2020 Integrated Annual Report

# ENABLING A BETTER, SAFER AND MORE INTERCONNECTED WORLD

# CHF 5.6 BN

REVENUE

# CHF 6 579 MIO

VALUE TO SOCIETY CALCULATED IN 2020 FOR 2019

# 16.1%

ADJUSTED OPERATING INCOME MARGIN*

Read our 2020 Corporate Sustainability Report online at: **www.sgs.com/en/annual-report**

Read our Integrated Report online at **www.sgs.com/en/annual-report**

**Our integrated reporting approach**
The Integrated Reporting Framework <IR> aims to create transparency. For the fourth consecutive year we have integrated our financial, operational and sustainability information in a single report – measuring our financial and non-financial performance across the six <IR> capitals. In addition to the information presented in this report, more detailed sustainability information is provided in our 2020 Corporate Sustainability Report **www.sgs.com/en/annual-report**

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM document'

## MANAGEMENT REPORT

# In every industry and location our global teams of experts provide specialized solutions to enable a better, safer and more interconnected world making business faster, simpler and more efficient.

The services delivered by the Testing, Inspection and Certification (TIC) industry interconnects with and adds value to almost everything that society touches.

The breadth and reach of the services provided to industry through its global supply chain is unparalleled in many respects. The furniture that you are sitting on, the clothes that you are wearing and the paper or the phone that you are holding at some stage has been touched by the TIC industry. Our services are diverse, from verifying that the olive oil in your cupboards is unadulterated extra virgin to ensuring that the paint on a toy will not be harmful to your child's health. The TIC industry is involved in assuring safety, quality and sustainability in a way that impacts us all.

It is not just individuals that rely on the TIC industry to provide assurance services. Governments and businesses also need the TIC industry for support and verification of most industrial activities from precision farming to mine decommissioning.

The market has three main driving mechanisms. Firstly, a constantly evolving regulatory and legal landscape to which businesses must conform. Secondly, as society increasingly connects digitally, new devices, products and services require increasingly sophisticated testing and security. Finally, the growing requirement to demonstrate to customers and investors that businesses are managing their supply chains ethically and sustainably.

# BETTER

## 35%

**expected increase in food production by 2030**

The global food system will need to meet an expected 35% rise in demand by 2030.

Source: FAO – Food and Agricultural Organization

**Better, because society demands ever higher standards for products and services delivered by businesses.**

### AGRICULTURE AND FOOD

By supporting our customers' food product research and development, we help deliver better products to consumers which use fewer additives and higher quality ingredients.

Read more on **pages 24 and 25**

# SAFER

## 50 MIO

life-years have been saved through medical innovation in the United States alone since 1990. Dramatically reducing the burden to healthcare systems and helping expand economies.

Source: Forbes Magazine

**Safer, because business is pushing the boundaries of science and technology, from autonomous driving to the race for new vaccines. Safety is the number one priority.**

### LIFE SCIENCES

Our analytical, bioanalytical and clinical trial testing, along with process management capabilities, provide a wide range of essential services.

Read more on **pages 26 and 27**

INT


**An interconnected world, because the future of business will require managing all aspects of an interconnected society, including consumers, communications, transactions, supply chains and mobility.**

### CONSTRUCTION

When a project is conceived, we can help make the plans a reality by ensuring processes run efficiently, construction sites are safe and reliable materials are used throughout the supply chain.

Read more on **pages 28 and 29**

MORE
ERCONNECTED

## Letter to Shareholders

# Value creation is at the heart of our Company

**Calvin Grieder**
Chairman of the Board

**Frankie Ng**
Chief Executive Officer

Dear Shareholders,

This year has marked the completion of significant strategic milestones for SGS. We completed our 'Mission 2020' strategy and our Sustainability Ambitions, launched the next stage of our strategic evolution and announced the acquisition of SYNLAB Analytics & Services (A&S). However, the outstanding feature of the year has been the dynamism and responsiveness demonstrated by our employees in challenging circumstances. Through their hard work, commitment and entrepreneurism in supporting our customers, SGS has delivered a strong operational performance, reinforcing our leadership position in the TIC industry.

The resilience of our business model was reflected in a robust revenue performance, which, supported by the achievement of over CHF 90 million of structural cost savings, coupled with strong cost management and EVA-driven performance management, has resulted in a 20 basis points increase in the adjusted operating income margin* at constant currency*, despite the revenue decline in 2020.

Our FY 2020 free cash flow performance was similarly strong, increasing by 12.6% to CHF 758 million. This was supported by a significant focus on working capital management, with operating net working capital* as a percentage of revenue improving by 280 basis points over prior year.

### STRATEGIC EVOLUTION

In H2, we started to implement the next phase of our strategic evolution with the purpose of enabling a better, safer and more interconnected world for employees, customers, shareholders and for society. This will align our global network more closely to the key TIC megatrends and customer demand. We have simplified our operational structure into six new areas of focus compared to eight previously. We now have four divisions: Connectivity & Products, Health & Nutrition, Industries & Environment, Natural Resources and two Cross-Divisional Strategic Units: Knowledge and Digital & Innovation, with Knowledge retaining its P&L responsibility.

This will improve our market approach, increase cooperation and agility in our global network and will be supported by our focused capital allocation strategy and EVA-driven performance management.

We also completed the acquisition of SYNLAB Analytics & Services (A&S), a leading European provider for environment, food, hygiene, pharma and products analysis and testing. This is the largest acquisition in SGS' history, enhancing our market position in Europe and accelerating the adoption of our hub and spoke model, offering greater scope for automation and digitalization. It also confirms the next stage of our strategic evolution which further aligns SGS with the key TIC megatrends of Health, Nutrition and Environment.

We are committed to improving the delivery engine for our services. For example, as part of our global World Class Services (WCS) program, laboratories in Shanghai, Taunusstein and Bangkok all achieved their first external audits and other sites are getting closer to this milestone. In addition, Digital and Innovation's new leadership has laid out its approach to creating value through three pillars of digital innovation:

- The automation of repetitive tasks and work processes, enabling decision-making to become more digital
- Making our products and services digital
- Creating new products, services and business models

### SERVICE INNOVATION

Throughout 2020 we have leveraged our technical capabilities across our global testing and inspection network to develop our 'Next Normal' solutions. These support our customers' and society's return to normality as far as possible. Services range from enabling people to see their friends and family by testing face masks to carrying out remote inspections and deploying digital solutions to ensure safety standards.

For example, our center of excellence for biosafety testing in Glasgow and the wider SGS Life Sciences network is delivering quality control and analytical testing for Covid-19 vaccine development and new innovative therapeutics for several global customers.

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

> "In a challenging year, I am proud that we started to implement the next phase of our strategic evolution with the purpose of enabling a better, safer and more interconnected world for employees, customers, shareholders and for society."

**Calvin Grieder**
Chairman of the Board

We were proud to be chosen by AstraZeneca and the University of Oxford to test the ingredients of their vaccine candidate. We have also led the TIC market for Personal Protective Equipment (PPE) testing and inspection volumes and continue to make progress on new contract signings across our testing, monitoring, auditing, training and certification services.

## SUSTAINABILITY LEADERSHIP

Sustainability is fundamental to both our operations and our strategic direction. Covid-19 shifted our focus for sustainability to people, to support the huge increase in the number of people working remotely. We provided laptops and ergonomic guidance to keep our colleagues healthy and ran initiatives to support their emotional well-being. We also implemented additional security measures and training to ensure our data and information remain secure.

A critical part of the value we add to society is helping our customers become more sustainable. Through our services, we help ensure that their operations, partners and supply chains comply with regulations and standards.

As global supply chains were tested in 2020 and customer sites became harder to access, we were able to leverage our digital solutions across our global network to deliver remote inspection, audit and consulting. Technical service solutions delivered through our digital tools and sensor-based technology also gained customer traction and acceptance.

## ENABLING A BETTER, SAFER AND MORE INTERCONNECTED WORLD

Our company purpose is integral to our business strategy, and in 2021 we will be launching our holistic and global 2030 Sustainability Ambitions. These will enable us to continue to raise the sustainability bar for the TIC industry and add value for society enabling a better, safer and more interconnected world. This could not be achieved without the hard work of our employees and I thank them for their dedication, which will continue to reinforce our leadership position in the TIC industry.

**Calvin Grieder**
Chairman of the Board

**Frankie Ng**
Chief Executive Officer

# Letter to Shareholders continued

## SUBSEQUENT EVENTS

The following acquisition was completed after 31 December 2020:

On 7 January 2021, the Group announced the acquisition of Analytical & Development Services (ADS) in the UK, a fully accredited food testing laboratory offering pesticides, nutrition, microbiology, food molecular biology and allergen testing services.

Following the acquisition of Synlab Analytics & Services (A&S) on 31 December 2020, the Group completed the acquisition on 29 January 2021 of a 55.92% majority stake into BZH GmbH Deutsches Beratungszentrum für Hygiene, a German based subsidiary of SYNLAB Analytics & Services (A&S).

On 2 February 2021, the Group announced the acquisition of Autoscope/CTOK, operating three vehicle inspection services centers in France.

We expect to complete the acquisition of the lab facilities of International Service Laboratory (ISL) from Novartis Ireland Limited in Ireland, providing regulated analytical laboratory and stability testing services for a broad variety of pharmaceutical products by the end of Q1 2021.

## 2021 OUTLOOK

- Solid organic growth normalizing for the impact of Covid-19
- Improving adjusted operating income
- Strong cash conversion
- Maintaining best-in-class organic return on invested capital
- Accelerate investment into our strategic focus areas with M&A as a key enabler
- At least maintaining or growing the dividend

The formal communication of the next stage of our strategic evolution will be made to the financial markets at our Investor Days in May 2021 and we will launch our 2030 sustainability ambitions in Q2 2021.

## MANAGEMENT CHANGES

Siddi Wouters joined the SGS Group as Senior Vice President of Digital & Innovation and has been appointed to the Operations Council. Stephen Nolan (formerly Managing Director of North America) has been appointed Chief Operating Officer of North America and to the Operations Council. Wim Van Loon (formerly Executive Vice President of Industrial) has been appointed Chief Operating Officer of North and Central Europe. Dominik de Daniel, Chief Financial Officer, has taken additional responsibility for Information Technology and Mergers and Acquisitions. Toby Reeks, Senior Vice President of Investor Relations, has also taken on the extended roles of Corporate Communications and Sustainability.

The new divisions will be led by:

- Alim Saidov, Executive Vice President of Industries & Environment
- Charles Ly Wa Hoi, Executive Vice President of Connectivity & Products
- Derick Govender, Executive Vice President of Natural Resources
- Olivier Coppey, Executive Vice President of Health & Nutrition

The new cross-divisional units will be led by:

- Jeffrey McDonald, Executive Vice President of Knowledge
- Siddi Wouters, Senior Vice President of Digital & Innovation

Fred Herren, Senior Vice President of Digital & Innovation and Dirk Hellemans, Chief Operating Officer of North and Central Europe have left the Group to take their well-deserved retirements. Peter Possemiers (formerly Executive Vice President of Environment, Health and Safety) stepped down from the Operations Council to lead the integration of SYNLAB A&S.

Christoph Heidler and Roger Kamgaing have also stepped down from the Operations Council. The Management team would like to thank them all for their dedication and service.

## BOARD CHANGES

On 24 March 2020, Calvin Grieder was elected as Chairman of the Board of Directors. Sami Atiya and Tobias Hartmann were elected as members of the Board of Directors. Peter Kalantzis, former Chairman of the Board, did not stand for re-election. Peter stepped in as Chairman of the Board at a critical time for SGS and ensured a smooth transition. His vast experience and dedication contributed immensely to the success of SGS over the past decade. Luitpold von Finck also did not stand for re-election. SGS would like to thank them both for their support and direction.

## DISTRIBUTION TO SHAREHOLDERS

The SGS Board of Directors will recommend to the Annual General Meeting (to be held on 23 March 2021) the approval of a dividend of CHF 80 per share.

## SIGNIFICANT SHAREHOLDERS

On 4 February 2020, the von Finck family placed a large portion of their holding with institutional investors, and subsequently placed the balance of their holding on 3 August 2020.

As at 31 December 2020, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 18.91% (December 2019: 16.73%) of the share capital and voting rights of the company. At the same date, the Group held 1.28% of the share capital of the company (December 2019: 0.18%).

## Covid-19

# Our response to the global pandemic

Our top priorities were to support our employees and maintain operational resilience for our customers. To meet these aims, we ensured financial liquidity and accelerated innovation.

## 55 000

**employees**

Our business continuity plan and an enhanced IT structure quickly transitioned 55 000 employees to Microsoft Teams enabling our employees to continue to safely support our customers.

## LAB EXPANSIONS

We significantly increased the capacity of our Biosafety Centre of Excellence in Glasgow to support the effort of finding vaccines including Covid-19.

## 77 000

**employees impacted by engagement initiatives**

To support employee well-being we provided stress management and ergonomics information along with competitions to boost employee moral.

## CHF 758 MIO

**Free cash flow***

Our financial discipline is reflected by the issue of two CHF bonds for a total of CHF 500 MIO in April, the strong focus on working capital management through the year and the increase in our free cash flow to CHF 758 MIO.

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## 2.7 MIO

**medical masks**

We tested, inspected and distributed over 2.7 MIO medical masks to ensure the safety of our employees and to continue supporting our customers.

## NEXT NORMAL SOLUTIONS

We launched our innovative 'Next Normal' solutions to help enable our customers to continue working.

For more information visit:
**www.sgs.com**

# FINANCIAL AND SUSTAINABILITY HIGHLIGHTS

In challenging circumstances, the agility of our network and resilience of our employees drove a strong financial performance, while we remained focused on our strategic aims of investing in long term growth potential markets and raising the bar in sustainability.

Investment continued into our strategic priority areas including wireless, 5G, semiconductors, food testing and investment into IT systems to increase productivity. Our sustainability performance received continued and new recognition from a number of bodies. This included being industry leader in the Dow Jones Sustainability Indices (DJSI) World and Europe for the seventh year in a row, being rated A- by the CDP and we were upgraded to AAA in the MSCI ESG rating.



1

## Mission 2020

# Selected achievements of Mission 2020

Since 2016 our focus has been on improving in six key areas: Brand, Growth, Innovation, Expertise, Investment and Operational Excellence.

## 1. BRAND


LEADERSHIP
**position achieved in top Sustainability ratings**

See our Sustainability Ambitions 2020 on **page 11**

## 2. GROWTH

**Our adjusted operating income margin* increased to**
16.1%

Read our financial results on **page 10**

## 3. INNOVATION

LAUNCH
**of remote inspections and audits which gained significant traction in 2020**

Read more about remote inspections on **pages 28 to 29**

## 4. EXPERTISE

18.6 MIO
**hours of training completed**

Read more about training in the Intellectual Capital on **pages 50 to 55**

## 5. INVESTMENT

CHF 1.4 BN
**in capital expenditure**

Read our financial performance on **pages 36 to 45**

## 6. OPERATIONAL EXCELLENCE

20
**of our larger sites have adopted the World Class Services methodology**

Read more in our case study on **pages 54 to 55**

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM document'

## Financial results

# Increased adjusted operating income margin and strong free cash flow

More than the planned CHF 90 million structural cost savings were achieved, which, supported by strong cost management and EVA-driven performance management, drove a resilient adjusted operating income performance. This was combined with a significant focus on working capital management to deliver our strong ROIC.

### REVENUE

CHF 5.6 BN

(8.8%)[1] (6.5%) organic*

2020 | 5.6

2019[1] | 6.1

### ADJUSTED OPERATING INCOME*

CHF 900 MIO

(8.0%)[1]

2020 | 900

2019[1] | 978

### ADJUSTED OPERATING INCOME MARGIN*

16.1%

+0.2pp[1,3]

2020 | 16.1

2019 | 16.1

### PROFIT FOR THE PERIOD

CHF 505 MIO

(28.1%)

2020 | 505

2019 | 702

### BASIC EARNINGS PER SHARE

CHF 64.05

(26.7%)

2020 | 64.05

2019 | 87.45

### PROPOSED DIVIDEND

CHF 80

2020 | 80

2019 | 80

### FREE CASH FLOW*

CHF 758 MIO

+12.6%

2020 | 758

2019 | 673

### RETURN ON INVESTED CAPITAL[2,*]

16.5%

(8.7pp)[3]

2020 | 16.5 20.9

2019 | 25.2

### ACQUISITIONS COMPLETED IN 2020

6

2020 | 6

2019 | 11

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

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM document'

## Sustainability Ambitions 2020

# Meeting our commitments to environment and society

Our Sustainability Ambitions 2030, which we will launch in 2021, will once again raise the industry sustainability bar.

### ACHIEVEMENTS

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

SGS ranks first in the Professional Services Industry and retains its leadership position for the seventh consecutive year

Upgraded to AAA in the MSCI ESG rating

Rated Low Risk by Sustainalytics

Ecovadis Platinum

### OUR PERFORMANCE

| | 2014* | 2018 | 2019 | 2020 | 2020 TARGET |
|---|---|---|---|---|---|
|  **PROFESSIONAL EXCELLENCE** | | | | | |
| Deliver measurable sustainable value to society (CHF MIO) | 4 026 | 6 176 | 6 650 | **6 579** | N/A |
| Link management incentive plan to sustainability | | | | **Achieved** | N/A |
|  **OUR PEOPLE** | | | | | |
| Maintain a natural turnover rate of no more than 15% | 12.8 | 14.6 | 13.6 | **10.1** | <15.0 |
| 30% of leadership positions will be held by women | – | 26.4 | 26.7 | **28.7** | >30.0 |
| Reduce our Lost Time Incident Rate (LTIR) by 50%[1] | 0.6 | 0.25 | 0.26 | **0.23** | <0.30 |
| Reduce our Total Recordable Incident Rate (TRIR) by 50%[1] | 1.11 | 0.41 | 0.44 | **0.36** | <0.55 |
|  **ENVIRONMENT** | | | | | |
| Reduce our annual $CO_2$ emissions (per FTE) by 20%[1] ($CO_2$ tons/FTE) | 2.6 | 1.7 | 1.7 | **1.4** | <2.1 |
| Reduce our annual $CO_2$ emissions (by revenue) by 20%[1] ($CO_2$ tons/M CHF) | 42.5 | 27.6 | 26 | **21.9** | 34 |
|  **COMMUNITY** | | | | | |
| Increase our investment in communities around the world by 30%[1], with a focus on volunteering (thousands CHF) | 738 | 1 384 | 1 331 | **1 243** | 959 |

1. Against 2014 baseline
* 2014 baseline year of our ambition

For more information visit: **www.sgs.com**

## Group highlights

# A solid foundation for the future

### REVENUE BY REGION

**AMERICAS**

19.7%

North America
Latin America

**EUROPE, AFRICA, MIDDLE EAST**

44.8%

Africa & Western Europe
North & Central Europe
Eastern Europe & Middle East

**ASIA PACIFIC**

35.5%

North East Asia
South East Asia & Pacific

### GROUP ACHIEVEMENTS

#### Next stage of our strategic evolution

During 2020, we finalized and implemented our new strategy to align our global portfolio more closely with the TIC megatrends and customer demand. We have also grouped delivery models to improve operational efficiency. We expect this to enhance our network agility, time to market and adoption of innovation.

#### Structural optimization plan

Over CHF 90 million of structural cost savings were achieved.

#### Economic Value Added performance management

Applied to internal performance management and active portfolio management, which combined with continued investment in our World Class Services initiative, automation and digitalization, is enabling SGS to deploy capital for growth at attractive long term returns.

Read more on **page 37**

#### Enhancing our market position in Europe

The acquisition of SYNLAB Analytics & Services (A&S) further aligns SGS with the Health, Nutrition and Environment TIC megatrends and enhances our market position in Europe. It also adds a range of complex services and accelerates the adoption of our hub and spoke model, offering greater scope for automation and digitalization and generating strong operating synergies.

Read more on **page 44**

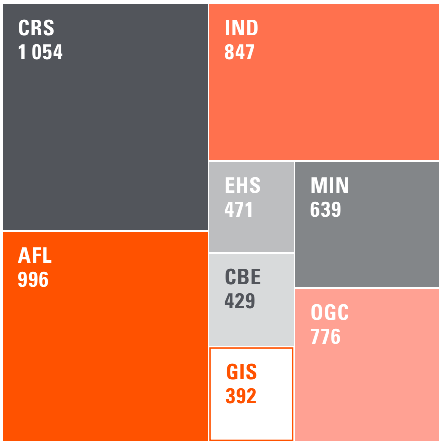
The agility and responsiveness of the network ensured that we had a strong operational performance in 2020. Consumer and Retail and Agricultural, Food and Life were stand-out performers. From a geographic perspective, North East Asia and Eastern Europe and Middle East grew organically with China delivering good growth.

## OUR BUSINESSES

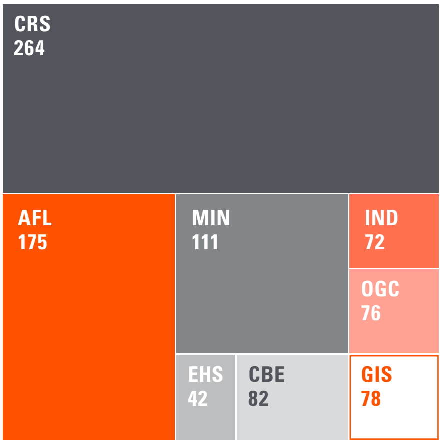
| (CHF million) | 2020 | 2019[2] | Change in % | 2019 CCY[1] | Change in CCY %[1] |
|---|---|---|---|---|---|
| **1 \| AGRICULTURE, FOOD AND LIFE (AFL)** | | | | | |
| Revenue | **996** | **1 074** | (7.3) | **1 007** | (1.1) |
| Adjusted operating income* | **175** | **172** | 1.7 | **61** | 8.7 |
| Margin %* | **17.6** | **16.0** | | **16.0** | |
| **2 \| MINERALS (MIN)** | | | | | |
| Revenue | **639** | **753** | (15.1) | **686** | (6.9) |
| Adjusted operating income* | **111** | **128** | (13.3) | **114** | (2.6) |
| Margin %* | **17.4** | **17.0** | | **16.6** | |
| **3 \| OIL, GAS AND CHEMICALS (OGC)** | | | | | |
| Revenue | **776** | **1 075** | (27.8) | **1 006** | (22.9) |
| Adjusted operating income* | **76** | **120** | (36.7) | **109** | (30.3) |
| Margin %* | **9.8** | **11.2** | | **10.8** | |
| **4 \| CONSUMER AND RETAIL (CRS)** | | | | | |
| Revenue | **1 054** | **1 091** | (3.4) | **1 030** | 2.3 |
| Adjusted operating income* | **264** | **270** | (2.2) | **253** | 4.3 |
| Margin %* | **25.0** | **24.7** | | **24.6** | |
| **5 \| CERTIFICATION AND BUSINESS ENHANCEMENT (CBE)** | | | | | |
| Revenue | **429** | **497** | (13.7) | **467** | (8.1) |
| Adjusted operating income* | **82** | **99** | (17.2) | **92** | (10.9) |
| Margin %* | **19.1** | **19.9** | | **19.7** | |
| **6 \| INDUSTRIAL (IND)** | | | | | |
| Revenue | **847** | **1 091** | (22.4) | **999** | (15.2) |
| Adjusted operating income* | **72** | **116** | (37.9) | **105** | (31.4) |
| Margin %* | **8.5** | **10.6** | | **10.5** | |
| **7 \| ENVIRONMENT, HEALTH AND SAFETY (EHS)** | | | | | |
| Revenue | **471** | **540** | (12.8) | **510** | (7.6) |
| Adjusted operating income* | **42** | **67** | (37.3) | **63** | (33.3) |
| Margin %* | **8.9** | **12.4** | | **12.4** | |
| **8 \| GOVERNMENTS AND INSTITUTIONS (GIS)** | | | | | |
| Revenue | **392** | **479** | (18.2) | **443** | (11.5) |
| Adjusted operating income* | **78** | **91** | (14.3) | **81** | (3.7) |
| Margin %* | **19.9** | **19.0** | | **18.3** | |

1. Constant currency (CCY)*
2. See Note 4 on segment information restatement in the financial statements part for CRS, CBE, IND and GIS businesses
* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## REVENUE BY BUSINESS




## ADJUSTED OPERATING INCOME BY BUSINESS



# OUR BUSINESS

Our industry plays a crucial role in bringing value to society. As TIC industry leaders, SGS' contribution is central to this. With our 142 years of history, experience and insights, our business model, sound governance and ambitious goals continue to guide our business. Everything we do is underpinned by our ethics and Business Principles, ensuring we uphold the highest standards of conduct and offer unparalleled support to our customers.



2

# How we do business

## BUSINESS STRATEGY AND GOVERNANCE

Operating across business lines and geographic regions

Read more on **page 16**

## MEGATRENDS

Identifying megatrends that will have the biggest impact on how we live and do business

Read more on **page 18**

## OUR BUSINESS MODEL

Creating a business structure that delivers value to society

Read more on **page 20**

## STRATEGIC TRANSFORMATION AND VALUE CREATION

Transforming our business and a purpose that informs everything we do

Read more on **pages 22 and 23**

## RISK INTELLIGENCE

Addressing Covid-19 and a changing regulatory landscape

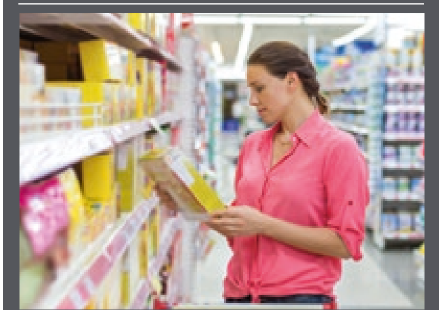
Read more on **pages 30 and 31**

## MATERIAL TOPICS AND UN SUSTAINABLE DEVELOPMENT GOALS

The issues that matter and our sustainability ambitions

Read more on **pages 32 and 33**

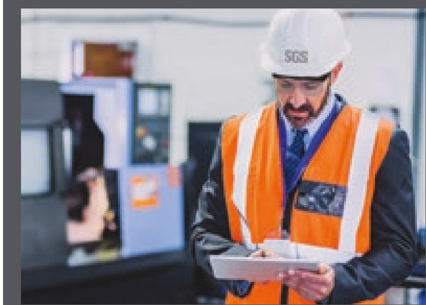
## BETTER



The way we run our business, as well as the services we provide, ensure greater efficiency and effectiveness

Read more on **pages 24 and 25**

## SAFER




Our testing, inspection and certification services make products safer

Read more on **pages 26 and 27**

## MORE INTERCONNECTED

Across the world, we are bringing people together, including through greater digitalization

Read more on **pages 28 and 29**

## Business strategy and governance

# How we structure our business

The organizational chart below reflects our new Operations Council, which will govern SGS' future. It comprises 18 members, six focus areas, seven regions, four functions and our CEO.

**Frankie Ng**
CEO

## Regions

**Fabrice Egloff**
Africa & Western Europe

**Wim Van Loon**
North & Central Europe

**Teymur Abasov**
Eastern Europe & Middle East

**Helmut Chik**
North East Asia

**Luis Felipe Elias**
Latin America

**Malcolm Reid**
South East Asia Pacific

**Stephen Nolan**
North America

## Functions

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

**José María Hernández-Sampelayo**
Human Resources

**Toby Reeks**
Investor Relations, Corporate Communications and Sustainability

**Olivier Merkt**
Legal, Risk & Compliance

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

## Cross-divisional strategic units

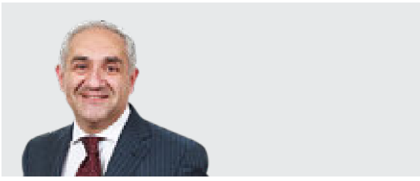
**Siddi Wouters**
Digital & Innovation

**Jeffrey McDonald**
Knowledge

## Divisions

**Charles Ly Wa Hoi**
Connectivity & Products

**Olivier Coppey**
Health & Nutrition



**Alim Saidov**
Industries & Environment

**Derick Govender**
Natural Resources

## BUSINESS PRINCIPLES

We follow six key principles.

### Integrity

Making sure we build trust. Our integrity code obliges us to behave with integrity and responsibly, to abide by the rules, laws and regulations of the countries we are operating in. It also encourages us to speak up and be confident enough to raise concerns and consider any that are brought to us.

### 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.

### Health and safety

Making sure we establish safe and healthy workplaces. We have policies and dedicated standard operating procedures that aim at protecting SGS employees, contractors, visitors, stakeholders, physical assets and the environment from any work-related incident, exposure and any kind of damage.

### Respect

Making sure we treat all people fairly. We have policies and procedures in place that aim at promoting respect for human rights and 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 expertize to enable a more sustainable future. Our policies, programs and initiatives across the network aim at minimizing the impact on the environment throughout the value chain.

### Quality and professionalism

Making sure we act and communicate responsibly. We are committed to place our customers at the heart of everything we do and continuously challenge ourselves to improve our quality management system by setting and reviewing our objectives, risks, KPIs, results and customer satisfaction levels. We strive to continually improve quality and promote transparency. We respect customer confidentiality and individual privacy.

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

## Megatrends

# The key trends impacting society and business across the world

We have identified 12 interconnected megatrends that are having the biggest impact on the way we live and do business. We integrate these factors into our long-term strategic thinking and development of our business and services.

## 1. CONNECTIVITY

According to the World Economic Forum, access to the internet has doubled since 2010. While not everyone has access – even in some of the world's biggest economies such as India and China – and there is still a significant gap between access for populations in cities and rural areas, the gap is closing. Previously untapped markets, such as in Central Africa, are seeing significant growth in access. Machines are also increasingly interconnected, as the Internet of Things continues its rapid growth and smartphones get smarter. In 2020, the restrictions of Covid-19 made connectivity all the more critical.

100%

**increase in access to the internet since 2010[1]**

## 2. MOBILITY

Mobility is an area that is set to change rapidly in the coming years, with accelerated investment in technological innovations that continue to disrupt the automotive industry. These include autonomous driving, electric vehicles, ridesharing services, and the prospect of hydrogen-powered vehicles.

$800 BN

**is the yearly benefit to the public if the USA alone fully adopted autonomous vehicles in 2030[2]**

## 3. CYBERSECURITY

By 2021[3], cybercrime will cost the world $6 trillion, as a business falls victim to ransomware every 11 seconds. In the face of growing threats, data protection and information security are a top priority for businesses around the world.

$6 TN

**is the world cost of Cybercrime by 2021[3]**

## 4. SUSTAINABILITY & CLIMATE

We are facing a climate emergency. 11% of the world's population[2] is currently vulnerable to climate change impacts such as droughts, floods, heat waves, extreme weather events and a rise in sea-levels. Businesses and communities are being tasked by governments to develop actionable strategies that reduce their impact on climate change, while supporting new demographic structures and securing the supply of resources.

11%

**of the world's population currently vulnerable to climate change[4]**

## 5. NATURAL RESOURCES

The earth's finite natural resources are being used up at an alarming rate. For the first time ever, in 2020 global use of natural resources reached 100 billion tons per year.[5] Of all the minerals, fossil fuels, metals and biomass used each year, just 8.6% are cycled back into the circular economy. The philosophy of 'reduce, reuse, recycle' has never been more critical, and a global move to a circular economy is increasingly seen as an imperative.

100 BN

**tons of global natural resources used per year[5]**

## 6. NUTRITION

According to the World Health Organization 1.9 billion adults are overweight or obese[6], while 462 million are underweight. Nutrition is critical to health and development; people with adequate nutrition are more productive, which enhances their chances of gradually breaking out of poverty. The public is increasingly demanding from businesses information on the nutritional value of the foods they eat.

1.9 BN

**adults are currently overweight or obese globally[6]**

1. Source: https://www.statista.com/topics/1145/internet-usage-worldwide/ – 2. Source: mckinsey.com – 3. Source: www.lexology.com
4. Source: www.conservation.org – 5. Source: www.circle-economy.com – 6. Source: who.int

## OUR INDUSTRIES

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

**OIL AND GAS**
Innovative, sustainable solutions that add up along the value chain.

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

**ENERGY**
Powering processes in renewables and conventional energy.

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

**AGRICULTURE AND FOOD**
Developing innovative safety, quality and sustainability solutions for supply chains.

**INDUSTRIAL MANUFACTURING**
Making manufacturing more productive and profitable.

**CONSTRUCTION**
Ensuring safety and performance when constructing buildings or infrastructure.

**CONSUMER GOODS AND RETAIL**
Enabling manufacturers, exporters, importers and retailers to generate trust throughout the supply chain.

**TRANSPORTATION**
Driving a safer, cleaner and more efficient industry.

**LIFE SCIENCES**
Safeguarding the quality and efficacy of medicines.

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

## 7. HEALTH & WELLNESS

Around the world, health and well-being have become central life goals for people across generations and consumer demographics. In 2020, Covid-19 prompted a global push to protect citizens from the dangers of the pandemic and overall awareness of health and wellness issues increased.

80%

**of survey respondents said they will be more mindful about practicing regular self-care once the pandemic is over[7]**

## 8. INDUSTRY 4.0

The world is undergoing a transformation in the way products are produced, due to the digitalization of manufacturing. Known as Industry 4.0, this new era is made possible by networks of machines that are digitally connected through cyberphysical systems, the Internet of Things, and the Internet of Systems, creating and sharing information often without human involvement.

40%

**of survey respondents reported they believed machines would take over from people in the manufacturing industry within their lifetime[8]**

## 9. URBANIZATION

More than half of the world's population lives in metropolitan areas. While this urbanization enables increased productivity, the need for resources and space impacts the economy, environment and quality of life. Innovation in areas such as smart cities and smart mobility are helping to advance economic growth and improve infrastructure and community services. While the Covid-19 lockdowns saw an impact on urban centers, overall the urbanization trend is likely to continue.

68%

**of the world's population is projected to live in urban areas by 2050[9]**

## 10. RESPONSIBLE CONSUMPTION

62% of consumers want companies to take a stand on issues like sustainability, transparency and fair employment practices.[10] This has led to increased market demand for traceability and transparency across the supply chain.

62%

**of customers want companies to take a stand on issues like sustainability transparency and fair employment[10]**

## 11. GOVERNMENT

Regulations set by governments across the world reflect policy priorities around issues such as climate change, town planning, chemical safety and nutrition labeling. The amount of regulation has increased with the Covid-19 pandemic, with businesses being required to comply with new requirements ranging from minimum standards for Protective Personal Equipment like masks to cleaning protocols for public spaces.

70

**pieces of secondary legislation, emergency primary legislation, and a series of non-legislative changes have been implemented in the UK in response to Covid-19[11]**

## 12. CITIZENS

Covid-19 has enhanced people's trust in institutions – businesses, organizations, and governments[12] – as the public looks to them for protection. 75% of the public says they accept government lockdowns to beat the pandemic.[13]

75%

**of the public say they accept government lockdowns to beat the pandemic[13]**

7. Source.pharmacytimes.com – 8. Source: statista.com – 9. Source: www.un.org – 10. Source: www.accenture.com
11. Source: www.oecd.org – 12. Source: www.accenture.com – 13. Source: www.edelman.com

## Our business model

# Creating Value to Society

We create value to society

## OUR INPUTS

**FINANCIAL**
The funds available to us (see **page 36**)

CHF 702 MIO
profit (prior year)

CHF 1 134 MIO
total equity

CHF 6 908 MIO
Total assets

**MANUFACTURED**
Infrastructure, equipment and tools (see **page 46**)

+2 600
offices and laboratories

CHF 259 MIO
capital expenditure

**INTELLECTUAL**
Organizational, knowledge-based intangibles (see **page 50**)

+CHF 50 MIO
R&D expenditure

CHF 1 984 MIO
goodwill and other intangible assets

**HUMAN**
The skills and know-how of our employees (see **page 56**)

+89 000
employees

One
SGS Recruiter Academy

15
SGS Rules for Life

**SOCIAL AND RELATIONSHIP**
Our relationships with our stakeholders (see **page 64**)

65 000
suppliers

+800 000
customers

SGS Community Program

**NATURAL**
The natural resources we need to operate (see **page 70**)

441 GWh
electricity consumed

1.7 MIO $m^3$
water consumed

422 GWh
fuel consumed

## OUR BUSINESS MODEL

### OUR PURPOSE

Enabling a better, safer and more interconnected world

### WHAT WE DO

Testing, inspection, certification and knowledge services allow businesses around the world to make informed decisions.

Our experts enable businesses to make positive impacts on society.

TESTING
CERTIFICATION
INSPECTION
KNOWLEDGE

### HOW WE DO IT

8
BUSINESSES

11
INDUSTRIES

6
BUSINESS PRINCIPLES

140+
COUNTRIES

OUR GLOBAL DRIVERS

## OUR OUTPUTS

## OUR VALUE

**FINANCIAL**
Long-term shareholder value creation

CHF 5.6 BN
revenue

CHF 758 MIO
free cash flow*

16.1%
adjusted operating income margin*

CHF 2 797 MIO paid in wages to our employees

CHF 253 MIO taxes paid to governments

CHF 598 MIO in dividends proposed to our shareholders

**MANUFACTURED**
Efficient and sustainable services

LAB EXPANSION
increased capacity of our Biosafety Centre of Excellence in Glasgow

Ensuring food, medicine and product safety

Increasing our capability and capacity for testing cell banks for vaccines, gene and cell therapies, including a Covid-19 vaccine

Improvement of infrastructures through our green building services

**INTELLECTUAL**
Expertize and innovative solutions

2.51%
training ratio[1]

20
number of laboratories using World Class Services (WCS)

Enhancing career opportunities through training

Improving knowledge through innovation

Empowering customers through training and education

**HUMAN**
Diverse leaders in a safe working environment

28.7%
women in leadership positions

0.36
total Recordable Incident Rate
(occurences per 200,000)

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

Reducing social risks by reinforcing human rights compliance

Ensuring safety of customers through our vehicle testing services

**SOCIAL AND RELATIONSHIP**
Meaningful stakeholder engagement and strong brand and reputation

CHF 1 243K
community investment

83%
satisfaction score in our Voice of the Customer surveys

Supporting communities during Covid-19

**NATURAL**
Carbon neutrality, limited waste and wastewater

122 952
metric tons of $CO_2e$

678
EEB program: number of buildings under the program

Carbon neutral since 2014

Helping mitigate climate change by reducing air pollution

Minimizing resource depletion and protecting the environment

1. % of total employment cost spent on training

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

OUR VALUE TO SOCIETY

## Strategic transformation

# Transforming our business

Our World Class Services and Global Business Services are helping to deliver strategic transformation for our business and for our customers, bringing improvements to our sites, greater efficiency to our processes, and ultimately adding more value to society.

### WORLD CLASS SERVICES

We continue to implement and refine our World Class Services (WCS) methodology to improve productivity, reduce organizational waste and enhance working conditions in our laboratories and operations across the globe. 20 of our larger sites have adopted the WCS methodology and are pursuing our 'zero optimum' concept – this means striving for zero accidents, zero waste, zero defects and zero breakdowns. In so doing, we not only benefit our operators, but we provide better value to our customers, because we are working faster and more safely, and using our equipment more effectively.

In 2020, for example, in one of our food laboratories we introduced maintenance training for our staff operators to help avoid breakdowns. This has reduced time lost in waiting for technicians to carry out repairs. Going forward, we plan to implement this training across more laboratories.

Another example of how we have improved working conditions and throughput is in the sample preparation area in one of our minerals laboratories, where workbenches have been optimized. By analyzing and reducing ergonomic issues and irregular activities we established regular work standards resulting in a reliable process, where quality variation is reduced to a minimum, and testing is properly managed and executed by appropriately skilled personnel.

Covid-19 lockdowns slowed down our activity in the first half of 2020. However, this only temporarily impacted our strategic transformation, as we started to provide remote training and conducted our first remote audits to support laboratories in their roadmaps to achieve world class standards and run more efficiently. In China, we introduced robot technology to help move samples around the laboratory, which also helped to maintain social distancing during the pandemic.

### WORLD CLASS SERVICES

| | | | |
|---|---|---|---|
| SAFETY | | Safety culture everywhere | ZERO ACCIDENTS |
| WORKPLACE ORGANIZATION | | Total industrial engineering | ZERO WASTE |
| QUALITY | METHOD AND TOOLS | Total quality control | ZERO DEFECTS |
| MAINTENANCE | | Total productive maintenance | ZERO BREAKDOWNS |
| LOGISTICS | | Just in time | ZERO INVENTORY |

As we transform SGS into a more digital business, in 2021 we plan to continue to exploit technology by running training and virtual `shop-floor' activities at our laboratories. We will continue our journey to further develop and embed WCS deeper into our initial set of 20 laboratories, engaging our people and strengthening our 'zero optimum' culture and have them audited to set an initial benchmark and further expand WCS implementation at other SGS sites.

### GLOBAL BUSINESS SERVICES

Our Global Business Services model involves standardizing and harmonizing back-office activities and support functions. At present, we have four shared service centers and regional hubs that support our global network and increase productivity.

As a result of the pandemic, in 2020 we had to rethink our operational delivery model as lockdowns meant that many people across the world had to work from home. While presenting a challenge – such as having to purchase thousands of laptops in a short period of time – this also provided us with the opportunity to apply our business continuity plans, and to start rethinking how our service delivery model could be adapted for the future.

Despite Covid-19, overall our Global Business Services succeeded in increasing productivity levels. For example, we scaled activities in two traditionally separated processes in our Environmental Health and Safety laboratory operations. This further reduced turnaround time and increased lab throughput and asset utilization, while achieving reduction in cost per sample. Our Global Business Services have further increased capabilities to achieve greater efficiency by harmonizing centralized back-office activities. For example, we optimized our financial processes so that we have two or three standard payment cycles rather than 10 different cycles, and our Certification and Business Enhancement (CBE) business line reviewed and standardized our technical standards.

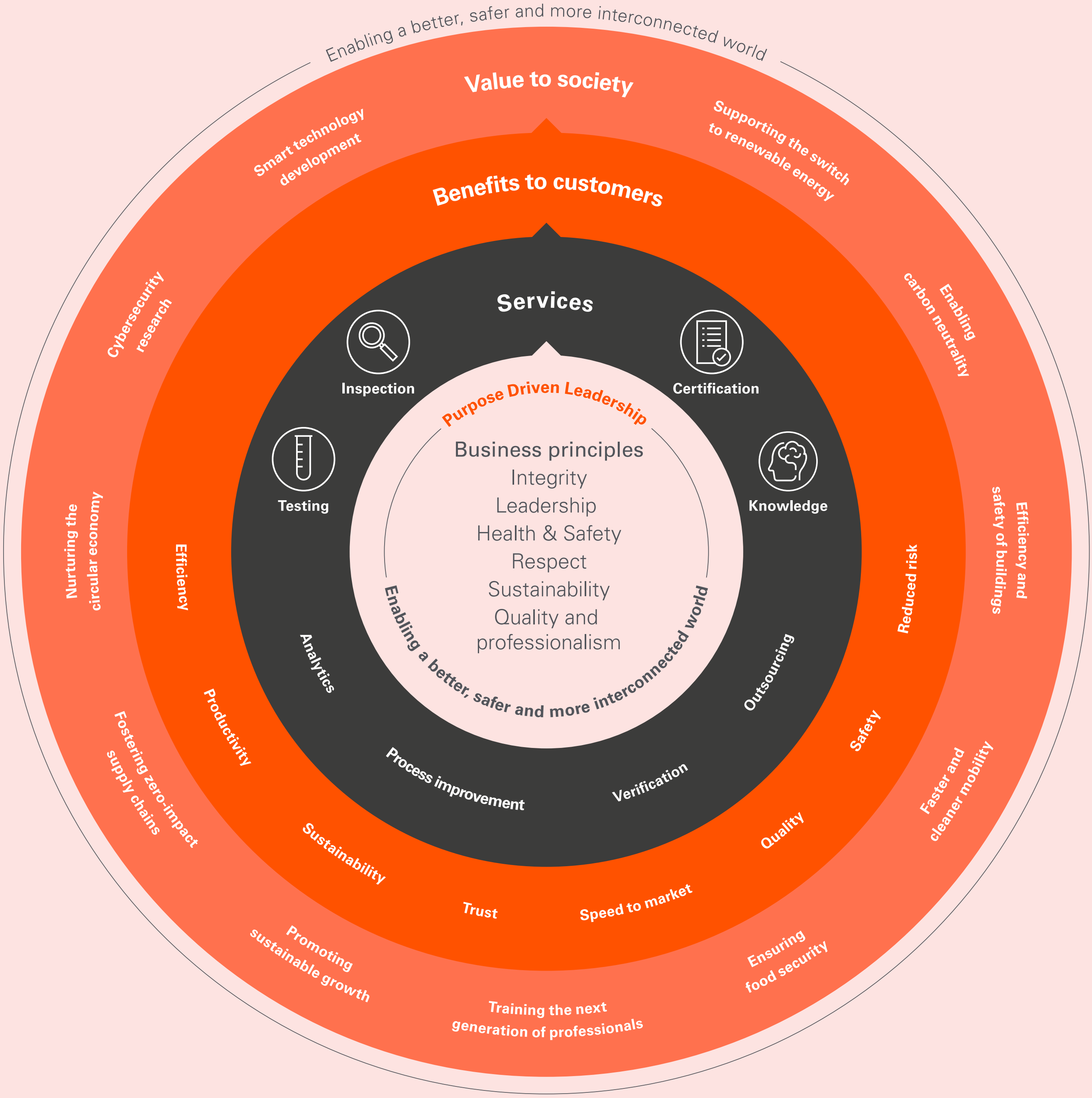
Consolidation of transactional and standardized activities in the Shared Service Centers has further progressed with the centralization of additional Order-to-Cash and Record-to-Report processes for six countries in Europe and Asia. We also started to provide offshore data management services to some North American laboratories in our Minerals business. This improved turnaround time and personnel costs savings, making the process more efficient and faster for our customers.

In 2021, we will continue the standardization for shared service center activities, particularly for finance, and will in some cases go beyond traditional back-office activities towards offering services such as technical reviews. We will continue to upskill our people, to reflect on our evolving business services and remain competitive. We will also review the use of physical office space, and how we can continue improving work-life balance through work at home initiatives.

## Value creation

# How we are creating societal value

Through purpose driven leadership, our leading testing, inspection and certification services add value to society by enabling a better, safer and more interconnected world. They reduce risk, improve efficiency, safety, quality, productivity and sustainability, advance speed to market and create trust.



## Better

# Labelwise enhances regulatory compliance and trust

Transparency and accuracy in product labelling information is paramount in a heavily regulated industry. Compliance requirements change between geographies and over time.

**BETTER | SAFER | MORE INTERCONNECTED**

SGS Digicomply Labelwise supports customers' decision making and speeds up time to market.

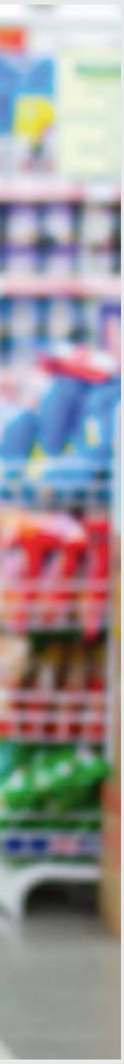
BETTER

BETTER | SAFER | MORE INTERCONNECTED


Label and website accuracy help to ensure the safety of consumers with allergies.

BETTER | SAFER | MORE INTERCONNECTED

Artificial Intelligence helps in performing tasks that are typically prone to human error and time consuming.



## THE CHALLENGE

When buying any food products, whether online or in stores, people need to be confident in what they are purchasing. Product information plays a crucial role in providing this trust to consumers. However, creating accurate and compliant labels is complex and prone to error. Regulations vary from country to country, and labels must take into consideration specific information like allergen and nutrition labelling. According to FDA data, in 2017 12.8% of recalls are due to mislabeling and 30.8% were due to missing allergens.

## OUR SOLUTION

SGS Digicomply is a powerful AI-driven content management platform that combines advanced technology with the expertise of our food compliance teams to support our customers' regulatory compliance regime. Sorting and classifying huge volumes of global compliance data, this single resource delivers coherent, reliable insights that support our customers' decision-making process and impact assessments.

So how does it work? SGS Digicomply Labelwise screens information on product labels and websites to ensure compliance with relevant regulations and business requirements. This helps our customers to simplify the cost of compliance, prevent reputational damage and increase consumer trust. Better product information also helps our customers to sell more, particularly online.

Customers tell us that the platform enables them to ensure consumer trust, support internal decision making and reduce time to market.

## NEXT STEPS

Originally, we developed Labelwise for a well-known online retailer, and in 2020 we extended this service to food manufacturers. Going forward, we see a significant opportunity to leverage this service to help customers better sell their products online, making use of accurate and consumer-driven product information. Our next steps will be to extend the system's AI knowledge to cover more categories of products in more countries.

**"SGS Digicomply Labelwise is a simple solution for customers looking to ensure compliance with regulations and consumer trust."**

**Nicola Colombo**
Global Head of SGS Digicomply

For more information visit:
**www.sgs.com**

**Safer**

# Ensuring medical PPE meets safety standards

Demand for medical personal protective equipment (PPE) has never been higher. Our Testing services protected people during the pandemic by ensuring face masks met stringent safety standards across the world.

**30+**

Years of state-of-the-art testing for verification of filtration performance by SGS IBR Laboratories

## THE CHALLENGE

In 2020, protecting people from Covid-19 was the number one priority for individuals, businesses, organizations and governments. Wearing face masks was compulsory in many settings worldwide. From public transport to intensive care units, medical personal protective equipment (PPE) has never been more important. But how can people ensure that their face masks meet safety standards?

## OUR SOLUTION

SGS testing and certification services verify product effectiveness and compliance with relevant regulations.

Our prescient acquisition of SGS IBR Laboratories acquired in 2018 in the USA meant we could quickly replicate our filter test competence where it was needed to test PPE. SGS IBR Laboratories has been a world leader providing state-of-the-art testing for verification of filtration performance for more than 30 years.

We offer comprehensive testing services across the entire spectrum of filtration applications, testing against industry standards (ASTM, ASHRAE, SAE, IEST, IEC, ISO, NSF, etc) as well as customized testing. Since its inception, SGS IBR has also been an active participant in the Standards Organization, playing a significant role in the development of many of the protocols commonly used by industry today.

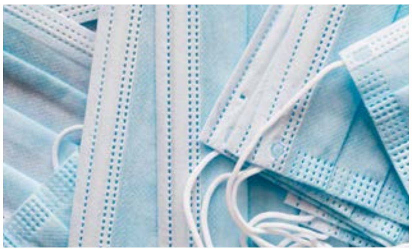
Our experience in the USA enabled us to replicate our expertize across the world. SGS affiliates, such as Shanghai and Hong Kong, quickly introduced this testing capability, obtaining the necessary equipment, following our Standard Operating Procedure (SOP), and working closely with the accreditation body so that we could meet the huge demand for these services.

## SAFER

**BETTER | SAFER | MORE INTERCONNECTED**

Our mask testing services is improving the quality and safety of face masks and coverings.

**BETTER | SAFER | MORE INTERCONNECTED**



Our independent check mark certifies that minimum safety standards have been met.

**BETTER | SAFER | MORE INTERCONNECTED**

By ensuring quality of masks and face coverings, we're helping people get back to the 'new normal'.

### NEXT STEPS

We will extend our testing services to different regions, such as Europe and India, to provide local solutions. We will also offer an independent check mark for masks and face coverings to safeguard quality.

We will train manufacturers on production excellence, and increase their understanding of how to export the product while complying with international standards.

We will extend our testing capability increasingly to medical PPE to help protect against Covid-19. In addition, we will develop more functional tests (such as viral penetration testing) to cope with market need.

**"Raising awareness will be key. We will participate in webinars and events to share best practice with industry for medical PPE testing and the IC Mark for reusable fabric masks. Through this work, we're really adding value to society, and helping to save lives."**

**Ivan Chan**
Vice President, Innovation and Research and Development, NEA region

SEE OUR FILM ON PPE TESTING

For more information visit:
**www.sgs.com**

**More interconnected**

# How remote inspections kept us connected during lockdown

SGS is reassuring businesses and industry leaders around the world that, despite the challenge of social distancing and lockdowns prompted by the Covid-19 pandemic, regulatory and compliance audits can continue due to our Remote Auditing Solutions.

### THE CHALLENGE

Historically, our local inspectors had to physically go to inspection sites. As a consequence, Product Conformity Assessment (PCA) operations were sometimes wrongly perceived as interfering with and slowing down the requirements for increasingly fast-paced exports.

### OUR SOLUTION

Our Government and Institutions (GIS) business line reviewed our PCA business process model to find ways to speed up operations, without sacrificing customer service quality levels.

Our solution was to design the SGS QiiQ digital solution – a remote auditing app that enables Quality Assurance (QA) and Quality Control (QC) audits and inspections to take place anywhere in the world.

It meant that we were perfectly positioned to conduct remote audit and inspection when faced with the challenge of social distancing and lockdowns during the global Covid-19 pandemic.

To position for the long-term, GIS has deployed QiiQ across its network, prioritizing some key locations to achieve economies of scale. With the reduced need for travel, inspectors can also schedule several inspections in a day, at very short notice, maximizing efficiency for SGS and our customers.

### NEXT STEPS

QiiQ has been very well received by our customers. It has made the scheduling and execution of inspections quicker and more flexible. If an inspection has to be postponed and rescheduled, there is no additional cost for the customer.

Going forward, we aim to expand the deployment of QIIQ to governmental agencies across Africa. We will also expand this technology to any of the services within our portfolio that require a physical inspection.

**BETTER | SAFER | MORE INTERCONNECTED**

The inspection exercise has been reduced from three working days' notice (as per World Trade Organization Guidelines) to less than two hours.

MORE INTERCONNECTED

"We recognize that in these uncertain times, prompted by Covid-19, on-site audits may present real risks and challenges to organizations around the world. If on-site audits and inspections are not possible, our advice is to go remote."

**Jeffrey McDonald**
Executive Vice President,
Certification and Business Enhancement

BETTER | SAFER | MORE INTERCONNECTED

In light of the Covid-19 pandemic, the QiiQ digital solution allowed SGS to continue performing inspections and serving our customers, despite bans on travel and face-to-face meetings.

BETTER | SAFER | MORE INTERCONNECTED

The 'centralized' remote inspection office comprises several 'remote inspectors' who are available 'on call' from the prioritized areas.

SEE OUR FILM ON REMOTE TESTING

For more information visit:
**www.sgs.com**

## Risk intelligence

# Covid-19 brings safety risks and a changing regulatory landscape

Our risk management processes are helping to protect against these risks, enabling us to make the world better, safer and more interconnected.

### RISK GOVERNANCE

Our SGS Board of Directors reviews risks to ensure that the Company has a solid strategic approach to mitigating them (see **page 90**). However, the ultimate responsibility for identifying risks and integrating their management into key business planning processes sits with our Operations Council.

The Risk Committee oversees our Risk Management Framework, chaired by the CEO. The committee comprises executive members, including the CFO, CCO and CIO, together with representatives from departments including Human Resources, Operational Integrity and Sustainability. As well as biannual meetings, the Committee meets as necessary, and reports directly to the Board.

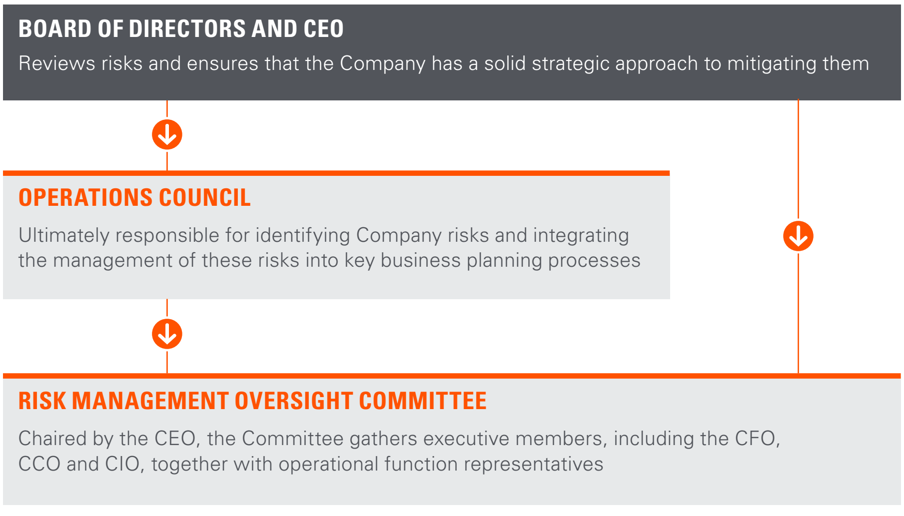
Accountability for managing risk rests with our 'Risk Champions' who are charged with assessing risk in the jurisdictions for which they have responsibility. In addition, SGS integrates a broad array of risk categories (see the charts on the right) directly into the management process, resulting in a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

### RISK OVERSIGHT

To support our Risk Management Framework, the Group has a customized Governance Risk and Compliance platform named ANTARES. This tool enables affiliates, local businesses and operations to assess, taking a bottom-up approach, potential risks and have mitigation in place should those risks materialize at a local level. Additionally, at Group level, we take a top-down approach to identify and assess future global risks to the Company that could potentially be overlooked in the bottom-up evaluation.

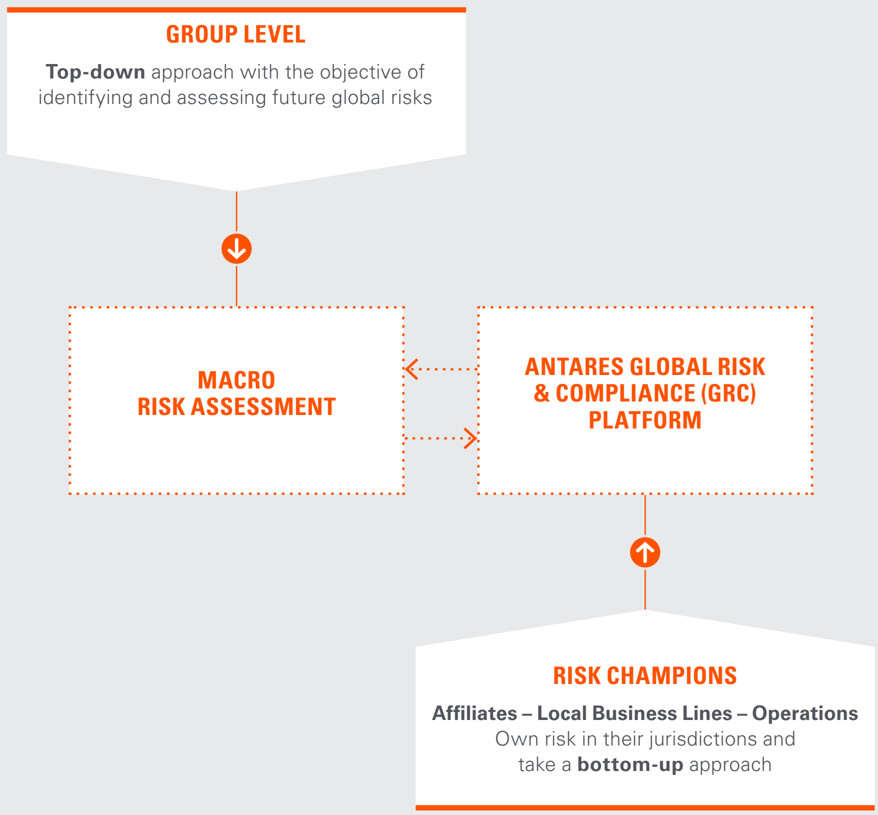
We recognize the need to identify changing risk, including those from Covid-19. We plan to have measures in place to deal with all new emerging eventualities, ranging from climate change and consequential extreme weather, natural disasters and cyber-attacks.

### RISK MANAGEMENT PROCESS




### ENTERPRISE RISK MANAGEMENT FRAMEWORK

Places responsibility and accountability for managing risk close to our operations



## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

One of the biggest non-financial risks is climate change. In 2020, we continued to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as part of our corporate reporting on climate change.

This is based on the four pillar framework of Governance, Strategy, Risk and Opportunity Management, and Metrics and Targets, to help manage risks around climate change.

We plan to launch a detailed study by 2021 to assess the consequences of climate change on our business. For example, in Cape Town we have agricultural laboratories which could be impacted by the increasing number of droughts affecting the city. We have plans in place to mitigate against disruption to services. In the future, internal auditors will be involved in the process to ensure that mitigations have actually happened.

## 2020 RISK ASSESSMENT RESULTS

In 2020, we carried out risk assessments in our 16 Tier 1 countries and 24 Tier 2 countries. These have confirmed a number of emerging risks, including in the areas of cyber and data security, the changing regulatory landscape due to Covid-19 and the need for compliance, as well as increasing dependence on technology, including outsourced IT services and disruptive technology.

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

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

## EXTERNAL RISKS

These include economic, market, geopolitical, climate change, legal and regulatory, natural disaster and public relations risks. External risks are mitigated in various ways including but not limited to:

- Insurance policies
- Business Continuity planning
- Sustainability Strategy
- Legal & Compliance team
- Economic and geopolitical risk analysis

## INTERNAL RISKS

### STRATEGIC RISKS

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

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

- Strategic planning
- Mergers and Acquisitions Policy
- Legal & Compliance
- Access to capital
- Communications
- Sustainability

### 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 planning
- Operational Integrity, policies and training
- Sustainability, internal communications and architecture
- Employee branding, global Human Resources (HR) strategy community investment
- Legal & Compliance policies
- IT Committee, policies, training and architecture

### 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 2020 Results section. (See **pages 153-158**)

## Material topics

# What matters most to our business and our stakeholders

Carrying out an extensive analysis of various inputs – including megatrends (see **page 18**), the United Nations' Sustainable Development Goals (see **page 33**), our stakeholders' interests and concerns, and risks and opportunities – enables us to determine which are material to our business and our stakeholders, and their relative level of importance. We then use this deep understanding to shape our strategy, our Ambitions and our Key Performance Indicators (KPIs) under each pillar of our sustainability strategy – Professional Excellence, People, Environment, and Community.

We carry out an extensive analysis of all these inputs to determine which are material for SGS and our stakeholders, and their relative level of importance. We then use this deep understanding to shape our strategy, our Ambitions and our Key Performance Indicators (KPIs) under each pillar of our sustainability strategy – Professional Excellence, People, Environment, and Community.

### MATERIALITY ASSESSMENT

Although we do not ordinarily conduct a material assessment on an annual basis, in 2020 we decided to update our analysis to evaluate the impact of Covid-19 on our stakeholders' expectations.

Based on 2019 results, we carried out an in-depth stakeholder engagement exercise, consulting with over 4 000 stakeholders in 112 countries (including customers, employees, suppliers, investors, non-government organizations and sustainability professionals) to evaluate the importance of each topic. At the same time, our Operations Council evaluated the potential impact these topics could have on SGS. The whole process has given us a deep understanding of the most material topics for the Group.

### BUSINESS MATERIALITY MATRIX

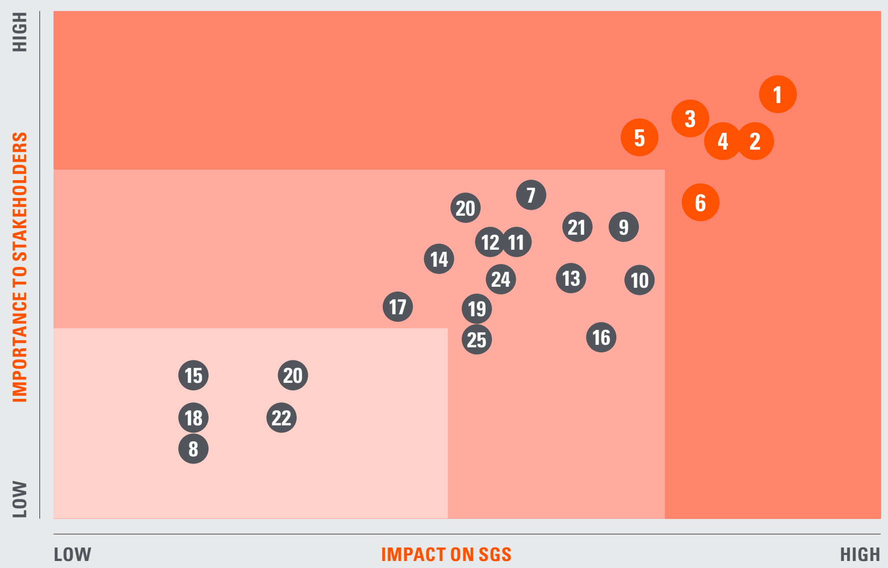
Having conducted this consultation exercise, we then mapped the topics onto a matrix, showing their position relative to each other, and how critical each one is to our business. The visual representation of the importance of topics to stakeholders in relation to their impact on SGS is a powerful analytical tool.

The six topics that are most important to the organization:

1. Cybersecurity
2. Data privacy and protection
3. Ethical behavior
4. Health & Safety
5. Risk Management
6. Talent attraction and retention

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

### BUSINESS MATERIALITY MATRIX




1. Cybersecurity
2. Data privacy and protection
3. Ethical behavior
4. Health and safety
5. Risk management
6. Talent attraction and retention
7. Adaption and mitigation of climate change
8. Biodiversity
9. Corporate Governance
10. Customer relationship management
11. Diversity in the executive team
12. Diversity and inclusion
13. Employee engagement and consultation
14. Executive compensation linked to sustainability
15. Freedom of Association
16. Innovation in services and operations
17. Local community
18. Preventing air pollution
19. Reducing and managing waste
20. Responsible use of materials
21. Sustainable procurement
22. Tax strategy
23. Training and development
24. Water footprint
25. Well-being and work life balance

● Most important topics

## UN Sustainable Development Goals

# Our contribution to the SDGs

The United Nations Sustainable Development Goals (SDGs) are a comprehensive, universally-recognized framework of global priorities and aspirations to be achieved by 2030. Each goal has specific targets, and together they aim to eliminate poverty, protect the planet and ensure prosperity for all.

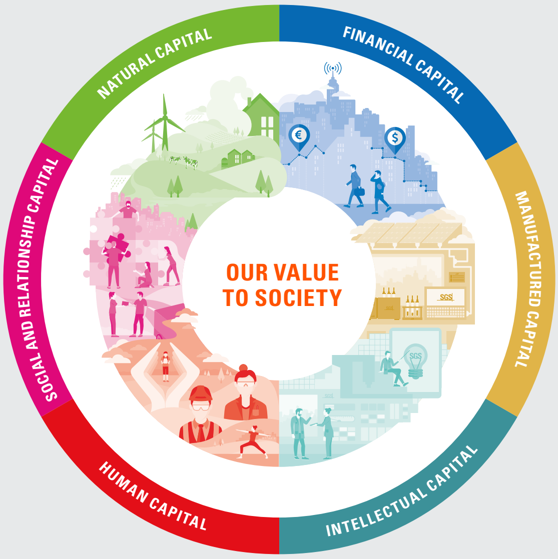
Our Sustainability Ambitions 2020 are closely linked to the United Nations Sustainable Development Goals (SDGs), ensuring that we directly support them through our services, operations and supply chain.

Mapping our contribution enables us to create aligned strategic plans, allocate resources and develop associated local management and reporting processes. We have identified in the table seven SDGs where we can have the most impact through our services and business operations.

Read our 2020 Corporate Sustainability Report online at: **www.sgs.com/en/sustainability-report** for more information

| | | |
|---|---|---|
| **GOOD HEALTH AND WELL-BEING** | We develop and deliver programs that support the good health and well-being of people not only within our business, but also for our customers and communities. This was particularly critical in 2020, in light of the Covid-19 pandemic. | Read more on page 17 of our **2020 Corporate Sustainability Report** |
| **QUALITY EDUCATION** | We have created a range of initiatives that provide educational opportunities for our employees, suppliers and people in the communities in which we work. In 2020, we achieved 4.3 million employee training hours. | Read more on page 18 of our **2020 Corporate Sustainability Report** |
| **GENDER EQUALITY** | Our commitment to inclusion and diversity includes working towards gender equality throughout our business. | Read more on page 18 of our **2020 Corporate Sustainability Report** |
| **DECENT WORK AND ECONOMIC GROWTH** | Higher levels of productivity and technological innovation are essential to achieving sustained economic growth. We actively work towards providing productive and safe employment of men and women in the communities in which we work. | Read more on page 19 of our **2020 Corporate Sustainability Report** |
| **INDUSTRY INNOVATION AND INFRASTRUCTURE** | We contribute to building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation through the services we provide. Our services and innovations are helping the world become more interconnected. | Read more on page 19 of our **2020 Corporate Sustainability Report** |
| **RESPONSIBLE CONSUMPTION AND PRODUCTION** | We actively promote responsible consumption and production, both within our own operations and in our supply chains, as well as through the services we provide, for example helping customers to choose responsibly-made products through our certification programs. | Read more on page 20 of our **2020 Corporate Sustainability Report** |
| **CLIMATE ACTION** | We are committed to a carbon neutral strategy that is helping tackle climate change and facilitating the transition to a low carbon economy, as well as helping our customers to reduce their emissions, for example through assessment and certifications. | Read more on page 20 of our **2020 Corporate Sustainability Report** |

# OUR VALUE TO SOCIETY




The International Integrated Reporting Council (IIRC) recommends six 'capitals' on which organizations can report – these include Financial, Manufactured, Social and Relationship, Human, Natural and Intellectual capital. This framework reflects the growing interest of many companies in delivering more than financial value. We contribute to society in each of these capitals, delivering value to our investors, employees, customers, suppliers and communities.



3

# Purpose-driven leadership

SERVICES ➔ BENEFITS ➔ INDUSTRIES ➔ **OUR VALUE TO SOCIETY**

## FINANCIAL CAPITAL

Relates to the cash and cash equivalents that can be used in exchange for other resources (e.g. human capital) that enable SGS to successfully compete in the global marketplace.

Read more about Financial capital
**page 36**

## MANUFACTURED CAPITAL

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

Read more about Manufactured capital
**page 46**

## INTELLECTUAL CAPITAL

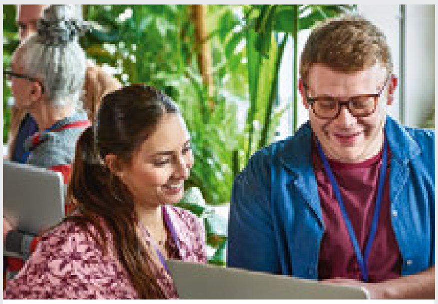
Consists of intangible and knowledge-based assets. Intellectual inputs include the brand, patents and copyrights, and employees' knowledge of protocols and procedures.

Read more about Intellectual capital
**page 50**

## 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.

Read more about Human capital
**page 56**



## SOCIAL AND RELATIONSHIP CAPITAL

Covers SGS' relationships and interactions with communities, stakeholders, organizations and networks. It includes notions like trust, loyalty and other values.

Read more about Social and relationship capital
**page 64**

## 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.

Read more about Natural capital
**page 70**

# Financial capital

## INPUTS

- CHF 702 MIO profit (prior year)
- CHF 1 134 MIO total equity
- CHF 6 908 MIO total assets

## OUTPUTS

- CHF 5.6 BN revenue
- CHF 758 MIO free cash flow*
- 16.1% adjusted operating income margin*

## OUTCOMES

- CHF 253 MIO taxes paid to governments
- CHF 598 MIO in proposed dividends
- CHF 2 797 MIO paid in wages to our employees

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM document'

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

## INTRODUCTION

In the face of a tough market caused by a global pandemic, we have shown strong resilience by adapting our services to customers, and in developing new services. In an uncertain market, we continued to invest in our strategic priority areas and made the biggest acquisition in the history of SGS.

Revenue decreased by 8.8% at constant currency* to CHF 5.6 billion, with an organic decline of 6.5%. Operating income decreased from CHF 1 082 mio in prior year to CHF 795 mio in 2020 mainly driven by the exceptional gain of CHF 268 mio on the disposal of the Petroleum Services Corporation (PSC) business in 2019 and the Covid-19 pandemic in 2020. Adjusted operating income* decreased by 8.0% at constant currency to CHF 900 mio and adjusted operating income margin increased by 20 basis points to 16.1% at constant currency*. While some industries, such as Industrial and Oil, Chemical and Gas, were affected by Covid-19 more than others, our actions limited the overall impact on our profitability and enabled us to invest in the future.

**In our operations, agile management and increased efficiency boosted cash flow**

Our restructuring program in 2019 increased the efficiency of our functions and business lines saving over CHF 90 mio. The agility of our management is reflected in the strong cost base and cash flow management performance. Free cash flow increased to CHF 758 mio, a 12.6% increase over the prior year.

Implementing an Economic Value Added (EVA) mindset and culture enabled us to wind down areas that are destroying value and deploy capital in value creating opportunities.

**'Next Normal' solutions demonstrated our adaptability**

'Next Normal' solutions came to the fore. Our digital solutions gained wider acceptance as a result of the restrictions imposed to slow the spread of Covid-19. Remote inspection, audit, consulting, other technical services and sensor-based technology have all gained customer traction and acceptance. For example, over 50% of eligible Government and Institution inspection services were conducted remotely in 2020.

The pandemic has also stimulated additional innovation of our service portfolio including our global Life Sciences network delivering Covid-19 vaccine testing and new innovative therapeutics for several global customers. We continue to have the leading TIC market share in PPE testing and inspection. We have seen strong progress on contract signings across our testing, monitoring, auditing, training and certification of disinfection and business recovery services.

**Investing in uncertain times**

While some non-essential and maintenance capex has inevitably been delayed, we have continued to invest in our strategic priority areas supported by our focused capital allocation strategy. Priority areas include: wireless, 5G, semiconductors, food testing and investment in IT Systems.

**A significant strategic acquisition**

A highlight of 2020 was the acquisition of Synlab's Analytics & Services (A&S) division. A&S is a leading European provider of environment, food, hygiene, pharma and products analysis and testing. The acquisition further aligns SGS with the Health, Nutrition and Environment TIC megatrends, significantly increased our penetration into the Scandinavian market and enhances our market position in Europe. It adds a range of higher value-added services and accelerates the adoption of our hub and spoke model. It also offers greater scope for automation and digitalization and generates strong operating synergies. (See our case study on **page 44**)

**Our plans for 2021**

We will continue to manage our cost base and integrate A&S. We will focus on services in nutrition, health, environment and connectivity, all areas in which we have a strong market share, particularly in Asia. We will also continue to look for growth opportunities, both organic and through acquisitions to invest in the future of our Company and add value to society.

## OUR KPIs

**Revenue**

CHF 5.6 BN

| | |
|---|---|
| 2020 | 5.6 |
| 2019 | 6.6 |
| 2018 | 6.7 |
| 2017 | 6.3 |

**Free cash flow***

CHF 758 MIO

| | |
|---|---|
| 2020 | 758 |
| 2019 | 673 |
| 2018 | 796 |
| 2017 | 706 |

**Adjusted operating income margin***

16.1%

| | |
|---|---|
| 2020 | 16.1 |
| 2019 | 16.1 |
| 2018 | 15.7 |
| 2017 | 15.3 |

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM document'

## Business review

# Performance and outlook by industry

## AGRICULTURE, FOOD AND LIFE (AFL)

| Revenue (CHF million) | Constant currency* growth in 2020 |
|---|---|
| 996 | (1.1)% |

2020 | 996
2019 | 1 007

### OVERVIEW

- Organic revenue increased by 0.3%
- Food declined as testing and audit volumes were impacted by lockdown measures
- Life lab growth was above the divisional growth, despite clinical research and bioanalysis being impacted by the lockdown
- Trade delivered good organic growth
- Profitability improvement driven by disciplined cost focus and structural cost optimization

### OUTLOOK

- Continued recovery of activities expected following the second wave of restrictions
- Enhanced sales focus across the business units to drive growth
- Life growth supported by vaccine opportunities
- An ongoing recovery of audit activities expected in Food
- Trade to remain strong
- Solid inorganic pipeline

## MINERALS (MIN)

| Revenue (CHF million) | Constant currency* growth in 2020 |
|---|---|
| 639 | (6.9)% |

2020 | 639
2019 | 686

### OVERVIEW

- Organic revenue declined by 6.9% with a strong improvement across most activities in H2
- Trade Inspection mainly impacted by reduced demand for coal
- Outsourced laboratories remained stable
- Metallurgy declined more than the divisional level due to project delays and closures
- Cost containment and structural cost optimization led to margin improvement, mitigating the impact of the revenue decline

### OUTLOOK

- Expected increase in exploration funding will support growth momentum
- Consumer product demand and infrastructure expenditure to increase demand for metal commodities leading to investment in mining projects
- Growing pipeline of onsite laboratory opportunities aligned to increasing demand for commodities
- Growing demand for sustainable sourcing of critical commodities services

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## OIL, GAS AND CHEMICALS (OGC)

**Revenue (CHF million)**

776

**Constant currency* growth in 2020**

(22.9)%

2020 | 776

2019 | 1 006

### OVERVIEW

- Revenue declined following the disposal of Plant and Terminal Operations (PSC) in June 2019
- Market share gains provided some offset in a difficult market
- Trade declined due to reduced end-demand
- Lower sample volumes due to weaker economic activity in NIRT and Oil Condition Monitoring (OCM)
- Upstream impacted by a low oil price, project deferrals and site access restrictions

### OUTLOOK

- The recovery of the Oil & Gas industry to follow a sustained increase in confidence in the underlying market
- Trade and NIRT should recover in line with an improvement in economic activity
- A recovery in Upstream will lag the normalization of the oil price
- Growth expected in OCM from new contract wins

## CONSUMER AND RETAIL (CRS)

**Revenue (CHF million)**

1 054

**Constant currency* growth in 2020**

2.3%

2020 | 1 054

2019 | 1 030

### OVERVIEW

- Moderate organic growth as all strategic business units recovered strongly in H2 and Softlines benefited from PPE testing and certification
- Electrical & Electronics was broadly stable. Strong growth in safety testing, wireless and functional safety offset difficult market conditions in Automotive testing
- Strong growth in Softlines was driven by PPE testing and certification despite difficult underlying trading conditions
- Toys and juvenile decreased while hardgoods remained stable
- Margin increased driven by strong PPE demand in North East Asia

### OUTLOOK

- Accelerated investment in connectivity related markets
- Increased market share through new Retail and eCommerce solutions
- Continued focus on innovation and digitalization to develop new services, drive efficiencies and improve performance

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

# **Business review** continued

## CERTIFICATION AND BUSINESS ENHANCEMENT (CBE)

**Revenue (CHF million)**

429

**Constant currency* growth in 2020**

(8.1)%

2020 | 429
2019 | 467

### OVERVIEW

- Organic revenue declined by 12.0%, impacted by site access and travel restrictions, especially for training and Technical Consultancy
- Management System Certification demonstrated strong resilience with high single-digit growth achieved in H2
- Other services have been slower to recover, in particular Classroom Training and Technical Consultancy with several large projects postponed

### OUTLOOK

- Positive momentum in Management System Certification should continue into 2021
- Technical Consultancy to rebound driven by signed contracts and a healthier backlog
- Training demand expected to remain subdued while the shift to virtual classrooms continues
- Adoption of remote delivery model to continue to increase

## INDUSTRIAL (IND)

**Revenue (CHF million)**

847

**Constant currency* growth in 2020**

(15.2)%

2020 | 847
2019 | 999

### OVERVIEW

- Organic revenue declined by 13.4%, while the drop through into adjusted operating income was limited, particularly in H2
- Oil & Gas was impacted by decreased capex spend and project delays, while Transportation, particularly Aeronautics, was also challenging
- North East Asia was resilient throughout the year with high single-digit growth in H2
- Power & Utilities was broadly stable with significant progress in the strategic focus areas of Renewables and Nuclear, and Manufacturing grew strongly in H2
- Proactive cost measures supported by the growth in Asia drove a strong H2 margin performance

### OUTLOOK

- Power & Utilities and high-end Manufacturing markets will continue to grow
- Double-digit growth expected from new initiatives including Industrial Safety, Rail, Calibration
- Partial recovery in Oil & Gas as postponed opex projects resume
- Infrastructure is expected to recover in Latin America, Asia and Africa

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## ENVIRONMENT, HEALTH AND SAFETY (EHS)

**Revenue (CHF million)**

471

**Constant currency* growth in 2020**

(7.6)%

2020 | 471
2019 | 510

### OVERVIEW

- Organic decline of 9.0% with significant improvement in H2 and positive growth in North East Asia
- Laboratory was less impacted, showing solid resilience in Asia Pacific and Europe
- Health & Safety was below the divisional average due to weakness in hospitality and construction sectors
- Slight decline in Field and Monitoring, which was supported by solid growth in Sensor and Marine services

### OUTLOOK

- Increasing environmental regulations and enforcement will continue to drive the business in the long term
- SYNLAB A&S acquisition opens new market sectors and geographies and drives significant operational synergies
- Laboratory and industrial hygiene volumes to resume in the Americas
- Expansion of scope for biological hygiene

## GOVERNMENTS AND INSTITUTIONS (GIS)

**Revenue (CHF million)**

392

**Constant currency* growth in 2020**

(11.5)%

2020 | 392
2019 | 443

### OVERVIEW

- Revenue declined in all strategic business units except Border solutions
- Vehicle inspections impacted by the end of the California contract in November 2019 and lockdown measures
- Product Conformity Assessment declined less than the divisional average with a good recovery in China
- Single-window contract in Ghana terminated at end of May
- Double-digit growth of TransitNet driven by new market penetration

### OUTLOOK

- Good recovery expected next year for all strategic business units following the end of lockdowns
- New Product Conformity Assessment contracts signed with Central African Republic and Egypt
- New digital services to be launched in 2021
- Strong growth expected following Brexit (eCustoms)

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## Investor relations

# Fostering transparency and trust

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

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

Our commitment to enabling a better, safer and more interconnected world for employees, customers, shareholders and for society at large is integral to the next phase of our strategic evolution. Our CEO, supported by our sustainability team, has played a significant role in ensuring that sustainability is at the heart of how we behave as a company and the value we provide to our customers through our services. We welcome the increasing focus that investors and regulators have on ensuring that companies behave more responsibly and we are encouraged by the recent increase in investor dialogue on Environmental, Social and Governance (ESG).

### OUR APPROACH

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

A major event in our communications calendar is our annual Investor Days meeting for analysts and investors. This gives participants the opportunity to engage with the majority of our Operations Council in an open and transparent way. The 2020 event was postponed due to Covid-19, and our management team looks forward to fully presenting the next stage in our strategic evolution at our Investor Days, scheduled in May 2021.

### HOW WE ENGAGE WITH SHAREHOLDERS

We have traditionally engaged with shareholders and potential investors through face-to-face meetings on our regular roadshow schedule, at a number of investor conferences and through ad-hoc meetings. We also give access to our management team at our annual Investor Days and through site visits. This ensures that our investors are able to physically experience our facilities and spend time with our operational management team to get a deeper understanding of the business.

The global pandemic has meant that society has had to adapt to new working conditions. For us, this quickly resulted in all of our direct investor and analyst communication moving to a virtual format. This has improved efficiency and, as with the use of remote inspection, audit and consultancy tools by our colleagues in the field, we expect to conduct fewer face-to-face meetings than we have done traditionally.

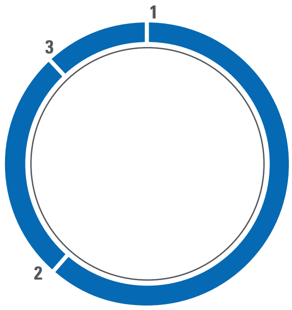
In 2020, our Digital & Brand team helped us to overhaul our Investor Relations website. The new format presents information to investors in a more user-friendly and efficient way. We were pleased that, within two weeks of launching, we saw a 50% increase in traffic to our site. We have also increased the use of technology to streamline our investor relations processes and are using algorithms to efficiently target potential investors. In 2020, we successfully organized meetings at two of our European roadshow cities independently and we expect this to increase over time.

### OUR INVESTOR BASE IS EVOLVING

The majority of our institutional investors are based in Europe, which accounts for 71% of our shareholder base, while investors in North America and Asia account for 25% and 4%. The successful placement by the von Finck family of their 15.7% stake in SGS in two tranches and GBL increasing its stake to 18.9% from 16.7% has resulted in our free-float increasing from 68% of shares in October 2019 to 79% in December 2020.

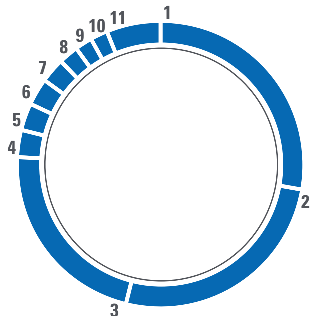
### INVESTOR RELATIONS IN 2020

#### Investor contact by region



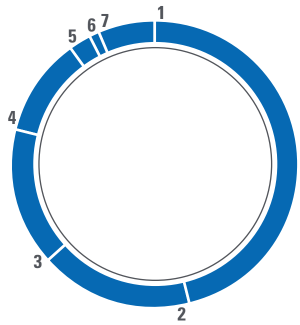

| | |
|---|---|
| 1. EUROPE | 61.0% |
| 2. AMERICAS | 27.0% |
| 3. REST OF THE WORLD | 12.0% |

#### Institutional investors by geography




| | |
|---|---|
| 1. UNITED KINGDOM | 28.0% |
| 2. SWITZERLAND | 26.0% |
| 3. UNITED STATES | 22.0% |
| 4. CANADA | 3.0% |
| 5. NORWAY | 3.0% |
| 6. LUXEMBOURG | 3.0% |
| 7. GERMANY | 3.0% |
| 8. THE NETHERLANDS | 2.0% |
| 9. FRANCE | 2.0% |
| 10. JAPAN | 2.0% |
| 11. OTHER | 6.0% |

#### Institutional investors by investment style




| | |
|---|---|
| 1. GARP | 46.3% |
| 2. INDEX | 17.3% |
| 3. GROWTH | 15.6% |
| 4. YIELD | 11.0% |
| 5. BROKER/DEALER | 2.5% |
| 6. VALUE | 1.1% |
| 7. OTHER | 6.3% |

## Acquisitions and partnerships

# Strategic acquisitions support our growth objectives

In addition to growing organically, acquiring companies to grow across geographical areas, to fill service gaps or to expand our skill set and technological capacities has always been a priority. In 2020 we made six acquisitions:

For more information visit:
**www.sgs.com/en/our-company/about-sgs/acquisitions**

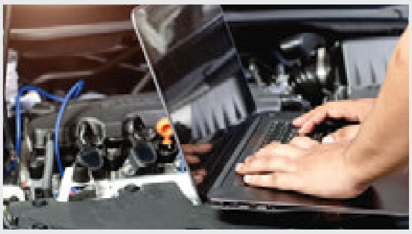
### THOMAS J. STEPHENS & ASSOCIATES, INC.

Business line: **CRS**

Location: **USA**

Stephens is a nationally recognized clinical research organization serving the cosmetic and personal care industry. It is a leading provider of safety & efficacy testing and contract research services.

### CTA GALLET



Business line: **GIS**

Location: **FRANCE**

CTA Gallet operates 17 vehicle inspection services (VIS) centers in France, employing 24 people.

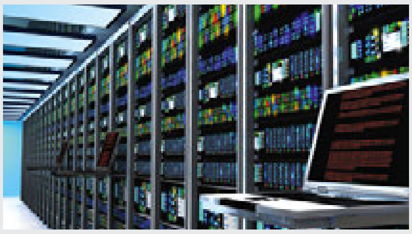
### GROUPE MOREAU

Business line: **GIS**

Location: **FRANCE**

Groupe Moreau operates 22 vehicle inspection services (VIS) centers in France, employing 33 people.

### ENGINEERING CONTROL LIMITED (ECL)



Business line: **IND**

Location: **NEW ZEALAND**

ECL is a consultancy company focusing on process automation and functional safety of process systems across multiple industries including oil & gas, power, food & beverage and industrial cybersecurity services.

### SYNLAB ANALYTICS & SERVICES (A&S)

Business line: **EHS, AFL, OGC**

Location: **EUROPE**

SYNLAB Analytics & Services (A&S) is a leading European environmental, food testing and tribology services company. Currently, A&S is a division of SYNLAB, the leading medical diagnostic services provider in Europe.

### RYOBI GEOTECHNIQUE INTERNATIONAL PTE LTD (RGIPL)

Business line: **IND**

Location: **SINGAPORE**

RGIPL is a company specializing in providing geoengineering solutions for activities such as instrumentation and monitoring, soil investigation, and geotechnical engineering for the construction and infrastructure industry.

## Case study

# Investing for the future

**FINANCIAL CAPITAL**

We have acquired SYNLAB Analytics & Services (A&S), a leading provider of environmental, food testing and tribology services in Europe.

### THE CHALLENGE

SGS has a strategic objective to accelerate M&A in attractive, high growth sectors with scope for automation and digitalization.

### OUR SOLUTION

We know that investing in the future is important to retain and enhance our industry leading position, especially during periods of macro-economic uncertainty. Given our strong balance sheet and our undisputed financial management during the Covid-19 crisis, we were in a strong position to make bold strategic moves.

One example is the acquisition of SYNLAB Analytics & Services (A&S), a leading European environmental, food testing and tribology services company. This is the largest acquisition in SGS' history.

In 2020, A&S generated revenue of CHF 207 million and operating income of CHF 22 million.

The acquisition enhances SGS's market position in North-Western Europe, by strengthening our presence especially in Germany and Benelux, and enabling us to enter new attractive markets in Scandinavia. The deployment of the successful hub-and-spoke model of A&S will lead to significant synergies. Acquiring A&S is strongly aligned with our strategic objective of accelerating mergers and acquisitions in attractive, high growth sectors with scope for automation and digitalization.

### NEXT STEPS

The transaction was closed on 31 December 2020. Consistent with our stringent Economic Value Added (EVA) criteria for assessing acquisitions, the transaction is expected to be EVA positive in year four of ownership as the result of the full integration of the business and capitalizing on the underlying growth opportunity in this market.

**CHF 207 MIO**
A&S revenue in 2020

**CHF 22 MIO**
A&S operating income in 2020

**BETTER** | SAFER | MORE INTERCONNECTED

The SYNLAB A&S acquisition enhances the SGS market position in North-Western Europe and provides a successful hub-and-spoke model to capitalize on it.

BETTER | **SAFER** | MORE INTERCONNECTED

By securing economic growth for the future, we can continue providing services to customers, assuring safety standards across the world.

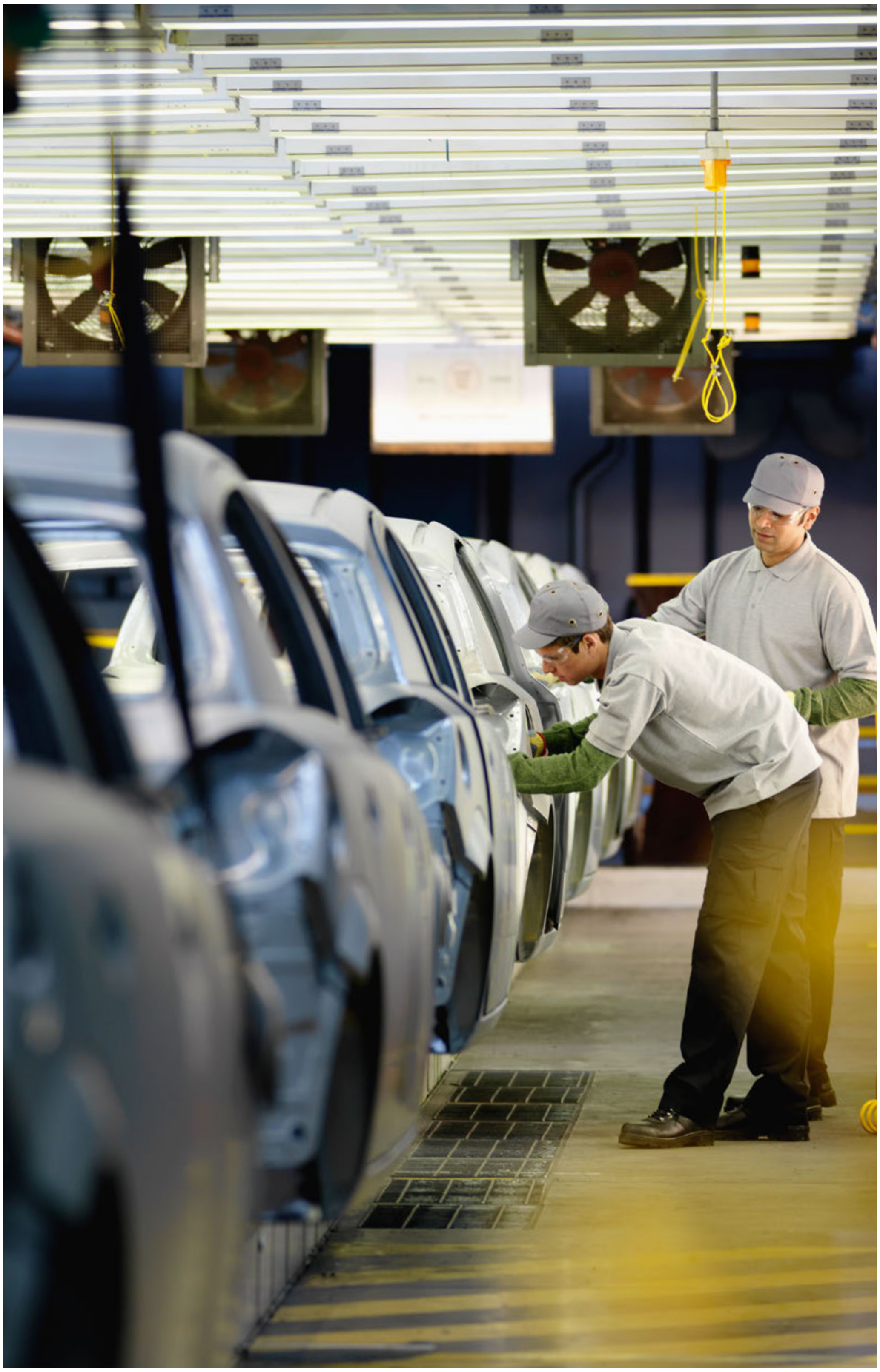
BETTER | SAFER | **MORE INTERCONNECTED**

The acquisition of SYNLAB A&S will mean greater interconnectivity in Germany, Benelux and Scandinavia.

**"The acquisition of SYNLAB A&S significantly strengthens our global network and confirms the next stage of our strategic evolution which will further align SGS to hub and spoke services and to the key megatrends. This will be supported by our focused capital allocation strategy and EVA-driven performance management."**

**Frankie Ng**
CEO of SGS

# Manufactured capital



## INPUTS

- +2 600 offices and laboratories
- CHF 259 MIO capital expenditure
- CHF 1 206 MIO Opex

## OUTPUTS

- Number of laboratories using World Class Services (WCS)

## OUTCOMES

- Ensuring food, medicine and product safety
- Increasing our capability and capacity for testing cell banks for vaccines, gene and cell therapies, including a Covid-19 vaccine
- Improvement of infrastructures with our green building services
- Ensuring food, medicine and product safety

Manufactured capital relates to the inventory of property, plant, equipment and other manufactured goods that enable our business activities and our company to successfully compete in the global marketplace, ultimately adding value to society.

## DEVELOPMENTS DURING THE YEAR

In 2020, capital expenditures reduced compared to the previous year.
This was in response to the global pandemic, as well as project delays from key customers, although in some regions we are already seeing signs of renewed growth. Operational expenditures also decreased due to our cost savings program, which helped to maintain profitability. Despite this, we continued investing in physical assets, including new laboratories and testing equipment to support long-term profitable growth.

## INVESTING IN OUR LABORATORIES AND EQUIPMENT

SGS purchases tens of thousands of different items on a recurring basis. One of our largest procurement categories is laboratories and equipment, which includes goods and services required to operate laboratory testing as our main business activity.

In average over the last five years close to CHF 145 Mio is spent on Capex equipment, alongside almost CHF 450 Mio for maintenance services and related laboratory consumables. In 2020, for example, Procurement qualified and purchased 2.7 million medical masks from carefully selected suppliers around the globe and established an own distribution hub in the Netherlands to supply SGS sites worldwide. With these masks we ensured continued testing in our laboratories and protected our inspectors when performing their services at customers' premises. This represented an investment of over CHF 2.3 million. In addition, our affiliates purchased other Protective Personal Equipment (PPE) such as gloves and coveralls.

## OPENING NEW LABORATORIES

The most significant development in 2020 has been the completion of the expansion of SGS Biosafety Center of Excellence in Glasgow, started in 2019, to increase its capability and capacity for testing cell banks for vaccines, cell and gene therapies, including Covid-19 vaccines. (See case study on **page 48**)

In 2020, we also opened a new, state-of-the-art commercial geochemistry laboratory in Tarkwa, Ghana. This new lab is capable of processing up to 60 000 samples per month, and represents a significant increase in our sample processing capacity from preparation to final analysis. This will enable us to run sample preparation of both grade control and exploration samples, so we can meet the stringent turnaround times required by our customers. In addition, we opened a new geochemical laboratory in Queensland, Australia, which is quality management standard ISO 9001 accredited. The new laboratory offers increased sample processing capacity for sample preparation, fire assay and chemical analysis and ensures faster, more efficient turnaround times. It offers X-ray fluorescence analytical services, as well as Field Analytical Services and Testing (FAST) services.

We continue to invest in wireless 5G testing in China, Taiwan and Korea to expand capacity and cater for current and future demands and in semi-conductor testing in major Asian-producing countries.

We also expanded our Saskatoon Genomics Laboratory in Canada. This is the first laboratory in Canada approved by the worldwide Non-GMO Project, meaning we can certify food and snack products as being GMO-free, using the project's official butterfly logo.

## LAB OF THE FUTURE PROGRAMME

SGS experts, strategic suppliers and our Procurement function devise next-generation technical and digital inspection and laboratory solutions. For example, in 2020 we continued investing in artificial intelligence (AI) and machine learning solutions in our laboratories to create significant efficiency improvements and provide best-in-class service to our customers.

## OUR KPIs

### Capital expenditure

CHF 259 MIO

| | |
|---|---|
| 2020 | 259 |
| 2019 | 290 |
| 2018 | 304 |
| 2017 | 302 |

**"As the leading mining service provider in Africa, we deliver quality and trusted data. Our new lab in Tarkwa provides us with the continued opportunity to exceed our customers' expectations of superior service."**

**Kiki Gyan**
Managing Director of SGS Ghana

## Case study

# Increasing testing capacity for vaccine candidates

**MANUFACTURED CAPITAL**

The expansion of our laboratory at the SGS Center of Excellence for Biosafety in Glasgow increased capability and doubled the capacity for testing cell banks for vaccines, cell and gene therapies, monoclonal antibodies and other recombinant protein based biological medicines, including a vaccine testing solution for Covid-19.

### THE CHALLENGE

In light of the devastating effects of the global pandemic, the biopharmaceutical industry has been working intensively to develop and manufacture vaccines for Covid-19.

With 30 years of experience supporting vaccine development and manufacturing, our team at SGS Glasgow is proud to have been involved with a number of Covid-19 vaccine candidates, including the Oxford University/AstraZeneca (AZD1222) vaccine candidate.

### OUR SOLUTION

SGS already had an established relationship with Oxford University and had worked on different vaccine development projects. Therefore, they were confident that, together, we could form a collaboration to fast track the development of a vaccine candidate, providing biosafety and quality control testing.

In 2020 we further invested in expansion of our SGS Biosafety Center of Excellence in Glasgow to support the development and supply of vaccines. This initiative will help to safely unlock the world from the pandemic as well as satisfy the growing need of scientists and manufacturers to develop and deliver effective vaccines, cell and gene therapies and other biological medicines.

We finalized the construction of two more laboratories and adapted the existing building space to create two separate GMP and BSL-2 laboratories.

Newly installed state-of-the-art equipment includes specialized cell culture equipment for virus detection, enzyme-linked immunosorbent assay (ELISA) technology, and real-time polymerase chain reaction (PCR) to ensure the safety of viral vaccines and other biological medicines. This new expansion project delivers increased capacity for batch testing, which is a legal requirement before vaccines can be safely made available to the public.

The first batches of AstraZeneca's Covid-19 vaccine candidate were produced at record speed, allowing the first UK clinical trial to start in late April 2020. In November, AstraZeneca and Oxford announced that the vaccine candidate was highly effective in preventing people from developing Covid-19 symptoms. In late December, the vaccine received emergency use authorization from MHRA.

### NEXT STEPS

We successfully contributed to Covid-19 vaccines development while continuing to maintain our existing biosafety and quality control testing activities. Going forward, we will continue to test batches for AstraZeneca global manufacturers of Covid-19 vaccines.

Other locations within the SGS network have also been involved in other Covid-19 vaccines and therapies.

**“With a total of 56 biosafety level 2 laboratories at SGS Glasgow, our PCR services have been greatly enhanced. We now have over 300 fully validated assays in progress to detect impurities and agents of concern for human in the bio-manufacturing processes.”**

**Dr Archie Lovatt**
Scientific Operations Director (Biosafety) at SGS

# 1 BN doses

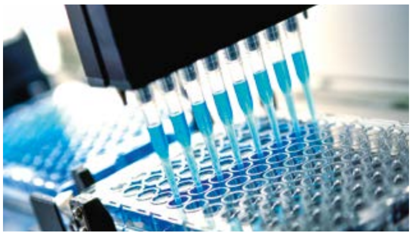
Manufacturing capacity secured by AstraZeneca

SEE OUR FILM ON BIOSAFETY SERVICES

**BETTER** | SAFER | MORE INTERCONNECTED

Our collaboration with Oxford University enabled us to fast track the development of AstraZeneca’s Covid-19 vaccine.

BETTER | **SAFER** | MORE INTERCONNECTED



Improve patients’ health by safeguarding the quality and efficacy of medicines by delivering world-class analytical testing solutions to the biopharmaceutical industry.

BETTER | SAFER | **MORE INTERCONNECTED**

Played an integral part in the development of Covid-19 vaccines and therapies to fight the pandemic and ultimately allow people to resume their regular work and social activities, safe in the knowledge that they are protected.

# Intellectual capital

## INPUTS

- +CHF 50 MIO R&D expenditure
- CHF 1 984 MIO goodwill and other intangible assets

## OUTPUTS

- 2.51% training ratio
- 20 laboratories using World Class Services (WCS)

## OUTCOMES

- Enhancing career opportunities through training
- Improving knowledge through innovation
- Empowering customers through training and education

Intellectual capital at SGS consists of intangible and knowledge-based assets, such as our employees' knowledge of protocols, procedures, our business lines and customers. It also includes a focus on innovation and helps us to improve our processes as well as our services, adding value to society.

## DEVELOPMENTS DURING THE YEAR

To increase Intellectual capital, we provide learning and development opportunities, which helps us deliver for customers and retain talent. In 2020, Covid-19 prompted a swift pivot to online learning. The large number of employees engaging with online training is testament to the success of our online programs. In this way, we continue to give our employees the resources they need to develop and grow.

We also continued to focus heavily on Innovation during the year, especially in the areas of cyber security, to help people back to work – and the 'Next Normal' – following Covid-19 lockdowns.

## LEARNING AND DEVELOPMENT

By developing our people's expertise, we maintain high standards while supporting individual and team development.

Talent development is part of SGS's HR strategy and is implemented at all organizational levels. We tailor our Talent Development programs to fit local market conditions, business needs and employee expectations, ensuring that our highly skilled and talented staff are equipped to meet the needs of our customers across the globe.

In 2019, we introduced our knowledge management platform, SGS Campus. In 2020, we worked with SGS internal subject matter experts to capture key knowledge and create engaging training material within the SGS Campus. 72 000 of our employees can now access more than 1,300 courses at any time and from anywhere, which will allow us to foster a knowledge-sharing culture. We are placing increased focus on ensuring content is both engaging and interactive, resulting in a higher take up due to a new content authoring tool which was also implemented in 2020.

By leveraging a network of knowledge champions throughout SGS, we are progressively transferring 'ownership' of SGS campus to our employees to be run by them, for them. At the same time, we are now focusing on the platform's automation and efficiency by relying on strong chatbot technologies and meaningful analytics which will ensure a flawless employee experience.

Our onboarding process 'SHINE' provides all new employees with an engaging, comprehensive and supportive start to their employment. Through the three-month program, new employees are equipped with the information, resources and connections they need to successfully become an active member of SGS new technologies and SGS Campus. This will allow us to continue to improve our new employee experience in the upcoming months. During the course of 2020, a group of over 60 managers, representing a variety of SGS affiliates and business lines, have developed a simple and meaningful framework to ensure that we are systematically assessing management effectiveness. This framework will form the foundation on which we will build our strategy to reinforce SGS's leadership capabilities in the coming years.

Finally, we have focused on ensuring that succession planning practices are applied throughout the organization and introduced a series of webinars aimed at educating or refreshing our businesses as to how to identify, assess and match talent to the value they create. This collaborative approach is helping SGS to build the right workforce for the future.

## INNOVATION

Innovation plays a significant role at SGS, both in terms of making our operations more efficient, and in developing new services for our customers. Factors driving our focus on innovation include greater digitalization, cybersecurity, technology such as artificial intelligence (AI) and the Internet of Things (IoT), Covid-19 and sustainability.

**Digital services**
We aim to create a better, safer and more interconnected world for our users. Covid-19 reinforced the idea that people can quickly adapt to new digital solutions, and we are learning from this experience and including this in our new digital strategy.

Our SGS Online (see overleaf), self-assessments, remote inspections and smart services are examples of how digitalization has helped improve our operations and that of our customers in 2020. (See our case study on Remote inspections and 'Sustainable innovation' overleaf for further information.)

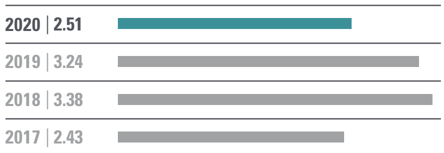
## OUR KPIs

+CHF 50 MIO
**R&D expenditure**

20
**number of laboratories using World Class Services (WCS)**

**Training ratio**
% of total employment cost spent on training (includes safety training hours)

2.51%



# Intellectual capital
continued

**“The large number of employees engaging with online training is testament to the success of our online programs.”**

**Daniel Rüfenacht**
Group VP Corporate Communications

Our new strategy will focus on automating existing operations to become even more efficient for both products and services. In addition, we want to improve the customers’ experience and create new services and business models, which we intend to move forward with in 2021. For example, we will work on accessing data and creating data analytic capabilities, which will help us to become even more sustainable, innovative and agile.

**Cyber security**
With the new EU Cyber Security Act coming into force in June 2020, companies have realized the importance of cyber security. We are expanding our focus on this beyond Europe, working on hardware, consumer IT and medical solutions.

We are launching an exciting venture with our CyberSecurity Campus Graz in Austria SGS. We will focus on high impact cyber security research – making any discoveries freely available to everyone.

SGS is also a founding member of Trust Valley – an innovative platform dedicated to digital trust and cybersecurity in the Lake Geneva area, where our head office is based, and we are sharing our knowledge and expertise in this area. In March 2020, internationally recognized BSI (the German Federal Office for Information Security) granted SGS approval for high level IT information security testing, increasing SGS’s global capability in the cybersecurity space.

Another initiative is Komgo – a blockchain-based platform – where we support traders by placing all documents in one place, resulting in industry-wide simplification of operations and standardized documentation.

We are also using the blockchain system to ensure that no health data from Covid-19 testing, for example, is shared with anyone apart from the data subject. All data is kept on the user’s mobile phone and the test result is confirmed via the blockchain system.

**Ecommerce and online presence**
The SGS Online Store enables us to offer a wide range of services online to customers. It has proved very popular during the pandemic when face-to-face meetings have not always been possible due to lockdowns. For example, we have seen an increase in hotels purchasing our Environment, Health and Safety services through the SGS Online Store.

Our pilot program started in 2018 and we are now developing a more comprehensive eCommerce strategy as part of our digital innovation strategy. This will involve expanding our marketing to communicate about SGS Online Store to a broader audience.

**Sustainable innovation**
Sustainability will be a key factor when we analyze which innovations to prioritize. Each year, we will develop an Innovation Thesis for all our business lines to check if products need innovative sustainable solutions.

In 2020, our business lines focused on developing innovations to help people live as normal a life as possible despite Covid-19 lockdowns. These range from solutions to help people return to work, such as PCR and antigen testing for Covid-19 and digital reporting of test results, to monitoring and certifying disinfection of premises.

Other projects include MIRAS, where we identify microbes in pipes to prevent corrosion, and smart warehouses which track the level of humidity to avoid grain wastage. i-Check launched in October 2020 helps customers conduct self-assessments and provides them with data so they understand where they need to make improvements. Through our supply chain visibility program, Transparency One, we collect information about compliance with environmental, social and governance issues. This enables us, for example, to make calculations about the carbon footprint of a product.

**Innovation culture**
At SGS, we continue to promote a culture that values innovation. We encourage our employees to put forward new ideas through a series of Idea Challenges that are designed to crowdsource ideas from across the SGS Group. We had planned Ideas Challenges region by region for 2020 but these were postponed because of pandemic lockdowns. We are now looking to re-launch the initiative using remote or other methods.

When ideas are developed from the Challenges, we support them through our Innovation Ecosystems, where representatives from all parts of the SGS Group come together to contribute to idea development. In 2020, we began a pilot working with an incubator to help develop our innovation ideas, and also introduced greater agility into our way of working to speed up the development process. Going forward, we will create a centralized system for reporting all innovations across SGS.

Our World Class Services (WCS) program is an innovative approach where we've taken a concept from manufacturing and applied it to the processes in our laboratories to eliminate all kinds on waste. (See our case study on **page 54**)

## INFORMATION SECURITY AND DATA PROTECTION

We protect personal data and comply with all appropriate privacy laws. As a company that holds itself to the highest standards of professional behavior, and that operates in a controlled-risk environment, these are essential commitments.

We have a framework in place to protect intellectual property, business services, personal information and customer data. Our data protection strategy is focused on prevention, detection, management and response to security risks. We enhance IT systems and put policies and procedures in place to streamline processes.

### Information security

Information security is vital and we want to ensure that everyone understands that they have a responsibility to protect confidential information and share it appropriately. SGS is a huge network of affiliates all over the world, spanning 2 600 offices and laboratories and more than 89 000 employees. We must therefore strike a balance between local autonomy and flexibility to respond to local issues, while maintaining global consistency in our standards. We have been examining ways that our affiliates and businesses use information and are working on an approach to look at data security as a whole, given that verbal and printed information are just as much in need of security as digital data.

In 2020, we initiated the Information Governance Framework (IGF) – a new approach to securing information pertaining to SGS and its employees, customers and suppliers. As well as configuring new technical controls in collaboration with Global IT Security, the approach incorporates behavioural guidelines and physical controls for the protection of hard copy and verbally transmitted information. This major initiative requires close consultation with all businesses and functions and will help to align SGS with the principles of ISO27001:Information Security.

In adapting to Covid-19, Corporate Security sustained and even enhanced its operational reach by conducting investigations remotely. This involved training carefully selected local employees to conduct interviews and gather information under our supervision. Alongside our due diligence and certification verification services, this shift to predominantly remote operations is transformative.

### Data protection

We aim to be a leader in the field of data protection. We strive to be transparent and open about the data we collect, respecting individual rights and choices, and protecting the data we hold from unauthorized use or disclosure. To manage this, we have our SGS Data Privacy Policy.

We are conscious of the high standards of privacy regulation in Europe provided in the General Data Protection Regulation (GDPR) and we continue to roll out and implement our policies worldwide in jurisdictions which may not have such strict standards.

### Training

Every year, we update security training and our communications on information security and data protection, based on real cases that have taken place.

In 2020, we worked to address the implications of remote working regarding information security, data protection and cyber security training. We accelerated a strategic initiative so that our people have been upskilled through online training. We provide courses dedicated to the specific needs of SGS businesses, as well as training for Data Privacy Officers and senior managers on security threats. Security training has covered issues like data protection, secure use of emails, the identification of phishing emails and how to detect and react to cyber-attacks.

Each Managing Director has responsibility for ensuring our employees complete our information security eLearning module, and we track this on a monthly basis. New employees are required to complete our compulsory annual training as part of our SHINE Onboarding program.

**"At SGS, we promote a culture that values innovation. We encourage our employees and our partners to put forward new ideas that can deliver value to our customers."**

**Siddi Wouters**
SVP, Digital & Innovation

## Case study

# Achieving World Class Services status in Shanghai

**INTELLECTUAL CAPITAL**

World Class Services is our adaptation of the World Class Manufacturing concept. Its structured approach reduces organizational waste and losses in our laboratories to bring long-term improvements to safety, quality, workplace organization, logistics and maintenance.

### THE CHALLENGE

As 2018 was coming to a close, we wanted to find a way to eradicate organizational waste in our hundreds of laboratories across the world. This meant a culture shift, identifying ways to save time as well as physical waste, further increasing the efficiency and sustainability of our operations.

### OUR SOLUTION

We chose the 'World Class Services' (WCS) model, which originated in the manufacturing sector, as our continuous improvement program.

The program is based on a zero-optimum concept, which aims to eliminate all kinds of waste and losses in processes and the way in which services are provided. We achieve this by using specific methods and tools. WCS cuts across company boundaries and is applied to all departments, embracing numerous topics (known as pillars) including safety in the workplace, the environment and sustainability, quality, logistics and supply-chain, in-house and specialist maintenance, human resources, technical governance and more.

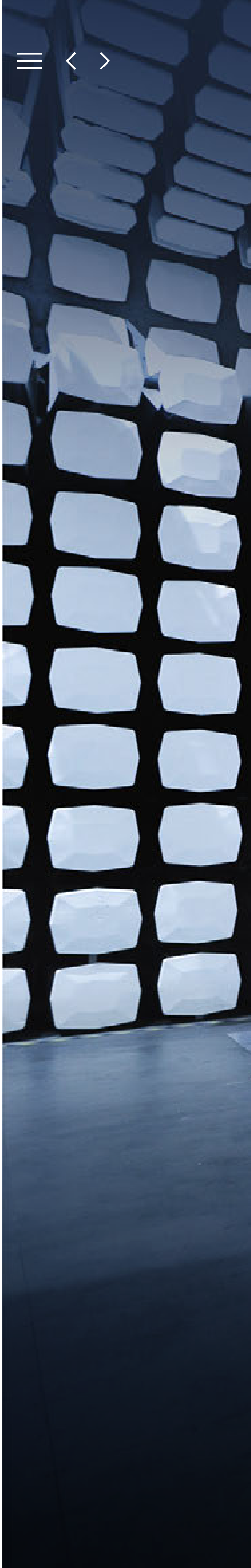
The roadmap towards World Class status for each laboratory is challenging. It consists of systematic improvements, eliminating organizational waste and losses with rigor. Each site or laboratory is benchmarked and must demonstrate how it progressively reached 'world class' standards by applying the World Class Manufacturing (WCM) methodology. As with any new product, service or method, it must also be evaluated by external parties in order to have a recognized value. Therefore, we use the same audit approach as WCM applies for other industries. Not only do these audits give us the opportunity to review the progress we make, but also to share best practices inside and outside of SGS.

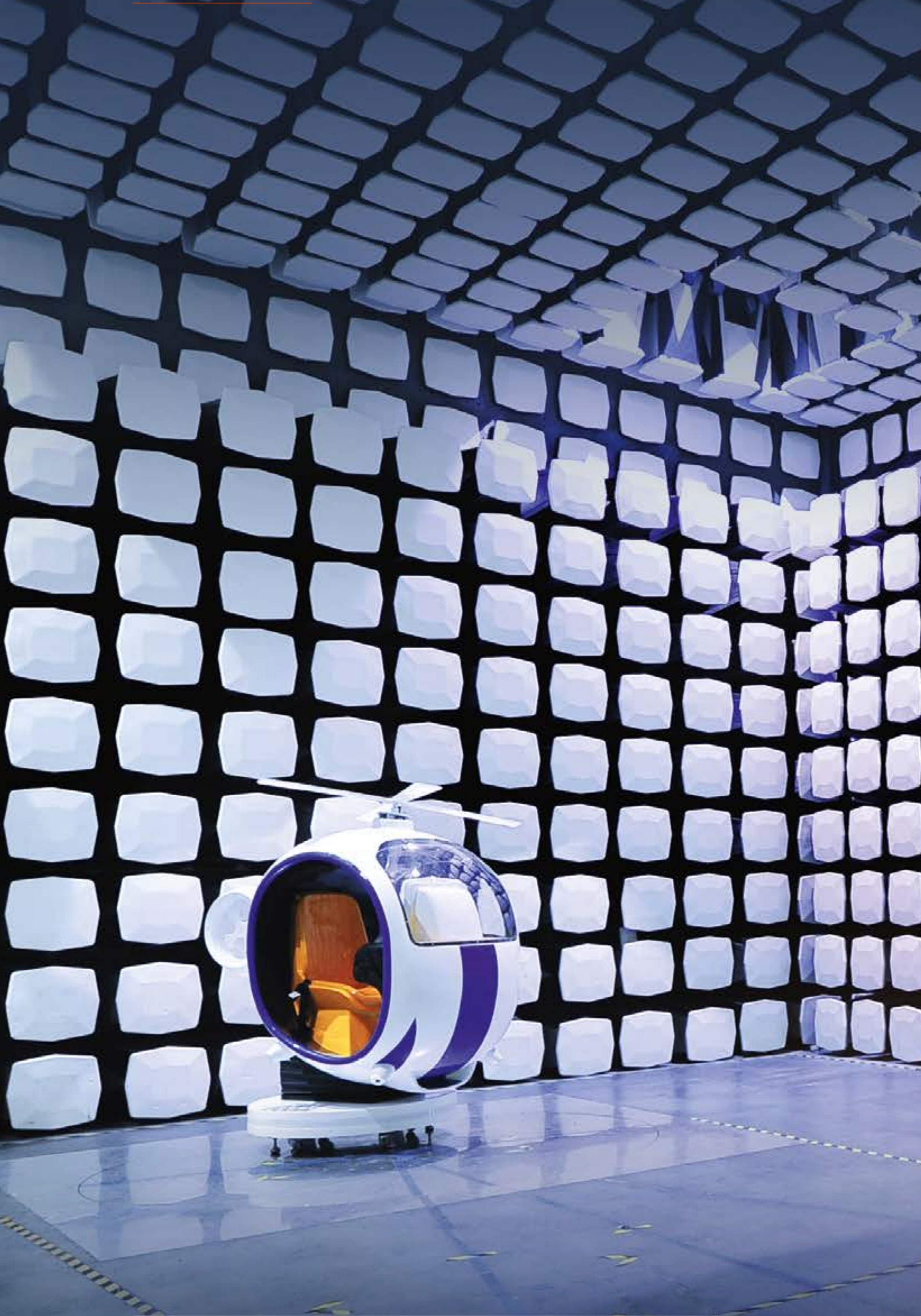
The WCS Route Map requires auditing over a period of years, where the application of the methodology is assessed by external WCM auditors. Any companies participating in the WCS program are assessed with WCM evaluation criteria, which are specific for each of the 10 technical and 10 managerial pillars. Each pillar involves a seven-step approach and auditing process, culminating in a series of awards (bronze, silver, gold, and ultimately, world class).

We are delighted that laboratories in Shanghai, Taunusstein and Bangkok had their first external audits in 2020. This is an extraordinary result that marks the starting point for their WCS journey. It is testament to the collective effort of everyone involved in the process: from Pillar leaders, team members and employees involved in projects and proposals, to local management and many others.

### NEXT STEPS

Remote audits are already being organized in Bangkok, Thailand and Taunusstein, Germany. The team is prepared for possible challenges, such as technology constraints, but is confident that with the technology that is already available within SGS, these affiliates can participate in initiatives like World Class Services. It also opens up the opportunity for smaller labs, such as those in more remote areas, to get involved too. Our team in Shanghai are very proud of the status they have achieved. The whole process gave them the opportunity to learn, fine-tune and improve at each step of the award level and in every area of the operational and managerial part of the business. Being the first to be audited, remotely, broadened their experience and it provides a roadmap for implementing WCS in other areas of SGS.





SEE OUR FILM ON WORLD CLASS SERVICES, SHANGHAI

**BETTER** | SAFER | MORE INTERCONNECTED

By reducing loss of resources we work more efficiently.

BETTER | **SAFER** | MORE INTERCONNECTED

By focusing on internal reduction of loss and waste, we ensure our operations run sustainably.

BETTER | SAFER | **MORE INTERCONNECTED**

We reached our target through the teamwork of our people, who integrate WCS into their daily work.

**"In our World Class Services program, we are constantly innovating, using the expertise of our people to make our business operate in a faster, simpler, more efficient and sustainable way. Our Shanghai CCL lab achieved the coveted first audit in World Class Services status thanks to our people's commitment to continual improvement – it's an incredible example of teamwork."**

**Filippo Rota**
Vice President, Strategic Transformation

# Human capital

## INPUTS

- +89 000 employees
- One SGS Recruiter Academy
- 15 SGS Rules for Life

## OUTPUTS

- Aligning the HR structure to better meet global and regional business prerogatives
- 28.7% Women in leadership positions
- 0.36% Total Recordable Incident Rate

## OUTCOMES

- Protecting the health of employees through Operational Integrity excellence and well-being programs
- Reducing social risks by reinforcing human rights compliance
- Ensuring safety of customers through our vehicle testing services

Ensuring our people work with integrity, that we employ people fairly and without discrimination, and protecting the health and safety of our employees are our top priorities. We address potential social risks by reinforcing compliance with international human rights standards. Our services also support people in communities around the world, by ensuring food, medicines and products are safe, adding value to society.

## DEVELOPMENTS DURING THE YEAR

In 2020, our key challenges were to ensure the safety of our people, by taking steps to protect them against the global pandemic and ensure their well-being so that we could continue providing our services for customers.

## WORKING WITH INTEGRITY

The core of SGS is to act as a trusted third party. We can only legitimately make this claim if we act with integrity, which is embedded into our business model. SGS does not engage in any form of bribery or corruption, and we adhere to the legal requirements of every country where we operate. We hold anyone acting on behalf of, or representing SGS to the highest standards of professional integrity, at all times.

This is defined by our SGS Code of Integrity, which applies to all employees as well as affiliated companies, contractors, subcontractors, joint venture partners and agents. We reinforce our Code of Integrity through annual mandatory integrity training, and all new employees are required to complete integrity training within three months of joining SGS.

In 2020, the launch of our new Integrity Helpline was received well, and employees have used this to report any issues of concern, which we are then able to act upon. We expanded our integrity criteria and launched a policy to deal with a range of integrity issues, ranging from minor to major. We also delivered interactive training on how to define non-serious breaches and how to conduct an investigation for a non-critical violation. These investigations are reported and dealt with in a systematic way.

In 2021, we plan to review our procedures to include more internal integrity audits. We will also ensure more than one team to get involved in hiring outsourced services, reducing opportunities for potential corruption.

### Human rights

We have a company-wide Human Rights Policy, which is in line with the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Children's Rights and Business Principles, the United Nations Women's Empowerment Principles and the United Nations Global Compact.

We respect freedom of association and cooperate with the trade unions and work councils that our employees collectively choose to represent within the appropriate national legal frameworks.

In December 2019, we re-launched our annual human rights eLearning module for all employees. We are currently developing a new program, which will include audits to ensure we are complying with human rights and integrating human rights into the risk assessment process.

In 2021, we will invest in more customized training on the human rights issues most relevant to SGS, based on the calls we receive on our Integrity Helpline. Additionally, we will compile data received from both the global helpline and local legal compliance teams. This will enable us to assess if we need to put in place more mitigation programs.

## TALENT MANAGEMENT

Throughout 2020, we continued to implement our Human Resources (HR) strategy, which is based on five pillars. These include 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 (see **page 60**); and leveraging our footprint to promote career development opportunities across the Group.

Our approach to HR is on a regional as well as global level, and we assess progress against our Key Performance Indicators (such as turnover) twice a year instead of once, to make sure we have the right data to make the right decisions and match talent to value.

## TALENT ACQUISITION

Our strategy for talent acquisition is to attract the best and right people to work at SGS, now and in the future. This is managed locally with global support.

In 2020, we rolled out our new e-recruitment tool, SmartRecruiters, to 23 countries. This has helped to increase efficiency in recruitment, increase focus on data driven decision-making, as well as increase the diversity of our employees. It has also helped to improve communication with managers and enable collaborative hiring.

## OUR KPIs

### Code of Integrity reports

Code of Integrity reports to helplines: Total number of integrity issues reported through integrity helplines*

208

| | |
|---|---|
| 2020 | 208 |
| 2019 | 211 |
| 2018 | 237 |
| 2017 | 227 |

### Code of integrity non-compliances

Total number of breaches of the code of integrity identified through corporate integrity helplines*

17

| | |
|---|---|
| 2020 | 17 |
| 2019 | 36 |
| 2018 | 28 |
| 2017 | 14 |

### Code of integrity investigations

Total number of valid reports investigated[1]

104

| | |
|---|---|
| 2020 | 104 |
| 2019 | 70 |
| 2018 | 67 |
| 2017 | 48 |

* '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

1 We are working on extending the scope of our reporting in order to include breaches occurring locally and pending cases which are still under review at the time of the reporting. We expect to report on these figures in the coming years.

# Human capital
continued

In addition, we trained over 110 recruiters on best practice in talent acquisition, and 400 managers on recruitment and diversity with the SGS recruitment academy.

In 2021, we will roll out SmartRecruiters to a further 15 countries, covering more than 80% of SGS open positions. We will accelerate recruitment automation, which will increase our hiring velocity and quality of hires. We also want to increase our focus on recruitment transparency, which will allow our employees to raise their hands and express their interest in career opportunities within SGS.

In the first year of being hired, we ensure that every member of staff goes through our revised 'Shine' onboarding program. We have digitized the onboarding process making it more accessible and interactive for all employees, especially during Covid-19 lockdowns. We plan to do this with long-term employees as well as newcomers to keep our employees fully engaged, and expect all these measures to lead to greater employee retention.

## DIVERSITY AND EQUAL OPPORTUNITIES

Our commitment to diversity and equal opportunities is expressed in our SGS Business Principles, Code of Integrity and Human Rights Policy. We do not tolerate any form of discrimination and are proud to be known as a diverse employer.

We train managers annually in the principles of non-discrimination. We run a number of regional programs, and many countries have accelerated the move towards embracing diversity and inclusion. Given that ethnic diversity varies from country to country, targets are set and monitored locally. In Australia, for example, we have achieved 50/50 gender diversity and ethnic minorities are well represented.

We monitor the gender of our applicants to ensure that the way we attract and acquire talent has a positive impact on diversity and have programs to encourage women in management and leadership roles. We are raising awareness relating to the gender pay gap. We are also introducing equal benefits for men and women taking time off for parental leave.

A diversity working group has put together a series of proposals to enable SGS to enhance diversity and inclusion over the next three years, including raising awareness.

## PERFORMANCE MANAGEMENT, REWARD AND INCENTIVES

In 2020, to develop our leaders further, we leveraged our partnership with IMD business school in Lausanne, Switzerland and provided five and eight week leadership development courses for 18 of our leaders. Covid-19 has also accelerated the introduction of a new learning culture, which is more self-directed, on-demand, shorter and continuous. This will continue to be the focus for 2021.

Managers are expected to be clear about expectations and evaluate and critically discuss performance, as well as supporting career management and encourage continuous learning. In 2020, we continued our approach to continuous feedback as opposed to annual feedback sessions.

Performance is one of the key elements that drive individual compensation decisions at SGS. Our short-term incentive plans reward both the annual financial performance of the Group and the individual performance of the eligible employees; long-term incentives are offered to selected employees who demonstrate an exceptional level of performance. The compensation packages offered to our employees are defined to be competitive against the prevalent compensation practices in the different markets where we operate, based on their performance, level of responsibility, skillset and knowledge. Benefits, such as health care plans and occupational pension plans, are offered to our employees according to prevalent local market practices.

2020 marked the end of a four-year strategic period. During this time, we raised awareness and aligned initiatives around this in our HR departments. In light of the effects of Covid-19 we implemented conservative and selective pay increase criteria. We believe that reward and recognition play a key role in attracting, engaging, motivating, and retaining talent at SGS.

We also formed a task group responsible for re-imagining the performance management process. Our aim is to make it more employee-centered and build the coaching capabilities of our managers. We want to make the process more continuous and engaging, adapting it to the current context and ensuring a tighter link between manager and employee.

## OUR KPIs

**Women in leadership positions**
CEO -3

28.7%

| | |
|---|---|
| 2020 | 28.7 |
| 2019 | 26.7 |
| 2018 | 26.4 |
| 2017 | 26.2 |

## EMPLOYEE ENGAGEMENT AND WELL-BEING

With employees under lockdown, engagement and caring for their well-being became increasingly important for SGS in 2020. We divided our employee engagement program into two parts.

The first was a simplified annual global engagement survey for employees, called Catalyst. This included a core compulsory module, as well as an optional bespoke one in which countries could customize questions relevant to them. The results of the survey are used to put in place improvement actions. Each SGS affiliate is required to to put in place one action plan as a minimum. We follow up after changes have been implemented to check if improvements have been made. We require affiliates to communicate best practices globally so that learnings can be shared among the affiliates. We also trained our appointed Catalyst Regional and Country Champions and our Human Resources staff to act as facilitators, providing support through the overall surveying process, action planning phase and to follow up on progress.

The second part of our program was from the end of April until mid-June, when we rolled out a series of pilot Covid-19 Pulse Surveys to check how our employees were doing during lockdown. We ran these surveys in more than 13 countries and one subregion, covering 7,500 employees. The feedback has been positive on this new approach. These surveys helped us to better understand the critical needs of our employees in times of difficulty, the key challenges employees face while working remotely and how we can better support them during these unprecedented times.

We also run ad-hoc surveys, including our recent surveys to gauge employee understanding and motivation on the next phase of our strategic evolution, which received very positive feedback.

These types of surveys help us to identify areas where employees need more information, which in turn help us to better plan communications and events.

We ran a number of well-being initiatives in 2020. For example, to highlight our support for employees working under lockdown and evolving conditions, we ran a photo contest and video series to enable staff to highlight how they are coping.

To underline our support for employees working from home with young children, we ran a drawing competition for the children. In December 2020, we also launched the ‘SGS People Challenge’ to thank colleagues for their hard work and nominate an employee of the year. (See case study on **page 68**)

In 2021, this campaign will also involve a further drawing contest for children, as well as a community food bank challenge.

## ADD VALUE WITH LËSS

In 2020, we continued our ‘Add Value with Lëss’, the bear initiative to help our employees achieve a greater work-life balance. As we transition to greater remote working, this is increasingly important. Based on the four ‘paws’ of Process, Environment, People and Quality, we made the program more digital and included new tips relevant to the pandemic. These include efficiency when working from home, online meetings and remote working communication.

In January 2021, we re-introduced the initiative and aim to reach 100% of employees by 2030. At the same time, we launched a global communications campaign, which is helping to raise awareness of the importance of work-life balance.

## OPERATIONAL INTEGRITY (SAFETY)

Our goal is for zero accidents and for zero harm to come to our people across our operations. To achieve our Operational Integrity (OI) Global Mission, we develop safety initiatives in the seven areas of leadership, communication, training and awareness, resources and skills, Key Performance Indicators (KPIs), audits and compliance, and Health, Safety and Environmental (HSE) risk assessments.

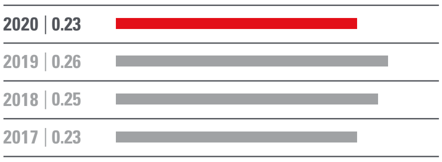
We set long-term safety objectives for each area, which are reported on our Crystal reporting system. Our Group-wide OI Management System also supports improvements. This is aligned with internationally recognized standards on health, safety and the environment.

## OUR KPIs

### Lost time incident rate (LTIR)

Ocurrence per 200 000 hours worked

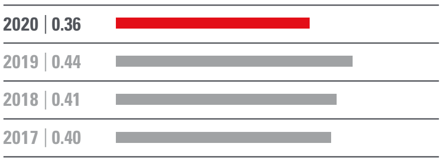
0.23




### Total recordable incident rate (TRIR)

Occurrence per 200 000 hours worked

0.36



# Human capital
continued

**“Our leadership team is heavily committed to helping ensure people’s safety across our operations.”**

**Alain Denielle**
Vice President, Operational Integrity and Business Continuity

In 2020, more than 122 sites, covering more than 14 800 employees, achieved or maintained ISO 45001 (OSHAS 18001) and/or ISO 14001 certifications. We defined site safety criteria and our OI managers identified ‘critical’ and ‘important’ sites across our operations. At the end of this process, 500 sites globally were identified as critical or important. We are now working on tackling these critical sites to enhance safety and resilience. This process, for example, highlighted the need to enhance fire safety.

We have since hired a new fire prevention officer and are working on developing a fire prevention strategy.

We’ve seen an overall improvement in safety in 2020 and we are assessing the reasons for this, which could include more people working from home and a greater focus generally on issues of health and well-being because of the pandemic. Going forward, we will introduce an eighth pillar to our Mission, incorporating greater digitalization into our OI processes.

## LEADERSHIP

Our leadership team is heavily committed to helping ensure people’s safety across our operations. Each year, we identify specific objectives to be achieved.

The Group Vice President for Operational Integrity, Business Continuity and Integrity Programs reports directly to our CEO and oversees the implementation of our OI strategy and objectives. Performance is reviewed on a quarterly basis.

## OPERATIONAL INTEGRITY CULTURAL INDEX

Progress against OI objectives is monitored as part of our OI Cultural Index (OICI), which covers 14 elements. Each country reports on these indicators and the Index provides us with an overview, which is reviewed twice a year. This is helping to support decision-making.

## COMMUNICATION, RESOURCES AND TRAINING

We encourage all SGS leaders to carry out a minimum of six leadership visits every year to assess business and site level OI conditions. We also provide all OI employees with a range of online tools to help them stay up to date with our OI requirements, on-site standard operating procedures, Group OI Management Systems and ‘Rules for Life’.

We host regular Safe Talks for all employees, as well as an annual Safety Month. In 2020, these were conducted virtually. We encourage positive reinforcement to promote safe behaviors through our peer-to-peer safety observation program. In 2020, we introduced a new eLearning training for all employees to echo our ‘rules for life’ and produced hard-hitting posters to remind people of the consequences of not following OI rules.

## THE OPERATIONAL INTEGRITY GLOBAL MISSION

- Protect SGS employees and partners, 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 our 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

## SGS RULES FOR LIFE

Our 15 ‘Rules for Life’ include life-saving principles that apply to all employees, contractors and other people working on behalf of SGS. We make them available in 20 languages and incorporate them into all of our safety campaigns.


### AUDITS, KPIs AND RISK ASSESSMENTS

Before starting a job, inspectors and lab technicians must check that everything is in order regarding working conditions, knowledge, skills and equipment. We call this a ‘last minute risk assessment’. We built a dedicated mobile app so staff can quickly report any problems to the supervisor and stop working if it is not safe.

In addition to local reports of incidents and hazards, all site managers are also expected to perform risk assessments and to develop associated action plans. Each year, local OI managers audit country laboratories, offices and facilities. Centrally, we also audit regional and country-level OI performance. We use these audits and local reports to generate performance evaluations and customer-mandated reports.

### INDUSTRIAL HYGIENE

Our risk assessment process covers health, safety and environmental risks, to protect our employees from diseases and fatalities. For example, we use the Chemwatch tool to manage safety data sheets and chemical inventories across 57 languages.

We are adding tools for hygiene and chemical management, as well as new apps and platforms for data inspection, to our ‘Crystal’ reporting platform. For example, in 2020 we invested in a new platform called ‘health track’ to support companies with hygiene and occupational health programs.

### BUSINESS CONTINUITY

2020 has underlined the need for businesses to be resilient and constantly prepared for disruptive events. Business Continuity (BC) is taking our risk assessment process one step further. Alongside risk analysis, we conduct business impact analysis to understand critical processes within the organization. With the global pandemic, our new Global BC Strategy and enhanced BC team were really put to the test, and we succeeded in continuing to deliver for our customers.

**“2020 has underlined the need for businesses to be resilient and constantly prepared for disruptive events.”**

**Garry Poole**
Global Business Continuity Manager

## Case study

# Keeping people safe

**HUMAN CAPITAL**

We continually strive to keep our people safe. Covid-19 exacerbated this challenge in an unprecedented way.

### THE CHALLENGE

We needed to address the safety of our employees as our top priority, helping to prevent the spread of the pandemic and ensuring we could continue providing services for our customers and adding value to society.

### OUR SOLUTION

In December 2019, the global meeting of our eight regional Business Continuity (BC) managers met. The issue discussed was contingency plans for a potential future outbreak like SARS in 2002. This meant that when Covid-19 broke out, we had already reviewed our BC plans for the region. This helped enable a rapid response, which we were able to roll out to each country as and when necessary.

We rapidly built an eLearning module about Covid-19, explaining the virus and the consequential inspections we would have to undertake. This meant that from the beginning of the pandemic, our colleagues understood the severity of the situation and the measures we were putting in place to keep them safe.

We prepared statements for our customers which gave them confidence that we had matters under control. As soon as any workplace building was affected with the virus, our BC officers worked closely with local IT to ensure that measures were put in place to enable staff to work from home. In some cases, we had to expand some of the networks and obtain additional licences. Within one week, we had the vast majority of our people seamlessly working remotely.

We reported weekly on the number of Covid-19 cases and the number of sites closed – whether fully or partially. Crisis management teams also facilitated collaboration. Given the shortage of medical personal protective equipment (medical PPE) at the beginning of the pandemic, we created a central hub for all countries for masks. We prioritized staff with customer contact since they were at higher risk. (See our case study on **page 26**)

We also organized shift work at sites for those who could not work from home and provided laptops for home working.

### NEXT STEPS

Going forward, the safety of our people will continue to be our top priority. We will monitor developments in relation to the pandemic, as well as take steps to protect our employees from accidents, incidents and injuries in our laboratories, offices and at work-related events.

SEE OUR FILM ON KEEPING PEOPLE SAFE AND ENGAGED

**BETTER** | SAFER | MORE INTERCONNECTED

Employee safety benefits everyone, personally and professionally.

BETTER | **SAFER** | MORE INTERCONNECTED

By putting our people first, we are prioritizing their safety.

BETTER | SAFER | **MORE INTERCONNECTED**

By making use of technology during the pandemic, we've kept our staff connected.

**"In addition to focusing on the safety of our people, we shared information with staff about well-being, stress management, ergonomics and even tips for working from home with children in the background. Our motto throughout has been 'yes we can!'."**

**Daniel Rüfenacht**
Group VP Corporate Communications

# Social and relationship capital

## INPUTS

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

## OUTPUTS

- CHF 1 243 thousand Community investment[1]
- 83% satisfaction score in our Voice of the Customer surveys

## OUTCOMES

- Supporting communities during Covid-19

1. Since 2018, Investment in community includes philanthropic sponsorships, and since 2019 it also includes the value of in-kind donations

Social and relationship capital is about how we engage globally with our customers, suppliers, local communities and other stakeholders like governments and NGOs. All are important to our business operations, our reputation and our success, ultimately helping us add value to society.

## DEVELOPMENTS DURING THE YEAR

Despite lockdowns caused by the global pandemic, we maintained our engagement with our suppliers, customers, local communities and other stakeholders during the year. This helped us take on board feedback to improve our processes and strengthen our brand even more. In 2020, we continued to embed sustainability across our organization and services, which further solidified our reputation as market leaders.

## SUPPLIERS

We have 65 000 suppliers of which 120 are strategic suppliers and most important to our business. Taking a different approach to that used for our local suppliers, we ask strategic suppliers to complete a questionnaire requesting financial and procurement information, and more in-depth sustainability information. This gives us an opportunity to establish sustainability as a precondition for our relationship with them.

## MANAGING PROCUREMENT AND ENGAGING WITH SUPPLIERS

2020 saw the completion of our Procurement and Supply Chain Strategy, in which we continued our work based on our four strategic pillars: cost and cash flow leadership, global sourcing solutions, sustainable procurement and supply chain, and contributing to the Inspection and Laboratory of the Future program.

**1. Cost and cash flow leadership**
Procurement and Supply Chain Management further increased incremental gross savings in 2020 and reached the three year target of the 2020 procurement strategy. By harmonizing payment terms to our standard procurement contributed to SGS leading net working capital.

We believe that procurement is an important driver of sustainability. At SGS, we can influence up to 65 000 suppliers to follow our principles and values. Sustainability is a qualifier in the selection of suppliers.

Going forward, we continue to train our suppliers and run specific initiatives for them to operate in a more sustainable way. Our suppliers are involved to develop opportunities for driving sustainability in SGS as well.

Our SGS business experts work together with strategic suppliers and Procurement to devise next-generation technical and digital inspection and laboratory solutions.

**2. Global sourcing solutions**
We take a user-centric approach to deliver the best global, regional and local solutions. We achieve this through global strategies that drive cost reductions, standardization and efficiency improvements. We identify ways in which we can benefit from our main global suppliers and build close partnerships with them.

This year, procurement has played a critical role in responding to the global pandemic by ensuring security of supply and helping SGS to continue service delivery for our customers, thereby adding value to society. Procurement was central to sourcing medical personal protective equipment (PPE), enabling our inspectors and employees to return to work safely, as well as helping us access Covid-19 testing resources and contribute to limiting the spread of the Covid-19. Across 120 countries, this required huge effort and co-ordination.

**3. Sustainable procurement and supply chain**
During the pandemic, sustainability continues to play an essential part of our procurement strategy. We have achieved a leadership position in the CDP Supplier Engagement Rating, highlighting our commitment to implementing actions to reduce emissions and manage climate risks in our supply chain.

**4. Contributing to inspection and laboratory of the future program**
Our SGS experts work together with strategic suppliers and our procurement function team to devise next-generation technical and digital inspection and laboratory solutions.

## WORKING WITH OUR SUPPLIERS TO ASSESS RISK

Our objective is to work together with suppliers to identify hazards and threats and implement a governance process that ensures risk management, partnership building and collaboration across our supply chain.

For more information on our community involvement, see our **2020 Corporate Sustainability Report**

# Social and relationship capital
continued

### Strategic enablers
Supporting our four pillars are four strategic enablers: Target Operating Model (TOM), supplier partnership management, internal business partnering and high-performing procurement teams.

Our TOM is looking at automation and efficiency solutions for the Procure to Pay (P2P) process and in reporting and control of our procurement. In 2020, 46% of our procurement was sourced online, compared with 44% in the previous year.

In 2020, our supplier management focused on launching 'a call to action' to target our most critical 100 global suppliers and 600 local suppliers in order to meet three objectives: (1) ensure business continuity plans guaranteed sufficient availability of critical supplies; (2) identify which parts of the supply chain were at risk and which alternative products were available to off-set any risk; and (3) limit increases in cost and improving payment terms where increases were unavoidable.

We renewed our procurement policy, and are communicating this to suppliers, alongside providing eLearning about our policy. Collaboration with our suppliers is a big priority, to maximize performance and develop innovative solutions for our business stakeholders. In 2020, we introduced a more structured framework for greater collaboration with 12 of our strategic suppliers and we are planning to extend this going forward.

Our 'one team' approach is also important. We hold monthly review meetings between our category managers and local and regional procurement organizations. We track Key Performance Indicators (KPIs) and hold quarterly reviews with our regional procurement managers and their teams to help us continually improve.

## ENGAGING WITH OUR CUSTOMERS

Every business line has a customer-care department, connecting customers to relevant parts of SGS. This year face-to-face meetings were limited because of the pandemic. However, we continued to interact with customers through emails, phone calls, feedback questionnaires, social media and website communications and online chat functions.

### The SGS Online Store
The SGS Online Store is our online store that enables customers to either buy or begin the procurement process for a large range of SGS services. These include Environment, Health and Safety; Agriculture, Food and Life Sciences; Oil, Gas and Chemicals; and Certification and Business Enhancement business lines, as well as services from our Cybersecurity Services unit.

The SGS Online Store makes it easier for us to engage with customers, reach new customers and makes the sales process more efficient. For customers, it simplifies the process of engaging with SGS, making it easier for them to access our services. (See **page 52**)

### Listening to customer feedback
It is important for us to understand how our customers feel about their experiences and learn about their specific interests, suggestions and expectations. We regularly communicate with our customers and analyze customer sentiment through our 'Voice of the Customer' surveys. All feedback is reviewed regularly and any follow up issues are dealt with in a harmonized and timely fashion.

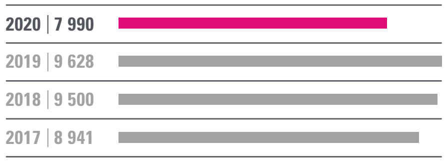
Our new tool, Eloqua, is helping us to be even more responsive by automatically alerting if a customer has a request or an issue, which will help us to improve the customer experience. This has currently been rolled out to 10 countries and we hope to double this in 2021.

Our Laboratory Excellence Program is the largest of our annual Voice of the Customer surveys. Each year, SGS laboratory customers are asked to complete a survey about their experiences and service from our laboratories. The results enable us to continually improve laboratory services. Last year, these surveys showed 91% customer satisfaction.

## OUR KPIs

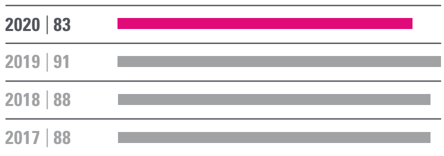
**Voice of the Customer responses analysed in 2020**
Number of responses

# 7 990




**Satisfaction score across all Voice of the Customer surveys**
This is a satisfaction score on a 0–100% scale

# 83%




> **"I believe it's essential to partner with companies who value our mission, and SGS has proven to support us year after year. Partnering with a global market leader like SGS has ultimately delivered a profitable competitive advantage in our field of transportation and supply chain security."**
>
> **Thorsten Neumann,**
> CEO, Transported Asset Protection Association (TAPA)

## SUPPORTING LOCAL COMMUNITIES

Our commitment to investing in the communities in which we operate has a measurable and lasting positive impact. In 2020, our approach remained the same – we continued to promote volunteering, pro bono work, corporate donations and employee giving under our three pillars of Empowerment, Education and Environmental Sustainability. This helps us to contribute towards our global priorities of poverty, health, education, climate change and environmental degradation.

Although Covid-19 lockdowns forced a decrease in our total number of volunteering hours, we saw an increase in financial and other donations, such as pro bono services. Webinars, which are usually chargeable, were provided free, and many of our affiliates contributed to foodbank collections.

**Managing our community programs across the world**
Our community programs are selected and managed at a global as well as local level, in line with our Group Community Policy and Guidelines. The majority of our initiatives are run by affiliates, who manage collaborative partnerships with local charities. Despite Covid-19 restraints, in 2020 we maintained our level of investment in communities around the world.

We assess the effectiveness of our community programs by conducting an annual community survey, aligned with the London Benchmarking Group criteria. In 2021, we will take forward learnings from our community programs, for example, by finding and supporting more online community volunteering opportunities.

## BRAND, REPUTATION AND SUSTAINABILITY

Brand, reputation and sustainability are all interlinked and essential for maintaining our position as the Testing, Inspection and Certification industry leader. A strong, favorable brand image is important for employee motivation and loyalty, as demonstrated by the long service of many of our senior team. A good reputation is also essential for investor, customer and consumer confidence.

In 2020, we continued to build our understanding of our brand awareness using an innovative intelligence platform. This helps us on a daily basis to measure SGS' brand, our competitors, megatrends, and digital and social media, and provide regular reports on the results to management. We also conducted an audit of all marketing technologies used globally so we can make strategic decisions regarding our use of technology for marketing purposes.

Our focus on sustainability not only adds value to society, but also helps to strengthen our brand and reputation. Sustainability is driven by our CEO and embedded across our operations and services, and in our decision-making processes. Sustainability is also enshrined in our Business Principles (see **page 17**) and is implemented by a board level committee on sustainability. Managed by our central sustainability team, our activities are based on four pillars: People, Professional Excellence, Environment and Community.

Our materiality assessment (see **page 32**) helped us to identify these focus areas as the issues that matter most to our business and stakeholders. These are aligned with the UN Sustainable Development Goals, and we track our progress using Key Performance Indicators, which you can read about throughout this report.

To evaluate our impact, in 2017 we became one of the first companies globally to quantify and publish our value to society (see **page 76**). Our sustainability efforts have grown enormously since then, and by the time Covid-19 took hold in 2020, we had already met most of our sustainability targets.

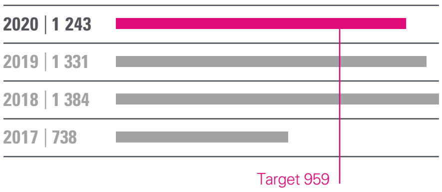
Read more information on our community involvement, in our **2020 Corporate Sustainability Report**

Read more about our impact and value to society, in our **2020 Corporate Sustainability Report**

## OUR KPIs

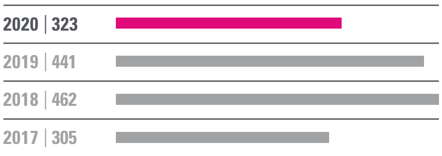
**Investment in community**[1]
CHF thousands on constant currency basis

CHF 1 243 K




**Community projects**
Nnumber of projects

323




1. Since 2018, Investment in community includes philanthropic sponsorships, and since 2019 it also includes the value of in-kind donations

## Case study

# Bringing the SGS family together

**SOCIAL AND RELATIONSHIP CAPITAL**

Besides keeping people safe and ensuring business continuity, when the Covid-19 pandemic hit one of our major concerns was to maintain the well-being and engagement of our employees and lift their spirits during such a difficult time, reinforcing our sense of community.

### THE CHALLENGE

We were fully aware that many of our people were balancing working from home with caring for their families and trying to find ways to deal with this exceptional situation. We wanted all of our people to feel the support of the SGS family.

### OUR SOLUTION

We organized two different events. The first took place during April, when most countries were in lockdown. We arranged a drawing contest over five weeks to help keep children of SGS employees occupied. Each week had a different theme, which not only encouraged creativity, but meant they were also learning about nature, protecting the environment and different careers. We received over 2,000 entries and distributed prizes all over our network.

The second was on a larger scale and took place in December. We called it the ‘SGS People – 15 Day Challenge’. It was hosted by SGS’ mascot Lëss the bear, and offered activities for employees, their families and local communities. These ranged from a recognition challenge (where employees could thank their colleagues), a drawing contest (where our children drew their wishes for 2021), a fun trivia quiz (about some of our global and local leaders) and fundraising (for local food banks and other charities).

Additionally, some affiliates organized local initiatives, such as awards for the best employee and best team of the year.

All events were very well received, generating positive comments from more than 1 000 people on our corporate social network. We were sent over 1 500 drawings depicting children’s wishes for 2021 and over 2 000 people took part in the quiz.

### NEXT STEPS

In light of the huge success of the People Challenge, we plan to make this an annual event to strengthen our SGS community and bring our employees closer together.

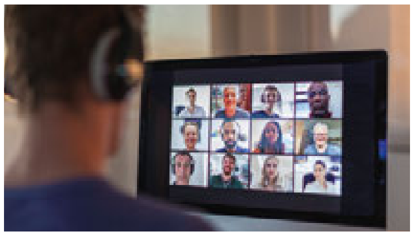
**"I have been absolutely astonished by the response to the drawing contest and People Challenge. It has been exceptional and reinforced what we already knew – that SGS is one big family spread across the world, adding incredible value to society."**

**Paula Ordoñez Crespo**
Global Head of Corporate Sustainability

**BETTER** | SAFER | MORE INTERCONNECTED

We raised more than CHF 80 000, exceeding our fundraising target and ensuring even greater support for our local communities.

BETTER | **SAFER** | MORE INTERCONNECTED



We reinforced our sense of community so that no one felt alone during this difficult time, supporting mental health.

BETTER | SAFER | **MORE INTERCONNECTED**


Over 60 countries across the SGS network participated simultaneously in one or more of our activities.

# Natural capital

## INPUTS

- 441 GWh electricity consumed
- 1.7 MIO $m^3$ water consumed
- 442 GWh fuel consumed

## OUTPUTS

- 123 thousand metric tons of $CO_2e$
- 678 EEB program: number of buildings

## OUTCOMES

- Carbon neutral since 2014
- Helping mitigate climate change by reducing air pollution
- Minimizing resource depletion and protecting the environment

By being a carbon neutral business, and carefully managing our use of the earth's precious finite resources, our services include helping to ensure secure, sustainable food sourcing, reducing the use of natural resources, preventing land degradation, limiting the impact of extractive activities and many others, all ultimately adding value to society.

## DEVELOPMENTS DURING THE YEAR

In 2020, we achieved most of our sustainability targets, while at the same time tackling the global pandemic. We pivoted our operations and services to providing remote support and reshaped our flagship Energy Efficiency In Buildings (EEB) Program. We have been developing plans for our revised sustainable transport strategy, the relaunch of our Add Value with Lëss internal awareness-raising initiative, and our Green IT Policy for 2021. Additionally, we are working on future programs to embed circular economy in our operations, as well as reducing single use plastics (see Waste Management Program below).

**Climate change**
The world is facing a climate emergency. Since 2013, SGS has been carbon neutral and we worked hard to set science-based targets, approved by the Science Based Targets Initiative (SBTi), to ensure that we are cutting our emissions in line with limiting warming to below two degrees.

Evaluating and managing the risks associated with climate change is a priority for SGS, and to this end we have adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Despite Covid-19, we have already achieved almost all of our sustainability targets and we will be releasing a new strategy in 2021 with a longer-term view.

**Reducing energy consumption**
The energy used in our 2 600 offices and laboratories worldwide accounts for 62% of our global energy consumption. Reducing energy consumption across our operations is our priority and we began running energy reduction projects over a decade ago. Eight years ago, we started our EEB program, which evaluates and reduces energy consumption.

In 2020, we had planned on conducting on-site audits, especially in China and the USA, our two largest countries and commensurately the largest consumers of energy. Although Covid-19 lockdowns prevented us from carrying out this work, we did not let this deter us from taking positive action.

We provided remote support and reshaped our EEB program, as well as focused on further strengthening our sustainable transport program, our Add Value with Lëss internal awareness-raising initiative, and our Green IT Policy.

## SGS EMPLOYS A 3-PRONGED APPROACH TO DEVELOP ITS CARBON NEUTRALITY STRATEGY

**1**
**REDUCING ENERGY CONSUMPTION**
We reduce energy consumption at source through processes such as Energy Efficiency in Buildings and sustainable transport

**2**
**USING RENEWABLE ENERGY**
We generate renewable energy on site or purchase renewable energy whenever possible

**3**
**OFF-SETTING RESIDUAL EMISSIONS***
Finally, any energy that we still consume after these reductions is mitigated through our off-setting strategy

## OUR KPIs

### Carbon intensity by employee
Metric tons $CO_2e$/FTE*

**1.4 $CO_2e$/FTE**

| | |
|---|---|
| **2020** | **1.4** |
| 2019 | 1.7 |
| 2018 | 1.7 |
| 2017 | 1.9 |

### Carbon intensity by revenue[1]
Metric tons $CO_2e$/CHF MIO*

**21.9 $CO_2e$/CHF MIO**

| | |
|---|---|
| **2020** | **21.9** |
| 2019 | 26 |
| 2018 | 27.6 |
| 2017 | 30.6 |

### Total GHG emissions
Thousand metric tons $CO_2e$*

**123.0 $CO_2e$**

| | |
|---|---|
| **2020** | **123.0** |
| 2019 | 159.8 |
| 2018 | 168.0 |
| 2017 | 175.9 |

1. On a constant currency basis
* Market-based figures. Excludes district heating due to unavailability of metered data and refrigerant gases emissions due to unavailability of data. Scope 3 emissions only include Category 3: business travel. Please refer to our Basis of Reporting

# Natural capital
continued

## OUR KPIs

### Electricity and non-transport fuels
GWh

574 GWh

| | |
|---|---|
| 2020 | 574 |
| 2019 | 583 |
| 2018 | 577 |
| 2017 | 544 |

Renewable energy

### Vehicle fuels
GWh

289 GWh

| | |
|---|---|
| 2020 | 289 |
| 2019 | 351 |
| 2018 | 368 |
| 2017 | 357 |

### Energy conservation measures identified under the EEB Program since 2017
Number

+471

| | |
|---|---|
| 2020 | 471 |
| 2019 | 446 |
| 2018 | 295 |
| 2017 | 155 |

## ENERGY EFFICIENCY IN BUILDINGS (EEB) PROGRAM

By focusing energy reduction efforts on our highest consumption buildings, we can have a significant impact on energy levels. More than 670 buildings are currently under the EEB program. In 2020, we exceeded our target of covering 80% of our energy consumption – the program currently accounts for 85% of electricity and 77% of non-transport fuels consumption.

## SUSTAINABLE TRANSPORT

In order to minimize $CO_2$ emissions, our Vehicle Emissions Policy promotes the use of low-emission fleet cars. The policy committed us to reducing our vehicle fleet $CO_2$ emissions every year from 2016 until 2020. However, the car market and its regulations are changing significantly. We have therefore extended our policy to 2021, so that we can work on a new policy that will cover our operations from 2020 onwards.

As part of our commitment set in our Vehicles Policy, we seek to implement procurement processes to find more environmentally friendly cars to curb $CO_2$ emissions and make our fleet more sustainable, particularly in those countries where we have the largest fleets. We have already integrated fully electric vehicles into our fleet and are running pilot projects to increase their number. We will analyze the data from devices placed in cars in Spain to better understand the most efficient type of vehicle based on its use.

Furthermore, prior to the pandemic we had already committed to a Green Travel Policy and a positive outcome of Covid-19 is the realization of how well SGS can operate remotely. We recognize that travel, especially road and air travel, has a direct impact on the environment, and had already made great efforts to reduce $CO_2$ emissions. Going forward, we hope to have as many remote meetings as possible, which will continue to minimize energy consumption from long-distance travel.

## ADD VALUE WITH LËSS

'Add Value with Lëss' was launched in 2015 and revamped in 2019 as a sustainability awareness raising initiative to increase efficiency and reduce time, energy and operational waste. Using SGS engaging bear, named Lëss, it is based on four 'paws' (or pillars) of Process, Environment, People and Quality.

With the onset of Covid-19, we quickly pivoted this program towards greater digitalization and engagement, and are including new tips that are relevant to the pandemic. These include helping our people to achieve a better work-life balance, and reduce their environmental impact when working from home.

We plan to expand the initiative in the first quarter of 2021, alongside a global communications campaign, and aim to cover 95% of employees in 2030.

## SUSTAINABLE IT

SGS has a well-established sustainable IT program, covering areas like sustainable data centers and migrating servers to the Cloud. Rationalizing our data centers has had a significant impact on our energy consumption. We achieved our commitment that by 2020 we would have migrated 80% of the servers we had in 2018.

We are now working on a new sustainable IT strategy, which is even more advanced and holistic. We want to reduce $CO_2$ emissions further, embedding circular economy principles into our IT processes, cutting waste generated from old laptops and phones and reducing printing and paper consumption. Additionally, as well as looking at the environment and cyber-security, IT can support environmental, social and government aims.

## USING RENEWABLE ENERGY

Wherever possible, we introduce renewable energy to our operations. However, due to our numerous sites around the world and unavailability of renewables in certain geographies, using 100% renewable energy at SGS is a complex challenge. Having reached 95% energy from renewable sources, we have now extended our RE100 commitment to use 100% energy from renewable sources to 2025 in order to work towards closing the gap.

We use on-site energy generation and purchase electricity from renewable sources. While there are times when we still need to rely on diesel fuel, we will be investing more in renewable energy. Going forward, we are working on a new strategy planned to last until 2030.

## EXTERNAL PARTNERSHIPS AND INITIATIVES

To help us strengthen our sustainability performance, we establish external partnerships and take part in initiatives, including:

- RE100
- Climate Neutral Now
- Science Based Targets initiatives

We achieved A- in CDP's prestigious list for best practice initiatives against climate change. The annual ranking recognizes SGS' tangible actions to manage climate risks across our operations.

For more information on SGS external partnerships and initiatives, please refer to the SGS Sustainability Report.

## OFF-SETTING RESIDUAL EMISSIONS

Our priority is to reduce $CO_2$ emissions from our operations. However, where this isn't possible, any residual emissions are compensated through our carbon off-setting strategy. This enables us to attribute a specific cost to the carbon that we generate. Each SGS affiliate takes responsibility for their emissions and the cost of off-setting them.

## WATER AND WASTE MANAGEMENT

We know that the earth's resources are limited, and we are committed to managing our resources effectively to both save water and minimize waste.

## WATER MANAGEMENT PROGRAMS

Compared with other industries, our global water consumption is relatively low. Our main use of water is in our laboratories, and we also need water for drinking, sanitation and food preparation.

We monitor and seek to minimize the amount of water we consume across all our operations. Our Energy Efficiency in Buildings Program, for example, assesses water consumption and installations and recommends site-specific water efficiency improvements.

In 2021, we will continue to focus on water efficiency.

## WASTE MANAGEMENT PROGRAMS

Through our services, we handle quantities of hazardous and non-hazardous waste, which we need to dispose responsibly, without risk to our people, the environment or local communities. We produce relatively small amounts of waste compared with other industries. This includes chemicals, test samples, paper, plastic and organic waste from our offices and laboratories.

The waste is produced in varying proportions, determined by the industry or industries served by each site. Our mineral and construction businesses, for example, produce a relatively high volume of waste compared to other business lines, and so focuses heavily on this issue. We monitor our waste across all our operations and develop action plans to minimize waste as much as possible.

In 2020, we focused on improving reporting mechanisms, and our Add Value with Lëss initiative encouraged people to minimize their waste. We also drew on external resources to help us reuse and recycle materials in our facilities.

In 2021, we will continue our waste reduction programs, with an increased focus on plastics. We are also working on future waste management programs to embed the circular economy into our operations. This means keeping resources in use for as long as possible, extracting the maximum value from them while in use, then recovering and regenerating products and materials at the end of each service life.

## OUR KPIs

### Total energy
GWh

**863 GWh**

| | GWh |
|---|---|
| 2020 | 863 |
| 2019 | 934 |
| 2018 | 944 |
| 2017 | 902 |

### Total water purchased
Million m²

**1.71 m³**

| | |
|---|---|
| 2020 | 1.71 |
| 2019 | 1.90 |
| 2018 | 1.97 |
| 2017 | 1.89 |

### Total waste generated
Metric tons

**49 570 MT**

| | Metric tons |
|---|---|
| 2020 | 49 570 |
| 2019 | 54 032 |
| 2018 | 48 536 |
| 2017 | 45 698 |

**Case study**

# Helping companies to green their real estate portfolio

**NATURAL CAPITAL**

September 2020 saw governments, investors and corporates make multiple announcements during Climate Week and World Green Building Week committing to a net zero emissions society. These commitments align well with the EU Green Deal and will make Europe the world's first climate-neutral continent.

## THE CHALLENGE

Globally, buildings contribute to almost 20% of greenhouse gas emissions and consume 40% of the global electricity supply. The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and to pursue efforts to limit it to 1.5°C. In order to meet this agreement, we need to decrease the impact of our existing buildings and ensure that new buildings are constructed as carbon zero.

Whereas previously, companies would focus exclusively on a 'flagship' green building, the market is now shifting to encompass all assets under management. Companies are setting ambitious carbon emission reduction targets but are not equipped with the necessary tools or support needed to achieve this transition.

## OUR SOLUTION

Since 2015, we have been a global certification provider for the International Finance Corporation's ('IFC') green building standard: Excellence in Design for Greater Efficiencies ('EDGE'). In September 2020, we announced a collaboration with Sintali to expand our services and scale.

Operating as a one-stop shop for EDGE certification and auditing, we work with Sintali to deliver the highest quality of service to customers.

Customers receive a single contract for both the EDGE audit and EDGE certification, with an all-inclusive price and expert advice at no additional cost.

Sintali-SGS also launched zero carbon services to support customers in the transition to becoming net zero. This service applies to portfolios of buildings across multiple sectors and countries, as well as to individual buildings.

## NEXT STEPS

Together with Sintali, we certified over 5 million m² worth of project floor area in 2020, leading to a $CO_2$ saving of 40 500 tons per year.

Going forward, we will focus on providing a pathway towards zero carbon. We expect to be certifying over 1 500 buildings next year, helping our customers to save over 100 000 tons of $CO_2$ emissions.

Read more about EDGE
**at www.sgs.com**

**"We are constantly seeking opportunities that will add value for our customers and innovate to provide an efficient service for EDGE audit and certification. Working with Sintali means we have the best team of professionals available to deliver certification for our customers and facilitate the transition to a sustainable future."**

**Harry Fernau**
Global Product Manager of Energy & Green Building at SGS

# 45 500

Tons of $CO_2$ saved per year after certifying over 5 million m$^2$ of project floor area

# 341 503

MWh of energy savings since 2017 of EDGE certified projects

**BETTER** | SAFER | MORE INTERCONNECTED

Operating as a one-stop shop for EDGE certification and audit services, Sintali and SGS offer customers a simple and transparent path to EDGE certification.

BETTER | **SAFER** | MORE INTERCONNECTED

SGS and Sintali act as a global certification services provider for EDGE, making buildings more efficient while maintaining safety.

BETTER | SAFER | **MORE INTERCONNECTED**

We provide EDGE certification in all countries around the world, striving to save our planet for future generations.

## Measuring our value to society

# Adding value for customers, business and society

### QUANTIFYING OUR VALUE TO SOCIETY

With the aim of continuously delivering sustainable value to all our stakeholders across the whole value chain, we have developed a methodology, our SGS Impact Valuation Framework, that provides a more holistic view of the value we create. This pioneering methodology moves beyond financial outcomes and monetizes the non-financial positive and negative impacts our activities have on the environment and society as a whole.

Our methodology is based on the Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC) which recognizes six forms of capital on which a business' success depends: financial, manufactured, intellectual, human, social and relationship, and natural. For each one of them, we have defined indicators that will help us to understand the impacts in each capital. Examples of these impacts are the effect on human health of work-related incidents or well-being initiatives, knowledge development induced by training programs or climate change-related impacts due to our energy consumption.

In the future, the results of our assessment will guide us in maximizing our positive impacts and minimizing our negative impacts and give us the potential to enable better strategic decision-making.

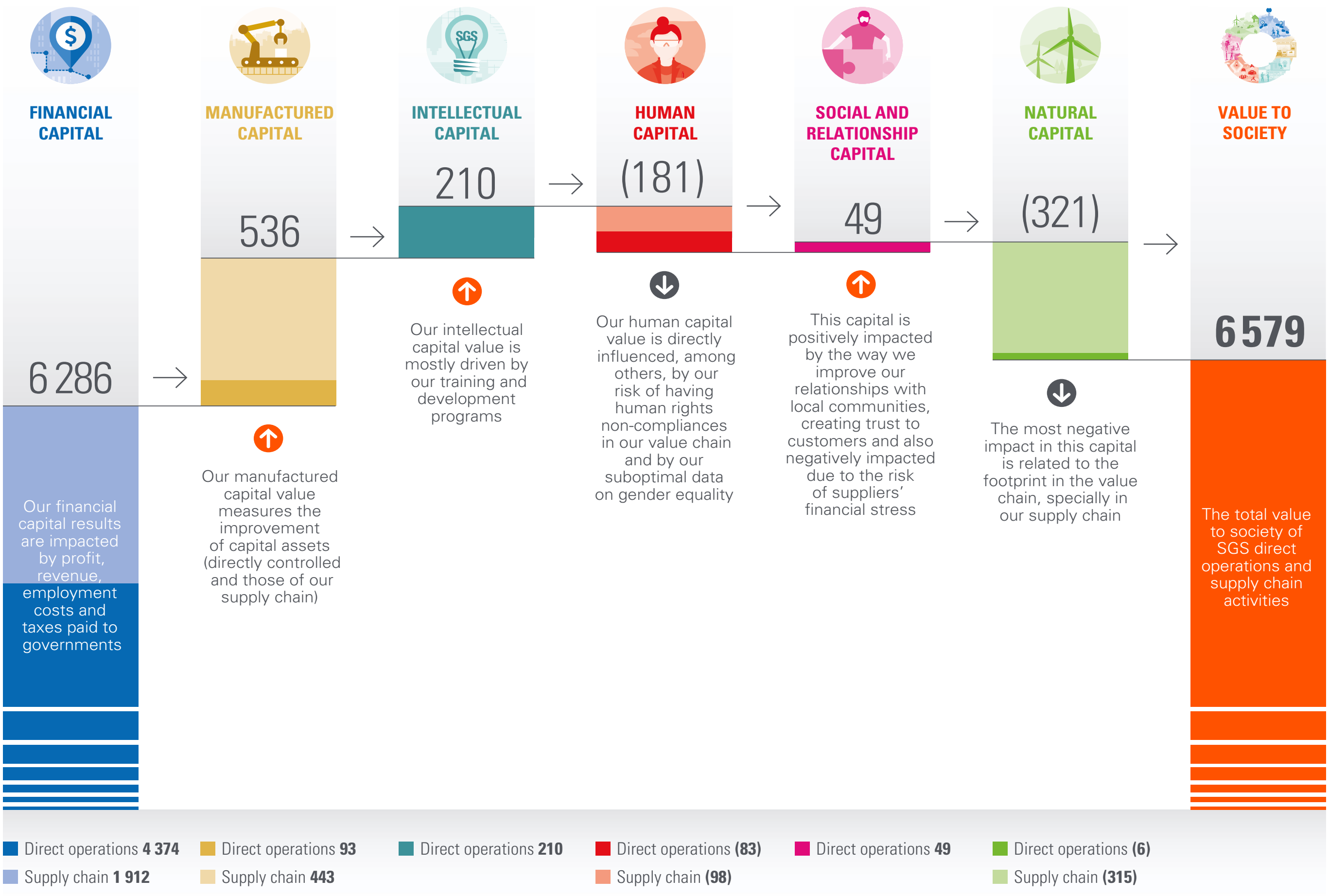
### RESULTS

Using our SGS Impact Valuation Framework for our direct operations and supply chain, we have calculated that the value we create due to positive impacts to society is 7 380 million CHF, primarily driven by profit generation, the paying of taxes and wages, investment in training programs and data security. We also destroyed 801 million CHF of negative societal impacts, primarily driven by the environmental footprint of our supply chain. This amounts to a net value to society of 6 579 million CHF.

While we do aim to provide a comprehensive analysis of our value chain, our diverse service portfolio and geographic spread make it extremely complex to evaluate the impact of all our services. We are currently developing a methodology for carrying out this analysis and, once it has been finalized and implemented, we expect to see a significant increase in our Value to Society.

Read **pages 23 to 26** of our 2020 Corporate Sustainability Report online at: **www.sgs.com/en/sustainability-report**

### 2019 SGS VALUE TO SOCIETY (MILLION CHF)[1]




1. Value to society is calculated using 2019 figures. Within each capital we have identified positive and negative impacts. The values presented in each capital are the result of adding the positive impacts and subtracting the negative impacts.

# Our approach to sustainability 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 and balanced, and meets the needs of our stakeholders.

## SCOPE AND BOUNDARIES

The scope of the Sustainability Information contained in this Integrated Annual Report1 covers all regions and business lines of the SGS Group for the 2020 calendar year. A full list of SGS affiliates can be found on **pages 193 to 195** of this report. Unless stated otherwise, our reported data scope covers the Group business and targets for the period 1 January to 31 December 2020.

We have identified and prioritized our most material impacts on the business and on stakeholders across our value chain, and this Integrated 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 **page 32** 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 to prior year data are disclosed where they first appear in the report.

## EXTERNAL STANDARDS

For the past ten years, SGS has published a Sustainability Report, and since 2015, we have integrated sustainability content into our Integrated 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. In 2019, we moved forward again with our alignment to the integrated reporting framework by using the six Capitals it defines as the structure of our Integrated Annual Report.

The sustainability content in this Integrated Annual Report is drawn from our **Corporate Sustainability Report**. Since 2013, our Sustainability Report has been developed using the guidelines for the AA1000 Accountability Principles Standard and the Global Reporting Initiative's Standards. In 2020 we have also aligned our reporting with the Sustainability Accounting Standard ('Standard') for the Professional & Commercial Services Industry (SASB) Our Sustainability Basis of Reporting explains further our reporting approach.

## 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 2020, 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 2020. Documents relating to independent external assurance in the years prior to 2020 are available in our Reports, Policies and Multimedia section on our website: www.sgs.com/en/our-company/corporate-sustainability/sustainability-at-sgs/reports-policies-and-multimedia.

Please see independent assurance for further information about our assurance process on **pages 78 and 79** of this Integrated Annual Report.

The sustainability content can be found on pages 11, 20-21, 30-31, 32-33, 50-53, 56-61, 64-69, 70-73, 76-77 of this Report.

# Measuring our value to society continued

Deloitte.

Deloitte SA
Rue du Pré-de-la-Bichette 1
1202 Geneva
Switzerland

Phone: +41 (0)58 279 8000
Fax: +41 (0)58 279 8800
www.deloitte.ch

**Independent limited assurance statement by Deloitte SA to SGS SA in accordance with ISAE 3000 (Revised) over the selected sustainability information presented in the 2020 SGS Annual Report**

***What we looked at: Scope of our work***

SGS SA ("SGS") has engaged us to perform limited assurance in respect of the SGS Sustainability Report for the year ended 31 December 2020. Our separate opinion will be published in that document.

Selected sustainability information from the Sustainability Report also appears in the SGS Annual Report for the year ended 31 December 2020 ("the Report"). The selected sustainability information which comprises the Subject Matter relevant to this assurance statement appears on pages 5, 8, 11, 18-21, 30-33, 42, 50-53, 56-61, 64, 66-73, 76-77 of the Report. The Subject Matter is to be prepared in accordance with the SGS Basis of Reporting document (Version 1) dated 16 February 2021, which is based on the principles of the Global Reporting Initiative (GRI) Standards and is available to users on request.

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

Our limited assurance engagement on the Subject Matter was conducted by a multi-disciplinary team of sustainability and assurance specialists in accordance with the International Standard for Assurance Engagement (ISAE) 3000 (Revised), issued by the International Auditing and Assurance Standards Board.

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 organisation 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 organisations and from year to year within an organisation as methodologies develop.

***What we did: key assurance procedures***

To form our conclusions, we undertook the following procedures:

- Interviewed selected management based 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;
- Identified potential material quantitative and qualitative sustainability key performance indicators and disclosures from the 2019 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 (selected as per the methodology noted above and presented in Table 1 below) and a sample of related disclosures we undertook the following procedures:
    - 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;
    - tested the operating effectiveness of key data validation review and sign-off controls;
    - conducted trend analyses on full year data to identify and query anomalies in reported data;
    - conducted sample-based substantive testing of Operational Integrity, to assess the accuracy of data classification, in line with the group Reporting Criteria; and
    - completed a check of 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.
- Selected a sample of qualitative disclosures significant to the subject matter throughout the Report, and tested SGS' assertions against underlying evidence. As noted above, this also includes testing material qualitative disclosures which relate to the performance of the selected sustainability key performance indicators denoted in Table 1; and

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SGS SA
2020 Annual Report
Assurance Statement

- 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 $CO2_e$)
- 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 2020 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

***Emphasis of matter***

We draw attention to page 77 of the Report that explains that the Subject Matter has been prepared in accordance with the SGS Basis of Reporting, which is based on the Global Reporting Initiative (GRI) Standards. The Basis of Reporting sets out the methodology of bespoke indicators not prepared in accordance with the GRI Standards. One bespoke indicator is the Scope 1 GHG inventory which excludes direct emissions from refrigerants consumption. As disclosed in the SGS Basis of Reporting, management note that sufficient data is not practicably available to make a reasonable estimation for the refrigerants emissions given the high annual variability of refrigerant consumption. A disclosure has therefore been provided on page 71 of the SGS 2020 Annual Report as a caveat to the Scope 1 inventory exclusion. This emphasis of matter did not modify our assurance opinion, as stated above.

***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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, 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**

| | |
|---|---|
| Matthew Sheerin<br>Partner | Aurélie Darrigade<br>Director |

23 February 2021

# CORPORATE GOVERNANCE

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



4

# 1. Group Structure and Shareholders

## 1.1. GROUP STRUCTURE

### 1.1.1. OPERATIONAL GROUP STRUCTURE

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

The shares of SGS SA are listed on the SIX Swiss Exchange and are traded on SIX Europe (Swiss Security Number: 249745; ISIN: CH0002497458). On 31 December 2020, market capitalization was approximately CHF 20 201 million (2019: CHF 20 057 million).

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

At 31 December 2020, geographic operations were organized as follows:

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

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

At 31 December 2020, the business lines were organized as follows:

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

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

With effect as of January 2021, the Group has implemented a reorganization of its activities in order to respond to strategic directions decided by the Group and to achieve operational efficiencies. A simplified business structure has been introduced consisting of six focus areas composed of four divisions: Connectivity & Products, Health & Nutrition, Industries & Environment and Natural Resources and two cross-divisional strategic units: Knowledge and Digital & Innovation.

## GEOGRAPHIC LOCATIONS

At 31 December 2020, geographic operations are organized as follows:

**AMERICAS**

North America

Latin America

**EUROPE, AFRICA, MIDDLE EAST**

Africa & Western Europe

North & Central Europe

Eastern Europe & Middle East

**ASIA PACIFIC**

North East Asia

South East Asia & Pacific

#### 1.1.2. LISTED COMPANIES IN THE GROUP

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

#### 1.1.3. NON-LISTED COMPANIES IN THE GROUP

The material legal entities consolidated within the Group are listed on pages 193 to 195 of the Annual Report, with details of the share capital, the percentage of shares controlled directly or indirectly by SGS SA and the registered office or principal place of business. The list of legal entities is limited to entities whose contribution to the Group revenues in 2020 represent at least 1% of the consolidated revenues. This definition of materiality excludes dormant companies, pure sub-holding companies or entities used solely for the detention of assets. Details of acquisitions and disposals made by the SGS Group during 2020 are provided in note 3 of the consolidated financial statements included in the section 2020 Results on pages 137 and 138 of this Annual Report.

### 1.2. SIGNIFICANT SHAREHOLDERS

To the knowledge of the Company the shareholders owning more than 3% of its share capital as at 31 December 2020, or as the date of their last notification as per Article 20 of the Swiss Stock Exchange Act (SESTA) were Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) with 18.91% (December 2019: 16.73%) of the share capital and voting rights of the Company. As at 31 December 2020, the SGS Group held 1.28% of the share capital of the Company (2019: 0.18%).

During 2020, the Company has published regularly on the electronic platform of the Disclosure Office of the SIX Swiss Exchange Ltd. all disclosure notifications received from shareholders of transactions subject to the disclosure obligations of Article 20 SESTA.

### 1.3. CROSS-SHAREHOLDINGS

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

## 2. Capital Structure

### 2.1. ISSUED SHARE CAPITAL

The share capital of SGS SA is 7 565 732 as of 31 December 2020 and comprises 7 565 732 fully, paid-in, registered shares of a par value of CHF 1. On 31 December 2020, SGS SA held 96 494 treasury shares (2019: 13 342). Shares repurchased for cancellation purpose are directly held by SGS SA, 3 382 shares repurchased to cover equity compensation plans are held by a subsidiary company.

In 2020, 3 382 treasury shares were sold and 15 834 shares were purchased to cover the equity compensation plans.

On 13 February 2020, the Group announced a share buyback program for the purposes of capital reduction which ended on December 17, 2020. Under this program, SGS SA repurchased 70 700 shares on a second trading line on SIX Swiss Exchange for a total amount of CHF 169.3 million at an average purchase price of CHF 2 394.62 per share. SGS SA intends to request shareholders to approve the cancellation of the 70 700 shares at its 2021 Annual General Meeting.

### 2.2. AUTHORIZED AND CONDITIONAL SHARE CAPITAL

The Board of Directors has the authority to increase the share capital of the Company by a maximum of 500 000 registered shares with a par value of CHF 1 each, corresponding to a maximum increase of CHF 500 000 in share capital. If increased by the maximum amount of the authorized share capital, the existing share capital of 7 565 732 shares would grow by approximately 6.6% to 8 065 732 shares. The Board is authorized to issue the new shares at the market conditions prevailing at the time of issue. In the event that the new shares are issued for the purpose of an acquisition, the Board is authorized to waive the shareholders' preferential right of subscription or to allocate such subscription rights to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 23 March 2021. The Board of Directors will propose to the next Annual General Meeting of Shareholders an extension for two more years, until 23 March 2023.

The shareholders have conditionally approved an increase of share capital by an amount of CHF 1 100 000 divided into 1 100 000 registered shares with a par value of CHF 1 each. This conditional share capital increase is intended to obtain the shares necessary to meet the Company's obligations with respect to employee equity-based remuneration plans and option or conversion rights of convertible bonds or similar equity-linked instruments that the Board is authorized to issue. If increased by the maximum amount of the conditional share capital, the existing share capital of 7 565 732 shares would increase by approximately 14.5% to 8 665 732 shares. The conditional capital is not limited in time.

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

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

### 2.3. CHANGES IN CAPITAL

The share capital of the Company was reduced twice in the last years, once in 2017 and once in 2019 to cancel shares purchased by application of share buyback programs initiated by the Company. In 2019, the shareholders approved a reduction of the share capital, by cancellation of 68 000 shares. Consequently, the share capital of the Company was reduced from CHF 7 633 732 to 7 565 732 in 2019.

Previously, in 2017, the share capital was reduced from CHF 7 822 436 to CHF 7 633 732 by cancellation of 188 704 shares purchased by the Company.

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. In 2020, no options or similar instruments have been issued by the Company or by any of the Group's subsidiaries.

Options plans previously granted to members of the Operations Council, to senior managers and selected key employees have been discontinued by the Company in 2015 and the last outstanding options under this legacy stock option plan have expired or were exercised, in 2020.

## 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.

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

The competencies sought by the Group for its Board of Directors include, experience of senior executive leadership in international businesses, strategic planning, finance, technology and innovation. When selecting candidates to the Board of Directors, the Company has due regards to the experience, professional qualifications, areas of expertise, age, gender and national background as well as leadership style, so that at all time, the Board and its Committees have the required skills.

At the Annual Shareholders Meeting of March 2020, two members of the Board of Directors did not stand for re-election, namely Mr. Peter Kalantzis and Mr. Luitpold von Finck. During the same meeting Sami Atiya and Tobias Hartmann were appointed to the Board of Directors. Biographical information on former members of the Board of Directors is available in the Corporate Governance reports of prior years, including pages 93 to 95 of the 2019 Integrated Annual Report.

The members of the Board of Directors at 31 December 2020 were as follows:

#### CALVIN GRIEDER (1955)
SWISS

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

**Initial appointment to the Board**
March 2019

**Professional Background**
He holds an Engineering Master of Science from the ETH Zurich and has completed an Advanced Management Program (AMP) at Harvard University.

Calvin Grieder has held various executive positions at Swiss and German companies (Georg Fischer, Bürkert, Mikron, SIG and Swisscom), all active in the areas of control technology, automation, and system engineering. In these roles, he was primarily responsible for successfully establishing and expanding international businesses. In 2001, Calvin Grieder moved from Swisscom (Head of Mobile & Internet Business) to the Bühler Group, where he acted as CEO for 15 years.

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

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

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

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

* Listed company

## SAMI ATIYA (1964)
GERMAN

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

### Initial appointment to the Board
March 2020

### Professional Background
ABB Ltd (CH, SE), Member of the Group Executive Committee since 2016 and President of ABB's Robotics & Discrete Automation business.

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

## PAUL DESMARAIS, JR. (1954)
CANADIAN

### Function in SGS
Member:
- Board of Directors

### Initial appointment to the Board
July 2013

### Professional Background
Chairman, Power Corporation of Canada*.

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

He has received honorary doctorates from various Canadian universities.

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

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

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

### Other Activities and Functions
Groupe Bruxelles Lambert, Brussels (BE), Chairman of the Board of Directors*

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

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

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

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

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

## AUGUST FRANÇOIS VON FINCK (1968)
SWISS

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

### Initial appointment to the Board
- May 2002

### Professional Background
August François von Finck holds a Master of Business Administration from Georgetown University, Washington. D.C.

### Other Activities and Functions
Custodia Holding SE, Munich (DE), Member of the Board since 2018*

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-BELGIAN

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

### Initial appointment to the Board
July 2013

### Professional Background
CEO of Groupe Bruxelles Lambert since 2012*.

Ian Gallienne has an MBA from INSEAD in Fontainebleau. From 1998 to 2005, he was a Director at the private equity funds Rhône Capital LLC in New York and London. In 2005, he founded the private equity fund Ergon Capital Partners in Brussels and was its Managing Director until 2012.

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

### Other Activities and Functions
adidas (D), Member of the Supervisory Board*

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

Marnix French ParentCo (Webhelp group), Paris (France)

* Listed company

## CORNELIUS GRUPP (1947)
AUSTRIAN

### Function in SGS
Member:
- Board of Directors

### 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 aluminum, 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

## TOBIAS HARTMANN (1972)
GERMAN

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

### Initial appointment to the Board
March 2020

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

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

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

Mr. Hartmann has a proven track record of developing, expanding and optimizing existing business models, services and product offerings for both public and private companies with B2B and B2C business models.

### Other Activities and Functions
Zur Rose Group AG (CH), Member of the Board of Directors

## GÉRARD LAMARCHE (1961)
BELGIAN

### Function in SGS
Member:
- Board of Directors

Chairman:
- Audit Committee

### Initial appointment to the Board
July 2013

### Professional Background
Chairman of Multifin SA (BE), since 2019.

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 was the Co-CEO of Groupe Bruxelles Lambert from 2012 to 2019.

### Other Activities and Functions
Umicore, Brussels (B), Member of the Board*

Groupe Bruxelles Lambert (BE), Member of the Board*

## SHELBY R. DU PASQUIER (1960)
SWISS

### Function in SGS
Member:
- Board of Directors

Chairman:
- Remuneration Committee

### Initial appointment to the Board
March 2006

### Professional Background
Attorney at Law, Partner, Lenz & Staehelin Law firm, Geneva.

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

### Other Activities and Functions
Swiss National Bank, Member of the Board since 2012*

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

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

## KORY SORENSON (1968)
BRITISH

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

### Initial appointment to the Board
March 2019

### Professional Background
Kory Sorenson has a DESS in Corporate Finance from the Institut d'Etudes Politiques de Paris and a master's degree in Applied Economics from the Université de Paris – Dauphine. She also holds a bachelor's degree in Econometrics and Political Science from the American University in Washington, D.C., a certificate in Governance from Harvard Executive Education and a certificate in Leadership and Governance from INSEAD, and a certificate from Stanford GSB, for the 2020 fall session of the Stanford Business Leadership Series.

She began her career in finance in 1992 in the Treasury Department of Total in Paris before moving to banking in 1995 and investment banking in 1997. She was Managing Director, Head of Insurance Capital Markets of Barclays Capital, and held senior positions in the capital markets and the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley.

### Other Activities and Functions
SCOR SE, Paris (FR), Member of the Board and Chair of the Audit Committee, member of the Risk, Strategic, and Crisis Committees*

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

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

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

* Listed company

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

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

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

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

Based on this review, the Board has concluded that a majority of the Directors are independent on the basis of these criteria and all of them are free of any relationship that could materially interfere with the exercise of their independent judgment.

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

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

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

### 3.2. OTHER ACTIVITIES

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

### 3.3. LIMITS ON EXTERNAL MANDATES

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

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

### 3.4. ELECTIONS AND TERMS OF OFFICE

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

### 3.5. INTERNAL ORGANIZATIONAL STRUCTURE

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

#### 3.5.1. ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

The Chairman of the Board is elected by the Annual 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 Remuneration Committee, who are elected by the shareholders, the members of other Committees are appointed by the Board.

### 3.5.2. MEMBERS LIST, TASKS AND AREA OF RESPONSIBILITY FOR EACH COMMITTEE OF THE BOARD OF DIRECTORS

The following chart describes the Committees and their membership as at 31 December 2020:

| | REMUNERATION | AUDIT | CORPORATE GOVERNANCE & SUSTAINABILITY |
|---|---|---|---|
| Sami Atiya | | | M |
| August François von Fink | | | M |
| Ian Gallienne | M | | M |
| Calvin Grieder | | | C |
| Tobias Hartmann | | M | |
| Gérard Lamarche | | C | |
| Shelby R. du Pasquier | C | | |
| Kory Sorenson | M | M | |

C Chair M Member

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

Each Committee acts within terms of reference established by the Board of Directors and set out in the internal regulations of the Company. The minutes of their meetings are available to all Directors. In 2020, the Board conducted a full revision of the Company's Internal Regulations and reviewed the allocation of tasks between its Committees.

#### Remuneration Committee

Members of the Remuneration Committee are elected individually by the Annual Meeting of Shareholders, with the chairman of the Committee designated among them by the Board of Directors. As part of the revision of the Internal Regulations of the Company, the Remuneration Committee is now focused entirely on matters of executive remuneration. Matters pertaining to appointment and succession planning of the Group officers have been delegated to the Corporate Governance & Sustainability Committee. The Remuneration Committee acts in part in an advisory capacity to the Board, and in part as a decision-making body on matters that the Board has delegated to the Committee. The Committee advises the Board of Directors on matters regarding the remuneration of the Members of the Board of Directors and Management, and on general policies relating to remuneration applicable to the Group. The Committee defines the conditions of share-based remuneration plans or other plans for the allocation of shares, issued from time to time by the Company. The Committee reviews and approves the contractual terms of the employment of the Chief Executive Officer and the other members of the Management. The Committee reviews regularly, at least once a year, the compensation of each member of the Operations Council. The Committee drafts the SGS Remuneration Report.

#### Audit Committee

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

#### Corporate Governance & Sustainability Committee

The Corporate Governance & Sustainability Committee assists the Board in the succession planning, selection and nomination of candidates to positions to the Board of Directors and to the senior management (Operations Council) of the Group.

The Committee supports the Board of Directors and Management in establishing policies relating to professional conduct and compliance and oversees their implementation. The Group's compliance policies are embodied in the Code of Integrity, which sets out the principles governing business conduct, which are applied across the whole SGS Group. The Committee assists the Board in defining the Group policies and strategies relating to sustainability, including matters relevant to the Group reputation and non-financial risks.

During the course of 2020, the ability of the Board and its Committee to hold physical meeting was curtailed by measures implemented to limit the contagion of Covid-19. In response to this circumstance, the Board and Committee held meetings by telephone and videoconference, the frequency of which was greater than usual, with such meetings being usually shorter than a regular physical meeting. The table below does not make any distinction between physical and remote meetings of the Board and its Committees.

| MEETINGS HELD IN 2020 | FREQUENCY OF MEETINGS | AVERAGE DURATION OF MEETINGS |
|---|---|---|
| Board of Directors | 11 times | 2.5 hours |
| Remuneration Committee | 5 times | 1.5 hours |
| Audit Committee | 7 times | 2 hours |
| Corporate Governance & Sustainability Committee | 3 times | 1 hour |

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

### ATTENDANCE TO BOARD AND COMMITTEE MEETINGS

The Board of Directors expect its members to attend and participate actively to its meetings and meetings of its Committees and has set a minimum target of attendance at 75% of meetings. The chart below summarizes the attendance by each Board Member in 2020 at the meetings of the Board and the respective standing Committees.

| MEMBER | BOARD MEETINGS | NOMINATION & REMUNERATION | AUDIT | CORPORATE GOVERNANCE & SUSTAINABILITY |
|---|---|---|---|---|
| Peter Kalantzis[1] | 3/3 | | | |
| Calvin Grieder | 11/11 | | | 3/3 |
| Samy Atiya[2] | 8/8 | | | 2/2[3] |
| Paul Desmarais, Jr. | 10/11 | | | |
| August François von Finck | 11/11 | 1/1[4] | 2/2[4] | 2/2[3] |
| Luitpold von Finck[1] | 2/3 | | | |
| Ian Gallienne | 11/11 | 5/5 | | 2/2[3] |
| Tobias Hartmann[2] | 7/8 | | 5/5[3] | |
| Cornelius Grupp | 11/11 | | | 1/1 |
| Gérald Lamarche | 11/11 | | 7/7 | |
| Shelby R. du Pasquier | 10/11 | 5/5 | | 1/1 |
| Kory Sorenson[1] | 11/11 | 4/4[3] | 7/7 | |

1. Directors not re-elected in March 2020 – 2. Directors elected for the first time in March 2020 – 3. Member of the Committee since March 2020
4. Member of the Committee until March 2020

### 3.6. DEFINITION OF AREAS OF RESPONSIBILITY

The Board of Directors is responsible for the ultimate direction of the Group.

The Board discharges all duties and responsibilities that are attributed to it by law. In particular, the Board:

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

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

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

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

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 Remuneration Committee, and Corporate Governance & Sustainability Committee, and the General Counsel and Chief Compliance Officer attends all meetings of the Board of Directors and its Committees.

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

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

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

#### E. OTHER

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

#### F. RISK ASSESSMENT

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

The Board deliberates on the adequacy of measures in place to mitigate and manage risks and assigns responsibility to designated managers for implementation of such measures. As part of this process, the ownership of and accountability for identified risks are approved by the Board. The implementation of such actions is audited by Internal Audit. These findings are communicated to the Board of Directors so that progress and identified risks can be monitored objectively and independently from Management.

The risks identified and monitored by the Board fall broadly into three categories: first, environment risk, which includes circumstances outside the Group's direct sphere of influence, such as competition and economic or political landscape; second, process risks that include risks linked to the operations of the business, the management of the Group and the integrity of its reputation in the market place; and third, risks associated with information and decision-making.
For each of the risk categories and within these categories, for each significant risk identified, the Board deliberates on proposed mitigation, risk avoidance or risk transfer measures and approves action plans designed to control such risks.
The Board receives regular updates on the implementation of risks mitigation measures and their effectiveness is tested by Internal Audit which reports to the Board, respectively the Audit Committee.

## 4. Operations Council

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

### 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 2020 were as follows:

#### FRANKIE NG (1966)
SWISS/CHINESE

Chief Executive Officer

BA in Economics and Electronics Engineering

Joined SGS in 1994

**Previous responsibilities**
2011–2015: EVP, Industrial Services

2005–2011: EVP, Consumer Testing Services

2002–2004: Managing Director, US Testing

#### DOMINIK DE DANIEL (1975)
SWISS/GERMAN

Chief Finance Officer (since February 2019)

Degree in Banking, CEFA Investment Analyst

Joined SGS in 2019

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

2006–2015: CFO Adecco Group, Switzerland

#### OLIVIER MERKT (1962)
SWISS

Chief Compliance Officer

Doctorate in Law, admitted to the bar in Switzerland

Joined SGS in 2001

**Previous responsibilities**
2006–2008: VP, Corporate Development

2001–2006: Senior Counsel

#### TEYMUR ABASOV (1972)
AZERBAIJANI

COO, Eastern Europe & Middle East

Degree in Electrical Engineering

Joined SGS in 1994

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

2004–2006: Managing Director, Azerbaijan and Georgia

2003–2004: Managing Director, Georgia

#### HELMUT CHIK (1966)
CHINESE

COO, North East Asia

Master of 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

#### FABRICE EGLOFF (1969)
FRENCH

COO, Africa & Western Europe

Master of Business Administration in International Business Affairs

Joined SGS in 1995

**Previous responsibilities**
2017–2019: COO Africa

2009–2017: Managing Director, France

2004–2008: Managing Director, Hong Kong

#### LUIS FELIPE ELIAS (1959)
PERUVIAN

COO, Latin America

Industrial Engineering Degree and MBA

Joined SGS in 2004

**Previous responsibilities**
2012–2018: Managing Director, Ecuador and Peru

2004–2012: Deputy Managing Director, Peru

#### DERICK GOVENDER (1970)
SOUTH AFRICAN

EVP, Minerals

Diploma in Analytical Chemistry

Postgraduate 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

#### JOSÉ MARÍA HERNÁNDEZ-SAMPELAYO (1961)
SPANISH

SVP, Human Resources

Bachelor in Law

Master of Business Administration

Joined SGS in 1996

**Previous responsibilities**
2010–2017: Managing Director, Spain

2001–2010: HR Manager, Western Europe

1996–2010: HR Manager, Spain

### CHARLES LY WA HOI (1966)
FRENCH

EVP, Consumer and Retail

Degree in Electronics Engineering from ENSEIRB-MATMECA

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

### 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

### TOBY REEKS (1976)
BRITISH

SVP, Investor Relations

BA in Economics

Joined SGS in 2018

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 & 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
COO Northern & Central Europe (since October 2020)

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

### SIDDI WOUTERS (1973)
DUTCH

SVP, Digital & Innovation (since October 2020)

Master's degree in Applied Physics

Joined SGS in 2020

Previous work experience
Rabobank (NL) Executive Vice President and Head of Digital Innovation

Technip FMC, Digital Officer

Kongsberg Gruppen, Chief Technology Officer

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

### DERICK GOVENDER
Member of IPMI (International Precious Metal Institute)

## 4.3. CHANGES IN THE OPERATIONS COUNCIL
During 2020, Dirk Hellemans, COO North & Central Europe; Christophe Heidler, Chief Information Officer; Frédéric Herren, SVP Digital & Innovation and Roger Kamgaing, EVP, GIS left the Group. Peter Possemiers, EVP EHS has stepped down from the Operations Council as of 31 December 2020 to assume other management responsibilities within the Group.

Biographical information on former members of the Operations Council may be found in prior years' Corporate Governance reports, including pages 99 to 101 of the 2019 Integrated Annual Report.

## 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 10 such memberships.

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

# 5. Compensation, Shareholdings and Loans

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

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

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

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

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

### 5.2. RULES ON APPROBATION BY THE ANNUAL SHAREHOLDERS MEETING OF EXECUTIVE PAY

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

The Company's Articles of Association define the principles of the variable remuneration and the allocation of shares or equity-linked instruments to the members of the Operations Council. Please refer to the Remuneration Report page 99 to 101 for a description of the Company's rules in the matter.

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

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

Loans granted to members of the governing bodies of the Company may not exceed one year of remuneration and must be granted at market conditions. As at 31 December 2020, as at 31 December 2019, no loan or advance is granted by the Group to members of the Operations Council.

#### 5.2.3. RULES ON VOTE ON PAY

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

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

Resolutions of such matters are binding to the Board of Directors. In addition, the Annual General Meeting is invited to cast a non-binding vote on the Remuneration Report that describes the Company's remunerations policies. This allows shareholders to express a view on the overall policies of the Group in relation to remuneration.

# 6. Shareholders' Participation Rights

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

### 6.1. VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

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

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

#### 6.1.2. RULES ON INSTRUCTIONS TO THE INDEPENDENT PROXY AND ELECTRONIC PARTICIPATION IN THE ANNUAL SHAREHOLDERS MEETING

Shareholders have the opportunity to give general or specific voting instructions to the independent proxy, who is elected by the General Meeting of Shareholders. Shareholders can give specific or generic voting instructions to the independent proxy on all matters on the agenda of the General Meeting of Shareholders. These instructions can be issued in written form, or by electronic transmission. The voting of resolutions by electronic votes is authorized by the Articles of Association, within the modalities defined by the Board of Directors.

### 6.2. STATUTORY QUORUMS

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

### 6.3. CONVOCATION OF GENERAL MEETINGS OF SHAREHOLDERS

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

### 6.4. INCLUSION OF ITEMS ON THE AGENDA

The Agenda of the 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 OF THE LEAD AUDITOR

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. The Company requires the Lead Auditor to be changed at the latest after completion of five annual audit cycles, whereas Swiss company law imposes a maximum period of seven years. When designated in 2017 as Lead Auditor, Matt Sheerin replaced James Baird, Lead Auditor for the financial years 2012 to 2016 inclusively.

The Audit Committee reviews annually the desirability to renew the annual mandate of its external auditors before proposing to the Board and the Annual General Meeting the re-election of the auditors. During the course of 2020, in view of the long tenure of the current auditors, the Company conducted a selection process for the selection of a new audit firm for the audit of the 2021 financial statements, which will be submitted for election to the March 2021 Annual General Meeting of Shareholders.

### 8.2. AUDIT FEES

Total audit fees paid to Deloitte for the audit of the Company and the Group financial statements in 2020 amounted to CHF 6.8 million (2019: CHF 7.2 million).

### 8.3. ADDITIONAL FEES

An aggregate amount of CHF 1 million (2019: CHF 1 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. INFORMATION INSTRUMENTS PERTAINING TO THE EXTERNAL AUDIT

The Audit Committee is responsible for evaluating the external auditor on behalf of the Board of Directors and conducts assessments of the audit services provided to the Group during its regular meetings. It meets with the auditor at least three times per year, including private sessions without the presence of Management. In 2020, the Audit Committee met four times with the external auditors.

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

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

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

The Audit Committee places a great emphasis on the independence of the external auditors, and on the absence of conflict of interests, both at the Group level and at the level of individual subsidiaries. It reviews carefully the type of other services which are provided by the auditors, in addition to the audit, to ensure that such ancillary services could not endanger the independence of the audits. Permitted other services include assistance with tax compliance matters, and limited assistance in due diligence or advisory services for prospective acquisitions.

The audit fees are approved on the basis of a negotiated budget agreed with the Group auditors taking into account the complexity of the audit, the structure of the Group and its internal control systems and the responsibility of the auditors.

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

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

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

The address of SGS main registered office and contact details by phone and email can be found on page 108 of the Annual Report.

# REMUNERATION REPORT

The SGS Remuneration Report provides an overview of the SGS remuneration model, its principles and programs and the related governance framework. The report also includes details on the remuneration of the Board of Directors and of the Operations Council related to the 2020 business year. The SGS Remuneration Report has been prepared in compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), in effect as of 1 January 2014, the Swiss Code of Best Practice for Corporate Governance of economiesuisse, approved on 28 August 2014, and the Swiss Exchange (SIX) Directive on Information relating to Corporate Governance, revised on 20 March 2018, and according to the Articles of Association of SGS SA, as approved by the shareholders at the Annual General Meeting in 2015.

5

# 1. Introduction by the Remuneration Committee

The Remuneration Committee is pleased to present its 2020 Remuneration Report.

2020 has been a very challenging year; the Covid-19 pandemic impacted our operations and those of our customers and suppliers, and had a significant impact on our people, their families and their professional and personal lives. The resilience of our people, their ability to adapt to the changes caused by the pandemic, such as mobility restrictions and the need to work remotely and their exemplary behavior in following the rules of hygiene and safety at work, have allowed the Group to continue to serve its customers and provide services that are often essential to society, beyond their commercial value.

The Committee engaged with the Group's executive management and provided guidelines on how to review and adjust, where needed, the compensation practices, with special focus on the 2020 short-term incentive plan for managers and employees not part of the Operations Council, with the aim to recognize their extraordinary contribution to the Group beyond the 2020 financial results.

The Committee reviewed also the 2020 short-term incentive for the Operations Council members and decided not to implement any change.

The 2018-2020 Long-Term Incentive plan, granted in 2018, vested on 1 February 2021, subject to continuity of employment of the participants and performance conditions. The Committee carefully reviewed the performance conditions and recommended to the Board of Directors their reassessment. Whilst the relative Total Shareholder Return (TSR)[1] did not require any specific consideration, the adjusted operating income margin[1] achievement has been reassessed to take into account both the exceptional impact that Covid-19 pandemic had on the 2020 financial performance of the Group, and the actual performance of the first two years of the plan. Details on the 2018-2020 Long-Term Incentive plan vesting are disclosed in section 5.3. of this Report.

During 2020, the Committee attended its statutory duties and worked on two other main topics: the preparation of the 2021–2023 Long-Term Incentive Plan for the Operations Council members and selected senior managers of the Group, and the review of the Short-Term Incentive plan for the Operations Council members for the performance year 2021 onwards.

The table below summarizes the main initiatives taken by the Committee during 2020.

| SUBJECT MATTER | DECISION POWER | MAIN ACTIVITIES |
|---|---|---|
| Individual remuneration of the members of the Board of Directors including the Chairman of the Board | Recommendation to the Board of Directors | Review of the fees linked to the chairmanship of the Committees, following the re-definition of the Board Committees |
| Establishment of Long-Term Incentive plans | Recommendation to the Board of Directors | Design of a new Long-Term Incentive plan for 2021 and onwards, after the vesting of the 2018-2020 plan |
| Individual remuneration of the CEO | Recommendation to the Board of Directors | Review of the Leadership Multiplier of the 2021 Short-Term Incentive plan, with the inclusion of Environmental, Social and Governance (ESG) metrics |
| Individual remuneration of the Operations Council members | Approval (based on the recommendation of the CEO) | Review of the Leadership Multiplier of the 2021 Short-Term Incentive plan, with the inclusion of Environmental, Social and Governance (ESG) metrics |
| Remuneration Report | Recommendation to the Board of Directors | Disclosure of the changes introduced in the 2021 Short-Term Incentive plan for Operations Council members and of the main elements of the Long-Term Incentive plan for 2021 onwards |

The fees linked to the chairmanship of the Audit Committee and of the Remuneration Committee have been increased, to account for the additional time commitment and responsibility of these roles. The new fees are disclosed in section 4 of this Report.

A new approach to Long-Term Incentives for the Operations Council members and selected senior managers of the Group has been defined; one change is a shift from one grant every three years to a system with annual grants. A transition plan, to be granted in 2021, has been defined. The new plan further includes changes in the relevant KPIs and in particular, the inclusion of ESG metrics. The main elements of the transition plan and the new annual grants system are disclosed in section 3.2.5. of this Report; the details of the 2021 plan will be disclosed in the 2021 Remuneration Report.

The Leadership Multiplier, part of the Short-Term Incentive plan for the OC members including the CEO, has been reviewed, to include in its assessment ESG metrics, in line with the Group's sustainability ambitions. The new Leadership Multiplier is described in section 3.2.3. of this Report.

The Committee reviewed and approved the contractual terms and conditions, including remuneration, of one new member of the Operations Council, appointed during 2020; the changes in the composition of the Operations Council are disclosed in section 4 of the Governance Report.

1. Definitions of total shareholder return and adjusted operating income margin are provided in section 3.2.4. of this report

Since 2015, the Board of Directors has implemented the consultative vote on the Remuneration Report and the binding vote on compensation amounts at the Annual General Meeting. The Committee received significant support in its activities and direction through positive votes at the Annual General Meeting 2020, and will continue with the same 'say-on-pay' vote structure at the forthcoming Annual General Meeting 2021:

- 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 2020
- Binding vote on the prospective maximum fixed remuneration amount of the Operations Council members for 2022
- Binding vote on the prospective maximum value of the grants awarded under the Long-Term Incentive plan to the Operations Council members in 2021

The table below summarizes the votes of the Annual General Meeting on the remuneration matters since 2015:

| (% of votes for) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Consultative vote on the Remuneration Report | 93.69 | 82.79 | 92.44 | 89.79 | 94.50 | 93.05 |
| Binding vote on the prospective maximum remuneration amount of the Board of Directors | 95.41 | 97.26 | 98.24 | 98.72 | 98.09 | 98.13 |
| Binding vote on the prospective maximum fixed remuneration amount of the Operations Council members | 95.29 | 98.27 | 80.11 | 75.61 | 80.28 | 95.58 |
| Binding vote on the retrospective short-term variable remuneration amount of the Operations Council members | 94.00 | 95.94 | 96.87 | 95.97 | 97.17 | 97.39 |
| Binding vote on the prospective maximum value of the grants awarded under the Long-Term Incentive plan to the Operations Council members[1] | 90.26 | – | – | 96.63 | – | – |

1. The SGS Long-Term Incentive plan provides a grant every three years; the last grant was done in 2018

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 2020. 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 R. du Pasquier**
Chairman of the 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 long-term sustainable value for our shareholders and the society.

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

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

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

## 2.2. REMUNERATION POLICY FOR THE EXECUTIVE MANAGEMENT

The Company's remuneration policy applicable to the executive management (Operations Council members) is defined by the Board of Directors in line with the Company's value to society ambitions, its 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 skillset 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

In line with its Anti-Discrimination and Dignity at Work policy, SGS is committed to promoting a workplace that provides equal opportunity for all employees and an environment in which all members of the workplace treat all individuals both in the workplace and in other work-related settings at all time with dignity, consideration and respect. All employment related decisions, including compensation, benefits, promotions, will be solely made on the basis of an individual's qualification, performance and behavior or other legitimate business considerations. SGS does not tolerate any discriminatory practice, in particular based on age, civil partnership, disability, ethnicity, family status, gender, gender identity, ideological views, marital status, nationality, political affiliation, pregnancy, religion, sexual orientation, social origin or any other status that is protected as a matter of local law.

### METHOD OF DETERMINATION OF REMUNERATION LEVELS – BENCHMARKING

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

- Competitors in the Testing, Inspection and Certification industry and internationally active companies within and outside Switzerland that operate in the business-to-business services sector: Adecco, ALS, Applus+, Bureau Veritas, Eurofins, Intertek, ISS, Mistras, Rentokil, Securitas, Sodexo, Team (the peer group of companies considered for the performance conditions of the Long-Term Incentive plan, see section 3.2.4.)
- All SMI-listed companies

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

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

The most recent executive compensation benchmark supported by a third-party services provider (Mercer) was performed in 2015. No third-party services provider was engaged to perform such benchmark in 2020.

## 2.3. REMUNERATION GOVERNANCE

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

### 2.3.1. REMUNERATION COMMITTEE

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

The following chart summarizes the authorization levels for the main decisions relating to the compensation of the Board of Directors and the Operations Council members. When reviewing and deciding on executive remuneration policies, the Committee and the Board of Directors have access to Group Human Resources staff and may use third-party consultants that specialize in compensation matters. In 2020, neither the Committee nor the Board of Directors had recourse to such external advisors.

| SUBJECT MATTER | CEO | REMUNERATION COMMITTEE | BOARD OF DIRECTORS | AGM |
|---|---|---|---|---|
| Aggregate remuneration amount of the Board of Directors | | | R | BV |
| Individual remuneration of the members of the Board of Directors including the Chairman of the Board | | R | ✓ | |
| Aggregate fixed remuneration amount of the Operations Council | | | R | BV |
| Aggregate short-term variable remuneration amount of the Operations Council | | | R | BV |
| Setting of annual financial targets for short-term variable remuneration of Operations Council members | R | | ✓ | |
| Establishment of Long-Term Incentive plans | | R | ✓ | |
| Aggregate value of the grants awarded under the Long-Term Incentive plan to Operations Council members | | | R | BV |
| Individual remuneration of the CEO | | R | ✓ | |
| Individual remuneration of the Operations Council members | R | ✓ | | |
| Remuneration Report | | R | ✓ | CV |

R Recommendation ✓ Approval BV Binding Vote CV Consultative Vote

The following Directors served on the Committee during their mandate from AGM 2020 to AGM 2021:

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

In 2020, the Committee met in five meetings, attended by all members, and handled several matters pertaining to remunerations outside scheduled meetings. The Chairman of the Remuneration Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to the members of the Board of Directors. Generally, the Chairman of the Board attends the meetings of the Committee, except when matters pertaining to his own compensation are being discussed.

Selected members of the Operations Council, the CEO and the Senior 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.

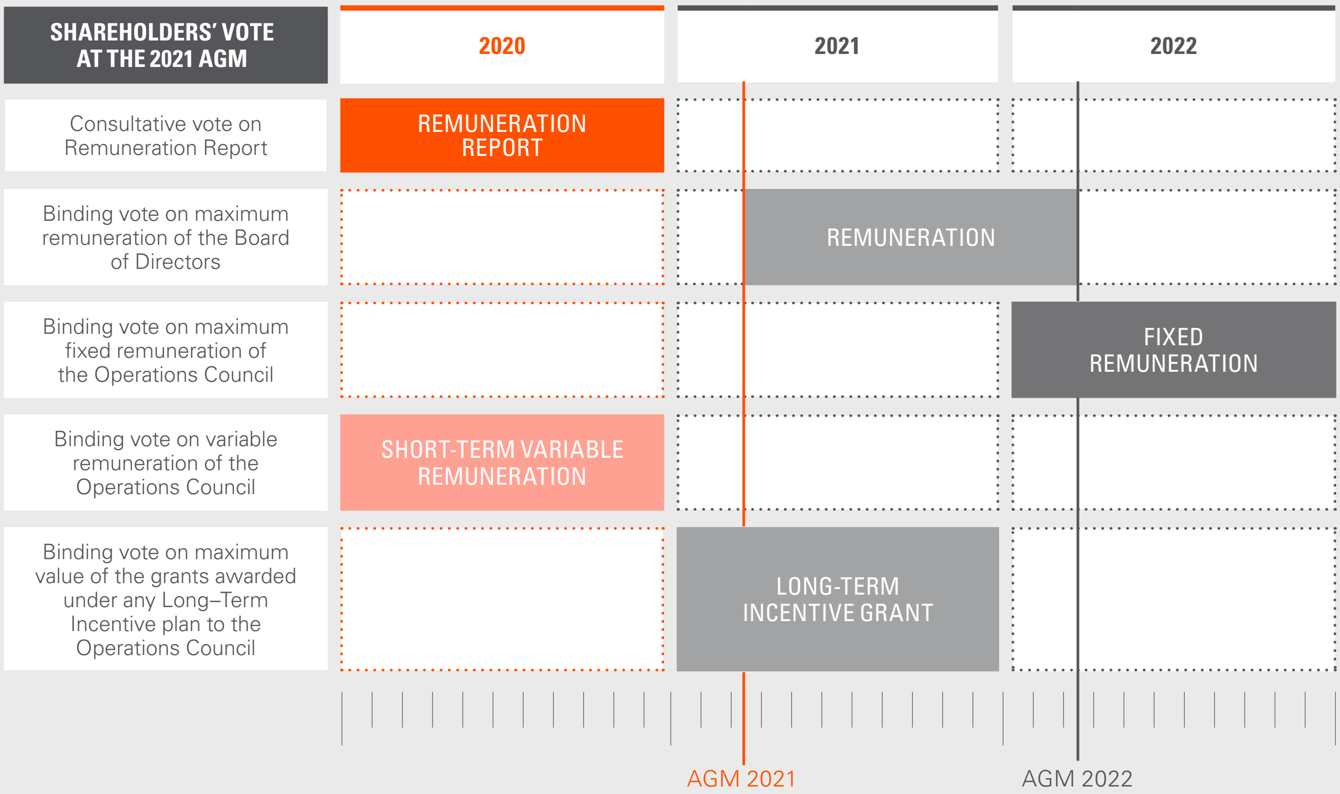
### 2.3.2. SHAREHOLDERS' ENGAGEMENT

As has been the case since the 2015 Annual General Meeting, 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 OaEC, the aggregate amounts of remuneration to be paid to members of the Board of Directors and the Operations Council are subject to the approval of the shareholders in form of a binding vote on remuneration. The procedure on the vote is defined in the Articles of Association and foresees separate votes on (i) the maximum remuneration of the Board of Directors for the period until the next Annual General Meeting, (ii) the maximum fixed remuneration of the Operations Council for the next calendar year, (iii) the variable remuneration awarded to the Operations Council in respect to the previous calendar year, and (iv) the maximum amount to be granted to the Operations Council under any Long-Term Incentive plan during the current calendar year.

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

**SHAREHOLDERS' VOTES ON REMUNERATION SUMMARY**




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

# 3. Remuneration Model

### 3.1. STRUCTURE OF REMUNERATION OF THE BOARD OF DIRECTORS

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

The amounts of the remuneration elements for the Chairman and the other Board members are defined by the Board of Directors every year. The maximum total amount is subject to the binding vote of the Annual General Meeting 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 (SUBJECT TO AGREEMENT WITH RELEVANT TAX AUTHORITIES) |
|---|---|---|---|
| **CHAIRMAN** | ✓ | ✗ | ✓ |
| **BOARD MEMBERS** | ✓ | ✓ | ✗ |

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

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

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

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

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

### 3.2. STRUCTURE OF REMUNERATION OF THE OPERATIONS COUNCIL

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

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

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

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

| REMUNERATION ELEMENT | REMUNERATION VEHICLE | DRIVERS | PERFORMANCE MEASURES | PURPOSE | PLAN PERIOD |
|---|---|---|---|---|---|
| **FIXED REMUNERATION** | | | | | |
| Annual Base Salary | Cash | Position and experience, market practice (benchmarking) | n/a | Attract and retain key executives | Continuous |
| Benefits | Contributions to pension plans and insurances, other contributions, allowances, benefits in kind | Market practice | n/a | Protect executives against risks, attract and retain | Continuous |
| **VARIABLE REMUNERATION** | | | | | |
| Short-Term Incentive | 50% cash<br>50% restricted shares | Annual financial performance, individual performance against leadership behavioral model | Group revenue, Group NPAT[1], Group ROIC[2], Group free cash flow, regional and business line profit, regional NWC[3], business operating free cash flow, leadership multiplier | Pay for performance | 1-year performance period (for the portion settled in restricted shares) |
| 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.

### 3.2.1. FIXED REMUNERATION: ANNUAL BASE SALARY

The base salaries of the Chief Executive Officer and each Operations Council member are reviewed annually based on market data for similar positions in those companies and geographies against which the Group benchmarks itself. In addition to individual performance and contribution and business performance and results, the deciding body considers the scope and complexity of the areas of responsibility of the position, skillsets, experience required to perform the 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. Each participant can choose between three levels of employee contributions ('Standard', 'Plus 2' and 'Maxi'), defined based on the participant's age; the Company contributes an amount equal to one and a half times the participant's contribution at the 'Standard' level. Flexibility is granted to employees who wish to fund a potential retirement before the normal age, and to those who wish to continue working after the age of 65.

### 3.2.3. SHORT-TERM VARIABLE REMUNERATION

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

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

| SHORT-TERM INCENTIVE COMPONENT | CEO | OTHER OPERATIONS COUNCIL MEMBERS |
|---|---|---|
| Annual financial performance | ✔ | ✔ |
| Leadership behaviors | ✔ | ✔ |

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

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

| | | CEO | OTHER OPERATIONS COUNCIL MEMBERS |
|---|---|---|---|
| **Incentive frequency** | | **Annual** | **Annual** |
| Minimum incentive opportunity | as % of base salary<br>as % of target incentive opportunity | 0%<br>0% | 0%<br>0% |
| Target incentive opportunity | as % of base salary | 100% | 65%–90% |
| Maximum incentive opportunity | as % of target incentive opportunity<br>as % of base salary | 250%<br>250% | 250%<br>162.5%–225% |

#### Annual financial performance

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

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

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

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

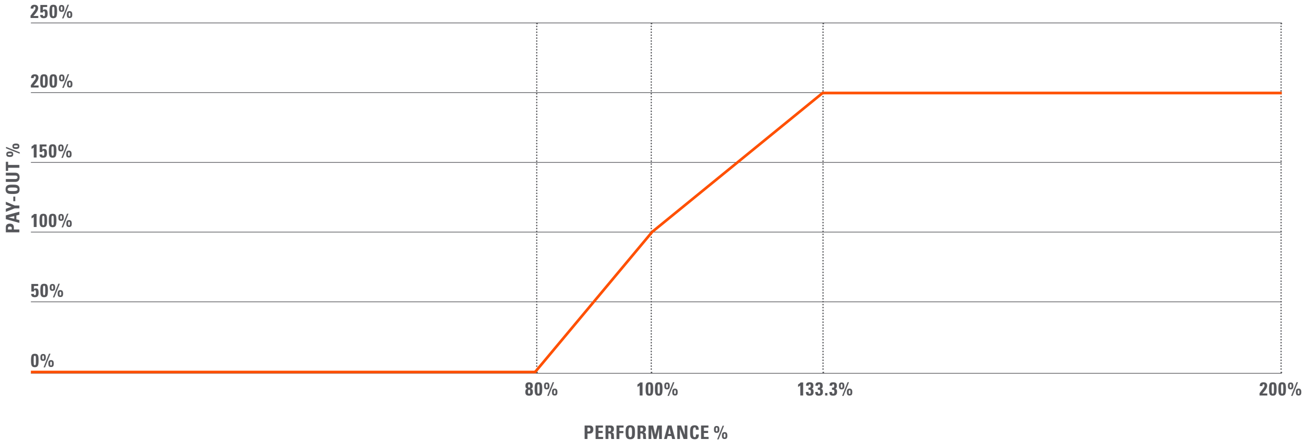
| | | CEO | HEADS OF CORPORATE FUNCTIONS (SVPS) | HEADS OF BUSINESS LINES (EVPS) | HEADS OF REGIONS (COOS) |
|---|---|---|---|---|---|
| **GROUP RESULTS** | Profitability (bottom-line) | Group NPAT **25%** | Group NPAT **25%** | Group NPAT **25%** | Group NPAT **25%** |
| | Growth (top-line) | Group Revenue **25%** | Group Revenue **25%** | Group Revenue **25%** | Group Revenue **25%** |
| | Efficient use of capital | Group ROIC (Organic) **25%** | Group ROIC (Organic) **25%** | – | – |
| | Cash generation | Group Free Cash Flow (Organic) **25%** | Group Free Cash Flow (Organic) **25%** | – | – |
| **BUSINESS LINES RESULTS** | Profitability (bottom-line) | – | – | Business-line Profit **40%** | – |
| | Cash generation | – | – | Business Operating Free Cash Flow (Organic) **10%** | – |
| **REGIONS RESULTS** | Profitability (bottom-line) | – | – | – | Regional Profit **40%** |
| | Cash generation | – | – | – | 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 chart below shows the pay-out curves for the Group NPAT, Group Revenue, Group ROIC, Group Free Cash Flow, Business-line Profit, Regional Profit and Business Operating Free Cash Flow.

**BOTTOM-LINE, TOP-LINE, ROIC AND FCF PERFORMANCE (PAY-OUT CURVE)**

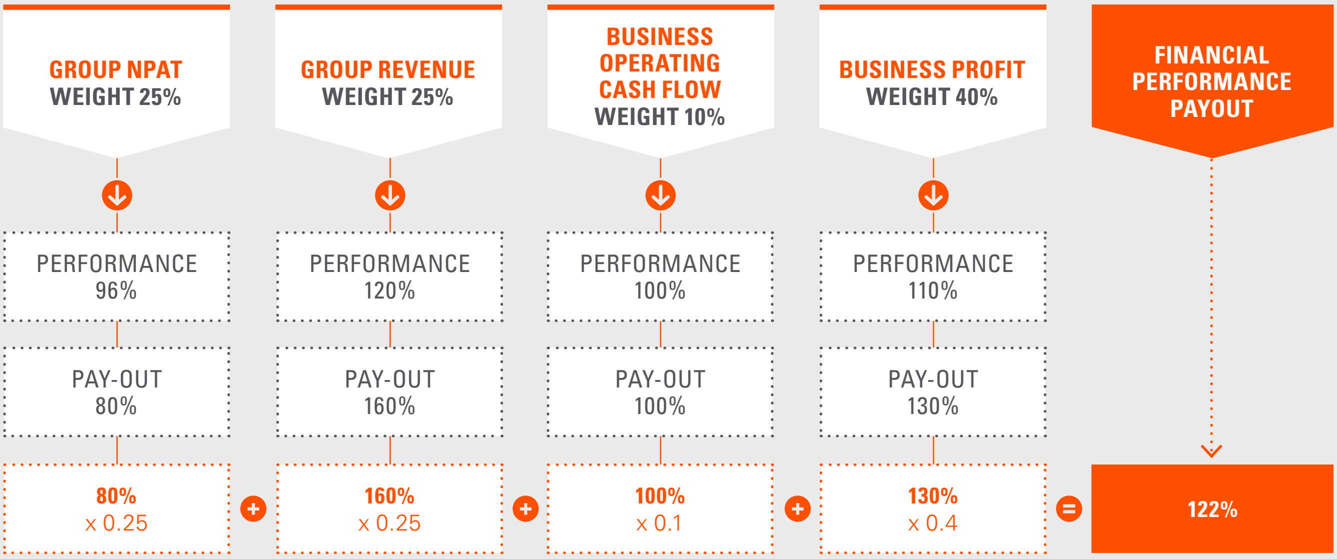



The pay-out curve for Regional NWC is defined by the CEO at the beginning of the performance year together with the objectives for each performance metric.

At the end of the performance period, the results for each key performance indicator are assessed against the pre-defined target and the 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.

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

## FINANCIAL PERFORMANCE PAY-OUT FACTORS FOR AN EXECUTIVE VICE PRESIDENT




### LEADERSHIP MULTIPLIER

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

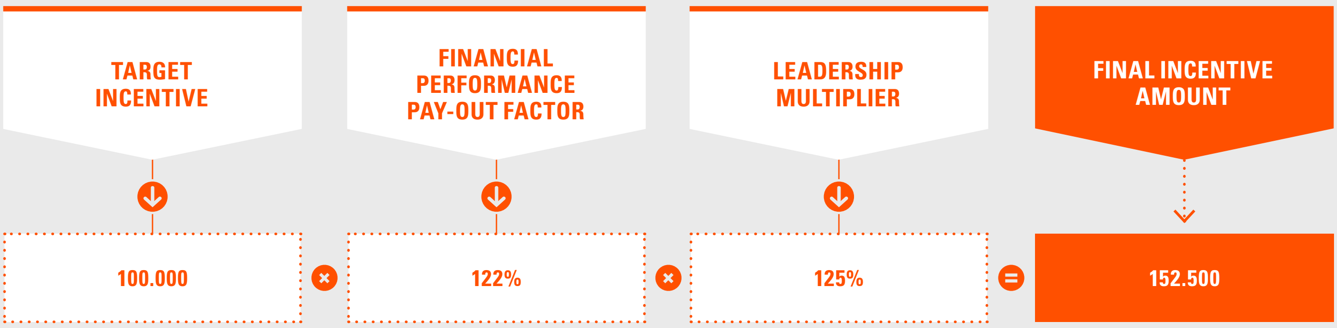
The leadership multiplier is determined for each executive based on an assessment of their behaviors against the leadership competency model of SGS in the areas of innovation, people management and change management. The assessment of the CEO is conducted at year end by the Board of Directors, while the assessment of the other members of the Operations Council is conducted by the CEO and approved by the Remuneration Committee. The assessment leads to a leadership multiplier that can range between 70% and 125%.

### CHANGES TO THE LEADERSHIP MULTIPLIER AS OF THE 2021 PERFORMANCE YEAR

Sustainability is fundamental to both our operations and our strategic direction. Through our purpose-driven leadership and using our scale and expertise, we are committed to delivering value to society and enabling a more sustainable future. With the objective to strengthen the commitment of the executive management towards the Group's sustainability strategy, as of the 2021 performance year the CEO and the other members of the Operations Council's leadership behaviors will be assessed also against Environmental, Social and Governance (ESG) metrics aligned with the Group's sustainability ambitions. The overall assessment will continue to determine a leadership multiplier between 70% and 125%.

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

## FINAL INCENTIVE AMOUNT FOR AN OC MEMBER



### SETTLEMENT OF THE SHORT-TERM INCENTIVE

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

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

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

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

### TERMINATION OF EMPLOYMENT

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

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

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

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

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

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

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

#### Clawback provisions

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

### 3.2.4. LONG-TERM VARIABLE REMUNERATION

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

The Long-Term Incentive consists of a grant of Performance Share Units (PSUs), 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<br>as % of target incentive opportunity | 0%<br>0% | 0%<br>0% | 0%<br>0% | 0%<br>0% |
| Target incentive opportunity value | as % of base salary | 500% | 167% | 300% | 100% |
| Maximum incentive opportunity value | as % of target incentive opportunity<br>as % of base salary | 150%<br>750% | 150%<br>250% | 150%<br>450% | 150%<br>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.

#### 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[2]) (absolute SGS performance against an internal target)

The TSR of the Group will be compared to the TSR of a group of 12 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 13 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.

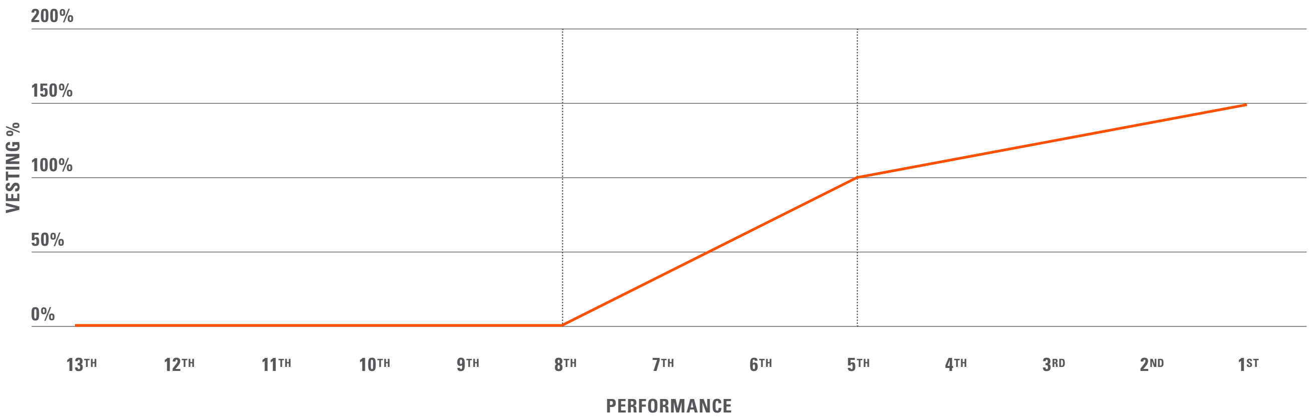
1. Total shareholder return: (Ending stock price – Beginning stock price) + Sum of all dividends received during the measurement period
2. See note 4 to the SGS Group Results (page 138) for details on the calculation of the adjusted operating income

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

## TOTAL SHAREHOLDER RETURN (TSR)

SGS ranking versus peer companies

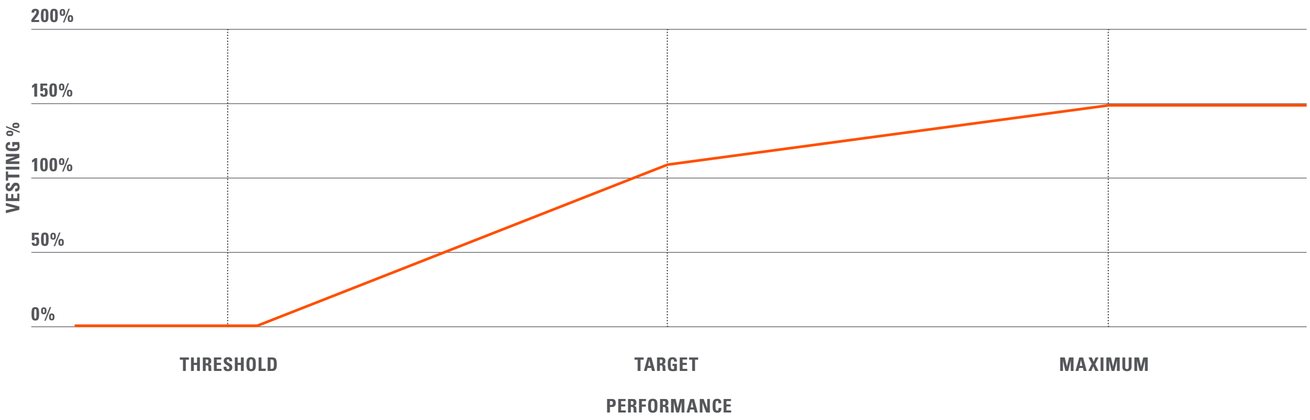
**WEIGHT 50%**




## ADJUSTED OPERATING INCOME MARGIN (AOIM)

Relative ranking 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%.

### 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%) = **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 vesting period that have expired until the termination date. The shares are allocated after the regular vesting date and the vesting level is determined based on the performance during the entire regular performance period. There is no early allocation of the shares.
- Upon termination of employment as a result of death, unvested PSUs will vest immediately on a pro-rata basis, based on the number of full months of the vesting period that have expired until the termination date. The vesting level is based on an estimation of performance by the Board of Directors.
- 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 estimation of performance by the Board of Directors |
| Other reasons | Forfeiture | – | – |

### Malus and clawback provisions

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

### 3.2.5. PRINCIPLES OF THE LONG-TERM INCENTIVE FOR THE PERFORMANCE PERIOD 2021-2023

The Committee reviewed the Long-Term Incentive scheme in place for the Operations Council Members and selected senior managers of the Group, and decided to move from the current schedule, with one grant every three years, to a system with one grant every year. The main reason for the change is the alignment with prevalent market practices.

The new annual grant scheme will be implemented starting 2021 (as the 2018-2020 Long-Term Incentive plan comes to its end).

The 2021 grant, designed as a transition scheme from the past practice to the new annual cycle, will cover the performance period 2021–2023.

The vesting and performance period of the 2021 plan onwards will be three years (unchanged from previous plan).

The performance conditions will include relative TSR against a more focused list of competitors, part of the Testing, Inspection and Certification industry, and Environmental, Social and Governance KPIs.

The details of the 2021–2023 Long-Term Incentive plan will be disclosed in the 2021 Remuneration Report.

### 3.2.6. REMUNERATION MIX

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

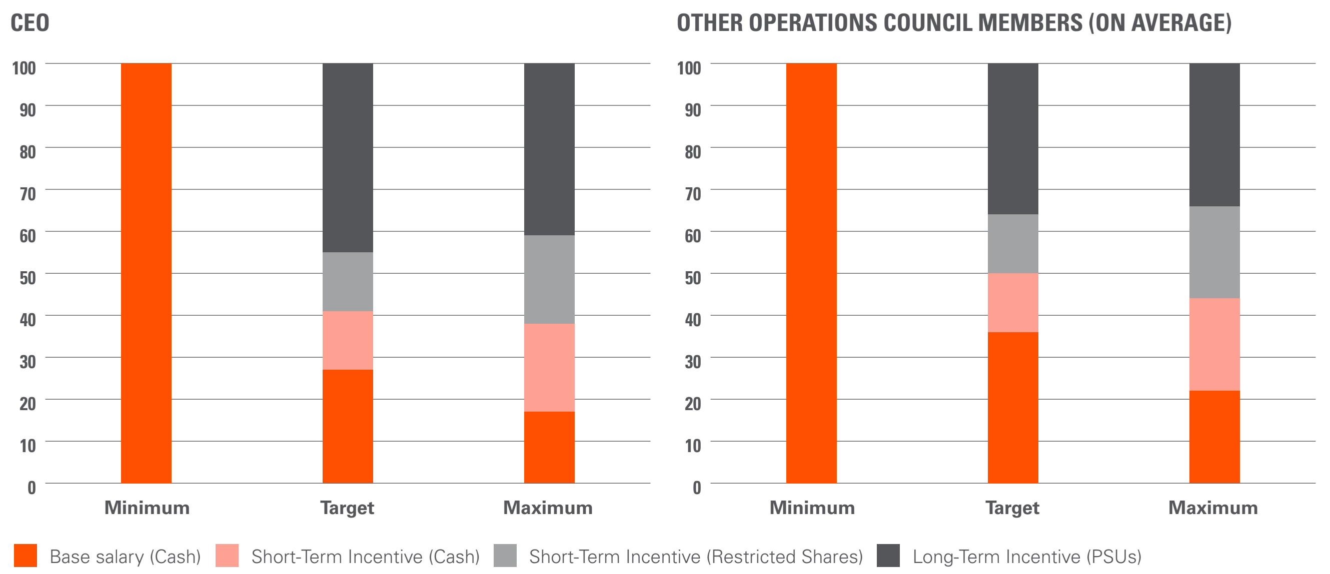
For the other members of the Operations Council, the part or remuneration at risk represents, on average, 64% of their total remuneration. The part of remuneration settled in equity instruments represents, on average, 50% of their total remuneration.

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

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

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

REMUNERATION MIX FOR THE CEO AND OTHER OPERATIONS COUNCIL MEMBERS IN THREE CASES (%)




### 3.2.7. SHAREHOLDING OWNERSHIP GUIDELINES

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

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

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

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

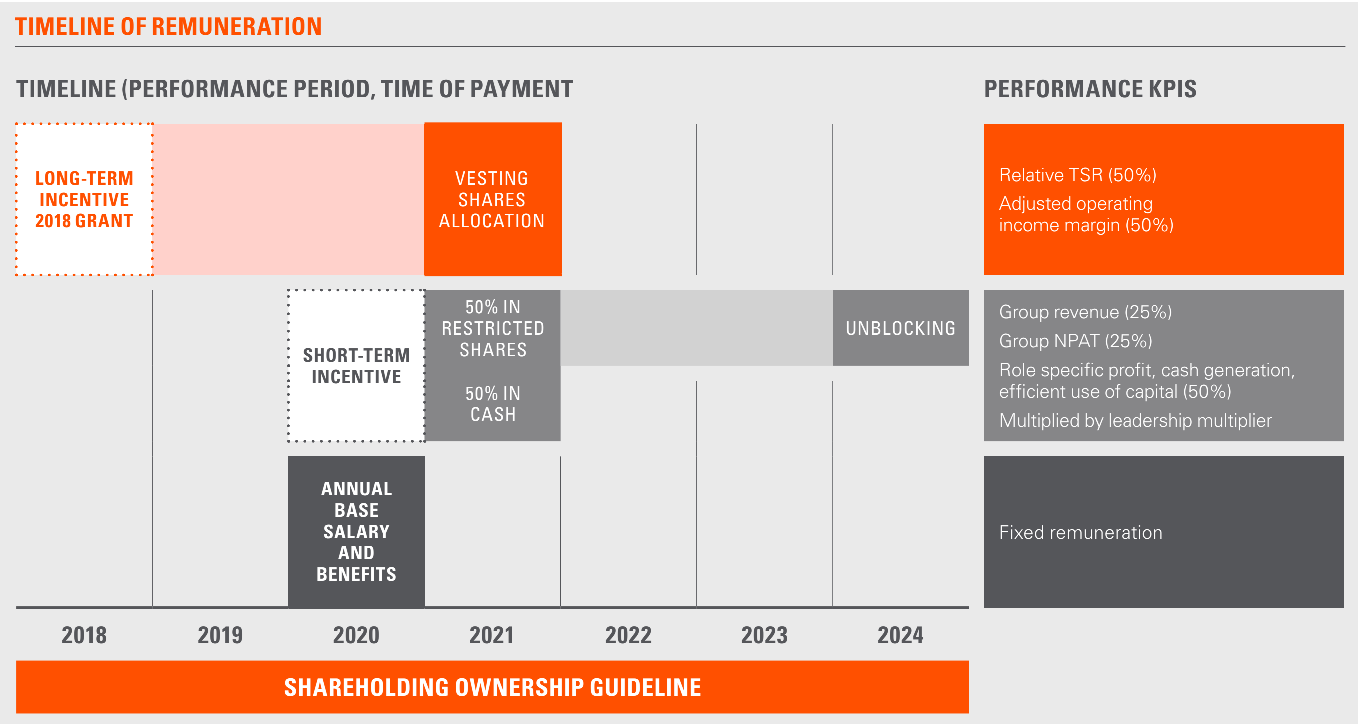
The Remuneration Committee reviews compliance with the SOG on an annual basis. Until the minimum requirement is met, 25% of the shares allocated under the Short-Term Incentive plan and all shares allocated upon vesting of the PSUs under the Long-Term Incentive plan will be blocked.

### 3.2.8. 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.

3.2.9. TIMELINE OF REMUNERATION
The following chart outlines the timeline of payment of each remuneration element that was earned in 2020:

- The annual base salary is paid during 2020
- The cash portion of the Short-Term Incentive is paid in March 2021, shortly after the Annual General Meeting
- The share portion of the Short-Term Incentive is allocated in April 2021 and will be unblocked in April 2024
- 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




# 4. Remuneration Awarded to the Board of Directors

For the mandate from AGM 2020 to AGM 2021, the annual board retainer was CHF 500 000 for the Chairman of the Board (AGM 2019 to AGM 2020: CHF 500 000) and CHF 150 000 for the other Board of Directors members (AGM 2019 to AGM 2020: CHF 150 000). The Chairman of the Audit Committee was entitled to an additional fee of CHF 70 000; Directors serving as Audit Committee members were entitled to an additional fee of CHF 50 000. The Chairman of the Remuneration Committee was entitled to an additional fee of CHF 40 000; Directors serving as Remuneration Committee members were entitled to an additional fee of CHF 30 000. Directors serving on the Governance & Sustainability Committee were entitled to an additional fee of CHF 30 000 (AGM 2019 to AGM 2020: Directors serving on the Audit Committee were entitled to an additional fee of CHF 50 000; Directors serving on the other committees were entitled to an additional fee of CHF 30 000 per committee).

| (CHF) | Board retainer | Audit Committee fee | Remuneration Committee fee | Governance & Sustainability Committee fee |
|---|---|---|---|---|
| Chairman | 500 000 | 70 000 | 40 000 | – |
| Membership | 150 000 | 50 000 | 30 000 | 30 000 |

The total remuneration of the Board of Directors for the mandate from AGM 2020 to AGM 2021 is equal to CHF 2 210 000, within the amount approved by the AGM 2020 (CHF 2 300 000).

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

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

| | Chairmanship | Board membership | Audit Committee membership | Remuneration Committee membership | Governance & Sustainability Committee membership | Total remuneration | Proportion to be settled in cash | Proportion to be settled in shares[1] | Proportion to be settled in restricted shares[1] |
|---|---|---|---|---|---|---|---|---|---|
| C. Grieder | 500 000 | – | – | – | – | 500 000 | 100% | – | – |
| S. Atiya | – | 150 000 | – | – | 30 000 | 180 000 | 100% | – | – |
| P. Desmarais, Jr. | – | 150 000 | – | – | – | 150 000 | 100% | – | – |
| A. F. von Finck | – | 150 000 | – | – | 30 000 | 180 000 | 100% | – | – |
| I. Gallienne | – | 150 000 | – | 30 000 | 30 000 | 210 000 | 100% | – | – |
| C. Grupp | – | 150 000 | – | – | – | 150 000 | 100% | – | – |
| T. Hartmann | – | 150 000 | 50 000 | – | – | 200 000 | 100% | – | – |
| G. Lamarche | – | 150 000 | 70 000 | – | – | 220 000 | 100% | – | – |
| S. R. du Pasquier | – | 150 000 | – | 40 000 | – | 190 000 | 75% | – | 25% |
| K. Sorenson | – | 150 000 | 50 000 | 30 000 | – | 230 000 | 100% | – | – |
| **TOTAL** | **500 000** | **1 350 000** | **170 000** | **100 000** | **90 000** | **2 210 000** | | | |

1. Shares and restricted shares will be granted during fiscal year 2021

The table below details the remuneration elements and the settlement vehicle of the Directors for the mandate AGM 2019 to AGM 2020.

| | Chairmanship | Board membership | Audit Committee membership | Remuneration Committee membership | Professional Conduct Committee membership | Total remuneration | Proportion to be settled in cash | Proportion to be settled in shares[1] | Proportion to be settled in restricted shares[1] |
|---|---|---|---|---|---|---|---|---|---|
| P. Kalantzis | 500 000 | – | – | – | – | 500 000 | 100% | – | – |
| P. Desmarais, Jr. | – | 150 000 | – | – | – | 150 000 | 50% | 50% | – |
| A. F. von Finck | – | 150 000 | 50 000 | 30 000 | – | 230 000 | 100% | – | – |
| L. von Finck | – | 150 000 | – | – | – | 150 000 | 100% | – | – |
| I. Gallienne | – | 150 000 | – | 30 000 | – | 180 000 | 100% | – | – |
| C. Grieder | – | 150 000 | 50 000 | 30 000 | 30 000 | 260 000 | 100% | – | – |
| C. Grupp | – | 150 000 | – | – | 30 000 | 180 000 | 100% | – | – |
| G. Lamarche | – | 150 000 | 50 000 | – | – | 200 000 | 100% | – | – |
| S. R. du Pasquier | – | 150 000 | – | 30 000 | 30 000 | 210 000 | 100% | – | – |
| K. Sorenson | – | 150 000 | 50 000 | – | – | 200 000 | 50% | – | 50% |
| **TOTAL** | **500 000** | **1 350 000** | **200 000** | **120 000** | **90 000** | **2 260 000** | | | |

1. Shares and restricted shares were granted during fiscal year 2020

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

The following table details the remuneration elements granted to each of the Directors for their tenure in fiscal year 2020. It includes both pro-rata temporis elements of remuneration for the mandate AGM 2019 to AGM 2020 and pro-rata temporis elements or remuneration for the mandate AGM 2020 to AGM 2021.

| (CHF thousand) | Board retainer | Representation fees | Committee fees | Total remuneration | Cash | Shares value | Shares NB | Restricted shares value | Restricted shares NB | Employer social charges |
|---|---|---|---|---|---|---|---|---|---|---|
| C. Grieder | 418 | – | 25 | 443 | 443 | – | – | – | – | – |
| P. Kalantzis[1] | 113 | – | – | 113 | 113 | – | – | – | – | 9 |
| S. Atiya[2] | 115 | – | 23 | 138 | 138 | – | – | – | – | 13 |
| P. Desmarais, Jr. | 190 | – | – | 190 | 115 | 75 | 27 | – | – | 14 |
| A. F. von Finck | 149 | – | 41 | 190 | 190 | – | – | – | – | 17 |
| L. von Finck[1] | 34 | – | – | 34 | 34 | – | – | – | – | 3 |
| I. Gallienne | 149 | – | 53 | 202 | 202 | – | – | – | – | 18 |
| C. Grupp | 149 | – | 7 | 156 | 156 | – | – | – | – | 11 |
| T. Hartmann[2] | 115 | – | 39 | 154 | 154 | – | – | – | – | 14 |
| G. Lamarche | 149 | – | 65 | 214 | 214 | – | – | – | – | 19 |
| S. R. du Pasquier | 146 | – | 44 | 190 | 190 | – | – | – | – | 17 |
| K. Sorenson | 190 | – | 87 | 277 | 177 | – | – | 100 | 36 | 23 |
| **TOTAL** | **1 917** | **–** | **384** | **2 301** | **2 126** | **75** | **27** | **100** | **36** | **158** |

1. Until the AGM 2020
2. As of the AGM 2020

The following table details the remuneration elements granted to each of the Directors for their tenure in fiscal year 2019. It includes both pro-rata temporis elements of remuneration for the mandate AGM 2018 to AGM 2019 and pro-rata temporis elements or remuneration for the mandate AGM 2019 to AGM 2020.

| (CHF thousand) | Board retainer | Representation fees | Committee fees | Total remuneration | Cash | Shares value | Shares NB | Restricted shares value | Restricted shares NB | Employer social charges |
|---|---|---|---|---|---|---|---|---|---|---|
| P. Kalantzis | 463 | – | 15 | 478 | 478 | – | – | – | – | 36 |
| P. Desmarais, Jr. | 113 | – | – | 113 | 113 | – | – | – | – | 7 |
| A. von Finck[1] | 37 | – | 8 | 45 | 45 | – | – | – | – | 3 |
| A. F. von Finck | 154 | – | 69 | 223 | 223 | – | – | – | – | 19 |
| L. von Finck[2] | 116 | – | – | 116 | 116 | – | – | – | – | 10 |
| I. Gallienne | 154 | – | 31 | 185 | 185 | – | – | – | – | 16 |
| C. Grieder[2] | 116 | – | 85 | 201 | 201 | – | – | – | – | 17 |
| C. Grupp | 154 | – | 31 | 185 | 185 | – | – | – | – | 13 |
| C. Kirk[1] | 37 | – | – | 37 | 37 | – | – | – | – | 3 |
| G. Lamarche | 154 | – | 46 | 200 | 200 | – | – | – | – | 18 |
| S. R. du Pasquier | 154 | – | 61 | 215 | 215 | – | – | – | – | 19 |
| K. Sorenson[2] | 75 | – | 25 | 100 | 100 | – | – | – | – | 9 |
| **TOTAL** | **1 727** | **–** | **371** | **2 098** | **2 098** | **–** | **–** | **–** | **–** | **170** |

1. Until the AGM 2019
2. As of the AGM 2019

The overall remuneration paid to the Board of Directors in 2020 is higher than the overall remuneration paid in 2019, due to the increase of the committee fee for the Chairmen of the Audit Committee and of the Remuneration Committee, timing impacts of share awards versus cash payments, and the change in the composition of the Board.

## 5. Remuneration Awarded to the Operations Council members

This section sets out the remuneration that was paid to the Operations Council as a whole, to the three Operations Council members who make up Senior Management and to the Chief Executive Officer in 2020. All amounts disclosed in this section include the Short-Term Incentive cash amount and restricted shares that will be granted in April 2021 with respect to performance in 2020 (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 2020.

| (CHF thousand) | Base salary | Other cash allowances | Contributions to pension plans | Other contributions and benefits in kind | Total fixed remuneration |
|---|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | | |
| Cash (including allowances) | 7 969 | 1 024 | – | – | 8 993 |
| Contributions and benefits in kind | – | – | 1 044 | 320 | 1 364 |
| Equity | – | – | – | – | – |
| **TOTAL** | **7 969** | **1 024** | **1 044** | **320** | **10 357** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | | |
| Cash (including allowances) | 2 078 | 138 | – | – | 2 216 |
| Contributions and benefits in kind | – | – | 257 | 21 | 278 |
| Equity | – | – | – | – | – |
| **TOTAL** | **2 078** | **138** | **257** | **21** | **2 494** |
| **CHIEF EXECUTIVE OFFICER** | | | | | |
| Cash (including allowances) | 1 000 | 64 | – | – | 1 064 |
| Contributions and benefits in kind | – | – | 101 | 8 | 109 |
| Equity | – | – | – | – | – |
| **TOTAL** | **1 000** | **64** | **101** | **8** | **1 173** |

The aggregate total fixed remuneration of the members of the Operations Council did not exceed the maximum amount approved by the Annual General Meeting of Shareholders in 2019 (CHF 14 000 000). For 2021, the 2020 Annual General Meeting of Shareholders already approved a maximum aggregate total fixed remuneration for the members of the Operations Council (CHF 14 000 000).

The table below summarizes the fixed remuneration paid to the Operations Council, Senior Management and the Chief Executive Officer in 2019.

| (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) | 8 748 | 1 385 | – | – | 10 133 |
| Contributions and benefits in kind | – | – | 1 121 | 394 | 1 515 |
| Equity | – | – | – | – | – |
| **TOTAL** | **8 748** | **1 385** | **1 121** | **394** | **11 648** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | | |
| Cash (including allowances) | 2 337 | 187 | – | – | 2 524 |
| Contributions and benefits in kind | – | – | 280 | 29 | 309 |
| Equity | – | – | – | – | – |
| **TOTAL** | **2 337** | **187** | **280** | **29** | **2 833** |
| **CHIEF EXECUTIVE OFFICER** | | | | | |
| Cash (including allowances) | 1 000 | 74 | – | – | 1 074 |
| Contributions and benefits in kind | – | – | 101 | 9 | 110 |
| Equity | – | – | – | – | – |
| **TOTAL** | **1 000** | **74** | **101** | **9** | **1 184** |

The decrease in fixed remuneration compared with 2019 reflects the change in the composition of the Operations Council.

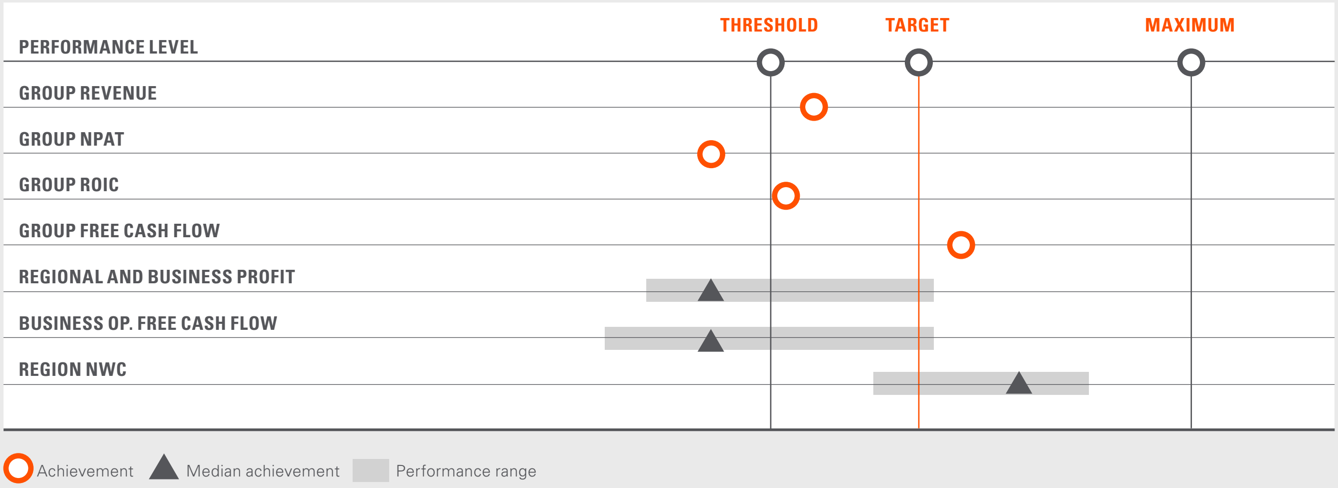
### 5.2. SHORT-TERM VARIABLE REMUNERATION

The short-term variable remuneration of the members of the Operations Council is determined by the achievement of financial targets and by their leadership behaviors.

In 2020, the achievement of financial targets at Group level, in the businesses and in the regions ranges from 47.3% to 108.7% (2019: 61.1% to 114.6%).

The chart below summarizes the 2020 performance achievements against targets for the financial objectives (revenue, profitability, cash generation and capital efficiency) used in the Short-Term Incentive.

**2020 PERFORMANCE ACHIEVEMENTS AGAINST TARGETS**




The overall Short-Term Incentive pay-out amounts to 60.9% of the target incentive opportunity for the CEO (2019: 108.9%) and ranges from 12.4% to 86.4% of the target incentive opportunity for the other members of the Operations Council (2019: 45.6% to 129.1%). 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 2020, SGS restricted shares will be allocated to the members of the Operations Council in April 2021, after the approval of the total Short-Term Incentive amount by the Annual General Meeting of Shareholders (in April 2020, 1 514 restricted shares were granted in settlement of the equity portion of the Short-Term Incentive 2019). 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 2020 performance year, and its comparison with the incentive opportunity.

| (CHF thousand) | Minimum | Target | Maximum | Actual short-term variable remuneration |
|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | |
| Cash (including allowances) | – | 3 651 | 9 128 | 1 711 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 2 908 | 7 270 | 1 409 |
| **TOTAL** | **–** | **6 559** | **16 398** | **3 120** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | |
| Cash (including allowances) | – | 959 | 2 398 | 569 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 959 | 2 398 | 569 |
| **TOTAL** | **–** | **1 918** | **4 796** | **1 138** |
| **CHIEF EXECUTIVE OFFICER** | | | | |
| Cash (including allowances) | – | 500 | 1 250 | 304 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 500 | 1 250 | 304 |
| **TOTAL** | **–** | **1 000** | **2 500** | **608** |

The total short-term remuneration amount will be submitted for approval to the Annual General Meeting of Shareholders of 2021, 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 2019 performance year, and its comparison with the incentive opportunity.

| (CHF thousand) | Minimum | Target | Maximum | Actual short-term variable remuneration |
|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | |
| Cash (including allowances) | – | 3 645 | 9 113 | 3 646 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 3 353 | 8 383 | 3 356 |
| **TOTAL** | **–** | **6 998** | **17 496** | **7 002** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | |
| Cash (including allowances) | – | 1 139 | 2 848 | 1 273 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 931 | 2 328 | 1 047 |
| **TOTAL** | **–** | **2 070** | **5 176** | **2 320** |
| **CHIEF EXECUTIVE OFFICER** | | | | |
| Cash (including allowances) | – | 500 | 1 250 | 545 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | 500 | 1 250 | 545 |
| **TOTAL** | **–** | **1 000** | **2 500** | **1 090** |

The total 2019 short-term remuneration amount was approved by the Annual General Meeting of Shareholders of 2020, and the settlement for both the cash and the equity part were implemented shortly after.

The decrease in short-term variable remuneration compared to 2019 reflects the impact of the Covid-19 pandemic on the financial performance of the Group, and the change in the composition of the Operations Council.

### 5.3. LONG-TERM VARIABLE REMUNERATION

In 2020, the Group did not implement any Long-Term Incentive for the Operations Council members.

In 2019, the Group implemented a cash Long-Term Incentive for the two Operations Council members who were newly appointed. This incentive mirrors the Long-Term Incentive 2018-2020, with exact same vesting and performance conditions, from the date of their respective appointment to 31 December 2020.

In 2018, under the Long-Term Incentive 2018-2020, a total of 10 784 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 table below summarizes the 2020 annualized value of the long-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer in 2018 and 2019.

| | Number of PSUs granted | Total value of the grant (CHF Thousand) | Annualized value of the grant (CHF Thousand)[1] | 2019 Annualized value of the grant (CHF Thousand)[2] |
|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | |
| Cash (including allowances) | – | – | 1 172 | 1 042 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 7 777 | 8 469 |
| **TOTAL** | **–** | **–** | **8 949** | **9 511** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | |
| Cash (including allowances) | – | – | 980 | 898 |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 1 837 | 2 317 |
| **TOTAL** | **–** | **–** | **2 817** | **3 215** |
| **CHIEF EXECUTIVE OFFICER** | | | | |
| Cash (including allowances) | – | – | – | – |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 1 500 | 1 500 |
| **TOTAL** | **–** | **–** | **1 500** | **1 500** |

1. The annualized value of the grant for the year 2020 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the 2019 grant corresponding to the period from 1 January 2020 to 31 December 2020
2. The annualized value of the grant for the year 2019 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the 2019 grant corresponding to the period from the OC appointment to 31 December 2019

The table below summarizes the 2019 annualized value of the long-term variable remuneration awarded to the Operations Council, Senior Management and the Chief Executive Officer in 2018 and 2019.

| | Number of PSUs granted | Total value of the grant (CHF Thousand)[1] | Annualized value of the grant (CHF Thousand)[2] | 2018 Annualized value of the grant (CHF Thousand)[3] |
|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | |
| Cash (including allowances) | – | 2 214 | 1 042 | – |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 8 469 | 8 469 |
| **TOTAL** | **–** | **2 214** | **9 511** | **8 469** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | |
| Cash (including allowances) | – | 1 878 | 898 | – |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 2 317 | 2 317 |
| **TOTAL** | **–** | **1 878** | **3 215** | **2 317** |
| **CHIEF EXECUTIVE OFFICER** | | | | |
| Cash (including allowances) | – | – | – | – |
| Contributions and benefits in kind | – | – | – | – |
| Equity | – | – | 1 500 | 1 500 |
| **TOTAL** | **–** | **–** | **1 500** | **1 500** |

1. Two members of the Operations Council (of whom one member of Senior Management), who have been appointed in 2019, were granted a LTI in cash for the period between their appointment and 31 December 2020 (the end of the performance period of the LTI PSUs 2018-2020). Vesting and performance conditions of the cash LTI are exactly the same as the LTI PSUs 2018-2020
2. The annualized value of the grant for the year 2019 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the grant corresponding to the period from the OC appointment to 31 December 2019
3. The annualized value of the grant for the year 2018 is one third of the total value of the 2018 grant at grant date

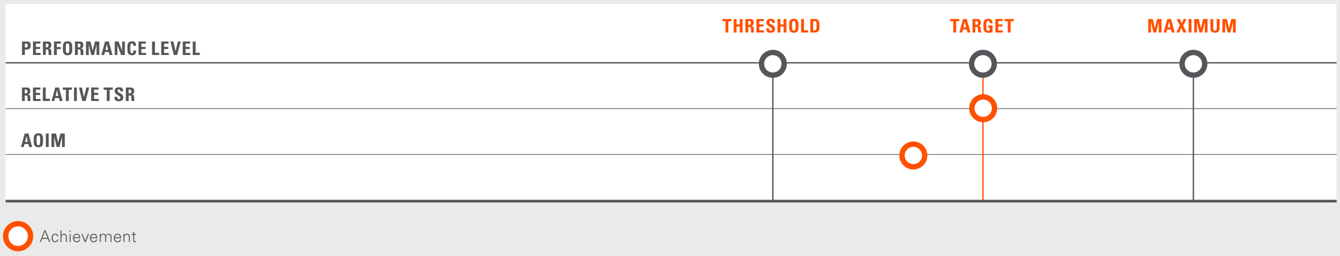
### Vesting of the 2018-2020 PSUs Long-Term Incentive and of the 2019 Cash Long-Term Incentive

On 1 February 2021 the 2018-2020 PSUs Long-Term Incentive and the 2019 cash Long-Term Incentive vested, according to the vesting conditions and the performance conditions.

The assessment of the performance conditions has been performed by the Board of Directors, based on the recommendation of the Committee. Whilst the relative TSR performance did not require any special consideration, the AOIM performance has been reassessed to take into account both the exceptional impact that Covid-19 pandemic had on the 2020 financial performance of the Group, and the actual performance of the first two years of the plan.

The chart below summarizes the performance achievements against targets for the two metrics.

#### 2020 PERFORMANCE ACHIEVEMENTS AGAINST TARGETS




The table below details the vesting of the 2018-2020 PSUs Long-Term Incentive plan and of the 2019 Cash Long-Term Incentive plan.

| | Number of PSUs granted in 2018 | Value at grant (CHF Thousand)[1] | Number of PSUs outstanding at vesting date | Number of shares allocated | Value at vesting (CHF Thousand)[2] |
|---|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)** | | | | | |
| Cash (including allowances) | – | 2 214 | – | – | 1 845 |
| Contributions and benefits in kind | – | – | – | – | – |
| Equity[3] | 10 784 | 25 806 | 9 248 | 7 716 | 20 887 |
| **TOTAL** | **10 784** | **28 020** | **9 248** | **7 716** | **22 732** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)** | | | | | |
| Cash (including allowances) | – | 1 878 | – | – | 1 565 |
| Contributions and benefits in kind | – | – | – | – | – |
| Equity | 2 905 | 6 952 | 2 303 | 1 920 | 5 197 |
| **TOTAL** | **2 905** | **8 830** | **2 303** | **1 920** | **6 762** |
| **CHIEF EXECUTIVE OFFICER** | | | | | |
| Cash (including allowances) | – | – | – | – | |
| Contributions and benefits in kind | – | – | – | – | – |
| Equity | 1 881 | 4 501 | 1 881 | 1 568 | 4 245 |
| **TOTAL** | **1 881** | **4 501** | **1 881** | **1 568** | **4 245** |

1. For the equity part: based on the average closing share price of the 20 trading days preceding the grant date
2. For the equity part: based on the closing share price at vesting date
3. The number of PSUs granted in 2018 reported in this table includes PSUs granted to one OC member who was appointed to the OC in 2019, and was not OC member at the time of grant

### Discontinued share option plans

The members of the Operations Council were entitled to a Share Option grant until 2014. As of the 2015 performance year, 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.

No Share Options granted before 2015 are outstanding at the end of 2020.

### 5.4. TOTAL REMUNERATION

The tables below present all components of the remuneration earned in 2020 and 2019 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 2020

| (CHF thousand) | Total fixed remuneration | Total short-term variable remuneration | Total 2020 remuneration before LTI | Total long-term variable remuneration[1] | Annualized long-term variable remuneration[1] | Total 2020 remuneration | 2020 Annualized remuneration | Employer social charges |
|---|---|---|---|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)[2]** | | | | | | | | |
| Cash (including allowances) | 8 993 | 1 711 | 10 704 | – | 1 172 | 10 704 | 11 876 | – |
| Contributions and benefits in kind | 1 364 | – | 1 364 | – | – | 1 364 | 1 364 | 1 378 |
| Equity | – | 1 409 | 1 409 | – | 7 777 | 1 409 | 9 186 | – |
| **TOTAL** | **10 357** | **3 120** | **13 477** | **–** | **8 949** | **13 477** | **22 426** | **1 378** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)[3]** | | | | | | | | |
| Cash (including allowances) | 2 216 | 569 | 2 785 | – | 980 | 2 785 | 3 765 | – |
| Contributions and benefits in kind | 278 | – | 278 | – | – | 278 | 278 | 359 |
| Equity | – | 569 | 569 | – | 1 837 | 569 | 2 406 | – |
| **TOTAL** | **2 494** | **1 138** | **3 632** | **–** | **2 817** | **3 632** | **6 449** | **359** |
| **CHIEF EXECUTIVE OFFICER** | | | | | | | | |
| Cash (including allowances) | 1 064 | 304 | 1 368 | – | – | 1 368 | 1 368 | – |
| Contributions and benefits in kind | 109 | – | 109 | – | – | 109 | 109 | 174 |
| Equity | – | 304 | 304 | – | 1 500 | 304 | 1 804 | – |
| **TOTAL** | **1 173** | **608** | **1 781** | **–** | **1 500** | **1 781** | **3 281** | **174** |

1. The annualized value of the grant for the year 2020 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the 2019 grant corresponding to the period from 1 January 2020 to 31 December 2020
2. 21 FTE (Full-Time Equivalent)
3. 3 FTE

Total and annualized remuneration 2019

| (CHF thousand) | Total fixed remuneration | Total short-term variable remuneration | Total 2019 remuneration before LTI | Total long-term variable remuneration[1] | Annualized long-term variable remuneration[2] | Total 2019 remuneration | 2019 Annualized remuneration | Employer social charges |
|---|---|---|---|---|---|---|---|---|
| **OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT)[3]** | | | | | | | | |
| Cash (including allowances) | 10 133 | 3 646 | 13 779 | 2 214 | 1 042 | 15 993 | 14 821 | – |
| Contributions and benefits in kind | 1 515 | – | 1 515 | – | – | 1 515 | 1 515 | 1 341 |
| Equity | – | 3 356 | 3 356 | – | 8 469 | 3 356 | 11 825 | – |
| **TOTAL** | **11 648** | **7 002** | **18 650** | **2 214** | **9 511** | **20 864** | **28 161** | **1 341** |
| **SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)[4]** | | | | | | | | |
| Cash (including allowances) | 2 524 | 1 273 | 3 797 | 1 878 | 898 | 5 675 | 4 695 | – |
| Contributions and benefits in kind | 309 | – | 309 | – | – | 309 | 309 | 401 |
| Equity | – | 1 047 | 1 047 | – | 2 317 | 1 047 | 3 364 | – |
| **TOTAL** | **2 833** | **2 320** | **5 153** | **1 878** | **3 215** | **7 031** | **8 368** | **401** |
| **CHIEF EXECUTIVE OFFICER** | | | | | | | | |
| Cash (including allowances) | 1 074 | 545 | 1 619 | – | – | 1 619 | 1 619 | – |
| Contributions and benefits in kind | 110 | – | 110 | – | – | 110 | 110 | 201 |
| Equity | – | 545 | 545 | – | 1 500 | 545 | 2 045 | – |
| **TOTAL** | **1 184** | **1 090** | **2 274** | **–** | **1 500** | **2 274** | **3 774** | **201** |

1. In 2019, the Group implemented a cash Long-Term Incentive for the Operations Council members who were appointed in 2019
2. The annualized value of the grant for the year 2019 is: i) for the Equity part, one third of the total value of the 2018 grant at grant date, and ii) for the cash part, a fraction of the total value of the grant corresponding to the period from the OC appointment to 31 December 2019
3. 23 FTE (Full-Time Equivalent)
4. 4 FTE

### 5.5. REMUNERATION MIX

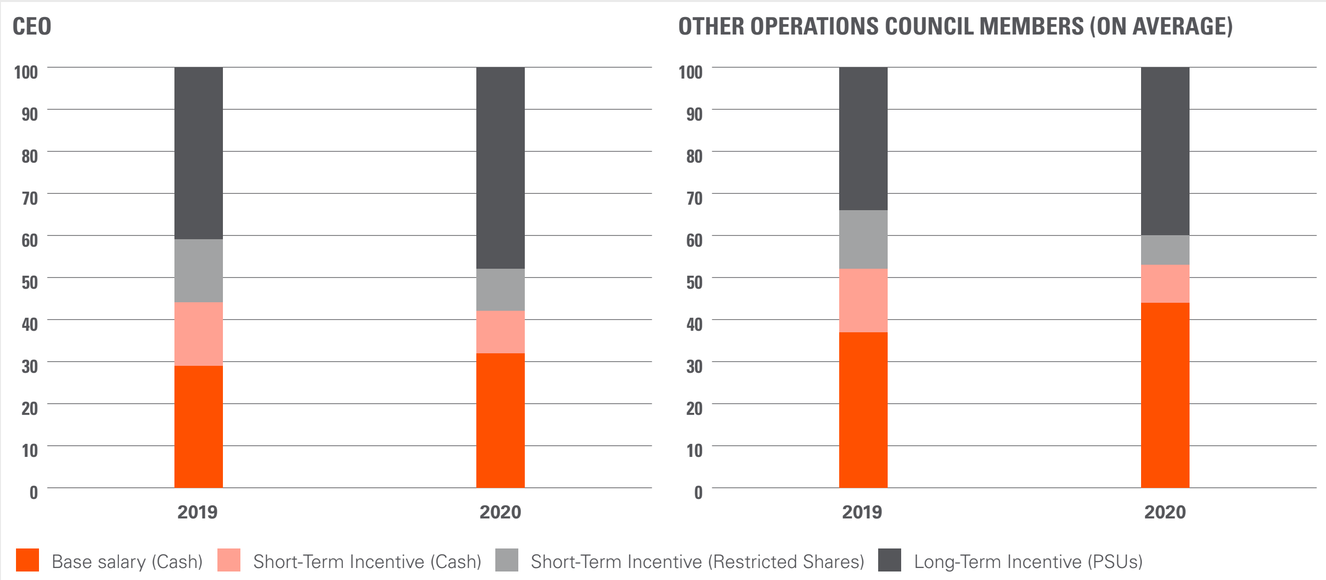
In 2020, the part of remuneration at risk (Short-Term Incentive and Long-Term Incentive) for the CEO represents 68% of the total remuneration (2019: 72%); the part of remuneration settled in equity instruments (Restricted Shares and PSUs) represents 58% of the total remuneration (2019: 57%). For the other members of the Operations Council, the part or remuneration at risk represents, on average, 56% of the total remuneration (2019: 62%); the part of remuneration settled in equity instruments represents, on average, 48% of the total remuneration (2019: 47%).

The Long-Term Incentive is considered at his annualized value. For both 2020 and 2019, the annualized value at grant of the Long-Term Incentive 2018-2020 has been considered.

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

The charts below show the remuneration mix for the CEO and for the other members of the Operations Council in 2020 and 2019.

**REMUNERATION MIX FOR THE CEO AND OTHER OPERATIONS COUNCIL MEMBERS (%)**




### 5.6. OTHER COMPENSATION ELEMENTS

#### 5.6.1. SEVERANCE PAYMENTS

No severance payments were made in 2020 to members of the Operations Council (unchanged from prior year).

#### 5.6.2. OTHER COMPENSATION TO MEMBERS OR FORMER MEMBERS OF THE GOVERNING BODIES

Consideration for non-compete of CHF 240 000 has been paid in 2020 to a former member of the Operations Council (in 2019 no other payment was made to any member or former member of the governing bodies).

#### 5.6.3. LOANS TO MEMBERS OR FORMER MEMBERS OF THE GOVERNING BODIES

As at 31 December 2020, no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies (unchanged from prior year).

Deloitte.

Deloitte SA
Rue du Pré-de-la-Bichette 1
1202 Geneva
Switzerland

Phone: +41 (0)58 279 8000
Fax: +41 (0)58 279 8800
www.deloitte.ch

# 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 2020, presented on pages 112 to 121.

***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 2020 comply with Swiss law and articles 14 – 16 of the Ordinance.

**Deloitte SA**

| | |
|---|---|
| Matthew Sheerin | Aurelie Darrigade |
| Licensed Audit Expert | Licensed Audit Expert |
| Auditor in Charge | |

Geneva, 23 February 2021

# 2020 RESULTS

# 1. SGS Group

## 1.1. Consolidated Income Statement

**FOR THE YEARS ENDED 31 DECEMBER**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| **REVENUE** | 4 | **5 604** | **6 600** |
| Salaries and wages | | (2 797) | (3 357) |
| Subcontractors' expenses | | (352) | (386) |
| Depreciation, amortization and impairment | 12 to 15 | (517) | (548) |
| Gain on business disposals | 3 | 63 | 268 |
| Other operating expenses | 7 | (1 206) | (1 495) |
| **OPERATING INCOME (EBIT)[1]** | 4 | **795** | **1 082** |
| Financial income | 8 | 12 | 18 |
| Financial expenses | 9 | (66) | (79) |
| Share of profit of associates and joint ventures | | 1 | (4) |
| **PROFIT BEFORE TAXES** | | **742** | **1 017** |
| Taxes | 10 | (237) | (315) |
| **PROFIT FOR THE PERIOD** | | **505** | **702** |
| *Profit attributable to:* | | | |
| Equity holders of SGS SA | | 480 | 660 |
| Non-controlling interests | | 25 | 42 |
| **BASIC EARNINGS PER SHARE (IN CHF)** | 11 | **64.05** | **87.45** |
| **DILUTED EARNINGS PER SHARE (IN CHF)** | 11 | **63.82** | **87.18** |

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

## 1.2. Consolidated Statement of Comprehensive Income

**FOR THE YEARS ENDED 31 DECEMBER**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| Actuarial gains/(losses) on defined benefit plans | 25 | 14 | (18) |
| Income tax on actuarial gains/(losses) | 10 | (4) | 6 |
| **ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT** | | **10** | (12) |
| Exchange differences and other[1] | | (182) | (68) |
| **ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT** | | **(182)** | (68) |
| **OTHER COMPREHENSIVE LOSS FOR THE PERIOD** | | **(172)** | **(80)** |
| Profit for the year | | 505 | 702 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **333** | **622** |
| *Attributable to:* | | | |
| Equity holders of SGS SA | | 311 | 584 |
| Non-controlling interests | | 22 | 38 |

1. In 2020, exchange differences and other include net exchange loss of CHF 1 million on long-term loans treated as net investment in a foreign entity according to IAS 21 (2019: loss of CHF 6 million)

# 1.3. Consolidated Statement of Financial Position

**AT 31 DECEMBER**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 12 | 872 | 926 |
| Right-of-use assets | 13 | 590 | 611 |
| Goodwill | 14 | 1 651 | 1 281 |
| Other intangible assets | 15 | 333 | 187 |
| Investments in joint ventures, associates and other companies | | 34 | 35 |
| Deferred tax assets | 10 | 161 | 174 |
| Other non-current assets | 16 | 154 | 149 |
| **TOTAL NON-CURRENT ASSETS** | | **3 795** | **3 363** |
| **CURRENT ASSETS** | | | |
| Inventories | | 57 | 45 |
| Unbilled revenues and work in progress | 5 | 160 | 195 |
| Trade receivables | 17 | 856 | 953 |
| Other receivables and prepayments | 18 | 188 | 219 |
| Current tax assets | | 77 | 77 |
| Marketable securities | | 9 | 9 |
| Cash and cash equivalents | 19 | 1 766 | 1 466 |
| **TOTAL CURRENT ASSETS** | | **3 113** | **2 964** |
| **TOTAL ASSETS** | | **6 908** | **6 327** |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 23 | 8 | 8 |
| Reserves | | 1 282 | 1 536 |
| Treasury shares | | (230) | (30) |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA** | | **1 060** | **1 514** |
| Non-controlling interests | | 74 | 81 |
| **TOTAL EQUITY** | | **1 134** | **1 595** |
| **NON-CURRENT LIABILITIES** | | | |
| Loans and other financial liabilities | 24 | 2 390 | 2 199 |
| Lease liabilities | 13 | 470 | 490 |
| Deferred tax liabilities | 10 | 53 | 23 |
| Defined benefit obligations | 25 | 136 | 151 |
| Provisions | 26 | 88 | 91 |
| **TOTAL NON-CURRENT LIABILITIES** | | **3 137** | **2 954** |
| **CURRENT LIABILITIES** | | | |
| Loans and other financial liabilities | 24 | 863 | 38 |
| Lease liabilities | 13 | 151 | 154 |
| Trade and other payables | 27 | 658 | 638 |
| Provisions | 26 | 85 | 74 |
| Current tax liabilities | | 140 | 145 |
| Contract liabilities | 5 | 189 | 155 |
| Other creditors and accruals | | 551 | 574 |
| **TOTAL CURRENT LIABILITIES** | | **2 637** | **1 778** |
| **TOTAL LIABILITIES** | | **5 774** | **4 732** |
| **TOTAL EQUITY AND LIABILITIES** | | **6 908** | **6 327** |

# 1.4. Consolidated Statement of Cash Flows

**FOR THE YEARS ENDED 31 DECEMBER**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| Profit for the year | | 505 | 702 |
| Non-cash and non-operating items | 20.1 | 748 | 756 |
| Decrease/(Increase) in working capital | 20.2 | 186 | (3) |
| Taxes paid | | (253) | (306) |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | **1 186** | **1 149** |
| Purchase of property, plant and equipment and other intangible assets | | (259) | (290) |
| Disposal of property, plant and equipment and other intangible assets | | 13 | 11 |
| Acquisition of businesses | 21 | (492) | (169) |
| Proceeds from disposal of businesses | | 71 | 333 |
| Increase in other non-current assets | | (4) | (2) |
| Decrease/(Increase) in investments in joint ventures, associates and other companies | | 1 | (4) |
| Interest received | | 15 | 21 |
| **CASH FLOW USED BY INVESTING ACTIVITIES** | | **(655)** | **(100)** |
| Dividends paid to equity holders of SGS SA | | (598) | (589) |
| Dividends paid to non-controlling interests | | (37) | (43) |
| Transaction with non-controlling interests | 20.3 | (1) | (12) |
| Cash paid on treasury shares | | (208) | (23) |
| Proceeds/(payment) of corporate bonds | 20.3 | 499 | (375) |
| Interest paid | | (63) | (87) |
| Payment of lease liabilities | 20.3 | (161) | (174) |
| Proceeds from borrowings | 20.3 | 542 | – |
| Payment of borrowings | 20.3 | (154) | – |
| **CASH FLOW USED BY FINANCING ACTIVITIES** | | **(181)** | **(1 303)** |
| Currency translation | | (50) | (23) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **300** | **(277)** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1 466** | **1 743** |
| Increase/(decrease) in cash and cash equivalents | | 300 | (277) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 19 | **1 766** | **1 466** |

# 1.5. Consolidated Statement of Changes in Equity

## FOR THE YEARS ENDED 31 DECEMBER

| (CHF million) | Share capital | Treasury shares | Capital reserve | Cumulative translation adjustments | Cumulative 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 2019** | **8** | **(191)** | **129** | **(1 064)** | **(239)** | **2 958** | **1 601** | **74** | **1 675** |
| Profit for the period | – | – | – | – | – | 660 | 660 | 42 | 702 |
| Other comprehensive income for the period | – | – | – | (64) | (12) | – | (76) | (4) | (80) |
| Total comprehensive income for the period | – | – | – | *(64)* | *(12)* | *660* | *584* | *38* | *622* |
| Dividends paid | – | – | – | – | – | (589) | (589) | (43) | (632) |
| Share-based payments | – | – | 17 | – | – | – | 17 | – | 17 |
| Movement in non-controlling interests | – | – | – | – | – | (102) | (102) | 12 | (90) |
| Movement on treasury shares | – | 161 | – | – | – | (158) | 3 | – | 3 |
| **BALANCE AT 31 DECEMBER 2019** | **8** | **(30)** | **146** | **(1 128)** | **(251)** | **2 769** | **1 514** | **81** | **1 595** |
| **BALANCE AT 1 JANUARY 2020** | **8** | **(30)** | **146** | **(1 128)** | **(251)** | **2 769** | **1 514** | **81** | **1 595** |
| Profit for the period | – | – | – | – | – | 480 | 480 | 25 | 505 |
| Other comprehensive income for the period | – | – | – | (179) | 10 | – | (169) | (3) | (172) |
| Total comprehensive income for the period | – | – | – | *(179)* | *10* | *480* | *311* | *22* | *333* |
| Dividends paid | – | – | – | – | – | (598) | (598) | (37) | (635) |
| Share-based payments | – | – | 17 | – | – | – | 17 | – | 17 |
| Movement in non-controlling interests | – | – | – | – | – | 20 | 20 | 8 | 28 |
| Movement on treasury shares | – | (200) | (3) | – | – | (1) | (204) | – | (204) |
| **BALANCE AT 31 DECEMBER 2020** | **8** | **(230)** | **160** | **(1 307)** | **(241)** | **2 670** | **1 060** | **74** | **1 134** |

1. Net of tax

# 1.6. Notes to Consolidated Financial Statements

## 1. ACTIVITIES OF THE GROUP

SGS SA and its subsidiaries (the 'Group') operate around the world under the name SGS. The head office of the Group is located in Geneva, Switzerland.

SGS is the global leader in inspection, verification, testing and certification services supporting international trade in agriculture, minerals, petroleum and consumer products. It also provides these services to governments, international institutions and customers engaged in the industrial, environmental and life science sectors.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND EXCHANGE RATES

### BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Group are stated in millions of Swiss Francs (CHF million). They are prepared from the financial statements of the individual companies within the Group with all significant companies having a year end of 31 December 2020. 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 2019 consolidated financial statements, except for the Group's adoption of new IFRSs effective 1 January 2020.

The financial statements are prepared on an accruals basis and under the historical cost convention, modified as required for the revaluation of certain financial instruments.

### COVID-19 PANDEMIC

Covid-19 has been declared a pandemic by the World Health Organization on 11 March 2020. Through this challenging period, SGS has focused on employee safety, customer service continuity and has been managing the business with a strong finance discipline.

The Group has remained agile, adapting its operations to local guidelines and requirements, travel restrictions within and across countries, micro-and macro-economic changes, as well as specific client needs and requests. These have resulted in local business disruptions, such as temporary site closures, supply chain interruptions, postponement or suspension of consultancy and supervision projects. Consequently, SGS experienced a decline in activities in 2020 across most business lines and also incurred additional costs to respond to the new way of operating during the pandemic while maintaining efficient workforce management.

Supported by its diversified service portfolio, know-how and geographical coverage, SGS has been able to further evolve core products and develop new services to serve newly created customer demands.

These 2020 consolidated financial statements were prepared considering the impact of the pandemic, as well as the future uncertainties, with particular attention to the below specific areas:

- Impairment of non-current assets: the Group has analyzed whether any triggering event could be identified that would indicate an impairment of its assets and none were identified
- Goodwill impairment test: in addition to the annual impairment test carried out, the Group considered Covid-19 as a trigering event for impairment test in May 2020. The Group recognized an impairment loss of CHF 37 million
- Appropriateness of expected credit loss allowance for trade receivables, unbilled revenue and work in progress: applying the simplified approach for IFRS 9 expected credit loss model, the Group reviewed its impairment matrix to ensure it continues to reflect current and future credit risks and assessed it as adequate
- Accounting for government grants: at 31 December 2020, the Group recognized CHF 36 million as deduction of salaries and wage expenses

### BUSINESS SEGMENT FINANCIAL RESTATEMENT

As of 1 January 2020, the Transportation business line (TRP) was integrated into other business segments. Other than creating operational synergies, the Group expects to reinvigorate the growth profiles of these services. The previously reported 2019 segment disclosures have been restated to reflect this change and are disclosed in note 4.

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

Several new amendments and interpretations were adopted effective 1 January 2020 but have no material impact on the Group's consolidated financial statements. There are no IFRS standards or interpretations which are not yet effective and which would be expected to have a material impact on the Group.

### BASIS OF CONSOLIDATION

#### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Group. Control is achieved when the Group:

- Has power over the investee
- Is exposed, or has the right, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its return

The Company reassesses whether or not the Group controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The principal operating companies of the Group are listed on pages 193 to 195.

### Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Initially they are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequently to the acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

### Associates

Associates are entities over which the Group has significant influence but no control or joint control over the financial and operating policies. The consolidated financial statements include the Group's share of the earnings of associates on an equity accounting basis from the date that significant influence commences until the date that significant influence ceases.

### Joint ventures

A joint venture is a contractual arrangement over which the Group exercises joint control with partners and where the parties have rights to the net assets of the arrangement. The consolidated financial statements include the Group's share of the earnings and net assets on an equity accounting basis of joint ventures that it does not control, effective from the date that joint control commences until the date that joint control ceases.

### Joint operations

A joint operation is an arrangement whereby the parties that have joint control have separable specific rights to the assets and the liabilities within the arrangement. When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly

### Investments in companies not accounted for as subsidiaries, associates or jointly controlled entities

Investments in companies not accounted for as subsidiaries, associates or jointly controlled entities (normally below 20% shareholding levels) are stated at fair value through profit and loss. Dividends received from these investments are included in financial income.

### Transactions eliminated on consolidation

All intra-Group balances and transactions, and any unrealized gains and losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

### Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the income statement.

### Consolidation of foreign companies

All assets and liabilities of foreign companies that are consolidated are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the 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 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring services to a customer. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group recognizes revenue based on two main models: services transferred at a point in time and services transferred over time.

- The majority of SGS' revenue is transferred at a point in time and recognized upon completion of performance obligations and measured according to the transaction price agreed in the contract. Once services are rendered, e.g. a report issued, the 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 installments and prices. Payments are due upon invoicing

### SEGMENT INFORMATION

The Group reports its operations by business segment, according to the nature of the services provided.

The Group operates in eight 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

### RIGHT-OF-USE ASSETS

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. They are adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

### LEASE LIABILITIES

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The Group elected to use the practical expedient to account for each lease component and any non-lease components as a single lease component. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In the case that the implicit rate cannot be readily determined, the Group uses an incremental borrowing rate considering the country and the lease duration. The rate is estimated by the combination of the reference rate, the financing spread and any asset specific adjustment when required.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interests and reduced for the lease payments made. Subsequently, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Group applies the short-term lease and low-value recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

### GOODWILL

In the case of acquisitions of businesses, the acquired identifiable assets, liabilities and contingent liabilities are recorded at fair value. The difference between the purchase price and the fair value is classified as goodwill and recorded in the statement of financial position as an intangible asset.

Goodwill arising from business combinations is measured at cost less any accumulated impairment losses.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected amounts recognized at that date.

Goodwill arising on the acquisition of a foreign entity is recorded in the relevant foreign currency and is translated using the end of period exchange rate.

On disposal of part or all of a business that was previously acquired and which gave rise to the recording of acquisition goodwill, the relevant amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill 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 intangible assets recognized under the acquisition method of accounting. These assets are allocated to a cash generating unit or a group of cash generating units (CGU) which are expected to benefit from the business combination. The recoverable amount of a CGU or the group of CGUs is determined through a value-in-use calculation.

If the value-in-use of the CGU or the group of CGUs is less than the carrying amount of its net operating assets, then a fair value less costs to sell valuation is also performed with the recoverable amount of the CGU or the group of CGUs being the higher of its value-in-use and the fair value less costs to sell.

The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, operating margins and expected changes to selling prices or direct costs during the period. Pre-tax discount rates used are based on the Group's weighted average cost of capital, adjusted for specific risks associated with the CGUs or the group of CGUs' cash flow projections. The growth rates are based on industry growth forecasts.

Expected changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

For all CGUs or groups of CGUs, a value-in-use calculation is performed using cash flow projections covering the next five years. These cash flow 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 or of the group of CGUs is less than the carrying amount of the unit's net operating assets, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Even if the initial accounting for an intangible asset acquired in the reporting period is only provisional, this asset is tested for impairment in the year of acquisition.

### OTHER INTANGIBLE ASSETS

Intangible assets, including software, licences, trademarks and customer relationships are capitalized and amortized on a straight-line basis over their estimated useful lives, normally not exceeding 20 years. 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 2–20 years
- Computer software 1–5 years

Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably. Internally generated intangible assets are recognized if the asset created can be identified, it is probable that future economic benefits will be generated from it, the related development costs can be measured reliably and sufficient financial resources are available to complete the development. These assets are amortized on a straight-line basis over their useful lives, which usually do not exceed five years. All other development costs are expensed as incurred.

### IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

At each balance sheet date, or whenever there is an indication that an asset may be impaired, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. If indications of impairment are present, the assets are tested for impairment. If impaired, the carrying value of the asset is reduced to its recoverable value. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount of an asset is the greater of the net realizable value and its value-in-use. In assessing its value-in-use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset.

### REVERSAL OF IMPAIRMENT LOSSES

Where an impairment loss on assets other than goodwill subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

### GOVERNMENT GRANTS

IAS 20 sets out the principle for the recognition, measurement, presentation and disclosure of government grants. Government grants that are not related to assets are credited to the income statement as a deduction of the related expenses. Government grants are recognized when there is a reasonable assurance that the grant will be received and all attached conditions will be met.

### TRADE RECEIVABLES

Trade receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts. An expected credit loss allowance is made in compliance with the simplified approach using a provision matrix (expected credit loss model). This provision matrix has been developed to reflect the country risk, the credit risk profile, as well as available historical data. The Group considers a trade receivable to be credit impaired when one or more detrimental events have occurred such as:

- Significant financial difficulty of the customer; or
- It is becoming probable that the customer will enter bankruptcy or other financial reorganization

### UNBILLED REVENUES AND WORK IN PROGRESS

Unbilled revenues are recognized for services completed but not yet invoiced and are valued at net selling price.

Work in progress is recognized for the partially finished performance obligations under a contract. The measure of progress is either based on observable output methods or based on input methods. A margin is recognized based on actual costs incurred, provided that the project is expected to be profitable once completed. Similarly to receivables, an allowance for unbilled revenues and work in progress is made in compliance with the simplified approach using a provision matrix (expected credit loss model).

### MARKETABLE SECURITIES
Marketable securities are recorded in the statement of financial position 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 and deposits held with banks with an original maturity of three months or less, and are subject to an insignificant risk of changes in value. Bank overdrafts are included within current loans.

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives are accounted for on a mark-to-market basis.

Derivative financial instruments are initially recognized at fair value and subsequently remeasured at fair value at each balance sheet date. The gains and losses resulting from the fair value remeasurement are recognized in the income statement. The fair value of forward exchange contracts is determined with reference to market prices at the balance sheet date.

### CORPORATE BONDS
The corporate bonds issued by the Group are measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Group uses financial instruments to economically hedge interest rate risks relating to its corporate bonds. The changes in fair value of finance instruments are recognized in the income statement.

### LIABILITIES RELATED TO PUT OPTIONS GRANTED TO HOLDERS OF NON-CONTROLLING INTERESTS
Written put options in favor of holders of non-controlling interests give rise to the recognition of a financial liability recognized initially at the present value of the expected cash outflow. The present value is determined by Management's best estimate of the cash outflow required to settle the obligation on exercise of the option, discounted by the Group's cost of debt. The financial liability is initially recorded with the corresponding entry within equity and in the absence of specific guidance in IFRS, subsequent changes in the valuation of the liability shall be recognized directly in equity attributable to owners, including the unwinding of the discount.

### FAIR VALUE MEASUREMENT
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

- Level 1 fair value measurements are those derived from the quoted price in active markets
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques as it cannot be derived from publicly available information. The assumptions and inputs used in the model take into account externally verifiable inputs. However, such information is by nature subject to uncertainty, particularly where comparable market-based transactions often do not exist. External valuers are involved for valuation for significant assets and liabilities

### EMPLOYEE BENEFITS
#### Pension plans
The Group maintains several defined benefit and defined contribution pension plans in accordance with local conditions and practices in the countries in which it operates. Defined benefit pension plans are based on an employee's years of service and remuneration earned during a pre-determined period. Contributions to these plans are normally paid into funds, which are managed independently of the Group, except in rare cases where there is no legal obligation to fund.

In such cases, the liability is recorded in the Group's consolidated statement of financial position.

The Group's obligations towards defined benefit pension plans and the annual cost recognized in the income statement are determined by independent actuaries using the projected unit credit method. Remeasurement gains and losses are immediately recognized in the consolidated statement of financial position with the corresponding movement being recorded in the consolidated statement of comprehensive income.

Past service costs are immediately recognized as an expense. Net interest expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan. Payments to defined contribution plans are recognized as an expense in the income statement as incurred.

#### Post-employment plans other than pensions
The Group operates some non-pension post-employment defined benefit schemes, mainly healthcare plans. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension plans.

### Equity compensation plans
The Group provides additional benefits to certain senior executives and employees through equity compensation plans. An expense is recognized in the income statement for shares and equity-linked instruments granted to senior executives and employees under these plans.

### TRADE PAYABLES
Trade payables are recognized at amortized cost that approximates the fair value.

### PROVISIONS
The Group records provisions when: it has an obligation, legal or constructive, to satisfy a claim; it is probable that an outflow of Group resources will be required to satisfy the obligation; and a reliable estimate of the amount can be made.

In the case of litigation and claims relating to services rendered, the amount that is ultimately recorded is the result of a complex process of assessment of a number of variables, and relies on Management's informed judgment about the circumstances surrounding the past provision of services. It also relies on expert legal advice and actuarial assessments.

Changes in provisions are reflected in the income statement in the period in which the change occurs.

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

### RESTRUCTURING COSTS
The Group recognizes costs of restructuring against operating income in the period in which Management has committed to a formal plan, the costs of which can be reliably estimated, and has raised a valid expectation in those affected that the plan will be implemented and the related costs incurred. Where appropriate, restructuring costs include impairment charges arising from the implementation of the formal plan.

### CAPITAL MANAGEMENT
Capital comprises equity attributable to equity holders, loans and other financial liabilities, lease liabilities and cash and cash equivalents.

The Board of Directors' policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Board also recommends the level of dividends to be distributed to ordinary shareholders on an annual basis. The Group maintains sufficient liquidity at the Group and subsidiary level to meet its working capital requirements, fund capital purchases and small and medium-sized acquisitions.

Treasury shares are intended to be used to cover the Group's employee equity participation plan, convertible bonds and/or cancellation of shares. Decisions to buy or sell are made on an individual transaction basis by Management.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to any externally imposed capital requirements.

### TAXES
Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the transfer of income from Group companies and tax adjustments from prior years. Taxes on income are recognized in the income statement except to the extent that they relate to items directly charged or credited to equity or other comprehensive income, in which case the related income tax effect is recognized in equity or other comprehensive income. Provisions of income and withholding taxes that could arise on the remittance of subsidiary retained earnings are only made where there is a current intention to remit such earnings. Other taxes not based on income, such as property taxes and capital taxes, are included within operating expenses.

Deferred taxes are provided using the full liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying values in the consolidated financial statements except for non-tax-deductible goodwill and for those differences related to investments in subsidiaries where their reversal will not take place in the foreseeable future. Deferred income tax assets relating to the carry-forward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

Current income tax assets and liabilities are off-set when the income taxes are levied by the same taxing authority and where there is a legally enforceable right of off-set. Deferred tax assets and liabilities are determined based on enacted or substantively enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### EARNINGS PER SHARE
Basic earnings per share are calculated by dividing the Group's profit by the weighted average number of shares outstanding during the year, excluding treasury shares. For diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming conversion of all potential dilutive shares. Group profit is also adjusted to reflect the after-tax impact of conversion.

### DIVIDENDS
Dividends are reported as a movement in equity in the period in which they are approved by the shareholders.

## TREASURY SHARES

Treasury shares are reported as a deduction to equity. The original cost of treasury shares and the proceeds of any subsequent sale are recorded as movements in equity.

## SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

### Use of estimates

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

### Business combinations

In a business combination, the determination of the fair value of the identifiable assets acquired, particularly intangibles, requires estimations which are based on all available information and in some cases on assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. The purchase price is allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The excess is reported as goodwill. As a result, the purchase price allocation impacts reported assets and liabilities, future net earnings due to the impact on future depreciation and amortization expense and impairment charges. The purchase price allocation is subject to a maximum period of 12 months adjustment.

### Valuation of trade receivables, unbilled revenue and work in progress

The balances are presented net of expected credit loss allowance. These allowances for potential uncollected amounts are estimated in compliance with the simplified approach using a provision matrix (expected credit loss model), which has been developed to reflect the country risk, the credit risk profile, as well as available historical data. In addition, an allowance is estimated based on individual client analysis when the collection is no longer probable.

### Impairment of goodwill

The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires identification of CGUs and an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU or group of CGUs that holds the goodwill at a determined discount rate in order to calculate the present value of those cash flows.

### Estimations of employee post-employment benefits obligations

The Group maintains several defined benefit pension plans in accordance with local conditions and practices in the countries in which it operates. The related obligations recognized in the statement of financial position represent the present value of the defined benefit obligations calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions vary according to the local prevailing economic and social conditions.

### Income Taxes

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

In assessing how an uncertain tax treatment may affect the determination of the taxable profit (tax loss), the Group assumes that a taxation authority will examine amounts and have full knowledge of all related information.

If the Group concludes it is not probable that a taxation authority will accept a particular tax treatment, the Group reflects the effect of each uncertainty in determining the taxable profit (tax loss) by using one of the following methods:

- The single most likely amount
- The sum of probability-weighted amount in a range of possible outcomes

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, including estimated interest and penalties where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### Legal and warranty claims on services rendered

The Group is subject to litigation and other claims. Management bases its judgment on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industries and markets, prevailing commercial terms and legal precedent, and evaluation of applicable insurance cover where appropriate. The process of estimation is complex, dealing with uncertainty, requiring the use of informed estimates, actuarial assessment, evaluation of the insurance cover where appropriate and the judgment of Management. The timing of cash outflows from pending litigation and claims is uncertain since it depends, in the majority of cases, on the outcome of administrative and legal proceedings. The Group's legal and warranty claims are reviewed, at a minimum, on a quarterly basis by a cross-functional representation of Management. Any changes in these estimates are reflected in the income statement in the period in which the estimates change.

### Judgments

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

### Lease termination of contracts with renewal and exit options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, for some of its leases to lease the assets for additional terms. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

### EXCHANGE RATES

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

| | | | Statement of financial position period-end rates | | Income statement period average rates | |
|---|---|---|---|---|---|---|
| | | | **2020** | **2019** | **2020** | **2019** |
| Australia | AUD | 100 | **67.66** | 68.02 | **64.75** | 69.11 |
| Brazil | BRL | 100 | **16.98** | 24.07 | **18.46** | 25.24 |
| Canada | CAD | 100 | **69.12** | 74.47 | **70.05** | 74.89 |
| Chile | CLP | 100 | **0.12** | 0.13 | **0.12** | 0.14 |
| China | CNY | 100 | **13.54** | 13.93 | **13.60** | 14.40 |
| Eurozone | EUR | 100 | **108.42** | 109.03 | **107.04** | 111.29 |
| United Kingdom | GBP | 100 | **119.75** | 127.49 | **120.47** | 126.88 |
| Russia | RUB | 100 | **1.19** | 1.58 | **1.31** | 1.54 |
| Taiwan | TWD | 100 | **3.15** | 3.24 | **3.19** | 3.22 |
| USA | USD | 100 | **88.45** | 97.35 | **93.92** | 99.38 |

## 3. BUSINESS COMBINATIONS

The following business combinations occurred during 2020 and 2019:

### BUSINESS COMBINATIONS 2020

In 2020, the Group completed six business combinations for a total purchase price of CHF 536 million (note 21).

- 100% of Thomas J. Stephens & Associates, Inc., a company providing clinical research serving the cosmetic and personal care industry in the USA (effective 8 January 2020)
- 100% of CTA Gallet, a company operating vehicle inspection services in France and providing road safety inspections (effective 2 June 2020)
- 100% of Groupe Moreau, a company providing vehicle inspection services in France (effective 28 August 2020)
- 100% of Engineering Control Limited, a consultancy company focusing on process automation and functional safety of process systems in New Zealand (effective 4 November 2020)
- 80% of Ryobi Geotechnique International Pte Ltd a company specializing in providing geoengineering solutions in Singapore (effective 31 December 2020)
- 100% of SYNLAB Analytics & Services, a leading European environmental, food testing, life activities and tribology services company (effective 31 December 2020)

These companies were acquired for an amount of CHF 536 million and the total goodwill generated on these transactions amounted to CHF 481 million.

All the above transactions contributed a total of CHF 16 million in revenue and CHF 2 million in operating income in 2020. Had all acquisitions been effective 1 January 2020, the revenue for the period from these acquisitions would have been CHF 254 million and the operating income would have been CHF 30 million.

On 31 December 2020 SGS has acquired SYNLAB Analytics & Services. This acquisition will strengthen Group's presence in North-Western Europe in environmental testing, food testing, life activities and oil condition monitoring as well as allowing SGS to enter new markets in the Nordics. SYNLAB Analytics & Services has not contributed to Group's revenue and operating income in 2020.
Had the company been acquired on 1 January 2020 the revenue for the year would have been CHF 207 million and the operating income CHF 22 million.

On 31 December 2020 SGS has acquired Ryobi Geotechnique International Pte Ltd.. This acquisition supports Group's strategic evolution following TIC megatrends as well as the presence of Industrial business in Singapore. Ryobi Geotechnique International Pte Ltd. has not contributed to Group's revenue and operating income in 2020. Had the company been acquired on 1 January 2020 the revenue for the year would have been CHF 25 million and the operating income CHF 4 million.

None of the goodwill arising on these acquisitions is expected to be tax deductible.

### DIVESTMENT 2020

The Group has disposed of Pest management and fumigation operations in Belgium and Netherlands for a total purchase price of CHF 68 million, generating a gain on disposal of CHF 63 million.

### BUSINESS COMBINATIONS 2019

In 2019, the Group completed 11 business combinations for a total purchase price of CHF 185 million (note 21).

- 60% of LeanSis Productividad, a company providing operational and manufacturing training as well as capacity building services in Spain (effective 21 January 2019)
- 100% of Floriaan B.V., providing fire safety services to industrial and real estate companies in the Netherlands. (effective 5 February 2019)
- 100% of Testing, Engineering and Consulting Services, Inc., a leading independent testing, engineering and consulting services laboratory in the USA (effective 4 April 2019)
- 97.54% of PT WLN Indonesia, a leading provider of water, soil and air testing services in Indonesia (effective 12 April 2019)
- 100% of Chemical Solutions Ltd, a nationally recognized testing laboratory specializing in element and heavy metal testing for food, nutraceuticals, pharma and cosmetic products in the USA (effective 3 May 2019)
- 100% of i2i Infinity Ltd, a company providing customs compliance services to exporters and chambers of commerce with the help of innovative proprietary software solutions in the United Kingdom (effective 12 June 2019)
- 60% of Maine Pointe LLC, a supply chain and operations consulting firm delivering business process optimization and improvement in the USA (effective 28 June 2019)
- 100% of DMW Environmental Safety LTD, a leading provider of health and safety solutions, including asbestos, building compliance and water hygiene services amongst others, based in the United Kingdom (effective 22 July 2019)
- 100% of Forensic Analytical Laboratoris, Inc., one of the leading providers of industrial hygiene, mold, bacteria, metals, particles, contamination control and asbestos testing, based in the USA (effective 16 July 2019)
- 70% of ARGUS International a provider of data-driven inspection, audit, safety and compliance solution to the global aviation market, based in USA (effective 24 September 2019)
- 100% of Personal protective equipment testing and certification activities of the Finnish Institute of Occupational Health, based in Finland (effective 1 October 2019)

In 2019, these companies were acquired for an equivalent of CHF 185 million and the total goodwill generated on these transactions amounted to CHF 142 million (note 21).

All the above transactions contributed in total CHF 66 million in revenues and CHF 12 million in operating income. Had all acquisitions been effective 1 January 2019, the revenues for the period would have been CHF 116 million and the Group operating income for the period would have been CHF 20 million.

In 2019, Maine Pointe LLC has contributed to the diversification of Certification and Business Enhancement (CBE) business portfolio and contributed CHF 32 million in revenues and CHF 6 million in operating income. Had Maine Pointe LLC been acquired effective 1 January 2019, the revenue would have been CHF 64 million and the operating income would have been CHF 12 million.

None of the goodwill arising on these acquisitions except Maine Pointe LLC is expected to be tax deductible.

### DIVESTMENT 2019

The Group has disposed of Petroleum Services Corporation (PSC), a provider of downstream Plant and Termination Operations for a total purchase price of CHF 333 million, generating a gain on disposal of CHF 268 million.

## 4. INFORMATION BY BUSINESS AND GEOGRAPHICAL SEGMENT

The information presented is disclosed by business line and focuses on revenue, operating income, capital expenditures and employee numbers because these are the performance measures used by the Chief Operating Decision Maker to assess segment performance.

### ANALYSIS OF OPERATING INCOME

| (CHF million) | 2020 | 2019 |
|---|---|---|
| **ADJUSTED OPERATING INCOME*** | **900** | **1 063** |
| Amortization and impairment of acquired intangibles | (31) | (36) |
| Restructuring costs | (84) | (89) |
| Goodwill impairment | (37) | (21) |
| Gain on business disposals | 63 | 268 |
| Transaction and integration costs | (16) | (19) |
| Other non-recurring items[1] | – | (84) |
| **OPERATING INCOME** | **795** | **1 082** |

1. 2019 included mainly tax provisions of CHF 33 million, impairment of fixed and intangible assets of CHF 24 million and the remeasurement of the defined benefit obligation of the Swiss pension fund of CHF 10 million

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## ANALYSIS OF REVENUE AND OPERATING INCOME

### December 2020

| (CHF million) | Revenue | Adjusted operating income* | Amortization of acquisition intangibles | Restructuring costs | Goodwill impairment | Gain on business disposals | Transaction and integration costs | Operating income by business |
|---|---|---|---|---|---|---|---|---|
| AFL | 996 | 175 | (4) | (5) | (16) | 63 | (4) | 209 |
| MIN | 639 | 111 | (1) | (7) | – | – | – | 103 |
| OGC | 776 | 76 | – | (5) | – | – | (2) | 69 |
| CRS | 1 054 | 264 | (2) | (3) | – | – | (1) | 258 |
| CBE | 429 | 82 | (10) | (3) | (8) | – | – | 61 |
| IND | 847 | 72 | (7) | (13) | (10) | – | (2) | 40 |
| EHS | 471 | 42 | (4) | (3) | – | – | (6) | 29 |
| GIS | 392 | 78 | (3) | (45) | (3) | – | (1) | 26 |
| **TOTAL** | **5 604** | **900** | **(31)** | **(84)** | **(37)** | **63** | **(16)** | **795** |

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

## SEGMENT INFORMATION RESTATEMENT

Following the completion of a strategic review, the Transportation business line (TRP) has been integrated in our other business segments as of 1 January 2020. The previously reported 2019 segment disclosures have been restated to reflect this change and are disclosed in the table below.

### December 2019 restated

| (CHF million) | Revenue | Adjusted operating income* | Amortization of acquisition intangibles | Restructuring costs | Goodwill impairment | Gain on business disposals | Transaction and integration costs | Other non-recurring items | Operating income by business |
|---|---|---|---|---|---|---|---|---|---|
| AFL | 1 074 | 172 | (3) | (13) | – | – | (2) | (11) | 143 |
| MIN | 753 | 128 | (1) | (14) | – | – | – | (8) | 105 |
| OGC | 1 075 | 120 | (4) | (15) | – | 268 | (10) | (22) | 337 |
| CRS | 1 091 | 270 | (3) | (8) | – | – | – | (11) | 248 |
| CBE | 497 | 99 | (6) | (5) | – | – | (4) | (5) | 79 |
| IND | 1 091 | 116 | (13) | (20) | (21) | – | (1) | (15) | 46 |
| EHS | 540 | 67 | (4) | (5) | – | – | (1) | (5) | 52 |
| GIS | 479 | 91 | (2) | (9) | – | – | (1) | (7) | 72 |
| **TOTAL** | **6 600** | **1 063** | **(36)** | **(89)** | **(21)** | **268** | **(19)** | **(84)** | **1 082** |

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

### December 2019 published

| (CHF million) | Revenue | Adjusted operating income* | Amortization of acquisition intangibles | Restructuring costs | Goodwill impairment | Gain on business disposals | Transaction and integration costs | Other non-recurring items | Operating income by business |
|---|---|---|---|---|---|---|---|---|---|
| AFL | 1 074 | 172 | (3) | (13) | – | – | (2) | (11) | 143 |
| MIN | 753 | 128 | (1) | (14) | – | – | – | (8) | 105 |
| OGC | 1 075 | 120 | (4) | (15) | – | 268 | (10) | (22) | 337 |
| CRS | 1 021 | 262 | (3) | (8) | – | – | – | (10) | 241 |
| CBE | 447 | 91 | (6) | (5) | – | – | (4) | (4) | 72 |
| IND | 930 | 112 | (10) | (15) | (21) | – | – | (12) | 54 |
| EHS | 540 | 67 | (4) | (5) | – | – | (1) | (5) | 52 |
| TRP | 500 | 66 | (5) | (11) | – | – | (2) | (7) | 41 |
| GIS | 260 | 45 | – | (3) | – | – | – | (5) | 37 |
| **TOTAL** | **6 600** | **1 063** | **(36)** | **(89)** | **(21)** | **268** | **(19)** | **(84)** | **1 082** |

* Alternative Performance Measures (APM), refer to the '2020 Full Year APM' document

### RESTRUCTURING COSTS

The Group incurred a pre-tax restructuring charge of CHF 84 million (2019: CHF 89 million), out of which CHF 45 million is recognized for GIS activities, mainly driven by the termination of the single-window contract with the Government of Ghana and the vehicle inspection contract with the Government of Uganda.

Total restructuring costs comprised personnel reorganization of CHF 44 million (2019: CHF 67 million) as well as fixed asset impairment of CHF 25 million (2019: CHF 9 million) and other charges of CHF 15 million (2019: CHF 13 million).

### REVENUE FROM EXTERNAL CUSTOMERS BY GEOGRAPHICAL SEGMENT

| (CHF million) | 2020 | % | 2019 | % |
|---|---|---|---|---|
| Europe/Africa/Middle East | 2 508 | 44.8 | 2 894 | 43.9 |
| Americas | 1 102 | 19.7 | 1 579 | 23.9 |
| Asia Pacific | 1 994 | 35.5 | 2 127 | 32.2 |
| **TOTAL** | **5 604** | **100.0** | **6 600** | **100.0** |

Revenue in Switzerland from external customers for 2020 amounted to CHF 149 million (2019: CHF 177 million). No country represented more than 20% of revenues from external customers in 2020 nor 2019.

### MAJOR CUSTOMER INFORMATION

In 2020 and 2019, no external customer represented 5% 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, right-of-use assets, goodwill and other intangible assets:

| (CHF million) | 2020 | % | 2019 | % |
|---|---|---|---|---|
| Europe/Africa/Middle East | 2 102 | 59.4 | 1 494 | 48.3 |
| Americas | 806 | 22.8 | 945 | 30.5 |
| Asia Pacific | 628 | 17.8 | 656 | 21.2 |
| **TOTAL SPECIFIC NON-CURRENT ASSETS** | **3 536** | **100.0** | **3 095** | **100.0** |

Specific non-current assets in Switzerland for 2020 amounted to CHF 164 million (2019: CHF 131 million).

### RECONCILIATION WITH TOTAL NON-CURRENT ASSETS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Specific non-current assets as above | 3 536 | 3 095 |
| Deferred tax assets | 161 | 174 |
| Retirement benefit assets | 90 | 78 |
| Non-current loans to third parties | 8 | 16 |
| **TOTAL** | **3 795** | **3 363** |

CAPITAL ADDITIONS BY BUSINESS SEGMENT

| | December | | December restated | | December published | |
|---|---|---|---|---|---|---|
| **(CHF million)** | **2020** | **%** | **2019** | **%** | **2019** | **%** |
| AFL | 40 | 15.4 | 46 | 15.9 | 46 | 15.9 |
| MIN | 28 | 10.9 | 36 | 12.4 | 36 | 12.4 |
| OGC | 41 | 15.8 | 48 | 16.6 | 48 | 16.6 |
| CRS | 82 | 31.7 | 75 | 25.8 | 65 | 22.4 |
| CBE | 4 | 1.5 | 5 | 1.7 | 5 | 1.7 |
| IND | 30 | 11.6 | 38 | 13.1 | 25 | 8.6 |
| EHS | 21 | 8.1 | 23 | 7.9 | 23 | 7.9 |
| TRP | n.a. | n.a. | n.a. | n.a. | 31 | 10.7 |
| GIS | 13 | 5.0 | 19 | 6.6 | 11 | 3.8 |
| **TOTAL** | **259** | **100.0** | **290** | **100.0** | **290** | **100.0** |

AVERAGE NUMBER OF EMPLOYEES BY GEOGRAPHICAL SEGMENT

| **(Average number of employees)** | **2020** | **2019** |
|---|---|---|
| Europe/Africa/Middle East | 36 350 | 37 946 |
| Americas | 17 878 | 21 863 |
| Asia Pacific | 34 870 | 34 685 |
| **TOTAL** | **89 098** | **94 494** |
| Number of employees at year end | 91 698 | 92 661 |

## 5. REVENUES FROM CONTRACTS WITH CUSTOMERS

TIMING OF REVENUE RECOGNITION

| | 2020 | | 2019 restated | | 2019 published | |
|---|---|---|---|---|---|---|
| **(CHF million)** | **Services transferred at a point in time** | **Services transferred over time** | **Services transferred at a point in time** | **Services transferred over time** | **Services transferred at a point in time** | **Services transferred over time** |
| AFL | 89% | 11% | 85% | 15% | 85% | 15% |
| MIN | 72% | 28% | 69% | 31% | 69% | 31% |
| OGC[1] | 81% | 19% | 68% | 32% | 68% | 32% |
| CRS[2] | 81% | 19% | 83% | 17% | 85% | 15% |
| CBE[2] | 96% | 4% | 98% | 2% | 97% | 3% |
| IND[2] | 57% | 43% | 59% | 41% | 56% | 44% |
| EHS | 76% | 24% | 77% | 23% | 77% | 23% |
| TRP[2] | n.a. | n.a. | n.a. | n.a. | 83% | 17% |
| GIS[2] | 91% | 9% | 93% | 7% | 94% | 6% |
| **TOTAL** | **79%** | **21%** | **77%** | **23%** | **77%** | **23%** |

1. The disposal of the PSC business in the USA has impacted the proportion of revenue recognized at a point in time versus over time in OGC
2. See note 2 on Segment information restatement

ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Unbilled revenues and work in progress | **160** | 195 |
| Trade receivables | **856** | 953 |
| Contract liabilities | **189** | 155 |

Revenue evolution, timing and project maturity are the main factors impacting assets and liabilities related to contracts with customers. In 2020, SGS has recognized revenue of CHF 93 million related to contract liabilities at 31 December 2019. In 2019, the revenue recognized from contract liabilities at 31 December 2018 amounted to CHF 81 million. Revenue recognized from performance obligations satisfied in previous periods were immaterial in 2020 and 2019.

The remaining performance obligations (unsatisfied or partially satisfied) expected to be recognized for long-term contracts amount to CHF 568 million at 31 December 2020, out of which CHF 300 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 2020 were not significant, while amortization and impairment losses were nil.

## 6. GOVERNMENT GRANTS

Government grants for the period amount to CHF 36 million (2019: CHF 5 million), presented as a deduction of salaries and wages expenses. The Group has applied for subsidies in certain countries for which a scheme has been put in place to cover partial unemployment due to the Covid-19 pandemic. Conditions attached to the grants differ from one country to another and the Group recognizes the grants only when the conditions are met. The outstanding balance recognized in the statement of financial position amounted to CHF nil million (2019: CHF nil million).

## 7. OTHER OPERATING EXPENSES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Consumables, repairs and maintenance | 446 | 490 |
| Travel costs | 246 | 362 |
| Rental expense, insurance, utilities and sundry supplies | 136 | 161 |
| External consultancy fees | 105 | 104 |
| IT expenses | 91 | 87 |
| Communication costs | 66 | 99 |
| Allowance for expected credit losses | 3 | 32 |
| Gain on disposal of property, plant and equipment | (2) | (2) |
| Miscellaneous operating expenses | 115 | 162 |
| **TOTAL** | **1 206** | **1 495** |

## 8. FINANCIAL INCOME

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Interest income | 11 | 17 |
| Foreign exchange gains/(losses) | 1 | 1 |
| Other financial income | – | – |
| **TOTAL** | **12** | **18** |

## 9. FINANCIAL EXPENSES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Interest expense[1] | 46 | 49 |
| Loss on derivatives at fair value | 11 | 27 |
| Other financial expenses | 9 | 3 |
| Net financial expenses on defined benefit plans | – | – |
| **TOTAL** | **66** | **79** |

1. 2020 includes CHF 20 million (2019: CHF 25 million) of lease liabilities interest expense (see note 13)

## 10. TAXES

### MAJOR COMPONENTS OF TAX EXPENSE

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Current taxes | 251 | 299 |
| Deferred tax (credit)/expense relating to the origination and reversal of temporary differences | (14) | 16 |
| **TOTAL** | **237** | **315** |

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) | 2020 | 2019 |
|---|---|---|
| Profit before taxes | 742 | 1 017 |
| **TAX AT STATUTORY RATES APPLICABLE TO THE PROFITS EARNED IN THE COUNTRY CONCERNED** | **139** | **205** |
| Tax effect of non-deductible or non-taxable items | 24 | 21 |
| Tax effect on losses not currently treated as being recoverable in future years | 21 | 48 |
| Tax effect on losses previously considered irrecoverable, now expected to be recoverable | (12) | (14) |
| Non-creditable foreign withholding taxes | 39 | 34 |
| Minimum taxes | 6 | 2 |
| Prior period adjustments | 11 | 5 |
| Rate changes | 6 | 4 |
| Other | 3 | 10 |
| **TAX CHARGE** | **237** | **315** |

### DEFERRED TAX AFTER NETTING

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Deferred tax assets | 161 | 174 |
| Deferred tax liabilities | (53) | (23) |
| **TOTAL** | **108** | **151** |

### COMPONENTS OF DEFERRED INCOME TAX BALANCES

| | 2020 | | 2019 | |
|---|---|---|---|---|
| (CHF million) | Assets | Liabilities | Assets | Liabilities |
| Right-of-use assets | – | 128 | – | 131 |
| Fixed assets | 42 | 8 | 45 | 6 |
| Trade receivable, unbilled revenues and work in progress | 26 | 5 | 29 | 7 |
| Defined benefit obligation | 15 | 9 | 22 | 7 |
| Provisions and other | 56 | – | 50 | – |
| Lease liabilities | 135 | – | 137 | – |
| Intangible assets | 2 | 65 | 2 | 22 |
| Tax losses carried forward | 47 | – | 39 | – |
| **DEFERRED INCOME TAXES** | **323** | **215** | **324** | **173** |

NET CHANGE IN DEFERRED TAX ASSETS/(LIABILITIES)

| (CHF million) | Total |
|---|---|
| **NET DEFERRED INCOME TAX ASSET AT 1 JANUARY 2019** | **173** |
| IFRS 16 adjustment | 9 |
| Acquisition of subsidiaries | (2) |
| (Charged) to the income statement | (16) |
| Credited to other comprehensive income | 6 |
| Exchange differences and other | (19) |
| **NET DEFERRED INCOME TAX ASSET AT 31 DECEMBER 2019** | **151** |
| Acquisition of subsidiaries | (42) |
| Credited to the income statement | 14 |
| (Charged) to other comprehensive income | (4) |
| Exchange differences and other | (11) |
| **NET DEFERRED INCOME TAX ASSET AT 31 DECEMBER 2020** | **108** |

The Group has unrecognized tax losses carried forward amounting to CHF 152 million (2019: CHF 139 million).

**UNRECOGNIZED TAX LOSSES CARRYFORWARDS AT 31 DECEMBER 2020**

| (CHF million) | |
|---|---|
| Expiring in the next 3 years | 27 |
| Expiring in 4–10 years | 34 |
| Available without limitation | 91 |
| **TOTAL UNRECOGNIZED TAX LOSSES** | **152** |

At 31 December 2020, the unrecognized deferred tax assets amount to CHF 47 million (2019: CHF 60 million).

At 31 December 2020, the retained earnings of subsidiaries and foreign incorporated joint ventures consolidated by the Group include approximately CHF 2 621 million (2019: CHF 2 929 million) of undistributed earnings that may be subject to tax if remitted to the parent company. As set out in note 22, the nature of the Group's business requires keeping a significant part of the cash reserves in the operating units. 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 then, the Group takes the view that it is probable that they will not be reversed in the foreseeable future.

## 11. EARNINGS PER SHARE

Basic earnings per share are calculated as follows:

| | 2020 | 2019 |
|---|---|---|
| Profit attributable to equity holders of SGS SA (CHF million) | 480 | 660 |
| Weighted average number of shares ('000) | 7 489 | 7 552 |
| **BASIC EARNINGS PER SHARE (CHF)** | **64.05** | **87.45** |

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):

| | 2020 | 2019 |
|---|---|---|
| Profit attributable to equity holders of SGS SA (CHF million) | 480 | 660 |
| Diluted weighted average number of shares ('000) | 7 516 | 7 575 |
| **DILUTED EARNINGS PER SHARE (CHF)** | **63.82** | **87.18** |

## 12. PROPERTY, PLANT AND EQUIPMENT

| (CHF million) | Land & buildings | Machinery & equipment | Other tangible assets | Total |
|---|---|---|---|---|
| **2020** | | | | |
| **COST** | | | | |
| At 1 January | 478 | 2 154 | 743 | 3 375 |
| Additions | 6 | 135 | 90 | 231 |
| Acquisition of subsidiaries | 5 | 45 | 14 | 64 |
| Disposals | (11) | (93) | (59) | (163) |
| Exchange differences and other | (14) | (99) | (73) | (186) |
| At 31 December | 464 | 2 142 | 715 | 3 321 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 January | 256 | 1 677 | 516 | 2 449 |
| Depreciation | 15 | 164 | 53 | 232 |
| Impairment | 15 | 7 | 3 | 25 |
| Acquisition of subsidiaries | 1 | 24 | 4 | 29 |
| Disposals | (10) | (86) | (57) | (153) |
| Exchange differences and other | (6) | (94) | (33) | (133) |
| At 31 December | 271 | 1 692 | 486 | 2 449 |
| **NET BOOK VALUE AT 31 DECEMBER 2020** | **193** | **450** | **229** | **872** |

| (CHF million) | Land & buildings | Machinery & equipment | Other tangible assets | Total |
|---|---|---|---|---|
| **2019** | | | | |
| **COST** | | | | |
| At 1 January | 482 | 2 116 | 739 | 3 337 |
| Additions | 7 | 146 | 103 | 256 |
| Acquisition of subsidiaries | – | 3 | 4 | 7 |
| Disposals | (6) | (97) | (48) | (151) |
| Exchange differences and other | (5) | (14) | (55) | (74) |
| At 31 December | 478 | 2 154 | 743 | 3 375 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 January | 246 | 1 613 | 509 | 2 368 |
| Depreciation | 17 | 174 | 61 | 252 |
| Impairment | 2 | 15 | 3 | 20 |
| Acquisition of subsidiaries | – | 1 | 2 | 3 |
| Disposals | (3) | (91) | (45) | (139) |
| Exchange differences and other | (6) | (35) | (14) | (55) |
| At 31 December | 256 | 1 677 | 516 | 2 449 |
| **NET BOOK VALUE AT 31 DECEMBER 2019** | **222** | **477** | **227** | **926** |

Included in the other tangible assets are leasehold improvements, office furniture and IT hardware as well as construction-in-progress assets amounting to CHF 37 million (2019: CHF 27 million).

At 31 December 2020, the Group had commitments of CHF 7 million (2019: CHF 5 million) for the acquisition of land, buildings and equipment.

## 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

| | Right-of-use assets | | | Total | Lease liabilities |
|---|---|---|---|---|---|
| (CHF million) | Land & buildings | Machinery & equipment | Other tangible assets | | |
| **AT 1 JANUARY** | **539** | – | **72** | **611** | **644** |
| Additions | 92 | – | 37 | 129 | 123 |
| Acquisition | 37 | 6 | 2 | 45 | 46 |
| Depreciation expense | (125) | – | (40) | (165) | – |
| Interest expense | – | – | – | – | 20 |
| Payment of lease liabilities and interests | – | – | – | – | (181) |
| Exchange difference and other | (27) | – | (3) | (30) | (31) |
| **AT 31 DECEMBER 2020** | **516** | **6** | **68** | **590** | **621** |

| Analyzed as: | 2020 |
|---|---|
| Current liabilities | 151 |
| Non-current liabilities | 470 |
| **TOTAL** | **621** |

| | Right-of-use assets | | | Total | Lease liabilities |
|---|---|---|---|---|---|
| (CHF million) | Land & buildings | Machinery & equipment | Other tangible assets | | |
| **AT 1 JANUARY** | **585** | **9** | **91** | **685** | **713** |
| Additions | 98 | – | 32 | 130 | 127 |
| Acquisition | 3 | – | – | 3 | – |
| Disposal | (2) | (7) | (3) | (12) | (12) |
| Depreciation expense | (133) | – | (45) | (178) | – |
| Interest expense | – | – | – | – | 25 |
| Payment of lease liabilities and interests | – | – | – | – | (195) |
| Exchange difference and other | (12) | (2) | (3) | (17) | (14) |
| **AT 31 DECEMBER 2019** | **539** | **–** | **72** | **611** | **644** |

| Analyzed as: | 2019 |
|---|---|
| Current liabilities | 154 |
| Non-current liabilities | 490 |
| **TOTAL** | **644** |

Included in other tangible assets are mainly vehicles for CHF 62 million (2019: CHF 66 million).

The following table summarizes the main foreign currencies of the lease liabilities.

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Euro (EUR) | 229 | 208 |
| US Dollar (USD) | 94 | 120 |
| Renminbi Yuan (CNY) | 93 | 102 |
| Taiwan Dollar (TWD) | 29 | 35 |
| Australian Dollar (AUD) | 21 | 20 |
| Canadian Dollar (CAD) | 15 | 14 |
| Indian Rupee (INR) | 12 | 12 |
| Morocco Dirham (MAD) | 6 | 10 |
| New Zealand dollar (NZD) | 8 | 9 |
| Russian Ruble (RUB) | 7 | 9 |
| Hong Kong Dollar (HKD) | 5 | 7 |
| British Pound Sterling (GBP) | 7 | 7 |
| Brazilian Real (BRL) | 3 | 6 |
| Korean Won (KRW) | 7 | 6 |
| Other | 85 | 79 |
| **TOTAL** | **621** | **644** |

The Group leases mainly offices, laboratory spaces and vehicles. During the year ended 31 December 2020, an additional CHF 4 million (2019: CHF 8 million) was recognized as an expense in the income statement.

| (CHF million) | 2020 | 2019 |
|---|---|---|
| **IFRS 16 OTHER QUANTITATIVE INFORMATION** | | |
| Expense relating to short-term leases | 2 | 5 |
| Expense relating to leases of low-value assets | 2 | 2 |
| Expense relating to variable lease payments | – | 1 |
| **TOTAL EXPENSE RECOGNIZED IN INCOME STATEMENT** | **4** | **8** |

## 14. GOODWILL

| (CHF million) | 2020 | 2019 |
|---|---|---|
| **COST** | | |
| **AT 1 JANUARY** | **1 281** | **1 224** |
| Additions | 481 | 142 |
| Consideration/fair value adjustments on prior years' acquisitions | (5) | (5) |
| Disposal | (6) | (32) |
| Impairment | (37) | (21) |
| Exchange differences | (63) | (27) |
| **AT 31 DECEMBER** | **1 651** | **1 281** |

Goodwill recognized by the Group is allocated to Cash Generating Units (CGUs) or groups of CGUs for impairment testing purposes and is annually tested.

- For the following four business lines, CGUs cover the entire worldwide operations since customer activities are executed by the local entities, the clients and customers that they serve and the drivers of cash inflows are largely interdependent on worldwide basis across each business line:
  - Consumer and Retail (CRS)
  - Oil, Gas and Chemicals (OGC)
  - Environment, Health and Safety (EHS)
  - Minerals (MIN)
- The Agriculture, Food and Life (AFL) 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

Following the organizational structure changes stated in note 2, the goodwill of the Transportation business line (previously two CGUs), has been mainly reallocated to Governments and Institutions (GIS) and Industrial (IND).

- The Governments and Institutions (GIS) business line now includes two main CGUs in Spain and France regrouping mobility (regulated services) activities since customers in this sector are country specific, they are assessed as two distinct CGUs
- The Industrial (IND) business line now includes an additional CGU related to the transportation testing and engineering activities in the USA where the cash inflows are concentrated. It also includes an additional CGU following the acquisition of Ryobi Ltd., thus bringing the number of CGUs in this business line to eight. The other CGUs continue to be driven primarily by regional and local customer activities and therefore have cash inflows, which are largely independent from each other. Consequently, a CGU organization by region or by country has been maintained

As required by IAS 36 and considering specific impairment indicators, the technical consultancy activity in the USA was assessed as a separate CGU within the Certification and Business and Enhancement (CBE) business line.

The acquisition of SYNLAB Analytics & Services, completed on 31 December 2020, has generated additional goodwill of CHF 439 million. Considering completion date as well as announced changes in the management reporting of business lines, this goodwill remains unallocated at 31 December 2020.

### 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) | 2020 | 2019 |
|---|---|---|
| AFL | 211 | 251 |
| IND | 257 | 257 |
| EHS | 153 | 167 |
| MIN | 106 | 113 |
| CBE | 98 | 112 |
| OGC | 103 | 105 |
| CRS | 113 | 107 |
| GIS | 171 | 169 |
| Unallocated | 439 | – |
| **TOTAL** | **1 651** | **1 281** |

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 pre-tax rate depending on the business activities and geographic profile of each of the respective CGUs.

However, following the closure of certain activities within the business lines and restructuring as a result of the global downturn and ongoing economic uncertainty, the Group recognized an impairment loss of CHF 37 million mainly allocated to the following CGUs or groups of CGUs:

- An impairment of CHF 10 million has been recognized in our IND CGUs mainly in North America in the transportation testing and engineering activities as the recoverable amount of the CGU was lower than its carrying amount due to the worldwide downturn of the automotive industry
- An impairment of CHF 16 million has been recognized in our AFL Life clinical CGU due to a decline in expected synergies for our clinical research activities as a result of the closure of the business in France
- An impairment of CHF 11 million has been recognized following the reorganization of the Group's Transportation business mainly impacting the aviation, audit and advisory services in Australia (CBE), which have been heavily impacted by the Covid-19 pandemic

In 2019, the Group restructured parts of the Industrial USA business. Consequently, the CGU was reduced to its recoverable amount, resulting in an impairment charge of CHF 21 million.

### PRE-TAX DISCOUNT RATE USED IN 2020 FOR THE MAIN CGUS OR GROUP OF CGUS IMPAIRMENT TESTING

| | 2020 |
|---|---|
| AFL | 9.4% |
| IND | 6.4%–12.2% |
| EHS | 7.8% |
| MIN | 10.7% |
| CBE | 6.2%–12.1% |
| OGC | 9.4% |
| CRS | 9.3% |
| GIS | 6.9%–7.3% |

The cash flow projections for the first five years were based upon financial plans, approved by the Group, for each CGU or group of CGUs. The overall assumptions used in the cash flow projections are consistent with the expected average growth rates of the segments served by the Group. For the subsequent years, the Group assumes a long-term growth rate in the range of 0%–2% and stable operating margins depending on each CGU or group of CGUs.

### SENSITIVITY TO CHANGES IN ASSUMPTION

After considering the Goodwill impairment loss of CHF 37 million, sensitivity analyses were conducted using the following key assumptions

- Reducing the expected annual revenue growth rates for the first five years by 2 pp[1]
- Reducing the operating margin by 0.25 pp[1]
- Increasing the discount rate assumption by 1 pp[1]

For all impairment tests, changing the key assumptions retained in the scenario using the sensitivity analyses described above would not result in any additional impairment.

### SPECIFIC IMPAIRMENT TEST PERFORMED FOR CBE TECHNICAL CONSULTANCY USA

Due to a decline in sales, primarily driven by the suspension of several large technical consultancy projects and a reduction in projects associated with business transactions due to lower deal activity in the USA as a result of the Covid-19 pandemic, an impairment test has been conducted for this CGU using the following key assumptions:

- Pre-tax discount rate of 12.1% assuming a risk size premium of 5.2% reflecting uncertain future revenue development for consultancy businesses
- Strong recovery in 2021, supported by recommencement of suspended projects and increasing transactional activity, with a 2021 revenue growth rate of approximately 200% to reach pre-Covid-19 pandemic level and an average growth rate of 12% from 2022 to 2025
- Average EBITDA margin back to its historical trend prior Covid-19 pandemic in the mid 20s from 2021 to 2025
- Long-term growth rate of 2% after 2025

Based on the above assumptions, the recoverable amount exceeds the carrying amount for this CGU for which the Group's share of goodwill is CHF 78 million.

The Group has assessed the sensitivity of the value-in-use to the changes in the assumptions as follows:

- Missing the 2021 revenue target by 20% and decreasing the 2022 to 2025 average revenue growth by 4 pp[1] would reduce the value-in-use by CHF 85 million
- Decreasing the average EBITDA margin by 4 pp[1] would reduce the value-in-use by CHF 45 million
- Decreasing the long-term growth rate by 1 pp[1] would reduce the value-in-use by CHF 20 million

Based on the above sensitivity analyses, the recoverable amount exceeds the carrying value of the CGU and therefore would not result in an impairment.

Missing the 2021 revenue target by 35% and decreasing both the 2022 to 2025 average revenue growth and average EBITDA margin by 4 pp[1] respectively, whilst leaving other assumptions unchanged (including the risk size premium of 5.2% in the pre-tax discount rate), would bring the value in use of the CGU to its carrying amount.

1. Percentage points

## 15. OTHER INTANGIBLE ASSETS

| (CHF million) | Trademarks and other | Customer relationships | Computer software and other assets: Internally generated | Computer software and other assets: Purchased | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **COST** | | | | | |
| At 1 January | 93 | 238 | 158 | 302 | 791 |
| Additions | – | 1 | 14 | 13 | 28 |
| Acquisition of subsidiaries | 10 | 165 | 1 | – | 176 |
| Disposals | (9) | (9) | (3) | (37) | (58) |
| Exchange differences and other | (3) | (7) | 12 | (16) | (14) |
| At 31 December | 91 | 388 | 182 | 262 | 923 |
| **ACCUMULATED AMORTIZATION AND IMPAIRMENT** | | | | | |
| At 1 January | 68 | 137 | 137 | 262 | 604 |
| Amortization | 6 | 23 | 12 | 11 | 52 |
| Impairment | – | 3 | – | 3 | 6 |
| Acquisition of subsidiaries | 2 | (1) | – | – | 1 |
| Disposals | (9) | (10) | (3) | (36) | (58) |
| Exchange differences and other | (2) | (8) | 1 | (6) | (15) |
| At 31 December | 65 | 144 | 147 | 234 | 590 |
| **NET BOOK VALUE AT 31 DECEMBER 2020** | **26** | **244** | **35** | **28** | **333** |

| (CHF million) | Trademarks and other | Customer relationships | Computer software and other assets: Internally generated | Computer software and other assets: Purchased | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **COST** | | | | | |
| At 1 January | 77 | 251 | 137 | 313 | 778 |
| Additions | – | – | 17 | 16 | 33 |
| Acquisition of subsidiaries | 22 | 17 | 1 | – | 40 |
| Disposals | (2) | (25) | – | (19) | (46) |
| Exchange differences and other | (4) | (5) | 3 | (8) | (14) |
| At 31 December | 93 | 238 | 158 | 302 | 791 |
| **ACCUMULATED AMORTIZATION AND IMPAIRMENT** | | | | | |
| At 1 January | 65 | 136 | 109 | 266 | 576 |
| Amortization | 5 | 24 | 11 | 17 | 57 |
| Impairment | 3 | 4 | 6 | 7 | 20 |
| Disposals | (2) | (25) | – | (12) | (39) |
| Exchange differences and other | (3) | (2) | 11 | (16) | (10) |
| At 31 December | 68 | 137 | 137 | 262 | 604 |
| **NET BOOK VALUE AT 31 DECEMBER 2019** | **25** | **101** | **21** | **40** | **187** |

## 16. OTHER NON-CURRENT ASSETS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Non-current loans or amounts receivable from third parties | 8 | 16 |
| Retirement benefit asset | 90 | 78 |
| Other non-current assets | 56 | 55 |
| **TOTAL** | **154** | **149** |

Other non-current assets are measured at fair value through profit and loss except non-current loans or amounts receivable from third parties that are measured at amortized cost.

Depending on the nature of the balances, currency and date of maturity, interest rates on long-term balances or loans to third parties range between 0.0% and 12.97%.

In 2020, other non-current assets included deposits for guarantees and restricted cash of CHF 36 million (2019: CHF 35 million).

Typical examples of restricted cash are cash deposits for performance bonds, rentals and other operating obligations.

At 31 December 2020 and 2019, the fair value of the Group's other non-current assets approximates their carrying value.

## 17. TRADE RECEIVABLES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Trade receivables | 1 032 | 1 162 |
| Allowance for expected credit losses | (176) | (209) |
| **TOTAL** | **856** | **953** |

The movement of allowance for expected credit losses is analyzed as follows:

| (CHF million) | 2020 | 2019 |
|---|---|---|
| At 1 January | (209) | (196) |
| Acquisition of subsidiaries | (1) | (1) |
| Increase in allowance recognized in the income statement | (3) | (36) |
| Utilizations | 19 | 18 |
| Exchange differences | 18 | 6 |
| **TOTAL AT 31 DECEMBER** | **(176)** | **(209)** |

## 18. OTHER RECEIVABLES AND PREPAYMENTS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Prepayments | 69 | 66 |
| Derivative assets | 8 | 15 |
| Other receivables | 111 | 138 |
| **TOTAL** | **188** | **219** |

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties. Other receivables consist mainly of sales taxes and other taxes recoverable as well as advances to suppliers.

## 19. CASH AND CASH EQUIVALENTS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Cash and short-term deposits | 1 766 | 1 425 |
| Deposits on demand | – | 40 |
| Short-term loans | – | 1 |
| **TOTAL** | **1 766** | **1 466** |

## 20. CASH FLOW STATEMENT

### 20.1. NON-CASH AND NON-OPERATING ITEMS

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 12 | 232 | 252 |
| Impairment of property, plant and equipment and other intangible assets | 12 and 15 | 31 | 40 |
| Depreciation/impairment of right-of-use asset | 13 | 165 | 178 |
| Amortization of intangible assets | 15 | 52 | 57 |
| Impairment of goodwill | 14 | 37 | 21 |
| ECL[1] on trade receivables, unbilled revenues and work in progress | | 3 | 31 |
| Net financial expenses | 8 and 9 | 54 | 61 |
| (Decrease)/increase in provisions and employee benefits | | (14) | 48 |
| Share-based payment expenses | | 17 | 17 |
| Gain on disposals | | (65) | (268) |
| Share of results from associates and other entities | | (1) | 4 |
| Taxes | 10 | 237 | 315 |
| **NON-CASH AND NON-OPERATING ITEMS** | | **748** | **756** |

1. Expected Credit Losses

### 20.2. DECREASE/(INCREASE) IN WORKING CAPITAL

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Decrease in unbilled revenues and inventories | 17 | 29 |
| Decrease/(increase) in trade receivables | 71 | (66) |
| Decrease/(increase) in other receivables and prepayments | 25 | (17) |
| Decrease/(increase) in trade and other payables | 23 | (5) |
| Increase in other creditors and accruals | 37 | 31 |
| Increase in other provisions | 13 | 25 |
| **DECREASE/(INCREASE) IN WORKING CAPITAL** | **186** | **(3)** |

### 20.3. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | | Cash impact | Non cash impact | | | | |
|---|---|---|---|---|---|---|---|
| (CHF million) | 1 January | Financing cash flows | Equity movement | Acquisition and disposals | New Leases | Other movements[1] | 31 December |
| **2020** | | | | | | | |
| Corporate bonds | 2 105 | 499 | – | – | – | (4) | 2 600 |
| Bank loans | 8 | 388 | – | 162 | – | (2) | 556 |
| Put option on acquisition | 89 | – | (23) | – | – | (4) | 62 |
| Lease liabilities | 644 | (161) | – | 46 | 123 | (31) | 621 |
| Other financial liabilities | 25 | (1) | 1 | – | – | (2) | 23 |
| **TOTAL** | **2 871** | **725** | **(22)** | **208** | **123** | **(43)** | **3 862** |

1. Other movements include interest accruals and payments, amortization under effective interest rate method, currency effects and other contingent consideration movements

| | | Cash impact | Non cash impact | | | | |
|---|---|---|---|---|---|---|---|
| (CHF million) | 1 January | Financing cash flows | Equity movement | Acquisition and disposals | New Leases | Other movements[1] | 31 December |
| **2019** | | | | | | | |
| Corporate bonds | 2 484 | (375) | – | – | – | (4) | 2 105 |
| Bank loans | 4 | – | – | 4 | – | – | 8 |
| Put option on acquisition | – | – | 89 | – | – | – | 89 |
| Lease liabilities | 713 | (174) | – | (12) | 127 | (10) | 644 |
| Other financial liabilities | 24 | (12) | 12 | 2 | – | (1) | 25 |
| **TOTAL** | **3 225** | **(561)** | **101** | **(6)** | **127** | **(15)** | **2 871** |

1. Other movements include interest accruals and payments, amortization under effective interest rate method, currency effects and other contingent consideration movements

## 21. ACQUISITIONS

### ASSETS AND LIABILITIES ARISING FROM ACQUISITIONS

| (CHF million) | Fair Value on SYNLAB Analytics & Services | Fair value on Ryobi Geotechnique International Pte Ltd | Fair value on other acquisitions 2020 | Total fair value on acquisition 2020 | Total fair value on acquisition 2019 |
|---|---|---|---|---|---|
| Property, plant and equipment | 27 | 7 | 1 | 35 | 4 |
| Right-of-use assets | 32 | 3 | 10 | 45 | 1 |
| Intangible assets | 156 | 9 | 10 | 175 | 40 |
| Other non-current assets | 1 | – | – | 1 | 1 |
| Trade receivable | 30 | 1 | 3 | 34 | 11 |
| Other current assets | 24 | 6 | 1 | 31 | 7 |
| Cash and cash equivalents | 32 | 7 | 5 | 44 | 24 |
| Current liabilities | (62) | (5) | (5) | (72) | (19) |
| Non-current liabilities | (216) | (6) | (12) | (234) | (5) |
| Non-controlling interests | – | (4) | – | (4) | (21) |
| **NET ASSETS ACQUIRED** | **24** | **18** | **13** | **55** | **43** |
| Goodwill | 433 | 26 | 22 | 481 | 142 |
| **TOTAL PURCHASE PRICE** | **457** | **44** | **35** | **536** | **185** |
| Acquired cash and cash equivalents | (32) | (7) | (5) | (44) | (24) |
| Consideration payable | – | – | (3) | (3) | (1) |
| Payment on prior year acquisitions | – | – | 2 | 2 | 9 |
| Prepayment on acquisitions | 1 | – | – | 1 | – |
| **NET CASH OUTFLOW ON ACQUISITIONS** | **426** | **37** | **29** | **492** | **169** |

In compliance with IFRS 3, fair value on acquisition remains provisional for a twelve-month period following the date of acquisition, during which the Group can finalise the purchase price allocation.

The goodwill arising on these acquisitions relates mainly to the value of expected synergies and the value of the qualified workforce that do not meet the criteria for recognition as separable intangible assets. Consideration payable relates mainly to environmental and commercial warranty clauses and the fair value of contingent future earn-out payments.

The Group incurred transaction-related costs of CHF 14 million (2019: CHF 13 million) related to external legal fees, due diligence expenses and the costs of maintaining an internal acquisition department. These expenses are reported within Other Operating Expenses in the consolidated income statement.

## 22. FINANCIAL RISK MANAGEMENT

### RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's activities expose it primarily to market, credit and liquidity risk. Market risk includes foreign exchange, interest rate and equity price risks.

The risk management policies and objectives are governed by the Group's policies approved by the Board of Directors.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risk and limits continually by means of reliable and up-to-date administrative and information systems.

The Audit Committee oversees how Management monitors compliance with the Group's risk management policies.
The Audit Committee is assisted in its oversight role by Internal Audit.

### RISK MANAGEMENT ACTIVITIES

The Group uses foreign exchange contracts to manage the Group's exposure to fluctuations in foreign currency exchange rates. These activities are carried out in accordance with the Group's risk management policies and objectives in areas such as counterparty exposure and economic hedging practices. Counterparties to these agreements are major international financial institutions with high credit ratings and positions are monitored using market value and sensitivity analyses. The associated credit risk is therefore limited. These agreements generally include the exchange of one currency for a second currency at a future date.

The following table summarizes foreign exchange contracts outstanding at year end. The notional amount of derivatives summarized below represents the gross amount of the contracts and includes transactions, which have not yet matured. Therefore the figures do not reflect the Group's net exposure at year end. The market value approximates the costs to settle the outstanding contracts. These market values should not be viewed in isolation but in relation to the market values of the underlying hedged transactions and the overall reduction in the Group's exposure to adverse fluctuations in foreign exchange rates.

Currently, the Group has certain exposure to interest and credit risks and no exposure to equity price risk.

| | Notional amount | | Market value | |
|---|---|---|---|---|
| **(CHF million)** | **2020** | **2019** | **2020** | **2019** |
| **FOREIGN EXCHANGE FORWARD CONTRACTS** | | | | |
| Currency: | | | | |
| Australian Dollar (AUD) | (9) | (12) | – | – |
| Brazilian Real (BRL) | (31) | (42) | (2) | (1) |
| Canadian Dollar (CAD) | 11 | 21 | – | – |
| Chilean Peso (CLP) | (24) | (36) | (2) | – |
| Chinese Renminbi (CNY) | 17 | 8 | – | – |
| Colombian Peso (COP) | (3) | (5) | – | – |
| Euro (EUR) | (59) | (187) | (2) | 1 |
| British Pound Sterling (GBP) | (36) | 48 | – | – |
| Hong Kong Dollar (HKD) | 12 | 23 | – | – |
| Indian Rupee (INR) | 2 | 2 | – | – |
| Japanese Yen (JPY) | (1) | (2) | – | – |
| Kenyan Shilling (KES) | (3) | (4) | – | – |
| Korean Won (KRW) | 2 | 4 | – | – |
| New Zealand Dollar (NZD) | (7) | (3) | – | – |
| Philippines Peso (PHP) | (14) | (8) | – | – |
| Polish Zloty (PLN) | (3) | (5) | – | – |
| Russian Ruble (RUB) | (4) | 4 | – | – |
| Turkish New Lira (TRY) | 2 | 1 | – | – |
| US Dollar (USD) | (106) | (501) | 2 | 7 |
| South African Rand (ZAR) | (19) | (21) | (1) | (1) |
| Other | (19) | (11) | – | – |
| **TOTAL** | **(292)** | **(726)** | **(5)** | **6** |

### CREDIT RISK MANAGEMENT

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. It arises principally from the Group's commercial activities. Trade receivable, unbilled revenues and work in progress are subject to a policy of active risk management which focuses on the assessment of country risk, credit limits and approval procedures. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivable, unbilled revenue and work in progress.

As at 31 December 2020, the Group has unbilled revenue and work in progress of CHF 160 million (2019: CHF 195 million) which is net of an allowance for expected credit losses of CHF 15 million (2019: CHF 19 million).

Receivables are recognized and carried at original invoice amount less an allowance for any non-collectible amounts. A credit loss allowance is made in compliance with the simplified approach using a provision matrix (expected credit loss model). This provision matrix has been developed to reflect the country risk, the credit risk profile and available historical data. Similarly to receivables an allowance for unbilled revenues and work in progress is made using a provision matrix.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on aging of trade receivables as of invoice date at 31 December 2020:

| (CHF million) | Expected credit loss range | Gross carrying amount | Expected credit loss |
|---|---|---|---|
| 0 – 60 days | 0% | 701 | – |
| 61 – 90 days | 0.5%-5% | 80 | 3 |
| 91 – 120 days | 10%-25% | 40 | 6 |
| 121 – 180 days | 20%-50% | 36 | 11 |
| 181 – 240 days | 35%-75% | 21 | 9 |
| 241 – 300 days | 50%-75% | 14 | 9 |
| 301 – 360 days | 75%-100% | 10 | 8 |
| > 360 days | 100% | 130 | 130 |
| **TOTAL** | | **1 032** | **176** |

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on ageing of trade receivables as of invoice date at 31 December 2019:

| (CHF million) | Expected credit loss range | Gross carrying amount | Expected credit loss |
|---|---|---|---|
| 0 – 60 days | 0% | 762 | – |
| 61 – 90 days | 0.5%-5% | 105 | 4 |
| 91 – 120 days | 10%-25% | 45 | 9 |
| 121 – 180 days | 20%-50% | 57 | 20 |
| 181 – 240 days | 35%-75% | 30 | 19 |
| 241 – 300 days | 50%-75% | 14 | 10 |
| 301 – 360 days | 75%-100% | 17 | 15 |
| > 360 days | 100% | 132 | 132 |
| **TOTAL** | | **1 162** | **209** |

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 2020 is the carrying amount of financial assets including derivatives.

In addition, the Group has issued CHF 193 million (2019: CHF 212 million) financial guarantees to certain financial institutions that have provided credit facilities and foreign exchange lines to its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

Analysis of financial assets by class and category at 31 December 2020:

| | | | Fair value | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized cost | | At fair value through OCI | | At fair value through P&L | | Total | |
| (CHF million) | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash-equivalents | 1 766 | 1 766 | – | – | – | – | 1 766 | 1 766 |
| Trade receivables | 856 | 856 | – | – | – | – | 856 | 856 |
| Other receivables[1] | 114 | 114 | – | – | – | – | 114 | 114 |
| Unbilled revenues and work in progress | 160 | 160 | – | – | – | – | 160 | 160 |
| Non-current loans or amounts receivable from third parties | 8 | 8 | – | – | – | – | 8 | 8 |
| Marketable securities | – | – | 9 | 9 | – | – | 9 | 9 |
| Derivative assets | – | – | – | – | 8 | 8 | 8 | 8 |
| **TOTAL FINANCIAL ASSETS** | **2 904** | **2 904** | **9** | **9** | **8** | **8** | **2 921** | **2 921** |

1. Excluding VAT and other tax related items

Analysis of financial assets by class and category at 31 December 2019:

| | Amortized cost | | Fair value: At fair value through OCI | | 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 | 1 466 | 1 466 | – | – | – | – | 1 466 | 1 466 |
| Trade receivables | 953 | 953 | – | – | – | – | 953 | 953 |
| Other receivables[1] | 142 | 142 | – | – | – | – | 142 | 142 |
| Unbilled revenues and work in progress | 195 | 195 | – | – | – | – | 195 | 195 |
| Non-current loans to third parties | 16 | 16 | – | – | – | – | 16 | 16 |
| Marketable securities | – | – | 9 | 9 | – | – | 9 | 9 |
| Derivative assets | – | – | – | – | 15 | 15 | 15 | 15 |
| **TOTAL FINANCIAL ASSETS** | **2 772** | **2 772** | **9** | **9** | **15** | **15** | **2 796** | **2 796** |

1. Excluding VAT and other tax related items

In the fair value hierarchy, Level 1 measurements are those derived from the quoted price in active markets. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Marketable securities, CHF 9 million (2019: CHF 9 million) qualify as Level 1, fair value measurement category. Derivative assets (2020: CHF 8 million; 2019: CHF 15 million) qualify as Level 2 fair value measurement category in accordance with the fair value hierarchy. Derivative assets consist of foreign currency forward contracts that are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

## LIQUIDITY RISK MANAGEMENT

The objective of the Group's liquidity and funding management is to ensure that all its foreseeable financial commitments can be met when due. Liquidity and funding are primarily managed by Group Treasury in accordance with practices and limits set in the risk management policies and objectives approved by the Board of Directors.

The nature of the Group's business requires keeping a significant part of the cash reserves in the operating units.

Due to the significant cash position, liquidity risk is limited. The Group has various committed and uncommitted bilateral credit facilities with its banks.

Analysis of financial liabilities by class and category at 31 December 2020:

| | Amortized cost | | 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 |
| Trade payables | 322 | 322 | – | – | – | – | 322 | 322 |
| Other payables[1] | 160 | 160 | – | – | – | – | 160 | 160 |
| Loans and other financial liabilities | 3 174 | 3 292 | 62 | 62 | 17 | 17 | 3 253 | 3 371 |
| Lease liabilities | 621 | 621 | – | – | – | – | 621 | 621 |
| **TOTAL FINANCIAL LIABILITIES** | **4 277** | **4 395** | **62** | **62** | **17** | **17** | **4 356** | **4 474** |

1. Excluding VAT and other tax related items

The corporate bonds qualify as fair value Level 1 which amounts to CHF 2 718 million (2019: CHF 2 209 million).

Other financial liabilities include CHF 62 million qualifying as fair value Level 3 (2019: CHF 89 million), which represents the estimated present value of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised. This includes the fair value of the redemption amount to acquire the remaining 40% of Maine Pointe LLC. The put/call option was initially set to be exercisable in June 2022, but has been extended to June 2023 following the unfavorable market environment due to Covid-19 pandemic. The fair value has been estimated at CHF 30 million by applying a discounted valuation method based on weighted average revenue growth scenarios and a discount rate of 1%. The put option is sensitive to changes in revenue and reaching an EBITDA target up to a maximum pay-out of CHF 83 million.

Subsequent changes in the valuation of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised shall be recognized directly in equity attributable to owners, including the unwinding of the discount.

The remaining financial liabilities qualify as Level 2 determined in accordance with generally accepted pricing models.

Analysis of financial liabilities by class and category at 31 December 2019:

| | Amortized cost | | 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 |
| Trade payables | 336 | 336 | – | – | – | – | 336 | 336 |
| Other payables[1] | 133 | 133 | – | – | – | – | 133 | 133 |
| Loans and other financial liabilities | 2 132 | 2 236 | 89 | 89 | 16 | 16 | 2 237 | 2 341 |
| Lease liabilities | 644 | 644 | – | – | – | – | 644 | 644 |
| **TOTAL FINANCIAL LIABILITIES** | **3 245** | **3 349** | **89** | **89** | **16** | **16** | **3 350** | **3 454** |

1. Excluding VAT and other tax related items

Undiscounted contractual maturities of financial liabilities including interest payments at 31 December 2020:

| (CHF million) | Trade payables | Other payables[1] | Gross settled derivative financial instruments outflows | Gross settled derivative financial instruments inflows | Loans and other financial liabilities | Lease liabilities | Total |
|---|---|---|---|---|---|---|---|
| On demand or within one year | 322 | 160 | 1 259 | (1 263) | 863 | 167 | 1 508 |
| Within the second year | – | – | – | – | 285 | 125 | 410 |
| Within the third year | – | – | – | – | 546 | 98 | 644 |
| Within the fourth year | – | – | – | – | 269 | 70 | 339 |
| Within the fifth year | – | – | – | – | 254 | 53 | 307 |
| After five years | – | – | – | – | 1 122 | 175 | 1 297 |

1. Excluding VAT and other tax related items

Undiscounted contractual maturities of financial liabilities including interest payments at 31 December 2019:

| (CHF million) | Trade payables | Other payables[1] | Gross settled derivative financial instruments outflows | Gross settled derivative financial instruments inflows | Loans and other financial liabilities | Lease liabilities | Total |
|---|---|---|---|---|---|---|---|
| On demand or within one year | 336 | 133 | 1 380 | (1 376) | 38 | 172 | 683 |
| Within the second year | – | – | – | – | 317 | 130 | 447 |
| Within the third year | – | – | – | – | 351 | 95 | 446 |
| Within the fourth year | – | – | – | – | 338 | 74 | 412 |
| Within the fifth year | – | – | – | – | 262 | 56 | 318 |
| After five years | – | – | – | – | 1 027 | 191 | 1 218 |

1. Excluding VAT and other tax related items

The Group economically hedges its foreign exchange exposure on a net basis. The net position of the gross settled derivative financial instruments of CHF (4) million (2019: CHF 4 million) represents the net nominal value expressed in CHF of the Group's foreign currency contracts outstanding at 31 December 2020.

### 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 2020 and 2019 with all other variables remaining constant.

Sensitivity analysis based on net hedged positions at 31 December 2020 and 2019:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **(CHF million)** | **Income statement impact income/ (expense)** | **Equity impact increase/(decrease)** | **Income statement impact income/ (expense)** | **Equity impact increase/(decrease)** |
| US Dollar (USD) | 1 | (2) | – | (3) |
| Euro (EUR) | (3) | – | (3) | – |
| CFA Franc BEAC (CFA) | 3 | – | 3 | – |
| Taiwanese Dollar (TWD) | – | 1 | – | 1 |
| Canadian Dollar (CAD) | – | 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 2020 would increase/decrease by CHF nil (2019: CHF nil).

## 23. SHARE CAPITAL AND TREASURY SHARES

| | Shares in circulation | Treasury shares | Total shares issued | Total share capital *(CHF million)* |
|---|---|---|---|---|
| **BALANCE AT 1 JANUARY 2019** | **7 550 707** | **83 025** | **7 633 732** | **8** |
| Treasury shares released into circulation | 1 683 | (1 683) | – | – |
| Treasury shares cancelled | – | (68 000) | (68 000) | – |
| **BALANCE AT 31 DECEMBER 2019** | **7 552 390** | **13 342** | **7 565 732** | **8** |
| Treasury shares released into circulation | 3 382 | (3 382) | – | – |
| Treasury shares purchased for equity compensation plans | (15 834) | 15 834 | – | – |
| Treasury shares purchased for cancellation | (70 700) | 70 700 | – | – |
| **BALANCE AT 31 DECEMBER 2020** | **7 469 238** | **96 494** | **7 565 732** | **8** |

### ISSUED SHARE CAPITAL

SGS SA has a share capital of CHF 7 565 732 (2019: CHF 7 565 732) fully paid in and divided into 7 565 732 (2019: 7 565 732) registered shares of a par value of CHF 1. All shares, other than own shares, participate equally in the dividends declared by the Company and have equal voting rights.

### TREASURY SHARES

On 31 December 2020, SGS SA held 96 494 treasury shares (2019: 13 342 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 2020, 3 382 treasury shares were sold or given in relation with the equity compensation plans and 15 834 were purchased.

On 17 February 2020, SGS SA announced a CHF 200 million share buyback program for the purpose of capital reduction. The program ended on 17 December 2020 and 70 700 shares were repurchased for a total amount of CHF 169 million at an average price of CHF 2 394.

### 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 22 March 2021. The Board of Directors will propose to the next Annual General Meeting of Shareholders an extension for two more years, until 23 March 2023.

The shareholders have conditionally approved an increase of share capital in the amount of CHF 1 100 000, divided into 1 100 000 registered shares of a par value of CHF 1 each. This conditional share capital increase is intended to procure the necessary shares to satisfy employee equity participation plans and option or conversion rights to be incorporated in convertible bonds or similar equity-linked instruments that the Board is authorized to issue. The right to subscribe to such conditional capital is reserved for beneficiaries of employee equity participation plans and holders of convertible bonds or similar debt instruments and therefore excludes shareholders' preferential rights of subscription. The Board is authorized to determine the timing and conditions of such issues, provided that they reflect prevailing market conditions. The term of exercise of the options or conversion rights may not exceed ten years from the date of issuance of the equity-linked instruments.

## 24. LOANS AND OTHER FINANCIAL LIABILITIES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Bank loans | 556 | 8 |
| Corporate bonds | 2 600 | 2 105 |
| Put option on acquisition | 62 | 89 |
| Other financial liabilities | 23 | 25 |
| Derivatives | 12 | 10 |
| **TOTAL** | **3 253** | **2 237** |
| Current | 863 | 38 |
| Non-current | 2 390 | 2 199 |

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 2% and on short-term loans from third parties range between 0% and 13%.

The loans from third parties exposed to fair value interest rate risk amounted to CHF 3 156 million (2019: CHF 2 105 million) and the loans from third parties exposed to cash flow interest rate risk amounted to CHF less than 0.5 million (2019: CHF 8 million).

SGS SA issued the following corporate bonds listed on the SIX Swiss Exchange:

| Date of issue | Face value in CHF Million | Coupon in % | Year of Maturity | Issue price in % | Redemption price in % |
|---|---|---|---|---|---|
| 27.05.2011 | 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 |
| 06.05.2020 | 175 | 0.450 | 2023 | 100.117 | 100.000 |
| 06.05.2020 | 325 | 0.950 | 2026 | 100.182 | 100.000 |

The currency composition of bank loans, corporate bonds and other financial liabilities is as follows:

| | Bank loans and corporate bonds | | Put option and Other financial liabilities | |
|---|---|---|---|---|
| (CHF million) | 2020 | 2019 | 2020 | 2019 |
| Swiss Franc (CHF) | 2 601 | 2 105 | 30 | 17 |
| Euro (EUR) | 548 | 1 | 18 | 20 |
| Brazilian Real (BRL) | 4 | 7 | – | 2 |
| US Dollar (USD) | – | – | 31 | 71 |
| British Pound Sterling (GBP) | – | – | 1 | 2 |
| New Zealand Dollar (NZD) | – | – | 3 | – |
| Other | 3 | – | 2 | 2 |
| **TOTAL** | **3 156** | **2 113** | **85** | **114** |

## 25. DEFINED BENEFIT OBLIGATIONS

The Group mainly operates defined benefit pension plans in Switzerland, the USA, the UK, the Netherlands, Germany, Italy, France, South Korea and Taiwan. Contributions to most plans are paid to pension funds that are legally separate entities.

The Group also operates post-employment benefit plans, principally healthcare plans, in the USA and Switzerland. They represent a defined benefit obligation at 31 December 2020 of CHF 12 million (2019: 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.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to recover any deficit that arises.

The Group’s material defined benefit plans are in Switzerland, the USA and the UK.

## SWITZERLAND

The Group jointly operates with the employees a retirement foundation in Switzerland. The assets and liabilities of the retirement foundation are held separately from the Group. The foundation board is equally composed of representatives of the employees and representatives of the employer. This foundation covers all the employees in Switzerland and provides benefits on a defined contribution basis.

Each employee has a retirement account to which the employee and the Group contribute at a rate set out in the foundation rules based on a percentage of salary. Every year, the foundation decides the level of interest, if any, to apply to retirement accounts based on the agreed policy. At retirement, employees can elect either to withdraw all or part of the balance of their retirement account or to convert it into annuities at pre-defined conversion rates.

As the foundation board is expected to eventually pay out all of the foundation's assets as benefits to employees and former employees, no surplus is deemed to be recoverable by the Group. Similarly, unless the assets are insufficient to cover minimum benefits, the Group does not expect to make any deficit contribution to the foundation.

According to IFRS, the foundation has to be classified as a defined benefit plan due to underlying benefit guarantees and has to be accounted for on this basis.

The weighted average duration of the expected benefit payment is approximately 14 years.

The Group expects to contribute CHF 5 million to this plan in 2021.

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 15 years.

The Group expects to contribute CHF 7 million to this plan in 2021.

## UNITED KINGDOM

The Group operates a defined benefit plan through a trust, with the assets of the plans held separately from the Group and trustees who ensure the plan's rules are strictly adhered to. This plan has been closed to new entrants since 2002, and effective 31 October 2020, all remaining participants ceased accruing any additional benefits in the defined benefit plan. Employees are now offered membership in defined contribution plans operated by the Group.

Funding valuations of the defined benefit plans are carried out and agreed between the Group and the plan trustees at least once every three years. The funding target is for the plans to hold assets equal in value to the accrued benefits based on projected salaries. As part of the valuation process, if there is a shortfall against this target, then the Group and trustees will agree on deficit contributions to meet this deficit over a specified period.

The weighted average of duration of the expected benefit payments from the combined plans is approximately 19 years.

The Group expects to contribute CHF 0.3 million to this plan in 2021.

### 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 8 million to those plans in 2021.

The assets and liabilities recognized in the statement of financial position at 31 December for defined benefit obligations and for post-employment benefit plans are as follows:

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Fair value of plan assets | 454 | 253 | 196 | 48 | 951 |
| Present value of funded defined benefit obligation | (446) | (203) | (201) | (70) | (920) |
| **FUNDED/(UNFUNDED) STATUS** | **8** | **50** | **(5)** | **(22)** | **31** |
| Present value of unfunded defined benefit obligation | (11) | – | (4) | (62) | (77) |
| **NET ASSET/(LIABILITY) AT 31 DECEMBER** | **(3)** | **50** | **(9)** | **(84)** | **(46)** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Fair value of plan assets | 444 | 245 | 194 | 45 | 928 |
| Present value of funded defined benefit obligation | (433) | (207) | (218) | (67) | (925) |
| **FUNDED/(UNFUNDED) STATUS** | **11** | **38** | **(24)** | **(22)** | **3** |
| Present value of unfunded defined benefit obligation | (10) | – | (6) | (60) | (76) |
| **NET ASSET/(LIABILITY) AT 31 DECEMBER** | **1** | **38** | **(30)** | **(82)** | **(73)** |

The net liability of CHF 46 million (2019: CHF 73 million) includes CHF 90 million (2019: CHF 78 million) of pension fund assets recognized in the item Other Non-Current Assets in note 16 and CHF 136 million (2019: CHF 151 million) of pension fund liability recognized in the item Defined Benefit Obligation in statement of financial position.

Amounts recognized in the income statement:

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Service cost expense | 9 | (5) | (1) | 9 | 12 |
| Administrative expenses | – | – | 1 | – | 1 |
| **TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **9** | **(5)** | **–** | **9** | **13** |
| *Expense charged in:* | | | | | |
| Salaries and wages | 9 | (5) | – | 9 | 13 |
| **TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **9** | **(5)** | **–** | **9** | **13** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Service cost expense | 18 | 1 | 2 | 9 | 30 |
| Net interest expense on defined benefit plan | – | (1) | 1 | – | – |
| Administrative expenses | – | – | 1 | – | 1 |
| **TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **18** | **–** | **4** | **9** | **31** |
| *Expense charged in:* | | | | | |
| Salaries and wages | 18 | 1 | 3 | 9 | 31 |
| Financial expenses | – | (1) | 1 | – | – |
| **TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **18** | **–** | **4** | **9** | **31** |

Amounts recognized in the statement of other comprehensive income:

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| *Remeasurement on net defined benefit liability* | | | | | |
| Change in demographic assumptions | – | (1) | (2) | 1 | (2) |
| Change in financial assumptions | 6 | 21 | 14 | (1) | 40 |
| Experience adjustments on benefit obligations | 14 | 1 | (3) | 3 | 15 |
| Actual return on plan assets excluding net interest expense | (19) | (29) | (19) | – | (67) |
| **TOTAL RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER** | **1** | **(8)** | **(10)** | **3** | **(14)** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| *Remeasurement on net defined benefit liability* | | | | | |
| Change in demographic assumptions | (7) | (3) | 5 | – | (5) |
| Change in financial assumptions | 44 | 23 | 30 | 7 | 104 |
| Experience adjustments on benefit obligations | 8 | – | 1 | 1 | 10 |
| Actual return on plan assets excluding net interest expense | (32) | (35) | (23) | (1) | (91) |
| **TOTAL RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER** | **13** | **(15)** | **13** | **7** | **18** |

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

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **NET ASSET/(LIABILITY) AT 1 JANUARY** | **1** | **38** | **(30)** | **(82)** | **(73)** |
| Expense recognized in the income statement | (9) | 5 | – | (9) | (13) |
| Remeasurements recognized in other comprehensive income | (1) | 8 | 10 | (3) | 14 |
| Contributions paid by the Group | 6 | 1 | 8 | 8 | 23 |
| Employer benefit payments | – | – | – | 2 | 2 |
| Exchange differences | – | (2) | 3 | – | 1 |
| **NET ASSET/(LIABILITY) AT 31 DECEMBER** | **(3)** | **50** | **(9)** | **(84)** | **(46)** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **NET ASSET/(LIABILITY) AT 1 JANUARY** | **25** | **20** | **(21)** | **(81)** | **(57)** |
| Expense recognized in the income statement | (18) | – | (4) | (9) | (31) |
| Remeasurements recognized in other comprehensive income | (13) | 15 | (13) | (7) | (18) |
| Effect of acquisitions/disposals | – | – | – | 1 | 1 |
| Contributions paid by the Group | 7 | 2 | 9 | 12 | 30 |
| Employer benefit payments | – | – | – | 2 | 2 |
| Exchange differences | – | 1 | (1) | – | – |
| **NET ASSET/(LIABILITY) AT 31 DECEMBER** | **1** | **38** | **(30)** | **(82)** | **(73)** |

Change in the defined benefit obligation is as follows:

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Opening present value of the defined benefit obligation | 443 | 207 | 224 | 127 | 1 001 |
| Current service cost | 9 | 1 | 1 | 9 | 20 |
| Interest cost | 1 | 4 | 6 | 1 | 12 |
| Plan participants' contributions | 5 | – | 1 | – | 6 |
| Past service cost | – | (6) | (2) | – | (8) |
| Actual net benefit payments | (21) | (11) | (13) | (7) | (52) |
| (Gains)/losses due to changes in demographic assumptions | – | (1) | (2) | 1 | (2) |
| (Gains)/losses due to changes in financial assumptions | 6 | 21 | 14 | (1) | 40 |
| Experience differences | 14 | 1 | (3) | 3 | 15 |
| Exchange rate (gains)/losses | – | (13) | (21) | (1) | (35) |
| **DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **457** | **203** | **205** | **132** | **997** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Opening present value of the defined benefit obligation | 389 | 186 | 193 | 122 | 890 |
| Current service cost | 8 | 1 | 2 | 9 | 20 |
| Interest cost | 3 | 5 | 8 | 1 | 17 |
| Plan participants' contributions | 5 | – | 1 | – | 6 |
| Past service cost | 10 | – | – | – | 10 |
| Net increase/(decrease) in DBO from acquisitions/disposals | – | – | – | (1) | (1) |
| Actual net benefit payments | (17) | (9) | (13) | (11) | (50) |
| (Gains)/losses due to changes in demographic assumptions | (7) | (3) | 5 | – | (5) |
| (Gains)/losses due to changes in financial assumptions | 44 | 23 | 30 | 7 | 104 |
| Experience differences | 8 | – | 1 | 1 | 10 |
| Exchange rate (gains)/losses | – | 4 | (3) | (1) | – |
| **DEFINED BENEFIT OBLIGATION AT 31 DECEMBER** | **443** | **207** | **224** | **127** | **1 001** |

Change in fair value of plan assets is as follows:

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Opening fair value of plan assets | 444 | 245 | 194 | 45 | 928 |
| Interest income on plan assets | 1 | 4 | 6 | 1 | 12 |
| Return on plan assets excluding amounts included in net interest expense | 19 | 29 | 19 | – | 67 |
| Actual employer contributions | 6 | 1 | 8 | 10 | 25 |
| Actual plan participants' contributions | 5 | – | 1 | – | 6 |
| Actual net benefit payments | (21) | (11) | (13) | (7) | (52) |
| Actual admin expenses paid | – | – | (1) | – | (1) |
| Exchange differences | – | (15) | (18) | (1) | (34) |
| **FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER** | **454** | **253** | **196** | **48** | **951** |

| (CHF million) | CH | UK | USA | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Opening fair value of plan assets | 414 | 206 | 172 | 41 | 833 |
| Interest income on plan assets | 3 | 6 | 7 | 1 | 17 |
| Return on plan assets excluding amounts included in net interest expense | 32 | 35 | 23 | 1 | 91 |
| Actual employer contributions | 7 | 2 | 9 | 14 | 32 |
| Actual plan participants' contributions | 5 | – | 1 | – | 6 |
| Actual net benefit payments | (17) | (9) | (13) | (11) | (50) |
| Actual admin expenses paid | – | – | (1) | – | (1) |
| Exchange differences | – | 5 | (4) | (1) | – |
| **FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER** | **444** | **245** | **194** | **45** | **928** |

There are no reimbursement rights included in plan assets. The actual return on plan assets was a gain of CHF 79 million (2019: gain of CHF 108 million).

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

| (CHF million) | CH | UK | USA | OTHER | TOTAL |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Cash and cash equivalents | 33 | 3 | – | 16 | 52 |
| Equity securities | 153 | 60 | 25 | – | 238 |
| Debt securities | 55 | 170 | 171 | 1 | 397 |
| Assets held by insurance company | – | – | – | 31 | 31 |
| Properties | 174 | – | – | – | 174 |
| Investment funds | 37 | 20 | – | – | 57 |
| Other | 2 | – | – | – | 2 |
| **TOTAL PLAN ASSETS AT 31 DECEMBER** | **454** | **253** | **196** | **48** | **951** |

| (CHF million) | CH | UK | USA | OTHER | TOTAL |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Cash and cash equivalents | 38 | 7 | 1 | 15 | 61 |
| Equity securities | 144 | 69 | 25 | – | 238 |
| Debt securities | 58 | 148 | 168 | 1 | 375 |
| Assets held by insurance company | – | – | – | 28 | 28 |
| Properties | 162 | – | – | – | 162 |
| Investment funds | 41 | 22 | – | – | 63 |
| Other | 1 | (1) | – | 1 | 1 |
| **TOTAL PLAN ASSETS AT 31 DECEMBER** | **444** | **245** | **194** | **45** | **928** |

In 2020 and 2019, 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 2020 and 2019 are as follows:

| (Weighted average %) | CH | UK | USA | Other |
|---|---|---|---|---|
| **2020** | | | | |
| Discount rate | 0.1 | 1.4 | 2.6 | 1.0 |
| Mortality assumption | LPP 2015 CMI 2016 1.25% | SPA03M104%/ SPAF94% CMI 2019 1.25% | PRI 2012 MP 2019 | – |
| Salary progression rate | 1.5 | 2.1 | 3.3 | 2.4 |
| Future increase for pension in payments | – | 2.7 | – | 0.3 |
| Healthcare cost trend assumed for the next year | 3.0 | – | 7.5 | – |
| Ultimate trend rate | 3.0 | – | 4.5 | – |
| Year that the rate reaches the ultimate trend rate | | | 2030 | |

| (Weighted average %) | CH | UK | USA | Other |
|---|---|---|---|---|
| **2019** | | | | |
| Discount rate | 0.2 | 2.0 | 3.1 | 1.2 |
| Mortality assumption | LPP 2015 CMI 2016 | SNA02F/M CMI 2018 1.25% | PRI 2012 MP 2019 | – |
| Salary progression rate | 1.5 | 3.3 | 3.3 | 2.6 |
| Future increase for pension in payments | – | 2.3 | – | 0.3 |
| Healthcare cost trend assumed for the next year | 3.0 | – | 7.0 | – |
| Ultimate trend rate | 3.0 | – | 4.5 | – |
| Year that the rate reaches the ultimate trend rate | | | 2025 | |

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 34 million; a 0.5% increase in assumed salary would increase the obligation by CHF 2 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 14 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 14 million; a 0.5% increase in assumed salary would not impact the obligation; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 8 million.

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 20 million; a 0.5% increase in assumed salary would not impact the obligation; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 11 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 2020 was CHF 61 million (2019: CHF 70 million).

## 26. PROVISIONS

| (CHF million) | Legal and warranty claims on services rendered | Demobilization and reorganization | Other provisions | Total |
|---|---|---|---|---|
| **AT 1 JANUARY 2020** | **36** | **71** | **58** | **165** |
| Charge to income statement | 17 | 67 | 9 | 93 |
| Release to income statement | (3) | (9) | (3) | (15) |
| Payments | (10) | (45) | (7) | (62) |
| Exchange differences | (2) | (4) | (2) | (8) |
| **AT 31 DECEMBER 2020** | **38** | **80** | **55** | **173** |

| Analyzed as: | 2020 | 2019 |
|---|---|---|
| Current liabilities | 85 | 74 |
| Non-current liabilities | 88 | 91 |
| **TOTAL** | **173** | **165** |

A number of Group companies are subject to litigation and other claims arising out of the normal conduct of their business that can be best viewed as claims on services rendered. The claim provision represents the sum of estimates of amounts payable on identified claims and of losses incurred but not yet reported. They therefore reflect estimates of the future payments required to settle both reported and unreported claims. In the opinion of Management, based on all currently available information, the provisions adequately reflect the Group's exposure to legal and warranty claims on services rendered. The ultimate outcome of these matters is not expected to materially affect the Group's financial position, results of operations or cash flows.

Demobilization and reorganization provisions relate to present legal or constructive obligations of the Group toward third parties, such as termination payments to employees upon leaving the Group, which in some jurisdictions are a legal obligation. For specific long-term contracts, typically with two to five years' duration, the Group is required to dismantle infrastructure and terminate the services of personnel upon completion of the contract. These demobilization costs are provided for during the life of the contract. Experience has shown that these contracts may be either extended or terminated earlier than expected.

Other provisions include present legal or constructive obligations towards tax authorities for indirect tax exposure as well as other provisions towards third parties.

## 27. TRADE AND OTHER PAYABLES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Trade payables | 322 | 336 |
| Other payables | 336 | 302 |
| **TOTAL** | **658** | **638** |

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs. At 31 December 2020 and 2019, the fair value of the Group's trade accounts and other payables approximates the carrying value.

## 28. CONTINGENT LIABILITIES

In the normal course of business, the Group and its subsidiaries are parties to various lawsuits and claims. Management does not expect that the outcome of any of these legal proceedings will have a material adverse effect on the Group's financial position, results of operations or cash flows.

### GUARANTEES AND PERFORMANCE BONDS

| (CHF million) | 2020 | 2019 |
|---|---|---|
| Guarantees | 829 | 556 |
| Performance bonds | 230 | 163 |
| **TOTAL** | **1 059** | **719** |

The Group has issued unconditional guarantees of CHF 829 million (2019: CHF 556 million), as well as performance bonds and bid bonds of CHF 230 million (2019: CHF 163 million) to commercial customers on behalf of its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

## 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 2020, a total of 1 514 Restricted Shares were granted to members of the Operations Council, in settlement of 50% of the annual incentive related to the 2019 performance. The Restricted Shares fully vest at grant date and are blocked for a period of three years from the grant date, until April 2023. 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 2020 Annual General Meeting, was CHF 3 379 248.

50% of the Annual Incentive related to the 2020 performance will be settled in Restricted Shares. The grant of the Restricted Shares will be done after the 2021 Annual General Meeting; the total number of Restricted Shares to be granted will be calculated dividing 50% of the annual Incentive amount by the average closing price of the share during a 20-day period following the payment of the dividends after the 2021 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 2024. 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.

### II) GRANTS TO OTHER EMPLOYEES

In 2020, a total of 2 338 Restricted Share Units (RSUs) were granted to selected key employees under the Restricted Share Units Plan 2020. 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 5 206 609.

### 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 2019** | **Canceled** | **Exercised or adjusted** | **Options Outstanding at 31 December 2020** |
| SGSBB-2015 | Jan.18 | Jan.20 | 1 798.00 | 40 208 | – | (40 208) | – |
| **TOTAL** | | | | **40 208** | – | **(40 208)** | – |
| Of which exercisable at 31 December | | | | 40 208 | | | – |

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 2019** | **Granted** | **Canceled** | **Vested or adjusted** | **Units Outstanding at 31 December 2020** |
|---|---|---|---|---|---|---|
| SGS-RSU-17 | Apr.20 | 1 857 | – | (61) | (1 796) | – |
| SGS-PSU-18 | Feb.21 | 25 936 | – | (1 483) | – | 24 453 |
| SGS-RSU-18 | Apr.21 | 1 991 | – | (172) | (12) | 1 807 |
| SGS-RSU-19 | Apr.22 | 1 929 | – | (107) | – | 1 822 |
| SGS-RSU-20 | Apr.23 | – | 2 338 | (47) | – | 2 291 |
| **TOTAL** | | **31 713** | **2 338** | **(1 870)** | **(1 808)** | **30 373** |

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

In total, as of 31 December 2020, the equity overhang, defined as the total number of share units, restricted shares and shares underlying options outstanding (30 373 units) divided by the total number of outstanding shares (7 565 732 shares) amounted to 0.40%.

The Company's burn rate, defined as the number of equities (restricted shares and share units) granted in 2020 (3 852 units) divided by the total number of outstanding shares, was 0.05%.

The Group recognized during the year a total expense of CHF 17 million (2019: CHF 17 million) in relation to equity compensation plans.

Shares available for future plans:

| | Total |
|---|---|
| **AT 1 JANUARY 2019** | **(18 322)** |
| Repurchased shares | – |
| Granted SGS-RSU-19 plan | (2 011) |
| Shares for PSU cancelled and adjusted | 2 382 |
| Shares for RSU cancelled and adjusted | 600 |
| Shares used for Restricted Shares plan as settlement of Short-Term Incentive | (1 020) |
| **AT 31 DECEMBER 2019** | **(18 371)** |
| Repurchased shares | 15 834 |
| Granted SGS-RSU-20 plan | (2 338) |
| Shares for PSU cancelled and adjusted | 1 483 |
| Shares for RSU cancelled and adjusted | 390 |
| Shares used for Restricted Shares plan as settlement of Short-Term Incentive | (1 577) |
| **AT 31 DECEMBER 2020** | **(4 579)** |

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

| | 2020 Total | 2019 Total |
|---|---|---|
| Number of shares held | 25 794 | 13 342 |
| Shares allocated for 2017 RSU plans | – | (1 857) |
| Shares allocated for 2018 PSU plans | (24 453) | (25 936) |
| Shares allocated for 2018 RSU plan | (1 807) | (1 991) |
| Shares allocated for 2019 RSU plan | (1 822) | (1 929) |
| Shares allocated for 2020 RSU plan | (2 291) | – |
| **SHARES REQUIRED FOR FUTURE EQUITY COMPENSATION PLANS AT 31 DECEMBER** | **(4 579)** | **(18 371)** |

## 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) | 2020 | 2019 |
|---|---|---|
| Short-term benefits | 14 | 20 |
| Post-employment benefits | 1 | 1 |
| Share-based payments | 2 | 3 |
| **TOTAL** | **17** | **24** |

The remuneration of Directors and members of the Operations Council is determined by the Nomination and Remuneration Committee. Additional information is disclosed in the SGS Remuneration Report.

During 2020 and 2019, no member of the Board of Directors or of the Operations Council had a personal interest in any business transactions of the Group.

The Operations Council (including Senior Management) participates in the equity compensation plans as disclosed in note 29.

The total compensation, including social charges, received by the Board of Directors amounted to CHF 2 459 000 (2019: CHF 2 268 000).

The total compensation (cash and shares/options), including social charges, received by the Operations Council (including Senior Management) amounted to CHF 14 855 000 (2019: CHF 22 205 000).

LOANS TO MEMBERS OF GOVERNING BODIES

As at 31 December 2020, no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies (unchanged from previous year).

TRANSACTIONS WITH OTHER RELATED PARTIES

In 2020 and in 2019, the Group did not perform any activity generating revenue for the other related parties.

During 2020 and 2019, 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

On 4 February 2020, the von Finck family has disposed a large portion of their holding, resulting in their participation falling below the threshold of 3% of the share capital and voting rights.

As at 31 December 2020, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 18.91% (December 2019: 16.73%) of the share capital and voting rights of the Company. At the same date, the Group held 1.28% of the share capital of the Company (December 2019: 0.18%).

## 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 23 February 2021, and will be submitted for approval on 23 March 2021 during the Annual General Meeting of Shareholders.

On 7 January 2021 the Group announced the acquisition of Analytical & Development Services in the UK, providing ISO/IEC 17025 accredited food testing activities.

On 29 January 2021, the Group completed the acquisition of a 55.92% majority stake into BZH GmbH Deutsches Beratungszentrum für Hygiene, a German based subsidiary of SYNLAB Analytics & Services (A&S).

On 2 February 2021, the Group announced the acquisition of Autoscope/CTOK, operating three vehicle inspection services centers in France.

Deloitte SA
Rue du Pré-de-la-Bichette 1
1202 Geneva
Switzerland

Phone: +41 (0)58 279 8000
Fax: +41 (0)58 279 8800
www.deloitte.ch

# 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 statement of financial position as at 31 December 2020, 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 126 to 169) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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SGS SA
Statutory Auditor's Report
for the year ended
31 December 2020

## Our Audit Approach

| | |
|---|---|
| Summary | |
| Key audit matters | Based on our audit scoping, we identified the following key audit matters:<br>• Revenue recognition in respect of unbilled revenue and work-in-progress<br>• Goodwill and associated impairment testing |
| Materiality | Based on our professional judgment we determined materiality for the Group as a whole to be CHF 43 million, 6% of Profit before tax (adjusted for non-recurring items, goodwill and intangible impairment and restructuring costs). |
| 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 175. |

*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.

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## Revenue recognition: Work-in-progress and unbilled revenues

| Key audit matter | How the scope of our audit responded to the key audit matter |
|---|---|
| The Group's balance sheet includes CHF 160 million of unbilled revenue and work-in-progress (3% of total Group revenues).<br><br>The Group recognises revenue on fees for services rendered to third parties when the services have been completed. However, under certain circumstances, including where services are not billed at the end of each financial period, revenue is recognised 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 recognised 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.<br><br>For certain contracts, significant judgement is required by management at the operational level to estimate the value of unbilled revenue and work-in-progress and the level of profit to be recognised by year-end as it is highly dependent on the nature and complexity of the services being provided and the contractual terms with customers. The assessment of the degree of completion of the project and the estimated profitability requires judgement. The revenue and profit recognised by year-end is also included in the determination of management incentives, increasing the risk of inappropriate estimation. Accordingly, we have assessed the estimation of work-in-progress and unbilled revenues as a key audit matter. We also note it is considered to be a significant accounting judgement and estimate (note 2).<br><br>Refer to the accounting policy in note 2 and the revenues from contracts with customers in note 5. | Our audit work included the following procedures on work-in-progress and unbilled revenues:<br><br>• We reviewed SGS's revenue recognition policies and obtained an understanding of the process for work-in-progress and unbilled revenues recognition;<br>• We assessed the design and implementation of key internal controls regarding revenue recognition and the approval of unbilled revenue and work-in-progress balances;<br>• We selected samples of unbilled revenue and work-in-progress balances recorded at the prior year-end to review and compare to subsequent invoices and cash received from clients in order to evaluate the reliability of management's estimation process and to test for appropriateness of past revenue recognition;<br>• We selected 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;<br>• 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;<br>• We selected samples 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;<br>• On a sample basis, we tested new contracts by reviewing revenue recorded with reference to the customer contract terms and conditions and assessed whether the revenue recognition is in line with group policy and IFRS 15;<br>• 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 on a sample basis. We obtained alternate audit evidence where direct confirmations were not received;<br>• We tested manual journal entries booked in revenue; and<br>• We also assessed the adequacy of the disclosures in the consolidated financial statements.<br><br>**Based on the procedures performed, we consider management's estimates and disclosures regarding work-in-progress and unbilled revenue balances to be appropriate.** |

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## 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 CHF1'651 million of goodwill (23.9% of total Group assets). In accordance with IFRS, these balances are allocated to Cash Generating Units (CGUs) which are tested at least annually for impairment using discounted cash-flow models of each CGU's or group of 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.<br><br>The inputs to the impairment testing model which have the most significant impact on CGU recoverable value include:<br>• Projected revenue growth, operating margins and operating cash-flows in the years 1-5;<br>• Stable long-term growth rates in years 6-10 and in perpetuity; and<br>• Country and business specific discount rates (pre-tax).<br><br>The impairment test models include sensitivity testing of key assumptions, including revenue growth, operating margin and discount rate.<br><br>As a result of the impact on many of SGS's businesses in the first half of 2020 from COVID-19 imposed lock-downs and restrictions, management conducted full impairment tests taking into account reductions in sales and results as at 31 May 2020 and recorded impairments totaling CHF 37 million in the Half-year results. In the second half of the year, management conducted analysis to determine if there were any new indicators of impairment. We consider the annual impairment testing of goodwill to be a key audit matter because the assumptions on which the tests are based are highly judgmental and are affected by estimates of future market and economic conditions which are inherently uncertain, and because of the materiality of the balance to the financial statements as a whole. We also note it is considered to be a significant accounting judgement and estimate (note 2).<br><br>Also SGS acquired SYNLAB Analytics & Services as at 31 December 2020 and performed provisional purchase price accounting resulting in a material increase in goodwill (CHF 439 million). The provisional goodwill amount is subject to judgement and estimation in relation to the fair value of the assets and liabilities purchased including the value ascribed to other intangible assets such as customer relationships, and despite being acquired during the year is still required to be subject to impairment consideration.<br><br>Refer to the accounting policy in note 2 and the goodwill balances and impairment testing inputs in note 14 | We assessed the appropriateness of SGS's impairment testing methodology applied with reference to IAS36 "Impairment of Assets" including consideration of the judgements in determining the CGU's 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.<br><br>We tested the design and implementation of key internal controls implemented by management related to testing for impairment. We specifically reviewed the impairments identified and recorded by management totaling CHF 37 million. We then assessed each remaining CGU for risk of impairment with reference to actual financial performance in 2020 and analysis of headroom levels from management's tests. In conducting this analysis we also performed a review of any unexpected changes in key assumptions from the prior year including discount rates and growth rates. Following our risk assessment, we identified the goodwill (CHF 78 million) associated with CBE Technical Consultancy USA CGU as significant risk because the results of that operation declined significantly from 2019 to 2020. SGS concluded that no impairment was required due to an anticipated rebound in sales growth in 2021 and beyond.<br><br>For CGU's where we assessed the risk of impairment as remote, no further audit work was performed. For CGUs assessed with increased but not significant level of risk, we assessed the impairment testing models and calculations by:<br>• Checking the mathematical accuracy of the impairment model and the extraction of inputs from source documents;<br>• Challenging the discount rates applied in the impairment reviews incorporating the use of Deloitte experts in valuation as part of the team;<br>• Comparing forecasted long-term growth rates to economic data;<br>• Evaluating the sensitivity in the valuation resulting from changes to the key assumptions applied, including but not limited to discount rates, margin rates and revenue growth rates;<br>• Performing retrospective review to compare prior period forecasts with actual results;<br>• Verifying that forecasted cash-flows were consistent with Board approved forecasts, and,<br>• Reviewing the sensitivity disclosures in the annual report, refer to note 14. |

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For the CGU assessed as having a significant level of risk, we performed the below additional audit procedures:

- Compared the Q1 pipeline weighted for probability of success and then annualised, to management's 2021 forecast revenue and performed additional sensitivity analysis on management's impairment model taking lower than forecast revenue into account;
- Assessed the appropriateness of cash-flow assumptions by analysing and performing substantive detail testing on a sample of the 2021 opportunity pipeline.;
- Obtained CRM documentation from the CGU's systems, supporting the samples selected above to substantiate the existence and amount of the opportunity. We also held meetings with the operational opportunity leaders to corroborate progress, opportunity value of and likelihood of success recorded in the opportunity pipeline; and
- Held discussions with senior Group management including the CEO, CFO and those charged with governance in relation to their expectations of the business.

For the provisionally calculated goodwill related to the SYNLAB Analytics & Services acquisition, we utilised our own experts to review and challenge the provisional purchase price allocation. We assessed the identification of assets including other intangibles and the valuation methodologies used to calculate the fair value with specific focus on the valuation of customer relationships and the resulting goodwill balance. To assess management's conclusion that there is no impairment of the goodwill, we considered the timing of the acquisition (31 December 2020), the business valuation supporting the transaction, the competitive nature of the acquisition and subsequent events.

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

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*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 CHF 43 million, based on a calculation of 6% of profit before tax adjusted for non-recurring items, goodwill and intangible impairment and restructuring costs. 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.

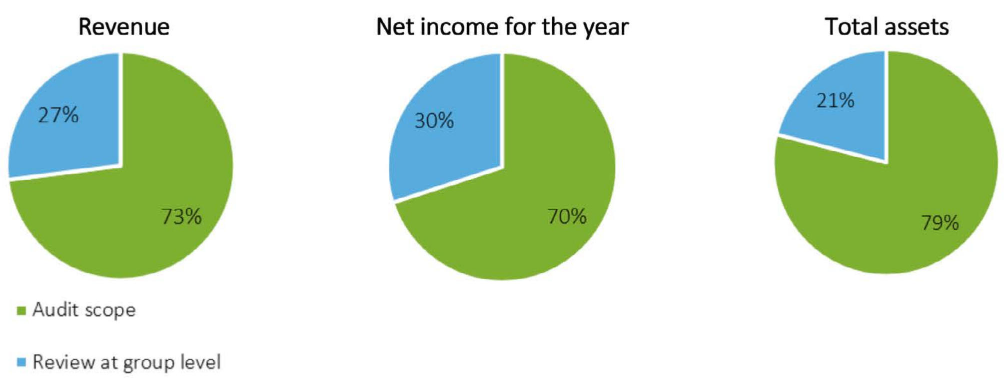
The materiality applied by the component auditors ranged from CHF8.6 million to CHF25.8 million depending on the scale of the component's operations, the component's contribution to Group profit before tax and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of CHF 2.1 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 significant 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 17 key locations in 2020. In addition, we requested 11 components to perform specified audit procedures on account balances (principally Revenue, Accounts Receivable, Work-In-Progress and Unbilled Revenues). We obtained assurance over these countries through a combination of audit procedures performed locally, within the SGS shared service centres and centrally at the Head office.

In aggregate, these components represented the scope coverage below:



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Remaining wholly owned and joint venture businesses were subject to analytical review procedures for the purpose of the Group audit performed by the group audit team. 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 and do not form part of the Group Audit process.

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 meetings with management and audit teams 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. This year, the meetings and selected working paper reviews by the group team were performed virtually given travel restrictions imposed as a result of COVID19.

For all components in scope for group reporting, we have included the component audit partner in our team briefing, discussed their risk assessment, risk of fraud discussions 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

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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<br>Licensed Audit Expert<br>Auditor in Charge | Aurelie Darrigade<br>Licensed Audit Expert |

Geneva, 23 February 2021

# 2. SGS SA

## 2.1. Income Statement

**FOR THE YEARS ENDED 31 DECEMBER**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Dividends from subsidiaries | | 592 | 782 |
| **TOTAL OPERATING INCOME** | | **592** | **782** |
| **OPERATING EXPENSES** | | | |
| Other operating and administrative expenses | | (5) | (6) |
| Other operating expenses | | – | (36) |
| **TOTAL OPERATING EXPENSES** | | **(5)** | **(42)** |
| **OPERATING RESULT** | | **587** | **740** |
| **FINANCIAL INCOME** | | | |
| Financial income | 6 | 39 | 67 |
| Exchange gain, net | | – | 1 |
| **TOTAL FINANCIAL INCOME** | | **39** | **68** |
| **FINANCIAL EXPENSES** | | | |
| Financial expenses | 6 | **(48)** | (55) |
| Liquidation of subsidiaries, net | | **(1)** | (7) |
| **TOTAL FINANCIAL EXPENSES** | | **(49)** | **(62)** |
| **FINANCIAL RESULT** | | **(10)** | **6** |
| **PROFIT BEFORE TAXES** | | **577** | **746** |
| Taxes | | – | (1) |
| Withholding taxes | | (10) | (10) |
| **PROFIT FOR THE YEAR** | | **567** | **735** |

## 2.2. Statement of Financial Position at 31 December

**(BEFORE APPROPRIATION OF AVAILABLE RETAINED EARNINGS)**

| (CHF million) | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 540 | 550 |
| Other financial assets | | 7 | 52 |
| Amounts due from subsidiaries | | 534 | 497 |
| Accrued income and prepaid expenses | | 2 | – |
| **TOTAL CURRENT ASSETS** | | **1 083** | **1 099** |
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 2 | 1 980 | 1 745 |
| Loans to subsidiaries | | 1 475 | 887 |
| Long-term assets | | 2 | – |
| **TOTAL NON-CURRENT ASSETS** | | **3 457** | **2 632** |
| **TOTAL ASSETS** | | **4 540** | **3 731** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHORT-TERM LIABILITIES** | | | |
| Bank overdraft | | 9 | 10 |
| Amounts due to subsidiaries | | 232 | 210 |
| Bank short-term loans | | 542 | – |
| Corporate bonds (less than one year) | 3 | 275 | – |
| Deferred income and accrued expenses | | 52 | 42 |
| Provisions | | 1 | 33 |
| **TOTAL SHORT-TERM LIABILITIES** | | **1 111** | **295** |
| **LONG-TERM LIABILITIES/NON-CURRENT LIABILITIES** | | | |
| Long-term liabilities – Third party | | 1 | – |
| Long-term liabilities – subsidiaries | | 290 | 323 |
| Corporate bonds | 3 | 2 325 | 2 100 |
| **TOTAL LONG TERM LIABILITIES/NON-CURRENT LIABILITIES** | | **2 616** | **2 423** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 4 to 5 | 8 | 8 |
| Statutory capital reserve | 4 to 5 | 34 | 34 |
| Statutory retained earnings | 4 to 5 | 878 | 940 |
| Own shares for share buyback | 4 to 5 | (169) | – |
| Reserve for own shares held by a subsidiary | 4 to 5 | 62 | 31 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **813** | **1 013** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **4 540** | **3 731** |

## 2.3. Notes

SGS SA ('the Company') is the ultimate parent company of the SGS Group which owns and finances, either directly or indirectly, its subsidiaries and joint ventures throughout the world. The head office is located in Geneva, Switzerland.

The average number of employees is less than 10 people for this company (2019: less than 10).

### 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting principles required by Swiss law. In certain instances, the 2019 comparative figures were reclassified with no impact on previous year net income and retained earnings to match the current year presentation.

#### 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 193 to 195.

In 2020, SGS SA acquired 80% of the capital of Ryobi Geotechnique Pte Ltd in Singapore. The share purchase agreement includes an option to acquire the remaining 20% of Ryobi Geotechnique Pte Ltd in 2025. The option may be exercised if certain conditions are met.

### 3. CORPORATE BONDS

SGS SA made the following bond issuances:

| Date of issue | Face value in CHF Million | Coupon in % | Year of Maturity | Issue price in % | Redemption price in % |
|---|---|---|---|---|---|
| 27.05.2011* | 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 |
| 06.05.2020 | 175 | 0.450 | 2023 | 100.117 | 100.000 |
| 06.05.2020 | 325 | 0.950 | 2026 | 100.182 | 100.000 |

* Recorded as short term bond

On 6 May 2020, SGS SA issued two bonds, one CHF 175 million with a 0.450% coupon and one CHF 325 million with a 0.950% coupon (2019: nil).

As at 31 December 2020, one bond in the above table is classified as short-term liabilities.

The Group has listed all bonds on the SIX Swiss Exchange.

## 4. 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 2019** | **8** | **34** | **35** | **(158)** | **948** | **867** |
| Dividends paid | – | – | – | – | (589) | (589) |
| Decrease in the reserve for own shares | – | – | (4) | – | 4 | – |
| Cancellation of treasury shares | – | – | – | 158 | (158) | – |
| Profit for the year | – | – | – | – | 735 | 735 |
| **BALANCE AT 31 DECEMBER 2019** | **8** | **34** | **31** | **–** | **940** | **1 013** |
| Dividends paid | – | – | – | – | (598) | (598) |
| Transfer to the reserve for own shares | – | – | 31 | – | (31) | – |
| Share buyback program | – | – | – | (169) | (0) | (169) |
| Profit for the year | – | – | – | – | 567 | 567 |
| **BALANCE AT 31 DECEMBER 2020** | **8** | **34** | **62** | **(169)** | **878** | **813** |

## 5. SHARE CAPITAL

| | Shares in circulation | Own shares | Total shares issued | Total share capital CHF (million) |
|---|---|---|---|---|
| **BALANCE AT 1 JANUARY 2019** | **7 550 707** | **83 025** | **7 633 732** | **8** |
| Own shares released into circulation | 1 683 | (1 683) | – | – |
| Capital reduction by cancellation of own shares | – | (68 000) | (68 000) | – |
| **BALANCE AT 31 DECEMBER 2019** | **7 552 390** | **13 342** | **7 565 732** | **8** |
| Own shares released into circulation | 3 382 | (3 382) | – | – |
| Own shares purchased for future equity compensation plans | (15 834) | 15 834 | – | – |
| Treasury shares purchased for cancellation | (70 700) | 70 700 | – | – |
| **BALANCE AT 31 DECEMBER 2020** | **7 469 238** | **96 494** | **7 565 732** | **8** |

### ISSUED SHARE CAPITAL

SGS SA has a share capital of CHF 7 565 732 (2019: CHF 7 565 732) fully paid-in and divided into 7 565 732 (2019: 7 565 732) registered shares of a par value of CHF 1. In 2019, SGS SA proceeded to a capital reduction of 68 000 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 2020, SGS SA held 96 494 of its own shares, thereof 70 700 directly and 25 794 through an affiliate company.

On 17 February 2020, SGS SA announced a CHF 200 million share buyback program for the purpose of capital reduction. The program ended on 17 December 2020 and 70 700 shares were repurchased for a total amount of CHF 169.3 million at an average purchase price of CHF 2 394.62 per share.

Further, in 2020 15 834 shares have been repurchased through an affiliate company for covering future equity compensation plans, whilst 3 382 shares were released into circulation.

## 6. FINANCIAL INCOME AND FINANCIAL EXPENSES

| (CHF million) | 2020 | 2019 |
|---|---|---|
| **FINANCIAL INCOME:** | | |
| Interest income 3rd party | – | 4 |
| Interest income Group | 39 | 63 |
| **FINANCIAL INCOME** | **39** | **67** |
| **FINANCIAL EXPENSES** | | |
| Interest expenses 3rd party | (28) | (27) |
| Interest expenses Group | (6) | (7) |
| Other financial expenses | (14) | (21) |
| **FINANCIAL EXPENSES** | **(48)** | **(55)** |

## 7. GUARANTEES AND COMFORT LETTERS

| (CHF million) | 2020 issued | 2020 utilised | 2019 issued | 2019 utilised |
|---|---|---|---|---|
| Guarantees | 2 055 | 341 | 709 | 488 |
| Performance bonds | 53 | 35 | 55 | 55 |
| **TOTAL** | **2 108** | **376** | **764** | **543** |

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.

## 8. REMUNERATION

### 8.1. REMUNERATION POLICY AND PRINCIPLES

This section appears in the SGS Remuneration Report paragraph 2 in the Annual Report on pages 99 to 102.

### 8.2. REMUNERATION MODEL

This section appears in the SGS Remuneration Report paragraph 3 in the Annual Report on pages 102 to 112.

### 8.3. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

This section appears in the SGS Remuneration Report paragraph 4 in the Annual Report on pages 112 to 114.

### 8.4. REMUNERATION AWARDED TO THE OPERATIONS COUNCIL MEMBERS

This section appears in the SGS Remuneration Report paragraph 5 in the Annual Report on pages 115 to 120.

## 9. SHARES AND OPTIONS HELD BY MEMBERS OF GOVERNING BODIES

### 9.1. SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS

The following table shows the shares held by Members of the Board of Directors as at 31 December 2020:

| Name | Shares |
|---|---|
| C. Grieder | 90 |
| A. F. von Finck | 1 000 |
| C. Grupp | 1 |
| S. R. du Pasquier | 10 |
| P. Desmarais, Jr. | 37 |
| K. Sorenson | 36 |
| I. Gallienne | 1 |
| G. Lamarche | 25 |
| S. Atiya | 92 |
| T. Hartmann | – |

The following table shows the shares held by Members of the Board of Directors as at 31 December 2019:

| Name | Shares |
|---|---|
| L. von Finck | 53 |
| A. F. von Finck | 786 255 |
| C. Grupp | – |
| P. Kalantzis | 150 |
| S. R. du Pasquier | 10 |
| P. Desmarais, Jr. | 10 |
| K. Sorenson | – |
| I. Gallienne | 1 |
| G. Lamarche | 25 |
| C. Grieder | 5 |

### 9.2. SHARES AND OPTIONS HELD BY SENIOR MANAGEMENT

The following table shows the shares and restricted shares held by Senior Management as at 31 December 2020:

| Name | Corporate Responsibility | Restricted shares | Shares |
|---|---|---|---|
| F. Ng | Chief Executive Officer | 599 | 2 125 |
| D. de Daniel | Chief Financial Officer | 163 | 1 165 |
| O. Merkt | General Counsel and Chief Compliance Officer | 136 | 200 |

The following table shows the shares and restricted shares held by Senior Management as at 31 December 2019:

| Name | Corporate Responsibility | Restricted shares | Shares |
|---|---|---|---|
| F. Ng | Chief Executive Officer | 500 | 1 980 |
| D. de Daniel | Chief Financial Officer | – | 855 |
| O. Merkt | General Counsel and Chief Compliance Officer | 98 | 223 |

Details of the various plans are explained in the SGS Remuneration Report.

### 10. SIGNIFICANT SHAREHOLDERS

To the knowledge of the Company the shareholders owning more than 3% of its share capital as at 31 December 2020, or as the date of their last notification as per Article 20 of the Swiss Stock Exchange Act were Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) with 18.91% (December 2019: 16.73%) of the share capital and voting rights of the company.

At the same date, SGS Group held 1.28% of the share capital of the Company (2019: 0.18%).

#### PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

| (CHF) | 2020 | 2019 |
|---|---|---|
| Profit for the year | 566 859 163 | 735 232 728 |
| Balance brought forward from previous year | 335 400 834 | 200 446 558 |
| Dividend not paid on own shares bought in 2020 prior the Annual General Meeting in March 2020 | 6 202 320 | – |
| Dividend paid on own shares released into circulation in 2019 prior the Annual General Meeting on 22 March 2019 | – | (85 410) |
| Capital reduction by cancellation of shares | – | 68 000 |
| Share buyback program | (169 299 740) | – |
| (Transfer to)/Reversal from the reserve for own shares | (30 626 419) | 3 930 158 |
| **TOTAL RETAINED EARNINGS AVAILABLE FOR APPROPRIATION** | **708 536 159** | **939 592 034** |
| *Proposal of the Board of Directors:* | | |
| Dividends[1] | (597 539 040) | (604 191 200) |
| **BALANCE CARRIED FORWARD** | **110 997 119** | **335 400 834** |
| Ordinary gross dividend per registered share | 80.00 | 80.00 |

1. No dividend is paid on own shares held directly or indirectly by SGS SA

### 11. 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 23 February 2021, and will be submitted for approval by the Annual General Meeting of Shareholders to be held on 23 March 2021.

Deloitte.

Deloitte SA
Rue du Pré-de-la-Bichette 1
1202 Geneva
Switzerland

Phone: +41 (0)58 279 8000
Fax: +41 (0)58 279 8800
www.deloitte.ch

# 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 2020, the income statement and related notes for the year then ended, including the summary of significant accounting policies.

In our opinion the accompanying financial statements as at 31 December 2020, presented on pages 178 to 184, 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.

Deloitte.

SGS SA
Statutory Auditor's Report
for the year ended
31 December 2020

## Valuation of Investments in subsidiaries and related loans to subsidiaries

| Key audit matter | How the scope of our audit responded to the key audit matter |
|---|---|
| The company holds investments in subsidiaries with a carrying value of CHF1'980 million as of 31 December 2020 (43.6% of total assets). The list of principal Group subsidiaries can be found in the Annual Report on pages 193 to 195 (Section 4 – Material Operating Companies and Ultimate Parent). The company also has loans to subsidiaries amounting to CHF1'475 million (32.5% of total assets). The valuation of these assets is dependent on the ability of these subsidiaries to generate positive cash-flows in the future.<br><br>In accordance with Swiss Law the company values individually each investment and related loans and reviews them annually to identify impairment indicators. An impairment is recorded if the recoverable values of individual investments are lower than the associated carrying values, or if loan balances are no longer considered recoverable from the associated entities.<br><br>The company implemented a multi-step risk assessment to identify investments and loans impairment indicators and prepares a discounted cash flow forecast for each risky asset identified. The inputs to the impairment testing model which have the most significant impact on the recoverable value include:<br>• Projected revenue growth, operating margins and operating cash-flows in the years 1-5;<br>• Stable long term growth rates in years 6-10 and in perpetuity; and<br>• Country and business specific discount rates (pre-tax).<br><br>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.<br><br>Refer to note 2 to the financial statements. | 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.<br><br>We challenged the impairment testing conducted by the company. We tested the impairment model valuations for the recoverable amounts of investments and loans to subsidiaries on a sample basis by critically assessing the methodology applied and assessing the reasonableness of the underlying key assumptions and judgements.<br><br>In particular, we performed the following procedures:<br>• We tested mathematical accuracy of the impairment models and the accuracy of extraction of inputs from source documents;<br>• We challenged the significant inputs and key assumptions and judgements used in the impairment testing models for investments, specifically the discount rates and the five year projected revenues and margins; and<br>• We developed our independent expectations of recoverable value by performing additional sensitivity testing of key assumptions.<br><br>We evaluated the appropriateness and completeness of the related disclosures in the financial statements.<br><br>**Based on the audit procedures performed above, we consider management's estimates of the assessment of the recoverable value of investments in, and loans to, subsidiaries along with related financial statement disclosures to be appropriate.** |

Deloitte.

SGS SA
Statutory Auditor's Report
for the year ended
31 December 2020

*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.

Deloitte.

SGS SA
Statutory Auditor's Report
for the year ended
31 December 2020

## 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 | Aurelie Darrigade |
| Licensed Audit Expert | Licensed Audit Expert |
| Auditor in Charge | |

Geneva, 23 February 2021

# 3. Historical Data

## 3.1. SGS Group – Five-Year Statistical Data Consolidated Income Statements

**FOR THE YEAR ENDED 31 DECEMBER**

| (CHF million) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **REVENUE** | **5 604** | **6 600** | **6 706** | **6 349** | **5 985** |
| Salaries and wages | (2 797) | (3 357) | (3 422) | (3 193) | (3 009) |
| Subcontractors' expenses | (352) | (386) | (387) | (394) | (368) |
| Depreciation, amortization and impairment | (517) | (548) | (317) | (338) | (336) |
| Gain on business disposal | 63 | 268 | – | – | – |
| Other operating expenses | (1 206) | (1 495) | (1 634) | (1 530) | (1 456) |
| **OPERATING INCOME (EBIT)** | **795** | **1 082** | **946** | **894** | **816** |
| Financial income | 12 | 18 | 20 | 14 | 8 |
| Financial expenses | (66) | (79) | (58) | (57) | (53) |
| Share of profit of associates and joint ventures | 1 | (4) | – | – | – |
| **PROFIT BEFORE TAXES** | **742** | **1 017** | **908** | **851** | **771** |
| Taxes | (237) | (315) | (218) | (187) | (185) |
| **PROFIT FOR THE YEAR** | **505** | **702** | **690** | **664** | **586** |
| Profit attributable to: | | | | | |
| Equity holders of SGS SA | 480 | 660 | 643 | 621 | 543 |
| Non-controlling interests | 25 | 42 | 47 | 43 | 43 |
| **OPERATING INCOME MARGINS IN %** | **14.2** | **16.4** | **14.1** | **14.1** | **13.6** |
| **AVERAGE NUMBER OF EMPLOYEES** | **89 098** | **94 494** | **96 492** | **93 556** | **89 626** |

# 3.2. SGS Group – Five-Year Statistical Data Consolidated Statements of Financial Position

**AT 31 DECEMBER**

| (CHF million) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Property, plant and equipment | 872 | 926 | 969 | 1 002 | 972 |
| Right-of-use assets | 590 | 611 | – | – | – |
| Goodwill | 1 651 | 1 281 | 1 224 | 1 238 | 1 195 |
| Other intangible assets | 333 | 187 | 202 | 222 | 246 |
| Investments in joint-ventures, associates and other | 34 | 35 | 36 | 36 | 38 |
| Deferred tax assets | 161 | 174 | 203 | 168 | 165 |
| Other non current-assets | 154 | 149 | 133 | 137 | 122 |
| **TOTAL NON-CURRENT ASSETS** | **3 795** | **3 363** | **2 767** | **2 803** | **2 738** |
| Inventories | 57 | 45 | 46 | 46 | 41 |
| Unbilled revenues and work in progress | 160 | 195 | 226 | 293 | 249 |
| Trade receivables | 856 | 953 | 969 | 1 068 | 997 |
| Other receivables and prepayments | 188 | 219 | 214 | 236 | 252 |
| Current tax assets | 77 | 77 | 94 | 104 | 88 |
| Marketable securities | 9 | 9 | 9 | 10 | 9 |
| Cash and cash equivalents | 1 766 | 1 466 | 1 743 | 1 383 | 975 |
| **TOTAL CURRENT ASSETS** | **3 113** | **2 964** | **3 301** | **3 140** | **2 611** |
| **TOTAL ASSETS** | **6 908** | **6 327** | **6 068** | **5 943** | **5 349** |
| Share capital | 8 | 8 | 8 | 8 | 8 |
| Reserves | 1 282 | 1 536 | 1 851 | 2 036 | 2 243 |
| Treasury shares | (230) | (30) | (191) | (125) | (478) |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA** | **1 060** | **1 514** | **1 668** | **1 919** | **1 773** |
| Non-controlling interests | 74 | 81 | 75 | 86 | 80 |
| **TOTAL EQUITY** | **1 134** | **1 595** | **1 743** | **2 005** | **1 853** |
| Loans and other financial liabilities | 2 390 | 2 199 | 2 110 | 2 095 | 1 735 |
| Lease liabilities | 470 | 490 | 2 | 1 | 1 |
| Deferred tax liabilities | 53 | 23 | 30 | 45 | 42 |
| Defined benefit obligations | 136 | 151 | 119 | 143 | 154 |
| Provisions | 88 | 91 | 89 | 73 | 76 |
| **TOTAL NON-CURRENT LIABILITIES** | **3 137** | **2 954** | **2 350** | **2 357** | **2 008** |
| Loans and other financial liabilities | 863 | 38 | 412 | 45 | 55 |
| Lease liabilities | 151 | 154 | – | – | – |
| Trade and other payables | 658 | 638 | 685 | 647 | 598 |
| Provisions | 85 | 74 | 21 | 35 | 44 |
| Current tax liabilities | 140 | 145 | 127 | 151 | 166 |
| Contract liabilities | 189 | 155 | 112 | 97 | 86 |
| Other creditors and accruals | 551 | 574 | 618 | 606 | 539 |
| **TOTAL CURRENT LIABILITIES** | **2 637** | **1 778** | **1 975** | **1 581** | **1 488** |
| **TOTAL LIABILITIES** | **5 774** | **4 732** | **4 325** | **3 938** | **3 496** |
| **TOTAL EQUITY AND LIABILITIES** | **6 908** | **6 327** | **6 068** | **5 943** | **5 349** |

## 3.3. SGS Group – Five-Year Statistical Share Data

| (CHF unless indicated otherwise) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **SHARE INFORMATION** | | | | | |
| **REGISTERED SHARES** | | | | | |
| Number of shares issued | 7 565 732 | 7 565 732 | 7 633 732 | 7 633 732 | 7 822 436 |
| Number of shares with dividend rights | 7 469 238 | 7 552 390 | 7 550 707 | 7 551 408 | 7 538 507 |
| **PRICE** | | | | | |
| High | 2 843 | 2 689 | 2 683 | 2 541 | 2 317 |
| Low | 1 974 | 2 213 | 2 170 | 2 051 | 1 734 |
| Year-end | 2 670 | 2 651 | 2 210 | 2 541 | 2 072 |
| 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 | 141.91 | 200.37 | 220.86 | 254.16 | 235.22 |
| Basic earnings per share[1] | 64.05 | 87.45 | 84.54 | 82.41 | 71.54 |
| Dividend per share ordinary | 80.00 | 80.00 | 78.00 | 75.00 | 70.00 |
| Total dividend per share | 80.00 | 80.00 | 78.00 | 75.00 | 70.00 |
| **DIVIDENDS (CHF MILLION)** | | | | | |
| Ordinary[2] | 598 | 604 | 589 | 566 | 528 |
| **TOTAL** | 598 | 604 | 589 | 566 | 528 |

1. Calculation of the basic earnings per share (weighted average for the year) is disclosed in note 11 of SGS Group Results.
2. As proposed by the Board of Directors.

## 3.4. SGS Group Share Information

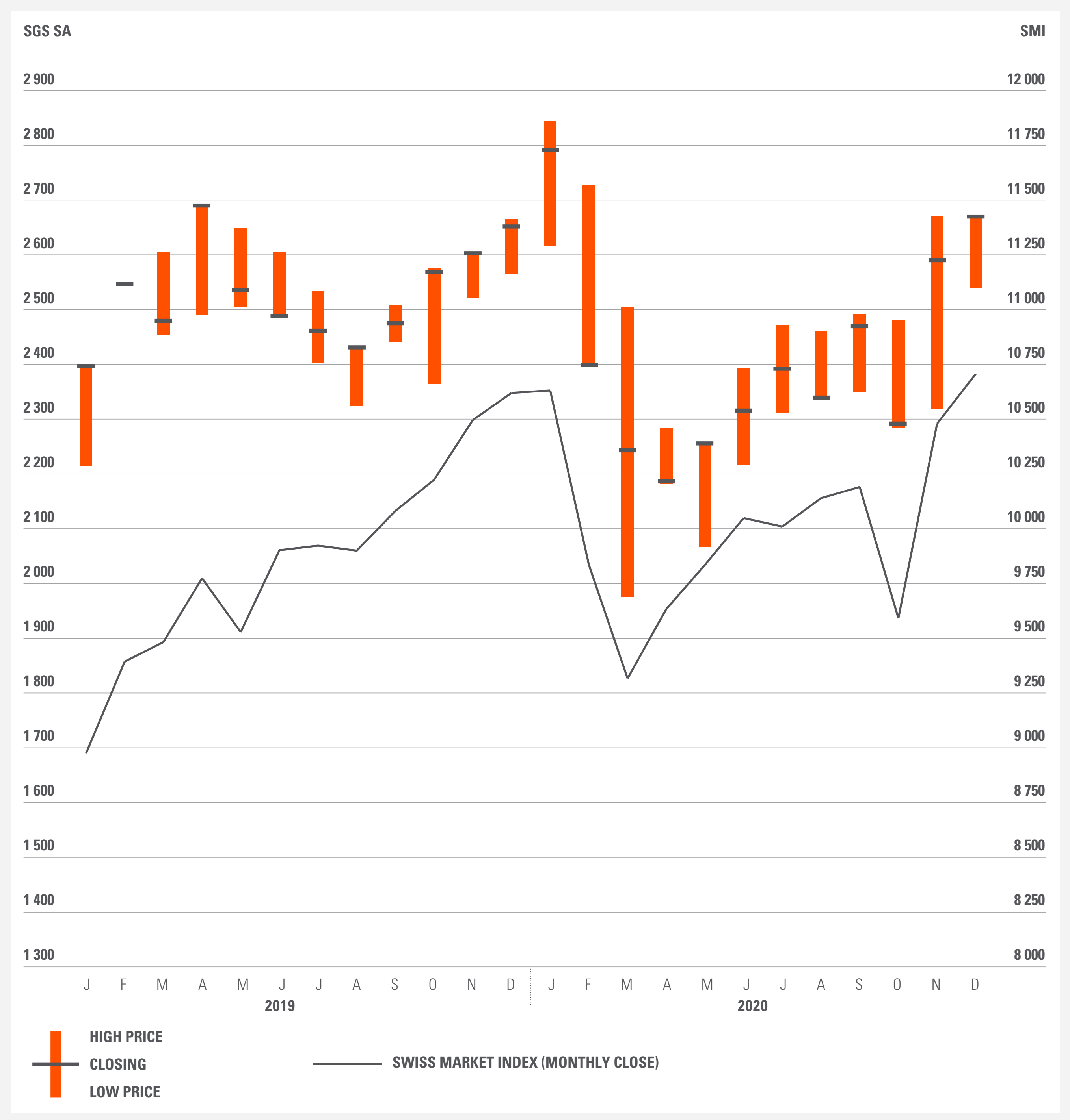
### SHARE TRANSFER

SGS SA has no restrictions as to share ownership, except that registered shares acquired in a fiduciary capacity by third parties may not be registered in the shareholders’ register, unless a special authorization has been granted by the Board of Directors.

### MARKET CAPITALIZATION

At the end of 2020 market capitalization was approximately CHF 20 201 million (2019:CHF 20 057 million). Shares are quoted on the SIX Swiss Exchange.

## 3.5. Closing Prices for SGS & the SMI 2019-2020



# 4. Material Operating Companies and Ultimate Parent

The disclosure of legal entities is limited to entities whose contribution to the Group revenues in 2020 represent at least 1% of the consolidated revenues, but includes, in addition, the main operating legal entity in every country where the Group has permanent operations, even when such legal entities represent less than 1% of the Group consolidated revenues. This definition of materiality excludes dormant companies, pure sub-holding companies or entities used solely for the detention of assets.

| Country | Name and domicile | Issued capital currency | Issued capital amount | % Held by group | Direct/ indirect |
|---|---|---|---|---|---|
| Albania | SGS Automotive Albania sh.p.k., Tirana | ALL | 190 000 100 | 100 | I |
| Algeria | SGS Qualitest Algérie SpA, Alger | DZD | 50 000 000 | 100 | D |
| Angola | SGS Serviços Angola, Luanda | USD | 30 000 | 49 | I |
| Argentina | SGS Argentina SA, Buenos Aires | ARS | 230 603 536 | 100 | D |
| Argentina | ITV SA, Buenos Aires | ARS | 1 500 000 | 100 | I |
| Australia | SGS Australia Pty. Ltd., Perth | AUD | 200 000 | 100 | I |
| Austria | SGS Austria Controll-Co. Ges.m.b.H., Vienna | EUR | 185 000 | 100 | D |
| Azerbaijan | Société Générale de Surveillance Azeri Ltd., Baku | USD | 100 000 | 100 | D |
| Bangladesh | SGS Bangladesh Limited, Dhaka | BDT | 10 000 000 | 100 | D |
| Belarus | SGS Minsk Ltd., Minsk | USD | 20 000 | 100 | D |
| Belgium | SGS Belgium N.V., Antwerpen | EUR | 35 995 380 | 100 | D |
| Botswana | SGS Botswana (Proprietary) Limited, Gaborone | BWP | 1 000 | 100 | D |
| Brazil | SGS Industrial – Instalaçaões, Testes e Comissionamentos Ltda Sao Paulo | BRL | 91 266 840 | 100 | D |
| Bulgaria | SGS Bulgaria Ltd., Sofia | BGN | 5 010 000 | 100 | D |
| Burkina Faso | SGS Burkina SA, Ouagadougou | XOF | 601 080 000 | 100 | D |
| Cambodia | SGS (Cambodia) Ltd., Phnom Penh | KHR | 4 000 000 000 | 100 | D |
| Cameroon | SGS Cameroun SA, Douala | XAF | 10 000 000 | 98.9 | D |
| Canada | SGS Canada Inc., Missisauga | CAD | 20 900 000 | 100 | D |
| Chile | SGS Minerals S.A., Santiago de Chile | CLP | 29 725 583 703 | 100 | I |
| China | SGS-CSTC Standards Technical Services Co. Ltd., Beijing | USD | 3 966 667 | 85 | I |
| China | SGS-CSTC Standards Technical Services Co. Ltd., Shanghaï | CNY | 180 000 000 | 85 | I |
| Colombia | SGS Colombia SAS, Bogota | COP | 135 546 166 036 | 100 | D |
| Congo | SGS Congo SA, Pointe-Noire | XAF | 1 510 000 000 | 100 | D |
| Croatia | SGS Adriatica, w.l.l., Zagreb | HRK | 1 300 000 | 100 | I |
| Czech Republic | SGS Czech Republic s.r.o., Praha | CZK | 7 707 000 | 100 | I |
| Democratic Republic of Congo | SGS Minerals RDC SARL, Lubumbashi | USD | 50 000 | 100 | D |
| Denmark | SGS Danmark A/S, Glostrup Hvidovre | DKK | 700 000 | 100 | I |
| Ecuador | Consorcio SGS – Revisiones Técnicas | USD | 25 000 | 100 | I |
| Egypt | SGS Egypt Ltd., Cairo | EGP | 1 500 000 | 100 | D |
| Estonia | SGS Estonia Ltd., Tallinn | EUR | 42 174 | 100 | I |
| Finland | SGS FIMKO,Helsingfors | EUR | 260 000 | 100 | I |
| France | SGS France SAS, Arcueil | EUR | 3 172 613 | 100 | I |
| Georgia | SGS Georgia Ltd., Batumi | USD | 80 000 | 100 | D |
| Germany | SGS Germany GmbH, Hamburg | EUR | 1 210 000 | 100 | I |
| Germany | SGS Institut Fresenius GmbH, Taunusstein | EUR | 7 490 000 | 100 | I |
| Ghana | 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 |

| Country | Name and domicile | Issued capital currency | Issued capital amount | % Held by group | Direct/ indirect |
|---|---|---|---|---|---|
| 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 | 350 000 | 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 | Société Ivoirienne de Contrôles Techniques Automobiles et Industriels SA, Abidjan | XOF | 200 000 000 | 95 | D |
| Japan | SGS Japan Inc., Yokohama | JPY | 100 000 000 | 100 | D |
| Jordan | SGS (Jordan) Private Shareholding Company, Amman | JOD | 100 000 | 50 | D |
| Kazakhstan | SGS Kazakhstan Limited, Almaty | KZT | 228 146 527 | 100 | D |
| Kenya | SGS Kenya Limited, Mombasa | KES | 2 000 000 | 100 | D |
| Korea (Republic of) | SGS Korea Co., Ltd., Seoul | KRW | 15 617 540 000 | 100 | D |
| Kuwait | SGS Kuwait W.L.L | KWD | 50 000 | 49 | D |
| Lao (People's Democratic Republic) | SGS (Lao) Sole Co., Ltd., Vientiane | LAK | 2 444 700 000 | 100 | D |
| Latvia | SGS Latvija Limited, Riga | EUR | 118 382 | 100 | I |
| Lebanon | SGS (Liban) S.A.L., Beirut | LBP | 30 000 000 | 99.97 | D |
| Liberia | SGS Liberia Inc, Monrovia | LRD | 100 | 100 | D |
| Lithuania | SGS Klaipeda Ltd., Klaipeda | EUR | 711 576 | 100 | I |
| Madagascar | Malagasy Community Network Services SA, Antananarivo | MGA | 10 000 000 | 70 | D |
| Malaysia | Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur | MYR | 750 000 | 100 | D |
| Mali | SGS Mali Sàrlu, Kayes | XOF | 300 000 000 | 100 | D |
| Mauritius | SGS (Mauritius) LTD, Phoenix | MUR | 100 000 | 100 | D |
| Mexico | SGS de Mexico, SA de C.V., Mexico | MXN | 281,068,828 | 100 | D |
| Moldova | SGS (Moldova) SA, Chisinau | MDL | 488 050 | 100 | D |
| Mongolia | SGS-IMME Mongolia LLC, Ulaanbaatar | MNT | 1 787 846 388 | 55 | I |
| Morocco | SGS Maroc SA, Casablanca | MAD | 17 982 000 | 100 | D |
| Mozambique | SGS MCNET Moçambique Limitada, Maputo | MZN | 343 716 458 | 80 | I |
| 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 Minerals (FZC) LLC, Sohar | OMR | 500 000 | 100 | D |
| Pakistan | SGS Pakistan (Private) Limited, Karachi | PKR | 2 300 000 | 100 | D |
| Panama | Laboratorios Contecon Urbar Panama | USD | 760 000 | 100 | I |
| Papua-New-Guinea | SGS PNG Pty. Limited, Port Moresby | PGK | 2 | 100 | I |
| Paraguay | SGS Paraguay SA, Asunción | PYG | 1 962 000 000 | 100 | D |
| Peru | SGS del Perú S.A.C., Lima | PEN | 43 081 182 | 100 | D |
| Philippines | SGS Philippines, Inc., Manila | PHP | 24 620 000 | 100 | D |
| Poland | SGS Polska Sp.z o.o., Warsaw | PLN | 27 167 800 | 100 | I |

| Country | Name and domicile | Issued capital currency | Issued capital amount | % Held by group | Direct/ indirect |
|---|---|---|---|---|---|
| Portugal | SGS Portugal – Sociedade Geral de Superintendência SA, Lisboa | EUR | 500 000 | 100 | I |
| Qatar | SGS Qatar WLL,Doha | QAR | 200 000 | 49 | D |
| Romania | SGS Romania SA, Bucharest | RON | 100 002 | 100 | I |
| Russia | AO SGS Vostok Limited, Moscow | RUB | 18 000 000 | 100 | D |
| Saudi Arabia | SGS Inspection Services Saudi Arabia Ltd., Jeddah | SAR | 1 000 000 | 75 | D |
| Senegal | SGS Sénégal SA, Dakar | XAF | 35 000 000 | 100 | D |
| Serbia | SGS Beograd d.o.o., Beograd | EUR | 66 161 | 100 | I |
| Sierra Leone | SGS (SL) Ltd., Freetown | SLL | 200 000 000 | 100 | D |
| Singapore | SGS Testing and Control Services Singapore Pte Ltd., Singapore | SGD | 100 000 | 100 | D |
| Slovakia | SGS Slovakia spol.s.r.o., Kosice | EUR | 19 917 | 100 | I |
| Slovenia | SGS Slovenija d.o.o. – Podjetje za kontrol blaga, Ljubljana | EUR | 10 432 | 100 | I |
| South Africa | SGS South Africa (Proprietary) Limited, Johannesburg | ZAR | 452 000 500 | 100 | I |
| Spain | SGS Española de Control SA, Madrid | EUR | 240 000 | 100 | I |
| Spain | SGS Tecnos, SA, Sociedad Unipersonal, Madrid | EUR | 92 072 034 | 100 | I |
| Sri Lanka | SGS Lanka (Private) Limited, Colombo | LKR | 9 000 000 | 100 | D |
| Sweden | SGS Sweden AB, Göteborg | SEK | 1 500 000 | 100 | I |
| Switzerland | SGS Société Générale de Surveillance SA, Geneva | CHF | 100 000 | 100 | I |
| Switzerland | SGS SA, Geneva | CHF | 7 565 732 | | Ultimate parent company |
| Taiwan | SGS Taiwan Limited, Taipei | TWD | 62 000 000 | 100 | I |
| Tanzania | African Assay Laboratories (Tanzania) Ltd, Dar Es Salaam | TZS | 2 000 | 100 | I |
| Thailand | SGS (Thailand) Limited, Bangkok | THB | 20 000 000 | 99.99 | D |
| Togo | SGS Togo SA, Lomé | XOF | 10 000 000 | 100 | D |
| Tunisia | SGS Tunisie SA, Tunis | TND | 50 000 | 50 | D |
| Turkey | SGS Supervise Gözetme Etud Kontrol Servisleri Anonim Sirketi, Istanbul | TRY | 6 550 000 | 100 | I |
| Turkmenistan | SGS Turkmen Ltd., Ashgabat | USD | 50 000 | 100 | D |
| Uganda | SGS Uganda Limited, Kampala | UGX | 5 000 000 | 100 | D |
| Ukraine | SGS Ukraine, Foreign Enterprise, Odessa | USD | 400 000 | 100 | I |
| United Arab Emirates | SGS Gulf Limited Dubai Airport Free Zone Branch | – | – | – | – |
| United States | SGS North America Inc., Wilmington | USD | 73 701 996 | 100 | I |
| United States | Maine Pointe LLC, Duxbury | USD | 10’000 | 60 | I |
| Uruguay | SGS Uruguay Limitada, Montevideo | UYU | 1 500 | 100 | D |
| Uzbekistan | SGS Tashkent Ltd., Tashkent | USD | 50 000 | 100 | D |
| Vietnam | SGS Vietnam Ltd., Ho Chi Minh City | USD | 288 000 | 100 | D |
| Zambia | SGS Inspections Services Ltd., Lusaka | ZMK | 16 944 000 | 100 | I |
| Zimbabwe | SGS Technical Services (PTY) Ltd, Harare (Branch office) | – | – | – | – |

# Shareholder information

**SGS SA CORPORATE OFFICE**
1 place des Alpes
P.O. Box 2152
CH – 1211 Geneva 1

**t** +41 (0)22 739 91 11
**f** +41 (0)22 739 98 86
**e** sgs.investor.relations@sgs.com

www.sgs.com

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**STOCK EXCHANGE TRADING**
SIX Swiss Exchange

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Reuters: Registered Share: SGSN.VX
Telekurs: Registered Share: SGSN
ISIN: Registered Share: CH0002497458
Swiss security number: 249745

**INVESTOR RELATIONS SGS SA**
Toby Reeks
SGS SA
1 place des Alpes
P.O. Box 2152
CH – 1211 Geneva 1

**t** +41 (0)22 739 99 87
**m** +41 (0)79 641 83 02

www.sgs.com

**ANNUAL GENERAL MEETING OF SHAREHOLDERS**
Tuesday, 23 March 2021
Geneva, Switzerland

**2021 HALF-YEAR RESULTS**
Monday, 19 July 2021

**INVESTOR DAYS**
Thursday and Friday
27-28 May 2021

**DIVIDEND PAYMENT DATE**
Ex-date: Thursday 25 March 2021
Record date: Friday 26 March 2021
Payment date: Monday 29 March 2021

**MEDIA RELATIONS**
Daniel Rüfenacht
SGS SA
1 place des Alpes
P.O. Box 2152
CH – 1211 Geneva 1

**t** +41 (0)22 739 94 01
**m** +41 (0)78 656 94 59

www.sgs.com

**PROJECT MANAGEMENT**
John Coolican

Paula Ordoñez

**DESIGN AND PRODUCTION**
Radley Yeldar
London, United Kingdom

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