SGS GROUP RESULTS

Ben works with SGS through the global supplier portal, which facilitates knowledge-sharing and -exchange across the SGS supplier base.

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	NOTES	2018	2017
REVENUE	**4**	**6 706**	**6 349**
Salaries and wages		(3 422)	(3 193)
Subcontractors' expenses		(387)	(394)
Depreciation, amortization and impairment	11 to 13	(317)	(338)
Other operating expenses	6	(1 634)	(1 530)
OPERATING INCOME (EBIT)[1]		**946**	**894**
Financial income	7	20	14
Financial expenses	8	(58)	(57)
PROFIT BEFORE TAXES		**908**	**851**
Taxes	9	(218)	(187)
PROFIT FOR THE YEAR		**690**	**664**
Profit attributable to:			
Equity holders of SGS SA		643	621
Non-controlling interests		47	43
BASIC EARNINGS PER SHARE (IN CHF)	**10**	**84.54**	**82.41**
DILUTED EARNINGS PER SHARE (IN CHF)	**10**	**84.32**	**82.27**

1. Refer to note 4 for analysis of non-recurring items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	NOTES	2018	2017
Actuarial gains on defined benefit plans	23	6	22
Income tax on actuarial gains/(losses) taken directly to equity	9	1	(30)
Items that will not be subsequently reclassified to income statement		**7**	**(8)**
Exchange differences and other[1]		(153)	31
Items that may be subsequently reclassified to income statement		**(153)**	**31**
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(146)**	**23**
Profit for the year		690	664
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**544**	**687**
Attributable to:			
Equity holders of SGS SA		501	644
Non-controlling interests		43	43

1. In 2018, exchange differences and other include net exchange loss of CHF 20 million on long-term loans treated as net investment in a foreign entity according to IAS 21 (2017: loss of CHF 2 million).

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

(CHF million)	NOTES	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	969	1 002
Goodwill	12	1 224	1 238
Other intangible assets	13	202	222
Investments in joint ventures, associates and other companies		36	36
Deferred tax assets	9	203	168
Other non-current assets	14	133	137
TOTAL NON-CURRENT ASSETS		**2 767**	**2 803**
CURRENT ASSETS			
Inventories		46	46
Unbilled revenues and work in progress	5	226	293
Trade receivables	15	969	1 068
Other receivables and prepayments	16	214	236
Current tax assets		94	104
Marketable securities		9	10
Cash and cash equivalents	17	1 743	1 383
TOTAL CURRENT ASSETS		**3 301**	**3 140**
TOTAL ASSETS		**6 068**	**5 943**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	21	8	8
Reserves		1 851	2 036
Treasury shares	21	(191)	(125)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA		**1 668**	**1 919**
Non-controlling interests		75	86
TOTAL EQUITY		**1 743**	**2 005**
NON-CURRENT LIABILITIES			
Loans and obligations under finance leases	22	2 112	2 090
Deferred tax liabilities	9	30	45
Defined benefit obligations	23	119	143
Provisions	24	89	79
TOTAL NON-CURRENT LIABILITIES		**2 350**	**2 357**
CURRENT LIABILITIES			
Loans and obligations under finance leases	22	378	1
Trade and other payables	25	709	677
Provisions	24	21	17
Current tax liabilities		127	152
Contract liabilities	5	112	97
Other creditors and accruals	26	628	637
TOTAL CURRENT LIABILITIES		**1 975**	**1 581**
TOTAL LIABILITIES		**4 325**	**3 938**
TOTAL EQUITY AND LIABILITIES		**6 068**	**5 943**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	NOTES	2018	2017
Profit for the year		690	664
Non-cash and non-operating items	18.1	554	565
Decrease/(increase) in working capital	18.2	95	(1)
Taxes paid		(265)	(241)
CASH FLOW FROM OPERATING ACTIVITIES		**1 074**	**987**
Purchase of land, buildings, equipment and other intangible assets		(304)	(298)
Acquisition of businesses	19	(45)	(35)
Increase in other non-current assets		(9)	(10)
Decrease in marketable securities and other		-	2
Interest and dividends received		18	13
Sales of land, buildings and equipment		26	17
CASH FLOW USED BY INVESTING ACTIVITIES		**(314)**	**(311)**
Dividends paid to equity holders of SGS SA		(573)	(528)
Dividends paid to non-controlling interests		(43)	(40)
Transaction with non-controlling interests		(2)	1
Cash received on treasury shares		90	58
Cash paid on treasury shares		(183)	(45)
Proceeds of corporate bonds		401	374
Interest paid		(60)	(56)
Decrease in borrowings		-	(3)
CASH FLOW USED BY FINANCING ACTIVITIES		**(370)**	**(239)**
Currency translation		(30)	(29)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**360**	**408**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1 383**	**975**
Increase in cash and cash equivalents		360	408
CASH AND CASH EQUIVALENTS AT END OF YEAR	**17**	**1 743**	**1 383**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(CHF million)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVE	CUMULATIVE TRANSLATION ADJUSTMENTS	CUMULATIVE GAINS/LOSSES ON DEFINED BENEFIT PLANS [1]	RETAINED EARNINGS AND GROUP RESERVES	ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	TOTAL EQUITY
BALANCE AT 1 JANUARY 2017	**8**	**(478)**	**145**	**(946)**	**(238)**	**3 282**	**1 773**	**80**	**1 853**
Profit for the year	-	-	-	-	-	621	621	43	664
Other comprehensive income for the year	-	-	-	31	(8)	-	23	-	23
Total comprehensive income for the year	-	-	-	*31*	*(8)*	*621*	*644*	*43*	*687*
Dividends paid	-	-	-	-	-	(528)	(528)	(40)	(568)
Share-based payments	-	-	17	-	-	-	17	-	17
Movement in non-controlling interests	-	-	-	-	-	(2)	(2)	3	1
Movement on treasury shares	-	353	(1)	-	-	(337)	15	-	15
BALANCE AS AT 31 DECEMBER 2017	**8**	**(125)**	**161**	**(915)**	**(246)**	**3 036**	**1 919**	**86**	**2 005**
BALANCE AT 1 JANUARY 2018	**8**	**(125)**	**161**	**(915)**	**(246)**	**3 036**	**1 919**	**86**	**2 005**
IFRS 9 adjustments						(87)	(87)	(4)	(91)
BALANCE AT 1 JANUARY 2018 RESTATED	**8**	**(125)**	**161**	**(915)**	**(246)**	**2 949**	**1 832**	**82**	**1 914**
Profit for the year	-	-	-	-	-	643	643	47	690
Other comprehensive income for the year	-	-	-	(149)	7	-	(142)	(4)	(146)
Total comprehensive income for the year	-	-	-	*(149)*	*7*	*643*	*501*	*43*	*544*
Dividends paid	-	-	-	-	-	(573)	(573)	(43)	(616)
Share-based payments	-	-	13	-	-	-	13	-	13
Movement in non-controlling interests	-	-		-	-	8	8	(7)	1
Movement on treasury shares	-	(66)	(45)	-	-	(2)	(113)	-	(113)
BALANCE AS AT 31 DECEMBER 2018	**8**	**(191)**	**129**	**(1 064)**	**(239)**	**3 025**	**1 668**	**75**	**1 743**

1. Net of tax.

NOTES

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. 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 2018. 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 2017 consolidated financial statements, except for the Group's adoption of new IFRSs effective 1 January 2018.

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.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following standards have been adopted as of 1 January 2018.

- IFRS 9 Financial Instruments substantially changes the classification and measurement of financial instruments and changes the approach to hedging financial exposures and related documentation as well as the recognition of certain fair value changes. The impact is not significant for the Group. IFRS 9 also requires impairments to be based on a forward-looking model. As a result, the Group has adopted a new impairment model to measure its financial assets. The new impairment model is an expected credit loss model which may result in the earlier recognition of credit losses than the incurred loss impairment model used in accordance with IAS 39. The Group has applied IFRS 9 retrospectively from 1 January 2018. The adjustment to the carrying value of the financial assets net of tax have been reflected as an adjustment to the opening equity.

(CHF million)	ADJUSTMENTS
Deferred tax assets	30
Unbilled revenues and work in progress	(29)
Trade receivables	(92)
TOTAL ASSETS	**(91)**
Equity Holders of SGS SA	(87)
Non-controlling Interests	(4)
TOTAL EQUITY	**(91)**

- IFRS 15 amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Group has adopted IFRS 15 as of 1 January 2018 through the full retrospective approach. The impact is not significant.

Based on an internal analysis, the following new, but not yet applicable, IFRS standards will be of significance to the Group but have not been early adopted:

- IFRS 16 Leases will impact the Group's consolidated financial statements. IFRS 16 sets out the principles for the recognition, measurement and disclosures of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under the previous standard IAS 17. IFRS 16 Leases is effective on 1 January 2019. The Group will adopt IFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. In 2018, the Group performed an assessment resulting in an estimated impact on the financial position in range of CHF 650 million to CHF 710 million. Impact on Operating Income and Net profit is not significant.

There are no other 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 186-189.

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 jointly controlled entity or operation where the parties have joint rights to the net assets. 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 average exchange rate for the year. 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 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 judgement, 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 client 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 contracts invoices are usually issued per contractually agreed instalments 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 nine business segments. The Chief Operating Decision Maker evaluates segment performance and allocates resources based on several factors, of which revenue, adjusted operating income and return on capital 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 3-10 years
- Other tangible assets 3-10 years

LEASES

Assets acquired under finance lease agreements, which provide the Group with substantially all the risks and rewards of ownership, are capitalized at fair value or, if lower, at amounts equivalent to the estimated present value of the underlying minimum lease payments. The corresponding liabilities are included in long and short-term loans. These leased assets are depreciated over the lease period or their estimated useful lives, whichever is shorter.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are expensed 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 balance sheet 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 residual goodwill is included in the determination of the gain or loss on disposal.

Goodwill and other intangible assets with indefinite useful lives acquired as part of business combinations are tested for possible impairment annually and whenever events or changes in circumstances indicate their value may not be fully recoverable.

For the purpose of impairment testing, the Group has adopted a uniform method for assessing goodwill and other intangibles recognized under the acquisition method of accounting. These assets are allocated to the Cash Generating Unit (CGU) which is expected to benefit from the business combination. The recoverable amount of a CGU is determined through a value-in-use calculation. 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. Post-tax discount rates used are based on the Group's weighted average cost of capital, adjusted for specific risks associated with the CGU's 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, a value-in-use calculation is performed using cash flow projections covering the next five years. These cash flows projections take into account the most recent financial results and outlook approved by Management, while the subsequent five years are extrapolated based on the estimated long-term growth rate for the relevant activity.

If the recoverable amount of the CGU 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.

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. Indefinite life intangible assets are not amortized but are subject to an annual impairment test. The following useful lives are used in the calculation of amortization:

- Trademarks 5-20 years
- Customer relationships 5-20 years
- Computer software 1-4 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 four 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 net realizable value and its value-in-use. In assessing its value-in-use, the post-tax estimated future cash flows are discounted to their present value using a post-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.

RECEIVABLES

Trade receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts. An allowance for doubtful debts 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 historical data. In addition, an allowance for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off when identified.

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).

MARKETABLE SECURITIES

Marketable securities are recorded in the balance sheet at fair value through the statement of comprehensive income and recognized in the income statement at the time of disposal.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, deposits held with banks and investments in money-market instruments with an original maturity of three months or less. 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 re-measured at fair value at each balance sheet date. The gains and losses resulting from the fair value re-measurement 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.

The Group designates and documents certain derivatives as hedging instruments against changes in fair value of recognized assets and liabilities.

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.

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 balance sheet.

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 balance sheet 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 balance sheet 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 (see note 29). 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 nominal value 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 judgement 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.

CONTRACT LIABILITIES

Contract liabilities arise upon advance payments from clients and issuance of upfront invoices.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the income statement in the period in which they are incurred.

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 obligations under finance leases 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.

Cash and cash equivalents as well as loans and obligations under finance leases are disclosed in notes 17 and 22.

In 2017, the Board of Directors of SGS SA authorized a new share buyback program of up to CHF 250 million. The program was completed on 19 December 2018.

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 offset when the income taxes are levied by the same taxing authority and where there is a legally enforceable right of offset. 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 JUDGEMENTS AND ESTIMATES

JUDGEMENTS

In the process of applying the entity's accounting policies described above, Management has made the following judgements that have a significant effect on the amounts recognized in the financial statements.

LEGAL AND WARRANTY CLAIMS ON SERVICES RENDERED

The Group is subject to litigation and other claims as described in note 24.

Management bases its judgements 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 Group's legal and warranty claims are reviewed, at a minimum, on a quarterly basis by a cross-functional representation of Management.

USE OF ESTIMATES

The key assumptions concerning the future, and other key sources of estimation at the balance sheet date that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

VALUATION OF TRADE RECEIVABLES, UNBILLED REVENUE AND WORK IN PROGRESS

The balances are presented net of an estimated allowance for doubtful debts. 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 availlable historical data. In addition, an allowance is estimated based on individual client analysis when the collection is no longer probable.

IMPAIRMENT OF GOODWILL

Details of the assumptions used are provided in note 12.

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 the expected future cash flows from the CGU 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 balance sheet 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. Details of the assumptions used are provided in note 23.

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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.

EXCHANGE RATES

The most significant currencies for the Group were translated at the following exchange rates into Swiss Francs:

			BALANCE SHEET YEAR-END RATES		INCOME STATEMENT ANNUAL AVERAGE RATES	
			2018	2017	2018	2017
Australia	AUD	100	69.51	76.19	73.14	75.45
Brazil	BRL	100	25.44	29.46	26.94	30.85
Canada	CAD	100	72.41	77.84	75.53	75.89
Chile	CLP	100	0.14	0.16	0.15	0.15
China	CNY	100	14.35	14.99	14.81	14.57
Eurozone	EUR	100	112.91	116.80	115.54	111.15
United Kingdom	GBP	100	124.67	131.81	130.61	126.83
Russia	RUB	100	1.42	1.70	1.57	1.69
Taiwan	TWD	100	3.22	3.29	3.25	3.24
USA	USD	100	98.55	97.59	97.84	98.49

3. **BUSINESS** COMBINATIONS

The following business combinations occurred during 2018 and 2017:

BUSINESS COMBINATIONS 2018

In 2018, the Group completed 8 business combinations for a total purchase price of CHF 61 million (note 19).

- 100% of Vanguard Science Inc., a leading provider of food safety testing services in the areas of product testing, research and development and food safety consultation, based in the USA (effective 9 January 2018).
- 100% of Laboratoire de Contrôle et d'Analyse, offering chemical and microbiological testing and consultancy services to pharmaceutical companies, based in Belgium (effective 11 January 2018).
- 100% of TraitGenetics GmbH, providing services across a wide variety of crops to international clients in the plant breeding industry and for academic research, based in Germany (effective 2 February 2018).
- 100% of SIT Skin Investigation and Technology Hamburg GmbH, based in Germany, providing applied dermatological research and studies for the cosmetics and personal care industries (effective 12 February 2018).
- 100% of Oleotest NV a Belgium based company, providing chemical testing services in food, feed and agricultural commodities (effective 5 April 2018).
- 100% of Polymer Solutions Inc., an independent materials testing laboratory specializing in polymer science, based in the USA (effective 5 June 2018).
- 60% of Advanced Metrology Solutions S.L., a Spain-based company specializing in 3D metrology precision services and highly technical inspection measurement processes (effective 11 June 2018).
- 100% of Inter-Basic Resources, Inc.a leading provider of testing and verification of air and fluid filtration performance based in the USA and the UK (effective 18 October 2018).

These companies were acquired for an equivalent of CHF 61 million and the total goodwill generated on these transactions amounted to CHF 38 million (note 19).

TOTAL

All the above transactions contributed in total CHF 27 million in revenues and CHF 4 million in operating income. Had all acquisitions been effective 1 January 2018, the revenues for the period would have increased by CHF 8 million and the Group operating income for the period would have been increased by CHF 1 million. None of the goodwill arising on these acquisitions is expected to be tax deductible.

DIVESTMENTS 2018

There were no significant disposals in 2018.

BUSINESS COMBINATIONS 2017

In 2017, the Group completed 12 business combinations for a total purchase price of CHF 40 million.

- 100% of Laboratoire LCA, offering analytical services, including soil fertility testing, to the agricultural sector, based in Morocco (effective 3 January 2017).
- 100% of BF Machinery Pty Ltd and CBF Engineering Pty Ltd, providing testing, repair, engineering and maintenance services for pumps, valves, hydraulics and plastics systems, based in Australia (effective 10 January 2017).
- 100% of ILC Micro-Chem, Inc., specialized in the analysis of raw food materials, finished food products and environmental swabs for the food manufacturing industry, based in Canada (effective 9 March 2017).
- 100% of Harrison Research Laboratories, Inc., providing services to the cosmetic and personal care industry. Services include sunscreen and dermal patch testing as well as safety, efficacy and claims substantiation support testing, based in the USA (effective 20 June 2017).
- 100% of SGS Leicester Ltd., a UKAS-accredited textile testing laboratory performing physical, chemical and flammability testing services for the garment industry, based in the UK (effective 7 July 2017).
- 100% of Central Illinois Grain Inspection, Inc., a USDA licensed agency inspecting grains and by-products for export and domestic quality settlements with growers, based in the USA (effective 10 July 2017).
- 100% of CTR Consulting Testing Research Srl (CTR), based in Italy. CTR provides conventional and advanced non-destructive testing services, as well as destructive and chemical testing and heat treatment services catering to manufacturers, power generation clients and the oil and gas sector (effective 2 August 2017).
- 100% of Maco Customs Service (Maco), based in the Netherlands. Maco offers customs compliance services including consultancy, import, export and transit declarations, certificates of origin, fiscal representation and excise (effective 2 August 2017).
- 100% of Govmark Testing Services, Inc. based in the USA. Govmark is an independent laboratory providing fire-resistance and reaction-to-fire testing services. Testing products such as furniture and furnishings, wire and cable, building materials and fire safe materials for the transportation industry (effective 6 September 2017).
- Acquisition of the assets and business of Geostrada, based in South Africa. Geostrada provides construction material and geotechnical testing services (effective 5 September 2017).
- 100% of Win Services Pty Ltd and Leadership Directions Pty Ltd based in Australia, providing leadership and organizational development training services (effective 4 October 2017).
- 100% of BioVision Seed Research Ltd. (BioVision), headquartered in Canada. BioVision offers seed, grain and soil testing services to the agricultural market (effective 3 November 2017).

These companies were acquired for an equivalent of CHF 40 million and the total goodwill generated on these transactions amounted to CHF 30 million (note 19).

TOTAL

All the above transactions contributed in total CHF 19 million in revenues and CHF 3 million in operating income. Had all acquisitions been effective 1 January 2017, the revenues for the period would have increased by CHF 18 million and the Group operating income for the period would have increased by CHF 3 million. None of the goodwill arising on these acquisitions is expected to be tax deductible.

DIVESTMENTS 2017

There were no significant disposals in 2017.

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 and decide on the allocation of resources.

ANALYSIS OF OPERATING INCOME

(CHF million)	2018	2017
ADJUSTED OPERATING INCOME	**1 050**	**969**
Amortization and impairment of acquired intangibles	(30)	(29)
Restructuring costs	(19)	(7)
Goodwill impairment	-	(30)
Other non-recurring items[1]	(55)	(9)
OPERATING INCOME	**946**	**894**

1. *2018 includes CHF 47 million for cumulative overstated revenues reported in prior periods in Brazil and associated costs. The amounts are not deemed material to prior periods financial statements and have been recorded in the current period.*

ANALYSIS OF REVENUE AND OPERATING INCOME

(CHF million)	REVENUE	ADJUSTED OPERATING INCOME	AMORTIZATION OF ACQUISITION INTANGIBLES	RESTRUCTURING COSTS	GOODWILL IMPAIRMENT	OTHER NON-RECURRING ITEMS	OPERATING INCOME BY BUSINESS
2018							
AFL	1 063	171	(4)	(2)	-	(3)	162
MIN	750	121	(1)	(2)	-	-	118
OGC	1 220	116	(2)	(3)	-	-	111
CRS	1 025	267	(3)	(1)	-	(2)	261
CBE	366	70	-	(1)	-	-	69
IND	940	84	(8)	(8)	-	(46)	22
EHS	517	57	(4)	(1)	-	(2)	50
TRP	541	83	(7)	(1)	-	(2)	73
GIS	284	81	(1)	-	-	-	80
TOTAL	**6 706**	**1 050**	**(30)**	**(19)**	**-**	**(55)**	**946**

(CHF million)	REVENUE	ADJUSTED OPERATING INCOME	AMORTIZATION OF ACQUISITION INTANGIBLES	RESTRUCTURING COSTS	GOODWILL IMPAIRMENT	OTHER NON-RECURRING ITEMS	OPERATING INCOME BY BUSINESS
2017							
AFL	1 016	162	(2)	(2)	-	(3)	155
MIN	684	105	(2)	-	-	-	103
OGC	1 139	120	(2)	(1)	-	-	117
CRS	963	247	(3)	(1)	-	(1)	242
CBE	340	64	-	(1)	-	-	63
IND	906	73	(8)	(1)	(30)	(2)	32
EHS	486	49	(5)	(1)	-	(1)	42
TRP	547	90	(7)	-	-	(1)	82
GIS	268	59	-	-	-	(1)	58
TOTAL	**6 349**	**969**	**(29)**	**(7)**	**(30)**	**(9)**	**894**

RESTRUCTURING COSTS

The Group incurred a pre-tax restructuring charge of CHF 19 million (2017: CHF 7 million). This comprised personnel reorganization of CHF 15 million (2017: CHF 5 million) as well as fixed asset impairment and other charges of CHF 4 million (2017: CHF 2 million).

REVENUE FROM EXTERNAL CUSTOMERS BY GEOGRAPHICAL SEGMENT

(CHF million)	2018	%	2017	%
Europe/Africa/Middle East	2 949	44.0	2 791	44.0
Americas	1 692	25.2	1 632	25.7
Asia Pacific	2 065	30.8	1 926	30.3
TOTAL	**6 706**	**100.0**	**6 349**	**100.0**

Revenue in Switzerland from external customers for 2018 amounted to CHF 189 million (2017: CHF 181 million). No country represented more than 15% of revenues from external customers in 2018 or 2017.

MAJOR CUSTOMER INFORMATION

In 2018 and 2017, no external customer represented 10% or more of the Group's total revenue.

SPECIFIC NON-CURRENT ASSETS BY GEOGRAPHICAL SEGMENT

Specific non-current assets directly attributable to geographical segment mainly include property, land and equipment, goodwill and other intangible assets:

(CHF million)	2018	%	2017	%
Europe/Africa/Middle East	1 259	50.7	1 286	50.4
Americas	754	30.4	770	30.2
Asia Pacific	470	18.9	497	19.4
TOTAL SPECIFIC NON-CURRENT ASSETS	**2 483**	**100.0**	**2 553**	**100.0**

Non-current assets in Switzerland for 2018 amounted to CHF 140 million (2017: CHF 144 million).

RECONCILIATION WITH TOTAL NON-CURRENT ASSETS

(CHF million)	2018	2017
Specific non-current assets as above	2 483	2 553
Deferred tax assets	203	168
Retirement benefit assets	62	73
Non-current loans to third parties	19	9
TOTAL	**2 767**	**2 803**

CAPITAL ADDITIONS BY BUSINESS SEGMENT

(CHF million)	2018	%	2017	%
AFL	49	16.0	54	18.0
MIN	39	12.9	28	9.3
OGC	49	16.0	51	17.0
CRS	59	19.6	58	18.9
CBE	5	1.6	4	1.4
IND	30	10.0	30	10.1
EHS	22	7.3	22	7.1
TRP	37	12.2	42	14.0
GIS	14	4.4	13	4.2
TOTAL	**304**	**100.0**	**302**	**100.0**

AVERAGE NUMBER OF EMPLOYEES BY GEOGRAPHICAL SEGMENT

(Avergage number of employees)	2018	2017
Europe/Africa/Middle East	39 334	38 848
Americas	24 003	22 527
Asia Pacific	33 155	32 181
TOTAL	**96 492**	**93 556**
Number of employees at year end	97 368	95 745

5. REVENUES FROM CONTRACTS WITH CUSTOMERS

TIMING OF REVENUE RECOGNITION

(CHF million)	2018			2017		
	SERVICES TRANSFERRED AT A POINT IN TIME	SERVICES TRANSFERRED OVER TIME		SERVICES TRANSFERRED AT A POINT IN TIME	SERVICES TRANSFERRED OVER TIME	
AFL	85%	15%	100%	85%	15%	100%
MIN	65%	35%	100%	66%	34%	100%
OGC	62%	38%	100%	62%	38%	100%
CRS	86%	14%	100%	87%	13%	100%
CBE	96%	4%	100%	97%	3%	100%
IND	55%	45%	100%	55%	45%	100%
EHS	77%	23%	100%	75%	25%	100%
TRP	81%	19%	100%	84%	16%	100%
GIS	89%	11%	100%	87%	13%	100%
TOTAL	**74%**	**26%**	**100%**	**75%**	**25%**	**100%**

ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

(CHF million)	2018	DEC 2017	JAN 2017
Unbilled revenue and work in progress	226	293	249
Trade receivables	969	1 068	997
Contract liabilities	112	97	87

Revenue evolution, timing and project maturity are the main factors impacting assets and liabilities related to contracts with customers. The implementation of IFRS 9 had an additional impact on these balance sheet positions in 2018 as detailed in Note 2.

In 2018, SGS has recognized revenue of CHF 80 million related to contract liabilities at 1 January 2018. in 2017, the revenue recognized from contract liabilities at 1 January 2017 amounted to CHF 75 million. Revenue recognized from performance obligations satisfied in previous periods were immaterial in 2018 and 2017.

The remaining performance obligations (unsatisfied or partially satisfied) expected to be recognized in more than a year is of CHF 578 million at 31 December 2018 of which CHF 312 million are expected to be recognized in revenue within one year.

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 2018 were not significant, while amortization and impairment losses were nil.

6. OTHER OPERATING EXPENSES

(CHF million)	2018	2017
Rental expense, insurance, utilities and sundry supplies	308	298
Consumables, repairs and maintenance	496	460
Communication costs	105	100
Travel costs	414	386
Miscellaneous operating income and expenses	311	286
TOTAL	**1 634**	**1 530**

7. FINANCIAL INCOME

(CHF million)	2018	2017
Interest income	16	9
Foreign exchange gains	3	4
Other financial income	1	1
TOTAL	**20**	**14**

8. FINANCIAL EXPENSES

(CHF million)	2018	2017
Interest expense	28	29
Loss on derivatives at fair value	27	24
Other financial expenses	2	2
Net financial expenses on defined benefit plans	1	2
TOTAL	**58**	**57**

9. TAXES

MAJOR COMPONENTS OF TAX EXPENSE

(CHF million)	2018	2017
Current taxes	251	221
Deferred tax (credit)/expense relating to the origination and reversal of temporary differences	(33)	(34)
TOTAL	**218**	**187**

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)	2018	2017
Profit before taxes	*908*	*851*
Tax at statutory rates applicable to the profits earned in the country concerned	154	147
Tax effect of non-deductible or non-taxable items	19	21
Tax charge from/(usage of) unrecognized tax losses	2	(4)
Non-creditable foreign withholding taxes	34	30
Other	9	(7)
TAX CHARGE	**218**	**187**

DEFERRED TAX AFTER NETTING

(CHF million)	2018	2017
Deferred tax assets	203	168
Deferred tax liabilities	(30)	(45)
TOTAL	**173**	**123**

COMPONENTS OF DEFERRED INCOME TAX BALANCES

	2018		2017	
(CHF million)	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Fixed assets	43	7	41	7
Inventories and receivables	37	9	13	10
Defined benefit obligation	12	-	11	-
Provisions and other	25	-	35	15
Intangible assets	9	14	9	18
Tax losses carried forward	77	-	64	-
DEFERRED INCOME TAXES	**203**	**30**	**173**	**50**

Net change in deferred tax assets/(liabilities):

(CHF million)	TOTAL
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 1 JANUARY 2017	**123**
(Charged)/credited to the income statement	34
(Charged)/credited to other comprehensive income[1]	(30)
Exchange differences and other	(4)
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 31 DECEMBER 2017	**123**
IFRS 9 adjustement	30
(Charged)/credited to the income statement	33
(Charged)/credited to other comprehensive income[1]	1
Exchange differences and other	(14)
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 31 DECEMBER 2018	**173**

1. Related to measurement gains and losses on pensions CHF 1 million (2017: CHF 30 million inclusive of a tax loss related to the enactment of the US tax reform of CHF 26 million).

The Group has unrecognized tax losses carried forward amounting to CHF 38 million (2017: CHF 34 million), of which none will expire within the next five years. No tax losses carried forward expired in 2018.

At 31 December 2018, the retained earnings of subsidiaries and foreign incorporated joint ventures consolidated by the Group include approximately CHF 2 712 million (2017: CHF 2 623 million) of undistributed earnings that may be subject to tax if remitted to the parent company. As set out in note 20, the nature of the Group's business requires keeping a significant part of the cash reserves in the operating units. As a Group policy, no deferred tax is recognized in respect of undistributed earnings until the point at which the distributable earnings are determined and foreign statutory requirements, allowing the distribution, are fulfilled. Until that time, the Group takes the view that it is probable that they will not reverse in the foreseeable future.

10. **EARNINGS** PER SHARE

Basic earnings per share are calculated as follows:

	2018	2017
Profit attributable to equity holders of SGS SA (CHF million)	643	621
Weighted average number of shares ('000)	7 607	7 541
BASIC EARNINGS PER SHARE (CHF)	**84.54**	**82.41**

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):

	2018	2017
Profit attributable to equity holders of SGS SA (CHF million)	643	621
Diluted weighted average number of shares ('000)	7 626	7 553
DILUTED EARNINGS PER SHARE (CHF)	**84.32**	**82.27**

Adjusted earnings per share are calculated as follows:

(CHF million)	2018	2017
Profit attributable to equity holders of SGS SA	643	621
Amortization of acquired intangibles	30	29
Restructuring costs net of tax	14	5
Goodwill impairment	-	30
Other non-recurring items net of tax	37	7
ADJUSTED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	**724**	**692**
ADJUSTED BASIC EARNINGS PER SHARE (CHF)	**95.17**	**91.74**
ADJUSTED DILUTED EARNINGS PER SHARE (CHF)	**94.92**	**91.59**

11. PROPERTY, PLANT AND EQUIPMENT

(CHF million)	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	TOTAL
2018				
COST				
At 1 January	492	2 059	736	3 287
Additions	6	164	103	273
Acquisition of subsidiaries	1	10	3	14
Disposals	(11)	(59)	(28)	(98)
Exchange differences and other	(6)	(58)	(75)	(139)
At 31 December	482	2 116	739	3 337
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January	245	1 549	491	2 285
Depreciation	17	177	64	258
Impairment	-	-	1	1
Acquisition of subsidiaries	-	6	1	7
Disposals	(9)	(55)	(25)	(89)
Exchange differences and other	(7)	(64)	(23)	(94)
At 31 December	246	1 613	509	2 368
NET BOOK VALUE AT 31 DECEMBER 2018	**236**	**503**	**230**	**969**
INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS				
Purchase cost of leased tangible assets	1	3	-	4
Accumulated depreciation	-	2	-	2
NET BOOK VALUE AT 31 DECEMBER 2018	**1**	**1**	**-**	**2**

(CHF million)	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	TOTAL
2017				
COST				
At 1 January	448	1 891	684	3 023
Additions	18	150	107	275
Acquisition of subsidiaries	2	5	3	10
Disposals	(11)	(59)	(30)	(100)
Exchange differences and other	35	72	(28)	79
At 31 December	492	2 059	736	3 287
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January	222	1 390	439	2 051
Depreciation	16	174	67	257
Impairment	1	(3)	-	(2)
Acquisition of subsidiaries	1	4	1	6
Disposals	(4)	(56)	(27)	(87)
Exchange differences and other	9	40	11	60
At 31 December	245	1 549	491	2 285
NET BOOK VALUE AT 31 DECEMBER 2017	**247**	**510**	**245**	**1 002**
INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS				
Purchase cost of leased tangible assets	1	3	-	4
Accumulated depreciation	1	2	-	3
NET BOOK VALUE AT 31 DECEMBER 2017	**-**	**1**	**-**	**1**

At 31 December 2018, the Group had commitments of CHF 8 million (2017: CHF 3 million) for the acquisition of land, buildings and equipment.

Included in the other tangible assets are construction-in-progress assets amounting to CHF 18 million (2017: CHF 28 million).

12. GOODWILL

(CHF million)	2018	2017
COST		
At 1 January	1 238	1 195
Additions	38	30
Consideration on prior years' acquisitions	-	3
Impairment	-	(30)
Exchange differences	(52)	40
AT 31 DECEMBER	**1 224**	**1 238**

Goodwill recognized by the Group is allocated to Cash Generating Units (CGUs) for impairment testing purposes and is annually tested for impairment at the end of each reporting period.

- For the following four business lines, 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:
  - Consumer and Retail
  - Oil, Gas and Chemicals
  - Environment, Health and Safety
  - Minerals
- The Industrial business line continues to be driven primarily by regional and local customer activities and therefore to have cash inflows, which are largely independent from each other. Consequently, a CGU organization by region or by country has been maintained and goodwill has been allocated to seven CGUs.
- The Transportation business is split into two CGUs since customer activities in this business (especially in testing and engineering activities) are globally interdependent, except for Spain, where regulated activities and related cash inflows represent almost entirely the whole business and therefore are assessed as a distinct CGU.
- The Agriculture, Food and Life business is split into three worldwide CGUs to reflect the global nature of customer activities and drivers of cash inflows in each of Agriculture and Food, Clinical Research and Life Science Laboratories.

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)	2018	2017
TRP	247	245
AFL	243	233
IND	218	229
EHS	151	157
OGC	140	143
MIN	113	122
CRS	107	102
CBE	3	4
GIS	2	3
TOTAL	**1 224**	**1 238**

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. Cash flow projections were used in this calculation, discounted at a post- tax rate depending on the business activities and geographic profile of each of the respective CGUs.

In 2017, the oil and gas sector in which the Industrial USA and Canada CGU operates experienced a significant downturn with a material reduction in capital and operating expenditure by its main customers. As a result, the Group revised its cash flow forecasts considering multiple scenarios and therefore reduced the CGU value to its recoverable amount. This resulted in an impairment charge CHF 30 million in relation to the restructuring.

POST-TAX DISCOUNT RATE USED IN 2018 FOR THE MAIN CGUS OR GROUP OF CGUS IMPAIRMENT TESTING

	2018
TRP	5.1%-15.5%
AFL	6.2%-7.0%
IND	5.7%-10.3%
EHS	6.9%
OGC	8.1%
MIN	8.5%
CRS	7.8%

The cash flow projections for the first five years were based upon financial plans approved by Group Management, while the subsequent years assume a long-term growth rate of 1.0% and stable operating margins. The overall assumptions used in the calculations are consistent with the expected average growth rates of the segments served by the Group.

For all impairment tests, the key assumptions used in the sensitivity analyses were the following:

- Reducing the expected annual revenue growth rates for the first five years by 2.0%
- Reducing the operating margin by 0.25%
- Increasing the discount rate assumption by 1.0%

For all impairment tests, changing the key assumptions retained in the scenario using the sensitivity analyses described above would not result in any of the carrying amounts exceeding the recoverable amount.

13. OTHER INTANGIBLE ASSETS

			COMPUTER SOFTWARE AND OTHER ASSETS		
(CHF million)	TRADEMARKS AND OTHER	CUSTOMER RELATIONSHIPS	INTERNALLY GENERATED	PURCHASED	TOTAL
2018					
COST					
At 1 January	81	246	117	313	757
Additions	-	-	13	18	31
Acquisition of subsidiaries	-	14	-	-	14
Disposals	-	-	-	(6)	(6)
Exchange differences and other	(4)	(9)	7	(12)	(18)
At 31 December	77	251	137	313	778
ACCUMULATED AMORTIZATION AND IMPAIRMENT					
At 1 January	62	117	97	259	535
Amortization	6	24	12	16	58
Disposals	-	-	-	(5)	(5)
Exchange differences and other	(3)	(5)	-	(4)	(12)
At 31 December	65	136	109	266	576
NET BOOK VALUE AT 31 DECEMBER 2018	**12**	**115**	**28**	**47**	**202**

(CHF million)	TRADEMARKS AND OTHER	CUSTOMER RELATIONSHIPS	COMPUTER SOFTWARE AND OTHER ASSETS INTERNALLY GENERATED	PURCHASED	TOTAL
2017					
COST					
At 1 January	77	243	106	294	720
Additions	-	-	9	18	27
Acquisition of subsidiaries	-	3	-	2	5
Disposals	-	-	-	(3)	(3)
Exchange differences and other	4	-	2	2	8
At 31 December	81	246	117	313	757
ACCUMULATED AMORTIZATION AND IMPAIRMENT					
At 1 January	52	93	87	242	474
Amortization	7	21	9	15	52
Impairment	-	1	-	-	1
Acquisition of subsidiaries	-	-	-	1	1
Disposals	-	-	-	(2)	(2)
Exchange differences and other	3	2	1	3	9
At 31 December	62	117	97	259	535
NET BOOK VALUE AT 31 DECEMBER 2017	**19**	**129**	**20**	**54**	**222**

SIGNIFICANT INTANGIBLE ASSETS

The Group is improving its global management information systems, focusing on contract management, finance and sales order processing. Additions relating to the Group's ERP system amount to CHF 5 million (2017: CHF 5 million) and are being amortized over a period of four years.

Incremental costs relating to internally generated assets are capitalized when incurred and amortized over a period of four years from the time of occurrence. Purchased intangible assets mainly consist of purchased computer software and consultancy services required for implementation.

14. OTHER NON-CURRENT ASSETS

(CHF million)	NOTE	2018	2017
Non-current loans or amounts receivable from third parties		19	9
Retirement benefit asset	23	62	73
Other non-current assets		52	55
TOTAL		**133**	**137**

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% and 5%.

In 2018, other non-current assets included deposits for guarantees and CHF 36 million (2017: CHF 39 million) of restricted cash. Typical examples of restricted cash are cash deposits for performance bonds, rentals and other operating obligations.

At 31 December 2018 and 2017, the fair value of the Group's other non-current assets approximates their carrying value.

15. **TRADE** RECEIVABLES

(CHF million)	**2018**	**2017**
Trade receivables	1 165	1 181
Allowance for doubtful accounts	(196)	(113)
TOTAL	**969**	**1 068**
Ageing of trade receivables:		
0-60 days	787	777
61-90 days	114	114
91-120 days	47	64
121-180 days	52	54
181-240 days	27	32
241-300 days	15	18
301-360 days	12	14
> 360 days	111	108
TOTAL	**1 165**	**1 181**

The nominal value, less impairment provisions, of trade receivables is considered to approximate their fair value.

The movement of allowance for doubtful accounts is analyzed as follows:

(CHF million)	**2018**	**2017**
At 1 January	(205)	(114)
Acquisition of subsidiaries	-	(1)
Increase in allowance recognized in the income statement	(11)	(24)
Utilizations	10	24
Exchange differences	10	2
AT 31 DECEMBER 2018	**(196)**	**(113)**

The Group has applied IFRS 9 retrospectively from 1 January 2018. The adjustment to the carrying value of receivables has been reflected as an adjustment to the opening equity as detailed in note 2.

Receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts.
An allowance for doubtful debts 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.
In addition, an allowance for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off when identified.

If IAS 39 were still applicable, receivables allowance for doubtfull debts would have been at least equal to receivables aged more than 360 days.

16. **OTHER RECEIVABLES** AND **PREPAYMENTS**

(CHF million)	**2018**	**2017**
Accrued income, prepayments	68	71
Derivative assets	17	16
Other receivables	129	149
TOTAL	**214**	**236**

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.

17. CASH AND CASH EQUIVALENTS

(CHF million)	2018	2017
Cash and short-term deposits	1 702	1 342
Deposits on demand	40	40
Short-term loans	1	1
TOTAL	**1 743**	**1 383**

18. CASH FLOW STATEMENT

18.1. NON-CASH AND NON-OPERATING ITEMS

(CHF million)	NOTES	2018	2017
Depreciation of buildings and equipment	11	258	257
Impairment of land, buildings and equipment and other intangible assets	11 and 13	1	(1)
Amortization of intangible assets	13	58	52
Impairment of goodwill	12	-	30
Net financial expenses	7 and 8	38	43
Decrease in provisions and employee benefits		(17)	(18)
Share-based payment expenses		13	17
Gain on disposals of land, buildings and equipment		(15)	(2)
Taxes	9	218	187
NON-CASH AND NON-OPERATING ITEMS		**554**	**565**

18.2. (INCREASE)/DECREASE IN WORKING CAPITAL

(CHF million)	2018	2017
(Increase)/decrease in unbilled revenues and inventories	19	(45)
Increase in trade receivables	(35)	(45)
Decrease in other receivables and prepayments	13	14
Increase in trade and other payables	41	22
Increase in other creditors and accruals	60	59
Decrease in other provisions	(3)	(6)
(INCREASE)/DECREASE IN WORKING CAPITAL	**95**	**(1)**

19. ACQUISITIONS

ASSETS AND LIABILITIES ARISING FROM ACQUISITIONS

(CHF million)	TOTAL FAIR VALUE ON ACQUISITION 2018	TOTAL FAIR VALUE ON ACQUISITION 2017
Tangible assets	7	4
Intangible assets	14	4
Other long-term assets	-	1
Trade receivables	5	9
Other current assets	2	1
Cash and cash equivalents	4	6
Current liabilities	(4)	(11)
Non-current liabilities	(5)	(3)
Non-controlling interests	-	(1)
NET ASSETS ACQUIRED	**23**	**10**
Goodwill	38	30
TOTAL PURCHASE PRICE	**61**	**40**
Acquired cash and cash equivalents	(4)	(6)
Consideration payable	(14)	(3)
Payment on prior year acquisitions	2	5
NET CASH OUTFLOW ON ACQUISITIONS	**45**	**35**

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 5 million (2017: CHF 6 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.

20. 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		BOOK VALUE		MARKET VALUE	
(CHF million)	2018	2017	2018	2017	2018	2017
FOREIGN EXCHANGE FORWARD CONTRACTS						
Currency:						
Australian Dollar (AUD)	(14)	(7)	-	-	-	-
Brazilian Real (BRL)	(42)	(9)	(1)	-	(1)	-
Canadian Dollar (CAD)	1	1	-	-	-	-
Chilean Peso (CLP)	(48)	(39)	(2)	1	(2)	1
Chinese Renminbi (CNY)	-	2	-	-	-	-
Colombian Peso (COP)	(7)	(7)	-	-	-	-
Euro (EUR)	(200)	(197)	1	(1)	1	(1)
British Pound Sterling (GBP)	42	49	-	-	-	-
Hong Kong Dollar (HKD)	(98)	24	1	-	1	-
Indian Rupee (INR)	-	(2)	-	-	-	-
Japanese Yen (JPY)	(2)	(1)	-	-	-	-
Kenyan Shilling (KES)	(4)	(3)	-	-	-	-
Korean Won (KRW)	3	(2)	-	-	-	-
New Zealand Dollar (NZD)	(3)	(5)	-	-	-	-
Philippines Peso (PHP)	(7)	(5)	-	-	-	-
Polish Zloty (PLN)	(8)	(4)	-	-	-	-
Russian Rubble (RUB)	2	(1)	-	-	-	-
Turkish New Lira (TRY)	1	(12)	-	-	-	-
US Dollar (USD)	(642)	(570)	4	7	4	7
South African Rand (ZAR)	(27)	(25)	1	(2)	1	(2)
Other	(18)	(8)	-	-	-	-
TOTAL	**(1 071)**	**(821)**	**4**	**5**	**4**	**5**

FAIR VALUE MEASUREMENT RECOGNIZED IN THE BALANCE SHEET

Marketable securities and derivative assets and liabilities are the only financial instruments measured at fair value subsequent to their initial recognition. 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).

Of marketable securities, CHF 9 million (2017: CHF 10 million) qualify as Level 1, fair value measurement category.

Derivative assets (2018: CHF 17 million; 2017: CHF 16 million) and liabilities (2018: CHF 10 million; 2017: CHF 13 million) qualify as Level 2 fair value measurement category in accordance with the fair value hierarchy.

Derivative assets and liabilities 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.

The fair values of financial assets and financial liabilities included in Level 2 above have been determined in accordance with generally accepted pricing models.

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. The Group has dedicated standards, policies and procedures to control and monitor such risks.

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 2018 is the carrying amount of financial assets including derivatives.

Analysis of financial assets by class and category at 31 December 2018:

	AMORTIZED COST LOANS AND RECEIVABLES		FAIR VALUE AT FAIR VALUE THROUGH EQUITY		FAIR VALUE 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	1 743	1 743	-	-	-	-	1 743	1 743
Trade receivables	969	969	-	-	-	-	969	969
Other receivables[1]	132	132	-	-	-	-	132	132
Unbilled revenues and work in progress	226	226	-	-	-	-	226	226
Loans to third parties – non-current	19	19	-	-	-	-	19	19
Marketable securities	-	-	9	9	-	-	9	9
Derivatives	-	-	-	-	17	17	17	17
TOTAL FINANCIAL ASSETS	**3 089**	**3 089**	**9**	**9**	**17**	**17**	**3 115**	**3 115**

1. Excluding VAT and other tax related items.

In the fair value hierarchy, marketable securities qualify as Level 1 and the remaining financial assets qualify as Level 2.

Analysis of financial assets by class and category at 31 December 2017:

	AMORTIZED COST LOANS AND RECEIVABLES		FAIR VALUE AT FAIR VALUE THROUGH EQUITY		FAIR VALUE 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	1 383	1 383	-	-	-	-	1 383	1 383
Trade receivables	1 068	1 068	-	-	-	-	1 068	1 068
Other receivables[1]	143	143	-	-	-	-	143	143
Unbilled revenues and work in progress	293	293	-	-	-	-	293	293
Loans to third parties – non-current	9	9	-	-	-	-	9	9
Marketable securities	-	-	10	10	-	-	10	10
Derivatives	-	-	-	-	16	16	16	16
TOTAL FINANCIAL ASSETS	**2 896**	**2 896**	**10**	**10**	**16**	**16**	**2 922**	**2 922**

1. Excluding VAT and other tax related items.

In the fair value hierarchy, marketable securities qualify as Level 1 and the remaining financial assets qualify as Level 2.

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.

Analysis of financial liabilities by class and category at 31 December 2018:

			FAIR VALUE			
	AMORTIZED COST OTHER LIABILITIES		AT FAIR VALUE THROUGH P&L		TOTAL	
(CHF million)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Trade payables	362	362	-	-	362	362
Other payables and financial liabilities[1]	173	173	-	-	173	173
Contract liabilities	112	112	-	-	29	29
Loans and obligations under finance leases	2 490	2 552	-	-	2 490	2 552
Derivatives	-	-	10	10	10	10
TOTAL FINANCIAL LIABILITIES	**3 054**	**3 116**	**10**	**10**	**3 064**	**3 126**

1. Excluding VAT and other tax related items.

In the fair value hierarchy, Bonds qualify as Level 1 and the remaining financial liabilities qualify as Level 2.

Analysis of financial liabilities by class and category at 31 December 2017:

			FAIR VALUE			
	AMORTIZED COST OTHER LIABILITIES		AT FAIR VALUE THROUGH P&L		TOTAL	
(CHF million)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Trade payables	344	344	-	-	344	344
Other payables and financial liabilities[1]	171	171	-	-	171	171
Contract liabilities	97	97	-	-	33	33
Loans and obligations under finance leases	2 091	2 181	-	-	2 091	2 181
Derivatives	-	-	13	13	13	13
TOTAL FINANCIAL LIABILITIES	**2 639**	**2 729**	**13**	**13**	**2 652**	**2 742**

1. Excluding VAT and other tax related items.

In the fair value hierarchy, Bonds qualify as Level 1 and the remaining financial liabilities qualify as Level 2.

Contractual maturities of financial liabilities including interest payments at 31 December 2018:

(CHF million)	BORROWINGS THIRD PARTY LT AND ST	BANK OVERDRAFTS AND OTHER LIABILITIES	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS OUTFLOWS	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS INFLOWS	TRADE PAYABLES AND OTHERS	FINANCE LEASES	TOTAL
On demand or within one year	413	7	1 480	(1 476)	489	-	913
Within the second year	25	3	-	-	1	1	30
Within the third year	312	8	-	-	-	1	321
Within the fourth year	265	1	-	-	-	-	266
Within the fifth year	338	1	-	-	-	-	339
After five years	1 289	-	-	-	-	-	1 289

The Group hedges its foreign exchange exposure on a net basis. The net position of the gross settled derivative financial instruments of CHF 4 million (2017: CHF nil million) represents the net nominal value expressed in CHF of the Group's foreign currency contracts outstanding at 31 December 2018.

Contractual maturities of financial liabilities including interest payments at 31 December 2017:

(CHF million)	BORROWINGS THIRD PARTY LT AND ST	BANK OVERDRAFTS AND OTHER LIABILITIES	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS OUTFLOWS	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS INFLOWS	TRADE PAYABLES AND OTHERS	FINANCE LEASES	TOTAL
On demand or within one year	32	4	1 178	(1 178)	481	-	517
Within the second year	406	2	-	-	1	-	409
Within the third year	21	1	-	-	1	1	24
Within the fourth year	314	1	-	-	-	-	315
Within the fifth year	260	1	-	-	-	-	261
After five years	1 206	1	-	-	-	-	1 207

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 2018 and 2017, with all other variables remaining constant.

Sensitivity analysis based on net hedged positions at 31 December 2018 and 2017:

	2018		2017	
(CHF million)	INCOME STATEMENT IMPACT INCOME/(EXPENSE)	EQUITY IMPACT INCREASE/(DECREASE)	INCOME STATEMENT IMPACT INCOME/(EXPENSE)	EQUITY IMPACT INCREASE/(DECREASE)
US Dollar (USD)	2	8	3	(8)
Euro (EUR)	(3)	-	(3)	-
CFA Franc BEAC (XAF)	3	-	3	-
New Cedi (GHS)	-	-	(1)	-
Taiwanese Dollar (TWD)	-	1	-	(1)
Australian Dollar (AUD)	-	2	-	(2)
Canadian Dollar (CAD)	-	3	-	(4)
Brazilian Real (BRL)	-	2	-	(2)
Colombian Peso (COP)	-	1	-	(1)
Chilean Peso (CLP)	-	2	-	(3)

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 2018 would increase/decrease by CHF nil (2017: nil).

21. SHARE CAPITAL AND TREASURY SHARES

	SHARES IN CIRCULATION	TREASURY SHARES	TOTAL SHARES ISSUED	TOTAL SHARE CAPITAL (CHF MILLION)
BALANCE AT 1 JANUARY 2017	**7 538 507**	**283 929**	**7 822 436**	**8**
Treasury shares released into circulation	30 996	(30 996)	-	-
Treasury shares purchased for equity compensation plans	(18 095)	18 095	-	-
Treasury shares cancelled	-	(188 704)	(188 704)	-
BALANCE AT 31 DECEMBER 2017	**7 551 408**	**82 324**	**7 633 732**	**8**
Treasury shares released into circulation	87 099	(87 099)	-	-
Treasury shares purchased for equity compensation plans	(19 800)	19 800	-	-
Treasury shares purchased for cancellation	(68 000)	68 000	-	-
BALANCE AT 31 DECEMBER 2018	**7 550 707**	**83 025**	**7 633 732**	**8**

ISSUED SHARE CAPITAL

SGS SA has a share capital of CHF 7 633 732 (2017: CHF 7 633 732) fully paid in and divided into 7 633 732 (2017: 7 633 732) 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 2018, SGS SA held 83 025 treasury 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 2018, 87 099 treasury shares were sold or given in relation with the equity compensation plans and 19 800 were purchased for an average price of CHF 2 406.

In 2018, the Group completed the share buyback program initiated in 2017 for a total of CHF 250 million.

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 21 March 2019.

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.

22. LOANS AND OBLIGATIONS UNDER FINANCE LEASES

CURRENT YEAR INFORMATION

(CHF million)	2018	2017
Bank loans	4	2
Corporate bonds	2 484	2 088
Finance lease obligations	2	1
TOTAL	**2 490**	**2 091**
Current	378	1
Non-current	2 112	2 090

Depending on the nature of the loan, currency and date of maturity, interest rates on long-term loans from third parties range between 0.25% and 4.96% and on short-term loans from third parties range between 0% and 6.40%.

The loans from third parties exposed to fair value interest rate risk amounted to CHF 2 488 million (2017: CHF 2 088 million) and the loans from third parties exposed to cash flow interest rate risk amounted to CHF nil million (2017: CHF 2 million).

The fair value of corporate bonds was CHF 2 547 million (2017: CHF 2 178 million).

The only non-cash items are the finance lease obligations.

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 %
08.03.2011	375	2.625	2019	100.832	100.000
27.05.2011	275	3.000	2021	100.480	100.000
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

Loans and finance lease obligations mature as follows:

	BANK LOANS AND CORPORATE BOND		FINANCE LEASE OBLIGATIONS	
(CHF million)	2018	2017	2018	2017
On demand or within one year	378	1	-	-
Within the second year	-	375	1	-
Within the third year	287	-	1	1
Within the fourth year	248	293	-	-
Within the fifth year	325	247	-	-
After five years	1 250	1 174	-	-
TOTAL	**2 488**	**2 090**	**2**	**1**

The currency composition of loans and finance lease obligations is as follows:

(CHF million)	BANK LOANS AND CORPORATE BOND		FINANCE LEASE OBLIGATIONS	
	2018	2017	2018	2017
Swiss Franc (CHF)	2 485	2 088	-	-
Euro (EUR)	1	2	-	1
Brazilian Real (BRL)	2	-	-	-
Other	-	-	2	-
TOTAL	**2 488**	**2 090**	**2**	**1**

23. 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 2018 of CHF 13 million (2017: CHF 14 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.

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 15 years.

The Group expects to contribute CHF 7 million to this plan in 2019.

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.

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 2019.

UNITED KINGDOM

The Group operates two defined benefit plans through trusts. The assets of the plans are held separately from the Group and have trustees who ensure the plan's rules are strictly adhered to. One plan has been closed to new entrants since 2002. Since then new employees have been offered membership of defined contributions plans, which have been operated by the Group. The other plan has no active members and was bought out in 2017. Under the defined benefit plans, each member's pension at retirement is related to their pensionable service and final salary.

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.

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 weighted average of duration of the expected benefit payments from the combined plans is approximately 22 years.

The Group expects to contribute CHF 2 million to this plan in 2019.

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 9 million to those plans in 2019.

The assets and liabilities recognized in the balance sheet at 31 December for defined benefit obligations and for post-employment benefit plans are as follows:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Fair value of plan assets	414	206	172	41	833
Present value of funded defined benefit obligation	(379)	(186)	(186)	(63)	(814)
FUNDED/(UNFUNDED) STATUS	**35**	**20**	**(14)**	**(22)**	**19**
Present value of unfunded defined benefit obligation	(10)	-	(7)	(59)	(76)
NET ASSET/(LIABILITY) AT 31 DECEMBER	**25**	**20**	**(21)**	**(81)**	**(57)**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Fair value of plan assets	409	238	209	43	899
Present value of funded defined benefit obligation	(392)	(208)	(226)	(64)	(890)
FUNDED/(UNFUNDED) STATUS	**17**	**30**	**(17)**	**(21)**	**9**
Present value of unfunded defined benefit obligation	(10)	-	(7)	(62)	(79)
NET ASSET/(LIABILITY) AT 31 DECEMBER	**7**	**30**	**(24)**	**(83)**	**(70)**

The net liability of CHF 57 million (2017: CHF 70 million) includes CHF 62 million (2017: CHF 73 million) of pension fund assets recognized in the item Other Non-Current Assets in note 14 and CHF 119 million (2017: CHF 143 million) of pension fund liability recognized in the item Defined Benefit Obligation in the balance sheet.

Amounts recognized in the income statement:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Service cost expense	9	2	2	7	20
Net interest expense on defined benefit plan	-	(1)	1	1	1
Administrative expenses	-	-	1	-	1
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**9**	**1**	**4**	**8**	**22**
Expense charged in:					
Salaries and wages	9	2	3	7	21
Financial expense	-	(1)	1	1	1
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**9**	**1**	**4**	**8**	**22**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Service cost expense	8	1	3	7	19
Net interest expense on defined benefit plan	-	-	1	1	2
Administrative expenses	-	-	-	-	-
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**8**	**1**	**4**	**8**	**21**
Expense charged in:					
Salaries and wages	8	1	3	7	19
Financial expense	-	-	1	1	2
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**8**	**1**	**4**	**8**	**21**

Amounts recognized in the statement of other comprehensive income:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Remeasurement on net defined benefit liability					
Change in demographic assumptions	-	-	(1)	-	(1)
Change in financial assumptions	(17)	(11)	(17)	1	(44)
Experience adjustments on benefit obligations	(1)	3	4	3	9
Actual return on plan assets excluding net interest expense	(2)	16	16	-	30
TOTAL RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER	**(20)**	**8**	**2**	**4**	**(6)**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Remeasurement on net defined benefit liability					
Change in demographic assumptions	6	(5)	(2)	-	(1)
Change in financial assumptions	-	4	10	(1)	13
Experience adjustments on benefit obligations	9	(1)	2	-	10
Actual return on plan assets excluding net interest expense	(23)	(10)	(11)	-	(44)
TOTAL RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER	**(8)**	**(12)**	**(1)**	**(1)**	**(22)**

Movements in the net asset/(liability) during the period:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
NET ASSET/(LIABILITY) AT 1 JANUARY	**7**	**30**	**(24)**	**(83)**	**(70)**
Expense recognized in the income statement	(9)	(1)	(4)	(8)	(22)
Remeasurements recognized in other comprehensive income	20	(8)	(2)	(4)	6
Contributions paid by the Group	7	1	9	9	26
Employer benefit payments	-	-	-	1	1
Exchange differences	-	(2)	-	4	2
NET ASSET/(LIABILITY) AT 31 DECEMBER	**25**	**20**	**(21)**	**(81)**	**(57)**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
NET ASSET/(LIABILITY) AT 1 JANUARY	**-**	**17**	**(31)**	**(80)**	**(94)**
Expense recognized in the income statement	(8)	(1)	(4)	(8)	(21)
Remeasurements recognized in other comprehensive income	8	12	1	1	22
Contributions paid by the Group	7	1	9	8	25
Special pension fund contribution	-	-	-	2	2
Exchange differences	-	1	1	(6)	(4)
NET ASSET/(LIABILITY) AT 31 DECEMBER	**7**	**30**	**(24)**	**(83)**	**(70)**

Change in the defined benefit obligation is as follows:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Opening present value of the defined benefit obligation	402	208	233	126	969
Current service cost	9	2	2	7	20
Interest cost	3	5	8	2	18
Plan participants' contributions	5	-	1	-	6
Settlements	-	-	(27)	(3)	(30)
Actual net benefit payments	(12)	(11)	(13)	(8)	(44)
(Gains)/losses due to changes in demographic assumptions	-	-	(1)	-	(1)
(Gains)/losses due to changes in financial assumptions	(17)	(11)	(17)	1	(44)
Experience differences	(1)	3	4	3	9
Exchange rate (gains)/losses	-	(10)	3	(6)	(13)
DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**389**	**186**	**193**	**122**	**890**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Opening present value of the defined benefit obligation	384	215	262	119	980
Current service cost	8	1	3	7	19
Interest cost	3	7	10	2	22
Plan participants' contributions	5	-	1	-	6
Settlements	-	(17)	(24)	(3)	(44)
Actual net benefit payments	(13)	(6)	(16)	(7)	(42)
(Gains)/losses due to changes in demographic assumptions	6	(5)	(2)	-	(1)
(Gains)/losses due to changes in financial assumptions	-	4	10	(1)	13
Experience differences	9	(1)	2	-	10
Exchange rate (gains)/losses	-	10	(13)	9	6
DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	**402**	**208**	**233**	**126**	**969**

Change in fair value of plan assets is as follows:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Opening fair value of plan assets	409	238	209	43	899
Interest income on plan assets	3	6	7	1	17
Return on plan assets excluding amounts included in net interest expense	2	(16)	(16)	-	(30)
Actual employer contributions	7	1	9	10	27
Actual plan participants' contributions	5	-	1	-	6
Actual net benefit payments	(12)	(11)	(13)	(8)	(44)
Actual admin expenses paid	-	-	(1)	-	(1)
Settlements	-	-	(27)	(3)	(30)
Exchange differences	-	(12)	3	(2)	(11)
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	**414**	**206**	**172**	**41**	**833**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Opening fair value of plan assets	384	232	231	39	886
Interest income on plan assets	3	7	9	1	20
Return on plan assets excluding amounts included in net interest expense	23	10	11	-	44
Actual employer contributions	7	1	9	10	27
Actual plan participants' contributions	5	-	1	-	6
Actual net benefit payments	(13)	(6)	(16)	(7)	(42)
Actual admin expenses paid	-	-	-	-	-
Settlements	-	(17)	(24)	(3)	(44)
Exchange differences	-	11	(12)	3	2
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	**409**	**238**	**209**	**43**	**899**

There are no reimbursement rights included in plan assets. The actual return on plan assets was a loss of CHF 13 million (2017: gain of CHF 64 million).

The major categories of plan assets at the balance sheet date are as follows:

(CHF million)	CH	UK	USA	OTHER	TOTAL
2018					
Cash and cash equivalents	47	4	2	17	70
Equity securities	118	64	24	-	206
Debt securities	60	138	143	-	341
Assets held by insurance company	-	-	-	24	24
Properties	155	-	-	-	155
Investment funds	32	-	-	-	32
Other	2	-	3	-	5
TOTAL PLAN ASSETS AT 31 DECEMBER	**414**	**206**	**172**	**41**	**833**

(CHF million)	CH	UK	USA	OTHER	TOTAL
2017					
Cash and cash equivalents	75	2	1	18	96
Equity securities	113	51	49	-	213
Debt securities	61	92	159	-	312
Assets held by insurance company	-	-	-	21	21
Properties	124	-	-	-	124
Investment funds	33	93	-	-	126
Other	3	-	-	4	7
TOTAL PLAN ASSETS AT 31 DECEMBER	**409**	**238**	**209**	**43**	**899**

In 2018 and 2017, 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, whilst taking 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 2018 and 2017 are as follows:

(Weighted average %)	CH	UK	USA	OTHER
2018				
Discount rate	1.0	2.9	4.3	1.9
Mortality assumption	LPP 2015 CMI 2016	SPA02F/M CMI 2016	RP2014 MP 2018	-
Salary progression rate	1.5	3.5	3.3	2.8
Future increase for pension in payments	0.2	3.2	-	0.4
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			2 025	

(Weighted average %)	CH	UK	USA	OTHER
2017				
Discount rate	0.7	2.6	3.6	2.2
Mortality assumption	LPP 2015 CMI 2016	SNA02 CMI 2016	RP 2014 SSA MP 2017	-
Salary progression rate	1.5	3.6	3.3	2.8
Future increase for pension in payments	0.2	3.1	-	0.6
Healthcare cost trend assumed for the next year	3.0	-	8.0	-
Ultimate trend rate	3.0	-	4.5	-
Year that the rate reaches the ultimate trend rate			2 025	

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 30 million; a 0.5% increase in assumed salary increases would increase the obligation by CHF 2 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 12 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 12 million; a 0.5% increase in assumed salary increases would not impact the obligation; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 6 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 increases would increase the obligation by CHF 3 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 7 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 2018 was CHF 78 million (2017: CHF 71 million).

24. PROVISIONS

(CHF million)	LEGAL AND WARRANTY CLAIMS ON SERVICES RENDERED	DEMOBILIZATION AND REORGANIZATION	OTHER PROVISIONS	TOTAL
AT 1 JANUARY 2018	**35**	**31**	**30**	**96**
Charge to income statement	11	26	18	55
Release to income statement	(4)	(1)	(8)	(13)
Payments	(5)	(11)	(10)	(26)
Exchange differences		(1)	(1)	(2)
AT 31 DECEMBER 2018	**37**	**44**	**29**	**110**

Analysed as:	2018	2017
Current liabilities	21	17
Non-current liabilities	89	79
TOTAL	**110**	**96**

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.

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 judgement of Management. Any changes in these estimates are reflected in the income statement in the period in which the estimates change.

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 does not discount its provisions, as the timing of the cash outflows cannot be reasonably and reliably determined.

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.

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. The timing of these demobilization outflows is difficult to assess. The amounts are therefore not discounted.

Other provisions relate to various 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.

25. TRADE AND OTHER PAYABLES

(CHF million)	**2018**	**2017**
Trade payables	362	344
Other payables	323	310
Other financial liabilities	24	23
TOTAL	**709**	**677**

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs. At 31 December 2018 and 2017, the fair value of the Group's trade accounts and other payables approximates the carrying value.

26. OTHER CREDITORS AND ACCRUALS

(CHF million)	**2018**	**2017**
Accrued expenses	618	624
Derivative liabilities	10	13
TOTAL	**628**	**637**

At 31 December 2018 and 2017, the fair value of the Group's other creditors and accruals approximates the carrying value.

27. **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.

GUARANTESS AND PERFORMANCE BONDS

(CHF million)	**2018**	**2017**
Guarantees	635	520
Performance bonds	204	227
TOTAL	**839**	**747**

The Group has issued unconditional guarantees to certain financial institutions that have provided credit facilities (loans and guaranteed bonds) to its subsidiaries. In addition, it has issued performance bonds and bid bonds to commercial customers on behalf of its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

Comparatives have been adjusted to dislose total issued amounts rather than utilized amounts.

28. **OPERATING** LEASES

Operating lease rentals are payable as follows:

(CHF million)	**2018**	**2017**
Less than one year	173	163
Between one and five years	298	360
More than five years	102	99
TOTAL	**573**	**622**

The Group leases the majority of its office and laboratory space and vehicles. During the year ended 31 December 2018, CHF 208 million was recognized as an expense in the income statement in respect of operating leases (2017: CHF 202 million).

29. **EQUITY COMPENSATION** PLANS

Selected employees of the SGS Group are eligible to participate in equity compensation plans.

I) GRANTS TO MEMBERS OF THE OPERATIONS COUNCIL

In 2018, a total of 977 Restricted Shares were granted to members of the Operations Council, in settlement of 50% of the annual incentive related to the 2017 performance. The Restricted Shares fully vest at grant date and are blocked for a period of three years from the grant date, until April 2021. 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 2018 Annual General Meeting, was CHF 2 315 246.

50% of the annual incentive related to the 2018 performance will be settled in Restricted Shares. The grant of the Restricted Shares will be done after the 2019 Annual General Meeting. The total number of Restricted Shares to be granted will be calculated by 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 2019 Annual General Meeting, rounded up to the nearest integer. The Restricted Shares will fully vest at grant date and will be blocked for a period of three years from the grant date, until April 2022. The Shareholding Ownership Guideline apply to the Restricted Share Plans.

More information on the Short-Term Incentive for the members of the Operations Council is disclosed in the SGS Remuneration Report (pages 97-101).

In 2018, a total of 10 617 Performance Share Units (PSUs) under the Long-Term Incentive 2018-2020 were granted to members of the Operations Council. The PSUs vest after a three-year performance period 2018-2020, in early 2021, subject to performance conditions and 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 25 405 950.

More information on the Long-Term Incentive for the members of the Operations Council is disclosed in the SGS Remuneration Report (pages 101-103).

II) GRANTS TO OTHER EMPLOYEES

In 2018, a total of 2 197 Restricted Share Units (RSUs) were granted to selected key employees under the Restricted Share Units Plan 2018. The RSUs vest three 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 5 257 311.

In 2018, a total of 17 870 Performance Share Units (PSUs) under the Long-Term Incentive 2018-2020 were granted to selected senior managers of the Group. The PSUs vest after a three-year performance period 2018-2020, in early 2021, subject to performance conditions and 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 42 762 017.

III) DISCONTINUED SHARE OPTION PLANS

Share options were granted to the members of the Operations Council, selected senior managers and key employees of the Group until 2015 and have been discontinued since.

OPTION PLAN

	EXERCISE PERIOD						
DESCRIPTION	FROM	TO	STRIKE PRICE [1]	OPTIONS OUTSTANDING AT 31 DECEMBER 2017	CANCELLED	EXERCISED OR ADJUSTED	OPTIONS OUTSTANDING AT 31 DECEMBER 2018
SGSWS-2013	Jan.16	Jan.18	1 989.31	163 466	-	(163 466)	-
SGSPF-2014	Jan.17	Jan.19	2 059.00	809 015	-	(571 939)	237 076
SGSBB-2015	Jan.18	Jan.20	1 798.00	1 440 117	-	(722 640)	717 477
TOTAL				**2 412 598**	**-**	**(1 458 045)**	**954 553**
Of which exercisable at 31 December				2 404 641			954 553

1. The strike price of the options has been adjusted in accordance with market practice for capital reductions and special dividends.

PERFORMANCE SHARE UNIT (PSU) AND RESTRICTED SHARE UNIT (RSU) PLANS

DESCRIPTION	EXERCISE PERIOD FROM	UNITS OUTSTANDING AT 31 DECEMBER 2017	GRANTED	CANCELLED	VESTED OR ADJUSTED	UNITS OUTSTANDING AT 31 DECEMBER 2018
SGS-PSU-15	Jan.18	35 877	4 728	(70)	(40 535)	-
SGS-RSU-16	Jan.19	656	-	(92)	(2)	562
SGS-RSU-17	Jan.20	2 422	-	(240)	-	2 182
SGS-PSU-18	Feb.21	-	28 487	(143)	-	28 344
SGS-RSU-18	Apr.21	-	2 197	(24)	(4)	2 169
TOTAL		**38 955**	**35 412**	**(569)**	**(40 541)**	**33 257**

The Group does not issue new shares to grant employees in relation to equity-based compensation plans but uses treasury shares, acquired through share buyback programs.

In total, as of 31 December 2018, the equity overhang, defined as the total number of share units, restricted shares and shares underlying options outstanding (42 803 units) divided by the total number of outstanding shares (7 633 732 shares), amounted to 0.56%.

The Group's burn rate, defined as the number of equities (restricted shares and share units) granted in 2018 (31 661 units) divided by the total number of outstanding shares, was 0.41%

The Group recognized during the year total expense of CHF 13 million (2017: CHF 17 million) in relation to equity compensation plans. This expense has been determined using valuation models incorporating several assumptions such as employees attrition rate, expected volatility and expected dividend yield. Additionally, a payout ratio of 83.6% has been considered for the 2018 Performance Share Units plan valuation as of December 31, 2018.

Shares available for future plans, excluding Restricted Shares granted as settlement of the Short-Term Incentive:

	TOTAL
AT 1 JANUARY 2017	**(19 376)**
Repurchased shares	17 232
Granted SGS-RSU-17 plan	(2 469)
Options cancelled and adjusted	(38)
Shares for PSU cancelled and adjusted	(1 980)
Shares for RSU cancelled and adjusted	134
AT 31 DECEMBER 2017	**(6 497)**
Repurchased shares	18 823
Granted SGS-PSU-18-plan	(28 487)
Granted SGS-RSU-18 plan	(2 197)
Options cancelled and adjusted	90
Shares for PSU cancelled and adjusted	(416)
Shares for RSU cancelled and adjusted	362
AT 31 DECEMBER 2018	**(18 322)**

At 31 December, the Group had the following shares available to satisfy various programs:

	2018 TOTAL	2017 TOTAL
Number of shares held	15 025	82 324
Shares allocated to 2013 option plans	-	(1 878)
Shares allocated to 2014 option plans	(90)	(29 487)
Shares allocated to 2015 option plans	-	(14 401)
Shares allocated for 2015 PSU plans	-	(39 977)
Shares allocated for 2016 RSU plans	(562)	(656)
Shares allocated for 2017 RSU plans	(2 182)	(2 422)
Shares allocated for 2018 PSU plans	(28 344)	-
Shares allocated for 2018 RSU plan	(2 169)	-
SHARES REQUIRED FOR FUTURE EQUITY COMPENSATION PLANS AT 31 DECEMBER	**(18 322)**	**(6 497)**

For equity compensation plans, the Group has entered into agreements with various banks, whereby the Group has an obligation to offer to sell to the banks the shares underlying the option program at the relevant strike price whenever these shares become unblocked. In 2018, the banks have exercised all their outstanding rights and the Group has sold 44 442 shares, which led to an inflow of net proceeds of CHF 87.6 million. Therefore, whilst as at 31 December 2018 the number of outstanding (not exercised) options amounts to 954 553 options, the underlying economic exposure for the Group in respect of all outstanding option plans is reduced to 90 shares, which will have to be sold whenever those options in scope will be exercised.

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)	**2018**	**2017**
Short-term benefits	20	15
Post-employment benefits	1	1
Share-based payments[1]	28	2
TOTAL	**49**	**18**

1. 2018 represents the value of Restricted Shares and Performance Share Units granted in 2018 while 2017 represents the value of Restricted Shares granted in 2017. The value is calculated multiplying the number of PSUs and RSs granted by the average share price of the 20 trading days preceding the grant date.

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 (pages 91-114).

During 2018 and 2017, 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) participate 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 2 035 000 (2017: CHF 2 134 000).

The total compensation (cash and shares/options), including social charges, received by the Operations Council (including Senior Management) amounted to CHF 47 182 000 (2017: CHF 16 510 000).

Disclosure of compensation paid to the Board of Directors and Senior Management, as required by Swiss law, is presented in the notes to the accounts of SGS SA on page 175 of this report.

LOANS TO MEMBERS OF GOVERNING BODIES

As at 31 December 2018, no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies (as at 31 December 2017, one member of the Operations Council had an outstanding loan for an amount equivalent to CHF 66 496).

TRANSACTIONS WITH OTHER RELATED PARTIES

In 2018, the Group sold a building to the “Fondation de prévoyance SGS” for an amount of CHF 18.5 million, based on an external and independent valuation. The “Fondation de prévoyance SGS” is a foundation with the object to protect the employer’s staff against the economic consequences of retirement, death and disability, by insuring defined benefits. The President of this foundation is the SGS Chief Compliance and Legal Officer and as such has full authority to represent the ‘Fondation de prévoyance SGS’ in all transactions.

In 2017, the Group did not perform any activity generating revenue for other related parties.

During 2017 and 2018, 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 2018, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 16.60% (2017: 16.60%). Mr. August von Finck and members of his family acting in concert held 15.52% (2017: 15.52%), BlackRock, Inc. held 4% (2017: 4%) and MFS Investment Management held 3.02% (2017: 3.02%) of the share capital and voting rights of the company.

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

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 07 February 2019, and will be submitted for approval by the Annual General Meeting of Shareholders to be held on 22 March 2019.

On 21 January 2019 the Group announced the acquisition of 60% of LeanSis Productividad, a company based in Spain, which provides operational and manufacturing training as well as capacity building services.

On 5 February 2019, the Group announced the acquisition of 100% of FLORIAAN B.V., a company based in Netherlands, which provides integral fire safety services to industrial and real estate companies across the Netherlands.

Deloitte.

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Statutory Auditor's Report

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 balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, 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 117 to 160) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 audit profession, as well as the IESBA Code of Ethics for Professional Accountants, 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

Summary	
Key audit matters	Based on our audit scoping, we identified the following key audit matters: • Revenue recognition in respect of unbilled revenue and work in progress • Goodwill and associated impairment testing • Retirement benefit obligations
Materiality	Based on our professional judgment we determined materiality for the Group as a whole to be CHF60 million, 6.3% of Profit before tax (adjusted for non-recurring items).
Scoping	Based on our understanding of SGS's operations, we scoped our audit of component operations based on the significance of account balances and significant risks. We gained sufficient and appropriate coverage across the Group. Coverage details are provided on page 166.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Revenue recognition in respect of unbilled revenue and work-in-progress

Key audit matter

The Group recognizes revenue on fees for services rendered to third parties when the services have been completed. However, in certain circumstances, including where services are not billed at the end of each financial period, revenue is recognized in proportion to the stage of completion, normally by reference to costs incurred to the balance sheet date in comparison with the total estimated costs of the contracted services to completion. A margin is recognized based on cost incurred, providing it is expected that the project will be profitable once completed. Where services are completed, but unbilled, revenue is recorded at net selling price. Where services have been rendered but the project is still incomplete, revenue is recorded including a margin based on cost incurred and expected margin at the completion of the project.

At December 31, 2018, the Group balance sheet included work-in-progress of CHF54 million (0.8% of total Group revenues) and unbilled revenues of CHF172 million (2.6% of total Group revenues).

In 2018, following an internal review, SGS identified an overstatement of revenue in current and prior periods, which was corrected in the current period (please refer to note 4 to the consolidated financial statements).

SGS implemented IFRS 15 – Revenue from contract with customers as at January 1, 2018 for the first time, in accordance with IFRS requirements. As a consequence, SGS reviewed and amended aspects of its revenue recognition accounting policy.

Significant judgement is required by management at the operational level in certain cases to estimate the value of revenue and profit that should be recognized prior to the year-end, which is highly dependent on the nature and complexity of the services being provided and the contractual terms with customers. The incremental revenue and profit recognized at period-end is also included in the determination of management incentives, increasing the risk of inappropriate estimation. Accordingly the estimation of work-in-progress and unbilled revenues is considered to be an area of focus for the Board of Directors (page 31) and a key audit matter.

Refer to the accounting policy in note 2 and additionally notes 5 and 14.

How the scope of our audit responded to the key audit matter

Our audit work during the year included the following procedures on work-in-progress and unbilled revenues:

- We tested the implementation of Group policies, including reviewing the impact of the first year of implementation of IFRS 15 – Revenue from Contract with Customers, and key controls regarding revenue recognition and the approval of unbilled revenue balances;
- We tested a sample of unbilled revenue balances recorded at the prior year-end to subsequent invoices and recoveries from third party clients in order to perform our risk assessment; and
- We audited samples of credit notes and reversals of unbilled revenue and work in progress throughout the year to ensure that these adjustments were appropriate and not related to deliberate overstatement of revenue.

Our audit work at the year-end consisted of the following:

- We used analytical procedures to identify businesses and geographies across the Group which had recorded significant work-in-progress and unbilled balances at the year-end, and challenged local management by tracing to contract and status reports to verify significant variances for a sample of contracts;
- We tested a sample of work-in-progress and unbilled balances to the related customer contracts and appropriate operational evidence to confirm that the services had been completed prior to the year-end;
- Where work had not yet been subsequently invoiced and cash had not yet been received, we requested third party confirmation of the work being performed and obtained alternate audit evidence where direct confirmations were not received;
- In relation to the loss resulting from the overstated revenue in Brazil, we reviewed the methodology followed by the external investigation teams and their findings. We also audited the adjustment to revenue resulting from the cumulative overstatement of prior periods' revenue. We adapted our audit procedures across the group in relation to the identified fraud risk; and
- We also considered the adequacy of the disclosures in the consolidated financial statements.

Based on the procedures performed, we consider management's estimates and disclosures regarding work-in-progress and unbilled revenue balances to be appropriate.

Goodwill and associated impairment testing

Key audit matter

The Group's balance sheet includes CHF1'224 million of goodwill (20.2% of total Group assets). In accordance with IFRS, these balances are allocated to Cash Generating Units (CGUs) which are tested annually for impairment using discounted cash-flow models of each CGU's recoverable value compared to the carrying value of the assets. A deficit between the recoverable value and the CGU's net assets would result in impairment.

The inputs to the impairment testing model which have the most significant impact on CGU recoverable value include:

- Projected revenue growth, operating margins and operating cash-flows in the years 1-5;
- Stable long term growth rates in years 6-10 and in perpetuity; and
- Country and business specific discount rates (post-tax).

The impairment test model includes sensitivity testing of key assumptions, including revenue growth, operating margin and discount rate.

The annual impairment testing is considered to be a risk area for the Board of Directors (refer to page 31), a significant accounting judgement and estimate (note 2) and a key audit matter because the assumptions on which the tests are based are highly judgmental and are affected by future market and economic conditions which are inherently uncertain, and because of the materiality of the balances to the financial statements as a whole.

Refer to the accounting policy in note 2 and additionally note 12 for details of the goodwill balances and impairment testing inputs.

How the scope of our audit responded to the key audit matter

We considered the appropriateness of the methodology applied and the key internal controls implemented by management in testing for impairment and the judgements in determining the CGUs to which goodwill is allocated.

We evaluated the appropriateness of the definition of CGUs through discussions with senior operational management, confirmation of the reporting levels at which Group management monitors independent cash inflows and trading performance and our knowledge of the Group's operations.

We assessed the impairment testing models and calculations by:

- Checking the mathematical accuracy of the impairment models and the extraction of inputs from source documents;
- Challenging the discount rates applied in the impairment reviews with support from our valuation specialists, developing independent expectations for key macroeconomic assumptions, in particular discount rates, and comparing those independent expectations to those used by management; and
- Comparing forecast long-term growth rates to economic data.

Based on our knowledge of the Group's businesses and considering the performance of the different CGUs, we identified CGUs with significant goodwill balances, declining trading performance compared with prior year, specific risk factors (such as the impact the impact of prior period overstatement of profitability in the South and Central America Industrial CGU, the impact of commodity price volatility on CGUs in the Oil Gas and Industrial businesses and macro-economic factors in certain geographies) or lower headroom in recoverable value compared to net book value.

For these selected CGUs, we assessed the appropriateness of cash-flow assumptions by analyzing projected revenue growth rates, margins and cash-flow levels against current and historic trading and relevant market data where available, and by meeting with senior operational and commercial management in key businesses and geographies to consider the evidence available to support projected future performance. We also developed our own independent expectations of recoverable value headroom by performing additional sensitivity testing of key assumptions.

We assessed the adequacy of the related disclosures in the consolidated financial statements.

Based on the audit procedures performed, we consider the judgements applied in the determination of CGUs and the assumptions included in the impairment testing models, together with the disclosures set out in the consolidated financial statements, to be appropriate.

Retirement benefit obligations

Key audit matter	How the scope of our audit responded to the key audit matter
The Group maintains a number of defined benefit pension plans. The material defined benefit plans are in Switzerland, USA and UK. At December 31, 2018 the Group recorded a net retirement benefit liability of CHF57 million, being the net of pension fund assets of CHF833 million (included in Other Non-Current Assets) and CHF890 million pension fund liabilities (included in Non-Current Liabilities). The retirement benefit obligations recognized in the balance sheet represent the present value of defined benefit obligations calculated annually by independent actuaries. These actuarial valuations are sensitive to key assumptions such as discount rates, inflation rates and mortality rates. Changes in any of these assumptions, or amendments to the pension plans can lead to a material movement in the net retirement benefit liability. Given the judgement required by management in setting these assumptions, the volatility in retirement benefit balances that can result from changes in assumptions, and the significance of the balances to the consolidated financial statements as a whole, the estimation of retirement benefit obligations is an area of focus for the Board of Directors (page 31) and a key audit matter. Refer to the accounting policy in note 2 and additionally notes 23 and 14.	We evaluated the Group's assessment of the assumptions used in the valuation of defined benefit liabilities, and evaluated the information contained within the actuarial valuation reports for the main plans. We also assessed the design and implementation of controls in respect of the valuation process for the retirement benefit plans. We tested salary data used in the valuation of the retirement benefit plans by reconciliation to payroll records on a sample basis. We also verified retirement benefit assets to third party confirmations. Working with our pension specialists both at central and local level, we considered the process applied by the Group's actuaries and the scope of the valuations performed and we evaluated their expertise and independence. We reviewed plan amendments to confirm their compliance with IAS 19 requirements and challenged key assumptions applied, including discount rates, inflation and mortality rates, benchmarking them against external data, where available, and forming our own independent expectations based on our knowledge of local market practices. We also assessed the adequacy and completeness of the related retirement benefit disclosures in the consolidated financial statements. **Based on the procedures performed, we consider management's estimates and disclosures regarding retirement benefit obligation balances to be appropriate.**

Our application of materiality

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
Based on our professional judgment we determined materiality for the Group as a whole to be CHF60 million, based on a calculation of 6.3% of profit before tax adjusted for certain non-recurring items. We selected profit before tax as the basis of materiality because, in our view, it is the measure against which the performance of the Group is most commonly assessed.

The materiality applied by the component auditors ranged from CHF12 million to CHF36 million depending on the scale of the component's operations, the component's contribution to Group profit before tax and our assessment of risks specific to each location.
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of CHF3 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We designed our audit by obtaining an understanding of the Group and its environment, including Group-wide controls, determining materiality and assessing the risks of material misstatement in the consolidated financial statements.

Based on our scope assessment, we performed full scope component audits at 19 key locations in 2018. In addition, we have requested 8 components to perform an audit on specific account balances (Revenue, Accounts Receivable, Work-In-Progress and Unbilled Revenues). In aggregate, these components represented the scope coverage below:

Group audit coverage	2018
Group revenue	71%
Total assets	74%
Net income for the year	70%

All other wholly owned and joint venture businesses were subject to analytical review procedures for the purpose of the Group audit. Annual statutory audits are conducted by affiliates of Deloitte SA at the majority of the Group's subsidiaries, although these are predominantly completed subsequent to our audit report on the consolidated financial statements.

At the parent entity level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit.

The group audit team continued to follow a program of planned visits that has been designed so that the Senior Statutory Auditor visits most of the in scope locations on a rotational basis. The program for the visits is established based on the significance of the components and the results of our risk assessment.

For all components in scope for group reporting, we have included the component audit partner in our team briefing, discussed their risk assessment, and reviewed documentation of the findings from their work.

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 of the Company upon which we issue a separate Statutory Auditor's report, sections 4 and 5 of the Remuneration Report 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.

Responsibility 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.

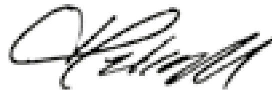
A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a paragraph 1 item 3 CO and the 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.

Deloitte SA



Matthew Sheerin
Licensed Audit Expert
Auditor in Charge

Joelle Herbette
Licensed Audit Expert

Geneva, 7 February 2019