

Slow down not yet impacting performance

■ Strong set of full year results

Although overall SGS achieved in line expectations surprisingly organic growth showed an accelerating trend from 15.1% in the first half to 15.6% during the second half of the year. Key areas of acceleration were Agriculture (From 6% to c13%), Life Sciences (From c7% to 12%), and GIS (From 10% to c12%).

■ ..with positive organic growth expected across all divisions in 2009

The company believes that during 2009 positive top line organic growth will be generated across all divisions. We remain conservative in our organic growth outlook with 2009 group organic growth expected to come in at c3% (vs 2008 at c15%). The key area of concern is the minerals division where we have -c5% organic growth. Nevertheless, clearly the structural growth characteristics of testing companies are helping performance.

■ ...and a goal of at least maintaining margins in 2009

We were also surprised with the company's insistence that it will at least maintain 2008 margins (16.8% margins). Our estimate is for margins to fall to 16.7% for 2009 and we think any downward pressure to forecasts will come more from margin than top line. We leave group forecasts broadly unchanged.

■ Valuation

We value SGS at c12x 2009e EV/Ebita and continue to rate the shares a Buy. Should the company's operational performance prove to be resilient during 2009 we anticipate that the shares will continue to re-rate from current levels. Furthermore, some share price support should come from the buyback program.

Highlights (CHFm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	4,372	4,818	5,094	5,483	5,904
EBIT (UBS)	711	810	849	932	1,005
Net Income (UBS)	515	579	621	684	737
EPS (UBS, CHF)	67.37	76.13	81.40	89.63	96.62
Net DPS (UBS, CHF)	35.00	50.00	29.00	31.00	33.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	14.6	16.8	16.7	17.0	17.0
ROIC (EBIT) %	63.3	65.5	66.7	62.1	65.4
EV/EBITDA (core) x	11.3	9.4	8.1	6.9	6.1
PE (UBS) x	19.9	17.5	14.8	13.4	12.4
Net dividend yield %	2.5	3.8	2.4	2.6	2.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF1,201.00 on 27 Jan 2009 18:07 EST

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Global Equity Research

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Industrial Services

12-month rating **Buy**
Unchanged

12m price target CHF1,400.00/US\$12.28
Unchanged

Price CHF1,201.00/US\$10.55 (ADR)

RIC: SGSN.VX BBG: SGSN VX

28 January 2009

Trading data (local/US\$)

52-wk range	CHF1,596.00-904.00/US\$15.33-7.38
Market cap.	CHF9.12bn/US\$8.01bn
Shares o/s	7.60m (REG)/760m (ADR)
ADR ratio	100 ADR:1 REG
Free float	64%
Avg. daily volume ('000)	35/21
Avg. daily value (CHFm)	37.4/0.2

Balance sheet data 12/09E

Shareholders' equity	CHF2.21bn
P/BV (UBS)	4.2x
Net Cash (debt)	CHF0.56bn

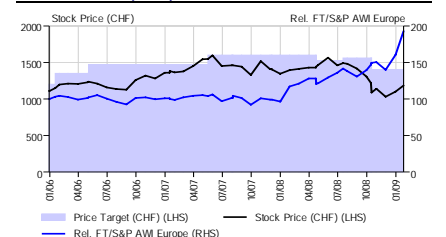
Forecast returns

Forecast price appreciation	+16.6%
Forecast dividend yield	2.4%
Forecast stock return	+19.0%
Market return assumption	6.0%
Forecast excess return	+13.0%

EPS (UBS, CHF)

	12/09E		Cons.	12/08
	From	To		Actual
H1E	36.49	36.63	-	34.92
H2E	44.59	44.77	-	41.21
12/09E	81.08	81.40	79.69	
12/10E	89.26	89.63	83.69	

Performance (CHF)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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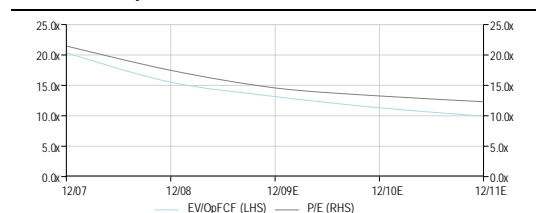
Income statement (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	2,885	3,308	3,820	4,372	4,818	5,094	5.7	5,483	7.6	5,904	7.7
Operating expenses (ex deprecn)	(2,363)	(2,666)	(3,043)	(3,463)	(3,794)	(4,020)	5.9	(4,301)	7.0	(4,621)	7.4
EBITDA (UBS)	522	642	777	909	1,024	1,074	4.9	1,183	10.1	1,283	8.5
Depreciation	(131)	(140)	(172)	(198)	(214)	(226)	5.4	(251)	11.1	(277)	10.7
Operating income (EBIT, UBS)	391	502	605	711	810	849	4.8	932	9.8	1,005	7.9
Other income & associates	(16)	0	0	0	0	0	-	0	-	0	-
Net interest	6	5	(1)	2	(4)	5	-	8	60.0	8	0.0
Abnormal items (pre-tax)	3	0	19	(21)	127	0	-	0	-	0	-
Profit before tax	384	507	623	692	933	854	-8.5	940	10.1	1,013	7.8
Tax	(93)	(119)	(155)	(172)	(219)	(207)	-5.7	(227)	10.1	(245)	7.8
Profit after tax	291	388	468	520	714	647	-9.3	712	10.1	768	7.8
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(15)	(17)	(25)	(20)	(22)	(26)	17.6	(28)	10.1	(31)	7.8
Net income (local GAAP)	276	371	443	500	692	621	-10.2	684	10.1	737	7.8
Net Income (UBS)	289	371	424	515	579	621	7.3	684	10.1	737	7.8
Tax rate (%)	24	23	25	25	23	24	3.0	24	0.0	24	0.0
Pre-abnormal tax rate (%)	23	23	26	25	25	24	-4.9	24	0.0	24	0.0
Per share (CHF)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	36.85	49.46	58.67	65.41	91.00	81.40	-10.8	89.63	10.1	96.62	7.8
EPS (UBS)	38.59	49.46	56.16	67.37	76.13	81.40	6.9	89.63	10.1	96.62	7.8
Net DPS	12.00	50.00	20.00	35.00	50.00	29.00	-42.0	31.00	6.9	33.00	6.5
Cash EPS	56.08	68.12	78.90	93.22	104.29	110.96	6.4	122.47	10.4	132.96	8.6
BVPS	148.68	183.98	197.34	250.17	238.64	289.25	21.2	347.13	20.0	409.93	18.1
Balance sheet (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	493	586	656	738	721	724	0.3	731	1.1	713	-2.5
Net intangible fixed assets	304	430	644	715	759	781	2.9	803	2.8	824	2.6
Net working capital (incl. other assets)	168	255	203	191	(80)	308	-	332	7.7	357	7.7
Other liabilities	(383)	(451)	(332)	(240)	(332)	(338)	1.5	(341)	1.2	(346)	1.4
Operating invested capital	582	820	1,171	1,404	1,068	1,475	38.1	1,524	3.3	1,548	1.5
Investments	169	225	189	184	221	221	0.0	221	0.0	221	0.0
Total capital employed	751	1,045	1,360	1,588	1,289	1,696	31.6	1,745	2.9	1,769	1.3
Shareholders' equity	1,163	1,439	1,544	1,957	1,813	2,207	21.8	2,649	20.0	3,128	18.1
Minority interests	26	36	49	49	49	49	0.0	49	0.0	49	0.0
Total equity	1,189	1,475	1,592	2,006	1,862	2,256	21.2	2,698	19.6	3,177	17.8
Net debt / (cash)	(438)	(430)	(233)	(418)	(572)	(560)	-2.2	(952)	70.1	(1,408)	47.9
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	751	1,045	1,360	1,588	1,289	1,696	31.6	1,745	2.9	1,769	1.3
Cash flow (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	391	502	605	711	810	849	4.8	932	9.8	1,005	7.9
Depreciation	131	140	172	198	214	226	5.4	251	11.1	277	10.7
Net change in working capital	11	(60)	(31)	12	(22)	(388)	1662.3	(24)	-93.9	(25)	8.0
Other (operating)	4	(23)	(103)	(76)	28	31	12.3	-	-	-	-
Operating cash flow	537	559	643	844	1,071	718	-33.0	1,191	66.0	1,293	8.5
Net interest received / (paid)	6	5	(1)	2	2	5	150.0	-	-	-	-
Dividends paid	(69)	(90)	(236)	(153)	(267)	(227)	-15.1	(242)	6.9	(258)	6.5
Tax paid	(72)	(119)	(155)	(172)	(219)	(207)	-5.7	(227)	10.1	(245)	7.8
Capital expenditure	(187)	(190)	(224)	(342)	(278)	(250)	-10.1	(280)	12.0	(280)	0.0
Net (acquisitions) / disposals	(54)	(23)	(194)	(95)	(165)	0	-	(179)	-	0	-
Other	(34)	(13)	(151)	(17)	(96)	(26)	-73.0	(28)	10.1	(31)	7.8
Share issues	0	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	127	129	(318)	67	42	13	-68.4	242	1733.4	486	101.1
FX / non cash items	(182)	(137)	121	118	113	(26)	-	151	-	(31)	-
Balance sheet (inc)/dec in net debt	(55)	(8)	(198)	185	155	(13)	-	392	-	456	16.1
Core EBITDA	522	642	777	909	1,024	1,074	4.9	1,183	10.1	1,283	8.5
Maintenance capital expenditure	(108)	(129)	(137)	(195)	(210)	(221)	5.1	(247)	11.8	(275)	11.3
Maintenance net working capital	(115)	(132)	(153)	(175)	(193)	(204)	5.7	(219)	7.6	(236)	7.7
Operating free cash flow, pre-tax	299	381	487	539	621	650	4.6	716	10.3	772	7.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

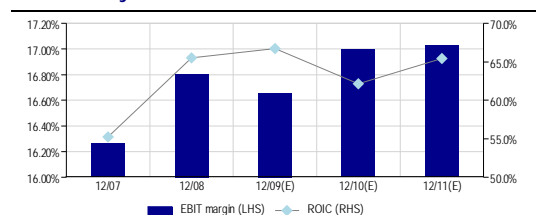
Company profile

SGS is the largest inspection, testing and certification organisation in the world. The core services offered by SGS (split between 10 divisions) can be divided into three categories: (1) inspection services - SGS inspects and verifies the quantity, weight and quality of traded goods; (2) testing services - SGS tests product quality and performance against various health, safety and regulatory standards; and (3) certification services - SGS certifies that systems or services meet the requirements of standards set by governments, standardisation bodies or by SGS customers.

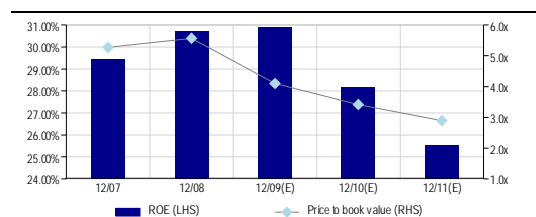
Value (EV/OpFCF & P/E)



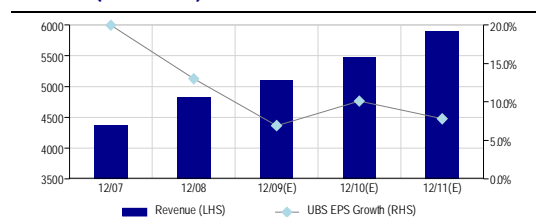
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	20.3	22.2	14.7	14.8	13.5	12.5
P/E (UBS)	19.9	21.4	17.5	14.8	13.4	12.4
P/CEPS	14.1	15.5	12.7	10.8	9.8	9.0
Net dividend yield (%)	2.5	2.4	3.8	2.4	2.6	2.7
P/BV	5.2	5.8	5.6	4.2	3.5	2.9
EV/revenue (core)	2.2	2.5	2.0	1.7	1.5	1.3
EV/EBITDA (core)	11.3	12.1	9.4	8.1	6.9	6.1
EV/EBIT (core)	14.7	15.4	11.9	10.2	8.8	7.7
EV/OpFCF (core)	19.2	20.3	15.5	13.3	11.4	10.1
EV/op. invested capital	9.3	8.5	7.8	6.8	5.5	5.1

Enterprise value (CHFm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	11,302	10,098	9,124	9,124	9,124
+ minority interests	49	49	49	49	49
+ average net debt (cash)	(438)	(583)	(570)	(756)	(1,180)
+ pension obligations and other	50	54	60	0	0
- non-core asset value	(3)	(3)	(3)	(221)	(221)
Core enterprise value	10,960	9,615	8,659	8,196	7,772

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	15.5	14.4	10.2	5.7	7.6	7.7
EBITDA (UBS)	22.3	17.0	12.7	4.9	10.1	8.5
EBIT (UBS)	24.1	17.6	13.9	4.8	9.8	7.9
EPS (UBS)	21.9	20.0	13.0	6.9	10.1	7.8
Cash EPS	20.4	18.1	11.9	6.4	10.4	8.6
Net DPS	40.4	75.0	42.9	-42.0	6.9	6.5
BVPS	16.2	26.8	-4.6	21.2	20.0	18.1

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	19.0	20.8	21.2	21.1	21.6	21.7
EBIT / revenue	14.6	16.3	16.8	16.7	17.0	17.0
Net profit (UBS) / revenue	10.7	11.8	12.0	12.2	12.5	12.5

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	63.3	55.2	65.5	66.7	62.1	65.4
ROIC post tax	-	41.5	48.8	50.6	47.1	49.6
Net ROE	27.2	29.4	30.7	30.9	28.2	25.5

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	NM	-	-	-
Dividend cover (UBS EPS)	2.5	1.9	1.5	2.8	2.9	2.9
Div. payout ratio (% UBS EPS)	49.8	52.0	65.7	35.6	34.6	34.2
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	4.2	3.4	3.9	4.0	3.7	3.8
Revenue / fixed assets	3.6	3.2	3.3	3.4	3.6	3.8
Revenue / net working capital	16.4	22.2	86.7	44.6	17.1	17.1

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.8	0.8	0.8	0.8	0.8	0.8
Capex / revenue (%)	6.5	7.8	5.8	4.9	5.1	4.7
Capex / depreciation	1.5	1.7	1.3	1.1	1.1	1.0

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	(28.0)	(21.3)	(31.6)	(25.4)	(35.9)	(45.0)
Net debt / (net debt + equity)	(39.0)	(27.1)	(46.1)	(34.0)	(56.1)	(81.8)
Net debt (core) / EV	(5.7)	(4.0)	(6.1)	(6.6)	(9.2)	(15.2)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF1,201.00 on 27 Jan 2009 18:07 EST Market cap(E) may include forecast share issues/buybacks.

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■ **Statement of Risk**

Risks for SGS include a weakening US dollar, loss of reputation, and a lack of or unfavourable regulation.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	53%	36%
Neutral	Hold/Neutral	36%	34%
Sell	Sell	10%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	43%
Sell	Sell	less than 1%	22%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Limited: Jarrod Castle, CFA; Mark Shepperd; Jaime Brandwood, CFA.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
SGS ^{4, 5, 13, 15, 18a, 18b}	SGSN.VX	Buy	N/A	CHF1,186.00	26 Jan 2009

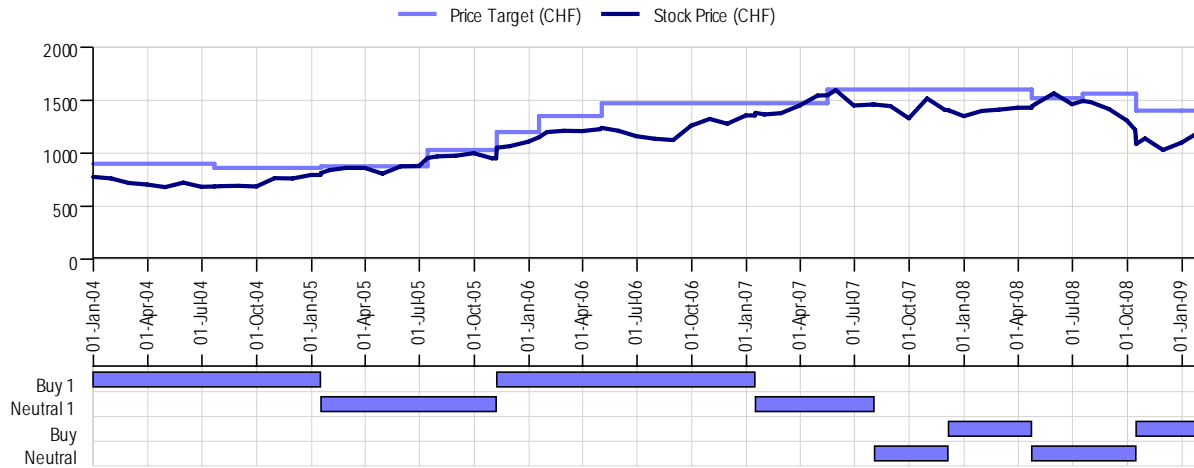
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
15. UBS AG, its affiliates or subsidiaries has issued a warrant the value of which is based on one or more of the financial instruments of this company.
- 18a. A director or an employee of UBS AG, its affiliates or subsidiaries is a director of this company.
- 18b. UBS AG is acting as agent on SGS' announced share buy-back programme.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

SGS (CHF)



Source: UBS; as of 26 Jan 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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