

Company Follow Up

Bank Leu Swiss Equity Research

GOODS INSPECTION

18.01.2006 SMI 7,786

Registered shares	Price: CHF 1,164	High/Low (12mth): CHF 1,204/802						New price target (12mth): CHF 1,300			
	EPS, (dil.)	FCF	Dividend	Book value	P/E	EV/ EBIT	EV/ EBITDA	EV/ Sales	FCF yield	Div yield	Price to book
2008 E	77.5	95.5	28.00	337	15.0	10.0	8.5	1.69	8.2%	2.4%	3.5
2007 E	68.1	87.8	24.00	282	17.1	11.8	10.0	1.93	7.5%	2.1%	4.1
2006 E	58.9	79.4	20.00	234	19.8	14.0	11.8	2.21	6.8%	1.7%	5.0
2005 A	48.8	71.6	50.00	192	23.8	16.9	13.9	2.56	6.2%	4.3%	6.1
Lt growth:		15.0%			WACC:	8.0%					
PEG ratio 2006E:		1.3x			ROIC (2005E):	23.2%					

BUY

SGS

www.sgs.com

Bloomberg: SGSN VX
Reuters: SGSN.VX

Following FY2005 results

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- SGS is moving towards its CHF 80 EPS target in 2008. At the moment SGS is benefiting from a tailwind of favorable market conditions and also from currencies, but there are good reasons to believe that the underlying trend is sustainable.
- The move towards more value added businesses, more process related work, improved technology that can be additionally charged, the shift towards more recurring and less cyclical revenue models, its geographic expansion from existing businesses into new targeted regions, investments in the sales force and finally achieved market share gains provides us with enough certainty that double-digit organic growth is sustainable.
- Helped by the specific operating leverage of the SGS type of business and the still unused capacity in the SGS labs, supported by the pricing performance and based on restructuring work done in the past, EBIT margins still have a way to go.
- Management noted that December was a very good month, we assume that the start to 2006 was fine.
- As a result we have again lifted our earnings estimates; we now expect for 2008 EPS of CHF 77.5, this versus our earlier forecast of CHF 74.6.
- We calculate a fair price for SGS shares of CHF 1,300, in line with our increased price target (up from CHF 1,250). Our rating remains Buy.



INVESTMENT CONCLUSION

Yesterday's FY05 numbers from SGS were once again a positive surprise for the financial markets. We believe the key characteristics of the results show that SGS is moving towards its CHF 80 EPS target in 2008. At the moment SGS is benefiting from a tailwind of favorable market conditions and also from currencies, but there are good reasons to believe that the underlying trend is sustainable. Superior top line growth is clearly helped by the intelligent positioning of the businesses. The move towards more value added businesses, more process related work, improved technology that can be additionally charged, the shift towards more recurring and less cyclical revenue models, its geographic expansion from existing businesses into new targeted regions, investments in the sales force and, finally, achieved market share gains provides us enough certainty that double-digit organic growth is sustainable. Helped by the specific operating leverage of the SGS type of business and the still unused capacity in the SGS labs, supported by the pricing performance and based on restructuring work undertaken, EBIT margins still have a way to go. Acquisitions will help to reach the targets – the EBIT margin of acquired businesses in 2005 was above the group average. We stress that in 2005 the increase in headcount was below the increase in revenues, which we believe is a good indicator that costs are under control. Moreover, management reminded the market that December was a very good month; we assume that the start of 2006 was fine. Just taking top line growth momentum and the margins achieved in 2H05 as base for estimates in 2006, we remain bullish. Even accounting for the loss of CHF 70m in revenues in TAS due to the loss of the high margin Venezuela and Nigeria PSI contracts we remain very optimistic.

As a result we have again lifted our earnings estimates; we now expect for 2008 EPS of CHF 77.5, this versus our earlier forecast of CHF 74.6. Please note that we now use the diluted weighted average of shares according to IFRS. Our estimate is still below the CHF 80 guidance of the company, but we stress that we do not include acquisitions in our calculation. Any acquisitions would most likely help: the earlier SGS goes for it, we believe it increasingly probable that the given guidance can be reached or even surpassed (a case that cannot longer be excluded).

Given its exceptional track record, better regional and business mix diversification, decreased volatility of earnings, a reduced dependency on world trade and the shift into increasingly more value added business, we believe a WACC of 8.0% for SGS is appropriate (our former assumption was 8.3%). We calculate a fair price for SGS shares of CHF 1,300, in line with our increased price target (up from CHF 1,250). Our rating remains Buy.

A CLOSER LOOK TO THE FY05 NUMBERS

We believe the biggest gap versus our and market estimates was in top line growth, which came in better than expected. In H2, SGS achieved organic growth of 11.5%, clearly above the 10% target set by the company and another slight acceleration from the 11.3% achieved in H1. By region, most of the growth was located in Asia/Pacific.

The EBIT margin increased from 14.7% in H1 to 15.3% in H2.

Most divisions were able to improve in H2, with the exception of TAS and automotive.

Compared with our estimates, we were positively surprised by the growth in certification. With organic growth of 17.1% and a margin of 17.8%, both achieved in H2, the question mark is how sustainable this improvement is. However, the CFO calmed fears.

Also minerals surprised positively as margins increased from 15.4% in H1 to 16.5% in H2, proof that leverage and business mix issues work.

Interestingly, margins in TAS decreased less than expected. Nevertheless, in 2006 TAS will lose approximately CHF 70m in revenues due to the termination of the Nigeria and Venezuela contract. New PSI contracts signed will only partly compensate for that loss.

Worse than expected was automotive, however, this was partly explained not only by the downturn of the car lease business in the US, but also by the delay of the California contract.

The EBIT in the divisions Life Science and Industrial was absolutely in line with forecasts.

Oil, gas & chemicals (OGC) was fine, but somewhat below our forecasts. Nevertheless, remember that organic revenue growth in OGC was 9.4% and margins were lifted by 30bps despite an unfavorable environment (hurricanes in the US).

We point to 28% organic growth achieved in H2 in consumer testing (this after already 26.0% in H1), obviously SGS gained huge market shares. According to SGS, the gap in softlines versus its biggest competitor (Intertek) further narrowed, but strong growth in RSTS was also achieved. Overall, the labs in consumer testing still have huge capacity to be utilized; the business is therefore expected to continue to enjoy leverage from increased capacity utilization.

In the so far rather "dull" agro business organic revenue growth increased from 11.0% in H1 to 12.7% in H2, proof that the change in business mix towards more value added services and the investment in sales network bear fruits.

Performance in environmental services was rather disappointing, organic revenue growth decreased from 11.4% in H1 to 6.8% in H2, however, margins increased substantially from 9.9% in H1 to 12.1% in H2. SGS disclosed having made an acquisition. It acquired Paradigm Analytical Laboratories, a US company with USD 6m turnover that is focused on soil & water analysis (it supported the World trade Center site cleanup).

The overall acquisition impact on revenues was CHF 66m and on EBIT CHF 11m, we calculate on the acquired business an EBIT margin of 16.7%, higher than the group average.

Below the EBIT line there were no further surprises. Net financial income and the tax rate were in line with our forecasts, but the CFO admitted that the tax rate in 2005 was at the lower end of the range of the Group's medium-term expectations. Net capex was, at CHF 190m, in range of the given guidance. Most of the capex (CHF 54m) was spent in consumer testing in which the network was expanded and the infrastructure for the E&E business was built.

Cash from operations decreased from CHF 424m to CHF 411m as a result of an increased appetite for working capital. The cash used for net working capital was CHF 60m, which was, according to the CFO, CHF 10m higher than planned. The CFO explained that DSO was up by 1 day, against the company's aim to reduce DSO. Due to the bullish mood of the business in December, receivables were up significantly. However, as the net working capital extensive PSI business in the TAS division is losing importance, DSO should decrease over time. Another CHF 20m was used for provisions for TAS demobilization costs for the lost PSI contracts in Venezuela, Peru and Nigeria.

SGS pays a dividend of CHF 31 and additional CHF 19 through a reduction of the nominal value; we had expected a dividend of "only" CHF 15. Management made clear that the normal distribution range of 25-30% is expected to be restored in 2006. The CEO stressed that returning money to shareholders does not restrict the group continues to make acquisitions.

The aggregated impact on the net profit of the adoption of the new IFRS standards was approximately neutral for both the restated 2004 results and for the 2005 results.

Headcount increased by 12.4%, which compares with revenues that were up by 13.2%. The CFO made clear that the increase in headcount was mainly in regions in which the company's workforce is flexible and headcount costs as a percentage of sales are below group average. We believe this gives some certainty that the operating leverage will increase.

The group confirmed its 3-year targets (CHF 5bn revenue and CHF 80 EPS) and added that the 2006 outlook continued to be strong and in line with the 3-year growth plan.

Key figures (in CHF m)

	change	FY05			FY04
		reported	Leu estimate	Consensus	
Revenues	14.7%	3,308	3,287	3,236	2,885
- due to volume and prices		11.4%	10.7%		
- due to currency translation		1.4%	0.0%		
- due to acquisitions/(disposals)		1.8%	3.3%		
Operating income (EBITA)	27.7%	502	495	488	393
- Margin		15.2%	15.1%		13.6%
Exceptionals		0	0		3
Goodwill amortization		0	0		-16
EBIT	32.1%	502	495		380
Net financial income		5	7		6
Net profit before taxes	31.3%	507	502		386
Taxes		-119	-118		-91
- tax rate		23.5%	23.5%		23.5%
Net profit after taxes	31.5%	388	384		295
Minorities		-17	-19		-15
Net profit	32.5%	371	366	362	280

Source: Bank Leu estimates, company data

By segments in FY05 (in CHF m)

	Sales				EBITA			
	Reported	organic	Estimate	Delta	Reported	margin	Estimate	Delta
Agro	295	12.2%	278	17	34	11.4%	32	2
Minerals	394	17.1%	367	27	63	16.0%	57	6
Oil, Gas, Chem	635	9.5%	627	8	79	12.5%	82	-3
Life Science	125	15.5%	134	-9	19	15.2%	19	0
Consumer	476	27.2%	471	5	102	21.4%	104	-2
Certification	274	15.3%	271	3	47	17.0%	43	4
Industrial	445	12.5%	437	8	59	13.2%	59	0
Environmental	235	8.8%	275	-40	26	11.1%	29	-3
Automotive	200	-0.5%	207	-7	25	12.6%	27	-2
TAS	229	-10.4%	220	9	49	21.2%	44	5
Total	3,308	11.4%	3,287	21	502	15.2%	495	7

Source: Bank Leu estimates, company data

WHAT DID WE CHANGE IN OUR FORECASTS TO 2008

Following the FY05 results we have increased our EPS forecasts for the years to 2008 by 4% to 6%. The most important changes were the following:

- Currency impact for 2006: We now include a 2.5% positive impact for 2006.
- TAS: We are now slightly more cautious for TAS adopting the volume losses for Venezuela and Nigeria.
- Certification, agriculture, minerals, consumer testing: Based on achievements in 2H05 we have become slightly more positive on this division.
- Tax rate: Here we apply a slightly higher tax rate than before.
- EPS accounting: We now use the IFRS method for calculating the diluted number of weighted shares, which is slightly more favorable for EPS compared to our previous method.

We remind investors that we have also slightly increased our assumption for the dividend pay-out ratio going forward.

Change in forecasts

	2006E		2007E		2008 E	
	New forecast	Old forecast	New forecast	Old forecast	New forecast	Old forecast
Revenues (in CHF m)	3,858	3,709	4,316	4,176	4,783	4,740
EBIT (in CHF m)	609	593	705	692	803	806
EPS (in CHF)	58.9	55.5	68.1	64.4	77.5	74.6

Source: Bank Leu estimates

VALUATION

We calculate a DCF value of CHF 1,300 per share.

The most important input factors to our model are the following:

- We believe that between 2006 and 2008 CAGR for revenues is 13.1%. In 2009, a 17% EBIT margin is achievable.
- We believe that organic growth between 2009 and 2013 is 8.5%. Our assumption for the perpetual growth rate (2013 ff.) is 2.0%.
- Our calculations use a cash operating tax rate of 25%, we believe a fairly cautious approach.
- We assume a WACC of 8.0%. Our former forecast was 8.3%. Given its phenomenal track record, improved regional and business mix diversification, decreased volatility of earnings, a reduced dependency on world trade and shift into increasingly more value added business, we believe a lower WACC is justified.
- We treat the value of minorities with a PE multiple of 15 times.

DCF

	2006 E	2007 E	2008 E	2009 E	2010 E	2011 E	2012 E	2013 E	Base	Rate to infinity	CAGR 95-05 A	CAGR 05-08 E	CAGR 08-13 E
Revenues	3,858	4,316	4,783	5,189	5,630	6,109	6,628	7,191			2.3%	13.1%	8.5%
<i>growth rate</i>	16.6%	11.9%	13.5%	8.5%	8.5%	8.5%	8.5%	8.5%					
EBITA	609	705	803	882	957	1,038	1,127	1,223			7.2%	17.0%	8.8%
<i>as percentage of sales</i>	15.8%	16.3%	16.8%	17.0%	17.0%	17.0%	17.0%	17.0%					
COT	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%					
NOPAT	426	493	562	662	718	779	845	917			7.2%	17.0%	10.3%
Depreciation	115	130	150	160	170	180	180	180					
<i>as percentage of sales</i>	3.0%	3.0%	3.1%	3.1%	3.0%	2.9%	2.7%	2.5%					
Cash flow	541	623	712	822	888	959	1,025	1,097			5.0%	16.0%	9.0%
Net working capital	467	522	578	627	681	739	801	869					
<i>as percentage of sales</i>	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%					
Decrease/(Increase) in net working cap.	-72	-81	-91	-98	-105	-112	-120	-128					
<i>as percentage of sales</i>	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.8%	-1.8%	-1.8%					
Capex	-180	-180	-180	-180	-180	-180	-180	-180					
<i>as percentage of sales</i>	4.7%	4.2%	3.8%	3.5%	3.2%	2.9%	2.7%	2.5%					
Capex/Depreciation	157%	138%	120%	113%	106%	100%	100%	100%					
Free cash flow	289	363	441	544	603	667	725	789	789	13,145	3.9%	30.9%	12.3%
<i>growth rate</i>	4.7%	25%	22%	23%	11%	11%	9%	9%					
Discount factor	0.926	0.857	0.794	0.735	0.681	0.630	0.583	0.540		0.540			
Discounted FCF	268	311	350	400	411	420	423	426		7,102			
Enterprise value	10,111												
+ Net cash 2005	347												
- Minorities	255												
Equity value	10,203												
Number of shares, outstanding	7,822,166												
Equity value per share in CHF	1304												
Cost of equity:													
Beta	0.90												
Risk free rate	3.5%												
Risk premium	5.0%												
WACC=ke (cost of equity) = Rf + (Beta x Risk premium)	8.0%												
WACC	8.00%												
g 2013ff	2.00%												
Rate to infinity (=wacc-g)	6.00%												

Source: Bank Leu estimates, Company data

Sensitivity to our DCF

Fair value in CHF	WACC= 7.5%	WACC= 8.0%	WACC= 8.5%
rate to infinity = 2.5%	1,433	1,235	1,343
rate to infinity = 2.0%	1,347	1,304	1,263
rate to infinity = 1.5%	1,275	1,387	1,196

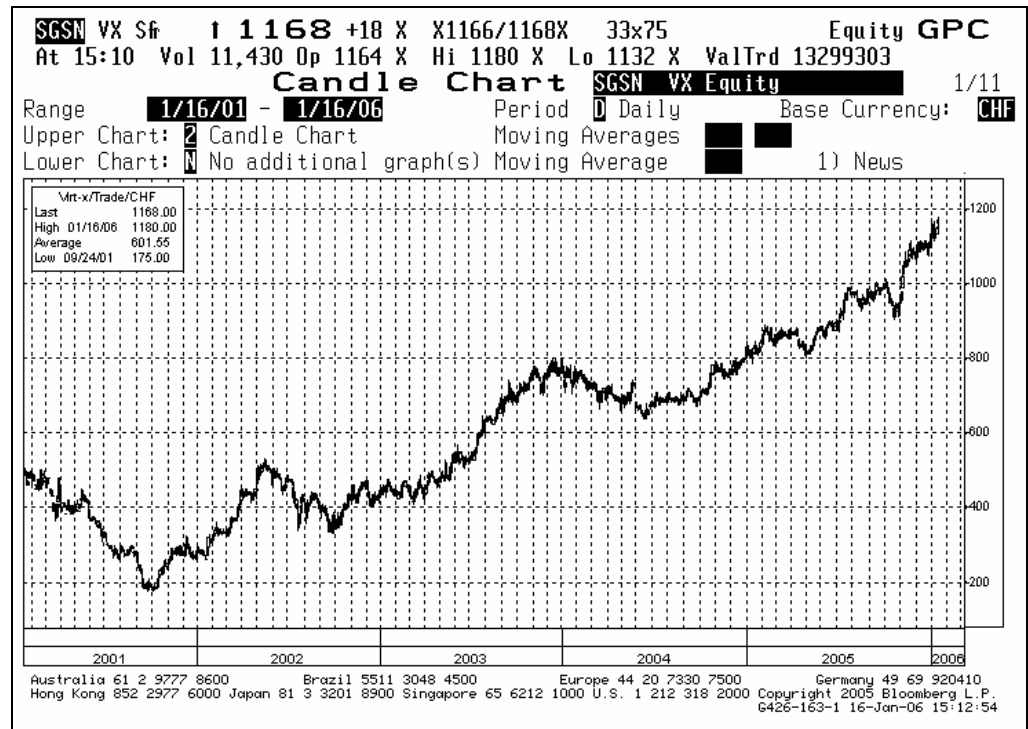
Source: Bank Leu estimates

SCHEDULED EVENTS

2006 AGM

20 March 2006

GRAPHIC



Source: Bloomberg

BRIEF PROFILE

With currently over 41,000 employees and expected revenues of CHF 3.3bn in 2005, SGS is the market leader in the inspection and goods testing businesses. The company operates a network of about 1,000 offices. Its core business comprises the following divisions: inspecting, testing and verifying of agricultural products, minerals, petroleum, consumer goods, automotive services, industrial services, environmental services, life science services as well as the international certification business (ISO 9000, ISO 14000 and SA 8000) and testing imports and exports on behalf of governments and international organizations (Trade Assurance).

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TABLES

Profit an loss accounts (CHF m)

	2001 A	2002 A	2003 A	2004 A	2005 A	2006 E	2007 E	2008 E
Revenues	2,332	2,392	2,454	2,885	3,308	3,858	4,316	4,783
- <i>growth rate</i>	-1.6%	2.6%	2.6%	17.6%	14.7%	16.6%	11.9%	13.5%
Salaries and wages	-1,255	-1,252	-1,240	-1,515	-1,720	-1,999	-2,227	-2,458
Subcontractors' expenses	-133	-142	-155	-162	-185	-214	-237	-261
Depreciation	-101	-95	-96	-99	-105	-115	-130	-150
Other operating expenses	-697	-687	-663	-717	-796	-921	-1,016	-1,110
Operating income (EBITA)	137	216	300	393	502	609	705	803
- <i>growth rate</i>	-13.2%	57.5%	38.8%	31.1%	27.7%	21.3%	15.7%	14.0%
Exceptional operating income/(expenses)	-178	-80	3	3	0	0	0	0
Goodwill amortization	-8	-9	-10	-16	0	0	0	0
Earnings before interest and tax (EBIT)	-40	127	293	380	502	609	705	803
Financial revenue, net	17	13	10	6	5	5	5	5
Profit before taxes and minority interests	-23	140	303	386	507	614	710	808
Taxes	-44	-27	-68	-93	-119	-147	-170	-194
Profit after taxes	-67	113	235	293	388	467	540	614
Minority interests	-8	-4	-8	-15	-17	-20	-22	-26
Net profit	-75	109	227	278	371	447	517	589
- <i>growth rate</i>	-156.5%	-245.0%	108.0%	22.6%	33.5%	20.5%	15.6%	13.8%

Source: Bank Leu estimates, Company data

Margin analysis

	2001 A	2002 A	2003 A	2004 A	2005 A	2006 E	2007 E	2008 E
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Salaries and wages	53.8%	53.7%	53.2%	52.5%	52.0%	51.8%	51.6%	51.4%
Subcontractors' expenses	5.7%	6.1%	6.6%	5.6%	5.6%	5.6%	5.5%	5.5%
Other operating expenses	29.9%	29.4%	28.4%	24.8%	24.0%	23.9%	23.6%	23.2%
EBITDA	10.2%	13.0%	16.1%	17.5%	18.4%	18.8%	19.3%	19.9%
Depreciation	4.3%	4.0%	3.9%	3.4%	3.2%	3.0%	3.0%	3.1%
EBITA	5.9%	9.0%	12.2%	13.6%	15.2%	15.8%	16.3%	16.8%
Amortization	0.4%	0.4%	0.4%	0.6%	0.0%	0.0%	0.0%	0.0%
EBIT	5.5%	8.7%	11.9%	13.1%	15.2%	15.8%	16.3%	17.0%
Tax rate	-187.1%	19.3%	22.5%	24.1%	23.5%	24.0%	24.0%	24.0%
Net profit	-3.2%	4.6%	9.2%	9.6%	11.2%	11.6%	12.0%	12.3%

Source: Bank Leu estimates, Company data

Revenues (in CHF m)

	2003 A	1H 2004 A	2H 2004 A	2004 A	1H 2005 A	2H 2005 A	2005 A	2006 E	2007 E	2008 E
Agricultural Services	242	124	133	257	138	157	295	332	358	387
Total change in %	-3.4%	1.9%	10.9%	6.3%	10.9%	18.2%	14.7%	12.5%	8.0%	8.0%
- due to volume and prices	0.0%	1.0%	14.4%	7.4%	10.9%	13.2%	12.2%	10.0%	8.0%	8.0%
- due to currency translation	-3.4%	0.9%	-3.0%	-1.0%	-0.1%	5.1%	2.5%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minerals Services	280	151	169	320	177	217	394	478	537	604
Total change in %	4.3%	13.7%	14.5%	14.1%	17.3%	28.5%	23.2%	21.3%	12.5%	12.5%
- due to volume and prices	5.1%	12.0%	20.6%	15.7%	19.1%	15.3%	17.5%	15.0%	12.5%	12.5%
- due to currency translation	-5.6%	1.6%	-5.4%	-1.9%	-1.8%	7.0%	2.6%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	5.1%	0.0%	0.0%	0.0%	0.0%	6.3%	3.1%	3.8%	0.0%	0.0%
Oil, Gas & Chemicals Services	439	283	292	575	302	333	635	715	779	841
Total change in %	10.1%	33.3%	28.6%	30.9%	6.9%	14.1%	10.6%	12.5%	9.0%	8.0%
- due to volume and prices	16.8%	12.6%	13.1%	12.6%	8.9%	10.1%	9.5%	10.0%	9.0%	8.0%
- due to currency translation	-6.3%	0.0%	-3.8%	-1.9%	-2.2%	3.9%	0.9%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.7%	20.7%	20.5%	20.2%	0.4%	0.0%	0.2%	0.0%	0.0%	0.0%
Life Sciences Services	59	51	56	107	62	63	125	197	227	261
Total change in %	-4.1%	72.0%	88.5%	80.2%	21.8%	13.8%	17.7%	57.4%	15.0%	15.0%
- due to volume and prices	-4.5%	-4.7%	-3.8%	-4.2%	18.1%	13.5%	15.6%	15.0%	15.0%	15.0%
- due to currency translation	0.5%	2.4%	-2.4%	0.0%	-0.6%	2.1%	0.8%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.0%	74.3%	96.9%	84.3%	4.3%	-1.7%	1.3%	39.9%	0.0%	0.0%
Consumer Testing Services	272	166	195	361	214	262	476	607	729	838
Total change in %	1.5%	31.0%	33.7%	32.4%	29.3%	34.4%	32.1%	27.5%	20.0%	15.0%
- due to volume and prices	14.2%	19.3%	26.0%	22.1%	25.6%	29.0%	27.5%	25.0%	20.0%	15.0%
- due to currency translation	-4.9%	-0.2%	-4.9%	-2.6%	-1.6%	4.3%	1.4%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	-6.2%	12.2%	14.1%	12.9%	5.3%	1.1%	3.2%	0.0%	0.0%	0.0%
Systems & Services Certification	230	114	121	235	127	147	274	322	354	382
Total change in %	8.0%	8.3%	-2.5%	2.5%	11.2%	21.3%	16.4%	17.5%	10.0%	8.0%
- due to volume and prices	14.0%	7.3%	0.9%	3.9%	12.8%	17.4%	15.3%	15.0%	10.0%	8.0%
- due to currency translation	-5.3%	0.9%	-3.7%	-1.4%	-1.6%	3.9%	1.1%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Industrial Services	330	182	198	380	209	235	445	512	575	647
Total change in %	3.0%	14.9%	15.2%	15.1%	14.9%	19.2%	17.1%	15.0%	12.5%	12.5%
- due to volume and prices	3.5%	12.5%	17.8%	15.1%	12.2%	13.0%	12.6%	12.5%	12.5%	12.5%
- due to currency translation	-1.2%	2.1%	-2.3%	-0.1%	-0.4%	2.4%	1.0%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.8%	0.0%	0.0%	0.0%	3.1%	3.7%	3.4%	0.0%	0.0%	0.0%
Environmental Services	172	97	111	209	111	124	235	273	301	331
Total change in %	5.8%	23.9%	19.0%	21.3%	14.0%	11.5%	12.7%	16.3%	10.0%	10.0%
- due to volume and prices	6.2%	23.9%	7.8%	9.2%	11.4%	9.2%	9.0%	10.0%	10.0%	10.0%
- due to currency translation	-1.4%	3.3%	-3.5%	-0.1%	-0.8%	3.8%	1.5%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	1.0%	9.4%	14.9%	12.2%	5.9%	-1.4%	2.2%	3.8%	0.0%	0.0%
Automotive Services	211	89	99	188	97	103	200	223	246	270
Total change in %	-12.0%	-20.5%	-0.4%	-11.0%	9.3%	4.3%	6.7%	11.5%	10.0%	10.0%
- due to volume and prices	-3.6%	-18.4%	-8.8%	-13.4%	1.1%	-1.9%	-0.5%	5.0%	10.0%	10.0%
- due to currency translation	-8.4%	-2.6%	-5.5%	-4.0%	-2.7%	3.3%	0.3%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.0%	0.0%	14.4%	6.4%	10.9%	2.8%	6.9%	4.0%	0.0%	0.0%
Trade Assurance Services	220	133	122	255	120	109	229	200	210	221
Total change in %	4.7%	37.5%	-0.3%	16.2%	-10.2%	-10.9%	-10.5%	-12.5%	5.0%	5.0%
- due to volume and prices	5.6%	37.8%	0.7%	17.0%	-9.6%	-11.6%	-10.5%	-15.0%	5.0%	5.0%
- due to currency translation	-0.8%	-0.5%	-1.1%	-0.8%	-0.6%	0.8%	0.1%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	2,455	1,390	1,495	2,885	1,557	1,751	3,308	3,858	4,316	4,783
Total change in %	2.6%	18.4%	16.8%	17.5%	12.0%	17.1%	14.7%	16.6%	11.9%	10.8%
- due to volume and prices	7.0%	10.1%	11.3%	10.7%	11.3%	11.4%	11.4%	11.1%	11.9%	10.8%
- due to currency translation	-4.5%	0.8%	-4.2%	-1.8%	-1.5%	5.0%	1.8%	2.5%	0.0%	0.0%
- due to acquisitions/(disposals)	0.1%	7.6%	9.7%	8.6%	2.3%	0.7%	1.5%	3.0%	0.0%	0.0%

Source: Bank Leu estimates, Company data

Operating income (EBITA) (in CHF m)

	2003 A	1H 2004 A	2H 2004 A	2004 A	1H 2005 A	2H 2005 A	2005 A	2006 E	2007 E	2008 E
Agricultural Services	24	10	14	24	15	19	34	38	43	48
<i>margin</i>	10.0%	7.6%	10.6%	9.2%	10.9%	11.8%	11.4%	11.5%	12.0%	12.5%
Minerals Services	36	21	25	46	27	36	63	79	89	100
<i>margin</i>	12.7%	14.0%	14.9%	14.5%	15.4%	16.6%	16.0%	16.5%	16.5%	16.5%
Oil, Gas & Chemicals Services	48	33	36	69	37	43	79	96	109	122
<i>margin</i>	10.9%	11.7%	12.2%	11.9%	12.2%	12.8%	12.5%	13.5%	14.0%	14.5%
Life Sciences Services	6	6	7	13	9	10	19	34	40	47
<i>margin</i>	10.0%	11.2%	12.8%	12.0%	14.0%	16.4%	15.2%	17.0%	17.5%	18.0%
Consumer Testing Services	39	28	37	65	46	57	102	134	164	193
<i>margin</i>	14.5%	17.1%	18.9%	18.1%	21.3%	21.6%	21.4%	22.0%	22.5%	23.0%
Systems & Services Certification	35	14	17	31	20	27	47	56	64	69
<i>margin</i>	15.1%	12.3%	13.6%	13.0%	15.5%	18.2%	17.0%	17.5%	18.0%	18.0%
Industrial Services	35	21	25	46	27	31	59	69	81	94
<i>margin</i>	10.6%	11.4%	12.9%	12.1%	13.0%	13.3%	13.2%	13.5%	14.0%	14.5%
Environmental Services	11	6	11	17	11	15	26	34	39	45
<i>margin</i>	6.5%	6.4%	9.5%	8.1%	9.9%	12.1%	11.1%	12.5%	13.0%	13.5%
Automotive Services	21	10	10	20	12	13	25	29	33	38
<i>margin</i>	9.9%	10.9%	10.4%	10.7%	12.6%	12.5%	12.6%	13.0%	13.5%	14.0%
Trade Assurance Services	45	29	33	62	25	23	49	40	44	49
<i>margin</i>	20.5%	21.7%	26.7%	24.1%	21.0%	21.4%	21.2%	20.0%	21.0%	22.0%
Total operating income (EBITA)	300	177	214	391	229	273	502	609	705	803
<i>margin</i>	12.2%	12.7%	14.3%	13.6%	14.7%	15.6%	15.2%	15.8%	16.3%	16.8%

Source: Bank Leu estimates, Company data

Statistic per share

	2005 A	2006 E	2007 E	2008 E
Number of bearer shares outstanding (CHF 100 par value)	0	0	0	0
Number of registered shares outstanding (CHF 20 par value)	7,822,166	7,822,166	7,822,166	7,822,166
Weighted average number of shares, basic	7,501,000	7,501,000	7,501,000	7,501,000
Weighted average number of shares, diluted	7,596,233	7,596,233	7,596,233	7,596,233
Earnings, diluted (CHF)	48.8	58.9	68.1	77.5
- <i>growth rate</i>	35.1%	20.5%	15.6%	13.5%
Free Cash Flow (CHF)	71.6	79.4	87.8	95.5
Dividend (CHF)	50.00	20.00	24.00	28.00
Pay Out Ratio	102.4%	34.0%	35.3%	36.1%
Book value (CHF)	192	234	282	337

Source: Bank Leu estimates, Company data

Current valuation

	2005 A	2006 E	2007 E	2008 E
Current share price	1164.0	1,164.0	1,164.0	1,164.0
Current market capitalization (CHF m)	9,105	9,105	9,105	9,105
Net cash (CHF m)	643	560	776	1,040
Enterprise value (CHF m)	8,462	8,545	8,329	8,065
Price/book (x) E	6.1	5.0	4.1	3.5
Dividend yield	4.3%	1.7%	2.1%	2.4%
Free cash flow yield	6.2%	6.8%	7.5%	8.2%
PER (x) E	23.8	19.8	17.1	15.0
EV/Sales (x) E	2.56	2.21	1.93	1.69
EV/EBITDA (x) E	13.9	11.8	10.0	8.5
EV/EBITA (x) E	16.9	14.0	11.8	10.0
EV/EBIT (x) E	16.9	14.0	11.8	10.0

Source: Bank Leu estimates, Company data