# ADOPTING AND ADVANCING SUSTAINABLE TECHNOLOGY AND INNOVATION

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## SUSTAINABILITY TRANSITION

**As a testing and inspection service provider in Singapore, embedding sustainability across our operations is of utmost importance. Thus, it is crucial to implement climate mobility solutions and consider climate-related mitigation measures in our business strategy. Through the assessment of climate-related risks and opportunities, as well as the adoption of systems which offer climate-friendly transitions, VICOM aims to alleviate and minimise the climate and environmental impacts of its operations.**


### CLIMATE CHANGE ADAPTATION AND MITIGATION

**WHY IS IT MATERIAL?**

As the effects of climate change become increasingly discernible, it is crucial for businesses to adapt to, mitigate and, where possible, prevent any negative environmental consequences, through the implementation of strategic and effective strategies. Thus, VICOM endeavours to ensure that its businesses and assets remain resilient to climate risks, whilst accelerating our efforts to decarbonise the economy.

**HOW DO WE MANAGE THIS?**

We strive to strengthen our climate mitigation and adaptation measures through the identification and assessment of climate-related risks and opportunities. VICOM aligns with the TCFD to provide a more thorough and comprehensive disclosure. In October 2023, we published our first inaugural standalone TCFD report. This report sought to provide stakeholders with deeper insight into how we consider and manage potential climate-related risks and opportunities.

With the identification and assessment of climate-related risks and opportunities, VICOM strives to strengthen our climate mitigation and adaptation measures. This includes committing to carbon reduction targets, adopting renewable energies, and investing in green fleets. By actively transitioning our fleet towards cleaner alternatives, we hope to significantly reduce our GHG emissions and minimise the impacts of climate change.

In the identification of VICOM's climate-related risks and opportunities, we undertook a risk and opportunities screening. The table below summarises the parameters and scope of the risk and opportunity screening.

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Table 1. Scope and parameters of climate-related risk and opportunity screening

| PARAMETERS | SCOPE | |
|---|---|---|
| **Country** | Singapore | |
| **Baseline year** | 2022 | |
| **Timeframe** | Short-term: up to 2030<br>Medium-term: up to 2040<br>Long-term: up to 2050 | |
| **Scenarios explored** | 1.5°C warming (NGFS Net-Zero by 2050, IEA NZE 2050 & RCP 2.6)<br>> 3°C warming (NGFS Current Policies, IEA STEPS & RCP 8.5) | |
| **Risks** | Transition risks<br>• Carbon pricing<br>• Changing customer expectations<br>• Low carbon economy transition policies and regulations<br>• Reputational risks<br>• Technology shifts | Physical risks<br>• Floods<br>• Heatwaves (Rising mean temperatures)<br>• Storms and cyclones<br>• Wildfires<br>• Rising sea levels<br>• Droughts (Water scarcity) |

As part of the identified scope within the chosen parameters, Singapore was selected due to the financial materiality and scale of operations for VICOM. The screening and subsequent scenario analysis were conducted based on financial and environmental data and business-related information pertaining to 2022 as a baseline year, since it represents the latest year with a business-as-usual operations in a post COVID-19 pandemic world. With respect to the future timeframes for the scenario analysis, VICOM chose to align with time horizons discussed in climate science and further aligned with internal strategy considerations, namely:

- Short term: Up to 2030
- Medium term: Up to 2040
- Long term: Up to 2050

The different short-, medium- and long- term timeframes defined serve as a guide in our target setting and strategic decision making. The time horizons selected for this exercise were leveraged from our risk management time horizons which are used in strategic planning. This enables us to effectively prioritise and select appropriate interventions for key sustainability-related risks and opportunities that may arise in the given time horizons, while also enabling us to future-proof our actions. In addition, the targets set for VICOM's annual ESG Balance Scorecard (BSC), which ties 25 percent of management bonus to ESG-related performance, are informed and contextualised by the longer-term targets that had been set across the different time horizons. This ensures that current ESG targets and performance remain better aligned with the goals in the short-, medium- and long- term timeframes.

The detailed analysis was based on two scenarios, namely a 1.5°C warming scenario and a >3°C warming scenario. The orderly scenario (1.5°C scenario) assumes climate policies are introduced and rapid decarbonisation is undertaken, whereas the hot house scenario (>3°C scenario) assumes that climate policies and action are limited and insufficient for addressing the impacts of climate change (Figure 2). The climate impacts are modelled for these two scenarios for all short, medium and long-term timeframes.

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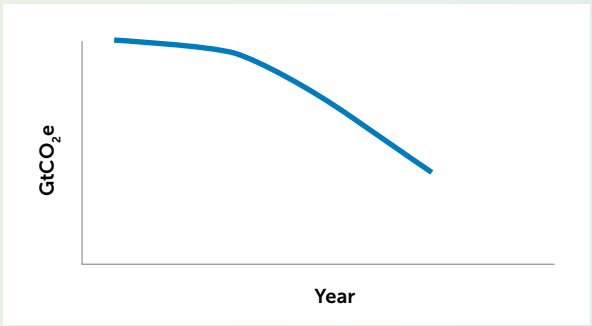
Figure 2. Climate scenarios explored

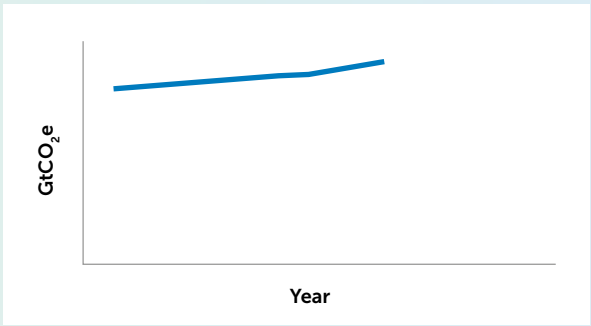
**SCENARIO 1: ORDERLY SCENARIO (limited to 1.5°C warming, RCP 2.6)**




Orderly scenarios display the assumption that climate policies and actions are introduced and adopted early on and become gradually more stringent. In this scenario, according to the NGFS, the physical risks are relatively subdued but the transition risks are expected to be relatively higher.

Physical risks in this scenario are relatively subdued as policies and measures have been introduced to mitigate and adapt to the intensifying climate change. As policies and measures are introduced early, transition risks are expected to be relatively higher.

**SCENARIO 2: HOT HOUSE SCENARIO (limited to >3°C warming, RCP 8.5)**



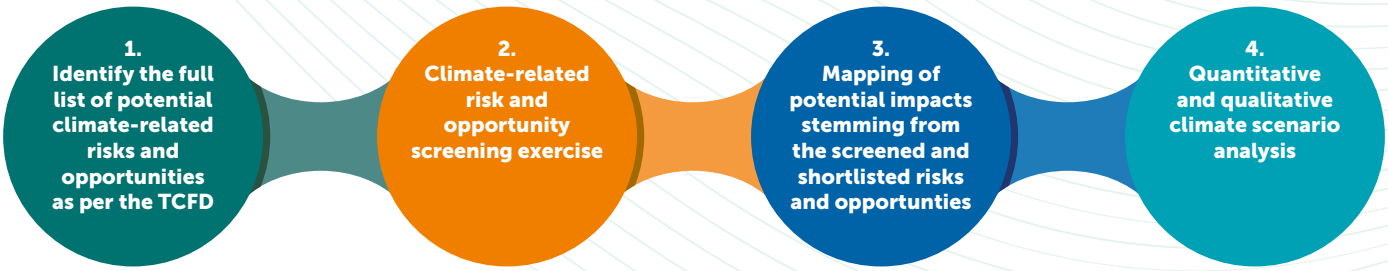

Hot house world scenarios display the assumption that climate policies are implemented in some jurisdictions, but overall global efforts are insufficient to halt significant global warming. In this case, physical risks are expected to be high whereas transition risks are expected to be lower.

Physical risks are expected to be high as policies and measures are uneven and insufficient to mitigate and adapt to the intensifying climate risks such as increased in frequency of extreme weather patterns. On the other hand, as there are staggered efforts on the policy front, transition risks are expected to be lower.

Finally, both transition and physical risks and opportunities were considered in the screening analysis. The long list of potential climate-related risks and opportunities as per the TCFD was consulted and the shortlisted risks and opportunities mentioned in Table 1 are further explored below.

The full process of the climate risk scenario analysis can be summarised in four steps:

Figure 3. Four steps of climate scenario analysis



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The following section captures the detailing of steps one and two of the full process.

Taking into account the examples of climate-related risks from Table 1 of TCFD's Final Recommendations Report[5], in order to identify and understand the climate-related risks and opportunities in VICOM's operational region of Singapore over the specific time horizons in two climate scenarios, a climate-related risks and opportunity screening exercise was undertaken. This exercise was informed by qualitative desktop research, where we applied TCFD's categorisation of transition and physical climate risks.

Transition risks arise from interventions associated with a transition to a low-carbon economy, such as newly introduced climate policies and regulations, low-carbon technologies, carbon pricing, or changes in consumer preferences and market sentiments. Physical risks are those that arise from the physical impact of climate change, both chronic (impacts that happen over a period of time, such as temperature increase or sea level rise) and acute (impacts that happen as extreme events, such as floods, storms or wildfires).

The results of the screening exercise are outlined in Table 2 below, where we have identified the potential level of risk.

Table 2. Climate-related risk screening results[6]

**Legend**

Potential impact magnitude*:
- Moderate risk
- High risk

*Magnitude is determined through well referenced literature and data sets on climate risk indicators and is determined through observed and projected trends in physical risks from the Climate Analytics' Climate Impact Explorer and the World Bank Climate Change Knowledge Portal.

**SINGAPORE**

| | | |
|---|---|---|
| PHYSICAL | 1.5°C warming | Heatwaves (Rising mean temperatures) |
| PHYSICAL | >3°C warming | Floods<br>Droughts (Water scarcity)<br>Rising sea levels<br>Heatwaves (Rising mean temperatures) |
| TRANSITION | 1.5°C warming | Carbon pricing<br>Low carbon economy transition policies and regulations<br>Technological shifts and innovation<br>Changing customer expectations<br>Reputational risks |
| TRANSITION | >3°C warming | Carbon pricing<br>Low carbon economy transition policies and regulations<br>Technological shifts and innovation<br>Changing customer expectations<br>Reputational risks |

5 Recommendations of the Task Force on Climate-related Financial Disclosures. https://www.tcfdhub.org/Downloads/pdfs/E08%20-%20Table%201%20&%202.pdf

6 Table 2 only presents the shortlisted climate-related risks which are likely to have a potentially moderate or high impact on VICOM's business operations and financials. Some of the physical and transition risks have not been presented in this table (for example storms and typhoons) as they were deemed to have a lower or negligible impact on VICOM's operations in Singapore in the scoped timeframes and scenarios. The full list of identified shortlisted climate-related risks and opportunities and their accompanying potential impacts that are pertinent to VICOM can be found in Appendix 4.

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To inform the potential magnitude of impacts from the identified climate-related risks to VICOM, the screening exercise references available, appropriate and well referenced literature such as the International Energy Agency ("IEA") World Energy Outlook[7], Climate Analytics' Climate Impact Explorer[8] and the Network for Greening the Financial System ("NGFS")[9], as well as the latest understanding of climate science from the IPCC Sixth Assessment Report[10].

After the initial shortlisting enabled by the climate-related risk and opportunity screening exercise, we continued to explore the climate-related risks and opportunities in more detail and map the associated business and financial impacts to the relevant risks and opportunities. For the ones where available data allowed for quantification of potential impacts, this was done (step three and four). These steps are further explored in the next section. The results from the scenario analysis subsequently aided in the formulation of action plans and responses to guide our climate-related strategies.

## OUR PERFORMANCE[11]

Based on the mapped risks, we were able to perform a more detailed quantitative climate scenario analysis to identify the potential financial exposure to climate-related risks and opportunities and strengthen our understanding of the expected financial impacts to our business as well as our business' resilience to the identified risks. It must be noted that the climate scenario analysis results for physical risks were determined on the assumption that no action was undertaken by VICOM to mitigate and adapt to our pertinent climate risks. The results also do not differentiate between business units.

Overall, in the assessment of both physical and transition risk, it was determined that some risks apply directly to VICOM as 'first-order' risks, and other risks have more indirect impact as 'second-order' risks. First-order risks are risks which directly affect VICOM's operations and assets. For instance, physical risks such as floods can cause damage to VICOM's property. On the other hand, second-order risks have a more indirect impact and are experienced by VICOM through cost pass-through. For example, VICOM does not experience direct implications of carbon taxes, due to the nature of operations, however, the indirect impact of increasing carbon taxes may be felt, as the electricity or fuel prices continue to rise in the future. As carbon taxes do not directly affect VICOM currently and remain as a second-order risk, the transition risk of rising carbon prices[12] is excluded from the overall direct financial impact diagram below (figure 3). However, as this risk is relevant when talking about transitioning to a lower carbon economy, it is explored separately under a 'what if' scenario in the 'transition risks' section below.

Through the scenario analysis, it is concluded that unmitigated climate risks result in potential additional financial impact for the respective year.

Among the quantified physical risks, costs of higher cooling spending due to rising temperatures appears to be the most significant[13] 'first-order' risk in terms of potential additional financial impact under all timeframes and scenarios.

Nevertheless, transition risks are still considered to be impactful. While potential carbon prices in the form of carbon taxes presently remain a 'second-order' risk to VICOM, they may account for a large proportion of the additional financial costs in future. The impact from carbon tax has been modelled on a 'what if' scenario basis, i.e. if carbon taxes were applicable to VICOM, the potential impact was quantified. If left unmitigated, carbon taxes would approximately account for 59%-69% and 35%-40% of VICOM's total financial impact caused by climate-related risk under the 1.5°C and >3°C scenarios respectively (further details on the carbon tax transition 'what if' scenario can be found in the 'transition risks' section below).

Additionally, while climate science is able to more strongly support the quantification of climate risks, there are also business opportunities arising from the increased focus on the changing climate. Opportunities most pertinent to VICOM operations in this regard are sustainable food systems and sustainable building materials. At the moment, the scale of these opportunities is difficult to quantify due to the lack of data. However, they may be quantified in the future when data around these opportunities become available.

7 IEA, 2022, World Energy Outlook 2022. https://www.iea.org/reports/world-energy-outlook-2022
8 Climate Analytics, Climate impact explorer. https://climate-impact-explorer.climateanalytics.org/
9 NGFS, Scenarios Portal. https://www.ngfs.net/ngfs-scenarios-portal/
10 IPCC, Sixth Assessment Report, 2022. https://www.ipcc.ch/assessment-report/ar6/
11 All assumptions and limitations related to the assessment of climate risk can be found in Appendix 2 of VICOM's published full TCFD report.
12 Carbon prices is a term that is inclusive of carbon taxes, emissions trading schemes and other related instruments that capture the cost of GHG emissions. However, in the context of VICOM's location of operations – Singapore, the main form of carbon pricing impacting VICOM is carbon tax.
13 Risk impacts estimated based on our current inputs are considered to be majorly financially material if the financial impact is >5% of VICOM's 3 year average EBITDA (FY2020, 2021 and 2022).

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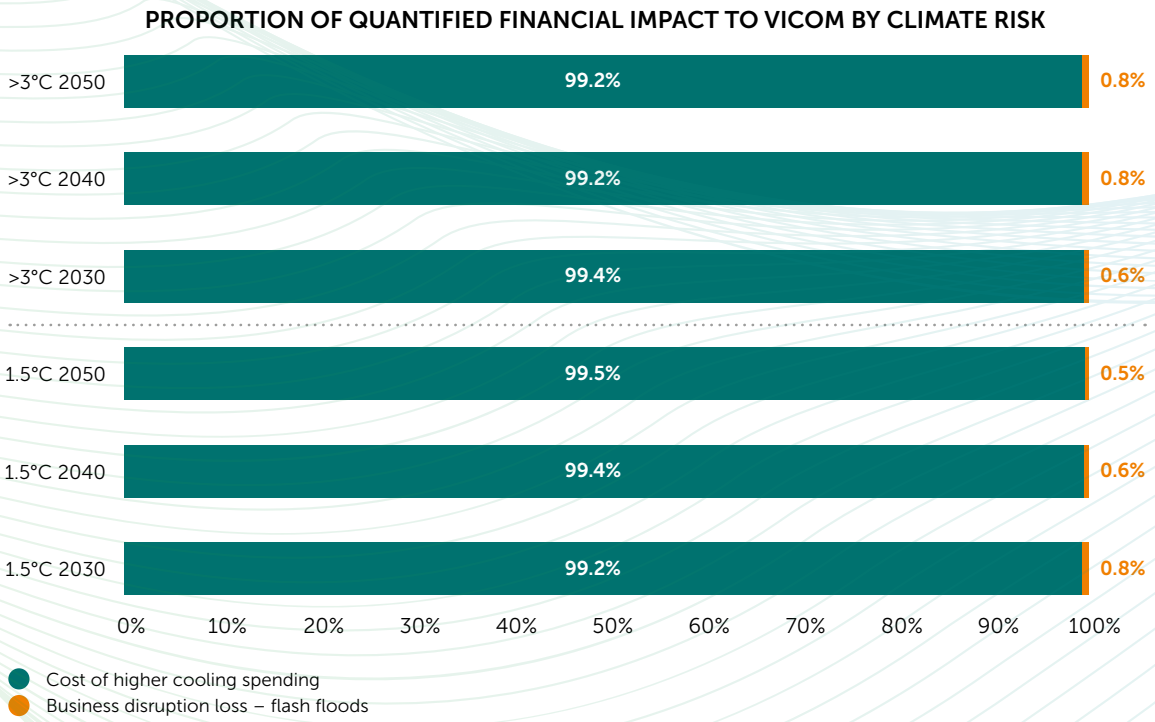
Figure 3. Proportion of additional financial impact by climate risk for the respective year[14, 15]




For more in depth detail on each quantified risk, please refer to pages 14-18 of our full TCFD report here.

**LOOKING FORWARD**

Undergoing and conducting a climate scenario analysis serves as the first step to strengthen our understanding of the risks our operations face. In light of the above, VICOM strives to effectively manage, mitigate and adapt to these physical climate risks. We have established standard operating procedures and Business Continuity Plans ("BCPs") in preparation for possible business disruptions arising from sustainability climate-related risks such as flash flood risks and higher mean temperatures.

Our BCPs seek to mitigate the risks of disruption and catastrophic loss to our operations, people, information databases and other assets. These plans include identifying and planning alternative recovery centres, operational procedures to maintain communication, measures to ensure continuity of critical business functions, protection of our employees and customers and recovery of information databases. For example, in the event of power failures caused by floods, VICOM has BCPs to safeguard our employees and ensure business continuity. We also update and test our BCPs regularly to ensure the efficacy of the plan and familiarise our employees with drills and emergency responses to possible climate-related threats and hazards.

Additionally, VICOM sets aside a portion of our financial resources to mitigate climate-related risks and capitalise on associated opportunities, such as those mentioned above (refer to Appendix 4 for full list of screened risks and opportunities).

This is exemplified by VICOM's new service offerings in the space of hybrid and EV battery testing and health-checking as markets transition towards the electrification of vehicle fleets in efforts to reduce reliance on non-renewable fuels. At the same time, increased vehicle electrification likely results in greater demand to recycle battery waste. As such, as more battery recycling companies establish operations in Singapore, SETSCO has also developed the capability to test for extracted metals in the end-of-life lithium-ion batteries.

In doing so, VICOM strives to enhance the Group's operational readiness and resilience to possible business disruptions while capitalizing on climate-related opportunities.

Going forward, we strive to strengthen our TCFD reporting and align with market practices, regulatory requirements, and peer reporting practices. Additionally, when data becomes more readily available, we aim to improve and expand on our financial inputs for the quantification of our climate risks and opportunities in our climate scenario analysis.

14 Impact from carbon costs is not considered in the total additional financial impacts as it is an indirect impact and is explored separately. The total financial impact thus consists of the physical risk impacts only.

15 This study estimates the annual additional and proportionate financial impacts for a single year and does not model the rate of change of impacts across 2022 and 2050 (i.e., impacts are not cumulative). Therefore, should a physical climate risk event occur, the impact would be larger. Refer to Appendix 2 for more information.

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## CLIMATE FRIENDLY MOBILITY

**WHY IS IT MATERIAL?**
The Singapore Green Plan 2030 ("SGP30") focuses on Singapore's sustainability transformation. With the aim of running on cleaner energy by 2040, the National Electric Vehicle Centre ("NEVC") is advocating for the shift away from Internal Combustion Engine ("ICE") cars towards the widespread usage of Electric cars ("EV") in support of the SGP30.

Accordingly, VICOM promotes the use of EVs in our own operations and we have expanded our services to include the testing and inspection of electric vehicles.

**HOW DO WE MANAGE THIS?**
VICOM strives to embed climate-friendly mobility in our organisation, through our electric vehicle testing and inspection services.

In FY2023, VICOM installed 2 EV charging stations at our SETSCO office premises at Bukit Batok and also acquired 2 EV vans. Building upon this progress, we stand firm in our trajectory to progressively transition half of our existing fleet of ICE vehicles to EVs by 2030, with the aim of a complete switch by 2040. In doing so, we hope to significantly reduce our Scope 1 GHG emissions.

We also continuously conduct open dialogues and reviews internally to explore new solutions and technologies to help us in our sustainability transition and alignment to SGP30. To reduce our emissions whilst eliminating any inefficiencies in our use of limited resources, the switch to cleaner energy remains at the forefront of our considerations. In FY2023, VICOM installed 2,946 solar panels across six of our premises as a first step to incorporate renewable energy in our overall energy consumption. Hence, we are optimistic that this will pave the way for the possibility of a full switch to alternatives in the future.

Additionally, in alignment with our parent company, ComfortDelGro, VICOM has an established vehicle transition plan in place to reduce our carbon emissions. This plan outlines the steps VICOM will take to fully transition traditional ICE vehicles to electric, hybrid-electric and hydrogen vehicles by 2040. Forming the basis of our carbon reduction targets, our emissions reduction pathway in the transition plan was modelled to align with CDG's Science Based Target Initiative ("SBTi") 1.5°C scenario, which was validated and approved by SBTi in June 2022. We also set carbon emissions targets which are consistent with reductions necessary to limit global warming to 1.5°C above preindustrial levels, aligning with the goal of the Paris Agreement. Further details can be found in our metrics and targets section below and our Sustainability Report 2022.

Taking our existing decarbonisation measures (e.g. solar panel installations, EV transition plan and heat recycling) into consideration, we applied a 'what if' scenario for VICOM in our climate scenario analysis. The 'what if' scenario models the financial implication for VICOM if VICOM were affected by the carbon pricing scheme, providing a financial quantification of the additional impact of carbon taxes. Under this 'what if' scenario, a comparison between an 'unmitigated' option (i.e. no carbon reduction plan, business as usual, no mitigation measures) and a 'mitigated' option (i.e. considering VICOM's current plan to reduce carbon emissions, mitigation measures applied) was explored. To determine the appropriate carbon prices for each scenario and time horizon, we referenced the IEA World Energy Outlook 2021[16].

Overall, under both the 1.5°C and >3°C scenarios, the additional costs incurred in the mitigated option are projected to be significantly lower than the additional costs in the unmitigated scenario across all three timeframes. Under the mitigated scenario, VICOM estimates the range of additional financial carbon costs increases to be 12% – 95% lower than the costs in an unmitigated scenario across all timeframes. This stems from lower projected Scope 1 and 2 emissions over the 2030, 2040 and 2050 timeframes when decarbonisation plans are in place.

As a result, this highlights the importance and benefits of planning and implementing decarbonisation strategies and solutions aimed at reducing VICOM's overall emissions. Simultaneously, this demonstrates our resilience to the 'second-order' transition risk of increased carbon costs and highlights our commitment to advancing climate-friendly mobility.

16 IEA World Energy Outlook 2021, pg 329.

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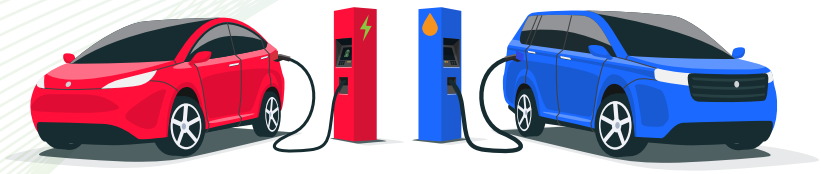
## OUR PERFORMANCE

Currently, VICOM has a fleet close to 70 vehicles and over half of them are compliant to the Euro V and above emission standards. In FY2023, VICOM also purchased 2 EVs.



| TYPE OF VEHICLE | FY2023[17] | FY2030 | FY2040 |
|---|---|---|---|
| **Internal Combustion Engine (Diesel & Petrol)** | 97.1% | 49% | 0 |
| **Electric Vehicles** | 2.9% | 51% | 100% |

## LOOKING FORWARD

In the coming years, we strive to transition towards cleaner vehicle procurement by progressively transitioning half of our existing fleet of ICE vehicles to EVs by 2030, with the end goal of an entire green fleet by 2040. At the same time, VICOM strives to be a leader in climate-friendly mobility by researching, revamping, and developing solutions to eliminate inefficiencies in our use of limited resources, ultimately reducing our emissions.

## (CASE STUDY) HOW WE ENABLE BROADER SUSTAINABILITY

One of the key targets within SGP30's nationwide EV Roadmap involves the installation of 60,000 EV charging points by 2030. This shift towards EVs as advocated by Singapore's Government has resulted in growing requests for testing services of these environmentally friendlier vehicles. In 2023, in anticipation of Singapore's electrification of vehicles, VICOM's inspectors undertook certifications and in-house training to provide EV vehicle inspections, reaffirming our role as contributors to climate-friendly mobility and the sustainable transition.

VICOM also advocates for sustainability within Singapore through our regular monetary contributions to ESG events. In 2023, SETSCO donated $15,000 to the Singapore Environment Council ("SEC")'s Singapore Environmental Achievement Awards ("SEAA") and SEC Conference Day. We are also regularly involved in the developing the broader ESG regulatory landscape, sponsoring $2,000 annually for 5 years to the International Sustainability Standards Board ("ISSB")'s Singapore office. We hope to further climate friendly mobility and sustainable development through our contributions.

SETSCO's delegates attending Singapore Environmental Achievement Awards and SEC Conference Day.

17 Inclusive of SETSCO Malaysia figures.