



# 2002 YEAR END RESULTS

**SGS Group's 2002 Net Profit before exceptionals rose 56% to CHF 159 million. Top line comparable growth of 10.2% was achieved together with an improvement in operating margins from 6.2% to 9.0%. Net Income after exceptional items increased by CHF 184 million to CHF 109 million. A dividend of CHF 7.25 will be recommended to the shareholders.**

FINANCIAL HIGHLIGHTS		
CHF million	2001	2002
<b>Revenue</b>	2 332	<b>2 392</b>
Change in %		2.6
<b>EBITDA</b>	247	<b>311</b>
Change in %		26
<b>Operating income</b>	145	<b>216</b>
Change in %		49
<b>Operating margin in %</b>	6.2	<b>9.0</b>
<b>Profit before tax</b>	(23)	<b>140</b>
<b>Net profit</b>	(75)	<b>109</b>
<b>Net profit before exceptionals</b>	102	<b>159</b>
<b>Free cash flow</b>	45	<b>120</b>
<b>Net cash</b>	446	<b>402</b>
<b>No. of shares (000's) registered equivalent</b>	7 822	<b>7 773</b>
<b>Earnings per share (CHF) before exceptionals</b>	13.09	20.46
Change in %		56
<b>Earnings per share (CHF) after exceptionals</b>	(9.61)	<b>14.02</b>
Change in %		--
<b>Avg. number of employees</b>	30 625	<b>32 288</b>
Change in %		5.4

## Overview

Revenue for the Group improved to CHF 2 392 million, up 10.2% on last year in local currency terms (+2.6% on a reported basis) in a market environment that was far from buoyant.

Strong revenue growth was achieved in Consumer Testing, Automotive, Systems and Services Certification and Industrial and Emerging Services with all these businesses delivering more than +10% year on year growth.

Operating income improved by CHF 82 million or 60% to CHF 216 million at constant currencies (CHF 71 million on a reported basis). Operating margins in all businesses improved compared to last year with the most significant gains being achieved by Agriculture, Minerals and Automotive Services. Group margins now stand at 9%, with the second half of the year delivering 10%.

The Group incurred a net exceptional charge of CHF 50 million. Restructuring costs, net of tax, for the year totalled CHF 75 million and were partially offset by collections on discontinued government contracts of CHF 25 million.

Net financial income of CHF 13 million is below that of last year reflecting the global reduction in yields. The normalised tax rate for the year has reduced to approximately 27% and now stands at a level the Group expects for the medium term.

Net profit before exceptionals increased from CHF 102 million to CHF 159 million. Including exceptional items, the bottom line moved from a loss of CHF 75 million last year to a profit of CHF 109 million in the current year.

Cash from operations improved by CHF 123 million to CHF 265 million as a result of better working capital management. This inflow of cash was used to fund acquisitions totalling CHF 54 million (principally Lakefield Canada), investment in fixed assets of CHF 111 million, the payment of the dividend of CHF 47 million and the share buyback of CHF 63 million. Group net cash decreased from CHF 446 million at the end of 2001 to CHF 402 million at the end of 2002.

## **Acquisition and disposals**

In the first half of 2002, SGS concluded the acquisition of Lakefield Research Ltd, an international group based in Canada. The acquisition expanded the service portfolio with upstream extractive metallurgical testing and increased the Group's market presence in assaying for the non-ferrous and precious metal industries. The Lakefield business contributed revenues of CHF 30 million for eight months of this year.

## **Receivables on terminated government contracts**

Vigorous efforts continue to collect the full amounts outstanding on terminated government contracts. In 2002 this resulted in CHF 25 million of receivables on terminated contracts being collected. Legal proceedings and other collection efforts are being undertaken in order to monetise these assets as quickly as possible.

## **Restructuring Programme**

During the year the Group took a net of tax charge of 75 million for a one-off restructuring programme. The Group does not expect to record additional restructuring charges as exceptionals during 2003.

## **Proposed Dividend**

The Board of Directors will recommend to the Annual Général Meeting on the 14th May 2003 the approval of a dividend of CHF 6.00 per share, equal to last year. On the occasion of the Group's 125th anniversary and in view of the current results, the Board will also recommend a special dividend of CHF 1.25 to be combined with the regular dividend.

## **Significant Shareholders**

At 31 December 2002, Mr August von Finck and his family held 23.5% of the capital and voting rights of the Company, whilst Worms & Cie held directly 21.0%.

## **Share buyback programme**

As part of the share buyback programme announced in July 2002 the Group has repurchased 2.06% of the capital at a total cost of CHF 63 million. The programme authorised by the Board of Directors envisages a maximum repurchase of CHF 250 million. None of the repurchased shares are earmarked for cancellation. The impact of the share buyback programme on earnings per share has been nearly a 1% improvement.

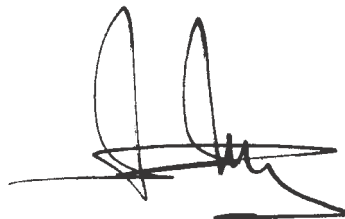
## **Outlook**

To keep the Group competitive on-going improvements will be necessary and will be driven by activities such as the newly launched six-sigma initiative. This will allow the Group to focus once again on growth in order to achieve its 3 year objectives.

The Group expects to both improve operating performance in 2003 and to exceed the 2002 reported net profit before exceptionals.



Georges Muller  
Chairman



Sergio Marchionne  
Chief Executive

16 January 2003

## CONSOLIDATED PROFIT & LOSS

CHF million	2001	2002
Revenue	2 332	2 392
<b>Operating income</b>	145	216
Exceptionals	(177)	(80)
<b>Goodwill</b>	(8)	(9)
<b>EBIT</b>	(40)	127
Net financial income	17	13
<b>Profit before taxes and minority interests</b>	(23)	140
Taxes	(44)	(27)
<b>Profit after taxes</b>	(67)	113
Minority interest	(8)	(4)
<b>Net profit</b>	(75)	109
<b>Net profit before exceptionals (net of tax)</b>	102	159

## CONSOLIDATED BALANCE SHEET

CHF million	2001	2002
Land, buildings and equipment	398	387
Other long-term assets	148	182
Trade accounts and notes receivable	513	495
Other current assets	283	254
Cash and short-term investments	649	532
<b>Total assets</b>	1 991	1 850
<b>Shareholders' equity</b>	982	897
<b>Minority interests</b>	26	18
Long-term loans	42	48
Provisions and other liabilities	270	272
Short-term liabilities	671	615
<b>Total liabilities and shareholder's equity</b>	1 991	1 850

## CHANGES IN SHAREHOLDERS' EQUITY

CHF million	2001	2002
<b>As at 1 January</b>	1 099	982
Dividend	(45)	(47)
Share buyback	0	(63)
Translation	3	(84)
Net (loss)/Profit	(75)	109
<b>As at 31 December</b>	982	897

## CONSOLIDATED CASH FLOW

CHF million	2001	2002
Adjusted operating profit	218	195
(Increase)/decrease in working capital	(76)	70
<b>Cash from operations</b>	142	265
Free cash flow	45	120
<b>(Decrease) in net cash</b>	(42)	(44)

## EXCHANGE RATES

			Balance Sheet		Profit & Loss account	
			end of period rate CHF		Year to date average rate CHF	
			Dec. 01	Dec. 02	2001	2002
<b>Australia</b>	AUD	100	85.81	78.65	87.28	84.55
<b>EU</b>	EUR	100	148.05	145.48	151.03	146.70
<b>Great Britain</b>	GBP	100	243.42	223.78	242.97	233.43
<b>USA</b>	USD	100	168.10	139.55	168.78	155.68

## Accounting Principles

The audited financial statements are prepared in accordance with the accounting and reporting requirements of the International Accounting Standards (IAS) as issued by the International Accounting Standard Board (IASB) and with the Standing Interpretations issued by the Standing Interpretation Committee of the IASB.

These condensed consolidated accounts are based on the accounts of the individual subsidiaries at 31 December, which have been drawn up according to uniform Group accounting principles.

2001 business segment information has been adjusted to reflect the new organisational structure and to reflect a full allocation of overheads to the businesses.

AGRICULTURAL SERVICES		
CHF million	2001	2002
<b>Revenue</b>	254	<b>250</b>
Change in %		(1.6)
<b>Change due to</b>		
Volume and Prices		17
Currency Translation		(22)
Acquisitions/(Disposals)		1
<b>Operating Income</b>	11	<b>25</b>
Change in %		127.3
<b>Operating Margin %</b>	4.3	<b>10.0</b>

### Agricultural Services

With sales of CHF 250 million, 7.7% up from 2001 on a comparable basis (-1.6% reported), the Agricultural business delivered a significantly improved operating margin of 10% compared to 4.3% last year.

Revenue growth was strongest in Eastern Europe with an increase of over 40%. This increase was driven by the export of cereals from the Black Sea region which more than compensated the low level of exports from Western Europe.

Revenue growth was also high in Latin America and particularly in Brazil and Argentina. In Asia, India lead with a very good performance driven mainly by activities in rice. In other countries in the region SGS continued to reinforce its overall market position.

North America showed a growth of more than 20% largely attributed to new services in Canada.

The breadth of our intervention in the Agricultural Services value chain expanded with significant gains being made in the areas of trade finance (collateral management, e.doc) and shipment guarantees.

MINERALS SERVICES		
CHF million	2001	2002
<b>Revenue</b>	203	<b>269</b>
Change in %		32.5
<b>Change due to</b>		
Volume and Prices		3
Currency Translation		(18)
Acquisitions/(Disposals)		81
<b>Operating Income</b>	13	<b>28</b>
Change in %		115.4
<b>Operating Margin %</b>	6.4	<b>10.4</b>

### Minerals Services

The Minerals business revenues grew by 1.9% (32.5%, including acquisitions, on a reported basis). With the benefit of acquisitions and operational improvements margins moved from 6.4% last year to 10.4% this year.

Good price levels in gold and platinum positively impacted the Group's off-site geochemical laboratory business with additional volumes from the major and junior mining companies. Outsourced laboratory opportunities continue to be seized with new projects in Africa, Canada and the USA.

The Group's coal and coke related businesses performed solidly for the period as a result of improving supply/demand curves in the steel industry. However, the drop in demand in the US for steam coal and the loss of share in the China coke market both had an adverse impact on revenues. The continued privatisation and expansion of the Russian coal industry lead to significant new opportunities for the Group's services.

The addition of Lakefield Research's portfolio of services have enabled the Group to pursue new business with the precious metal recycling and production industries. The operations in Canada and Chile have suffered from the downturn in base metal prices in contrast with positive developments in Australia and above target performance in Brazil and South Africa.

OIL, GAS & CHEMICALS SERVICES		
CHF million	2001	2002
<b>Revenue</b>	415	<b>399</b>
Change in %		(3.9)
<b>Change due to</b>		
Volume and Prices		4
Currency Translation		(30)
Acquisitions/(Disposals)		10
<b>Operating Income</b>	30	<b>31</b>
Change in %		3.3
<b>Operating Margin %</b>	7.2	<b>7.8</b>

### Oil, Gas & Chemicals Services (OGC)

Against a highly volatile oil market, fuelled by concerns over Iraq and supply disruptions in Venezuela late in the year, as well as difficult chemical markets, OGC increased its sales by 1.1% on a comparable basis (-3.9% reported) and grew operating income to deliver a margin of 7.8% (7.2% in 2001).

2002 was marked by a dual focus: restructuring and growth. The restructuring positively impacted overall efficiency in the operations, countering the difficult operating environment in the established markets. A solid base has been given to future growth with the implementation of a fully integrated global sales network and dedicated development and project teams.

Geographically, good performances in the core inspection and testing services were delivered in Europe, South America and the Caspian. The continuing consolidation trend in the oil industry and difficult market conditions lead to flat results in the US and the Middle East.

Within the privatisation policy of the UK government, SGS secured, towards the end of the year, a significant contract for, among other services, statutory gas metering and quality control services.

Throughout 2002, SGS further developed its on-site laboratory network servicing storage terminal customers with new laboratories opening in the Caspian, the Black Sea, Russia and South Africa.

The set-backs suffered in 2001 in the Asia region were addressed and subsequently operations stabilised. Good, profitable growth was achieved in China, mainly in the petrochemical area and through forays into oil. In Japan, SGS teamed up with a major local service provider established throughout the country.

LIFE SCIENCE SERVICES		
CHF million	2001	2002
<b>Revenue</b>	58	<b>57</b>
Change in %		(1.7)
<b>Change due to</b>		
Volume and Prices		1
Currency Translation		(2)
Acquisitions/(Disposals)		0
<b>Operating Income</b>	3	<b>4</b>
Change in %		33.3
<b>Operating Margin %</b>	5.2	<b>7.0</b>

### Life Science Services

Life Sciences' comparable revenues were up by 2.2% in 2002 (reported -1.7%) with a margin improvement from 5.2% to 7%.

Healthy revenue growth and profits were seen in Quality Control Testing for the Canadian, Belgian and German operations, though tempered by weaker performance in France and the USA.

In Clinical Research Testing moderate growth and profitability were experienced over the year as activity slowed somewhat in the second half.

The Group is close to finalising the leadership choice for this business, after which the strategic growth options and initiatives can be fully evaluated, ideally in the second half of 2003.

CONSUMER TESTING SERVICES		
CHF million	2001	2002
<b>Revenue</b>	286	<b>299</b>
Change in %		4.5
<b>Change due to</b>		
Volume and Prices		<b>34</b>
Currency Translation		<b>(21)</b>
Acquisitions/(Disposals)		<b>0</b>
<b>Operating Income</b>	20	<b>29</b>
Change in %		45.0
<b>Operating Margin %</b>	7.0	<b>9.7</b>

### Consumer Testing Services (CTS)

Comparable sales increased 12.7% to CHF 299 million in 2002 (reported +4.5%). These results can be attributed to a very strong performance in the North American and Asian regions.

Operating margins continued to improve, rising to 9.7% from 7% mostly driven by the top line growth and a shift of emphasis into testing. Continued investments in the Electrical and Electronic laboratory infrastructure in Asia negatively impacted the operating margin with benefits accruing in 2003/2004.

Testing is expanding rapidly and is now more than 50% of the business. Activities range from customer requirements testing on the final product, to prototype, performance, regulatory and the ever more demanding green testing. The necessary heightened focus on testing will be delivered without neglecting the still very important inspection and auditing services within the CTS.

Due to the pivotal role of Asia in the manufacturing of consumer products, the Business Leadership for CTS was moved to Hong Kong in the last quarter of 2002.

SYSTEMS & SERVICES CERTIFICATION		
CHF million	2001	2002
<b>Revenue</b>	201	<b>208</b>
Change in %		3.5
<b>Change due to</b>		
Volume and Prices		<b>20</b>
Currency Translation		<b>(13)</b>
Acquisitions/(Disposals)		<b>0</b>
<b>Operating Income</b>	19	<b>24</b>
Change in %		26.3
<b>Operating Margin %</b>	9.5	<b>11.5</b>

### Systems & Services Certification (SSC)

With sales of CHF 208 million, 10.8% up from 2001 on a comparable basis (+3.5% on a reported basis), Systems & Services Certification business achieved a strong performance despite a difficult economic environment in major countries. Operating margin rose from 9.5% to 11.5% reflecting improved efficiency achieved mainly during the second semester.

During the year, a thorough review of the worldwide operations was carried out resulting in the closure/resizing of SSC activities where market conditions and perspectives did not meet expectations. Further, additional resources were allocated to the sales organisation locally, thus allowing it to be closer to the market and to better meet clients' expectations.

Growth was driven by ISO 9000 market segment with strong performance in Western Europe, mostly in Spain, Belgium and Switzerland. In Asia, increasing demand for certification drove good results in China, Japan and Malaysia.

The ISO 9000 conversion to the new 2000 version continued. Clients focused on the improved elements in the new standards, allowing the development and marketing of new added value services, which put emphasis on management efficiency and performance enhancement. ISO 14001 (environment) and OHSAS 18001 (health and safety) are still growing strongly.

Service certification programs are actively being developed in Western Europe and North America. These services are meeting customer demand for improved service delivery and better control of the supply chain.

INDUSTRIAL & EMERGING BUSINESS SERVICES		
CHF million	2001	2002
<b>Revenue</b>	474	<b>489</b>
Change in %		3.2
<b>Change due to</b>		
Volume and Prices		<b>49</b>
Currency Translation		<b>(24)</b>
Acquisitions/(Disposals)		<b>(10)</b>
<b>Operating Income</b>	29	<b>39</b>
Change in %		34.5
<b>Operating Margin %</b>	6.1	<b>8.0</b>

### Industrial & Emerging Business Services

Comparable revenues grew by 10.8% for this business (reported +3.2%) with operating income increasing to CHF 39 million from CHF 29 million. Operating margins improved to 8.0%, compared to 6.1% in the prior period.

Industrial activities have maintained their good growth trend particularly in the construction sector in Spain and the Far East and in services related to the oil, gas and energy sector in Africa, the Middle East and the Far East. A strong performance was delivered in the supply of technical staffing in the Middle East compensating a weaker performance in Europe in supply to the telecommunication and information technology sectors.

The Group's Environmental businesses showed a healthy revenue growth driven primarily by Taiwan and Spain. The acquisition of SSL (Australia) and Lakefield (Canada) brought additional environmental business with them boosting both revenues and margins. The USA was weak due to economic conditions and the diversion of public sector project funding towards enhanced domestic security.

The Group's other activities generated marginally better revenues but slightly lower operating margins, primarily driven by a weaker performance in the Australian business. Overall the profitability of these activities improved with the non-recurrence of the 2001 field spend on the SGSONSITE initiative.

AUTOMOTIVE SERVICES		
CHF million	2001	2002
<b>Revenue</b>	204	<b>211</b>
Change in %		3.4
<b>Change due to</b>		
Volume and Prices		<b>30</b>
Currency Translation		<b>(23)</b>
Acquisitions/(Disposals)		<b>0</b>
<b>Operating Income</b>	(4)	<b>13</b>
Change in %		--
<b>Operating Margin %</b>	(2.0)	<b>6.2</b>

### Automotive Services

Automotive Services comparable revenues grew by 16.7% versus prior year (+3.4% reported) with strong revenue growth in North America and Ireland and satisfactory performance in South America in difficult market conditions. Growth was driven primarily by strong off-lease inspection business in North America fuelled by aggressive incentives employed by manufacturers and financial institutions to promote early lease termination.

Operating income improved by CHF 17 million to CHF 13 million, with margins now positive at 6.2%. The major contributions to this improvement were productivity/efficiencies in the European operations and deployment of IT systems functionality in North America.

Product enhancements and value added services developed have received widespread customer acceptance and are adding to a solid opportunity pipeline. Inspection web-based reporting and scheduling, automated call-centre technology, title hosting, and on-board diagnostic testing are several of the initiatives commercialised during the year.

Automotive Ireland continued its excellent first half performance, continuing to grow strongly in the second half of 2002 with revenue growth for the year almost 50% up on 2001.

TRADE ASSURANCE SERVICES		
CHF million	2001	2002
<b>Revenue</b>	237	<b>210</b>
Change in %		(11.4)
<b>Change due to</b>		
Volume and Prices		(18)
Currency Translation		(9)
Acquisitions/(Disposals)		0
<b>Operating Income</b>	24	<b>23</b>
Change in %		(4.2)
<b>Operating Margin %</b>	10.1	<b>11.0</b>

### Trade Assurance Services (TAS)

Revenues of Trade Assurance Services of CHF 210 million have decreased by 7.7% on a comparable basis (-11.4% reported) mainly due to the terminated contracts with the governments of Argentina, Angola, Kenya and Rwanda.

The operating margin has confirmed its recovery delivering 11% up from 10.1% last year, reflecting the benefits of significant restructuring measures implemented during the year which were partly offset by the loss of the above mentioned contracts.

During 2002, Trade Assurance successfully extended or renewed contracts with the Governments of Burundi, Bolivia, Cameroon, Ethiopia, Guinea Conakry, Mauritania, Mali, Nigeria and Papua New Guinea (Forestry). New forestry contracts were signed in Congo and Ecuador and a new contract was negotiated in Indonesia for monitoring of steel imports.

The weighted average receivable in this business is slightly less than 4 months of sales. All revenues on government contracts that terminated after 31 December 2001 and for which SGS provided services in the current year are being recognised on a cash basis. Collections in 2002 on terminated contracts were CHF 25 million.

The launch of the new TradeNet project in Ghana was made in November 2002. This electronic community network is part of an important custom modernisation program in Ghana.

English version is binding

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#### STOCK EXCHANGE LISTING

SWX Swiss Exchange, SGSN

#### STOCK EXCHANGE TRADING

virt-x

#### COMMON STOCK SYMBOLS

Bloomberg: Registered Share: SGSN  
Reuters: Registered Share: SGSZn.S  
Telekurs: Registered Share: SGSN  
ISIN: Registered Share:  
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#### CORPORATE COMMUNICATIONS & INVESTOR RELATIONS

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#### ANNUAL GENERAL MEETING OF SHAREHOLDERS

Wednesday, 14 May 2003, 15:00  
Location: Ramada Park Hotel, Geneva