

Company:	SGS SA
Sector:	Commercial & Professional Services
Report Year:	2014
Headquarters:	Geneva, Switzerland
Standard Application:	GRI G4, AA1000, ISO 26000
Format:	Matrix and Online Explanation



MATERIALITY PROCESS

'Materiality' is the process of identifying the most important sustainability topics (or 'aspects') for SGS. It helps us prioritize the issues we should focus on in our strategies and programs, and report on in our Sustainability Report.

Our approach to materiality has evolved in line with the 'G4' reporting guidelines from the Global Reporting Initiative (GRI). 2013 was the first year we used this method and during 2014 we conducted an interim update of our materiality analysis, adding key inputs and gathering feedback from internal stakeholders. In addition, the SGS Stakeholder Panel reviewed this analysis and provided feedback. The analysis will again be updated with key inputs from our Stakeholder Panel, our internal stakeholders and our external stakeholders during 2015 prior to us conducting a full review of our materiality aspects in 2016. Please see [Materiality Results](#) to see how it was implemented, the results of the process and how we intend to refine it further in future.



PROCESS

PROCESS	Interim Review	Full Review
	Annually	Every 3 Years
1) REVIEW PREVIOUS YEAR'S REPORT As an established reporter, we start by reviewing our previous year's Sustainability Report and consider stakeholder feedback from our report survey to ensure the relevance of content	●	
2) IDENTIFY TOPICS i) To ensure we begin with a broad list of potential topics, we take the GRI's list of "Aspects", covering economic, social and environmental topics. At this stage we consider any other relevant topics outside of the standard GRI Aspects, for example, 'SGS Sustainability Services' ii) We assess how sustainability topics are evolving, informed by discussions with stakeholders, to identify which topics are relevant to SGS and where the impact of each is felt within and/or outside the organization	●	●
3) PRIORITIZE TOPICS We prioritize the identified topics based on: i) The importance of the topics to our stakeholders, assessed using the outputs of our stakeholder engagements and the relative prominence of sustainability issues in wider society ii) How far the real or potential impacts of each topic can affect SGS, assessed using our Board risk matrix (every two years), interviews with senior management (annually), and annual metrics from our Green Book and financial analyses	●	●
4) DEVELOP MATERIALITY MATRIX Topics are plotted on our materiality matrix	●	●
4) CONFIRM TOPICS i) We check the material aspects to ensure that reporting on them will present a complete and balanced picture of our sustainability performance ii) We also sense-check the aspects identified in the comprehensive materiality review process as part of our ongoing dialogue with internal stakeholders and members of our Stakeholder Panel	●	●
5) APPROVE MATERIALITY MATRIX i) A first draft of the matrix is reviewed by a set of stakeholders, chosen to reflect a variety of stakeholder groups (such as senior managers, employees, contractors, suppliers, customers and investors) ii) The materiality matrix and the subsequent Sustainability Report are approved by our CEO and Sustainability Steering Committee	●	●
7) SUMMARIZE SIGNIFICANT CHANGES Following a comprehensive review of material aspects, a summary of significant changes is prepared, signaling new and emerging issues and indicating those issues that have either dropped out or have been recast or reorganized in the matrix		●

IMPLEMENTATION OF THE PROCESS

An explanation of each of these steps is given in [Materiality Process](#).

STEP 1: REVIEW OF PREVIOUS YEAR'S REPORT

Stakeholder feedback on the 2013 Report identified a number of issues for reporting. The following lists the priority topics which achieved a score of more than 50% in the survey:

1. SGS Sustainability Services
2. Compliance with laws and regulations
3. Environment – materials, energy and water use, energy and climate change
4. Labor practices – employee health and safety, human rights – employees, learning and development

This feedback was used during the final "Confirmation of topics" step, to ensure the materiality matrix covered the key interests of the readers of the report.

STEP 2: IDENTIFICATION OF TOPICS

Our review of how the wider sustainability context had evolved in 2013 and again in 2014, which examined global and regional sustainability sources of news and thought leadership, such as the World Business Council on Sustainable Development, Sustainability Asia and Ethical Corporation, and sustainability events from the year, emphasized topics such as climate change adaptation, water scarcity and supply chain management. These findings were combined with the results of our [stakeholder engagement](#) to identify our most material topics. These matched well to the Global Reporting Initiative's (GRI's) list of "Aspects", with the exception of "[Sustainability services](#)", which was mentioned by a range of stakeholders and so was added to our list of topics.

STEP 3: PRIORITIZATION OF TOPICS

In 2013, each topic was ranked on its importance to our stakeholders, based on how frequently, and in some cases how strongly, stakeholders had mentioned it. Each topic was also ranked on its importance to SGS, based on financial impact data such as monetization of sustainability impacts in the Green Book, and the most recent Board risk review. If neither of these sources ranked the issue, the results of a materiality exercise with representatives of senior management, where they were asked to place the GRI's Aspects onto a blank matrix, were used. The matrix was split into bands based on priority, with issues in the top band representing the main focus of the Sustainability Report. Topics needed to score above a threshold on both axes to appear on the materiality matrix, except for a few issues which had scored highly in the sustainability context and stakeholder review, but had not been found to be as important to SGS. These were placed in a 'holding area' of the matrix, to determine the reaction of the Stakeholder Panel to these topics.

STEP 4: CONFIRMATION OF TOPICS

The first draft of the matrix was reviewed by a range of internal and external stakeholders, including senior management and our Stakeholder Panel. Based on this feedback, the matrix was revised. "[Water management](#)", "[Effluents and waste](#)" and "[Responsible supply chain](#)" were left in the 'holding area' of the matrix, as issues we will continue to monitor closely as they gain importance, and may be material in certain affiliates, but are not currently exceeding the materiality threshold for SGS at the corporate level. Final checks of the matrix were made against the feedback on the 2012 Report, as well as newly available sources of information, such as the CATALYST employee engagement results, analyst feedback from the SGS investor days and the updated Board risk review conducted in October 2013. Finally, the materiality matrix was approved by our CEO and Sustainability Steering Committee. The matrix was revised in 2014 following an interim, high level review of material aspects. There were no significant changes to the material issues presented, although we changed the design of the matrix following feedback from our Stakeholder Panel which suggested that the 'holding zone' for emerging issues was confusing.

TOPICS (ASPECTS) AND BOUNDARIES

The table below lists our material topics and their boundaries (i.e. whether their effects are felt inside or outside the company). The main change from materiality results in previous years is that "[Responsible supply chain](#)" has increased in significance, reflecting greater awareness in society of the complexity of global supply chains.

For all topics with impacts inside the company, we define the boundary as our trend countries for our reporting of relevant indicators and data, enabling us to confidently report accurate and reliable performance data. These countries represent three-quarters of revenue and two-thirds of headcount from

countries listed on pages [128-131] of the Annual Report.

MATERIAL TOPICS AND THEIR BOUNDARIES

Ethical Conduct	Anti-Corruption	Yes	Some cases of misconduct, e.g. bribery and fraudulent use of the SGS brand, may impact on external parties
Economic Performance	Economic Performance	Yes	Economic value is distributed outside the organization, both directly e.g. to shareholders, and indirectly, such as infrastructure investment, but the latter cannot be accurately quantified
Occupational Health and Safety	Occupational Health and Safety	Yes	Our management of Health and Safety includes our subcontractors as well as our employees
Talent Acquisition and Development	Employment; Training and Education	Yes	Our acquisition of new talent includes potential recruits who are not currently employed by the company
Energy and Climate Change	Energy; Emissions	Yes	As a services company, our major Scope 3 emissions are from business travel. Several of our services do increase energy efficiency and reduce carbon emissions in our customers' operations, but the total impact of this cannot be quantified accurately
Sustainability Services	N/A	Yes	Our sustainability services support our customers, their value chain and the communities in which they operate
Human Rights	Non-discrimination; Freedom of Association and Collective Bargaining; Child Labor; Forced or Compulsory Labor	Yes	Yes – Human Rights of local communities in which SGS operates and has community projects N.B. the supplier human rights topic is addressed under Responsible Supply Chain
Diversity and Equal Opportunities	Diversity and Equal Opportunity	Yes	No
Effluents and Waste	Effluents and Waste	No – this issue did not meet the threshold for materiality for SGS. However, we are detecting an increase in the significance of this issue, which warrants due diligence action	No – this issue did not meet the threshold for materiality for SGS. However, we are detecting an increase in the significance of this issue, which warrants due diligence action

Local Communities	Local Communities	Yes – these impacts are felt by our employees, as members of our local communities and initiators of our community projects	Yes
Responsible Supply Chain	Supplier Environmental Assessment; Supplier Assessment for Labor Practices; Supplier Human Rights Assessment; Supplier Assessment for Impacts on Society; Procurement Practices	No	No – this issue did not meet the threshold for materiality for SGS. However, we are detecting an increase in the significance of this issue, which warrants due diligence action. N.B. due to the size of our supply chain, with over 50,000 individual suppliers in trend countries, we focus efforts on our global suppliers, and sourcing where there is potential for greater environmental and social impacts, such as low-cost sourcing and major construction projects. We will continue to monitor this issue closely
Water Management	Water	No – this issue did not meet the threshold for materiality for SGS as a whole. It may be material in particular affiliates, such as those in water-stressed regions, but further analysis is required. We will continue to monitor this issue closely	No – this issue did not meet the threshold for materiality for SGS as a whole. It may be material in particular affiliates, such as those in water-stressed regions, but further analysis is required. We will continue to monitor this issue closely

REVIEW OF OUR MATERIALITY PROCESS

2013 was the first year of using our new **materiality process**. Although this approach added greater objectivity, we believe it can be improved further and intend to refine it over time. This year we undertook a high level review of materiality aspects through consultation with various internal and external stakeholders at the corporate level. In future, we aim to gather key trends from our affiliates as well. Some of the surveys that are used to inform the process, such as the Community Survey, were conducted slightly earlier in the year so that the results would be available sooner, but for several surveys the schedule is set by other factors and cannot be brought forward. In addition, based on feedback from some of the stakeholders who reviewed the materiality matrix in 2013 and 2014, we will ensure more in-depth discussion in future, with greater explanation of each of the material topics on the draft matrix. We intend to strengthen our ties with our Stakeholder Panel during 2015, with discussions on key sustainability topics through the year, and a review of the Panel's membership to ensure it reflects our global stakeholder base.