

**SGS**

Recommendation UNCHANGED

**Buy**

Industrial Goods &amp; Services

Switzerland

Next News: FY 2006 Results (15/01/07)

Price at July 18 (Reg.)

12-Month Target ▶

Target Upside

CHF 1,088

CHF 1,300

+19.5%

## Share Information

Market Cap	CHF 8.5 bn		
Free Float (53%)	CHF 4.5 bn		
Bloomberg/Reuters	SGSN VX / SGSN VX		
Telekurs	249 745		

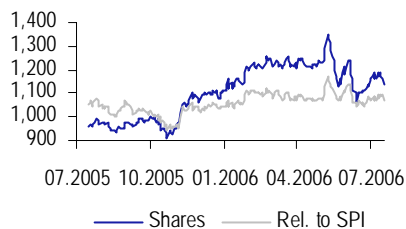
## Estimate Changes (%)

	2006E	2007E	2008E
EPS (reported)	0.6	-0.8	-1.4
EPS (adjusted)	-2.8	-0.8	-1.4

## Growth &amp; Returns (%)

	2006E	2007E	2008E
Net Sales Growth	14.0	10.8	9.0
EBITDA Margin	19.7	20.4	20.8
EBITDA Growth	15.7	15.0	10.8
EBIT Margin	15.4	16.1	16.4
EBIT Growth	16.1	15.3	11.5
Net Margin (adj.)	11.6	11.6	11.8
EPS Growth (adj.)	13.6	15.1	11.3
ROE	29.4	28.3	25.7
ROCE	48.4	50.6	53.6
Net Debt/Equity	-23.9	-36.8	-45.9

## Share Price Performance (12 months)



% Change	1M	3M	12M	YTD
Absolute	-1.5	-8.3	14.8	-0.1
Relative to SPI	-3.5	-2.9	-2.8	-1.2

Stocks priced at close, July 18, 2006

## H1 2006 RESULTS: ON TRACK TO ATTAIN 2008 FINANCIAL TARGETS

FY to Dec. 31	2005	05/04	2006E	06/05	2007E	07/06	2008E	07/06
<b>In CHF mn</b>								
Revenues	3'308.0	14.7	3'772.6	14.0	4'181.7	10.8	4'559.4	9.0
EBITDA	642.0	26.1	742.6	15.7	853.9	15.0	946.1	10.8
Net profit	371.0	33.0	436.4	17.6	485.0	11.1	539.9	11.3
Adjusted Net profit	371.0	27.1	421.4	13.6	485.0	15.1	539.9	11.3
<b>In CHF, per registered share</b>								
EPS	48.7	32.1	57.3	17.6	63.7	11.1	70.9	11.3
EBITDA	82.1	26.1	94.9	15.7	109.2	15.0	121.0	10.8
EPS (Adjusted)	47.4	27.1	53.9	13.6	62.0	15.1	69.0	11.3
DPS	50.0	n.m.	16.0	-68.0	18.0	12.5	20.0	11.1
BVPS	183.1	16.5	196.1	7.1	242.5	23.7	294.2	21.3
<b>Ratios per share</b>								
P/E	22.4		19.0		17.1		15.3	
P/E (Adjusted)	23.0		20.2		17.5		15.8	
P/BV	5.9		5.5		4.5		3.7	
EV/EBITDA	12.8		11.1		9.3		8.1	
Yield	4.6		1.5		1.7		1.8	

SGS reported H1 2006 results largely in line with our expectations, and provided evidence that the company is on track to attain its 2008 financial targets. We make only minor modification to our financial forecasts and we leave our Buy recommendation and price target unchanged.

## On Track for 2008 Targets

Sales growth of 14.7% in constant currencies and 10.4% organic growth were in line with SGS's medium-term targets of 15% top-line growth and double-digit organic growth. The group EBIT margin, excluding exceptionals, increased by 20 bps, showing progress towards the 17% goal for 2008. Excluding the TAS division which posted an unusually large decline in turnover due to the loss of two large contracts during the period, a situation which is not expected to reoccur, organic growth in the nine other divisions which now represent 95% of sales was 14% and the EBIT margin improvement would have been 80 bps.

This progress gives strong evidence that most businesses are operating in robust environments and affirms management's ability to grow the business and make additional efficiency gains.

## Only Minor Changes to Our Financial Forecasts

With results largely in line with expectations, we make only minor changes to our forecasts. Stronger performances from most of the divisions offsets the weaker than expected performance in TAS. The net changes to our adjusted EPS forecasts are -3% for 2006E and -1% for both FY 2007E and FY 2008E.

## Buy Recommendation Maintained

Our Buy recommendation is based on the beneficial longer-term market trends of globalization and outsourcing as well as on our confidence in management's growth plan through to 2008. SGS's valuation level of 11.9x EV/EBIT in 2007E and 10.2x in 2008E compares to its historical average of 13.7x over 1994-2005

## Analysts

## Scott Weldon

Scott.Weldon@LODH.com

Tel: (+41 22) 709 36 29

## Alain-Sebastian Oberhuber, CFA

AlainSebastian.Oberhuber@LODH.com

Tel: (+41 44) 214 16 27

Please see important information and certification at the end of this document

## Profit & Loss – Comparison of Actual versus Estimated Results

Profit & Loss	H1 05	H1 06A	Change	H1 06E	Delta
<b>Revenues</b>	<b>1'557.0</b>	<b>1'845.0</b>	18.5%	<b>1'782.6</b>	3.5%
% growth	12.0%	18.5%		14.5%	
<b>EBITDA (excl except)</b>	<b>301.0</b>	<b>361.4</b>	20.1%	<b>359.6</b>	0.5%
% of net sales	19.3%	19.6%		20.2%	
Depreciation	66.0	80.0		78.7	
<b>Operating Profit (adj)</b>	<b>235.0</b>	<b>281.4</b>	19.7%	<b>280.9</b>	0.2%
<b>Operating profit margin</b>	<b>15.1%</b>	<b>15.3%</b>		<b>15.8%</b>	
EBITA	235.0	281.4		280.9	
EBITA margin	15.1%	15.3%		15.8%	
<b>Net operating income ( EBIT)</b>	<b>235.0</b>	<b>281.4</b>	19.7%	<b>280.9</b>	0.2%
<b>EBIT margin</b>	<b>15.1%</b>	<b>15.3%</b>		<b>15.8%</b>	
change %	14.6%	19.7%		22.8%	
Net interest income	4.0	(1.0)		3.0	
non recurring income		21.0			
<b>Income before Income Taxes</b>	<b>239.0</b>	<b>301.4</b>	26.1%	<b>283.9</b>	6.2%
Taxes on earnings	57.0	73.0		66.6	
Tax rate %	23.8%	24.2%		23.5%	
Minority Interest	(8.0)	(13.0)		(9.8)	
<b>Net profit</b>	<b>174.0</b>	<b>215.4</b>	23.8%	<b>207.5</b>	3.8%
<b>Adj. Net profit</b>	<b>174</b>	<b>200</b>	15%	<b>207.5</b>	-3.4%

## COMMENTS ON RESULTS

### Results In Line With 2008 Financial Targets

Sales growth in constant currencies was 14.7% and organic growth was 10.4%. This is almost exactly in line with SGS's three-year growth plan of 15% top-line growth and double-digit organic growth.

Reported operating profit of CHF 302 mn included non-recurring items of CHF 21 mn. Excluding these items, operating profit of CHF 281 mn was exactly in line with our forecast. Net income of CHF 215 mn included a CHF 15 mn after-tax impact from exceptional items. Excluding exceptionals, net income of CHF 200 mn was 3% below our projection for H1, primarily due to lower financial income.

The operating margin excluding exceptionals increased by 20 bps to 15.3%, showing progress towards SGS's 17% operating margin target for 2008.

### Unusually Large Decline in Trade Assurance

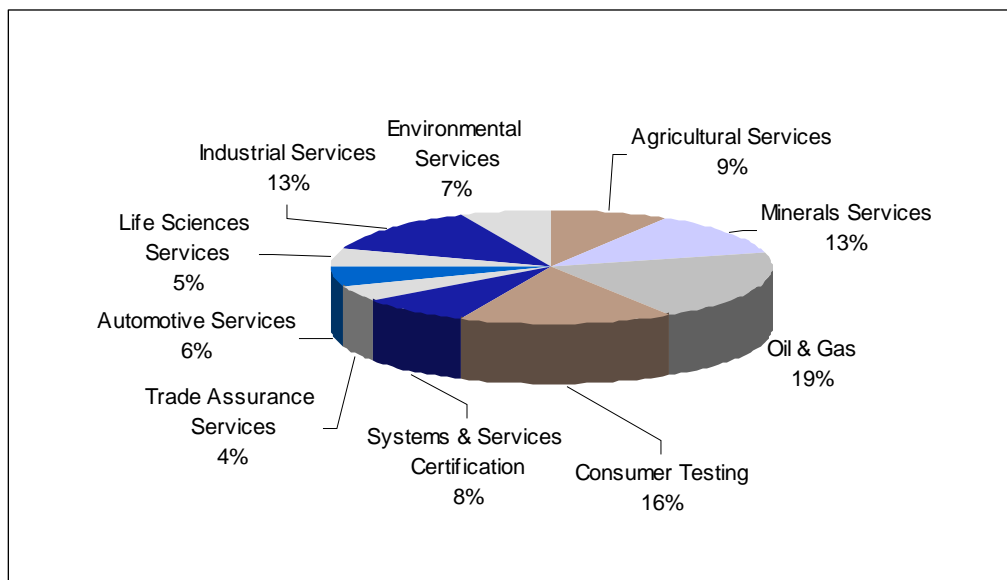
It should be noted that in H1 2006 the TAS division reported an unusually large negative development due to the loss of two large PSI contracts: Venezuela at the end of August 2005 and Nigeria at the end of January 2006. Sales declined by 30% during the period and the operating margin declined from 22% to 14%. This development needs to be seen as exceptional. Although the loss of these contracts will also lead to a year on year decline in H2 2006, our expectations going forward for the TAS division are for a stabilization in sales and a slight improvement in margins compared to H1 (about 16% we now assume).

### Excluding TAS, the Group Outperformed

SGS's group results were in line with medium-term targets despite the unusual development of TAS during this period. Excluding TAS, (which now represents less than 5% of group sales and operating profit), the nine other divisions grew by 19% in constant currencies, posted organic growth of 14% and showed an average EBIT margin improvement of 80 bps in H1– clearly above medium-term targets.

Please see important information and certification at the end of this document

## Sales by Division (2006E)



### Operating Margins to Improve in H2

Seven of the ten business segments showed improvements in their operating profit margins (see table on page 5 for results by division). Regarding the three divisions showing a decline (TAS, Life Science, and Environmental), the company indicated at yesterday's analyst presentation that it expects their margins to show some improvement during H2.

**TAS** was penalized in H1 2006 by the loss of revenues from the Nigeria PSI. The cost base for this contract has been reduced, but this could not be done immediately upon termination of the contract. Some of the loss in revenue will be recovered in H2 with the start of a new contract for Destination Inspection in Nigeria and a ValueNet contract in Mexico, but neither of these contracts was in force for the entire six months and some start-up costs were incurred in advance. **Life Science** was negatively impacted by restructuring charges and workflow reorganization following two relatively large acquisitions during the period as well as by additional charges relating to the start-up of activities in Asia. Increased sales momentum should come as new laboratories obtain accreditation with new clients. Management expects to see an acceleration in sales and margins in H2. The **Environmental** division performed poorly in Q1, in part due to cold weather delaying the taking of soil samples, but business improved in Q2 and expectations are for a return to normal conditions in H2.

### Net Financial Income Lower Than Expected

**SGS incurred a net financial expense of CHF 1 mn during H1 2006** compared to our expectation of CHF 3 mn in income. Net financial income declined due to the lower average net cash balance during the period following the payment of a special dividend and capital reduction totaling CHF 50 per share (compared to a dividend of CHF 12 per share in 2005). Net cash fell to CHF 46 mn at June 30, 2006 compared to CHF 433 at December 31, 2005.

### CHANGES TO OUR FORECASTS

Changes to our forecasts for FY 2006-2008 are minor. We have modified our forecasts to incorporate the H1 2006 results, our lower expectations for TAS, Life Science, and Environmental and our higher expectations for Consumer, OG&C, Minerals, and Certification. The net changes (shown in the table below) result in an increase in our revenue estimates of 1%-3%, almost no change in our operating profit estimates (-1% for 2006E, +1%-2% for 2007-08E) and lower EPS estimates of about 1% for 2007-08E. Our forecasts remain below the level of SGS's 2008 targets as we do not include the impact of potential acquisitions which are included in SGS's strategic plans.

Please see important information and certification at the end of this document

## Comparison of New Estimates vs. Old Estimates and SGS's 2008 Targets

In CHF mn FY to Dec. 31	new LODH estimates			old LODH estimates			% change			SGS2008 Target	
	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	CHF	Delta
Revenues (net)	3'773	4'182	4'559	3'726	4'075	4'449	1.3%	2.6%	2.5%	5000	-9%
EBITDA	743	854	946	746	841	933	-0.4%	1.5%	1.4%		
Operating Profit (pre amort. & exopt.)	583	672	749	588	662	739	-1.0%	1.5%	1.3%	850	-12%
Operating Profit margin	15.4%	16.1%	16.4%	15.8%	16.3%	16.6%	-0.3%	-0.2%	-0.2%		
Net profit	436	485	540	434	489	547	0.6%	-0.8%	-1.4%	600	-10%
Adjusted net profit	415	485	540	434	489	547	-4.2%	-0.8%	-1.4%		

## VALUATION

SGS trades at 11.9x EV/EBIT for 2007E and 10.2x for 2008E which compares to its historical average of 13.7x over 1994-2005. Its P/E multiples are 17.5x for 2007E and 15.8x for 2008E on our forecasts compared to its historical average of 22x. SGS trades at a 20%-25% premium to Intertek and the business services sector. We believe a premium is justified based on SGS's superior business portfolio mix, current execution, higher sales and earning growth and market share gains.

## Peer Group Valuation

Company	Price l.c.	EV/EBITDA		EV/EBIT		P/E		Sales growth		EPS growth		PEG
		2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
Intertek Group	636	9.1	7.7	11.5	9.9	15.0	13.3	10.1%	9.2%	9%	13%	1.1
Business Services		8.5	7.2	11.3	9.4	15.7	13.4	8.2%	6.1%	10%	14%	1.1
<b>SGS</b>	<b>1'088</b>	<b>11.1</b>	<b>9.3</b>	<b>14.2</b>	<b>11.9</b>	<b>20.2</b>	<b>17.5</b>	<b>14.0%</b>	<b>10.8%</b>	<b>14%</b>	<b>15%</b>	1.3
Premium SGS/Intertek		22%	21%	24%	19%	35%	32%	39%	17%	47%	12%	20%

## CONCLUSION

We consider the progress of the company excellent during the period and reiterate our Buy recommendation.

Please see important information and certification at the end of this document

## SALES AND EBIT BY DIVISION

### Interim Divisional Revenue Breakdown

Division		2004	1H 05	2H 05	2005	1H 06	2H 06E	2006E
-Agricultural services	CHF mn	257.1	137.8	157.0	294.8	156.7	166.3	323.0
- Minerals services	CHF mn	319.4	173.1	220.6	393.7	225.3	246.3	471.6
- Oil&Gas	CHF mn	574.6	305.8	329.5	635.3	374.3	377.9	752.2
- Consumer Products services	CHF mn	360.6	214.2	262.0	476.2	283.4	309.7	593.1
- International Cert. services	CHF mn	235.4	127.0	147.0	274.0	151.4	158.3	309.7
-Trade Assurance	CHF mn	255.4	119.5	109.1	228.6	83.3	86.5	169.8
- Industrial Services	CHF mn	379.8	209.4	235.4	444.8	240.2	248.9	489.1
- Environmental Services	CHF mn	208.6	110.9	124.1	235.0	125.0	130.7	255.7
-Automotive	CHF mn	187.7	97.3	102.9	200.2	111.5	103.0	214.5
-Life Science	CHF mn	106.5	62.0	63.3	125.3	94.0	99.8	193.8
<b>Total revenues</b>	CHF mn	<b>2885.1</b>	<b>1557.0</b>	<b>1750.9</b>	<b>3307.9</b>	<b>1845.1</b>	<b>1927.5</b>	<b>3772.6</b>

### Organic yearly revenue change in %

Division		2004	1H 05	2H 05	2005	1H 06	2H 06E	2006E
-Agricultural services	%	7.4	10.9	13.3	12.2	9.3	8.5	9.0
- Minerals services	%	16.4	19.1	18.6	17.1	18.1	12.0	15.0
- Oil&Gas	%	12.8	8.9	8.9	9.5	13.9	13.2	13.5
- Consumer Products services	%	22.8	26.0	29.1	27.2	28.2	20.8	24.0
- International Cert. services	%	3.9	12.8	17.7	15.3	16.1	10.3	13.0
-Trade Assurance	%	17.2	-9.6	-11.7	-10.5	-30.9	-18.1	-25.0
- Industrial Services	%	15.2	14.9	13.2	12.6	11.8	8.4	10.0
- Environmental Services	%	9.3	11.2	7.0	9.0	7.0	6.0	6.5
-Automotive	%	-14.0	0.0	-2.0	-0.5	3.3	2.6	3.0
-Life Science	%	-4.2	18.1	13.3	15.6	-1.8	7.7	3.0
<b>Total revenues</b>	%	<b>10.7</b>	<b>11.1</b>	<b>12.1</b>	<b>11.3</b>	<b>10.8</b>	<b>9.6</b>	<b>9.7</b>

### Divisional Operating Profit Breakdown

Division		2004	1H 05	2H 05	2005	1H 06	2H 06E	2006E
-Agricultural services	CHF mn	23.6	15.4	18.1	33.5	18.7	20.1	38.8
- Minerals services	CHF mn	46.3	26.6	36.5	63.1	37.6	40.2	77.8
- Oil&Gas	CHF mn	68.6	39.7	39.7	79.4	51.9	49.6	101.5
- Consumer Products services	CHF mn	65.2	46.4	55.7	102.1	64.6	68.8	133.4
- International Cert. services	CHF mn	30.5	20.4	26.1	46.5	27.7	28.0	55.7
-Trade Assurance	CHF mn	61.5	25.1	23.4	48.5	11.4	14.1	25.5
- Industrial Services	CHF mn	46.1	27.5	31.1	58.6	31.5	34.5	66.0
- Environmental Services	CHF mn	16.8	11.1	14.9	26.0	11.3	15.5	26.8
-Automotive	CHF mn	20.0	13.2	12.0	25.2	15.3	12.6	27.9
-Life Science	CHF mn	12.8	8.8	10.3	19.1	11.4	17.7	29.1
<b>Total OP before Group costs</b>	CHF mn	<b>391.4</b>	<b>234.2</b>	<b>267.8</b>	<b>502.0</b>	<b>281.4</b>	<b>301.2</b>	<b>582.6</b>
Group corporate costs	CHF mn	-16.0	0.8	-0.8	0.0	0.0	0.0	0.0
<b>Total EBIT before Group costs</b>	CHF mn	<b>375.4</b>	<b>235.0</b>	<b>267.0</b>	<b>502.0</b>	<b>281.4</b>	<b>301.2</b>	<b>582.6</b>
Exceptional operating items	CHF mn	3.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total reported EBIT</b>	CHF mn	<b>378.4</b>	<b>235.0</b>	<b>267.0</b>	<b>502.0</b>	<b>281.4</b>	<b>301.2</b>	<b>582.6</b>

### Divisional Operating Profit Margin Bre:

Division		2004	1H 05	2H 05	2005	1H 06	2H 06E	2006E
-Agricultural services	%	9.2	11.2	11.5	11.4	11.9	12.1	12.0
- Minerals services	%	14.5	15.4	16.5	16.0	16.7	16.3	16.5
- Oil&Gas	%	11.9	13.0	12.0	12.5	13.9	13.1	13.5
- Consumer Products services	%	18.1	21.7	21.3	21.4	22.8	22.2	22.5
- International Cert. services	%	13.0	16.1	17.8	17.0	18.3	17.7	18.0
-Trade Assurance	%	24.1	21.0	21.4	21.2	13.7	16.3	15.0
- Industrial Services	%	12.1	13.1	13.2	13.2	13.1	13.9	13.5
- Environmental Services	%	8.1	10.0	12.0	11.1	9.0	11.9	10.5
-Automotive	%	10.7	13.6	11.7	12.6	13.7	12.2	13.0
-Life Science	%	12.0	14.2	16.3	15.2	12.1	17.7	15.0
<b>Total reported EBIT</b>	%	<b>13.1</b>	<b>15.1</b>	<b>15.2</b>	<b>15.2</b>	<b>15.3</b>	<b>15.6</b>	<b>15.4</b>

Please see important information and certification at the end of this document

## Divisional Revenue Breakdown

Division		2003	2004	2005	2006E	2007E	2008E
Agricultural Services	CHF mn	242	257	295	323	351	376
Minerals Services	CHF mn	280	319	394	472	534	598
Oil & Gas	CHF mn	439	575	635	752	836	903
Consumer Testing	CHF mn	272	361	476	593	696	800
Systems & Services Certification	CHF mn	230	235	274	310	348	379
Trade Assurance Services	CHF mn	220	255	229	170	173	177
Automotive Services	CHF mn	211	188	200	215	228	239
Life Sciences Services	CHF mn	59	107	125	194	208	221
Industrial Services	CHF mn	330	380	445	489	534	577
Environmental Services	CHF mn	nm	209	235	256	274	290
<b>Total revenues</b>	CHF mn	<b>2283</b>	<b>2885</b>	<b>3308</b>	<b>3773</b>	<b>4182</b>	<b>4559</b>

## Divisional Revenue Breakdown (yearly organic change in %)

Division		2003	2004	2005	2006E	2007E	2008E
Agricultural Services	%	0.0	7.4	12.2	9.0	7.5	7.0
Minerals Services	%	5.1	16.4	17.1	15.0	12.0	12.0
Oil & Gas	%	16.8	12.8	9.5	13.5	10.0	8.0
Consumer Testing	%	14.2	22.8	27.2	24.0	16.0	15.0
Systems & Services Certification	%	14.0	3.9	15.3	13.0	11.0	9.0
Trade Assurance Services	%	5.6	17.2	-10.5	-25.0	1.0	2.0
Automotive Services	%	-3.6	-14.0	-0.5	3.0	5.0	5.0
Life Sciences Services	%	-4.5	-4.2	15.6	3.0	5.0	6.0
Industrial Services	%	3.5	15.2	12.6	10.0	8.0	8.0
Environmental Services	%	nm	9.3	9.0	6.5	6.0	6.0
<b>Total revenues</b>	%	<b>7.1</b>	<b>10.7</b>	<b>11.3</b>	<b>9.7</b>	<b>9.7</b>	<b>9.0</b>

## Divisional Operating Profit Margin Breakdown

Division		2003	2004	2005	2006E	2007E	2008E
Agricultural Services	%	10.0	9.2	11.4	12.0	12.5	12.5
Minerals Services	%	12.7	14.5	16.0	16.5	17.0	17.0
Oil & Gas	%	10.9	11.9	12.5	13.5	13.5	14.0
Consumer Testing	%	14.5	18.1	21.4	22.5	23.0	23.0
Systems & Services Certification	%	15.1	13.0	17.0	18.0	18.0	18.0
Trade Assurance Services	%	20.5	24.1	21.2	15.0	16.0	16.0
Automotive Services	%	9.9	10.7	12.6	13.0	13.3	13.5
Life Sciences Services	%	10.0	12.0	15.2	15.0	18.0	18.0
Industrial Services	%	10.6	12.1	13.2	13.5	14.0	14.5
Environmental Services	%	nm	8.1	11.1	10.5	11.5	13.0
<b>Total operating income</b>	%	<b>13.1</b>	<b>13.6</b>	<b>15.2</b>	<b>15.4</b>	<b>16.1</b>	<b>16.4</b>

Please see important information and certification at the end of this document

## Income Statement

In CHF mn FY to Dec. 31	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
<b>Revenues (net)</b>	<b>2'391.9</b>	<b>2'454.0</b>	<b>2'885.0</b>	<b>3'308.0</b>	<b>3'772.6</b>	<b>4'181.7</b>	<b>4'559.4</b>	11.3%
Total operating expenses	-2'160.8	-2'055.0	-2'376.0	-2'666.0	-3'030.0	-3'327.9	-3'613.3	10.7%
<b>EBITDA</b>	<b>231.1</b>	<b>399.0</b>	<b>509.0</b>	<b>642.0</b>	<b>742.6</b>	<b>853.9</b>	<b>946.1</b>	13.8%
Depreciation & amortization	-103.9	-106.0	-131.0	-140.0	-160.0	-182.1	-197.2	12.1%
<b>EBIT</b>	<b>127.3</b>	<b>293.0</b>	<b>378.0</b>	<b>502.0</b>	<b>582.6</b>	<b>671.8</b>	<b>749.0</b>	14.3%
Interest income/expenses (net)	7.8	10.0	6.0	5.0	-2.0	-2.0	-2.0	n.m.
<b>Pretax profit</b>	<b>140.4</b>	<b>303.0</b>	<b>384.0</b>	<b>507.0</b>	<b>601.6</b>	<b>669.8</b>	<b>747.0</b>	13.8%
Taxes	-27.5	-68.0	-90.0	-119.0	-141.2	-157.2	-175.3	13.8%
<b>Net group profit</b>	<b>113.0</b>	<b>235.0</b>	<b>294.0</b>	<b>388.0</b>	<b>460.4</b>	<b>512.6</b>	<b>571.6</b>	13.8%
Minority interests	-3.8	-8.0	-15.0	-17.0	-24.0	-27.6	-31.7	23.1%
<b>Net profit</b>	<b>109.1</b>	<b>227.0</b>	<b>279.0</b>	<b>371.0</b>	<b>436.4</b>	<b>485.0</b>	<b>539.9</b>	13.3%
Net profit adjusted	197.4	234.0	292.0	371.0	421.4	485.0	539.9	13.3%

Growth		2002	2003	2004	2005	2006E	2007E	2008E
Revenues (net)	%	2.6	2.6	17.6	14.7	14.0	10.8	9.0
EBITDA	%	n.m.	72.6	27.6	26.1	15.7	15.0	10.8
EBIT	%	n.m.	130.2	29.0	32.8	16.1	15.3	11.5
Net profit	%	n.m.	108.0	22.9	33.0	17.6	11.1	11.3

Margins analysis		2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
EBIT margin	%	5.3	11.9	13.1	15.2	15.4	16.1	16.4	1194.0%
Tax rate	%	19.6	22.4	23.4	23.5	23.5	23.5	23.5	2244.2%
Net profit margin	%	4.6	9.3	9.7	11.2	11.6	11.6	11.8	925.0%
Operational cash flow	%	10.0	15.2	14.9	12.4	16.4	16.4	16.4	3.1%

## Cash flow Statement

In CHF mn FY to Dec. 31	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
<b>Cash flow</b>	<b>169.4</b>	<b>354.0</b>	<b>420.0</b>	<b>470.0</b>	<b>620.4</b>	<b>694.7</b>	<b>768.8</b>	18.3%
Inc. (-)/dec. (+) in NWC	70.5	20.1	11.0	-60.0	-3.1	-10.7	-21.1	n.m.
<b>Operating cash flow</b>	<b>239.9</b>	<b>374.1</b>	<b>431.0</b>	<b>410.0</b>	<b>617.3</b>	<b>683.9</b>	<b>747.7</b>	16.6%
Maintenance capex (-)	-120.9	-171.0	-201.0	-190.0	-210.0	-231.0	-254.1	4.7%
<b>Operating free cash flow</b>	<b>119.0</b>	<b>203.1</b>	<b>230.0</b>	<b>220.0</b>	<b>407.3</b>	<b>452.9</b>	<b>493.6</b>	25.3%
<b>Investing cash flow</b>	<b>-47.9</b>	<b>2.0</b>	<b>-127.0</b>	<b>-88.0</b>	<b>-139.0</b>	<b>0.0</b>	<b>0.0</b>	n.m.
<b>Financing cash flow</b>	<b>-185.9</b>	<b>-156.0</b>	<b>-97.0</b>	<b>-31.0</b>	<b>-334.7</b>	<b>-121.8</b>	<b>-134.1</b>	7.9%
<b>Inc. (+)/dec. (-) in cash</b>	<b>-117.9</b>	<b>-5.3</b>	<b>-70.0</b>	<b>75.0</b>	<b>-66.5</b>	<b>331.1</b>	<b>360.5</b>	n.m.

Please see important information and certification at the end of this document

## Balance Sheet

In CHF mn FY to Dec. 31	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
Cash & marketable securities	531.3	526.0	456.0	531.0	464.5	795.6	1'156.2	<i>n.m.</i>
Inventories	108.4	108.0	118.0	127.0	142.9	158.3	172.6	5.0%
Trade and other receivables	640.7	706.0	711.0	867.0	950.9	1'040.5	1'134.5	6.6%
<b>Current assets</b>	<b>1'280.4</b>	<b>1'340.0</b>	<b>1'285.0</b>	<b>1'525.0</b>	<b>1'558.3</b>	<b>1'994.5</b>	<b>2'463.3</b>	7.6%
Net fixed assets	373.9	415.0	493.0	586.0	636.0	684.9	741.8	5.6%
Goodwill	106.7	147.0	304.0	429.0	568.0	568.0	568.0	11.0%
Other long-term assets	88.5	120.0	130.0	225.0	225.0	225.0	225.0	0.0%
<b>Long-term assets</b>	<b>569.1</b>	<b>682.0</b>	<b>927.0</b>	<b>1'240.0</b>	<b>1'429.0</b>	<b>1'477.9</b>	<b>1'534.8</b>	8.1%
<b>Total assets</b>	<b>1'849.5</b>	<b>2'022.0</b>	<b>2'212.0</b>	<b>2'765.0</b>	<b>2'987.3</b>	<b>3'472.4</b>	<b>3'998.2</b>	7.8%

In CHF mn FY to Dec. 31	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
Trade and other payables	259.9	299.0	329.0	329.0	370.1	410.2	447.3	3.7%
Short-term interest-bearing debt	81.9	22.0	10.0	91.0	91.0	91.0	92.0	44.5%
Other current liabilities	273.1	319.0	361.0	445.0	500.5	554.8	604.9	7.4%
<b>Current liabilities</b>	<b>614.9</b>	<b>640.0</b>	<b>700.0</b>	<b>865.0</b>	<b>961.6</b>	<b>1'056.0</b>	<b>1'144.2</b>	7.1%
Long-term interest-bearing debt	47.8	11.0	8.0	7.0	7.0	7.0	8.0	-2.2%
Pension provisions	94.0	74.0	65.0	65.0	65.0	65.0	65.0	0.0%
Deferred taxes	54.5	72.0	64.0	64.0	64.0	64.0	64.0	0.0%
Other provisions	123.6	135.0	120.0	289.0	289.0	289.0	289.0	15.8%
<b>Long-term liabilities</b>	<b>319.9</b>	<b>292.0</b>	<b>257.0</b>	<b>425.0</b>	<b>425.0</b>	<b>425.0</b>	<b>426.0</b>	8.7%
<b>Shareholders' equity</b>	<b>896.6</b>	<b>1'072.0</b>	<b>1'229.0</b>	<b>1'432.0</b>	<b>1'533.7</b>	<b>1'896.8</b>	<b>2'301.6</b>	7.5%
Minority interests	18.1	18.0	26.0	43.0	67.0	94.6	126.3	24.0%
<b>Equity &amp; l.t. liabilities</b>	<b>1'234.6</b>	<b>1'382.0</b>	<b>1'512.0</b>	<b>1'900.0</b>	<b>2'025.7</b>	<b>2'416.4</b>	<b>2'854.0</b>	8.1%
<b>Total liabilities &amp; sh. equity</b>	<b>1'849.5</b>	<b>2'022.0</b>	<b>2'212.0</b>	<b>2'765.0</b>	<b>2'987.3</b>	<b>3'472.4</b>	<b>3'998.2</b>	7.8%

## Balance Sheet Analysis

Working capital analysis		2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
Net work. cap. (NWC)	CHF mn	216	196	139	220	223	234	255	9.1%
NWC/turnover	%	9.0	8.0	4.8	6.7	5.9	5.6	5.6	2.5%
Working capital	days	33	29	17	24	21	20	20	2.5%
Inventory	days	16	16	15	14	14	14	14	-1.0%
Receivables	days	96	104	89	94	92	91	91	0.4%
Payables	days	39	44	41	36	36	36	36	-2.3%

Capital structure		2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
Average equity	CHF mn	939	984	1'151	1'331	1'483	1'715	2'099	<i>n.a.</i>
Net cash. (year-end)	CHF mn	402	493	438	433	367	698	1'056	8.1%
Capital employed	CHF mn	607	671	882	1'107	1'299	1'359	1'437	7.5%
Equity/total assets	%	49.5	53.9	56.7	53.3	53.6	57.3	60.7	0.2%
Gearing (year-end)	%	-44.8	-46.0	-35.6	-30.2	-23.9	-36.8	-45.9	<i>n.a.</i>

Breakdown of ROE		2002	2003	2004	2005	2006E	2007E	2008E
Net profit margin	%	4.6	9.3	9.7	11.2	11.6	11.6	11.8
Asset turnover	%	129.3	121.4	130.4	119.6	126.3	120.4	114.0
Return on assets (ROA)	%	5.9	11.2	12.6	13.4	14.6	14.0	13.5
Leverage (assets/equity)	x	2.0	2.1	1.9	2.1	2.0	2.0	1.9
Return on equity (ROE)	%	11.6	23.1	24.3	27.9	29.4	28.3	25.7

Please see important information and certification at the end of this document

## Summary & Valuation

<b>Price (registered)</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	
Price (year-end)	CHF	416	779	797	1'089	1'088	1'088	1'088	
High	CHF	521	790	797	1'111	1'327	n.a.	n.a.	
Low	CHF	257	418	645	801	1'057	n.a.	n.a.	
<b>Shares outstanding</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	
Average shares outstanding	('000)	7'822	7'822	7'822	7'822	7'822	7'822	7'822	
Year-end shares outstanding	('000)	7'822	7'822	7'822	7'822	7'822	7'822	7'822	
Market capitalization	CHF mn	3'254	6'093	6'231	8'519	8'511	8'511	8'511	
<b>Aggregate data</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	<b>CAGR 2005-2008</b>
Revenues (net)	CHF mn	2'392	2'454	2'885	3'308	3'773	4'182	4'559	12.1%
EBITDA	CHF mn	231	399	509	642	743	854	946	16.8%
EBIT	CHF mn	127	293	378	502	583	672	749	18.6%
Net profit	CHF mn	109	227	279	371	436	485	540	17.9%
Enterprise value	CHF mn	2'965	5'692	5'884	8'194	8'276	7'973	7'646	6.8%
<b>Growth (CHF)</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	
Revenues (net)	%	2.6	2.6	17.6	14.7	14.0	10.8	9.0	
EBITDA	%	n.m.	72.6	27.6	26.1	15.7	15.0	10.8	
EBIT	%	n.m.	130.2	29.0	32.8	16.1	15.3	11.5	
Net profit	%	n.m.	108.0	22.9	33.0	17.6	11.1	11.3	
value	%	-8.7	19.6	14.6	16.5	7.1	23.7	21.3	
<b>Per-share data</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	<b>CAGR 2005-2008</b>
EPS (reported)	CHF	14.2	29.6	36.9	48.7	57.3	63.7	70.9	17.7%
EPS (adjusted)	CHF	25.2	29.9	37.3	47.4	53.9	62.0	69.0	16.6%
EBITDA	CHF	29.5	51.0	65.1	82.1	94.9	109.2	121.0	16.8%
EBIT	CHF	16.3	37.5	48.3	64.2	74.5	85.9	95.7	18.6%
Cash flow	CHF	21.7	45.2	53.7	60.1	79.3	88.8	98.3	16.3%
Op. cash flow	CHF	30.7	47.8	55.1	52.4	78.9	87.4	95.6	14.8%
BVPS (reported)	CHF	114.6	137.0	157.1	183.1	196.1	242.5	294.2	17.0%
Dividend	CHF	6.0	7.0	12.0	50.0	16.0	18.0	20.0	13.6%
<b>Valuation (CHF)</b>		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	
P/E (reported)	x	29.2	26.3	21.6	22.4	19.0	17.1	15.3	
P/E (adjusted)	x	16.5	26.0	21.3	23.0	20.2	17.5	15.8	22.2
P/Cash flow	x	19.2	17.2	14.8	18.1	13.7	12.3	11.1	
P/Op. cash flow	x	13.6	16.3	14.5	20.8	13.8	12.4	11.4	
P/ (reported)	x	3.6	5.7	5.1	5.9	5.5	4.5	3.7	
Dividend yield	%	1.4	0.9	1.5	4.6	1.5	1.7	1.8	
EV/Revenues	x	1.2	2.3	2.0	2.5	2.2	1.9	1.7	
EV/EBITDA	x	12.8	14.3	11.6	12.8	11.1	9.3	8.1	
EV/EBIT	x	23.3	19.4	15.6	16.3	14.2	11.9	10.2	13.7

Please see important information and certification at the end of this document

# Important Information

## Purpose of the Research

This research report is prepared for general circulation and is circulated for general information only. This document has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. Information has been obtained from sources believed to be reliable but no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. Opinions and estimates constitute our judgment as of the date of this report and are subject to change without notice. Past performance is not indicative of future results. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this research report must make his or her own independent decisions regarding any securities or financial instruments mentioned herein. The information contained herein is directed exclusively at market professionals and institutional investors and does not apply to, and should not be relied upon by, private clients. Lombard Odier Darier Hentsch, its affiliates, partners, employees and agents accept no liability for any loss or damage of any kind arising out of the use of this research report or its contents. This research report is not directed to or intended for distribution to or use by any person or entity in any jurisdiction where such distribution, publication or use would be unlawful. By accepting this document, you agree to be bound by the foregoing limitations.

## Information for US Institutional Clients

In the United States of America, this publication is being distributed solely to persons who qualify as "major US institutional investors" under SEC Rule 15a-6. Lombard Odier Darier Hentsch Securities, Inc. accepts responsibility for the content of reports prepared by its non-US affiliate when distributed to US institutional investors. US Investors who wish to effect any transaction in securities mentioned in this report should do so with Lombard Odier Darier Hentsch Securities, Inc. at the address below and not with Lombard Odier Darier Hentsch & Cie:

Lombard Odier Darier Hentsch Securities, Inc. Tel: (+1 212) 792 58 20

Tower 49, 12 East 49th Street, 17th Floor Fax: (+1 212) 792 58 32

New York, NY 10017 E-mail: losi@LODH.com

Lombard Odier Darier Hentsch Securities, Inc., an affiliate of Lombard Odier Darier Hentsch Group, is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc.

## Information for UK Clients

Lombard Odier Darier Hentsch & Cie is a limited partnership registered as a Swiss Private Bank having no permanent place of business in the UK and not regulated under the Financial Services and Markets Act 2000. The protections provided by the UK regulatory system will not be applicable to the recipients of any information or documentation provided by Lombard Odier Darier Hentsch & Cie and compensation under the Financial Services Compensation Scheme will not be available.

Past performance is not a guide to the future. The price of securities may go down as well as up and as a result investors may not get back the amount originally invested. Changes in exchange rates may cause the value of investments to go down or up. Any literature, documentation or information provided is directed solely at persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be engaged in with investment professionals.

Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

Any contact with analysts, brokers or other employees of Lombard Odier Darier Hentsch & Cie must be direct with Lombard Odier Darier Hentsch & Cie and not through the offices or employees of Lombard Odier Darier Hentsch & Cie's affiliates in London.

## Rating System

*The following is a description of the rating system employed by the Equity Brokerage Unit of Lombard Odier Darier Hentsch:*

### SMI Stocks

#### Buy:

We expect the stock to outperform the SMI by >5% on a 12-month horizon\*

#### Hold:

We expect the stock to perform in line (+/-5%) with the SMI on a 12-month horizon\*

#### Reduce:

We expect the stock to underperform the SMI by >5% on a 12-month horizon\*

#### Sell:

We believe the stock carries high fundamental risks as an investment

#### Not Rated:

Either Lombard Odier Darier Hentsch has very close links with the company and thus cannot claim to have an independent opinion on the stock, or the stock is in a period during which a rating is not permitted (IPO blackout period, Secondary Offering blackout period, etc.)

#### Under Review:

The information available on the company is currently not sufficient for our analysts to express an opinion on the stock

### Non-SMI Stocks

#### Buy:

We expect the stock to rise by >15% in Swiss francs and to outperform the SPI Small & Mid Cap Index on a 12-month horizon\*

#### Hold:

We expect the stock to rise by 0%-15% in Swiss francs on a 12-month horizon\*

#### Reduce:

We expect the stock to decline in Swiss francs on a 12-month horizon\*

#### Sell:

We believe the stock carries high fundamental risks as an investment

#### Not Rated:

Either Lombard Odier Darier Hentsch has very close links with the company and thus cannot claim to have an independent opinion on the stock, or the stock is in a period during which a rating is not permitted (IPO blackout period, Secondary Offering blackout period, etc.)

#### Under Review:

The information available on the company is currently not sufficient for our analysts to express an opinion on the stock.

\* The Bank reserves the right to waive repeated rating adjustments in periods of high stock volatility.

## Distribution of Ratings for SMI and Non-SMI Stocks as at June 30, 2006 (updated quarterly)

### SMI Stocks

Ratings	Count	%	Investment banking services provided within the last 36 months	
			Count	%
Buy	14	54%	2	67%
Hold	12	46%	1	33%
Sell*	0	0%	0	0%
Not Rated	0	0	0	0%
Under Review	0	0	0	0%

\* This category includes stocks rated as a Reduce and as a Sell

### Non-SMI Stocks

Ratings	Count	%	Investment banking services provided within the last 36 months	
			Count	%
Buy	35	39%	7	47%
Hold	53	59%	7	47%
Sell*	2	2%	1	6%
Not Rated	0	0%	0	0%
Under Review	0	0%	0	0%

### Achievement of the Price Target

Recipients of this research report should seek financial advice regarding the appropriateness of investing in any security, financial instrument or strategy discussed or recommended in this report and should understand that future price targets may not be realized. The price target estimate is based on a number of factors and assumptions. It should be noted that if any of these are inaccurate or are not achieved, it may be necessary to adjust the price target. Investors should note that income from such securities or financial instruments or strategies, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this research report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk. Price targets for stocks under coverage are calculated by submitting the analyst(s)' financial projections to one or more of a variety of valuation approaches. These include "absolute" methodologies such as DCF and EVA modelling, as well as relative methodologies such as peer group and market valuation multiple comparisons.

### Analyst Compensation

To maximize the independence of our research, the compensation pool for members of the Equity Brokerage Unit is based exclusively on the revenues of the Equity Brokerage Unit. This does not include any revenues of the Investment Banking Unit or any other Unit of Lombard Odier Darier Hentsch. The performance bonus received by analysts is determined individually based on a "Management by Objectives" structure which excludes investment banking transactions or other factors unrelated to equity brokerage. As a result, there is no link whatsoever between an analyst's compensation and specific investment banking transactions, nor between an analyst's compensation and any specific sales transactions.

### Receipt of Compensation as at June 30, 2006 (updated quarterly)

Neither Lombard Odier Darier Hentsch nor any of its affiliates received compensation from SGS within the past 36 months for investment banking services. Within the next 3 months, Lombard Odier Darier Hentsch may act in an investment banking capacity for the company recommended in this report.

### Market Making

Neither Lombard Odier Darier Hentsch nor any of its affiliates make a market in the stock of SGS.

### Lombard Odier Darier Hentsch Ownership as at June 30, 2006 (updated monthly)

Neither Lombard Odier Darier Hentsch nor any of its affiliates beneficially own 1% or more of the outstanding shares of SGS.

### Analyst Ownership

In order to ensure the independence of our Equity Research analysts, they are expressly prohibited from owning any securities in the Lombard Odier Darier Hentsch research universe which belong to their sector(s).

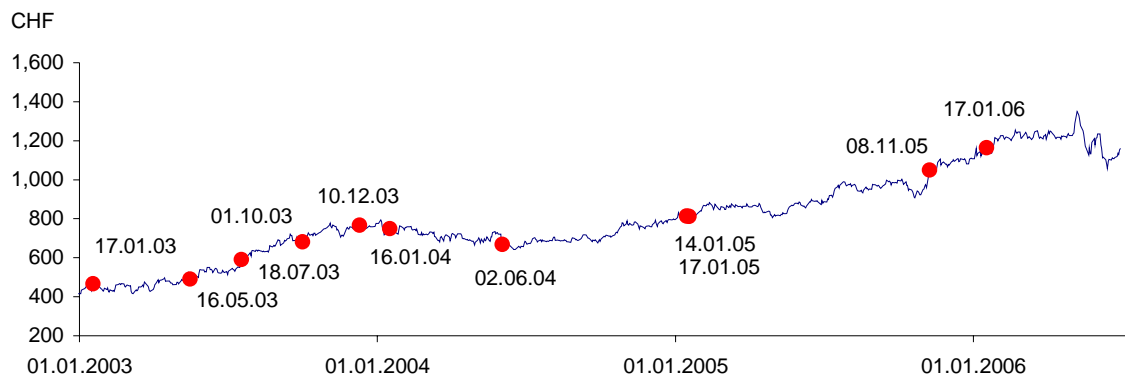
### Position as Officer or Director

Neither the analyst nor his/her immediate household serves as an Officer, Director or Advisory Board Member of SGS.

### Analyst Certification

The research analysts identified on the first page of this research report hereby attest that all of the views expressed in this report accurately reflect their personal views about any and all of the subject securities or issuers. In addition, the research analysts hereby attest that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analysts in this research report.

## Recommendation & Price Target History of SGS (Reg.) as at June 30, 2006



Date	Rating Change	Price Target Change	Reason for Action
17.01.2006		From CHF 1,200 to CHF 1,300	FY 2005 results
08.11.2005	From Hold to Buy	From 900 to CHF 1,200	Double-digit growth
17.01.2005		From UR to CHF 900	FY 2004 results
14.01.2005		From CHF 750 to UR	FY 2004 results
02.06.2004	From Buy to Hold	From CHF 870 to CHF 750	Departure of CEO
16.01.2004		From CHF 850 to CHF 870	Good FY 2003 results
10.12.2003		From CHF 800 to CHF 850	EGM, capital increase
01.10.2003		From CHF 690 to CHF 800	Lower risk premium/merger rumors
18.07.2003		From CHF 580 to CHF 690	H1 2003 results
16.05.2003		From CHF 540 to CHF 580	AGM/Trading update
17.01.2003		From CHF 520 to CHF 540	FY 2002 results