

# SGS

Jean-Luc de Buman  
Member of the Operations Council

European Mid Cap Conference  
New York – 16-17 November 2006



WHEN YOU NEED TO BE SURE

**SGS**



## A BRIEF HISTORY OF SGS

- Founded in Rouen in 1878, under the name of Goldstück, Hainzé & Co.
- First registration as Société Générale de Surveillance in Geneva in 1919
- Growth by agglomerations of various companies which until 2002 had great degree of autonomy
- Listed publicly in 1985, in SMI since 1995
- Until 1998, relieved heavily on governmental contracts for pre-shipment inspections (customs related)
- Under significant family influence (voting trust of founding families and multiple vote securities) until 1999
- Single share structure introduced in 2001
- Two significant shareholder groups
  - August von Finck and family (23.7%)
  - Sequana Capital (23.8%), upon completion of share exchange transaction



## VISION

*We aim to be the most competitive and the most productive service organization in the world.*

*Our core competences in testing, inspection, verification and certification are being continuously improved to be best-in-class. They are at the heart of what we are.*

*Our chosen markets will be solely determined by our ability to be the most competitive and to consistently deliver unequalled service to our customers, both locally and trans-nationally.*

**SGS**

SGS GROUP WORLD-WIDE



**10'200 employees  
in the Americas**

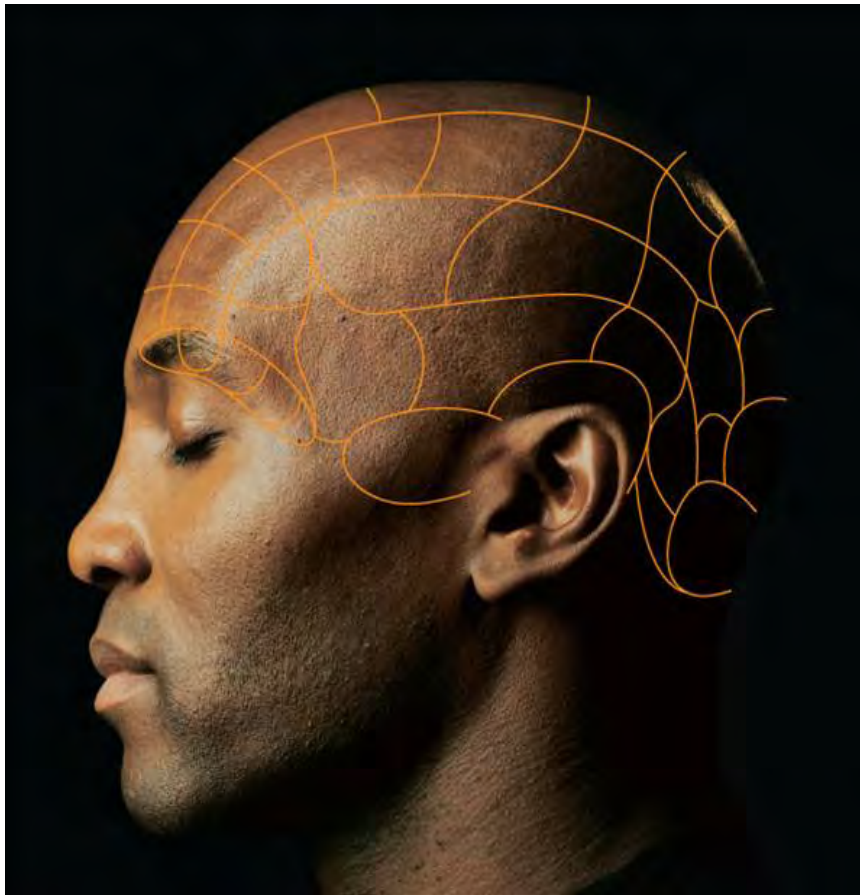
**20'800 employees  
in Europe,  
Middle East  
& Africa**

**13'000 employees  
in Asia/Pacific**



## OUR CODE OF PROFESSIONAL CONDUCT

"Integrity is at the core of the business of the SGS Group, it is the common thread through all our activities".





## FINANCIAL HIGHLIGHTS

CHF million	June 2006	June 2005 (1)	Δ%
<b>Revenue - historical rates</b>	<b>1,845</b>	1,557	18.5 %
<b>- constant rates</b>	<b>1,845</b>	1,608	14.7 %
<b>EBITDA before exceptionals</b>	<b>363</b>	301	20.6 %
<i>EBITDA Margin before exceptionals</i>	<i>19.7 %</i>	<i>19.3 %</i>	
<b>EBITDA</b>	<b>384</b>	301	27.6 %
<i>EBITDA Margin</i>	<i>20.8 %</i>	<i>19.3 %</i>	
<b>Operating Income Group</b>	<b>302</b>	235	28.5 %
<i>Operating Income Margin</i>	<i>16.4 %</i>	<i>15.1 %</i>	
<b>Net income</b>	<b>215</b>	174	23.6 %
<b>Basic EPS</b>	28.45	23.21	22.6 %
<b>Diluted EPS</b>	28.27	22.96	23.1 %
<b>Basic EPS before exceptionals</b>	26.48	23.21	14.1 %
<b>Diluted EPS before exceptionals</b>	26.31	22.96	14.6 %
<b>Period end no. of employees (incl. acquisitions)</b>	<b>46,337</b>	41,887	10.6 %

(1) 2004 data has been amended to reflect adoption of the new accounting standards

# REVENUE ANALYSIS

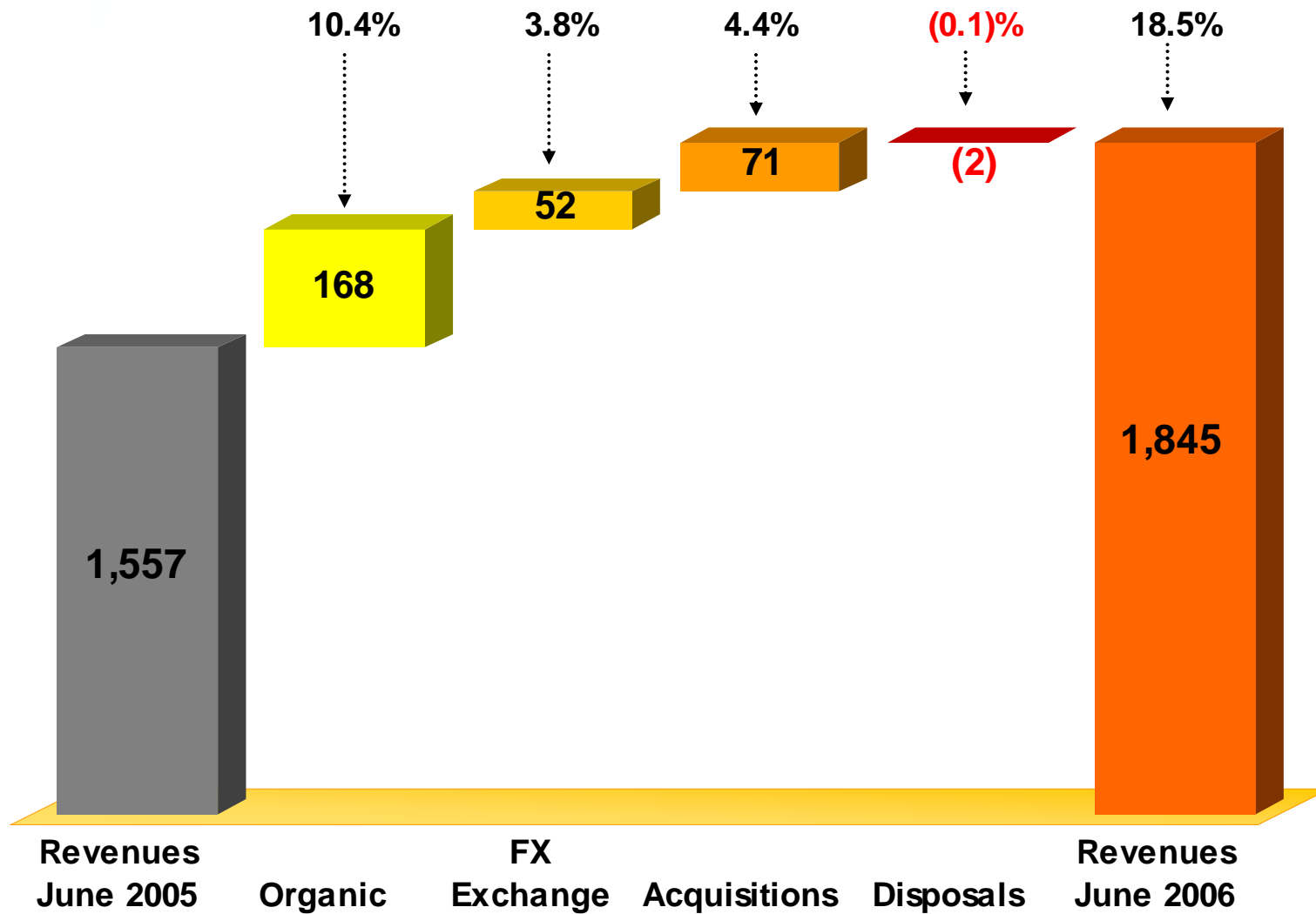


WHEN YOU NEED TO BE SURE

**SGS**

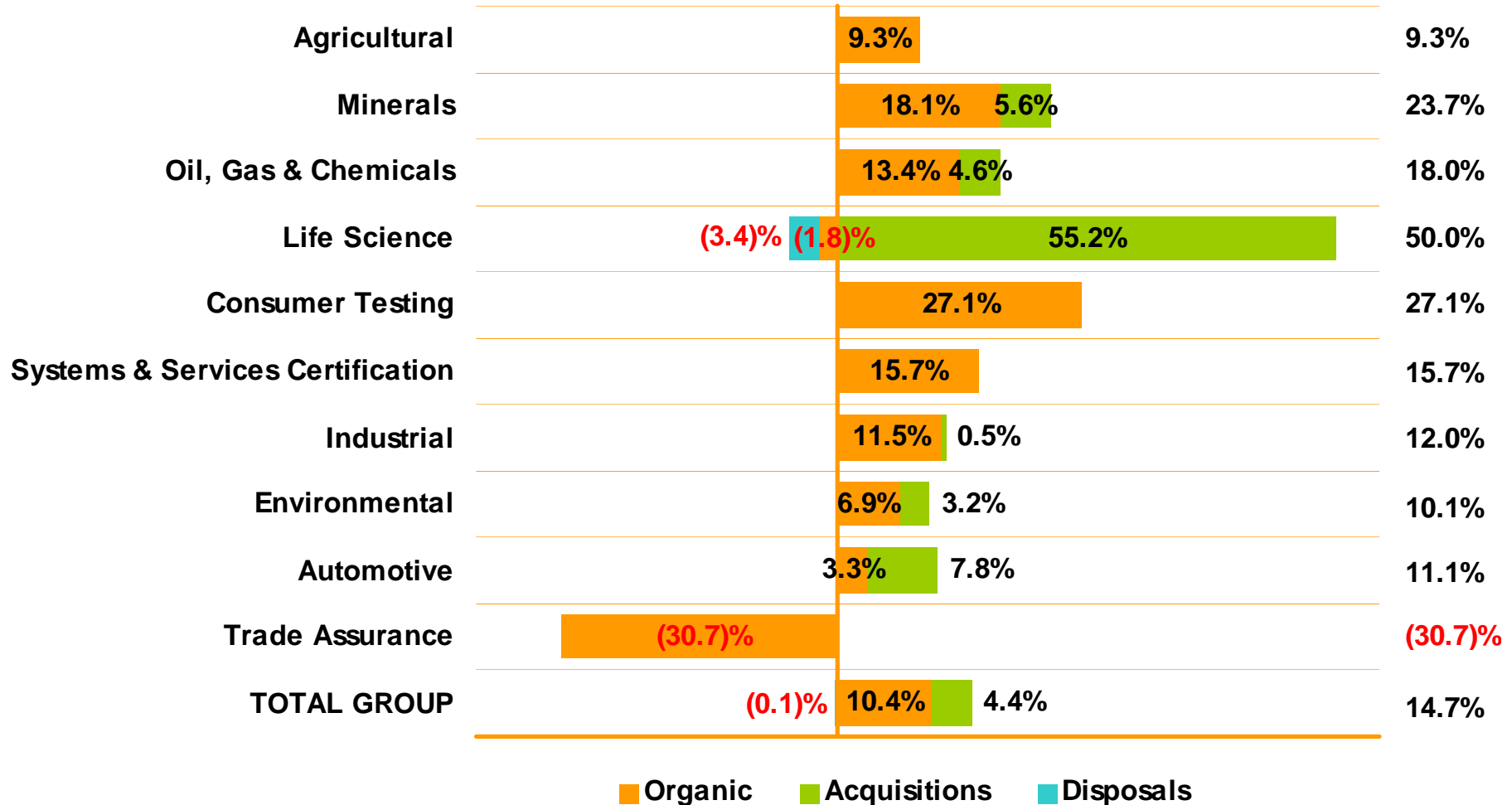


# REVENUE GROWTH COMPOSITION



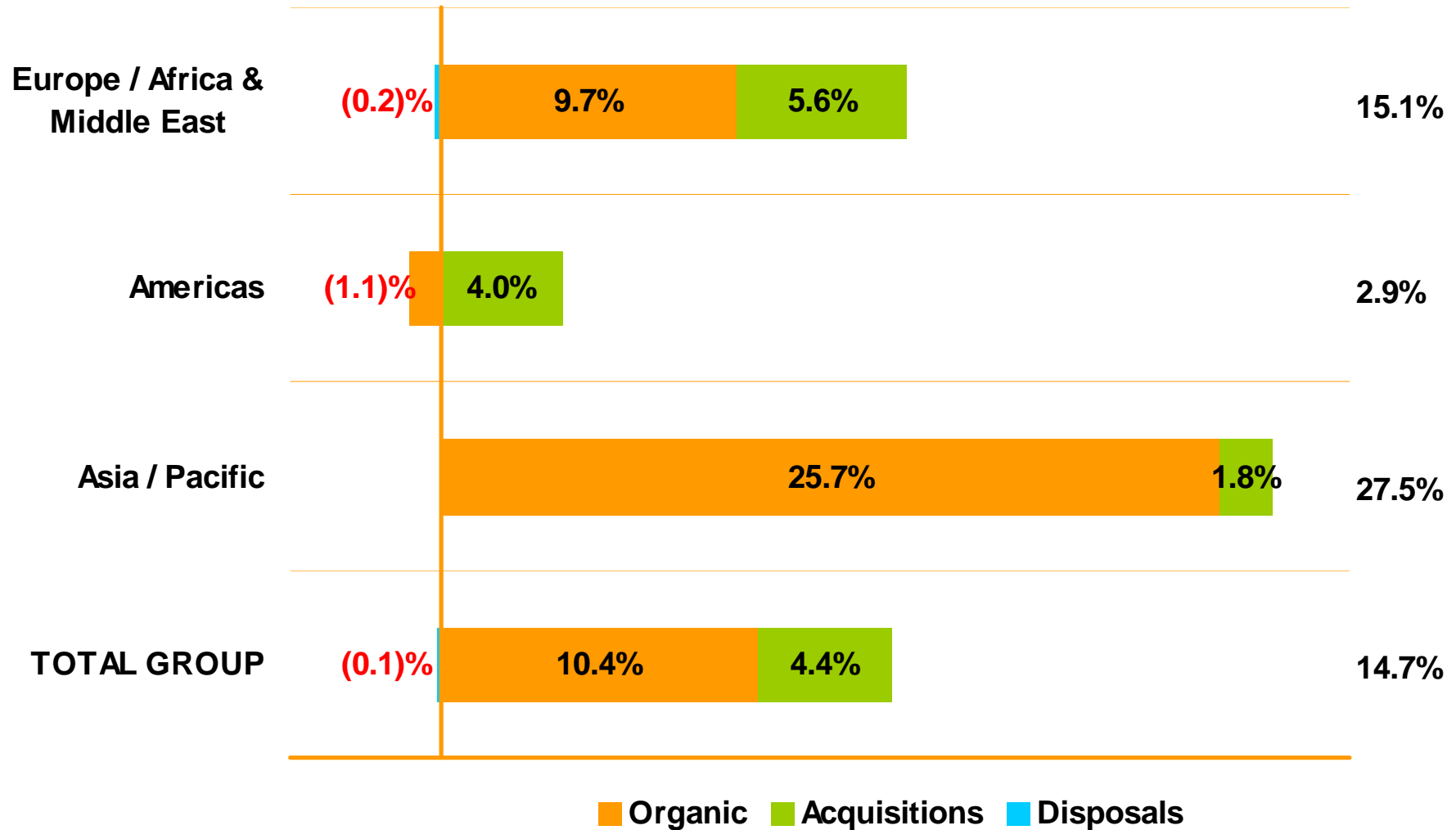


## LOCAL CURRENCY GROWTH BY BUSINESS





## LOCAL CURRENCY GROWTH BY REGION



# OPERATING INCOME & CASH FLOW ANALYSIS

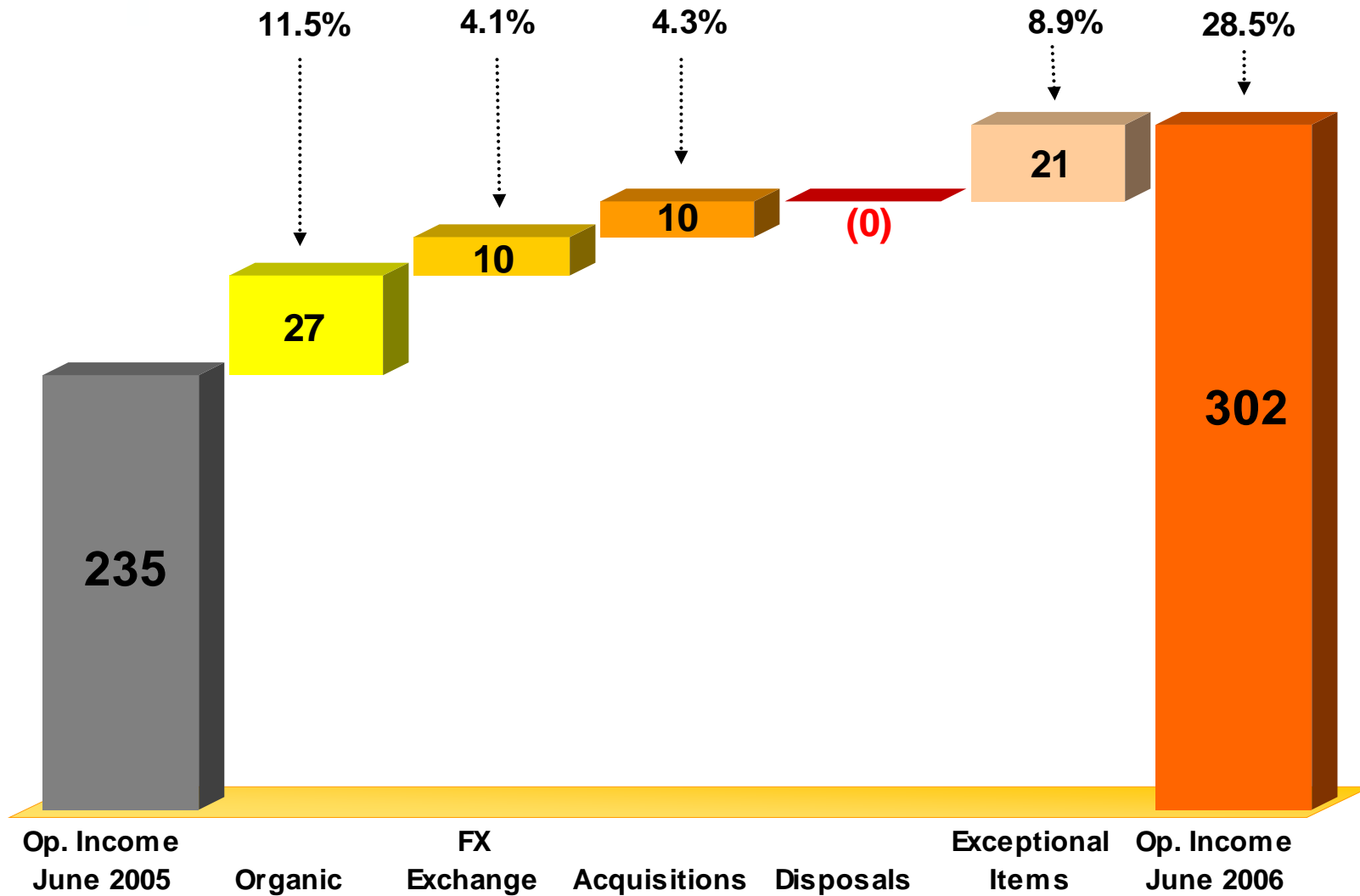


WHEN YOU NEED TO BE SURE

**SGS**

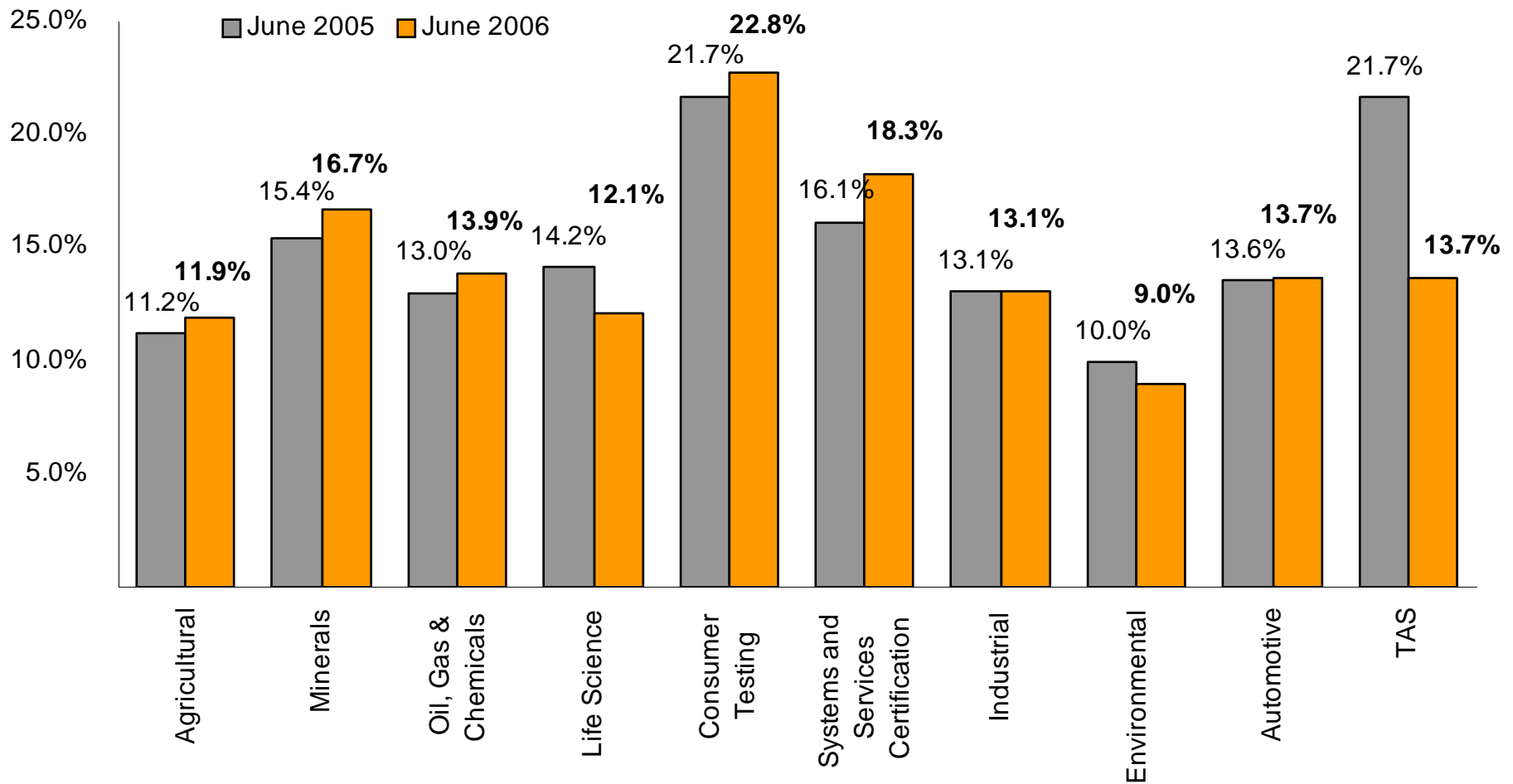


# OPERATING INCOME GROWTH COMPOSITION





## OPERATING MARGIN BY BUSINESS





## CASH FLOW

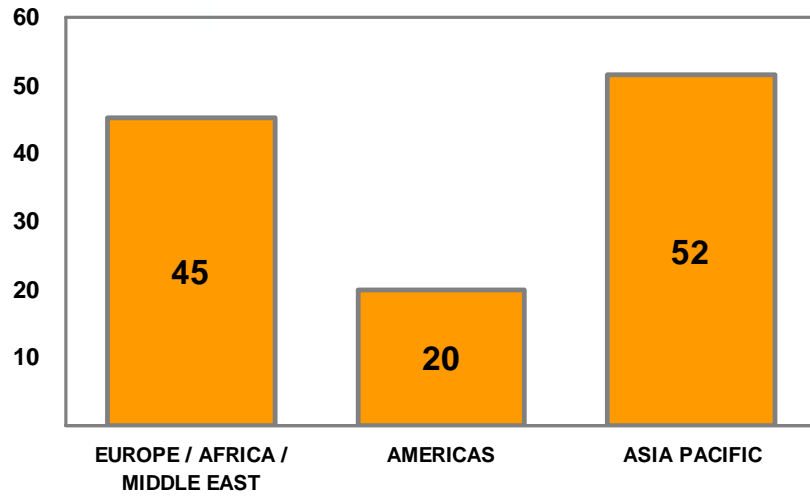
CHF Million	Jun 06	Jun 05 <sup>(1)</sup>	Dec 05
<b>PROFIT FOR THE PERIOD</b>	<b>215</b>	<b>174</b>	<b>371</b>
Adjustment for non cash items	135	103	227
(Increase)/Decrease in net working capital	(84)	(81)	(60)
Changes in other provisions	-	(11)	(20)
Taxes paid	(52)	(45)	(107)
<b>Cash from operations</b>	<b>214</b>	<b>140</b>	<b>411</b>
Net sale/(purchase) of fixed assets	(105)	(89)	(190)
Other	(5)	(3)	(11)
<b>Free cash flow</b>	<b>104</b>	<b>48</b>	<b>210</b>
Financing	(0)	4	5
Dividend paid	(240)	(95)	(97)
Cash received/(paid) on treasury shares	46	-	-
Share capital reduction	(147)	-	-
Net cash (used in) acquisitions/disposals	(139)	(19)	(95)
Translation difference	(7)	(28)	(32)
<b>Increase/(decrease) in net cash</b>	<b>(383)</b>	<b>(90)</b>	<b>(9)</b>

(1) 2005 data has been amended to reflect the adoption of IAS 19

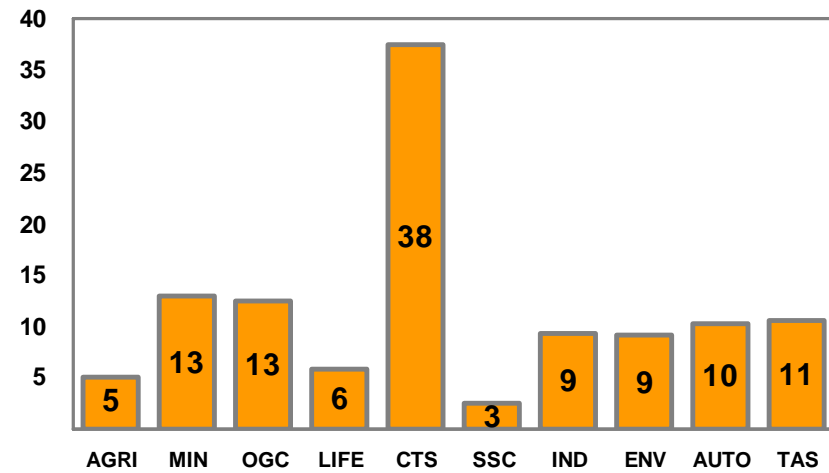


# CAPITAL EXPENDITURE

CHF Million

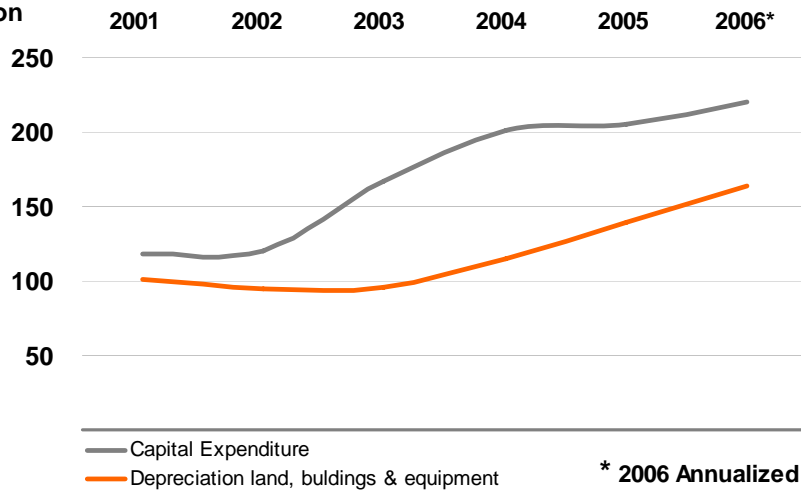


CHF Million



CAPEX

CHF Million





## FOREIGN CURRENCY IMPACTS ON TRANSLATION

<b>EURO</b>	<b>1.46</b>	<b>1.56</b>	<b>1.66</b>
<b>Revenues</b>	<b>(45)</b>	<b>(0)</b>	<b>45</b>
<b>Operating Income</b>	<b>(6)</b>	<b>(0)</b>	<b>6</b>
<b>USD</b>	<b>1.17</b>	<b>1.27</b>	<b>1.37</b>
<b>Revenues</b>	<b>(25)</b>	<b>(0)</b>	<b>25</b>
<b>Operating Income</b>	<b>(3)</b>	<b>(0)</b>	<b>3</b>

# HEADCOUNT



WHEN YOU NEED TO BE SURE





## HEADCOUNT

<b>Δ in EOP headcount</b>	<b>June 2006</b>	<b>June 2005</b>	<b>Δ</b>
<b>Group Headcount</b>	<b>46,337</b>	<b>41,887</b>	<b>4,450</b>
Organic Business Growth			3,875
Acquisitions			767
Disposals			(192)
<b>Increase in Group Headcount</b>			<b>4,450</b>

<b>By Region</b>	<b>Headcount Δ</b>	<b>Headcount Δ%</b>	<b>Revenues Δ%</b>
Asia / Pacific	2,090	17.6%	27.5%
Europe / Africa / Middle East	2,220	11.5%	15.1%
Americas	140	1.3%	3.0%
<b>TOTAL</b>	<b>4,450</b>	<b>10.6%</b>	<b>14.7%</b>

- Annualized revenue per employee increased 6.4% versus the comparable period.
- Increase since year-end 2005:
  - Organic 2'496
  - Acquired 507
- Growth drivers:
  - General business expansion: China, India, Spain, Africa, Taiwan & lab outsourcing.
  - Major projects: Chile, Mexico, Nigeria, Australia.

# BUSINESS OVERVIEW

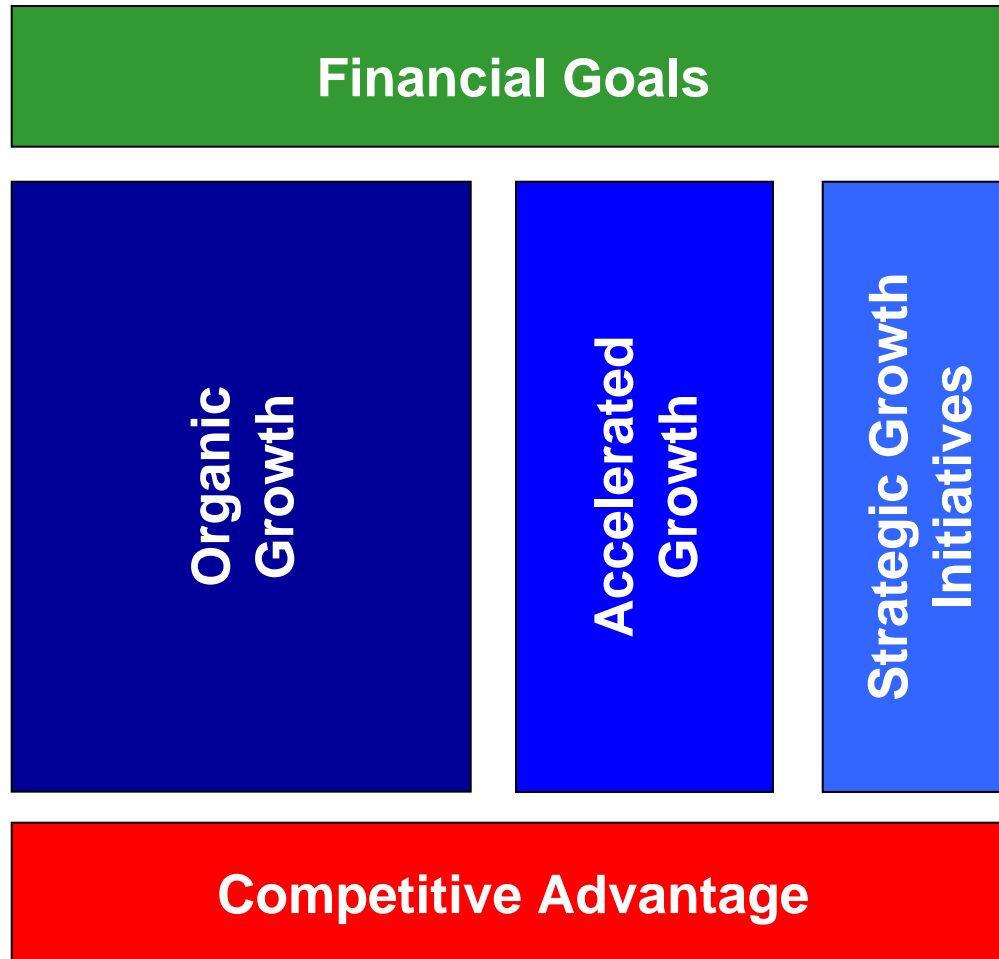


WHEN YOU NEED TO BE SURE





# STRATEGIC GROWTH PLAN – 1<sup>st</sup> HALF 06 UPDATE





# FINANCIAL GOALS - 1<sup>st</sup> HALF 06 UPDATE

## Financial Goals

Organic  
Growth

Accelerated  
Growth

Strategic Growth  
Initiatives

Competitive Advantage

### Plan 2006 - 2008

- Revenue... CHF 5 B
  - Organic growth... 10% CAGR
  - Total growth... 15% CAGR
- Operating margin... 17%
- Earnings per share... CHF 80

### First Half 2006 - achievements

- Revenue... CHF 1'85B
  - Organic growth... 10.4%
  - Total growth... 18.5%
- Operating margin... 15.3%
- Earnings per share... CHF 26.31



## ORGANIC GROWTH - 1<sup>st</sup> HALF 06 UPDATE

Financial Goals

Organic  
Growth

- Market share gains
- Regional initiatives
- New services
- Geographical expansion

Competitive Advantage



## AGRICULTURAL SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	156.7	137.8
Change in %	13.7 %	
<b>Operating Income before exceptionals</b>	18.7	15.4
Change in %	21.4 %	
<b>Margin</b>	11.9 %	11.2 %



### ■ Strategy 2006 - 2008

- Expand services in domestic markets.
- Complement basic inspection services with processing, trading and compliance services.

### ■ Revenue

- Introduced new logistic services bundled with inspections in Spain, Italy and Argentina.
- Expanded fumigation services in Eastern Europe.
- Secured new EU intervention board business in Hungary.

### ■ Operating margin

- Business management costs reduction continued.
- New bundled offerings improved pricing power.



# MINERALS SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	225.3	173.1
Change in %	30.2 %	
<b>Operating Income before exceptionals</b>	37.6	26.6
Change in %	41.4 %	
<b>Margin</b>	16.7 %	15.4 %



## ■ Strategy 2006 - 2008

- Introduce higher value and automated metallurgy services.
- Introduce risk management offerings.
- Expand MinnovEX capabilities globally.

## ■ Revenue

- Strong growth in all commodities trade related and outsourcing services.
- Introduced collateral management offerings.
- Made investments in ultratrace metallurgy analysis, geochem lab outsourcing and expanded automated sampling.

## ■ Operating margin

- Pushed mix toward higher margin services.



# OIL, GAS & CHEMICAL SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	374.3	305.8
Change in %	22.4 %	
<b>Operating Income before exceptionals</b>	51.9	39.7
Change in %	30.7 %	
<b>Margin</b>	13.9 %	13.0 %

## ■ Strategy 2006 - 2008

- Upgrade network & laboratories in Middle East.
- Globalize plant & terminal operations.
- Introduce new testing offerings.
- Expand laboratory Upsourcing.

## ■ Revenue

- Tight product market drove trade and blending demand.
- Grew share gains across whole activity range.
- Investments in upstream and LNG technologies.
- Secured large contracts across the regions.

## ■ Operating margin

- Network Advantage initiatives enhanced to productivity in North America.
- Withdrew from structural loss-making USA West Coast.
- Pushed mix toward higher margin services such as cargo treatment, collateral management and upstream activities.



CHF million	June 06	June 05 (1)
<b>Revenue</b>	151.4	127.0
Change in %	19.2 %	
<b>Operating Income before exceptionals</b>	27.7	20.4
Change in %	35.8 %	
<b>Margin</b>	18.3 %	16.1 %



### ■ Strategy 2006 - 2008

- Introduce specific offerings and sales focus to specific strategic segments.
- Expand international sales force for global strategic accounts.
- Create new offerings.
- Continue back room efficiency initiatives.

### ■ Revenue

- Strong demand for customized and industry-specific audit solutions in Europe, Asia and North America.
- Growing demand for traditional products in Africa and South America.
- Investment in sales forces secured large worldwide contracts with multinationals, accelerating growth in Europe and North America.
- Expanded QualiCert offering to Asia and launched Lean Six Sigma program.

### ■ Operating margin

- Centralized back office functions.
- Deploying standard information system worldwide.



# ENVIRONMENTAL SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	125.0	110.9
Change in %	12.7 %	
<b>Operating Income before exceptionals</b>	11.3	11.1
Change in %	1.8 %	
<b>Margin</b>	9.0 %	10.0 %



## ■ Strategy 2006 - 2008

- Leverage SGS network to enter markets with emerging regulations.
- Develop comprehensive analytic solutions for existing mining and oil & gas clients.
- Expand data management services to provide higher value.
- Continue networking laboratories for efficiency.

## ■ Revenue

- Slow first quarter due to severe weather conditions in key markets.
- Encouraging entrance in new markets: Ghana, India, Pakistan, China, Korea, South Africa and Greece.
- Grew international sales into regional centres for excellence.

## ■ Operating margin

- Incurred Paradigm integration costs and start up costs of the new Sydney laboratory.
- Divested Canadian Environmental Consulting business and Pink Healthcare Services in Australia.



## AUTOMOTIVE SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	111.5	97.3
Change in %	14.6 %	
<b>Operating Income before exceptionals</b>	15.3	13.2
Change in %	15.9 %	
<b>Margin</b>	13.7 %	13.6 %



### ■ Strategy 2006 - 2008

- Grow statutory vehicle inspections in mature & developing regions.
- Focus off-lease business in Europe.
- Develop blended offerings for automotive manufacturers.

### ■ Revenue

- Reversed trend and delivered positive organic growth.
- Grew both statutory and European commercial vehicle inspections.
- Won four-year contract for licensing and inspection of all London black cabs and five-year contract for licensing of public service vehicles in Ireland.
- Added title issuance to current Ivory Coast inspection service.

### ■ Operating margin

- Managed cost ahead of declining North American commercial activity.
- Ramped up Chilean vehicle inspection concession to full volume.



## TRADE ASSURANCE SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	83.3	119.5
Change in %	(30.3)%	
<b>Operating Income before exceptionals</b>	11.4	25.9
Change in %	(56.0)%	
<b>Margin</b>	13.7 %	21.7 %



### ■ Strategy 2006 - 2008

- Restructure PSI ahead of traditional market decline.
- Expand evolved PSI offerings.
- Continue growth of alternative government & private sector trade services.

### ■ Revenue

- Revenue declined from coinciding discontinuation of Pre-Shipment Inspection (PSI) schemes in the Democratic Republic of Congo, Nigeria and Venezuela.
- Grew non-PSI business over 60% with Mexico Second Inspection and Nigeria Destination Inspection schemes.
- Developed Product Conformity assessment scheme for Saudi Arabia and Kenya.

### ■ Operating margin

- Demobilized discontinued PSI operations and rationalized support functions.
- Investments in new projects and resulting mix puts downward pressure on margins.



# ACCELERATED GROWTH - 1<sup>st</sup> HALF 06 UPDATE

Financial Goals

Organic  
Growth

**Accelerated  
Growth**

- Bolt-on acquisitions in core
- Life Science, Consumer Testing and Industrial investments

Strategic Growth  
Initiatives

Competitive Advantage

The logo for SGS, consisting of the letters 'SGS' in a bold, grey, sans-serif font. A vertical orange line is positioned to the right of the 'S', and a horizontal orange line is positioned below the 'S'.

OIL, GAS & CHEMICALS



- Founded in 1996
- Provides comprehensive laboratory testing and analysis to Oil and Gas facilities in the North Sea
  - 18 employees
- Recognised capabilities towards customers
  - Technical support and outsourcing
  - Consulting
  - Training
- 2005 revenues of ~ CHF 2 Million

The logo for SGS, featuring the letters 'SGS' in a bold, grey, sans-serif font. A thin orange horizontal line is positioned below the letters, and a thin orange vertical line is positioned to the right of the letters, intersecting the horizontal line.

OIL, GAS & CHEMICALS

Laroute



- Founded in 1995, Zug, Switzerland
- Supplies specialist additive services
- Operates in Russia, Baltic States, Black Sea, Caspian Sea with a network of 28 port locations
- 80 employees
- 2005 revenues in excess of CHF 25mio



# LIFE SCIENCE SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	94.0	62.0
Change in %	51.6 %	
<b>Operating Income before exceptionals</b>	11.4	8.8
Change in %	29.5 %	
<b>Margin</b>	12.1 %	14.2 %



## ■ Strategy 2006 - 2008

- Expand early stage clinical research presence in Europe.
- Establish QC and clinical research footprint in USA.
- Introduce biopharmaceutical & pharmacogenomic testing offerings.
- Ramp up Asia laboratories.
- Strengthen worldwide sales & customer service capability.

## ■ Revenue

- Acquired aster.cephac, a leading European early stage CRO and bioanalytical laboratory.
- Acquired Northview Biosciences, a leading American QC laboratory.
- Grew clinical research backlog.

## ■ Operating margin

- Overall decline due to acquisition related restructuring and integration costs.
- New laboratories in Asia incurring higher than expected start-up costs due to evolving regulatory and accreditation requirements.
- Continued productivity gains in North America and European laboratories.

# SGS

## LIFE SCIENCE SERVICES



Business  
Segment

Clinical Research

QC Testing

Services

Phase I studies & Bioanalytical  
lab / Clinic, Data Management,  
Medical Writing, Testing

QC lab / Chemistry,  
Microbiology, Sterility

Locations

Paris, France (Clinic)  
Poitiers, France (BA lab)

Northbrook, IL, USA (QC lab)  
Spartanburg, SC, USA (QC  
lab)

Employees

330

100

2005 Revenues

~ CHF 55 Million

~ CHF 13 Million



# CONSUMER TESTING SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	283.4	214.2
Change in %	32.3 %	
<b>Operating Income before exceptionals</b>	64.6	46.4
Change in %	39.2 %	
<b>Margin</b>	22.8 %	21.7 %

## ■ Strategy 2006 - 2008

- Diversify hard-line portfolio.
- Continue development in electronics.
- Leverage leadership in restricted substance testing.
- Leverage capabilities for strategic account/segment revenue growth.

## ■ Revenue

- Introduce new hard-lines and E&E testing offerings.
- Investments in technology and capacity secured new contracts in GSM and wireless devices testing.
- Strong RoHS testing demand continued.
- Increase multinational soft-lines client portfolio in Japan, Europe and USA.

## ■ Operating margin

- Achieved higher chemical laboratory utilization driven by RoHS demand.
- Increased overall lab utilisation in Korea, Bangladesh and Turkey.
- Leveraged international sales force.



# RECENT DEVELOPMENT



WHEN YOU NEED TO BE SURE





## CONSUMER TESTING SERVICES

7 layers UK Ltd

- Founded in 2001, Cambridge, UK
- Third-party test services for designers and manufacturers of wireless communication products including GSM, GPRS, Bluetooth, EDGE, AMR, UMTS, 3G products and modules.
- 43 employees
- March 2005-March 2006 revenues in excess of £6mio



## CONSUMER TESTING SERVICES

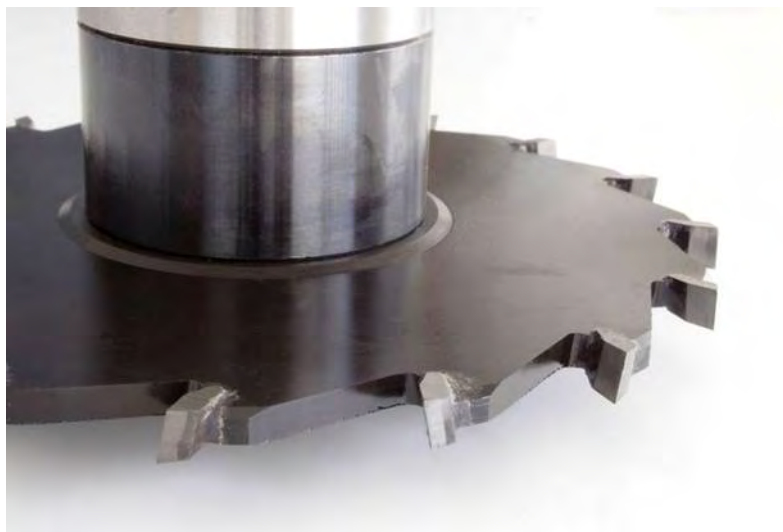


- Founded in 1997, San Diego, USA
- Develops automated test and verification software products for the wireless subscriber market concentrating on Code Division Multiple Access technology (CDMA)
- Operates in San Diego, California, and Lenexa, Kansas
- 21 employees
- In the first nine months of 2006 revenues in excess of USD5mio



## INDUSTRIAL SERVICES

CHF million	June 06	June 05 (1)
<b>Revenue</b>	240.2	209.4
Change in %	14.7 %	
<b>Operating Income before exceptionals</b>	31.5	27.5
Change in %	14.5 %	
<b>Margin</b>	13.1 %	13.1 %



### ■ Strategy 2006 - 2008

- Focus on energy & construction segments.
- Develop comprehensive asset integrity management services for oil & gas.
- Translate statutory inspection business from Germany/Spain to Eastern Europe.
- Penetrate China, India and expand in Middle East.

### ■ Revenue

- Grew construction material testing and site supervision for roads, irrigation system, airports and dams in Asia and Eastern Europe.
- Entered wind power market with inspections, site supervision and technical assessments.
- Grew supply chain, non-destructive testing (NDT) and inspection services for Oil and Gas industry in Africa, Middle East and Asia Pacific.

### ■ Operating margin

- Flat margin rate reflecting investments in growth offerings and regional expansion.
- Improvement in developing markets of Eastern Europe, Middle East, Africa and South America.



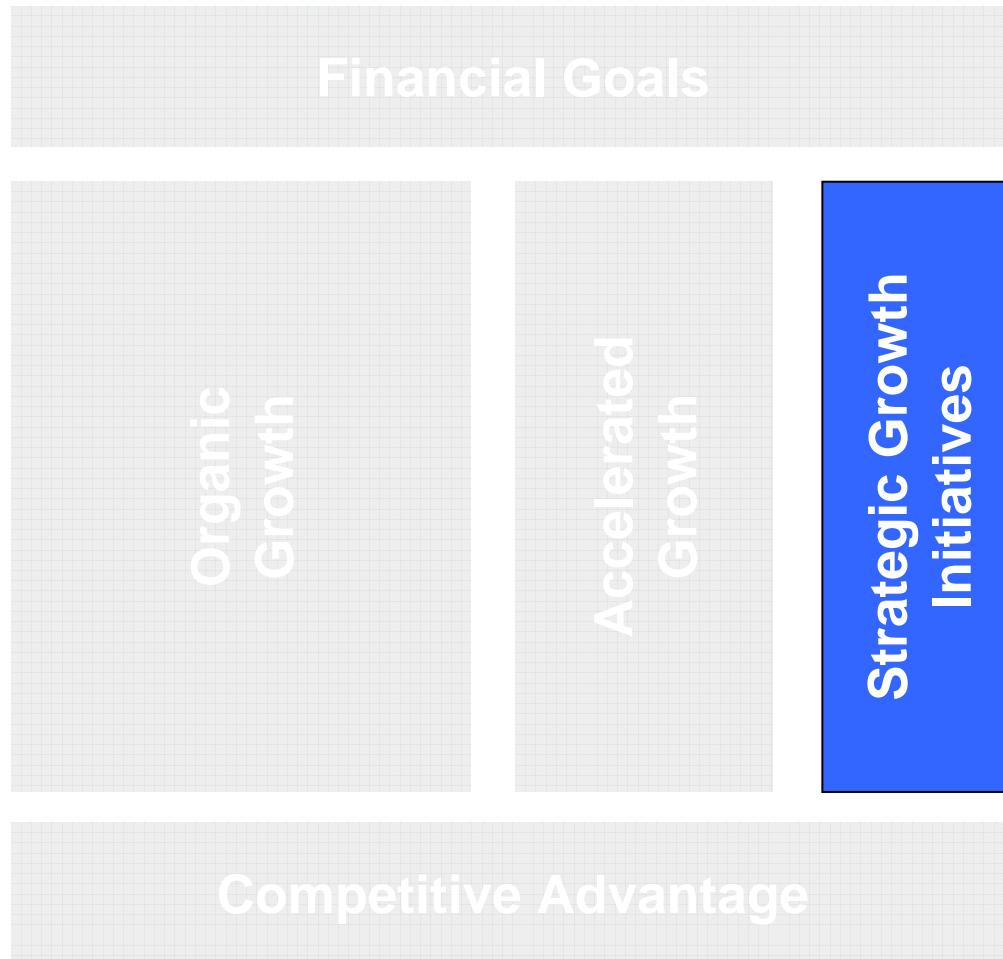
## INDUSTRIAL SERVICES



- Founded in 1999, Pusan, South Korea
- Provides technical inspections for vessels under construction, and Non Destructive Testing services to the petrochemical sector
- Operates in Korea, and will open a new global market in the years to come
- 120 people in 7 locations
- Revenues in excess of CHF10mio in the first nine months of 2006



# STRATEGIC INITIATIVES - 1<sup>st</sup> HALF 06 UPDATE



- **Strategic vertical markets**
  - Governments & institutions
  - Energy Infrastructure projects
  - Financial services
- **New businesses**
  - Software quality



# STRATEGIC GROWTH INITIATIVES



- Government & Institutions
  - Integrated existing government businesses
  - Began development of IP protection & aid efficiency offerings
  - Established lobbying presence
- Financial Services
  - Confirmed market opportunity & VOC
  - Assigned dedicated manager
  - Developing pilots for project financing & leasing
- Energy Infrastructure
  - Developing integrated QA/QC outsourcing capability for Oil Sand players
  - Leveraging global minerals, oil and gas, and environmental capabilities for oil & alternative energy offerings
  - Acquisition targeted
- Software
  - Confirmed market opportunity & VOC
  - Business development funnel being assessed

# RECENT DEVELOPMENT



WHEN YOU NEED TO BE SURE

**SGS**



## ENERGY INFRASTRUCTURE



- Founded in 1981
- Provides comprehensive analytical and materials testing, environmental services as well as geological and geotechnical services
- Operates in Fort McMurray, Alberta, Canada, the heart of the Athabasca oil sands region
- 100 employees
- 2005 revenues in excess of Can\$ 8mio



# COMPETITIVE ADVANTAGE – 1<sup>st</sup> HALF 06 UPDATE



- People
- Quality
- Productivity
- Brand



## COMPETITIVE ADVANTAGE



- People
  - Completed talent review & succession plan
  - Conducted employee survey
  - Ethics refresh training in progress
- Quality & Productivity
  - Network Advantage initiative launched
  - Benchmarked 210 sites and targeted optimization opportunities
  - Demonstrated cycle time, productivity and DSO gains in pilot regions
- Branding
  - Collected VOC through comprehensive survey
  - Developing marketing tools focusing on strength of full group



WINNING IS AN **ATTITUDE**

WHEN YOU NEED TO BE SURE

**SGS**