

# SGS GROUP RESULTS 2002

Analysts' Presentation  
Geneva, 16 January 2003

WHEN YOU NEED TO BE SURE

**SGS**

- Net Income up 56% on prior year
- Top line growth of 10.2% at constant currencies, 2.6% historical
- Operating margin of 10% achieved in H2 2002 with the full year at 9%
- Central Costs reduction now at annualised target of CHF 50 mio (CHF 36 mio achieved in 2002)
- Headcount restructuring took out 2,600 mainly in the second half of 2002
- Organisation re-aligned to provide excellence in service delivery
- Main restructuring effort is now complete, no exceptional restructuring in 2003
- Six-sigma driving next stage:
  - top line growth by focusing on the customer
  - improvements in business processes
- On track to achieve three year objectives

# Financial Highlights

CHF million

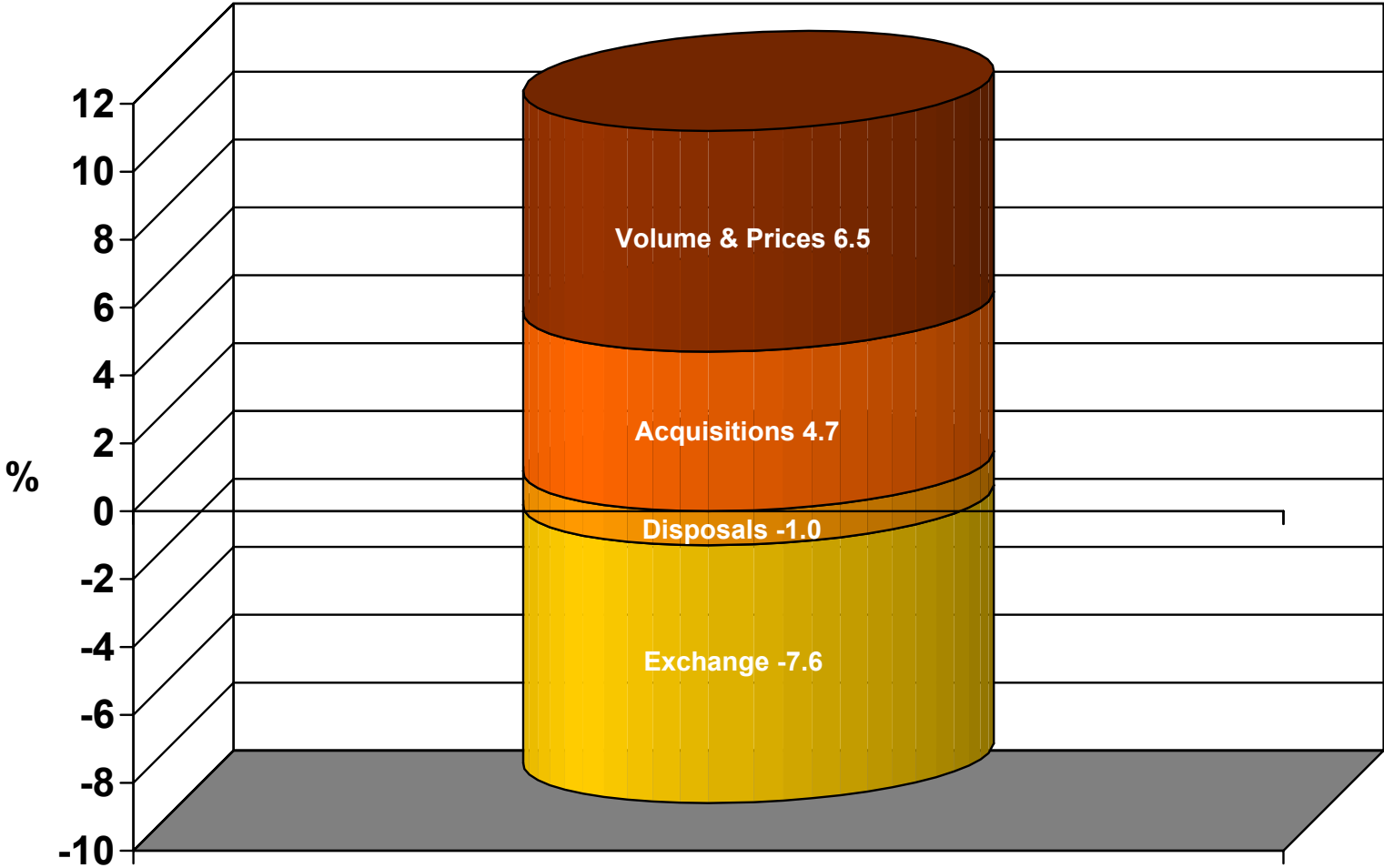
	2001	2002	Change YoY
<b>Revenue - historical rates</b>	2'332	<b>2'392</b>	2.6%
<b>- constant rates</b>	2'171	<b>2'392</b>	10.2%
<b>EBITDA</b>	247	<b>311</b>	26%
<i>EBITDA Margin</i>	10.6%	13.0%	
<b>Operating Income Group</b>	145	<b>216</b>	49%
<i>Operating Margin Group</i>	6.2%	9.0%	
<b>Net Income before exceptionals</b>	102	<b>159</b>	56%
Exceptionals after tax	-177	<b>-50</b>	
<b>Net income after exceptionals</b>	(75)	<b>109</b>	nm
<b>CHF Earnings / Share bef. exceptionals</b>	13.09	<b>20.46</b>	56%
<b>CHF Earnings / Share aft. exceptionals</b>	-9.61	<b>14.02</b>	nm
<b>Avg no. of employees (incl acquisitions)</b>	30'625	<b>32'288</b>	5.4%

# REVENUE ANALYSIS

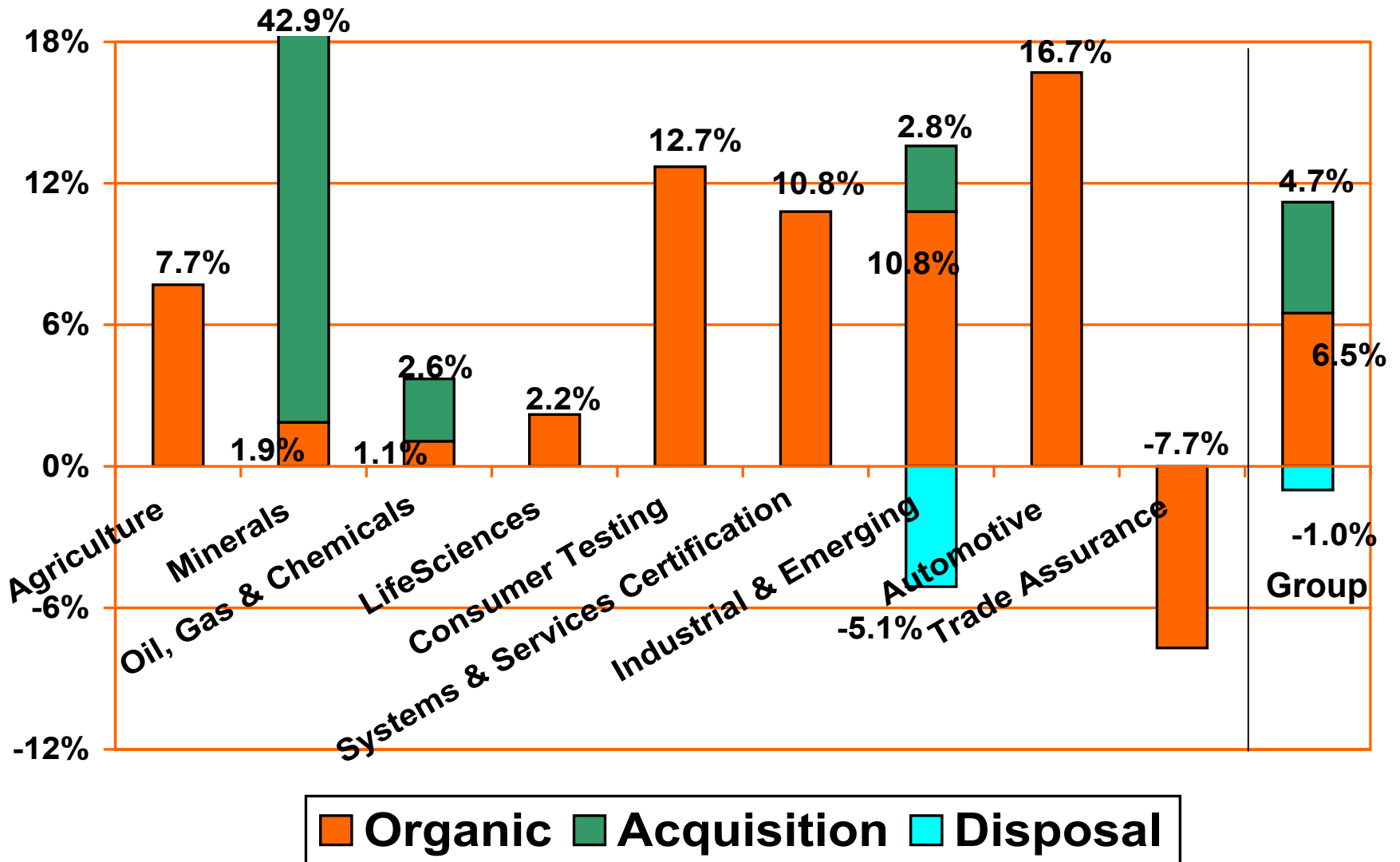
WHEN YOU NEED TO BE SURE

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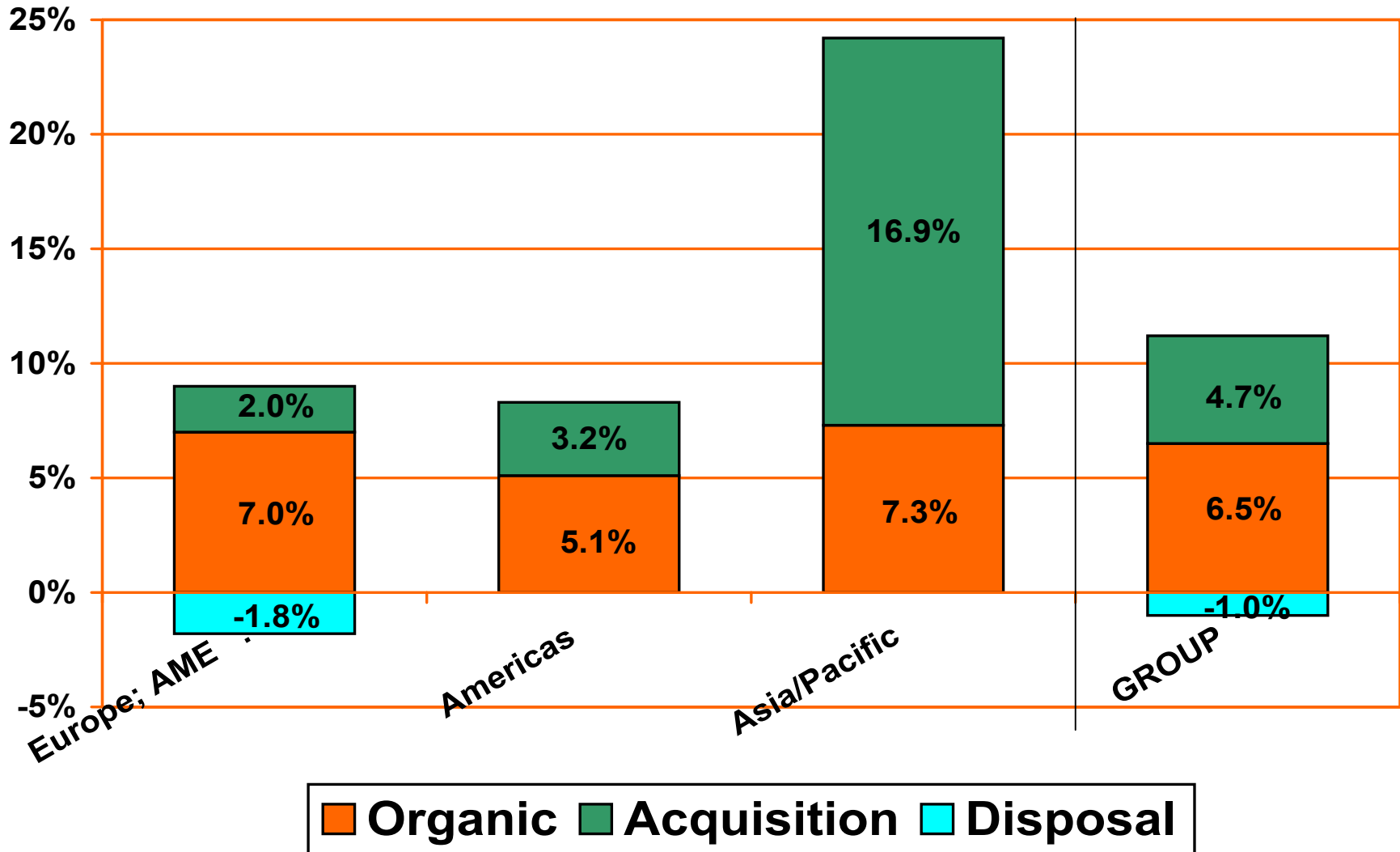
## Revenue Growth Composition



## Local Currency Growth By Business



## Local Currency Growth By Area

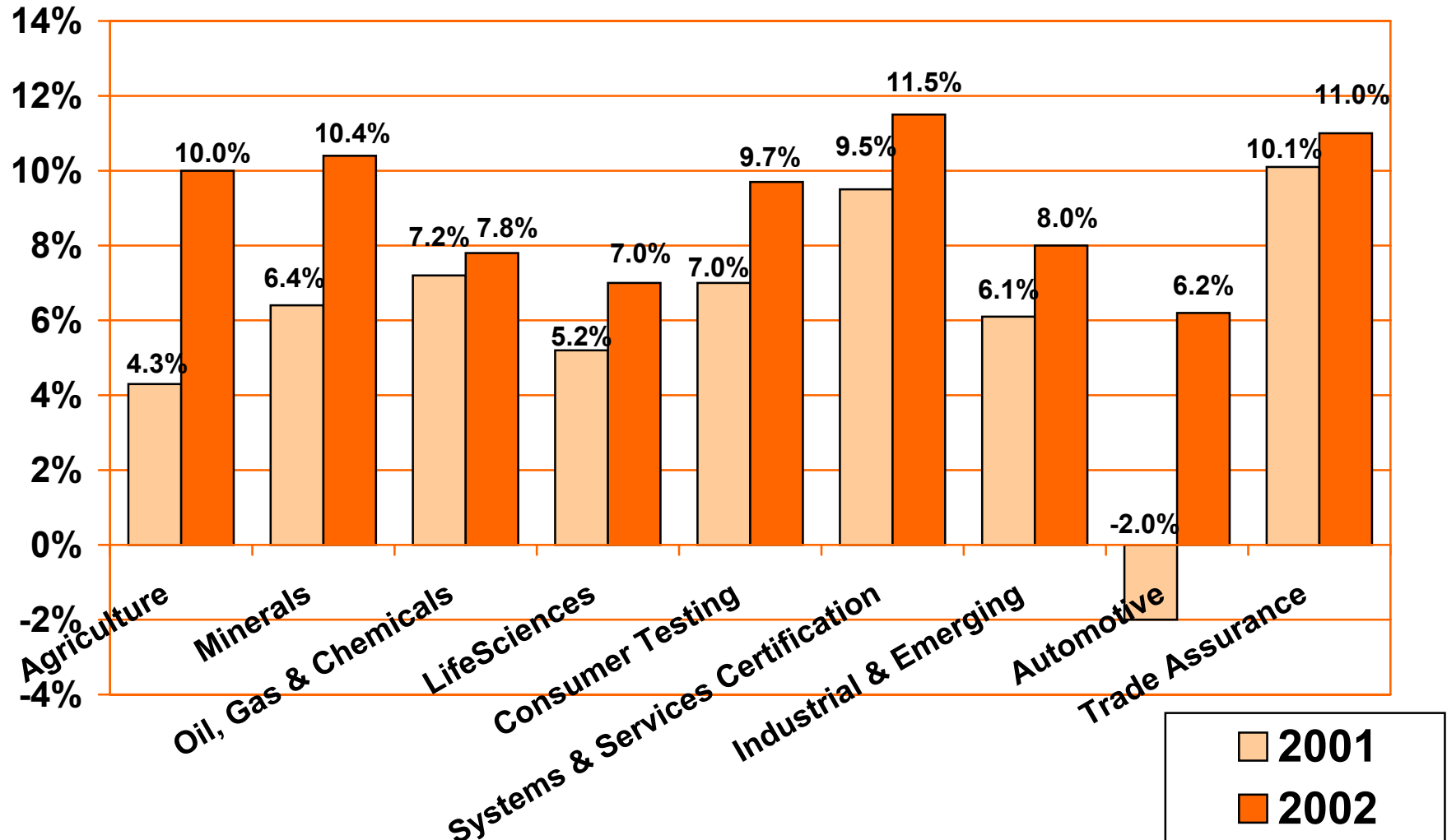


# OPERATING INCOME ANALYSIS

WHEN YOU NEED TO BE SURE

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## Operating Margin By Business



Note: Reflects allocation of all Central Costs to businesses

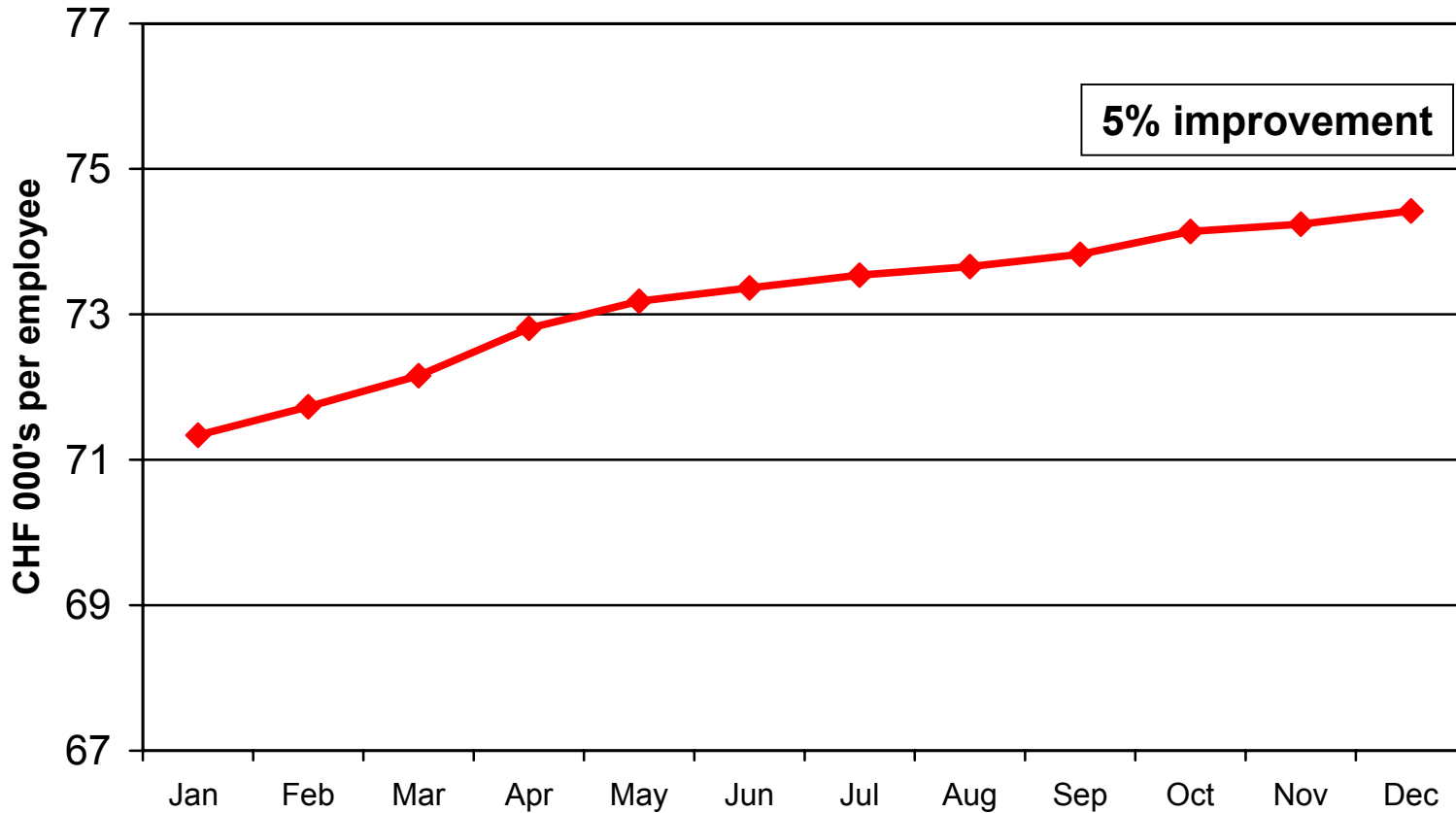


# Group Operating Income Reconciliation 2001 to 2002

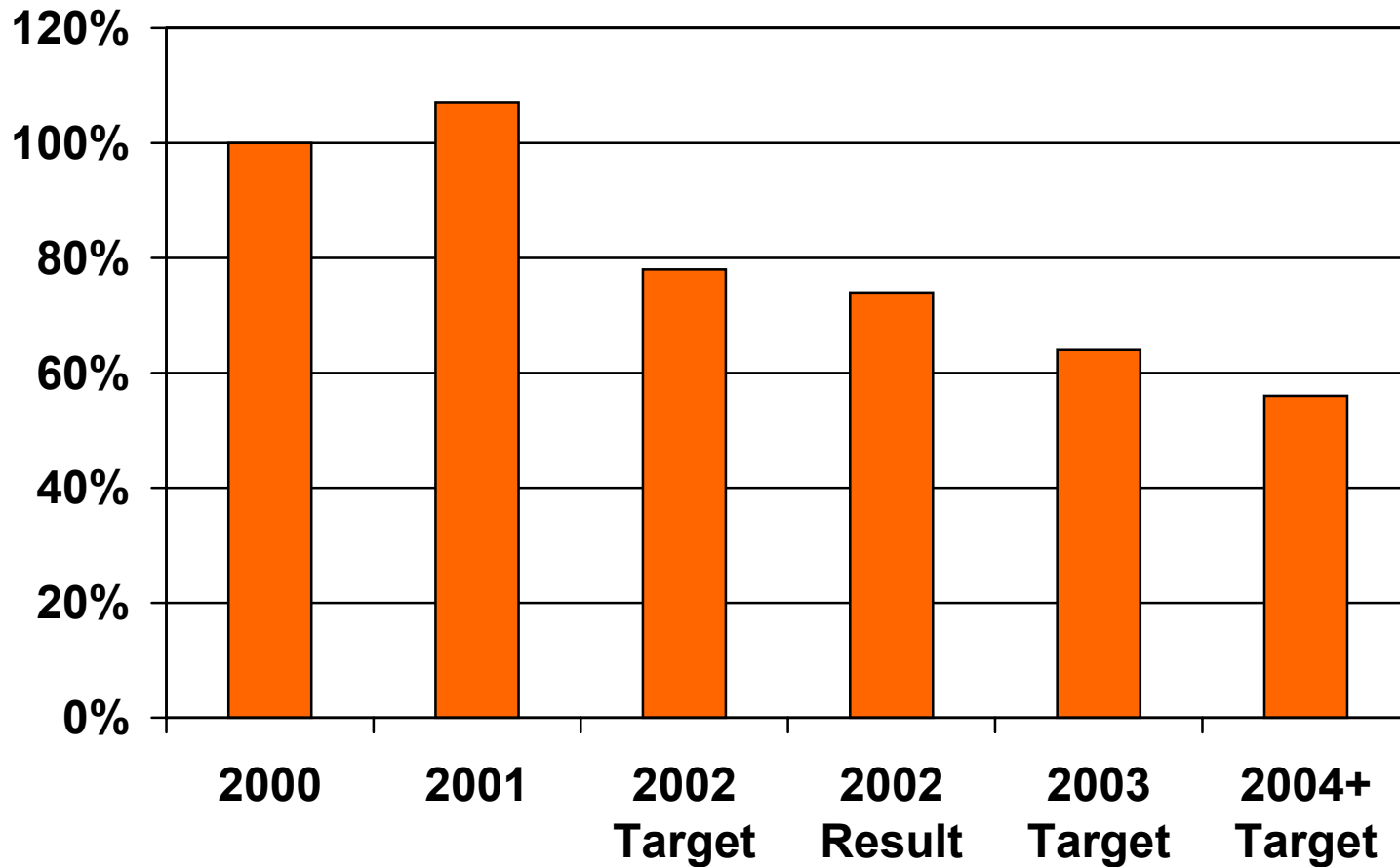
CHF Millions	2001	2002	Change
<b>Group Operating Income</b>	145	216	71
Business Volume & Efficiency Gains		36	
Reduction in Central Costs		36	
<b>Total Operational Improvements</b>			72
<b>Acquisitions</b>			15
<b>Disposals</b>			(5)
<b>Currency Translation Effect</b>			(11)
<b>Increase in operating income</b>			71

## Group Efficiency Gains during 2002

Revenue per employee  
on an rolling annual average basis



## Progress against targets for Central Cost reductions



# Exceptional Items

CHF million

	2001	2002
<b>TAS Terminated Contracts</b>	-177	25
<b>Reorganisation Costs</b>	0	-105*
<b>Total Exceptional Items</b>	-177	-80
Tax thereon	0	30
<b>Exceptional Items after tax</b>	-177	-50

\* : 19% relates to permanent corporate cost reductions

# Headcount reductions and related costs

	CHF Millions	Headcount Reduction
Europe, AME	72	1'178
Americas	15	466
Asia Pacific	18	957
<b>Total Reorganisation</b>	<b>105</b>	<b>2'601</b>

420 leave in first months of 2003

# Headcount Reconciliation Dec '01 to Dec '02

## Changes in Year End Headcount 2002 Vs 2001

	Dec 31, 2001	Dec 31, 2002	Change
<b>Group Headcount</b>	32'020	<b>32'008</b>	<b>(12)</b>
<b>Organic Business Growth</b>			<b>1305</b>
Lakefield Group		854	
Other small acquisitions		129	
<b>Acquisitions</b>			<b>983</b>
<b>Disposals</b>			<b>(119)</b>
<b>Restructuring</b>			<b>(2181)*</b>
<b>Decrease in Group Headcount</b>			<b>(12)</b>

See next slide

\* Remaining 420 leave in first months of 2003

# Drivers of 1,305 Headcount Increase

	Headcount Increase	As %	% Revenue Growth
China	280	23%	20%
Russia	234	27%	45%
Spain	152	7%	22%
Brazil	140	21%	18%
India	126	8%	15%
Ukraine	105	25%	31%
Argentina	85	26%	41%
Ireland	68	21%	57%
Taiwan	59	7%	10%
Others	56		

Organic Increase in Heads	1'305
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# Group Cash Flow Statement

CHF million	31.12.01	31.12.02	
Net cash at start of year	488	446	
Net cash at end of period	446	402	
<b>Decrease in net cash</b>	<b>-42</b>	<b>-44</b>	
<i>Expalined by:</i>			
EBIT	-40	127	
Adjustment for non cash items	259	68	
(Increase) / Decrease in working capital	-77	70	
<b>Cash from operations</b>	<b>142</b>	<b>265</b>	+123
Net purchase of fixed assets	-86	-111	
Taxes	-33	-25	
Net financial income / other	22	-9	
<b>Free Cash Flow</b>	<b>45</b>	<b>120</b>	+75
Dividend paid	-45	-47	
Net cash acquisitions / disposals	-42	-54	
Share Buy back programme	0	-63	
<b>Decrease in net cash</b>	<b>-42</b>	<b>-44</b>	

# Foreign Currency Weightings of Revenue

## Translation Exposures

	% of Revenues	
	déc.01	déc.02
EURO	36.5%	36.4%
USD	20.9%	20.5%
GBP	6.1%	5.3%
<b>% of TOTAL</b>	<b>63.5%</b>	<b>62.2%</b>

	Impact on EPS	
	+10%	-10%
USD	3.5%	-3.5%
EURO	4.5%	-4.5%

# BUSINESS OVERVIEW

WHEN YOU NEED TO BE SURE

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## 2002 Accomplishments to set framework for achieving 2004 targets

- Narrowed and set strategic focus of:
  - Industrial
  - Environmental
  - Automotive and
  - Consumer Testing Services
- Confirmed commitment to commodity based services
  - capable of delivering superior margins
  - capable of expansion of value chain
- Stabilised TAS activities and focus and confirmed value of new products
  - ValuNet
  - Forestry - Ecuador, Congo
  - TradeNet - GCNet Ghana

## **2002 Accomplishments to set framework for achieving 2004 targets (cont'd)**

- Scope of Life Science activities yet to be determined
  - leadership choice close to being made
  - results expected H2 2003
  
- Allocated significant portion of operating Income to legitimatise "skunk works"

## Agricultural Services - 2002

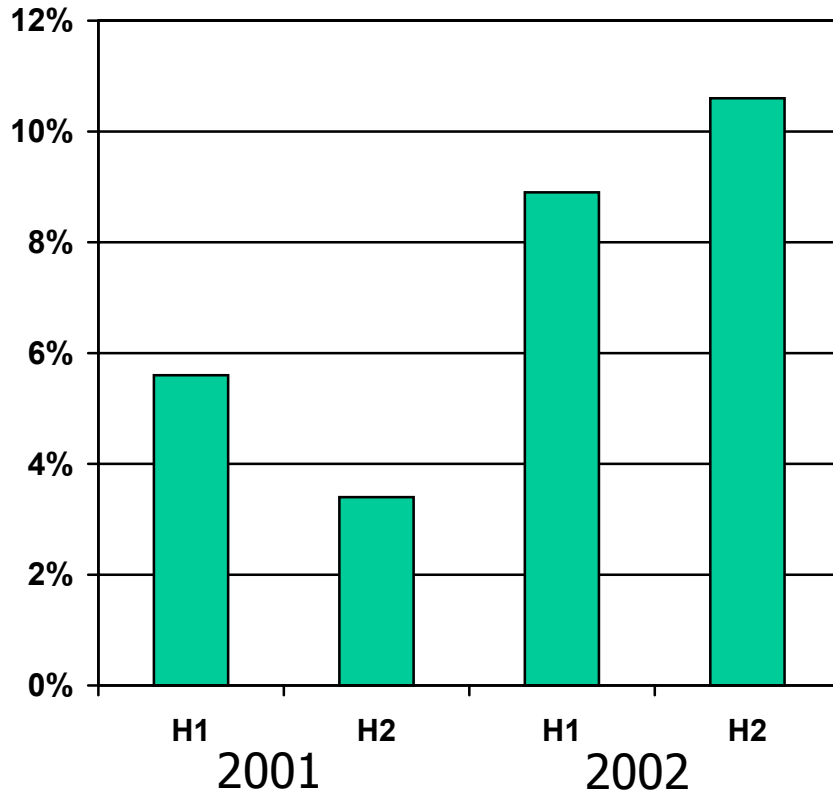
CHF million

	2001	2002
<b>Sales</b>	254	<b>250</b>
<b>Change in %</b>		<b>-1.6%</b>
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		17
<b>Currency Translation</b>		(22)
<b>Acquisitions/(Disposal)</b>		1
<b>Op. Income</b>	11	<b>25</b>
<b>Margin</b>	4.3%	<b>10.0%</b>

- Significant growth in Black Sea and Caspian Sea regions driven by exports
- Argentina and Brazil delivered growth and improved profit margins despite a difficult economic environment
- India completed reorganisation and significantly improved margins mainly as a result of rice exports
- Development of services in NAFTA region is beginning to take hold with growth of 13% in 2002.

# Agricultural Services - Outlook

Margin Progression



- Continued growth in Black Sea / Caspian regions from increasing yields and inland activity
- Expansion of services
  - Guarantee Business Solutions
  - collateral management
  - fumigation
- Significant emphasis on NAFTA region
  - inspection at silos
  - inland inspection
  - expansion into other commodities such as vegoil, fruit....
  - potential US acquisition to expand into upstream quality management
- Acceleration of acceptance of e-documents by financial institutions

## Minerals Services - 2002

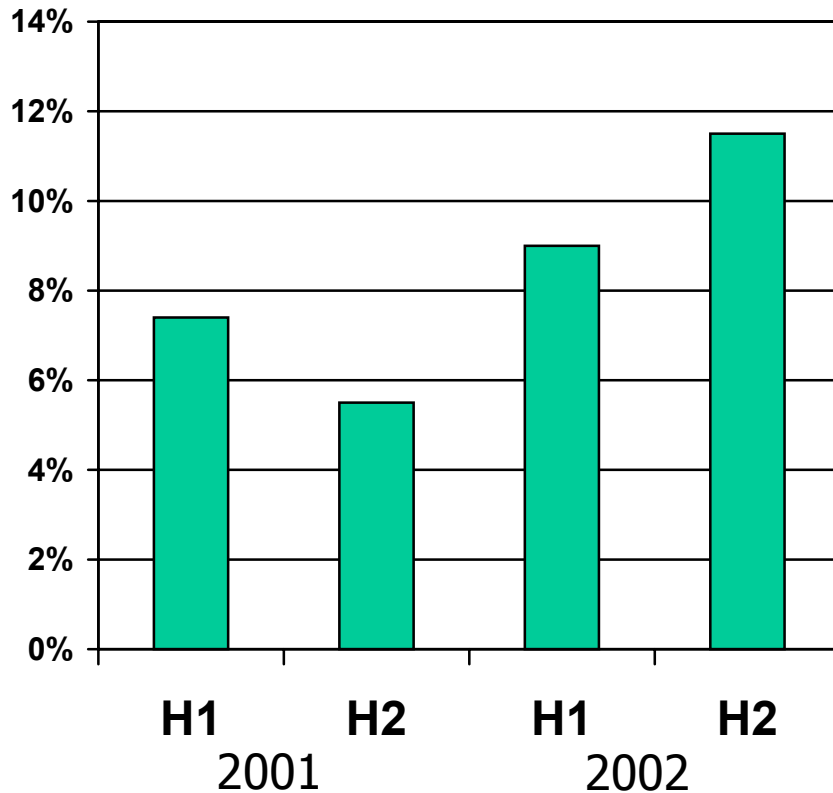
CHF million

	2001	2002
<b>Sales</b>	203	<b>269</b>
<b>Change in %</b>		<b>32.5%</b>
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		3
<b>Currency Translation</b>		(18)
<b>Acquisitions/(Disposal)</b>		81
<b>Op. Income</b>	13	<b>28</b>
<b>Margin</b>	6.4%	<b>10.4%</b>

- Growth driven by acquisitions of Scientific Services Ltd. and Lakefield Research Ltd.
- Integrated steel plant contracts and increasing coal activities in Russia drove a 15% growth in Eastern Europe.
- South American growth driven by increases in exploration and additional coal/coke contracts
- Flat market share in EU, weak coal market in the US and loss of share in China held back growth

# Minerals Services - Outlook

Margin Progression



- Continued opportunities in Gold Industry lab outsourcing and geo-chemistry laboratories.
- Steel Industry consolidation will continue in a weak market place and growth will be in Eastern Europe.
- Global Coal prices are down due to over-capacity but market share is expected to improve.
- Market share gains expected in non-ferrous metals and minerals trading.
- Continued efficiency gains from lab automation

# Oil, Gas & Chemicals Services - 2002

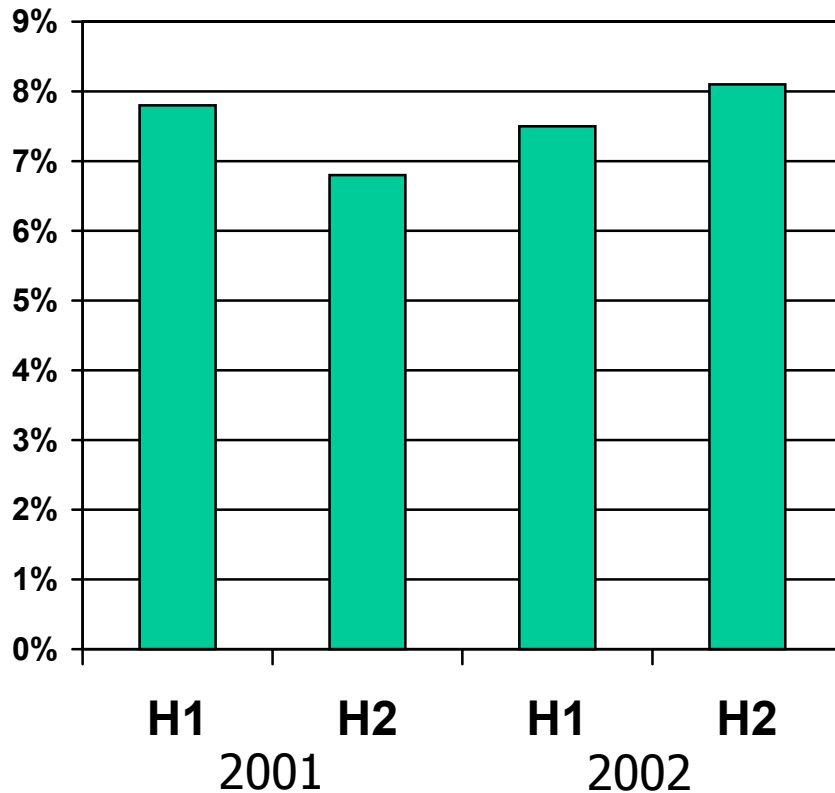
CHF million

	2001	2002
<b>Sales</b>	415	<b>399</b>
<b>Change in %</b>		<b>-3.9%</b>
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		4
<b>Currency Translation</b>		(30)
<b>Acquisitions/(Disposal)</b>		10
<b>Op. Income</b>	30	<b>31</b>
<b>Margin</b>	7.2%	<b>7.8%</b>

- Good performances in core services delivered in Europe, South America and the Caspian
- Continuing consolidation trend in the oil industry and difficult market conditions have lead to flat results in the US and the Middle East
- Good, profitable growth was achieved in China, mainly petrochemicals and through forays into oil
- On-site laboratory network was developed further with new openings in the Caspian, the Black Sea, South Africa and Russia

# Oil, Gas & Chemicals Services - Outlook

Margin Progression



- Venezuela and Iraq cause uncertainties in the oil markets.
- Opportunity to increase outsourced services in mature markets.
- Regulatory "clean-air" compliance fuel testing will increase.
- New petrochemical capacity in Mid East and Asia will drive volumes.
- Russia and Caspian export growth will continue.
- Expansion of service portfolio in South America into gas station monitoring.

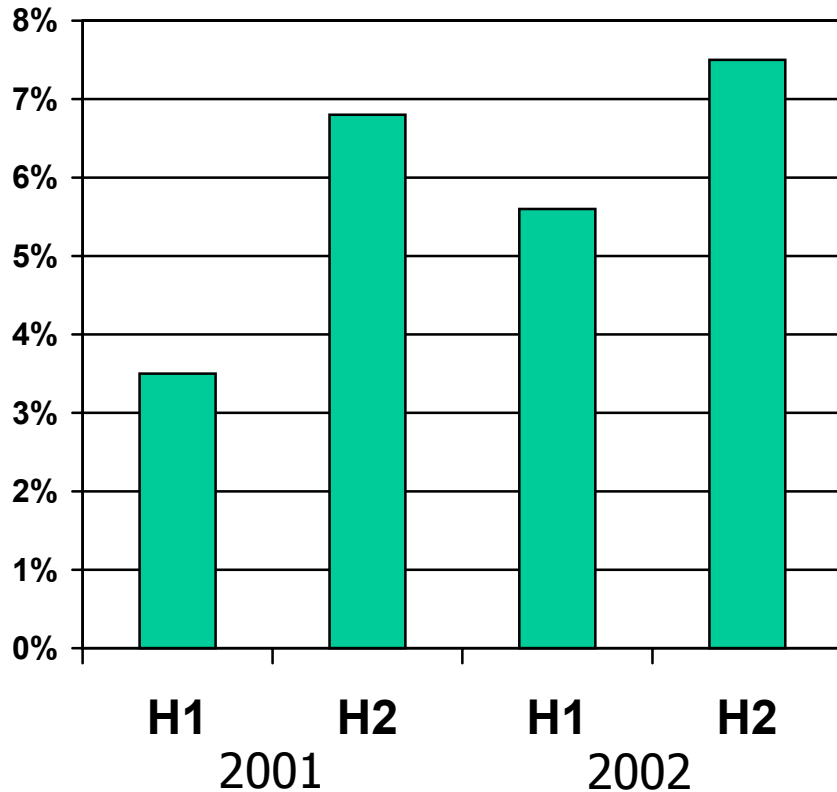
## Life Sciences Services - 2002

CHF million

	2001	2002
<b>Sales</b>	58	57
<b>Change in %</b>		-1.7%
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		1
<b>Currency Translation</b>		(2)
<b>Acquisitions/(Disposal)</b>		-
<b>Op. Income</b>	3	4
<b>Margin</b>	5.2%	7.0%

- Quality Control Testing revenues grew for the Canadian, Belgian and German operations.
- The French and USA operations have been reorganised to improve operational efficiency.
- Clinical Research testing in Belgium and in Spain delivered moderate growth mainly due to a slowdown in market activity in H2.

Margin Progression



- Close to finalising Leadership choice
- Strategic growth options and initiatives to be evaluated
- Completion of evaluation in H2 2003

# Consumer Testing Services - 2002

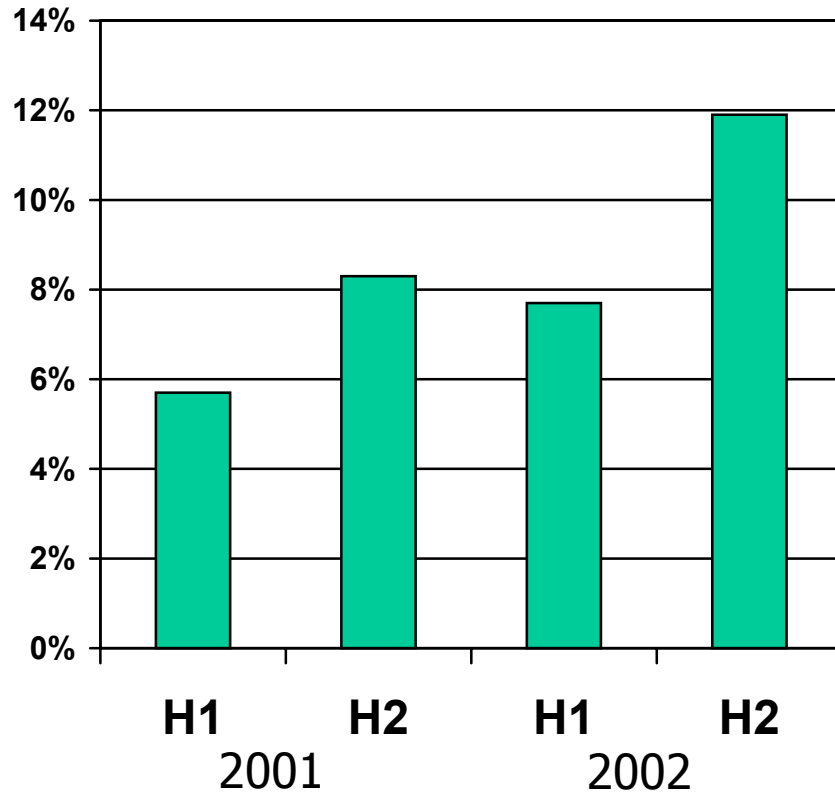
CHF million

	2001	2002
<b>Sales</b>	286	<b>299</b>
<b>Change in %</b>		<b>4.5%</b>
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		34
<b>Currency Translation</b>		(21)
<b>Acquisitions/(Disposal)</b>		-
<b>Op. Income</b>	20	<b>29</b>
<b>Margin</b>	7.0%	<b>9.7%</b>

- Excellent results in East Asia driven by strong performances in hard and soft lines.
- E&E testing in Korea and Greater China starting to grow well.
- Continued excellent performance in India, Bangladesh, Thailand and Malaysia.
- Strong growth in mandatory product certification and E&E.
- Significant expansion of lab network and capabilities.

# Consumer Testing Services - Outlook

Margin Progression



- Testing now 50% of turnover
- Emphasis is on hard and soft lines
  - aggressive sales efforts in the USA and key countries in Europe and Asia.
  - special focus on testing
  - market share gains expected
- E&E
  - heavy investment in lab infrastructure in Far East
  - significant volume growth expected out of high end electronics and communications gear
- Food
  - re-focus of business on supplier audits and food chain custody
- Product Certification
  - leverage of past acquisitions (eg Fimko)

# Systems & Services Certification - 2002

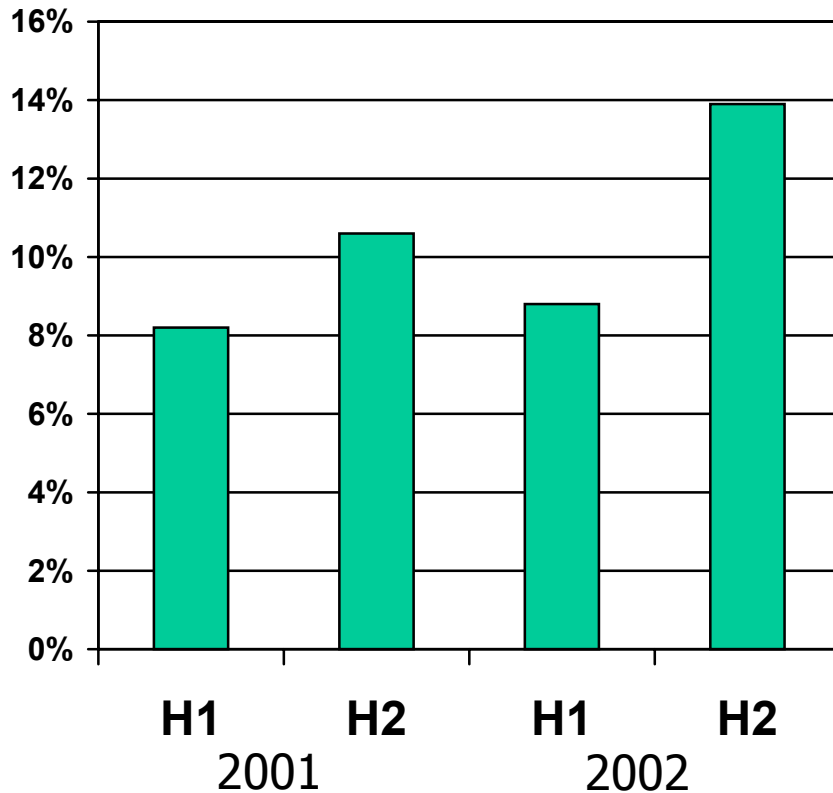
CHF million

	2001	2002
<b>Sales</b>	201	208
<b>Change in %</b>		3.5%
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		20
<b>Currency Translation</b>		(13)
<b>Acquisitions/(Disposal)</b>		-
<b>Op. Income</b>	19	24
<b>Margin</b>	9.5%	11.5%

- Significant revenue growth mostly in Europe (Spain, Belgium and Switzerland) and in Asia (China, Japan and Malaysia).
- Growth driven primarily by ISO 9000 followed by ISO 14001 (environment) and OSHAS (health and safety).
- Active development of service certification programs (e.g. Air France In-flight service certification).
- Overall margin improvement mostly in Switzerland, France, Japan, and China.

# Systems & Services Services - Outlook

Margin Progression



- Business still driven in the main by ISO 9000
  - 2003 deadline of conversion to 2000 version will stimulate demand
  - positive outlook with development of ISO 9000 into basic and added value versions.
- Growth in integrated audits (quality, environment, safety) expected for key accounts in Europe and North America
- Automotive sector certification
  - new global standard introduced
- Increasing demand for supplier assessments

# Industrial & Emerging Businesses - 2002

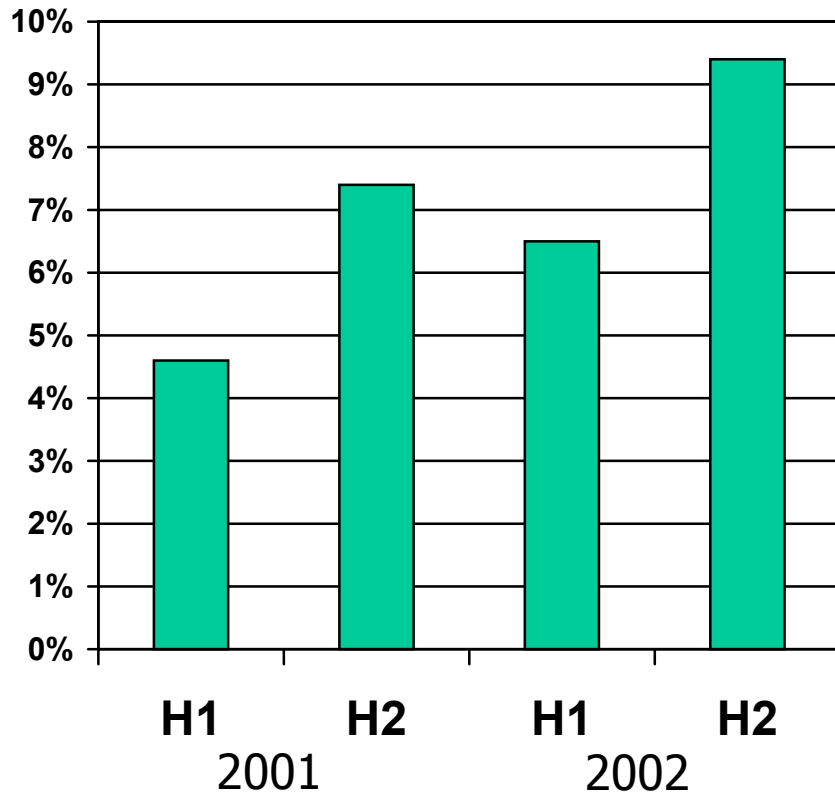
CHF million

	2001	2002
<b>Sales</b>	474	<b>489</b>
<b>Change in %</b>		<b>3.2%</b>
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		49
<b>Currency Translation</b>		(24)
<b>Acquisitions/(Disposal)</b>		(10)
<b>Op. Income</b>	29	<b>39</b>
<b>Margin</b>	6.1%	<b>8.0%</b>

- Spain continued to deliver strong growth in both revenue and earnings.
- Continued improvements in growth and productivity across the network, most notably Italy, Czech Republic, Taiwan, Korea and New Zealand.
- Iran Technical Staffing Service contract with oil major improved growth and profitability.
- 18% revenue growth in Environmental services driven by Taiwan and Spain, with new revenue streams coming from SSL and Lakefield acquisitions

# Industrial & Emerging Services - Outlook

Margin Progression



- Push of services into Oil, Gas and Petrochemical and Power sectors
  - focus on areas with large investments in complexes and offshore
  - leverage network presence
  - project support combining inspection, testing, technical staffing and assessment (standard compliance, vendor surveillance and audit)
- Statutory Inspection and Certification
  - emphasis on efficiency
  - focus on gas and construction
- Environmental focus
  - indoor environmental quality product
  - improved efficiency in key operations

## Automotive Services - 2002

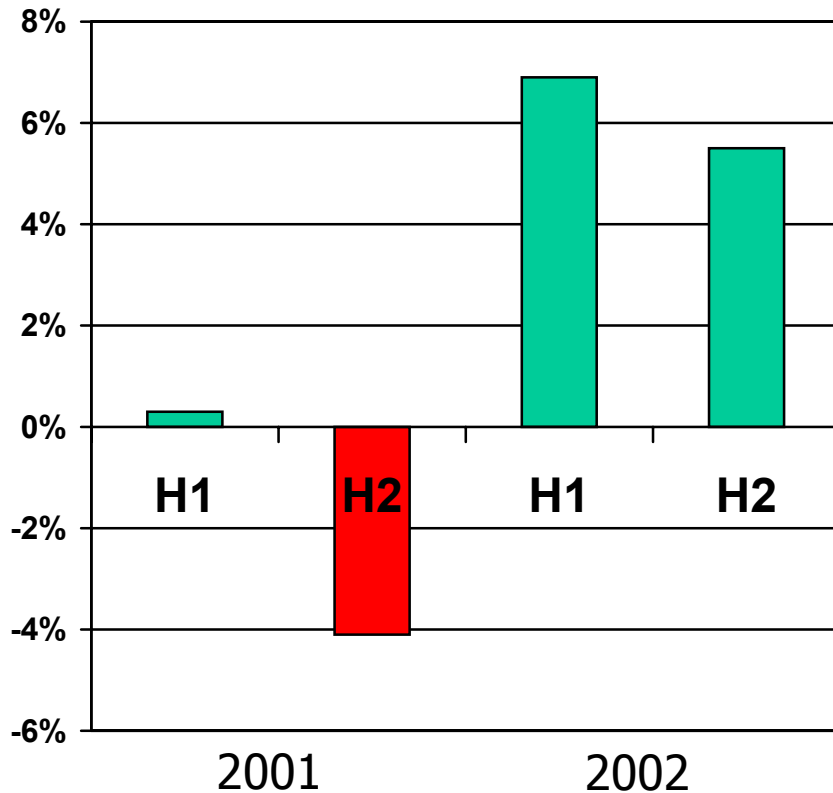
CHF million

	2001	2002
<b>Sales</b>	204	211
<b>Change in %</b>		3.4%
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		30
<b>Currency Translation</b>		(23)
<b>Acquisitions/(Disposal)</b>		-
<b>Op. Income</b>	(4)	13
<b>Margin</b>	-2.0%	6.2%

- Automotive Ireland continued its excellent performance throughout the year with increased productivity/efficiencies improving profitability
- Increased off lease volumes and auction activities in US coupled with cost reductions drove a significantly improved performance
- Ivory Coast operations were hindered by civil unrest

# Automotive Services - Outlook

Margin Progression



- Expand the reach of the extensive know-how on auto data management
- With the IT issues now resolved in the US opportunities will be searched out to leverage the platform across regions
- Actively pursue vehicle inspection opportunities as the various governments deregulate the market

## Trade Assurance Services - 2002

CHF million

	2001	2002
<b>Sales</b>	237	210
<b>Change in %</b>		-11.4%
<b>Change due to</b>		
<b>Volumes &amp; Prices</b>		(18)
<b>Currency Translation</b>		(9)
<b>Acquisitions/(Disposal)</b>		-
<b>Op. Income</b>	24	23
<b>Margin</b>	10.1%	11.0%

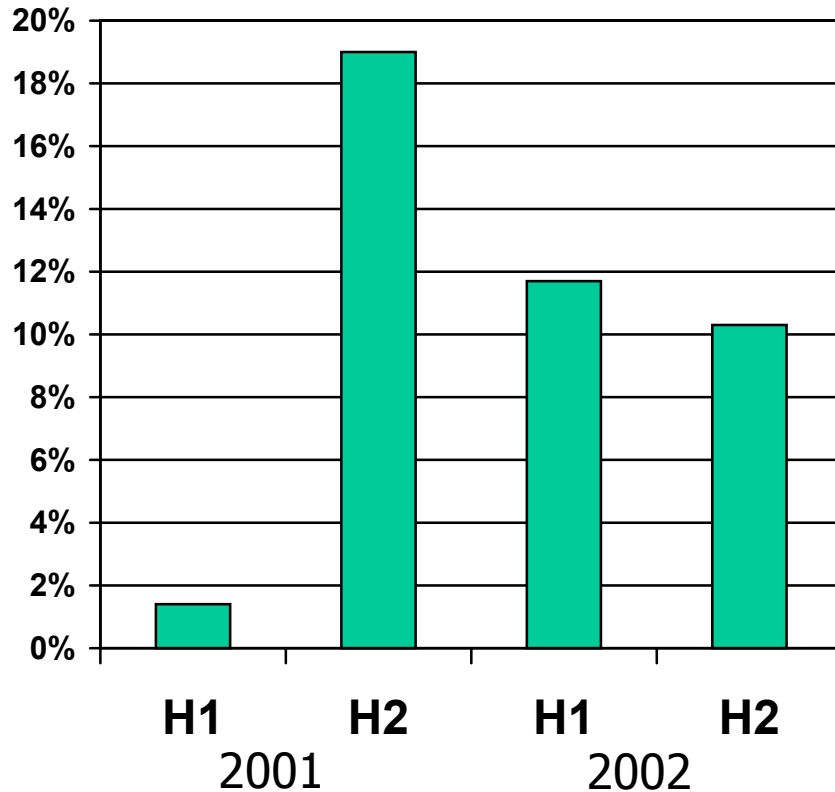
- Expired contracts in Angola, Argentina and Kenya adversely impacted revenues (impact CHF 36 mio this year).
- During the year contracts were renewed with the governments of Burundi, Bolivia, Cameroon, Ethiopia, Guinea Conakry, Mauritania, Mali, Nigeria and Papua New Guinea (Forestry) (total value CHF 107mio)
- New contracts
  - Forestry : Congo and Ecuador.
  - Steel Monitoring: Indonesia
  - Aid Monitoring: Japan
  - Community Trading Network: Ghana
- Reduction in execution and liaison offices costs yielded operational efficiencies.

## Collections

- Current receivables at less than 4 months billings
- Net collection on terminated contracts was CHF 25 mio during 2002.
- Activity on significant terminated contracts from the past:
  - Philippines: on-going arbitration
  - Pakistan: legal proceedings
  - Angola: settlement should be achieved
  - Ivory Coast: settlement should be achieved
  - Paraguay: legal issues resolved, efforts continue

# Trade Assurance Services - Outlook

Margin Progression



- No major contract terminations expected in 2003.
- Opportunities exist for new PSI contracts (commodity specific)
- Opportunities exist for new services:
  - ValuNet
  - Forestry
- Stable revenues with improved profitability.

# 6 - Sigma

WHEN YOU NEED TO BE SURE

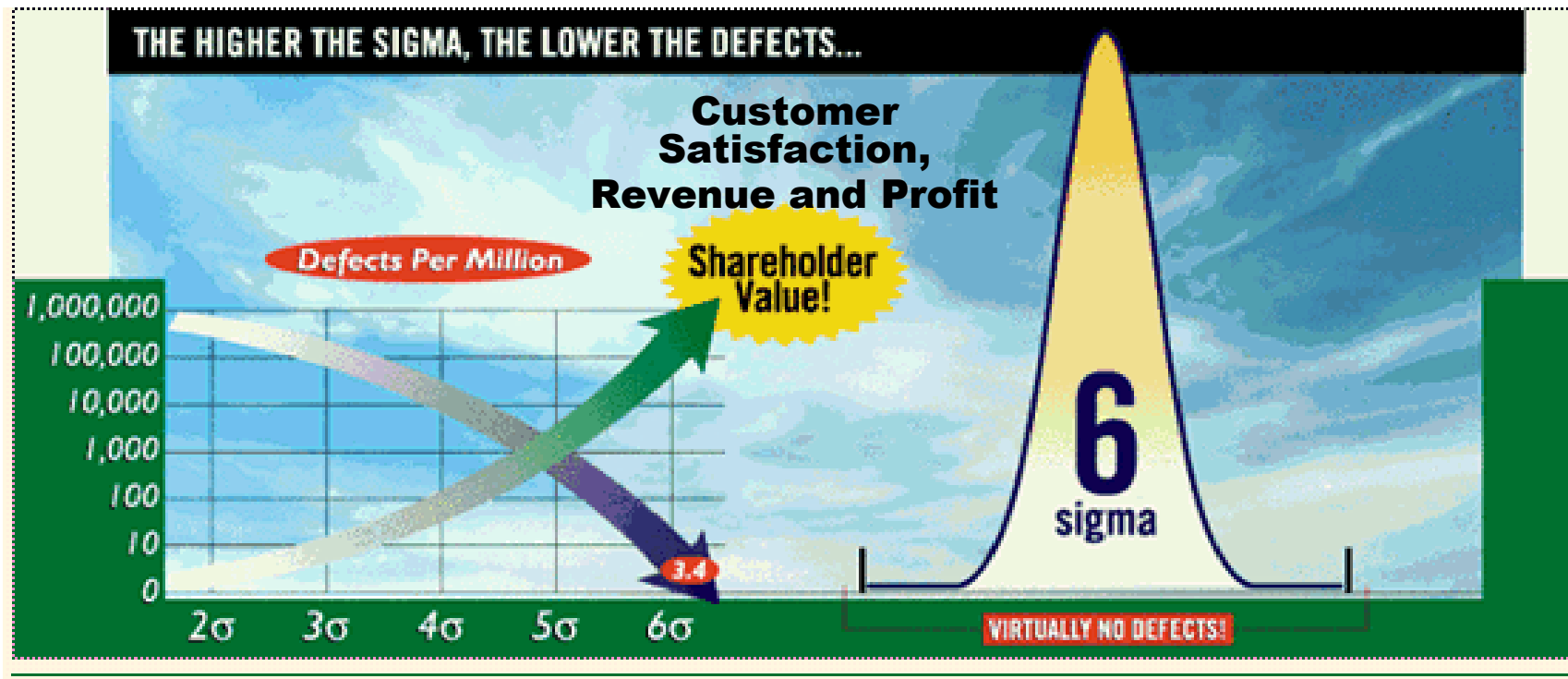
**SGS**

## What is Six Sigma ?

- Six Sigma is a statistical measure of process capability that lets you measure the quality of your business' products and services.

**Tool to improve products and services**

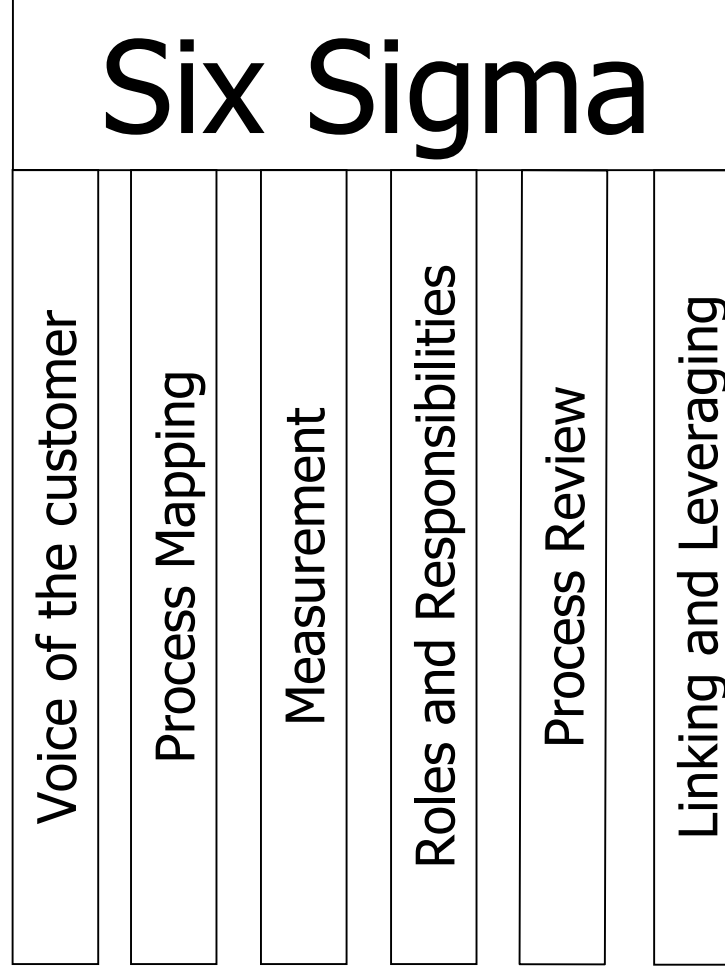
**+ Tool to improve bottom line i.e. cost reduction**



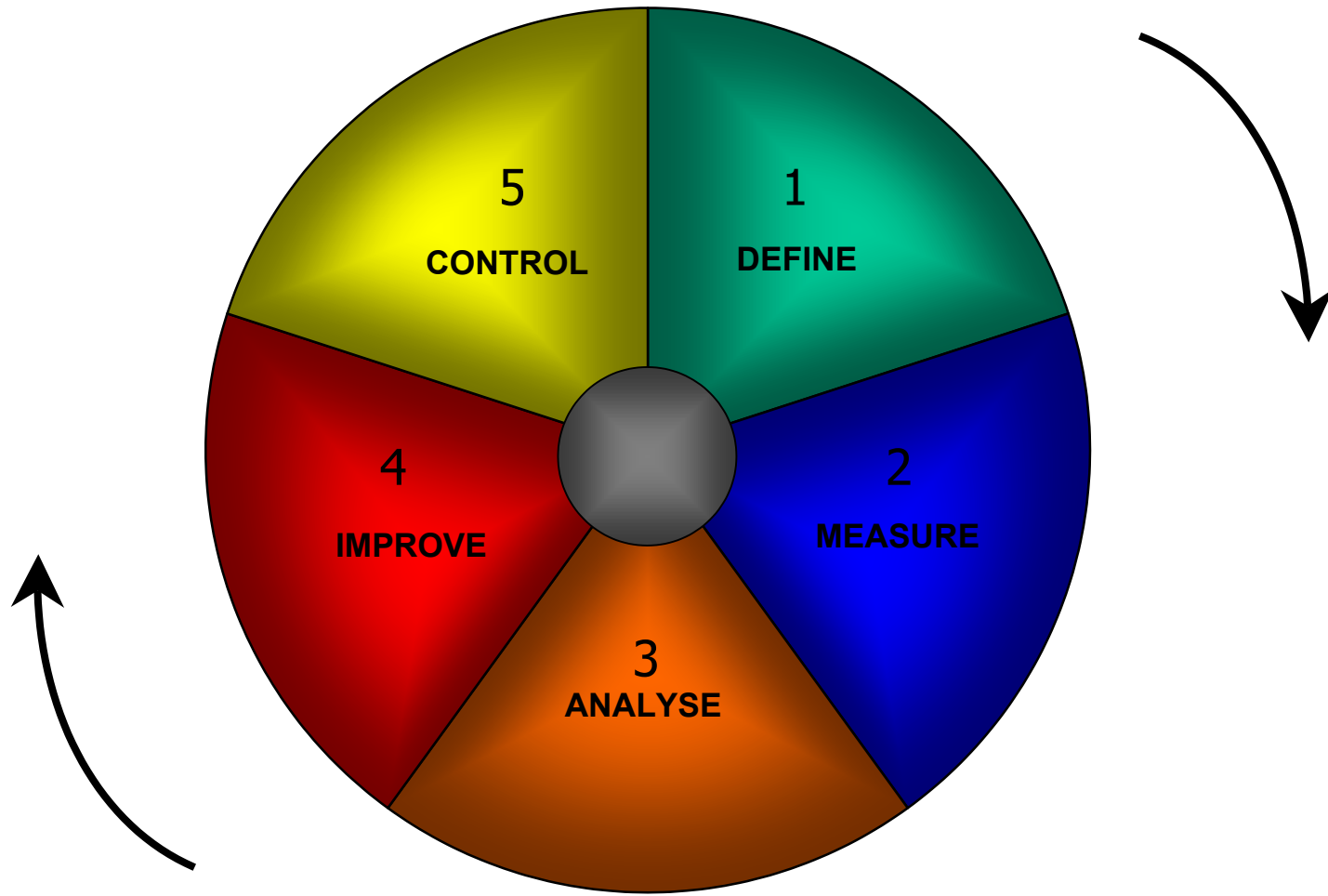
- NB : According to the U.S. Patent and Trademark Office (PTO), Six Sigma is a registered trademark of Motorola (Serial Number: 74199225, Registration Number: 1813630).

## Why is SGS interested in Six Sigma ?

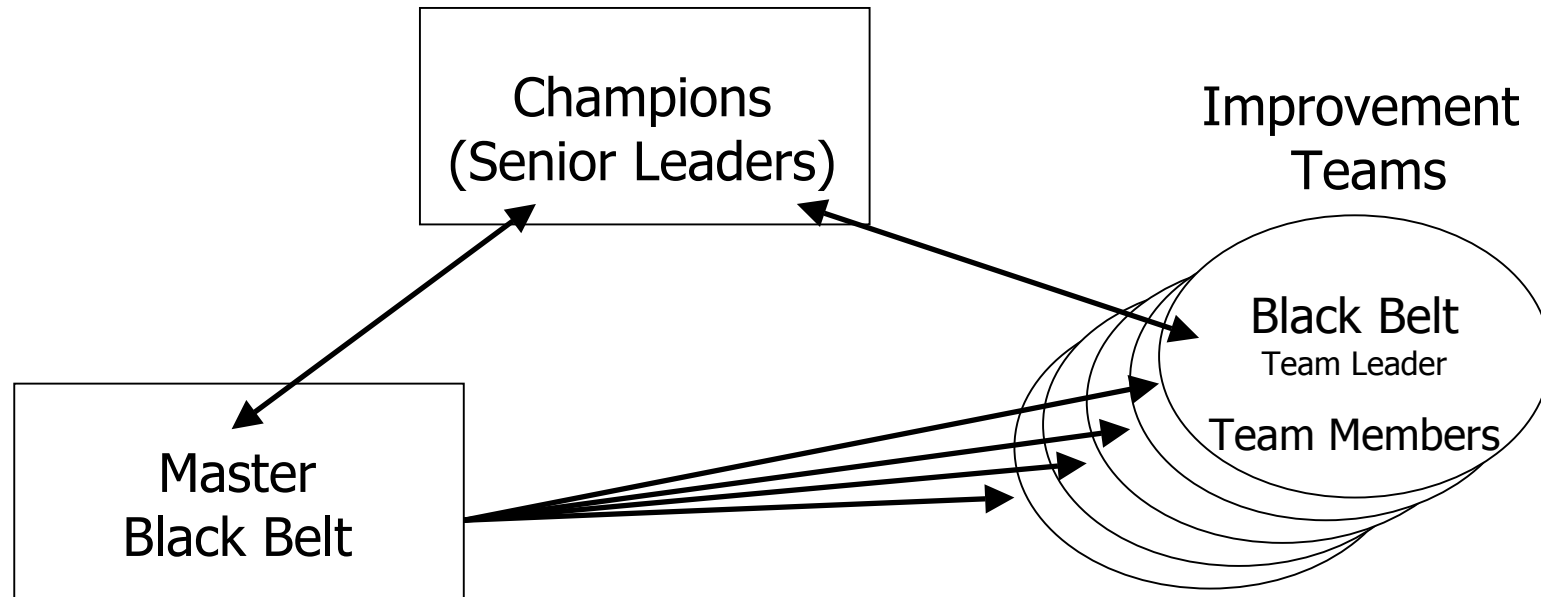
- Integral part of cultural shift in organisation
- Generates a focus on **customers** through addressing anything that does not meet customer requirements
- Creates a process focus
- Aligns processes with customers
- Allows measurable tracking of improvement



## Overview of Process Improvement DMAIC



# Improvement Team Infrastructure



## ■ SGS Objectives

- First target (H1 '03) is European Lab Network
- 1 Master Black Belt by end '03
- 20 Black Belts in place by end '03

# OUTLOOK

WHEN YOU NEED TO BE SURE

**SGS**

- Large restructuring exercise completed, no additional exceptional charges expected in 2003
- Improvement over 2002 net income level of CHF 159 mio
- Focus on top line growth is now key initiative
  - More than 10% of 2003 Operating Income designated to fund growth initiatives
  - Improvements in customer focus will be driven by newly launched six-sigma initiatives
- Focus on operational excellence
  - six-sigma
- Central Cost reduction will yield additional savings of CHF 16 mio
- Additional cash receipt from TAS exceptional recoveries expected during 2003