November 9, 2005

Company Focus

| Equity Brokerage

SGS

Recommendation
UPGRADE

Buy

Industrial Goods & Services		**Price at November 7 (Reg.)**	**CHF 1,022**
Switzerland		**12-Month Target ▲**	**CHF 1,200**
Next News: FY 2005 Results (17/01/06)		**Target Upside**	**+17.4%**

Upgrade to Buy: Sustained Growth Ahead

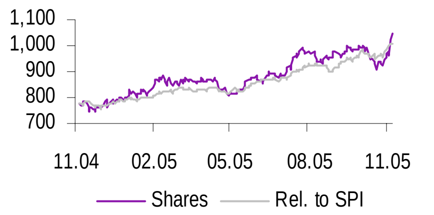
FY to Dec. 31	2004	04/03	2005E	05/04	2006E	06/05	2007E	07/06
In CHF mn								
Revenues	**2'885.0**	17.6	**3'218.0**	11.5	**3'525.0**	9.5	**3'849.0**	9.2
EBITDA	**509.0**	27.6	**615.8**	21.0	**705.6**	14.6	**790.1**	12.0
Net profit	**279.0**	22.9	**357.0**	27.9	**410.8**	15.1	**462.6**	12.6
Adjusted Net profit	**292.0**	24.8	**357.0**	22.3	**410.8**	15.1	**462.6**	12.6
In CHF, per registered share								
EPS	**36.5**	23.3	**46.7**	27.9	**53.8**	15.1	**60.6**	12.6
EBITDA	**65.1**	27.6	**78.7**	21.0	**90.2**	14.6	**101.0**	12.0
EPS (Adjusted)	**37.3**	24.8	**45.6**	22.3	**52.5**	15.1	**59.1**	12.6
DPS	**12.0**	71.4	**13.0**	8.3	**15.0**	15.4	**16.0**	6.7
BVPS	**157.1**	14.6	**187.6**	19.4	**227.1**	21.1	**271.2**	19.4
Ratios per share								
P/E	**21.8**		**21.9**		**19.0**		**16.9**	
P/E (Adjusted)	**21.3**		**22.4**		**19.5**		**17.3**	
P/BV	**5.1**		**5.4**		**4.5**		**3.8**	
EV/EBITDA	**11.6**		**12.2**		**10.3**		**8.8**	
Yield	**1.5**		**1.3**		**1.5**		**1.6**	

Share Information	
Market Cap	CHF 8.0 bn
Free Float (53%)	CHF 4.2 bn
Bloomberg / Reuters	SGSN VX / SGSN.VX
Telekurs	249 745

Estimate Changes (%)	2005E	2006E	2007E
EPS (Reported)	0.0	1.8	5.4
EPS (Adjusted)	0.0	1.8	5.4

Growth & Returns (%)	2005E	2006E	2007E
Net Sales Growth	11.5	9.5	9.2
EBITDA Margin	19.1	20.0	20.5
EBITDA Growth	21.0	14.6	12.0
EBIT Margin	15.0	15.7	16.2
EBIT Growth	27.8	14.9	12.3
Net Margin (Adjusted)	11.1	11.7	12.0
EPS Growth (Adjusted)	22.3	15.1	12.6
ROE	26.5	25.3	23.7
ROCE	51.5	54.1	57.6
Net Debt/Equity	-39.7	-46.8	-52.8

Share Price Performance (12 months)



% Change	1m	3m	12m	YTD
Absolute	5.6	7.1	31.5	38.4
Relative to SPI	4.9	-2.9	2.5	5.5

Stocks priced at close, 7/11/05

Analysts

Scott Weldon
Scott.Weldon@LODH.com
Tel: (+41 22) 709 36 29

Alain-Sebastian Oberhuber, CFA
AlainSebastian.Oberhuber@LODH.com
Tel: (+41 44) 214 16 27

SGS unveiled its growth strategy for 2006-2008 in an investor presentation on Monday. The company is targeting revenues of CHF 5 bn by 2008 (implying a 15% CAGR over the period), an increase in the operating margin to 17% of sales and EPS of CHF 80 by 2008 (nearly 30% higher than our previous forecast). Although the targets are aggressive, the company has outlined convincing arguments why they are realistically attainable. We upgrade our recommendation to Buy and our price target to CHF 1,200.

▶ **Company targets include about CHF 1 bn in acquisitions**

A key component of the strategic plan is for growth acceleration through acquisition: one-third of the targeted increase in sales (about 5% p.a.) is expected to come from non-organic growth. We estimate this means purchasing turnover of about CHF 600-700 mn which could cost CHF 1 bn. SGS's cash flow generation over the period should be sufficient to finance this amount without having to draw on the company's existing CHF 500 mn net cash position.

▶ **We raise our EPS forecasts, but they remain well below company targets**

We have revised our EPS projections by 2% for 2006E, 5% for 2007E and 10% for 2008E (to EPS 68 per share) which are still some 15% below the company's targets. Although we expect acquisitions to happen, we have not incorporated any acquisition impact into our forecasts as we do not have sufficient information to make reliable projections. Any suitable acquisitions made will represent upside to our forecasts, as much as 13% if the totality of SGS's acquisition plans are fulfilled.

▶ **Valuation: share price appreciation of 15% p.a. over the medium term**

On 2006E multiples, SGS appears relatively expensive at a P/E of 19x, which at 13% EPS growth gives a PEG ratio of about 1.4x. However, pricing SGS at historical EV/EBIT multiples of 14x would give an exit price of CHF 1,350 at the end of 2007 and CHF 1,540 by 2008. Our price target of CHF 1,200 is based on a 12-month time horizon.

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STRATEGIC PLAN TO SUSTAIN DOUBLE-DIGIT ORGANIC GROWTH THROUGH 2008

SGS announced a strategic growth plan for the three year period 2006-2008 at an investor presentation on Monday. Dan Kerpelman, CEO of SGS since April 2005, has had time to analyze the company, its markets, its products and its potential opportunities. He has determined that the best way to add value to the company is to embark on a renewed growth phase for the company. The company went through a restructuring phase in 2002-04.

The company's 2008 financial targets are the following: revenues of CHF 5 bn (implying a 15% CAGR growth over the period), an operating margin of 17% and EPS of CHF 80.

These targets are 25%-30% higher than our previous forecasts for FY 2008.

Management itself has described the growth plan as "aggressive" yet realistic in that the objectives are founded on identified opportunities in the markets served by SGS. The plan rests on the following foundations:

> Continuing to grow the current portfolio, expanding service offerings and geographical reach.

> Accelerating growth in three business segments (Consumer, Life Science, and Industrial) via acquisitions.

> Implementing strategic business initiatives regarding four key market opportunities.

> Continuing to improve operational efficiency.

Compared to our projections, SGS's 2008 financial targets are 25% higher than our estimates for sales, 32% higher for EBIT and 28% higher for EPS.

Implicit in SGS's revenue target of CHF 5 bn in 2008 is 15% CAGR growth. Of this, the company expects 10% organic growth and 5% growth through acquisitions.

Organic Growth of 10% p.a.
The organic growth target of 10% is in line with what the company attained in 2004 (10.7%) and H1 2005 (11.1%), but above the growth seen historically by the company over the past 5 years (which we estimate at about 5%-6% p.a.). Targeting a continuation of double-digit top-line organic growth represents a change from how the company has been run in the past. Our previous estimates assumed a slowdown to 7%-8% organic growth for 2006-2008, a level closer to our estimate of underlying sector momentum.

SGS expects to grow faster than the sector through the following:

> Expanding service offerings in all segments.

> Greater focus on business segments with the strongest underlying market growth (such as consumer testing) through targeted acquisitions.

> Implementation of growth initiatives for four strategic markets: (governments, financial services, energy infrastructure and software). The idea here is to leverage existing know-how, to bundle targeted products and services tailored for these customer groups, and to reach customers through dedicated marketing and sales teams.

We have increased our CAGR assumption for organic growth in 2006-08 from 7.6% to 9.2%.

Acquisitions Lifting Growth By 5% p.a.
The company's plan includes 5% revenue growth per year from acquisitions, which works out to CHF 600-700 mn of sales to be acquired over the three-year period, or about CHF 200-250 mn per year. Assuming a multiple of 1.5x sales, we estimate the cost of these acquisitions could range between CHF 900 mn and CHF 1 bn.

The implied target of an estimated CHF 1 bn in acquisitions over the next three years is an acceleration compared to the approximately CHF 400 mn spent over the previous 5 years which added some 2%-3% p.a. to top-line non-organic growth. We welcome a more aggressive investment program as the company obtains a low yield on its net cash position (we estimate about 1% p.a.).

The investment program of CHF 900-1,000 mn over three years is roughly the same amount we estimate would be generated in operating cash flow after dividends over the period, so the acquisitions would have no net impact on the balance sheet gearing of the company (we are forecasting a net cash position of about CHF 580 mn at end-2005). We therefore believe that even with the acquisition level implied by the targets, there would be scope for share buybacks (although evidently the company believes it has better operational uses for its cash).

The business segments for which acquisitions will be sought our have been clearly identified:

- Lab expansions in Oil, Gas, & Chemicals, Minerals, Environmental as well as for the Energy infrastructure growth initiative.
- Statutory auto inspection.
- Life Science (quality control in the US and clinical research in the US and Europe).
- Industrial (to gain market share).
- Consumer (E&E and Personal Care in the US and Europe).
- Software (independent quality assurance and quality control).

We believe the three largest areas of expansion will be Consumer (the highest margin and highest growth segment), Life Science (also expected to see above-average growth and margins in the medium term) and Industrial (which is the largest potential market for SGS, and in which SGS is underrepresented).

On a side note, we observe that the business segments which the company wants to focus on are not those of large diversified companies such as Intertek and Bureau Veritas. Of course, if the price were low enough, SGS might be prepared to change its plan, but we do not expect this outcome.

Our financial projections do not incorporate the potential impact of acquisitions as we have insufficient information to make reliable forecasts. Rather, we will incorporate acquisitions as and when they are announced, which will most cases will provide upside versus our current estimates.

EBIT Margin Expansion to 17% of Sales

SGS's EBIT margin target of 17% by 2008 compares to its previous target of 16% for 2005 set in 2002 when the margin was a mere 5.3%. We expect SGS to post a 15% EBIT margin in 2005E, slightly short of the objective but impressive nevertheless. Our previous forecast was for the EBIT margin to stabilize at 16% by 2008. SGS's indication that additional margin expansion remains possible is predicated on: a) an improving mix (i.e. focusing on growth in its highest-return businesses); b) acquisitions that are margin accretive; and c) general efficiency gains through back-office economies of scale.

CHANGES TO OUR ESTIMATES

Changes to our forecasts are shown in the table below. Compared to our previous estimates, we have increased our CAGR organic growth assumption for 2006-2008 from 7.6% to 9.2%. We have also slightly increased our group EBIT margin assumption as a consequence of an improved mix and continuing efficiency improvements. We forecast earnings growth of 15% in 2006E and 12% in 2007-08E.

Note that we forecast no growth through acquisitions, not because we do not believe SGS will make acquisitions but becasue we have no information on which to base such estimates. Thus, our new EPS forecast of CHF 68 in 2008 remains about 15% below the company's target. Acquisitions made by the company in the next three years should push our forecasts upwards.

Changes to LODH Estimates

	new LODH estimates				old LODH estimates				% change			
In CHF mn FY to Dec. 31	**2005E**	**2006E**	**2007E**	**2008E**	**2005E**	**2006E**	**2007E**	**2008E**	**2005E**	**2006E**	**2007E**	**2008E**
Revenues (net)	3'218	3'525	3'849	4'197	3'218	3'476	3'731	4'010	0.0%	1.4%	3.2%	4.7%
EBITDA	616	706	790	874	616	696	759	816	0.0%	1.4%	4.1%	7.2%
Operating Profit (pre amort. & exept.)	483	555	623	701	483	545	592	642	0.0%	1.8%	5.2%	9.1%
Operating Profit margin	15.0%	15.7%	16.2%	16.7%	15.0%	15.7%	15.9%	16.0%	0.0%	0.1%	0.3%	0.7%
Net profit	357	411	463	522	357	404	439	476	0.0%	1.8%	5.4%	9.5%
EPS (reported)	**46.7**	**53.8**	**60.6**	**68.3**	**46.7**	**52.8**	**57.5**	**62.3**	0.0%	1.8%	5.4%	9.5%

SCENARIO ANALYSIS: WHAT IMPACT COULD ACQUISITIONS HAVE?

Although our official forecasts exclude the impact of yet-to-be-announced acquisitions, we nevertheless expect SGS to continue to acquire companies on a regular basis. In the past, these have been relatively small companies (e.g. SGS has made 5 acquisitions in 2005 of companies having average revenues of CHF 10-15 mn p.a.) that have cumulatively added on a few percentage points to the group's revenues.

For comparison sake, we have estimated the impact of the company reaching its target of growing revenues by 5% p.a. through acquisitions over the next three years. We expect these purchases to be concentrated in the three targeted segments: Consumer, Industrial and Life Sciences. The cost of this non-organic growth could be CHF 1 bn.

If the companies are purchased at 10x EV/EBIT (as would be the case if the parameters of CHF 600 mn in turnover and 17% margin are also attained), the investment would generate some CHF 100 mn in EBIT, a 10% return which would be as much as CHF 90 mn better than the 1% return on financial investments currently being generated. An additional CHF 90 mn would represent 13% upside to our 2008 EBIT forecast.

Also for comparison sake, we show in the table below the full impact of SGS's growth targets compared to our revised estimates.

SGS's Growth Targets and LODH Estimates

	SGS PLAN			LODH estimates			% difference		
In CHF mn FY to Dec. 31	**2006E**	**2007E**	**2008E**	**2006E**	**2007E**	**2008E**	**2006E**	**2007E**	**2008E**
Revenues (net)	3'725	4'312	**5'000**	3'525	3'849	4'197	5.7%	12.0%	19.1%
EBITDA	805	1'007	1'219	706	790	874	14.1%	27.5%	39.4%
Operating Profit (pre amort. & exept.)	589	707	850	555	623	701	6.1%	13.5%	21.3%
Operating Profit margin	15.8%	16.4%	**17.0%**	15.7%	16.2%	16.7%	0.1%	0.2%	0.3%
Net profit	422	507	611	411	463	522	2.7%	9.6%	17.2%
EPS (reported)	**55.2**	**66.4**	**80.0**	**53.8**	**60.5**	**68.3**	2.7%	9.6%	17.2%

RISKS

There are a number of risks which could prevent SGS from attaining its strategic growth targets:

> First of all, the CEO has characterized the plan as aggressive. We believe the financial targets represent stretch goals designed in part to inspire and motivate management to perform at peak levels.

> The markets in which SGS operates are cyclical. Most of the business segments are correlated to growth in world trade which, although it has been growing fundamentally through lower trade barriers and increased consumption in emerging markets, is exposed to GDP trends.

> Many business segments are currently benefiting from high commodity and energy prices, trends which are difficult to predict and may not continue through to 2008.

> Finally, a portion of the growth plan is dependent upon SGS's ability to find and acquire companies active in its key business segments at a rate faster than the company has done in the past.

VALUATION AND RECOMMENATION

SGS is trading at a P/E of 19.5x for 2006E and an EV/EBIT multiple of 13.1x. This compares to 10-year average forward multiples of 21x P/E and 13.7x EV/EBIT.

Were we to price the stock in line with its historical average multiples (EV/EBIT FWD), we would expect a share price of CHF 1,030 today, CHF 1,180 at the end of 2006, CHF 1,350 at the end of 2007 and CHF 1,540 at the end of 2008 as shown in the table below. Further appreciation would be expected from the potential of earnings-enhancing acquisitions.

Our new price target on a twelve-month horizon is CHF 1,200.

Valuation of SGS

SGS			**2005**	**2006**	**2007**	**2008**
Share price		1022				
MV			8000	8000	8000	8000
EV			7521	7291	7024	6713
Multiples	Historic Avg					
EV/EBIT		16.3	15.6	13.1	11.3	9.6
EV/EBIT FWD		13.7	13.6	11.7	10.0	
PE		22.0	22.4	19.5	17.3	15.4
PE FWD		21.1	19.5	17.3	15.4	
Implied price at Hist Avg multiple						
EV/EBIT			1070	1250	1420	1620
EV/EBIT FWD			**1030**	**1180**	**1350**	**1540**
PE			1000	1160	1300	1460
PE FWD			1110	1250	1400	1570

Peer Group Valuation

Company	Price	EV/EBITDA			EV/EBIT			PE			Sales growth		EPS growth	
	l.c.	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2005	2006
Intertek Group	734	11.2	9.9	8.7	14.3	14.0	10.9	18.9	16.8	15.1	11.1%	8.2%	8%	12%
Business Service		7.5	6.3	5.6	21.0	10.5	7.4	15.2	12.5	10.8	14.3%	6.4%	6.5%	12.5%
SGS	**1'022**	**12.2**	**10.3**	**8.7**	**15.6**	**13.1**	**11.3**	**22.4**	**19.5**	**17.3**	**10.0%**	**9.3%**	**22%**	**15%**

07/11/05

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Divisional Revenue Breakdown

Division		2002	2003	2004	2005E	2006E	2007E	2008E
Agricultural Services	CHF mn	250.4	241.8	257.1	285.5	313.6	335.5	359.0
Minerals Services	CHF mn	268.4	279.9	319.4	362.1	408.5	457.5	512.4
Oil & Gas	CHF mn	398.7	439.1	574.6	620.0	682.0	743.4	802.8
Consumer Services	CHF mn	268.4	272.3	360.6	453.6	535.3	620.9	714.1
Systems & Services Certification	CHF mn	212.7	229.7	235.4	255.7	278.7	303.8	331.1
Trade Assurance Services	CHF mn	209.7	219.5	255.4	241.6	234.3	236.7	241.4
Automotive Services	CHF mn	238.9	211.0	187.7	202.3	212.4	223.1	234.2
Life Sciences Services	CHF mn	61.9	59.1	106.5	124.4	138.0	153.2	170.1
Industrial Services	CHF mn	320.6	330.1	379.8	440.6	475.9	514.0	555.1
Environmental Services	CHF mn	162.6	nm	208.6	232.2	246.2	261.0	276.6
Total revenues	CHF mn	**2392.3**	**2282.5**	**2885.1**	**3218.0**	**3525.0**	**3849.0**	**4196.9**

Divisional Revenue Breakdown (yearly organic change in %)

Division		2002	2003	2004	2005E	2006E	2007E	2008E
Agricultural Services	%	7.7	0.0	7.4	10.0	8.0	7.0	7.0
Minerals Services	%	1.9	5.1	16.4	14.0	12.0	12.0	12.0
Oil & Gas	%	1.1	16.8	12.8	9.0	10.0	9.0	8.0
Consumer Services	%	12.7	14.2	22.8	21.0	18.0	16.0	15.0
Systems & Services Certification	%	10.8	14.0	3.9	9.0	9.0	9.0	9.0
Trade Assurance Services	%	-7.7	5.6	17.2	-6.0	-3.0	1.0	2.0
Automotive Services	%	16.7	-3.6	-14.0	3.0	5.0	5.0	5.0
Life Sciences Services	%	2.2	-4.5	-4.2	14.0	11.0	11.0	11.0
Industrial Services	%	10.8	3.5	15.2	13.0	8.0	8.0	8.0
Environmental Services	%	nm	nm	9.3	10.0	6.0	6.0	6.0
Total revenues	%	**6.5**	**7.1**	**10.7**	**10.0**	**9.3**	**9.2**	**9.0**

Divisional Operating Profit Margin Breakdown

Division		2002	2003	2004	2005E	2006E	2007E	2008E
Agri	%	9.8	10.0	9.2	11.5	12.5	13.0	13.0
Minerals	%	9.9	12.7	14.5	16.0	16.0	16.5	17.0
Oil & Gas	%	7.8	10.9	11.9	12.5	13.0	13.5	14.0
Consumer	%	9.4	14.5	18.1	21.3	22.0	22.5	23.0
Certification	%	11.4	15.1	13.0	15.5	16.0	16.5	17.0
Trade Assurance	%	11.0	20.5	24.1	21.0	21.0	21.0	21.0
Automotive	%	5.7	9.9	10.7	12.5	13.0	13.3	13.5
Life Science	%	5.3	10.0	12.0	15.0	18.0	18.0	18.0
Industrial	%	10.4	10.6	12.1	13.5	14.0	14.5	15.0
Environmnetal	%	5.8	nm	8.1	10.5	12.0	12.5	13.0
Total operating income	%	**9.0**	**13.1**	**13.6**	**15.0**	**15.7**	**16.2**	**16.7**
Exceptional operating items	%	-3.3	-7.7	0.1	0.0	0.0	0.0	0.0
Goodwill amortization	%	-0.4	-0.3	-0.6	0.0	0.0	0.0	0.0
Total reported EBIT	%	**5.3**	**5.1**	**13.1**	**15.0**	**15.7**	**16.2**	**16.7**

Income Statement

In CHF mn FY to Dec. 31		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Revenues (net)		**2'332.0**	**2'391.9**	**2'454.0**	**2'885.0**	**3'218.0**	**3'525.0**	**3'849.0**	**4'196.9**	*10.1%*
Total operating expenses		-2'262.6	-2'160.8	-2'055.0	-2'376.0	-2'602.2	-2'819.4	-3'059.0	-3'322.4	*8.8%*
EBITDA	=	**69.4**	**231.1**	**399.0**	**509.0**	**615.8**	**705.6**	**790.1**	**790.1**	*15.8%*
Depreciation & amortization		-109.8	-103.9	-106.0	-131.0	-132.6	-150.6	-166.8	-173.7	*8.4%*
EBIT	=	**-40.4**	**127.3**	**293.0**	**378.0**	**483.2**	**555.0**	**623.2**	**623.2**	*18.1%*
Interest income/expenses (net)		17.0	7.8	10.0	6.0	6.0	8.0	11.3	15.2	*23.4%*
Pretax profit	=	**-23.4**	**140.4**	**303.0**	**384.0**	**489.2**	**563.0**	**634.5**	**634.5**	*18.2%*
Taxes		-43.5	-27.5	-68.0	-90.0	-115.0	-132.3	-149.1	-168.3	*18.3%*
Net group profit	=	**-66.9**	**113.0**	**235.0**	**294.0**	**374.2**	**430.7**	**485.4**	**485.4**	*18.2%*
Minority interests		-8.3	-3.8	-8.0	-15.0	-17.3	-19.8	-22.8	-26.2	*15.0%*
Net profit	=	**-75.2**	**109.1**	**227.0**	**279.0**	**357.0**	**410.8**	**462.6**	**462.6**	*18.4%*
Net profit adjusted		110.8	197.4	234.0	292.0	357.0	410.8	462.6	521.5	*16.6%*

Growth		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Revenues (net)	%	-1.6	2.6	2.6	17.6	11.5	9.5	9.2	9.0
EBITDA	%	-74.9	n.m.	72.6	27.6	21.0	14.6	12.0	10.7
EBIT	%	-123.9	n.m.	130.2	29.0	27.8	14.9	12.3	12.4
Net profit	%	-158.4	n.m.	108.0	22.9	27.9	15.1	12.6	12.7

Margins analysis		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
EBIT margin	%	-1.7	5.3	11.9	13.1	15.0	15.7	16.2	16.7	*1194.0%*
Tax rate	%	-185.9	19.6	22.4	23.4	23.5	23.5	23.5	23.5	*2244.2%*
Net profit margin	%	-3.2	4.6	9.3	9.7	11.1	11.7	12.0	12.4	*925.0%*
Operational cash flow	%	5.7	10.0	15.2	14.9	15.1	16.1	16.6	16.8	*3.5%*

Cash flow Statement

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Cash flow	**208.5**	**169.4**	**354.0**	**420.0**	**495.8**	**581.2**	**652.2**	**721.4**	*15.8%*
Inc. (-)/dec. (+) in NWC	-76.0	70.5	20.1	11.0	-10.9	-14.3	-15.1	-16.2	*n.m.*
Operating cash flow	**132.5**	**239.9**	**374.1**	**431.0**	**485.0**	**566.9**	**637.1**	**637.1**	*13.9%*
Maintenance capex (-)	-80.0	-120.9	-171.0	-201.0	-200.0	-200.0	-200.0	-200.0	*-0.2%*
Operating free cash flow	**52.5**	**119.0**	**203.1**	**230.0**	**285.0**	**366.9**	**437.1**	**437.1**	*23.9%*
Investing cash flow	**2.9**	**-47.9**	**2.0**	**-127.0**	**-22.0**	**0.0**	**0.0**	**0.0**	*n.m.*
Financing cash flow	**-2.0**	**-185.9**	**-156.0**	**-97.0**	**-93.9**	**-101.7**	**-117.3**	**-122.2**	*6.5%*
Inc. (+)/dec. (-) in cash	**7.6**	**-117.9**	**-5.3**	**-70.0**	**144.1**	**265.3**	**319.8**	**384.1**	*n.m.*

Balance Sheet

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Cash & marketable securities	649.2	531.3	526.0	456.0	600.1	865.4	1'185.1	1'569.2	*n.m.*
Inventories	111.9	108.4	108.0	118.0	123.4	135.2	147.6	172.5	*3.8%*
Trade and other receivables	684.1	640.7	706.0	711.0	784.7	859.5	938.5	1'034.8	*4.7%*
Current assets	**1'445.2**	**1'280.4**	**1'340.0**	**1'285.0**	**1'508.2**	**1'860.1**	**2'271.3**	**2'271.3**	*10.0%*
Net fixed assets	397.7	373.9	415.0	493.0	560.4	609.8	643.0	669.3	*4.5%*
Goodwill	59.9	106.7	147.0	304.0	326.0	326.0	326.0	326.0	*1.2%*
Other long-term assets	87.9	88.5	120.0	130.0	130.0	130.0	130.0	130.0	*0.0%*
Long-term assets	**545.5**	**569.1**	**682.0**	**927.0**	**1'016.4**	**1'065.8**	**1'099.0**	**1'099.0**	*2.9%*
Total assets	**1'990.7**	**1'849.5**	**2'022.0**	**2'212.0**	**2'524.6**	**2'925.9**	**3'370.3**	**3'370.3**	*7.3%*

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Trade and other payables	272.2	259.9	299.0	329.0	361.5	396.0	432.4	482.9	*4.7%*
Short-term interest-bearing debt	161.4	81.9	22.0	10.0	10.0	10.0	10.0	11.0	*0.0%*
Other current liabilities	237.2	273.1	319.0	361.0	396.7	434.6	474.5	528.9	*4.7%*
Current liabilities	**670.8**	**614.9**	**640.0**	**700.0**	**768.2**	**840.5**	**916.9**	**916.9**	*4.6%*
Long-term interest-bearing debt	42.2	47.8	11.0	8.0	8.0	8.0	8.0	9.0	*0.0%*
Pension provisions	105.0	94.0	74.0	65.0	65.0	65.0	65.0	65.0	*0.0%*
Deferred taxes	42.0	54.5	72.0	64.0	64.0	64.0	64.0	64.0	*0.0%*
Other provisions	123.2	123.6	135.0	120.0	109.0	109.0	109.0	109.0	*-1.6%*
Long-term liabilities	**312.4**	**319.9**	**292.0**	**257.0**	**246.0**	**246.0**	**246.0**	**246.0**	*-0.7%*
Shareholders' equity	**981.7**	**896.6**	**1'072.0**	**1'229.0**	**1'467.1**	**1'776.3**	**2'121.5**	**2'519.9**	*9.5%*
Minority interests	25.8	18.1	18.0	26.0	43.3	63.1	85.9	112.1	*22.0%*
Equity & l.t. liabilities	**1'319.9**	**1'234.6**	**1'382.0**	**1'512.0**	**1'756.4**	**2'085.4**	**2'453.4**	**2'453.4**	*8.4%*
Total liabilities & sh. equity	**1'990.7**	**1'849.5**	**2'022.0**	**2'212.0**	**2'524.6**	**2'925.9**	**3'370.3**	**3'370.3**	*7.3%*

Balance Sheet Analysis

Working capital analysis		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Net work. cap. (NWC)	CHF mn	287	216	196	139	150	164	179	195	*4.3%*
NWC/turnover	%	12.3	9.0	8.0	4.8	4.7	4.7	4.7	4.7	*-0.6%*
Working capital	days	44	33	29	17	17	17	17	17	*-0.6%*
Inventory	days	17	16	16	15	14	14	14	15	*-0.8%*
Receivables	days	106	96	104	89	89	89	89	90	*0.1%*
Payables	days	42	39	44	41	41	41	41	42	*0.0%*

Capital structure		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Average equity	CHF mn	1'041	939	984	1'151	1'348	1'622	1'949	2'321	*n.a.*
Net cash. (year-end)	CHF mn	446	402	493	438	582	847	1'167	1'549	*17.7%*
Capital employed	CHF mn	667	607	671	882	993	1'057	1'105	1'148	*3.8%*
Equity/total assets	%	50.6	49.5	53.9	56.7	59.8	62.9	65.5	67.5	*2.4%*
Gearing (year-end)	%	-45.4	-44.8	-46.0	-35.6	-39.7	-47.7	-55.0	-61.5	*n.a.*

Breakdown of ROE		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Net profit margin	%	-3.2	4.6	9.3	9.7	11.1	11.7	12.0	12.4
Asset turnover	%	117.1	129.3	121.4	130.4	127.5	120.5	114.2	107.6
Return on assets (ROA)	%	-3.8	5.9	11.2	12.6	14.1	14.0	13.7	13.4
Leverage (assets/equity)	x	1.9	2.0	2.1	1.9	1.9	1.8	1.7	1.7
Return on equity (ROE)	%	-7.2	11.6	23.1	24.3	26.5	25.3	23.7	22.5

Summary & Valuation

Price (registered)		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Price (year-end)	CHF	267	416	779	797	1'022	1'022	1'022	1'022
High	CHF	519	521	790	797	926	n.a.	n.a.	n.a.
Low	CHF	178	257	418	645	801	n.a.	n.a.	n.a.

Shares outstanding		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Average shares outstanding	('000)	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822
Year-end shares outstanding	('000)	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822
Market capitalization	CHF mn	2'085	3'254	6'093	6'230	7'994	7'994	7'994	7'994

Aggregate data		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
Revenues (net)	CHF mn	2'332	2'392	2'454	2'885	3'218	3'525	3'849	4'197	*6.9%*
EBITDA	CHF mn	69	231	399	509	616	706	790	874	*11.5%*
EBIT	CHF mn	-40	127	293	378	483	555	623	701	*13.7%*
Net profit	CHF mn	-75	109	227	279	357	411	463	522	*13.8%*
Enterprise value	CHF mn	1'770	2'965	5'692	5'883	7'520	7'275	6'978	6'622	*7.3%*

Growth (CHF)		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Revenues (net)	%	-1.6	2.6	2.6	17.6	11.5	9.5	9.2	9.0
EBITDA	%	-74.9	n.m.	72.6	27.6	21.0	14.6	12.0	10.7
EBIT	%	n.m.	n.m.	130.2	29.0	27.8	14.9	12.3	12.4
Net profit	%	n.m.	n.m.	108.0	22.9	27.9	15.1	12.6	12.7
value	%	-10.7	-8.7	19.6	14.6	19.4	21.1	19.4	18.8

Per-share data		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2004-2007
EPS (reported)	CHF	-9.6	14.2	29.6	36.5	46.7	53.8	60.6	68.3	*13.8%*
EPS (adjusted)	CHF	14.2	25.2	29.9	37.3	45.6	52.5	59.1	66.7	*12.1%*
EBITDA	CHF	8.9	29.5	51.0	65.1	78.7	90.2	101.0	111.8	*11.5%*
EBIT	CHF	-5.2	16.3	37.5	48.3	61.8	71.0	79.7	89.6	*13.7%*
Cash flow	CHF	26.7	21.7	45.2	53.7	63.4	74.3	83.4	92.2	*11.4%*
Op. cash flow	CHF	16.9	30.7	47.8	55.1	62.0	72.5	81.5	90.2	*9.6%*
BVPS (reported)	CHF	125.5	114.6	137.0	157.1	187.6	227.1	271.2	322.1	*13.1%*
Dividend	CHF	6.0	6.0	7.0	12.0	13.0	15.0	16.0	17.0	*7.7%*

Valuation (CHF)		2001	2002	2003	2004	2005E	2006E	2007E	2008E	
P/E (reported)	x	-27.7	29.2	26.3	21.8	21.9	19.0	16.9	15.0	
P/E (adjusted)	x	18.8	16.5	26.0	21.3	22.4	19.5	17.3	15.3	*22.1*
P/Cash flow	x	10.0	19.2	17.2	14.8	16.1	13.8	12.3	11.1	
P/Op. cash flow	x	15.7	13.6	16.3	14.5	16.5	14.1	12.5	11.3	
P/ (reported)	x	2.1	3.6	5.7	5.1	5.4	4.5	3.8	3.2	
Dividend yield	%	2.3	1.4	0.9	1.5	1.3	1.5	1.6	1.7	
EV/Revenues	x	0.8	1.2	2.3	2.0	2.3	2.1	1.8	1.6	
EV/EBITDA	x	25.5	12.8	14.3	11.6	12.2	10.3	8.8	7.6	
EV/EBIT	x		23.3	19.4	15.6	15.6	13.1	11.2	9.4	*13.6*

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Tower 49, 12 East 49th Street, 17th Floor Fax: (+1 212) 792 58 32
New York, NY 10017 E-mail: losi@LODH.com

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Hold:
We expect the stock to perform in line (+/-5%) with the SMI on a 12-month horizon*

Reduce:
We expect the stock to underperform the SMI by >5% on a 12-month horizon*

Sell:
We believe the stock carries high fundamental risks as an investment

Not Rated:
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Under Review:
The information available on the company is currently not sufficient for our analysts to express an opinion on the stock

Non-SMI Stocks

Buy:
We expect the stock to rise by >15% in Swiss francs and to outperform the SPI Small & Mid Cap Index on a 12-month horizon*

Hold:
We expect the stock to rise by 0%-15% in Swiss francs on a 12-month horizon*

Reduce:
We expect the stock to decline in Swiss francs on a 12-month horizon*

Sell:
We believe the stock carries high fundamental risks as an investment

Not Rated:
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Under Review:
The information available on the company is currently not sufficient for our analysts to express an opinion on the stock.

* The Bank reserves the right to waive repeated rating adjustments in periods of high stock volatility.

Distribution of Ratings for SMI and Non-SMI Stocks as at September 30, 2005 (updated quarterly)

SMI Stocks

Ratings	Count	%	Investment banking services provided within the last 36 months Count	%
Buy	15	58%	1	50%
Hold	11	42%	1	50%
Sell*	0	0%	0	0%
Not Rated	0	0	0	0%
Under Review	0	0	0	0%

Non-SMI Stocks

Ratings	Count	%	Investment banking services provided within the last 36 months Count	%
Buy	22	28%	4	27%
Hold	51	65%	9	60%
Sell*	4	5%	1	7%
Not Rated	1	1%	1	7%
Under Review	0	0%	0	0%

* This category includes stocks rated as a Reduce and as a Sell

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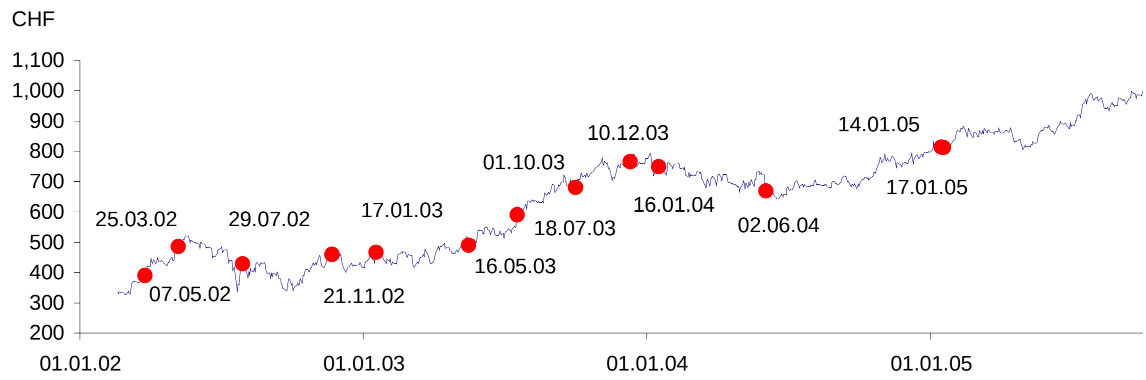
Recommendation & Price Target History of SGS (Reg.) as at September 30, 2005



Date	Rating Change	Price Target Change	Reason for Action
17.01.05		From UR to CHF 900	FY 2004 results
14.01.05		From CHF 750 to UR	FY 2004 results
02.06.04	From Buy to Hold	From CHF 870 to CHF 750	Departure of CEO
16.01.04		From CHF 850 to CHF 870	Good FY 2003 results
10.12.03		From CHF 800 to CHF 850	EGM, capital increase
01.10.03		From CHF 690 to CHF 800	Lower risk premium/merger rumors
18.07.03		From CHF 580 to CHF 690	H1 2003 results
16.05.03		From CHF 540 to CHF 580	AGM/Trading update
17.01.03		From CHF 520 to CHF 540	FY 2002 results
21.11.02		From CHF 450 to CHF 520	Company meeting
29.07.02		From CHF 650 to CHF 450	Comparative valuation
07.05.02		From CHF 490 to CHF 650	Revised 36-month strategic plan
25.03.02		From CHF 350 to CHF 490	Increased guidance