

# Strategic Growth Plan 2006-2008

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WHEN YOU NEED TO BE SURE





## Disclaimer

*Certain matters discussed in this presentation may constitute forward-looking statements. These statements are based on current expectations and estimates of SGS SA, although SGS SA can give no assurance that these expectations and estimates will be achieved. The actual results may differ materially in the future from the forward-looking statements included in this presentation due to various factors. Furthermore, SGS SA has no obligation to update the statements contained in this presentation.*

# Agenda

State of the Business

External Factors

Growth Plan

- Organic Growth Plan
- Strategic Growth Initiatives
- Acquisitions

Competitive Advantage

Summary



## State of the Business

Successfully restructured

Capable & motivated leadership team

Solid financial base

Diversified offerings & far-reaching network

Current portfolio offers significant market opportunities

Leader in trade, government & certification businesses

Closing gap in consumer products business

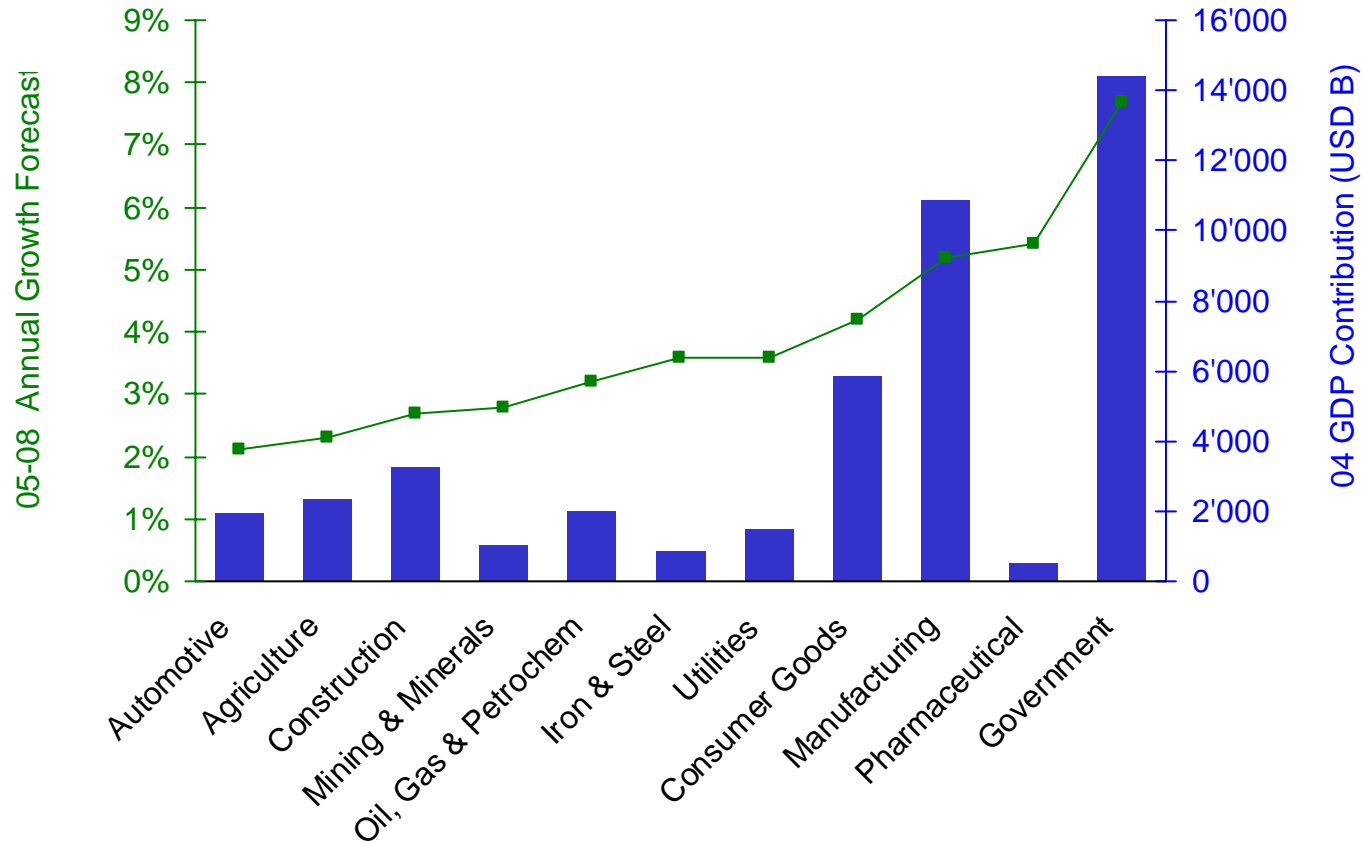
Small but growing positions in industrial & life sciences businesses

*On track for 2005 target of CHF 45 earnings per share*

# External Factors

WHEN YOU NEED TO BE SURE





- Underlying markets growing
- Base is Western Europe, North America, Asia Pacific
- Fastest growth is Eastern Europe, China

### World Trade

- Increased access
- Emerging market consumption
- EU enlargement

### Regulations

- Environmental awareness
- Food-born diseases
- Trade rules
- International harmonization

### Global Industry

- Manufacturing outsourcing
- Foreign direct investment upturn
- Process offshoring to grow 30%












### Inspection/Test/Certification

- Outsourcing growing
- Price pressure on inspection/sample
- Demand for bundled solutions

*Trends mostly positive*

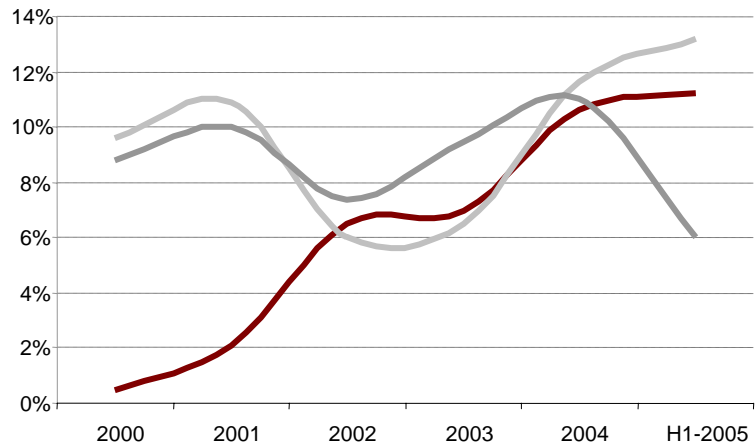
## Competitive Trends

Competitive  
Landscape

	AGR	OGC	MIN	CTS	IND	AUT	LSS	TAS	SSC	ENV	Marine	Revenue
	●	●	●	●	●	●	●	●	●	●		2.9
				●	●	●						3.9
				●	●			●	●		●	2.3
					●	●						1.8
	●	●		●				●	●			1.1
					●				●		●	1.2
					●					●		0.6
Germanischer Lloyd 					●						●	0.4
						●			●	●		0.4
				●			●			●		0.3
Moody International 					●				●			0.3

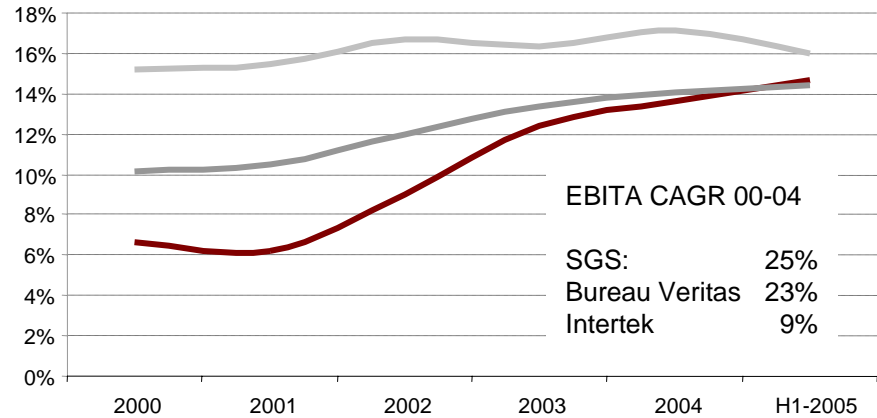
Latest full year / CHF B

## Organic Growth



— SGS  
— Intertek  
— Bureau Veritas

## EBITA



**EBITA CAGR 00-04**  
 SGS: 25%  
 Bureau Veritas 23%  
 Intertek 9%

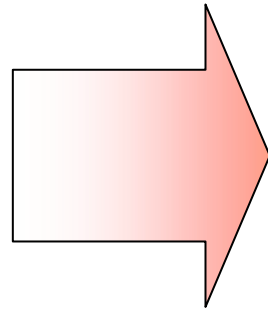
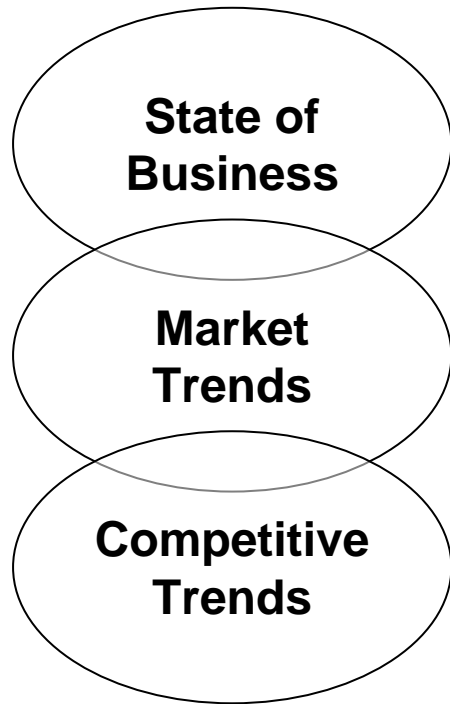
## Opportunities

- Underlying client segments growing
- Raw materials demand & pricing strong
- Economic forecasts positive
- Trade flows growing
- Big project investments around energy
- Regulatory climate & public awareness increase QC needs
- Outsourcing trends prevalent in many segments

## Challenges

- TAS pre-shipment inspection market declining
- Standalone inspection under competitive pressure
- Competitors moving up value chain
- Slow liberalisation of government monopolies

*Challenging but fertile environment for growth*



Current portfolio continues to be relevant with organic growth potential

Opportunity for further value creation

- New markets
- Acquisitions

Sustainable competitive advantage is essential

*Growth is the right focus*

# Growth Plan

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### Grow current portfolio

- Expand offerings
- Increase competitive barriers

### Accelerate Life, Consumer & Industrial

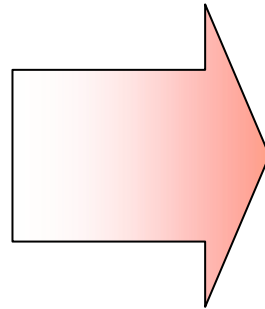
- Balances group revenue profile
- Market growth potential

### Execute strategic initiatives

- Strategic markets
- Special investment projects

### Improve the operating system

- Sustainable competitive advantage



### 2008 Financial Targets

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

# Organic Growth Plan

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**SGS**



### Market Growth Forecast (CAGR)

- 7%

### Market Trends

- Traceability concerns
- Logistics outsourcing emerging
- Fumigation expanding to developing countries
- Government monopolies continue to dominate USA, Canada, China

### Current SGS Position

- Worldwide leadership

## Agricultural Services - Strategy

### Expansion of services in domestic markets

- Balance international (20% of market) with domestic (80%)
- Supply chain management
- Inland grading
- Lab testing

### Complement basic inspection services with processing, trading and compliance services

- Lab, quality control & storage management outsourcing for primary processors
- Trade execution outsourcing for traders
- Regulatory compliance assurance

*Expand value added logistics / risk management... reduce trade dependency*



### Market Growth Forecast (CAGR)

- 12%

### Market Trends

- Geochem growth rate will decelerate due to expected softening
- Process & trade services will continue growth
- Emerging risk management services will accelerate
- High oil prices driving energy minerals demand

### Current SGS Position

- Worldwide leadership

## Minerals Services - Strategy

Introduce higher value and automated metallurgy services

- Ultratrace analysis
- Automated sampling

Introduce risk management offerings

- Verification
- Collateral

Expand MinnovEX capabilities globally

*Expand offerings across mining value chain... higher value, less cyclical*



### Market Growth Forecast (CAGR)

- 5%

### Market Trends

- Consumption growing in Asia
- Production capacity increasing in Middle East & China
- High prices driving alternative energy materials

### Current SGS Position

- Worldwide leadership in trade
- Increasingly strong player in upstream services

## Oil, Gas & Chemical Services - Strategy

Upgrade network & laboratories in Middle East

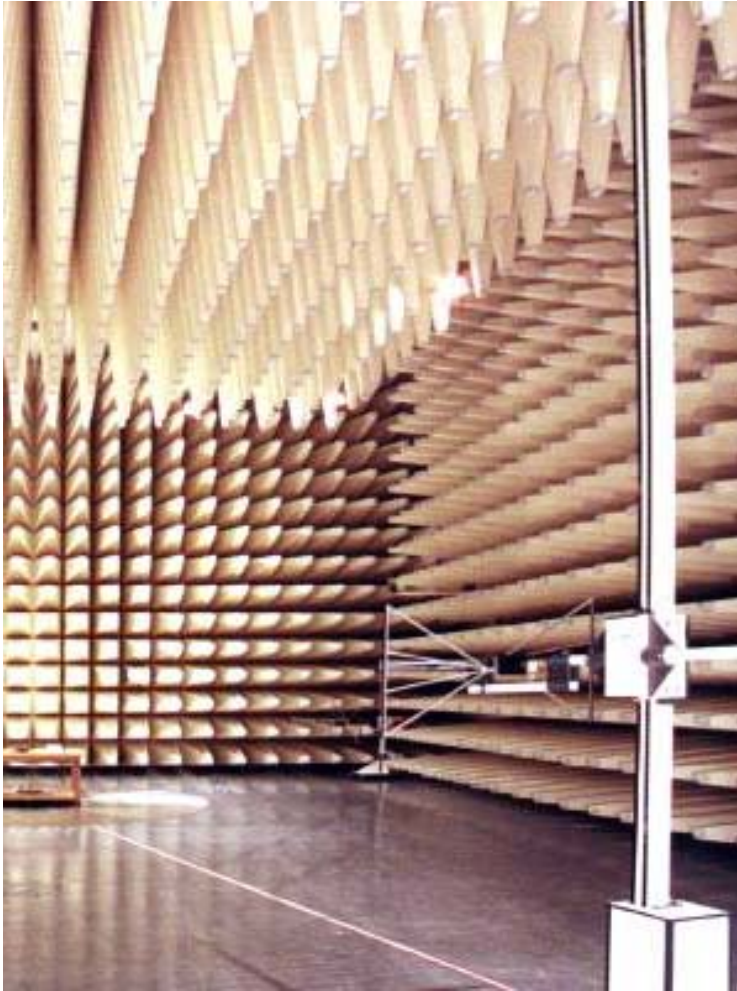
Globalize plant & terminal operations

Introduce new testing offerings

- Mercury detection
- Allocation accounting
- Crude oil assay

Expand laboratory Up\*sourcing

*Diversify and globalize offerings... accelerate upstream & logistics*



### Market Growth Forecast (CAGR)

- 15%

### Market Trends

- Electrical product growth slowing... high-tech electronics accelerating
- Hard-lines driven by product diversification
- Environmental & social responsibility component accelerating

### Current SGS Position

- Number 2... closing gap to leader

## Consumer Testing Services - Strategy

Diversify hard-line portfolio

Continue development in electronics

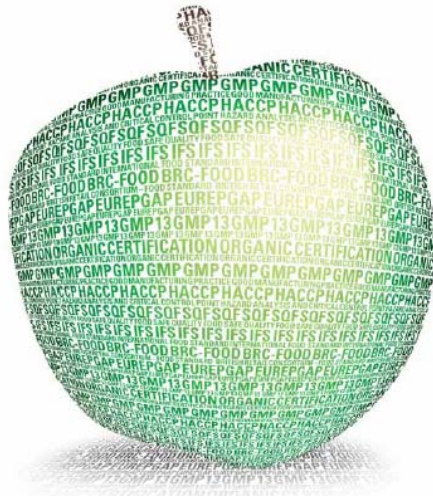
- Leverage new Asia capacity

Leverage leadership in restricted substance testing

- Expand to cover emerging regulations

Leverage capabilities for strategic account / segment revenue growth

*Market leader by 2008*



ISO 22000 FROM SGS IS THE **ONE UNIVERSAL FOOD SAFETY MANAGEMENT STANDARD** THAT WORKS ACROSS ALL OTHERS

ISO 22000 is the universal food safety management standard. It integrates the ISO 9001-based quality management systems and all the leading food safety systems and works across the whole supply chain. What's more, it can simplify your quality and safety processes and be the key to opening up new and different markets. Find out how ISO 22000 can help optimise your current management systems by visiting [www.foodsafety.sgs.com](http://www.foodsafety.sgs.com)

SGS IS THE WORLD'S LEADING INSPECTION, VERIFICATION, TESTING AND CERTIFICATION COMPANY

WHEN YOU NEED TO BE SURE

### Market Growth Forecast (CAGR)

- 9%

### Market Trends

- Fastest growth from sector specific certifications and second party audits
- Rapid growth of ISO 22000 food certification
- ISO 9001 growth decelerating

### Current SGS Position

- Global leader in core standards certification

## Systems & Services Certification - Strategy

Introduce specific offerings and sales focus to specific strategic segments

- Automotive, food, medical, services

Expand international sales force for global strategic accounts

Create new offerings

- Certification scoring product
- Six Sigma certification product

Continue back room efficiency initiatives

*Focus on segments & offering innovation... less dependent on ISO9000*



### Market Growth Forecast (CAGR)

- 11%

### Market Trends

- Drug safety standards & guidelines expanding
- Generic market growing faster than ethical market
- Supply chain increasingly international
- Outsourcing driven by rising R&D costs and price pressure

### Current SGS Position

- Significant regional player in Europe

## Life Science Services - Strategy

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 world-wide sales & customer service capability

*Market leader in QC testing & early stage clinical research*



### Market Growth Forecast (CAGR)

- 7%

### Market Trends

- Largest of SGS' served markets
- Delocalisation of supply chain
- Aging asset base leading to life extension & maintenance cost reduction demand
- Construction growth in China, India, Middle East & Eastern Europe

### Current SGS Position

- Second largest business with only selective local market leadership

## Industrial Services - Strategy

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

*Market leader for energy services*



### Market Growth Forecast (CAGR)

- 4%

### Market Trends

- Volume growing due to increased regulations & awareness
- Pricing flat in core lab services
- Developing markets beginning environmental focus

### Current SGS Position

- Regional leadership

## Environmental Services - Strategy

Leverage SGS network to enter markets with emerging regulations

- Eastern Europe, South Africa

Develop comprehensive analytic solutions for existing mining and oil & gas clients

Expand data management services to provide higher value

Continue networking laboratories for efficiency

*Focus on higher end services... leverage SGS network & client base*



### Market Growth Forecast (CAGR)

- 5%

### Market Trends

- Statutory market mature in Western Europe & North America, growing in South America, Asia & Africa
- Commercial market mature in North America, growing in Europe, Asia & South America

### Current SGS Position

- Worldwide commercial leader
- Local statutory leader

## Automotive Services - Strategy

Grow statutory vehicle inspections in mature & developing regions

- Private vehicles & public transportation

Focus off-lease business in Europe

Develop blended offerings for automotive manufacturers

*Accelerate statutory inspections & manufacturer services*



### Market Growth Forecast (CAGR)

- 8%

### Market Trends

- Traditional pre-shipment inspection (PSI) market declining
- Partly replaced by evolved PSI
- Forestry & security services growing

### Current SGS Position

- World leader

## Trade Assurance Services - Strategy

Restructure PSI ahead of traditional market decline

Expand evolved PSI offerings

- TradeNet
- ValuNet

Continue growth of alternative government & private sector trade services

- Forestry
- Climate change monitoring
- Sustainable development monitoring

*Leverage PSI know-how & channel for new businesses*

# Strategic Growth Initiatives

WHEN YOU NEED TO BE SURE



SGS businesses are well positioned in served markets

Portfolio affords opportunity to grow faster than those markets

- Strategic market segments requiring multitude of services
- Currently underserved or fragmented
- Trending to outsourcing

Growth initiative

- Develop targeted offering bundles
- Build dedicated marketing & sales arm with “inside” expertise
- Leverage existing know-how, network & assets to deliver

**Governments & Institutions**

**Financial Services**

**Energy Infrastructure**

**Software**

### Market Attractiveness

- Governments are biggest contributor to worldwide GDP, growing 8% 2005-2008
- Governments & institutions mandate much of compliance & risk management market
- Trending toward privatization, outsourcing and public-private partnerships

### Needs

- Waste management
- Trade security & facilitation
- Environmental monitoring
- Quality systems
- Biometrics
- Public service outsourcing
- Origin tracing

### SGS Positioning

- Consolidate dedicated government solutions marketing & sales team
- Bundle TAS, statutory auto, environmental & new offerings
- Support with selected lobbying efforts



### Market Attractiveness

- Basel II driving banks to increased risk management
- Similar trends for insurance underwriting
- In-house capabilities focused on actuarial assessment
- Not strategic to create technical capabilities & global network

### Needs

- Project financing & underwriting
  - Technical feasibility
  - Project & maintenance inspection
- Trade financing
  - Bankability inspection
  - Custodial services
- Leasing
  - Residual value assessment
- Underwriting
  - Pre-loss risk assessment

### SGS Positioning

- Create dedicated financial services marketing & sales team
- Bundle industrial & trade inspection, asset integrity & collateral management services
- Develop dedicated offerings



### Market Attractiveness

- Oil pricing driving big infrastructure investments
- Shanghai Chemical Industry Park
- Alberta Oil Sands project
- Sakhalin Oil & Gas projects
- M. East & Africa refineries / LNG plants

### Needs

- Industrial supply chain inspection & construction support... much of investment supplied from outside of regions
- Process planning & simulation (unique combination of mining & petroleum in case of oil sands)
- Technical staffing
- Minerals / oil & gas inspection and test
- Environmental

### SGS Positioning

- Build / acquire local presence and laboratory footprint
- Develop cross-sector sales team
- Bundle know-how from portfolio & acquisitions



## Market Attractiveness

- USD 13B independent software QA / QC growing to 17B by 2009
- 60% of demand driven by users of mission critical software... services, banking & manufacturing
- Market evolving from testing to full life cycle QA
- Market participants are young, privately funded entrepreneurial companies

## Needs

- Functional testing
- Integration testing
- Standards compliance
- Risk analysis
- Software process certification

## SGS Positioning

- Consolidate emerging players to build skill base
- Develop dedicated go-to-market team
- Leverage industrial, financial and services channel from current portfolio



# Acquisitions

WHEN YOU NEED TO BE SURE



## Acquisitions

### Current portfolio growth

- Targeted lab expansion in Oil, Gas & Chemical, Minerals & Environmental
- Statutory auto inspection

### Accelerated Life Science, Industrial, Consumer growth

- Life Science... Expand QC presence in USA, expand clinical research presence in USA & Europe
- Industrial... Targeted regional acquisitions for market position
- Consumer... Strengthen E&E, enter personal care in USA & Europe

### Strategic growth initiatives

- Energy Infrastructure... targeted local labs
- Software... independent QA/QC businesses

# Competitive Advantage

WHEN YOU NEED TO BE SURE



### Quality

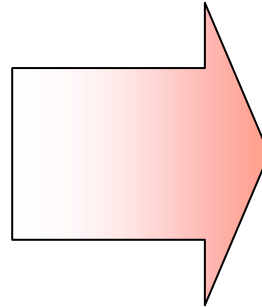
- Cycle time
- Process reliability
- Value added results

### Productivity

- Laboratory utilisation
- Back office productivity
- Personnel applied time
- Material cost

### People

- Talent flow
- Motivation & retention
- Training
- Integrity



## Sustainable Competitive Advantage



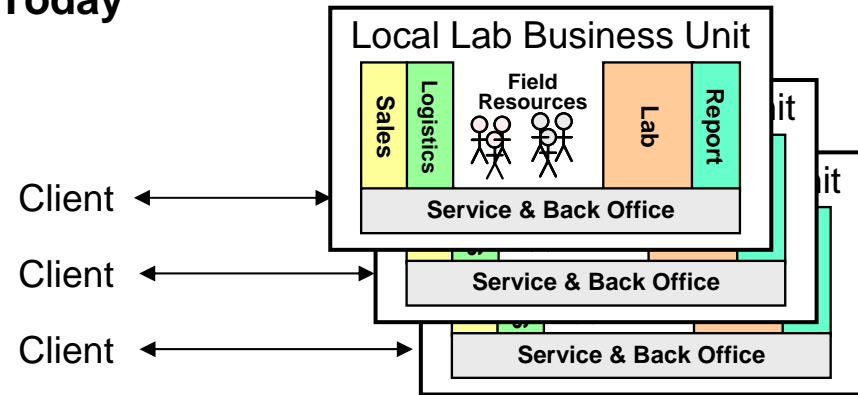
### Plan

- Create a flexible network of labs with shared capacity and capability... lab “factory”
- Create a virtual back office supporting labs, inspections, audits with optimized dispatch and support functions
- Align both with customer requirements and business goals

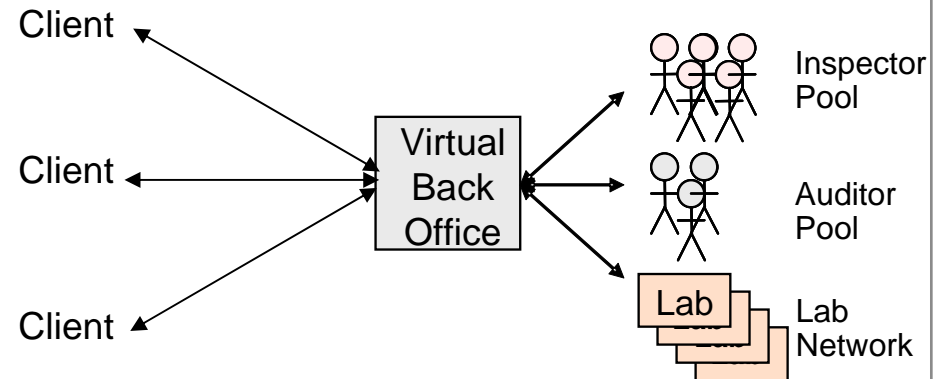
### Goal

- Increased customer satisfaction through reduced lead times & improved quality
- Release network capacity to support organic growth
- Expand customer offerings by cross-border fulfilment
- Create standardized operating model to facilitate acquisition integration

### Today



### Future



# Summary

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### Financial Summary... 2008

- Revenue... CHF 5 B
  - Organic growth... 10% CAGR
  - Total growth... 15% CAGR
- Operating margin... 17%
- Earnings per share... CHF80

#### Continued strong operating cash flow performance

- Capex/sales remains within historical range
- Continued net working capital improvement

#### Balance sheet remains investment grade quality

#### Acquisition activity accelerates growth

- Implied multiples within historical norms
- Accretive to business segment operating margin within twelve months

### Why We'll Win

- Winning Team
- Winning Services
- Market Opportunities
- Execution



# TO BE THE BEST IS THE ULTIMATE CHALLENGE



What makes the best stand out is commitment and performance.  
They never settle for second best, they never stop competing and  
they always strive to be number one.

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