

Switzerland

2/Outperform

18 July 2007 – Increase in price target

SGS

Business Services

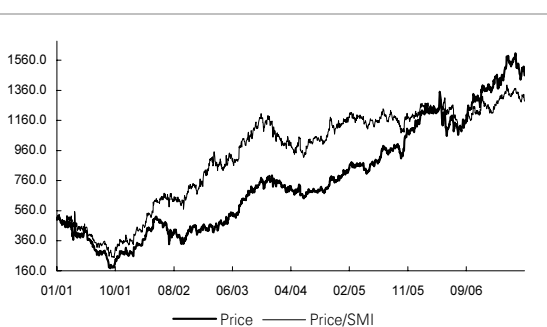
Still attractive

- **Our confidence in investment case still intact.** We have no reason to doubt the group's ability to reach its 2008 EPS target of CHF80, especially given its strong organic growth (11.5%), clearly above its 10% target. Although its external growth (1.7%) is below target (5%), its EPS target is not at risk, in our view as: 1) returns on organic growth are much higher than on external growth; 2) SGS is in a position to deliver more than CHF80 of EPS, should it achieve 5% external growth.
- **Unchanged estimates.** Following the release of the H1-07 results, we have left our FY-07 and FY-08 broadly unchanged (less than 0.3% change).
- **Valuation.** Based on our estimates for 2007E and 2008E, SGS is trading at EV/EBITDA multiples of 11.5x and 9.8x, EV/EBITA multiples of 14.6x and 12.4x and P/E multiples (on adj. EPS) of 21.6x and 18.8x, respectively. Compared with Intertek, its closest competitor, SGS shows a premium of about 5% on P/E and a discount of 5-10% on EV, which we do not see as justified in view of SGS's superior catch-up potential in performance metrics, and its higher liquidity and stronger balance sheet in a context of industry consolidation.
- **Recommendation.** Although the stock's momentum may be weak in coming months due to a lack of short-term catalysts, we believe SGS is an attractive investment on a one-year view. We see the current share price as a good opportunity in view of the group's strong outlook, and set a new 12-month (mid-2008) target of CHF1700 (from our previous year-end 2007 target of CHF1550). Share price upside should stem from a further industry rerating and expansion of SGS's premium to Intertek.

Closing price (17/07/07)	CHF1425		
Target price	+19.3% CHF1700		
Market capitalisation	CHF11089m		
SMI	9219.32		

To 31/12 (CHF)	2006	2007E	2008E	2009E
Sales (m)	3821.0	4322.8	4738.7	5127.2
Net att. profit, rest. (m)	442.6	508.0	585.9	652.2
Free Cash Flow (m)	61.7	579.9	544.0	608.2
EBITDA margin (%)	20.8	20.6	21.4	21.7
Clean EPS	57.92	66.07	76.20	84.82
Reported EPS	58.64	66.89	77.14	85.87
P/E (x)	23.4	22.1	19.2	17.2
Attrib. FCF yield (%)	0.6	5.1	4.8	5.3
EV/EBITDA (x)	13.0	12.2	10.3	9.0
EV/EBIT (x)	16.6	15.5	13.1	11.4
ROCE (%)	36.7	42.7	46.5	49.0
ROE (%)	33.2	30.3	28.3	25.9
P/BV (x)	7.3	6.2	5.1	4.2
Net debt/EBITDA (x)	(0.3)	(0.7)	(1.0)	(1.3)
Net dividend	17.50	20.10	23.10	25.80
Yield (%)	1.3	1.4	1.6	1.8

Next event: FY 2007 results, January 15, 2008



52-week range	CHF1063-CHF1628		
Free float	CHF6817		
No. of shares, adjusted	7.595m		
Daily volume	CHF43.08m		
Reuters/Bloomberg	SGSN.VX/SGSN VX		

	1 month	3 months	12 months
Absolute perf.	-4.8%	-7.8%	28.3%
Relative perf.	-3.0%	-7.7%	4.4%

Shareholders: Von Finck Family 23.5%, IFIL 13.2%, Allianz 7.4%

Michel KEUSCH
Research Analyst
 mkeusch@cheuvreux.com
 (41) 44 218 17 09

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I – OUTLOOK

Thanks to a strong organic growth...

... and despite slightly lower EBIT margin...

... our confidence in the investment case is intact

Since we have already commented on the H1-07 results in our last report, dated 16 July 2007, in this report we focus on the group's outlook for H2-2007 and beyond.

As we said in our last report dated 16 July 2007, SGS's H1-07 sales were broadly in line with our and market consensus expectations, but nevertheless showed slightly better organic growth (11.5% vs. our expectations of 11.3% and consensus forecasts ranging from 9.5% to 11.8%). The highlights were strong growth from the TAS division (organic growth of 13.9%, reflecting a successful recovery thanks to a strong take-off in value-added services, which are gradually replacing the traditional PSI contracts) and from the Industrial division (19% organic growth, thanks to strong growth in all segments, particularly NDT and supply chain services).

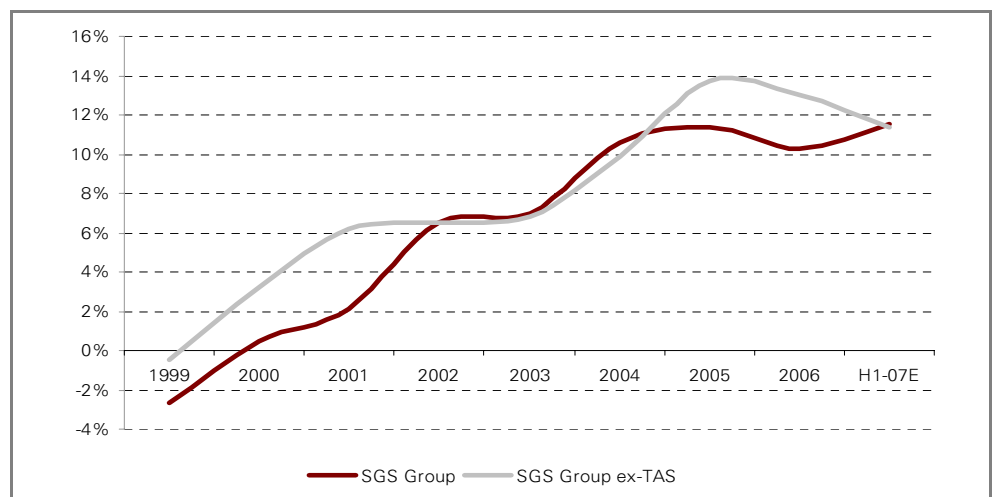
As indicated in our previous report, margins were slightly below our estimates (15.5% vs our estimate of 15.7% and consensus of 17%). This is why SGS's share price did not react positively to the H1-07 results. It is worth remembering, however, that the company's ability to fuel its top-line organic growth is more valuable than its ability to boost its short-term profitability. The 20bp incremental organic growth is therefore better news to us than the 20bp shortfall on our margin assumptions is bad news. This is especially so given that this slight margin decline stems either from start-up investments in future growth or mix issues that are not structural but temporary, and expected to disappear in the short term (see our comments in the next section).

Our already positive confidence in the investment case is therefore intact, and we have no reason to doubt the group's ability to reach its 2008 EPS target of CHF80, especially given the way it is substantially outperforming its organic growth target of 10%. In fact, although the group's external growth (1.7%) is below the company's target (5%), the EPS target is not our risk, in our view, as: 1) returns on organic growth are much higher than on external growth; 2) the group is in a position to deliver EPS of more than CHF80 should it achieve 5% external growth. We explain our confidence in the following paragraphs.

Sales growth outlook

It is worth noting that the group's organic growth in H1-07 (11.5%, the upper end of the group's historical growth range, as shown in the chart below) was above our estimate even though four divisions had an abnormally low level of organic growth.

SGS: Organic growth with and without the TAS division



Source: Cheuvreux

The underperforming units in H1-07 were the following: **1) the Agricultural division** (2.3% organic growth), **2) the Life Science division** (5.1% organic growth), **3) the Automotive division** (7.4% organic growth) and **4) the Consumer Testing division** (8.8% organic growth). The lower than expected growth in these four divisions is related to temporary issues, which should disappear in H2-07 in our view.

The Agricultural division suffered in H1-07 from poor crop yields in North America and Spain and the consequent reduction in exports and trading activity. In H2-07, however, we expect organic growth to accelerate again to 7%, thanks to the expected good crop conditions in the Americas in H2-07 as well as strong growth opportunities in testing for seed and agricultural feed stock for alternate fuels. We expect the **Life Science division** to grow organically by 8% in H2-07 (from 5.3% in H1) thanks to a strong increase in backlog and contract wins, suggesting a strong acceleration in H2. In addition, strong demand for preferred vendorship agreements from internationally active pharma, generic, CMO and API manufacturing companies should also benefit H2-07 and 2008. In the **Automotive division**, we expect organic growth to increase slightly from the 7.4% observed in H1 to 8% in H2, thanks to the full ramp-up of the London black cabs inspection and licensing contract expected in August. Finally, **the Consumer Testing division** should see organic growth accelerate from the 8.8% observed in H1-07 to 15% in H2, thanks to the absence of a negative base effect in H2 (H1 was impacted by a negative base effect of CHF11m, due to the deadline for compliance with the ROHS directive which provided a strong boost to sales in H1-06) as well as a step by step increase in demand for services related to the REACH directive, energy efficiency and corporate social responsibility.

Profitability set to rise further

H1-07 operating margins (15.5%) were slightly below our estimates (15.7%). We believe operating margins should rise faster in H2 than they did in H1, and expect a 50bp improvement to 16.9%, which would bring full-year margins to 16.2%. Our confidence stems from the following factors: **1) the development of new services in several divisions, which implied incremental operating costs, weighed on margin improvement in H1-07; this was mainly the case in the SSC division, where the new certification schemes incurred costs for training personnel and product positioning costs; we now expect margins in the SSC division to increase from 16.8% in H1-07 to 19% in H2-07; 2) in the Government and Institutions Services division, new contracts will reach steady state in H2-07 which should help improve the margins from 14% in H1-07 to 15% in H2-07; 3) the expected top-line growth acceleration in the Agricultural division in H2-07 (due to better crop yields in the Americas) should help the margins increase from 11.3% in H1-07 to 13.5% in H2-07; 4) we expect a margin increase in the Consumer Testing Services division, thanks to a mix improvement in H2 (vs. an unfavorable mix in H1-07); we see margins rising again to a level of 23.5% (from 22.1% in H1-07).**

Expected margin improvement in the Agricultural, SSC, CTS and GIS divisions

Current guidance reiterated

During the analyst presentation, CEO Chris Kirk reiterated the 2008 guidance, indicating 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. We still believe the group is on track to reach its EBITA margin target of 16.9% by 2008. Our model assumes a progression from 15.8% in 2006 to 16.2% in 2007 and 16.9% in 2008.

II – VALUATION

Our mid-year 2008 fair value is CHF 1700

Following the release of the H1-07 results, we have left our full-year 2007 and 2008 broadly unchanged (less than 0.3% change). We have summarised our medium-term assumptions in the figure below; detailed figures are given in the appendix.

SGS: Cheuvreux assumptions							
	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Sales growth (%)	13.1	9.6	8.2	6.9	7.0	7.0	7.0
EBIT margin (%)	16.2	16.9	17.3	17.3	17.3	17.3	17.3
NOPAT margin (%)	12.2	12.7	12.9	13.0	13.5	13.5	13.5
Invested capital turns	2.42	2.54	2.62	2.68	2.73	2.73	2.73
Tax rate (%)	24.2	24.2	24.2	24.2	24.2	24.2	24.2

Source: Cheuvreux

On the basis of these assumptions, our DCF model indicates a fair value of around CHF1700 (see appendix) on a 12-month basis (mid 2008).

Peer comparison

Based on our estimates for 2007E and 2008E, the SGS share is trading at EV/EBITDA multiples of 11.5x and 9.8x, EV/EBITA multiples of 14.6x and 12.4x, and P/E multiples (on adjusted EPS) of 21.6x and 18.8x, respectively. When compared with the multiples of Intertek, its closest competitor, SGS shows a premium of about 5% on P/E and a discount of 5-10% on EV, which we do not see as justified in view of SGS's superior catch-up potential in 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	
	07E	08E	07E	08E	07E	08E
SGS	21.6	18.8	14.6	12.4	11.5	9.8
Intertek	20.7	19.2	15.1	13.6	12.0	11.0
Premium / (Discount) of SGS vs Intertek	5%	-2%	-3%	-9%	-4%	-11%

Source: Cheuvreux

Conclusion / Recommendation

We reiterate our 2/Outperform rating and set a new 12m target of CHF1700

We believe 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 strong outlook, and set a new 12-month (mid-2008) target of CHF1700 (from our previous year-end 2007 target of CHF1550). Share price upside should stem from a further rerating of the whole industry as well as a further expansion of SGS's premium to Intertek. On our price target of CHF1300, SGS would trade at P/E multiples of 25.7x and 22.3x, and EV/EBITDA multiples of 13.8x and 11.8x, respectively for 2007E and 2008E.

III – APPENDIX

SGS – Sales revenues by division and growth assumptions

(CHF m)	2001A	2002A	2003A	2004A	2005A	2006E	2007E	2008E	2009E	2010E
SALES REVENUES										
Agricultural Services	254.0	250.4	241.8	257.1	294.8	316.9	336.4	364.3	386.2	405.5
Mineral Services	203.0	268.4	279.9	319.5	393.7	467.0	535.1	599.4	647.3	679.7
Oil, Gas & Chemicals Services	414.8	398.7	439.1	574.6	635.3	783.4	896.4	959.1	1026.3	1077.6
Consumer Testing Services	286.0	268.4	272.3	360.6	476.2	592.7	679.4	781.3	882.8	988.8
Industrial Services	474.0	320.6	330.1	379.8	444.7	510.4	609.1	657.9	703.9	753.2
Environmental Services		162.6	172.0	208.6	235.0	249.2	271.3	293.0	313.5	335.4
Systems and Services Certification	201.0	212.7	229.7	235.4	274.0	318.7	357.5	389.6	420.8	450.3
Automotive Services	204.0	238.9	211.0	187.7	200.2	220.3	240.3	264.3	285.5	302.6
Life Science Services	58.0	61.6	59.1	106.5	125.3	193.4	209.9	233.0	256.3	276.8
Government & Institutions Services	237.0	209.7	219.5	255.4	228.7	169.0	187.4	196.8	204.7	210.8
Total	2331.8	2392.0	2454.5	2885.2	3307.9	3821.0	4322.8	4738.7	5127.2	5480.6
SALES GROWTH ASSUMPTIONS										
	2001	2002A	2003A	2004A	2005A	2006E	2007E	2008E	2009E	2010E
Agricultural Services		-1.4	-3.4	6.3	14.7	7.5	6.2	8.3	6.0	5.0
Organic		6.9	0.0	7.4	12.2	5.8	4.5	7.0	6.0	5.0
Mineral Services		32.2	4.3	14.1	23.2	18.6	14.6	12.0	8.0	5.0
Organic		1.2	4.8	16.0	17.5	13.7	13.2	12.0	8.0	5.0
Oil, Gas & Chemicals Services		-3.9	10.1	30.9	10.6	23.3	14.4	7.0	7.0	5.0
Organic		0.9	15.8	12.6	9.5	14.8	12.8	7.0	7.0	5.0
Consumer Testing Services		-6.2	1.5	32.4	32.1	24.5	14.6	15.0	13.0	12.0
Organic		1.2	12.5	22.1	27.5	22.0	12.1	15.0	13.0	12.0
Industrial Services		na	3.0	15.1	17.1	14.8	19.3	8.0	7.0	7.0
Organic		na	3.4	15.1	12.6	13.2	16.4	8.0	7.0	7.0
Environmental Services		na	5.8	21.3	12.7	6.0	8.9	8.0	7.0	7.0
Organic		na	6.2	9.2	9.0	6.3	11.6	8.0	7.0	7.0
Systems and Services Certification		5.8	8.0	2.5	16.4	16.3	12.2	9.0	8.0	7.0
Organic		12.3	13.3	3.9	15.3	14.9	10.8	9.0	8.0	7.0
Automotive Services		17.1	-11.7	-11.0	6.7	10.0	9.1	10.0	8.0	6.0
Organic		28.4	-3.3	-13.4	-0.5	4.0	7.8	10.0	8.0	6.0
Life Science Services		6.2	-4.1	80.2	17.7	54.3	8.5	11.0	10.0	8.0
Organic		9.7	-4.5	-4.2	15.6	9.1	6.7	11.0	10.0	8.0
Government & Institutions Services		-11.5	4.7	16.4	-10.5	-26.1	10.9	5.0	4.0	3.0
Organic		-7.7	5.5	17.0	-10.5	-26.1	10.9	5.0	4.0	3.0
TOTAL		2.6	2.6	17.5	14.7	15.5	13.1	9.6	8.2	6.9
Organic		6.0	6.7	10.6	11.5	10.4	11.6	9.5	8.2	6.9

Source: Cheuvreux

SGS: EBIT and EBIT margins by division

(CHF m)	2001A	2002A	2003A	2004A	2005A	2006A	2007E	2008E	2009E	2010E
OPERATING PROFIT										
Agricultural Services	11.4	24.6	24.3	23.6	33.5	39.4	41.8	49.2	54.1	56.8
Mineral Services	13.1	26.7	35.5	46.3	63.1	80.5	92.2	101.9	110.0	115.5
Oil, Gas & Chemicals Services	30.2	32.0	47.9	68.6	79.4	112.6	134.5	139.1	148.8	156.2
Consumer Testing Services	20.1	25.1	39.4	65.2	102.1	136.8	155.2	183.6	220.7	247.2
Industrial Services	28.6	33.5	34.9	46.1	58.6	74.7	99.6	111.8	119.7	128.0
Environmental Services		9.5	11.2	16.8	26.0	24.1	26.3	36.6	37.6	40.2
Systems and Services Certification	19.0	24.2	34.7	30.5	46.5	58.9	64.1	70.1	75.7	81.1
Automotive Services	-3.9	13.7	20.8	20.0	25.2	29.8	33.0	37.0	40.0	42.4
Life Science Services	3.0	3.3	5.9	12.8	19.1	24.6	26.6	34.9	41.0	44.3
Government & Institutions Services	24.1	23.0	45.1	61.5	48.5	23.2	27.2	35.4	36.8	37.9
TOTAL EBIT BEFORE EXCEP.	145.6	215.6	299.7	391.4	502.0	604.6	700.6	799.7	884.5	949.7
OPERATING PROFIT MARGINS										
Agricultural services	4.5	9.8	10.0	9.2	11.4	12.4	12.4	13.5	14.0	14.0
Mineral services	6.5	9.9	12.7	14.5	16.0	17.2	17.2	17.0	17.0	17.0
Oil, Gas & Chemicals	7.3	8.0	10.9	11.9	12.5	14.4	15.0	14.5	14.5	14.5
Consumer products services	7.0	9.4	14.5	18.1	21.4	23.1	22.8	23.5	25.0	25.0
Industrial Services	6.0	10.4	10.6	12.1	13.2	14.6	16.4	17.0	17.0	17.0
Environmental services		5.8	6.5	8.1	11.1	9.7	9.7	12.5	12.0	12.0
Systems and Services Certification	9.5	11.4	15.1	13.0	17.0	18.5	17.9	18.0	18.0	18.0
Automotive	-1.9	5.7	9.9	10.7	12.6	13.5	13.7	14.0	14.0	14.0
Life Sciences	5.2	5.4	10.0	12.0	15.2	12.7	12.7	15.0	16.0	16.0
Government & Institutions Services	10.2	11.0	20.5	24.1	21.2	13.7	14.5	18.0	18.0	18.0
TOTAL EBIT BEFORE EXCEP	6.2	9.0	12.2	13.6	15.2	15.8	16.2	16.9	17.3	17.3

Source: Cheuvreux

SGS – Income statement

(CHF m) Year end December	2001	2002	2003	2004	2005	2006	2007E	2008E
Sales revenues	2332.0	2391.9	2454.0	2885.2	3307.9	3821.0	4322.8	4738.7
Salaries and wages	1254.6	1252.3	1240.0	1471.5	1687.0	1948.7	2204.6	2416.7
Subcontractors' expenses	133.1	142.0	155.0	173.1	198.5	229.3	259.4	284.3
Other operating expenses	697.4	686.8	663.0	735.0	780.4	866.4	968.3	1025.4
EBITDA	246.9	310.8	396.0	505.6	642.0	776.6	890.5	1012.2
Depreciation	101.3	95.2	96.0	114.6	140.0	172.0	189.9	212.5
EBITA before exceptionals	145.6	215.6	300.0	391.0	502.0	604.6	700.6	799.7
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	604.6	700.6	799.7
Exceptional operating items	-177.5	-79.6	3.0	3.0	0.0	19.0	0.0	0.0
EBIT	-40.4	127.3	293.0	378.0	502.0	623.6	700.6	799.7
Financial Income	29.3	20.0	9.0	10.8	6.0	5.0	3.4	10.0
Interest expenses	9.5	11.7	8.0	4.8	1.0	6.0	0.8	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	622.6	703.2	809.1
Taxes	43.5	27.5	68.0	90.0	119.0	155.0	170.2	195.8
Minority interest	8.3	3.8	8.0	15.0	17.0	25.0	25.0	27.4
Net income	-75.2	109.1	227.0	279.0	371.0	442.6	508.0	585.9
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	22.7	22.4	21.6
EBITDA margin	10.6	13.0	16.1	17.5	19.4	20.3	20.6	21.4
Depreciation	4.3	4.0	3.9	4.0	4.2	4.5	4.4	4.5
EBITA margin before exceptionals	6.2	9.0	12.2	13.6	15.2	15.8	16.2	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	16.2	16.9
Financial income	1.3	0.8	0.4	0.4	0.2	0.1	0.1	0.2
Interest expenses	0.4	0.5	0.3	0.2	0.0	0.2	0.0	0.0
Profit before taxes	-1.0	5.9	12.3	13.3	15.3	16.3	16.3	17.1
Tax rate	28.2	12.5	22.7	23.6	23.5	24.9	24.2	24.2
Net income	-3.2	4.6	9.3	9.7	11.2	11.6	11.8	12.4

Source: Cheuvreux

SGS: Balance Sheet

(CHF m) Year end December	2001	2002	2003	2004	2005	2006	2007E	2008E
Current assets	1445.2	1280.4	1340.0	1285.0	1525.0	1363.0	1898.3	2395.1
Cash and cash equivalents	490.2	419.3	471.0	445.0	521.0	229.0	665.2	1044.3
Marketable securities	159.0	112.1	55.0	10.0	10.0	10.0	10.0	10.0
Accounts receivable from customers	513.3	494.7	571.0	579.0	713.0	762.0	855.9	938.3
Work-in-progress and inventories	111.9	108.4	108.0	111.0	130.0	150.0	169.9	186.2
Other current assets	170.8	146.0	135.0	140.0	151.0	212.0	197.3	216.3
Fixed assets	545.4	569.1	682.0	927.0	1240.0	1489.0	1562.0	1633.9
Property, plant&equipment	397.7	373.9	415.0	493.0	586.0	656.0	716.8	779.1
Financial assets	2.6	2.9	2.0	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
Intangibles (Goodwill)	57.3	92.5	117.0	269.0	394.0	609.0	609.0	609.0
Other fixed assets	85.3	85.6	118.0	127.4	222.4	186.4	198.6	208.2
Total assets	1990.7	1849.5	2022.0	2212.0	2765.0	2852.0	3460.4	4029.0
Current liabilities	670.8	614.9	640.0	700.0	865.0	921.0	1152.2	1262.1
Short-term debt / Bank loans	161.4	81.9	22.0	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
Accounts payable to suppliers	272.2	259.9	299.0	329.0	329.0	402.0	454.8	498.5
Other accounts payables	237.2	273.1	319.0	361.0	526.0	509.0	687.4	753.5
Medium- and long-term liabilities	42.2	47.8	11.0	8.0	7.0	7.0	0.0	0.0
Long-term bonds	0.0	0.0	11.0	8.0	7.0	7.0	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
Other long-term debt	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	335.1	323.1	333.5
Deferred taxes	42.0	54.5	72.0	64.0	80.0	95.5	108.1	118.5
Non recurring precautionary provisions	123.2	123.6	135.0	120.0	238.0	159.6	135.0	135.0
Restructuring and other provisions	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	80.0	80.0
Minority shareholders	25.8	18.1	18.0	26.0	26.0	42.5	55.0	69.9
Shareholders' equity	981.7	896.6	1072.0	1229.0	1449.0	1554.9	1930.1	2363.6
Total liabilities	1990.7	1849.5	2022.0	2212.0	2765.0	2860.5	3460.4	4029.0

Source: Cheuvreux

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

(CHF m)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Sales	4323	4739	5127	5481	5864	6275	6714	7184	7687
Sales growth	13.1	9.6	8.2	6.9	7.0	7.0	7.0	7.0	7.0
EBITDA	890.5	1 012.2	1 114.3	1 197.2					
EBITDA growth	14.7	13.7	10.1	7.4					
Depreciation	189.9	212.5	229.9	247.5					
Amortization	0.0	0.0	0.0	0.0					
EBIT	700.6	799.7	884.5	949.7					
NOPBT	700.6	799.7	884.5	949.7					
Cash Tax rate	22.4	22.9	23.1	23.3					
NOPAT	543.6	616.6	680.1	728.7	791.7	847.1	906.4	969.8	1 037.7
NOPAT margin	12.6	13.0	13.3	13.3	13.5	13.5	13.5	13.5	13.5
NOPAT growth	16.9	13.4	10.3	7.1	8.6	7.0	7.0	7.0	7.0
Chg in working capital	-124.5	14.0	13.1	11.9	8.7	13.5	14.5	15.5	16.6
Chg in fixed assets	73.0	71.9	76.0	77.8	91.7	136.8	146.4	156.7	167.6
Chg in other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incremental Investment	-51.5	85.9	89.1	89.7	100.3	150.4	160.9	172.2	184.2
FREE CASH FLOW	595.1	530.7	591.0	639.0	691.3	696.7	745.5	797.7	853.5
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Discount factor	0.96	0.89	0.82	0.76	0.70	0.65	0.60	0.55	0.51
PV of FCF	572.0	471.3	485.0	484.5	484.4	451.1	446.0	440.9	435.9
Cumulative PV of FCF	572.0	1 043.3	1 528.4	2 012.9	2 497.3	2 948.4	3 394.3	3 835.3	4 271.2
Residual Value	7 496	8 269	8 860	9 625	10 299	11 020	11 791	12 617	13 500
PV of Residual Value	7 206	7 345	7 271	7 299	7 216	7 135	7 054	6 974	6 895
Enterprise Value	7 778	8 388	8 799	9 312	9 714	10 083	10 448	10 809	11 166
Excess Cash	610	610	610	610	610	610	610	610	610
Minorities interest	55	55	55	55	55	55	55	55	55
Pension provisions	80	80	80	80	80	80	80	80	80
Total Debt	10	10	10	10	10	10	10	10	10
Shareholder value	8 243	8 853	9 265	9 777	10 179	10 548	10 914	11 275	11 632
Shares outstanding	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Value per share	1 085	1 166	1 220	1 287	1 340	1 389	1 437	1 484	1 531
Years into future	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5

Source: Cheuvreux

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

(CHF m)	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sales	7687	8225	8801	9417	10076	10781	11536
Sales growth	7.0	7.0	7.0	7.0	7.0	7.0	7.0
NOPAT	1 037.7	1 110.4	1 188.1	1 271.3	1 360.2	1 455.5	1 557.3
NOPAT margin	13.5	13.5	13.5	13.5	13.5	13.5	13.5
NOPAT growth	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Chg in working capital	16.6	17.8	19.0	20.3	21.8	23.3	24.9
Chg in fixed assets	167.6	179.4	191.9	205.3	219.7	235.1	251.6
Chg in other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incremental Investment	184.2	197.1	210.9	225.7	241.5	258.4	276.5
FREE CASH FLOW	853.5	913.2	977.2	1 045.6	1 118.8	1 197.1	1 280.9
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Discount factor	0.51	0.47	0.44	0.40	0.37	0.34	0.32
PV of FCF	435.9	431.0	426.1	421.3	416.5	411.8	407.1
Cumulative PV of FCF	4 271.2	4 702.2	5 128.3	5 549.6	5 966.1	6 377.9	6 785.1
Residual Value	13 500	14 445	15 456	16 538	17 695	18 934	20 259
PV of Residual Value	6 895	6 817	6 740	6 664	6 588	6 514	6 440
Enterprise Value	11 166	11 519	11 868	12 213	12 554	12 891	13 225
Excess Cash	610	610	610	610	610	610	610
Minorities interest	55	55	55	55	55	55	55
Pension provisions	80	80	80	80	80	80	80
Total Debt	10	10	10	10	10	10	10
Shareholder value	11 632	11 985	12 334	12 679	13 020	13 357	13 690
Shares outstanding	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Value per share	1 531	1 578	1 624	1 669	1 714	1 759	1 803
Years into future	8.5	9.5	10.5	11.5	12.5	13.5	14.5

Source: Cheuvreux

SGS									
FY to 31/12 (Swiss Franc m)	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account									
Sales	2 332.0	2 391.9	2 454.0	2 885.2	3 307.9	3 821.0	4 322.8	4 738.7	5 127.2
% Change	-1.6%	2.6%	2.6%	17.6%	14.7%	15.5%	13.1%	9.6%	8.2%
Staff costs	(1 254.6)	(1 252.3)	(1 240.0)	(1 471.5)	(1 687.0)	(1 948.7)	(2 204.6)	(2 416.7)	(2 614.9)
Other costs	(1 008.0)	(908.4)	(815.0)	(905.1)	(978.9)	(1 076.7)	(1 227.7)	(1 309.8)	(1 397.9)
EBITDA	69.4	231.2	399.0	508.6	642.0	795.6	890.5	1 012.2	1 114.4
% Change	-74.3%	NS	72.6%	27.5%	26.2%	23.9%	11.9%	13.7%	10.1%
Depreciation	(101.3)	(95.2)	(96.0)	(114.6)	(140.0)	(172.0)	(189.9)	(212.5)	(229.9)
EBITA	(31.9)	136.0	303.0	394.0	502.0	623.6	700.6	799.7	884.5
% Change	NS	NS	122.8%	30.0%	27.4%	24.2%	12.3%	14.1%	10.6%
Goodwill amortisation before OP	(8.5)	(8.7)	(10.0)	(16.0)	0.0	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	(40.4)	127.3	293.0	378.0	502.0	623.6	700.6	799.7	884.5
Net financial items	17.1	13.2	10.0	6.0	5.0	(1.0)	2.6	9.4	15.1
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	(43.5)	(27.5)	(68.0)	(90.0)	(119.0)	(155.0)	(170.2)	(195.8)	(217.7)
Associates [contribution]	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	(66.9)	112.9	235.0	294.0	388.0	467.6	533.0	613.3	681.9
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(8.3)	(3.8)	(8.0)	(15.0)	(17.0)	(25.0)	(25.0)	(27.4)	(29.7)
Net attributable profit [loss]	(75.2)	109.1	227.0	279.0	371.0	442.6	508.0	585.9	652.2
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	(66.7)	117.8	237.0	295.0	371.0	442.6	508.0	585.9	652.2
% Change	NS	NS	101.2%	24.5%	25.8%	19.3%	14.8%	15.3%	11.3%
Cash Flow Statement									
Cash flow	211.2	218.8	395.0	392.6	697.0	556.7	710.9	836.2	921.4
% Change	12.6%	3.6%	80.5%	-0.6%	77.5%	-20.1%	27.7%	17.6%	10.2%
Change in WCR	(76.0)	32.0	(70.0)	56.0	1.0	(74.0)	132.0	(7.8)	(7.3)
Capex	(50.6)	(118.0)	(101.0)	(374.4)	(453.0)	(421.0)	(263.0)	(284.4)	(305.9)
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	84.6	132.8	224.0	74.2	245.0	61.7	579.9	544.0	608.2
Financial investments	(8.4)	(84.7)	(16.0)	(60.0)	(76.3)	29.9	(12.5)	(12.5)	(13.7)
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	(45.4)	(46.9)	(56.0)	(69.0)	(91.7)	(375.1)	(132.8)	(152.4)	(175.8)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	(73.5)	(45.2)	(60.6)	(1.2)	0.0	(8.5)	8.5	0.0	0.0
Dec. [inc.] in net debt	(42.7)	(44.0)	91.4	(56.0)	77.0	(292.0)	443.1	379.1	418.7
Balance Sheet									
Shareholders' equity [group share]	981.7	896.6	1 072.0	1 229.0	1 449.0	1 554.9	1 930.1	2 363.6	2 840.0
Minority interests	25.8	18.1	18.0	26.0	26.0	42.5	55.0	69.9	85.9
Pension provisions	105.0	94.0	74.0	65.0	100.0	80.0	80.0	80.0	80.0
Other provisions	165.2	178.0	207.0	184.0	318.0	255.1	243.1	253.5	263.2
Net debt [cash]	(445.6)	(401.6)	(493.0)	(437.0)	(514.0)	(222.0)	(665.2)	(1 044.3)	(1 463.1)
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Capital invested	832.1	785.1	878.0	1 067.0	1 379.0	1 710.5	1 643.0	1 722.7	1 806.0
Goodwill	57.3	92.5	117.0	269.0	394.0	609.0	609.0	609.0	609.0
Intangible assets	2.6	14.2	30.0	35.0	35.0	35.0	35.0	35.0	35.0
Tangible assets	483.0	459.5	533.0	620.4	808.4	842.4	915.4	987.3	1 063.4
Financial assets	2.6	2.9	2.0	2.6	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	286.6	216.1	196.0	140.0	139.0	213.0	81.0	88.7	96.0
WCR as a % of sales	12.3	9.0	8.0	4.9	4.2	5.6	1.9	1.9	1.9
Capital employed	832.1	785.2	878.0	1 067.0	1 379.0	1 702.0	1 643.0	1 722.6	1 806.0

SGS

FY to 31/12 (Swiss Franc)	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 17/7/2007)									
EPS before goodwill	(8.53)	15.11	30.60	38.28	48.39	57.92	66.07	76.20	84.82
% Change	NS	NS	102.6%	25.1%	26.4%	19.7%	14.1%	15.3%	11.3%
EPS, reported	(9.61)	13.99	29.41	36.45	48.99	58.64	66.89	77.14	85.87
% Change	NS	NS	110.2%	23.9%	34.4%	19.7%	14.1%	15.3%	11.3%
Goodwill per share	1.09	1.12	1.29	2.08	0.00	0.00	0.00	0.00	0.00
Dividend per share	6.00	7.30	9.00	12.00	50.00	17.50	20.10	23.10	25.80
Cash flow per share	27.00	28.06	51.00	50.95	90.91	72.85	92.46	108.75	119.83
% Change	12.6%	3.9%	81.8%	-0.1%	78.4%	-19.9%	26.9%	17.6%	10.2%
Book value per share	119.5	108.0	130.9	148.8	143.2	187.2	234.0	288.1	348.1
No. of shares, adjusted	7.822	7.773	7.662	7.645	7.501	7.595	7.595	7.595	7.595
Av. number of shares, adjusted	7.822	7.798	7.718	7.654	7.573	7.548	7.595	7.595	7.595
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	266.50	416.00	776.00	796.50	1108.00	1358.00	1460.00	1460.00	1460.00
High	520.00	530.00	798.00	803.00	1115.00	1395.00	1628.00	-	-
Low	175.00	257.50	409.00	633.00	785.00	1037.00	1330.00	-	-
Average price	344.72	406.51	582.47	717.38	926.18	1210.62	1471.39	-	-
Market capitalisation	2 084.6	3 233.7	5 945.6	6 089.4	8 466.4	10 186.6	11 088.9	11 088.9	11 088.9
Enterprise value	1 808.5	2 992.1	5 647.9	5 841.7	8 225.2	10 359.6	10 846.7	10 467.6	10 048.8
Valuation									
P/E	NS	29.7	26.5	22.0	22.9	23.4	22.1	19.2	17.2
P/E before goodwill	NS	27.5	25.4	20.8	22.9	23.4	22.1	19.2	17.2
P/CF	9.9	14.8	15.2	15.6	12.2	18.6	15.8	13.4	12.2
Attrib. FCF yield [%]	3.9	4.0	3.7	1.2	2.8	0.6	5.1	4.8	5.3
P/BV	2.2	3.9	5.9	5.4	7.7	7.3	6.2	5.1	4.2
Enterprise value / Op CE	2.2	3.8	6.4	5.5	6.0	6.1	6.6	6.1	5.6
Yield [%]	2.3	1.8	1.2	1.5	4.5	1.3	1.4	1.6	1.8
EV/EBITDA, restated	26.1	12.9	14.2	11.5	12.8	13.0	12.2	10.3	9.0
EV/EBITA, restated	NS	22.0	18.6	14.8	16.4	16.6	15.5	13.1	11.4
EV/Sales	0.78	1.25	2.30	2.03	2.49	2.7	2.5	2.2	2.0
EV/Debt-adjusted cash flow	8.8	14.1	14.3	14.7	11.6	18.0	14.8	12.2	10.7
Financial Ratios									
Interest cover	1.9	NS	NS	NS	NS	NS	NS	NS	NS
Net debt/Cash flow	NS	NS	NS	NS	NS	NS	NS	NS	NS
EBITDA margin [%]	3.0	9.7	16.3	17.6	19.4	20.8	20.6	21.4	21.7
EBITA margin [%]	NS	5.7	12.3	13.7	15.2	16.3	16.2	16.9	17.3
Net margin [%]	NS	4.7	9.6	10.2	11.7	12.2	12.3	12.9	13.3
Capital turn [Sales/ Op. CE]	2.8	3.1	2.8	2.7	2.4	2.2	2.6	2.8	2.8
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Payout ratio [%]	(62.4)	52.2	30.6	32.9	102.1	29.8	30.1	29.9	30.0
Return [%]									
Pre-tax ROCE	NS	17.4	34.6	37.0	36.5	36.7	42.7	46.5	49.0
ROCE after tax	NS	15.2	26.7	28.3	27.9	27.6	32.4	35.2	37.2
ROE [%]	NS	13.0	23.7	25.6	29.4	33.2	30.3	28.3	25.9
Return on equity, restated	NS	13.0	23.7	25.6	29.4	33.2	30.3	28.3	25.9

Important Disclosures

Applicable disclosure clauses

Company	Closing Price	Rating	Disclosures
SGS	CHF1460	2/Outperform	E

- A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
- D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.
- E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.
- F - Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.
- G - Calyon and/or a company in the Crédit Agricole S.A. group has been involved within the last three years in a publicly disclosed offer of or on financial instruments of the Company.
- H - Calyon and/or a company in the Crédit Agricole S.A. group has concluded or is party to a non confidential agreement relating to the provision of investment banking services (except publicly disclosed offers mentioned under G) to the Company during the past 12 months or that has given rise during the same period to the payment of compensation or to the promise to get a compensation paid.
- I - This research has been communicated to the Company and following this communication, its conclusions have been amended before its dissemination.
- J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

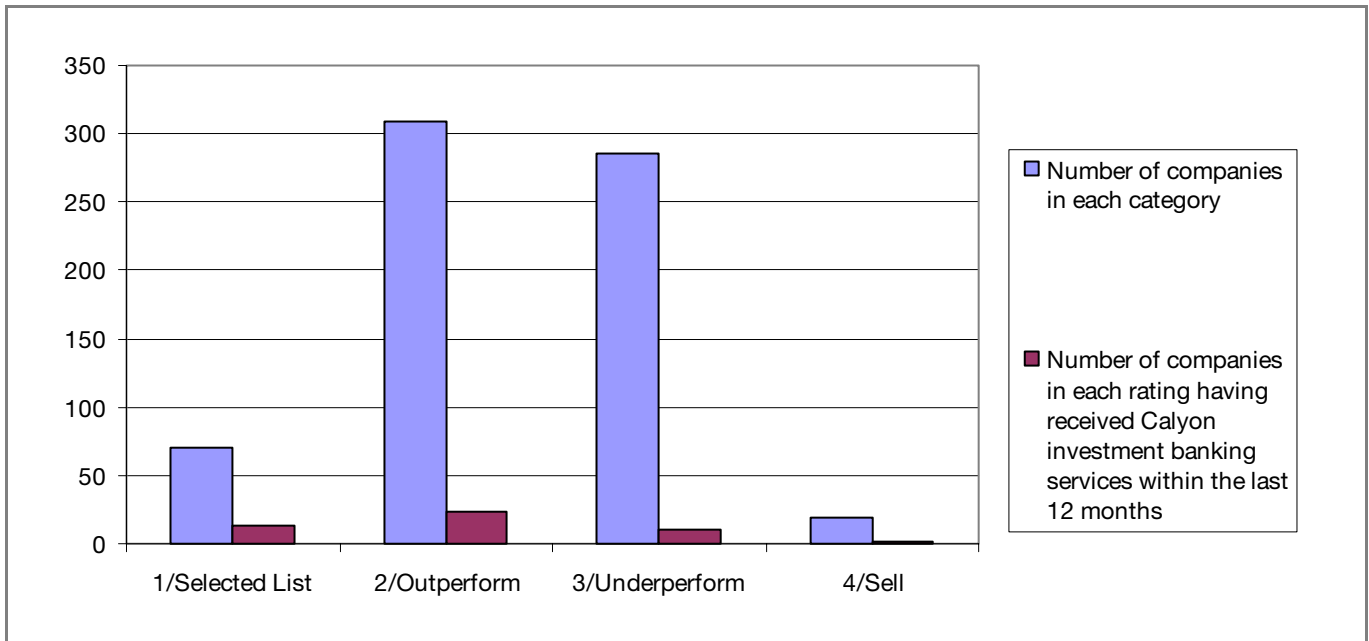
Specific disclosure clauses

None.

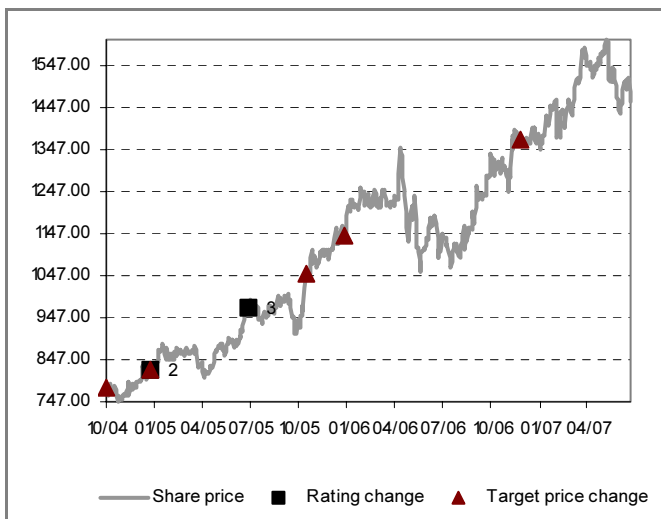
Cheuvreux's rating and target price system

Ratings are built for a 6 to 12 month time horizon.	
1/ Selected List	Expected to outperform the market and is in our country selected list
2/ Outperform	Expected to outperform the market
3/ Underperform	Expected to perform at best in line with the market
4/ Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended . Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies : DCF, SOP, peer comparison and EVA.
Quote definitions	Unless specified, all quotes that appear on Institutional research reports are closing prices the last business day.

Breakdown by rating category (as at 31/12/2006)



Share price trend and dates of changes in rating and/or target price



Dates of changes in target price and/or rating

N°	Date	Rating	Target price
1	27/10/2004		CHF875
2	19/01/2005	1/Selected List	CHF980
3	21/07/2005	2/Outperform	
4	08/11/2005		CHF1200
5	20/01/2006		CHF1300
6	21/12/2006		CHF1550
7	18/07/2007		CHF1700

Local regulatory authorities

Country	Cheuvreux legal entity	Regulatory authority
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung – Frankfurt Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
United Kingdom	Crédit Agricole Cheuvreux International Ltd	Financial Services Authority (FSA)

RESEARCH & DISTRIBUTION CENTRES

BENELUX

CREDIT AGRICOLE CHEUVREUX – AMSTERDAM BRANCH

HONTHORSTSTRAAT 9
1071 DC AMSTERDAM
TEL: +31 20 573 06 66
FAX: +31 20 672 40 41

FRANCE

CREDIT AGRICOLE CHEUVREUX S.A.

9, QUAI PAUL DOUMER
92400 COURBEVOIE
TEL: +33 1 41 89 70 00
FAX: +33 1 41 89 70 05

GERMANY

CREDIT AGRICOLE CHEUVREUX – FRANKFURT BRANCH

MESSE TURM - FRIEDRICH-EBERT-ANLAGE 49
D-60308 FRANKFURT AM MAIN
TEL: +49 69 47 897 100
FAX: +49 69 47 897 530

ITALY

CREDIT AGRICOLE CHEUVREUX ITALIA SIM S.P.A.

VIA BRERA 21
20121 MILAN
TEL: +39 02 80 62 83 00
FAX: +39 02 86 46 15 70

SPAIN

CRÉDIT AGRICOLE CHEUVREUX ESPAÑA S.V. S.A.

PASEO DE LA CASTELLANA 1
28046 MADRID
TEL: +34 91 432 78 21
FAX: +34 91 432 75 13

SWEDEN

CREDIT AGRICOLE CHEUVREUX NORDIC AB

REGERINGSGATAN 38
10393 STOCKHOLM
TEL: +468 723 5100
FAX: +468 723 5101

SWITZERLAND

CREDIT AGRICOLE CHEUVREUX – ZURICH BRANCH

BAHNHOFSTRASSE 18
8001 ZURICH
TEL: +41 44 218 17 17
FAX: +41 44 212 25 50

UNITED KINGDOM

CRÉDIT AGRICOLE CHEUVREUX INTERNATIONAL LIMITED

12TH FLOOR
MOORHOUSE
120 LONDON WALL
LONDON EC2Y 5ET
TEL: +44 207 621 5100
FAX: +44 207 621 5101

DISTRIBUTION CENTRES

JAPAN

CHEUVREUX

CALYON CAPITAL MARKETS ASIA B.V., TOKYO BRANCH
SHIODOME SUMITOMO BUILDING, 15TH FLOOR
1-9-2 HIGASHI-SHIMBASHI
MINATO-KU
TOKYO 105-0021
TEL: +81 3 4580 8522
FAX: +81 3 4580 5534

UNITED STATES

CRÉDIT AGRICOLE CHEUVREUX NORTH AMERICA, INC.

NEW YORK

1301 AVENUE OF THE AMERICAS
15TH FLOOR
NEW YORK, NY 10019
TEL: +1 (212) 492 8800
Fax: +1 (212) 492 8801

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