



# SGS GROUP RESULTS 2005 & STRATEGIC GROWTH PLAN 2006-2008

Jean-Luc de Buman

Member of the Operations Council

UBS Investors' Club

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WHEN YOU NEED TO BE SURE



# OPERATIONS COUNCIL



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# THE OPERATIONS COUNCIL

**Dan Kerpelman**  
Chief Executive Officer

## Chief Operating Officers

**Fernando Basabe**  
Western Europe

**Duilio Giacomelli**  
South Eastern Europe

**Dirk Hellemans**  
Central & North West Europe

**Alim Saidov**  
Eastern Europe & Middle East

**Robert Markus**  
Africa

**Christian Jilch**  
North America

**Alejandro Gomez de la Torre**  
South America

**Claude Lanouhe**  
South East Asia & Pacific

**Dennis Yang**  
Eastern Asia

**Helmut Chik**  
China & Hong Kong

## Senior Vice Presidents

**Richard Tobin**  
Chief Financial Officer & IT

**Jean-Luc de Buman**  
Corporate Communications & IR

**Hugh Markey**  
Corporate Development

**Jean-Pierre Mean**  
Legal & Compliance

**Todd VanderVen**  
Strategy & Continuous Improvement

## Executive Vice Presidents

**Helge Bastian**  
Life Science Services

**Fritz Hecker**  
Industrial Services

**Fred Herren**  
Automotive & Trade Assurance Services

**Christopher Kirk**  
Environmental & Minerals Services

**Francis Lacroze**  
Agricultural Services

**Jeffrey McDonald**  
Systems & Services Certification

**Jan Milio**  
Oil, Gas & Chemicals Services

**Frankie NG**  
Consumer Testing Services



## HIGHLIGHTS

- Revenue growth of 14.7%
  - 13.2% in constant currencies
  - 11.4% organic
- Operating income up 27.7% to CHF 502 Million
- Operating margin of 15.2% compared to 13.6% in prior year
- Net income up 33.5%
  - 31.6% in constant currencies
- Distribution to shareholders
  - Return of capital : CHF 19 reduction of current nominal value of CHF 20, 9 June
  - Dividend : CHF 31 (outside of normal payout ratio range of 25-35%), 22 March

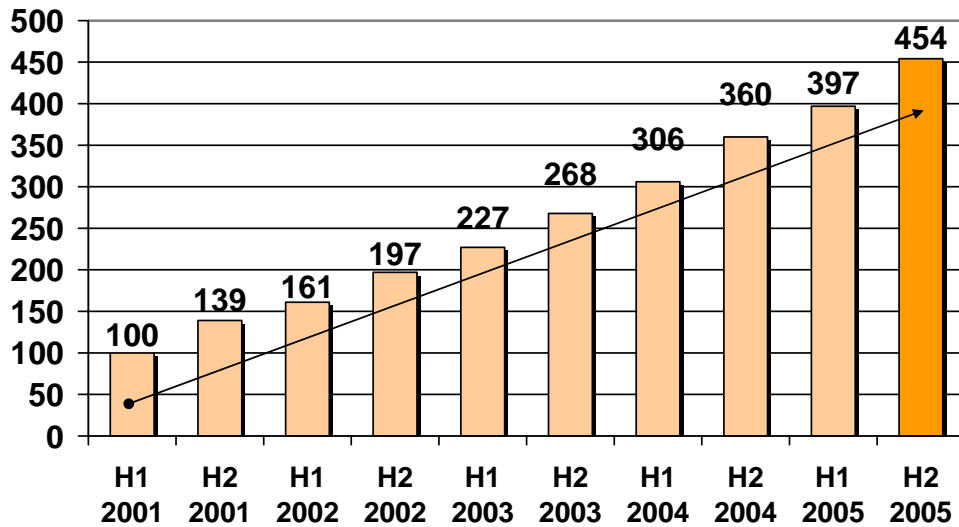


# Development of reported Operating Income and Net Income (before exceptionals)

H1 2001 used as base = 100

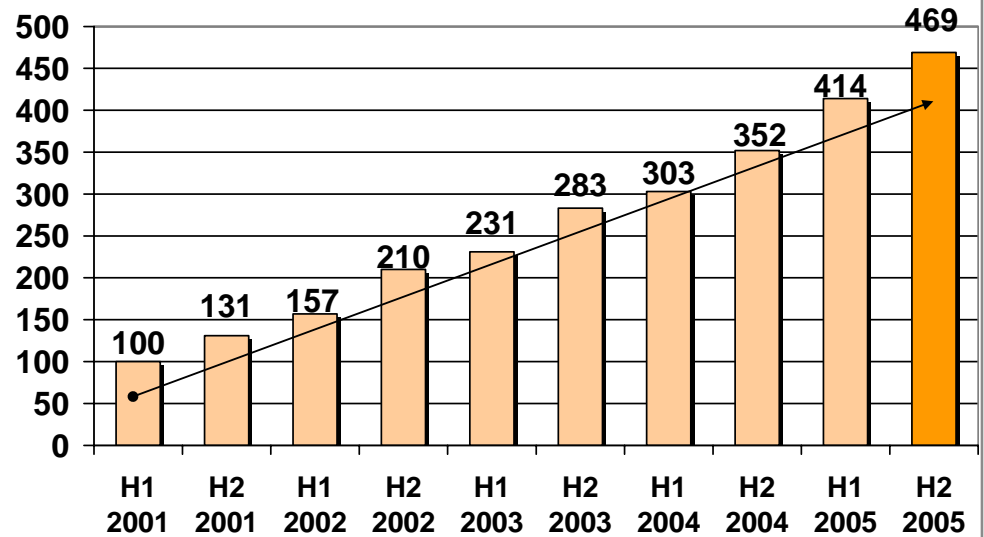
Operating Income

**+354%**



Net Income

**+369%**



2004: Amended to reflect the adoption of new accounting standards

2001- 2003: Pro forma basis

# REVENUE ANALYSIS

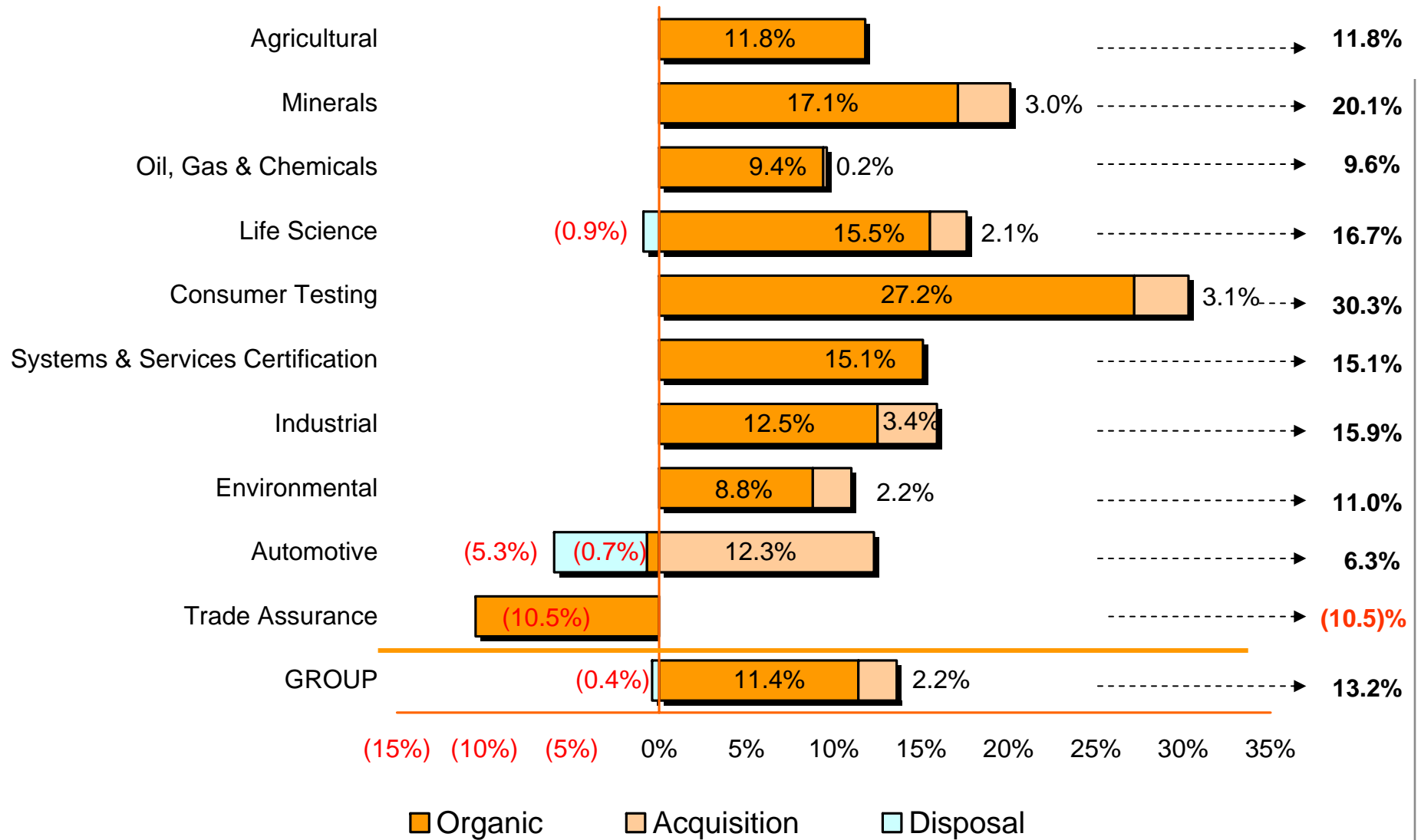


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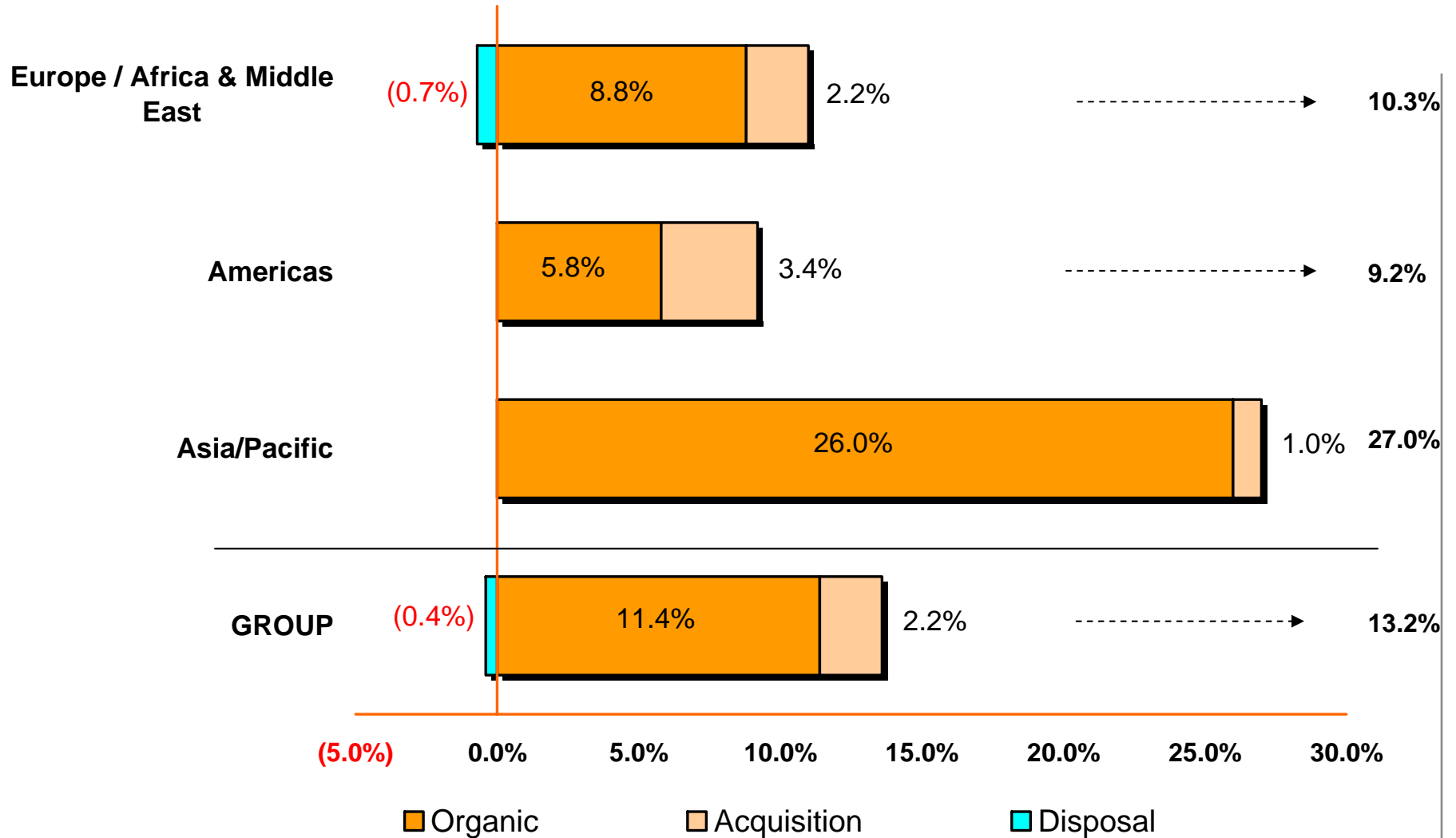


# LOCAL CURRENCY GROWTH BY BUSINESS





# LOCAL CURRENCY GROWTH BY REGION



# OPERATING INCOME ANALYSIS



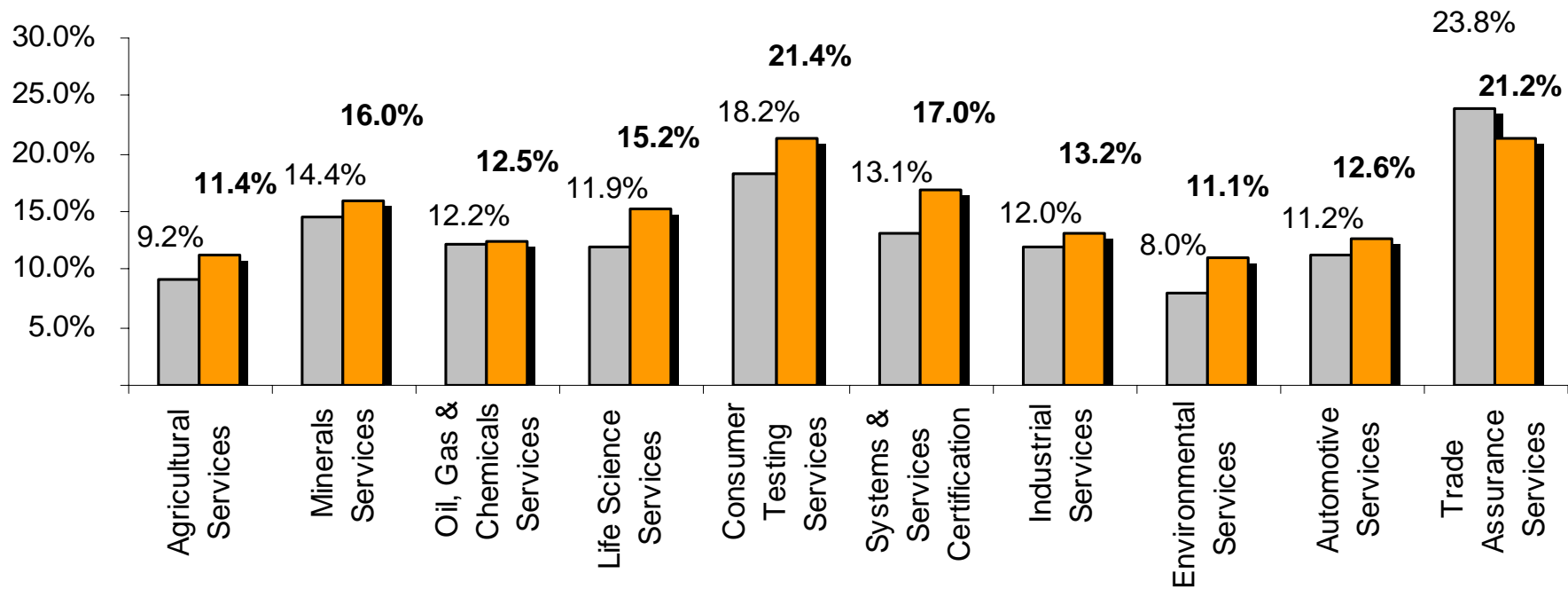
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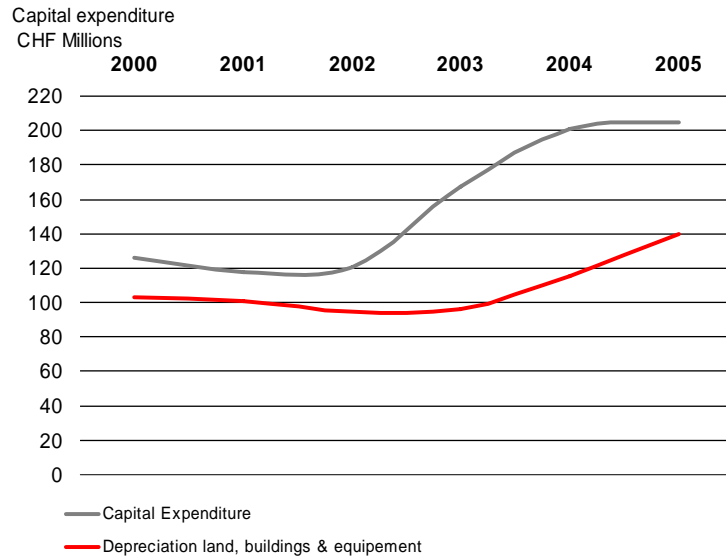
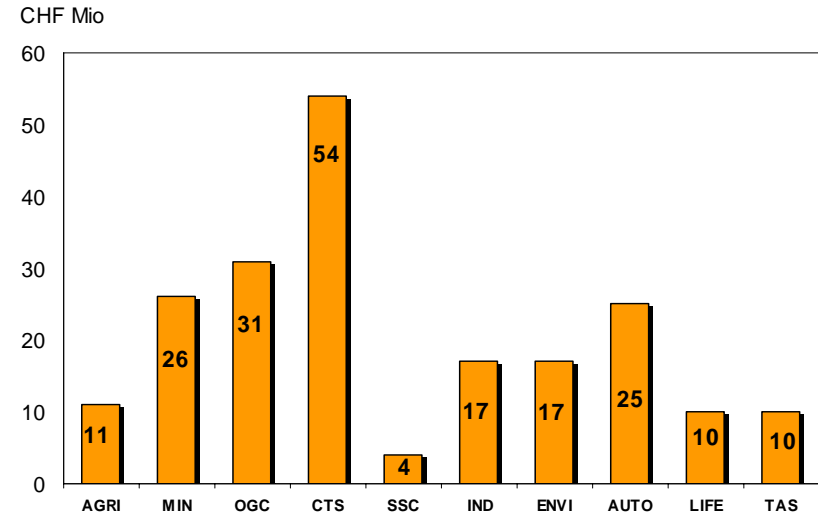
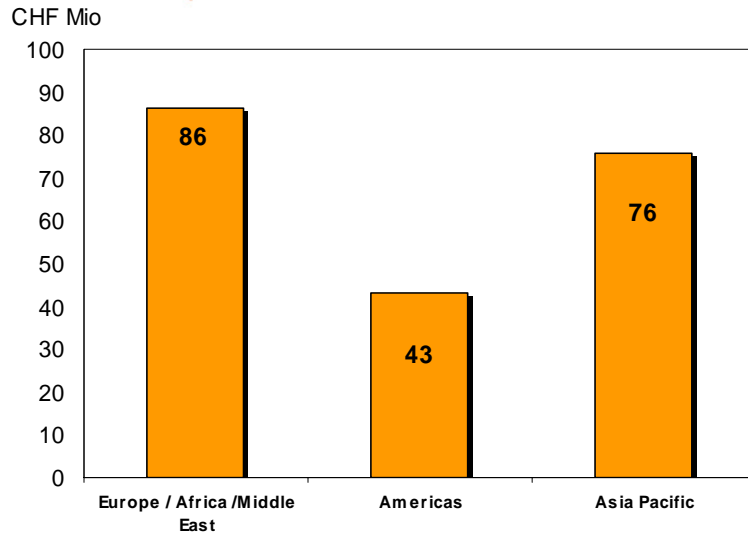
# OPERATING MARGIN BY BUSINESS

□ 2004 ■ 2005





# CAPITAL EXPENDITURE



# EXTERNAL FACTORS



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## 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

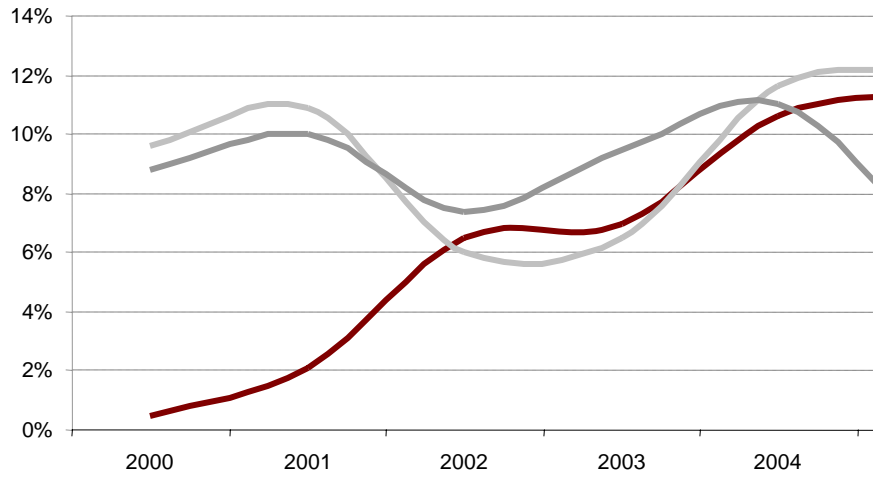
	AGR	OGC	MIN	CTS	IND	AUT	LSS	TAS	SSC	ENV	Marine	Revenue
	●	●	●	●	●	●	●	●	●	●		2.9
				●	●	●						3.9
				●	●			●	●		●	2.3
					●	●						1.8
	●	●		●				●	●			1.1
					●				●		●	1.2
					●					●		0.6
Germanischer Lloyd 					●						●	0.4
						●			●	●		0.4
				●			●			●		0.3
Moody International 					●		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

Latest full year / CHF B

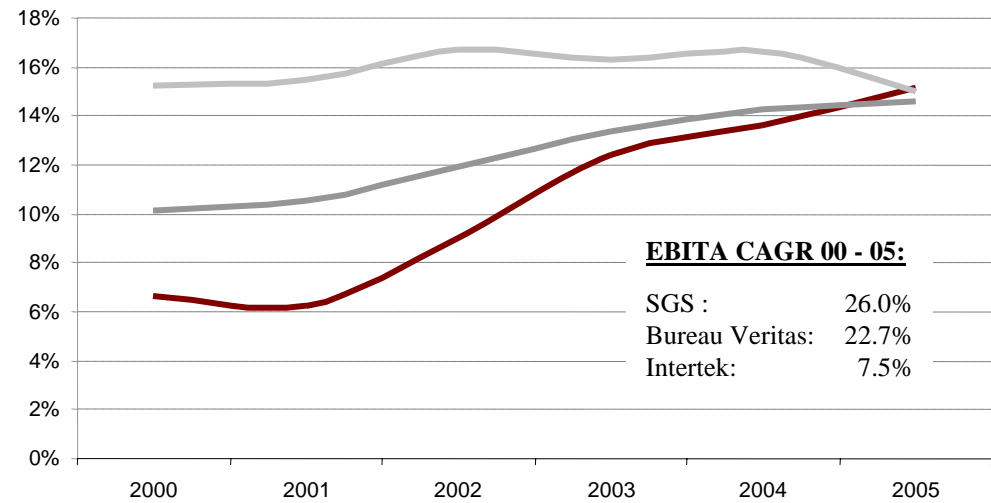


# COMPETITIVE TRENDS

### Organic growth rates (continuing operations) of the 3 main industry players



### EBITA margins of the 3 main industry players



— SGS  
— Intertek  
— Bureau Veritas

# ORGANIC GROWTH PLAN 2006-2008



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CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	294.8	257.1
Change in %	14.7 %	
<b>Operating Income</b>	33.5	23.6
Change in %	41.9 %	
<b>Op. Margin</b>	11.4 %	9.2 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	393.7	319.5
Change in %	23.2 %	
<b>Operating Income</b>	63.1	46.1
Change in %	36.9 %	
<b>Op. Margin</b>	16.0 %	14.4 %



- Introduce higher value and automated metallurgy services
  - Ultratrace analysis
  - Automated sampling
- Introduce risk management offerings
  - Verification
  - Collateral
- Expand MinnovEX capabilities globally

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	635.3	574.6
Change in %	10.6 %	
<b>Operating Income</b>	79.4	70.2
Change in %	13.1 %	
<b>Op. Margin</b>	12.5 %	12.2 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	476.2	360.6
Change in %	32.1 %	
<b>Operating Income</b>	102.1	65.6
Change in %	55.6 %	
<b>Op. Margin</b>	21.4 %	18.2 %



- 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



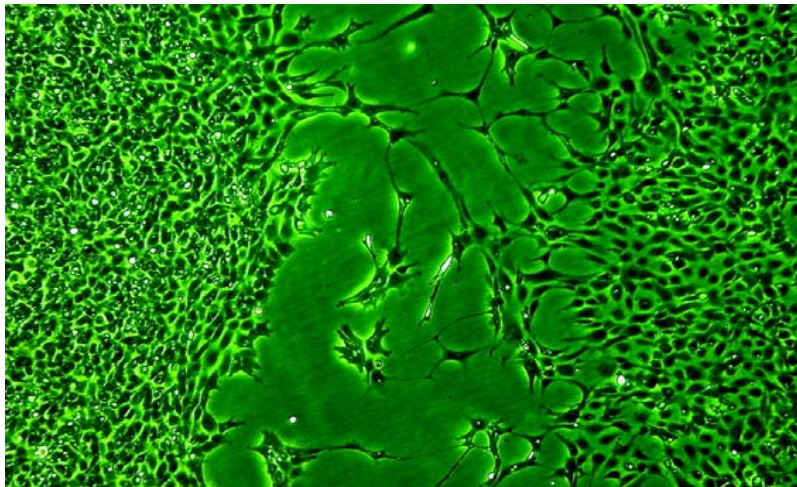
## SYSTEMS & SERVICES CERTIFICATION - STRATEGY

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	274.0	235.4
Change in %	16.4 %	
<b>Operating Income</b>	46.5	30.9
Change in %	50.5 %	
<b>Op. Margin</b>	17.0 %	13.1 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	125.3	106.5
Change in %	17.7 %	
<b>Operating Income</b>	19.1	12.7
Change in %	50.4 %	
<b>Op. Margin</b>	15.2 %	11.9 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	444.8	379.9
Change in %	17.1 %	
<b>Operating Income</b>	58.6	45.6
Change in %	28.5 %	
<b>Op. Margin</b>	13.2 %	12.0 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	235.0	208.6
Change in %	12.7 %	
<b>Operating Income</b>	26.0	16.6
Change in %	56.6 %	
<b>Op. Margin</b>	11.1 %	8.0 %



- 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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	200.2	187.7
Change in %	6.7 %	
<b>Operating Income</b>	25.2	21.1
Change in %	19.4 %	
<b>Op. Margin</b>	12.6 %	11.2 %



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

CHF million	Actual 2005	Actual 2004
<b>Revenue</b>	228.6	255.3
Change in %	(10.5)%	
<b>Operating Income</b>	48.5	60.8
Change in %	(20.2)%	
<b>Op. Margin</b>	21.2 %	23.8 %



- 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

# STRATEGIC GROWTH INITIATIVES



WINNING IS AN **ATTITUDE**

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### ■ 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



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ACQUISITIONS 2006





# 2006 YEAR-ON-YEAR COMPARABLE REVENUE GROWTH

At constant exchange rates

	Jan/Feb. 2006	Expected full year
<b>Agricultural Services</b>	↑	↑
<b>Minerals Services</b>	↑	↑
<b>Oil, Gas &amp; Chemicals Services</b>	↑	↑
<b>Life Science Services</b>	↑	↑
<b>Consumer Testing Services</b>	↑	↑
<b>Systems &amp; Services Certification</b>	↑	↑
<b>Industrial Services</b>	↑	↑
<b>Environmental Services</b>	↑	↑
<b>Automotive Services</b>	↑	↑
<b>Trade Assurance Services</b>	↓	↓
<b>GROUPE</b>	↑	↑

# SUMMARY



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## SUMMARY

### ■ 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

at constant currencies

# THANK YOU



WHEN YOU NEED TO BE SURE



**HOW DO YOU  
MAKE THE  
BEST BETTER?**

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