



REPORT ON 2002 DIRECTORS' REMUNERATION

The Board of Directors of SGS has devoted considerable time to evaluate the most appropriate form of disclosure of the group's board of directors' and executive compensation structure. It considers such matters to be of great significance to shareholders and other stakeholders alike. Its review has concluded that current UK disclosure principles provide the most meaningful, thorough and transparent information for these purposes. Where necessary, it has extended disclosure to encompass specific Swiss corporate governance requirements.

SGS will disclose such information beginning with the 2003 annual report. In order to provide a comparative basis for such disclosure, it has decided to provide similar information for the 2002 financial year, as indicated below.

1 Nomination and Remuneration Committee and General Group Remuneration Policies

The Company's compensation policies on directors and senior executives (members of the Operations Council, formerly members of the Group Executive Board) are defined and approved by the Nomination and Remuneration Committee which consists of independent non-executive directors. The compensation of directors, including the Chairman's and the Chief Executive's, is approved by the full Board of Directors, on recommendation of the Committee. Neither the Chairman nor the Chief Executive is allowed to participate in discussions and decide on their own compensation. Georges Muller (Chairman), August von Finck and Dominique Auburtin served as members of the Nomination and Remuneration Committee as from the 2002 Annual Shareholders Meeting held on May 2, 2002. Prior to that date, the Committee comprised Th. Lalive d'Epina, M. D. Amstutz, D. Auburtin and A. von Finck.

The Chief Executive attends meetings of the Committee, except when his own remuneration is being discussed. The Committee met on five occasions during the year.

When reviewing executive remuneration policies, the Committee has received advice from the Group Human Resources staff, and has relied on publicly available information on directors' and senior management remuneration paid by other Swiss companies, and to a lesser extent on European comparables.

The overriding objective of the Company's remuneration policy is to motivate the leadership team to create shareholder value. Annual bonuses and long term incentive programs are all conditional upon the achievement of key financial performance targets.

In addition to a base salary, members of the Operations Council (including the Chief Executive) are entitled to a performance related annual bonus which represents on target between 30 % to 70 % of their base salary. The Company current policy on performance related bonuses was introduced in 2002 and was applied first in order to determine the bonuses paid in 2003 on the basis of the 2002 performance. Annual bonus objectives and targets are approved in advance by the Committee. If targets are exceeded, annual bonuses are increased on a multiplier basis with a maximum payout. In the event of underperformance against the target, the bonus is also reduced on a multiplier basis, so that no bonus is paid in the event a minimum target is not met.

Bonuses of senior executives of the group are assessed on the basis of the actual performance of the relevant Business lines and Operations areas against specific financial targets.

Bonuses are paid 50 % in cash, 50 % in options. Such options are granted but vest over a period of three years and are exercisable in the fourth and fifth year after grant.

1.1 Non Executive Directors' Remuneration

In 2002, each Board member was entitled to a fixed board membership fee of CHF 100'000.- per annum, unchanged from the previous year. Members of the Board serving on a Committee are entitled in 2002 to an additional fee of CHF 30'000.-.

Non-executive directors do not hold service contracts, and are not entitled to any termination payments. They do not participate in the Company's stock option plans or other benefit schemes and the Company does not make any pension contribution for their benefit, except for the current Chairman as indicated in section 1.2.

1.2 Chairman's Remuneration

Mr. Amstutz, as Chairman of the Board of Directors of the Company was entitled to a fixed remuneration of CHF 500'000. As Vice-Chairman of the Board, Mr Th. Lalive d'Epinay was entitled to a fixed remuneration of CHF 300'000.

As non-executive Chairman of the Board of Directors, Mr. Muller is entitled to a fixed board membership fee of CHF 200'000.- per annum.

As a long term incentive, Mr. Muller has received upon joining the Company options to acquire shares of the Company at the strike prices and conditions detailed below under section 3.2. This plan is designed to incentivise the Chairman towards an increase in the value of the shares which, during January 2002, traded at an average price of CHF 287 per share.

1.3 Chief Executive Remuneration

The Chief Executive remuneration has been approved by the Board of Directors prior to his assuming the role of CEO on February 1, 2002. The remuneration of the Chief Executive consists of a base salary, other employment benefits, an annual performance bonus, and a long term incentive plan. All elements of the remuneration are detailed below.

The relative proportions of the fixed and variable components of the Chief Executive's remuneration are represented in the chart below, assuming the achievement of yearly targets.

| | |
|-----------------------|------|
| Base salary | 59 % |
| Variable remuneration | 41 % |

1.3.1 Base salary and other employment benefits

The base salary, including benefits, is determined by the Nomination and Remuneration Committee by comparison with salary levels for similar positions.

Other employment benefits include housing (for a limited time) and a car allowance, health insurance coverage, life insurance and tuition fees allowance for children.

The Chief Executive also participates on the same basis as other Swiss employees of the Group, in the Company's two pension plans, i.e. one defined benefit scheme under the Swiss LPP regulations up to an insured amount of CHF 100'000.- and one defined contribution scheme applicable for any amounts of the pensionable remuneration in excess of CHF 100'000.- Employees contribute 8 % of their base salary and the Company contributes an amount equal to one and half times the contributions paid by all employees to the scheme. The Company contributes an additional annual amount of CHF 300'000.- which is matched by a personal contribution by the Chief Executive of CHF 200'000.- into the pension plan during the employment relationship, but for a maximum period of five years from the beginning of his tenure as Chief Executive. These contributions are designed to allow the Chief Executive to acquire rights for past services.

1.3.2 Annual performance bonus

Annual performance bonus is conditional upon the achievement by the Group of an improvement in financial performance. The achievement of target financial objectives yields a bonus corresponding to 70 % of base salary.

No bonus is paid in the absence of an improvement in the financial performance of the Group. If targets are exceeded, the annual bonus is increased on a multiplier basis with a maximum payout. In the event of an improvement in financial performance below the target, the bonus is rateably reduced on a multiplier basis.

The annual bonus is paid 50 % in cash and 50 % in options, with the latter being governed by the rules regarding vesting and blocking periods applicable to the other members of the Operations Council.

In 2002, no bonus was paid to the Chief Executive, since his performance was first measured in 2003, on the basis of the 2002 Group results. The annual performance bonus for 2002 (payable in 2003) did not include an options component.

1.3.2 Long Term Incentive Programs

Upon assuming his current position, the Chief Executive received options to acquire shares of the Company at the strike prices and conditions detailed below under section 3.2. This incentive program is designed to encourage an increase in the market value of the company whose shares, during January 2002, traded at an average price of CHF 287 per share.



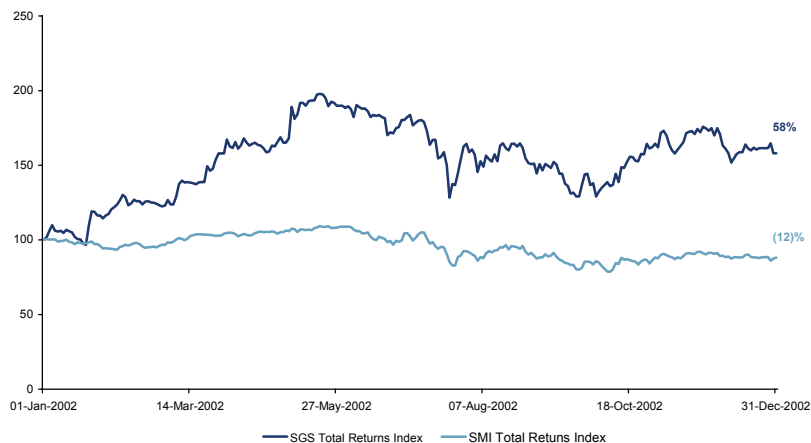
1.3.4 Employment Contract

The employment contract of the Chief Executive has no fixed term and can be terminated by either Party on three months notice period.

In the event that the employment contract is terminated or constructively terminated by the Company other than for cause, a severance payment equivalent to two years total remuneration is payable. No severance payment is due if the employment relationship is terminated in any other circumstance.

2 Company's Performance

The following graph compares the TSR (Total Shareholder Return) of the Company with the TSR of the Swiss Market Index (SMI) over 2002. The company measures its performance against the SMI index because this index tracks the performance of large companies based in Switzerland, which are also active internationally. Given the lack of direct industry comparables, the SMI is viewed as being the best relevant benchmark. It is a good indication of the market performance of other comparable Swiss companies during the period. During 2002 the Company's shares have consistently outperformed the SMI index.



3 Directors' remuneration in 2002

This section sets out the remuneration which was paid to the directors during the year.

3.1 Remuneration paid in cash

The following chart discloses each Director's base salary and fees and other benefits paid in cash during 2002, exclusive of options awarded during the period and pension benefits, which are discussed separately, under section 3.2 below.

CHF 000

| <i>Name</i> | <i>Date of Appointment</i> | <i>Base Salary / Fee</i> | <i>Other Benefits</i> | <i>Annual Performance bonus</i> | <i>Total Cash Remuneration 2002</i> | <i>Total Cash Remuneration 2001</i> |
|--|-------------------------------------|--------------------------|-----------------------|---------------------------------|-------------------------------------|-------------------------------------|
| G. Muller ⁽¹⁾ | May, 2002 | 260 | 25 | --- | 285 | Nil |
| M. Amstutz (until May 2002) | October, 98 | 417 | -- | -- | 417 | 500 |
| Th. Lalive d'Epinay (until May 2002) | October, 98 | 250 | -- | -- | 250 | 300 |
| D. Auburtin | May, 2001 | 100 | -- | -- | 100 | 65 |
| A.von Finck | October, 1998 | 100 | -- | -- | 100 | 150 |
| F. von Finck | May, 2002 | 17 | -- | -- | 17 | Nil |
| F. Luppi | May, 2001 | 100 | -- | -- | 100 | 65 |
| S. Marchionne ⁽²⁾ | May, 2001 CEO since Feb. 2002 | 1'375 | 157 | -- | 1532 | 65 |
| D. Morax (until November 2002) | October, 98 | 100 | -- | -- | 100 | 100 |
| R. Siepmann (until May 2002) | October, 98 | 83 | -- | -- | 83 | 100 |

Notes: 1) Including the value of the options granted in 2002 and detailed under section 3.2, total remuneration was CHF 379'000; (2) Including the value of the options granted in 2002 and detailed under section 3.2, total remuneration was CHF 1'903'000.



3.2 Share Options granted in 2002.

The following information summarises options that were granted to Company's executive and non-executive directors in 2002.

| Name | at January 1, 2002 Number | Granted 2002 Number | Vested 2003 Number | Exercise period | Vested at 31, 2002 Number | Exercise price CHF | Value at grant ⁽¹⁾ CHF 000 |
|---------------|---------------------------|---------------------|--------------------|-----------------|---------------------------|--------------------|---------------------------------------|
| G. Muller | nil | 2'000 | nil | 2005 to 2007 | nil | 250 | 53 ⁽²⁾ |
| | nil | 2'625 | nil | 2006 to 2008 | nil | 350 | 25 ⁽²⁾ |
| | nil | 3'750 | nil | 2007 to 2009 | nil | 450 | 16 ⁽²⁾ |
| S- Marchionne | nil | 8'000 | nil | 2005 to 2007 | nil | 250 | 208 |
| | nil | 10'500 | nil | 2006 to 2008 | nil | 350 | 100 |
| | nil | 15'000 | nil | 2007 to 2009 | nil | 450 | 63 |

Notes : (1) calculated on the basis of values used for tax purposes ; (2) values included in the note to the 2002 Annual report, (page 33, section 5.9 of the Corporate Governance Note, i.e. CHF 574 out of which CHF289 for options) is incorrect. The total compensation for the highest paid non executive director was CHF 379.

3.3 Pension benefits

No director is entitled to pension benefits, other than the Chief Executive. During the year 2002, the Chief Executive accumulated pension benefits as follows:

1. Defined benefit plan: Under the company defined benefit scheme he is entitled to the retirement and disability benefit in accordance with Swiss mandatory LPP regulations up to an amount of CHF 100'000.-
2. Defined benefit plan: Any pensionable amount in excess of the Swiss mandatory LPP regulations is insured by a defined benefit plan.

The following charts describe the contributions made by the Company and by the Chief Executive and the corresponding changes in transfer values under the Company's defined benefit plans.

Defined benefit plan (mandatory LPP coverage)

CHF 000

| <i>Transfer value February 1, 2002</i> | <i>Company's contribution 2002</i> | <i>CEO's Contribution 2002</i> | <i>Prior years buy out by the company</i> | <i>Prior years buy out by the CEO</i> | <i>Transfer value December 31, 2002</i> |
|--|--|--|---|---|---|
| 299 | 10 | 6 | — | — | 315 |

Defined benefit plan (in excess of the mandatory LPP coverage)

CHF 000

| <i>Transfer value February 1, 2002</i> | <i>Company's contribution 2002</i> | <i>CEO's Contribution 2002</i> | <i>Prior years buy out by the company</i> | <i>Prior years buy out by the CEO</i> | <i>Transfer value December 31, 2002</i> |
|--|--|------------------------------------|---|---|---|
| 1'547 | 143 | 95 | 300 | 1'112 | 3'197 |

3.4 Compensation paid to past directors

In 2002, R. Siepman received CHF 50'000.- in consulting fees after relinquishing his position as a director.

4 Compensation paid to Operations Council members

This section sets out the global remuneration which was paid to members of the Operations Council of the Group (with the exception of the Chief Executive) during 2002.

4.1 Remuneration paid in cash

A total of CHF 11'342'000 was paid in cash to the members of the operations council (29 senior executives) as remuneration for their service during 2002.

4.2 Share Options and Allotment of Shares

A total of 2'594 options granting the right to acquire shares of SGS at a strike price of CHF 319 were granted to members of the Operations Council in 2002. Such options vest one-third each year in 2003, 2004 and 2005 and can be exercised between 2005 and 2012. At grant these options had an aggregate value (calculated on the basis of taxation for Swiss reporting purposes) of CHF 85'000.-

In addition, some members of the Operations Council were offered the opportunity to purchase shares at a preferential price of CHF 353 per share at a time when the shares were traded at CHF 405 per share. These shares are blocked for a period ending in 2005. 1'650 shares have been purchased under these conditions. Taking into consideration the impact of the blocking period, this opportunity to acquire shares at a reduced price was deemed to have no taxable value for Swiss reporting purposes.

The options and allotment of shares described in this section 4.2 constitute the last allotment of the executive compensation scheme in force prior to 2002.



4.3 Severance payments to former members of the senior management

In 2002, the Group paid an aggregate amount of CHF 4'306'000.- as severance payments to former members of the Group senior management.

5 Share ownership

On December, 31, 2002, the members of the Operations Council, including the Chief Executive and persons closely linked to such persons, held a total of 10'470 shares in the Company.

Non executive members of the Board of Directors and persons closely linked to such persons held a total of 3'499'665 shares.

The Directors owned the following number of shares in the Company at the end of the period under review:

| <i>Name</i> | <i>Number of shares</i> |
|---------------|-------------------------|
| D. Auburtin | 1 |
| A. von Finck | 19'670 |
| F. von Finck | 372'272 |
| F. Luppi | 1 |
| S. Marchionne | 700 |
| G. Muller | 1'010 |

6 Loans to members of governing bodies

As of December 31, 2002, the company had outstanding loans for a total amount of CHF 269'312.- that were granted to members of the former form of Operations Council to finance share purchases under share purchase plans in force at that time. The loans bear interest at market rates and are secured by a lien on the purchased shares. These loan facilities have been discontinued, and the amount outstanding is expected to reduce to nil as the loans are repaid.
