SysGroup

Task Force on Climate-related Financial Disclosures Report 2022

INSPIRED PLC

Introduction

This year, we at SysGroup took the first steps to better understand the importance of climate change and the risks and opportunities it presents to our business. Climate change is long-term changes in temperature and weather patterns. These shifts may be natural, but since the 1800s, human activity has been the main driver of climate change, primarily due to the burning of fossil fuels. Unpredictable changes in our climate may bring with it challenges for the economy and society, and therefore have potential impacts on the success of our business.

Whilst we are at the beginning of our ESG journey, operating as a good citizen has always been embedded within our purpose, culture and core values. We are committed to acting responsibly at all times and reducing our impact on the environment.

"In light of the growing interest in Environmental, Social and Governance ('ESG') amongst our stakeholders, we recognise we have a part to play to reduce our impact on the environment.

This year we are presenting our first ESG and climate impact report which I am proud to say we are making on a purely voluntary basis. By reporting on our progress against the recommendations of the TCFD, we have identified, assessed and begun to address climate-related risks and opportunities. During the year, we introduced data collection processes to understand our impact on the environment so we can identify how we can reduce our impact and operate more sustainably.

We are taking the necessary steps to build an effective ESG and climate strategy which aligns with our values and those of our stakeholders."

Adam Binks, CEO

About This Report

By committing to improving the sustainability of our operations, SysGroup aims to develop a strategy which is resilient to climate change, by following best practice and emerging industry regulation.

Since SysGroup is an AIM listed company with under 500 employees and £500m turnover, we are not required to comply with UK TCFD disclosure and regulation. However, we recognise that understanding climate change and its impact will support us on our wider ESG journey.

We are therefore pleased to **voluntarily report** on our progress to embed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into our business.

This TCFD Report communicates our progress so far by identifying and assessing climate-related risks and opportunities, and understanding our impact on the environment.

We understand that climate-related impacts may affect the success of our business.

To commence the project, we partnered with a third-party ESG consultancy, Inspired plc, to better understand the climate-related risks and opportunities facing our business over the short (2020-2025), medium (2025-2035) and long-term (2035-2050).

We have concluded that due to the nature of our business and the location of our sites across the UK, climate change poses a **low risk** to our operations and business strategy. Nonetheless, we are committed to mitigating the risks of climate change on our business, and reducing our impact on the environment.

In the first year of reporting, we have focused on the following:

- Calculating our Carbon Balance Sheet (Scope 1, 2 and 3 emissions)
- Identifying our climate-related risks and opportunities
- Evaluating existing mitigation strategies

Our next steps will be to formulate a carbon reduction strategy and set a commitment to becoming a net zero business.

About The TCFD

We recognise that climate change presents a range of potential risks which we may need to mitigated, as well as opportunities which our business may benefit from. In order to identify, assess and address our climate-related risks and opportunities, we have begun the process of embedding the TCFD recommendations into our business operations and strategy for the first time.

The TCFD framework was created by the Financial Stability Board in 2015. We have used this framework as a tool to guide us in understanding climate change and its associated risks and opportunities. Throughout this report, we will report through four themes; *Governance, Strategy, Risk Management and Metrics & Targets.* Using this reporting structure we can manage the impact of climate change across our operations.

Climate-related risks and opportunities are grouped into two categories; transition and physical.

Transition risks and opportunities are those associated with the world's transition to a decarbonised economy, and cover four key areas; policy & legal, reputation, market and technology.

Physicals risks and opportunities are those resulting from the physical impacts of climate change, and are split into two areas; acute and chronic. Acute risks and opportunities are due to event driven weather, while chronic risk and opportunities are due to longer term changes in climate.

There are eleven TCFD recommendations and twelve climate-related risks wich we have brought into our corporate risk management framework to ensure it has a high profile at Board level.

We recognise that we are at the beginning stages of this process, however we are pleased with our progress and intend to enhance our TCFD reporting process over time as we expand and develop our climate strategy.

This report communicates our progress in understanding climate change and the development of our climate strategy to our stakeholders.

Our approach to **Climate Governance** can be found on page 6. This section outlines Board, Executive and Management's responsibility for managing climate-related risks.

The **Strategy** section on pages 12-22 outlines our approach to identifying and assessing our climate-risks and opportunities, and their potential impact on our business. This year, we identified four significant risks and one opportunity, details of which can be found on page 15.

Our **Risk Management** processes for climate-related risks and opportunities can be found on pages 23-27, detailing the development of our developing climate risk management framework.

The **Metrics and Targets** section on pages 28-32 outlines the journey to understanding our impact on the environment and our efforts to operate as a sustainable business.

About The Group

SysGroup is a multi-award winning managed IT services & cloud hosting provider. Listed on the AIM market of the London Stock Exchange (LSE:SYS), we are well supported by our shareholders to fulfil our strategy of being a consolidator in the UK IT managed services sector.

SysGroup delivers solutions using best of breed, industry leading technologies all of which are architected, supported and maintained by our highly skilled in-house teams.

SysGroup maintains a number of strategic partnerships and accreditations with leading technology vendors including, Dell (Gold), WatchGuard (Platinum), Veeam (Gold), Microsoft (Gold Datacentre), VMWare, Mimecast and Zerto. Accreditations include ISO 27001:2013 and ISO 9001:2015 for quality management and Visa Level 1 Merchant Service Provider status to underpin our PCI:DSS hosting capabilities.

SysGroup focuses on the UK mid-market and works with its customers to drive strategic and operational IT change, providing secure, cost effective services from a range of platforms.

SysGroup has offices in Liverpool, London, Manchester, Newport, Edinburgh and Bristol.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Responsibility for Climate-related Risks

Governance - organisations are recommended to establish and disclose appropriate internal governance processes for climate-related risks and opportunities.

Disclosure recommendations:

a) Describe the Board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities

SysGroup's Board of Directors seek to follow the best practice in corporate governance as appropriate for a company of our size, nature and stage of development. We recognise the importance of having a governance framework that is robust and effective, within which ESG and climate reporting can be embedded, as well as having effective policies and procedures across the Group.

High quality governance is reliant on the relationships between management, the Board and the Company's stakeholders.

At SysGroup, we communicate regularly with our stakeholders and take their concerns into consideration when developing our strategy, business model and financial planning.

Board-level Responsibility

We recognise that our stakeholders are becoming more concerned by the impact of climate change and this was a significant factor in our voluntary decision to conduct and disclose an TCFD Report this year.

The SysGroup Board of Directors are responsible for ensuring the Company delivers long term sustainable value for its stakeholders. As part of this, the Board has overall responsibility for the Group's climate action and ensuring that SysGroup builds a business strategy that is as resilient as possible to climate change. The Board has an important role to oversee the Group's TCFD efforts, authorise sufficient resources, and to consider feedback from our stakeholders in its development.

In their role, the Board also provides oversight and approval for the Annual Report which includes disclosure of the Group's climate-related risks and opportunities. The Board of Directors ensure appropriate mitigation plans and next steps are in place to manage the impact of climate change on our business operations.

The Board sets and develops targets for the business, and in the coming year we expect to develop SysGroup's net zero roadmap, to support us on reducing our impact on the environment.

The Board meets formally each month, where updates on ESG performance and progress are delivered. In response to growing stakeholder interest in ESG, the Board has established an ESG Committee and delegated the responsibility of ESG and climate action to Martin Audcent, CFO. More details of the ESG Committee can be found on page 10.

The Board of Directors

The Board consists of five directors, two of whom are executives, and three are non-executives, with a complementary mix of backgrounds and experiences.

Michael Edelson
Non-Executive Chairman

Michael has been a Founding Director or Chairman of a number of companies admitted to the AIM market, including Prestbury Group plc, Knutsford Group plc, Mercury Recycling Group plc (now Ironveld plc) and ASOS PLC.

Adam Binks
Chief Executive Officer

Adam has vast equity capital markets and M&A experience and was promoted to Group CEO in April 2018. He has extensive experience in the Managed IT, Hosting & Telecoms sectors across a 20 year career.

Martin Audcent
Chief Financial Officer

Martin has significant senior finance and operational experience. Martin is a Chartered Accountant, having qualified with PwC in 2000, and joined the Group from NCC Group plc, where he was Associate Director of Finance and Group Financial Controller.

Mark Quartermaine
Non-Executive Director

Mark has over 30 years' experience in the ICT industry in a variety of executive, sales and marketing roles. He started his career at IBM in 1984 where he held different executive positions, culminating in being appointed the Worldwide Marketing Director for the Retail Division.

Michael Fletcher
Non-Executive Director

Mike is a successful investor, business leader and entrepreneur with more than 25 years' experience in the financial services sector. He established Arete Capital Partners in 2020 where he is a Managing Partner. Mike is also a trusted advisor to several high profile and high growth entrepreneurs and their companies including Sorted Group, Svella plc and Tactus Group.

Risk Governance

The Board has overall responsibility for monitoring the Group's principal risks and uncertainties, which are considered in the context of the nature, size and complexity of the business. This includes the Company's climate-related risks and opportunities.

We recognise the importance of managing climate-related risks and opportunities, and have integrated this into our existing risk management processes. The Group employs a Head of Legal, Risk & Compliance ("HLRC"), a Senior Leadership Team position, whose responsibility includes the identification of risks and the ownership and maintenance of the Corporate Risk Register.

The HLRC reports to the Chief Financial Officer in the organisation structure. The concept of risk and mitigation is embedded in our Senior Leadership Team and the risks that have been recorded in our Risk Register have Senior Leader business owners who are responsible and accountable for the risks and controls that are in place. From FY22, the HLRC is responsible for the identification and assessment of climate-related risks.

During the year, we held a Climate Risk Management workshop to assess the impact of climate-related risks and opportunities on our business over the short, medium and long-term. The workshop was held to build our understanding of climate change and its broader scope of associated impacts. After the workshop, a climate risk register was created to identify and accurately report all climate-related risks. This process will be repeated annually.

The HLRC maintains the Group's climate risk register which forms part of our overall Corporate Risk Register. This is continually maintained throughout the year and is subject to a scheduled update and review each year with a formal report to the Board and Audit Committee. The Chief Financial Officer presents the outcomes of the Climate Risk Management Workshop to members of the Board annually, who signs off on the classification of each risk.

ESG Committee

To ensure ESG has an appropriate level of profile in the business, a continual level of oversight, and clear accountability, we have established an ESG Committee. The ESG Committee is responsible for the Group's overall climate policy and action, managing the Group's climate-related risks and opportunities, and implementing controls to minimise their impact.

The ESG Committee comprises the Chief Financial Officer (Chairperson), Head of Finance, Head of Legal, Risk & Compliance and the Head of People and Culture, with other members of the Senior Leadership Team co-opted into meetings as required. The ESG Committee meets on a quarterly basis to review the progress of the ESG Programme across the Group. The Chief Financial Officer provides an update to the Board on a periodic basis, and formally on an annual bais.

The Committee is mandated by the Board to introduce and enhance data collection methods throughout the Group, recommend and implement ESG related initiatives and oversee ESG reporting.

During the year, the ESG Committee introduced and managed a robust data collection process to support the calculation of SysGroup's Carbon Balance Sheet and to better understand our impact on the environment. These data collection processes will be enhanced year-on-year to monitor progress.

Management of Climate Risks

We understand the importance of climate change, and the potential impact it may have on our business over time. To reflect this importance, we have developed processes to ensure the management of climate-related risks is held at various levels across the business, as we aim to integrate them within our daily operations.

We plan to develop a net-zero strategy and carbon action plan to reduce our emissions. As part of this project, we will explore the feasibility of potential energy efficiency projects and the Head of Finance will track and record capital expenditure on installing any energy efficiency technology to manage climate-related risks.

The Head of Legal, Risk & Compliance maintains the climate risk register. They will review each climate risk annually and monitor any changes in the potential impact, addressing accordingly.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities.

Our Climate Strategy

Strategy - It is recommended that organisations disclose the nature and impact of their material climate-related risks and opportunities, as well the resilience of their strategy under each climate scenario chosen.

Disclosure recommendations:

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

SysGroup has a clear strategy and purpose to become the leading provider of managed IT services to businesses in the UK. As we grow, we are committed to operating as a sustainable and transparent business, reducing our impact on the environment. By following the TCFD recommendations, we ensure that our long-term business strategy remains robust and resilient to future changes in the Earth's climate, and the impact that comes with it.

Modelling the potential risks and opportunities facing our business allows us to build upon our existing risk management processes and develop an internal climate risk management framework.

Our Approach

During the year, we partnered with Inspired plc to carry out a detailed climate scenario analysis across all of our sites. Climate scenarios are referenced models of the future climate based on global emission levels, used to identify potential climate-related risks and opportunities.

The scenario modelling considered the risks associated with the transition to an increasingly decarbonised global economy at Group level. In contrast, the physical impacts of climate change were evaluated on a site by site basis before being rolled up into the Group. We aim to develop our climate scenario analysis year on year to include key disruption routes and suppliers.

Our Climate Scenarios

The TCFD recommends using a range of climate scenarios and timelines to fully evaluate the potential impact of climate change on our operations, business strategy and financial planning.

The scenarios that we have considered are as follows:

Below 2°C Scenario

This scenario represents a pathway where governments and companies align with the Paris Agreement target of pursuing efforts to limit warming to 1.5^{C}C by 2100 and achieve the UK 2050 net-zero target. It is anticipated that Governments will introduce policies in a timely and coordinated fashion to reduce carbon emissions. Organisations will compete to become leaders in minimising emissions and reducing environmental impact. This scenario is associated with high transition risks in the short term but minimal physical risks due to prompt action.

Our Climate Strategy/continued

Between 2-3°C

This scenario predicts a delayed response to climate change, resulting in an uncoordinated implementation of policies and regulations. The policies and agreements made in COP26 will lead down this pathway, making it the most probable outcome, producing a global temperature rise of 2°C. This pathway predicts a staggered response to climate change from governments, introducing policies in an uncoordinated manner to reduce global emissions. The business continues as usual in the short term, but the delayed action results in the highest levels of transitional risks within the medium term with some increased severity of physical risks in the long term compared to the 'Below 2°C' scenario.

Above 3°C

In this scenario, little to no climate action is taken in the short or medium term. Fossil fuels remain the dominant global energy source leading to rising emissions until 2040. The inevitable rise in temperatures and subsequent physical risks will eventually pressure governments to act, leading to policies being introduced in an uncoordinated method in the long term. This scenario contains the highest levels of physical risk due to several tipping points being surpassed.

Time Horizons

The risks associated with climate change pose an everlasting threat that can span decades into the future. To ensure both the current regulations and long-term future impacts are accounted for, we have modelled our scenarios over three timeframes, enabling us to accurately describe in which time horizon a risk is more likely to occur.

The time horizons are as follows::

- Short-term (2020-2025)
- Medium-term (2025-2035)
- Long-term (2035-2050)

Models

We used an amalgamation of several accredited external datasets to run our climate scenarios, including the Intergovernmental Panel on Climate Change's (IPCC's) Representative Concentration Pathways (RCPs), the International Energy Agency's (IEA's) World Energy Models (WEMs) and the Shared Socioeconomic Pathways (SSPs).

The combination of models provides insight into how GHG emissions, economies, and governments will change and adapt to the challenges of climate change. Our models cover a range of climate-related indicators including temperature, precipitation, aridity, sea-level rise, and flooding, which are combined to reveal the potential future climate under each scenario.

Climate Scenario Results Overview

The results of the climate scenario analysis were presented to the ESG Committee, to categorise the impact of each potential climate-related risk across the Group.

This year we identified twelve potential climate-related risks and one opportunity. We defined a risk to be significant to SysGroup if it had the potential to cause at least a small disruption to our operations.

In this first year of reporting against the TCFD, we have not modelled the financial impact of each risk, however we aim to explore this process further. Out of the twelve risks identified, four were deemed to be significant to SysGroup.

Significant Risks

- Increased cost of energy and materials: Short - Medium-term (2020-2035)
- Increase in carbon pricing: Medium-term (2025-2035)
- Increased frequency and severity of flooding: Long-term (2035-2050)
- Sea level rise: Long-term (2035-2050)

Opportunities

- Transitioning to lower emissions technologies: Short - Medium-term (2020-2035)

Transition Risks

For SysGroup, our most significant climate-related risk is the increased cost of energy and materials. We have seen our energy suppliers increasing energy prices already and some costs of finished products have also increased. It's likely that energy prices will increase further in the short-medium term (2020-2035) and under the below 2°C scenario and the 2-3°C scenario. We aim to monitor this risk closely and review the impact as we explore more energy efficiency technology, supply chain management, and initiatives to reduce our energy usage.

SysGroup is not currently impacted by carbon pricing. However, we recognise that this may change over time if the government increase regulation in this area.

The impact of this risk would be highest for SysGroup within the 2-3°C scenario, particularly in the medium-term when carbon pricing is expected to peak.

Physical Risks

SysGroup may feel the impact of physical risks such as increased flooding and sea-level rise within the above 3°C scenario in the long-term (2035-2050). While these risks do not impact the Company in the near term, we will continue to monitor the physical risks at all of our offices and third party datacentre locations.

Overall, we determined that climate change has the potential to cause a slowing of our operations within the short to medium term, and a small disruption to our operations within the long term. Details of all climate-related risks and opportunities identified can be found on pages 16-22.

Climate-related Risks in the Below 2°C Scenario

TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Policy & Legal	Increase in Regulation Due to Climate Change	Short - Medium-term (2020-2035)	1 - Very Small Disruption to Operations	While this risk is likely to occur due to an already increasing number of environmental regulations being implemented by the government, we do not view it as material to the Group due to our existing voluntary reporting efforts. We are already engaging with a third-party to produce our voluntary SECR, TCFD and ESG reports ahead of regulation. Through this partnership, we carefully monitor legislative developments and maintain a strong awareness of intended government action.
	Mandates on and Regulation of Existing Products and Services	Short-term (2020-2025)	1 - Very Small Disruption to Operations	From the 1st April 2022, organisations that manufacture or import 10 or more tonnes of finished plastic packaging material will need to register for the Plastic Packaging Tax. If this packaging does not contain at least 30% recycled plastic, then the organisation will be charged at a rate of £200 per tonne. The Group classifies this as a very low risk as we do not import plastic packaging.
Reputation	Increased Stakeholder Concern	Short-term (2020-2025)	1 - Very Small Disruption to Operations	As the world shifts to a lower carbon economy, stakeholders will share a concern for our organisation's impact on the environment. A lack of action and communication may result in lower investment opportunities and support from stakeholders. The Group do not view this as a significant risk as we have published our ESG and TCFD reports in order to effectively communicate our ESG journey, initiatives, and emissions to our stakeholders. We aim to develop our ESG strategy over time with feedback from our stakeholders considered.

Climate-related Risks in the Below 2°C Scenario/continued

TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Market	Increased Cost of Energy and Materials	Short - Medium-term (2020-2035)	3 - A Slowing Down of Operations	We have seen our suppliers increase energy prices already and some costs of finished products have also increased. This could escalate over time from climate change, geopolitical events and the government introducing a patchwork of policies too late. We aim to monitor this risk and review the impact as we explore energy efficiency technology and initiatives to reduce our energy usage.
	Changing Consumer Preferences	Medium-term (2025-2035)	1 - Very Small Disruption to Operations	As the world transitions to a lower carbon economy, customers will become increasingly concerned over the source and environmental impact of products and services they purchase. This risk is not significant to the Group due to the nature of our operations and services, and our efforts to operate as a sustainable business. We are at the beginning of our ESG journey, and are communicating transparently with our stakeholders through our ESG and TCFD reports.
Technology	Transitioning to Lower Emissions Technologies	Short-term (2020-2025)	1 - Very Small Disruption to Operations	There is a risk of rising costs associated with the transition to lower emissions technology. Due to the nature of our business operating in mostly landlord owned buildings, this risk is deemed as low. The Group also views Transitioning to Lower Emissions Technologies as a potential opportunity which would mitigate this risk.

Climate-related Risks in the Between 2-3°C Scenario

TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Policy & Legal	Increase in Regulation Due to Climate Change	Short - Medium-term (2020-2035)	1 - Very Small Disruption to Operations	While this risk is likely to occur due to an already increasing number of environmental regulations being implemented by the government, we do not view it as material to the Group due to our existing voluntary reporting efforts. We are already engaging with a third-party to produce our voluntary SECR, TCFD and ESG reports ahead of regulation. Through this partnership, we carefully monitor legislative developments and maintain a strong awareness of intended government action.
	Increase in Carbon Pricing	Medium-term (2025-2035)	3 - A Slowing Down of Operations	SysGroup is not currently impacted by carbon pricing. However, we recognise that this may change over time as government regulation is expected to increase in this area. This risk would be highest for SysGroup within the 2-3°C scenario, particularly in 2026 when carbon pricing is expected to peak. The impact of this risk may be mitigated if we can reduce our emissions. We will continue to monitor this risk.
Reputation	Increased Stakeholder Concern	Short-term (2020-2025)	1 - Very Small Disruption to Operations	As the world shifts to a lower carbon economy, stakeholders will share a concern for our organisation's impact on the environment. A lack of action and communication may result in low investment opportunities and support from stakeholders. The Group do not view this as a significant risk as we have published our ESG and TCFD reports in order to effectively communicate our ESG journey, initiatives, and emissions to our stakeholders. We aim to develop our ESG strategy over time with feedback from our stakeholders considered.

Climate-related Risks in the Between 2-3°C Scenario/continued

TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Market	Increased Cost of Energy and Materials	Short - Medium-term (2020-2035)	3 - A Slowing Down of Operations	We have seen our suppliers increase energy prices already and some costs of finished products have also increased. This could escalate over time from climate change, geopolitical events and the government introducing a patchwork of policies too late. We aim to monitor this risk and review the impact as we explore energy efficiency technology and initiatives to reduce our energy usage.
	Changing Consumer Preferences	Medium-term (2025-2035)	1 - Very Small Disruption to Operations	As the world transitions to a lower carbon economy, customers will become increasingly concerned over the source and environmental impact of products and services they purchase. This risk is not significant to the Group due to the nature of our operations and services, and our efforts to operate as a sustainable business. We are at the beginning of our ESG journey, and are communicating transparently with our stakeholders through our ESG and TCFD reports.

Climate-related Risks in the Above 3°C Scenario

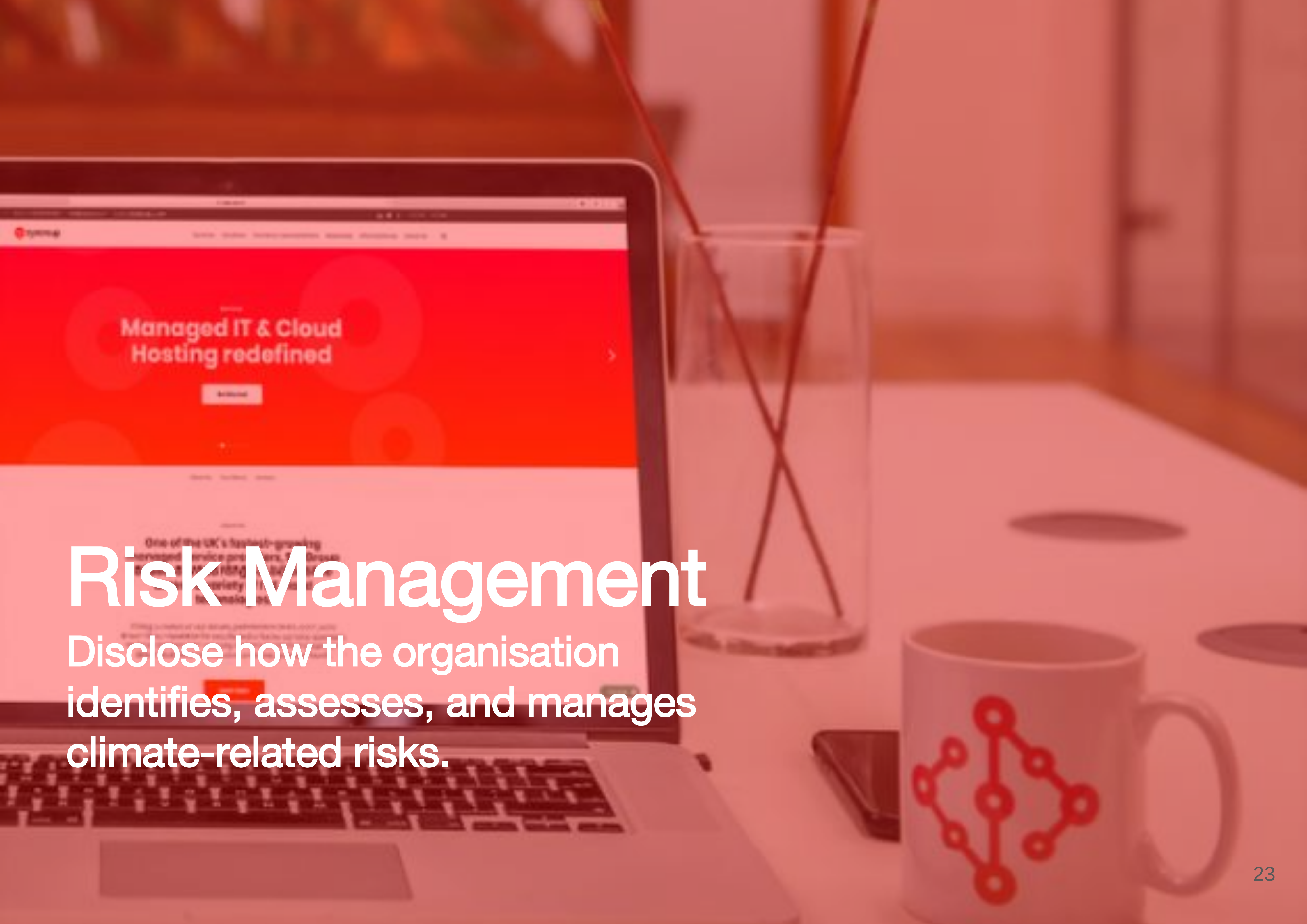
TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Acute Physical	Increased Frequency and Severity of Flooding	Long-term (2035-2050)	2 - Small Disruption to Operations	**Damage to SysGroup Property** An increase in flooding puts our London and Newport sites at risk due to the offices close proximities to the River Thames and River Usk, resulting in the potential for physical damage to the sites. Our transport networks and supply chains may also be impacted due to infrastructure damages, causing delays in our product deliveries. Global property insurance premiums are forecast to rise by 22% by 2040 as weather-related catastrophes become both more intense and frequent, which will lead to increased expenditure. **Employee Accessibility** A significant flood would impact infrastructure and transport networks, making it difficult for employees to access our offices. However, employees can work from home if damage occurs to any of our sites, resulting in only a small disruption to operations.
	Increased Frequency of Wildfires	Long-term (2035-2050)	1 - Very Small Disruption to Operations	As temperatures rise, the frequency of wildfires will increase due to exacerbated aridity. However, due to the location of our operations across the UK this risk is considered low to SysGroup as our sites are not in rural or countryside locations.

Climate-related Risks in the Above 3°C Scenario/continued

TCFD Area	Climate-related Risk	Time Horizon	Potential Impact	Description
Chronic Physical	Sea Level Rise	Long-term (2035-2050)	2 - Small Disruption to Operations	As sea levels rise, storm surges and flooding will become increasingly common along coasts, meaning our Liverpool and Newport sites will be at risk from direct damage to property, plant, & equipment. Our transport networks are at risk and will result in delays from suppliers. Global property insurance premiums are forecast to rise by 22% by 2040 as weather-related catastrophes become both more intense and frequent, which will lead to increased expenditure.
	Rising Mean Temperatures	Long-term (2035-2050)	1 - Very Small Disruption to Operations	As mean temperatures rise, costs associated with maintaining sites at an optimum temperature for employees and operations will increase. Power outages may become more frequent due to increased demand and pressure on the grid. However, as we explore introducing energy efficient technologies, this risk would cause a very small disruption to our direct operations, and is therefore not deemed significant.
	High Water Stress	Long-term (2035-2050)	1 - Very Small Disruption to Operations	As the population grows and temperatures rise, leading to an increased demand for water, the available fresh water will diminish. However, the east and south-east of England will be most affected by this risk. Due to the location of our sites and as our operations are not water intensive, this risk is not significant to SysGroup.

Climate-related Opportunities

TCFD Area	Climate-related Opportunity	Time Horizon	Potential Impact	Description
Technology	Transitioning to Lower Emissions Technologies	Short - Medium-term (2020-2035)	TBC in year 2 following full calculation of Group's carbon emissions and energy usage.	The Group views this as a potential opportunity as investing in energy efficiency technology could reduce our energy usage. This may result in reduced operating costs, mitigating the risk of 'Increased cost of Energy and Materials'.



Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Climate Risk Management Framework

Risk Management - It is recommended that organisations disclose their processes for identifying, measuring and managing climate-related risks, as well as describing how these processes are integrated into the organisation's overall risk management.

Disclosure recommendations:

a) Describe the organisation's processes for identifying and assessing climate-related risks.

b) Describe the organisation's processes for managing climate-related risks.

SysGroup aims to evaluate and manage its potential climate-related risks and opportunities as the business pursues its growth strategy.

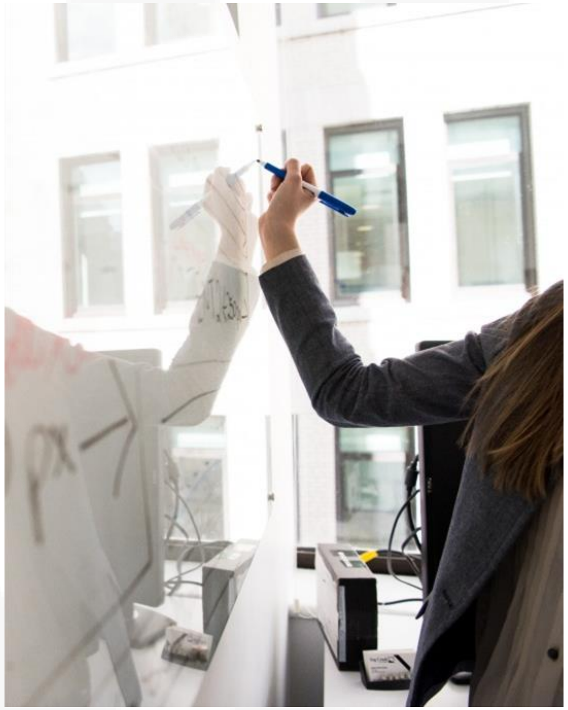
We have brought the recommendations from the TCFD into our existing risk management processes to support the development of an internal climate risk management framework. Our climate risk management framework consists of four crucial steps to evaluate our risks and determine mitigation actions to control their impacts.

Identify

We have partnered with Inspired plc, a third-party ESG consultancy, to identify the Group's potential climate-related risks and opportunities. A robust six-step climate scenario analysis was conducted across all our sites, covering 5 regions of the UK, to identify the relevant physical climate-related risks and their impacts. Transition risks were also identified and all risks were modelled across three warming pathways and three time horizons. In summary, we identified twelve climate-related risks and one opportunity.

Assess

We held a Climate Risk Management Workshop with members of the ESG Committee in 2022 to assess the potential impact of each climate-related risk over the short, medium and long-term. This workshop allowed us to evaluate the potential impacts of each physical and transition risk on our business strategy, operations, and financial planning, and identify which risks were significant to our business. After the workshop, a climate risk register was created and certified to assess and accurately report all climate-related risks. This results were presented to the Chief Financial Officer and members of the Board. We determined there are four significant climate-related risks relevant to SysGroup.



Climate Risk Management Framework/continued

Appraise

Following the creation of a climate risk register, mitigation processes were evaluated based on their ability to reduce the impacts of climate change. From this step, controls were developed and agreed upon based on the effectiveness in building climate resilience into our existing strategy and planning. These classifications were signed off by the Chief Financial Officer, members of the Audit Committee and members of the Board.

Address

Lastly, we identified which ongoing mitigation methods are already underway to reduce the potential impact of the risks. In FY23, we aim to introduce initiatives as part of our ESG programme which will mitigate the impacts of climate-related risks on our business. We also plan to assess the impact and capitalise on the climate-related opportunity, transitioning to lower emissions technology. We will run a climate scenario analysis each year to broaden our scope of risk classification.

Climate-related Risk Mitigation

TCFD Area	Climate-related risk	Description
Market	Increased cost of Energy and Materials	The Group aims to reduce our energy consumption by operating highly efficient and sustainable sites, minimising the amount of energy required for our operations.
Policy & Legal	Increase in Carbon Pricing	We plan to set carbon reduction targets and introduce initiatives across the business to reduce our Scope 2 emissions where possible. We source our amenities and products locally where possible, reducing travel time and emissions. We will monitor carbon pricing regulation over time to prepare for proposed action which may affect SysGroup.
Acute	Increased Frequency and Severity of Flooding	To minimise the risk of flooding, we aim to ensure that drainage systems are well maintained at every site. We aim to continuously monitor the risk at a site-by-site level throughout upcoming reporting periods.
Chronic	Sea Level Rise	Monitoring of potential flood and storm risk for long-term impacts will be carried out alongside site-specific flood risk assessments at every site. Adequate drainage will minimise the potential impact of this risk.

Climate-related Opportunity Management

TCFD Area	Climate-related opportunity	Description
Technology	Transitioning to Lower Emissions Technologies	During the transition to a decarbonised economy, switching to more energy efficient technologies will minimise our impact on the environment while reducing our energy consumption. We view this as an opportunity as it allows us to improve our sites while simultaneously helping the environment such as implementing new lighting, equipment, and infrastructure. We will explore the reality of this opportunity over the next few years.

Metrics & Targets

Disclose the organisations metrics, emissions, and initiatives implemented to improve sustainability

Understanding our Impact

Metrics and targets - It is recommended that organisations disclose the metrics and targets they use to assess and monitor climate-related risks and opportunities.

Disclosure recommendations:

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions and the related risks.
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

In an attempt to reduce the impact of climate-related risks and explore the ability to capitalise on our climate-related opportunities, we have introduced a range of metrics relating to our impact on the environment.

In FY22 we launched a data collection process to calculate our Scope 1, 2 and 3 emissions and help us understand areas for reduction. This process enables us to understand the material emissions sources across our business and value chain, and identify areas where we can make the most significant impact on emission reductions.

Our full Scope 1, 2 and 3 emissions can be found within our Carbon Balance Sheet on page 31.

Greenhouse Gas Emissions

Reducing our carbon emissions is important to becoming a more sustainable business, and we took the first steps on this journey by capturing and understanding our carbon balance sheet (Scope 1, 2 and 3 emissions) for the first time.

Scope 1 emissions are direct greenhouse gas ('GHG') emissions that occur from sources that we control or own, i.e. gas usage and transport fuel SysGroup do not produce any direct emissions from sources that we own or control.

Scope 2 emissions are indirect GHG emissions associated with our purchase of electricity, steam, heating or cooling. Our offices and data center racks consume electricity and this makes up 19% of our total emissions.

Scope 3 emissions are the indirect GHG emissions within our value chain. The emissions associated with our value chain makes up 81% of our total emissions.

We have collected and calculated our Scope 1 and 2 emissions and energy performance data as we have voluntarily disclosed under the UK Streamlined Energy & Carbon Reporting (SECR) as implemented by the Companies (Directors' Report) and the Limited Liability Partnerships (Energy and Carbon Report) regulations. Our SECR Report can be found within our Annual Report.

Our Scope 3 emissions have been calculated to understand the impact of our value chain, which was calculated following the Greenhouse Gas Protocol (GHG) Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Understanding our Impact/continued

Under the GHG Protocol, Scope 3 reporting has 15 reporting categories, 8 of which apply to SysGroup. Due to the difficulty of this task and availability of data, we have not been able to calculate the emissions for all 8 relevant categories We aim to broaden and strengthen our data collection methods over time to include all relevant categories and hence improve the accuracy of our reporting.

Scope	Gross Emissions (tCO_2e)	% of Total Emissions
Scope 1	0	0%
Scope 2	356	19%
Scope 3	1,486	81%
Total	**1,842**	**-**

This process enables us to recognise and assess the full impact of our operations on the atmosphere and prepare us for the development of our net-zero strategy. Our Scope 1 and 2 emissions comprise 19% of our total emissions, with our Scope 3 emissions representing the remaining 81%, as shown in the table below.

Datacentres

Our Scope 2 emissions are the indirect emissions associated with the electricity we have consumed. The electricity consumed at the data centres we use for cloud hosting is responsible for most of our Scope 2 emissions, accounting for 349 tCO2e. We recognise the high energy nature of data centres, and while we have little ability to impact this, we aim to engage with our data centres to understand more about their energy usage and efforts to operate sustainably.

Net-zero Strategy

Now we have calculated our baseline emissions, we aim to develop a net-zero strategy and set targets to reduce our emissions over time. As part of this process, we will introduce initiatives throughout the Group to help mitigate the impact of our climate-related risks. We will then continue to report on our progress across the targets and initiatives annually.

Carbon Balance Sheet

Emissions categories	Location-based (tCO_2e)	% of Location-based Total
Scope 1	**0**	**0%**
Gas	0	0%
Transportation (excluding grey fleet)	0	0%
Other Fuels	0	0%
Scope 2	**356**	**19%**
Scope 3	**1,486**	**81%**
1. Purchased Goods and Services	1,023	56%
2. Capital Goods	193	10%
3. Fuel-related Emissions	132	7%
4. Upstream Transportation and Distribution	19	1%
5. Waste Generated in Operations	3	0.2%
6. Business Travel	33	2%
7. Employee Commuting	82	4%
8. Upstream Leased Assets	N/A	N/A
9. Downstream Transportation and Distribution	N/A	N/A
10. Processing of Sold Products	N/A	N/A
11. Use of Sold Products	Unknown	Unknown
12. End-of-life Treatment of Sold Products	Unknown	Unknown
13. Downstream Leased Assets	N/A	N/A
14. Franchises	N/A	N/A
15. Investments	N/A	N/A
Total all Scopes	**1,842**	**-**

Our Environmental Initiatives

Operating responsibly is embedded throughout our culture and in embarking on the ESG journey we are at the start of understanding where we stand today with our carbon emissions and our wider impact on the environment. We will aim to use the information gathered this year to assess our impact before introducing initiatives to support our efforts of being a more sustainable business.

We have introduced several initiatives to reduce our impact across non-climate related areas such as waste reduction and sustainability projects.

Water

We do not operate in a high water intensive sector. Water consumption across the Group is for employee use only and kept to a minimum.

Reducing Waste

Despite SysGroup being a low waste business, we have introduced several initiatives to keep our waste production to a minimum where possible.

- Our offices are fitted with recycle bins and employees are encouraged to recycle to the fullest extent they can.
- We recycle our old IT equipment using CPR Computer Equipment Recycling (CPR). Partnering with CPR ensures our equipment is wiped to comply with GDPR, before it is restored to factory settings and recycled. The profits from retail sales are donated to UK charities.
- We ensured that old items were disposed of in a sustainable way when refurbishing our Newport office in April 2021. Plasterboard, metal, timber and cardboard waste was all split and recycled.

Sustainable Offices

We aim to partner with sustainable business and ensure our offices are built with as little impact as possible. When refurbishing our Newport and Manchester offices during the year, we partnered with companies who are committed to operating responsibly, operating an internal Environmental Policy.

With their support, we used furniture which was sourced ethically from sustainable sources and manufactured from recycled materials.

- LED lighting was installed throughout the site to reduce energy consumption.
- When remodelling our new Manchester office, we partnered with sustainable business' that use 100% renewable energy in their manufacturing.
- All packaging was made from 100% recycled materials, and the furniture itself, including desks, chairs, stools, sofas, and tables, being at least 99% recycled.
- We partnered with Silverline for our new office storage equipment which is manufactured with sustainably sourced steel.

CFO Statement

“SysGroup has made great progress in our baseline year in understanding the risks associated with climate change and assessing our impact on the environment.

We are delighted with our partnership with Inspired ESG in developing our ESG strategy and TCFD reporting. There is a lot of important work happening internally, and I am proud of our efforts in identifying and assessing the impact of climate-related risks and opportunities on our business over time.

While we recognise there is still work to be done, the data collection processes introduced have helped us understand our environmental impact and identify areas for improvement. We look forward to developing our TCFD reporting further as we work to set targets and create a net-zero roadmap.”

Martin Audcent,
Chief Financial Officer

SysGroup

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