

2021 HALF YEAR ALTERNATIVE PERFORMANCE MEASURES

Appendix to the 2021 Half Year Results

For the period ended 30 June 2021

The following document presents and defines the Group's alternative performance measures (APMs), not defined by IFRS which are used to evaluate financial and operational performance. Where relevant, a reconciliation to the information included in our IFRS condensed consolidated financial statements is presented. Management deems these performance measures as a useful source of information when taking decisions and managing the operations. These alternative performance measures are disclosed in the annual report, the half year report and other external communications to investors, as well as available under:

www.sgs.com/en/our-company/investor-relations/reports-and-presentations.

CONSTANT CURRENCY (CCY)

Prior period comparatives are presented at historical and constant currency, in order to assess the period over period evolution of financial indicators without the currency impact. SGS applies current period average exchange rates to prior period numbers, to present comparable figures.

ORGANIC REVENUE GROWTH (ORGANIC)

Organic revenue growth is used by management to evaluate the evolution of existing operations, excluding the impact of business acquisitions, divestments and currency fluctuations. This provides a 'like-for-like' comparison with the previous period in constant scope and constant currency, enabling deeper understanding of the business dynamics which contributed to the evolution of revenue and adjusted operating income from one period to another.

For the purpose of calculating the organic revenue, the results from acquisitions are excluded for the 12 months following the date of a business combination, while results generated by a divested unit are excluded for the 12 months prior to the divestiture.

The effect of changes in foreign exchange rates is calculated as the current year revenue converted at the current year's average exchange rates, less the prior period revenue converted at the current year's exchange rates.

Organic revenue is then divided by the prior period revenue at constant currency in order to derive the percentage growth.

A numerical reconciliation of this APM is included below:

(CHF million)

REVENUE JUNE 2020	2 650	
Currency impact	(25)	
REVENUE JUNE 2020 CCY¹	2 625	
GROWTH IN VALUE AND IN % AT CCY¹		
Organic	325	12.4%
Acquisitions	146	5.6%
Disposals	(2)	(0.1%)
REVENUE JUNE 2021	3 094	17.9%

1. Constant currency (CCY)

ADJUSTED OPERATING INCOME (AOI)

The adjusted operating income that is disclosed in our financial highlights and our segment disclosures in Note 4 of our condensed consolidated financial statements is provided to assess the underlying financial and operational performance of the Group by divisional line excluding the influence of items not directly attributable to operational performance. Adjusted operating income represents the operating income excluding:

- Amortization and impairment expenses on intangibles arising as a result of acquisitions
- Impairment expenses on goodwill
- Restructuring costs including impairment charges arising from the execution of the restructuring plan
- Gains and losses from sale of businesses
- Acquisition and divestment-related expenses including integration costs
- Other non-recurring items which may include non-operational items such as certain regulatory, compliance and legal costs and certain asset write downs/impairments

It is computed as follows:

(CHF million)	June 2021	June 2020
OPERATING INCOME	430	302
Amortization and impairment of acquired intangibles	19	18
Restructuring costs	1	35
Goodwill impairment	–	35
Gain on business disposals	–	(62)
Transaction and integration costs	7	2
ADJUSTED OPERATING INCOME	457	330

ADJUSTED OPERATING INCOME MARGIN (AOI MARGIN)

The adjusted operating income margin is the adjusted operating income as a percentage of revenue.

(CHF million)	June 2021	June 2020	June 2020 CCY
Adjusted operating income	457	330	325
Revenue	3 094	2 650	2 625
ADJUSTED OPERATING INCOME MARGIN	14.8%	12.5%	12.4%

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA is an important performance measure as it depicts the underlying performance of the Group before tax and excluding non-cash charges of depreciation and amortization. It is a measure commonly used by the investment community.

EBITDA is defined as operating income before depreciation, amortization and impairment.

(CHF million)	June 2021	June 2020	June 2020 CCY
OPERATING INCOME	430	302	299
Depreciation, amortization and impairment	248	274	273
EBITDA	678	576	572

ADJUSTED EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (ADJUSTED EBITDA)

Adjusted EBITDA is the EBITDA adjusted for non-recurring items and those adjustments made for adjusted operating income as defined above.

The computation is as follows:

(CHF million)	June 2021	June 2020	June 2020 CCY
OPERATING INCOME	430	302	299
Depreciation, amortization and impairment	248	274	273
EBITDA	678	576	572
Restructuring costs ¹	1	26	25
Gain on business disposals	–	(62)	(64)
Transaction and integration costs	7	2	3
ADJUSTED EBITDA	686	542	536

1. Restructuring costs excluding impairment of fixed and intangible assets

FREE CASH FLOW (FCF)

The free cash flow is deemed an important measure by management as it shows the ability to generate cash after the investment in assets necessary to support the existing operating activities. SGS defines the free cash flow as cash from operating activities net of capital expenditure. It is calculated as follows based on amounts disclosed in the condensed consolidated statements of cash flow.

The FCF definition has been modified in December 2020 and now includes operating lease outflows. Therefore, in the table below, the June 2020 comparable shows a FCF of CHF 220 million instead of CHF 310 million published in the 2020 half year results report.

(CHF million)	June 2021	June 2020
CASH FLOW FROM OPERATING ACTIVITIES	342	413
Purchase of property, plant and equipment and other intangible assets	(150)	(108)
Disposal of property, plant and equipment and other intangible assets	3	5
Operating lease outflows	(102)	(90)
FREE CASH FLOW	93	220

OPERATING NET WORKING CAPITAL (ONWC) AS A PERCENTAGE OF REVENUES

Operating net working capital is one of the performance measures used by senior management and analyzed internally by each division. It excludes tax-related assets and liabilities as well as restructuring and group provisions.

ONWC is calculated based on the end of period balance sheet positions and is divided by revenue for the last twelve months preceding the reporting date.

The ratio is compared to prior period at historical currency.

(CHF million)	June 2021	June 2020
REVENUE FOR THE LAST 12 MONTHS	6 048	5 909
OPERATING NET WORKING CAPITAL	(4)	(12)
ASSETS (ONWC):	1 349	1 123
Inventories	59	44
Unbilled revenues and work in progress	207	167
Trade receivables	951	788
Other operating receivables	132	124
LIABILITIES (ONWC):	1 353	1 135
Trade payables	303	257
Contract liabilities	234	194
Other creditors and accruals	537	480
Other operating payables	279	204
OPERATING NET WORKING CAPITAL IN % OF REVENUE	(0.1%)	(0.2%)

RETURN ON INVESTED CAPITAL (ROIC)

Return on invested capital is a measure of performance that combines profitability and capital efficiency. Management is closely following this KPI in order to evaluate capital allocation.

$$\text{ROIC} = \frac{\text{Profit for the last twelve months}}{(\text{Non-current assets excluding right-of-use assets} + \text{net working capital}) \text{ as at end of period}}$$

The return on invested capital is calculated as follows, and amounts can be reconciled to the condensed consolidated statements of financial position as well as the condensed consolidated income statements:

(CHF million)	June 2021	June 2020
PROFIT FOR THE LAST 12 MONTHS	618	480
NON-CURRENT ASSETS	3 434	2 563
Non-current assets	4 066	3 124
Right-of-use assets	(632)	(561)
NET WORKING CAPITAL	45	6
ASSETS	1 573	1 327
Inventories	59	44
Unbilled revenues and work in progress	207	167
Trade receivables	951	788
Current tax assets	105	76
Other receivables and prepayments	257	259
Less derivative assets	(6)	(7)
LIABILITIES	1 528	1 321
Trade payables	303	257
Other payables	387	313
Provisions	67	77
Contract liabilities	234	194
Other creditors and accruals	537	480
ROIC	17.8%	18.7%

NET DEBT

Net debt represents the net level of financial debt contracted by SGS with external parties excluding lease liabilities. Net debt is defined as cash and marketable securities less loans and other financial liabilities.

Amounts can be found in the condensed consolidated balance sheet and the computation is as follows:

(CHF million)	June 2021	December 2020
CASH AND MARKETABLE SECURITIES	1 177	1 775
Marketable securities	8	9
Cash and cash equivalents	1 169	1 766
LOANS AND OTHER FINANCIAL LIABILITIES	3 262	3 253
Non-current loans and other financial liabilities	2 928	2 390
Current loans and other financial liabilities	334	863
NET DEBT	2 085	1 478

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