OUR VALUE TO SOCIETY

2018 INTEGRATED ANNUAL REPORT

SGS


SGS tested the fire-resistance of Sophie's sleeping bag so that she can sleep soundly on her camping trip.
3 GOOD HEALTH AND WELL-BEING

OUR INTEGRATED REPORTING APPROACH

This is the third year in which SGS has presented financial, operational and sustainability information in a single report, in line with the fundamental ideals of the Integrated Reporting Framework.

In addition to the information presented in this report, more detailed sustainability information is provided in our 2018 Sustainability Report http://www.sgs.com/cs-report-2018

INVESTORS • CUSTOMERS • GOVERNMENTS & INDUSTRIES • CONSUMERS • COMMUNITIES & THE PLANET • EMPLOYEES & SUPPLIERS •

OUR VALUE **TO SOCIETY**

We add more than just financial value to society. Through our integrated leadership approach, we strive to become an ever more sustainable company and maximize the positive impact we can have. Our stakeholders (employees and suppliers, investors, customers, governments and industries, consumers, and communities and the planet) are the ultimate beneficiaries of this effort. In order to measure our success, we are developing an innovative impact evaluation model to quantify our value to society.

LETTER TO **SHAREHOLDERS**

DEAR SHAREHOLDERS,

In 2018 our total revenue increased to CHF 6.7 billion and the majority of business lines performed well, in line with our expectations. We also reached a new milestone in the SGS Group history as we surpassed CHF 1 billion in adjusted operating income. Consistent with our guidance, the Group delivered solid organic growth, higher adjusted operating income margin, robust cash flow and best-in-class return on invested capital. These results underline our Mission 2020 objectives and support the creation of long-term value for our customers, shareholders and for society.

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REACHING THE MID-POINT OF MISSION 2020

> The strength of our portfolio was confirmed again in 2018 with significant growth in Minerals (11.4%) and high-single-digit growth in Governments and Institutions (7.5%), Oil, Gas and Chemicals (7.2%) and Certification and Business Enhancement (7.0%).
>
> (See page 11)

Since the start of the Mission 2020, mergers and acquisitions have been an important part of our strategy and we have acquired CHF 300 million of annualized revenue. As we approach 2020, we will continue to focus on accelerating acquisitions that add strategic value to our business portfolio. Over the course of 2018, we made eight acquisitions, which contributed 0.7% to acquisitive growth (see page 15). The dashboard review process, which was first implemented in 2015, continued throughout 2018.

To further optimize our processes, we have assessed a number of laboratories to evaluate how we can roll out our World Class Services program across our global network. This takes a structured approach to reducing organizational waste and losses, as well as bringing long-term improvements to our workplace efficiency, quality and logistics. In 2019, we will continue to implement and refine the World Class Services concept across the Group.

An internal investigation, realized in July 2018 in Brazil, confirmed the overstatement of revenues relating to prior years. An amount of CHF 47 million was provided in June 2018. The financial impact has been recorded as a non-recurring item in the current period Group Income Statement, consistent with the half-year disclosure.
As a result, we made a number of management changes and continued to strengthen our risk control processes.

Our digital evolution continued in 2018. In November, we took the first steps to offer services directly to consumers through our new customer portal, SGS online. This year we also adopted the SGS Data Privacy Policy to demonstrate the commitments we uphold across the SGS Group. We believe that SGS can play an important role in shaping trust in cyberspace and ensuring a safer digital world. As such, we joined several industry-leading companies in co-signing a Charter of Trust on Cybersecurity, which outlines 10 principles to protect data, prevent damages and establish trust.

In July, we were deeply saddened to learn that Sergio Marchionne had passed away. It was a privilege to have him as a Chairman and colleague. He not only made an immense contribution to the success of SGS, which he transformed into the leading TIC company, but he also touched the lives of many, both personally and professionally, with his charismatic personality. Sergio Marchionne held the positions of CEO (2002-2004) and Chairman of the Board (2006-2018). He will be greatly missed.

DELIVERING VALUE AND LEADING SUSTAINABILITY

At SGS, we are committed to creating net positive value to society (see page 21). By aligning the SGS 2020 Sustainability Ambitions with the Sustainable Development Goals, we are leading the broader corporate sector to build a more sustainable economy, environment and society.

Our commitment to sustainability and creating value to society continues to receive recognition. For the fifth consecutive year, we were named the leading company in the industry by the Dow Jones Sustainability Indices. For the second time, SGS has been included in the FTSE4Good Index. We also received a gold rating from EcoVadis for the fourth consecutive year and were placed in the top 1% of the evaluated companies in our industry.

In 2018, we proudly maintained our status as a carbon neutral company and continued to drive down incident rates. Our sustainable supply chain strategy evolved to guarantee the respect of human rights beyond the organization, especially in high-risk countries and a new human rights online training for SGS employees was introduced to reinforce our commitment.

Sustainability leadership is fundamental to our culture and inherently present in many of our services. This focus allows us to be better aligned with the expectations of new generations of customers, employees and investors.

MAINTAINING THE MOMENTUM

2018 marked 140 years for SGS. In the face of changing market conditions, the essence of what we do remains the same, and the passion and dedication of our people have led to our continued success and leadership. Our core activities are based on delivering trust and confidence to provide our customers with independent services that give them the expert reassurance they need to do business. This holds true whether we are talking about inspecting grain, where we started so many years ago, or investments in 5G network services, an area that we expect to develop and expand over the years to come.

This momentum directly contributes to solid growth returns and supports the creation of value to customers, shareholders and society. We'd like to thank our people for their energy, talent and hard work in achieving these results in 2018. Their commitment, passion and innovative spirit makes SGS a unique place to work.

07 February 2019

P. Kalantzis

PETER KALANTZIS
Acting Chairman of the Board

FRANKIE NG
Chief Executive Officer

SUBSEQUENT EVENTS

The following acquisitions were completed after 31 December 2018:

- LeanSis Productividad in Spain, providing consulting and training services in business process improvement
- Floriaan B.V. in the Netherlands, providing integral fire safety services to industrial and real-estate companies across the Netherlands

MANAGEMENT

FRANÇOIS MARTI, formerly Executive Vice President Industrial, has been appointed Chief Operating Officer North America. **LUIS FELIPE ELIAS**, formerly Managing Director for Peru & Ecuador, has been appointed Chief Operating Officer South & Central America. **WIM VAN LOON**, formerly Managing Director for Benelux, has been appointed Executive Vice President Industrial. **CHARLES LY WA HOI**, formerly Vice President, Retail Solutions & Europe Business Development for Consumer & Retail, has been appointed Executive Vice President Consumer & Retail. **TOBY REEKS** joined SGS as Senior Vice President Investor Relations and has been appointed to the Operations Council. **DOMINIK DE DANIEL** joins SGS as Chief Financial Officer as of 15 February 2019.

Kimmo Fuller (formerly Chief Operating Officer North America), Alejandro Gomez de la Torre (formerly Chief Operating Officer South & Central America), Richard Shentu (formerly Executive Vice President Consumer & Retail) and Carla De Geyseleer (formerly Chief Financial Officer) as of 15 February 2019, have all left the Group.

CHAIRMAN OF THE BOARD

Following the announcement of the passing of Sergio Marchionne, the Board of Directors has elected Peter Kalantzis as Acting Chairman.

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 4.0% (2017: 4.0%) 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%).

DISTRIBUTION TO SHAREHOLDERS

The SGS Board of Directors will recommend to the Annual General Meeting, to be held on 22 March 2019, the approval of a dividend of CHF 78 per share.

SHARE BUYBACK PROGRAMS

The Group completed its share buyback program that started on 15 May 2017, repurchasing a total amount of CHF 249.9 million.

A new share buyback program of up to CHF 250 million has been authorized by the SGS Board of Directors.

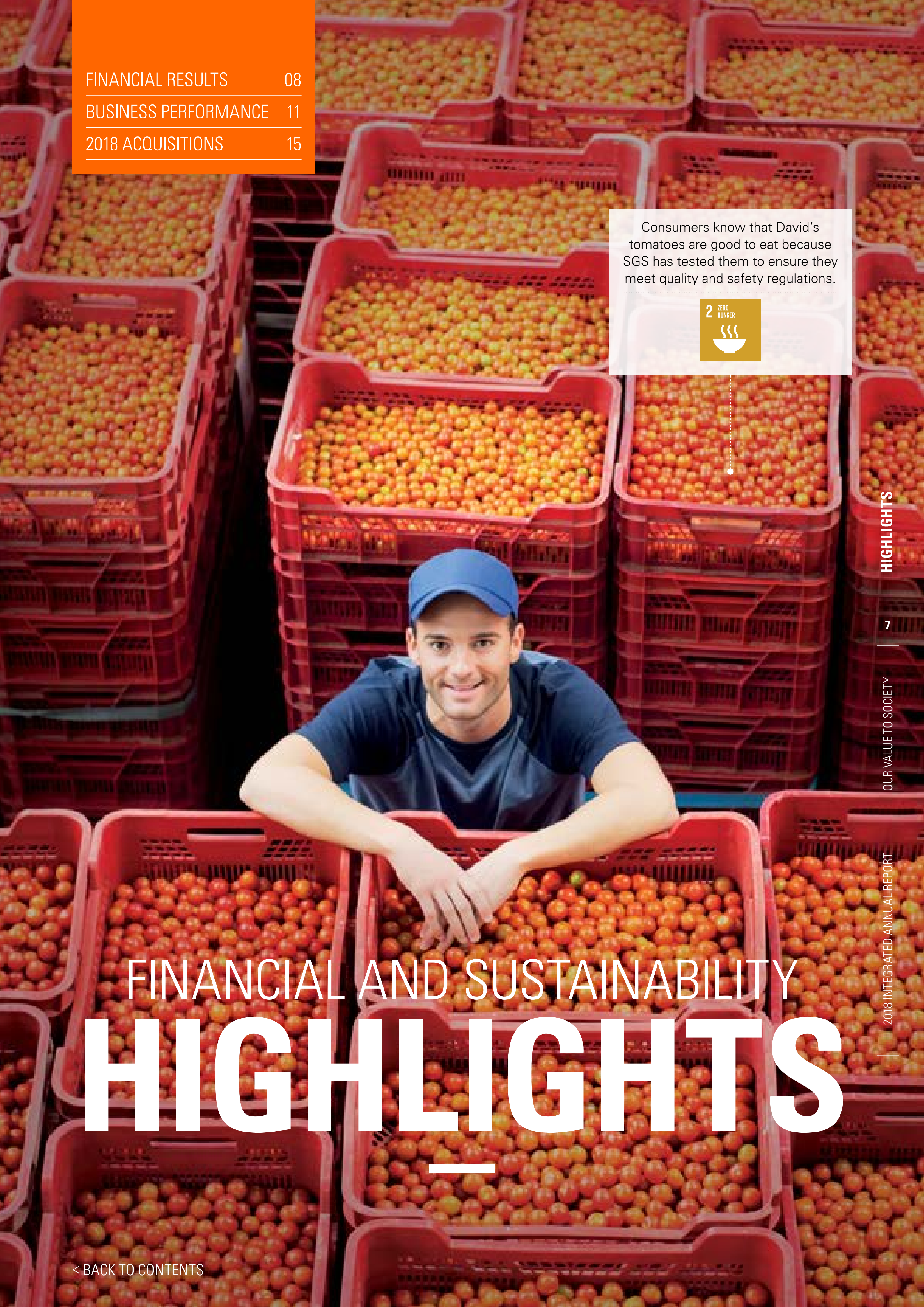
GUIDANCE 2019

The Group expects to deliver solid organic revenue growth and higher adjusted operating income on a constant currency basis and robust cash flow generation.

OUTLOOK 2020

The Group remains committed:

- To mid single-digit organic growth
- To targeting accelerating mergers and acquisitions and remaining disciplined on returns
- To achieving an adjusted operating income of above 17% by end of period
- To ensuring strong cash conversion
- To maintaining best in class return on invested capital
- To at least maintaining the dividend or grow it in line with the improvement in net earnings



Consumers know that David's tomatoes are good to eat because SGS has tested them to ensure they meet quality and safety regulations.

FINANCIAL AND SUSTAINABILITY HIGHLIGHTS

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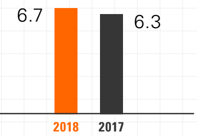
FINANCIAL RESULTS

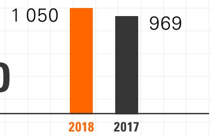
Group revenue growth in 2018 was 6.0%[1], of which 5.3%[1] was organic and 0.7%[1] was from mergers and acquisitions. Our successful strategic positioning delivered solid organic growth across the SGS business portfolio, in line with our goal of mid single-digit organic growth. While most of the SGS businesses are on target to deliver on our expectations, some businesses have been affected by a changing business mix and market conditions. With these in mind, we are now targeting margins of above 17% for 2020.

CHF 6.7 BN



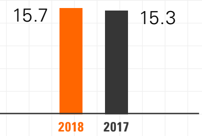
REVENUE **+6.0%[1]** (**+5.3%** ORGANIC)

CHF 1050 MIO



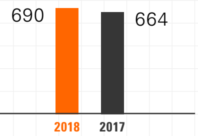
ADJUSTED OPERATING INCOME[2] **+8.4%[1]**

15.7 %



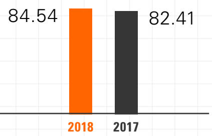
ADJUSTED OPERATING MARGIN[2]

CHF 690 MIO



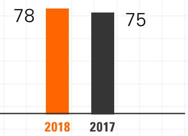
PROFIT FOR THE PERIOD **+3.9%**

CHF 84.54



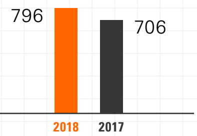
BASIC EARNINGS PER SHARE **2.6%**

CHF 78



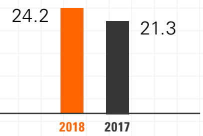
PROPOSED DIVIDEND

CHF 796 MIO



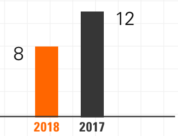
FREE CASH FLOW[3] **+12.7%**

24.2 %



RETURN ON INVESTED CAPITAL[4]

8



ACQUISITIONS COMPLETED IN 2018

1. Constant currency basis.
2. Before amortization of acquired intangibles and non-recurring items.
3. Cash flow from operating activities net of capital expenditure.
4. Profit for the period/(Non-current assets + Net Working Capital).

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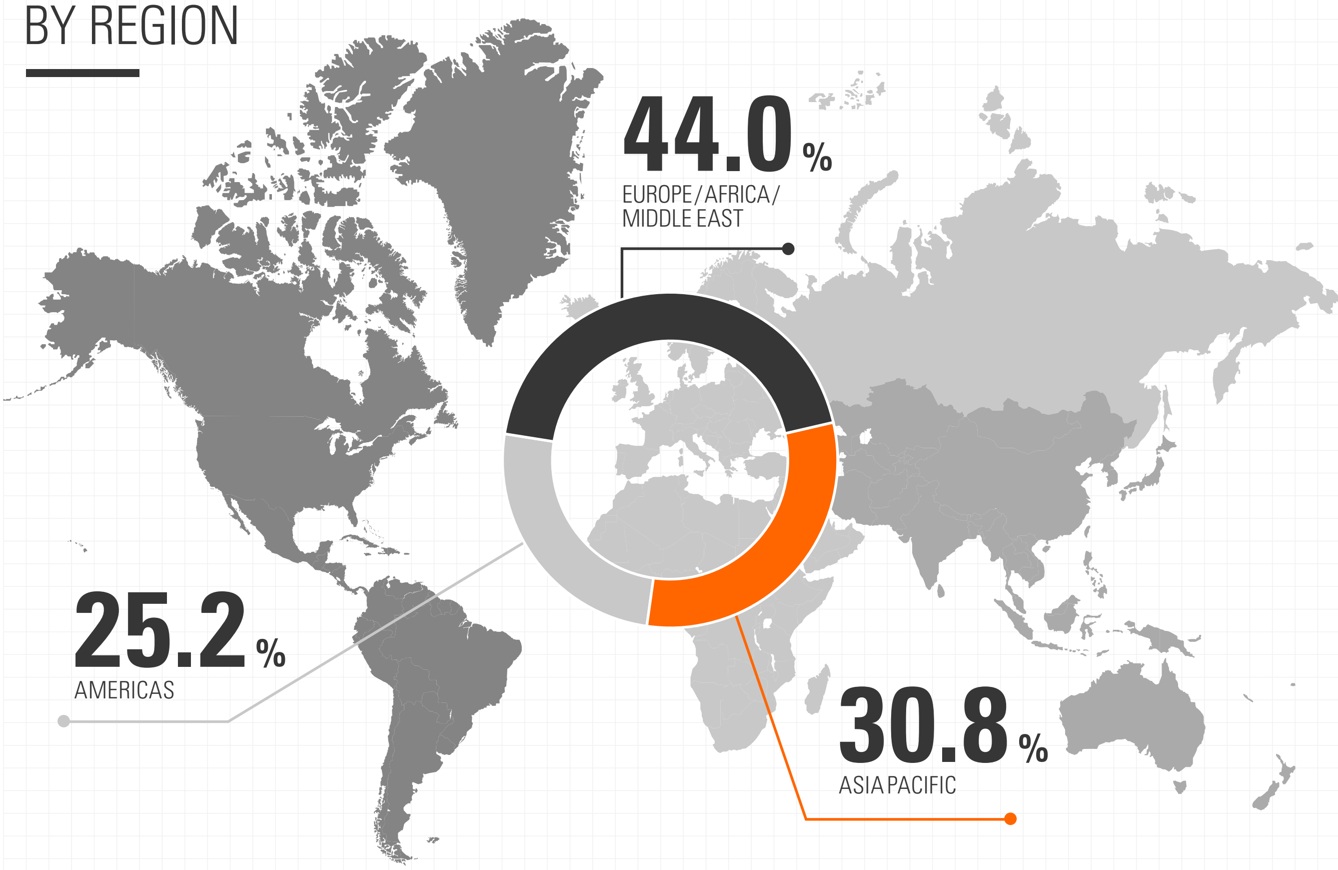
REVENUE
BY REGION



GROUP
ACHIEVEMENTS

CHARTER OF TRUST

SGS co-signed the Charter of Trust with the aim to make the digital world more secure

WORLD CLASS SERVICES

Initial evaluation of SGS laboratories took place to identify ways to reduce organizational waste and losses

SGS ONLINE

Services offered online to customers and consumers

CHF 75 MIO

Gross procurement savings

SGSWORLD

New intranet collaboration platform launched

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SUSTAINABILITY ACHIEVEMENTS

SGS was named Industry Leader by the Dow Jones Sustainability Index for the fifth year

SGS was named Carbon Disclosure Project (CDP) Supplier Engagement Leader

SGS received the Robecosam Gold Class Award for its excellent sustainability performance

SGS was included in the FTSE4Good Index for the second year

SGS received a gold rating from EcoVadis for the fourth year

CHF 1.55 MIO

CHF 1.55 million invested in communities and 18 544 hours of community volunteering performed by SGS employees

VALUE TO SOCIETY

For the second year running, SGS is a net positive company

63 %

Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) reduced by 63% and 58%, respectively, since 2014

CARBON NEUTRAL

SGS maintained its status as a carbon neutral company

Find out more about Sustainability at SGS http://www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs

SUSTAINABILITY AMBITIONS 2020

PROFESSIONAL EXCELLENCE

Link management incentive plan to sustainability

Deliver measurable sustainable value to society

PEOPLE

Maintain a natural turnover rate of no more than 15%*

30% of leadership positions will be held by women

Reduce our TRIR and LTIR by 50%**

ENVIRONMENT

Reduce our annual CO_2 emissions (per FTE) by 20%**

Reduce our annual CO_2 emissions (by revenue) by 20%**

COMMUNITY

Increase our investment in communities around the world by 30%,** with a focus on volunteering

** Adjusted from 10% to 15% to provide a more realistic target for our industry, based on market studies and external ratings benchmarks.*

*** Against 2014 baseline.*

BUSINESS PERFORMANCE

REVENUE BY BUSINESS

ADJUSTED OPERATING INCOME[1] BY BUSINESS

(CHF million)	2018	PRO-FORMA[2] 2017	Change %	2017	Change %
AGRICULTURE, FOOD AND LIFE					
REVENUE	1 062.6	1 018.0	4.4	1 016.3	4.6
ADJUSTED OPERATING INCOME[1]	170.5	162.5	4.9	162.5	4.9
MARGIN[1]	16.0%	16.0%		16.0%	
MINERALS					
REVENUE	750.1	673.5	11.4	683.6	9.7
ADJUSTED OPERATING INCOME[1]	121.1	102.0	18.7	104.6	15.8
MARGIN[1]	16.1%	15.1%		15.3%	
OIL, GAS AND CHEMICALS					
REVENUE	1 220.2	1 137.8	7.2	1 138.8	7.1
ADJUSTED OPERATING INCOME[1]	116.1	120.4	(3.6)	119.7	(3.0)
MARGIN[1]	9.5%	10.6%		10.5%	
CONSUMER AND RETAIL					
REVENUE	1 025.4	965.8	6.2	963.2	6.5
ADJUSTED OPERATING INCOME[1]	266.9	247.6	7.8	246.9	8.1
MARGIN[1]	26.0%	25.6%		25.6%	
CERTIFICATION AND BUSINESS ENHANCEMENT					
REVENUE	366.0	342.1	7.0	340.3	7.6
ADJUSTED OPERATING INCOME[1]	69.6	64.7	7.6	64.3	8.2
MARGIN[1]	19.0%	18.9%		18.9%	
INDUSTRIAL					
REVENUE	940.2	897.3	4.8	906.5	3.7
ADJUSTED OPERATING INCOME[1]	84.2	73.7	14.2	73.4	14.7
MARGIN[1]	9.0%	8.2%		8.1%	
ENVIRONMENT, HEALTH AND SAFETY					
REVENUE	517.2	489.2	5.7	485.8	6.5
ADJUSTED OPERATING INCOME[1]	57.4	49.2	16.7	48.6	18.1
MARGIN[1]	11.1%	10.1%		10.0%	
TRANSPORTATION					
REVENUE	540.5	541.4	(0.2)	546.5	(1.1)
ADJUSTED OPERATING INCOME[1]	82.8	91.7	(9.7)	89.9	(7.9)
MARGIN[1]	15.3%	16.9%		16.5%	
GOVERNMENTS AND INSTITUTIONS					
REVENUE	283.6	263.9	7.5	268.1	5.8
ADJUSTED OPERATING INCOME[1]	81.3	56.7	43.4	58.7	38.5
MARGIN[1]	28.7%	21.5%		21.9%	

1. Before amortization of acquired intangibles and other non-recurring items.
2. Constant currency basis.

AGRICULTURE, FOOD AND LIFE

OVERVIEW

- Strong growth trends for Food and Life continued in second half
- Agriculture remained challenging, intensified by weather events
- Continued investment in biopharma capacity expansion and Agri-Food digital initiatives
- Strategic partnerships to expand reach in food fraud

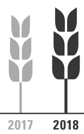
OUTLOOK

- Recent investments in Food and Life to continue to drive growth
- Trade to remain challenging for the tail end of the 2018/19 crop season
- Seed and Crop to benefit from demand for precision agriculture services
- Growing adoption and recognition of digital solutions for Agri-Food
- Strong pipeline of acquisition targets, particularly in the Food and Life sectors

1 062.6

REVENUE IN CHF MILLION

4.4%



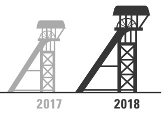
GROWTH IN 2018[1]

MINERALS

750.1

REVENUE IN CHF MILLION

11.4%



GROWTH IN 2018[1]

OVERVIEW

- Robust revenue growth across all activities throughout the year
- Trade inspection volumes remained strong for bulk commodities
- Strong growth in geochemistry and laboratory outsourcing
- Excellent growth in Metallurgy services

OUTLOOK

- Market fundamentals to remain strong subject to a stable macro environment
- Sustained growth in the laboratory network
- Continued focus on niche services and new market segments
- Margin improvement from automation and operational efficiency projects

OIL, GAS AND CHEMICALS

OVERVIEW

- Strong double-digit growth in Plant and Terminal Operations (PTO), mainly in the USA
- Overall low single-digit growth in Trade-related activities, with strong growth in Asia
- Low single-digit growth in Upstream, mainly from new contracts in the Middle East and North Africa
- Small decline in Non-Inspection-related Testing activities caused by the delay in laboratory commissioning projects in the second semester

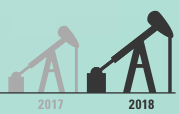
OUTLOOK

- Trade momentum to continue, but market conditions to remain competitive
- PTO to continue growth reflecting industry cycle, specifically in Polymers and Plastics sector
- Upstream to strengthen in production and maximize its utilization of assets
- Non-Inspection-related Testing activities to benefit from new laboratory outsourcing projects

1 220.2

REVENUE IN CHF MILLION

7.2%



GROWTH IN 2018[1]

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1. Constant currency basis.

CONSUMER AND RETAIL

OVERVIEW

- Double-digit growth in South East Asia Pacific, Eastern Europe and Middle East
- New restricted substances and strong level of Safety testing boosted E&E activities
- Excellent growth in Cosmetic, Personal Care and Household (CPCH) in Germany, China and North America
- Softlines gained market share from new sustainability solutions and footwear testing

OUTLOOK

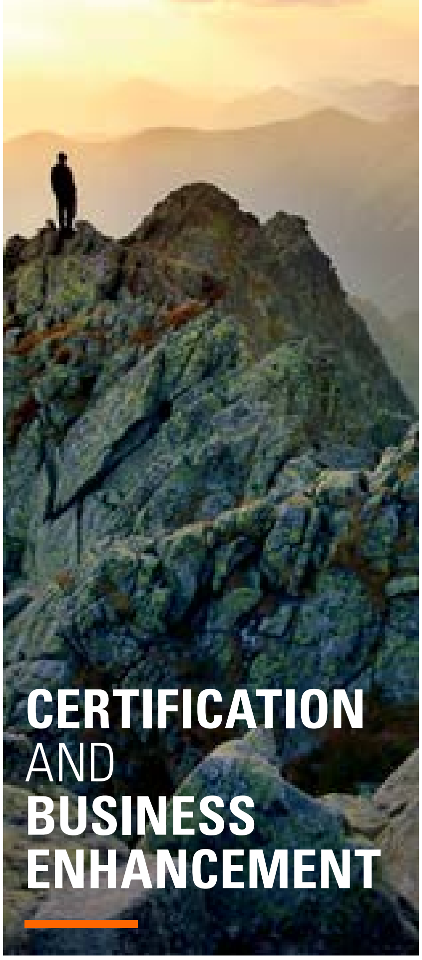
- USA/China trade war represents a risk, especially for technology products
- Expand capacity in South East Asia to meet buyer shift out of China; continued investments in digitalization and automation to drive margin improvements
- Investment in 5G and Internet of Things for wireless activity
- Further expand CPCH and Hardlines through acquisitions

1 025.4

REVENUE IN CHF MILLION

6.2%

GROWTH IN 2018[1]

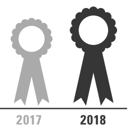


CERTIFICATION AND BUSINESS ENHANCEMENT

366.0

REVENUE IN CHF MILLION

7.0%



GROWTH IN 2018[1]

OVERVIEW

- Solid organic growth driven by Management System certification and transition to the new 2015 standards
- Improved margin from increased Certification activity and efficiency gains
- Rollout of Performance Assessments' global cloud-based solution and introduction of Business Enhancement Engine

OUTLOOK

- Slowdown expected in organic growth due to end of transition in Certification
- Double-digit growth in Business Enhancement with new training services and increased value generation from data-driven services
- Continue to protect high margin levels with further efficiency gains in operations

INDUSTRIAL

OVERVIEW

- Growth in Oil and Gas market driven by large supervision contracts and refinery shutdown inspections across all regions
- Solid developments in Infrastructure market in South America and Asia
- Manufacturing growth in Laboratory Testing activities, specifically in Calibration services
- Margin improvement offset Brazil situation

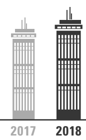
OUTLOOK

- Leverage positive growth perspectives in the Infrastructure market
- Preserve our position in the Oil and Gas market in a low CAPEX environment
- Continue our diversification into Laboratory Testing through acquisitions
- Implement development programs and continue portfolio management

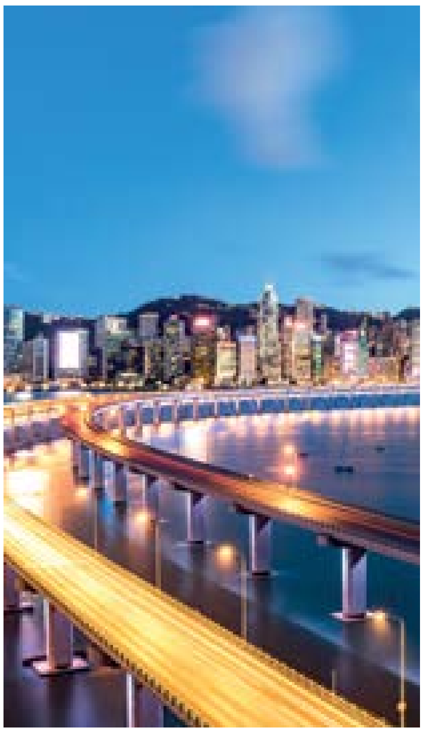
940.2

REVENUE IN CHF MILLION

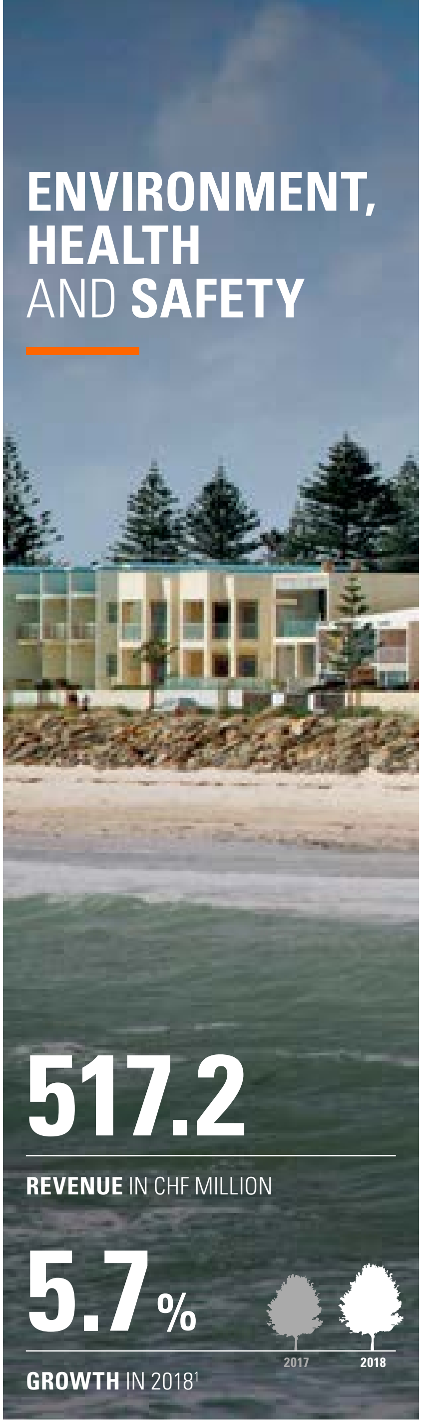
4.8%



GROWTH IN 2018[1]



1. Constant currency basis.



ENVIRONMENT, HEALTH AND SAFETY

517.2

REVENUE IN CHF MILLION

5.7%

2017 2018

GROWTH IN 2018[1]

OVERVIEW

- Strong performance from all business segments
- Improved contribution from Laboratory and Health & Safety services
- Signing of Ballast Water convention and upcoming International Maritime Organization 2020 open new market opportunities for Marine services
- Focus on central data management provided further efficiencies

OUTLOOK

- Overall portfolio to remain robust
- Continued demand driven by legislation and development projects
- Regular dashboard review to improve margins and enhance optimization
- Global launch of "real-time monitoring" solutions with focus on air quality

TRANSPORTATION

OVERVIEW

- Double-digit growth in Testing services reflecting the return of past investments
- Slight revenue decrease for Regulated services following end of programs in Uruguay and the USA
- Strong demand for certification services linked to new International Automotive Task Force standard
- Reduced revenue from end of Field Service contracts in the USA and slower than expected start of new contracts in Europe

OUTLOOK

- Margin expected to stabilize following restructuring in the USA and anticipated volume uptake for Regulated Services in Chile and Uganda
- Focus on further diversification in the strong growing Aviation and Rail Industry, broadening the geographical service portfolio

540.5

REVENUE IN CHF MILLION

(0.2)%

2017 2018

GROWTH IN 2018[1]

GOVERNMENTS AND INSTITUTIONS

283.6

REVENUE IN CHF MILLION

7.5%

2017 2018

GROWTH IN 2018[1]

OVERVIEW

- Solid double-digit growth delivered in Single window from strong trade volume
- New marketing strategy for TransitNet translated into increased market share in key countries
- Improved margin from better collection, economies of scale and efficiency initiatives
- SGS onTrack implemented for Tobacco industry to ensure compliance with EU tobacco regulations and as a monitoring program in Georgia and Russia

OUTLOOK

- Trade compliance and cross-border complexity underpinning sustainable growth
- Strengthening governments' digital solutions
- Focus on innovation and unique technologies (D-TECT, E-Valuator and LegalTrace) and propose more SaaS/PaaS
- Renovo e-waste monitoring program launched in Ghana and the Ivory Coast expected to ramp up

1. Constant currency basis.

2018 ACQUISITIONS

VANGUARD SCIENCES INC.

USA

Vanguard Sciences is a leading provider of food safety testing services in the areas of product testing, research and development, and food safety consultation, using a robust information technology platform. The company's core capabilities include microbiological, chemical and physical testing.

LABORATOIRE DE CONTRÔLE ET D'ANALYSE (LCA)

BELGIUM

LCA provides chemical and microbiological testing and consultancy services to national and international pharmaceutical companies, for compliance with Belgian and European procedures. The lab is Good Manufacturing Practice (GMP – human and veterinary) and ISO 17025 certified.

TRAITGENETICS GMBH

GERMANY

Headquartered in Gatersleben near Berlin, TraitGenetics utilizes state-of-the-art technologies for the development and analysis of molecular markers for plant breeding research. The company provides services across a wide variety of crops to international clients in the plant breeding industry and for academic research.

SIT SKIN INVESTIGATION AND TECHNOLOGY HAMBURG GMBH (SIT)

GERMANY

SIT is one of the leading independent contract research companies in Germany, providing applied dermatological research and studies for the cosmetics and personal care industries. The company offers a broad range of skin-tolerance and proof-of-efficacy testing.

OLEOTEST NV

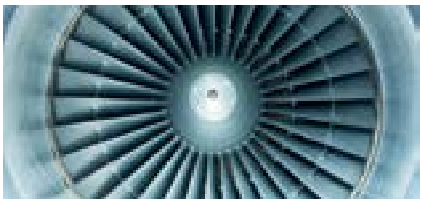
BELGIUM

Oleotest is a provider of chemical testing services in food, feed and agricultural commodities. The laboratory is ISO 17025 certified.

POLYMER SOLUTIONS INCORPORATED (PSI)

USA

PSI is a highly respected independent materials testing laboratory specializing in polymer science. It serves numerous mainstream industries, including medical devices, pharmaceuticals, consumer products, aerospace, specialty packaging and industrial manufacturing of polymeric materials.



ADVANCED METROLOGY SOLUTIONS S.L. (AMS)

SPAIN

AMS specializes in 3D metrology precision services and highly technical inspection measurement processes. Its main customers are major aircraft manufacturers and their Tier 1 and 2 suppliers. Headquartered in Getafe, Spain, AMS operates four additional sites across Spain and Portugal.

INTER-BASIC RESOURCES INC. (IBR)

USA AND UK

IBR is a leading provider of state-of-the-art testing and verification for air and fluid filtration performance across multiple industries. It offers comprehensive testing services throughout the entire spectrum of filtration services, with laboratories in the United States and the United Kingdom.

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SGS AT A GLANCE

Walker regularly attends internal training courses and e-learnings that give him the opportunity to build his knowledge and grow his career.

4 QUALITY EDUCATION

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SGS, A LEADING
TIC INDUSTRY PLAYER

SGS is the world's leading inspection, verification, testing and certification company. SGS is recognized as the global benchmark for quality and integrity. With more than 97 000 employees, SGS operates a network of over 2 600 offices and laboratories around the world.

OUR VISION

We aim to be the most competitive and the most productive service organization in the world. Our core competencies in inspection, verification, testing and certification are being continuously improved to be best in class. They are at the heart of what we are. Our chosen markets are and will be determined by our ability to be the most competitive and to consistently deliver unequaled service to our customers.

OUR VALUES

We seek to be characterized by our passion, integrity, entrepreneurialism and our innovative spirit, as we continually strive to fulfill our vision. These values guide us in all that we do and are the bedrock upon which our organization is built.

+97 000

EMPLOYEES

+2 600

OFFICES AND LABORATORIES

OUR VALUE TO SOCIETY

GLOBAL EXPERTISE AND ASSURANCE

HANANE TAIDI
Director General of the TIC Council

TIC COUNCIL

The testing, inspection and certification (TIC) sector is an ally to governments, a facilitator of trade and a partner to industries. Active in virtually all areas of the economy, TIC suppliers provide conformity assessment services that create trust in relationships between companies and their customers. These services help reduce risk and drive safety and quality to the highest levels while ensuring all members of supply chains perform optimally.

Our industry employs highly skilled experts to carry out independent evaluations, audits and inspections according to a variety of international and national standards and regulations. By doing so, we provide confidence that a product, a process, a system or a person meets specific requirements, and we bring an extra level of trust to trade transactions.

Today's digitalized world of connected devices presents both opportunities and challenges. At a time defined by fast-growing new markets and increasingly complex value chains and fast-paced innovation, the TIC industry helps authorities meet requirements for supervision and market monitoring. It also assists businesses in navigating the global regulatory landscape and ensuring that consumers buy products and use services that are safe and compliant.

The global TIC market is valued at around EUR 200 billion* and is growing. We are witnessing the increasing harmonization of standards, the growing consumption of goods in emerging markets and the enforcement of rigorous regulations and standards across various sectors. At the same time, counterfeiting and piracy are increasing globally. These factors underline the critical role of the TIC industry in providing unbiased safety verification, quality assurance and compliance certification.

** Source: TIC outlook 2018, Barclays.*

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OUR BUSINESS PRINCIPLES

INTEGRITY

MAKING SURE WE BUILD TRUST

We act with integrity and behave responsibly. We abide by the rules, laws and regulations of the countries we are operating in. We speak up: we are confident enough to raise concerns and smart enough to consider any that are brought to us.

HEALTH AND SAFETY

MAKING SURE WE ESTABLISH SAFE AND HEALTHY WORKPLACES

We fully protect all SGS employees, contractors, visitors, stakeholders, physical assets and the environment from any work-related incident, exposure and any kind of damage.

LEADERSHIP

MAKING SURE WE WORK TOGETHER AND THINK AHEAD

We are passionate entrepreneurial people with a relentless desire to learn and innovate. We work in an open culture where smart work is recognized and rewarded. We foster teamwork and commitment.

SGS' Business Principles are the cornerstone on which all of our activity rests. They are held to be fundamental, overarching beliefs and behaviors that guide our decisions and allow us to embody the SGS brand in everything we do.

www.sgs.com/principles

RESPECT

MAKING SURE WE TREAT ALL PEOPLE FAIRLY

We respect human rights. We all take responsibility for creating a working environment that is grounded in dignity, equal opportunities and mutual respect. We promote diversity in our workforce and do not tolerate discrimination of any kind.

SUSTAINABILITY

MAKING SURE WE ADD LONG-TERM VALUE TO SOCIETY

We use our scale and expertise to enable a more sustainable future. We ensure that we minimize our impact on the environment throughout the value chain. We are good corporate citizens and invest in the communities in which we operate.

QUALITY AND PROFESSIONALISM

MAKING SURE WE ACT AND COMMUNICATE RESPONSIBLY

We embody the SGS brand and its independence in our everyday behavior and attitude. We are customer-focused and committed to excellence. We are always clear, concise and accurate. We strive to continually improve quality and promote transparency. We respect client confidentiality and individual privacy.

OUR POSITION IN THE VALUE CHAIN

SGS is active in virtually all sectors of the economy.
We provide a wide range of inspection, verification, testing and certification services across all stages of the value chain.

AGRICULTURE AND FOOD

Innovative safety, quality and sustainability solutions for your supply chain.

CHEMICAL

Innovation, optimization and efficiency in everything from feedstocks to finished products.

CONSTRUCTION

Ensuring safety and performance in the environment where we work and live. Safe, efficient and trusted processes are essential when constructing buildings or infrastructure.

LIFE SCIENCES

Safeguarding the quality and efficacy of medicines.

MINING

Delivering expert services to improve speed to market, manage risks and maximize returns.

TRANSPORTATION

Driving a safer, cleaner and more efficient industry.

PUBLIC SECTOR

Facilitating trade and sustainable development, protecting society against fraud and economic crime.

INDUSTRIAL MANUFACTURING

Making manufacturing more productive and profitable.

OIL AND GAS

Innovative solutions that add up along the value chain.

CONSUMER GOODS AND RETAIL

Generating trust throughout the supply chain. Our services enable manufacturers, exporters, importers and retailers to gain a competitive edge.

ENERGY

Powering processes from renewables to conventional energy.

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OUR GLOBAL NETWORK

The scale of our global footprint is a critical competitive advantage for SGS. We have expertise everywhere our customers need it. We use our business and industry knowledge, combined with our local country insights, to present a single global network across our customers' supply chains.

OUR VALUE TO SOCIETY

Our operations and services respond to global drivers and add significant value to our stakeholders. We measure value creation with the aim to empower smarter decision-making.

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OUR VALUE TO SOCIETY

Our business activity is designed to create value for and through our six main stakeholders: investors, customers, governments and industries, consumers, employees and suppliers, and communities and the planet.

5

OUR VALUE TO SOCIETY IS:

MEASURING OUR GLOBAL IMPACT

We benchmark and analyze our performance, using pioneering impact valuation techniques.

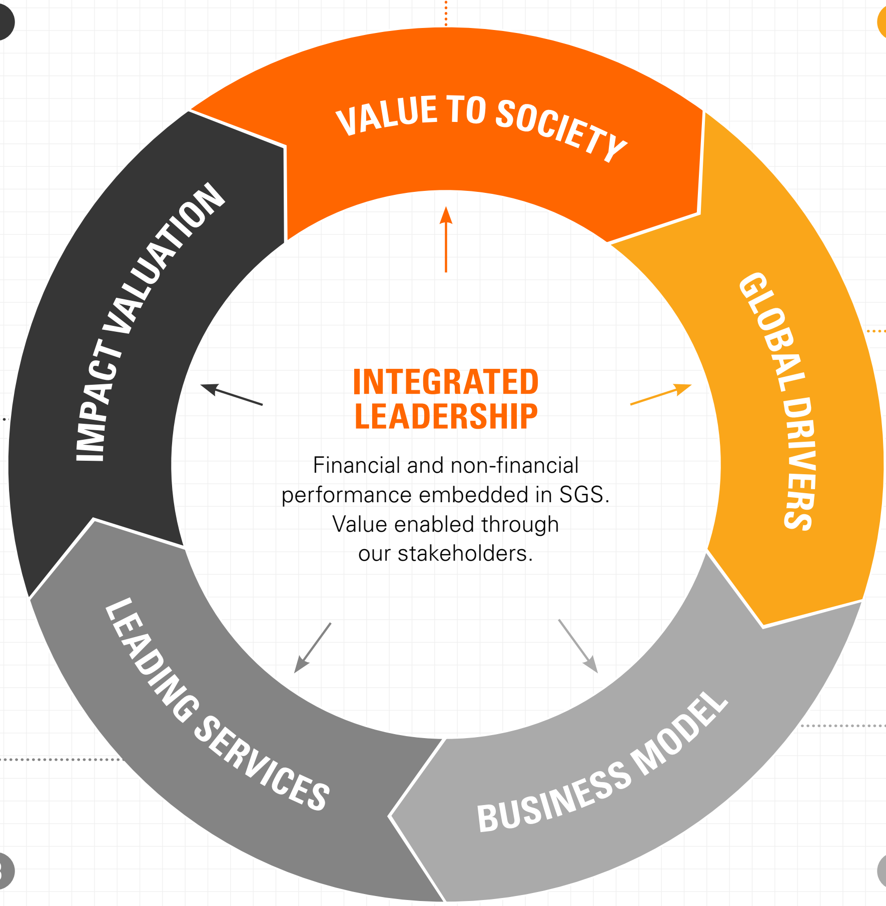
4

OUR VALUE TO SOCIETY IS:

PURPOSE BEYOND PROFIT

We closely monitor and respond to market and societal needs while also directly contributing to efforts to tackle some of the world's most pressing problems.

1



3

OUR VALUE TO SOCIETY IS:

ENABLING BUSINESS

We enable our customers to be more efficient, productive and sustainable through our world-class services. This multiplies our positive impact.

2

OUR VALUE TO SOCIETY IS:

LONG-TERM SUSTAINABLE GROWTH

We ensure SGS' long-term stability and add direct value to society through the continual pursuit of excellence across all areas of our business.

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INTEGRATED LEADERSHIP

EMPOWERS SGS TO DELIVER VALUE TO SOCIETY

Integrated leadership forms a critical part of our approach to creating value to society. It ensures that we prioritize strategic decision-making that looks beyond the bottom line.

GLOBAL DRIVERS

MEGATRENDS

SGS has outlined five megatrends that are influencing the way we live and do business.

- URBANIZATION, MOBILITY AND SMART CITIES
- CLIMATE CHANGE
- ECONOMIC GROWTH
- POPULATION AND SOCIAL TRENDS
- DIGITALIZATION AND CYBERSECURITY

(See page 28)

THE SUSTAINABLE DEVELOPMENT GOALS

Our activities contribute positively to all 17 Sustainable Development Goals.

(See page 30)

RISK INTELLIGENCE

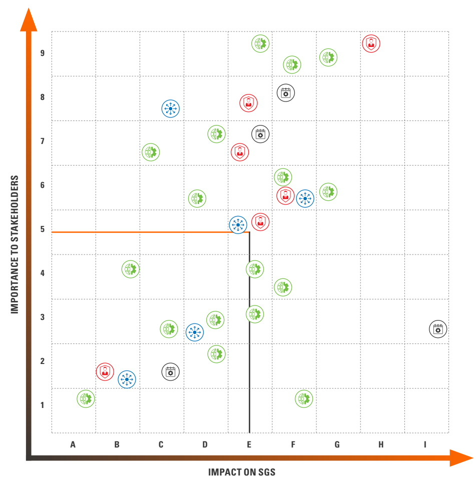
Understanding the risks we face is a critical part of our integrated leadership approach.

(See page 31)

BUSINESS MATERIAL TOPICS

Recognizing and prioritizing our material issues allows us to allocate resources in the most efficient way possible.

(See page 32)



OUR BUSINESS MODEL

BRAND

A brand not only differentiates a company, it unites it. The SGS brand offers our customers the peace of mind that comes from knowing they are working with the market leader. It means our employees are rallying behind the same cause and pulling in the same direction. Finally, it means that we are bound by a shared commitment to provide the highest quality services.

MISSION 2020

- High customer retention and satisfaction
- No major integrity or human rights breaches
- Leading position in strategic markets and geographies
- Industry sustainability leadership
- Deliver measurable sustainable value to society
- Increase visibility of our value to society

GROWTH

The continued growth of our global network and its unrivaled physical footprint is a key competitive advantage, both to our business and to our shareholders.

MISSION 2020

- Build scale
- Buy capabilities
- Fill geographic gaps
- Enhance financial metrics
- Maintain strategic significance
- Diversify portfolio of services
- Mid single-digit average organic growth
- Enhance presence in key markets

INNOVATION

SGS will continuously stretch the boundaries of the TIC industry in order to retain our position as market leaders.

MISSION 2020

- Enhance business through digital services
- Expand B2B2C presence
- Develop B2C presence
- Strengthen and invigorate the culture of innovation at SGS

EXPERTISE

A business' ability to attract and retain the best talent is a cornerstone of its success. At SGS, we believe in our people, and we are serious in supporting their long-term development.

MISSION 2020

- Enhance our reputation as an employer of choice
- Employ the industry's leading experts
- Maintain natural staff turnover rate at no more than 15%
- 30% of senior management positions to be held by women
- Be the leading brand for accuracy, quality and professionalism

INVESTMENT

Investment in research, innovation, talent and technology has to be at the core of our business model.

MISSION 2020

- Invest in cutting-edge technology and optimize existing technology performance and usage
- Increase investment in communities around the world by 30%*
- Maintain best-in-class returns on invested capital

OPERATIONAL EXCELLENCE

Applying continuous improvements across our business operations, improving performance and utilizing the best possible sustainable business practices provide our competitive edge.

MISSION 2020

- Reduce our annual CO_2 emissions (per FTE) by 20%*
- Reduce our annual CO_2 emissions (by revenue) by 20%*
- Reduce TRIR and LTIR by 50%*
- Ensure efficient use of capital
- Maximize internal efficiencies

** Against a 2014 baseline.*

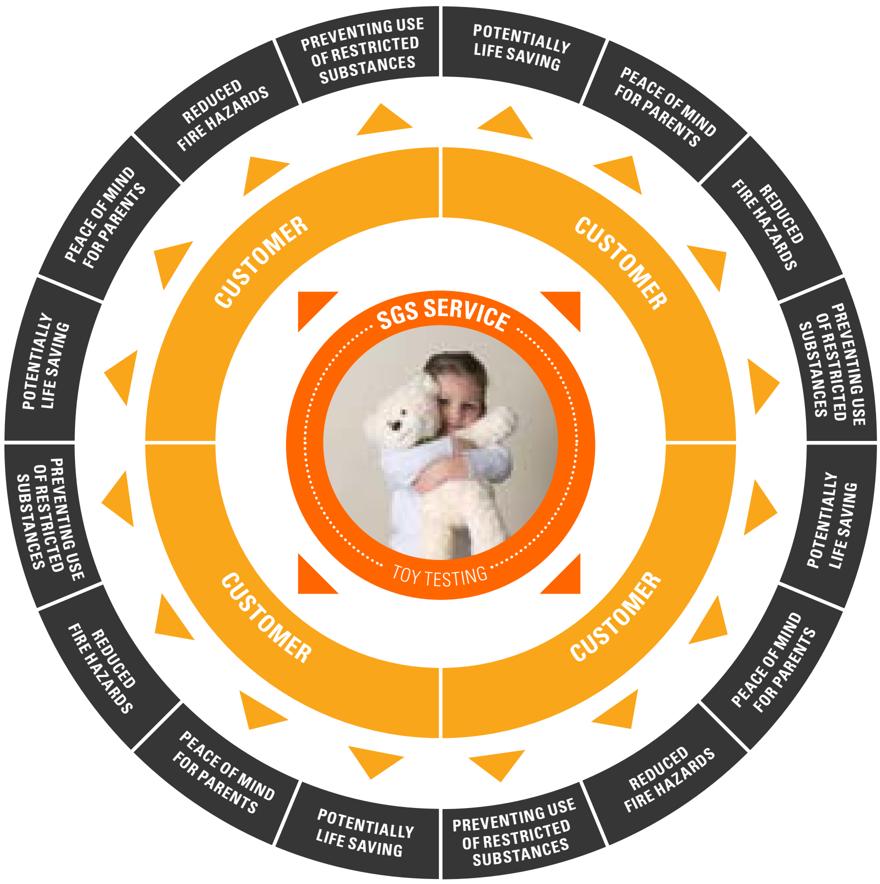
LEADING SERVICES

Our services bring a tremendous amount of value to society by helping our customers to be more efficient and productive while improving safety and achieving their sustainability objectives.

Our customers therefore create a multiplier effect of our value to society (see Toy Testing case study opposite).

OUR SERVICES	OUR BENEFITS
INSPECTION	QUALITY
TESTING	SAFETY
VERIFICATION	REDUCED RISK
CERTIFICATION	EFFICIENCY
TRAINING	PRODUCTIVITY
CONSULTANCY	SPEED TO MARKET
OUTSOURCING	TRUST
ANALYTICS	SUSTAINABILITY

EXAMPLE MULTIPLIER EFFECT OF OUR SERVICES

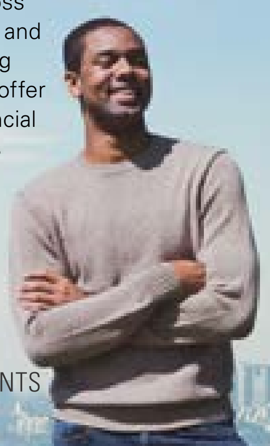


OUR STAKEHOLDERS

We create value to society for and through our stakeholders.

EMPLOYEES AND SUPPLIERS

We add value to our employees by offering them training, nurturing their potential and encouraging them to work across multiple functions and geographies during their careers. We offer our suppliers financial strength that adds stability to their businesses and brings indirect benefits to society.



INVESTORS

We create value for our investors by being a robust, sustainable business with a 140-year track record. Our transparency, strong leadership and commitment to long-term sustainability make us a sound investment.

CUSTOMERS

We provide our customers with leading services, which helps make their businesses more efficient, profitable and sustainable. This value is passed on to society in the form of job security for employees, higher quality products and better environmental management.

GOVERNMENTS AND INDUSTRIES

We add value to the industries we operate in by driving supply chain innovation. We provide governments with tax revenues, create employment and train local people. We also provide services that directly support governments around the world.

CONSUMERS

Consumers benefit from the services we provide our customers because they are able to trust the products and services they buy. From a product's quality and safety to its authenticity, our services help protect consumers.

COMMUNITIES AND THE PLANET

We help nurture the communities we operate in and strongly support disaster relief efforts. Our sustainability endeavors are recognized as being among the very best – both regionally and in the TIC industry. Through our services and operations, we attempt to protect our planet and its limited resources.

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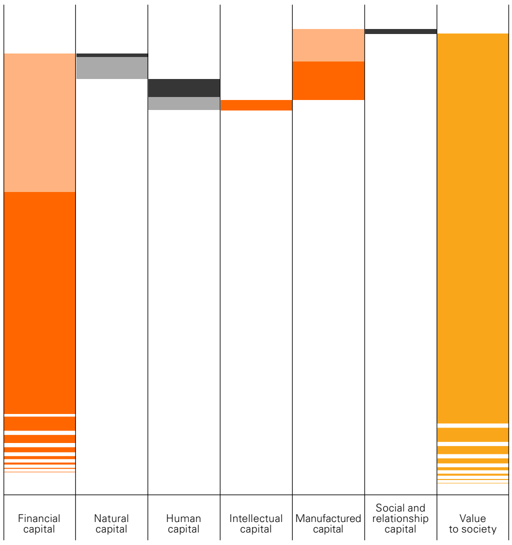
IMPACT VALUATION FRAMEWORK

We have developed a pioneering impact valuation model that allows us to measure our value to society in quantitative terms. We are among the first companies to attempt to do this, and we believe that in the future, such calculations could have the potential to influence the way businesses' value is perceived. We are also embracing the Integrated Reporting Framework's strategy of understanding how our material factors generate value over time.

(See page 67)

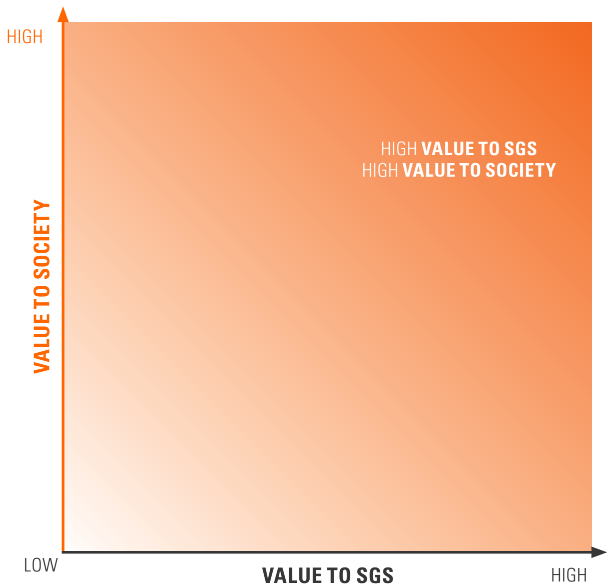
MEASURING OUR VALUE TO SOCIETY



Our Impact Valuation model measures a series of carefully selected indicators across six capital stocks. The flows of these capitals are calculated across our supply chain and operations to measure our value to society. In the future, we will evaluate these capital flows across our services as well.

(See page 70)

OUR DOUBLE-POSITIVE DECISION MATRIX



All of our actions have an impact on both SGS and on society. In the future, our informed integrated leadership will enable SGS to focus in those activities that add a high double-positive impact, maximizing the value we add to SGS and to society.

(See page 71)

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The world is rapidly changing. Through our understanding of global megatrends, we build our risk intelligence and evolve the way we do business.

SGS Rail Inspection experts conduct reviews of trains to ensure George gets to university safely.

11 SUSTAINABLE CITIES AND COMMUNITIES

GLOBAL DRIVERS

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SGS has outlined five megatrends that are influencing the way we live and do business.

MEGATRENDS

URBANIZATION, MOBILITY AND SMART CITIES

Currently, most of the global GDP is generated in cities, and more than half of the world's population lives in metropolitan areas – a trend that will intensify. Urbanization provides opportunities to increase productivity and attract talent, but the need for resources and space impacts the economy, environment and quality of life. Governments and businesses are using technologies and data to build smart cities, towns and villages as well as to deliver smart mobility, advance economic growth and improve infrastructure and community services.

CLIMATE CHANGE

Extreme weather conditions and climate change can cause droughts and flooding that affect natural resources – such as water, energy, minerals/metals and food. This is especially true for some developing countries, where population growth trends further accelerate the demand for natural resources. Governments are responding by developing new regulations, meaning businesses and communities will need to develop actionable strategies that reduce the impact on climate change while supporting new demographic structures and securing the supply of resources.

ECONOMIC GROWTH

The global economy has grown twenty times over the last two centuries and is estimated to increase six-fold by 2050. The economy's primary challenge is to balance our desire for economic growth and prosperity with finite natural resources. On the consumer side, the production and disposal of items with a short lifespan can cause environmental damage and impact people's health, while the progress of emerging economies increasingly influences the global consumption pattern. To support economic growth, businesses must invest in sustainability, human capital and promote fair access to the workplace, technology and markets.

OUR VALUE TO SOCIETY

SGS INVESTS IN 5G TECHNOLOGY


ERIC LEE
SGS Global CRS and Wireless Manager

Smart-city services will rely on network providers' abilities to relay vast amounts of data in almost real time. With its high speeds and low latencies, fifth-generation wireless, or 5G, is poised to be an ideal solution. To provide the compliance, security and reliability of this next generation network, SGS has invested in a 5G call simulator in Taiwan, Korea, China and the USA, worth CHF 600 000. These simulators enable us to test, verify and troubleshoot the performance of the system as well as ensure security and reliability for devices. In 2019, SGS will continue its investment in 5G compliance testing to support customers across all stages of product development.

ENSURING SAFE, SUSTAINABLE ENERGY AROUND THE WORLD


CHARLIE ZHANG
SGS Wind Energy Product Manager

SGS tests, inspects and certifies renewable energy initiatives, such as wind, solar and hydro, for businesses and consumers around the world. SGS evaluates the technical feasibility of renewable power plant projects, manages the supply chain, ensures installations avoid risk and provides customized consultancy services for the entire development. We ensure the generation and distribution of power is safe, efficient and sustainable for the future. As China is the leader in renewable energy investments, accounting for 45% of the global total, SGS has invested in a state-of-the-art Wind Energy Technology Center (WETC) in Tianjin, which provides a complete set of full-scale testing capabilities.

SGS PIONEERS UNIQUE END-TO-END SOLUTION FOR E-WASTE


ALEXANDRE LUSENTI
SGS Product Manager for Renovo™

To help nations successfully and sustainably dispose of their waste, SGS created Renovo™, a self-funding, full-scale waste management system. In 2018, SGS implemented Renovo™ in the Ivory Coast and Ghana. The Governments of both countries designated SGS as the official external service provider to identify the products imported, determine their condition and prevent the importation of waste, thus reinforcing the Basel Convention on transportation of waste and hazardous goods. This identification is critical to size the facility correctly and to start the traceability process. SGS is also responsible for collecting an advance eco levy on all electrical and electronic equipment and tires exported to support the countries' efforts to protect their people and environment.

POPULATION AND SOCIAL TRENDS

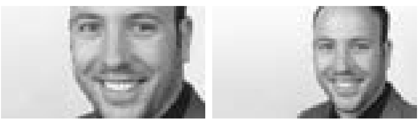
The world's population is projected to rise by more than 1 billion by the year 2030, bringing the total to over 8 billion, and 97% of this growth will come from emerging or developing countries. This pace of change poses significant challenges for governments and businesses and empowering the next generation of workers – millennials (born in the 80s, 90s and early 2000s) – is critical to meeting these social challenges. Businesses and communities need strategies that can support the new demographic structure.

These trends are interconnected, and while the pace and impact of changes may vary, our responsibility is to anticipate them. We design our strategy using this long-term thinking, while at the same time remaining agile and adjusting our operations and services to new developments.

DIGITALIZATION AND CYBERSECURITY

The billions of devices that are connected to the internet, interacting and sharing data back and forth on an entirely new scale, present huge potential to save time and money. Moreover, advanced technology – such as robotics, artificial intelligence and big data – is revolutionizing our personal and professional lives. As much as these advances are improving societies and economies, the security risks are significant. Personal data has become a valuable asset and attacks on security gaps can cause considerable damage. Adequate cybersecurity is one of the basic requirements for a digital society: people need to be able to trust that their digital devices are secure and that their data is private and safe. Any company that works with data needs to provide the infrastructure and security measurements to avoid data breaches and maintain uninterrupted business operations.

HIRING IN THE AGE OF MILLENNIALS



JAMES ALLIBON
SGS Global Recruitment Manager

When recruiting, we put the candidate first by using recruitment tools designed with our audiences' habits and needs in mind. In the case of millennials, we are investigating a tracking application system that is mobile, quick, easy and fully transparent. Millennials are searching for a job that enhances their personal brand while enabling them to make a difference in the world. Attracting millennials will depend on SGS' ability to illustrate our positive impact on society. One of the pillars for SGS' human resources strategy is talent development and internal mobility, to provide our employees with the right opportunities to learn and grow. The success of this strategy will have a positive impact on the attraction and retention of our millennial talents.

SGS AT THE FOREFRONT OF CYBERSECURITY

SERGIO LOMBAN
SGS Digital Trust Services, Vice President

To shape the future of the digital world, SGS joined forces with Siemens and eight other leading businesses to present a Charter of Trust in February 2018. The Charter contains 10 principles that aim to make the digital world more secure and also sets three important goals: Protect the data of individuals and companies; prevent damage to people, companies and infrastructures; and create a reliable foundation for instilling trust in a networked, digitally connected world. As an industry leader, we are committed to pushing for the Charter's adoption globally and will continue to develop, promote and implement its principles.

THE SUSTAINABLE DEVELOPMENT GOALS

Adopted in 2015, the Sustainable Development Goals (SDGs) aim to eliminate poverty, protect the planet and ensure prosperity for all. Each of the 17 goals has specific targets that define global priorities and aspirations for 2030. Our Sustainability Ambitions 2020 are closely linked to the SDGs and all our services support them.

SERVICES	SUSTAINABLE DEVELOPMENT GOALS
AGRICULTURE, FOOD AND LIFE	2 Zero hunger; 3 Good health and well-being; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land
MINERALS	12 Responsible consumption and production; 13 Climate action
OIL, GAS AND CHEMICALS	7 Affordable and clean energy; 12 Responsible consumption and production; 13 Climate action
CONSUMER AND RETAIL	3 Good health and well-being; 7 Affordable and clean energy; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water
CERTIFICATION AND BUSINESS ENHANCEMENT	2 Zero hunger; 4 Quality education; 5 Gender equality; 6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 10 Reduced inequalities; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land
INDUSTRIAL	6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 12 Responsible consumption and production; 13 Climate action; 14 Life below water
ENVIRONMENT, HEALTH AND SAFETY	2 Zero hunger; 3 Good health and well-being; 6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land
TRANSPORTATION	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water
GOVERNMENTS AND INSTITUTIONS	1 No poverty; 2 Zero hunger; 3 Good health and well-being; 4 Quality education; 5 Gender equality; 6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 10 Reduced inequalities; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land; 16 Peace, justice and strong institutions; 17 Partnerships for the goals

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RISK INTELLIGENCE

EXTERNAL RISKS

These include economic and market risks, geopolitical risks, climate change risks, legal and regulatory risks, natural disaster risks and public relations risks among several others.

External Risks are mitigated in various ways including but not limited to:

- Insurance policies
- Business Continuity Planning
- Sustainable Supply Chain initiative
- Legal and Compliance team
- Economic and geopolitical risk analysis

INTERNAL RISKS

STRATEGIC RISKS

These risks include business model, intellectual property, advertising, structural, product life cycle, resource allocations and social responsibility among others.

Strategic Risks are mitigated in various ways including but not limited to:

- Solid business and development plans
- Mergers and Acquisitions Policy
- Legal and Compliance team
- Investor Relations
- Communications and Sustainability team

PROCESS RISKS

These risks include business interruption, environmental, compliance, health and safety, knowledge loss, contractual, taxation, talent acquisition and retention, employee and third-party fraud, and data integrity among others.

Process Risks are mitigated in various ways including but not limited to:

- Business Continuity Plan
- Operational Integrity team, policies and training
- Sustainability team, internal communications and community investment
- Legal and Compliance team
- IT committee, policies, training and architecture
- Employee branding, global HR strategy

FINANCIAL RISKS

These risks include counterparty, credit, equity, foreign exchange, interest rate, liquidity, commodities and opportunity cost among others.

The specific process for Financial Risk management is described in detail in the Finance section (see pages 116-180).

The SGS Board of Directors and Executive Management are responsible for the integration of risk management into key business planning processes. Every year, the SGS Board of Directors assesses the risks faced by the Group. To enable better decision-making responding to risks, the Group employs a comprehensive, integrated approach to identifying and articulating the risks to the business. This involves the active participation of various management levels throughout the company.

This risk assessment process is supported by our Enterprise Risk Management (ERM) model. Our risk categorization is structured into "External" and "Internal" risks (see left).

2018 RISK ASSESSMENT

The 2018 Risk Assessment showed that SGS continues to have a moderate risk profile. Competition for talent (affecting both hiring and staff retention), succession planning, correct pricing and global economic conditions are our main residual risks after mitigation.

Other areas of note include political risk, which has been exacerbated in 2018 by a significant shift in how the United States exercises its global leadership role and continued uncertainty over Brexit. Despite robust mitigation efforts in recent years, cybersecurity remains a risk priority for the Group, owing to the rapidly evolving technological landscape.

2018 STRATEGIC SYSTEM INITIATIVE

2018 was a transitional year for SGS' Risk Management function, with the rollout of an enhanced management structure, a new global Governance Risk and Compliance (GRC) platform and updated Risk Management processes.

RISK OVERSIGHT

A new Risk Management Oversight Committee (RMOC), which is chaired by the CEO, has been established. This includes senior representatives from various key departments such as the CFO, CIO and the Senior Vice President, Human Resources. The Committee is expected to meet twice a year and on an ad-hoc basis as necessary.

The RMOC's role is to manage the ERM framework. It reports directly to the Board.

The revised risk model now also integrates a broader array of risk categories, such as sustainability risks (e.g. climate change, human rights risks), directly into the management process, where they were previously a separate administrative task. This is expected to result in an even more robust and comprehensive approach to risk management in SGS, to better balance value preservation with value creation.

An enhanced integrated Risk Management Framework and governance process uses a matrix approach to analyze risk through the company verticals (business lines and functions) and across geographic (country level) entities. Mapping is then conducted across all areas. Where significant discrepancies arise between Group-level priorities and local perceptions of risk, EVPs are required to visit the country in question to examine the details. The new methodology therefore encourages more detailed risk management dialog between global business and function heads and their respective country-level managers. This allows for better localization of risk management and a clearer understanding of Group-level concerns at a country level. The new framework also places responsibility and accountability for managing risk much closer to our operations with "Risk Champions" now owning a particular risk in their jurisdiction.

NEW RISK MANAGEMENT TOOL

To support the new Framework, a customized Governance Risk and Compliance platform (named ANTARES) is also being deployed across the business. This enables a more detailed analysis of both gross and residual risk (i.e. risk remaining after mitigation efforts have been taken into account) and standardizes risk management evaluation and reporting procedures across the business.

In 2018, the new tool was deployed through the company verticals. As part of this, more than 100 workshops were held with senior management – including heads of all business lines and every business function. This allowed us to obtain a comprehensive overview of their risk and mitigation activities. Successful country-level pilots of the new platform and framework were held in Morocco, South Africa and Australia.

ACHIEVEMENTS

108 risk workshops held

First risk Management Oversight Committee meeting held

OUTLOOK 2019

In 2019, the new Governance Risk and Compliance platform will be deployed on a country level, following its successful pilot in 2018. 43 countries will be covered over the course of the year, with the priority being the largest countries by operation and certain smaller countries with a high-risk profile. Follow-up monitoring for actions identified during the platform's deployment across the verticals and pilot countries in 2018 will also be initiated.

Additionally, a Group-wide risk appetite profile will be formally established, aligned with our Business Principles, Vision and Core Values. This will be determined by the OC and will form a third risk assessment parameter to accompany "likelihood" and "impact" by which we can assess all mitigation activities. In this sense, it will help guide not just risk management policy but also the Group's broader decision-making across a number of actions.

BUSINESS MATERIAL TOPICS

In 2016, SGS carried out its first materiality assessment process. This involved a consultation with around 850 stakeholders in 52 countries. These included customers, senior managers, employees, suppliers, NGOs, ratings agencies, sustainability professionals and academics. Alongside the survey, we conducted a detailed benchmark review of globally relevant and sector-specific sustainability issues and trends. We then conducted a weighted analysis of the results by stakeholder type.

This process allowed us to identify our material topics. We subsequently merged these with the outputs of our business risk assessment process.

The result was a consolidated list of the most salient environmental, social and governance topics for SGS.

Next, we conducted an impact assessment, which involved over 80% of Operations Council members, to rank each topic according to its relative impact on the business and assess the controls in place to mitigate that impact.

The outcome of this process was the development of our first Business Materiality Matrix.

During 2018, we carried out our annual high-level review of the material topics identified, adapting the Materiality Matrix to new trends. The review included the integration of updated information from sustainability ratings, financial analysts, media and investors and new business risks raised as a result of our risk identification process.

OUTLOOK 2019

Ordinarily, an external stakeholder survey is conducted every two years; however, the 2018 survey was postponed until early 2019. This is to allow time for the full integration of our sustainability risks into the global risk management system.

In addition to the survey, another high-level materiality review will be completed in 2019. Together, these two activities will be pivotal in providing the insights we need to finalize our 2025 business and sustainability goals.

BUSINESS
MATERIALITY MATRIX

Our Materiality Matrix maps our identified material topics against their importance for stakeholders and their impact on SGS, providing us with a powerful analytical tool.

Strategy and Planning

Governance and Integrity

Global Support

Operations

1A	INDIGENOUS RIGHTS PROTECTION
1F	BUSINESS CONTINUITY
2B	ROLE IN PUBLIC POLICY DEVELOPMENTS
2B	PROTECTION OF BIODIVERSITY
2C	TAX STRATEGY
2D	CYBERSECURITY
3C	MATERIALS CONSUMED
3D	WATER AND WASTE MANAGEMENT, AIR POLLUTION
3D	IT PREPAREDNESS AND DIGITALIZATION
3E	FAIR AND EQUAL REMUNERATION
3I	PRICING
4B	INVESTMENT IN LOCAL COMMUNITIES
4E	TALENT DEVELOPMENT AND RECOGNITION
4F	EMPLOYEE ENGAGEMENT
5E	INNOVATION
5E	RISK AND CRISIS MANAGEMENT
6D	ECONOMIC CONDITIONS
6F	RESPECT FOR HUMAN RIGHTS

6F	BRAND AND REPUTATION
6F	CRM AND CUSTOMER SATISFACTION
6G	CUSTOMER PRIVACY AND DATA PROTECTION
7C	SUSTAINABLE PROCUREMENT AND SUPPLY CHAIN
7D	DIVERSITY AND EQUAL OPPORTUNITIES
7E	CORPORATE GOVERNANCE
7E	INVESTMENT STRATEGY
8C	ENERGY AND CLIMATE CHANGE

8E	COMPLIANCE WITH LOCAL LAWS AND REGULATIONS
8F	MARKET PRESENCE
9E	ECONOMIC PERFORMANCE
9F	TALENT ACQUISITION AND RETENTION
9G	OPERATIONAL INTEGRITY
9H	PROFESSIONAL INTEGRITY

To learn more about our materiality assessment and material topics, please see our Sustainability Report http://www.sgs.com/cs-report-2018.

2018 ACHIEVEMENTS

Caroline improves her company's environmental performance by getting ISO 14001 certified.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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MARKET LEADERSHIP

Evolving with customer needs and adapting to megatrends (see page 28) are essential to the Group's success. Our leadership position is driven by our ability to invest, develop and strengthen our expertise in strategic markets and geographies. This expertise is enhanced by the depth and variety of talent that we have in the company. Introducing different perspectives and world views enables SGS to be a better, smarter, more creative and more innovative company.

ACHIEVEMENTS

SGS surpassed one million followers worldwide on SGS social media channels

Reach and expertise of SGS services expanded across regions and industries

OUR VALUE TO SOCIETY

LEADING THE WAY FOR **SAFER LOGISTICS**

SHIGETO ICCHO
SGS Sales, Sustainability Service, Certification and Business Enhancement Japan

The globalization of logistics has created new opportunities for unlawful behavior. For many of our customers, both logistics service providers and manufacturers of high-value products, securing freight in transit is a critical business risk. SGS is pioneering services in facility security to ensure safer value chains. As part of diversifying our reach and expertise at SGS, we researched logistics safety with global security company SECOM Co., Ltd. The results show that many organizations are looking for ways to gauge the level of protection in the logistics facilities in their supply chains, whether they own the facilities or are using those of a third party. To meet this demand, we filled the gap in the market by launching the SGS Facility Security Evaluation Service (FSES). By assessing everything from surveillance cameras to sensors and personnel, while also investigating vehicle access controls, we are giving companies the opportunity to either evidence their security levels or, if they are providing a service, to demonstrate they have the right safety and security measures in place at their facilities.

By limiting the ease with which criminals can act, SGS is taking a pioneering role in helping to prevent organized crime from becoming more established in global supply chains.

"We are proud to be the first in the world to be awarded the SGS Facility Security Evaluation Certificate for our Tsukuba Archive Center. We believe that we can globally demonstrate the security of our logistic facilities to our clients through our compliance with the criteria."

TOSHIMASA NUMAJIRI
President, Numajiri Sangyo Co.

CUSTOMER SATISFACTION

It is important to us that our customers recognize the value of our services and have positive experiences that bring them back to us time and time again. To achieve this, we ensure all our employees have the skills and knowledge required to deliver our services to exacting standards. At the same time, we are continuously enhancing the systems and processes we have in place to anticipate and respond to customer needs as they arise.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

SGS takes a decentralized approach to customer relationship management, with each business line managing relationships through customer-care departments. These act as the direct point of contact for customers and connect them with the parts of SGS that deliver services. We achieve this through a combination of face-to-face customer meetings, follow-up emails/phone calls, hard-copy and online feedback questionnaires. These are constantly monitored and periodically reviewed as part of our Management Review processes. We also support our daily customer interactions with seminars and workshops, along with social media communications and responses to web enquiries.

Understanding how our customers feel about their experience, and their specific interests, suggestions and expectations, is also important to SGS. We assess this through "Voice of the Customer" surveys. A great example is our lab excellence program survey that was carried out in all regions and had 9 500 respondents, which covered 42% of the Group's revenue. Results were published in May 2018. The surveys typically cover quality of service, technical capabilities, turnaround time, administration team, reporting format, satisfaction in queries being dealt with, courtesy and value for money. We also survey SGS brand awareness separately.

CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS

The quality of the relationship SGS is able to maintain with its customers relies on the IT infrastructure in place to support it. To increase the level of service SGS is able to deliver, the SGS Enable IT transformation program was launched in 2017.

In 2018, we launched the first pilot version of the new customer portal, which is a customer engagement initiative within the SGS Enable program (see page 46 for more details). The customer portal has been designed to be the new CRM system for the Group. Globally, customers using the portal will have one single point of contact and a 360 degree view of their purchases and preferences, while internally, SGS will be able to increase customer satisfaction by offering more tailored services.

This year, SGS' Standardized Inspection Reporting (SIR) system for field inspections was further rolled out to provide digital inspection execution for the Agriculture; Minerals; and Oil, Gas and Chemicals trade businesses. Through a global digital platform, consistent back-office capabilities and customer-facing reports, the inspection-to-client service has been taken forward.

ACHIEVEMENTS

- SGS online, our customer store and customer portal, was launched in 2018 with four service lines available for direct purchase
- 80 countries (over 270 affiliates) are now using Standardized Inspection Reporting (SIR) for at least one business line
- SGS' new remote inspection system, QiiQ, rolled out across further business lines
- 9 500 "Voice of the customer" responses analyzed in 2018
- 88% satisfaction score across all "Voice of the customer" surveys*
- 150 key accounts surveyed for customer satisfaction across two business lines
- SGS received the Quality Control Award from the Global Grain Awards

** Results for 2018 surveys analyzed the complete year of experiences in 2017.*

"Customer research is an essential part of our brand management. By understanding the numerous different journeys and experiences they have with us, we are working to continuously build our knowledge about how best to achieve customer satisfaction."

LAETITIA SAINT-PIERRE
SGS Customer Engagement and Loyalty Manager

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Customer satisfaction is ingrained in the SGS culture. It is integral to how we operate, how we innovate and how we grow. When we work with customers, we provide a level of service that gives them confidence in the processes we take and the results we generate. This trust forges long-lasting relationships and creates brand advocates, fueling their growth and ours. Our aim is to provide solutions that achieve our customers goals while contributing to a safer, more productive and sustainable society. But how do we know we are achieving this? Our customers tell us.

SAMUEL CORK
SGS Global Brand & Content Manager

A TRUSTED PARTNER

"We have worked with SGS for more than 20 years. In our experience, SGS has provided us with a team of experienced, committed personnel who know their field of work, and SGS responds to our enquiries in a timely manner."

SANDRA SEOW
Fuel Oil Operations Manager, Vitol

SUSTAINABILITY

Adding direct value to society through our operations.

Sustainability is at the core of our brand offering. It is embedded into the decision-making process of all company functions as part of our integrated leadership model.

That is why sustainability at SGS is driven from the very top, with the CEO actively leading our sustainability vision. It is also enshrined in our Business Principles (see page 18).

Sustainability at SGS is managed by a dedicated team, which oversees activities across four pillars: People, Operational Excellence, Environment and Community.

The weight of our internal sustainability activities is guided by the results of our Materiality Matrix (see page 33) and our effectiveness is measured both against published Key Performance Indicators and our Sustainability Ambitions 2020 (see page 10). Our efforts are also aligned to the Sustainable Development Goals.

In 2017, we became one of the first companies in the world to publish a quantitative valuation of our value to society. This is an exercise we repeated in 2018 (see page 65).

More detailed information on our sustainability efforts is available in our Sustainability Report http://www.sgs.com/cs-report-2018.

Our best-in-class sustainability performance is valued by our customers, appealing to the job market and highly attractive to the rising numbers of sustainable investors active in the global financial markets.

ACHIEVEMENTS

- Dow Jones Sustainability Indices Leader for the fifth consecutive year
- FTSE4Good Index includes SGS for the second consecutive year
- Gold Award by EcoVadis Rating
- Carbon Disclosure Project (CDP) Supplier Engagement Leader
- SGS continues to be a carbon neutral company

PAULA ORDOÑEZ
SGS Global Head of
Corporate Sustainability

SGS RETAINS GLOBAL SUSTAINABILITY LEADERSHIP RANKING

1ST

2014 2015 2016 2017 2018

INDUSTRY LEADER
DOW JONES SUSTAINABILITY INDICES

For the fifth consecutive year, SGS was named industry leader in the Dow Jones Sustainability Indices (DJSI) World and Europe. Created by RobecoSAM and S&P Dow Jones Indices, the DJSI is the longest-running global sustainability benchmark system and is based on an in-depth analysis of the economic, social and environmental performance of more than 2 000 companies across 59 sectors.

With an overall score of 79/100, against an industry average of 39/100, SGS led the professional-services sector on a range of criteria, including code of business conduct, policy influence, human rights, talent attraction and retention, and occupational health and safety.

For the second consecutive year, SGS was also included in the FTSE4Good Index Series, which selects companies based on their ability to meet globally recognized standards across social, environmental and governance disciplines.

While we are extremely proud to be recognized for our sustainability leadership, we particularly value the vital role that these indices play in helping institutional investors integrate sustainability considerations into their portfolios while engaging with companies to advance economic, social and environmental development on a global scale.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

INTEGRITY

Integrity is at the heart of the SGS brand, and our success is built on the trust our customers place in us. To maintain this trust, we expect our employees to embody SGS' values in everything they do. As an industry leader, we believe our behavior inspires other businesses to create a better working environment for all.

COMPLIANCE AND INTEGRITY

SGS does not engage in any form of bribery or corruption, and we adhere to the legal requirements of every country we operate in. We hold anyone acting on behalf of or representing SGS to the highest standards of professional integrity, at all times – as defined by the SGS Code of Integrity. This Code applies to all SGS employees as well as affiliated companies, contractors, subcontractors, joint venture partners and agents. SGS' Supplier Code of Conduct sets out our standards for suppliers on respecting human rights in our and our customers' supply chains. Our shared values on individual and organizational professional conduct keep us from seeking business advantage by means that threaten our assets, brand, people or intellectual property. Both employees and suppliers receive clear guidance on grievance mechanisms. Any suspected violations can be reported using confidential integrity helplines or by contacting local or corporate-level Compliance teams.

SGS conducts a mandatory Annual Integrity Training, based on the Code of Integrity, for all employees. Additionally, all new hires must complete an e-learning module within three months of joining the Company. This ensures clarity on SGS' integrity expectations and standards, with violations leading to possible disciplinary action, termination and/or criminal prosecution.

ACHIEVEMENTS

SGS Annual Integrity Training was made available in both classroom and e-learning formats

74 countries participated in quarterly Integrity Talks

22 integrity-related questions were added to Stellar, our self-assessment audit tool

The Human Rights Committee reviewed the Human Rights Policy and strengthened the advancement of human rights knowledge throughout SGS

SGS Academy launched human rights training for customers and adapted the content for employees

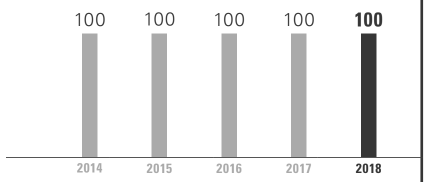
SGS CODE OF INTEGRITY RESPONSIBILITIES

BODY	RESPONSIBLE FOR	INCLUDES
PROFESSIONAL CONDUCT COMMITTEE	• Ensuring implementation of the Code of Integrity • Advising Management on all issues of business ethics	• Chairman of the Board of Directors • Two other Board members • Chief Executive Officer • Chief Compliance Officer
CHIEF COMPLIANCE OFFICER	• Implementing procedures governing ethical behavior and conducting investigations of alleged staff misconduct	
CORPORATE SECURITY TEAM	• Ensuring that security arrangements adequately protect our people and assets and respect human rights	• Continuous evaluation of assets and businesses
HUMAN RIGHTS COMMITTEE	• Overseeing implementation of human rights commitments • Supporting human rights as defined in the Code and Business Principles	• Chief Executive Officer • Chief Compliance Officer • Vice President Corporate Sustainability

PERFORMANCE

100%

% OF EMPLOYEES SIGNING THE CODE OF INTEGRITY

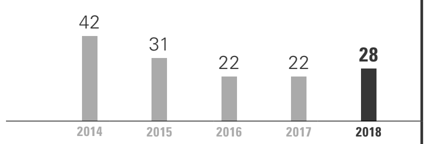


EMPLOYEES SIGNING THE CODE OF INTEGRITY

28

TOTAL NUMBER OF BREACHES OF THE CODE OF INTEGRITY IDENTIFIED THROUGH CORPORATE INTEGRITY HELPLINES

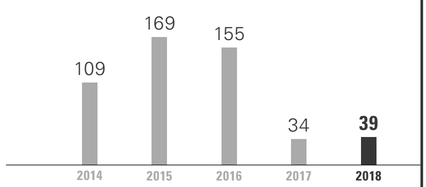
"Helplines" means channels used by employees and external parties to report suspected violations of the Code of Integrity. The reports can be submitted online or by phone, email, fax or post.



CODE OF INTEGRITY NON-COMPLIANCES

39

TOTAL NUMBER OF REPORTS INVESTIGATED CONCLUDING IN NO BREACHES AND CLOSED DUE TO LACK OF SUBSTANCE

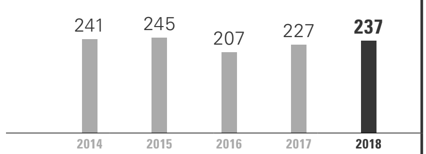


CODE OF INTEGRITY INVESTIGATIONS

237[1]

TOTAL NUMBER OF INTEGRITY ISSUES REPORTED THROUGH CORPORATE INTEGRITY HELPLINES

"Helplines" means channels used by employees and external parties to report suspected violations of the Code of Integrity. These reports can be submitted online or by phone, fax, email or post.



CODE OF INTEGRITY REPORTS

1. At the time of reporting, 30 pending cases were still open and under review.

NURTURING A **CULTURE OF INTEGRITY**

SOPHIE BESNARD
SGS Senior Global Legal Counsel

Doing the right thing sounds simple enough, but in a diverse company with more than 97 000 employees, many circumstances can challenge the ability to act according to the company's core mission and values. To complement our established mandatory Annual Integrity Training and e-learning, we have introduced new initiatives to bring integrity to life. With a goal to transition the SGS Code of Integrity – from being a compliance tool to becoming an integral part of the processes and culture within the Group – we have redesigned our integrity e-learning modules and introduced a series of manager-led Integrity Talks.

The e-learning modules use real-life scenarios to help employees relate integrity issues to their everyday work. Inspired by our Safety Talks, we also collaborated with our Operational Integrity team to design and implement regular meetings that promote the dialogue between line managers and employees on the standards of conduct expected of them in the workplace.

ACQUISITIONS AND STRATEGIC PARTNERSHIPS

SGS has long benefited from making strategic acquisitions that help us achieve our growth goals. This is particularly true for geographical areas with service gaps or where we need to build skills and technological capacities. In some instances, we acquire businesses offering similar services so that we can benefit from economies of scale and technical synergies.

SGS has achieved CHF 300 million of acquired revenue growth since the start of the 2020 Mission. We are targeting the acceleration of our mergers and acquisitions activity.

ACHIEVEMENTS

Eight acquisitions completed

0.7% inorganic growth

ASBESTOS SERVICES GROWTH STRATEGY



UDO WALTMAN
SGS Search Director, Environment, Health and Safety

As society becomes increasingly concerned by the impact of asbestos, we have taken the decision to strengthen our portfolio by expanding our services related to asbestos detection and testing. Subsequently, asbestos services now make up 10% of the Environment, Health and Safety global portfolio, up from 3% five years ago.

This growth has been achieved through an acquisition and investment strategy. For instance, in the acquiring of MIS Environmental, LabTox and Search Group, SGS has strengthened its portfolio and footprint in key markets, giving us a leading position in asbestos research and management.

SGS' extensive network and local knowledge mean that we are one of the few players in this field that can take a genuinely global approach to supporting customers. As the asbestos market is expected to grow over the next two decades, SGS will continue to develop its services through acquisitions and greenfield startups around the world.

OUR VALUE TO SOCIETY

TACKLING ILLEGAL FUEL TRADE IN THE PHILIPPINES


MOSTAFA NASRI
SGS Global Manager, Fuel Integrity Programs

Fuel smuggling is an issue for several countries around the world. This can be in the form of outright stealing, where fuel is snuck into the country by ships docking in smaller ports or by transferring fuel products on the high seas. Another smuggling practice is misdeclaration, in which the fuel is declared at a lower value (e.g. a lower fuel grade) or volume, so the importers pay less tax than they should.

The Philippines suffers significantly from illegal fuel trade and the resulting unpaid taxes. In late 2018, SGS won a tender to provide the Philippines with a Fuel Integrity Program, starting in 2019, constituting in an integrated array of services, coordinated and controlled by SGS experts.

The solution includes actions such as adding a marker to taxed fuels to enable traceability and monitor integrity as they move through the supply chain. SGS will also visit depots and retail sites to collect samples and check the integrity of fuel sales. Additionally, SGS will produce test reports, analyze data and provide intelligence and risk management information about illegal activity.
SGS operates similar programs in several other countries, such as Serbia, Senegal, Ivory Coast and Kenya.
The service is of benefit to legitimate, legal, oil marketing companies, as it helps protect their brand integrity, but it also benefits consumers, who receive the quality of fuel promised.
For governments and broader society, the increase in tax revenue collection can make a significant difference.

ORGANIC GROWTH

SGS continues to increase revenue and shareholder value from existing affiliates at a level that is well above the TIC sector average. Despite the recent commodities downturn, we have made solid progress in repositioning divisions, strengthening our core business through new services and making management changes, all of which have driven solid organic growth across the majority of our services.

These adjustments complement our innovation and efficiency initiatives, through which we are continuously improving productivity in order to provide enhanced customer service.

ACHIEVEMENTS

5.3% organic growth[1]

1. Constant currency basis.

BALANCED PORTFOLIO

The SGS portfolio covers nine business lines that service multiple global industries, each with a large and diversified customer base. This fragmented structure allows us to balance our short-term growth and long-term objectives to maximize returns while reducing our vulnerability to market fluctuations, increasing our flexibility to react to market developments, and minimizing our exposure to risk.

Our portfolio management does not focus only on growth and margins but also on return on invested capital (ROIC) as a key driver of value for shareholders.

We use a dashboard process to analyze and actively manage the criteria for business performance and ensure all changes to the portfolio are guided by our objectives to advance sustainability, accelerate growth and increase productivity.

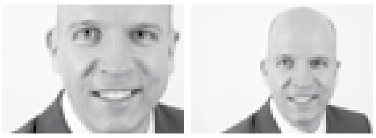
ACHIEVEMENTS

- Dashboard for asset review successfully deployed
- Revenue growth across 8 business lines

> "When we are preparing to enter a market, the local SGS team brings expert engineers from that country to meet at our factory here in China. Access to this global service is enabling CRRC to expand into many markets around the world."
>
> **LIAO HONGTAO**
> Vice General Manager, China Railway Rolling Stock Corporation (CRRC), Zhuzhou

OUR VALUE TO SOCIETY

OUR RAIL JOURNEY IN CHINA



JOFFREY LAUTHIER
SGS Global Head of Rail

We have been building a portfolio of rail services globally, with a specific focus on the Chinese market, for a number of years. Rail is an important sector, as it is considered to be a more sustainable means of transport than road (atmospheric emissions and energy consumption) or air travel. Initially, we launched in China with safety testing services through our extensive laboratories network, which is spread broadly across the country. Our local team rapidly developed strong relationships with customers, which gave us the opportunity to expand into the certification market. Rail is a highly regulated sector, so companies supplying the industry have to deliver products that meet local environmental, safety and interoperability requirements and must be certified to prove that they do. Today, our main Chinese rail customer is the China Railway Rolling Stock Corporation (CRRC). The CRRC exports rolling stock and equipment to 104 countries around the world. Entering each of these markets requires expert knowledge, product engineering and evidencing that specifications have been met. Through our international network, we are able to provide country-specific rail experts who can offer CRRC consultancy on market entry. We overcome language and cultural challenges by creating integrated teams that bring together the experts needed with the local Chinese team.

REGIONAL FOCUS

Our operations are divided into three regions – Europe, Africa and the Middle East; the Americas; and Asia Pacific – which cover eight sub-regions that implement Group policies and strategies locally.

SGS' progress within a region is affected by global megatrends and local factors such as market maturity, political developments and the level of infrastructure.

Our geographic segmentation helps us achieve stable and balanced growth. It allows us to counteract any local challenges and take advantage of opportunities through specific, regional action plans that focus on key markets and help us accomplish our objectives.

ACHIEVEMENTS

- 4.1% growth in Europe, Africa and the Middle East – in part because of an openness to new technologies leading to high growth in Africa and the Middle East
- 7.5% growth in the Americas – because of regional diversification away from an over-reliance on the oil and gas sector
- 7.4% growth in Asia Pacific – as the market opens up in China, SGS is taking advantage of opportunities arising from increased domestic consumption

INFRASTRUCTURE AND SERVICES

Capital expenditures (CAPEX) and operational expenses (OPEX) constitute the costs that we incur while creating our services. By optimizing activities and streamlining processes to achieve operational excellence (see page 49), we continuously improve our CAPEX and OPEX. With this in mind, our investments are focused on the strong areas of the business and those with the best growth record or long-term growth potential. We continue to invest in projects that promote organic growth and that are technology driven. One such development in 2018 has been lab optimization. Because laboratory operations comprise labor-intensive activities, increasing the level of standardization and automation to enhance our capacity and productivity remains a focus. Some of these optimization measures aim to reduce the manual activities and reworks through physical automation, such as robotics, robust laboratory operation, and process automation through equipment and instrument integration.

Furthermore, our disciplined approval process and a solid compliance review process results in the majority of CAPEX investments being accretive to the bottom line.

ACHIEVEMENTS

- Reduction of overall CAPEX intensity, enabled by more attractive pricing and asset redeployment
- 27 countries implemented the Oracle E-Business Suite
- 25% of SGS servers have been migrated to Microsoft Azure Cloud, in-line with our cloud-first strategy

OUR VALUE TO SOCIETY

SEAFOOD DEVELOPMENT PROGRAM


CORMAC O'SULLIVAN
SGS Seafood and Aquaculture Audit and Certification Manager

To address growing demands in the seafood and aquaculture sector, SGS has enacted a two-year development plan to increase awareness of its services in this dynamic environment.

Driving safety, sustainability and quality in key areas of seafood and aquaculture production since 2016, SGS has invested and expanded its global laboratory testing, auditing and certification capabilities. Through this additional investment, including talent acquisition, the company accelerated portfolio development to include Aquaculture Stewardship Council (ASC) certification and broadened the scope of the Best Agriculture Practices (BAP) certification scheme to include all farm standards.

In support of the portfolio expansion, SGS held a number of events around the world inviting thought leaders and experts from industry and other interest groups to discuss challenges and opportunities facing the sector. Having established itself as market leader, SGS experts were invited to many seminars and conferences as guest speakers. In the latter part of 2018, SGS formed a partnership with Monterey Bay Aquarium's Seafood Watch (SFW), Asian Seafood Improvement Collaborative (ASIC), and Minh Phu to work on a major new initiative that aims to help small-scale farmers to verify sustainable production. This partnership was announced and is supported by John Kerry, former US Secretary of State through the Carnegie Endowment for International Peace working on improving governance and advancing comprehensive approaches for sustainable development.

DIGITAL

Our digitalization strategy aims to position SGS as a global leader in developing safe, effective and profitable digital solutions for all sectors we operate in. By continuing to provide best-in-class services that transform the TIC industry, while enhancing everything we do with digital services, we build on our ability to add value for our customers and improve our internal efficiencies for the benefit of our employees.

Our focus to date has been on facilitating digital innovation and strengthening our digital team structure, along with delivering on a number of key project launches. Our approach to digital innovation is to invest in the right projects that deliver on our efficiency goals, provide our customers with solutions and create services that bridge digital and traditional methodologies. This means that we are prepared to reject innovations, in the early stages of development, if they do not meet certain criteria.

ACHIEVEMENTS

GDPRONLINE launched as SGS' online subscription-based platform for GDPR compliance

Partnered with komgo® to simplify the commodity supply chain

Co-signed Charter of Trust on Cybersecurity

Vulnerability Management platform assessing customers' exposure to security threats and conducting penetration testing was launched

OUR VALUE TO SOCIETY

TRANSFORMING COMMODITY TRADE FINANCE

FRED HERREN
SGS Senior Vice President
Digital and Innovation

In September 2018, 15 of the world's largest institutions, including SGS, launched komgo®, a new blockchain-based platform aimed at transforming commodity trading.

The innovative technology delivered by komgo® offers a depth of resources that reduces the time needed to process documents and data, which, in turn, speeds up the transaction process. The platform also provides digital ledgers aimed to limit operational risks relating to fraud, counterfeiting or human error.

Blockchain technology is a defining feature of our new digital age. As a co-investor and the exclusive representative from the TIC industry, the investment in komgo® is illustrative of SGS' commitment to improving how business is conducted. Through innovative solutions and expanding our experience in pioneering technologies, we can deliver advanced services to our customers.

"komgo® is a leap forward in commodity trade finance. It is digitalizing processes through new blockchain-based technology set to increase efficiency and reduce risks and costs. SGS is a key partner."

SOULEÏMA BADDI
Chief Executive Officer of komgo®

INNOVATIVE ONLINE SERVICES

Expanding our business-to-business-to-consumer presence online is an SGS 2020 objective that we aim to achieve through the launch of our new e-commerce platform. Business customers are now able to purchase SGS services directly through our customer portal, also known as SGS online. The new portal also launches direct sales of SGS services to consumers (B2C). Two services are initially available, including pesticide residue analysis of fruits and vegetables, which can give consumers reassurance about the produce they are purchasing. Expanding our commercial transactions through digital tools gives us the opportunity to find innovative ways to increase brand awareness and develop the SGS customer experience.

ACHIEVEMENTS

Launched SGS online, SGS' digital customer portal

Two direct-to-customer services available via SGS online: Oil Condition Monitoring and Pesticides Residual Analysis, with new services coming in 2019

OUR VALUE TO SOCIETY

SERVICING CUSTOMERS THROUGH SGS ONLINE

GUILLAUME PAHUD
SGS Customer Portal Program Director

Developing innovative ways to manage our customer relationships is a core strategy at SGS. One of the ways in which we are doing this is through the SGS customer portal: SGS online. This platform provides knowledge management and support services.

Through SGS online, customers can track discussions, search for information, request services and receive direct support.

> "We are rethinking our business to better suit the mechanisms and practices of the digital marketplace. Through SGS online, we are able to better automate what we do, provide greater self-service and gain greater efficiency for processes."
>
> **FERNANDO PARRA FORCEN**
> SGS Customer Engagement Project Manager

At the same time, they can access, check and upload key documentation relating to their business and operations, including certification, audits, inspection and testing results, and invoices.

By providing our customers with a single, consolidated view of their interactions with SGS and a dashboard functionality that allows them to access and share key information, we are helping them to operate more efficiently and save time. For SGS, the portal is an innovative tool that is giving us the opportunity to further improve our customer relationships and target new growth.

The development of the portal demonstrates our drive to meet the needs and expectations of the new digital world, in which new technology is transforming the ways we operate and consumers behave. We are continuing to expand the capability of the portal, adding services that customers need to improve the online experience and creating customized frameworks for different business lines.

INNOVATIVE THINKING

MIKE MEDIOUNI
SGS Global Innovation Community Manager

At SGS, we have a culture that values innovation. We have a process in place that rewards creative ideas, and we encourage our more than 97 000 employees to put them forward.

When we find ideas that are novel or propose enhancing existing practices while leveraging advanced technologies, we work with the employees who put the ideas forward to develop their concept into business propositions. We communicate ideas that progress, and we celebrate the innovations that help make a difference to our success.

When SHELL, a global customer of both our Oil, Gas and Chemicals and our Industrial businesses, asked us to host an Innovation Workshop for 10 of its top executives, we embraced the opportunity. We prepared an energetic schedule that brought together SGS experts from around the world for a series of presentations sparking discussions on innovation processes and best practices.
The event was highly motivating for all SGS participants. Added to this, there was also a sense that, by inspiring SHELL to think differently about innovation, we were enabling the future development of sustainable solutions while, at the same time, further nurturing our partnership.

"The way the ecosystem for innovation works in SGS is very different from our approach, so there was some great knowledge-sharing in both directions. One of my favorites is SGS' fast "Kiss or Kill" analysis of the value of innovations: If an idea is not implemented within six months, it's considered too weak to survive and isn't progressed any further."

GRAHAM MARSHALL
Organisation Development Manager, SHELL

INVESTOR RELATIONS

Investor Relations is critical to support the financial community in making informed decisions. By formally communicating to our shareholders, analysts and investors, we foster transparency, trust and accountability. In addition, our annual Investor Days provides a significant level of access to our Senior Management and the Operations Council.

ACHIEVEMENTS

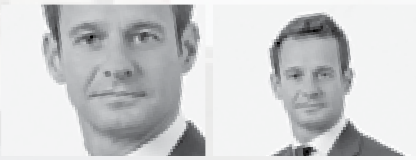
- Successful Investor Days
- Increased investor meetings and conference attendance

"I have been coming to the SGS Investor Days since 2010, and one of the biggest benefits is the access I get to Senior Management. The ability to engage directly with regional and divisional leaders provides a unique insight into the markets and operations."

CAROLINE PRICE
Fargo Management Canada Ltd.

OUR VALUE TO SOCIETY

CULTIVATING TRANSPARENCY **SGS INVESTOR DAYS**



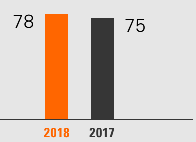
TOBY REEKS
SGS Senior Vice President Investor Relations

The Investor Days are one of the many tools the Investor Relations team uses to help investors and industry analysts understand SGS. The annual event gives detailed Group strategy, regional and business updates and perspectives, directly from an important operational location – such as a major site, laboratory or focus area. Detailed presentations that cover themes that drive Group performance, the opportunity to see SGS "in the field" and access to management provide investors and analysts with the knowledge they need to make informed decisions regarding SGS.

The Group strategy and finance updates by our CEO and CFO are streamed live and are available as a recording after the event. This is followed by thematic regional and divisional presentations from members of our Senior Management team. These presentations cover our growth drivers, how business lines are adapting to meet industry needs, and in what way SGS is evolving to helping its customers to sustainably face any challenges, including from the global megatrends, along their supply chains.

The site visits give analysts and investors a chance to meet local management and get practical examples of how SGS delivers world-class services for its customers globally. The Investor Days give us an opportunity to update our progress against our strategic focus in a transparent way, which is important for the process of creating value for our shareholders over the long term.

CHF 78



PROPOSED DIVIDEND

OPERATIONAL EXCELLENCE

Developing our Global Business Services as an internal service-delivery model, based on Shared Service Centers, implementing World Class Services and advancing our Net Working Capital (NWC) are some of the ways in which we drive operational excellence and improve productivity and capacity through innovation, automation and digitalization, and continuous improvement.

Our three Shared Service Centers help us achieve greater efficiency by harmonizing the Group's support functions to increase productivity (see right).

SGS' World Class Services (WCS), an adaptation of the World Class Manufacturing concept, is a structured approach that reduces organizational waste and losses to bring long-term improvements to our safety, workplace organization, quality, maintenance and logistics. In 2018, we took the first steps to set up the basis for WCS standards and methods through assessing a number of laboratories. By ensuring that our lab network provides reliable results efficiently, we not only contribute to achieving operational excellence but also build the foundation for implementing the WCS approach.

Several other Operational Excellence projects have been completed successfully through discipline, methodology and technical expertise. Examples of such key initiatives are for our AFL Food and CRS laboratories, where we focus on productivity improvements to directly impact the throughput, quality and overall performance while also contributing to capacity enhancements to sustain growth.

We further aim to improve our performance through automation, including the use of new technologies and equipment for physical testing as well as software automation, such as robotics process automation (RPA), which helps enhance productivity and agility by using software robots that take over routine administrative processes. These robots can work 24 hours a day, 365 days a year, and they drastically reduce human errors and improve the quality of the services delivered to our customers. RPA can be deployed in different ranges of business activities without a complicated integration into existing IT systems. Examples of such implementations include processing products and conformity assessment certification in Governments and Institutions, improving current productivity rates or the automation of customer master data management and maintenance in China.

ADVANCING OUR NET WORKING CAPITAL

Net Working Capital (NWC) is key to ensuring that cash is available for upcoming opportunities and day-to-day business operations. Prioritizing NWC allows us to fund strategic investments, which, in turn, drive operational efficiencies and reduce overheads. Our Net Working Capital Initiative, which has been in place since 2015, improves our cash position to ensure on-time collection of money owed, adequate management of inventory and the correct timing and processes for goods purchased. By focusing on this initiative, we are now the TIC industry leader and demonstrate best-in-class performance for NWC optimization.

ACHIEVEMENTS

1 200 full-time employees support the entire Global Business Services (GBS) network in three Shared Service Centers

10 labs assessed on World Class Manufacturing methodology

22% Global Business Services growth

CHF 20 million-25 million annual net savings as a result of GBS and other back-office improvement initiatives

First CCLAS 6 (G6) LIMS went live in USA GeoChem laboratory, providing improved efficiency and standardized processes

OUR VALUE TO SOCIETY

GLOBAL BUSINESS SERVICES

FILIPPO ROTA

SGS Vice President of Strategic Transformation

Shared Service Centers continue to transform our support functions and businesses by helping us to achieve operational excellence. By consolidating transactional and standardized activities in the Centers, back-office processes become more efficient, and our affiliate employees can focus on higher-value tasks.

These hubs of excellence for administrative and supportive duties not only help us achieve greater compliance, consistency and productivity but they also improve our cash-inflow management and support our Net Working Capital Initiative. Since 2015, as part of a global rollout of best practices to standardize order-to-cash (OTC) and supply chain models, we have developed our Global Business Services model through three Shared Service Centers – in Poland, the Philippines and China. The Centers are set up to leverage skill and scale and to manage supplier payments more efficiently, speed up the invoicing process and reduce defaults.

For our Certification and Business Enhancement (CBE) services, for example, invoicing has historically been prepared in multiple countries, with each office running differently. These processes were inefficient and prolonged the order-to-cash (OTC) process. By moving our invoicing to the Shared Service Centers, we have shortened the OTC cycle and saved on personnel costs. Our customers also benefit from this process because the review is completed faster and consumers see certificates issued more quickly.

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PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

In 2018, we launched the 2020 Procurement and Supply Chain strategy with the aim of delivering profit-and-loss impacting savings, efficiency improvements and innovations that support profitable growth. Working together with stakeholders and suppliers as a partner of choice, the strategy is built on four pillars: cost and cash flow leadership, global sourcing solutions, sustainable procurement and the Inspection and Laboratory of the Future project.

These strategic pillars are enabled by an Operating Model consisting of state-of-the-art Source-to-Pay and Demand-to-Supply processes as well as effective supplier relationship management, high-performing teams and effective business partnerships.

COST AND CASH FLOW LEADERSHIP

Procurement and Supply Chain Management is on track to reach the targeted CHF 180 million total incremental savings in 2020. By optimizing payment terms and conditions with key suppliers, positive contributions are also being made to SGS' Net Working Capital.

GLOBAL SOURCING SOLUTIONS

Through global category strategies across the SGS network, we are driving cost reduction, standardization and efficiency improvements. Supported by the Procurement Excellence team in Prague, Czech Republic, Category and Sourcing Managers worldwide are applying more structured and effective programs.

Our commitment is to deliver the best global, regional and local solutions, taking a total cost of ownership and user-centric approach. The recently concluded global fleet agreement is a good example: Besides the significant savings achieved, SGS and its partner are studying sustainable car mobility in the Netherlands. This project evaluates social, environmental and business needs while identifying market opportunities and anticipating policies.

EquipNet, our web-based equipment redeployment tool, is progessing well, meaning SGS can optimize asset use across its network.

As part of the Supplier Innovation Program, SGS has further deepened partnerships with leading suppliers, allowing the Group to benefit from the capabilities of its supplier ecosystem.

INSPECTION AND LABORATORY OF THE FUTURE PROGRAM

Testing and inspection are SGS' core activities, representing a large portion of costs. Driving efficiency in our laboratories worldwide is a key priority that is addressed by the World Class Services program. Procurement and Supply Chain Management activities significantly contribute to efficiency improvements in the labs as well as in inspection. The "Inspection and Laboratories of the Future" program brings together initiatives such as inventory management, asset management and automation. The Advanced Technology Group has also been set-up as a cross-functional team of SGS experts who aim to devise next-generation technical and digital inspection and laboratory solutions in partnership with strategic suppliers.

TARGET OPERATING MODEL

2018 witnessed the development of several key global Source-to-Pay transformation projects. The global rollout of our supplier portal – supporting electronic invoicing – reached 43% of the total targeted 2020 scope for the USA and Spain. The use of SGS' e-sourcing tool reached 23% of online negotiated spend in 9 countries, facilitating savings and simplifying the sharing of management best practices.

SUSTAINABLE PROCUREMENT INITIATIVES

The SGS Supplier Code of Conduct and Self-Assessment Questionnaire have been successfully deployed in 12 high-risk countries in 2018 as a key part of the SGS sustainability initiatives.

ACHIEVEMENTS

CHF 75 million in new savings, on target to reach the CHF 180 million defined for the 2018-2020 savings program

Internal purchasing catalog usage reached 40%

Usage of the SGS e-sourcing tool has increased by 50% and is now applied in 9 countries

EquipNet, SGS' web-based equipment redeployment tool, generated CHF 3.1 million savings and contributed to increased asset redeployment across the global network

Rollout of SGS Supplier portal continued, reaching 30 438 electronic invoices

Advanced Technology Group established to create innovative solutions with strategic supplier ecosystem

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FOSTERING A **COLLABORATIVE** SUPPLIER PARTNERSHIP

ROBERT TRAPP
SGS Global Laboratory Category Manager

Establishing strong, mutually beneficial and long-term relationships with strategic suppliers is a critical step in improving supply chain performance. Benefits include generating greater cost efficiency and enabling business growth and development. SGS has selected 10 suppliers to cultivate long-term partnerships with: this includes Agilent, a leader in life sciences, diagnostics and applied chemical markets, that provides SGS' laboratories with instruments, services, consumables, expertise and applications.

The collaboration started in 2016, with the introduction of a Key Account Manager – a first for the company. At that time, a governance structure was established to transform what was previously a more transactional relationship into a united partnership. The first deliverable was in the form of a global pricing agreement for equipment and consumables, accompanied by a punch-out catalog that is now used in all major SGS countries.

To strengthen the relationship further, both companies agreed on a number of strategic initiatives, including the Advanced Technology Group, created to collaborate on new technologies. By working in partnership with Agilent's R&D team, SGS can shape not only the development of the technology that customers and their clients will require in the labs of the future but also the creation of additional revenue-generating services.

"Partnering with Agilent demonstrates SGS' commitment to cultivating cooperative partnerships with our top suppliers. Beyond improved efficiency and cost saving, the entire supply chain will be better equipped to meet customer and market demands."

JUERGEN NELIS
SGS Vice President
Group Procurement

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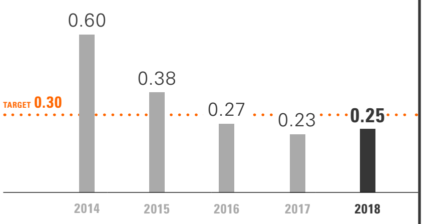
OPERATIONAL INTEGRITY

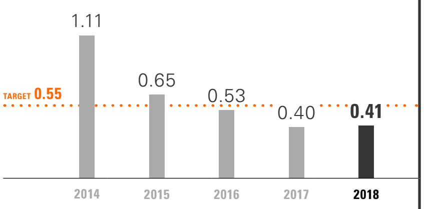
PERFORMANCE

0.25



LOST TIME INCIDENT RATE (LTIR) (200 000 HOURS)

0.41



TOTAL RECORDABLE INCIDENT RATE (TRIR) (200 000 HOURS)

While we are able to look back at yet another year of injury rates well below target, it is with deep regret that we report the loss of three lives in our operations in 2018. Any fatality is unacceptable, and we will continue to work toward achieving our goal of "zero harm."

The strategy to accomplish our goal of "zero harm" is defined by the Operational Integrity (OI) function and is based on seven pillars: Leadership; Communication; Training and Awareness; Resources and Skills; Key Performance Indicators; Audits and Compliance; and Health, Safety and Environmental (HSE) Self-Assessments. The strategic approach for each pillar is based on an OI management system aligned with internationally recognized standards.

LEADERSHIP

Our OI strategy and performance are reviewed quarterly by the VP, Operational Integrity, and Business Continuity Process and Integrity Programs, with the CEO invited as a permanent guest. Each year, global strategic input is gathered, and annual OI objectives are set, which clarify the OI vision for the following 12 months and ensure the visibility of results. The OI team reports directly to the CEO and deploys its strategy and objectives through a Top-Page process. This structure allows SGS to focus on key programs, including incident investigations, risk assessments, leadership visits and best practices.

SGS RULES FOR LIFE

A Group-wide initiative that helps maintain and create awareness of the importance of safety is SGS' Rules for Life. These apply to all employees, contractors and others working on behalf of SGS and are available in 14 languages. The Rules are incorporated into all our safety-related campaigns, and employees receive training through e-learning and face-to-face sessions.

COMMUNICATION, RESOURCES AND TRAINING

We continuously work on increasing the number of Operational Integrity professionals across the Group. Chief Operating Officers and Executive Vice Presidents are briefed for leadership visits in their affiliates, while leaders and managers receive specific OI training. Regular Safety Talks and Integrity Talks, as well as webinars and mobile apps on OI management systems and procedures, are provided for all employees. These resources are accompanied by communication campaigns that raise awareness and promote safe behavior.

The annual Safety Month further enforces the Rules for Life, and the outcomes of both initiatives are systematically tracked. We also drive behavioral change across the organization through two programs: The OI Culture Index measures the development of the safety culture across the company through 14 key indicators of operational integrity, and our Behavioral-Based Safety peer-to-peer observation program uses positive reinforcement to promote safe behavior (see page 53).

AUDITS, KPIS AND SELF-ASSESSMENTS

SGS laboratories, offices and facilities are audited for health and safety risks as well as environmental and chemical impacts. Regular self-assessments of SGS sites provide an overview of potential risks and control, and all incidents and hazards are captured through Crystal, a multilingual interface that delivers regulatory and client-mandated reports.

THE OPERATIONAL INTEGRITY GLOBAL MISSION

- Protect SGS employees and stakeholders, our physical assets, the environment and the communities in which we work and live
- Accelerate our cultural change and journey towards HSE excellence
- Leverage HSE ownership, leadership and stakeholder involvement
- Improve SGS' performance by providing HSE expertise and guidance through the deployment of OI strategies, programs and tools
- Support full compliance with legal, regulatory, customer and Group HSE requirements

INDUSTRIAL HYGIENE AND OCCUPATIONAL HEALTH

We launched ProcessMAP, a software tool to manage Industrial Hygiene (IH) and Occupational Health (OH) data, to volunteering pilot countries during the fourth quarter. The platform provides a detailed overview of IH and OH performance across the Group, is compliant with data privacy laws and is available in 12 languages.

Together with Procurement, IH and OH continue to standardize the Personal Protective Equipment that is used across all locations. This cross-functional initiative – built around a five-stage plan – is now in its fourth stage, which focuses on communication and getting requests for proposals in place. SGS also continues to manage safety data sheets and chemical risk assessments with the Chemwatch management system.

BUSINESS CONTINUITY

Having a business continuity plan in place helps us understand critical business processes, allows us to efficiently and effectively respond to any disruption and minimizes the impact on our operations. SGS' Business Continuity Management Process is managed with Group support at a country level. As of 2018, Business Continuity is overseen by SGS Operational Integrity and has been integrated into operational integrity management processes. While it is inherently impossible to plan for black swan events and every other feasible sort of business disruption, SGS considers four core topics for its business continuity plan: people, buildings, IT and suppliers. These topics are studied locally, which includes the creation of local crisis management teams and the development of training exercises to simulate a crisis.

In 2018, we appointed 291 Business Continuity Process (BCP) Managers/Officers and trained them in 38 dedicated workshops, with the aim of strengthening procedural awareness across the SGS Group. This allowed us to welcome 50 new BCP Managers/Officers at country level and 180 at the site level.

ACHIEVEMENTS

- Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) reduced by 63% and 58%, respectively, since 2014
- Released Hazard Risk, SGS' first OI mobile application
- 100 Behavior-Based Safety Master Trainers were trained to deploy BBS across the network in 2019
- Ergonomics in the field and offices was the topic of the global employee quarterly campaign in Q1
- Included an OI due diligence element in our mergers and acquisitions platform
- Added a Compliance and Integrity section to Crystal, the OI management tool
- 66 161 employees participated in SGS' Annual Safety Month, with the theme of "The Line of Fire – Don't Be a Target," which was held in September
- 128 000 employees have completed the Rules for Life e-learning since its launch in 2015
- Completed user acceptance testing for the IH/OH ProcessMAP software in October and launched a pilot in 12 languages to 11 pilot countries
- 291 BCP Managers/Officers have been appointed

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TYLER NOLAN
SGS Director, Operational Integrity,
SGS Canada

BEHAVIOR-BASED SAFETY:
SEEING THE UNSEEN

Behavior-Based Safety (BBS) is a process designed to influence employee actions toward safer outcomes by preventing an accident or injury before it occurs. In our quest for operational excellence, we are deploying a Group-wide BBS program that uses positive reinforcement to change risky behaviors and improve the safety performance across SGS. Inspired by the success of the BBS program in SGS Canada, the global program complements our existing operational integrity management system and involves employees identifying safe and "at-risk" behaviors in the workplace, using "no name, no blame" peer-to-peer observations. Regional teams of Master Trainers have been appointed to train local safety personnel on the BBS procedure, while local BBS Committees will oversee the process and monitor progress. During 2019, all affiliates will schedule observations in key locations and survey employees in advance to determine current attitudes and beliefs linked to safety. We will also continue to reassess the safety culture across our affiliates and communicate progress on BBS as part of our commitment to ensuring that working safely becomes an intrinsic value for all employees.

CLIMATE CHANGE

SGS minimizes the impact of its processes and operations on the environment. This is achieved by following a carbon neutrality strategy, seeking to use resources efficiently and working to deliver sustainable value for society.

CARBON NEUTRALITY

Since 2014, we have been aiming to reduce CO_2 emissions at source through our sustainability programs and offsetting any remaining or unavoidable emissions. This carbon neutral strategy bridges the gap between the current reality and a more sustainable future.

ELECTRICITY AND NON-TRANSPORT FUELS

The energy used in our more than 2 600 offices and laboratories worldwide accounts for about 61% of our global consumption. The SGS Energy Efficiency in Buildings (EEB) program evaluates and improves the energy efficiency of buildings that we own or lease. There are two parts to the approach: (i) the development of an energy-efficiency action plan for existing SGS premises following a review, and (ii) an environmental assessment applied to the design, construction and refurbishment of SGS buildings. To increase the efficiency of the EEB program, results from the action plan are being extrapolated to cover other buildings in each affiliate country. At the same time, the SGS Green Building Guidelines provide a rating tool to assess new buildings through key performance indicators that cover energy, waste and water, and define the minimum requirements in areas such as lighting-system energy performance and water consumption. In 2018, we have invested in 407.3 GWh of renewable energy mechanisms (Guarantees of Origin and International Renewable Energy Certificates [I-RECs]) to mitigate our CO_2 emissions. Through the ongoing Spot the Orange Dot campaign, employees are also encouraged to exhibit environment-friendly behaviors. 40 500 employees have been reached by this campaign since it began in 2013.

VEHICLE FUELS

SGS strives to continuously reduce company car fleet emissions. Our Vehicle Emissions Policy sets a diminishing annual CO_2 emission limit for the 2016-2020 period for our car fleet. The policy promotes that all newly purchased individual vehicles and leased cars emit fewer average grams of CO_2 per km annually than in the previous year. By 2020, average CO_2 emissions per km for our worldwide fleet shall not exceed 95 grams per km. This policy promotes the use of low CO_2-emitting vehicles that achieve maximum fuel efficiency.

While continuing to deliver against the Vehicle Emissions Policy, we are also collaborating with Group Procurement to develop a wider SGS Sustainable Mobility Strategy. This will include the reduction of vehicle emissions, driving efficiency training, rationalization of the vehicle fleet, inclusion of more sustainable vehicles in the catalog and study of alternative transportation methods.

REDUCING CO_2 EMISSIONS

Climate change has widespread economic, political and social consequences that can affect the way SGS does business. As a global company, we are concerned about the potential impact of climate change and conscious of our role in contributing to international mitigation efforts by reducing our carbon emissions and guiding other businesses in doing the same.

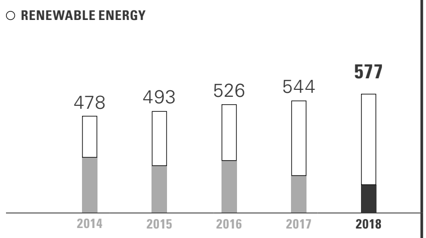
Our target of reducing our CO_2 emissions (per full-time employee and by revenue) by 20%,* as part of our Sustainability Ambitions 2020, demonstrates our proactive approach in this area. Our strategy for achieving this involves reducing our energy consumption and purchasing energy from renewable sources whenever possible. The main sources of SGS' emissions are electricity (10% of total emissions), transport fuels (74% of total emissions) and non-transport fuel (16% of total emissions).

ACHIEVEMENTS

- +100 new buildings in EEB program, which now covers 500 buildings
- 26 representatives appointed and trained to help implement the SGS Green Building Guidelines across affiliates
- 3 countries received customized energy-efficiency action plans
- 5 facilities across Taiwan, the USA and Canada optimized lighting systems
- 15% energy efficiency savings by SGS India's Chennai facility through improved refrigeration system
- SGS' Sydney building received the highest rating from the National Australian Built Environment Rating System after completing the EEB program

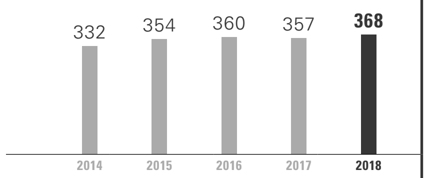
PERFORMANCE

577



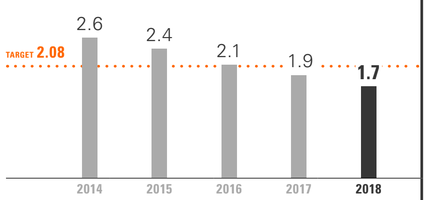
ELECTRICITY AND NON-TRANSPORT FUELS (GWH)

368



VEHICLES FUELS (GWH)

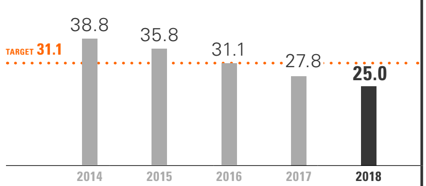
1.7



CARBON INTENSITY BY EMPLOYEE (METRIC TONNES CO_2e/FTE)**

25.0

On a constant currency basis.



CARBON INTENSITY BY REVENUE (METRIC TONNES CO_2e/MILLION CHF)**

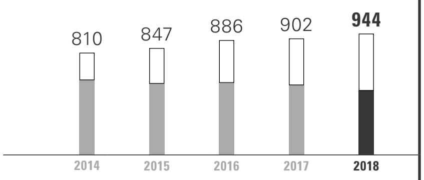
* *Against a 2014 baseline.*

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

PERFORMANCE

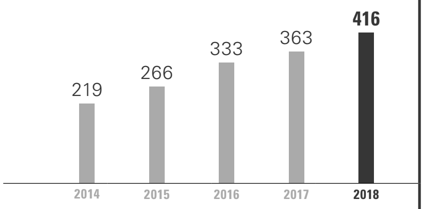
944

○ RENEWABLE ENERGY



TOTAL ENERGY (GWH)

416



RENEWABLE ENERGY (GWH)

OUR VALUE TO SOCIETY

ISO 50001 ENERGY MANAGEMENT

JAVIER LÓPEZ
SGS Energy Efficiency Manager

In line with our Energy Efficiency in Buildings (EEB) program, some SGS affiliates are seeking ISO 50001 (Energy Management) certification. This provides a systematic approach to achieving continuous improvement in energy performance – including efficiency and security – and it enables organizations to identify potential cost savings.

In Chile, SGS SIGA became ISO 50001 certified in 2017. It uses the certification to drive sustained improvement in energy efficiency and has already achieved its objective of a 5% annual reduction of electric energy consumption. In parallel, SGS Chile also started the assessment to include the fleet in the certification in 2018.

SGS Philippines has strengthened its commitment to improving energy, environmental, safety performance and compliance through recently achieved ISO 50001, ISO 14001 and OHSAS 18001 certifications in 2018. ISO 50001 will strengthen our competitiveness in the country by increasing energy efficiency and reducing vulnerability with respect to energy price fluctuation. By setting energy reduction objectives of 3% in the short term and 5% in the long term, the affiliate demonstrates leadership in the Asia Pacific region and should see its energy consumption progressively decouple from business growth. Energy efficiency in Asia Pacific is particularly relevant: The region comprises 60% of the worldwide population, generates 32% of the global GDP and consumes more than half of the world's energy supply. Given that much of Asia Pacific is on the cusp of economic expansion, meeting future energy needs will need to be carefully planned to ensure a secure, affordable and sustainable supply.

With ISO 50001 requiring new energy initiatives annually, this continual drive for improvement should prove one of the most significant business benefits to SGS affiliates seeking certification.

"Our recent certification to ISO 50001, ISO 14001 and OHSAS 18001 enhances our ISO 9001 management system, which is enabling us to improve efficiency, save costs, provide a safe working environment and improve brand image."

ARIEL A. MIRANDA
SGS Managing Director
SGS Philippines and Guam

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CARBON-OFFSETTING PROJECTS

We offset any carbon emissions left after reducing our carbon footprint. This is achieved by assigning a clear cost to carbon and ensuring that each affiliate takes responsibility for their emissions by paying for their carbon offsetting. We also look for Clean Development Mechanism approved carbon-offsetting projects that directly benefit communities where we have an impact. This process supports our community investment strategy and allows us to bring benefits to local communities around the world. At the same time, we are able to promote sustainable economic growth, supply clean energy at a local level and protect the environment by reducing reliance on fossil fuels.

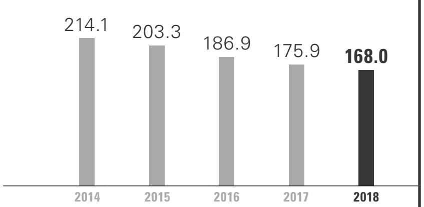
ACHIEVEMENTS

5 voluntary carbon-offsetting schemes supported

407.3 GWh of renewable energy mechanisms were invested to mitigate our CO_2 emissions

PERFORMANCE

168.0



TOTAL GHG EMISSIONS (THOUSAND METRIC TONNES CO_2e)*

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

OUR VALUE TO SOCIETY

CARBON OFFSETTING ENVIRONMENTAL AND SOCIAL BENEFITS IN ZIMBABWE

MARÍA MONASOR
SGS Sustainability Reporting Manager

To mitigate our CO_2 emissions, we invest in voluntary offset schemes. These credit purchases are verified by the Clean Development Mechanism and help promote sustainable economic growth, provide clean energy to regions and local communities, and protect the environment by reducing reliance on fossil fuels for energy.

Since 2014, we have been supporting Kariba REDD+ (Reduced Emissions from Deforestation and Degradation), a forest protection initiative in Zimbabwe that is verified according to the Verified Carbon Standard and the Climate, Community & Biodiversity Alliance's Standard.

To restrain the deforestation, Kariba REDD+ ensures the protection of almost 800 000 hectares of forest and wildlife on the southern shores of Lake Kariba, an area that serves as a giant biodiversity corridor and includes an expansive rainforest and numerous vulnerable and endangered species. Besides the environmental benefits, the project supports the independence and well-being of local communities: people benefit from improved clinic amenities, infrastructural developments – such as new roads and boreholes – or school subsidies for the poorest population. Kariba REDD+ also fosters job creation and sustainable livelihoods by promoting activities such as conservation agriculture, fire management, beekeeping training and ecotourism. Across the entirety of the project, 85 000 people are benefiting from its activities and are enjoying better health and improved economic opportunities.



PEOPLE

Our commitment to attracting, retaining and developing our people is the basis of our long-term competitive advantage. We empower them to succeed in a safe, diverse and inclusive workplace that treats everyone fairly and with respect. We seek to employ and develop local talent and offer our employees flexibility, mobility and opportunities within the SGS Group.





TALENT ACQUISITION AND RETENTION

We began to put into effect SGS' global Human Resources (HR) strategy in 2018 and will continue the implementation over the course of 2019 and beyond. The strategy is based on five pillars: aligning the HR structure to better meet global and regional business prerogatives; implementing a competitive and transparent talent acquisition strategy; fostering an integrated talent management mindset – based on consistent succession planning practices; strengthening our leadership and employee capabilities with tools and guidelines; and lastly, leveraging our footprint to promote career development opportunities across the Group.

Implementing this strategy will make SGS more flexible and transparent in the way it acquires and develops talent and increase the visibility of career and growth opportunities within the Group.

A critical part of our global HR strategy relies on developing the knowledge of the HR community and providing it with simple and efficient tools to add value to the SGS business.

Essential to the success of the strategy is HR communication, at both the global and local level, delivering key messages and raising awareness on the vision and direction. This is being achieved in close collaboration with SGS communications teams.

This year, our Sustainability Ambition 2020 on natural turnover, which had been set at 10%, has been revised upwards to 15%, aiming to establish a more realistic and appropriate target for our organization. This change has been approved by the Sustainability Steering Committee in March 2018, and the adjustment has been made after a period of intensive study across the industry and using external ratings benchmarks that indicate that a healthy aggregated natural turnover rate for the industry should vary between 15% and 18%. As always, our focus continues to be on retention. To remain the industry leader, it is imperative that we continue to attract and retain high-caliber experts across the SGS Group.

EMPLOYEE ENGAGEMENT AND WELL-BEING

SGS continues to focus on performance management through leaders to develop and engage employees. To better understand our employees' experience of working with SGS, every year, we invite them to complete a survey (see page 59).

Additionally, SGS provides various well-being initiatives tailored to the specific needs of local affiliates. These range from flexible working hours to partial retirement plans. In some instances, the programs are outcome-based health promotions, while in others, they are campaigns to encourage positive behavior change (e.g. cycle-to-work schemes). Where possible, remote IT connections and teleconferencing facilities enable employees to work from home and save them from having to travel to and from meetings.

Thirteen teams from SGS Nigeria were among the more than 1 000 SGS employees that participated in the Virgin Global challenge, promoting teamwork and collaboration.

REWARD AND INCENTIVES

Reward plays a key role in attracting, motivating and retaining talent at SGS. Our remuneration framework rewards our employees for their performance, competencies and experience, based on local competitive conditions, and it encourages profit-sharing through appropriate variable compensation plans, both long-term and short-term. We offer benefits, such as pension and healthcare plans, in accordance with local market practices. We regularly benchmark our compensation packages to confirm they are competitive in all locations around the world.

Group-wide job architecture classifies positions using "generic jobs" and "job grades." Each captures the basic nature of the job performed and the typical skills and competencies needed. A job grade represents the relative weight of a job within the organization, based on different factors, such as management responsibility, knowledge required and impact on financial results.

Classifying positions facilitates a common language that allows us to benchmark our compensation practices against the external market in different geographies and internally between different organizations.

This year, the Short-Term Incentive Plan has been adjusted. While the annual incentive is based on the achievements against collective and individual financial targets, individual qualitative goals and behaviors are now part of a broader Talent Development focus and are incentivized through career development paths and mid- to long-term evolution of the compensation packages.
The Long-Term Incentive Plan has been reviewed to simplify and better align the reward of the senior management with the long-term objectives of the Group and the shareholders' interests.

ACHIEVEMENTS

91% response rate to 2018 Catalyst employee engagement survey (across 26 countries and 2 global teams)

67% of employees feel engaged and 70% of employees feel enabled*

SGS Peru won the Asociación de Buenos Empleadores 2018 Social Responsibility award in the Employee Wellness category

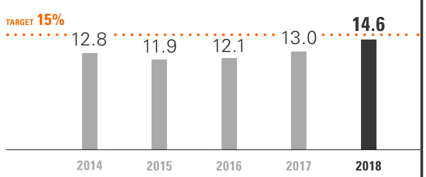
** Due to the difference in scope between 2017 and 2018, the results for the two years are aggregated. The 2017 survey was completed among 39 countries and 3 global teams, with 34 551 respondents. While the 2018 survey was completed among 26 countries and 2 global teams, with 6 286 respondents.*

PERFORMANCE

14.6%

PEOPLE LEAVING BY THEIR OWN WILL

As of 2016, this KPI is calculated based on permanent (fix-term and open-ended) contracts.



NATURAL TURNOVER

CATALYST SURVEY:

TIME TO LISTEN AND ACT


ANA BIDAUD
SGS Global Employee Engagement Manager

In our Catalyst employee engagement survey, conducted in September 2018, 6 286 employees from 26 countries and two global teams gave feedback on their experience working at SGS – this is a remarkable response rate of 91%.

Catalyst gives us insight into how engaged, enabled and motivated our employees feel. The feedback will help us grow, remain agile and allow us to adapt and be ready to take on new challenges; the results will also feed our 2019 improvement actions at global, country and team levels.

More than three-quarters of participants report high levels of understanding of SGS' strategic priorities and goals. Meanwhile, 70% of participants believe their managers are supportive, are involved in their growth and development, provide feedback and recognition, and translate SGS' objectives into more tangible terms. Outperforming the global norm,* 67% of employees agree that decisions in their units are made in a timely manner, and over three-quarters of employees have access to information to do their jobs well.

The survey participants also highlight ways to improve motivation and enable them to perform to their full potential. These included conveying SGS' long-term strategic direction, managing recognition and diversity, encouraging employee involvement in the sustainability agenda and promoting a work environment that fosters open communication.

68%

Employees intend to stay with SGS for at least five years

74%

Employees have trust and confidence in their managers

82%

Employees believe their managers give them the freedom to do their jobs well

** The SGS Catalyst survey uses indicators based on Korn Ferry data collected from over 6.8 million employees in 350 organizations globally.*

HUMAN CAPITAL AND LABOR PRACTICES

SGS is a diverse and inclusive organization that supports all employees in realizing their potential. We strive to treat everyone fairly and without discrimination while providing employees with career development training that enables them to meet customer requirements and our own standards. SGS employees, subcontractors, business partners and suppliers are entitled to work in an environment and under conditions that respect their rights and dignity. We respect freedom of association and cooperate with the trade unions and work councils that our employees collectively choose to represent them within the appropriate national legal frameworks. All SGS policies and codes are informed by the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Children's Rights and Business Principles, the United Nations Women's Empowerment Principles and the United Nations Global Compact.

DIVERSITY AND EQUAL OPPORTUNITIES

Our employees span nationalities, cultures, religions, generations and genders, and we recognize their contribution to our business success. Our approach to diversity is grounded in our Business Principles where respect is defined as "making sure we treat all people fairly." The SGS Business Principles, Code of Integrity and Human Rights Policy all underline our commitment to diversity, inclusion and equal opportunities, and our employees and managers are trained annually in the principles of non-discrimination.

LEARNING AND DEVELOPMENT

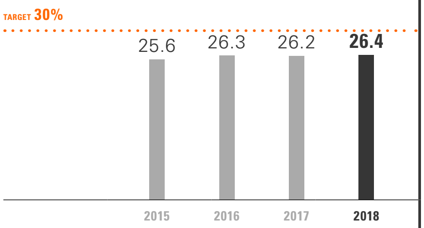
Each affiliate manages its own training programs locally, based on the precise needs of the SGS business, employees and community in that specific location. The programs range from initiatives designed to give high-performing employees the opportunity to develop into management roles to health and safety and technical skills training. These programs help keep employees at the top of their fields. Our HR strategy also envisages providing an unlocked, open-access learning portal that will be available to all employees. This will allow them to learn about any area of interest within SGS.

ACHIEVEMENTS

- 67% males and 33% females in the global workforce
- 16 nationalities represented across the Operations Council
- 4.4 million hours in staff training

PERFORMANCE

26.4%



WOMEN IN LEADERSHIP POSITIONS (CEO -3)

QUALITY AND PROFESSIONALISM

Quality and Professionalism is one of our Business Principles, and our stated 2020 Ambition in this area is "to be the leading brand for accuracy, quality and professionalism."

SGS distinguishes itself through the quality of its service offering. In an increasingly data-driven society, our reputation for accuracy, thoroughness and agility sets us apart from the competition. This is in no small part thanks to the caliber of people we are able to attract and retain at the company.

ACHIEVEMENTS

- 247 516 hours on leadership development skills programs
- 1.3 million hours on technical and sales training

OUR VALUE TO SOCIETY

INVESTING IN LOCAL TALENT

RUSS CALOW
SGS Vice President Global Geochemistry

SGS operates close to 100 remote onsite or near-site mine and smelter laboratories in some of the most isolated locations in the world. SGS' onsite laboratories provide their customers with expedited turnaround so that mining and operational decisions can be made quickly and accurately. SGS staffs these operations with a broad and diverse range of local talent. In addition to providing employment opportunities, SGS also benefits globally from the skills, knowledge and cultural diversity that these team members bring to the organization.

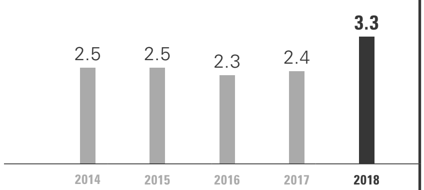
For example, at TMAC Resources Inc. Hope Bay mine, near the Arctic Circle, SGS has blended a team of local Inuit staff and regionally sourced chemists and managers. In Africa, the SGS onsite laboratory at Randgold Resources' Loulo gold mine in Mali is managed by senior SGS staff from Ghana and Tanzania, but all other staff are from a nearby local village, meaning that in 2018, 87% of the workforce consisted of local employees who receive SGS laboratory training.

PERFORMANCE

3.3%

TRAINING COST (INCLUDING HOURS) AS A PERCENTAGE OF EMPLOYMENT COST

On a constant currency basis.



TRAINING RATIO*

* *Improvement in the ratio is due to a remarkable increase of e-learnings during 2018 across the organization as well as a better quality of the data reporting and gathering process.*

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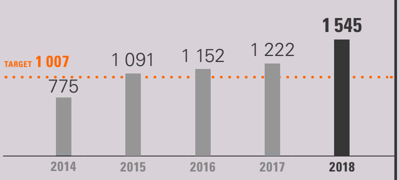
COMMUNITY INVOLVEMENT

We want to create a positive, measurable and lasting impact on the local communities where we operate. We welcome local talent and engender a company culture of giving back through projects that are aligned with the Sustainable Development Goals and focused on three pillars: education, empowerment and environmental sustainability. We encourage our employees to volunteer, while SGS, as a company, invests in local community needs.

PERFORMANCE

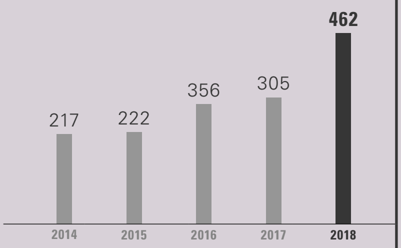
1 545

Including cost of volunteering hours (on a constant currency basis).



INVESTMENT IN COMMUNITY* (THOUSAND CHF)

462



COMMUNITY PROJECTS*

* *Improvement in "Investment in Community" and the number of "Community Projects" is due to new affiliates joining community programs in 2018 as well as the improved quality of the data-reporting and data-gathering process.*

SGS COMMUNITY PILLARS: BREAKDOWN OF INVESTMENT

31% education

16% environmental sustainability

52% empowerment

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COMMUNITY PROGRAMS

Increasing our investment in communities around the world by 30%* (against a 2014 baseline) is one of our Sustainability Ambitions 2020. In working towards this goal, we are facilitating responsible business operations and helping to address development challenges. SGS' community programs are selected and managed, in line with the Group Community Policy and Guidelines, at a global and local level.

The majority of the initiatives are led by our affiliates through collaborations with local organizations. To evaluate the effectiveness of our programs, we use our Group Community Survey, which is aligned with the London Benchmarking Group criteria. This survey serves as our impact measurement tool and captures information in relation to various key performance indicators that measure the type of philanthropic activities covered as well as the project duration, hours of volunteering, type of beneficiaries and number of people impacted by the projects, among other items.

EMPOWERMENT

Our empowerment programs support physical, emotional, intellectual and economic empowerment by providing access to healthcare, counseling, microcredit and enterprise schemes.

EDUCATION

Our education projects improve access to all levels of schooling and promote informal learning in the form of employment training schemes and skills workshops.

ENVIRONMENTAL SUSTAINABILITY

Our environmental initiatives focus on the protection of endangered species and restoration of natural habitats.

ACHIEVEMENTS

Our total community investment was CHF 1 545 000

18 544 hours in volunteering to local communities

SGS FRANCE CHANGES COLOR FOR PINK OCTOBER

SOPHIE BUET
SGS Marketing and Communication Manager, Sécuritest & Auto Sécurité, SGS France

SGS France is the market leader in automotive technical control, with nearly 8 million customers visiting our 2 000 testing centers every year. Half of the people who visit the vehicle inspection centers are women, who – in our experience – are more receptive to prevention messages, which are a critical aspect of helping to avoid issues and accidents.

We wanted to use this focus on prevention for vehicle safety and apply it to another important topic for women's health: breast cancer prevention.
By partnering with the national charity "Le Cancer du Sein, Parlons-en!" [Breast Cancer, Let's Talk About It!], SGS France supported the fight against breast cancer with an initiative across all vehicle testing centers.

Throughout October, which is international breast cancer awareness month, we held a major awareness and fundraising campaign. With the message that nine in ten women can recover from breast cancer if detected early enough, the campaign focused on the importance of preventative cancer screenings. With posters, website and email banners, and social media posts, we informed customers and suppliers and appealed for donations in all testing centers. Some employees participated in a charity run to raise funds, all our 4 100 vehicle technicians showed solidarity by wearing the synonymous pink ribbon, and the SGS Group supported the initiative with a CHF 57 000 donation for "Le Cancer du Sein, Parlons-en!" to finance cancer research.

DATA SECURITY AND PRIVACY

As a company that holds itself to the highest standards of professional behavior, protecting personal data and compliance with associated privacy laws are essential commitments for SGS.

Our Data Protection strategy is focused on the management, prevention, detection and response to security issues or risks identified. It encompasses enhancing IT systems, putting policies and procedures in place to streamline processes, and developing capabilities so that SGS is operating in a controlled-risk environment.

DATA SECURITY

SGS has a framework and team in place to protect intellectual property, business services and customer data by governing and managing cybersecurity. It is their responsibility to manage SGS IT Security and Anomaly Detection Systems, deploying new tools where needed while identifying vulnerabilities, threats and potential incidents. The team also forecasts trends in the security landscape, determining the threats the organization faces, orchestrating a security program to prevent, detect and control risks and developing effective responses. SGS implements the best security controls based on international standards and best practices.

SGS utilizes several detection systems that monitor the network, system infrastructure and applications. The most critical of these detection systems are monitored on a continuous basis, whereas the rest keep audit information for analysis in case of enquiries or suspicion of fraudulent activity.

Response times to potential incidents are monitored with specific timeframe requirements depending on the severity of the threat and its criticality. Any major security issues are investigated by the IT Security Department. Once the root cause has been identified, the impact of any proposed mitigation is evaluated and communicated.

To promote high levels of cybersecurity, technical standards ensuring a sound security baseline have been developed. We also run a continuous security awareness program and, as part of this, conduct IT security training several times a year for all employees. Cybersecurity is also an area that is taken seriously when integrating the IT systems of acquisitions and partners into those of the SGS Group.

DATA PRIVACY COMMITMENTS

Confidentiality and Privacy are key principles of the SGS Code of Integrity, which all SGS employees are required to uphold.

In March 2018, the SGS Operations Council further demonstrated the scale of such commitment across the company by adopting the SGS Global Privacy Policy. The SGS Data Privacy Policy governs how we collect, use and manage the personal data of customers, employees and third parties. We strive to be transparent and open about the data we collect, respecting individual rights and choices and securing the data we hold from the risks of unauthorized use or disclosure.

EUROPEAN GENERAL DATA PROTECTION REGULATION (GDPR) COMPLIANCE

In 2018, measures and mechanisms were put in place to ensure SGS complies with the GDPR. These are detailed in the SGS GDPR Compliance Statement, which describes the steps SGS is taking to update and expand data security and protection across the Group. It also outlines the dedicated internal team in place to develop and implement the GDPR roadmap – assessing gaps and implementing enhanced and new policies and procedures.

TRAINING

Global awareness training on data protection and privacy principles was rolled out as an e-learning module in 2018. It is relevant to all employees – whether they collect and process personal data or not – as SGS as an organization has collected and manages their personal data. The aim is to reach the more than 97 000 SGS employees, with the completion rate currently at 93% in Europe and 95% worldwide.

ACHIEVEMENTS

The SGS Global Data Privacy Policy was launched

GDPR Compliance Statement released to publicly disclose the measures SGS has in place to ensure GDPR compliance

Data Protection and Privacy e-learning rolled out to all SGS employees

GENERAL DATA PROTECTION REGULATION ROLES AND RESPONSIBILITIES

DATA PRIVACY GLOBAL PROJECT LEADER	• Defines and supervises the implementation of the GDPR data privacy compliance framework throughout SGS in the EU and in all non-EU parts of the SGS Group to which the GDPR may also apply • Provides operational and privacy legal support to local Data Privacy Officers, Privacy Leaders and anyone within SGS responsible for data privacy • Develops, plans and implements SGS data privacy training and awareness programs
EU NETWORK OF DATA PRIVACY OFFICERS/PRIVACY CONTACTS	• Implement the GDPR data privacy compliance framework at local level • Inform and advise local teams about their legal obligations and check compliance of data processing activities • Ensure the maintenance of readily available information regarding the structure and functioning of all systems and processes that process personal data (e.g. inventory of systems and processes, privacy impact assessments and data breaches) • Cooperate with local Data Protection Authorities in case of an enquiry • Serve as a contact regarding local access requests and complaints
CHIEF INFORMATION OFFICER	• Overall responsibility for security of IT systems • Overall responsibility for IT security incidents

A COMPLETE DATA PRIVACY OFFERING FOR CUSTOMERS


PIERRE WESTPHAL
SGS GDPR Program Director

When the General Data Protection Regulation (GDPR) was enforced in Europe in 2018, SGS launched a compliance management subscription for organizations with fewer than 250 employees that need help understanding and complying with the new regulation. The service, called GDPRONLINE, enables businesses to take the necessary steps to comply with legal requirements relating to data collection and storage.

One year on, the service is still evolving. GDPRONLINE is part of a complete offering of onsite and online GDPR-related services for both small and medium-sized enterprises and larger corporations. GDPRONLINE provides a platform to communicate digitally with our customers, giving us the opportunity to propose customized, complementary services such as audits, email management and onsite training. The service offering is a collaboration between SGS' Global Digital and Innovation team and local affiliates, which ensures market needs and regulations drive our approach.

GDPRONLINE is one example of the data security and privacy services that SGS offers customers; others include our Data Protection Officer Certification, Cloud Service Certification, Payment Card Industry Data Security Standard and Enterprise Governance Risk and Compliance.

"Protection of personal data is important to every part of our business. It is at the heart of our promise to our clients, our values, our principles, our conduct and our success, and it is essential to maintaining trust."

FRANKIE NG
SGS Chief Executive Officer

Regular Safety Talks and the SGS Rules for Life ensure that Didier returns home safely every night.

8 DECENT WORK AND ECONOMIC GROWTH

MEASURING OUR IMPACT

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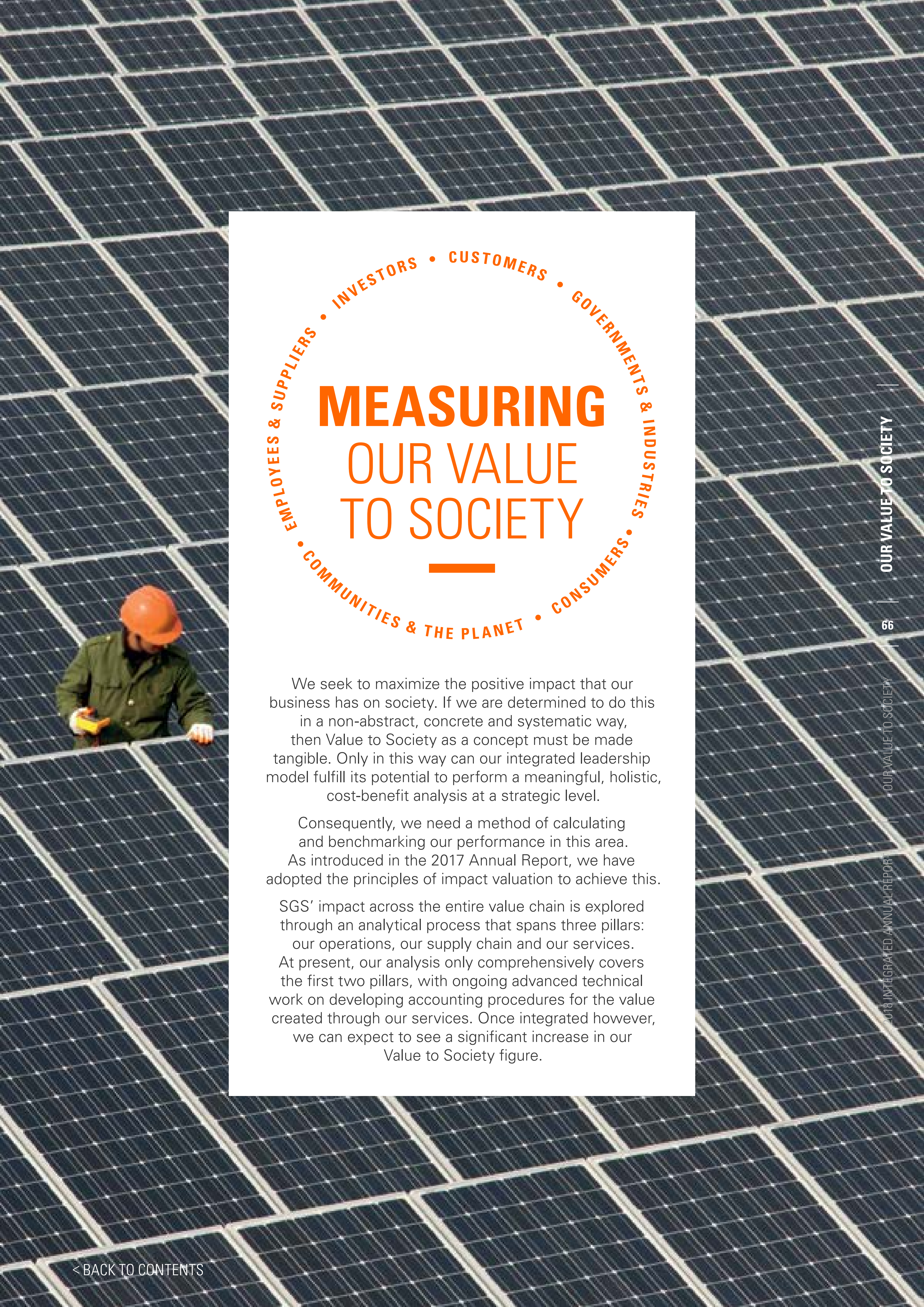


INVESTORS • CUSTOMERS • GOVERNMENTS & INDUSTRIES • CONSUMERS • COMMUNITIES & THE PLANET • EMPLOYEES & SUPPLIERS •

MEASURING OUR VALUE TO SOCIETY

We seek to maximize the positive impact that our business has on society. If we are determined to do this in a non-abstract, concrete and systematic way, then Value to Society as a concept must be made tangible. Only in this way can our integrated leadership model fulfill its potential to perform a meaningful, holistic, cost-benefit analysis at a strategic level.

Consequently, we need a method of calculating and benchmarking our performance in this area. As introduced in the 2017 Annual Report, we have adopted the principles of impact valuation to achieve this.

SGS' impact across the entire value chain is explored through an analytical process that spans three pillars: our operations, our supply chain and our services. At present, our analysis only comprehensively covers the first two pillars, with ongoing advanced technical work on developing accounting procedures for the value created through our services. Once integrated however, we can expect to see a significant increase in our Value to Society figure.

OUR
IMPACT VALUATION FRAMEWORK

WE MEASURE OUR VALUE TO SOCIETY ACROSS:

OUR VALUE CHAIN

SUPPLY CHAIN

OPERATIONS

SERVICES (method in development)

6 CAPITALS

FINANCIAL

NATURAL

MANUFACTURED

HUMAN

INTELLECTUAL

SOCIAL AND RELATIONSHIP

31 INDICATORS
THAT ARE TIED TO OUR STRATEGIC KPIS

OUR METHODOLOGY

In traditional economics, a company's impact is captured by gross value added (GVA). This metric is generated through traditional financial calculations such as the payment of wages and salaries, profits generated, and taxes paid by the company. In 2017,[1] SGS added up to CHF 4 045 million to society, notably through salaries and taxes for our 95 000 employees worldwide, according to this traditional metric.

Our Value to Society model seeks to move beyond these traditional approaches to take a more holistic view of the value we add. Currently, through the methods outlined below and detailed more fully in our 2018 Sustainability Report (http://www.sgs.com/cs-report-2018), we are able to calculate the value we add to society through our supply chain and direct operations. For instance, we calculated that our direct operations and supply chain activities created CHF 2 131 million of additional positive impact, which was distributed to society through our stakeholders, for a total value to society of CHF 6 176 million.

To date, we have unveiled significant societal benefits arising from training and development programs, while our main negative societal impacts have been caused by the environmental footprint of our supply chain.

However, we also add significant value to society through our services. Therefore, the development of a methodology to calculate the total net impact that we enable through our services will provide a much more rounded picture of our true value to society. Once this method has proven to be satisfactorily robust and this third pillar has been included in the calculations alongside our supply chain and operations data, we can expect a significant increase in our quantitative Value to Society figure. This is because many of our services help other businesses and governments obtain their own efficiency, productivity and sustainability targets.

While our model cannot yet incorporate calculations estimating the value of our entire service portfolio to society, we have explored the value of a few case studies.

HUMAN CAPITAL CASE STUDY:

SOCIAL RESPONSIBILITY AUDITS

Social Responsibility Audits detect and assess the controls in place to prevent issues such as forced labor, discrimination and sexual harassment in the workplace. They include audits against third-party standards and corporate codes of conduct, corrective action monitoring and other tailored audits.
SGS analyzed the socio-economic benefits of reducing the prevalence of forced labor, exploitation, discrimination and sexual harassment. The avoided social costs equate to a Value to Society of CHF 333 million.

NATURAL CAPITAL CASE STUDY:

ENERGY MANAGEMENT CERTIFICATION

The ISO 50001 Energy Management certification helps organizations save money and conserve resources while tackling climate change through energy efficiency and the development of an energy management system. SGS has helped around 1 000 companies achieve ISO 50001 certification, resulting in an estimated reduction in CO_2 emissions that equates to an estimated Value to Society of CHF 219 million.*

1. Value to Society is calculated on 2017 figures.

OUR CAPITALS

Across our operations and supply chain, six types of capital stock are analyzed: financial, manufactured, human, natural, intellectual, and social and relationship. These capitals are the Integrated Reporting Framework’s guidelines. The sum of the collective positive or negative impacts of these six capitals provides us with a figure that represents our value to society in quantitative terms (see page 70).

HUMAN CAPITAL

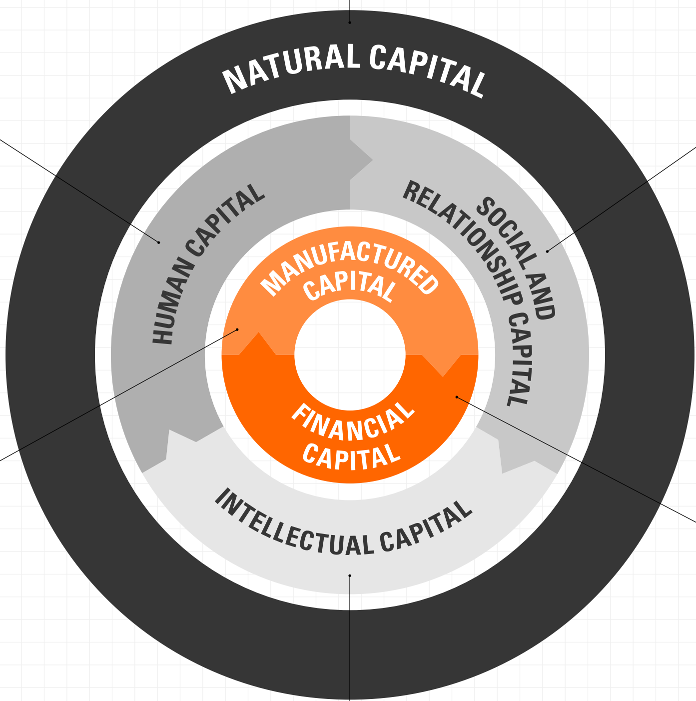
Relates to the physical and psychological capacity of individuals (e.g. motivation, safety or well-being) to undertake market-based employment and to pursue wider aspirations.

NATURAL CAPITAL

Comprises the renewable and non-renewable natural resources and processes SGS needs to operate. Natural inputs include air, water, land and ecosystem health.

SOCIAL AND RELATIONSHIP CAPITAL

Covers SGS’ relationships and interactions with communities, stakeholders, organizations and networks. They include notions like trust, loyalty and other values.



MANUFACTURED CAPITAL

Relates to the inventory of property, plant, equipment and other manufactured goods that house SGS business activities and enable SGS to successfully compete in the global marketplace.

INTELLECTUAL CAPITAL

Consists of intangible and knowledge-based assets. Intellectual inputs include the brand, patents and copyrights as well as employees’ knowledge of protocols and procedures.

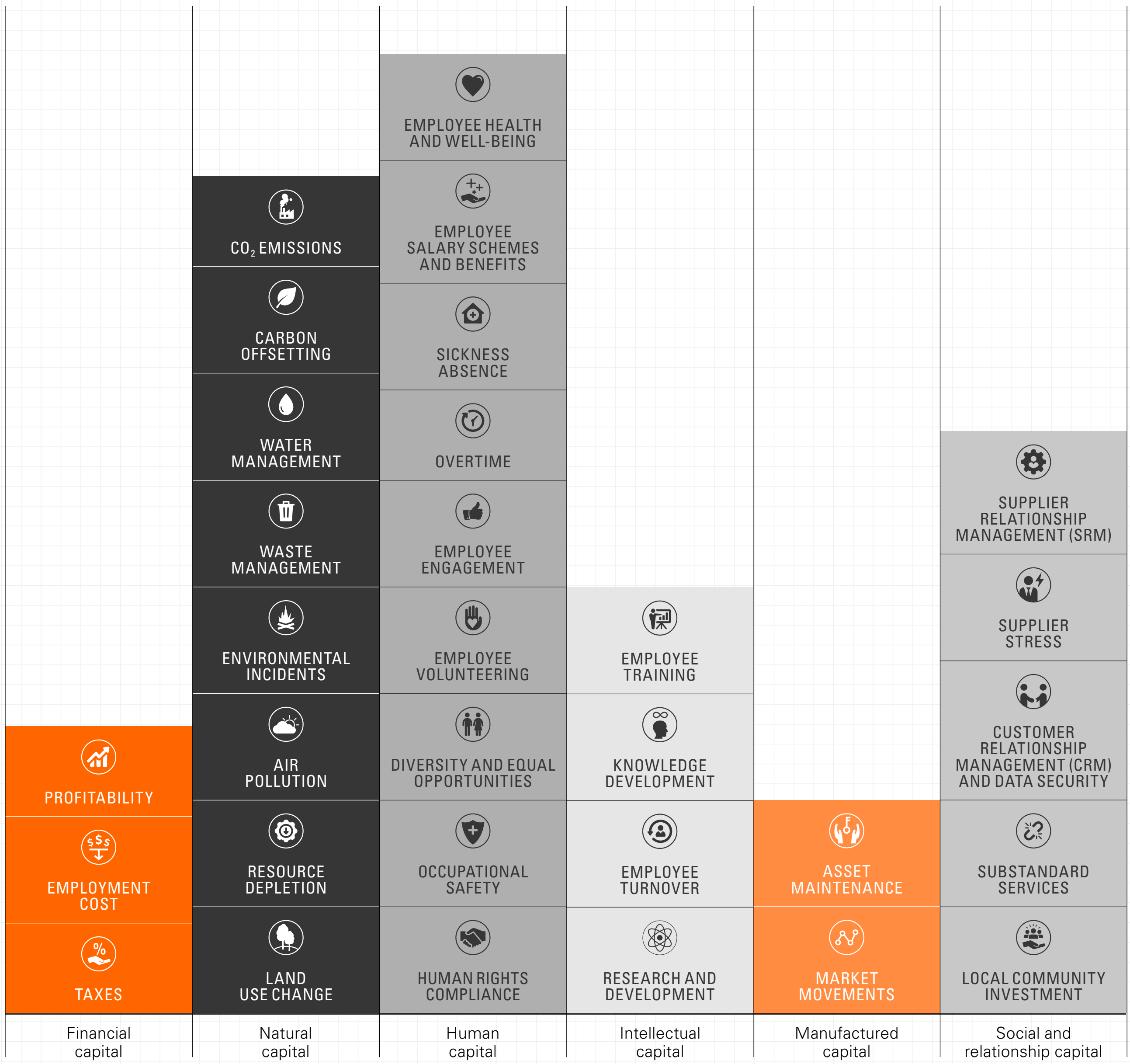
FINANCIAL CAPITAL

Relates to the store of cash and cash equivalents that can be used in exchange for other stock functions (e.g. human capital) that enable SGS to successfully ompete in the global marketplace.

OUR INDICATORS

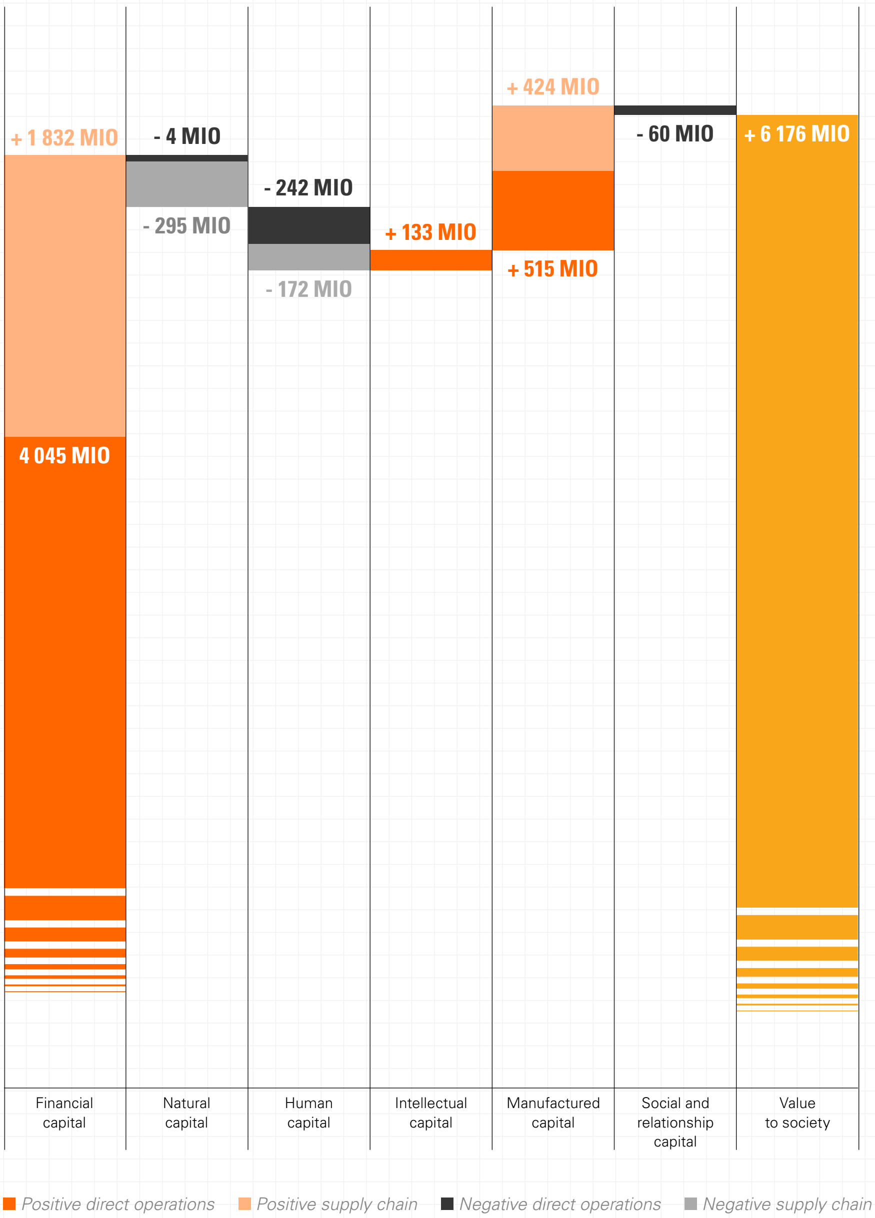
For each capital, a set of indicators has been identified. These relate to specific actions at the corporate level. To measure their impact, an economic value has been assigned to each indicator, which, in turn, contributes to the positive or negative flow of each capital. This approach allows us to understand the subtle interlinkages between the capitals, in line with the objectives of the Integrated Reporting Framework.

Please refer to our 2018 Sustainability Report (http://www.sgs.com/cs-report-2018) to learn more about how we calculate our value to society.



THE MEASURE OF OUR **VALUE TO SOCIETY**

Our calculations* demonstrated that SGS generated +CHF 7 149 million of positive societal benefit, primarily created through profit generation, the paying of taxes and wages, and training and development programs. We also generated CHF 975 million of negative societal impacts, which were primarily driven by SGS' supply chain environmental footprint, in particular by water consumption and Greenhouse Gas emissions. SGS' positive impacts were primarily driven by the Company's own operations, which accounted for 68% of the total positive impacts.



CHF 6 176 MIO

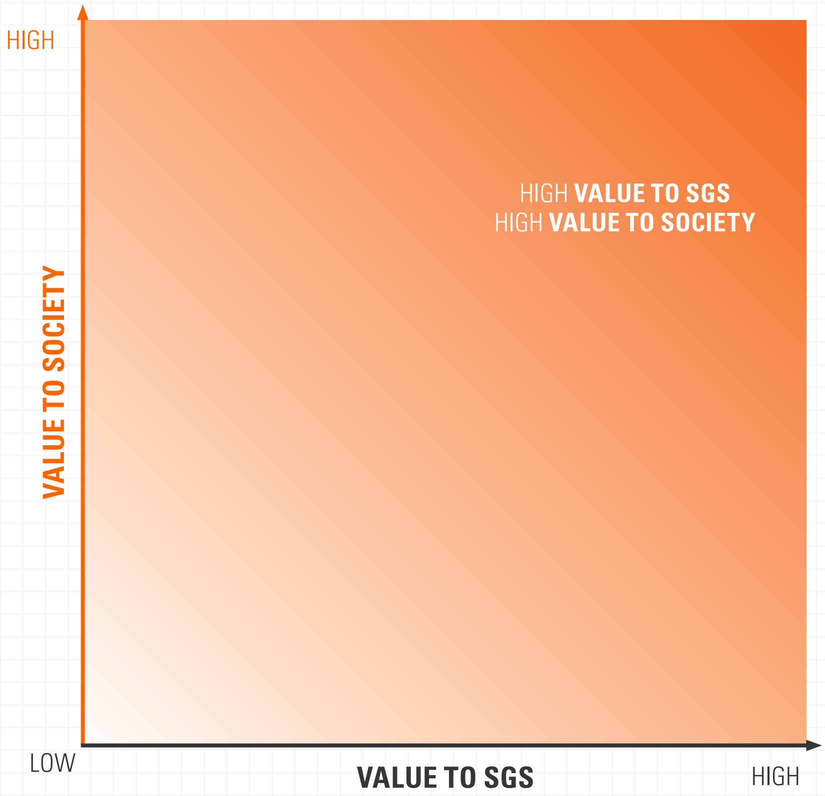
The total Value to Society of SGS direct operations and supply chain activities

CHF 4 387 MIO

Estimated total Value to Society of our direct operations

* Value to Society is calculated on 2017 figures.

DOUBLE-POSITIVE DECISION MATRIX
DRIVING VALUE FOR SGS AND SOCIETY



Collectively, our efforts aim to result in a double positive: driving benefit to SGS and to society.

This decision matrix will help us prioritize decisions, adding value to SGS and society, and demonstrate our integrated leadership.

BUSINESS MODEL

Our commitment to training our people ensures that our employees are onboarded faster and continually enhance their skills. This helps SGS retain the leading experts in the market. Our people can carry this training with them when they leave the office, potentially benefiting society with the skills that they have learned.

SERVICES

When we develop industry-leading capabilities in services such as air-quality testing, SGS benefits from increased business and potentially improved recruitment of highly qualified talent in the field. Society benefits from more accurately monitored and, ultimately, cleaner air.

INTEGRATED NON-FINANCIAL PERFORMANCE

Over the past five years, we have used our impact evaluation framework to produce our "Green Book" on a biannual basis. This provides management in our largest 60 countries (by revenue) with data to make better, more integrated decisions. This is also a remarkable tool to track our progress towards our company ambitions.

As time goes on, and the model is further refined, it has the potential to support a deeper culture of more informed, holistic decision-making.

Externally, other businesses and academics can benefit from the work that we are doing to help more companies begin to integrate impact valuation into their reporting. This has the potential to cause a shift in the way our company's value is perceived.

OUTLOOK

While the model is not intended to be a financial accounting tool, it is robust enough to help us better understand and benchmark our year-on-year performance in creating value to society. Since the model is aligned to our KPIs, it also allows us to embrace the International Integrated Reporting Framework's strategy of generating a comprehensive view on how our material factors generate value over time.

We expect the model to be further refined as new research in the rapidly evolving field of impact evaluation is published and new technology enables us to observe a broader array of indicators.

OUR SUSTAINABILITY
BASIS OF REPORTING

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

1.1 SCOPE AND BOUNDARIES

The scope of the Sustainability Information contained in this Annual Report[1] covers all regions and business lines of the SGS Group for the 2018 calendar year. A full list of SGS' affiliates can be found on pages 186-189 of this report. Unless stated otherwise, our reported data scope covers the Group business and targets for the period 1 January to 31 December 2018.

We have identified and prioritized our most material impacts to the business and to stakeholders across our value chain, and this Annual Report includes performance data for our direct operations and information on how we are managing the most material issues. For more information on how we define our material issues, please see pages 32-33 of this report.

Our past and present performance is disclosed in this report over a five-year period. Sometimes, historical data may differ from previous reports due to the availability of more accurate data or improved data gathering and/or reporting. In such cases, variations in data of less than 5% are generally considered immaterial: significant changes on prior year data are disclosed where they first appear in the report

1.2 EXTERNAL STANDARDS

For the past ten years, SGS has published a Sustainability Report, and since 2015, we have integrated sustainability content into our Annual Report as we move towards a fully integrated reporting structure in line with the Integrated Reporting Framework.

SGS supports the principle of integrated reporting, and we are committed to continuing to work towards that goal. Indeed, we took another step towards integrated reporting this year with the further development of our integrated leadership model, which is detailed in this Annual Report.

The sustainability content in this Annual Report is drawn from our Sustainability Report, to be published in March 2019. Since 2013, our Sustainability Report has been developed using the guidelines for the AA1000 Accountability Principles Standard and the Global Reporting Initiative's Standards. Our Sustainability Report explains further our reporting approach.

1.3 ASSURANCE AND BASIS OF PREPARATION

External assurance of sustainability performance indicators is an important part of our approach, and our sustainability reporting has been independently assured since 2011.

In 2018 we appointed Deloitte LLP to provide independent assurance of our Sustainability performance. Deloitte's Assurance Report describes the work undertaken and their conclusion for the reporting period to 31 December 2018. Documents relating to independent external assurance in the years prior to 2017 are available in our Reports, Policies and Multimedia (https://www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs/reports-policies-and-multimedia) section on our website.

Please see Independent assurance for further information about our assurance process on pages 73-74 of this Annual Report.

1. The Sustainability content can be found on pages 5, 10, 30, 32-33, 36-41, 50, 52-64, 72-74 of this report.

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Deloitte.

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2018 Annual Report Assurance Statement

Independent assurance statement by Deloitte SA to SGS SA on selected sustainability information presented in the 2018 SGS Annual Report

What we looked at: scope of our work

SGS SA ("SGS") has engaged us to perform limited assurance on selected sustainability information ("the Subject Matter") presented in the SGS Annual Report for the year ended 31 December 2018 ("the Report"). The selected sustainability information which comprises the Subject Matter appears on pages [5, 10, 30, 32-33, 36-41, 50, 52-64, 72-74] of the Report. The assured sustainability information will also appear in the SGS Sustainability Report, to be published later this year.

What standards we used: basis of our work and level of assurance

We used the International Standard for Assurance Engagement (ISAE) 3000 (Revised), issued by the International Auditing and Assurance Standards Board to carry out our limited assurance engagement on the Subject Matter. To achieve limited assurance, ISAE 3000 requires that we review the processes and systems used to compile the areas on which we provide limited assurance. This standard requires that we comply with the independence and ethical requirements and to plan and perform our assurance engagement to obtain sufficient appropriate evidence on which to base our limited assurance conclusion. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. This is designed to give a similar level of assurance to that obtained in the review of interim financial information. This provides less assurance and is substantially less in scope than a reasonable assurance engagement.

Inherent limitations

The process an organization adopts to define, gather and report data on its non-financial performance is not subject to the formal processes adopted for financial reporting. Therefore, data of this nature can be subject to variations in definitions, collection and reporting methodology with no consistent, accepted standard. This may result in non-comparable information between organizations and from year to year within an organization as methodologies develop. To support clarity in this process, SGS prepares sustainability information in accordance with the principles of the Global Reporting Initiative (GRI) Standards. The SGS Sustainability Report further describes SGS's approach to reporting sustainability information, including the scope and standards selected ("the Reporting Criteria"). We have carried out our assurance against this criteria and it should be read together with this report.

What we did: key assurance procedures

To form our conclusions, we undertook the following procedures:

- Interviewed management at SGS and those with operational responsibility for sustainability performance to critically evaluate the reporting process, criteria and key controls;
- Interviewed management at SGS to understand the design of controls and functionality of the group sustainability information management and reporting databases used to manage sustainability data at a corporate level ('Solaris' and 'Crystal'), and performed selected systems integrity tests to assess the accuracy of information generated by the systems;
- Determined material quantitative and qualitative sustainability key performance indicators and disclosures from the 2017 SGS Sustainability Report, by considering criteria such as the outputs of the company's materiality process; peer reporting; susceptibility of misstatement due to error or fraud; whether a misstatement or control deficiency was noted in the prior-year; indicators or disclosures related to estimates and estimation methods; changes in calculation methods from prior-year;
- For the determined sustainability key performance indicators (as presented in Table 1) and a sample of related disclosures we undertook the following procedures:
  - Undertook management interviews and documentation checks to understand and test the reporting boundary and group consolidation and validation checks for complete, accurate and appropriate presentation of the information;
  - reviewed the design and implementation of SGS's half year and full year data validation controls, and tested the operating effectiveness of key data validation review and sign-off controls;
  - conducted trends analysis on full year data to identify and query anomalies in reported data;
  - conducted sample-based substantive testing of Operational Integrity and Ethics and Compliance indicators, to assess the accuracy of data classification, in line with the group reporting criteria; and

  - checked the quantitative and qualitative disclosures in the Report related to the selected sustainability key performance indicators against our understanding of the sustainability governance and management structures and performance over the year
- Where necessary, we made recommendations to SGS management based on findings identified during the assurance that required improvement.

Table 1: Selected sustainability key performance indicators

- Total number of integrity issues reported through corporate helplines (absolute number)
- Natural turnover (%)
- Women in leadership positions (CEO-3) (%)
- Total recordable incident rate
- Lost time incident frequency rate
- Total number of fatalities (absolute number)
- Total greenhouse gas emissions (Scope 1, 2, and 3) (thousand tonnes CO_2e)
- Total energy consumption by source (GWH)

What we found: our assurance conclusion

Based on our procedures described in this report, nothing has come to our attention that causes us to believe that the Subject Matter in the SGS Annual Report for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Our independence and competence in providing assurance to SGS

We complied with Deloitte's independence policies, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants in their role as independent auditors, and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality, and from any involvement in the preparation of the report. We have confirmed to SGS that we have maintained our independence and objectivity throughout the year and in particular that there were no events or prohibited services provided which could impair our independence and objectivity. We have applied the International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our team consisted of a combination of Auditors with professional assurance qualifications and professionals with a combination of sustainability reporting and subject matter experts including many years' experience in providing sustainability report assurance.

Roles and responsibilities

The Directors are responsible for the preparation of the information and statements contained within the Report. They are responsible for determining the goals and establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
Our responsibility is to independently express conclusions on the subject matters as defined within the scope of work above to SGS in accordance with our letter of engagement. Our work has been undertaken so that we might state to SGS those matters we are required to state to them in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SGS for our work, for this report, or for the conclusions we have formed.

Deloitte SA

Joëlle Herbette
Partner

Matthew Sheerin
Partner

Geneva, 15 February 2019

GOVERNANCE

Sandra benefits from improved air quality because SGS experts help local companies reduce pollution.

11 SUSTAINABLE CITIES AND COMMUNITIES

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This Corporate Governance Report informs shareholders, prospective investors and the public at large on SGS policies in matters of corporate governance, such as the structure of the Group, shareholders' rights, composition roles and duties of the Board of Directors and its Committees and Management, and internal controls and audits. This report has been prepared in compliance with the Swiss Exchange (SIX) Directive on Information Relating to Corporate Governance of 1 January 2016 and with the Swiss Code of Best Practice for Corporate Governance. The SGS Corporate Governance framework aims to achieve an efficient allocation of resources and clear mechanisms for setting strategies and targets, in order to maximize and protect shareholder value. SGS strives to attain this goal by defining clear and efficient decision-making processes, fostering a climate of performance and accountability among managers and employees alike, and aligning employees' remuneration with the long-term interests of shareholders.

1. GROUP STRUCTURE AND SHAREHOLDERS

2. CAPITAL STRUCTURE

3. BOARD OF DIRECTORS

4. OPERATIONS COUNCIL

5. COMPENSATION, SHAREHOLDINGS AND LOANS

6. SHAREHOLDERS' PARTICIPATION RIGHTS

7. CHANGE OF CONTROL AND DEFENSE MEASURES

8. AUDITORS

9. INFORMATION POLICY

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1. GROUP STRUCTURE

SGS SA, registered in Geneva (CH), also referred to as the "Company", controls directly or indirectly all entities worldwide belonging to the SGS Group, which provides independent inspection, verification, testing, certification and quality assurance services.
The shares of SGS SA are listed on the SIX Swiss Exchange and are traded on SIX Europe (Swiss Security Number: 249745; ISIN: CH0002497458). On 31 December 2018, market capitalization was approximately CHF 16 871 million (2017: CHF 19 397 million). None of the companies under the direct or indirect control of SGS SA have listed shares or other securities on any stock exchange. The principal legal entities consolidated within the Group are listed on pages 186-189 of the Annual Report, with details of the share capital, the percentage of shares controlled directly or indirectly by SGS SA and the registered office or principal place of business. Details of acquisitions made by the SGS Group during 2018 are provided in note 3 of the consolidated financial statements included in the section SGS Group Results (pages 128-129) of this Annual Report.

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

At 31 December 2018, geographic operations were organized as follows:

AMERICAS

- North America
- South and Central America

EUROPE, AFRICA, MIDDLE EAST

- Western Europe
- North and Central Europe
- Eastern Europe and Middle East
- Africa

ASIA PACIFIC

- North East Asia
- South East Asia Pacific

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

At 31 December 2018, the business lines are organized as follows:

- Agriculture, Food and Life
- Minerals
- Oil, Gas and Chemicals
- Consumer and Retail
- Certification and Business Enhancement
- Industrial
- Environmental, Health and Safety
- Transportation
- Governments and Institutions

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

1.2. 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 4.0% (2017: 4.0%) 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%)

During 2018, the Company has published regularly on the electronic platform of the Disclosure Office of the SIX Swiss Exchange Ltd. all disclosure notifications received from shareholders of transactions subject to the disclosure obligations of Article 20 SESTA. Such disclosure notifications can be accessed at: www.six-swiss-exchange.com/shares/companies.

1.3. CROSS-SHAREHOLDINGS

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

2. CAPITAL STRUCTURE

2.1. ISSUED SHARE CAPITAL

The share capital of SGS SA is 7 633 732 as of 31 December 2018 and comprises 7 633 732 fully, paid-in, registered shares of a par value of CHF 1. On 31 December 2018, SGS SA held 83 025 treasury shares (2017: 82 234). The shares related to the shares buyback program are directly held by SGS SA, the shares to cover the equity compensation plan are held by a subsidiary company.

In 2018, 87 099 treasury shares were sold to cover the equity compensation plans and 19 800 were purchased for an average price of CHF 2 403.59.

In 2017, the Group initiated a two-year share buyback program for a total of up to CHF 250 million. The program was completed on 19 December 2018. Under the program, SGS SA repurchased a total of 105 895 registered shares for a total amount of approximately CHF 249.9 million, at an average purchase price of CHF 2 359.67 per share, as follows:

- 37 895 registered shares on the ordinary trading line, for a total amount of CHF 92.3 million
- 68 000 registered shares on the second trading line, for a total amount of CHF 157.6 million

SGS SA intends to request shareholders to approve the cancellation of the 68 000 registered shares purchased on the second trading line at its 2019 Annual General Meeting. The balance of registered shares repurchased via the ordinary trading line are to be used for SGS's employee participation plans.

2.2. AUTHORIZED AND CONDITIONAL SHARE CAPITAL

The Board of Directors has the authority to increase the share capital of the Company by a maximum of 500 000 registered shares with a par value of CHF 1 each, corresponding to a maximum increase of CHF 500 000 in share capital. The Board is authorized to issue the new shares at the market conditions prevailing at the time of issue. In the event that the new shares are issued for the purpose of an acquisition, the Board is authorized to waive the shareholders' preferential right of subscription or to allocate such subscription rights to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 21 March 2019.

The shareholders have conditionally approved an increase of share capital by an amount of CHF 1 100 000 divided into 1 100 000 registered shares with a par value of CHF 1 each. This conditional share capital increase is intended to obtain the shares necessary to meet the Company's obligations with respect to employee share option plans and option or conversion rights of convertible bonds or similar equity-linked instruments that the Board is authorized to issue.

The right to subscribe to such conditional capital is reserved to beneficiaries of employee share option plans and holders of convertible bonds or similar debt instruments and therefore excludes shareholders' preferential rights of subscription. The Board is authorized to determine the timing and conditions of such issues, provided that they reflect prevailing market conditions. The term of exercise of the options or conversion rights may not exceed ten years from the date of issuance of the equity-linked instruments.

2.3. CHANGES IN CAPITAL

At the Company's Annual General Meeting in 2017, the Shareholders approved a reduction of the share capital, by cancellation of 188 704 shares which were purchased as part of a previous share buyback program. Consequently, the share capital of the Company was reduced from CHF 7 822 436 to CHF 7 633 732 in 2017. No other changes in the share capital of the Company were made in the course of the last three years.

2.4. SHARES AND PARTICIPATION CERTIFICATES

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

2.5. DIVIDEND-RIGHT CERTIFICATES

The Company has not issued any dividend-right certificates.

2.6. LIMITATIONS ON TRANSFERABILITY AND ADMISSIBILITY OF NOMINEE REGISTRATIONS

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

2.7. CONVERTIBLE BONDS AND WARRANTS/OPTIONS

No convertible bonds have been issued by the Company or by any entity under its direct or indirect control. Options and other share-based remuneration granted to senior managers of the Group are detailed in the SGS Remuneration Report. Details of all options outstanding are provided in note 29 of the consolidated financial statements of the Group.

No other options or similar instruments have been issued by the Company or by any of the Group's subsidiaries.

3. BOARD OF DIRECTORS

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

3.1. MEMBERS OF THE BOARD OF DIRECTORS

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

Each Board member brings particular skills, leadership and experience, acquired through their respective careers spanning many industries. Together they enable the Board to provide leadership, strategic overview and guidance, which contribute to setting ambitious targets for the Group and meeting long-term value creation objectives.

In July 2018, the Company was informed of the sudden incapacity of Mr. Sergio Marchionne to fulfill his duties as Chairman and member of the Board of Directors, and subsequently of his untimely demise. The Board has appointed Mr. Peter Kalantzis, member of the Board and Chairman of the Audit Committee, as interim Chairman of the Board of Directors for a period ending at the 2019 Annual Meeting of Shareholders.

The members of the Board of Directors at 31 December 2018 were as follows:

PETER KALANTZIS (1945)

Swiss/Greek

FUNCTION IN SGS

Member:

- Board of Directors, (Acting Chairman since July 2018)

Chairman:

- Audit Committee and Professional Conduct Committee (since July 2018)

INITIAL APPOINTMENT TO THE BOARD

March 2009

PROFESSIONAL BACKGROUND

Peter Kalantzis holds a Ph.D. in Economics and Political Sciences from the University of Basel and engaged in research as a member of the Institute for Applied Economics Research at the University of Basel between 1969 and 1971. Prior to 2000, Peter Kalantzis was responsible for Alusuisse-Lonza Group's corporate development and actively involved in the de-merger and stock market launch of Lonza, as well as the merger process of Alusuisse and Alcan. Dr. Kalantzis served as head of the Chemicals Division of Alusuisse-Lonza Group from 1991 until 1996. In 1991, Dr. Kalantzis was appointed Executive Vice President and Member of the Executive Committee of the Alusuisse-Lonza Group. Dr. Kalantzis has worked as an independent consultant since 2000.

OTHER ACTIVITIES AND FUNCTIONS

Clair AG, Cham (CH), Chairman of the Board since 2004

*CNH Industrial NV, Amsterdam (NL), Member of the Board since 2013

Degussa Sonne/Mond Goldhandel AG, Cham (CH), Chairman of the Board since 2012

Consolidated Lamda Holdings Ltd., Luxembourg (LU), Member of the Board since 2002

Paneuropean Oil and Industrial Holdings SA, Luxembourg (LU), Member of the Board since 2001

*Von Roll Holding AG, Breitenbach (CH), Chairman of the Board since 2010, Member of the Board since 2007

Hardstone Services SA, Geneva (CH), Chairman of the Board since 2014, Member since 2009

Gnosis Foundation, Vaduz (FL), President of the Foundation Board since 2008

John S. Latsis Public Benefit Foundation, Vaduz (FL), President of the Executive Board since 2015

PAUL DESMARAIS, JR (1954)

Canadian

FUNCTION IN SGS

Member:

- Board of Directors

INITIAL APPOINTMENT TO THE BOARD

July 2013

PROFESSIONAL BACKGROUND

Chairman and Co-Chief Executive Officer, *Power Corporation of Canada.

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

He has received honorary doctorates from various Canadian universities.

He joined Power Corporation of Canada in 1981 and assumed the position of Vice President the following year. In 1984, he led the creation of Power Financial Corporation to consolidate Power's major financial holdings, as well as Pargesa Holding SA, under a single corporate entity. Mr. Desmarais served as Vice President of Power Financial from 1984 to 1986, as President and Chief Operating Officer from 1986 to 1989, as Executive Vice Chairman from 1989 to 1990, as Executive Chairman from 1990 to 2005, as Chairman of the Executive Committee from 2006 to 2008 and as Executive Co Chairman from 2008 until today. He was named Chairman and Co-CEO with Power Corporation in 1996. After Power Financial and the Frère Group of Belgium took control of Pargesa in 1990, Mr. Desmarais moved to Europe from 1990 to 1994, to develop the partnership with the Frère Group and to restructure the Pargesa group.

From 1982 to 1990, he was a member of the Management Committee of Pargesa, in 1991, Executive Vice Chairman and then Executive Chairman of the Committee; in 2003, he was appointed Co-Chief Executive Officer and in 2013 named Chairman of the Board. He is a Director of many Power Group companies in North America.

OTHER ACTIVITIES AND FUNCTIONS

*Groupe Bruxelles Lambert, Brussels (BE), Vice-Chairman of the Board of Directors

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

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

*Listed company.

*Pargesa Holding SA, Geneva (CH), Board Member since 1992, Chairman of the Board since 2013

*LafargeHolcim Ltd, Zurich (CH), Member of the Board since 2015

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

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

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

AUGUST VON FINCK (1930)

German

FUNCTION IN SGS

Member:

- Board of Directors
- Nomination and Remuneration Committee

INITIAL APPOINTMENT TO THE BOARD

October 1998

PROFESSIONAL BACKGROUND

August von Finck is an Industrialist.

He comes from the banking family von Finck. His grandfather, Wilhelm von Finck, founded Merck, Finck and Co. in 1870, the private bank which was at the origin of companies including Munich Re, Allianz insurance and the Löwenbräu breweries, among others.

Based in Munich, this third-generation member of the von Finck family holds interests in a number of German, Swiss and Austrian companies as well as in groups from other countries. In Switzerland, August von Finck's participations include Degussa Gold and Silver Companies, Mövenpick and Von Roll.

AUGUST FRANÇOIS VON FINCK (1968)

Swiss

FUNCTION IN SGS

Member:

- Board of Directors
- Audit Committee

INITIAL APPOINTMENT TO THE BOARD

May 2002

PROFESSIONAL BACKGROUND

François Von Finck holds a Master of Business Administration from Georgetown University, Washington D.C. He has a banking background and is currently Managing Director of Carlton Holding in Basel.

OTHER ACTIVITIES AND FUNCTIONS

*Custodia Holding, Munich (DE), Member of the Board since 1999

Carlton Holding, Allschwil (CH), Member of the Board since 2001

*Staatl. Mineralbrunnen AG, Bad Brückenau (DE), Member of the Board since 2001

Bank von Roll, Zürich (CH), Vice President of the Board since 2009

*Von Roll Holding AG, Breitenbach (CH), Member of the Board since 2010

IAN GALLIENNE (1971)

French

FUNCTION IN SGS

Member:

- Board of Directors
- Nomination and Remuneration Committee

INITIAL APPOINTMENT TO THE BOARD

July 2013

PROFESSIONAL BACKGROUND

Co-CEO of *Groupe Bruxelles Lambert, since 2012, Ian Gallienne has an MBA from INSEAD in Fontainebleau. From 1998 to 2005, he was Director at the private equity funds Rhône Capital LLC in New York and London. In 2005, he founded the private equity fund Ergon Capital Partners in Brussels and was its Managing Director until 2012. In 2012, he became Co-CEO of *Groupe Bruxelles Lambert of which he had been a Board Member since 2009.

OTHER ACTIVITIES AND FUNCTIONS

*adidas (D), Member of the Supervisory Board and of the Audit Committee

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

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

Frère-Bourgeois SA (BE), Member of the Board

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

Société Civile du Château Cheval Blanc (France), member of the Board

CORNELIUS GRUPP (1947)

Austrian

FUNCTION IN SGS

Member:

- Board of Directors
- Professional Conduct Committee

INITIAL APPOINTMENT TO THE BOARD

March 2011

PROFESSIONAL BACKGROUND

Dr. Grupp holds a Doctorate in Law and a Master in Business Administration. He is the Owner and General Manager of Tubex Holding GmbH, Stuttgart, Germany, a company active in the packaging industry and of CAG Holding GmbH, Lilienfeld, Austria, which is active in the field of aluminium, glass and biomass.

OTHER ACTIVITIES AND FUNCTIONS

Schoellerbank AG, Vienna (AT), Member of the Board since 1999

Stölzle Oberglas, Koeflach (AT), Member of the Board since 1989

Honorary General Consul of Austria to the Land of Baden-Württemberg

CHRISTOPHER KIRK (1956)

British

FUNCTION IN SGS

Member

- Board of Directors

INITIAL APPOINTMENT TO THE BOARD

March 2015

PROFESSIONAL BACKGROUND

Chris Kirk holds a BSc (Hons) degree in Zoology. He began his career at SGS in 1981 in New Zealand. From From 1981 to 1987, he undertook a range of

** Listed company.*

different roles in the company, including Operations Manager, Business Development Manager and General Manager for SGS New Zealand.

Between 1987 and 1999, Chris held a number of senior positions in Thailand, Ghana, Singapore and Australia. He was appointed as Chief Operating Officer of the South East Asia Pacific region in 2002 and was then appointed Vice President for Minerals and Environmental Services, a role he held for three years. Chris was Chief Executive Officer at SGS between 2006 and 2015, before being elected to the Board of Directors at the 2015 Annual Shareholders Meeting. He brings to the Board his unparalleled experience in the industry and in-depth knowledge of the Group.

OTHER ACTIVITIES AND FUNCTIONS

Compass Limited, Hamilton, Bermuda, Chairman since 2016, Member of the Board since 2011

*Bata India Limited, Kolkata, India, Member of the Board since 2017

GÉRARD LAMARCHE (1961)

Belgian

FUNCTION IN SGS

Member:

- Board of Directors
- Audit Committee

INITIAL APPOINTMENT TO THE BOARD

July 2013

PROFESSIONAL BACKGROUND

Co-CEO of *Groupe Bruxelles Lambert, since 2012.

Gérard Lamarche is a graduate in Economic Sciences from the University of Louvain-la-Neuve (Belgium) and the INSEAD Business School (Advanced Management Program for Suez Group Executives). He also trained at the Wharton International Forum in 1998-99 (Global Leadership Series).

He began his career with Deloitte Haskins and Sells in Belgium in 1983 and was appointed as an M&A consultant in the Netherlands in 1987. In 1988, he joined Société Générale de Belgique as Investment Manager. He was promoted to Controller in 1989 before becoming an Advisor to the Strategy and Planning Department from 1992 to 1995.

He joined Compagnie Financière de Suez as Special Advisor to the Chairman and Secretary to the Suez Executive Committee (1995-1997); he was later appointed Senior Vice President in charge of Planning, Control and Accounting. In 2000, Gérard Lamarche joined NALCO (the US subsidiary of the Suez Group and world leader in industrial water treatment) as General Managing Director. He was appointed CFO of the Suez Group in 2003.

He has been a Director of *Groupe Bruxelles Lambert since 2011 and Co-CEO since 2012.

OTHER ACTIVITIES AND FUNCTIONS

*LafargeHolcim, Zurich (CH), Member of the Board, Member of the Finance and Audit Committee

*Total SA, Paris (F), Member of the Board, Member of the Audit Committee and Chairman of the Remuneration Committee

*Umicore, Brussels (B), Member of the Board

SHELBY R. DU PASQUIER (1960)

Swiss

FUNCTION IN SGS

Member:

- Board of Directors
- Professional Conduct Committee
- Nomination and Remuneration Committee

INITIAL APPOINTMENT TO THE BOARD

March 2006

PROFESSIONAL BACKGROUND

Attorney at Law, Partner, Lenz & Staehelin Law firm, Geneva.

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

OTHER ACTIVITIES AND FUNCTIONS

*Swiss National Bank, Member of the Board since 2012

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

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

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

The Board undertakes a periodic review of the Directors' interests in which all potential or perceived conflicts of interests and issues relevant to their independence are considered.

Based on this review, the Board has concluded that, apart from Christopher Kirk, who was Group CEO between November 2006 and March 2015 before his nomination to the Board, all non-executive Directors are independent from Management and free of any relationship that could materially interfere with the exercise of their independent judgement.

The Board has reached the conclusion that each of its members, with the exception of Christopher Kirk, is independent, on the basis of different criteria, including: the absence of any employment relationship in an executive capacity or otherwise by each Board member or their close relatives, now and in previous years; the absence of any payment by the company to the Board members or their close relatives other than disclosed board remuneration and dividends; the absence of affiliation of the Board members with a customer, supplier or business partner of the company; the absence of affiliation as partner or employee with the company's auditors; the absence of personal services contracts with the company or any of the members of its management; and, generally, the absence of any other form of conflict of interest.

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

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

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

3.2. CROSS-INVOLVEMENT

No member of the Board of Directors or the Operations Council is also a member of the executive bodies of entities or organizations with which the Group has material business or commercial relations.

** Listed company.*

3.3. ELECTIONS AND TERMS OF OFFICE

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

3.4. LIMITS ON EXTERNAL MANDATES

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

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

3.5. INTERNAL ORGANIZATIONAL STRUCTURE

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

3.5.1. ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

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

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

3.5.2. COMMITTEES

The following Committees have been established within the Board of Directors:

- Nomination and Remuneration
- Audit
- Professional Conduct

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

NOMINATION AND REMUNERATION COMMITTEE

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

In 2018, the following Directors served on the Nomination and Remuneration Committee:

- August von Finck
- Ian Gallienne
- Shelby du Pasquier (Chairman)

In 2018, the Committee held three meetings. Meetings of the Nomination and Remuneration Committee were attended by all members and had an average duration of two hours.

AUDIT COMMITTEE

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

In 2018, the following Directors served on the Audit Committee:

- Peter Kalantzis (Acting Chairman)
- August François von Finck
- Gérard Lamarche
- Sergio Marchionne (until July 2018)

In 2018, the Audit Committee held five meetings, with an average duration of two hours. Meetings were attended by all members.

PROFESSIONAL CONDUCT COMMITTEE

The Professional Conduct Committee assists the Board of Directors and Management in establishing policies relating to professional conduct and oversees their implementation. The Group's professional conduct policies are embodied in the Code of Integrity, which sets out the principles governing business conduct, which are applied across the whole SGS Group. These principles reflect the Business Principles for Countering Bribery issued by Transparency International and Social Accountability International, and incorporate the rules adopted by the International Federation of Inspection Agencies (IFIA), the professional association for the inspection industry. In 2018, the following Directors served on the Professional Conduct Committee:

- Sergio Marchionne (Chairman) (until July 2018)
- Shelby du Pasquier
- Cornelius Grupp
- Peter Kalantzis (Chairman) (since July 2018)

In addition to the Board Members, the Professional Conduct Committee comprises the Chief Executive Officer, the General Counsel and Chief Compliance Officer (General Counsel). The head of Internal Audit attends all meetings of the Professional Conduct Committee. The Committee met twice in 2018 for a one-hour meeting and passed several resolutions in writing. The meeting was attended by all members.

3.5.3. WORKING METHODS OF THE BOARD AND ITS COMMITTEES

The Board of Directors and each Committee convene regularly scheduled meetings with additional meetings held as and when required, in person or by phone conference. The Board and the Committees may pass resolutions by written consent. Each Board Member has the right to request that a meeting be held or that an item for discussion and decision be included in the agenda of a meeting. Board and Committee members receive supporting documentation in advance of the meetings and are entitled to request further information from the Management in order to assist them to prepare for the meetings. The Board and each of the Committees can request the attendance of members of the Management of the Group. The Board and each of the Committees are authorized to hire external professional advisors to assist them in matters within their sphere of responsibility. To be adopted, resolutions need a majority vote of the members of the Board or Committee, with the Chairman having a casting vote. The Board of Directors held five physical meetings and one meeting by phone conference in 2018. Meetings of the Board of Directors had an average duration of three hours. All members of the Board of Directors attended every meeting of the Board in 2018, with the exception of two Board members being excused each for one meeting.

ATTENDANCE TO BOARD AND COMMITTEE MEETINGS

The chart below summarizes the attendance by each Board Member in 2018 at the meetings (including meetings by phone conference) of the Board and the respective standing Committees.

MEMBER	BOARD MEETINGS	NOMINATION AND REMUNERATION	AUDIT	PROFESSIONAL CONDUCT COMMITTEE
Sergio Marchionne[1]	3/5	N/A	3/4	1/1
Paul Desmarais	5/6	N/A	N/A	N/A
August von Finck	5/6	2/3	N/A	N/A
August Francois von Finck	6/6	N/A	5/5	N/A
Ian Gallienne	6/6	3/3	N/A	N/A
Cornelius Grupp	6/6	N/A	N/A	2/2
Peter Kalantzis[2]	6/6	N/A	5/5	1/1
Chris Kirk	6/6	N/A	N/A	N/A
Gérard Lamarche	6/6	N/A	5/5	N/A
Shelby du Pasquier	6/6	3/3	N/A	2/2

1. Until July 2018.
2. Since July 2018.

3.6. DEFINITION OF AREAS OF RESPONSIBILITY

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

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

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

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

- The Chief Operating Officers (COOs) are responsible for operations in the Group's eight regions (see section 1.1.)
- The Executive Vice Presidents (EVPs) are entrusted with the management and development of the Group's nine business lines (see section 1.1.)
- The Senior Vice Presidents (SVPs) represent the principal Group support functions (Finance, Human Resources, IT, Communications and Investor Relations, Corporate Development, Legal and Compliance, and Strategic Transformation)

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

3.7. INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE MANAGEMENT

A. RESPONSIBILITY OF THE BOARD

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

B. GOVERNANCE FRAMEWORK

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

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

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

The Head of Human Resources participates in the meetings of the Nomination and Remuneration Committee, and the General Counsel and Chief Compliance Officer attends all meetings of the Board of Directors and its Committees.

The other members of the Operations Council and other members of Management only participate in the Board and Committee meetings by invitation.

C. INFORMATION TO THE BOARD

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

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

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

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

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

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

D. GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER

Furthermore, the Group has a Compliance Function, headed by the General Counsel and Chief Compliance Officer, who is a member of the Professional Conduct Committee and has direct access to the Chairman of the Board. The Compliance Function supports the implementation of a compliance program based on the SGS Code of Integrity, available in 30 languages. The goal of the program is to ensure that the highest standards of integrity are applied to all of the Group’s activities worldwide in accordance with international best practices. The General Counsel and Chief Compliance Officer reports violations of compliance rules every semester to the Professional Conduct Committee.

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

E. OTHER

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

F. RISK ASSESSMENT

The Board conducts on a yearly basis an assessment of the risks facing the Group. This process is conducted with the active participation and input of the Management. Once identified, risks are assessed according to their likelihood, severity and mitigation. The Board deliberates on the adequacy of measures in place to mitigate and manage risks and assigns responsibility to designated managers for implementation of such measures. As part of this process, the ownership of and accountability for identified risks are approved by the Board. The implementation of such actions is audited by Internal Audit. These findings are communicated to the Board of Directors so that progress and identified risks can be monitored objectively and independently from Management. The risks identified and monitored by the Board fall broadly into three categories: first, environment risk, which includes circumstances outside the Group’s direct sphere of influence, such as competition and economic or political landscape; second, process risks that include risks linked to the operations of the business, the management of the Group and the integrity of its reputation in the market place; and third, risks associated with information and decision making.

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4. OPERATIONS COUNCIL

The Operations Council (as defined in section 1.1.) meets on a regular basis, in principle at least five times a year. Between meetings, it holds regular phone conferences and may make decisions on such calls or by electronic voting.

4.1. MEMBERS OF THE OPERATIONS COUNCIL

Members of the Operations Council bring to the Group years of experience and expertise in their respective fields. They come from a wide range of backgrounds that reflects the multiple aspects of the Group. The Group strives to promote talent internally and encourages women to assume senior leadership positions. The members of the Operations Council at 31 December 2018 were as follows:

FRANKIE NG (1966)
Swiss/Chinese

Chief Executive Officer

BA in Economics and Electronics Engineering

Joined SGS in 1994

PREVIOUS RESPONSIBILITIES

2011-2015: EVP, Industrial Services

2005-2011: EVP, Consumer Testing Services

2002-2004: Managing Director, US Testing

CARLA DE GEYSELEER (1968)
Belgian

Chief Financial Officer

EMBA, Executive Master in Business Administration IMD, 2005

Master in Economics and Finance, 1991

Joined SGS in 2014

PREVIOUS WORK EXPERIENCE

2012-2014: Chief Financial Officer, Vodafone Libertel, BV, The Netherlands

2010-2012: Director Financial Controlling, Vodafone GmbH, Germany

2007-2010: Chief Financial Officer DHL Express Benelux, The Netherlands

OLIVIER MERKT (1962)
Swiss

Chief Compliance Officer

Doctorate in Law, admitted to the bar in Switzerland

Joined SGS in 2001

PREVIOUS RESPONSIBILITIES

2006-2008: VP, Corporate Development

2001-2006: Senior Counsel

TEYMUR ABASOV (1972)
Azerbaijani

COO, Eastern Europe and Middle East

Degree in Electrical Engineering

Joined SGS in 1994

PREVIOUS RESPONSIBILITIES

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

2004-2006: Managing Director, Azerbaijan and Georgia

2003-2004: Managing Director, Georgia

HELMUT CHIK (1966)
Chinese

COO, North East Asia

Master in Business Administration

Joined SGS in 1991

PREVIOUS RESPONSIBILITIES

2004-2017: COO, China and Hong Kong

2003: Managing Director, Hong Kong

2002: Vice President Softline Global, Consumer Testing Services

OLIVIER COPPEY (1972)
Swiss

EVP, Agriculture, Food and Life
MSc Economics
Joined SGS in 1994

PREVIOUS RESPONSIBILITIES
2009-2013: Vice President Seed and Crop, Agricultural Services
2006-2008: Vice President North America, Agricultural Services, USA
1994-2006: Managerial positions, Agricultural Services, Switzerland/India/Cameroon

PAULINE EARL (1961)
British

COO, Western Europe
BSc in Food Science
Joined SGS in 1995

PREVIOUS RESPONSIBILITIES
2007-2010: Managing Director, United Kingdom
2004-2007: SSC Business Manager, United Kingdom

FABRICE EGLOFF (1969)
French

COO, Africa
MBA in International Business Affairs
Joined SGS in 1995

PREVIOUS RESPONSIBILITIES
2009-2017: Managing Director, France
2004-2008: Managing Director, Hong Kong

LUIS FELIPE ELIAS (1959)
Peruvian

COO, South and Central America (Since May 2018)
Industrial Engineering Degree and MBA
Joined SGS in 2004

PREVIOUS RESPONSIBILITIES
2012-2018: Managing Director, Ecuador and Peru
2004-2012: Deputy Managing Director, Peru

DERICK GOVENDER (1970)
South African

EVP, Minerals
Diploma in Analytical Chemistry
Post graduate in Business Management
Joined SGS in 2002

PREVIOUS RESPONSIBILITIES
2014-2015: Minerals Manager, Chile
2010-2014: VP Minerals, Africa
2007-2010: Regional Minerals Manager, SGS Southern Africa

DIRK HELLEMANS (1958)
Belgian

COO, North and Central Europe
Degree in Chemical Engineering and Master in Business Administration
Joined SGS in 1988

PREVIOUS RESPONSIBILITIES
2012-2015 : COO, Northern, Central and Southern Europe
2004-2012: COO, Central and North Western Europe
2002-2004: COO, North West Europe

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JOSÉ MARÍA HERNÁNDEZ-SAMPELAYO (1961)
Spanish

SVP, Human Resources
Bachelor in Law
Master in Business Administration
Joined SGS in 1996

PREVIOUS RESPONSIBILITIES
2010-2017: Managing Director, Spain
2001-2010: HR Manager, Western Europe
1996-2010: HR Manager, Spain

FRÉDÉRIC HERREN (1955)
Swiss

SVP, Digital and Innovation
Master in Economics
Initially joined SGS in 1986, rejoined in 1999

PREVIOUS RESPONSIBILITIES
2010-2017: COO, Africa
2006-2014: EVP, Governments and Institutions Services
2003-2010: EVP, Automotive Services

ROGER KAMGAING (1966)
Swiss

EVP, Governments and Institutions
Master in Commercial Law and Tax
Master in Auditing and Consulting
Initially joined SGS in 1996, rejoined in 2014

PREVIOUS RESPONSIBILITIES
2000-2012: Governments and Institutions Services, Global Head Business Development
1997-2000: Governments and Institutions Services, Sales Manager

OTHER WORK EXPERIENCE
2012-2014: Kamgaing Associates (Consulting) and Time (African Business Incubator)

THOMAS KLUKAS (1965)
German

EVP, Transportation
PhD in Engineering Science,
Masters in Business Administration and Engineering Science
Joined SGS in 2006

PREVIOUS RESPONSIBILITIES
2008-2010: Global VP Automotive Services
2006-2008: SVP Automotive Services, North America

OTHER WORK EXPERIENCE
2000-2006: Senior Executive at DEKRA SE

CHARLES LY WA HOY (1966)
French

EVP, Consumer and Retail
Engineer in Electronics
Initially joined SGS in 1992, rejoined in 2008

PREVIOUS RESPONSIBILITIES
2016-2018: Vice President of Retail Solutions and European Business Development, Consumer and Retail
2013-2016: Global Head of Materials and Manufacturing, Industrial Services
2009-2013: Vice President of Strategic Global Accounts, Consumer Testing Services

FRANÇOIS MARTI (1968)
Swiss

COO, North America (since 2018)
Degree in International Relations
Initially joined SGS in 2003, rejoined in 2011

PREVIOUS RESPONSIBILITIES
2015-2018: EVP Industrial Services
2012-2015: EVP Systems and Services Certification
2011-2015: SVP, Strategic Transformation

OTHER WORK EXPERIENCE
2005-2011: CEO, Fiat Services

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JEFFREY MCDONALD (1964)
Australian/American

EVP, Certification and Business Enhancement

Postgraduate Diploma in Education

Joined SGS in 1995

PREVIOUS RESPONSIBILITIES

2007-2015: COO, North America

2004-2007: EVP, Systems and Services Certification

2003: Global Project Manager, Systems and Services Certification

PETER POSSEMIERS (1962)
Australian/Belgian

EVP, Environmental, Health and Safety

BSc Chemistry and Microbiology

Joined SGS in 1983

PREVIOUS RESPONSIBILITIES

2007-2012: Global Sales, OGC

2005-2007: Managing Director, Korea

2003-2005: OGC Business Development Manager Asia Pacific, China

TOBY REEKS (1976)
British

SVP, Investor Relations (joined in 2018)

BA in Economics

OTHER WORK EXPERIENCE

2013-2018: Executive Director, Morgan Stanley

2011-2013: Director, Merrill Lynch

2005-2011: Vice President, Merrill Lynch

MALCOLM REID (1963)
British

COO, South East Asia and Pacific

BSc Chemistry

Joined SGS in 1987

PREVIOUS RESPONSIBILITIES

2012-2015: EVP, Consumer Testing Services

2007-2011: EVP, Systems and Services Certification

2005-2007: Managing Director, Australia

ALIM SAIDOV (1964)
Azerbaijani/Canadian

EVP, Oil, Gas and Chemicals

PhD in Science

Joined SGS in 1993

PREVIOUS RESPONSIBILITIES

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

2005-2007: COO, Eastern Europe and Middle East

2004: COO, North America and Managing Director, Canada

WIM VAN LOON (1966)
Belgian

EVP, Industrial Services (since May 2018)

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

Joined SGS in 1989

PREVIOUS RESPONSIBILITIES

2015-2018: Managing Director, Benelux

2011-2015: Executive Director, Industrial Services, Benelux

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

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4.2. OTHER ACTIVITIES AND FUNCTIONS

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

DERICK GOVENDER

Member of IPMI (International Precious Metal Institute)

THOMAS KLUKAS

CITA, International Motor Vehicle Inspection Committee, Brussels (BE), Member of the Bureau Permanent since 2011

FRED HERREN

Member of the Board of Delen SA, Geneva since 2018

Member of the Council, Geneva Chamber of Commerce and Industry

4.3. CHANGES IN THE OPERATIONS COUNCIL

During 2018, Alejandro Gomez De La Torre, COO for South and Central America; Richard Shentu, EVP CRS; and Kimmo Fuller, COO for North America left the Group.

4.4. LIMITS ON EXTERNAL MANDATES

The Articles of Association of the Company, in compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), limit the number of mandates permissible to members of the Operations Council, to no more than four board memberships in entities outside the Group, out of which a maximum of one membership in the board of companies whose shares are traded on a stock exchange. Mandates assumed at the request of a controlling entity do not count towards the maxima defined in the Articles of Association. In addition, the Articles of Association set limits to participations in boards of associations and other not-for-profit organizations to no more than ten such memberships.

4.5. MANAGEMENT CONTRACTS

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

5. COMPENSATION, SHAREHOLDINGS AND LOANS

5.1. CONTENT AND METHOD OF DETERMINING THE COMPENSATION AND THE SHAREHOLDING PROGRAMS

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

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

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

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

5.1.1. RULES ON PERFORMANCE-RELATED PAY AND ALLOCATION OF EQUITY-LINKED INSTRUMENTS

The Company's Articles of Association define the principles of the variable remuneration and the allocation of shares or equity-linked instruments to the members of the Operations Council (please refer to the Remuneration Report for a description of the Company's rules in the matter).

5.1.2. RULES ON LOANS, CREDIT FACILITIES AND POST-EMPLOYMENT BENEFITS

Loans granted to members of the governing bodies of the Company may not exceed one year of remuneration and must be granted at market conditions. As at 31 December 2018, no loan or advance is granted by the Group to members of the Operations Council (2017: CHF 66 496 was owed by one member of the Operations Council for a loan granted by the Group).

5.1.3. RULES ON VOTE ON PAY

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

- It approves the fixed fees payable to the Board of Directors until the next Annual General Meeting
- It approves in advance a prospective maximum fixed remuneration to the Operations Council during the next financial year
- It approves the total aggregate amount payable to the Operations Council for the performance-related annual bonus related to the prior year
- It approves the maximum amount payable under Long-Term Incentive plans to be introduced by the Company

Resolutions of such matters are binding to the Board of Directors. In addition, the Annual General Meeting is invited to cast a non-binding vote on the Remuneration Report that describes the Company's remunerations policies.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

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

6.1. VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

All registered shareholders can attend the General Meetings of Shareholders and exercise their right to vote. A shareholder may also elect to grant power of attorney to an independent proxy appointed by the Company or to any other registered shareholder. There are no voting restrictions, subject to the exclusion of nominee shareholders representing undisclosed principals, as detailed in section 2.6. Shareholders have the opportunity to give general or specific voting instructions to the independent proxy. The voting of resolutions by electronic votes is authorized by the Articles of Association, within the modalities defined by the Board of Directors.

6.2. STATUTORY QUORUMS

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

6.3. CONVOCATION OF GENERAL MEETINGS OF SHAREHOLDERS

The rules regarding the convocation of General Meetings of Shareholders are in accordance with Swiss company law.

6.4. AGENDA

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

6.5. REGISTRATION IN THE SHARE REGISTER

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

7. CHANGE OF CONTROL AND DEFENSE MEASURES

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

7.1. DUTY TO MAKE AN OFFER

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

7.2. CLAUSES ON CHANGE OF CONTROL

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

8. AUDITORS

8.1. DURATION OF THE MANDATE AND TERM OF OFFICE

Following a competitive process in 2000, Deloitte SA was appointed auditor of the Company and the SGS Group by the Annual General Meeting of Shareholders upon recommendation of the Board of Directors. The auditors of the Company are subject to re-election at the Annual General Meeting every year. The current lead auditor, Matthew Sheerin, was appointed in 2017, after agreement by the Company's Audit Committee.

8.2. AUDIT FEES

Total audit fees paid to Deloitte for the audit of the Company and the Group financial statements in 2018 amounted to CHF 6.8 million (2017: CHF 6.5 million).

8.3. ADDITIONAL FEES

An aggregate amount of CHF 0.9 million (2017: CHF 1.0 million) was paid to Deloitte for other professional services, unrelated to the statutory audit activity, mainly composed of tax compliance services, non-statutory and other assurance services.

8.4. SUPERVISORY AND CONTROL INSTRUMENTS VIS-A-VIS THE AUDITORS

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

The duties of the Committee include consideration of the audit plan, regular assessment of the performance of the auditor and approval of audit fees on the basis of the amount of work required in order to perform the audit.

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

The auditor regularly presents its findings, both during the deliberations of the Audit Committee and in written reports, to the attention of the Board of Directors that summarize key findings. The Group strives to safeguard and support the independence of the auditor by avoiding conflicts of interests. In applying this policy, the attribution of other consultancy assignments is carefully reviewed to ensure that such assignments do not endanger the auditor's independence.

9. INFORMATION POLICY

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

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

The Group publishes consolidated half-year unaudited and yearly audited results in print and online formats. The Annual Report is published in English and is available upon order from the Group's website. The current list of publication dates is available on the Group's website.

The Group acknowledges the directives on the independence of financial research issued by the Swiss Bankers Association, particularly articles 26 and 29-32. In addition, the Group complies with rules regarding information and reporting of the federal act on stock exchange and securities trading, and the ordinance on stock exchanges and securities trading.

REMUNERATION REPORT

The SGS carbon neutrality strategy contributes to minimizing the impact of business processes and operations on the environment.

13 CLIMATE ACTION

The SGS Remuneration Report provides an overview of the SGS remuneration model, its principles and programs and the related governance framework. The report also includes details on the remuneration of the Board of Directors and of the Operations Council related to the 2018 business year.

The SGS Remuneration Report has been prepared in compliance with the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares, in effect as of 1 January 2014, the Swiss Code of Best Practice for Corporate Governance of economiesuisse, approved on 28 August 2014, and the Swiss Exchange (SIX) Directive on Information relating to Corporate Governance, revised on 13 December 2016, and according to the Articles of Association of SGS SA, as approved by the shareholders at the Annual General Meeting in 2015.

1. INTRODUCTION BY THE NOMINATION AND REMUNERATION COMMITTEE

2. REMUNERATION POLICY AND PRINCIPLES

3. REMUNERATION MODEL

4. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

5. REMUNERATION AWARDED TO THE OPERATIONS COUNCIL MEMBERS

1. INTRODUCTION BY THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is pleased to present its 2018 Remuneration Report.

During 2018, beyond its statutory duties, the Committee has been working on three main topics: the changes in the composition of the Board of Directors, the management of the changes in the composition of the Operations Council and the related nomination and remuneration matters, and a review of the structure of the Remuneration Report with the objective to provide more clarity and transparency on the executive remuneration practices of the Group.

As disclosed in Governance (page 75), three members of the Operations Council left the Group and one Operations Council position has been vacant since Q4 2017. The Board of Directors appointed four new members of the Operations Council and approved their contractual terms and conditions, including their remuneration, based on the recommendations of the Committee. We are proud to observe that three of the four new nominees are coming from inside the Group. This confirms that the Group can count on a rich and diverse pool of talents for its current and future leadership needs.

The structure of the remuneration report has been revised. We believe that this new structure provides greater clarity on the different remuneration elements and their settlement vehicles, and makes easier the comparison between the remuneration levels of this year versus the previous year, considering that our current Long-Term Incentive plan is designed to have a grant every three years.

Following the provisions of the Ordinance issued by the Swiss Federal Council, we have implemented the consultative vote on the Remuneration Report and the binding vote on compensation amounts at the Annual General Meeting as of 2015.

The Committee has received significant support in its activities and direction through your positive votes at the Annual General Meeting 2018, and will continue with the same "say-on-pay" vote structure at the forthcoming Annual General Meeting 2019:

- Consultative vote on the Remuneration Report;
- Binding vote on the prospective maximum remuneration amount of the Board of Directors until the next Annual General Meeting;
- Binding vote on the retrospective short-term variable remuneration amount of the Operations Council members for the business year 2018;
- Binding vote on the prospective maximum fixed remuneration amount of the Operations Council members for 2020;
- Binding vote on the value of the grants awarded under the Long-Term Incentive plan to the Operations Council members in the current year (when relevant).

On the following pages, you will find detailed information about our remuneration model, its principles and programs, and the remuneration awarded to the Board of Directors and the Operations Council related to the business year 2018.

We hope that you find this report informative. We are confident that our approach to executive pay is fully aligned with the strategy, wider competitive market benchmarks, the performance of the Company and the interests of our shareholders.

Shelby du Pasquier
Chairman of the Nomination and Remuneration Committee

2. REMUNERATION POLICY AND PRINCIPLES

2.1. REMUNERATION GENERAL PRINCIPLES

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

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

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

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

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

REMUNERATION COMPONENT	BOARD OF DIRECTORS (NON-EXECUTIVE)	OPERATIONS COUNCIL (EXECUTIVE)
Fixed remuneration	✔	✔
Short-term variable remuneration	✖	✔
Long-term variable remuneration	✖	✔

2.2. REMUNERATION POLICY FOR THE EXECUTIVE MANAGEMENT

The Company’s remuneration policy applicable to the executive management (Operations Council members) is defined by the Board of Directors in line with the Company’s business strategy of profitable growth and with the aim to drive and support the Company’s core values of passion, integrity, entrepreneurialism and innovative spirit.

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

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

METHOD OF DETERMINATION OF REMUNERATION LEVELS – BENCHMARKING

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

- Competitors in the Testing, Inspection and Certification industry;
- All SMI-listed companies;
- Internationally active companies within and outside Switzerland that operate in the business-to-business services sector;
- Internationally active companies within and outside Switzerland that operate in one or more of the industry sectors in which SGS is active, including the energy, mining, industrial, chemical, medical goods, pharmaceutical, durable and non-durable goods, and food sectors.

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

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

The most recent executive compensation benchmark has been performed in 2015, with the support of Mercer. No such benchmark was made in 2018.

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2.3. REMUNERATION GOVERNANCE

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

2.3.1. NOMINATION AND REMUNERATION COMMITTEE

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

The following chart summarizes the authorization levels for the main decisions relating to the compensation of the Board of Directors and the Operations Council members. When reviewing and deciding on executive remuneration policies, the Committee and the Board of Directors have access to Group Human Resources staff and may use third-party consultants that specialize in compensation matters. In 2018, neither the Committee nor the Board of Directors had recourse to such external advisors.

SUBJECT MATTER	CEO	NOMINATION AND REMUNERATION COMMITTEE	BOARD OF DIRECTORS	AGM
Aggregate remuneration amount of the Board of Directors			Recommendation	Binding vote
Individual remuneration of the members of the Board of Directors including the Chairman of the Board		Recommendation	Approval	
Aggregate fixed remuneration amount of the Operations Council			Recommendation	Binding vote
Aggregate short-term variable remuneration amount of the Operations Council			Recommendation	Binding vote
Setting of annual financial targets for short-term variable remuneration of Operations Council members	Recommendation		Approval	
Establishment of Long-Term Incentive plans		Recommendation	Approval	
Aggregate value of the grants awarded under the Long-Term Incentive plan for Operations Council members			Recommendation	Binding vote
Individual remuneration of the CEO		Recommendation	Approval	
Individual remuneration of the Operations Council	Recommendation	Approval		
Remuneration report		Recommendation	Approval	Consultative vote

The following Directors served on the Committee in 2018:

- Shelby du Pasquier (Chairman)
- Ian Gallienne
- August von Finck

In 2018, the Committee met in three meetings, two of them attended by all members and one attended by two members, and handled several matters pertaining to nominations and remunerations outside scheduled meetings. The Chairman of the Nomination and Remuneration Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to the members of the Board of Directors. Generally, the Chairman of the Board attends the meetings of the Committee, except when matters pertaining to his own compensation are being discussed.

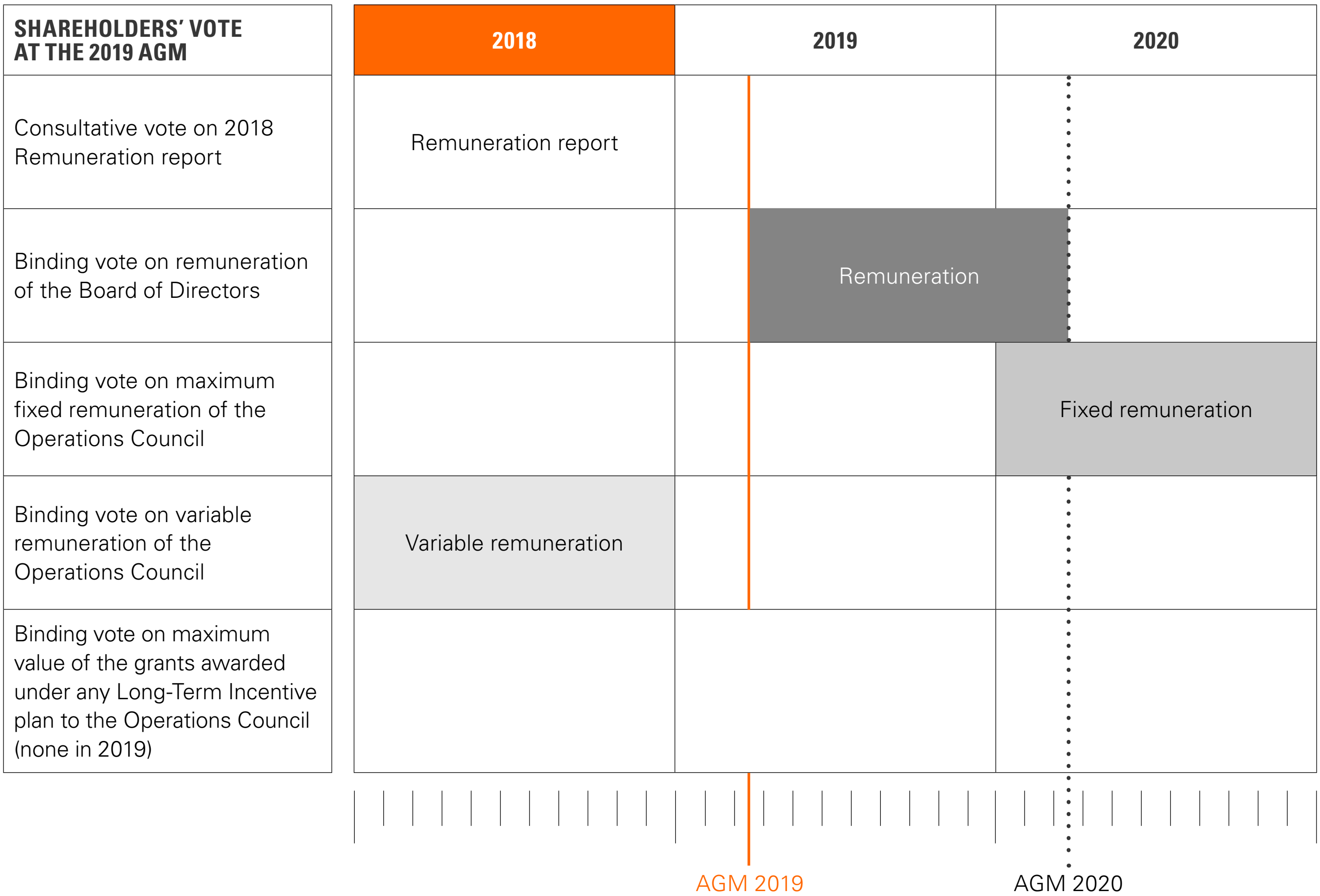
Selected members of the Operations Council, the CEO and the Senior VP for HR may be asked to attend the meetings in an advisory capacity. They do not attend the meeting when their own compensation and/or performance are being discussed.

2.3.2. SHAREHOLDERS' ENGAGEMENT

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

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

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



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

3. **REMUNERATION** MODEL

3.1. STRUCTURE OF REMUNERATION OF THE BOARD OF DIRECTORS

The members of the Board of Directors receive a fixed remuneration only, paid in cash. They are entitled to a fixed annual board membership fee (annual board retainer) and additional annual fees for the participation in board committees (committee fees). The Chairman of the Board also receives representation fees. They do not receive additional compensation for attending meetings and do not receive any variable remuneration, options or shares.

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

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

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

	ANNUAL BOARD RETAINER	COMMITTEE FEES (PER COMMITTEE)	REPRESENTATION FEES
Chairman	✓	✓	✓
Board Members	✓	✓	✗

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

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

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

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

3.2. STRUCTURE OF REMUNERATION OF THE OPERATIONS COUNCIL

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

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

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

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

REMUNERATION ELEMENT	REMUNERATION VEHICLE	DRIVERS	PERFORMANCE MEASURES	PURPOSE	PLAN PERIOD
FIXED REMUNERATION					
Annual Base Salary	Cash	Position and experience, market practice (benchmarking)	n/a	Attract and retain key executives	Continuous
Benefits	Contributions to pension plans and insurances, other contributions, allowances, benefits in kind	Market practice	n/a	Protect executive against risks, attract and retain	Continuous
VARIABLE REMUNERATION					
Short-Term Incentive	50% cash 50% restricted shares	Annual financial performance, individual performance against leadership behavioral model	Group revenue, Group NPAT[1], Group ROIC[2], regional and business line profit, regional NWC[3], leadership multiplier	Pay for performance	1-year performance period 3-year deferral period
Long-Term Incentive	Performance Share Units (PSUs)	Long-term financial performance	Relative TSR[4], adjusted operating income margin	Reward for long-term performance, align compensation with the interests of the shareholders	3-year performance period

1. NPAT: Net Profit After Tax.
2. ROIC: Return On Invested Capital.
3. NWC: Net Working Capital.
4. TSR: Total Shareholder Return.

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

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3.2.1. FIXED REMUNERATION: ANNUAL BASE SALARY

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

3.2.2. FIXED REMUNERATION: BENEFITS

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

Swiss-based Operations Council members participate, on the same basis as other Swiss employees of the Group, in the Company's pension scheme. Employees contribute 8% of their base salary and the Company contributes an amount equal to one and a half times the contributions paid by all employees to the scheme. Employees have the possibility to voluntarily increase their contribution rate by 2% above the standard rate. More flexibility has also been granted to employees who wish to fund a potential retirement before the normal age, or for those who wish to continue working after the age of 65.

3.2.3. SHORT-TERM VARIABLE REMUNERATION

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

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

SHORT-TERM INCENTIVE COMPONENT	CEO	OTHER OC MEMBERS
Annual financial performance	✓	✓
Leadership behavior	✗	✓

The target incentive is expressed as a percentage of the annual base salary and varies depending on the role. For the CEO, the target incentive amounts to 100% of annual base salary, while the target incentive for the other members of the Operations Council varies between 55% and 65% of annual base salary.

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

		CEO	OTHER OPERATIONS COUNCIL MEMBERS
Incentive frequency		Annual	Annual
Minimum incentive opportunity	as % of base salary	0%	0%
	as % of target incentive opportunity	0%	0%
Target incentive opportunity	as % of base salary	100%	55%-65%
Maximum incentive opportunity	as % of target incentive opportunity	250%	250%
	as % of base salary	250%	137.5%-162.5%

ANNUAL FINANCIAL PERFORMANCE

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

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

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

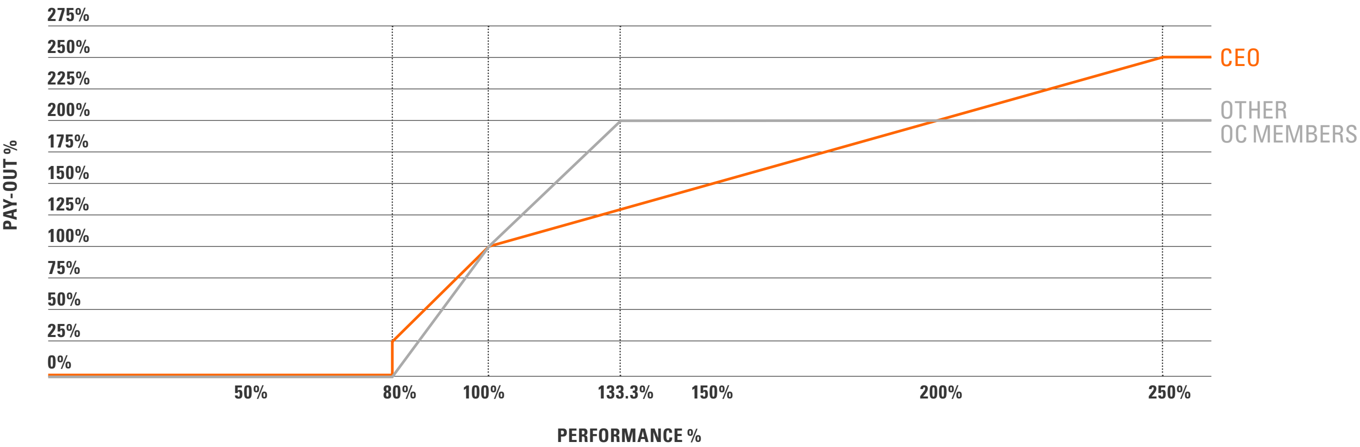
The table below summarizes the key performance indicators applicable to the CEO and the other members of the Operations Council.

		CEO	HEADS OF CORPORATE FUNCTIONS (SVPs)	HEADS OF BUSINESS LINES (EVPs)	HEADS OF REGIONS (COOs)
Group Results	Profitability (bottom-line)	Group NPAT **25%**	Group NPAT **65%**	Group NPAT **25%**	Group NPAT **25%**
	Growth (top-line)	Group Revenues **25%**	Group Revenues **25%**	Group Revenue **25%**	Group Revenue **25%**
	Efficient use of capital	Group ROIC **50%**	Group ROIC **10%**	Group ROIC **10%**	-
Business Lines Results	Profitability (bottom-line)	-	-	Business-line Profit **40%**	-
Regions Results	Profitability (bottom-line)	-	-	-	Regional Profit **40%**
	Efficient use of capital	-	-	-	Regional NWC **10%**

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

- A threshold (minimum level of performance to trigger a pay-out, and below which the pay-out is zero), a target (expected level of performance that triggers a pay-out equivalent to the target incentive), and a maximum (level of performance that triggers the highest pay-out, and above which the pay-out is capped) are defined;
- The lowest pay-out (triggered by the threshold performance) and the highest pay-out (triggered by the maximum performance) are defined;
- The pay-out for performances between threshold and target and between target and maximum are calculated by linear interpolation.
- The pay-out curves are differentiated between the CEO and the other members of the Operations Council because the CEO is rewarded only on financial key performance indicators, while the other members of the Operations Council are also rewarded on their leadership behaviors.

The chart below shows the pay-out curves for the Group NPAT, Group Revenue, Group ROIC for the CEO and the Group NPAT, Business-line Profit, Regional Profit and Group Revenue for the other OC members.



The payout curves for Group ROIC and Regional NWC for the OC members are defined by the CEO at the beginning of the performance year together with the objectives for each performance metric.

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

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

GROUP NPAT WEIGHT 25%		GROUP REVENUE WEIGHT 25%		GROUP ROIC WEIGHT 10%		BUSINESS-LINE PROFIT WEIGHT 40%		FINANCIAL PERFORMANCE PAY-OUT FACTOR
80% x 0.25	+	160% x 0.25	+	100% x 0.1	+	130% x 0.4	=	122%

LEADERSHIP MULTIPLIER

While the CEO is rewarded only for the annual financial performance of the Group, the other members of the Operations Council are also rewarded for the demonstration of leadership behaviors in line with the SGS competency model. Their final incentive amount is calculated by multiplying the financial performance pay-out factor by a leadership multiplier.

The leadership multiplier is determined for each executive based on an assessment of their behaviors against the leadership competency model of SGS in the areas of change management and people management. The assessment of the members of the Operations Council is conducted at year end by the CEO. The assessment leads to an overall leadership performance rating that is directly linked to the leadership multiplier as follows:

- "Needs improvement" rating corresponds to a leadership multiplier of 70%
- "Meets expectations" rating corresponds to a leadership multiplier of 100%
- "Exceeds expectations" rating corresponds to a leadership multiplier of 125%

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

TARGET INCENTIVE		FINANCIAL PERFORMANCE PAY-OUT FACTOR		BEHAVIORAL MULTIPLIER		FINAL INCENTIVE AMOUNT
100 000	X	122%	X	125%	=	152 500

SETTLEMENT OF THE SHORT-TERM INCENTIVE

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

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

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

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

TERMINATION OF EMPLOYMENT

In case of termination of employment for any reason except for cause, if the last day of employment is on or after 31 December of the respective business year, the executive is eligible to the full annual incentive payment.

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

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

In case of termination not for cause before 31 December of the respective business year, the annual incentive payment is calculated pro-rata (calendar days) based on the Board of Directors' best estimate of the performance on the last day of employment.

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

TERMINATION REASON	LAST DAY OF EMPLOYMENT	INCENTIVE OPPORTUNITY (TARGET INCENTIVE)	INCENTIVE LEVEL
Cause	Before the incentive payment date	Zero	Zero
Resignation	Before 31 December of the business year	Zero	Zero
	On or after 31 December of the business year	Full	Based on actual performance
Other reasons	Before 31 December of the business year	Prorated on calendar days	Based on performance estimated by the Board of Directors
	On or after 31 December of the business year	Full	Based on actual performance

CLAWBACK PROVISIONS

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

CHANGES IN THE SHORT-TERM VARIABLE REMUNERATION OF THE CEO FOR 2019

The Remuneration Committee worked on a review of the Short-term variable remuneration of the CEO for 2019, with the objective to have a better alignment between the plans in place for the CEO and the other Operations Council members. The payout curves of the two plans will be harmonized and a leadership multiplier will be introduced for the CEO.

More details on the updated Short-term variable remuneration plan for the CEO and the Operations Council members will be disclosed in the 2019 Remuneration Report.

3.2.4. LONG-TERM VARIABLE REMUNERATION

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

The Long-Term Incentive consists of a grant of Performance Share Units (PSUs), done once every three years. The last grant under the Long-Term Incentive was done in 2018; the previous one was done in 2015.

The value of the grants, defined as the number of PSUs granted multiplied by the average share price of the 20 trading days preceding the grant date, covering a three-year period, is expressed as a percentage of the annual base salary and varies depending on the role. For the CEO, the value of the grant is 500% of the annual base salary; for the other members of the Operations Council it is 300% of the annual base salary.

The table below summarizes the value of the incentive opportunity over a three-year period and annualized for the CEO and the other Operations Council members.

		CEO		OTHER OPERATIONS COUNCIL MEMBERS	
Incentive frequency		Once every three years		Once every three years	
		Three-year period	Annualized	Three-year period	Annualized
Minimum incentive opportunity value	as % of base salary	0%	0%	0%	0%
	as % of target incentive opportunity	0%	0%	0%	0%
Target incentive opportunity value	as % of base salary	500%	167%	300%	100%
Maximum incentive opportunity value	as % of target incentive opportunity	150%	150%	150%	150%
	as % of base salary	750%	250%	450%	150%

The PSUs granted under the Long-Term Incentive vest after a performance period of three years (for the grant of 2018, the performance period is 2018-2020), conditionally upon the achievement of pre-defined performance objectives and subject to continuity of employment of the beneficiaries during the vesting period.

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PERFORMANCE CONDITIONS

The performance conditions of the Long-Term Incentive consist of two financial key performance indicators, equally weighted at 50%:

- Total Shareholder Return (TSR[1]) (relative SGS performance compared with the peer group)
- Adjusted Operating Income Margin (AOIM) (absolute SGS performance against an internal target)

The TSR of the Group will be compared to the TSR of a group of twelve peer companies, selected by the Board of Directors because they have a comparable range of services, technology, customers, suppliers or investors and thus are exposed to similar market cycles. The intention of indexing performance against a peer group of companies is to reward the relative performance of the Company, where market factors that are outside the control of the executives are neutralized.

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

Adecco	ALS	Applus+	Bureau Veritas	Eurofins	Intertek
ISS	Mistras	Rentokil	Securitas	Sodexo	Team

The vesting levels for the TSR are defined as follows: 150% vesting if SGS is ranked first among the thirteen companies composing the peer group, 100% vesting if SGS is ranked fifth, and zero vesting if SGS is ranked eight or worse; in between, a linear interpolation applies.

The AOIM will be assessed against a pre-defined internal target.

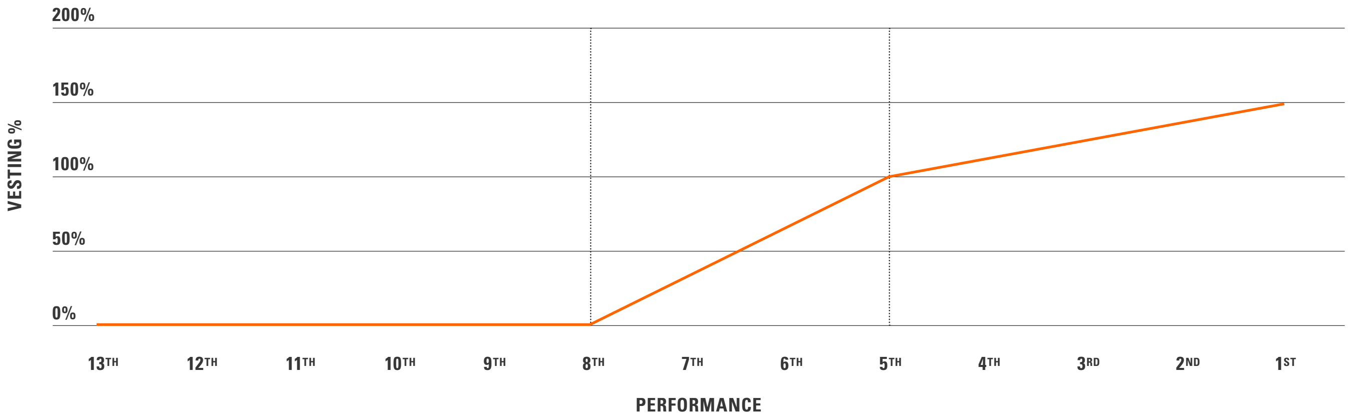
The vesting levels for the AOIM are defined as follows: a threshold performance is set at 90% of target, and a maximum performance is set at 110% of target; if the AOIM performance is at or below threshold, the vesting is zero; if the AOIM is at target, the vesting is 110%; if the AOIM is at or above maximum, the vesting is 150%; in between, a linear interpolation applies.

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

TOTAL SHAREHOLDER RETURN (TSR)

Relative ranking against peer companies

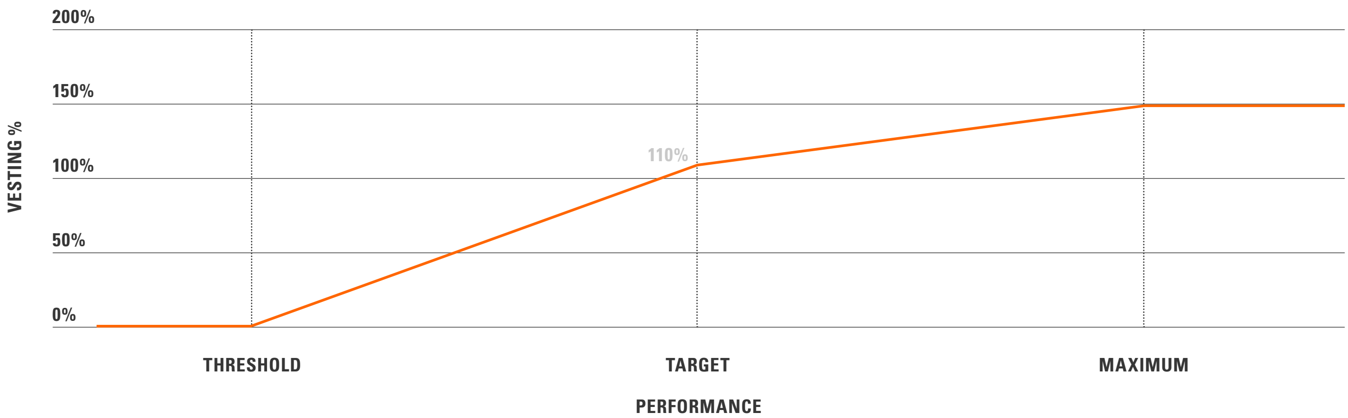
WEIGHT 50%



ADJUSTED OPERATING INCOME MARGIN (AOIM)

Performance against internal target

WEIGHT 50%



The overall vesting level of the PSUs granted will be calculated as a weighted average of each of the respective vesting levels for TSR (50%) and AOIM (50%), and ranges between 0% and 150%.

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

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SETTLEMENT OF THE LONG-TERM INCENTIVE

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

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

Number of PSUs granted = Overall vesting level (0-150%) X Number of shares allocated at vesting

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

TERMINATION OF EMPLOYMENT

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

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

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

TERMINATION REASON	VESTING RULE	VESTING TIME AND SHARES ALLOCATION	VESTING LEVEL
Retirement or disability	Vesting on a pro rata basis	At regular vesting date	Based on actual performance
Death	Vesting on a pro rata basis	Immediate	Based on an estimation of performance by the Board of Directors
Corporate transaction or liquidation	Full vesting	Immediate	Based on an estimate of performance by the Board of Directors
Other reasons	Forfeiture	-	-

MALUS AND CLAWBACK PROVISIONS

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

3.2.5. REMUNERATION MIX

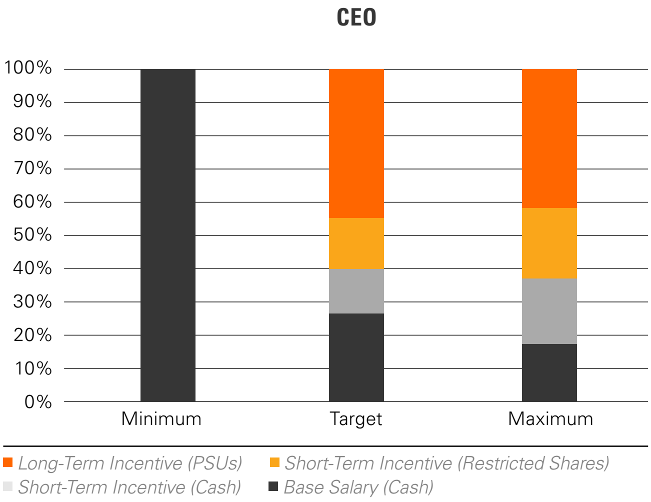
The part of remuneration at risk (Short-Term Incentive and Long-Term Incentive) for the CEO represents, at target, 73% of the total remuneration. The part of remuneration settled in equity instruments (Restricted Shares and PSUs) represents, at target, 59% of the total remuneration.

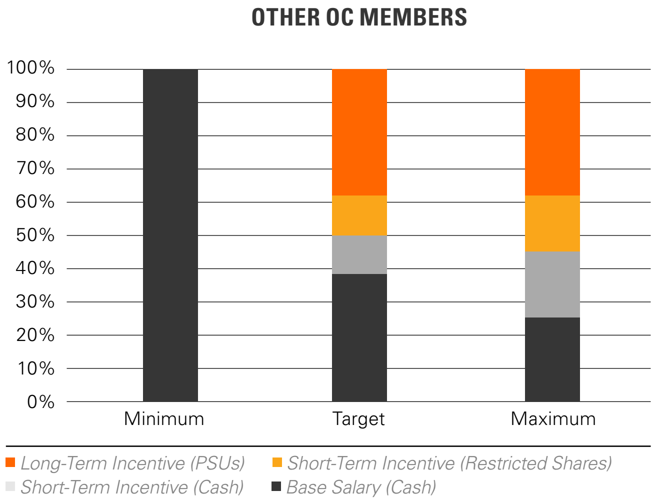
For the other members of the Operations Council, the part or remuneration at risk represents, on average, 62% of the total remuneration. The part of remuneration settled in equity instruments represents, on average, 50% of the total remuneration.

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

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

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





3.2.6. SHAREHOLDING OWNERSHIP GUIDELINES

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

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

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

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

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

3.2.7. EMPLOYMENT CONTRACTS

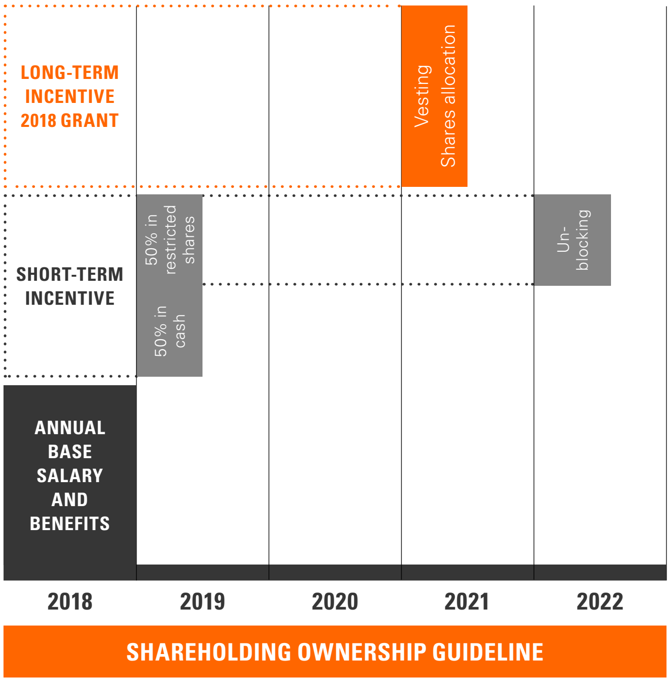
Employment contracts of the Operations Council members have no fixed term and can be terminated at any time by either party, provided a notice period of six months is respected. For the Chief Executive Officer, the notice period is 12 months. The executive contracts do not provide for any severance payments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

3.2.8. TIMELINE OF REMUNERATION

The following outlines the timeline of payment of each remuneration element that was earned in 2018:

- The annual base salary is paid during 2018
- The cash portion of the Short-Term Incentive is paid in March 2019, shortly after the Annual General Meeting
- The share portion of the Short-Term Incentive is allocated in April 2019 and will be unblocked in April 2022
- The PSUs granted under the Long-Term Incentive in 2018 will be earned over the performance period from 2018 to 2020 and will vest, subject to performance conditions and continuity of employment, in February 2021

TIMELINE (PERFORMANCE PERIOD, TIME OF PAYMENT)



PERFORMANCE KPIs

Relative TSR (50%)

Adjusted operating income margin (50%)

Group revenue (25%)

Group NPAT (25%)

Role specific profit, efficient use of capital (50%)

Multiplied by leadership multiplier (excluding CEO)

Fixed remuneration

4. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

In 2018, the annual board retainer was CHF 300 000 for the Chairman of the Board and CHF 150 000 for the other Board of Directors members, unchanged from the prior year. Members of the Board of Directors serving on a committee were entitled to an additional fee of CHF 30 000 per committee, unchanged from the prior year. The Chairman of the Board was entitled to annual representation fees of CHF 25 000, unchanged from the prior year. All the remuneration elements of the Board of Directors are settled in cash.

BOARD RETAINER		COMMITTEE FEE (PER COMMITTEE)	
300 000	+	30 000	CHAIRMAN
150 000	+	30 000	BOARD MEMBERS

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

The remuneration is disclosed on a fiscal year basis.

The following table details the remuneration elements granted to each of the Directors for their tenure in 2018.

(CHF thousand)	BOARD RETAINER	COMMITTEE FEES	REPRESENTATION FEES	TOTAL REMUNERATION	EMPLOYER SOCIAL CHARGES
S. Marchionne [1]	168	34	14	216	15
P. Desmarais	150	-	-	150	11
A. von Finck	150	30	-	180	13
A.F. von Finck	150	30	-	180	16
I. Gallienne	150	30	-	180	16
C. Grupp	150	30	-	180	13
P. Kalantzis [2]	216	43	-	259	19
G. Lamarche	150	30	-	180	16
S.R. du Pasquier	150	60	-	210	18
C. Kirk	150	-	-	150	13
TOTAL	**1 584**	**287**	**14**	**1 885**	**150**

1. Mr. Marchionne was the Chairman of the Board and member of two committees until 21 July 2018.

2. Mr. Kalantzis was appointed Acting Chairman of the Board and member of the Professional Conduct Committee effective 22 July 2018.

The total remuneration of the members of the Board of Directors did not exceed the maximum amount approved by the Annual General Meeting of Shareholders in 2018 (CHF 2 134 000; the amount included employer social charges). As of 2019, employer social charges will be excluded from the aggregate total remuneration that is submitted to the Annual General Meeting of Shareholders for approval.

The following table details the remuneration elements granted to each of the Directors for their tenure in 2017.

(CHF thousand)	BOARD RETAINER	COMMITTEE FEES	REPRESENTATION FEES	TOTAL REMUNERATION	EMPLOYER SOCIAL CHARGES
S. Marchionne	300	60	25	385	28
P. Desmarais	150	-	-	150	13
A. von Finck	150	30	-	180	13
A.F. von Finck	150	30	-	180	16
I. Gallienne	150	30	-	180	16
C. Grupp	150	30	-	180	13
P. Kalantzis	150	30	-	180	13
G. Lamarche	150	30	-	180	16
S.R. du Pasquier	150	60	-	210	18
C. Kirk	150	-	-	150	13
TOTAL	**1 650**	**300**	**25**	**1 975**	**159**

The overall remuneration paid to the Board of Directors in 2018 is slightly lower than the overall remuneration paid in 2017, due to the change in the composition of the Board.

The Chairman of the Board was entitled to a Share Option grant until 2014; as of 2015, the remuneration of the Chairman of the Board is settled only in cash.

5. **REMUNERATION AWARDED** TO THE OPERATIONS COUNCIL MEMBERS

This section sets out the remuneration that was paid to the Operations Council as a whole, to the three Operations Council members who make up Senior Management and to the Chief Executive Officer in 2018. All amounts disclosed in this section include the Short-Term Incentive cash amount and restricted shares that will be granted in April 2019 with respect to performance in 2018 (disclosure according to the accrual principle).

5.1. FIXED REMUNERATION

The table below summarizes the fixed remuneration paid to the Operations Council, Senior Management and the Chief Executive Officer in 2018.

(CHF thousand)	BASE SALARY	OTHER CASH ALLOWANCES	CONTRIBUTIONS TO PENSION PLANS	OTHER CONTRIBUTIONS AND BENEFITS IN KIND	TOTAL FIXED REMUNERATION
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)					
Cash (including allowances)	8 314	2 859	-	-	11 173
Contribution and benefits in kind	-	-	1 168	525	1 693
Equity	-	-	-	-	-
TOTAL	**8 314**	**2 859**	**1 168**	**525**	**12 866**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)					
Cash (including allowances)	1 717	503	-	-	2 220
Contribution and benefits in kind	-	-	212	67	279
Equity	-	-	-	-	-
TOTAL	**1 717**	**503**	**212**	**67**	**2 499**
CHIEF EXECUTIVE OFFICER					
Cash (including allowances)	900	392	-	-	1 292
Contribution and benefits in kind	-	-	100	45	145
Equity	-	-	-	-	-
TOTAL	**900**	**392**	**100**	**45**	**1 437**

The aggregate base salary of the members of the Operations Council did not exceed the maximum amount approved by the Annual General Meeting of shareholders in 2017 (CHF 9 300 000). For 2019, the 2018 Annual General Meeting of shareholders already approved a maximum aggregated base salary for the members of the Operations Council (CHF 9 400 000). As of 2019, it is the maximum aggregate total fixed remuneration of the following year (including other cash allowances, contributions to pension plans and other contributions and benefits in kind) that will be submitted to the Annual General Meeting of Shareholders for approval.

The table below summarizes the fixed remuneration paid to the Operations Council, Senior Management and the Chief Executive Officer in 2017.

(CHF thousand)	BASE SALARY	OTHER CASH ALLOWANCES	CONTRIBUTIONS TO PENSION PLANS	OTHER CONTRIBUTIONS AND BENEFITS IN KIND	TOTAL FIXED REMUNERATION
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)					
Cash (including allowances)	7 847	1 228	-	-	9 075
Contribution and benefits in kind	-	-	1 010	608	1 618
Equity	-	-	-	-	-
TOTAL	**7 847**	**1 228**	**1 010**	**608**	**10 693**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)					
Cash (including allowances)	1 710	166	-	-	1 876
Contribution and benefits in kind	-	-	207	111	318
Equity	-	-	-	-	-
TOTAL	**1 710**	**166**	**207**	**111**	**2 194**
CHIEF EXECUTIVE OFFICER					
Cash (including allowances)	900	92	-	-	992
Contribution and benefits in kind	-	-	100	79	179
Equity	-	-	-	-	-
TOTAL	**900**	**92**	**100**	**79**	**1 171**

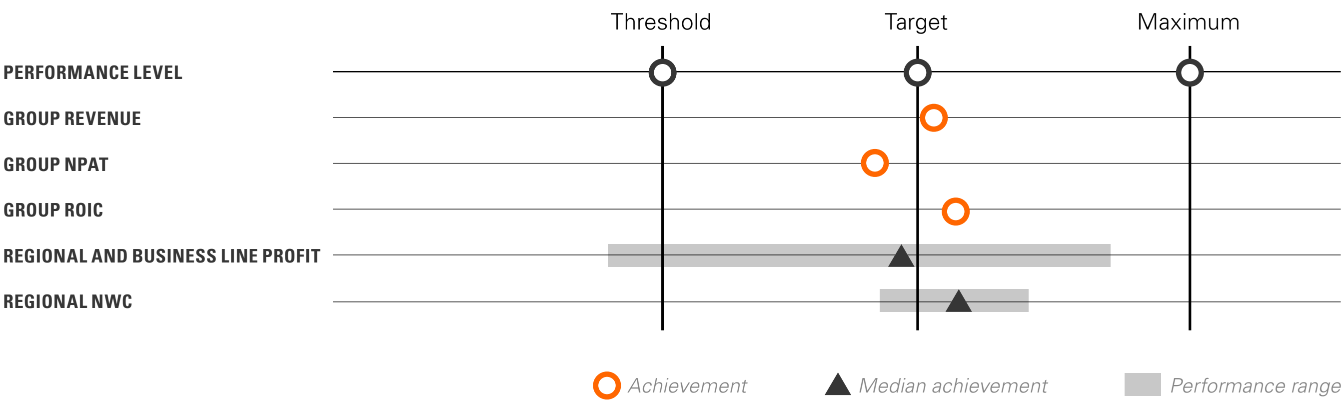
The increase in fixed remuneration compared with 2017 reflects the change in the composition of the Operations Council, and the annual remuneration review decided by the Board of Directors.

5.2. SHORT-TERM VARIABLE REMUNERATION

The short-term variable remuneration of the members of the Operations Council is determined by the achievement of financial targets and, with the exclusion of the CEO, by their leadership behaviors.

In 2018, the achievement of financial targets at Group level, in the businesses and in the regions ranges from 49.5% to 133.9% (2017: 67.1% to 110.0%).

The chart below summarizes the 2018 performance achievements against targets for the financial objectives (revenue, profitability, capital efficiency) used in the Short-Term Incentive.



The overall Short-Term Incentive pay-out amounts to 98.3% of the target incentive opportunity for the CEO (2017: 96.5%) and ranges from 56.3% to 159.3% of the target incentive opportunity for the other members of the Operations Council (2017: 34.1% to 134.5%). For the purpose of the Short-Term Incentive, targets and performance achievement are measured at constant currency exchange rates.

In settlement of the equity portion of the Short-Term Incentive 2018, SGS restricted shares will be allocated to the members of the Operations Council in April 2019, after the approval of the total Short-Term Incentive amount by the Annual General Meeting of Shareholders (in April 2018, 977 restricted shares were granted in settlement of the equity portion of the Short-Term Incentive 2017). The number of restricted shares to be allocated is calculated by dividing the equity portion of the Short-Term Incentive by the average closing price of the share during a 20-trading day period following the payment of the dividends after the Annual General Meeting of Shareholders, rounded up to the nearest integer, and are restricted for a period of three years.

The table below summarizes the short-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer for the performance year 2018, and its comparison with the incentive opportunity.

(CHF thousand)	MINIMUM INCENTIVE OPPORTUNITY	TARGET INCENTIVE OPPORTUNITY	MAXIMUM INCENTIVE OPPORTUNITY	ACTUAL SHORT-TERM VARIABLE REMUNERATION
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)				
Cash (including allowances)	-	2 641	6 602	2 613
Contribution and benefits in kind	-	-	-	-
Equity	-	2 641	6 602	2 613
TOTAL	**-**	**5 282**	**13 204**	**5 226**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)				
Cash (including allowances)	-	707	1 767	681
Contribution and benefits in kind	-	-	-	-
Equity	-	707	1 767	681
TOTAL	**-**	**1 414**	**3 534**	**1 362**
CHIEF EXECUTIVE OFFICER				
Cash (including allowances)	-	450	1 125	442
Contribution and benefits in kind	-	-	-	-
Equity	-	450	1 125	442
TOTAL	**-**	**900**	**2 250**	**884**

The total short-term remuneration amount will be submitted for approval to the Annual General Meeting of Shareholders of 2019, and the settlement for both the cash and the equity part will be implemented shortly after.

The table below summarizes the short-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer for the performance year 2017, and its comparison with the incentive opportunity.

(CHF thousand)	MINIMUM INCENTIVE OPPORTUNITY	TARGET INCENTIVE OPPORTUNITY	MAXIMUM INCENTIVE OPPORTUNITY	ACTUAL SHORT-TERM VARIABLE REMUNERATION
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)				
Cash (including allowances)	-	2 629	6 573	2 443
Contribution and benefits in kind	-	-	-	-
Equity	-	2 629	6 573	2 287
TOTAL	**-**	**5 258**	**13 146**	**4 730**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)				
Cash (including allowances)	-	697	1 743	618
Contribution and benefits in kind	-	-	-	-
Equity	-	697	1 743	618
TOTAL	**-**	**1 394**	**3 486**	**1 236**
CHIEF EXECUTIVE OFFICER				
Cash (including allowances)	-	450	1 125	434
Contribution and benefits in kind	-	-	-	-
Equity	-	450	1 125	434
TOTAL	**-**	**900**	**2 250**	**868**

The total 2017 short-term remuneration amount was approved by the Annual General Meeting of Shareholders of 2018, and the settlement for both the cash and the equity part were implemented shortly after.

The increase in short-term variable remuneration compared to 2017 reflects the change in the composition of the Operations Council, and the higher achievement in financial targets.

5.3. LONG-TERM VARIABLE REMUNERATION

In 2018, the Group implemented a Long-Term Incentive plan for the performance period 2018-2020. Under the Long-Term Incentive 2018-2020, a total of 10 617 Performance Share Units (PSUs) were awarded to the members of the Operations Council. This includes 2 905 PSUs awarded to Senior Management, of which 1 881 awarded to the Chief Executive Officer.

The PSUs awarded under the Long-Term Incentive 2018-2020 vest after the three-year performance period 2018-2020, in early 2021, subject to the performance conditions (relative Total Shareholder Return and Adjusted Operating Income Margin, equally weighted at 50%) and to continuity of employment of the beneficiaries during the vesting period.

The number of PSUs awarded is calculated dividing the value of the grant, as explained in 3.2.4, by the average closing price of the share during a 20-trading day period preceding the grant date, rounded up to the nearest integer.

The table below summarizes the long-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer in 2018, with both the total 2018-2020 value and the 2018 annualized value.

	NUMBER OF PSUs GRANTED[1]	TOTAL VALUE OF THE GRANT (CHF THOUSAND)[2]	ANNUALIZED VALUE OF THE GRANT (CHF THOUSAND)[3]	2017 ANNUALIZED VALUE OF THE GRANT (CHF THOUSAND)[4]
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)				
Cash (including allowances)	-	-	-	-
Contribution and benefits in kind	-	-	-	-
Equity	10 617	25 406	8 469	8 302
TOTAL	**10 617**	**25 406**	**8 469**	**8 302**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)				
Cash (including allowances)	-	-	-	-
Contribution and benefits in kind	-	-	-	-
Equity	2 905	6 952	2 317	2 149
TOTAL	**2 905**	**6 952**	**2 317**	**2 149**
CHIEF EXECUTIVE OFFICER				
Cash (including allowances)	-	-	-	-
Contribution and benefits in kind	-	-	-	-
Equity	1 881	4 501	1 500	1 337
TOTAL	**1 881**	**4 501**	**1 500**	**1 337**

1. The grant made in 2018 is for the performance period 2018-2020; the next PSUs grant is planned for 2021.

2. The total value of the grant is the number of PSUs granted multiplied by the average share price of the 20 trading days preceding the grant date and based on 100% achievement of performance targets.

3. The annualized value of the grant for the year 2018 is one third of the total value of the grant.

4. The annualized value of the grant for the year 2017 is one third of the total value of the 2015 grant at grant date.

The maximum potential award, assuming the performance conditions overachieved, maximum vesting at 150% and all the participants employed during the entire vesting period, and assuming the share value considered for the grant, is CHF 38 109 000, within the limit approved by the Annual General Meeting of Shareholders in 2018 (CHF 40 000 000).

The values in the table above differ in some respect from the compensation expense prepared in accordance with International Financial Reporting Standards (IFRS) and presented in the note 29 of the 2018 Consolidated Financial Statements of SGS S.A.

In 2017, the Group did not implement any Long-Term Incentive, and the Operations Council members did not receive any Long-Term Incentive award.

DISCONTINUED SHARE OPTION PLANS

The members of the Operations Council were entitled to a Share Option grant until 2014. As of the performance year 2015, the Share Option plans have been discontinued and replaced by Restricted Shares for the settlement of the equity part of the Short-Term Incentive and by Performance Share Units for the Long-Term Incentive.

The following table presents details of the options awarded to members of the Operations Council, Senior Management and the CEO, active at 31 December 2018, and shows those options which have been granted, vested and became exercisable in 2018.

TYPE OF OPTIONS[1] (YEAR OF ISSUE)	STRIKE PRICE (CHF)	TOTAL NUMBER OF OPTIONS GRANTED UNDER EACH PLAN	MARKET VALUE AT GRANT (CHF THOUSAND)	NUMBER VESTED ON 31 DECEMBER 2018	NUMBER VESTED ON 31 DECEMBER 2017
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT AND CHIEF EXECUTIVE OFFICER)					
SGSPF (2014)	2 059	565 906	1 426	565 906	565 906
SGSBB (2015)	1 798	770 899	1 711	770 899	513 933
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)					
SGSPF (2014)	2 059	89 928	227	89 928	89 928
SGSBB (2015)	1 798	145 545	323	145 545	97 030
CHIEF EXECUTIVE OFFICER					
SGSPF (2014)	2 059	23 464	59	23 464	23 464
SGSBB (2015)	1 798	82 727	184	82 727	55 151

1. One hundred options give the right to acquire one share.

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5.4. TOTAL REMUNERATION

The tables below present all components of the remuneration earned in 2018 and 2017 by the Operations Council, Senior Management and the Chief Executive Officer. The employer social charges are reported separately in the last column of the table.

TOTAL AND ANNUALIZED REMUNERATION 2018

(CHF thousand)	TOTAL FIXED REMUNERATION	TOTAL SHORT-TERM VARIABLE REMUNERATION	TOTAL 2018 REMUNERATION BEFORE LTI	TOTAL LONGTERM VARIABLE REMUNERATION	ANNUALIZED LONG-TERM VARIABLE REMUNERATION	TOTAL 2018 REMUNERATION	2018 ANNUALIZED REMUNERATION	EMPLOYER SOCIAL CHARGES
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)[1]								
Cash (including allowances)	11 172	2 613	13 785	-	-	13 785	13 785	-
Contribution and benefits in kind	1 693	-	1 693	-	-	1 693	1 693	3 683
Equity	-	2 613	2 613	25 406	8 469	28 019	11 082	-
TOTAL	**12 865**	**5 226**	**18 091**	**25 406**	**8 469**	**43 497**	**26 560**	**3 683**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)[2]								
Cash (including allowances)	2 220	681	2 901	-	-	2 901	2 901	-
Contribution and benefits in kind	279	-	279	-	-	279	279	1 187
Equity	-	681	681	6 952	2 317	7 633	2 998	-
TOTAL	**2 499**	**1 362**	**3 861**	**6 952**	**2 317**	**10 813**	**6 178**	**1 187**
CHIEF EXECUTIVE OFFICER								
Cash (including allowances)	1 292	442	1 734	-	-	1 734	1 734	-
Contribution and benefits in kind	145	-	145	-	-	145	145	739
Equity	-	442	442	4 501	1 500	4 943	1 942	-
TOTAL	**1 437**	**884**	**2 321**	**4 501**	**1 500**	**6 822**	**3 821**	**739**

1. 23 FTE (Full Time Equivalent).
2. 3 FTE.

TOTAL AND ANNUALIZED REMUNERATION 2017

(CHF thousand)	TOTAL FIXED REMUNERATION	TOTAL SHORT-TERM VARIABLE REMUNERATION	TOTAL 2017 REMUNERATION BEFORE LTI	TOTAL LONG-TERM VARIABLE REMUNERATION[1]	ANNUALIZED LONG-TERM VARIABLE REMUNERATION[2]	TOTAL 2017 REMUNERATION	2017 ANNUALIZED REMUNERATION	EMPLOYER SOCIAL CHARGES
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)[3]								
Cash (including allowances)	9 075	2 443	11 518	-	-	11 518	11 518	-
Contribution and benefits in kind	1 618	-	1 618	-	-	1 618	1 618	1 087
Equity	-	2 287	2 287	-	8 302	2 287	10 589	-
TOTAL	**10 693**	**4 730**	**15 423**	**-**	**8 302**	**15 423**	**23 725**	**1 087**
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)[4]								
Cash (including allowances)	1 876	618	2 494	-	-	2 494	2 494	-
Contribution and benefits in kind	318	-	318	-	-	318	318	254
Equity	-	618	618	-	2 149	618	2 767	-
TOTAL	**2 194**	**1 236**	**3 430**	**-**	**2 149**	**3 430**	**5 579**	**254**
CHIEF EXECUTIVE OFFICER								
Cash (including allowances)	992	434	1 426	-	-	1 426	1 426	-
Contribution and benefits in kind	179	-	179	-	-	179	179	147
Equity	-	434	434	-	1 337	434	1 771	-
TOTAL	**1 171**	**868**	**2 039**	**-**	**1 337**	**2 039**	**3 376**	**147**

1. In 2017, the Group did not implement any Long-Term Incentive and the Operations Council members did not receive any Long-Term Incentive award.

2. The annualized value of the grant for the year 2017 is one third of the value of the 2015 grant at grant date.

3. 22 FTE (Full Time Equivalent).

4. 3 FTE.

RECONCILIATION WITH THE COMPENSATION TABLES OF THE REMUNERATION REPORT 2017

A change has been made in this Report in the presentation of the remuneration of the Operations Council members as compared with the Remuneration Report 2017. The above table sets out the various components of the 2017 remuneration in the format used for the 2018 remuneration.

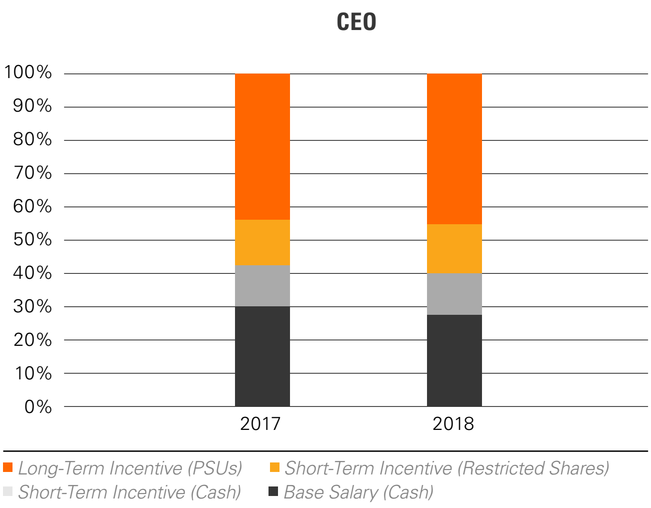
5.5. REMUNERATION MIX

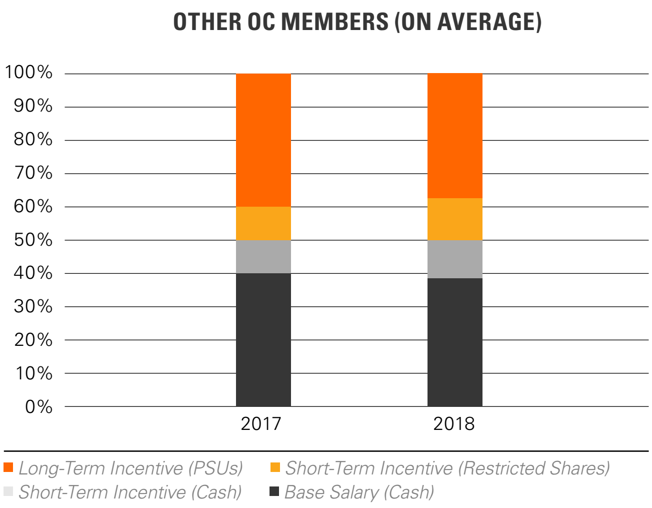
In 2018, the part of remuneration at risk (Short-Term Incentive and Long-Term Incentive) for the CEO represents 73% of the total remuneration (2017: 71%); the part of remuneration settled in equity instruments (Restricted Shares and PSUs) represents 59% of the total remuneration (2017: 57%). For the other members of the Operations Council, the part or remuneration at risk represents, on average, 60% of the total remuneration (2017: 61%); the part of remuneration settled in equity instruments represents, on average, 49% of the total remuneration (2017: 50%).

The Long-Term Incentive is considered at his annualized value. For 2017, the annualized value at grant of the Long-Term Incentive 2015-2017 has been considered.

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

The charts below show the remuneration mix for the CEO and for the other members of the Operations Council in 2018 and 2017.





5.6. OTHER COMPENSATION ELEMENTS

5.6.1. SEVERANCE PAYMENTS

Severance payments for a total amount of CHF 263 078 were made in 2018 to members of the Operations Council who left the Group in 2018, according to the legislation in force in their country of employment (2017: no severance payments).

5.6.2. OTHER COMPENSATION TO MEMBERS OR FORMER MEMBERS OF THE GOVERNING BODIES

No additional compensation or fees were paid to any member of the governing bodies (unchanged from prior year).

5.6.3. LOANS TO MEMBERS OR FORMER MEMBERS OF THE 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).

Deloitte.

Report of the statutory auditor

To the General Meeting of
SGS SA, Geneva

Report of the Statutory Auditor in relation to sections 4 and 5 of the remuneration report in accordance with the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance)

We have audited sections 4 and 5 of the Remuneration Report of SGS SA for the year ended 31 December 2018, presented on pages 105 to 114.

Responsibility of the Board of Directors
The Board of Directors is responsible for the preparation and overall fair presentation of the Remuneration Report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility
Our responsibility is to express an opinion on the Remuneration Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether sections 4 and 5 of the Remuneration Report comply with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Remuneration Report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the Remuneration Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Remuneration Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, sections 4 and 5 of the Remuneration Report of SGS SA for the year ended 31 December 2018 comply with Swiss law and articles 14 – 16 of the Ordinance.

Deloitte SA

Matthew Sheerin	Joëlle Herbette
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Geneva, 07 February 2019

SGS GROUP RESULTS

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

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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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).

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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 SERVICES TRANSFERRED AT A POINT IN TIME	2018 SERVICES TRANSFERRED OVER TIME	2018	2017 SERVICES TRANSFERRED AT A POINT IN TIME	2017 SERVICES TRANSFERRED OVER TIME	2017
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**

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(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.

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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)**

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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:

	AMORTIZED COST OTHER LIABILITIES		FAIR VALUE 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:

	AMORTIZED COST OTHER LIABILITIES		FAIR VALUE 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:

	BANK LOANS AND CORPORATE BOND		FINANCE LEASE OBLIGATIONS	
(CHF million)	**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.

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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.

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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.

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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	How the scope of our audit responded to the 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.	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

With fuel inspection and marking, Alexsander's customers can be confident about the quality of fuel for distribution.

SGS SA
RESULTS

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INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	NOTES	2018	2017
OPERATING INCOME			
Dividends from subsidiaries		480	606
Other income		17	1
TOTAL OPERATING INCOME		**497**	**607**
OPERATING EXPENSES			
Other operating and administrative expenses		(6)	(6)
Depreciation of fixed assets		-	-
Other expenses		(24)	(7)
TOTAL OPERATING EXPENSES		**(30)**	**(13)**
OPERATING RESULT		**467**	**594**
FINANCIAL INCOME			
Financial income	7	66	57
Exchange gain, net		4	16
TOTAL FINANCIAL INCOME		**70**	**73**
FINANCIAL EXPENSES			
Financial expenses	7	(54)	(47)
Liquidation of subsidiaries, net		(4)	-
TOTAL FINANCIAL EXPENSES		**(58)**	**(47)**
FINANCIAL RESULT		**12**	**26**
PROFIT BEFORE TAXES		**479**	**620**
Taxes		(7)	(2)
Withholding taxes		(7)	(9)
PROFIT FOR THE YEAR		**465**	**609**

BALANCE SHEET AT 31 DECEMBER

(BEFORE APPROPRIATION OF AVAILABLE RETAINED EARNINGS)

(CHF million)	NOTES	2018	2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		901	607
Other financial assets		52	46
Amounts due from subsidiaries		359	285
Accrued income and prepaid expenses		2	-
TOTAL CURRENT ASSETS		**1 314**	**938**
NON CURRENT ASSETS			
Financial assets			
Investments in subsidiaries	2	1 636	1 651
Loans to subsidiaries		1 236	1 266
Fixed assets			
Tangible fixed assets	3	-	2
TOTAL NON-CURRENT ASSETS		**2 872**	**2 919**
TOTAL ASSETS		**4 186**	**3 857**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHORT TERM LIABILITIES			
Other creditors		23	1
Amounts due to subsidiaries		65	60
Corporate bonds (less than one year)	4	375	-
Deferred income and accrued expenses		53	58
Provisions		38	33
TOTAL SHORT-TERM LIABILITIES		**554**	**152**
LONG-TERM LIABILITIES/NON-CURRENT LIABILITIES			
Long-term liabilities – subsidiaries		666	499
Corporate bonds	4	2 100	2 075
TOTAL LONG-TERM LIABILITIES/NON-CURRENT LIABILITIES		**2 766**	**2 574**
CAPITAL AND RESERVE			
Share capital	5 to 6	8	8
Statutory capital reserve	5 to 6	34	34
Statutory retained earnings	5 to 6	947	992
Own shares for share buyback	5 to 6	(158)	-
Reserve for own shares held by a subsidiary	5 to 6	35	97
TOTAL CAPITAL AND RESERVE		**866**	**1 131**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4 186**	**3 857**

SGS SA ("the Company") is the ultimate parent company of the SGS Group which owns and finances, either directly or indirectly, its subsidiaries and joint ventures throughout the world. The head office is located in Geneva, Switzerland.

The average number of employees during the year was less than ten.

NOTES

1. **SIGNIFICANT** ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting principles required by Swiss law.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are valued individually at acquisition cost less an adjustment for impairment where appropriate.

FOREIGN CURRENCIES

Balance sheet items denominated in foreign currencies are converted at year-end exchange rates with the exception of investments in subsidiaries which are valued at the historical exchange rate. Unrealized gains and losses arising on foreign exchange transactions are included in the determination of the net profit, except long-term unrealized gains on long-term loans and related instruments, which are deferred.

DIVIDENDS FROM SUBSIDIARIES

Dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting and subsequently paid, rather than as an appropriation of profit in the year to which they relate or for which they are proposed by the Board of Directors.

As a result, dividends are recognized in income in the year in which they are received, on a cash basis.

BONDS

Bonds are recorded at nominal value.

2. **SUBSIDIARIES**

The list of principal Group subsidiaries appears in the Annual Report on pages 186-189.

3. **TANGIBLE** FIXED ASSETS

Last year the tangible fixed asset was a building located at 15, rue des Alpes in Geneva and was recorded at historical cost less accumulated depreciation. In 2018, SGS SA sold the 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 whose mission is to protect the employer's staff against the economic consequences of retirement, death and disability, by insuring defined benefits. The President of this foundation has full authority to represent the 'Fondation de prévoyance SGS' in all transactions.

4. CORPORATE BONDS

SGS SA made the following bond issuances:

DATE OF ISSUE	FACE VALUE IN CHF MILLION	COUPON IN %	YEAR OF MATURITY	ISSUE PRICE IN %	REDEMPTION PRICE IN %
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

The Group has listed all the bonds on the SIX Swiss Exchange.

5. TOTAL EQUITY

(CHF million)	SHARE CAPITAL	STATUTORY CAPITAL RESERVE	RESERVE FOR OWN SHARES HELD BY A SUBSIDIARY	OWN SHARES FOR SHARE BUYBACK	STATUTORY RETAINED EARNINGS	TOTAL
BALANCE AT 1 JANUARY 2017	**8**	**34**	**115**	**(361)**	**1 254**	**1 049**
Dividends paid	-	-	-	-	(528)	(528)
Decrease in the reserve for own shares	-	-	(18)	-	18	-
Cancellation of treasury shares	-	-	-	361	(361)	-
Profit for the year	-	-	-	-	609	609
BALANCE AT 31 DECEMBER 2017	**8**	**34**	**97**	**(0)**	**992**	**1 131**
Dividends paid	-	-	-	-	(572)	(572)
Decrease in the reserve for own shares	-	-	(62)	-	62	-
Purchase of shares for cancellation	-	-	-	(158)	-	(158)
Profit for the year	-	-	-	-	465	465
BALANCE AT 31 DECEMBER 2018	**8**	**34**	**35**	**(158)**	**947**	**866**

6. SHARE CAPITAL

	SHARES IN CIRCULATION	OWN SHARES	TOTAL SHARES ISSUED	TOTAL SHARE CAPITAL (CHF MILLION)
BALANCE AT 1 JANUARY 2017	**7 538 507**	**283 929**	**7 822 436**	**8**
Own shares released into circulation	30 996	(30 996)	-	-
Own shares purchased for future equity compensation plans	(18 095)	18 095	-	-
Capital reduction by cancellation of own shares	-	(188 704)	(188 704)	-
BALANCE AT 31 DECEMBER 2017	**7 551 408**	**82 324**	**7 633 732**	**8**
Own shares released into circulation	87 099	(87 099)	-	-
Own shares purchased for future 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**

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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. In 2017, SGS SA proceed to a capital reduction of 188 704 shares. All shares, other than own shares, participate equally in the dividends declared by the Company and have equal voting rights.

OWN SHARES

On 31 December 2018, SGS SA held indirectly 83 025 of its own shares. In 2017, SGS SA proceed to the cancellation of 188 704 of its own shares directly held by SGS SA, while the shares to cover the equity compensation plans are held by a subsidiary company.

In 2018, 87 099 own shares were sold to cover the equity compensation plans and 19 800 were purchased for an average price of CHF 2 403.59.

In 2017, the Group initiated a share buyback program for a total of up to CHF 250 million. The program was completed on 19 December 2018. In total, 105 895 registered shares have been bought back for a total amount of approximately CHF 249.9 million, at an average purchase price of CHF 2 359.67 per share

7. FINANCIAL INCOME AND FINANCIAL EXPENSES

(CHF million)	2018	2017
FINANCIAL INCOME:		
Interest income third party	4	1
Interest income Group	62	56
FINANCIAL INCOME	**66**	**57**
FINANCIAL EXPENSES:		
Interest expenses third party	(30)	(31)
Interest expenses Group	(5)	(3)
Other financial expenses	(19)	(13)
FINANCIAL EXPENSES	**(54)**	**(47)**

8. GUARANTEES AND COMFORT LETTERS

(CHF million)	2018 ISSUED	2018 UTILIZED	2017 ISSUED	2017 UTILIZED
Guarantees	579	373	460	286
Performance bonds	51	51	44	44
TOTAL	**630**	**424**	**504**	**330**

The Company has unconditionally guaranteed or provided comfort to financial institutions providing credit facilities (loans and guarantee bonds) to its subsidiaries. In addition, it has issued performance bonds to commercial customers on behalf of its subsidiaries.

The Company is part of a VAT Group comprising itself and other Group companies in Switzerland.

9. REMUNERATION

9.1. REMUNERATION POLICY AND PRINCIPLES

This section appears in the SGS Remuneration Report paragraph 2 in the Annual Report on pages 94-96.

9.2. REMUNERATION MODEL

This section appears in the SGS Remuneration Report paragraph 3 in the Annual Report on pages 95-105.

9.3. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

This section appears in the SGS Remuneration Report paragraph 4 in the Annual Report on page 105-106.

9.4. REMUNERATION AWARDED TO THE OPERATIONS COUNCIL MEMBER

This section appears in the SGS Remuneration Report paragraph 5 in the Annual Report on pages 107-114.

10. SHARES AND OPTIONS HELD BY MEMBERS OF GOVERNING BODIES

10.1. SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS

The following table shows the shares and vested options held by Members of the Board of Directors as at 31 December 2018:

NAME	SGSBB (2015)	RESTRICTED SHARES	SHARES
A. von Finck	-	-	19 670
A. F. von Finck	-	-	786 255
C. Grupp	-	-	-
P. Kalantzis	-	-	150
S.R. du Pasquier	-	-	10
P. Desmarais	-	-	10
I. Galienne	-	-	1
G. Lamarche	-	-	25
C. Kirk	310 208	49	1 199

The following table shows the shares and vested options held by Members of the Board of Directors as at 31 December 2017:

NAME	SGSPF (2014)	SGSBB (2015)	RESTRICTED SHARES	SHARES
S. Marchionne	-	-	-	1 335
A. von Finck	-	-	-	19 670
A. F. von Finck	-	-	-	786 255
C. Grupp	-	-	-	-
P. Kalantzis	-	-	-	85
S.R. du Pasquier	-	-	-	10
P. Desmarais	-	-	-	-
I. Galienne	-	-	-	-
G. Lamarche	-	-	-	-
C. Kirk	222 818	206 806	46	1 199

10.2. SHARES AND OPTIONS HELD BY SENIOR MANAGEMENT

The following table shows the shares and vested options held by Senior Management as at 31 December 2018:

NAME	CORPORATE RESPONSABILITY	SGSBB (2015)	RESTRICTED SHARES	SHARES
F. NG	Chief Executive Officer	70 000	509	1 950
C. De Geyseleer	Chief Financial Officer	-	177	461
O. Merkt	General Counsel and Chief Compliance Officer	49 572	114	210

The following table shows the shares and vested options held by Senior Management as at 31 December 2017:

NAME	CORPORATE RESPONSABILITY	SGSBB (2015)	RESTRICTED SHARES	SHARES
F. NG	Chief Executive Officer	55 152	325	-
C. De Geyseleer	Chief Financial Officer	8 831	134	-
O. Merkt	General Counsel and Chief Compliance Officer	33 048	78	45

Details of the various plans are explained in the Remuneration Report.

11. SIGNIFICANT SHAREHOLDERS

As at 31 December 2018, Group Bruxelles Lambert acting through Serena Sàrl 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: 4.00%) and MFS Investment Management held 3.02% (2017: 3.02%) of the share capital and voting rights of the Company.

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

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(CHF)	2018	2017
Profit for the year	465 580 866	609 792 420
Balance brought forward from previous year	425 363 022	364 829 480
Dividend paid on own shares released into circulation in 2018 prior to the Annual General Meeting on 19 March 2018	(6 164 250)	-
Dividend paid on own shares released into circulation in 2017 prior to the Annual General Meeting on 21 March 2017	-	(351 442)
Capital reduction by cancellation of shares	-	188 704
Share buyback program	(157 616 100)	-
Reversal from the reserve for own shares	62 238 166	17 259 460
TOTAL RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	**789 401 704**	**991 718 622**
Proposal of the Board of Directors:		
Dividends[1]	(588 955 146)	(566 355 600)
BALANCE CARRIED FORWARD	**200 446 558**	**425 363 022**
Ordinary gross dividend per registered share	78.00	75.00

1. No dividend is paid on own shares held directly or indirectly by SGS SA.

12. 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.

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Statutory Auditor's Report

To the General Meeting of
SGS SA, Geneva

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SGS SA, which comprise the balance sheet as at 31 December 2018 and the income statement and notes for the year then ended, including the summary of significant accounting policies.

In our opinion the accompanying financial statements as at 31 December 2018, presented on pages 170 to 176, comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investments in subsidiaries and related loans to subsidiaries

Key audit matter

The company holds investments in subsidiaries with a carrying value of CHF1'636 million as of 31 December 2018 (39.1% of total assets). The list of principal Group subsidiaries can be found in the Annual Report on pages 186 to 189. The valuation of these assets is dependent on the ability of these subsidiaries to generate positive cash flows in the future. The company also has loans to subsidiaries amounting to CHF1'236 million.

In accordance with Article 960 CO, these investment balances are valued by individual investment and the values are therefore tested annually for impairment. An impairment would need to be recorded if the recoverable values of individual investments were lower than the associated carrying values, or if loan balances were no longer considered recoverable from the associated entities.

The company uses the "income approach" for its impairment tests of investments, and prepares a discounted cash flow forecast for each significant balance. The inputs to the impairment testing model which have the most significant impact on the 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 (pre-tax).

The annual impairment testing is considered to be a risk area for the Board of Directors 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 statutory financial statements as a whole.

Refer to note 2 to the financial statements.

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

We tested the adequate implementation of accounting policies and the design and implementation of key controls regarding the valuation of investments in subsidiaries and related loans.

We challenged the impairment testing conducted by the company. We tested the valuations and amounts of investments on a sample basis by critically assessing the methodology applied and assessing the reasonableness of the underlying assumptions and judgements.
Together with our valuation specialists, we performed the following procedures:

- checking the mathematical accuracy of the impairment models and the accuracy of extraction of inputs from source documents;
- challenging the significant inputs and assumptions used in the impairment testing models for investments, specifically the discount rates and the five year projected revenues and margins.

We challenged the recoverability of loans to subsidiaries and tested balances on a sample basis with reference to the financial position of the subsidiaries.

We evaluated the appropriateness and completeness of the related disclosures in the financial statements.

Based on the audit procedures performed above, we consider management's estimates in the assessment of the recoverable value of investments in, and loans to, subsidiaries along with related financial statement disclosures to be appropriate.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company’s articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the 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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte SA

Matthew Sheerin
Licensed Audit Expert
Auditor in Charge

Joëlle Herbette
Licensed Audit Expert

Geneva, 7 February 2019

DATA

Fatma has increased her fitness while building stronger relationships with her colleagues since participating in SGS initiatives for a healthy workplace.

SGS GROUP – FIVE-YEAR STATISTICAL DATA CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	2018	2017	2016	2015	2014
REVENUE	**6 706**	**6 349**	**5 985**	**5 712**	**5 883**
Salaries and wages	(3 422)	(3 193)	(3 009)	(2 849)	(2 891)
Subcontractors' expenses	(387)	(394)	(368)	(345)	(361)
Depreciation, amortization and impairment	(317)	(338)	(336)	(322)	(304)
Other operating expenses	(1 634)	(1 530)	(1 456)	(1 374)	(1 386)
OPERATING INCOME (EBIT)	**946**	**894**	**816**	**822**	**941**
Financial income/(expense)	(38)	(43)	(45)	(43)	(41)
PROFIT BEFORE TAXES	**908**	**851**	**771**	**779**	**900**
Taxes	(218)	(187)	(185)	(195)	(234)
PROFIT FOR THE YEAR	**690**	**664**	**586**	**584**	**666**
Profit attributable to:					
Equity holders of SGS SA	643	621	543	549	629
Non-controlling interests	47	43	43	35	37
OPERATING INCOME MARGINS IN %	**14.1**	**14.1**	**13.6**	**14.4**	**16.0**
AVERAGE NUMBER OF EMPLOYEES	**96 492**	**93 556**	**89 626**	**85 903**	**83 515**

SGS GROUP – FIVE-YEAR STATISTICAL DATA CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER

(CHF million)	2018	2017	2016	2015	2014
Property, plant and equipment	969	1 002	972	964	1 043
Goodwill and other intangible assets	1 426	1 460	1 441	1 306	1 337
Investments in associated and other companies	36	36	38	32	24
Deferred tax and other non-current assets	336	305	287	315	244
TOTAL NON-CURRENT ASSETS	**2 767**	**2 803**	**2 738**	**2 617**	**2 648**
Unbilled revenues and inventories	272	339	290	288	330
Trade receivables	969	1 068	997	917	1 068
Other receivables and prepayments	214	236	252	272	298
Current tax assets	94	104	88	66	73
Cash and marketable securities	1 752	1 393	984	1 734	1 350
TOTAL CURRENT ASSETS	**3 301**	**3 140**	**2 611**	**3 277**	**3 119**
TOTAL ASSETS	**6 068**	**5 943**	**5 349**	**5 894**	**5 767**
Share capital	8	8	8	8	8
Reserves	1 660	1 911	1 765	1 898	2 319
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	**1 668**	**1 919**	**1 773**	**1 906**	**2 327**
Non-controlling interests	75	86	80	75	76
TOTAL EQUITY	**1 743**	**2 005**	**1 853**	**1 981**	**2 403**
Loans and obligations under finance leases	2 112	2 090	1 719	1 723	1 672
Deferred tax liabilities	30	45	42	60	74
Provisions and retirement benefit obligations	208	222	247	278	273
TOTAL NON-CURRENT LIABILITIES	**2 350**	**2 357**	**2 008**	**2 061**	**2 019**
Loans and obligations under finance leases	378	1	1	494	18
Trade and other payables	709	677	641	526	511
Current tax liabilities	127	152	166	159	175
Provisions, contract liabilities and accruals	761	751	680	673	641
TOTAL CURRENT LIABILITIES	**1 975**	**1 581**	**1 488**	**1 852**	**1 345**
TOTAL LIABILITIES	**4 325**	**3 938**	**3 496**	**3 913**	**3 364**
TOTAL EQUITY AND LIABILITIES	**6 068**	**5 943**	**5 349**	**5 894**	**5 767**

SGS GROUP – FIVE-YEAR STATISTICAL SHARE DATA

(CHF unless indicated otherwise)	2018	2017	2016	2015	2014
SHARE INFORMATION					
REGISTERED SHARES					
Number of shares issued	7 633 732	7 633 732	7 822 436	7 822 436	7 822 436
Number of shares with dividend rights	7 550 707	7 551 408	7 538 507	7 605 460	7 675 506
PRICE					
High	2 683	2 541	2 317	2 049	2 260
Low	2 170	2 051	1 734	1 577	1 802
Year-end	2 210	2 541	2 072	1 911	2 045
Par value	1	1	1	1	1
KEY FIGURES BY SHARES					
Equity attributable to equity holders of SGS SA per share in circulation at 31 December	220.86	254.16	235.22	250.56	303.13
Basic earnings per share[1]	84.54	82.41	71.54	71.99	81.99
Dividend per share ordinary	78.00	75.00	70.00	68.00	68.00
Total dividend per share	78.00	75.00	70.00	68.00	68.00
DIVIDENDS (CHF MILLION)					
Ordinary[2]	589	566	528	517	522
Total	589	566	528	517	522

1. Calculation of the basic earnings per share (weighted average for the year) is disclosed in note 10 of SGS Group Results.
2. As proposed by the Board of Directors.

SGS GROUP SHARE INFORMATION

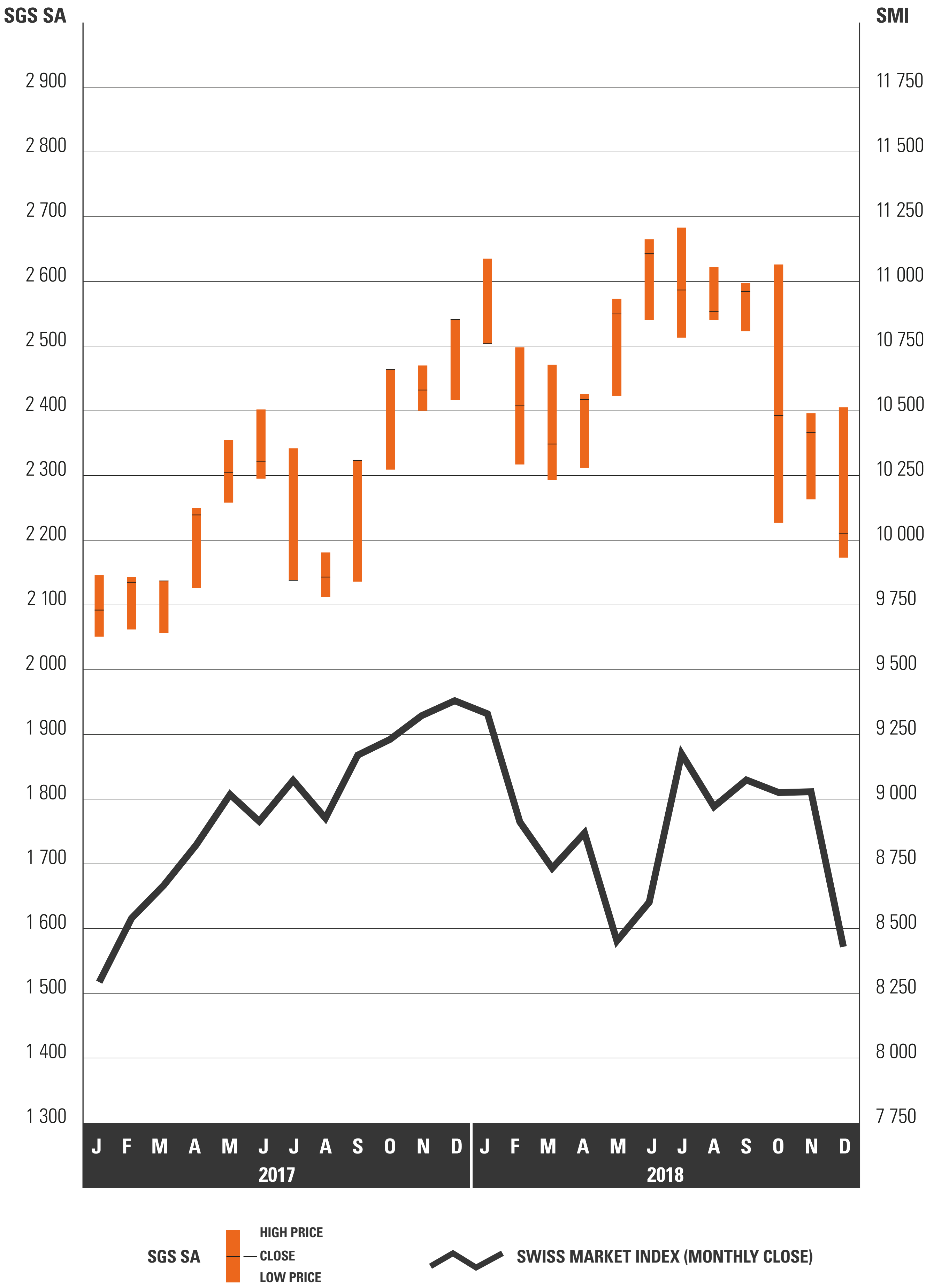
SHARE TRANSFER

SGS SA has no restrictions as to share ownership, except that registered shares acquired in a fiduciary capacity by third parties may not be registered in the shareholders' register, unless a special authorization has been granted by the Board of Directors.

MARKET CAPITALISATION

At the end of 2018, market capitalization was approximately CHF 16 871 million (2017: CHF 19 397 million). Shares are quoted on the SIX Swiss Exchange.

CLOSING PRICES FOR SGS AND THE SMI 2017-2018



SGS GROUP PRINCIPAL OPERATING COMPANIES AND ULTIMATE PARENT

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/ INDIRECT
Albania	SGS Albania Ltd., Tirana	ALL	15 100 000	100	D
Albania	SGS Automotive Albania sh.p.k., Tirana	ALL	190 000 100	100	I
Algeria	SGS Qualitest Algérie SpA, Alger	DZD	50 000 000	100	D
Algeria	Société de Contrôle Technique Automobile SA, Rouiba-Alger	DZD	173 600 000	77	D
Angola	SGS Angola Limitada, Luanda	AOA	8 000 000	100	D
Argentina	SGS Argentina SA, Buenos Aires	ARS	111 371 536	100	D
Argentina	ITV SA, Buenos Aires	ARS	1 500 000	100	I
Australia	SGS Australia Pty. Ltd., Perth	AUD	200 000	100	I
Australia	Gearhart Australia Limited, Perth	AUD	5 609 210	100	I
Austria	SGS Austria Controll-Co. Ges.m.b.H., Vienna	EUR	185 000	100	D
Azerbaijan	Société Générale de Surveillance Azeri Ltd., Baku	USD	100 000	100	D
Bangladesh	SGS Bangladesh Limited, Dhaka	BDT	10 000 000	100	D
Belarus	SGS Minsk Ltd., Minsk	USD	20 000	100	D
Belgium	SGS Belgium N.V., Antwerpen	EUR	35 995 380	100	I
Benin	SGS Bénin SA, Cotonou	XOF	10 000 000	100	D
Bolivia	SGS Bolivia SA, La Paz	BOB	41 900	100	D
Bosnia-Herzegovina	SGS Bosna i Hercegovina (d.o.o.) Ltd., Sarajevo	BAM	2 151	100	I
Botswana	SGS Botswana (Proprietary) Limited, Gaborone	BWP	1 000	100	D
Brazil	SGS do Brasil Ltda., São Paulo	BRL	381 447 768	100	D
Brazil	SGS Enger Engenharia Ltda., Barueri-SP	BRL	26 837 404	100	I
Bulgaria	SGS Bulgaria Ltd., Sofia	BGN	5 010 000	100	D
Burkina Faso	SGS Burkina SA, Ouagadougou	XOF	601 080 000	100	D
Cambodia	SGS (Cambodia) Ltd., Phnom Penh	KHR	4 000 000 000	100	D
Cameroon	SGS Cameroun SA, Douala	XAF	10 000 000	98.9	D
Canada	SGS Canada Inc., Missisauga	CAD	20 900 000	100	D
Chile	SGS Chile Limitada, Santiago de Chile	CLP	27 022 991 237	100	D
Chile	SGS Minerals S.A., Santiago de Chile	CLP	17 435 309 703	99.9	I
Chile	SIGA Ingeneria y Consultoria S.A. Santiago de Chile	CLP	3 382 313 364	70	I
China	SGS-CSTC Standards Technical Services Co. Ltd., Beijing	USD	3 966 667	85	I
Colombia	SGS Colombia SAS, Bogota	COP	91 355 222 605	100	D
Colombia	Estudios Técnicos SAS, (ETSA), Bogota	COP	6 021 642 700	100	I
Colombia	Laboratorios Contecon Urbar SAS, Bogota	COP	2 489 200	100	I
Congo	SGS Congo SA, Pointe-Noire	XAF	1 510 000 000	100	D
Croatia	SGS Adriatica, w.l.l., Zagreb	HRK	1 300 000	100	I
Czech Republic	SGS Czech Republic s.r.o., Praha	CZK	7 707 000	100	I
Denmark	SGS Danmark A/S, Glostrup Hvidovre	DKK	700 000	100	I
Democratic Republic of Congo	SGS Minerals RDC SARL, Lubumbashi	USD	50 000	100	D

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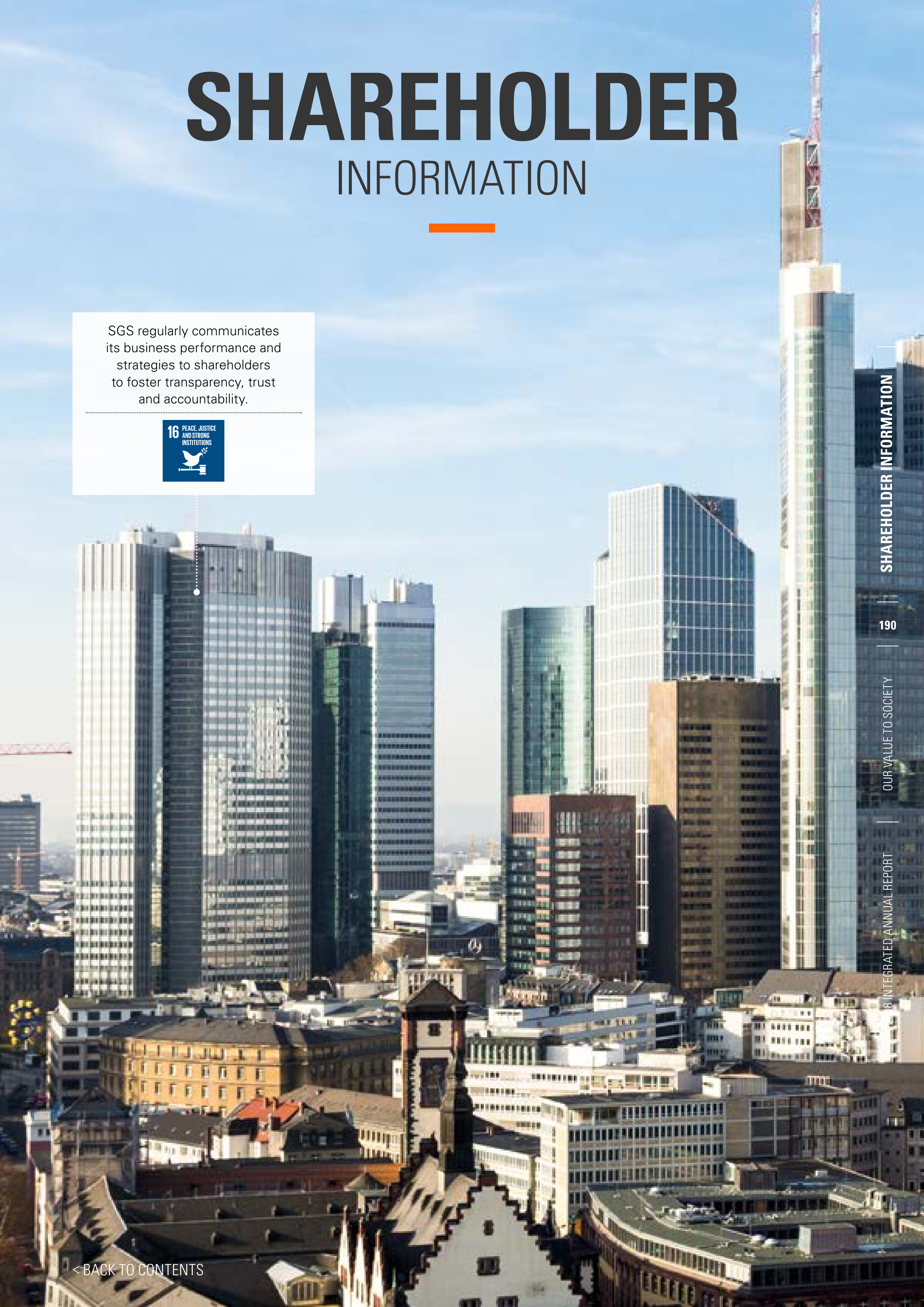
COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/ INDIRECT
Ecuador	SGS del Ecuador SA, Guayaquil	USD	147 680	100	D
Egypt	SGS Egypt Ltd., Cairo	EGP	1 500 000	100	D
Estonia	SGS Estonia Ltd., Tallinn	EUR	42 174	100	I
Ethiopia	SGS Ethiopia Private Limited, Addis Abeba	ETB	15 000	100	D
Finland	SGS Finland Oy, Helsingfors	EUR	102 000	100	I
France	SGS France SAS, Arcueil	EUR	3 172 613	100	I
France	Securitest SA, Paris	EUR	2 745 000	92.31	I
Georgia	SGS Georgia Ltd., Batumi	USD	80 000	100	D
Germany	SGS Germany GmbH, Hamburg	EUR	1 210 000	100	I
Germany	SGS Institut Fresenius GmbH, Taunusstein	EUR	7 490 000	100	I
Germany	SGS-Tüv Saar GmbH, Sulzbach	EUR	750 000	74.9	I
Ghana	SGS Ghana Limited, Accra	GHS	4 005 202	100	D
Ghana	Ghana Community Network Services Limited, Accra	GHS	1 978 604	52	I
Great Britain	SGS United Kingdom Limited, Ellesmere Port	GBP	8 000 000	100	I
Greece	SGS Greece SA, Peristeri	EUR	301 731	100	D
Guam	SGS Guam Inc., Guam	USD	25 000	100	D
Guatemala	SGS Central America SA, Guatemala-City	GTQ	4 250 000	100	D
Guinea-Conakry	SGS Guinée Conakry SA, Conakry	GNF	50 000 000	100	D
Guinea-Equatorial	Compañia de Inspecciones y Servicios G.E., Malabo	XAF	10 000 000	51	D
Hong Kong	SGS Hong Kong Limited, Hong Kong	HKD	200 000	100	D
Hungary	SGS Hungária Kft., Budapest	HUF	518 000 000	100	I
India	SGS India Private Ltd., Mumbai	INR	960 000	100	D
Indonesia	P.T. SGS Indonesia, Jakarta	USD	200 000	100	D
Iran	SGS Iran (Private Joint Stock) Limited, Tehran	IRR	50 000 000	99.99	D
Ireland	SGS Ireland (Holdings) Limited, Dublin	EUR	62 500	100	I
Italy	SGS Italia S.p.A., Milan	EUR	2 500 000	100	I
Ivory Coast	SGS Côte d'Ivoire SA, Abidjan	XOF	300 000 000	100	D
Ivory Coast	Société Ivoirienne de Contrôles Techniques Automobiles et Industriels SA, Abidjan	XOF	200 000 000	95	D
Japan	SGS Japan Inc., Yokohama	JPY	100 000 000	100	D
Jordan	SGS (Jordan) Private Shareholding Company, Amman	JOD	100 000	50	D
Kazakhstan	SGS Kazakhstan Limited, Almaty	KZT	228 146 527	100	D
Kenya	SGS Kenya Limited, Mombasa	KES	2 000 000	100	D
Korea (Republic of)	SGS Korea Co., Ltd., Seoul	KRW	15 617 540 000	100	D
Kuwait	SGS Kuwait W.L.L., Kuwait	KWD	50 000	49	D
Lao (People's Democratic Republic)	SGS (Lao) Sole Co., Ltd., Vientiane	LAK	2 444 700 000	100	D
Latvia	SGS Latvija Limited, Riga	EUR	118 382	100	I

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/ INDIRECT
Lebanon	SGS (Liban) S.A.L., Beirut	LBP	30 000 000	99.97	D
Liberia	SGS Liberia Inc, Monrovia	LRD	100	100	D
Lithuania	SGS Klaipeda Ltd., Klaipeda	EUR	711 576	100	I
Luxembourg	SGS Luxembourg SA, Windhof	EUR	38 000	100	I
Madagascar	SGS Madagascar SARL, Antananarivo	MGA	20 000 000	100	I
Madagascar	Malagasy Community Network Services SA, Antananarivo	MGA	10 000 000	70	D
Malawi	SGS Malawi Limited, Blantyre	MWK	30 000	100	D
Malaysia	Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	750 000	100	D
Malaysia	SGS (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	500 000	100	D
Mali	SGS Mali Sàrlu, Kayes	XOF	300 000 000	100	D
Mauritius	SGS (Mauritius) LTD, Phoenix	MUR	100 000	100	D
Mexico	SGS de Mexico, SA de C.V., Mexico	MXN	7 068 828	100	D
Moldova	SGS (Moldova) SA, Chisinau	MDL	488 050	100	D
Mongolia	SGS Mongolia LLC, Ulaanbaatar	USD	10 000	100	D
Morocco	SGS Maroc SA, Casablanca	MAD	17 982 000	100	D
Morocco	SGS Maroc Automotive SA, Casablanca	MAD	4 086 000	75	D
Mozambique	SGS Mozambique, Limitada, Matola	MZN	73 479 883	100	D
Myanmar	SGS (Myanmar) Limited, Yangon	MMK	300 000	100	D
Namibia	SGS Inspection Services Namibia (Proprietary) Limited, Windhoek	NAD	100	100	I
Netherlands	SGS Nederland B.V., Spijkenisse	EUR	250 000	100	I
New Zealand	SGS New Zealand Limited, Auckland-Onehunga	NZD	10 522 190	100	D
Nigeria	SGS Inspection Services Nigeria Limited, Lagos	NGN	200 000	49	D
Norway	SGS Norge A/S, Austrheim	NOK	804 000	100	I
Oman	SGS Oman (FZC) LLC, Sohar	OMR	500 000	100	D
Oman	SGS Gulf Upstream, Oman (Branch office)	-	-	-	-
Pakistan	SGS Pakistan (Private) Limited, Karachi	PKR	2 300 000	100	D
Panama	SGS Panama Control Services Inc., Panama	USD	18 850 000	100	D
Papua New Guinea	SGS PNG Pty. Limited, Port Moresby	PGK	2	100	I
Paraguay	SGS Paraguay SA, Asunción	PYG	1 962 000 000	100	D
Peru	SGS del Perú S.A.C., Lima	PEN	43 081 182	100	D
Philippines	SGS Philippines, Inc., Manila	PHP	24 620 000	100	D
Poland	SGS Polska Sp.z o.o., Warsaw	PLN	27 167 800	100	I
Portugal	SGS Portugal – Sociedade Geral de Superintendência SA, Lisboa	EUR	500 000	100	I
Qatar	SGS Qatar LLC,Doha	QAR	200 000	49	D
Romania	SGS Romania SA, Bucharest	RON	100 002	100	I
Russia	AO SGS Vostok Limited, Moscow	RUB	18 000 000	100	D
Saudi Arabia	SGS Inspection Services Saudi Arabia Ltd., Jeddah	SAR	1 000 000	75	D
Senegal	SGS Sénégal SA, Dakar	XAF	35 000 000	100	D

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/ INDIRECT
Serbia	SGS Beograd d.o.o., Beograd	EUR	66 161	100	I
Sierra Leone	SGS (SL) Ltd., Freetown	SLL	200 000 000	100	D
Singapore	SGS Testing and Control Services Singapore Pte Ltd., Singapore	SGD	100 000	100	D
Slovakia	SGS Slovakia spol.s.r.o., Kosice	EUR	19 917	100	I
Slovenia	SGS Slovenija d.o.o. – Podjetje za kontrol blaga, Ljubljana	EUR	10 432	100	I
South Africa	SGS South Africa (Proprietary) Limited, Johannesburg	ZAR	452 000 500	100	I
South Africa	SGS Bateman (Pty) Ltd,Bryanston	ZAR	100	100	I
Spain	SGS Española de Control SA, Madrid	EUR	240 000	100	I
Spain	SGS Tecnos, SA, Sociedad Unipersonal, Madrid	EUR	92 072 034	100	I
Spain	General de Servicios ITV, SA, Madrid	EUR	4 559 657	100	I
Sri Lanka	SGS Lanka (Private) Limited, Colombo	LKR	9 000 000	100	D
Sweden	SGS Sweden AB, Göteborg	SEK	1 500 000	100	I
Switzerland	SGS Société Générale de Surveillance SA, Geneva	CHF	10 000 000	100	I
Switzerland	SGS SA, Geneva	CHF	7 633 732		Ultimate parent company
Switzerland	SGS Group Management SA, Geneva	CHF	100 000	100	I
Taiwan	SGS Taiwan Limited, Taipei	TWD	62 000 000	100	I
Taiwan	Compliance Certification Services Inc. New Taipei City	TWD	353 330 780	100	I
Tanzania	SGS Tanzania Superintendence Co. Limited, Dar-es-Salaam	TZS	250 000	100	D
Thailand	SGS (Thailand) Limited, Bangkok	THB	20 000 000	99.99	D
Togo	SGS Togo SA, Lomé	XOF	10 000 000	100	D
Tunisia	SGS Tunisie SA, Tunis	TND	49 500	50	D
Turkey	SGS Supervise Gözetme Etud Kontrol Servisleri Anonim Sirketi, Istanbul	TRY	6 550 000	100	I
Turkmenistan	SGS Turkmen Ltd., Ashgabat	USD	50 000	100	D
Uganda	SGS Uganda Limited, Kampala	UGX	5 000 000	100	D
Ukraine	SGS Ukraine, Foreign Enterprise, Odessa	USD	400 000	100	I
United Arab Emirates	SGS Gulf Limited, Abu Dhabi (Branch office)	-	-	-	-
United States	SGS North America Inc., Wilmington	USD	73 701 996	100	I
Uruguay	SGS Uruguay Limitada, Montevideo	UYU	1 500	100	D
Uruguay	Sociedad Uruguaya de Control Técnico de Automotores Sociedad Anónima, Montevideo	UYU	24 000	100	I
Uzbekistan	SGS Tashkent Ltd., Tashkent	USD	50 000	100	D
Venezuela	SGS Venezuela SA, Caracas	VEF	162 980	100	D
Vietnam	SGS Vietnam Ltd., Ho Chi Minh City	USD	288 000	100	D
Zambia	SGS Inspections Services Ltd., Lusaka	ZMK	10 000	100	I

SHAREHOLDER
INFORMATION



SGS regularly communicates its business performance and strategies to shareholders to foster transparency, trust and accountability.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

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STOCK EXCHANGE LISTING

SIX Swiss Exchange, SGSN

STOCK EXCHANGE TRADING

SIX Swiss Exchange

COMMON STOCK SYMBOLS

Bloomberg: Registered Share: SGSN.VX

Reuters: Registered Share: SGSN.VX

Telekurs: Registered Share: SGSN

ISIN: Registered Share: CH0002497458

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ANNUAL GENERAL MEETING OF SHAREHOLDERS

Friday, 22 March 2019
Geneva, Switzerland

2019 HALF-YEAR RESULTS

Thursday, 18 July 2019

INVESTOR DAYS – EUROPE

Thursday and Friday
7 and 8 November 2019

DIVIDEND PAYMENT DATE

Ex-date:	26 March 2019
Record date:	27 March 2019
Payment date:	28 March 2019

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