

2/Outperform

Business Services

17 January 2007 – Results review

Testing the waters... before sailing off

- ▶ **2/Outperform reiterated.** SGS shares remained stable following the results as figures were broadly in line with expectations. The group's foundations for growth remain excellent, however, and the Kirk/Tobin team bodes well for an exceptional drive, commitment and best-in-class execution. This provides confidence for further improving fundamentals and share price upside in 2007 and we continue to view SGS as a must-have investment combining growth and defensive characteristics.
- ▶ **FY-06 results underpin investment case.** As well as reporting solid figures in line with consensus, SGS provided some interesting datapoints underpinning its strong value creation potential. **1) Chris Kirk made a great impression in his first official appearance as CEO. 2) The group managed to further reduce net working capital** thanks to a two-day reduction of DSOs during the year. **3) It again demonstrated the power of its operating leverage**, with a strong volume-driven (and not acquisition-driven) margin improvement.
- ▶ **Valuation.** SGS is at a premium to Intertek of c.8% on 2007E EV multiples and c.2% on 2008E EV multiples. Although we see upside for both stocks, we think SGS's premium to Intertek will expand further in view of its superior catch-up potential, greater liquidity and stronger balance sheet in a consolidating sector. We do not factor in any potential upside from corporate activity.

Closing price (16/01/07)	CHF1380			
Target price	+11.0% CHF1550			
Market capitalisation	CHF10472m			
SMI	9073			
To 31/12 (CHF)	2005	2006	2007E	2008E
Sales (m)	3307.9	3821.0	4259.5	4667.6
Net att. profit, rest. (m)	371.0	442.6	509.0	582.2
Free cash flow (m)	245.0	61.7	585.5	543.7
EBITDA margin (%)	19.4	20.8	20.9	21.6
Clean EPS	48.39	57.92	66.20	75.72
Reported EPS	48.99	58.64	67.02	76.65
P/E (x)	22.9	23.4	21.1	18.4
Attrib. FCF yield (%)	2.8	0.6	5.4	5.0
EV/EBITDA (x)	12.8	13.0	11.4	9.8
EV/EBIT (x)	16.4	16.6	14.5	12.4
ROCE (%)	36.5	36.7	42.9	46.5
ROE (%)	29.4	33.2	30.4	28.1
P/BV (x)	7.7	7.3	6.0	4.9
Net debt/EBITDA (x)	(0.8)	(0.3)	(0.8)	(1.0)
Net dividend	50.00	17.50	20.10	23.00
Yield (%)	4.5	1.3	1.4	1.6

Next event: AGM – 19 March 2007



52-week range	CHF1037-CHF1395		
Free float	CHF5,534m		
No. of shares, adjusted	7.595m		
Daily volume	CHF36.09m		
Reuters/Bloomberg	SGSN.VX/SGSN VX		
	1 month	3 months	12 months
Absolute perf.	-0.6%	11.6%	18.5%
Relative perf.	-3.8%	6.1%	2.3%

Shareholders: IFIL 13.6%, Von Finck Family 23.5%

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Please see important disclosures at the end of this document

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► SGS

Company profile

SGS is world leader in the inspection and testing industry. The group, headquartered in Geneva (Switzerland), is active in approximately 150 countries through its network of subsidiaries and laboratories. The final output of each activity is a report or inspection certificate, issued on the basis of an inspection, verification programme or laboratory analysis. Major global competitors in a fragmented market are Intertek (UK) and Bureau Veritas (France). SGS's market shares amount to about 50% in Agriculture, 45% in Minerals, 30% in Oil & Gas, 15% in Hardlines & Softlines testing, 3.4% in Electronic and Electric equipment testing, 15% in Certification and 55% in Pre-Shipment inspection.

Investment case

Strong top-line growth. We expect SGS to post an organic sales CAGR 06-09E of 9.7%, driven by growing worldwide trade resulting from globalisation, heightened consumer awareness of quality and safety, enhanced product variety and developing emerging-market economies. In addition, the increasing acceptance of the benefits of outsourcing testing services should boost the size of the open market for independent testing companies such as SGS.

Potential for margin improvement. We expect margins to improve from the estimated level of 15.8% in 2006E to 16.9% in 2008, driven by operational leverage and efficiencies, six sigma programmes and the increasing capacity utilisation of the existing labs.

Attractive investment. The SGS stock offers a good combination of growth and defensive characteristics, which makes it an attractive investment in the current uncertain environment.

Valuation

DCF fair value of CHF1550 per share. Assumptions:

- Top-line growth (organic): 9.7% p.a. in 2006-2009E, levelling down gradually to 6.5% p.a. medium-term.
- EBITA margin: gradually rising to 17.0% by 2008E
- Invested capital turns improving to 2.7x by 2010E (from 2.1x in 2006)
- Tax rate: 24.2%
- ROIC of 30% by 2007E
- WACC of 8.2%
- Growth duration period: 10–15 years (at the end of which *no growth to perpetuity* is assumed).

SWOT analysis

Strengths

- World's largest inspection and certification company
- Outstanding certification brand
- Diversified portfolio of activity fields
- Strong balance sheet with impressive war chest and leverage potential for acquisitions

Weaknesses

- Above industry-average capital intensity

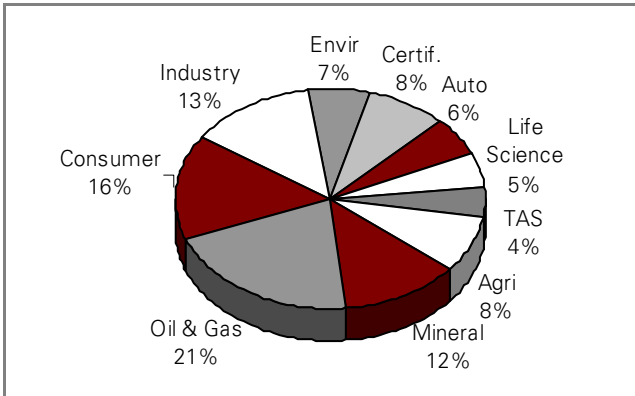
Opportunities

- Widening opportunities of breadth of existing services as well as the service portfolio itself
- Further operational efficiency improvement opportunities

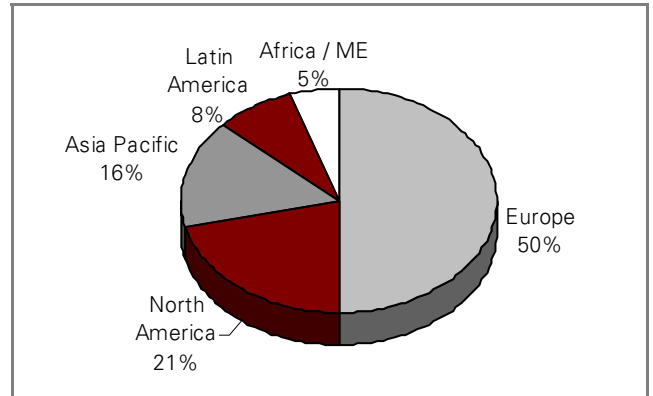
Threats

- Pricing pressure in the inspection business. Although pricing pressure has not been felt yet in the testing business, it could appear in the medium term.

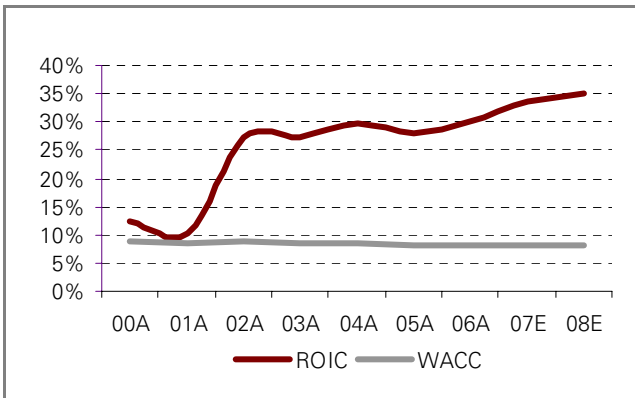
Sales breakdown by business (2006)



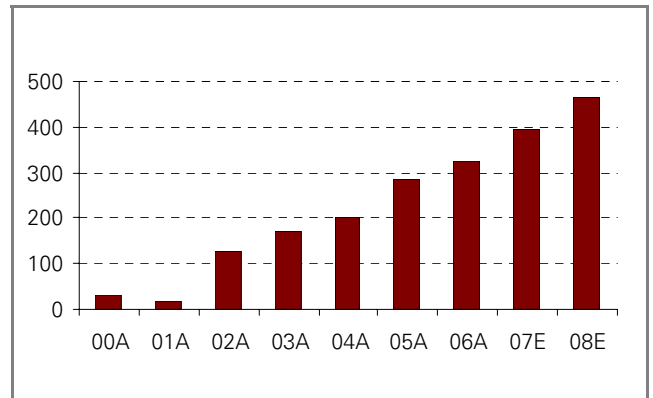
Sales breakdown by country (2006)



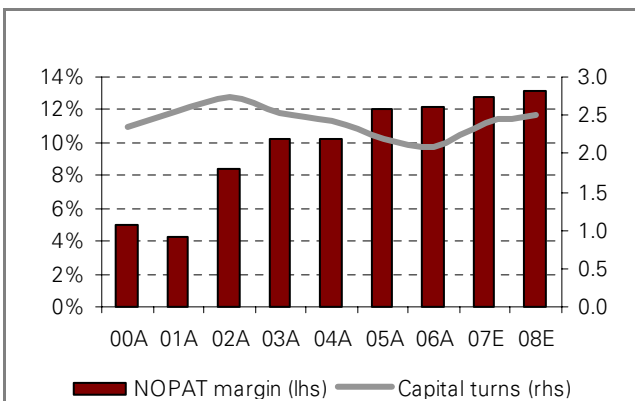
ROIC progression



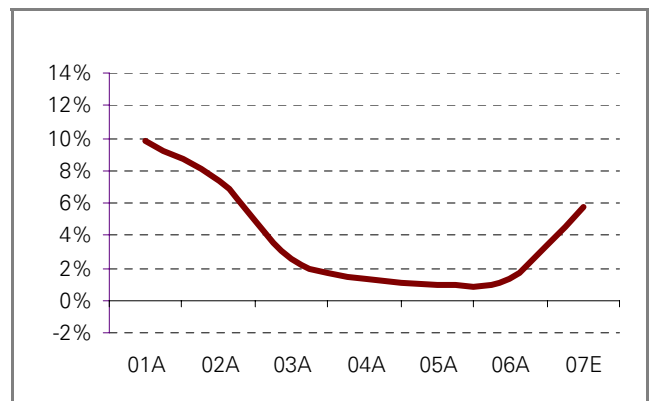
EVA progression (CHF m)



ROIC breakdown



FCF yield (using year-end market cap)



Peer group comparison

	P/E		EV/EBITA		EV/EBITDA	
	2007E	2008E	2007E	2008E	2007E	2008
SGS	20.8	18.2	14.1	12.0	11.1	9.4
Intertek	17.4	16.1	12.8	11.6	10.3	9.3

Source: Cheuvreux

INVESTMENT RECOMMENDATION

Reiterating 2/Outperform

The SGS share price has remained stable following the results publication, as figures were broadly in line with expectations. The group's foundations for growth remain excellent, however, and the Kirk/Tobin team bodes well for an exceptional drive, commitment and best-in-class execution looking forward. This provides confidence for further improving fundamentals and share price upside in 2007 and we continue to consider SGS as a must-have investment, combining growth and defensive characteristics.

FY-06 results provide strong confidence in the investment case

In addition to reporting a solid set of figures meeting market consensus expectations, SGS also provided us with some interesting datapoints of soft factors underpinning the group's positive outlook in terms of value creation potential.

1. The first official appearance of Chris Kirk as CEO was remarkable and he came across very well with the audience.
2. The group managed to further reduce net working capital thanks to a two-day reduction of DSOs during the year.
3. It demonstrated again the power of its operating leverage, with a strong volume-driven (not acquisition-driven) margin improvement.

Valuation

SGS is at a premium to Intertek of c.8% on 2007E EV multiples and c.2% on 2008E EV multiples. Although we see upside for both stocks, we think SGS's premium to Intertek will expand further in view of its superior catch-up potential, greater liquidity and stronger balance sheet in a consolidating sector. We do not factor in any potential upside from corporate activity.

I – VALUATION

Our assumptions imply fair value of CHF1550

We have summarised our assumptions in the figures below, and detailed them in the figures in the appendix.

SGS: Cheuvreux assumptions								
(CHF m)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Sales growth (%)	11.5	9.6	8.3	6.9	6.5	6.5	6.5	6.5
EBIT margin (%)	16.5	17.0	17.1	17.2	17.2	17.2	17.2	17.2
NOPAT margin (%)	12.4	12.8	12.9	12.9	13.3	13.3	13.3	13.3
Invested capital turns	2.40	2.51	2.60	2.66	2.66	2.66	2.66	2.66
* Net working capital turns	29.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6
* Fixed asset turns	2.6	2.7	2.8	2.9	2.9	2.9	2.9	2.9
Tax rate (%)	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2

Source: Cheuvreux

Based on these assumptions, a WACC of 8.2% and growth duration period of 10 to 15 years at the end of which we assume a 0% terminal growth rate, our DCF model indicates a fair value of around CHF1550 per share (see appendix).

Peer comparison

We think premium to Intertek will expand

Based on our estimates for 2007E and 2008E, the SGS share is trading at EV/EBITDA multiples of 11.1x and 9.4x, EV/EBITA multiples of 14.1x and 12.0x, and P/E multiples (on adjusted EPS) of 20.8x and 18.2x, respectively. Compared with the multiples of Intertek, its closest competitor, SGS shows a premium of about 8% based on 2007E EV multiples and about 2% based on 2008E EV multiples. Although we see upside for both stocks, we believe that SGS's premium to Intertek will further expand in view of its superior catch-up potential in terms of performance metrics, its greater higher liquidity and its stronger balance sheet in a context of industry consolidation.

SGS vs. Intertek

Company	P/E		EV/EBITA		EV/EBITDA	
	07E	08E	07E	08E	07E	08E
SGS	20.8	18.2	14.1	12.0	11.1	9.4
Intertek	17.4	16.1	12.8	11.6	10.3	9.3
Premium / (Discount) of SGS vs Intertek	20%	13%	9%	3%	8%	1%

Source: Cheuvreux

Conclusion / Recommendation

We reiterate our price target of CHF1550

We reiterate our 2/Outperform rating on the stock and our price target of CHF1550, and continue recommend buying SGS shares. We believe SGS offers a good combination of growth and defensive characteristics, which makes it a very attractive investment in the current market environment. We do not include any potential upside from corporate activity in our valuation.

II – FY-06 RESULTS REVIEW

Solid organic growth despite negative one-off drop in TAS

Overview

On 15 January 2007, SGS released FY 2006 results broadly in line with consensus estimates (see our "What's new?" dated 15 January). The highlight is clearly the fact that SGS managed to meet ambitious consensus expectations of organic growth in excess of 10% and a 60bp EBIT margin improvement, despite the massive 26% revenue drop reported by the TAS division (due to the loss of the Nigerian and Venezuelan contracts). A summary of the results is provided below.

SGS: summary of FY-06 results

(CHF m)	2005	2006	% chg yoy	CAC est.	% chg vs CAC est.
Sales	3307.9	3821.0	15.5%	3823.0	-0.1%
Organic growth			10.3%		
External growth			3.6%		
Currency effects			1.6%		
EBIT (before exceptionals)	502.0	604.6	20.4%	604.7	0.0%
EBITA margin (%)	15.2%	15.8%		15.8%	
EBIT (after exceptionals)	502.0	623.6	24.2%	625.7	
EBIT margin (%)	15.2%	16.3%		16.4%	
Net income	371.0	442.6	19.3%	458.6	-3.5%

Source: Cheuvreux

10.3% organic sales growth

Sales

SGS increased sales by 15.5% to CHF3821m, of which 10.3% stemmed from organic growth, 3.6% from the net impact of acquisitions/divestitures and 1.6% from currency effects. Most of the divisions were broadly in line with our estimates. The group's organic growth (10.3%) was, however, a touch below our estimate of 10.8%, mainly due to the following factors:

- **the Trade Assurance Services division**, which had a lower-than-expected performance (-26.1% vs. our estimates of -23.3%), due to a worse than expected impact from the discontinuation of the Nigerian and Venezuelan contracts;
- **the Agricultural division**, which achieved lower-than-expected organic growth (7.5% vs. our estimates of 9.3%) due to volatile harvest conditions and commodity prices.

On the positive side, the Industrial Services division and the Minerals Services division performed better than expected:

- **The Industrial division** reported organic growth of 13.1%, ahead of our 10.8% estimate due to a strong increase in statutory inspections and new contract wins.
- **The Minerals division** also performed better than we estimated, with organic growth of 16.1% (vs. our 15.1% estimate) mainly thanks to excellent results from the diversification into metallurgy and mineralogy.

SGS: sales growth rates by division

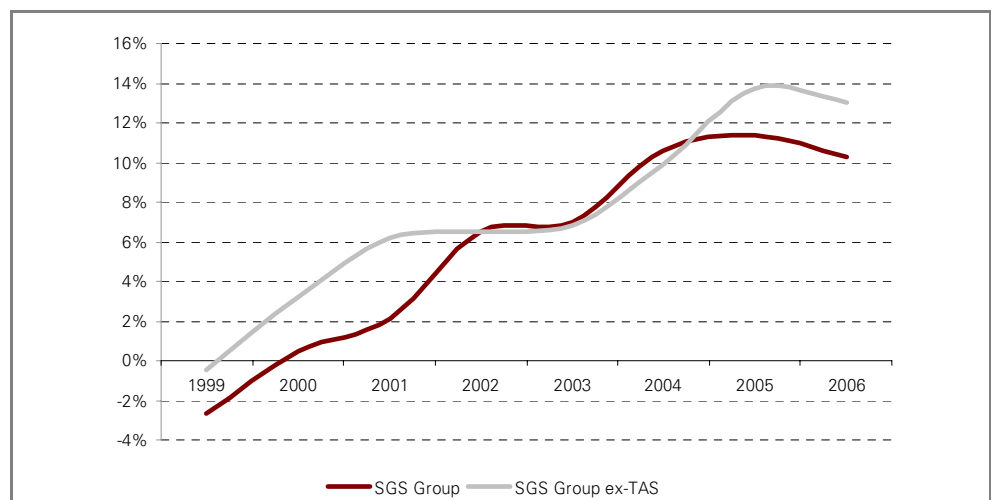
(CHF m)	2005	2006	Organic growth	External	Currency	Total
Agricultural services	294.8	316.9	5.7%	0.0%	2.9%	14.7%
Mineral services	385.6	467.0	15.9%	3.6%	3.1%	23.2%
Oil, Gas & Chemicals	643.4	783.4	13.2%	6.8%	1.0%	10.6%
Consumer Testing services	476.2	592.7	21.7%	0.8%	1.8%	32.1%
Systems and Services Certification	274.0	318.7	14.7%	0.0%	1.3%	16.4%
Industrial services	444.8	510.4	13.1%	-0.2%	1.0%	17.1%
Life Sciences	125.3	193.4	9.2%	42.5%	1.0%	17.7%
Environmental services	235.0	249.2	6.5%	-1.8%	1.7%	12.7%
Automotive services	200.2	220.3	4.0%	4.7%	0.4%	6.7%
Trade Assurance Services	228.6	169.0	-26.1%	0.0%	0.0%	-10.5%
Total	3307.9	3821.0	10.3%	3.6%	1.6%	15.5%

Source: Cheuvreux

Organic growth ex-TAS in the highest range ever

Although organic growth (10.3%) was a touch below our expectations, it is worth noting that the drop in the TAS division (-26% due to the discontinuation of the Nigerian and Venezuelan contracts) was also slightly bigger than expected, as already mentioned above. Therefore, the group's organic growth is all the more impressive as it came close to our expectations despite a stronger-than-expected dilution from the TAS division. This also implies that the other nine divisions continue to boast an exceptionally sound growth profile. When stripping out the Trade Assurance Services division, the organic growth turns out to be an impressive 13%, almost the highest in the group's history, as shown in the chart below.

SGS: organic growth with and without the TAS division



Source: Cheuvreux

Stable organic growth during the year

A closer look at semi-annual performance highlights that the organic growth experienced in H2-06 (10.3%) remained broadly stable versus the performance achieved in H1 (10.4%) as a result of the following factors:

- a strong business acceleration in five out of ten divisions (Oil, Gas & Chemicals, Industrial services, Life Sciences, Automotive, and Trade Assurance Services), mainly reflecting an improving business momentum as well as new contract wins;
- a slight deceleration in four divisions, mainly reflecting normal business volatility and/or a challenging base effect; these were the Mineral services division, down from 18.1% growth in H1 to 14.1% growth in H2, the Systems and Services Certification division (+15.7% in H1, +13.8% in H2), the Environmental services

division, down from 6.9% growth in H1 to 6.2% growth in H2, and the Consumer Testing Services (+27.1% in H1, +17.1% in H2, due to the strong base effect implied by strong RoHS testing demand in H1 due to regulation deadline);

- a strong deceleration in the Agricultural services division, down from 9.3% growth in H1 to 2.6% growth in H2, as a result of strong volatility in harvest conditions and commodity prices during the year.

SGS: Organic sales growth rates in H1-06 and H2-06

	H1-06	H2-06	FY-06
Agricultural services	9.3%	2.6%	5.7%
Mineral services	18.1%	14.1%	15.9%
Oil, Gas & Chemicals	13.4%	14.2%	13.2%
Consumer testing services	27.1%	17.1%	21.7%
Systems and Services Certification	15.7%	13.8%	14.7%
Industrial services	11.5%	14.4%	13.1%
Life Sciences	-1.8%	12.5%	9.2%
Environmental services	6.9%	6.2%	6.5%
Automotive	3.3%	4.9%	4.0%
Trade Assurance Services	-30.7%	-20.9%	-26.1%
Total	10.4%	10.2%	10.3%

Source: SGS, Cheuvreux

Operating profit

Margins in line with our estimates...

With respect to the operating performance, underlying EBIT margins increased to 15.8% (in line with our estimates), up 60bp yoy, with a 110bp margin increase in H2 (from 15.2% to 16.3%). Seven divisions out of ten reported margin improvements, with the main drivers being the Consumer Testing division which saw margins rise from 21.4% to 23.1% yoy, and the Industrial Services division (margins up from 13.1% in 2005 to 14.6% in 2006), as shown in the table below. However, these results were achieved thanks to a lower-than-expected margin in the TAS division (13.7% vs. our est. of 14.4%) and in the Life Science division (12.7% vs. our est. of 14.1%).

... despite lower-than-expected margins in TAS and Life Science

The TAS division was negatively impacted by the bigger-than-expected revenue decline as well as start-up costs incurred on new contract implementations. The Life Science division was negatively impacted by acquisition-related restructuring costs and start-up costs for new laboratories. Otherwise, most divisions were fairly in line with our estimates. Since the issues affecting these two divisions are temporary rather than structural, the outlook for further margin improvement is quite solid.

SGS EBITA margins

	H1-05A	H2-05A	FY-05A	H1-06A	H2-06A	FY-06A
Agricultural services	11.2%	11.5%	11.4%	11.9%	12.9%	12.4%
Mineral services	15.4%	16.3%	15.9%	16.7%	17.7%	17.2%
Oil, Gas & Chemicals	13.0%	12.3%	12.6%	13.9%	14.8%	14.4%
Consumer testing services	21.7%	21.3%	21.4%	22.8%	23.3%	23.1%
Systems and Services Certification	16.1%	17.8%	17.0%	18.3%	18.6%	18.5%
Industrial services	13.1%	13.2%	13.2%	13.1%	16.0%	14.6%
Life Sciences	14.2%	16.4%	15.2%	12.1%	13.3%	12.7%
Environmental services	10.0%	12.0%	11.1%	9.0%	10.3%	9.7%
Automotive services	13.6%	11.7%	12.6%	13.7%	13.3%	13.5%
Trade Assurance Services	21.7%	20.7%	21.2%	13.7%	13.8%	13.7%
Total (before exceptionals)	15.1%	15.2%	15.2%	15.3%	16.3%	15.8%

Source: Cheuvreux

III – LOOKING BEHIND THE RESULTS

In addition to reporting a solid set of figures meeting ambitious market consensus expectations, SGS also provided us with some interesting datapoints of soft factors underpinning the group's positive outlook in terms of value creation potential. To begin with, the first official appearance of Chris Kirk as a CEO was remarkable and he came across very well with the audience. Second, the group managed to further reduce net working capital thanks to a two-day reduction of DSOs during the year. Third, it demonstrated again the power of its operating leverage, with a strong volume-driven (not acquisition driven) margin improvement.

1. Strong impression from new CEO Chris Kirk

The Kirk/Tobin team bodes well for an exceptional drive, commitment and best-in-class execution

Clearly, the main highlight of the analyst presentation was the first official appearance of Chris Kirk in his position as CEO. Although in place for only 45 days, he made a remarkable presentation of all businesses and came across very well with the audience. In our view, Mr Kirk brings back a level of dynamism at the CEO position, unprecedented since the departure of Sergio Marchionne in 2004. We especially welcome his appointment because his combination with Richard Tobin as CFO promises a strong two-man team delivering superior drive, commitment and execution. This gives us confidence in management excellence looking forward.

Strong commitment to tackle underperformers...

During his presentation, Mr Kirk indicated that some of the businesses within the group still had ongoing issues or underperforming sub-units, but that those will be addressed and solved in the next 12 months.

... accelerate external growth...

He also said that procedures will be made simpler and quicker, in order to accelerate the due diligence process in case of interest in acquisitions. From now on, the corporate development department will be involved as early as step 1, when a potential acquisition has been identified (and not in the second step, as was the case before), which should speed up decision-making and reaction time. Acquisition targets can be of every size, according to Mr Kirk, who even indicated the possibility of adding an 11th or 12th division to the group in view of the many possibilities for leveraging SGS's network. In most cases, the creation of a new division would imply an acquisition (in fact we believe that turnover of at least CHF150m is needed to justify the reporting of a separate division). Since management spoke in fairly concrete terms, we think some medium-sized deals may be likely in the short to medium term. In view of this commitment for diversification as well as a quicker due diligence process, we remain confident in an acceleration of the group's external growth from the levels observed in 2006 (3.6%) towards the level of management guidance (5% p.a. in average).

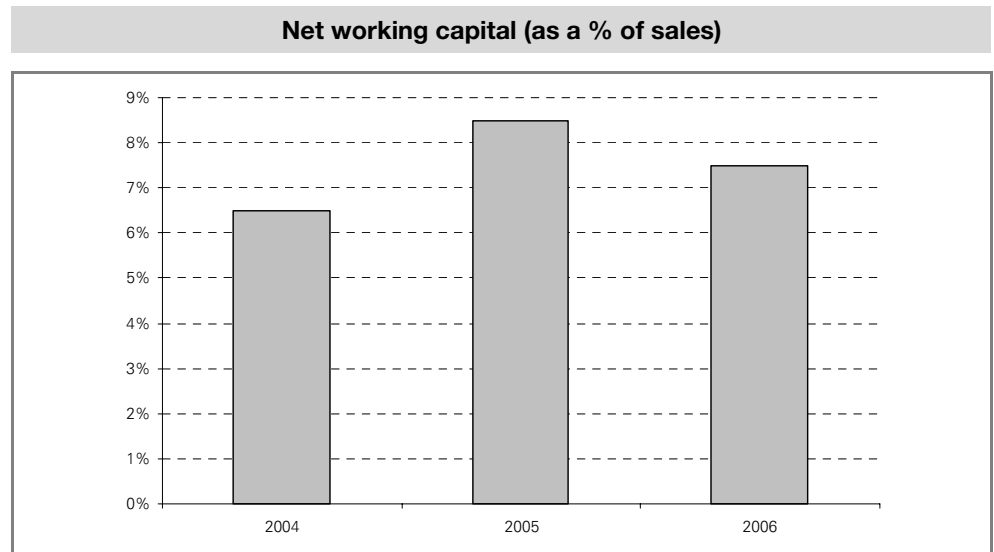
... and further boost new services

Finally, Mr Kirk also stressed the potential to further boost the development of new services across the group, seeing a specific opportunities in the Industrial, Consumer Testing and OGC divisions. The new CEO already boasts a very successful track record with respect to the development of new value-added (not trade-related) services in the mineral division (where they already represent 50% of divisional turnover). Increased focus on this strategy is therefore likely to be part of Mr Kirk's specific footprint on the company. New services currently represent 30% of the OGC and 15% of the Agricultural division.

2. Further improvement of capital efficiency

DSOs down two days in 2006

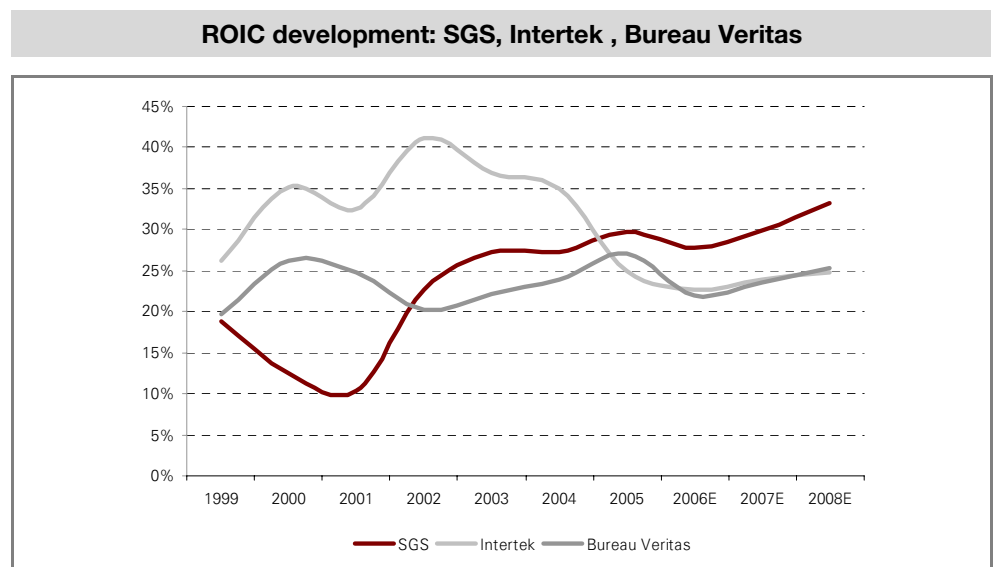
Another positive datapoint out of this set of results was the structural decrease in net working capital, which reversed the negative trend seen between 2004 and 2005. As shown in the figure below, net working capital increased from 6.5% in 2004 to more than 8.5% in 2005. Part of this increase, however, was related to strong business momentum in December 2005 which led to a sharp increase in receivables before the year end. Although management was confident it could reverse the trend, visibility for the financial community was not very high. Therefore, seeing the net working capital falling again in 2006 provides tangible confirmation of a positive trend. The main reason for this decline was a two-day reduction in the company's DSOs. According to management, there is potential for a further decrease going forward.



Source: SGS, Cheuvreux

ROIC temporarily down from 27.3% to 29.8%

As a result of the amount of goodwill acquired in 2006 (CHF180m), fixed asset turns have slightly deteriorated from 2.5x in 2005 to 2.4x in 2006, causing the group's ROIC to decline from 29.8% in 2005 to 27.8% in 2006. As shown in the figure below, 1) ROIC is expected to trend upwards again from next year (thanks to a full-year NOPAT contribution from these acquisitions), and 2) SGS is still the best-in-class in terms of ROIC, ahead of Intertek and Bureau Veritas.



Source: Cheuvreux

3. The power of the group's operating leverage

With this set of figures, SGS again demonstrated the power of its operating leverage.

As always, worries could have been raised that part of SGS'a margin enhancement was simply driven by acquisitions and not by organic developments. However, EBIT margins on acquisitions (net of disposals) were 14.6%, therefore even slightly dilutive to the group's margins (15.8%).

Minor acquisition-driven margin enhancement

EBITA margins on acquisitions

(CHF m)	FY-06
Turnover from acquisitions / disposals (CHFm)	123.0
EBITA from acquisitions / disposals (CHFm)	18.0
EBITA margin on acquisitions / disposals	14.6%

Source: Cheuvreux

However, in view of the limited size of these acquisitions, the margin dilution stemming from external growth was in fact minor. As shown below, the negative impact from acquisitions was only 2bp for the full year.

Components of margin improvement

	FY-06
Underlying EBITA margin	15.84%
Margin impact from acquisitions	-0.02%
Margin impact from currency	0.02%
Reported EBITA margins	15.82%

Source: Cheuvreux

Strong operating leverage expected also in 2007

This again confirms the power of SGS's operating leverage, which we believe will remain strong in 2007. We believe the current capacity utilisation rate in the E&E business segment is around 65%, and about 75%-80% for the whole consumer testing division. Therefore, we think that all incremental volumes in 2006 will lead to a strong further margin improvement, and remain confident in our current estimates, assuming a progression from 15.8% in 2006 to 16.5% in 2007 and 17% in 2008. Our profitability assumptions are outlined in more detail in the next section.

IV – OUTLOOK

Current guidance reiterated

During the analyst presentation, CEO Chris Kirk reiterated the group's current 2008 guidance, revolving around a turnover of CHF5bn (based on organic growth of 10% p.a. and external growth of 5% p.a.), EBITA margins of 17% and EPS of CHF80.

Summary of our estimates

Since the FY-06 results were broadly in line with our expectations, our forecasts for the years to come have remained unchanged. The summary of our current estimates is displayed in the table below. We have reviewed the sales growth and profitability outlook in more detail in the next two sections.

SGS: Summary of Cheuvreux's estimates

(CHF m)	2007E	2008E	2009E
Sales	4259.5	4667.6	5053.0
Organic growth	11.3%	9.6%	8.3%
EBITDA	891.5	1006.5	1094.9
EBIT	701.9	794.7	866.1
EBIT margin	16.5%	17.0%	17.1%
Net income	509.0	582.2	638.3
Adjusted EPS	66.2	75.7	83.0

Source: Cheuvreux

Organic sales CAGR 06-09E: 9.7%

Sales growth outlook

We believe SGS is likely to post organic growth close to 10% in the coming three years (i.e also in 2009E, one year beyond the horizon of the group's guidance). Our divisional comments are given below, and our detailed assumptions in the appendix.

Organic sales CAGR 06-09E: 8.3%

SGS Oil, Gas & Chemicals (21% of group sales)

The Oil, Gas & Chemicals Services division should continue to benefit from the high price volatility experienced by the oil market, which in turn implies a higher trading activity, and therefore additional inspection activities. In addition, SGS is benefiting from the ever-increasing outsourcing trend within the major oil & refinery companies involving all kinds of laboratory and testing services. In 2006, for instance, SGS benefited from the recently introduced services (gas to oil ratio analytics, near infra-red analysis, laser calibration), which should continue to fuel growth in 2007. The geographical expansion of the network in Eastern Europe, Middle East, China, Malaysia and the Philippines is also expected to continue to boost revenue growth in 2007. All in all, we expect an organic sales CAGR 06-09E of 8.3%, based on the above-mentioned drivers as well as some slowdown in Asia and the Americas.

**Organic sales CAGR
06-09E: 8.3%*****SGS Industrial Services (13% of group sales)***

The Industrial Services division has proved to boast an interesting portfolio of activities with a good growth profile. We believe that growth should continue to be sustained in 2007, fuelled by the oil, gas and power generation sectors (where the group signed new contracts in Africa, Eastern Europe and Asia). Additional growth stimuli should be provided by the geographical rollout of the recently introduced new services (mainly statutory inspection activities and risk-based inspection services). Management also sees potential in countries establishing and upgrading infrastructure and public works (India, China, Eastern Europe). All in all, we expect an organic sales CAGR 06-09E of 8.3%.

**Organic sales CAGR
06-09E: 15.3%*****SGS Consumer Goods (16% of group sales)***

The growth in SGS's consumer goods testing division continues to be driven by the ongoing shift of production to emerging markets, heightened consumer awareness of quality and safety, and growing demand from retailers for certified products. The competitive environment remains sound as evidenced by the absence of any material pricing pressure. This was again confirmed by CEO Chris Kirk during the analyst presentation, indicating that market share gains were not being achieved on the basis of pricing concessions. We expect 2007 to be further stimulated by the expected high growth in niches such as information technology and telecoms testing (where capacity has been strongly expanded), accelerating momentum in Automotive parts testing, as well as the geographical expansion in India and Eastern Europe. An additional growth stimulus should be provided by the REACH directive, which drives demand for restricted substance testing services. All in all, we expect an organic sales CAGR 06-09E of 15.3%.

**Organic sales CAGR
06-09E: 11%*****SGS Minerals (15% of group sales)***

The Mineral Services division is currently also benefiting from the renewed interest in coal exploration that followed last year's rise in oil prices. This, in turn, is driving demand for inspection services in this segment. In addition, the general price increase experienced by most of the mineral commodities boosts both the incentive to have the goods inspected (because of the higher value of the investment) as well as the exploration activity. The latter also provides additional growth prospects for SGS thanks to its role as technical advisor in the exploration activities. 2007 should also benefit from geographical expansion in FSU, China and Africa. Finally, we expect the outsourcing trend (evidenced in 2005 and 2006 by new contract wins in Africa, North and South America and China) to further accelerate looking forward. All in all, we expect an organic sales CAGR 06-09E of 11%.

**Organic sales CAGR
06-09E 6.7%*****SGS Agriculture (8% of group sales)***

This division should continue to be positively or negatively impacted by the outlook for crop yields. Medium-term, we remain confident with the sound growth prospects of the division, in view of increasing environmental regulation (the number of food standards and the number of product categories subject to mandatory testing should increase in the future). In addition, SGS is constantly extending its range of services in order to boost revenues from its existing client base. Specifically, we believe that the continued development of integrated supply chain management and logistics operations management, provides excellent growth prospects. In addition, we believe SGS enjoys strong pricing power on these packaged services, which further improves the attractiveness of these services in terms of both growth profile and profitability. All in all, we expect an organic sales CAGR 06-09E of 6.7%.

**Organic sales CAGR
06-09E: 4.7%*****SGS Trade Assurance services (4% of group sales)***

As mentioned during the analyst presentation, the negative impact implied by the loss of the Nigerian and Venezuelan contracts (causing the turnover to drop by 26% organically in 2006) is now over, and 2007 will be a "clean" year. We therefore expect the division to resume growth, with an organic sales CAGR 06-09E of 4.7%. As mentioned in our last reports, SGS Trade Assurance Services is constantly expanding its scope of activities to encompass the entire trade community, thereby not just restricting it to governments and institutions. The division is constantly introducing new services designed to facilitate trade and bridge the gap between commercial interests. This should provide sound growth prospects for the coming years. In addition, new initiatives in aid efficiency and brand protection are likely to provide an interesting growth stimulus.

**Organic sales CAGR
06-09E: 9.3%*****SGS Systems and Services Certification (8% of group sales)***

The good news is that the traditional ISO 9000 business, which has reached a stage of high maturity in developed countries, now provides good growth opportunities in the developing countries. On top of that, we believe the Systems and Certification division should benefit in 2007 from increased demand for integrated audits (quality, environment, safety) especially from key accounts in Europe and North America, and supplier assessments. All in all, we expect an organic sales CAGR 06-09E of 9.3%.

**Organic sales CAGR
06-09E: 7.7%*****SGS Environmental Services (7% of group sales)***

We believe that the Environmental Services division should now start a clear business acceleration, driven by the dissemination throughout SGS's international network of all the know-how and technologies acquired in the past two years. The continued expansion in India and China should play a key role in this division's future growth prospects. All in all, we expect an organic sales CAGR 06-09E of 7.7%.

**Organic sales CAGR
06-09E: 9.3%*****SGS Automotive (6% of sales)***

We are increasingly bullish on the Automotive division, in view of the successes already achieved by the company as well as the positive outlook for privatisation schemes in vehicle inspection services. 2007 should benefit from the start of the Californian data management programme. Prospects for further contract wins remain excellent, in our view. All in all, we expect an organic sales CAGR 06-09E of 9.3%.

**Organic sales CAGR
06-09E: 10.7%*****SGS Life Sciences (5% of sales)***

Following the successful integration of all past acquisitions, we expect a strong acceleration in organic growth as the division starts to reap the benefits of critical mass in some specific segments, thereby being in a position to achieve cross-selling opportunities as well as scalability effects in the network. As such, the growth acceleration experienced in 2006 (-1.8% in H1-06, +12.5% in H2-06) confirms the turning point for the group's organic growth. All in all, we expect an organic sales CAGR 06-09E of 10.7%.

Profitability outlook

We believe the group is clearly on track to reach its EBIT margin target of 17% by 2008. Our model assumes a progression from 15.8% in 2006 to 16.5% in 2007 and 17% in 2008. All our detailed assumptions are displayed in the appendix. We are confident of further strong profitability improvements, thanks to the strong operating leverage stemming from solid top-line growth, as well as further margin improvement in the consumer testing services division (as described below).

Strong positive contribution from consumer division

One of the main reasons for our optimism on improving EBIT margins is the positive contribution we continue to expect from the consumer division. All in all, we expect margins to improve from their current level of 23.1% to about 25% in 2007E. One driver is an expected improving business mix, as services on food products should boast a lower growth profile than services in the softlines, hardlines and E&E segments. The other driver is the expected margin improvement in all subsegments. We have based our assumptions on the margins achieved by other industry players in these segments. The combined effect of the business mix improvement and improving margins towards the best industry standards would lead to margins of about 25% in SGS's CTS division (from 23.1% in 2006).

Margin breakdown in the consumer testing services division

	2006		2008E	
	Breakdown	Margins	Breakdown	Margins
Softlines	22%	30%	26%	32%
Hardlines	23%	28%	27%	30%
E&E	36%	21%	39%	19%
Food	19%	13%	8%	14%
Total	100%	23.1%	100%	25.0%

Source: Cheuvreux

V – APPENDIX

SGS: Sales revenues by division and growth assumptions

(CHF m)	2001A	2002A	2003A	2004A	2005A	2006A	2007E	2008E	2009E	2010E
SALES REVENUES										
Agricultural Services	254.0	250.4	241.8	257.1	294.8	316.9	339.1	362.8	384.6	403.8
Mineral Services	203.0	268.4	279.9	319.5	393.7	467.0	527.7	591.0	638.3	670.2
Oil, Gas & Chemicals Services	414.8	398.7	439.1	574.6	635.3	783.4	884.6	946.5	1012.7	1063.4
Consumer Testing Services	286.0	268.4	272.3	360.6	476.2	592.7	699.4	804.3	908.9	1017.9
Industrial Services	474.0	320.6	330.1	379.8	444.7	510.4	551.4	595.6	637.2	681.9
Environmental Services		162.6	172.0	208.6	235.0	249.2	269.1	290.7	311.0	332.8
Systems and Services Certification	201.0	212.7	229.7	235.4	274.0	318.7	353.8	385.6	416.4	445.6
Automotive Services	204.0	238.9	211.0	187.7	200.2	220.3	242.3	266.6	287.9	305.2
Life Science Services	58.0	61.6	59.1	106.5	125.3	193.4	214.7	238.3	262.1	283.1
Trade Assurance Services	237.0	209.7	219.5	255.4	228.7	169.0	177.5	186.3	193.8	199.6
Total	2331.8	2392.0	2454.5	2885.2	3307.9	3821.0	4259.5	4667.6	5053.0	5403.4
SALES GROWTH ASSUMPTIONS										
Agricultural Services		-1.4	-3.4	6.3	14.7	7.5	7.0	7.0	6.0	5.0
Organic		6.9	0.0	7.4	12.2	5.8	7.0	7.0	6.0	5.0
Mineral Services		32.2	4.3	14.1	23.2	18.6	13.0	12.0	8.0	5.0
Organic		1.2	4.8	16.0	17.5	13.7	13.0	12.0	8.0	5.0
Oil, Gas & Chemicals Services		-3.9	10.1	30.9	10.6	23.3	12.9	7.0	7.0	5.0
Organic		0.9	15.8	12.6	9.5	14.8	11.0	7.0	7.0	5.0
Consumer Testing Services		-6.2	1.5	32.4	32.1	24.5	18.0	15.0	13.0	12.0
Organic		1.2	12.5	22.1	27.5	22.0	18.0	15.0	13.0	12.0
Industrial Services		na	3.0	15.1	17.1	14.8	8.0	8.0	7.0	7.0
Organic		na	3.4	15.1	12.6	13.2	10.0	8.0	7.0	7.0
Environmental Services		na	5.8	21.3	12.7	6.0	8.0	8.0	7.0	7.0
Organic		na	6.2	9.2	9.0	6.3	8.0	8.0	7.0	7.0
Systems and Services Certification		5.8	8.0	2.5	16.4	16.3	11.0	9.0	8.0	7.0
Organic		12.3	13.3	3.9	15.3	14.9	11.0	9.0	8.0	7.0
Automotive Services		17.1	-11.7	-11.0	6.7	10.0	10.0	10.0	8.0	6.0
Organic		28.4	-3.3	-13.4	-0.5	4.0	10.0	10.0	8.0	6.0
Life Science Services		6.2	-4.1	80.2	17.7	54.3	11.0	11.0	10.0	8.0
Organic		9.7	-4.5	-4.2	15.6	9.1	11.0	11.0	10.0	8.0
Trade Assurance Services		-11.5	4.7	16.4	-10.5	-26.1	5.0	5.0	4.0	3.0
Organic		-7.7	5.5	17.0	-10.5	-26.1	5.0	5.0	4.0	3.0
TOTAL		2.6	2.6	17.5	14.7	15.5	11.5	9.6	8.3	6.9
Organic		6.0	6.7	10.6	11.5	10.4	11.3	9.6	8.3	6.9

Source: Cheuvreux

SGS: EBITA and EBITA margins by division

(CHF m)	2001A	2002A	2003A	2004A	2005A	2006A	2007E	2008E	2009E	2010E
OPERATING PROFIT										
Agricultural Services	11.4	24.6	24.3	23.6	33.5	39.4	43.4	49.0	53.8	56.5
Mineral Services	13.1	26.7	35.5	46.3	63.1	80.5	89.7	100.5	108.5	113.9
Oil, Gas & Chemicals Services	30.2	32.0	47.9	68.6	79.4	112.6	128.3	137.2	146.8	154.2
Consumer Testing Services	20.1	25.1	39.4	65.2	102.1	136.8	171.3	201.1	227.2	254.5
Industrial Services	28.6	33.5	34.9	46.1	58.6	74.7	82.7	89.3	95.6	102.3
Environmental Services		9.5	11.2	16.8	26.0	24.1	31.0	40.7	43.5	46.6
Systems and Services Certification	19.0	24.2	34.7	30.5	46.5	58.9	63.7	65.6	70.8	75.8
Automotive Services	-3.9	13.7	20.8	20.0	25.2	29.8	33.9	37.3	40.3	42.7
Life Science Services	3.0	3.3	5.9	12.8	19.1	24.6	30.1	40.5	44.6	48.1
Trade Assurance Services	24.1	23.0	45.1	61.5	48.5	23.2	27.9	33.5	34.9	35.9
TOTAL EBIT BEFORE EXCEPTIONALS	145.6	215.6	299.7	391.4	502.0	604.6	701.9	794.7	866.1	930.5
Corporate costs										
TOTAL EBITA BEF EXCEPTIONALS	145.6	215.6	299.7	391.4	502.0	604.6	701.9	794.7	866.1	930.5
OPERATING PROFIT MARGINS										
Agricultural services	4.5	9.8	10.0	9.2	11.4	12.4	12.8	13.5	14.0	14.0
Mineral services	6.5	9.9	12.7	14.5	16.0	17.2	17.0	17.0	17.0	17.0
Oil, Gas & Chemicals	7.3	8.0	10.9	11.9	12.5	14.4	14.5	14.5	14.5	14.5
Consumer products services	7.0	9.4	14.5	18.1	21.4	23.1	24.5	25.0	25.0	25.0
Industrial Services	6.0	10.4	10.6	12.1	13.2	14.6	15.0	15.0	15.0	15.0
Environmental services		5.8	6.5	8.1	11.1	9.7	11.5	14.0	14.0	14.0
Systems and Services Certification	9.5	11.4	15.1	13.0	17.0	18.5	18.0	17.0	17.0	17.0
Automotive	-1.9	5.7	9.9	10.7	12.6	13.5	14.0	14.0	14.0	14.0
Life Sciences	5.2	5.4	10.0	12.0	15.2	12.7	14.0	17.0	17.0	17.0
Trade Assurance (ex-GTS)	10.2	11.0	20.5	24.1	21.2	13.7	15.7	18.0	18.0	18.0
TOTAL EBIT BEFORE EXCEPTIONALS	6.2	9.0	12.2	13.6	15.2	15.8	16.5	17.0	17.1	17.2

Source: Cheuvreux

SGS: Income statement

(CHF m) Year end December	2001	2002	2003	2004	2005	2006	2007E	2008E
Sales revenues	2332.0	2391.9	2454.0	2885.2	3307.9	3821.0	4259.5	4667.6
Salaries and wages	1254.6	1252.3	1240.0	1471.5	1687.0	1948.7	2172.4	2380.5
Subcontractors' expenses	133.1	142.0	155.0	173.1	198.5	229.3	255.6	280.1
Other operating expenses	697.4	686.8	663.0	735.0	780.4	866.4	940.1	1000.6
EBITDA	246.9	310.8	396.0	505.6	642.0	776.6	891.5	1006.5
Depreciation	101.3	95.2	96.0	114.6	140.0	172.0	189.6	211.8
EBITA before exceptionals	145.6	215.6	300.0	391.0	502.0	604.6	701.9	794.7
Amortization	8.5	8.7	10.0	16.0	0.0	0.0	0.0	0.0
EBIT before exceptionals	137.1	206.9	290.0	375.0	502.0	604.6	701.9	794.7
Exceptional operating items	-177.5	-79.6	3.0	3.0	0.0	19.0	0.0	0.0
EBIT	-40.4	127.3	293.0	378.0	502.0	623.6	701.9	794.7
Financial Income	29.3	20.0	9.0	10.8	6.0	5.0	3.4	10.1
Interest expenses	9.5	11.7	8.0	4.8	1.0	6.0	0.8	0.6
Other non operating income	0.0	4.9	9.0	0.0	0.0	0.0	0.0	0.0
Other non operating expenses	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	-23.3	140.4	303.0	384.0	507.0	622.6	704.5	804.2
Taxes	43.5	27.5	68.0	90.0	119.0	155.0	170.5	194.6
Minority interest	8.3	3.8	8.0	15.0	17.0	25.0	25.0	27.4
Net income after gains on disposals	-75.2	109.1	227.0	279.0	371.0	442.6	509.0	582.2
As a % of net sales								
Salaries and wages	53.8	52.4	50.5	51.0	51.0	51.0	51.0	51.0
Subcontractors' expenses	5.7	5.9	6.3	6.0	6.0	6.0	6.0	6.0
Other operating expenses	29.9	28.7	27.0	25.5	23.6	22.7	22.1	21.4
EBITDA margin	10.6	13.0	16.1	17.5	19.4	20.3	20.9	21.6
Depreciation	4.3	4.0	3.9	4.0	4.2	4.5	4.5	4.5
EBITA margin before exceptionals	6.2	9.0	12.2	13.6	15.2	15.8	16.5	17.0
Amortization	0.4	0.4	0.4	0.6	0.0	0.0	0.0	0.0
EBIT margin before exceptionals	5.9	8.7	11.8	13.0	15.2	15.8	16.5	17.0
Financial income	1.3	0.8	0.4	0.4	0.2	0.1	0.1	0.2
Interest expenses	0.4	0.5	0.3	0.2	0.0	0.2	0.0	0.0
Profit before taxes	-1.0	5.9	12.3	13.3	15.3	16.3	16.5	17.2
Tax rate	28.2	12.5	22.7	23.6	23.5	24.9	24.2	24.2
Net income	-3.2	4.6	9.3	9.7	11.2	11.6	12.0	12.5

Source: Cheuvreux

SGS: Balance sheet

(CHF m) Year end December	2001	2002	2003	2004	2005	2006	2007E	2008E
Current assets	1445.2	1280.4	1340.0	1285.0	1525.0	1363.0	1885.9	2379.9
Cash and cash equivalents	490.2	419.3	471.0	445.0	521.0	229.0	670.7	1049.2
Marketable securities	159.0	112.1	55.0	10.0	10.0	10.0	10.0	10.0
Accounts receivable from customers	513.3	494.7	571.0	579.0	713.0	762.0	843.4	924.2
Work-in-progress and inventories	111.9	108.4	108.0	111.0	130.0	150.0	167.4	183.4
Other current assets	170.8	146.0	135.0	140.0	151.0	212.0	194.4	213.1
Fixed assets	545.4	569.1	682.0	927.0	1240.0	1489.0	1557.2	1625.6
Property, plant & equipment	397.7	373.9	415.0	493.0	586.0	656.0	713.5	772.4
Financial assets	2.6	2.9	2.0	2.6	2.6	2.6	2.6	2.6
Intangibles (ex. goodwill)	2.6	14.2	30.0	35.0	35.0	35.0	35.0	35.0
Intangibles (goodwill)	57.3	92.5	117.0	269.0	394.0	609.0	609.0	609.0
Other fixed assets	85.3	85.6	118.0	127.4	222.4	186.4	197.1	206.5
Total assets	1990.7	1849.5	2022.0	2212.0	2765.0	2852.0	3443.1	4005.5
Current liabilities	670.8	614.9	640.0	700.0	865.0	921.0	1135.5	1243.3
Short-term debt / Bank loans	161.4	81.9	22.0	10.0	10.0	10.0	10.0	10.0
Other interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable to suppliers	272.2	259.9	299.0	329.0	329.0	402.0	448.1	491.1
Other accounts payables	237.2	273.1	319.0	361.0	526.0	509.0	677.3	742.2
Medium- and long-term liabilities	42.2	47.8	11.0	8.0	7.0	7.0	0.0	0.0
Long-term bonds	0.0	0.0	11.0	8.0	7.0	7.0	0.0	0.0
Owed to credit institutions (loans)	42.2	47.8	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	270.2	272.0	281.0	249.0	418.0	335.1	321.5	331.7
Deferred taxes	42.0	54.5	72.0	64.0	80.0	95.5	106.5	116.7
Non recurring precautionary provisions	123.2	123.6	135.0	120.0	238.0	159.6	135.0	135.0
Restructuring and other provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefit obligations	105.0	94.0	74.0	65.0	100.0	80.0	80.0	80.0
Minority shareholders	25.8	18.1	18.0	26.0	26.0	42.5	55.0	69.9
Shareholders' equity	981.7	896.6	1072.0	1229.0	1449.0	1554.9	1931.2	2360.6
Total Liabilities	1990.7	1849.5	2022.0	2212.0	2765.0	2860.5	3443.1	4005.5

Source: Cheuvreux

SGS: DCF valuation (part 1: 2007-2014E)

(CHF m)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Sales	4260	4668	5053	5403	5755	6129	6527	6951
Sales growth	11.5	9.6	8.3	6.9	6.5	6.5	6.5	6.5
EBITDA	891.5	1 006.5	1 094.9	1 176.6				
EBITDA growth	14.8	12.9	8.8	7.5				
Depreciation	189.6	211.8	228.8	246.1				
Amortisation	0.0	0.0	0.0	0.0				
EBIT	701.9	794.7	866.1	930.5				
NOPBT	701.9	794.7	866.1	930.5				
Cash tax rate	22.6	22.9	23.1	23.3				
NOPAT	543.0	612.6	666.1	714.1	765.4	815.1	868.1	924.5
NOPAT margin	12.7	13.1	13.2	13.2	13.3	13.3	13.3	13.3
NOPAT growth	16.8	12.8	8.7	7.2	7.2	6.5	6.5	6.5
Chg in working capital	-126.7	13.8	13.0	11.8	11.8	12.6	13.4	14.3
Chg in fixed assets	68.2	68.4	72.8	74.8	120.2	128.0	136.3	145.1
Chg in other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incremental investment	-58.5	82.2	85.8	86.6	132.0	140.6	149.7	159.4
FREE CASH FLOW	601.5	530.4	580.3	627.5	633.4	674.5	718.4	765.1
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Discount factor	0.92	0.85	0.79	0.73	0.67	0.62	0.58	0.53
PV of FCF	555.8	452.9	457.8	457.4	426.6	419.8	413.1	406.5
Cumulative PV of FCF	555.8	1 008.6	1 466.4	1 923.9	2 350.4	2 770.2	3 183.4	3 589.9
Residual value	7 448	8 099	8 682	9 305	9 910	10 554	11 240	11 971
PV of residual value	6 882	6 915	6 849	6 783	6 675	6 568	6 464	6 361
Enterprise value	7 438	7 923	8 316	8 707	9 025	9 339	9 647	9 951
Excess cash	617	617	617	617	617	617	617	617
Minorities interest	55	55	55	55	55	55	55	55
Pension provisions	80	80	80	80	80	80	80	80
Total debt	10	10	10	10	10	10	10	10
Shareholder value	7 909	8 395	8 787	9 179	9 497	9 810	10 119	10 422
Shares outstanding	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Value per share	1 041	1 105	1 157	1 208	1 250	1 292	1 332	1 372
Years into future	1	2	3	4	5	6	7	8

Source: Cheuvreux

SGS: DCF valuation (part 2: 2014-2021E)

(CFH m)	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sales	7403	7884	8397	8943	9524	10143	10802
Sales growth	6.5	6.5	6.5	6.5	6.5	6.5	6.5
NOPAT	984.6	1 048.6	1 116.8	1 189.4	1 266.7	1 349.0	1 436.7
NOPAT margin	13.3	13.3	13.3	13.3	13.3	13.3	13.3
NOPAT growth	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Chg in working capital	15.2	16.2	17.3	18.4	19.6	20.9	22.2
Chg in fixed assets	154.6	164.6	175.3	186.7	198.8	211.8	225.5
Chg in other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incremental Investment	169.8	180.8	192.6	205.1	218.5	232.7	247.8
FREE CASH FLOW	814.8	867.8	924.2	984.2	1 048.2	1 116.4	1 188.9
Discount rate (WACC) (%)	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Discount factor	0.49	0.45	0.42	0.39	0.36	0.33	0.31
PV of FCF	400.0	393.7	387.4	381.2	375.1	369.2	363.3
Cumulative PV of FCF	3 989.9	4 383.6	4 771.0	5 152.2	5 527.3	5 896.5	6 259.8
Residual Value	12 749	13 578	14 460	15 400	16 401	17 467	18 603
PV of Residual Value	6 259	6 160	6 061	5 965	5 870	5 776	5 684
Enterprise value	10 249	10 543	10 832	11 117	11 397	11 673	11 944
Excess cash	617	617	617	617	617	617	617
Minorities interest	55	55	55	55	55	55	55
Pension provisions	80	80	80	80	80	80	80
Total debt	10	10	10	10	10	10	10
Shareholder value	10 721	11 015	11 304	11 589	11 869	12 144	12 416
Shares outstanding	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Value per share	1 412	1 450	1 488	1 526	1 563	1 599	1 635
Years into future	9	10.0	11.0	12.0	13.0	14.0	15.0

Source: Cheuvreux

SGS									
FY to 31/12 (CHF m)	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Profit & Loss Account									
Sales	2 368.9	2 332.0	2 391.9	2 454.0	2 885.2	3 307.9	3 821.0	4 259.5	4 667.6
% Change	-23.2%	-1.6%	2.6%	2.6%	17.6%	14.7%	15.5%	11.5%	9.6%
Staff costs	(1 245.8)	(1 254.6)	(1 252.3)	(1 240.0)	(1 471.5)	(1 687.0)	(1 948.7)	(2 172.4)	(2 380.5)
Other costs	(853.0)	(1 008.0)	(908.4)	(815.0)	(905.1)	(978.9)	(1 076.7)	(1 195.6)	(1 280.6)
EBITDA	270.1	69.4	231.2	399.0	508.6	642.0	795.6	891.5	1 006.5
% Change	-21.2%	-74.3%	NS	72.6%	27.5%	26.2%	23.9%	12.1%	12.9%
Depreciation	(103.5)	(101.3)	(95.2)	(96.0)	(114.6)	(140.0)	(172.0)	(189.6)	(211.8)
EBITA	166.6	(31.9)	136.0	303.0	394.0	502.0	623.6	701.9	794.7
% Change	-16.0%	NS	NS	122.8%	30.0%	27.4%	24.2%	12.6%	13.2%
Goodwill amortisation before OP	(4.3)	(8.5)	(8.7)	(10.0)	(16.0)	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	162.3	(40.4)	127.3	293.0	378.0	502.0	623.6	701.9	794.7
Net financial items	24.6	17.1	13.2	10.0	6.0	5.0	(1.0)	2.6	9.5
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(51.4)	(43.5)	(27.5)	(68.0)	(90.0)	(119.0)	(155.0)	(170.5)	(194.6)
Associates [contribution]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	135.4	(66.9)	112.9	235.0	294.0	388.0	467.6	534.0	609.6
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(6.7)	(8.3)	(3.8)	(8.0)	(15.0)	(17.0)	(25.0)	(25.0)	(27.4)
Net attributable profit [loss]	128.7	(75.2)	109.1	227.0	279.0	371.0	442.6	509.0	582.2
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net attrib. profit [loss], restated	133.0	(66.7)	117.8	237.0	295.0	371.0	442.6	509.0	582.2
% Change	7.0%	NS	NS	101.2%	24.5%	25.8%	19.3%	15.0%	14.4%
Cash Flow Statement									
Cash flow	187.6	211.2	218.8	395.0	392.6	697.0	556.7	710.0	831.5
% Change		12.6%	3.6%	80.5%	-0.6%	77.5%	-20.1%	27.5%	17.1%
Change in WCR	(205.7)	(76.0)	32.0	(70.0)	56.0	1.0	(74.0)	133.2	(7.6)
Capex	(97.9)	(50.6)	(118.0)	(101.0)	(374.4)	(453.0)	(421.0)	(257.7)	(280.2)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	(116.0)	84.6	132.8	224.0	74.2	245.0	61.7	585.5	543.7
Financial investments	(19.4)	(8.4)	(84.7)	(16.0)	(60.0)	(76.3)	29.9	(12.5)	(12.5)
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	(37.5)	(45.4)	(46.9)	(56.0)	(69.0)	(91.7)	(375.1)	(132.8)	(152.7)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	45.1	(73.5)	(45.2)	(60.6)	(1.2)	0.0	(8.5)	8.5	0.0
Dec. [inc.] in net debt	(127.8)	(42.7)	(44.0)	91.4	(56.0)	77.0	(292.0)	448.7	378.5
Balance Sheet									
Shareholders' equity [group share]	1 099.3	981.7	896.6	1 072.0	1 229.0	1 449.0	1 554.9	1 931.2	2 360.6
Minority interests	20.5	25.8	18.1	18.0	26.0	26.0	42.5	55.0	69.9
Pension provisions	109.4	105.0	94.0	74.0	65.0	100.0	80.0	80.0	80.0
Other provisions	204.5	165.2	178.0	207.0	184.0	318.0	255.1	241.5	251.7
Net debt [cash]	(488.2)	(445.6)	(401.6)	(493.0)	(437.0)	(514.0)	(222.0)	(670.7)	(1 049.2)
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Capital invested	945.5	832.1	785.1	878.0	1 067.0	1 379.0	1 710.5	1 637.0	1 713.0
Goodwill	30.6	57.3	92.5	117.0	269.0	394.0	609.0	609.0	609.0
Intangible assets	2.5	2.6	14.2	30.0	35.0	35.0	35.0	35.0	35.0
Tangible assets	472.3	483.0	459.5	533.0	620.4	808.4	842.4	910.6	979.0
Financial assets	6.4	2.6	2.9	2.0	2.6	2.6	2.6	2.6	2.6
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital requirement	433.5	286.6	216.1	196.0	140.0	139.0	213.0	79.8	87.4
WCR as a % of sales	18.3	12.3	9.0	8.0	4.9	4.2	5.6	1.9	1.9
Capital employed	945.3	832.1	785.2	878.0	1 067.0	1 379.0	1 702.0	1 637.0	1 713.0

SGS

FY to 31/12 (CHF)	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Per Share Data (at 15/1/2007)									
EPS before goodwill	17.00	(8.53)	15.11	30.60	38.28	48.39	57.92	66.20	75.72
% Change	7.0%	NS	NS	102.6%	25.1%	26.4%	19.7%	14.3%	14.4%
EPS, reported	16.45	(9.61)	13.99	29.41	36.45	48.99	58.64	67.02	76.65
% Change	-59.3%	NS	NS	110.2%	23.9%	34.4%	19.7%	14.3%	14.4%
Goodwill per share	0.55	1.09	1.12	1.29	2.08	0.00	0.00	0.00	0.00
Dividend per share	5.80	6.00	7.30	9.00	12.00	50.00	17.50	20.10	23.00
Cash flow per share	23.98	27.00	28.06	51.00	50.95	90.91	72.85	92.34	108.14
% Change		12.6%	3.9%	81.8%	-0.1%	78.4%	-19.9%	26.8%	17.1%
Book value per share	134.7	119.5	108.0	130.9	148.8	143.2	187.2	234.2	287.8
No. of shares, adjusted	7.822	7.822	7.773	7.662	7.645	7.501	7.595	7.595	7.595
Av. number of shares, adjusted	7.822	7.822	7.798	7.718	7.654	7.573	7.548	7.595	7.595
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]									
Latest price	500.00	266.50	416.00	776.00	796.50	1108.00	1358.00	1396.00	1396.00
High	785.00	520.00	530.00	798.00	803.00	1115.00	1395.00	1408.00	-
Low	431.00	175.00	257.50	409.00	633.00	785.00	1037.00	1351.00	-
Average price	615.50	344.72	406.51	582.47	717.38	926.18	1210.62	1376.56	-
Market capitalisation	3 911.1	2 084.6	3 233.7	5 945.6	6 089.4	8 466.4	10 186.6	10 471.6	10 471.6
Enterprise value	3 612.1	1 808.5	2 992.1	5 647.9	5 841.7	8 225.2	10 359.6	10 204.8	9 826.3
Valuation									
P/E	30.4	NS	29.7	26.5	22.0	22.9	23.4	21.1	18.4
P/E before goodwill	29.4	NS	27.5	25.4	20.8	22.9	23.4	21.1	18.4
P/CF	20.8	9.9	14.8	15.2	15.6	12.2	18.6	15.1	12.9
Attrib. FCF yield [%]	NS	3.9	4.0	3.7	1.2	2.8	0.6	5.4	5.0
P/BV	3.7	2.2	3.9	5.9	5.4	7.7	7.3	6.0	4.9
Enterprise value / Op CE	3.8	2.2	3.8	6.4	5.5	6.0	6.1	6.2	5.7
Yield [%]	1.2	2.3	1.8	1.2	1.5	4.5	1.3	1.4	1.6
EV/EBITDA, restated	13.4	26.1	12.9	14.2	11.5	12.8	13.0	11.4	9.8
EV/EBITA, restated	21.7	NS	22.0	18.6	14.8	16.4	16.6	14.5	12.4
EV/Sales	1.53	0.78	1.25	2.30	2.03	2.5	2.7	2.4	2.1
EV/Debt-adjusted cash flow	20.8	8.8	14.1	14.3	14.7	11.6	18.0	14.0	11.5
Financial Ratios									
Interest cover	NS	1.9	NS	NS	NS	NS	NS	NS	NS
Net debt/Cash flow	NS	NS	NS	NS	NS	NS	NS	NS	NS
EBITDA margin [%]	11.4	3.0	9.7	16.3	17.6	19.4	20.8	20.9	21.6
EBITA margin [%]	7.0	NS	5.7	12.3	13.7	15.2	16.3	16.5	17.0
Net margin [%]	5.7	NS	4.7	9.6	10.2	11.7	12.2	12.5	13.1
Capital turn [Sales/ Op. CE]	2.5	2.8	3.1	2.8	2.7	2.4	2.2	2.6	2.7
Gearing [%]	NS	NS	NS	NS	NS	NS	NS	NS	NS
Payout ratio [%]	35.3	(62.4)	52.2	30.6	32.9	102.1	29.8	30.0	30.0
Return [%]									
Pre-tax ROCE	17.7	NS	17.4	34.6	37.0	36.5	36.7	42.9	46.5
ROCE after tax	12.6	NS	15.2	26.7	28.3	27.9	27.6	32.6	35.2
ROE [%]	12.4	NS	13.0	23.7	25.6	29.4	33.2	30.4	28.1
Return on equity, restated	12.4	NS	13.0	23.7	25.6	29.4	33.2	30.4	28.1

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Important Disclosures

Applicable disclosure clauses

Company	Closing price	Rating	Disclosures
SGS	CHF1380	2/Outperform	E

- A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
- D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.
- E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.
- F - Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.
- G - Calyon and/or a company in the Crédit Agricole S.A. group has been involved within the last three years in a publicly disclosed offer of or on financial instruments of the Company.
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- J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

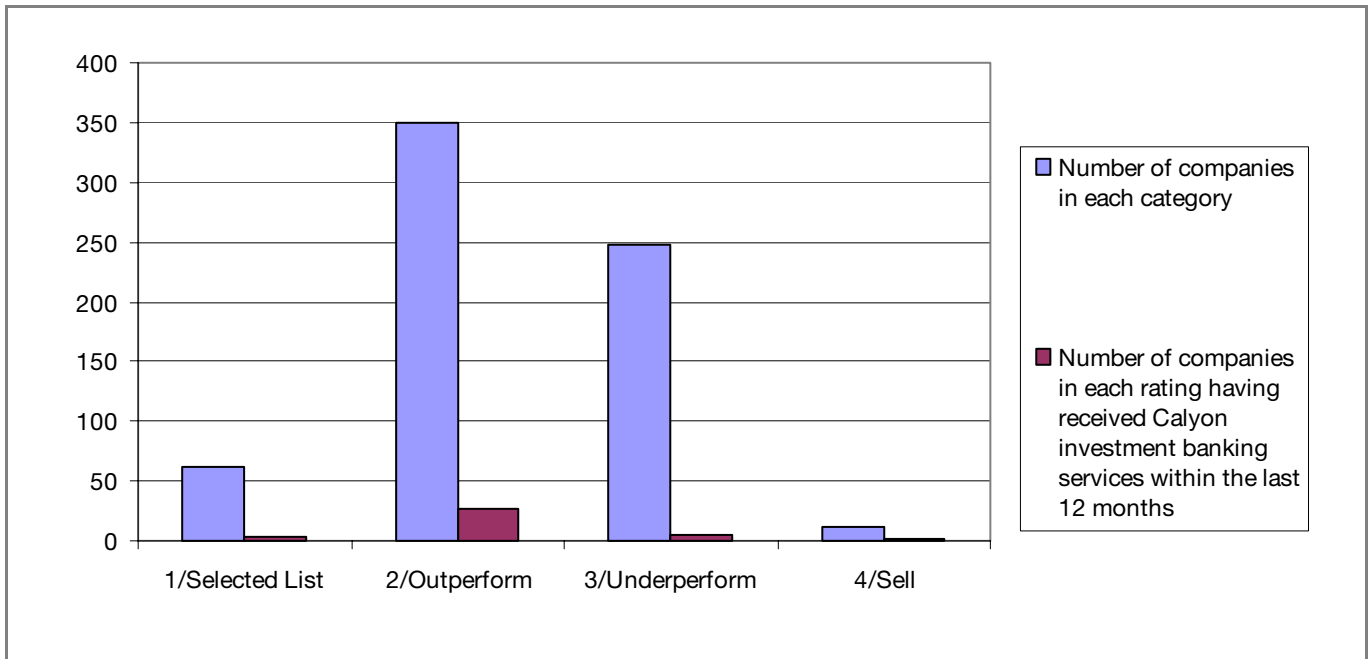
Specific disclosure clauses

None.

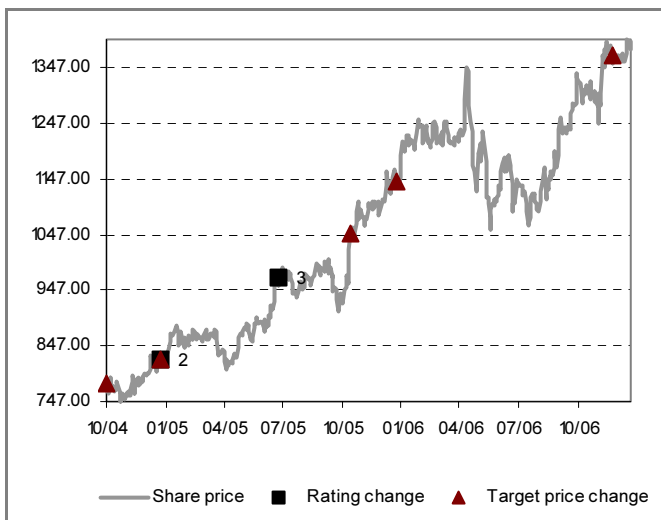
Cheuvreux's rating and target price system

Ratings are built for a 6 to 12 month time horizon.	
1/Selected List	Expected to outperform the market and is in our country selected list
2/Outperform	Expected to outperform the market
3/Underperform	Expected to perform at best in line with the market
4/Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended . Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies: DCF, SOP, peer comparison and EVA.
Quote definitions	Unless specified, all quotes that appear on Institutional research reports are closing prices the last business day.

Breakdown by rating category (as at 30/06/2006)



Share price trend and dates of changes in rating and/or target price



Dates of changes in target price and/or rating

N°	Date	Rating	Target price
1	27/10/2004		CHF875
2	19/01/2005	1/Selected List	CHF980
3	21/07/2005	2/Outperform	
4	08/11/2005		CHF1200
5	20/01/2006		CHF1300
6	21/12/2006		CHF1550

Local regulatory authorities

Country	Cheuvreux legal entity	Regulatory authority
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung – Frankfurt Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux España SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
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