



SGS

Half Year Results

2022



SGS

Revenue

CHF 3.3 BN

+6.8%¹ +5.8% organic* +5.2%³

Adjusted operating income*

CHF 458 MIO

+1.6%¹

Profit for the period

CHF 294 MIO

+1.4%

Adjusted operating income margin*

14.1%

(0.7)pp^{1,2}

Basic earnings per share

CHF 36.78

+1.4%

Free cash flow*

CHF 11 MIO

(88.2)%

Return on invested capital*

18.4%

+0.6pp²

Cash flow from operations

CHF 263 MIO

(23.1)%

1. Constant currency (CCY)*.

2. Percentage points.

3. Historical currency.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.



People



Planet



Performance

Financial Highlights

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ²	Change in CCY ² %
Revenue	3 255	3 094	5.2	3 047	6.8
Operating income (EBIT)	423	430	(1.6)	425	(0.5)
Operating income margin	13.0%	13.9%		13.9%	
Adjusted operating income*	458	457	0.2	451	1.6
Adjusted operating income margin*	14.1%	14.8%		14.8%	
EBITDA*	678	678	0.0	669	1.3
Adjusted EBITDA*	694	686	1.2	676	2.7
Profit for the period	294	290	1.4		
Profit attributable to equity holders of SGS SA	276	272	1.5		
Adjusted profit attributable to equity holders of SGS SA*	303	292	3.8		
Basic EPS (CHF)	36.78	36.29	1.4		
Diluted EPS (CHF)	36.71	36.27	1.2		
Adjusted basic EPS (CHF)*	40.37	38.87	3.9		
Cash flow from operating activities	263	342	(23.1)		
Free cash flow*	11	93	(88.2)		
Return on invested capital*	18.4%	17.8%			
Weighted average number of shares ('000)	7 489	7 485			
Average FTE¹	95 889	92 143	4.1		

1. Full Time Equivalent (FTE) employees.

2. Constant currency (CCY)*.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

A strong operational performance despite challenging market conditions

“We achieved strong growth reflecting the resilience of our global network. All divisions and regions contributed to this performance despite the challenging market conditions faced during H1. These include the impact of the war in Ukraine, continued supply chain disruption, rising global inflation, and Covid-related absenteeism and restrictions in China. China, our largest affiliate, resumed its strong growth trajectory in June.

“Through the investment and acquisitions we are making in our focus areas, and the commitment of our colleagues, SGS is becoming an even more resilient, sustainable and data-driven company delivering on our strategic objectives.” Frankie Ng, CEO of SGS

Enabling a better, safer and more interconnected world

Growth in sustainable solutions combined with our corporate sustainability performance, supports our purpose of enabling a better, safer and more interconnected world for all our stakeholders.

- We are developing new and innovative sustainability solutions in all divisions and geographies across the portfolio including sustainability assurance, greenhouse gas emissions verification, green buildings and zero waste certification, recycled content testing and environmental claim management.
- A number of corporate sustainability achievements in H1 includes: aligning our targets to the Science Based Targets initiative (SBTi) of 1.5 degrees and net zero pathway; launching our updated human rights policy; strengthening our vehicle emissions policy and prioritizing energy efficient building investments, two major sources of our carbon emissions; and establishing a dedicated sustainability committee of the Board.

Delivering on our strategy

We continue to invest in our strategic priority areas including our platform for growth.

- Revenue under our [Sustainability Solutions Framework](#) increased from 45% in 2020 to 47% in 2021, moving towards our target of 50% in 2023. This reflects our commitment to make our company and supply chain more sustainable, and to support our customers on their sustainability journeys.
- Continued capex investment in our strategic priority areas. For example, wireless laboratories accounted for over one fifth of our large growth capex projects in H1 and we are on track to open three new cybersecurity laboratories in 2022 and one in Q1 2023, to help meet the strong demand.
- 9% of revenue has been migrated to next generation digital platforms, services and solutions, supporting our target of 20% by 2023:
 - We continue to strengthen our platform for growth through our investment in ‘Level Up’ finance, IT and operational initiatives. For example, over 50% of geochemistry samples in Natural Resources are now processed through our latest generation of digital labs, and we are targeting 80% by Q1 2023.
 - In Health & Nutrition, over 75% of our drug development sites are live with our new centralized electronic quality, document and training management system.
 - The launch of Knowledge’s new digital CertIQ application platform, which digitalizes the entire certification process and reporting from customer contact through certificate issuance, is a significant enhancement in the digitalization of our customer journey.
- Organic* growth was strong in Softlines, Food, Industrial Public Health & Safety, mineral-related activities and Knowledge, especially Consulting.
- We completed three acquisitions, all aligned to our focus megatrends and acquired the remaining 49% of Digicomply, our AI end-to-end digital regulatory compliance platform. The integration of SGS Analytics continues to progress well and the acquisition of proderm GmbH, completed on 8 July 2022, further accelerates our ambition to become the clear Cosmetics & Hygiene market leader.

Our people are our paramount priority

- We have prioritized the safety, security and well-being of all our colleagues impacted by the war in Ukraine. At the same time, we have suspended business development and investment activities and reduced our portfolio of services in Russia.
- Support has been provided to our colleagues impacted by the Covid-related restrictions in China.

A strong financial performance

Total revenue reached CHF 3.3 billion, up 5.2% (6.8% at constant currency*), with strong mid-single digit growth achieved across all divisions. Organic revenue* increased by 5.8%, supported by pricing initiatives to pass on the majority of cost inflation.

Operating income decreased from CHF 430 million in prior year to CHF 423 million in 2022, mainly impacted by Covid-related restrictions in China which are now lifted.

Adjusted operating income* slightly increased from CHF 457 million in prior year to CHF 458 million in 2022, an increase of 0.2% (1.6% at constant currency*). Excluding China, adjusted operating income* growth was double digit.

Adjusted operating income margin* decreased from 14.8% in prior year (also 14.8% at constant currency*) to 14.1% in 2022, solely driven by the temporary Covid-related lockdown restrictions in China, most notably in Shanghai.

Net financial expenses slightly decreased from CHF 23 million in prior year to CHF 20 million in 2022.

Effective tax rate (ETR) decreased from 29% in prior year to 27%, reflecting a normalization of non-deductible expenses.

Profit attributable to equity holders increased slightly by 1.5% over prior year, from CHF 272 million to CHF 276 million in 2022.

Basic earnings per share increased from CHF 36.29 in prior year to CHF 36.78, an increase of 1.4%.

Cash flow from operating activities decreased from CHF 342 million in prior year to CHF 263 million in 2022, mainly due to higher net working capital requirement to support the strong revenue growth. This resulted in a positive operating net working capital* at 1.8% as a percentage of revenue compared to (0.1)% in prior year.

Free cash flow (FCF)* decreased from CHF 93 million in prior year to CHF 11 million in 2022 due to the higher net working capital requirement.

* Alternative Performance Measures (APM), refer to the ‘2022 Half Year APM’ document.

Investment activities: Net capital expenditure increased from CHF 147 million in prior year to CHF 150 million, and the Group completed three acquisitions for a total consideration of CHF 17 million, out of which CHF 11 million was paid in H1 2022.

Financing activities: In 2022, the Group paid a dividend of CHF 599 million and initiated a new share buyback program for up to a total of CHF 250 million, out of which CHF 35 million was spent in H1 2022.

Return on invested capital (ROIC)* increased from 17.8% in prior year to 18.4% in 2022.

As at 30 June 2022, the Group **net debt*** increased from CHF 1 691 million in December 2021 to CHF 2 363 million, mainly due to dividend payment.

Business growth and adjusted operating income margin H1 2022

(CHF million)	Revenue	Growth at CCY ¹	Organic* growth at CCY ¹	Adjusted operating income*	Adjusted operating income margin*
Connectivity & Products	642	4.2%	3.1%	149	23.2%
Health & Nutrition	442	8.9%	5.2%	55	12.4%
Industries & Environment	1 070	6.0%	5.6%	92	8.6%
Natural Resources	766	8.3%	7.6%	98	12.8%
Knowledge	335	8.4%	8.4%	64	19.1%
Total	3 255	6.8%	5.8%	458	14.1%

Acquisitions

	Date	Location	Division	FTE
Gas Analysis Services	28 February 2022	Ireland	Industries & Environment	36
Ecotecnos	6 May 2022	Chile	Industries & Environment	27
AIEX	9 May 2022	France	Industries & Environment	24

We are on track for our mid-term 2020-2023 targets

People	Planet	Performance
<p>Ensuring diversity</p> <p>Nurture diversity and inclusion based on merit by ensuring equal opportunity to all employees and evolving our gender diversity to 30% women in leadership at CEO-3 positions and above</p>	<p>Reducing our CO₂ emissions</p> <p>Support the transition to a low-carbon world by meeting our Science-based Target of reducing our CO₂ emissions per revenue by 35%²</p>	<p>High-single digit constant currency revenue Compound Annual Growth Rate (CAGR)</p> <p>Driven by mid-single digit organic* growth per annum and a focus on M&A</p>
<p>World Class Service (WCS)</p> <p>Promote a culture of operational safety, efficiency and excellence through our WCS program: 20% of our WCS labs (2020 perimeter) reaching WCS Bronze award level</p>	<p>Sustainability Solutions</p> <p>Support our customers on their journey to sustainability by increasing the proportion of revenue generated by our sustainability solutions to above 50%</p>	<p>> 10% adjusted operating income* CAGR</p>
<p>Supporting personal development</p> <p>Support the personal development of our employees by increasing the completion rate of job-related training by 10%³</p>	<p>Integrity principles</p> <p>Reduce the impact that our supply chain has on society by committing our strategic suppliers to support our integrity principles</p>	<p>Strong Economic Value Added discipline (EVA)</p>
<p>Positive impact on communities</p> <p>Increase by 10%³ our positive impact on our communities through employee volunteering, focusing on vulnerable groups including those affected by pandemics</p>	<p>Energy efficiency</p> <p>Increasing annually the number of energy efficiency measures in our 100 most energy intensive owned buildings</p>	<p>Maintain or grow the dividend per share</p>

1. Constant currency (CCY)*.

2. Against a 2014 baseline.

3. Against a 2019 baseline.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

Outlook 2022

- Mid-single digit organic growth
- Improving adjusted operating income* with margin* at a similar level to prior year
- Strong cash conversion
- Maintain best-in-class organic return on invested capital*
- Accelerate investment into our strategic focus areas with M&A as a key differentiator
- At least maintain the dividend and utilize our new share buyback program on an opportunistic basis as part of our flexible capital allocation strategy

Subsequent events

On 5 July 2022, the Group announced the acquisition of Silver State Analytical Laboratories, Inc. and its sister company Excelchem Laboratories, Inc. in the United States. They provide quality analytical and microbiological testing (certified and independent) and support services for clients in the environmental, water, utility, engineering, construction, food processing, chemical, mining, healthcare, resort and hospitality industries.

On 8 July 2022, the Group announced the acquisition of proderm GmbH in Germany, a leading provider of advanced clinical testing solutions for cosmetics, personal care and medical products.

Board changes

On 29 March 2022, Phyllis Cheung was elected as a member of the Board of Directors bringing 30 years of experience in the consumer industry. In her most recent role as CEO of McDonald's China, Ms. Cheung successfully doubled the number of restaurants in China and led the company's digital transformation to elevate the customer dining experience through omni-channel digital platforms.

Significant shareholders

As at 30 June 2022, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 19.11% (December 2021: 19.11%) and BlackRock Inc. held 5.02% (December 2021: below 5%) of the share capital and voting rights of the company. At the same date, the Group held 0.38% of the share capital of the company (December 2021: 0.04%).



Calvin Grieder
Chair of the Board of Directors



Frankie Ng
Chief Executive Officer

19 July 2022

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

Connectivity & Products

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ¹	Change in CCY ¹ %
Revenue	642	618	3.9	616	4.2
Adjusted operating income*	149	142	4.9	141	5.7
Margin %*	23.2	23.0		22.9	

Connectivity & Products revenue grew by 4.2% at constant currency (organic growth was 3.1%) to CHF 642 million despite the impact of Covid-related restrictions in China.

Connectivity organic growth was above the divisional average across all segments. Strong double-digit organic growth in Q1, supported by our investments in high technology segments and product safety, was partially offset by Covid-related restrictions on restricted substances testing and field services in China. Brightsight positively contributed to performance.

Softlines grew organically well above the divisional average as the market continued its recovery. Disruption in China was minimized through effective domestic sample management, while Turkey, India and Bangladesh all gained market share.

Hardlines declined organically, impacted by supply chain disruption in Hardgoods with particularly challenging market conditions in automotive.

Trade Facilitation Services reported solid organic growth driven by the expansion of eCustoms services in Europe. The strong performance was achieved notwithstanding the challenging market conditions.

The **adjusted operating income margin** increased to 23.2% from 22.9% in prior year (at constant currency), driven by collections in Trade Facilitation Services, an improvement in profitability in cybersecurity and strong performance from key affiliates such as Turkey, India and Bangladesh. This more than offset the continued long-term investment in our network and the impact of Covid-related restrictions in China.

Health & Nutrition

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ¹	Change in CCY ¹ %
Revenue	442	414	6.8	406	8.9
Adjusted operating income*	55	64	(14.1)	63	(12.7)
Margin %*	12.4	15.5		15.5	

Health & Nutrition revenue grew by 8.9% at constant currency (organic growth was 5.2%) to CHF 442 million supported by growth across all geographies and recent acquisitions. Strong growth was achieved despite the remaining pandemic restrictions and a reduction in COVID-19 vaccine-related activities.

Food grew organically above the divisional average supported by growth across the network.

Crop Science performance was impacted by the slowdown in environmental impact studies on plant protection products in Europe and lower seed testing volumes.

Health Science grew organically below the divisional average impacted by a significant reduction in Covid vaccine-related testing; much of this volume has already been replaced and these projects are starting to ramp up. Excluding this impact, growth was strong, notably Clinical Research, while our recent acquisitions added to reported growth.

Cosmetics & Hygiene grew broadly in line with the divisional organic average, supported by growing clinical and panel activity, while reported growth was complemented by the acquisition of IDEA.

The **adjusted operating income margin** decreased to 12.4% from 15.5% in prior year (at constant currency) affected by the end of Covid vaccine-related testing, disruption in China in Q2 and continued investment in our global lab network.

1. Constant currency (CCY) – Definition in APM.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

Industries & Environment

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ¹	Change in CCY ¹ %
Revenue	1 070	1 033	3.6	1 009	6.0
Adjusted operating income*	92	99	(7.1)	97	(5.2)
Margin %*	8.6	9.6		9.6	

Acquisitions

- Gas Analysis Services
- Ecotecnos
- ALEX

Industries & Environment revenue increased by 6.0% at constant currency (organic growth was 5.6%) to CHF 1 070 million.

A strong increase in demand for environmental field services offset lower volumes of non-destructive testing and supply chain services in **Field Services and Inspection**.

Technical Assessment & Advisory delivered double-digit organic growth, continuing to benefit from the increase in supervision and consulting work in Latin America and a very strong overall performance in Eastern Europe and in the Middle East.

Industrial and Public Health & Safety grew organically above the divisional average. This included good performances in both health & safety services in Western European countries and material testing in North America, as well as strong volumes in Asia.

Environmental Testing grew below the divisional organic level with double-digit growth in the USA and Latin America partially offset by lower volumes in some other regions.

Public Mandates revenue declined due to lost contracts in Africa, partly compensated by price increases in Latin American vehicle compliance services.

Specialty Services organic growth was above the divisional average benefiting from a resumption of upstream services.

The **adjusted operating income margin** decreased to 8.6% from 9.6% in prior year (at constant currency) mainly due to Covid-related restrictions in China, the ramp up of new contracts, mix and collection delays from certain governments and related projects. This was partially offset by the positive performance in our recent acquisition in Technical Assessment & Advisory and the cost synergies achieved from the integration of SGS Analytics.

Natural Resources

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ¹	Change in CCY ¹ %
Revenue	766	716	7.0	707	8.3
Adjusted operating income*	98	90	8.9	89	10.1
Margin %*	12.8	12.6		12.6	

Natural Resources revenue grew by 8.3% at constant currency (organic growth was 7.6%) to CHF 766 million driven by continued momentum in the mining industry and a recovery in oil and gas in certain regions.

Trade & Inspection grew below the divisional organic level. High-single digit growth in Minerals Commodities and solid growth in Oil and Gas Commodities was offset by Agricultural Commodities, the result of volatile meteorological conditions in key markets and trade restrictions.

Laboratory Testing grew in double digits organically. Across the network, Geochemistry volumes are being driven by continued strength in mineral exploration while we have extended our leadership position in onsite laboratories by winning new laboratory contracts in Latin America, South East Asia Pacific and Africa. High-single digit organic growth in oil and gas analytical services was supported by outsourcing in Europe, North America, Central Asia and the acquisition of Sulphur Experts Inc. added to total growth.

Metallurgy & Consulting also delivered double-digit organic growth driven by service expansion and project wins in North and Latin America.

Market Intelligence grew above the divisional organic average benefiting from the continued rollout of digital services across the supply chain.

The **adjusted operating income margin** increased to 12.8% from 12.6% in prior year (at constant currency) supported by the strong growth in minerals and oil and gas testing activities.

¹ Constant currency (CCY) – Definition in APM.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

Knowledge

(CHF million)	June 2022	June 2021	Change in %	June 2021 CCY ¹	Change in CCY ¹ %
Revenue	335	313	7.0	309	8.4
Adjusted operating income*	64	62	3.2	61	4.9
Margin %*	19.1	19.8		19.7	

Knowledge revenue grew by 8.4% at constant currency and organically to CHF 335 million with growth across all strategic business units and in all geographies.

Management System Certification grew in all geographies organically, but below the divisional average. The lower growth reflects a challenging comparable period as 2021 was a re-certification year. Food certification delivered strong growth across all regions while medical devices and security services reported double-digit growth.

Customized Audits grew organically below the divisional average. Second party audit work was impacted by restrictions in China. This was compensated by double-digit growth from Responsible Business Services across all regions and ESG services.

Consulting grew at a materially higher rate than the divisional organic average. This was primarily driven by the very strong performance of Maine Pointe, benefiting from strong demand for supply chain optimization and performance improvement services.

Academy organic growth was below the divisional average. A good performance in Africa, Western Europe and Asia excluding China.

The **adjusted operating income margin** decreased to 19.1% from 19.7% in prior year (at constant currency) impacted by the change in geographical and service mix.

1. Constant currency (CCY) – Definition in APM.

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

Interim condensed consolidated financial statements

Condensed consolidated income statement

For the period ended 30 June 2022

(CHF million)	Notes	June 2022	June 2021
Revenue	4	3 255	3 094
Salaries and wages		(1 665)	(1 576)
Subcontractors' expenses		(193)	(187)
Depreciation, amortization and impairment		(255)	(248)
Other operating expenses		(719)	(653)
Operating income (EBIT)	4	423	430
Financial income		9	6
Financial expenses		(29)	(29)
Share of profit of associates and joint ventures		1	1
Profit before taxes		404	408
Taxes	6	(110)	(118)
Profit for the period		294	290
<i>Profit attributable to:</i>			
Equity holders of SGS SA		276	272
Non-controlling interests		18	18
Basic earnings per share (in CHF)	7	36.78	36.29
Diluted earnings per share (in CHF)	7	36.71	36.27

Condensed consolidated statement of comprehensive income

For the period ended 30 June 2022

(CHF million)	Notes	June 2022	June 2021
Actuarial (losses)/gains on defined benefit plans	13	(22)	39
Income tax on actuarial (losses)/gains		5	(3)
Items that will not be subsequently reclassified to income statement		(17)	36
Exchange differences		(20)	68
Items that may be subsequently reclassified to income statement		(20)	68
Other comprehensive income/(loss) for the period		(37)	104
Profit for the period		294	290
Total comprehensive income for the period		257	394
<i>Attributable to:</i>			
Equity holders of SGS SA		240	373
Non-controlling interests		17	21

Condensed consolidated balance sheet

For the period ended 30 June 2022

(CHF million)	Notes	June 2022	December 2021
Assets			
Non-current assets			
Property, plant and equipment		930	925
Right-of-use assets		610	605
Goodwill	8	1 761	1 778
Other intangible assets		357	382
Investments in joint ventures, associates and other companies		27	26
Deferred tax assets		183	164
Other non-current assets		147	173
Total non-current assets		4 015	4 053
Current assets			
Inventories		60	59
Unbilled revenues and work in progress		242	175
Trade receivables		975	928
Other receivables and prepayments		278	204
Current tax assets		107	108
Cash and cash equivalents		1 118	1 480
Total current assets		2 780	2 954
Total assets		6 795	7 007
Equity and liabilities			
Capital and reserves			
Share capital		7	7
Reserves		757	1 118
Treasury shares		(64)	(8)
Equity attributable to equity holders of SGS SA		700	1 117
Non-controlling interests		99	85
Total equity		799	1 202
Non-current liabilities			
Loans and other financial liabilities	12	2 522	2 889
Lease liabilities		479	481
Deferred tax liabilities		82	92
Defined benefit obligations		74	84
Provisions		91	90
Total non-current liabilities		3 248	3 636
Current liabilities			
Trade and other payables		646	687
Contract liabilities		229	221
Current tax liabilities		162	169
Loans and other financial liabilities	12	959	282
Lease liabilities		162	155
Provisions		61	60
Other creditors and accruals		529	595
Total current liabilities		2 748	2 169
Total liabilities		5 996	5 805
Total equity and liabilities		6 795	7 007

Condensed consolidated statement of changes in equity

For the period ended 30 June 2022

(CHF million)	Share capital	Treasury shares	Capital reserve	Cumulative translation adjustments	Cumulative (losses)/gains on defined benefit plans net of tax	Retained earnings and Group reserves	Attributable to:		
							Equity holders of SGS SA	Non-controlling interests	Total equity
Balance at 1 January 2021	8	(230)	160	(1 307)	(241)	2 670	1 060	74	1 134
Profit for the period	–	–	–	–	–	272	272	18	290
Other comprehensive income for the period	–	–	–	65	36	–	101	3	104
<i>Total comprehensive income for the period</i>	–	–	–	<i>65</i>	<i>36</i>	<i>272</i>	<i>373</i>	<i>21</i>	<i>394</i>
Dividends paid	–	–	–	–	–	(599)	(599)	(4)	(603)
Share-based payments	–	–	8	–	–	–	8	–	8
Movement in non-controlling interests	–	–	–	–	–	18	18	4	22
Movement on treasury shares	–	53	(42)	–	–	(10)	1	–	1
Balance at 30 June 2021	8	(177)	126	(1 242)	(205)	2 351	861	95	956
Balance at 1 January 2022	7	(8)	130	(1 342)	(190)	2 520	1 117	85	1 202
Profit for the period	–	–	–	–	–	276	276	18	294
Other comprehensive income for the period	–	–	–	(19)	(17)	–	(36)	(1)	(37)
<i>Total comprehensive income for the period</i>	–	–	–	<i>(19)</i>	<i>(17)</i>	<i>276</i>	<i>240</i>	<i>17</i>	<i>257</i>
Dividends paid	–	–	–	–	–	(599)	(599)	(3)	(602)
Share-based payments	–	–	9	–	–	–	9	–	9
Movement in non-controlling interests	–	–	–	–	–	(6)	(6)	–	(6)
Movement on treasury shares	–	(56)	(4)	–	–	(1)	(61)	–	(61)
Balance at 30 June 2022	7	(64)	135	(1 361)	(207)	2 190	700	99	799

Condensed consolidated cash flow statement

For the period ended 30 June 2022

(CHF million)	Notes	June 2022	June 2021
Profit for the period		294	290
Non-cash and non-operating items		405	404
(Increase) in working capital		(299)	(202)
Taxes paid		(137)	(150)
Cash flow from operating activities		263	342
Purchase of property, plant and equipment and other intangible assets		(156)	(150)
Disposal of property, plant and equipment and other intangible assets		6	3
Acquisition of businesses	9	(11)	(103)
Cash paid on other non-current assets		–	(1)
Proceeds received from investments in joint ventures, associates and other companies		–	2
Interest received		8	7
Proceeds from marketable securities		–	1
Cash flow used by investing activities		(153)	(241)
Dividends paid to equity holders of SGS SA		(599)	(599)
Dividends paid to non-controlling interests		(3)	(4)
Transaction with non-controlling interests		(9)	(11)
Cash paid on treasury shares		(51)	–
Proceeds from corporate bonds		–	817
Payment of corporate bonds		(250)	(276)
Interest paid		(32)	(38)
Payment of lease liabilities		(92)	(91)
Proceeds from borrowings		592	44
Payment of borrowings		–	(553)
Cash flow used by financing activities		(444)	(711)
Currency translation		(28)	13
(Decrease) in cash and cash equivalents		(362)	(597)
Cash and cash equivalents at beginning of year		1 480	1 766
(Decrease) in cash and cash equivalents		(362)	(597)
Cash and cash equivalents at end of the period		1 118	1 169

Notes to the interim condensed consolidated financial statements

1. Activities of the Group

SGS SA and its subsidiaries (the "Group") operate around the world under the name SGS. The head office of the Group is located in Geneva, Switzerland. SGS is the global leader in testing, inspection and certification (TIC) 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 sciences sectors.

2. Basis of preparation and significant events

Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the consolidated financial statements of the Group for the year-end 31 December 2021 that were prepared in compliance with the International Financial Reporting Standards (IFRS).

COVID-19 pandemic and geopolitical instability

COVID-19 and recent geopolitical events have impacted the economy and financial markets. Many industries are facing challenges, including supply-chain disruption, inflation, deteriorating credit and liquidity concerns. Most notably, the Group's half-year operational performance was temporarily affected by Covid-related restrictions in China. The Group exposure to Russia and Ukraine is limited.

Consequently, these 2022 interim condensed consolidated financial statements were prepared with particular attention to (i) the impairment of non-current assets, (ii) the appropriateness of the allowances for trade receivables, unbilled revenue and work in progress, (iii) the level of provision for risks, as well as (iv) accounting for government grants. No material impacts were recognized in these interim condensed consolidated financial statements.

3. Changes to the Group's accounting policies

The accounting policies used in the preparation and presentation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements of the Group.

Several new amendments and interpretations were adopted effective 1 January 2022 but have no material impact on the Group's interim condensed consolidated financial statements.

4. Analysis of operating income

(CHF million)

	June 2022	June 2021
Adjusted operating income*	458	457
Amortization and impairment of acquired intangibles	(19)	(19)
Restructuring costs	(10)	(1)
Transaction and integration costs	(6)	(7)
Operating income	423	430

June 2022

(CHF million)	Revenue	Adjusted operating income*	Amortization of acquisition intangibles	Restructuring costs	Transaction and integration costs	Operating income by business
Connectivity & Products	642	149	(3)	(1)	–	145
Health & Nutrition	442	55	(5)	(1)	(2)	47
Industries & Environment	1 070	92	(10)	(3)	(3)	76
Natural Resources	766	98	–	(4)	(1)	93
Knowledge	335	64	(1)	(1)	–	62
Total	3 255	458	(19)	(10)	(6)	423

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

June 2021

(CHF million)	Revenue	Adjusted operating income*	Amortization of acquisition intangibles	Restructuring costs	Transaction and integration costs	Operating income by business
Connectivity & Products	618	142	(1)	–	–	141
Health & Nutrition	414	64	(2)	–	(3)	59
Industries & Environment	1 033	99	(11)	–	(4)	84
Natural Resources	716	90	(1)	(1)	–	88
Knowledge	313	62	(4)	–	–	58
Total	3 094	457	(19)	(1)	(7)	430

All segment revenues reported above are from external customers. The adjusted operating income* represents the profit earned by each segment. This is the main measure reported to the chief operating decision makers for the purposes of resource allocation and assessment of segmental performance.

5. Revenue from contracts with customers

Group's revenue from contracts with customers by timing of recognition

(CHF million)	June 2022		June 2021	
	Services transferred at a point in time	Services transferred over time	Services transferred at a point in time	Services transferred over time
Connectivity & Products	85%	15%	86%	14%
Health & Nutrition	84%	16%	86%	14%
Industries & Environment	71%	29%	68%	32%
Natural Resources	84%	16%	83%	17%
Knowledge	90%	10%	97%	3%
Total	80%	20%	80%	20%

6. Taxes

(CHF million)	June 2022	June 2021
Current taxes	136	130
Deferred tax (credit) relating to the origination and reversal of temporary differences	(26)	(12)
Total	110	118

(CHF million)	June 2022	June 2021
Profit before taxes	404	408
Tax at statutory rates applicable to the profits earned in the country concerned	76	80
Tax effect of non-deductible or non-taxable items	8	9
Tax effect on losses not currently treated as being recoverable in future years	1	1
Tax effect on losses previously considered irrecoverable, now expected to be recoverable	(2)	(4)
Non-creditable foreign withholding taxes	21	18
Minimum taxes	4	2
Prior period adjustments	1	5
Rate changes	–	6
Other	1	1
Tax charge	110	118

* Alternative Performance Measures (APM), refer to the '2022 Half Year APM' document.

7. Earnings Per Share

	June 2022	June 2021
Profit attributable to equity holders of SGS SA (CHF million)	276	272
Weighted average number of shares ('000)	7 489	7 485
Basic earnings per share (CHF)	36.78	36.29
	June 2022	June 2021
Profit attributable to equity holders of SGS SA (CHF million)	276	272
Diluted weighted average number of shares ('000)	7 504	7 491
Diluted earnings per share (CHF)	36.71	36.27

8. Goodwill

(CHF million)	June 2022	June 2021
Cost		
At 1 January	1 778	1 651
Additions	14	79
Consideration / fair value adjustments on prior years' acquisitions	1	-
Exchange differences	(32)	44
At end of the period	1 761	1 774

The goodwill arising on acquisitions relates to the value of the underlying business and expected synergies as well as the value of the qualified workforce that do not meet the criteria for recognition as separable intangible assets. None of the goodwill arising on acquisitions completed as at 30 June 2022 is expected to be tax deductible.

9. Acquisitions

In H1 2022, the Group completed three acquisitions.

- 100% of **Gas Analysis Services (GAS)**, a company specialized in instrumentation and gas analysis testing in Ireland (effective 28 February 2022)
- 100% of **Ecotecnos**, a company providing sea monitoring and oceanography services in Chile (effective 6 May 2022)
- 100% of **AIEX**, a company providing technical and welding inspection services in the nuclear and marine industries in France (effective 9 May 2022)

These companies were acquired for a total consideration of CHF 17 million, out of which CHF 11 million was paid in H1, and the total goodwill generated on these transactions amounted to CHF 14 million.

All the above transactions contributed a total of CHF 4 million in revenue and CHF 1 million in operating income in H1 2022. Had all acquisitions been effective 1 January 2022, the revenue for the period from these acquisitions would have been CHF 7 million and the operating income would have been CHF 1 million.

	Date	Location	Division	FTE
Gas Analysis Services	28 February 2022	Ireland	Industries & Environment	36
Ecotecnos	6 May 2022	Chile	Industries & Environment	27
AIEX	9 May 2022	France	Industries & Environment	24

In compliance with IFRS 3, fair value on acquisition remains provisional for a 12-month period following the date of acquisition, during which the Group can finalize the purchase price allocation.

The Group incurred transaction-related costs of CHF 6 million (2021: CHF 7 million) related to integration costs, external legal fees, due diligence expenses and the costs of maintaining an internal acquisition department. These expenses are reported within other operating expenses in the interim condensed consolidated income statement.

10. Credit risk management

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. It arises principally from the Group's commercial activities. Trade receivable, unbilled revenues and work in progress are subject to a policy of active risk management which focuses on the assessment of country risk, credit limits and approval procedures. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables, unbilled revenue and work in progress.

As at 30 June 2022, unbilled revenue and work in progress amounted to CHF 242 million (December 2021: CHF 175 million) which is net of an allowance for expected credit losses of CHF 19 million (December 2021: CHF 15 million).

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on aging of trade receivables as of invoice date at 30 June 2022.

(CHF million)	Expected credit loss range	Gross carrying amount	Expected credit loss
0 - 90 days	0%-5%	880	4
91 - 120 days	10%-25%	55	10
121 - 180 days	20%-50%	49	16
181 - 240 days	35%-75%	29	14
241 - 300 days	50%-75%	16	11
301 - 360 days	75%-100%	10	9
> 360 days	100%	106	106
Total		1 145	170

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on aging of trade receivables as of invoice date at 31 December 2021.

(CHF million)	Expected credit loss range	Gross carrying amount	Expected credit loss
0 - 90 days	0%-5%	863	4
91 - 120 days	10%-25%	43	8
121 - 180 days	20%-50%	36	14
181 - 240 days	35%-75%	20	12
241 - 300 days	50%-75%	11	8
301 - 360 days	75%-100%	7	6
> 360 days	100%	110	110
Total		1 090	162

11. Fair value measurement recognized in the balance sheet

There was no transfer between fair value level categories during the period. Derivative assets 2022: CHF 27 million (2021: CHF 11 million) qualify as Level 2 fair value measurement category. Derivative assets consist of foreign currency forward contracts that are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

The corporate bonds qualify as fair value Level 1, which amounts to CHF 2 685 million (2021: CHF 3 166 million).

Other financial liabilities include CHF 29 million qualifying as fair value Level 3 (2021: CHF 33 million), which represents the estimated present value of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised.

Subsequent changes in the valuation of the redemption amount to acquire the remaining non-controlling interests of acquisitions if the put/call option is exercised shall be recognized directly in equity attributable to owners, including the unwinding of the discount.

The remaining other financial liabilities qualify as Level 2, determined in accordance with generally accepted pricing models.

12. Loans and other financial liabilities

(CHF million)	June 2022	December 2021
Bank loans and commercial paper	579	5
Corporate bonds	2 819	3 100
Put option on acquisition	29	33
Other financial liabilities	26	26
Derivatives	28	7
Total	3 481	3 171
Current	959	282
Non-current	2 522	2 889

Liquidity risk management

In H1 2022, the Group reimbursed two bonds maturing in February 2022, for a total amount of CHF 250 million. Furthermore, the Group started to issue commercial paper out of its EUR 1 billion Euro Commercial Paper (ECP) program, for an amount of EUR 334 million (CHF 334 million) as at 30 June 2022, as well as withdrew EUR 200 million (CHF 200 million) as at 30 June 2022 from its EUR 1 billion sustainability-linked revolving credit facility.

13. Defined Benefit obligations

COVID-19 and recent geopolitical events have had a significant impact on market fluctuations. Discount rates rose since 31 December 2021, while year-to-date equity and bond returns are negative. SGS remeasured the defined benefit plans in Switzerland, the USA, and the UK as at 30 June 2022. The impact on the net pension liability for the first six months of 2022 is an actuarial loss of CHF 22 million. It has been recognized in other comprehensive income and is subject to future volatility.

14. Subsequent events

On 5 July 2022, the Group announced the acquisition of Silver State Analytical Laboratories, Inc. and its sister company Excelchem Laboratories, Inc. in the United States. They provide quality analytical and microbiological testing (certified and independent) and support services for clients in the environmental, water, utility, engineering, construction, food processing, chemical, mining, healthcare, resort and hospitality industries.

On 8 July 2022, the Group announced the acquisition of 100% of the shares of proderm GmbH, for a purchase price of CHF 45 Mio. Founded in 1994, proderm is a clinical research organization, specialized in advanced solutions for cosmetics and personal care as well as medical clinical studies. This acquisition further supports the Group strategic expansion in cosmetics and hygiene as part of our Health & Nutrition division.

The financial effects of the above transactions have not been brought to account at 30 June 2022. The operating results and assets and liabilities of the company will be included in our second-half consolidated financial statements.

Assets acquired and liabilities assumed

Following those two subsequent acquisitions, SGS has started the purchase price allocation (PPA) exercise. Specifically, intangible assets identification and fair valuation are still at a very early stage of the PPA process. At the date of publication of these condensed consolidated financial statements, SGS has thus not completed the initial accounting of the business combinations.

15. Approval of interim condensed consolidated financial statements and subsequent events

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 18 July 2022.

16. Exchange rates

The main currency for the Group were translated at the following exchange rates into Swiss Francs.

			Statement of financial position period-end rates		Income statement period average rates	
			June 2022	December 2021	June 2022	June 2021
Australia	AUD	100	65.71	66.59	67.97	70.02
Canada	CAD	100	73.95	71.65	74.23	72.79
Chile	CLP	100	0.10	0.11	0.11	0.13
China	CNY	100	14.26	14.40	14.57	14.03
Eurozone	EUR	100	99.70	103.78	103.23	109.43
Korea	KRW	100	0.07	0.08	0.08	0.08
United Kingdom	GBP	100	115.93	123.57	122.62	126.01
Russia	RUB	100	1.84	1.24	1.27	1.22
Taiwan	TWD	100	3.21	3.32	3.29	3.24
USA	USD	100	95.47	91.72	94.35	90.81

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Stock exchange listing

SIX Swiss Exchange, SGSN

Stock exchange trading

SIX Swiss Exchange

Common stock symbols

Bloomberg: Registered Share: SGSN.SW
Reuters: Registered Share: SGSN.S
Telekurs: Registered Share: SGSN
ISIN: Registered Share: CH0002497458
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Investor days

17-20 November 2022
Istanbul, Turkey

2023 full year results

Thursday, 26 January 2023

Annual General Meeting of Shareholders

Tuesday, 28 March 2023
Geneva Switzerland

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