

ANNUAL REPORT



SGS IS THE WORLD'S LEADING INSPECTION, VERIFICATION, TESTING AND CERTIFICATION COMPANY. BY WORKING WITH OUR CUSTOMERS AT EVERY STAGE OF THE SUPPLY CHAIN, WE HELP ENSURE THAT CONSUMERS ENJOY PRODUCTS AND SERVICES THAT ARE SAFE, COMPLIANT AND OF THE HIGHEST QUALITY.

Our influence is all around you; from checking where the food on your plate is sourced, to ensuring the paint on your children's toys is non-toxic. Our scope is enormous too: from bridges, buildings and engines to shoes, e-commerce and pharmaceuticals – we work quietly behind the scenes to ensure that everything is as it should be.

We pioneer cutting-edge technology and develop innovative new services to help our customers stay one step ahead of the competition. We create customised solutions to drive efficiency, optimise processes and enhance value propositions so that our customers and their clients benefit from the best expertise on the market.

Thanks to our work, the world we live in gets just a little bit better, safer and more sustainable every day.



SGS SERVICE

> Footwear and Leather Product Testing



CONSUMER BENEFIT

> Knowing that your shoes are really as good as they look

CONTENTS

2016 has been a productive year for SGS. The Group has successfully undertaken a major realignment of its business lines and regional structure, as anticipated in last year's Annual Report.

The Group has also successfully begun to rebalance its portfolio, diversifying away from energy-related markets and substantially growing its revenues from non-energy-related services.

The digitalisation of SGS' service offering continued to gather steam, with initiatives under the TIC 4.0 umbrella (e.g. e-commerce and data analytics) progressing well.

Even with these exciting changes, the fundamentals of SGS' business model, which is firmly rooted in the Testing Inspection and Certification (TIC) industry, remain the same. What has been perceived however, in continually evolving market circumstances, is the opportunity for SGS to leverage its existing network in new and exciting ways.

Finally, you will notice that the Group's journey towards a fully integrated report continues. Having integrated the Business Review and Corporate Sustainability Performance into last year's Annual Report, the development of SGS' Business Materiality Matrix brings the goal of integrated reporting a step closer this year (see page 101).

The complete Corporate Sustainability Report will be available online from 21 March 2017 at www.sgs.com/cs-report2016.

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SGS SERVICE

- > Supplier Quality Engineering



CONSUMER BENEFIT

- > Products at the quality you expect

AT THE CUTTING EDGE OF QUALITY

New products always face challenges. Even when the design and performance of the prototypes is perfect, a lack of oversight in the manufacturing process can easily result in inconsistent quality in the end product. That can leave customers frustrated and companies with their reputations in tatters.

Our Supplier Quality Engineering (SQE) Solution for electrical and electronic products helps global brands and retailers minimise quality risks. At every stage, from the initial R&D and product development, to mass manufacturing, continuous improvement and the after-sales market, our engineers, auditors and inspectors identify and correct quality defects using advanced production monitoring techniques.

Moving deeper into the supply chain with cutting-edge technology, we can monitor the performance of our customers' own suppliers. This allows us to lead improvements where necessary to ensure that these suppliers are consistently meeting our customers' quality and production requirements.

This preventive upstream action can save significant costs later on. Meanwhile, for the consumer, it means they get the kind of quality they deserve and expect.

1. CHAIRMAN'S AND CEO'S LETTER TO SHAREHOLDERS

Dear Shareholders,

OVERVIEW

The SGS Group performed solidly in 2016. Total revenues reached CHF 6.0 billion, and SGS is on track to deliver the revenue growth projected in the 2020 strategic plan. The Group realised a revenue growth of 6.0% on a constant currency basis, of which 2.5% was organic and 3.5% was contributed by recent acquisitions. On a historical reported basis, Group revenue increased by 4.8%.

A new business structure was successfully implemented at the beginning of 2016, with the newly created Agriculture, Food and Life and Transportation business lines performing above expectations.

Representing 72% of the Group's earnings, the non-energy businesses achieved strong organic revenue growth of 6.2%, driving Group performance. Environment, Health and Safety, with a revenue growth of 23.6% (of which 6.9% organic), enjoyed rapid growth in the hospitality segment. Transportation also performed strongly with double-digit growth at 12.9% (of which 7.9% organic), broadening its scope in the mobility sector through new programmes and the acquisition of new expertise. Governments and Institutions showed a notable performance with organic revenue growth of 10.0% on the back of solid Product Conformity Assessment performance. Certification

and Business Enhancement grew at 9.1% (entirely organic) while continuing to diversify its service portfolio with strong growth in training. Agriculture, Food and Life delivered solid revenue growth of 6.1% (of which 4.5% organic), significantly increasing its market share to become one of the world's largest service providers through the creation of a complete supply chain solution. Consumer and Retail benefited from growth in the Chinese domestic market and e-commerce services.

However, energy-related markets remained challenging. Low oil prices, ongoing difficulties in the global gas markets and soft demand for minerals continued to impact demand, creating pricing pressure on services for Minerals, Industrial and Oil, Gas and Chemicals. In light of this, the Group undertook a number of restructuring measures, resulting in one-off expenses, including asset impairments, amounting to CHF 48.8 million (CHF 39.8 million net of taxes).

Adjusted EBITDA increased by 2.5% to reach CHF 1 198 million versus prior year on a constant currency basis. Adjusted operating income reached CHF 919 million versus CHF 898 million in prior year, an increase of 2.4% (constant currency basis). The adjusted operating income margin declined compared to prior year level (15.4%

versus 15.9% at constant currency). This was primarily attributable to pressure on energy-related business and the impact of investments in IT systems for laboratory operations and human resource management, as well as the development of new shared services infrastructure. Whilst initially dilutive to margins, these undertakings are expected to significantly improve the Group's operating efficiency, and are an integral part of the transformation initiatives, which are at the heart of the 2016-2020 plan. The Group also achieved procurement savings in line with the strategic plan. In addition, the acquisitions of Accutest and Bateman generated lower short-term profitability, but will become margin accretive in the mid term.

Net financial expenses increased to CHF 45 million. The overall effective tax rate for the period was 24.0%.

Net income reached CHF 586 million, an increase of 4.5% (constant currency basis).

Profit attributable to equity holders reached CHF 543 million for the period, an increase of 3.0% over prior year (constant currency basis) and a decrease of 1.1% compared with the CHF 549 million disclosed in 2015 (historical reported basis).

The Group generated solid operating cash flow at CHF 1 014 million,

supported by strong Net Working Capital performance. Net Working Capital is at a historical low despite a shift to more capital intensive project-related work. Net investments in fixed assets were CHF 276 million and the Group completed 19 acquisitions during the period for a total cash consideration payable of CHF 193 million. In 2016, the Group paid a dividend of CHF 517 million and financed a share buyback for a net amount of CHF 161 million.

At 31 December 2016, the Group's net debt position amounted to CHF 736 million, compared with a net debt position of CHF 482 million at 31 December 2015.

ACQUISITIONS AND STRATEGIC PARTNERSHIPS

The Group completed 19 acquisitions and made two strategic investments in 2016. Business and services expansion continued worldwide with a particular focus on growing operations in China and North America to align with strategic growth objectives. These acquisitions span several business lines, including: Agriculture, Food and Life; Transportation; Industrial; Oil, Gas and Chemicals; Minerals; Environment, Health and Safety; and Consumer and Retail. When combined, these acquisitions added CHF 135 million to the Group's revenue and CHF 10 million to the operating income in 2016.

Acquisitions completed in 2016 include: Accutest Laboratories in the USA, the fifth largest full service environmental testing company in the United States; Bateman Projects in Africa, specialists in process plant design and site engineering services; Compliance Certification Services Inc., one of China's leading Electro Magnetic Compatibility (EMC) testing laboratories, with operations across Taiwan and China; CyberMetrix Inc. in the USA, providing test cells, equipment, and services to meet the complex testing requirements of engine and power systems; and Laboratorios Contecon Urbar in Colombia and Panama, an independent materials testing business focusing on quality control for the construction industry.

The Group continued to pursue smaller equity stakes in certain strategic technology companies as illustrated by the recent partnerships with Transparency-One, which provides a platform for supply chain visibility and business risk management, and AgFlow SA, which operates an innovative trade intelligence platform, aggregating over-the-counter (OTC) market data on global grains, oilseeds/proteins and edible oils.

SIGNIFICANT MILESTONES

During the year, the Group made significant strides in the assessment

of its business portfolio to bring greater transparency on new growth projects and to identify non-performing business segments. The development of a strategic dashboard to assess business segments based on growth, margin, cash flow and strategic significance allows the Group to identify strengths and weaknesses more effectively.

SGS continued to develop its integrated reporting in support of its sustainability efforts with the creation of an enhanced materiality matrix, incorporating the assessment and findings of the annual risk review. The members of the Operations Council played an important role in this process by assessing the relative impacts of the materiality and business risks.

To benefit from economies of scale, a transformation of the support functions was launched in 2016. A governance model was established as a standard for future replication, the major financial back-office streams were identified and related processes redesigned to align with the new financial standard processes.

The year also witnessed the strengthening of the Group's Business Principles and the evolution of policies that address a continually changing market and regulatory environment. An example is the anticipated introduction of the new SGS Human

Rights Statement and Code of Conduct for Suppliers. The new guidance will ensure that human rights are respected across all operations and at every step of the supply chain.

SUBSEQUENT EVENTS

The following acquisitions and strategic investments were completed after 31 December 2016: BF Machinery PTY LTD and CBF Engineering PTY LTD, providing testing, repair, engineering and maintenance services for pumps, valves, hydraulics and plastics systems in Australia; and Laboratoire LCA, offering analytical services, including soil fertility testing, to the agricultural sector in Morocco.

In support of the Testing, Inspection and Certification (TIC) 4.0 strategic initiative on digitalisation and data, the Group granted a loan of CHF 3 million to Sensima Inspection in Switzerland. The business provides testing services and equipment using a proprietary core technology based on electromagnetic response measurements (eddy currents) for non-destructive testing applications.

MANAGEMENT

Dominique Ben Dhaou, Senior Vice President of Human Resources, has decided to leave the Group after 15 years. Her replacement will be announced in due course.

SIGNIFICANT SHAREHOLDERS

As at 31 December 2016, Groupe Bruxelles Lambert acting through Serena SARL held 16.20% (2015: 15.00%).

Mr. August von Finck and members of his family acting in concert held 15.03% (2015: 15.03%), the Bank of New York Mellon Corporation held 3.35% (2015: 3.35%), BlackRock, Inc. held 3.03% (2015: 3.03%) and MFS Investment Management held 3.01% (2015: 3.01%) of the share capital and voting rights of the Company.

At the same date, the SGS Group held 3.63% of the share capital of the Company (2015: 2.77%).

DISTRIBUTION TO SHAREHOLDERS

The SGS Board of Directors will recommend to the Annual General Meeting, to be held on 21 March 2017, the approval of a dividend of CHF 70 per share.

NEW SHARE BUYBACK PROGRAMME

The SGS Board of Directors has authorised a new share buyback programme of up to CHF 250 million. Details will be announced in due time.

SUSTAINABILITY

Sustainable development is undergoing a pivotal change. The success of the Paris Agreement, the United Nation's 17 Sustainable Development Goals and the UK's Modern Slavery Act 2015,

provides a clear pathway for future global development, and the corporate sector is uniquely placed to help lead this process.

In 2016, significant improvements in the Group's global safety performance, its CO₂ emissions and investment in local communities served to highlight the major strides made towards its Sustainability Ambitions 2020. In addition, the Group maintained its status as a carbon neutral company, and began working towards its goal of having at least 30% of women in leadership positions.

For the third consecutive year, SGS was named the leading company in its industry by the Dow Jones Sustainability Indices (DJSI World and DJSI Europe). The Group has consolidated its position in financial sustainability indices and was also recognised as a global leader in responding to climate change, with a position on CDP's Climate A List. CDP also named SGS as Industrials Sector Leader and Country Leader in the DACH (Germany, Austria and Switzerland) region.

The Leadership team continued to be actively engaged in the Group's sustainability performance and participated extensively in key policy issues. For instance, the new Vehicle Emissions Policy will engage managers across the Group in helping to minimise CO₂ emissions through their choice of fleet car.

It is only by leading by example through actions such as these that SGS can help the corporate sector build a more sustainable economy.

GUIDANCE 2017

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

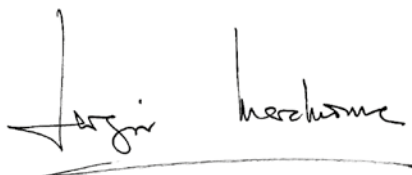
OUTLOOK 2020

The Group remains committed to the aims of its 2020 plan, which are:

- To average mid single-digit organic growth, with improvement over the period underpinned by the new structure and new strategic initiatives.

- To accelerate Mergers and Acquisitions activities with acquired revenue in the range of CHF 1 billion over the period.
- To achieve an adjusted operating income margin of at least 18% by the end of the period bolstered by the new structure, efficiency improvement initiatives and improved pricing.
- To ensure strong cash conversion.
- To see solid returns on invested capital.
- To offer solid dividend distributions, in line with the improvement in net earnings.

23 January 2017



Sergio Marchionne
Chairman of the Board



Frankie Ng
Chief Executive Officer



SGS SERVICE

> Productivity
Management Services



CONSUMER BENEFIT

> Lower prices
at the checkout



FINE-TUNING CLASSIC RECIPES

Sometimes products that look easy to produce, like simple food oils, can actually be surprisingly complex to manufacture. Often the technology behind the delivery of these goods is so complicated and nuanced that even experts need a second opinion in order to optimise the process.

It is this kind of assistance that SGS supplies. SGS experts have worked at hundreds of plants, and this gives them broad industry exposure, putting them in a unique position to deliver solutions.

For example, at one European oilseed crushing plant, our experts provided guidance to local employees on how to optimise their existing technology to maximise productivity. The changes unearthed by our team increased the plant's efficiency and significantly reduced waste, which lowered the costs of production.

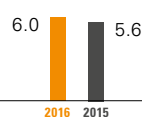
Seemingly small changes, such as adjustments to temperature settings at various stages of the process, resulted in annual savings that went into six figures, all without compromising quality. By performing these services, consumers benefit too, not just from more consistent quality products, but often also from more competitive pricing in the supermarket.

2. HIGHLIGHTS

FINANCIAL HIGHLIGHTS

CHF **6.0**BN

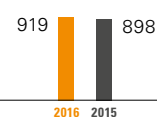
+6.0%¹



REVENUE

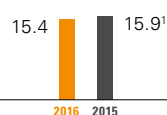
CHF **919**MIO

+2.4%¹



ADJUSTED OPERATING INCOME²

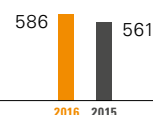
15.4%



ADJUSTED OPERATING MARGIN²

CHF **586**MIO

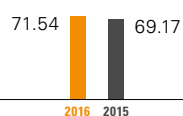
+4.5%¹



PROFIT FOR THE PERIOD

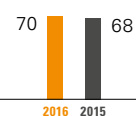
CHF **71.54**

+3.4%¹



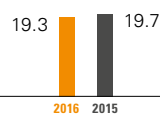
BASIC EARNINGS PER SHARE

CHF **70**



PROPOSED DIVIDEND

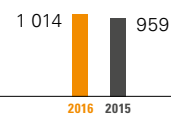
19.3%



RETURN ON INVESTED CAPITAL³

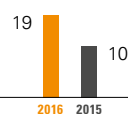
CHF **1.0**BN

+5.7%



CASH FLOW FROM OPERATING ACTIVITIES

19



ACQUISITIONS COMPLETED IN 2016

1. Constant currency basis.

2. Before amortisation of acquisition intangibles, restructuring and other non-recurring items.

3. Profit for the period / (Non-current assets + Net Working Capital).

REVENUE AND ADJUSTED OPERATING INCOME BY BUSINESS

REVENUE

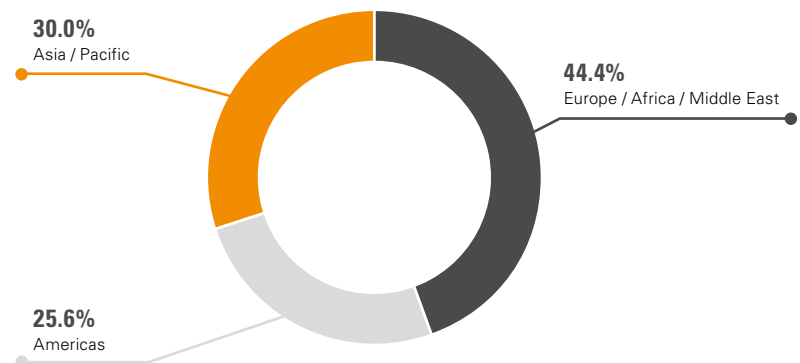


ADJUSTED OPERATING INCOME¹



1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items.

REVENUE BY REGION



GROUP ACHIEVEMENTS

NEW STRUCTURE

SUCCESSFULLY IMPLEMENTED
IN 2016

DIGITALISATION OF SERVICES

STRENGTHENED CUTTING-EDGE
CAPABILITIES THROUGH
THE ACQUISITION OF
5 INNOVATIVE COMPANIES

19 ACQUISITIONS

COMPLETED IN 2016
(see Acquisitions section page 58)

SECOND CONSECUTIVE REDUCTION

IN NET WORKING CAPITAL IN 2016

DIGITALISATION OF THE WORKPLACE

FOSTERING PERFORMANCE
AND COLLABORATION THROUGH
DIGITALISATION

3 SHARED SERVICE CENTRES

UNDER DEVELOPMENT ACROSS
THE WORLD TO IMPROVE
BACK-OFFICE EFFICIENCY

BUSINESS HIGHLIGHTS

AGRICULTURE FOOD AND LIFE

Double-digit growth in life
laboratory activities

MINERALS

Five new coal contracts in
South Africa extended
SGS' presence in the country

OIL GAS AND CHEMICALS

Contract awarded to provide
services to Shell's Prelude floating
liquefied natural gas (LNG) project

CONSUMER AND RETAIL

The rapidly developing
e-commerce business
recorded triple-digit growth

CERTIFICATION AND BUSINESS ENHANCEMENT

The business line saw 9.1%
organic growth

INDUSTRIAL

Two strategic acquisitions
in the quality control testing
sector increased our footprint
in Latin America

ENVIRONMENT HEALTH AND SAFETY

Strong revenue growth of 23.6%

TRANSPORTATION

Awarded contract to deliver
all driving theory examinations
in France

GOVERNMENT AND INSTITUTIONS

SGS D-TECT®, a revolutionary 100%
border scanning solution, launched
in Cameroon

SUSTAINABILITY HIGHLIGHTS



SGS RECEIVED THE ROBECOSAM 2017 INDUSTRY MOVER SUSTAINABILITY AWARD FOR EXCELLENT PERFORMANCE IN THE DOW JONES SUSTAINABILITY INDEX



SGS RECEIVED THE ROBECOSAM INDUSTRY LEADER GOLD CLASS SUSTAINABILITY AWARD FOR THE THIRD CONSECUTIVE YEAR



SGS ACHIEVED A LEADING POSITION IN ITS REGION AND WAS INCLUDED IN THE "A-LIST" AND NEW "SUPPLIER A-LIST" BY THE CARBON DISCLOSURE PROJECT



SGS RECEIVED A GOLD RATING FOR THE SECOND CONSECUTIVE YEAR FROM ECOVADIS FOR ITS SUSTAINABILITY PERFORMANCE



SGS DEVELOPED A HUMAN RIGHTS POLICY AND LAUNCHED A CODE OF CONDUCT FOR SUPPLIERS



EQUAL OPPORTUNITIES RATIO INCREASED OVER THE LAST 5 YEARS BY 15%



TOTAL RECORDABLE INCIDENT RATE (TRIR) AND LOST TIME INJURY RATE (LTIR) DECREASED BY MORE THAN 18% AND 29% RESPECTIVELY IN 2016



SGS MAINTAINED ITS STATUS AS A CARBON NEUTRAL COMPANY

SUSTAINABILITY AMBITIONS 2020

PROFESSIONAL EXCELLENCE

- Link management incentive plan to sustainability
- Deliver measurable sustainable value to society

PEOPLE

- Maintain a natural turnover rate of no more than 10%
- 30% of leadership positions will be held by women
- Reduce our TRIR and LTIR by 50%*

ENVIRONMENT

- Reduce our annual CO₂ emissions (per FTE) by 20%*
- Reduce our annual CO₂ emissions (by revenue) by 20%*

COMMUNITY

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

* Against 2014 baseline.

BUILDING THE PERFECT HOLIDAY

In today's fast-growing, increasingly regulated global travel industry, among other issues, tour operators need to ensure that no stone is left unturned when it comes to consumer health and safety. Even with hundreds of thousands of customers a year, a single incident could permanently damage a travel brand's reputation.

SGS is helping the world's leading tour operators to rise to this challenge. Using our expertise and global footprint, we have created a cutting-edge, industry-specific health and safety compliance audit system, with innovative SGS mobile technology at its heart.

Our local auditors use a bespoke audit app on their smartphones and tablets to review hotels, waterparks, excursions and overland transportation operations for our customers. The results are automatically uploaded to a central database. From this online hub, our customers can access detailed reports on the performance of thousands of resorts at the click of a button.

By helping tour operators to efficiently assess compliance and manage risk – in 2016 alone, we physically audited over 5 000 resorts worldwide – SGS is improving environmental health and safety standards in the hospitality sector, and making resorts safer places for visitors.



SGS SERVICE

> Health and Safety
Compliance Audits



CONSUMER BENEFIT

> Holiday destinations
that are as safe as they
are beautiful

3. SGS AT A GLANCE

90 000



EMPLOYEES

2 000



OFFICES AND LABORATORIES

1



GLOBAL NETWORK

THE WORLD LEADER

We provide competitive advantage, drive sustainability and deliver trust. At SGS, we are continually pushing ourselves to deliver innovative services and solutions that help our customers move their businesses forward.

At SGS, our sustainability approach is about more than just reducing carbon emissions. We maintain the highest professional standards and ensure our employees are able to lead fulfilling working lives. We also seek to maximise the positive impacts our business has on society.

OUR VISION

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

OUR VALUES

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

**SGS IS THE WORLD'S
LEADING INSPECTION,
VERIFICATION, TESTING
AND CERTIFICATION COMPANY.
SGS IS RECOGNISED AS
THE GLOBAL BENCHMARK
FOR QUALITY AND INTEGRITY.
WITH MORE THAN
90 000 EMPLOYEES,
SGS OPERATES A NETWORK
OF OVER 2 000 OFFICES
AND LABORATORIES AROUND
THE WORLD.**

OUR POSITION IN THE VALUE CHAIN

We provide services at all stages of the value chain, from extraction and primary production to manufacturing, transportation and retail.

TRANSPORTATION

Enhancing safety, quality, reliability and trust



CONSUMER GOODS AND RETAIL

Generating trust throughout the supply chain

MINING

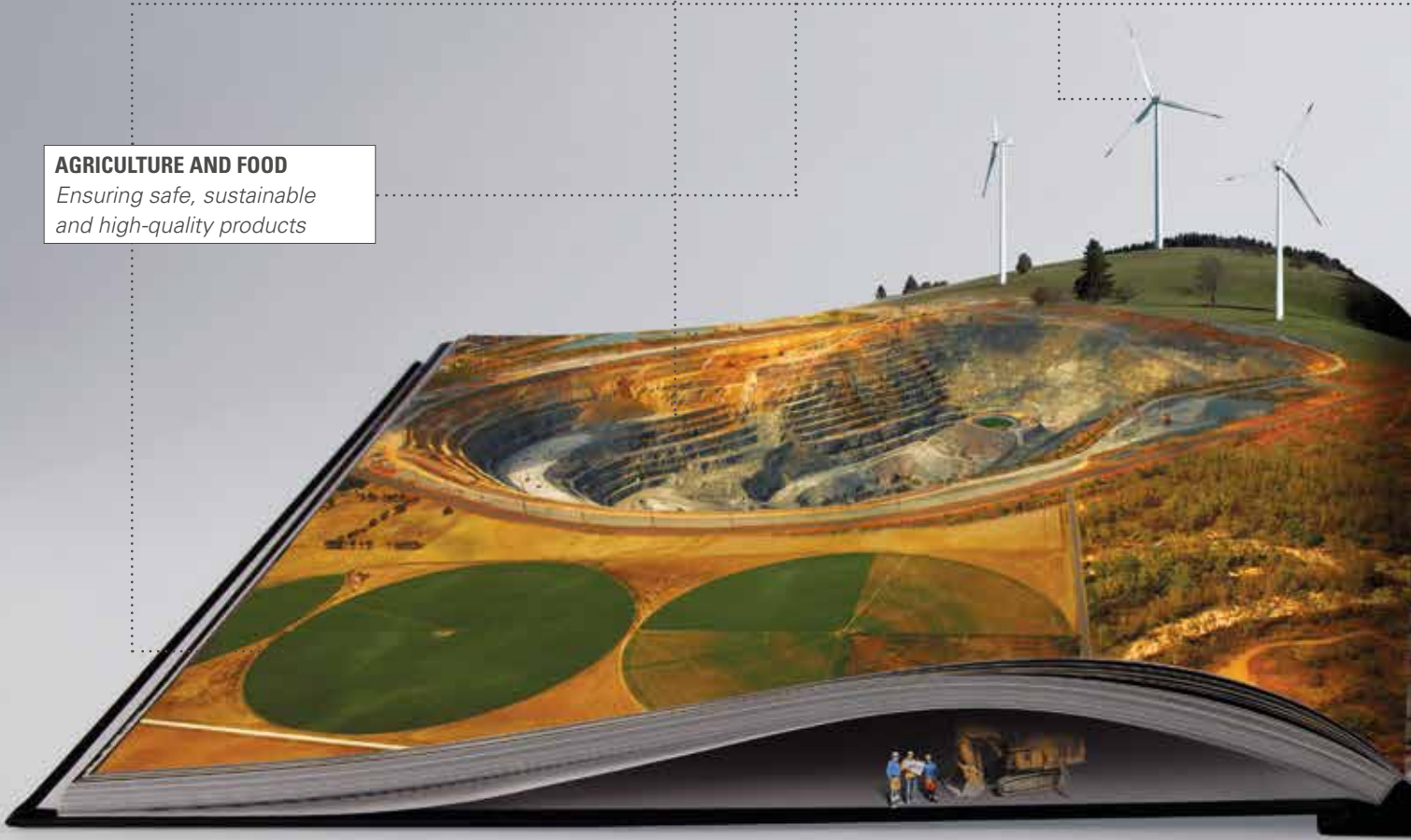
Improving speed to market, optimising recoveries

ENERGY

Powering processes from renewables to conventional energy

AGRICULTURE AND FOOD

Ensuring safe, sustainable and high-quality products



INDUSTRIAL MANUFACTURING

Making manufacturing more productive and profitable

CONSTRUCTION

Ensuring safety and performance where we live

PUBLIC SECTOR

Facilitating international trade and sustainable development

LIFE SCIENCES

Protecting quality, safety and costs in product development

CHEMICAL

Innovation, safety and efficiency in everything from perfumes to paints

OIL AND GAS

Enriching quality and value in exploration, extraction and distribution



OUR SPECIALIST TEAMS DELIVER TRUSTED RESULTS IN WORLD-LEADING SERVICES, COVERING VIRTUALLY ALL INDUSTRIES.

We audit across the entire value chain, providing benefits to all business sectors. We ensure our customers' projects, products, processes and operations meet and exceed regulations and standards, and we provide the verification and certification they need to trade in target markets around the world. Our consultancy services inform organisations on market demands, while our outsourcing solutions provide the expertise, experience and resources that enable our customers to meet their goals. We use state-of-the-art examination methodologies with unsurpassed accuracy to perform inspections that reduce risk and control quality and quantity. At the same time, we conduct testing of raw materials, components and products in our global network of facilities. Our industry experts also deliver world-class training, specifically designed for the precise needs of our customers, providing the right skills and knowledge to maximise efficiency and improve productivity.

Through our unique global network, we deliver independent results tailored to the precise needs of the industry or sector. Our customers trust our expertise, experience and resources to support them. We help our customers achieve outstanding performance in everything they do.

SGS BY INDUSTRY

SGS offers services across 11 major industries through our nine business lines. Each business line develops and maintains world-class expertise to support the evolving needs of our customers. Thanks to our capabilities we are able to provide solutions to the challenges they face across the globe. SGS' industries are outlined below.

AGRICULTURE AND FOOD

Ensuring safe, sustainable and high-quality products.

Consumers want assurance of safety and quality at every stage of the food production process. Our services build trust, reduce risk and maintain efficiency across diverse agriculture and food supply chains. We offer solutions for agrochemicals, seed, biofuels, fertilisers, food and forestry. Our services protect the integrity of our customers' brands by assessing quality, adding value and securing safe and sustainable global supply chains. From primary production to consumption, we assist with legislation compliance, correct storage, shipping, packing and distribution as well as import and export product inspection.

CHEMICAL

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

Industrial chemical companies utilise our services to optimise their production, reduce risk and control potential health hazards. We work with our partners to establish and maintain quality, safety and compliance throughout the custody chain, from feedstocks,

through chemical intermediates and into finished products. Our consultancy services offer our partners laboratory design, commissioning and operations assistance, including procurement and optimisation of equipment. We support customer operations using established benchmarks and techniques to improve productivity and efficiency through training, our asset integrity management services, optimisation programmes and project lifecycle services.

CONSTRUCTION

Ensuring safety and performance in the environment where we work and live.

Safe, efficient and trusted processes are essential when constructing buildings or infrastructure. Our construction industry experience means our customers can maximise energy efficiency and public safety. We support our customers in implementing effective scheduling, budgeting, site safety and logistics by utilising modern asset virtualisation tools. We conduct studies in construction feasibility and risk assessment and management. Our services ensure quality in global supply chains by performing chemical and physical testing of materials. Our asset management systems are increasingly based on real-time sensor technology, which tracks machines and equipment, while our inspection services provide facility, waste and energy audits.

CONSUMER GOODS AND RETAIL

Generating trust throughout the supply chain.

Our services enable manufacturers, importers, exporters and retailers to gain a competitive edge. We ensure trusted, ethical and environmentally conscious goods, such as electronics, textiles, toys, footwear, housewares and cosmetics, reach consumers. Our laboratories conduct material, chemical and performance testing to verify and certify that products are safe and perform as our customers claim. We inspect processes at every stage of production and undertake retail store audits to ensure our customers' brands are represented correctly. We help our customers develop products, processes and supply chains that consumers trust every day.

ENERGY

Powering processes from renewables to conventional energy.

As the energy sector evolves to meet emerging regulations, we offer a portfolio of services to our partners focused on efficiency, optimisation and asset integrity. We provide support across the entire energy sector with a comprehensive range of independent inspections, audits and business enhancement services. Whatever the industry – petroleum, gas, electrical power, coal or renewable energy – we offer solutions to our partners. We enable each customer to better assess and manage risk in all operations. In renewables, we consult on sustainability across hydroelectric, geothermal, wind and solar power. Our solutions help the energy sector innovate to find tomorrow's energy today.

INDUSTRIAL MANUFACTURING

Making manufacturing more productive and profitable.

Our expertise allows manufacturers to improve productivity, follow best practices and streamline operational processes and logistics. Industrial manufacturers in sectors ranging from pharmaceuticals to farm machinery and from aerospace to automotive trust in our independent testing and conformity services. Our advice on the fabrication of components, using digital information from real-time sensor-based technology, along with our finished product assessments, enable our customers to achieve high performance standards throughout manufacturing. We support manufacturers in complying with all national and international quality, health and safety legislation, at the same time as providing advice on minimising environmental impact.

LIFE SCIENCES

Safeguarding the quality and efficacy of medicines.

In the pharmaceutical, biopharmaceutical and medical device industries, products must conform to all national and international regulations, as well as industry best practices. Our services enable high-quality, safe and compliant products to reach the market in

the shortest possible timescales.

We provide vital support and expertise for medicines and medical devices throughout every stage of development, testing, production and distribution. With a wholly-owned network of contract analytical laboratories and state-of-the-art clinical trials facilities around the world, our customers trust in our expert knowledge to support them with reliable results.

MINING

Delivering effective services to improve speed to market, manage risks and maximise returns.

Mining is an industry driven by the need to optimise recovery without compromising on safety, environmental sustainability and integrity. We are a strategic partner in the mining industry providing testing, process engineering, technology and trade support, as well as production optimisation services. We deliver sustainable solutions across exploration, production, industrial applications, decommissioning and closure. We help to enhance asset value and optimise recoveries in industrial minerals and precious and base metals extraction. We offer technical expertise in steel manufacturing processes and fertiliser, coal and coke trading. Our expansive global footprint allows our customers to take full advantage of our network to service their project needs across the globe.

OIL AND GAS

Innovative solutions that add up along the value chain.

The oil and gas industry constantly seeks improved efficiency. We offer a portfolio of services across the entire value chain in the oil and gas industry. We give our partners access to independent expertise in both the upstream and downstream sectors, providing tailored solutions for exploring, extracting, refining, transporting and marketing oil, gas and other hydrocarbons. Our values, with an emphasis on health and safety, excellence and transparency, are known and trusted. In a market undergoing radical change, we are driven by data. Our specialist advice and knowledge support upstream

activities such as applied mineralogy, metering, measuring and hydrocarbons allocation. Our downstream services support distribution and retail as well as the design and execution of optimised processes and global trade inspection.

PUBLIC SECTOR

Facilitating international trade and sustainable development.

Public sector organisations require solutions designed to work in harmony with the processes and policies they already have in place. Our unrivalled border control services for scanner installation, transit monitoring and risk profiling support the public sector in reducing risk worldwide. Our e-government solutions enhance international trade and revenue processing. We improve public infrastructure through independent road safety services that increase the efficiency of transportation systems. Our customers trust our knowledge of quality, health, safety and environmental issues to comply with complex regulations. We improve quality and maximise productivity across the public sector.

TRANSPORTATION

Driving a safer, cleaner and more efficient industry.

For governments, manufacturers and financial institutions improving performance and reducing risk in the transportation industry is essential. From the automotive industry, through rail and shipping to the aerospace industry, we guide quality improvements and verify that efficiency is maximised. We support our customers in achieving shorter delivery times, safer products and reduced costs. Our experts help our customers minimise the environmental impact of their products and ensure their conformity and compliance to standards and regulations. We also ensure that brand guidelines are met throughout aftermarket and distribution operations. Our global network of offices, laboratories and testing centres offers a truly unique and independent service.

THE BUSINESS BENEFITS WE DELIVER

QUALITY

Our customers rely on our independent third-party inspection, testing and auditing solutions to ensure products, services and processes comply with the latest quality standards. Our global network of state-of-the-art facilities provides information to certify and verify quality worldwide.

SAFETY

We help organisations develop effective health and safety systems to protect employees, generate consumer confidence and enhance trust in business operations. We support our customers in adhering to best practices and complying with local, national and international regulations.

REDUCED RISK

We provide our customers with independent and impartial services that enable them to identify, manage and reduce risk. Our experts deliver risk management solutions, drawing on our testing and inspection capabilities, to verify risk prevention measures are in place. We assist with compliance with international risk management standards across a wide range of industries.

EFFICIENCY

Our tailored business solutions help our customers implement processes and systems that make business operations faster, simpler and more efficient. We deliver unrivalled efficiency results from our local experts, who draw on the global experience of the entire SGS network.

PRODUCTIVITY

Our training and outsourcing solutions ensure productivity keeps pace with developments in our customers' organisations. In the short term, we offer the knowledge of our world-class productivity experts. In the long term, we deliver focused training to develop specialist skills in our customers' personnel.

SPEED TO MARKET

Compliance with the requirements of target markets is key to increasing speed to market. Our consultancy, testing and certification services help our customers overcome the complex challenges of understanding and meeting market demands anywhere in the world, whatever the industry or sector.

TRUST

Our global reputation for independence and integrity enables us to build trust wherever needed. We provide transparent and unbiased inspection, testing, verification and certification solutions so our customers can give assurance in their products, processes, systems and services.

SUSTAINABILITY

We help our customers take ownership of building a more responsible and sustainable future. We encourage environmental responsibility and reduce the risk of corruption in our customers' projects. Our services assist in developing sustainable facilities and production, as well as better working and social environments.

THE EXPERT SERVICES WE OFFER

INSPECTION

All organisations need trusted independent inspection to ensure that legal obligations and high standards are met at every stage. Our comprehensive range of world-leading inspection services helps to reduce risk, control quality and quantity, and meet all relevant regulatory requirements across different regions and markets.

TESTING

We provide the broadest range of product testing to customers around the world. Our global network of testing facilities, staffed by knowledgeable and experienced personnel, helps reduce risks, shorten time to market and demonstrate the quality and safety of raw materials, components and products.

VERIFICATION

Whatever the industry, compliance with the latest regulations and standards is mandatory. We can help ensure that products, services and processes follow the latest national and international standards – wherever our customers are in the world.

CERTIFICATION

We enable our customers to demonstrate that their products, processes, systems and services are compliant with national and international regulations and standards.

TRAINING

Providing a workforce with skills and knowledge enhances organisational agility, maximises efficiency, motivates employees, improves productivity and boosts the bottom line. We offer world-class training and courses from industry experts that address the precise needs of organisations and industry.

CONSULTANCY

To ensure full market access, goods must comply with the requirements of target markets. Identifying those requirements and meeting them is a complex challenge. Our consultancy services help our customers to understand and meet market demands anywhere in the world, whatever the industry or sector.

OUTSOURCING

We offer unrivalled expertise, experience, resources and a unique global network. As a result, we can provide the specialised skills our customers need to achieve their goals, for any industry, anywhere in the world.

ANALYTICS

Our data analytics services ensure the quality of automated data input and analysis. We manage streams of big data, using it to provide our customers with innovative insights and ideas. We also create cutting-edge predictive operations tools, increasing transparency and efficiency across all the industries we operate in.

A LIGHT BULB MOMENT FOR REE RECOVERY

From flat-screen TVs and smartphones, to wind turbines, electric vehicles and lasers, Rare Earth Elements (REEs) have become a critical part of modern technology. Take energy saving light bulbs for example. To function properly the bulb normally requires five different REEs: cerium, europium, lanthanum, terbium and yttrium.

Although the demand for REEs will continue to grow, the problem is that they are extremely difficult to recover and purify after they are mined, leading to global concerns about assuring an adequate supply.

Firstly, there are issues around the complexity of deposits. For instance, cerium is believed to be as abundant as copper but it is rarely found in deposits that can be economically mined. Secondly, more than 90% of global REE production occurs in a single country: China.

There are only a handful of operating REE mines in the rest of the world, which has meant that technical development has been limited and efficiency impaired.

SGS offers a suite of specialised metallurgical research and testing services, focused on improving the recovery of these vital but complex metals. Our work means that REEs remain available and affordable to consumers so that they can continue to enjoy all the technological advantages that REEs bring.





SGS SERVICE

- > High Definition Mineralogy



CONSUMER BENEFIT

- > Increasingly available and affordable modern technology

4. BUSINESS LEADERSHIP

THE FOLLOWING SECTION ON SGS BUSINESS LEADERSHIP REPORTS ON EACH COMPONENT OF OUR BUSINESS MODEL, HIGHLIGHTS OUR BUSINESS PRINCIPLES AND EXPLAINS HOW WE ADD VALUE TO ALL OF OUR STAKEHOLDERS.

Our business leadership comes from our unique global network, our expertise and our attitude towards innovation and development.

It comes from our financial strength and our ability to invest wisely.

It comes from our agility and creativity, and our integrity as an independent third-party.

It comes from our uncompromising approach to sustainability and health and safety.

It comes from our ability to provide our customers with a competitive advantage and offer our investors a strong return on investment.

That is what we mean when we talk about business leadership.

SGS BUSINESS MODEL

PAGE 30

HOW WE BUILD OUR BUSINESS DYNAMICALLY AND SUSTAINABLY

SGS BUSINESS PRINCIPLES

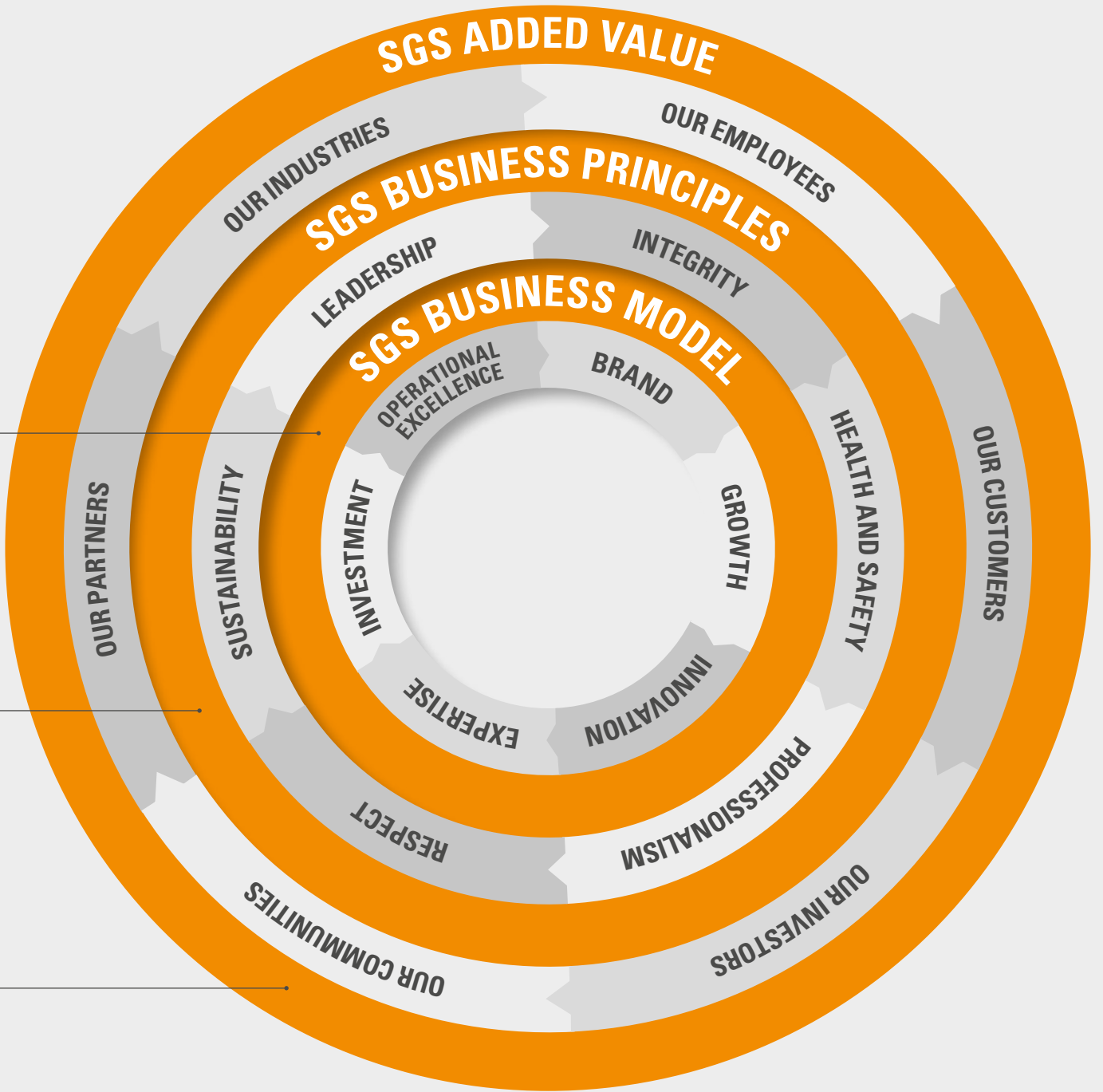
PAGE 92

HOW WE MAINTAIN OUR POSITION AS A WORLD LEADER AND MAKE SGS A GREAT PLACE TO WORK

SGS ADDED VALUE

PAGE 94

HOW WE ENSURE THE SUCCESS OF OUR STAKEHOLDERS



**GROUP
OUTLOOK**

MARKET

SGS expects market conditions to remain challenging in the short term, but nonetheless expects to deliver solid organic revenue growth and higher adjusted operating income on a constant currency basis, and generate robust cash flow.

In the energy markets, the Organization of the Petroleum Exporting Countries (OPEC) announced in December 2016 that it will cut production for the first time in eight years. This will see 1.2 million less barrels per day on the market for the first six months of 2017. This announcement came in tandem with simultaneous cuts announced in Russian production. The anticipated subsequent increase in global oil prices during 2017 will nonetheless still take some time to work through before we see an increased demand for energy-related services. Consequently, while continuing to invest in our energy-related activities, we will predominantly focus on growing our non-energy business in 2017. A particular emphasis will be placed on enhancing our presence in key markets, such as North America and China.

Over the longer term (2017-2020), SGS anticipates mid-single digit

organic growth on average, which will be supported by the new structure implemented in 2016 and several strategic initiatives. We also expect an acceleration in merger and acquisition activities, CHF 1 bn of revenues over the period, an adjusted operating income margin of at least 18% by the end of the period, strong cash conversion and solid returns on capital.

STRUCTURE

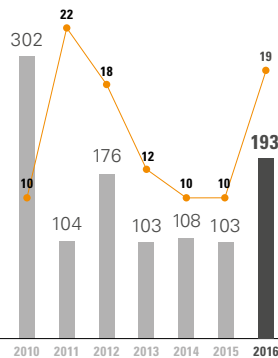
Following the successful implementation of structural changes in 2016 (as previously reported), further changes to our regional organisation will be made in 2017.

In order to continue to drive efficiencies, adjustments will be made to our geographical organisation with the number of our regions being reduced from nine to eight. As part of this, the Eastern Asia region will be incorporated into our China and Hong Kong region.

Once completed, our regional structure will therefore be as follows: Western Europe; Northern Central and Southern Europe; Eastern Europe and Middle East; Africa, North America; South and Central America; North East Asia; and Southern Eastern Asia and Pacific.

193

ACQUISITION CASH CONSIDERATION
(CHF MID-# OF TRANSACTIONS)

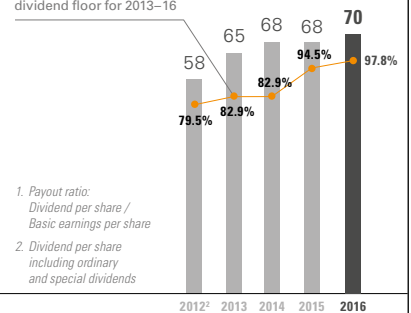


**DELIVER BOLT-ON ACQUISITIONS
WITH ATTRACTIVE
BUSINESS SYNERGIES**

70

DIVIDEND PER SHARE (CHF) AND PAYOUT RATIO¹ (%)

Jan. 14: new dividend policy setting CHF 65 as a dividend floor for 2013-16



1. Payout ratio: Dividend per share / Basic earnings per share
2. Dividend per share including ordinary and special dividends

**DELIVER A SOLID RETURN
ON INVESTMENT**

FINANCE

As a key objective for the year ahead, the Group will continue to focus on both organic and inorganic growth, along with solid cash flow and stable profitability.

SGS will also continue to place a strong emphasis on structural improvements to its Net Working Capital as a priority during 2017. This will include the standardisation and optimisation of Net Working Capital for each activity within our portfolio.

Our Procurement function will continue to add value to the organisation through optimising strategic sourcing and enhancing supply chain management, while the Real Estate function will optimise our real estate portfolio.

Another important aspect going forward will be the deployment of our Global Business Services Strategy. This will seek to simplify, streamline and optimise the organisation, processes and systems of our back office functions as well as leveraging best practices across our internal business services. One of the main aspects of this will be the phasing in of four Shared Service Centres.

In Poland and the Philippines, the implementation of the European and Asian Shared Service Centres that

began in 2016 will continue into next year as the centres are optimised. In Costa Rica meanwhile, the implementation of the Americas Shared Service Centre is due to begin in 2017. An additional centre exclusively focused on the growing Chinese market is also expected to be identified in 2017, with its implementation anticipated later in the year and into 2018.

STRATEGIC INITIATIVES

We will continue to drive innovation through our dedicated department and by encouraging and recognising individual employee achievements. This initiative will further cement the culture of innovation within SGS as we continually push ourselves to remain ahead of the curve with regard to our services, processes, technology and thinking.

Our TIC 4.0 initiative, which focuses on the increasing digitalisation of our services, will continue to develop as a key driver of potential future growth.

With this digitalisation will come a significant inflow of data, particularly given the scale of SGS' global footprint. Big data analytics will therefore increasingly become a key aspect of SGS' service offering (see page 223 for

an example). This data can be used to study historical trends, to provide a deep understanding of current operations and even to form predictive modelling to support future strategic direction.

In other instances, we will continue to leverage our understanding of disruptive technology, such as sensors, to provide additional added value to our customers. In addition to the analysis mentioned above, SGS can install and maintain sensors, and most importantly verify the veracity of the data that they are producing.

In e-commerce, we will continue to move towards a Business to Business to Consumer (B2B2C) model (see page 36), particularly in Asia, where SGS certified products are already available on major commercial websites.

In the case of each Strategic Initiative, our traditional core skills can be used to offer offline-to-online services that ensure our customers are confident in the products that they are offering. The scale of our physical footprint will be a key differentiator for SGS across these initiatives, representing a high barrier to entry to potential competitors in these high margin activities.

750

SHARE BUYBACK PROGRAMME (CHF MD)

CHF 250 million for employee equity participation plans and/or utilisable as underlying securities for debt-like issuance

CHF 500 million for shares cancellation

750

250

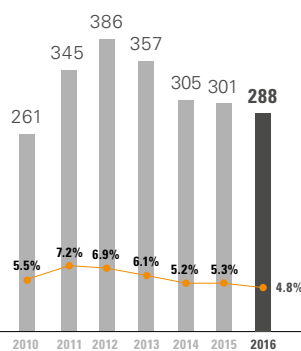
500

JAN 15
TO DEC 16

**MAINTAIN AN ATTRACTIVE
SHAREHOLDER RETURN POLICY**

288

CAPEX (CHF MD, % OF SALES)



**INVEST IN ORGANIC GROWTH
PROJECTS AND TECHNOLOGY-
DRIVEN PARTNERSHIPS**

SGS BUSINESS MODEL



BRAND

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



GROWTH

Profitable growth is a fundamental aspect in the success of any business and SGS is no exception. For us however, the continued growth of our global network and its unrivalled physical footprint is a key competitive advantage, both to our business and to our shareholders.



INNOVATION

The world changes. Markets move. People move on. A world-class business like SGS needs to stay ahead of these changes and to continuously stretch the boundaries of the TIC industry in order to retain our position as market leaders.



EXPERTISE

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



INVESTMENT

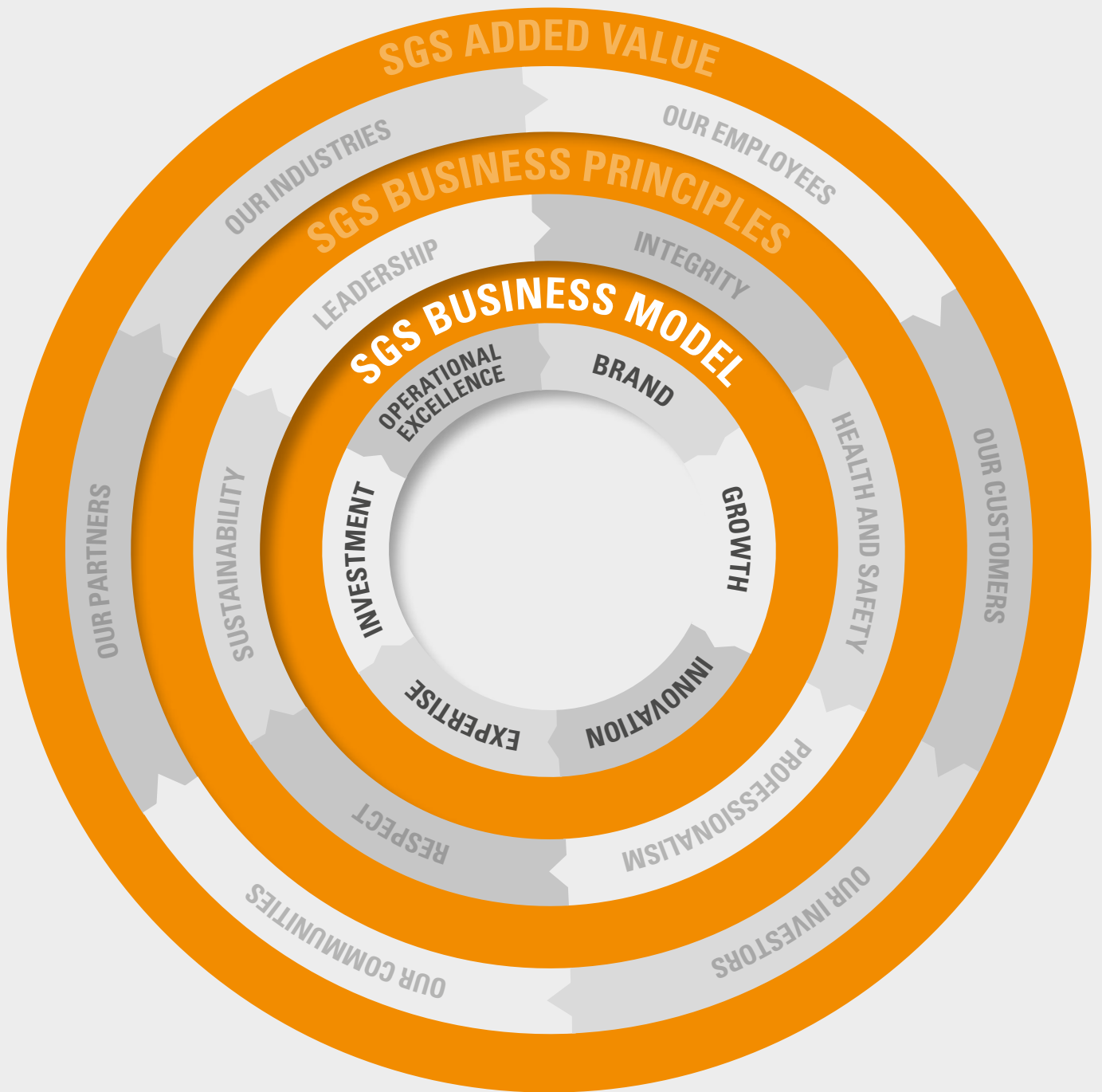
Inertia is not an option for a market leader like SGS. We need to anticipate changes in market conditions and customer demand in order to seize opportunities as they arise. This means that investment in research, innovation, talent and technology has to be at the core of our business model.



OPERATIONAL EXCELLENCE

How do businesses ensure world-class performance? Through assuring genuine operational excellence across business functions, improving margins and performance, and through utilising the best possible sustainable business practices.

THE SGS BUSINESS MODEL IS BUILT ON THE SIX CORE PILLARS OF BRAND, GROWTH, INNOVATION, EXPERTISE, INVESTMENT AND OPERATIONAL EXCELLENCE. THESE ARE THE BASIC INGREDIENTS FOR OUR BUSINESS SUCCESS AND IT IS BECAUSE OF OUR FOCUS ON CONTINUALLY IMPROVING THESE FUNDAMENTALS THAT WE ARE LEADERS IN OUR FIELD.



STRATEGIC FOCUS

SGS IS THE MARKET LEADER IN THE TESTING INSPECTION AND CERTIFICATION INDUSTRY. THE GROUP HAS IDENTIFIED A NUMBER OF KEY GOALS MOVING FORWARD AS PART OF ITS AMBITION 2020. THE STRATEGIC FOCUS INFORMATION PRESENTED BELOW PROVIDES GUIDANCE ON THESE GOALS, WHICH ARE EXPLAINED IN THE CONTEXT OF THE SIX ELEMENTS OF THE SGS BUSINESS MODEL. THIS SECTION ALSO REPORTS ON SELECTED ACHIEVEMENTS ATTAINED TOWARDS AMBITION 2020 GOALS DURING 2016.



BRAND

THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
CUSTOMER SATISFACTION	<ul style="list-style-type: none"> • Bosch Supplier Award: North America • Industry Appreciation Award: Canadian Special Crops Association 	<ul style="list-style-type: none"> • High customer retention and satisfaction
INTEGRITY AND HUMAN RIGHTS	<ul style="list-style-type: none"> • Creation of Human Rights Policy • Rollout of Code of Conduct 	<ul style="list-style-type: none"> • No major integrity or human rights breaches
MARKET LEADERSHIP	<ul style="list-style-type: none"> • Diversification of SGS' reach and expertise • Strengthened digital presence • Social media: strong brand positioning and audience engagement 	<ul style="list-style-type: none"> • Leading position in strategic markets and geographies
SUSTAINABILITY	<ul style="list-style-type: none"> • Dow Jones sustainability Indices Leading Position • Carbon neutral company • Member of the "A-List" and "Supply Chain A-List" by the Carbon Disclosure Project 	<ul style="list-style-type: none"> • Industry sustainability leadership • Link Management Incentive Plan to sustainability • Deliver measurable sustainable value to society



GROWTH

THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
ACQUISITIONS AND STRATEGIC PARTNERSHIPS	<ul style="list-style-type: none"> • 19 acquisitions • 2 strategic partnerships • Inorganic growth of 3.5% 	<ul style="list-style-type: none"> • Build scale • Buy capabilities • Fill geographic gaps • Enhance financial metrics • Maintain strategic significance
BALANCED PORTFOLIO	<ul style="list-style-type: none"> • Successful implementation of Dashboard Review • Non-energy related organic revenue growth of 6.2% 	<ul style="list-style-type: none"> • Diversify non-energy-related portfolio of services
ORGANIC GROWTH	<ul style="list-style-type: none"> • Organic growth of 2.5% 	<ul style="list-style-type: none"> • Mid-single digit average organic growth
REGIONAL FOCUS	<ul style="list-style-type: none"> • Strategic regional realignment in progress 	<ul style="list-style-type: none"> • Enhance presence in key markets



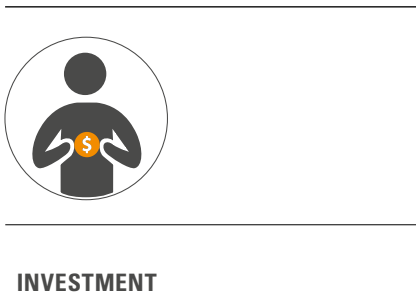
INNOVATION

THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
E-COMMERCE	<ul style="list-style-type: none"> • Positioning of SGS brand on major e-commerce sites • Triple-digit growth of e-commerce business in China 	<ul style="list-style-type: none"> • Expand to B2B2C
TIC 4.0	<ul style="list-style-type: none"> • Information, system and platform development • New Cyber Security service 	<ul style="list-style-type: none"> • Digitalisation of services
OTHER INITIATIVES	<ul style="list-style-type: none"> • Development of INNO programme: encouraging employees to drive internal innovation 	<ul style="list-style-type: none"> • Strengthen and invigorate the culture of innovation at SGS

4. BUSINESS LEADERSHIP



THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
PEOPLE	<ul style="list-style-type: none"> • 2 546 043 hours of training • Over 20 500 employees integrated through our onboarding programme • Natural turnover rate of 12.10% • 26.31% of senior management positions held by women 	<ul style="list-style-type: none"> • Enhance our reputation as an employer of choice • Employ the industry's leading experts • Maintain natural staff turnover rate at no more than 10%* • 30% of senior management positions to be held by women
QUALITY AND PROFESSIONALISM	<ul style="list-style-type: none"> • First in the industry to receive Investor in People Gold Award: Philippines 	<ul style="list-style-type: none"> • Be the leading brand for accuracy, quality and professionalism



THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
CAPEX	<ul style="list-style-type: none"> • Implementation of new IT platform • Development of EquipNet (internal equipment marketplace) • Investment in technology-driven partnerships 	<ul style="list-style-type: none"> • Invest in cutting-edge technology and optimise existing technology performance and usage
COMMUNITY INVOLVEMENT	<ul style="list-style-type: none"> • Invested CHF 1 177 000 in communities around the world 	<ul style="list-style-type: none"> • Increase investment in communities around the world by 30%*
INVESTOR RELATIONS	<ul style="list-style-type: none"> • An attractive shareholder return policy of CHF 34 • Awarded a solid investment grade 	<ul style="list-style-type: none"> • Be a best-in-class investment opportunity



OPERATIONAL EXCELLENCE

THEMES	SELECTED ACHIEVEMENTS IN 2016	AMBITION 2020
ENVIRONMENT	<ul style="list-style-type: none"> • New Vehicle Emissions Policy • Reduced CO₂ emissions (per FTE) by 2.08%* • Reduced CO₂ emissions (by revenue) by 31.22%* 	<ul style="list-style-type: none"> • Reduce our annual CO₂ emissions (per FTE) by 20%* • Reduce our annual CO₂ emissions (by revenue) by 20%*
HEALTH AND SAFETY	<ul style="list-style-type: none"> • Total Recordable Incident Rate (TRIR) and Lost Time Injury Rate (LTIR) reduced by 18% and 29% respectively* 	<ul style="list-style-type: none"> • Reduce TRIR and LTIR by 50%*
NET WORKING CAPITAL INITIATIVE	<ul style="list-style-type: none"> • Decreased Net Working Capital by CHF 75 million 	<ul style="list-style-type: none"> • Ensure efficient use of capital
OPERATIONAL EFFICIENCY	<ul style="list-style-type: none"> • Shared Service Centres launched • Procurement savings of CHF 57 million 	<ul style="list-style-type: none"> • Maximise internal efficiencies

* Against a 2014 baseline.



BRAND

**COMMUNICATING
SGS BRAND VALUES
WILL ONLY BECOME
MORE IMPORTANT
IN THE FUTURE.**

It is an exciting time for SGS as a brand. As the TIC industry evolves through programmes like our TIC 4.0 initiative, we are increasingly finding ourselves presenting our brand to a new kind of audience.

Traditionally, we could comfortably describe ourselves as a B2B business, but over recent years we have increasingly seen a partial migration of some services up the supply chain, which puts us squarely in front of the end consumer. In that sense, we are now – at least partially – operating in a B2B2C environment.

Take e-commerce for example, when customers buy from online retailers they need to be confident in the products they are purchasing. Consequently, SGS now provides services for major e-commerce sites where we verify the quality of products being sold by vendors on the site.

The result is that products ranging from colouring books to 25 ton galvanised

steel coils are now being sold with the SGS brand clearly displayed. In some markets and notably in Asia, SGS is rapidly becoming a go-to solution to reassure online consumers about issues ranging from sustainability to product quality.

This means that SGS' brand equity is now openly being used as a product differentiator. Vendors using the SGS logo in this way are implicitly aligning their products to some or all of the benefits that SGS' services bring: speed to market, reduced risk, efficiency, productivity, sustainability, trust, quality and safety.

This marks a real evolution, not just for SGS, but for the entire TIC industry. Previously operating behind the scenes, the important role the TIC industry plays in ensuring product quality and safety is gradually easing its way into the public consciousness.

As it does so, communicating clearly on what the SGS brand stands for and continuing to deliver on the promise that it represents, will only become more important.



SGS SERVICE

- > E-Commerce Quality Control Service



CONSUMER BENEFIT

- > Trusting that purchases made online are up to scratch



GROWTH

WHETHER THROUGH ACQUISITIONS, STRATEGIC PARTNERSHIPS OR BY ORGANIC EXPANSION, THE CONTINUED GROWTH OF OUR GLOBAL NETWORK AND ITS UNRIVALED PHYSICAL FOOTPRINT IS A KEY COMPETITIVE ADVANTAGE.

There is an obvious temptation for companies to rush towards becoming larger, stronger and more influential. Yet pushing a company to grow as an aim unto itself is not necessarily a smart move. Growth shouldn't drive strategy. The opposite is true: strategy should drive growth.

At SGS, our strategy is pushing us towards growth in two key geographies: North America and China.

In North America, both economic and regulatory drivers are incentivising a rebalancing of our portfolio. Consequently, we are putting less emphasis on the energy-related business space. This shift is entirely in-line with changes across the wider US economy. For the first time in the US, energy has decoupled from economic growth: over the last decade, while the country has witnessed economic growth of 10%, energy consumption has dropped by 2.4%. At the same time, there have been significant increases in budgets in areas such as biopharmaceutical R&D, and for both the US Food and Drug Administration and The Environmental Protection Agency.

These drivers have led us to acquire six new companies in the continent in 2016 (with 700+ new service professionals and 20 additional facilities). The outcome has been clear: we are seeing a sustainable 6% organic growth rate in the North

American region. Transportation delivered 11% organic growth in the US in 2016, while Minerals achieved 58% top-line growth in Mexico.

In China, we believe that despite the widely discussed slowdown of the economy, the increasing liberalisation of the Chinese domestic market offers opportunities that can more than offset it. With a TIC market size of RMB 180 bn (approx. CHF 26 bn) and an anticipated compound annual growth rate of 13%, it is an inviting market; more so, because of its high level of fragmentation. With over 31 000 players (90% of which are SMEs), there is certainly space for market consolidation.

In addition to fostering organic growth, our strategy in China has therefore been to acquire companies or partner with state-owned interests with the necessary regulatory permissions and licences to allow us to leverage our national and global network to the maximum, giving us an early-mover advantage.

The results of this strategy can already be clearly seen: we have achieved close to double-digit growth in the country and our rapidly expanding e-commerce business enjoyed triple-digit growth in 2016.

Therefore, it is strategy that drives growth at SGS, not the reverse. Whether through acquisitions, strategic partnerships or by organic expansion, the continued growth of our global network in key markets represents a competitive advantage that SGS is highly focused on.



SGS SERVICE

> Polymer Testing



CONSUMER BENEFIT

> More responsive carbon fibre products



SGS SERVICE

> Laboratory Fleece Testing



CONSUMER BENEFIT

> Woollen products that are as comfy as they are supposed to be

AGRICULTURE, FOOD AND LIFE

934.9

REVENUE
IN CHF MILLION

6.1%



GROWTH
IN 2016

The business placed a strong emphasis on Laboratory expansion and strategic investments to support the TIC 4.0 initiatives in supply chain management, food regulatory compliance and market data.

GROWTH AND REVENUE

Agriculture, Food and Life achieved solid revenue growth of 6.1% (of which 4.5% organic) to CHF 935 million for the year, with strong performance from Life, Food and Trade activities tempered by a slowdown in the agricultural input market which affected the demand for contract research activities. Recent acquisitions in the UK, Canada and Brazil made favourable contributions to overall growth.

Food activities delivered solid growth driven by strong testing services across Asia and high demand for certification activities, particularly in North America. Strong growth in commodity services in the first half of 2016 slowed as crop quality and weather-related events in Europe affected export volumes during

the traditional peak period. Recent efforts to clean the portfolio and exit non-core logistics operations resulted in reduced revenues but will improve margins. Seed and Crop activities continued to be impacted by the slow input market and drought in Southern Africa.

Life laboratory activities maintained double-digit growth in 2016. Key drivers were strong growth in Asia and the USA, and acquisitive growth from Quality Compliance Laboratories Inc. in Canada. Clinical Research experienced a slowdown in the second half of the year due to the postponement of projects in the Clinical Pharmacology Unit.

ADJUSTED OPERATING MARGIN

Adjusted operating margin declined from 16.3% to 15.7% in prior year (constant currency basis) reflecting the challenges in the agricultural input market as well as the recent investments made to enhance the laboratory network.

ACQUISITIONS AND STRATEGIC PARTNERSHIPS

During the year, the Group acquired a 75% share in Unigeo Agricultura de Precisão in Brazil, a leader in precision farming services; and also acquired the assets and license of John R. McCrea

Agency, Inc. (McCrea), an official designated inspection agency active in the USA. In addition, the Group acquired two companies providing analytical services: Biopremier, a leader in next-generation sequencing technologies in Portugal, and Laagrma, specialising in consultations and analytical services to the food and hospitality market in Morocco.

In support of its TIC 4.0 strategic initiative, the Group acquired minority stakes in Transparency One in the USA, a platform for supply chain visibility and risk management, and AgFlow SA in Switzerland, which operates an innovative trade intelligence platform aggregating OTC market data on global grains, oilseeds/proteins and edible oils. Under the same initiative, the Group also acquired a controlling interest in C-Labs, a start-up based in Switzerland, developing solutions for transforming food regulatory compliance.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	934.9	880.9	892.4
Change in %		6.1	4.8
ADJUSTED OPERATING INCOME¹	147.2	144.0	146.8
Change in %		2.2	0.3
MARGIN %¹	15.7	16.3	16.5

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. – 3. Restated figures due to the change in business structure.



SGS SERVICE

> Diamond Classification and Evaluation



CONSUMER BENEFIT

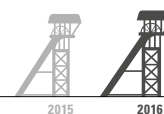
> Knowing your diamond is ethically sourced

MINERALS

635.0

REVENUE
IN CHF MILLION

2.6%



GROWTH
IN 2016

The outlook for Energy Minerals in South Africa remains strong. The new world-class sampling and laboratory facility at the Richards Bay Coal Terminal started a seven-year contract, and has won five new onsite coal laboratory contracts.

GROWTH AND REVENUE

Minerals delivered revenue growth of 2.6% (of which -0.2% organic) to CHF 635 million for the year, performing above expectations, in a market that continues to experience reduced exploration expenditures.

Geochemistry laboratories delivered strong growth with global sample volumes increasing 11% over prior year as a result of improved efficiencies and integrated service packages.

Demand for laboratory outsourcing continued to grow, with five new contracts starting during the year. A further six new contracts are expected to begin in 2017.

Energy Minerals delivered exceptional growth in South Africa, Russia, Colombia and Vietnam and a more stable performance in Australia and the USA despite market contraction.

The commencement of a seven-year contract in the new world-class sampling and laboratory facility at the Richards Bay Coal Terminal in 2016, along with the award of five onsite coal contracts, has provided the base for a strong energy minerals outlook in South Africa for 2017.

Trade services achieved solid performance in steel and raw materials and fertiliser trading activities, with Russia, Mexico and China driving growth. However, these results were partially offset by flat performance in non-ferrous activities.

The business added mine and plant services to its portfolio in 2016. This expansion has led to the securing of plant optimisation contracts in Russia and Mexico, with a solid pipeline of opportunities for 2017.

Metallurgy continued to be impacted by reduced exploration expenditure in 2016, although performance showed improvement in the second half of the year.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the period increased to 14.3% from 14.0% in prior year (constant currency basis), as a result of gains achieved from efficiency and optimisation initiatives across the global network.

ACQUISITIONS

During the first quarter, the Group concluded the acquisition of Bateman Projects in Africa, which specialises in process plant design and site engineering services. The acquisition has further strengthened the Group's position as the leading one-stop-shop service provider.

(CHF million)

	2016	2015 PRO-FORMA ²	2015
REVENUE	635.0	618.9	632.8
<i>Change in %</i>		2.6	0.3
ADJUSTED OPERATING INCOME¹	90.9	86.6	89.6
<i>Change in %</i>		5.0	1.5
MARGIN %¹	14.3	14.0	14.2

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant Currency basis.



SGS SERVICE

> Statutory and Voluntary
Inspection Services



CONSUMER BENEFIT

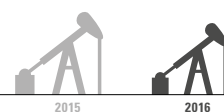
> A safe gas supply
to your home

OIL, GAS AND CHEMICALS

1 098.4

REVENUE
IN CHF MILLION

-2.1%



GROWTH
IN 2016

SGS will provide offshore inspectors and third-party laboratory services for Shell's Prelude floating liquefied natural gas (LNG) project, ensuring expert support in independent quantity and quality measurements for one of the most significant projects of its kind ever undertaken.

GROWTH AND REVENUE

Oil, Gas and Chemicals reported a decline in revenue of -2.1% (of which -2.5% organic) to CHF 1 098 million for the year. Performance was affected by continued low oil prices and further market deterioration.

Trade-related services remained flat. Despite some customer-driven procurement activities leading to volume splits and a reduced number of physical transactions, the business remained resilient to industry-wide price adjustment pressure and increased its market share in most regions.

Plant and Terminal Operations remained stable compared to the prior year. North America, the strongest region, delivered low single-digit growth, while performance in Europe was impacted by procurement-driven volume splits and the loss of important contracts as a result of pricing.

Upstream Services experienced a decline, mainly in the exploration sector in Australia and the Sub-Surface Consultancy segment. The deterioration of the security situation in some regions also resulted in the withdrawal of teams. This decline was marginally offset by several contract wins in the Production segment.

Oil Condition Monitoring delivered single-digit growth driven by strong performance across the laboratory network from international and local customers. The Non-Inspection Related Testing business declined slightly, impacted by industry in-sourcing trends and reduced investment in laboratories.

Cargo Treatment Services and Fuel Integrity Programmes (FIP) were impacted by the cessation of FIPs in Saudi Arabia and Ghana. The rest of the business remained flat.

The Sample Management segment delivered high double-digit growth. Measurements and Instrumentation operations posted high single-digit growth in all regions, with performance driven by an improved execution platform and stable statutory calibration requirements.

ADJUSTED OPERATING MARGIN

The adjusted operating margin decreased from 11.3% in prior year (constant currency basis) to 10.6%. The decrease can be attributed to revenue decline, which was partially offset by strict cost-control measures and an improvement in revenue quality as a result of strong contract performance reviews.

ACQUISITIONS

During the year, the Group acquired Cargo Compliance Company in the Netherlands, active in packing, storage, consulting, classification and professional training for the handling of dangerous goods. This has established SGS as the Dutch market leader in this growing segment.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	1 098.4	1 122.2	1 126.4
Change in %		(2.1)	(2.5)
ADJUSTED OPERATING INCOME¹	116.4	126.5	128.6
Change in %		(8.0)	(9.5)
MARGIN %¹	10.6	11.3	11.4

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. – 3. Restated figures due to the change in business structure.



SGS SERVICE

> REACH Testing Services



CONSUMER BENEFIT

> Chemicals present in your accessories limited to safe levels

CONSUMER AND RETAIL

872.8

REVENUE
IN CHF MILLION

6.3%



GROWTH
IN 2016

During 2016, the business successfully launched a new Supplier Quality Engineering Service, a turnkey solution to support global Electrical and Electronics clients with activities ranging from supplier selection and research and development to regulatory compliance and onsite production monitoring. This high-value service is already proving to be a success, especially for clients launching products in multiple markets.

GROWTH AND REVENUE

Consumer and Retail delivered revenue growth of 6.3% (of which 4.7% organic) to CHF 873 million for the year. High single-digit growth was achieved in Northern Central and Southern Europe, Eastern Europe and Middle East, Africa, China and Hong Kong and South East Asia.

Softlines reported robust growth over the year. This was attributable to the acquisition of new global accounts,

improved market share in Footwear Testing and Consulting, as well as the expansion of its footprint in emerging markets. Softlines also benefited from increased activity related to Detox and zero discharge of hazardous chemicals (ZDHC) campaigns.

Despite difficult market conditions for Wireless testing due to the reduction in the number of mobile phone models, Electrical and Electronics achieved solid growth and benefited from high volume in Restrictive Substance Testing as well as in Electrical Magnetic Compatibility, Safety and Reliability testing activities.

Cosmetics, Personal Care and Household delivered high growth throughout the year, especially in China, Germany and North America.

High single-digit growth in Hardlines was driven by the acquisition of new global customers in both the toys and juvenile products segment and the hardgoods segment, as well as an increased level of activity in the e-market sector.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the period decreased from 25.8% in prior year (constant currency basis) to 25.6% as a result of difficult market conditions in Wireless.

ACQUISITIONS

During 2016, the Group acquired Integrated Paper Services Inc. (IPS Testing) in the USA, an independent testing laboratory offering physical and analytical testing in both the consumer and supplier environments, and Compliance Certification Services Inc., one of the China's leading Electro Magnetic Compatibility testing laboratories with operations throughout Taiwan and China.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	872.8	821.2	826.1
Change in %		6.3	5.7
ADJUSTED OPERATING INCOME¹	223.6	212.0	215.7
Change in %		5.5	3.7
MARGIN %¹	25.6	25.8	26.1

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. - 3. Restated figures due to the change in business structure.



SGS SERVICE

> BS 8555 Certification



CONSUMER BENEFIT

> Your favourite coffee being environmentally friendly

CERTIFICATION AND BUSINESS ENHANCEMENT

With the aim of building its profile as a leading solution provider, the business won a contract to develop e-learning courses for a leading brewing company in Peru. The contract win has given the business a foothold in the solution provision market in Peru.

GROWTH AND REVENUE

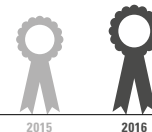
Certification and Business Enhancement delivered solid revenue growth of 9.1% (entirely organic) to CHF 324 million for the year. Training activities focused on the adoption of new standards and regulations were a key driver.

The business experienced strong client demand for the new ISO 9001:2015 and ISO 14001 standards driving double-digit growth in Training Services. In addition, the development of technical training dedicated to specific industries in China and the gradual rollout of new online courses around the network also contributed significantly to growth.

324.1

REVENUE
IN CHF MILLION

9.1%



GROWTH
IN 2016

Performance Management delivered double-digit growth as a result of a combination of factors, including significant contract wins from Spanish and British tour operators in hospitality excellence services along with the development of local initiatives to meet the increasing demand from customers to create customised programmes.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the year increased to 17.7% from 16.2% in prior year (constant currency basis). Growth was driven by improved efficiency along with the recent opening of a second global business centre in Asia. In addition, restructuring completed at the end of 2015 helped Germany to return to growth and profitability.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	324.1	297.0	298.6
<i>Change in %</i>		9.1	8.5
ADJUSTED OPERATING INCOME¹	57.5	48.2	48.7
<i>Change in %</i>		19.3	18.1
MARGIN %¹	17.7	16.2	16.3

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. - 3. Restated figures due to the change in business structure.



SGS SERVICE

> Feasibility Study



CONSUMER BENEFIT

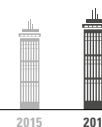
> Efficient and appropriate use of taxpayers' money

INDUSTRIAL

890.9

REVENUE
IN CHF MILLION

5.5%



GROWTH
IN 2016

The recently acquired business in South Africa has developed a solid relationship with the South Africa National Roads Agency Ltd (SANRAL) through its onsite laboratories. The network, currently consisting of 50 onsite laboratories and generating a significant portion of revenues, boasts a solid growth pipeline.

GROWTH AND REVENUE

Industrial delivered revenue growth of 5.5% (of which -2.6% organic) to CHF 891 million for the year, despite an organic decline in the Energy and Construction markets impacting the TIC sector.

The slowdown in the Energy market was primarily related to depressed oil and gas activities. A reduction in capital investment and spending continued to put pressure on volumes and prices in North America, South Eastern Asia Pacific and Africa. The pressure was partially offset by solid downstream activity in the Middle East and organic

growth in the energy market in China and the nuclear market in Western Europe.

Infrastructure and Construction activities were affected by reduced public investment in some South American countries and Europe. However, this decline was mitigated by the growth in construction testing activities in Africa and in project supervision in Chile.

The Group continued to extend its laboratory testing network, adding new capabilities in construction and calibration testing, which delivered double-digit growth.

These South American acquisitions focus on quality control testing in the construction industries. The Group also acquired Roos+Bijl in the Netherlands, which provides engineering and consulting, project management, asset management and legal services for all types of underground infrastructure.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the period declined from 11.1% in prior year (constant currency basis) to 9.4%. The performance was impacted by difficult market conditions in oil and gas, in addition to overall price pressure.

ACQUISITIONS

During the year, the Group acquired Matrolab Group in South Africa, Laboratorios Contecon Urbar in Panama and Colombia, and Laboratorio de Control Técnico de Calidad de Construcción Ecolab Limitada in Chile.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	890.9	844.2	852.4
Change in %		5.5	4.5
ADJUSTED OPERATING INCOME¹	83.6	93.9	95.5
Change in %		(11.0)	(12.5)
MARGIN %¹	9.4	11.1	11.2

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. - 3. Restated figures due to the change in business structure.



SGS SERVICE

> Ballast Water Sampling



CONSUMER BENEFIT

> The long-term protection of our oceans

ENVIRONMENT, HEALTH AND SAFETY

The adoption of the International Maritime Organization Ballast Water Management Convention and new vessel emission standards are expected to accelerate Marine services revenue.

GROWTH AND REVENUE

Environment, Health and Safety delivered strong revenue growth of 23.6% (of which 6.9% organic) to CHF 464 million for the year. Growth was driven by the expansion of environment testing services in North America, increased volumes from global health and safety contracts (mainly in Europe), and strong trends in the dioxins market in Brazil, China and Taiwan.

Europe delivered strong results from high-volume and high-margin laboratory contracts, particularly in Germany, Italy and the Benelux countries. Health and safety contract wins in the hospitality and real estate sectors were also a factor. North America benefited from the acquisition of Accutest Laboratories and AXYS Analytical Services Ltd.,

464.3

REVENUE
IN CHF MILLION

expanding the footprint and service portfolio. China and Taiwan delivered significant growth from high demand for testing services due to increased enforcement and environmental regulations. In South America, high single-digit growth came from a rapidly developing dioxins market in Brazil and 2015 acquisitions that performed in line with expectations. In Australia, slower economic activities in the oil and mining sectors continued to hamper growth.

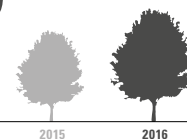
ADJUSTED OPERATING MARGIN

The adjusted operating margin for the year decreased from 12.8% in prior year (constant currency basis) to 11.8%. The decline can be attributed to a temporary margin dilutive effect from the integration of the Accutest acquisition which was partially offset by the completion of several large projects in Europe.

ACQUISITIONS

During the year, the Group acquired the assets of Accutest Laboratories, the fifth largest full-service environmental testing company in the United States, and AXYS Analytical Services Ltd., the North American leader in ultra trace analysis of Persistent Organic Pollutants, Contaminants of Emerging Concerns

23.6%



GROWTH
IN 2016

and the early development stages of the fast-growing metabolomics business. These acquisitions enhanced the geographical footprint and boosted its service portfolio in North America.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	464.3	375.7	375.6
Change in %		23.6	23.6
ADJUSTED OPERATING INCOME¹	54.9	48.0	48.0
Change in %		14.4	14.4
MARGIN %¹	11.8	12.8	12.8

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. - 3. Restated figures due to the change in business structure.



SGS SERVICE

> Aviation Fuel Testing



CONSUMER BENEFIT

> Peace of mind when flying

TRANSPORTATION

SGS opened a state-of-the-art facility in Michigan capable of performing servo-hydraulic, shock and vibration testing. This facility provides an increase in capacity in close proximity to many of our automotive customers, and expands our capabilities to cover a wider transportation market.

GROWTH AND REVENUE

Transportation delivered strong revenue growth of 12.9% (of which 7.9% organic) to CHF 490 million for the year. Growth was driven by all activities of the business.

Regulated services strengthened its position in the Americas, Europe and Africa, with solid growth in Vehicle Inspection Services along with a new contract awarded and successfully deployed in France to administer driving theory tests. This contract generated strong results in the second half of the year. In Mauritius, the Group started inspections in the fourth quarter following the award of a contract for the

489.8

REVENUE
IN CHF MILLION

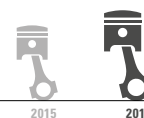
management of a test station in 2013. In Uganda, inspections started at the end of the second half of the year and implementation is on schedule. In Argentina, the first inspections relating to a new contract were performed in the fourth quarter at two new stations in Buenos Aires.

In the USA, a contract extension, including increased scope, was signed with the State of California to run the next generation electronic transmission data management service for the California Smog Check programme. In addition, Field Inspection activities delivered solid results, supported by increased inspection volumes from existing clients in Europe and the USA.

Testing Services for materials, components and vehicles and engines continued to grow with solid contributions from operations in China, France, India and the USA. The business also expanded its services to include lightweight materials testing for aerospace and automotive applications in France.

Field Services' supply chain operations began to focus on the new quality standard IATF 16949 for the automotive industry, which will come into effect in 2018 and will oblige clients to adapt their quality management systems.

12.9%



GROWTH
IN 2016

Services delivered by recently acquired companies have been replicated successfully in new regions.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the period declined from 18.5% in prior year to 16.0% (constant currency basis). The decrease can be attributed to investments in the development of testing activities and start-up costs for the new contracts signed in the Americas and Africa.

ACQUISITIONS

The Group acquired CyberMetrix Inc. in the USA, providing high horsepower engine testing services to meet the complex emission standard requirements on engines.

(CHF million)	2016	2015 PRO-FORMA ^{2,3}	2015 ³
REVENUE	489.8	433.7	447.6
Change in %		12.9	9.4
ADJUSTED OPERATING INCOME¹	78.5	80.4	82.1
Change in %		(2.4)	(4.4)
MARGIN %¹	16.0	18.5	18.3

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant currency basis. - 3. Restated figures due to the change in business structure.



SGS SERVICE

- > Forest Management Certification



CONSUMER BENEFIT

- > Forests for our grandchildren to enjoy

GOVERNMENTS AND INSTITUTIONS

During the year, the Group launched SGS Renovo, a unique, trademarked e-waste management solution, with four contracts secured around the world.

GROWTH AND REVENUE

Governments and Institutions delivered solid growth of 10.0% (entirely organic) to CHF 275 million for the year, with a continued trend of solid performance from Product Conformity Assessments (PCA).

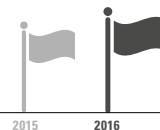
The PCA market share strengthened remarkably during the period. In addition, two new programmes were implemented in Cameroon and Gabon, with the contract in Cameroon coming online in the second half of 2016.

The Business delivered exceptional organic growth with the completion of the e-Gov programme (Inland Revenue Management platform) deployment in Ghana and a new 100% scanning programme which was launched using SGS D-TECT®, a revolutionary remote inspection solution in Cameroon in 2016.

274.7

REVENUE
IN CHF MILLION

10.0%



GROWTH
IN 2016

Single Window solutions growth was driven by strong performance in Ghana and Madagascar, where increased import volumes had a significant impact.

The new valuation solution, SGS E-Valuator™, was successfully launched in Haiti and fully implemented in Cameroon. The solution corresponds with the Group's strategy of implementing World Trade Organization and World Customs Organization recommendations to discontinue pre-shipment inspections.

ADJUSTED OPERATING MARGIN

The adjusted operating margin for the year significantly increased to 24.2% from 23.2% in prior year (constant currency basis), driven by strong trade volume from PCA and Single Window solutions.

(CHF million)

	2016	2015 PRO-FORMA ²	2015
REVENUE	274.7	249.8	260.0
<i>Change in %</i>		<i>10.0</i>	<i>5.7</i>
ADJUSTED OPERATING INCOME¹	66.6	58.0	62.3
<i>Change in %</i>		<i>14.8</i>	<i>6.9</i>
MARGIN %¹	24.2	23.2	24.0

1. Before amortisation of acquisition intangibles, restructuring and other non-recurring items. – 2. Constant Currency basis.



ACQUISITIONS

In addition to growing organically, SGS has long benefited from making strategic acquisitions to help us achieve our goals. This is particularly true for geographical areas where we have service gaps, or where we want to acquire leading skills, capabilities and technological capacities. On other occasions, it also makes sense for us to acquire targets that offer similar services to SGS and where by joining forces, we can benefit from economies of scale and technical synergies.

Careful thought is given to every acquisition. For example, Accutest, a leading environmental testing company in the United States, with seven strategically located laboratories and over 600 employees, presented a unique opportunity to us. The move immediately allowed us to position SGS as one of the top environmental laboratory players in the country.

This is particularly significant as the US still represents the world's largest environmental testing market. Moreover, it provides us with access to a significant and diverse customer base, offering an additional potential upside for our global network.

In China meanwhile, our 51% stake in Suzhou Safety-Tech Valve Testing Co., Ltd., an independent safety valve testing laboratory, gives us an early-mover advantage in a growing market. Although the laboratory only operates locally, it has a number of nationwide accreditations, allowing us to fully leverage the SGS national network across China.

These examples provide a good overview of our acquisition strategy. We do not see much value in acquiring isolated businesses that are disconnected from the activities of the remainder of the Group, irrespective of the price point. We prefer to acquire companies that allow us to realise synergies across the Group while building scale, enhancing our capabilities, filling geographic gaps, and improving our financial metrics, whilst always maintaining strategic significance.

Ultimately, the decision of whether or not to make an acquisition comes down to experience. And our experience in the field of acquisitions is one of the main reasons behind our successful growth over the last 138 years.

STRATEGIC PARTNERSHIPS

In addition to our traditional acquisition strategy, which saw us focusing on outright purchases to complete networks or supply chains, we have also begun to create strategic partnerships. We define these as the purchase of minority stakes (5-25%) in businesses that operate in areas in which we are not generally active.

We take these positions particularly in the technology sector where they allow us to secure and enhance our position in the face of the disruption of the traditional service-based industry marketplace. An example of this is our strategic partnership with AgFlow, the innovative Swiss-based trade intelligence platform in which we own a 15% stake.

Located in the global commodities trading hub of Geneva, AgFlow aggregates Over-The-Counter (OTC) market data on global grains, oilseeds, proteins and edible oils from market participants worldwide. SGS' existing research studies will enrich the AgFlow market intelligence platform, while AgFlow will broaden its technological expertise in data analytics to transform its raw data into actionable information for SGS' customers in the agricultural supply chain.

This partnership is an excellent example of how we leverage our strategic partnerships to drive innovation and improve our service offering.

2016 ACQUISITIONS AND STRATEGIC PARTNERSHIPS

SUZHOU SAFETY-TECH VALVE TESTING CO., LTD. *

(51% stake)
China

ACCUTEST LABORATORIES

(Assets)
USA

CARGO COMPLIANCE COMPANY

Netherlands

THE LAB (ASIA) LTD.

(51% stake)
Hong Kong

MATROLAB GROUP *

South Africa

CYBERMETRIX INC.

USA

SHENZHEN FIRSTRANK INDUSTRIAL DEVELOPMENT CO. LTD. *

(75% stake)
China

BATEMAN PROJECTS *

(Assets)
South Africa

TRANSPARENCY-ONE

(20% stake)
USA

INTEGRATED PAPER SERVICES INC. (IPS TESTING)

USA

LABORATORIOS CONTECON URBAR

Colombia and Panama

SPECHUB

Panama

AGFLOW

(15% stake)
Switzerland

EECOLAB LTDA.

Chile

UNIGEO AGRICULTURA DE PRECISÃO

(75% stake)
Brazil

COMPLIANCE CERTIFICATION SERVICES INC.

Taiwan

ROOS+BIJL

Netherlands

AXYS ANALYTICAL SERVICES LTD.

Canada

BIOPREMIER

(70% stake)
Portugal

C-LABS SA

Switzerland

LAAGRIMA

Morocco

■ Acquisition

■ Asset

■ Strategic partnership

* Transaction secured in 2015 and closed in 2016



INNOVATION

THE WORLD CHANGES. PEOPLE MOVE ON. MARKETS EVOLVE. AND WORLD-CLASS BUSINESSES LIKE SGS NEED TO STAY AHEAD OF THE CURVE IN ORDER TO RETAIN THEIR POSITIONS AS MARKET LEADERS INTO THE FUTURE.

Having been founded in 1878, SGS has a long track record of providing outstanding service to its customers. We are proud of this history and the hard work that has gone into making SGS the leading brand in the TIC industry. Yet we know that market leaders do not hold onto the top spot by clinging to past glories. That's why we are evoking the same spirit that helped us pioneer the industry, to enable us to move it forward.

For us the key to this is innovation. Often the best innovation is driven by market demand. Our customers are operating in highly competitive environments, where marginal gains make all the difference. Moreover, as circumstances change and new segments appear, they need to remain agile enough to exploit the opportunities these present.

This means they are looking for innovative tools and services that can help them gain an edge. It is our

job to make that happen. Customer-driven innovation comes from a deep understanding of processes, pain points, markets, technology and fundamental business strategy.

But that is not our only source of inspiration. We are a company with a great belief in our own people. They are the ones who are working on the proverbial coalface and who are often closest to the problem. Our internal innovation initiative currently has over 300 approved suggestions from employees in the pipeline for further research. This constantly reminds us that sometimes the answers you need can be found on your own doorstep.

On other occasions, strategic partnerships or acquisitions provide the insight we need. That is why ensuring full knowledge sharing is so important during the integration process, as is allowing acquired companies to retain their freedom and entrepreneurial spirit.

The world changes. People move on. Markets evolve. And world-class businesses like SGS need to innovate, to adapt and realign in order to retain their positions as market leaders into the future.



SGS SERVICE

> Persistent Organic
Pollutant Testing



CONSUMER BENEFIT

> Living in a world with
fewer toxins



EXPERTISE

OUR ABILITY TO OFFER WORLD-CLASS EXPERTISE IS DIRECTLY LINKED TO THE QUALITY OF OUR PEOPLE.

Trusted all over the world, SGS is a market leader because we put passion and pride into everything we do. Our business touches nearly every part of the world and reaches across a huge range of industries. Our international experts help our customers operate in more efficient and sustainable ways by streamlining processes, improving quality and productivity, reducing risk, verifying compliance and increasing speed to market. Therefore, having the best people is not only a benefit for SGS, it is essential.

For example, thanks to our experts, in August 2016 we received the Industry Appreciation Award from the Canadian Special Crops Association for our contribution to the Canadian pulse crop industry. In the same month, we also received the Bosch

North America Supplier Award for our role in the design, build and ongoing operation of Bosch's dedicated state-of-the-art testing centre in Lapeer, Michigan.

Our position as a top employer has also been recognised: in 2016 we won an Investors in People (IiP) Gold Award in the Philippines (see page 226 for more details).

Such successes can only occur in an environment where our employees are given the freedom to exercise their judgement and make decisions. Crucially though, they also have the skills and ability to work in that way. Brimming with passion and energy, they are confident in their own abilities and in the capabilities of the wider network.

Consequently, we are mindful of the fact that recruiting and retaining the best talent is important for us (see pages 75 and 76). New and bold thinking is the lifeblood of our business - it is part of what keeps us ahead of the competition.



SGS SERVICE

> Leadership and Management Training



CONSUMER BENEFIT

> Access to world-class training globally



INVESTMENT

INERTIA IS NOT AN OPTION FOR BUSINESSES LIKE SGS. WE MUST CONSTANTLY ADAPT TO CHANGING CUSTOMER DEMANDS AND MARKET CONDITIONS.

Investment is vital. Having the right talent, assets, technology and R&D in place are fundamental to the long-term success and profitability of any organisation.

This is particularly true for SGS, which must not only stay ahead of developments in the TIC industry, but also keep abreast of the technologies, markets, regulations and dynamics of the extremely diverse industries we service.

Moreover, in order to offer our customers a first-class service, our own processes and capabilities must also be optimal. That's why in 2016 we invested in the implementation of a new IT platform. SGS Connect, as the project is called, includes a number of features such as Office365, Skype for Business, and Yammer that enable our staff to work collaboratively across the globe whether they are in the field, the lab or the office. The overall IT system upgrade significantly improves efficiency across the entire Group.

However, investing in technology doesn't always mean buying brand

new equipment. Our new EquipNet programme serves as an internal marketplace, where SGS teams can save money by buying equipment from other areas of the business. This can result in hundreds of thousands of Francs in savings across the Group and significantly reduce waste.

Of course, technology is not our only area of investment. We invest in our people, their onboarding and ongoing learning and development. We also invest in acquisitions and in innovation with an emphasis on supporting new business areas with long-term growth potential. In 2016, we also invested CHF 1 177 000 in the communities we work in around the world as part of our sustainability work (see pages 89-90 for more details).

Naturally, despite being in a strong financial position, SGS will only invest in areas where we feel we will see significant returns. Thus, Capital Expenditure (Capex) investments are focused on the strongest areas of the business, and those with the best growth record or long-term growth potential.

Standing still is not an option for a business that intends to retain its status as an industry leader, and SGS has no intention of doing so.



SGS SERVICE

> Project Finance Services



CONSUMER BENEFIT

> More projects meeting environmental and social standards



OPERATIONAL EXCELLENCE

HOW DO BUSINESSES ENSURE WORLD-CLASS PERFORMANCE? BY ASSURING GENUINE OPERATIONAL EXCELLENCE ACROSS BUSINESS AND FUNCTIONS. THIS INCLUDES USING THE BEST POSSIBLE SUSTAINABLE BUSINESS PRACTICES.

For SGS, an important aspect of operational excellence is ensuring our business is sustainable. As well as delivering services that promote sustainable development, we manage our sustainability performance through our global management system and accompanying processes, which are aligned to ISO 26000, ISO 14064 (for emissions inventories and verification), the Global Reporting Initiative's G4 Guidelines and the AA1000 Principles.

Our four sustainability pillars – Professional Excellence, People, Environment and Community – are supported by Group-wide policies, global programmes linked to our Sustainability Ambitions 2020 and multiple local initiatives.

Strong governance structures underpin the delivery of our sustainability strategy. Our Sustainability Steering Committee, a sub-group of the Operations Council (see page 117), oversees and approves our sustainability strategy and monitors performance against our policies and objectives. Our Corporate Sustainability team oversees and reviews our sustainability management and reporting. Progress is tracked using more than 90 sustainability indicators,

which are captured at country level as part of our financial reporting system. Our sustainability performance and associated financial impacts are presented in our Green Book, which is prepared for senior managers every six months to pinpoint where actions are required to mitigate risk or maximise opportunities across our affiliates.

After eight years of developing and deploying our global sustainability programme, we are transitioning its focus from delivering transactional value - achieving operating efficiencies and cost savings through programmes that engage employees in action – to one that has the power to deliver transformational change on a global scale. Our aim is to engage internal and external stakeholders in actions that deliver value to society, while our Leadership team will become increasingly engaged in championing sustainability and demonstrating its value to our business and wider society.

In 2016, we updated our sustainability policies and guidelines to ensure that they were aligned with the SGS Business Principles, the SGS Human Rights Policy, our Sustainability Ambitions 2020 and our Business Materiality Matrix. A detailed account of our sustainability governance, management and performance, together with our sustainability policies and good practice case studies can be found in our online report: www.sgs.com/cs-report2016.



SGS SERVICE

> ISO 26000 Performance Assessment



CONSUMER BENEFIT

> More socially responsible businesses



PROFESSIONAL EXCELLENCE

Trust lies at the heart of the value we deliver to our customers and society. We have a responsibility to maintain the highest levels of professional integrity.



SGS SERVICE

> Supply Chain Security Management



CONSUMER BENEFIT

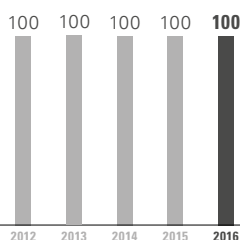
> Corporations working against corruption, bribery and human trafficking

COMPLIANCE AND INTEGRITY

PERFORMANCE

100%

% OF EMPLOYEES SIGNING THE CODE OF INTEGRITY



EMPLOYEES SIGNING THE CODE OF INTEGRITY

Business ethics, integrity and respect for human rights have been identified as material issues, as defined in our Business Materiality Matrix (see page 101).

The SGS Code of Integrity defines the main principles of professional integrity for the SGS Group and is an expression of the values that are shared throughout the organisation. The Code applies to all SGS employees, officers and directors, affiliated companies, contractors, joint-venture partners, agents, subcontractors and anyone acting on behalf of or representing SGS.

It addresses issues such as conflicts of interest, bribery and corruption, facilitation payments and the use of intermediaries and consultants. Violations of the Code result in disciplinary action, including termination of employment and criminal prosecution for serious violations.

Training forms part of a continuous process of learning and reinforcement, which includes employees signing the Code, completing integrity e-learning as part of their onboarding programme, and attending annual integrity training. The content of our annual integrity training is refreshed each year using case studies drawn from the business as well as emerging issues. As of 2017, the training programme will feature a mandatory case study on human rights. Training is typically delivered face to face

and in teams by trained managers using scenarios adapted to employees' areas of work. New employees must sign the Code of Integrity at the start of their employment with SGS and are expected to complete an integrity e-learning module within three months of joining.

A Professional Conduct Committee ensures implementation of the Code within our organisation and advises Management on all issues of business ethics. The Committee consists of five members: the Chairman of the Board of Directors, two other Board members, the Chief Executive Officer and the Chief Compliance Officer.

A Human Rights Committee, chaired by the Chief Executive Officer, and comprising the Chief Compliance Officer and Vice President Corporate Sustainability met the first time in January 2017 to plan activities associated with the deployment of our new Human Rights Policy and employee training on the issue.

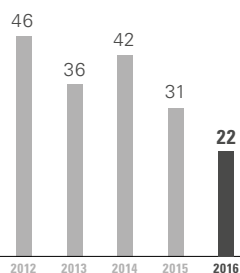
OUTLOOK 2017

We will be 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.

22

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

"Helplines" means channels used by employees and external parties to report suspected violations of the Code of Integrity and submitted online, by phone call, sent via fax, email or post.

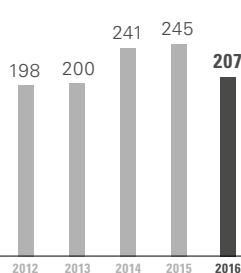


CODE OF INTEGRITY NON-COMPLIANCES

207

TOTAL NUMBER OF INTEGRITY ISSUES REPORTED THROUGH CORPORATE INTEGRITY HELPLINES

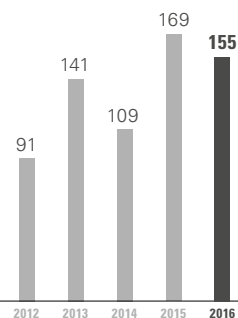
"Helplines" means channels used by employees and external parties to report suspected violations of the Code of Integrity and submitted online, by phone call, sent via fax, email or post.



CODE OF INTEGRITY REPORTS

155

TOTAL NUMBER OF VALID REPORTS INVESTIGATED CONCLUDING IN NO BREACHES



CODE OF INTEGRITY INVESTIGATIONS



SGS HUMAN RIGHTS POLICY

The SGS Human Rights Policy elaborates on the requirements within the SGS Code of Integrity, the SGS Business Principles and associated policies to treat everyone with whom we come into contact with fairness, dignity and respect. It consolidates our existing commitments and brings increased clarity on our approach to respecting human rights across our global business.

The Sustainability Steering Committee was involved in reviewing and proposing modifications to the draft policy, and employees on the SGS European Works Council were consulted on it and were given the opportunity to question the CEO and Vice President, Corporate Sustainability on what this Policy means for SGS and for its employees worldwide. The Policy will be approved by the Operations Council in early 2017 and will be deployed across the business during the year.

OUR HUMAN RIGHTS COMMITMENTS

- We are committed to conducting our business in a manner that respects the rights and dignity of everyone affected by our business activities, acting with due diligence, and addressing the adverse impacts of our global operations.
- We honour the principles and guidance contained in the United Nations Guiding Principles on Business and Human Rights.
- We comply with all applicable laws and we respect internationally recognised human rights wherever we operate. Where national law and international human rights standards differ, we follow the higher standard; where they are in conflict, we adhere to national law and we seek ways to respect international human rights to the greatest extent possible.
- We treat the right of causing or contributing to gross human rights abuses as a legal compliance issue.
- In the course of its activities, SGS will not willingly be complicit of human rights violations.
- SGS policies and codes are informed by the International Bill of Human Rights and the International Labour Organization's declaration on Fundamental Principles and Rights at Work; the Children's Rights and Business Principles; UN Women's Empowerment Principles; and the UN Global Compact.
- We strive to treat everyone with whom we come into contact fairly and without discrimination. Our employees, sub-contractors, business partners and suppliers are entitled to work in an environment and under conditions that respect their rights and their dignity.
- We respect freedom of association. Where our employees wish to be represented by trade unions or works councils, we will cooperate in good faith with the bodies that our employees collectively choose to represent them within the appropriate national legal frameworks.
- We respect the rights of people in communities impacted by our activities. We will seek to identify adverse human rights impacts and take appropriate steps to address and remedy them.
- Our actions are guided by transparency, fact-based decision-making and based on a preventative, precautionary and integrated approach to environmental management. This means conforming to or exceeding the requirements of national or international regulations as well as investing in environmental technologies and engaging in continuous and informed dialogue with relevant stakeholders.
- In our business dealings we expect our partners to adhere to standards of conduct and business principles that are consistent with our own. We are also committed to working collaboratively with state and non-state actors to inform our approach, share experiences and help address shared challenges and influence systemic positive change.

SGS FRAMEWORK FOR MANAGING HUMAN RIGHTS

MANAGEMENT COMMITMENT	Human rights commitments are embedded in the SGS Code of Integrity, the SGS Human Rights Policy and the SGS Business Principles and its related policies. We evaluate and review our approach to ensure that it reflects developments in laws and societal expectations.
GOVERNANCE	The Operations Council assesses the scope of SGS involvement in particular regions and evaluates the risks to individuals, communities and SGS assets. The SGS Human Rights Committee oversees implementation of our human rights commitments across the Group. Senior managers are expected to demonstrate visible and explicit support for human rights as defined in the SGS Code of Integrity and the SGS Business Principles. The Chief Compliance Officer manages compliance with the SGS Code of Integrity, while the SGS Corporate Security team ensures that security arrangements adequately protect our people and assets and respect human rights.
INTERNAL CONTROLS	Impact and risk assessments, supplier screening, audits of local security arrangements and other due diligence processes are used to identify, prevent, mitigate and account for how SGS addresses its human rights impacts. Due diligence is an ongoing process, requiring particular attention at certain stages in our business activities, such as when forming new partnerships or when our operating conditions change. We also conduct, as appropriate, additional due diligence in countries where there are particularly high, systemic risks of human rights abuses.
COMMUNICATION AND TRAINING	All managers and employees receive mandatory training on the SGS Code of Integrity, which includes human rights aspects. We also provide specific training to relevant business functions. We recognise the importance of dialogue with our stakeholders and we pay particular attention to individuals and groups at greater risk of adverse human rights impacts due to their vulnerability or marginalisation.
MONITORING COMPLIANCE	The SGS Code of Integrity and the SGS Code of Conduct for Suppliers contain clear requirements and guidance on grievance mechanisms. Suspected violations are reported via an Integrity Helpline or directly to the corporate and local Compliance teams. We encourage employees and other stakeholders to report any concerns without retribution. Performance against the SGS Code of Integrity is reported to the Professional Conduct Committee. Internal reports and briefings on global security risks and human rights impacts are regularly prepared for senior managers.
REMEDIATION	We cooperate with the relevant authorities to identify, mitigate and remedy adverse human rights impacts that our business operations cause or contribute to.
TRANSPARENCY	We are committed to the transparent reporting of our human rights commitments and performance through our Annual Report and our online Sustainability Report.



PROCUREMENT

57

MILLION OF NEW SAVINGS

22%

REDUCTION IN THE NUMBER OF SUPPLIERS

ACHIEVEMENTS

Procurement's global efforts in 2016 have led to a number of major achievements. Worldwide, the function reported CHF 57 million in new savings in 2016 as part of a three-year savings programme for 2015-2017. In 2016, the function developed a solid methodology to monitor the impact of procurement savings in the Profit and Loss Account. Our supplier incentive programme experienced significant growth during 2016, further focusing our procurement volume on strategic suppliers.

We have also reduced the number of suppliers worldwide by 24%, brought rationalisation to our invoicing, delivery and transaction volumes, increased the use of our internal catalogues by 20% and created a streamlined procurement community.

As part of our supply chain strategy, we have launched a pilot transportation management tool to optimise efficiency and ease demand planning. 2016 also saw the establishment of a Real Estate team to review our leasing and tenure arrangements. As part of this initiative, all our portfolio data have been uploaded into a centralised management system, giving us transparency across all countries.

2016 was also a remarkable year for our sustainability and innovation-based initiatives. Supply chain sustainability was identified by SGS stakeholders as being a material issue for the Company, as defined in our 2016 Business Materiality Matrix (see page 101).

We launched the SGS Code of Conduct for Suppliers, setting out the basis of our responsible sourcing approach. We also launched our Supplier Self-Assessment Questionnaire, designed to align our suppliers' management approach to our defined standards on integrity, human rights, health and safety, environment and community.

We further strengthened our supplier innovation programme with three new strategic suppliers joining. The supplier innovation programme is an integral part of our supplier strategy to drive closer collaboration and supplier partnerships. The programme has now been integrated within our Global Innovation initiative. To date, we have completed seven innovation days at supplier R&D

centres and have five ongoing revenue projects, along with a solid pipeline of innovative ideas.

Case study

EquipNet is a web-based platform that enables our procurement and lab managers to redeploy fixed assets across the SGS network and sell them externally. Using the tool, equipment can be sourced at a 25%–75% discount, which saves money and minimises waste through re-use. Since its implementation in October 2015, EquipNet has attracted around 840 internal users and in December 2016 had an inventory of more than 400 pieces of equipment. During 2016, 318 pieces of equipment were redeployed in the business and 40 sold externally.

OUTLOOK 2017

We have reviewed and updated our three-year savings plan and set up new targets for the 2017-2019 period. We will continue to standardise and automate our Source to Pay processes by promoting online tendering and launching an electronic invoicing programme through a supplier's portal. Once the pilot is completed, the global rollout of the new transportation management tool will start.

Additionally, we have planned a further five supplier innovation days and expect to see project revenue generated in the first half of the year.

Finally, we will continue deploying our Code of Conduct for Suppliers and Self-Assessment Questionnaire, targeting areas for improvement and measuring our levels of success. In 2017, we will launch a supplier performance scorecard, ranking our suppliers on six dimensions: quality, service, responsiveness, competitiveness, innovation and sustainability.

CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management and customer satisfaction has been identified as one of our material issues, as defined in our Business Materiality Matrix (see page 101).

We are committed to ensuring the highest levels of service excellence across our business. It is important that we have the necessary skills, competencies and processes in place to anticipate and adequately respond to our customers' particular needs. Each of our business lines has developed mechanisms to formally and informally seek feedback from clients. These could include surveys (such as our Voice of the Customer survey, which is used by various business lines across multiple geographies), periodic review meetings, customer seminars and workshops. In addition, our Compliance team works with Executive Vice Presidents and Managing Directors at country level on specific issues raised by customers through our hotlines.

In 2014, a single Customer Relationship Management System started to be deployed across the Group. This system gives us better visibility on customer information, sales, operational activities and business opportunities.

Case studies involving customer relationship management can be found in our online Sustainability Report: www.sgs.com/cs-report2016.



PEOPLE

Our people are our most important asset. We must ensure that our employees are safe and healthy at work, are treated fairly and with respect, and are able to fulfil their potential.



SGS SERVICE

> Health, Safety and Environment Management



CONSUMER BENEFIT

> A safer and more thoughtful society

TALENT ACQUISITION

ACHIEVEMENTS

Talent acquisition and retention have been identified as material issues, as defined in our Business Materiality Matrix (see page 101).

Our strength lies in our people. In a competitive business environment, our global footprint, variety of business lines and approach to sourcing talent locally wherever possible relies on our ability to attract, develop and retain exceptional people from diverse backgrounds, cultures and geographies.

Competition for talent is growing, with companies, industry sectors and markets seeking to attract the same pool of highly skilled people. A feature of this is the increased mobility of highly skilled workers, particularly in science and technology-based industries. The migration of talent plays an important role in shaping skilled labour forces in both developed and developing countries, diffusing knowledge, boosting innovation and enhancing career opportunities locally. We are also acutely aware that the global workforce is becoming more diversified, with younger workers – millennials – predicted to represent at least one-third of the global workforce by 2020.

Meeting these challenges demands a dynamic talent sourcing strategy, the successful integration of employees from business acquisitions, and processes that are tailored to employees' needs. During 2016, our workforce increased by 5 000 employees, representing a 5.9% increase on 2015. Our talent sourcing strategy is characterised by programmes linked to e-recruitment, employer branding, competency-based assessments and the efficient onboarding of people into our values, culture and business processes. Increasingly, these programmes rely on the innovative use of digital tools and social media to help keep communities of employees, candidates and prospective candidates connected.

2016 also saw us optimising our Finance support function through programmes linked to the assessment and development of critical competencies, enhanced analytics and improved transactional productivity to support our growing global organisation.

A HIGHLIGHT IN 2016 WAS THE EVOLUTION OF OUR EMPLOYER BRAND, WHICH FOCUSES ON EMPLOYEES AS INDIVIDUALS, ATTRACTING THE RIGHT PEOPLE TO SUPPORT OUR BUSINESS GROWTH. THE BRANDING 'BE 100% YOU' LAUNCHES IN 2017.

OUTLOOK 2017

Building on the success of our e-recruitment strategy, which saw at least 3 600 new recruits join through e-recruitment channels in 2016, we will continue to deploy digital solutions for talent sourcing. In addition, we plan to encourage employee referrals through a programme called 'Be 100% You'. We will also focus on optimising our HR, Finance and IT support functions to ensure that we have an agile, sustainable operating model to effectively support our Sustainability Ambitions 2020.



EMPLOYEE RETENTION

1 300

ACTION PLANS LAUNCHED IN 2016

ACHIEVEMENTS

Our aim is to help our people to reach their full potential by working in various parts of the organisation and by creating opportunities for them to work in different countries and business lines.

This provides them with access to our global portfolio of customers and exposure to different cultures and ways of thinking.

Managing employee turnover in a dynamic and often volatile employment market is a challenge for any company. At SGS, improving retention remains important. In 2016, we focused our efforts on performance management, defining new leadership competencies and working with leaders to develop career path planning. In addition, we redefined our employee engagement strategy. As part of this, we are transitioning our employee survey, Catalyst, to a biennial survey, to allow teams adequate time to put in place qualitative action plans and focus efforts on increasing the visibility of these plans between surveys.

Since our last survey in 2015, more than 1 300 action plans have been launched, with a primary focus on building up confidence and trust, increasing growth and development opportunities for employees, and

enhancing communications. Managing Directors are responsible for monitoring progress against these plans and updating their teams on the actions that have been taken.

OUTLOOK 2017

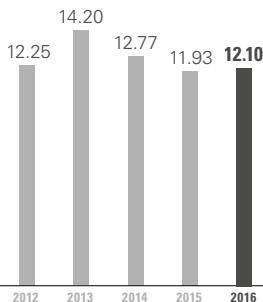
We will continue to focus on maintaining a natural employee turnover of 10% or less, in line with our Sustainability Ambitions 2020. To this end, we will reinforce our talent management programmes and ensure that engagement remains at the heart of our team activities at local and global levels. We will conduct a revised Catalyst survey that is aligned to market trends and our Group vision, and we will ensure that our employees continue to play a key role in making SGS a great place to work.

PERFORMANCE

12.10%

PEOPLE LEAVING BY THEIR OWN WILL

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

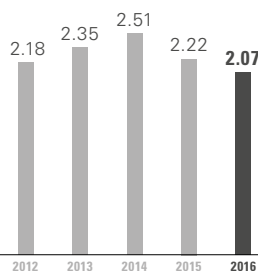


NATURAL TURNOVER¹

2.07%

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

2. On a constant currency basis.



TRAINING RATIO²

DIVERSITY AND EQUAL OPPORTUNITIES

68%¹

1. As measured in the 2015 Catalyst Survey.

ENGAGEMENT INDEX

71%²

2. As measured in the 2015 Catalyst Survey.

PERFORMANCE EXCELLENCE INDEX

26.31%

WOMEN IN LEADERSHIP POSITIONS (CEO -3)

ACHIEVEMENTS

Diversity and equal opportunities are among our most important material issues, as defined in our Business Materiality Matrix (see page 101).

SGS is a diverse and inclusive business where ambitious people at every level are encouraged to realise their potential. The SGS Business Principles, Code of Integrity and new Human Rights Policy all underline our commitment to diversity and equal opportunities, and our employees and managers are trained in the principles of non-discrimination in our mandatory annual integrity training. As a part of this, SGS recognises the significant contributions that women make to business success. Our Operations Council now includes two female members and we have many women managers across our business lines, corporate functions and operations who represent an intrinsic and essential part of our leadership capabilities.

During 2016, we interviewed women in leadership positions across the business to capture their personal insights on the qualities needed for those seeking a leadership role within SGS.

OUTLOOK 2017

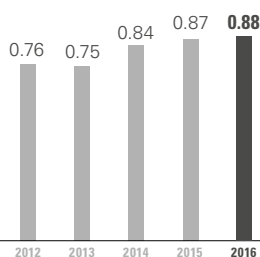
We are encouraged to see that our equal opportunities ratio is improving year-on-year and we expect the number of women in leadership positions (CEO-3) to increase in line with our Sustainability Ambitions 2020. During 2017, Management's attention will be focused on creating the best opportunities to promote and recruit women to these roles.

We also plan to raise the profile of women leaders within SGS and provide support to women who would like to take such roles within the Company. While reviewing our career development and leadership competency frameworks, we will ensure that we are supporting the advancement of women across our global network, as well as enabling employees to develop their leadership skills and behaviours at every level of the Company.

PERFORMANCE

0.88

(FEMALE MANAGERS/FEMALE EMPLOYEES)/(MALE MANAGERS/MALE EMPLOYEES)



EQUAL OPPORTUNITY RATIO



OPERATIONAL INTEGRITY

ACHIEVEMENTS

Operational Integrity is the term we use to describe our health, safety and environmental management approach.

With more than 90 000 people working for us, we are committed to keeping them safe and healthy, and to supporting their wellbeing.

Among our six SGS Business Principles, one focuses specifically on Health, Safety and Environment (HSE) matters while all others have the concept of Operational Integrity ingrained within them.

The Operational Integrity team reports directly to the CEO and our strategy is clear: to be best in class in Operational Integrity. Striving for zero incidents demands a global safety culture that is based on an unceasing commitment to making personal and co-worker safety an integral part of our everyday working lives.

We are building this culture through our Operational Integrity strategy, which is based on seven pillars (see page 80-81) and is underpinned by a Group-wide Operational Integrity Management System that is aligned to internationally recognised standards of health, safety and environment. We deploy our global Operational Integrity strategy through a Top-Page process based on the European Foundation for Quality Management Model. This allows us to focus on specific key programmes, including incident investigations, training, hazard identification and correction, leadership visits and best practices.

During 2016, we published a revised Health Safety and Environment Policy Statement, which includes a Stop Work Authority clause, providing SGS employees and co-workers with the responsibility and obligation to stop work when a perceived unsafe condition or behaviour might result in an unwanted event. The Stop Work Authority programme was deployed throughout the organisation during September as part of our designated Safety Month. During the month, almost 62% of employees participated in around 100 "think safety" initiatives.

A key focus during the year was on hazard identification, which involved

more than 40 000 hazards being recorded in our Operational Integrity reporting tool, indicating a 84% increase in people's ability to identify 'at risk' conditions compared to 2015.

Leadership visits were another key feature of our Operational Integrity activities during the year, with managers engaging employees in the field on safety issues – from chemicals handling to road safety.

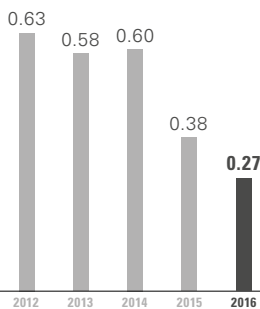
All of these activities combine to help further integrate safety, health and wellbeing into the DNA of the Company.

A HIGHLIGHT IN 2016 WAS THE INTEGRATION OF HEALTH AND SAFETY PERFORMANCE INTO THE MANAGEMENT INCENTIVE SCHEME FOR MANAGING DIRECTORS AND EQUIVALENT POSITIONS.

Alongside our focus on safety, our Global Industrial Hygiene Programme uses a standardised approach to managing industrial hygiene, which is aimed at protecting the health and wellbeing of our people through disease

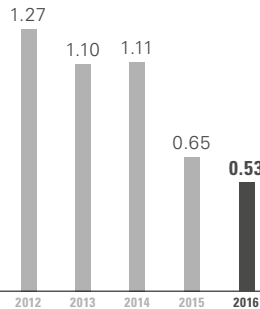
PERFORMANCE

0.27



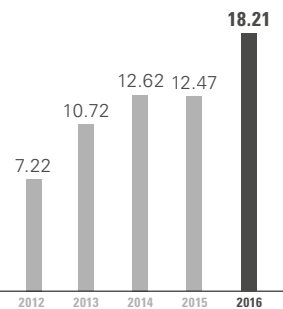
LOST TIME INCIDENT RATE (LTIR) (200 000 HOURS)

0.53



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

18.21



OPERATIONAL INTEGRITY TRAINING HOURS (PER EMPLOYEE)

and fatality prevention, increased quality of life, improved health and the promotion of healthy and safe living.

During 2016, we conducted Environmental, Health and Safety and Industrial Hygiene pilot schemes in Australia, China, India and New Zealand aimed at increasing the visibility of industrial hygiene and occupational health issues at SGS sites and ensuring legislative compliance.

We conducted Industrial Hygiene surveillance at selected sites in Australia, Bangladesh, Malaysia and New Zealand, with the findings informing the launch of a global rollout in 2017.

We also initiated a global programme to check the status of personal protective equipment implementation, covering the selection, procurement, deployment and monitoring of personal protective equipment across our operations.

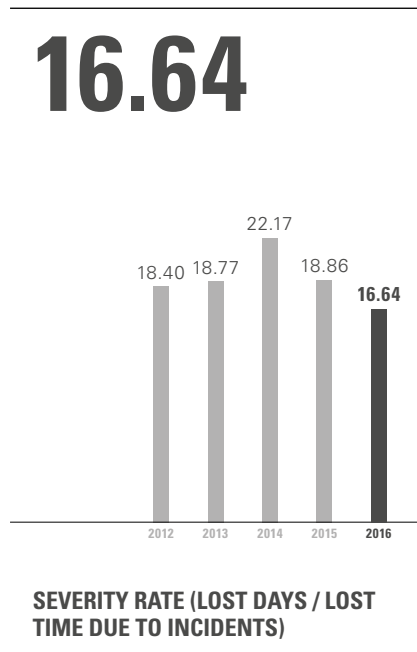
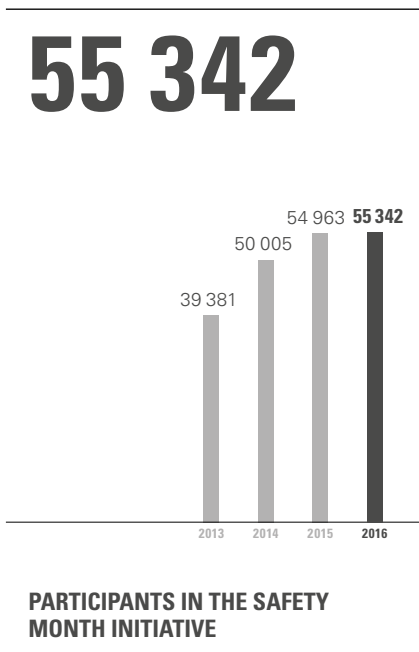
In conclusion, 2016 was a significant year for Operational Integrity, with us achieving our Sustainability Ambitions 2020 to halve our Lost Time Incident Rate and Total Recordable Incident Rate figures based on a 2014 baseline. The fact that this goal has been achieved four years early means that we must maintain, and hopefully further improve, our Operational Integrity performance year-on-year.

OUTLOOK 2017

Our Sustainability Ambitions 2020 for Operational Integrity are to reduce our Total Recordable Incident Rate and our Lost Time Incident Rate by 50%, based on a 2014 baseline. As such, we will continue our focus on embedding a safety culture throughout the Company using the seven pillars of our Operational Integrity strategy.

We will further invest in Operational Integrity training, Industrial Hygiene programme deployment, hazard identification and risk assessments. Also we will extend the deployment of our Rules for Life e-learning module across our network and support our team of 23 Global Operational Integrity Auditors with their work. Finally, we will deploy behaviour-based safety pilots in all regions where safety performance remains a particular focus.

PERFORMANCE





OUR SEVEN OPERATIONAL INTEGRITY PILLARS

is overseen by an Executive Operational Integrity Steering Committee, which is chaired by the Chief Executive Officer and composed of Chief Operating Officers and Senior Vice Presidents. The Committee meets quarterly to review our Operational Integrity (OI) strategy and performance. It is supported by an extended OI Steering Committee that brings managers, regional businesses and corporate functions together to collaborate on OI management across the network. Our Chief Operating Officers, Managing Directors and site/laboratory managers provide active leadership on OI across our global network. In 2016, 22 leadership visits were conducted per one hundred employees compared to 12 leadership visits per 100 employees in the previous year. During the year, a mobile OI app was introduced to assist managers in making leadership visits, by accessing HSE guidelines and recording their observations in real time.

LEADERSHIP

is managed via a Top-Page initiative, which ensures that information is consistently cascaded through the network and actions are systematically tracked. We raise awareness of safety issues in a variety of ways, such as through our Rules for Life, which are 15 non-negotiable rules that help save lives. During 2016, more than 39 500 employees completed our updated Rules for Life e-learning module, which is available in eight languages.

COMMUNICATION

is targeted at all levels of the organisation and includes briefings for Chief Operating Officers and Executive Vice Presidents on leadership site visits, as well as dedicated Operational Integrity training days and e-learning for all business and site managers. In addition, we provide generic and specific training for employees across all functional operations and corporate sites, which is delivered in a range of formats, including manager-led toolbox meetings, Safe Talks on key safety topics and e-learning modules, which are available in local languages. During 2016, the average number of training hours per employee was 18, which exceeded our target of 14.

Road safety, driver behaviour and driving habits remain critical risks associated with the territories and driving cultures in which our employees and subcontractors are required to work. We continue to run quarterly campaigns on in-vehicle monitoring with our Eastern Europe and Middle East and South America regions pioneering the programme. To date, more than 2 400 vehicles have been equipped with In Vehicle Monitoring Systems, resulting in significant improvements in driver behaviour and a reduction in our vehicle incident rate, which fell by 16% in 2016.

TRAINING AND AWARENESS

have been strengthened at the global Operational Integrity team level as well as at regional and affiliate levels. During 2016, we allocated additional resources to hazard identification and risk assessments.

RESOURCES AND SKILLS

KEY PERFORMANCE INDICATORS

are captured via our reporting tool, which provides a standardised, multilingual and data-driven incident management and reporting interface to expedite regulatory and client-mandated incident reporting. Following its implementation and the simplification of the reporting functionality, we have detected a significant increase in the reporting of hazards. Also, our Safety Data Sheet Management System provides consolidated and up-to-date information on potential hazards associated with the chemicals used in our laboratories, and how to manage them.

AUDITS AND COMPLIANCE

reviews health risks, environmental and chemical impacts, and safety risks. The audits are conducted by an internal team of 23 certified Health, Safety and Environment auditors and the findings are reported to the Executive Management team.

HEALTH, SAFETY AND ENVIRONMENTAL (HSE) SELF-ASSESSMENTS

are conducted annually using a specially designed online tool, which provides a comprehensive overview of potential risks for each site and the controls in place for managing them. This tool uses around 400 questions covering 15 categories to enable the classification of sites as low, medium or high risk. In total, 1 085 sites completed the self-assessment and were benchmarked globally.



ENVIRONMENT

We are committed to achieving sustainable growth while managing our impact on the environment, through our Do More With Less. We recognise our role in helping our customers to improve their own environmental performance and to participating in the global effort to reduce climate risk in accordance with the COP21 Paris Agreement. We are also committed to measuring and reducing our carbon footprint through operational eco-efficiency measures and to maintaining our status as a carbon neutral company.



SGS SERVICE

> Sustainable Building Certification



CONSUMER BENEFIT

> Living and working in greener cities

EMISSIONS AND CLIMATE CHANGE

ACHIEVEMENTS

Energy and climate change are among the most important issues for SGS, as defined by our 2016 Business Materiality Matrix (see page 101).

As a global company, we are concerned about the potential impact of climate change on the regions and communities in which we operate. Although our industry is not a major emitter of greenhouse gases, our employees, customers and other stakeholders expect SGS to show leadership on climate change, both in terms of our own energy consumption and by helping our customers and suppliers to reduce their emissions.

Our Green Book, launched in 2012, is a six-monthly environmental profit and loss account prepared for senior managers, to help assess and monitor the financial impact of our sustainability performance, including our carbon footprint. This innovative model helps us to understand how sustainability can detect operational efficiencies in order to achieve our Sustainability Ambitions 2020 and ultimately to reduce our environmental impact.

We continue to work to reduce our carbon emissions and have achieved carbon neutral status through carbon offsets and Guarantees of Origin solutions (investments in renewable energy projects), energy efficiency measures and renewable electricity supply in some of our affiliates.

We have over 73 projects and investigations underway worldwide to optimise operational efficiency in our laboratories and offices.

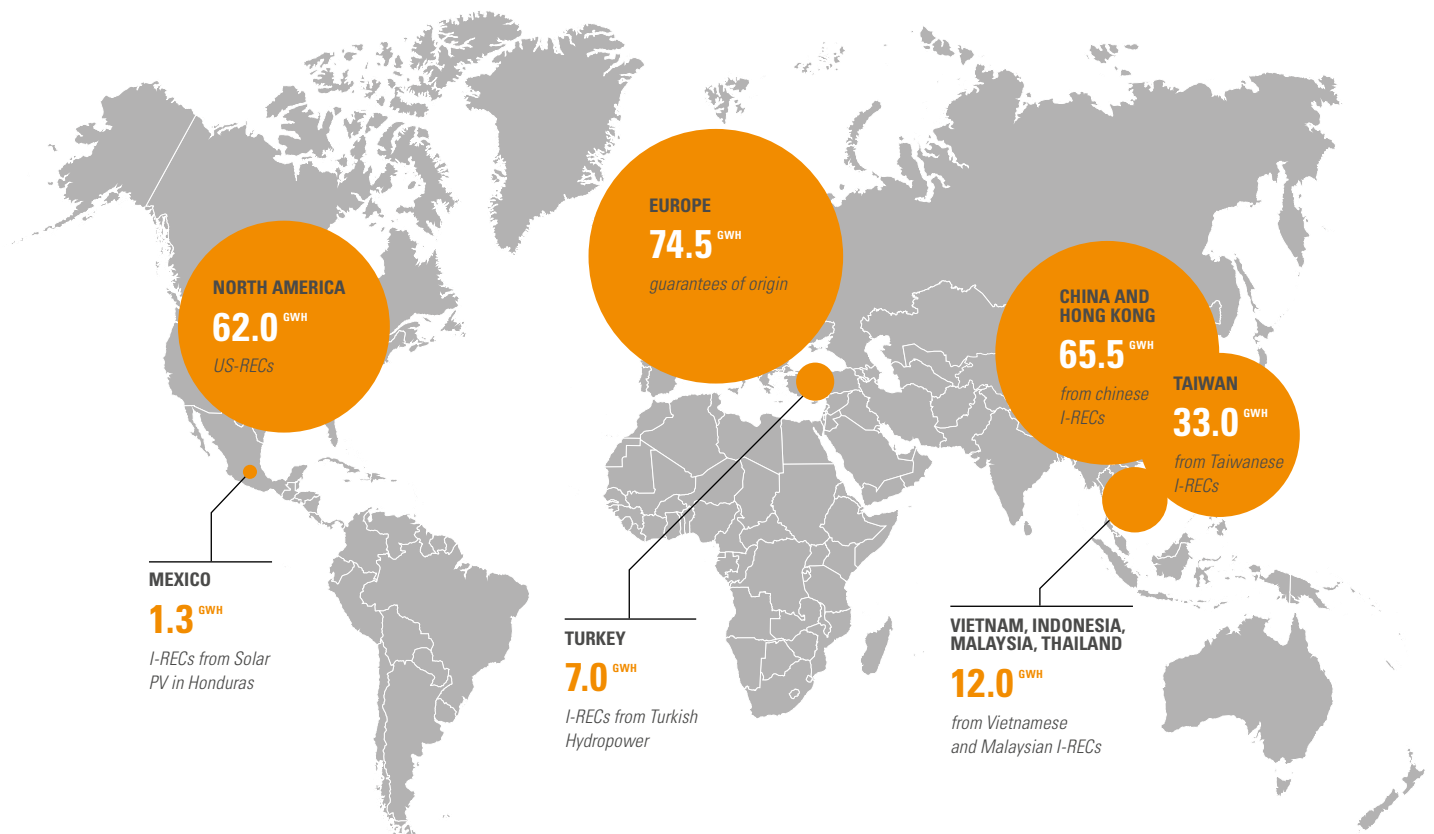
Since 2014, we have offset our CO₂ emissions through projects located in the regions SGS operates in, thus making

a positive contribution in areas where we have impact. We annually offset any residual CO₂ emissions associated with our operations in major countries.

In addition to the renewable energy and carbon credits purchased above, SGS invested in three voluntary offset schemes, in China, South America and India, which support the development of local enterprise through power generation from wind and biomass. These credit purchases, which have been verified by the Clean Development Mechanism, provide important opportunities to support sustainable economic growth, provide clean energy to regions and local communities, and protect the environment by reducing the reliance on fossil fuels for energy.

Since December 2014, when SGS became one of the first companies in the world to sign the RE100 initiative, we have pledged to use 100% power from renewable sources by 2020. Led by The Climate Group and in partnership with the Carbon Disclosure Project, RE100 is collaborating with the International Renewable Energy Agency

INVESTMENT IN RENEWABLE ENERGY INITIATIVES (TO MITIGATE OUR 2015 CO₂ EMISSIONS)



I-RECs: International Renewable Energy Certificates.

4. BUSINESS LEADERSHIP



and others to get 100 of the world's largest companies to commit to 100% renewable power by 2020.

Alongside these initiatives, we realise that SGS can make a greater contribution by helping our customers to respond to climate change challenges through our services linked to energy efficiency and alternative energy. These include energy management services and multiple services related to the energy efficiency of buildings, including renewable energy feasibility studies, energy audits, energy performance certificates and ISO 50001 certification. We also offer a range of specialist advisory services and engineering expertise on sustainable buildings through SGS Search, based in the Netherlands. These services include cradle-to-cradle product certifications for companies committed to the development of a circular economy.

Over the past two years, we have conducted a study to examine our role in helping our customers to reduce their carbon intensity. We began by estimating the CO₂ emissions of our customers in our Industrial and Agriculture business lines and considered how much our customers had reduced their emissions. We then calculated the extent to which our services had contributed to these reductions in CO₂. The study estimated

that our customers' fertiliser usage resulted in the emission of 4.5 million tonnes of CO₂. As a result of our precision farming services, in 2016 we helped our customers to reduce their CO₂ emissions by 2.3%.

BUSINESS LEADERSHIP

For the third year running, SGS was recognised in the Carbon Disclosure Project Climate Performance Leadership Index, a global ranking of listed companies on their approach to climate change mitigation. We are committed to being part of the solution, using our scale and our expertise to enable a more responsible, balanced and sustainable future. We recognise that ambitious action on climate change is necessary and that companies must play an active role in bringing solutions to the table that support the global economy and the global climate agenda.

We are particularly pleased to have enhanced our environmental capabilities in 2016, with the acquisition of Accutest Laboratories, the fifth largest full-service environmental testing company in the United States. This acquisition will enable us to further our focus on helping customers to enhance their environmental reputation, manage risk and increase business efficiency.

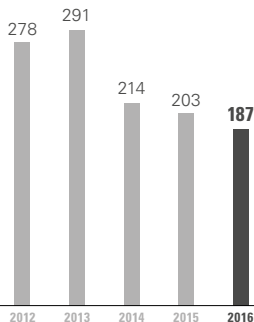
OUTLOOK 2017

In line with our Sustainability Ambitions 2020, we plan to reduce our annual CO₂ emissions (by revenue and by headcount) by 20%, against our 2014 baseline. We aim to achieve this through improved energy efficiency and by switching to low-carbon options, including renewable energy sources, web conferencing and the ongoing deployment of mandatory low-emission fleet cars. In addition, we will continue to work across our business lines and functions to show the tangible value of our services and our people in contributing efforts against climate change. In particular, we will continue to maximise our contribution by ensuring the integrity and safety of existing energy supply and storage systems, and ensuring that our customers have accurate and reliable data to manage their reduction strategies. In addition, new lower-carbon technologies will challenge us to think about how we combine our skills and competencies and test our technologies and services to generate new ideas and insights that will enable us to actively contribute to a lower-carbon future.

PERFORMANCE

187

Historical data restated due to changes in renewable energy accounting.

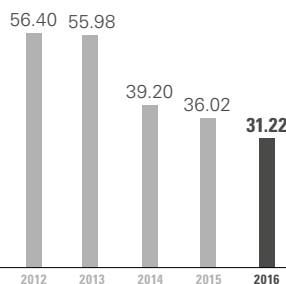


**TOTAL GHG EMISSIONS
(THOUSAND TONNES CO₂e)**

31.22

Historical data restated due to changes in renewable energy accounting.

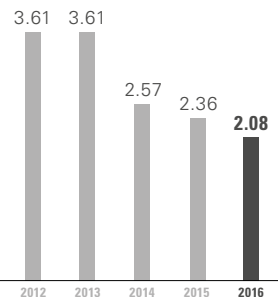
1. On a constant currency basis.



**CARBON INTENSITY BY REVENUE¹
(TONNES CO₂e/MILLION CHF)**

2.08

Historical data restated due to changes in renewable energy accounting.



**CARBON INTENSITY BY EMPLOYEE
(TONNES CO₂e/FTE)**

WATER AND WASTE MANAGEMENT

ACHIEVEMENTS

Water and waste management were not among the most material issues identified by stakeholders in our 2016 materiality assessment. However, we recognise that these issues are increasingly important in a wider sustainability context, as the potential impacts of climate change and other factors on water supplies and waste streams become more apparent.

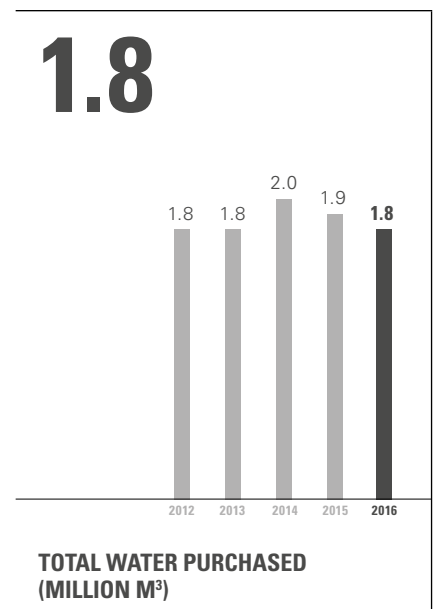
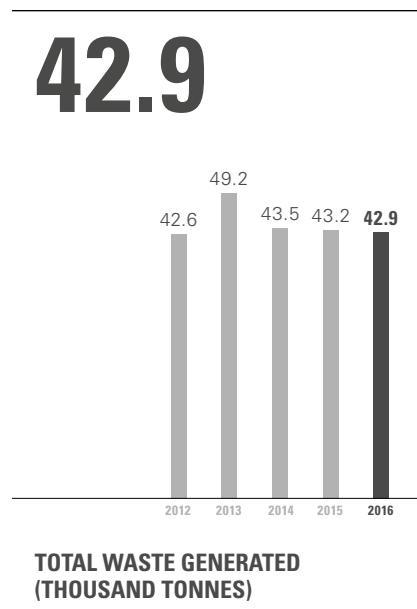
Protecting our water resources and managing waste are both important to the long-term health and wellbeing of our employees and the communities where SGS operates. Our commitment is to manage finite natural resources more effectively, and develop innovative ways to reuse, recycle and prevent waste. As a service company, our water consumption is relatively low. We use water in our laboratories and for drinking, food preparation, cleaning and sanitation. We also produce relatively small quantities of hazardous and non-hazardous (e.g. mixed paper, mixed plastics and mixed organic) waste. A standard operating procedure for water and waste management and minimisation is established as part of the SGS Operational Integrity Management System. Audits are conducted regularly by the Operational Integrity team, which assesses conformity to the procedure to ensure best practices are applied.

A detailed account of water and waste management and performance, and good practice case studies, can be found in our online report: www.sgs.com/cs-report2016.

OUTLOOK 2017

We will continue to monitor our water performance using our new building rating tool, as well as other specific projects managed at affiliate level, and we will report new data relating to water and waste from 2017.

PERFORMANCE





ENERGY EFFICIENCY

ACHIEVEMENTS

SGS is not an energy intensive company. However, with over 90 000 employees working in more than 2 000 offices and laboratories with a floor area of approximately 2 million square metres, targeting energy consumption at our offices and laboratories is the most direct and effective way we can contribute to tackling climate change. The energy used in our buildings accounts for almost 60% of our global energy consumption.

SGS is a signatory to the World Business Council for Sustainable Development (WBCSD) Energy Efficiency in Buildings Manifesto. Under this manifesto, we have committed to a 20% reduction in CO₂ emissions for all offices and laboratories we own that are larger than 2 000 m² by 2020, against a 2010 baseline.

Progress against our Energy Efficiency in Buildings targets is tracked via the SGS Energy Rating Tool for Offices and Laboratories, and reported to the WBCSD. As part of our target to reduce CO₂ emissions intensity by 20%, we conducted 47 energy audits and self-assessments in our Energy Efficiency in Buildings Programme in 2016. During the year, the Austrian SGS head office in Vienna, relocated

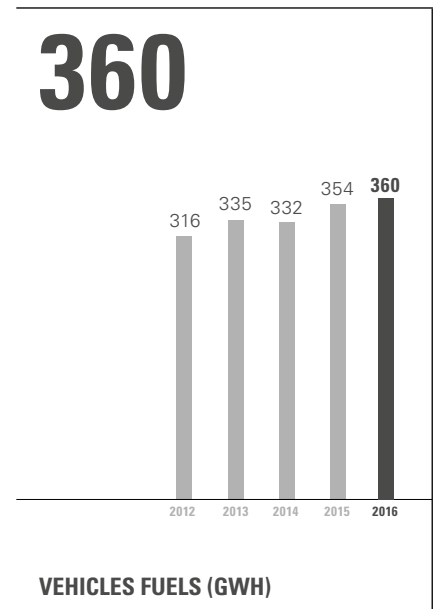
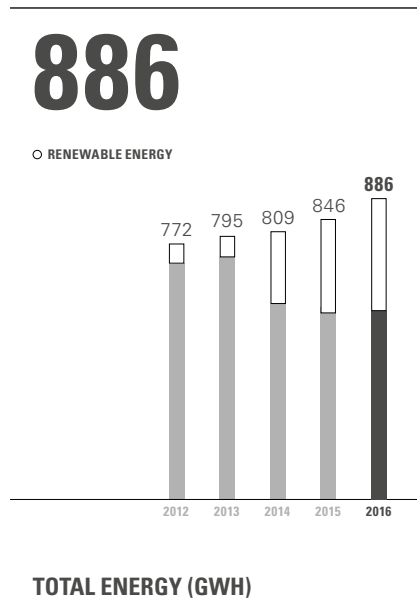
to a German Sustainable Building Council Gold certified building, offering improved energy efficiency, high-level indoor quality standards and enhanced transport connections for our employees.

Case study

In August 2016, SGS hosted the launch of the new Swiss Sustainable Building Standard (SNBS) in Bern, which was attended by more than 400 participants. The SNBS 2.0 is a new building certification product for the Swiss market, to which SGS has contributed as part of its role in the Network for Sustainable Construction in Switzerland. The first SNBS certificate was awarded the Credit Suisse Real Estate Fund Green Property for its "Twist Again" project in Bern.

Across our network, we increasingly use video, audio and web conferencing to reduce travel costs, cut CO₂ emissions and improve work-life balance. In 2016, we implemented Skype for Business as our primary web conferencing platform. During the year we placed more than 158 000 conference and video calls that helped us save more than 7 900 flights.

PERFORMANCE



Recognising that energy efficiency is driven by behaviour as much as by technological intervention, our Do More With Less - Spot the Orange Dot behaviour change campaign uses strategically positioned orange stickers to remind employees to take concerted action to improve energy and resource efficiency. Since 2013, around 40 000 employees in 22 affiliates across our network have participated in the campaign, resulting, over the years, in tangible improvements in their energy efficiency and waste management impacts.

Case study

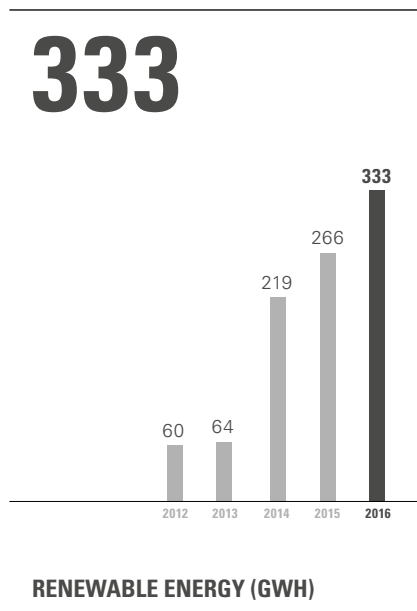
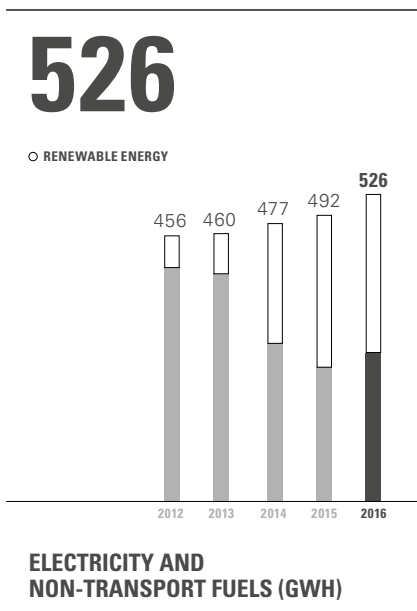
The SGS Energy Challenge was a picture contest that was launched across our global network in November 2016 to encourage employees to upload images of themselves engaged in actions that address climate change and other sustainability issues in the workplace. The images were then uploaded onto the Corporate Sustainability Yammer group. At the end of November, nine images were selected based on the number of 'likes' they received, and the employees were awarded with sustainable apparel. A special prize was awarded to the participant with the most creative and sustainable picture.

Examples of case studies linked to Energy Efficiency in Buildings Programme and Do More With Less campaigns can be found in our 2016 Corporate Sustainability Report: www.sgs.com/cs-report2016.

OUTLOOK 2017

As part of our Sustainability Ambitions 2020, we are aiming to reduce our annual CO₂ emissions by 20% against a 2014 baseline. We also plan to reduce CO₂ emissions at all company-owned offices and laboratories of 2 000 square metres or more by 20% within the same time period. We plan to achieve this through our Energy Efficiency in Buildings programme and Do More With Less campaign. We will report on our progress in our online Sustainability Report, which is available at www.sgs.com/cs-report2016.

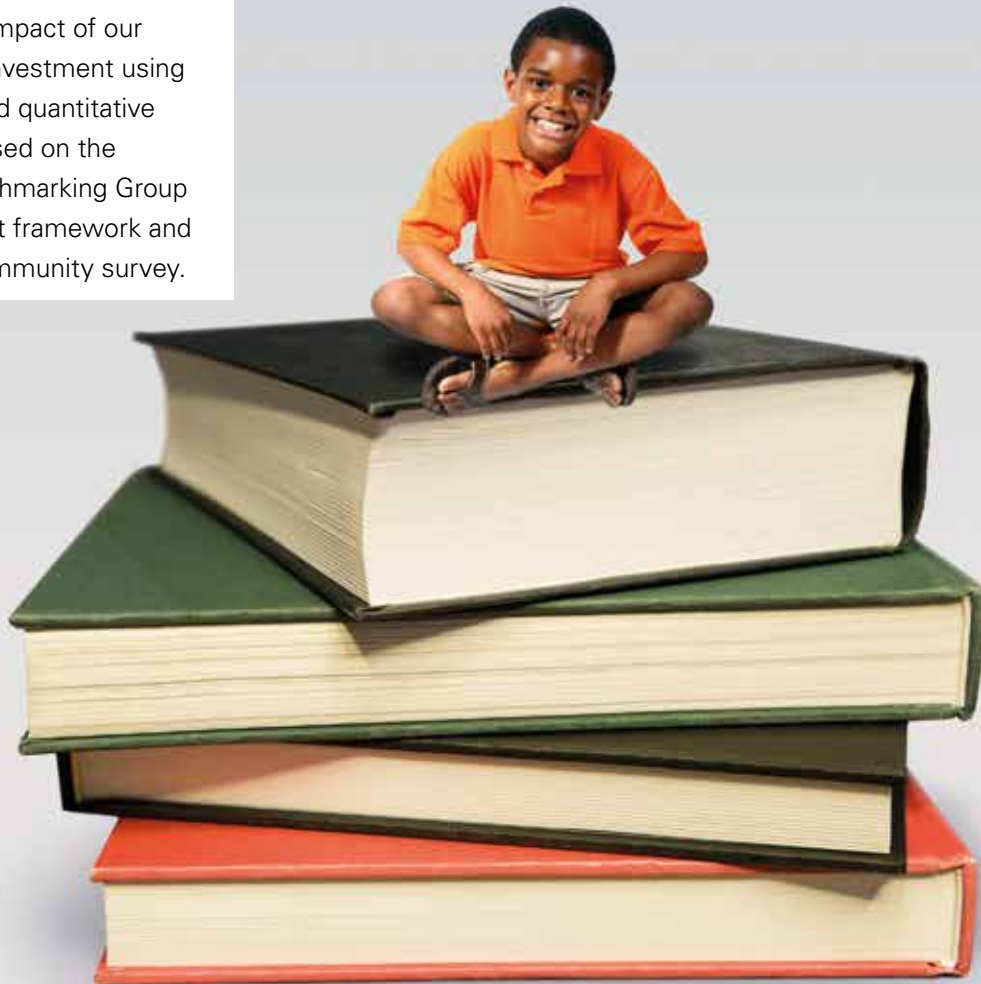
PERFORMANCE





COMMUNITY

We welcome local talent and knowledge to our business. We want to give back to our communities through employee volunteering and investment in projects linked to education, empowerment and the environment. We monitor the impact of our community investment using qualitative and quantitative indicators based on the London Benchmarking Group measurement framework and an annual community survey.



SGS SERVICE

> SGS Community Projects



CONSUMER BENEFIT

> A better and more empowered community

COMMUNITY PROGRAMMES

PROGRAMMES

Investment in local communities was identified as an important issue by stakeholders in our 2016 materiality assessment.

In all of SGS' operations we continually strive to conduct our business in a manner that reduces our impact while conducting our business in a way that respects the rights and dignity of individuals and communities affected by our business activities. Beyond this, we want to apply our skills and innovation to help address the most pressing sustainable development challenges around the world.

Our Community Programme is led by our affiliates who encourage employees to engage in local volunteering and fundraising activities. Across our global network, we support around 360 community initiatives that are initiated by employees and leadership teams in our affiliates in response to local challenges. Our community actions are focused around three community pillars: Education, Empowerment and Environmental Sustainability.

EDUCATION PROJECTS

are aimed at improving access to elementary, primary, secondary, higher and further education, as well as informal education in the form of employment training schemes and skills workshops.

EMPOWERMENT PROJECTS

focus on promoting physical, emotional, intellectual and economic empowerment through access to healthcare, counselling, mentoring, enterprise schemes and micro credit.

ENVIRONMENTAL SUSTAINABILITY PROJECTS

are aimed at reducing or eliminating the reliance on non-renewable or scarce resources such as fossil fuels and water.

During 2016, we revised our Community Policy and Guidelines to bring them in line with the SGS Business Principles, the SGS Human Rights Policy and our Sustainability Ambitions 2020. The new policy and guidelines, which were approved by the Sustainability Steering Committee, will be deployed globally in early 2017.

We have also revised our annual community survey to provide us with qualitative and quantitative indicators of the impact of our community investment. The survey, which is aligned to our refreshed Community Policy and Guidelines as well as to the London Benchmarking Group, will enable us to evaluate our community contributions through cash donations and sponsorships, employee volunteering time, pro bono services and in-kind support. In addition, this survey helps us to evaluate the projects' impacts in our communities and environment. The results of the survey are presented in our online Sustainability Report: www.sgs.com/cs-report2016.

ACHIEVEMENTS

In line with our Sustainability Ambitions 2020, we aim to increase our investment in local communities by 30% (against a 2014 baseline). All affiliates are encouraged to engage employees in volunteering and to invest in local community projects. In addition, selected countries (based on revenue and historical community investment levels) have been assigned specific investment objectives until 2020 to invest in projects that support the United Nations' Sustainable Development Goals. A particular feature of these investments is the provision of scholarships to people with limited economic resources and restricted access to education.

Case study

In August 2016, our Chief Executive Officer and four members of the Operations Council engaged in a programme of tree planting in India at SGS sites in Manesar, Navi (Mumbai), Chennai and Pune.

4. BUSINESS LEADERSHIP



The United Nations' Sustainable Development Goals define global sustainable development priorities and aspirations for 2030 and seek to mobilise global efforts around a common set of goals and targets. They call for worldwide action among governments, businesses and civil society to end poverty and create a life of dignity and opportunity for all. SGS will work with an advisory company to map our existing community activities against the Sustainable Development Goals and to develop action plans focused on integrating them into our management and reporting processes at affiliate level.

OUTLOOK 2017

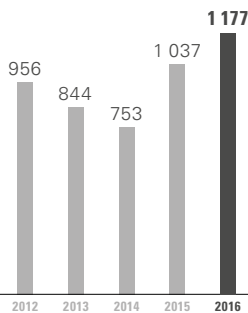
We will deploy our revised Community Policy and Guidelines globally, and work with our affiliates to support employee volunteering projects linked to our community pillars. We will also work with the affiliates to develop local action plans to ensure that community actions are aligned, where possible, to the United Nations' Sustainable Development Goals and volunteering activities.

During 2017, we will focus our effort on promoting local economic development by providing scholarships to low-income youths. These scholarships will enable local people to access vocational skills training and acquire qualifications aimed at improving their employment prospects. Qualifications will be offered across a number of professional disciplines, ranging from lead auditor certification for specified ISO standards, certificates in good agricultural practices, health and safety audit qualifications, and certificates in environmental management. All training will be provided through the SGS Academy network, our professional training support structure.

PERFORMANCE

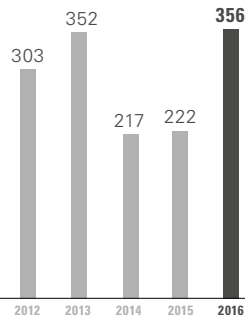
1 177

1. Including cost of volunteering hours.



INVESTMENT IN COMMUNITY¹
(THOUSAND CHF)

356



COMMUNITY PROJECTS



SGS SERVICE

- > SGS Scholarships



CONSUMER BENEFIT

- > Career development through education

SGS BUSINESS PRINCIPLES



INTEGRITY

MAKING SURE WE BUILD TRUST

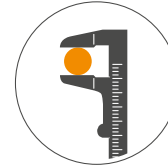
We act with integrity and behave responsibly. We abide by the rules, laws and regulations of the countries we are operating in. We speak up: we are confident enough to raise concerns and smart enough to consider any that are brought to us.



HEALTH AND SAFETY

MAKING SURE WE ESTABLISH SAFE AND HEALTHY WORKPLACES

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



QUALITY AND PROFESSIONALISM

MAKING SURE WE ACT AND COMMUNICATE RESPONSIBLY

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



RESPECT

MAKING SURE WE TREAT ALL PEOPLE FAIRLY

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



SUSTAINABILITY

MAKING SURE WE ADD LONG-TERM VALUE TO SOCIETY

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

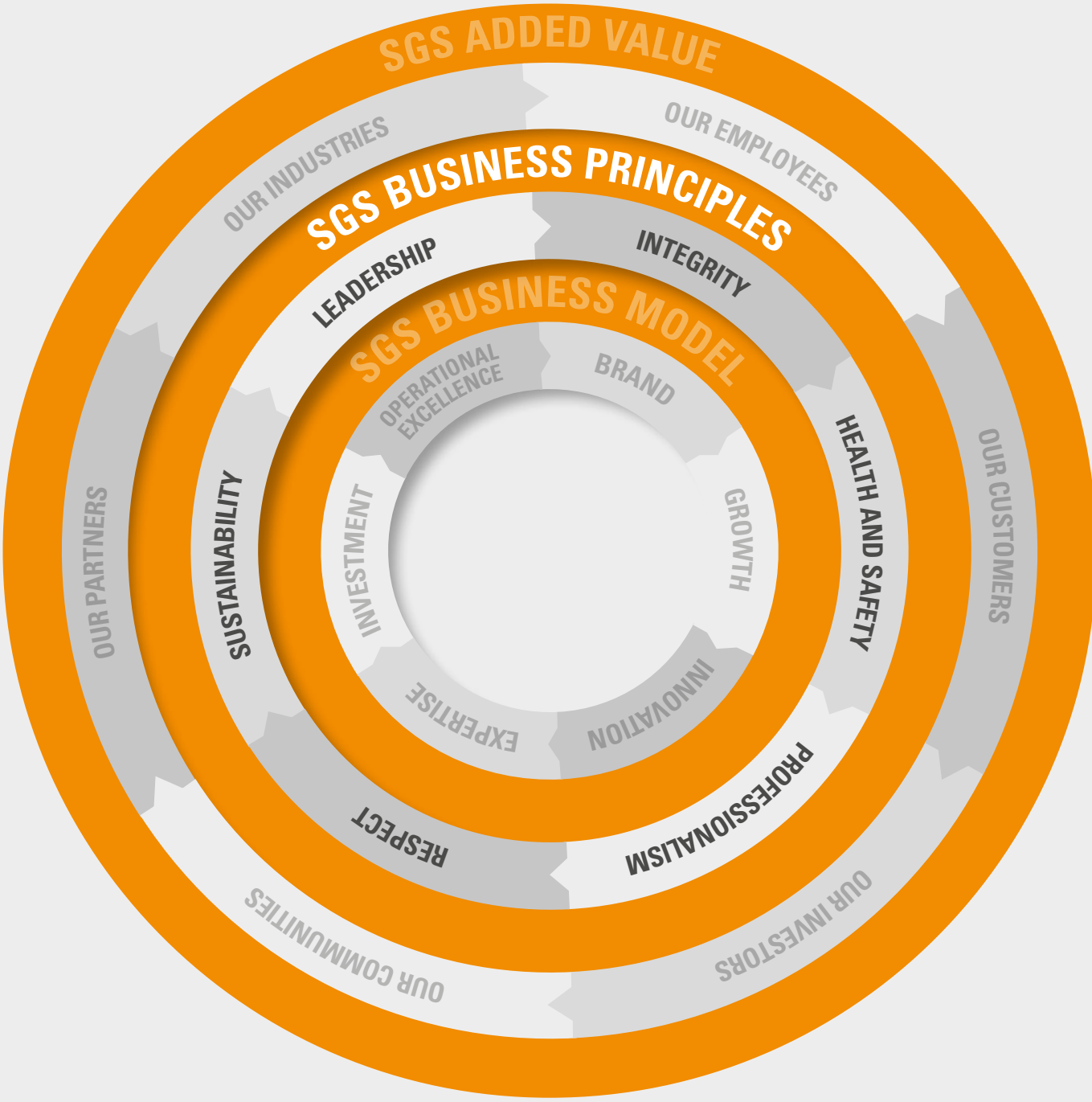


LEADERSHIP

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 recognised and rewarded. We foster teamwork and commitment.

SGS' BUSINESS PRINCIPLES ARE THE CORNERSTONE ON WHICH ALL OF OUR ACTIVITY RESTS. THEY ARE HELD TO BE FUNDAMENTAL, OVERARCHING BELIEFS AND BEHAVIOURS THAT GUIDE OUR DECISIONS AND ALLOW US TO EMBODY THE SGS BRAND IN EVERYTHING WE DO.



SGS ADDED VALUE

OUR STAKEHOLDERS



OUR EMPLOYEES

We add value to our employees by offering them training, nurturing their potential and encouraging them to work across multiple functions and geographies during their careers.

We offer flexible working conditions and equal opportunities to all.

STAKEHOLDERS

Existing employees

Potential employees

Subcontractors



OUR CUSTOMERS

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

STAKEHOLDERS

Existing customers

Potential customers



OUR INVESTORS

We add value to our investors by being a robust, sustainable business with a 138-year track record. Our transparency, strong leadership and commitment to long-term sustainability make us a sound investment.

STAKEHOLDERS

Shareholders

Financial community

Socially responsible investors



OUR COMMUNITIES

We currently support close to 360 community initiatives in response to local challenges. Many of these are aligned the United Nations' Sustainable Development Goals. We also support disaster relief and environmental sustainability by sharing our expertise and network with non-profit organisations.

STAKEHOLDERS

People

Environment

Community programmes

Special interest groups

NGOs and academics



OUR PARTNERS

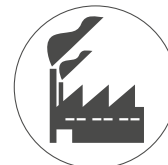
We provide value to our partners by sharing our expertise and support and by helping them to refine their product offerings. In this way we help them develop their businesses.

STAKEHOLDERS

Suppliers

Business partners

Consultants



OUR INDUSTRIES

We help advance the industries we operate in through the services we offer. We help our customers improve the safety and quality of global supply chains and to drive innovation. This in turn establishes new industry benchmarks for efficiency, sustainability and operational best practices.

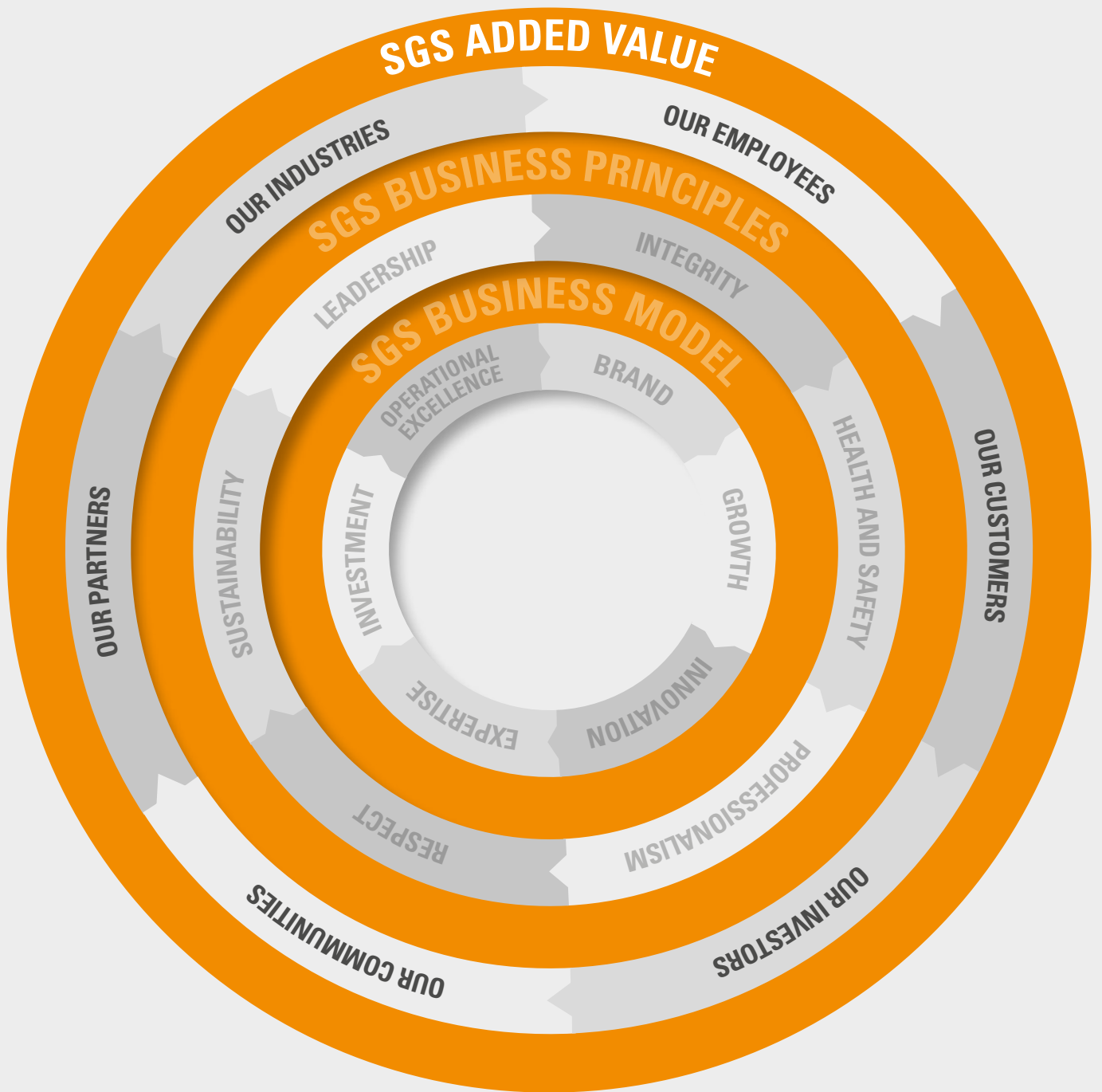
STAKEHOLDERS

Industry peers, trade bodies and associations

Authorities, governments and regulators

Unions and work councils

THROUGH OUR EMPLOYEES, CUSTOMERS, INVESTORS, COMMUNITIES AND INDUSTRIES, WE ADD A TREMENDOUS AMOUNT OF VALUE TO SOCIETY. PERHAPS MORE IMPORTANTLY, THANKS TO THE SERVICES WE PROVIDE, WE EMPOWER AND INSPIRE OTHERS TO DO SO TOO.



WHAT MAKES US STAND OUT?

As an independent service provider, we offer our customers an impartial view through service offerings that span all industries and encompass full supply chains. Our services enable our customers to operate in a more sustainable manner, by reducing their impact on the environment, ensuring product safety, safeguarding trade and helping to bring new technologies to market.

MARKET POSITIONING

Our market position is:

THE WORLD'S LEADING INSPECTION, VERIFICATION, TESTING AND CERTIFICATION COMPANY

THE LEADING PROVIDER OF COMPETITIVE ADVANTAGE, DRIVING SUSTAINABILITY AND DELIVERING TRUST

THE GLOBALLY RECOGNISED BENCHMARK FOR QUALITY AND INTEGRITY

At SGS, we are continually pushing ourselves to deliver innovative services and solutions that help our customers move their businesses forward.

THE TIC INDUSTRY UNMASKED

THE TIC INDUSTRY IS AN ESTIMATED USD 200 BILLION MARKET. BY GROUP REVENUE AND MARKET SHARE, SGS IS THE LARGEST INSPECTION, VERIFICATION, TESTING AND CERTIFICATION COMPANY IN THE WORLD.

The Testing, Inspection and Certification (TIC) Industry is not widely understood by the general public, yet our activities as members of this industry interweave with almost everything that a consumer touches.

The breadth and reach of the industry is perhaps unrivalled. Look around you. The furniture that you are using, the clothes that you are wearing, even the paper you are holding have most likely all been touched at some stage by the TIC industry.

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 children's health, the TIC industry is involved in assuring safety, quality and sustainability in a way most people have never considered.

But it is not just individuals that rely on the TIC industry to provide assurance services. Governments and businesses need companies like SGS to provide assurance services for everything from precision farming to offshore oil rig management.

The market has two main driving mechanisms. The first is the ever more demanding regulatory and legal environment faced by many firms, who not only need to understand and conform to their respective market regulations but also need to demonstrate to their customers and the relevant authorities that the necessary steps have been taken to ensure compliance. Moreover, the increasingly complex nature of global supply chains have made it even harder for firms to ensure conformity (or even quality) for all the component parts in any given product.

This can have quite serious consequences if left unchecked. For example, there have been instances where firms have inadvertently breached international sanctions because they failed to consider the place of manufacture of a particular component part. As a result of this, companies and governments have often found it preferable to outsource these services to an expert and independent third-party firm in the TIC industry. Indeed firms are often required to do so. In reality, pressure is often passed down the supply chain by larger companies, that need to gain greater control over the actions of their own suppliers.

The second market mechanism is often simply financial, with firms finding that specialist companies such as SGS are able to offer more efficient and effective services than they are capable of reproducing in-house. This is because businesses like SGS benefit from having a global network, a deep pool of expertise and the necessary technological capabilities to draw upon. Thus our services become a cornerstone of innovation and operational excellence for our clients, as well as giving them greater control over their risk.

OUR VALUE TO SOCIETY

Value2Society (V2S) is the mechanism that we use to demonstrate the value that SGS creates beyond financial return.

It quantifies the impact of our business activities, positive and negative, direct and indirect, across six types of capital stock: natural, human, intellectual, social, built and financial. Each capital stock is conceived as a store of economic benefits. For example, human capital is the store of labour / work within SGS employees. Throughout the year, each capital stock (and its store of benefits) undergoes change, quantitatively and qualitatively, according to levels of use and subsequent investment, depreciation and appreciation. It is the inter-relationship of these four capital flows that

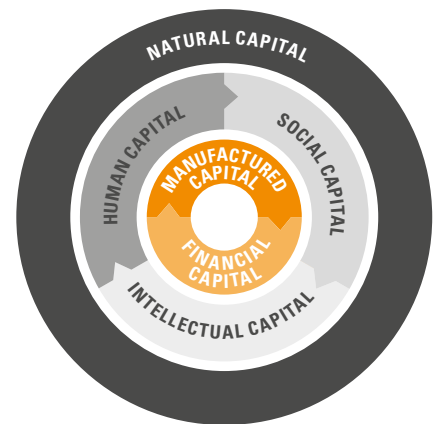
determine capital stock enhancement or deterioration. For example, if employees work excessive hours (use), fatigue (depreciation) sets in, which eventually leads to reduced labour productivity.

Each capital flow can be distilled into measurable indicators and when relevant, further subjected to economic valuation.

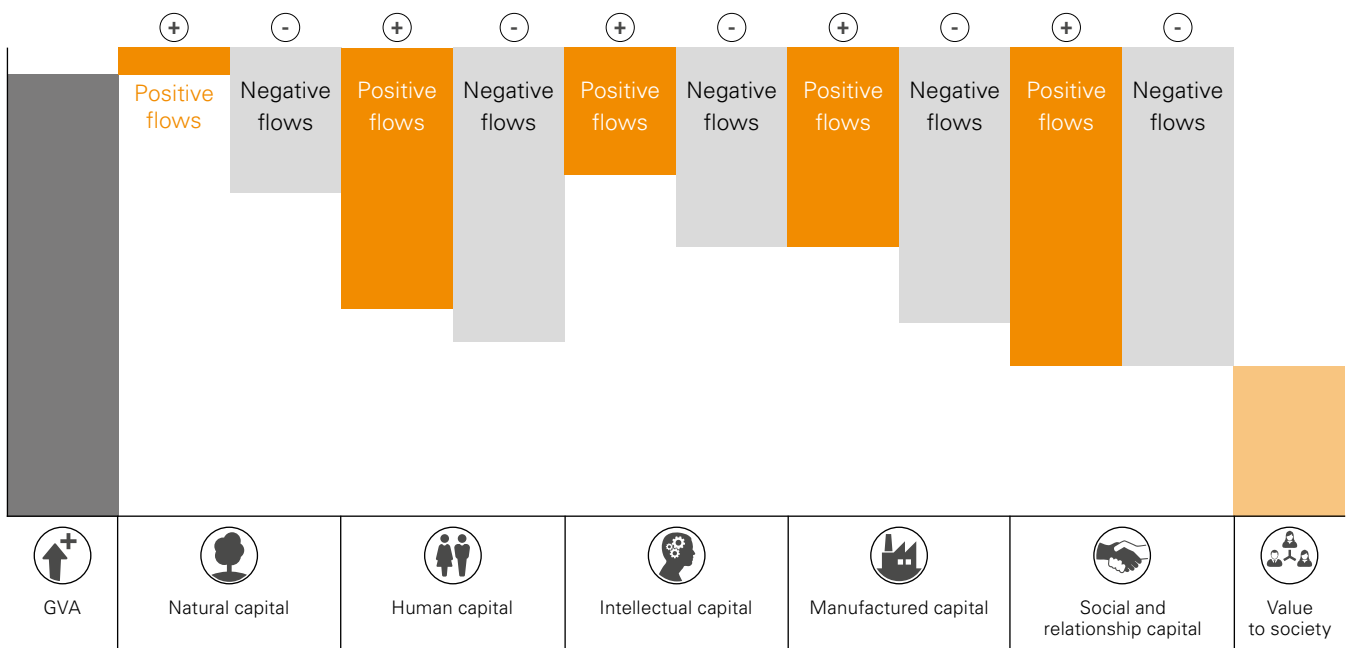
Economic valuation translates indicator performance into financial terms. Negative flows (i.e. depreciation) are translated into costs and positive flows (i.e. investment and appreciation) are translated into benefits. Both the costs and the benefits are comprised of company, individual and governmental components. For example, one human capital (depreciation) indicator is employee workplace injury. The potential costs of an employee workplace injury to SGS include administration, compensation and finding replacement staff. The potential costs to the injured employee include reduced wellbeing and associated medical costs. The potential costs to government include medical costs and lost tax revenues.

Translation of indicator performance into financial terms allows for indicator comparison, indicator aggregation and indicator integration with conventional management, and in the future with financial accounting systems. The subtraction of all depreciation indicator values, plus the sum of all investment and appreciation indicators yields the V2S figure. Therefore, V2S reveals a broader, richer view on the contribution SGS makes to the global economy.

CAPITAL FLOWS - INTEGRATED REPORTING FRAMEWORK



VALUE TO SOCIETY FRAMEWORK



OPPORTUNITIES THAT HOLD WATER

Sustainability is one of today's hottest topics. In the face of massive media coverage and huge public interest, finding ways to operate in a responsible manner has never been so important.

For decades, SGS has been providing sustainability solutions and services for companies and organisations around the world. At the same time, we've been leading by example.

Community is one of our four sustainability pillars. Supporting projects that have the potential to change lives in communities where SGS employees live and work is an integral part of our sustainability commitment. In 2016, SGS donated a water tower and solar panels to the Présence-Madagascar association. As a result, its Fanantenana Centre, which helps abandoned children by offering them education and training, now has water and electricity for a workshop.

Also during the year, in South Africa, the SGS Black Economic Empowerment initiative helped Baitsanape Lab Supplies to develop its presence in our national supply chain. The local company supplies high-quality consumables and equipment, and provides employment for nearby communities.

By investing in the communities that we work in, we aim to make a positive impact on society and achieve greater economic sustainability.



SGS SERVICE

> Ground Water wells Analysis



CONSUMER BENEFIT

> Cleaner, fresher water

5. MARKET RISKS

RISK MANAGEMENT AND MATERIAL TOPICS

Every year the SGS Board of Directors assesses the risks that the Group faces. 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 of Directors deliberates on the adequacy of measures in place to mitigate and manage risks, and assigns responsibility to designated managers for implementing these measures.

As part of this process, ownership and accountability for identified risks are approved by the Board of Directors. The implementation of these actions is audited by Internal Audit. The 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 four categories:

- **Strategy and Planning Risks** – arise when the company's strategy selection and execution is inadequate and when there are external factors that can affect the company's performance.
- **Governance and Integrity Risks** – arise when the corporate governance structure and controls are inadequate and when the ethical culture and procedures are weak.
- **Global Support Risks** – arise when core functions of the company do not operate effectively and do not support the business performance.
- **Operations Risks** – arise when business processes do not achieve the objectives they were designed to achieve in supporting the company's business model.

During 2016, we reached a significant milestone in our journey towards integrated reporting by merging the outputs of our materiality and business risk assessment processes. The journey began with an extensive materiality assessment process, involving a consultation of around 850 stakeholders, including customers, senior managers, employees, suppliers, NGOs, ratings agencies, sustainability professionals and academics, in 52 countries. Alongside the survey, we conducted a detailed benchmark review of globally relevant and sector-specific sustainability issues and trends.

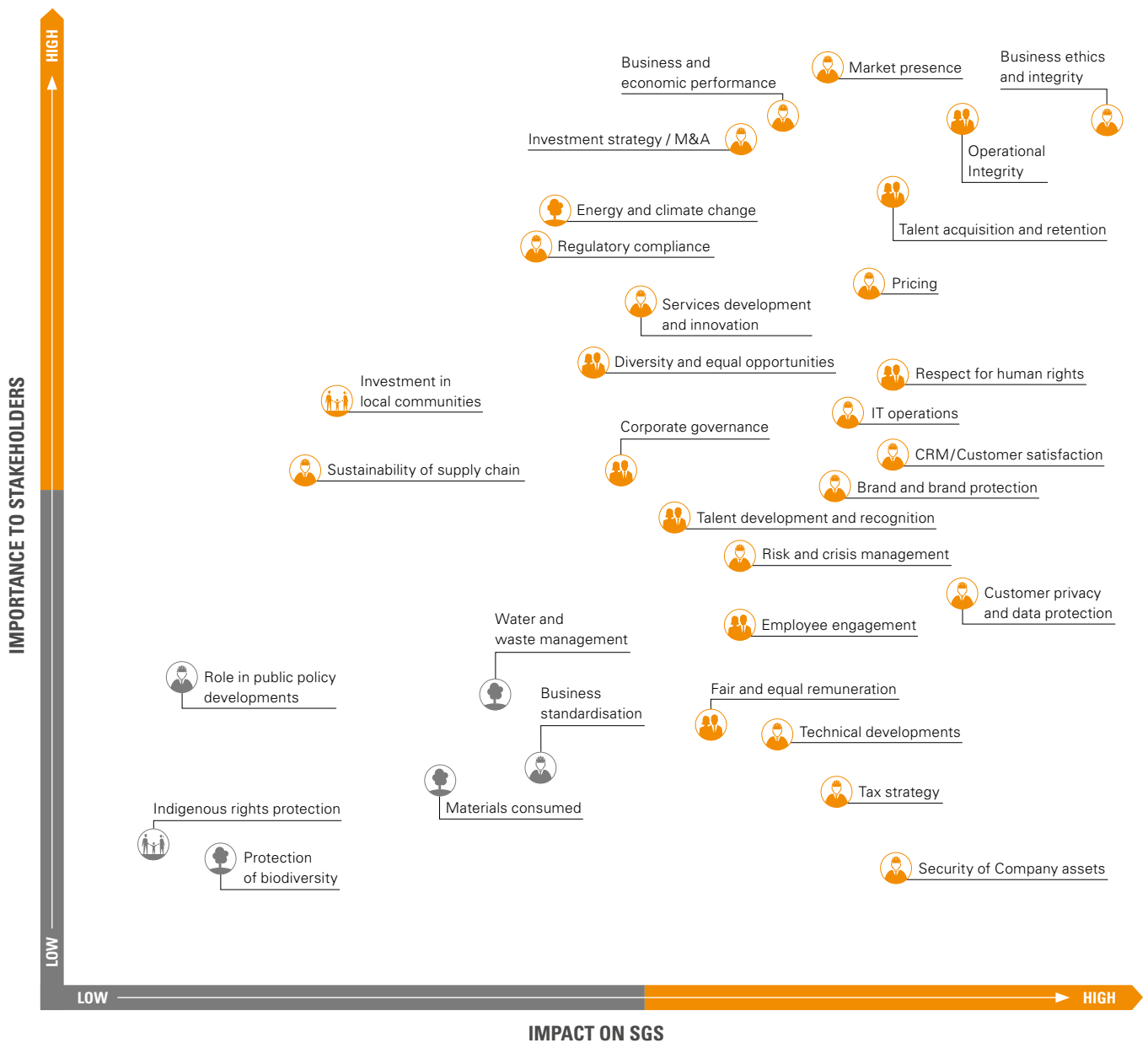
Having conducted a weighted analysis of the outputs of our materiality assessment by stakeholder type, we then integrated the business risks identified in our annual Board of Directors risk review to provide a more complete picture of the most salient issues for SGS. This resulted in a consolidated list of environmental, social and governance topics. Next we conducted an impact assessment, which involved over 80% of Operations Council members participating in an online survey to rank each topic according to its relative impact on the business (covering business continuity, economic performance, reputation and legal compliance) as well as their assessment of the controls in place to manage the impacts.

The outcome of the processes described above was the development of our first Business Materiality Matrix.

Having conducted such a robust exercise to assess our material and business issues, we are reassured to find that our business objectives and our Sustainability Ambitions 2020 remain focused on the most important issues for our stakeholders and for the business.

We plan to conduct a high-level materiality review every year, and to conduct a comprehensive assessment of our materiality and business risks every three years.

BUSINESS MATERIALITY MATRIX



- Professional excellence
- People
- Environment
- Community

5. MARKET RISKS

RISK MANAGEMENT OVERVIEW

RISK AREA	RISK DESCRIPTION	MEASURES IN PLACE
STRATEGY AND PLANNING		
INVESTMENT	Investment is required for SGS to remain responsive to market and technological advances.	<ul style="list-style-type: none"> • Solid individual business strategies and development plans
EXTERNAL FACTORS / COMPETITION	The SGS Group operates in volatile markets and needs to sustain and/or develop market share with innovation and technical developments.	<ul style="list-style-type: none"> • Market intelligence (TIC industry trends) • Innovation team • Organic growth initiatives by individual business
BUSINESS PERFORMANCE	The success of the SGS Group relies on achieving our strategic objectives linked to growth and margin.	<ul style="list-style-type: none"> • Continuous evaluation of assets and businesses
MERGERS AND ACQUISITIONS	Inorganic growth has a significant impact on achieving the Groups strategic objectives. Inefficient integration of new companies may lead to suboptimal synergies.	<ul style="list-style-type: none"> • Specific policy on mergers and acquisitions (key organisational criteria and financial metrics) • Operations Council review/approval of projects against admissibility criteria • Integration guidelines and platform to monitor integration status
PRICING	Pricing strategies to ensure that the SGS Group remains competitive in market sectors and geographies.	<ul style="list-style-type: none"> • Benchmarking of services and pricing tariffs • Customer engagement and formal reviews
POLITICAL ACTIVITIES	Political instability is a risk in some of the countries where SGS Group operates.	<ul style="list-style-type: none"> • Collaboration with experts to maintain local legal, political and fiscal knowledge • Diversification of activities and countries to limit geopolitical risk
GOVERNANCE AND INTEGRITY		
CORPORATE GOVERNANCE	The quality of governance affects the management of risk and the value of a corporation. Effective, strong corporate governance is essential for the efficient functioning of markets.	<ul style="list-style-type: none"> • The SGS Board of Directors has overall responsibility for key business policies, operational management and strategic oversight of the Group's business activities. It is also responsible for ensuring regulatory compliance, effective internal controls and standards of professional conduct • The SGS Board is assisted by the Audit Committee, Professional Conduct Committee and Operations Council to ensure appropriate quality of governance
BUSINESS ETHICS	SGS operates in countries that are recognised as having higher bribery and corruption risks. Non-compliance with related laws, such as anti-bribery or fair competition legislation, could lead to litigation or loss of accreditations.	<ul style="list-style-type: none"> • The SGS Code of Integrity and Code of Conduct for Suppliers • Integrity rules (from integrity of services to compliance with legislation) • Training for all employees • Whistle-blowing process • SGS Human Rights Policy (as of 2017)

RISK AREA	RISK DESCRIPTION	MEASURES IN PLACE
REPUTATION	SGS relies on its reputation for integrity and independence. In the event of poor service delivery or a health and safety-related incident, crisis management may not be sufficient to mitigate any resulting brand and reputational damage.	<ul style="list-style-type: none"> • Business operating procedures • Health and safety standards • SGS Code of Integrity and whistle-blowing process • Risk (annual risk assessment) and control framework • Business Continuity Plan
REGULATORY COMPLIANCE	The SGS Group is subject to a wide variety of laws, regulations and government policies. SGS is exposed to litigation, which could lead to payment of damages and affect the reputation of the Group.	<ul style="list-style-type: none"> • Claim reporting system • Insurance coverage and policies • Continued government scrutiny
GLOBAL SUPPORT		
IT INTEGRITY AND DATA SECURITY	Information systems and technology infrastructure are key to supporting SGS' strategy and growth. The IT architecture and the new technologies chosen could expose SGS Group to new threats.	<ul style="list-style-type: none"> • Information Technology Service Delivery Model • Security systems and applications • Identification and prioritisation of strategic projects through the IT Committee • IT security strategy • Security operations centre development • Customer privacy and data protection controls
FINANCE	The SGS Group could suffer from failing to present reliable financial statements. SGS Group is also exposed to risks of fraud or financial misstatements.	<ul style="list-style-type: none"> • Review of annual and half-year results by independent external auditors • Financial and management controls • The Internal Control organisation at SGS expanded in 2016, strengthening the control framework. • Various policies are being revisited and updated, such as the Group Tax Policy and the Group Treasury Policy
SECURITY OF COMPANY ASSETS	SGS businesses and assets (covering our people, physical assets, equipment, intellectual property and funds) can be exposed to a range of security risks.	<ul style="list-style-type: none"> • SGS Corporate Security team • SGS Global Security Standard and Security Guidelines • Security Intelligence Hub collates internal and external data on threats and controls in place
RESPECT FOR HUMAN RIGHTS	Business should be conducted in a manner that respects the rights and dignity of everyone affected by our business activities.	<ul style="list-style-type: none"> • SGS Business Principles, Code of Integrity and SGS Human Rights Policy • SGS Code of Conduct for Suppliers and Supplier Self-Assessment Questionnaire • SGS Human Rights Committee • SGS Professional Conduct Committee • Whistle-blowing process
SUSTAINABLE PROCUREMENT	As a major purchaser, SGS must ensure a sustainable supply of goods and services.	<ul style="list-style-type: none"> • Rationalisation of supply base and efficiency savings • SGS Code of Conduct for Suppliers • SGS Supplier Self-Assessment Questionnaire

5. MARKET RISKS

RISK AREA	RISK DESCRIPTION	MEASURES IN PLACE
TALENT ACQUISITION AND RETENTION	The SGS Group relies on key personnel, from operations to executive level. SGS needs to retain employees with relevant experience. Skilled employees may leave to join competitors. Loss of key personnel may impact quality, reputation and customer confidence.	<ul style="list-style-type: none"> • Succession planning to ensure effective continuation of leadership and expertise • Geographic mobility to ensure continuity • Employer branding initiative to attract talent • New HR strategy focusing on talent management and recruitment • Employee engagement via CATALYST survey and employee representation and collective bargaining systems
DIVERSITY AND EQUAL OPPORTUNITIES	All workers must be treated equally and be given the same set of opportunities regardless of their race, age, gender, sexuality, disability, culture or anything else that might be discriminated against.	<ul style="list-style-type: none"> • The SGS Business Principles, Code of Integrity, Employment Policy and the SGS Human Rights Policy underline our commitment to diversity and equal opportunities • Employees and managers are trained in the principles of non-discrimination as part of our mandatory annual integrity training
INVESTMENT IN LOCAL COMMUNITIES	Businesses are expected to reduce their impact and respect the rights and dignity of individuals and communities affected by business activities.	<ul style="list-style-type: none"> • Revised SGS Community Policy and Guidelines from early 2017 • SGS sponsorship and investment in community programmes • Annual community survey monitors performance in local community projects around the world
OPERATIONS		
INNOVATION CAPABILITY	Failure to innovate new services and ways of delivering them could prevent SGS from maximising revenue.	<ul style="list-style-type: none"> • Monitoring of operational KPIs to allow rapid up/down- scaling of variable costs • Diversified service offering to a wide range of industries and geographies • Increasing digitalisation of services
CUSTOMER RELATIONSHIP MANAGEMENT	A lack of focus on customer needs may lead to customer dissatisfaction and customer loss.	<ul style="list-style-type: none"> • Key account management structure and dedicated sales people • Tracking on-time delivery • Customer satisfaction surveys
ENERGY AND CLIMATE CHANGE	Mismanaged energy consumption and greenhouse gas emissions could lead to increased costs, interrupted supply, safety risks, business disruption and regulatory fines.	<ul style="list-style-type: none"> • Sustainability management system and external verification of sustainability data • Carbon neutral strategy, Energy Efficiency in Building programme and commitment to RE100 to purchase 100% renewable energy • Employee awareness campaigns • Fleet Vehicle Emissions Policy

ASSURANCE STATEMENT

REPORT ON THE INTERNAL ASSURANCE OF THE SUSTAINABILITY CONTENT IN THE 2016 SGS ANNUAL REPORT

NATURE AND SCOPE OF THE ASSURANCE

The scope of this assurance included examining the performance data and its supporting text, and reviewing the management of this data.

The Sustainability content in the 2016 SGS Annual Report has been assured using SGS' own protocols to ensure consistency with the service offered to customers. The assurance comprised reviewing all relevant documentation and conducting interviews with relevant employees at the Head Office in Geneva and at affiliate level. Audit reviews of data samples and management were also carried out onsite and through conference calls.

Financial data drawn directly from independently audited financial accounts has not been checked back to source as part of this assurance process, including the financial data related to procurement on page 72 (paragraph 1 to 3 included). As it was not related to sustainability reporting, page 96 (in its entirety) was not included in the scope of the assurance process. Case studies in the report were also not included in the assurance process. Assurance of claims by SGS that are statements of commitments or forward looking in nature was not provided. In SGS, the materiality evaluation forms part of the risk evaluation and management process. Consequently, the Business Materiality Matrix lay beyond the scope of this assurance process.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised auditors with the following qualifications: Lead Quality, Health and Safety, Environmental and SA8000 Auditor and assurance practitioner.

The responsibility of the assurance team is to express an opinion on the text, data, graphs and statements within the scope of verification, with the intention to inform all SGS stakeholders and to form the basis of improvements in the process for future reporting.

This report has been assured at a moderate level of scrutiny using our protocols for:

- Evaluation of veracity of the reported text, graphs and statements and performance data (including data on the web) with a focus on text, graphs and statements and performance data related to the identified material issues.

ASSURANCE OPINION

In 2015, SGS extended its CO₂ emission scope to the full SGS Group. In 2016, part of the focus of the CO₂ data collation was to improve capture of the CO₂ emissions related to district heating, which were however not included in the 2016 Total GHG emissions. This was noted by the assurers, who are satisfied that the underestimation stays within a range (4% to 6%), which will not bias the stakeholders' opinion.

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the Sustainability Content in the 2016 SGS Annual Report is reliable and provides a fair and balanced representation of SGS activities in 2016 within the limitations of the stated reporting scope. However, in our opinion, the measurement of purchased water consumption could be improved.

RECOMMENDATIONS

It is recommended in future reporting that SGS use the materiality evaluation to identify case studies which highlight activities around high priority issues.

A report has been prepared for SGS Management, which includes a detailed set of recommendations to help identify areas for future improvement.



Rita Godfrey

Lead SRA Assuror



Michel Mooser

SRA Assuror

Geneva, 9 February 2017



SGS SERVICE

> Strategic Thinking
and Planning Training



CONSUMER BENEFIT

> Better senior
managers leading
better companies

UNLOCKING NEW SKILLS

Talent Management is crucial for SGS given the emphasis we place on the high calibre of our people. This manifests itself across our entire business. For example, led by our CFO, the transformation of our Finance function is well underway and is set to deliver world-class efficiency and effectiveness whilst bringing further added-value to the business. Yet, this strategic change also needs to be considered from a talent management perspective.

Our senior Finance leaders, together with Human Resources, are taking a very active role in helping employees transition smoothly as the financial transformation initiative takes place. Doing this effectively will ensure the optimisation of operations in our three global service centres and allow us to develop closer business partnerships with our local Finance teams, who will provide guidance and ensure compliance.

In 2016, numerous activities have led to a strengthening of open communication, employee engagement and talent management. People development plans and learning solutions are being aligned to the core competencies, which are at the heart of this transformation. Career-pathing, development tools and tips are being shared by Finance leaders with all employees to encourage further professional growth.

6. GOVERNANCE

This Corporate Governance Report informs shareholders, prospective investors and the public at large on SGS policies in matters of corporate governance, such as the structure of the Group shareholders' rights, composition roles and duties of the Board of Directors and its Committees and Management and internal controls and audits. This report has been prepared in compliance with the Swiss Exchange (SIX) Directive on Information Relating to Corporate Governance of 1 January 2016 and with the Swiss Code of Best Practice for Corporate Governance.

The SGS Corporate Governance framework aims to achieve an efficient allocation of resources and clear mechanisms for setting strategies and targets, in order to maximise and protect shareholder value. SGS strives to attain this goal by defining clear and efficient decision-making processes, fostering a climate of performance and accountability among managers and employees alike, and aligning employees' remuneration with the long-term interests of shareholders.

1. GROUP STRUCTURE AND SHAREHOLDERS

- 1.1. Group Structure
- 1.2. Significant Shareholders
- 1.3. Cross-Shareholdings

2. CAPITAL STRUCTURE

- 2.1. Issued Share Capital
- 2.2. Authorised and Conditional Share Capital
- 2.3. Changes in Capital
- 2.4. Shares and Participation Certificates
- 2.5. Dividend-right Certificates
- 2.6. Limitations on Transferability and Admissibility of Nominee Registrations
- 2.7. Convertible Bonds and Warrants/Options

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- 3.2. Cross Involvement
- 3.3. Elections and Terms of Office
- 3.4. Limits on External Mandates
- 3.5. Internal Organisational Structure
 - 3.5.1. Allocation of Tasks within the Board of Directors
 - 3.5.2. Committees
 - 3.5.3. Working Methods of the Board and its Committees
- 3.6. Definition of Areas of Responsibility
- 3.7. Information and Control Instruments vis-à-vis the Management

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- 4.4. Management Contracts

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 - 5.1.1. Rules on Performance-Related Pay and Allocation of Equity-Linked Instruments
 - 5.1.2. Rules on Loans, Credit Facilities and Post-Employment Benefits
 - 5.1.3. Rules on Vote on Pay

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- 6.1. Voting Rights and Representation Restrictions
- 6.2. Statutory Quorums
- 6.3. Convocation of General Meetings of Shareholders
- 6.4. Agenda
- 6.5. Registration in the Share Register

7. CHANGE OF CONTROL AND DEFENCE MEASURES

- 7.1. Duty to Make an Offer
- 7.2. Clauses on Change of Control

8. AUDITORS

- 8.1. Duration of the Mandate and Term of Office
- 8.2. Audit Fees
- 8.3. Additional Fees
- 8.4. Supervisory and Control Instruments vis-à-vis the Auditors

9. INFORMATION POLICY

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1. GROUP STRUCTURE

SGS SA, registered in Geneva (CH), also referred to as the "Company", controls directly or indirectly all entities worldwide belonging to the SGS Group, which provides independent inspection, verification, testing, certification and quality assurance services. The shares of SGS SA are listed on the SIX Swiss Exchange and are traded on SIX Europe (Swiss Security Number: 249745; ISIN: CH0002497458).

On 31 December 2016, market capitalisation was approximately CHF 16 208 million (2015: CHF 14 949 million). Shares are quoted on the SIX Swiss Exchange.

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

The principal legal entities consolidated within the Group are listed on pages 218 to 221 of the Annual Report, with details of the share capital, the percentage of shares controlled directly or indirectly by SGS SA and the registered office or principal place of business.

Details of acquisitions made by the SGS Group during 2016 are provided in note 3 of the consolidated financial statements included in the section SGS Group Results (pages 156 to 157) of this Annual Report.

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

At 31 December 2016, geographic operations were organised as follows:

Europe, Africa, Middle East

- Western Europe
- Northern, Central and Southern Europe
- Eastern Europe and Middle East
- Africa

Americas

- North America
- South and Central America

Asia Pacific

- East Asia
- China and Hong Kong
- South Eastern Asia and Pacific

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

At 31 December 2016, the business lines were organised as follows:

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

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

1.2. SIGNIFICANT SHAREHOLDERS

As at 31 December 2016, Groupe Bruxelles Lambert acting through Serena SARL held 16.20% (2015: 15.00%). Mr. August von Finck and members of his family acting in concert held 15.03% (2015: 15.03%), the Bank of New York Mellon Corporation held 3.35% (2015: 3.35%), BlackRock, Inc. held 3.03% (2015: 3.03%) and MFS Investment Management held 3.01% (2015: 3.01%) of the share capital and voting rights of the Company.

At the same date, SGS Group held 3.63% of the share capital of the Company (2015: 2.77%).

During 2016, the Company has published regularly on the electronic platform of the Disclosure Office of the SIX Swiss Exchange Ltd. all disclosure notifications received from shareholders of transactions subject to the disclosure obligations of Article 20 SESTA. Such disclosure notifications can be accessed at: www.six-swiss-exchange.com/shares/companies.

1.3. CROSS-SHAREHOLDINGS

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

2. CAPITAL STRUCTURE

2.1. ISSUED SHARE CAPITAL

The share capital of SGS SA is CHF 7 822 436 and comprises 7 822 436 fully, paid-in, registered shares of a par value of CHF 1. On 31 December 2016, SGS SA held 283 929 treasury shares (2015: 216 976). The shares related to the shares buyback programme are directly held by SGS SA, the shares to cover the equity compensation plan are held by a subsidiary company.

In 2016, 49 162 treasury shares were sold to cover the equity compensation plans and 6 315 were purchased for an average price of CHF 2 127. As part of the shares buyback programme, 109 800 shares were purchased in 2016 for an average price of CHF 1 961. In 2015, the Group Initiated a share buyback programme for a total of up to CHF 750 million. Up to CHF 500 million is designated for cancellation and the remainder for employee equity participation plans and/or for utilisation as underlying securities for potential issuances of convertible bonds. The programme started on 20 January 2015 and ended on 31 December 2016.

2.2. AUTHORISED AND CONDITIONAL SHARE CAPITAL

The Board of Directors has the authority to increase the share capital of the Company by a maximum of 500 000 registered shares with a par value of CHF 1 each, corresponding to a maximum increase of CHF 500 000 in share capital. The Board is authorised 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 authorised 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 12 March 2017. The shareholders have conditionally approved an increase of share capital by an amount of CHF 1 100 000 divided into 1 100 000 registered shares with a par value of CHF 1 each. This conditional

share capital increase is intended to obtain the shares necessary to meet the Company's obligations with respect to employee share option plans and option or conversion rights of convertible bonds or similar equity-linked instruments that the Board is authorised to issue.

The right to subscribe to such conditional capital is reserved to beneficiaries of employee share option plans and holders of convertible bonds or similar debt instruments and therefore excludes shareholders' preferential rights of subscription. The Board is authorised 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

There have been no changes to the Company's share capital in the last nine years.

2.4. SHARES AND PARTICIPATION CERTIFICATES

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

2.5. DIVIDEND-RIGHT CERTIFICATES

The Company has not issued any dividend-right certificates.

2.6. LIMITATIONS ON TRANSFERABILITY AND ADMISSIBILITY OF NOMINEE REGISTRATIONS

SGS SA does not limit the transferability of its shares. The registration of shares held by nominees is not permitted by the Company's Articles of Association, except by special resolution of the Board of Directors. By decision of the Board, the Company's shares can be registered in the name of a nominee acting in a fiduciary capacity for an undisclosed principal, provided however that shares registered in the names of nominees or fiduciaries may not exercise voting rights

above a limit of 5% of the aggregate share capital of the Company. This rule was made public on 23 March 2005.

The Company has a single class of shares and no preferential rights, statutory or otherwise, have been granted to any shareholder.

2.7. CONVERTIBLE BONDS AND WARRANTS/OPTIONS

No convertible bonds have been issued by the Company or by any entity under its direct or indirect control. Options and other share based remuneration granted to senior managers of the Group are detailed in the SGS Remuneration Report. Details of all options outstanding are provided in note 31 of the consolidated financial statements of the Group.

No other options or similar instruments have been issued by the Company nor by any of the Group's subsidiaries.

3. BOARD OF DIRECTORS

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

3.1. MEMBERS OF THE BOARD OF DIRECTORS

This section presents the Members of the Board of Directors of the Company, with their functions in the Group, their professional backgrounds and all their material positions held outside the Group in governing and supervisory boards, management positions and consultancy functions, official tenures and political commitments, both in Switzerland and abroad, as at 31 December 2016 (an * denotes a listed company).

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

SERGIO MARCHIONNE (1952)

Canadian/Italian

Function in SGS

Chairman:

- Board of Directors
 - Audit Committee
 - Professional Conduct Committee
-

Initial appointment to the Board

May 2001

Professional Background

Chief Executive Officer of *Fiat Chrysler Automobiles N.V.

Chairman of *CNH Industrial N.V.

Chairman and CEO of *Ferrari N.V.

Sergio Marchionne holds a BA in Philosophy from the University of Toronto, and an LLB degree from Osgoode Hall Law School, York University, in Toronto. He also has an MBA and B.Com from the University of Windsor, in Canada.

A barrister, solicitor and chartered accountant, Mr. Marchionne began his career in Canada in 1983.

In 2004, he became CEO of Fiat S.p.A., headquartered in Turin. In addition, in June 2009, he was appointed CEO of Chrysler Group LLC and, in September 2011, also assumed the role of Chairman.

In October 2014, he became Chairman of Ferrari S.p.A. and CEO of *Fiat Chrysler Automobiles N.V. (FCA), the company resulting from the merger of Fiat S.p.A. and Chrysler Group LLC. As of September 2013, he is also Chairman of *CNH Industrial N.V., the company resulting from the mergers of CNH Global N.V. and Fiat Industrial S.p.A. He served as Chairman of CNH Global N.V. from 2006 and Fiat Industrial S.p.A. from 2011, becoming Chairman of *CNH Industrial N.V., the company resulting from the merger of CNH Global N.V. and Fiat Industrial S.p.A. in 2013.

Other Activities and Functions

*Philip Morris International SA, Lausanne (CH), Member of the Board

*Exor N.V., Amsterdam (NL), Member of the Board

Peterson Institute for International Economics, Member of the Board

Council for the United States and Italy, Chairman

European Automobile Manufacturers' Association (ACEA), Brussels (BE), Member of the Board

J.P. Morgan International Council, Member

PAUL DESMARAIS, JR (1954)

Canadian

Function in SGS

Member:

- Board of Directors
-

Initial appointment to the Board

July 2013

Professional Background

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

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

He has received honorary doctorates from various Canadian universities.

He joined Power Corporation of Canada in 1981 and assumed the position of Vice-President the following year.

In 1984, he led the creation of Power Financial Corporation to consolidate Power's major financial holdings, as well as Pargesa Holding SA, under a single corporate entity. Mr. Desmarais served as Vice-President from 1984 to 1986, as President and Chief Operating Officer of Power Financial from 1986 to 1989, as Executive Vice Chairman from 1989 to 1990, as Executive Chairman from 1990 to 2005, as Chairman of the Executive Committee from 2006 to 2008 and as Executive Co Chairman from 2008 until today. He was named Chairman and Co-CEO with Power Corporation in 1996. After Power

Financial and the Frère Group of Belgium took control of Pargesa in 1990, Mr. Desmarais moved to Europe from 1990 to 1994, to develop the partnership with the Frère Group and to restructure the Pargesa group.

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

Other Activities and Functions

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

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

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

*LafargeHolcim, Zürich (CH), Board Member

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

*Total SA, Paris (F), Member of the Board
Member of the Advisory Council of 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).

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AUGUST VON FINCK (1930)

German

Function in SGS

Member:

- Board of Directors
 - Nomination and Remuneration Committee
-

Initial appointment to the Board

October 1998

Professional Background

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

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

AUGUST FRANÇOIS VON FINCK (1968)

Swiss

Function in SGS

Member:

- Board of Directors
 - Audit Committee
-

Initial appointment to the Board

May 2002

Professional Background

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

Other Activities and Functions

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

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

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

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

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

IAN GALLIENNE (1971)

French

Function in SGS

Member:

- Board of Directors
 - Nomination and Remuneration Committee
-

Initial appointment to the Board

July 2013

Professional Background

Co-CEO of *Groupe Bruxelles Lambert, since 2012, Ian Gallienne has a degree in Management and Administration, with a specialisation in Finance from Ecole Supérieure des Dirigeants d'Entreprises (ESDE) in Paris and an MBA from INSEAD in Fontainebleau. He began his career in 1992 in Spain as co-founder of a commercial company. From 1995 to 1997, he managed a consulting firm specialised in the reorganisation of ailing companies in France. From 1998 to 2005, he was Director at the private equity funds Rhône Capital LLC in New York and London. In 2005, he founded the private equity fund Ergon Capital Partners in Brussels and was its Managing Director until 2012. In 2012, he became Co-CEO of *Groupe Bruxelles Lambert of which he had been a Board Member since 2009.

Other Activities and Functions

*adidas (D), Member of the Supervisory Board

*Imerys, Paris (F), Member of the Board and 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

*Umicore NV, (BE), Member of the Board
Erbe SA (BE), Member of the Board

CORNELIUS GRUPP (1947)

Austrian

Function in SGS

Member:

- Board of Directors
 - Professional Conduct Committee
-

Initial appointment to the Board

March 2011

Professional Background

Dr. Grupp holds a Doctorate in Law and a Master in Business Administration.

He is the Owner and General Manager of Tubex Holding GmbH, Stuttgart, Germany, a company active in the packaging industry and of CAG Holding GmbH, Lilienfeld, Austria which is active in the field of aluminum, glass and fibres.

Other Activities and Functions

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

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

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

PETER KALANTZIS (1945)

Swiss/Greek

Function in SGS

Member:

- Board of Directors
 - Audit Committee
-

Initial appointment to the Board

March 2009

Professional Background

Peter Kalantzis holds a Ph.D. in Economics and Political Sciences from the University of Basel and engaged in research as a member of the Institute for Applied Economics Research at the University of Basel between 1969 and 1971.

Prior to 2000, Peter Kalantzis was responsible for Alusuisse-Lonza Group's corporate development and actively involved in the de-merger and stock market launch of Lonza, as well as the merger process of Alusuisse and Alcan. Dr. Kalantzis served as head of the Chemicals Division of Alusuisse-Lonza Group from 1991 until 1996. In 1991, Dr. Kalantzis was appointed Executive Vice-President and Member of the Executive Committee of the Alusuisse-Lonza Group.

Dr. Kalantzis has worked as an independent consultant since 2000.

Other Activities and Functions

Mövenpick/Holding AG, Baar (CH), Chairman of the Board from 2000 to 2014, Member since 2014

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

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

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

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

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

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

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

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

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

CHRISTOPHER KIRK (1956)

British

Function in SGS

Member

- Board of Directors
-

Initial appointment to the Board

March 2015

Professional Background

Chris Kirk holds a BSc (Hons) degree in Zoology. He began his career at SGS in 1981 in New Zealand. From 1981 to 1987 he undertook a range of different roles in the company, including Operations Manager, Business Development Manager and General Manager for SGS New Zealand.

Between 1987 and 1999, Chris held a number of senior positions in Thailand, Ghana, Singapore and Australia. He was appointed as Chief Operating Officer of the South East Asia/Pacific region in 2002 and was then appointed Vice President for Minerals and Environmental Services, a role he held for three years.

Chris was Chief Executive Officer for SGS between 2006 and 2015 before being elected to the Board of Directors at the 2015 Annual Shareholders Meeting. He brings to the Board his unparalleled experience in the industry and in-depth knowledge of the Group.

Other Activities and Functions

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

GÉRARD LAMARCHE (1961)

Belgian

Function in SGS

Member:

- Board of Directors
 - Audit Committee
-

Initial appointment to the Board

July 2013

Professional Background

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

Gérard Lamarche is a graduate in Economic Sciences from the University of Louvain-la-Neuve 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 professional 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 an Investment Manager. He was promoted to Controller in 1989 before becoming an Advisor to the Strategy and Planning Department from 1992 to 1995.

He joined Compagnie Financière de Suez as Special Advisor to the Chairman and Secretary to the Suez Executive Committee (1995-1997); he was later appointed Senior Vice President in charge of Planning, Control and Accounting.

In 2000, Gérard Lamarche joined NALCO (the US subsidiary of the Suez Group and world leader in industrial water treatment) as General Managing Director. He was appointed CFO of the Suez Group in 2003.

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

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Other Activities and Functions

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

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

SHELBY R. DU PASQUIER (1960)

Swiss

Function in SGS

Member:

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

Initial appointment to the Board

March 2006

Professional Background

Attorney at Law, Partner Lenz and 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 Trust Holdings (Jersey) Limited, Member of the Board since 2012

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

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

The Board undertakes a periodic review of the Directors' interests in which all potential or perceived conflicts of interests and issues relevant to their independence are considered. Based on this review, the Board has concluded that, with the exception of Christopher Kirk who was Group CEO immediately before his nomination to the Board, all the non-executive Directors (including the Chairman) are independent from Management and free of any relationship that could materially interfere with the exercise of their independent judgement.

Other than Sergio Marchionne (Group Chief Executive Officer between February 2002 and June 2004, and Christopher Kirk (Group Chief Executive Officer between November 2006 and March 2015), none of the Directors or their close relatives has or had any management responsibility within the SGS Group.

None of the Members of the Board of Directors or their close relatives has or had any material business connections with the Company or its affiliated companies. The remuneration of the Members of the Board of Directors is detailed in the Remuneration Report.

The Chairman of the Board, jointly with members of the Board of Directors, reviews periodically the performance of the Board as a whole, of its Committees and of each of its individual members.

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

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

3.2. CROSS INVOLVEMENT

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

3.3. ELECTIONS AND TERMS OF OFFICE

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

3.4. LIMITS ON EXTERNAL MANDATES

In compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), the Company's Articles of Association limit the number of mandates permissible to Board members. These rules limit the number of mandates that board members can accept to no more than ten board memberships in entities outside the Group, out of which a maximum of five memberships in board of companies whose shares are traded on a stock exchange. Mandates assumed at the request of a controlling entity do not count towards the maxima defined in the Articles of Association. In addition, the Articles of Association set similar limits to participations in board of associations and other non for profit organisations. All Board members have confirmed that they comply with these rules.

3.5. INTERNAL ORGANISATIONAL 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 plans and chairs the Board meetings, defines the agenda of the meetings and conducts the deliberations of the Board of Directors. All Members of the Board of Directors participate in deliberations of the Board and participate equally in its decisions. Within the limits permitted by law or by the Articles of Association, the Board of Directors can decide to delegate certain of its tasks to standing or ad-hoc committees. With the exception of the members of the Nomination and Remuneration Committee, who are elected by the Shareholders, the members of other Committees are appointed by the Board.

3.5.2. Committees

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

- Nomination and Remuneration
- Audit
- Professional Conduct

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

Nomination and Remuneration Committee

The Committee acts in part in an advisory capacity to the Board, and in part as a decision-making body on matters that the Board has delegated to the Committee. The Committee advises the Board of Directors on matters regarding the remuneration of the Members of the Board of Directors and Management, and on general policies relating to remuneration applicable to the Group. The Committee defines the conditions of share-based remuneration

plans or other plans for the allocation of shares, issued from time to time by the Company. The Committee reviews and approves the contractual terms of the employment of the Chief Executive Officer and the other members of the Management. The Committee reviews regularly, at least once a year, the compensation of each member of the Operations Council. The Committee drafts the SGS Remuneration Report.

In 2016, the following Directors served on the Nomination and Remuneration Committee:

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

In 2016, the Committee held one meeting. Meetings of the Nomination and Remuneration Committee were attended by all members and had a duration of two hours.

Audit Committee

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

In 2016, the following Directors served on the Audit Committee:

- Sergio Marchionne (Chairman)
- August François von Finck
- Gérard Lamarche
- Peter Kalantzis

In 2016, the Audit Committee held four meetings, with an average duration of one and a half hours. Meetings were attended by all members.

Professional Conduct Committee

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

In 2016, the following Directors served on the Professional Conduct Committee:

- Sergio Marchionne (Chairman)
- Shelby du Pasquier
- Cornelius Grupp

In addition to the Board Members, the Professional Conduct Committee also comprises the Chief Executive Officer and the General Counsel and Chief Compliance Officer (General Counsel). The head of Internal Audit attends all meetings of the Professional Conduct Committee. The Committee met twice in 2016, with an average duration of one hour and passed several resolutions in writing. All meetings were attended by all members.

3.5.3. Working Methods of the Board and its Committees

The Board of Directors and each Committee convene regularly scheduled meetings with additional meetings held as and when required, in person or by phone conference. The Board and the Committees may pass resolutions by written consent. Each Board Member has the right to request that a meeting be held or that an item for discussion and decision be included in the agenda of a meeting. Board and Committee members receive supporting documentation in advance of the meetings and are entitled to request further information from the Management in order to assist them to prepare for the meetings. The Board and each of the Committees can

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request the attendance of members of the management of the Group. The Board and each of the Committees are authorised to hire external professional advisors to assist them in matters within their sphere of responsibility. To be adopted, resolutions need a majority vote of the members of the Board or Committee, with the Chairman having a casting vote. The Board of Directors held five physical meetings in 2016. Meetings of the Board of Directors had an average duration of three hours. All members of the Board of Directors attended every meeting of the Board in 2016, with the exception of one Board member being excused for one meeting.

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

The composition, role and organisation 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 the 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 organisational 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 of the Audit Committee.

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

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

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

C. Information to the Board

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

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

During Board Meetings, the Board is updated on important issues facing the Group. The Chief Executive Officer, the Chief Financial Officer and the General Counsel and Chief Compliance Officer (hereafter "Senior Management") attend all of the Board of Directors meetings, while other Operations

Council members attend from time to time to discuss matters under their direct responsibility. The Board of Directors meets regularly with the members of the Operations Council.

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

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

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

D. General Counsel and Chief Compliance Officer

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

international best practices. The General Counsel and Chief Compliance Officer reports violations of compliance rules every semester to the Professional Conduct Committee.

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

E. Other

In addition, the main business lines have specialised 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 which 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 thirdly, risks associated with information and decision-making.

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 2016 were as follows:

FRANKIE NG (1966)

Swiss/Chinese

Chief Executive Officer

SVP Human Resources, ad interim

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

2000 – 2002: Director, Consumer
Testing Services, China and
Global Hardlines

1997 – 2000: Operations Manager,
Consumer Testing Services, China

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CARLA DE GEYSELEER (1968)

Belgian

Chief Financial Officer

EMBA, Executive Master in Business Administration IMD, 2005

Master in Economics and Finance, 1991

Joined SGS in 2014

Previous work experience

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

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

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

1995 – 2007: Various finance positions, DHL Express

1991 – 1995: Senior Auditor, Ernst and Young, Belgium

OLIVIER MERKT (1962)

Swiss

General Counsel and 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

Other work experience

1993 – 2001: Senior Manager Legal, Ernst and Young, Geneva

TEYMUR ABASOV (1972)

Azerbaijani

COO, Eastern Europe and Middle East

Degree in Electrical Engineering

Joined SGS in 1994

Previous responsibilities

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

2004 – 2006: Managing Director, Azerbaijan and Georgia

2003 – 2004: Managing Director, Georgia

2001 – 2003: Operations Manager, Oil Gas and Chemicals Services, Azerbaijan

JEAN-LUC DE BUMAN (1953)

Swiss

SVP, Corporate Communications, Investor Relations and Corporate Development

Legal studies

Joined SGS in 1998

Other work experience

1978 – 1998: Country Head Switzerland, Sales Fixed Income, UBS

HELMUT CHIK (1966)

Chinese

COO, China and Hong Kong

Master in Business Administration

Joined SGS in 1991

Previous responsibilities

2003: Managing Director, Hong Kong

2002: Global Business Manager, Softline, Consumer Testing Services

2000 – 2001: Director Greater China, SBU Softline, Consumer Testing Services

1999: Director, Hong Kong, Consumer Testing Services

OLIVIER COPPEY (1972)

Swiss

EVP, Agriculture, Food and Life

MSc Economics

Joined SGS in 1994

Previous responsibilities

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

2006 – 2008: Vice President North America, Agricultural Services, USA

1994 – 2006: Managerial positions, Agricultural Services, Switzerland/India/Cameroon

PAULINE EARL (1961)

British

COO, Western Europe

BSc in Food Science

Joined SGS in 1995

Previous responsibilities

2007 – 2010: Managing Director, United Kingdom

2004 – 2007: SSC Business Manager, United Kingdom

ALEJANDRO

GOMEZ DE LA TORRE (1959)

Peruvian

COO, South and Central America

Degree in Business Administration, Postgraduate Specialisation in International Commerce

Joined SGS in 1986

Previous responsibilities

1996 – 2001: National Chief Executive, Peru and Manager Central Sub-Region, Latin America (1998 – 2001)

DERICK GOVENDER (1970)

South African

EVP, Minerals (since October 2015)
Diploma in Analytical Chemistry
Post graduate in Business Management
Joined SGS in 2002

Previous responsibilities

2014 – 2015: Minerals Manager, Chile
2010 – 2014: VP Minerals Africa
2007 – 2010: Regional Minerals
Manager SGS Southern Africa

KIMMO FULLER (1967)

American

COO, North America
Bachelor of Science degree in Civil
Engineering; Masters in Business
Administration
Joined SGS in 2014

Previous responsibilities

2014 – 2015: Managing Director, USA

Other work experience

2013 – 2014: Regional Director,
Rolls Royce Plc
2011 – 2013: Regional Director,
Elliott Group
2007 – 2011: Business Unit Director,
Wood Group
1999 – 2007: General Manager,
General Electric

DIRK HELLEMANS (1958)

Belgian

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

Previous responsibilities

2004 – 2012: COO, Central and
North West Europe
2002 – 2004: COO, North West Europe
1997 – 2002: Managing Director, Belgium

FRÉDÉRIC HERREN (1955)

Swiss

COO, Africa
Master in Economics
Initially joined SGS in 1986, rejoined
in 1999

Previous responsibilities

2006 – 2014: EVP, Governments and
Institutions Services
2003 – 2006: EVP, Automotive Services
1999 – 2003: Head of Global Marketing,
Trade Assurance Services (now
Governments and Institutions Services)

Other work experience

1995 – 1998: CEO, Unilabs International

ROGER KAMGAING (1966)

Swiss

EVP, Governments and Institutions
Master in Commercial Law and Tax
Master in Auditing and Consulting
Initially joined SGS in 1997, rejoined
in 2014

Previous responsibilities

2000 – 2012: Governments and
Institutions Services, Global Head
Business Development
1997 – 2000: Governments and
Institutions Services, Sales Manager

Other work experience

2012 – 2014: Kamgaing Associates
(Consulting) and Time (African Business
Incubator)

THOMAS KLUKAS (1965)

German

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

Previous responsibilities

2008 – 2010: VP Automotive Services
2006 – 2008: Automotive Services
Regional Manager, North America

Other work experience

2000 – 2006: Senior Manager DEKRA SE
(Germany and USA)

FRANÇOIS MARTI (1968)

Swiss

EVP, Industrial (since October 2015)
Degree in International Relations
Initially joined SGS in 2003, rejoined
in 2011

Previous responsibilities

2012 – 2015: EVP Systems and
Services Certification
2011 – 2015: SVP, Strategic Transformation
2003 – 2005: VP Continuous Improvement

Other work experience

2005 – 2011: CEO Fiat Services
1994 – 2003: Senior Manager PWC
and IBM

6. GOVERNANCE

JEFFREY MCDONALD (1964)

Australian

EVP, Systems and Services Certification
(since October 2015)

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

1995 – 2003: Systems and Services
Certification, South Eastern Asia and
Pacific, Regional Manager (Bangkok)

PETER POSSEMIERS (1962)

Australian and Belgian

EVP, Environmental, Health and Safety

BSc Chemistry and Microbiology

Joined SGS in 1983

Previous responsibilities

2007 – 2012: Global Sales, OGC

2005 – 2007: Managing Director, Korea

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

2001 – 2003: OGC Business Development
Manager Asia Pacific, Australia

1998 – 2000: OGC Manager, Singapore

MALCOLM REID (1963)

British

COO South East Asia and Pacific

BSc Chemistry

Joined SGS in 1987

Previous responsibilities

2012 – 2015: EVP, Consumer
Testing Services

2008 – 2011: EVP, Systems and
Services Certification

2005 – 2007: Managing Director, Australia

2000 – 2005: Managing Director, Thailand

1997 – 2000: Managing Director,
Philippines

ALIM SAIDOV (1964)

Azerbaijani and 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

2001 – 2004: Managing Director,
Kazakhstan and Manager Caspian Region

RICHARD SHENTU (1968)

Chinese

EVP, Consumer and Retail

Textile Engineer, Masters in
Business Administration,

PhD in Management Science

Joined SGS in 1990

Previous responsibilities

2010 – 2015: Managing Director, China

2005 – 2011: Vice President CTS, CTS
Director and Executive Director China

2012 – 2015: Vice President
Industrial Services

2002 – 2004: CTS Hardline SBU director
China and Hong Kong

DENNIS YANG (1949)

Taiwanese

COO, East Asia

Master in Business Administration

Joined SGS in 1975

Previous responsibilities

2000 – 2002: Managing Director, Taiwan

1992 – 2000: Assistant General
Manager, Taiwan

In 2016, Dominique Ben-Dhaou, SVP
Human Resources resigned from her
position and left the Group.

4.2. OTHER ACTIVITIES AND FUNCTIONS

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

JEAN-LUC DE BUMAN

Association pour le Développement des
Compétences Bancaires, Geneva (CH),
Member of the Board since 1999

Hyposwiss Private Bank Genève SA,
Geneva (CH), Member of the Board
since 2006

Federal Accreditation Commission,
Bern (CH), Member since 2012

ALEJANDRO GOMEZ DE LA TORRE

Swiss-Peruvian Chamber of Commerce,
Lima (Peru), Director

DERICK GOVENDER

Member of IMPI (International Precious
Metals Institute)

THOMAS KLUKAS

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

FRANÇOIS MARTI

Swiss Philanthropy Foundation,
Member of the Board since 2013

4.3. LIMITS ON EXTERNAL MANDATES

At the 2015 Annual General Meeting, the shareholders modified the Articles of Association of the Company in compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), for the purpose of introducing limits on the number of mandates permissible to members of the Operations Council.

The new rules limit the number of mandates that members of the Operations Council can accept, with the prior consent of the Board of Directors, to no more than four board memberships in entities outside the Group, out of which a maximum of one membership in board of companies whose shares are traded on a stock exchange. Mandates assumed at the request of a controlling entity do not count towards the maxima defined in the Articles of Association. In addition, the Articles of Association set limits to participations in board of associations and other non for profit organisations to no more than ten such memberships.

4.4. 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 PROGRAMMES

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 to the Operations Council. The rules on the vote on pay applicable in the Group are explained below.

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

5.1.1. Rules on Performance-Related Pay and Allocation of Equity-Linked Instruments

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

5.1.2. Rules on Loans, Credit Facilities and Post-Employment Benefits

Loans granted to members of the governing bodies of the Company may not exceed one year of remuneration and must be granted at market conditions. As at 31 December 2016, two members of the Operations Council have received loans for a combined amount equivalent to CHF 28 365 (no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies the prior year).

5.1.3. Rules on Vote on Pay

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

- It approves the fixed fees payable to the Board of Directors until the next Annual General meeting;
- It approves in advance the fixed remuneration payable 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 on the Board of Directors. In addition, the Annual General Meeting is invited to cast a non-binding vote on the Remuneration Report that describes the Company's remunerations policies.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

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

6.1. VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

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

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

6.4. AGENDA

The Agenda of the General Meeting of 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 DEFENCE MEASURES

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

7.1. DUTY TO MAKE AN OFFER

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

7.2. CLAUSES ON CHANGE OF CONTROL

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

8. AUDITORS

8.1. DURATION OF THE MANDATE AND TERM OF OFFICE

Following a competitive process in 2000, Deloitte SA was appointed auditor of the Company and of 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, James Baird, has acted in this capacity since 2012. He assumed this position after agreement by the Company's Audit Committee

8.2. AUDIT FEES

Total audit fees paid to Deloitte for the audit of the Company and the Group financial statements in 2016 amounted to CHF 5.8 million (2015: CHF 5.3 million).

8.3. ADDITIONAL FEES

An aggregate amount of CHF 1.0 million (2015: CHF 1.3 million) was paid to Deloitte for other professional services, unrelated to the statutory audit activity. This amount includes CHF 0.6 million (2015: CHF 0.7 million) for tax compliance services and CHF 0.4 million (2015: CHF 0.6 million) for non-statutory and other assurance services.

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

The Audit Committee is responsible for evaluating the external auditor on behalf of the Board of Directors, and conducts assessments of the audit services provided to the Group during its regular meetings. It meets with the auditor at least three times per year (four times in 2016), including private sessions without the presence of Management.

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

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

The auditor regularly presents his findings, both during the deliberations of the Audit Committee and in written reports, to the attention of the Board of Directors that summarise 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 or investment consultants (financial community) and the employees with financial and business information in a consistent, broad, timely and transparent manner.

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



SGS SERVICE

> Portable Emissions Measurement System (PEMS) Testing



CONSUMER BENEFIT

> Fairer and more accurate vehicle emissions information

THE ROAD TO REAL WORLD DATA

In August 2016, SGS introduced Portable Emissions Measurement System (PEMS) testing to its comprehensive portfolio of transportation testing services in the US.

PEMS testing is used to assess emissions for vehicles and other engine operated machines in real-world conditions. This is important because on-road vehicle emissions are often higher than what is shown in a laboratory setting, and fuel efficiency can be significantly lower. Being able to see real-world emissions data will allow the transportation industry to work towards measurable emissions reductions while also providing an avenue of accountability to manufacturers.

Attaching to a vehicle's exhaust pipe, the PEMS system sends information in real-time to a monitoring device. This allows testers to focus on driving the vehicle naturally around a given terrain (e.g. driving at altitude, on a motorway, or even off-road), while the PEMS system automatically logs emissions data.

PEMS technology is lightweight and flexible in its use, meaning it can be taken anywhere it is needed and used on a variety of vehicles and equipment. This makes it an efficient and flexible solution for engine manufacturers that want to provide real-world data to their customers.

7. REMUNERATION REPORT

The SGS Remuneration Report provides an overview of the SGS remuneration model, its principles and programmes 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 2016 business year.

The SGS Remuneration Report has been prepared in compliance with the Ordinance against Excessive Compensation in Stock Exchange listed Companies ("the Ordinance"), the Swiss Exchange (SIX) Directive on Information relating to Corporate Governance of 1 September 2014 and the principles of the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*.

1. INTRODUCTION BY THE NOMINATION AND REMUNERATION COMMITTEE

2. COMPANY'S REMUNERATION POLICY AND GOVERNANCE

- 2.1. Remuneration Policy and Principles
- 2.2. Remuneration Governance
 - 2.2.1. Nomination and Remuneration Committee
 - 2.2.2. Shareholders' Engagement
 - 2.2.3. Method of Determination of Compensation – Benchmarking

3. REMUNERATION MODEL

- 3.1. Structure of Remuneration of the Board of Directors
- 3.2. Structure of Remuneration of the Operations Council
 - 3.2.1. Base Salary
 - 3.2.2. Short-Term Incentive
 - 3.2.3. Long-Term Incentive
 - 3.2.4. Shareholding Ownership Guideline
 - 3.2.5. Benefits
 - 3.2.6. Employment Contracts
 - 3.2.7. Timeline of Remuneration

4. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

5. REMUNERATION AWARDED TO THE CEO, SENIOR MANAGEMENT AND OTHER MEMBERS OF THE OPERATIONS COUNCIL

- 5.1. Performance in 2016
- 5.2. Cash Compensation
- 5.3. Share-Based Compensation
 - 5.3.1. Restricted Shares
 - 5.3.2. Long-Term Incentive Plan
 - 5.3.3. Discontinued Share Option Plans
- 5.4. Total Compensation to the Operations Council, Senior Management and Chief Executive Officer
- 5.5. Other Compensation
 - 5.5.1. Severance Payments
 - 5.5.2. Other Compensation to Members or Former Members of Governing Bodies
 - 5.5.3. Loans to Members or Former Members of Governing Bodies

1. INTRODUCTION BY THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is pleased to present its 2016 Remuneration Report.

During the year, the Committee focused its attention on the monitoring and assessment of the implementation of the remuneration system introduced in 2015, and its alignment to the business strategy of profitable growth and to the expectations of the shareholders.

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

The Committee has received significant support in its activities and direction through positive votes at the Annual General Meeting 2016, and will continue with the same "say-on-pay" vote structure at the forthcoming Annual General Meeting 2017:

- Consultative vote on the Remuneration Report;
- Binding vote on the prospective remuneration amount of the Board of Directors until the next Annual General Meeting;
- Binding vote on the retrospective variable remuneration amount of the Operations Council members of the previous business year;
- Binding vote on the prospective fixed remuneration amount of the Operations Council members for 2018.

On the following pages, you will find detailed information about our remuneration model, its principles and programmes and the remuneration awarded to the Board of Directors and to the Operations Council related to the business year 2016.

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

Shelby du Pasquier
Chairman

2. COMPANY'S REMUNERATION POLICY AND GOVERNANCE

2.1. REMUNERATION POLICY AND PRINCIPLES

Remuneration of the Board of Directors

In order to guarantee their independence in exercising their supervisory duties

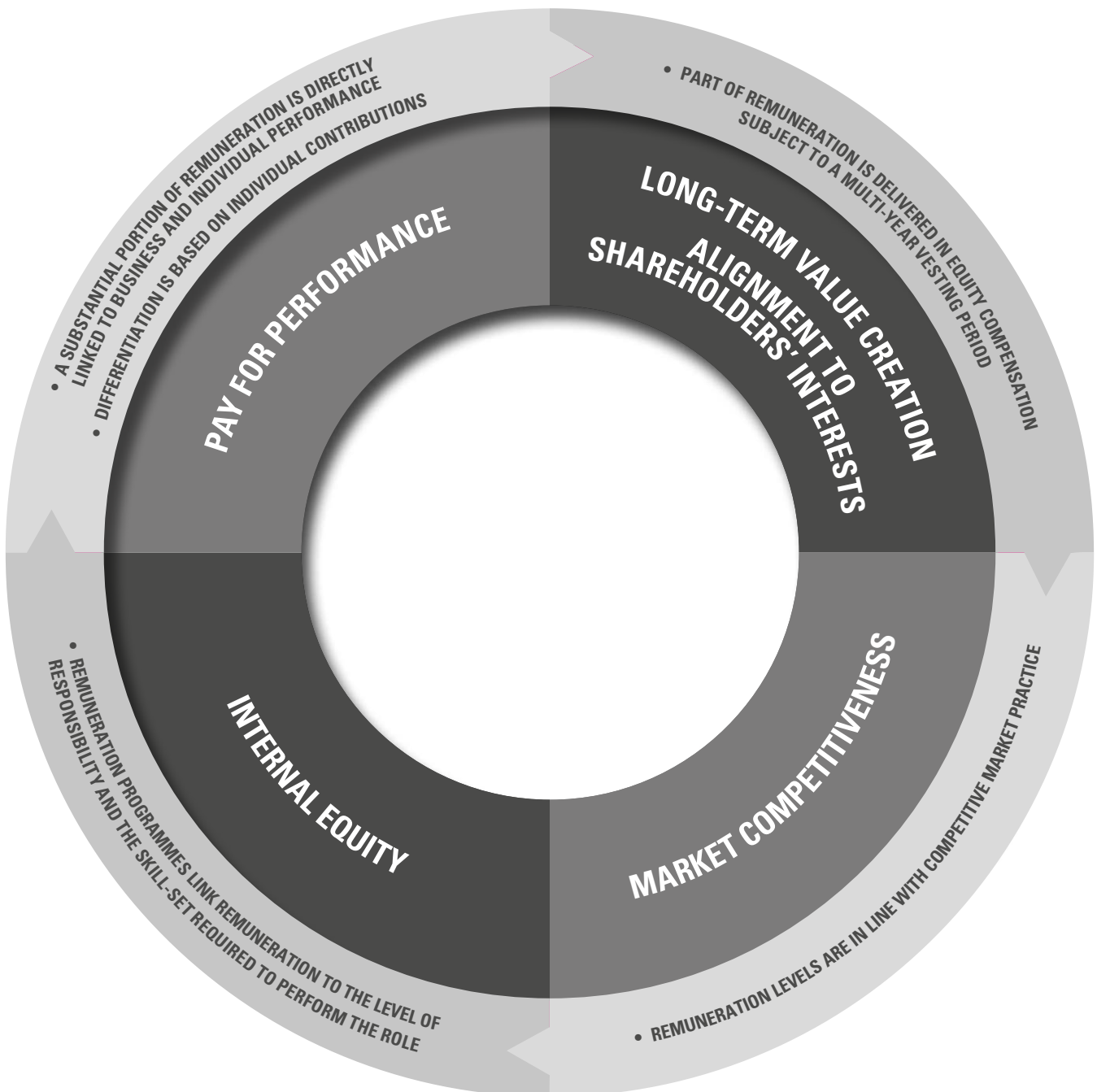
towards the Executive Management, the members of the Board of Directors receive a fixed remuneration only.

Remuneration of the Executive Management

The Company's remuneration policy applicable to the Executive Management (Operations Council) is defined by the Board of Directors with two main objectives: to attract and retain the best talent available in the industry, and to motivate them to create and protect

value for our shareholders by driving long-term sustainable financial success. The remuneration policy is built on core principles that are aligned with the Company's business strategy of profitable growth and the aim to drive and support the Company's core values of passion, integrity, entrepreneurialism and innovative spirit.

Our remuneration system operates according to the four principles described below.



2.2. REMUNERATION GOVERNANCE

2.2.1. Nomination and Remuneration Committee

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.

The Board of Directors is assisted in its work by a Nomination and Remuneration Committee ("the Committee"), which consists of independent 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 charts summarise the authorisation 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 specialised in compensation matters. In 2016, neither the Committee nor the Board of Directors had recourse to such external advisors.

Authorisation levels:

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

The following Directors served on the Committee in 2016:

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

In 2016, the Committee met in one meeting, attended by all members and handled several matters pertaining to nominations and remunerations outside scheduled meetings. The Chairman

of the Nomination and Remuneration Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to the members of the Board of Directors. As a general rule, 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.

2.2.2. Shareholders' Engagement

In recent years, based on the feedback received from our shareholders and their representatives, we have made

- Internationally active companies within and outside Switzerland that operate in the business-to-business services sector, such as Adecco and Sodexo;
- Internationally active companies within and outside Switzerland that operate in one or more of the industry sectors in which SGS is active, including the energy, mining, industrial, chemical, medical goods, pharmaceutical, durable and non-durable goods, and food sectors, such as Alstom, Glencore-Xstrata, Siemens, DuPont, Baxter, Actelion, Schindler and Amcor.

The elements of executive remuneration benchmarked include annual base salary, allowances, short-term and long-term incentive compensation and benefits. To ensure proper benchmarking, we use a proprietary job evaluation methodology. Since more than one-third of our Operations Council members are based outside Switzerland, we utilise information published by reputable data providers, including Mercer and Willis Towers Watson, which are able to supply information on both a local and global basis.

The compensation elements of the Governing Bodies of the Company are benchmarked normally every three years, with the support of one of the services providers quoted above. The most recent analysis has been performed in 2015, with the support of Mercer.

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

3. REMUNERATION MODEL

3.1. STRUCTURE OF REMUNERATION OF THE BOARD OF DIRECTORS

In order to guarantee their independence in exercising their supervisory duties towards the Executive Management, the members of the Board of Directors receive a fixed remuneration only, paid in cash. They are entitled to a fixed annual board membership fee and additional annual fees for the participation in board committees. They do not receive additional compensation for attending meetings and do not receive any variable remuneration, options or shares.

The Chairman of the Board receives a fixed annual fee and additional fixed fees for chairing the Audit Committee and the Professional Conduct Committee.

REMUNERATION OF THE BOARD OF DIRECTORS

FIXED ANNUAL FEE	COMMITTEE FEE (PER COMMITTEE)	
300 000	30 000	Chairman
150 000	30 000	Board members

Directors of the Board receive an annual fixed fee of CHF 150 000 whilst the Chairman of the Board receives CHF 300 000. In addition, members of a board committee receive CHF 30 000 for each committee.

The remuneration is paid in cash in two instalments, in June and in December for the calendar year. Social charges are applied to the above amounts.

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 pension contributions on their behalf.

3.2. STRUCTURE OF REMUNERATION OF THE OPERATIONS COUNCIL

The remuneration earned by the Chief Executive Officer and by members of the Operations Council comprises: (i) a fixed base salary, (ii) an annual Short-Term Incentive, settled partly in cash and partly in restricted shares, (iii) a Long-Term Incentive, and (iv) other benefits such as retirement, insurances and perquisites.

The Group's long-term strategic plan drives all the activities in the business and is reflected in the remuneration strategy that will assist the Group in achieving its financial and other business

goals. 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 annual Short-Term Incentive is used to reward the annual achievements against the business plan, while the Long-Term Incentive is used to drive sustained performance aligned with the Group's long-term strategic plan.

The Company considers that the payment of variable remuneration in the form of shares subject to restriction and/or vesting period is a key mechanism to align the Management's incentives to the long-term interests of shareholders.

7. REMUNERATION REPORT

The table below summarises the various components of the compensation of Operations Council members, including the Chief Executive Officer.

REMUNERATION ELEMENT	REMUNERATION VEHICLE	DRIVERS	PERFORMANCE MEASURES	PURPOSE	PLAN PERIOD
Base Salary	Monthly cash salary	Position and experience, market practice (benchmarking)	n/a	Attract and retain key executives	Continuous
Short-Term Incentive	50% cash 50% restricted shares	Annual financial performance, individual performance against leadership behavioural model	Group revenue, Group NPAT, Group ROIC ¹ , regional and business-line profit, regional NWC ² , leadership multiplier	Pay for performance	1-year performance period 3-year deferral period
Long-Term Incentive	Performance Share Units (PSU)	Long-term financial performance	Relative organic revenue growth, relative NPAT improvement, relative TSR ³ , absolute free cash flow	Reward for long-term performance, align compensation with the interests of the shareholders	3-year performance period
Benefits	Retirement benefits and insurances, perquisites	Market practice	n/a	Protect executive against risks, attract and retain	Continuous

1. NPAT: Net Profit After Tax, ROIC: Return On Invested Capital.

2. NWC: Net Working Capital.

3. TSR: Total Shareholder Return.

3.2.1. Base Salary

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

3.2.2. Short-Term Incentive

Members of the Operations Council, including the Chief Executive Officer, are entitled to a performance-related annual incentive (the "Short-Term Incentive"). The Short-Term Incentive is designed to reward the executives for the annual financial performance of the Group

and its businesses, as well as for the demonstration of leadership behaviours in line with the SGS competency model.

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

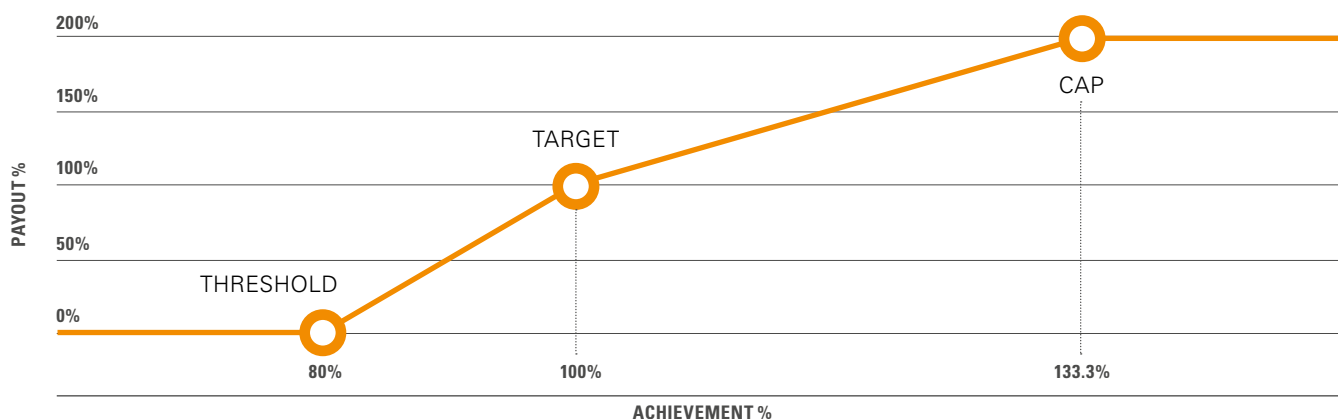
Financial Performance

The key performance indicators used to measure the annual financial performance of the Group and its businesses include a measurement of growth (top-line contribution), profitability (bottom-line contribution) and efficient use of capital, and thus reflect the financial performance of the Company in a balanced manner. Those financial metrics are cascaded

consistently throughout the organisation in order 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 50% on the financial performance of the Group and 50% on the financial performance of their own business line (EVPs) or region (COOs).

GROUP'S FINANCIAL PERFORMANCE			ROLE-SPECIFIC FINANCIAL PERFORMANCE		
	PROFITABILITY (BOTTOM-LINE)	GROWTH (TOP-LINE)	EFFICIENT USE OF CAPITAL	PROFITABILITY (BOTTOM-LINE)	EFFICIENT USE OF CAPITAL
CEO	Group NPAT 25%	Group Revenue 25%	Group ROIC 50%	-	-
SVPs	Group NPAT 65%	Group Revenue 25%	Group ROIC 10%	-	-
EVPs	Group NPAT 25%	Group Revenue 25%	-	Business-line profit 40%	Group ROIC 10%
COOs	Group NPAT 25%	Group Revenue 25%	-	Regional profit 40%	Regional NWC 10%

At the beginning of the performance year, the objective for each financial metric is set by the Board of Directors on the basis of a recommendation by the CEO and in line with the annual budget. For each financial metric, the payout curve is predetermined as follows: a target (expected level of performance), a threshold (minimum level of performance to trigger a payout) and a cap (maximum level of performance above which the payout factor is capped at 200%). The payout factor between the threshold, the target and the maximum is calculated by linear interpolation.



The payout curve is structured on a leverage of one to three for over-achievement and one to five for under-achievement:

- Every percentage achievement above 100% of the objective (budget) increases the payout factor by 3%. The payout factor is capped at 200%. Therefore a performance above 133.3% achievement level (cap) provides a 200% payout factor.
- Every percentage achievement below 100% of the objective (budget) reduces the payout factor by 5%. Therefore a performance below 80% achievement level (threshold) provides a 0% payout factor.

At the end of the performance period, the results for each objective are assessed against the pre-defined targets and the payout curve to determine a payout factor. The weighted average of the payout factors of each objective corresponds to the overall financial performance payout factor. Below you will find an example of calculation for an Executive Vice President.

GROUP REVENUE WEIGHT 25%	GROUP NPAT WEIGHT 25%	BUSINESS PROFIT WEIGHT 40%	GROUP ROIC WEIGHT 10%	FINANCIAL PERFORMANCE PAYOUT
100% x 0.25	80% x 0.25	150% x 0.40	150% x 0.10	120%

7. REMUNERATION REPORT

Leadership Multiplier

To determine the final incentive amount to be paid, the financial performance payout factor is multiplied by a leadership multiplier. This combination of financial objectives and leadership multiplier has been chosen in order to balance between rewarding the financial performance of the Group and its businesses, and rewarding wider leadership behaviours of the executives.

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

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

Below is an example of the calculation of a final incentive actual payout.

TARGET INCENTIVE	X	FINANCIAL PERFORMANCE PAYOUT FACTOR	X	LEADERSHIP MULTIPLIER	=	ACTUAL PAYOUT
100 000		120%		125%		150 000

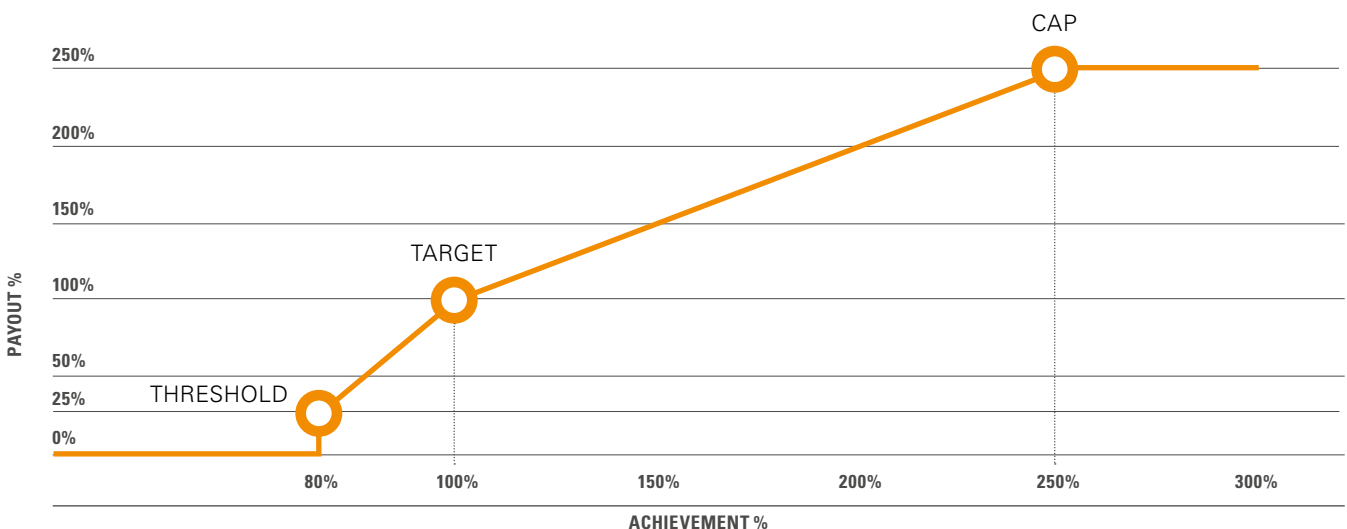
Short-Term Incentive Calculation

The calculations and the corresponding Short-Term Incentive amounts for the CEO and the other members of the Operations Council are confirmed by the Nomination and Remuneration Committee, and approved by the Board of Directors. Their aggregate amount is subject to a binding vote at the Annual General Meeting.

Specific Short-Term Incentive Rules for the CEO

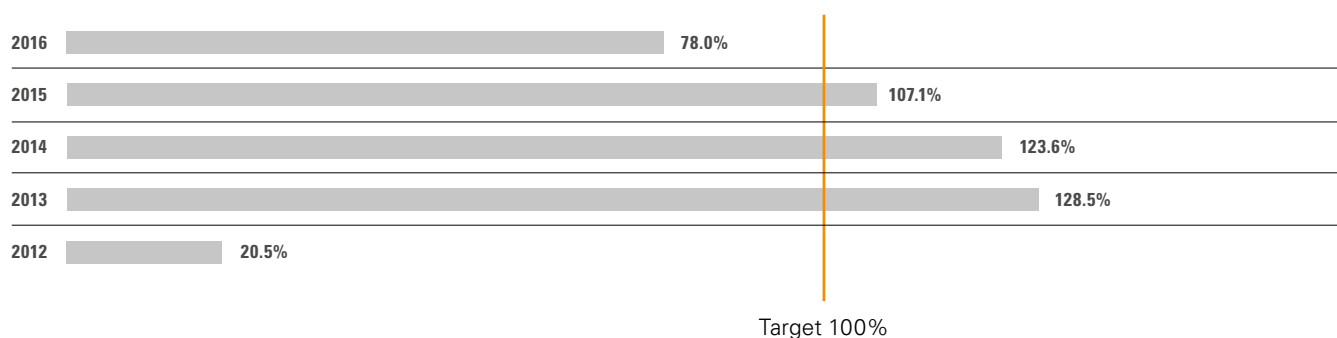
The Board of Directors decided to adapt the rules of the Short-Term Incentive plan to the specific position of CEO, as follows:

- The CEO performance assessment is purely based on the financial performance of the Company and the leadership multiplier does not apply to the CEO;
- Because of the absence of leadership multiplier, the payout curve for the CEO is adjusted: for the threshold level of performance, the payout starts at 25% (instead of 0%); there is no accelerator for performance above target; and a cap at 250% payout apply.



- Strong governance practices and the retrospective binding vote of the AGM on the aggregate variable compensation of the Operations Council (including CEO), combined with the practice to set challenging targets, make sure that the incentive payout level of the CEO falls in an acceptable range and is strongly aligned to the annual financial performance of the Group. The table below summarises the CEO’s historical annual incentive payout against target for the past five years.

CEO ANNUAL INCENTIVE PAYOUT



Settlement of the Short-Term Incentive

Once the Short-Term Incentive amount is determined, it is settled 50% in cash and 50% in restricted shares, in order to strengthen the link between the compensation of the executives and the future company share price performance.

The cash component and the shares are paid out after the shareholders' approval at the Annual General Meeting of the following year. The shares are allocated at the value defined as the average closing share price during the 20-day period following the payment of the dividends after the Annual

General Meeting. 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 blocked in all other instances.

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 in 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.

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

SHORT-TERM INCENTIVE		CEO	OTHER OPERATIONS COUNCIL MEMBERS
Incentive frequency		Annual	Annual
Payout vehicle		50% cash 50% restricted shares	50% cash 50% restricted shares
Minimum incentive opportunity	as % of base salary	0%	0%
	as % of target incentive opportunity	0%	0%
Target incentive opportunity	as % of base salary	100%	55% – 65%
	as % of target incentive opportunity	250%	250%
Maximum incentive opportunity	as % of target incentive opportunity	250%	250%
	as % of base salary	250%	137.5% – 162.5%

3.2.3. Long-Term Incentive

In 2015, the Board of Directors implemented a Long-Term Incentive plan designed to motivate the Leadership team to realise the long-term objectives of the Group. The plan consists of Performance Share Units (PSUs) granted in Q4 2015 to a selected number of senior executives of the Group, including the members of the Operations Council. The PSUs vest after a performance period of three years (2015-2017) conditionally upon the achievement of pre-defined

performance objectives and the executive being employed by the Group at the vesting date (31 December 2017).

In order to balance the Short-Term Incentive plan, which is based on absolute financial performance and on leadership behaviours, relative performance measures have been introduced in the Long-Term Incentive plan, which includes both relative performance compared to a peer group of companies, and absolute performance against budget:

- Relative total shareholder return (TSR, value delivered to shareholders), 40% weight
- Relative organic revenue growth (top-line performance), 20% weight
- Relative NPAT improvement (bottom-line performance), 20% weight
- Free cash flow (absolute measure against SGS annual budget), 20% weight

7. REMUNERATION REPORT

The relative performance on revenue growth, NPAT and TSR are measured by an independent consulting company, Obermatt. Obermatt compares and ranks SGS against the performance of a selected peer group of companies that have been approved 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 neutralised. For each relative objective,

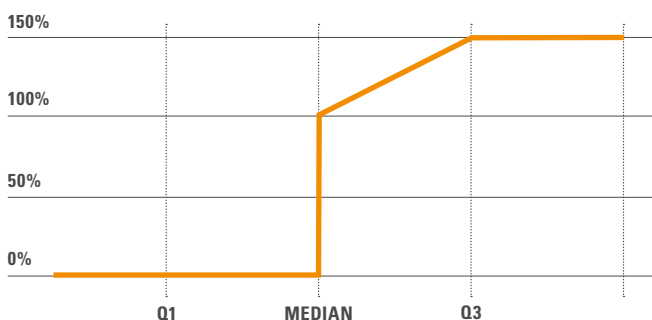
the target is to reach at least the median performance of the peer group, which corresponds to 100% vesting level. There is no vesting for a performance below the median of the peer group and the vesting level is capped at 150% for performance at the upper quartile of the peer group. Any vesting level in between is interpolated linearly.

PEER GROUP

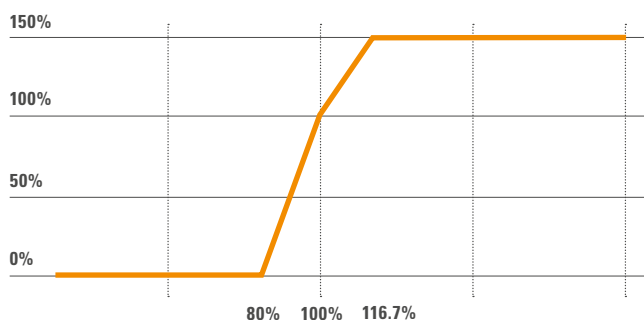
Adecco	ALS	Applus+	Bureau Veritas	Eurofins
Exova	Intertek	ISS	Mistras	Rentokil
SAI Global	Securitas	Sodexo	Team	

For the free cash flow objective, the vesting level is predetermined as follows: for every percentage point of achievement below the target, the vesting level is reduced by 5%; for every percentage point of achievement above target, the vesting level is increased by 3%, to a maximum of 150%.

**VESTING LEVEL
RELATIVE OBJECTIVES**



**VESTING LEVEL
FREE CASH FLOW**



The overall vesting level of the PSUs granted will be calculated as a weighted average of each of the respective vesting levels for relative TSR (40%), relative NPAT improvement (20%), relative organic revenue growth (20%) and free cash flow against budget (20%) and ranges between 0% and 150%.

$$\text{Number of shares allocated at vesting} = \text{Number of PSUs originally granted to the participant} \times \text{Overall vesting level (0-150\%)}$$

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

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

The table below summarises the vesting rules in case of termination of employment.

TERMINATION REASON	VESTING RULE	VESTING TIME AND SHARES ALLOCATION	VESTING LEVEL
Retirement or disability	Vesting on a pro rata basis	At regular vesting date	Based on actual performance
Death	Vesting on a pro rata basis	Immediate	Based on an estimation of performance by the Board of Directors
Corporate transaction or liquidation	Full vesting	Immediate	Based on an estimate of performance by the Board of Directors
Other reasons	Forfeiture	-	-

Malus and clawback provisions

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

The grants awarded under the Long-Term Incentive plan take place every three years (no annual grants).

In 2016, no Long-Term Incentive plan was implemented by the Group, and no additional PSUs were granted to members of the Operations Council under the existing 2015-2017 plan.

The Group does not issue new shares to grant employees for the equity-based compensation plans, but uses treasury shares instead, acquired through share buyback programmes. Detailed information on the overhang and burn rate are disclosed in note 31.

3.2.4. Shareholding Ownership Guideline

A Shareholding Ownership Guideline (SOG) was introduced in 2015, requiring the members of the Operations Council to own at least a certain multiple of their annual base salary in SGS shares as follows:

- CEO: three times the annual base salary

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

In the event of a substantial drop in the share price, the Board of Directors has the discretion to modify the SOG. The determination of equity amounts against the SOG is defined to include vested shares allocated under the Short-Term and Long-Term Incentive plans, shares underlying vested and unvested warrants granted under the discontinued warrants plans and other shares that are owned by the Operations Council member directly or indirectly (by "closely related persons").

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

3.2.5. Benefits

Additional employment benefits such as allowances or memberships may be awarded in accordance with prevailing practice in the locations of employment of individual Operations Council members. They also include the employer's contributions to social benefits as per the applicable legislation in the country of employment. Retirement benefits are set out on page 141 in this Report. Swiss-based Operations Council members participate, on the same basis as other Swiss employees of the Group, in the Company's pension scheme. Employees contribute 8% of their base salary and the Company contributes an amount equal to one and a half times the contributions paid by all employees to the scheme. Employees have the possibility

to voluntarily increase their contribution rate by 2% above the standard rate. More flexibility has also been granted to employees who wish to fund a potential retirement before the normal age, or for those who wish to continue working after the age of 65.

3.2.6. Employment Contracts

Employment contracts of Operations Council members have no fixed term and can be terminated at any time by either party, provided a standard notice period of six months is respected. For the Chief Executive Officer the notice period is twelve months. The executive contracts do not provide for any severance payments, and are subject to applicable legislation in the country of employment. More than one-third of the Operations Council members are not employed in Switzerland.

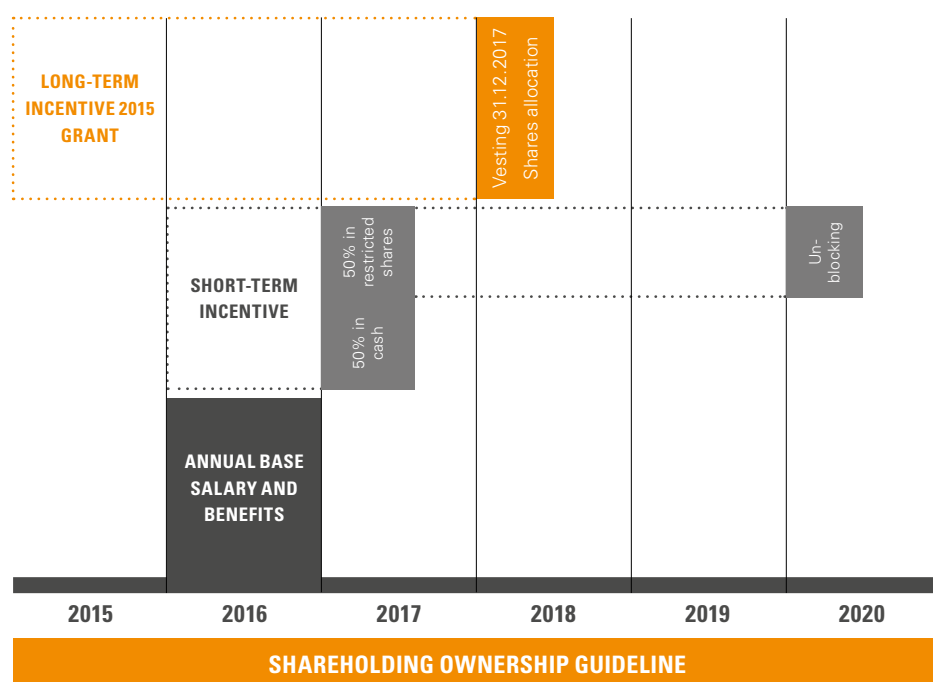
3.2.7. Timeline of Remuneration

The following outlines the timeline of payment of each remuneration element that was earned in 2016:

- The annual base salary is paid during 2016
- The cash portion of the Short-Term Incentive is paid in March 2017, shortly after the Annual General Meeting
- The share portion of the Short-Term Incentive is allocated in April 2017 and will be unblocked in April 2020
- The PSUs granted under the Long-Term Incentive in 2015 will be earned over the performance period from 2015 to 2017 and will vest on 31 December 2017. Until that date, there is no vesting under the Long-Term Incentive plan.

7. REMUNERATION REPORT

TIMELINE (PERFORMANCE PERIOD, TIME OF PAYMENT)



PERFORMANCE OBJECTIVES

- Relative organic revenue growth (20%)
- Relative NPAT improvement (20%)
- Relative TSR (40%)
- Absolute free cash flow (20%)
- Group revenue (25%)
- Group NPAT (25%)
- Role specific P&L (50%)
- Multiplied by leadership multiplier
- Fixed remuneration

4. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

In 2016, the annual board membership fee was CHF 150 000 for all Board of Directors members, unchanged from the prior year. Members of the Board of Directors serving on a committee were entitled to an additional fee of CHF 30 000 per committee, unchanged from last year. The annual fee payable to the Chairman of the Board was CHF 300 000, unchanged from the prior year.

The remuneration is disclosed on a fiscal year basis and the actual amounts paid correspond to pre-approved amounts at the last Annual General Meeting.

The following chart details the fees and other cash benefits granted to each of the Directors for their tenure in 2016:

(CHF thousand)	BOARD FEE	COMMITTEE FEE	OTHER BENEFITS	TOTAL CASH COMPENSATION	TOTAL COMPENSATION
S. Marchionne	300	60	56	416	416
P. Desmarais	150	-	13	163	163
A. von Finck	150	30	8	188	188
A.F. von Finck	150	30	16	196	196
I. Gallienne	150	30	16	196	196
C. Grupp	150	30	9	189	189
P. Kalantzis	150	30	8	188	188
G. Lamarche	150	30	16	196	196
S.R. du Pasquier	150	60	18	228	228
C. Kirk	150	-	13	163	163
TOTAL	1 650	300	173	2 123	2 123

The following chart details the fees and other cash benefits and share options granted to each of the Directors for their tenure in 2015:

<i>(CHF thousand)</i>	BOARD FEE	COMMITTEE FEE	OTHER BENEFITS	TOTAL CASH COMPENSATION	TOTAL COMPENSATION
S. Marchionne	300	60	56	416	416
P. Desmarais	150	-	13	163	163
A. von Finck	150	30	14	194	194
A.F. von Finck	150	30	16	196	196
I. Gallienne	150	30	16	196	196
C. Grupp	150	23	13	186	186
P. Kalantzis	150	30	14	194	194
G. Lamarche	150	30	16	196	196
S.R. du Pasquier	150	60	18	228	228
C. Kirk	113	-	9	122	122
TOTAL	1 613	293	185	2 091	2 091

The overall compensation paid to the Board of Directors in 2016 increased compared to 2015. This was due to one member, Chris Kirk, not serving a full year in 2015, as he was appointed on 13 March 2015.

The following table shows the details of the options granted to the Chairman of the Board under the discontinued Annual Share Option Plans and Long-Term Incentive plans. Note: options have no longer been granted to the Chairman of the Board since 2014 year end.

TYPE OF OPTIONS¹ (YEAR OF ISSUE)	STRIKE PRICE² (CHF)	TOTAL NUMBER OF OPTIONS GRANTED UNDER EACH PLAN	MARKET VALUE AT GRANT (CHF THOUSAND)	NUMBER VESTED ON 31 DECEMBER 2016	NUMBER VESTED ON 31 DECEMBER 2015
SGSKF (2012)	1 497	50 000	133	50 000	50 000
SGSWS (2013)	2 013	40 000	89	40 000	26 667
SGSPF (2014)	2 059	75 000	189	50 000	50 000

1. One hundred options give the right to acquire one share.

2. Before Adjustment for capital reductions and special dividends.

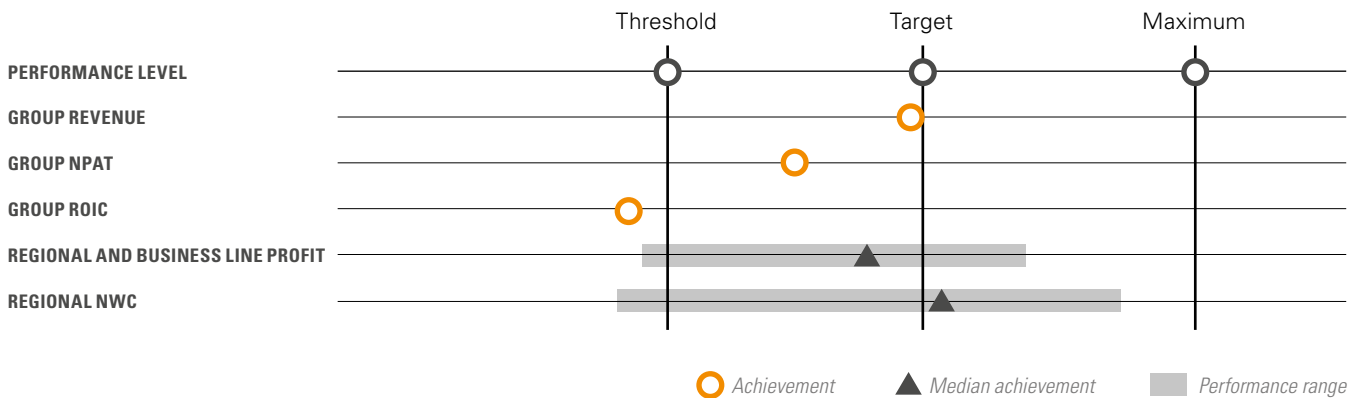
5. REMUNERATION AWARDED TO THE CEO, SENIOR MANAGEMENT AND OTHER MEMBERS OF THE OPERATIONS COUNCIL

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 for 2016. All amounts disclosed in this section include the Short-Term Incentive cash amount and restricted shares that will be granted in April 2017 with respect to performance in 2016 (disclosure according to the accrual principle).

7. REMUNERATION REPORT

5.1. PERFORMANCE IN 2016

The chart below summarises the 2016 performance achievements against targets for the financial objectives (revenue, profitability, capital efficiency) used in the Short-Term Incentive:



5.2. CASH COMPENSATION

(CHF thousand)

	2016	2015
To the Operations Council (including Senior Management)	11 259	13 305
To Senior Management (including Chief Executive Officer)	2 304	3 143
To the Chief Executive Officer	1 263	1 943
<i>Former Incumbent, Mr. Chris Kirk (pro rata)</i>	-	852
<i>Current Incumbent, Mr. Frankie Ng (pro rata)</i>	1 263	1 091

The total cash compensation paid to the Operations Council includes the annual base salaries, the cash portion of the Short-Term Incentive, and any other cash allowances, including allowances paid to individual members in respect of vehicle, housing and schooling. Post-employment benefits of CHF 1 072 thousand are not included (2015: CHF 1 081 thousand). Employer's contributions to social benefits are excluded as well. The total cash compensation in 2016 was lower than in 2015 because there was no overlap of former and current CEO, and because the Short-Term Incentive payout was lower.

The achievement of financial targets at Group level, in the businesses and in the regions ranges from 73.8% to 110.8% (2015: 79.3% to 138.2%). The overall Short-Term Incentive payout amounts to 78.0% of the target incentive opportunity for the CEO (2015: 107.1%) and ranges from 26.6% to 124.1% of the target incentive opportunity for the members of the Operations Council (2015: 53.9% to 158.9%). For the purpose of the Short-Term Incentive, targets and performance achievement are measured at constant currency exchange rates.

5.3. SHARE-BASED COMPENSATION

5.3.1. Restricted Shares

In settlement of 2016 Short-Term Incentive, SGS restricted shares will be allocated to the Operations Council (including Senior Management) in April 2017 (2015: 1 315 restricted shares were granted in April 2016). The shares are allocated at their fair market value, being defined as the average closing price of the share during a 20-day period following the payment of the dividends after the Annual General Meeting, and are restricted for a period of three years.

5.3.2. Long-Term Incentive Plan

In 2016, the Group did not implement any Long-Term Incentive plan, and the Operations Council members did not receive any Long-Term Incentive grant.

Under the 2015 Long-Term Incentive plan, a total of 14 570 PSUs were granted to the Operations Council members (including Senior Management). Senior Management was awarded a total of 3 772 PSUs, which included 2 346 PSUs awarded to the Chief Executive Officer. The vesting date of such PSUs is 31 December 2017. The vesting is conditional upon the Group achieving or exceeding its financial targets over the three-year performance period (2015-2017) relating to relative organic revenue growth, relative NPAT improvement, relative TSR and absolute free cash flow.

The value of the PSUs granted in 2015 measured at the grant date fair value did not exceed the maximum amount of CHF 30 million approved at the Annual General Meeting 2015.

5.3.3. Discontinued Share Option Plans

The following table presents details of the share options awarded to members of the Operations Council, Senior Management and the CEO, active at 31 December 2016, and shows those options that have been granted, vested and/or became exercisable in 2016.

TYPE OF OPTIONS ¹ (YEAR OF ISSUE)	STRIKE PRICE ² (CHF)	TOTAL NUMBER OF OPTIONS GRANTED UNDER EACH PLAN	MARKET VALUE AT GRANT (CHF THOUSAND)	NUMBER VESTED ON 31 DECEMBER 2016	NUMBER VESTED ON 31 DECEMBER 2015
OPERATIONS COUNCIL (INCLUDING SENIOR MANAGEMENT AND CHIEF EXECUTIVE OFFICER)					
SGSKF (2012)	1 497	628 862	1 673	628 862	628 862
SGSWS (2013)	2 013	776 970	1 733	776 970	517 980
SGSPF (2014)	2 059	589 746	1 486	393 164	393 164
SGSBB (2015)	1 798	878 993	1 951	585 995	292 998
SENIOR MANAGEMENT (INCLUDING CHIEF EXECUTIVE OFFICER)					
SGSKF (2012)	1 497	102 676	273	102 676	102 676
SGSWS (2013)	2 013	89 895	200	89 895	59 930
SGSPF (2014)	2 059	89 928	227	59 952	59 952
SGSBB (2015)	1 798	145 545	323	97 030	48 515
CHIEF EXECUTIVE OFFICER					
SGSKF (2012)	1 497	61 621	164	61 621	61 621
SGSWS (2013)	2 013	46 632	104	46 632	31 088
SGSPF (2014)	2 059	23 464	59	15 643	15 643
SGSBB (2015)	1 798	82 727	184	55 151	27 576

1. One hundred options give the right to acquire one share.

2. Before adjustment for capital reductions and special dividends.

5.4. TOTAL COMPENSATION TO THE OPERATIONS COUNCIL, SENIOR MANAGEMENT AND CHIEF EXECUTIVE OFFICER

The tables below present all components of the remuneration earned in 2016 and 2015 by the Operations Council, by the Senior Management and by the Chief Executive Officer.

Total compensation for 2016:

(CHF thousand)	BASE SALARY	CONTRIBUTION TO PENSION BENEFITS	OTHER EMPLOYMENT BENEFITS	ANNUAL CASH INCENTIVE	ANNUAL GRANT OF RESTRICTED SHARES ¹	LONG TERM INCENTIVE PSUS GRANT	TOTAL 2016 COMPENSATION (INCLUDING RESTRICTED SHARES)
To the Operations Council (including Senior Management) ²	7 768	1 072	2 731	1 839	1 839	-	15 249
To Senior Management (including Chief Executive Officer) ³	1 610	225	539	458	458	-	3 290
To the Chief Executive Officer	800	100	303	312	312	-	1 827

1. Restricted Shares that will be granted in April 2017.

2. 23 FTE (Full Time Equivalent).

3. 3 FTE.

7. REMUNERATION REPORT

Total compensation for 2015:

(CHF thousand)	BASE SALARY	CONTRIBUTION TO PENSION BENEFITS	OTHER EMPLOYMENT BENEFITS	ANNUAL CASH INCENTIVE	ANNUAL GRANT OF RESTRICTED SHARES	LONG TERM INCENTIVE PSUS GRANT ¹	TOTAL 2015 COMPENSATION (INCLUDING RESTRICTED SHARES AND LTI)
To the Operations Council (including Senior Management) ²	8 205	1 081	3 508	2 944	2 680	13 468	31 886
To Senior Management (including Chief Executive Officer) ³	1 950	260	841	731	731	3 487	8 000
To the Chief Executive Officer	1 140	148	614	438	438	2 169	4 947
<i>Former Incumbent, Mr. Chris Kirk (pro rata)</i>	<i>496</i>	<i>50</i>	<i>404</i>	<i>93</i>	<i>93</i>	<i>-</i>	<i>1 136</i>
<i>Current Incumbent, Mr. Frankie Ng (pro rata)</i>	<i>644</i>	<i>98</i>	<i>210</i>	<i>345</i>	<i>345</i>	<i>2 169</i>	<i>3 811</i>

1. Valuation of the Performance Share Units (PSUs) granted under the 2015-2017 Long-Term Incentive plan (LTI) according to IFRS2. PSUs vesting is subject to company performance conditions. As per Swiss law requirements, the total valuation of the 3-year period has to be disclosed when PSUs are granted contrary to IFRS (valuation disclosed over the LTIP 3-year period).

2. 24 FTE (Full Time Equivalent).

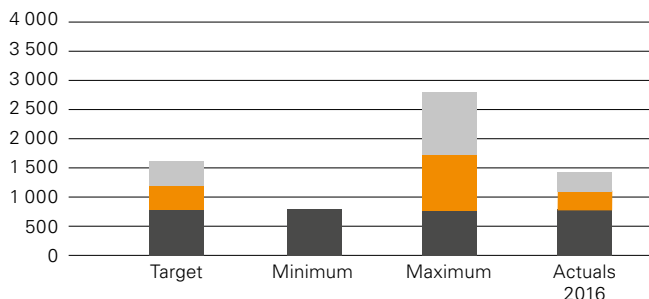
3. 3 FTE.

In the year under review, the highest compensation paid by the Group was awarded to the Chief Executive Officer.

The following charts illustrate the ratio between fixed and variable remuneration for the CEO and for the other members of the Operations Council on average (without CEO). The ratio depends on the extent to which pre-defined objectives have been achieved and is being shown at target (assuming performance at the required level), at minimum (no payout under the Short-Term Incentive due to underperformance), at maximum (maximum payout under the Short-Term Incentive plan) and at actual levels achieved in 2016. The charts exclude Long-Term Incentive grants.

CEO REMUNERATION MIX

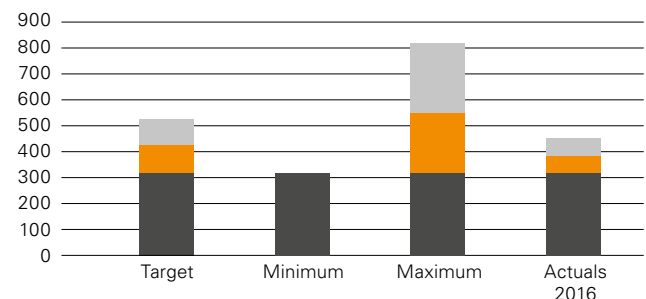
(CHF thousand)



■ Annual base salary ■ Annual incentive (cash) ■ Annual incentive (shares)

OPERATION COUNCIL (EXCLUDING CEO) REMUNERATION MIX (ON AVERAGE)

(CHF thousand)



■ Annual base salary ■ Annual incentive (cash) ■ Annual incentive (shares)

In 2016, the variable actual remuneration of the Chief Executive Officer represented 44% of the total actual compensation (2015: 44%), split in cash (22%) and restricted shares (22%). For the Operations Council, including Senior Management, the variable remuneration amounted to 31% of the total compensation on average (2015: 41%), split in cash (15%) and options (15%). Total compensation includes the fixed remuneration (base salary) and the variable remuneration paid out for 2016 (Short-Term Incentive in cash and restricted shares). It excludes fringe and social benefits and Long-Term Incentive grants.

5.5. OTHER COMPENSATION

5.5.1. Severance Payments

No severance payment has been paid in 2016 for members of the Operations Council (2015: CHF 350 000 to one member).

5.5.2. Other compensation to members or former members of governing bodies

No additional compensation or fees were paid to any member or former member of the governing bodies (unchanged from prior year).

5.5.3. Loans to members or former members of governing bodies

As at 31 December 2016, two members of the Operations Council have received loans for a combined amount equivalent to CHF 28 365 (no loan, credit or outstanding advance was due to the Group from members or former members of its governing bodies the prior year).

STATUTORY AUDITOR'S REPORT

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 2016, presented on pages 138 to 142.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the Remuneration Report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the Remuneration Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether 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 2016 comply with Swiss law and articles 14 – 16 of the Ordinance.

DELOITTE SA



James Baird

*Licensed Audit Expert
Auditor in Charge*



Joëlle Herbette

Licensed Audit Expert

Geneva, 9 February 2017

INTEGRATED THINKING INCLUDED

More and more consumers are opting against purchasing genetically engineered (GE) foodstuffs and major food companies are responding to this trend. How though, with the globalisation of supply chains and the corresponding multitude of producers, can multinational companies ensure that all of their suppliers are conforming to No-GE regulations?

One multinational company found that SGS' global footprint can ensure a consistent quality of No-GE auditing internationally. This helps ensure compliance. Moreover, the depth of service available from SGS means that we can draw on the experience of multiple business lines to drive improvements through the supply chain.

In this instance, our experts from Agriculture, Food and Life provided technical insight to our auditors in Certification and Business Enhancement, while our training department began educating our customer's teams around the world on No-GE standard requirements. Meanwhile, communications channels were established with an integrated, fully dedicated SGS team at country and corporate levels to ensure the highest possible level of customer service.

It is this ability to offer a range of complementary services from across our business lines, and to deliver them in such an integrated fashion, that is increasingly drawing customers to SGS.



SGS SERVICE

- > Non-GMO Certification



CONSUMER BENEFIT

- > Accurate labelling for non-genetically modified (GMO) foods

8. SGS GROUP RESULTS

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER

<i>(CHF million)</i>	NOTES	2016	2015
REVENUE		5 985	5 712
Salaries and wages		(3 009)	(2 849)
Subcontractors' expenses		(368)	(345)
Depreciation, amortisation and impairment	10 to 12	(336)	(322)
Other operating expenses	5	(1 456)	(1 374)
OPERATING INCOME (EBIT)¹		816	822
Financial income	6	8	13
Financial expenses	7	(53)	(56)
PROFIT BEFORE TAXES		771	779
Taxes	8	(185)	(195)
PROFIT FOR THE YEAR		586	584
<i>Profit attributable to:</i>			
Equity holders of SGS SA		543	549
Non-controlling interests		43	35
BASIC EARNINGS PER SHARE (IN CHF)	9	71.54	71.99
DILUTED EARNINGS PER SHARE (IN CHF)	9	71.47	71.95

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

<i>(CHF million)</i>	2016	2015
Actuarial losses on defined benefit plans	(3)	(40)
Income tax on actuarial losses taken directly to equity	3	9
Items that will not be subsequently reclassified to income statement	-	(31)
Exchange differences and other ¹	(29)	(254)
Items that may be subsequently reclassified to income statement	(29)	(254)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	(29)	(285)
Profit for the year	586	584
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	557	299
<i>Attributable to:</i>		
Equity holders of SGS SA	519	266
Non-controlling interests	38	33

1. In 2016, exchange differences and other include net exchange loss of CHF 23 million on long-term loans treated as net investment in a foreign entity according to IAS 21 (2015: gain of CHF 40 million).

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

(CHF million)

	NOTES	2016	2015 ¹
ASSETS			
NON-CURRENT ASSETS			
Land, buildings and equipment	10	972	964
Goodwill	11	1 195	1 088
Other intangible assets	12	246	218
Investments in joint-ventures, associates and other companies		38	32
Deferred tax assets	8	165	173
Other non-current assets	13	122	142
TOTAL NON-CURRENT ASSETS		2 738	2 617
CURRENT ASSETS			
Unbilled revenues and inventories	14	290	288
Trade accounts and notes receivable	15	997	917
Other receivables and prepayments	16	252	272
Current tax assets		88	66
Marketable securities	17	9	244
Cash and cash equivalents	18	975	1 490
TOTAL CURRENT ASSETS		2 611	3 277
TOTAL ASSETS		5 349	5 894
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	22	8	8
Reserves		2 243	2 222
Treasury shares	22	(478)	(324)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA		1 773	1 906
Non-controlling interests		80	75
TOTAL EQUITY		1 853	1 981
NON-CURRENT LIABILITIES			
Loans and obligations under finance leases	23	1 719	1 723
Deferred tax liabilities	8	42	60
Defined benefit obligations	24	154	181
Provisions	25	93	97
TOTAL NON-CURRENT LIABILITIES		2 008	2 061
CURRENT LIABILITIES			
Loans and obligations under finance leases	23	1	494
Trade and other payables	26	641	526
Provisions	25	19	19
Current tax liabilities		166	159
Other creditors and accruals	27	661	654
TOTAL CURRENT LIABILITIES		1 488	1 852
TOTAL LIABILITIES		3 496	3 913
TOTAL EQUITY AND LIABILITIES		5 349	5 894

1. Restated figures (notes 2 and 23).

8. SGS GROUP RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER

<i>(CHF million)</i>	NOTES	2016	2015
Profit for the year		586	584
Other non-cash items	19.1	560	541
Decrease in working capital	19.2	75	160
Taxes paid		(207)	(223)
Pension funds special contribution ¹		-	(103)
CASH FLOW FROM OPERATING ACTIVITIES		1 014	959
Purchase of land, buildings, equipment and other intangible assets	10 and 12	(289)	(301)
Acquisition of businesses	3 and 19.3	(172)	(104)
Decrease in other non-current assets		3	-
Decrease/(increase) in marketable securities and other		236	(248)
Interest and dividends received		8	13
Sales of land, buildings and equipment		13	15
CASH FLOW FROM INVESTING ACTIVITIES		(201)	(625)
Dividends paid to equity holders of SGS SA		(517)	(522)
Dividends paid to non-controlling interests		(39)	(34)
Transaction with non-controlling interests		(4)	(2)
Cash received on treasury shares		70	81
Cash paid on treasury shares		(231)	(228)
(Reimbursements)/proceeds of corporate bonds		(491)	549
Interest paid		(58)	(55)
Net cash flows related to interest rate swaps		-	16
Decrease in borrowings		(3)	(15)
CASH FLOW FROM FINANCING ACTIVITIES		(1 273)	(210)
Currency translation		(55)	25
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(515)	149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1 490	1 341
(Decrease)/increase in cash and cash equivalents		(515)	149
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	975	1 490

1. See note 24.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(CHF million)	ATTRIBUTABLE TO								
	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVE	CUMULATIVE TRANSLATION ADJUSTMENTS	CUMULATIVE GAINS/LOSSES ON DEFINED BENEFIT PLANS ¹	RETAINED EARNINGS AND GROUP RESERVES	EQUITY HOLDERS OF SGS SA	NON-CONTROLLING INTERESTS	TOTAL EQUITY
BALANCE AT 1 JANUARY 2015	8	(154)	121	(670)	(207)	3 229	2 327	76	2 403
Profit for the year	-	-	-	-	-	549	549	35	584
Other comprehensive income for the year	-	-	-	(252)	(31)	-	(283)	(2)	(285)
<i>Total comprehensive income for the year</i>	-	-	-	(252)	(31)	549	266	33	299
Dividends paid	-	-	-	-	-	(522)	(522)	(34)	(556)
Share-based payments	-	-	9	-	-	-	9	-	9
Movement in non-controlling interests	-	-	-	-	-	(1)	(1)	-	(1)
Deferred tax on special pension fund contribution	-	-	-	-	-	(24)	(24)	-	(24)
Movement on treasury shares	-	(170)	-	-	-	21	(149)	-	(149)
BALANCE AS AT 31 DECEMBER 2015	8	(324)	130	(922)	(238)	3 252	1 906	75	1 981
BALANCE AT 1 JANUARY 2016	8	(324)	130	(922)	(238)	3 252	1 906	75	1 981
Profit for the year	-	-	-	-	-	543	543	43	586
Other comprehensive income for the year	-	-	-	(24)	-	-	(24)	(5)	(29)
<i>Total comprehensive income for the year</i>	-	-	-	(24)	-	543	519	38	557
Dividends paid	-	-	-	-	-	(517)	(517)	(39)	(556)
Share-based payments	-	-	16	-	-	-	16	-	16
Movement in non-controlling interests	-	-	-	-	-	5	5	6	11
Movement on treasury shares	-	(154)	(1)	-	-	(1)	(156)	-	(156)
BALANCE AS AT 31 DECEMBER 2016	8	(478)	145	(946)	(238)	3 282	1 773	80	1 853

1. Net of tax.

NOTES

1. ACTIVITIES OF THE GROUP

SGS SA and its subsidiaries (the "Group") operate around the world under the name SGS. The head office of the Group is located in Geneva, Switzerland.

SGS is the global leader and innovator in inspection, verification, testing and certification services supporting international trade in agriculture, minerals, petroleum and consumer products. It also provides these services to governments, international institutions and customers engaged in the industrial, environmental and life science sectors.

2. SIGNIFICANT ACCOUNTING POLICIES AND EXCHANGE RATES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Group are stated in millions of Swiss Francs. They are prepared from the financial statements of the individual companies within the Group with all significant companies having a year-end of 31 December 2016. 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).

The accounting conventions and accounting policies are the same as those applied in the 2015 consolidated financial statements, except for the Group's adoption of new IFRSs effective 1 January 2016.

The financial statements are prepared on an accruals basis and under the historical cost convention, modified as required for the revaluation of certain financial instruments.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The adoption of new or amended standards and interpretations, which are effective for the financial year beginning on 1 January 2016, did not have a material impact on the Group's consolidated financial statements.

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

- IFRS 9 Financial Instruments will substantially change the classification and measurement of financial instruments, will require impairments to be based on a forward-looking model and will change the approach to hedging financial exposures and related documentation as well as the recognition of certain fair value changes. The Group does not expect IFRS 9 to have a significant impact on its consolidated financial statements and will implement the new standard on 1 January 2018;
- IFRS 15 Revenue from Contracts with Customers amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. A working group is in place to review and analyse the impact of the application of IFRS 15 on the different businesses. While the timing in the recognition of the revenue and the related costs for specific activities might be affected, the impact will depend on the mix of activities but is not expected to be significant on the consolidated financial statements. The Group will implement the new standard on 1 January 2018;
- IFRS 16 Leases may impact the Group's consolidated financial statements as the majority of leases and corresponding right of use, will become on-balance sheet liabilities

and assets respectively. The standard replaces IAS 17 Leases and is effective on 1 January 2019.

A working group is in place and is currently assessing the future impact of this new standard.

There are no other IFRS standards or interpretations, which are not yet effective and which would be expected to have a material impact on the Group.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Group. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has the right, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its return.

The Company reassesses whether or not the Group controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The principal operating companies of the Group are listed on pages 218 to 221.

Associates

Associates are entities over which the Group has significant influence but no control or joint control over the financial and operating policies. The consolidated financial statements include the Group's share of the earnings of associates on an equity accounting basis from the date that significant influence commences until the date that significant influence ceases.

Joint Ventures

A joint venture is a jointly controlled entity or operation where the parties have joint rights to the net assets. The consolidated financial statements include the Group's share of the earnings and net assets on an equity

accounting basis of joint ventures that it does not control, effective from the date that joint control commences until the date that joint control ceases.

Joint Operations

A joint operation is an arrangement whereby the parties that have joint control have separable specific rights to the assets and the liabilities within the arrangement. When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises 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 cost less any provision for impairment. The fair value of these investments cannot be reliably measured. Dividends received from these investments are included in financial income.

Transactions Eliminated on Consolidation

All intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised 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 recognised 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 classified as equity until the disposal of the investment.

Average exchange rates are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenues represent fees for services rendered to third parties after the deduction of discounts and are recognised when the service has been completed. In certain circumstances, revenue is recognised in proportion to the stage of completion, normally determined by reference to costs incurred to date in comparison with the total estimated costs of the transaction at the balance sheet date. No margin is recognised on work in progress. Completed, but unbilled, services are recorded at net selling prices.

RESTATEMENT

Two bonds with a face value of CHF 492 million indicated in note 23 of the 2015 Annual Report were incorrectly disclosed as "Non-current" instead of "Current" Loans & obligations under finance leases. As a result, the Non-current versus the Current part of the Loans & obligations under finance leases were respectively over and understated by CHF 491 million as at 31 December 2015. The restated 2015 balance sheet figures take into account these adjustments.

There is no impact on previously reported net debt, total liabilities or profit for the period.

SEGMENT INFORMATION

The Group reports its operations by business segment, according to the nature of the services provided.

The Group operates in nine business segments. The Chief Operating Decision Maker evaluates segment performance and allocates resources based on several factors, of which revenue, adjusted operating income and return on capital are the main criteria.

For the Group, the Chief Operating Decision Maker is the Senior Management, which is composed of: the Chief Executive Officer, the Chief Financial Officer and the General Counsel.

All segment revenues reported are from external customers. Segment revenue and operating income are attributed to countries based on the location in which the services are rendered.

Capital additions represent the total cost incurred to acquire land, buildings and equipment as well as other intangible assets.

LAND, BUILDINGS 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 capitalised only if they increase the future economic benefits embodied in the related item of property and equipment. All other expenditures are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings 12 – 40 years
- Machinery and equipment 3 – 10 years
- Other tangible assets 3 – 10 years

LEASES

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

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are expensed on a straight-line basis over the lease term.

GOODWILL

In the case of acquisitions of businesses, the acquired identifiable assets, liabilities and contingent liabilities are recorded at fair value. The difference between the purchase price and the fair value is classified as goodwill and recorded in the balance sheet as an intangible asset.

Goodwill arising from business combinations is measured at cost less any accumulated impairment losses.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected amounts recognised at that date.

Goodwill arising on the acquisition of a foreign entity is recorded in the relevant foreign currency and is translated using the end of period exchange rate.

On disposal of part or all of a business that was previously acquired and which gave rise to the recording of acquisition goodwill, the relevant amount of residual goodwill is included in the determination of the gain or loss on disposal.

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

For the purpose of impairment testing, the Group has adopted a uniform method for assessing goodwill and other intangibles recognised under the acquisition method of accounting. These assets are allocated to the Cash Generating Unit (CGU) which is expected to benefit from the business combination. The recoverable amount of a CGU is determined through a value-in-use calculation. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, operating margins and expected changes to selling prices or direct costs during the period. Pre-tax discount rates used are based on the Group's weighted average cost of capital, adjusted for specific risks associated with the CGU's cash flow projections. The growth rates are based on industry growth forecasts.

Expected changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

For all CGUs, a value-in-use calculation is performed using cash flow projections covering the next five years. These cash flows projections take into account the most recent financial results and outlook approved by Management, while the subsequent five years are extrapolated based on the estimated long-term growth rate for the relevant activity.

If the recoverable amount of the CGU is less than the carrying amount of the unit's net operating assets, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Even if the initial accounting for an intangible asset acquired in the reporting period is only provisional, this asset is tested for impairment.

OTHER INTANGIBLE ASSETS

Intangible assets, including software, licences, trademarks and customer relationships are capitalised and amortised on a straight-line basis over their estimated useful lives, normally not exceeding 20 years. Indefinite life intangible assets are not amortised but are subject to an annual impairment test. The following useful lives are used in the calculation of amortisation:

- Trademarks 5 – 20 years
- Customer relationships 5 – 20 years
- Computer software 1 – 4 years

Other intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably. Internally generated intangible assets are recognised 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 amortised on a straight-line basis over their useful lives, which usually do not exceed four years. All other development costs are expensed as incurred.

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

At each balance sheet date, or whenever there is an indication that an asset may be impaired, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. If indications of impairment are present, the assets are tested for impairment. If impaired, the carrying value of the asset is reduced to its recoverable value. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount of an asset is the greater of the net realisable 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 recognised. A reversal of an impairment loss is recognised as income immediately.

UNBILLED REVENUES AND INVENTORIES

Completed but unbilled services are recorded at net selling prices.

Work in progress is measured at the lower of the costs incurred in providing the service and its ultimate invoice price less costs to complete.

RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

MARKETABLE SECURITIES

Marketable securities are recorded in the balance sheet at fair value. Movements in the fair value of marketable securities are reported in the income statement as financial income/ expenses. For marketable securities designated as being available for sale, the movements in fair value are recorded as a component of shareholders' equity and recognised in the income statement at the time of disposal. Marketable securities designated as available for sale are those that are not classified as at fair value through profit and loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, deposits held with banks and investments in money market instruments with an original maturity of three months or less. Bank overdrafts are included within current loans.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives are accounted for on a mark-to-market basis.

Derivative financial instruments are initially recognised at fair value and subsequently re-measured at fair value at each balance sheet date. The gains and losses resulting from the fair value re-measurement are recognised in the income statement.

The fair value of forward exchange contracts is determined with reference to market prices at the balance sheet date.

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

CORPORATE BONDS

The corporate bonds issued by the Group are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of 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 fair value hedges to mitigate interest rate risks relating to its corporate bonds. The changes in fair value of hedging instruments are recognised in the income statement.

EMPLOYEE BENEFITS

Pension Plans

The Group maintains several defined benefit and defined contribution pension plans in accordance with local conditions and practices in the countries in which it operates. Defined benefit pension plans are based on an employee's years of service and remuneration earned during a pre-determined period. Contributions to these plans are normally paid into funds, which are managed independently of the Group, except in rare cases where there is no legal obligation to fund.

In such cases, the liability is recorded in the Group's consolidated balance sheet.

The Group's obligations towards defined benefit pension plans and the annual cost recognised in the income statement are determined by independent actuaries using the projected unit credit method. Remeasurement gains and losses are immediately recognised in the consolidated balance sheet with the corresponding movement being recorded in the consolidated statement of comprehensive income.

Past service costs are immediately recognised 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.

8. SGS GROUP RESULTS

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution plans are recognised as an expense in the income statement as incurred.

Post-employment Plans Other than Pensions

The Group operates some non-pension post-employment defined benefit schemes, mainly healthcare plans. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension plans.

Equity Compensation Plans

The Group provides additional benefits to certain senior executives and employees through equity compensation plans (see note 31). An expense is recognised in the income statement for shares and equity-linked instruments granted to senior executives and employees under these plans.

TRADE PAYABLES

Trade payables are recognised at nominal value that approximates the fair value.

PROVISIONS

The Group records provisions when: it has an obligation, legal or constructive, to satisfy a claim; it is probable that an outflow of Group resources will be required to satisfy the obligation; and a reliable estimate of the amount can be made.

In the case of litigation and claims relating to services rendered, the amount that is ultimately recorded is the result of a complex process of assessment of a number of variables, and relies on Management's informed judgement about the circumstances surrounding the past provision of services. It also relies on expert legal advice and actuarial assessments.

Changes in estimates are reflected in the income statement in the period in which the change occurs.

BORROWING COSTS

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

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

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

RESTRUCTURING COSTS

The Group recognises costs of restructuring against operating income in the period in which Management has committed to a formal plan, the costs of which can be reliably estimated, and has raised a valid expectation in those affected that the plan will be implemented and the related costs incurred. Where appropriate, restructuring costs include impairment charges arising from the implementation of the formal plan.

CAPITAL MANAGEMENT

Capital comprises equity attributable to equity holders, loans and obligations under finance leases and cash and cash equivalents.

The Board of Directors' policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Board also recommends the level of dividends to be distributed to ordinary shareholders on an annual basis.

The Group maintains sufficient liquidity at the Group and subsidiary level to meet its working capital requirements, fund capital purchases and small and medium-sized acquisitions.

Cash and cash equivalents as well as loans and obligations under finance leases are disclosed in notes 18 and 23.

In 2017, the Board of Directors of SGS SA has authorised a new share buyback programme of up to CHF 250 million.

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 the 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 recognised 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 recognised 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 recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Current income tax assets and liabilities are offset when the income taxes are levied by the same taxing authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted or substantively enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's profit by the weighted average number of shares outstanding during the year, excluding treasury shares. For diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming conversion of all potential dilutive shares. Group profit is also adjusted to reflect the after-tax impact of conversion.

DIVIDENDS

Dividends are reported as a movement in equity in the period in which they are approved by the shareholders.

TREASURY SHARES

Treasury shares are reported as a deduction to equity. The original cost of treasury shares and the proceeds of any subsequent sale are recorded as movements in equity.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Legal and Warranty Claims on Services Rendered

The Group is subject to litigation and other claims as described in note 25.

Management bases its judgements on the circumstances relating to each specific event, internal and external legal advice,

knowledge of the industries and markets, prevailing commercial terms and legal precedent, and evaluation of applicable insurance cover where appropriate.

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

Use of Estimates

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

Recoverability of Trade Accounts and Notes Receivable

Trade accounts and notes receivable are reflected net of an estimated allowance for doubtful accounts (see note 15). These allowances for potential uncollectible amounts are estimated based primarily on the Group's ageing policy guidelines, individual client analysis and an analysis of the underlying risk profile of each major revenue stream by business and geography.

Impairment of Goodwill

Details of the assumptions used are provided in note 11.

The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires identification of CGUs and an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU that holds the goodwill at a determined discount rate in order to calculate the present value of those cash flows.

Estimations of Employee Post-employment Benefits Obligations

The Group maintains several defined benefit pension plans in accordance with local conditions and practices in the countries in which it operates. The related obligations recognised in the balance sheet represent the present value of the defined benefit

obligations calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions vary according to the local prevailing economic and social conditions. Details of the assumptions used are provided in note 24.

Income Taxes

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

8. SGS GROUP RESULTS

EXCHANGE RATES

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

			YEAR-END RATES		ANNUAL AVERAGE RATES	
			2016	2015	2016	2015
Australia	AUD	100	74.00	72.24	73.27	72.44
Brazil	BRL	100	31.23	25.64	28.38	29.37
Canada	CAD	100	75.88	71.54	74.36	75.45
Chile	CLP	100	0.15	0.14	0.15	0.15
China	CNY	100	14.75	15.28	14.83	15.32
Eurozone	EUR	100	107.12	108.42	109.01	106.91
United Kingdom	GBP	100	125.75	146.91	133.60	147.19
Hong Kong	HKD	100	13.23	12.79	12.69	12.42
Taiwan	TWD	100	3.18	3.01	3.05	3.03
USA	USD	100	102.57	99.15	98.49	96.26

3. BUSINESS COMBINATIONS

The following business combinations occurred during 2016 and 2015:

BUSINESS COMBINATIONS 2016

In 2016, the Group completed 19 business combinations for a total purchase price of CHF 193 million (note 20).

Accutest Laboratories

Effective 4 January 2016, SGS acquired, for a purchase price of CHF 38 million, 100% of the businesses and related assets of Accutest Laboratories, the fifth largest full services environment testing company in the United States of America.

Cybermetrix Inc. (CMX)

Effective 12 February 2016, SGS acquired, for a purchase price of CHF 32 million, 100% of Cybermetrix Inc., a provider of test cells, equipment and services to meet the complex testing requirements of engine and power systems, based in the United States of America.

Compliance Certification Services Inc.

Effective 5 September 2016, SGS acquired, for a purchase price of CHF 29 million, 100% of Compliance Services Inc., one of China's leading Electro Magnetic Compatibility (EMC) testing laboratories, with operations throughout Taiwan and China.

Other

- Businesses and related assets of Bateman projects from Tenova, a provider of mining engineering and project management operations, based in South Africa (effective 5 April 2016);
- 100% of Cargo Compliance Company (Cargo CC), active in packing, storage, consulting, classification and professional training for the handling of dangerous goods, headquartered in the Netherlands (effective 4 January 2016);
- 100% of Integrated Paper Services, Inc. (IPS Testing), an independent testing laboratory, offering physical and analytical testing for paper, pulp, non-woven fabrics, medical supplies and packaging in both the consumer and supplier environments and is headquartered in the United States of America (effective 8 June 2016);
- 100% of Matrolab Group (Pty)Ltd., a leading engineering and construction materials testing company, based in South Africa (effective 1 February 2016);
- 75% of Shenzhen Firstrank Industrial Development Co. Ltd. (Firstrank), a provider of professional technical services to the offshore energy industry in the areas of quality and safety assurance based in China, covering both in-service and under-construction facilities (effective 1 January 2016);
- 51% of The Lab (Asia) Ltd., a fully independent materials testing, inspection and consulting company, serving the construction, civil engineering, highways, airports and associated industries, based in Hong Kong (effective 1 February 2016);
- 51% of Suzhou Safety-Tech Valve Testing Co., Ltd., offering specialised valve maintenance, repair and overhaul (MRO) services, principally to the energy, metallurgy and papermaking industries based in China (effective 1 January 2016);
- 100% of Laboratorios Contecon Urbar, an independent material testing business focusing on quality control in the construction industry with operations in Colombia and Panama (effective 1 July 2016);
- 100% of SpecHub Inc., offering an extensive array of accredited inspection and testing services for the maritime and energy industry, based in Panama (effective 8 July 2016);
- 100% of Laboratorio de Control Técnico de Calidad de Construcción Eecolab Limitada (Eecolab), offering quality control testing of construction materials as well as soil mechanic studies and geophysical surveys in both the public and private sectors based in Chile (effective 2 August 2016);
- 75% of Unigeo Agricultura de Precisão (Unigeo), the market leader in precision farming services in Brazil, providing services such as soil

sampling and mapping, satellite and drone imagery, interpretation of crop information and online software for farm monitoring and management (effective 1 September 2016);

- 100% of AXYS Analytical Services Ltd. (AXYS), a North American leader in ultra-trace analysis of persistent organic pollutants (POPs), contaminants of emerging concerns (CECs) and the early development stages of the fast-growing metabolomics business (effective 1 October 2016);
- 100% of Roos+Bijl, providing engineering & consulting, project management, asset management and legal services for all types of underground infrastructure in the Netherlands (effective 29 September 2016);
- 70% of Biopremier-Inovacao e Servicos em Biotecnologia S.A. specialised in molecular biology and DNA sequencing services in the food sector, based in Portugal (effective 7 December 2016);
- 41.9% ownership and a 54.5% controlling stake of C-Labs SA, an Industry 4.0 startup, developing solutions for transforming food regulatory compliance, based in Switzerland (effective 19 December 2016);
- 100% of Laagrima, providing testing analysis for the food and hospitality markets in Morocco (effective 20 December 2016).

These companies were acquired for an equivalent of CHF 94 million and the total goodwill generated on these transactions amounted to CHF 67 million (note 20).

Total

All the above transactions contributed in total CHF 135 million in revenues and CHF 10 million in operating income. Had all acquisitions been effective 1 January 2016, the revenues for the period would have increased by CHF 57 million and the Group operating income for the period would have been increased by CHF 8 million. None of the goodwill arising on these acquisitions except Accutest Laboratories and Cybermetrix Inc.(CMX) is expected to be tax deductible.

DIVESTMENTS 2016

There were no significant disposals in 2016.

BUSINESS COMBINATIONS 2015

In 2015, the Group completed 10 business combinations for a total purchase price of CHF 128 million.

SVA Ltd.

Effective 15 May 2015, SGS acquired for a purchase price of CHF 39 million, 100% of SVA Ltd., an independent provider of advisory, testing and regulatory services for the food and consumer products industry, based in the United Kingdom.

SIGA

Effective 1 October 2015, SGS acquired, for a purchase price of CHF 43 million, 70% of SIGA Ingeniera Consultoria SA, a leading project management, technical inspection and engineering consulting company in Chile.

Other

In 2015, other acquisitions included:

- 100% of AirServices Estudos e Avaliações Ambientais Ltda., performing air emission monitoring and testing, as well as environmental studies, based in Sao Paulo, Brazil (effective 1 February 2015);
- 100% of Cronolab Referência em Análises Químicas e Ambientais Ltda., providing water, soil and air testing, with a special focus on dioxins and furans, based in Rio de Janeiro, Brazil (effective 1 February 2015);
- 100% of Radiation Safety Services Pty Ltd. (RSS), providing transport and disposal of radioactive sources, compliance, calibration, audit and survey, radiation officer training and other training and consulting services related to radiation, headquartered in Mackay, Australia (effective 1 March 2015);
- 100% of Western Radiation Services Pty Ltd. (WRS), specialising in the analysis of water, soils, sediment and food for radioactive materials based in Perth, Australia (effective 1 March 2015);

- 100% of Testing Services Group LLC (TSG), a provider of fuel systems testing for global customers in the automotive, small engine, marine, portable fuel container and US government markets, based in Michigan, USA (effective 1 May 2015);
- 100% of DLH, a provider of vehicle inspections services, headquartered in Lyon, France (effective 1 June 2015);
- 100% of Le Brigand NDT, a provider of non-destructive testing services on composite and metallic structures for the aviation industry, based in Nantes, France (effective 2 October 2015);
- 100% of Quality Compliance Laboratories Inc (QCL), a GMP compliant laboratory, providing analytical testing to the pharmaceutical, nutraceutical and cosmeceutical industries, based in Toronto, Canada (effective 8 December 2015).

These companies were acquired for an equivalent of CHF 46 million and the total goodwill generated on these transactions amounted to CHF 35 million.

Total

All the above transactions contributed in total CHF 45 million in revenues and CHF 9 million in operating income. Had all acquisitions been effective 1 January 2015, the revenues for the period would have increased by CHF 110 million and the Group operating income for the period would have been increased by CHF 16 million. None of the goodwill arising on these acquisitions is expected to be tax deductible.

DIVESTMENTS 2015

There were no significant disposals in 2015.

4. INFORMATION BY BUSINESS AND GEOGRAPHICAL SEGMENT

As indicated in the 2015 Annual Report, the SGS core skills and organisational structures are evolving to adapt to new market conditions and customer demands. The realignment of the Group's business lines, effective as of 1 January 2016, has resulted in greater organisational efficiency, improved customer service and greater agility.

The realignment included the incorporation of Life Science Services and Food Testing into Agricultural Services to generate additional synergies to new product categories. As a result of its expanded scope, the business line has become Agriculture, Food and Life. Automotive Services expanded its reach to become Transportation. Environmental Services expanded to become Environment, Health and Safety. Systems and Services Certification broadened its horizons to become Certification and Business Enhancement. Consumer Testing Services meanwhile became Consumer and Retail. The previously reported 2015 segment disclosures have been restated to reflect this change in organisational structure.

The information presented is disclosed by business line and focuses on revenue, operating income, capital expenditures and employee numbers because these are the performance measures used by the Chief Operating Decision Maker to assess segment performance and decide on the allocation of resources.

<i>(CHF million)</i>	2016	2015
Adjusted operating income	919	917
Restructuring costs	(49)	(64)
Amortisation of acquisition intangibles	(26)	(21)
Other non-recurring items	(28)	(10)
OPERATING INCOME	816	822

<i>(CHF million)</i>	REVENUE	ADJUSTED OPERATING INCOME	AMORTISATION OF ACQUISITION INTANGIBLES	RESTRUCTURING COSTS	OTHER NON- RECURRING ITEMS	OPERATING INCOME BY BUSINESS
2016						
Agriculture, Food and Life	935	147	(3)	(7)	(2)	135
Mineral Services	635	91	(1)	(3)	(1)	86
Oil, Gas and Chemicals Services	1 098	116	(2)	(29)	(12)	73
Consumer and Retail Services	873	224	(2)	-	(2)	220
Certification and Business Enhancement	324	57	-	(1)	-	56
Industrial Services	891	84	(7)	(3)	(7)	67
Environment, Health and Safety Services	464	55	(4)	(1)	(2)	48
Transportation Services	490	78	(7)	(5)	(1)	65
Governments and Institutions Services	275	67	-	-	(1)	66
TOTAL	5 985	919	(26)	(49)	(28)	816

(CHF million)

	REVENUE	ADJUSTED OPERATING INCOME	AMORTISATION OF ACQUISITION INTANGIBLES	RESTRUCTURING COSTS	OTHER NON- RECURRING ITEMS	OPERATING INCOME BY BUSINESS
2015 RESTATED						
Agriculture, Food and Life	891	146	(3)	(7)	-	136
Mineral Services	633	89	(1)	(24)	-	64
Oil, Gas and Chemicals Services	1 126	129	(3)	(8)	-	118
Consumer and Retail Services	826	217	-	(5)	(2)	210
Certification and Business Enhancement	299	49	-	(6)	-	43
Industrial Services	852	95	(5)	(9)	(4)	77
Environment, Health and Safety Services	376	48	(3)	(1)	(3)	41
Transportation Services	449	82	(6)	(3)	(1)	72
Governments and Institutions Services	260	62	-	(1)	-	61
TOTAL	5 712	917	(21)	(64)	(10)	822

(CHF million)

	REVENUE	ADJUSTED OPERATING INCOME	AMORTISATION OF ACQUISITION INTANGIBLES	RESTRUCTURING COSTS	OTHER	OPERATING INCOME BY BUSINESS
2015 PREVIOUSLY PUBLISHED						
Agriculture Services	368	64	-	(5)	-	59
Minerals Services	633	89	(1)	(24)	-	64
Oil, Gas and Chemicals Services	1 119	129	(3)	(8)	-	118
Life Science Services	211	23	(2)	(1)	-	20
Consumer Testing Services	1 133	270	(2)	(7)	-	261
Systems and Services Certification	419	71	-	(6)	-	65
Industrial Services	884	100	(5)	(9)	-	86
Environmental Services	367	47	(2)	(1)	-	44
Automotive Services	318	62	(6)	(2)	-	54
Governments and Institutions Services	260	62	-	(1)	-	61
Unallocated costs	-	-	-	-	(10)	(10)
TOTAL	5 712	917	(21)	(64)	(10)	822

The revenues reported represent revenue generated from external customers.

8. SGS GROUP RESULTS

RESTRUCTURING COSTS

The Group incurred a pre-tax restructuring charge of CHF 49 million (2015: CHF 64 million), largely as a result of the decline in market conditions in certain businesses and geographies. This comprised personnel reorganisation (CHF 18 million) as well as fixed asset impairment and other charges (CHF 31 million).

<i>(CHF million)</i>	2016	%	2015	%
REVENUE FROM EXTERNAL CUSTOMERS BY GEOGRAPHICAL SEGMENT				
Europe/Africa/Middle East	2 660	44.4	2 553	44.7
Americas	1 531	25.6	1 432	25.1
Asia Pacific	1 794	30.0	1 727	30.2
TOTAL	5 985	100.0	5 712	100.0

Revenue in Switzerland from external customers for 2016 amounted to CHF 212 million (2015: CHF 227 million). No country represented more than 15% of revenues from external customers in 2016 or 2015.

MAJOR CUSTOMER INFORMATION

In 2016 and 2015, no external customer represented 10% or more of the Group's total revenue.

SPECIFIC NON-CURRENT ASSETS BY MATERIAL COUNTRIES

Specific non-current assets by material countries:

<i>(CHF million)</i>	2016	%	2015	%
Europe/Africa/Middle East	1 199	48.0	1 224	52.1
Americas	782	31.3	639	27.2
Asia Pacific	518	20.7	486	20.7
TOTAL SPECIFIC NON-CURRENT ASSETS	2 499	100.0	2 349	100.0

Non-current assets in Switzerland for 2016 amounted to CHF 145 million (2015: CHF 206 million).

<i>(CHF million)</i>	2016	2015
RECONCILIATION WITH TOTAL NON-CURRENT ASSETS		
Specific non-current assets as above	2 499	2 349
Deferred tax assets	165	173
Retirement benefit assets	60	87
Non-current loans to third parties	14	8
TOTAL	2 738	2 617

<i>(CHF million)</i>	2016	%	2015	%
CAPITAL ADDITIONS BY BUSINESS SEGMENT				
Agriculture, Food and Life	50	17.3	53	17.3
Mineral Services	21	7.4	29	9.4
Oil, Gas and Chemicals Services	49	17.0	64	20.8
Consumer and Retail Services	55	19.0	64	20.8
Certification and Business Enhancement	4	1.3	4	1.4
Industrial Services	35	12.2	28	9.1
Environment, Health and Safety Services	20	6.8	23	7.4
Transportation Services	43	15.0	26	8.6
Governments and Institutions Services	11	4.0	16	5.2
TOTAL	288	100.0	307	100.0

	2016	2015
AVERAGE NUMBER OF EMPLOYEES BY GEOGRAPHICAL SEGMENT		
Europe/Africa/Middle East	36 818	34 721
Americas	21 432	19 873
Asia Pacific	31 376	31 309
TOTAL	89 626	85 903
Number of employees at year end	92 269	87 962

5. OTHER OPERATING EXPENSES

<i>(CHF million)</i>	2016	2015
Rental expense, insurance, utilities and sundry supplies	294	279
Consumables, repairs and maintenance	395	375
Communication costs	100	98
Travel costs	360	357
Miscellaneous operating income and expenses	307	265
TOTAL	1 456	1 374

The share of net profit of associates and joint-ventures accounted for using the equity method amounts to CHF nil (2015: CHF 1 million) and is included in the miscellaneous operating income and expenses.

6. FINANCIAL INCOME

<i>(CHF million)</i>	2016	2015
Interest income	10	11
Foreign exchange (losses)/gains	(3)	1
Other financial income	1	1
TOTAL	8	13

7. FINANCIAL EXPENSES

<i>(CHF million)</i>	2016	2015
Interest expense	33	36
Loss on derivatives at fair value	16	13
Loss/(gain) arising on an Interest Rate Swap ¹	-	15
(Gain)/loss arising on adjustment for hedged item ¹	-	(15)
Other financial expenses	3	5
Net financial expenses on defined benefit plans	1	2
TOTAL	53	56

1. In a designated fair value hedge accounting relationship.

8. TAXES

<i>(CHF million)</i>	2016	2015
MAJOR COMPONENTS OF TAX EXPENSE		
Current taxes	196	214
Deferred tax (credit)/expense relating to the origination and reversal of temporary differences	(11)	(19)
TOTAL	185	195

The Group has operations in various countries that have differing 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:

<i>(CHF million)</i>	2016	2015
RECONCILIATION OF TAX EXPENSE		
<i>Profit before taxes</i>	771	779
Tax at the domestic rates applicable to the profits earned in the country concerned	135	140
Tax effect of non-deductible or non-taxable items	8	10
Tax charge from/(usage of) unrecognised tax losses	7	1
Non-creditable foreign withholding taxes	34	34
Other	1	10
TAX CHARGE	185	195

<i>(CHF million)</i>	2016	2015
DEFERRED TAX AFTER NETTING		
Deferred tax assets	165	173
Deferred tax liabilities	(42)	(60)
TOTAL	123	113

(CHF million)	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
COMPONENTS OF DEFERRED INCOME TAX BALANCES				
Fixed assets	38	7	33	9
Inventories and receivables	10	13	8	18
Defined benefit obligation	20	-	21	-
Provisions and other	38	14	36	17
Intangible assets	5	22	8	16
Tax losses carried forward	68	-	67	-
DEFERRED INCOME TAXES	179	56	173	60

Net change in deferred tax assets/(liabilities):

(CHF million)	TOTAL
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 1 JANUARY 2015	121
(Charged)/credited to the income statement	19
(Charged)/credited to other comprehensive income ¹	(15)
Exchange differences and other	(12)
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 31 DECEMBER 2015	113
(Charged)/credited to the income statement	11
(Charged)/credited to other comprehensive income ¹	3
Exchange differences and other	(4)
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT 31 DECEMBER 2016	123

¹ Related to measurement gains and losses on pensions CHF 3 million (2015: CHF 9 million) and special pension fund contribution 2016: nil (2015: CHF (24) million).

The Group has unrecognised tax losses carried forward amounting to CHF 59 million (2015: CHF 46 million), of which none will expire within the next five years. No tax losses carried forward expired in 2016.

At 31 December 2016, the retained earnings of subsidiaries and foreign incorporated joint ventures consolidated by the Group include approximately CHF 3 790 million (2015: CHF 4 125 million) of undistributed earnings that may be subject to tax if remitted to the parent company. As set out in note 21, 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 recognised in respect of undistributed earnings until the point at which the distributable earnings are determined and foreign statutory requirements, allowing the distribution, are fulfilled. Until that time, the Group takes the view that it is probable that they will not reverse in the foreseeable future.

9. EARNINGS PER SHARE

Basic earnings per share are calculated as follows:

	2016	2015
Profit attributable to equity holders of SGS SA (CHF million)	543	549
Weighted average number of shares (in '000)	7 583	7 626
BASIC EARNINGS PER SHARE (CHF)	71.54	71.99

8. SGS GROUP RESULTS

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 share option plans (see note 31):

	2016	2015
Profit attributable to equity holders of SGS SA (CHF million)	543	549
Diluted weighted average number of shares (in '000)	7 591	7 630
DILUTED EARNINGS PER SHARE (CHF)	71.47	71.95

Adjusted earnings per share are calculated as follows:

	2016	2015
Profit attributable to equity holders of SGS SA (CHF million)	543	549
Amortisation of acquisition intangibles (CHF million)	26	21
Restructuring costs net of tax (CHF million)	40	47
Other non-recurring items net of tax (CHF million)	20	8
Adjusted profit attributable to equity holders of SGS SA (CHF million)	629	625
ADJUSTED BASIC EARNINGS PER SHARE (CHF)	83.00	81.95
ADJUSTED DILUTED EARNINGS PER SHARE (CHF)	82.91	81.91

10. LAND, BUILDINGS AND EQUIPMENT

(CHF million)	LAND & BUILDINGS	MACHINERY & EQUIPMENT	OTHER TANGIBLE ASSETS	TOTAL
2016				
COST				
At 1 January	444	1 763	643	2 850
Additions	23	132	103	258
Acquisition of subsidiaries	2	25	6	33
Disposals	(27)	(68)	(40)	(135)
Exchange differences and other	6	39	(28)	17
At 31 December	448	1 891	684	3 023
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January	230	1 243	413	1 886
Depreciation	17	175	61	253
Impairment	29	-	1	30
Disposals	(25)	(63)	(37)	(125)
Exchange differences and other	-	6	1	7
At 31 December	251	1 361	439	2 051
NET BOOK VALUE AT 31 DECEMBER 2016	197	530	245	972
INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS				
Purchase cost of leased tangible assets	-	2	-	2
Accumulated depreciation	-	2	-	2
NET BOOK VALUE AT 31 DECEMBER 2016	-	-	-	-

<i>(CHF million)</i>	LAND & BUILDINGS	MACHINERY & EQUIPMENT	OTHER TANGIBLE ASSETS	TOTAL
2015				
COST				
At 1 January	477	1 750	660	2 887
Additions	8	165	102	275
Acquisition of subsidiaries	-	10	4	14
Disposals	(12)	(40)	(41)	(93)
Exchange differences and other	(29)	(122)	(82)	(233)
At 31 December	444	1 763	643	2 850
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January	229	1 195	420	1 844
Depreciation	16	173	56	245
Impairment	13	4	3	20
Acquisition of subsidiaries	-	6	2	8
Disposals	(8)	(37)	(38)	(83)
Exchange differences and other	(20)	(98)	(30)	(148)
At 31 December	230	1 243	413	1 886
NET BOOK VALUE AT 31 DECEMBER 2015	214	520	230	964
INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS				
Purchase cost of leased tangible assets	-	2	-	2
Accumulated depreciation	-	2	-	2
NET BOOK VALUE AT 31 DECEMBER 2015	-	-	-	-

At 31 December 2016, the Group had commitments of CHF 4 million (2015: CHF 4 million) for the acquisition of land, buildings and equipment.

Included in the other tangible assets are construction-in-progress assets amounting to CHF 27 million (2015: CHF 24 million).

11. GOODWILL

<i>(CHF million)</i>	NOTE	2016	2015
COST			
At 1 January		1 088	1 105
Additions	20	95	85
Impairment		(1)	-
Exchange differences		13	(102)
AT 31 DECEMBER		1 195	1 088

Goodwill recognised by the Group is allocated to CGUs for impairment testing purposes and is annually tested for impairment at the end of each reporting period.

In response to a constantly changing global marketplace and new demand patterns from the existing customer base, the Group announced an organisational realignment during Autumn 2015, which became effective from 1 January 2016. As a result, most of the Group business lines were reorganised.

This reorganisation, together with a thorough operational review of the Group's business lines and a more seamless approach for business targeting and integration, led the Group to adjust its management of goodwill and to reassess its CGUs to better reflect the operational structure of its business lines and the levels at which cash inflows are generated.

8. SGS GROUP RESULTS

- In the case of the following four business lines, the CGU covers the entire worldwide operations since customer activities executed by the local entities, the clients and customers that they serve and the drivers of cash inflows are largely interdependent on a worldwide basis across each business line:
 - Consumer and Retails
 - Oil, Gas and Chemicals
 - Environment, Health and Safety
 - Minerals
- The Industrial business line continues to be driven primarily by regional and local customer activities and therefore to have cash inflows, which are largely independent from each other. Consequently, a CGU organisation by region or by country has been maintained and goodwill has been allocated to seven CGUs.
- The Transportation business has been split into two CGUs since the customer activities in this business (especially in testing and engineering activities) are globally interdependent, except for Spain where regulated activities and related cash inflows represent almost entirely the whole business and therefore are assessed as a distinct CGU.
- The Agriculture, Food and Life business has been 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.
- No goodwill has been allocated to the Certification and Business Enhancement or to the Governments and Institutions business lines.

ALLOCATION OF GOODWILL TO CGUS OR GROUP OF CGUS

Goodwill allocated to the main CGUs or groups of CGUs as of 31 December broken down as follows:

<i>(CHF million)</i>	2016	2015
Oil, Gas and Chemicals	137	137
Transportation	230	222
Agriculture, Food and Life	220	209
Environment, Health and Safety	143	122
Industrial	257	212
Minerals	123	110
Consumer and Retail	85	76
TOTAL	1 195	1 088

Goodwill impairment reviews have been conducted for all goodwill balances allocated to the CGUs as described above. An impairment charge of CHF 1 million in relation to the restructuring was recorded (2015: nil).

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.

PRE-TAX RATE USED IN 2016 FOR THE MAIN CGUS OR GROUP OF CGUS IMPAIRMENT TESTING

	2016
Oil, Gas and Chemicals	7.4%
Transportation	6.4% – 6.6%
Agriculture, Food and Life	5.3% – 6.9%
Environment, Health and Safety	6.1%
Industrial	5.6% – 9.9%
Minerals	8.3%
Consumer and Retail	6.7%

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

The key sensitivity for each impairment test is the growth in revenue and operating margin. Reducing the expected annual revenue growth rates for the first five years by 2.0% would not result in any of the carrying amounts exceeding the recoverable amount. Reducing the operating margin by 0.25% would not result in any of the carrying amounts exceeding the recoverable amount.

An increase of 1.0% in the discount rate assumption would not change the conclusions of the impairment tests.

12. OTHER INTANGIBLE ASSETS

<i>(CHF million)</i>	COMPUTER SOFTWARE AND OTHER ASSETS				TOTAL
	TRADEMARKS AND OTHER	CUSTOMER RELATIONSHIPS	INTERNALLY GENERATED	PURCHASED	
2016					
COST					
At 1 January	76	188	96	283	643
Additions	1	-	8	21	30
Acquisition of subsidiaries	2	50	1	-	53
Disposals	-	-	-	(2)	(2)
Exchange differences and other	(2)	5	1	(8)	(4)
At 31 December	77	243	106	294	720
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January	47	74	79	225	425
Amortisation	7	19	8	18	52
Disposals	-	-	-	(2)	(2)
Exchange differences and other	(2)	-	-	1	(1)
At 31 December	52	93	87	242	474
NET BOOK VALUE AT 31 DECEMBER 2016	25	150	19	52	246

<i>(CHF million)</i>	COMPUTER SOFTWARE AND OTHER ASSETS				TOTAL
	TRADEMARKS AND OTHER	CUSTOMER RELATIONSHIPS	INTERNALLY GENERATED	PURCHASED	
2015					
COST					
At 1 January	81	176	85	283	625
Additions	-	-	8	24	32
Acquisition of subsidiaries	3	27	-	-	30
Disposals	-	-	-	(5)	(5)
Exchange differences and other	(8)	(15)	3	(19)	(39)
At 31 December	76	188	96	283	643
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January	44	63	72	214	393
Amortisation	7	15	6	22	50
Impairment	-	1	1	5	7
Disposals	-	-	-	(6)	(6)
Exchange differences and other	(4)	(5)	-	(10)	(19)
At 31 December	47	74	79	225	425
NET BOOK VALUE AT 31 DECEMBER 2015	29	114	17	58	218

8. SGS GROUP RESULTS

SIGNIFICANT INTANGIBLE ASSETS

The Group is improving its global management information systems, focusing on contract management, finance and sales order processing. Additions relating to the Group's ERP system amount to CHF 5 million (2015: CHF 6 million) and are being amortised over a period of four years.

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

13. OTHER NON-CURRENT ASSETS

<i>(CHF million)</i>	NOTE	2016	2015
Non-current loans or amounts receivable from third parties		14	8
Retirement benefit asset	24	60	87
Other non-current assets		48	47
TOTAL		122	142

Depending on the nature of the balances, currency and date of maturity, interest rates on long-term balances or loans to third parties range between 0% and 12%.

In 2016, other non-current assets included deposits for guarantees and CHF 29 million (2015: CHF 28 million) of restricted cash. Typical examples of restricted cash are cash deposits for performance bonds, rentals and other operating obligations.

At 31 December 2016 and 2015, the fair value of the Group's other non-current assets approximates to the carrying value.

14. UNBILLED REVENUES AND INVENTORIES

<i>(CHF million)</i>	2016	2015
Work-in-progress	62	61
Unbilled revenues	187	187
Inventories	41	40
TOTAL	290	288

15. TRADE ACCOUNTS AND NOTES RECEIVABLE

<i>(CHF million)</i>	2016	2015
Trade accounts and notes receivable	1 111	1 015
Allowance for doubtful accounts	(114)	(98)
TOTAL	997	917
Ageing of trade accounts and notes receivables not impaired:		
Not overdue	406	361
Past due not more than two months	409	372
Past due more than two months but not more than four months	85	79
Past due more than four months but not more than six months	39	40
Past due more than six months but not more than one year	58	65
Past due more than one year	-	-
TOTAL	997	917

The nominal value, less impairment provisions, of trade accounts and notes receivable is considered to approximate their fair value.

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

<i>(CHF million)</i>	2016	2015
Balance at beginning of the year	(98)	(110)
Acquisition of subsidiaries	(2)	(1)
Increase in allowance recognised in the income statement	(25)	(18)
Utilisations	12	22
Exchange differences	(1)	9
TOTAL	(114)	(98)

Receivables aged less than 360 days are provided when the creditworthiness review indicates that the amounts may become unrecoverable. The Group provides fully for all trade accounts and notes receivable over 360 days as historical experience shows that receivables aged more than 360 days are generally not recoverable.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Accordingly, Management believes that there is no further credit provision required in excess of the allowance for doubtful debts. Credit risks arise mainly from the possibility that customers may not be able to settle their obligations as agreed. The Group periodically assesses the creditworthiness of customers. The Group's credit risk is diversified due to the large number of entities that make up the Group's customer base and the diversification across many different industries and geographic regions.

The maximum credit risk to which the Group is theoretically exposed at 31 December 2016 is represented by the carrying amounts of receivables in the balance sheet.

No customer accounts for 5% or more of the Group's total receivables at balance sheet date.

16. OTHER RECEIVABLES AND PREPAYMENTS

<i>(CHF million)</i>	2016	2015
Accrued income, prepayments	68	69
Derivative assets	3	22
Other receivables	181	181
TOTAL	252	272

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties. Other receivables consist mainly of sales taxes and other taxes recoverable as well as advances to suppliers.

17. MARKETABLE SECURITIES

<i>(CHF million)</i>	2016	2015
Available for sale	9	244
TOTAL	9	244

Unrealised gains or losses on marketable securities designated as available for sale and which are recorded in other comprehensive income amounted to less than CHF 1 million for 2016 (2015: CHF 1 million).

The reduction in marketable securities corresponds to the sale Exchange Traded Funds (ETF) investments made in 2015.

18. CASH AND CASH EQUIVALENTS

<i>(CHF million)</i>	2016	2015
Cash and short-term deposits	954	955
Deposits on demand	20	535
Short-term loans	1	-
TOTAL	975	1 490

19. CASH FLOW STATEMENT

19.1. OTHER NON-CASH ITEMS

<i>(CHF million)</i>	NOTES	2016	2015
Depreciation of buildings and equipment	10	253	245
Impairment of land, buildings and equipment and other intangible assets	10 and 12	30	27
Amortisation of intangible assets	12	52	50
Impairment of goodwill	11	1	-
Net financial expenses		45	43
(Decrease)/increase in provisions and employee benefits		(20)	(22)
Share-based payment expenses		16	9
(Gain)/loss on disposals of land, buildings and equipment		(2)	(5)
Share of results from associates and other entities		-	(1)
Taxes		185	195
OTHER NON-CASH ITEMS		560	541

19.2. DECREASE IN WORKING CAPITAL

<i>(CHF million)</i>	2016	2015
Decrease/(Increase) in unbilled revenues and inventories	12	10
(Increase)/decrease in trade accounts and notes receivable	(30)	64
Decrease/(increase) in other receivables and prepayments	11	(12)
Increase/(decrease) in trade and other payables	86	36
Increase/(decrease) in other creditors and accruals	3	50
(Decrease)/increase in other provisions	(7)	12
DECREASE IN WORKING CAPITAL	75	160

19.3. CASH FLOWS ARISING FROM ACQUISITIONS OF BUSINESSES

<i>(CHF million)</i>	2016 ACQUISITIONS	2015 ACQUISITIONS
Non-current assets	(89)	(38)
Current assets excluding cash and cash equivalents	(55)	(38)
Cash and cash equivalents	(15)	(6)
Current liabilities	49	21
Non-current liabilities	8	12
Non-controlling interests	4	6
NET IDENTIFIABLE ASSETS ACQUIRED OR DIVESTED	(98)	(43)
Acquired/(divested) cash and cash equivalents	15	6
SUBTOTAL	(83)	(37)
Goodwill	(95)	(85)
Consideration payable	13	22
Payments on prior year acquisitions	(8)	(1)
Prepayment on acquisitions	1	(3)
NET CASH FLOWS	(172)	(104)

Note 3 provides further information regarding acquisitions of businesses. All acquisitions were settled in cash.

20. ACQUISITIONS

ASSETS AND LIABILITIES ARISING FROM THE 2016 ACQUISITIONS

	ACCUTEST	CYBERMETRIX	CCS	OTHER	TOTAL
(CHF million)	FAIR VALUE ON ACQUISITION	FAIR VALUE ON ACQUISITION	FAIR VALUE ON ACQUISITION	FAIR VALUE ON ACQUISITION	FAIR VALUE ON ACQUISITION
Tangible assets	8	10	9	6	33
Intangible assets	12	10	7	24	53
Other long-term assets	2	-	1	-	3
Trade accounts and notes receivable	16	2	7	17	42
Other current assets	-	1	3	9	13
Cash and cash equivalents	-	-	5	10	15
Current liabilities	(9)	(2)	(9)	(29)	(49)
Non-current liabilities	(1)	-	(1)	(6)	(8)
Non-controlling interests	-	-	-	(4)	(4)
NET ASSETS ACQUIRED	28	21	22	27	98
Goodwill	10	11	7	67	95
TOTAL PURCHASE PRICE	38	32	29	94	193
Acquired cash and cash equivalents	-	-	(5)	(10)	(15)
Consideration receivable/(payable)	4	(5)	(4)	(8)	(13)
Payment on prior year acquisitions	-	-	-	8	8
Prepayment on acquisitions	-	-	-	(1)	(1)
NET CASH OUTFLOW ON ACQUISITIONS	42	27	20	83	172

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 6 million (2015: CHF 4 million) related to external legal fees, due diligence expenses as well as the costs of maintaining an internal acquisition department. These expenses are reported within Other Operating Expenses in the consolidated income statement.

21. 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 analyse 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 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 summarises foreign exchange contracts outstanding at year end. The notional amount of derivatives summarised below represents the gross amount of the contracts and includes transactions, which have not yet matured. Therefore the figures do not reflect the Group's net exposure at year end. The market value approximates the costs to settle the outstanding contracts. These market values should not be viewed in isolation but in relation to the market values of the underlying hedged transactions and the overall reduction in the Group's exposure to adverse fluctuations in foreign exchange rates. Currently, the Group has certain exposure to interest and credit risks and no exposure to equity price risk.

	NOTIONAL AMOUNT		BOOK VALUE		MARKET VALUE	
	2016	2015	2016	2015	2016	2015
<i>(CHF million)</i>						
FOREIGN EXCHANGE FORWARD CONTRACTS						
Currency:						
Australian Dollar (AUD)	(10)	(54)	-	(1)	-	(1)
Brazilian Real (BRL)	(63)	(27)	2	1	2	1
Canadian Dollar (CAD)	(24)	(19)	-	1	-	1
Chilean Peso (CLP)	(34)	(23)	-	-	-	-
Chinese Renminbi (CNY)	4	19	-	1	-	(1)
Colombian Peso (COP)	(8)	(10)	-	-	-	-
Euro (EUR)	(243)	(318)	-	-	-	-
British Pound Sterling (GBP)	26	72	-	(2)	-	-
Hong Kong Dollar (HKD)	24	15	-	-	-	-
Indian Rupee (INR)	(4)	(4)	-	-	-	-
Japanese Yen (JPY)	-	(7)	-	-	-	-
Kenyan Shilling (KES)	(3)	(2)	-	-	-	-
Korean Won (KRW)	(5)	4	-	-	-	-
New Zealand Dollar (NZD)	(5)	(4)	-	-	-	-
Philippines Peso (PHP)	(4)	(7)	-	-	-	-
Polish Zloty (PLN)	(5)	(5)	-	-	-	-
Russian Rubble (RUB)	4	3	-	-	-	-
Turkish New Lira (TRY)	(13)	(14)	-	-	-	-
US Dollar (USD)	(351)	(417)	(6)	4	(6)	4
South African Rand (ZAR)	(42)	(23)	(1)	2	(1)	2
Other	(8)	(2)	-	(1)	-	(1)
TOTAL	(764)	(823)	(5)	5	(5)	5

FAIR VALUE MEASUREMENT RECOGNISED IN THE BALANCE SHEET

Marketable securities and derivative assets and liabilities are the only financial instruments measured at fair value subsequent to their initial recognition. Level 1 fair value measurements are those derived from the quoted price in active markets. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Of marketable securities, CHF 9 million (2015: CHF 244 million) qualify as Level 1, fair value measurement category.

Derivative assets (2016: CHF 3 million; 2015: CHF 22 million) and liabilities (2016: CHF 12 million; 2015: CHF 20 million) qualify as Level 2 fair value measurement category in accordance with the fair value hierarchy.

Derivative assets and liabilities consist of foreign currency forward contracts that are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

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

8. SGS GROUP RESULTS

CREDIT RISK MANAGEMENT

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. It arises principally from the Group's commercial activities. The Group has dedicated standards, policies and procedures to control and monitor such risks.

As part of financial management activities, the Group enters into various types of transactions with international banks, usually with a credit rating of at least A. Exposure to these risks is closely monitored and kept within predetermined parameters. The Group does not expect any non-performance by these counterparties.

The maximum credit risk to which the Group is theoretically exposed at 31 December 2016 is the carrying amount of financial assets including derivatives.

Analysis of financial assets by class and category at 31 December 2016:

(CHF million)	AMORTISED COST LOANS AND RECEIVABLES		FAIR VALUE				TOTAL	
	CARRYING AMOUNT	FAIR VALUE	AVAILABLE FOR SALE		AT FAIR VALUE THROUGH P&L		CARRYING AMOUNT	FAIR VALUE
			CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE		
Cash and cash equivalents	975	975	-	-	-	-	975	975
Trade receivables	997	997	-	-	-	-	997	997
Other receivables ¹	154	154	-	-	-	-	154	154
Unbilled revenues	187	187	-	-	-	-	187	187
Non-current loans or amounts receivable from 3 rd parties	14	14	-	-	-	-	14	14
Marketable securities	-	-	9	9	-	-	9	9
Derivatives	-	-	-	-	3	3	3	3
TOTAL FINANCIAL ASSETS	2 327	2 327	9	9	3	3	2 339	2 339

1. Excluding VAT and other tax related items.

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

Analysis of financial assets by class and category at 31 December 2015:

(CHF million)	AMORTISED COST LOANS AND RECEIVABLES		FAIR VALUE				TOTAL	
	CARRYING AMOUNT	FAIR VALUE	AVAILABLE FOR SALE		AT FAIR VALUE THROUGH P&L		CARRYING AMOUNT	FAIR VALUE
			CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE		
Cash and cash equivalents	1 490	1 490	-	-	-	-	1 490	1 490
Trade receivables	917	917	-	-	-	-	917	917
Other receivables ¹	140	140	-	-	-	-	140	140
Unbilled revenues	187	187	-	-	-	-	187	187
Non-current loans or amounts receivable from 3 rd parties	8	8	-	-	-	-	8	8
Marketable securities	-	-	244	244	-	-	244	244
Derivatives	-	-	-	-	22	22	22	22
TOTAL FINANCIAL ASSETS	2 742	2 742	244	244	22	22	3 008	3 008

1. Excluding VAT and other tax related items.

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

LIQUIDITY RISK MANAGEMENT

The objective of the Group's liquidity and funding management is to ensure that all its foreseeable financial commitments can be met when due. Liquidity and funding are primarily managed by Group Treasury in accordance with practices and limits set in the risk management policies and objectives approved by the Board of Directors.

The nature of the Group's business requires keeping a significant part of the cash reserves in the operating units.

Due to the significant cash position liquidity risk is limited. The Group has various committed and uncommitted bilateral credit facilities with its banks.

Analysis of financial liabilities by class and category at 31 December 2016:

(CHF million)	AMORTISED COST OTHER LIABILITIES		FAIR VALUE		TOTAL	
	CARRYING AMOUNT	FAIR VALUE	AT FAIR VALUE THROUGH P&L		CARRYING AMOUNT	FAIR VALUE
			CARRYING AMOUNT	FAIR VALUE		
Trade payables	300	300	-	-	300	300
Other payables and financial liabilities ¹	189	189	-	-	189	189
Advances from clients	31	31	-	-	31	31
Loans and obligations under finance leases	1 719	1 811	-	-	1 719	1 811
Derivatives	-	-	12	12	12	12
Bank overdrafts	1	1	-	-	1	1
TOTAL FINANCIAL LIABILITIES	2 240	2 332	12	12	2 252	2 344

1. Excluding VAT and other tax related items.

In the fair value hierarchy, all financial liabilities qualify as Level 2.

Analysis of financial liabilities by class and category at 31 December 2015:

(CHF million)	AMORTISED COST OTHER LIABILITIES		FAIR VALUE		TOTAL	
	CARRYING AMOUNT	FAIR VALUE	AT FAIR VALUE THROUGH P&L		CARRYING AMOUNT	FAIR VALUE
			CARRYING AMOUNT	FAIR VALUE		
Trade payables	226	226	-	-	226	226
Other payables and financial liabilities ¹	162	162	-	-	162	162
Advances from clients	59	59	-	-	59	59
Loans and obligations under finance leases	2 217	2 217	-	-	2 217	2 217
Derivatives	-	-	20	20	20	20
Bank overdrafts	1	1	-	-	1	1
TOTAL FINANCIAL LIABILITIES	2 665	2 665	20	20	2 685	2 685

1. Excluding VAT and other tax related items.

In the fair value hierarchy, all financial liabilities qualify as Level 2.

8. SGS GROUP RESULTS

Contractual maturities of financial liabilities including interest payments at 31 December 2016:

<i>(CHF million)</i>	BORROWINGS 3 RD PARTY LT AND ST	BANK OVERDRAFTS AND OTHER LIABILITIES	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS OUTFLOWS	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS INFLOWS	TRADE PAYABLES AND OTHERS	FINANCE LEASES	TOTAL
On demand or within one year	31	8	1 116	(1 126)	446	-	475
Within the second year	29	11	-	-	1	-	41
Within the third year	403	2	-	-	-	1	406
Within the fourth year	19	-	-	-	-	-	19
Within the fifth year	316	-	-	-	-	-	316
After five years	1 082	-	-	-	-	-	1 082

The Group hedges its foreign exchange exposure on a net basis. The net gross settled derivative financial instruments of CHF 10 million (2015: CHF 1 million) represents the net nominal value expressed in CHF of the Group's foreign currency contracts outstanding at 31 December 2016.

Contractual maturities of financial liabilities including interest payments at 31 December 2015:

<i>(CHF million)</i>	BORROWINGS 3 RD PARTY LT AND ST	BANK OVERDRAFTS AND OTHER LIABILITIES	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS OUTFLOWS	GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS INFLOWS	TRADE PAYABLES AND OTHERS	FINANCE LEASES	TOTAL
On demand or within one year	531	10	1 472	(1 472)	374	-	915
Within the second year	29	6	-	-	1	-	36
Within the third year	30	6	-	-	-	-	36
Within the fourth year	402	-	-	-	1	-	403
Within the fifth year	19	-	-	-	-	-	19
After five years	1 403	-	-	-	-	-	1 403

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 2016 and 2015, with all other variables remaining constant.

Sensitivity analysis at 31 December 2016 and 2015:

<i>(CHF million)</i>	2016		2015	
	INCOME STATEMENT IMPACT INCOME/(EXPENSE)	EQUITY IMPACT INCREASE/(DECREASE)	INCOME STATEMENT IMPACT INCOME/(EXPENSE)	EQUITY IMPACT INCREASE/(DECREASE)
US Dollar (USD)	3	9	-	9
Euro (EUR)	(3)	-	(2)	-
CFA Franc BEAC (XAF)	2	-	2	-
New Cedi (GHS)	(1)	-	-	-
Kwanza Angolais (AOA)	-	-	1	-
Taiwanese Dollar (TWD)	-	1	-	-
Australian Dollar (AUD)	-	2	-	2
Canadian dollar (CAD)	-	4	-	4
Brazilian Real (BRL)	-	2	-	2
Colombian Peso (COP)	-	1	-	-
Chilean Peso (CLP)	-	3	-	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 by the use of 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 2016 would increase/decrease by CHF nil (2015: nil).

22. SHARE CAPITAL AND TREASURY SHARES

	SHARES IN CIRCULATION	TREASURY SHARES	TOTAL SHARES ISSUED	TOTAL SHARE CAPITAL (CHF MILLION)
BALANCE AT 1 JANUARY 2015	7 675 506	146 930	7 822 436	8
Treasury shares released into circulation	54 636	(54 636)	-	-
Treasury shares purchased for equity compensation plans	(45 778)	45 778	-	-
Treasury shares purchased for cancellation	(78 904)	78 904	-	-
BALANCE AT 31 DECEMBER 2015	7 605 460	216 976	7 822 436	8
Treasury shares released into circulation	49 162	(49 162)	-	-
Treasury shares purchased for equity compensation plans	(6 315)	6 315	-	-
Treasury shares purchased for cancellation	(109 800)	109 800	-	-
BALANCE AT 31 DECEMBER 2016	7 538 507	283 929	7 822 436	8

ISSUED SHARE CAPITAL

SGS SA has a share capital of CHF 7 822 436 (2015: CHF 7 822 436) fully paid in and divided into 7 822 436 (2015: 7 822 436) 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 2016, SGS SA held 283 929 treasury shares. The shares purchased for cancellation are directly held by SGS SA, while the shares to cover the equity compensation plans are held by a subsidiary company.

In 2016, 49 162 treasury shares were sold to cover the equity compensation plans and 6 315 were purchased for an average price of CHF 2 127.

In 2015, the Group initiated a share buyback programme for a total of up to CHF 750 million. Up to CHF 500 million is designated for cancellation and the remainder for employee equity participation plans and/or for utilisation as underlying securities for potential issuances of convertible bonds. The programme started on 20 January 2015 and closed on 31 December 2016. As part of the share purchased for cancellation, 109 800 shares were purchased in 2016 for an average price of CHF 1 961.

8. SGS GROUP RESULTS

AUTHORISED 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 authorised 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 12 March 2017.

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 authorised 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 authorised 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.

23. LOANS AND OBLIGATIONS UNDER FINANCE LEASES

RESTATEMENT OF PRIOR YEAR COMPARATIVES

Two bonds with a face value of CHF 492 million indicated in note 23 of the 2015 Annual Report were incorrectly disclosed as "Non-current" instead of "Current" loans and obligations under finance leases. As a result, the Non-current and Current part of loans & obligations under finance leases were respectively over and understated by CHF 491 million as at 31 December 2015. The restated 2015 balance sheet figures take into account these adjustments.

There is no impact on previously reported net debt, total liabilities or profit for the period.

CURRENT YEAR INFORMATION

<i>(CHF million)</i>	2016	2015 RESTATED
Bank loans	2	4
Bank overdrafts	1	1
Corporate bonds	1 716	2 211
Finance lease obligations	1	1
TOTAL	1 720	2 217
Current	1	494
Non-current	1 719	1 723

Depending on the nature of the loan, currency and date of maturity, interest rates on long-term loans from third parties range between 0.875% and 5.75% and on short-term loans from third parties range between 0% and 8.75%.

The loans from third parties exposed to fair value interest rate risk amounted to CHF 1 718 million (2015: CHF 2 215 million) and the loans from third parties exposed to cash flow interest rate risk amounted to CHF 1 million (2015: CHF 0.5 million).

The fair value of corporate bonds was CHF 1 808 million (2015: CHF 2 312 million). In 2016, a corporate bond of CHF 492 million was reimbursed.

SGS SA issued the following corporate bonds listed on the SIX Swiss Exchange:

DATE OF ISSUE	FACE VALUE IN CHF MILLION	COUPON IN %	YEAR OF MATURITY	ISSUE PRICE IN %	REDEMPTION PRICE IN %
08.03.2011	375	2.625	2019	100.832	100.000
27.05.2011	275	3.000	2021	100.480	100.000
27.02.2014	138	1.375	2022	100.517	100.000
27.02.2014	250	1.750	2024	101.019	100.000
25.04.2014	112	1.375	2022	101.533	100.000
08.05.2015	325	0.250	2023	100.079	100.000
08.05.2015	225	0.875	2030	100.245	100.000

Loans and finance lease obligations mature as follows:

<i>(CHF million)</i>	BANK LOANS, OVERDRAFTS AND CORPORATE BONDS		FINANCE LEASE OBLIGATIONS	
	2016	2015	2016	2015
On demand or within one year	1	494	-	1
Within the second year	-	-	-	-
Within the third year	375	1	1	-
Within the fourth year	-	373	-	-
Within the fifth year	297	-	-	-
After five years	1 046	1 348	-	-
TOTAL	1 719	2 216	1	1

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

<i>(CHF million)</i>	BANK LOANS, OVERDRAFTS AND CORPORATE BONDS		FINANCE LEASE OBLIGATIONS	
	2016	2015	2016	2015
Swiss Franc (CHF)	1 716	2 212	-	-
Euro (EUR)	1	1	-	-
US Dollar (USD)	-	1	-	-
Malagasy Ariary (MGA)	1	1	-	-
Other	1	1	1	1
TOTAL	1 719	2 216	1	1

24. DEFINED BENEFIT OBLIGATIONS

The Group mainly operates defined benefit pension plans in Switzerland, the United States of America, the United Kingdom, the Netherlands, Germany, Italy, France, 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 United States of America and Switzerland. They represent a defined benefit obligation at 31 December 2016 of CHF 14 million (2015: 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 recognised in the income statement.

In 2015, following changes in its status, an entity previously recognised as a subsidiary was qualified as a defined benefit plan (employer fund) in Switzerland. Before the change in status, the Group decided to transfer funds in order to improve the structure of the assets in the United States of America and the United Kingdom.

The Group's material defined benefit plans are in Switzerland, the United States of America and the United Kingdom.

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 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.

The weighted average duration of the expected benefit payment is approximately 16 years.

The Group expects to contribute CHF 7 million to this plan in 2017.

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 United States of America are eligible for annual benefit accrual. In addition, the pension benefit was changed and is defined as a percentage of the current year's pensionable compensation; the cost of additional benefit accrual is evaluated annually. The Group reserves the right to make future changes to the benefit accrual structure of the plan.

Eligible employees become participants in the plan after the completion of one year of service and after reaching the age of 21. Participants become fully vested in the plan after five years of service.

The weighted average of duration of the expected benefit payment is approximately 13 years.

The Group expects to contribute CHF 9 million to this plan in 2017.

UNITED KINGDOM

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

Funding valuations of the defined benefit plans are carried out and agreed between the Group and the plan trustees at least once every three years. The funding target is for the plans to hold assets equal in value to the accrued benefits based on projected salaries. As part of the valuation process, if there is a shortfall against this target, then the Group and trustees will agree on deficit contributions to meet this deficit over a specified period.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to recover any deficit that arises.

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

The Group expects to contribute CHF 1 million to this plan in 2017.

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 2017.

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

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
Fair value of plan assets	384	232	231	39	886
Present value of funded defined benefit obligation	(374)	(215)	(254)	(66)	(909)
FUNDED/(UNFUNDED) STATUS	10	17	(23)	(27)	(23)
Present value of unfunded defined benefit obligation	(10)	-	(8)	(53)	(71)
NET ASSET/(LIABILITY) AT 31 DECEMBER	-	17	(31)	(80)	(94)

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
Fair value of plan assets	373	241	214	84	912
Present value of funded defined benefit obligation	(390)	(198)	(242)	(109)	(939)
FUNDED/(UNFUNDED) STATUS	(17)	43	(28)	(25)	(27)
Present value of unfunded defined benefit obligation	(10)	-	(8)	(49)	(67)
NET ASSET/(LIABILITY) AT 31 DECEMBER	(27)	43	(36)	(74)	(94)

The net liability of CHF 94 million (2015: CHF 94 million) includes CHF 60 million (2015: CHF 87 million) of pension fund assets recognised in the item Other Non-Current Assets in note 13 and CHF 154 million (2015: CHF 181 million) of pension fund liability recognised in the item Defined Benefit Obligation in the balance sheet.

8. SGS GROUP RESULTS

Amounts recognised in the income statement:

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
Service cost expense	9	1	2	5	17
Net interest expense on defined benefit plan	-	(2)	1	2	1
Administrative expenses	-	1	1	-	2
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	9	-	4	7	20
<i>Expense charged in:</i>					
Salaries and wages	9	2	3	5	19
Financial expense	-	(2)	1	2	1
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	9	-	4	7	20

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
Service cost expense	8	2	(2)	4	12
Net interest expense on defined benefit plan	-	(1)	1	2	2
Administrative expenses	-	1	1	-	2
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	8	2	-	6	16
<i>Expense charged in:</i>					
Salaries and wages	8	3	(1)	4	14
Financial expense	-	(1)	1	2	2
TOTAL EXPENSE DUE TO DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	8	2	-	6	16

Amounts recognised in the statement of other comprehensive income:

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
<i>Remeasurement on net defined benefit liability</i>					
Change in demographic assumptions	(11)	-	(4)	-	(15)
Change in financial assumptions	(1)	48	8	7	62
Experience adjustments on benefit obligations	(4)	-	4	-	-
Actual return on plan assets excluding net interest expense	(13)	(25)	(7)	1	(44)
TOTAL RECOGNISED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER	(29)	23	1	8	3

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
<i>Remeasurement on net defined benefit liability</i>					
Change in demographic assumptions	-	-	15	1	16
Change in financial assumptions	11	(13)	(7)	-	(9)
Experience adjustments on benefit obligations	6	-	(4)	-	2
Actual return on plan assets excluding net interest expense	5	9	17	-	31
TOTAL RECOGNISED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31 DECEMBER	22	(4)	21	1	40

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

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
NET ASSET/(LIABILITY) AT 1 JANUARY	(27)	43	(36)	(74)	(94)
Expense recognised in the income statement	(9)	-	(4)	(7)	(20)
Remeasurements recognised in other comprehensive income	29	(23)	(1)	(8)	(3)
Contributions paid by the Group	7	1	11	10	29
Employer benefit payments	-	-	-	1	1
Exchange differences	-	(4)	(1)	(2)	(7)
NET ASSET/(LIABILITY) AT 31 DECEMBER	-	17	(31)	(80)	(94)

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
NET ASSET/(LIABILITY) AT 1 JANUARY	(47)	17	(58)	(88)	(176)
Expense recognised in the income statement	(8)	(2)	-	(6)	(16)
Remeasurements recognised in other comprehensive income	(22)	4	(21)	(1)	(40)
Contributions paid by the Group	7	5	3	11	26
Special pension fund contribution	43	20	40	-	103
Exchange differences	-	(1)	-	10	9
NET ASSET/(LIABILITY) AT 31 DECEMBER	(27)	43	(36)	(74)	(94)

8. SGS GROUP RESULTS

Change in the defined benefit obligation is as follows:

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
Opening present value of the defined benefit obligation	400	198	250	158	1 006
Current service cost	9	1	2	5	17
Interest cost	4	6	10	3	23
Plan participants' contributions	5	-	1	-	6
Settlements	-	-	(2)	(54)	(56)
Net increase/(decrease) in DBO from acquisitions/disposals	-	-	-	1	1
Actual net benefit payments	(18)	(7)	(16)	(6)	(47)
(Gains)/losses due to changes in demographic assumptions	(11)	-	(4)	-	(15)
(Gains)/losses due to changes in financial assumptions	(1)	48	8	7	62
Experience differences	(4)	-	4	-	-
Exchange rate (gains)/losses	-	(31)	9	5	(17)
DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	384	215	262	119	980

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
Opening present value of the defined benefit obligation	379	218	293	174	1 064
Current service cost	8	2	3	4	17
Interest cost	5	7	11	4	27
Plan participants' contributions	5	1	1	(1)	6
Settlements	-	-	(47)	(1)	(48)
Actual net benefit payments	(14)	(8)	(15)	(6)	(43)
(Gains)/losses due to changes in demographic assumptions	-	-	15	1	16
(Gains)/losses due to changes in financial assumptions	11	(13)	(7)	-	(9)
Experience differences	6	-	(4)	-	2
Exchange rate (gains)/losses	-	(9)	-	(17)	(26)
DEFINED BENEFIT OBLIGATION AT 31 DECEMBER	400	198	250	158	1 006

Change in fair value of plan assets is as follows:

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
Opening fair value of plan assets	373	241	214	84	912
Interest income on plan assets	4	8	9	1	22
Return on plan assets excluding amounts included in net interest expense	13	25	7	(1)	44
Actual employer contributions	7	1	11	11	30
Actual plan participants' contributions	5	-	1	-	6
Actual net benefit payments	(18)	(7)	(16)	(6)	(47)
Actual admin expenses paid	-	(1)	(1)	-	(2)
Settlements	-	-	(2)	(54)	(56)
Net increase/(decrease) in assets from acquisitions	-	-	-	1	1
Exchange differences	-	(35)	8	3	(24)
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	384	232	231	39	886

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
Opening fair value of plan assets	332	235	235	86	888
Interest income on plan assets	5	8	10	2	25
Return on plan assets excluding amounts included in net interest expense	(5)	(9)	(17)	-	(31)
Actual employer contributions	7	5	3	11	26
Pension funds special contribution	43	20	40	-	103
Actual plan participants' contributions	5	1	1	(1)	6
Actual net benefit payments	(14)	(8)	(15)	(6)	(43)
Actual admin expenses paid	-	(1)	(1)	-	(2)
Settlements	-	-	(42)	(1)	(43)
Exchange differences	-	(10)	-	(7)	(17)
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	373	241	214	84	912

There are no reimbursement rights included in plan assets. The actual return on plan assets was a gain of CHF 66 million (2015: loss of CHF 6 million).

8. SGS GROUP RESULTS

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

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2016					
Cash and cash equivalents	79	1	1	16	97
Equity securities	105	47	73	3	228
Debt securities	57	83	157	1	298
Assets held by insurance company	-	17	-	18	35
Property	121	-	-	-	121
Investment funds	22	84	-	-	106
Other	-	-	-	1	1
TOTAL PLAN ASSETS AT 31 DECEMBER	384	232	231	39	886

<i>(CHF million)</i>	CH	UK	USA	OTHER	TOTAL
2015					
Cash and cash equivalents	88	4	1	11	104
Equity securities	91	47	71	2	211
Debt securities	58	91	142	1	292
Assets held by insurance company	-	17	-	70	87
Property	116	-	-	-	116
Investment funds	20	81	-	-	101
Other	-	1	-	-	1
TOTAL PLAN ASSETS AT 31 DECEMBER	373	241	214	84	912

In 2016 and 2015, the Group did not occupy any property that was included in the plan assets.

The property is 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 United States of America, 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 United Kingdom, 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 has recently been 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 2016 and 2015 are as follows:

<i>(Weighted average %)</i>	CH	UK	USA	OTHER
2016				
Discount rate	0.7	2.9	4.0	2.0
Mortality assumption	LPP 2015 Proposed CMI	SNA02 CMI 2015 Scale	RP 2014 SSA MP 2016	-
Salary progression rate	1.5	3.8	3.3	2.8
Future increase for pension in payments	0.2	3.5	-	0.6
Healthcare cost trend assumed for the next year	3.0	-	6.6	-
Ultimate trend rate	3.0	-	5.0	-
Year that the rate reaches the ultimate trend rate	-	-	2022	-

<i>(Weighted average %)</i>	CH	UK	USA	OTHER
2015				
Discount rate	0.9	3.9	4.3	2.5
Mortality assumption	LPP 2010 Generational	SNA02 CMI 2015 Scale	RP 2014 SSA	-
Salary progression rate	2.0	3.5	3.3	2.4
Future increase for pension in payments	0.3	3.2	-	0.4
Healthcare cost trend assumed for the next year	3.0	2.0	6.9	-
Ultimate trend rate	3.0	-	5.0	-
Year that the rate reaches the ultimate trend rate	-	-	2022	-

The weighted average rate for each assumption used to measure the benefits obligation is also shown. The assumptions used to determine end-of-year benefits obligation are also used to calculate the following year's cost.

In Switzerland, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 30 million; a 0.5% increase in assumed salary increases would increase the obligation by CHF 2 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 12 million.

In the United States of America, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 17 million; a 0.5% increase in assumed salary increases would not impact the obligation and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 10 million.

In the United Kingdom, a decrease in the discount rate of 0.5% per annum would, all other things being equal, increase the obligation by CHF 24 million; a 0.5% increase in assumed salary increases would increase the obligation; by CHF 3 million; and a one-year increase in members' life expectancy would increase the obligation by approximately CHF 7 million.

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation and assume no other changes in market conditions at the accounting date. This is unlikely in practice; for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the plans.

The amount recognised as an expense in respect of defined contribution plans during 2016 was CHF 67 million (2015: CHF 69 million).

25. PROVISIONS

<i>(CHF million)</i>	LEGAL AND WARRANTY CLAIMS ON SERVICES RENDERED	DEMobilISATION AND REORGANISATION	OTHER PROVISIONS	TOTAL
AT 1 JANUARY 2016	42	34	40	116
Acquisitions of subsidiaries	-	-	2	2
Charge to income statement	19	67	9	95
Release to income statement	(19)	(4)	(8)	(31)
Payments	(4)	(65)	(7)	(76)
Exchange differences	1	1	4	6
AT 31 DECEMBER 2016	39	33	40	112
<i>Analysed as:</i>			2016	2015
Current liabilities			19	19
Non-current liabilities			93	97
TOTAL			112	116

A number of Group companies are subject to litigation and other claims arising out of the normal conduct of their business that can be best viewed as claims on services rendered. The claim provision represents the sum of estimates of amounts payable on identified claims and of losses incurred but not yet reported. They therefore reflect estimates of the future payments required to settle both reported and unreported claims.

The process of estimation is complex, dealing with uncertainty, requiring the use of informed estimates, actuarial assessment, evaluation of the insurance cover where appropriate and the judgement of Management. Any changes in these estimates are reflected in the income statement in the period in which the estimates change.

The timing of cash outflows from pending litigation and claims is uncertain since it depends, in the majority of cases, on the outcome of administrative and legal proceedings. The Group does not discount its provisions, as the timing of the cash outflows cannot be reasonably and reliably determined.

In the opinion of Management, based on all currently available information, the provisions adequately reflect the Group's exposure to legal and warranty claims on services rendered. The ultimate outcome of these matters is not expected to materially affect the Group's financial position, results of operations or cash flows.

For specific long-term contracts, typically with two to five years' duration, the Group is required to dismantle infrastructure and terminate the services of personnel upon completion of the contract. These demobilisation costs are provided for during the life of the contract. Experience has shown that these contracts may be either extended or terminated earlier than expected. The timing of these demobilisation outflows is difficult to assess. The amounts are therefore not discounted.

Other provisions relate to various present legal or constructive obligations of the Group toward third parties, such as termination payments to employees upon leaving the Group, which in some jurisdictions are a legal obligation.

26. TRADE AND OTHER PAYABLES

<i>(CHF million)</i>	2016	2015
Trade payables	300	226
Other payables	319	275
Other financial liabilities	22	25
TOTAL	641	526

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs. At 31 December 2016 and 2015, the fair value of the Group's trade accounts and other payables approximates the carrying value.

27. OTHER CREDITORS AND ACCRUALS

<i>(CHF million)</i>	2016	2015
Accrued expenses	562	521
Advance billings	56	54
Advances from clients	31	59
Derivative liabilities	12	20
TOTAL	661	654

At 31 December 2016 and 2015, the fair value of the Group's other creditors and accruals 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.

29. GUARANTEES

<i>(CHF million)</i>	2016 ISSUED	2015 ISSUED
Guarantees	99	130
Performance bonds	217	204
TOTAL	316	334

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

30. OPERATING LEASES

Operating lease rentals are payable as follows:

<i>(CHF million)</i>	2016	2015
Less than one year	124	124
Between one and five years	266	254
More than five years	72	72
TOTAL	462	450

The Group leases the majority of its office and laboratory space and vehicles. During the year ended 31 December 2016, CHF 134 million was recognised as an expense in the income statement in respect of operating leases (2015: CHF 149 million).

31. 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 2016, a total of 1 315 Restricted Shares were granted to the members of the Operations Council, in settlement of 50% of the annual incentive related to the 2015 performance. The Restricted Shares fully vest at grant date and are blocked for a period of three years from the grant date, until April 2019. The fair market 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 2016 Annual General Meeting, was CHF 2 703 180.

50% of the annual incentive related to the 2016 performance will be settled in Restricted Shares. The grant of the Restricted Shares will be done after the 2017 Annual General Meeting; The total number of Restricted Shares to be granted will be calculated based on the average closing price of the share during a 20-day period following the payment of the dividends after the 2017 Annual General Meeting. 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 2020. Shareholding guidelines apply to the Restricted Share Plans.

ii) Grants to Other Employees

In 2016, a total of 2 473 Restricted Share Units were granted to selected key employees under the framework of the Restricted Share Units Plan 2016. The Restricted Share Units vest in three stages: one-third at grant; one-third 18 months after the grant date, and one-third 36 months after the grant date. The fair market value at grant date of the Restricted Share Units granted, being defined as the average closing price of the share during a 20-day period preceding the grant date, was CHF 4 968 504.

iii) Long-Term Incentive Plans (LTI)

In 2016, a total of 149 Performance Share Units of the 2015 Long-Term Incentive Plan were granted to selected employees (not members of the Operations Council). Additional information is disclosed in the SGS Remuneration Report (pages 126 to 142).

OPTION PLAN

DESCRIPTION	EXERCISE PERIOD		STRIKE PRICE ¹	OPTIONS OUTSTANDING AT 31 DECEMBER 2015	GRANTED	CANCELLED	EXERCISED OR ADJUSTED	OPTIONS OUTSTANDING AT 31 DECEMBER 2016
	FROM	TO						
SGSMF-2011	Jan.14	Jan.16	1 528.78	206 662	-	(40 996)	(165 666)	-
SGSMF-2011 LTI	Jan.15	Jan.16	1 528.78	66 000	-	(66 000)	-	-
SGSKF-2012	Jan.15	Jan.17	1 448.85	1 444 280	-	(122 741)	(1 176 218)	145 321
SGSWS-2013	Jan.16	Jan.18	1 989.31	3 061 736	-	-	(1 706 690)	1 355 046
SGSPF-2014	Jan.17	Jan.19	2 059.00	2 990 399	-	(39 996)	-	2 950 403
SGSBB-2015	Jan.18	Jan.20	1 798.00	1 482 124	-	(35 176)	-	1 446 948
TOTAL				9 251 201	-	(304 909)	(3 048 574)	5 897 718
Of which exercisable at 31 December				1 606 201				1 500 367

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	SHARES OUTSTANDING AT 31 DECEMBER 2015	GRANTED	CANCELLED	VESTED OR ADJUSTED	SHARES OUTSTANDING AT 31 DECEMBER 2016
SGS-PSU-15	Jan.18	39 186	149	(1 338)	-	37 997
SGS-RSU-16	Jan.19	-	2 473	(50)	(815)	1 608
TOTAL		39 186	2 622	(1 388)	(815)	39 605

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

In total as of 31 December 2016, the equity overhang, defined as the total number of share units, restricted shares and shares underlying options outstanding divided by the total number of outstanding shares (7 822 436 shares) amounted to 98 792 units, representing 1.26%.

The Company's burn rate, defined as the number of equities (restricted shares and share units) granted in 2016 (3 937 units) divided by the total number of outstanding shares, was 0.05%.

The Group recognised during the year total expense of CHF 16 million (2015: CHF 9 million) in relation to equity compensation plans.

Shares available for future plans:

	TOTAL
AT 1 JANUARY 2015	(20 635)
Repurchased shares	45 778
Options granted (SGSBB Plan and adjustments)	(16 000)
Options cancelled	6 120
SGS-PSU-15 plan	(39 186)
AT 31 DECEMBER 2015	(23 923)
Purchased shares	5 029
Granted SGS-PSU-15 plan	(149)
Granted SGS-RSU-16 plan	(2 473)
Options cancelled	752
PSU cancelled	1 338
RSU cancelled	50
AT 31 DECEMBER 2016	(19 376)

8. SGS GROUP RESULTS

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

	2016 TOTAL	2015 TOTAL
Number of shares held	95 225	138 072
Shares allocated to 2011 option plans	-	(21 392)
Shares allocated to 2012 option plans	-	(25 669)
Shares allocated to 2013 option plans	(31 004)	(31 004)
Shares allocated to 2014 option plans	(29 523)	(29 923)
Shares allocated to 2015 option plans	(14 469)	(14 821)
Shares allocated for 2015 PSU plans	(37 997)	(39 186)
Shares allocated for 2016 RSU plans	(1 608)	-
SHARES (REQUIRED)/AVAILABLE FOR FUTURE OPTION PLANS AT 31 DECEMBER 2016	(19 376)	(23 923)

For the equity compensation plans, the Group has entered into agreements with various banks, whereby the Group has an obligation to offer to sell to the banks the shares underlying the option programme at the relevant strike price whenever these shares become unblocked. The banks are not obliged to purchase these shares.

32. 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)	2016	2015
Short-term benefits	14	17
Post-employment benefits	1	1
Share-based payments ¹	2	16
TOTAL	17	34

1. 2016 represents the market value of Restricted Shares granted in 2016 while 2015 represents the market value of SGSBB options and PSUs granted in 2015.

The remuneration of Directors and members of the Operations Council is determined by the Nomination and Remuneration Committee. Additional information is disclosed in the SGS Remuneration Report (pages 126 to 142).

During 2016 and 2015, no member of the Board of Directors or of the Operations Council had a personal interest in any business transactions of the Group.

The Operations Council (including Senior Management) participate in the equity compensation plans as disclosed in note 31.

In 2016, Directors' fees were CHF 2 123 000 (2015: CHF 2 091 000).

The total compensation (cash and shares/options) received by the Operations Council (including Senior Management) amounted to CHF 15 249 000 (2015: CHF 31 886 000).

Disclosure of compensation paid to the Board of Directors and Senior Management, as required by Swiss law, is presented in the notes to the accounts of SGS SA on pages 207 to 208 of this report.

LOANS TO MEMBERS OF GOVERNING BODIES

As at 31 December 2016, two members of the Operations Council have received loans for a combined amount equivalent to CHF 28 365 (no loan, credit or outstanding advance was due to the Company from members of its governing bodies in the prior year).

TRANSACTIONS WITH OTHER RELATED PARTIES

In 2016 and 2015, the Group did not perform any activity generating revenue for the other related parties. During the same period, neither related trade receivable balances unpaid nor expenses in respect of any bad or doubtful debts due from these related parties were recognised.

33. SIGNIFICANT SHAREHOLDERS

As at 31 December 2016, Groupe Bruxelles Lambert acting through Serena SARL held 16.20% (2015: 15.00%). Mr. August von Finck and members of his family acting in concert held 15.03% (2015: 15.03%), the Bank of New York Mellon Corporation held 3.35% (2015: 3.35%), BlackRock, Inc. held 3.03% (2015: 3.03%) and MFS Investment Management held 3.01% (2015: 3.01%) of the share capital and voting rights of the Company.

At the same date, SGS Group held 3.63% of the share capital of the Company (2015: 2.77%).

34. 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 authorised for issue by the Board of Directors on 9 February 2017, and will be submitted for approval by the Annual General Meeting of Shareholders to be held on 21 March 2017.

On 3 January 2017, the Group announced the acquisition of 100% of Laboratoire LCA, offering analytical services, including soil fertility testing, to the agricultural sector in Morocco.

On 5 January 2017, the Group announced the acquisition of 100% of BF Machinery Pty Ltd and CBF Engineering Pty Ltd, providing testing, repair, engineering and maintenance services for pumps, valves, hydraulics and plastics systems in Australia.

On 30 January 2017, the Group announced the issuance of nine-year CHF 375 million straight bond with a coupon of 0.55 percent.



STATUTORY AUDITOR'S REPORT

To the General Meeting of

SGS SA, GENEVA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of SGS SA and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended.

In our opinion the consolidated financial statements (presented on pages 146 to 193) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

A Summary of our Audit Approach

AUDIT SCOPE

- 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 198

GROUP MATERIALITY

CHF 56 MILLION

7% OF PROFIT BEFORE TAX

**(ADJUSTED FOR CERTAIN
NON-RECURRING ITEMS)**

KEY AUDIT MATTERS

- Revenue recognition in respect of unbilled revenue and work-in-progress
- Goodwill and associated impairment testing
- Current and deferred income tax balances
- Retirement benefit obligations

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.

STATUTORY AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTER

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

REVENUE RECOGNITION IN RESPECT OF UNBILLED REVENUE AND WORK-IN-PROGRESS

The Group recognises revenue on fees for services rendered to third parties when the services have been completed. However, in certain circumstances, including where services are not billed at the end of each financial period, revenue is 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. Where services are completed, but unbilled, revenue is recorded at net selling price with a margin on cost incurred. Where services are incomplete, no margin is recognised and the costs incurred are included in work-in-progress.

At 31 December 2016, the Group balance sheet included unbilled revenues of CHF 187 million or 3.12% of total Group revenues of CHF 5 985 million. In addition work-in-progress amounted to CHF 62 million.

Significant judgement is required by Management at operational level in certain cases to estimate the value of revenue and profit that should be recognised prior to the year-end, which is highly dependent on the nature and complexity of the services being provided and the contractual terms with customers. The incremental revenue and profit recognised at period-end is also included in the determination of management incentives, increasing the risk of inappropriate estimation. Accordingly the estimation of work-in-progress and unbilled revenues is considered to be an area of focus for the Audit Committee (see page 122) and a key audit matter.

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

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

- In all component locations we discussed with Management the adequate implementation of Group policies and controls regarding revenue recognition and the approval of unbilled revenue balances;
- We tested a sample of unbilled revenue balances recorded at the prior year-end to subsequent invoices and recoveries from third-party clients in order to identify any locations that had over-estimated historic revenues.

At year end, our audit work consisted of:

- We used audit analytics to identify businesses and geographies across the Group, which had recorded significant work-in-progress and unbilled balances at the year-end compared to recurring monthly revenue levels and prior year-end balances, and challenged local management by tracing to contract and status reports to verify significant variances;
- We tested a sample of work-in-progress and unbilled balances to the related customer contracts and appropriate operational evidence to confirm that the services had been completed prior to the year-end; and
- We also considered the adequacy of the disclosures in the consolidated financial statements.

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

GOODWILL AND ASSOCIATED IMPAIRMENT TESTING

The Group's balance sheet includes CHF 1 195 million of goodwill, representing 22.3% of total Group assets. In accordance with IFRS, these balances are allocated to Cash Generating Units (CGUs) which are tested annually for impairment using discounted cash-flow models of each CGU's recoverable value compared to net operating assets. A deficit in recoverable value would result in impairment.

In the current year, the Group has re-defined its CGUs to align more closely with the Group's international operations and the levels at which independent cash inflows are generated. This led to a reduction from 63 to 16 CGUs, reflecting the increasingly regionalised and global basis of customer operations.

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

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

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

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

We evaluated the appropriateness of the re-definition of CGUs during the current year by discussions with Senior Operational Management, confirmation of the reporting levels at which Group Management monitors independent cash inflows and trading performance and our knowledge of the Group's operations.

We assessed the impairment testing models and calculations by:

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

STATUTORY AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTER

The annual impairment testing is considered to be a risk area for the Audit Committee (refer to page 122), a significant accounting judgement and estimate (note 2) and a key audit matter because the assumptions on which the tests are based are highly judgmental and are affected by future market and economic conditions which are inherently uncertain, and because of the materiality of the balances to the financial statements as a whole.

Refer to the accounting policy in note 2 and additionally note 11 for details of the goodwill balances and impairment testing inputs.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

Using audit analytic techniques and our knowledge of the Group's businesses, we identified CGUs with significant goodwill balances, declining trading performance compared with prior year, specific risk factors (such as the impact of commodity price trends on CGUs in the Oil Gas and Chemicals, Minerals and Industrials businesses, macro-economic factors in certain geographies including South and Central America and emerging markets, recent acquisitions or new service innovations) or lower headroom in recoverable value compared to net book value.

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

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

Based on the audit procedures performed, we consider the judgements applied in the determination of CGUs and the assumptions included in the impairment testing models, together with the disclosures set out in the consolidated financial statements, to be appropriate. No impairment was identified from the work above.

CURRENT AND DEFERRED INCOME TAX BALANCES

The Group operates in a large number of different jurisdictions and is therefore subject to many tax regimes with differing rules and regulations. Significant judgement is required in determining the calculation of income taxes, both current and deferred, as well as the assessment of provisions for uncertain tax positions including estimates of interest and penalties where appropriate.

The Group's balance sheet includes current tax assets of CHF 88 million, current tax liabilities of CHF 166 million together with deferred tax assets of CHF 165 million and deferred tax liabilities of CHF 42 million. The tax expense of CHF 185 million represents 24% of Group profit before taxes.

Due to their significance to the financial statements as a whole, combined with the judgement and estimation required to determine their values, the evaluation of current and deferred tax balances is considered to be an area of focus for the Audit Committee (see page 122) and a key audit matter.

Refer to the accounting policy in note 2 and additionally note 8.

Our audit included the following procedures on current and deferred tax balances:

- We discussed with Management the adequate implementation of Group policies and controls regarding current and deferred tax, as well as the reporting of uncertain tax positions;
- We examined the procedures in place for the current and deferred tax calculations for completeness and valuation and audited the related tax computations and estimates in the light of our knowledge of the tax circumstances. Our work was conducted with our tax specialists in key locations and centrally;
- We verified the consolidation and analysis of tax balances at Group level based on the information reported by Group affiliates;
- We considered Management's assessment of the validity and adequacy of provisions for uncertain tax positions, evaluating the basis of assessment and reviewing relevant correspondence and legal advice where available including any information regarding similar cases with the relevant tax authorities;

STATUTORY AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTER

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

- In respect of deferred tax assets and liabilities, we assessed the appropriateness of Management's assumptions and estimates, including the likelihood of generating sufficient future taxable income to support deferred tax assets for tax losses carried forward as disclosed in note 8 of CHF 68 million, considering the time limits applied for the set-off of losses and comparing the assumptions used to the Group's forecasts for revenue and profits in relevant countries; and.
- We also assessed the adequacy of the related disclosures in the consolidated financial statements.

Based on the audit procedures performed, we consider Management's estimates and disclosures regarding current and deferred tax balances to be appropriate.

RETIREMENT BENEFIT OBLIGATIONS

The Group maintains a number of defined benefit pension plans. The material defined benefit plans are in Switzerland, USA and UK.

At 31 December 2016, the Group recorded a net retirement benefit liability of CHF 94 million, being the net of pension fund assets of CHF 60 million, included in Other Non-Current Assets and CHF 154 million pension fund liabilities, included in Non-Current Liabilities.

The retirement benefit obligations recognised in the balance sheet represent the present value of defined benefit obligations calculated annually by independent actuaries. These actuarial valuations are sensitive to key assumptions such as discount rates, inflation rates and mortality rates. Changes in any of these assumptions can lead to a material movement in the net retirement benefit liability.

Given the judgement required by Management in setting these assumptions, the volatility in retirement benefit balances that can result from changes in assumptions, and the significance of the balances to the consolidated financial statements as a whole, the estimation of retirement benefit obligations is an area of focus for the Audit Committee (see page 122) and a key audit matter.

Refer to the accounting policy in note 2 and additionally notes 24 and 13.

We evaluated the Group's assessment of the assumptions used in the valuation of defined benefit liabilities and the information contained within the actuarial valuation reports for each plan. We also assessed the design and implementation of controls in respect of the valuation process for the retirement benefit plans.

We tested the membership and salary data used in the valuation of the retirement benefit plans by reconciliation to payroll records on a sample basis. We also verified retirement benefit assets to third-party confirmations.

Working with our pension specialists both at central and local level, we considered the process applied by the Group's actuaries and the scope of the valuations performed and we evaluated their expertise and independence. This included assessed the benchmarking of the key assumptions applied, including discount rates, inflation and mortality rates, against external data, where available, and forming our own independent expectations based on our knowledge of local market practices.

We also assessed the adequacy and completeness of the related retirement benefit disclosures in the consolidated financial statements.

Based on the procedures performed, we consider Management's estimates and disclosures regarding retirement benefit obligation balances to be appropriate.

STATUTORY AUDITOR'S REPORT CONTINUED

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 CHF56 million, based on a calculation of 7% of profit before tax adjusted for certain non-recurring items. We selected profit before tax as the basis of materiality because, in our view, it is the measure against which the performance of the Group is most commonly assessed.

The materiality applied by the component auditors ranged from CHF14 million to CHF28 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 CHF1 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Scope

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 21 key locations in 2016: Australia; Belgium; Bermuda; Brazil; Chile; China; Colombia; France; Germany; Ghana; Hong Kong; India; Italy; Korea; Netherlands; Russia; South Africa; Spain; Switzerland; USA and UK. In aggregate, these components represented scope coverage of 71% of Group revenue, 86% of net assets and 89% of net income for the year (see table below).

In addition we performed analytical review and other specified procedures ("rotation scope") in Canada and Taiwan. In aggregate, Canada and Taiwan related procedures represented scope coverage of 6% of Group revenue, 3% of net assets and 3% of net income for the year (see table below).

GROUP AUDIT COVERAGE IN %	2016		2015	
	FULL SCOPE	ROTATION SCOPE	FULL SCOPE	ROTATION SCOPE
Revenue	71	6	68	5
Net assets	86	3	72	10
Net income	89	3	74	16

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.

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.

STATUTORY AUDITOR'S REPORT CONTINUED

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a paragraph 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

DELOITTE SA



James Baird

*Licensed Audit Expert
Auditor in Charge*



Joëlle Herbette

Licensed Audit Expert

Geneva, 9 February 2017



SGS SERVICE

> Digital Services



CONSUMER BENEFIT

> A more secure internet

EARNING THE TRUST OF BILLIONS

In the last 12 months, just three IT security lapses or cyber attacks have resulted in more than a billion records on private individuals being stolen or exposed. This includes the details of all the 191 million people registered to vote in the United States.

These were not just isolated incidents. Cyber criminality is on the rise, with a 29% increase in total costs to businesses reported since 2013. Moreover, it isn't just large companies that are at risk, with an increasing number of SMEs being attacked.

The biggest single cost to businesses of a security breach is not the loss of data itself – it's the loss of customer trust and long-term business. For consumers, they need to know that every possible step is being taken to protect their data when they submit it to companies. In a groundbreaking new service, SGS helps ensure this is the case. Testing companies' architecture, evaluating their network security, running penetration tests and developing incident response approaches are part of the services we provide to ensure that both our customers, and in turn the general public, are protected.

9. SGS SA RESULTS

INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)

	NOTES	2016	2015
OPERATING INCOME			
Dividends from subsidiaries		461	1 055
Other income		1	1
TOTAL OPERATING INCOME		462	1 056
OPERATING EXPENSES			
Other operating & administrative expenses		(5)	(4)
Depreciation of fixed assets		-	-
Other expenses		2	(3)
TOTAL OPERATING EXPENSES		(3)	(7)
OPERATING RESULT		459	1 049
FINANCIAL INCOME			
Financial income	7	51	68
Liquidation of subsidiaries, net		7	-
TOTAL FINANCIAL INCOME		58	68
FINANCIAL EXPENSES			
Financial expenses	7	(48)	(51)
Exchange loss, net		(23)	(4)
TOTAL FINANCIAL EXPENSES		(71)	(55)
FINANCIAL RESULT		(13)	13
PROFIT BEFORE TAXES		446	1 062
Taxes		(1)	(5)
Withholding taxes		(9)	(9)
PROFIT FOR THE YEAR		436	1 048

BALANCE SHEET AT 31 DECEMBER

(BEFORE APPROPRIATION OF AVAILABLE RETAINED EARNINGS)

(CHF million)

	NOTES	2016	2015
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents		312	529
Other financial assets		28	195
Amounts due from subsidiaries		337	301
Accrued income & prepaid expenses		-	1
TOTAL CURRENT ASSETS		677	1 026
NON-CURRENT ASSETS			
Financial assets			
Investments in subsidiaries	2	1 503	1 635
Loans to subsidiaries		1 404	1 289
Other financial assets		-	1
Fixed assets			
Tangible fixed assets	3	2	3
TOTAL NON-CURRENT ASSETS		2 909	2 928
TOTAL ASSETS		3 586	3 954
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHORT-TERM LIABILITIES			
Other creditors		1	2
Amounts due to subsidiaries		56	50
Deferred income and accrued expenses		91	56
Provisions		34	34
TOTAL SHORT-TERM LIABILITIES		182	142
LONG-TERM LIABILITIES / NON CURRENT LIABILITIES			
Long-term liabilities - subsidiaries		655	275
Corporate bonds	4	1 700	2 192
TOTAL LONG-TERM LIABILITIES / NON-CURRENT LIABILITIES		2 355	2 467
CAPITAL AND RESERVES			
Share capital	5 and 6	8	8
Statutory capital reserve	5 and 6	34	34
Statutory retained earnings	5 and 6	1 253	1 273
Own shares for share buyback	5 and 6	(361)	(145)
Reserve for own shares held by a subsidiary	5 and 6	115	175
TOTAL CAPITAL AND RESERVE		1 049	1 345
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		3 586	3 954

9. SGS SA RESULTS

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 headquarters are located in Geneva, Switzerland.

The average number of employees during the year was less than ten.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting principles required by Swiss law.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are valued individually at acquisition cost less an adjustment for impairment where appropriate.

FOREIGN CURRENCIES

Balance sheet items denominated in foreign currencies are converted at year-end exchange rates with the exception of investments in subsidiaries that are valued at the historical exchange rate. Unrealised gains and losses arising on foreign exchange transactions are included in the determination of the net profit, except long-term unrealised 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 recognised 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 218 to 221.

3. TANGIBLE FIXED ASSETS

The tangible fixed asset is a building located at 15, rue des Alpes in Geneva and is stated at historical cost less accumulated depreciation.

4. CORPORATE BONDS

SGS SA made the following bond issuances:

DATE OF ISSUE	FACE VALUE IN CHF MILLION	COUPON IN %	YEAR OF MATURITY	ISSUE PRICE IN %	REDEMPTION PRICE IN %
08.03.2011	375	2.625	2019	100.832	100.000
27.05.2011	275	3.000	2021	100.480	100.000
27.02.2014	138	1.375	2022	100.517	100.000
27.02.2014	250	1.750	2024	101.019	100.000
25.04.2014	112	1.375	2022	101.533	100.000
08.05.2015	325	0.250	2023	100.079	100.000
08.05.2015	225	0.875	2030	100.245	100.000

In 2016, a CHF 492 million corporate bond was reimbursed.

The Group has listed all the bonds on the SIX Swiss Exchange.

5. TOTAL EQUITY

<i>(CHF million)</i>	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 2015	8	34	172	-	750	964
Dividends paid	-	-	-	-	(522)	(522)
Increase in the reserve for own shares	-	-	3	-	(3)	-
Purchase of shares for buyback	-	-	-	(145)	-	(145)
Profit for the year	-	-	-	-	1 048	1 048
BALANCE AT 31 DECEMBER 2015	8	34	175	(145)	1 273	1 345
Dividends paid	-	-	-	-	(516)	(516)
Decrease in the reserve for own shares	-	-	(60)	-	60	-
Purchase of shares for buyback	-	-	-	(216)	-	(216)
Profit for the year	-	-	-	-	436	436
BALANCE AT 31 DECEMBER 2016	8	34	115	(361)	1 253	1 049

6. SHARE CAPITAL

	SHARES IN CIRCULATION	OWN SHARES	TOTAL SHARES ISSUED	TOTAL SHARE CAPITAL (CHF MILLION)
BALANCE AT 1 JANUARY 2015	7 675 506	146 930	7 822 436	8
Own shares released into circulation	54 636	(54 636)	-	-
Own shares purchased for future equity compensation plans	(45 778)	45 778	-	-
Own shares purchased for buyback	(78 904)	78 904	-	-
BALANCE AT 31 DECEMBER 2015	7 605 460	216 976	7 822 436	8
Own shares released into circulation	49 162	(49 162)	-	-
Own shares purchased for future equity compensation plans	(6 315)	6 315	-	-
Own shares purchased for buyback	(109 800)	109 800	-	-
BALANCE AT 31 DECEMBER 2016	7 538 507	283 929	7 822 436	8

Issued Share Capital

SGS SA has a share capital of CHF 7 822 436 (2015: CHF 7 822 436) fully paid-in and divided into 7 822 436 (2015: 7 822 436) 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.

Own Shares

On 31 December 2016, SGS SA held directly and indirectly 283 929 of its own 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 2016, 49 162 own shares were sold to cover the equity compensation plans and 6 315 were purchased for an average price of CHF 2 127.

In 2015, the Group initiated a share buyback programme for a total of up to CHF 750 million. Up to CHF 500 million is designated for cancellation and the remainder for employee equity participation plans and/or for utilisation as underlying securities for potential issuances of convertible bonds. The programme started on 20 January 2015 and ended on 31 December 2016. As part of the share buyback programme, 109 800 shares were purchased in 2016 for an average price of CHF 1 961.

7. FINANCIAL INCOME AND FINANCIAL EXPENSES

(CHF million)	2016	2015
FINANCIAL INCOME		
Interest income 3 rd party	1	16
Interest income Group	50	52
FINANCIAL INCOME	51	68
FINANCIAL EXPENSES		
Interest expenses 3 rd party	(35)	(42)
Interest expenses Group	(2)	(3)
Other financial expenses	(11)	(6)
FINANCIAL EXPENSES	(48)	(51)

On 12 January 2015, the Group received a cash amount of CHF 15 million in relation to the termination of the Interest Rate Swap agreement to market rates. These cash proceeds were recognised as interest income in the income statement.

8. GUARANTEES AND COMFORT LETTERS

<i>(CHF million)</i>	2016 ISSUED	2016 UTILISED	2015 ISSUED	2015 UTILISED
Guarantees	284	237	243	179
Performance bonds	38	38	44	44
TOTAL	322	275	287	223

The Company has unconditionally guaranteed or provided comfort to financial institutions providing credit facilities (loans and guarantee bonds) to its subsidiaries. In addition, it has issued performance bonds to commercial customers on behalf of its subsidiaries.

The Company is part of a VAT Group comprising itself and other Group companies in Switzerland.

9. REMUNERATION

9.1. COMPANY'S REMUNERATION POLICY AND GOVERNANCE

This section appears in the SGS Remuneration Report paragraph 2 in the Annual Report on pages 128 to 131.

9.2. REMUNERATION MODEL

This section appears in the SGS Remuneration Report paragraph 3 in the Annual Report on pages 131 to 138.

9.3. REMUNERATION AWARDED TO THE BOARD OF DIRECTORS

This section appears in the SGS Remuneration Report paragraph 4 in the Annual Report on pages 138 to 139.

9.4. REMUNERATION AWARDED TO THE CEO, SENIOR MANAGEMENT AND OTHER MEMBERS OF THE OPERATION COUNCIL

This section appears in the SGS Remuneration Report paragraph 5 in the Annual Report on pages 139 to 142.

10. SHARES AND OPTIONS HELD BY MEMBERS OF GOVERNING BODIES

10.1. SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS

The following table shows the shares and vested options held by Members of the Board of Directors as at 31 December 2016:

NAME	SGSWS (2013)	SGSPF (2014)	SGSBB (2015)	RESTRICTED SHARES	SHARES
S. Marchionne	40 000	50 000	-	-	1 150
A. von Finck	-	-	-	-	19 670
A. F. von Finck	-	-	-	-	786 255
C. Grupp	-	-	-	-	-
P. Kalantzis	-	-	-	-	85
S.R. du Pasquier	-	-	-	-	5
P. Desmarais	-	-	-	-	-
I. Galiene	-	-	-	-	-
G. Lamarche	-	-	-	-	-
C. Kirk	48 576	188 546	206 806	46	1 119

9. SGS SA RESULTS

The following table shows the shares and vested options held by Members of the Board of Directors as at 31 December 2015:

NAME	SGSKF (2012)	SGSWS (2013)	SGSPF (2014)	SGSBB (2015)	SHARES
S. Marchionne	-	26 667	50 000	-	1 150
A. von Finck	-	-	-	-	19 670
A. F. von Finck	-	-	-	-	439 515
C. Grupp	-	-	-	-	1
P. Kalantzis	-	-	-	-	150
S.R. du Pasquier	-	-	-	-	10
P. Desmarais	-	-	-	-	10
I. Galienne	-	-	-	-	1
G. Lamarche	-	-	-	-	25
C. Kirk	180 225	32 384	188 546	103 403	1 119

10.2. SHARES AND OPTIONS HELD BY SENIOR MANAGEMENT

The following table shows the shares and vested options held by Senior Management as at 31 December 2016:

NAME	CORPORATE RESPONSIBILITY	SGSWS (2013)	SGSPF (2014)	SGSBB (2015)	RESTRICTED SHARES	SHARES
F. Ng	Chief Executive Officer	46 632	15 642	55 152	180	-
C. De Geyseler	Chief Financial Officer	-	26 667	8 831	91	-
O. Merkt	General Counsel and Chef Compliance Officer	-	17 643	33 048	53	45

The following table shows the shares and vested options held by Senior Management as at 31 December 2015:

NAME	CORPORATE RESPONSIBILITY	SGSKF (2012)	SGSWS (2013)	SGSPF (2014)	SGSBB (2015)	SHARES
F. Ng	Chief Executive Officer	61 621	31 088	15 642	27 576	-
C. De Geyseler	Chief Financial Officer	-	-	26 667	4 416	70
O. Merkt	General Counsel and Chief Compliance Officer	21 055	28 842	17 643	16 524	45

Details of the various plans are explained in the remuneration report.

11. SIGNIFICANT SHAREHOLDERS

As at 31 December 2016, Groupe Bruxelles Lambert acting through Serena SARL held 16.20% (2015: 15.00%). Mr. August von Finck and members of his family acting in concert held 15.03% (2015: 15.03%), the Bank of New York Mellon Corporation held 3.35% (2015: 3.35%), BlackRock, Inc. held 3.03% (2015: 3.03%) and MFS Investment Management held 3.01% (2015: 3.01%) of the share capital and voting rights of the Company.

At the same date, SGS Group held 3.63% of the share capital of the Company (2015: 2.77%).

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(CHF)	2016	2015
Profit for the year	436 216 325	1 048 128 990
Balance brought forward from previous year	610 633 820	227 785 349
Dividend not paid on own shares bought in 2015 prior the Annual General Meeting on 12 March 2015	-	384 676
Dividend paid on own shares released into circulation in 2016 prior the Annual General Meeting on 14 March 2016	(39 772)	-
Share buyback programme	(215 274 875)	(145 362 298)
Reversal from/(Transfer to) the reserve for own shares	60 989 472	(3 131 617)
TOTAL RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	892 524 970	1 127 805 100
<i>Proposal of the Board of Directors:</i>		
Dividends ¹	(527 695 490)	(517 171 280)
BALANCE CARRIED FORWARD	364 829 480	610 633 820
Ordinary gross dividend per registered share	70.00	68.00

1. No dividend is paid on own shares held directly or indirectly by SGS SA.

12. APPROVAL OF FINANCIAL STATEMENTS AND SUBSEQUENT EVENTS

The Board of Directors is responsible for the preparation and presentation of the financial statements. These financial statements were authorised for issue by the Board of Directors on 9 February 2017, and will be submitted for approval by the Annual General Meeting of Shareholders to be held on 21 March 2017.

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, presented on pages 202 to 209 which comprise the balance sheet as at 31 December 2016 and the income statement and notes for the year then ended, including the summary of significant accounting policies.

In our opinion the accompanying financial statements as at 31 December 2016 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.

KEY AUDIT MATTER

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

VALUATION OF INVESTMENTS IN SUBSIDIARIES AND RELATED LOANS TO SUBSIDIARIES

As described in note 2 to the financial statements, the company holds investments in subsidiaries with a carrying value of CHF 1 503 million as of 31 December 2016, representing 41.9% of total assets. The list of principal Group subsidiaries can be found in the Annual Report on pages 218 to 221. The valuation of these assets is dependent on the ability of these companies to generate positive cash flows in the future. It also has loans to subsidiaries amounting to CHF 1 404 million.

In accordance with Article 960 CO, these investment balances are valued by individual investment and the values must be tested annually for impairment. An impairment would need to be recorded if any of the recoverable values of investments were lower than the associated carrying values, or if loan balances were no longer considered recoverable from the associated entities.

The company uses the "income approach" for its impairment tests of investments, and prepares a discounted cash flow forecast for each significant balance. The inputs to the impairment testing model which have the most significant impact on the recoverable value include:

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

The annual impairment testing is considered to be a risk area for the Board of Directors and a key audit matter because the assumptions on which the tests are based are highly judgmental and are affected by future market and economic conditions which are inherently uncertain, and because of the materiality of the balances to the statutory financial statements as a whole.

We discussed with Management the adequate implementation of accounting policies and controls regarding the valuation of investments in subsidiaries and related loans.

We tested the design and implementation of controls to determine whether appropriate controls are in place.

We challenged the impairment testing conducted by the company. We tested the valuations and amounts outstanding on a sample basis by critically assessing the methodology applied and the reasonableness of the underlying assumptions and judgements. Involving our valuation specialists, we assessed the impairment testing models and calculations by:

- checking the mechanical accuracy of the impairment models and the extraction of inputs from source documents;
- challenging the significant inputs and assumptions used in the impairment testing for investments in SGS Group companies, such as the weighted average cost of capital and the five year projected revenues and margins.

We challenged the recoverability of loans to subsidiaries and tested balances on a sample basis to evidence of the financial position of the entities concerned.

We validated the appropriateness and completeness of the related disclosures in the financial statements.

Based on the audit procedures performed above, we consider Management's estimates in the assessment of the recoverable value of investments in, and loans to, subsidiaries, to be appropriate.

STATUTORY AUDITOR'S REPORT CONTINUED

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 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 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



James Baird

*Licensed Audit Expert
Auditor in Charge*



Joëlle Herbette

Licensed Audit Expert

Geneva, 9 February 2017

DELIVERING SECURITY WITHOUT BARRIERS

At borders, authorities face a constant balancing act between implementing controls (regulating immigration, collecting excise tax, preventing smuggling and illicit products entering our markets etc.) and ensuring that the flow of traffic, trade and people moves at a reasonable pace.

In 2015, SGS launched SGS D-TECT®, the first universal image analysis solution for container x-ray scanners. As the first ever server-based solution, SGS D-TECT® allows image analysis to be undertaken remotely, improving inspection speed and efficiency.

In 2016, SGS D-TECT® has taken a further step, making the deployment of a 100% scanning scheme in seaports possible by resolving the logistic constraints behind mass volume inspection. With new automated functionalities, SGS D-TECT® highlights non-conformities, assisting border control authorities to allocate resources on higher risk profiles while speeding the process for the majority of lower-risk cases.

All this means that security is becoming ever tighter at ports and borders, while at the same time, waiting times are being reduced. Society as a whole benefits from smoother trade flows and the fact that thanks to SGS D-TECT® we are all that little bit safer.



SGS SERVICE

> SGS D-TECT®



CONSUMER BENEFIT

> Safer borders with reduced waiting times

10. DATA

SGS GROUP – FIVE-YEAR STATISTICAL DATA CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

(CHF million)

	2016	2015	2014	2013	2012
REVENUE	5 985	5 712	5 883	5 830	5 569
Salaries and wages	(3 009)	(2 849)	(2 891)	(2 871)	(2 733)
Subcontractors' expenses	(368)	(345)	(361)	(357)	(338)
Depreciation, amortisation and impairment	(336)	(322)	(304)	(298)	(280)
Other operating expenses	(1 456)	(1 374)	(1 386)	(1 392)	(1 384)
OPERATING INCOME (EBIT)	816	822	941	912	834
Financial income/(expense)	(45)	(43)	(41)	(38)	(41)
PROFIT BEFORE TAXES	771	779	900	874	793
Taxes	(185)	(195)	(234)	(236)	(214)
PROFIT FOR THE YEAR	586	584	666	638	579
Profit attributable to:					
Equity holders of SGS SA	543	549	629	600	545
Non-controlling interests	43	35	37	38	34
OPERATING INCOME MARGINS IN %	13.6	14.4	16.0	15.6	15.0
AVERAGE NUMBER OF EMPLOYEES	89 626	85 903	83 515	80 510	76 790

SGS GROUP – FIVE-YEAR STATISTICAL DATA CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER

<i>(CHF million)</i>	2016	2015 ¹	2014	2013	2012
Land, buildings and equipment	972	964	1 043	1 029	1 015
Goodwill and other intangible assets	1 441	1 306	1 337	1 216	1 172
Investments in associated and other companies	38	32	24	18	17
Deferred tax and other non-current assets	287	315	244	215	266
TOTAL NON-CURRENT ASSETS	2 738	2 617	2 648	2 478	2 470
Unbilled revenues and inventories	290	288	330	330	302
Trade accounts and notes receivable	997	917	1 068	952	977
Other receivables and prepayments	252	272	298	247	226
Current tax assets	88	66	73	59	29
Cash and marketable securities	984	1 734	1 350	973	987
TOTAL CURRENT ASSETS	2 611	3 277	3 119	2 561	2 521
TOTAL ASSETS	5 349	5 894	5 767	5 039	4 991
Share capital	8	8	8	8	8
Reserves	1 765	1 898	2 319	2 135	2 052
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	1 773	1 906	2 327	2 143	2 060
Non-controlling interests	80	75	76	69	58
TOTAL EQUITY	1 853	1 981	2 403	2 212	2 118
Loans and obligations under finance leases	1 719	1 723	1 672	1 293	1 305
Deferred tax liabilities	42	60	74	66	72
Provisions and retirement benefit obligations	247	278	273	190	273
TOTAL NON-CURRENT LIABILITIES	2 008	2 061	2 019	1 549	1 650
Loans and obligations under finance leases	1	494	18	15	17
Trade and other payables	641	526	511	502	492
Current tax liabilities	166	159	175	142	103
Provisions, other creditors and accruals	680	673	641	619	611
TOTAL CURRENT LIABILITIES	1 488	1 852	1 345	1 278	1 223
TOTAL LIABILITIES	3 496	3 913	3 364	2 827	2 873
TOTAL EQUITY AND LIABILITIES	5 349	5 894	5 767	5 039	4 991

1. Restated figures (notes 2 and 23).

SGS GROUP – FIVE-YEAR STATISTICAL SHARE DATA

(CHF unless indicated otherwise)

	2016	2015	2014	2013	2012
SHARE INFORMATION					
REGISTERED SHARES					
Number of shares issued	7 822 436	7 822 436	7 822 436	7 822 436	7 822 436
Number of shares with dividend rights	7 538 507	7 605 460	7 675 506	7 650 840	7 632 042
PRICE					
High	2 317	2 049	2 260	2 450	2 156
Low	1 734	1 577	1 802	1 952	1 559
Year-end	2 072	1 911	2 045	2 052	2 026
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	235.22	250.56	303.13	280.08	269.95
Basic earnings per share ¹	71.54	71.99	81.99	78.43	71.52
Dividend per share ordinary	70.00	68.00	68.00	65.00	30.00
Dividend per share special	-	-	-	-	28.00
Total dividend per share	70.00	68.00	68.00	65.00	58.00
DIVIDENDS (CHF MILLION)					
Ordinary ²	528	517	522	497	229
Special	-	-	-	-	214
Total	528	517	522	497	443

1. Calculation of the basic earnings per share (weighted average for the year) is disclosed in note 9, page 163.

2. As proposed by the Board of Directors.

SGS GROUP SHARE INFORMATION

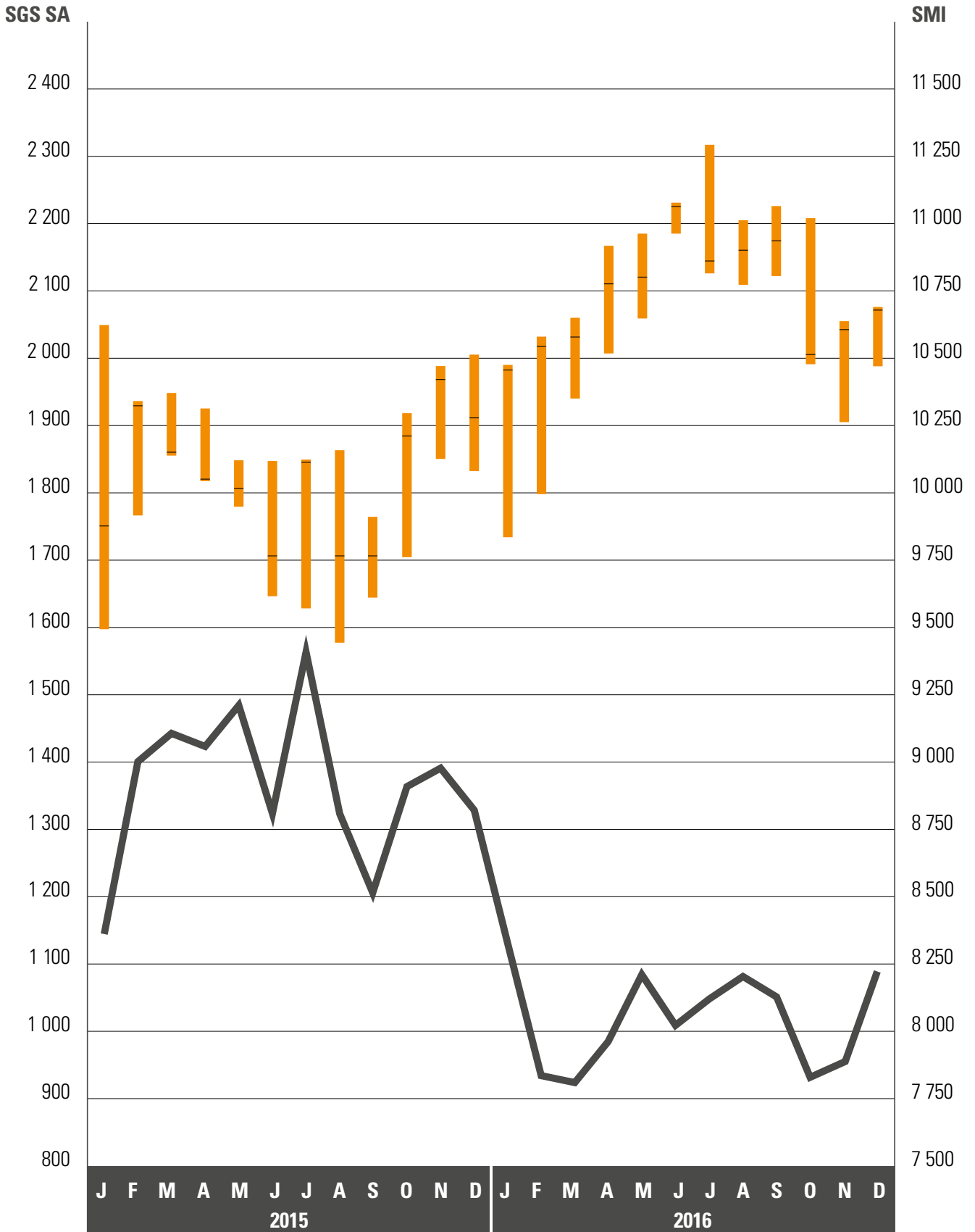
SHARE TRANSFER

SGS SA has no restrictions as to share ownership, except that registered shares acquired in a fiduciary capacity by third parties may not be registered in the shareholders' register, unless a special authorisation has been granted by the Board of Directors.

MARKET CAPITALISATION

At the end of 2016, market capitalisation was approximately CHF 16 208 million (2015: CHF 14 949 million). Shares are quoted on the SIX Swiss Exchange.

CLOSING PRICES FOR SGS AND THE SMI 2015–2016



SGS SA

 HIGH PRICE
 — CLOSE
 LOW PRICE


SWISS MARKET INDEX (MONTHLY CLOSE)

SGS GROUP PRINCIPAL OPERATING COMPANIES AND ULTIMATE PARENT

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/ INDIRECT
Albania	SGS Albania Ltd., Tirana	ALL	15 100 000	100	D
Albania	SGS Automotive Albania sh.p.k., Tirana	ALL	190 000 100	100	I
Algeria	SGS Qualitest Algérie SpA, Alger	DZD	50 000 000	100	D
Algeria	Société de Contrôle Technique Automobile SA, Rouiba-Alger	DZD	173 600 000	77	D
Angola	SGS Angola Limitada, Luanda	AOA	8 000 000	100	D
Argentina	SGS Argentina SA, Buenos Aires	ARS	4 171 536	100	D
Argentina	ITV SA, Buenos Aires	ARS	1 500 000	100	I
Australia	SGS Australia Pty. Ltd., Perth	AUD	200 000	100	I
Australia	Gearhart Australia Limited, Perth	AUD	5 609 210	100	I
Austria	SGS Austria Controll-Co. Ges.m.b.H., Vienna	EUR	185 000	100	D
Azerbaijan	Société Générale de Surveillance Azeri Ltd., Baku	USD	100 000	100	D
Bahamas	SGS Bahamas Ltd., Freeport	BSD	5 000	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	2 178 200	100	I
Benin	SGS Bénin SA, Cotonou	XOF	10 000 000	100	D
Bolivia	SGS Bolivia SA, La Paz	BOB	41 900	100	D
Bosnia-Herzegovina	SGS Bosna i Hercegovina (d.o.o.) Ltd., Sarajevo	BAM	2 151	100	I
Botswana	SGS Botswana (Proprietary) Limited, Gaborone	BWP	1 000	100	D
Brazil	SGS do Brasil Ltda., São Paulo	BRL	170 166 827	100	D
Brazil	SGS Enger Engenharia Ltda., Barueri-SP	BRL	3 000 000	100	I
Brazil	Unigeo Geoprocessamento e Consultoria Ltda, Nova Mutum	BRL	4 870 257	75	I
Bulgaria	SGS Bulgaria Ltd., Sofia	BGN	5 010 000	100	D
Burkina Faso	SGS Burkina SA, Ouagadougou	XOF	601 080 000	100	D
Cambodia	SGS (Cambodia) Ltd., Phnom Penh	KHR	4 000 000 000	100	D
Cameroon	SGS Cameroun SA, Douala	XAF	10 000 000	98.9	D
Canada	SGS Canada Inc., Mississauga	CAD	20 900 000	100	D
Chile	SGS Chile Limitada, Santiago de Chile	CLP	22 061 741 237	100	D
Chile	CIMM Tecnologías y Servicios SA, Santiago de Chile	CLP	7 570 000 000	100	I
Chile	SIGA Ingeniería y Consultoría S.A. Santiago de Chile	CLP	3 382 313 364	70	I
China	SGS-CSTC Standards Technical Services Co. Ltd., Beijing	USD	3 966 667	85	I
Colombia	SGS Colombia SAS, Bogota	COP	59 054 167 360	100	D
Colombia	Estudios Técnicos SAS, (ETSA), Bogota	COP	6 021 642 700	100	I
Colombia	Laboratorios Contecon Urbar SAS, Bogota	COP	2 489 200	100	I
Congo	SGS Congo SA, Pointe-Noire	XAF	1 510 000 000	100	D
Croatia	SGS Adriatica, w.l.l., Zagreb	HRK	1 300 000	100	I
Czech Republic	SGS Czech Republic s.r.o., Praha	CZK	7 707 000	100	I
Denmark	SGS Danmark A/S, Glostrup Hvidovre	DKK	700 000	100	I
Democratic Republic of Congo	SGS Minerals RDC SARL, Lubumbashi	USD	50 000	100	D

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/INDIRECT
Ecuador	SGS del Ecuador SA, Guayaquil	USD	147 680	100	D
Egypt	SGS Egypt Ltd., Cairo	EGP	1 500 000	100	D
Estonia	SGS Estonia Ltd., Tallinn	EUR	42 174	100	I
Ethiopia	SGS Ethiopia Private Limited, Addis Abeba	ETB	15 000	100	D
Finland	SGS Inspection Services Oy, Helsingfors	EUR	102 000	100	I
Finland	SGS Fimko Oy, Helsingfors	EUR	260 000	100	I
France	SGS Oil, Gas and Chemicals, SAS, Arcueil	EUR	2 320 000	100	I
France	SGS Qualitest Industrie SAS, Orsay	EUR	200 000	100	I
France	Securitest SA, Paris	EUR	2 745 000	92.31	I
Georgia	SGS Georgia Ltd., Batumi	USD	80 000	100	D
Germany	SGS Germany GmbH, Hamburg	EUR	1 210 000	100	I
Germany	SGS Institut Fresenius GmbH, Taunusstein	EUR	7 490 000	100	I
Germany	SGS-Tüv Saar GmbH, Sulzbach	EUR	750 000	74.9	I
Ghana	SGS Ghana Limited, Accra	GHS	4 005 202	100	I
Ghana	Ghana Community Network Services Limited, Accra	GHS	1 978 604	60	I
Great Britain	SGS United Kingdom Limited, Ellesmere Port	GBP	8 000 000	100	I
Great Britain	SGS M-Scan Limited, Ellesmere Port	GBP	139	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	1 068 000	100	D
Guinea-Conakry	SGS Guinée Conakry SA, Conakry	GNF	50 000 000	100	D
Guinea-Equatorial	Compañía de Inspecciones y Servicios G.E., Malabo	XAF	10 000 000	51	D
Hong Kong	SGS Hong Kong Limited, Hong Kong	HKD	200 000	100	D
Hungary	SGS Hungária Kft., Budapest	HUF	518 000 000	100	I
India	SGS India Private Ltd., Mumbai	INR	960 000	100	D
Indonesia	P.T. SGS Indonesia, Jakarta	USD	200 000	100	D
Iran	SGS Iran (Private Joint Stock) Limited, Tehran	IRR	50 000 000	100	D
Ireland	SGS Ireland (Holdings) Limited, Dublin	EUR	62 500	100	I
Italy	SGS Italia S.p.A., Milan	EUR	2 500 000	100	I
Ivory Coast	SGS Côte d'Ivoire SA, Abidjan	XOF	300 000 000	100	D
Ivory Coast	Société Ivoirienne de Contrôles Techniques Automobiles et Industriels SA, Abidjan	XOF	200 000 000	95	D
Japan	SGS Japan Inc., Yokohama	JPY	100 000 000	100	D
Jordan	SGS (Jordan) Private Shareholding Company, Amman	JOD	100 000	50	D
Kazakhstan	SGS Kazakhstan Limited, Almaty	KZT	146 527	100	D
Kenya	SGS Kenya Limited, Mombasa	KES	2 000 000	100	D
Korea (Republic of)	SGS Korea Co., Ltd., Seoul	KRW	15 617 540 000	100	D
Kuwait	SGS Kuwait W.L.L., Kuwait	KWD	50 000	49	D
Lao (People's Democratic Republic)	SGS (Lao) Sole Co., Ltd., Vientiane	LAK	2 444 700 000	100	D
Latvia	SGS Latvija Limited, Riga	EUR	118 382	100	I

10. DATA

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/INDIRECT
Lebanon	SGS (Liban) S.A.L., Beirut	LBP	30 000 000	99.99	D
Liberia	SGS Liberia Inc, Monrovia	LRD	100	100	D
Lithuania	SGS Klaipeda Ltd., Klaipeda	EUR	11 584	100	I
Luxembourg	SGS Luxembourg SA, Windhof	EUR	38 000	100	I
Madagascar	SGS Madagascar SARL, Antananarivo	MGA	20 000 000	100	I
Madagascar	Malagasy Community Network Services SA, Antananarivo	MGA	10 000 000	70	D
Malawi	SGS Malawi Limited, Blantyre	MWK	30 000	100	D
Malaysia	Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	500 000	70	D
Malaysia	SGS (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	60 000	100	D
Mali	SGS Mali Sàrlu, Kayes	XOF	300 000 000	100	D
Mauritius	SGS (Mauritius) LTD, Phoenix	MUR	100 000	100	D
Mexico	SGS de Mexico, SA de C.V., Mexico	MXN	7 065 828	100	D
Moldova	SGS (Moldova) SA, Chisinau	MDL	488 050	100	D
Mongolia	SGS Mongolia LLC, Ulaanbaatar	USD	10 000	100	D
Morocco	SGS Maroc SA, Casablanca	MAD	12 000 000	100	D
Morocco	SGS Maroc Automotive SA, Casablanca	MAD	33 000 000	75	D
Mozambique	SGS Mozambique, Limitada, Maputo	MZN	73 479 883	100	D
Myanmar	SGS (Myanmar) Limited, Yangon	MMK	300 000	100	D
Namibia	SGS Inspection Services Namibia (Proprietary) Limited, Windhoek	NAD	100	100	I
Netherlands	SGS Nederland B.V., Spijkenisse	EUR	250 000	100	I
Netherlands	SGS Horizon B.V., Gravenhage	EUR	45 000	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 Gulf Upstream, Oman (Branch office)	-	-	-	-
Pakistan	SGS Pakistan (Private) Limited, Karachi	PKR	2 300 000	100	D
Panama	SGS Panama Control Services Inc., Panama	USD	850 000	100	D
Papua-New-Guinea	SGS PNG Pty. Limited, Port Moresby	PGK	2	100	I
Paraguay	SGS Paraguay SA, Asunción	PYG	1 962 000 000	100	D
Peru	SGS del Perú S.A.C., Lima	PEN	43 081 182	100	D
Philippines	SGS Philippines, Inc., Manila	PHP	24 620 000	100	D
Poland	SGS Polska Sp.z o.o., Warsaw	PLN	10 144 200	100	I
Portugal	SGS Portugal - Sociedade Geral de Superintendência SA, Lisboa	EUR	500 000	100	I
Qatar	SGS Qatar LLC, Doha	QAR	200 000	49	D
Romania	SGS Romania SA, Bucharest	RON	100 002	100	I
Russia	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

COUNTRY	NAME AND DOMICILE	ISSUED CAPITAL CURRENCY	ISSUED CAPITAL AMOUNT	% HELD BY GROUP	DIRECT/INDIRECT
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, Koper	EUR	10 432	100	I
South Africa	SGS South Africa (Proprietary) Limited, Johannesburg	ZAR	452 000 500	100	I
South Africa	SGS Bateman (Pty) Ltd, Bryanston	ZAR	100	100	I
Spain	SGS Española de Control SA, Madrid	EUR	240 000	100	I
Spain	SGS Tecnos, SA, Sociedad Unipersonal, Madrid	EUR	92 072 034	100	I
Spain	General de Servicios ITV, SA, Madrid	EUR	4 559 657	100	I
Sri Lanka	SGS Lanka (Private) Limited, Colombo	LKR	9 000 000	100	D
Sweden	SGS Sweden AB, Göteborg	SEK	1 500 000	100	I
Switzerland	SGS Société Générale de Surveillance SA, Geneva	CHF	10 000 000	100	I
Switzerland	SGS SA, Geneva	CHF	7 822 436		Ultimate parent company
Switzerland	SGS Group Management SA, Geneva	CHF	100 000	100	I
Taiwan	SGS Taiwan Limited, Taipei	TWD	62 000 000	100	I
Taiwan	Compliance Certification Services Inc. New Taipei City	TWD	353 330 780	100	I
Tanzania	SGS Tanzania Superintendence Co. Limited, Dar-es-Salaam	TZS	250 000	100	D
Thailand	SGS (Thailand) Limited, Bangkok	THB	20 000 000	99.99	D
Togo	SGS Togo SA, Lomé	XOF	10 000 000	100	D
Tunisia	SGS Tunisie SA, Tunis	TND	49 500	50	D
Turkey	SGS Supervise Gözetme Etud Kontrol Servisleri Anonim Sirketi, Istanbul	TRY	6 550 000	100	I
Turkmenistan	SGS Turkmen Ltd., Ashgabat	USD	50 000	100	D
Uganda	SGS Uganda Limited, Kampala	UGX	5 000 000	100	D
Ukraine	SGS Ukraine, Foreign Enterprise, Odessa	USD	400 000	100	I
United Arab Emirates	SGS Gulf Limited, Abu Dhabi (Branch office)	-	-	-	-
United States	SGS North America Inc., Wilmington	USD	73 701 996	100	I
United States	SGS Accutest Inc., Wilmington	USD	10	100	I
United States	SGS CyberMetrix Inc., Wilmington	USD	241 111	100	I
Uruguay	SGS Uruguay Limitada, Montevideo	UYU	1 500	100	D
Uruguay	Sociedad Uruguaya de Control Técnico de Automotores Sociedad Anónima, Montevideo	UYU	24 000	100	I
Uzbekistan	SGS Tashkent Ltd., Tashkent	USD	50 000	100	D
Venezuela	SGS Venezuela SA, Caracas	VEF	162 980	100	D
Vietnam	SGS Vietnam Ltd., Ho Chi Minh City	USD	288 000	100	D
Zambia	SGS Inspections Services Ltd., Lusaka	ZMK	5 000 000	100	I
Zimbabwe	SGS Zimbabwe (Private) Limited, Harare	ZWD	5 000	100	D



SGS SERVICE

> Building Quality Index



CONSUMER BENEFIT

> Compare the quality of your build to the index average

IMAGINE BEING YOUR OWN FOREMAN

Unless you are an expert, it's hard to tell if construction companies are doing a good job when they are building or renovating your property. That's why SGS has long provided services to provide reassurance that such work is hitting the required quality standards.

Now, as technology advances, we are creating tools that are driving quality improvements across the industry. For example, these days SGS auditors use tablet devices and imagery from portable video cameras to provide immediate and highly visual reports to customers.

Using these digital methods our auditors gather an enormous amount of data, which can be subsequently analysed. For example, in Taipei, SGS auditors have begun to use our cloud management system to automatically feed inspection data from around the city into an automated programme that generates a risk management based Building Quality Index.

This means that customers can see exactly how their building performs against the index average. If contractors are performing significantly below average, customers can act quickly to ensure their building is brought up to scratch. Of course, over time this will create an upward pressure on average building quality to the benefit of everyone in the city.

11. SHAREHOLDER INFORMATION

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STOCK EXCHANGE LISTING

SIX Swiss Exchange, SGSN

STOCK EXCHANGE TRADING

SIX Swiss Exchange

COMMON STOCK SYMBOLS

Bloomberg: Registered Share: SGSN.VX

Reuters: Registered Share: SGSN.VX

Telekurs: Registered Share: SGSN

ISIN: Registered Share: CH0002497458

Swiss security number: 249745

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ANNUAL GENERAL MEETING OF SHAREHOLDERS

Tuesday, 21 March 2017

Geneva, Switzerland

2017 HALF YEAR RESULTS

Monday, 17 July 2017

INVESTOR DAYS (IN ASIA)

Thursday and Friday,

26 and 27 October 2017

DIVIDEND PAYMENT DATE

Ex-date: 23 March 2017

Record date: 24 March 2017

Payment date: 27 March 2017

PROJECT MANAGEMENT

Françoise Rein

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THE PEOPLE BEHIND THE AWARDS

SGS prides itself on being an employer of choice and our efforts in this area were recognised in the Philippines in 2016, when we received the Investor in People (IiP) Gold Award.

IiP is an international standard for people management. It defines what it takes to lead, support and manage people for sustained success.

The main motivation for us to work towards this accreditation was the recognition that our people are our most important asset. This focus on our people is particularly important in view of an anticipated increase in business in the Philippines that could see a doubling of revenue in the country by 2020.

In order to support this expected growth, the local SGS team opted to accelerate the process of obtaining the Gold Award – ultimately achieving it over 12 months sooner than initially envisaged.

Although the award marks us out as one of the most attractive employers in the country, the process of honestly identifying our weaknesses and addressing them was even more important.

By nurturing a purpose-driven culture at SGS and by embracing best practices in areas such as empowering people and learning and development, we have maintained a staff attrition rate of just 11% in the Philippines since we started to work with IiP in 2012.



SGS SERVICE

- > Management Development Training



CONSUMER BENEFIT

- > Opportunities to advance your leadership skills

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WHEN YOU NEED TO BE SURE

