

Switzerland

SGS

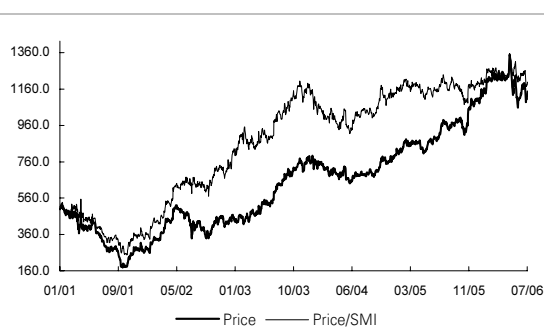
2/Outperform

Multi-Services

26 July 2006 – Company update

Closing Price (25/07/06)	SFr1147			
Target price	+13.3% SFr1300			
Market capitalisation	SFr 8604 m			
SMI	7784.8			
To 31/12 (SFr)	2005	2006E	2007E	2008E
Sales (m)	3307.9	3823.0	4205.2	4608.7
Net att. profit, rest. (m)	371.0	458.6	517.5	582.4
Free Cash Flow (m)	245.0	174.3	450.7	518.7
EBITDA margin (%)	19.4	20.5	20.8	21.1
Clean EPS	48.39	60.38	68.14	76.68
Reported EPS	48.99	61.14	68.99	77.64
P/E (x)	22.9	19.0	16.8	15.0
Attrib. FCF yield (%)	2.8	2.0	5.1	5.8
EV/EBITDA (x)	12.8	10.9	9.5	8.2
EV/EBIT (x)	16.4	13.7	11.9	10.2
ROCE (%)	36.5	39.9	42.2	44.4
ROE (%)	29.4	35.2	31.3	28.4
P/BV (x)	7.7	6.2	4.9	4.0
Net debt/EBITDA (x)	(0.8)	(0.4)	(0.7)	(1.0)
Net dividend	50.00	18.30	20.70	23.30
Yield (%)	4.5	1.6	1.8	2.0

Next event: FY-06 results, 15 January 2007



52-week range	SFr902-SFr1372		
Free Float	SFr 4543 m		
No. of shares, adjusted	7.501 m		
Daily volume	SFr 27.11 m		
Reuters/Bloomberg	SGSN.VX/SGSN VX		
	1 month	3 months	12 months
Absolute perf.	3.0%	-5.6%	15.9%
Relative perf.	-1.0%	-2.5%	-3.2%

Shareholders : Worms & Cie. 23.7%, Von Finck Family 23.5%

Passes the test

- **Unjustified market reaction:** SGS's share price has not reacted positively following the release of its H1-06 results which, however, provided the confirmation of the group's long term strong growth capacity. Several concerns have been raised by investors which we do not consider to be justified (fears about a further dilution from the TAS division, doubts on the power of the group's operating leverage, perception that SGS' corporate activity is slower than that of its peers, worries about the negative impact of a possible economic slowdown).
- **Further improving confidence:** Following a 2-day roadshow with the company's management, our already positive confidence has been even further strengthened. We now believe that the group is likely to strongly outperform our (for the time being unchanged) 2007 estimates. In fact, **(1)** SGS' core divisions are stronger than ever, with record-high levels of organic growth, providing a strong outlook now that the TAS division only represents 5% of turnover, **(2)** Profitability should continue to increase in the CTS division, and also benefit from a catch-up potential in the TAS and Life Science divisions, **(3)** Capital efficiency is further improving thanks to a DSO reduction and a better fixed asset utilization, helping SGS to close the gap with its peers, **(4)** SGS is not lagging behind its peers in terms of corporate activity, contrary to the market perception, **(5)** SGS's growth profile simultaneously offers a good defensiveness should the economy slowdown.
- **Recommendation:** We believe that SGS offers a good combination of growth and defensive characteristics, which makes it a very attractive investment in the current market environment. We see the current share price as a good buying opportunity in view of the group's exceptionally strong outlook, and reiterate our year-end target of CHF1300.

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Disclosures are available on www.cheuvreux.com

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I – LOOKING BEHIND THE RESULTS

Thanks to good results....

As mentioned in our last report dated 17 July 2006, SGS's results were broadly in line with the market consensus' expectations, but nevertheless very satisfactory to us in view of a better-than-expected performance within the divisions that are the most relevant for the group's long term growth story, and therefore underlying the group's positive outlook in terms of value creation potential.

....and despite a bad market reaction,...

However, SGS's share price has not reacted positively following the release of its H1-06 results and is now more or less at the same level than before the results. In addition, several concerns have been raised by investors which we do not consider to be justified (fears about a further dilution from the TAS division, doubts on the power of the group's operating leverage going forward, perception that SGS' corporate activity is slower than that of its peers, worries about the negative impact of a possible economic slowdown).

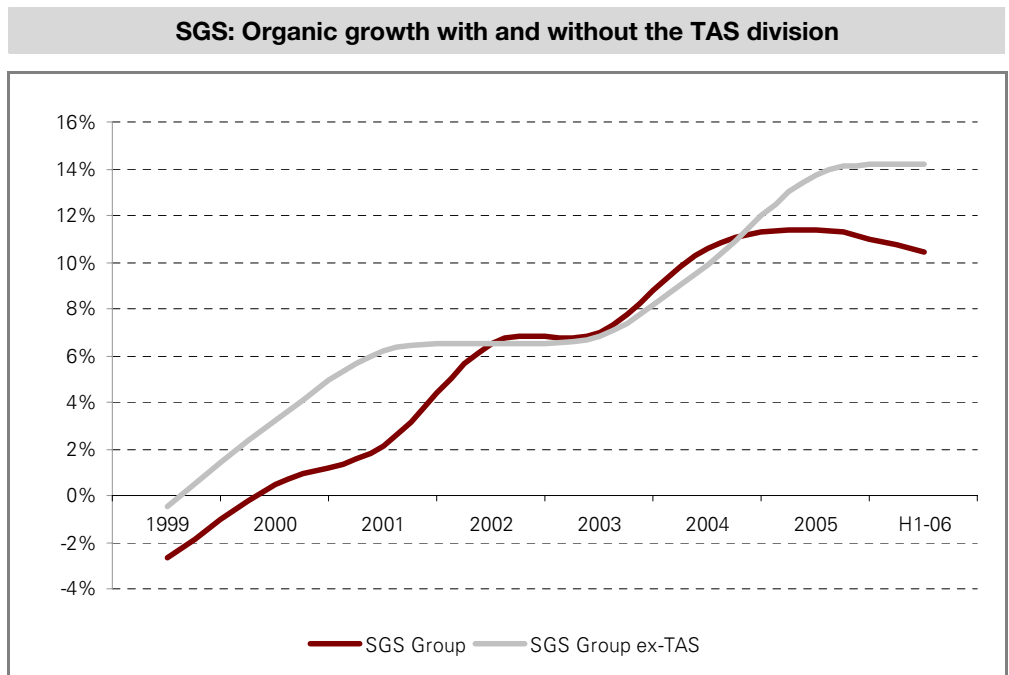
...our confidence in the investment case is even further strengthened

Following a 2-day roadshow with the company's management, our already positive confidence in the investment case has in fact been even further strengthened. We now believe that the group is likely to strongly outperform our (for the time being unchanged) 2007 estimates. We explain our confidence and address the market issues in the following paragraphs.

Core divisions are stronger-than-ever!

Unprecedented level of organic growth for SGS ex-TAS...

Although organic growth (10.4%) was a touch below the consensus expectations, it is worth noting that the drop in the TAS division (-30.7% due to the discontinuation of the Nigerian and Venezuelan contracts) was also generally underestimated (although well communicated by the management). Therefore, the group's organic growth is all the more impressive that it came close to consensus expectations despite a stronger-than-expected dilution from the TAS division. This also implies that the other 9 divisions performed much better-than-expected. When stripping out the Trade Assurance Services division, the organic growth turns out to be an impressive 14.2%, which is a level of organic growth totally unprecedented in the group's history, as shown in the chart below:



Source: Cheuvreux

...providing strong confidence for the future

It is also interesting to look at the importance of the TAS division with an historical perspective. While representing about 15% of sales and 38% of EBIT in 2000, the TAS division should account for less than 5% of the group's turnover and about 4.2% of the group's EBIT in 2006. Therefore, following the one-off growth dilution implied by the discontinuation of these last two big PSI contracts (Nigeria and Venezuela) in H1-06, the power of SGS' growth engine should become increasingly visible. Hence, the 14.2% record-high organic growth reported by the 9 other divisions (about 95% of the group's turnover) is the best indicator of the quality of the group's long term growth capacity, thereby reinforcing our confidence in the investment case. To that respect, it worth highlighting that the 5 divisions which are the most relevant for the investment case (the Consumer, OGC, Mineral, Certification and Agricultural divisions) continued to outperform our growth expectations, with respective organic growth rates of 27%, 13.4%, 18.1%, 16.1% and 9%. This makes us increasingly confident for an improved growth momentum in H2-06 (which should experience less growth dilution from TAS as the division will start benefiting from the new Mexico contract and the Nigerian replacement contract) as well as 2007 (no dilution at all). We provide more detail about our growth assumptions in our outlook section.

Profitability set to rise further

H1-06 operating margins were broadly in line with our estimates and therefore provided a good confirmation about the group's operating leverage. Here again, some market participants were disappointed since the reported margin (15.3%, up 20bp yoy) was a touch below the consensus estimates (+40bp). However, we believe that this delta mainly stems from the following factors: **(1)** market expectations for the profitability in the TAS division were artificially too high, **(2)** acquisitions had a slight negative impact on margins, as restructuring costs were recognized in the H1-06 P&L, **(3)** heavy investments in H1 had a negative impact on profitability in the CTS division. We review these three factors below.

Temporary margin drop in the TAS division

Following the loss of the Nigerian and Venezuelan contracts, turnover was down 30.7% in H1. Normally, in such a case, SGS immediately adapts the cost base in order to protect the margins. However, since SGS knew it was going to replace its Nigerian PSI contract with a scanner-based destination inspection contract in H2-06, it kept the cost base constant in H1-06, although revenues were missing. As a result, margins in the TAS division went temporarily down by 800bps, from 21.7% to 13.7%. The extent of this drop, which is purely related to a time lag issue of revenue generation against a fixed cost base, was the reason behind the disappointment on margins. However, it reflects in no way a structural negative issue that would be worrying for the future. In fact, now that the TAS division is expected to recover in H2-06, margins should be soon back to a level of at least 15-16% in H1-06 and 20% in FY-07 (more details in our outlook section). It is worth highlighting that, should margins would have remained stable in the TAS division yoy, group margins would have been 30bp higher (15.6%).(Should both turnover *and* margins remain stable in the TAS division, group margins would have been 70bp higher at 16%).

Minor acquisition-driven margin dilution

Secondly, margins were slightly diluted by the acquisitions carried out in the first part of the year, mainly in the Life Sciences division. These acquisitions have led to restructuring charges which, under the old accounting standards would have been included in the purchase price and capitalized, but which under the new IFRS accounting standards have been directly charged to the P&L, thereby reducing the margins on acquisitions. As shown in the table below, margins on acquisitions were 14.1%, below the group's average of 15.3%.

EBITA margins on acquisitions

	H1-06
Turnover from acquisitions / disposals (CHFm)	71
EBITA from acquisitions / disposals (CHFm)	10
EBITA margin on acquisitions / disposals	14.08%

Source: Cheuvreux

However, in view of the limited size of these acquisitions relative to the group, the margin dilution driven by external growth was in fact minor. As shown below, the negative impact from acquisitions was only 3bps in H1-06.

Components of margin improvement		
	H1-05	H1-06
Underlying EBITA margin		15.19%
Margin impact from acquisitions		-0.03%
Margin impact from currency		0.12%
Reported EBITA margins	15.09%	15.28%

Source: Cheuvreux

Operating leverage continues to be very powerful

As shown in the table above, underlying margins, net of acquisition and currency effects, were up 10bp, from 15.09% to 15.19%. It is worth noting, however, that these margins were also negatively impacted (on top of the negative impact from TAS and acquisitions) by incremental investments (leading to higher depreciation charges) in H1-06 and the absence of the related revenues (expected to start in H2). One could argue that this is always the case in any business. However, H1-06 witnessed a strong increase in operating costs in the E&E segment related to cell phone testing, which were dilutive to margins, but are expected to lead to profitability improvements in the CTS division in H2-06. Therefore, all in all, margins could have been: **(1)** 5bps higher (when excluding the negative impact from acquisitions due to accounting changes), **(2)** 30bps higher without the negative effect implied by the time lag between revenues and costs in the TAS division, and **(3)** 15bps higher without the negative impact from the incremental operating expenses charged in H1-06 on projects that will start generating revenues in H2. Therefore, margins would have been 50 bps higher (on a underlying basis, net of the positive impact from currencies), or up 60bps to 15.7%. This clearly confirms that the power of SGS's operating leverage continues to be very strong, as well as the positive mix impact from new services with higher margins. We will develop our margin assumptions for the future in our outlook section.

Further improvement of capital efficiency

DSOs down 2 days in H1-06

One clear surprise from this set of figures was the decrease in the number of DSOs by 2 days, which reversed the negative trend observed in FY-05 (+1 day, due to a strong month of December). SGS management is confident it will be able to show at least the same performance for the full year 2006. This should further decrease net working capital as a % of sales.

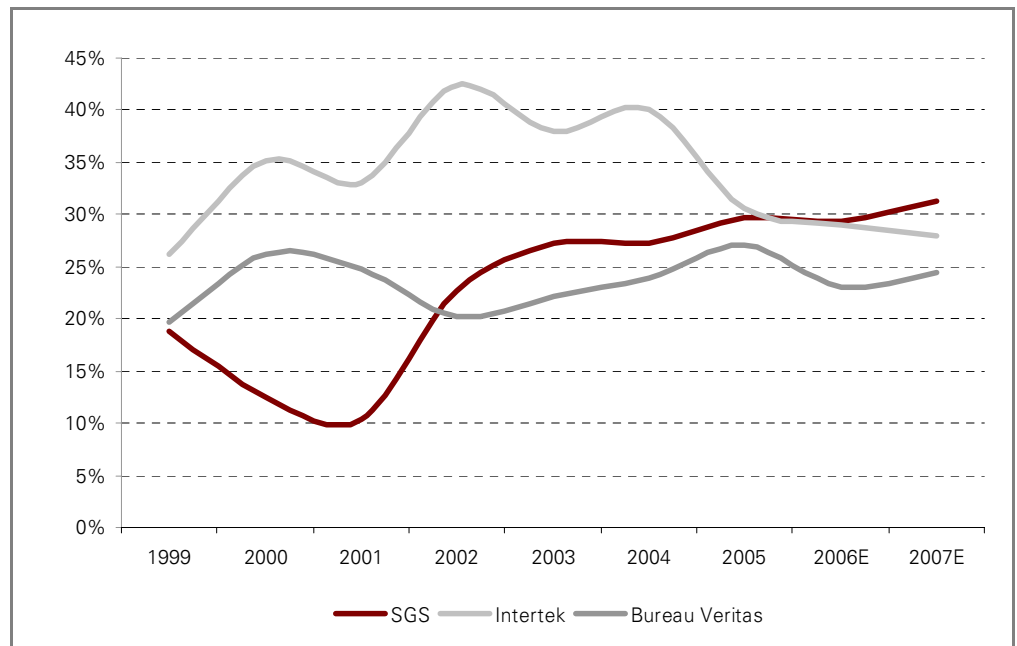
Lab capacity to be further optimized

In addition, a better utilization of the lab capacity should also further decrease the group's fixed asset intensity. In fact, according to the management, all segments within the CTS division (with the exception of chemical testing) still offer laboratory capacity. Therefore, all incremental growth of the next 12 to 18 month should lead to improved capital turns.

ROIC moving to best in class levels

As a result of strongly improving operating margins and the above mentioned improving capital efficiency, we are confident that SGS will continue to close the gap with its competitors, and further improve its ROIC as shown below.

ROIC development – SGS, Intertek , Bureau Veritas



Source: Cheuvreux

So far SGS is on track with its external growth target...

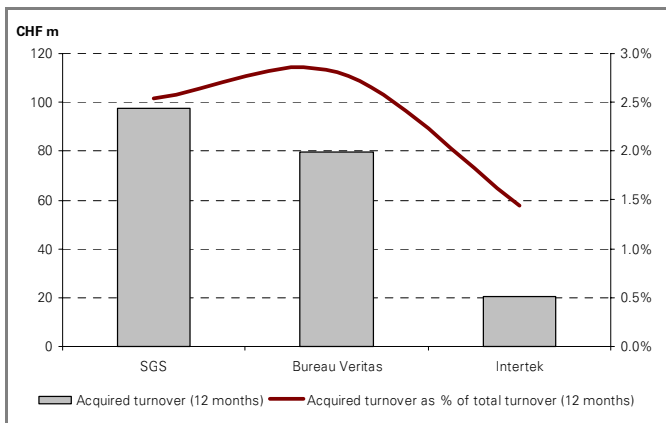
...the market remains skeptical

Corporate activity is on track

Along with its results release, SGS announced a new interesting acquisition in the Oil, Gas&Chemicals division, Laroute, a company supplying specialist additive services. This company had 2005 revenues in excess of CHF28m, and SGS believes it could achieve CHF100m turnover in the medium term. This is another example of small and medium sized niche acquisitions, which make an efficient use of the company's liquid resources. All in all, the external growth in H1-06 represented 4.6%, not far away from SGS's target of 5% p.a. Obviously, some of these acquisitions were carried out in 2005, and the positive impact on growth will fade away as we progress throughout the year. However, we continue to believe that new deals will come through, and that SGS will continue being on track with its external growth target of 5%.

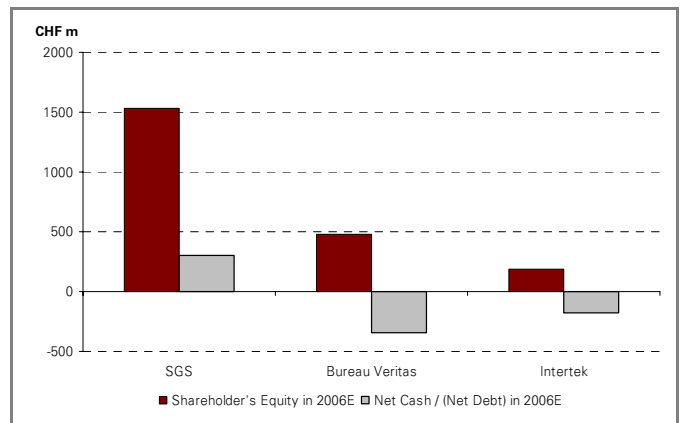
Much criticism has been done by investors or journalists with respect to SGS's corporate activity, judging it to be slow when compared to its competitors. These comments were probably fueled by the impressive number of deals announced by Bureau Veritas, giving the impression that SGS was lagging in terms of corporate dynamism. This skepticism is not justified in our view. In fact, SGS is the firm that has spent the most on acquisitions during the first half of the year, as shown in the chart below left. When comparing the acquired turnover (12 months) to the annual turnover of the respective groups, we see that SGS and Bureau Veritas have been spending equally (about 2.6% of annual turnover, on a 12-month rolling basis). Intertek turns out to be the firm that has been the less active in terms of corporate activity. The chart on the right highlights, in a simple way by showing the shareholder's equity and net cash/net debt position, that SGS boasts by far the strongest balance sheet, and therefore the strongest capacity to play an active role in terms of industry consolidation. Therefore, our confidence is pretty high that SGS should be on track looking forward with its targets of external growth, and should also be in the medium term, the company with the most dynamic corporate activity.

Acquired turnover since Jan.1, 2006



Source: Cheuvreux. Acquisitions include the following: **SGS:** Cotax, aster.cephac, Northview Bioscience, Laroute. **Intertek:** AKZO's EMC business, Portmaritimesecurity. **BV:** CPV, Natlsco, Nagtglas, Merchandise Testing Lab, Advance Data Tech, NSQ, Haztec, Intico.

Balance sheet strength (2006E)



Source: Cheuvreux

Defensiveness of the growth profile

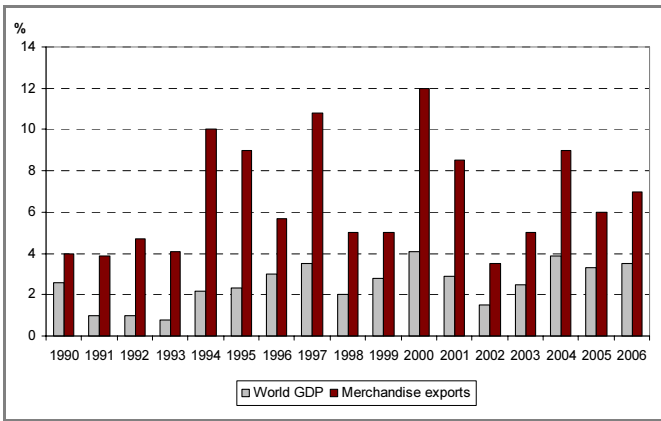
World trade remains robust...

Finally, some investors were worried about the possible negative impact of a possible economic slowdown. Here it is worth putting SGS' growth in historical perspective. As shown in the chart on the right, the world trade, as measured by the level of merchandise exports, has always been quite healthy, growing at an average of 2.5x the world GDP growth, or about 6.5 to 7%. This provides a sound basis for growth for SGS, knowing that a slowdown in a specific region is usually offset by a pick up in another one. Secondly, it is worth mentioning that volumes are not that relevant for SGS, which therefore rather benefits from the increasing number of product variants and the reduction of product cycle times (testing based on samples for each new product will therefore not be affected by a decrease in the production volumes).

...and the further broadening of the service range provides strong momentum

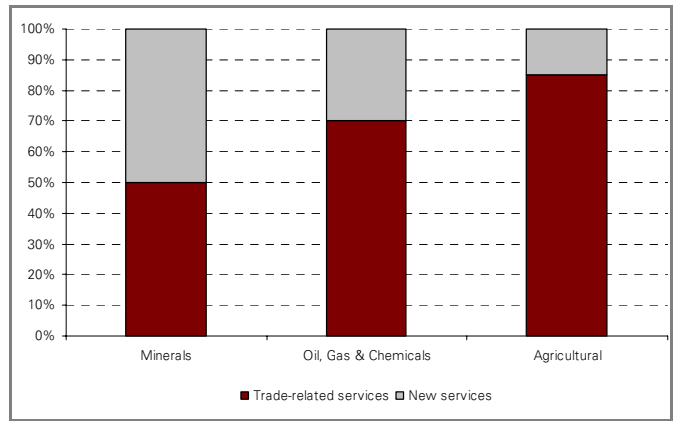
The broadening of the service range is one key element of the SGS investment case as it is one of the company's main top line growth drivers. Following an impressive number of new services launched in 2004 and 2005, SGS has once again demonstrated in 2006 its ability to stimulate mature activities with the development of up and downstream value-added services. As shown in the chart on the right, the share of new services is increasing in the commodity-related divisions, thereby further reducing the correlation with the world trade. The mineral division has been already very successful in developing new services, which now represent already 50% of sales. The potential remains strong in the OGC and Agricultural division, providing interesting incremental growth opportunities looking forward.

World GDP and Merchandise exports 1990-2006E



Source: WTO, Cheuvreux

SGS: Trade-related vs. new services



Source: SGS, Cheuvreux

II – OUTLOOK

Current guidance reiterated

During the analyst presentation, the CEO Dan Kerpelmann reiterated its 3 year guidance leading to a turnover of CHF5bn in 2008 (based on organic growth of 10% p.a. and external growth of 5% p.a.), EBITA margins of 17% and EPS of CHF80. During our two day roadshow in London, management was quite upbeat about: (1) a solid sales growth outlook for H2-06 and 2007, (2) a good outlook for profitability in H2-06 as well as (3) a further decrease of the group's capital intensity. We describe below our main assumptions for sales and profitability looking forward.

Sales growth outlook

Organic sales CAGR 05-08E: 10.2%

We believe that SGS is likely to post an organic growth in excess of 10% in the coming three years. Our divisional comments are provided below, and our detailed assumptions in the appendix.

SGS Oil, Gas & Chemicals (20% of group sales)

Organic sales CAGR 05-08E: 9.5%

The Oil, Gas & Chemicals Services division should continue to benefit from the high price volatility experienced by the oil market, which in turn implies a higher trading activity, and therefore additional inspection activities. In addition, SGS is benefiting from the ever increasing outsourcing trend within the major oil & refinery companies of all kind of lab and testing services. In 2006 and 2007, for instance, SGS will benefit from the recently introduced services (gas to oil ratio analytics, near infra-red analysis, laser calibration). The geographical expansion of the network in Eastern Europe, Middle East, China, Malaysia and the Philippines is also expected to further fuel revenue growth in 2006 and beyond. Finally, we expect investments in upstream and LNG technologies to provide interesting growth opportunities. All in all, we expect an organic sales CAGR 05-08E of 9.5%.

SGS Industrial Services (13% of group sales)

Organic sales CAGR 05-08E: 8.9%

The Industrial Services division has proved to boast an interesting portfolio of activities with a good growth profile. We believe that growth should continue to be sustained in 2006, fuelled by the oil, gas and power generation sectors (where the group signed new contracts in West Africa, the Middle East and Eastern Europe). Additional growth stimuli should be provided by the whole range of new services recently introduced (mainly statutory inspection activities and risk based inspection services) and the ongoing international development of these new services through the network. All in all, we expect an organic sales CAGR 05-08E of 8.9%.

SGS Consumer Goods (16% of group sales)

Organic sales CAGR 05-08E: 18.4%

The growth in SGS's consumer goods testing division continue to be driven by the ongoing shift of production to emerging markets, the heightened consumer awareness for quality and safety, and the growing demand from retailers for certified products. The competitive environment remains sound as evidenced by the absence of any material pricing pressure. This was confirmed again by CEO Dan Kerpelmann during the analyst presentation, indicating that market share gains were not achieved on the basis of pricing concessions. We expect 2006 to be further stimulated by the expected high growth in niches such as the information technology and cell phone testing (where capacity has been strongly expanded in Korea in H1-06) as well as the geographical expansion in India and Thailand. Finally, we expect Restricted Substance Testing and Services to continue being an important growth driver for the division. All in all, we expect an organic sales CAGR 05-08E of 18.4%.

**Organic sales CAGR
05-08E: 13%*****SGS Minerals (12% of group sales)***

The Mineral Services division is currently also benefiting from the rise in oil prices, which has triggered a renewed interest in coal exploration. This, in turn, drives the demand for inspection services in this segment. In addition, the general price increase experienced by most of the mineral commodities raise both the incentive to have the goods inspected (because of the higher value of the investment) as well as the exploration activity. This latter also provides additional growth prospects to SGS thanks to its role of technical advisor in the exploration activities. 2006 should also benefit from the newly acquired leadership positions in the Australian energy minerals market (opening new opportunities for other up- and downstream services in Australia) and in the Canadian metallurgy/mineralogy sector. Finally, we expect the outsourcing trend (evidenced by new contract wins in geochem lab outsourcing) to further accelerate looking forward. All in all, we expect an organic sales CAGR 05-08E of 13%.

**Organic sales CAGR
05-08E 7.8%*****SGS Agriculture (9% of group sales)***

This division should continue to be positively impacted by a good outlook for crop yields. Medium term, we remain confident with the sound growth prospects of this division, in view of the increasing environmental regulation (the number of food standards and the number of product categories subject to mandatory testing should increase in the future). In addition, SGS is constantly extending its range of services in order to boost revenues from its existing client base. New quality services covering the supply chain for Western European market delivery continue to develop successfully, as well as the new logistics services bundled with inspection services. All these non-trade-related services represent about 10-15% of the total divisional turnover, leaving room for further development (in the mineral division, non trade-related services represent already 50% of the divisional turnover). In addition, we believe that SGS enjoys a good pricing power on these packaged services, which further improves the attractiveness of these services both in terms of growth profile and profitability. All in all, we expect an organic sales CAGR 05-08E of 7.8%.

**Organic sales CAGR
05-08E: -4.4%*****SGS Trade Assurance services (5% of group sales)***

As mentioned in our last reports, SGS Global Trade Services is constantly expanding its scope of activities to encompass the entire trade community, thereby not just restricting it to governments and institutions. The division is constantly introducing new services designed to facilitate trade and bridge the gap between commercial interests. For 2006, however, we forecast a 23.3% organic decline, reflecting the loss of the Nigerian and Venezuelan contracts (15% decline in H2, following a 30.7% decline in H1). In our estimates, we have considered that part of this loss will be compensated in H2 by new revenues in Nigeria, such as revenues from the scanner services, as well as the beginning of the new contract in Mexico). All in all, we believe that this division should experience a CAGR 2005-2008E of -4.4%, resulting from a 5% decline in 2006, followed by a 5% organic growth in 2007 and 2008.

**Organic sales CAGR
05-08E: 11%*****SGS Systems and Services Certification (8% of group sales)***

The good news is that the traditional ISO 9000 business, which has reached a stage of high maturity in developed countries, is now providing good growth opportunities in the developing countries. On top of that, we believe that the Systems and Certification division should benefit in 2006 from the stepped-up demand for integrated audits (quality, environment, safety) especially by key accounts in Europe and North America, and supplier assessments. All in all, we expect an organic sales CAGR 05-08E of 11%.

SGS Environmental Services (7% of group sales)**Organic sales CAGR
05-08E: 8.2%**

We believe that the Environmental Services division should now start a clear business acceleration, driven by the internationalization throughout SGS's network of all the know-how and technologies acquired in the past 12-18 months. In H2-06, business should accelerate again after a slow first half due to severe weather conditions in key markets. All in all, we expect an organic sales CAGR 05-08E of 8.2%.

SGS's Automotive division (6% of sales)**Organic sales CAGR
05-08E: 8.4%**

We are increasingly bullish on the Automotive division, in view of the successes already achieved by the company in the past as well as the positive outlook for privatization schemes in vehicle inspection services. 2005 had a mixed performance, mainly due to the delay of the Californian data management contract, and the legislative delay for new contract opportunities. This should however boost 2006 revenues on an easier comparison base. H1-06 has already reversed the negative trend, with a 3% organic growth, and we expect H2-06 to show a further acceleration (+5% organic growth). Prospects for further contract wins remain excellent in our view, as evidenced by the new 4-year contract for licensing and inspection of all London black cabs and 5-year contract for licensing of public service vehicles in Ireland. All in all, we expect an organic sales CAGR 05-08E of 8.4%.

SGS - Life Sciences division (5% of sales)**Organic sales CAGR
05-08E: 7.9%**

Following the successful integration of aster.cephac and Northview Bioscience in H1-06, we expect a strong acceleration in organic growth as the division starts to get the benefits from having reached a critical mass in some specific segments, and therefore being in a position to achieve cross-selling opportunities as well as scalability effects in the network. Following a 1.8% organic decline, we expect a 5% organic growth in H2-06, followed by an 11% organic growth for both 2007 and 2008. All in all, we expect an organic sales CAGR 05-08E of 7.9%.

**Organic growth
could outperform
our expectations in
2007**

All in all, we expect an organic growth of 10.9% in H2-06 and 10% in 2007. Looking into 2007, organic growth rates in excess of our current projections of 10% cannot be ruled out, however. In fact, should SGS sustain its current solid momentum in its core divisions, improve the momentum in the Automotive, Life Science and Environmental services division, and stop the decline in the TAS division, organic growth rates of 12-13% could clearly be achieved.

Profitability outlook

We continue to believe that the group is on track to reach its EBITA margin target of 17% by 2008. Our model assumes a progression from 15.1% in 2005 to 15.8% in 2006 and 16.7% in 2007 (i.e. almost reaching the 2008 target one year ahead). All our detailed assumptions are displayed in the appendix. We are confident about further strong profitability improvements for the following reasons.

**Strong catch-up
potential for the TAS
margins**

EBIT in the TAS division should be up 25% in H2-06 vs. H1-06, as the new contracts will provide leverage on the fixed cost base (which was not adjusted downward in H1-06 when the revenues from lost contracts were missing in H1-06). Therefore, we expect the TAS margins to increase from 13.7% in H1-06 to at least 15-16% in H2-06, and reach about 19-20% in 2007.

**Further
improvement in the
CTS division**

In the Consumer Testing Services division (CTS), the operating leverage should continue to be strong as the company still has laboratory capacity in all the segments (with the exception of chemical testing). In addition, the investments in cell phone testing in Korea in H1-06, which were dilutive to margins, will lead to profitability improvements in the E&E segment of the CTS division in H2-06. All in all, we expect margins to improve from their current level of 22.8% in H1-06 to 23.4% for FY-06 and 25% in 2007E.

**Positive impact in
the Life Science
division**

Finally, margins should increase in the Life Science division, where the integration costs of large acquisitions were dilutive to the group's margins in H1-06.

III – VALUATION

Our year-end 2006 fair value is CHF 1300

We have summarized our assumptions in the figure below, and detailed them in the figures in the appendix.

SGS: Cheuvreux assumptions							
	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales growth (%)	17.6	14.7	15.6	10.0	9.6	8.3	6.9
Organic sales growth (%)	10.6	11.5	10.8	9.9	9.6	8.3	6.9
EBITA margin (%)	13.6	15.2	15.8	16.7	16.9	17.0	17.1
NOPAT margin (%)	10.2	11.4	11.9	12.9	13.1	13.2	13.2
Invested capital turns	2.4	2.2	2.3	2.4	2.4	2.5	2.6
Tax rate (%)	23.6	23.5	24.0	24.0	24.0	24.0	24.0

Source: Cheuvreux

On the basis of these assumptions, our DCF model indicates a fair value of around CHF 1300 (see appendix).

Peer comparison

Based on our estimates for 2006E and 2007E, the SGS share is trading at EV/EBITDA multiples of 10.9x and 9.2x, EV/EBITA multiples of 13.8x and 11.5x, and P/E multiples (on adjusted EPS) of 19.7x and 16.8x, respectively. When compared to the multiples of Intertek, its closest competitor, SGS shows a premium of about 10 to 15% on the basis of P/E and EV/EBITDA multiples, which we see as justified in view of SGS' superior catch-up potential in terms of performance metrics, as well as higher liquidity and stronger balance sheet in a context of industry consolidation.

SGS vs. Intertek

Company	P/E		EV/EBITA		EV/EBITDA	
	06E	07E	06E	07E	06E	07E
SGS	19.7	16.8	13.8	11.5	10.9	9.2
Intertek	16.9	15.1	12.3	10.7	9.2	8.2
Premium / (Discount) of SGS vs. Intertek	16%	11	12%	8%	18%	12%

Source: Cheuvreux

Conclusion / Recommendation

We reiterate our 6-month price target of CHF1300

We believe that SGS offers a good combination of growth and defensive characteristics, which makes it a very attractive investment in the current market environment. We see the current share price as a good step in opportunity in view of the group's exceptionally strong outlook, and reiterate our year-end target of CHF1300. Share price upside should stem from a further re-rating of the whole industry as well as a further expansion of SGS' premium over Intertek. On our price target of CHF1300, SGS would trade at P/E multiples of 22.3x and 19.1x, and EV/EBITDA multiples of 12.4x and 10.5x, respectively for 2006 and 2007E.

IV – APPENDIX

SGS – Sales revenues by division and growth assumptions

SALES REVENUES	2001A	2002A	2003A	2004A	2005A	2006E	2007E	2008E	2009E	2010E
Agricultural Services	254.0	250.4	241.8	257.1	294.8	326.7	349.6	374.1	396.5	416.3
Mineral Services	203.0	268.4	279.9	319.5	393.7	471.0	527.5	590.8	638.1	670.0
Oil, Gas & Chemicals Services	414.8	398.7	439.1	574.6	635.3	760.3	836.1	894.7	957.3	1005.2
Consumer Testing Services	286.0	268.4	272.3	360.6	476.2	603.8	694.4	798.6	902.4	1010.7
Industrial Services	474.0	320.6	330.1	379.8	444.7	493.4	522.9	564.7	604.2	646.5
Environmental Services		162.6	172.0	208.6	235.0	264.6	285.8	308.7	330.3	353.4
Systems and Services Certification	201.0	212.7	229.7	235.4	274.0	315.0	346.5	377.7	407.9	436.5
Automotive Services	204.0	238.9	211.0	187.7	200.2	218.8	242.9	267.1	288.5	305.8
Life Science Services	58.0	61.6	59.1	106.5	125.3	194.0	215.4	239.1	263.0	284.0
Trade Assurance Services	237.0	209.7	219.5	255.4	228.7	175.3	184.1	193.3	201.0	207.1
Total	2331.8	2392.0	2454.5	2885.2	3307.9	3823.0	4205.2	4608.7	4989.2	5335.4
SALES GROWTH ASSUMPTIONS	2001	2002A	2003A	2004A	2005A	2006E	2007E	2008E	2009E	2010E
Agricultural Services		-1.4	-3.4	6.3	14.7	10.8	7.0	7.0	6.0	5.0
Organic		6.9	0.0	7.4	12.2	9.3	7.0	7.0	6.0	5.0
Mineral Services		32.2	4.3	14.1	23.2	19.6	12.0	12.0	8.0	5.0
Organic		1.2	4.8	16.0	17.5	15.1	12.0	12.0	8.0	5.0
Oil, Gas & Chemicals Services		-3.9	10.1	30.9	10.6	19.7	10.0	7.0	7.0	5.0
Organic		0.9	15.8	12.6	9.5	13.6	8.0	7.0	7.0	5.0
Consumer Testing Services		-6.2	1.5	32.4	32.1	26.8	15.0	15.0	13.0	12.0
Organic		1.2	12.5	22.1	27.5	25.3	15.0	15.0	13.0	12.0
Industrial Services		na	3.0	15.1	17.1	10.9	6.0	8.0	7.0	7.0
Organic		na	3.4	15.1	12.6	10.8	8.0	8.0	7.0	7.0
Environmental Services		na	5.8	21.3	12.7	12.6	8.0	8.0	7.0	7.0
Organic		na	6.2	9.2	9.0	8.6	8.0	8.0	7.0	7.0
Systems and Services Certification		5.8	8.0	2.5	16.4	15.0	10.0	9.0	8.0	7.0
Organic		12.3	13.3	3.9	15.3	13.9	10.0	9.0	8.0	7.0
Automotive Services		17.1	-11.7	-11.0	6.7	9.3	11.0	10.0	8.0	6.0
Organic		28.4	-3.3	-13.4	-0.5	4.2	11.0	10.0	8.0	6.0
Life Science Services		6.2	-4.1	80.2	17.7	54.8	11.0	11.0	10.0	8.0
Organic		9.7	-4.5	-4.2	15.6	1.7	11.0	11.0	10.0	8.0
Trade Assurance Services		-11.5	4.7	16.4	-10.5	-23.3	5.0	5.0	4.0	3.0
Organic		-7.7	5.5	17.0	-10.5	-23.3	5.0	5.0	4.0	3.0
TOTAL		2.6	2.6	17.5	14.7	15.6	10.0	9.6	8.3	6.9
Organic		6.0	6.7	10.6	11.5	10.8	9.9	9.6	8.3	6.9
Acquisitions / Disposal		3.5	0.2	8.5	1.9	3.6	0.1	0.0	0.0	0.0
Exchange		-6.9	-4.2	-1.5	1.2	1.2	0.0	0.0	0.0	0.0

Source: Cheuvreux

SGS: EBITA and EBITA margins by division

OPERATING PROFIT	2001A	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Agricultural Services	11.4	24.6	24.3	23.6	33.5	40.8	47.2	52.4	55.5	58.3
Mineral Services	13.1	26.7	35.5	46.3	63.1	79.9	87.0	97.5	105.3	110.5
Oil, Gas & Chemicals Services	30.2	32.0	47.9	68.6	79.4	105.9	117.1	125.3	134.0	140.7
Consumer Testing Services	20.1	25.1	39.4	65.2	102.1	141.5	173.6	199.6	225.6	252.7
Industrial Services	28.6	33.5	34.9	46.1	58.6	68.2	74.2	80.2	85.8	91.8
Environmental Services		9.5	11.2	16.8	26.0	26.7	40.0	43.2	46.2	49.5
Systems and Services Certification	19.0	24.2	34.7	30.5	46.5	58.8	58.9	64.2	69.3	74.2
Automotive Services	-3.9	13.7	20.8	20.0	25.2	30.3	34.0	37.4	40.4	42.8
Life Science Services	3.0	3.3	5.9	12.8	19.1	27.4	34.5	40.6	44.7	48.3
Trade Assurance Services	24.1	23.0	45.1	61.5	48.5	25.2	35.0	40.6	42.2	43.5
TOTAL EBITA BEFORE EXCEPTIONALS	145.6	215.6	299.7	391.4	502.0	604.7	701.5	781.0	849.1	912.3
Corporate costs										
TOTAL EBITA BEFORE EXCEPTIONALS	145.6	215.6	299.7	391.4	502.0	604.7	701.5	781.0	849.1	912.3
OPERATING PROFIT MARGINS	2001A	2002A	2003A	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Agricultural services	4.5	9.8	10.0	9.2	11.4	12.5	13.5	14.0	14.0	14.0
Mineral services	6.5	9.9	12.7	14.5	16.0	17.0	16.5	16.5	16.5	16.5
Oil, Gas & Chemicals	7.3	8.0	10.9	11.9	12.5	13.9	14.0	14.0	14.0	14.0
Consumer products services	7.0	9.4	14.5	18.1	21.4	23.4	25.0	25.0	25.0	25.0
Industrial Services	6.0	10.4	10.6	12.1	13.2	13.8	14.2	14.2	14.2	14.2
Environmental services		5.8	6.5	8.1	11.1	10.1	14.0	14.0	14.0	14.0
Systems and Services Certification	9.5	11.4	15.1	13.0	17.0	18.7	17.0	17.0	17.0	17.0
Automotive	-1.9	5.7	9.9	10.7	12.6	13.9	14.0	14.0	14.0	14.0
Life Sciences	5.2	5.4	10.0	12.0	15.2	14.1	16.0	17.0	17.0	17.0
Trade Assurance (ex-GTS)	10.2	11.0	20.5	24.1	21.2	14.4	19.0	21.0	21.0	21.0
TOTAL EBITA BEFORE EXCEPTIONALS	6.2	9.0	12.2	13.6	15.2	15.8	16.7	16.9	17.0	17.1

Source: Cheuvreux

SGS – Income statement

Year end December	2001	2002	2003	2004	2005	2006E	2007E	2008E
Sales revenues	2332.0	2391.9	2454.0	2885.2	3307.9	3823.0	4205.2	4608.7
Salaries and wages	1254.6	1252.3	1240.0	1471.5	1687.0	1949.8	2144.6	2350.4
Subcontractors' expenses	133.1	142.0	155.0	173.1	198.5	229.4	252.3	276.5
Other operating expenses	697.4	686.8	663.0	735.0	780.4	881.3	932.6	1008.0
EBITDA	246.9	310.8	396.0	505.6	642.0	762.6	875.6	973.8
Depreciation	101.3	95.2	96.0	114.6	140.0	157.9	174.1	192.8
EBITA before exceptionals	145.6	215.6	300.0	391.0	502.0	604.7	701.5	781.0
Amortization	8.5	8.7	10.0	16.0	0.0	0.0	0.0	0.0
EBIT before exceptionals	137.1	206.9	290.0	375.0	502.0	604.7	701.5	781.0
Exceptional operating items	-177.5	-79.6	3.0	3.0	0.0	21.0	0.0	0.0
EBIT	-40.4	127.3	293.0	378.0	502.0	625.7	701.5	781.0
Financial Income	29.3	20.0	9.0	10.8	6.0	5.2	8.8	17.0
Interest expenses	9.5	11.7	8.0	4.8	1.0	0.8	0.9	0.6
Other non operating income	0.0	4.9	9.0	0.0	0.0	0.0	0.0	0.0
Other non operating expenses	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	-23.3	140.4	303.0	384.0	507.0	630.1	709.4	797.4
Pre-exceptionals PBT	154.2	220.1	300.0	381.0	507.0	609.1	709.4	797.4
Taxes	43.5	27.5	68.0	90.0	119.0	151.9	170.3	191.4
Minority interest	8.3	3.8	8.0	15.0	17.0	19.6	21.6	23.7
Net income before disposals	-75.2	109.1	227.0	279.0	371.0	458.6	517.5	582.4
Gain on disposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income after gains on disposals	-75.2	109.1	227.0	279.0	371.0	458.6	517.5	582.4
As a % of net sales								
Salaries and wages	53.8	52.4	50.5	51.0	51.0	51.0	51.0	51.0
Subcontractors' expenses	5.7	5.9	6.3	6.0	6.0	6.0	6.0	6.0
Other operating expenses	29.9	28.7	27.0	25.5	23.6	23.1	22.2	21.9
EBITDA margin	10.6	13.0	16.1	17.5	19.4	19.9	20.8	21.1
Depreciation	4.3	4.0	3.9	4.0	4.2	4.1	4.1	4.2
EBITA margin before exceptionals	6.2	9.0	12.2	13.6	15.2	15.8	16.7	16.9
Amortization	0.4	0.4	0.4	0.6	0.0	0.0	0.0	0.0
EBIT margin before exceptionals	5.9	8.7	11.8	13.0	15.2	15.8	16.7	16.9
Financial income	1.3	0.8	0.4	0.4	0.2	0.1	0.2	0.4
Interest expenses	0.4	0.5	0.3	0.2	0.0	0.0	0.0	0.0
Profit before taxes	-1.0	5.9	12.3	13.3	15.3	16.5	16.9	17.3
Tax rate	28.2	12.5	22.7	23.6	23.5	24.0	24.0	24.0
Net income	-3.2	4.6	9.3	9.7	11.2	12.0	12.3	12.6

Source: Cheuvreux

SGS: Balance Sheet

Year end December	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Current assets	1445.2	1280.4	1340.0	1285.0	1525.0	1414.2	1816.4	2284.0	2788.2	3329.2
Cash and cash equivalents	490.2	419.3	471.0	445.0	521.0	314.8	608.1	960.8	1356.5	1798.8
Marketable securities	159.0	112.1	55.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Accounts receivable from customers	513.3	494.7	571.0	579.0	713.0	764.6	841.0	921.7	997.8	1067.1
Work-in-progress and inventories	111.9	108.4	108.0	111.0	130.0	150.2	165.3	181.1	196.1	209.7
Other current assets	170.8	146.0	135.0	140.0	151.0	174.5	192.0	210.4	227.7	243.6
Fixed assets	545.4	569.1	682.0	927.0	1240.0	1473.1	1554.9	1641.5	1723.9	1798.0
Property, plant&equipment	397.7	373.9	415.0	493.0	586.0	670.8	740.6	815.2	886.6	951.2
Financial assets	2.6	2.9	2.0	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Intangibles (ex. Goodwill)	2.6	14.2	30.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Intangibles (Goodwill)	57.3	92.5	117.0	269.0	394.0	525.0	525.0	525.0	525.0	525.0
Other fixed assets	85.3	85.6	118.0	127.4	222.4	239.7	251.7	263.8	274.7	284.2
Total assets	1990.7	1849.5	2022.0	2212.0	2765.0	2887.3	3371.3	3925.6	4512.1	5127.2
Current liabilities	670.8	614.9	640.0	700.0	865.0	1000.2	1099.2	1203.7	1302.3	1391.9
Short-term debt / Bank loans	161.4	81.9	22.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Other interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable to suppliers	272.2	259.9	299.0	329.0	329.0	382.3	420.5	460.9	498.9	533.5
Other accounts payables	237.2	273.1	319.0	361.0	526.0	607.9	668.7	732.8	793.3	848.4
Medium- and long-term liabilities	42.2	47.8	11.0	8.0	7.0	10.0	0.0	0.0	0.0	0.0
Long-term bonds	0.0	0.0	11.0	8.0	7.0	10.0	0.0	0.0	0.0	0.0
Owed to credit institutions (loans)	42.2	47.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	270.2	272.0	281.0	249.0	418.0	307.5	310.7	320.5	329.7	338.0
Deferred taxes	42.0	54.5	72.0	64.0	80.0	92.5	101.7	111.5	120.7	129.0
Non recurring precautionary provisions	123.2	123.6	135.0	120.0	238.0	135.0	135.0	135.0	135.0	135.0
Restructuring and other provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefit obligations	105.0	94.0	74.0	65.0	100.0	80.0	74.0	74.0	74.0	74.0
Minority shareholders	25.8	18.1	18.0	26.0	26.0	37.1	48.9	61.8	75.6	90.2
Shareholders' equity	981.7	896.6	1072.0	1229.0	1449.0	1532.5	1912.5	2339.6	2804.5	3307.0
Total Liabilities	1990.7	1849.5	2022.0	2212.0	2765.0	2887.3	3371.3	3925.6	4512.1	5127.2
	-445.6	-401.6	-493.0	-437.0	-514.0	-304.8	-608.1	-960.8	-1356.5	-1798.8

Source: Cheuvreux

SGS – DCF valuation (10 to 15 years growth duration period) – Part 1

	2006E	2007E	2008E	2009E	2010E
Sales	3823	4205	4609	4989	5335
Sales growth	15.6	10.0	9.6	8.3	6.9
EBITDA	762.6	875.6	973.8	1 067.1	1 157.1
EBITDA growth	18.8	14.8	11.2	9.6	8.4
Depreciation	157.9	174.1	192.8	217.9	244.9
Amortization	0.0	0.0	0.0	0.0	0.0
EBIT	604.7	701.5	781.0	849.1	912.3
NOPBT	604.7	701.5	781.0	849.1	912.3
Cash Tax rate	22.9	22.7	22.8	22.9	23.1
NOPAT	466.3	542.4	603.3	654.5	701.7
NOPAT margin	12.2	12.9	13.1	13.1	13.2
NOPAT growth	16.5	16.3	11.2	8.5	7.2
Chg in working capital	-32.1	15.6	16.5	15.6	14.2
Chg in fixed assets	212.1	81.8	86.6	82.3	74.1
Chg in other assets	0.0	0.0	0.0	0.0	0.0
Incremental Investment	180.0	97.4	103.1	97.9	88.3
FREE CASH FLOW	286.3	444.9	500.2	556.6	613.4
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2
Discount factor	0.92	0.85	0.79	0.73	0.67
PV of FCF	264.5	379.8	394.5	405.7	413.1
Cumulative PV of FCF	264.5	644.4	1 038.9	1 444.6	1 857.6
Residual Value	6 590	7 331	7 953	8 526	9 183
PV of Residual Value	6 089	6 258	6 273	6 214	6 183
Enterprise Value	6 354	6 903	7 312	7 659	8 041
Excess Cash	267	267	267	267	267
Minorities interest	37	37	37	37	37
Pension provisions	80	80	80	80	80
Total Debt	20	20	20	20	20
Shareholder value	6 484	7 033	7 442	7 789	8 171
Shares outstanding	7.50	7.50	7.50	7.50	7.50
Value per share	864	938	992	1 038	1 089
Years into future	1	2	3	4	5

Source: Cheuvreux

SGS – DCF valuation (10 to 15 years growth duration period) – Part 2

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Sales	5682	6052	6445	6864	7310	7785	8291	8830	9404	10015
Sales growth	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
NOPAT	755.7	804.9	857.2	912.9	972.2	1 035.4	1 102.7	1 174.4	1 250.7	1 332.0
NOPAT margin	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3
NOPAT growth	7.7	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Chg in working capital	14.2	15.1	16.1	17.1	18.3	19.5	20.7	22.1	23.5	25.0
Chg in fixed assets	120.4	128.2	136.6	145.4	154.9	165.0	175.7	187.1	199.3	212.2
Chg in other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incremental Investment	134.6	143.3	152.7	162.6	173.2	184.4	196.4	209.2	222.8	237.2
FREE CASH FLOW	621.1	661.5	704.5	750.3	799.1	851.0	906.3	965.2	1 028.0	1 094.8
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Discount factor	0.62	0.57	0.53	0.49	0.45	0.42	0.39	0.36	0.33	0.31
PV of FCF	386.5	380.3	374.2	368.2	362.3	356.5	350.8	345.2	339.7	334.3
Cumulative PV of FCF	2 244.1	2 624.4	2 998.6	3 366.8	3 729.2	4 085.7	4 436.5	4 781.8	5 121.5	5 455.8
Residual Value	9 780	10 415	11 092	11 813	12 581	13 399	14 270	15 197	16 185	17 237
PV of Residual Value	6 085	5 987	5 892	5 797	5 705	5 614	5 524	5 436	5 349	5 263
Enterprise Value	8 329	8 612	8 890	9 164	9 434	9 699	9 960	10 217	10 470	10 719
Excess Cash	267	267	267	267	267	267	267	267	267	267
Minorities interest	37	37	37	37	37	37	37	37	37	37
Pension provisions	80	80	80	80	80	80	80	80	80	80
Total Debt	20	20	20	20	20	20	20	20	20	20
Shareholder value	8 459	8 742	9 021	9 295	9 564	9 830	10 091	10 348	10 601	10 849
Shares outstanding	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Value per share	1 128	1 165	1 203	1 239	1 275	1 310	1 345	1 379	1 413	1 446
Years into future	6	7	8	9	10	11.0	12.0	13.0	14.0	15.0

Source: Cheuvreux

SGS

FY to 31/12 (Swiss Franc m)	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Profit & Loss Account									
Sales	2 368.9	2 332.0	2 391.9	2 454.0	2 885.2	3 307.9	3 823.0	4 205.2	4 608.7
% Change	-23.2%	-1.6%	2.6%	2.6%	17.6%	14.7%	15.6%	10.0%	9.6%
Staff costs	(1 245.8)	(1 254.6)	(1 252.3)	(1 240.0)	(1 471.5)	(1 687.0)	(1 949.8)	(2 144.6)	(2 350.4)
Other costs	(853.0)	(1 008.0)	(908.4)	(815.0)	(905.1)	(978.9)	(1 089.6)	(1 185.0)	(1 284.5)
EBITDA	270.1	69.4	231.2	399.0	508.6	642.0	783.6	875.6	973.8
% Change	-21.2%	-74.3%	NS	72.6%	27.5%	26.2%	22.1%	11.7%	11.2%
Depreciation	(103.5)	(101.3)	(95.2)	(96.0)	(114.6)	(140.0)	(157.9)	(174.1)	(192.8)
EBITA	166.6	(31.9)	136.0	303.0	394.0	502.0	625.7	701.5	781.0
% Change	-16.0%	NS	NS	122.8%	30.0%	27.4%	24.6%	12.1%	11.3%
Goodwill amortisation before OP	(4.3)	(8.5)	(8.7)	(10.0)	(16.0)	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	162.3	(40.4)	127.3	293.0	378.0	502.0	625.7	701.5	781.0
Net financial items	24.6	17.1	13.2	10.0	6.0	5.0	4.4	7.9	16.4
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(51.4)	(43.5)	(27.5)	(68.0)	(90.0)	(119.0)	(151.9)	(170.3)	(191.4)
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	135.4	(66.9)	112.9	235.0	294.0	388.0	478.2	539.1	606.1
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(6.7)	(8.3)	(3.8)	(8.0)	(15.0)	(17.0)	(19.6)	(21.6)	(23.7)
Net attributable profit [loss]	128.7	(75.2)	109.1	227.0	279.0	371.0	458.6	517.5	582.4
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net attrib. profit [loss], restated (*)	133.0	(66.7)	117.8	237.0	295.0	371.0	458.6	517.5	582.4
% Change	7.0%	NS	NS	101.2%	24.5%	25.8%	23.6%	12.8%	12.5%
Cash Flow Statement									
Cash flow	187.6	211.2	218.8	395.0	392.6	697.0	525.6	716.5	808.6
% Change		12.6%	3.6%	80.5%	-0.6%	77.5%	-24.6%	36.3%	12.9%
Change in WCR	(205.7)	(76.0)	32.0	(70.0)	56.0	1.0	39.8	(9.9)	(10.5)
Capex	(97.9)	(50.6)	(118.0)	(101.0)	(374.4)	(453.0)	(391.1)	(255.9)	(279.4)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	(116.0)	84.6	132.8	224.0	74.2	245.0	174.3	450.7	518.7
Financial investments	(19.4)	(8.4)	(84.7)	(16.0)	(60.0)	(76.3)	(8.5)	(9.8)	(10.8)
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	(37.5)	(45.4)	(46.9)	(56.0)	(69.0)	(91.7)	(375.1)	(137.6)	(155.3)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	45.1	(73.5)	(45.2)	(60.6)	(1.2)	0.0	0.0	0.0	0.0
Dec. [inc.] in net debt	(127.8)	(42.7)	(44.0)	91.4	(56.0)	77.0	(209.3)	303.3	352.6
Balance Sheet									
Shareholders' equity [group share]	1 099.3	981.7	896.6	1 072.0	1 229.0	1 449.0	1 532.5	1 912.5	2 339.6
Minority interests	20.5	25.8	18.1	18.0	26.0	26.0	37.1	48.9	61.8
Pension provisions	109.4	105.0	94.0	74.0	65.0	100.0	80.0	74.0	74.0
Other provisions	313.9	270.2	272.0	281.0	249.0	418.0	307.5	310.7	320.5
Net debt [cash]	(488.2)	(445.6)	(401.6)	(493.0)	(437.0)	(514.0)	(304.8)	(608.1)	(960.8)
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Capital invested	1 054.9	937.1	879.1	952.0	1 132.0	1 479.0	1 652.3	1 738.0	1 835.1
Goodwill	30.6	57.3	92.5	117.0	269.0	394.0	525.0	525.0	525.0
Intangible assets	2.5	2.6	14.2	30.0	35.0	35.0	35.0	35.0	35.0
Tangible assets	472.3	483.0	459.5	533.0	620.4	808.4	910.5	992.3	1 078.9
Financial assets	6.4	2.6	2.9	2.0	2.6	2.6	2.6	2.6	2.6
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital requirement	433.5	286.6	216.1	196.0	140.0	139.0	99.2	109.1	119.5
WCR as a % of sales	18.3	12.3	9.0	8.0	4.9	4.2	2.6	2.6	2.6
Capital employed	945.3	832.1	785.2	878.0	1 067.0	1 379.0	1 572.3	1 664.0	1 761.0
* before goodwill for historical data									

SGS

FY to 31/12 (Swiss Franc)	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Per Share Data (at 25/7/2006)									
EPS before goodwill	17.00	(8.53)	15.11	30.60	38.28	48.39	60.38	68.14	76.68
% Change	7.0%	NS	NS	102.6%	25.1%	26.4%	24.8%	12.8%	12.5%
EPS, reported	16.45	(9.61)	13.99	29.41	36.45	48.99	61.14	68.99	77.64
% Change	-59.3%	NS	NS	110.2%	23.9%	34.4%	24.8%	12.8%	12.5%
Goodwill per share	0.55	1.09	1.12	1.29	2.08	0.00	0.00	0.00	0.00
Dividend per share	5.80	6.00	7.30	9.00	12.00	50.00	18.30	20.70	23.30
Cash flow per share	23.98	27.00	28.06	51.00	50.95	90.91	69.20	94.34	106.46
% Change		12.6%	3.9%	81.8%	-0.1%	78.4%	-23.9%	36.3%	12.9%
Book value per share	134.7	119.5	108.0	130.9	148.8	143.2	186.0	234.3	288.6
No. of shares, adjusted	7.822	7.822	7.773	7.662	7.645	7.501	7.501	7.501	7.501
Av. number of shares, adjusted	7.822	7.822	7.798	7.718	7.654	7.573	7.501	7.501	7.501
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]									
Latest price	500.00	266.50	416.00	776.00	796.50	1108.00	1147.00	1147.00	1147.00
High	785.00	520.00	530.00	798.00	803.00	1115.00	1372.00	-	-
Low	431.00	175.00	257.50	409.00	633.00	785.00	1037.00	-	-
Average price	615.50	344.72	406.51	582.47	717.38	926.18	1191.94	-	-
Market capitalisation	3 911.1	2 084.6	3 233.7	5 945.6	6 089.4	8 466.4	8 603.8	8 603.8	8 603.8
Enterprise value	3 612.1	1 808.5	2 992.1	5 647.9	5 841.7	8 225.2	8 554.6	8 335.8	7 983.1
Valuation									
P/E	30.4	NS	29.7	26.5	22.0	22.9	19.0	16.8	15.0
P/E before goodwill	29.4	NS	27.5	25.4	20.8	22.9	19.0	16.8	15.0
P/CF	20.8	9.9	14.8	15.2	15.6	12.2	16.6	12.2	10.8
Attrib. FCF yield [%]	NS	3.9	4.0	3.7	1.2	2.8	2.0	5.1	5.8
P/BV	3.7	2.2	3.9	5.9	5.4	7.7	6.2	4.9	4.0
Enterprise value / Op CE	3.8	2.2	3.8	6.4	5.5	6.0	5.5	5.0	4.5
Yield [%]	1.2	2.3	1.8	1.2	1.5	4.5	1.6	1.8	2.0
EV/EBITDA, restated	13.4	26.1	12.9	14.2	11.5	12.8	10.9	9.5	8.2
EV/EBITA, restated	21.7	NS	22.0	18.6	14.8	16.4	13.7	11.9	10.2
EV/Sales	1.53	0.78	1.25	2.30	2.03	2.49	2.24	1.98	1.73
EV/Debt-adjusted cash flow	20.8	8.8	14.0	14.2	14.8	11.6	16.1	11.4	9.7
Financial Ratios									
Interest cover	NS	1.9	NS	NS	NS	NS	NS	NS	NS
Net debt/Cash flow	NS	NS	NS	NS	NS	NS	NS	NS	NS
EBITDA margin [%]	11.4	3.0	9.7	16.3	17.6	19.4	20.5	20.8	21.1
EBITA margin [%]	7.0	NS	5.7	12.3	13.7	15.2	16.4	16.7	16.9
Net margin [%]	5.7	NS	4.7	9.6	10.2	11.7	12.5	12.8	13.2
Capital turn [Sales/ Op. CE]	2.5	2.8	3.1	2.8	2.7	2.4	2.4	2.5	2.6
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Payout ratio [%]	35.3	(62.4)	52.2	30.6	32.9	102.1	29.9	30.0	30.0
Return [%]									
Pre-tax RoCE	17.7	NS	17.4	34.6	37.0	36.5	39.9	42.2	44.4
RoCE after tax	12.9	NS	12.3	24.4	37.0	36.5	39.9	42.2	44.4
ROE [%]	12.4	NS	13.0	23.7	25.6	29.4	35.2	31.3	28.4
Return on equity, restated	12.4	NS	13.0	23.7	25.6	29.4	35.2	31.3	28.4

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