



January 17, 2005

Company Focus

Equity Brokerage

SGS

HOLD

Industrial Goods and Services
SwitzerlandPrice (Registered)
12-Month Target
PotentialCHF 813.5
CHF 900
+10.6%

| | |
|------------------|------------|
| Market Cap | CHF 6.3 bn |
| Free Float (53%) | CHF 3.3 bn |
| Bloomberg | SGSN.VX |
| Reuters | SGSN.VX |
| Telekurs | 249 745 |

Stock price as at: January 14, 2004

Share Performance

| (in %) | -1M | -3M | -12M |
|-----------------|-----|------|------|
| Absolute | 3.1 | 14.8 | 6.6 |
| Relative to SPI | 1.7 | 8.8 | 3.1 |

Profitability Margins

| (in %) | 2005E | 2006E | 2007E |
|------------|-------|-------|-------|
| EBITDA | 20.6 | 21.9 | 22.1 |
| EBIT | 15.9 | 16.4 | 16.5 |
| Net Profit | 11.6 | 12.0 | 12.0 |

Balance Sheet Metrics

| (in %) | 2005E | 2006E | 2007E |
|---------|-------|-------|-------|
| ROE | 25.9 | 23.7 | 21.1 |
| ROCE | 53.4 | 57.4 | 61.3 |
| Gearing | -45.5 | -55.5 | -63.7 |

Changes in Estimates

| (in CHF) | 2005E | 2006E | 2007E |
|--------------|-------|-------|-------|
| EPS New | 46.8 | 52.9 | 57.2 |
| % Change | -0.1 | +3.5 | na |
| EPS Adj. New | 45.8 | 51.7 | 55.9 |
| % Change | -0.1 | +3.5 | na |

| | | |
|-----------------|-----|---------|
| 12-Month Target | Old | CHF 750 |
| | New | CHF 900 |

Analysts

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FY 2004 RESULTS REVIEW

On Track for CHF 45 EPS in 2005

Good set of H2 2004 results

SGS reported encouraging organic growth of 11.3% (LODH forecast: 10%) and a 130 bps operating margins increase to 14%. This brought FY 2004 operating and net profit to CHF 210 mn and CHF 279 mn, respectively, just about in line with our and consensus estimates. Better-than-expected NWC management led to a positive surprise in operating free cash flow of CHF 30 mn.

Consumer Testing, Oil & Gas and Minerals remain growth engines

Next to an impressive organic growth contribution of 26% from Consumer Testing, SGS took advantage from high and volatile raw material prices. Minerals grew by 20.6% organically, and Agriculture and Oil&Gas grew by 14.4% and by 13.1%, respectively. Smaller-than-expected renewal rates for ISO 9000 certifications resulted in a disappointing 0.9% in Certification.

SGS' 2005 guidance of CHF 45 EPS seems realistic

Although higher margin acquisitions (>15% operating margin) in H2 contributed approximately a fifth of the group margin improvement, this is still a respectable accomplishment. We expect SGS to reach its targets due to the following: 1) double-digit revenue growth in 2005; 2) above-average growth in the higher margin Consumer Testing division; 3) further benefits from 6 sigma; and 4) better capacity utilization. We forecast a CHF 47 reported EPS for 2005.

Further improvement with new CEO? - HOLD

While negotiations with a new CEO are in the final stage, currently there are not any with Bureau Veritas. Therefore, at 17.8x 2005 P/E (seems fair!) investors should think about margin improvement potential beyond the target of 16% in 2005. In our eyes, Consumer Testing and TAS should allow an increase to 16.5%, which brings fair value to CHF 900 in our DCF. We reiterate our Hold rating.

Results and Valuation

| FY to Dec. 31 | 2003 | 03/02 | 2004 | 04/03 | 2005E | 05/04 | 2006E | 06/05 |
|-------------------------------------|---------|-------|---------|-------|---------|-------|---------|-------|
| In CHF mn | | | | | | | | |
| Revenues | 2'454.0 | 2.6 | 2'885.0 | 17.6 | 3'092.0 | 7.2 | 3'370.9 | 9.0 |
| EBITDA | 399.0 | 72.6 | 506.0 | 26.8 | 637.9 | 26.1 | 738.2 | 15.7 |
| Net profit | 227.0 | 108.0 | 279.0 | 22.9 | 358.0 | 28.3 | 404.1 | 12.9 |
| Adjusted Net profit | 234.0 | 18.5 | 295.0 | 26.1 | 358.0 | 21.3 | 404.1 | 12.9 |
| In CHF, per registered share | | | | | | | | |
| EPS | 30.5 | 18.5 | 38.6 | 26.3 | 46.8 | 21.3 | 52.9 | 12.9 |
| EBITDA | 51.0 | 72.6 | 64.7 | 26.8 | 81.5 | 26.1 | 94.4 | 15.7 |
| EPS (Adjusted) | 29.9 | 16.1 | 37.7 | 26.1 | 45.8 | 21.3 | 51.7 | 12.9 |
| DPS | 7.0 | 16.7 | 7.0 | 0.0 | 7.0 | 0.0 | 7.0 | 0.0 |
| BVPS | 137.0 | 19.6 | 157.1 | 14.6 | 195.9 | 24.7 | 240.5 | 22.8 |
| Ratios per share | | | | | | | | |
| P/E | 25.5 | | 21.1 | | 17.4 | | 15.4 | |
| P/E (Adjusted) | 26.8 | | 22.8 | | 17.8 | | 15.7 | |
| P/BV | 5.7 | | 5.2 | | 4.2 | | 3.4 | |
| EV/EBITDA | 14.3 | | 11.9 | | 9.1 | | 7.4 | |
| Yield | 0.9 | | 0.9 | | 0.9 | | 0.9 | |

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H2 2004 Results Review

SGS reported a good set of numbers last Friday, with organic revenue growth of 10.6% for FY 2004, which is slightly above our estimate of 10%. It came fully in line on absolute operating profit, which implies a slightly weaker-than-expected operating margin of 13.6% versus our forecast of 13.8%. Net profit of CHF 279 mn fell short of our expectation by about CHF 3 mn, but was slightly ahead of consensus (by CHF 3 mn).

Interim Profit and Loss

| Profit & Loss | H1 04 | H2 04 | 2004 | H2 04E | 2004E | % change to LODH | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|------------------|-------|----------------|
| | | | | | | H2 04 | FY 04 | Consensus |
| Revenues | 1'390.0 | 1'495.0 | 2'885.0 | 1'455.7 | 2'845.7 | 2.7% | 1.4% | 2'826.4 |
| % growth | 18.4% | 16.8% | 142.3% | 13.7% | 139.0% | | | |
| EBITDA | 234.0 | 272.0 | 506.0 | 280.9 | 514.9 | -3.2% | -1.7% | |
| % of net sales | 16.8% | 18.2% | 17.5% | 19.3% | 18.1% | | | |
| Depreciation | 53.0 | 46.0 | 99.0 | 68.1 | 121.1 | | | |
| Operating Profit | 181.0 | 210.0 | 391.0 | 213.4 | 393.8 | -1.6% | -0.7% | 391.0 |
| Operating profit margin | 13.0% | 14.0% | 13.6% | 14.7% | 13.8% | | | 13.8% |
| EBITA | 181.0 | 213.0 | 394.0 | 212.8 | 393.8 | | | |
| EBITA margin | 13.0% | 14.2% | 13.7% | 14.6% | 13.8% | | | |
| Goodwill amortization | 8.0 | 8.0 | 16.0 | 8.0 | 16.0 | | | |
| Net operating income (EBIT) | 173.0 | 205.0 | 378.0 | 204.8 | 377.8 | 0.1% | 0.0% | 378.0 |
| EBIT margin | 12.4% | 13.7% | 13.1% | 14.1% | 13.3% | | | |
| change % | 31.1% | 27.3% | 186.4% | 27.2% | 186.2% | | | |
| Net interest income | 4.0 | 2.0 | 6.0 | 5.3 | 9.3 | | | |
| Income before Income Taxes | 177.0 | 207.0 | 384.0 | 210.2 | 387.2 | -1.5% | -0.8% | |
| Taxes on earnings | 43.0 | 47.0 | 90.0 | 49.9 | 92.9 | | | |
| Tax rate % | 24.3% | 22.7% | 23.4% | 23.8% | 24.0% | | | |
| Minority Interest | (6.0) | (9.0) | (15.0) | (6.0) | (12.0) | | | |
| Net profit | 128.0 | 151.0 | 279.0 | 154.3 | 282.3 | -2.1% | -1.2% | 276.0 |

Divisional Breakdown

Looking into the different divisions, we have seen very strong organic growth performance in Minerals, Agriculture, Oil&Gas and Consumer, i.e. over 20%, 14%, 13% and even 26%. This is a very positive surprise for Agriculture and a continuation of market share gains for the other divisions. H2 organic growth of 0.9% at the Certification division was a disappointment. On the profitability margin front, we have seen a good catch up from Agriculture, but it remained below our expectations. Certification suffered on the back of lower volumes.

Interim Divisional Revenue Breakdown

| Division | 1H 04 | 2H 04 | 2004 | 2H 04E | 2004E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| -Agricultural services | 124.3 | 132.8 | 257.1 | 120.3 | 244.6 |
| - Minerals services | 150.7 | 168.7 | 319.4 | 154.3 | 305.0 |
| - Oil&Gas | 282.5 | 292.1 | 574.6 | 281.7 | 564.2 |
| - Consumer Products services | 165.6 | 195.0 | 360.6 | 162.7 | 328.3 |
| - International Cert. services | 114.2 | 121.2 | 235.4 | 126.7 | 240.9 |
| -Trade Assurance | 133.0 | 122.4 | 255.4 | 134.0 | 267.0 |
| - Industrial Services | 182.3 | 197.5 | 379.8 | 189.1 | 371.4 |
| - Environmental Services | 97.3 | 111.3 | 208.6 | 99.1 | 196.4 |
| -Automotive | 89.0 | 98.7 | 187.7 | 89.6 | 178.6 |
| -Life Science | 50.9 | 55.6 | 106.5 | 98.4 | 149.3 |
| Total revenues | 1389.8 | 1495.3 | 2885.1 | 1455.9 | 2845.7 |

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Organic yearly revenue change in %

| Division | 1H 04 | 2H 04 | 2004 | 2H 04E | 2004E |
|--------------------------------|-------------|-------------|-------------|------------|-------------|
| -Agricultural services | 1.0 | 14.4 | 7.4 | 4.1 | 2.5 |
| - Minerals services | 12.0 | 20.6 | 16.4 | 12.0 | 12.0 |
| - Oil&Gas | 12.6 | 13.1 | 12.8 | 10.2 | 12.5 |
| - Consumer Products services | 19.3 | 26.0 | 22.8 | 18.1 | 18.6 |
| - International Cert. services | 7.3 | 0.9 | 3.9 | 8.6 | 8.0 |
| -Trade Assurance | 37.5 | 0.7 | 17.2 | 10.3 | 22.5 |
| - Industrial Services | 12.5 | 17.8 | 15.2 | 12.5 | 12.5 |
| - Environmental Services | 23.9 | 7.8 | 9.3 | 10.5 | 15.0 |
| -Automotive | -20.5 | -8.8 | -14.0 | 2.7 | -9.0 |
| -Life Science | -4.7 | -3.8 | -4.2 | -2.2 | 5.0 |
| Total revenues | 10.1 | 10.6 | 10.7 | 9.7 | 10.0 |

Divisional Operating Profit Breakdown

| Division | 1H 04 | 2H 04 | 2004 | 2H 04E | 2004E |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| -Agricultural services | 9.7 | 13.9 | 23.6 | 14.8 | 24.5 |
| - Minerals services | 21.4 | 24.9 | 46.3 | 22.2 | 43.6 |
| - Oil&Gas | 33.7 | 34.9 | 68.6 | 35.7 | 69.4 |
| - Consumer Products services | 28.6 | 36.6 | 65.2 | 30.2 | 58.8 |
| - International Cert. services | 14.2 | 16.3 | 30.5 | 21.5 | 35.7 |
| -Trade Assurance | 29.9 | 31.6 | 61.5 | 30.4 | 60.3 |
| - Industrial Services | 21.0 | 25.1 | 46.1 | 25.4 | 46.4 |
| - Environmental Services | 6.4 | 10.4 | 16.8 | 9.3 | 15.7 |
| -Automotive | 9.8 | 10.2 | 20.0 | 10.9 | 20.7 |
| -Life Science | 5.8 | 7.0 | 12.8 | 13.0 | 18.8 |
| Total OP before Group costs | 180.5 | 210.9 | 391.4 | 213.4 | 393.9 |
| Group corporate costs | -8.0 | -8.0 | -16.0 | -8.0 | -16.0 |
| Total EBIT before Group costs | 172.5 | 202.9 | 375.4 | 205.4 | 377.9 |
| Exceptional operating items | 0.0 | 0.0 | 3.0 | 0.0 | 0.0 |
| Total reported EBIT | 172.5 | 202.9 | 378.4 | 205.4 | 377.9 |

Divisional Operating Profit Margin Breakdown

| Division | 1H 04 | 2H 04 | 2004 | 2H 04E | 2004E |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| -Agricultural services | 7.8 | 10.5 | 9.2 | 12.3 | 10.0 |
| - Minerals services | 14.2 | 14.8 | 14.5 | 14.4 | 14.3 |
| - Oil&Gas | 11.9 | 11.9 | 11.9 | 12.7 | 12.3 |
| - Consumer Products services | 17.3 | 18.8 | 18.1 | 18.5 | 17.9 |
| - International Cert. services | 12.4 | 13.4 | 13.0 | 16.9 | 14.8 |
| -Trade Assurance | 22.5 | 25.8 | 24.1 | 22.7 | 22.6 |
| - Industrial Services | 11.5 | 12.7 | 12.1 | 13.4 | 12.5 |
| - Environmental Services | 6.6 | 9.3 | 8.1 | 9.4 | 8.0 |
| -Automotive | 11.0 | 10.3 | 10.7 | 12.2 | 11.6 |
| -Life Science | 11.4 | 12.6 | 12.0 | 13.2 | 12.6 |
| Total OP before Group costs | 13.0 | 14.1 | 13.6 | 14.7 | 13.8 |
| Group corporate costs | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total EBIT before Group costs | 12.4 | 13.6 | 13.0 | 14.1 | 13.3 |
| Exceptional operating items | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total reported EBIT | 12.4 | 13.6 | 13.1 | 14.1 | 13.3 |

Cash Flow Generation and Balance Sheet

Operating free cash flow generation of CHF 225 mn came in some CHF 30 mn above our forecast due to better NWC management. NWC targets are included in the CerTIVVA dependent incentives plans of all managers, which has led to DSO of below 60 days. In December 2003, they still stood at 70.

In FY 2004 net cash was reduced by CHF 55 mn to CHF 438 mn. In addition to CHF 69 mn for dividends, SGS spent CHF 201 mn on various smaller acquisitions.

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Interims Cash Flow Generation

| Cash Flow | H1 04 | H2 04 | 2004 |
|----------------------------------|--------------|--------------|--------------|
| Net profit pre minorities | 134.0 | 160.0 | 294.0 |
| Depreciation | 53.0 | 46.0 | 99.0 |
| Amortisation | 8.0 | 8.0 | 16.0 |
| change in provisions | (4.0) | (33.0) | (37.0) |
| change in NWC | (54.0) | 108.0 | 54.0 |
| operating CF | 137.0 | 289.0 | 426.0 |
| Capex | (74.0) | (126.0) | (200.0) |
| Operating FCF | 63.0 | 163.0 | 226.0 |
| others | (250.0) | (31.0) | (281.0) |
| period beginning net cash (debt) | 493.0 | 306.0 | 493.0 |
| period end net cash (debt) | 306.0 | 438.0 | 438.0 |

Source: company and LODH estimates

Outlook and Changes to LODH estimates

Guidance and announcements

SGS reiterated its 2005 EPS target of CHF 45 as expected. It also announced two smaller acquisitions which add approximately CHF 26 mn of revenues in its automotive business. In addition, it added a small testing company in Chile for fish cultivation.

In terms of management, at the analyst conference it was stated that negotiations with a new CEO are in a final stage, and that discussions with Bureau Veritas had ended. The announcement of a new leader for SGS will, in our view, be in weeks rather than months.

2005 targets seem realistic

We view the 2005 EPS target of CHF 45 as very realistic for the following reasons:

- 1) We expect SGS to further profit from a favorable raw material and global trade environment, which should allow the company to grow 10.3% organically. We forecast growth of 14% for Minerals, 12% for Oil & Gas, and 18% for Consumer Testing.
- 2) Above average growth in higher margin consumer testing should lift group margins. The share of testing activities within Consumer Testing versus inspections has reached 70%. This trend, in our view, should continue.
- 3) There are currently three waves of 'Six sigma' running. We expect an operating profit contribution as of 2005.
- 4) Double-digit revenue growth should lead to better capacity utilization in the lab network. For example, the company plans to optimize capacity for food consumer testing in Europe, while capacity has to be added to E&E and softlines.

Potential incremental operating profit contribution

| | |
|-----------------------------------|------------|
| 2004 operating profit | 391 |
| Volume and price increase | 33 |
| IT cost savings | 25 |
| Integration of acquisitions | 10 |
| Six sigma | 20 |
| Efficiency gains | 12 |
| 2005 LODH operating profit | 491 |

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Changes to LODH estimates

For the above mentioned reasons we have only fine-tuned our 2005 estimates and currently forecast a CHF 46.8 reported EPS. On the back of better organic growth numbers for 2004, we have increased our sales forecast by 3%, but have revised down our estimates for operating margins to 15.9%.

For 2006 we have increased our revenue growth estimate accordingly, now predicting operating margins of 16.4%. In our view, above average growth of Consumer Testing and a 22% operating margins for this division should enable SGS to surpass the group margin target of 16%.

Changes to LODH estimates

| | New | | | Old | | | Change to LODH estimates | | |
|-----------------|-------|-------|-------|-------|-------|-------|--------------------------|-------|-------|
| | 2005E | 2006E | 2007E | 2005E | 2006E | 2007E | 2005E | 2006E | 2007E |
| Sales | 3'092 | 3'371 | 3'641 | 3'013 | 3'255 | na | 2.6% | 3.6% | na |
| Oper. profit | 491 | 552 | 599 | 483 | 523 | na | 1.6% | 5.6% | na |
| EBIT | 491 | 552 | 599 | 483 | 524 | na | 1.6% | 5.4% | na |
| Adj. net profit | 358 | 404 | 437 | 358 | 391 | na | -0.1% | 3.5% | na |

Conclusion and Valuation

This is undoubtedly a good set of numbers. SGS is well on track to meet its targets for 2005. However, the market had expected even more. Also no announcement of a new CEO and a clear statement that the Bureau Veritas merger is not going to happen short term were reasons for the share price decline after the post results release.

Despite all this speculation, in our view, the investment case for SGS depends on expectations for 2006. Will, for example, the company be able to increase margins beyond the target of 16% in 2005, and will the growth continue thereafter?

In terms of **revenue growth** one has to realize that 2004 and as it now looks like also 2005, were two good years for the inspection and testing industry. We had high and volatile raw material prices and healthy level of global trade. It seems a fair assumption that in 2006 these 'ideal' conditions could change. As such, we are looking at growth rates of 8%-9%.

As for profitability, we are very confident in the Consumer Testing and Trade Assurance businesses. We forecast operating margins of 22% and 26%, respectively, bringing group margin forecasts to 16.4%.

Valuation and Recommendation

We continue to believe that at 17.8x P/E and 9x EV/EBITDA SGS is fairly valued on a 2005 basis, but see a certain upside for 2006. Our revised price target of CHF 900 (CHF 750) is based on a DCF valuation, which assumes a WACC of 8.8%, mid-term growth of 8% and an operating margin of 16.5%. We maintain our Hold recommendation because despite more aggressive assumptions in our DCF model, there is insufficient upside for a Buy.

SGS compared to Intertek

| Company | Price l.c. | EV/EBITDA | | EV/EBIT | | P/E | | Sales growth | | EPS growth | |
|-------------------|---------------|------------|------------|-------------|------------|-------------|-------------|--------------|-------------|------------|------------|
| | | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| Intertek Group | 720 | 10.4 | 8.8 | 12.2 | 10.2 | 18.4 | 15.7 | 8.5% | 9.0% | 15% | 17% |
| Business Service | | 7.6 | 7.2 | 10.5 | 9.8 | 15.6 | 12.8 | -9.3% | 5.5% | na | na |
| SGS (LODH) | 814 | 9.1 | 7.4 | 11.8 | 9.9 | 17.8 | 15.7 | 10.3% | 9.0% | 28% | 13% |

Source: JCF and LODH estimates

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Divisional Revenue Breakdown

| Division | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E |
|----------------------------------|--------|---------------|---------------|---------------|---------------|---------------|---------------|
| Agricultural Services | CHF mn | 250.4 | 241.8 | 257.1 | 266.6 | 285.2 | 305.2 |
| Minerals Services | CHF mn | 268.4 | 279.9 | 319.4 | 342.3 | 376.5 | 395.3 |
| Oil & Gas | CHF mn | 398.7 | 439.1 | 574.6 | 629.8 | 692.8 | 748.2 |
| Consumer Services | CHF mn | 268.4 | 272.3 | 360.6 | 404.2 | 464.9 | 534.6 |
| Systems & Services Certification | CHF mn | 212.7 | 229.7 | 235.4 | 233.6 | 245.3 | 257.5 |
| Trade Assurance Services | CHF mn | 209.7 | 219.5 | 255.4 | 262.8 | 283.8 | 306.5 |
| Automotive Services | CHF mn | 238.9 | 211.0 | 187.7 | 195.8 | 215.4 | 232.6 |
| Life Sciences Services | CHF mn | 61.9 | 59.1 | 106.5 | 118.5 | 130.3 | 143.3 |
| Industrial Services | CHF mn | 320.6 | 330.1 | 379.8 | 422.7 | 448.1 | 475.0 |
| Environmental Services | CHF mn | 162.6 | nm | 208.6 | 215.8 | 228.7 | 242.4 |
| Total revenues | CHF mn | 2392.3 | 2282.5 | 2885.1 | 3092.0 | 3370.9 | 3640.7 |

Divisional Revenue Breakdown (yearly organic change in %)

| Division | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E |
|----------------------------------|---|------------|------------|-------------|-------------|------------|------------|
| Agricultural Services | % | 7.7 | 0.0 | 7.4 | 8.0 | 7.0 | 7.0 |
| Minerals Services | % | 1.9 | 5.1 | 16.4 | 14.0 | 10.0 | 5.0 |
| Oil & Gas | % | 1.1 | 16.8 | 12.8 | 12.0 | 10.0 | 8.0 |
| Consumer Services | % | 12.7 | 14.2 | 22.8 | 18.0 | 15.0 | 15.0 |
| Systems & Services Certification | % | 10.8 | 14.0 | 3.9 | 5.0 | 5.0 | 5.0 |
| Trade Assurance Services | % | -7.7 | 5.6 | 17.2 | 5.0 | 8.0 | 8.0 |
| Automotive Services | % | 16.7 | -3.6 | -14.0 | 5.0 | 10.0 | 8.0 |
| Life Sciences Services | % | 2.2 | -4.5 | -4.2 | 5.0 | 10.0 | 10.0 |
| Industrial Services | % | 10.8 | 3.5 | 15.2 | 13.0 | 6.0 | 6.0 |
| Environmental Services | % | nm | nm | 9.3 | 8.0 | 6.0 | 6.0 |
| Total revenues | % | 6.5 | 7.1 | 10.7 | 10.3 | 9.0 | 8.0 |

Divisional Operating Profit Margin Breakdown

| Division | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E |
|-------------------------------|---|------------|-------------|-------------|-------------|-------------|-------------|
| Agri | % | 9.8 | 10.0 | 9.2 | 12.0 | 13.5 | 13.5 |
| Minerals | % | 9.9 | 12.7 | 14.5 | 16.0 | 16.0 | 16.0 |
| Oil & Gas | % | 7.8 | 10.9 | 11.9 | 14.0 | 14.0 | 14.0 |
| Consumer | % | 9.4 | 14.5 | 18.1 | 21.0 | 22.0 | 22.0 |
| Certification | % | 11.4 | 15.1 | 13.0 | 15.0 | 16.0 | 16.0 |
| Trade Assurance | % | 11.0 | 20.5 | 24.1 | 26.0 | 26.0 | 26.0 |
| Automotive | % | 5.7 | 9.9 | 10.7 | 12.0 | 13.0 | 13.0 |
| Life Science | % | 5.3 | 10.0 | 12.0 | 16.0 | 18.0 | 18.0 |
| Industrial | % | 10.4 | 10.6 | 12.1 | 14.0 | 14.0 | 14.0 |
| Environmnetal | % | 5.8 | nm | 8.1 | 12.0 | 12.0 | 12.0 |
| Group corporate costs | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total operating income | % | 9.0 | 13.1 | 13.6 | 15.9 | 16.4 | 16.5 |
| Exceptional operating items | % | -3.3 | -7.7 | 0.1 | 0.0 | 0.0 | 0.0 |
| Goodwill amortization | % | -0.4 | -0.3 | -0.6 | 0.0 | 0.0 | 0.0 |
| Total reported EBIT | % | 5.3 | 5.1 | 13.1 | 15.9 | 16.4 | 16.5 |

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Income Statement

| In CHF mn FY to Dec. 31 | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Revenues (net) | 2'391.9 | 2'454.0 | 2'885.0 | 3'092.0 | 3'370.9 | 3'640.7 | 7.3% |
| Total operating expenses | -2'160.8 | -2'055.0 | -2'379.0 | -2'454.1 | -2'632.8 | -2'836.4 | 2.1% |
| EBITDA | 231.1 | 399.0 | 506.0 | 637.9 | 738.2 | 804.3 | 74.1% |
| Depreciation & amortization | -103.9 | -106.0 | -115.0 | -147.2 | -186.5 | -205.0 | n.m. |
| EBIT | 127.3 | 293.0 | 378.0 | 490.7 | 551.7 | 599.3 | n.m. |
| Interest income/expenses (net) | 7.8 | 10.0 | 6.0 | 5.9 | 9.0 | 9.0 | 26.3% |
| Pretax profit | 140.4 | 303.0 | 384.0 | 496.6 | 560.7 | 608.3 | n.m. |
| Taxes | -27.5 | -68.0 | -90.0 | -121.4 | -136.8 | -148.2 | n.m. |
| Net group profit | 113.0 | 235.0 | 294.0 | 375.2 | 423.9 | 460.2 | n.m. |
| Minority interests | -3.8 | -8.0 | -15.0 | -17.3 | -19.8 | -22.8 | n.m. |
| Net profit | 109.1 | 227.0 | 279.0 | 358.0 | 404.1 | 437.3 | 29.2% |
| Net profit adjusted | 197.4 | 234.0 | 295.0 | 358.0 | 404.1 | 437.3 | n.m. |

| Growth | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E |
|----------------|---|------|-------|------|-------|-------|-------|
| Revenues (net) | % | 2.6 | 2.6 | 17.6 | 7.2 | 9.0 | 8.0 |
| EBITDA | % | n.m. | 72.6 | 26.8 | 26.1 | 15.7 | 9.0 |
| EBIT | % | n.m. | 130.2 | 29.0 | 29.8 | 12.4 | 8.6 |
| Net profit | % | n.m. | 108.0 | 22.9 | 28.3 | 12.9 | 8.2 |

| Margins analysis | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|-----------------------|---|------|------|------|-------|-------|-------|-------------------|
| EBIT margin | % | 5.3 | 11.9 | 13.1 | 15.9 | 16.4 | 16.5 | 1194.0% |
| Tax rate | % | 19.6 | 22.4 | 23.4 | 24.4 | 24.4 | 24.4 | 2244.2% |
| Net profit margin | % | 4.6 | 9.3 | 9.7 | 11.6 | 12.0 | 12.0 | 925.0% |
| Operational cash flow | % | 10.0 | 15.2 | 14.8 | 16.8 | 17.7 | 17.9 | 31.1% |

Cash flow Statement

| In CHF mn FY to Dec. 31 | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|----------------------------------|---------------|---------------|---------------|--------------|--------------|--------------|-------------------|
| Cash flow | 169.4 | 354.0 | 372.0 | 522.4 | 610.4 | 665.2 | 25.8% |
| Inc. (-)/dec. (+) in NWC | 70.5 | 20.1 | 56.0 | -4.0 | -13.0 | -12.6 | -52.1% |
| Operating cash flow | 239.9 | 374.1 | 428.0 | 518.4 | 597.4 | 652.6 | 40.6% |
| Maintenance capex (-) | -120.9 | -171.0 | -200.0 | -200.0 | -200.0 | -200.0 | 25.7% |
| Operating free cash flow | 119.0 | 203.1 | 228.0 | 318.4 | 397.4 | 452.6 | 56.9% |
| Investing cash flow | -47.9 | 2.0 | -201.0 | 0.0 | 0.0 | 0.0 | n.m. |
| Financing cash flow | -185.9 | -156.0 | -69.0 | -54.8 | -54.8 | -54.8 | 128.7% |
| Inc. (+)/dec. (-) in cash | -117.9 | -5.3 | -71.0 | 263.6 | 342.6 | 397.9 | 142.7% |

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Balance Sheet

| In CHF mn FY to Dec. 31 | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Cash & marketable securities | 531.3 | 526.0 | 455.0 | 718.6 | 1'061.3 | 1'459.1 | <i>n.m.</i> |
| Inventories | 108.4 | 108.0 | 116.0 | 118.6 | 129.3 | 139.6 | 0.6% |
| Trade and other receivables | 640.7 | 706.0 | 714.0 | 753.9 | 822.0 | 887.7 | 1.4% |
| Current assets | 1'280.4 | 1'340.0 | 1'285.0 | 1'591.2 | 2'012.5 | 2'486.5 | 5.5% |
| Net fixed assets | 373.9 | 415.0 | 493.0 | 545.8 | 559.4 | 554.3 | 2.6% |
| Goodwill | 106.7 | 147.0 | 304.0 | 304.0 | 304.0 | 304.0 | 0.0% |
| Other long-term assets | 88.5 | 120.0 | 130.0 | 130.0 | 130.0 | 130.0 | 0.0% |
| Long-term assets | 569.1 | 682.0 | 927.0 | 979.8 | 993.4 | 988.3 | 1.4% |
| Total assets | 1'849.5 | 2'022.0 | 2'212.0 | 2'571.0 | 3'005.9 | 3'474.8 | 3.8% |

| In CHF mn FY to Dec. 31 | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Trade and other payables | 259.9 | 299.0 | 329.0 | 347.3 | 378.7 | 409.0 | 1.4% |
| Short-term interest-bearing debt | 81.9 | 22.0 | 10.0 | 10.0 | 10.0 | 10.0 | 0.0% |
| Other current liabilities | 273.1 | 319.0 | 361.0 | 381.2 | 415.6 | 448.9 | 1.4% |
| Current liabilities | 614.9 | 640.0 | 700.0 | 738.5 | 804.2 | 867.8 | 1.3% |
| Long-term interest-bearing debt | 47.8 | 11.0 | 7.0 | 7.0 | 7.0 | 7.0 | 0.0% |
| Pension provisions | 94.0 | 74.0 | 74.0 | 74.0 | 74.0 | 74.0 | 0.0% |
| Deferred taxes | 54.5 | 72.0 | 72.0 | 72.0 | 72.0 | 72.0 | 0.0% |
| Other provisions | 123.6 | 135.0 | 104.0 | 104.0 | 104.0 | 104.0 | 0.0% |
| Long-term liabilities | 319.9 | 292.0 | 257.0 | 257.0 | 257.0 | 257.0 | 0.0% |
| Shareholders' equity | 896.6 | 1'072.0 | 1'229.0 | 1'532.2 | 1'881.5 | 2'264.1 | 5.7% |
| Minority interests | 18.1 | 18.0 | 26.0 | 43.3 | 63.1 | 85.9 | 13.6% |
| Equity & l.t. liabilities | 1'234.6 | 1'382.0 | 1'512.0 | 1'832.5 | 2'201.6 | 2'607.0 | 4.9% |
| Total liabilities & sh. equity | 1'849.5 | 2'022.0 | 2'212.0 | 2'571.0 | 3'005.9 | 3'474.8 | 3.8% |

Balance Sheet Analysis

| Working capital analysis | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|--------------------------|--------|------|------|------|-------|-------|-------|-------------------|
| Net work. cap. (NWC) | CHF mn | 216 | 196 | 140 | 144 | 157 | 170 | 0.7% |
| NWC/turnover | % | 9.0 | 8.0 | 4.9 | 4.7 | 4.7 | 4.7 | -1.0% |
| Working capital | days | 33 | 29 | 17 | 17 | 17 | 17 | -1.0% |
| Inventory | days | 16 | 16 | 14 | 14 | 14 | 14 | -0.8% |
| Receivables | days | 96 | 104 | 89 | 89 | 89 | 89 | 0.0% |
| Payables | days | 39 | 44 | 41 | 41 | 41 | 41 | 0.0% |

| Capital structure | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|----------------------|--------|-------|-------|-------|-------|-------|-------|-------------------|
| Average equity | CHF mn | 939 | 984 | 1'151 | 1'381 | 1'707 | 2'073 | <i>n.a.</i> |
| Net cash. (year-end) | CHF mn | 402 | 493 | 438 | 702 | 1'044 | 1'442 | 12.5% |
| Capital employed | CHF mn | 607 | 671 | 891 | 948 | 974 | 982 | 1.6% |
| Equity/total assets | % | 49.5 | 53.9 | 56.7 | 61.3 | 64.7 | 67.6 | 1.9% |
| Gearing (year-end) | % | -44.8 | -46.0 | -35.6 | -45.8 | -55.5 | -63.7 | <i>n.a.</i> |

| Breakdown of ROE | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E |
|--------------------------|---|-------|-------|-------|-------|-------|-------|
| Net profit margin | % | 4.6 | 9.3 | 9.7 | 11.6 | 12.0 | 12.0 |
| Asset turnover | % | 129.3 | 121.4 | 130.4 | 120.3 | 112.1 | 104.8 |
| Return on assets (ROA) | % | 5.9 | 11.2 | 12.6 | 13.9 | 13.4 | 12.6 |
| Leverage (assets/equity) | x | 2.0 | 2.1 | 1.9 | 1.9 | 1.8 | 1.7 |
| Return on equity (ROE) | % | 11.6 | 23.1 | 24.3 | 25.9 | 23.7 | 21.1 |

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Summary & Valuation

| Price (registered) | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | |
|---------------------------|-----|-------------|-------------|-------------|--------------|--------------|--------------|--|
| Price (year-end) | CHF | 416 | 779 | 814 | 814 | 814 | 814 | |
| High | CHF | 521 | 790 | 796 | n.a. | n.a. | n.a. | |
| Low | CHF | 257 | 418 | 722 | n.a. | n.a. | n.a. | |

| Shares outstanding | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | |
|-----------------------------|--------|-------------|-------------|-------------|--------------|--------------|--------------|--|
| Average shares outstanding | ('000) | 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 | |
| Market capitalization | CHF mn | 3'254 | 6'093 | 6'363 | 6'363 | 6'363 | 6'363 | |

| Aggregate data | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|-----------------------|--------|-------------|-------------|-------------|--------------|--------------|--------------|---------------------------|
| Revenues (net) | CHF mn | 2'392 | 2'454 | 2'885 | 3'092 | 3'371 | 3'641 | 7.3% |
| EBITDA | CHF mn | 231 | 399 | 506 | 638 | 738 | 804 | 74.1% |
| EBIT | CHF mn | 127 | 293 | 378 | 491 | 552 | 599 | n.m. |
| Net profit | CHF mn | 109 | 227 | 279 | 358 | 404 | 437 | n.m. |
| Enterprise value | CHF mn | 2'965 | 5'692 | 6'025 | 5'779 | 5'456 | 5'081 | 34.4% |

| Growth (CHF) | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | |
|---------------------|---|-------------|-------------|-------------|--------------|--------------|--------------|--|
| Revenues (net) | % | 2.6 | 2.6 | 17.6 | 7.2 | 9.0 | 8.0 | |
| EBITDA | % | n.m. | 72.6 | 26.8 | 26.1 | 15.7 | 9.0 | |
| EBIT | % | n.m. | 130.2 | 29.0 | 29.8 | 12.4 | 8.6 | |
| Net profit | % | n.m. | 108.0 | 22.9 | 28.3 | 12.9 | 8.2 | |
| value | % | -8.7 | 19.6 | 14.6 | 24.7 | 22.8 | 20.3 | |

| Per-share data | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | CAGR 2001-2005 |
|-----------------------|-----|-------------|-------------|-------------|--------------|--------------|--------------|---------------------------|
| EPS (reported) | CHF | 25.8 | 30.5 | 38.6 | 46.8 | 52.9 | 57.2 | 34.8% |
| EPS (adjusted) | CHF | 13.9 | 29.0 | 35.7 | 45.8 | 51.7 | 55.9 | n.m. |
| EBITDA | CHF | 29.5 | 51.0 | 64.7 | 81.5 | 94.4 | 102.8 | 74.1% |
| EBIT | CHF | 16.3 | 37.5 | 48.3 | 62.7 | 70.5 | 76.6 | n.m. |
| Cash flow | CHF | 21.7 | 45.2 | 47.6 | 66.8 | 78.0 | 85.0 | 25.8% |
| Op. cash flow | CHF | 30.7 | 47.8 | 54.7 | 66.3 | 76.4 | 83.4 | 40.6% |
| BVPS (reported) | CHF | 114.6 | 137.0 | 157.1 | 195.9 | 240.5 | 289.5 | 11.8% |
| Dividend | CHF | 6.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 3.9% |

| Valuation (CHF) | | 2002 | 2003 | 2004 | 2005E | 2006E | 2007E | |
|------------------------|---|-------------|-------------|-------------|--------------|--------------|--------------|--|
| P/E (reported) | x | 16.1 | 25.5 | 21.1 | 17.4 | 15.4 | 14.2 | |
| P/E (adjusted) | x | 29.8 | 26.8 | 22.8 | 17.8 | 15.7 | 14.6 | |
| P/Cash flow | x | 19.2 | 17.2 | 17.1 | 12.2 | 10.4 | 9.6 | |
| P/Op. cash flow | x | 13.6 | 16.3 | 14.9 | 12.3 | 10.7 | 9.8 | |
| P/ (reported) | x | 3.6 | 5.7 | 5.2 | 4.2 | 3.4 | 2.8 | |
| Dividend yield | % | 1.4 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | |
| EV/Revenues | x | 1.2 | 2.3 | 2.1 | 1.9 | 1.6 | 1.4 | |
| EV/EBITDA | x | 12.8 | 14.3 | 11.9 | 9.1 | 7.4 | 6.3 | |
| EV/EBIT | x | 23.3 | 19.4 | 15.9 | 11.8 | 9.9 | 8.5 | |

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

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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

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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

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Distribution of Ratings for SMI and Non-SMI Stocks as at December 31, 2004 (updated quarterly)

SMI Stocks

| Ratings | Count | % | Investment banking services provided within the last 36 months | |
|--------------|-------|-----|--|-----|
| | | | Count | % |
| Buy | 13 | 50% | 1 | 33% |
| Hold | 12 | 46% | 1 | 33% |
| Sell* | 1 | 4% | 1 | 33% |
| Not Rated | 0 | 0 | 0 | 0% |
| Under Review | 0 | 0 | 0 | 0% |

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

Non-SMI Stocks

| Ratings | Count | % | Investment banking services provided within the last 36 months | |
|--------------|-------|-----|--|-----|
| | | | Count | % |
| Buy | 25 | 34% | 4 | 44% |
| Hold | 46 | 62% | 5 | 56% |
| Sell* | 3 | 4% | 0 | 0% |
| Not Rated | 0 | 0% | 0 | 0% |
| Under Review | 0 | 0% | 0 | 0% |

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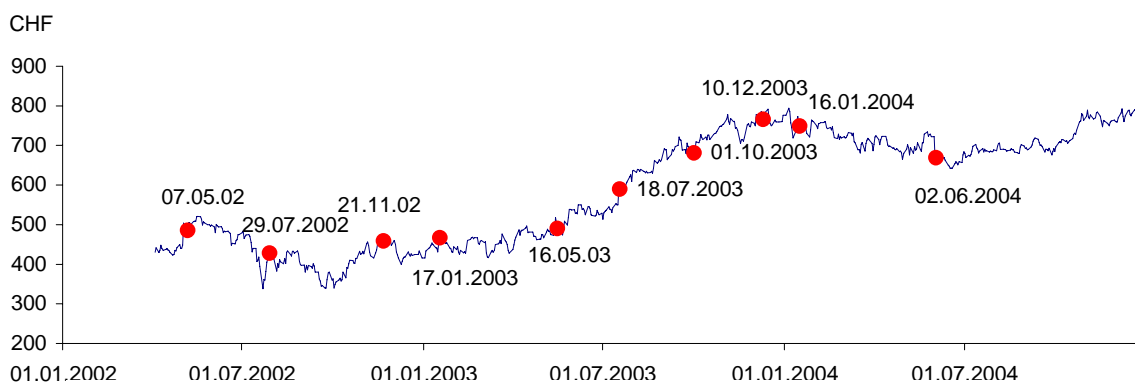
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Recommendation & Price Target History of SGS (Reg) as at December 31, 2004



| Date | Rating Change | Price Target Change | Reason for Action |
|------------|------------------|-------------------------|----------------------------------|
| 02.06.2004 | From Buy to Hold | From CHF 870 to CHF 750 | Departure of CEO |
| 16.01.2004 | | From CHF 850 to CHF 870 | Good FY 2003 results |
| 10.12.2003 | | From CHF 800 to CHF 850 | EGM, capital increase |
| 01.10.2003 | | From CHF 690 to CHF 800 | Lower risk premium/merger rumors |
| 18.07.2003 | | From CHF 580 to CHF 690 | H1 2003 results |
| 16.05.2003 | | From CHF 540 to CHF 580 | AGM/Trading update |
| 17.01.2003 | | From CHF 520 to CHF 540 | FY 2002 results |
| 21.11.2002 | | From CHF 450 to CHF 520 | Company meeting |
| 29.07.2002 | | From CHF 650 to CHF 450 | Comparative valuation |
| 07.05.2002 | | From CHF 490 to CHF 650 | Revised 36-month strategic plan |
| 25.03.2002 | | From CHF 350 to CHF 490 | Increased guidance |