development of our revised 2019 Business Materiality Matrix.

#### BUSINESS MATERIALITY MATRIX

Our Materiality Matrix maps topics against their importance to stakeholders and their impact on SGS, providing us with a powerful analytical tool. The topics that are most important to the organization are visible in the darker section of the matrix. These are considered key topics that shape our strategy and reporting. All other topics, although less material, remain an essential part of our sustainability management systems and are systematically reevaluated to determine if they have become more material to the organization.

THE SUSTAINABLE DEVELOPMENT GOALS

Adopted in 2015, the United Nations Sustainable Development Goals (SDGs) aim to eliminate poverty, protect the planet and ensure prosperity for all. Each of the 17 goals has specific targets that define global priorities and aspirations for 2030. Our Sustainability Ambitions 2020 are closely linked to the SDGs and all our services support them.

MOST COMMONLY SUPPORTED SDGs

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Organizations depend on various forms of capital for their success. Financial, manufactured, social and relationship, human, natural and intellectual capital are the six commonly recognized forms of capital that are both the inputs and outputs of business activities. Throughout the year, the capitals undergo change, according to levels of use and investment flows. Providing an overview and analysis of these capitals is fundamental to Integrated Reporting.

Operate in the Success Zone 30
Financial Capital 32
Manufactured Capital 42
Intellectual Capital 50
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INTELLECTUAL CAPITAL
Organizational, knowledge-based intangibles, including intellectual property, systems, procedures and protocols.

HUMAN CAPITAL
The skills and know-how of our employees, including their commitment, motivation and ability to perform.

FINANCIAL CAPITAL
The pool of funds available to us, including debt and equity finance.

NATURAL CAPITAL
The natural resources we need to operate, such as land, water, air and the ecosystem.

MANUFACTURED CAPITAL
Infrastructure, equipment and tools that contribute towards our service provision.

SOCIAL AND RELATIONSHIP CAPITAL
The mutual benefit derived from the relationships we have with our stakeholders and intangibles associated with the brand and reputation.

INTELLECTUAL CAPITAL
Organizational, knowledge-based intangibles, including intellectual property, systems, procedures and protocols.
Adding value through our services

Our services can create competitive advantage for businesses while simultaneously having a positive impact on society.

“Getting our clients into the Success Zone is how SGS adds value to society through its services.”

PETER POSSEMIERS
ENVIRONMENT, HEALTH AND SAFETY, Executive Vice President
Identifying and managing risk doesn’t just help prevent serious incidents — the process often positively enhances your business performance.

A failure to protect your stakeholders adequately could jeopardize all future operations.

Mud sticks. A single incident can damage your reputation for the long term — negatively impacting recruitment, sales and investment for years to come.

The minimum standards have been achieved, and you can focus on what you do best — running your business.

We have recently launched a campaign in our Environment Health and Safety business called the Success Zone. Yet, the concept applies just as effectively to the rest of the Group’s businesses.

Over the last couple of years, sustainability has become even more important to businesses. You can see it through the key performance indicators companies are adopting and through the sustainability reports that are being generated. Banks and investors want to make sure they are investing in sustainable companies and impact investing is on the rise.

Businesses are increasingly looking to move beyond the minimum regulatory requirements and turning to the TIC industry as a reputational and operational enhancement mechanism.

Our services improve business performance, allowing our customers to deliver for their shareholders and to be good corporate citizens and deliver value for society. Getting our clients into the Success Zone is how SGS adds value to society through its services.

We call this “double positive transformation”. When you are operating in that space, you really are leading the way. Whatever your starting point, we can move you closer to this ideal over the long term, helping you to add value for customers, stakeholders and society, and making you a more successful business in the process.

No company should fail to see that in the long term, what’s positive for your stakeholders is also positive for business.
FINANCIAL CAPITAL

We add value to society through paying taxes to governments, dividends to investors and wages to employees. By generating profit we can reinvest in growth, innovation and improving our services to our customers.

Business Review 36
Organic Growth 39
Balanced Portfolio 39
Investor Relations 40
Strategic Transformation 40
2019 Acquisitions and Strategic Partnerships 41
“Decisions should not just be made based on financial KPIs.”

DOMINIK DE DANIEL
Chief Financial Officer
In February 2019, SGS appointed Dominik de Daniel as its new Chief Financial Officer. With close to 20 years of experience as a CFO, he has hit the ground running at SGS.

Q Why did you join SGS?
Firstly, I like to work for a leader and I like working in business services. SGS is the clear global leader in the TIC industry. Secondly, I was impressed by (CEO) Frankie’s vision and strategy as well as the structural growth opportunities. Finally, I felt there was an opportunity for me to add value and on a personal level that interested me.

Q What are you hoping to achieve as CFO?
I want to see the whole Finance organization becoming a very strong business partner to the business lines and regions. I also want to implement an Economic Value Added (EVA)-driven performance mindset and culture.

Q Why the focus on EVA?
Firstly, I should say that SGS is already generating very healthy, industry-leading returns. But I believe we can improve them further by winding down areas that are ‘destroying value’ (to use EVA parlance) and deploying more capital towards higher growth and value-creating opportunities.

Q Who benefits from this effort?
Obviously, with EVA, shareholders are the main beneficiaries. But I always think that you need to look beyond that. If you don’t achieve adequate returns, none of the other stakeholders can benefit from your market presence. We need adequate returns so that we can invest in new ideas and solutions for our customers for example. Employees benefit from increasing EVA from a financial and development perspective. Solid returns also benefit our suppliers because we can afford to pay for their services. Society benefits because we pay more back through taxes and other investments.
WHAT IS EVA?
Economic Value Added (EVA) assesses company performance by deducting the cost of capital from net operating profit after tax (NOPAT). The measurement shows whether a company is creating value and how high the value creation is. This concept can be decentralized to individual business lines, regions or services, to get a clearer understanding of which areas of a business are ‘creating or destroying’ value. This allows managers to make more effective strategic decisions.

EFFICIENCY AT SGS
SGS currently has three global efficiency programs. Firstly, our global employee initiative ‘Add Value with Less’ (see page 79) aims to remove inefficiencies from our business. This includes reducing energy consumption and expenditure. Secondly, at a portfolio level, our structural optimization program has created a lot of efficiency gains by reducing duplications in the network. Thirdly, our World Class Services program will create efficiencies through process optimization in laboratories and offices.

THE DASHBOARD REVIEW
In June 2019, we announced the sale of Petroleum Service Corporation (PSC) to Aurora Capital Partners for USD 335 million. The disposal represented a significant milestone in the execution of our dashboard review strategy. PSC had an annual turnover of approximately USD 300 million and employed 3 500 people. In July, we acquired a majority stake in US-based Maine Pointe LLC, a supply chain and operations consulting firm. The purchase adds another layer of competence to the Group and has significantly accelerated the growth of our Certification and Business Enhancement service into the advanced consultancy services space.

Q WHY IS SGS STRATEGICALLY MOVING TOWARDS MORE HIGH-VALUE WORK AND AWAY FROM LOW-MARGIN, HIGH-VOLUME WORK?
Good question. If you look at the data, a lot of the high-value work has higher structural growth potential. In the long term, that is what we need to focus on because that is where the value creation is. That being said, in several of our businesses with lower single-digit growth potential, we have a very strong market position and create a lot of value. There is no reason to walk away from this business. We would rather take the incremental cash generated and re-invest it into structural growth opportunities.

Q SGS WAS ONE OF THE FIRST COMPANIES TO EVER PUT A FINANCIAL VALUE ON THEIR VALUE TO SOCIETY. THIS IS A BOLD MOVE – WHAT ARE YOUR THOUGHTS ON IT?
First of all, it’s obvious that investment decisions should not just be made based on financial KPIs alone. There are a lot of non-financial KPIs that are extremely relevant. Take attrition rates. How many people are leaving your company is a very important KPI and one that probably does ultimately show up in your financial KPIs. I would argue that a strong employer that retains a strong workforce is likely to be more profitable than a company with high staff turnover.

PRICING FOR VALUE
SGS offers a wide range of Environment Health and Safety services to customers around the world to help them achieve sustainability objectives. They choose us for our reputation, history, expertise, and value we provide. We need to respond to ever-changing customer needs, regulatory requirements or advances in technology and science through regular investment in our people and infrastructure.
Strategically, SGS is focusing more than ever on enhancing our value to customers while ensuring our pricing is reflective of it. For me, this all starts with our fundamental customer promise: ‘when you need to be sure’. What we do is important and customers come to SGS to ensure the quality of their products, assets, business operations and activities are safe for their customers, employees and the environment.
This is reflected in our pricing excellence strategy where we consider the overall service and value provided, while remaining competitive. For example, some tests, such as that for E. coli, are low cost but require significant handling outside the laboratory. From preparing and shipping sampling sets and receiving, processing and testing to data reporting, a lot takes place for a single bacteria test, which is critical for human safety.
After thorough analysis and customer engagement, in 2018, in Ontario, Canada, SGS introduced a series of charges and price increases that in the time since have not only partially off-set these costs but added CHF 330 000 of low-risk net revenue growth, contributing to a 4% overall price increase in 2019. This model is now being replicated throughout the global network.
**AGRICULTURE, FOOD AND LIFE**

<table>
<thead>
<tr>
<th>Revenue in CHF million</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 074</td>
<td>1 074</td>
<td>1 063</td>
<td>-1.07%</td>
</tr>
</tbody>
</table>

**OVERVIEW**
- Solid organic growth supported by all business verticals
- Trade growth supported by buyer-driven nominations and supply chain contracts
- Strong demand for Food TIC services
- Sustained growth in Life across Laboratory and Clinical activities

**OUTLOOK**
- Food and Life continue to lead growth with strong market fundamentals and recent investment in growth initiatives
- Continued competitive differentiation achieved through technology-based services in Agriculture
- Digital initiatives to drive growth and efficiency

**MINERALS**

<table>
<thead>
<tr>
<th>Revenue in CHF million</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>753</td>
<td>753</td>
<td>750</td>
<td>-0.40%</td>
</tr>
</tbody>
</table>

**OVERVIEW**
- Overall solid growth despite a softer mining market
- Trade and Inspection delivered strong organic growth
- Geochemistry achieved double-digit growth for outsourced laboratories
- Metallurgy and Plant Operations declined due to project delays

**OUTLOOK**
- Exploration spend flat or slightly lower versus 2019
- Solid pipeline for onsite laboratories
- Increased demand for innovative, technology-based field services
- Growth projected for all trade services
- Continuous improvement projects in laboratories to yield improved margins

**OIL, GAS AND CHEMICALS**

<table>
<thead>
<tr>
<th>Revenue in CHF million</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 075</td>
<td>1 230</td>
<td>1 075</td>
<td>-10.6%</td>
</tr>
</tbody>
</table>

**OVERVIEW**
- Disposal of Plant and Terminal Operations in the Netherlands and the USA completed successfully
- Trade remained stable despite competitive pressure
- Upstream delivered double-digit organic growth across the entire segment

**OUTLOOK**
- Trade to remain stable
- Upstream will continue to grow well and optimize asset utilization
- Non-Inspection Related Testing to remain broadly flat despite strong insourcing trends
- Remaining business segments expected to deliver profitable growth
CONSUMER AND RETAIL

1021
Revenue in CHF million

5.7%
Constant currency growth in 2019

OVERVIEW
- Strong organic growth across business units
- Electrical and Electronics driven by gains in safety testing and solid performance in restricted substance testing, wireless and functional safety
- Solid growth in Softlines delivered by new sourcing countries, sustainability related solutions and a focus on footwear and athleisure
- Continued successful development in hardgoods and a strong performance in toys testing

OUTLOOK
- Continued market position improvement for Electrical and Electronics from focused investments
- Capabilities and capacity expansion to continue in new sourcing countries
- Accelerate development in new technologies
- Innovation and digitalization to drive efficiencies and performance improvement

CERTIFICATION AND BUSINESS ENHANCEMENT

447
Revenue in CHF million

13.2%
Constant currency growth in 2019

OVERVIEW
- Double-digit growth driven by acquisitions in technical consultancy field
- Stable revenue in Management System Certification and Training in challenging post-transition market conditions
- Strong organic growth in Performance Assessment driven by large contracts in South America
- Improved margin due to optimization measures and business mix change

OUTLOOK
- Good organic growth overall as Management System Certification recovers from the transition
- Strong growth in other activities, particularly in technical consultancy
- Further margin improvement driven by structural cost saving measures
OVERVIEW
• Momentum in all business units and good margin progress
• Recent acquisitions boosted growth in Health and Safety sector
• Sustained growth in Laboratory services with efficiency improvements
• Marine services benefited from market penetration in Asia Pacific, Europe and the USA

OUTLOOK
• Increased market demand in fire safety, air sensors and ballast commissioning
• Global rollout of new innovative services: eDNA, robotics and artificial intelligence
• Benefit from recent optimization and dashboard actions undertaken
• Focus on acquiring companies that enhance business offering
OVERVIEW
• Testing services delivered moderate growth offset by declines in Regulated and Field services
• Regulated services affected by contracts ending and increased competition
• Field services impacted by completion of supplier certification in 2018 for new IATF3 standard

OUTLOOK
• Regulated services negatively impacted by the end of contracts in 2019, while new contracts will start in H2 2020
• The disposal of low-performing operations in the USA will positively impact Field services profitability
• Testing services growth expected to improve

OVERVIEW
• Top and bottom line impacted by unanticipated changes in import and transit policies and delays in collection
• Positive impact of the European directive on tobacco products
• Remote inspection and optimization of container tracking services with one global operational center launched in Q3 2019

OUTLOOK
• Underlying drivers in trade facilitation and compliance remain strong
• New digital services launching in 2020
• Solid opportunity pipeline for TransitNet
• Automation and robotization of low value-added tasks
• Pursue acquisition strategy started in 2017 in digital trade and non-trade related services

ORGANIC GROWTH
SGS continues to increase revenue and shareholder value from existing affiliates at a level that is well above the TIC sector average. Despite the recent commodities downturn, we have made solid progress in repositioning divisions, strengthening our core business through new services and making management changes, all of which have driven solid organic growth across the majority of our services. These adjustments complement our innovation and efficiency initiatives, through which we are continuously improving productivity in order to provide enhanced customer service.

ACHIEVEMENTS
2.6% organic revenue growth

BALANCED PORTFOLIO
The SGS portfolio covers nine business lines that service multiple global industries, each with a large and diversified customer base. This diversified structure allows us to balance our short-term growth and long-term objectives to maximize returns while reducing our vulnerability to market fluctuations, increasing our flexibility to react to market developments, and minimizing our exposure to risk.

Our portfolio management does not focus only on growth and margins but also on return on invested capital (ROIC) as a key driver of value for shareholders.

ACHIEVEMENTS
Dashboard for asset review successfully deployed
Organic revenue growth across 7 business lines

We use a dashboard process to analyze and actively manage the criteria for business performance and ensure all changes to the portfolio are guided by our objectives to advance sustainability, accelerate growth and increase productivity.
INVESTOR RELATIONS

Investor Relations plays a critical role in supporting the financial community to make informed decisions. By formally communicating with our shareholders, bond holders, analysts and investors, we foster transparency, trust and accountability. The Group also engages with the proxy agencies that advise certain shareholders on governance and voting matters.

SGS completed a comprehensive global annual Investor Relations program in 2019. The Investor relations team met over 440 investors and SGS Senior Management attended 18 investor conferences. We also hosted an investor site visit in the USA to our laboratories in Fairfield. In addition, our annual Investor Days event, which provides a significant level of access to our Senior Management and the Operations Council, was held in Changzhou and Taipei representing our North East Asia (NEA) region.

We look forward to presenting the next stage of the SGS strategic evolution at the 2020 Investor Days, which will be held in Europe on 5–6 November.

Details of these meetings can be found on our website: www.sgs.com/en/our-company/investor-relations/investor-overview.

STRATEGIC TRANSFORMATION

We continue to drive operational excellence and improve productivity through our shared service centers in a more mature Global Business Services model.

WORLD CLASS SERVICES AND OPERATIONAL EXCELLENCE

As announced in our 2018 Annual Report, SGS has started implementing a new methodology called World Class Services (WCS) to improve productivity, reduce waste and enhance working conditions. World Class Services is a version of World Class Manufacturing – a continuous improvement approach that was originally developed in the manufacturing industry. It is designed to foster a culture which improves safety, quality and efficiency, and eliminates waste.

The ambition is to achieve zero accidents, zero waste, zero defects and zero breakdowns, and to hold. This endeavor will not only benefit us but also our customers. Higher testing quality and quicker turnaround times are examples. To date, 20 SGS sites have adopted the WCS methodology. While WCS applies a systematic approach, we have also continued to employ other selected initiatives. For example, in some of our food laboratories, focused improvements have been applied to enhance performance and capacity, and extend capabilities. Actions included process reorganization, workflow optimization and automation. These actions have improved data sample management and reporting processes. We have further extended the use of robotics process automation solutions to reduce human error and improve the quality of our services. This has been deployed in a range of activities, including laboratory operations and manual data entry, but also on traditional services like ISO questionnaires. It has notably improved productivity.

GLOBAL BUSINESS SERVICES

Our Global Business Services model has improved efficiency by harmonizing the Group’s back-office activities and support functions. This has increased productivity, through shared service centers, regional hubs and outsourcing. A new shared service center has been launched in Colombia, bringing our total number to four.

Our shared service centers continue to grow, helping us achieve operational excellence. The consolidation of transactional and standardized activities in the centers has further progressed with the centralization of additional Procure-to-Pay, Order-to-Cash and Record-to-Report processes for seven countries in Europe and Asia. The shared service centers are now also leveraging their scale to impact the broader value chain. For our Environment, Health and Safety business, for example, we have started to provide offshore data management services to some laboratories, improving turnaround times and creating cost savings, making the process faster and more efficient for customers. Other business lines, notably Certification and Business Enhancement and Governments and Institutions Services, are taking advantage of these capabilities to support their growth plans.

<table>
<thead>
<tr>
<th>ACHIEVEMENTS</th>
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<tbody>
<tr>
<td>440 investors met by IR team and Senior Management</td>
</tr>
<tr>
<td>18 investor conferences attended</td>
</tr>
<tr>
<td>Investor Days attendance was up 20% compared to other events held outside of Europe</td>
</tr>
</tbody>
</table>

ACHIEVEMENTS

20 sites using World Class Services
150 days of classroom training
200 kaizen events
1 new shared service center set up in Colombia
1 400 shared service center employees
4 shared service centers (Manila, Katowice, Changzhou, Bogota)
## 2019 Acquisitions and Strategic Partnerships

SGS has long made strategic acquisitions to support its goals. This is particularly true for geographic areas with service gaps or where we need to build skills and technological capacities. In some instances, we acquire businesses offering similar services so that we can benefit from economies of scale and technical synergies. In 2019, we made 11 acquisitions and one minority investment.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country/Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leansis Productividad (Majority Stake)</td>
<td>Spain</td>
</tr>
<tr>
<td>Established in 2005, Leansis Productividad provides operational and manufacturing training and capacity building services to over 200 clients across Spain.</td>
<td></td>
</tr>
<tr>
<td>Floriaan B.V.</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Established in 2004, Floriaan provides integral fire safety services, addressing complex safety challenges, to industrial and real estate companies in the Netherlands.</td>
<td></td>
</tr>
<tr>
<td>TEC Services</td>
<td>USA</td>
</tr>
<tr>
<td>TEC Services is a leading independent testing, engineering and consulting services laboratory, focused on meeting the quality requirements of the construction industry.</td>
<td></td>
</tr>
<tr>
<td>PT WLN Indonesia (Majority Stake)</td>
<td>Indonesia</td>
</tr>
<tr>
<td>WLN is a leading provider of water, soil and air testing services to multiple industries across Indonesia.</td>
<td></td>
</tr>
<tr>
<td>Chemical Solutions Ltd.</td>
<td>USA</td>
</tr>
<tr>
<td>CSL is a nationally recognized testing laboratory, specializing in elemental and heavy metal testing for food, nutraceuticals, pharmaceutical and cosmetic products.</td>
<td></td>
</tr>
<tr>
<td>Maine Pointe LLC (Majority Stake)</td>
<td>USA</td>
</tr>
<tr>
<td>Maine Pointe is a supply chain and operations consulting firm that delivers business process optimization and improvement through its proprietary methodology Total Value Optimization™.</td>
<td></td>
</tr>
<tr>
<td>Vircon Ltd. (20% of Outstanding Shares)</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Vircon operates in the fast-growing Building Information Modelling market in Hong Kong and elsewhere in the North East Asia region.</td>
<td></td>
</tr>
<tr>
<td>DMW Environmental Safety Ltd.</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>DMW is a leading solution provider of health and safety services, including asbestos surveys, monitoring and analysis, building compliance services, water hygiene services ( legionella risk assessment), fire safety audits and occupational hygiene.</td>
<td></td>
</tr>
<tr>
<td>Argus International, Inc. (Majority Stake)</td>
<td>USA</td>
</tr>
<tr>
<td>Argus is a provider of data-driven inspection, audit, safety and compliance solutions to the global aviation market.</td>
<td></td>
</tr>
<tr>
<td>Assets and Operations of Forensic Analytical Laboratories, Inc.</td>
<td>USA</td>
</tr>
<tr>
<td>FALI is one of the leading providers of industrial hygiene, mold, bacteria, metals, particles, contamination control and asbestos and fibers testing on the West Coast of the USA.</td>
<td></td>
</tr>
<tr>
<td>Vircon Ltd.</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Vircon operates in the fast-growing Building Information Modelling market in Hong Kong and elsewhere in the North East Asia region.</td>
<td></td>
</tr>
<tr>
<td>Busines and Assets of PPE Testing and Certification Activities of FIOH</td>
<td>Finland</td>
</tr>
<tr>
<td>Previously operated as an independent public law institution, SGS has acquired the personal-protective-equipment testing and certification activities of the Finnish Institute of Occupational Health.</td>
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MANUFACTURED CAPITAL

Our services help improve many aspects of our customers’ manufactured capital. In our own operations we add value to society by enhancing infrastructure efficiency and safety through sustainable capital investment.

Procurement and Supply Chain Management 48
ADVANCING ENERGY STORAGE

“Every step along the way, we are helping to make a better, more sustainable world.”

LAURA GARCIA BAGLIETTO
Division Manager e-Mobility, Germany
Battery storage: **DRIVING MORE THAN JUST BETTER VEHICLES**

In the automotive space, we are supporting the transition to electric vehicles (EVs) by helping our customers to overcome technological obstacles, make their products safe and meet regulatory approval. By helping to usher in a new era of e-mobility we are also helping to tackle the climate crisis.

To reach Paris Agreement targets, we need to switch to renewable energy. But to do that we need to deal with a fluctuating renewable electricity supply. This means storage. One of the most effective potential ways to deal with the storage problem is to store energy in a decentralized fashion. The rising popularity of electric vehicles makes cars a surprising contender. Storing energy in cars has the advantage that their peak usage times are limited to rush hours. Surges in power requirements in factories could, for example, be managed from the energy in car batteries parked outside. The cars could then be recharged from local solar energy generated on the factory roof, during non-peak times. With the marginal cost of electricity approaching zero, electricity could be freely exchanged for the mutual benefit of everyone.

**END-TO-END SUSTAINABILITY**

Electric batteries require cobalt, which due to a quirk of geography, has to be sourced almost exclusively from the Democratic Republic of Congo. There are well-known sustainability issues around this activity, including risks of child labor. SGS provides services to assure the sustainability of the raw materials, as well as supporting the transition to electric vehicles through testing the final components. We also help develop recycling technology for lithium-ion batteries. Every step along the way, we are helping to make a better, safer world.

**THE TRANSITION TO NEW TECHNOLOGY**

We not only expect technological disruption, we are helping to shape it (see page 21). This means we can anticipate where the market and technology will be in five years time. This is important because we can develop testing services that will be fit for purpose then. For example, we anticipate a major increase in EV testing in Europe from 2022 onwards when new European legislation is expected to make EVs more attractive as fleet cars. Additionally, as 5G is rolled out in the next 3–4 years, vehicle-to-vehicle, vehicle-to-infrastructure and vehicle-to-device communication and security testing will become more important. SGS is part of the 5G Automotive Association and our colleagues in Korea are already contributing to the standardization of these areas.

“We can anticipate where the market will be in five years time.”

SGS e-Mobility laboratory, Gelting, Germany.
THE TIME IS RIGHT

For the first time, we are seeing electric cars being designed specifically as electric vehicles from the ground up – not as conversions of existing vehicles. This allows for new interior design and the range of electric vehicles is increasing with each new generation. As a result, users are getting more value for money. People will see that these cars perform and provide a better user experience. The end of 2020 will be a turning point for electric vehicles.

“I believe the end of 2020 will be the turning point for electric vehicles.”

SAFETY

According to OECD data, there were more than 20,000 fatalities on German roads in 1970. By 2018, this figure had fallen to around 3,300. Safety has clearly improved but more can be done. Today, the worst problems on German roads are road traffic accidents involving vehicles and pedestrians, bikes and motorbikes. Legislation is expected by 2022 that will make it compulsory for all cars to be equipped with radar detection systems. Interestingly, this is part of the electronic circuitry that we will eventually need for fully autonomous vehicles. SGS is helping to test these devices. Battery safety is much better now, too. In the old days, electric batteries had a reputation for igniting, but that is very much a problem of the past. Yet as the range and power of EVs increases, the quest for ever safer batteries continues. In our laboratories, we ‘drown’ batteries in water and simulate car crashes, where batteries are surrounded by fire. We are playing an important role in ensuring that batteries are safe for use.

100% RENEWABLE ENERGY

Our e-Mobility testing laboratory in Munich is run on 100% renewable electricity. Locally produced, laterally scaled with smart distribution and storage, we are on the cusp of a genuine paradigm shift. Our e-Mobility laboratories are ISO 14001 certified and we are constantly working to improve our sustainability KPIs. Across the global network, 94% of our electricity is currently from renewable sources and we have pledged to move to 100% by 2020.

THE FUTURE

The perfect picture in 2030 would be the greatest possible use of electric vehicles and renewable energy. In the long term, e-mobility will contribute to sustainable mobility in society. This will be a key element in cleaning up the environment. It would mean that sustainable energy is driving the grid, with e-mobility playing a key role in stability, ‘peak-shaving’ and storage of energy on the grid.
The energy markets are changing. Renewable energy moving from the periphery to the center isn’t a hypothetical future possibility anymore. It is happening right now. Solar may have captured the headlines but wind energy is blowing up a storm of its own.
THE IMPORTANCE OF WIND ENERGY

“I think the cost tipping point has already been reached for wind energy in the same way as it has for solar,” says Frederic Schenk, Head of Business Development, Industrial Services. “We are looking at costs of 0.45 to 0.7 Euro per KWH in certain regions, which means that it is competitive with newly installed hydroelectric and gas-fired power and largely less expensive than coal-fired or nuclear power.”

If solar seems more visible, that’s because it literally is. While solar panels can be set up on rooftops everywhere, the most effective development approach for wind energy is offshore windfarms. These can be scaled up in terms of size and power output but have massively less social and environmental impacts compared to onshore windfarms.

While they may be deliberately out of sight of the public, they are most definitely in the minds of energy experts. A large offshore windfarm now has around the same production capacity as a mid-size traditional power plant. So, while solar lends itself to local production and smart distribution, wind still follows a centralized production model favoring big players and major infrastructure investments.

NEW MARKET TRENDS

An engineer by training, Frederic has spent 16 years with SGS, witnessing the change in the energy landscape firsthand. “We are seeing large investments in distribution in places like Germany, to allow for the electricity produced in the North Sea to be transmitted to the industrial south”, he explains.

“We will also need to develop improved storage technology but this is happening right now. We are seeing a significant development in battery technology, particularly with car manufacturers teaming up with utility companies to build huge battery stations. These can store energy and then release it when needed to smooth supply.” There are also decentralized battery options emerging with regard to electric cars (see page 43).

Another major trend Frederic sees is that the renewable energy industry is going global. “There are several very large players who are moving out of their home markets and moving to areas like the USA, Asia and the Middle East. Sometimes they are doing it alone, sometimes they are partnering with traditional energy companies, such as oil and gas companies, who are also beginning to invest heavily in renewables.”

“At the moment, the North Europeans have a competitive advantage in the development, financing and operation of offshore windfarms”, he notes, and it is these firms that are leading the push into other markets. Notable activity in these areas is taking place in Taiwan, South Korea and Japan. The Eastern Seaboard in the USA, from New England to the mid-Atlantic states, is another rapidly expanding market. SGS is very much at the forefront of these developments.

THE TIPPING POINT FOR WIND HAS ALREADY BEEN REACHED, AS IT HAS FOR SOLAR

SGS LEADERSHIP

“We were one of the players who helped to develop the European market,” Frederic explains. “Now we are supporting these same companies with their expansion overseas, particularly in Asia.” There are a number of reasons they are choosing to work with us. Firstly, our track record of serving these customers during their emergence in Europe, our 141-year history (these are long-term projects and our customers need partners in place for the whole economic lifecycle) and our global footprint.

“We have the biggest and strongest network in Asia in the TIC Industry”, says Frederic. “We supervise the building of the windfarm foundations, then oversee the health and safety elements during construction, as well as supervising the build of the mast, turbines and components. Obviously, with our lab network, we offer testing services on all the materials and coatings, and once the site is up and running, we offer in-service inspections and non-destructive testing. Fundamentally we offer a full-blown, end-to-end quality assurance solution.” By supporting our customers with their manufactured capital inputs and outputs, we are helping the spread of wind energy around the world – and doing our bit to help tackle the climate crisis.
PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

In 2019, we continued the implementation of our 2020 Procurement and Supply Chain strategy, which aims to achieve cost savings, efficiency improvements and innovations that support profitable growth. Working together with stakeholders and suppliers, we have continued our work based on our four strategic pillars: cost and cash flow leadership, global sourcing solutions, sustainable procurement and supply chain, and contribution to the Inspection and Laboratory of the Future program.

ACHIEVEMENTS

- Internal purchasing catalog usage reached 47%
- ‘Uber for business’ launched across the SGS Group, supporting employee mobility
- Order-Transport Management (OTM) online system rolled out in France and the USA, enabling easy evaluation of delivery options
- Usage of the SGS eSourcing tool has almost doubled reaching 44% online sourced spend in 19 countries
- Rollout of SGS Supplier portal continued, reaching 66,000 electronic invoices

1. COST AND CASH FLOW LEADERSHIP

Procurement and Supply Chain Management further increased incremental gross savings in 2019 and is well on track to reach the target for the period 2018 to 2020.

2. GLOBAL SOURCING SOLUTIONS

Our commitment is to deliver the best global, regional and local solutions, taking a total cost of ownership and user-centric approach. This is achieved through global category strategies that drive cost reductions, standardization and efficiency improvements. We continually build closer partnerships with our main global suppliers and identify ways through which SGS can benefit from the capabilities of our supplier ecosystem.

To improve sourcing for our laboratories, we have built distributor networks with a particular focus on regions with complex logistics, e.g., South America, South East Asia Pacific and Africa.

We also strengthened and extended relationships with our core IT suppliers across hardware, software and telecommunications. The partners we work with must optimally support SGS and enable us to leverage our global footprint.

3. SUSTAINABLE PROCUREMENT AND SUPPLY CHAIN

For the first time, SGS was ranked in first position for supply chain management in the Dow Jones Sustainability Index (DJSI).

Extending our initiative from 2018, we have now successfully deployed the SGS Supplier Code of Conduct and Self-Assessment Questionnaire in 30 countries, assessing more than 2,700 suppliers to date.

We have continued the deployment of our Sustainable Mobility programs, and performed sustainability analyzes in Spain, the USA, the UK and France, to support the development of more sustainable fleets. We will continue deploying our sustainable fleet program and expand it to other countries in 2020 and beyond.

4. CONTRIBUTION TO INSPECTION AND LABORATORY OF THE FUTURE PROGRAM

Testing and inspection are core SGS activities, representing a large portion of costs. The contribution to Inspection and Laboratories of the Future pillar brings together initiatives such as inventory management, asset management and automation. The program supports the World Class Services global program to drive efficiencies in our laboratories.

We collaborate in a cross functional team called the Advanced Technology Group. SGS experts, strategic suppliers and our Procurement function devise next-generation technical and digital inspection and laboratory solutions. Through one such strategic partnership we identified an opportunity to use artificial intelligence and machine learning in our laboratories to create significant efficiency improvements. We developed and piloted the associated algorithms in one of our main food laboratories. Following the success of the pilot, the algorithm will go live in operations in 2020.

STRATEGIC ENABLERS

The achievement of goals related to our four pillars is supported by four strategic enablers: our Target Operating Model, supplier partnership management, internal business partnering and high-performing procurement teams. We have implemented improved processes and deployed Oracle Enterprise Resource Planning together with finance in a number of countries. The Procure to Pay (P2P) compliance and efficiency process (e.g., No PO No Pay) has been a key focus, enabling higher spend transparency and bundling with preferred suppliers. In the source-to-contract process, we have increased usage of purchasing catalogs and eSourcing. These catalogs provide SGS employees user-friendly access to pre-negotiated items from preferred vendors along with increased process efficiency and automation. The percentage of spend sourced online through eSourcing has nearly doubled allowing for increased savings and greater efficiency.

As part of the supplier partnership management program, 105 of our most important suppliers were asked to provide input into a broad range of topics, such as sustainability commitment, P2P process adherence and financial strength. This valuable information is used to select the best partners and generate maximum value through better collaboration and specific action plans.

Effectively servicing our internal business partnerships must be ingrained in everything that we do. All initiatives start by asking the relevant SGS business about its needs and then agreeing on how procurement can best provide support. A further enabler of all our activities is our highly passionate and collaborative team. Good results from the Catalyst employee engagement survey confirmed the engagement of the procurement teams around the world and provided valuable insights into what can be done to further support passion and strengthen the performance culture.
We add value to society by improving knowledge through innovation. We empower our clients through the range of training and education services we offer.

<table>
<thead>
<tr>
<th>Innovation</th>
<th>54</th>
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<tr>
<td>Information Security and Data Protection</td>
<td>55</td>
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</table>
“Hacking is not a static thing – attacks are evolving all the time.”

MARTIN SCHAFFER
Global Head of Secure Products and Systems, Digital Trust Services
High-Impact Cybersecurity

For around a thousand years, a fortress has dominated the city of Graz. The imposing structure sits on a hill in the center of Austria’s second largest city and is a fitting backdrop for a project that is concerned with a more modern means of defence – cybersecurity.

In February 2019, in conjunction with the Graz University of Technology (TU Graz), SGS announced the development of the Cybersecurity Campus Graz. The campus will include a new non-profit research center, focusing on high-impact cybersecurity research. It will also house the TU Graz Security Research Institute – a world-renowned research facility known for its work on the Meltdown and Spectre hacks. Additionally, it will also be home to SGS Cyberlab Graz, which will focus on products and systems testing services as part of our larger portfolio of digital trust services. We will be particularly engaged in hardware security, specifically, microchip security testing.

Around 2,500 new smart devices are being connected to the global network every second. Ten years ago, hacking felt remote – businesses and governments were hacked, not individuals. But now it is becoming an issue that is much more personal. Mobile phones are hacked, home security cameras are hacked, even your car can be hacked.

The problem is that security is not a feature that people ask for. They expect it to be there already. Certainly, they don’t expect to pay more for it. Yet, with the regulatory environment still relatively nascent, this actually creates a disincentive to build high levels of security into devices. This is a problem. The global network is only as strong as its weakest link. Once low-security products are connected, it will become a much harder problem to fix.

We need to address this issue now, starting with the components that are being used.

THE CUTTING EDGE

To remain at the cutting edge of security developments over the long term, you need to support advanced practical research. This is why we have partnered with TU Graz. It is one of the few universities in the world with the kind of hardware security expertise that we were looking for.

Together we will be moving into a new purpose-built building that will house up to 500 security experts, including a university research team, staff from our Cyberlab, our joint venture research center and other partners. We will be working to improve microchip design, to develop security testing processes and to educate the next generation of security experts.

As a part of this project, members of our laboratory team will become part of the teaching staff on the University’s master’s programs. One potential advantage to us is the opportunity to identify and develop emerging talent to join our team, but more broadly we are also helping to address the general talent shortage on the device production side. At the moment, there are simply not enough well-trained people to make these products more secure going forward – and this is an issue with potential societal-level impacts. Additionally, whenever we identify solutions to problems, we will make them publicly available free of charge through the joint venture. We can afford to do this because our revenues will ultimately come from offering testing services around these solutions. As a result, it’s fair to say that the collaboration looks set to benefit both partners, our stakeholders and society at large.

“Security is not a feature that people ask for. They expect it to be there already.”
THE FUTURE OF INSPECTION

By the end of 2020, there will be 30 billion connected devices – roughly four for every person alive. That number will only grow. We strongly believe in the potential of the Internet of Things (IoT) to reshape the way we do business. So, in May 2019, we launched a new IoT Competence Center in Madrid. The center will allow us to develop next-generation inspection technology.

The IoT-based inspection market is growing at 7% a year. To ensure that we remain the point of reference for these developments we have partnered with Swisscom and Microsoft. Swisscom is providing a dedicated and secured IoT communications network for our data to be transmitted, which will then be managed and stored by Microsoft.

SGS can then leverage its experience to develop game-changing IoT inspection devices that will be configurable, scalable and extremely easy to operate. These devices won’t just allow us to provide a better service to individual customers, they will enable us to offer predictive services, through our development of advanced analytics, machine learning and artificial intelligence algorithms.

This will put us at the forefront of developing smart cities, smart agriculture and smart industries. We are moving quickly. Even though we only started in May we have already developed our first product, Smart Warehouse. Built for the agricultural industry, Smart Warehouse delivers timely and accurate information to protect stored commodities (e.g. grain).

While traditional inspection methods offered a useful snapshot of the status of the commodity, with 24/7 monitoring, Smart Warehouse offers continuous support. It can monitor elements such as moisture, temperature and CO2 levels, and therefore prevent contamination with molds, mites, insects and microbes, and premature germination.

Our IoT Smart Warehouse solution is currently being implemented in Egypt, Hungary, Spain, Kazakhstan, Ukraine, the Netherlands and the Baltic region. We anticipate that the service will also be sought after for monitoring commodities on cargo vessels.

As big data develops across devices, we will be able to offer even better predictive services. For example, we will be able to alert a customer if humidity and temperature present a risk of fermentation in the following 48 hours. This is of course great news for our customers, but it is also good for society because it has the potential to massively reduce food waste. In addition, the carbon footprint from regular site visits for inspections will be significantly reduced and insecticide usage will be minimized as our devices also monitor phosphine levels. All of this helps us add value to society.

ALEKSANDAR MITREVSKI
COMPETENCE CENTER PROGRAM DIRECTOR

“SGS can leverage its experience to develop game-changing IoT inspection devices.”
INNOVATION

Our strategy is focused on digital services, e-commerce and online presence, and a culture of innovation. We are committed to the development of innovative services that benefit our customers and better processes that enable SGS to deliver our services more efficiently. We invest in projects that deliver on our internal efficiency goals, provide our customers with solutions and create services that bridge digital and traditional methodologies.

DIGITAL SERVICES

We aim to be a global leader in developing safe, effective and profitable digital solutions for all sectors we operate in. By continuing to provide best-in-class services that transform the TIC industry, while enhancing everything we do with digital services, we build on our ability to add value for our customers and improve our internal efficiencies for the benefit of our employees.

E-COMMERCE AND ONLINE PRESENCE

Expanding our business-to-business-to-consumer presence online is an SGS 2020 objective that we aim to achieve through our e-commerce platform, SGS online. Consumers have access to services provided by our Environment, Health and Safety; Agriculture, Food and Life Sciences; Oil, Gas and Chemicals; and Certification and Business Enhancement business lines, as well as by our Cybersecurity Services unit, and we are constantly investigating further services that can be moved to this delivery platform.

Our emphasis is now on improving how SGS online communicates with and sells to customers. The online-offline customer journey is one area in which we are seeing notable advances, in particular with regard to how SGS online links to our offline services and improves understanding of SGS products.

INNOVATION CULTURE

At SGS, we have a culture that values innovation. We have a process in place that recognizes and leverages creative ideas and we encourage all of our employees to put them forward. We do this through a series of Idea Challenges that are designed to crowd source ideas from across the SGS Group. When we find ideas that are novel or will enhance existing processes, we work with the employees that have proposed them to develop business propositions. To provide this support we have developed Innovation Ecosystems where representatives from all parts of the SGS Group – business lines, geographical regions and functions – come together to contribute to idea development and critical review.

In 2019, as a result of our Innovation Ecosystems we created a rich pipeline of innovation projects at various stages of analysis and development. Ultimately we communicate about ideas that are progressed and we celebrate the innovations that help make a difference to our organization.

ACHIEVEMENTS

- Cybersecurity Campus Graz security opened in Austria, in partnership with the Graz University of Technology
- IoT Center of Competence opened in Madrid, in partnership with Swisscom
- SGS online optimized for efficiency and effectiveness
- Innovation Ecosystems put in place to support the development of ideas with strong potential
- 43 innovation projects launched across the SGS Group in 2019
INFORMATION SECURITY AND DATA PROTECTION

As a company that holds itself to the highest standards of professional behavior, protecting personal data and compliance with associated privacy laws are essential commitments for SGS. Our data protection strategy is focused on the prevention, detection, management and response to security risks. It encompasses enhancing IT systems, putting policies and procedures in place to streamline processes, and developing capabilities so that SGS is operating in a controlled-risk environment.

INFORMATION SECURITY

SGS has a framework and a team in place to protect intellectual property, business services, personal information and customer data. Our strategic aim is to ensure that we always keep our network, IT systems and data secure. At SGS, we define the information we are responsible for keeping secure as all data, specifications, results, facts, correspondence, methods and knowledge pertaining to SGS, our employees, contractors, customers, suppliers, methods and tangible and intangible assets.

In terms of digital information, by carefully managing our IT Security and Anomaly Detection Systems, while deploying tools to identify vulnerabilities and forecasting trends in the cybersecurity landscape, we work to prevent and defend SGS against threats. SGS utilizes several detection systems that monitor our network, system infrastructure and applications. The most critical of these detection systems are monitored on a continuous basis, while the rest keep audit information for analysis in case of enquiries or suspicion of fraudulent activity. Response times to potential incidents are monitored according to specific timeframe requirements depending on the severity of the threat and its criticality. As a business, we implement the best security controls, based on international standards and best practices. Our IT Management team works closely with our Business Continuity team to ensure effective crisis management planning systems are in place to deal with any eventuality.

DATA PROTECTION

SGS clearly defines what is expected across the Group to ensure that personal information is effectively managed and database access is strictly controlled.

As with all companies, there are risks associated with holding personal information, in terms of data leakage, data misuse and unauthorized access to the information. Our reputation depends first on our ability to prevent issues from arising, and second, on our processes for managing issues should they occur.

We strive to be transparent and open about the data we collect, respecting individual rights and choices, and to protect the data we hold from unauthorized use or disclosure. To manage this, we have the SGS Data Privacy Policy.

TRAINING

We run a continuous security awareness training program and, as part of this, conduct information security training several times a year for all employees. In 2019, cybersecurity and risk were added to the SGS Onboarding program. We also recognize that senior managers are subject to specific security threats and as such we have a further training course specifically for this group, while we also provide courses dedicated to the needs of specific SGS businesses.

Global awareness training on Data Protection and Privacy principles was rolled out as an e-learning module in 2018 to SGS employees around the world. It is relevant to everyone who works at SGS, whether they collect and process personal data or not. As such, new employees are now required to complete it as part of the SHINE Onboarding program. As with the Information Security modules, we have also introduced a specific version of the course focused on the needs of senior managers. Data Privacy Officers receive training through workshops on GDPR compliance and data breach management, while we also provide courses dedicated to the needs of specific SGS businesses.

ACHIEVEMENTS

- Data Protection and Privacy principles added to the SGS SHINE Onboarding program
- Cybersecurity and risk added to the SGS SHINE Onboarding program
HUMAN CAPITAL

We add value to society by protecting the health of our employees. We reduce social risks by reinforcing human rights compliance. Our services ensure food, medicines and products are safe and promote a safer, healthier and more sustainable environment for people around the world.

Compliance and Integrity
Talent Management and Equal Opportunities
Operational Integrity
ANITHA JEYARAJ
Head of Laboratories, Consumer and Retail Services, India

SHEIDA HÖNLINGER
Business Manager, Life Sciences and CPHC, Germany and Austria

LAURA GARCIA BAGLIE TTO
Division Manager e-Mobility, Germany

WOMEN IN SCIENCE
“EMOTION SHOWS YOUR PASSION”

When I was a young girl I was always interested in science. As a biology student at the University of Vienna, I realized that while working in a lab can be fascinating, it wasn’t really what I wanted to do with my life. Instead, I wanted to find a way of combining my knowledge of biology with project management, planning and working face-to-face with people.

I first found that kind of work at the Austrian Health Ministry, where I gained valuable early experience. For ten years I worked there and learnt how to manage scientific projects. Notably, I helped build the first cosmetics testing lab in Austria, which ended up giving me fantastic insight for my later career. I enjoyed my time there, but an opportunity at SGS caught my attention. I felt it offered the chance for personal and professional growth.

A SERIOUS CAREER PATH

I was right. In the 14 years since I joined SGS, I’ve been business manager for Germany and Austria for both Life Sciences and Cosmetics, Personal and Home Care (CPHC), managing 350 people across five sites in Germany and one in Austria. I also sit on the country Management Board for Germany and I’m a member of the Compliance Committee here. SGS definitely appreciates the work and expertise of women. Where we could do a little better is helping women take the next step into top management positions, but I think the willingness to support women is genuinely there. Here in Germany, for example, through the Compliance Committee, I brought a proposal forward to support women’s career development. I am the only woman in the Committee at the moment, and my male colleagues were very welcoming of the idea. So, having been joined by two ladies from the Legal and HR departments, we are planning to roll out the project in 2020. We want to help coach them, give them exposure to different parts of the business and offer them more working flexibility.

“My advice to young women is to be yourself”

My advice to these young women (and to young women scientists wherever they work) is to be themselves. You don’t need to act like a man to be successful even in a technical role. You can show your emotions – it demonstrates your passion for your work. You can be proud of your role as a mother, talk about your children, wear dresses and makeup, if that’s who you are, and still build an outstanding career. Just be yourself.
MATRIARCHAL BEGINNINGS
I grew up in a traditionally matriarchal society in the north of Spain. So, no one ever told me there were jobs that women didn’t traditionally do. It was only later when I moved to Central Europe that I began to see that technical jobs were male-dominated here. But honestly, I just don’t think that way – I don’t think in terms of gender but in terms of people.
I joined SGS in 2006 as a testing engineer. I think I was always drawn to engineering. When I was eight years old, I did my first technical drawing (of sorts), of a carriage for my toy horses. So, in the end, choosing engineering science at university was a natural step for me. My first job was to certify electrotechnical components. Now I am Division Manager for e-mobility. I oversee 65 people in five laboratories on three different sites.

WHAT GENDER ISSUE?
If I am completely honest, my first reaction on being asked to write this was why? My instinctive response was – do we really need this today? I personally just don’t feel the gender divide at SGS. I’ve had no difficulty in advancing my career here and I’ve never had any specific problems because of my gender. I’ve never noticed any such issues here at all.
Yet, on reflection, while SGS is a good environment for women, not everywhere is the same. And even here, there are still challenges for women. For example, engineering is still a male-dominated vocation, and men and women communicate differently. When I stopped and thought more about it, I realized that I had learned at some point to present myself differently with my male colleagues. That was actually a challenge at the time.
I think things are changing for the best here. Women are more frequently taking up the vocation. I was lucky with my upbringing, and so, to a degree, I don’t always notice the positive changes. The attitude just feels normal to me.

ADVICE TO YOUNGER PEOPLE
I would say to any young woman – or indeed any young person – to try to free themselves of any expectation from other people and to try to find what it is that makes them truly happy in life. I had a teacher in school who had a PhD in physics but who also spent time working in a bakery because she loved making bread. That was an amazing mixture of passions. She taught me that it doesn’t matter what you do. It just has to make sense to you. You are the one with the passion for it. But if I was specifically trying to encourage women into science, I would tell young girls that they have the chance to change the future. Science lets you do that. And that is a rare opportunity.

“NO ONE TOLD ME THERE WERE JOBS THAT WOMEN DIDN'T TRADITIONALLY DO”

LAURA GARCIA BAGLIETTO
Division Manager e-mobility, Germany
My career with SGS has been interesting from the very beginning. I joined the company in early 1997 as a technologist in our Softlines business. My job was to manage the testing and final evaluation of textile materials for export. I’ve been with the Consumer and Retail business line ever since, but my role has developed.

After a while with the company I became a quality manager – at the time there was a major trend of companies in India moving towards ISO accreditation. Then I was asked to take up a more customer-facing role as a key account manager for a few very high-level accounts with global clients. Subsequently, I was promoted to Laboratory Manager. SGS recognized my hard work and in 2011 I was made National Operations Manager, covering all Softlines laboratories in India. After five years in this role, I was promoted to Head of Laboratories, India in 2016. In this role, I manage both the business and service excellence of the business line in India with a 600-strong team.

I enjoy the management aspect as much as I did my scientific roles. SGS is a global leader with a clear strategic vision and very strong values. I sincerely believe that, with this foundation of integrity and trust, SGS is one of the best employers any woman can work for.

It is true that the TIC industry is kind of male-dominated. But I think that in India this is partly because, traditionally, inspections roles involved a lot of travelling, and sometimes you have to work late at a customer site. India is a very traditional society, and these aspects of work were considered unsuitable for women. However, things are beginning to change, and more women are coming into the industry here.

A WONDERFUL PROFESSION

I would definitely encourage more women to get into the science side of things. While I see women moving into IT, HR and Finance roles within the TIC industry, I feel science is a bit at the back of the queue – women probably only make up around 10-15% of lab employees. Men and women have a different yet complementary approach to business. That makes it all the more important that both men and women should be present to ensure good growth and quick advances in any industry. So, it’s very important for us to encourage more young women to study science subjects and take on scientific roles.

Testing is a wonderful profession. It is a chance to make the world a better place and I would like to see more women involved.
COMPLIANCE AND INTEGRITY

Integrity is at the heart of the SGS brand, and our success is built on the trust our customers place in us. To maintain this trust, we expect our employees to embody SGS’ values in everything they do. As an industry leader, we believe our behavior inspires other businesses to create a better working environment for all.

SGS does not engage in any form of bribery or corruption, and we adhere to the legal requirements of every country we operate in. We hold anyone acting on behalf of or representing SGS to the highest standards of professional integrity, as defined by the SGS Code of Integrity. This Code applies to all SGS employees as well as affiliated companies, contractors, subcontractors, joint venture partners and agents. SGS’ Supplier Code of Conduct sets out our standards for suppliers on respecting human rights in our and our customers’ supply chains. Our shared values on individual and organizational professional conduct keep us from seeking business advantage by means that threaten our assets, brand, people or intellectual property. Both employees and suppliers receive clear guidance on grievance mechanisms. Any suspected violations can be reported using confidential integrity helplines or by contacting local or corporate-level compliance teams.

SGS conducts a mandatory Annual Integrity Training, based on the Code of Integrity, for all employees. Additionally, all new hires must complete an e-learning module within three months of joining the Company. This ensures clarity on SGS’ integrity expectations and standards, with violations leading to possible disciplinary action, termination and/or criminal prosecution.

ACHIEVEMENTS

99% of employees attended the annual integrity training

A new Integrity Helpline was launched in 2019, providing all affiliates with improved procedures, reporting and analysis

Human rights e-learning training rolled out in all countries where we operate

PERFORMANCE

100%

Employees signing the Code of Integrity

% of employees signing the Code of Integrity

211

Code of Integrity reports

TOTAL NUMBER OF INTEGRITY ISSUES REPORTED THROUGH CORPORATE INTEGRITY HELPLINES

“Helplines” means channels used by employees and external parties to report suspected violations of the Code of Integrity. These reports can be submitted online or by phone, fax, email or post.

36

Code of Integrity non-compliances

TOTAL NUMBER OF BREACHES OF THE CODE OF INTEGRITY IDENTIFIED THROUGH CORPORATE INTEGRITY HELPLINES

“Helplines” means channels used by employees and external parties to report suspected violations of the Code of Integrity. The reports can be submitted online or by phone, email, fax or post.

70

Code of Integrity investigations

TOTAL NUMBER OF VALID REPORTS INVESTIGATED

SGS CODE OF INTEGRITY RESPONSIBILITIES

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<tr>
<th>BODY</th>
<th>RESPONSIBILITIES</th>
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<tbody>
<tr>
<td>PROFESSIONAL CONDUCT COMMITTEE</td>
<td>• Ensures implementation of the Code of Integrity&lt;br&gt;• Advises Management on all issues of business ethics</td>
<td>• Chairman of the Board of Directors&lt;br&gt;• Two other Board members&lt;br&gt;• Chief Executive Officer&lt;br&gt;• Chief Compliance Officer</td>
</tr>
<tr>
<td>CHIEF COMPLIANCE OFFICER</td>
<td>• Implements procedures governing ethical behavior and conducting investigations of alleged staff misconduct</td>
<td></td>
</tr>
<tr>
<td>CORPORATE SECURITY TEAM</td>
<td>• Ensures security arrangements adequately protect people and assets and respect human rights&lt;br&gt;• Continuously evaluates assets and businesses</td>
<td></td>
</tr>
<tr>
<td>HUMAN RIGHTS COMMITTEE</td>
<td>• Oversees implementation of human rights commitments&lt;br&gt;• Supports human rights as defined in the Code and Business Principles</td>
<td>• Chief Executive Officer&lt;br&gt;• Chief Compliance Officer&lt;br&gt;• Vice President Corporate Sustainability</td>
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TALENT MANAGEMENT AND EQUAL OPPORTUNITIES

Our efforts to attract and retain staff, provide equal opportunities and increase diversity in our workforce are fundamental to our ability to operate. In 2019, we continued the implementation of our global Human Resources (HR) strategy, which is based on five pillars:

1. Aligning the HR structure to better meet global and regional business prerogatives
2. Implementing a competitive and transparent talent acquisition strategy
3. Fostering an integrated talent management mindset – based on consistent succession planning practices
4. Strengthening our leadership and employee capabilities with tools and guidelines
5. Leveraging our footprint to promote career development opportunities across the Group

The focus of our strategy is on talent development, which ultimately leads to employee retention. We are also aiming to provide a work experience tailored to the needs of both current and future SGS employees. To remain the industry leader, it is imperative that we continue to attract and retain high-caliber experts across the SGS Group. Our HR strategy is making SGS more agile and transparent in the way we acquire and develop talent and increasing the visibility of career and growth opportunities within the Group.

SGS is a diverse organization that supports all employees in realizing their potential. Our employees span nationalities, cultures, religions, generations and genders, and we recognize their contribution to our business success. Our approach to diversity is grounded in our Business Principles where respect is defined as “making sure we treat all people fairly.”

TALENT ACQUISITION

Our talent attraction and acquisition strategy focuses on actively hunting for the right talent to meet our current needs and engaging with talent communities for the future. We achieve this through efficient management of the recruitment process using our new, best-in-class e-recruitment tool. We complement this with competency-based assessments and efficient onboarding of new staff, especially in relation to our values, culture and business processes.

Talent acquisition is managed locally, with global support. The SGS Recruiter Academy, launched in 2019, is part of this assistance framework. It aims to develop our talent acquisition expertise and our more data driven approach to recruitment. It also favors the sharing of best practices and raises awareness of expertise held within the business. A similar program for hiring managers was piloted in 2019, with a plan in place to deploy to more than 400 managers in 2020. We use digital tools and social media platforms to foster connections and hunt for potential future talent around the world and to communicate with potential employees. The SGS Onboarding program plays a significant role in integrating new employees into the SGS business.

LEARNING AND DEVELOPMENT

Developing our people’s expertise supports individual and team development while helping us to maintain quality standards. SGS has a global talent development strategy, which is part of our HR strategy, but day-to-day implementation is carried out at a local level, giving our businesses the flexibility to adapt to local market conditions, business needs, employees and communities.

In 2019, we rolled out our new learning management platform, SGS Campus. The aim is to create an open learning center for all employees that offers easy access to a wide variety of knowledge and online training content applicable to all our businesses and functions. Employees can access content, share knowledge and set up training programmes from anywhere and using any device.

We also analyzed our top 200 positions to ensure we have the right succession plans in place, and that we are mobilizing and developing our key talent appropriately. As part of this, 18 senior leaders attended Institute for Management Development leadership programs.

ACHIEVEMENTS

- 4.6 million hours in staff training
- Catalyst employee engagement survey simplified, with improved targeting and reporting. The survey was deployed in 19 countries and among three global teams, with 15 773 employees participated
- 71/100 score on Employee Engagement Index
- +100 SGS recruiters took part in +1 400 hours of training provided through the new SGS Recruiter Academy
- SGS Campus knowledge management platform was rolled out to all employees
- 1 239 SGS employees from 14 countries participated in the Virgin Pulse Global Challenge, which promotes healthier lifestyles
- SHINE onboarding program revamped to improve usability and scope
- 65% males and 35% females in the global workforce
- 13 nationalities represented across the Operations Council
REWARD AND INCENTIVES
Reward plays a key role in attracting, motivating and retaining talent at SGS. Our compensation practices are benchmarked against the markets in which we operate, using a standard methodology, while we depend on local Management to define and maintain competitive compensation practices that appeal to both existing and future talent. We reward our employees for their performance, competencies and experience, based on local competitive conditions, and encourage profit-sharing through appropriate variable compensation plans, both long term and short term. We offer benefits, such as pension and healthcare plans, in accordance with local market norms. We regularly benchmark our compensation practices to confirm they are competitive in all locations around the world. To facilitate our benchmarking activities, we classify SGS positions based on the nature of the jobs and their relative level and weight. Then, using our competitiveness against market practices assessment, together with internal equity and affordability considerations, we make informed decisions on target salary ranges. By using a common methodology and language, we ensure alignment throughout SGS and facilitate internal mobility.

PERFORMANCE MANAGEMENT
Managing performance is recognized within the company to be a joint responsibility between an employee and their manager, alongside corporate and regional human resources teams. Employees are expected to be proactive about setting their own performance goals, evaluating their achievements and identifying learning opportunities, while managers are expected to be clear about expectations and deliverables, evaluate and critically discuss performance, and to support career management and encourage continuous learning.

In 2019, we invested in reinforcing our performance management culture, with a particular emphasis on evolving how we approach feedback, moving away from one-time feedback to a more continuous appraisal methodology.

DIVERSITY AND EQUAL OPPORTUNITIES
The SGS Business Principles, Code of Integrity and Human Rights Policy all underline our commitment to diversity and equal opportunities and our employees and managers are trained annually in the principles of non-discrimination. We strive to treat everyone fairly and without discrimination while providing employees with career development support that enables them to meet customer requirements and our own standards. SGS employees, subcontractors, business partners and suppliers are entitled to work in an environment and under conditions that respect their rights and dignity. We respect freedom of association and cooperate with the trade unions and work councils that our employees collectively choose to represent them within the appropriate national legal frameworks. All SGS policies and codes are informed by the International Bill of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Children’s Rights and Business Principles, the United Nations Women’s Empowerment Principles and the United Nations Global Compact.

EMPLOYEE ENGAGEMENT AND WELL-BEING
SGS continues to focus on performance management to develop and engage employees. We support our leaders understanding of employees’ experiences working with SGS by inviting all employees to complete a survey. Catalyst, our employee engagement survey, provides employees with the opportunity to voice their opinions and provide feedback to Management. In so doing, they initiate a process that ultimately gives managers the opportunity to launch improvement actions with their teams. Additionally, SGS provides various well-being initiatives tailored to the specific needs of local affiliates. These range from flexible working hours to semi-retirement plans. In some instances the programs are outcome-based health promotions, while in others, they are campaigns to encourage positive behavior change (e.g. cycle-to-work schemes). Where possible, remote IT connections and teleconferencing facilities enable employees to work from home and save them from having to travel to and from meetings.

As of 2016, this KPI is calculated based on permanent (fixed-term and open-ended) contracts.

26.7%
Women in leadership positions (CEO -3)

13.6%
Natural Turnover

As of 2016, this KPI is calculated based on permanent (fixed-term and open-ended) contracts.
OPERATIONAL INTEGRITY

We believe that operating safely and with integrity is essential to business success and we encourage a no-harm culture that prioritizes employee health and safety, alongside environmental protection.

Our goal is zero incidents – this means zero health, safety or environmental issues. To achieve this, we have a Global Mission comprising five overarching aims. We work to achieve these aims through Leadership, Education and Discipline initiatives developed in line with seven strategic pillars: Leadership; Communication; Training and Awareness; Resources and Skills; Key Performance Indicators; Audits and Compliance; and Health, Safety and Environmental (HSE) Risk Assessments. Each strategic pillar focuses on a topic where there is the most Operational Integrity (OI) risk for SGS and has long-term objectives set against it. The delivery of our OI strategy is supported by our group-wide Operational Integrity Management System, which is aligned with internationally recognized standards on health, safety and the environment.

LEADERSHIP

Our OI strategy and performance are reviewed quarterly by the Executive OI Steering Committee, the Group Vice President, Operational Integrity, Business Continuity and Integrity Programs and the CEO. Each year we look at what we have set out to achieve in the coming year and adapt to any emerging requirements. Within each strategic pillar, proactive OI objectives are part of our everyday processes and we are working towards integrating them into managers’ annual objectives. Manager OI objectives are reported on through our Crystal reporting system and monitored as part of our OI Cultural Index. Annually, we also determine specific objectives, such as the digital tools to be developed to support the OI initiatives. The Group Vice President, Operational Integrity, Business Continuity and Integrity Programs reports directly to the CEO and leads the deployment of the OI strategy and objectives, focusing on key programs, including incident investigations, risk assessments, training, leadership visits and best practices.

OPERATIONAL INTEGRITY CULTURAL INDEX

In 2019, one of our focus areas was the enhancement of the Operational Integrity Cultural Index (OI CI), which was launched in 2018 and has now become an important performance management tool. Consisting of 14 indicators split into the three areas of Leadership, Education and Discipline, the OI CI provides clear country-by-country OI analysis and supports decision making.

PERFORMANCE

Lost Time Incident Rate (LTIR) (200 000 hours)

Total Recordable Incident Rate (TRIR) (200 000 hours)

While we are able to look back at yet another year of injury rates well below target, it is with deep regret that we report the loss of two lives in our operations in 2019. Any fatality is unacceptable and we will continue to work toward achieving our goal of zero harm.

1. SGS remains committed to achieving and maintaining international certification for Health, Safety, and Environment in accordance with ISO 14001 and ISO 45001 (OSHAS 18001) at our largest sites around the world. For 2019, 148 sites, covering more than 16 000 employees, achieved or maintained ISO 45001 and/or ISO 14001 certifications.

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COMMUNICATION, RESOURCES AND TRAINING

Using our Incident Investigation Compliance Scores we help countries to identify where OI resources need to be improved. All SGS leaders are trained to conduct a minimum of six leadership visits per year, where they assess business and site level OI conditions, and demonstrate their commitment in the field. At the same time, all OI employees are provided with a suite of online tools to help them stay up to date with SGS Group OI requirements, along with training on site standard operating procedures, Group OI Management Systems and Rules for Life.

Our Rules for Life are 15 life-saving principles that apply to all employees, contractors and other people working on behalf of SGS.

Available in 14 languages, the Rules for Life are incorporated into all our safety-related campaigns. Regular Safety Talks and Integrity Talks are also provided for all employees.

The annual Safety Month further enforces the Rules for Life and the outcomes of both initiatives are systematically tracked. We also drive behavioral change across the organization through our Behavioral-Based Safety peer-to-peer observation program, which uses positive reinforcement to promote safe behavior.

AUDITS, KPIs AND RISK ASSESSMENTS

Centrally we audit regional and country-level OI performance, while local OI managers annually audit country laboratories, offices and facilities for health and safety risks as well as environmental impacts. Using information from these site audits along with incidents and hazards information captured locally, we generate performance reports and customer-mandated reports. All site managers are also expected to perform risk assessments and to develop associated action plans.

INDUSTRIAL HYGIENE

Our risk assessment process is holistic and covers health risks and safety and environmental risks. The aim is to protect the health and well-being of employees through disease and fatality prevention. For example, risk assessment teams use Chemwatch to facilitate the evaluation of chemical risks and the identification of additional controls, if needed. Chemwatch is a global tool we use to manage safety data sheets and chemical inventories across 57 languages.

BUSINESS CONTINUITY

SGS’ long-term success depends on our ability to continue delivering our products and services to pre-defined acceptable levels following disruptive events. However, the ultimate goal is to ensure that sufficient resilience is built into our organization to prevent any disruptions to the services we deliver to our customers.

In recent years, the Business Continuity function at SGS has been enhanced in terms of its overall management, strategic approach, team and training. Business Continuity now sits within the broader Operational Integrity function, where it benefits from synergies in risk assessments, strong group level support and integration into management processes.

In 2019, we launched a new Global Business Continuity Strategy, focusing on what is critical in terms of sites, processes and service delivery. The strategy is aimed at enabling us to respond to any disruption efficiently and effectively, with minimal impact on our operations. Building on the team enhancement made in 2018, we have added eight new Regional Business Continuity Officers and a Global Business Continuity Manager in 2019. A major focus for the team in 2019 was further embedding Business Continuity into the SGS culture.

ACHIEVEMENTS

Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) reduced by 60% and 57%, respectively, since 2014

65,086 employees participated in the SGS “Safe -Start” themed Annual Safety Month, which was held in September

2.5 million hours of OI training for SGS employees were completed in 2019

300% more Business Continuity training sessions and workshops for regional and local teams in 2019 compared with 2018
SOCIAL AND RELATIONSHIP CAPITAL

We add value to society by generating trust in products and services. We provide peace of mind for clients and suppliers through careful relationship management. We invest in the communities we operate in and our services help governments combat fraud and protect resources.

Customer Satisfaction 71  
Local Community Support 72  
Brand, Reputation and Sustainability 73  
Market Leadership 73
BUILDING IS THE GREATEST SOLUTION

“We’re empowering women and giving them hope for the future.”

MINNIE SARA ABRAHAM
Heart for India Foundation, India Manager
SGS India partner, SGS Academy for the Community
At SGS, we know the importance of knowledge. Our whole business is built on the expertise of our people. Our services rely on our employees’ high level of education and technical know-how, while we pride ourselves on guiding other businesses on knowledge-based development journeys.

However, while education is recognized as a basic human right, not everyone around the world can access it. There are many barriers that prevent children and young adults from studying and these are far more prevalent when there is a high level of poverty, or for disadvantaged groups, such as women and people with disabilities.

THE TRUE VALUE OF EDUCATION

Education is empowering. We believe the right educational programs can transform lives and add value to society in ways that brighten the future of individuals, families and all those around them.

As a provider of high-level vocational training courses through our SGS Academy, we can help. Which is why we established the SGS Academy for the Community, through which we aim to increase the wealth of local communities in which we operate. We achieve this by providing high-quality SGS Academy technical training and improving the employment prospects of people who complete our courses.

So that we could establish the SGS Academy for the Community where it is needed most, all branches of the SGS Academy were given the opportunity to propose local community projects. Each was evaluated and four projects, in four countries in different parts of the world were identified.

INDIA
India is growing. Both in terms of population and prosperity. But there are still many people living below the poverty line. This is both a cause and an outcome of a lack of education.

1.3 billion 
21.9% below poverty line

Course topics are linked to India’s employment market, e.g., desk top publishing, physiotherapy and nursing (see next page for more information).

As the eldest daughter of aging farmers, the responsibility to support my family is on me. Now I can do this well.

M PRASHANTHI
Physiotherapy course

CHILE
Chile is not considered to have high levels of poverty, but there is significant inequality, which is often unseen. As a result of the country’s education system, not all children can attend good schools or even get an education at all.

18.0 million 
14.4% below poverty line

High school support courses tackle the issue of a lack of practical working skills among school leavers.

My life has changed for the better, I feel like I have more control. I learn new things every day and my family is happy.

VIOLA KININI SEBOTHOMA
Food safety course

SOUTH AFRICA
South Africa is one of the most developed economies on the African continent. However, extremely high unemployment, poverty and inequality mean the country is facing ongoing challenges.

50.7 million 
49.2% below poverty line

Food safety courses address a skills gap identified by the government.

TAIWAN
Taiwan is going through a period of change. It is now focused on growing seven major innovative industries. Poverty is extremely low, but the change has created a different employment market.

23.3 million 
1.78% below poverty line

Courses provide alternative opportunities for highly skilled unemployed people.
SGS ACADEMY FOR THE COMMUNITY IN INDIA

THE POWER OF PARTNERSHIP

Minnie Sara Abraham, Heart for India Foundation, India Manager explains how SGS Academy for the Community courses are helping to move Indian families out of poverty.

“Our project with SGS is about empowering underprivileged women. The women who come to us are the poorest of the poor. Most of them cannot afford an education,” explains Minnie Sara. SGS has been partnering with the HFI Foundation since 2017 in delivering life-changing vocational training courses. This means that students unable to study for financial reasons are being given the opportunity to have both an education and a career. “The courses are usually for 18-20 year-old students,” continues Minnie Sara, “but we often relax the age, because there are a lot of women who dropped out many years ago who want a second chance in life.” Beyond having access to further education, beneficiaries are also supported while they study with nutritious food, medical programs, fitness classes, IT training and a range of workshops and seminars.

“We couldn’t achieve what we do without SGS. Our great partnership makes it possible.” The ultimate goal is to empower the students to go into the workforce with confidence, and to achieve financial independence and security. “We teach them to the maximum excellence,” concludes Minnie Sara. “They have to be able to survive in the working world, to get a job and to be independent: they have to support themselves and their families.”

ENHANCING SKILLS, ENHANCES LIVES

Nilesh Jadhav, Business Director, SGS Academy describes how skills development together with employment opportunities provide beneficiaries with the best outcome.

“We developed a comprehensive portfolio of courses designed to empower women. There are a few sections of the job market here in India that are growing significantly,” explains Nilesh. “For example, the IT sector, hospitality and nursing. So, we created vocational courses in these areas.”

SGS Academy was already delivering many vocational courses, but for the community program it is important that the support extends beyond the course itself. Nilesh decided that, to achieve this, SGS needed to work with a partner organization experienced in finding employment opportunities. “Our first objective is clear to all stakeholders,” describes Nilesh, “enhancing the skills of the underprivileged candidates, but the second objective goes beyond this and target the outcome of employment. This then contributes to our broader objective: to improve the students’ overall standard of living in a long-term and sustainable way.”

Nilesh details the course success to date: “The first courses started in 2018 with close to 130 female candidates. These have already been completed and most of the students are now in internships that will lead to offers of employment.” Beyond the first intake, the second round of courses are currently underway and the aim is the same. “For us, the key is that the objectives of the community project are met, only then can we consider the overall project a success.”

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SETTING OUR SIGHTS ON INCLUSION

“Our aim is to get children with learning difficulties accommodated beautifully in mainstream schools without pushing them to the fringes of the so-called normal education sector. But more than this, our aim is to develop the education sector to make it robust enough to accommodate these kids. It can’t just be about building the capacity of the children, we have to build the capacity of the system as well.”

POOJAA JOSHI
Executive Director, Mimaansa, Thane Municipal School, Kisan Nagar

Mimaansa is a non-governmental organization working to address the issue of learning disabilities in less privileged schools in the city of Thane, in Maharashtra, India. SGS supports Mimaansa in achieving its aims.
CUSTOMER SATISFACTION

It is important to us that our customers recognize the value of our services and have positive experiences that bring them back to us time and time again. To achieve this, we ensure that all our employees have the skills and knowledge required to deliver our services to the highest quality standards. At the same time, we are continuously enhancing the systems and processes we have in place to anticipate and respond to customer needs as they arise.

CUSTOMER RELATIONSHIP MANAGEMENT

Our approach is decentralized: each business line has its own customer care department. These act as the direct point of contact for customers and connect them with the relevant parts of SGS. We monitor and periodically review customer contact as part of our Management Review processes. Our customer interactions are a combination of face-to-face customer meetings, follow-up emails/phone calls, hard-copy and online feedback questionnaires. We also support our daily customer interactions with seminars and workshops, as well as with social media communications, responses to web enquiries and online chat functions (automated, guided and manual).

CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS

The quality of the relationship SGS is able to maintain with its customers relies on the IT infrastructure in place to support it.

In 2018, we launched the first version of our customer portal in our Online Services pilot. This portal enables customers to engage directly with SGS, while at the same time providing employees with a new customer relationship management system that supports better customer interactions.

In 2019, we enhanced these pilots, based on the feedback we received from our customers. Our aim is to continually improve our customer interfaces. Our ultimate goal is to offer all our prospects and customers a seamless experience, with a single point of personalized access to SGS.

CUSTOMER FEEDBACK

Understanding how our customers feel about their experiences and learning about their specific interests, suggestions and expectations is important to SGS. We regularly communicate with our customers and we analyze customer sentiment through our Voice of the Customer surveys.

In 2019, we introduced a new global IT platform through which to run and manage all online Voice of the Customer surveys. This new platform provides advanced analytics that can be aggregated on a global scale, giving us a broader understanding of customer experience across the business.

The largest of our annual Voice of the Customer surveys is our Laboratory Excellence Program. Each year, SGS laboratory customers are asked to complete a survey about their experience and service from our laboratories. The results enable SGS to continually improve laboratory services.

<table>
<thead>
<tr>
<th>ACHIEVEMENTS</th>
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<tbody>
<tr>
<td>Introduction of new Voice of the Customer global IT platform to create a global customer survey</td>
</tr>
<tr>
<td>+9 600 Voice of the Customer responses analyzed in 2019</td>
</tr>
<tr>
<td>91% satisfaction score across all Voice of the Customer surveys*</td>
</tr>
</tbody>
</table>

* Results for 2019 surveys analyzed the complete year of experiences in 2018.
LOCAL COMMUNITY SUPPORT

We are committed to investing in the communities in which we operate in a way that has a positive, measurable and lasting effect. Our community strategy is managed under three pillars: Empowerment, Education and Environmental Sustainability. It is aligned to the Sustainable Development Goals and our actions seek to address global priorities linked to poverty, health, education, climate change and environmental degradation. We encourage our employees to volunteer and donate cash, as well as our own corporate resources.

PROGRAM MANAGEMENT

Increasing our investment in communities around the world by 30% (against a 2014 baseline) is one of our Sustainability Ambitions 2020. In working towards this goal, we are facilitating responsible business operations and helping to address development challenges. Our community programs are selected and managed in line with the Group Community Policy and Guidelines, at a global and local level.

The majority of the initiatives are led by our affiliates through collaboration with local organizations. To evaluate the effectiveness of our programs, we conduct an annual community survey, which is aligned with the London Benchmarking Group criteria, the global standard in measuring and managing corporate community investment. The survey is deployed across the network as part of our sustainability reporting process.

SGS COMMUNITY PILLARS: BREAKDOWN OF INVESTMENT

**EMPOWERMENT**

54%*

Our empowerment programs (including economic development, health, gender equality and alleviation from poverty and hunger) support physical, emotional, intellectual and economic empowerment by providing access to health care, counseling, microcredit and enterprise schemes.

**EDUCATION**

31%*

Our education projects improve access to all levels of schooling and promote informal learning in the form of employment training schemes and skills workshops.

**ENVIRONMENTAL SUSTAINABILITY**

15%*

Our environmental initiatives focus on the protection of endangered species and restoring natural habitats.

*Percentage of total community investment.

ACHIEVEMENTS

17 197 employee hours volunteering in local communities

CHF 934 000 cash donation given in 2019

PERFORMANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment in Community (CHF thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>277</td>
</tr>
<tr>
<td>2015</td>
<td>222</td>
</tr>
<tr>
<td>2016</td>
<td>356</td>
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<tr>
<td>2017</td>
<td>305</td>
</tr>
<tr>
<td>2018</td>
<td>462</td>
</tr>
<tr>
<td>2019</td>
<td>441</td>
</tr>
</tbody>
</table>

* Including cost of volunteering hours (on a constant currency basis).
BRAND, REPUTATION AND SUSTAINABILITY

Building and maintaining a positive brand reputation is essential to maintaining our market leading position. A positive brand perception increases confidence, loyalty and trust both internally, among our employees and investors, and externally, with our customers and consumers. Focusing on sustainability as the key driver for brand perception ensures that SGS is perceived not only as a leader in the TIC industry but also in society as a whole.

Sustainability is at the core of our brand offering. It is embedded in the decision-making process of all company functions as part of our integrated leadership model.

This is why sustainability at SGS is driven from the very top, with the CEO actively leading our sustainability vision. It is also enshrined in our Business Principles (see page 15). Sustainability at SGS is managed by a dedicated team, which oversees activities across four pillars: People, Professional Excellence, Environment and Community.

The weight of our internal sustainability activities is guided by the results of our Materiality Matrix (see page 26) and our effectiveness is measured both against published key performance indicators and our Sustainability Ambitions 2020 (see page 12). Our efforts are also aligned to the Sustainable Development Goals.

In 2017, we became one of the first companies in the world to publish a quantitative valuation of our value to society. This is an exercise we repeated in 2018 (see page 82). More detailed information on our sustainability efforts is available in our Sustainability Report www.sgs.com/cs-report-2019.

Our best-in-class sustainability performance is valued by our customers, appealing to the job market and highly attractive to the rising numbers of sustainable investors active in the global financial markets.

ACHIEVEMENTS

- SGS is a member of the CDP (formerly the Carbon Disclosure Project) A list
- SGS was awarded best Integrated Report from PwC
- Dow Jones Sustainability Indices Industry Leader for the sixth year in a row
- FTSE4Good Index includes SGS for the third consecutive year
- Platinum Award from EcoVadis
- Named a CDP (formerly the Carbon Disclosure Project) Supplier Engagement Leader

MARKET LEADERSHIP

Evolving with customer needs and adapting to megatrends (see page 20) are essential to the Group’s success. Our leadership position is driven by our ability to invest, develop and strengthen our expertise in strategic markets and geographies. This expertise is enhanced by the depth and variety of talent that we have in the company. Introducing different perspectives and global views enables SGS to be a better, smarter, more creative and more innovative company.
We add value to society through our carbon neutral strategy and commitment to managing finite resources more effectively. Our services guarantee secure, sustainable food sourcing, reduce the use of natural resources, prevent land degradation and reduce the impact of extractive activities.

Climate Change 78
Water and Waste Management 81
RESPONSIBLE SOURCING

“We are beginning to see a change in the market.”

DERICK GOVENDER
Executive Vice President, Minerals
The mining sector is often seen as very traditional in its approach but we have seen a fair bit of evolution over the years.

While the existing SGS minerals portfolio is geared towards primarily servicing exploration, mining and commodity trading organizations, there has been significant interest from the commodity end-user market for increased visibility of supply chain activities. This is a result of consumers seeking more clarity on the origin of commodities that are essential in the manufacture of end products such as vehicles, electronic devices and other related products.

**TRACEABILITY**

Responsible sourcing is about producing and manufacturing in a socially, ethically and legally responsible manner. It includes key elements such as environmental protection, safeguarding natural resources and ensuring the safety and sustainability of all activities.

One example of a commodity that is generating interest in terms of tracing its path from source to end product is cobalt. 50% of all global cobalt that is extracted from ground is used in the manufacture of rechargeable batteries and impacting growing industries such as the electric vehicle and mobile phone markets. The Democratic Republic of Congo and Zambia account for more than 50% of global cobalt production.

Of the cobalt production in the Democratic Republic of Congo, as much as 25% comes from artisanal mining. Well-publicized issues around this activity include poor environmental and safety planning and the risk of child labor appearing in the supply chain.

SGS Minerals recently entered into a strategic collaborative agreement with the European technology development group, Circulor, to develop and deploy a range of digital and other tools, including blockchain, facial recognition, remote sensing and satellite monitoring to deliver end-to-end visibility of minerals supply chains from mine to consumer.

“Well-publicized issues include the risk of child labor in the supply chain.”
“These services allow companies to be sure their materials are ethically sourced.”

The global network of SGS minerals testing laboratories and portable tools will be leveraged to ascertain the provenance of the metals, their authenticity and socio-environmental attributes throughout the supply chain. Since SGS’ global footprint spans multiple industries, we are able to provide world-class traceability services to our new customers and industries. We are currently assessing advanced tracking tools to provide a link between the physical material and a digital database. This is essential for our customers to be able to manage the sustainability of their end products. Our end-to-end traceability services also help companies accurately measure and manage the environmental and social footprint of their supply chains and their products through their lifecycle, such as the carbon footprint of producing a vehicle or a phone. This also enables circular or closed-loop supply chains by tracking the provenance, quality and content of recycled minerals. When combined with our environmental and safety testing, these traceability services allow manufacturers to be sure that their raw materials are ethically sourced and managed.

This improvement in manufacturing has the potential to further their long-term sustainability, as well as reducing the extraction footprint in the short term. We also work in the recycling space. Our Governments and Institutions Services business line ensures that electronic products and the minerals in their batteries meet the regulatory framework of local jurisdictions to support recycling mineral and e-waste. We can also help companies assess the recyclability and recycling efficiency of their products, such as batteries and electronics, and design optimal recycling metallurgical processes. Given the scarcity of some of these minerals, ensuring that recycling is effective is critical to the long-term viability of these sorts of products.

**PRECISION MINING**

Our portfolio of precision mining and processing services helps companies reduce, recycle or monetize production waste through improving innovation and the efficiency of their processes. Within the Minerals business line, our metallurgical group is currently working on programs with strategic partners to assess how best to optimize the mineral composition of batteries. We are also helping mines reduce their energy consumption. Using advanced technical and scientific insights, we are often able to find lower energy solutions that do not negatively impact production. This saves our customers money and, of course, contributes to the battle against climate change.

Finally, we are also constantly looking at innovative approaches to improving our own performance. Services such as digital inspections, where we use video and other digital tools, not only speed up processes for customers (by reducing the inspection timeframe from up to 48 hours to just a few hours), but also improve our operations. The advanced video technology reduces our travel time, which boosts productivity, and minimizes our carbon footprint, while having no negative impact on the quality of our service (in some instances, it provides a better one). We are also introducing field services technology, which allows us to analyze samples closer to mine drill rigs. This avoids heavy rocks being transported long distances to laboratories for testing. Again, this helps speed up processes for our customers and minimizes our carbon footprint. All of these actions, no matter how small, all add value to society and for our customers. This is Double-Positive transformation in action (see page 30).

**SUPPORTING BETTER OPERATIONS**

We don’t just look at the materials though. We help improve the way mining operations. We consult on reducing water usage through process water recycling, which places less strain on local water resources. We also test the quality of water run-off to ensure it meets the required environmental standards and isn’t toxic to flora and fauna. Our Environment, Health and Safety business conducts emissions testing to ensure that mines and smelters meet the necessary air quality standards, helping our customers to manage their carbon footprint and limit air pollution.

For example, our Environment, Health and Safety business is constantly looking to improve innovation and the efficiency of their processes. We are also helping mines reduce their energy consumption. Using advanced technical and scientific insights, we are often able to find lower energy solutions that do not negatively impact production. This saves our customers money and, of course, contributes to the battle against climate change.

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REDUCING ENERGY CONSUMPTION

The energy used in our 2,600 offices and laboratories worldwide accounts for 62% of our global energy consumption. Improving efficiency in this area is therefore critical to our energy reduction strategy. We achieve this through our Energy Efficiency in Buildings (EEB) program and through our approach to sustainable transport, our Add Value with Less internal awareness-raising initiative and our Green IT Policy.

ENERGY EFFICIENCY IN BUILDINGS PROGRAM

Our EEB program evaluates and reduces energy consumption in new and existing buildings. It achieves this through energy-efficiency action plans for existing buildings and applying environmental assessments to the design, construction and refurbishment of SGS buildings.

At the same time, the SGS Green Building Guidelines provide a rating tool that supports the delivery of the EEB Program by assessing new buildings using key performance indicators that cover energy, waste and water. They define the minimum requirements in areas such as lighting system energy performance and water consumption. The guidelines propose measures to improve environmental performance and guidance with regard to cost implications and associated responsibilities.

SUSTAINABLE TRANSPORT

Our Vehicle Emissions Policy, introduced in 2016, promotes the use of low-emission fleet cars. The policy commits us to reducing our vehicle fleet CO₂ emissions every year until 2020. By the end of this period, average CO₂ emissions per km for our worldwide fleet shall not exceed 95 grams per km and no vehicle covered by the policy should exceed 105g CO₂/km.

While continuing to deliver against the Vehicle Emissions Policy, we are also collaborating with Group Procurement to develop a

ACHIEVEMENTS

+650 buildings in the EEB program
+400 energy conservation measures identified
70% of data centers are now held within the cloud, on completion of a two-year program

CLIMATE CHANGE

We minimize the impact of our processes and operations on the environment by reducing carbon emissions and by helping other businesses do the same.

We reduce energy consumption at source through processes such as Energy Efficiency in Buildings and sustainable transport.

We generate renewable energy on site or purchase renewable energy whenever possible.

Finally, any energy that we still consume after these reductions is mitigated through our off-setting strategy.
wider SGS Sustainable Mobility Strategy. As part of this, we are analyzing more sustainable vehicle options, while still meeting our business needs, in the regions where we have the largest fleets: Europe and North America. The SGS Sustainable Mobility Strategy will also include driving efficiency training, rationalization of the fleet, inclusion of more sustainable vehicles in the catalog and an alternative transportation study.

ADD VALUE WITH LËSS
In 2019, we launched our Add Value with Lëss internal initiative. The aim of the initiative is to both raise awareness and lead to increased efficiency in different areas, including environmental sustainability. It intends to make every SGS employee feel empowered to drive operational efficiency, improve quality, and to reduce our environmental footprint, while at the same time, contributing to a more agile and innovative SGS.

DATA CENTERS
Rationalizing our data centers has had a significant impact on our energy consumption. We have committed by 2020 to migrate 80% of the servers we had in 2018. We have already migrated 70% and are on track to reach our target by the end of 2020.

USING RENEWABLE ENERGY
SGS is a signatory of the RE100 initiative, pledging to use 100% energy from renewable sources by 2020. To achieve this goal, we use on-site energy generation and purchase electricity from renewable sources.

In 2019, we invested in 422 GWh of renewable energy mechanisms to reduce our CO2 emissions in the communities where we operate. In several locations, we are exploring Power Purchase Agreements, where affiliates would develop an off-site renewable energy plant.

ACHIEVEMENTS
Investment in 422 GWh of renewable energy mechanisms to mitigate our CO2 emissions
OFF-SETTING RESIDUAL EMISSIONS

Carbon off-setting is an important part of SGS’ environmental efforts and bridges the gap between the current reality and a more sustainable future. While we focus on reducing our CO₂ emissions, any residual emissions* are compensated for through our carbon off-setting strategy.

The strategy allows us to assign a clear cost to the carbon that we generate (our internal cost of carbon). Each SGS affiliate takes responsibility for their CO₂ emissions and the cost of off-setting them. We look for credible and verified carbon off-setting projects that directly benefit communities where we have an impact.

EXTERNAL PARTNERSHIPS AND INITIATIVES

We establish external partnerships and take part in initiatives that help us demonstrate our commitment to strengthening our sustainability performance, including:

- The World Business Council for Sustainable Development
- RE100
- Climate Neutral Now
- Science Based Targets Initiative

For more information on SGS’ external partnerships and initiatives, please refer to the SGS Sustainability Report: www.sgs.com/cs-report-2019.

ACHEEIVEMENTS

Four voluntary carbon off-setting schemes supported

* Market-based emissions. Excludes district heating and refrigerant gases emissions due to unavailability of data. Scope 3 emissions only include Category 3: business travel.
WATER AND WASTE MANAGEMENT

We are committed to managing finite resources, such as water, more effectively and developing ways to reuse, recycle and prevent waste. While our global water consumption is relatively low in comparison with other industries, managing water resources is a critical issue in some areas where SGS operates. Through our services, we handle quantities of hazardous and nonhazardous waste, which need to be disposed of responsibly, without risk to our workers and society.

WATER MANAGEMENT PROGRAMS

Our water usage is concentrated in our laboratories, with additional usage for drinking, food preparation and sanitation. Across all our operations we monitor the amount of water we consume. Where possible, we seek to improve our water efficiency. For example, the SGS Energy Efficiency in Buildings program manages water efficiency – by assessing water consumption and installations and recommending site-specific improvements. As a signatory of the World Business Council for Sustainable Development pledge for access to safe water, sanitation and hygiene (WASH), we are committed to ensuring that all employees enjoy access to clean water.

WASTE MANAGEMENT PROGRAMS

We have traditionally produced relatively small amounts of hazardous and non-hazardous waste compared to other industries. This includes chemicals, test samples, paper, plastic and organic waste from our offices and laboratories. The waste is produced in varying proportions, determined by the industry or industries served by each site. Specially crucial is the high-density voluminous test samples coming from our mineral and construction industries. Business growth in these industries have driven the inclusion of waste management as a material topic for the company and we are currently working on improving reporting tools to tailor actions.

Our Add Value with Lëss initiative encourages efficiency in our offices and laboratories. This includes environmentally-related actions such as minimizing printing and optimizing consumables. We promote recycling of office waste through effective separation, and we draw on external resources to help us reuse and recycle materials.

The non-hazardous waste increase is mainly due to the business growth of laboratory services analysing clients’ high-density voluminous samples of minerals or cement. The majority of these samples are later recycled. We are currently enhancing our reporting system to accurately quantify the proportion of client samples waste.

**PERFORMANCE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total water purchased (million m³)</th>
<th>Total waste generated (metric tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.90</td>
<td>HAZARDOUS 42,467</td>
</tr>
<tr>
<td>2015</td>
<td>1.98</td>
<td>NON-HAZARDOUS 1.88</td>
</tr>
<tr>
<td>2016</td>
<td>1.98</td>
<td>HAZARDOUS 42,890</td>
</tr>
<tr>
<td>2017</td>
<td>1.94</td>
<td>NON-HAZARDOUS 1.90</td>
</tr>
<tr>
<td>2018</td>
<td>1.90</td>
<td>HAZARDOUS 48,536</td>
</tr>
<tr>
<td>2019</td>
<td>1.97</td>
<td>NON-HAZARDOUS 1.84</td>
</tr>
</tbody>
</table>
We are convinced that our long-term success depends on our capacity to deliver sustainable value not just to our shareholders but to society as a whole. To understand our value creation we have developed the SGS Impact Valuation Framework. This aims to quantify and give a monetary value to our positive and negative impacts on society beyond our financial return.
OUR IMPACT VALUATION FRAMEWORK

By measuring our Value to Society in a non-abstract, concrete and systematic way, we are effectively measuring our impact on societal prosperity and well-being, alongside SGS wealth and performance. Our aim is to make value to society tangible and to provide a meaningful cost-benefit analysis to support strategic decision making. Our SGS Impact Valuation Framework provides a cutting-edge methodology to achieve this.

The SGS framework values the societal impacts that result from SGS-driven activities across six capitals: Financial (see page 32), Manufactured (see page 42), Intellectual (see page 50), Human (see page 56), Social and Relationship (see page 66) and Natural (see page 74) and measures them in a common unit: the Swiss Franc (CHF). These impacts can be either positive or negative in order to reflect an associated benefit or cost.

This framework has been developed to understand the value of our non-financial performance both to SGS and to society. It guides us in maximizing our positive impact and minimizing our negative impact and ultimately provides us with a more holistic view of the value we add, beyond our financial return. While our model cannot yet incorporate calculations estimating the value of our entire service portfolio to society, we have explored the value of a few case studies.

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NATURAL, HUMAN AND MANUFACTURED CAPITAL
CASE STUDY

VEHICLE INSPECTION SERVICES
SGS ensures that public and private vehicles are compliant with safety and emission standards issued by regulatory authorities. SGS tests more than 25 million vehicles annually, and as a result, reduces the number of road accidents in 15 countries. This provides enormous associated positive economic impacts by saving lives, protecting well-being, reducing medical and insurance costs, and avoiding damage to property.

Similarly, air pollution has been minimized by limiting the circulation of over-polluting vehicles. This in turn prevents damage to human health and ecosystems and the associated economic and social costs. The Value to Society derived from our Vehicle Inspection Services amounts to CHF 125 million1 for Natural Capital, CHF 1 400 million1 for Human Capital, CHF 100 million1 for Manufactured Capital and CHF 590 million for Financial Capital.

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NATURAL CAPITAL
CASE STUDY

SEED AND CROP SERVICES
Precision agriculture and fertility management solutions help the agricultural sector to effectively use sustainable practices to reduce resource usage, while increasing the production to meet changing demands due to global population growth and new food habits.

We achieve this through solutions such as agronomy services, precision farming and soil and water analysis. Thanks to these solutions, society benefits in a number of ways. With reduced fertilizer usage there is less water pollution. By helping to optimize the use of water by the agricultural sector, public water shortages and the associated vulnerabilities are diminished.

Finally by enhancing crop yields, farmers are more effective and productivity is maximized.

In South America and Africa alone, we delivered an estimated value to society of CHF2.4 billion1 in Natural Capital through reduced fertilizer and water usage and CHF2.1 billion1 in Financial Capital through increased farm productivity.

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EXAMPLE INDICATORS

GHG EMISSIONS
The social cost of the CO2 released into the atmosphere as a result of our activities.

OCCUPATIONAL SAFETY
The human and societal costs (e.g. cost of treatment) of injuries and fatalities resulting from workplace incidents.

RESEARCH AND DEVELOPMENT
The social benefit of enhancing know-how through research and development activities.

1. Relates to 2018 figures.
Our calculations\(^1\) demonstrated that SGS generated +CHF 7,641 million of positive societal benefit, primarily created through profit generation, the paying of taxes and wages, and training and development programs. We also generated CHF 991 million of negative societal impacts, which were primarily driven by the SGS supply chain’s environmental footprint. SGS’ positive impacts were primarily driven by the Company’s own operations, which accounted for 69% of the total positive impacts.

**CHF 6,650mio**

The total value to society of SGS direct operations and supply chain activities

1. Value to society is calculated on 2018 figures.

For more information on how SGS measures its value to society and case studies on the capitals’ impacts of SGS services, see the SGS Sustainability Report.
OUR APPROACH TO SUSTAINABILITY REPORTING

SGS is committed to providing stakeholders with accurate and timely updates on our sustainability activities and our performance, and we strive to produce a report that is fair, transparent and balanced, and meets the needs of our stakeholders.

1.1 SCOPE AND BOUNDARIES
The scope of the Sustainability Information contained in this Integrated Annual Report covers all regions and business lines of the SGS Group for the 2019 calendar year. A full list of SGS affiliates can be found on pages 197–200 of this report. Unless stated otherwise, our reported data scope covers the Group business and targets for the period 1 January to 31 December 2019.

We have identified and prioritized our most material impacts on the business and on stakeholders across our value chain, and this Integrated Annual Report includes performance data for our direct operations and information on how we are managing the most material issues. For more information on how we define our material issues, please see page 26 of this report.

Our past and present performance is disclosed in this report over a five-year period. Sometimes historical data may differ from previous reports due to the availability of more accurate data or improved data gathering and/or reporting. In such cases, variations in data of less than 5% are generally considered immaterial: significant changes to prior year data are disclosed where they first appear in the report.

1.2 EXTERNAL STANDARDS
For the past ten years, SGS has published a Sustainability Report, and since 2015, we have integrated sustainability content into our Integrated Annual Report as we move towards a fully integrated reporting structure in line with the Integrated Reporting Framework.

SGS supports the principle of integrated reporting. In 2019, we moved forward again with our alignment to the integrated reporting framework by using the six Capitals it defines as the structure of our Integrated Annual Report.

The sustainability content in this Integrated Annual Report is drawn from our Sustainability Report, to be published in March 2020. Since 2013, our Sustainability Report has been developed using the guidelines for the AA1000 Accountability Principles Standard and the Global Reporting Initiative’s Standards. Our Sustainability Basis of Reporting (also to be published in March 2020) explains further our reporting approach.

1.3 ASSURANCE AND BASIS OF PREPARATION
External assurance of sustainability performance indicators is an important part of our approach, and our sustainability reporting has been independently assured since 2011.

In 2019, we appointed Deloitte LLP to provide independent assurance of our sustainability performance. Deloitte’s Assurance Report describes the work undertaken and their conclusion for the reporting period to 31 December 2019. Documents relating to independent external assurance in the years prior to 2019 are available in our Reports, Policies and Multimedia section on our website: www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs/reports-policies-and-multimedia.

Please see independent assurance for further information about our assurance process on pages 86–87 of this Integrated Annual Report.

2019 Annual Report Assurance Statement

Independent assurance statement by Deloitte SA to SGS SA on selected sustainability information presented in the 2019 SGS Annual Report

What we looked at: Scope of our work
SGS SA ("SGS") has engaged us to perform limited assurance in respect of the SGS Sustainability Report for the year ended 31 December 2019. Our separate opinion will be published in that document. Selected sustainability information from the Sustainability Report also appears in the SGS Annual Report for the year ended 31 December 2019 ("the Report"). The selected sustainability information which comprises the Subject Matter relevant to this assurance statement appears on pages 5, 12–13, 22–27, 45, 48, 54–55, 61–65, 71–73, 78–81, 83–85 of the Report.

What standards we used: basis of our work and level of assurance
We used the International Standard for Assurance Engagement (ISAE) 3000 (Revised), issued by the International Auditing and Assurance Standards Board to carry out our limited assurance engagement on the Subject Matter. To achieve limited assurance, ISAE 3000 requires that we review the processes and systems used to compile the areas on which we provide limited assurance. This standard requires that we comply with the independence and ethical requirements and to plan and perform our assurance engagement to obtain sufficient appropriate evidence on which to base our limited assurance conclusion. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. This is designed to give a similar level of assurance to that obtained in the review of interim financial information. This provides less assurance and is substantially less in scope than a reasonable assurance engagement.

Inherent limitations
The process an organisation adopts to define, gather and report data on its non-financial performance is not subject to the formal processes adopted for financial reporting. Therefore, data of this nature can be subject to variations in definitions, collection and reporting methodology with no consistent, accepted standard. This may result in non-comparable information between organizations and from year to year within an organisation as methodologies develop. To support clarity in this process, SGS prepares sustainability information in accordance with the principles of the Global Reporting Initiative (GRI) Standards. The SGS Sustainability Report further describes SGS’s approach to reporting sustainability information, including the scope and standards selected ("the Reporting Criteria"). Further detail appears in SGS’s Basis of Reporting document, available on request from the company. We have carried out our assurance against this criteria and it should be read together with this report.

What we did: key assurance procedures
To form our conclusions, we undertook the following procedures:

- Interviewed management at SGS and those with operational responsibility for sustainability performance to critically evaluate the reporting process, criteria and key controls;
- Interviewed management at SGS to understand the design of controls and functionality of the group sustainability information management and reporting databases used to manage sustainability data at a corporate level ("Solaris" and "Crystal"), and performed selected systems integrity tests to assess the accuracy of information generated by the systems;
- Identified potential material quantitative and qualitative sustainability key performance indicators and disclosures from the 2018 SGS Sustainability Report, by considering criteria such as the outputs of the company’s materiality process; peer reporting; susceptibility of misstatement due to error or fraud; whether a misstatement or control deficiency was noted in the prior-year; indicators or disclosures related to estimates and estimation methods; changes in calculation methods from prior-year;
- For the determined sustainability key performance indicators (as presented in Table 1 and a sample of related disclosures we undertook the following procedures:
  - management interviews and documentation checks to understand and test the reporting boundary and group consolidation and validation checks for complete, accurate and appropriate presentation of the information;
  - reviewed the design and implementation of SGS’s half year and full year data validation controls, and tested the operating effectiveness of key data validation review and sign-off controls;
  - conducted trends analysis on full year data to identify and query anomalies in reported data;
  - conducted sample-based substantive testing of Operational Integrity, to assess the accuracy of data classification, in line with the group reporting criteria; and
  - checked the quantitative and qualitative disclosures in the Report related to the selected sustainability key performance indicators against our understanding of the sustainability governance and management structures and performance over the year;
- Where necessary, we made recommendations to SGS management based on findings identified during the assurance that required improvement.
Table 1: Selected sustainability key performance indicators

- Total number of integrity issues reported through corporate helplines (absolute number)
- Natural turnover (%)
- Women in leadership positions (CEO -3) (%)
- Total recordable incident rate
- Lost time incident frequency rate
- Total number of fatalities (absolute number)
- Total greenhouse gas emissions (Scope 1, 2, and 3) (thousand tonnes CO₂e)
- Total energy consumption by source (GWh)

What we found: our assurance conclusion
Based on our procedures described in this report, nothing has come to our attention that causes us to believe that the Subject Matter in the SGS Annual Report for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Emphasis of matter
We reviewed SGS' basis for excluding direct emissions from refrigerants consumption from their Scope 1 GHG Inventory. Per discussions with management we noted their judgement that insufficient data was available to make a reasonable estimation for the refrigerants emissions, particularly given the high annual variability of refrigerant consumption.

We have also reviewed SGS’ basis for excluding emissions from district heating consumption from their Scope 2 GHG Inventory. Per discussions with management, we noted that data quality and completeness was not sufficient to approximate a reasonable estimation for district heating consumption.

A disclosure has been provided on pages 78 and 80 of the SGS 2019 Annual Report as a caveat to the Scope 1 and Scope 2 inventory exclusions noted above. This emphasis of matter did not modify our assurance opinion, as stated above.

Our independence and competence in providing assurance to SGS
We complied with Deloitte’s independence policies, which address and, in certain cases, exceed the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality, and from any involvement in the preparation of the report. We have confirmed to SGS that we have maintained our independence and objectivity throughout the year and in particular that there were no events or prohibited services provided which could impair our independence and objectivity. We have applied the International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our team consisted of a combination of Auditors with professional assurance qualifications and professionals with a combination of sustainability reporting and subject matter experts including many years experience in providing sustainability report assurance.

Roles and responsibilities
The Directors are responsible for the preparation of the information and statements contained within the Report. They are responsible for determining the goals and establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to independently express conclusions on the subject matters as defined within the scope of work above to SGS in accordance with our letter of engagement. Our work has been undertaken so that we might state to SGS those matters we are required to state to them in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SGS for our work, for this report, or for the conclusions we have formed.

Deloitte SA

Joëlle Herbette
Partner
Auditor in Charge

Matthew Sheerin
Partner

Geneva, 17 February 2020