

Update

31 May 2007

| | |
|--------------------------------|-----------------|
| Market cap./Free float (CHFbn) | 11.77.4 |
| EV (CHFbn) | 11.6 |
| 12-month high/low (CHF) | 1,589.0/1,057.0 |
| Reuters/Bloomberg | SGSN.VX/SGSN VX |
| DJ STOXX50 | 3,913.5 |
| Risk rating | B |

| Per share data (CHF) | 12/05 | 12/06 | 12/07e | 12/08e |
|----------------------|-------|-------|--------|--------|
| EPS restated | 47.43 | 56.61 | 67.86 | 80.86 |
| EPS reported | 48.59 | 58.12 | 69.67 | 83.01 |
| EPS (IBES) | 49.45 | 58.36 | 66.28 | 75.53 |
| CFPS | 60.63 | 78.76 | 91.95 | 108.5 |
| Net dividend | 30.47 | 20.00 | 23.75 | 28.30 |

| Stockmarket ratios* | 12/05 | 12/06 | 12/07e | 12/08e |
|-------------------------|-------|-------|--------|--------|
| P/E (x) | 19.2 | 21.2 | 23.3 | 19.5 |
| P/E rel. DJ STOXX50 (%) | 145.1 | 162.7 | 190.3 | 173.1 |
| P/CF (x) | 15.0 | 15.2 | 17.2 | 14.6 |
| P/BV (x) | 4.7 | 5.9 | 6.2 | 5.0 |
| Net yield (%) | 3.4 | 1.7 | 1.5 | 1.8 |
| EV/Sales (x) | 1.9 | 2.3 | 2.6 | 2.2 |
| EV/EBITDA (x) | 9.8 | 11.4 | 12.3 | 10.3 |
| EV/EBIT (x) | 12.5 | 14.7 | 15.6 | 13.0 |

* Yearly average prices for FY to end-12/05, 12/06

| P&L highlights (CHFm) | 12/05 | 12/06 | 12/07e | 12/08e |
|---------------------------|-------|-------|--------|--------|
| Sales | 3,308 | 3,821 | 4,500 | 5,145 |
| Restated EBIT | 502 | 605 | 740 | 877 |
| Attrib. net profit (adj.) | 371 | 443 | 531 | 632 |

| Performance (%) | 1w | 1m | 3m | 12m |
|-----------------------|----|----|----|-----|
| Absolute | 0 | 2 | 16 | 38 |
| Rel. Support Services | 2 | 4 | 8 | 14 |
| Rel. DJ STOXX50 | 1 | 1 | 8 | 17 |

Price relative to DJ STOXX50



Source: Datastream

| | |
|---------------------|--------------------------|
| Stock vs Sector | Outperform |
| Sector vs Market | Outperform |
| Price (30 May 2007) | CHF1,580.0 |
| Target price | CHF1,750.0 (+11%) |

M&A appeal

► Growth continues. Target raised to CHF1,750 from CHF1,600

Organic sales growth has run at 12% since the beginning of the year. We have upgraded our FY assumptions by 2 percentage points to 12.7%, implying stronger operating leverage (we estimate +60bp to 16.4%) and lending greater credibility to the 2008 target (EBIT margin of 17%). Given SGS's scale and business mix, earnings momentum should continue. Our estimates are around 6% above the consensus for 2008, but this gap is likely to narrow as the year progresses.

► So, why the race to buy Bureau Veritas?

SGS has said it is interested in acquiring or merging with BV, which would create a leader with a 12% market share. Whether there is any need for this is debatable, given the profitable growth prospects of the two groups as standalones. Nevertheless, recent moves (German TUV Nord and Sud merger), while not yet threatening, show that their current lead will diminish. Both parties are also looking to plug gaps in their offerings. We have analysed the complementarities and overlaps in the two networks, and estimate cost synergies at 13% of the combined EBIT, plus cross-selling revenues.

► Wendel holds all the cards

With a standalone BV offering a safe and strong growth profile, the balance of power seems to be tipping in Wendel's favour. From this perspective, Wendel appears to be an even better investment than SGS (BV is 52% of its estimated NAV). However, a tie-up could create enough value to pay BV's shareholders a comfortable premium without being destructive for SGS's shareholders.

► We reiterate our Outperform rating.

Laurent Brunelle

Laurent Brunelle
Paris: + 33 1 42 99 84 66
laurent.brunelle@exanebnpparibas.com

Oliver Johnson
Paris: +33 1 44 95 53 92
oliver.johnson@exanebnpparibas.com

Amandine Latour, CFA
Paris: + 33 1 42 99 24 71
amandine.latour@exanebnpparibas.com

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Investment case: Whatever the M&A future holds for SGS, the stock is appealing

Target price raised to CHF1,750, Outperform maintained

We have raised our valuation of SGS to CHF1,750 from CHF1,600 given strong trading conditions since the beginning of 2007. There is now a higher probability that management will be able to reach its 2008 targets (EPS of CHF80 implying a CAGR of 18% for 07-08e). This gives a further 11% upside from current share price levels.

In addition, our bull/bear analysis gives a target price range of CHF1,950-1,350, still offering an attractive risk/reward.

Strong organic development

FY07 organic revenue growth is set to top the 10% level, fuelled by all divisions. This includes good momentum in commodities-related divisions, solid growth in Consumer Testing (mainly in Asia) and accelerating trends in Industrial Services (mainly fuelled by Spain, energy-related projects and non-destructive testing). Revenue growth will also be helped by the first positive impact in H2 07 of new regulations (such as REACH, which will be put in place in Europe on 1 June 2007) and the extension of recently introduced ROHS standards (to new countries such as China).

Following a good start to 2007, we have raised our FY organic revenue growth assumptions to 12.7% from 10.7% and we still expect an annual 60bp margin improvement. This will reflect a combination of new services (with an increased contribution of higher value-added products), volume leverage (as lab resources are still under-utilised) and a positive mix effect (the more profitable divisions growing faster). On top of that, the gradual catch-up potential from a return to growth and profitability in the divisions that underperformed in 2006 (Trade Assurance Services, Environmental Services and Life Science) will be supportive.

Development through acquisitions is likely to speed up

External growth remains, in our view, key to reaching the company's 2008 targets and also to supporting news flow. The two small in-fill acquisitions made at end-May in Agricultural Services, although very small (CHF10m of combined revenues, or the equivalent of 0.2% of group sales), clearly confirm that external growth is still on SGS's agenda, as part of its development strategy. We expect acquisition activity to speed up in H2 07 thanks to the more proactive management team, a shorter acquisition process and a strong acquisition pipeline. This will likely lead the consensus to adjust up its estimates (as M&A is not factored in), narrowing the gap vs our forecasts (we are 6% above consensus for 2008).

In addition, alongside bolt-on acquisitions made by the big players, the sector could see a large deal in the next 12-18 months in which SGS would play an active role.

Bureau Veritas, at the heart of all speculation – Wendel holds the cards

The announced IPO project of the number two sector player, Bureau Veritas, by its main shareholder Wendel has rekindled the M&A theme for SGS. There has been talk of a deal with BV, as SGS, on many occasions, has indicated that it was eager to acquire or tie-up with its main competitor, given the strong industrial rationale behind merging the two companies.

Although until now, SGS's interest in Bureau Veritas has met with resistance from its parent company and BV's management, and the most likely outcome remains the IPO (as officially announced), a tie-up scenario cannot be totally ruled out. We think that a merger could happen but only on Wendel's terms: i) a substantial premium to Bureau Veritas' gross asset value and, probably, to a floatation price, i.e. obtaining a clear majority stake in the new company; ii) the assurance that the new company would command a higher valuation, given its bigger size and the synergies that could be extracted.

What can be gained from an SGS-BV tie-up?

Our analysis suggests that a merger is appealing on several fronts:

- A tie-up would give SGS and BV an opportunity to significantly change dimension, at a time when sector consolidation is speeding up. Recent moves (German TUV Nord and Sud merger), while not yet threatening, show that the lead enjoyed by both companies is narrowing.
- A tie-up of SGS and BV would pave the way for a more balanced group, by significantly enlarging their portfolio of activities (and customer base) and thus enabling both to plug gaps in their business offerings. It could be a way for SGS to curb its exposure to cyclical end markets (mainly commodities), as BV's business mix is more resilient in a downturn (industries and Marine) and, in contrast, for Bureau Veritas to increase its cyclical exposure. In our view, this would reduce the new group's exposure to cyclical end-markets to an estimated 40% of revenues (vs 50% for SGS).

Value creation through both revenue and cost synergies

We believe that a tie-up could create enough value (given the existence of revenue and cost synergies) to pay BV's shareholders a comfortable premium without being destructive for SGS's shareholders.

Having analysed the complementarities of the two networks worldwide, we believe that significant cross-selling revenue opportunities would arise due to an increased range of services and products offered to customers, enhanced regional coverage and product rollouts.

In addition, our analysis suggests that some overlap would exist in areas such as Industrial Services, Consumer Testing and Systems Certification. As a whole, these businesses would account for more than 50% of the new company's total revenues. This would therefore imply substantial potential cost synergies (headquarters, network overlaps, IT), especially in markets such as China, India (for lab overlaps), North America (too many offices) or France (overlap in many regions), where both companies have strong positions.

We have identified annual cost synergies of around EUR95m (CHF150m), equivalent to nearly 2% of group sales and 13% of group EBIT for the new entity. Discounting this amount of synergies to infinity, we derive an NPV of synergy benefits of more than EUR850m (CHF1.4bn), or CHF185 per share. Also, we assume 1% revenue synergies from the enlargement of services and the rollout through the overall network.

BV could add between CHF250 and CHF350 per share

Our combined DCF yields a valuation range of CHF2,000-2,100. There is thus upside to our stand-alone valuation of SGS in the range of CHF250 to CHF350 per share, depending on synergy assumptions (cost and revenue), the acquisition price and the deal financing.

Our central case scenario of a merger yields a valuation of CHF2,050. It is based on our core scenario: a purchase price of CHF8.6bn (EUR5.2bn) showing a 17.3x EV/EBIT07e multiple (above SGS's multiples), 70% debt financed and 30% equity financed (1.5 million new shares at CHF1,550 per share).

Catalysts and risks

The next catalyst will be the H1 07 results publication on 16 July. We expect SGS to report a very good set of figures (12% organic sales growth and 50bp margin progression to 15.8%). Increased volatility in world trade and to a lesser extent foreign exchange movements (especially in the USD) are the main risks to our rating.

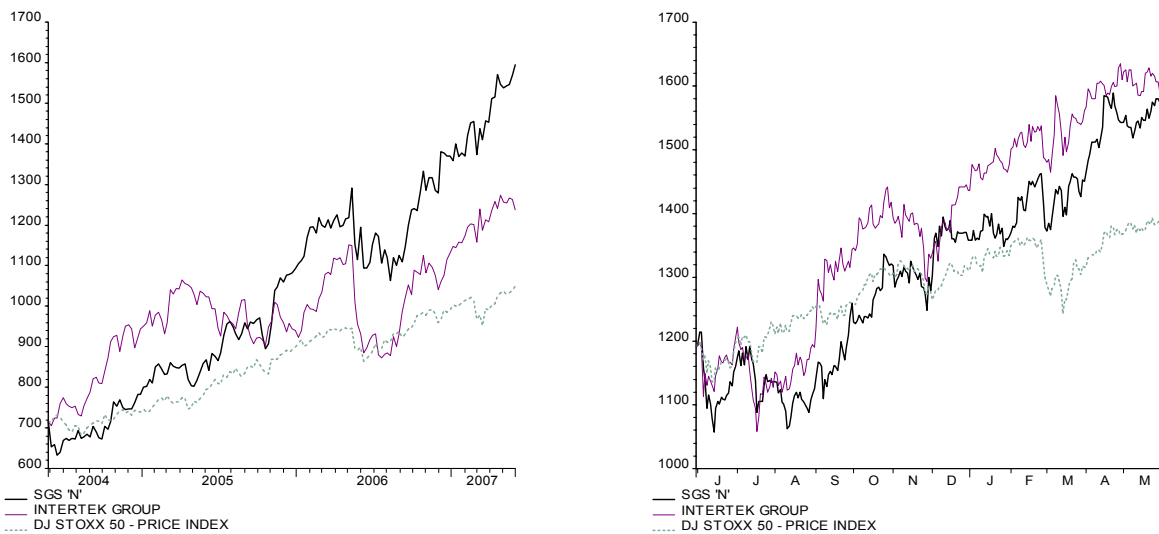
Valuation: target price raised to CHF1,750

YTD rerating likely to continue in H2 07

Share price driven by strong earnings momentum and M&A

After a 25% increase in 2006, SGS has progressed by 16% YTD, outperforming the DJ STOXX 50 by 8% and its direct peer Intertek Group plc by 5%. Although sectorally driven (the sector is close to all time highs), the good performance also stemmed from company-specific factors.

Chart 1: SGS 3 and 1 year absolute and relative share price performance vs STOXX 50 and direct peer



Source: Datastream

Fundamentals within the testing and certification sector are strong, thanks in part to the helpful macro environment. There has also been further evidence of increasing sector consolidation and major manoeuvres in the industry (Germanischer Lloyd's change of shareholding structure in December 2006, the merger project between German industry inspection company TUV Nord and TUV Sud announced in April) as well as a speculative dimension tied in with the perspective of the planned IPO of the sector N°2 Bureau Veritas.

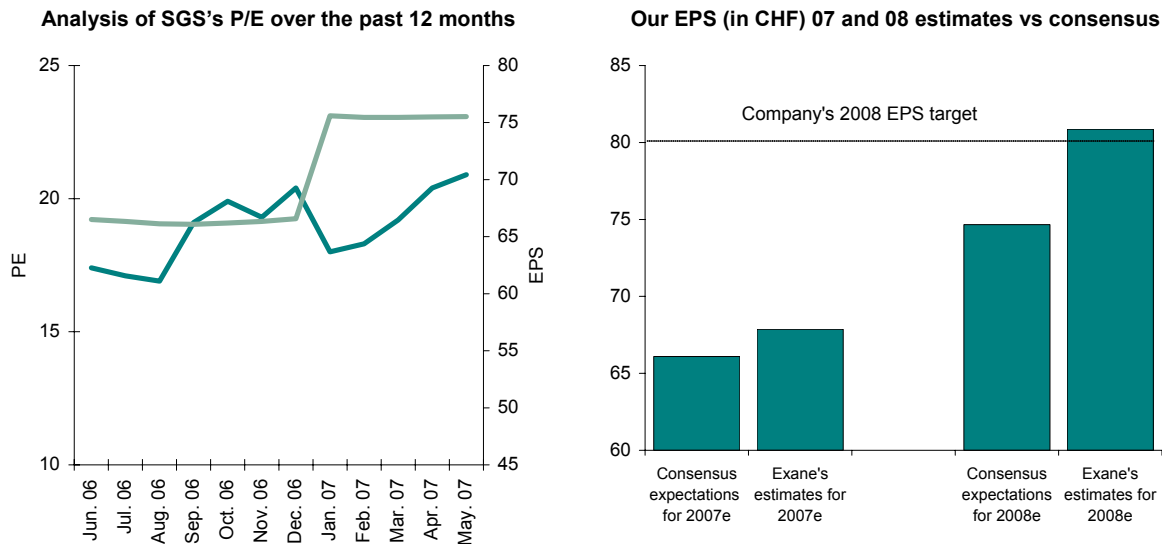
Continued strong prospects

In our view, SGS remains an attractive secular growth story: the markets in which it operates are likely to remain buoyant for a while (especially for divisions related to commodities and more sensitive to the cycle) as evidenced by recent industry data. FY07 will be another strong year for the sector and for SGS specifically. Since the beginning of the year, SGS has grown organically by more than 10% as have its direct peers Intertek (double digit) and Bureau Veritas (+11% in Q1 after +6% in FY06 and +9% excluding government contracts).

Given strong industry prospects, we see room for upside potential from the consensus—respectively 3% and 6% below our estimates for FY07 and FY08e, despite some recent upgrades (in May 07). This will be driven by both organic development and by acquisition activity, which is likely to speed up thanks to the more proactive management team and the shorter acquisition process.

The CHF81 discrepancy in our EPS estimate (in line with the company's 2008 target) vs consensus expectations comes from the fact that we already factor in external growth (which is not the case of all analysts). This will likely narrow as the year progresses and the company continues to deliver numbers above expectations.

Chart 2: Analysis of SGS's P/E and EPS



Source: Datastream, Exane BNP Paribas estimates Note: EPS is calculated on fully diluted number of shares

Although valuation multiples have recently been inflated by some potential M&A opportunities, and more precisely by speculation about a large deal with BV, the P/E multiple has not changed dramatically. We do not expect any particular multiple expansion but we consider that another round of positive revisions to the SGS numbers could drive further share price outperformance. Looking at the 2008 numbers, SGS shares are currently trading at the midpoint of their multiple range over the past five years, while SGS's growth profile and visibility are improving.

Supportive news flow expected in the coming months

The next catalyst includes the H1 07 results publication on 16 July 2007. We expect SGS to report a very good set of figures (+12% organic sales growth and +50bp margin progression to 15.8%).

We also expect supportive news flow related to SGS's acquisition activity in 2007, which is likely to gather pace (talks with potential buyers are progressing and are at an advanced stage). This will lead the consensus to slightly adjust up its estimates.

Table 1: Upcoming key sector events

| Event | Date | Comments |
|---------------------------------------|----------------|---|
| SGS FY06 results | Jan 15, 2007 | Strong set of results and positive guidance for 2007 |
| Intertek FY06 preliminary results | March 5, 2007 | Positive read-across for SGS and the sector |
| SGS AGM | March 19, 2007 | Confirmation of positive momentum, share buy back program |
| Wendel Investissement Q1 07 sales | May 3, 2007 | Very strong numbers for Bureau Veritas highlighting acceleration (+11%) |
| Intertek AGM | May 11, 2007 | Good trading update and confirmation of a positive outlook |
| Wendel Investissement AGM | June 4, 2007 | More precision on the future of BV? |
| Intertek trading update | End June 2007 | Positive read-across for SGS and the sector |
| SGS H1-07 results | July 16, 2007 | Likely to confirm strong dynamics |
| Wendel Investissement H1 07 sales | July 26, 2007 | Expect solid numbers for Bureau Veritas |
| Wendel Investissement H1 07 results | Aug 30, 2007 | |
| Wendel Investissement analyst meeting | Sept 4, 2007 | Expected IPO process starting? |

Source: Companies, Exane BNP Paribas estimates

The only risks which could jeopardise positive earnings revisions going forward would be a further dollar weakness vs other currencies. Some 30-35% of SGS's group sales and EBIT are dollar-denominated versus 80% of group EBIT for its direct competitor Intertek. In addition, any turbulence in the world economy (e.g. in the USA and Asia) could stop the trend of upward revisions.

A large deal in the pipe?

Alongside bolt-on acquisitions in a still highly fragmented market, there is a fair probability that a larger deal between the leaders may take place. There has been renewed speculation in the market very recently on a deal with Bureau Veritas following the announcement of its floatation project. Despite the fact that Wendel is considering an IPO of BV, a deal could happen sooner or later. In that case, we believe it is more likely that we will see a scenario of the creation of a combined entity where two main shareholders will emerge, namely the German Von Finck family and the French Wendel family along side a third family, the Agnellis, rather than a sale to SGS (to which BV management seems opposed). At first glance, our analysis suggests that any large M&A transaction is likely to create substantial value given the significant synergies that could be extracted from it (at both the cost and revenue level).

DCF valuation: CHF1,750 per share

Upside of 11%

We have revisited our valuation case and developed several scenarios with associated probabilities of realisation. Our new target price relies on our central stand-alone valuation for SGS (with bolt-on acquisitions) but we consider that there is potentially further upside in a scenario of a larger deal.

We assume:

- i) A 70% chance that SGS will grow organically and through bolt-on acquisitions considering that our bull case scenario (CHF1,750) is now a likely one, thus becoming our central case vs our previous CHF1,600 target price (nearly reached).
- ii) A 30% chance that SGS may buy or merge with Bureau Veritas.

Central acquisition-based scenario: CHF1,750 per share

We have tweaked our DCF assumptions. Given strong trading conditions since the beginning of 2007 (organic sales growth above 10%, which will transform into stronger EBIT growth), our bull case scenario has become our central scenario and is now based on 2008 estimates in line with company targets. As a result, our 12-month price target has been lifted to CHF1,750 from CHF1,600 (+9%). This implies a valuation of 21.6x 2008e, in line with historical P/Es.

Top line is key for valuation

Above all, SGS's market valuation is very sensitive to the evolution of sales growth. Indeed, the top line is a key factor given the group's strong growth trend in recent years (double digit), and the business's strong operating leverage (personnel costs represent 50% of sales and 60% of costs) has an important impact on operating performances and thus on valuation.

We expect organic sales growth to remain solid thanks not only to good economic conditions but also to management's initiatives to reposition the company in higher growth markets and broaden its service offers (by further penetrating existing supply chains and increasing the number of contacts for a product or a commodity as it moves from the manufacturer or the producer to the end-customer).

In terms of sensitivity analysis, it is worth noting that every 100bp variation in the top line and in the EBITA margin (on average for the modelling period) represents a change of 5% to 7% (all else being equal) in SGS's DCF-driven valuation.

A bull case pointing to 23% upside

We have developed two alternative scenarios in terms of both top-line growth and changes in margin. The main assumptions and related target prices are highlighted below.

Table 2: Our main assumptions for our three scenarios

| | Bull case | Central case | Bear Case |
|---|------------------------------|-----------------------------------|-----------|
| Target price | 1,950 | 1,750 | 1,350 |
| Upside/Downside from current price (%) | 23 | 11 | (14) |
| 2007-08e organic sales growth (%) | 13.0 | 12 | 8.0 |
| 2008e EBITA margin (%) | 17.2 | 17.0 | 16.5 |
| Sales growth for the modelling period (%) | 7.0 | 6.5 | 5.5 |
| EBITA margin for the modelling period (%) | 17.2 | 16.9 | 15.2 |
| Acquisitions | Acquisition accretion | Some acquisition accretion | |
| 2008e EPS | 87.4 | 80.9 | 64.8 |
| 2008e P/E multiples at current price | 18.1 | 19.5 | 24.4 |
| 2008e P/E multiples at target prices | 22.3 | 21.6 | 20.8 |

Source: Exane BNP Paribas estimates

Our bull/bear analysis suggests that risks are still weighted to the upside.

The bull scenario implies that management would be able to exceed its 2008 targets by delivering stronger double-digit organic sales growth (+13% vs what was achieved in the past years) accompanied by further margin progress (+70bp pa on average at 17.2%, a level that will be maintained over time). This lifts our valuation to CHF1,900, showing upside of nearly 25%. This is mainly predicated on the assumption that SGS should be able to continue to grow faster (than the market) by further broadening its range of new services (primarily by offering value-added services) and thus increasing upstream penetration. This has been one of the key factors behind SGS's outperformance of the market during the past three years in some segments and it could be extended to all divisions and industries. Also, SGS would have to continue to grow externally in order to gain density and to acquire new competencies, thus offering "cross selling" revenue opportunities.

In contrast, the bear scenario (14% downside) implies an economic slowdown and a direct negative impact on the cyclical commodity businesses. In our bear case, we assume that organic sales growth will only reach 8% for 2007-2008e and further margin progress is limited, resulting in a 16.5% target for 2008, or 50bp below the company's guidance. In addition, it suggests an average EBIT margin for the modelling period of 15.2%, i.e., slightly below the level achieved in 2006 (15.8%). In addition, we consider that the most sensitive businesses to global economic growth (i.e. Consumer Testing and divisions related to commodities, which accounts for 45% of group together) will be affected to the greatest degree: our growth estimates for these divisions could be halved. Note however that the broadening of the services range has reduced the exposure to cyclical end-markets to an estimated 50% of group sales.

Bureau Veritas-SGS tie-up scenario: significant upside potential

Our target price does not include the possibility of a large deal, i.e., with Bureau Veritas. That said, and despite a high likelihood of an IPO by Bureau Veritas, we do not believe that a large deal can be completely ruled out. We have therefore analysed in-depth a tie-up scenario to highlight the rationality and value creation of such a deal.

Our assumptions are as follows: for the sake of simplifying the simulation, we have examined a project based on an acquisition of BV by SGS (as opposed to a merger on more equal terms which is a more likely scenario in reality). Based on a price of EUR4.7bn (EV of EUR5.2bn or 17.3x 2007e EV/EBIT), 70% financed by debt/30% by equity and assuming the same WACC (8.2%), we derive an equity valuation of between CHF2,000 and CHF2,100, depending on the synergies that could be extracted. We thus estimate value creation of between CHF250 and CHF350 per share, mainly from revenue cross-selling opportunities (1% additional top-line growth) and cost synergies (1-2% of combined revenues).

Peer group analysis

A premium over Intertek is highly justified

SGS is the largest listed stock to play the inspection, testing and certification sector, alongside its smaller UK competitor, Intertek. We have used Intertek as a primary peer for valuation purposes as it operates in nearly all the same segments as SGS (see details in the table below) and given that most players in the industry are not listed (more often regional or local players specialised in an industry/segment and with a specific status, i.e., non-profit organisations such as Apave in France, Underwriter Laboratories in the USA or TÜV in Germany).

SGS has always traded at a premium to Intertek. SGS's current premium to its competitor Intertek is justified in our view owing to:

- its higher growth prospects given its more favourable product mix and visibility and stronger operating leverage;
- its size, as SGS is three times larger;
- a stronger balance sheet;
- a safer risk profile (more geographic and divisional spread and less exposure to denominated or dollar linked currencies for 30-35% of group EBIT vs 80% for Intertek and even offset by a strong exposure to the euro zone as SGS currently benefits from a strong EUR/CHF).

Table 3: SGS's peer group comparison

| | SGS | Intertek | Eurofins | SGS vs. Intertek (%) |
|--|-------------|-------------|-------------|----------------------|
| Price (on 29 May 2007) in local currency | 1,580.00 | 923.50 | 67.00 | |
| Market cap (EURm) | 7,762 | 2,150 | 915 | |
| 2007e EV/revenues | 2.7 | 2.0 | 1.7 | 35 |
| 2008e EV/revenues | 2.3 | 1.8 | 1.5 | 31 |
| 2007e EV/EBITDA | 12.9 | 10.1 | 16.6 | 28 |
| 2008e EV/EBITDA | 11.0 | 8.9 | 12.7 | 23 |
| 2007e EV/EBIT | 16.4 | 12.9 | 26.8 | 27 |
| 2008e EV/EBIT | 13.8 | 11.4 | 19.0 | 21 |
| 2007e EV/NOPAT | 25% | 30% | 35% | 19 |
| 2008e EV/NOPAT | 21.9 | 18.4 | 41.3 | 13 |
| 2007e P/Ee | 18.4 | 16.3 | 29.3 | 20 |
| 2008e P/E | 22.8 | 19.0 | 43.3 | 15 |
| Product mix (revenues) (%) | | | | |
| Oil, Gas & Chemical Services | 19 | 20 | | |
| Consumer Testing Services (CTS) | 14 | 51 | | |
| Industrial Services | 13 | | | |
| Mineral Services | 12 | 9 | | |
| Agricultural Services | 9 | 12 | | |
| Systems & Services Certification | 8 | | | |
| Environmental Services | 7 | | 25 | |
| Trade Assurance Services | 7 | 7 | | |
| Automotive Services | 6 | | | |
| Life Science Services | 4 | | 25 | |
| Other (Food) | | | 50 | |
| As a % of total revenues | 100 | 100 | 100 | |

Source: Company, Exane BNP Paribas estimates

Higher premium to Intertek, currently due to dollar weakness

More recently, the premium to Intertek has increased, currently standing at 20% 2007e P/E due to the weakness of the dollar. This compares to an average historical premium of 10-20%, i.e., putting the current premium above the high end of the range. That said, looking at 2008e multiples, the valuation gap has returned to the 15% level for 2008e. On our estimates, SGS trades at 13.0x 2008e EV/EBIT and 19.5x 2008e P/E.

Historical valuation analysis supports our target price

SGS shares have historically traded at an average of 21-23x forward P/E for higher EPS growth on average in the period, against the backdrop of restructuring and strong operating leverage.

Table 4: SGS's historical multiples and implied target prices

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2000-06 average | Implied share price (CHF) |
|----------------|------|------|------|------|------|------|------|------|----------------|-----------------|---------------------------|
| EV/EBIT | | | | | | | | | | | |
| Lowest | 12.9 | 8.8 | 18.9 | 7.2 | 7.7 | 9.3 | 11.9 | 12 | 13.4 | 11.5 | 1,708 |
| Average | 23.6 | 12.9 | 28.2 | 16.5 | 13.2 | 13.6 | 13.5 | 13.9 | 15.2 | 16.3 | 1,830 |
| Highest | 32.9 | 17.5 | 36.1 | 26.3 | 17.3 | 19.1 | 15.1 | 16.8 | 17.7 | 21.2 | 1,954 |
| P/E | | | | | | | | | | | |
| Lowest | 14.5 | 6.6 | 28.2 | 12.4 | 10.2 | 13.7 | 18.1 | 16.9 | 18.3 | 16.8 | 1,141 |
| Average | 28.1 | 8.9 | 40.3 | 23.9 | 16.1 | 19.3 | 20.2 | 19.5 | 20.8 | 22.9 | 1,550 |
| Highest | 40 | 11.5 | 50.5 | 36.2 | 20.6 | 26.1 | 22.5 | 23.4 | 24.1 | 29.1 | 1,970 |
| | | | | | | | | | Average | | 1,690 |

Source: Exane BNP Paribas estimates

Based on these average multiples, the implied target price for SGS would be CHF1,690. This bodes well with our base-case target price.

Obviously, the average historical multiples must be seen in context, as 2000 and 2001 were marked by restructuring and the following years then displayed strong operating leverage (the EBIT margin doubled between 2002 and 2005). However, it is worth noting that although the bulk of margins appear clearly behind the company, there is still scope for margin expansion and, more importantly, the company currently delivers stronger underlying organic sales growth than ever (which will transform into stronger EBIT growth).

The main risks to our Outperform rating

Increased volatility in world trade and to a lesser extent foreign exchange movements (especially in the US dollar) are the main risks surrounding SGS.

Risks related to the cycle

SGS's business model is sensitive to global economic growth because its business is supported by international trade, the flow of commodities and trends in Asia.

The main risk of a slower economy in the USA (and subsequently worldwide) is not nil, but we believe that if it were to occur, the fallout would be less severe than some fear. We believe that the group should prove more resilient than in the past following a successful diversification of its revenue profile (with new areas or new services at every stage of the supply chain, thus making it less dependent on volume variation). We estimate that around 50% of the business is now relatively recurrent.

Looking at SGS's revenue breakdown, there is evidence that a sharp slowdown would affect some divisions. The hardest hit would be Consumer Testing, which accounts for 14% of revenues and 20% of EBIT. In addition, about 30% of its revenues are related to commodities (oil, gas, chemicals and minerals - excluding agriculture, which is seen as defensive), and would be at risk if prices were to decline or demand to slow down. However, the other segments (Environment, Automotive) are less sensitive to the economy.

Risks related to the currency evolution

The current dollar weakness versus other currencies, and especially the Swiss franc, is obviously not favourable. However, the negative impact has to be put into context: indeed, SGS has a kind of natural hedge as 35% of SGS's revenues are euro denominated (they benefit from the strength of the euro versus the Swiss franc), largely offsetting its 30% exposure in US dollars or equivalent (through US subsidiaries and Asian operations for those revenues denominated in Taiwanese dollars and Hong Kong dollars). For H1 07, the strong EUR/CHF and GBP/CHF will more than offset the USD weakness. We expect a positive impact of 0.3%. This compares to a negative effect of 7% for Intertek group plc.

Improving earnings momentum

Organic development: strong start of the year

Underlying organic revenues growth substantially above 10%

In an interview last April, SGS's CEO Chris Kirk confirmed that the outlook was very solid. He went so far as to describe the industry dynamics as "glorious". FY07 organic revenues growth will top the 10% level, fuelled by all divisions across the board, except for Trade Assurance services (where growth is picking up but still at a low single digit pace).

We have fine tuned our divisional numbers for both the top line and margins. We have raised our organic revenues growth assumptions to 12.7% from 10.7%, reflecting more bullish assumptions for commodities-related businesses (Mineral and Oil) and accelerating trends in Industrial Services (mainly fuelled by Spain and energy related projects) and non-destructive testing. These assumptions are premised upon a continuation of strong dynamics, essentially in Asia-Pacific (Asia will be undoubtedly the best performer, as we expect it to again deliver strong high double digit growth) and the first positive impact of new regulations (such as REACH, which was put in place in Europe on 1 June 2007).

In contrast, we have tweaked our external growth assumptions by 1.5% to reflect fewer acquisitions in H1 07 (for the time being only two small ones were made in May 07). As a result, our FY estimates remain virtually unchanged.

By division, we expect the Consumer testing division (the key driver of growth and margin improvement) to grow less briskly in H1 07 owing to very tough comps. Indeed, the H1 06 performance was inflated by the introduction of the ROHS directive (prohibition of the use of some metals in electrical appliances, introduced in mid-2006), which added 15% growth to the division. In H1 07, we thus foresee more moderate growth, +15%, after +35% last year. However, the comps will become easier in H2, which is traditionally a stronger quarter.

Table 5: Our top line estimates for FY07e by segment

| Revenues | H1 06 | H2 06 | FY06 | H1 07e | H2 07e | FY07e |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agricultural Services | 157 | 160 | 317 | 170 | 178 | 348 |
| Mineral Services | 225 | 242 | 467 | 260 | 276 | 535 |
| Oil, Gas & Chemical Services | 374 | 409 | 783 | 438 | 473 | 910 |
| Life Science Services | 94 | 99 | 193 | 114 | 148 | 262 |
| Consumer Testing Services (CTS) | 283 | 309 | 593 | 353 | 424 | 777 |
| Systems & Services Certification | 151 | 167 | 319 | 170 | 191 | 361 |
| Industrial Services | 240 | 270 | 510 | 289 | 353 | 642 |
| Environmental Services | 125 | 124 | 249 | 123 | 133 | 256 |
| Automotive Services | 112 | 109 | 220 | 120 | 116 | 236 |
| Trade Assurance Services | 83 | 86 | 169 | 85 | 88 | 174 |
| Group revenues | 1,845 | 1,976 | 3,821 | 2,121 | 2,379 | 4,500 |
| Organic revenues growth (%) | | | | | | |
| Agricultural Services | 9.3 | 2.6 | 5.8 | 8.0 | 8.0 | 8.0 |
| Mineral Services | 18.1 | 14.3 | 16.1 | 15.0 | 14.0 | 14.5 |
| Oil, Gas & Chemical Services | 13.4 | 13.2 | 13.3 | 15.0 | 14.0 | 14.5 |
| Life Science Services | (0.5) | 12.5 | 5.8 | 6.0 | 9.0 | 7.5 |
| Consumer Testing Services (CTS) | 32.3 | 13.9 | 22.0 | 15.0 | 20.0 | 17.6 |
| Systems & Services Certification | 17.2 | 12.9 | 14.9 | 12.0 | 14.0 | 13.0 |
| Industrial Services | 12.7 | 13.5 | 13.1 | 16.0 | 15.0 | 15.5 |
| Environmental Services | 6.9 | 5.8 | 6.3 | 7.0 | 7.0 | 7.0 |
| Automotive Services | 3.3 | 5.0 | 4.1 | 7.0 | 7.0 | 7.0 |
| Trade Assurance Services | (31.0) | (20.8) | (26.2) | 2.0 | 3.0 | 2.5 |
| Group revenues growth (%) | 10.4 | 10.3 | 10.4 | 12.3 | 13.1 | 12.7 |

Source: Company, Exane BNP Paribas estimates

The extension of really introduced ROHS standards (to new countries such as China) will partly offset the delays from the implementation of the European directive REACH (requiring that manufacturers and importers provide regulatory authorities with analyses of the substances they use). This new law is not expected to have a demonstrably positive impact on SGS activity before 2008, although a minor effect should be felt from H2 07.

Stronger EBIT growth expected

We expect annual 60-70bp margin improvement for the next two years. This will reflect a combination of new services (with an increased contribution of higher value-added products), volume leverage (as lab resources are under utilised) and a positive mix effect (more profitable divisions growing faster). On top of that, the gradual catch-up potential for a return to growth and profitability from the 2006 underperforming divisions (Trade Assurance Services, Environmental services and Life Science) will be supportive.

For 2007, all of the group's ten divisions are expected to enjoy slight margin expansion.

Table 6: Our EBIT margin estimates for FY07e by segment

| EBITA | H1 06 | H2 06 | FY06 | H1 07e | H2 07e | FY07e |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Agricultural Services | 19 | 21 | 39 | 22 | 24 | 44 |
| Mineral Services | 38 | 43 | 80 | 44 | 49 | 93 |
| Oil, Gas & Chemical Services | 52 | 61 | 113 | 61 | 71 | 132 |
| Life Science Services | 11 | 13 | 25 | 14 | 21 | 34 |
| Consumer Testing Services (CTS) | 65 | 72 | 137 | 81 | 103 | 185 |
| Systems & Services Certification | 28 | 31 | 59 | 31 | 35 | 67 |
| Industrial Services | 32 | 43 | 75 | 40 | 57 | 98 |
| Environmental Services | 11 | 13 | 24 | 12 | 14 | 26 |
| Automotive Services | 15 | 14 | 30 | 16 | 16 | 32 |
| Trade Assurance Services | 11 | 12 | 23 | 14 | 15 | 28 |
| Group EBITA | 281 | 323 | 605 | 336 | 404 | 740 |
| EBITA Margins (%) | | | | | | |
| Agricultural Services | 11.9 | 12.9 | 12.4 | 12.7 | 13.3 | 13.0 |
| Mineral Services | 16.7 | 17.7 | 17.2 | 17.0 | 17.7 | 17.4 |
| Oil, Gas & Chemical Services | 13.9 | 14.9 | 14.4 | 14.2 | 15.2 | 14.7 |
| Life Science Services | 12.1 | 13.3 | 12.7 | 12.0 | 14.0 | 13.1 |
| Consumer Testing Services (CTS) | 22.8 | 23.4 | 23.1 | 22.9 | 24.4 | 23.7 |
| Systems & Services Certification | 18.3 | 18.7 | 18.5 | 18.5 | 18.6 | 18.6 |
| Industrial Services | 13.1 | 16.0 | 14.6 | 14.0 | 16.2 | 15.2 |
| Environmental Services | 9.0 | 10.3 | 9.7 | 10.0 | 10.5 | 10.3 |
| Automotive Services | 13.7 | 13.3 | 13.5 | 13.7 | 13.6 | 13.7 |
| Trade Assurance Services (TAS) | 13.7 | 13.8 | 13.7 | 16.0 | 16.5 | 16.3 |
| Group EBITA margin (%) | 15.3 | 16.4 | 15.8 | 15.8 | 17.0 | 16.4 |

Source: Company, Exane BNP Paribas estimates

Looking at 2006 performance (+10.4% organic revenues growth and EBIT margin +60bp), this was partially offset by the three smaller ailing divisions (TAS, Environmental Services and Life Science). If we strip out the decline in these divisions (organic revenues growth would have been 14% (instead of 10%) and margin growth 140bp instead of 60bp for FY06. This gives us greater confidence in SGS's ability to sustain double-digit growth and to further improve its operating margin, once the underperforming divisions have returned to growth.

Table 7: Operating margin evolution in 2006 for the best performers (yoy)

| % | H1 05 | H1 06 | FY05 | H1 06 | H2 06 | FY06 | Ch. yoy |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Oil, Gas & Chemical Services | 13.0 | 12.0 | 12.6 | 13.9 | 14.9 | 14.4 | 180bp |
| Consumer Testing Services | 21.7 | 21.3 | 21.4 | 22.8 | 23.4 | 23.1 | 170bp |
| Systems & Services Certification | 16.1 | 17.8 | 17.0 | 18.3 | 18.7 | 18.5 | 150bp |
| Industrial Services | 13.1 | 13.2 | 13.2 | 13.1 | 16.0 | 14.6 | 140bp |
| Mineral Services | 15.4 | 16.5 | 16.0 | 16.7 | 17.7 | 17.2 | 120bp |
| Agricultural Services | 11.2 | 11.5 | 11.4 | 11.9 | 12.9 | 12.4 | 100bp |
| Automotive Services | 13.6 | 11.7 | 12.6 | 13.7 | 13.3 | 13.5 | 90bp |
| Group EBITA margin | 15.1 | 15.2 | 15.2 | 15.3 | 16.4 | 15.8 | 60bp |

Source: Company

The three challenging businesses were affected by specific/non-recurring items in 2006, which should not recur this year:

- **Trade Assurance Services** (4% of group revenues and operating profit). As expected, the discontinuation of Pre-Shipment Inspection contracts in Venezuela and Nigeria (mainly skewed to H1) and also start-up costs of new contracts in H2 (scanner one) led to a 750bp margin collapse (and a 26% revenues decrease). We expect this transition period to end in 2007, with modest top-line growth (on the back of the roll-over of new contracts in Guatemala, Saudi Arabia, Cameroon and Angola), while margins should stabilise around the 16-17% level. In the first four months, growth was 3-4% according to management.
- **Environmental Services** (7% and 4%). The 2006 profitability metrics were negatively impacted by the Pink disposal. New accredited laboratories in new markets (such as Kenya) and continued expansion in India and China will contribute positively in 2007 and will therefore partially dilute the disposal effect.
- **Life Science** (5% and 4%) The margin decline (-250bp to 12.7% in 2006) resulted from the combination of lower-than-expected revenues in French clinical research due to the implantation of an EU directive, acquisition-related reorganisation costs (France) as well as the start-up costs of new labs in Asia. All these negative elements will gradually disappear as the year progresses. Management confirmed that it expects the performance to improve in 2007.

Development through acquisitions will likely speed up

External growth remains, in our view, key to reaching the company's 2008 targets and also to supporting news flow.

A strong acquisition pipeline

We are convinced that corporate activity is likely to gather pace at SGS in the coming quarters as some acceleration was noticed in 2006 (with 8 bolt-on acquisitions adding CHF145m in annual revenues, +4%, for a total consideration estimated at CHF255m, or 1.7x revenues on average). Management confirmed at its FY06 results publication that it will probably accelerate the speed of acquisitions (small- and medium-sized ones) this year. This should be reinforced by the fact that the corporate activity process has changed a bit (the targets will be now identified by the corporate team rather than the divisional MD teams), which should make the entire process quicker. The acquisition pipeline is strong and a lot of companies and new sectors are on SGS's watch list. Given the fact that they are in advanced talks with many potential buyers, we can reasonably expect further announcements soon following on from the two small in-fill purchases made on 30 May for combined revenues of about CHF10m, the equivalent of 0.2% of group sales.

Table 8: Acquisitions made since the beginning of the year

| Name of the company | Division | Segment - Details | Country | Employees | Price | Sales (CHFm) | EBIT Margin est. (%) | P/sales est. (x) | P/EBIT est. (x) |
|--------------------------------|-----------------------|---|---------|-----------|-------|--------------|----------------------|------------------|-----------------|
| Mid Iowa Grain Inspection Inc. | Agricultural Services | Leading supplier of grain inspection and grading services in the USA | USA | 70 | 3.7 | 3.4 | 12 | 1.1 | 9 |
| Mid-West Seed Services, Inc. | Agricultural Services | Leading provider of seed testing to the agronomic and vegetable seed industries | USA | 93 | 7.4 | 6.8 | 12 | 1.1 | 9 |

Source: Company, Exane BNP Paribas estimates

Sector consolidation speeding up

In addition to several company-specific reasons (need to reach 2008 targets, strong firepower and a more proactive management), there are sector factors which could drive an M&A acceleration. Indeed, over the last couple of months, the still-fragmented sector has begun to seem ripe for further consolidation and recent deals could presage bigger moves to come. Alongside further acquisitions made by the big players (Bureau Veritas acquired the Australian company CCI and Intertek bought Genalysis), the sector is the scene of major manoeuvres: the marine inspection German company Germanischer Lloyd's shareholding structure changed in December 2006 (following the aborted bid from BV, acquired by Gunther Herz). Wendel plans to float BV as announced at end-March. In April the biggest technical inspection company in Germany, TUV Sud, announced plans to merge with TUV Nord by the end of 2007, thus creating a player with about EUR1.8bn in revenues and 18,000 employees, not far from Bureau Veritas (no. 2). More recently the main shareholders of Spain's main inspection and testing companies, Applus (EUR540m of revenues in 2006, specialised in industry inspection and automobile inspection), Agbar (53.1% of the capital), Union Fenosa (25%) and Caja de Madrid (21.9%) have decided to put the company up for sale. The process is likely to happen in June and may interest not only private equity funds (Candover launched a bid that ultimately failed in mid-2006) but also industrials (BV and SGS).

There is a pool of potential acquisitions in the sector, especially medium-sized players. We still assume around 4-5% additional growth for both 2007 and 2008 from small in fill acquisitions. Based on an average price of 11x EV/EBIT (equivalent to 1.7x revenues and an operating margin of 15%), SGS is bound to create value. This will enable the company to expand its network business (density build) and to acquire new expertise (rolled out throughout the network) in targeted growing segments (Life Science, Industrial, energy infrastructure).

Consensus upgrades likely

We think that M&A potential will underpin further upward earnings revisions in the coming months alongside potential positive surprises from organic development as well. This is one of the key elements supporting the stock.

Unsurprisingly, management recently reiterated SGS's 2008 targets (CHF5bn of revenues, EBIT margin of 17% and EPS of CHF80, i.e. a CAGR of 17%). We see these targets as very realistic given the current market conditions and expect the consensus to gradually move its estimates to company guidance (which is in line with our own estimates). Following some recent analysts upgrades, we are currently 3% above the consensus for 2007e but still 6% above for 2008e.

Table 9: IBES consensus for SGS versus our estimates

| CHF | 2006 | 2007e | | 2008e | |
|-------------------|-------|---------------|-------|---------------|-------|
| | | Mean estimate | Exane | Mean estimate | Exane |
| Revenues | 3,821 | 4,268 | 4,500 | 4,706 | 5,145 |
| % change | 16 | 12 | 18 | 10 | 14 |
| EBIT | 605 | 709 | 740 | 797 | 877 |
| % change | 20 | 15 | 22 | 12 | 18 |
| Net income | 443 | 517 | 531 | 587 | 632 |
| % change | 19 | 17 | 20 | 11 | 19 |
| EPS | 56.6 | 66.1 | 67.9 | 75.0 | 80.9 |
| % change | 19 | 17 | 20 | 14 | 19 |

Source: IBES, JCF, Exane BNP Paribas estimates

A large M&A deal?

Over the last couple of months, the still-fragmented sector has begun to seem ripe for further consolidation and recent deals could presage bigger moves to come. Alongside further acquisitions made by the big players, the sector could see a large deal in the next 12-18 months in which SGS would play an active role.

A tie-up with Intertek Group plc?

Intertek Group plc (N°3 in the sector with GBP664.5m of revenues in 2006, around 40% of SGS's) could be a potential target and an interesting fit for SGS.

Although Intertek Group plans to play an active role in sector consolidation, it could also be a target for a takeover (the company's free float is 100%) as its positions are very attractive. Intertek commands clear leadership in consumer goods services (half of its profit), with strong positions in the UK and the USA and the bulk of its profits derived from Asia (with the EBIT margin peaking above 30%). It has also significant positions in the Oil & Gas market (about 30% market share).

However, in our view, Intertek would not be an ideal candidate for a tie-up with SGS given the lack of evident business complementarities (there is a lot of overlap), making the combined group highly dependant on the same businesses and with a relatively high cyclicalilty. Indeed, both companies enjoy leading positions in two key segments, namely consumer testing (Intertek is N°1, SGS is N°2) and Oil & Gas (SGS N°1 and Intertek N°2): in the latter, the new co would command a 70% market share with not only potential conflicts of interests with customers (for example SGS is getting half of Total's business and Intertek the other half) but also opposition from the monopolies watchdog (due to the new co's dominant position).

From a financial viewpoint, we believe that SGS could buy Intertek (current EV of GBP1.7bn or CHF4bn) in a deal fully financed by debt.

Bureau Veritas is at the heart of all speculation

Possible listing of Bureau Veritas

Bureau Veritas, the number two player (EUR1,846m of revenues in 2006, i.e. nearly 30% smaller than SGS from a revenue perspective), is currently owned by Wendel Investissement (*Outperform rating, TP of EUR156, followed by Fabien El Haik*). Over the past three years, Wendel has steadily increased its stake in Bureau Veritas and now owns 99% of its capital. Wendel said at its annual results analyst meeting on March 29 that it was considering listing Bureau Veritas, as it would unlock significant value (we estimate BV's fair value to be significantly above Wendel's spot estimate).

SGS eager to acquire BV

At the same time, on several occasions there has been renewed speculation recently about SGS's potential interest in Bureau Veritas or a merger between both companies. SGS's Chairman Sergio Marchionne and CEO Chris Kirk have repeatedly said that the group could make a large deal and was eager to acquire Bureau Veritas, which is a good fit with SGS.

Until now, SGS's interest in Bureau Veritas has met with resistance from the latter's parent company, Wendel. Indeed, Wendel Investissement does not seem ready to sell in the short term as it sees strong potential in BV's market and BV management does not appear to be anxious to be bought by SGS.

That said, Wendel could agree to a tie-up of Bureau Veritas with SGS but only if it is to Wendel's advantage and if substantial cost and revenue synergies can be extracted.

The current situation

All options remain open

Could a bid by SGS for Bureau Veritas be on the agenda? Or would Wendel prefer to keep a stake in BV and float a part of it?

We have examined in detail the possibilities open to Wendel regarding the future of BV. Wendel has plenty of headroom: launching an IPO, keeping its BV stake, selling BV to SGS, or taking a majority stake into a combined company.

Table 10: Most likely scenarios

| Option | Probability (%) | Scenario in detail |
|-------------------------|-----------------|---|
| No deal | 70 | IPO of Bureau Veritas due in fall - 30% put on the market to speed up development |
| An SGS-BV tie-up | 30 | SGS and BV agree to merge and develop synergies between the 2 co |
| of which: | | |
| Bid by SGS for BV | 5 | SGS convinces Wendel to sell its full stake in BV for a high price |
| Merger between SGS & BV | 25 | SGS agrees to merge with BV under Wendel's conditions |

Source: Exane BNP Paribas estimates

Wendel holds all the cards

We see several possible scenarios for Wendel. Obviously, the most likely outcome remains the IPO as officially announced. That said, following the IPO a tie-up scenario cannot be ruled out if the price is right for Wendel and synergies can be extracted.

– Launching an IPO of Bureau Veritas

This is the most likely possibility, given the comments made by Mr Lafonta at the FY06 results publication in end-March. This would be a way to remain invested in BV (Wendel wants to maintain control) while keeping a majority stake (around 70%). This would also give BV the financial means (possibility to pay in shares) to accelerate its build-up strategy. In addition, BV alone accounts for nearly half of Wendel's gross assets (45%) and Wendel could thus look to reduce this weight. **We believe that there is a relatively high probability of this occurring (70%).**

– Merging SGS and BV to create a major industry leader

In our view, this scenario could be credible only **under Wendel's (and very specific) conditions:**

1) A substantial premium to Bureau Veritas's GAV and likely to a floatation price. In other words, this means obtaining a clear majority stake in the new company, alongside SGS's main shareholder (the Von Finck family).

2) The assurance that the new company would command a higher valuation, given its bigger size and the synergies that could be extracted from the tie-up (both cost- and revenue-driven). **We believe there is a 25% probability of this occurring.**

In contrast, the other alternative appears less likely.

– Keeping the full stake of BV

If it does that, Wendel would not enable it to extract the most value from BV and would also limit its growth development. This option is unlikely, in our view, unless market conditions become unfavourable to a listing. **We believe that there is a 5% probability that this will occur.**

- **Selling the stake to SGS.** We think this is less likely to occur, for a couple of reasons.

First, Wendel does not appear ready to sell its entire stake as it wants to remain exposed to the business. An outright sale to SGS would thus force Wendel to exit the industry, an outcome that is unlikely given the strong potential development and the strong expertise of management, which has allowed the company to achieve high returns. Also, Wendel's interest in Bureau Veritas is relatively recent (four years).

Second, supposing that it agrees to sell BV, what will Wendel do with the cash? There are no clear targets of sufficient size in Wendel's other strategic areas of development.

An attractive risk-reward for Wendel?

From Wendel's perspective, the need to merge BV with SGS is debatable, given its asset's profitable—and safe—growth prospects on a standalone basis. In a tie-up scenario, the question is whether, given the obvious execution risks (which could jeopardise the safety of the returns), Wendel would be willing to bear that kind of risk. From SGS's point of view, we believe that, as management is eager to acquire/merge with BV, it is ready to take the risk. The answer is less obvious for Wendel.

We estimate that Bureau Veritas should be able to generate around a 16% IRR on a standalone basis over the next five years. By continuing its build-up strategy, it could even reach 20%. As such, it remains attractive for Wendel to remain invested in BV in its current state. For this reason Wendel would not be keen to agree to a merger unless the parity valuation is equivalent to at least two years of prospective IRR (at least a 30-35% premium to the current value, i.e., at least EUR4.7bn). In addition, it will require that the substantial synergies that could be extracted from the deal will more than offset the associated risks (integration risks and cycle risks as SGS is highly exposed to commodity-related divisions).

Now, given the fact that Wendel holds the all cards, the merger deal could be more appealing from the Wendel' shareholders point of view than for those of SGS. A tie up could create enough value to pay for a comfortable premium to BV shareholder without being destructive for SGS shareholders.

The main obstacles behind such a tie-up

- **Management/shareholder/ownership issues.**

No one major shareholder is ready to be diluted. In a scenario of a merger of BV and SGS at similar valuation multiples, every major shareholder will keep a majority stake in the new co. In terms of control, we consider that the current chairman of SGS—Sergio Marchionne—will want to keep his eye on the operations, as will JB Lafonta, CEO of Wendel. Chris Kirk, his CEO, has just arrived and he could accept a control-sharing agreement with F. Piedelievre, Bureau Veritas' current CEO.

- **Antitrust/regulatory issues.**

Given the fragmented nature of the markets in which both group operate, we do not think that there would be significant antitrust issues, even in major countries. The only real anti-trust obstacles could be in France, where Bureau Veritas is the industry leader, but SGS has a limited exposure to that country. In certification, both leaders have an aggregate market share of maximum 20% with a different portfolio of customers. Therefore, in a worst case scenario the anti-trust watchdog is likely to request only token disposals, at the most.

– **Execution risks and change in organisation issues**

Obviously a combination of both companies presents execution risks. In the sector, Human Resources are the major assets, with staff charges representing 50% of revenues and 60% of total costs. If the merger process is not implemented correctly, retaining key staff could prove difficult, as could maintaining a strong operating performance. However, both companies have a strong track record in making and integrating companies (especially Bureau Veritas) although neither has ever been faced with a large deal. Also, such a merger could create conflicts of interests for customers. Lastly, there is some risk that it could affect some customers' view of Bureau Veritas and SGS.

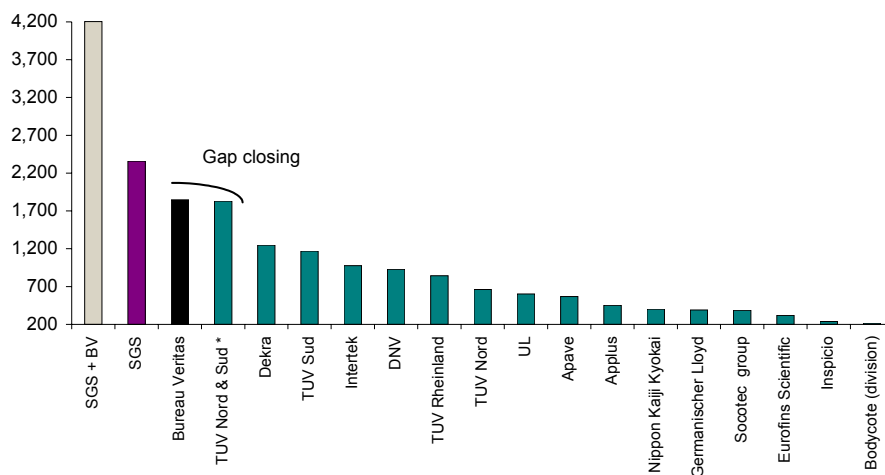
What can be gained from an SGS-BV tie-up?

In our view, a merger is appealing on several fronts: i) reaffirmed leadership by nearly doubling size (in terms of revenues and market share); ii) strategic fit (business complementarities offering revenue synergies and a more balanced mix); iii) significant cost synergies to extract (with some geographic and business overlap); iv) optimisation of the capital structure through significant releveraging of the balance sheet.

An answer to the accelerating sector concentration

A tie-up would give SGS and BV an opportunity to significantly change dimension, at a time when sector consolidation is speeding up and recent moves (German TUV Nord and Sud merger), if not yet threatening, show their current lead will narrow.

Chart 3: The key global players in the inspection, testing and certification market (revenues in EURm)



*TUV (Technischer Überwachungs-Verein or Technical Surveillance Association): Merger expected by the end of 2007 announced in April 2007.

Source: Company, Exane BNP Paribas estimates

BV is an appealing asset in an industry where network size matters as companies' customer bases increasingly span the world. There is now a need to provide services and products on a global basis throughout the supply chain. Together, SGS and BV will operate through a network of more than 1,800 offices and accredited laboratories world-wide. The new co would clearly be number one from a revenue perspective with a combined market share of about 12%, thus widening the gap to the followers (see Chart 3) and also number one in every segment (see Table 9). This would be a means to consolidate barriers to entry, especially in the high-skilled end of the market (certification, quality control) and thus to reinforce its bargaining power.

Table 11: SGS and BV position in very market, stand alone and together

| | Market growth forecasts (CAGR) (%) | SGS's current position (market share) | BV's current position (market share) | SGS & BV (market share) |
|---|------------------------------------|---|---|-----------------------------|
| Agricultural Services | 7 | World leader | NIL | N°1 (50%) |
| Mineral Services | 12 | Worldwide leadership (40%) | NIL | N°1 (40%) |
| Oil, Gas & Chemical Services | 5 | Worldwide leadership in trade (30%), strong player in upstream services | Some position in Oil & Gas (for energy projects) | N°1 (35%) |
| Life Science Services | 11 | Significant regional player in Europe | NIL | |
| Consumer Testing Services | 15 | Number 2 (10%) behind Intertek | Number 3 worldwide position (7%), N°2 for Toys & Textiles testing (leader in USA) | N°1 (17%) far from Intertek |
| Systems & Services Certification | 9 | Global leader in core standards certification (11%) Key positions in France, | Global leader in certification (10%) Key positions in France, Denmark, Belgium, Netherlands, Spain, Brazil, India and Thailand | N°1 (20%) |
| Industrial Services | 7 | Selective local market leadership (3%) | Amongst top 3 global providers of industrial inspection and certification services (9%) France, UK, Spain, Netherlands, USA, Latin America, Middle-East and Australia. Number 1 worldwide position in construction (France, USA, Spain, Japan) | N°1 (13%) |
| Environmental Services | 4 | Regional leadership (4%) | Marginal exposure (<1%) | 5% |
| Automotive Services | 5 | Worldwide commercial leader, local statutory leader (2%) | No exposure or very limited | Local statutory leader (2%) |
| Trade Assurance Services | 8 | World leader | Among top 5 leaders for pre-shipment inspections | N°1 (60%) |
| Marine | 7 | NIL | Number 2 position in number of vessels and n°6 position in tonnage, Key player in gas tankers | N°2 (15%) |

Source: Company, Exane BNP Paribas estimates

Based on our analysis, we think that the deal would generate substantial value given the existence of both revenues and cost synergies.

Activities highly complementary

From an industrial perspective, combining SGS with Bureau Veritas would make sense. It would generate significant revenue synergies as there would be a considerable and obvious fit in terms of geography and business. This will come from a more extensive network and wider service offering thus making cross-selling opportunities easier.

A more balanced group

A tie-up of these two companies would pave the way for a more balanced group, offering a “win-win” situation for both parties. It could be a way for SGS to be less exposed to cyclical end markets (mainly commodities), as BV's business mix is more resilient in a downturn (industries and Marine) and, in contrast, for Bureau Veritas to be more cyclically exposed. In our view, this would reduce the new group's exposure to cyclical end-markets to an estimated 40% of revenues (vs 50% for SGS currently).

Table 12: Bureau Veritas and SGS 2006 revenues breakdown - stand alone and together

| SGS | FY06 CHFm | FY06 EURm | Split (%) | Bureau Veritas | FY06 EURm | Split (%) | SGS +Bureau Veritas | FY06 EURm | Split (%) |
|---|--------------|--------------|--------------|--------------------------------|--------------|--------------|---|--------------|--------------|
| Agricultural Services | 317 | 200 | 8 | Industry services | 240 | 13 | All Industrial services | 1,355 | 32 |
| Mineral Services | 467 | 294 | 12 | In-Service Verification | 235 | 13 | Agricultural Services | 193 | 5 |
| Oil, Gas & Chemical Services | 783 | 493 | 21 | Health, Safety and Environment | 190 | 10 | Mineral Services | 284 | 7 |
| Life Science Services | 193 | 122 | 5 | Building/Facilities | 379 | 21 | Oil, Gas & Chemical Services | 477 | 11 |
| Consumer Testing Services | 593 | 373 | 16 | System Certification Services | 201 | 11 | Life Science Services | 118 | 3 |
| Systems Certification | 319 | 201 | 8 | Gvt services & Intern. Trade | 140 | 8 | Consumer Product Services | 612 | 15 |
| Industrial Services | 510 | 321 | 13 | Consumer Product Services | 251 | 14 | Systems & Services Certification | 395 | 9 |
| Environmental Services | 249 | 157 | 7 | Marine | 210 | 11 | Environmental Services | 152 | 4 |
| Automotive Services | 220 | 139 | 6 | All Industrial services | 1044 | 57 | Automotive Services | 134 | 3 |
| Trade Assurance Services | 169 | 106 | 4 | | | | Government services & Intern. Trade | 243 | 6 |
| | | | | | | | Marine | 210 | 5 |
| Group revenues | 3,821 | 2,407 | 100 | Group revenues | 1,846 | 100 | Group revenues | 4,253 | 100 |

Source: Company, Exane BNP Paribas estimates

Evidence of strong business complementarities

A tie-up would thus significantly **enlarge their portfolio of activities and their customer base** and thus enable both parties to plug gaps in their business offerings. Each company has strong and specific leading positions.

- SGS is number one in Agriculture, Minerals & Oil and Gas & Chemicals (combined, these divisions represent more than 40% of group revenues) while Bureau Veritas has limited or even no exposure to these segments (or some in the energy-related industry segment) and wants to expand its positions in the fast-growing oil and gas market. On the other hand, Bureau Veritas is number 3 worldwide in Industrial services (57% of its total revenues if we aggregate Industry services, In-service verification and Building facilities as well as a part of Health Safety and Environment) whereas SGS, despite its much smaller presence (13% of group revenues), is very interested in developing in this area.
- In addition, both companies have leading positions in Systems & Services (each has about 100,000 certified customers), giving a combined global market share of close to 20%. More importantly, the portfolio of customers is different and thus complementary.
- Finally, each company has some specific exposure (Automotive services for SGS or Marine for Bureau Veritas), giving access to new markets and fitting the development strategy goals of both: indeed SGS is looking for exposure to Marine (as evidenced by its recent interest in Germanischer Lloyds) and BV is starting to develop its presence in the Automotive sector (as demonstrated by recent focused bolt-on acquisitions).

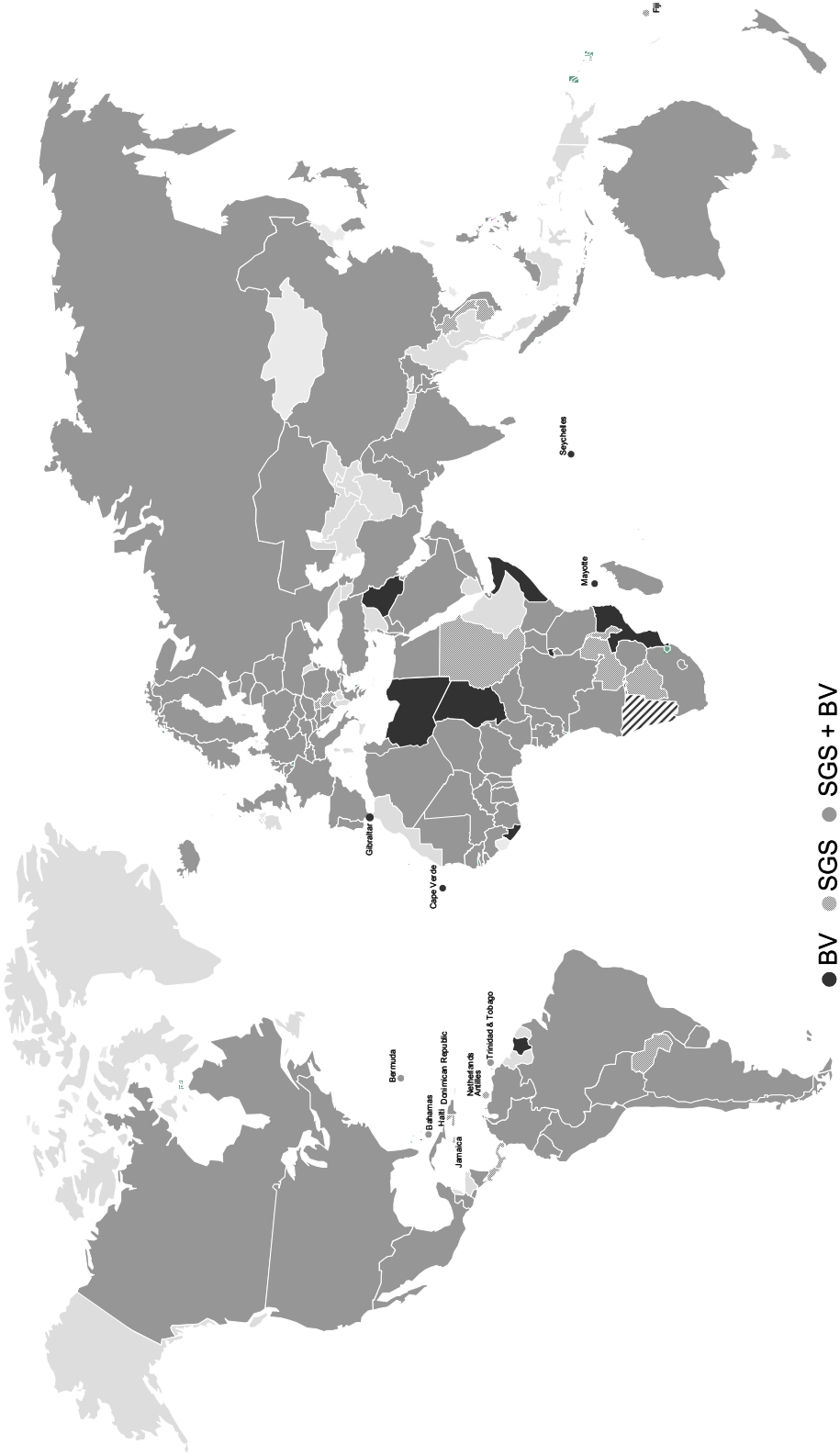
Evidence of some geographical complementarities

The two companies appear complementary in terms of their geographical presence. In our view, a wider geographic exposure could provide higher growth.

The map below shows the widespread coverage of both companies. It highlights the evident geographic overlap/complementarities with 120 countries in common, whereas about 50 countries are covered by just one of the two players (20 for BV and 30 for SGS). Unsurprisingly, both companies, given their worldwide network and global reach, are located most of time in the same countries. That said, it is worth noting two elements:

- Each country does not have the same weighting for both companies. For example, Bureau Veritas has strong exposure to France (33% of its revenues) and its former colonies (for historical reasons), where SGS's exposure is more limited (8% of group revenues). On the other hand, SGS is also strong in Japan, Norway and some African countries, where BV has no presence, and in Germany, where BV wants to consolidate its positions.

Chart 4: Combined SGS and Bureau Veritas presence worldwide



Legend: the grey in the chart above indicates countries where both companies are present.
 Source: Company, Exane BNP Paribas estimates

- Very often, the two companies do not operate the same business in the same place. Therefore, the combination of both networks would provide a relatively good fit and give “cross selling” revenue opportunities.

In a nutshell, the new company would particularly consolidate its position in France, Asia (mainly China and India) and North America. On a pro-forma basis, the new entity could derive 60% of its revenues from Europe/Africa and the Middle East (of which 19% in France which would become the first biggest contributor), 20% in Asia Pacific and 20% in the Americas.

Product roll-out

Having analysed the complementarities of the two networks, we believe that significant cross-selling revenue opportunities would arise from the enlargement of services and products offered to the customer’s portfolio. This would open up the possibility of leveraging certain areas of expertise and services and rolling them out through the entire network.

In other words, SGS could use the competencies acquired through BV in other geographic areas or offices through its large office network (new services to new industries or existing ones).

Significant cost synergies through overlap

There is evidence that there are numerous sources of cost savings in such a merger. We have studied in detail both networks by country and by segment in the aim of quantifying potential extractable cost savings.

Overlap in network

Given that SGS and BV have operations in common in several countries (both regions and cities), the network (and thus assets) could easily be optimised. At first glance, we could reasonable assume that there are network overlaps in the majority of the 120 countries where both companies are present. Some offices would therefore be closed, especially headquarters i.e., around 120 HQs (or even more as there are sometimes several headquarters in the same country). That said, as mentioned above, this has to be put into context given that, in some countries, BV and SGS provide different services for different industries and therefore cost reductions due to overlap are not systematic. BV’s Marine division for example does not offer synergies as SGS has no exposure to this business. The same is true for SGS’s commodities-related divisions as BV has little if any presence in this segment.

Table 13: Numbers of offices and labs in most dominant markets

| Region/country | BV | SGS | BV +SGS | Overlap |
|----------------------|-----|-----|---------|--|
| Europe | | | | |
| Germany | 20 | 46 | 66 | Industry |
| Italy | 17 | 23 | 40 | Certification, industrial, consumer testing |
| France | 180 | 70 | 250 | Certification, industrial, consumer testing |
| Spain | 67 | 12 | 79 | Consumer testing, industry, certification |
| UK | 33 | 27 | 60 | |
| Ukraine | 10 | 23 | 33 | |
| Asia | | | | |
| China | 22 | 32 | 54 | Significant labs overlap in consumer testing |
| India | 35 | 36 | 71 | Significant labs overlap in consumer testing |
| North America | | | | |
| USA | 67 | 107 | 174 | Network could be optimised (marketing spend) |
| Latin America | | | | |
| Brazil | 17 | 26 | 43 | Consumer testing, certifications, industry |

Source: Company, Exane BNP Paribas estimates

Given the very strong positions in France of both Bureau Veritas and SGS, it is clear that combining the two companies would create network overlaps. Bureau Veritas is undoubtedly the leader in its domestic market (33% of group sales) especially in industry and certification services, with a national network of more than 180 offices spread over 127 cities. SGS has more limited exposure, but still generates annual revenues of CHF300m (3x less than BV) from its 70 offices and labs located in 50 towns and cities.

Table 14: Key figures in France for both companies

| France | BV | SGS |
|--------------------------|-------|-------|
| 2006 revenues (EURm) | 609 | 183 |
| 2006 revenues (CHFm) | 1,000 | 300 |
| As a % of group sales | 33 | 8 |
| EBIT margin (est.) (%) | 14 | 13 |
| Employees (est.) | 6,000 | 2,000 |
| Number of offices & labs | 180 | 70 |

Source: Company, Exane BNP Paribas estimates

The map above shows the coverage of SGS and BV by region (department) and highlights that the two networks are complementary (coverage of 60 French regions) and overlap (in 20 others). Moreover, given the business mix of the two companies, using a simplistic approach, we can consider that the main sectors that with potential synergy overlaps in the event of a tie-up are mainly Industry (13 offices for SGS and over 110 for BV) and Certification Services (5 and 15). This however represents the bulk of their French operations.

The French example illustrates that, given network overlaps, assets could clearly be optimised. Moreover, this could also be extrapolated to a certain numbers of countries worldwide.

Cost synergies quantified at 13% of group EBIT

Overall, we assume synergies of about 2% of combined revenues as realistic. Although there is no comparable large deal in the sector, our analysis of the network overlap and the “best practices” observed in other similar sectors (based on HR) lends support to our assumptions.

Looking at other sectors where Human Resources are the major assets (such as IT sectors), in the scenario of a merger between two companies of relatively similar size, average cost synergies would be about 1.5-2% of group sales. This presupposes that operating leverage is limited, which is not the case for the inspection and testing industry.

More specifically, we believe that the following synergies could be extracted:

- 1% of cost reduction savings from Headquarters (overheads optimisation) given the overlap in some businesses and geography.
- 1% of other cost synergies. This includes savings in IT and support functions (HR, Finance). In terms of IT, we can also consider that the deployment of a unique programme managing all payment and ordering process data transmission would generate additional cost optimisation.
- Better negotiation power and economies of scale (global reach).
- Cross-selling revenue opportunities adding 1% due to an increased range of services and products provided to the customer or new geography (locations).

If we factor cost synergies equal to 2% of combined sales or 13% of EBIT, estimated annual synergies could potentially reach around EUR95m (or CHF150m) for the new entity. Discounting this amount of synergies to infinity, we get a NPV of synergy benefits of more than EUR850m (CHF1.4bn) or the equivalent of CHF185 per share (see details in the table below).

Table 15: Synergies between SGS and Bureau Veritas

| Synergies (EURm) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Norm | Benchmark |
|--|---------------|-------------|--------------|--------------|--------------|-------------|---------------------------------|
| Reduction in holding costs | 23.9 | 51.6 | 45.4 | 62.4 | 67.4 | 47.7 | 1% of group sales |
| Other cost synergies (1% of sales in year 3) | 0 | 25.8 | 56.7 | 62.4 | 67.4 | 47.8 | 1% of group sales |
| Restructuring charges | (71.6) | 0 | 0 | 0 | 0 | | 1.5% of group sales in year one |
| Synergies | (47.7) | 77.3 | 102.1 | 124.8 | 134.8 | 95.6 | |
| Synergies as a % of combined sales | (1.0) | 1.5 | 1.8 | 2.0 | 2.0 | | 2% of group sales |
| Synergies as a % of combined EBIT | (5.6) | 8.5 | 10.1 | 11.3 | 11.3 | | |
| After tax synergies | (35) | 56 | 75 | 91 | 98 | 70 | |
| Discounted after tax synergies | (35) | 53 | 65 | 74 | 74 | 49 | |
| NPV of the synergies (EURm) | 857 | | | | | | |
| NPV per share (CHF) | 185 | | | | | | |

Source: Company, Exane BNP Paribas estimates

Note that we have also assumed restructuring charges for the first year, equivalent to 1.5% of group sales.

A value creating deal for shareholders

For the sake of simplifying the simulation, we have examined a project based on an acquisition of BV by SGS, even though we believe more in a scenario of a merger to BV's advantage. Our conclusion is that a tie up could create enough value to pay BV's shareholders a comfortable premium without being destructive for SGS's shareholders.

Scenario of a BV purchase by SGS

Is a scenario of a purchase by SGS credible from a financial point of view? What would the maximum price paid for BV be to neutralise the NPV of synergies?

Assuming SGS were to buy Bureau Veritas, we believe that Bureau Veritas could be worth around EUR4.7bn (EV of EUR5.2bn), the equivalent of CHF7.7bn (EV of CHF8.6bn). This implies a 2007e EBITA multiple of 15.5x (or 2.3x revenues) and an implicit EV/EBIT of 17.3x 07, i.e. above SGS's current valuation. In a scenario such as this, Wendel will get 50% of the NPV of cost synergies reflected in the exit price of BV.

An EV of EUR5.2bn for BV

Table 16: Range of price paid for Bureau Veritas

| BV | EURm | CHFm | Price multiple | Bear | Base | Bull |
|---|-------|---------|------------------|--------------|--------------|--------------|
| 2007e revenues | 2,008 | 3,342 | Revenue multiple | 2.8 | 2.3 | 2.1 |
| 2007e EBIT | 301 | 495 | EBITA multiple | 18.5 | 15.5 | 14.3 |
| Estimated value for BV | | Sales | CHFm | 9,191 | 7,687 | 7,086 |
| Estimated value for BV | | EBIT | CHFm | 9,152 | 7,683 | 7,074 |
| Estimated value for BV | | Average | CHFm | 9,172 | 7,685 | 7,080 |
| Estimated value for BV (equity valuation) | | | EURm | 5,584 | 4,679 | 4,310 |
| Estimated EV of BV | | | EURm | 6,125 | 5,220 | 4,851 |

Source: Exane BNP Paribas estimates

Now, given the potential cost savings that could be extracted, SGS could pay up to EUR5.6bn (EV of EUR6.1bn) before destroying value in the deal. This results in an implied 2007e EV/EBIT multiple of 20.5x and shows a premium of nearly 20% on our core case. This is also more than 60% of Bureau Veritas's NAV in Wendel. Under those circumstances, the deal will be neutral from a valuation perspective.

A slightly enhancing EPS deal before synergies

The deal could have a positive impact on SGS's accounts. In our central scenario (price paid of EUR5.2bn including debt and 100% financed by debt - for a simple simulation), we think that Bureau Veritas could enhance 2007 EPS by 2% on a full-year basis. This is based on a transaction price of CHF8.6bn for Bureau Veritas and takes into account an EBIT margin dilution of 70bp on a full-year basis. Note that this excludes any potential synergies (revenues or costs) from the integration of the two businesses, which will undoubtedly be significant as we mentioned earlier.

Table 17: Bureau Veritas' financial impact on SGS's 2007e pro-forma P&L

| | SGS (CHFm) | 100% of Bureau Veritas (EURm) | 100% of Bureau Veritas (CHFm) | Pro(forma SGS (CHFm)) | Pro(forma (EURm)) | % change |
|-------------------------|---------------|--|--|------------------------------|----------------------|----------|
| Sales | 4,500 | 2,035 | 3,342 | 7,842 | 4,774 | 74 |
| EBITDA | 938.0 | 335 | 551 | 1,489 | 906 | 59 |
| EBITDA margin (%) | 20.8 | 16.5 | 16.5 | 19.0 | 19.0 | |
| EBITA | 740 | 301 | 495 | 1,235 | 752 | 67 |
| EBITA margin (%) | 16.4 | 14.8 | 14.8 | 15.7 | 15.7 | (BP70) |
| Financial charges | 2 | (20) | (33) | (449) | (273) | |
| Profit before tax | 742 | 281 | 462 | 786 | 478 | 6 |
| Tax | (185) | (87) | (143) | (213) | (130) | 15 |
| Tax rate (%) | 24.9 | 31.0 | 31.0 | 27.1 | 27.1 | 9 |
| Minority interests | (27) | (2.9) | (4.8) | (32) | (19) | 18 |
| Net profit for the year | 530 | 191 | 314 | 541 | 329 | 2 |

Source: Exane BNP Paribas estimates

Given the uncertainty regarding how a possible deal would be financed, we have detailed several scenarios (from debt of 0% to 100%). That said, we believe more in a mix where debt will be predominant (70%/30%) as SGS has plenty of room for releveraging its balance sheet.

Table 18: 2007e EPS accretion (dilution) depending on the financing and the price paid for BV and before any synergies

| Debt consideration (%) | 0% | 30% | 50% | 70% | 100% |
|-----------------------------------|------|-----|-----|-----|------|
| Price paid | | | | | |
| -10% vs central case | (1) | 3 | 5 | 7 | 9 |
| Base case (EV of EUR5.2bn) | (9) | (4) | (2) | 0 | 2 |
| +10% vs central case | (13) | (8) | (6) | (4) | (2) |

Source: Exane BNP Paribas estimates

If we include the synergy benefits, the deal would become significantly EPS enhancing. As mentioned earlier, we factor cost synergies of around EUR95m (CHF150m), equivalent to nearly 2% of group sales and 13% of group EBIT for the new entity. Also, we assume 1% revenue synergies from the enlargement of services and the rollout through the overall network.

Table 19: Synergy benefits on SGS-BV 2007 pro-forma P&L

| Cost synergies scenario (EURm) | Before Synergies | Synergies | After |
|--------------------------------|------------------|-----------|-------|
| Group revenues (SGS +BV) | 4,774 | | 4,774 |
| EBITDA | 906 | 95 | 1,001 |
| EBITDA margin (%) | 19.0 | | 21.0 |
| EBITA | 752 | 95 | 847 |
| EBITA margin (%) | 15.7 | +200bp | 17.7 |

Source: Exane BNP Paribas estimates

A purchase of BV financially possible

We have analysed SGS's existing financing facilities and it is clear that SGS has the capacity to significantly gear up its balance sheet (net cash position of CHF200m at end-2006). Because SGS is highly cash generative (we expect FCF of around CHF500m pa on average for the next three years), it can sustain a high level of debt. In addition, it would more than solve the issue of an under-gearred balance sheet.

By assuming that the acquisition would be fully financed by debt, the deal would be financially constraining, as highlighted by the financial ratios, especially in a scenario in which a high price is paid. Indeed SGS's debt level would rise to CHF8.6bn, implying interest charges of around CHF450m (at a cost of debt of 5.3%) and a ratio of net debt over EBITDA of 5.5x. This confirms that SGS does not have the financial means for such an acquisition due to the sizeable cash outlay and a more credible scenario would imply a different financing arrangement, i.e. a mix of debt and equity.

By considering 70% debt and 30% equity, the deal would be financially manageable. We have assumed a capital increase of about CHF2.5bn with the issue of 1.5m new shares (at CHF1,550), representing 21% of the capital. In that scenario, post the Bureau Veritas deal, the key financial ratios would look manageable as shown in the table below, especially with net debt/EBITDA of 3.8x. Note that SGS now has authorisation from the board to issue about 1.5m of shares through convertibles (for 1m) and capital increase for 0.5m. The group can also easily raise CHF2.5bn of debt given its bank arrangement and get another CHF3bn.

Table 20 outlines the financial details of the potential acquisition, assuming a price at CHF8.6bn (including debt) or EUR5.2bn.

Table 20: Financing scenarios of Bureau Veritas acquisitions – base case

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|--|--------------|------------------------|------------------------|------------------------|------------------------|
| Financing Ratio | Debt 100% | Debt/Equity 70%/30% | Debt/Equity 50%/50% | Debt/Equity 30%/70% | Debt/Equity 0%/100% |
| Total amount paid (EURm) | 4,679 | 4,679 | 4,679 | 4,679 | 4,679 |
| Total amount paid (CHFm) | 7,685 | 7,685 | 7,685 | 7,685 | 7,685 |
| Net financial position of BV (EURm) | 541 | 541 | 541 | 541 | 541 |
| Total assumed by SGS (EURm) | 5,220 | 5,220 | 5,220 | 5,220 | 5,220 |
| Total assumed by SGS (CHFm) | 8,573 | 8,573 | 8,573 | 8,573 | 8,573 |
| Post acquisition net debt for SGS (CHFm) | 8,247 | 5,675 | 3,961 | 2,246 | 0 |
| Additional interest charges (CHFm) | 437 | 301 | 210 | 119 | 0 |
| Equity | 0 | 2,572 | 4,287 | 6,001 | 8,573 |
| Issue of shares | 0 | 1,659 | 2,766 | 3,872 | 5,531 |
| As a % of new shares | 0 | 21 | 35 | 49 | 71 |
| 2007e EPS impact before synergies (%) | 2 | 0 | (2) | (4) | (9) |
| Financial ratios | After | After | After | After | |
| Net Debt/EBITDA | 5.5 | 3.8 | 2.7 | 1.5 | |
| Interest cover (x) | 2.7 | 4.1 | 5.9 | 10.4 | |

Source: Company, Exane BNP Paribas estimates

BV could add between CHF250 and CHF350 per share

Our combined DCF yields a valuation range of CHF2,000-2,100. There is therefore upside to our stand-alone valuation of SGS in the range of CHF250 to CHF350 per share, depending on synergy assumptions (cost and revenue) and the deal financing. It would also obviously depend greatly on the acquisition price of BV.

Our central-case scenario of a merger yields a valuation of CHF2,050. This is based on our core scenario: a purchase price of CHF8.6bn (of which around CHF900m of debt coming from BV) of which 70% debt financed and 30% equity financed (1.5 million new shares at CHF1,550 per share).

We have assumed a similar WACC of 8.2% (than for SGS's stand alone) despite the releverage of the balance sheet. Our forecasts factor in organic sales growth of 8% for the next two years and 7% on average during the modelling period. In terms of profitability, we assume that the EBIT margin will be depressed in 2007 (about 100bp) as a result of the restructuring costs associated with the merger. This will be followed by strong improvement in margins once the cost synergies are activated (+200bp at the EBIT margin level). We then assume that they will remain stable.

Our capex numbers reflect the weighted average (by business mix) of the two companies combined. Given BV's exposure to less capital-intensive businesses (such as industry or Marine) the overall level of capex to sales would be reduced from 6% for SGS (as the group is highly exposed to segments requiring more investments, such as consumer testing, minerals, life science or automotive services) to around 4.7% overall.

Table 21: SGS–BV combined DCF valuation (central case)

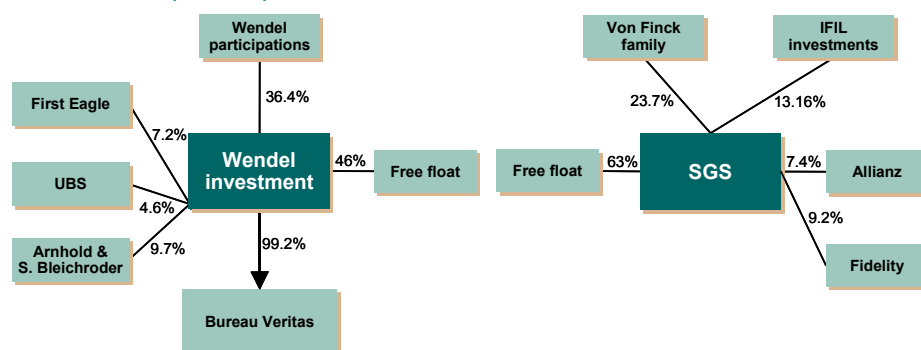
| Assumptions | CHFm | | | | | | | | | | | | | | | | | |
|------------------------------------|-------------|-------------------|--------------|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| Revenue growth rate (%) | 7.0 | NPV FCF | 11,339 | | | | | | | | | | | | | | | |
| Life span of assets | 12.5 | Terminal value | 14,366 | Growth to infinity (%) | | | | | | | | | | | | | | |
| Gross tangible assets/revenues (%) | 48 | Total | 25,706 | 2.5 | | | | | | | | | | | | | | |
| EBITDA margin (%) | 20.8 | Other assets | | | | | | | | | | | | | | | | |
| EBIT margin (%) | 17.0 | Cash (debt) | (5,675) | End-2006 pro forma | | | | | | | | | | | | | | |
| Change in WCR as a % of sales | 0.7 | Minorities | (177) | | | | | | | | | | | | | | | |
| Risk premium (%) | 3.7 | Other debt | (417) | | | | | | | | | | | | | | | |
| Risk-free rate (%) | 4.4 | Valuation | 19,437 | | | | | | | | | | | | | | | |
| Risk rating | 1.4 | No. of shares (m) | 9.481 | Price | | | | | | | | | | | | | | |
| Spread (%) | 1.0 | | | Upside (%) | | | | | | | | | | | | | | |
| Cost of equity (%) | 9.6 | | | 1,580 | | | | | | | | | | | | | | |
| Cost of debt before tax (%) | 5.9 | Value/Share (CHF) | 2,050 | 30 | | | | | | | | | | | | | | |
| Market capitalisation (CHFm) | 14,981 | | | | | | | | | | | | | | | | | |
| WACC (%) | 8.2 | | | | | | | | | | | | | | | | | |
| Tax rate (%) | 27.1 | | | | | | | | | | | | | | | | | |
| CHFm | 2005 | 2006e | 2007e | 2008e | 2009e | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e | 2018e | 2019e | 2020e | CAGR | |
| | | | | | | | | | | | | | | | | | | (%) |
| Revenues | 3,308 | 3,821 | 7,842 | 8,470 | 9,147 | 9,879 | 10,571 | 11,310 | 12,102 | 12,949 | 13,856 | 14,826 | 15,864 | 16,974 | 18,162 | 18,616 | | 13 |
| <i>Growth (%)</i> | 15 | 16 | 105 | 8.0 | 8.0 | 8.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 2.5 | |
| EBITDA | 642 | 777 | 1417 | 1779 | 1921 | 2075 | 2220 | 2375 | 2541 | 2719 | 2910 | 3113 | 3331 | 3565 | 3814 | 3909 | | 13 |
| <i>EBITDA margin (%)</i> | 19.4 | 20.3 | 18.1 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | 21.0 | | 0 |
| D&A | (140) | (172) | (254) | (313) | (338) | (365) | (393) | (420) | (450) | (481) | (515) | (551) | (589) | (631) | (675) | (706) | | 11 |
| EBIT | 502 | 605 | 1163 | 1465 | 1583 | 1709 | 1827 | 1955 | 2092 | 2238 | 2395 | 2563 | 2742 | 2934 | 3139 | 3203 | | 14 |
| <i>EBIT margin (%)</i> | 15.2 | 15.8 | 14.8 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.3 | 17.0 | | 1 |
| Tax | (119) | (155) | (213) | (219) | (429) | (463) | (495) | (530) | (567) | (607) | (649) | (694) | (743) | (795) | (851) | (868) | | 14 |
| <i>Tax rate (%)</i> | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | | 0 |
| Cash flow | 523 | 622 | 1204 | 1560 | 1492 | 1611 | 1725 | 1845 | 1975 | 2113 | 2261 | 2419 | 2588 | 2769 | 2963 | 3041 | | 13 |
| <i>Change in WCR</i> | (60) | (31) | (10) | (10) | (17) | (18) | (17) | (18) | (20) | (21) | (23) | (24) | (26) | (28) | (30) | (11) | | |
| Capex | (205) | (245) | (335) | (398) | (430) | (464) | (497) | (532) | (569) | (609) | (651) | (697) | (746) | (798) | (854) | (778) | | |
| <i>Capex/Revenues (%)</i> | 6.2 | 6.4 | 4.3 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.2 | | |
| Free Cash flow | 258 | 346 | 859 | 1,152 | 1,045 | 1,129 | 1,211 | 1,295 | 1,386 | 1,483 | 1,587 | 1,698 | 1,817 | 1,944 | 2,080 | 2,252 | | 15 |

Source: Exane BNP Paribas estimates

Scenario of a the creation of a combined entity

In our view, the most likely scenario will be the creation of a combined company (rather than a buyout of BV by SGS) orchestrated by the three main shareholders of three different nationalities, namely French (the Wendel family), German (the Von Finck family) and Italian (the Agnelli family).

Chart 6: BV's (Wendel) and SGS's current shareholders structure



Source: Company, Exane BNP Paribas estimates

In a scenario in which the main shareholders agree to merge, we think that the control of the new entity could be equally shared between the two families. Indeed, BV (Wendel) is unlikely to accept a merger if it is to the clear advantage of SGS (as is the case from a revenue point of view).

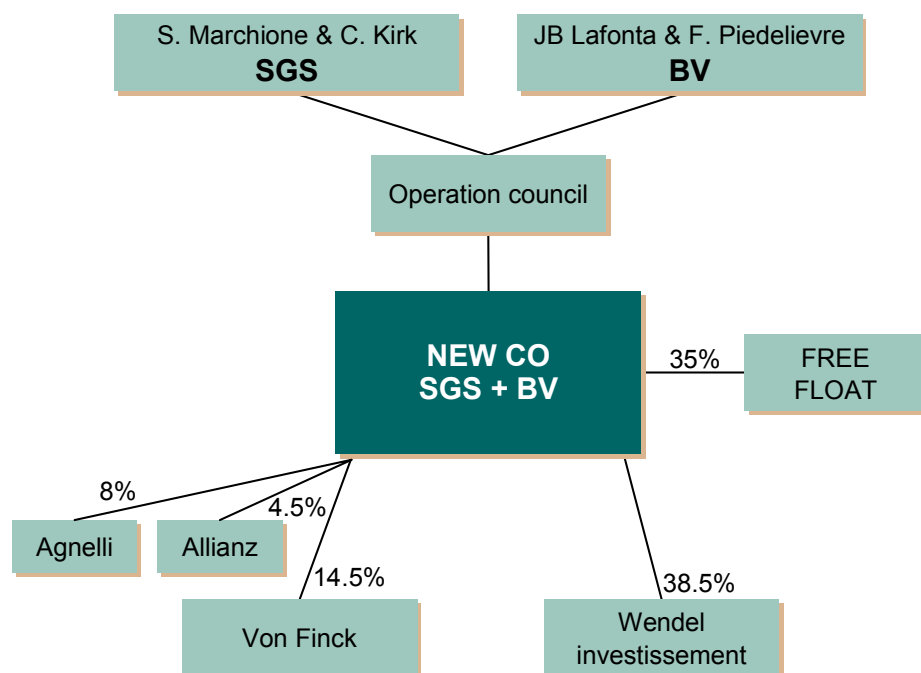
Assuming an equity valuation of EUR4.7bn for Bureau Veritas (15.5x 2007e EBIT) and EUR7.2bn for SGS (based on the current share price), the shareholding structure would be as follows: on the one hand, the Von Finck family would get a 14.5% stake in the new company and 27% by adding the Agnelli and Allianz stake (that could be bought given the firepower of the Von Finck family). On the other hand, Wendel Investissement would get a 38.5% stake in the new entity. This will meet the constraints of securing a majority stake for the Wendel family.

Table 22: Major shareholders for BV, SGS and for the new company

| | Market cap (CHFm) | Market cap (EURm) | New company (%) | | |
|---|-------------------|-------------------|-----------------|-----------|------------------------------|
| SGS | 12,098.1 | 7,365 | 61 | | |
| Bureau Veritas | 7,684.1 | 4,679 | 39 | | |
| | Stake (%) | Company | Value (CHF) | Value EUR | Stake in the new company (%) |
| Von Finck family | 23.70 | SGS | 2,867 | 1,746 | 14.5 |
| Allianz' stake | 7.40 | SGS | 895 | 545 | 4.5 |
| Agnelli family (IFIL) | 13.16 | SGS | 1,592 | 969 | 8.0 |
| Total Von Finck family and Agnelli family | 44.26 | SGS | 5,355 | 3,260 | 27.1 |
| Wendel Investissement | 99.20 | Bureau Veritas | 7,623 | 4,641 | 38.5 |

Source: Company, Exane BNP Paribas estimates

Chart 7: Control assumptions for the new SGS+BV



Source: Company, Exane BNP Paribas estimates

Appendix

Table 23: SGS DCF valuation based on an acquisition scenario

| Assumptions | CHFm | | | | |
|---------------------------------|--------|-------------------|--------|------------------------|-------|
| Sales growth rate (%) | 6.5 | NPV FCF | 5,136 | | |
| Life span of assets | 11.6 | Terminal value | 8,757 | Growth to infinity (%) | 2.5 |
| Gross tangible assets/Sales (%) | 48 | Total | 13,893 | | |
| EBITDA margin (%) | 20.9 | Other assets | | | |
| EBIT margin (%) | 16.9 | Cash (Debt) | 199 | End-2006 | |
| Ch. in WCR as % of sales | 0.3 | Minorities | (181) | | |
| Risk premium (%) | 3.7 | Other debt | (225) | | |
| Risk-free rate (%) | 4.4 | Valuation | 13,685 | | |
| Risk rating | 1.0 | No. of shares (m) | 7.822 | Price | 1,580 |
| Spread (%) | 1.0 | | | Upside (%) | 11 |
| Cost of equity (%) | 8.1 | | | | |
| Cost of debt before tax (%) | 5.3 | Value/Share (CHF) | 1,750 | | |
| Market capitalisation (CHFm) | 12,359 | | | | |
| WACC (%) | 8.2 | | | | |
| Tax rate (%) | 25 | | | | |

| CHFm | 2005 | 2006e | 2007e | 2008e | 2009e | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e | 2018e | 2019e | 2020e | CAGR (%) |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|----------|
| Sales | 3,308 | 3,821 | 4,500 | 5,145 | 5,623 | 6,036 | 6,429 | 6,848 | 7,295 | 7,770 | 8,277 | 8,817 | 9,391 | 10,004 | 10,656 | 10,922 | 8.2 |
| <i>Growth (%)</i> | 14.7 | 15.5 | 17.8 | 14.3 | 9.3 | 7.3 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 2.5 |
| EBITDA | 642 | 777 | 938 | 1,103 | 1,198 | 1,273 | 1,344 | 1,431 | 1,525 | 1,624 | 1,730 | 1,843 | 1,963 | 2,091 | 2,227 | 2,287 | 8.4 |
| <i>EBITDA margin (%)</i> | 19.4 | 20.3 | 20.8 | 21.4 | 21.3 | 21.1 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 | 20.9 |
| D&A | (140) | (172) | (198) | (226) | (231) | (246) | (258) | (275) | (293) | (312) | (332) | (354) | (377) | (401) | (428) | (447) | 7.3 |
| EBIT | 502 | 605 | 740 | 877 | 967 | 1,027 | 1,086 | 1,157 | 1,232 | 1,312 | 1,398 | 1,489 | 1,586 | 1,689 | 1,800 | 1,840 | 8.7 |
| <i>EBIT margin (%)</i> | 15.2 | 15.8 | 16.4 | 17.0 | 17.2 | 17.0 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 |
| Tax | (119) | (155) | (185) | (219) | (242) | (257) | (271) | (289) | (308) | (328) | (349) | (372) | (397) | (422) | (450) | (460) | 8.5 |
| <i>Tax rate (%)</i> | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 |
| Cash flow | 523 | 622 | 753 | 884 | 956 | 1,017 | 1,072 | 1,142 | 1,217 | 1,296 | 1,380 | 1,470 | 1,566 | 1,668 | 1,777 | 1,827 | 8.4 |
| <i>Change in WCR</i> | (60) | (31) | (10) | (5) | (11) | (8) | (8) | (9) | (9) | (10) | (11) | (11) | (12) | (13) | (14) | (6) | |
| <i>Financial investments</i> | | | (227) | (255) | (77) | (84) | (91) | (96) | (103) | (109) | (117) | (124) | (132) | (141) | (150) | | |
| Capex | (205) | (245) | (259) | (304) | (327) | (356) | (379) | (407) | (433) | (460) | (490) | (522) | (556) | (593) | (632) | (445) | |
| <i>Capex/Sales (%)</i> | 6.2 | 6.4 | 5.8 | 5.9 | 5.8 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 4.1 | |
| Free cash flow | 258 | 346 | 257 | 321 | 541 | 568 | 595 | 630 | 672 | 716 | 764 | 813 | 866 | 922 | 981 | 1376 | 8.4 |

Source: Exane BNP Paribas estimates

Our scenario relies on assumptions geared to match the company's 2008 targets. This model factors in:

- For 2007-2008e, annual average sales growth of 16% (of which 11% organic, supported by strong underlying demand for testing and certification and market share gains thanks to the broader range of services offered). This compares to 10% previously and still assumes that acquisitions will represent 4-5% pa in additional growth during the period.
- An EBIT margin expansion of 120bp during the period 2007-2008e (i.e. 60bp pa) to 17.0% (on an improving product mix, strong operating leverage and better efficiencies). This is in line with the company's targets (17% in 2008).
- After that, we assume 6.5% revenue growth pa (including 1% externally) and margins peaking at 17.2% by 2009e vs 15.2% in 2005. This corresponds to an average of 16.9% for the model period (vs 16.8% previously retained in our assumptions).
- A capex/revenue ratio remaining within the historical range (5-7%) at 6.0% in the period. This follows a recent acceleration (7% in the past two years), with more investments made in the network in order to match the surge in demand, especially in Asia. For 2007, we have trimmed our capex numbers as the company is guiding for CHF250m. We now expect CHF260m vs CHF270m previously.
- A stable average tax rate of 25% for the entire forecasting period.
- A 2.5% growth rate to infinity given the strong underlying growth in the industry.

We also use a WACC of 8.2% with a beta of 1x. This beta reflects SGS's low risk profile, resulting from its high visibility on growth, strong management track record and low financial risks (net cash position of CHF200m at the end of 2006).

Rating definitions

Stock Rating (vs Sector)

Outperform: The stock is expected to outperform the industry large-cap coverage universe over a 12-month investment horizon.

Neutral: The stock is expected to perform in line with the industry large-cap coverage universe over a 12-month investment horizon.

Underperform: The stock is expected to underperform the industry large-cap coverage universe over a 12-month investment horizon.

Sector Rating (vs Market)

Outperform: The sector is expected to outperform the DJ STOXX50 over a 12-month investment horizon.

Neutral: The sector is expected to perform in line with the DJ STOXX50 over a 12-month investment horizon.

Underperform: The sector is expected to underperform the DJ STOXX50 over a 12-month investment horizon.

Key ideas

BUY: The stock is expected to deliver an absolute return in excess of 30% over the next two years. Exane BNP Paribas' Key Ideas Buy List comprises selected stocks that meet this criterion.

Distribution of Exane BNP Paribas' equity recommendations

SGS N – historical closing price & target price (as of 25/05/2007)



| Date | Closing price | Target price | Rating | Changes |
|--------------------|---------------|--------------|--------|---------|
| No historical data | | | | |

Source: Exane BNP Paribas

Commitment of transparency on potential conflicts of interest

Complete disclosures, please see www.exane.com/compliance

Exane

Pursuant to Directive 2003/125/CE and NASD Rule 2711(h)

| Questions | Answers |
|--|---------|
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| - Has Exane managed or co-managed in the past 12 months a public offering of securities for the subject company/ies? | NO |
| - Has Exane been acting as distributor for BNP Paribas, when BNP Paribas managed or co-managed in the past 12 months a public offering of securities for the subject/ies | NO |
| - Has Exane received compensation for investment banking services from the subject company/ies in the past 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the next 3 months? | NO |
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| - At the date of distribution of this report, does Exane act as a market maker or has Exane signed a liquidity provider agreement with the subject company/ies? | NO |
| 3. Corporate links | |
| - Does the research analyst principally responsible for the preparation of this report or a member of his/her household serve as an officer, director or advisory board member of the subject company/ies. | NO |
| 4. Analyst's personal interest | |
| - Does the research analyst principally responsible for the preparation of this report own a financial interest in the subject company/ies? | NO |
| 5. Significant equity stake | |
| - Does Exane own 1% or more of any class of common equity securities of the subject company/ies as of the end of the month immediately preceding the date of publication of the research report or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month? | NO |
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* The document has been shown to Wendel Investissement, the parent company of Bureau Veritas

Source: Exane

BNP Paribas

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Potential conflicts of interest: None.

Source: BNP Paribas

Price at 30/05/07: CHF1 580.0
Target price: CHF1 750.0 / + 10.8%
12-mth high / low (CHF) 1 589.0 / 1 057.0
Enterprise value (CHFm) 11,556
Mkt cap. / Free float (CHFm) 11,718 / 7,382

Performance

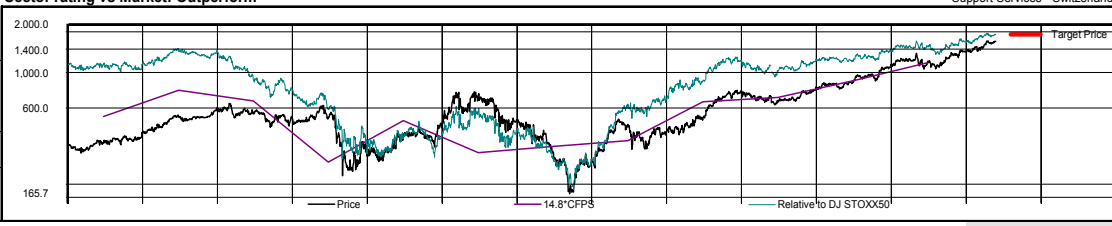
| | | | |
|-------------------|------|-------|--------|
| | 1mth | 3mths | 12mths |
| Absolute | 2% | 16% | 38% |
| Rel. (Sector) | 4% | 8% | 14% |
| Rel. (DJ STOXX50) | 1% | 8% | 17% |

Reuters/Bloomberg SGSN.VX / SGSN VX
Analyst: Laurent Brunelle

CAGR

| | | |
|------------------|-----------|-----------|
| | 1996/2007 | 2007/2008 |
| EPS restated (*) | 7% | 19% |
| CFPS | 5% | 18% |

Stock rating vs Sector: Outperform
Sector rating vs Market: Outperform



| PER SHARE DATA (CHF) | Dec. 95 | Dec. 96 | Dec. 97 | Dec. 98 | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| No of shares year end, basic, (m) | 8.905 | 8.605 | 7.897 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 | 7.978 | 7.958 | 7.958 | 7.505 | 7.619 | 7.619 |
| Average no of shares, diluted, excl. treasury stocks (m) | 8.905 | 8.605 | 7.897 | 7.822 | 7.822 | 7.822 | 7.822 | 7.978 | 7.958 | 7.958 | 7.822 | 7.822 | 7.822 | 7.822 |
| EPS reported | 25.90 | 30.74 | 29.01 | (37.04) | 40.46 | 16.46 | (9.61) | 13.66 | 28.04 | 34.34 | 48.59 | 58.12 | 69.67 | 83.01 |
| EPS restated | 25.93 | 30.94 | 29.75 | 15.63 | 41.86 | 15.05 | 14.11 | 24.82 | 29.78 | 34.93 | 47.43 | 56.61 | 67.86 | 80.86 |
| % change | NS | 19.3% | (3.9%) | (47.5%) | 167.9% | (64.1%) | (6.3%) | 75.9% | 20.0% | 17.3% | 35.8% | 19.4% | 19.9% | 19.1% |
| CFPS | 36.10 | 52.80 | 45.16 | 18.69 | 34.04 | 21.45 | 23.41 | 25.45 | 44.73 | 47.57 | 60.63 | 78.76 | 91.95 | 108.53 |
| Book value (BVPS) (a) | 129.9 | 145.8 | 117.7 | 59.6 | 127.5 | 140.5 | 125.4 | 112.4 | 134.7 | 146.1 | 191.7 | 203.7 | 255.9 | 318.0 |
| Net dividend | 11.20 | 13.20 | 13.60 | 0.00 | 4.80 | 5.80 | 6.00 | 6.00 | 8.85 | 11.80 | 30.47 | 20.00 | 23.75 | 28.30 |

| STOCKMARKET RATIOS | YEARLY AVERAGE PRICES for end Dec. 95 to Dec. 06 | | | | | | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|--|--|-------|-------|--------|-------|--------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| P / E (P/ EPS restated) | 14.0x | 16.1x | 18.6x | 28.1x | 8.9x | 40.3x | 23.9x | 16.1x | 19.3x | 20.2x | 19.2x | 21.2x | 23.3x | 19.5x | |
| P / E relative to DJ STOXX50 | 80% | 103% | 101% | 126% | 43% | 199% | 100% | 73% | 121% | 145% | 145% | 163% | 190% | 173% | |
| P / CF | 10.1x | 9.4x | 12.2x | 23.5x | 11.0x | 28.2x | 14.4x | 15.7x | 12.8x | 14.8x | 15.0x | 15.2x | 17.2x | 14.6x | |
| FCF yield | 3.7% | 4.7% | 2.2% | (2.7%) | 0.3% | (2.3%) | 0.2% | 4.9% | 3.5% | 4.1% | 3.4% | 4.1% | 4.1% | 4.9% | |
| P / BVPS | 2.79x | 3.42x | 4.69x | 7.36x | 2.93x | 4.31x | 2.69x | 3.55x | 4.26x | 4.83x | 4.74x | 5.89x | 6.17x | 4.97x | |
| Net yield | 3.1% | 2.6% | 2.5% | 0.0% | 1.3% | 1.0% | 1.8% | 1.5% | 1.5% | 1.7% | 3.4% | 1.7% | 1.5% | 1.8% | |
| Payout | 43.2% | 42.7% | 45.7% | 0.0% | 11.5% | 38.5% | 42.5% | 24.2% | 29.7% | 33.8% | 64.2% | 35.3% | 35.0% | 35.0% | |
| EV / Sales | 0.90x | 1.22x | 1.29x | 1.16x | 0.76x | 1.83x | 0.97x | 1.19x | 1.67x | 1.83x | 1.90x | 2.32x | 2.57x | 2.21x | |
| EV / Restated EBITDA | 6.8x | 8.7x | 10.0x | 12.2x | 7.2x | 16.9x | 9.5x | 9.1x | 10.3x | 10.4x | 9.8x | 11.4x | 12.3x | 10.3x | |
| EV / Restated EBIT | 9.6x | 12.3x | 15.1x | 23.6x | 12.9x | 28.2x | 16.5x | 13.2x | 13.6x | 13.5x | 12.5x | 14.7x | 15.6x | 13.0x | |
| EV / OpFCF | 17.5x | 14.9x | 34.0x | NC | 32.1x | NC | 110.7x | 16.6x | 21.2x | 17.6x | 18.8x | 17.1x | 17.3x | 14.3x | |
| EV / Capital employed (incl. gross goodwill) | 4.1x | 4.5x | 4.4x | 4.4x | 3.3x | 5.1x | 3.0x | 4.1x | 5.4x | 5.7x | 5.1x | 5.6x | 6.1x | 5.1x | |

| ENTERPRISE VALUE (CHFm) | Dec. 95 | Dec. 96 | Dec. 97 | Dec. 98 | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Market cap | 3,232 | 4,293 | 4,358 | 3,433 | 2,926 | 4,741 | 2,639 | 3,189 | 4,562 | 5,618 | 6,538 | 8,905 | 11,718 | 11,718 |
| + Adjusted net debt | (879) | (822) | (337) | (85) | (616) | (488) | (446) | (402) | (493) | (439) | (430) | (199) | (326) | (491) |
| + Other liabilities and commitments | 0 | 37 | 35 | 39 | 76 | 85 | 81 | 80 | 61 | 150 | 219 | 219 | 219 | 219 |
| + Revalued minority interests | 98 | 195 | 242 | 363 | 64 | 88 | 70 | 64 | 77 | 126 | 170 | 170 | 170 | 170 |
| - Revalued investments | 76 | 99 | 95 | 79 | 95 | 92 | 88 | 89 | 120 | 169 | 225 | 225 | 225 | 225 |

| P & L HIGHLIGHTS (CHFm) | Switch to IFRS data from FY ended 12/04 | | | | | | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|--------------------------------------|---|-------|-------|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Sales | 2,628 | 2,953 | 3,271 | 3,154 | 3,085 | 2,369 | 2,332 | 2,392 | 2,454 | 2,885 | 3,308 | 3,821 | 4,500 | 5,145 | | |
| Restated EBITDA (b) | 352 | 414 | 422 | 302 | 327 | 257 | 238 | 311 | 396 | 508 | 642 | 777 | 938 | 1,103 | | |
| Depreciation | (103) | (121) | (143) | (146) | (144) | (104) | (101) | (95) | (96) | (115) | (140) | (172) | (198) | (226) | | |
| Restated EBIT (b) (*) | 249 | 294 | 279 | 156 | 183 | 154 | 137 | 216 | 300 | 393 | 502 | 605 | 740 | 877 | | |
| Reported operating profit (loss) | 250 | 317 | 278 | (256) | 183 | 169 | (40) | 127 | 293 | 380 | 502 | 624 | 740 | 877 | | |
| Net financial income (charges) | 49 | 44 | 43 | 2 | 5 | 18 | 17 | 13 | 10 | 6 | 5 | (1) | 3 | 4 | | |
| Affiliates | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | |
| Other | - | - | - | - | 203 | - | - | - | - | - | - | - | - | - | | |
| Tax | (61) | (88) | (79) | (24) | (67) | (51) | (44) | (27) | (68) | (93) | (119) | (155) | (185) | (219) | | |
| Minorities | (8) | (9) | (12) | (12) | (16) | (7) | (8) | (4) | (8) | (15) | (17) | (25) | (27) | (29) | | |
| Goodwill amortisation | (0) | (2) | (6) | (10) | (11) | (4) | (8) | (9) | (10) | - | - | - | - | - | | |
| Net attributable profit reported | 231 | 264 | 229 | (290) | 316 | 129 | (75) | 109 | 227 | 278 | 371 | 443 | 531 | 632 | | |
| Net attributable profit restated (c) | 231 | 264 | 229 | 113 | 316 | 114 | 102 | 189 | 227 | 278 | 371 | 443 | 531 | 632 | | |

| CASH FLOW HIGHLIGHTS (CHFm) | Dec. 95 | Dec. 96 | Dec. 97 | Dec. 98 | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| EBITDA (reported) | 353 | 440 | 427 | (101) | 338 | 276 | 69 | 231 | 399 | 495 | 642 | 796 | 938 | 1,103 |
| EBITDA adjustment (b) | (2) | (26) | (4) | 402 | (11) | (19) | 170 | 80 | (3) | 13 | 0 | (19) | 0 | 0 |
| Other items | (5) | 87 | (26) | (95) | 18 | (59) | (26) | (92) | 1 | (43) | (44) | 19 | 0 | 0 |
| Change in WCR | (52) | (98) | (84) | (80) | (85) | (167) | (76) | 72 | (33) | 36 | (60) | (31) | (10) | (5) |
| Operating cash flow | 294 | 403 | 312 | 126 | 261 | 32 | 137 | 291 | 364 | 501 | 538 | 765 | 928 | 1,098 |
| Capex | (158) | (161) | (188) | (181) | (187) | (121) | (116) | (121) | (171) | (201) | (205) | (245) | (259) | (304) |
| Operating free cash flow (OpFCF) | 136 | 242 | 124 | (55) | 73 | (90) | 20 | 171 | 193 | 300 | 333 | 520 | 669 | 795 |
| Net financial items + tax paid | (14) | (32) | (14) | (46) | (66) | (21) | (16) | (12) | (29) | (66) | (102) | (145) | (182) | (215) |
| Free cash flow | 122 | 211 | 102 | (101) | 8 | (111) | 5 | 159 | 164 | 234 | 231 | 375 | 487 | 579 |
| Net financial investments | 12 | (8) | (27) | (19) | 17 | 19 | (24) | (44) | (6) | (180) | (80) | (165) | (227) | (255) |
| Other | 0 | (22) | (22) | 18 | 506 | 1 | 23 | (112) | 3 | (40) | (70) | (61) | 0 | 0 |
| Capital increase (decrease) | 0 | (137) | (425) | (43) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (145) | 0 | 0 |
| Dividends paid | (90) | (101) | (114) | (106) | 0 | (38) | (45) | (47) | (70) | (68) | (90) | (236) | (133) | (159) |
| Increase (decrease) in net financial debt | (43) | 56 | 485 | 252 | (531) | 128 | 42 | 44 | (91) | 54 | 9 | 231 | (127) | (165) |
| Cash flow, group share | 322 | 454 | 357 | 146 | 266 | 168 | 183 | 203 | 356 | 379 | 474 | 616 | 719 | 849 |

| BALANCE SHEET HIGHLIGHTS (CHFm) | Dec. 95 | Dec. 96 | Dec. 97 | Dec. 98 | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Fixed operating assets, incl. gross goodwill | 403 | 552 | 629 | 626 | 437 | 420 | 457 | 480 | 562 | 797 | 1,015 | 1,300 | 1,588 | 1,920 |
| WCR | 179 | 253 | 324 | 211 | 268 | 434 | 286 | 216 | 196 | 138 | 223 | 287 | 297 | 302 |
| Capital employed, incl. gross goodwill | 582 | 805 | 953 | 837 | 705 | 853 | 743 | 696 | 758 | 935 | 1,238 | 1,587 | 1,885 | 2,222 |
| Shareholders' funds, group share | 1,157 | 1,254 | 930 | 466 | 997 | 1,099 | 897 | 1,072 | 1,163 | 1,439 | 1,552 | 1,950 | 2,423 | 2,423 |
| Minorities | 35 | 57 | 52 | 49 | 22 | 20 | 26 | 18 | 18 | 26 | 36 | 40 | 67 | 96 |
| Provisions/ Other liabilities | 344 | 415 | 403 | 485 | 397 | 314 | 270 | 272 | 281 | 354 | 418 | 383 | 383 | 383 |
| Net financial debt (cash) | (879) | (822) | (337) | (85) | (616) | (488) | (446) | (402) | (493) | (439) | (430) | (199) | (326) | (491) |

| FINANCIAL RATIOS (%) | Dec. 95 | Dec. 96 | Dec. 97 | Dec. 98 | Dec. 99 | Dec. 00 | Dec. 01 | Dec. 02 | Dec. 03 | Dec. 04 | Dec. 05 | Dec. 06 | Dec. 07e | Dec. 08e |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Sales (% change) | NS | 12.4% | 10.7% | (3.6%) | (2.2%) | (23.2%) | (1.6%) | 2.6% | 2.6% | 17.6% | 14.7% | 15.5% | 17.8% | 14.3% |
| Organic sales growth | | | | | | 1.0% | 7.0% | 6.0% | 6.7% | 10.6% | 11.4% | 10.4% | 12.7% | 10.4% |
| Restated EBIT (% change) (*) | NS | 18.1% | (4.9%) | (44.2%) | 17.3% | (15.9%) | (10.7%) | 57.5% | 38.9% | 31.0% | 27.7% | 20.5% | 22.4% | 18.5% |
| Restated attributable net profit (% change) (*) | NS | 15.3% | (11.8%) | (48.0%) | 167.9% | (64.1%) | (6.3%) | 79.4% | 19.7% | 17.3% | 33.5% | 19.4% | 19.9% | 19.1% |
| Personnel costs / Sales | 51.0% | 50.5% | 52.5% | 54.7% | 54.2% | 52.6% | 53.8% | 52.3% | 50.5% | 49.7% | 48.8% | 49.2% | 49.0% | 48.8% |
| Restated EBITDA margin | 13.4% | 14.0% | 12.9% | 9.6% | 10.6% | 10.9% | 10.2% | 13.0% | 16.1% | 17.6% | 19.4% | 20.3% | 20.8% | 21.4% |
| Restated EBIT margin | 9.5% | 9.9% | 8.5% | 4.9% | 5.9% | 6.5% | 5.9% | 9.0% | 12.2% | 13.6% | 15.2% | 15.8% | 16.4% | 17.0% |
| Tax rate | 20.5% | 24.2% | 24.3% | NC | 28.8% | 26.9% | NC | 18.1% | 21.7% | 24.1% | 23.5% | 24.9% | 24.9% | 24.9% |
| Net margin | 9.1% | 9.3% | 7.4% | (8.8%) | 10.8% | 5.7% | (2.9%) | 4.7% | 9.6% | 10.2% | 11.7% | 12.2% | | |

PARIS

Exane S.A.
16 Avenue Matignon
75008 Paris
France
Tel: (+33) 1 44 95 40 00
Fax: (+33) 1 44 95 40 01

FRANKFURT

Branch of Exane S.A.
Bockenheimer Landstrasse 23
60325 Frankfurt am Main
Germany
Tel: (+49) 69 42 72 97 300
Fax: (+49) 69 42 72 97 301

GENEVA

Branch of Exane S.A.
Cours de Rive 10
1204 Geneva
Switzerland
Tel: (+41) 22 718 65 65
Fax: (+41) 22 718 65 00

LONDON

Exane Ltd
20 St. James's Street
London SW1A 1ES
UK
Tel: (+44) 20 7039 9400
Fax: (+44) 20 7039 9432 / 9433

MILAN

Branch of Exane S.A.
Via dei Bossi 4
20121 Milan
Italy
Tel: (+39) 02 89631713
Fax: (+39) 02 89631701

NEW YORK

Exane Inc.
640 Fifth Avenue
15th Floor
New York, NY 10019
USA
Tel: (+1) 212 634 4990
Fax: (+1) 212 634 5171

SINGAPORE

Branch of Exane Ltd
20 Collyer Quay
08-01 Tung Center
Singapore 049319
Tel: (+65) 6210 1909
Fax: (+65) 6210 1982

ZURICH

Representative office of Exane S.A.
Lintheschergasse 12
8001 Zurich
Switzerland
Tel: (+41) 1 228 66 00
Fax: (+41) 1 228 66 40

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(www.exanebnpparibas-equities.com) as well as
on Bloomberg (EXAA), First Call and Reuters.*

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