

# OUR VALUE TO SOCIETY

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**2018** INTEGRATED ANNUAL REPORT

**SGS**

SGS tested the fire-resistance of Sophie's sleeping bag so that she can sleep soundly on her camping trip.



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## OUR INTEGRATED REPORTING APPROACH

This is the third year in which SGS has presented financial, operational and sustainability information in a single report, in line with the fundamental ideals of the Integrated Reporting Framework.

In addition to the information presented in this report, more detailed sustainability information is provided in our 2018 Sustainability Report <http://www.sgs.com/cs-report-2018>



We add more than just financial value to society. Through our integrated leadership approach, we strive to become an ever more sustainable company and maximize the positive impact we can have. Our stakeholders (employees and suppliers, investors, customers, governments and industries, consumers, and communities and the planet) are the ultimate beneficiaries of this effort. In order to measure our success, we are developing an innovative impact evaluation model to quantify our value to society.

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# LETTER TO SHAREHOLDERS



## DEAR SHAREHOLDERS,

In 2018 our total revenue increased to CHF 6.7 billion and the majority of business lines performed well, in line with our expectations. We also reached a new milestone in the SGS Group history as we surpassed CHF 1 billion in adjusted operating income. Consistent with our guidance, the Group delivered solid organic growth, higher adjusted operating income margin, robust cash flow and best-in-class return on invested capital. These results underline our Mission 2020 objectives and support the creation of long-term value for our customers, shareholders and for society.

## REACHING THE MID-POINT OF MISSION 2020

The strength of our portfolio was confirmed again in 2018 with significant growth in Minerals (11.4%) and high-single-digit growth in Governments and Institutions (7.5%), Oil, Gas and Chemicals (7.2%) and Certification and Business Enhancement (7.0%).  
(See page 11)

Since the start of the Mission 2020, mergers and acquisitions have been an important part of our strategy and we have acquired CHF 300 million of annualized revenue. As we approach 2020, we will continue to focus on accelerating acquisitions that add strategic value to our business portfolio. Over the course of 2018, we made eight acquisitions, which contributed 0.7% to acquisitive growth (see page 15). The dashboard review process, which was first implemented in 2015, continued throughout 2018.

To further optimize our processes, we have assessed a number of laboratories to evaluate how we can roll out our World Class Services program across our global network. This takes a structured approach to reducing organizational waste and losses, as well as bringing long-term improvements to our workplace efficiency, quality and logistics. In 2019, we will continue to implement and refine the World Class Services concept across the Group.

An internal investigation, realized in July 2018 in Brazil, confirmed the overstatement of revenues relating to prior years. An amount of CHF 47 million was provided in June 2018. The financial impact has been recorded as a non-recurring item in the current period Group Income Statement, consistent with the half-year disclosure.

As a result, we made a number of management changes and continued to strengthen our risk control processes.

Our digital evolution continued in 2018. In November, we took the first steps to offer services directly to consumers through our new customer portal, SGS online. This year we also adopted the SGS Data Privacy Policy to demonstrate the commitments we uphold across the SGS Group. We believe that SGS can play an important role in shaping trust in cyberspace and ensuring a safer digital world. As such, we joined several industry-leading companies in co-signing a Charter of Trust on Cybersecurity, which outlines 10 principles to protect data, prevent damages and establish trust.

In July, we were deeply saddened to learn that Sergio Marchionne had passed away. It was a privilege to have him as a Chairman and colleague. He not only made an immense contribution to the success of SGS, which he transformed into the leading TIC company, but he also touched the lives of many, both personally and professionally, with his charismatic personality. Sergio Marchionne held the positions of CEO (2002-2004) and Chairman of the Board (2006-2018). He will be greatly missed.

## DELIVERING VALUE AND LEADING SUSTAINABILITY

At SGS, we are committed to creating net positive value to society (see page 21). By aligning the SGS 2020 Sustainability Ambitions with the Sustainable Development Goals, we are leading the broader corporate sector to build a more sustainable economy, environment and society.

Our commitment to sustainability and creating value to society continues to receive recognition. For the fifth consecutive year, we were named the leading company in the industry by the Dow Jones Sustainability Indices. For the second time, SGS has been included in the FTSE4Good Index. We also received a gold rating from EcoVadis for the fourth consecutive year and were placed in the top 1% of the evaluated companies in our industry.

In 2018, we proudly maintained our status as a carbon neutral company and continued to drive down incident rates. Our sustainable supply chain strategy evolved to guarantee the respect of human rights beyond the organization, especially in high-risk countries and a new human rights online training for SGS employees was introduced to reinforce our commitment.

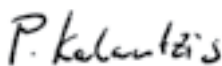
Sustainability leadership is fundamental to our culture and inherently present in many of our services. This focus allows us to be better aligned with the expectations of new generations of customers, employees and investors.

## MAINTAINING THE MOMENTUM

2018 marked 140 years for SGS. In the face of changing market conditions, the essence of what we do remains the same, and the passion and dedication of our people have led to our continued success and leadership. Our core activities are based on delivering trust and confidence to provide our customers with independent services that give them the expert reassurance they need to do business. This holds true whether we are talking about inspecting grain, where we started so many years ago, or investments in 5G network services, an area that we expect to develop and expand over the years to come.

This momentum directly contributes to solid growth returns and supports the creation of value to customers, shareholders and society. We'd like to thank our people for their energy, talent and hard work in achieving these results in 2018. Their commitment, passion and innovative spirit makes SGS a unique place to work.

07 February 2019



**PETER KALANTZIS**  
Acting Chairman of the Board



**FRANKIE NG**  
Chief Executive Officer

## SUBSEQUENT EVENTS

The following acquisitions were completed after 31 December 2018:

- LeanSis Productividad in Spain, providing consulting and training services in business process improvement
- Floriaan B.V. in the Netherlands, providing integral fire safety services to industrial and real-estate companies across the Netherlands

## MANAGEMENT

**FRANÇOIS MARTI**, formerly Executive Vice President Industrial, has been appointed Chief Operating Officer North America. **LUIS FELIPE ELIAS**, formerly Managing Director for Peru & Ecuador, has been appointed Chief Operating Officer South & Central America. **WIM VAN LOON**, formerly Managing Director for Benelux, has been appointed Executive Vice President Industrial.

**CHARLES LY WA HOI**, formerly Vice President, Retail Solutions & Europe Business Development for Consumer & Retail, has been appointed Executive Vice President Consumer & Retail.

**TOBY REEKS** joined SGS as Senior Vice President Investor Relations and has been appointed to the Operations Council. **DOMINIK DE DANIEL** joins SGS as Chief Financial Officer as of 15 February 2019.

Kimmo Fuller (formerly Chief Operating Officer North America), Alejandro Gomez de la Torre (formerly Chief Operating Officer South & Central America), Richard Shentu (formerly Executive Vice President Consumer & Retail) and Carla De Geyseler (formerly Chief Financial Officer) as of 15 February 2019, have all left the Group.

## CHAIRMAN OF THE BOARD

Following the announcement of the passing of Sergio Marchionne, the Board of Directors has elected Peter Kalantzis as Acting Chairman.

## SIGNIFICANT SHAREHOLDERS

As at 31 December 2018, Groupe Bruxelles Lambert acting through Serena SARL and URDAC held 16.60% (2017: 16.60%). Mr. August von Finck and members of his family acting in concert held 15.52% (2017: 15.52%), BlackRock, Inc. held 4.0% (2017: 4.0%) and MFS Investment Management held 3.02% (2017: 3.02%) of the share capital and voting rights of the company.

At the same date, the SGS Group held 1.09% of the share capital of the company (2017: 1.08%).

## DISTRIBUTION TO SHAREHOLDERS

The SGS Board of Directors will recommend to the Annual General Meeting, to be held on 22 March 2019, the approval of a dividend of CHF 78 per share.

## SHARE BUYBACK PROGRAMS

The Group completed its share buyback program that started on 15 May 2017, repurchasing a total amount of CHF 249.9 million.

A new share buyback program of up to CHF 250 million has been authorized by the SGS Board of Directors.

## GUIDANCE 2019

The Group expects to deliver solid organic revenue growth and higher adjusted operating income on a constant currency basis and robust cash flow generation.

## OUTLOOK 2020

The Group remains committed:

- To mid single-digit organic growth
- To targeting accelerating mergers and acquisitions and remaining disciplined on returns
- To achieving an adjusted operating income of above 17% by end of period
- To ensuring strong cash conversion
- To maintaining best in class return on invested capital
- To at least maintaining the dividend or grow it in line with the improvement in net earnings





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Consumers know that David's tomatoes are good to eat because SGS has tested them to ensure they meet quality and safety regulations.



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OUR VALUE TO SOCIETY

2018 INTEGRATED ANNUAL REPORT

# FINANCIAL AND SUSTAINABILITY HIGHLIGHTS

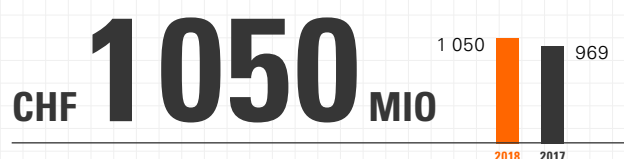


# FINANCIAL RESULTS

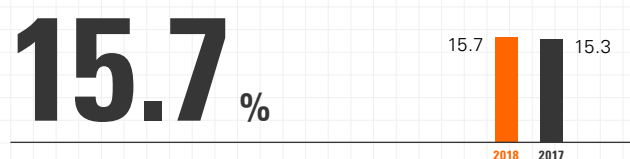
Group revenue growth in 2018 was 6.0%<sup>1</sup>, of which 5.3%<sup>1</sup> was organic and 0.7%<sup>1</sup> was from mergers and acquisitions. Our successful strategic positioning delivered solid organic growth across the SGS business portfolio, in line with our goal of mid single-digit organic growth. While most of the SGS businesses are on target to deliver on our expectations, some businesses have been affected by a changing business mix and market conditions. With these in mind, we are now targeting margins of above 17% for 2020.



REVENUE **+6.0%<sup>1</sup> (+5.3% ORGANIC)**



ADJUSTED OPERATING INCOME<sup>2</sup> **+8.4%<sup>1</sup>**



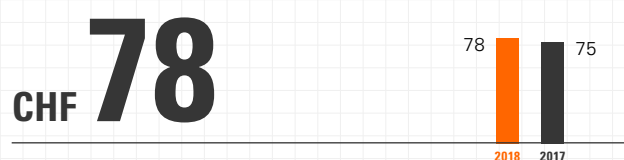
ADJUSTED OPERATING MARGIN<sup>2</sup>



PROFIT FOR THE PERIOD **+3.9%**



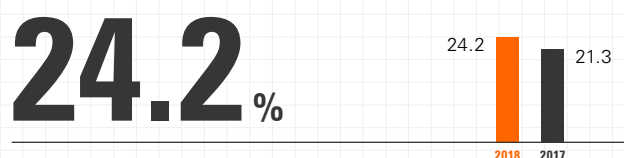
BASIC EARNINGS PER SHARE **2.6%**



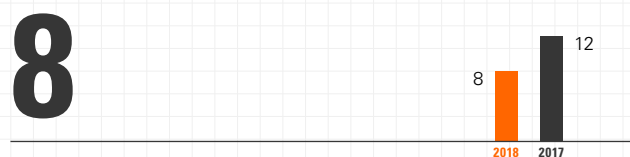
PROPOSED DIVIDEND



FREE CASH FLOW<sup>3</sup> **+12.7%**



RETURN ON INVESTED CAPITAL<sup>4</sup>

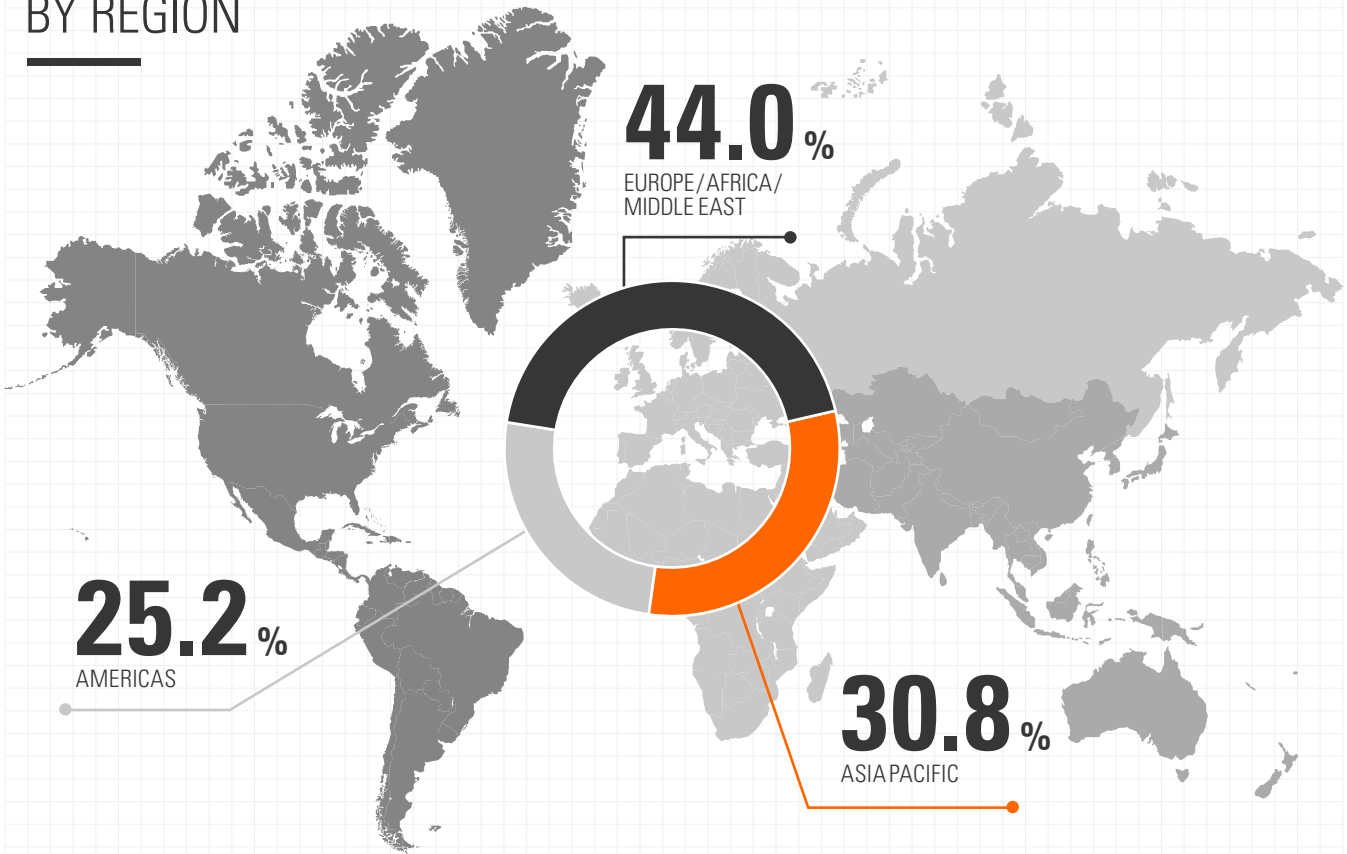


ACQUISITIONS COMPLETED IN 2018

1. Constant currency basis.
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).



## REVENUE BY REGION



## GROUP ACHIEVEMENTS

### CHARTER OF TRUST

SGS co-signed the Charter of Trust with the aim to make the digital world more secure

### WORLD CLASS SERVICES

Initial evaluation of SGS laboratories took place to identify ways to reduce organizational waste and losses

### SGS ONLINE

Services offered online to customers and consumers

CHF **75** MIO

Gross procurement savings

### SGSWORLD

New intranet collaboration platform launched

# SUSTAINABILITY ACHIEVEMENTS

MEMBER OF  
**Dow Jones**  
Sustainability Indices  
In Collaboration with RobecoSAM

SGS was named Industry Leader by the Dow Jones Sustainability Index for the fifth year



SGS was named Carbon Disclosure Project (CDP) Supplier Engagement Leader



SGS received the Robecosam Gold Class Award for its excellent sustainability performance



SGS was included in the FTSE4Good Index for the second year



SGS received a gold rating from EcoVadis for the fourth year

CHF **1.55** MIO

CHF 1.55 million invested in communities and 18 544 hours of community volunteering performed by SGS employees

## VALUE TO SOCIETY

For the second year running, SGS is a net positive company

**63**%

Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) reduced by 63% and 58%, respectively, since 2014

## CARBON NEUTRAL

SGS maintained its status as a carbon neutral company

Find out more about Sustainability at SGS <http://www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs>

# 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 CO<sub>2</sub> emissions (per FTE) by 20%\*\*  
Reduce our annual CO<sub>2</sub> emissions (by revenue) by 20%\*\*

## COMMUNITY

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

\* Adjusted from 10% to 15% to provide a more realistic target for our industry, based on market studies and external ratings benchmarks.

\*\* Against 2014 baseline.

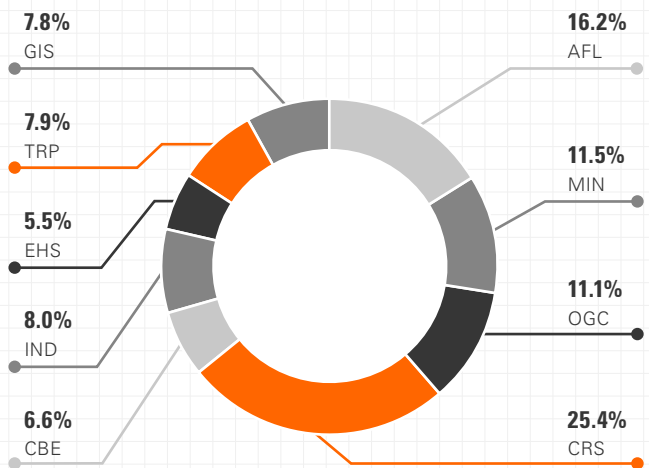


# BUSINESS PERFORMANCE

## REVENUE BY BUSINESS



## ADJUSTED OPERATING INCOME<sup>1</sup> BY BUSINESS



(CHF million)	2018	PRO-FORMA <sup>2</sup> 2017	Change %	2017	Change %
<b>AGRICULTURE, FOOD AND LIFE</b>					
REVENUE	1 062.6	1 018.0	4.4	1 016.3	4.6
ADJUSTED OPERATING INCOME <sup>1</sup>	170.5	162.5	4.9	162.5	4.9
MARGIN <sup>1</sup>	16.0%	16.0%		16.0%	
<b>MINERALS</b>					
REVENUE	750.1	673.5	11.4	683.6	9.7
ADJUSTED OPERATING INCOME <sup>1</sup>	121.1	102.0	18.7	104.6	15.8
MARGIN <sup>1</sup>	16.1%	15.1%		15.3%	
<b>OIL, GAS AND CHEMICALS</b>					
REVENUE	1 220.2	1 137.8	7.2	1 138.8	7.1
ADJUSTED OPERATING INCOME <sup>1</sup>	116.1	120.4	(3.6)	119.7	(3.0)
MARGIN <sup>1</sup>	9.5%	10.6%		10.5%	
<b>CONSUMER AND RETAIL</b>					
REVENUE	1 025.4	965.8	6.2	963.2	6.5
ADJUSTED OPERATING INCOME <sup>1</sup>	266.9	247.6	7.8	246.9	8.1
MARGIN <sup>1</sup>	26.0%	25.6%		25.6%	
<b>CERTIFICATION AND BUSINESS ENHANCEMENT</b>					
REVENUE	366.0	342.1	7.0	340.3	7.6
ADJUSTED OPERATING INCOME <sup>1</sup>	69.6	64.7	7.6	64.3	8.2
MARGIN <sup>1</sup>	19.0%	18.9%		18.9%	
<b>INDUSTRIAL</b>					
REVENUE	940.2	897.3	4.8	906.5	3.7
ADJUSTED OPERATING INCOME <sup>1</sup>	84.2	73.7	14.2	73.4	14.7
MARGIN <sup>1</sup>	9.0%	8.2%		8.1%	
<b>ENVIRONMENT, HEALTH AND SAFETY</b>					
REVENUE	517.2	489.2	5.7	485.8	6.5
ADJUSTED OPERATING INCOME <sup>1</sup>	57.4	49.2	16.7	48.6	18.1
MARGIN <sup>1</sup>	11.1%	10.1%		10.0%	
<b>TRANSPORTATION</b>					
REVENUE	540.5	541.4	(0.2)	546.5	(1.1)
ADJUSTED OPERATING INCOME <sup>1</sup>	82.8	91.7	(9.7)	89.9	(7.9)
MARGIN <sup>1</sup>	15.3%	16.9%		16.5%	
<b>GOVERNMENTS AND INSTITUTIONS</b>					
REVENUE	283.6	263.9	7.5	268.1	5.8
ADJUSTED OPERATING INCOME <sup>1</sup>	81.3	56.7	43.4	58.7	38.5
MARGIN <sup>1</sup>	28.7%	21.5%		21.9%	

1. Before amortization of acquired intangibles and other non-recurring items.  
2. Constant currency basis.



## AGRICULTURE, FOOD AND LIFE

### OVERVIEW

- Strong growth trends for Food and Life continued in second half
- Agriculture remained challenging, intensified by weather events
- Continued investment in biopharma capacity expansion and Agri-Food digital initiatives
- Strategic partnerships to expand reach in food fraud

### OUTLOOK

- Recent investments in Food and Life to continue to drive growth
- Trade to remain challenging for the tail end of the 2018/19 crop season
- Seed and Crop to benefit from demand for precision agriculture services
- Growing adoption and recognition of digital solutions for Agri-Food
- Strong pipeline of acquisition targets, particularly in the Food and Life sectors

# 1 062.6

REVENUE IN CHF MILLION

# 4.4%

GROWTH IN 2018<sup>1</sup>



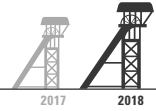
## MINERALS

# 750.1

REVENUE IN CHF MILLION

# 11.4%

GROWTH IN 2018<sup>1</sup>



### OVERVIEW

- Robust revenue growth across all activities throughout the year
- Trade inspection volumes remained strong for bulk commodities
- Strong growth in geochemistry and laboratory outsourcing
- Excellent growth in Metallurgy services

### OUTLOOK

- Market fundamentals to remain strong subject to a stable macro environment
- Sustained growth in the laboratory network
- Continued focus on niche services and new market segments
- Margin improvement from automation and operational efficiency projects

## OIL, GAS AND CHEMICALS

### OVERVIEW

- Strong double-digit growth in Plant and Terminal Operations (PTO), mainly in the USA
- Overall low single-digit growth in Trade-related activities, with strong growth in Asia
- Low single-digit growth in Upstream, mainly from new contracts in the Middle East and North Africa
- Small decline in Non-Inspection-related Testing activities caused by the delay in laboratory commissioning projects in the second semester

### OUTLOOK

- Trade momentum to continue, but market conditions to remain competitive
- PTO to continue growth reflecting industry cycle, specifically in Polymers and Plastics sector
- Upstream to strengthen in production and maximize its utilization of assets
- Non-Inspection-related Testing activities to benefit from new laboratory outsourcing projects



# 1 220.2

REVENUE IN CHF MILLION

# 7.2%

GROWTH IN 2018<sup>1</sup>





# CONSUMER AND RETAIL

## OVERVIEW

- Double-digit growth in South East Asia Pacific, Eastern Europe and Middle East
- New restricted substances and strong level of Safety testing boosted E&E activities
- Excellent growth in Cosmetic, Personal Care and Household (CPCH) in Germany, China and North America
- Softlines gained market share from new sustainability solutions and footwear testing

## OUTLOOK

- USA/China trade war represents a risk, especially for technology products
- Expand capacity in South East Asia to meet buyer shift out of China; continued investments in digitalization and automation to drive margin improvements
- Investment in 5G and Internet of Things for wireless activity
- Further expand CPCH and Hardlines through acquisitions

# 1 025.4

REVENUE IN CHF MILLION

# 6.2%

GROWTH IN 2018<sup>1</sup>



# 366.0

REVENUE IN CHF MILLION

# 7.0%

GROWTH IN 2018<sup>1</sup>



# INDUSTRIAL

## OVERVIEW

- Growth in Oil and Gas market driven by large supervision contracts and refinery shutdown inspections across all regions
- Solid developments in Infrastructure market in South America and Asia
- Manufacturing growth in Laboratory Testing activities, specifically in Calibration services
- Margin improvement offset Brazil situation

## OUTLOOK

- Leverage positive growth perspectives in the Infrastructure market
- Preserve our position in the Oil and Gas market in a low CAPEX environment
- Continue our diversification into Laboratory Testing through acquisitions
- Implement development programs and continue portfolio management

# 940.2

REVENUE IN CHF MILLION

# 4.8%

GROWTH IN 2018<sup>1</sup>



## OVERVIEW

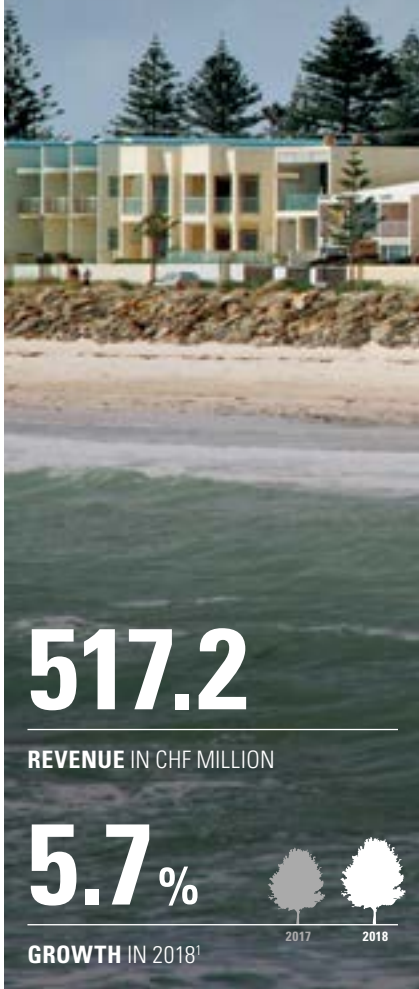
- Solid organic growth driven by Management System certification and transition to the new 2015 standards
- Improved margin from increased Certification activity and efficiency gains
- Rollout of Performance Assessments' global cloud-based solution and introduction of Business Enhancement Engine

## OUTLOOK

- Slowdown expected in organic growth due to end of transition in Certification
- Double-digit growth in Business Enhancement with new training services and increased value generation from data-driven services
- Continue to protect high margin levels with further efficiency gains in operations



# ENVIRONMENT, HEALTH AND SAFETY



## OVERVIEW

- Strong performance from all business segments
- Improved contribution from Laboratory and Health & Safety services
- Signing of Ballast Water convention and upcoming International Maritime Organization 2020 open new market opportunities for Marine services
- Focus on central data management provided further efficiencies

## OUTLOOK

- Overall portfolio to remain robust
- Continued demand driven by legislation and development projects
- Regular dashboard review to improve margins and enhance optimization
- Global launch of "real-time monitoring" solutions with focus on air quality

# TRANSPORTATION

## OVERVIEW

- Double-digit growth in Testing services reflecting the return of past investments
- Slight revenue decrease for Regulated services following end of programs in Uruguay and the USA
- Strong demand for certification services linked to new International Automotive Task Force standard
- Reduced revenue from end of Field Service contracts in the USA and slower than expected start of new contracts in Europe

## OUTLOOK

- Margin expected to stabilize following restructuring in the USA and anticipated volume uptake for Regulated Services in Chile and Uganda
- Focus on further diversification in the strong growing Aviation and Rail Industry, broadening the geographical service portfolio



**540.5**

REVENUE IN CHF MILLION

**(0.2)%**

GROWTH IN 2018<sup>1</sup>



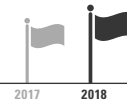
# GOVERNMENTS AND INSTITUTIONS

**283.6**

REVENUE IN CHF MILLION

**7.5%**

GROWTH IN 2018<sup>1</sup>



## OVERVIEW

- Solid double-digit growth delivered in Single window from strong trade volume
- New marketing strategy for TransitNet translated into increased market share in key countries
- Improved margin from better collection, economies of scale and efficiency initiatives
- SGS onTrack implemented for Tobacco industry to ensure compliance with EU tobacco regulations and as a monitoring program in Georgia and Russia

## OUTLOOK

- Trade compliance and cross-border complexity underpinning sustainable growth
- Strengthening governments' digital solutions
- Focus on innovation and unique technologies (D-TECT, E-Valuator and LegalTrace) and propose more SaaS/PaaS
- Renovo e-waste monitoring program launched in Ghana and the Ivory Coast expected to ramp up



# 2018 ACQUISITIONS



## VANGUARD SCIENCES INC.

USA

Vanguard Sciences is a leading provider of food safety testing services in the areas of product testing, research and development, and food safety consultation, using a robust information technology platform. The company's core capabilities include microbiological, chemical and physical testing.



## LABORATOIRE DE CONTRÔLE ET D'ANALYSE (LCA)

BELGIUM

LCA provides chemical and microbiological testing and consultancy services to national and international pharmaceutical companies, for compliance with Belgian and European procedures. The lab is Good Manufacturing Practice (GMP – human and veterinary) and ISO 17025 certified.



## TRAITGENETICS GMBH

GERMANY

Headquartered in Gatersleben near Berlin, TraitGenetics utilizes state-of-the-art technologies for the development and analysis of molecular markers for plant breeding research. The company provides services across a wide variety of crops to international clients in the plant breeding industry and for academic research.



## SIT SKIN INVESTIGATION AND TECHNOLOGY HAMBURG GMBH (SIT)

GERMANY

SIT is one of the leading independent contract research companies in Germany, providing applied dermatological research and studies for the cosmetics and personal care industries. The company offers a broad range of skin-tolerance and proof-of-efficacy testing.



## OLEOTEST NV

BELGIUM

Oleotest is a provider of chemical testing services in food, feed and agricultural commodities. The laboratory is ISO 17025 certified.



## POLYMER SOLUTIONS INCORPORATED (PSI)

USA

PSI is a highly respected independent materials testing laboratory specializing in polymer science. It serves numerous mainstream industries, including medical devices, pharmaceuticals, consumer products, aerospace, specialty packaging and industrial manufacturing of polymeric materials.



## ADVANCED METROLOGY SOLUTIONS S.L. (AMS)

SPAIN

AMS specializes in 3D metrology precision services and highly technical inspection measurement processes. Its main customers are major aircraft manufacturers and their Tier 1 and 2 suppliers. Headquartered in Getafe, Spain, AMS operates four additional sites across Spain and Portugal.



## INTER-BASIC RESOURCES INC. (IBR)

USA AND UK

IBR is a leading provider of state-of-the-art testing and verification for air and fluid filtration performance across multiple industries. It offers comprehensive testing services throughout the entire spectrum of filtration services, with laboratories in the United States and the United Kingdom.

# SGS AT A GLANCE

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Walker regularly attends internal training courses and e-learning that give him the opportunity to build his knowledge and grow his career.





# SGS, A LEADING TIC INDUSTRY PLAYER

SGS is the world's leading inspection, verification, testing and certification company. SGS is recognized as the global benchmark for quality and integrity. With more than 97 000 employees, SGS operates a network of over 2 600 offices and laboratories around the world.

## OUR VISION

We aim to be the most competitive and the most productive service organization in the world. Our core competencies in inspection, verification, testing and certification are being continuously improved to be best in class. They are at the heart of what we are. Our chosen markets are and will be determined by our ability to be the most competitive and to consistently deliver unequalled service to our customers.

## OUR VALUES

We seek to be characterized by our passion, integrity, entrepreneurialism and our innovative spirit, as we continually strive to fulfill our vision. These values guide us in all that we do and are the bedrock upon which our organization is built.

# +97 000

EMPLOYEES

# +2 600

OFFICES AND LABORATORIES

### OUR VALUE TO SOCIETY



## GLOBAL EXPERTISE AND ASSURANCE

**HANANE TAIDI**

Director General of the TIC Council

The testing, inspection and certification (TIC) sector is an ally to governments, a facilitator of trade and a partner to industries. Active in virtually all areas of the economy, TIC suppliers provide conformity assessment services that create trust in relationships between companies and their customers. These services help reduce risk and drive safety and quality to the highest levels while ensuring all members of supply chains perform optimally.

Our industry employs highly skilled experts to carry out independent evaluations, audits and inspections according to a variety of international and national standards and regulations. By doing so, we provide confidence that a product, a process, a system or a person meets specific requirements, and we bring an extra level of trust to trade transactions.

Today's digitalized world of connected devices presents both opportunities and challenges. At a time defined by fast-growing new markets and increasingly complex value chains and fast-paced innovation, the TIC industry helps authorities meet requirements for supervision and market monitoring. It also assists businesses in navigating the global regulatory landscape and ensuring that consumers buy products and use services that are safe and compliant.

The global TIC market is valued at around EUR 200 billion\* and is growing. We are witnessing the increasing harmonization of standards, the growing consumption of goods in emerging markets and the enforcement of rigorous regulations and standards across various sectors. At the same time, counterfeiting and piracy are increasing globally. These factors underline the critical role of the TIC industry in providing unbiased safety verification, quality assurance and compliance certification.

\* Source: TIC outlook 2018, Barclays.

## INTEGRITY

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.



# OUR BUSINESS PRINCIPLES



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](http://www.sgs.com/principles)



## 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 expertise 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 client confidentiality and individual privacy.

# OUR POSITION IN THE VALUE CHAIN

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 your supply chain.*

## CONSTRUCTION

*Ensuring safety and performance in the environment where we work and live. Safe, efficient and trusted processes are essential when constructing buildings or infrastructure.*

## CHEMICAL

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

## LIFE SCIENCES

*Safeguarding the quality and efficacy of medicines.*

## MINING

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

## TRANSPORTATION

*Driving a safer, cleaner and more efficient industry.*

## PUBLIC SECTOR

*Facilitating trade and sustainable development, protecting society against fraud and economic crime.*

## INDUSTRIAL MANUFACTURING

*Making manufacturing more productive and profitable.*

## OIL AND GAS

*Innovative solutions that add up along the value chain.*

## CONSUMER GOODS AND RETAIL

*Generating trust throughout the supply chain. Our services enable manufacturers, exporters, importers and retailers to gain a competitive edge.*

## ENERGY

*Powering processes from renewables to conventional energy.*





# OUR GLOBAL NETWORK

The scale of our global footprint is a critical competitive advantage for SGS. We have expertise everywhere our customers need it. We use our business and industry knowledge, combined with our local country insights, to present a single global network across our customers' supply chains.

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# OUR VALUE TO SOCIETY

Our operations and services respond to global drivers and add significant value to our stakeholders. We measure value creation with the aim to empower smarter decision-making.

# OUR VALUE TO SOCIETY

Our business activity is designed to create value for and through our six main stakeholders: investors, customers, governments and industries, consumers, employees and suppliers, and communities and the planet.

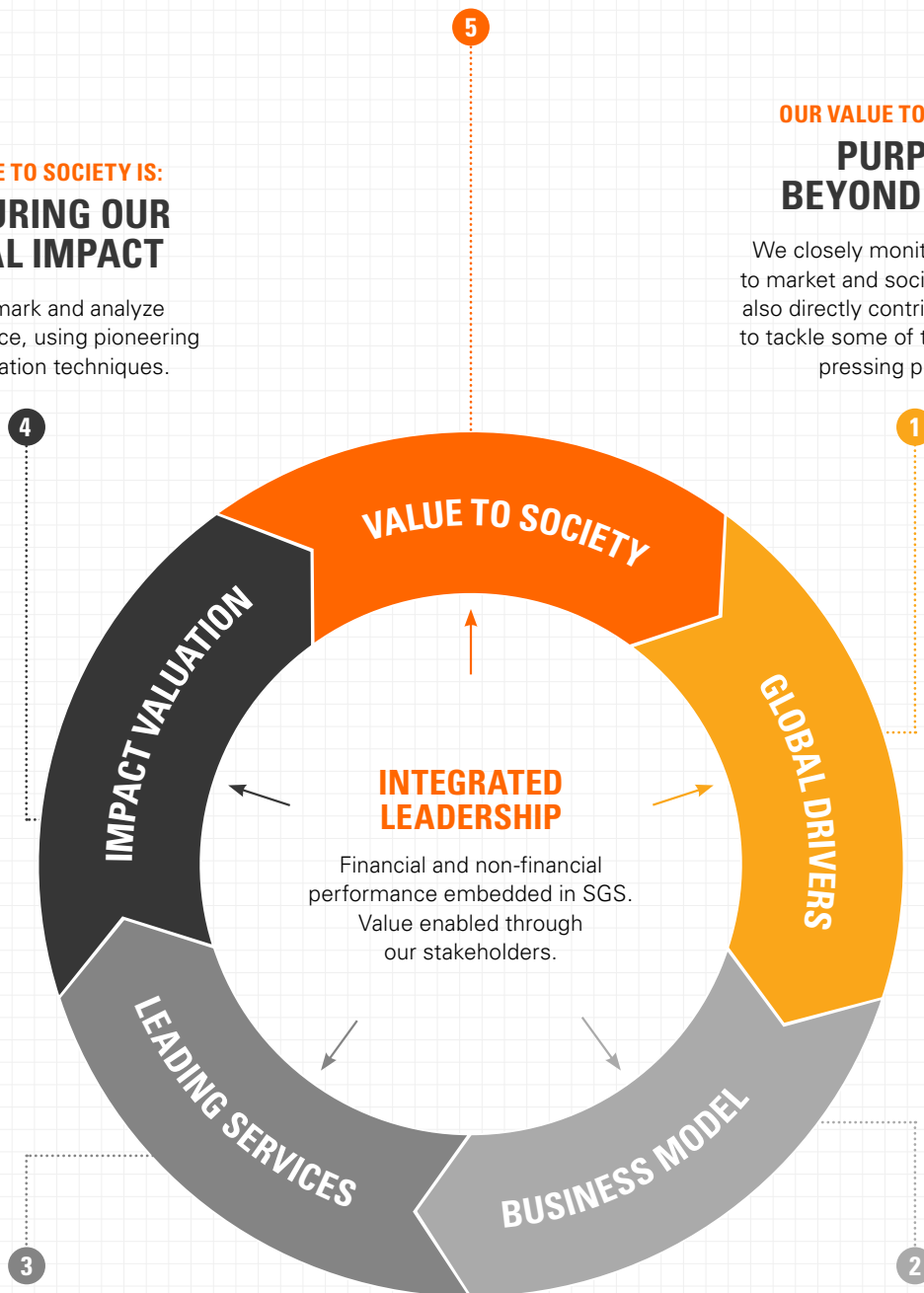
## OUR VALUE TO SOCIETY IS: MEASURING OUR GLOBAL IMPACT

We benchmark and analyze our performance, using pioneering impact valuation techniques.

## OUR VALUE TO SOCIETY IS:

### PURPOSE BEYOND PROFIT

We closely monitor and respond to market and societal needs while also directly contributing to efforts to tackle some of the world's most pressing problems.



## OUR VALUE TO SOCIETY IS:

### ENABLING BUSINESS

We enable our customers to be more efficient, productive and sustainable through our world-class services. This multiplies our positive impact.

## OUR VALUE TO SOCIETY IS:

### LONG-TERM SUSTAINABLE GROWTH

We ensure SGS' long-term stability and add direct value to society through the continual pursuit of excellence across all areas of our business.



# INTEGRATED LEADERSHIP

EMPOWERS SGS TO DELIVER VALUE TO SOCIETY

Integrated leadership forms a critical part of our approach to creating value to society. It ensures that we prioritize strategic decision-making that looks beyond the bottom line.

## GLOBAL DRIVERS

### MEGATRENDS

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

URBANIZATION, MOBILITY AND SMART CITIES

CLIMATE CHANGE

ECONOMIC GROWTH

POPULATION AND SOCIAL TRENDS

DIGITALIZATION AND CYBERSECURITY

(See page 28)

### THE SUSTAINABLE DEVELOPMENT GOALS

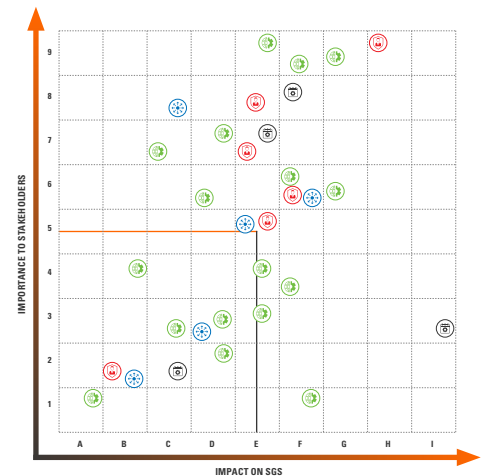
Our activities contribute positively to all 17 Sustainable Development Goals. (See page 30)

### RISK INTELLIGENCE

Understanding the risks we face is a critical part of our integrated leadership approach. (See page 31)

### BUSINESS MATERIAL TOPICS

Recognizing and prioritizing our material issues allows us to allocate resources in the most efficient way possible. (See page 32)



# OUR BUSINESS MODEL

## 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.

### MISSION 2020

High customer retention and satisfaction

No major integrity or human rights breaches

Leading position in strategic markets and geographies

Industry sustainability leadership

Deliver measurable sustainable value to society

Increase visibility of our value to society

## EXPERTISE

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.

### MISSION 2020

Enhance our reputation as an employer of choice

Employ the industry's leading experts

Maintain natural staff turnover rate at no more than 15%

30% of senior management positions to be held by women

Be the leading brand for accuracy, quality and professionalism

## 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.

### MISSION 2020

Build scale

Buy capabilities

Fill geographic gaps

Enhance financial metrics

Maintain strategic significance

Diversify portfolio of services

Mid single-digit average organic growth

Enhance presence in key markets

## INVESTMENT

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

### MISSION 2020

Invest in cutting-edge technology and optimize existing technology performance and usage

Increase investment in communities around the world by 30%\*

Maintain best-in-class returns on invested capital

## INNOVATION

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

### MISSION 2020

Enhance business through digital services

Expand B2B2C presence

Develop B2C presence

Strengthen and invigorate the culture of innovation at SGS

## OPERATIONAL EXCELLENCE

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

### MISSION 2020

Reduce our annual CO<sub>2</sub> emissions (per FTE) by 20%\*

Reduce our annual CO<sub>2</sub> emissions (by revenue) by 20%\*

Reduce TRIR and LTIR by 50%\*

Ensure efficient use of capital

Maximize internal efficiencies

\* Against a 2014 baseline.

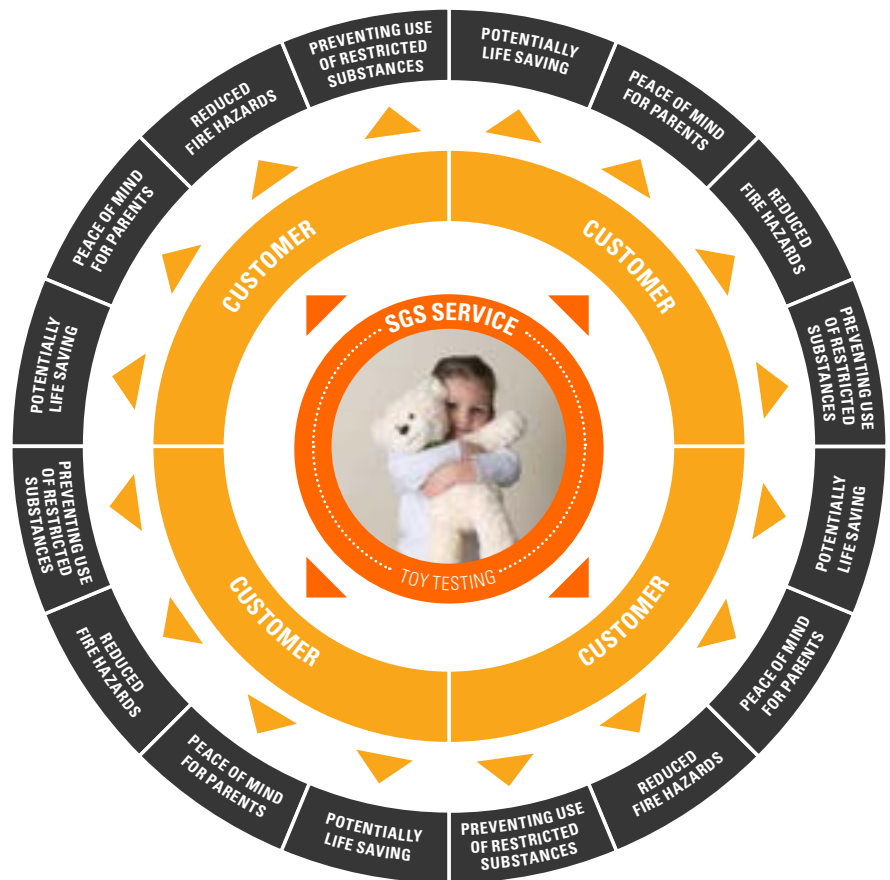
# LEADING SERVICES

Our services bring a tremendous amount of value to society by helping our customers to be more efficient and productive while improving safety and achieving their sustainability objectives.

Our customers therefore create a multiplier effect of our value to society (see Toy Testing case study opposite).

OUR SERVICES	OUR BENEFITS
INSPECTION	QUALITY
TESTING	SAFETY
VERIFICATION	REDUCED RISK
CERTIFICATION	EFFICIENCY
TRAINING	PRODUCTIVITY
CONSULTANCY	SPEED TO MARKET
OUTSOURCING	TRUST
ANALYTICS	SUSTAINABILITY

## EXAMPLE MULTIPLIER EFFECT OF OUR SERVICES



# OUR STAKEHOLDERS

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

Consumers benefit from the services we provide 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 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.

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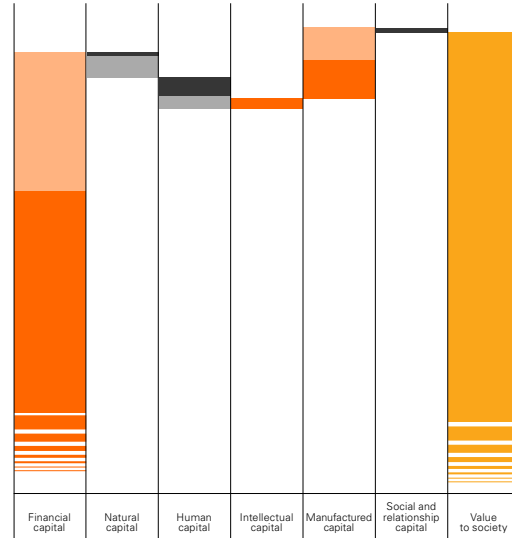


# IMPACT VALUATION FRAMEWORK

We have developed a pioneering impact valuation model that allows us to measure our value to society in quantitative terms. We are among the first companies to attempt to do this, and we believe that in the future, such calculations could have the potential to influence the way businesses' value is perceived. We are also embracing the Integrated Reporting Framework's strategy of understanding how our material factors generate value over time.

(See page 67)

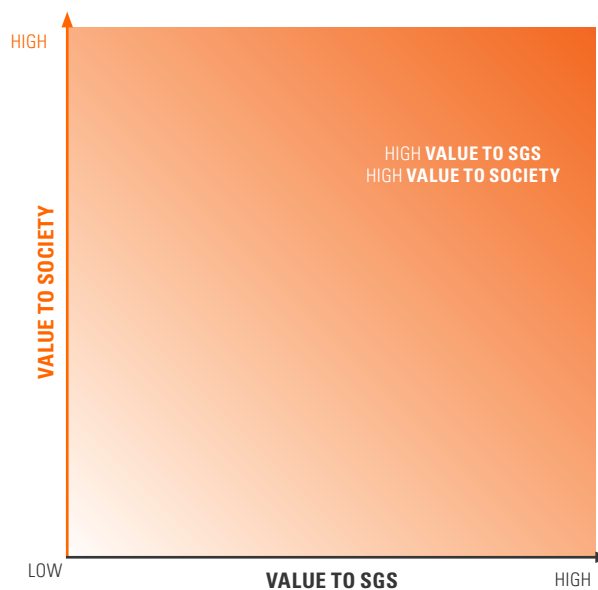
## MEASURING OUR VALUE TO SOCIETY



Our Impact Valuation model measures a series of carefully selected indicators across six capital stocks. The flows of these capitals are calculated across our supply chain and operations to measure our value to society. In the future, we will evaluate these capital flows across our services as well.

(See page 70)

## OUR DOUBLE-POSITIVE DECISION MATRIX



All of our actions have an impact on both SGS and on society. In the future, our informed integrated leadership will enable SGS to focus in those activities that add a high double-positive impact, maximizing the value we add to SGS and to society.

(See page 71)



The world is rapidly changing. Through our understanding of global megatrends, we build our risk intelligence and evolve the way we do business.

SGS Rail Inspection experts conduct reviews of trains to ensure George gets to university safely.



# GLOBAL DRIVERS

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

# MEGATRENDS

## URBANIZATION, MOBILITY AND SMART CITIES

Currently, most of the 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.

## ECONOMIC GROWTH

The global economy has grown twenty times over the last two centuries and 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.

### OUR VALUE TO SOCIETY

#### SGS INVESTS IN 5G TECHNOLOGY



**ERIC LEE**

SGS Global CRS and Wireless Manager

Smart-city services will rely on network providers' abilities to relay vast amounts of data in almost real time. With its high speeds and low latencies, fifth-generation wireless, or 5G, is poised to be an ideal solution. To provide the compliance, security and reliability of this next generation network, SGS has invested in a 5G call simulator in Taiwan, Korea, China and the USA, worth CHF 600 000. These simulators enable us to test, verify and troubleshoot the performance of the system as well as ensure security and reliability for devices. In 2019, SGS will continue its investment in 5G compliance testing to support customers across all stages of product development.

#### ENSURING SAFE, SUSTAINABLE ENERGY AROUND THE WORLD



**CHARLIE ZHANG**

SGS Wind Energy Product Manager

SGS tests, inspects and certifies renewable energy initiatives, such as wind, solar and hydro, for businesses and consumers around the world. SGS evaluates the technical feasibility of renewable power plant projects, manages the supply chain, ensures installations avoid risk and provides customized consultancy services for the entire development. We ensure the generation and distribution of power is safe, efficient and sustainable for the future. As China is the leader in renewable energy investments, accounting for 45% of the global total, SGS has invested in a state-of-the-art Wind Energy Technology Center (WETC) in Tianjin, which provides a complete set of full-scale testing capabilities.

#### SGS PIONEERS UNIQUE END-TO-END SOLUTION FOR E-WASTE



**ALEXANDRE LUSENTI**

SGS Product Manager for Renovo™

To help nations successfully and sustainably dispose of their waste, SGS created Renovo™, a self-funding, full-scale waste management system. In 2018, SGS implemented Renovo™ in the Ivory Coast and Ghana. The Governments of both countries designated SGS as the official external service provider to identify the products imported, determine their condition and prevent the importation of waste, thus reinforcing the Basel Convention on transportation of waste and hazardous goods. This identification is critical to size the facility correctly and to start the traceability process. SGS is also responsible for collecting an advance eco levy on all electrical and electronic equipment and tires exported to support the countries' efforts to protect their people and environment.



## POPULATION AND SOCIAL TRENDS

The world's population is projected to rise by more than 1 billion by the year 2030, bringing the total to over 8 billion, and 97% of this growth will come from emerging or developing countries. This pace of change poses significant challenges for governments and businesses and empowering the next generation of workers – millennials (born in the 80s, 90s and early 2000s) – is critical to meeting these social challenges. Businesses and communities need strategies that can support the new demographic structure.

## HIRING IN THE AGE OF MILLENNIALS

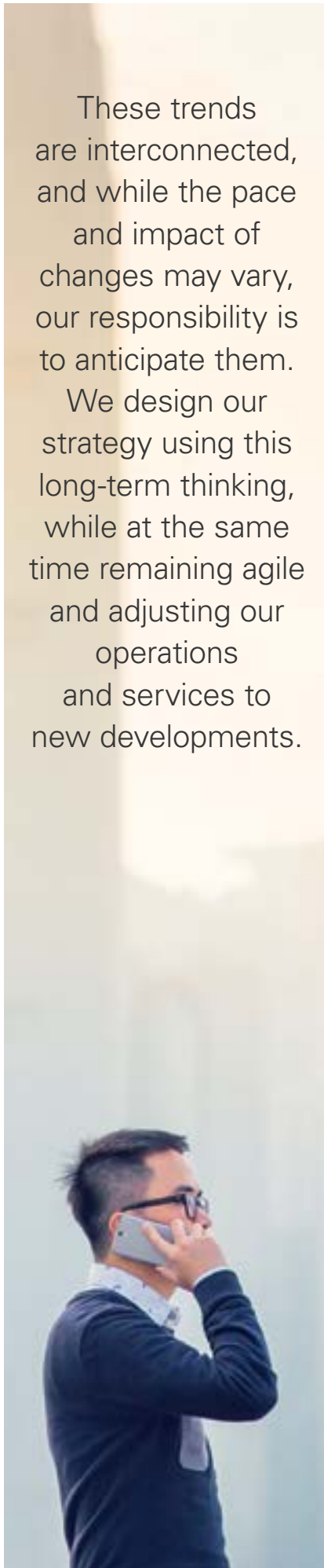


### JAMES ALLIBON

SGS Global Recruitment Manager

When recruiting, we put the candidate first by using recruitment tools designed with our audiences' habits and needs in mind. In the case of millennials, we are investigating a tracking application system that is mobile, quick, easy and fully transparent. Millennials are searching for a job that enhances their personal brand while enabling them to make a difference in the world. Attracting millennials will depend on SGS' ability to illustrate our positive impact on society. One of the pillars for SGS' human resources strategy is talent development and internal mobility, to provide our employees with the right opportunities to learn and grow. The success of this strategy will have a positive impact on the attraction and retention of our millennial talents.

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 to new developments.



## DIGITALIZATION AND CYBERSECURITY

The billions of devices that are connected to the internet, interacting and sharing data back and forth on an entirely new scale, present 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.

## SGS AT THE FOREFRONT OF CYBERSECURITY



### SERGIO LOMBAN

SGS Digital Trust Services, Vice President

To shape the future of the digital world, SGS joined forces with Siemens and eight other leading businesses to present a Charter of Trust in February 2018. The Charter contains 10 principles that aim to make the digital world more secure and also sets three important goals: Protect the data of individuals and companies; prevent damage to people, companies and infrastructures; and create a reliable foundation for instilling trust in a networked, digitally connected world. As an industry leader, we are committed to pushing for the Charter's adoption globally and will continue to develop, promote and implement its principles.

# THE SUSTAINABLE DEVELOPMENT GOALS

Adopted in 2015, the 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.

## SERVICES

## SUSTAINABLE DEVELOPMENT GOALS

<b>AGRICULTURE, FOOD AND LIFE</b>	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	
	14 LIFE BELOW WATER	15 LIFE ON LAND				
<b>MINERALS</b>	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION				
<b>OIL, GAS AND CHEMICALS</b>	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION			
<b>CONSUMER AND RETAIL</b>	3 GOOD HEALTH AND WELL-BEING	7 AFFORDABLE AND CLEAN ENERGY	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER
<b>CERTIFICATION AND BUSINESS ENHANCEMENT</b>	2 ZERO HUNGER	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	
	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	
	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND			
<b>INDUSTRIAL</b>	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	
	13 CLIMATE ACTION	14 LIFE BELOW WATER				
<b>ENVIRONMENT, HEALTH AND SAFETY</b>	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES
	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND		
<b>TRANSPORTATION</b>	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	
<b>GOVERNMENTS AND INSTITUTIONS</b>	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION
	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	

# RISK INTELLIGENCE

## EXTERNAL RISKS

These include economic and market risks, geopolitical risks, climate change risks, legal and regulatory risks, natural disaster risks and public relations risks among several others.

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 risks include business model, intellectual property, advertising, structural, product life cycle, resource allocations and social responsibility among others.

Strategic Risks are mitigated in various ways including but not limited to:

- Solid business and development plans
- Mergers and Acquisitions Policy
- Legal and Compliance team
- Investor Relations
- Communications and Sustainability team

### 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 Plan
- Operational Integrity team, policies and training
- Sustainability team, internal communications and community investment
- Legal and Compliance team
- 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 Finance section (see pages 116-180).

The SGS Board of Directors and Executive Management are responsible for the integration of risk management into key business planning processes. Every year, the SGS Board of Directors assesses the risks faced by the Group. To enable better decision-making responding to risks, the Group employs a comprehensive, integrated approach to identifying and articulating the risks to the business. This involves the active participation of various management levels throughout the company.

This risk assessment process is supported by our Enterprise Risk Management (ERM) model. Our risk categorization is structured into "External" and "Internal" risks (see left).

## 2018 RISK ASSESSMENT

The 2018 Risk Assessment showed that SGS continues to have a moderate risk profile. Competition for talent (affecting both hiring and staff retention), succession planning, correct pricing and global economic conditions are our main residual risks after mitigation.

Other areas of note include political risk, which has been exacerbated in 2018 by a significant shift in how the United States exercises its global leadership role and continued uncertainty over Brexit. Despite robust mitigation efforts in recent years, cybersecurity remains a risk priority for the Group, owing to the rapidly evolving technological landscape.

## 2018 STRATEGIC SYSTEM INITIATIVE

2018 was a transitional year for SGS' Risk Management function, with the rollout of an enhanced management structure, a new global Governance Risk and Compliance (GRC) platform and updated Risk Management processes.

## RISK OVERSIGHT

A new Risk Management Oversight Committee (RMOC), which is chaired by the CEO, has been established. This includes senior representatives from various key departments such as the CFO, CIO and the Senior Vice President, Human Resources. The Committee is expected to meet twice a year and on an ad-hoc basis as necessary.

The RMOC's role is to manage the ERM framework. It reports directly to the Board.



The revised risk model now also integrates a broader array of risk categories, such as sustainability risks (e.g. climate change, human rights risks), directly into the management process, where they were previously a separate administrative task. This is expected to result in an even more robust and comprehensive approach to risk management in SGS, to better balance value preservation with value creation.

An enhanced integrated Risk Management Framework and governance process uses a matrix approach to analyze risk through the company verticals (business lines and functions) and across geographic (country level) entities. Mapping is then conducted across all areas. Where significant discrepancies arise between Group-level priorities and local perceptions of risk, EVPs are required to visit the country in question to examine the details. The new methodology therefore encourages more detailed risk management dialog between global business and function heads and their respective country-level managers. This allows for better localization of risk management and a clearer understanding of Group-level concerns at a country level. The new framework also places responsibility and accountability for managing risk much closer to our operations with "Risk Champions" now owning a particular risk in their jurisdiction.

## NEW RISK MANAGEMENT TOOL

To support the new Framework, a customized Governance Risk and Compliance platform (named ANTARES) is also being deployed across the business. This enables a more detailed analysis of both gross and residual risk (i.e. risk remaining after mitigation efforts have been taken into account) and standardizes risk management evaluation and reporting procedures across the business.

In 2018, the new tool was deployed through the company verticals. As part of this, more than 100 workshops were held with senior management – including heads of all business lines and every business function. This allowed us to obtain a comprehensive overview of their risk and mitigation activities. Successful country-level pilots of the new platform and framework were held in Morocco, South Africa and Australia.

### ACHIEVEMENTS

108 risk workshops held

First risk Management Oversight Committee meeting held

## OUTLOOK 2019

In 2019, the new Governance Risk and Compliance platform will be deployed on a country level, following its successful pilot in 2018. 43 countries will be covered over the course of the year, with the priority being the largest countries by operation and certain smaller countries with a high-risk profile. Follow-up monitoring for actions identified during the platform's deployment across the verticals and pilot countries in 2018 will also be initiated.

Additionally, a Group-wide risk appetite profile will be formally established, aligned with our Business Principles, Vision and Core Values. This will be determined by the OC and will form a third risk assessment parameter to accompany "likelihood" and "impact" by which we can assess all mitigation activities. In this sense, it will help guide not just risk management policy but also the Group's broader decision-making across a number of actions.

## BUSINESS MATERIAL TOPICS

In 2016, SGS carried out its first materiality assessment process. This involved a consultation with around 850 stakeholders in 52 countries. These included customers, senior managers, employees, suppliers, NGOs, ratings agencies, sustainability professionals and academics. Alongside the survey, we conducted a detailed benchmark review of globally relevant and sector-specific sustainability issues and trends. We then conducted a weighted analysis of the results by stakeholder type.

This process allowed us to identify our material topics. We subsequently merged these with the outputs of our business risk assessment process.

The result was a consolidated list of the most salient environmental, social and governance topics for SGS.

Next, we conducted an impact assessment, which involved over 80% of Operations Council members, to rank each topic according to its relative impact on the business and assess the controls in place to mitigate that impact.

The outcome of this process was the development of our first Business Materiality Matrix.

During 2018, we carried out our annual high-level review of the material topics identified, adapting the Materiality Matrix to new trends. The review included the integration of updated information from sustainability ratings, financial analysts, media and investors and new business risks raised as a result of our risk identification process.

## OUTLOOK 2019

Ordinarily, an external stakeholder survey is conducted every two years; however, the 2018 survey was postponed until early 2019. This is to allow time for the full integration of our sustainability risks into the global risk management system.

In addition to the survey, another high-level materiality review will be completed in 2019. Together, these two activities will be pivotal in providing the insights we need to finalize our 2025 business and sustainability goals.



# 2018 ACHIEVEMENTS

Caroline improves her company's environmental performance by getting ISO 14001 certified.



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# MARKET LEADERSHIP

Evolving with customer needs and adapting to megatrends (see page 28) 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 world views enables SGS to be a better, smarter, more creative and more innovative company.

## ACHIEVEMENTS

SGS surpassed one million followers worldwide on SGS social media channels

Reach and expertise of SGS services expanded across regions and industries

## OUR VALUE TO SOCIETY

### LEADING THE WAY FOR

# SAFER LOGISTICS



#### SHIGETO ICCHO

SGS Sales, Sustainability Service, Certification and Business Enhancement Japan

The globalization of logistics has created new opportunities for unlawful behavior. For many of our customers, both logistics service providers and manufacturers of high-value products, securing freight in transit is a critical business risk. SGS is pioneering services in facility security to ensure safer value chains. As part of diversifying our reach and expertise at SGS, we researched logistics safety with global security company SECOM Co., Ltd. The results show that many organizations are looking for ways to gauge the level of protection in the logistics facilities

in their supply chains, whether they own the facilities or are using those of a third party. To meet this demand, we filled the gap in the market by launching the SGS Facility Security Evaluation Service (FSES). By assessing everything from surveillance cameras to sensors and personnel, while also investigating vehicle access controls, we are giving companies the opportunity to either evidence their security levels or, if they are providing a service, to demonstrate they have the right safety and security measures in place at their facilities.

By limiting the ease with which criminals can act, SGS is taking a pioneering role in helping to prevent organized crime from becoming more established in global supply chains.



"We are proud to be the first in the world to be awarded the SGS Facility Security Evaluation Certificate for our Tsukuba Archive Center. We believe that we can globally demonstrate the security of our logistic facilities to our clients through our compliance with the criteria."

#### TOSHIMASA NUMAJIRI

President, Numajiri Sangyo Co.

# 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 all our employees have the skills and knowledge required to deliver our services to exacting 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 (CRM)

SGS takes a decentralized approach to customer relationship management, with each business line managing relationships through customer-care departments. These act as the direct point of contact for customers and connect them with the parts of SGS that deliver services. We achieve this through a combination of face-to-face customer meetings, follow-up emails/phone calls, hard-copy and online feedback questionnaires. These are constantly monitored and periodically reviewed as part of our Management Review processes. We also support our daily customer interactions with seminars and workshops, along with social media communications and responses to web enquiries.

Understanding how our customers feel about their experience, and their specific interests, suggestions and expectations, is also important to SGS. We assess this through "Voice of the Customer" surveys. A great example is our lab excellence program survey that was carried out in all regions and had 9 500 respondents, which covered 42% of the Group's revenue. Results were published in May 2018. The surveys typically cover quality of service, technical capabilities, turnaround time, administration team, reporting format, satisfaction in queries being dealt with, courtesy and value for money. We also survey SGS brand awareness separately.

## 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. To increase the level of service SGS is able to deliver, the SGS Enable IT transformation program was launched in 2017.

In 2018, we launched the first pilot version of the new customer portal, which is a customer engagement initiative within the SGS Enable program (see page 46 for more details). The customer portal has been designed to be the new CRM system for the Group. Globally, customers using the portal will have one single point of contact and a 360 degree view of their purchases and preferences, while internally, SGS will be able to increase customer satisfaction by offering more tailored services.

This year, SGS' Standardized Inspection Reporting (SIR) system for field inspections was further rolled out to provide digital inspection execution for the Agriculture; Minerals; and Oil, Gas and Chemicals trade businesses. Through a global digital platform, consistent back-office capabilities and customer-facing reports, the inspection-to-client service has been taken forward.

## ACHIEVEMENTS

SGS online, our customer store and customer portal, was launched in 2018 with four service lines available for direct purchase

80 countries (over 270 affiliates) are now using Standardized Inspection Reporting (SIR) for at least one business line

SGS' new remote inspection system, QiiQ, rolled out across further business lines

9 500 "Voice of the customer" responses analyzed in 2018

88% satisfaction score across all "Voice of the customer" surveys\*

150 key accounts surveyed for customer satisfaction across two business lines

SGS received the Quality Control Award from the Global Grain Awards

*\* Results for 2018 surveys analyzed the complete year of experiences in 2017.*



"Customer research is an essential part of our brand management. By understanding the numerous different journeys and experiences they have with us, we are working to continuously build our knowledge about how best to achieve customer satisfaction."

**LAETITIA SAINT-PIERRE**  
SGS Customer Engagement and Loyalty Manager

Customer satisfaction is ingrained in the SGS culture. It is integral to how we operate, how we innovate and how we grow. When we work with customers, we provide a level of service that gives them confidence in the processes we take and the results we generate. This trust forges long-lasting relationships and creates brand advocates, fueling their growth and ours. Our aim is to provide solutions that achieve our customers goals while contributing to a safer, more productive and sustainable society. But how do we know we are achieving this? Our customers tell us.

**SAMUEL CORK**  
SGS Global Brand & Content Manager

# A TRUSTED PARTNER

“We have worked with SGS for more than 20 years. In our experience, SGS has provided us with a team of experienced, committed personnel who know their field of work, and SGS responds to our enquiries in a timely manner.”

**SANDRA SEOW**  
Fuel Oil Operations Manager, Vitol



# SUSTAINABILITY

## Adding direct value to society through our operations.

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

That 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 18).

Sustainability at SGS is managed by a dedicated team, which oversees activities across four pillars: People, Operational Excellence, Environment and Community.

The weight of our internal sustainability activities is guided by the results of our Materiality Matrix (see page 33) and our effectiveness is measured both against published Key Performance Indicators and our Sustainability Ambitions 2020 (see page 10). 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 65).

More detailed information on our sustainability efforts is available in our Sustainability Report <http://www.sgs.com/cs-report-2018>.

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

Dow Jones Sustainability Indices Leader for the fifth consecutive year

FTSE4Good Index includes SGS for the second consecutive year

Gold Award by EcoVadis Rating

Carbon Disclosure Project (CDP) Supplier Engagement Leader

SGS continues to be a carbon neutral company



**PAULA ORDOÑEZ**  
SGS Global Head of  
Corporate Sustainability

# SGS RETAINS GLOBAL SUSTAINABILITY LEADERSHIP RANKING



**INDUSTRY LEADER**  
DOW JONES SUSTAINABILITY INDICES

For the fifth consecutive year, SGS was named industry leader in the Dow Jones Sustainability Indices (DJSI) World and Europe. Created by RobecoSAM and S&P Dow Jones Indices, the DJSI is the longest-running global sustainability benchmark system and is based on an in-depth analysis of the economic, social and environmental performance of more than 2 000 companies across 59 sectors.

With an overall score of 79/100, against an industry average of 39/100, SGS led the professional-services sector on a range of criteria, including code of business conduct, policy influence, human rights, talent attraction and retention, and occupational health and safety.

For the second consecutive year, SGS was also included in the FTSE4Good Index Series, which selects companies based on their ability to meet globally recognized standards across social, environmental and governance disciplines.

While we are extremely proud to be recognized for our sustainability leadership, we particularly value the vital role that these indices play in helping institutional investors integrate sustainability considerations into their portfolios while engaging with companies to advance economic, social and environmental development on a global scale.

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



# 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.

## COMPLIANCE AND INTEGRITY

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, at all times – 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

SGS Annual Integrity Training was made available in both classroom and e-learning formats

74 countries participated in quarterly Integrity Talks

22 integrity-related questions were added to Stellar, our self-assessment audit tool

The Human Rights Committee reviewed the Human Rights Policy and strengthened the advancement of human rights knowledge throughout SGS

SGS Academy launched human rights training for customers and adapted the content for employees

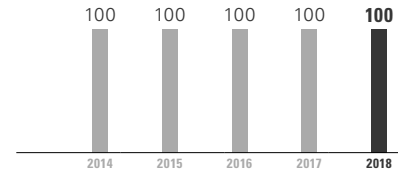
## SGS CODE OF INTEGRITY RESPONSIBILITIES

BODY	RESPONSIBLE FOR	INCLUDES
<b>PROFESSIONAL CONDUCT COMMITTEE</b>	<ul style="list-style-type: none"> <li>Ensuring implementation of the Code of Integrity</li> <li>Advising Management on all issues of business ethics</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors</li> <li>Two other Board members</li> <li>Chief Executive Officer</li> <li>Chief Compliance Officer</li> </ul>
<b>CHIEF COMPLIANCE OFFICER</b>	<ul style="list-style-type: none"> <li>Implementing procedures governing ethical behavior and conducting investigations of alleged staff misconduct</li> </ul>	
<b>CORPORATE SECURITY TEAM</b>	<ul style="list-style-type: none"> <li>Ensuring that security arrangements adequately protect our people and assets and respect human rights</li> </ul>	<ul style="list-style-type: none"> <li>Continuous evaluation of assets and businesses</li> </ul>
<b>HUMAN RIGHTS COMMITTEE</b>	<ul style="list-style-type: none"> <li>Overseeing implementation of human rights commitments</li> <li>Supporting human rights as defined in the Code and Business Principles</li> </ul>	<ul style="list-style-type: none"> <li>Chief Executive Officer</li> <li>Chief Compliance Officer</li> <li>Vice President Corporate Sustainability</li> </ul>

## PERFORMANCE

# 100%

% OF EMPLOYEES SIGNING THE CODE OF INTEGRITY

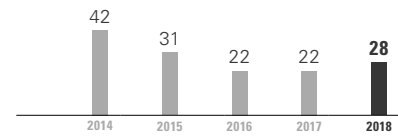


## EMPLOYEES SIGNING THE CODE OF INTEGRITY

# 28

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

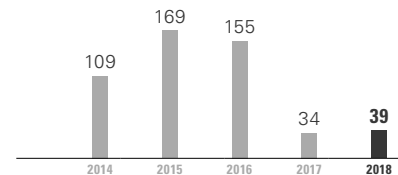
"Helplines" means channels used by employees and external parties to report suspected violations of the Code of Integrity. The reports can be submitted online or by phone, email, fax or post.



## CODE OF INTEGRITY NON-COMPLIANCES

# 39

TOTAL NUMBER OF REPORTS INVESTIGATED CONCLUDING IN NO BREACHES AND CLOSED DUE TO LACK OF SUBSTANCE

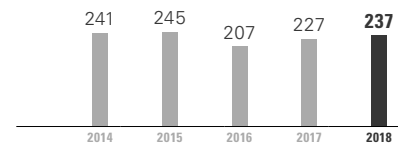


## CODE OF INTEGRITY INVESTIGATIONS

# 237<sup>1</sup>

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.



## CODE OF INTEGRITY REPORTS

1. At the time of reporting, 30 pending cases were still open and under review.



# NURTURING A CULTURE OF INTEGRITY

**SOPHIE BESNARD**

SGS Senior Global Legal Counsel

Doing the right thing sounds simple enough, but in a diverse company with more than 97 000 employees, many circumstances can challenge the ability to act according to the company's core mission and values. To complement our established mandatory Annual Integrity Training and e-learning, we have introduced new initiatives to bring integrity to life. With a goal to transition the SGS Code of Integrity – from being a compliance tool to becoming an integral part of the processes and culture within the Group – we have redesigned our integrity e-learning modules and introduced a series of manager-led Integrity Talks.

The e-learning modules use real-life scenarios to help employees relate integrity issues to their everyday work. Inspired by our Safety Talks, we also collaborated with our Operational Integrity team to design and implement regular meetings that promote the dialogue between line managers and employees on the standards of conduct expected of them in the workplace.

## ACQUISITIONS AND STRATEGIC PARTNERSHIPS

SGS has long benefited from making strategic acquisitions that help us achieve our growth goals. This is particularly true for geographical 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.

SGS has achieved CHF 300 million of acquired revenue growth since the start of the 2020 Mission. We are targeting the acceleration of our mergers and acquisitions activity.

### ACHIEVEMENTS

Eight acquisitions completed

0.7% inorganic growth

## ASBESTOS SERVICES GROWTH STRATEGY



### UDO WALTMAN

SGS Search Director, Environment, Health and Safety

As society becomes increasingly concerned by the impact of asbestos, we have taken the decision to strengthen our portfolio by expanding our services related to asbestos detection and testing. Subsequently, asbestos services now make up 10% of the Environment, Health and Safety global portfolio, up from 3% five years ago.

This growth has been achieved through an acquisition and investment strategy. For instance, in the acquiring of MIS Environmental, LabTox and Search Group, SGS has strengthened its portfolio and footprint in key markets, giving us a leading position in asbestos research and management.

SGS' extensive network and local knowledge mean that we are one of the few players in this field that can take a genuinely global approach to supporting customers. As the asbestos market is expected to grow over the next two decades, SGS will continue to develop its services through acquisitions and greenfield startups around the world.



### OUR VALUE TO SOCIETY

## TACKLING ILLEGAL FUEL TRADE IN THE PHILIPPINES



### MOSTAFA NASRI

SGS Global Manager, Fuel Integrity Programs

Fuel smuggling is an issue for several countries around the world. This can be in the form of outright stealing, where fuel is snuck into the country by ships docking in smaller ports or by transferring fuel products on the high seas. Another smuggling practice is misdeclaration, in which the fuel is declared at a lower value (e.g. a lower fuel grade) or volume, so the importers pay less tax than they should.

The Philippines suffers significantly from illegal fuel trade and the resulting unpaid taxes. In late 2018, SGS won a tender to provide the Philippines with a Fuel Integrity Program, starting in 2019, constituting in an integrated array of services, coordinated and controlled by SGS experts.

The solution includes actions such as adding a marker to taxed fuels to enable traceability and monitor integrity as they move through the supply chain. SGS will also visit depots and retail sites to collect samples and check the integrity of fuel sales. Additionally, SGS will produce test reports, analyze data and provide intelligence and risk management information about illegal activity. SGS operates similar programs in several other countries, such as Serbia, Senegal, Ivory Coast and Kenya. The service is of benefit to legitimate, legal, oil marketing companies, as it helps protect their brand integrity, but it also benefits consumers, who receive the quality of fuel promised. For governments and broader society, the increase in tax revenue collection can make a significant difference.

## 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

5.3% organic growth<sup>1</sup>

1. Constant currency basis.

# BALANCED PORTFOLIO

The SGS portfolio covers nine business lines that service multiple global industries, each with a large and diversified customer base. This fragmented 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.

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.

## ACHIEVEMENTS

Dashboard for asset review successfully deployed

Revenue growth across 8 business lines

“When we are preparing to enter a market, the local SGS team brings expert engineers from that country to meet at our factory here in China. Access to this global service is enabling CRRC to expand into many markets around the world.”

### LIAO HONGTAO

Vice General Manager, China Railway Rolling Stock Corporation (CRRC), Zhuzhou

## OUR VALUE TO SOCIETY

# OUR RAIL JOURNEY IN CHINA



### JOFFREY LAUTHIER

SGS Global Head of Rail

We have been building a portfolio of rail services globally, with a specific focus on the Chinese market, for a number of years. Rail is an important sector, as it is considered to be a more sustainable means of transport than road (atmospheric emissions and energy consumption) or air travel. Initially, we launched in China with safety testing services through our extensive laboratories network, which is spread broadly across the country. Our local team rapidly developed strong relationships with customers, which gave us the opportunity to expand into the certification market. Rail is a highly regulated sector, so companies supplying the industry have to deliver products that meet

local environmental, safety and interoperability requirements and must be certified to prove that they do. Today, our main Chinese rail customer is the China Railway Rolling Stock Corporation (CRRC). The CRRC exports rolling stock and equipment to 104 countries around the world. Entering each of these markets requires expert knowledge, product engineering and evidencing that specifications have been met. Through our international network, we are able to provide country-specific rail experts who can offer CRRC consultancy on market entry. We overcome language and cultural challenges by creating

integrated teams that bring together the experts needed with the local Chinese team.

# REGIONAL FOCUS

Our operations are divided into three regions – Europe, Africa and the Middle East; the Americas; and Asia Pacific – which cover eight sub-regions that implement Group policies and strategies locally.



SGS' progress within a region is affected by global megatrends and local factors such as market maturity, political developments and the level of infrastructure.

Our geographic segmentation helps us achieve stable and balanced growth. It allows us to counteract any local challenges and take advantage of opportunities through specific, regional action plans that focus on key markets and help us accomplish our objectives.

## ACHIEVEMENTS

4.1% growth in Europe, Africa and the Middle East – in part because of an openness to new technologies leading to high growth in Africa and the Middle East

7.5% growth in the Americas – because of regional diversification away from an over-reliance on the oil and gas sector

7.4% growth in Asia Pacific – as the market opens up in China, SGS is taking advantage of opportunities arising from increased domestic consumption



# INFRASTRUCTURE AND SERVICES

Capital expenditures (CAPEX) and operational expenses (OPEX) constitute the costs that we incur while creating our services. By optimizing activities and streamlining processes to achieve operational excellence (see page 49), we continuously improve our CAPEX and OPEX. With this in mind, our investments are focused on the strong areas of the business and those with the best growth record or long-term growth potential. We continue to invest in projects that promote organic growth and that are technology driven. One such development in 2018 has been lab optimization. Because laboratory operations comprise labor-intensive activities, increasing the level of standardization and automation to enhance our capacity and productivity remains a focus. Some of these optimization measures aim to reduce the manual activities and reworks through physical automation, such as robotics, robust laboratory operation, and process automation through equipment and instrument integration. Furthermore, our disciplined approval process and a solid compliance review process results in the majority of CAPEX investments being accretive to the bottom line.

## ACHIEVEMENTS

Reduction of overall CAPEX intensity, enabled by more attractive pricing and asset redeployment

27 countries implemented the Oracle E-Business Suite

25% of SGS servers have been migrated to Microsoft Azure Cloud, in-line with our cloud-first strategy

## OUR VALUE TO SOCIETY

# SEAFOOD DEVELOPMENT PROGRAM



## CORMAC O'SULLIVAN

SGS Seafood and Aquaculture Audit and Certification Manager

To address growing demands in the seafood and aquaculture sector, SGS has enacted a two-year development plan to increase awareness of its services in this dynamic environment.

Driving safety, sustainability and quality in key areas of seafood and aquaculture production since 2016, SGS has invested and expanded its global laboratory testing, auditing and certification capabilities. Through this additional investment, including talent acquisition, the company accelerated portfolio development to include Aquaculture Stewardship Council (ASC) certification and broadened the scope of the Best Agriculture Practices (BAP) certification scheme to include all farm standards.

In support of the portfolio expansion, SGS held a number of events around the world inviting thought leaders and experts from industry and other interest groups to discuss challenges and opportunities facing the sector. Having established itself as market leader, SGS experts were invited to many seminars and conferences as guest speakers. In the latter part of 2018, SGS formed a partnership with Monterey Bay Aquarium's Seafood Watch (SFW), Asian Seafood Improvement Collaborative (ASIC), and Minh Phu to work on a major new initiative that aims to help small-scale farmers to verify sustainable production. This partnership was announced and is supported by John Kerry, former US Secretary of State through the Carnegie Endowment for International Peace working on improving governance and advancing comprehensive approaches for sustainable development.





## DIGITAL

Our digitalization strategy aims to position SGS as 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.

Our focus to date has been on facilitating digital innovation and strengthening our digital team structure, along with delivering on a number of key project launches. Our approach to digital innovation is to invest in the right projects that deliver on our efficiency goals, provide our customers with solutions and create services that bridge digital and traditional methodologies. This means that we are prepared to reject innovations, in the early stages of development, if they do not meet certain criteria.

### ACHIEVEMENTS

GDPRONLINE launched as SGS' online subscription-based platform for GDPR compliance

Partnered with komgo® to simplify the commodity supply chain

Co-signed Charter of Trust on Cybersecurity

Vulnerability Management platform assessing customers' exposure to security threats and conducting penetration testing was launched

### OUR VALUE TO SOCIETY

# TRANSFORMING COMMODITY TRADE FINANCE

### FRED HERREN

SGS Senior Vice President  
Digital and Innovation

In September 2018, 15 of the world's largest institutions, including SGS, launched komgo®, a new blockchain-based platform aimed at transforming commodity trading.

The innovative technology delivered by komgo® offers a depth of resources that reduces the time needed to process documents and data, which, in turn, speeds up the transaction process. The platform also provides digital ledgers aimed to limit operational risks relating to fraud, counterfeiting or human error.

Blockchain technology is a defining feature of our new digital age. As a co-investor and the exclusive representative from the TIC industry, the investment in komgo® is illustrative of SGS' commitment to improving how business is conducted. Through innovative solutions and expanding our experience in pioneering technologies, we can deliver advanced services to our customers.

"komgo® is a leap forward in commodity trade finance. It is digitalizing processes through new blockchain-based technology set to increase efficiency and reduce risks and costs. SGS is a key partner."

### SOULEÏMA BADDI

Chief Executive Officer of komgo®

# INNOVATIVE ONLINE SERVICES

Expanding our business-to-business-to-consumer presence online is an SGS 2020 objective that we aim to achieve through the launch of our new e-commerce platform. Business customers are now able to purchase SGS services directly through our customer portal, also known as SGS online. The new portal also launches direct sales of SGS services to consumers (B2C). Two services are initially available, including pesticide residue analysis of fruits and vegetables, which can give consumers reassurance about the produce they are purchasing. Expanding our commercial transactions through digital tools gives us the opportunity to find innovative ways to increase brand awareness and develop the SGS customer experience.

## ACHIEVEMENTS

Launched SGS online, SGS' digital customer portal

Two direct-to-customer services available via SGS online: Oil Condition Monitoring and Pesticides Residual Analysis, with new services coming in 2019

## OUR VALUE TO SOCIETY

# SERVICING CUSTOMERS THROUGH SGS ONLINE



## GUILLAUME PAHUD

SGS Customer Portal Program Director

Developing innovative ways to manage our customer relationships is a core strategy at SGS. One of the ways in which we are doing this is through the SGS customer portal: SGS online. This platform provides knowledge management and support services.

Through SGS online, customers can track discussions, search for information, request services and receive direct support.

At the same time, they can access, check and upload key documentation relating to their business and operations, including certification, audits, inspection and testing results, and invoices.

By providing our customers with a single, consolidated view of their interactions with SGS and a dashboard functionality that allows them to access and share key information, we are helping them to operate more efficiently and save time. For SGS, the portal is an innovative tool that is giving us the opportunity to further improve our customer relationships and target new growth.

The development of the portal demonstrates our drive to meet the needs and expectations of the new digital world, in which new technology is transforming the ways we operate and consumers behave. We are continuing to expand the capability of the portal, adding services that customers need to improve the online experience and creating customized frameworks for different business lines.

"We are rethinking our business to better suit the mechanisms and practices of the digital marketplace. Through SGS online, we are able to better automate what we do, provide greater self-service and gain greater efficiency for processes."

## FERNANDO PARRA FORCEN

SGS Customer Engagement  
Project Manager



# INNOVATIVE THINKING



**MIKE MEDIOUNI**

SGS Global Innovation Community Manager

At SGS, we have a culture that values innovation. We have a process in place that rewards creative ideas, and we encourage our more than 97 000 employees to put them forward.

When we find ideas that are novel or propose enhancing existing practices while leveraging advanced technologies, we work with the employees who put the ideas forward to develop their concept into business propositions. We communicate ideas that progress, and we celebrate the innovations that help make a difference to our success.

When SHELL, a global customer of both our Oil, Gas and Chemicals and our Industrial businesses, asked us to host an Innovation Workshop for 10 of its top executives, we embraced the opportunity. We prepared an energetic schedule that brought together SGS experts from around the world for a series of presentations sparking discussions on innovation processes and best practices. The event was highly motivating for all SGS participants. Added to this, there was also a sense that, by inspiring SHELL to think differently about innovation, we were enabling the future development of sustainable solutions while, at the same time, further nurturing our partnership.

“The way the ecosystem for innovation works in SGS is very different from our approach, so there was some great knowledge-sharing in both directions. One of my favorites is SGS’ fast “Kiss or Kill” analysis of the value of innovations: If an idea is not implemented within six months, it’s considered too weak to survive and isn’t progressed any further.”

**GRAHAM MARSHALL**

Organisation Development Manager,  
SHELL

# INVESTOR RELATIONS

Investor Relations is critical to support the financial community in making informed decisions. By formally communicating to our shareholders, analysts and investors, we foster transparency, trust and accountability. In addition, our annual Investor Days provides a significant level of access to our Senior Management and the Operations Council.

## ACHIEVEMENTS

Successful Investor Days

Increased investor meetings and conference attendance

"I have been coming to the SGS Investor Days since 2010, and one of the biggest benefits is the access I get to Senior Management. The ability to engage directly with regional and divisional leaders provides a unique insight into the markets and operations."

**CAROLINE PRICE**

Fargo Management Canada Ltd.

## OUR VALUE TO SOCIETY

# CULTIVATING TRANSPARENCY SGS INVESTOR DAYS



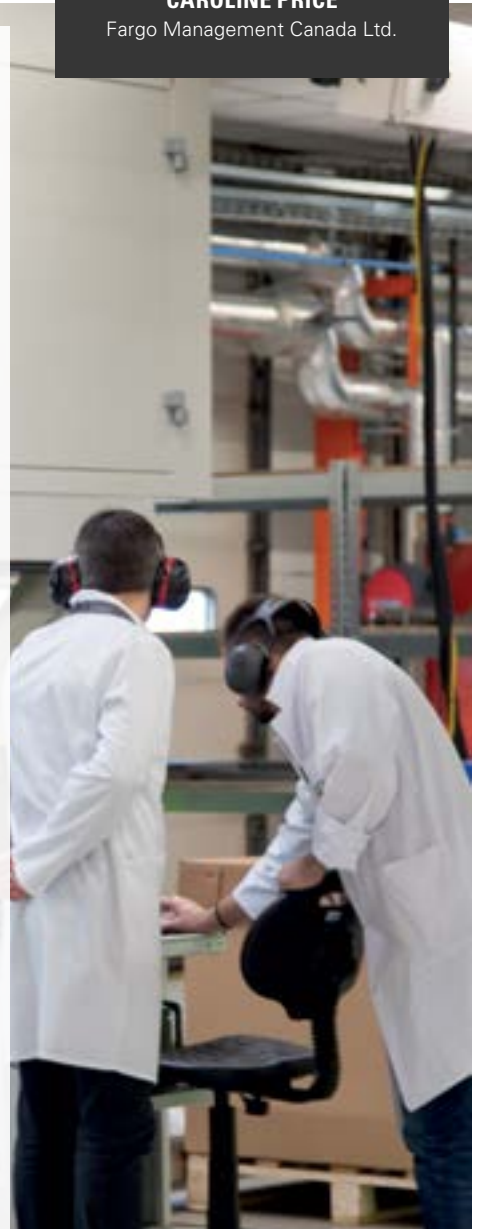
### TOBY REEKS

SGS Senior Vice President Investor Relations

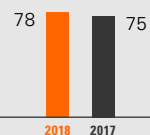
The Investor Days are one of the many tools the Investor Relations team uses to help investors and industry analysts understand SGS. The annual event gives detailed Group strategy, regional and business updates and perspectives, directly from an important operational location – such as a major site, laboratory or focus area. Detailed presentations that cover themes that drive Group performance, the opportunity to see SGS "in the field" and access to management provide investors and analysts with the knowledge they need to make informed decisions regarding SGS.

The Group strategy and finance updates by our CEO and CFO are streamed live and are available as a recording after the event. This is followed by thematic regional and divisional presentations from members of our Senior Management team. These presentations cover our growth drivers, how business lines are adapting to meet industry needs, and in what way SGS is evolving to helping its customers to sustainably face any challenges, including from the global megatrends, along their supply chains.

The site visits give analysts and investors a chance to meet local management and get practical examples of how SGS delivers world-class services for its customers globally. The Investor Days give us an opportunity to update our progress against our strategic focus in a transparent way, which is important for the process of creating value for our shareholders over the long term.



CHF **78**



PROPOSED DIVIDEND



# OPERATIONAL EXCELLENCE

Developing our Global Business Services as an internal service-delivery model, based on Shared Service Centers, implementing World Class Services and advancing our Net Working Capital (NWC) are some of the ways in which we drive operational excellence and improve productivity and capacity through innovation, automation and digitalization, and continuous improvement.

Our three Shared Service Centers help us achieve greater efficiency by harmonizing the Group's support functions to increase productivity (see right).

SGS' World Class Services (WCS), an adaptation of the World Class Manufacturing concept, is a structured approach that reduces organizational waste and losses to bring long-term improvements to our safety, workplace organization, quality, maintenance and logistics. In 2018, we took the first steps to set up the basis for WCS standards and methods through assessing a number of laboratories. By ensuring that our lab network provides reliable results efficiently, we not only contribute to achieving operational excellence but also build the foundation for implementing the WCS approach.

Several other Operational Excellence projects have been completed successfully through discipline, methodology and technical expertise. Examples of such key initiatives are for our AFL Food and CRS laboratories, where we focus on productivity improvements to directly impact the throughput, quality and overall performance while also contributing to capacity enhancements to sustain growth.

We further aim to improve our performance through automation, including the use of new technologies and equipment for physical testing as well as software automation, such as robotics process automation (RPA), which helps enhance productivity and agility by using software robots that take over routine administrative processes. These robots can work 24 hours a day, 365 days a year, and they drastically reduce human errors and improve the quality of the services delivered to our customers. RPA can be deployed in different ranges of business activities without a complicated integration into existing IT systems. Examples of such

implementations include processing products and conformity assessment certification in Governments and Institutions, improving current productivity rates or the automation of customer master data management and maintenance in China.

## ADVANCING OUR NET WORKING CAPITAL

Net Working Capital (NWC) is key to ensuring that cash is available for upcoming opportunities and day-to-day business operations. Prioritizing NWC allows us to fund strategic investments, which, in turn, drive operational efficiencies and reduce overheads. Our Net Working Capital Initiative, which has been in place since 2015, improves our cash position to ensure on-time collection of money owed, adequate management of inventory and the correct timing and processes for goods purchased. By focusing on this initiative, we are now the TIC industry leader and demonstrate best-in-class performance for NWC optimization.

## ACHIEVEMENTS

1 200 full-time employees support the entire Global Business Services (GBS) network in three Shared Service Centers

10 labs assessed on World Class Manufacturing methodology

22% Global Business Services growth

CHF 20 million-25 million annual net savings as a result of GBS and other back-office improvement initiatives

First CCLAS 6 (G6) LIMS went live in USA GeoChem laboratory, providing improved efficiency and standardized processes

## OUR VALUE TO SOCIETY

# GLOBAL BUSINESS SERVICES

## FILIPPO ROTA

SGS Vice President of Strategic Transformation

Shared Service Centers continue to transform our support functions and businesses by helping us to achieve operational excellence. By consolidating transactional and standardized activities in the Centers, back-office processes become more efficient, and our affiliate employees can focus on higher-value tasks.

These hubs of excellence for administrative and supportive duties not only help us achieve greater compliance, consistency and productivity but they also improve our cash-inflow management and support our Net Working Capital Initiative. Since 2015, as part of a global rollout of best practices to standardize order-to-cash (OTC) and supply chain models, we have developed our Global Business Services model through three Shared Service Centers – in Poland, the Philippines and China. The Centers are set up to leverage skill and scale and to manage supplier payments more efficiently, speed up the invoicing process and reduce defaults.

For our Certification and Business Enhancement (CBE) services, for example, invoicing has historically been prepared in multiple countries, with each office running differently. These processes were inefficient and prolonged the order-to-cash (OTC) process. By moving our invoicing to the Shared Service Centers, we have shortened the OTC cycle and saved on personnel costs. Our customers also benefit from this process because the review is completed faster and consumers see certificates issued more quickly.







# PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

In 2018, we launched the 2020 Procurement and Supply Chain strategy with the aim of delivering profit-and-loss impacting savings, efficiency improvements and innovations that support profitable growth. Working together with stakeholders and suppliers as a partner of choice, the strategy is built on four pillars: cost and cash flow leadership, global sourcing solutions, sustainable procurement and the Inspection and Laboratory of the Future project.

These strategic pillars are enabled by an Operating Model consisting of state-of-the-art Source-to-Pay and Demand-to-Supply processes as well as effective supplier relationship management, high-performing teams and effective business partnerships.

## **COST AND CASH FLOW LEADERSHIP**

Procurement and Supply Chain Management is on track to reach the targeted CHF 180 million total incremental savings in 2020. By optimizing payment terms and conditions with key suppliers, positive contributions are also being made to SGS' Net Working Capital.

## **GLOBAL SOURCING SOLUTIONS**

Through global category strategies across the SGS network, we are driving cost reduction, standardization and efficiency improvements. Supported by the Procurement Excellence team in Prague, Czech Republic, Category and Sourcing Managers worldwide are applying more structured and effective programs.

Our commitment is to deliver the best global, regional and local solutions, taking a total cost of ownership and user-centric approach. The recently

concluded global fleet agreement is a good example: Besides the significant savings achieved, SGS and its partner are studying sustainable car mobility in the Netherlands. This project evaluates social, environmental and business needs while identifying market opportunities and anticipating policies.

EquipNet, our web-based equipment redeployment tool, is progressing well, meaning SGS can optimize asset use across its network.

As part of the Supplier Innovation Program, SGS has further deepened partnerships with leading suppliers, allowing the Group to benefit from the capabilities of its supplier ecosystem.

## **INSPECTION AND LABORATORY OF THE FUTURE PROGRAM**

Testing and inspection are SGS' core activities, representing a large portion of costs. Driving efficiency in our laboratories worldwide is a key priority that is addressed by the World Class Services program. Procurement and Supply Chain Management activities significantly contribute to efficiency improvements in the labs as well as in inspection. The "Inspection and Laboratories of the Future" program brings together initiatives such as inventory management, asset management and automation. The Advanced Technology Group has also been set-up as a cross-functional team of SGS experts who aim to devise next-generation technical and digital inspection and laboratory solutions in partnership with strategic suppliers.

## **TARGET OPERATING MODEL**

2018 witnessed the development of several key global Source-to-Pay transformation projects. The global

rollout of our supplier portal – supporting electronic invoicing – reached 43% of the total targeted 2020 scope for the USA and Spain. The use of SGS' e-sourcing tool reached 23% of online negotiated spend in 9 countries, facilitating savings and simplifying the sharing of management best practices.

## **SUSTAINABLE PROCUREMENT INITIATIVES**

The SGS Supplier Code of Conduct and Self-Assessment Questionnaire have been successfully deployed in 12 high-risk countries in 2018 as a key part of the SGS sustainability initiatives.

## **ACHIEVEMENTS**

CHF 75 million in new savings, on target to reach the CHF 180 million defined for the 2018-2020 savings program

Internal purchasing catalog usage reached 40%

Usage of the SGS e-sourcing tool has increased by 50% and is now applied in 9 countries

EquipNet, SGS' web-based equipment redeployment tool, generated CHF 3.1 million savings and contributed to increased asset redeployment across the global network

Rollout of SGS Supplier portal continued, reaching 30 438 electronic invoices

Advanced Technology Group established to create innovative solutions with strategic supplier ecosystem

# FOSTERING A COLLABORATIVE SUPPLIER PARTNERSHIP

## ROBERT TRAPP

SGS Global Laboratory Category Manager

Establishing strong, mutually beneficial and long-term relationships with strategic suppliers is a critical step in improving supply chain performance. Benefits include generating greater cost efficiency and enabling business growth and development. SGS has selected 10 suppliers to cultivate long-term partnerships with: this includes Agilent, a leader in life sciences, diagnostics and applied chemical markets, that provides SGS' laboratories with instruments, services, consumables, expertise and applications.

The collaboration started in 2016, with the introduction of a Key Account Manager – a first for the company. At that time, a governance structure was established to transform what was previously a more transactional relationship into a united partnership. The first deliverable was in the form of a global pricing agreement for equipment and consumables, accompanied by a punch-out catalog that is now used in all major SGS countries.

To strengthen the relationship further, both companies agreed on a number of strategic initiatives, including the Advanced Technology Group, created to collaborate on new technologies. By working in partnership with Agilent's R&D team, SGS can shape not only the development of the technology that customers and their clients will require in the labs of the future but also the creation of additional revenue-generating services.

"Partnering with Agilent demonstrates SGS' commitment to cultivating cooperative partnerships with our top suppliers. Beyond improved efficiency and cost saving, the entire supply chain will be better equipped to meet customer and market demands."

## JUERGEN NELIS

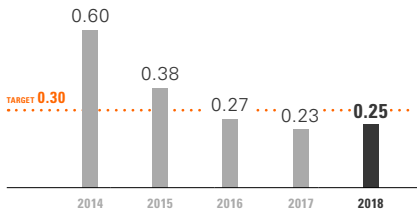
SGS Vice President  
Group Procurement



# OPERATIONAL INTEGRITY

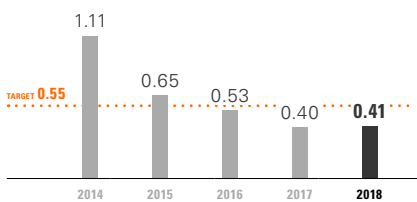
## PERFORMANCE

# 0.25



**LOST TIME INCIDENT RATE (LTIR)  
(200 000 HOURS)**

# 0.41



**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 three lives in our operations in 2018. Any fatality is unacceptable, and we will continue to work toward achieving our goal of "zero harm."

The strategy to accomplish our goal of "zero harm" is defined by the Operational Integrity (OI) function and is based on seven pillars: Leadership; Communication; Training and Awareness; Resources and Skills; Key Performance Indicators; Audits and Compliance; and Health, Safety and Environmental (HSE) Self-Assessments. The strategic approach for each pillar is based on an OI management system aligned with internationally recognized standards.

### LEADERSHIP

Our OI strategy and performance are reviewed quarterly by the VP, Operational Integrity, and Business Continuity Process and Integrity Programs, with the CEO invited as a permanent guest. Each year, global strategic input is gathered, and annual OI objectives are set, which clarify the OI vision for the following 12 months and ensure the visibility of results. The OI team reports directly to the CEO and deploys its strategy and objectives through a Top-Page process. This structure allows SGS to focus on key programs, including incident investigations, risk assessments, leadership visits and best practices.

### SGS RULES FOR LIFE

A Group-wide initiative that helps maintain and create awareness of the importance of safety is SGS' Rules for Life. These apply to all employees, contractors and others working on behalf of SGS and are available in 14 languages. The Rules are incorporated into all our safety-related campaigns, and employees receive training through e-learning and face-to-face sessions.

### COMMUNICATION, RESOURCES AND TRAINING

We continuously work on increasing the number of Operational Integrity professionals across the Group. Chief Operating Officers and Executive Vice Presidents are briefed for leadership visits in their affiliates, while leaders and managers receive specific OI training. Regular Safety Talks and Integrity Talks, as well as webinars and mobile apps on OI management systems and procedures, are provided for all employees. These resources are accompanied by communication campaigns that raise awareness and promote safe behavior.

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 two programs:

The OI Culture Index measures the development of the safety culture across the company through 14 key indicators of operational integrity, and our Behavioral-Based Safety peer-to-peer observation program uses positive reinforcement to promote safe behavior (see page 53).

### AUDITS, KPIS AND SELF-ASSESSMENTS

SGS laboratories, offices and facilities are audited for health and safety risks as well as environmental and chemical impacts. Regular self-assessments of SGS sites provide an overview of potential risks and control, and all incidents and hazards are captured through Crystal, a multilingual interface that delivers regulatory and client-mandated reports.

### THE OPERATIONAL INTEGRITY GLOBAL MISSION

- Protect SGS employees and stakeholders, our physical assets, the environment and the communities in which we work and live
- Accelerate our cultural change and journey towards HSE excellence
- Leverage HSE ownership, leadership and stakeholder involvement
- Improve SGS' performance by providing HSE expertise and guidance through the deployment of OI strategies, programs and tools
- Support full compliance with legal, regulatory, customer and Group HSE requirements

### INDUSTRIAL HYGIENE AND OCCUPATIONAL HEALTH

We launched ProcessMAP, a software tool to manage Industrial Hygiene (IH) and Occupational Health (OH) data, to volunteering pilot countries during the fourth quarter. The platform provides a detailed overview of IH and OH performance across the Group, is compliant with data privacy laws and is available in 12 languages.

Together with Procurement, IH and OH continue to standardize the Personal Protective Equipment that is used across all locations. This cross-functional initiative – built around a five-stage plan – is now in its fourth stage, which focuses on communication and getting requests for proposals in place. SGS also continues to manage safety data sheets and chemical risk assessments with the Chemwatch management system.

### BUSINESS CONTINUITY

Having a business continuity plan in place helps us understand critical business processes, allows us to efficiently and effectively respond to any



disruption and minimizes the impact on our operations. SGS' Business Continuity Management Process is managed with Group support at a country level. As of 2018, Business Continuity is overseen by SGS Operational Integrity and has been integrated into operational integrity management processes. While it is inherently impossible to plan for black swan events and every other feasible sort of business disruption, SGS considers four core topics for its business continuity plan: people, buildings, IT and suppliers. These topics are studied locally, which includes the creation of local crisis management teams and the development of training exercises to simulate a crisis.

In 2018, we appointed 291 Business Continuity Process (BCP) Managers/Officers and trained them in 38 dedicated workshops, with the aim of strengthening procedural awareness across the SGS Group. This allowed us to welcome 50 new BCP Managers/Officers at country level and 180 at the site level.

#### ACHIEVEMENTS

Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) reduced by 63% and 58%, respectively, since 2014

Released Hazard Risk, SGS' first OI mobile application

100 Behavior-Based Safety Master Trainers were trained to deploy BBS across the network in 2019

Ergonomics in the field and offices was the topic of the global employee quarterly campaign in Q1

Included an OI due diligence element in our mergers and acquisitions platform

Added a Compliance and Integrity section to Crystal, the OI management tool

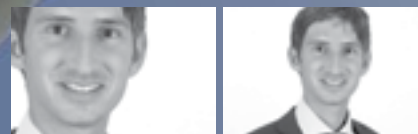
66 161 employees participated in SGS' Annual Safety Month, with the theme of "The Line of Fire – Don't Be a Target," which was held in September

128 000 employees have completed the Rules for Life e-learning since its launch in 2015

Completed user acceptance testing for the IH/OH ProcessMAP software in October and launched a pilot in 12 languages to 11 pilot countries

291 BCP Managers/Officers have been appointed

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**TYLER NOLAN**

SGS Director, Operational Integrity,  
SGS Canada

## BEHAVIOR-BASED SAFETY: SEEING THE UNSEEN

Behavior-Based Safety (BBS) is a process designed to influence employee actions toward safer outcomes by preventing an accident or injury before it occurs. In our quest for operational excellence, we are deploying a Group-wide BBS program that uses positive reinforcement to change risky behaviors and improve the safety performance across SGS. Inspired by the success of the BBS program in SGS Canada, the global program complements our existing operational integrity management system and involves employees identifying safe and "at-risk" behaviors in the workplace, using "no name, no blame" peer-to-peer observations. Regional teams of Master Trainers have been appointed to train local safety personnel on the BBS procedure, while local BBS Committees will oversee the process and monitor progress. During 2019, all affiliates will schedule observations in key locations and survey employees in advance to determine current attitudes and beliefs linked to safety. We will also continue to reassess the safety culture across our affiliates and communicate progress on BBS as part of our commitment to ensuring that working safely becomes an intrinsic value for all employees.

# CLIMATE CHANGE

SGS minimizes the impact of its processes and operations on the environment. This is achieved by following a carbon neutrality strategy, seeking to use resources efficiently and working to deliver sustainable value for society.

## CARBON NEUTRALITY

Since 2014, we have been aiming to reduce CO<sub>2</sub> emissions at source through our sustainability programs and offsetting any remaining or unavoidable emissions. This carbon neutral strategy bridges the gap between the current reality and a more sustainable future.

## ELECTRICITY AND NON-TRANSPORT FUELS

The energy used in our more than 2 600 offices and laboratories worldwide accounts for about 61% of our global consumption. The SGS Energy Efficiency in Buildings (EEB) program evaluates and improves the energy efficiency of buildings that we own or lease. There are two parts to the approach: (i) the development of an energy-efficiency action plan for existing SGS premises following a review, and (ii) an environmental assessment applied to the design, construction and refurbishment of SGS buildings. To increase the efficiency of the EEB program, results from the action plan are being extrapolated to cover other buildings in each affiliate country. At the same time, the SGS Green Building Guidelines provide a rating tool to assess new buildings through key performance indicators that cover energy, waste and water, and define the minimum requirements in areas such as lighting-system energy performance and water consumption. In 2018, we have invested in 407.3 GWh of renewable energy mechanisms (Guarantees of Origin and International Renewable Energy Certificates [I-RECs]) to mitigate our CO<sub>2</sub> emissions. Through the ongoing Spot the Orange Dot campaign, employees are also encouraged to exhibit environment-friendly behaviors. 40 500 employees have been reached by this campaign since it began in 2013.

## VEHICLE FUELS

SGS strives to continuously reduce company car fleet emissions. Our Vehicle Emissions Policy sets a diminishing annual CO<sub>2</sub> emission limit for the

2016-2020 period for our car fleet. The policy promotes that all newly purchased individual vehicles and leased cars emit fewer average grams of CO<sub>2</sub> per km annually than in the previous year. By 2020, average CO<sub>2</sub> emissions per km for our worldwide fleet shall not exceed 95 grams per km. This policy promotes the use of low CO<sub>2</sub>-emitting vehicles that achieve maximum fuel efficiency.

While continuing to deliver against the Vehicle Emissions Policy, we are also collaborating with Group Procurement to develop a wider SGS Sustainable Mobility Strategy. This will include the reduction of vehicle emissions, driving efficiency training, rationalization of the vehicle fleet, inclusion of more sustainable vehicles in the catalog and study of alternative transportation methods.

## REDUCING CO<sub>2</sub> EMISSIONS

Climate change has widespread economic, political and social consequences that can affect the way SGS does business. As a global company, we are concerned about the potential impact of climate change and conscious of our role in contributing to international mitigation efforts by reducing our carbon emissions and guiding other businesses in doing the same.

Our target of reducing our CO<sub>2</sub> emissions (per full-time employee and by revenue) by 20%,\* as part of our Sustainability Ambitions 2020, demonstrates our proactive approach in this area. Our strategy for achieving this involves reducing our energy consumption and purchasing energy from renewable sources whenever possible. The main sources of SGS' emissions are electricity (10% of total emissions), transport fuels (74% of total emissions) and non-transport fuel (16% of total emissions).

## ACHIEVEMENTS

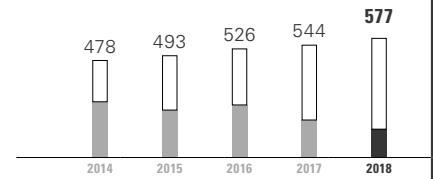
- +100 new buildings in EEB program, which now covers 500 buildings
- 26 representatives appointed and trained to help implement the SGS Green Building Guidelines across affiliates
- 3 countries received customized energy-efficiency action plans
- 5 facilities across Taiwan, the USA and Canada optimized lighting systems
- 15% energy efficiency savings by SGS India's Chennai facility through improved refrigeration system

SGS' Sydney building received the highest rating from the National Australian Built Environment Rating System after completing the EEB program

## PERFORMANCE

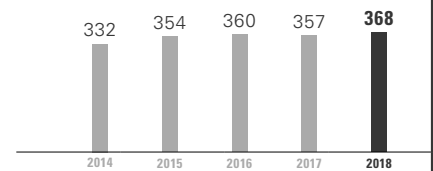
# 577

○ RENEWABLE ENERGY



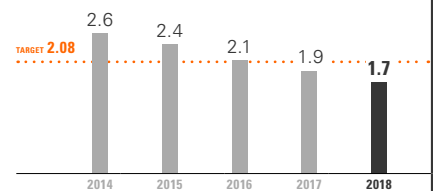
## ELECTRICITY AND NON-TRANSPORT FUELS (GWH)

# 368



## VEHICLES FUELS (GWH)

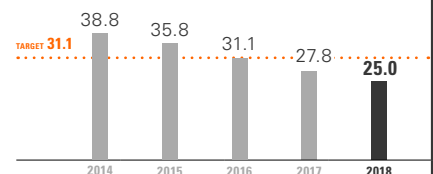
# 1.7



## CARBON INTENSITY BY EMPLOYEE (METRIC TONNES CO<sub>2</sub>e/FTE)\*\*

# 25.0

On a constant currency basis.



## CARBON INTENSITY BY REVENUE (METRIC TONNES CO<sub>2</sub>e/MILLION CHF)\*\*

\* Against a 2014 baseline.

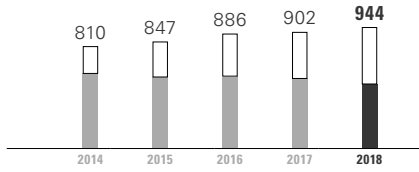
\*\* Market-based figures. Excludes district heating and refrigerant gases emissions due to unavailability of data. Scope 3 emissions only include Category 3: business travel.



PERFORMANCE

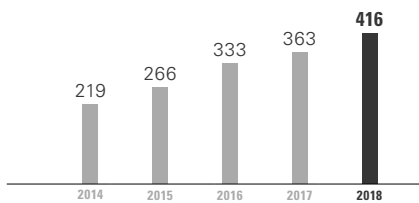
944

RENEWABLE ENERGY



TOTAL ENERGY (GWH)

416



RENEWABLE ENERGY (GWH)

OUR VALUE TO SOCIETY

# ISO 50001 ENERGY MANAGEMENT



**JAVIER LÓPEZ**  
SGS Energy Efficiency Manager

In line with our Energy Efficiency in Buildings (EEB) program, some SGS affiliates are seeking ISO 50001 (Energy Management) certification. This provides a systematic approach to achieving continuous improvement in energy performance – including efficiency and security – and it enables organizations to identify potential cost savings.

OHSAS 18001 certifications in 2018. ISO 50001 will strengthen our competitiveness in the country by increasing energy efficiency and reducing vulnerability with respect to energy price fluctuation. By setting energy reduction objectives of 3% in the short term and 5% in the long term, the affiliate demonstrates leadership in the Asia Pacific region and should see its energy consumption progressively decouple from business growth. Energy efficiency in Asia Pacific is particularly relevant: The region comprises 60% of the worldwide population, generates 32% of the global GDP and consumes more than half of the world's energy supply. Given that much of Asia Pacific is on the cusp of economic expansion, meeting future energy needs will need to be carefully planned to ensure a secure, affordable and sustainable supply.

With ISO 50001 requiring new energy initiatives annually, this continual drive for improvement should prove one of the most significant business benefits to SGS affiliates seeking certification.



"Our recent certification to ISO 50001, ISO 14001 and OHSAS 18001 enhances our ISO 9001 management system, which is enabling us to improve efficiency, save costs, provide a safe working environment and improve brand image."

**ARIEL A. MIRANDA**  
SGS Managing Director  
SGS Philippines and Guam

In Chile, SGS SIGA became ISO 50001 certified in 2017. It uses the certification to drive sustained improvement in energy efficiency and has already achieved its objective of a 5% annual reduction of electric energy consumption. In parallel, SGS Chile also started the assessment to include the fleet in the certification in 2018. SGS Philippines has strengthened its commitment to improving energy, environmental, safety performance and compliance through recently achieved ISO 50001, ISO 14001 and





## CARBON-OFFSETTING PROJECTS

We offset any carbon emissions left after reducing our carbon footprint. This is achieved by assigning a clear cost to carbon and ensuring that each affiliate takes responsibility for their emissions by paying for their carbon offsetting. We also look for Clean Development Mechanism approved carbon-offsetting projects that directly benefit communities where we have an impact. This process supports our community investment strategy and allows us to bring benefits to local communities around the world. At the same time, we are able to promote sustainable economic growth, supply clean energy at a local level and protect the environment by reducing reliance on fossil fuels.

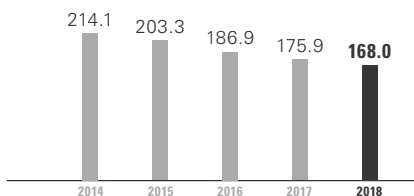
### ACHIEVEMENTS

5 voluntary carbon-offsetting schemes supported

407.3 GWh of renewable energy mechanisms were invested to mitigate our CO<sub>2</sub> emissions

### PERFORMANCE

# 168.0

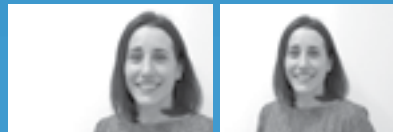


**TOTAL GHG EMISSIONS (THOUSAND METRIC TONNES CO<sub>2</sub>e)\***

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

## OUR VALUE TO SOCIETY

# CARBON OFFSETTING ENVIRONMENTAL AND SOCIAL BENEFITS IN ZIMBABWE



**MARÍA MONASOR**  
SGS Sustainability Reporting Manager

To mitigate our CO<sub>2</sub> emissions, we invest in voluntary offset schemes. These credit purchases are verified by the Clean Development Mechanism and help promote sustainable economic growth, provide clean energy to regions and local communities, and protect the environment by reducing reliance on fossil fuels for energy.

Since 2014, we have been supporting Kariba REDD+ (Reduced Emissions from Deforestation and Degradation), a forest protection initiative in Zimbabwe that is verified according to the Verified Carbon Standard and the Climate, Community & Biodiversity Alliance's Standard.

To restrain the deforestation, Kariba REDD+ ensures the protection of almost 800 000 hectares of forest and wildlife on the southern shores of Lake Kariba, an area that serves as a giant biodiversity corridor and includes an expansive rainforest and numerous vulnerable and endangered species. Besides the environmental benefits, the project supports the independence and well-being of local communities: people benefit from improved clinic amenities, infrastructural developments – such as new roads and boreholes – or school subsidies for the poorest population. Kariba REDD+ also fosters job creation and sustainable livelihoods by promoting activities such as conservation agriculture, fire management, beekeeping training and ecotourism. Across the entirety of the project, 85 000 people are benefiting from its activities and are enjoying better health and improved economic opportunities.





# PEOPLE

Our commitment to attracting, retaining and developing our people is the basis of our long-term competitive advantage. We empower them to succeed in a safe, diverse and inclusive workplace that treats everyone fairly and with respect. We seek to employ and develop local talent and offer our employees flexibility, mobility and opportunities within the SGS Group.





# TALENT ACQUISITION AND RETENTION

We began to put into effect SGS' global Human Resources (HR) strategy in 2018 and will continue the implementation over the course of 2019 and beyond. The strategy is based on five pillars: aligning the HR structure to better meet global and regional business prerogatives; implementing a competitive and transparent talent acquisition strategy; fostering an integrated talent management mindset – based on consistent succession planning practices; strengthening our leadership and employee capabilities with tools and guidelines; and lastly, leveraging our footprint to promote career development opportunities across the Group.

Implementing this strategy will make SGS more flexible and transparent in the way it acquires and develops talent and increase the visibility of career and growth opportunities within the Group. A critical part of our global HR strategy relies on developing the knowledge of the HR community and providing it with simple and efficient tools to add value to the SGS business.

Essential to the success of the strategy is HR communication, at both the global and local level, delivering key messages and raising awareness on the vision and direction. This is being achieved in close collaboration with SGS communications teams.

This year, our Sustainability Ambition 2020 on natural turnover, which had been set at 10%, has been revised upwards to 15%, aiming to establish a more realistic and appropriate target for our organization. This change has been approved by the Sustainability Steering Committee in March 2018, and the adjustment has been made after a period of intensive study across the industry and using external ratings benchmarks that indicate that a healthy aggregated natural turnover rate for the industry should vary between 15% and 18%. As always, our focus continues to be on retention. To remain the industry leader, it is imperative that we continue to attract and retain high-caliber experts across the SGS Group.

## EMPLOYEE ENGAGEMENT AND WELL-BEING

SGS continues to focus on performance management through leaders to develop and engage employees. To better understand our employees' experience of working with SGS, every year, we invite them to complete a survey (see page 59).

Additionally, SGS provides various well-being initiatives tailored to the specific needs of local affiliates. These range from flexible working hours to partial 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.



Thirteen teams from SGS Nigeria were among the more than 1 000 SGS employees that participated in the Virgin Global challenge, promoting teamwork and collaboration.

## REWARD AND INCENTIVES

Reward plays a key role in attracting, motivating and retaining talent at SGS. Our remuneration framework rewards our employees for their performance, competencies and experience, based on local competitive conditions, and it encourages 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 practices. We regularly benchmark our compensation packages to confirm they are competitive in all locations around the world.

Group-wide job architecture classifies positions using "generic jobs" and "job grades." Each captures the basic nature of the job performed and the typical skills and competencies needed. A job grade represents the relative weight of a job within the organization, based on different factors, such as management responsibility, knowledge required and impact on financial results.

Classifying positions facilitates a common language that allows us to benchmark our compensation practices against the external market in different geographies and internally between different organizations.

This year, the Short-Term Incentive Plan has been adjusted. While the annual incentive is based on the achievements against collective and individual financial targets, individual qualitative goals and behaviors are now part of a broader Talent Development focus and are incentivized through career development paths and mid- to long-term evolution of the compensation packages. The Long-Term Incentive Plan has been reviewed to simplify and better align the reward of the senior management with the long-term objectives of the Group and the shareholders' interests.

## ACHIEVEMENTS

91% response rate to 2018 Catalyst employee engagement survey (across 26 countries and 2 global teams)

67% of employees feel engaged and 70% of employees feel enabled\*

SGS Peru won the Asociación de Buenos Empleadores 2018 Social Responsibility award in the Employee Wellness category

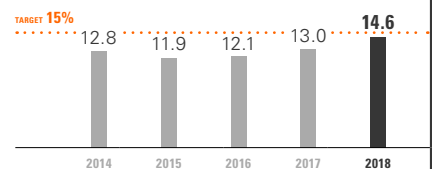
\* Due to the difference in scope between 2017 and 2018, the results for the two years are aggregated. The 2017 survey was completed among 39 countries and 3 global teams, with 34 551 respondents. While the 2018 survey was completed among 26 countries and 2 global teams, with 6 286 respondents.

## PERFORMANCE

# 14.6%

### PEOPLE LEAVING BY THEIR OWN WILL

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

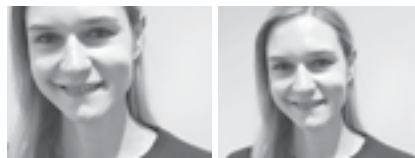


## NATURAL TURNOVER



CATALYST SURVEY:

# TIME TO LISTEN AND ACT



**ANA BIDAUD**

SGS Global Employee Engagement Manager

In our Catalyst employee engagement survey, conducted in September 2018, 6 286 employees from 26 countries and two global teams gave feedback on their experience working at SGS – this is a remarkable response rate of 91%.

Catalyst gives us insight into how engaged, enabled and motivated our employees feel. The feedback will help us grow, remain agile and allow us to adapt and be ready to take on new challenges; the results will also feed our 2019 improvement actions at global, country and team levels.

More than three-quarters of participants report high levels of understanding of SGS’ strategic priorities and goals. Meanwhile, 70% of participants believe their managers are supportive, are involved in their growth and development, provide feedback and recognition, and translate SGS’ objectives into more tangible terms. Outperforming the global norm,\* 67% of employees agree that decisions in their units are made in a timely manner, and over three-quarters of employees have access to information to do their jobs well.

The survey participants also highlight ways to improve motivation and enable them to perform to their full potential. These included conveying SGS’ long-term strategic direction, managing recognition and diversity, encouraging employee involvement in the sustainability agenda and promoting a work environment that fosters open communication.



68%

Employees intend to stay with SGS for at least five years



74%

Employees have trust and confidence in their managers



82%

Employees believe their managers give them the freedom to do their jobs well

\* The SGS Catalyst survey uses indicators based on Korn Ferry data collected from over 6.8 million employees in 350 organizations globally.

# HUMAN CAPITAL AND LABOR PRACTICES

SGS is a diverse and inclusive organization that supports all employees in realizing their potential. We strive to treat everyone fairly and without discrimination while providing employees with career development training 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.

## DIVERSITY AND EQUAL OPPORTUNITIES

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." The SGS Business Principles, Code of Integrity and Human Rights Policy all underline our commitment to diversity, inclusion and equal opportunities, and our employees and managers are trained annually in the principles of non-discrimination.

## LEARNING AND DEVELOPMENT

Each affiliate manages its own training programs locally, based on the precise needs of the SGS business, employees and community in that specific location. The programs range from initiatives designed to give high-performing employees the opportunity to develop into management roles to health and safety and technical skills training. These programs help keep employees at the top of their fields. Our HR strategy

also envisages providing an unlocked, open-access learning portal that will be available to all employees. This will allow them to learn about any area of interest within SGS.

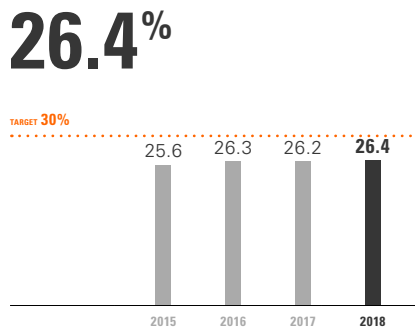
### ACHIEVEMENTS

67% males and 33% females in the global workforce

16 nationalities represented across the Operations Council

4.4 million hours in staff training

### PERFORMANCE



### WOMEN IN LEADERSHIP POSITIONS (CEO -3)

## QUALITY AND PROFESSIONALISM

Quality and Professionalism is one of our Business Principles, and our stated 2020 Ambition in this area is "to be the leading brand for accuracy, quality and professionalism."

SGS distinguishes itself through the quality of its service offering. In an increasingly data-driven society, our reputation for accuracy, thoroughness and agility sets us apart from the competition. This is in no small part thanks to the caliber of people we are able to attract and retain at the company.

### ACHIEVEMENTS

247 516 hours on leadership development skills programs

1.3 million hours on technical and sales training

### OUR VALUE TO SOCIETY

## INVESTING IN LOCAL TALENT



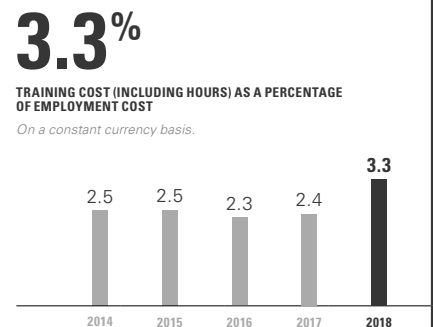
### RUSS CALOW

SGS Vice President Global Geochemistry

SGS operates close to 100 remote onsite or near-site mine and smelter laboratories in some of the most isolated locations in the world. SGS' onsite laboratories provide their customers with expedited turnaround so that mining and operational decisions can be made quickly and accurately. SGS staffs these operations with a broad and diverse range of local talent. In addition to providing employment opportunities, SGS also benefits globally from the skills, knowledge and cultural diversity that these team members bring to the organization.

For example, at TMAC Resources Inc. Hope Bay mine, near the Arctic Circle, SGS has blended a team of local Inuit staff and regionally sourced chemists and managers. In Africa, the SGS onsite laboratory at Randgold Resources' Loulo gold mine in Mali is managed by senior SGS staff from Ghana and Tanzania, but all other staff are from a nearby local village, meaning that in 2018, 87% of the workforce consisted of local employees who receive SGS laboratory training.

### PERFORMANCE



### TRAINING RATIO\*

\* Improvement in the ratio is due to a remarkable increase of e-learning during 2018 across the organization as well as a better quality of the data reporting and gathering process.

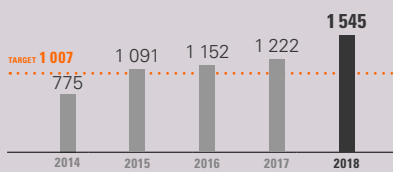
# COMMUNITY INVOLVEMENT

We want to create a positive, measurable and lasting impact on the local communities where we operate. We welcome local talent and engender a company culture of giving back through projects that are aligned with the Sustainable Development Goals and focused on three pillars: education, empowerment and environmental sustainability. We encourage our employees to volunteer, while SGS, as a company, invests in local community needs.

## PERFORMANCE

# 1 545

Including cost of volunteering hours  
(on a constant currency basis).



**INVESTMENT IN COMMUNITY\***  
(THOUSAND CHF)

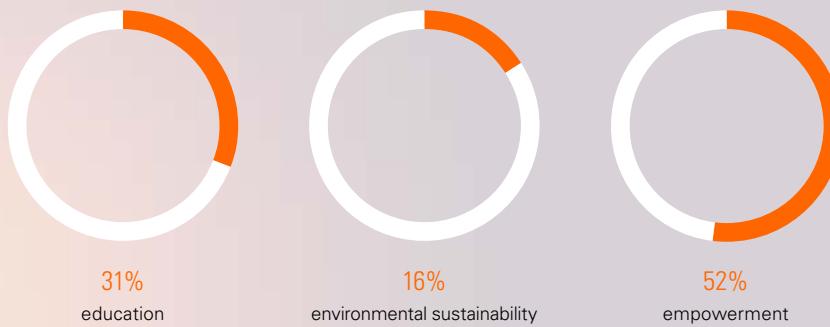
# 462



**COMMUNITY PROJECTS\***

\* Improvement in "Investment in Community" and the number of "Community Projects" is due to new affiliates joining community programs in 2018 as well as the improved quality of the data-reporting and data-gathering process.

## SGS COMMUNITY PILLARS: BREAKDOWN OF INVESTMENT



< BACK TO CONTENTS

# COMMUNITY PROGRAMS

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. SGS' 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 collaborations with local organizations. To evaluate the effectiveness of our programs, we use our Group Community Survey, which is aligned with the London Benchmarking Group criteria. This survey serves as our impact measurement tool and captures information in relation to various key performance indicators that measure the type of philanthropic activities covered as well as the project duration, hours of volunteering, type of beneficiaries and number of people impacted by the projects, among other items.

## EMPOWERMENT

Our empowerment programs support physical, emotional, intellectual and economic empowerment by providing access to healthcare, counseling, microcredit and enterprise schemes.

## EDUCATION

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

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

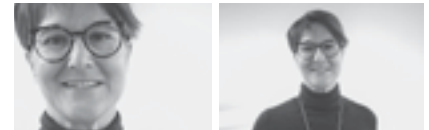
## ACHIEVEMENTS

Our total community investment was CHF 1 545 000

18 544 hours in volunteering to local communities



# SGS FRANCE CHANGES COLOR FOR **PINK** OCTOBER



**SOPHIE BUËT**

SGS Marketing and Communication Manager,  
Securitest & Auto Sécurité, SGS France



SGS France is the market leader in automotive technical control, with nearly 8 million customers visiting our 2 000 testing centers every year. Half of the people who visit the vehicle inspection centers are women, who – in our experience – are more receptive to prevention messages, which are a critical aspect of helping to avoid issues and accidents.

We wanted to use this focus on prevention for vehicle safety and apply it to another important topic for women's health: breast cancer prevention. By partnering with the national charity "Le Cancer du Sein, Parlons-en!" [Breast Cancer, Let's Talk About It!], SGS France supported the fight against breast cancer with an initiative across all vehicle testing centers.

Throughout October, which is international breast cancer awareness month, we held a major awareness and fundraising campaign. With the message that nine in ten women can recover from breast cancer if detected early enough, the campaign focused on the importance of preventative cancer screenings. With posters, website and email banners, and social media posts, we informed customers and suppliers and appealed for donations in all testing centers. Some employees participated in a charity run to raise funds, all our 4 100 vehicle technicians showed solidarity by wearing the synonymous pink ribbon, and the SGS Group supported the initiative with a CHF 57 000 donation for "Le Cancer du Sein, Parlons-en!" to finance cancer research.



# DATA SECURITY AND PRIVACY

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 management, prevention, detection and response to security issues or risks identified. 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.

## DATA SECURITY

SGS has a framework and team in place to protect intellectual property, business services and customer data by governing and managing cybersecurity. It is their responsibility to manage SGS IT Security and Anomaly Detection Systems, deploying new tools where needed while identifying vulnerabilities, threats and potential incidents. The team also forecasts trends in the security landscape, determining the threats the organization faces, orchestrating a security program to prevent, detect and control risks and developing effective responses. SGS implements the best security controls based on international standards and best practices.

SGS utilizes several detection systems that monitor the network, system infrastructure and applications. The most

critical of these detection systems are monitored on a continuous basis, whereas the rest keep audit information for analysis in case of enquiries or suspicion of fraudulent activity.

Response times to potential incidents are monitored with specific timeframe requirements depending on the severity of the threat and its criticality. Any major security issues are investigated by the IT Security Department. Once the root cause has been identified, the impact of any proposed mitigation is evaluated and communicated.

To promote high levels of cybersecurity, technical standards ensuring a sound security baseline have been developed. We also run a continuous security awareness program and, as part of this, conduct IT security training several times a year for all employees. Cybersecurity is also an area that is taken seriously when integrating the IT systems of acquisitions and partners into those of the SGS Group.

## DATA PRIVACY COMMITMENTS

Confidentiality and Privacy are key principles of the SGS Code of Integrity, which all SGS employees are required to uphold.

In March 2018, the SGS Operations Council further demonstrated the scale of such commitment across the company by adopting the SGS Global Privacy Policy. The SGS Data Privacy Policy governs how we collect, use and manage the personal data of customers, employees and third parties. We strive to be transparent and open about the data we collect, respecting individual rights and choices and securing the data we hold from the risks of unauthorized use or disclosure.

## EUROPEAN GENERAL DATA PROTECTION REGULATION (GDPR) COMPLIANCE

In 2018, measures and mechanisms were put in place to ensure SGS complies with the GDPR. These are detailed in the SGS GDPR Compliance Statement, which describes the steps SGS is taking to update and expand data security and protection across the Group. It also outlines the dedicated internal team in place to develop and implement the GDPR roadmap – assessing gaps and implementing enhanced and new policies and procedures.

## TRAINING

Global awareness training on data protection and privacy principles was rolled out as an e-learning module in 2018. It is relevant to all employees – whether they collect and process personal data or not – as SGS as an organization has collected and manages their personal data. The aim is to reach the more than 97 000 SGS employees, with the completion rate currently at 93% in Europe and 95% worldwide.

## ACHIEVEMENTS

The SGS Global Data Privacy Policy was launched

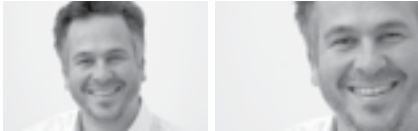
GDPR Compliance Statement released to publicly disclose the measures SGS has in place to ensure GDPR compliance

Data Protection and Privacy e-learning rolled out to all SGS employees

## GENERAL DATA PROTECTION REGULATION ROLES AND RESPONSIBILITIES

<b>DATA PRIVACY GLOBAL PROJECT LEADER</b>	<ul style="list-style-type: none"> <li>• Defines and supervises the implementation of the GDPR data privacy compliance framework throughout SGS in the EU and in all non-EU parts of the SGS Group to which the GDPR may also apply</li> <li>• Provides operational and privacy legal support to local Data Privacy Officers, Privacy Leaders and anyone within SGS responsible for data privacy</li> <li>• Develops, plans and implements SGS data privacy training and awareness programs</li> </ul>
<b>EU NETWORK OF DATA PRIVACY OFFICERS/PRIVACY CONTACTS</b>	<ul style="list-style-type: none"> <li>• Implement the GDPR data privacy compliance framework at local level</li> <li>• Inform and advise local teams about their legal obligations and check compliance of data processing activities</li> <li>• Ensure the maintenance of readily available information regarding the structure and functioning of all systems and processes that process personal data (e.g. inventory of systems and processes, privacy impact assessments and data breaches)</li> <li>• Cooperate with local Data Protection Authorities in case of an enquiry</li> <li>• Serve as a contact regarding local access requests and complaints</li> </ul>
<b>CHIEF INFORMATION OFFICER</b>	<ul style="list-style-type: none"> <li>• Overall responsibility for security of IT systems</li> <li>• Overall responsibility for IT security incidents</li> </ul>

# A COMPLETE DATA PRIVACY OFFERING FOR CUSTOMERS



**PIERRE WESTPHAL**  
SGS GDPR Program Director

When the General Data Protection Regulation (GDPR) was enforced in Europe in 2018, SGS launched a compliance management subscription for organizations with fewer than 250 employees that need help understanding and complying with the new regulation. The service, called GDPRONLINE, enables businesses to take the necessary steps to comply with legal requirements relating to data collection and storage.

One year on, the service is still evolving. GDPRONLINE is part of a complete offering of onsite and online GDPR-related services for both small and medium-sized enterprises and larger corporations. GDPRONLINE provides a platform to communicate digitally with our customers, giving us the opportunity to propose customized, complementary services such as audits, email management and onsite training. The service offering is a collaboration between SGS' Global Digital and Innovation team and local affiliates, which ensures market needs and regulations drive our approach.

GDPRONLINE is one example of the data security and privacy services that SGS offers customers; others include our Data Protection Officer Certification, Cloud Service Certification, Payment Card Industry Data Security Standard and Enterprise Governance Risk and Compliance.

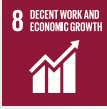


“Protection of personal data is important to every part of our business. It is at the heart of our promise to our clients, our values, our principles, our conduct and our success, and it is essential to maintaining trust.”

**FRANKIE NG**  
SGS Chief Executive Officer



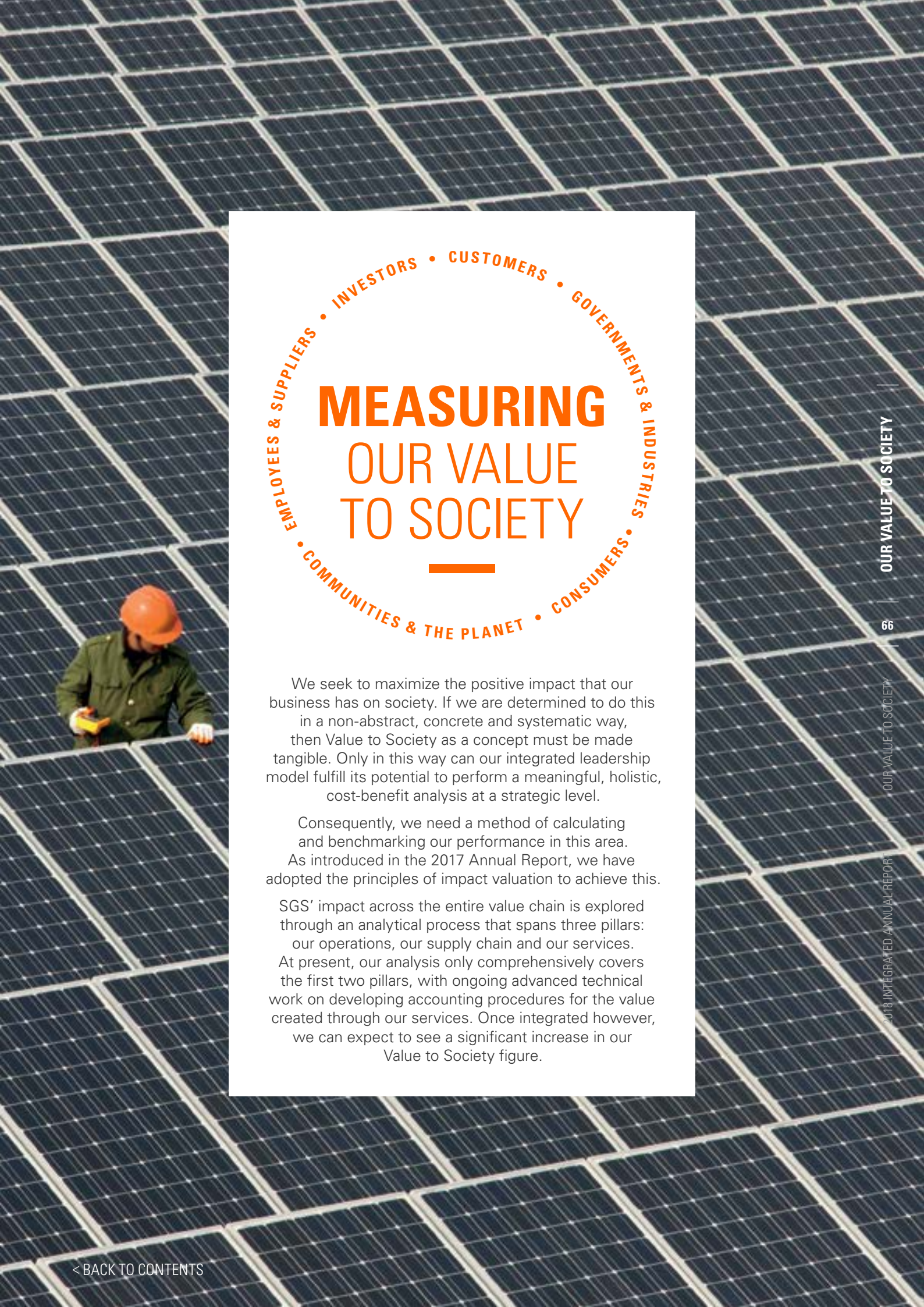
Regular Safety Talks  
and the SGS Rules for Life  
ensure that Didier returns home  
safely every night.



# MEASURING OUR IMPACT







• EMPLOYEES & SUPPLIERS • INVESTORS • CUSTOMERS • GOVERNMENTS & INDUSTRIES • CONSUMERS • COMMUNITIES & THE PLANET •

# MEASURING OUR VALUE TO SOCIETY

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We seek to maximize the positive impact that our business has on society. If we are determined to do this in a non-abstract, concrete and systematic way, then Value to Society as a concept must be made tangible. Only in this way can our integrated leadership model fulfill its potential to perform a meaningful, holistic, cost-benefit analysis at a strategic level.

Consequently, we need a method of calculating and benchmarking our performance in this area. As introduced in the 2017 Annual Report, we have adopted the principles of impact valuation to achieve this.

SGS' impact across the entire value chain is explored through an analytical process that spans three pillars: our operations, our supply chain and our services. At present, our analysis only comprehensively covers the first two pillars, with ongoing advanced technical work on developing accounting procedures for the value created through our services. Once integrated however, we can expect to see a significant increase in our Value to Society figure.



# OUR IMPACT VALUATION FRAMEWORK

**WE MEASURE  
OUR VALUE  
TO SOCIETY ACROSS:**

## OUR VALUE CHAIN

SUPPLY CHAIN

OPERATIONS

SERVICES (method in development)

## 6 CAPITALS

FINANCIAL

NATURAL

MANUFACTURED

HUMAN

INTELLECTUAL

SOCIAL AND RELATIONSHIP

**31 INDICATORS  
THAT ARE TIED TO  
OUR STRATEGIC KPIS**

## OUR METHODOLOGY

In traditional economics, a company's impact is captured by gross value added (GVA). This metric is generated through traditional financial calculations such as the payment of wages and salaries, profits generated, and taxes paid by the company. In 2017,<sup>1</sup> SGS added up to CHF 4 045 million to society, notably through salaries and taxes for our 95 000 employees worldwide, according to this traditional metric.

Our Value to Society model seeks to move beyond these traditional approaches to take a more holistic view of the value we add. Currently, through the methods outlined below and detailed more fully in our 2018 Sustainability Report (<http://www.sgs.com/cs-report-2018>), we are able to calculate the value we add to society through our supply chain and direct operations. For instance, we calculated that our direct operations and supply chain activities created CHF 2 131 million of additional positive impact, which was distributed to society through our stakeholders, for a total value to society of CHF 6 176 million.

To date, we have unveiled significant societal benefits arising from training and development programs, while our main negative societal impacts have been caused by the environmental footprint of our supply chain.

However, we also add significant value to society through our services. Therefore, the development of a methodology to calculate the total net impact that we enable through our services will provide a much more rounded picture of our true value to society. Once this method has proven to be satisfactorily robust and this third pillar has been included in the calculations alongside our supply chain and operations data, we can expect a significant increase in our quantitative Value to Society figure. This is because many of our services help other businesses and governments obtain their own efficiency, productivity and sustainability targets.

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.

HUMAN CAPITAL CASE STUDY:

## SOCIAL RESPONSIBILITY AUDITS

Social Responsibility Audits detect and assess the controls in place to prevent issues such as forced labor, discrimination and sexual harassment in the workplace. They include audits against third-party standards and corporate codes of conduct, corrective action monitoring and other tailored audits. SGS analyzed the socio-economic benefits of reducing the prevalence of forced labor, exploitation, discrimination and sexual harassment. The avoided social costs equate to a Value to Society of CHF 333 million.

NATURAL CAPITAL CASE STUDY:

## ENERGY MANAGEMENT CERTIFICATION

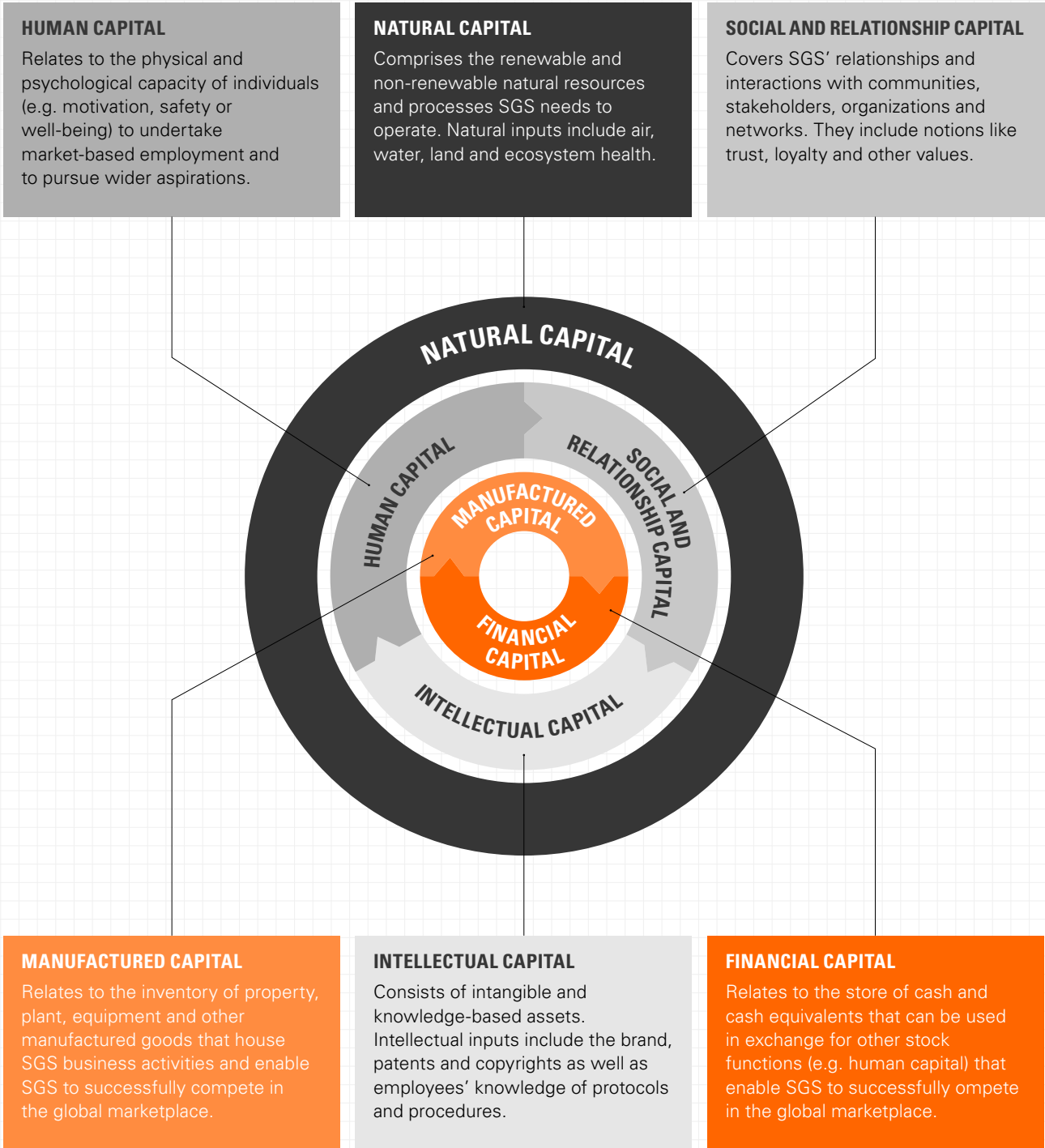
The ISO 50001 Energy Management certification helps organizations save money and conserve resources while tackling climate change through energy efficiency and the development of an energy management system. SGS has helped around 1 000 companies achieve ISO 50001 certification, resulting in an estimated reduction in CO<sub>2</sub> emissions that equates to an estimated Value to Society of CHF 219 million.\*

1. Value to Society is calculated on 2017 figures.



# OUR CAPITALS
































Across our operations and supply chain, six types of capital stock are analyzed: financial, manufactured, human, natural, intellectual, and social and relationship. These capitals are the Integrated Reporting Framework's guidelines. The sum of the collective positive or negative impacts of these six capitals provides us with a figure that represents our value to society in quantitative terms (see page 70).



# OUR INDICATORS

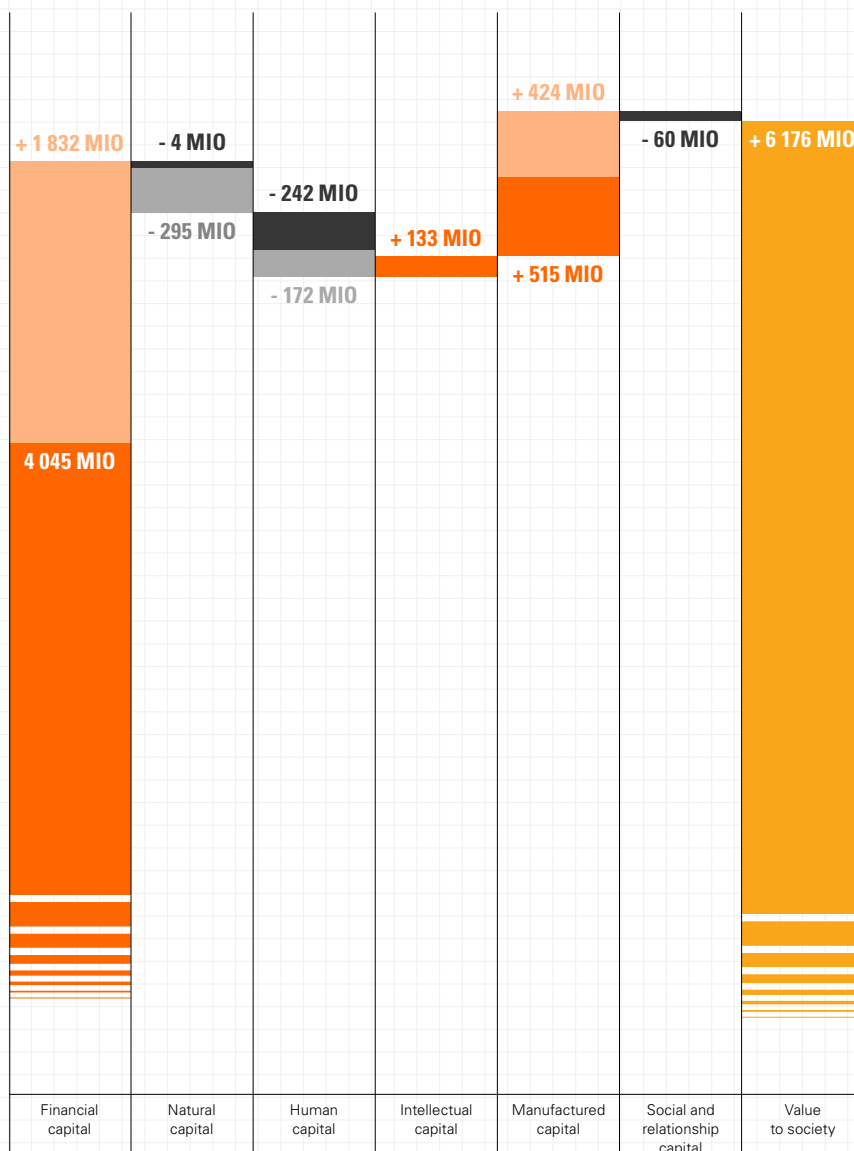
For each capital, a set of indicators has been identified. These relate to specific actions at the corporate level. To measure their impact, an economic value has been assigned to each indicator, which, in turn, contributes to the positive or negative flow of each capital. This approach allows us to understand the subtle interlinkages between the capitals, in line with the objectives of the Integrated Reporting Framework.

Please refer to our 2018 Sustainability Report (<http://www.sgs.com/cs-report-2018>) to learn more about how we calculate our value to society.

		 EMPLOYEE HEALTH AND WELL-BEING			
	 CO <sub>2</sub> EMISSIONS	 EMPLOYEE SALARY SCHEMES AND BENEFITS			
	 CARBON OFFSETTING	 SICKNESS ABSENCE			
	 WATER MANAGEMENT	 OVERTIME			
	 WASTE MANAGEMENT	 EMPLOYEE ENGAGEMENT			 SUPPLIER RELATIONSHIP MANAGEMENT (SRM)
	 ENVIRONMENTAL INCIDENTS	 EMPLOYEE VOLUNTEERING	 EMPLOYEE TRAINING		 SUPPLIER STRESS
 PROFITABILITY	 AIR POLLUTION	 DIVERSITY AND EQUAL OPPORTUNITIES	 KNOWLEDGE DEVELOPMENT		 CUSTOMER RELATIONSHIP MANAGEMENT (CRM) AND DATA SECURITY
 EMPLOYMENT COST	 RESOURCE DEPLETION	 OCCUPATIONAL SAFETY	 EMPLOYEE TURNOVER	 ASSET MAINTENANCE	 SUBSTANDARD SERVICES
 TAXES	 LAND USE CHANGE	 HUMAN RIGHTS COMPLIANCE	 RESEARCH AND DEVELOPMENT	 MARKET MOVEMENTS	 LOCAL COMMUNITY INVESTMENT
Financial capital	Natural capital	Human capital	Intellectual capital	Manufactured capital	Social and relationship capital

# THE MEASURE OF OUR VALUE TO SOCIETY

Our calculations\* demonstrated that SGS generated +CHF 7 149 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 975 million of negative societal impacts, which were primarily driven by SGS' supply chain environmental footprint, in particular by water consumption and Greenhouse Gas emissions. SGS' positive impacts were primarily driven by the Company's own operations, which accounted for 68% of the total positive impacts.



**CHF 6 176 MIO**  
The total Value to Society of SGS direct operations and supply chain activities

**CHF 4 387 MIO**  
Estimated total Value to Society of our direct operations

■ Positive direct operations ■ Positive supply chain ■ Negative direct operations ■ Negative supply chain

\* Value to Society is calculated on 2017 figures.



# DOUBLE-POSITIVE DECISION MATRIX

## DRIVING VALUE FOR SGS AND SOCIETY

Collectively, our efforts aim to result in a double positive: driving benefit to SGS and to society.

This decision matrix will help us prioritize decisions, adding value to SGS and society, and demonstrate our integrated leadership.

### BUSINESS MODEL

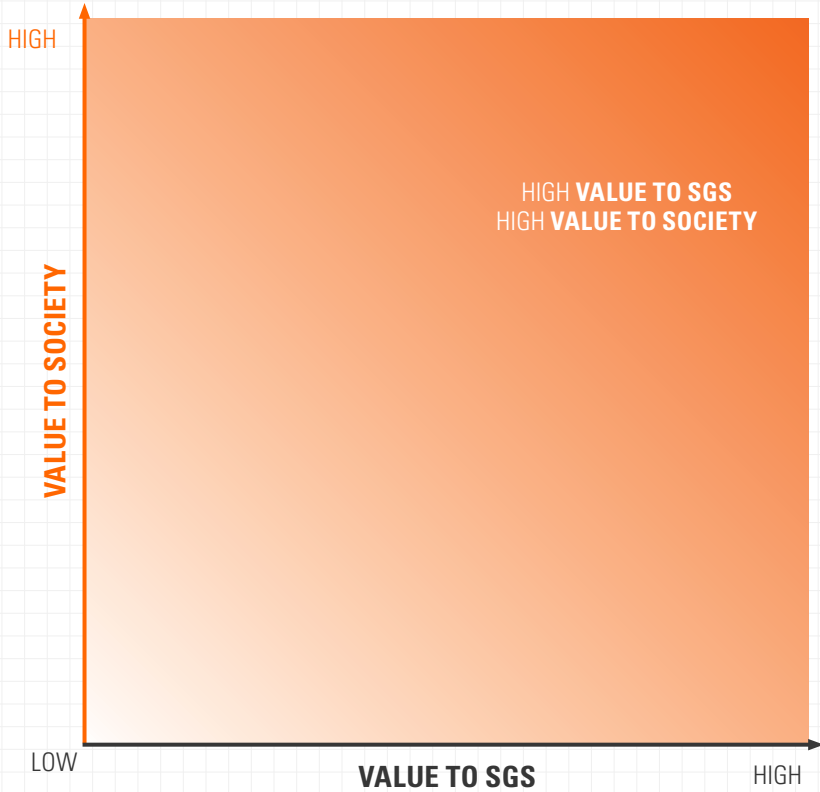
Our commitment to training our people ensures that our employees are onboarded faster and continually enhance their skills. This helps SGS retain the leading experts in the market. Our people can carry this training with them when they leave the office, potentially benefiting society with the skills that they have learned.

### SERVICES

When we develop industry-leading capabilities in services such as air-quality testing, SGS benefits from increased business and potentially improved recruitment of highly qualified talent in the field. Society benefits from more accurately monitored and, ultimately, cleaner air.

### INTEGRATED NON-FINANCIAL PERFORMANCE

Over the past five years, we have used our impact evaluation framework to produce our "Green Book" on a biannual basis. This provides management in our largest 60 countries



(by revenue) with data to make better, more integrated decisions. This is also a remarkable tool to track our progress towards our company ambitions. As time goes on, and the model is further refined, it has the potential to support a deeper culture of more informed, holistic decision-making.

Externally, other businesses and academics can benefit from the work that we are doing to help more companies begin to integrate impact valuation into their reporting. This has the potential to cause a shift in the way our company's value is perceived.

## OUTLOOK

While the model is not intended to be a financial accounting tool, it is robust enough to help us better understand and benchmark our year-on-year performance in creating value to society. Since the model is aligned

to our KPIs, it also allows us to embrace the International Integrated Reporting Framework's strategy of generating a comprehensive view on how our material factors generate value over time.

We expect the model to be further refined as new research in the rapidly evolving field of impact evaluation is published and new technology enables us to observe a broader array of indicators.

# OUR SUSTAINABILITY BASIS OF 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, balanced and meets the needs of our stakeholders.

## 1.1 SCOPE AND BOUNDARIES

The scope of the Sustainability Information contained in this Annual Report<sup>1</sup> covers all regions and business lines of the SGS Group for the 2018 calendar year. A full list of SGS' affiliates can be found on pages 186-189 of this report. Unless stated otherwise, our reported data scope covers the Group business and targets for the period 1 January to 31 December 2018.

We have identified and prioritized our most material impacts to the business and to stakeholders across our value chain, and this 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 pages 32-33 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 on 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 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, and we are committed to continuing to work towards that goal. Indeed, we took another step towards integrated reporting this year with the further development of our integrated leadership model, which is detailed in this Annual Report.

The sustainability content in this Annual Report is drawn from our Sustainability Report, to be published in March 2019. 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 Report 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 2018 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 2018. Documents relating to independent external assurance in the years prior to 2017 are available in our Reports, Policies and Multimedia (<https://www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs/reports-policies-and-multimedia>) section on our website.

Please see Independent assurance for further information about our assurance process on pages 73-74 of this Annual Report.



<sup>1</sup> The Sustainability content can be found on pages 5, 10, 30, 32-33, 36-41, 50, 52-64, 72-74 of this report.

## 2018 Annual Report Assurance Statement

### Independent assurance statement by Deloitte SA to SGS SA on selected sustainability information presented in the 2018 SGS Annual Report

#### **What we looked at: scope of our work**

SGS SA ("SGS") has engaged us to perform limited assurance on selected sustainability information ("the Subject Matter") presented in the SGS Annual Report for the year ended 31 December 2018 ("the Report"). The selected sustainability information which comprises the Subject Matter appears on pages [5, 10, 30, 32-33, 36-41, 50, 52-64, 72-74] of the Report. The assured sustainability information will also appear in the SGS Sustainability Report, to be published later this year.

#### **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 organization 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 organization 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"). 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;
- Determined material quantitative and qualitative sustainability key performance indicators and disclosures from the 2017 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:
  - Undertook 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 and Ethics and Compliance indicators, to assess the accuracy of data classification, in line with the group reporting criteria; and



- o 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 CO<sub>2</sub>e)
- 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 2018 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

**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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants in their role as independent auditors, 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 Herbet  
Partner

Matthew Sheerin  
Partner

Geneva, 15 February 2019