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Alcontrol Holdings (Sweden) AB
Org nr 556664-7201

Fastställelseintyg

Undertecknad styrelseledamot intygar härmed dels att denna kopia av årsredovisningen överensstämmer med originalet, dels att resultat- och balansräkningen fastställts på årsstämma 2022-06-15. Stämman beslöt också att godkänna styrelsens förslag till resultatdisposition.

The undersigned board director hereby certifies that this copy of the financial statements is true and that the income and balance sheet are established at the Annual General Meeting 2022-06-15. The Meeting also decided to approve the Board's proposal to distribute retained earnings.

Linköping 2022-06-17

Johan Bengtsson
Board Member

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Styrelsen och verkställande direktören för

AlControl Holdings (Sweden) AB

Org nr 556664-7201

får härmed avge

Årsredovisning

för räkenskapsåret 1 januari 2021 - 31 december 2021

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Förvaltningsberättelse

Allmänt om verksamheten
Bolaget är ett helägt dotterbolag till SGS Société Générale de Surveillance SA med säte i Schweiz. ALcontrol Holdings (Sweden) AB är moderbolag för ALcontrol Sweden AB (556573-1519). SGS laboratorieverksamhet i Sverige bedrivs i ALcontrol Sweden ABs dotterbolag SGS Analytics Sweden AB (556152-0916). Bolagets säte är i Linköping.

Väsentliga händelser under verksamhetsåret
Bolaget förvärvades årsskiftet 2020/2021 av SGS SA, Société Générale de Surveillance SA.

Flerårsöversikt

	2021	2020	2019	2018
Nettoomsättning (tkr)	–	–	–	–
Resultat efter finansiella poster (tkr)	-2 262	-19 208	61 465	-14 460
Avkastning på eget kapital (%)	65,2%	65,2%	65,2%	65,2%
Soliditet (%)	75,5%	62,8%	55,8%	51,4%

Soliditet= justerat eget kapital i procent av balansomslutningen.

Förändring eget kapital

	Aktie-kapital	*Reserv fond*	*Fritt eget kapital*
Vid årets början	170 428 700	290 000	196 249 936
Årets resultat			-125 356
Vid årets slut	170 428 700	290 000	196 124 580

Förslag till resultatdisposition
Styrelsen föreslår att till förfogande stående vinstmedel,
kronor 196 124 580 disponeras enligt följande:

Balanseras i ny räkning	196 124 580
Summa	196 124 580

Vad beträffar företagets resultat och ställning i övrigt, hänvisas till efterföljande resultat- och balansräkningar med tillhörande bokslutskommentarer.

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Resultaträkning

Belopp i kr	*Not*	*2021-01-01 - 2021-12-31*	*2020-01-01 - 2020-12-31*
Rörelsens kostnader			
Övriga externa kostnader		–	-6 044 428
Rörelseresultat		–	-6 044 428
Resultat från finansiella poster			
Resultat från andelar i koncernföretag		–	372 896
Övriga ränteintäkter och liknande resultatposter	2	158	1 128 686
Räntekostnader och liknande resultatposter	3	-2 262 049	-14 665 378
Resultat efter finansiella poster		-2 261 891	-19 208 224
Bokslutsdispositioner			
Koncernbidrag, erhållna		2 136 535	87 100 000
Koncernbidrag, lämnade		–	–
Förändring periodiseringsfond		–	-15 737 970
Resultat före skatt		-125 356	52 153 806
Övriga skatter		–	-2 280 334
Skatt på fg års resultat		–	-10 103 776
Årets resultat		-125 356	39 769 696

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Balansräkning

Belopp i kr	*Not*	*2021-12-31*	*2020-12-31*
TILLGÅNGAR			
Anläggningstillgångar			
Finansiella anläggningstillgångar			
Andelar i koncernföretag	4	512 172 660	512 172 660
Fordringar hos koncernföretag		–	102 845 714
		512 172 660	615 018 374
Summa anläggningstillgångar		512 172 660	615 018 374
Omsättningstillgångar			
Kortfristiga fordringar			
Skattefordringar		777	619
		777	619
Summa omsättningstillgångar		777	619
SUMMA TILLGÅNGAR		512 173 437	615 018 993

Balansräkning

Belopp i kr	*Not*	*2021-12-31*	*2020-12-31*
EGET KAPITAL OCH SKULDER			
Eget kapital			
Bundet eget kapital			
Aktiekapital (1 704 287 aktier)		170 428 700	170 428 700
Reservfond		290 000	290 000
		170 718 700	170 718 700
Fritt eget kapital			
Balanserad vinst		196 249 936	156 480 240
Årets resultat		-125 356	39 769 696
		196 124 580	196 249 936
		366 843 280	366 968 636
Obeskattade reserver			
Periodiseringsfonder		25 071 702	25 071 702
		25 071 702	25 071 702
Långfristiga skulder	5		
Skulder till koncernföretag		110 154 680	210 594 546
Övriga skulder		–	–
		110 154 680	210 594 546
Kortfristiga skulder			
Skatteskulder		10 103 776	12 384 109
		10 103 776	12 384 109
SUMMA EGET KAPITAL OCH SKULDER		512 173 437	615 018 993

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Noter med redovisningsprinciper och bokslutskommentarer

Not 1

Belopp i kr om inget annat anges

Allmänna redovisningsprinciper

Årsredovisningen har upprättats i enlighet med årsredovisningslagen och BFNAR 2016:10 årsredovisning i mindre aktiebolag K2.

Fordringar och skulder

Fordringar har värderats till det lägsta av anskaffningsvärde och det belopp varmed de beräknas bli reglerade. Övriga tillgångar och skulder har värderats till anskaffningsvärden om annat ej anges.

Poster i utländsk valuta

Fordringar och skulder i utländsk valuta har värderats till balansdagens kurs. Kursvinster och kursförluster på rörelsefordringar och rörelseskulder redovisas i rörelseresultatet medan kursvinster och kursförluster på finansiella fordringar och skulder redovisas som finansiella poster.

Koncernuppgifter

Bolaget är ett helägt dotterbolag till SGS Société Générale de Surveillance SA med säte i Schweiz.
ALControl Holdings (Sweden) AB är moderbolag för ALcontrol Sweden AB.
Bolaget som utgör moderföretag för en koncern med dotterbolag upprättar ej koncernredovisning med hänvisning till reglerna i ÅRL 7 kap. 2§. Bolaget ingår i en koncern där SGS Group Management SA Genève, Schweiz uprättar koncernredovisning.

Personal

Bolaget har ingen anställd personal.

Bedömningsposter

Andelar i dotterbolag har ett bokfört värde som överstiger substansvärdet men inget nedskrivningsbehov anses föreligga utifrån den utvecklingen som förväntas i respektive dotterbolag. Nås inte den förväntade utvecklingen skulle ett framtida nedskrivningsbehov kunna uppstå.

Not 2 Övriga ränteintäkter och liknande resultatposter

	2021-01-01 - 2021-12-31	*2020-01-01 - 2020-12-31*
Ränteintäkter koncernföretag	–	1 128 686
Övriga ränteintäkter	158	–
	158	1 128 686

Not 3 Räntekostnader och liknande resultatposter

	2021-01-01 - 2021-12-31	*2020-01-01 - 2020-12-31*
Räntekostnader, koncernföretag	-2 262 049	-14 848 396
Kursdifferenser	–	183 018
	-2 262 049	-14 665 378

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Not 4 Andelar i koncernföretag

	2021-12-31	*2020-12-31*
Ackumulerade anskaffningsvärden		
Vid årets början	512 172 660	550 464 473
Förvärv	–	–
Avyttring	–	-38 291 813
Bokfört värde vid årets slut	512 172 660	512 172 660

Dotterbolag / org nr, säte	*Antal andelar / andel i %*	*Redovisat värde 2021-12-31*	*Redovisat värde 2020-12-31*
Alcontrol Sweden AB 556573-1519, Linköping	*1 000*	*436 536 371*	*436 536 371*
	100		
Alcontrol Holdings Norway Ltd, 07669084, UK	*1*	*75 636 289*	*75 636 289*
	100		

Not 5 Långfristiga skulder

	2021-12-31	*2020-12-31*
Förfallotidpunkt, inom fem år från balansdagen	110 154 680	210 594 546
Förfallotidpunkt, senare än fem år från balansdagen	–	–
	110 154 680	210 594 546

Not 6 Ställda säkerheter och eventualförpliktelser

	2021-12-31	*2020-12-31*
Ställda säkerheter	Inga	Inga
Eventualförpliktelser	Inga	Inga

Linköping 2022-03-31

Wim van Loon
Ordförande

Johan Bengtsson
Verkställande direktör

Michiel Ruikes

Vår revisionsberättelse har lämnats 2022- 04 -11

Deloitte AB

Johan Nilsson
Auktoriserad revisor

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Deloitte.

REVISIONSBERÄTTELSE

Till bolagsstämman i AlControl Holdings (Sweden) AB
organisationsnummer 556664-7201

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för AlControl Holdings (Sweden) AB för räkenskapsåret 2021-01-01 - 2021-12-31.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av AlControl Holdings (Sweden) ABs finansiella ställning per den 31 december 2021 och av dess finansiella resultat för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till AlControl Holdings (Sweden) AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om beslut har fattats om att avveckla verksamheten.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen och verkställande direktören använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.
- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen

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återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, därlbland de eventuella betydande brister i den interna kontrollen som vi identifierat.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för AIControl Holdings (Sweden) AB för räkenskapsåret 2021-01-01 - 2021-12-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till AIControl Holdings (Sweden) AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

Linköping 2022-04-11

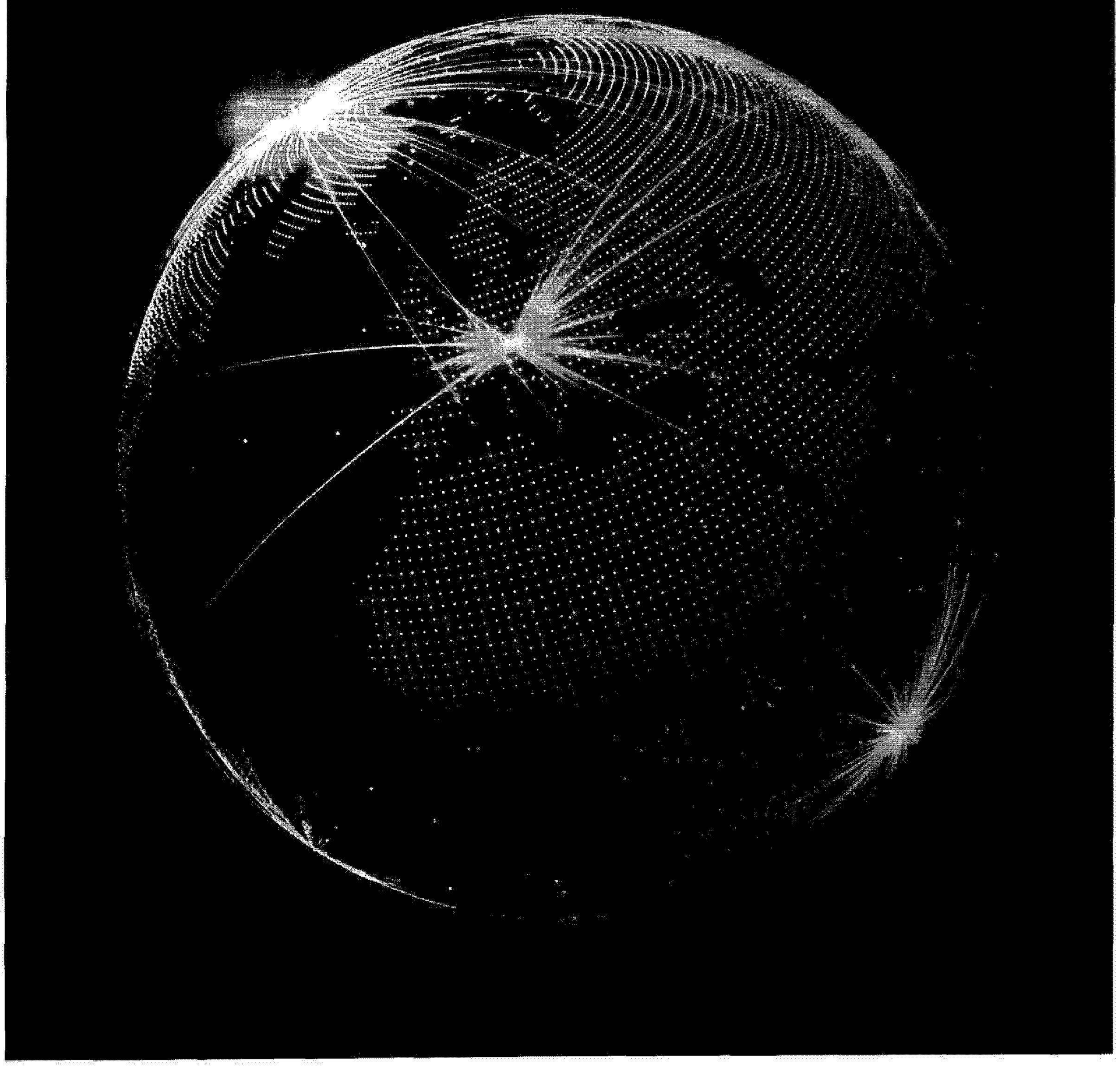
Deloitte AB

Johan Nilsson
Auktoriserad revisor

SGS

Enabling a better, safer and more interconnected world

SGS 2021 Integrated Report



Our global teams of highly qualified experts provide specialized solutions across our industries to enable a better, safer and more interconnected world, making business faster, simpler and more efficient.

Better means
We enable a better world by helping businesses everywhere to work efficiently, to deliver with quality, and to trade with integrity and trust.

Safer means
We enable a safer world by ensuring that your car is safe to drive, that the environment you work in is secure and clean, and that the food you eat is safe.

More interconnected means
We enable a more interconnected world by helping new technology to reach consumers quickly and affordably, by ensuring the security of IT systems and data, and by using AI and the Internet of Things to help develop smart cities.

Our Integrated reporting approach
The Integrated Reporting framework <IR> aims to create transparency. For the fourth consecutive year we have integrated our financial, operational and sustainability information in a single report – measuring our financial and non-financial performance across the six <IR> capitals. In addition to the information presented in this report, more detailed sustainability information is provided in our 2021 Corporate Sustainability Report.
www.sgs.com/en/annual-report

In this report

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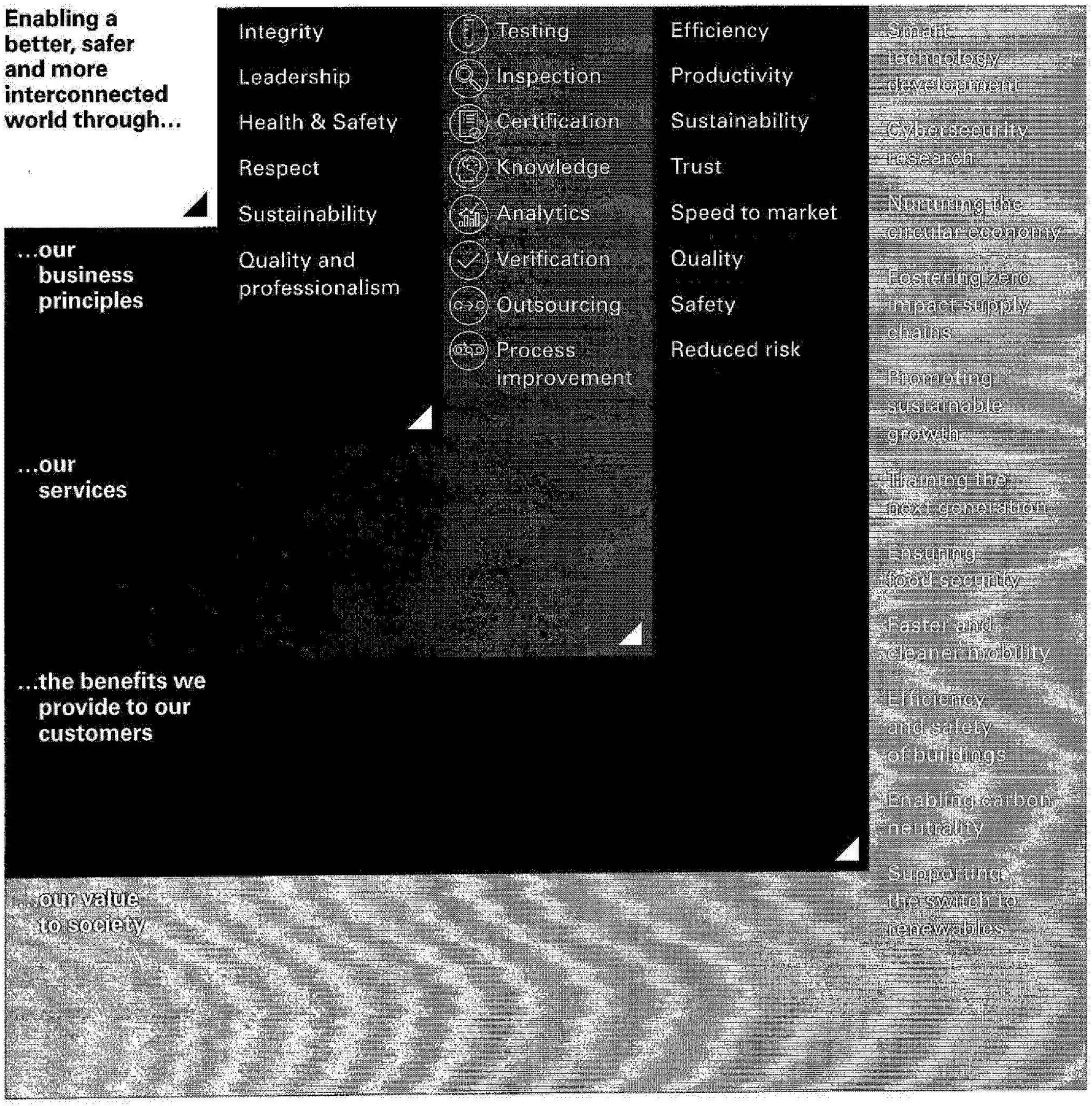
Creating value through purpose driven leadership

Our leading testing, inspection and certification services add measurable value to society, our planet, people and communities. They reduce risk, improve efficiency, safety, quality, productivity and sustainability, advance speed to market and create trust.

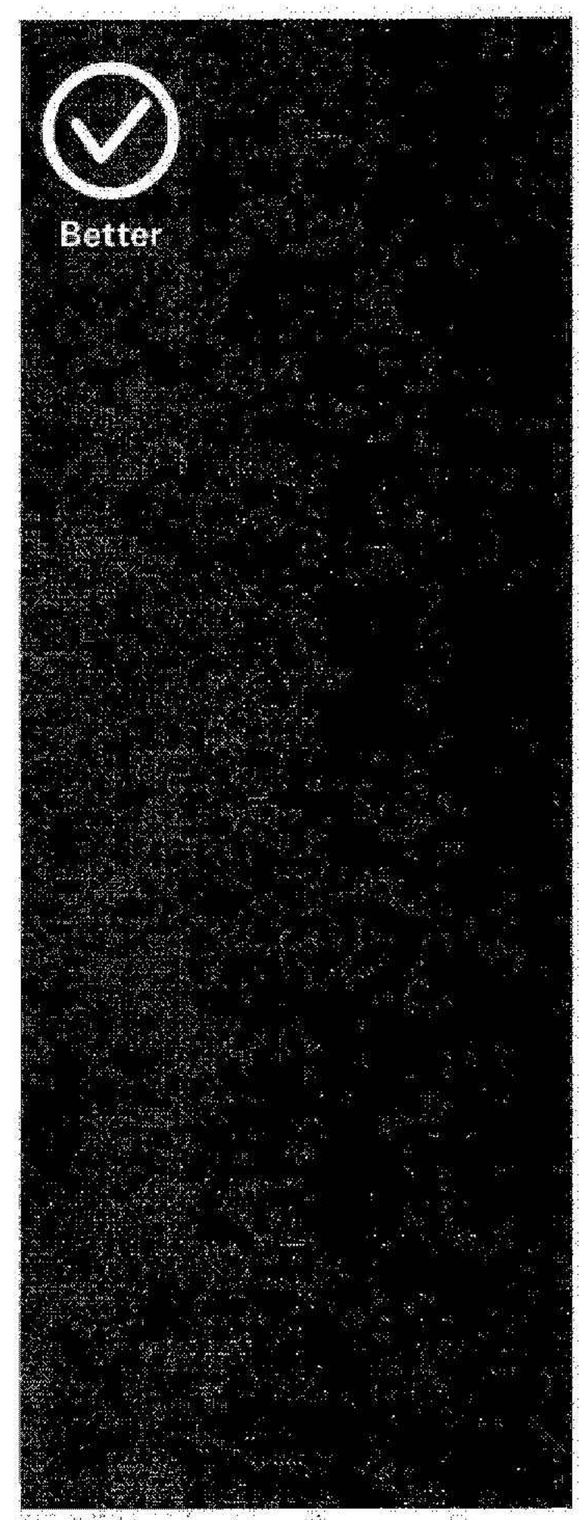


Case study

Bringing our Sustainability Solutions under one framework

Unifying our range of sustainability services provides greater visibility of our comprehensive range of services to support our customers and help them make a positive impact on the planet, people and communities that they touch.

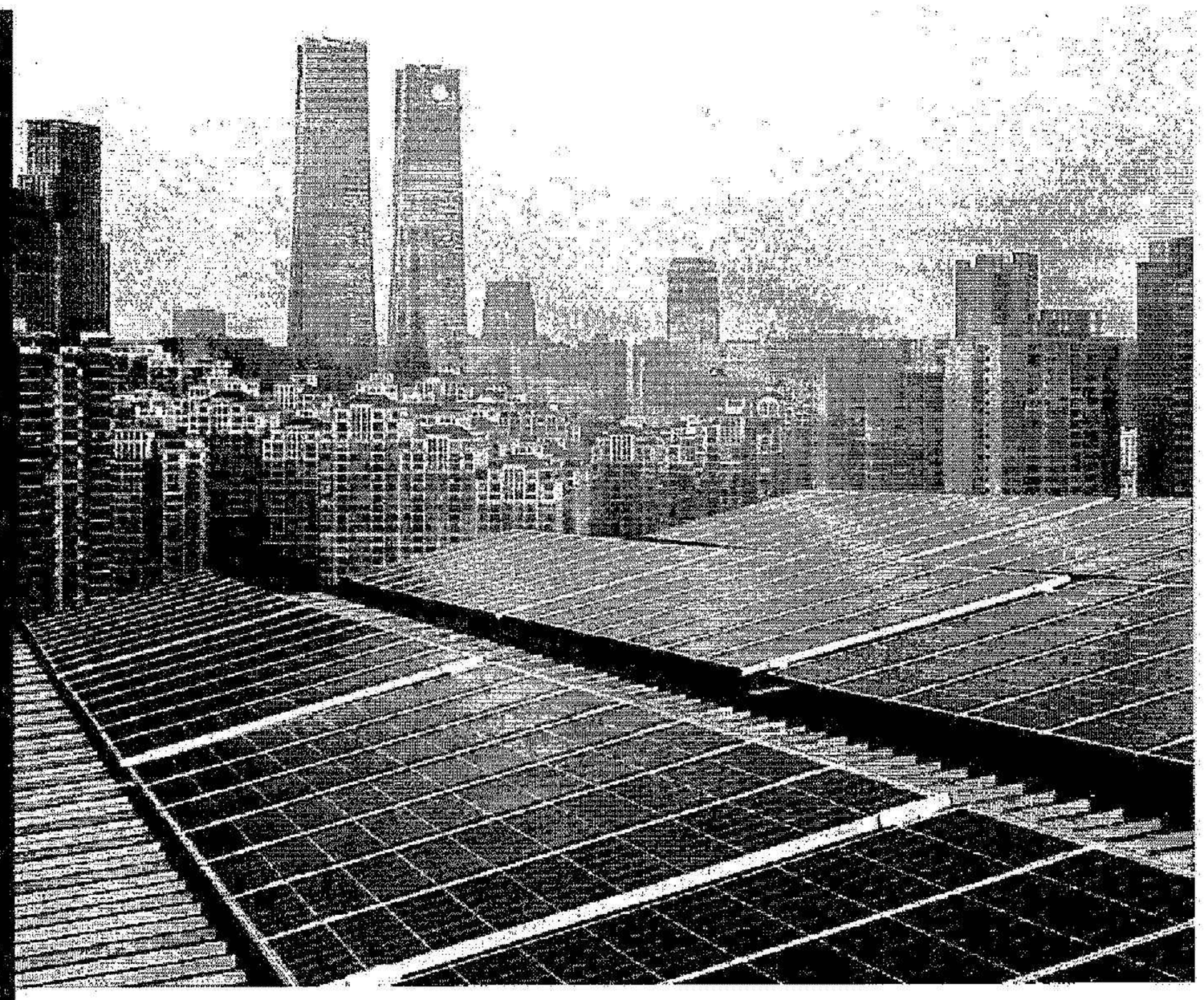
Better solutions





The challenge for our customers

More than ever before, consumers, investors and employees are demanding that companies go beyond simple compliance with sustainability requirements. In particular, they face increasing demands from the investment community to act in a sustainable manner and disclose the Environmental, Social and Governance (ESG) issues affecting their businesses.



Better means
We enable a better world by helping businesses everywhere to work efficiently, to deliver with quality, and to trade with integrity and trust.

1

framework unifying all sustainability services

6

sustainability pillars to support energy transformation

3

categories of new ESG Assurance Solutions

Our solution

In early 2021 we launched SGS Sustainability Solutions, unifying our comprehensive range of sustainability services across all divisions under one framework. We also aligned these solutions with key global sustainability initiatives such as the United Nations' Sustainable Development Goals (SDGs) and the Principles for Responsible Investment (PRI).

Our Sustainability Solutions are framed across six sustainable pillars: Resources, Energy, Production, Infrastructures, Living and Business Practices. These pillars allow us to focus on our carbon footprint consultancy services, business continuity and industrial safety, and supporting industries in their energy transition journey.

These services by definition enable our customers to improve their impact on the planet, people and communities in which they operate.

Our new portfolio of ESG Assurance Solutions, launched in March 2021, is an important part of our Sustainable Business Practices pillar. This includes new and existing services in three categories: ESG Certified, ESG Verified and ESG Optimized. SGS has delivered new services in all these categories to customers in a range of sectors located in North and South America, Europe, Africa and Asia.

Next steps

We recognize that the TIC industry is at an early stage in its development of new sustainability solutions. Our framework includes our existing Sustainability Solutions, but will also support the development of new services across ESG Assurance Services, Energy Transition, Responsible Supply Chain and Traceability. For example, a stronger understanding of the voice of the customer has helped us increase the breadth of our services in waste in construction and manufacturing.

Read more online at **www.sgs.com/en/sustainability-solutions**

Watch our case study film by scanning the QR code or click here

Case study

Improving air quality in the Boston School District

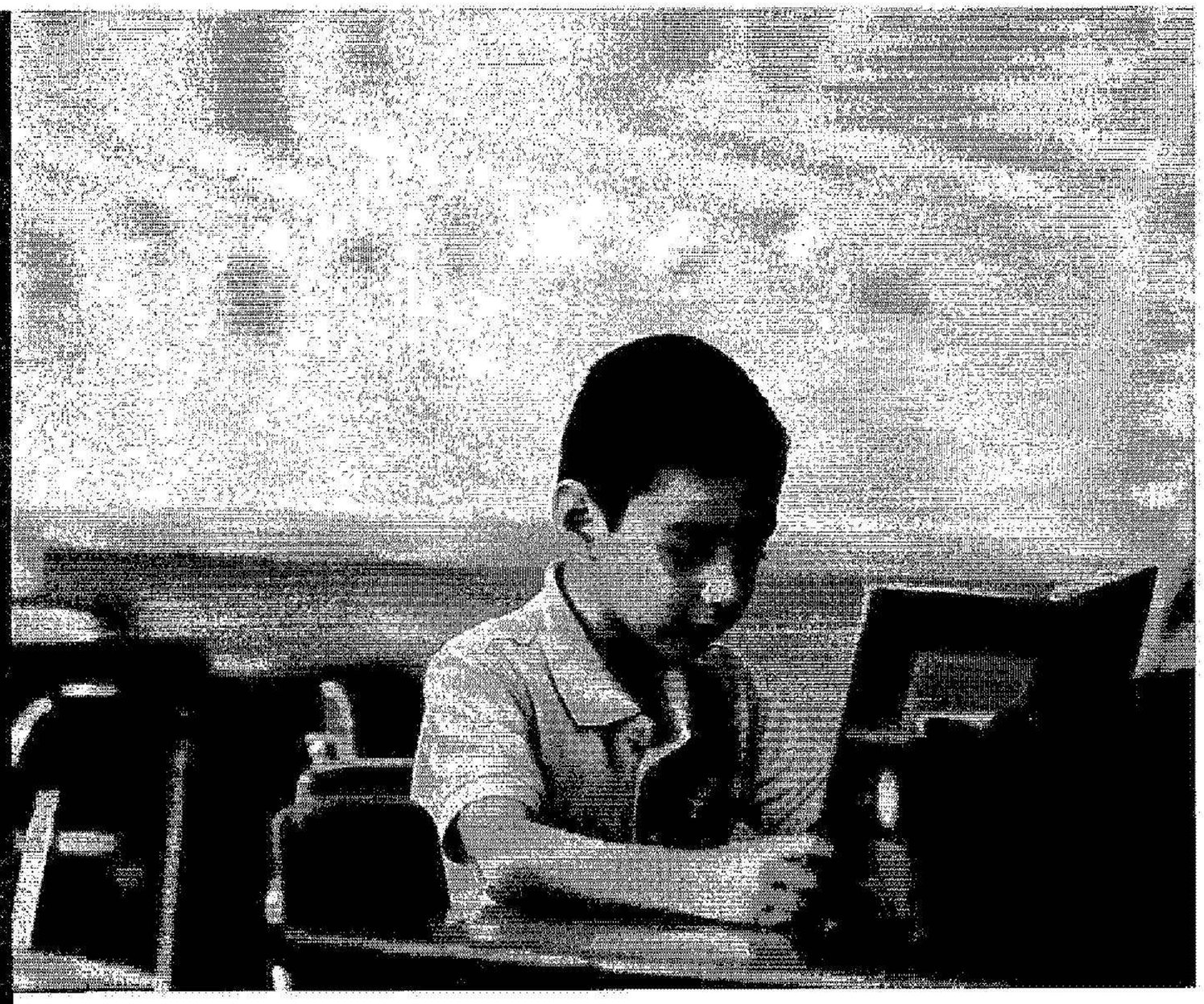
Our innovative 'Internet of Things' (IoT) solution, SGS SmartSense, uses cloud-based continuous monitoring to monitor air quality for the Boston School District (BSD).



Safer working environment

The challenge for our customer

The BSD is the oldest public-school system in the US, and issues with air quality in their buildings could affect the learning experience for its 54 000 students. Detecting and solving such problems is a vital part of providing the best possible environment for the students, teachers and staff across BSD's 125 schools.



Safer means
We enable a safer world by ensuring that your car is safe to drive, that the environment you work in is secure and clean, and that the food you eat is safe.

54 000
students in the Boston schools district with poor air quality

5 000
number of real time measurement points collected by SGS SmartSense

$5.3m
landmark contract for Industries & Environment (I&E) to provide air monitoring services

Our solution

After winning a public tender, SGS entered a three-year contract to provide air monitoring services to the BSD in March 2021. What set us apart from the competition was the level of competence and technical expertise demonstrated by our infrastructure teams. SGS offered advanced solutions for industrial hygiene, including 'Internet of Things' Technology (IoT) with our cloud-based continuous monitoring and sampling system, SGS SmartSense.

Collecting exposure data 24/7 for Indoor Air Quality, SGS SmartSense is able to provide around 5 000 real-time measurement points that make a real difference to the BSD, and provide them with easy access to air quality profiles, downloads, warnings and reports. The schools occupy several old buildings and presented a number of additional challenges that we had the capability to address. In addition to assessing the air quality, we identified asbestos in the buildings and even lead in some of the water pipes.

Next steps

SGS SmartSense enables customers to monitor volatile organic compounds (VOCs), carbon monoxide, temperature, pressure, humidity and other contaminants from anywhere in the world. It also measures temperature, relative humidity and barometric pressure, and can be augmented with up to five additional sensors with the ability to add noise, particle, wind and sample capture.

This contract with BSD is an important landmark for our Industries & Environment division's Building & Infrastructure strategy. It has contributed towards our target of achieving 50% of our revenue through Sustainability Solutions, and has also highlighted how we can assist our customers to make their buildings safer, smarter, healthier and greener globally.

Read more online at **www.sgsgalson.com/healthy-school-buildings**

Watch our case study film by scanning the QR code or click here

Case study

SGS Brightsight – the world's leading independent security evaluation lab

With over 35 years of experience in evaluating IT products in different industries, SGS Brightsight supports companies in complying with the latest security regulations and requirements.

More interconnected More secure



The challenge for our customers

With the rapid evolution of new technologies based on the use of 5G, the 'Internet of Things' (IoT) or 'Artificial Intelligence' (AI), businesses that rely on them are facing new and complex challenges. Customer demand for stronger and more technical cybersecurity assessments and testing is rapidly growing, partly driven by increasing pressure from authorities and new regulations.



More interconnected means
We enable a more interconnected world by helping new technology to reach consumers quickly and affordably, by ensuring the security of IT systems and data, and by using AI and the Internet of Things to help develop smart cities.

170
security evaluators with the acquisition of Brightsight

700
number of security projects each year by SGS Brightsight

50
laboratory set ups

Our solution

Through our Connectivity & Products division, we aim to offer our customers a complete range of global solutions that verify the quality, regulatory conformity and performance of their products. There is a growing demand from individuals and organizations for information security, data protection and cybersecurity.

The acquisition of Brightsight in May 2021 materially accelerates our global strategy to become the global TIC leader in cybersecurity. With an independent network of laboratories headquarted in the Netherlands, 145 highly qualified employees and local offices in Barcelona, Madrid, Graz (Austria), Meyreuil (France), Beijing and Taipei, SGS Brightsight is an accredited expert in cybersecurity. Its product range includes bank cards, mobile payment systems, payment terminals, and electronic identity solutions such as electronic passports. Its quality management system is also ISO 17025 certified.

A product evaluation from SGS Brightsight gives our customers access to the markets they want to serve with their products. With more than 170 security evaluators in different countries, the company has the capacity to complete over 700 security projects each year for more than 100 leading Cloud and Silicon customers worldwide. SGS Brightsight has more than 55 laboratory setups that evaluate and certify IT products across a range of areas including perturbation attacks, side-channel attacks, reverse engineering and physical attacks, software-based security and IT vulnerabilities.

Next steps

As more and more products are connected, our customers face new challenges to ensure that their products are not only safe to use, but that they are also secure. Serving this growing need for higher standards of security is crucial for SGS, and we continue to build on our reputation and track record to drive future sales of our cybersecurity services.

SGS Brightsight balances the right level of security for our customers with time to market for their products. Our experts also provide up-to-date information on market developments to further develop our customers' capabilities in the areas of security technologies, regulations and standards.

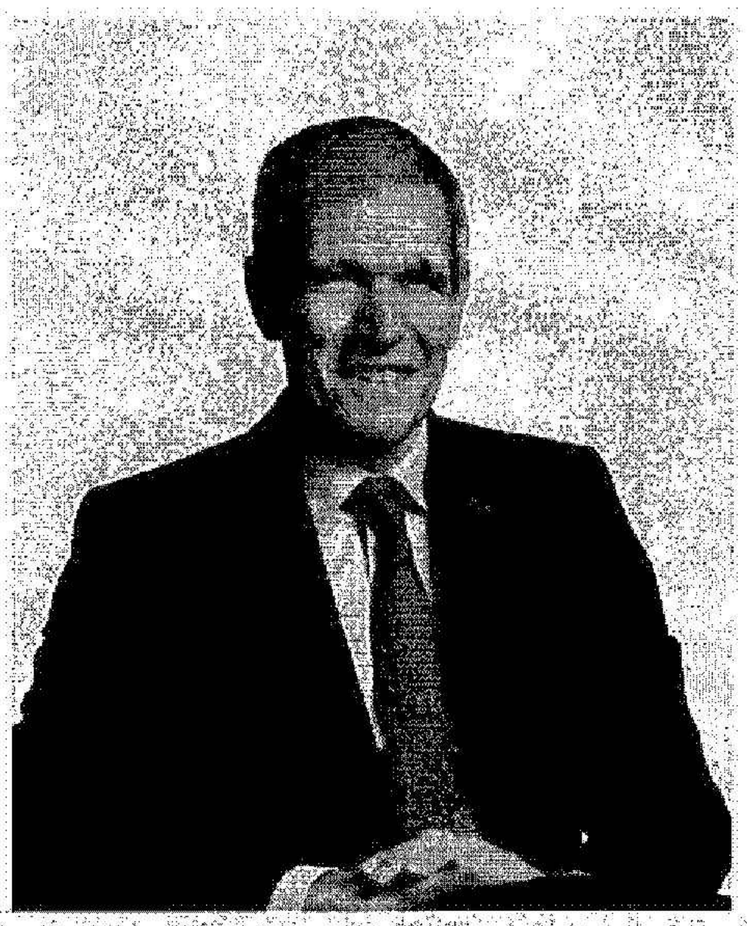
The cybersecurity market is developing rapidly and requires a broad service scope. SGS Brightsight's expertise is testing connected products (including hardware/software) and connectivity (IT and Cloud). We expect to see strong synergies from SGS Brightsight across the business, in particular in our operations in Asia.

Watch our case study film by scanning the QR code or click here

Read more online at **www.brightsight.com**

Letter to stakeholders – building a thriving future for SGS

Implementing the next phase of our strategic evolution in 2021 is increasing the cooperation and agility across our global network. This is helping us leverage our expertise and competence, specifically in our key focus areas, and is making SGS more digital and sustainable.



Calvin Grieder
Chair of the Board of Directors



Frankie Ng
Chief Executive Officer

Dear stakeholders,

We were excited to start the implementation of our new strategic plan at the beginning of this year, and we have already made significant progress in deploying it across our network.

The strategic plan puts a renewed emphasis on market leadership through: digital innovation, 'thinking sustainably', including further integrating our non-financial and financial objectives. It also aligns SGS more explicitly to the five key TIC growth megatrends of: Connectivity, Nutrition, Health & Wellness, Sustainability & Climate, Infrastructure, and Consumer Empowerment.

Our people, our colleagues remain our key success factor and their energy and passion makes us unique. It is through their hard work and commitment to supporting our customers, that SGS has delivered another strong operational performance in 2021. At the same time, they continue to deal with personal and professional Covid-related challenges, and regrettably, for some, tragedies in their personal lives.

We are making significant investment in our employees and platform to reinforce our leadership positions in the TIC industry and build a thriving future for SGS. As we continue to execute our strategy, we are evolving into an even more sustainable, digital and data-driven company, fully capable of supporting our commitment to enabling a better, safer and more interconnected world for all our stakeholders.

Organic* revenue growth of 8.9% and an increase in adjusted operating income margin* from 16.1% in the prior year to 16.5% were supported by strong cost discipline and economic value-added performance management. Cash flow from operating activities was CHF 1 169 million, comparable with prior year. Higher profit was offset by a higher net working capital requirement to support the recovery of activity in 2021. Operating net working capital remained negative as a percentage of revenue at (2.4)% compared to (2.5)% in prior year. The strong operating performance was supported by our pricing initiatives and cost control in an inflationary environment.

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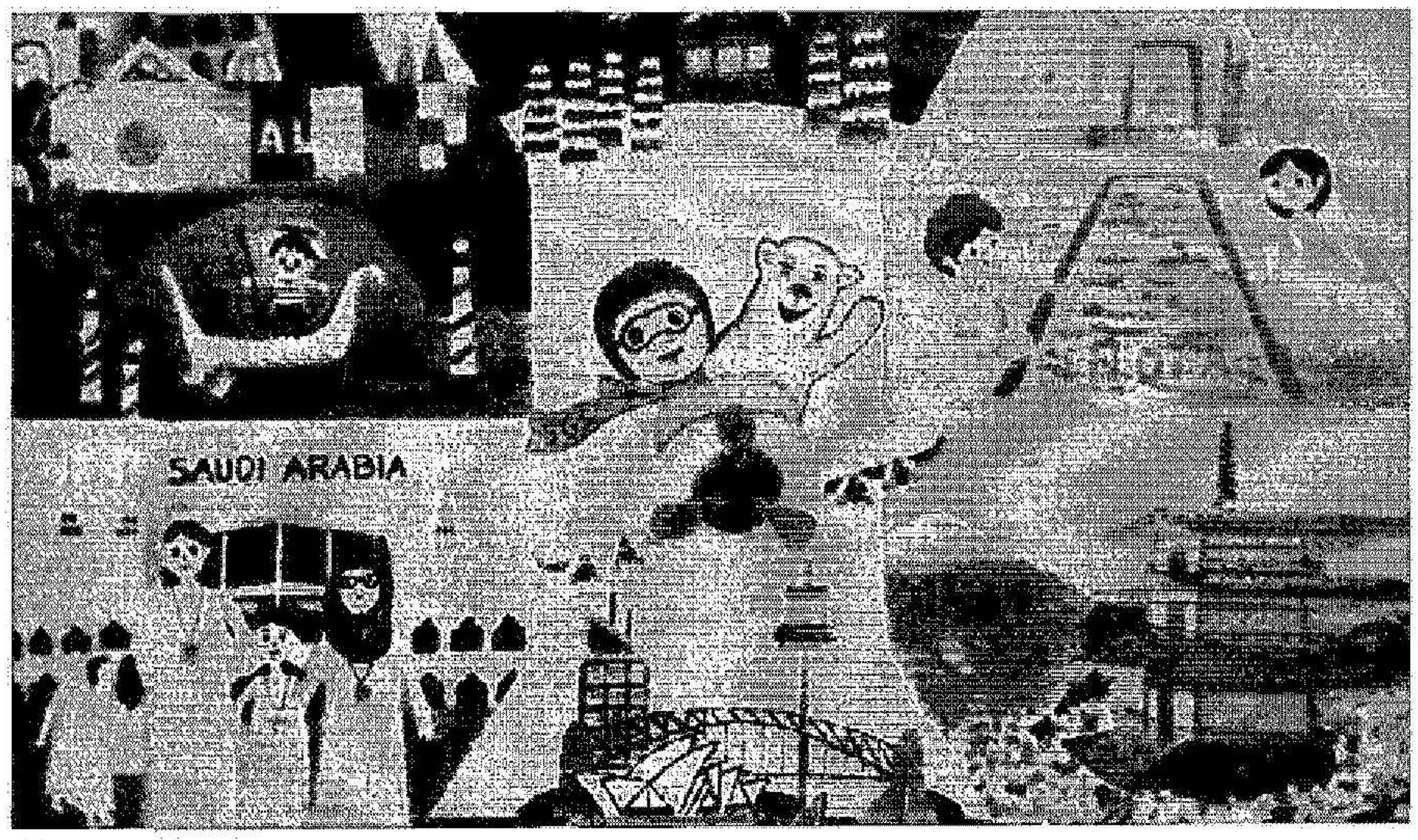
"Our investment in and commitment to supporting our customers more sustainably and digitally is fundamental to our growth and success. Multiplied by the commitment of our colleagues, we are building a thriving future for SGS."

Calvin Grieder
Chair of the Board of Directors



The SGS family is a wide and diverse community spread around the globe. To celebrate it, we organized a drawing contest for the children of all our employees where we asked them to draw what they like the most about their locations or what parts of the world they would like to visit. The almost 2 000 drawings we received highlight the talent, diversity and wanderlust of our little artists.

Key highlights from the year

- Launched Sustainability Ambitions 2023/2030 driving a 'thinking sustainably' approach to engaging with stakeholders
- Accelerating net capex to 5.1% of Group revenue by allocating more operational capital to structurally growing markets
- Investing significantly in Digital & Innovation to create new products and services, improve customer experience and automate operations
- Introduced our Sustainability Solutions Framework to further support our customers to achieve their sustainability goals
- Nine acquisitions further aligning our portfolio with our focus on megatrends

Learn more about the highlights this year. Watch our highlights film 2021 online at **sgs.com/2021highlights**

Revenue

CHF 6.4 BN

+14.2%[1] +8.9% organic*

Value to society calculated in 2021 for 2020

CHF 5 496 MIO

Adjusted operating income margin*

16.5%

+0.4pp[1,2]

A year of strategic evolution

Implementing the next phase of our strategic evolution has fostered increased cooperation and agility across our global network. It has further brought together and built upon our competence across our global network, specifically in our strategic focus areas. Only by positioning our global network for future customer demand can we ensure a thriving future for SGS. Our culture of 'thinking sustainably' when dealing with all stakeholders, and our investment in digital are significant catalysts in the process.

We have increased our net capex to 5.1% of Group revenue. This has enabled us to accelerate our digital transformation and build exciting new services. We are the global leader in three of our divisions: Knowledge, Natural Resources and Connectivity & Products. We are targeting a leadership position in Environment, Health & Safety services in Industries & Environment, and to reach over CHF 1 billion of revenue in Health & Nutrition.

We continue to improve the operational excellence. For example, as part of our long-term strategic global World Class Services (WCS) program, 12 of our laboratories achieved their first external audits and other sites are getting closer to this milestone.

In terms of strategic portfolio evolution, we acquired Brightsight, the world's leading cybersecurity evaluation laboratory network for chip-based secure payment systems, secure identity solutions and IoT platforms. This acquisition materially accelerates our strategy to become the global TIC leader in cybersecurity. We made four acquisitions to increase our presence across the health sciences, food and cosmetics supply chains. This includes Quay Pharmaceuticals Limited, a leader in formulation research and development, further expanding our positioning along the Health Science supply chain. We also continued to integrate SGS Analytics, acquired in December 2020, which significantly accelerates our European hub and spoke laboratory model in high-volume environmental testing.

1. Constant currency (CCY)*.
2. Percentage points.

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

Letter to stakeholders
continued

"Our key success factor remains the dedication and dynamism of our colleagues. It is through their hard work and commitment to supporting our customers, that SGS has delivered another strong operational performance this year."

Frankie Ng
Chief Executive Officer

Thinking sustainably at SGS

A large number of ESG related regulations are expected to be enacted over the next few years and we are positioning SGS to support our customers to meet them. Pressure is growing to move from voluntary to mandatory sustainability reporting disclosures, which will then trigger changing behavior across the supply chain, and represents a significant opportunity for the TIC industry.

To further support our customers to achieve their sustainability goals, we introduced our Sustainability Solutions Framework. This unifies our comprehensive range of existing and new innovative services aligned with the UN Sustainable Development Goals. It increases the visibility of the value to society of our current services and provides a platform for the launch of new sustainability solutions to complement them. By 2023, we aim to generate more than 50% of our revenues from sustainability solutions across our global network.

We have further aligned our capital allocation decisions and management incentivization to sustainable criteria. Progress was through: launching a €1 billion sustainability-linked revolving credit facility; further elevating sustainability factors in the Operations Council capex approval process; introducing sustainability KPIs in both our short-term and long-term management incentivization.

Finally, in 2021, we launched our Corporate Sustainability Ambitions 2030, including our most challenging targets yet for 2023 and 2030. These are directly linked to our strategic evolution, span our entire value chain, and are factored into our capital allocation and management remuneration.

Our new targets are built around three pillars:

- Better governance, upholds our standards of excellence and integrity, enhances our information governance framework and extends our sustainability principles to our supply chain
- Better society ensures equal opportunities, investing in our employees and communities, occupational health and safety and human rights compliance
- Better planet is our climate change strategy, reducing energy consumption at source, using renewable energy whenever possible, and off-setting residual emissions. We have been carbon neutral since 2014 and we were one of the first companies to set science-based targets for 2025 and 2030. Following our climate strategy, we are now committed to the Business Ambitions for 1.5 degrees and to Net-Zero

Following the AGM we will appoint a dedicated Sustainability Committee of the Board to reflect its growing importance to all our stakeholders and build on the substantial work already achieved by the company and its employees.

Digital service innovation

Our vision is to become the most digital company in the TIC industry. As part of this process, we have accelerated our Digital & Innovation strategy to create new products and services, improve customer experience and automate our operations.

Tangible progress in 2021 includes: establishing an emerging technology competence center, developing digital, IoT and AI centers of excellence, and partnering with Microsoft to accelerate the process; implementing process, governance and KPIs to ensure progress; we now have more than 150 different projects across the organization today where digitalization plays an important part.

Data is increasingly a prerequisite for our customers and society, and SGS is on the path to becoming a data-driven company. To help us achieve this goal, we are evolving to fully harmonized Laboratory Information Management Systems (LIMS) that will help us create Digital Labs with harmonized data that can then benefit fully from AI, Machine Learning and predictive analysis. This will enable our customers to connect and integrate with our data platform. It also materially improves the customisation of our service offering. This will significantly improve customer experience and enhance both their and our operational efficiency.

Our digital innovation is concentrated on three main areas:

- Automating our existing operations for efficiency and effectiveness, such as: container inspection and reporting, monitoring stock volume, and next generation performance testing for consumer products
- Digitalizing 30% of our customers' journeys through our new digital hub by 2023
- Creating new solutions and business models that can add significant value to our service offering

2022 Outlook

- Mid single-digit organic growth
- Improving adjusted operating income benefiting from operational leverage
- Strong cash conversion
- Maintain best-in-class organic return on invested capital*
- Accelerate investment into our strategic focus areas with M&A as a key differentiator
- At least maintain the dividend

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

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Planet, Performance and People

Our 2020-23 strategic evolution further integrated our financial and non-financial objectives by setting together our three target criteria: Planet, Performance and People.

Planet	Performance	People
Reducing our CO_2 emissions Support the transition to a low-carbon world by meeting our Science-based Target of reducing our CO_2 emissions per revenue by 35%[1]	**High single-digit constant currency revenue Compound Annual Growth Rate (CAGR)** Driven by mid single-digit organic* growth per annum and a focus on M&A	**Ensuring diversity** Nurture diversity and inclusion based on merit by ensuring equal opportunity to all employees and evolving our gender diversity to 30% women in leadership at CEO-3 positions and above
Sustainability solutions Support our customers on their journey to sustainability by increasing the proportion of revenue generated by our sustainability solutions to above 50%	**> 10% adjusted operating income* CAGR**	**World Class Service (WCS)** Promote a culture of operational safety, efficiency and excellence through our WCS program: 20% of our WCS labs (2020 perimeter) reaching WCS Bronze award level
Integrity principles Reduce the impact that our supply chain has on society by committing our strategic suppliers to support our integrity principles	**Strong Economic Value Added discipline (EVA)**	**Supporting personal development** Support the personal development of our employees by increasing the completion rate of job-related training by 10%[2]
Energy efficiency Increasing annually the number of energy efficiency measures in our 100 most energy intensive owned buildings	**Maintain or grow the dividend per share**	**Positive impact on communities** Increase by 10%[2] our positive impact on our communities through employee volunteering, focusing on vulnerable groups including those affected by pandemics

1. Against a 2014 baseline.
2. Against a 2019 baseline.

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

Management changes

Jessica Sun joined the SGS Group as Senior Vice President of Human Resources and has been appointed to the Operations Council. José María Hernández-Sampelayo (formerly Senior Vice President of Human Resources) stepped down from the Operations Council to take the role of Vice President of Group Strategic Projects.

Steven Du has been appointed Chief Operating Officer of North East Asia replacing Helmut Chik who has decided to leave the SGS Group to pursue other interests.

We would like to thank José María and Helmut for their dedication and contributions to the Operations Council and Helmut for his significant contribution to the SGS Group.

Board changes

On 23 March 2021, Janet S. Vergis was elected as a member of the Board of Directors bringing over 30 years of experience in positions of responsibility in research & development, new product development and sales & marketing in the healthcare industry.

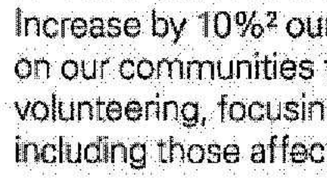
François von Finck, Gérard Lamarche and Cornelius Grupp did not stand for re-election. SGS would like to thank them for their long-term support and direction. We appreciated their vast leadership experience.

Distribution to shareholders

The SGS Board of Directors will recommend to the Annual General Meeting (to be held on 29 March 2022) the approval of a dividend of CHF 80 per share.

Significant shareholders

As at 31 December 2021, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 19.11% (December 2020: 18.91%) of the share capital and voting rights of the company. At the same date, the Group held 0.04% of the share capital of the company (December 2020: 1.28%).



Calvin Grieder
Chair of the Board of Directors



Frankie Ng
Chief Executive Officer

Financial results

Our strong 2021 performance has confirmed our strategic focus. Combined with the investment in our platform we are building a thriving future for SGS.

Revenue

CHF 6.4 BN

+14.2%[1] +8.9% organic*



Adjusted operating income*

CHF 1 055 MIO

+16.8%[1]



Adjusted operating income margin*

16.5%

+0.4pp[1,3]



Profit for the period

CHF 655 MIO

+29.7%



Basic earnings per share

CHF 81.91

+27.9%



Proposed dividend

CHF 80



Free cash flow*

CHF 635 MIO

(16.2)%



Return on invested capital*

19.6%

+3.1pp[3]



Acquisitions completed in 2021

9



1. Constant currency (CCY)*.
2. 2020 ROIC at 20.9% when adjusted for SYNLAB Analytics & Services (A&S) acquisition completed on 31 December 2020.
3. Percentage points.

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

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Sustainability Ambitions 2030

Meeting our commitments to environment and society

We launched our Sustainability Ambitions 2030 focusing on three pillars: better governance, better society and better planet. These targets will be achieved by our colleagues 'thinking sustainably' when engaging with all stakeholders.

Delivering our strategic pillars

Sustainability is fundamental to what we do and how we behave as a company.

Rankings and ratings

CDP DISCLOSER 2021

A-, climate management and disclosure, CDP

SUSTAINALYTICS

Low Risk Sustainalytics

MSCI ESG RATINGS AAA

AAA, MSCI ESG rating

ISS ESG Prime

PRIME rated, ISS ESG Corporate Rating

PLATINUM 2022 ecovadis

Platinum, Ecovadis Sustainability Rating

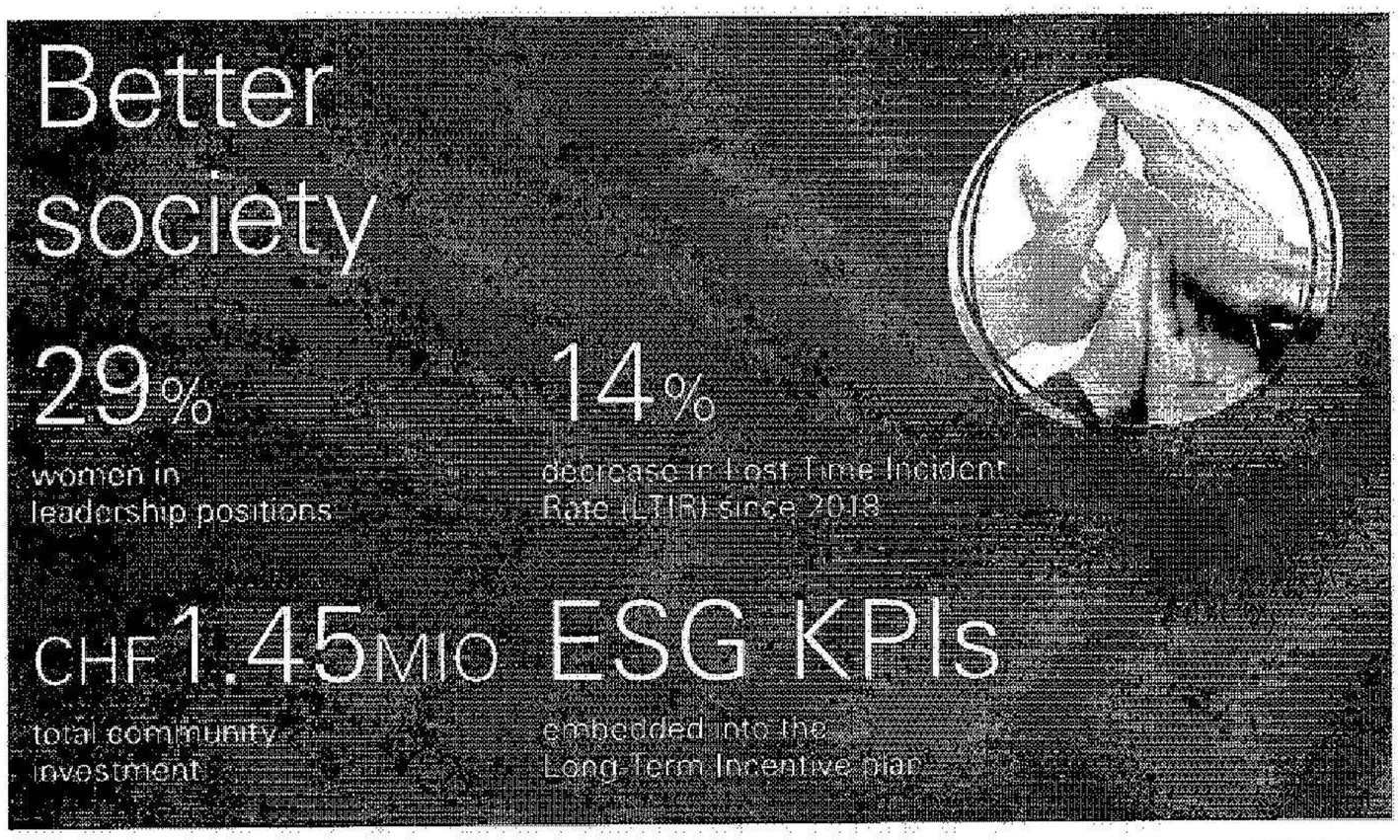
FTSE4Good

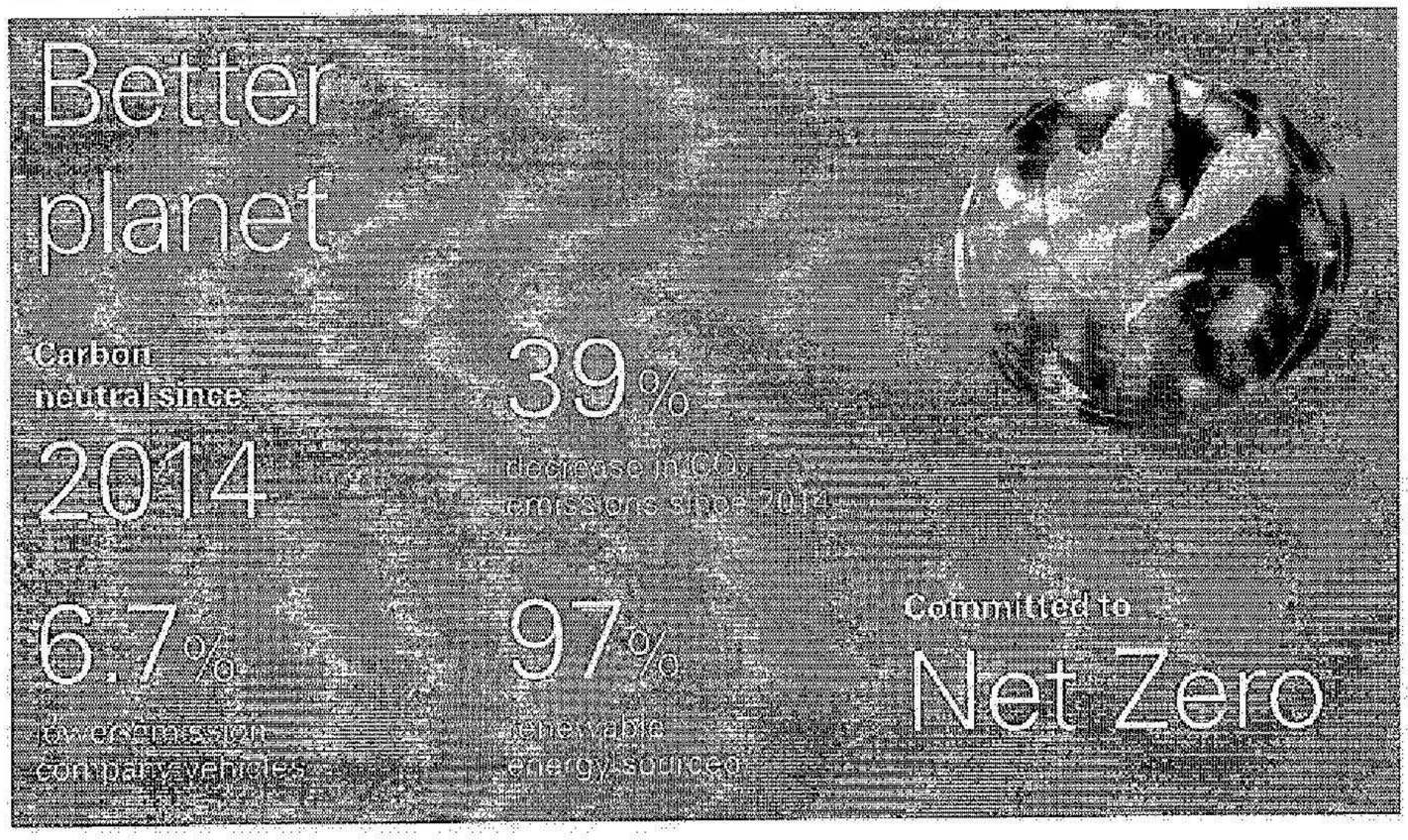
Constituent, FTSE4Good Index 4 consecutive years

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

of Dow Jones Sustainability Indices (World and Europe)







1. KPIs include women in leadership, CO_2 emissions and safety LTIR.
2. Under the Facility, SGS is committed to meeting ambitious targets for the following three sustainability-linked key performance indicators (KPIs), which are an integral part of our SA30: (1) CO_2 emissions, (2) women in leadership positions, and (3) Lost Time Incident Rate.

Our Company



Our seven regions

SGS operates in 125 countries. This makes us truly global and focused on the impact we have on the planet.

Americas

18.9%

of total SGS revenue

North America

Latin America

Our five divisions

1 Connectivity & Products

Making products better, safer and more sustainable in a more connected world. Our experts support brands, manufacturers, retailers and governments across the supply chain with the performance, safety, security and quality of their products and services.

Adjusted operating income

CHF 316 MIO

Adjusted operating income margin

24.5%

⊕ Read more on page 44

2 Health & Nutrition

We help customers meet stringent standards along their supply chain and improve the quality of life in society by assuring the quality, safety, sustainability and security in the health, wellness and nutrition industries.

Adjusted operating income

CHF 149 MIO

Adjusted operating income margin

17.3%

⊕ Read more on page 44

3 Industries & Environment

As organizations transition towards cleaner and sustainable energy solutions, Environmental responsibilities are paramount and our innovative solutions enable safer, greener and smarter infrastructure, transportation and industries.

Adjusted operating income

CHF 240 MIO

Adjusted operating income margin

11.3%

⊕ Read more on page 45

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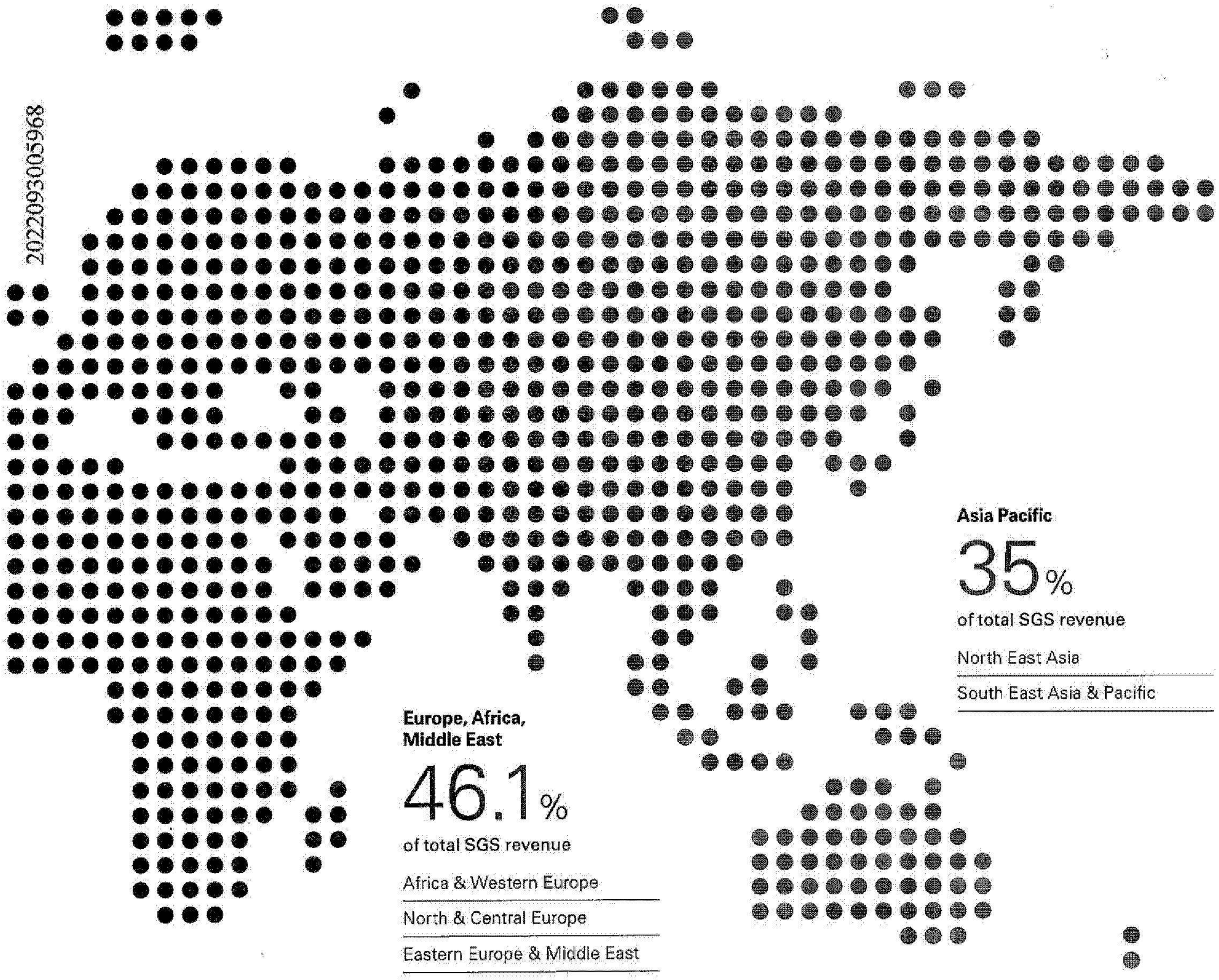


Asia Pacific

35%

of total SGS revenue

North East Asia

South East Asia & Pacific

Europe, Africa, Middle East

46.1%

of total SGS revenue

Africa & Western Europe

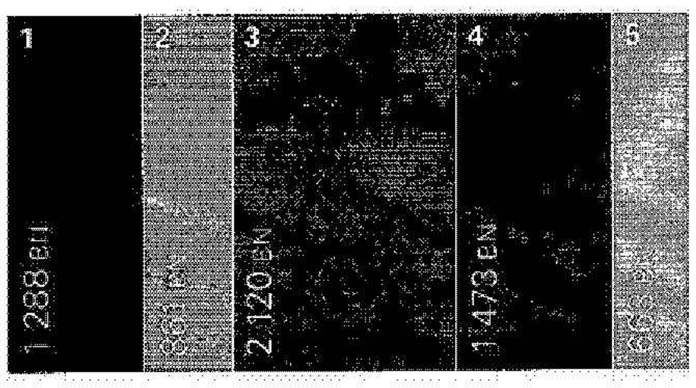
North & Central Europe

Eastern Europe & Middle East

Revenue by division

Total

CHF 6 405 MIO



1. Connectivity & Products	20%
2. Health & Nutrition	13%
3. Industries & Environment	33%
4. Natural Resources	23%
5. Knowledge	11%

4

Natural Resources

Our global network of trusted, independent and committed experts delivers pivotal solutions to the agricultural, mining, oil, gas and chemical industries, supporting quality, safety, efficiency and sustainability goals, across the supply chain.

Adjusted operating income

CHF 210 MIO

Adjusted operating income margin

14.3%

Read more on page 45

5

Knowledge

Through the expertise and knowledge of our people, processes and technology we help organizations to improve results, navigate risk, comply with regulatory obligations, adopt best practice and reach their sustainability requirements.

Adjusted operating income

CHF 140 MIO

Adjusted operating income margin

21.1%

Read more on page 45

Positioning SGS to meet customer demand

We have integrated the five interconnected TIC megatrends into our long-term strategic thinking and mapped them to our five divisions. This ensures that SGS is ready to meet customer demand in the structurally growing markets and we are focused on addressing some of the planet and society's largest challenges.

The five megatrends impacting on society

1 Connectivity

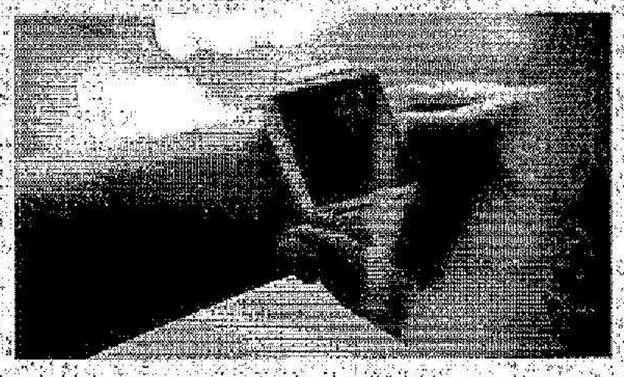


According to the World Economic Forum, access to the internet has doubled since 2010.[1] The emergence of new technologies such as 5G, the IoT and AI are combining to transform the way products are produced. We are entering a new era where networks of machines that are digitally connected through cyber-physical systems are sharing information often without human involvement. A more connected world brings both opportunities and challenges to society. Brands, manufacturers, retailers and governments must ensure the safety, quality and regulatory conformity of their products and services. They need to deliver safe, accessible, high quality products and services in stores and online, ensure secure connectivity and reduce risks for all stakeholders.

$10.5tn

is the estimated annual cost of cybercrime by 2025[2]

2 Nutrition, Health & Wellness

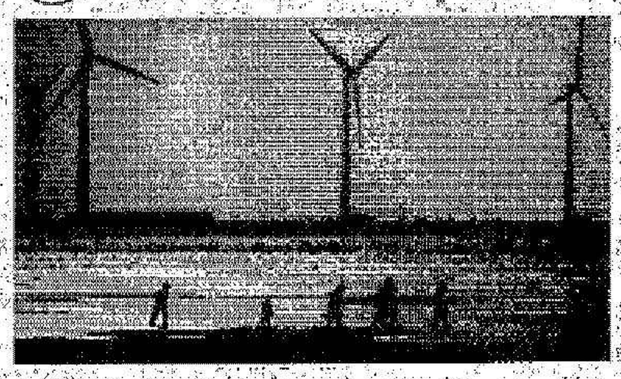


The nutrition, health, wellness industries are converging, responding to consumer demands for healthier lifestyles and well-being. McKinsey estimates the global wellness market at more than $1.5 trillion[3], with annual growth of 5-10%. A rise in both consumer interest and purchasing power presents tremendous opportunities for companies, particularly as spending on personal wellness rebounds after stagnating or even declining during the Covid-19 crisis. Consumers need to know that the food they eat, the medicines, cosmetic and hygiene products they use are safe and will not harm them. Companies need to be able to demonstrate the safety, security, quality, sustainability, authenticity and efficacy of food, healthcare and wellness products.

80%

of survey respondents said they will be more mindful about practicing regular self-care once the pandemic is over[4]

3 Sustainability & Climate



We are facing a climate emergency, with more than one in ten of the world's population vulnerable to climate change impacts such as droughts, floods, heat waves, extreme weather events and a rise in sea-levels. The earth's finite natural resources are disappearing fast, with global use of natural resources reaching 100 billion tons per year. Of all the minerals, fossil fuels, metals and biomass used each year, just 8.6%[5] are cycled back into the circular economy. Organizations of all sizes face a growing social and regulatory scrutiny of climate, natural resources, health and wellness and responsible consumption. A commitment to sustainability is expected to be central to their value proposition and integrated into all operational and financial business models.

11%

of the world's population currently vulnerable to climate change[6]

SGS offers services across 11 major industries. We develop and maintain world-class expertise to support the evolving needs of our customers. Thanks to our capabilities we are able to provide solutions to the challenges they face across the globe. 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.

- Innovative, sustainable solutions that add up along the value chain.
- Developing innovative safety, quality and sustainability solutions for supply chains.
- Driving a safer, cleaner and more efficient industry.
- Delivering expert services to improve speed to market, manage risks and maximize returns.
- Making manufacturing more productive and profitable.
- Safeguarding the quality and efficacy of medicines.

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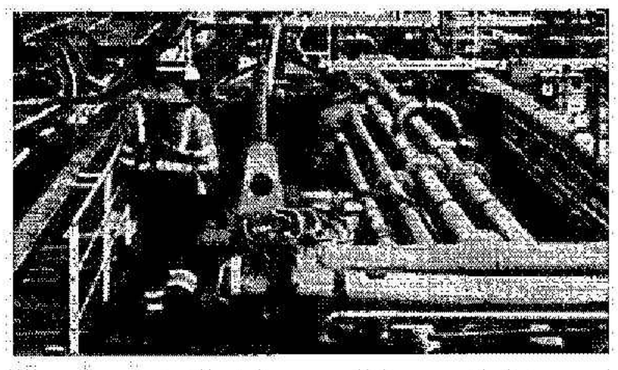
1. www.weforum.org/agenda/2020/08/internet-users-usage-countries-change-demographics/
2. https://cybersecurityventures.com/cybersecurity-almanac-2022/
3. Feeling good: The future of the $1.5 trillion wellness market, April 8, 2021, McKinsey.
4. www.statista.com/topics/1145/internet-usage-worldwide/
5. www.circle-economy.com/resources/circularity-gap-report-2020
6. www.conservation.org
7. www.who.int
8. www.accenture.com

4 Infrastructure



More than half of the world's population lives in metropolitan areas. While this urbanization enables increased productivity, the need for resources and space affects the economy, environment and quality of life. Innovation in areas such as smart cities and smart mobility are helping to advance economic growth and improve infrastructure and community services. Organizations need to adopt more sustainable approaches to infrastructure, transportation and business operations while protecting their workers, reducing their environmental footprint, managing risk, increasing business efficiency and ultimately enhancing their brand reputation.

68%

of the world's population is projected to live in urban areas by 2050[7]

5 Consumer Empowerment



We are seeing how increased purchasing power can really make a difference, especially as more consumers want companies to take a stand on issues like sustainability, transparency and fair employment practices. This has led to increased market demand for traceability and transparency across the supply chain. There is also pressure on regulators to support people, as they make better informed decisions like eating less meat, sourcing organic food, flying less and buying electric cars. At the same time, Covid-19 has enhanced people's trust in institutions – businesses, organizations, and governments[8] – as the public looks to them for protection. Increasingly, organizations must keep up to date with complex regulatory obligations and best practices to reduce legal, financial and reputational risks.

62%

of customers want companies to take a stand on issues like sustainability transparency and fair employment[8]

Powering processes in renewables and conventional energy.

Ensuring safety and performance when constructing buildings or infrastructure.

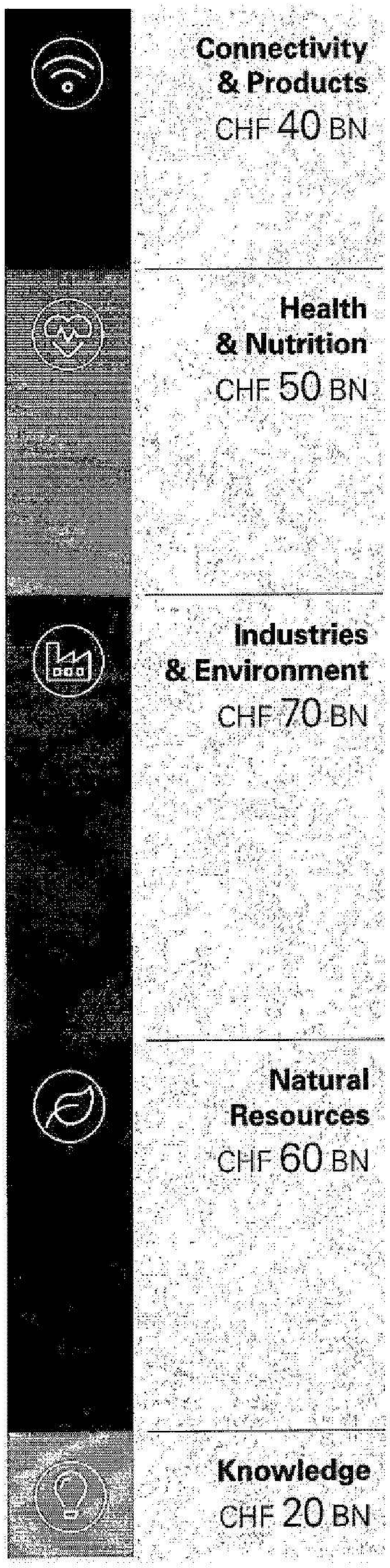
Facilitating trade and sustainable development. Protecting society against fraud and economic crime.

Driving innovation, optimization, efficiency and safety across the board, from feedstocks to finished products.

Enabling manufacturers, exporters, importers and retailers to generate trust throughout the supply chain.

Market size by business division

(CHF BN)



Our business model
Creating value to society

As leaders in the TIC industry, SGS plays a crucial role in bringing value to society, as well as to our investors and other stakeholders by setting planet, performance and people together as targets.

Our inputs

Financial capital
The funds available to us

Total equity
CHF 1 202 MIO

Profit (prior year)
CHF 505 MIO

Total assets
CHF 7 007 MIO

Manufactured capital
Infrastructure, equipment and tools

Offices and laboratories
+2 600

Capital expenditure
CHF 336 MIO

Intellectual capital
Organizational, knowledge-based intangibles

Goodwill and other intangible assets
CHF 2 160 MIO

R&D expenditure
CHF +70 MIO

Human capital
The skills and know-how of our employees

Employees
96 000

SGS Recruiter Academy
1

SGS Rules for Life
15

Social and relationship capital
Our relationships with our stakeholders

Suppliers
+65 000

Customers
+800 000

SGS Community Program

Natural capital
The natural resources we need to operate

Electricity consumed
480 GWh

Water consumed
1.9 MIO m³

Fuel consumed
448 GWh

Our business model

Our purpose

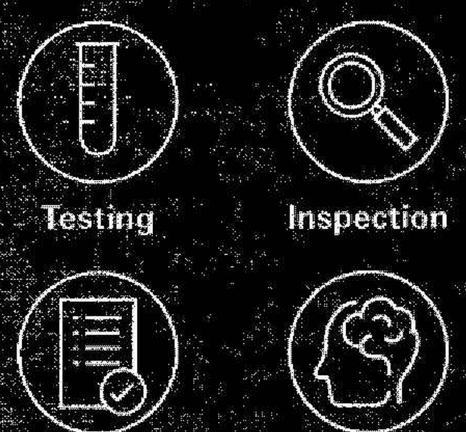
Enabling a better, safer and more interconnected world

About our business model

Most of our revenues are tied to contracts of varying lengths with a broad range of customers. Customer retention is strong for several reasons. In certification areas such as health and safety, and supply-chain management, switching costs can be high, as changing providers may involve retiring an existing system and incurring significant costs to start again. In other areas, such as consumer product testing, the average contract length is short, typically a year. Switching carries a risk of reputational damage and the financial benefits of switching can be small. Typically, manufacturers spend less than 1% of the value of goods in control and testing.

All our businesses operate under our globally recognised name. Over our long history, we have amassed a vast number of operating licences, accreditations, and government authorisations, which is difficult to replicate. We have a global footprint comprising 2 600 laboratories and offices and 96 000 experts. Our scale allows us to leverage these capabilities and expertise to bid for large multiyear contracts. As our network expands, our customer offer also increases creating a virtuous circle.

What we do



Our global drivers

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Our outputs

Financial capital
Long-term shareholder value creation

Revenue
CHF 6.4 BN

Free cash flow*
CHF 635 MIO

Adjusted operating income margin*
16.5%

Manufactured capital
Efficient and sustainable services

SGS Analytics significantly strengthened presence in North-Western Europe with:

Labs
37

Professionals
2 000

New cosmetic testing labs in China equipped with cutting-edge technologies
2

Intellectual capital
Expertize and innovative solutions

Training ratio[1]
2.61%

Employees trained in information security and data privacy
99%

Number of laboratories using World Class Services
22

Human capital
Diverse leaders in a safe working environment

Women in leadership positions
29%

Employees trained to Code of Integrity
99%

Lost time incident rate
0.22
(occurrences per 200 000)

Social and relationship capital
Meaningful stakeholder engagement and strong brand and reputation

Community investment
CHF 1.45 MIO

Satisfaction score in our Voice of the Customer surveys
88%

Percentage of suppliers locally sourced
82%

Natural capital
Carbon neutrality, limited waste and wastewater

Metric tons of CO_2e
131 542

EEB program: number of buildings under the program
694

Our value

CHF 3 180 MIO paid in wages to our employees

CHF 270 MIO taxes paid to governments

CHF 599 MIO in dividends proposed to our shareholders

Delivering safe medicine to patients

Ensuring a safe, quality and sustainable food supply chain

Quickly adapting to regulatory changes to provide efficient and safe products to consumer

Enhancing career opportunities through training

Improving knowledge through innovation

Simplifying the customer journey through innovation

Protecting the health of employees through Operational Integrity excellence and well-being programs

Reducing social risks by reinforcing human rights compliance

Work from home remains in place

Supporting communities during Covid-19

Improving how we work with our customers and suppliers

Carbon neutral since 2014

Helping mitigate climate change by reducing air pollution

Minimizing resource depletion and protecting the environment

1. % of total employment cost spent on training.

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

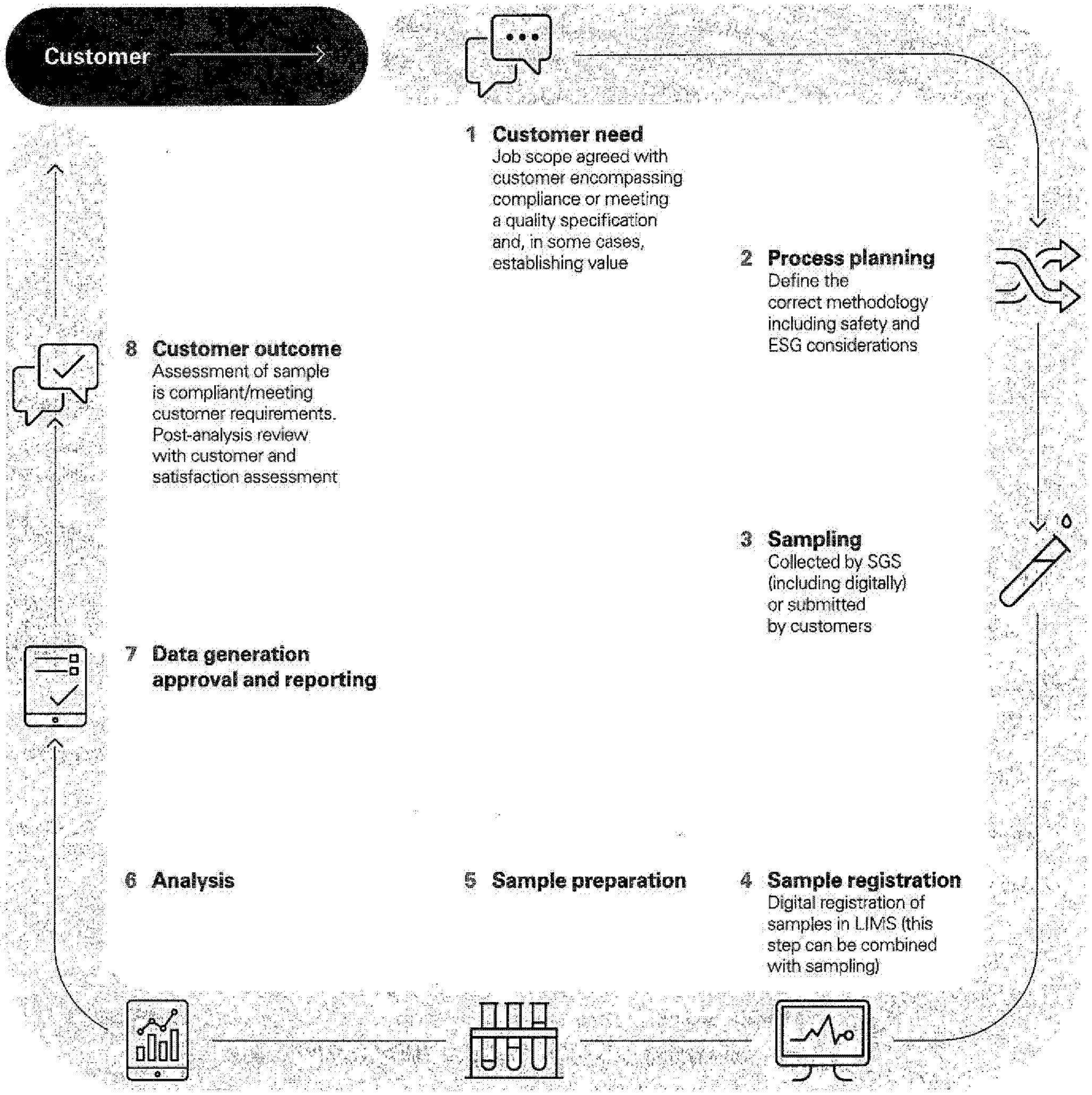
< Our value to society

Our business model
continued

The activities that underpin our business model also underpin the global economy.
For example, consumers can be confident the products they buy have been **tested** and meet the required quality and safety standards. A proliferation of global brands has increased the need for brand protection, leading to greater scrutiny of supply chains and quality, health and safety and environmental systems. Importers know the content of their cargo has been **inspected** and meets quality control standards. The contents have been monitored across supply chains and are the same as those specified in their contract. In an increasingly digital world, ever more sophisticated products need a high degree of testing expertise. ICT devices and systems need to be **certified** against international security standards to provide the highest levels of assurance and confidence.

Testing reduces risks, shortens time to market and tests the quality, safety and performance of products against relevant health, safety and regulatory standards. **Inspection** controls quantity and quality, and helps customers meet all relevant regulatory requirements across different regions and markets. **Certification** ensures products, processes, systems or services meet national and international standards and regulations.

Our process: Testing



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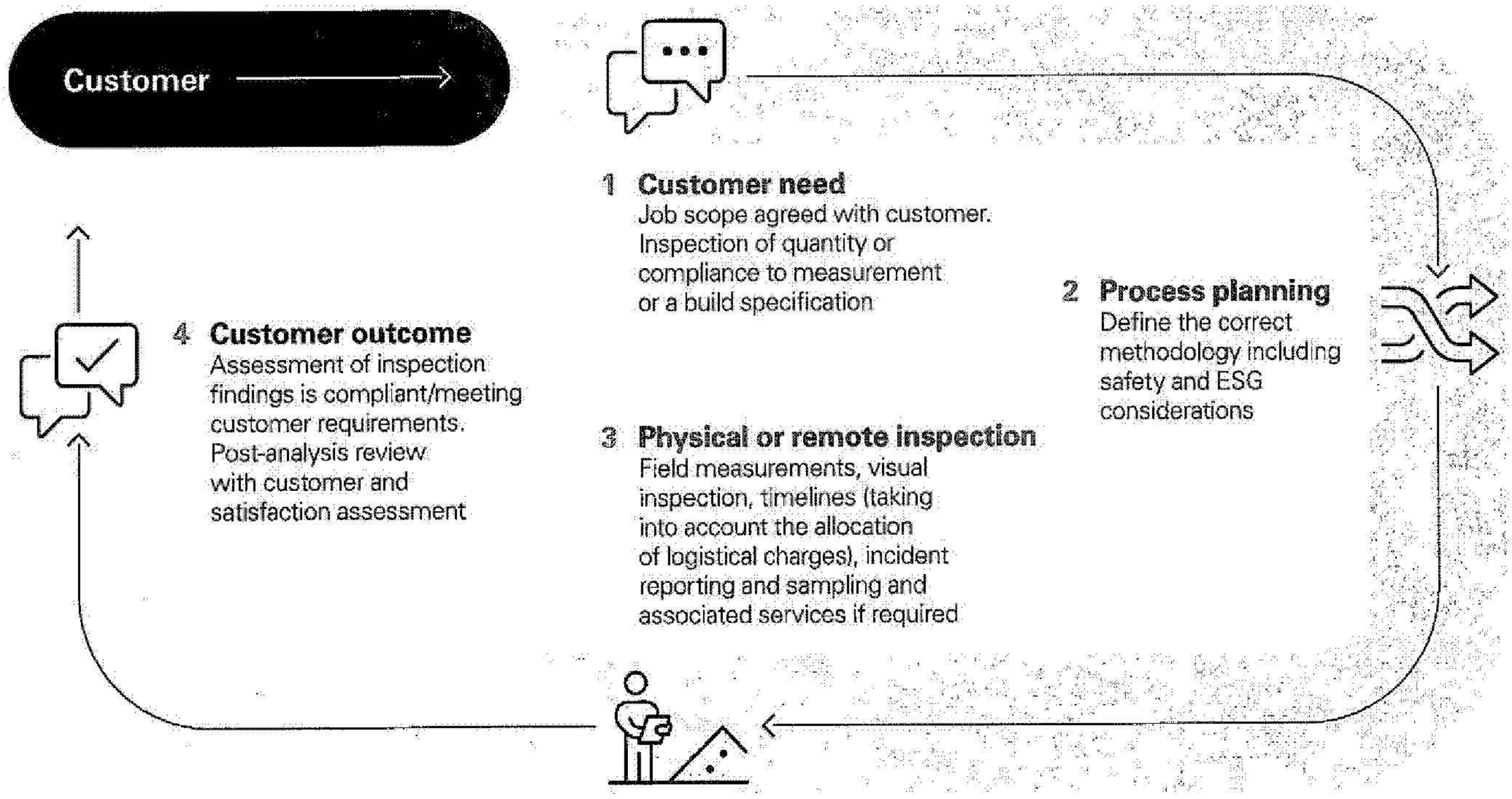
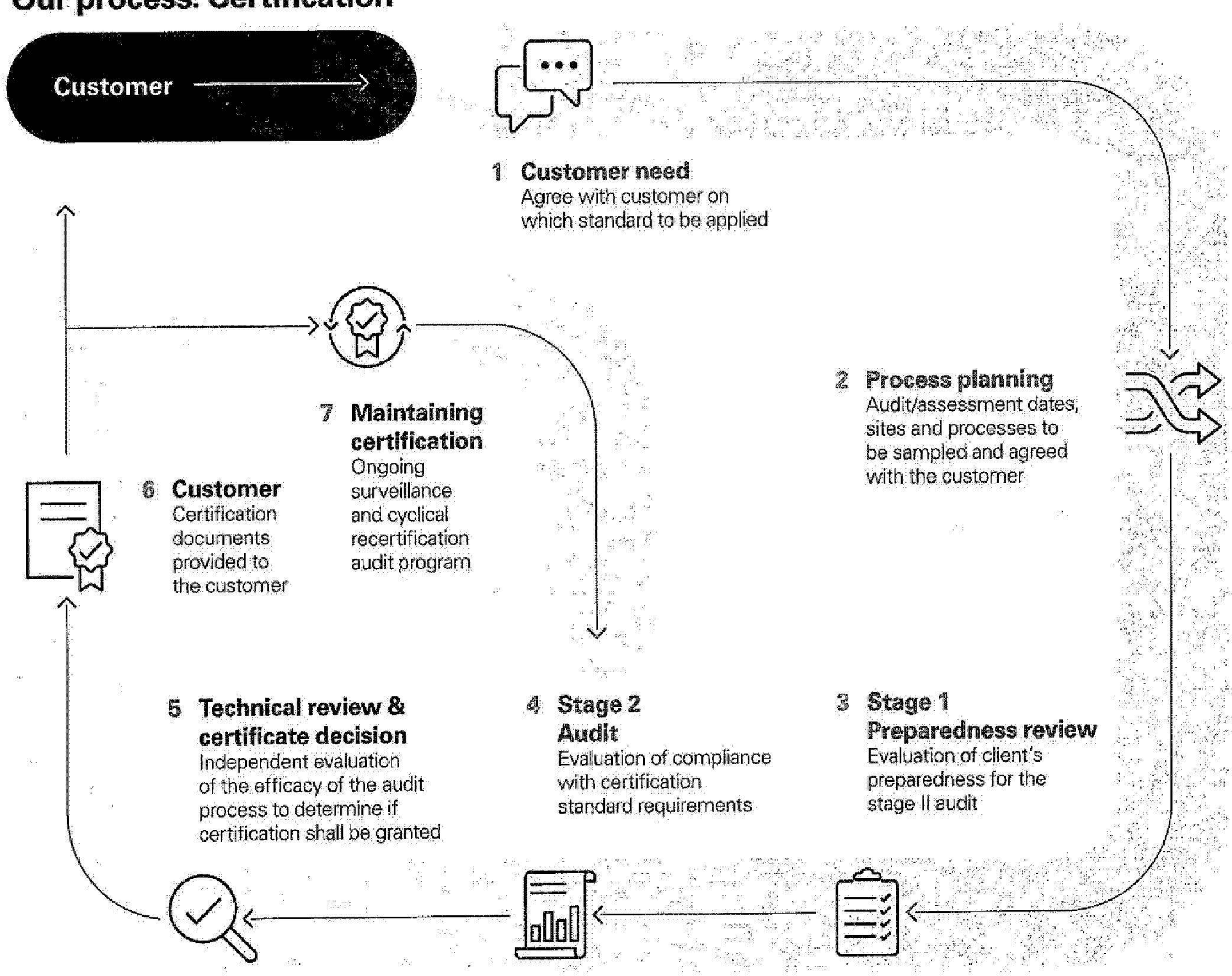
Our process: Inspection

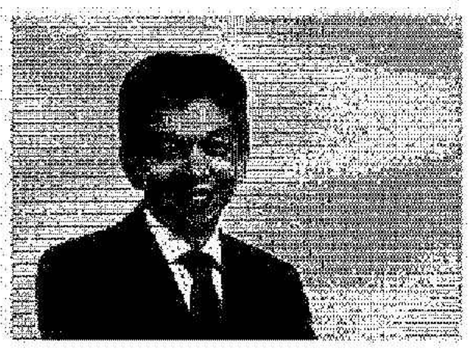


Our process: Certification



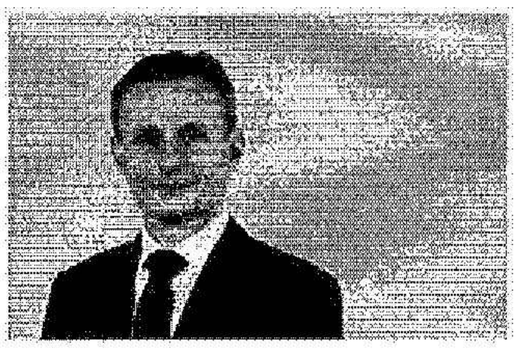
Our leadership team

Headed by our CEO, the Operations Council governs SGS's future and comprises a total of 18 members across six key business principles areas, seven regions and four functions.

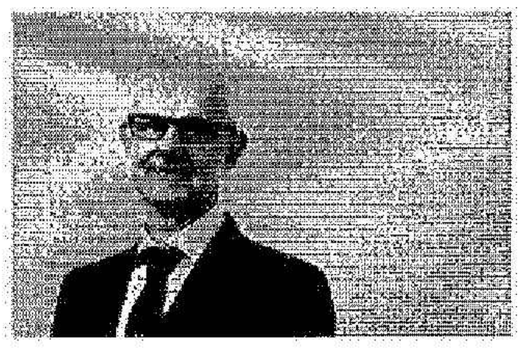


Frankie Ng
Chief Executive Officer

Regions



Fabrice Egloff
Africa & Western Europe

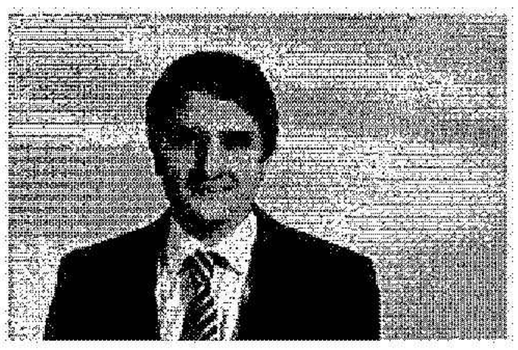


Wim Van Loon
North & Central Europe

Functions



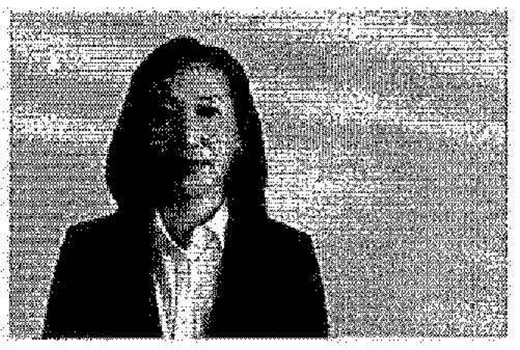
Dominik de Daniel
Finance, M&A,
IT & Procurement



Teymur Abasov
Eastern Europe & Middle East



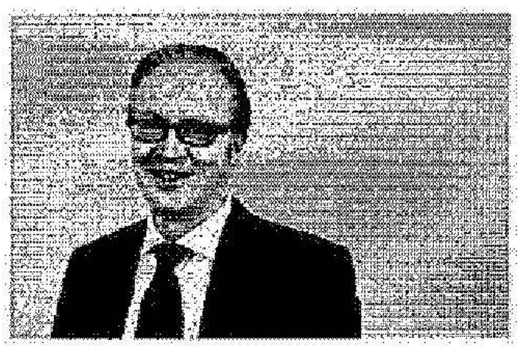
Steven Du
North East Asia



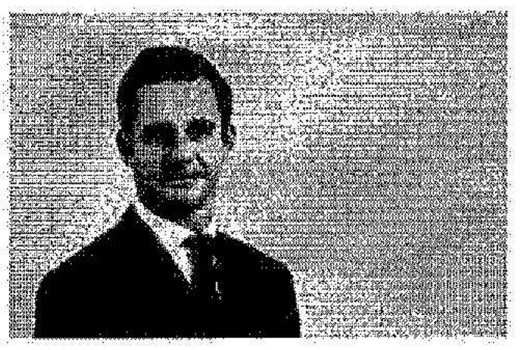
Jessica Sun
Human Resources



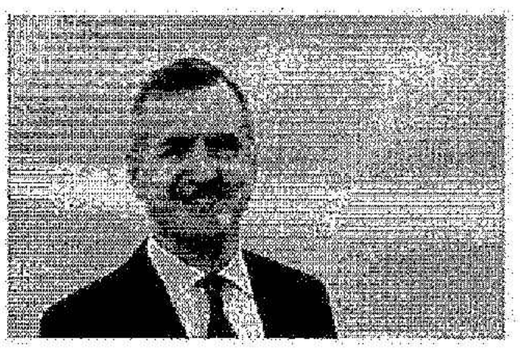
Luis Felipe Elias
Latin America



Malcolm Reid
South East Asia & Pacific



Toby Reeks
Investor Relations,
Corporate Communications
and Sustainability



Stephen Nolan
North America



Olivier Merkt
Legal, Compliance
& Corporate Security

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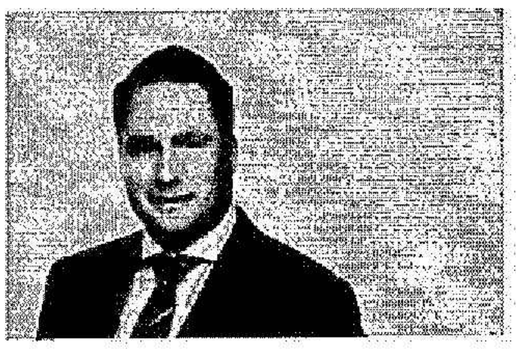
Our Operations Council

Our Operations Council is made up of six Executive Vice Presidents, seven Chief Operating Officers and four functional Senior Vice Presidents, as well as our Chief Executive Officer, Chief Financial Officer and General Counsel. The Council meets regularly to decide on strategies and priorities, and to review the Group's performance.

Cross-divisional strategic units



Siddi Wouters
Digital & Innovation



Jeffrey McDonald
Knowledge



Alim Saidov
Industries & Environment



Derick Govender
Natural Resources

Divisions



Charles Ly Wa Hoi
Connectivity & Products



Olivier Coppey
Health & Nutrition

Business principles

We follow six key business principles:

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

Leadership
Making sure we work together and think ahead. We are passionate and innovative people with a relentless desire for improvement. We work in an open culture, where smart work is recognized and rewarded. We foster teamwork and commitment.

Health & safety
Making sure we establish safe and healthy workplaces and protect the environment. We fully protect all SGS employees, contractors, visitors and other stakeholders, as well as physical assets and the environment from any work-related accident, exposure and any kind of damage.

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 the scale and expertise of SGS to enable a more sustainable future. We ensure our impact on the environment is minimized throughout the value chain. We are good corporate citizens, investing in our communities and enabling a better, safer and more interconnected world.

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-centric 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.

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/en/our-company/about-sgs/business-principles

Our strategy

We evolved our strategy in 2021, to further align SGS to our customers' demand and the five key TIC megatrends of Connectivity, Nutrition, Health & Wellness, Sustainability & Climate, Infrastructure and Consumer Empowerment. Bringing a renewed concentration on market leadership, digital innovation and sustainability, the strategy also further integrates our non-financial and financial objectives.

1 Invest to consolidate leadership position

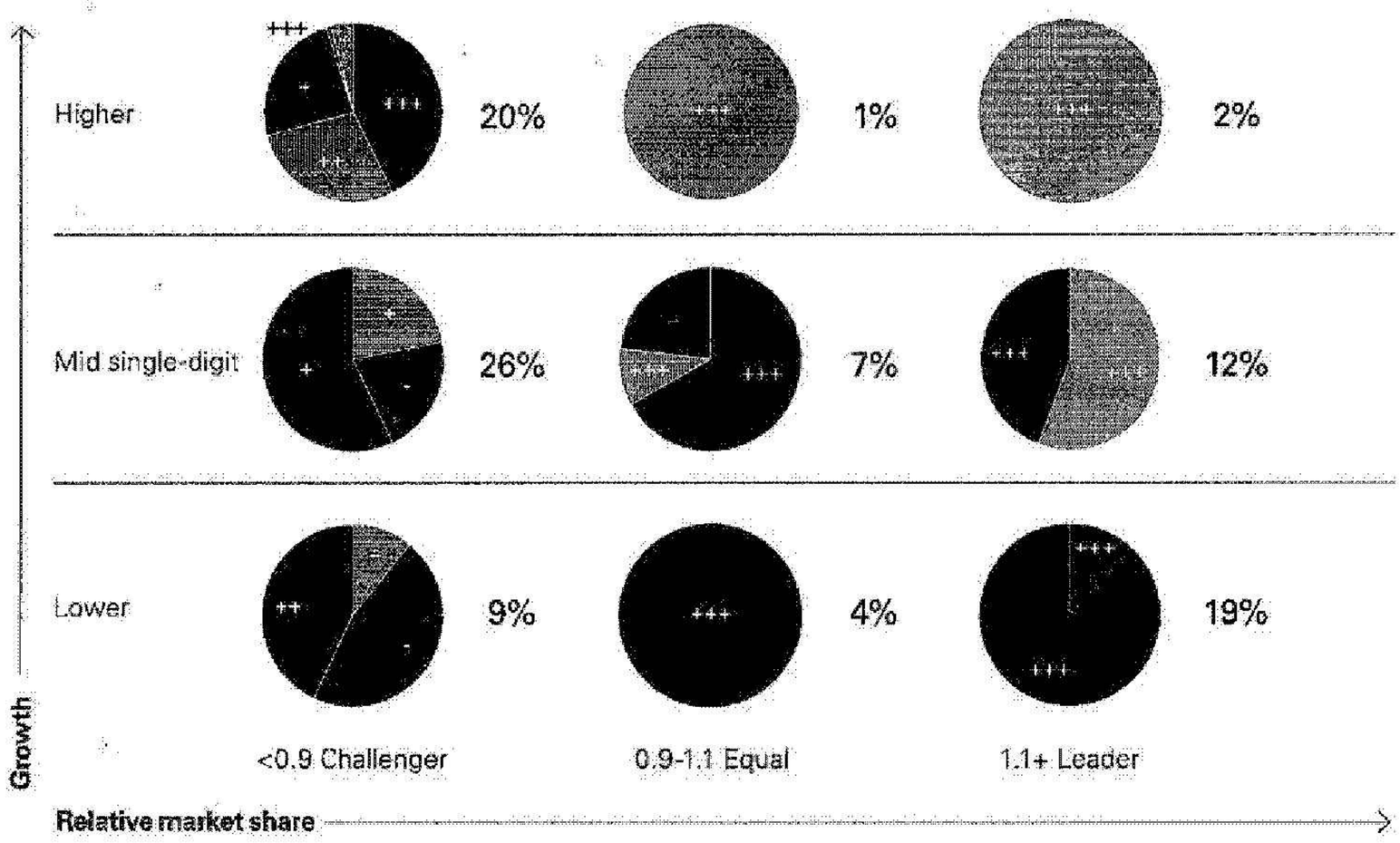
2 Become most digital company in the TIC industry

3 Increase proportion of revenue from sustainability solutions

1 Invest to consolidate leadership position

Our objectives by division

- **Connectivity & Products** Market Leader — Achieved
- **Health & Nutrition** >CHF 1bn — Target 2023
- **Industries & Environment** Market Leader in Environment — Target 2025
- **Natural Resources** Market Leader (No1) — Achieved
- **Knowledge** Market Leader (No1) — Achieved



Return profile

– Value destroying = Earning more than 1x Cost of Capital + Earning more than 2x Cost of Capital ++ Earning more than 3x Cost of Capital +++ Earning more than 5x Cost of Capital

Our divisions are closely aligned to the key TIC megatrends and customer demand. The combined size of the TIC market is estimated to be worth around CHF 240 billion on a global basis, though only 45% may be accessible, i.e. outsourced to a third-party business like SGS.

We are the global leader in three of our divisions: Knowledge, Natural Resources, and Connectivity & Products. We aim to build on these leadership positions through expanding our technical consulting network, particularly in Europe and Asia, developing new digital solutions.

We are optimizing our field and lab resources to generate network synergies, building on our cybersecurity expertise, and addressing the key opportunities in the environmental, connectivity, mobility and natural resources industries. We are also accelerating investment in biopharma and analytical services to grow our Health & Nutrition division.

Our Environment, Health & Safety services will become an important building block in our Industries & Environment division through the integration of SGS Analytics.

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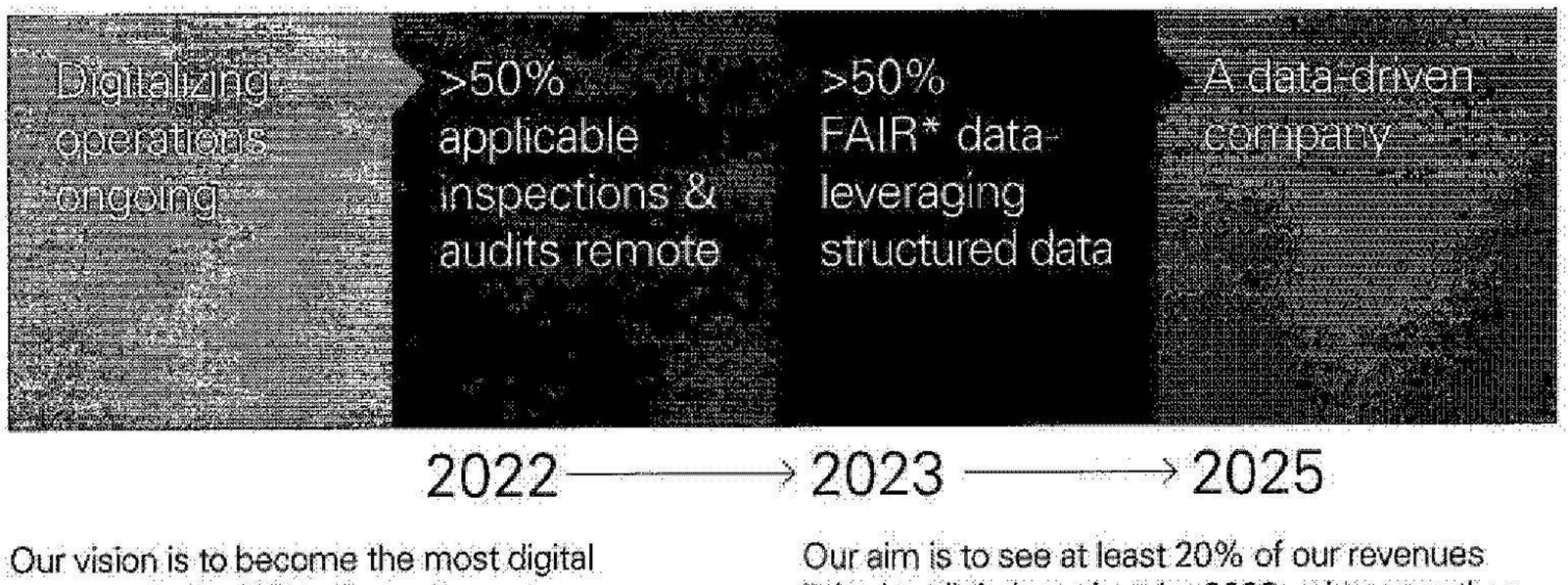
2

Become most digital company in the TIC industry



Our goals

Digitalizing operations

Ongoing

>20% revenue delivered by digital services

Target 2023

>50% of SGS data is FAIR by 2023

Target 2023

A data-driven company

Target 2025

Our vision is to become the most digital company in the TIC industry through a customer-centric approach.

We already have more than 150 different projects where digitalization is helping us to put the customer first. As part of our updated Digital and Innovation strategy and 2023 ambitions, we are focused on being a data-driven company, while simplifying the way we work and the services that we provide.

Our aim is to see at least 20% of our revenues linked to digital services by 2023, with more than 50% of applicable inspections and audits being done remotely.

Beyond 2025, our aim is to become a fully data-driven company, connecting real-time data with people and processes to build digital services that improve the employee and customer journey. We will simplify the way we work through the integration of AI and machine learning, and our aim is to digitize at least 30% of our customer journeys by 2023.

* Findable, Accessible, Interoperable, Reusable.

3

Increase proportion of revenue from sustainability solutions

Our goals

Launch Sustainability Solutions Framework

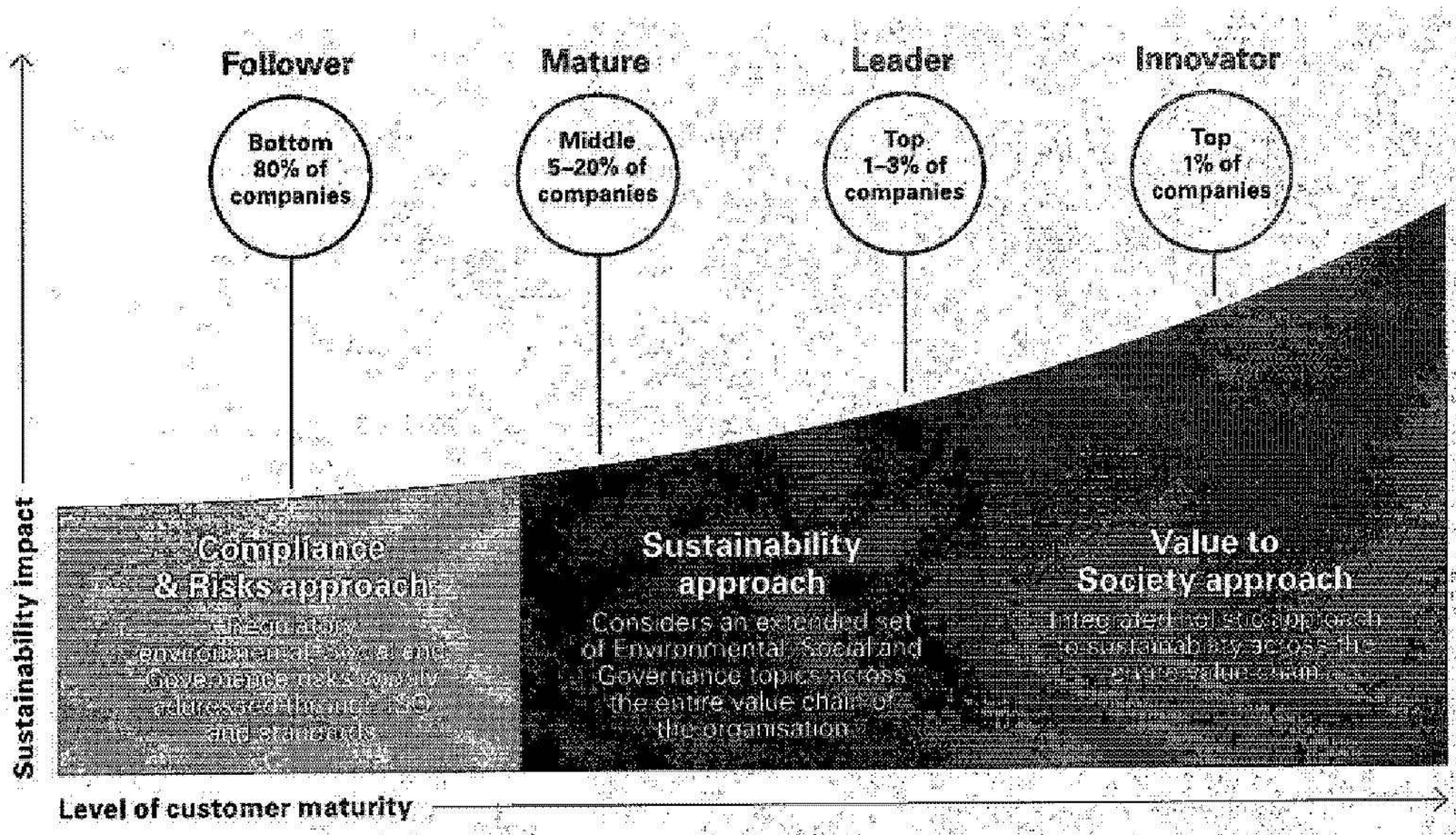
Achieved

New sustainability solutions in all divisions

Target 2022

>50% revenue under our Sustainability Solutions Framework

Target 2023



We believe there is tremendous potential to increase our proportion of revenues from sustainability solutions as the market matures. Only 1% of companies could be described as innovators adopting a holistic approach to sustainability across their entire value chain. The vast majority are followers with a lower sustainability impact. They have a compliance and risks approach to address regulatory environmental, social and governance risks through ISO and standards.

As companies move along this curve from follower to innovator, our goal is to generate more than 50% of our revenues from sustainability solutions across our divisions. Regulations from the EU will drive steady growth in sustainability reporting and related activity, as the move from voluntary to mandatory disclosures gains pace, and the requirement for accurate and timely data grows. To meet this customer need, we launched our ESG Assurance Solutions services.

Sustainability reporting is only the start. Customers will increasingly require services to help them to change their behavior, many of which will fit more squarely in the field of TIC service provision. We have already started to develop new sustainability services for the mid-term transformation of our Natural Resources portfolio and are complementing our established expertise in Industries & Environment related to energy transition through selected M&A in energy transition and specialty fields.

In their letter to shareholders, our Chairman and Chief Executive Officer have outlined how we have aligned our capital allocation and management incentivization to meet our goals in this area.

Our divisions

Our five divisions are closely aligned to the key TIC megatrends (see page 16), to better service our customers and to anticipate future demand.

Connectivity & Products

Focusing investment in Connectivity to increase our competitive advantage.

Strategic objectives 2023 and beyond

- Consolidate our leading market position
- Leverage market growth supported by the proliferation of 5G technology and IoT devices
- Continue to build cybersecurity expertise as an integral part of our 'total solution'
- Focus on automotive and semiconductor industries as key opportunities
- Continue to lead the expansion of the domestic Chinese market
- New data services to generate first revenue by 2022

Progress during the year

- Acquired Brightsight, which materially accelerates our global strategy to become the global TIC leader in cybersecurity
- Connectivity & Products expanded its reach into the automotive sector with growth accelerated with the sector recovery
- Expanded our lab capacity in 5G technology, IoT device and semiconductor global network in China, Taiwan, Korea, Japan, Singapore, Vietnam, India and Germany
- Launch of several new digital services including Truum, an e-commerce data verification service with large retail customers and the use of robotic processes to simulate consumer behavior for product performances

Capex intensity
Higher

Net working capital intensity
Lower

Return profile
+++

M&A appetite
High in Connectivity

Health & Nutrition

Expanding our global footprint through the organic development of our network and acquisitions.

Strategic objectives 2023 and beyond

- Achieve CHF 1 billion of divisional revenue by 2023
- Health Science to become the largest business unit of Health & Nutrition, with investment focusing on Biopharma and health services
- Consolidate our leadership position in Cosmetics supported by increasing regulatory requirements
- Consolidate our market leadership position in Food in Asia and expand our global network and portfolio in the Americas and Europe
- Enhance AI-enabled regulatory and compliance solutions in key Health & Nutrition sectors

Progress during the year

- Following the acquisitions of Quay Pharmaceuticals Limited and International Service Laboratory, and very strong double-digit organic growth Health Science is now the largest business in H&N
- We have increased our leadership position in Cosmetics & Hygiene with double-digit organic growth, including two new clinical testing centers in Asia and one new laboratory in the Middle East, and the acquisition of Groupe IDEA TESTS in France
- Expanded our global Food laboratory network, with two new labs Latin America in 2021 and three more planned for 2022 and a new food technology center in India
- Digicomply, our best-in-class regulatory and compliance intelligence platform, is now used by six of the top ten food companies, and we added a module to analyze emerging risks

Capex intensity
Higher

Net working capital intensity
Average

Return profile
+

M&A appetite
High

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Industries & Environment

Using our expertise to provide integrated solutions, while accelerating our transition to a high-volume hub and spoke testing model.

Strategic objectives 2023 and beyond

- Reach a market leadership position in Environment Health & Safety in 2025
- Reassess portfolio focusing on TIC megatrends and complement our expertise related to energy transition through M&A in renewables and specialty fields
- Increase footprint and competences in sustainability services through organic growth and acquisitions
- Leverage the acquisition of SGS Analytics to transition to a hub and spoke laboratory model
- Leverage digital and data to enhance our existing and create new services

Progress during the year

- Realigned organisational structure, with dedicated resource focused on environment, renewable energy and infrastructure, and invested in our renewable, hydrogen and nuclear competence including investing in wind in six Latin American countries
- The integration of SGS Analytics has accelerated our transition to a hub and spoke laboratory model and is on track for generating synergies of CHF 20 million
- Expanded our environmental laboratory footprint significantly, both organically and through the acquisition of SGS Analytics, in the Nordics, Sweden and Denmark
- Leveraged technology to enhance our service portfolio, for example through the launch of SGS AirSense, which monitors air quality in schools, warehouses and other buildings and is supported by a significant customer pipeline

Capex intensity
Average

Net working capital intensity
Average

Return profile
=

M&A appetite
High in Environment and Health & Safety

Natural Resources

Building on our wide-ranging expertise across the mining industry and optimizing our processes to help customers use fewer resources.

Strategic objectives 2023 and beyond

- Consolidate our leading market position
- Trade activities to remain core, with a supportive outlook for mining and agriculture and oil & gas currently under pressure
- Develop new sustainability services for mid-term transformation of portfolio
- Optimize field and lab resources to generate network synergies
- More than 50% of trade back-office activities to operate on digital platforms (i.e. blockchain) by 2023 to enhance security and efficiency

Progress during the year

- Expanded our leading on-site laboratory position from a leading position in minerals in Latam and the Caspian region, and through new contract wins in oil & gas in the Caspian region
- Implemented a blockchain-based digital authentication tool for trade certificates in the agriculture sector
- The acquisition of Sulphur Experts Inc. expanded our testing and sustainability services capability in the Oil & Gas market
- Piloting new sustainability services for battery metals recycling and carbon capture in metallurgy with leading industrial players

Capex intensity
Lower

Net working capital intensity
Average

Return profile
+++

M&A appetite
Low

Knowledge

Providing business assurance and operational efficiency solutions across supply chains that deliver sustainable value for the organization, the environment, society and shareholders.

Strategic objectives 2023 and beyond

- Consolidate our leading market position
- Certification remains core with new schemes driving demand
- Business enhancement to represent >50% of divisional revenue by 2023, including expanding our technical consulting network in Europe and Asia
- ESG and sustainability services to increasingly become a material part of the portfolio
- Focus on digital solutions in Supplier Risk Management, with 20% revenue delivered by digital services and remote by 2023

Progress during the year

- Double-digit growth in certification in part driven by growth in information security, food, and medical devices supported by Medical Device Regulation designation achieved in Belgium
- Successfully replicated our technical consultancy services into five European countries and will launch the next phase in Asia in H1 2022
- The launch of ESG Assurance solutions in Q2 2021 generated a significant number of new contracts
- Up to 80% of our training services and a high percentage of our certification audits were executed digitally. Significant investment is being made in new digital solutions for 2022 (e.g. integrated customer portal)

Capex intensity
Lower

Net working capital intensity
Lower

Return profile
+++

M&A appetite
In selective areas

Investing in our platform for growth

We have accelerated the investment in our platform to improve and harmonize our processes and accelerate our digital transformation.

Initiatives	Financial Shared Service Centres (FSSCs)	Billing Centralization	Enterprise Performance Management
Objective	Operating all key finance processes Procure to Pay (P2P), Order to Cash (O2C), Record-to-Report (R2R) in a standardized and fully harmonized way by regional FSSCs	Centralizing all billing activities within the majority of countries through the full standardization of processes and systems	Significantly improve our management reporting capabilities to support high quality business decisions and to ensure that performance is aligned with SGS strategic objectives and Economic Value Added (EVA) criteria
Benefits	+5% Productivity increase of 5% per annum for the scope under consideration	• Increase efficiencies through standardization and automation of invoicing/ execution systems and faster billing • Increase productivity by 20% for processes in scope • Reduce DSOs	Higher granularity and data capturing in a consistent way will materially improve performance assessment and decision-making
Target 2023	75% Operate five regional FSSCs covering 75% of revenues via fully standardized/ harmonized processes	33% Accelerated roll-out of centralized billing covering 33% of Group revenue by 2023	Reporting process fully harmonized/standardized down to account balances to be achieved by the end of 2021
Target 2025	Full coverage via regional FSSCs and fully standardized/ harmonized processes	70% Centralized billing to cover over 70% of Group revenue	n/a
Progress during the year	FSSC on-boarding (incl. Group standard ERP and standard processes) for Nordics, Germany (A&S) and Southern Africa (8 countries) FSSC now covers 40 countries or 59% of Group revenue	Go–live of centralized billing in India, Mexico and Southern Africa and centralized cash collection for Spain, Mexico and Brazil	Reporting process fully harmonized and standardized

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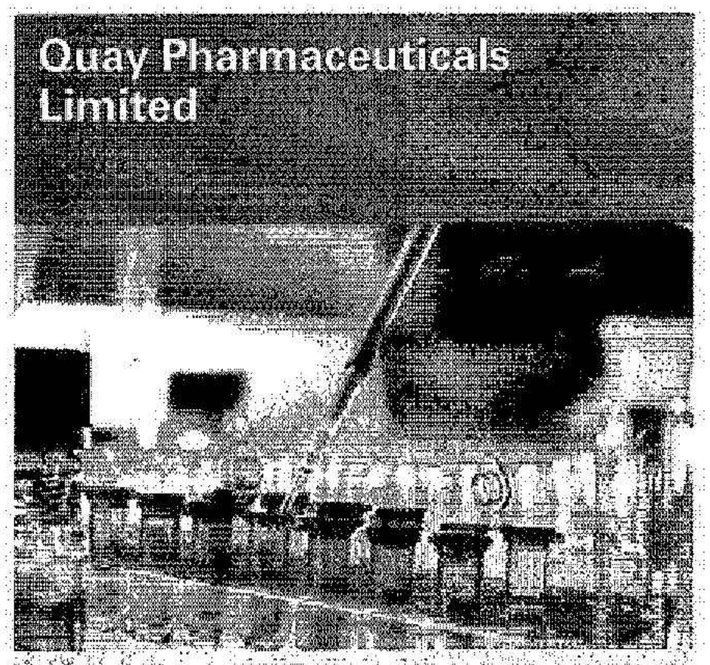
IT Transformation	IT Shared Services Center	Digital Labs	World Class Services (WCS)
Group IT modernization: adopting modern technologies and processes, improving time to market and quality as well as efficiency in the delivery and operations	Improve quality, cost and service moving low added value work from countries to low-cost locations with strong processes to ensure best-in-class service	Evolution of current LIMS to create Digital Labs, with artificial intelligence, machine learning and full predictive analysis based in consolidated data with fully standardized and harmonized LIMS processes	• Deliver WCS to our customers and sustain our ambition of world leader in the TIC industry • Foster a culture that targets: improved safety, quality and efficiency • Elimination of all types of waste and losses
20% Improve our discretional and non-discretionary IT spend split by 20%	25% 25% of cost reduction on IT Service desk and maintenance/improving quality and time to serve	Better quality, cost optimization, innovation of new services, enhancement of customer experience and launching new services to generate streams of revenues based on data	• Cultural change, engagement and empowerment of people, creation and diffusion of knowledge • Better and safer place to work with improved standards and enhanced productivity by 15% in model areas by waste and losses elimination • Full customer satisfaction and prompt level of services
Extend and develop modern technologies like Agile, DevOps, DevSecOps and new setup for IT processes based in ITSM. Plan to modernize applications (native cloud). New SOA architecture, microservices	33% Accelerated roll-out of centralized billing covering 33% of Group revenues by 2023	30% 30% of the total Group sales from new digital labs with 'new generation' LIMS	20% 20% of WCS labs (2020 perimeter) to reach WCM Bronze Award level, expansion to at least 10 new sites in WCS program
100% 100% of group critical applications migrated to full cloud with a modern microservices architecture	100% 100% of the users using IT services in Manila	70% 70%+ of the total Group sales from new digital labs with 'new generation' LIMS	90% 90% of current WCS perimeter to achieve WCM awarded levels (bronze and above), reach at least first WCM Gold awarded site by end of 2030
Program Prometheus to spur growth, new technology and cultural transformation has improved our discretional/non-discretional ratio by 20% Strong adoption of DevOps, DevSecOps and global roll-out of ITSM supported by one platform (Service Now) 90% of our critical applications are now in the cloud	Global process standardization of service desk process, including process automation, expansion of service desk in Manila planned for 2022 & 2023	Global program launched and sponsored by senior management, detailed roadmap per lab until end of 2023. Today 10% of the sales in labs are managed across new generation LIMS	WCS implementation has progressed according to each lab WCS route maps: 60% of current WCS sites/labs perimeter have been audited and five labs also already passed their second audit. Expansion started with 2 additional labs kicked-off in LATAM and Europe and further labs assessed

Acquisitions and partnerships

An important part of our growth strategy is through acquisitions which help us grow geographically, fill service gaps or expand our skill set and technological capacities. In 2021 we announced or completed nine acquisitions and purchased the remaining minority stake of The Lab (Asia) Ltd.

Acquisition timeline 2021

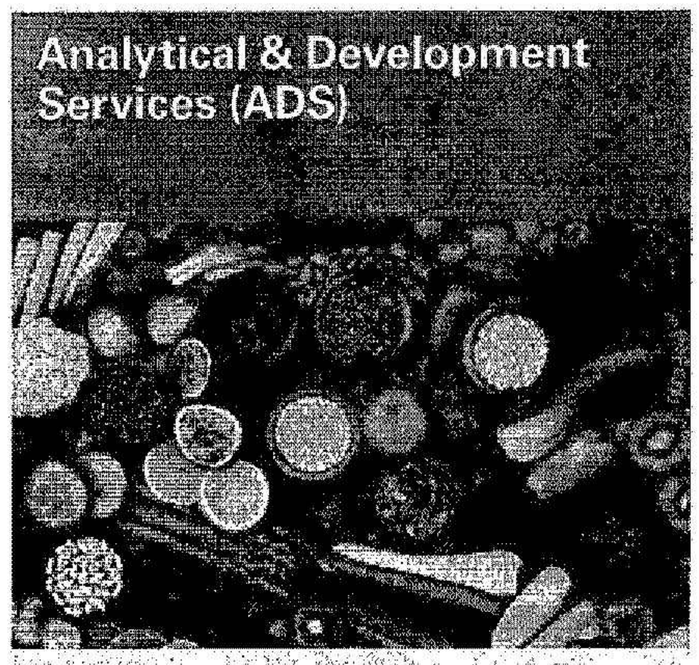
Jan	**Analytical & Development Services (ADS)**
	BZH GmbH Deutsches Beratungszentrum für Hygiene
Feb	**Autoscope/CTOK**
Apr	**International Service Laboratory (ISL)**
May	**Brightsight**
June	**Metair Lab**
Dec	**Groupe IDEA TESTS**
	Sulphur Experts Inc.
	Quay Pharmaceuticals Limited



Quay Pharmaceuticals is a leading innovative formulation research and development organization with a comprehensive and flexible range of services. It supports its customers through the various stages of pharmaceutical clinical development, from pre-formulation to formulation, dosage form design and optimization.

Location United Kingdom

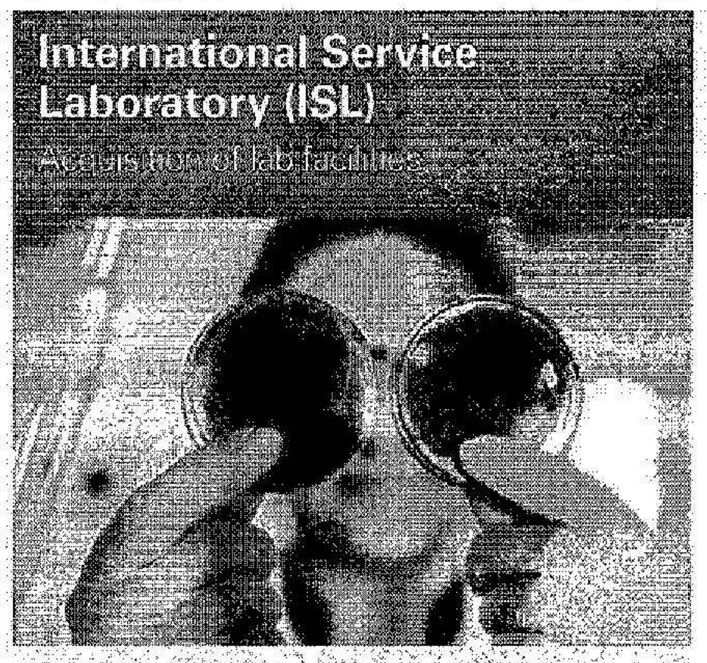
Division Health & Nutrition



ADS is a fully ISO/IEC 17025 accredited food testing laboratory currently active in the UK market, offering complex testing services in a wide range of areas, including pesticides, nutrition, microbiology, food molecular biology and allergens.

Location United Kingdom

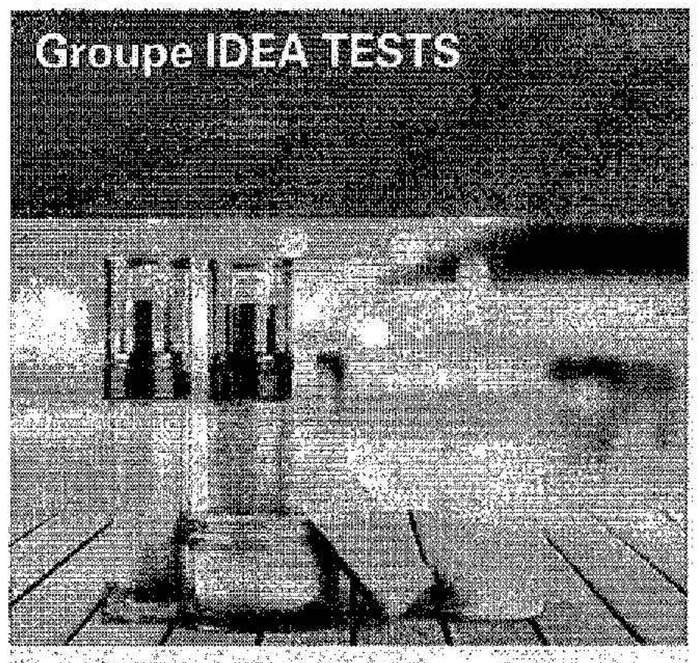
Division Health & Nutrition



The lab facilities of ISL, located on the Novartis site in Ireland, provides analytical services for a broad variety of pharmaceutical products. It is Good Manufacturing Practices (GMP) certified by the Irish health authorities (HPRA) and US FDA registered.

Location Ireland

Division Health & Nutrition



IDEA is a leading provider of clinical, microbiological and in-vitro testing, and regulatory services to the cosmetics and personal care industry. The company is headquartered in France, and also has facilities in Romania.

Location France

Division Health & Nutrition

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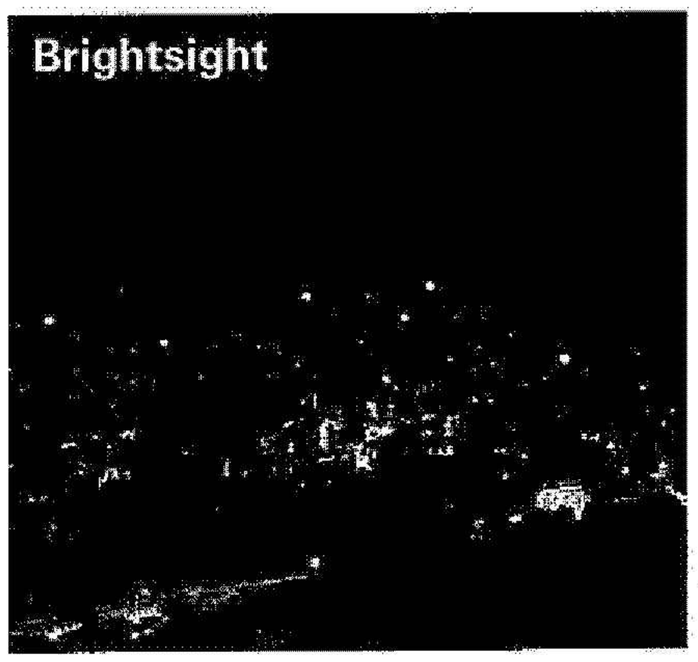
Brightsight



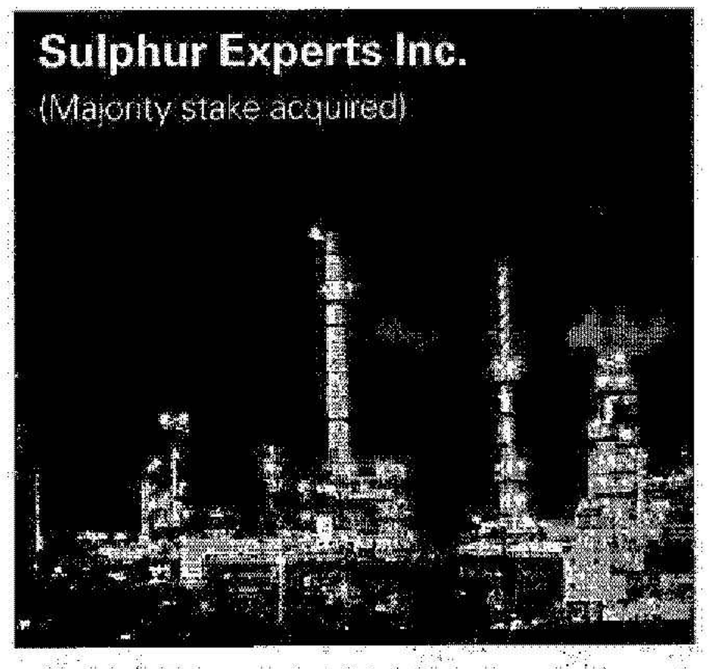
Brightsight is the leading cybersecurity evaluation laboratory network for chip-based secure payment systems, secure identity solutions and IoT platforms. The company has a network of laboratories located in the Netherlands, Spain, China and France.

Location The Netherlands

Division Connectivity & Products

Sulphur Experts Inc.

(Majority stake acquired)

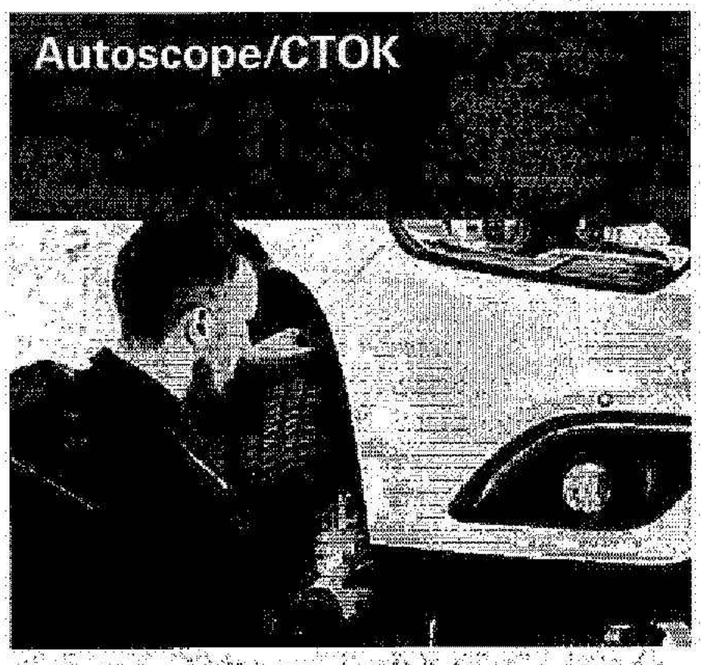


Sulphur Experts is a highly recognized company providing process engineering consulting, specialized testing and training activities, supporting customers in the amine treating and sulphur recovery industries to optimize performance and reduce their impact on the environment.

Location Canada

Division Natural Resources

Autoscope/CTOK

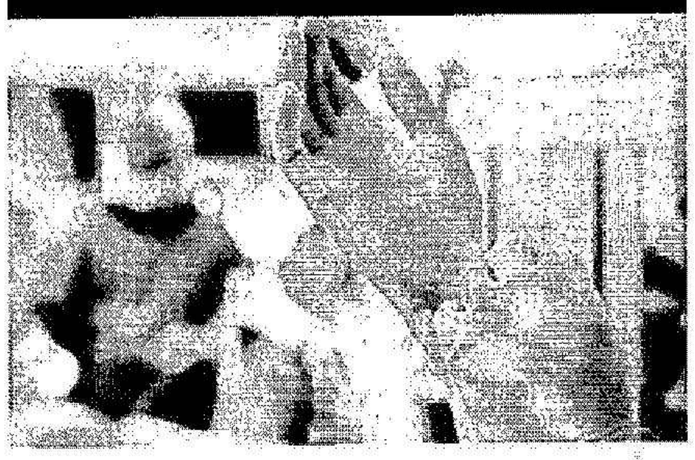


Autoscope/CTOK operates three vehicle inspection services centers in Le Mans, France. These centers complement the acquisition of CTA Gallet and Groupe Moreau in 2020 and further consolidate SGS's market leading position in vehicle inspection services in France.

Location France

Division Industries & Environment

BZH GmbH Deutsches Beratungszentrum für Hygiene (Majority stake acquired)



Based in Germany, BZH is a leader in the field of infection control solutions, and a subsidiary of the SYNLAB Analytics & Services (A&S).

Location Germany

Division Industries & Environment

Metair Lab



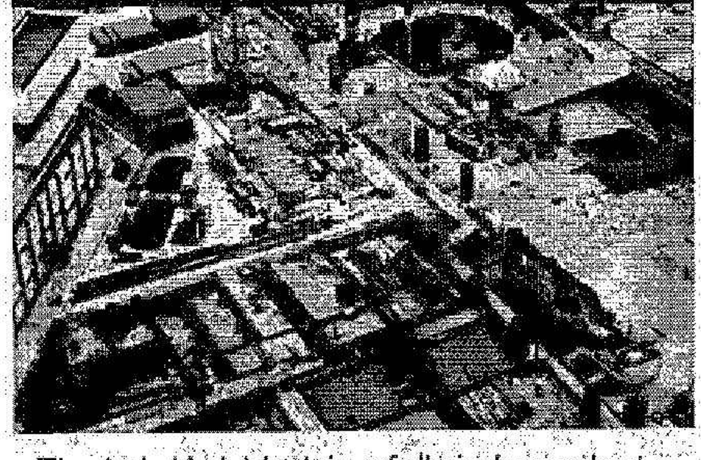
Metair Lab provides air sampling and asbestos testing services in France and is accredited by the French accreditation committee COFRAC for both asbestos and air quality assessment. The company has also developed an indoor air quality solution.

Location France

Division Industries & Environment

The Lab (Asia) Ltd.

(Acquisition of 49% minority stake)



The Lab (Asia) Ltd. is a fully independent materials testing, inspection and consulting company serving the construction, civil engineering, highways, airports and associated industries. The company has comprehensive laboratory and site testing operations, and provides materials inspection, investigation and consultancy services.

Location Hong Kong, China

Division Industries & Environment

Material topics

The SGS Business Materiality Matrix captures the issues deemed by our stakeholders to be materially important to our organization. It is the outcome of a rigorous process, including stakeholder consultation, megatrend and risk analysis, and benchmarking against international principles, including the UN Sustainable Development Goals (SDGs).

We carry out an extensive analysis of all these inputs to determine which are material for SGS and our stakeholders, and their relative level of importance. We then use this deep understanding to shape our strategy, our ambitions and our KPIs.

Materiality assessment

We conduct a formal materiality assessment every two years. The last one was completed in 2020, so in 2021, we kept in close contact with our stakeholders through our regular channels, such as meetings with investors, our investor days, voice of the customer surveys, our employee engagement survey, and meetings with local communities. This has further contributed to our deep understanding of the most material topics for the Group.

Our 2020 formal materiality assessment involved over 4 000 stakeholders in 112 countries, including customers, employees, suppliers, investors, non-governmental organizations and sustainability professionals. Individuals were asked to evaluate the importance of each topic from a long list established following a benchmarking exercise of megatrends and sector specific sustainability issues and trends. At the same time, our Operations Council evaluated the potential impact these topics could have on SGS from a risk perspective.

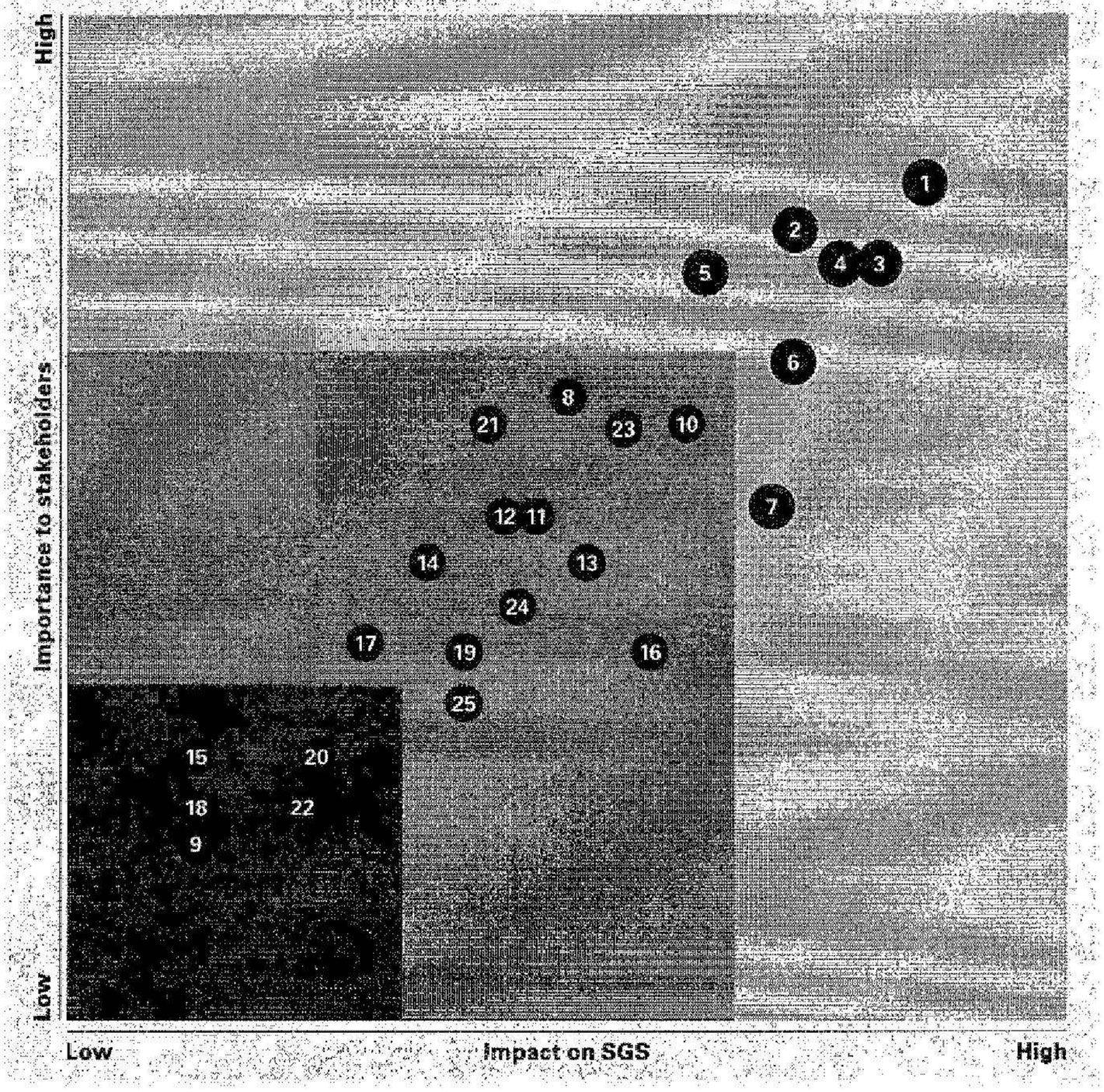
The seven topics that are most important to the organization

1. Cybersecurity
2. Data privacy and protection
3. Ethical behavior
4. Health and safety
5. Risk management
6. Talent attraction and retention
7. Customer relationship management

These are key topics which have helped to shape our Group strategy. Although relatively less material for SGS, all other topics remain an essential part of our sustainability management systems. We systematically re-evaluate them to determine whether they have become more material to the organization.

Other material topics

8. Adaption and mitigation of climate change
9. Biodiversity
10. Corporate governance
11. Diversity in the executive team
12. Diversity and inclusion
13. Employee engagement and consultation
14. Executive compensation linked to sustainability
15. Freedom of association
16. Innovation in services and operations
17. Local community
18. Preventing air pollution
19. Reducing and managing waste
20. Responsible use of materials
21. Sustainable procurement
22. Tax strategy
23. Training and development
24. Water footprint
25. Well-being and work-life balance



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Risk intelligence

During 2021 we have focused on and addressed the main prevailing risks facing the organization, to ensure we can fulfil our purpose of making the world better, safer and more interconnected.

Risk governance

Our Board of Directors reviews risks to ensure that the Company has a solid strategic approach to mitigating them (see page 83). However, the ultimate responsibility for identifying risks and integrating their management into key business planning processes sits with our Operations Council.

The Group Risk Steering Committee oversees our Risk Management Framework, chaired by the Chief Executive Officer. The committee comprises executive members, including the Chief Financial Officer and Chief Compliance Officer, together with representatives from departments including Risk Management, Human Resources, Operational Integrity and Sustainability. As well as biannual meetings, the Committee meets as necessary, and reports directly to the Board.

Accountability for managing risk rests with our 'Risk Champions' who are charged with assessing risk in the jurisdictions for which they have responsibility. In addition, SGS integrates a broad array of risk categories (see the charts below) directly into the management process (under the oversight of 'Global Risk Category Owners'), resulting in a robust and comprehensive approach.

Risk Management Framework

During the year, SGS has worked to enhance and streamline its Risk Management Framework, to better address the main prevailing risks facing the organization. As a result, a number of risk categories have been redefined, including specific risks contained in these categories, to emphasize where the focal points, and resources to address these risks, should be placed. This was further strengthened by introducing new risk significance grading and risk tolerance levels.

The scope and global coverage of the risk management assessment was also extended, offering a full and limited scope approach, driven by the magnitude and risk profile on a country-by-country basis.

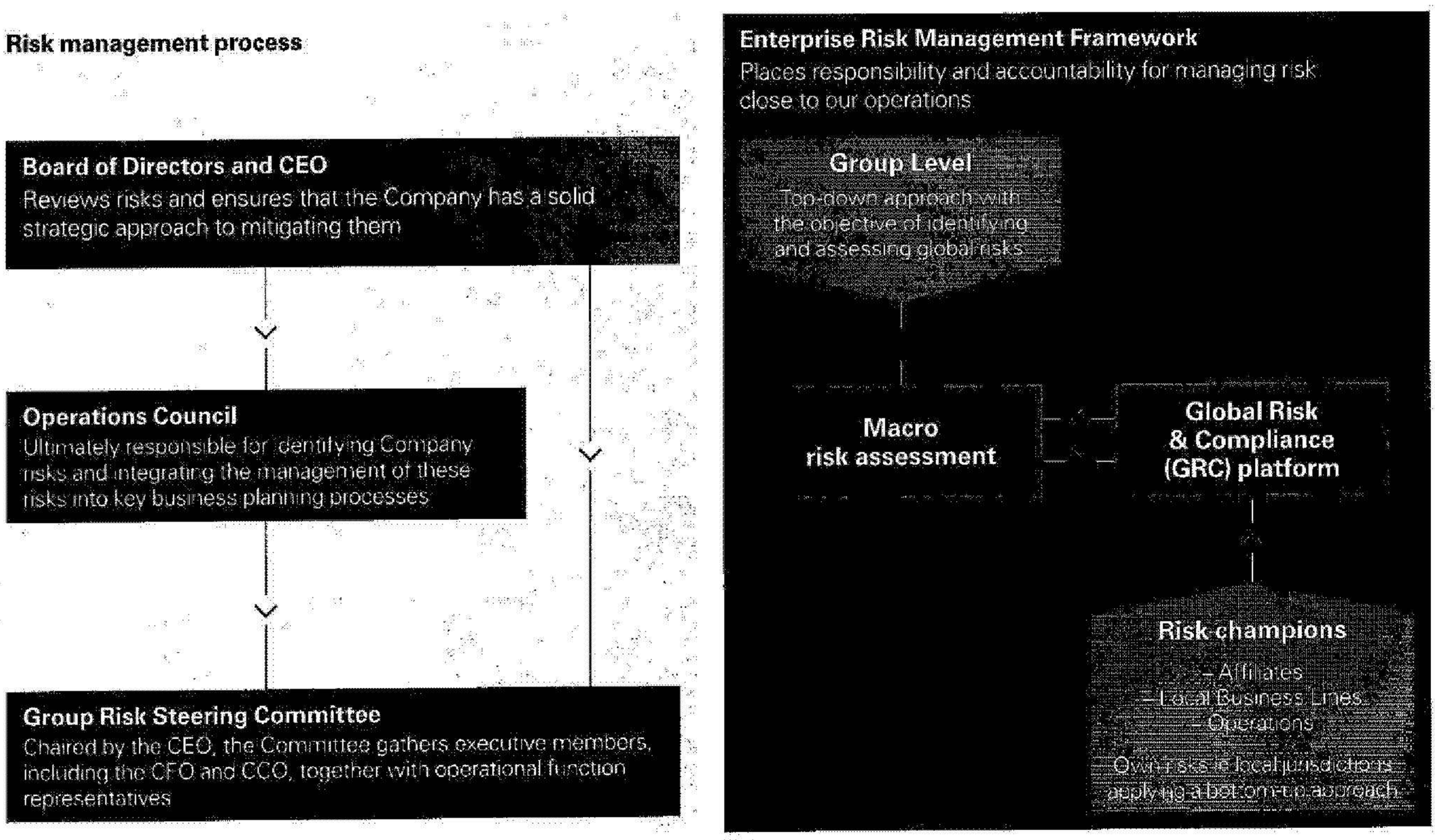
This allowed SGS to further increase the worldwide applicability of the framework, ensuring key markets and businesses were appropriately involved. The local risk management assessment inputs provided further validation from a global management perspective, contributing to a comprehensive and insightful overview of risk perception which appears on the risk heatmap, presented on page 35.

Risk oversight

To support our Risk Management Framework, the Group has a customized Governance Risk and Compliance platform. This tool enables affiliates, local businesses and operations to assess, taking a bottom-up approach, potential risks and have mitigation in place at a local level where appropriate. Additionally, at Group level, SGS uses a top-down approach to identify and assess global risks to the Company that might potentially be overlooked in the bottom-up evaluation.

We recognize the need to identify changing risk, including changes arising as the world moves on from Covid-19. We continue to monitor the measures we have in place to deal with all new emerging eventualities, ranging from climate change and consequential extreme weather, natural disasters and cyberattacks.

Risk management process



Risk intelligence
continued

The Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) is a guidance framework that helps companies disclose climate related financial risks to investors, lenders, and insurers.

Read more in our **TCFD Report** (available 1 March 2022)

2021 Risk assessment results

In 2021, we carried out risk assessments in 51 of our main markets, applying full and limited scope approach. We assessed 164 specific risks within 43 risk categories defined globally.

The assessment has confirmed a number of prevailing and emerging risks, particularly in relation to cyber and data security, increasing dependence on technology, including outsourced IT services and disruptive technology, also the attention to information governance, fraud and illicit/unauthorized activities, continued pandemic challenges, as well as the importance of customer needs, service delivery and pricing processes, and talent management.

As part of our assessment process, we also identify emerging risks that are likely to impact our business in the next 3-5 years.

An example of these risks is the increase of extreme weather events which already occur due to climate change and are expected to continue increasing in frequency and severity over the coming years. The main impact of extreme weather on SGS is closure of laboratories and offices and interference with logistics of our services, whose impact is being assessed in order to be mitigated, (i) through business continuity plans, to ensure that we are fully prepared for any extreme weather eventuality, and (ii) through a global climate scenario analysis, to help us with future planning. Another significant risk is pandemics, which have two variants when looking at the long term; not being able to revert to pre-pandemic levels; and the appearance of a new pandemic resulting from a different pathogen. The impact of this risk is known to most organizations and passes through general disruption in the way the business operates, which may limit the generation of revenue from specific services, as well as an increase in certain operational costs. To mitigate this risk, we have learned from Covid-19 what measures are most effective to fight a pandemic crisis, and have integrated various possible scenarios in our long-term future planning.

Business continuity

These times have underlined the need for businesses to build resilience and to be prepared for disruptive events.

During the year, we have built on our robust business continuity resilience strategy that focuses on the critical processes of the business, and minimizes the risks associated with them from a business continuity perspective. We validate our business continuity plans by running scenario exercises, which cover resilience, proactive resilience, planning and response.

Our Business Continuity Officers, who operate at the three levels – local, regional and global – are central to everything we do. They are normally managers or senior managers, who have positions where they can influence what happens. To support them, we have provided hundreds of training sessions and webinars.

This year, we also launched our knowledge hub for all the hundreds of business continuity officers, so now they each have access to best practice documentation.

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External risks

Communication & IR	Environment & climate change	Pandemic
Customer needs	Industry	Political risk, war, crime, terrorism
Cyberattack	Legal & regulatory	Technological innovation
Economy & sovereign		

Internal risks

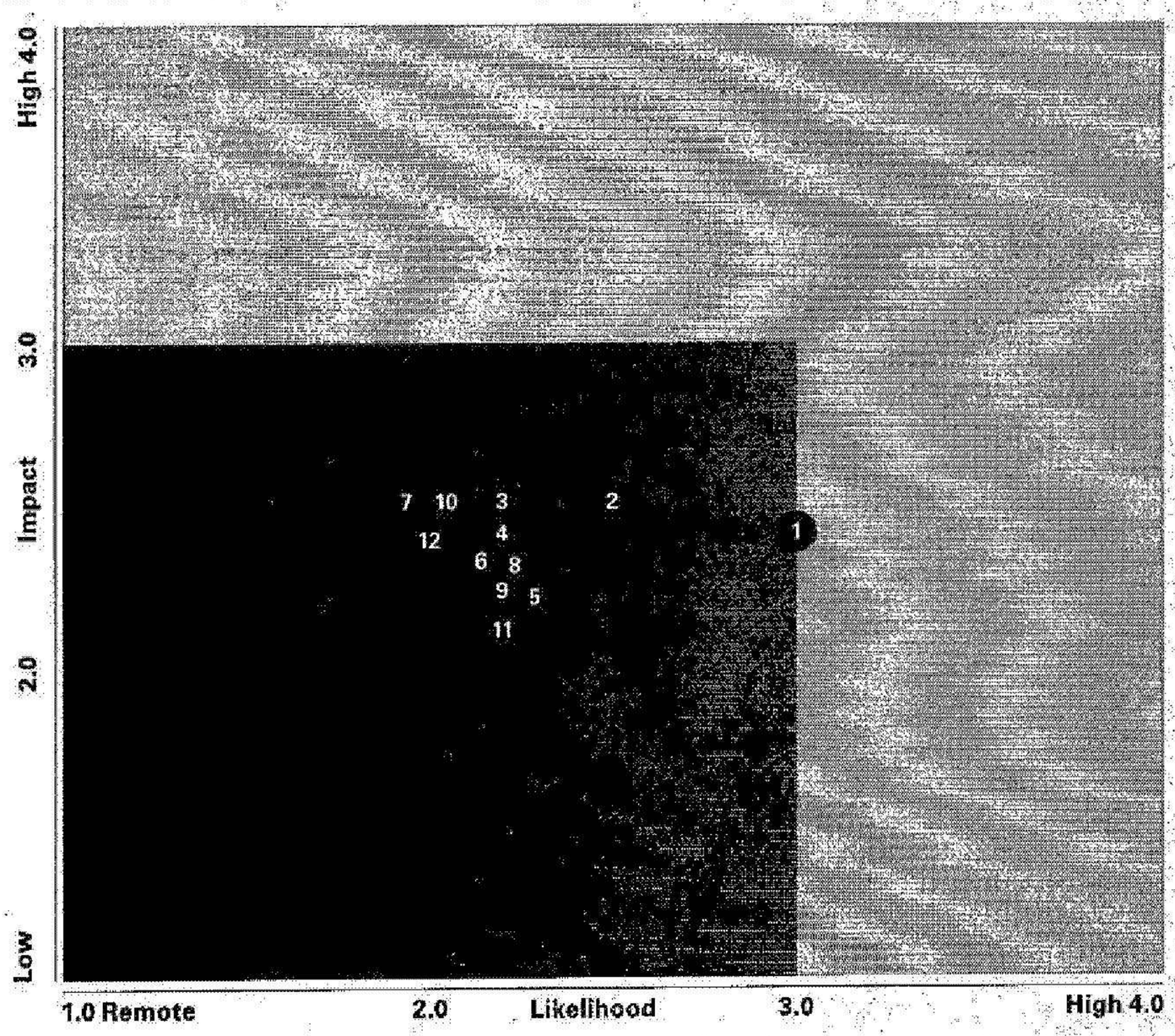
Operational risks

Process	Management information	Human capital	Compliance	Technology	Treasury
Environment (operations)	Accounting, budgeting & forecasting	Compliance	Contract commitment & claim	Access	Credit
Health & safety	External reporting	Reward	Data privacy	Availability	Foreign exchange
Pricing	Internal reporting	Talent acquisition	Fraud & illicit or unauthorized activities	Data integrity	Liquidity
Real estate	Tax	Talent management	Information governance	Infrastructure	
Service delivery			Unethical behavior, bribery & corruption	Reliability	
Sourcing				Technological capacity	
Supply chain					

Non-operational risks

Strategic
Business model
Business portfolio
M&A
Social responsibility

Heat map of highest scored residual risks (after risk mitigation)



1. Cybersecurity
2. Technological capacity
3. Technological availability
4. Data privacy
5. Fraud & illicit or unauthorized activities
6. Information governance
7. Pandemic
8. Talent management
9. Pricing
10. Technological infrastructure
11. Customer needs
12. Service delivery

Our principal risks

The identification and management of risks is aligned to our materiality assessment to help us manage the principal risks. We have measures in place to mitigate those risks to an acceptable level.

Risk description	Material topic	Summary of impact	Mitigation measures
External			
Cyberattack	• Cybersecurity	• Financial losses resulting from business disruption or interruption due to cyberattacks • Loss of certification accreditation leading to significant reduction of our certification business • Loss of cyber insurance cover as a result of cyberattacks, lack of internal knowledge and adequate technology and security controls and processes • Reputational impact	• Execution and monitoring of cybersecurity roadmap, strengthened by additional cybersecurity resources within the organization • Proactive monitoring of all security systems, through the Security Operations Centre (SOC) • Implementation of security measures at different organizational layers • Execution and monitoring of advanced Endpoint Detection and Response (EDR) anti-malware systems • Application of security policies and procedures
Technology			
Technological capacity, availability and infrastructure	• Innovation in services and operations	• Failure to implement IT technology aligned with organizational strategy • Lack of global reporting view and standardization in systems • Data loss due to inefficient data retention and backup processes and breakdown of critical IT infrastructures • Risk of untimely resolution of operational issues due to system limitations • Risk of loss of key finance data and/or closing process delay	• Enhancement of IT Risk & Compliance management framework • New reporting dashboards with KPIs • Improvements in backup systems and BCP revisions • Improvements in the processes of demand management, project management and metrics monitoring using Information Technology Infrastructure Library (ITIL) methodology • Optimization of IT infrastructure (cloud strategy, etc.) • Implementation of improvements in network monitoring and access control
Compliance			
Data privacy	• Data privacy and protection • Corporate governance	• Failure to comply with data protection laws and/or changes in privacy regulatory environment and enforcement	• Deployment of SGS privacy policy and procedures across the organization • Deployment of global privacy management platform for privacy and compliance management • Development and implementation of Third Party Privacy Risk Assessment to reduce and/or eliminate privacy and security risks to SGS's information • Monitoring and impact assessment of new personal data transfer requirements

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Risk description	Material topic	Summary of impact	Mitigation measures
Compliance			
Fraud and illicit or unauthorized activities	• Ethical behavior • Corporate governance	• Employee sabotage, theft, fraud, criminal damage or other non-acquisitive crime	• Strong Code of Conduct policy and philosophy with regular and recurrent training for SGS employees
		• Falsification, adulteration or misuse of certificates & reports, information security violation	• Confidential and anonymous whistle-blower reporting system
		• Organized criminality or collusion in illicit activities, parallel trading or other misuse of company resources	• Introduction of a Business Process Security and Integrity self-assessment methodology for all businesses, with a focal point on highest earning/most vulnerable services
		• Risk of losing business, business disruption (management fraud, third-party fraud, unauthorized acts)	• Enhancement of the Security Integrity Vulnerability Assessment, with bottom-up implementation by all businesses and functions
		• Illegitimate and unsupported revenue recognition, mainly linked to Unbilled Revenue and Work-In-Progress, resulting in potential overstatement of revenue and understatement of cost (P&L)	• Workshop-based curriculum for country management, cascaded to local teams
			• Enhancement of risk assessment reporting tool for incident reporting
			• Launch of the worldwide Order-to-Bill (O2B) initiative to standardize and centralize billing, coupled with application of best practices/ O2B golden rules across all key business activities
			• Centrally driven oversight through internal controls, balance sheet/profit and loss reviews and internal audits at country level
Information governance	• Data privacy and protection • Corporate governance	• Loss of relevant information and supports due to lack of ongoing responsibility to supervise mandatory retention of documents	• Implementation of the Information Governance Framework (IGF), based on best practices
		• Unauthorized altering or falsification of classified information	• Extensive and detailed piloting of the new SGS Information Classification system, which forms an integral part of IGF, to ensure the fit for classification system across all businesses and territories
		• Unauthorized disclosure of/unauthorized access to classified information	

Our principal risks
continued

	Risk description	Material topic	Summary of impact	Mitigation measures
External	**Pandemic**	• Health and safety • Well-being and work-life balance	• Spread of infections (including outbreak, epidemics, pandemics, etc.), disrupting business operations, interactions with suppliers and customers, resource availability	• Building of Business Continuity taxonomy to monitor 'resilience on-going and closed actions' integrating the Pandemic risk • Enhancement and introduction of upgraded overarching Corporate Standard Operating Procedures, action plans and requirements, preventive training on proper behaviors, medical knowledge, external support • Deployment of policies in regions and countries
Human capital	**Talent management**	• Talent attraction and retention • Training and development • Employee engagement and consultation • Well-being and work life balance	• Ineffective/inadequate training and development programs for employees • Lack of leadership alignment and effectiveness, lack of qualified and competent employees, lack of succession planning of key personnel • Risk of inefficient performance management	• Succession planning process across the organization to enhance talent management and people development • Enhancement of Leadership Development framework and process for all leadership levels • Introduction of a new performance management governance, feedback culture and tools
Process	**Pricing**	• Customer relationship management	• Risk of incorrect pricing due to inadequate/poor pricing model • Risk of margin pressure and processing inaccurate discounts • Risk of underutilized capacity due to too high pricing versus competition	• Completion of pricing self-assessment leading to implementation of key pricing actions • Implementation of the Pricing Golden Rules and Value-Based Pricing • Execution of pricing actions leveraging of available data (internal dashboards, external market intelligence)

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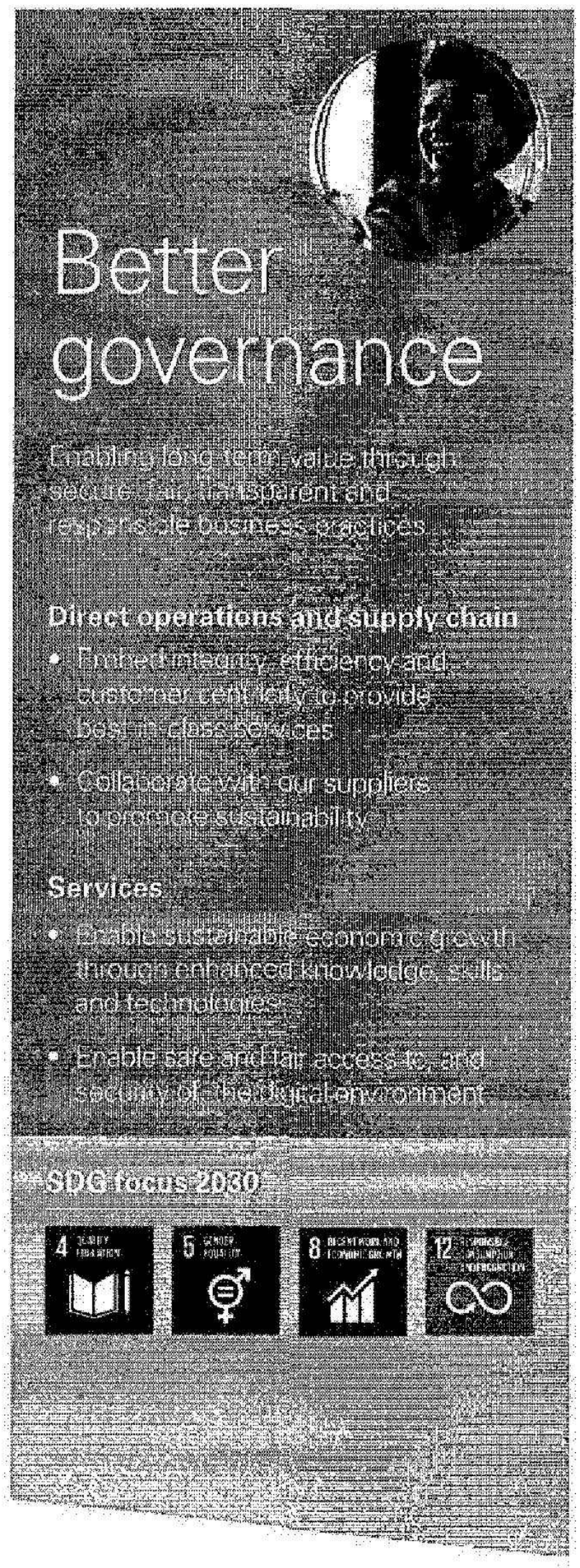
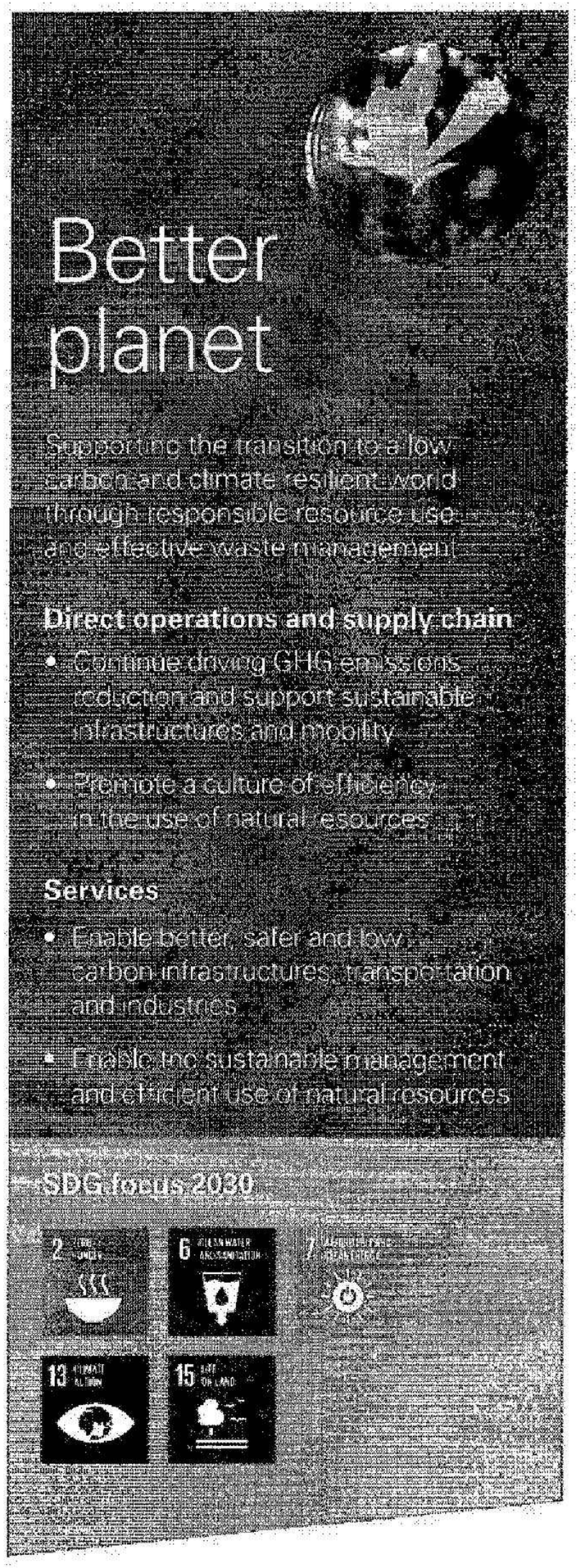
Risk description		Material topic	Summary of impact	Mitigation measures
External	**Customer needs**	• Customer relationship management • *Innovation* in services and operations	• Loss of revenue due to insufficient capacity from change in customer demand • Risk of losing customer due to customer dissatisfaction, key subcontractor loss, lack of agility, technology and systems • Risk of lost opportunity	• Enable business digitalization through strategic partnership on technology development to identify solutions to mitigate operational risks, and to improve efficiency and competitiveness
Process	**Service delivery**	• Customer relationship management • Innovation in services and operations	• Inadequate capability to deliver, due to insufficient resources, equipment and investment • Risk of incurring liability and losses from inaccurate service performance or mistakes, process non-compliance • Risk of missed revenue and margin pressure (service failure)	• Implementation of the World Class Services initiative to achieve and maintain 'Zero Defects' standards in our labs • Standardization and optimization of the LIMS execution systems (worldwide Digital Lab initiative) • Enhancement of Voice of Customer Program to enable consistent measurement of Customer Satisfaction (CSAT) and Net Promoter Score (NPS), and corrective measures for main SGS affiliates

Our sustainability goals aligned to our capitals

Our 2030 sustainability goals, which are based on supporting the transition to a low carbon and climate resilient world, empowering equality, well-being and prosperity and enabling long-term value, are integrated into capitals.







Our capitals



Financial capital

⊕ Read more on page 41



Manufactured capital

⊕ Read more on page 48



Intellectual capital

⊕ Read more on page 52



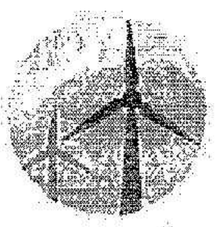
Human capital

⊕ Read more on page 56



Social and relationship capital

⊕ Read more on page 62



Natural capital

⊕ Read more on page 66

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Financial capital

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

1 How we develop our financial capital

Mid-term targets 2020-2023

- High single-digit constant currency revenue Compound Annual Growth Rate (CAGR) driven by mid single-digit organic* growth per annum and a focus on M&A
- >10% Adjusted operating income* CAGR
- Strong economic value added discipline (EVA)
- Maintain or grow the dividend per share

2 Our inputs

	2021	2020	2019	2018
Profit CHF MIO	**655**	505	702	690
Total equity CHF MIO	**1 202**	1 134	1 595	1 743
Total assets CHF MIO	**7 007**	6 908	6 327	6 068

3 Progress during the year

Financial discipline and focused capital allocation

- In 2021, our strong operational performance was supported by our pricing initiatives and cost control in an inflationary environment, and working capital management. At the same time, we have continued to invest in productivity across the global network
- Organic* growth was particularly strong in our key strategic focus areas of Health & Nutrition, Connectivity & Products, Knowledge, which are all tracking comfortably above 2019 organic revenue levels
- Significant progress was made on the strategically important implementation of our 'Level Up' finance, IT and operations initiatives. This includes accelerating the coverage and capability of our shared service centers, progress on our IT transformation, billing centralization and improving our reporting data intelligence
- Nine acquisitions were completed, further aligning our portfolio with our key megatrends

A strong financial performance

- Total revenue reached CHF 6.4 billion, up by 14.3% (14.2% at constant currency*), driven by the ongoing recovery from the Covid-19 pandemic as well as strategic focus and significant contribution from acquired revenue
- Organic revenue* increased by 8.9%
- Operating income increased from CHF 795 million in prior year to CHF 977 million in 2021 due to the revenue increase and related productivity improvement. No goodwill impairment was recognized in 2021. In 2020, the high restructuring costs were partly offset by a gain on business disposal
- Adjusted operating income* increased from CHF 900 million in prior year to CHF 1 055 million in 2021, an increase of 17.2% (16.8% at constant currency*)
- Adjusted operating income margin* increased from 16.1% in prior year (also 16.1% at constant currency*) to 16.5% in 2021, supported by additional productivity increase
- Net financial expenses slightly decreased from CHF 54 million in prior year to CHF 53 million in 2021
- Effective tax rate (ETR) decreased from 32% in prior year to 29%. The prior year was mainly impacted by non-deductibility of both goodwill impairment and a portion of restructuring costs.

* Alternative Performance Measures (APM), refer to the "2021 Full Year APM" document.

Financial capital
continued

3 Progress during the year continued

Financial discipline and focused capital allocation continued

- Profit attributable to equity holders increased from CHF 480 million in prior year to CHF 613 million in 2021, an increase of 27.7% over prior year
- Basic earnings per share increased from CHF 64.05 in prior year to CHF 81.91, an improvement of 27.9%
- Cash flow from operating activities was CHF 1 169 million, comparable with prior year. Higher profit was offset by a higher net working capital requirement to support the recovery of activity in 2021. Operating net working capital* remained negative as a percentage of revenue at (2.4)% compared to (2.5)% in prior year
- Free cash flow (FCF)* decreased from CHF 758 million in prior year to CHF 635 million in 2021. The lower level of FCF was mainly driven by higher capex investment
- Investment activities: Net capex was CHF 331 million versus CHF 246 million in prior year and the Group completed nine acquisitions for a total cash consideration of CHF 214 million
- Financing activities: In 2021, the Group paid a dividend of CHF 599 million
- Return on invested capital (ROIC)* increased from 16.5% in prior year to 19.6% in 2021. Prior year was impacted by SGS Analytics which was acquired as at 31 December 2020. Adjusted for this acquisition, 2020 ROIC would have been 20.9%
- As at 31 December 2021, the Group net debt* was CHF 1 691 million versus CHF 1 478 million in prior year

4 Outcomes

	2021	2020	2019	2018
Revenue CHF BN	**6.4**	5.6	6.6	6.7
Free cash flow CHF MIO	**635**	758	673	796
Adjusted operating income margin* %	**16.5**	16.1	16.1	15.7

5 Outlook 2022

- Mid single-digit organic growth
- Improving adjusted operating income benefiting from operational leverage
- Strong cash conversion
- Maintain best-in-class organic return on invested capital*
- Accelerate investment into our strategic focus areas with M&A as a key differentiator
- At least maintain the dividend

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

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Investor relations
Fostering transparency and trust

Our investor relations program ensures that we provide clear, transparent and consistent information to build trust and to support the financial community to make informed decisions.

The TIC industry is increasingly attractive for investors. The technical and complex services which we provide to our customers are largely mandated by regulations conferring a high proportion of predictable and recurring revenue and attractive returns with a strong exposure to sustainability. Our leadership position in the TIC industry is purpose driven and directed by a highly experienced management team. In addition, the long-term megatrends towards sustainability support our industry growth.

Our approach

We have an established and flexible investor relations program. Our team leads the communication with our current and prospective shareholders, bond holders and analysts. We also engage with a broader ecosystem which supports investor decision making.

We held our annual investor days meeting for analysts and investors in May 2021. At this virtual event, we outlined SGS's strategy and gave participants the opportunity to engage with our Operations Council in an open and transparent way. The event was a huge success and we are being considered for an award. The online format enabled more investors to attend and we are pleased that our strategy is becoming more understood (see chart).

We also covered SGS's 2030 sustainability commitments and outlined our expectations for a growing suite of ESG services, which form a key part of our strategy. Our commitment to enabling a better, safer and more interconnected world for employees, customers, shareholders and for society at large is integral to the next phase of our strategic evolution. We continue to engage with investors on all matters relating to SGS and sustainability.

How we engage with shareholders

We have traditionally engaged with shareholders and potential investors through face-to-face meetings on our regular roadshow schedule, at investor conferences and through adhoc meetings. Our annual investor days and site visits ensure that our investors are able to physically experience our facilities and spend time with our operational management team to get a deeper understanding of the business.

The pandemic represented a watershed for communication and we will continue with a combination or virtual formats and fewer face-to-face meetings than we have done traditionally. However we do look forward to meeting our investors again in person over the course of 2022.

Our Investor Relations webpage on sgs.com is central to our program and we continue to use technology to streamline our investor relations processes. This includes algorithms to efficiently target potential investors. Despite the ongoing challenges due to Covid-19, in FY21, we successfully and independently organised roadshows in two key cities and held our annual investor days virtually. More broadly, we have engaged with investors in over 400 meetings over the course of 2021.

Our investor base is evolving

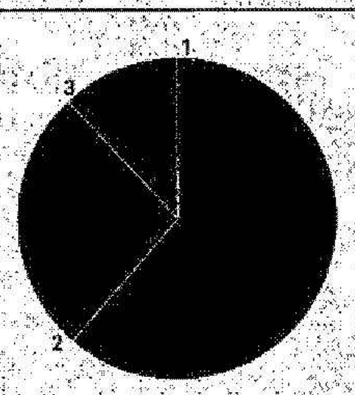
The majority of our institutional investors are based in Europe, which accounts for over 60% of our shareholder base, while investors in North America and Asia account for approximately a quarter and 10% respectively.

FY21 investor engagement feedback (average rating 1 – negative to 5 – very positive)

What was your overall impression of the meeting?	4.6
Do you feel you understand our strategy?	4.3
How confident are you that SGS's strategy will accelerate organic growth?	3.8
How clear are our capital allocation priorities?	4.2
Do you view sustainability as integral to our strategy and culture?	4.1

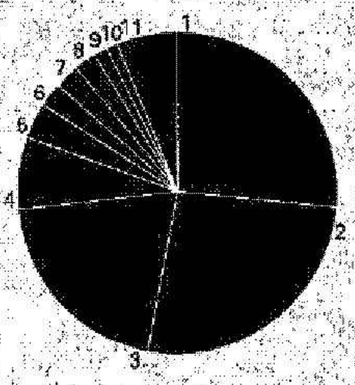
Investor relations in 2021

Investor contact by region



1. Europe	64%
2. Americas	25%
3. Rest of the world	11%

Institutional investors by geography



1. Switzerland	26.9%
2. United Kingdom	26.2%
3. United States	20.5%
4. Norway	7.1%
5. Luxembourg	3.5%
6. Germany	2.7%
7. The Netherlands	2.4%
8. France	2.2%
9. Canada	1.3%
10. Japan	1.2%
11. Other	6.0%

Moody's credit opinion rating

A3 stable

2020: A3

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Business review
Performance and outlook by division

1 Connectivity & Products



Revenue (CHF million)

CHF 1 288 m

Constant currency* growth in 2021

8.8%

Overview

- Organic growth of 7.7% driven by pandemic recovery and investment in Connectivity
- Excellent performance in Connectivity
- Solid recovery in Softlines supported by brands and retailors, but lower PPE volume
- Strong performance of Hardgoods, better market conditions for Auto labs and Toys were stable
- Trade Facilitation services growth was led by eCustoms expansion in Europe

Outlook

- Continued growth expected in all SBUs
- Significant investment in capacity and competence to support Connectivity growth; Cybersecurity to contribute to performance
- Hardlines to maintain its growth momentum in Hardgoods and a continued improvement in Auto
- Trade Facilitation services to benefit from the expansion of eCustoms solutions and new contracts
- Softlines expected to remain stable

2 Health & Nutrition



Revenue (CHF million)

CHF 861 m

Constant currency* growth in 2021

30.1%

Overview

- Organic growth of 15.9%, ahead of pre-pandemic levels in double digits
- Food delivered double-digit organic growth driven by new regulations and an expanded customer base
- Health Sciences grew well above the divisional average boosted by Covid-19 vaccine work
- Cosmetics & Hygiene grew in double digits, benefiting from a strong rebound in activity and expanded competence

Outlook

- Strong growth drivers are expected to continue in 2022
- Outsourcing and regulation trends to continue supporting growth in Food and Health Sciences
- Momentum to continue in Cosmetics & Hygiene led by strong demand and additional capabilities
- Continued integration of acquired companies and a solid pipeline of potential targets

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3 Industries & Environment



Revenue (CHF million)

CHF 2120m

Constant currency* growth in 2021

18.0%

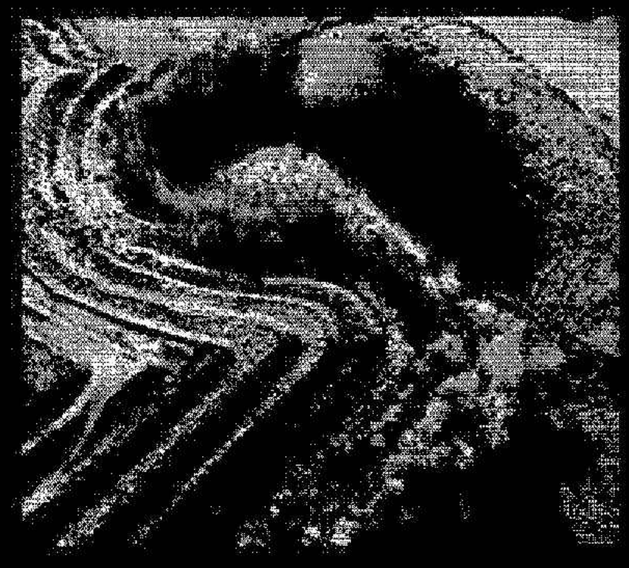
Overview

- Organic growth of 7.5% driven by strong volumes across Europe, Asia and Latin America
- Field services and Inspection grew in double digits as demand improved across all geographies
- Industrial and Public Health & Safety grew above the divisional average driven by lab testing in Asia and strong volumes in Health & Safety services in North America
- Latin America drove double-digit organic growth in Technical Assessment and Advisory. The acquired Ryobi also performed very strongly

Outlook

- Growth to be driven by increased demand from energy, manufacturing, building and infrastructure markets with focus on sustainability and renewables
- Targeting scalable bolt-on acquisitions and new state-of-the-art solutions to strengthen competitive position
- Full benefit from the integration of SGS Analytics to be realized, delivering operational synergies and the acceleration of our hub and spoke lab model in Europe environmental testing

4 Natural Resources



Revenue (CHF million)

CHF 1473m

Constant currency* growth in 2021

6.2%

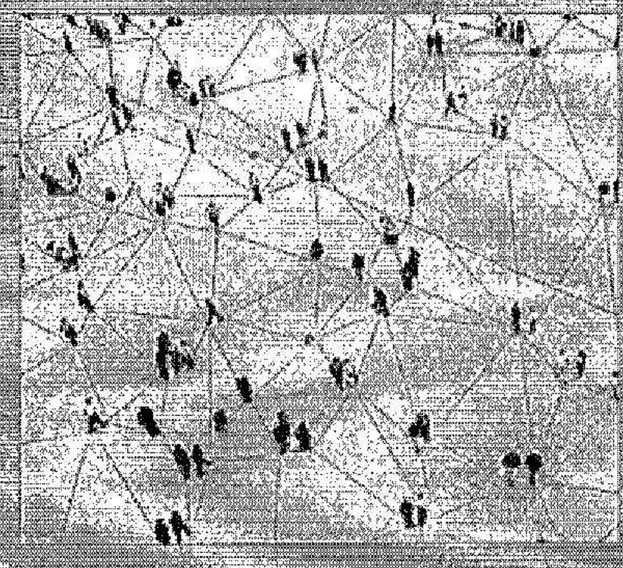
Overview

- Organic growth at 6.0% driven by a buoyant minerals market
- Strong demand across Minerals commodities offset volatile performance in Agricultural commodities
- Oil & Gas commodities maintained stable growth
- Lab Testing benefited from a surge in minerals exploration sample volumes across the network
- Metallurgy and Consulting grew in double digits as delayed prior year projects resumed

Outlook

- Strong outlook in Mining with ongoing increased exploration funding and demand for critical metals
- Improving market fundamentals for Agriculture albeit at a slow pace
- Slow recovery in Oil & Gas with ongoing transition to renewable sources
- Development of sustainability solutions to continue with focus on the energy and mining industry
- Service innovation in Geomet and technical consulting

5 Knowledge



Revenue (CHF million)

CHF 663m

Constant currency* growth in 2021

14.7%

Overview

- Organic growth of 14.7% driven by a double-digit increase in all SBUs and regions
- Management System Certification grew in double digits driven by recertification and high volumes in Information Security and Medical Device certifications
- Customized Audits grew above the divisional averages driven by retail efforts and ESG services
- Consulting grew more than the divisional average. SGS Productivity (Lean, Six) and Management Systems (ISO) strongly

Outlook

- Solid growth driven by solid demand in Certification, especially medical devices, ESG services and consulting
- Supplier Risk Management digital services to generate new revenue streams
- Continued roll-out of CertiQ, the new knowledge centric application, to drive further efficiencies through the digitalization of audit data

Case study

Financial capital

The integration of SGS Analytics into the Group is on track and enables us to help businesses comply with increasing food, pharmaceutical and environmental safety regulations.

Integrating SGS Analytics to create a 'hub and spoke' model

The challenge for our customer

Ensuring the safety of the air we breathe, the soil that grows the food we eat, the pharmaceuticals we use and even the hospitals we visit is a growing concern for our customers and their clients. By expanding our geographic reach and accelerating the establishment of our hub and spoke model we can serve more customers and improve turnaround times.

Our solution

The acquisition of SYNLAB Analytics & Services, now known as SGS Analytics, has added more than 37 laboratories and approximately 2 000 professionals to our global network. It has strengthened our presence in North-Western & Central Europe, particularly in Germany, Benelux and the Nordics, and enhanced our environmental, food and life sciences testing, and oil condition monitoring portfolios.

Not only was this the largest acquisition in the history of SGS, it was also our first centrally driven integration. While most acquisitions are local, this integration has involved people from several countries and affiliate companies in different regions. To manage this effectively, we set up a new strategic integration team led by a former member of our Operations Council to oversee the project, and to stand ready to support similar projects in the future.

With dedicated project managers, financial, IT, marketing and HR representatives in each area, the integration team was tasked with finding significant synergies, and building on an efficient and market leading environment, food and pharmaceutical testing business.

While systems integration is a big challenge, as we bring the facilities into line with SGS standards, our core aim has been to create a 'hub and spoke' model – with a 'hub' laboratory and other facilities, 'spokes', that feed into it. It is a model that is relatively undeveloped at SGS, and will help us maximize the value of SGS Analytics, both to the Group, and to our customers worldwide.

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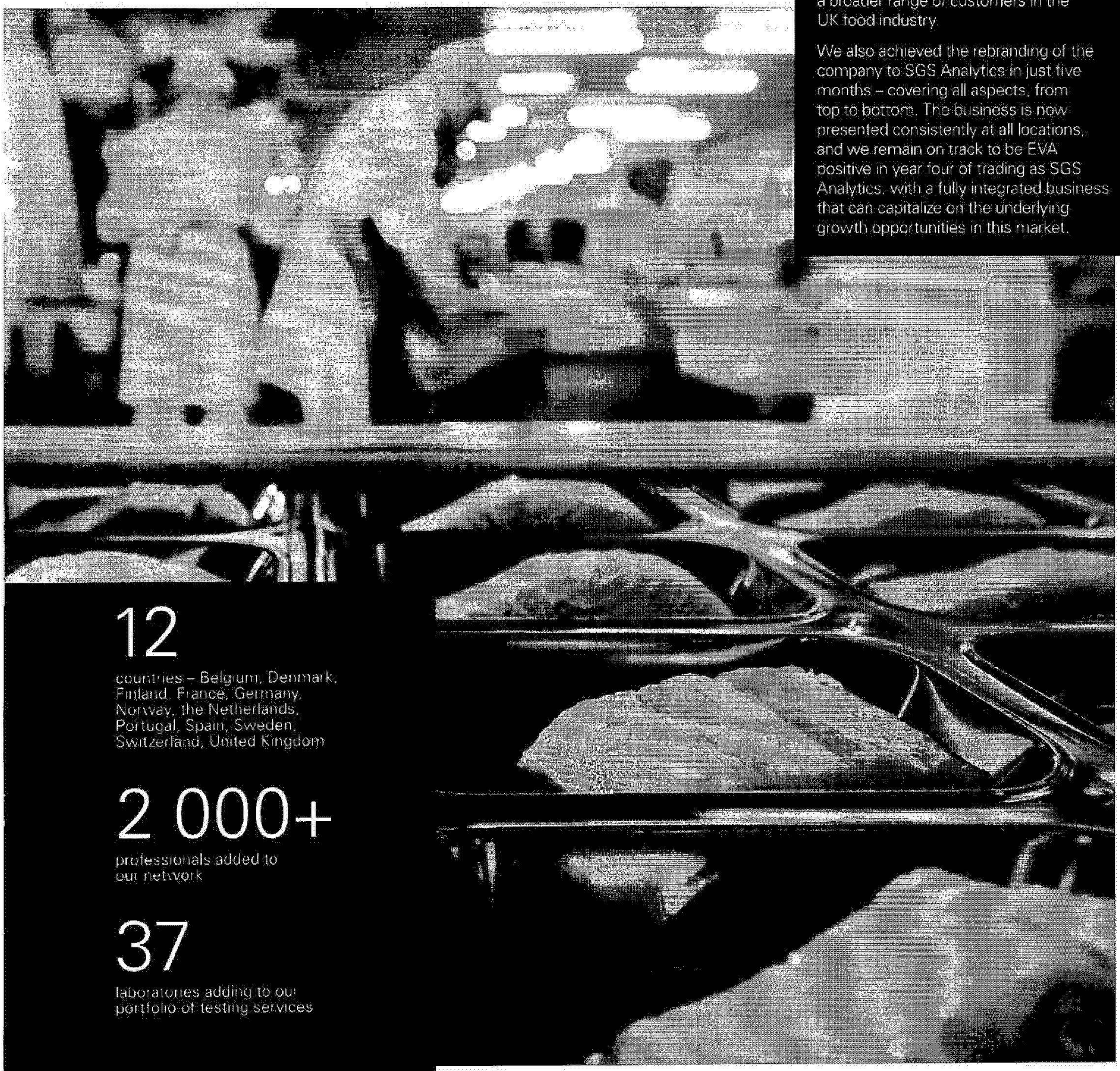
"With the legacy business added to our existing service portfolio within Analytics, we have a much more complete offering to provide to our customers in Scandinavia. We are expanding the business to new customer segments and markets. By the 'reverse' integration we are a true TIC company active in all aspects of the TIC industry."

Johan Bengtsson
Managing Director, SGS Scandinavia

Next steps

The integration of SGS Analytics is well on track. We have retained all of the company's larger customers, and they appreciate that we can complete the testing we do for them as a core part of our business. It has given us a major presence in Scandinavia for the first time, and the deal has opened up new opportunities to work with a broader range of customers in the UK food industry.

We also achieved the rebranding of the company to SGS Analytics in just five months – covering all aspects, from top to bottom. The business is now presented consistently at all locations, and we remain on track to be EVA positive in year four of trading as SGS Analytics, with a fully integrated business that can capitalize on the underlying growth opportunities in this market.



12
countries – Belgium, Denmark, Finland, France, Germany, Norway, the Netherlands, Portugal, Spain, Sweden, Switzerland, United Kingdom

2 000+
professionals added to our network

37
laboratories adding to our portfolio of testing services

Manufactured capital



Manufactured capital covers the property, plant, equipment and other manufactured goods, and our investments in our buildings, laboratories and offices which enable us to provide better services to our customers.

1 How we develop our manufactured capital

Invest in and maintain our testing laboratories

– With laboratory testing at the center of our main business activities, one of our largest procurement categories concerns the equipment and services required to operate our laboratories. As well as negotiating the right commercial terms for the business, we also ensure fit for purpose quality and on time delivery in every corner of the world

Deliver the best deals

– SGS purchases tens of thousands of different items and services on a recurring basis. To best manage this spend Procurement has launched a new 2023 Procurement Strategy. It has been designed to deliver the best deals throughout our operations, while connecting us with our suppliers who can help ensure we achieve sustainable profitable growth. The strategy focuses on four pillars: value for money, productivity, operational excellence, and sustainability and innovation

2 Our inputs

	2021	2020	2019	2018
Capital expenditure CHF MIO	**336**	259	290	304
Operating expenditure CHF MIO	**1 364**	1 206	1 495	1 634

3 Progress during the year

Invest in and maintain our testing laboratories

– We made several strategic laboratory acquisitions focusing on new digital solutions, and purchasing the testing equipment we need to support long-term profitable growth
– The acquisition of SGS Analytics, which was completed at the end of 2020, added more than 37 laboratories and approximately 2 000 professionals to our global network, significantly strengthening our presence in North-Western Europe. You can read more about our SGS Analytics in our case study on pages 46-47
– We made several other acquisitions including Quay Pharmaceuticals Limited a leading innovative formulation research and development organization supporting its customers through the various stages of pharmaceutical clinical development. This acquisition represents a step forward in our strategy, increasing the scope of services to support our customers across the Health Science supply chain
– We have further expanded our expertise in construction materials testing this year by making The Lab (Asia) Ltd. a wholly owned subsidiary of the SGS Group. The acquisition of the minority stake has allowed us to fully integrate The Lab (Asia) Ltd. into SGS, offering both the platform and competence for further expansion into the mainland Chinese infrastructure market
– The acquisition of Metair Lab has further consolidated our market leading position in health and hygiene testing in France. The company provides air sampling and asbestos testing services in the country and is accredited for both asbestos and air quality assessment. Metair Lab has also developed an indoor air quality solution, an area of great interest globally

Deliver the best deals

– Following some caution in 2020, we increased our capital expenditures during the year. We saw signs of growth across most of our regions following the gradual easing of Covid-related restrictions and strong recoveries in the economy

⊕ **You can read more about our new Procurement strategy in our social and relationship capital section on pages 62-63**

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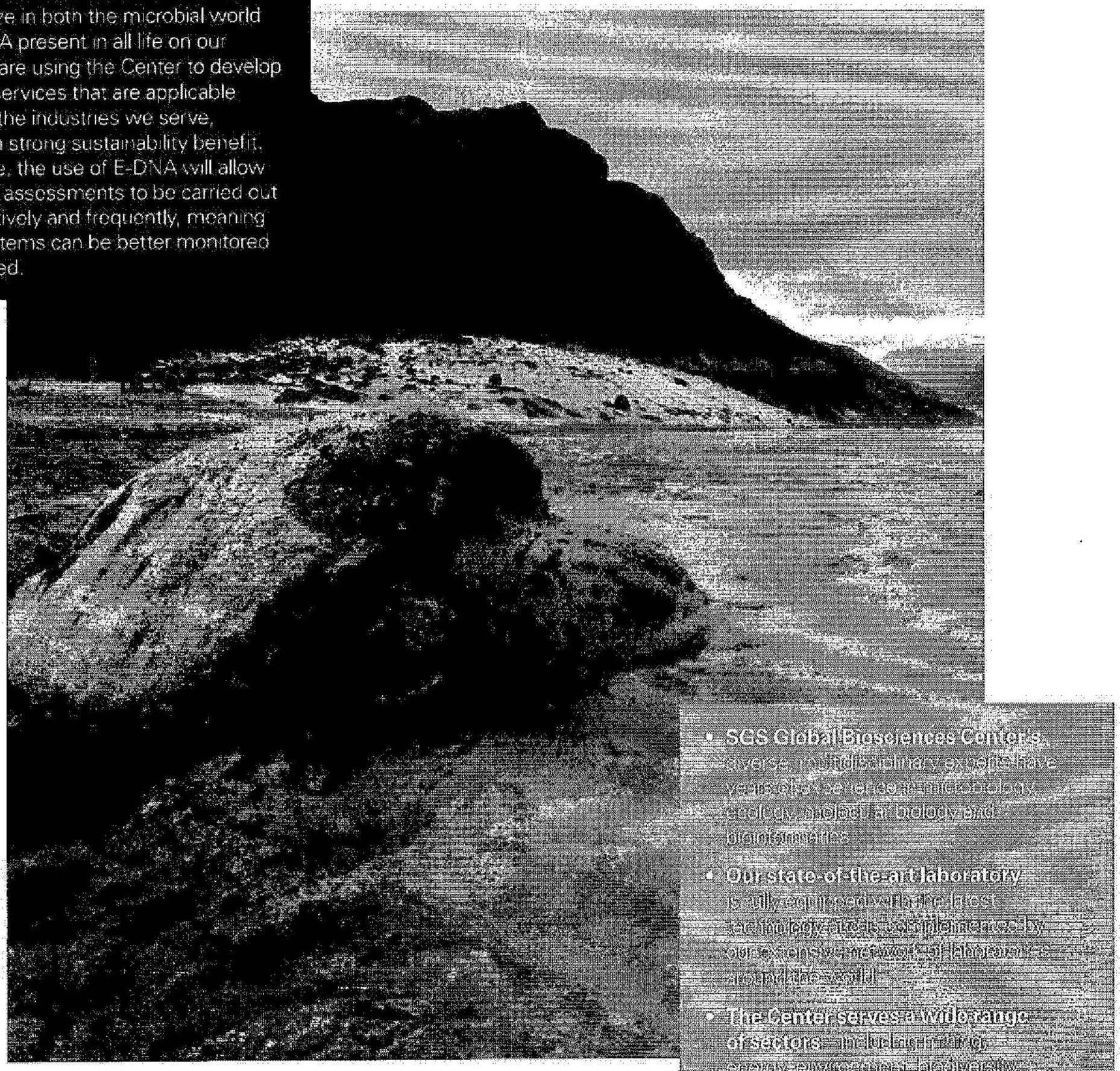
Case study

Our Global Biosciences Center and E-DNA

At the SGS Global Biosciences Center, we specialize in both the microbial world and the DNA present in all life on our planet. We are using the Center to develop integrated services that are applicable to many of the industries we serve, often with a strong sustainability benefit. For instance, the use of E-DNA will allow biodiversity assessments to be carried out more effectively and frequently, meaning that ecosystems can be better monitored and managed.



- **SGS Global Biosciences Center's** diverse, multidisciplinary expertise have years of experience in microbiology, ecology, molecular biology and bioinformatics.
- **Our state-of-the-art laboratory** is fully equipped with the latest technology and is continuously supported by our extensive network of laboratories around the world.
- **The Center serves a wide range of sectors** including food, energy, environment, biodiversity, industry, cosmetics, transportation and supply chains.

4 Outcomes

- SGS Analytics added 37 labs & 2 000 professionals significantly strengthening presence in North-Western Europe
- Two new cosmetic testing labs in China equipped with cutting-edge technologies

5 Outlook 2022

- Continue working towards our 2023 Procurement Strategy
- Work with innovative suppliers to support our digital agenda and develop new innovative and sustainable business opportunities
- Develop a plug & play model to integrate new companies efficiently and leverage acquisitions to further deliver synergies across the Group

Case study



Manufactured capital

As the new Chinese cosmetics regulation came into force in 2021, we had to adapt our capabilities and support our customers through this change.

Helping our customers adapt to changing cosmetics regulations in China

The challenge for our customer

In January 2021, the new Cosmetic Supervision and Administration Regulation came into effect. This regulation introduced new Standards for Cosmetic Efficacy Claim Support, which requires the cosmetics industry to comply with extensive efficacy testing. Many players have been struggling to implement these changes, particularly when it comes to ensuring that their product claims can meet the National Medical Products Administration's (NMPA) detailed claim classification requirements.

Our solution

As a leader in testing, inspection and certification for the cosmetics and hygiene industries, our customers rely on the services we provide. Over the years, we have built a strong market reputation with our customers, and SGS is proud to be their first choice when they need to demonstrate safe, effective and stable products.

To maintain this level of trust, we needed to be ready for these changes. Our expertise made it a significant amount of work to prepare for the implementation of this new regulation and provide training and guidance to support our customers along the way.

SGS China already operated two state-of-the-art cosmetic clinical evaluation centers in Shanghai and Guangzhou, but space for expanding either laboratory was limited. To cope with the increased demand, we have opened two new laboratories in Xi'an and Hangzhou, locations that are both close to key players in the industry. We invested heavily in technologies, including an impressive array of testing instruments and imaging systems to support skin care product claims. While these sites were under construction, we trained new technicians and clinical evaluators to ensure we were ready to be operational as soon as possible.

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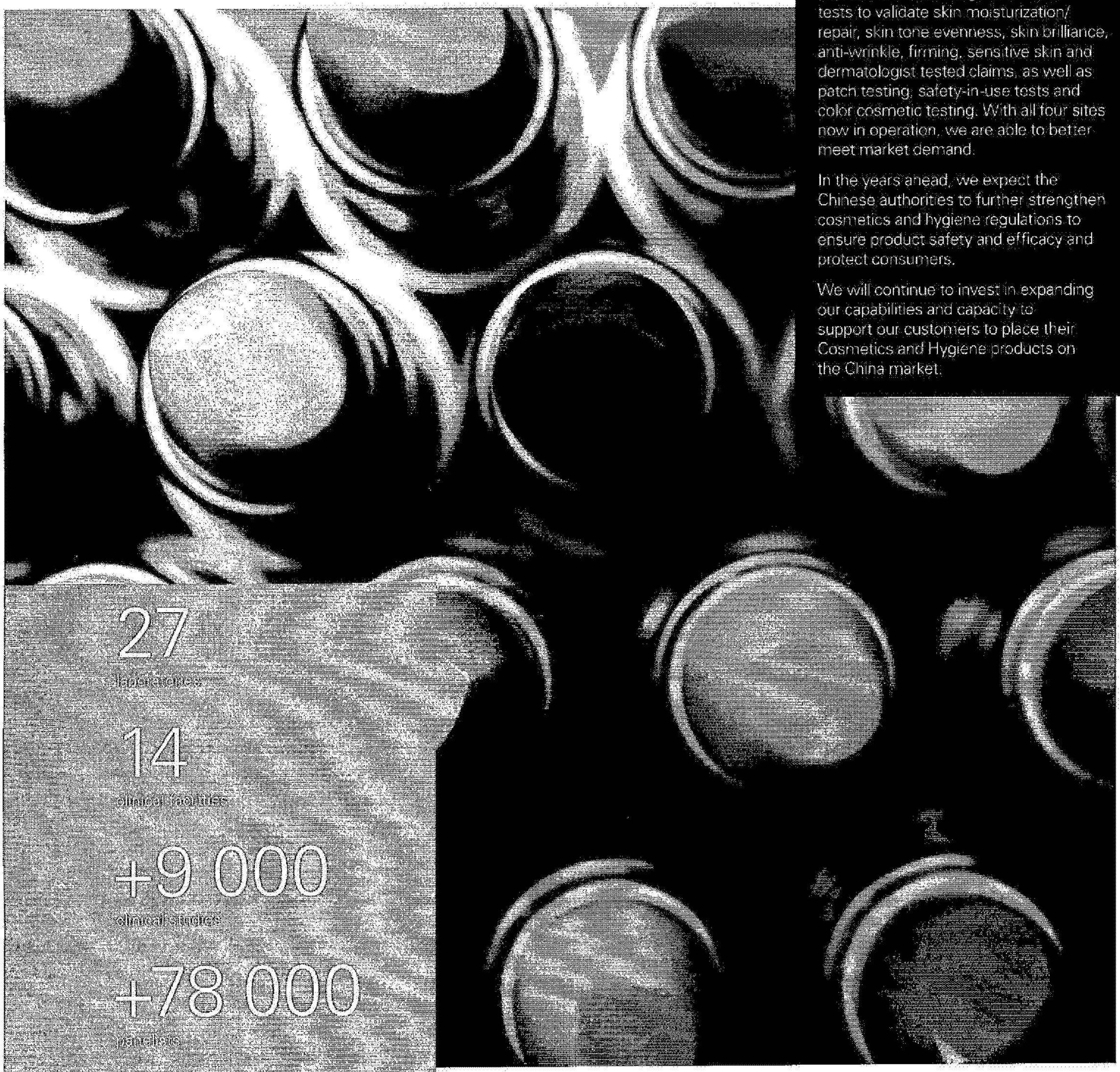
"Product claim substantiation is never easy, especially when dealing with new regulations. To complement our existing state-of-the art clinical testing facilities in Shanghai, Guangzhou and Xiamen, we have invested heavily to equip the Hangzhou facility with the latest, most cutting-edge technologies, so we can help our customers back up their product claims with 100% accurate data."

Pierre-Yves Dupont
Group VP Cosmetics & Hygiene



Next steps

Our new site in Xiamen focuses on tests seeking to validate anti-acne, nourish, repair, anti-wrinkle, oil control, skin firmness, moisturization and hydration claims. The laboratory opened in June and it was already working at full capacity within a few months.

The Hangzhou site opened in October and offers a wide range of efficacy tests to validate skin moisturization/repair, skin tone evenness, skin brilliance, anti-wrinkle, firming, sensitive skin and dermatologist tested claims, as well as patch testing, safety-in-use tests and color cosmetic testing. With all four sites now in operation, we are able to better meet market demand.

In the years ahead, we expect the Chinese authorities to further strengthen cosmetics and hygiene regulations to ensure product safety and efficacy and protect consumers.

We will continue to invest in expanding our capabilities and capacity to support our customers to place their Cosmetics and Hygiene products on the China market.

Intellectual capital

Intellectual capital is our intangible and knowledge based assets, which include our people's knowledge of protocols, procedures, our business lines and customers. It also encapsulates our focus on developing innovations that meet customer needs, and the way we improve our processes and services, adding value to society.

1 How we develop our intellectual capital

Build capabilities that will enable us to deliver on our strategy	– We are pursuing several initiatives to enhance the delivery of our strategy. In our labs, our WCS methodology is based on the zero optimum concept: working towards zero accidents (safety), zero defects (quality), zero breakdowns (maintenance) and zero inventory (logistics)
Innovate for our customers	– We promote innovation among our employees and provide tools that will help us develop ideas and prioritize projects with the potential to scale up to significant new revenue streams for SGS. Specifically, we are applying digital technologies to make existing processes more efficient and create new services. Applying IoT technologies to existing services is reducing inspector involvement and gives us new ways to monitor and manage objects in the physical world while providing new streams of data
Train our people to innovate and generate new intellectual capital	– The ability of our people to innovate is integral to our success. We promote self-directed learning, tailor our talent development programs to fit local markets, business needs and employee expectations, and invest in digital tools for training and development
Secure our information and know-how	– This involves protecting our business and the intellectual capital we have developed. Key areas for us are data privacy and information security

2 Our inputs

	2021	2020	2019	2018
Goodwill and other intangible assets CHF MIO	**2 160**	1 984	1 468	1 426

– R&D expenditure CHF +70 MIO

3 Progress during the year

Build capabilities that will enable us to deliver on our strategy

– Twenty-two laboratories have adopted WCS methodology and started their journey towards World Class. The roadmap towards World Class status for each laboratory is challenging, and is evaluated by external parties in order to have a recognized value. Twelve of our laboratories had been audited by the end of 2021, of which five have already had a second audit. In addition, we have identified five potential additional sites to be included under the scope of WCS. This is in line with our 2030 Sustainability Ambitions and supports our 2023 goal to promote a culture of efficiency and excellence through WCS – with 20% of WCS labs to reach World Class Manufacturing (WCM) Bronze award level and for SGS to expand the program to at least 10 new sites. This expansion will be at our laboratories in Latin America, South East Asia & Pacific, and the Eastern Europe & Middle East regions

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3 Progress during the year continued

Innovate for our customers

- We have successfully deployed services in a wide range of sectors. For example, SGS AirSense is a comprehensive real-time indoor air quality monitoring solution that combines continuous sensor measurements, powerful Cloud tools, insightful reporting and analysis, and an SGS Indoor Air Quality (IAQ) Monitored Mark, all packaged together – enabling customers to really understand their space and improve their air quality
- Using SmartWarehouse we have also been sensing and collecting valuable data throughout 2021, which has helped our customers to preserve their grain commodities in Kazakhstan, the Baltic States, Spain, Bulgaria, Hungary, the Netherlands, Turkey and many other countries

Train our people to innovate and generate new intellectual capital

- Our knowledge management platform, SGS Campus has become the most visited site by SGS people. It is one part of our more self-directed, on-demand, digitalized and continuous learning culture, which helps us deliver greater efficiency, the right skills and proficiency, and better service for our customers
- We have leadership programs with two business schools. We nominated 16 senior managers for the International Institute for Management Development leadership program in Switzerland and our new partnership with INSEAD has allowed us to scale up executive education to an additional 45 leaders. In addition, our internal management and leadership framework INSPIRE supports SGS managers at all levels
- While 2021 has been a transition year for us with new leadership in digital and innovation, and a fresh approach to the way we work, we have focused on three key areas – automating our existing operations, digitalization of the customer journey and defining our vision and mission
- We continue to encourage our employees to put forward new ideas and set up a monthly innovation. We have started to form 'innovation squads' (our first is in Lisbon) to address particular projects. We have also started to use Viima software, which enables us to gather and develop ideas from employees and stakeholders, prioritize them and pick the right ones to progress

Secure our information and know-how

- Specific training on information security and data privacy considering the implications of remote working regarding information security, data protection and cybersecurity
- We comply with the EU Cyber Security Act and other relevant legislation, and seek to expand this focus worldwide, applying it to hardware, consumer IT and medical solutions
- We are major investors in Komgo, a blockchain-based platform that supports traders by securing all digital documents in one place, helping to simplify operations and standardize documentation. We also use the blockchain system to ensure that no health data from Covid-19 testing, for example, is shared with anyone apart from the subject of that data. All data is kept on the user's mobile phone and the test result is confirmed via the blockchain system
- We launched our Information Governance Framework (IGF) last year, which provides a cradle to grave approach to the security of information pertaining to SGS and its employees, customers and suppliers throughout the information cycle. The approach incorporates behavioral guidelines and physical controls for the protection of hard copy and verbally transmitted information. We developed it further to address the issue of classification predicated on the risks related to information content
- We aim to be a leader in the field of data protection and are working to achieve greater consistency across the organization, improving processes with IT vendors and strengthening our data privacy team – including the appointment of a new Data Privacy Officer in China. We continue to roll out data privacy policies that raise global standards

4 Outcomes

	2021	2020	2019	2018
Training ratio % of total employment cost spent on training (includes safety training hours)	**2.61**	2.51	3.24	3.38
WCS Number of laboratories using the services	**22**	20	19	5
Employees trained in information security and data privacy %	**99**	99	95	95

5 Outlook 2022

- Complete our succession planning
- Restructure our performance appraisal process
- Deploy our digital and innovation strategy
- Further expand the WCS methodology to other labs. The focus of this expansion will be on our laboratories in Latin America, South East Asia & Pacific, and the Eastern Europe & Middle East regions
- Further reinforce our information governance framework

Case study

Intellectual capital

Using the SGS Productivity System we involved people on the shop floor to develop better working methods to achieve business improvements.

Working with Lactalis in Italy to improve efficiency at their Galbani plant

The challenge for our customer

Our customer Lactalis produce Galbani, Italy's best-known cheese brand, at their plant in Casale Cremasco, in Cremona, Lombardia. Founded in 1928, the plant is very well established and successful, but Lactalis asked SGS to help them drive through some changes at the site, in particular to improve efficiency and reduce waste on their production lines.

Our solution

At SGS Productivity we help our customers improve their productivity, quality and lead times. With Lactalis, our local team started with a diagnosis of the current situation at their Galbani plant and how they were managing the production line producing Mozzarella cheese. Then they discussed this with our international team, to determine the best improvement tools they could use to add value, and how best to implement them.

We know that change management is often regarded with criticism and distrust on the shop floor. There is always some resistance, but our approach is to involve people at every stage – engaging staff while optimizing processes to create a sustainable system of continuous improvement.

If you can get everyone behind the change, and explain the benefits to them as well as the organization, then you are much more likely to achieve the results you are looking for.

At the Galbani plant we agreed to proceed with a Lean manufacturing project that included in-house training, shop floor instruments and Lean methodologies that were applied together with the workers on the production line. This enabled Lactalis to reduce the set-up time when you change from one product to another. For example, changing a line from their 125g Mozzarella product to the 100g Mozzarella pack resulted in 50 minutes of manufacturing downtime. Working through the process, we reduced this set-up to just 20 minutes, while also reducing plastic bag waste by 2.5%.

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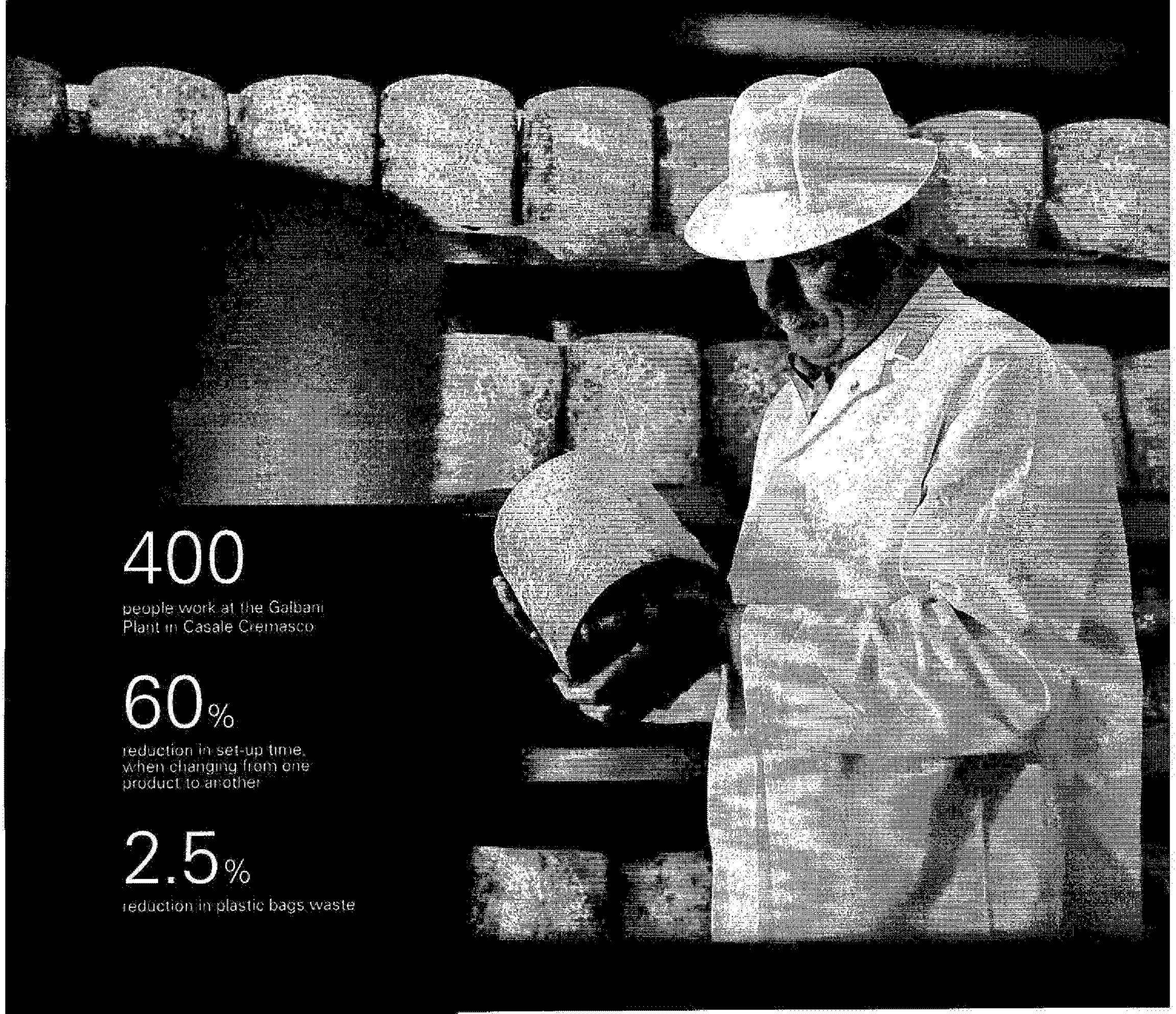
"Our Lean manufacturing project included in-house training, shop floor instruments and Lean methodologies that were introduced with the cooperation of the workers. Change management can be met with distrust, but when we had the opportunity to involve people it was well worth the effort. And the results followed."

Andrea Chevallard
SGS Productivity Manager

Next steps

This saving on set-up time can also be applied to other changes on the production line, such as a change from Lactose-free or Light to standard Mozzarella. Lactalis confirmed the increase in productivity, and we also introduced a KPI Dashboard and a formal communication system to support the change. The model will now be used more widely across the Company's plants, not just in Casale Cremasco, but also at Corteolona, Certosa and Melzo.



400
people work at the Galbani Plant in Casale Cremasco

60%
reduction in set-up time, when changing from one product to another

2.5%
reduction in plastic bags waste

Human capital



Working with integrity, employing people fairly and without discrimination, and protecting the health and safety of our employees are our top priorities. Addressing these human rights risks is also a priority in our supply chain. Our services help our customers to address these same risks.

1 How we develop our human capital

Work with integrity	– Given the nature of our business, being trusted is a prerequisite of everything we do. That is why we must always act with integrity, and why that is embedded into our business model. SGS people do not engage in any form of bribery or corruption, and we adhere to the legal requirements of every country where we operate. The SGS Code of Integrity applies to all employees, as well as affiliated companies, contractors, subcontractors, joint venture partners and agents
Respect human rights	– We have a company-wide human rights policy, which is in line with 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. 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
Acquire the best talent	– It is important for SGS to attract the best and right people to work with us, now and in the future. To do this, we manage our talent acquisition strategy locally with global guidance
Commit to diversity and equal opportunities	– This is expressed in our SGS Business Principles, Code of Integrity and Human Rights Policy. We have also implemented a Global Anti-Discrimination and Dignity at Work Policy. It complements our Code of Integrity and aims to raise awareness of our zero tolerance of any form of discrimination, as well as providing guidance on how to deal with it
Engage and care for our people's well-being	– In line with our culture of care, we promote initiatives to enhance the physical and mental well-being of our employees. We value feedback and encourage employees to voice their opinions via our voluntary annual employee engagement survey, Catalyst
Providing a safe and healthy environment	– Our goal is for zero accidents and for zero harm to come to our people across our operations. To achieve our Operational Integrity (OI) mission, we develop safety initiatives around eight areas: (i) Visible Leadership; (ii) Performance Management; (iii) Resources and Skills; (iv) Training and Awareness; (v) Communications; (vi) Risk Management; (vii) Health, Safety and Environmental (HSE) Compliance; and (viii) Digitalization, recognizing the important benefits technology can bring to our work in OI

2 Our inputs

– 93 297 (average number of employees)
– One SGS Recruiter Academy
– 15 SGS Rules for Life

3 Progress during the year

Work with integrity	– In 2021, the total number of integrity issues reported through corporate integrity helplines was 262. Of these, 35 were identified as breaches of the code of integrity. Our Code of Integrity is reinforced through mandatory annual integrity training, and all new employees are required to complete the same integrity training within three months of joining SGS. As integrity risks evolve over time, we remain alert to significant changes and update our policies and materials accordingly. – We have reviewed our procedures to include more internal integrity audits. We continue to strengthen our compliance and integrity function, underlining its strategic importance to the organization. We have increased the size of our team this year, and plan to expand the team further over the next two years.

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3 Progress during the year continued

Respect human rights

- In December we launched new human rights training that is compulsory for all employees. The three main objectives of the training are to raise employees' awareness of the rights they have; to ensure they fully understand their own responsibilities in the area of human rights; and to let them know more about the communication and reporting tools available to them
- We also reinforced our governance around human rights. This involved the creation of a new Human Rights Taskforce, bringing together colleagues from several key functions, including Human Resources, Legal, Global Procurement, Corporate Security, Operational Integrity and IT. The new Taskforce defines our human rights strategy at an operational level, and has put together an action plan for 2022 that will support our commitment to human rights, and seek to harmonize our global approach

You can read more about our approach to human rights in our 2021 Sustainability Report

Acquire the best talent

- By the end of 2021, we had rolled out our new e-recruitment tool, SmartRecruiters, to 36 countries, twice the number we had reached at the same point last year, and covering 80% of all the open positions across the Group. The tool has helped us improve our hiring velocity and the quality of our hires, with more data driven decision making assisted by AI, resulting in an increase in the diversity of our employees. It has also proved very popular with hiring managers, and has enabled collaborative recruitment, which is the key to success

Commit to diversity and equal opportunities

- At the end of 2021, women occupied 29% of leadership positions. Having gender diversity in leadership positions is very important, and we encourage women to progress their career through our active diversity & inclusion strategy. To that end, we are working towards equal representation in our succession planning exercises and leadership development programs
- We also launched an awareness session focusing on Inclusion, Diversity, Equity and Accessibility (IDEA), with around 400 managers in attendance

You can read more about our Diversity & Inclusion strategy in our 2021 Sustainability Report

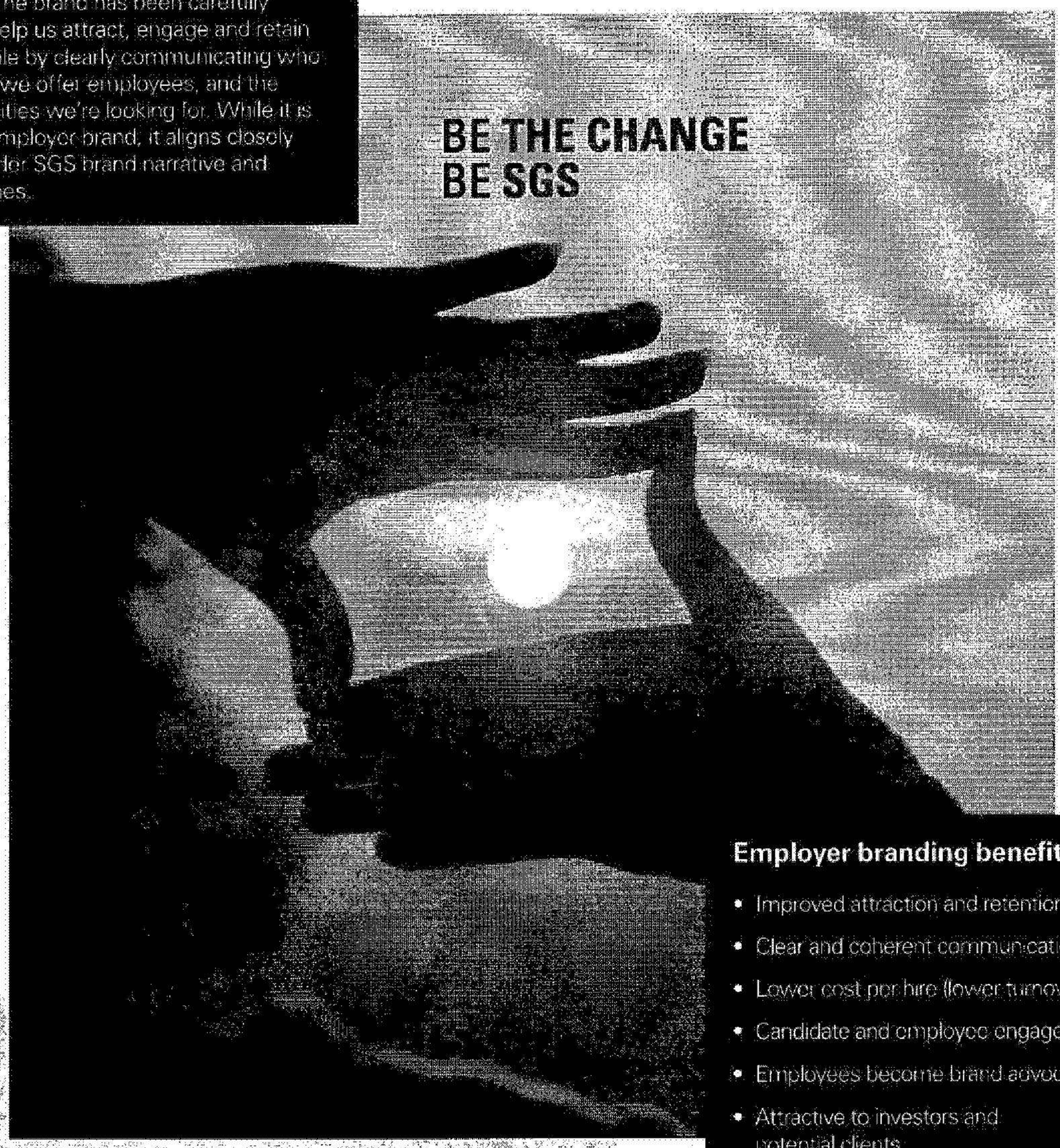
Engage and care for our people's well-being

- Activities have involved a further drawing contest for children, as well as a community food bank challenge. The SGS People – 15 Day Challenge has also been used to thank colleagues for their hard work during a difficult period
- Towards the end of 2020, we launched a global home working policy as part of an overall strategy to address changing work patterns, disaster recovery situations, and workplace preferences, many of which have stayed in place for much of 2021. We are also now benefiting from the increased flexibility afforded by technology
- We sought out the opinion of 35 000 employees using our Catalyst employee survey. More than 85% of our colleagues shared their opinions and highlighted that they have felt safe at work and recognize that the level of integrity at SGS is higher than ever
- Employee engagement and manager effectiveness has significantly improved compared to previous years and now surpasses external benchmarks, highlighting the positive impact of concrete actions we have taken during the past 36 months. Despite Covid, and the remote work relationships that resulted from it, 76% of our employees feel well connected to their co-workers and believe that they receive feedback from their managers

Case study

Be the change. Be SGS.

With our new employer brand, we are asking all of our colleagues to 'Be the change', and to 'Be SGS'. The brand has been carefully designed to help us attract, engage and retain the best people by clearly communicating who we are, what we offer employees, and the skills and qualities we're looking for. While it is a dedicated employer brand, it aligns closely with the broader SGS brand narrative and brand guidelines.



Employer branding benefits

- Improved attraction and retention
- Clear and coherent communication
- Lower cost per hire (lower turnover)
- Candidate and employee engagement
- Employees become brand advocates
- Attractive to investors and potential clients

We have developed four employer value proposition (EVP) pillars that are globally defined SGS themes – 'Be Proud', 'Be Collaborative', 'Be the Expert' and 'Be the Difference'. These are attributes to build our Employer Brand strategy on, positioning ourselves and differentiating us from our competitors. We are embedding these themes into all our communications, across the many touchpoints we have that define both the candidate and employee experience at SGS.

A new chapter for our employer brand

We have revamped our employer brand to create a compelling, competitive, credible, and segmented SGS brand, both internally and externally. It aligns with our 2023 Group Business strategy, our Talent strategy and SGS's sustainability ambitions, and allows us to fulfil the needs of our different regions, businesses and job groups, while ensuring a consistent employer brand identity globally.

We have also sought to give SGS a more visible human face by creating an employee-centric brand that will help us adapt to the workforce of the future, and meet their needs and priorities, particularly around safety, purpose, wellbeing, and flexible working arrangements.

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3 Progress during the year continued

Providing a safe and healthy environment

- We saw another moderate improvement in safety, but the most important program we started this year was one around cultural change. We know that 90% of accidents are due to inappropriate behaviors, but changing these behaviors is not easy. We are working to understand the triggers in the field that might help us influence individual behaviors
- We have launched initiatives in France, Spain and Belgium to identify trends and behavioral influencers or risk contributors. These involve sending surveys to our people about perceptions around why accidents happen, and trying to determine differences between those who had accidents and those who did not. As we reported last year, we have identified around 500 sites globally that are considered 'critical' and 'important' sites across our operations, and we continue to work with them on tackling their safety and resilience
- We have also looked at big programs, such as fire prevention and the use of acids that present a significant risk of explosion. We have specialists in our global team working on these and we dedicated CHF 4 million towards specific fire prevention investment alone
- We upgraded both the eLearning training for all employees that echo our 'SGS Rules for Life' and the OI Awareness for Managers program. The new 'SGS Rules for Life' eLearning is a brand-new course, designed with illustrative 3D animations that reflect credible life-threatening scenarios. The goal of the training was to make employees relate to their applicable rules for life in a more relatable way and so learn the preventive actions
- We prioritized the global implementation of our Industrial Hygiene Monitoring System 'HealthTRACK'. This included a full review and improvements to the functionality of the system, and developing virtual 'face-to-face' training for nominated HealthTRACK Champions in close to 50 countries across our operations worldwide
- The exposure risk to hazardous materials, such as chemicals and airborne contaminants was also high on the Industrial Hygiene agenda. Our Chemical Safety Program focused on high risk chemicals such as perchloric acid, due to its explosive nature under certain conditions. The reinforcement of best practice requirements around ergonomics, chemical safety, and laboratory design and management will continue in 2022 as a high priority

4 Outcomes

	2021	2020	2019	2018
Lost time incident rate (LTIR)	**0.22**	0.23	0.26	0.25
Code of Integrity: % employees trained to Code of Integrity	**99**	98.8	98.8	90.7
Women in Leadership %	**29**	28	26.7	26.4

5 Outlook 2022

- We will seek to automate as much as we can within our recruitment process to remove the potential for bias and to ensure we find 'top talent' faster and provide our qualified recruiters with more time to search for the skills SGS will need in the future
- We are planning for tomorrow, while transforming today. That means working to upscale our workforce to maintain our advantage, in the face of political and social change
- We will continue to build on our pipeline of well-rounded and inspiring leaders, and ensure the knowledge we have is being transferred to the next generation

Case study



Human capital

SGS North America needed a simple employee recognition program that their people would not only want to use but could also see potential benefits.

KUDOS Employee recognition program in North America

The challenge for our business

We know from our Catalyst employee survey results that recognition of our people has a very high impact on colleagues' engagement – improving morale and boosting employee loyalty. When people feel valued by SGS and their peers, they are more aligned to our strategy, values and purpose. That is why the HR team in SGS North America looked for a way to provide managers with a tool that would help them provide regular, meaningful recognition.

Our solution

As many of our managers across North America are responsible for employees in both the US and Canada, we needed a solution that would provide the same service across borders. SGS North America partnered with Awardco, a service provider that offers to 'Reimagine Recognition' and provides a recognition platform that is easy to use for both managers and employees.

Awardco's approach is simple: when people are recognized and rewarded for doing a good job they are more motivated and more engaged in their work, which leads to them getting recognized more. It is a virtuous cycle, and one the team in North America were keen to take advantage of. With Awardco's support, we launched our revamped Service Award Program.

Teams across borders can now easily recognize their colleagues on their service anniversary by sharing pictures, memories and kind words. Employees also get to choose a gift from Amazon Business.

We then shifted our attention to the key matter of recognition. To address this, we created KUDOS, through which our employees can recognize their peers on a shared feed. Managers can also recognize their people on the same feed and provide points that add up to another opportunity for employees to select an item they would like from Amazon Business.

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"We have received positive feedback on the new KUDOS program from both employees and managers. We are looking forward to our next Catalyst employee survey to see how KUDOS has affected our results."

Kelly Gilbert
Compensations and Benefits Manager

Next steps

SGS North America has received positive feedback from both employees and managers on this new approach to recognition. We will be looking closely at our next Catalyst employee survey to see how KUDOS affects our results. In the meantime, we will continue to look for new ways to promote the program among our employees, and conduct a full review of KUDOS at the end of the year, so that we can fine tune it if necessary in 2022.



Recognitions

1476
co-worker KUDOS program

977
Employee Recognition program

84292
points awarded

Social and relationship capital



Social and relationship capital covers how we collaborate with our customers, suppliers, communities, and other stakeholders. This is not just important to our success, it ensures we add value for them and that together we add value to society.

1 How we develop our social and relationship capital

Engage with our customers	– Each of our divisions has a customer care department, connecting customers to relevant parts of SGS. Each of these departments works hard to adapt our communication channels to meet our customers' needs
Collaborate with suppliers	– Our Procurement team provides SGS with a window to more than 65 000 suppliers worldwide, with over 60 global agreements representing 20% of total spend. We work closely with these strategic suppliers through our Supplier Relationship Management (SRM) program, developing long-term partnerships based on close collaboration, transparency and a win-win approach, which helps to boost innovation, sustainability and efficiency in our supply chain
Use procurement to drive sustainability	– Sustainability is a qualifier in the selection of our suppliers, and we can influence and support over 65 000 suppliers to adhere to our own values and principles, including collaboration and specific initiatives
Support our communities	– We aim to make a measurable and lasting positive impact by investing in the communities in which we operate

2 Our inputs

– SGS Community Program
– +800 000 customers
– 65 000 suppliers

3 Progress during the year

Engage with our customers	– The SGS Online Store, now present in 28 countries, enables customers worldwide to either buy or request a quote for a large range of SGS services. These include services in the areas of Environment, Health and Safety; Agriculture, Food, Oil, Gas and Chemicals; Certification; and Cybersecurity. The SGS Online Store makes it easier for us to engage with customers, reach new customers and makes the sales process more efficient. For customers, it simplifies the process of engaging with SGS, making it easier and more appealing for them to access our services – We track customer sentiment through our annual Voice of the Customer surveys, and all feedback is reviewed and followed up swiftly. We are working to enhance these surveys further in 2022, increasing the sample size of customers interviewed, and bringing greater visibility to the survey results globally. – The results of our Laboratory Excellence Program, the largest of our annual Voice of the Customer surveys, help us to continually improve our services. This year we achieved a result of 88% customer satisfaction, in line with last year and high compared to the past few years
Collaborate with suppliers	– Since 2020 business continuity challenges have increased, becoming one of our most important priorities in the cooperation with our suppliers. Our supply chain is truly global, which provides us with opportunities but also makes us more vulnerable to global turmoil such as geopolitical disputes and bottlenecks in logistics capacity. Close collaboration with strategic suppliers makes a significant difference in helping us to anticipate and overcome potential shortages and delays – Overall, procurement contributes to the competitiveness and productivity of our businesses by managing CHF 2 billion third-party spend on operations and capital expenditure, with our state-of-the-art procurement operating model – With tens of thousands of suppliers and around 80% local sourcing we continue to develop more automated procedures. By applying online sourcing we can not only obtain market-conformant prices, but also ensure full documentation and fit for purpose specifications. We are currently sourcing 95 million CHF through online tenders

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3 Progress during the year continued

Collaborate with suppliers continued

- We are also developing a 'plug and play' procurement model to help us integrate new companies more efficiently following acquisitions, and to deliver further synergies
- On value for money, we have further increased incremental gross savings while optimizing inventories where needed, as well as enabling the faster integration of acquisitions
- By ensuring we work efficiently, and comply with our processes and systems, we deliver a better user experience and performance across the business. Through the management of payment terms, we optimize our working capital
- Innovation is at the core of our procurement strategy, as we talk to suppliers every day that can deliver fresh digital solutions and innovative technologies to our business. This approach started as our Lab of the Future program, which was an important part of our procurement strategy in 2020 and has now been embedded into this pillar of our updated Procurement and Supply Chain Strategy

Use procurement to drive sustainability

- Driving sustainable sourcing in our supply chains support our 2023 and 2030 sustainability ambitions, and will help us reduce the overall CO_2 footprint across our value chain
- One third of our annual spend is now with suppliers who have signed the SGS Supplier Code of Conduct. In particular, we ask our strategic suppliers to collaborate with us on transforming the products and services we purchase into more sustainable ones

Support our communities

- We continued to promote volunteering, pro bono work, corporate donations and employee giving under our three community strategy pillars: empowerment, education and environmental sustainability. This helps us to contribute towards our global priority Sustainable Development Goals
- Although Covid-19 restrictions continue to limit the total number of volunteering hours, our colleagues are all entitled to take a free day for voluntary work, paid for by the Company. We are also committed to finding and supporting more online community volunteering opportunities. Financial and other donations, such as pro bono services, remain strong. Our affiliates continue participating in global initiatives that support local communities, like the SGS People – 15 Day Challenge

4 Outcomes

	2021	2020	2019	2018
Satisfaction score across all Voice of the Customer surveys This is a satisfaction score on a 0-100% scale	**88**	83	91	88
Spend sourced online	**4%**	3%	3%	1%
Investment in community CHF MIO* on a constant currency basis	**1.45**	1.25	1.35	1.38

* Alternative Performance Measures (APM), refer to the '2021 Full year APM' document.

5 Outlook 2022

- Deploy the new Voice of the Customer strategy framework to become a more customer-centric company
- Create a consistent program globally to measure and improve customer satisfaction
- Increase the sample size to gather statistically relevant results by affiliate and by division
- Fully deploy our 2023 Global Procurement Strategy
- Based on our supplier segmentation, further extend our sustainability principles to our supply chain by improving the Self-Assessment Questionnaire process and increasing the accuracy of the Scope 3 emissions associated to our supply chain
- Reinforce our sense on community through our community program and initiatives like the SGS People – 15 Day Challenge in 2022
- Enhance our global framework for community activities

Case study



Social and relationship capital

Prioritizing engagement, well-being and supporting local communities at SGS has become all the more important in these challenging times, and our SGS People – 15 Day Challenge is bringing our employees closer together and reinforcing our positive impact on communities around the world.

SGS People – 15 Day Challenge – strengthen the SGS community

"For SGS Poland it was a no brainer to join the SGS People – 15 Day Challenge again. Creating value for our colleagues, their families and our local community is a priority. We decided that the best way to support our community was to directly involve employees, so 5 local coordinators promoted the food collection for people in need in our 5 largest cities (Warsaw, Pszczyna, Wroclaw, Gdynia and Gdansk). As a result, we managed to collect over 200 kg of food, several thousand zlotys, which we directly transferred to food banks, and, as a donation, we supported the aims of the foundation that aim at preventing food waste. SGS employees responded enthusiastically to our action, not to mention the food banks themselves, when they learned the scale of our assistance. We are proud to work at SGS, which donated extra to the food collection!"

Justyna Kania
Marketing and Communication Manager
SGS Poland

The challenge

With the ongoing pressures on our people and their local communities due to the pandemic, we wanted to extend the support of the SGS family through our SGS People – 15 Day Challenge, which is now established as an annual event.

Our solution

The key objectives from last year's program – reinforcing our sense of community and sustainability culture and our support for local communities – were no less relevant in 2021. The three pillars around which it was organized were also unchanged, as our focus continued to be on: (i) our people; (ii) their families; and (iii) their communities. During the year, we ran activities at both a global and local level, involving people centrally, and across more than 50 affiliates.

An important part of this activity was the 'recognition challenge', through which our people were encouraged to publicly recognize colleagues at SGS by sending them kudos via SGS's all-employee Yammer group. More than 1 000 kudos were posted in Yammer to acknowledge the efforts made this year, and 20 affiliates organized other local initiatives, such as awards for the best employee and best team of the year.

To support both our people's families and our sustainability culture, we organized two specific events – a drawing contest for colleagues' children that once again attracted almost 2 000 entries, and a global "Leaders in sustainability" quiz, which featured questions on sustainability initiatives at SGS, our sustainability services, and individuals' personal commitments. More than 1 700 people took the quiz.

Finally, the SGS People – 15 Day Challenge, hosted by SGS's mascot Less the bear, was focused on supporting local communities. More than 30 affiliates organised activities to support local communities, especially food banks. The initiatives included fundraising, donation of food and other items, as well as volunteering. Many employees participated in collecting and/or delivering food and items to food banks and other charities. More than CHF 100 000 was raised globally, exceeding last year's figure. Corporate Sustainability donated an extra amount to one of the local food banks. This year the selected affiliate was SGS Poland.

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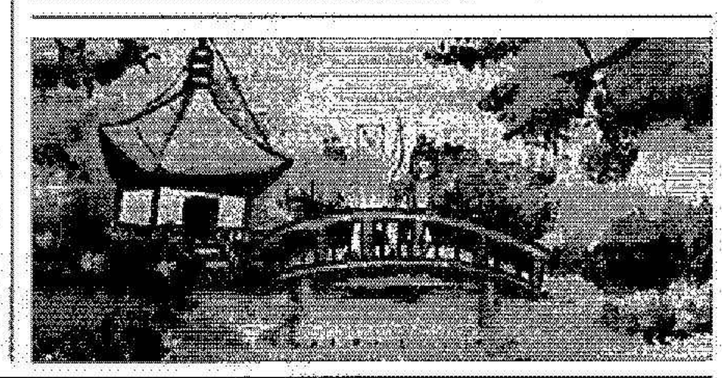
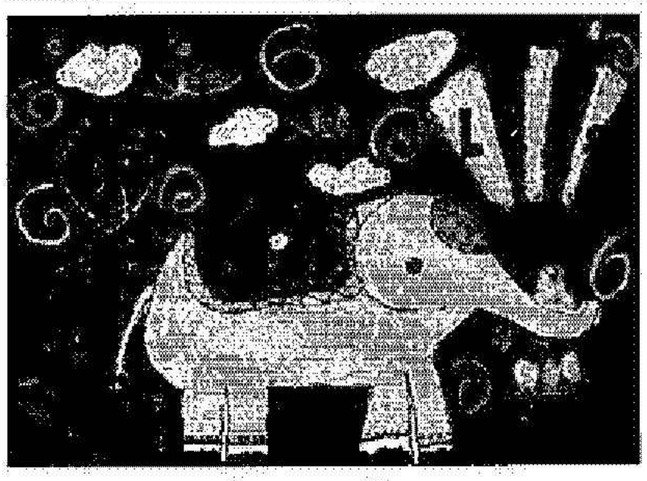
Next steps

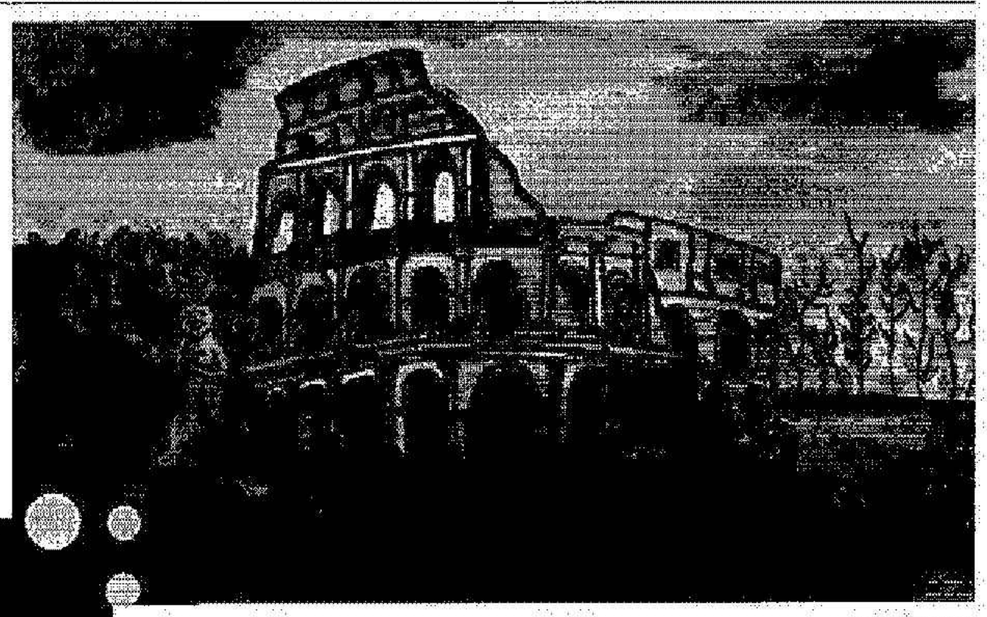
SGS People – 15 Day Challenge has now become an annual event, and will continue to strengthen our SGS community at a global and local level for years to come.





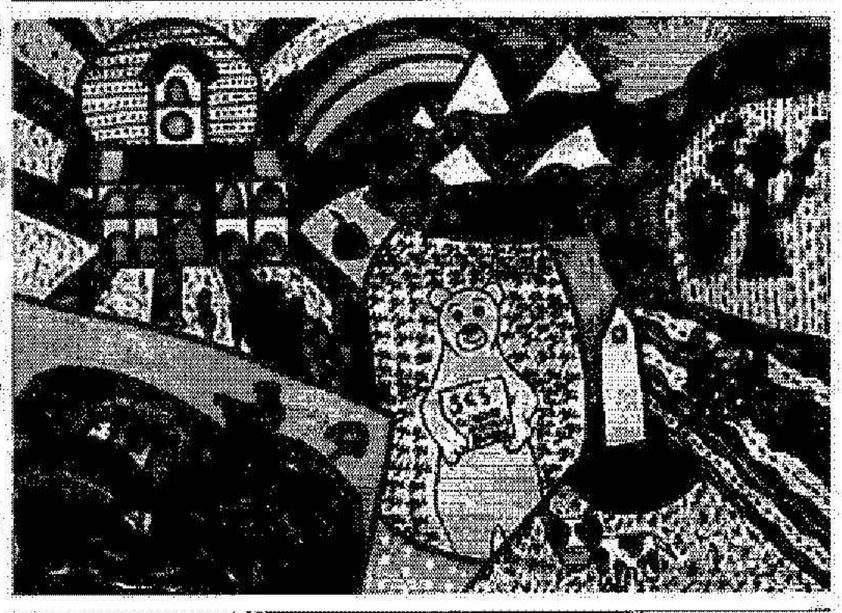










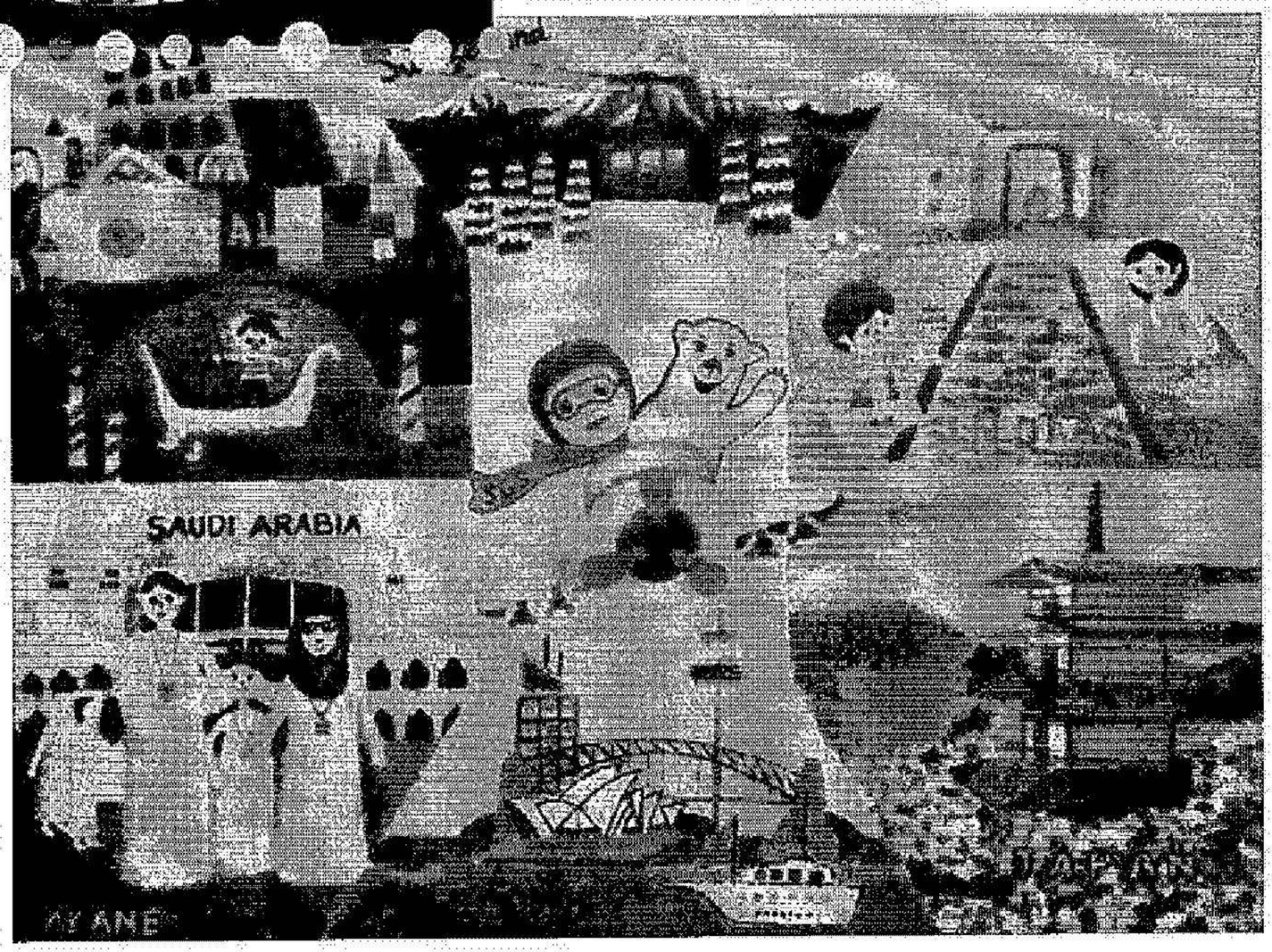


1000+

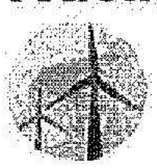
kudos posted in Yammer to acknowledge the efforts made by colleagues this year

>CHF 100 000

raised for local food banks



Natural capital



We are a carbon neutral business in our own operations, and preserve natural capital by managing the Earth's finite resources. We add value to society through the services we provide to our customers and by helping them transition to a low-carbon economy, minimizing their impact on the environment.

1 How we manage our natural capital

Our Climate Change Strategy

- Our climate change strategy focuses on reducing energy consumption at source, using renewable energy whenever possible, and off-setting residual emissions
- Our 2 600 offices and laboratories account for around 68% of our global energy consumption. We have been running energy reduction projects for more than 10 years, in particular our Energy Efficiency in Buildings (EEB) Program, which helps us design specific energy efficiency plans for our highest consumption buildings
- With more than 10 000 SGS business cars in our network today, we believe we can make a real difference by changing to new technologies or using different means of transportation
- Our employees are an essential part of this journey and we constantly develop environmental awareness initiatives. We promote employee participation to strengthen their commitment and take their initiatives and suggestions into account
- We are introducing renewable energy into our operations wherever possible. However, due to our numerous sites around the world and the low availability of renewables in some countries, using 100% renewable energy at SGS is a complex challenge
- Our green IT strategy and IT activation plan includes actions to save energy and reduce emissions from our IT assets
- Our priority is to reduce CO_2 emissions from our operations, but this is not always possible, so any residual emissions are compensated for through our carbon off-setting initiatives. This enables us to attribute a specific cost to the carbon that we generate. Each SGS affiliate takes responsibility for their emissions and the cost of off-setting them

Promote circular economy

- The waste we produce is also relatively low, but we do need to consider the way we handle chemicals, test samples, paper, plastic and organic waste at our offices and laboratories

2 Our inputs

	2021	2020	2019	2018
Electricity consumed GWh	**480**	441	451	446
Fuel consumed GWh	**448**	422	483	498

3 Progress during the year

Build capabilities that will enable us to deliver on our strategy

- SGS has maintained its Carbon Neutral status since 2014, and we were pioneers in setting science-based targets for 2025 and 2030, approved by the Science Based Targets Initiative (SBTi). Following our climate change strategy we are now committed to the Business Ambitions for 1.5°C and to Net Zero
- Evaluating and managing the risks associated with climate change remains a priority for SGS, and we are supporters of the Task Force on Climate-related Financial Disclosures (TCFD). We have adopted their recommendations around governance, strategy, risk management, and metrics and targets

You can read more about our climate change strategy in our 2021 Sustainability Report

You can read more in our TCFD Report (available 1 March 2022)

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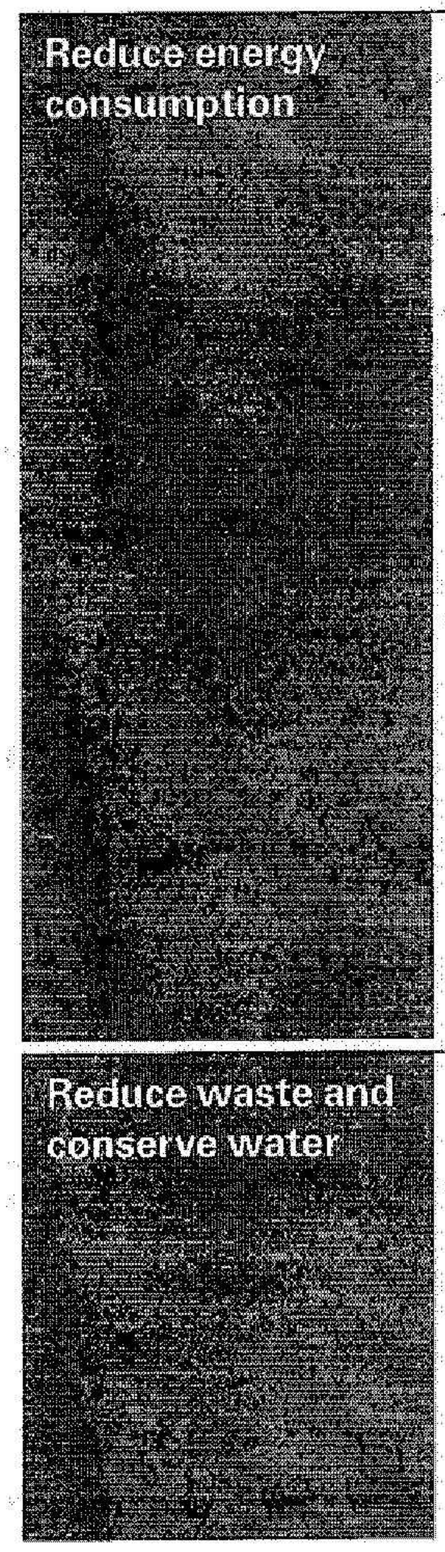
3 Progress during the year continued



- Despite Covid-19 restrictions we were able to provide new solutions to enhance our EEB Program. We added a new IT tool to help us visualize data and analyze/compare buildings to our EEB Program, and conducted a pilot energy audit in India
- By focusing our energy reduction efforts on our highest consumption buildings, we have demonstrated that we can make a significant impact on our energy levels. We currently have 700 buildings in our EEB Program, which accounts for 83% of our electricity and of our non-transport fuels consumption. We have now approved a global capex fund to support EEB measures and incentivize local investments
- We have reviewed the SGS Vehicle Emission Policy this year to adapt it to our 2030 targets, and this updated policy will come into force in 2022. One of our key initiatives to meet our new sustainability ambitions is to cap and further reduce the CO_2 emissions of the SGS vehicle fleet by a further 40%, and transition 50% of the fleet to low-carbon technologies by 2030. We have already introduced low-carbon technology vehicles into our fleet
- We delivered a comprehensive employee awareness campaign on climate action during COP26. This included interactive graphics to inspire simple steps people can take in the home, office and when shopping or traveling. The campaign promoted the actions SGS is taking for a low-carbon economy, and discussed how every employee has a role to play
- We launched our Sustainable IT Activation Plan to ensure our global IT organization is ready to engage and support the achievement of our 2030 Sustainability Ambitions
- We are investing in both Renewable Energy Certificates and on-site self-generation facilities (solar panels). So far, 97% of the electricity consumed by SGS comes from renewable sources, and we are working towards closing the gap as far as possible

- We have continued to develop our waste reduction initiatives, especially for plastic waste. We are working towards embedding the circular economy into our operations – keeping resources in use for as long as possible, extracting the maximum value from them, then recovering and regenerating products and materials at the end of their service life
- We engage in various initiatives that help us monitor the amount of water we use and minimize consumption across all our operations. As a company, we are not a highly intense consumer of water, so this is not such a material topic for us. However, we remain committed to ensuring we have efficient water management strategies in place. Within our EEB Program, which is primarily focused on our energy reduction efforts, we also assess water consumption and installations, so that we can make recommendations for site-specific water efficiency improvements

4 Outcomes

	2021	2020	2019	2018
CO_2e Thousand metric tons	**131 542**	122 952	159 848	167 976
EEB program Energy conservations measures identified (cumulative)	**694**	471	446	295

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

5 Outlook 2022

- Develop a policy to include circular economy principles into our waste and water management
- Full implementation of our new Vehicle Emissions Policy
- Continue deploying our Energy Efficiency in Buildings program
- Reinforce our IT Activation Plan
- Increase our environmental awareness initiatives

Case study

Natural capital

We are adapting the capacity in our traditional metallurgy business to service high-growth industries that rely on green technologies.

Identifying the evolving needs of the mining industry at our Lakefield site

The challenge for our customer

The mining industry is constantly evolving to meet the changing needs of the market. Given the strong support for actions that will mitigate climate change and improve sustainability in mining, there is more interest in wider, more diverse range of commodities, including critical minerals such as lithium, nickel, cobalt, graphite and rare earth elements.

Our solution

This year, our Lakefield facility in Ontario, Canada celebrated 80 years of excellence supporting the mining industry. Our expertise ranges from effective flowsheet development to practical technical solutions. Our metallurgy and mineralogy teams at Lakefield have completed over 21 000 projects, giving them extensive experience in taking a project from early exploration, providing a comprehensive understanding of the mineral deposit, through to optimizing the flowsheet design of the extraction process, to finally helping our customers successfully reach production.

With environmental considerations becoming more critical to our clients' success, we also help them to ensure their projects are environmentally sustainable and support the circular economy. For example, we have adapted to support the development of new processes, such as in lithium-ion battery recycling and carbon capture. As a global leader in metallurgy and mineralogy, we continue to innovate, particularly where we can add value to newly viable projects to extract complex mineral deposits that may have previously been considered uneconomic.

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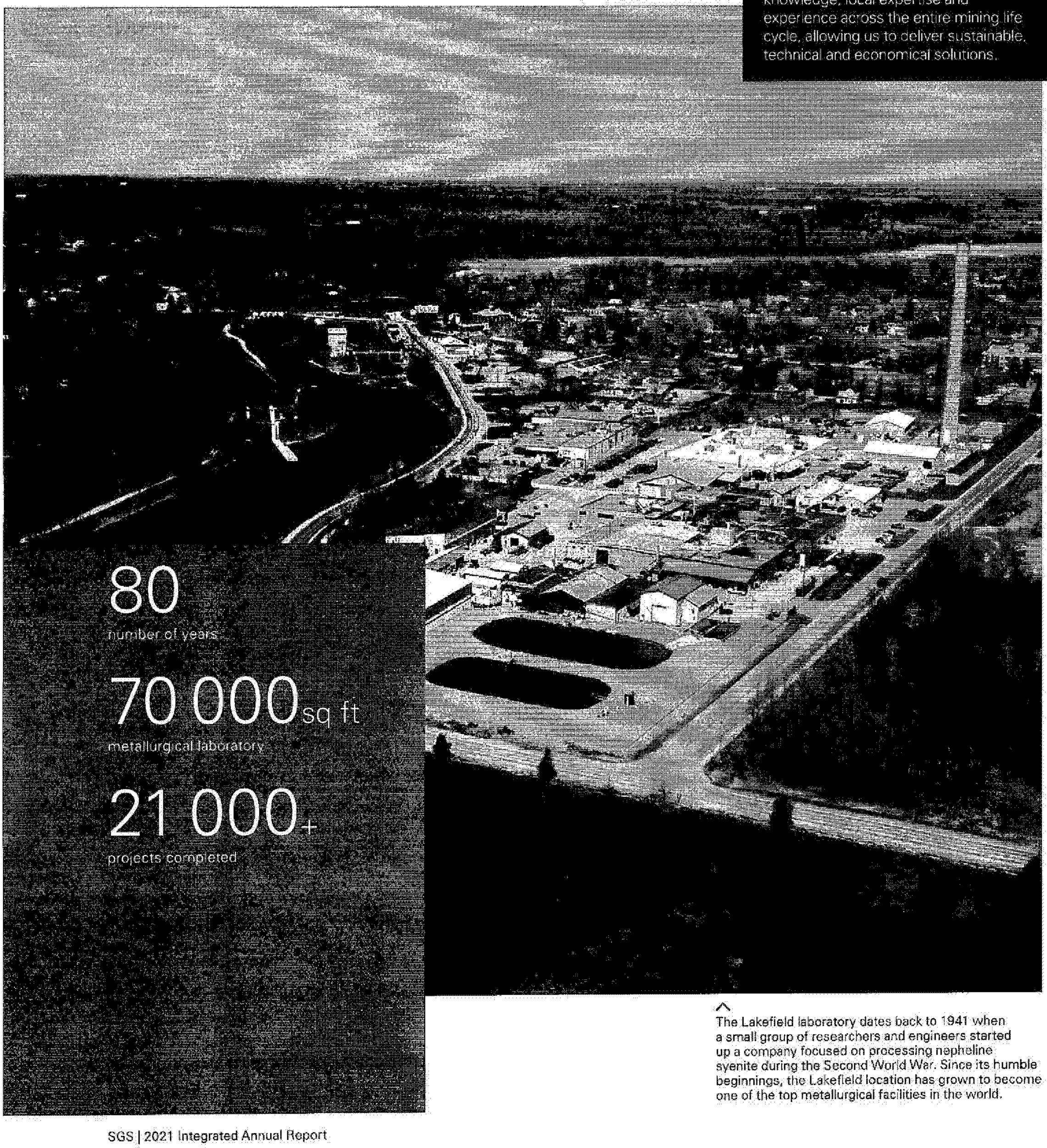
"As a leader in metallurgy and mineralogy, we continue to innovate and add value to complex mineral deposits. Projects previously considered to be uneconomical are now becoming viable with the metallurgical, sustainability and consulting insights we provide across the mining value chain."

Stephen Mackie
Metallurgy & Consulting NAM Director

Next steps

The sustained growth at our Lakefield site depends on our ability to identify and meet the evolving needs of the mining industry. Our metallurgical team has shown it is able to successfully adapt to shifting market demands, including the interest in a wider and more diverse range of commodities. At the same time, we offer unrivaled knowledge, local expertise and experience across the entire mining life cycle, allowing us to deliver sustainable, technical and economical solutions.



The Lakefield laboratory dates back to 1941 when a small group of researchers and engineers started up a company focused on processing nepheline syenite during the Second World War. Since its humble beginnings, the Lakefield location has grown to become one of the top metallurgical facilities in the world.

Quantifying our value to society

We are one of the few companies robustly and transparently measuring total value creation for society in economic terms. In the last year, we continued to develop our Impact Valuation Framework, adapting to new regulations and standards.

The Framework helps us to make better decisions, including non-financial considerations. It is based on six forms of capital, recognized by the International Integrated Reporting Council. Progress is measured through 32 indicators that support how we track our measurable positive impact.

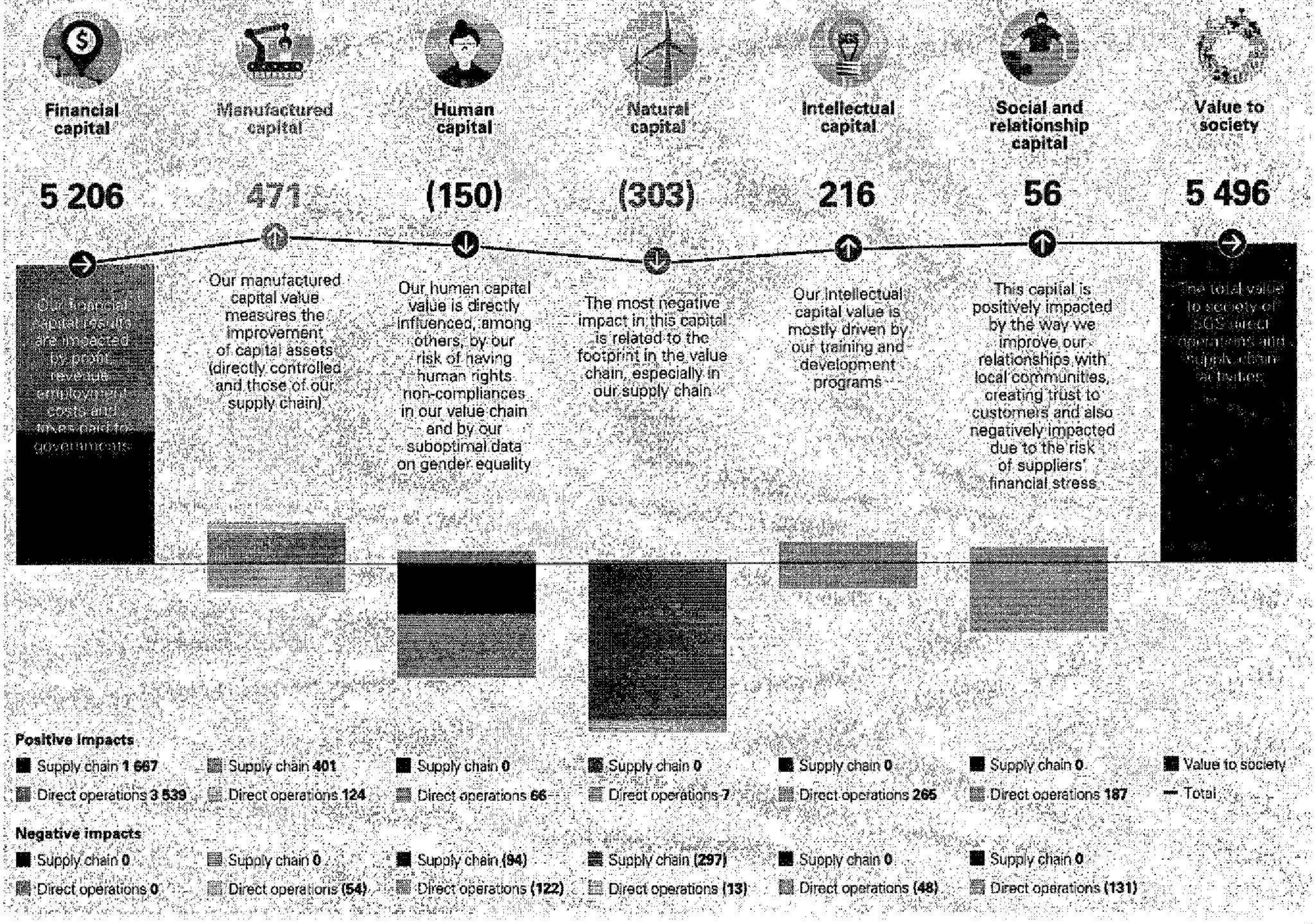
Applying our Impact Valuation Framework methodology, in 2021 we calculated that our total value to society was +CHF 5 496 MIO. The value of our positive benefit to society was +CHF 6 255 million.

This was primarily created through profit generation, the paying of taxes and wages, investment in training programs and information security. We also generated CHF 759 million of negative societal impacts, primarily driven by the environmental footprint of our supply chain.

⊕ For further information on our business model, please see pages 18 to 20 of our 2021 integrated annual report

↗ Find out more about our Value for Society methodology

2020 SGS value to society (CHF MIO)[1]



1. Value to society is calculated using 2020 figures. Within each capital we have identified positive and negative impacts. The values presented in each capital are the result of adding the positive impacts and subtracting the negative impacts.

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Our approach to sustainability reporting

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

Scope and boundaries

The scope of the sustainability information contained in this integrated annual report covers all regions and business lines of the SGS Group for the 2021 calendar year. A list of SGS affiliates can be found on pages 175 to 177 of this report. Unless stated otherwise, our reported data scope covers the Group business and targets for the period 1 January to 31 December 2021.

We have identified and prioritized the most material impacts on our business and on stakeholders across our value chain. This integrated annual report includes performance data for our direct operations, as well as information on how we manage the most material issues.

⊕ **For more information on how we define our material issues, please see page 32 of this report**

We disclose our past and present performance over a five-year period in this report. Sometimes historical data may differ from that included in 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. However, significant changes to prior year data are disclosed where they first appear in the report.

External standards

SGS has published a sustainability report for more than 10 years, and since 2015, we have integrated sustainability content into our integrated annual report. We support the principle of integrated reporting, and continue to move towards a fully integrated reporting structure in line with the Integrated Reporting Framework. In 2019, we aligned further to the Framework by using the six Capitals it defines as the structure of our integrated annual report.

The sustainability content in this integrated annual report is drawn from our Corporate Sustainability Report. Since 2013, our Sustainability Report has been developed using the guidelines for the AA1000 Accountability Principles Standard and the Global Reporting Initiative's Standards. We also align our reporting with the Sustainability Accounting Standard (Standard) for the Professional & Commercial Services Industry (SASB). Our reporting approach is explained further in our Sustainability Basis of Reporting.

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 2021, we appointed PricewaterhouseCoopers (PwC) to provide independent assurance of our sustainability performance. PwC's Assurance Report describes the work undertaken and their conclusion for the reporting period to 31 December 2021. Documents relating to independent external assurance in the years prior to 2021 are available in our Reporting Hub section on our website: www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs/reporting-hub.

⊕ **Please see independent assurance for further information about our assurance process on pages 72 and 73 of this integrated annual report**

PwC provided limited assurance over the following non-financial performance indicators:

- Employees and training indicators (Women in leadership positions on pages 13, 19 and 59, Total number of employees on page 18, Employees trained in information security and data privacy on page 53, Training ratios on pages 19 and 59 and Employees trained to Code of Integrity on page 59)
- Operational integrity indicators (Decrease in Lost Time incident Rate (LTIR) on page 13 and Lost Time incident Rate on pages 19 and 59)
- Energy consumption and emissions indicators (Decrease in CO_2 emissions on page 13, Renewable energy sourced on page 13, Lower-emission company vehicles on page 13, Electricity consumed on pages 18 and 66, Water consumed on page 18, Fuel consumed on pages 18 and 66 and Metric tons of CO_2 on pages 19 and 67)
- Customer satisfaction indicator (Satisfaction score in the Voice of the customer surveys on page 19)
- Community investment indicator (on pages 13, 19 and 63)
- KPI's embedded into the Long-Term Incentive plan (on page 13)
- Locally sourced supplier rate indicator (on page 19)

Independent Limited Assurance Report

on the 2021 non-financial performance reporting to the Board of Directors of SGS SA, Geneva

We have been engaged to perform assurance procedures to provide limited assurance on the 2021 non-financial performance reporting of SGS SA and its consolidated subsidiaries ("SGS") included in the Integrated Report ("Report") for the year ended 31 December 2021. The non-financial performance indicators of SGS for the prior year-ends were assessed by another firm whose report for year-end period 31 December 2020, dated 23 February 2021.

Scope and subject matter

Our limited assurance engagement focused on selected 2021 non-financial performance indicators in the Report of SGS such as the Employees and training indicators, the Operational integrity indicators, the Energy consumption and emissions indicators, the Customer satisfaction indicator, Community investment indicator, the Number of KPI's embedded into the Long-Term Incentive plan and the Locally sourced supplier rate indicator as detailed on page 71 of the Report.

Criteria

The reporting criteria used by SGS are described in the SGS Basis of Reporting document defining those procedures, by which the related non-financial performance indicators are internally gathered, collated and aggregated. The SGS Basis of Reporting document is based on the GRI Sustainability Reporting Standards (GRI Standards) published by the Global Reporting Initiative (GRI) (hereafter the "related GRI-Criteria").

Inherent limitations

The accuracy and completeness of non-financial performance indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with the SGS Basis of Reporting document, its definitions and procedures on non-financial performance reporting therein. Further, the greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

SGS responsibility

The Board of Directors of SGS is responsible for the Report as well as for selection, preparation and presentation of the information in accordance with the related GRI-Criteria. This responsibility includes the preparation of the SGS Basis of Reporting document and the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error and the appropriate record keeping.

Our responsibility

Our responsibility is to express a limited assurance conclusion on selected 2021 non-financial performance indicators. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3000 (revised), "Assurance Engagements other than Audits or Reviews of Historical Financial Information", and, in respect of greenhouse gas emissions, with the International Standard on Assurance Engagements 3410, "Assurance Engagements on Greenhouse Gas Statements", issued by the International Auditing and Assurance Standards Board. These standards require that we plan and perform this engagement to obtain limited assurance about on whether anything has come to our attention that causes us to believe that the non-financial performance indicators are not free from material misstatement.
A limited assurance engagement undertaken in accordance with ISAE 3000 (revised) involves assessing the suitability in the circumstances of SGS' use of applicable criteria as the basis for the preparation of the non-financial performance indicators, assessing the risks of material misstatement of the non-financial performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the non-financial performance indicators. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures selected depend on the assurance practitioner's judgement.

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PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

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Our independence and quality controls

We are independent of SGS in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) that are relevant to our audit of the financial statements and other assurance engagements in Switzerland. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers SA applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the work performed

Our limited assurance procedures included, but were not limited to the following work:

- Reviewing the SGS Basis of Reporting document and the SGS Group Sustainability Manual and observing the application
- Interviewing SGS representatives at Group and country level in Australia, Belgium, China, Spain, France, the Netherlands and South Africa responsible for the data collection and reporting
- Inquiries of personnel involved in the preparation of the Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Report
- Inspecting the relevant documentation on a sample basis
- Performing tests on a sample basis of evidence supporting the 2021 non-financial performance indicators concerning completeness, accuracy, adequacy and consistency

We have not carried out any work on data other than outlined in the scope and subject matter section as defined above. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusions.

Conclusion

Based on the procedures we performed, nothing has come to our attention that causes us to believe that the 2021 non-financial performance indicators disclosed as described in the scope and subject matter section are not prepared and disclosed in all material respects in accordance with the related GRI criteria.

Intended users and purpose of the report

Our report is prepared for, and only for, the Board of Directors of SGS SA, and solely for the purpose of reporting to them on the 2021 non-financial performance indicators in the Integrated Report and no other purpose. We do not, in giving our conclusion, accept or assume responsibility (legal or otherwise) or accept liability for, or in connection with, any other purpose for which our report including the conclusion might be used, or to any other person to whom our report will be shown or into whose hands it might come, and no other persons shall be entitled to rely on our conclusion.

We permit the disclosure of our report, in full only and in combination with the SGS Basis of Reporting document to enable the Board of Directors to demonstrate that they have discharged their governance responsibilities by commissioning an independent assurance report over the 2021 non-financial performance indicators in the Integrated Report without assuming or accepting any responsibility or liability to any third parties on our part. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the Board of Directors of SGS SA for our work or this report.

PricewaterhouseCoopers SA

Guillaume Nayet Raphael Rutishauser

Geneva, 21 February 2022

The maintenance and integrity of the SGS SA website is the responsibility of the Board of Directors; the work carried out by the assurance providers does not involve consideration of the maintenance and integrity of the SGS SA website and, accordingly, the assurance providers accept no responsibility for any changes that may have occurred to the reported non-financial performance indicators or criteria since they were initially presented on the website.

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Corporate governance

This Corporate governance report informs shareholders, prospective investors and society on SGS' policies in matters of corporate governance, such as: the structure of the Group, shareholders' rights, the composition, roles and duties of the Board of Directors and its committees and Management, and internal controls and audits. This report has been prepared in compliance with the Swiss Exchange (SIX) Directive on Information Relating to Corporate Governance of 20 June 2019 and with the Swiss Code of Best Practice for Corporate Governance. The SGS Corporate Governance framework aims to achieve an efficient allocation of resources and clear mechanisms for setting strategies and targets, in order to maximize and protect shareholder value. SGS strives to attain this goal by defining clear and efficient decision-making processes, fostering a climate of performance and accountability among managers and employees alike and aligning employees' remuneration with the long-term interests of shareholders.

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1. Group structure and shareholders

1.1. Group structure

1.1.1. Operational Group structure

SGS SA, registered in Geneva (CH), also referred to as the 'Company', controls directly or indirectly all entities worldwide belonging to the SGS Group, which provides independent inspection, verification, testing, certification and quality assurance services.

The shares of SGS SA are listed on the SIX Swiss Exchange and are traded on SIX Europe (Swiss Security Number: 249745; ISIN: CH0002497458).
On 31 December 2021, market capitalization was approximately CHF 22 837 million (2020: CHF 20 201 million).

The operations of the Group are divided into seven regions, each led by a Chief Operating Officer responsible for the SGS businesses in that region and for the local implementation of Group policies and strategies.

At 31 December 2021, geographic operations were organized as follows:

- North America
- Latin America
- Africa & Western Europe
- North & Central Europe
- Eastern Europe & Middle East
- North East Asia
- South East Asia & Pacific

The Group was structured into five business lines with each business line responsible for the global development of Group activities within its own sphere of specialization and the execution of strategies with the support of the Chief Operating Officers.

At 31 December 2021, the business divisions were organized as follows:

- Connectivity & Products (C&P)
- Health & Nutrition (H&N)
- Industries & Environment (I&E)
- Natural Resources (NR)
- Knowledge (Kn)

Each line of business was led by an Executive Vice President. Chief Operating Officers and Executive Vice Presidents are members of the Operations Council, the Group's most senior management body.

1.1.2. Listed companies in the Group

None of the companies under the direct or indirect control of SGS SA have listed shares or other securities on any stock exchange.

1.1.3. Non-listed companies in the Group

The material legal entities consolidated within the Group are listed on pages 175 to 177 of the annual report, with details of the share capital, the percentage of shares controlled directly or indirectly by SGS SA and the registered office or principal place of business. The list of legal entities is limited to entities whose contribution to the Group revenues in 2021 represent at least 1% of the consolidated revenues, and the main operating entity in the jurisdictions where the Group is active, even when annual revenues do not reach 1% of consolidated revenues. This definition of materiality excludes dormant companies, pure sub-holding companies or entities used solely for the

Geographic locations

At 31 December 2021, geographic operations are organized as follows:

Americas

18.9%

North America

Latin America

Europe, Africa, Middle East

46.1%

Africa & Western Europe

North & Central Europe

Eastern Europe & Middle East

Asia Pacific

35.0%

North East Asia

South East Asia & Pacific



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detention of assets. Details of acquisitions and disposals made by the SGS Group during 2021 are provided in note 3 of the consolidated financial statements included in the section 2021 Results on page 123 of this annual report.

1.2. Significant shareholders

To the knowledge of the Company the shareholders owning more than 5% of its share capital as at 31 December 2021, or as the date of their last notification as per Article 20 of the Swiss Stock Exchange Act (SESTA) were Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) with 19.11% (December 2020: 18.91%) of the share capital and voting rights of the Company. As at 31 December 2021, the SGS Group held 0.04% of the share capital of the Company (2020: 1.28%). During 2021, the Company has published regularly on the electronic platform of the Disclosure Office of the SIX Swiss Exchange Ltd. all disclosure notifications received from shareholders of transactions subject to the disclosure obligations of Article 20 SESTA.

1.3. Cross-shareholdings

Neither SGS SA nor its direct and indirect subsidiaries have any cross-shareholding in any other entity, whether publicly traded or privately held.

2. Capital structure

2.1. Issued share capital

The share capital of SGS SA is CHF 7 495 032 as of 31 December 2021 and comprises 7 495 032 fully, paid-in, registered shares of a par value of CHF 1. On 31 December 2021, SGS SA held 3 360 treasury shares through an affiliate company (2020: 96 494). In 2021, SGS SA proceeded to a capital reduction of 70 700 shares. During this period no shares were repurchased whilst 22 434 shares were released into circulation following vesting of equity compensation plans.

2.2. Authorized and conditional share capital

The Board of Directors has the authority to increase the share capital of the Company by a maximum of 500 000 registered shares with a par value of CHF 1 each, corresponding to a maximum increase of CHF 500 000 in share capital. If increased by the maximum amount of the authorized share capital, the existing share capital of 7 495 032 shares would grow by approximately 6.7% to 7 995 032 shares. The Board is authorized to issue the new shares at the market conditions prevailing at the time of issue. In the event that the new shares are issued for the purpose of an acquisition, the Board is authorized to waive the shareholders' preferential right of subscription or to allocate such subscription rights to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 23 March 2023.

The shareholders have conditionally approved an increase of share capital by an amount of CHF 1 100 000 divided into 1 100 000 registered shares with a par value of CHF 1 each. This conditional share capital increase is intended to obtain the shares necessary to meet the Company's obligations with respect to employee equity-based remuneration plans and option or conversion rights of convertible bonds or similar equity-linked instruments that the Board is authorized to issue. If increased by the maximum amount of the conditional share capital, the existing share capital of 7 495 032 shares would increase by approximately 14.7% to 8 595 032 shares. The conditional capital is not limited in time.

The right to subscribe to such conditional capital is reserved to beneficiaries of employee share option plans and holders of convertible bonds or similar debt instruments and therefore excludes shareholders' preferential rights of subscription. The Board is authorized to determine the timing and conditions of such issues, provided that they reflect prevailing market conditions.

The term of exercise of the options or conversion rights may not exceed ten years from the date of issuance of the equity-linked instruments.

2.3. Changes in capital

The share capital of the Company was reduced twice in the last three years, in 2019 and in 2021 to cancel shares purchased by application of share buyback programs initiated by the Company. In 2021, the shareholders approved a reduction of the share capital, by cancellation of 70 700 shares. Previously, in 2019, 68 000 shares were cancelled for the same reason. No other changes in the share capital of the Company were made in the course of the last three years.

2.4. Shares and participation certificates

All shares, other than treasury shares held by SGS SA, have equal rights to the dividends declared by the Company and have equal voting rights. The Company has not issued any participation certificates (bons de participation/Partizipationsscheine).

2.5. Dividend-right certificates

The Company has not issued any dividend-right certificates.

2.6. Limitations on transferability and admissibility of nominee registrations

SGS SA does not limit the transferability of its shares. The registration of shares held by nominees is not permitted by the Company's Articles of Association, except by special resolution of the Board of Directors. By decision of the Board, the Company's shares can be registered in the name of a nominee acting in a fiduciary capacity for an undisclosed principal, provided however that shares registered in the names of nominees or fiduciaries may not exercise voting rights above a limit of 5% of the aggregate share capital of the Company. This rule was made public on 23 March 2005. The Company has a single class of shares and no preferential rights have been granted to any shareholder.

2.7. Convertible bonds and warrants/options

No convertible bonds have been issued by the Company or by any entity under its direct or indirect control. In 2021, no options or similar instruments have been issued by the Company or by any of the Group's subsidiaries.

3. Board of Directors

The Board of Directors is the highest governing body within the Group. It is the ultimate decision-making authority except for those decisions reserved by law to the Annual General Meeting.

3.1. Members of the Board of Directors

This section presents the Members of the Board of Directors of the Company with their functions in the Group, their professional backgrounds and all their material positions held outside the Group in governing and supervisory boards, management positions and consultancy functions, official tenures and political commitments, both in Switzerland and abroad.

The Board has set out criteria for the selection of new directors and has conducted a search which has resulted in changes to the composition of the Board of Directors in 2020 and 2021. The aim of this exercise is to ensure that the Board is continuously in a position to provide leadership, strategic oversight and guidance and contribute to setting ambitious targets for the Group and meeting long-term value creation objectives.

The competencies sought by the Group for its Board of Directors include experience of senior executive leadership in international businesses, strategic planning, finance, technology and innovation. When selecting candidates to the Board of Directors, the Company has due regards to the experience, professional qualifications, areas of expertise, age, gender and national background as well as leadership style, so that at all time, the Board and its committees have the required skills. At the Annual Shareholders Meeting of March 2021, three members of the Board of Directors did not stand for re-election. Consequently, Mr François von Finck, Cornelius Grupp and Gérard Lamarche stepped down from the Board of Directors. Ms Janet Vergis was appointed to the Board of Directors.

Biographical information on former members of the Board of Directors is available in the corporate governance reports of prior years.

The members of the Board of Directors at 31 December 2021 were as follows:

Calvin Grieder (1955)
Swiss

Function in SGS
Member:
- Chairman, Board of Directors
- Chairman, Corporate Governance & Sustainability Committee

Initial appointment to the Board
March 2019

Professional background
Calvin Grieder holds an Engineering Master of Science from the ETH Zurich and has completed an Advanced Management Program (AMP) at Harvard University. He has held various executive positions at Swiss and German companies (Georg Fischer, Bürkert, Mikron, SIG and Swisscom), all active in the areas of control technology, digital, cybersecurity, automation, system engineering and services. In these roles, he was primarily responsible for successfully establishing and expanding international businesses. In 2001, Calvin Grieder moved from Swisscom (Head of Mobile & Internet Business) to the Bühler Group, where he acted as CEO for 15 years.

Other activities and functions
Givaudan SA*, Vernier (CH), Chairman of the Board

Bühler Group AG, Uzwil (CH), Chairman of the Board

AWK Group AG, Zurich (CH), Chairman of the Board

Carivel7 AG, Owner

Avenir Suisse, Zurich-Oerlikon (CH), Member of the Board of Trustees

Advisory Board ETH – Department of Mechanical & Process Engineering

Sami Atiya (1964)
German

Function in SGS
Member:
- Board of Directors
- Corporate Governance & Sustainability Committee

Initial appointment to the Board
March 2020

Professional background
ABB Ltd (CH, SE), Member of the Group Executive Committee since 2016 and President of ABB's Robotics & Discrete Automation business. Dr. Sami Atiya holds a Master of Business Administration (MBA) from the Massachusetts Institute of Technology (MIT), USA, and a master's degree in Electrical Engineering and Automation from the Karlsruhe Institute for Technology.

He also holds a PhD in Electrical Engineering (Robotics, Artificial Intelligence and Sensors) from the University of Wuppertal/Karlsruhe Institute for Technology, Germany. Prior to his current role, he held various senior leadership positions in the Siemens Group, Harald Balzer & Partner, Robert Bosch – Blaupunkt and the Fraunhofer Institute Karlsruhe Institute of Technology. His experience covers a range of industry sectors including medical technology, robotics and automation, software and logistics and transportation. Dr. Atiya has strong intercultural skills with experience in managing businesses in international organizations, covering China, the Middle East, India, Japan, the USA and Europe. He has a proven track record in managing international acquisitions and business integration. He will bring to the Board of SGS strong experience of leadership in sectors which will undoubtedly contribute to the future development of SGS. He will be an independent member of the Board of Directors of the Company, with no ties to its management or significant shareholders.

Paul Desmarais, Jr. (1954)
Canadian

Function in SGS
Member:
- Board of Directors

Initial appointment to the Board
July 2013

Professional background
Chairman, Power Corporation of Canada*.

Paul Desmarais, Jr. has a Bachelor of Commerce Degree from McGill University, Montréal and an MBA from the Institut Européen d'Administration des Affaires (INSEAD), France.

He has received honorary doctorates from various Canadian universities. He joined Power Corporation of Canada in 1981 and assumed the position of Vice President the following year. In 1984, he led the Financial Corporation to consolidate creation of Power's major financial holdings, as well as Pargesa Holding SA, under a single corporate entity. Mr. Desmarais served as Vice President of Power Financial from 1984 to 1986, as President and Chief Operating Officer from 1986 to 1989, as Executive Vice Chairman from 1989 to 1990, as Executive Chairman from 1990 to 2005, as Chairman of the Executive Committee from 2006 to 2008, as Executive Co-Chairman from 2008 to 2020 and as Chairman from 2020. Mr. Desmarais is Chairman of Power Corporation, a position he has held since 1996. He previously served as Co-Chief Executive Officer of Power Corporation from 1996 until his retirement in February 2020. After Power Financial and the Frère Group of Belgium took control of Pargesa in 1990, Mr. Desmarais moved to Europe from 1990 to 1994, to develop the partnership with the Frère Group and to restructure the Pargesa group.

From 1982 to 1990, he was a member of the Management Committee of Pargesa, in 1991, Executive Vice Chairman and then Executive Chairman of the Committee; and from 2003 to 2019, he was Co-Chief Executive Officer. Mr. Desmarais was a Director of Pargesa from 1992 until November 2020, when Pargesa's reorganization was completed. He also served as Chairman of the Board from 2013 to 2020.

He is a Director of many Power Group companies in North America.

Other activities and functions
Groupe Bruxelles Lambert*, Brussels (BE), Chairman of the Board of Directors

Great-West Lifeco Inc.*, Winnipeg (CAN), Member of the Board (including those of its major subsidiaries)

IGM Financial Inc.*, Winnipeg (CAN), Member of the Board (including those of its major subsidiaries)

Member of the Advisory Council the European Institute of Business Administration (INSEAD)

Trustee of the Brookings Institution and a Co-Chair of the Brookings International Advisory Council (USA)

Past Chairman and a Member of the Business Council of Canada (CAN)

Ian Gallienne (1971)
French, Belgian

Function in SGS
Member:
- Board of Directors
- Corporate Governance & Sustainability
- Remuneration Committee

Initial appointment to the Board
July 2013

Professional background
CEO of Groupe Bruxelles Lambert* since 2012.

Ian Gallienne has an MBA from INSEAD in Fontainebleau. From 1998 to 2005, he was a Director at the private equity funds Rhône Capital LLC in New York and London.

In 2005, he founded the private equity fund Ergon Capital Partners in Brussels and was its Managing Director until 2012.

He has been a Board Member of Groupe Bruxelles Lambert* since 2009.

Other activities and functions
adidas*, (DE), Member of the Supervisory Board, Member of the General Committee, Member of the Nomination Committee

Imerys*, (FR), Member of the Board, Chairman of the Strategic Committee, Member of the Compensation Committee, Member of the Appointments Committee

Pernod Ricard SA*, (FR), Member of the Board, Member of the Strategic Committee and Member of the Remuneration Committee

* Listed company.

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Compagnie Nationale à Portefeuille SA, (BE), Member of the Board

Carpar SA, (BE), Member of the Board

Financière de la Sambre SA, (BE), Member of the Board Société Civile du Château Cheval Blanc, (FR), Member of the Board

Marnix French ParentCo (Webhelp group), (FR)

Tobias Hartmann (1972)
German, American

Function in SGS
Member:
- Board of Directors
- Audit Committee

Initial appointment to the Board
March 2020

Professional background
Chief Executive Officer of Scout24, an operator of digital real estate marketplaces based in Munich/Berlin, Germany.

Tobias Hartmann has a Master of Business Administration (MBA) and a Bachelor of Arts (BA) degree from Clark University, Worcester, MA, USA. He has extensive experience of senior executive and Board positions in both public and private companies in the USA and Germany.

He brings over two decades of senior management experience in several industries, including retail, technology, operations, logistics and eCommerce. He also has considerable expertise in IT security and cybersecurity. He has worked for various digital companies including eBay Inc.

Mr. Hartmann has a proven track record of developing, expanding and optimizing existing business models, services and product offerings for both public and private companies with B2B and B2C business models. He is an independent member of the Board of Directors of the Company, with no ties to its management or significant shareholders.

Other activities and functions
Expondo GmbH (DE), Member of the Advisory Board, since 2021

Shelby R. du Pasquier (1960)
Swiss

Function in SGS
Member:
- Board of Directors

Chairman:
- Remuneration Committee

Initial appointment to the Board
March 2006

Professional background
Attorney at Law, Partner, Lenz & Staehelin Law firm, Geneva. Shelby R. du Pasquier holds degrees from Geneva University Business School and School of Law as well as from Columbia University School of Law (LLM). He was admitted to the Geneva Bar in 1984 and to the New York Bar in 1989. He became a Partner of Lenz and Staehelin in 1994.

Other activities and functions
Swiss National Bank*, (CH), Member of the Board since 2012

Stonehage Fleming Family & Partners Limited, (SA), Member of the Board since 2012

Pictet and Cie Group SCA, (CH), Chairman of the Supervisory Board since 2013

Fondation du Grand Théâtre de Genève, (CH), Member of the Board since 2020

Kory Sorenson (1968)
British

Function in SGS
Member:
- Board of Directors
- Remuneration Committee

Chair:
- Audit Committee

Initial appointment to the Board
March 2019

Professional background
Kory Sorenson holds a post-graduate (DESS) degree in corporate finance from l'Institut d'études politiques de Paris, a master's in applied economics from the University of Paris-Dauphine, a bachelor's in econometrics and political science from the American University in Washington, D.C. and has completed governance programs with Harvard Executive Education, INSEAD and the Stanford Graduate School of Business.

Ms. Sorenson has 30 years of experience in finance with a particular focus on financial services, capital efficiency and risk management. She was Managing Director, Head of Insurance Capital Markets of Barclays Capital and held senior positions in the investment banking and capital markets divisions of Credit Suisse, Lehman Brothers and Morgan Stanley.

Ms. Sorenson has been a non-executive director of several major listed companies for almost a decade, providing extensive experience in leadership and governance in both financial services and industrial, private and public, and profit and not-for-profit entities, across Europe as well as in North America. She currently serves as chair of audit and remuneration committees for her various companies. Ms Sorenson is a member of the sustainability committees at both Phoenix Group Holdings and SCOR SE. ESG objectives are now a significant part of her responsibility for remuneration committees and she is also a participant in the Chapter Zero initiatives in France and the UK.

She is an independent member of the Board of Directors of the Company, with no ties to its management or significant shareholders.

Other activities and functions
SCOR SE*, (FR), Member of the Board and Chair of the Audit Committee, member of the Risk, Strategic, Corporate Social Responsibility and Crisis Committees

Phoenix Group Holdings PLC*, (UK), Member of the Board and Chair of the Remuneration Committee, member of the Risk and Sustainability Committees

Pernod Ricard SA*, (FR), Member of the Board and Chair of the Remuneration Committee, member of the Audit Committee

Bank Gutmann, (AU), privately owned, Member of the Supervisory Board

Comgest, (FR), Member of the Board of Partners

Janet S. Vergis (1964)
American

Function in SGS
Member:
- Board of Directors
- Audit Committee

Initial appointment to the Board
March 2021

Professional background
Janet S. Vergis earned a B.S. degree in Biology and an M.S. degree in Physiology from The Pennsylvania State University.

She has over 30 years of experience in the healthcare industry and served from 2013 to 2019 as an executive advisor to various private equity firms, including, Warburg Pincus, Deerfield Mgmt., Water Street Healthcare Partners and Vatera Healthcare Partners.

From 2011 to 2012, she served as the Chief Executive Officer of OraPharma, Inc., a specialty pharmaceutical company. In that role she led the turnaround of the business and its subsequent successful sale.

Preceding her role at OraPharma, Ms. Vergis managed a multi-billion portfolio at Johnson & Johnson as President of Janssen Pharmaceutica, McNeil Pediatrics, and Ortho-McNeil Neurologics. Ms. Vergis contributed to a number of Johnson & Johnson companies during her career, serving as a member of company management boards for over a decade and holding positions of increasing responsibility in research and development, new product development, sales and marketing.

She previously served on the boards of MedDay Pharmaceuticals, Amneal Pharmaceutical, Lumara Health and OraPharma, Inc.

She is an independent member of the Board of Directors of the Company, with no ties to its management or significant shareholders.

* Listed company.

Other activities and functions

Teva Pharmaceutical Industries*, (US), Member of the Board, Member of the Human Resources/Compensation and Compliance Committees

Dentsply Sirona*, (US), Member of the Board, Chair of the Science & Technology Committee, and Member of the Audit & Finance Committee

Church and Dwight Company*, (US), Member of the Board, Member of the Audit and Governance Committees

Eberly College of Science, The Pennsylvania State University, (US), Dean's Advisory Board Member

National Association of Corporate Directors, (US), Member

The Pennsylvania State University, (US), Biotechnology Advisory Board Chair

The Pennsylvania State University, (US), Corporate Engagement Advisory Board Vice-Chair

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The Directors bring a wide range of experience and skills to the Board. They participate fully in decisions on key issues facing the Group. Their combined expertise in the areas of finance, commercial law, digital, cybersecurity, innovation, strategy and sustainability, and their respective positions of leadership in various industrial sectors are important contributing factors to the successful governance of an organization of the size of the SGS Group.

The Board undertakes a periodic review of the Directors' interests in which all potential or perceived conflicts of interests and issues relevant to their independence are considered. In line with this review, the Board has set a target stating that at least 60% of its members and members of its committees will be independent and to plan the succession of members accordingly.

The Board of Directors considers the following criteria to assess the independence of its members:

1. The Director must not have been employed by the Company in an executive capacity within the last five years;
2. No family member of the Director is employed or was employed during the past three years by the Group in any management capacity;
3. Neither the Director or a family member has received any payments from the Group other than Board remuneration approved by the Annual General Meeting of shareholders;
4. The Director is not acting (and must not be affiliated with a Company that is acting in material manner) as an advisor or consultant to the Company or a member of the Company's Senior Management;
5. The Director must not be affiliated with a significant customer or supplier of the Company;
6. The Director must have no personal services contract(s) with the Company or a member of the Company's Senior Management;
7. The Director must not be affiliated with a not-for-profit entity that receives significant contributions from the Company;
8. The Director must not have been a partner or employee of the Company's external auditor during the past three years;
9. The Director must not have any other conflict of interest that the Board determines to mean they cannot be considered independent; and
10. Any Director who has served for more than 12 consecutive terms is no longer considered as independent.

The board has concluded that its members are independent on the basis of these criteria, with the exception of Shelby du Pasquier (whose tenure exceeds 12 yearly terms), Ian Gallienne and Paul Desmarais (both being representatives of a significant shareholder owning more than 10% of the shares of the Company).

The remuneration of the Members of the Board of Directors is detailed in the Remuneration report. The Chairman of the Board, jointly with members of the Board of Directors, reviews periodically the performance of the Board as a whole, of its committees and of each of its individual members.

On the basis of this periodic assessment, changes to the composition of the Board membership are regularly proposed to the Company's Annual General Meeting of shareholders.

This periodic performance evaluation is designed to ensure that the Board is always in a position to provide an effective oversight and leadership role to the Group.

3.2. Other activities and vested interest

Other activities and vested interests of the members of the Board of Directors are indicated in Section 3.1.

3.3. Limits on external mandates

In compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), the Company's Articles of Association limit the number of mandates permissible to Board members. These rules limit the number of mandates that Board members can accept to no more than 10 board memberships in entities outside the Group, out of which a maximum of five memberships in boards of companies whose shares are traded on a stock exchange. Mandates assumed at the request of a controlling entity do not count towards the maxima defined in the Articles of Association.

In addition, the Articles of Association limit to 10 the permissible participations in boards of associations and other nonprofit organizations. All Board members have confirmed that they comply with these rules.

3.4. Elections and terms of office

The Articles of Association of SGS SA provide that each Member of the Board of Directors, and among them the Chairman of the Board of Directors and the Members of the Remuneration Committee, is elected each year by the shareholders for a period ending at the next Annual General Meeting. Each Member of the Board is individually elected. There is no limit to the number of terms a Director may serve. The initial date of appointment of each Board Member is indicated in Section 3.1.

3.5. Internal organizational structure

The duties of the Board of Directors and its committees are defined in the Company's Articles of Association and in its internal regulations, which are reviewed periodically. They set out all matters for which a decision by the Board of Directors is required. In addition to the decisions required by Swiss company law, the Board of Directors approves the Group's strategies and key business policies, investments, acquisitions, disposals and commitments in excess of delegated limits.

3.5.1. Allocation of tasks within the Board of Directors

The Chairman of the Board is elected by the Annual General Meeting. He or she plans and chairs the Board meetings, defines the agenda of the meetings and conducts the deliberations of the Board of Directors. All members of the Board of Directors participate in deliberations of the Board and participate equally in its decisions.

Within the limits permitted by law or by the Articles of Association, the Board of Directors can decide to delegate certain of its tasks to standing or ad-hoc committees. With the exception of the members of the Remuneration Committee, who are elected by the shareholders, the members of other committees are appointed by the Board.

* Listed company.

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3.5.2. Members' list, tasks and area of responsibility for each committee of the Board of Directors

The following chart describes the committees and their membership as at 31 December 2021:

	Remuneration	Audit	Corporate Governance & Sustainability
Sami Atiya			●
Ian Gallienne	●		●
Calvin Grieder			●
Tobias Hartmann		●	
Shelby R. du Pasquier	●		
Kory Sorenson		●	
Janet S. Vergis		●	

● Chair ● Member

Calvin Grieder, Chairman of the Board of Directors, attends the meetings of the Remuneration and Audit Committees, with a consultative vote. He chairs the Corporate Governance & Sustainability Committee.

Each Committee acts within terms of reference established by the Board of Directors and set out in the internal regulations of the Company. The minutes of their meetings are available to all Directors.

Remuneration Committee

Members of the Remuneration Committee are elected individually during the Annual General Meeting, with the chairman of the Committee designated among them by the Board of Directors. The Remuneration Committee is focused on matters of executive remuneration. The Remuneration Committee acts in part in an advisory capacity to the Board, and in part as a decision-making body on matters that the Board has delegated to the Committee. The Committee advises the Board of Directors on matters regarding the remuneration of the Members of the Board of Directors and Management, and on general policies relating to remuneration applicable to the Group. The Committee defines the conditions of share-based remuneration plans or other plans for the allocation of shares, issued from time to time by the Company. The Committee reviews and approves the contractual terms of the employment of the Chief Executive Officer and the other members of the Management. The Committee reviews regularly, at least once a year, the compensation of each member of the Operations Council. The Committee drafts the SGS Remuneration report.

Audit Committee

The Audit Committee supports the Board of Directors in discharging its duties in relation to financial reporting and internal controls. Such duties include consideration of the appropriateness of accounting policies, the adequacy of internal controls, risk management and regulatory compliance. It is also responsible for the supervision of the internal and external auditors of the Group, each of which provides regular reports to the Committee on findings arising from their work. The Committee reports regularly to the Board of Directors on its findings.

Corporate Governance & Sustainability Committee

The Corporate Governance & Sustainability Committee assists the Board in the succession planning, selection and nomination of candidates to positions to the Board of Directors and to the Senior Management (Operations Council) of the Group. The Committee supports the Board of Directors and Management in establishing policies relating to professional conduct and compliance and oversees their implementation. The Group's compliance policies are embodied in the Code of Integrity, which sets out the principles governing business conduct, which are applied across the whole SGS Group. The Committee assists the Board in defining the Group policies and strategies relating to sustainability, including matters relevant to the Group reputation and non-financial risks. During the course of 2021, as in 2020, the ability of the Board and its Committee to hold physical meetings was curtailed by measures implemented to limit the contagion of Covid-19. In response to this circumstance, the Board and Committee held meetings by telephone and videoconference. The table below does not make any distinction between physical and remote meetings of the Board and its committees.

Meetings of	Frequency	Average duration
Board of Directors	6 times	3 hours
Remuneration Committee	3 times	1.5 hours
Audit Committee	6 times	3 hours
Corporate Governance & Sustainability Committee	2 times	2 hours

Attendance to Board and Committee meetings

The Board of Directors expect its members to attend and participate actively to its meetings and meetings of its committees and has set a minimum target of attendance at 75% of meetings. The chart below summarizes the attendance by each Board member in 2021 at the meetings of the Board and the respective standing committees.

Member	Board meetings	Remuneration	Audit	Corporate Governance & Sustainability
Calvin Grieder	6/6			2/2
Sami Atiya	6/6			2/2
Paul Desmarais, Jr.	6/6			
Ian Gallienne	6/6	3/3		2/2
Tobias Hartmann	6/6		6/6	
Shelby R. du Pasquier	5/6	3/3		
Kory Sorenson	6/6	3/3	6/6	
Janet S. Vergis*	4/5		5/5	
François von Finck**	2/2			
Cornelius Grupp**	2/2			
Gérard Lamarche**	1/2		1/1	

* Elected in March 2021.
** Stepped down in March 2021.

3.5.3. Working methods of the Board and its committees

The Board of Directors and each Committee convene regularly scheduled meetings with additional meetings held as and when required, in person or by phone conference. The Board and the committees may pass resolutions by written consent. Each Board Member has the right to request that a meeting be held or that an item for discussion and decision be included in the agenda of a meeting. Board and committee members receive supporting documentation in advance of the meetings and are entitled to request further information from the Management in order to assist them to prepare for the meetings. The Board and each of the committees can request the attendance of members of the Management of the Group. The Board and each of the committees are authorized to hire external professional advisors to assist them in matters within their sphere of responsibility. To be adopted, resolutions need a majority vote of the members of the Board or committee, with the Chair having a casting vote.

The Board and its committees convene as often as required. In principle the Board meets at least four times a year, i.e. once every quarter. The Audit Committee meets at least three times a year, i.e. once before the publication of the annual and half-year results, and once outside these periods, to review and approve the scope of internal and external audit. The Corporate Governance & Sustainability Committee and the Remuneration Committee meet at least once a year.

3.6. Definition of areas of responsibility

The Board of Directors is responsible for the ultimate direction of the Group. The Board discharges all duties and responsibilities that are attributed to it by law. In particular, the Board:

- Leads and oversees the conduct, management and supervision of the Group
- Determines the organization of the Group
- Assesses risks facing the business and reviews risk management and mitigation policies
- Appoints and removes the Group's Chief Executive Officer and other members of management
- Defines the Group's accounting and control principles
- Decides on major acquisitions, investments and disposals
- Discusses and approves the Group's strategy, financial statements and annual budgets
- Prepares the General Meetings of Shareholders and implements shareholders' resolutions
- Notifies the judicial authorities in the event of insolvency of the Company, as required by Swiss law

In accordance with the Company's internal regulations, operational management of the Group, a function which the Board of Directors has delegated, is the responsibility of the Operations Council. The Operations Council has the authority and responsibility to decide on all issues that are not attributed to the Board of Directors. In the event of uncertainty on a particular issue regarding the separation of responsibility between the Board of Directors and the management, the final decision is taken by the Chairman of the Board.

The Chairman is regularly informed of the activities of the Operations Council by the Chief Executive Officer, the Chief Financial Officer and the General Counsel.

The Operations Council is chaired by the Chief Executive Officer and consists of those individuals entrusted with the operational management of the Group's activities, as follows:

- The Chief Operating Officers (COOs) are responsible for operations in the Group's seven regions (see Section 1.1.)
- The Executive Vice Presidents (EVPs) are entrusted with the management and development of the Group's five business divisions (see Section 1.1.)
- The Senior Vice Presidents (SVPs) represent the principal Group support functions (Finance, Human Resources, Corporate Communication, Sustainability & Investor Relations, Digital & Innovation and Legal and Compliance)

The composition, role and organization of the Operations Council are detailed in Section 4.

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3.7. Information and control instruments vis-à-vis the management

A. Responsibility of the Board

The Board of Directors has ultimate responsibility for the system of internal controls established and maintained by the Group and for periodically reviewing its effectiveness. Internal controls are intended to provide reasonable assurance against financial misstatement and/or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information and compliance with relevant legislation, regulation and industry practice.

B. Governance framework

The Group has an established governance framework, which is designed to oversee its operations and assist the Company in achieving its objectives. The main principles of this framework include the definition of the role of the Board and its committees, an organizational structure with documented delegated authority from the Board to Management, and procedures for the approval of major investments, acquisitions and other capital allocations.

The Chief Executive Officer and the Chief Financial Officer attend the meetings of the Board of Directors and the Audit Committee.

The Group Controller and the Head of the Internal Audit Function attend the meetings of the Audit Committee.

The SVP of Human Resources attends the meetings of the Remuneration Committee, and Corporate Governance & Sustainability Committee, and the General Counsel and Chief Compliance Officer attends all meetings of the Board of Directors and its committees.

The other members of the Operations Council and other members of management only participate in the Board and committee meetings by invitation. The Board and each of its committees meet from time to time in private sessions, outside of the presence of management.

C. Information to the Board

The Board of Directors is constantly informed about the operational and financial results of the Group by way of detailed monthly management reports, which describe the performance of the Group and its divisions.

During each Board meeting, the Chief Executive Officer and the Chief Financial Officer present a report to the Board of Directors on the operations and financial results, with an analysis of deviations from prior year and from current financial targets.

During Board meetings, the Board is updated on important issues facing the Group. The Chief Executive Officer, the Chief Financial Officer and the General Counsel and Chief Compliance Officer (hereafter 'Senior Management') attend all of the Board of Directors meetings, while other Operations Council members attend from time to time to discuss matters under their direct responsibility. The Board of Directors meets regularly with the members of the Operations Council.

During Board meetings or committee meetings, Board members can require any information concerning the Group. The Board reviews and monitors regularly and formally previous acquisitions and large investments as well as the implementation of related Group strategies.

The Group has a dedicated Internal Audit function, reporting to the Chairman of the Board and the Audit Committee, which assesses the effectiveness and appropriateness of the Group's risk management, internal controls and governance processes as well as the reliability of internal financial and operational information, and ensures that the standards and policies of the Group are respected. Internal audit reviews and identifies areas of potential risk associated with the key business activities performed by a particular office, highlights opportunities for improvement and proposes constructive control solutions to reduce any exposures.

All key observations are communicated to the Operations Council and the Chairman of the Board through formal and informal reports.

The Audit Committee is regularly informed about audits performed and important findings, as well as the progress in implementing the agreed actions by management.

D. General Counsel and Chief Compliance Officer

Furthermore, the Group has a compliance function, headed by the General Counsel and Chief Compliance Officer, who reports to the Corporate Governance & Sustainability Committee and has direct access to the Chairman of the Board.

The Compliance Function supports the implementation of a compliance program based on the SGS Code of Integrity, available in 30 languages. The goal of the program is to ensure that the highest standards of integrity are applied to all of the Group's activities worldwide in accordance with international best practices. The General Counsel and Chief Compliance Officer reports violations of compliance rules every semester to the Corporate Governance & Sustainability Committee.

The Committee monitors disciplinary actions taken and the implementation of corrective actions.

E. Other

In addition, the main business lines have specialized technical governance units, which ensure compliance with internally set quality standards and industry best practices. Formal procedures are in place for both internal and external auditors to report their findings and recommendations independently to the Board's Audit Committee.

F. Risk assessment

The Board conducts on a yearly basis an assessment of the risks facing the Group. This process is conducted with the active participation and input of the management. Once identified, risks are assessed according to their likelihood, severity and mitigation.

The Board deliberates on the adequacy of measures in place to mitigate and manage risks and assigns responsibility to designated managers for implementation of such measures. As part of this process, the ownership of and accountability for identified risks are approved by the Board.

The implementation of such actions is audited by Internal Audit. These findings are communicated to the Board of Directors so that progress and identified risks can be monitored objectively and independently from Management.

The risks identified and monitored by the Board fall broadly into three categories: first, environment risk, which includes circumstances outside the Group's direct sphere of influence, such as competition and economic or political landscape; second, process risks that include risks linked to the operations of the business, the management of the Group and the integrity of its reputation in the market place; and third, risks associated with information and decision-making.

For each of the risk categories and within these categories, for each significant risk identified, the Board deliberates on proposed mitigation, risk avoidance or risk transfer measures and approves action plans designed to control such risks.

The Board receives regular updates on the implementation of risks mitigation measures and their effectiveness is tested by Internal Audit which reports to the Board, respectively the Audit Committee.

4. Operations Council

The Operations Council (as defined in Section 1.1.) meets on a regular basis, in principle at least five times a year. Between meetings, it holds regular phone conferences and may make decisions on such calls or by electronic voting. During 2021, travel restrictions and limitations on public gatherings imposed by the Covid-19 pandemic have limited the ability of the Operations Council to meet physically. Meetings were held largely by video conference, with a limited number of participants attending the meetings physically.

4.1. Members of the Operations Council

Members of the Operations Council bring to the Group years of experience and expertise in their respective fields. They come from a wide range of backgrounds that reflects the multiple aspects of the Group. The Group strives to promote talent internally and encourages women to assume senior leadership positions. The members of the Operations Council at 31 December 2021 were as follows:

Frankie Ng (1966)
Swiss/Chinese

Chief Executive Officer

BA in Economics and Electronics Engineering

Joined SGS in 1994

Previous responsibilities

2011–2015: EVP, Industrial Services

2005–2011: EVP, Consumer Testing Services

2002–2004: Managing Director, US Testing

Dominik de Daniel (1975)
Swiss/German

Chief Finance Officer

Degree in Banking, CEFA Investment Analyst

Joined SGS in 2019

Previous responsibilities

2015–2018: CFO and Chief Operating Officer, IWG plc. UK, the global leader for flexible workspace

2006–2015: CFO Adecco Group, Switzerland

Olivier Merkt (1962)
Swiss

Chief Compliance Officer

Doctorate in Law, admitted to the bar in Switzerland

Joined SGS in 2001

Previous responsibilities

2006–2008: VP, Corporate Development

2001–2006: Senior Counsel

Teymur Abasov (1972)
Azerbaijani

COO, Eastern Europe & Middle East

Degree in Electrical Engineering

Joined SGS in 1994

Previous responsibilities

2006–2007: Managing Director, Kazakhstan and Caspian Sub-Region

2004–2006: Managing Director, Azerbaijan and Georgia

2003–2004: Managing Director, Georgia

Olivier Coppey (1972)
Swiss

EVP, Health & Nutrition

MSc Economics

Joined SGS in 1994

Previous responsibilities

2015–2020: EVP, Agriculture Food and Life

2013–2015: EVP, Agriculture

2009–2013: Vice President Seed and Crop, Agricultural Services

Steven Du (1972)
Chinese

COO North East Asia, since August 2021

MSc Logistics & Supply Chain Management

Joined SGS in 1999

Previous responsibilities

2019 – Jul 2021: Managing Director Mainland China and Hong Kong SAR

2016 – 2019: Managing Director Mainland China

2014 – 2016: Managing Director Vietnam

Fabrice Egloff (1969)
French

COO, Africa & Western Europe

Master of Business Administration in International Business Affairs

Joined SGS in 1995

Previous responsibilities

2017–2019: COO Africa

2009–2017: Managing Director, France

2004–2008: Managing Director, Hong Kong

Luis Felipe Elias (1959)
Peruvian

COO, Latin America

Industrial Engineering Degree and MBA

Joined SGS in 2004

Previous responsibilities

2012–2018: Managing Director, Ecuador and Peru

2004–2012: Deputy Managing Director, Peru

Derick Govender (1970)
South African

EVP, Natural Resources

Diploma in Analytical Chemistry

Postgraduate in Business Management

Joined SGS in 2002

Previous responsibilities

2015–2020: EVP Minerals Services

2014–2015: Minerals Manager, Chile

2010–2014: VP Minerals, Africa

José María Hernández-Sampelayo (1961)
Spanish

SVP, Human Resources

Bachelor in Law

Master of Business Administration

Joined SGS in 1996

Previous responsibilities

2010–2017: Managing Director, Spain

2001–2010: HR Manager, Western Europe

1996–2010: HR Manager, Spain

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Charles Ly Wa Hoi (1966)
French

EVP, Connectivity and Products

Degree in Electronics Engineering from ENSEIRB-MATMECA

Initially joined SGS in 1992, rejoined in 2008

Previous responsibilities

2018-2020: EVP Consumer and Retail Services

2016–2018: Vice President of Retail Solutions and European Business Development, Consumer and Retail

2013–2016: Global Head of Materials and Manufacturing, Industrial Services

2009–2013: Vice President of Strategic Global Accounts, Consumer Testing Services

Jeffrey McDonald (1964)
Australian/American

EVP, Knowledge

Postgraduate Diploma in Education

Joined SGS in 1995

Previous responsibilities

2015–2020: EVP Certification and Business Enhancement

2007–2015: COO, North America

2004–2007: EVP, Systems and Services Certification

2003: Global Project Manager, Systems and Services Certification

Stephen Nolan (1960)
American/Irish

COO North America, since January 2021

B.Comm in Finance

Joined SGS in 2019

Previous responsibilities

2013–2018: Hudson Global, USA Chief Executive Officer/Chief Financial Officer

2004–2012: Managing Director of Adecco North America

Toby Reeks (1976)
British

SVP, Corporate Communications, Sustainability & Investor Relations

BA in Economics

Joined SGS in 2018

Previous responsibilities

2013–2018: Executive Director, Morgan Stanley

2011–2013: Director, Merrill Lynch

2005–2011: Vice President, Merrill Lynch

Malcolm Reid (1963)
British

COO, South East Asia & Pacific

BSc Chemistry

Joined SGS in 1987

Previous responsibilities

2012–2015: EVP, Consumer Testing Services

2007–2011: EVP, Systems and Services Certification

2005–2007: Managing Director, Australia

Alim Saidov (1964)
Azerbaijani/Canadian

EVP, Industries & Environment

PhD in Science

Joined SGS in 1993

Previous responsibilities

2013–2020: EVP, Oil, Gas and Chemicals

2007–2013: EVP, Oil, Gas and Chemicals Services and Environmental Services

2005–2007: COO, Eastern Europe and Middle East

2004: COO, North America and Managing Director, Canada

Wim Van Loon (1966)
Belgian

COO Northern & Central Europe

Engineering degree in Industrial Electro Mechanic and Master's degree in Business Management

Joined SGS in 1989

Previous responsibilities

2018–2020: EVP, Industrial Services

2015–2018: Managing Director, Benelux

2011–2015: Executive Director, Industrial Services, Benelux

2003–2015: Business Manager for Industrial, Minerals and Consumer Testing Services, Benelux

Siddi Wouters (1973)
Dutch

SVP, Digital & Innovation

Master's degree in Applied Physics

Joined SGS in 2020

Previous responsibilities

2018–2020: Rabobank, Executive Vice President and Head of Digital Innovation

2015–2017: TechnipFMC, Digital Officer

2007–2014: Kongsberg Gruppen Norcontrol, Chief Technology Officer

4.2. Other activities and vested interests

The following list presents all material activities in governing and supervisory boards, management positions and consultancy functions, official tenures and political positions held by each member of the Operations Council outside the Group, both in Switzerland and abroad.

Derick Govender
Member of IPMI (International Precious Metal Institute)

4.3. Changes in the Operations Council

During 2021, Helmut Chik, COO North East Asia left the Group.

With effect as of 31 December 2021, José María Hernández-Sampelayo, SVP Human Resources, stepped down from the Operations Council to assume other management responsibilities within the Group. Starting in January 2022, Ms Jessica Sun joined the group and the Operations Council as SVP Human Resources in January 2022. Biographical information on former members of the Operations Council may be found in prior years' Corporate governance reports.

4.4. Limits on external mandates

The Articles of Association of the Company, in compliance with the OaEC, limit the number of mandates permissible to members of the Operations Council, to no more than four board memberships in entities outside the Group, out of which a maximum of one membership in the board of companies whose shares are traded on a stock exchange. Mandates assumed at the request of a controlling entity do not count towards the maxima defined in the Articles of Association.

In addition, the Articles of Association set limits to participations in boards of associations and other not-for-profit organizations to no more than 10 such memberships.

4.5. Management contracts

The Company is not party to any management contract delegating management tasks to companies or individuals outside the Group.

5. Compensation, shareholdings and loans

5.1. Content and method of determining the compensation and the shareholding programs

The Group's overriding compensation policies are defined by the Board of Directors. The objectives of these policies are twofold: a) to attract and retain the best talent available in the industry, and b) to motivate employees and managers to create and protect value for shareholders by generating long-term sustainable financial achievements.

In line with these principles, Board members are entitled to a fixed fee, which takes into account their level of responsibility. Members of the Operations Council receive a fixed remuneration and are entitled to a performance related annual bonus and a Long-Term Incentive plan.

In compliance with the requirements of the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), the Annual General Meeting approves the compensation payable to the Board and the Operations Council. The rules on the vote on pay applicable in the Group are explained below.

The ultimate responsibility for defining remuneration policies and deciding on all matters relating to remuneration rests with the Board of Directors, subject to decisions that require binding resolutions of the Annual General Meeting. The Board of Directors is assisted in its work by a Remuneration Committee, which is elected by the Annual General Meeting.

5.2. Rules on approbation by the annual shareholders' meeting of executive pay

5.2.1. Rules on performance-related pay and allocation of equity-linked instruments

The Company's Articles of Association define the principles of the variable remuneration and the allocation of shares or equity-linked instruments to the members of the Operations Council. Please refer to the Remuneration report page 91 to 93 for a description of the Company's rules in the matter.

In the event of changes in composition of the Operations Council occurring after the approval by the Annual General Meeting of the fixed remuneration of the executive team, the Board is authorized to increase up to a maximum of 25% the amount authorized by the shareholders for that purpose.

5.2.2. Rules on loans, credit facilities and post-employment benefits

Loans granted to members of the governing bodies of the Company may not exceed one year of remuneration and must be granted at market conditions. As at 31 December 2021 (same as at 31 December 2020), no loan or advance is granted by the Group to members of the Operations Council.

5.2.3. Rules on vote on pay

The Annual General Meeting approves the following matters related to the compensation of the Board and Operations Council:

- It approves the fixed fees payable to the Board of Directors until the next Annual General Meeting
- It approves in advance a prospective maximum fixed remuneration to the Operations Council during the next financial year
- It approves the total aggregate amount payable to the Operations Council for the performance-related annual bonus related to the prior year
- It approves the maximum amount payable under Long-Term Incentive plans to be introduced by the Company
- Resolutions of such matters are binding to the Board of Directors. In addition, the Annual General Meeting is invited to cast a non-binding vote on the Remuneration report that describes the Company's remunerations policies. This allows shareholders to express a view on the overall policies of the Group in relation to remuneration

6. Shareholders' participation rights

All registered shareholders receive a copy of the half-year and full-year results upon the publication of such results by the Company. They can request a copy of the Company's annual report and are personally invited to attend the Annual General Meeting of Shareholders.

6.1. Voting rights and representation restrictions

All registered shareholders can attend the General Meetings of Shareholder and exercise their right to vote. A shareholder may also elect to grant power of attorney to an independent proxy appointed by the Company or to any other registered shareholder.

There are no voting restrictions, subject to the exclusion of nominee shareholders representing undisclosed principals, as detailed in Section 2.6.

6.1.2. Rules on instructions to the independent proxy and electronic participation in the annual shareholders' meeting

Shareholders have the opportunity to give general or specific voting instructions to the independent proxy, who is elected by the General Meeting of Shareholders. Shareholders can give specific or generic voting instructions to the independent proxy on all matters on the agenda of the General Meeting of Shareholders. These instructions can be issued in written form, or by electronic transmission.

The voting of resolutions by electronic votes is authorized by the Articles of Association, within the modalities defined by the Board of Directors.

6.2. Statutory quorums

The General Meeting of Shareholders can validly deliberate regardless of the number of shares represented at the meeting. Resolutions are adopted by the absolute majority of votes cast. If a second ballot is necessary, a relative majority is sufficient, unless Swiss company law mandates a special majority.

6.3. Convocation of General Meetings of Shareholders

The rules regarding the convocation of General Meetings of Shareholders are in accordance with Swiss company law. As authorized by the Covid-19 ordinance of the Swiss Federal Council, shareholders were required to issue voting instructions for the 2021 Annual General Meeting to the independent representatives as physical attendance of the meeting was not possible to shareholders.

6.4. Inclusion of items on the agenda

The agenda of the Annual General Meeting is issued by the Board of Directors. Shareholders representing shares with a minimum par value of CHF 50 000 may request the inclusion of an item on the agenda of the Annual General Meeting, provided that such a request reaches the Company at least 40 days prior to the meeting.

6.5. Registration in the share register

The Company does not impose any deadline for registering shares prior to a Annual General Meeting. However, a technical notice of two business days is required to process the registration.

7. Change of control and defense measures

No restriction on changes in control is included in the Company's Articles of Association.

7.1. Duty to make an offer

In the absence of any specific rules in the Company's Articles of Association, any investor or group of investors acquiring more than 33.3% of the shares and voting rights of the Company has the duty to make a public offer in compliance with the applicable Swiss takeover rules.

7.2. Clauses on change of control

There are no general plans or standard agreements offering specific protection to Board Members, Senior Management or employees of the Group in the event of a change of control, subject to the standard rules regarding termination of employment.

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8. Auditors

8.1. Duration of the mandate and term of office of the lead auditor

Following a competitive process held in 2020/2021, PwC was elected as auditor of the Company and the SGS Group by the Annual General Meeting upon recommendation of the Board of Directors, in replacement of the incumbent Deloitte who had served in this capacity for the previous 20 years. The auditors of the Company are subject to re-election at the Annual General Meeting every year. PwC with Guillaume Nayet as the lead auditor have audited the 2021 Group financial statements for the first time.

The Company requires the lead auditor to be changed at the latest after completion of five annual audit cycles, whereas Swiss company law imposes a maximum period of seven years.

The Audit Committee reviews annually the desirability to renew the annual mandate of its external auditors before proposing to the Board and the Annual General Meeting the re-election of the auditors.

8.2. Audit fees

Total audit fees paid to the auditors for the audit of the Company and the Group financial statements in 2021 amounted to CHF 6.2 million (2020: CHF 6.8 million).

8.3. Additional fees

An aggregate amount of CHF 1 million was paid to PWC (2020: CHF 1 million to Deloitte) for other professional services, unrelated to the statutory audit activity, mainly composed of tax compliance services, non-statutory and other assurance services.

8.4. Information instruments pertaining to the external audit

The Audit Committee is responsible for evaluating the external auditor on behalf of the Board of Directors and conducts assessments of the audit services provided to the Group during its regular meetings. It meets with the auditor at least three times per year, including private sessions without the presence of management. In 2021, the Audit Committee met four times with the external auditors.

The Committee considers and approves the proposed audit plan, conducts assessment of the performance of the auditor and approves audit fees on the basis of the amount of work required in order to perform the audit.

The Audit Committee reviews with the Group auditors the significant financial statement risk areas arising from the audit, including the key audit matters referred to in the statutory auditor's report.

When evaluating the performance of the auditors, the Audit Committee assesses the effectiveness of the audit based on Swiss Law, their understanding of the business of the Group and how matters of significant importance for the Group internal control and financial reporting are identified, reported and resolved. The Audit Committee reviews also how the Group auditors interact with the component audit firms in charge of auditing the main subsidiaries of the Group, and the relevance and timeliness of issuance of statutory audits and management letters.

The Audit Committee places a great emphasis on the independence of the external auditors, and on the absence of conflict of interests, both at the Group level and at the level of individual subsidiaries. It reviews carefully the type of other services which are provided by the auditors, in addition to the audit, to ensure that such ancillary services could not endanger the independence of the audits. In 2021 the Committee has issued a policy on non-audit services which define restrictively the type of admissible services excluding from the admissible scope most tax advisory services and services related to prospective acquisitions and disposal. The policy also sets an approval process requiring prior approval of the Audit Committee for any assignment for non-audit service above defined thresholds. As part of the transition of the audit mandate between Deloitte and PwC, advisory services previously provided by PwC to the SGS Group and its affiliates have been discontinued in an orderly fashion during 2021.

The audit fees are approved on the basis of a negotiated budget agreed with the Group auditors taking into account the complexity of the audit, the structure of the Group and its internal control systems and the responsibility of the auditors. The duties of the Committee include consideration of the audit plan, regular assessment of the performance of the auditor and approval of audit fees on the basis of the amount of work required in order to perform the audit.

The Audit Committee reviews with the Group auditors the significant financial statement risk areas arising from the audit, including the key audit matters referred to in the statutory auditor's report.

The auditor regularly presents its findings, both during the deliberations of the Audit Committee and in written reports, to the attention of the Board of Directors that summarize key findings.

9. Information policy

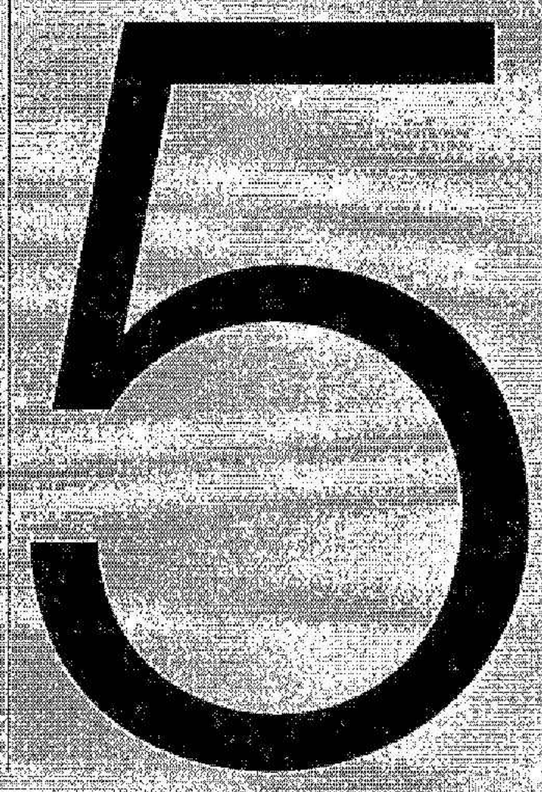
The policy of the Group is to provide individual and institutional investors, directly or through financial analysts, business journalists, investment consultants (financial community) and employees with financial and business information in a consistent, broad, timely and transparent manner.

The Group website has a section fully dedicated to investor relations, where all financial information and presentations are available. This includes an updated version of the Articles of Association, current information on share buyback programs and minutes of shareholders' meetings. SGS meets regularly with institutional investors, holds results presentations, road shows and presentations at broker-sponsored country or industry conferences, and attends one-on-one meetings.

The Group publishes consolidated half-year unaudited and yearly audited results in print and online formats. The annual report is published in English and is available upon order from the Group's website. The current list of publication dates is available on the Group's website. The Group acknowledges the directives on the independence of financial research issued by the Swiss Bankers Association. In addition, the Group complies with rules regarding information and reporting of the Federal Act on stock exchange and securities trading, and the ordinance on stock exchanges and securities trading. The address of SGS main registered office and contact details by phone and email can be found on page 178 of the annual report.

Remuneration report

The SGS Remuneration report provides an overview of the SGS remuneration model, its principles and programs and the related governance framework. The report also includes details on the remuneration of the Board of Directors and of the Operations Council related to the 2021 business year. The SGS Remuneration report has been prepared in compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), in effect as of 1 January 2014, the Swiss Code of Best Practice for Corporate Governance of economiesuisse, revised on 29 February 2016, and the Swiss Exchange (SIX) Directive on Information relating to Corporate Governance, revised on 18 June 2021, and according to the Articles of Association of SGS SA, as approved by the shareholders at the Annual General Meeting in 2015.



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1. Introduction by the Remuneration Committee

The Remuneration Committee is pleased to present its 2021 Remuneration report.

In 2021 the Company started its journey towards the 2021-2023 business strategy, with the purpose of enabling a better, safer and more interconnected world for employees, customers, shareholders and for society. The operational structure has been simplified into six new focus areas composed of four divisions: Connectivity & Products, Health & Nutrition, Industries & Environment and Natural Resources and two cross-divisional strategic units: Knowledge and Digital & Innovation.

Building on the success of the Sustainability Ambitions 2020, the Group also defined and published its Sustainability Ambitions 2030, together with short-term 2023 sustainability targets aligned with the 2023 business strategy. As of 2021, the variable compensation plans of the Operations Council members, both short term and long term, include Environmental, Social and Governance (ESG) metrics, testifying the strong commitment of the Group's leadership towards these ambitions. Details on the short-term and long-term incentive programs and their ESG metrics are disclosed in Sections 3.2.3. and 3.2.4. of this report.

The new long-term incentive approach for Operations Council members and selected senior managers of the Group, with the shift from one grant every three years to a system with annual grants, started to be implemented with the 2021 transition plan. Details on the 2021 grants are disclosed in Section 5.3. of this report.

The Committee reviewed and approved the contractual terms and conditions, including remuneration, of two new members of the Operations Council, appointed during 2021; the changes in the composition of the Operations Council are disclosed in Section 4. of the Governance Report.

Since 2015, the Board of Directors has implemented the consultative vote on the Remuneration report and the binding vote on compensation amounts at the Annual General Meeting. The Committee received significant support in its activities and direction through positive votes at the Annual General Meeting 2021, and will continue with the same 'say-on-pay' vote structure at the forthcoming Annual General Meeting 2022:

- Consultative vote on the Remuneration report
- Binding vote on the prospective maximum remuneration amount of the Board of Directors until the next Annual General Meeting
- Binding vote on the retrospective short-term variable remuneration amount of the Operations Council members for the business year 2021
- Binding vote on the prospective maximum fixed remuneration amount of the Operations Council members for 2023
- Binding vote on the prospective maximum value of the grants awarded under the Long-Term Incentive plan to the Operations Council members in 2022

On the following pages, you will find detailed information about our remuneration model, its principles and programs, and the remuneration awarded to the Board of Directors and the Operations Council related to the business year 2021. We hope that you find this report informative. We are confident that our approach to executive pay is fully aligned with the purpose and the strategy of the Group, its short-term and long-term performance, the interests of our shareholders, and relevant market practices.

Shelby R. du Pasquier
Chairman of the Remuneration Committee

The table below summarizes the votes of the Annual General Meeting on the remuneration matters in the last five years:

(% of votes for)	2017	2018	2019	2020	2021
Consultative vote on the Remuneration report	92.44	89.79	94.50	93.05	**92.70**
Binding vote on the prospective maximum remuneration amount of the Board of Directors	98.24	98.72	98.09	98.13	**95.51**
Binding vote on the prospective maximum fixed remuneration amount of the Operations Council members	80.11	75.61	80.28	95.58	**94.37**
Binding vote on the retrospective short-term variable remuneration amount of the Operations Council members	96.87	95.97	97.17	97.39	**96.95**
Binding vote on the value of the grants awarded under the Long-Term Incentive plan to the Operations Council members[1]	–	96.63	–	–	**96.40**

1. Until 2020, The SGS Long-Term Incentive plan provided a grant every three years.

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2. Remuneration policy and principles

2.1. Remuneration general principles

The general principles of remuneration of the members of the Board of Directors and the members of the Operations Council are defined in the Articles of Association (Art. 28 and 29).

The remuneration of the members of the Board of Directors is defined with two main objectives: (i) to compensate their activities and responsibilities as the highest governing body of the Group and their participation in the committees established within the Board of Directors, and (ii) to guarantee their independence in exercising their supervisory duties towards the executive management.

The remuneration of the members of the Operations Council is defined with two main objectives: (i) to attract and retain the best talents available in the industry, and (ii) to motivate them to create and protect long-term sustainable value for our shareholders and society.

The members of the Board of Directors receive a fixed remuneration only.

The members of the Operations Council receive a fixed remuneration and a variable remuneration linked to short-term and long-term results.

Remuneration component	Board of Directors (Non-Executive)	Operations Council (Executive)
Fixed remuneration	✓	✓
Short-term variable remuneration	✗	✓
Long-term variable remuneration	✗	✓

2.2. Remuneration policy for the Executive Management

The Company's remuneration policy applicable to the executive management (Operations Council members) is defined by the Board of Directors in support of the Company's purpose of adding value to society by enabling a better, safer and more interconnected world, its business strategy of profitable growth, and in line with its business principles: Integrity, Health, Safety & Environment, Quality & Professionalism, Respect, Sustainability, Leadership.

The remuneration system for the Operations Council members operates according to four main principles:

- Market competitiveness
  - Remuneration levels are in line with competitive market practices
- Internal equity
  - Remuneration programs link remuneration to the level of responsibility and the skillset required to perform the job
- Pay for performance
  - A substantial portion of remuneration is directly linked to business and individual performance
- Long-term value creation and alignment to shareholders' interests
  - Part of remuneration is delivered in equity subject to a multi-year vesting period

In line with its Anti-Discrimination and Dignity at Work policy, SGS is committed to promoting a workplace that provides equal opportunity for all employees and an environment in which all members of the workplace treat all individuals both in the workplace and in other work-related settings at all times with dignity, consideration and respect.

All employment related decisions, including compensation, benefits and promotions, will be solely made on the basis of an individual's qualifications, performance and behavior or other legitimate business considerations. SGS does not tolerate any discriminatory practices, in particular based on age, civil partnership, disability, ethnicity, family status, gender, gender identity, ideological views, marital status, nationality, political affiliation, pregnancy, religion, sexual orientation, social origin or any other status that is protected as a matter of local law.

Method of determination of remuneration levels – benchmarking

SGS is a global company, operating in a broad range of sectors; the determination of the remuneration levels of the Operations Council members must consider both global and local practices. We periodically compare our compensation practices with those of other similar global organizations:

- Competitors in the Testing, Inspection and Certification industry: ALS, Applus+, Bureau Veritas, Eurofins, Intertek, Mistras, Team (the peer group of companies considered for the performance conditions of the Long-Term Incentive plan, see Section 3.2.4.)
- The SMI-listed companies not belonging to the Capital Markets, Insurance and Pharmaceuticals sectors

The elements of executive remuneration benchmarked include annual base salary, other fixed remuneration elements, short-term and long-term incentives, and benefits. To ensure proper benchmarking, we use a proprietary job evaluation methodology. Since half of our Operations Council members are based outside Switzerland, we use information published by reputable data providers, including Mercer and Willis Towers Watson, related to both the Swiss market and the other markets where the Operations Council members are based.

As a reference point, SGS targets the median compensation level of the peer group.

2.3. Remuneration governance

The Annual General Meeting approves every year the maximum aggregate amount of remuneration of the Board of Directors. Within that limit, the Board of Directors is responsible for determining the remuneration of the Chairman and the Directors of the Board. It also decides on the remuneration and terms of employment of the Chief Executive Officer. In addition, the Board of Directors defines general executive remuneration policies, including the implementation and terms and conditions of Long-Term Incentive plans, as well as the financial targets relevant to any incentive plan.

2.3.1. Remuneration Committee

The Board of Directors is assisted in its work by a Remuneration Committee ('the Committee'), which consists of non-executive Directors. The Committee acts in part in an advisory capacity to the Board of Directors, and in part as a decision-making body on matters that the Board of Directors has delegated to the Committee. The Committee reviews regularly, at least once a year, the compensation of each member of the Operations Council (including the Chief Executive Officer) and decides on all matters relating to the remuneration of these executives.

The following chart summarizes the authorization levels for the main decisions relating to the compensation of the Board of Directors and the Operations Council members. When reviewing and deciding on executive remuneration policies, the Committee and the Board of Directors have access to group human resources and may use third-party consultants that specialize in compensation matters. In 2021, neither the Committee nor the Board of Directors had recourse to such external advisors.

Subject matter	CEO	Remuneration Committee	Board of Directors	AGM
Aggregate remuneration amount of the Board of Directors			●	●
Individual remuneration of the members of the Board of Directors including the Chairman of the Board		●	✓	
Aggregate fixed remuneration amount of the Operations Council			●	●
Aggregate short-term variable remuneration amount of the Operations Council			●	●
Setting of annual financial targets for short-term variable remuneration of Operations Council members	●		✓	
Establishment of Long-Term Incentive plans		●	✓	
Aggregate value of the grants awarded under the Long-Term Incentive plan to Operations Council members			●	●
Individual remuneration of the CEO		●	✓	
Individual remuneration of the Operations Council members	●	✓		
Remuneration report		●	✓	○

● Recommendation ✓ Approval ● Binding Vote ○ Consultative Vote

The following Directors served on the Committee during their mandate from AGM 2021 to AGM 2022:

- Shelby R. du Pasquier (Chairman)
- Ian Gallienne
- Kory Sorenson

In 2021, the Committee met in 3 meetings, attended by all members, and handled several matters pertaining to remunerations outside scheduled meetings. The Chairman of the Remuneration Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to the members of the Board of Directors. Generally, the Chairman of the Board attends the meetings of the Committee, except when matters pertaining to his own compensation are being discussed.

Selected members of the Operations Council, the CEO and the Senior Vice President Human Resources may be asked to attend the meetings in an advisory capacity. They do not attend the meeting when their own compensation or performance are being discussed.

2.3.2. Shareholders' engagement

As has been the case since the 2015 Annual General Meeting, the Company will continue to submit the Remuneration report to a consultative shareholders' vote at the Annual General Meeting, so that shareholders have an opportunity to express their opinion about our remuneration model.

In addition, as required by the OaEC, the aggregate amounts of remuneration to be paid to members of the Board of Directors and the Operations Council are subject to the approval of the shareholders in form of a binding vote on remuneration. The procedure on the vote is defined in the Articles of Association and foresees separate votes on (i) the maximum remuneration of the Board of Directors for the period until the next Annual General Meeting, (ii) the maximum fixed remuneration of the Operations Council for the next calendar year, (iii) the variable remuneration awarded to the Operations Council in respect to the previous calendar year, and (iv) the maximum amount to be granted to the Operations Council under any Long-Term Incentive plan during the current calendar year.

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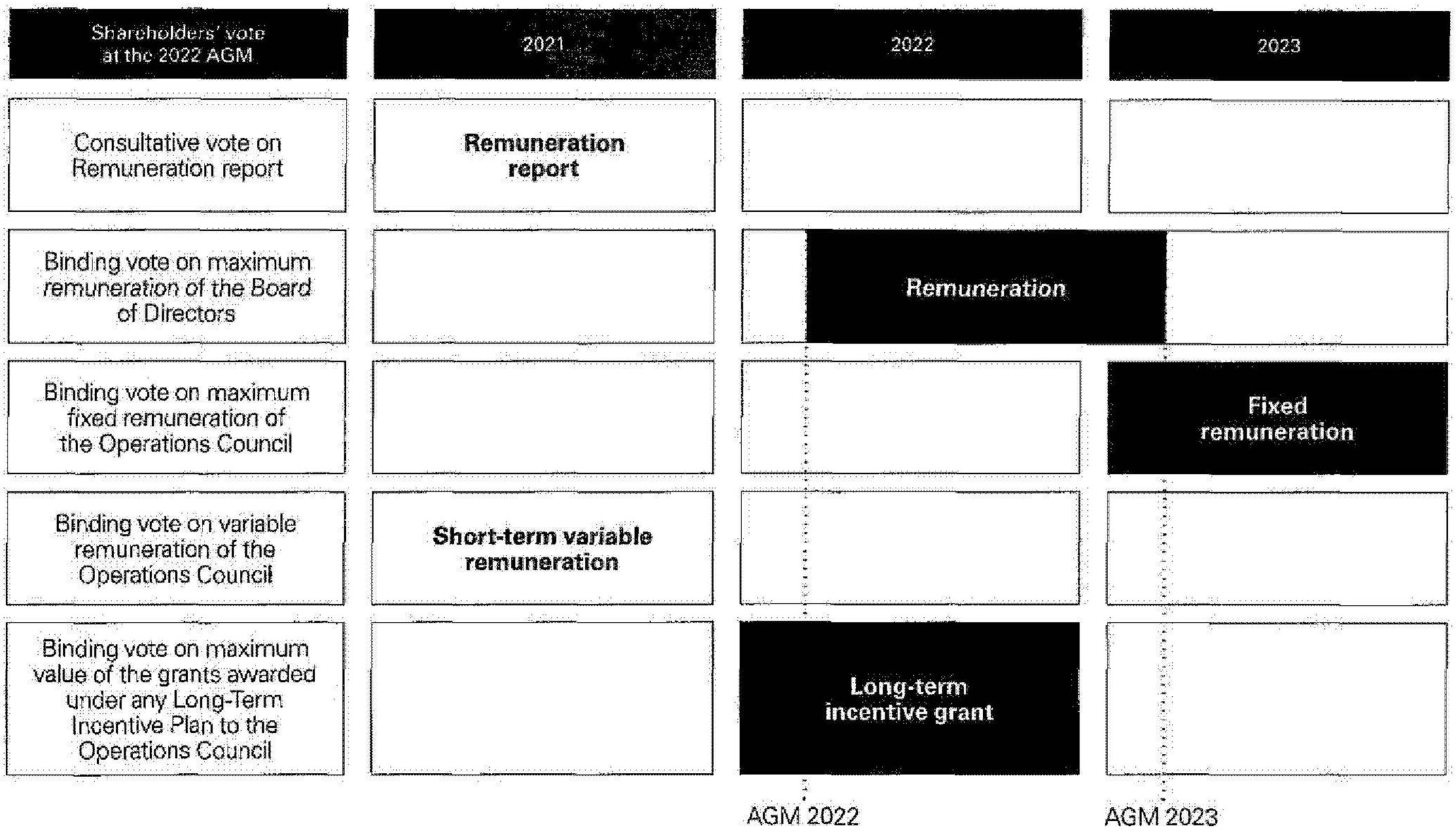
A summary of the shareholders' votes on remuneration is described in the chart below:

Shareholders' Votes on Remuneration Summary



The binding votes on the aggregate compensation amounts combined with a consultative vote on the Remuneration report reflect our true commitment to provide our shareholders with a far-reaching 'say-on-pay'.

3. Remuneration model

3.1. Structure of remuneration of the Board of Directors

The members of the Board of Directors receive a fixed remuneration only. They are entitled to a fixed annual board membership fee (annual board retainer) and additional annual fees for the participation in board committees (committee fees). The annual board retainer of the Chairman of the Board includes his or her attendance to any committee of the Board, whether as a voting member or as an advisory capacity. By agreement with the relevant tax authorities, part of the remuneration of the Chairman of the Board may be settled as representation fees. Directors do not receive additional compensation for attending meetings and do not receive any variable remuneration.

The amounts of the remuneration elements for the Chairman and the other Board members are defined by the Board of Directors every year. The maximum total amount is subject to the binding vote of the Annual General Meeting.

In determining the amounts of the compensation elements, the Board of Directors considers the prevailing practices of the Swiss SMI-listed companies.

The table below summarizes the remuneration elements of the members of the Board of Directors:

	Annual Board retainer	Committee fees (per Committee)	Representation fees (subject to agreement with relevant tax authorities)
Chairman	✓	✗	✓
Board Members	✓	✓	✗

The remuneration to the members of the Board of Directors is subject to employer social charges according to Swiss legislation.

Each Board member can choose to receive up to 50% of the remuneration settled in shares that may be restricted. Shares will be awarded after the publication of the Group's annual results. The number of shares to be allocated is determined by dividing the portion of remuneration settled in shares by the closing share price on the day of the publication of the Group's annual results; fractions are rounded up to the nearest integer. Shares granted may be restricted at the option of each Board member for a period of three years ending on the third anniversary of their award. If a Board member has elected to receive restricted shares, such restricted shares may not be sold, donated, pledged or otherwise disposed of to third parties during the three years restriction period. In case of change of control or liquidation, or in case a member of the Board ceases to exercise his or her mandate following death or permanent disability, the restriction period of the shares lapses. The shares remain restricted in all other instances.

The portion of remuneration settled in cash is paid in two installments, in June and December of the calendar year.

Members of the Board of Directors do not hold service contracts and are not entitled to any termination or severance payments.

They do not participate in the Company's benefit schemes and the Company does not make any contributions to any pension scheme on their behalf.

3.2. Structure of remuneration of the Operations Council

The members of the Operations Council receive a fixed remuneration and a variable remuneration linked to short-term and long-term results.

The fixed remuneration includes an annual base salary and benefits, in the form of employer's contributions into pension funds, health insurances, life and disability insurances, other contributions and allowances according to local practices in their country of employment, and in the form of benefits in kind.

The variable remuneration consists of a short-term incentive, settled 50% in cash and 50% in equity, and a long-term incentive, settled in equity.

The table below summarizes the various components of the remuneration of the Operations Council members.

Remuneration element	Remuneration vehicle	Drivers	Performance measures	Purpose	Plan period
Fixed remuneration					
Annual Base Salary	Cash	Position and experience, market practice (benchmarking)	n/a	Attract and retain key executives	Continuous
Benefits	Contributions to pension plans and insurances, other contributions, allowances, benefits in kind	Market practice	n/a	Protect executives against risks, attract and retain	Continuous
Variable remuneration					
Short-Term Incentive	50% cash 50% restricted shares	Annual financial performance, individual performance against leadership competency model and ESG[1] metrics	Group revenue, Group NPAT[2], Group ROIC[3], Group free cash flow, regional and business line profit, regional NWC[4], business operating free cash flow, leadership multiplier	Pay for performance	1-year performance period 3-year deferral period
Long-Term Incentive	Performance Share Units (PSUs)	Long-term financial and non-financial performance	Relative TSR[5], ESG[1] metrics	Reward for long-term performance, align compensation with the interests of the shareholders	3-year performance period

1. ESG: Environmental, Social and Governance. 2. NPAT: Net Profit After Tax. 3. ROIC: Return On Invested Capital. 4. NWC: Net Working Capital. 5. TSR: Total Shareholder Return.

The remuneration of the members of the Operations Council is subject to employer social charges, according to the legislation in force in their country of employment.

3.2.1. Fixed remuneration: annual base salary

The base salaries of the Chief Executive Officer and each Operations Council member are reviewed annually based on market data for similar positions in those companies and geographies against which the Group benchmarks itself. In addition to individual performance and contribution and business performance and results, the deciding body considers the scope and complexity of the areas of responsibility of the position, skillsets, experience required to perform the job, and relevant market practice in the industry.

3.2.2. Fixed remuneration: benefits

Benefits include the employer's contributions to pension plans, the employer's contributions to insurances for health, life, disability and other risks, other cash contributions and allowances, and benefits in kind. They are awarded in accordance with prevailing practices in the country of employment of the members of the Operations Council.

Swiss-based Operations Council members participate, on the same basis as other Swiss employees of the Group, in the Company's pension scheme. Each participant can choose between three levels of employee contributions ('Standard', 'Plus 2' and 'Maxi'), defined based on the participant's age; the Company contributes an amount equal to one and a half times the participant's contribution at the 'Standard' level. Flexibility is granted to employees who wish to fund a potential retirement before the normal age, and to those who wish to continue working after the age of 65.

3.2.3. Short-term variable remuneration

The Chief Executive Officer and the other members of the Operations Council are eligible to a performance-related annual incentive (the 'Short-Term Incentive'). The Short-Term Incentive is designed to reward the CEO and the other members of the Operations Council for the annual financial performance of the Group and its businesses, and for the demonstration of leadership behaviors in line with the SGS competency model and the Group's sustainability ambitions.

The table below summarizes the Short-Term Incentive components for the CEO and the other members of the Operations Council.

Short-Term Incentive component	CEO	Other Operations Council members
Annual financial performance	✓	✓
Leadership behaviors	✓	✓

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The target incentive is expressed as a percentage of the annual base salary and varies depending on the role. For the CEO, the target incentive amounts to 100% of annual base salary, while the target incentive for the other members of the Operations Council varies between 65% and 90% of annual base salary.

The table below summarizes the Annual Incentive opportunity for the CEO and the other members of the Operations Council.

	CEO	Other Operations Council members
Incentive frequency	**Annual**	**Annual**
Minimum incentive opportunity as % of base salary	0%	0%
as % of target incentive opportunity	0%	0%
Target incentive opportunity as % of base salary	100%	65%–90%
Maximum incentive opportunity as % of target incentive opportunity	250%	250%
as % of base salary	250%	162.5%–225%

Annual financial performance

Each year, an annual business plan is derived from the long-term strategic plan and sets the business objectives to be achieved during the year.

The key performance indicators used in the Short-Term Incentive to measure the annual financial performance of the Group and its businesses include measurements of growth (top-line contribution), profitability (bottom-line contribution), cash generation and efficient use of capital, and thus reflect the financial performance of the Company in a balanced manner. Those financial metrics are cascaded consistently throughout the organization to ensure collective alignment. The CEO and the heads of corporate functions (SVPs) are measured on the financial performance of the Group, while the other members of the Operations Council are measured on the financial performance of the Group and on the financial performance of their own business line (EVPs) or region (COOs).

At the beginning of each year, based on a recommendation by the CEO, the Board of Directors sets the target values of the key performance indicators used in the Short-Term Incentive, in line with the annual business objectives.

The table below summarizes the key performance indicators applicable to the CEO and the other members of the Operations Council.

		CEO	Heads of corporate functions (SVPs)	Heads of divisions (EVPs)	Heads of regions (COOs)
Group results	Profitability (bottom-line)	Group NPAT 25%	Group NPAT 25%	Group NPAT 25%	Group NPAT 25%
	Growth (top-line)	Group Revenue 25%	Group Revenue 25%	Group Revenue 25%	Group Revenue 25%
	Efficient use of capital	Group ROIC (Organic) 25%	Group ROIC (Organic) 25%	–	–
	Cash generation	Group Free Cash Flow (Organic) 25%	Group Free Cash Flow (Organic) 25%	–	–
Division results	Profitability (bottom-line)	–	–	Business-line Profit 40%	–
	Cash generation	–	–	Business Operating Free Cash Flow (Organic) [1] 10%	–
Regions results	Profitability (bottom-line)	–	–	–	Regional Profit 40%
	Cash generation	–	–	–	Regional NWC 10%

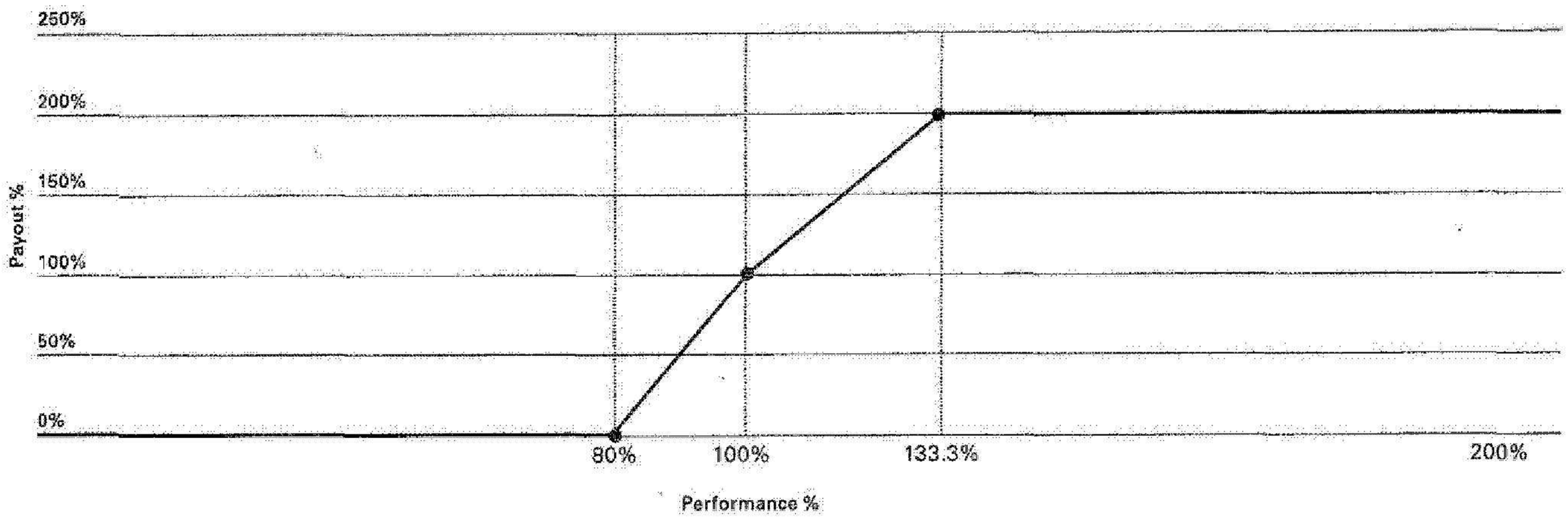
1. Due to the new Business Lines organization implemented in 2021, the Business Operating Free Cash Flow (Organic) 2021 performance for the EVPs was assessed based on estimates on the opening balances as at January 1, 2021.

For each key performance indicator, a payout curve is defined according to the following principles:

- A threshold (minimum level of performance to trigger a payout, and below which the payout is zero), a target (expected level of performance that triggers a payout equivalent to the target incentive), and a maximum (level of performance that triggers the highest payout, and above which the payout is capped) are defined
- The lowest payout (triggered by the threshold performance) and the highest payout (triggered by the maximum performance) are defined
- The payout for performances between threshold and target and between target and maximum are calculated by linear interpolation

The chart below shows the payout curves for the Group NPAT, Group Revenue, Group ROIC, Group Free Cash Flow, Business-line Profit, Regional Profit and Business Operating Free Cash Flow.

Bottom-line, top-line, ROIC and FCF performance (payout curve)



The payout curve for Regional NWC is defined by the CEO at the beginning of the performance year together with the objectives for each performance metric.

At the end of the performance period, the results for each key performance indicator are assessed against the pre-defined target and the payout curve to determine a payout factor. The weighted average of the payout factors of each key performance indicator corresponds to the overall financial performance payout factor.

An example of the calculation of the financial performance payout factor for an Executive Vice President is described in the chart below.

Financial performance payout factors for an executive vice president

Leadership multiplier

The members of the Operations Council are also rewarded for the demonstration of leadership behaviors in line with the SGS competency model and with the SGS sustainability ambitions. These criteria encompass a broader range of values than the three metrics used for the determination of vesting of the LTI. Their final incentive amount is calculated by multiplying the financial performance payout factor by a leadership multiplier.

The leadership multiplier is determined for each executive based on an assessment of their behaviors against: i) the leadership competency model of SGS in the areas of innovation, people management and change management, and ii) Environmental, Social and Governance (ESG) metrics aligned with the Group's sustainability ambitions. The assessment of the CEO is conducted at year end by the Board of Directors, while the assessment of the other members of the Operations Council is conducted by the CEO and approved by the Remuneration Committee. The assessment leads to a leadership multiplier that can range between 70% and 125%.

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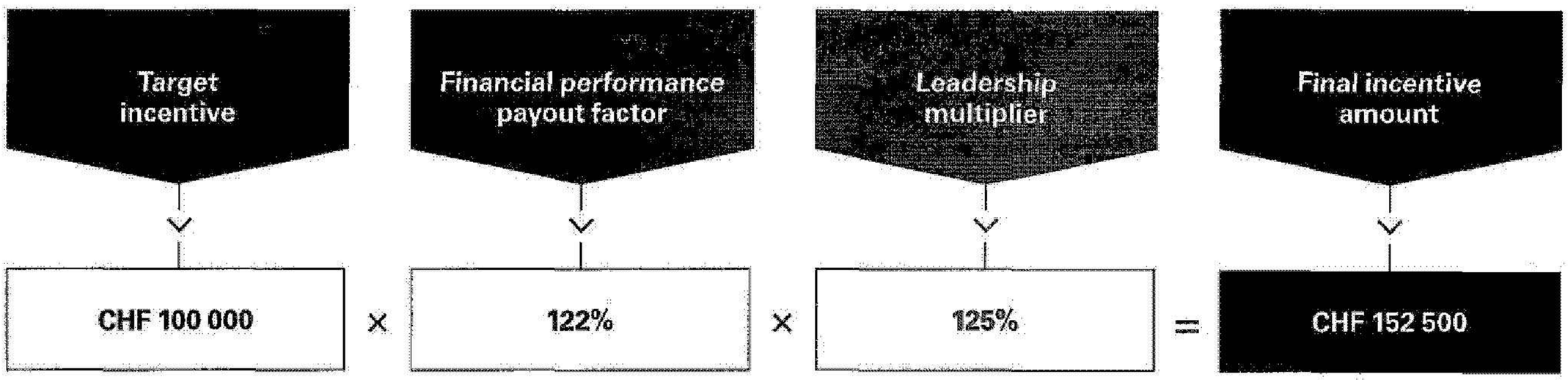
An example of the calculation of the final incentive amount for an OC member is described in the chart below.

Final incentive amount for an OC member



Settlement of the Short-Term Incentive

Once the final incentive amount is determined, it is settled 50% in cash and 50% in restricted shares, to strengthen the link between the compensation of executives and the interests of the shareholders.

The cash component is paid and the restricted shares are allocated after the shareholders' approval at the Annual General Meeting of the following year.

The number of restricted shares to be allocated is determined by dividing 50% of the final incentive amount by the average closing share price during the 20-day period following the payment of the dividends after the Annual General Meeting, and the result is rounded up to the nearest integer. They are restricted for a period of three years during which they may not be sold, transferred, or pledged. In case of change of control or liquidation or termination of employment following retirement, death or disability, the restriction period of the shares lapses. The shares remain restricted in all other instances.

The Group does not issue new shares to be allocated to employees for equity-based compensation plans, but uses treasury shares instead, acquired through share buyback programs. Detailed information on the overhang and burn rate are disclosed in note 29.

Termination of employment

In case of termination of employment for any reason except for cause, if the last day of employment is on or after 31 December of the respective business year, the executive is eligible to the full annual incentive payment. The annual incentive is paid fully in cash after the approval of the Annual General Meeting.

In case of termination for cause before the date of payment, irrespective of whether the last day of employment is before or after 31 December of the respective business year, the executive has no entitlement to receive any annual incentive payment.

In case of resignation, and if the last day of employment is before 31 December of the respective business year, the participant has no entitlement to receive any annual incentive payment.

If employment ceases due to death or disability before 31 December of the respective business year, the annual incentive payment is calculated pro-rata (calendar days) based on the Board of Directors' best estimate of the performance on the last day of employment. The annual incentive is paid fully in cash shortly after the last day of employment, as soon as administratively possible.

In case of retirement or termination not for cause before 31 December of the respective business year, the annual incentive payment is calculated pro-rata (calendar days) based on actual performance at the end of the performance year, and it is paid fully in cash after the approval of the Annual General Meeting.

The table below summarizes the rules in case of termination of employment.

	Last day of employment before 31 December				Last day of employment between 31 December and AGM			
Termination reason	Incentive opportunity (target incentive)	Incentive payout	Payment date	Payment vehicle	Incentive opportunity (target incentive)	Incentive payout	Payment date	Payment vehicle
Termination for cause	Zero	Zero	–	–	Zero	Zero	–	–
Resignation	Zero	Zero	–	–	Full	Based on actual performance	After the AGM approval	100% cash
Death or disability	Pro-rated on calendar days	Based on estimated performance	Shortly after the termination date	100% cash	Full	Based on actual performance	Shortly after the termination date	100% cash
Retirement, termination not for cause	Pro-rated on calendar days	Based on actual performance	After the AGM approval	100% cash	Full	Based on actual performance	After the AGM approval	100% cash

Clawback provisions

A clawback policy applies to any variable remuneration awarded to the members of the Operations Council. Under this policy, the Company may reclaim the value of any variable incentives paid, in cash or shares, in the following cases: i) any fraud, negligence or intentional misconduct was a significant contributing factor to the Company having to restate all or a portion of its financial statements; ii) a serious violation of the SGS internal regulations and/or Code of Integrity; iii) any violation of law within the scope of employment at the Company.

3.2.4. Long-term variable remuneration

The Chief Executive Officer and the other members of the Operations Council are eligible to a performance-related long-term incentive (the "Long-Term Incentive"). The Long-Term Incentive is designed to motivate the leadership team to achieve the long-term objectives of the Group and to align their remuneration with the interests of the shareholders.

The Long-Term Incentive consists of a grant of Performance Share Units (PSUs). Until 2020, a PSUs grant was done once every three years; specifically in 2018 and in 2015. As of 2021, PSUs grants are done every year, in line with prevalent market practices.

The value of the grants, defined as the number of PSUs granted multiplied by the average share price of the 20 trading days preceding the grant date, is expressed as a percentage of the annual base salary and varies depending on the job.

For the annual plans 2022 onwards, the value of the grant will be 167% of the annual base salary for the CEO, and between 100% and 133% of the annual base salary for the other members of the Operations Council; this represents one third of the value of the grants done in 2018 and 2015.

For the transition plan 2021 the value of the grant was two thirds of the value of the grants done in 2018 and 2015.

The table below summarizes the value of the incentive opportunity of the transition plan 2021 and of the annual plan 2022 onwards.

		CEO		Other Operations Council members	
		Annual		Annual	
Incentive frequency		Transition plan 2021	Annual plans (2022 onwards)	Transition plan 2021	Annual plans (2022 onwards)
Minimum incentive opportunity value	as % of base salary	0%	0%	0%	0%
	as % of target incentive opportunity	0%	0%	0%	0%
Target incentive opportunity value	as % of base salary	333%	167%	200–267%	100–133%
Maximum incentive opportunity value	as % of target incentive opportunity	150%	150%	150%	150%
	as % of base salary	500%	250%	300–400%	150–200%

The PSUs granted under the Long-Term Incentive vest after a performance period of three years, conditionally upon the achievement of pre-defined performance objectives and subject to continuity of employment of the beneficiaries during the vesting period.

Performance conditions

The performance conditions of the Long-Term Incentive consist of the following key performance indicators:

- Total Shareholder Return (TSR[1]) (relative SGS performance compared with the peer group), accounting for 80% of the incentive opportunity
- Environmental, Social and Governance (ESG) metrics, accounting for 20% of the incentive opportunity

The TSR of the Group will be compared to the TSR of a group of seven peer companies, selected by the Board of Directors as the main listed competitors on the Testing, Inspection and Certification industry. The intention of indexing performance against a peer group of companies is to reward the relative performance of the Company, where market factors that are outside the control of the executives are neutralized.

The list of the peer group companies is illustrated in the table below.

ALS	Applus+	Bureau Veritas	Eurofins
Intertek	Mistras	Team	

The vesting level for the TSR is defined as follows: 150% vesting if SGS is ranked first among the eight companies (including SGS) composing the peer group, 125% vesting if SGS is ranked second, 100% vesting if SGS is ranked third, 50% vesting if SGS is ranked fourth, and zero vesting if SGS is ranked fifth or worse.

The ESG metrics have been selected by the Board of Directors in line with the Company's sustainability ambitions, in the areas of Diversity and Inclusion (women in leadership positions), Health and Safety (Lost Time Incident Rate), and Environment protection (CO_2 emissions).

The vesting level for the ESG metrics is defined based on the Company's achievements against pre-defined performance levels, and can range between zero (in case the performance of two of the metrics is below target) and 150% (in case the performance of all three metrics is at maximum or above).

1. Total shareholder return: (Ending stock price - Beginning stock price) + Sum of all dividends received during the measurement period.

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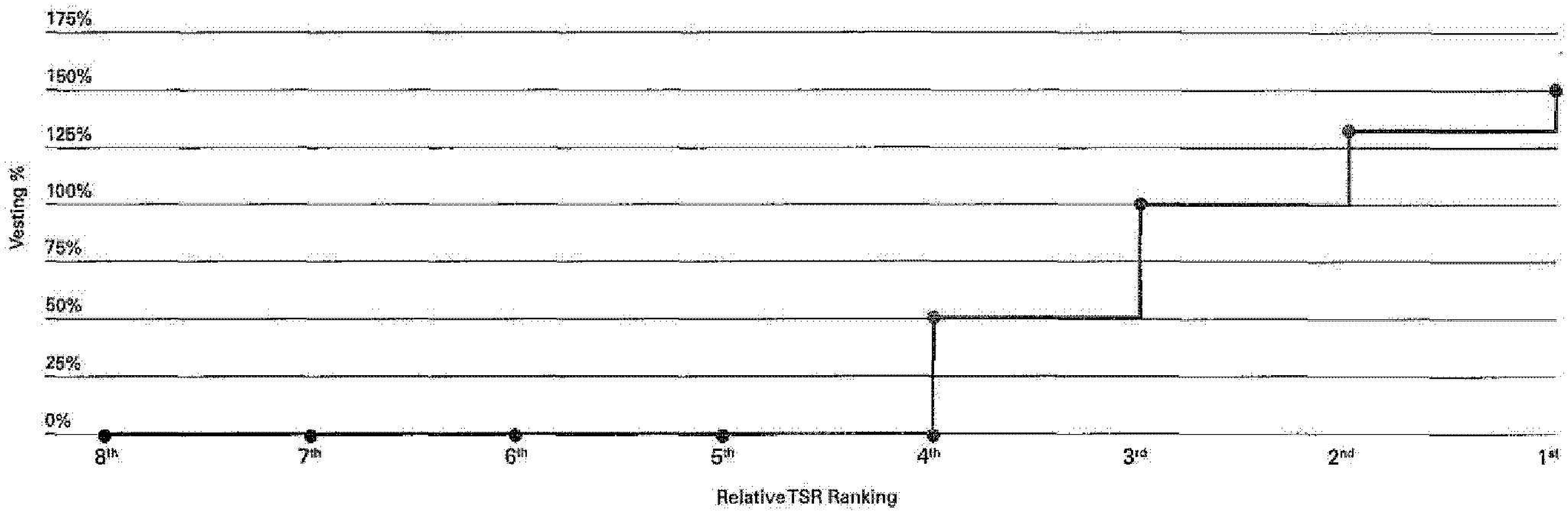
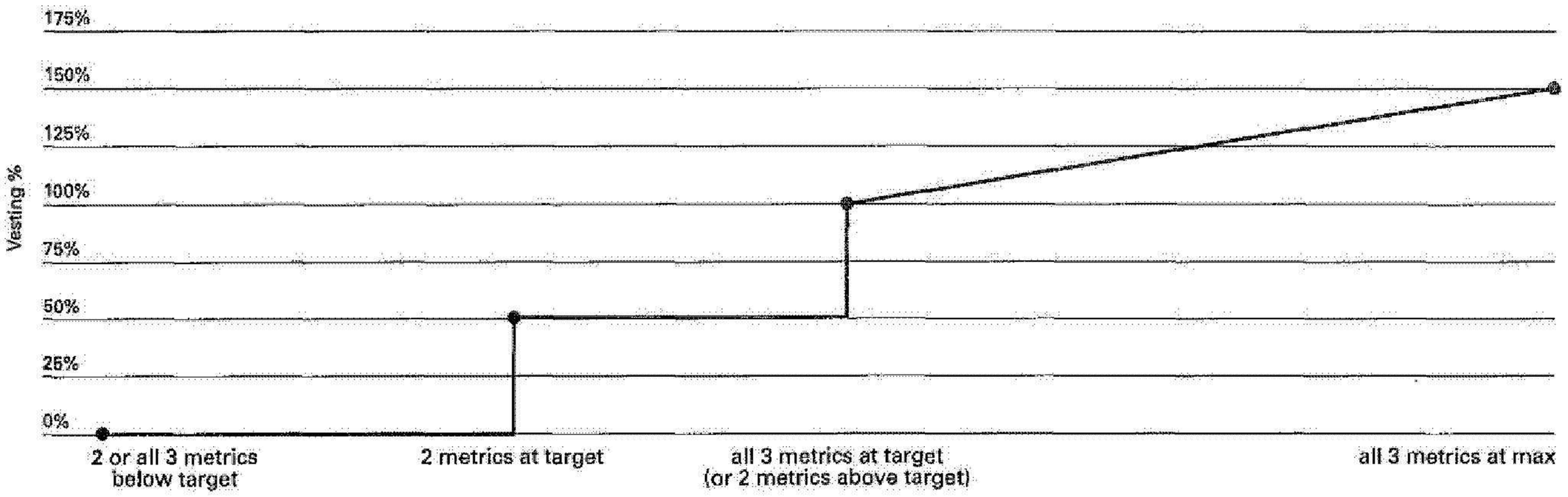
The graphics below summarize the key performance indicators of the Long-Term Incentive and their vesting levels:

Relative TSR vesting formula



ESG metrics vesting formula

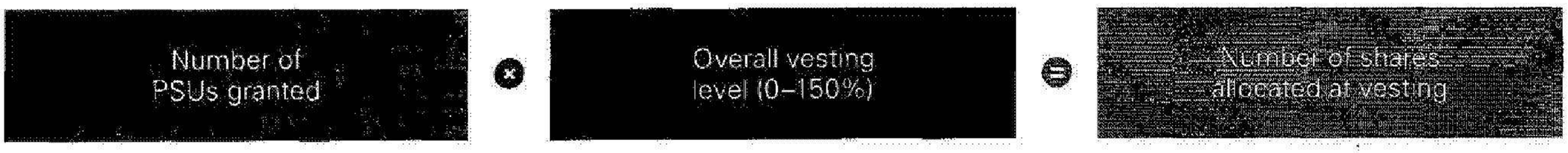


The overall vesting level of the PSUs granted will be calculated as a weighted average of each of the respective vesting levels for Relative TSR (80%) and ESG metrics (20%), and ranges between 0% and 150%.

Settlement of the Long-Term Incentive

At the end of the vesting period, the PSUs vest, subject to the performance conditions and the continuity of employment condition, and shares are allocated to the participants based on the overall vesting level.

The number of shares to be allocated at vesting is calculated by multiplying the number of PSUs granted by the overall vesting level, the result being rounded up to the nearest integer.



The Group does not issue new shares to be allocated to employees for equity-based compensation plans, but uses treasury shares instead, acquired through share buyback programs. Detailed information on the overhang and burn rate are disclosed in note 29.

Termination of employment

In case of termination of employment, all unvested PSUs are as a rule immediately forfeited without value and without any compensation, except in the following cases:

- In case of termination of employment as a result of disability or retirement, unvested PSUs vest on a pro-rata basis, based on the number of full months of the vesting period that have expired until the termination date. The shares are allocated after the regular vesting date and the vesting level is determined based on the performance during the entire regular performance period. There is no early allocation of the shares
- Upon termination of employment as a result of death, unvested PSUs will vest immediately on a pro-rata basis, based on the number of full months of the vesting period that have expired until the termination date. The vesting level is based on an estimation of performance by the Board of Directors

The table below summarizes the vesting rules in case of termination of employment:

Termination reason	Vesting rule	Vesting time and shares allocation	Vesting level
Retirement or disability	Vesting on a pro-rata basis	At regular vesting date	Based on actual performance
Death	Vesting on a pro-rata basis	Immediate	Based on an estimation of performance by the Board of Directors
Corporate transaction or liquidation	Full vesting	Immediate	Based on an estimation of performance by the Board of Directors
Other reasons	Forfeiture	–	–

Malus and clawback provisions

A malus and clawback policy applies to any Long-Term Incentive grant awarded to the members of the Operations Council. Under this policy, the Company may forfeit any unvested equity compensation and/or reclaim the value of any vested equity compensation granted under a Long-Term Incentive plan, in the following cases: i) any fraud, negligence or intentional misconduct was a significant contributing factor to the Company having to restate all or a portion of its financial statements; ii) a serious violation of the SGS internal regulations and/or Code of Integrity; iii) any violation of law within the scope of employment at the Company.

3.2.5. Remuneration mix

The part of remuneration at risk (Short-Term Incentive and Long-Term Incentive) for the CEO represents, at target, 73% of his total remuneration. The part of remuneration settled in equity instruments (Restricted Shares and PSUs) represents, at target, 59% of his total remuneration.

For the other members of the Operations Council, the part or remuneration at risk represents, on average, 64% of their total remuneration. The part of remuneration settled in equity instruments represents, on average, 50% of their total remuneration.

The Long-Term Incentive is considered at its annualized value.

The part of the fixed remuneration linked to benefits is not considered in this analysis.

The charts below show the remuneration mix for the CEO and the other members of the Operations Council in three cases: at minimum (both Short-Term and Long-Term Incentives at zero payout), at target (both Short-Term and Long-Term Incentives at 100% payout) and at maximum (both Short-Term and Long-Term Incentives at maximum payout).

3.2.6. Shareholding ownership guidelines

A shareholding ownership guideline (SOG) is in force since 2015, requiring the members of the Operations Council to own at least a certain multiple of their annual base salary in SGS shares, as follows:

- CEO: three times the annual base salary
- Other members of the Operations Council: two times the annual base salary

In the event of a substantial drop in the share price, the Board of Directors has the discretion to modify the SOG.

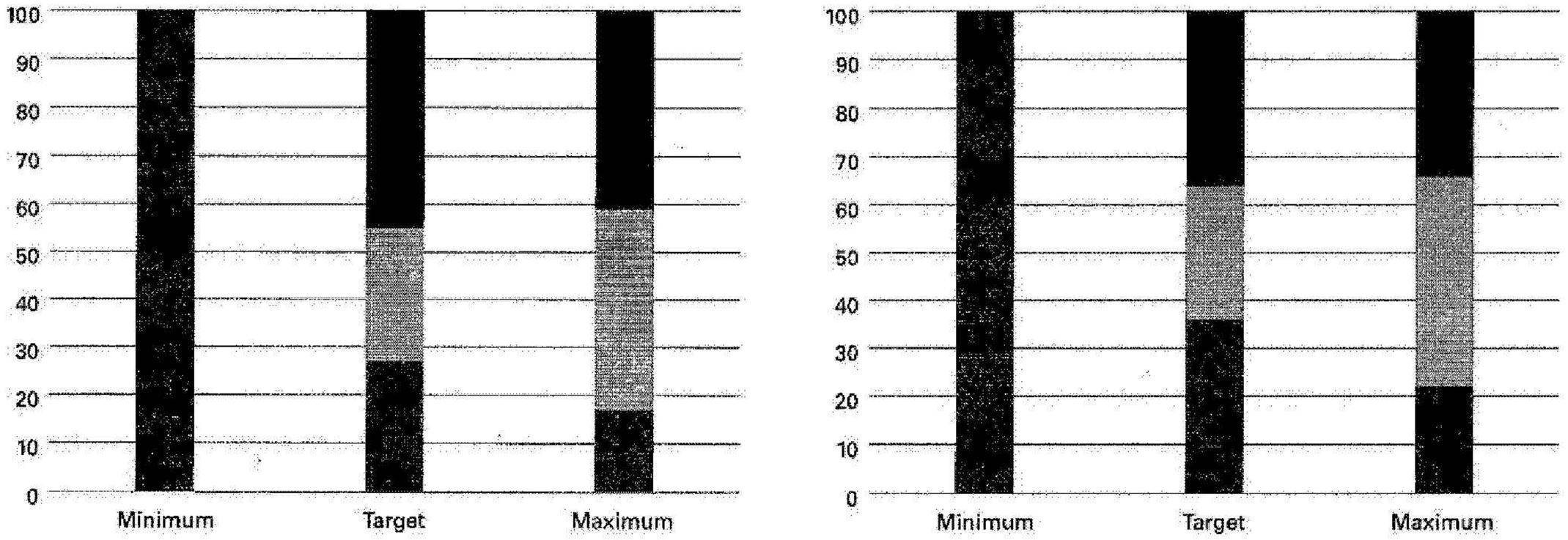
The determination of equity amounts against the SOG is defined to include vested shares allocated under the Short-Term and Long-Term Incentive plans and other shares that are owned by the Operations Council member directly or indirectly (by 'closely related persons').

The Remuneration Committee reviews compliance with the SOG on an annual basis. Until the minimum requirement is met, 25% of the shares allocated under the Short-Term Incentive plan and all shares allocated upon vesting of the PSUs under the Long-Term Incentive plan will be blocked.

3.2.7. Employment contracts

Employment contracts of the Operations Council members have no fixed term and can be terminated at any time by either party, provided a notice period of six months is respected. For the Chief Executive Officer, the notice period is 12 months. The executive contracts do not provide for any severance payments (beyond the minimum legally required in the country of employment) and are subject to applicable legislation in the country of employment.

Remuneration mix for the CEO and other Operations Council members in three cases (%)



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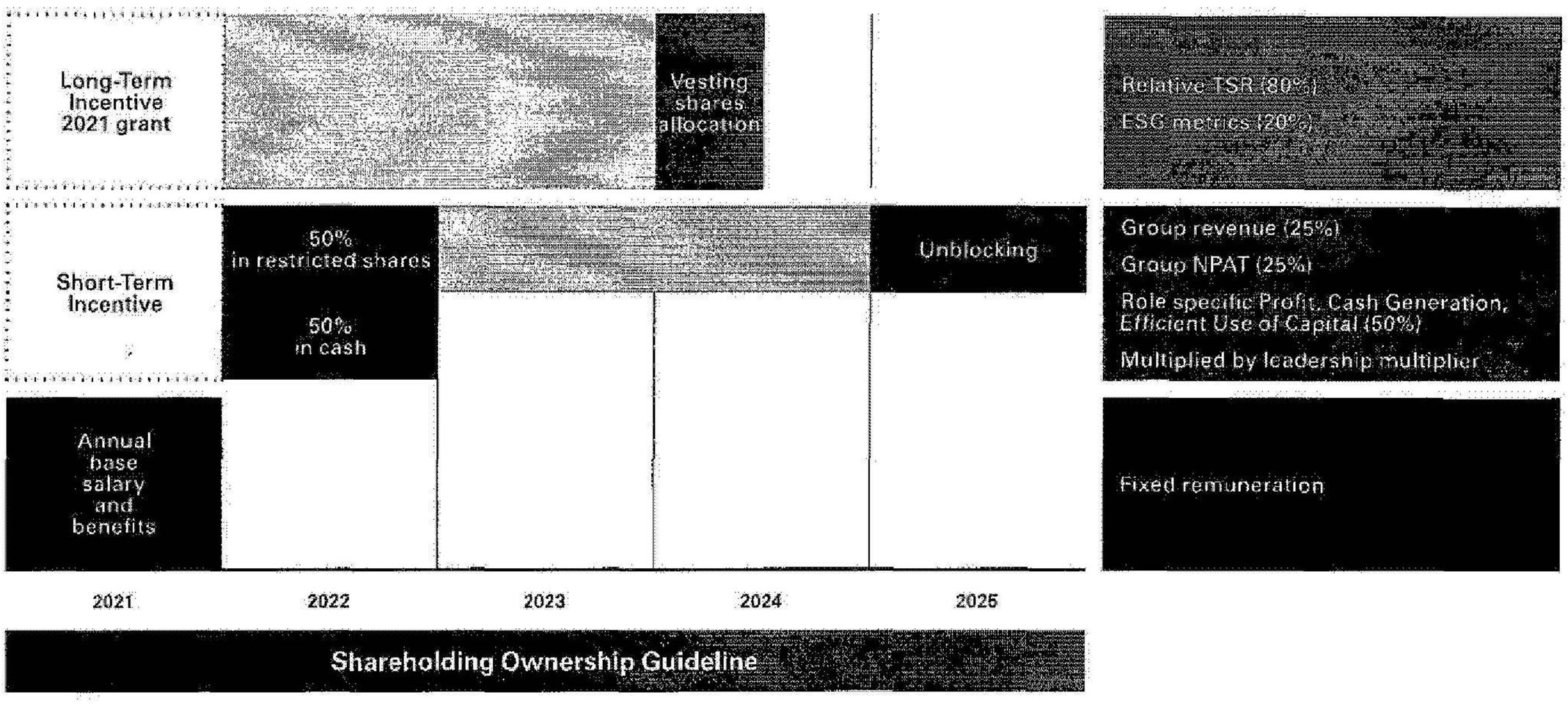
3.2.8. Timeline of remuneration

The following chart outlines the timeline of payment of each remuneration element that was earned in 2021:

- The annual base salary is paid during 2021
- The cash portion of the Short-Term Incentive is paid in March 2022, shortly after the Annual General Meeting
- The share portion of the Short-Term Incentive is allocated in April 2022 and will be unblocked in April 2025
- The PSUs granted under the Long-Term Incentive in 2021 will be earned over the performance period from 2021 to 2023 and will vest, subject to performance conditions and continuity of employment, in February 2024

Timeline of remuneration



4. Remuneration awarded to the Board of Directors

For the mandate from AGM 2021 to AGM 2022, the annual board retainer was CHF 500 000 for the Chairman of the Board of Directors and CHF 150 000 for the other Board of Directors members (unchanged from prior mandate). The Chairman of the Audit Committee was entitled to an additional fee of CHF 70 000; Directors serving as Audit Committee members were entitled to an additional fee of CHF 50 000 (unchanged from prior mandate). The Chairman of the Remuneration Committee was entitled to an additional fee of CHF 40 000; Directors serving as Remuneration Committee members were entitled to an additional fee of CHF 30 000 (unchanged from prior mandate). Directors serving on the Governance & Sustainability Committee were entitled to an additional fee of CHF 30 000 (unchanged from prior mandate).

(CHF thousand)	Board Retainer	Audit Committee fee	Remuneration Committee fee	Governance & Compliance Committee fee
Chairman	500	70	40	–
Membership	150	50	30	30

The total remuneration of the Board of Directors for the mandate from AGM 2021 to AGM 2022 is equal to CHF 1 880 000, within the amount approved by the AGM 2021 (CHF 2 300 000).

Each Board member can choose to receive up to 50% of his/her remuneration settled in shares that may be restricted; the remaining portion is settled in cash. The cash part is paid partly in the current fiscal year and partly in the next fiscal year, on a pro-rata temporis basis. The shares or restricted shares are granted in the next fiscal year, after the publication of the Group's results.

The table below details the remuneration elements and the settlement vehicle of the Directors for the mandate AGM 2021 to AGM 2022.

(CHF thousand)	Chairmanship	Board membership	Audit Committee membership	Remuneration Committee membership	Governance & Compliance Committee membership	Total remuneration	Proportion to be settled in cash	Proportion to be settled in shares[1]	Proportion to be settled in restricted shares[1]
C. Grieder	500	–	–	–	–	500	100%	–	–
S. Atiya	–	150	–	–	30	180	100%	–	–
P. Desmarais, Jr.	–	150	–	–	–	150	100%	–	–
I. Gallienne	–	150	–	30	30	210	100%	–	–
T. Hartmann	–	150	50	–	–	200	100%	–	–
S. R. du Pasquier	–	150	–	40	–	190	75%	–	25%
K. Sorenson	–	150	70	30	–	250	50%	–	50%
J. S. Vergis	–	150	50	–	–	200	100%	–	–
Total	**500**	**1 050**	**170**	**100**	**60**	**1 880**			

1. Shares and restricted shares will be granted during fiscal year 2022.

The table below details the remuneration elements and the settlement vehicle of the Directors for the mandate AGM 2020 to AGM 2021.

(CHF thousand)	Chairmanship	Board membership	Audit Committee membership	Remuneration Committee membership	Governance & Sustainability Committee membership	Total remuneration	Proportion to be settled in cash	Proportion to be settled in shares[1]	Proportion to be settled in restricted shares[1]
C. Grieder	500	–	–	–	–	500	100%	–	–
S. Atiya	–	150	–	–	30	180	100%	–	–
P. Desmarais, Jr.	–	150	–	–	–	150	100%	–	–
A. F. von Finck	–	150	–	–	30	180	100%	–	–
I. Gallienne	–	150	–	30	30	210	100%	–	–
C. Grupp	–	150	–	–	–	150	100%	–	–
T. Hartmann	–	150	50	–	–	200	100%	–	–
G. Lamarche	–	150	70	–	–	220	100%	–	–
S. R. du Pasquier	–	150	–	40	–	190	75%	–	25%
K. Sorenson	–	150	50	30	–	230	100%	–	–
Total	**500**	**1 350**	**170**	**100**	**90**	**2 210**			

1. Restricted shares were granted during fiscal year 2021.

The remuneration of the Board of Directors is subject to employer social charges according to Swiss legislation.

The following table details the remuneration elements granted to each of the Directors for their tenure in fiscal year 2021. It includes both pro-rata temporis elements of remuneration for the mandate AGM 2020 to AGM 2021 and pro-rata temporis elements or remuneration for the mandate AGM 2021 to AGM 2022.

(CHF thousand)	Board retainer	Representation fees	Committee fees	Total remuneration	Cash	Shares value	Shares NB	Restricted shares value	Restricted shares NB	Employer social charges
C. Grieder	501	–	–	501	501	–	–	–	–	–
S. Atiya	150	–	30	180	180	–	–	–	–	16
P. Desmarais, Jr.	150	–	–	150	150	–	–	–	–	11
A. F. von Finck[1]	35	–	7	42	42	–	–	–	–	4
I. Gallienne	150	–	61	211	211	–	–	–	–	19
C. Grupp[1]	35	–	–	35	35	–	–	–	–	2
T. Hartmann	150	–	50	200	200	–	–	–	–	–
G. Lamarche[1]	35	–	16	51	51	–	–	–	–	5
S. R. du Pasquier	150	–	40	190	142	–	–	48	18	17
K. Sorenson	110	–	68	178	178	–	–	–	–	16
J. S. Vergis[2]	116	–	39	155	155	–	–	–	–	14
Total	**1 582**	**–**	**311**	**1 893**	**1 845**	**–**	**–**	**48**	**18**	**104**

1. Until the AGM 2021.
2. As of the AGM 2021.

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The following table details the remuneration elements granted to each of the Directors for their tenure in fiscal year 2020. It includes both pro-rata temporis elements of remuneration for the mandate AGM 2019 to AGM 2020 and pro-rata temporis elements or remuneration for the mandate AGM 2020 to AGM 2021.

(CHF thousand)	Board retainer	Representation fees	Committee fees	Total remuneration	Cash	Shares value	Shares NB	Restricted shares value	Restricted shares NB	Employer social charges
C. Grieder	418	–	25	443	443	–	–	–	–	–
P. Kalantzis[1]	113	–	–	113	113	–	–	–	–	9
S. Atiya[2]	115	–	23	138	138	–	–	–	–	13
P. Desmarais, Jr.	190	–	–	190	115	75	27	–	–	14
A. F. von Finck	149	–	41	190	190	–	–	–	–	17
L. von Finck[1]	34	–	–	34	34	–	–	–	–	3
I. Gallienne	149	–	53	202	202	–	–	–	–	18
C. Grupp	149	–	7	156	156	–	–	–	–	11
T. Hartmann[2]	115	–	39	154	154	–	–	–	–	14
G. Lamarche	149	–	65	214	214	–	–	–	–	19
S. R. du Pasquier	146	–	44	190	190	–	–	–	–	17
K. Sorenson	190	–	87	277	177	–	–	100	36	23
Total	**1 917**	**–**	**384**	**2 301**	**2 126**	**75**	**27**	**100**	**36**	**158**

1. Until the AGM 2020.
2. As of the AGM 2020.

The overall remuneration paid to the Board of Directors in 2021 is lower than the overall remuneration paid in 2020, due to the change in the composition of the Board.

5. Remuneration awarded to the Operations Council members

This section sets out the remuneration that was paid to the Operations Council as a whole, to the three Operations Council members who make up senior management and to the Chief Executive Officer in 2021. All amounts disclosed in this section include the Short-Term Incentive cash amount and restricted shares that will be granted in April 2022 with respect to performance in 2021 (disclosure according to the accrual principle).

5.1. Fixed remuneration

The table below summarizes the fixed remuneration paid to the Operations Council, senior management and the Chief Executive Officer in 2021.

(CHF thousand)	Base salary	Other cash allowances	Contributions to pension plans	Other contributions and benefits in kind	Total fixed remuneration
Operations Council (including Senior Management)					
Cash (including allowances)	7 599	1 019	–	–	8 618
Contributions and benefits in kind	–	–	804	340	1 144
Equity	–	–	–	–	–
Total	**7 599**	**1 019**	**804**	**340**	**9 762**
Senior Management (including Chief Executive Officer)					
Cash (including allowances)	2 278	145	–	–	2 423
Contributions and benefits in kind	–	–	259	22	281
Equity	–	–	–	–	–
Total	**2 278**	**145**	**259**	**22**	**2 704**
Chief Executive Officer					
Cash (including allowances)	1 200	64	–	–	1 264
Contributions and benefits in kind	–	–	112	9	121
Equity	–	–	–	–	–
Total	**1 200**	**64**	**112**	**9**	**1 385**

The aggregate total fixed remuneration of the members of the Operations Council did not exceed the maximum amount approved by the Annual General Meeting in 2020 (CHF 14 000 000). For 2022, the 2021 Annual General Meeting already approved a maximum aggregate total fixed remuneration for the members of the Operations Council (CHF 14 000 000).

The table below summarizes the fixed remuneration paid to the Operations Council, Senior Management and the Chief Executive Officer in 2020.

(CHF thousand)	Base salary	Other cash allowances	Contributions to pension plans	Other contributions and benefits in kind	Total fixed remuneration
Operations Council (including Senior Management)					
Cash (including allowances)	7 969	1 024	–	–	8 993
Contributions and benefits in kind	–	–	1 044	320	1 364
Equity	–	–	–	–	–
Total	**7 969**	**1 024**	**1 044**	**320**	**10 357**
Senior Management (including Chief Executive Officer)					
Cash (including allowances)	2 078	138	–	–	2 216
Contributions and benefits in kind	–	–	257	21	278
Equity	–	–	–	–	–
Total	**2 078**	**138**	**257**	**21**	**2 494**
Chief Executive Officer					
Cash (including allowances)	1 000	64	–	–	1 064
Contributions and benefits in kind	–	–	101	8	109
Equity	–	–	–	–	–
Total	**1 000**	**64**	**101**	**8**	**1 173**

The decrease in fixed remuneration compared with 2020 reflects the change in the composition of the Operations Council.

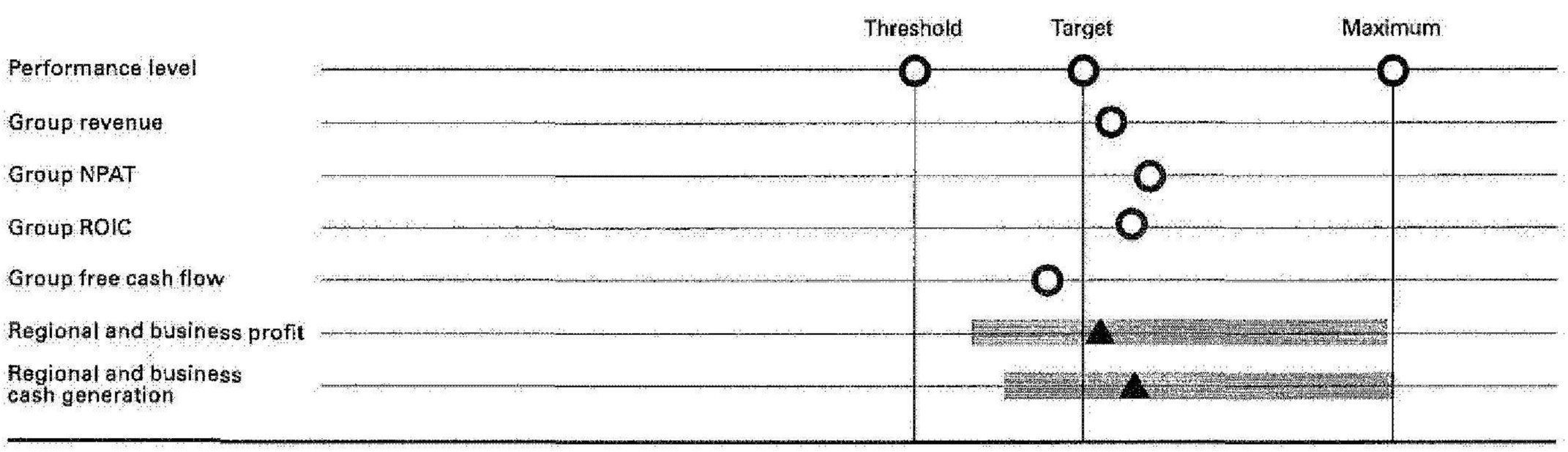
5.2. Short-term variable remuneration

The short-term variable remuneration of the members of the Operations Council is determined by the achievement of financial targets and by their leadership behaviors.

In 2021, the achievement of financial targets at Group level, in the businesses and in the regions ranges from 88.0% to 133.3% (2020: 47.3% to 108.7%).

The chart below summarizes the 2021 performance achievements against targets for the financial objectives (revenue, profitability, cash generation and capital efficiency) used in the Short-Term Incentive.

2021 performance achievements against targets



The overall Short-Term Incentive payout amounts to 121.9% of the target incentive opportunity for the CEO (2020: 60.9%) and ranges from 79.1% to 157.1% of the target incentive opportunity for the other members of the Operations Council (2020: 12.4% to 86.4%). For the purpose of the Short-Term Incentive, targets and performance achievement are measured at constant currency exchange rates.

In settlement of the equity portion of the Short-Term Incentive 2021, SGS restricted shares will be allocated to the members of the Operations Council in April 2022, after the approval of the total Short-Term Incentive amount by the Annual General Meeting (in April 2021, 530 restricted shares were granted in settlement of the equity portion of the Short-Term Incentive 2020). The number of restricted shares to be allocated is calculated by dividing the equity portion of the Short-Term Incentive by the average closing price of the share during a 20-trading day period following the payment of the dividends after the Annual General Meeting, rounded up to the nearest integer, and are restricted for a period of three years.

The table below summarizes the short-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer for the 2021 performance year, and its comparison with the incentive opportunity.

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(CHF thousand)	Minimum	Target	Maximum	Actual short-term variable remuneration
Operations Council (including Senior Management)				
Cash (including allowances)	–	3 195	7 988	3 783
Contributions and benefits in kind	–	–	–	–
Equity	–	2 893	7 233	3 448
Total	–	**6 088**	**15 220**	**7 231**
Senior Management (including Chief Executive Officer)				
Cash (including allowances)	–	1 059	2 648	1 296
Contributions and benefits in kind	–	–	–	–
Equity	–	1 059	2 648	1 296
Total	–	**2 118**	**5 295**	**2 592**
Chief Executive Officer				
Cash (including allowances)	–	600	1 500	732
Contributions and benefits in kind	–	–	–	–
Equity	–	600	1 500	732
Total	–	**1 200**	**3 000**	**1 464**

The total short-term remuneration amount will be submitted for approval to the Annual General Meeting of 2022, and the settlement for both the cash and the equity part will be implemented shortly after.

The table below summarizes the short-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer for the 2020 performance year, and its comparison with the incentive opportunity.

(CHF thousand)	Minimum	Target	Maximum	Actual short-term variable remuneration
Operations Council (including Senior Management)				
Cash (including allowances)	–	3 651	9 128	1 711
Contributions and benefits in kind	–	–	–	–
Equity	–	2 908	7 270	1 409
Total	–	**6 559**	**16 398**	**3 120**
Senior Management (including Chief Executive Officer)				
Cash (including allowances)	–	959	2 398	569
Contributions and benefits in kind	–	–	–	–
Equity	–	959	2 398	569
Total	–	**1 918**	**4 796**	**1 138**
Chief Executive Officer				
Cash (including allowances)	–	500	1 250	304
Contributions and benefits in kind	–	–	–	–
Equity	–	500	1 250	304
Total	–	**1 000**	**2 500**	**608**

The total 2020 short-term remuneration amount was approved by the Annual General Meeting of 2021, and the settlement for both the cash and the equity part were implemented shortly after.

The increase in short-term variable remuneration compared to 2020 reflects the 2021 recovery after the impact of Covid-19 pandemic on the 2020 financial performance of the Group.

5.3. Long-term variable remuneration

In 2021, the Group implemented a Long-Term Incentive plan for the performance period 2021-2023. Under the Long-Term Incentive plan 2021-2023, a total of 6 003 Performance Share Units (PSUs) were granted to the members of the Operations Council; this includes 2 462 PSUs granted to Senior Management, of which 1 481 granted to the Chief Executive Officer.

The PSUs awarded under the Long-Term Incentive 2021-2023 vest after the three-year performance period 2021-2023, in early 2024, subject to the performance conditions (relative total shareholder return and Environmental, Social and Governance metrics; see Section 3.2.4. of this Report for detailed explanations on the performance conditions) and to continuity of employment of the beneficiaries during the vesting period.

The number of PSUs granted is calculated dividing the value of the grant, as disclosed in Section 3.2.4. of this report, by the average closing price of the share during a 20-trading day period preceding the grant date, rounded up to the nearest integer.

The 2021-2023 Long-Term Incentive plan is a transition plan, from the past practice (until the 2018-2020 plan), with one grant every three years, to the new practice, with one grant every year. The value of the 2021 grant is two thirds of the value granted under the past practice; the value of the future annual grants, 2022 onwards, will be one third of the value granted under the past practice.

A cash Long-Term Incentive plan was implemented in 2021 for one Operations Council member who was newly appointed. This incentive mirrors the Long-Term Incentive PSUs plan 2021-2023, with exact same vesting and performance conditions, from the date of the appointment to 31 December 2023.

In 2020, the Group did not implement any Long-Term Incentive plan for the Operations Council members.

The table below summarizes the value of the long-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer in 2021.

	Number of PSUs granted	Total value of the grant[1] (CHF thousand)
Operations Council (including Senior Management)		
Cash (including allowances)	–	382
Contributions and benefits in kind	–	–
Equity	6 003	16 216
Total	**6 003**	**16 598**
Senior Management (including Chief Executive Officer)		
Cash (including allowances)	–	–
Contributions and benefits in kind	–	–
Equity	2 462	6 651
Total	**2 462**	**6 651**
Chief Executive Officer		
Cash (including allowances)	–	–
Contributions and benefits in kind	–	–
Equity	1 481	4 001
Total	**1 481**	**4 001**

1. The 2021-2023 LTI plan is a transition plan between the past practice (one grant every three years) and the new practice (annual grant); the value of the grant is two thirds of the past plans, while as of 2022 the value of the grant will be one third of the past plans. Details on the value of the incentive opportunity of the transition plan 2021 and the annual plans 2022 onwards are disclosed in Section 3.2.4. of this Report.

The table below summarizes the 2020 annualized value of the long-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer in 2018 and 2019.

	Number of PSUs granted	Total value of the grant (CHF thousand)	Annualized value of the grant (CHF thousand)[1]	2019 Annualized value of the grant (CHF thousand)[2]
Operations Council (including Senior Management)				
Cash (including allowances)	–	–	1 172	1 042
Contributions and benefits in kind	–	–	–	–
Equity	–	–	7 777	8 469
Total	**–**	**–**	**8 949**	**9 511**
Senior Management (including Chief Executive Officer)				
Cash (including allowances)	–	–	980	898
Contributions and benefits in kind	–	–	–	–
Equity	–	–	1 837	2 317
Total	**–**	**–**	**2 817**	**3 215**
Chief Executive Officer				
Cash (including allowances)	–	–	–	–
Contributions and benefits in kind	–	–	–	–
Equity	–	–	1 500	1 500
Total	**–**	**–**	**1 500**	**1 500**

1. The annualized value of the grant for the year 2020 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the 2019 grant corresponding to the period from 1 January 2020 to 31 December 2020.
2. The annualized value of the grant for the year 2019 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the grant corresponding to the period from the OC appointment to 31 December 2019.

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5.4. Total remuneration

The tables below present all components of the remuneration earned in 2021 and 2020 by the Operations Council, Senior Management and the Chief Executive Officer. The employer social charges are reported separately in the last column of the table.

Total remuneration 2021

(CHF thousand)	Total fixed remuneration	Total short-term variable remuneration	Total 2021 remuneration before LTI	Total long-term variable remuneration[1]	Total 2021 remuneration	Employer social charges
Operations Council (including Senior Management)[2]						
Cash (including allowances)	8 618	3 783	12 401	382	12 783	–
Contributions and benefits in kind	1 144	–	1 144	–	1 144	2 637
Equity	–	3 448	3 448	16 216	19 664	–
Total	**9 762**	**7 231**	**16 993**	**16 598**	**33 591**	**2 637**
Senior Management (including Chief Executive Officer)[3]						
Cash (including allowances)	2 423	1 296	3 719	–	3 719	–
Contributions and benefits in kind	281	–	281	–	281	878
Equity	–	1 296	1 296	6 651	7 947	–
Total	**2 704**	**2 592**	**5 296**	**6 651**	**11 947**	**878**
Chief Executive Officer						
Cash (including allowances)	1 264	732	1 996	–	1 996	–
Contributions and benefits in kind	121	–	121	–	121	518
Equity	–	732	732	4 001	4 733	–
Total	**1 385**	**1 464**	**2 849**	**4 001**	**6 850**	**518**

1. The 2021-2023 LTI plan is a transition plan between the past practice (one grant every three years) and the new practice (annual grant); the value of the grant is two thirds of the past plans, while as of 2022 the value of the grant will be one third of the past plans. Details on the value of the incentive opportunity of the transition plan 2021 and the annual plans 2022 onwards are disclosed in Section 3.2.4. of this Report.
2. 19 FTE (Full-Time Equivalent).
3. 3 FTE.

Total and annualized remuneration 2020

(CHF thousand)	Total fixed remuneration	Total short-term variable remuneration	Total 2020 remuneration before LTI	Total long-term variable remuneration[1]	Annualized long-term variable remuneration[1]	Total 2020 remuneration	2020 Annualized remuneration	Employer social charges
Operations Council (including Senior Management)[2]								
Cash (including allowances)	8 993	1 711	10 704	–	1 172	10 704	11 876	–
Contributions and benefits in kind	1 364	–	1 364	–	–	1 364	1 364	1 378
Equity	–	1 409	1 409	–	7 777	1 409	9 186	–
Total	**10 357**	**3 120**	**13 477**	**–**	**8 949**	**13 477**	**22 426**	**1 378**
Senior Management (including Chief Executive Officer)[3]								
Cash (including allowances)	2 216	569	2 785	–	980	2 785	3 765	–
Contributions and benefits in kind	278	–	278	–	–	278	278	359
Equity	–	569	569	–	1 837	569	2 406	–
Total	**2 494**	**1 138**	**3 632**	**–**	**2 817**	**3 632**	**6 449**	**359**
Chief Executive Officer								
Cash (including allowances)	1 064	304	1 368	–	–	1 368	1 368	–
Contributions and benefits in kind	109	–	109	–	–	109	109	174
Equity	–	304	304	–	1 500	304	1 804	–
Total	**1 173**	**608**	**1 781**	**–**	**1 500**	**1 781**	**3 281**	**174**

1. The annualized value of the grant for the year 2020 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the 2019 grant corresponding to the period from 1 January 2020 to 31 December 2020.
2. 21 FTE (Full-Time Equivalent).
3. 3 FTE.

5.5. Remuneration mix

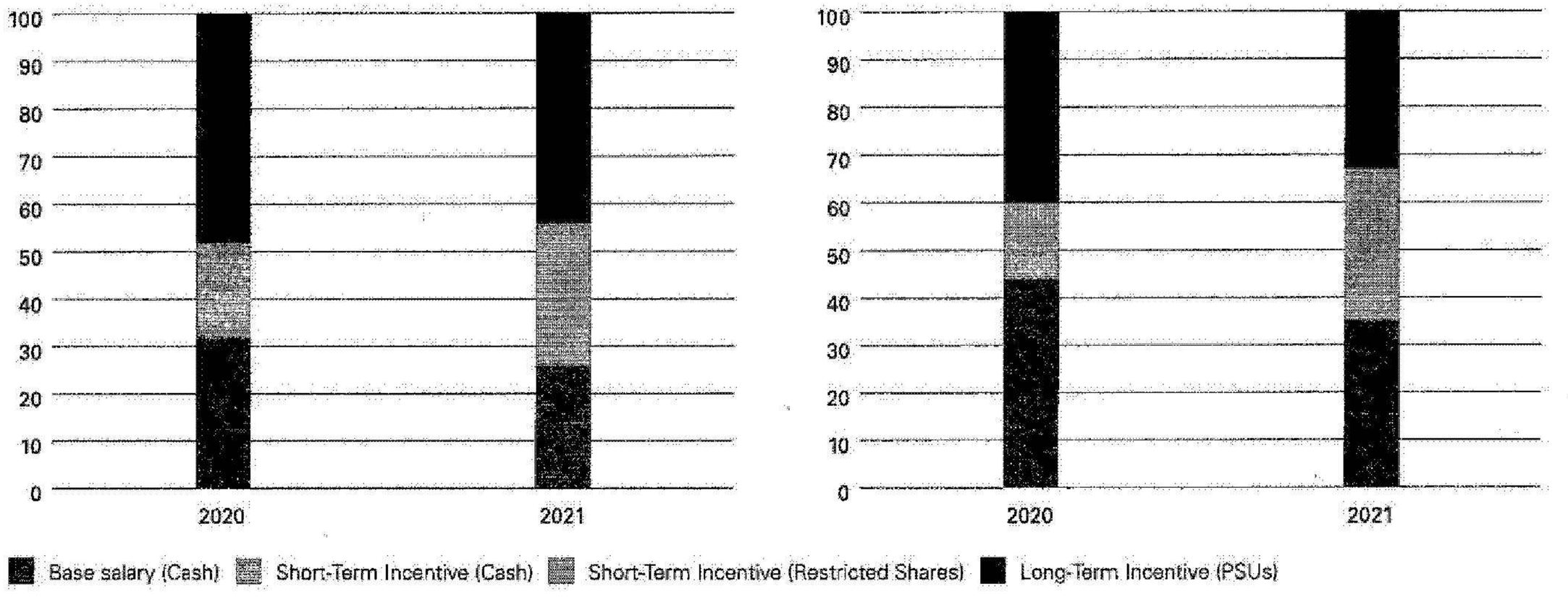
In 2021, the part of remuneration at risk (Short-Term Incentive and Long-Term Incentive) for the CEO represents 74% of the total remuneration (2020: 68%); the part of remuneration settled in equity instruments (Restricted Shares and PSUs) represents 59% of the total remuneration (2020: 58%). For the other members of the Operations Council, the part or remuneration at risk represents, on average, 65% of the total remuneration (2020: 56%); the part of remuneration settled in equity instruments represents, on average, 48% of the total remuneration (2020: 48%).

The Long-Term Incentive is considered at its annualized value.

The part of the fixed remuneration linked to benefits is not considered in this analysis.

The charts below show the remuneration mix for the CEO and for the other members of the Operations Council in 2021 and 2020.

Remuneration mix for the CEO and other Operations Council members (%)



5.6. Other compensation elements

5.6.1. Severance payments

No severance payments were made in 2021 to members of the Operations Council (unchanged from prior year).

5.6.2. Other compensation to members or former members of the governing bodies

In 2021 no other payment was made to any member or former member of the governing bodies (consideration for non-compete of CHF 240 000 was paid in 2020 to a former member of the Operations Council).

5.6.3. Loans to members or former members of the governing bodies

As at 31 December 2021, no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies or related parties (unchanged from prior year).

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Report of the statutory auditor

to the General Meeting of SGS SA

Geneva

We have audited the remuneration report of SGS SA for the year ended 31 December 2021. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in sections 4 and 5 (pages 101 to 108) of the report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of SGS SA for the year ended 31 December 2021 complies with Swiss law and articles 14–16 of the Ordinance.

Other matter

The remuneration report of SGS SA for the year ended 31 December 2020 was audited by another firm of auditors whose report, dated 23 February 2021, expressed an unmodified opinion on this report.

PricewaterhouseCoopers SA

Guillaume Nayet — Louise Rolland

Auditor in charge

Geneva, 21 February 2022

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2021 results

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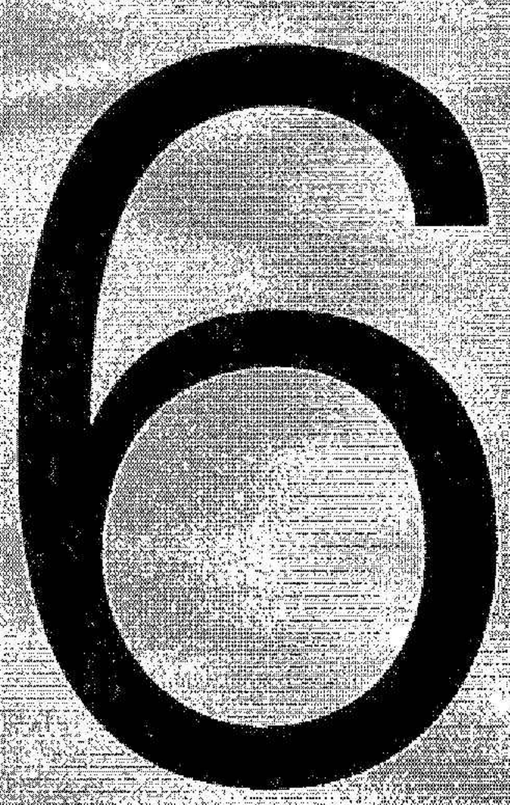

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1. SGS Group

1.1. Consolidated Income Statement

For the years ended 31 December

(CHF million)	Notes	2021	2020
Revenue	4	**6 405**	**5 604**
Salaries and wages		(3 180)	(2 797)
Subcontractors' expenses		(385)	(352)
Depreciation, amortization and impairment	12 to 15	(499)	(517)
Gain on business disposals	3	–	63
Other operating expenses	7	(1 364)	(1 206)
Operating income (EBIT)[1]	4	**977**	**795**
Financial income	8	16	12
Financial expenses	9	(69)	(66)
Share of profit of associates and joint ventures		–	1
Profit before taxes		**924**	**742**
Taxes	10	(269)	(237)
Profit for the period		**655**	**505**
Profit attributable to:			
Equity holders of SGS SA		613	480
Non-controlling interests		42	25
Basic earnings per share (in CHF)	11	**81.91**	**64.05**
Diluted earnings per share (in CHF)	11	**81.79**	**63.82**

1. Refer to note 4 for analysis of non-recurring items.

1.2. Consolidated Statement of Comprehensive Income

For the years ended 31 December

(CHF million)	Notes	2021	2020
Actuarial gains on defined benefit plans	25	57	14
Income tax on actuarial (losses)	10	(6)	(4)
Items that will not be subsequently reclassified to income statement		**51**	**10**
Exchange differences		(32)	(182)
Items that may be subsequently reclassified to income statement		**(32)**	**(182)**
Other comprehensive loss for the period		**19**	**(172)**
Profit for the period		655	505
Total comprehensive income for the period		**674**	**333**
Attributable to:			
Equity holders of SGS SA		629	311
Non-controlling interests		45	22

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1.3. Consolidated Statement of Financial Position

At 31 December

(CHF million)	Notes	2021	2020
Assets			
Non-current assets			
Property, plant and equipment	12	925	872
Right-of-use assets	13	605	590
Goodwill	14	1 778	1 651
Other intangible assets	15	382	333
Investments in joint ventures, associates and other companies		26	34
Deferred tax assets	10	164	161
Other non-current assets	16	173	154
Total non-current assets		**4 053**	**3 795**
Current assets			
Inventories		59	57
Unbilled revenues and work in progress	5	175	160
Trade receivables	17	928	856
Other receivables and prepayments	18	204	188
Current tax assets		108	77
Marketable securities		–	9
Cash and cash equivalents	19	1 480	1 766
Total current assets		**2 954**	**3 113**
Total assets		**7 007**	**6 908**
Equity and liabilities			
Capital and reserves			
Share capital	23	7	8
Reserves		1 118	1 282
Treasury shares		(8)	(230)
Equity attributable to equity holders of SGS SA		**1 117**	**1 060**
Non-controlling interests		85	74
Total equity		***1 202***	***1 134***
Non-current liabilities			
Loans and other financial liabilities	24	2 889	2 390
Lease liabilities	13	481	470
Deferred tax liabilities	10	92	53
Defined benefit obligations	25	84	136
Provisions	26	90	88
Total non-current liabilities		***3 636***	***3 137***
Current liabilities			
Trade and other payables	27	687	658
Contract liabilities	5	221	189
Current tax liabilities		169	140
Loans and other financial liabilities	24	282	863
Lease liabilities	13	155	151
Provisions	26	60	85
Other creditors and accruals		595	551
Total current liabilities		**2 169**	**2 637**
Total liabilities		**5 805**	**5 774**
Total equity and liabilities		**7 007**	**6 908**

1.4. Consolidated Statement of Cash Flows

For the years ended 31 December

(CHF million)	Notes	2021	2020
Profit for the period		655	505
Non-cash and non-operating items	20.1	828	748
(Increase)/decrease in working capital	20.2	(44)	186
Taxes paid		(270)	(253)
Cash flow from operating activities		**1 169**	**1 186**
Purchase of property, plant and equipment and other intangible assets		(336)	(259)
Disposal of property, plant and equipment and other intangible assets		5	13
Acquisition of businesses	21	(214)	(492)
Proceeds from disposal of businesses		–	71
Cash paid on other non-current assets		(2)	(4)
Proceeds received from investments in joint ventures, associates and other companies		1	1
Interest received		17	15
Proceeds from marketable securities		9	–
Cash flow used by investing activities		**(520)**	**(655)**
Dividends paid to equity holders of SGS SA		(599)	(598)
Dividends paid to non-controlling interests		(41)	(37)
Transaction with non-controlling interests	20.3	(12)	(1)
Cash paid on treasury shares		–	(208)
Proceeds from corporate bonds	20.3	824	499
Payment of corporate bonds	20.3	(276)	–
Interest paid		(66)	(63)
Payment of lease liabilities	20.3	(179)	(161)
Proceeds from borrowings	20.3	–	542
Payment of borrowings	20.3	(555)	(154)
Cash flow used by financing activities		**(904)**	**(181)**
Currency translation		(31)	(50)
(Decrease)/increase in cash and cash equivalents		**(286)**	**300**
Cash and cash equivalents at beginning of year		**1 766**	**1 466**
(Decrease)/increase in cash and cash equivalents		(286)	300
Cash and cash equivalents at end of year	19	**1 480**	**1 766**

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1.5. Consolidated Statement of Changes in Equity

For the years ended 31 December

(CHF million)	Share capital	Treasury shares	Capital reserve	Cumulative translation adjustments	Cumulative (losses)/gains on defined benefit plans net of tax	Retained earnings and Group reserves	Attributable to: Equity Holders of SGS SA	Non-controlling Interests	Total Equity
Balance at 1 January 2020	**8**	**(30)**	**146**	**(1 128)**	**(251)**	**2 769**	**1 514**	**81**	**1 595**
Profit for the period	–	–	–	–	–	480	480	25	505
Other comprehensive income for the period	–	–	–	(179)	10	–	(169)	(3)	(172)
Total comprehensive income for the period	–	–	–	*(179)*	*10*	*480*	*311*	*22*	*333*
Dividends paid	–	–	–	–	–	(598)	(598)	(37)	(635)
Share-based payments	–	–	17	–	–	–	17	–	17
Movement in non-controlling interests	–	–	–	–	–	20	20	8	28
Movement on treasury shares	–	(200)	(3)	–	–	(1)	(204)	–	(204)
Balance at 31 December 2020	**8**	**(230)**	**160**	**(1 307)**	**(241)**	**2 670**	**1 060**	**74**	**1 134**
Balance at 1 January 2021	**8**	**(230)**	**160**	**(1 307)**	**(241)**	**2 670**	**1 060**	**74**	**1 134**
Profit for the period	–	–	–	–	–	613	613	42	655
Other comprehensive income for the period	–	–	–	(35)	51	–	16	3	19
Total comprehensive income for the period	–	–	–	*(35)*	*51*	*613*	*629*	*45*	*674*
Dividends paid	–	–	–	–	–	(599)	(599)	(41)	(640)
Share-based payments	–	–	12	–	–	–	12	–	12
Movement in non-controlling interests	–	–	–	–	–	14	14	7	21
Movement on treasury shares	(1)	222	(42)	–	–	(178)	1	–	1
Balance at 31 December 2021	**7**	**(8)**	**130**	**(1 342)**	**(190)**	**2 520**	**1 117**	**85**	**1 202**

1.6. Notes to Consolidated Financial Statements

1. Activities of the Group

SGS SA and its subsidiaries (the 'Group') operate around the world under the name SGS. The head office of the Group is located in Geneva, Switzerland.

SGS is the global leader in inspection, verification, testing and certification services supporting international trade in agriculture, minerals, petroleum and consumer products. It also provides these services to governments, international institutions and customers engaged in the industrial, environmental and life science sectors.

2. Significant accounting policies and exchange rates

Basis of preparation of the financial statements

The consolidated financial statements of the Group are stated in millions of Swiss Francs (CHF million). They are prepared from the financial statements of the individual companies within the Group with all significant companies having a year end of 31 December 2021.

The consolidated financial statements comply with the accounting and reporting requirements of the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Swiss law.

The accounting conventions and accounting policies are the same as those applied in the 2020 consolidated financial statements, except for the Group's adoption of new IFRSs effective 1 January 2021.

The financial statements are prepared on an accruals basis and under the historical cost convention, modified as required for the revaluation of certain financial instruments.

COVID-19 pandemic

Although economic indicators have risen over the past months, the duration and extent of the pandemic, together with the related financial, social and public health impacts of Covid-19 remain uncertain.

Consequently, these 2021 consolidated financial statements were prepared considering the continued impact of the pandemic, as well as future uncertainties, with particular attention to the below specific areas:

- Impairment of non-current assets: the Group has analyzed whether any triggering event could be identified that would indicate an impairment of its assets and none were identified (2020: nil)
- Goodwill impairment test: the Group ran the annual impairment test with no impairment required (2020: CHF 37 million)
- Appropriateness of expected credit loss allowance for trade receivables, unbilled revenue and work in progress: applying the simplified approach for IFRS 9 expected credit loss model, the Group reviewed its impairment matrix to ensure it continues to reflect current and future credit risks and assessed it as adequate
- Accounting for government grants: at 31 December 2021, the Group recognized CHF 16 million as deduction of salaries and wage expenses (2020: CHF 36 million)

Business segment financial restatement

As of 1 January 2021, the SGS operational structure has been simplified into new focus areas including the following five divisions: Connectivity & Products, Health & Nutrition, Industries & Environment, Natural Resources and Knowledge.

The integration of this divisional structure resulted in improving SGS's market approach while increasing cooperation and agility across our global network. Other than creating more operational synergies, the Group expects to reinvigorate the growth profiles of its services. Previously reported 2020 segment disclosures have been restated to reflect this change and are disclosed in note 4.

This reorganization led the Group to adjust its management of goodwill and to reassess its Cash Generating Units (CGU) and groups of CGUs to better reflect the new divisional structure. The restatement of goodwill and CGU allocation has been done in accordance with IAS 36, which defines a CGU as the lowest level of a group of assets generating cash inflows that are largely independent from other assets or groups of assets, as disclosed in note 14.

Adoption of new and revised International Financial Reporting Standards and Interpretations

Several new amendments and interpretations were adopted effective 1 January 2021 but have no material impact on the Group's consolidated financial statements. There are no IFRS standards or interpretations which are not yet effective and which would be expected to have a material impact on the Group.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Group. Control is achieved when the Group:

- Has power over the investee
- Is exposed, or has the right, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its return

The Company reassesses whether or not the Group controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The principal operating companies of the Group are listed on pages 175 to 177.

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Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Initially they are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequently to the acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Associates

Associates are entities over which the Group has significant influence but no control or joint control over the financial and operating policies. The consolidated financial statements include the Group's share of the earnings of associates on an equity accounting basis from the date that significant influence commences until the date that significant influence ceases.

Joint ventures

A joint venture is a contractual arrangement over which the Group exercises joint control with partners and where the parties have rights to the net assets of the arrangement. The consolidated financial statements include the Group's share of the earnings and net assets on an equity accounting basis of joint ventures that it does not control, effective from the date that joint control commences until the date that joint control ceases.

Joint operations

A joint operation is an arrangement whereby the parties that have joint control have separable specific rights to the assets and the liabilities within the arrangement. When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly

Investments in companies not accounted for as subsidiaries, associates or jointly controlled entities

Investments in companies not accounted for as subsidiaries, associates or jointly controlled entities (normally below 20% shareholding levels) are stated at fair value through profit and loss. Dividends received from these investments are included in financial income.

Transactions eliminated on consolidation

All intra-Group balances and transactions, and any unrealized gains and losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the income statement.

Consolidation of foreign companies

All assets and liabilities of foreign companies that are consolidated are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the exchange rate at the average exchange rate for the year, or at the rate on the date of the transaction for significant items. Translation differences resulting from the application of this method are recognized in other comprehensive income and reclassified to profit or loss on disposal. Average exchange rates are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

Revenue recognition

IFRS 15 Revenue from Contracts with Customers establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring services to a customer. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group recognizes revenue based on two main models: services transferred at a point in time and services transferred over time.

- The majority of SGS' revenue is transferred at a point in time and recognized upon completion of performance obligations and measured according to the transaction price agreed in the contract. Once services are rendered, e.g. a report issued, the customer is invoiced and payment is due
- Services transferred over time mainly concern long-term contracts, where revenue is recognized based on the measure of progress. When the Group has a right to consideration from a customer at the amount corresponding directly to the customer's value of the performance completed to date, the Group recognizes revenue in the amount to which it has a right to invoice. In all other situations, the measure of progress is either based on observable output methods (usually the number of tests or inspection performed) or based on input methods such as the time incurred to date relative to the total expected hours to the satisfaction of the performance obligation. These invoices are usually issued per contractually agreed installments and prices. Payments are due upon invoicing

Segment information

The Group reports its operations by business segment, according to the nature of the services provided.

The Group operates in five business segments:

- Connectivity & Products (C&P): end-markets covered include Electrical and Electronic goods, Softlines, Hardlines and Trade Facilitation
- Health & Nutrition (H&N): end-markets covered include Food, Crop Science, Health Science and Cosmetics & Hygiene
- Industries & Environment (I&E): end-markets covered include Field Services and Inspection, Technical Assessment and Advisory, Industrial and Public Health & Safety, Environmental Testing and Public Mandates
- Natural Resources (NR): end-markets covered include Trade and Inspection of minerals, oil and gas and agricultural commodities, Laboratory Testing, Metallurgy and Consulting and Market Intelligence
- Knowledge (Kn): end-markets covered include Management System Certification, Customized Audits, Consulting and Academy

The chief operating decision maker evaluates segment performance and allocates resources based on several factors, of which revenue, adjusted operating income and capital expenditures are the main criteria.

For the Group, the chief operating decision maker is the Senior Management, which is composed of the Chief Executive Officer, the Chief Financial Officer and the General Counsel.

All segment revenues reported are from external customers. Segment revenue and operating income are attributed to countries based on the location in which the services are rendered.

Capital additions represent the total cost incurred to acquire land, buildings and equipment as well as other intangible assets.

Property, plant and equipment

Land is stated at historical cost and is not depreciated. Buildings and equipment are stated at historical cost less accumulated depreciation. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property and equipment. All other expenditures are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings 12–40 years
- Machinery and equipment 5–10 years
- Other tangible assets 5–10 years

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. They are adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The Group elected to use the practical expedient to account for each lease component and any non-lease components as a single lease component. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In the case that the implicit rate cannot be readily determined, the Group uses an incremental borrowing rate considering the country and the lease duration. The rate is estimated by the combination of the reference rate, the financing spread and any asset specific adjustment when required.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interests and reduced for the lease payments made. Subsequently, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Group applies the short-term lease and low-value recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

Goodwill

In the case of acquisitions of businesses, the acquired identifiable assets, liabilities and contingent liabilities are recorded at fair value. The difference between the purchase price and the fair value is classified as goodwill and recorded in the statement of financial position as an intangible asset.

Goodwill arising from business combinations is measured at cost less any accumulated impairment losses.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected amounts recognized at that date.

Goodwill arising on the acquisition of a foreign entity is recorded in the relevant foreign currency and is translated using the end of period exchange rate.

On disposal of part or all of a business that was previously acquired and which gave rise to the recording of acquisition goodwill, the relevant amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill acquired as part of business combinations is tested for possible impairment annually and whenever events or changes in circumstances indicate their value may not be fully recoverable.

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For the purpose of impairment testing, the Group has adopted a uniform method for assessing goodwill recognized under the acquisition method of accounting. These assets are allocated to a cash generating unit or a group of cash generating units (CGU) which are expected to benefit from the business combination. The recoverable amount of a CGU or the group of CGUs is determined through a value-in-use calculation.

If the value-in-use of the CGU or the group of CGUs is less than the carrying amount of its net operating assets, then a fair value less costs to sell valuation is also performed with the recoverable amount of the CGU or the group of CGUs being the higher of its value-in-use and the fair value less costs to sell.

The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, operating margins and expected changes to selling prices or direct costs during the period. Pre-tax discount rates used are based on the Group's weighted average cost of capital, adjusted for specific risks associated with the CGUs or the group of CGUs' cash flow projections. The growth rates are based on industry growth forecasts.

Expected changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

For all CGUs or groups of CGUs, a value-in-use calculation is performed using cash flow projections covering the next five years and including a terminal growth assumption. These cash flow projections take into account the most recent financial results and outlook approved by management.

If the recoverable amount of the CGU or of the group of CGUs is less than the carrying amount of the unit's net operating assets, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Even if the initial accounting for an intangible asset acquired in the reporting period is only provisional, this asset is tested for impairment in the year of acquisition.

Other intangible assets

Intangible assets, including software, licences, trademarks and customer relationships are capitalized and amortized on a straight-line basis over their estimated useful lives, normally not exceeding 20 years. The following useful lives are used in the calculation of amortization:

- Trademarks 5–20 years
- Customer relationships 2–20 years
- Computer software 3–5 years

Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably. Internally generated intangible assets are recognized if the asset created can be identified, it is probable that future economic benefits will be generated from it, the related development costs can be measured reliably and sufficient financial resources are available to complete the development. These assets are amortized on a straight-line basis over their useful lives, which usually do not exceed five years. All other development costs are expensed as incurred.

Impairment of assets excluding goodwill

At each balance sheet date, or whenever there is an indication that an asset may be impaired, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. If indications of impairment are present, the assets are tested for impairment. If impaired, the carrying value of the asset is reduced to its recoverable value. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount of an asset is the greater of the fair value less cost of sale and its value-in-use. In assessing its value-in-use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset.

Reversal of impairment losses

Where an impairment loss on assets other than goodwill subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

Government grants

IAS 20 sets out the principle for the recognition, measurement, presentation and disclosure of government grants. Government grants that are not related to assets are credited to the income statement as a deduction of the related expenses. Government grants are recognized when there is a reasonable assurance that the grant will be received and all attached conditions will be met.

Trade receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts. An expected credit loss allowance is made in compliance with the simplified approach using a provision matrix (expected credit loss model). This provision matrix has been developed to reflect the country risk, the credit risk profile, as well as available forward looking and historical data. The Group considers a trade receivable to be credit impaired when one or more detrimental events have occurred such as:

- Significant financial difficulty of the customer; or
- It is becoming probable that the customer will enter bankruptcy or other financial reorganization

Unbilled revenues and work in progress

Unbilled revenues are recognized for services completed but not yet invoiced and are valued at net selling price.

Work in progress is recognized for the partially finished performance obligations under a contract. The measure of progress is either based on observable output methods or based on input methods. A margin is recognized based on actual costs incurred, provided that the project is expected to be profitable once completed. Similarly to receivables, an allowance for unbilled revenues and work in progress is made in compliance with the simplified approach using a provision matrix (expected credit loss model).

Cash and cash equivalents

Cash and cash equivalents include cash and deposits held with banks with an original maturity of three months or less, and are subject to an insignificant risk of changes in value. Bank overdrafts are included within current loans.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives are accounted for on a mark-to-market basis.

Derivative financial instruments are initially recognized at fair value and subsequently remeasured at fair value at each balance sheet date. The gains and losses resulting from the fair value remeasurement are recognized in the income statement. The fair value of forward exchange contracts is determined with reference to market prices at the balance sheet date.

Corporate bonds

The corporate bonds issued by the Group are measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Group uses financial instruments to economically hedge interest rate risks relating to its corporate bonds. The changes in fair value of finance instruments are recognized in the income statement.

Liabilities related to put options granted to holders of non-controlling interests

Written put options in favor of holders of non-controlling interests give rise to the recognition of a financial liability at the present value of the expected cash outflow. The present value is determined by management's best estimate of the cash outflow required to settle the obligation on exercise of the option, discounted by the Group's cost of debt. The financial liability is initially recorded with the corresponding entry within equity and in the absence of specific guidance in IFRS, subsequent changes in the valuation of the liability shall be recognized directly in equity attributable to owners, including the unwinding of the discount.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

- Level 1 fair value measurements are those derived from the quoted price in active markets
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques as it cannot be derived from publicly available information. The assumptions and inputs used in the model take into account externally verifiable inputs. However, such information is by nature subject to uncertainty, particularly where comparable market-based transactions often do not exist. External valuers are involved for valuation for significant assets and liabilities

Employee benefits

Pension plans

The Group maintains several defined benefit and defined contribution pension plans in accordance with local conditions and practices in the countries in which it operates. Defined benefit pension plans are based on an employee's years of service and remuneration earned during a pre-determined period. Contributions to these plans are normally paid into funds, which are managed independently of the Group, except in rare cases where there is no legal obligation to fund.

In such cases, the liability is recorded in the Group's consolidated statement of financial position.

The Group's obligations towards defined benefit pension plans and the annual cost recognized in the income statement are determined by independent actuaries using the projected unit credit method. Remeasurement gains and losses are immediately recognized in the consolidated statement of financial position with the corresponding movement being recorded in the consolidated statement of comprehensive income.

Past service costs are immediately recognized as an expense. Net interest expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan. Payments to defined contribution plans are recognized as an expense in the income statement as incurred.

Post-employment plans other than pensions

The Group operates some non-pension post-employment defined benefit schemes, mainly healthcare plans. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension plans.

Equity compensation plans

The Group provides additional benefits to certain senior executives and employees through equity compensation plans. An expense is recognized in the income statement for shares and equity-linked instruments granted to senior executives and employees under these plans.

Trade payables

Trade payables are recognized at amortized cost that approximates the fair value.

Provisions

The Group records provisions when: it has an obligation, legal or constructive, to satisfy a claim; it is probable that an outflow of Group resources will be required to satisfy the obligation; and a reliable estimate of the amount can be made.

In the case of litigation and claims relating to services rendered, the amount that is ultimately recorded is the result of a complex process of assessment of a number of variables, and relies on management's informed judgment about the circumstances surrounding the past provision of services. It also relies on expert legal advice and actuarial assessments.

Changes in provisions are reflected in the income statement in the period in which the change occurs.

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Contract liabilities
Contract liabilities arise upon advance payments from clients and issuance of upfront invoices.

Restructuring costs
The Group recognizes costs of restructuring against operating income in the period in which management has committed to a formal plan, the costs of which can be reliably estimated, and has raised a valid expectation in those affected that the plan will be implemented and the related costs incurred. Where appropriate, restructuring costs include impairment charges arising from the implementation of the formal plan.

Capital management
Capital comprises equity attributable to equity holders, loans and other financial liabilities, lease liabilities and cash and cash equivalents.

The Board of Directors' policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Board also recommends the level of dividends to be distributed to ordinary shareholders on an annual basis. The Group maintains sufficient liquidity at the Group and subsidiary level to meet its working capital requirements, fund capital purchases and small and medium-sized acquisitions.

Treasury shares are intended to be used to cover the Group's employee equity participation plan, convertible bonds and/or cancellation of shares. Decisions to buy or sell are made on an individual transaction basis by management.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to any externally imposed capital requirements.

Taxes
Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the transfer of income from Group companies and tax adjustments from prior years. Taxes on income are recognized in the income statement except to the extent that they relate to items directly charged or credited to equity or other comprehensive income, in which case the related income tax effect is recognized in equity or other comprehensive income. Provisions of income and withholding taxes that could arise on the remittance of subsidiary retained earnings are only made where there is a current intention to remit such earnings. Other taxes not based on income, such as property taxes and capital taxes, are included within operating expenses.

Deferred taxes are provided using the full liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying values in the consolidated financial statements except for non-tax-deductible goodwill and for those differences related to investments in subsidiaries where their reversal will not take place in the foreseeable future. Deferred income tax assets relating to the carry-forward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

Current income tax assets and liabilities are off-set where there is a legally enforceable right to off-set. Deferred tax assets and liabilities are determined based on enacted or substantively enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Earnings per share
Basic earnings per share are calculated by dividing the Group's profit by the weighted average number of shares outstanding during the year, excluding treasury shares. For diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming conversion of all potential dilutive shares. Group profit is also adjusted to reflect the after-tax impact of conversion.

Dividends
Dividends are reported as a movement in equity in the period in which they are approved by the shareholders.

Treasury shares
Treasury shares are reported as a deduction to equity. The original cost of treasury shares and the proceeds of any subsequent sale are recorded as movements in equity.

Significant accounting estimates and judgments

Use of estimates
The key assumptions concerning the future, and other key sources of estimation at the balance sheet date that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Business combinations
In a business combination, the determination of the fair value of the identifiable assets acquired, particularly intangibles, requires estimations which are based on all available information and in some cases on assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. The purchase price is allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The excess is reported as goodwill. As a result, the purchase price allocation impacts reported assets and liabilities, future net earnings due to the impact on future depreciation and amortization expense and impairment charges. The purchase price allocation is subject to a maximum period of 12 months adjustment.

Valuation of trade receivables, unbilled revenue and work in progress
The balances are presented net of expected credit loss allowance. These allowances for potential uncollected amounts are estimated in compliance with the simplified approach using a provision matrix (expected credit loss model), which has been developed to reflect the country risk, the credit risk profile, as well as available historical data. In addition, an allowance is estimated based on individual client analysis when the collection is no longer probable.

Impairment of goodwill
The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires identification of CGUs and an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of expected future cash flows from the CGU or group of CGUs that holds the goodwill at a determined discount rate in order to calculate the present value of those cash flows.

Estimations of employee post-employment benefits obligations

The Group maintains several defined benefit pension plans in accordance with local conditions and practices in the countries in which it operates. The related obligations recognized in the statement of financial position represent the present value of the defined benefit obligations calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions vary according to the local prevailing economic and social conditions.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

In assessing how an uncertain tax treatment may affect the determination of the taxable profit (tax loss), the Group assumes that a taxation authority will examine amounts and have full knowledge of all related information.

If the Group concludes it is not probable that a taxation authority will accept a particular tax treatment, the Group reflects the effect of each uncertainty in determining the taxable profit (tax loss) by using one of the following methods:

- The single most likely amount
- The sum of probability-weighted amount in a range of possible outcomes

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, including estimated interest and penalties where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Legal and warranty claims on services rendered

The Group is subject to litigation and other claims. Management bases its judgment on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industries and markets, prevailing commercial terms and legal precedent, and evaluation of applicable insurance cover where appropriate. The process of estimation is complex, dealing with uncertainty, requiring the use of informed estimates, actuarial assessment, evaluation of the insurance cover where appropriate and the judgment of management. The timing of cash outflows from pending litigation and claims is uncertain since it depends, in the majority of cases, on the outcome of administrative and legal proceedings. The Group's legal and warranty claims are reviewed, at a minimum, on a quarterly basis by a cross-functional representation of management. Any changes in these estimates are reflected in the income statement in the period in which the estimates change.

Judgments

In the process of applying the entity's accounting policies described above, management has made the following judgment that has a significant effect on the amounts recognized in the financial statements.

Lease termination of contracts with renewal and exit options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, for some of its leases to lease the assets for additional terms. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Exchange rates

The most significant currencies for the Group were translated at the following exchange rates into Swiss Francs:

			Statement of financial position period-end rates		Income statement period average rates	
			2021	2020	**2021**	2020
Australia	AUD	100	66.59	67.66	68.67	64.75
Canada	CAD	100	71.65	69.12	72.93	70.05
Chile	CLP	100	0.11	0.12	0.12	0.12
China	CNY	100	14.40	13.54	14.17	13.60
Eurozone	EUR	100	103.78	108.42	108.16	107.04
Korea	KRW	100	0.08	0.08	0.08	0.08
United Kingdom	GBP	100	123.57	119.75	125.72	120.47
Russia	RUB	100	1.24	1.19	1.24	1.31
Taiwan	TWD	100	3.32	3.15	3.27	3.19
USA	USD	100	91.72	88.45	91.42	93.92

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3. Business combinations

The following business combinations occurred during 2021 and 2020:

Business combinations 2021

In 2021, the Group completed 9 business combinations for a total purchase price of CHF 237 million (note 21).

- 100% of Analytical & Development Services (ADS), a company providing food testing in the UK (effective 7 January 2021)
- 55.92% majority stake into BZH GmbH Deutsches Beratungszentrum für Hygiene, a German based subsidiary of SYNLAB Analytics & Services (A&S) food testing laboratory (effective 29 January 2021)
- 100% of Autoscope/CTOK, a provider of vehicle testing services in France (effective 2 February 2021)
- 100% of International Service Laboratory (ISL), a company providing regulated analytical laboratory and stability testing services for a broad variety of pharmaceutical products (effective 1 April 2021)
- 100% of Brightsight, a company operating in cybersecurity in the Netherlands (effective 4 May 2021)
- 100% of Metair Lab, a company providing air sampling and asbestos testing services in France (effective 1 June 2021)
- 100% of Groupe IDEA TESTS (IDEA), a provider of clinical, microbiological and in-vitro testing services in France (effective 1 December 2021)
- 66.67% of Sulphur Experts Inc. a company supporting customers in the amine treating and sulfur recovery industries in Canada (effective 1 December 2021)
- 100% of Quay Pharmaceuticals Limited (Quay Pharma), a leading innovative Formulation Research and Development Organization with a comprehensive and flexible range of services, in the UK (effective 6 December 2021)

These companies were acquired for an amount of CHF 237 million and the total goodwill generated on these transactions amounted to CHF 163 million.

All the above transactions contributed a total of CHF 46 million in revenue and CHF 5 million in operating income in 2021. Had all acquisitions been effective 1 January 2021, the revenue for the period from these acquisitions would have been CHF 93 million and the operating income would have been CHF 12 million.

On 4 May 2021 SGS has acquired Brightsight. This acquisition will significantly strengthen Group's presence in the cybersecurity sector. Brightsight has contributed CHF 13 million to Group's revenue and CHF 1 million operating income in 2021. Had the company been acquired on 1 January 2021 the revenue for the year would have been CHF 20 million and the operating income would have been CHF 2 million.

On 6 December 2021 SGS has acquired Quay Pharmaceuticals Limited. This acquisition supports Group's strategy of increasing the scope of services to support our customers across the Health Science supply chain. Quay Pharmaceuticals Limited has contributed CHF 1 million to Group's revenue and nil to operating income in 2021. Had the company been acquired on 1 January 2021 the revenue for the year would have been CHF 20 million and the operating income would have been CHF 4 million.

None of the goodwill arising on these acquisitions is expected to be tax deductible.

Divestment 2021

There were no significant disposals in 2021.

Business combinations 2020

In 2020, the Group completed 6 business combinations for a total purchase price of CHF 536 million (note 21).

- 100% of Thomas J. Stephens & Associates, Inc., a company providing clinical research serving the cosmetic and personal care industry in the USA (effective 8 January 2020)
- 100% of CTA Gallet, a company operating vehicle inspection services in France and providing road safety inspections (effective 2 June 2020)
- 100% of Groupe Moreau, a company providing vehicle inspection services in France (effective 28 August 2020)
- 100% of Engineering Control Limited, a consultancy company focusing on process automation and functional safety of process systems in New Zealand (effective 4 November 2020)
- 80% of Ryobi Geotechnique International Pte Ltd a company specializing in providing geoengineering solutions in Singapore (effective 31 December 2020)
- 100% of SYNLAB Analytics & Services, a leading European environmental, food testing, life activities and tribology services company (effective 31 December 2020)

These companies were acquired for an amount of CHF 536 million and the total goodwill generated on these transactions amounted to CHF 481 million.

All the above transactions contributed a total of CHF 16 million in revenue and CHF 2 million in operating income in 2020. Had all acquisitions been effective 1 January 2020, the revenue for the period from these acquisitions would have been CHF 254 million and the operating income would have been CHF 30 million.

On 31 December 2020 SGS has acquired SYNLAB Analytics & Services. This acquisition will strengthen Group's presence in North-Western Europe in environmental testing, food testing, life activities and oil condition monitoring as well as allowing SGS to enter new markets in the Nordics. SYNLAB Analytics & Services has not contributed to Group's revenue and operating income in 2020. Had the company been acquired on 1 January 2020 the revenue for the year would have been CHF 207 million and the operating income CHF 22 million.

On 31 December 2020 SGS has acquired Ryobi Geotechnique International Pte Ltd.. This acquisition supports Group's strategic evolution following TIC megatrends as well as the presence of Industrial business in Singapore. Ryobi Geotechnique International Pte Ltd. has not contributed to Group's revenue and operating income in 2020. Had the company been acquired on 1 January 2020 the revenue for the year would have been CHF 25 million and the operating income CHF 4 million.

None of the goodwill arising on these acquisitions is expected to be tax deductible.

Divestment 2020

The Group has disposed of Pest management and fumigation operations in Belgium and Netherlands for a total purchase price of CHF 68 million, generating a gain on disposal of CHF 63 million.

4. Information by business and geographical segment

The information presented is disclosed by business line and focuses on revenue, operating income, capital expenditures and employee numbers because these are the performance measures used by the Chief Operating Decision Maker to assess segment performance.

Analysis of operating income

(CHF million)	2021	2020
Adjusted operating income*	**1 055**	**900**
Amortization and impairment of acquired intangibles	(39)	(31)
Restructuring costs	(15)	(84)
Goodwill impairment	–	(37)
Gain on business disposals	–	63
Transaction and integration costs	(24)	(16)
Operating income	**977**	**795**

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

Analysis of revenue and operating income

2021

(CHF million)	Revenue	Adjusted operating income*	Amortization of acquisition intangibles	Restructuring costs	Transaction and integration costs	Operating income by business
C&P	1 288	316	(5)	(2)	(1)	308
H&N	861	149	(7)	(2)	(9)	131
I&E	2 120	240	(21)	(5)	(11)	203
NR	1 478	210	–	(6)	(1)	203
Kn	663	140	(6)	–	(2)	132
Total	**6 405**	**1 055**	**(39)**	**(15)**	**(24)**	**977**

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

Segment information restatement

The SGS operational structure has been simplified into new focus areas including five divisions: Connectivity & Products, Health & Nutrition, Industries & Environment, Natural Resources and Knowledge effective since 1 January 2021.

The previously reported 2020 segment disclosures have been restated to reflect this change and are disclosed in the table below.

2020 restated

(CHF million)	Revenue	Adjusted operating income*	Amortization of acquisition intangibles	Restructuring costs	Goodwill impairment	Gain on business disposals	Transaction and integration costs	Operating income by business
C&P	1 175	287	(1)	(2)	(5)	–	(1)	278
H&N	658	102	(5)	(6)	(16)	–	(4)	71
I&E	1 798	178	(14)	(65)	(8)	–	(11)	80
NR	1 397	225	(1)	(8)	–	63	–	279
Kn	576	108	(10)	(3)	(8)	–	–	87
Total	**5 604**	**900**	**(31)**	**(84)**	**(37)**	**63**	**(16)**	**795**

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

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2020 published

(CHF million)	Revenue	Adjusted operating income*	Amortization of acquisition intangibles	Restructuring costs	Goodwill impairment	Gain on business disposals	Transaction and integration costs	Operating income by business
AFL	996	175	(4)	(5)	(16)	63	(4)	209
MIN	639	111	(1)	(7)	–	–	–	103
OGC	776	76	–	(5)	–	–	(2)	69
CRS	1 054	264	(2)	(3)	–	–	(1)	258
CBE	429	82	(10)	(3)	(8)	–	–	61
IND	847	72	(7)	(13)	(10)	–	(2)	40
EHS	471	42	(4)	(3)	–	–	(6)	29
GIS	392	78	(3)	(45)	(3)	–	(1)	26
Total	**5 604**	**900**	**(31)**	**(84)**	**(37)**	**63**	**(16)**	**795**

* Alternative Performance Measures (APM), refer to the '2021 Full Year APM' document.

All segment revenues reported are from external customers. The adjusted operating income* represents the profit earned by each segment. This is the main measure reported to the chief operating decision makers for the purpose of resource allocation and assessment of segmental performance.

Restructuring costs

The Group incurred a pre-tax restructuring charge of CHF 15 million (2020: CHF 84 million, out of which CHF 45 million was recognized for I&E activities (formerly attributed to GIS activities), mainly driven by the termination of the single-window contract with the Government of Ghana and the vehicle inspection contract with the Government of Uganda).

Total restructuring costs comprised personnel reorganization of CHF 13 million (2020: CHF 44 million) as well as fixed asset impairment of CHF nil million (2020: CHF 25 million) and other charges of CHF 2 million (2020: CHF 15 million).

Revenue from external customers by geographical area

(CHF million)	2021	%	2020	%
Europe/Africa/Middle East	2 954	46.1	2 508	44.8
Americas	1 212	18.9	1 102	19.7
Asia Pacific	2 239	35.0	1 994	35.5
Total	**6 405**	**100.0**	**5 604**	**100.0**

Revenue in Switzerland from external customers for 2021 amounted to CHF 160 million (2020: CHF 149 million). No country represented more than 20% of revenues from external customers in 2021 nor 2020.

Major customer information

In 2021 and 2020, no external customer represented 5% or more of the Group's total revenue.

Specific non-current assets by geographical area

Specific non-current assets directly attributable to geographical segment mainly include property, land and equipment, right-of-use assets, goodwill and other intangible assets:

(CHF million)	2021	%	2020	%
Europe/Africa/Middle East	2 317	61.3	2 102	59.4
Americas	819	21.7	806	22.8
Asia Pacific	643	17.0	628	17.8
Total specific non-current assets	**3 779**	**100.0**	**3 536**	**100.0**

Specific non-current assets in Switzerland for 2021 amounted to CHF 162 million (2020: CHF 164 million). No country represented more than 20% of non-current assets in 2021 nor 2020.

Reconciliation with total non-current assets

(CHF million)	2021	2020
Specific non-current assets as above	3 779	3 536
Deferred tax assets	164	161
Retirement benefit assets	104	90
Non-current loans to third parties	6	8
Total	**4 053**	**3 795**

Capital additions[1] by business segment

(CHF million)	2021	%	2020 restated	%
C&P	96	28.6	84	32.4
H&N	62	18.4	40	15.5
I&E	97	28.9	80	30.9
NR	75	22.3	51	19.7
Kn	6	1.8	4	1.5
Total	**336**	**100.0**	**259**	**100.0**

1. Capital additions represent the total cost incurred to acquire land, buildings and equipment as well as other intangible assets.

(CHF million)	2020 published	%
AFL	40	15.4
MIN	28	10.9
OGC	41	15.8
CRS	82	31.7
CBE	4	1.5
IND	30	11.6
EHS	21	8.1
GIS	13	5.0
Total	**259**	**100.0**

1. Capital additions represent the total cost incurred to acquire land, buildings and equipment as well as other intangible assets.

Average number of employees by geographical area

(Average number of employees)	2021	2020
Europe/Africa/Middle East	39 239	36 350
Americas	18 092	17 878
Asia Pacific	35 966	34 870
Total	**93 297**	**89 098**
Number of employees at year end	96 216	91 698

5. Revenues from contracts with customers

Group's revenue from contracts with customers by timing of recognition

	2021		2020 restated	
(CHF million)	**Services transferred at a point in time**	**Services transferred over time**	Services transferred at a point in time	Services transferred over time
C&P	81%	19%	83%	17%
H&N	84%	16%	84%	16%
I&E	70%	30%	65%	35%
NR	85%	15%	84%	16%
Kn	93%	7%	96%	4%
Total	**80%**	**20%**	**79%**	**21%**

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(CHF million)	2020 published Services transferred at a point in time	Services transferred over time
AFL	89%	11%
MIN	72%	28%
OGC	81%	19%
CRS	81%	19%
CBE	96%	4%
IND	57%	43%
EHS	76%	24%
GIS	91%	9%
Total	**79%**	**21%**

Assets and liabilities related to contracts with customers

(CHF million)	2021	2020
Unbilled revenue and work in progress	175	160
Trade receivables	928	856
Contract liabilities	221	189

Revenue evolution, timing and project maturity are the main factors impacting assets and liabilities related to contracts with customers. In 2021, SGS has recognized revenue of CHF 125 million related to contract liabilities at 31 December 2020. In 2020, the revenue recognized from contract liabilities at 31 December 2019 amounted to CHF 93 million. Revenue recognized from performance obligations satisfied in previous periods were immaterial in 2021 and 2020.

The remaining performance obligations (unsatisfied or partially satisfied) expected to be recognized for long-term contracts amount to CHF 828 million at 31 December 2021, out of which CHF 465 million are expected to be recognized in revenue within one year, CHF 215 million between one year and two years and CHF 148 million after the next two years.

SGS is applying the practical expedient IFRS 15.121 and does not disclose unsatisfied or partially unsatisfied performance obligations from contracts with an original duration of one year or less or where SGS may recognize revenue from the satisfaction of the performance obligation in accordance with IFRS 15.B16. This paragraph permits as a practical expedient to exclude contracts where SGS has a right to payment for performance completed to date.

Assets recognized from costs to fulfill a contract in 2021 and 2020 were not significant, while amortization and impairment losses were nil.

6. Government grants

Government grants for the period amount to CHF 16 million (2020: CHF 36 million), presented as a deduction of salaries and wages expenses. The outstanding balance recognized in the statement of financial position amounted to CHF 4 million (2020: CHF nil million).

7. Other operating expenses

(CHF million)	2021	2020
Consumables, repairs and maintenance	534	446
Travel costs	269	246
Rental expense, insurance, utilities and sundry supplies	146	136
External consultancy fees	119	105
IT expenses	103	91
Communication costs	64	66
Allowance for expected credit losses	(3)	3
Gain on disposal of property, plant and equipment	–	(2)
Miscellaneous operating expenses	132	115
Total	**1 364**	**1 206**

8. Financial income

(CHF million)	2021	2020
Interest income	12	11
Foreign exchange gains/(losses)	4	1
Total	**16**	**12**

9. Financial expenses

(CHF million)	2021	2020
Interest expense	46	46
Loss on derivatives at fair value	8	11
Other financial expenses	15	9
Total	**69**	**66**

10. Taxes

Major components of tax expense

(CHF million)	2021	2020
Current taxes	258	251
Deferred tax (credit) relating to the origination and reversal of temporary differences	11	(14)
Total	**269**	**237**

The Group has operations in various countries that have different tax laws and rates. Consequently, the effective tax rate on consolidated income varies from year to year. A reconciliation between the reported income tax expense and the amount that would arise using the weighted average statutory tax rate of the Group is as follows:

Reconciliation of tax expense

(CHF million)	2021	2020
Profit before taxes	924	742
Tax at statutory rates applicable to the profits earned in the country concerned	**178**	**139**
Tax effect of non-deductible or non-taxable items	17	24
Tax effect on losses not currently treated as being recoverable in future years	9	21
Tax effect on losses previously considered irrecoverable, now expected to be recoverable	(4)	(12)
Non-creditable foreign withholding taxes	42	39
Minimum taxes	6	6
Prior period adjustments	12	11
Rate changes	7	6
Other	2	3
Tax charge	**269**	**237**

Deferred tax after netting

(CHF million)	2021	2020
Deferred tax assets	164	161
Deferred tax liabilities	(92)	(53)
Total	**72**	**108**

Components of deferred income tax balances

	2021		2020	
(CHF million)	**Assets**	**Liabilities**	Assets	Liabilities
Right of use assets	–	126	–	128
Fixed assets	44	9	42	8
Trade receivable, unbilled revenues and work in progress	25	6	26	5
Defined benefit obligation	13	22	15	9
Provisions and other	59	12	56	–
Lease liabilities	132	–	135	–
Intangible assets	2	79	2	65
Tax losses carried forward	51	–	47	–
Deferred income taxes	**326**	**254**	**323**	**215**

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Net change in deferred tax assets/(liabilities)

(CHF million)	Total
Net deferred income tax asset (liability) at 1 January 2020	**151**
Acquisition of subsidiaries	(42)
(Charged)/credited to the income statement	14
(Charged)/credited to other comprehensive income	(4)
Exchange differences and other	(11)
Net deferred income tax asset (liability) at 31 December 2020	**108**
Acquisition of subsidiaries	(22)
(Charged)/credited to the income statement	(11)
(Charged)/credited to other comprehensive income	(6)
Exchange differences and other	3
Net deferred income tax asset (liability) at 31 December 2021	**72**

The Group has unrecognized tax losses carried forward amounting to CHF 161 million (2020: CHF 152 million).

Unrecognized tax losses carryforwards at 31 December 2021

(CHF million)	
Expiring in the next 3 years	8
Expiring in 4-10 years	41
Available without limitation	112
Total unrecognized tax losses	**161**

At 31 December 2021, the unrecognized deferred tax assets amount to CHF 48 million (2020: CHF 47 million).

At 31 December 2021, the retained earnings of subsidiaries and foreign incorporated joint ventures consolidated by the Group include approximately CHF 2 805 million (2020: CHF 2 621 million) of undistributed earnings that may be subject to tax if remitted to the parent company. As set out in note 22, the nature of the Group's business requires keeping a significant part of the cash reserves in the operating units. The Group takes the view that a deferred tax liability is required when it is probable that unremitted earnings will be distributed in the foreseeable future.

11. Earnings per share

Basic earnings per share are calculated as follows:

	2021	2020
Profit attributable to equity holders of SGS SA (CHF million)	613	480
Weighted average number of shares ('000)	7 488	7 489
Basic earnings per share (CHF)	**81.91**	**64.05**

Diluted earnings per share are calculated as basic earnings per share except that the weighted average number of shares includes the dilutive effect of the Group's equity compensation plans (see note 29):

	2021	2020
Profit attributable to equity holders of SGS SA (CHF million)	613	480
Diluted weighted average number of shares ('000)	7 500	7 516
Diluted earnings per share (CHF)	**81.79**	**63.82**

12. Property, plant and equipment

(CHF million)	Land & buildings	Machinery & equipment	Other tangible assets	Total
2021				
Cost				
At 1 January	464	2 142	715	3 321
Additions	17	151	130	298
Acquisition of subsidiaries	6	15	8	29
Disposals	(20)	(72)	(56)	(148)
Exchange differences and other	(4)	91	(78)	9
At 31 December	463	2 327	719	3 509
Accumulated depreciation and impairment				
At 1 January	271	1 692	486	2 449
Depreciation	16	179	54	249
Impairment	1	–	–	1
Acquisition of subsidiaries	1	7	5	13
Disposals	(19)	(71)	(53)	(143)
Exchange differences and other	(3)	19	(1)	15
At 31 December	267	1 826	491	2 584
Net book value at 31 December 2021	**196**	**501**	**228**	**925**

(CHF million)	Land & buildings	Machinery & equipment	Other tangible assets	Total
2020				
Cost				
At 1 January	478	2 154	743	3 375
Additions	6	135	90	231
Acquisition of subsidiaries	5	45	14	64
Disposals	(11)	(93)	(59)	(163)
Exchange differences and other	(14)	(99)	(73)	(186)
At 31 December	464	2 142	715	3 321
Accumulated depreciation and impairment				
At 1 January	256	1 677	516	2 449
Depreciation	15	164	53	232
Impairment	15	7	3	25
Acquisition of subsidiaries	1	24	4	29
Disposals	(10)	(86)	(57)	(153)
Exchange differences and other	(6)	(94)	(33)	(133)
At 31 December	271	1 692	486	2 449
Net book value at 31 December 2020	**193**	**450**	**229**	**872**

Included in the other tangible assets are leasehold improvements, office furniture and IT hardware as well as construction-in-progress assets amounting to CHF 63 million (2020: CHF 37 million).

At 31 December 2021, the Group had commitments of CHF 8 million (2020: CHF 7 million) for the acquisition of land, buildings and equipment.

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13. Right-of-use assets and lease liabilities

(CHF million)	Right-of-use assets: Land & buildings	Right-of-use assets: Machinery & equipment	Right-of-use assets: Other tangible assets	Total	Lease liabilities
At 1 January	**516**	**68**	**6**	**590**	**621**
Additions	141	50	4	195	190
Acquisition	8	1	–	9	9
Depreciation expense	(135)	(44)	(4)	(183)	–
Interest expense	–	–	–	–	22
Payment of lease liabilities and interests	–	–	–	–	(198)
Exchange difference and other	(2)	(4)	–	(6)	(8)
At 31 December 2021	**528**	**71**	**6**	**605**	**636**

Analysed as:	2021
Current liabilities	155
Non-current liabilities	481
Total	**636**

(CHF million)	Right-of-use assets: Land & buildings	Right-of-use assets: Machinery & equipment	Right-of-use assets: Other tangible assets	Total	Lease liabilities
At 1 January	**539**	**67**	**5**	**611**	**644**
Additions	92	34	3	129	123
Acquisition	37	8	–	45	46
Depreciation expense	(125)	(38)	(2)	(165)	–
Interest expense	–	–	–	–	20
Payment of lease liabilities and interests	–	–	–	–	(181)
Exchange difference and other	(27)	(3)	–	(30)	(31)
At 31 December 2020	**516**	**68**	**6**	**590**	**621**

Analysed as:	2020
Current liabilities	151
Non-current liabilities	470
Total	**621**

Included in machinery & equipment are mainly vehicles for CHF 67 million (2020: CHF 62 million).

The following table summarizes the main foreign currencies of the lease liabilities.

(CHF million)	2021	2020
Euro (EUR)	257	229
US Dollar (USD)	99	94
Renminbi Yuan (CNY)	77	93
Taiwan Dollar (TWD)	30	29
Canadian Dollar (CAD)	21	15
Australian Dollar (AUD)	20	21
Indian Rupee (INR)	11	12
Korean Won (KRW)	11	7
Singapore Dollar (SGD)	8	5
Russian Ruble (RUB)	7	7
British Pound Sterling (GBP)	7	7
Mexican Peso (MXN)	6	4
New Zealand Dollar (NZD)	6	8
Turkish Lira (TRY)	5	7
Other	71	83
Total	**636**	**621**

The Group leases mainly offices, laboratory spaces and vehicles. During the year ended 31 December 2021, an additional CHF 6 million (2020: CHF 4 million) was recognized as an expense in the income statement.

(CHF million)	2021	2020
IFRS 16 other quantitative information		
Expense relating to short-term leases	3	2
Expense relating to leases of low value assets	3	2
Total expense recognized in income statement	**6**	**4**

14. Goodwill

(CHF million)	2021	2020
Cost		
At 1 January	**1 651**	**1 281**
Additions	163	481
Consideration/fair value adjustments on prior years' acquisitions	3	(5)
Disposal	–	(6)
Impairment	–	(37)
Exchange differences	(39)	(63)
At end of the period	**1 778**	**1 651**

In response to a constantly changing business environment and to align SGS more closely to the TIC megatrends and customer demand, the Group has changed its divisional structure. This reorganization resulted in a change in management of goodwill and thus the reassessment of Cash Generating Units (CGU) and groups of CGUs.

The restatement of goodwill and CGU allocation has been done in accordance with IAS 36, which defines a CGU as the lowest level of a group of assets generating cash inflows that are largely independent from other assets and groups of assets.

In the case of the following two divisions, the CGU covers the entire worldwide operations since customer activities executed by the local entities, the clients and customers that they serve and the drivers of cash inflows are largely interdependent on a worldwide basis across each business line:

- Connectivity & Products (C&P)
- Natural Resources (NR)

- The Health & Nutrition (H&N) business is split into two worldwide CGUs to reflect the global nature of customer activities and drivers of cash inflows in each sub-division: Nutrition, Health Science and Cosmetics & Hygiene.
- The Industry & Environment (I&E) division includes newly integrated Vehicle Compliance (previously reported under Governments and Institutions) and Upstream activities (previously reported under Oil, Gas and Chemicals business division). To best reflect the interdependency of the cash inflows, Vehicle Compliance has been split into two distinct CGUs regrouping regulated services activities in Spain and in France since customers in this sector are country specific. Upstream services is assessed as one separate CGU regrouping the worldwide Upstream activities for which cash inflows are independent from the rest of the I&E activities.

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For the remaining I&E activities (excluding Vehicle Compliance and Upstream services), business is driven primarily by regional or local customer activities, therefore cash inflows are largely independent from each other. Consequently, a CGU organization by region has been maintained, split regionally into four CGUs in line with the Group's regional reporting structure.

- The Knowledge (Kn) division is split into two CGUs, one regrouping the Technical Consultancy business in the USA for which cash inflows remain largely independent from the rest of the division's activities and the other regrouping the remaining worldwide Knowledge activities for which there are synergies across the Group's network, generating interdependent cash inflows.

SYNLAB Analytics & Services goodwill allocation

The acquisition of SYNLAB Analytics & Services, completed on 31 December 2020, generated additional goodwill of CHF 439 million. Given the completion date of the acquisition, the goodwill was left unallocated at 31 December 2020.

Following the Group's division restatement, the goodwill arising from SYNLAB Analytics & Services acquisition has now been allocated by division as follow:

(CHF million)	2020 Restated
H&N	132
I&E	307
Total	**439**

Allocation of goodwill to CGUs or group of CGUs

Goodwill allocated to the main CGUs or groups of CGUs, as of 31 December, is broken down as follows:

(CHF million)	**2021**	2020 Restated
C&P	173	118
H&N[1]	462	369
I&E[2]	924	948
NR	119	118
Kn	100	98
Total	**1 778**	**1 651**

1. Within H&N, goodwill allocated to Nutrition CGU was CHF 192 million (2020: CHF 179 million) and goodwill allocated to Health Science and Cosmetics & Hygiene CGU was CHF 270 million (2020: CHF 190 million).
2. Within I&E, goodwill allocated to I&E Europe/Africa/Middle East CGU was CHF 476 million (2020: CHF 491 million).

Goodwill impairment reviews have been conducted for all goodwill balances allocated to the CGUs as described above.

The recoverable amount of each of the CGUs, determined based upon a value-in-use calculation, is higher than its carrying amount thus resulting in no goodwill impairment in 2021. Cash flow projections were used in this calculation, discounted at a pre-tax rate depending on the business activities and geographic profile of each of the respective CGUs.

In 2020, following the closure of certain activities within the business lines and restructuring as a result of the global downturn and ongoing economic uncertainty, the Group recognized an impairment loss of CHF 37 million.

Pre-tax discount rate used in 2021 for the main CGUs or group of CGUs impairment testing

	2021
C&P	10.5%
H&N[1]	7.6%–8.5%
I&E[2]	6.2%–14.5%
NR	10.2%
Kn	8.7%–10.8%

1. Nutrition pre-tax discount rate was 8.5%, while Health Science and Cosmetics & Hygiene pre-tax discount rate was 7.6%.
2. Within I&E, I&E Europe/Africa/Middle East pre-tax discount rate was 7.9%.

The cash flow projections for the first five years were based upon financial plans, approved by the Group, for each CGU or group of CGUs. The overall assumptions used in the cash flow projections are consistent with the expected average growth rates of the segments served by the Group. For the subsequent years, the Group assumes a long-term growth rate in the range of 0%–2% (1% for CGUs where goodwill allocated is significant) and stable operating margins depending on each CGU or group of CGUs.

Sensitivity to changes in assumption

Sensitivity analyses were conducted using the following key assumptions:

- Reducing the expected annual revenue growth rates for the first five years by 2 pp[1]
- Reducing the operating margin by 0.25 pp[1]
- Increasing the discount rate assumption by 1 pp[1]

For all impairment tests, changing the key assumptions retained in the scenario using the sensitivity analyses described above would not result in any additional impairment.

1. Percentage points.

Technical consultancy USA goodwill impairment test assumptions

Due to a slower recovery from unfavorable economic environment created by the Covid-19 pandemic the following key assumptions have been used in the impairment test for this CGU:

- Pre-tax discount rate of 10.8% assuming a risk size premium of 3.49% reflecting uncertain future revenue development for consultancy businesses
- Continued recovery in 2022, supported by increasing transactional activity towards the second half of the year ending 2021, with a 2022 revenue growth rate of approximately 50%. Pre-Covid-19 pandemic levels are expected to be reached by 2026 assuming an average growth rate of 14% from 2023 to 2026
- Average EBITDA margin to gradually reach its historical trend prior Covid-19 pandemic in the mid 20s by 2026
- Long-term growth rate of 2% after 2026

Based on the above assumptions, the recoverable amount exceeds the carrying amount for this CGU for which the Group's share of goodwill is CHF 82 million.

The Group has assessed the sensitivity of the value-in-use to the changes in the assumptions as follows:

- Missing the annual revenue target by 3 pp[1] for the years 2022 to 2026 would reduce the value-in-use by CHF 17 million
- Decreasing the average EBITDA margin by 2 pp[1] would reduce the value-in-use by CHF 19 million
- Decreasing the long-term growth rate by 1 pp[1] would reduce the value-in-use by CHF 15 million

Based on the above sensitivity analyses, the recoverable amount exceeds the carrying value of the CGU and therefore would not result in an impairment.

15. Other intangible assets

			Computer software and Other assets		
(CHF million)	Trademarks and Other	Customer relationships	Internally generated	Purchased	Total
2021					
Cost					
At 1 January	91	388	182	262	923
Additions	–	–	21	17	38
Acquisition of subsidiaries	9	63	–	2	74
Disposals	–	–	(5)	(85)	(90)
Exchange differences and other	(8)	3	4	4	3
At 31 December	92	454	202	200	948
Accumulated amortization and impairment					
At 1 January	65	144	147	234	590
Amortization	5	34	14	12	65
Impairment	–	–	1	–	1
Disposals	–	–	(5)	(85)	(90)
Exchange differences and other	(4)	(2)	2	4	–
At 31 December	66	176	159	165	566
Net book value at 31 December 2021	**26**	**278**	**43**	**35**	**382**

1. Percentage points.

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(CHF million)	Trademarks and Other	Customer relationships	Computer software and Other assets: Internally generated	Computer software and Other assets: Purchased	Total
2020					
Cost					
At 1 January	93	238	158	302	791
Additions	–	1	14	13	28
Acquisition of subsidiaries	10	165	1	–	176
Disposals	(9)	(9)	(3)	(37)	(58)
Exchange differences and other	(3)	(7)	12	(16)	(14)
At 31 December	91	388	182	262	923
Accumulated amortization and impairment					
At 1 January	68	137	137	262	604
Amortization	6	23	12	11	52
Impairment	–	3	–	3	6
Acquisition of subsidiaries	2	(1)	–	–	1
Disposals	(9)	(10)	(3)	(36)	(58)
Exchange differences and other	(2)	(8)	1	(6)	(15)
At 31 December	65	144	147	234	590
Net book value at 31 December 2020	**26**	**244**	**35**	**28**	**333**

16. Other non-current assets

(CHF million)	2021	2020
Non-current loans or amounts receivable from third parties	6	8
Retirement benefit asset	104	90
Other non-current assets	63	56
Total	**173**	**154**

Other non-current assets are measured at fair value through profit and loss except non-current loans or amounts receivable from third parties that are measured at amortized cost.

Depending on the nature of the balances, currency and date of maturity, interest rates on long-term balances or loans to third parties range between 0.0% and 8%.

In 2021, other non-current assets included deposits for guarantees and restricted cash of CHF 37 million (2020: CHF 36 million).

Typical examples of restricted cash are cash deposits for performance bonds, rentals and other operating obligations.

At 31 December 2021 and 2020, the fair value of the Group's other non-current assets approximates their carrying value.

17. Trade receivables

(CHF million)	2021	2020
Trade receivables	1 090	1 032
Allowance for expected credit losses	(162)	(176)
Total	**928**	**856**

The movement of allowance for expected credit losses is analyzed as follows:

(CHF million)	2021	2020
At 1 January	(176)	(209)
Acquisition of subsidiaries	–	(1)
Decrease/(Increase) in allowance recognized in the income statement	2	(3)
Utilizations	9	19
Exchange differences	3	18
Total at 31 December	**(162)**	**(176)**

18. Other receivables and prepayments

(CHF million)	2021	2020
Accrued income, prepayments	78	69
Derivative assets	11	8
Other receivables	115	111
Total	**204**	**188**

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties. Other receivables consist mainly of sales taxes and other taxes recoverable as well as advances to suppliers.

19. Cash and cash equivalents

(CHF million)	2021	2020
Cash and short-term deposits	1 479	1 766
Short-term loans	1	–
Total	**1 480**	**1 766**

20. Cash flow statement

20.1. Non-cash and non-operating items

(CHF million)	Notes	2021	2020
Depreciation of property, plant and equipment	12	249	232
Impairment of property, plant and equipment and other intangible assets	12 and 15	2	31
Depreciation/impairment right-of-use asset	13	183	165
Amortization of intangible assets	15	65	52
Impairment of goodwill	14	–	37
ECL[1] on trade receivables, unbilled revenues and work in progress		(3)	3
Net financial expenses	8 and 9	53	54
(Decrease) in provisions and employee benefits		(2)	(14)
Share-based payment expenses		12	17
Gain on disposals		–	(65)
Share of results from associates and other entities		–	(1)
Taxes	10	269	237
Non-cash and non-operating items		**828**	**748**

1. Expected Credit Losses

20.2. (Increase)/decrease in working capital

(CHF million)	2021	2020
(Increase)/decrease in unbilled revenues and inventories	(14)	17
(Increase)/decrease in trade receivables	(74)	71
(Increase)/decrease in other receivables and prepayments	(27)	25
Increase in trade and other payables	37	23
Increase in other creditors and accruals	61	37
(Decrease)/increase in other provisions	(27)	13
(Increase)/decrease in working capital	**(44)**	**186**

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20.3. Changes in liabilities arising from financing activities

(CHF million)	1 January	Cash impact: Financing cash flows	Non cash impact: Equity movement	Non cash impact: Acquisition and disposals	Non cash impact: New Leases	Non cash impact: Other movements[1]	31 December
2021							
Corporate bonds	2 600	548	–	–	–	(48)	3 100
Bank loans	556	(555)	–	4	–	–	5
Put option on acquisition	62	–	(27)	–	–	(2)	33
Lease liabilities	621	(179)	–	9	190	(5)	636
Other financial liabilities	23	(12)	13	–	–	2	26
Total	**3 862**	**(198)**	**(14)**	**13**	**190**	**(53)**	**3 800**

1. Other movements include interest accruals and payments, amortization under effective rate method, currency effects and other contingent consideration movements.

(CHF million)	1 January	Cash impact: Financing cash flows	Non cash impact: Equity movement	Non cash impact: Acquisition and disposals	Non cash impact: New Leases	Non cash impact: Other movements[1]	31 December
2020							
Corporate bonds	2 105	499	–	–	–	(4)	2 600
Bank loans	8	388	–	162	–	(2)	556
Put option on acquisition	89	–	(23)	–	–	(4)	62
Lease liabilities	644	(161)	–	46	123	(31)	621
Other financial liabilities	25	(1)	1	–	–	(2)	23
Total	**2 871**	**725**	**(22)**	**208**	**123**	**(43)**	**3 862**

1. Other movements include interest accruals and payments, amortization under effective rate method, currency effects and other contingent consideration movements.

21. Acquisitions

Assets and liabilities arising from acquisitions

(CHF million)	Fair value on Brightsight	Fair value on Quay Pharmaceuticals Limited	Fair value on Other acquisitions	Total fair value on aquisitions 2021	Total fair value on aquisitions 2020
Property, plant and equipment	2	10	4	16	35
Right-of-use assets	3	4	2	9	45
Intangible assets	30	30	14	74	175
Other long-term assets	–	–	2	2	1
Trade receivable	4	3	5	12	34
Other current assets	4	2	2	8	31
Cash and cash equivalents	4	6	10	20	44
Current liabilities	(10)	(8)	(17)	(35)	(72)
Non-current liabilities	(10)	(12)	(5)	(27)	(234)
Non-controlling interests	–	–	(5)	(5)	(4)
Net assets acquired	**27**	**35**	**12**	**74**	**55**
Goodwill	57	76	30	163	481
Total purchase price	**84**	**111**	**42**	**237**	**536**
Acquired cash and cash equivalents	(4)	(6)	(10)	(20)	(44)
Consideration payable	–	–	(3)	(3)	(3)
Payment on prior year acquisitions	–	–	–	–	2
Prepayment on acquisitions	–	–	–	–	1
Net cash outflow on acquisitions	**80**	**105**	**29**	**214**	**492**

In compliance with IFRS 3, fair value on acquisition remains provisional for a twelve-month period following the date of acquisition, during which the Group can finalise the purchase price allocation.

The goodwill arising on these acquisitions relates mainly to the value of expected synergies and the value of the qualified workforce that do not meet the criteria for recognition as separable intangible assets. Consideration payable relates mainly to environmental and commercial warranty clauses and the fair value of contingent future earn-out payments.

The Group incurred transaction-related costs of CHF 8 million (2020: CHF 14 million) related to external legal fees, due diligence expenses and the costs of maintaining an internal acquisition department. These expenses are reported within other operating expenses in the consolidated income statement.

22. Financial risk management

Risk management policies and objectives

The Group's activities expose it primarily to market, credit and liquidity risk. Market risk includes foreign exchange, interest rate and equity price risks.

The risk management policies and objectives are governed by the Group's policies approved by the Board of Directors.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risk and limits continually by means of reliable and up-to-date administrative and information systems.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies. The Audit Committee is assisted in its oversight role by Internal Audit.

Risk management activities

The Group uses foreign exchange contracts to manage the Group's exposure to fluctuations in foreign currency exchange rates. These activities are carried out in accordance with the Group's risk management policies and objectives in areas such as counterparty exposure and economic hedging practices. Counterparties to these agreements are major international financial institutions with high credit ratings and positions are monitored using market value and sensitivity analyses. The associated credit risk is therefore limited. These agreements generally include the exchange of one currency for a second currency at a future date.

The following table summarizes foreign exchange contracts outstanding at year end. The notional amount of derivatives summarized below represents the gross amount of the contracts and includes transactions, which have not yet matured. Therefore the figures do not reflect the Group's net exposure at year end. The market value approximates the costs to settle the outstanding contracts. These market values should not be viewed in isolation but in relation to the market values of the underlying hedged transactions and the overall reduction in the Group's exposure to adverse fluctuations in foreign exchange rates.

Currently, the Group has certain exposure to interest and credit risks and no exposure to equity price risk.

	Notional amount		Market value	
(CHF million)	**2021**	2020	**2021**	2020
Foreign exchange forward contracts				
Currency:				
Australian Dollar (AUD)	(8)	(9)	–	–
Brazilian Real (BRL)	(25)	(31)	1	(2)
Canadian Dollar (CAD)	11	11	–	–
Chilean Peso (CLP)	(26)	(24)	1	(2)
Chinese Renminbi (CNY)	(7)	17	–	–
Colombian Peso (COP)	(3)	(3)	–	–
Euro (EUR)	186	(59)	–	(2)
British Pound Sterling (GBP)	(141)	(36)	(2)	–
Hong Kong Dollar (HKD)	(20)	12	–	–
Indian Rupee (INR)	2	2	–	–
Japanese Yen (JPY)	(1)	(1)	–	–
Kenyan Shilling (KES)	(4)	(3)	–	–
Korean Won (KRW)	2	2	–	–
New Zealand Dollar (NZD)	(11)	(7)	–	–
Philippines Peso (PHP)	(15)	(14)	–	–
Polish Zloty (PLN)	(4)	(3)	–	–
Russian Ruble (RUB)	2	(4)	–	–
Turkish New Lira (TRY)	3	2	(1)	–
US Dollar (USD)	(237)	(106)	2	2
South African Rand (ZAR)	(17)	(19)	1	(1)
Other	(24)	(19)	–	
Total	**(337)**	**(292)**	**2**	**(5)**

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Credit risk management

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. It arises principally from the Group's commercial activities. Trade receivable, unbilled revenues and work in progress are subject to a policy of active risk management which focuses on the assessment of country risk, credit limits and approval procedures. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivable, unbilled revenue and work in progress.

As at 31 December 2021, the Group has unbilled revenue and work in progress of CHF 175 million (2020: CHF 160 million) which is net of an allowance for expected credit losses of CHF 15 million (2020: CHF 15 million).

Receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts. A credit loss allowance is made in compliance with the simplified approach using a provision matrix (expected credit loss model). This provision matrix has been developed to reflect the country risk, the credit risk profile and available historical data. Similarly to receivables an allowance for unbilled revenues and work in progress is made using a provision matrix.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on aging of trade receivables as of invoice date at 31 December 2021:

(CHF million)	Expected credit loss range	Gross carrying amount	Expected credit loss
0 – 90 days	0%-5%	863	4
91 – 120 days	10%-25%	43	8
121 – 180 days	20%-50%	36	14
181 – 240 days	35%-75%	20	12
241 – 300 days	50%-75%	11	8
301 – 360 days	75%-100%	7	6
> 360 days	100%	110	110
Total		**1 090**	**162**

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on ageing of trade receivables as of invoice date at 31 December 2020:

(CHF million)	Expected credit loss range	Gross carrying amount	Expected credit loss
0 – 90 days	0%-5%	781	3
91 – 120 days	10%-25%	40	6
121 – 180 days	20%-50%	36	11
181 – 240 days	35%-75%	21	9
241 – 300 days	50%-75%	14	9
301 – 360 days	75%-100%	10	8
> 360 days	100%	130	130
Total		**1 032**	**176**

As part of financial management activities, the Group enters into various types of transactions with international banks, usually with a credit rating of at least A. Exposure to these risks is closely monitored and kept within predetermined parameters. The Group does not expect any non-performance by these counterparties. The maximum credit risk to which the Group is theoretically exposed at 31 December 2021 is the carrying amount of financial assets including derivatives.

In addition, the Group has issued CHF 178 million (2020: CHF 193 million) financial guarantees to certain financial institutions that have provided credit facilities and foreign exchange lines to its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

Analysis of financial assets by class and category at 31 December 2021:

	Amortized cost		Fair value					
			At fair value through Equity		At fair value through P&L		Total	
(CHF million)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash-equivalents	1 480	1 480	–	–	–	–	1 480	1 480
Trade receivables	928	928	–	–	–	–	928	928
Other receivables[1]	132	132	–	–	–	–	132	132
Unbilled revenues and work in progress	175	175	–	–	–	–	175	175
Loans to third parties – non-current	6	6	–	–	–	–	6	6
Derivatives	–	–	–	–	11	11	11	11
Total financial assets	**2 721**	**2 721**	**–**	**–**	**11**	**11**	**2 732**	**2 732**

1. Excluding VAT and Other tax related items.

Analysis of financial assets by class and category at 31 December 2020:

	Amortized cost		Fair value					
			At fair value through Equity		At fair value through P&L		Total	
(CHF million)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash-equivalents	1 766	1 766	–	–	–	–	1 766	1 766
Trade receivables	856	856	–	–	–	–	856	856
Other receivables[1]	114	114	–	–	–	–	114	114
Unbilled revenues and work in progress	160	160	–	–	–	–	160	160
Loans to third parties – non-current	8	8	–	–	–	–	8	8
Marketable securities	–	–	9	9	–	–	9	9
Derivatives	–	–	–	–	8	8	8	8
Total financial assets	**2 904**	**2 904**	**9**	**9**	**8**	**8**	**2 921**	**2 921**

1. Excluding VAT and Other tax related items.

In the fair value hierarchy, Level 1 measurements are those derived from the quoted price in active markets. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Marketable securities, CHF nil million (2020: CHF 9 million) qualify as Level 1, fair value measurement category. Derivative assets (2021: CHF 11 million; 2020: CHF 8 million) qualify as Level 2 fair value measurement category in accordance with the fair value hierarchy. Derivative assets consist of foreign currency forward contracts that are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

Liquidity risk management

The objective of the Group's liquidity and funding management is to ensure that all its foreseeable financial commitments can be met when due. Liquidity and funding are primarily managed by Group Treasury in accordance with practices and limits set in the risk management policies and objectives approved by the Board of Directors.

The nature of the Group's business requires keeping a significant part of the cash reserves in the operating units.

Due to the significant cash position, liquidity risk is limited. The Group has various committed and uncommitted bilateral credit facilities with its banks.

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Analysis of financial liabilities by class and category at 31 December 2021:

	Amortized cost		Fair value					
			At fair value through Equity		At fair value through P&L		Total	
(CHF million)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Trade payables	368	368	–	–	–	–	368	368
Other payables[1]	152	152	–	–	–	–	152	152
Loans and other financial liabilities	3 119	3 185	33	33	19	19	3 171	3 237
Lease liabilities	636	636	–	–	–	–	636	636
Total financial liabilities	**4 275**	**4 341**	**33**	**33**	**19**	**19**	**4 327**	**4 393**

1. Excluding VAT and Other tax related items.

The corporate bonds qualify as fair value Level 1 which amounts to CHF 3 166 million (2020: CHF 2 718 million).

Other financial liabilities include CHF 33 million qualifying as fair value Level 3 (2020: CHF 62 million), which represents the estimated present value of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised.

Subsequent changes in the valuation of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised shall be recognized directly in equity attributable to owners, including the unwinding of the discount.

As at 31 December 2021, a decrease of CHF 29 million of the fair value of the redemption amount to acquire the remaining 40% of Maine Pointe LLC has been recognized directly in equity. Slower recovery from unfavorable economic environment due to Covid-19 pandemic has reduced 2021 revenue projections. Consequently, although the long-term projections remain unchanged, the short-term triggering criteria of the put/call option has been assessed as not attainable.

The remaining financial liabilities qualify as Level 2 determined in accordance with generally accepted pricing models.

Analysis of financial liabilities by class and category at 31 December 2020:

	Amortized cost		Fair value					
			At fair value through Equity		At fair value through P&L		Total	
(CHF million)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Trade payables	322	322	–	–	–	–	322	322
Other payables[1]	160	160	–	–	–	–	160	160
Loans and other financial liabilities	3 174	3 292	62	62	17	17	3 253	3 371
Lease liabilities	621	621	–	–	–	–	621	621
Total financial liabilities	**4 277**	**4 395**	**62**	**62**	**17**	**17**	**4 356**	**4 474**

1. Excluding VAT and Other tax related items.

Undiscounted contractual maturities of financial liabilities including interest payments at 31 December 2021:

(CHF million)	Trade payables	Other payables[1]	Gross settled derivative financial instruments outflows	Gross settled derivative financial instruments inflows	Loans and Other financial liabilities	Lease liabilities	Total
On demand or within one year	368	152	1 167	(1 165)	285	171	978
Within the second year	–	–	–	–	535	135	670
Within the third year	–	–	–	–	274	98	372
Within the fourth year	–	–	–	–	250	73	323
Within the fifth year	–	–	–	–	710	57	767
After five years	–	–	–	–	1 189	189	1 378

1. Excluding VAT and Other tax related items.

Undiscounted contractual maturities of financial liabilities including interest payments at 31 December 2020:

(CHF million)	Trade payables	Other payables[1]	Gross settled derivative financial instruments outflows	Gross settled derivative financial instruments inflows	Loans and Other financial liabilities	Lease liabilities	Total
On demand or within one year	322	160	1 259	(1 263)	863	167	1 508
Within the second year	–	–	–	–	285	125	410
Within the third year	–	–	–	–	546	98	644
Within the fourth year	–	–	–	–	269	70	339
Within the fifth year	–	–	–	–	254	53	307
After five years	–	–	–	–	1 122	175	1 297

1. Excluding VAT and Other tax related items.

The Group economically hedges its foreign exchange exposure on a net basis. The net position of the gross settled derivative financial instruments of CHF 2 million (2020: CHF (4) million) represents the net nominal value expressed in CHF of the Group's foreign currency contracts outstanding at 31 December 2021.

Sensitivity analyses

The estimated changes in the value of net foreign currency positions are based on an instantaneous 5% weakening of the Swiss Franc against all other currencies from the level applicable at 31 December 2021 and 2020 with all other variables remaining constant.

Sensitivity analysis based on net hedged positions at 31 December 2021 and 2020:

	2021		2020	
(CHF million)	Income statement impact income/(expense)	Equity impact increase/(decrease)	Income statement impact income/(expense)	Equity impact increase/(decrease)
US Dollar (USD)	4	(2)	1	(2)
Euro (EUR)	(2)	–	(3)	–
CFA Franc BEAC (CFA)	2	–	3	–
Taiwanese Dollar (TWD)	–	–	–	1
Canadian Dollar (CAD)	–	2	–	2

Interest rate risk management

The Group is exposed to fair value interest rate risk because the Group borrows funds at fixed interest rates. Where appropriate, the risk is managed by the Group using Interest Rate Swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

If interest rates were 50 basis points higher/lower, the profit for the year ended 31 December 2021 would increase/decrease by CHF nil (2020: CHF nil).

23. Share capital and treasury shares

	Shares in circulation	Treasury shares	Total shares issued	Total share capital (CHF million)
Balance at 1 January 2020	**7 552 390**	**13 342**	**7 565 732**	**8**
Treasury shares released into circulation	3 382	(3 382)	–	–
Treasury shares purchased for equity compensation plans	(15 834)	15 834	–	–
Treasury shares purchased for cancellation	(70 700)	70 700	–	–
Balance at 31 December 2020	**7 469 238**	**96 494**	**7 565 732**	**8**
Treasury shares released into circulation	22 434	(22 434)	–	–
Treasury shares cancelled	–	(70 700)	(70 700)	(1)
Balance at 31 December 2021	**7 491 672**	**3 360**	**7 495 032**	**7**

Issued share capital

SGS SA has a share capital of CHF 7 495 032 (2020: CHF 7 565 732) fully paid in and divided into 7 495 032 (2020: 7 565 732) registered shares of a par value of CHF 1. All shares, other than own shares, participate equally in the dividends declared by the Company and have equal voting rights.

Treasury shares

On 31 December 2021, SGS SA held 3 360 treasury shares (2020: 96 494 shares). The shares purchased for cancellation are directly held by SGS SA, while the shares to cover the equity compensation plans are held by a subsidiary company.

In 2021, 22 434 treasury shares were sold or given in relation with the equity compensation plans and 70 700 shares were cancelled.

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Authorized and Conditional issue of share capital

The Board has the authority to increase the share capital of SGS SA by a maximum of 500 000 registered shares of a par value of CHF 1 each, corresponding to a maximum increase of CHF 500 000 in share capital. The Board is mandated to issue the new shares at the market conditions at the time of issue. In the event that the new shares are issued for an acquisition, the Board is authorized to waive the shareholders' preferential right of subscription or to allocate such subscription right to third parties.

The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 23 March 2023.

The shareholders have conditionally approved an increase of share capital in the amount of CHF 1 100 000, divided into 1 100 000 registered shares of a par value of CHF 1 each. This conditional share capital increase is intended to procure the necessary shares to satisfy employee equity participation plans and option or conversion rights to be incorporated in convertible bonds or similar equity-linked instruments that the Board is authorized to issue. The right to subscribe to such conditional capital is reserved for beneficiaries of employee equity participation plans and holders of convertible bonds or similar debt instruments and therefore excludes shareholders' preferential rights of subscription. The Board is authorized to determine the timing and conditions of such issues, provided that they reflect prevailing market conditions. The term of exercise of the options or conversion rights may not exceed ten years from the date of issuance of the equity-linked instruments.

24. Loans and other financial liabilities

(CHF million)	2021	2020
Bank loans	5	556
Corporate bonds	3 100	2 600
Put option on acquisition	33	62
Other financial liabilities	26	23
Derivatives	7	12
Total	**3 171**	**3 253**
Current	282	863
Non-current	2 889	2 390

Depending on the nature of the loan, currency and date of maturity, interest rates on long-term loans from third parties range between 0.13% and 2.99% and on short-term loans from third parties range between 0.68% and 13.00%.

The loans from third parties exposed to fair value interest rate risk amounted to CHF 3 104 million (2020: CHF 3 156 million) and the loans from third parties exposed to cash flow interest rate risk amounted to CHF less than 0.5 million million (2020: CHF less than 0.5 million).

SGS SA issued the following corporate bonds listed on the SIX Swiss Exchange:

Date of issue	Face value in CHF million	Coupon in %	Year of maturity	Issue price in %	Redemption price in %
27.02.2014	138	1.375	2022	100.517	100.000
27.02.2014	250	1.750	2024	101.019	100.000
25.04.2014	112	1.375	2022	101.533	100.000
08.05.2015	325	0.250	2023	100.079	100.000
08.05.2015	225	0.875	2030	100.245	100.000
03.03.2017	375	0.550	2026	100.153	100.000
29.10.2018	225	0.750	2025	100.068	100.000
29.10.2018	175	1.250	2028	101.157	100.000
16.04.2020	175	0.450	2023	100.117	100.000
16.04.2020	325	0.950	2026	100.182	100.000

SGS Nederland Holding BV has issued the following corporate bond, which is guaranteed by SGS SA and which is listed on the Luxembourg Stock Exchange:

Date of issue	Face value in EUR million	Coupon in %	Year of Maturity	Issue price in %	Redemption price in %
21.04.2021	750	0.125	2027	99.761	100.000

The currency composition of bank loans, corporate bonds and other financial liabilities is as follows:

	Bank loans and corporate bond		Put option and other financial liabilities	
(CHF million)	**2021**	2020	**2021**	2020
Swiss Franc (CHF)	2 325	2 601	15	30
Euro (EUR)	775	548	20	18
Singapore Dollar (SGD)	5	–	13	–
Brazilian Real (BRL)	–	4	–	–
US Dollar (USD)	–	–	1	31
British Pound Sterling (GBP)	–	–	1	1
Canadian Dollar (CAD)	–	–	4	–
New Zealand Dollar (NZD)	–	–	3	3
Other	–	3	2	2
Total	**3 105**	**3 156**	**59**	**85**

25. Defined benefit obligations

The Group mainly operates defined benefit pension plans in Switzerland, the USA, the UK, the Netherlands, Germany, Italy, France, South Korea and Taiwan. Contributions to most plans are paid to pension funds that are legally separate entities.

The Group also operates post-employment benefit plans, principally healthcare plans, in the USA and Switzerland. They represent a defined benefit obligation at 31 December 2021 of CHF 11 million (2020: CHF 12 million). The method of accounting and the frequency of valuation are similar to those used for defined benefit pension plans. Healthcare cost trend assumptions do not have a significant effect on the amounts recognized in the income statement.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to recover any deficit that arises.

The Group's material defined benefit plans are in Switzerland, the USA and the UK.

Switzerland

The Group jointly operates with the employees a retirement foundation in Switzerland. The assets and liabilities of the retirement foundation are held separately from the Group. The foundation board is equally composed of representatives of the employees and representatives of the employer. This foundation covers all the employees in Switzerland and provides benefits on a defined contribution basis.

Each employee has a retirement account to which the employee and the Group contribute at a rate set out in the foundation rules based on a percentage of salary. Every year, the foundation decides the level of interest, if any, to apply to retirement accounts based on the agreed policy. At retirement, employees can elect either to withdraw all or part of the balance of their retirement account or to convert it into annuities at pre-defined conversion rates.

As the foundation board is expected to eventually pay out all of the foundation's assets as benefits to employees and former employees, no surplus is deemed to be recoverable by the Group. Similarly, unless the assets are insufficient to cover minimum benefits, the Group does not expect to make any deficit contribution to the foundation.

According to IFRS, the foundation has to be classified as a defined benefit plan due to underlying benefit guarantees and has to be accounted for on this basis.

The weighted average duration of the expected benefit payment is approximately 14 years.

The Group expects to contribute CHF 5 million to this plan in 2022.

The Group also operates an employer fund. The assets are held separately from the Group. This foundation has unilateral power to provide benefits and consequently has no obligations. Therefore, this foundation has no pension liabilities.

United States of America

The Group operates a non-contributory defined benefit plan, which is subject to the provisions of the Employee Retirement Income Security Act (ERISA).

The assets of the plan are held separately from the Group by the trustee-custodian and the plan's third-party pension administrator who disburses payments directly to retirees or beneficiaries under the plan. Both the trustee-custodian and the administrator ensure adherence to ERISA rules.

Funding valuations are calculated on an actuarial basis and contributions are made as necessary. The funding target is to provide the plan with sufficient assets to meet future plan obligations.

Effective 16 March 2004, non-exempt participants ceased accruing any additional benefits; only exempt employees of certain SGS business units in the USA are eligible for annual benefit accrual. In addition, the pension benefit was changed and is defined as a percentage of the current year's pensionable compensation; the cost of additional benefit accrual is evaluated annually. The Group reserves the right to make future changes to the benefit accrual structure of the plan.

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Eligible employees become participants in the plan after the completion of one year of service and after reaching the age of 21. Participants become fully vested in the plan after five years of service.

The weighted average of duration of the expected benefit payment is approximately 13 years.

The Group expects to contribute CHF 8 million to this plan in 2022.

United Kingdom

The Group operates a defined benefit plan through a trust, with the assets of the plans held separately from the Group and trustees who ensure the plan's rules are strictly adhered to. This plan has been closed to new entrants since 2002, and effective 31 October 2020, all remaining participants ceased accruing any additional benefits in the defined benefit plan. Employees are now offered membership in defined contribution plans operated by the Group.

Funding valuations of the defined benefit plans are carried out and agreed between the Group and the plan trustees at least once every three years. The funding target is for the plans to hold assets equal in value to the accrued benefits based on projected salaries. As part of the valuation process, if there is a shortfall against this target, then the Group and trustees will agree on deficit contributions to meet this deficit over a specified period.

The weighted average of duration of the expected benefit payments from the combined plans is approximately 19 years.

The Group expects to contribute CHF nil million to this plan in 2022.

Other countries

The Group sponsors defined retirement benefits plans in other countries where the Group operates. No individual countries other than those described above are considered material and need to be separately disclosed. The Group expects to contribute CHF 7 million to those plans in 2022.

The assets and liabilities recognized in the statement of financial position at 31 December for defined benefit obligations and for post-employment benefit plans are as follows:

(CHF million)	CH	UK	USA	Other	Total
2021					
Fair value of plan assets	485	255	201	85	1 026
Present value of funded defined benefit obligation	(445)	(194)	(193)	(100)	(932)
Funded/(unfunded) status	**40**	**61**	**8**	**(15)**	**94**
Present value of unfunded defined benefit obligation	(11)	–	(4)	(57)	(72)
Unrecognised asset due to asset ceiling	–	–	–	(2)	(2)
Net asset/(liability) at 31 December	**29**	**61**	**4**	**(74)**	**20**

(CHF million)	CH	UK	USA	Other	Total
2020					
Fair value of plan assets	454	253	196	48	951
Present value of funded defined benefit obligation	(446)	(203)	(201)	(70)	(920)
Funded/(unfunded) status	**8**	**50**	**(5)**	**(22)**	**31**
Present value of unfunded defined benefit obligation	(11)	–	(4)	(62)	(77)
Net asset/(liability) at 31 December	**(3)**	**50**	**(9)**	**(84)**	**(46)**

The net asset of CHF 20 million (2020: net liability of CHF 46 million) includes CHF 104 million (2020: CHF 90 million) of pension fund assets recognized in the item other non-current assets in note 16 and CHF 84 million (2020: CHF 136 million) of pension fund liability recognized in the item Defined Benefit Obligation in statement of financial position.

Amounts recognized in the income statement:

(CHF million)	CH	UK	USA	Other	Total
2021					
Service cost expense	9	–	2	5	16
Net interest expense on defined benefit plan	–	(1)	–	1	–
Administrative expenses	–	1	1	–	2
Total expense due to defined benefit obligation at 31 December	**9**	**–**	**3**	**6**	**18**
Expense charged in:					
Salaries and wages	9	1	3	5	18
Financial expenses	–	(1)	–	1	–
Total expense due to defined benefit obligation at 31 December	**9**	**–**	**3**	**6**	**18**

(CHF million)	CH	UK	USA	Other	Total
2020					
Service cost expense	9	(5)	(1)	9	12
Administrative expenses	–	–	1	–	1
Total expense due to defined benefit obligation at 31 December	**9**	**(5)**	**–**	**9**	**13**
Expense charged in:					
Salaries and wages	9	(5)	–	9	13
Total expense due to defined benefit obligation at 31 December	**9**	**(5)**	**–**	**9**	**13**

Amounts recognized in the statement of other comprehensive income:

(CHF million)	CH	UK	USA	Other	Total
2021					
Remeasurement on net defined benefit liability					
Change in demographic assumptions	–	(1)	1	(1)	(1)
Change in financial assumptions	(13)	(9)	(10)	(3)	(35)
Experience adjustments on benefit obligations	6	–	(4)	34	36
Actual return on plan assets excluding net interest expense	(30)	1	4	(33)	(58)
Asset ceiling	–	–	–	1	1
Total recognized in the statement of other comprehensive income at 31 December	**(37)**	**(9)**	**(9)**	**(2)**	**(57)**

(CHF million)	CH	UK	USA	Other	Total
2020					
Remeasurement on net defined benefit liability					
Change in demographic assumptions	–	(1)	(2)	1	(2)
Change in financial assumptions	6	21	14	(1)	40
Experience adjustments on benefit obligations	14	1	(3)	3	15
Actual return on plan assets excluding net interest expense	(19)	(29)	(19)	–	(67)
Total recognized in the statement of other comprehensive income at 31 December	**1**	**(8)**	**(10)**	**3**	**(14)**

Movements in the net asset/(liability) during the period:

(CHF million)	CH	UK	USA	Other	Total
2021					
Net asset/(liability) at 1 January	**(3)**	**50**	**(9)**	**(84)**	**(46)**
Expense recognized in the income statement	(9)	–	(3)	(6)	(18)
Remeasurements recognized in other comprehensive income	37	9	9	2	57
Effect of acquisitions/disposals	(2)	–	–	–	(2)
Contributions paid by the Group	6	1	8	11	26
Employer benefit payments	–	–	–	1	1
Exchange differences	–	1	(1)	2	3
Net asset/(liability) at 31 December	**29**	**61**	**4**	**(74)**	**21**

(CHF million)	CH	UK	USA	Other	Total
2020					
Net asset/(liability) at 1 January	**1**	**38**	**(30)**	**(82)**	**(73)**
Expense recognized in the income statement	(9)	5	–	(9)	(13)
Remeasurements recognized in other comprehensive income	(1)	8	10	(3)	14
Contributions paid by the Group	6	1	8	8	23
Employer benefit payments	–	–	–	2	2
Exchange differences	–	(2)	3	–	1
Net asset/(liability) at 31 December	**(3)**	**50**	**(9)**	**(84)**	**(46)**

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Change in the defined benefit obligation is as follows:

(CHF million)	CH	UK	USA	Other	Total
2021					
Opening present value of the defined benefit obligation	457	203	205	132	997
Current service cost	9	–	2	6	17
Interest cost	–	3	5	1	9
Plan participants' contributions	4	–	–	–	4
Past service cost	–	–	–	(1)	(1)
Net increase/(decrease) in DBO from acquisitions/disposals	8	–	–	–	8
Actual net benefit payments	(15)	(10)	(10)	(7)	(42)
(Gains)/losses due to changes in demographic assumptions	–	(1)	1	(1)	(1)
(Gains)/losses due to changes in financial assumptions	(13)	(9)	(10)	(3)	(35)
Experience differences	6	–	(4)	34	36
Exchange rate (gains)/losses	–	8	8	(2)	13
Defined benefit obligation at 31 December	**456**	**194**	**197**	**159**	**1 005**

(CHF million)	CH	UK	USA	Other	Total
2020					
Opening present value of the defined benefit obligation	443	207	224	127	1 001
Current service cost	9	1	1	9	20
Interest cost	1	4	6	1	12
Plan participants' contributions	5	–	1	–	6
Past service cost	–	(6)	(2)	–	(8)
Actual net benefit payments	(21)	(11)	(13)	(7)	(52)
(Gains)/losses due to changes in demographic assumptions	–	(1)	(2)	1	(2)
(Gains)/losses due to changes in financial assumptions	6	21	14	(1)	40
Experience differences	14	1	(3)	3	15
Exchange rate (gains)/losses	–	(13)	(21)	(1)	(35)
Defined benefit obligation at 31 December	**457**	**203**	**205**	**132**	**997**

Change in fair value of plan assets is as follows:

(CHF million)	CH	UK	USA	Other	Total
2021					
Opening fair value of plan assets	454	253	196	48	951
Interest income on plan assets	–	4	5	–	9
Return on plan assets excluding amounts included in net interest expense	30	(1)	(4)	33	58
Actual employer contributions	6	1	8	12	27
Actual plan participants' contributions	4	–	–	–	4
Actual net benefit payments	(15)	(10)	(10)	(7)	(42)
Actual admin expenses paid	–	(1)	(1)	–	(2)
Net increase/(decrease) in assets from acquisitions	6	–	–	–	6
Exchange differences	–	9	7	(1)	15
Fair value of plan assets at 31 December	**485**	**255**	**201**	**85**	**1 026**

(CHF million)	CH	UK	USA	Other	Total
2020					
Opening fair value of plan assets	444	245	194	45	928
Interest income on plan assets	1	4	6	1	12
Return on plan assets excluding amounts included in net interest expense	19	29	19	–	67
Actual employer contributions	6	1	8	10	25
Actual plan participants' contributions	5	–	1	–	6
Actual net benefit payments	(21)	(11)	(13)	(7)	(52)
Actual admin expenses paid	–	–	(1)	–	(1)
Exchange differences	–	(15)	(18)	(1)	(34)
Fair value of plan assets at 31 December	**454**	**253**	**196**	**48**	**951**

There are no reimbursement rights included in plan assets. The actual return on plan assets was a gain of CHF 67 million (2020: gain of CHF 79 million).

The major categories of plan assets at the balance sheet date are as follows:

(CHF million)	CH	UK	USA	Other	Total
2021					
Cash and cash equivalents	26	19	1	18	64
Equity securities	176	36	25	–	237
Debt securities	56	200	175	1	432
Assets held by insurance company	3	–	–	66	69
Properties	175	–	–	–	175
Investment funds	46	–	–	–	46
Other	3	–	–	–	3
Total plan assets at 31 December	**485**	**255**	**201**	**85**	**1 026**

(CHF million)	CH	UK	USA	Other	Total
2020					
Cash and cash equivalents	33	3	–	16	52
Equity securities	153	60	25	–	238
Debt securities	55	170	171	1	397
Assets held by insurance company	–	–	–	31	31
Properties	174	–	–	–	174
Investment funds	37	20	–	–	57
Other	2	–	–	–	2
Total plan assets at 31 December	**454**	**253**	**196**	**48**	**951**

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In 2021 and 2020, the Group did not occupy any property that was included in the plan assets.

Properties are rented at fair market rental rates. There are no SGS SA shares or any other financial securities used by the Group included in plan assets.

The plan assets are primarily held within instruments with quoted market prices in an active market, with the exception of the property and insurance policy holdings.

The investment strategy in Switzerland is to invest, within the statutory and legal requirements, in a diversified portfolio with the aim of generating long-term returns, which will enable the Board of the foundation to grow the accounts of the members of the pension fund, whilsttaking on the lowest possible risk in order to do so.

In the USA, the Pension Plan Target Policy is determined by both quantitatively and qualitatively assessing the risk tolerance level and return requirements of the Plan as determined by the Investment Committee. The investment portfolio asset allocation and structure are developed based on the results of this process. In the UK, the Trustees review the investment strategy of the Scheme and the Plan on a regular basis in order to ensure that they remain appropriate. The last review for both the Scheme and Plan was recently undertaken and is in the process of being implemented.

Actuarial assumptions vary according to local prevailing economic and social conditions. The principal weighted average actuarial assumptions used in determining the cost of benefits for both 2021 and 2020 are as follows:

(Weighted average %)	CH	UK	USA	Other
2021				
Discount rate	0.3	1.9	3.0	1.6
Mortality assumption	LPP 2020 CMI 2019 1.25%	SNA03M104%/ F94% CMI 2020 1.25%	PRI 2012 MP 2021	–
Salary progression rate	1.5	2.6	3.3	2.7
Future increase for pension in payments	–	3.2	–	0.5
Healthcare cost trend assumed for the next year	3.0	–	7.0	–
Ultimate trend rate	3.0	–	4.5	–
Year that the rate reaches the ultimate trend rate			**2 030**	

(Weighted average %)	CH	UK	USA	Other
2020				
Discount rate	0.1	1.4	2.6	1.0
Mortality assumption	LPP 2015 CMI 2016 1.25%	SPA03M104%/ SPAF94% CMI 2019 1.25%	PRI 2012 MP 2019	–
Salary progression rate	1.5	2.1	3.3	2.4
Future increase for pension in payments	–	2.7	–	0.3
Healthcare cost trend assumed for the next year	3.0	–	7.5	–
Ultimate trend rate	3.0	–	4.5	–
Year that the rate reaches the ultimate trend rate			**2 030**	

The weighted average rate for each assumption used to measure the benefits obligation is also shown. The assumptions used to determine end-of-year benefits obligation are also used to calculate the following year's cost.

In Switzerland, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 33 million; a 0.5% increase in assumed salary would increase the obligation by CHF 2 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 13 million.

In the USA, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 13 million; a 0.5% increase in assumed salary would not impact the obligation; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 4 million.

In the UK, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 19 million; a 0.5% increase in assumed salary would not impact the obligation; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 8 million.

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation and assume no other changes in market conditions at the accounting date. This is unlikely in practice; for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the plans.

The amount recognized as an expense in respect of defined contribution plans during 2021 was CHF 78 million (2020: CHF 61 million).

26. Provisions

(CHF million)	Legal and warranty claims on services rendered	Demobilization and reorganization	Other provisions	Total
At 1 January 2021	**38**	**80**	**55**	**173**
Charge to income statement	15	17	9	41
Release to income statement	(4)	(11)	–	(15)
Payments	(14)	(33)	(2)	(49)
Exchange differences	3	(3)	–	–
At 31 December 2021	**38**	**50**	**62**	**150**

Analysed as:	2021	2020
Current liabilities	60	85
Non-current liabilities	90	88
Total	**150**	**173**

A number of Group companies are subject to litigation and other claims arising out of the normal conduct of their business that can be best viewed as claims on services rendered. The claim provision represents the sum of estimates of amounts payable on identified claims and of losses incurred but not yet reported. They therefore reflect estimates of the future payments required to settle both reported and unreported claims. In the opinion of management, based on all currently available information, the provisions adequately reflect the Group's exposure to legal and warranty claims on services rendered. The ultimate outcome of these matters is not expected to materially affect the Group's financial position, results of operations or cash flows.

Demobilization and reorganization provisions relate to present legal or constructive obligations of the Group toward third parties, such as termination payments to employees upon leaving the Group, which in some jurisdictions are a legal obligation. For specific long-term contracts, typically with two to five years' duration, the Group is required to dismantle infrastructure and terminate the services of personnel upon completion of the contract. These demobilization costs are provided for during the life of the contract. Experience has shown that these contracts may be either extended or terminated earlier than expected.

Other provisions include present legal or constructive obligations towards tax authorities for indirect tax exposure as well as other provisions towards third parties.

27. Trade and other payables

(CHF million)	2021	2020
Trade payables	368	322
Other payables	319	336
Total	**687**	**658**

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs.
At 31 December 2021 and 2020, the fair value of the Group's trade accounts and other payables approximates the carrying value.

28. Contingent liabilities

In the normal course of business, the Group and its subsidiaries are parties to various lawsuits and claims. Management does not expect that the outcome of any of these legal proceedings will have a material adverse effect on the Group's financial position, results of operations or cash flows.

Guarantees and performance bonds

(CHF million)	2021	2020
Guarantees	553	829
Performance bonds	205	230
Total	**758**	**1 059**

The Group has issued unconditional guarantees of CHF 553 million (2020: CHF 829 million), as well as performance bonds and bid bonds of CHF 205 million (2020: CHF 230 million) to commercial customers on behalf of its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

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29. Equity compensation plans

Selected employees of the SGS Group are eligible to participate in equity compensation plans.

i) Grants to members of the Board of Directors

In 2021, a total of 18 restricted shares were granted to members of the Board of Directors, in settlement of part of their remuneration for the mandate from the 2020 AGM to the 2021 AGM. The restricted shares are blocked for a period of three years from the grant date, until January 2024. The value at grant date of the restricted shares granted, being defined as the closing price of the share on the date of the publication of the annual results, was CHF 49 212.

ii) Grants to members of the Operations Council

In 2021, a total of 6,003 Performance Share Units (PSUs) under the Long-Term Incentive plan 2021-2023 were granted to members of the Operations Council. The PSUs vest after a three-year performance period 2021-2023, in February 2024, subject to performance conditions and to continuity of employment of the beneficiaries during the vesting period. The value at grant date of the PSUs granted, being defined as the average closing price of the share during a 20-day period preceding the grant date, was CHF 16 216 204.

More information on the Long-Term Incentive plan for the members of the Operations Council is disclosed in the SGS Remuneration report.

In 2021, a total of 530 restricted shares were granted to members of the Operations Council, in settlement of 50% of the annual incentive related to the 2020 performance. The restricted shares are blocked for a period of three years from the grant date, until April 2024. The value at grant date of the restricted shares granted, being defined as the average closing price of the share during a 20-day period following the payment of the dividends after the 2021 Annual General Meeting, was CHF 1 440 832.

50% of the annual incentive related to the 2021 performance will be settled in restricted shares. The grant of the restricted shares will be done after the 2022 Annual General Meeting; the total number of restricted shares to be granted will be calculated dividing 50% of the annual Incentive amount by the average closing price of the share during a 20-day period following the payment of the dividends after the 2022 Annual General Meeting, rounded up to the nearest integer. The restricted shares will be blocked for a period of three years from the grant date, until April 2025.

More information on the Short-Term Incentive for the members of the Operations Council in disclosed in the SGS Remuneration report.

iii) Grants to other employees

In 2021, a total of 10 334 Performance Share Units (PSUs) under the Long-Term Incentive plan 2021-2023 were granted to selected senior managers. The PSUs vest after a three-year performance period 2021-2023, in February 2024, subject to performance conditions and to continuity of employment of the beneficiaries during the vesting period. The value at grant date of the PSUs granted, being defined as the average closing price of the share during a 20-day period preceding the grant date, was CHF 27 915 751.

In 2021, a total of 1 935 Restricted Share Units (RSUs) were granted to selected key employees under the Restricted Share Units Plan 2021. The RSUs vest 3 years after the grant date. The value at grant date of the RSUs granted, being defined as the average closing price of the share during a 20-day period preceding the grant date, was CHF 5 227 112.

Performance share unit (PSU) and restricted share unit (RSU) plans

Description	Vesting period from	Units Outstanding at 31 December 2020	Granted	Forfeited	Vested	**Units Outstanding at 31 December 2021**
SGS-PSU-18	Feb.21	24 453	–	(4 348)	(20 105)	–
SGS-PSU-21	Feb.24	–	16 337	(345)	–	15 992
SGS-RSU-18	Apr.21	1 807	–	(26)	(1 781)	–
SGS-RSU-19	Apr.22	1 822	–	(144)	–	1 678
SGS-RSU-20	Apr.23	2 291	–	(143)	–	2 148
SGS-RSU-21	Apr.24	–	1 935	(70)	–	1 866
Total		**30 373**	**18 272**	**(5 076)**	**(21 886)**	**21 683**

The Group does not issue new shares to grant employees in relation to the equity-based compensation plans but uses treasury shares, acquired through share buyback programs.

In total, as of 31 December 2021, the equity overhang, defined as the total number of unvested share units, (21 683 units) divided by the total number of outstanding shares (7 495 032 shares) amounted to 0.29%.

The company's burn rate, defined as the number of equities (shares, restricted shares and share units) granted in 2021 (18 820 units) divided by the total number of outstanding shares, was 0.25%.

The Group recognized during the year a total expense of CHF 14 million (2020: CHF 17 million) in relation to equity compensation plans.

Shares available (required) for future plans:

	Total
At 1 January 2020	**(18 371)**
Repurchased shares	15 834
Granted SGS-RSU-20-plan	(2 338)
Shares for PSU forfeited	1 483
Shares for RSU forfeited	390
Shares used for restricted shares plan as settlement of Short-Term Incentive	(1 577)
At 31 December 2020	**(4 579)**
Repurchased shares	–
Granted SGS-RSU-21 plan	(1 935)
Granted SGS-PSU-21 plan	(16 337)
Shares for PSU forfeited	4 693
Shares for RSU forfeited	383
Shares used for restricted shares plan as settlement of Short-Term Incentive	(548)
At 31 December 2021	**(18 323)**

At 31 December, the Group had the following shares available to satisfy various programs:

	2021 Total	2020 Total
Number of shares held	3 360	25 794
Shares allocated for 2018 PSU plan	–	(24 453)
Shares allocated for 2018 RSU plan	–	(1 807)
Shares allocated for 2019 RSU plan	(1 678)	(1 822)
Shares allocated for 2020 RSU plan	(2 148)	(2 291)
Shares allocated for 2021 RSU plan	(1 865)	–
Shares allocated for 2021 PSU plan	(15 992)	
Shares required for future equity compensation plans at 31 December	**(18 323)**	**(4 579)**

30. Related-party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed.

Compensation to Directors and members of the Operations Council

The remuneration of Directors and members of the Operations Council during the year was as follows:

(CHF million)	2021	2020
Short-term benefits	17	14
Post-employment benefits	1	1
Share-based payments[1]	20	2
Total	**38**	**17**

1. 2021 represents the value at grant of restricted share units and performance share units granted in 2021 while 2020 represents the value at grant of restricted share units granted in 2020.

The remuneration of Directors and members of the Operations Council is determined by the Nomination and Remuneration Committee. Additional information is disclosed in the SGS Remuneration report.

During 2021 and 2020, no member of the Board of Directors or of the Operations Council had a personal interest in any business transactions of the Group.

The Operations Council (including senior management) participates in the equity compensation plans as disclosed in note 29.

The total compensation, including social charges, received by the Board of Directors amounted to CHF 1 997 000 (2020: CHF 2 459 000).

The total compensation (cash and shares/options), including social charges, received by the Operations Council (including senior management) amounted to CHF 36 228 000 (2020: CHF 14 855 000).

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Loans to members of governing bodies

As at 31 December 2021, no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies (unchanged from previous year).

Transactions with other related parties

In 2021 and in 2020, the Group did not perform any activity generating revenue for the other related parties.

During 2021 and 2020, neither related trade receivable balances unpaid nor expense in respect of any bad or doubtful debts due from these related parties were recognized.

31. Significant shareholders

As at 31 December 2021, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 19.11% (December 2020: 18.91%) of the share capital and voting rights of the Company. At the same date, the Group held 0.04% of the share capital of the Company (December 2020: 1.28%).

32. Approval of financial statements and subsequent events

The Board of Directors is responsible for the preparation and presentation of the financial statements. These financial statements were authorized for issue by the Board of Directors on 21 February 2022, and will be submitted for approval on 29 March 2022 during the Annual General Meeting. There are no subsequent events to be reported in these consolidated financial statements.

Report of the statutory auditor

to the General Meeting of SGS SA

Geneva

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SGS SA and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2021, the consolidated statement of financial position as at 31 December 2021, the consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements, presented on pages 113 to 153 and 175 to 177, give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

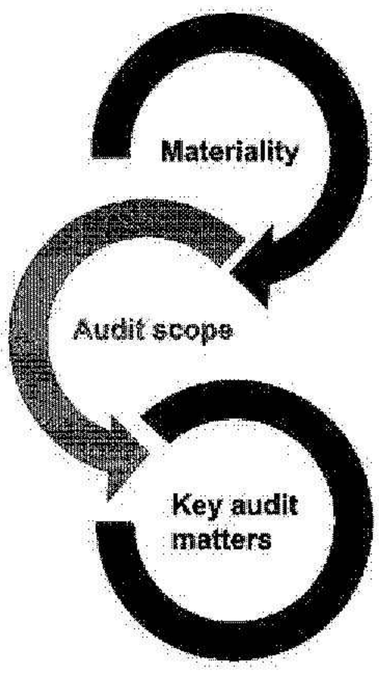
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss au-dit profession, as well as the International Code of Ethics for Professional Accountants (including International Independ-ence Standards) of the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have ob-tained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 46 million

We concluded full scope audit work at 22 reporting units and audits of specific balances were performed on a further 18 reporting units. Our audit scope addressed over 69% of the Group's revenue.

As key audit matters the following areas of focus have been identified:

- Testing the Technical Consultancy USA CGU for impairment
- Unbilled revenue and work in progress (WIP)
- Taxation

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 46 million
Benchmark applied	Profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Due to the nature of its business and its organisation, the Group has a decentralised structure and operates in 112 countries in three main regions (Asia Pacific, Europe/Africa/Middle East and Americas). We instructed audit teams in 18 countries to perform a full scope audit and audit teams in another 10 countries to perform an audit of specific balances (principally revenue, accounts receivable, work in progress and unbilled revenue). These teams audit the respective account balances as well as classes of transactions and report to us on their audit results in response to the audit instructions we sent to them.

As Group auditor, we ensure the quality of the audit teams' work by means of planning presentations with all teams, conducting a detailed review of their audit plans and final memorandums as well as holding closing calls with teams auditing all significant entities. In addition, procedures performed by us at Group level include analytical procedures on entities not covered by Group reporting requirements to ensure that material risks are identified and addressed. We also assess the appropriateness of Group accounting policies and the accounting for material or unusual transactions that is prepared centrally, and audit the consolidation. The latter includes, in particular, the central consolidation adjustments, the treatment of share-based compensation, tax balances, equity and intercompany eliminations as well as business combination accounting. Finally, we assess the compliance of the consolidated financial statements with IFRS and Swiss law.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Testing the Technical Consultancy USA CGU for impairment

Key audit matter	How our audit addressed the key audit matter
The Group's share of goodwill allocated to the Technical Consultancy USA CGU (cash generating unit) amounts to CHF 82 million as at 31 December 2021. We identified the valuation and recoverability of goodwill and other intangible assets allocated to the Technical Consultancy USA CGU as a key audit matter because the results of this CGU's operations declined significantly from 2019 to 2020 and a rebound in sales growth had been anticipated for 2021. The discounted cash flow model is based on the value-in-use methodology and on a five-year plan. The assessment of the recoverability of the Technical Consultancy USA CGU's goodwill balance is dependent on the estimation of future cash flows. Management's judgement is required to determine the assumptions relating to the future business results, the long-term growth rate after the forecast period and the discount rate applied to the forecasted cash flows. Refer to the corresponding accounting policy in note 2 – Significant accounting policies and exchange rates and note 14 – Goodwill in the notes to the consolidated financial statements.	We obtained the Group's impairment test for the Technical Consultancy USA CGU and, in particular: • We assessed the appropriateness of the impairment testing methodology; • We reconciled the five-year cash flow projections to the budget and long-term plan that have been approved by management; • We challenged management to substantiate the key assumptions used in the cash flow projections of the Technical Consultancy USA CGU's business during the forecasted period; • We obtained comfort over the appropriateness of cash flow assumptions by performing substantive detail testing on a sample of the 2021 backlog and on the 2022 opportunity pipeline; • We tested, with the support of PwC's valuation experts, the reasonableness of the long-term growth rate after the forecast period and the discount rate; • We tested the mathematical accuracy of the model; • We assessed the quality of the cash flow projections by comparing the actual results of the CGU to the prior year's budget to identify in retrospect whether any of the assumptions might have been too optimistic; • We evaluated the Group's sensitivity analysis of key assumptions to ascertain the effect of changes in those assumptions on the value-in-use; • We assessed the adequacy of the disclosures included in note 14 related to goodwill. On the basis of the procedures performed, we conclude that management's impairment test of the Technical Consultancy USA CGU was acceptable.

Unbilled revenue and work in progress (WIP)

Key audit matter	How our audit addressed the key audit matter
The amounts on the balance sheet related to unbilled revenue and work in progress total CHF 175 million. Unbilled revenue is recognised for services completed but not yet invoiced and is measured at the net selling price. WIP is recognised for partially completed performance obligations under a contract. The measure of progress is based on observable output or input methods. A proportion of the expected margin on completion is recognised based on the actual costs incurred in proportion to total expected costs, provided that the project is expected to be profitable once completed.	We reviewed SGS's revenue recognition policy and obtained an understanding of how unbilled revenue and WIP are accounted for. Our audit approach consisted of the following procedures, in particular: • We assessed the design and implementation of the key controls relating to the monitoring of unbilled revenue and WIP balances. • We selected samples of unbilled revenue and WIP balances and traced them to underlying contracts and invoices with customers.

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The assessment of the degree of progress and the estimated margin requires judgement by management.

Given the significance and relevance of their impact on the consolidated financial statements and because the progress and the expected margin on completion must be estimated at the end of each reporting period, we deemed the measurement of unbilled revenue and work in progress to be a key audit matter.

Refer to the corresponding accounting policy in note 2 – Significant accounting policies and exchange rates and to note 5 – Revenues from contracts with customers in the notes to the consolidated financial statements.

- We obtained comfort over the degree of progress from discussions with project managers and performed reconciliations to actual numbers recognised in the financial statements in selected cases.
- We selected samples of unbilled revenue and WIP balances recorded at the previous period-end and compared them to subsequent invoices and cash received from clients in order to evaluate the reliability of management's estimation process.
- We analysed the aging of the open balances and assessed the appropriateness of provisions recognised in accordance with the Group's provision grid.
- For entities with significant unbilled or WIP balances not subject to our Group audit, we performed central audit procedures.

On the basis of the procedures performed, we consider management's estimates and disclosures regarding unbilled revenue and work in progress balances to be reasonable.

Taxation

Key audit matter	How our audit addressed the key audit matter
The Group is subject to taxation in many jurisdictions and management makes judgements about the incidence and magnitude of tax liabilities that are subject to the future outcome of assessments by the relevant tax authorities. Accordingly, the calculation of tax expense and the related liability are subject to inherent uncertainty. To make these judgements, the Group has a structured process whereby management systematically monitors and assesses the existence, development and settlement of tax risks in each of its jurisdictions. The Group's main tax risks are i) that the tax authorities might not accept the transfer prices applied and ii) potential adverse results of ongoing tax audits. In accordance with its methodology, provisions for uncertain tax positions are calculated and included within current tax liabilities (CHF 169 million as at 31 December 2021). Refer to the corresponding accounting policy in note 2 – Significant accounting policies and exchange rates and to note 10 – Taxes in the notes to the consolidated financial statements.	Our audit approach consisted of the following procedures, in particular: • We assessed the existence of tax exposures by means of inquiry with local and Group management. • We discussed management's process to assess the risk of tax liabilities in the different jurisdictions as a result of potential challenges to the tax positions, and tested the measurement and timing of recognition of the provision when applicable. • With the support of PwC's internal tax experts, we examined the documentation outlining the matters in dispute or at risk and the benchmarks relied upon for transfer pricing, and used our knowledge of the tax laws and other similar taxation matters to assess the available evidence, management's judgemental processes and the provisions. On the basis of the procedures performed, we conclude that management's tax estimates were reasonable.

Other matter

The consolidated financial statements of SGS SA for the year ended 31 December 2020 were audited by another firm of auditors whose report, dated 23 February 2021, expressed an unmodified opinion on those statements.

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Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report of SGS SA and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Guillaume Nayet

Audit expert
Auditor in charge

Louise Rolland

Geneva, 21 February 2022

2. SGS SA

2.1. Income Statement

For the years ended 31 December

(CHF million)	Notes	2021	2020
Operating income			
Dividends from subsidiaries		734	592
Total operating income		**734**	**592**
Operating expenses			
Other operating & administrative expenses		(6)	(5)
Other operating expenses		–	–
Total operating expenses		**(6)**	**(5)**
Operating result		**728**	**587**
Financial income			
Financial income	7	46	39
Exchange gain, net		1	–
Total financial income		**47**	**39**
Financial expenses			
Financial expenses	7	(41)	(48)
Liquidation of subsidiaries, net		(1)	(1)
Total financial expenses		**(42)**	**(49)**
Financial result		**5**	**(10)**
Extraordinary (costs)/Income		(8)	–
Profit before taxes		**725**	**577**
Taxes		(1)	–
Withholding taxes		(10)	(10)
Profit for the year		**714**	**567**

2.2. Statement of Financial Position at 31 December

(Before appropriation of available retained earnings)

(CHF million)	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents		324	540
Other financial assets		7	7
Amounts due from subsidiaries		691	534
Accrued income and prepaid expenses		4	2
Total current assets		**1 026**	**1 083**
Non current assets			
Loans to subsidiaries		1 279	1 475
Long term assets		3	2
Investments in subsidiaries	2	1 981	1 980
Total non current assets		**3 263**	**3 457**
Total assets		**4 289**	**4 540**
Shareholder's equity and liabilities			
Short term liabilities			
Bank overdraft		9	9
Amounts due to subsidiaries		209	232
Bank short term loans	3	–	542
Corporate bonds (less than one year)	4	250	275
Deferred income and accrued expenses		44	52
Provisions		1	1
Total short term liabilities		**513**	**1 111**
Long term liabilities/non current liabilities			
Long term liabilities – third party		2	1
Long term liabilities – subsidiaries		772	290
Corporate bonds	4	2 075	2 325
Total long term liabilities/non current liabilities		**2 849**	**2 616**
Shareholder's equity			
Share capital	5 to 6	7	8
Statutory capital reserve	5 to 6	34	34
Statutory retained earnings	5 to 6	878	878
Own shares for share buyback	5 to 6	–	(169)
Reserve for own shares held by a subsidiary	5 to 6	8	62
Total shareholder's equity		**927**	**813**
Total shareholder's equity and liabilities		**4 289**	**4 540**

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2.3. Notes

SGS SA ('the Company') is the ultimate parent company of the SGS Group which owns and finances, either directly or indirectly, its subsidiaries and joint ventures throughout the world. The head office is located in Geneva, Switzerland.

The average number of employees is less than 10 people for this company (2020: less than 10).

1. Significant accounting policies

The financial statements are prepared in accordance with the accounting principles required by the provisions of commercial accounting as set out in the Swiss Code of Obligations.

Investments in subsidiaries

Investments in subsidiaries are valued individually at acquisition cost less an adjustment for impairment where appropriate.

Foreign currencies

Balance sheet items denominated in foreign currencies are converted into Swiss francs at year end exchange rates with the exception of investments in subsidiaries which are valued at the historical exchange rate.

Foreign currency transactions are translated using the actual exchange rates prevailing during the year. Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation at year end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Unrealized gains and losses arising on foreign exchange transactions are included in the determination of the net profit, except long-term unrealized gains on long-term loans and related instruments, which are deferred.

Dividends from subsidiaries

Dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting and subsequently paid, rather than as an appropriation of profit in the year to which they relate or for which they are proposed by the Board of Directors.

As a result, dividends are recognized in income in the year in which they are received, on a cash basis. Dividends are recorded in the currency defined for each affiliate and converted at spot rate in the income statement.

Bonds

Bonds are recorded at nominal value.

2. Subsidiaries

The list of principal Group subsidiaries appears in the annual report on pages 175 to 177.

In 2020, SGS SA acquired 80% of the capital of Ryobi Geotechnique Pte Ltd in Singapore. The share purchase agreement includes an option to acquire the remaining 20% of Ryobi Geotechnique Pte Ltd in 2025.

3. Bank short term loans

In 2021, the loan with Credit Suisse First Boston has been reimbursed.

In 2020, a loan of EUR 500 Mio has been subscribed with Credit Suisse First Boston with a maturity 31.03.2021.

4. Corporate bonds

SGS SA made the following bond issuances:

Date of issue	Face value in CHF million	Coupon in %	Year of Maturity	Issue price in %	Redemption price in %
27.02.2014	138	1.375	2022	100.517	100.000
25.04.2014	112	1.375	2022	101.533	100.000
Short term bonds	**250**				
27.02.2014	250	1.750	2024	101.019	100.000
08.05.2015	325	0.250	2023	100.079	100.000
08.05.2015	225	0.875	2030	100.245	100.000
03.03.2017	375	0.550	2026	100.153	100.000
29.10.2018	225	0.750	2025	100.068	100.000
29.10.2018	175	1.250	2028	101.157	100.000
06.05.2020	175	0.450	2023	100.117	100.000
06.05.2020	325	0.950	2026	100.182	100.000
Long term bonds	**2 075**				

As at 31 December 2021, two bonds in the above table are classified as short-term liabilities as the due date is less than a year.

On 6 May 2020, SGS SA issued two bonds, one CHF 175 million with a 0.450% coupon and one CHF 325 million with a 0.950% coupon.

The Company has listed all bonds on the SIX Swiss Exchange.

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5. Total equity

(CHF million)	Share capital	Statutory capital reserve	Reserve for own shares held by a subsidiary	Own shares for share buyback	Statutory Retained earnings	Total
Balance at 1 January 2020	**8**	**34**	**31**	**–**	**940**	**1 013**
Dividends paid	–	–	–	–	(598)	(598)
Transfer to the reserve for own shares	–	–	31	–	(31)	–
Share buyback program	–	–	–	(169)	(0)	(169)
Profit for the year	–	–	–	–	567	567
Balance at 31 December 2020	**8**	**34**	**62**	**(169)**	**878**	**813**
Dividends paid	–	–	–	–	(599)	(599)
Decrease in the reserve for own shares	–	–	(54)	–	54	–
Cancellation of treasury shares	–	–	–	169	(169)	–
Treasury shares cancelled	(1)	–	–	–	–	(1)
Profit for the year	–	–	–	–	714	714
Balance at 31 December 2021	**7**	**34**	**8**	**–**	**878**	**927**

6. Share capital

	Shares In circulation	Own shares	Total shares issued	Total share capital CHF (million)
Balance at 1 January 2020	**7 552 390**	**13 342**	**7 565 732**	**8**
Own shares released into circulation	3 382	(3 382)	–	
Own shares purchased for future equity compensation plans	(15 834)	15 834	–	
Treasury shares purchased for cancellation	(70 700)	70 700	–	
Balance at 31 December 2020	**7 469 238**	**96 494**	**7 565 732**	**8**
Own shares released into circulation	22 434	(22 434)	–	
Capital reduction by cancelation of own shares		*(70 700)*	*(70 700)*	*(1)*
Balance at 31 December 2021	**7 491 672**	**3 360**	**7 495 032**	**7**

Issued Share Capital

SGS SA has a share capital of CHF 7 495 032 (2020: CHF 7 565 732) fully paid-in and divided into 7 495 032 (2020: 7 565 732) registered shares of a par value of CHF 1. In 2021, SGS SA proceeded to a capital reduction of 70 700 shares. All shares, other than own shares, participate equally in the dividends declared by the Company and have equal voting rights.

Own Shares

On 31 December 2021, SGS SA held 3 360 of its own shares through an affiliate company.

In 2021, no shares have been repurchased whilst 22 434 shares were released into circulation following vesting of equity compensation plans. In 2021, SGS SA proceeded to the cancelation of 70 700 of its own shares directly held by SGS SA, while the shares to cover the equity compensation plans are held by a subsidiary company.

On 31 December 2020, SGS SA held 96 494 of its own shares, thereof 70 700 directly and 25 794 through an affiliate company.

On 17 February 2020, SGS SA announced a CHF 200 million share buyback program for the purpose of capital reduction. The program ended on 17 December 2020 and 70,700 shares were repurchased for a total amount of CHF 169 million at an average purchase price of CHF 2 394 per share.

Further, in 2020 15 834 shares have been repurchased through an affiliate company for covering future equity compensation plans, whilst 3 382 shares were released into circulation.

7. Financial income and financial expenses

(CHF million)	2021	2020
Financial income		
Interest income Group	46	39
Exchange gain net	1	–
Financial income	**47**	**39**
Financial expenses		
Interest expenses 3rd party	(24)	(28)
Interest expenses Group	(8)	(6)
Other financial expenses	(9)	(14)
Liquidation of subsidiaries	(1)	(1)
Financial expenses	**(42)**	**(49)**

8. Guarantees and comfort letters

(CHF million)	2021 issued	2021 utilised	2020 issued	2020 utilised
Guarantees	2 759	1 117	2 055	341
Performance bonds	71	53	53	35
Total	**2 830**	**1 170**	**2 108**	**376**

The Company has unconditionally guaranteed or provided comfort to financial institutions providing credit facilities (loans and guarantee bonds) to its subsidiaries. In addition, it has issued performance bonds to commercial customers on behalf of its subsidiaries.

The Company is part of a VAT Group comprising itself and other Group companies in Switzerland.

9. Remuneration

9.1. Remuneration policy and principles

This section appears in the SGS Remuneration report paragraph 2 in the annual report on pages 91 to 93.

9.2. Remuneration model

This section appears in the SGS Remuneration report paragraph 3 in the annual report on pages 93 to 101.

9.3. Remuneration awarded to the Board of Directors

This section appears in the SGS Remuneration report paragraph 4 in the annual report on pages 101 to 103.

9.4. Remuneration awarded to the Operations Council members

This section appears in the SGS Remuneration report paragraph 5 in the annual report on pages 103 to 107.

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10. Shares and options held by members of governing bodies

10.1. Shares and options held by Members of the Board of Directors

The following table shows the shares held by Members of the Board of Directors as at 31 December 2021:

Name	Shares
C.Grieder	90
S.R. du Pasquier	28
P. Desmarais	37
K. Sorenson	36
I. Galienne	1
S. Atiya	92
T. Hartmann	–
J. Vergis	–

The following table shows the shares held by Members of the Board of Directors as at 31 December 2020:

Name	Shares
C.Grieder	90
A. F. von Finck	1 000
C. Grupp	1
S.R. du Pasquier	10
P. Desmarais	37
K. Sorenson	36
I. Galienne	1
G. Lamarche	25
S. Atiya	92
T. Hartmann	–

10.2. Shares and options held by senior management

The following table shows the shares and restricted shares held by senior management as at 31 December 2021:

Name	Corporate responsibility	Restricted shares	Shares
F. NG	Chief Executive Officer	528	3 385
D. de Daniel	Chief Financial Officer	238	1 165
O. Merkt	General Counsel and Chief Compliance Officer	124	250

The following table shows the shares and restricted shares held by senior management as at 31 December 2020:

Name	Corporate responsibility	Restricted shares	Shares
F. NG	Chief Executive Officer	599	2 125
D. de Daniel	Chief Financial Officer	163	1 165
O. Merkt	General Counsel and Chief Compliance Officer	136	200

Details of the various plans are explained in the SGS Remuneration report.

11. Significant shareholders

To the knowledge of the Company the shareholders owning more than 5% of its share capital as at 31 December 2021, or as the date of their last notification as per Article 20 of the Swiss Stock Exchange Act (SESTA) were Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) with 19.11% (December 2020: 18.91%) of the share capital and voting rights of the company.

As at 31 December 2021, the SGS Group held 0.04% of the share capital of the Company (2020: 1.28%).

Proposal of the Board of Directors for the appropriation of available retained earnings

(CHF)	2021	2020
Profit for the year	714 760 947	566 859 163
Balance brought forward from previous year	110 997 119	335 400 834
Dividend not paid on own shares bought in 2020 prior the Annual General Meeting in March 2020	–	6 202 320
Dividend paid on own shares released into circulation in 2021 prior the Annual General Meeting in March 2021	(1 688 800)	–
Capital reduction by cancellation of shares	70 700	–
Share buyback program	–	(169 299 740)
(Transfer to)/Reversal from the reserve for own shares	53 734 814	(30 626 419)
Total retained earnings available for appropriation	**877 874 780**	**708 536 159**
Proposal of the Board of Directors:		
Dividends[1]	(599 333 760)	(597 539 040)
Balance carried forward	**278 541 020**	**110 997 119**
Ordinary gross dividend per registered share	80.00	80.00

1. No dividend is paid on own shares held directly or indirectly by SGS SA.

Approval of financial statements and subsequent events

The Board of Directors is responsible for the preparation and presentation of the financial statements. These financial statements were authorized for issue by the Board of Directors on 21 February 2022, and will be submitted for approval by the Annual General Meeting to be held on 29 March 2022.

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Report of the statutory auditor

to the General Meeting of SGS SA

Geneva

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SGS SA (the Company), which comprise the income statement for the year ended 31 December 2021, the statement of financial position as at 31 December 2021 and related notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 December 2021, presented on pages 160 to 166, comply with Swiss law and the Company's articles of incorporation.

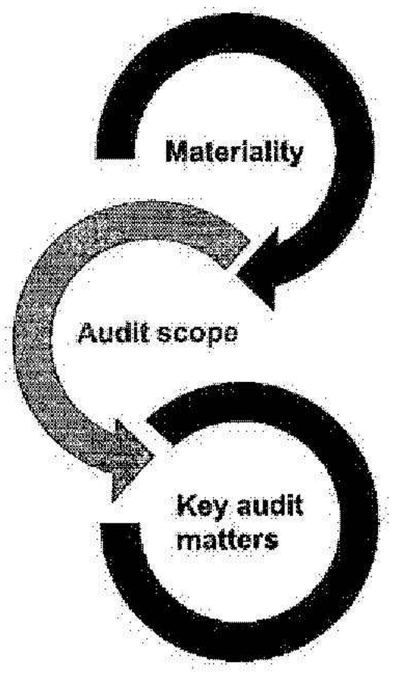
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 42 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:

Valuation of investments in and loans to subsidiaries

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or

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error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 42 million
Benchmark applied	Total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark, because, in our view, it is the benchmark against which the performance of the Company, which has limited operating activities and which mainly holds investments in subsidiaries and intra-group loans, is most commonly measured, and it is a generally accepted benchmark for holding companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in and loans to subsidiaries

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2021, SGS SA's investments in and loans to subsidiaries amount to CHF 1,981 million and CHF 1,279 million, respectively. Given the significance of these amounts in the financial statements and because of the judgement used by management in determining their value, we consider the valuation of investments in and loans to subsidiaries a key audit matter. The Company measures individually the investment in each subsidiary and any related loans to that subsidiary. The Company conducts an annual risk assessment based on several impairment indicators to identify investments and loans with an impairment risk. For those investments in and loans to subsidiaries with a higher identified risk of impairment, the recoverable amount is determined based on a five-year discounted cashflow forecast. The main judgements applied by management relate to revenue and margin growth throughout the period	We obtained the Company's work on the valuation of investments in and loans to subsidiaries, and we performed the following procedures in particular: • We obtained an understanding of management's process and controls relating to the valuation of investments in and loans to subsidiaries. • We tested the mathematical accuracy of the calculations and reconciled the balances to the financial statements. • We challenged the appropriateness of management's process to identify impairment indicators by comparing the triggers used to common indicators such as historical profitability and capacity to pay dividends. • We also performed testing by calculating revenue and operating profit multipliers based on the market capitalisation of the Group and comparing those to the respective multiples of the individual investments in subsidiaries.

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of the five-year plan, the long-term growth rate beyond the detailed forecast period and the discount rate. An impairment is recognised if the recoverable amount of an individual investment or loan receivable is lower than the associated carrying value. Refer to note 1 - Accounting policies	For those investments in and loans to subsidiaries with a higher identified risk of impairment, we critically assessed the reasonableness of the underlying key assumptions and judgements applied by performing the following procedures in particular: • We assessed the quality of the five-year cashflow forecast projections by comparing forecasted revenue and margin growth to historical and market trends as well as by holding discussions with local management to assess their intention and ability to execute the strategic initiatives. • We evaluated, with the support of PwC's valuation specialists, the reasonableness of the discount rate and long-term growth rate applied to those future cash flows. We consider management's approach as an acceptable and reasonable basis for the valuation of the investments in and loans to subsidiaries.

Other matter

The financial statements of SGS SA for the year ended 31 December 2020 were audited by another firm of auditors whose report, dated 23 February 2021, expressed an unmodified opinion on those statements.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Guillaume Nayet
Audit expert
Auditor in charge

Mario Berckmoes
Audit expert

Geneva, 21 February 2022

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3. Historical Data

3.1. SGS Group – Five-Year Statistical Data Consolidated Income Statements

For the years ended 31 December

(CHF million)	2021	2020	2019	2018	2017
Revenue	**6 405**	**5 604**	**6 600**	**6 706**	**6 349**
Salaries and wages	(3 180)	(2 797)	(3 357)	(3 422)	(3 193)
Subcontractors' expenses	(385)	(352)	(386)	(387)	(394)
Depreciation, amortization and impairment	(499)	(517)	(548)	(317)	(338)
Gain on business disposal	–	63	268	–	–
Other operating expenses	(1 364)	(1 206)	(1 495)	(1 634)	(1 530)
Operating income (EBIT)	**977**	**795**	**1 082**	**946**	**894**
Financial income	16	12	18	20	14
Financial expenses	(69)	(66)	(79)	(58)	(57)
Share of profit of associates and joint ventures	–	1	(4)	–	–
Profit before taxes	**924**	**742**	**1 017**	**908**	**851**
Taxes	(269)	(237)	(315)	(218)	(187)
Profit for the year	**655**	**505**	**702**	**690**	**664**
Profit attributable to:					
Equity holders of SGS SA	613	480	660	643	621
Non-controlling interests	42	25	42	47	43
Operating income margins in %	**15.3**	**14.2**	**16.4**	**14.1**	**14.1**
Average number of employees	**93 297**	**89 098**	**94 494**	**96 492**	**93 556**

3.2. SGS Group – Five-Year Statistical Data Consolidated Statements of Financial Position

At 31 December

(CHF million)	2021	2020	2019	2018	2017
Property, plant and equipment	925	872	926	969	1 002
Right-of-use assets	605	590	611	–	–
Goodwill	1 778	1 651	1 281	1 224	1 238
Other intangible assets	382	333	187	202	222
Investments in joint-ventures, associates and other	26	34	35	36	36
Deferred tax assets	164	161	174	203	168
Other non current-assets	173	154	149	133	137
Total non-current assets	**4 053**	**3 795**	**3 363**	**2 767**	**2 803**
Inventories	59	57	45	46	46
Unbilled revenues and work in progress	175	160	195	226	293
Trade receivables	928	856	953	969	1 068
Other receivables and prepayments	204	188	219	214	236
Current tax assets	108	77	77	94	104
Marketable securities	–	9	9	9	10
Cash and cash equivalents	1 480	1 766	1 466	1 743	1 383
Total current assets	**2 954**	**3 113**	**2 964**	**3 301**	**3 140**
Total assets	**7 007**	**6 908**	**6 327**	**6 068**	**5 943**
Share capital	7	8	8	8	8
Reserves	1 118	1 282	1 536	1 851	2 036
Treasury shares	(8)	(230)	(30)	(191)	(125)
Equity attributable to equity holders of SGS SA	**1 117**	**1 060**	**1 514**	**1 668**	**1 919**
Non-controlling interests	85	74	81	75	86
Total equity	**1 202**	**1 134**	**1 595**	**1 743**	**2 005**
Loans and other financial liabilities	2 889	2 390	2 199	2 110	2 095
Lease liabilities	481	470	490	2	1
Deferred tax liabilities	92	53	23	30	45
Defined benefit obligations	84	136	151	119	143
Provisions	90	88	91	89	73
Total non-current liabilities	**3 636**	**3 137**	**2 954**	**2 350**	**2 357**
Trade and other payables	687	658	638	685	647
Contract liabilities	221	189	155	112	97
Current tax liabilities	169	140	145	127	151
Loans and other financial liabilities	282	863	38	412	45
Lease liabilities	155	151	154	–	–
Provisions	60	85	74	21	35
Other creditors and accruals	595	551	574	618	606
Total current liabilities	**2 169**	**2 637**	**1 778**	**1 975**	**1 581**
Total liabilities	**5 805**	**5 774**	**4 732**	**4 325**	**3 938**
Total equity and liabilities	**7 007**	**6 908**	**6 327**	**6 068**	**5 943**

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3.3. SGS Group – Five-Year Statistical Share Data

(CHF unless indicated Otherwise)	2021	2020	2019	2018	2017
Share information					
Registered shares					
Number of shares issued	7 495 032	7 565 732	7 565 732	7 633 732	7 633 732
Number of shares with dividend rights	7 491 672	7 469 238	7 552 390	7 550 707	7 551 408
Price					
High	3 059	2 843	2 689	2 683	2 541
Low	2 595	1 974	2 213	2 170	2 051
Year-end	3 047	2 670	2 651	2 210	2 541
Par value	1	1	1	1	1
Key figures by shares					
Equity attributable to equity holders of SGS SA per share in circulation at 31 December	149.20	141.91	200.37	220.86	254.16
Basic earnings per share[1]	81.91	64.05	87.45	84.54	82.41
Dividend per share ordinary	80.00	80.00	80.00	78.00	75.00
Total dividend per share	80.00	80.00	80.00	78.00	75.00
Dividends (CHF million)					
Ordinary[2]	599	598	604	589	566
Total	**599**	**598**	**604**	**589**	**566**

1. Calculation of the basic earnings per share (weighted average for the year) is disclosed in note 11 of SGS Group Results.
2. As proposed by the Board of Directors.

3.4. SGS Group Share Information

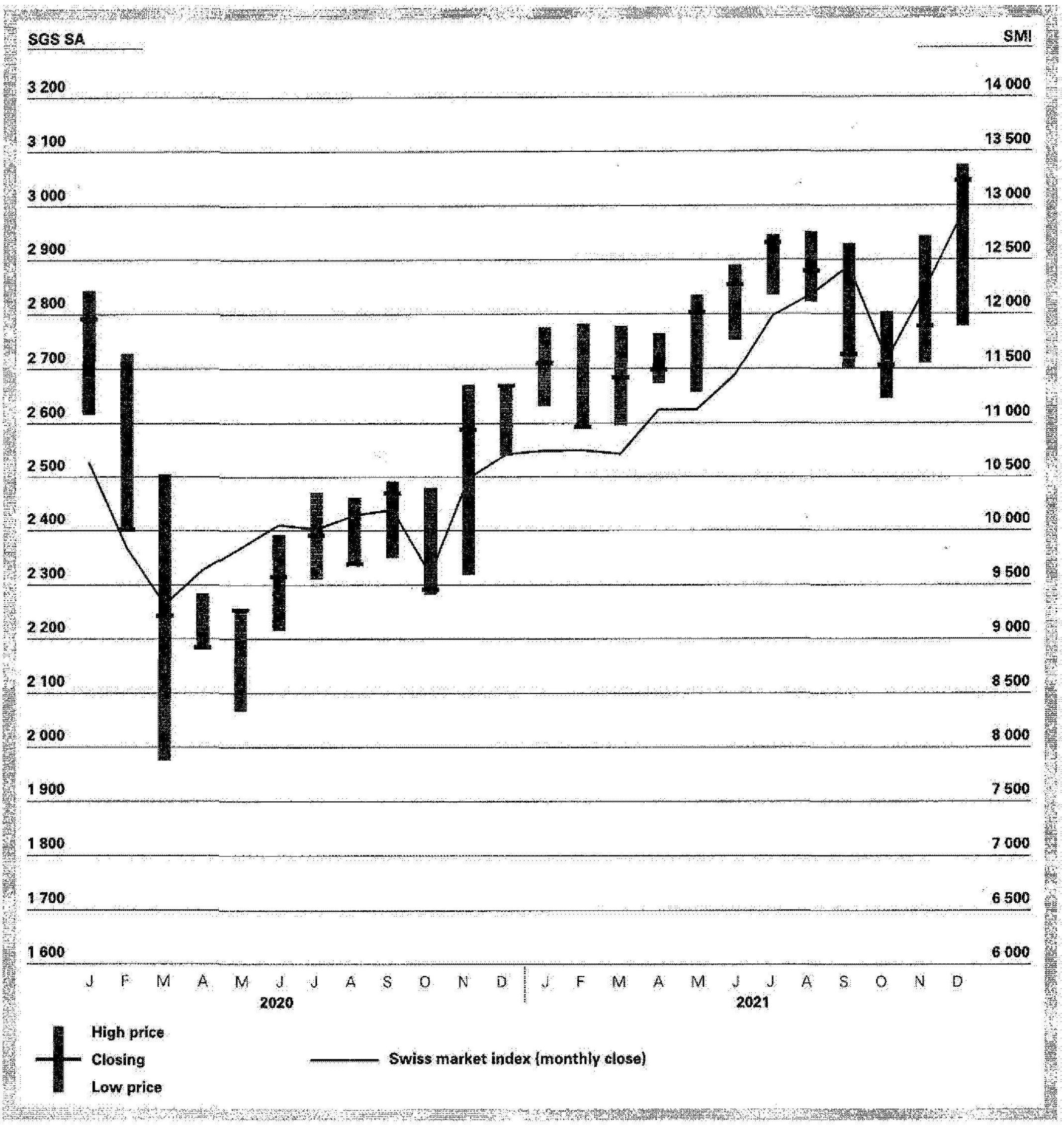
Share transfer

SGS SA has no restrictions as to share ownership, except that registered shares acquired in a fiduciary capacity by third parties may not be registered in the shareholders' register, unless a special authorization has been granted by the Board of Directors.

Market capitalization

At the end of 2021 market capitalization was approximately CHF 22 837 million (2020:CHF 20 201 million). Shares are quoted on the SIX Swiss Exchange.

3.5. Closing Prices for SGS & the SMI 2020-2021



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4. Material Operating Companies and Ultimate Parent

The disclosure of legal entities is limited to entities whose contribution to the Group revenues in 2021 represent at least 1% of the consolidated revenues, but includes, in addition, the main operating legal entity in every country where the Group has permanent operations, even when such legal entities represent less than 1% of the Group consolidated revenues. This definition of materiality excludes dormant companies, pure sub-holding companies or entities used solely for the detention of assets.

Country	Name and domicile	Issued capital currency	Issued capital amount	% held by Group	Direct/ indirect
Albania	SGS Albania, Tirana	ALL	15 100 000	100	D
Algeria	SGS Qualitest Algérie SpA, Alger	DZD	50 000 000	100	D
Angola	SGS Serviços Angola SA, Luanda	USD	30 000	49	I
Argentina	SGS Argentina SA, Buenos Aires	ARS	230 603 536	100	D
Australia	SGS Australia Pty. Ltd., Bentley	AUD	200 000	100	I
Austria	SGS Austria Controll-Co. Ges.m.b.H., Vienna	EUR	185 000	100	D
Azerbaijan	Société Générale de Surveillance Azeri Ltd., Baku	USD	100 000	100	D
Bangladesh	SGS Bangladesh Limited, Dhaka	BDT	10 000 000	100	D
Belarus	SGS Minsk Ltd., Minsk	USD	20 000	100	D
Belgium	SGS Belgium N.V., Antwerpen	EUR	35 995 380	100	D
Botswana	SGS Botswana (Proprietary) Limited, Gaborone	BWP	1 000	100	D
Brazil	SGS Industrial – Instalaçaões, Testes e Comissionamentos Ltda Sao Paulo	BRL	91 266 840	100	D
Bulgaria	SGS Bulgaria Ltd., Sofia	BGN	5 010 000	100	D
Burkina Faso	SGS Burkina SA, Ouagadougou	XOF	601 080 000	100	D
Cambodia	SGS (Cambodia) Ltd., Phnom Penh	KHR	4 000 000 000	100	D
Cameroon	SGS Cameroun SA, Douala	XAF	10 000 000	98.9	D
Canada	SGS Canada Inc., Mississauga	CAD	20 900 000	100	D
Central African Republic	SGS CentrAfrique SA, Bangui	XAF	10 000 000	100	D
Chile	SGS Minerals S.A., Santiago de Chile	CLP	29 725 583 703	100	I
China	SGS-CSTC Standards Technical Services Co. Ltd., Beijing	USD	3 966 667	85	I
China	SGS-CSTC Standards Technical Services Co. Ltd., Shanghai	CNY	180 000 000	100	I
Colombia	SGS Colombia SAS, Bogota	COP	135 546 166 036	100	D
Congo	SGS Congo SA, Pointe-Noire	XAF	1 510 000 000	100	D
Croatia	SGS Adriatica, w.l.l., Zagreb	HRK	1 300 000	100	I
Czech Republic	SGS Czech Republic s.r.o., Praha	CZK	7 707 000	100	I
Denmark	SGS Analytics Denmark A/S, Nørresundby	DKK	1 000	100	I
Democratic Republic of Congo	SGS Minerals RDC SARL, Lubumbashi	USD	50 000	100	D
Ecuador	Consorcio SGS – Revisiones Técnicas	USD	25 000	100	I
Egypt	SGS Egypt Ltd., Cairo	EGP	1 500 000	100	D
Estonia	SGS Estonia Ltd., Tallinn	EUR	42 174	100	I
Ethiopia	SGS Ethiopia Private Limited	ETB	15 000	100	D
Finland	SGS Fimko Oy, Helsingfors	EUR	260 000	100	I
France	SGS France SAS, Arcueil	EUR	3 172 613	100	I
Georgia	SGS Georgia Ltd., Batumi	USD	80 000	100	D
Germany	SGS Germany GmbH, Hamburg	EUR	1 210 000	100	I
Germany	SGS Institut Fresenius GmbH, Taunusstein	EUR	7 490 000	100	I
Ghana	SGS Lab Ghana, Accra	GHS	12 500 000	100	D
Great Britain	SGS United Kingdom Limited, Ellesmere Port	GBP	8 000 000	100	I
Greece	SGS Greece SA, Peristeri	EUR	301 731	100	D
Guam	SGS Guam Inc., Guam	USD	25 000	100	D
Guatemala	SGS Central America SA, Guatemala-City	GTQ	4 250 000	100	D
Guinea-Conakry	SGS Guinée Conakry SA, Conakry	GNF	50 000 000	100	D

Country	Name and domicile	Issued capital currency	Issued capital amount	% held by Group	Direct/ indirect
Equatorial Guinea	Compañia de Inspecciones y Servicios G.E., Malabo	XAF	10 000 000	51	D
Hong Kong	SGS Hong Kong Limited, Hong Kong	HKD	200 000	100	D
Hungary	SGS Hungária Kft., Budapest	HUF	518 000 000	100	I
India	SGS India Private Ltd., Mumbai	INR	960 000	100	D
Indonesia	P.T. SGS Indonesia, Jakarta	USD	350 000	100	D
Iran	SGS Iran (Private Joint Stock) Limited, Tehran	IRR	50 000 000	99.99	D
Ireland	SGS Ireland Limited	EUR	5 000	100	I
Italy	SGS Italia S.p.A., Milan	EUR	2 500 000	100	D
Ivory Coast	Société Ivoirienne de Contrôles Techniques Automobiles et Industriels SA, Abidjan	XOF	200 000 000	95	D
Japan	SGS Japan Inc., Yokohama	JPY	100 000 000	100	D
Jordan	SGS (Jordan) Private Shareholding Company, Amman	JOD	100 000	50	D
Kazakhstan	SGS Kazakhstan Limited, Almaty	KZT	228 146 527	100	D
Kenya	SGS Kenya Limited, Mombasa	KES	2 000 000	100	D
Korea (Republic of)	SGS Korea Co., Ltd., Seoul	KRW	15 617 540 000	100	D
Kuwait	SGS Kuwait W.L.L	KWD	50 000	49	D
Kyrgyzstan	SGS Bishkek LLC, Bishkek	KGS	3 463 000	100	D
Lao (People's Democratic Republic)	SGS (Lao) Sole Co., Ltd., Vientiane	LAK	2 444 700 000	100	D
Latvia	SGS Latvija Limited, Riga	EUR	118 382	100	I
Lebanon	SGS (Liban) S.A.L., Beirut	LBP	30 000 000	99.97	D
Liberia	SGS Liberia Inc, Monrovia	LRD	100	100	D
Lithuania	SGS Klaipeda Ltd., Klaipeda	EUR	711 576	100	I
Luxembourg	SGS Luxembourg, Windhof	EUR	38 000	100	I
Madagascar	Malagasy Community Network Services SA, Antananarivo	MGA	10 000 000	70	D
Malaysia	Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	750 000	100	D
Mali	SGS Mali Sàrlu, Kayes	XOF	300 000 000	100	D
Mauritius	SGS (Mauritius) LTD, Phoenix	MUR	100 000	100	D
Mexico	SGS de Mexico, SA de C.V., Mexico	MXN	281 068 828	100	D
Moldova	SGS (Moldova) SA, Chisinau	MDL	488 050	100	D
Mongolia	SGS-IMME Mongolia LLC, Ulaanbaatar	MNT	1 787 846 388	55	I
Morocco	SGS Maroc SA, Casablanca	MAD	17 982 000	100	D
Mozambique	SGS MCNET Moçambique Limitada, Maputo	MZN	343 716 458	100	I
Myanmar	SGS (Myanmar) Limited, Yangon	MMK	300 000	100	D
Netherlands	SGS Nederland B.V., Spijkenisse	EUR	250 000	100	I
New Zealand	SGS New Zealand Limited, Auckland-Onehunga	NZD	10 022 190	100	D
Nigeria	SGS Inspection Services Nigeria Limited, Lagos	NGN	200 000	49	D
Norway	SGS Analytics Norway AS, Hamar	NOK	50 000	100	I
Oman	SGS Minerals (FZC) LLC, Sohar	OMR	500 000	100	D
Pakistan	SGS Pakistan (Private) Limited, Karachi	PKR	2 300 000	100	D
Panama	Laboratorios Contecon Urbar Panama SA, Panama	USD	760 000	100	I
Papua New Guinea	SGS PNG Pty. Limited, Port Moresby	PGK	2	100	I
Paraguay	SGS Paraguay SA, Asunción	PYG	1 962 000 000	100	D
Peru	SGS del Perú S.A.C., Lima	PEN	43 081 182	100	D
Philippines	SGS Philippines, Inc., Manila	PHP	24 620 000	100	D
Poland	SGS Polska Sp.z o.o., Warsaw	PLN	27 167 800	100	D

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Country	Name and domicile	Issued capital currency	Issued capital amount	% held by Group	Direct/ indirect
Portugal	SGS Portugal – Sociedade Geral de Superintendência SA, Lisboa	EUR	500 000	100	I
Qatar	SGS Qatar WLL, Doha	QAR	200 000	49	D
Romania	SGS Romania SA, Bucharest	RON	100 002	100	I
Russia	AO SGS Vostok Limited, Moscow	RUB	18 000 000	100	D
Saudi Arabia	SGS Inspection Services Saudi Arabia Ltd., Jeddah	SAR	1 000 000	75	D
Senegal	SGS Sénégal SA, Dakar	XAF	35 000 000	100	D
Serbia	SGS Beograd d.o.o., Beograd	EUR	66 161	100	I
Sierra Leone	SGS (SL) Ltd., Freetown	SLL	200 000 000	100	D
Singapore	SGS Testing and Control Services Singapore Pte Ltd., Singapore	SGD	15 100 000	100	D
Slovakia	SGS Slovakia spol.s.r.o., Kosice	EUR	19 917	100	I
Slovenia	SGS Slovenija d.o.o. – Podjetje za kontrol blaga, Ljubljana	EUR	10 432	100	I
South Africa	SGS South Africa (Proprietary) Limited, Johannesburg	ZAR	452 000 500	100	I
Spain	SGS Tecnos, SA, Sociedad Unipersonal, Madrid	EUR	92 072 034	100	I
Sri Lanka	SGS Lanka (Private) Limited, Colombo	LKR	9 000 000	100	D
Sweden	SGS Analytics Sweden AB, Linköping	SEK	4 073 000	100	I
Switzerland	SGS Société de Surveillance SA, Geneva	CHF	100 000	100	D
Switzerland	SGS SA, Geneva	CHF	7 495 032		Ultimate parent company
Taiwan	SGS Taiwan Limited, Taipei	TWD	62 000 000	100	I
Tanzania	African Assay Laboratories (Tanzania) Ltd, Dar Es Salaam	TZS	2 000	100	I
Thailand	SGS (Thailand) Limited, Bangkok	THB	20 000 000	99.99	D
Togo	SGS Togo SA, Lomé	XOF	10 000 000	100	D
Trinidad and Tobago	SGS Trinidad Ltd, San Fernando	USD	1 000	100	D
Tunisia	SGS Tunisie SA, Tunis	TND	50 000	50	D
Turkey	SGS Supervise Gözetme Etud Kontrol Servisleri Anonim Sirketi, Istanbul	TRY	6 550 000	100	I
Turkmenistan	SGS Turkmen Ltd., Ashgabat	USD	50 000	100	D
Uganda	SGS Uganda Limited, Kampala	UGX	5 000 000	100	D
Ukraine	SGS Ukraine, Foreign Enterprise, Odessa	USD	400 000	100	D
United Arab Emirates	SGS Gulf Limited Dubai Airport Free Zone Branch	–	–	–	–
United States	SGS North America Inc., Wilmington	USD	73 701 996	100	I
Uruguay	SGS Uruguay Limitada, Montevideo	UYU	1 500	100	D
Uzbekistan	SGS Tashkent Ltd., Tashkent	USD	50 000	100	D
Vietnam	SGS Vietnam Ltd., Ho Chi Minh City	USD	288 000	100	D
Zambia	SGS Inspections Services Ltd., Lusaka	ZMK	16 944 000	100	I

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Stock Exchange listing
SIX Swiss Exchange, SGSN

Stock Exchange trading
SIX Swiss Exchange

Common stock symbols
Bloomberg: Registered Share: SGSN.VX
Reuters: Registered Share: SGSN.VX
Telekurs: Registered Share: SGSN
ISIN: Registered Share: CH0002497458
Swiss security number: 249745

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Annual General Meeting
Tuesday, 29 March 2022
Geneva, Switzerland

2021 Half-Year results
Tuesday, 19 July 2022

Investor days
November 2022

Dividend payment date
Ex-date: Thursday 31 March 2022
Record date: Friday 1 April 2022
Payment date: Monday 4 April 2022

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