

Strong H1 05 results and outlook

■ Solid H1 05 results with encouraging outlook

SGS reported strong H1 05 results in-line with market expectations. The robust momentum seen in H2 04 continued into H1 05 with 9 of the 10 divisions reporting y/y organic growth and margin expansion. More importantly, the outlook for almost all divisions remains promising.

■ Very positive impression of new CEO

Our perception of the new CEO – Dan Kerpelman was very positive. Although having spent only 90 days with SGS, the new CEO left a strong impression with brokers and we expect him to be well received by investors.

■ Awaiting details on growth plans; M&A topic to dominate

We expect sentiment to be rather muted until the CEO is ready to communicate details on the new “growth chapter”. We anticipate future M&A activity to play a major role in the investment case going forward as we believe that significant earnings momentum can be easily achieved through bolt-on acquisitions.

■ Valuation: Neutral 1 maintained, PT to CHF1030

We maintain our Neutral 1 rating, having raised our PT to CHF1030 from CHF875 to reflect more aggressive medium-term growth assumptions in our DCF valuation. At our new PT, SGS would trade on a 06E PE of c19x and c14x EV/EBITA. While we acknowledge that the overall investment case remains attractive, we feel that the current valuation to a large extent already reflects this.

Highlights (CHFm)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	2,454	2,885	3,231	3,548	3,880
EBIT	290	375	487	561	625
Net income (UBS)	234	292	360	414	461
EPS (UBS, CHF)	30.43	37.94	46.78	53.58	60.33
Net DPS (UBS, CHF)	9.00	12.00	15.00	18.00	20.00

Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	7.7	13.0	15.1	15.8	16.1
ROIC (EBIT) %	25.6	44.3	49.5	53.8	57.9
EV/EBITDA x	13.4	10.7	11.6	10.0	8.8
PE (UBS) x	25.3	18.9	20.2	17.6	15.6
Net dividend yield %	1.2	1.7	1.6	1.9	2.1

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF943.50 on 14 Jul 2005 21:11 BST

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Rating **Neutral 1**
Unchanged

Price target CHF1,030.00/US\$7.98
Prior: CHF875.00/US\$6.78

Price CHF943.50/US\$7.32 (ADR)

RIC: SGSN.VX BBG: SGSN VX

15 July 2005

Trading data (local/US\$)

52-wk. range	CHF943.50-676.00/US\$7.60-5.33
Market cap.	CHF7.38bn/US\$5.73bn
Shares o/s	7.8m (REG)/782m (ADR)
ADR ratio	100 ADR :1 REG
Free float	62%
Avg. daily volume ('000)	22/OTC
Avg. daily value (CHFm)	19.0

Balance sheet data 12/05E

Shareholders' equity	CHF1.48bn
P/BV (UBS)	4.9x
Net cash (debt)	CHF0.61bn

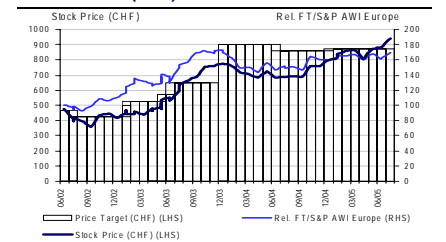
Forecast returns

Forecast price appreciation	+9.2%
Forecast dividend yield	1.6%
Forecast stock return	+10.8%
Market return assumption	5.8%
Forecast excess return	+5.0%

EPS (UBS, CHF)

	12/05E			12/04
	From	To	Cons.	Actual
H1E	22.19	22.23	-	17.15
H2E	25.03	24.55	-	20.79
12/05E	47.22	46.78	44.42	
12/06E	53.50	53.58	50.59	

Performance (CHF)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8

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Results Overview

Table 1: Headline figures

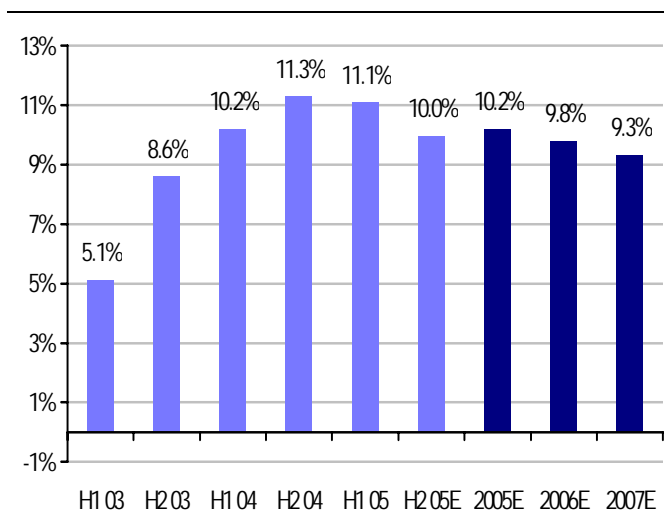
CHFm	H1 04	H2 04	2004	H1 05E	H2 05E	2005E
Revenue	1,390	1,495	2,885	1,557	1,674	3,231
% change	18.4%	16.8%	17.6%	12.0%	12.0%	12.0%
EBITDA	231	275	506	294	325	619
% change	25.6%	29.7%	27.8%	27.3%	18.1%	22.3%
EBITA	177	214	391	229	258	487
% EBITA-margin	12.7%	14.3%	13.6%	14.7%	15.4%	15.1%
% change	29.3%	31.2%	30.3%	29.3%	20.6%	24.5%
Reported Net Income	124	155	279	170	190	360
% change	24.1%	19.1%	22.9%	36.9%	22.5%	28.9%

Source: SGS; UBS estimates

The H1 05 results were characterised by sustained momentum in organic growth with strong margin expansion (+200 bp y/y). Similar to H2 04, organic growth came in at c11% y/y in H1 05 with divisions reporting double-digit growth accounting for c66% of total sales. 9 of the 10 divisions reported organic growth y/y and both EAME and Asia reported increased sales momentum, while Americas declined slightly but still at a relatively high level. Net income surged +37% y/y during the period. While the FCF generation in H1 05 appeared disappointing, management expect to show a significant improvement in NWC in H2 05 (similar to the prior year).

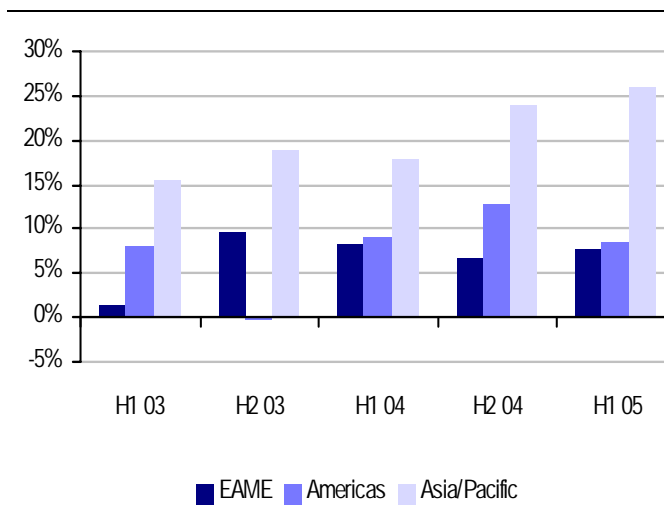
On a divisional basis, the main positive surprises came from the higher than expected organic growth from Minerals; Consumer Testing and Systems & Services Certification and the margin performance from Systems & Services Certification and Automotive Services. Although one of the best performing divisions in 2004, the TAS division was the only disappointment in H1 05 due to contract losses outweighing new contract wins.

Chart 1: SGS's organic sales growth rates



Source: SGS; UBS estimates

Chart 2: Organic sales growth per geographic region



Source: SGS; UBS estimates

The next chapter – Growth

With the group's "restructuring and refocusing for growth" chapter completed under Marchionne, the new CEO Dan Kerpelman is effectively picking up where Marchionne left off and will now focus on accelerating growth for the group. As highlighted by Kerpelman during his presentation, the group has strengthened its global network, slimmed its corporate structure, slightly diversified its overall portfolio and has an established culture of entrepreneurship. This combined with a balance sheet which could easily withstand debt of in excess of CHF1.5bn, puts SGS in an excellent position.

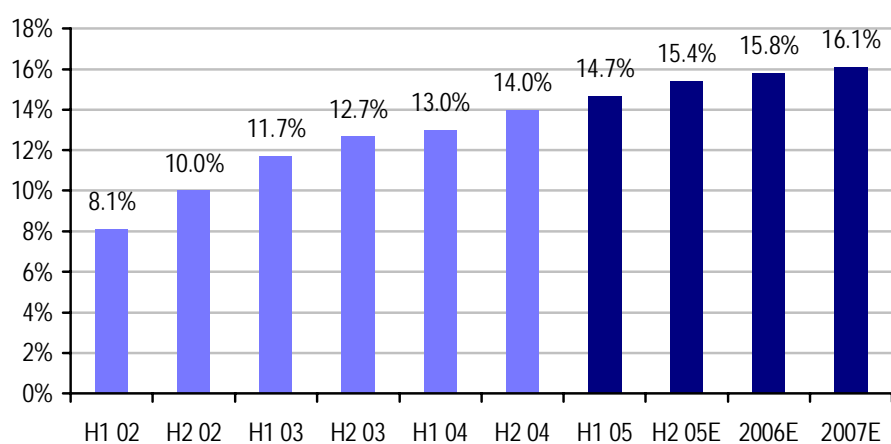
Kerpelman is expected to provide more specifics (including financial targets) later in the year, with respect to SGS's new "growth vision", however did provide some details on the broader issues which will be dealt with, namely: *Portfolio growth* and *Portfolio expansion*.

We anticipate that *portfolio growth* will be the far more challenging exercise. This is likely to involve several detailed steps (some of which were briefly outlined during the presentation), which in our opinion aim to improve the efficiency of the services currently being offered. We expect to some extent that SGS amongst other things, will attempt to standardise various processes, improve lab utilisation rates and by differentiating its technology offering and focusing on strategic accounts try to increase the penetration rate with existing customers. Although we believe that these broad concepts are not new to the group, with the arrival of the new CEO, we expect this process to gain significant momentum. Coming from GE with a great deal of experience with Six-Sigma, Kerpelman has indicated that this process at SGS is also likely to gain new momentum.

As we believe this process is likely to take some time, we do not expect to see a strong acceleration in organic growth acceleration. With SGS having benefited in the past 18 months from strong "tail-winds" i.e. favourable commodity pricing/demand environment, we believe that it will be a challenge (although possible) to sustain a double-digit organic growth over the medium-term, especially given the fact that the y/y base comparison is becoming increasingly difficult. We have therefore made only slight changes to our organic growth rates for 2006/7E, raising our organic sales growth rates by +90bp to 9.8% for 06E and 9.3% for 07E.

Portfolio expansion will be a major theme going forward, in our opinion. Although there may be some concern that the group structure is already too diversified, we however believe that SGS could easily add several new business units without disturbing the group's existing focus/structure. SGS has already made substantial progress in the past in terms of shifting from providing more inspection-oriented services to testing/certification services. The new CEO intends to accelerate the shift in focus towards the "process related business" by expanding services to include additional quality, productivity, risk reduction and compliance services. As this shift takes place, we expect margins are likely to expand gradually given the higher comparable value added content & margins of the services provided.

Chart 3: Group EBITA margin forecasts



Source: SGS; UBS estimates

For the time being, we forecast margins to expand gradually to 16.1% by 2007E (slight downward revision given lower expected sales from TAS which earns margins in excess of 20%).

Similar to Bureau Veritas (BV) and in-line with Kerpelman's comments, we expect M&A activity to accelerate in terms of bolt-on acquisitions. Management indicated at the presentation that the acquisition pipeline was full and we could anticipate acquisitions up to roughly CHF150m in sales (although larger acquisitions cannot be excluded). We estimate that excluding integration costs, the acquisition in 2004 added roughly 6% to group EPS for 2004 with the average price paid between 1.0 to 1.3x price/sales. To illustrate the positive earnings impact from bolt-on acquisitions, we estimate that assuming price/sales multiples of 1-1.5x price/sales and an EBITA margin of 15%, SGS could lift its 05/06E EPS by 7-13%. Our assumptions below excludes any potential integration costs, however does also not take into account any potential synergies from these acquisitions.

Table 2: EPS enhancements from potential bolt-on acquisitions

CHFm	Price/Sales of 1.0x	Price/Sales of 1.5x
Net cash position at Dec 2004	438	438
Acquired Sales	438	292
Acquired EBITA (assuming a margin of 15%)	66	44
Less: Interest earned on net cash @ 1.5%	- 7	- 7
Total PBT enhancement	59	37
Less: Tax @ 23.5%	- 14	- 9
Net profit from acquisitions	45	28
Incremental EPS (@7.82m shares)	5.8	3.6
% of 05E EPS	13%	8%
% of 06E EPS	11%	7%

Source: UBS

Worth noting that we estimate BV has added between roughly 5-10% EPS accretion through bolt-on acquisitions over the past 4 years. Although SGS has

dominating market shares in several of its segments, the overall services industry is highly fragmented and we believe that SGS should be able to gain significant market share through both organic and M&A growth in the consolidating market.

Valuation and Conclusion

We have made only slight changes to our estimates i.e. <2% for 05-07E EPS. On our revised estimates, SGS trades on a 06E PE of 17.4x and EV/EBITA of 12.6x. We continue to derive value for SGS using a DCF valuation. Given SGS's new focus on growth, we have accordingly raised our mid-term organic growth rate to 8.0% from 6.5%, leaving our other assumptions broadly unchanged. Our DCF valuation now implies a new price target of CHF1030 per share (old CHF875). At our PT, SGS would trade on a 06E PE of 19.2x and EV/EBITA of 13.8x, which compares to Intertek's current valuation on 15.9x PE and 12.1x EV/EBITA.

Chart 4: DCF valuation

CHFm	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Sales	2,332	2,392	2,454	2,885	3,231	3,548	3,880	4,190	4,525	4,887	5,278	5,700	6,156	6,649
growth, %		2.6%	2.6%	17.6%	12.0%	9.8%	9.3%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
EBITA	145	216	300	391	487	561	625	647	699	755	815	881	951	1,027
EBITA margin	6.2%	9.0%	12.2%	13.6%	15.1%	15.8%	16.1%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
growth, %		49.2%	39.1%	30.3%	24.5%	15.3%	11.4%	3.5%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Less: Taxes	-38	-38	-62	-90	-114	-132	-147	-162	-175	-189	-204	-220	-238	-257
Tax Rate	26.4%	17.5%	20.6%	22.9%	23.5%	23.5%	23.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
NOPLAT	106	178	238	301	372	429	478	486	524	566	612	661	713	770
Add: Depreciation	102	95	96	115	132	140	150	155	160	164	169	174	180	185
% of sales	4.4%	4.0%	3.9%	4.0%	4.1%	4.0%	3.9%	3.7%	3.5%	3.4%	3.2%	3.1%	2.9%	2.8%
Gross Cash Flow	209	273	334	416	504	570	629	641	684	731	781	835	893	956
Less: Capex	-117	-106	-171	-201	-187	-177	-172	-178	-183	-189	-194	-200	-206	-212
% of sales	-5.0%	-4.4%	-7.0%	-7.0%	-5.8%	-5.0%	-4.4%	-4.2%	-4.0%	-3.9%	-3.7%	-3.5%	-3.3%	-3.2%
NWC	286	216	196	139	170	204	219	235	253	274	296	319	345	372
NWC/Sales	12.3%	9.0%	8.0%	4.8%	5.2%	5.7%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
-Increase in NWC	147	70	20	57	-31	-34	-15	-16	-19	-20	-22	-24	-26	-28
Free cash flow	239	237	183	272	287	358	442	447	482	522	565	611	661	716
growth, %		-0.8%	-22.8%	48.7%	5.3%	25.0%	23.3%	1.1%	8.0%	8.2%	8.2%	8.2%	8.2%	8.2%

Valuation	
NPV of Terminal value	4,668
NPV of cash flows	3,223
Enterprise Value	7,891
Add: Average net cash 2005	523
Less: Provisions	- 61
Add: Peripherals	7
Less: Minority interest	- 284
Equity Value	8,076
# of shares	7.82
Price per share	1,032

Assumptions	
WACC	9.0%
Terminal growth	2.0%

WACC Computation	
Risk free rate	4.0%
Beta	1.10
Equity risk premium	4.5%
Cost of equity	9.0%
Pre-tax cost of debt	6.0%
Tax-rate	23.5%
Post-tax cost of debt	4.6%
Debt/Total Capital	0.0%
WACC	9.0%

Source: UBS estimates

While the target valuation appears demanding, we believe it is justified given that: (1) SGS is a non-cyclical business delivering strong y/y organic growth with relatively stable margins; (2) there are no obvious downside risks for the stock in the near to mid-term; (3) SGS's solid balance sheet (UBS's net cash position of CHF608m at FY 05E) provides opportunities for M&A activity which should support substantial EPS growth. Given the recent strong share performance and high valuation, we maintain our Neutral 1 recommendation.

Table 3: Divisional Revenue Estimates

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E	Comment
Agricultural Services	124	133	257	138	147	284	307	329	We slightly raised our growth est. due to a better than expected H1 05 result and due to the fact that SGS is expecting an acceleration in growth for Western Europe in H2. Growth will continue to depend also on global weather conditions.
% change vs. py	1.9%	10.9%	6.3%	10.9%	10.3%	10.6%	8.0%	7.0%	
Organic	1.0%	14.4%	7.4%	10.9%	11.1%	11.0%	8.0%	7.0%	
Currency	-0.9%	-3.5%	-1.0%	-0.1%	-0.6%	-0.4%	0.0%	0.0%	
Minerals Services	151	169	320	177	192	369	413	446	Minerals div. Once again beat expectations supported by higher prices and exploration. We have raised our growth estimates for the division as we expect the robust demand to continue, albeit at a slower pace.
% change vs. py	13.7%	14.5%	14.1%	17.3%	13.9%	15.5%	12.0%	8.0%	
Organic	12.2%	20.6%	16.0%	18.8%	13.5%	16.0%	12.0%	8.0%	
Currency	1.6%	-6.1%	-1.9%	-1.5%	0.4%	-0.5%	0.0%	0.0%	
Oil, Gas & Chemicals	283	292	575	302	328	630	687	742	Although H1 05 growth was shy of our estimate, we have left our FY 05 estimate unchanged. Given that management expect an acceleration in growth in H2 05 in-line with winter stock building and +ve demand from petroleum & chemicals
% change vs. py	33.3%	28.6%	30.9%	6.9%	12.4%	9.7%	9.0%	8.0%	
Organic	12.6%	13.1%	12.6%	8.7%	11.2%	10.0%	9.0%	8.0%	
Currency	0.0%	-5.0%	-1.9%	-2.2%	1.1%	-0.5%	0.0%	0.0%	
M&A	44	45	89	1	-0	1	0	0	
Life Sciences Services	51	56	107	62	65	127	142	156	After 2 years of y/y sales declines, LS reported strong growth due to good demand in clinical research, data management services & Phase II clinical trial project management. New labs are being built in growing markets, which should support the growth momentum (low base).
% change vs. py	72.0%	88.5%	80.2%	21.8%	16.8%	19.2%	12.0%	10.0%	
Organic	-4.7%	-3.8%	-4.2%	18.1%	6.4%	12.0%	12.0%	10.0%	
Currency	2.4%	-8.4%	0.0%	-0.6%	-0.1%	-0.3%	0.0%	0.0%	
M&A	22	28	50	2	6	8	0	0	
Consumer Testing Services	166	195	361	214	231	445	517	594	Growth momentum was maintained at an exceptional high rate in H1 05. This was driven primarily by Asia (China +35% y/y) but also due to robust demand in Europe. It appears that the high capex of 04/05E is supporting the growth. We have also raised estimates for 05-07E
% change vs. py	31.0%	33.7%	32.4%	29.3%	18.6%	23.5%	16.0%	15.0%	
Organic	19.1%	26.0%	22.1%	25.6%	15.2%	20.0%	16.0%	15.0%	
Currency	-0.2%	-6.4%	-2.6%	-1.6%	0.2%	-0.6%	0.0%	0.0%	
M&A	15	20	35	9	6	15	0	0	
Systems & Services Cert.	114	121	235	127	136	263	297	318	Surprisingly, the division beat expectations owing to a growth recovery in Europe (for non-ISO 9000 services) and from strong demand for first-time ISO adoption in developing markets. Growth in 2006 should benefit from the 3-yr renewal period for ISO 9000 coming to an end.
% change vs. py	8.3%	-2.5%	2.5%	11.2%	12.0%	11.6%	13.0%	7.0%	
Organic	7.4%	0.9%	3.9%	12.6%	11.4%	12.0%	13.0%	7.0%	
Currency	0.9%	-3.4%	-1.4%	-1.4%	0.5%	-0.4%	0.0%	0.0%	
M&A	0	0	0	0	0	0	0	0	
Industrial Services	182	198	380	209	232	441	490	539	Similar to Bureau Veritas, we expect SGS to rollout into other geographic regions (currently has solid market positions in specific countries). As this market is highly fragmented, we believe that SGS should continue to gain market share from the smaller players.
% change vs. py	14.9%	15.2%	15.1%	14.9%	17.2%	16.1%	11.2%	10.0%	
Organic	12.7%	17.8%	15.1%	12.1%	13.8%	13.0%	11.0%	10.0%	
Currency	2.1%	-2.6%	-0.1%	-0.4%	-0.2%	-0.3%	0.0%	0.0%	
M&A	0	0	0	6	7	13	1	0	
Environmental Services	97	111	209	111	120	231	249	269	With a strong performance seen across most countries in H1 05, new labs opening in Asia, and an overall tightening of the regulatory environment across Europe, we remain confident that the business should continue to deliver strong organic growth
% change vs. py	26.4%	19.0%	21.3%	44.0%	7.5%	10.5%	8.0%	8.0%	
Organic	11.2%	7.8%	9.2%	11.2%	5.2%	8.0%	8.0%	8.0%	
Currency	3.3%	-3.7%	-0.1%	-0.8%	0.1%	-0.3%	0.0%	0.0%	
M&A	7	14	21	4	3	6	0	0	
Automotive Services	89	99	188	97	110	207	223	241	This division seems to have stabilised following continued weakness for over 2 years. New contract wins and increased emission and safety testing demand in developing markets should support moderate growth in the next few years.
% change vs. py	-20.5%	-0.4%	-11.0%	9.3%	11.1%	10.2%	8.0%	8.0%	
Organic	-17.9%	-8.8%	-13.4%	1.1%	6.6%	4.0%	8.0%	8.0%	
Currency	-3.2%	-6.0%	-4.0%	-2.7%	1.0%	-0.7%	0.0%	0.0%	
M&A	0	14	14	10	3	13	0	0	
Trade Assurance Services	133	122	255	120	114	234	222	244	New contract wins were not able to compensate

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E	Comment
% change vs. py	37.5%	-0.3%	16.4%	-10.2%	-6.5%	-8.4%	-5.0%	10.0%	for contract losses, with TAS reporting a sharp y/y decline in H1 05. The probable loss of the Venezuelan contract (August 05) should cost the division CHF40-50m (UBSe) in annual sales.
Organic	37.7%	0.7%	17.0%	-9.5%	-6.3%	-8.0%	-5.0%	10.0%	
Currency	-0.2%	-1.0%	-0.7%	-0.6%	-0.2%	-0.4%	0.0%	0.0%	
Total Group	1,390	1,495	2,885	1,557	1,674	3,231	3,548	3,880	We have raised our organic growth estimates to +10.5%/+9.8%/+9.3% for 05/06/07E from previously +10.2%/+8.9%/+8.4%.
% change vs. py	18.4%	16.8%	17.5%	12.0%	12.0%	12.0%	9.8%	9.3%	
organic	10.2%	11.3%	10.7%	11.1%	10.0%	10.5%	9.8%	9.3%	
currency	0.7%	-4.2%	-1.8%	-1.3%	0.3%	-0.5%	0.0%	0.0%	
M&A	7.5%	9.7%	8.6%	2.2%	1.7%	1.9%	0.0%	0.0%	

Source: UBS estimates

Table 4: Divisional EBITA estimates

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E	Comment
Agricultural Services	9.5	14.1	23.6	15.0	17.7	32.7	38.4	42.7	Margin progression will depend on the pace of the portfolio shift to upstream services.
% EBITA margin	7.6%	10.6%	9.2%	10.9%	12.1%	11.5%	12.5%	13.0%	
Minerals Services	21.1	25.2	46.3	27.2	30.7	57.9	66.1	71.4	UBSe margins to stabilise around c16% (above management's previous 14% target).
% EBITA margin	14.0%	14.9%	14.5%	15.4%	16.0%	15.7%	16.0%	16.0%	
OGC	33.1	35.5	68.6	36.9	43.8	80.7	92.8	100.2	Although seeing tough competition, strong demand, +ve product mix & higher utilisation of new labs should support margins.
% EBITA margin	11.7%	12.2%	11.9%	12.2%	13.3%	12.8%	13.5%	13.5%	
Life Sciences	5.7	7.1	12.8	8.7	9.7	18.4	22.7	25.0	
% EBITA margin	11.2%	12.8%	12.0%	14.0%	14.9%	14.5%	16.0%	16.0%	
Consumer Services	28.3	36.9	65.2	45.6	52.4	98.0	118.9	142.6	We see scope for CTS to increase margins further as utilisation rates of new labs improve.
% EBITA margin	17.1%	18.9%	18.1%	21.3%	22.7%	22.0%	23.0%	24.0%	
SCS	14.0	16.5	30.5	19.7	21.0	40.7	46.0	47.6	The strong recovery in margins was not anticipated. We believe margins are likely to remain stable going forward
% EBITA margin	12.3%	13.6%	13.0%	15.5%	15.5%	15.5%	15.5%	15.0%	
Industrial	20.7	25.4	46.1	27.3	31.3	58.6	68.7	75.5	
% EBITA margin	11.4%	12.9%	12.1%	13.0%	13.5%	13.3%	14.0%	14.0%	
Environmental	6.2	10.6	16.8	11.0	13.2	24.2	29.9	35.0	Margins are being driven by increased demand and improved focus on cost containment.
% EBITA margin	6.4%	9.5%	8.1%	9.9%	11.0%	10.5%	12.0%	13.0%	
Automotive	9.7	10.3	20.0	12.3	14.2	26.5	29.1	31.4	Margins improved substantially in the absence of a substantial pickup in demand.
% EBITA margin	10.9%	10.4%	10.7%	12.6%	12.9%	12.8%	13.0%	13.0%	
TAS	28.8	32.7	61.5	25.1	24.0	49.1	48.9	53.8	Our lower margin assumption i.e. 21-22% vs. previous 25% is due to the expected loss of the Venezuelan contract.
% EBITA margin	21.7%	26.7%	24.1%	21.0%	21.0%	21.0%	22.0%	22.0%	
Total EBITA	177.1	214.3	391.4	228.8	258.1	486.9	561.4	625.3	Our slightly lower margin assumptions i.e. 15.1%/15.8%/16.1% for 05/06/07E vs. previous 15.4%/16.1%/16.3% is due primarily to the lower sales estimate for TAS.
% EBITA margin	12.7%	14.3%	13.6%	14.7%	15.4%	15.1%	15.8%	16.1%	

Source: UBS estimates

■ **SGS**

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.

■ **Statement of Risk**

A weakening US dollar is likely to result in downside risk to our estimates given SGS's US dollar translation exposure of between 40-45%.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	40%	41%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	49%	43%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	35%

1: Percentage of companies under coverage globally within this rating category.

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

Source: UBS; as of 30 June 2005.

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% (an approximation of the equity risk premium).

Predictability Level 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.

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.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% 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 Companies Mentioned table in the relevant research piece.

Companies mentioned

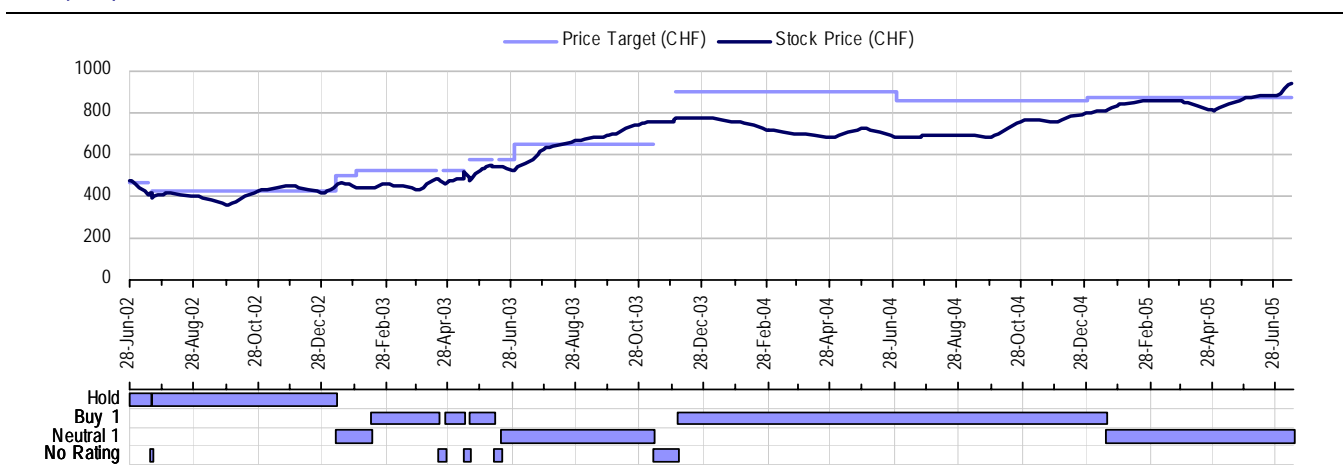
Company Name	Reuters	Rating	Price	Price date/time
Intertek Group plc ^{2,4b}	ITRK.L	Buy 1 (RRD)	732p	14 Jul 2005 21:11 BST
SGS ^{4a,5,18}	SGSN.VX	Neutral 1	CHF943.50	14 Jul 2005 21:11 BST

Source: UBS. BST: British summer time.

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

SGS (CHF)



Source: UBS; as of 14 July 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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