SGS

Recommendation UNCHANGED **Buy**

Industrial Goods & Services		**Price at January 17 (Reg.)**	**CHF 1,164**
Switzerland		**12-Month Target ▲**	**CHF 1,300**
Next News: H1 2006 Results (18/07/06)		**Target Upside**	**+11.7%**

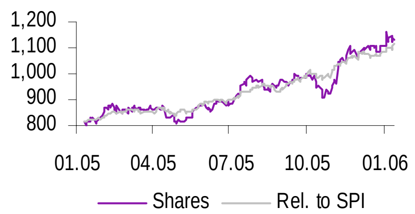
FY 2005 Results Exceed Expectations

Share Information	
Market Cap	CHF 9.1 bn
Free Float (53%)	CHF 4.8 bn
Bloomberg / Reuters	SGSN VX / SGSN VX
Telekurs	249 745

Estimate Changes (%)	2005	2006E	2007E
EPS (Reported)	5.6	5.8	5.5
EPS (Adjusted)	3.7	3.8	3.6

Growth & Returns (%)	2005	2006E	2007E
Net Sales Growth	14.7	12.6	9.4
EBITDA Margin	19.4	20.0	20.6
EBITDA Growth	26.1	16.2	12.8
EBIT Margin	15.2	15.8	16.3
EBIT Growth	32.8	17.2	12.6
Net Margin (Adjusted)	11.2	11.7	12.0
EPS Growth (Adjusted)	27.1	17.2	12.5
ROE	27.9	29.9	29.5
ROCE	50.5	50.7	53.2
Net Debt/Equity	-30.2	-26.5	-38.6

Share Price Performance (12 months)



% Change	1m	3m	12m	YTD
Absolute	5.1	22.3	43.2	5.1
Relative to SPI	0.3	7.8	2.9	1.7

Stocks priced at close, 16/01/06

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

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	**3'308.0**	14.7	**3'725.6**	12.6	**4'074.6**	9.4
EBITDA	**509.0**	27.6	**642.0**	26.1	**745.7**	16.2	**840.9**	12.8
Net profit	**279.0**	22.9	**371.0**	33.0	**433.7**	16.9	**489.0**	12.7
Adjusted Net profit	**292.0**	24.8	**371.0**	27.1	**433.7**	16.9	**489.0**	12.7
In CHF, per registered share								
EPS	**37.3**	25.7	**49.5**	32.8	**57.8**	16.9	**65.2**	12.7
EBITDA	**65.1**	27.6	**82.1**	26.1	**95.3**	16.2	**107.5**	12.8
EPS (Adjusted)	**37.3**	24.8	**47.4**	27.1	**55.4**	16.9	**62.5**	12.7
DPS	**12.0**	71.4	**50.0**	n.m.	**16.0**	-68.0	**18.0**	12.5
BVPS	**157.1**	14.6	**183.1**	16.5	**190.6**	4.1	**237.7**	24.7
Ratios per share								
P/E	**21.4**		**22.4**		**20.1**		**17.9**	
P/E (Adjusted)	**21.3**		**23.4**		**21.0**		**18.6**	
P/BV	**5.1**		**6.1**		**6.1**		**4.9**	
EV/EBITDA	**11.6**		**13.0**		**11.9**		**10.2**	
Yield	**1.5**		**4.5**		**1.4**		**1.5**	

SGS reported stronger FY 2005 results than we expected. Sales of CHF 3.3 bn are 14.7% above the 2004 level and represent +11.4% organic growth. EBIT of CHF 502 mn or 15.2% of sales is 4% above our assumption, and net income of CHF 371 mn is also 4% above our forecast. The company announced a special payout of CHF 50 per share for 2006, a strong increase over the previous year's CHF 12. We raise our earnings estimates by 4% and our price target to CHF 1,300 per share.

▶ Organic Growth of 11.4% in 2005 – Outlook Remains Strong

SGS is on track with its strategic growth plan, which calls for double-digit organic growth per year through 2008, and continued operating margin expansion towards 17% by 2008. The operating margin improved by 160 bps in 2005 to 15.2% of sales. SGS attained this strong growth despite the negative impact of hurricanes in North America and the discontinuation of PSI contracts during the year. The company outlook for 2006 remains strong, with similar organic sales growth and continued operating efficiency expected.

▶ We upgrade our earnings by 4%

On the basis of stronger 2005 results, we increase our earnings estimates by 4% on EBIT and net income. Due to a smaller number of shares outstanding than anticipated, our EPS upgrade is 6%.

▶ Valuation: pricing at 80% of targets

SGS is trading at EV/EBIT multiples of 15.1x for 2006E, 12.9x for 2007E, and 11.1x for 2008E, which compare to a historical average of 13.7x over 1994-2005. On the historical levels and our 2008 forecasts (which are about 13% below SGS' mid-term targets), we see SGS potentially at CHF 1,425 per share in a 2-year time horizon. Discounted to current value and taking into account the announced dividend, we see fair value today at about CHF 1,300 per share.

Please see important information and certification at the end of this document

Profit and Loss – Comparison of Actual versus Estimated Results

	ACT	EST	Change
Profit & Loss	**2005**	**2005E**	
Revenues	**3'308.0**	**3'223.8**	2.6%
% growth	14.7%	11.7%	
EBITDA	**642.0**	**616.9**	4.1%
% of net sales	19.4%	19.1%	
Depreciation	140.0	132.6	
Operating Profit	**502.0**	**484.3**	3.7%
Operating profit margin	**15.2%**	**15.0%**	
EBITA	502.0	484.3	
EBITA margin	15.2%	15.0%	
Goodwill amortization	0.0	0.0	
Net operating income (EBIT)	**502.0**	**484.3**	3.7%
EBIT margin	**15.2%**	**15.0%**	
change %	32.8%	28.1%	
Net interest income	5.0	6.0	
Income before Income Taxes	**507.0**	**490.3**	3.4%
Taxes on earnings	119.0	115.2	
Tax rate %	23.5%	23.5%	
Minority Interest	(17.0)	(17.3)	
Net profit	**371.0**	**357.8**	3.7%
Adj. Net profit	**371.0**	**357.8**	
% growth	27.1%	22.5%	

Comments on Results

SGS reported FY 2005 results stronger than our forecasts. Group sales of CHF 3.3 bn are 14.7% above the prior year's sales and 3% above our expectations. EBIT of CHF 502 mn (15.2% of sales) is 4% above our expected CHF 484 mn (15.0% of sales), and net income of CHF 371 is also 4% above our forecast. The company also announced a payout of CHF 50 per share (CHF 31 of which as dividend and CHF 19 as returned capital) – a strong increase over the prior year's CHF 12. We raise our price target to CHF 1,300 per share.

The strong sales growth and improved profitably during 2005 can be attributed to a return on investments in recent network expansion, efforts to sell services of higher value to customers, moving further up the value chain, increased outsourcing of operational processes by clients, and strong demand in commodities markets.

Sales growth of 14.7% is made up of 11.4% organic growth, a net positive impact from acquisitions of 1.8%, and a 1.5% impact from currency translation. This is stronger than our forecast of 11.7%, which was for 10% organic growth, a 1.8% contribution from acquisitions and a small negative impact from currency translation over the full year.

Sales growth and EBIT margin by division are shown in Table 2 (page 6).

Compared to our estimates, SGS reported notably stronger organic sales growth in the Consumer Testing division (27%), the Minerals division (+17%), and the Certification division (16% growth).

The group EBIT margin increased by 160 basis points during 2005 to 15.2% of sales, slightly above our forecast 15.0%. As expected, EBIT margins increased for all divisions except TAS. Operating margins for each division were largely in line with our forecasts, with the exception of stronger performance by the Certification division, which delivered a 17% EBIT margin (vs. 13% in 2004), expanding on stronger volumes driving better utilization rates.

Cash Flow

Cash flow of CHF 411 mn was weaker than the CHF 485 mn we had reckoned on. The difference comes from two points: the first and most significant is an increase in net working capital of CHF 60 mn during the period, representing about 2 DSOs, we estimate, whereas we had expected NWC to be flat as a percentage of sales. The company indicated that part of this increase was due to exceptionally strong sales activity in December compared to the prior year, meaning a higher collectible balance at the end of the month. Although we would have liked to see stability in NWC, we prefer to have SGS operating in a robust growth environment.

The company also reported a draw-down of provisions of about CHF 20 mn. We have noted before that the decommissioning costs of closing down certain contracts (such as the TAS operations in Venezuela and Nigeria) are provisioned in advance, so there is no exceptional charge to the P&L at the end of a contract. However, the cash charges are back-loaded, leading to higher cash outflows when contracts actually do terminate, which was the case in 2005.

Capital Structure

As noted above, SGS will propose a payout in March 2006 of CHF 50 per share, to consist of a dividend of CHF 31 and a reduction in nominal value of CHF 19. In subsequent years, SGS expects to return to a dividend policy of a payout ratio of 25%-35% (which would have implied about CHF 15 this year). This exceptional payout in 2006 is consistent with prior statements by the company, that if the excess cash was not used for investment during 2005, it would be retuned to shareholders.

The payout of CHF 50 per share represents a payout of about 4% of market cap, and would use about CHF 375 mn of SGS' net cash position of CHF 430 mn. To meet their strategic growth plan targets, we estimate investments in acquisitions of about CHF 300 mn per year will be necessary, which SGS should be able to fund with its annual free cash flow and should not need to resort to borrowing. The payment of much of the excess cash balance back to shareholders suggests SGS is not saving resources to make a large acquisition.

Company Outlook

The company outlook "continues to be strong and in line with the three-year growth plan", and "top-line organic growth should parallel last year's" [11.4% for 2005] and "operating margins are expected to continue to improve". We have forecast 9% organic growth for 2006, a 60-bp increase in the EBIT margin to 15.8%, which would result in EPS growth of 17%.

As the Strategic Growth Plan was announced just two months ago, it is not surprising that the company has reiterated its previous mid-term targets (CHF 5 bn in sales, 17% EBIT margin, EPS CHF 80 by 2008).

SGS was able to show progress towards key goals, having completed organic growth plans for all businesses, and having completed two acquisitions since November, one of which in the strategic area of Clinical Research in Europe, and the other in Environmental Testing in the US. In terms of improving operational efficiency, the Six Sigma team is working on a 'network advantage' initiative to better utilize SGS' existing laboratory networks.

Changes To Our Forecasts

We have upgraded our forecasts to incorporate the actual 2005 reported results, as shown in the table below. Our organic growth assumption remains 9% for 2006-2008, slightly below SGS' target of 10%. We continue to reflect acquisitions only as they are realized. As such, our 2008 forecasts fall below

SGS' mid-term strategic targets by some 10%-15% (SGS' targets assume 5% p.a. sales growth from acquisitions, which should be earnings enhancing in a 12-month period).

Comparison of new estimates vs old estimates and SGS 2008 targets

	new LODH estimates				old LODH estimates				% change				SGS2008 Target	
In CHF mn FY to Dec. 31	2005	2006E	2007E	2008E	2005E	2006E	2007E	2008E	2005E	2006E	2007E	2008E	CHF	Delta
Revenues (net)	3'308	3'726	4'075	4'449	3'224	3'582	3'912	4'267	2.6%	4.0%	4.2%	4.3%	5000	-11%
EBITDA	642	746	841	933	617	721	816	912	4.1%	3.4%	3.1%	2.3%		
Operating Profit (pre amort. & exept.)	502	588	662	739	484	566	637	715	3.7%	3.9%	3.9%	3.4%	850	-13%
Operating Profit margin	15.2%	15.8%	16.3%	16.6%	15.0%	15.8%	16.3%	16.8%	0.2%	0.0%	0.0%	-0.1%		
Net profit	371	434	489	547	358	419	472	531	3.7%	3.6%	3.6%	3.1%	600	-9%
Adjusted net profit	371	434	489	547	358	419	472	531	3.7%	3.6%	3.6%	3.1%		
EPS (reported)	**49.5**	**57.8**	**65.2**	**73.0**	**46.8**	**54.8**	**61.8**	**69.5**	5.6%	5.5%	5.5%	5.0%	80	-9%

VALUATION

As shown in the peer valuation below, SGS is trading at an EV/EBIT multiple of 15.1x. in 2006E and 12.9x in 2007E. This compares to 10-year average forward multiples of 13.7x EV/EBIT.

Peer Group Valuation

Company	Price	EV/EBITDA		EV/EBIT		P/E		Sales growth		EPS growth		PEG
	l.c.	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
Intertek Group	713	9.7	8.7	12.1	11.0	16.6	15.0	8.7%	6.9%	12%	9%	1.8
SGS (LODH)	**1'164**	**11.9**	**10.2**	**15.1**	**12.9**	**21.0**	**18.6**	**12.6%**	**9.4%**	**17%**	**13%**	1.6
Premiun		22%	17%	24%	18%	27%	24%	45%	35%	40%	40%	-10%

On 2007E EV/EBIT, SGS is trading at a premium of 18% to Intertek. We believe a premium for SGS is justified for various reasons:

> SGS has a more diversified product portfolio;

> SGS is gaining market share, particularly in the key market of Consumer Testing;

> SGS had no profit warning in 2005, whereas Intertek did, although both companies were negatively impacted by the hurricanes in the US and the termination of the Nigeria PSI contract. SGS was successful in replacing lost revenues from other sources, and has also systematically provisioned for contract termination costs;

> growth rates of sales and earnings are higher for SGS, leading to a lower PE/G ratio.

The historical valuation of SGS over the period 1994-2005 has been 13.7x EV/EBIT on forward-looking basis.

YEAR	MV at Yr End	Net adj.	EV at Yr End	EBIT in year	EV/EBIT historic	EV/EBIT forward
1994	3158	-683	2475	245	10.1	9.9
1995	3897	-718	3180	250	12.7	10.0
1996	5490	-615	4875	317	15.4	17.4
1997	4356	-157	4199	280	15.0	neg.
1998	3245	109	3355	-261	neg.	17.9
1999	3316	-432	2884	188	15.4	17.1
2000	3754	-288	3467	169	20.5	neg.
2001	2085	-315	1770	-40	neg.	13.9
2002	3254	-289	2965	127	23.3	10.1
2003	6093	-401	5692	293	19.4	15.1
2004	6231	-347	5884	378	15.6	11.7
2005	8667	-325	8342	502	16.6	14.2
AVERAGE 1994-2005					**16.4**	**13.7**

Please see important information and certification at the end of this document

Valuing SGS at on its 2008 target of CHF 850 mn EBIT, applying the historical valuation multiple of 13.7x, would suggest an EV of CHF 11.9 bn at the beginning of 2008, or CHF 1,600 per share in two years' time. Discounting this value back to today at 8% p.a. (including the expected dividends) would give a current fair value estimate of CHF 1,430 per share.

On the basis of our EBIT forecast (CHF 739 mn in 2008E), which does not assume any acquisition growth beyond acquisitions already announced, we obtain a fair value today of CHF 1,280 per share.

	LODH EBIT	Adj	Implied valuation at 13.7x EV/EBIT EV	MV	per share at EOY	DPS	Implied incl dvds at EOY	Share price Discounted to 18.1.2006
2005		-325	8074	8399	1120		1120	1120
2006E	588	-236	9088	9325	1243	50	**1293**	1200
2007E	662	-550	10143	10693	1426	16	1492	**1280**
2008E	739							
	SGS Target							
2007E		-50	11941	11990	1599		1665	1430
2008E	870							

We therefore increase our price target to CHF 1,300 per share, and reiterate our Buy recommendation.

TABLE 2: SALES AND EBIT BY DIVISION

Divisional Revenue Breakdown

Division		2002	2003	2004	2005	2006E	2007E	2008E
Agricultural Services	CHF mn	250.4	241.8	257.1	294.8	324.5	347.2	371.5
Minerals Services	CHF mn	268.4	279.9	319.4	393.7	466.6	522.6	585.3
Oil & Gas	CHF mn	398.7	439.1	574.6	635.3	708.9	772.7	834.5
Consumer Services	CHF mn	268.4	272.3	360.6	476.2	569.5	660.7	759.8
Systems & Services Certification	CHF mn	212.7	229.7	235.4	274.0	302.4	329.7	359.3
Trade Assurance Services	CHF mn	209.7	219.5	255.4	228.6	205.8	207.8	212.0
Automotive Services	CHF mn	238.9	211.0	187.7	200.2	212.4	223.1	234.2
Life Sciences Services	CHF mn	61.9	59.1	106.5	125.3	192.4	213.6	237.0
Industrial Services	CHF mn	320.6	330.1	379.8	444.8	485.8	524.7	566.6
Environmental Services	CHF mn	162.6	nm	208.6	235.0	257.3	272.7	289.1
Total revenues	CHF mn	**2392.3**	**2282.5**	**2885.1**	**3307.9**	**3725.6**	**4074.6**	**4449.3**

Divisional Revenue Breakdown (yearly organic change in %)

Division		2002	2003	2004	2005	2006E	2007E	2008E
Agricultural Services	%	7.7	0.0	7.4	12.2	8.0	7.0	7.0
Minerals Services	%	1.9	5.1	16.4	17.1	12.0	12.0	12.0
Oil & Gas	%	1.1	16.8	12.8	9.5	10.0	9.0	8.0
Consumer Services	%	12.7	14.2	22.8	27.2	18.0	16.0	15.0
Systems & Services Certification	%	10.8	14.0	3.9	15.3	9.0	9.0	9.0
Trade Assurance Services	%	-7.7	5.6	17.2	-10.5	-10.0	1.0	2.0
Automotive Services	%	16.7	-3.6	-14.0	-0.5	3.0	5.0	5.0
Life Sciences Services	%	2.2	-4.5	-4.2	15.6	11.0	11.0	11.0
Industrial Services	%	10.8	3.5	15.2	12.6	8.0	8.0	8.0
Environmental Services	%	nm	nm	9.3	9.0	6.0	6.0	6.0
Total revenues	%	**6.5**	**7.1**	**10.7**	**11.3**	**8.7**	**9.4**	**9.2**

Divisional Operating Profit Margin Breakdown

Division		2002	2003	2004	2005	2006E	2007E	2008E
Agri	%	9.8	10.0	9.2	11.4	12.5	13.0	13.0
Minerals	%	9.9	12.7	14.5	16.0	16.5	17.0	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	21.4	22.0	22.5	23.0
Certification	%	11.4	15.1	13.0	17.0	17.0	17.0	17.0
Trade Assurance	%	11.0	20.5	24.1	21.2	21.0	21.0	21.0
Automotive	%	5.7	9.9	10.7	12.6	13.0	13.3	13.5
Life Science	%	5.3	10.0	12.0	15.2	18.0	18.0	18.0
Industrial	%	10.4	10.6	12.1	13.2	13.5	14.0	14.5
Environmnetal	%	5.8	nm	8.1	11.1	12.0	12.5	13.0
Total operating income	%	**9.0**	**13.1**	**13.6**	**15.2**	**15.8**	**16.3**	**16.6**
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**	**15.2**	**15.8**	**16.3**	**16.6**

Income Statement

In CHF mn FY to Dec. 31		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Revenues (net)		**2'332.0**	**2'391.9**	**2'454.0**	**2'885.0**	**3'308.0**	**3'725.6**	**4'074.6**	**4'449.3**	*10.4%*
Total operating expenses		-2'262.6	-2'160.8	-2'055.0	-2'376.0	-2'666.0	-2'979.9	-3'233.7	-3'516.3	*9.7%*
EBITDA	=	**69.4**	**231.1**	**399.0**	**509.0**	**642.0**	**745.7**	**840.9**	**933.0**	*13.3%*
Depreciation & amortization		-109.8	-103.9	-106.0	-131.0	-140.0	-157.4	-178.7	-194.0	*11.5%*
EBIT	=	**-40.4**	**127.3**	**293.0**	**378.0**	**502.0**	**588.3**	**662.2**	**739.0**	*13.8%*
Interest income/expenses (net)		17.0	7.8	10.0	6.0	5.0	4.0	6.1	10.1	*26.4%*
Pretax profit	=	**-23.4**	**140.4**	**303.0**	**384.0**	**507.0**	**592.3**	**668.3**	**749.1**	*13.9%*
Taxes		-43.5	-27.5	-68.0	-90.0	-119.0	-139.0	-156.9	-175.8	*13.9%*
Net group profit	=	**-66.9**	**113.0**	**235.0**	**294.0**	**388.0**	**453.3**	**511.4**	**573.3**	*13.9%*
Minority interests		-8.3	-3.8	-8.0	-15.0	-17.0	-19.6	-22.5	-25.9	*15.0%*
Net profit	=	**-75.2**	**109.1**	**227.0**	**279.0**	**371.0**	**433.7**	**489.0**	**547.4**	*13.8%*
Net profit adjusted		110.8	197.4	234.0	292.0	371.0	433.7	489.0	547.4	*13.8%*

Growth		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Revenues (net)	%	-1.6	2.6	2.6	17.6	14.7	12.6	9.4	9.2
EBITDA	%	-74.9	n.m.	72.6	27.6	26.1	16.2	12.8	11.0
EBIT	%	-123.9	n.m.	130.2	29.0	32.8	17.2	12.6	11.6
Net profit	%	-158.4	n.m.	108.0	22.9	33.0	16.9	12.7	12.0

Margins analysis		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
EBIT margin	%	-1.7	5.3	11.9	13.1	15.2	15.8	16.3	16.6	*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	11.2	11.6	12.0	12.3	*925.0%*
Operational cash flow	%	5.7	10.0	15.2	14.9	12.4	16.5	16.8	16.8	*4.0%*

Cash flow Statement

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Cash flow	**208.5**	**169.4**	**354.0**	**420.0**	**470.0**	**610.7**	**690.1**	**767.3**	*18.0%*
Inc. (-)/dec. (+) in NWC	-76.0	70.5	20.1	11.0	-60.0	4.4	-4.5	-20.2	*n.m.*
Operating cash flow	**132.5**	**239.9**	**374.1**	**431.0**	**410.0**	**615.0**	**685.7**	**747.0**	*16.7%*
Maintenance capex (-)	-80.0	-120.9	-171.0	-201.0	-190.0	-209.0	-229.9	-252.9	*4.6%*
Operating free cash flow	**52.5**	**119.0**	**203.1**	**230.0**	**220.0**	**406.0**	**455.8**	**494.2**	*25.6%*
Investing cash flow	**2.9**	**-47.9**	**2.0**	**-127.0**	**-88.0**	**-100.0**	**0.0**	**0.0**	*n.m.*
Financing cash flow	**-2.0**	**-185.9**	**-156.0**	**-97.0**	**-31.0**	**-375.0**	**-120.0**	**-132.0**	*7.4%*
Inc. (+)/dec. (-) in cash	**7.6**	**-117.9**	**-5.3**	**-70.0**	**75.0**	**-69.0**	**335.7**	**363.1**	*n.m.*

Balance Sheet

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Cash & marketable securities	649.2	531.3	526.0	456.0	531.0	462.0	797.8	1'160.9	*n.m.*
Inventories	111.9	108.4	108.0	118.0	127.0	141.1	154.3	168.5	*4.6%*
Trade and other receivables	684.1	640.7	706.0	711.0	867.0	934.3	1'006.1	1'098.7	*6.0%*
Current assets	**1'445.2**	**1'280.4**	**1'340.0**	**1'285.0**	**1'525.0**	**1'537.4**	**1'958.2**	**2'428.0**	*7.3%*
Net fixed assets	397.7	373.9	415.0	493.0	586.0	637.6	688.8	747.7	*5.7%*
Goodwill	59.9	106.7	147.0	304.0	429.0	529.0	529.0	529.0	*9.7%*
Other long-term assets	87.9	88.5	120.0	130.0	225.0	225.0	225.0	225.0	*0.0%*
Long-term assets	**545.5**	**569.1**	**682.0**	**927.0**	**1'240.0**	**1'391.6**	**1'442.8**	**1'501.7**	*7.7%*
Total assets	**1'990.7**	**1'849.5**	**2'022.0**	**2'212.0**	**2'765.0**	**2'929.0**	**3'401.0**	**3'929.7**	*7.4%*

In CHF mn FY to Dec. 31	2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Trade and other payables	272.2	259.9	299.0	329.0	329.0	365.5	399.7	436.4	*3.3%*
Short-term interest-bearing debt	161.4	81.9	22.0	10.0	91.0	91.0	91.0	92.0	*44.5%*
Other current liabilities	237.2	273.1	319.0	361.0	445.0	494.3	540.6	590.3	*7.0%*
Current liabilities	**670.8**	**614.9**	**640.0**	**700.0**	**865.0**	**950.8**	**1'031.3**	**1'118.8**	*6.7%*
Long-term interest-bearing debt	42.2	47.8	11.0	8.0	7.0	7.0	7.0	8.0	*-2.2%*
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	289.0	289.0	289.0	289.0	*15.8%*
Long-term liabilities	**312.4**	**319.9**	**292.0**	**257.0**	**425.0**	**425.0**	**425.0**	**426.0**	*8.7%*
Shareholders' equity	**981.7**	**896.6**	**1'072.0**	**1'229.0**	**1'432.0**	**1'490.7**	**1'859.6**	**2'274.1**	*7.1%*
Minority interests	25.8	18.1	18.0	26.0	43.0	62.6	85.0	110.9	*21.8%*
Equity & l.t. liabilities	**1'319.9**	**1'234.6**	**1'382.0**	**1'512.0**	**1'900.0**	**1'978.2**	**2'369.7**	**2'811.0**	*7.8%*
Total liabilities & sh. equity	**1'990.7**	**1'849.5**	**2'022.0**	**2'212.0**	**2'765.0**	**2'929.0**	**3'401.0**	**3'929.7**	*7.4%*

Balance Sheet Analysis

Working capital analysis		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Net work. cap. (NWC)	CHF mn	287	216	196	139	220	216	220	240	*8.0%*
NWC/turnover	%	12.3	9.0	8.0	4.8	6.7	5.8	5.4	5.4	*1.9%*
Working capital	days	44	33	29	17	24	21	19	19	*1.9%*
Inventory	days	17	16	16	15	14	14	14	14	*-1.0%*
Receivables	days	106	96	104	89	94	92	90	90	*0.3%*
Payables	days	42	39	44	41	36	36	36	36	*-2.3%*

Capital structure		2001	2002	2003	2004	2005E	2006E	2007E	2008E	CAGR 2005-2008
Average equity	CHF mn	1'041	939	984	1'151	1'331	1'461	1'675	2'067	*n.a.*
Net cash. (year-end)	CHF mn	446	402	493	438	433	364	700	1'061	*8.1%*
Capital employed	CHF mn	667	607	671	882	1'107	1'254	1'310	1'389	*6.8%*
Equity/total assets	%	50.6	49.5	53.9	56.7	53.3	53.0	57.2	60.7	*0.1%*
Gearing (year-end)	%	-45.4	-44.8	-46.0	-35.6	-30.2	-24.4	-37.6	-46.7	*n.a.*

Breakdown of ROE		2001	2002	2003	2004	2005E	2006E	2007E	2008E
Net profit margin	%	-3.2	4.6	9.3	9.7	11.2	11.6	12.0	12.3
Asset turnover	%	117.1	129.3	121.4	130.4	119.6	127.2	119.8	113.2
Return on assets (ROA)	%	-3.8	5.9	11.2	12.6	13.4	14.8	14.4	13.9
Leverage (assets/equity)	x	1.9	2.0	2.1	1.9	2.1	2.0	2.0	1.9
Return on equity (ROE)	%	-7.2	11.6	23.1	24.3	27.9	29.7	29.2	26.5

Summary & Valuation

Price (registered)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Price (year-end)	400	593	535	324	460	500	267	416	779	797	1'108	1'164	1'164	1'164
High	412	593	655	636	491	773	519	521	790	797	1'111	1'165	n.a.	n.a.
Low	315	395	465	231	283	431	178	257	418	645	801	1'108	n.a.	n.a.

Shares outstanding	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Average shares outstanding	8'905	8'755	8'251	7'860	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822
Year-end shares outstanding	8'905	8'605	7'897	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822	7'822
Fully diluted	8'905	8'605	7'897	7'822	7'822	7'822	7'820	7'663	7'661	7'489	7'501	7'501	7'501	7'501
Market capitalization	3'897	5'490	4'356	3'245	3'316	3'754	2'085	3'254	6'093	6'231	8'667	9'105	9'105	9'105

Aggregate data	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
Revenues (net)	2'627.9	2'953.4	3'270.6	3'154.1	3'085.1	2'368.9	2'332.0	2'391.9	2'454.0	2'885.0	3'308.0	3'725.6	4'074.6	4'449.3	*11.4%*
EBITDA	353.1	438.1	429.2	-105.3	342.7	276.7	69.4	231.1	399.0	509.0	642.0	745.7	840.9	933.0	*16.4%*
EBIT	250.0	317.4	280.2	-260.6	187.7	168.9	-40.4	127.3	293.0	378.0	502.0	588.3	662.2	739.0	*18.2%*
Net profit (reported)	230.6	264.5	229.1	-289.7	316.5	128.7	-75.2	109.1	227.0	279.0	371.0	433.7	489.0	547.4	*18.4%*
Net profit (adjusted)	231.7	238.9	222.3	116.9	97.8	117.7	110.8	197.4	234.0	292.0	371.0	433.7	489.0	547.4	*17.0%*
Enterprise value	3'180	4'875	4'199	3'355	2'884	3'467	1'770	2'965	5'692	5'884	8'342	8'869	8'556	8'220	*8.7%*

Growth (CHF)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Revenues (net)	-1.7	12.4	10.7	-3.6	-2.2	-23.2	-1.6	2.6	2.6	17.6	14.7	12.6	9.4	9.2
EBITDA	1.9	24.1	-2.0	n.m.	n.m.	-19.3	-74.9	n.m.	72.6	27.6	26.1	16.2	12.8	11.0
EBIT	2.0	27.0	-11.7	n.m.	n.m.	-10.0	n.m.	n.m.	130.2	29.0	32.8	17.2	12.6	11.6
Net profit	11.2	14.7	-13.4	n.m.	n.m.	-59.3	n.m.	n.m.	108.0	22.9	33.0	16.9	12.7	12.0
Book value	8.2	8.4	-25.9	-49.8	113.9	10.2	-10.7	-8.7	19.6	14.6	16.5	4.1	24.7	22.3

Per-share data	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	CAGR 2005-2008
EPS (reported)	25.9	30.2	27.8	-36.9	40.5	16.5	-9.6	14.2	29.63	37.26	49.5	57.8	65.2	73.0	*18.3%*
EPS (adjusted)	26.0	27.8	28.1	14.9	12.5	15.0	14.2	25.2	29.91	37.33	47.4	55.4	62.5	70.0	*17.0%*
EBITDA	39.7	50.0	52.0	-13.4	43.8	35.4	8.9	29.5	51.0	65.1	82.1	95.3	107.5	119.3	*16.4%*
EBIT	28.1	36.3	34.0	-33.2	24.0	21.6	-5.2	16.3	37.5	48.3	64.2	75.2	84.7	94.5	*18.2%*
Cash flow	38.6	57.0	48.1	25.7	44.6	24.0	26.7	21.7	45.2	53.7	60.1	78.1	88.2	98.1	*16.3%*
Op. cash flow	25.7	37.1	30.2	9.3	24.8	-2.3	16.9	30.7	47.8	55.1	52.4	78.6	87.7	95.5	*14.7%*
Op. free cash flow	7.8	18.7	7.3	-9.8	10.1	-12.6	6.7	15.2	26.0	29.4	28.1	51.9	58.3	63.2	*21.1%*
BVPS (reported)	129.9	143.3	112.7	59.3	127.5	140.5	125.5	114.6	137.0	157.1	183.1	190.6	237.7	290.7	*16.6%*
Average net cash	98.7	93.9	40.8	10.8	78.8	62.4	57.0	51.3	63.0	56.0	55.4	46.5	89.5	135.6	*24.8%*
Enterprise value	357.1	556.9	508.9	426.8	368.7	443.2	226.3	379.0	727.7	752.2	1'066.5	1'133.8	1'093.7	1'050.9	*8.7%*
Dividend	11.2	13.2	13.6	0.0	4.8	5.8	6.0	6.0	7.0	12.0	50.0	16.0	18.0	20.0	*13.6%*
Payout	43.2	43.7	49.0	0.0	11.9	35.3	-62.4	42.1	23.6	32.2	101.1	27.7	27.6	27.4	*-4.0%*

Valuation (CHF)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	
P/E (reported)	15.4	19.6	19.3	-8.8	11.4	30.4	-27.7	29.2	26.3	21.4	22.4	20.1	17.9	15.9	
P/E (adjusted)	15.4	21.4	19.0	21.7	36.8	33.2	18.8	16.5	26.0	21.3	23.4	21.0	18.6	16.6	
Market cap/revenues	148.3	185.9	133.2	102.9	107.5	158.5	89.4	136.0	248.3	216.0	262.0	244.4	223.5	204.6	
P/Cash flow	10.4	10.4	11.1	12.6	10.3	20.9	10.0	19.2	17.2	14.8	18.4	14.9	13.2	11.9	
P/Op. cash flow	15.5	16.0	17.7	34.8	18.6	-213.7	15.7	13.6	16.3	14.5	21.1	14.8	13.3	12.2	
P/Op. free cash flow	51.0	31.7	73.4	-33.2	45.6	-39.8	39.7	27.3	30.0	27.1	39.4	22.4	20.0	18.4	
P/Book (reported)	3.1	4.1	4.7	5.5	3.6	3.6	2.1	3.6	5.7	5.1	6.1	6.1	4.9	4.0	*4.2*
Dividend yield	2.8	2.2	2.5	0.0	1.0	1.2	2.3	1.4	0.9	1.5	4.5	1.4	1.5	1.7	
EV/Sales	1.2	1.7	1.3	1.1	0.9	1.5	0.8	1.2	2.3	2.0	2.5	2.4	2.1	1.8	
EV/EBITDA	9.0	11.1	9.8	-31.9	8.4	12.5	25.5	12.8	14.3	11.6	13.0	11.9	10.2	8.8	
EV/EBIT	12.7	15.4	15.0	-12.9	15.4	20.5	-43.8	23.3	19.4	15.6	16.6	15.1	12.9	11.1	
EV/Op. cash flow	13.9	15.0	16.9	45.8	14.9	-189.4	13.4	12.4	15.2	13.7	20.3	14.4	12.5	11.0	
EV/Op. free cash flow	45.5	29.8	69.9	-43.7	36.5	-35.3	33.7	24.9	28.0	25.6	37.9	21.8	18.8	16.6	

Profitability ratios	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
ROE (Group)	20.7	21.9	21.0	-41.5	43.2	12.3	-7.2	11.6	23.1	24.3	27.9	29.7	29.2	26.5
ROA	8.9	9.3	8.7	-12.6	14.0	6.1	-3.8	5.9	11.2	12.6	13.4	14.8	14.4	13.9
ROCE	60.6	58.8	39.7	-38.7	32.9	24.5	-5.5	20.0	45.8	48.7	50.5	49.8	51.7	54.8

Important Information

Purpose of the Research

This research report is prepared for general circulation and is circulated for general information only. This document has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. Information has been obtained from sources believed to be reliable but no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. Opinions and estimates constitute our judgment as of the date of this report and are subject to change without notice. Past performance is not indicative of future results. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this research report must make his or her own independent decisions regarding any securities or financial instruments mentioned herein. The information contained herein is directed exclusively at market professionals and institutional investors and does not apply to, and should not be relied upon by, private clients. Lombard Odier Darier Hentsch, its affiliates, partners, employees and agents accept no liability for any loss or damage of any kind arising out of the use of this research report or its contents. This research report is not directed to or intended for distribution to or use by any person or entity in any jurisdiction where such distribution, publication or use would be unlawful. By accepting this document, you agree to be bound by the foregoing limitations.

Information for US Institutional Clients

In the United States of America, this publication is being distributed solely to persons who qualify as “major US institutional investors” under SEC Rule 15a-6. Lombard Odier Darier Hentsch Securities, Inc. accepts responsibility for the content of reports prepared by its non-US affiliate when distributed to US institutional investors. US Investors who wish to effect any transaction in securities mentioned in this report should do so with Lombard Odier Darier Hentsch Securities, Inc. at the address below and not with Lombard Odier Darier Hentsch & Cie:

Lombard Odier Darier Hentsch Securities, Inc. Tel: (+1 212) 792 58 20
Tower 49, 12 East 49th Street, 17th Floor Fax: (+1 212) 792 58 32
New York, NY 10017 E-mail: losi@LODH.com

Lombard Odier Darier Hentsch Securities, Inc., an affiliate of Lombard Odier Darier Hentsch Group, is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc.

Information for UK Clients

Lombard Odier Darier Hentsch & Cie is a limited partnership registered as a Swiss Private Bank having no permanent place of business in the UK and not regulated under the Financial Services and Markets Act 2000. The protections provided by the UK regulatory system will not be applicable to the recipients of any information or documentation provided by Lombard Odier Darier Hentsch & Cie and compensation under the Financial Services Compensation Scheme will not be available.

Past performance is not a guide to the future. The price of securities may go down as well as up and as a result investors may not get back the amount originally invested. Changes in exchange rates may cause the value of investments to go down or up. Any literature, documentation or information provided is directed solely at persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be engaged in with investment professionals.

Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

Any contact with analysts, brokers or other employees of Lombard Odier Darier Hentsch & Cie must be direct with Lombard Odier Darier Hentsch & Cie and not through the offices or employees of Lombard Odier Darier Hentsch & Cie's affiliates in London.

Rating System

The following is a description of the rating system employed by the Equity Brokerage Unit of Lombard Odier Darier Hentsch:

SMI Stocks

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

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:
Either Lombard Odier Darier Hentsch has very close links with the company and thus cannot claim to have an independent opinion on the stock, or the stock is in a period during which a rating is not permitted (IPO blackout period, Secondary Offering blackout period, etc.)

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:
Either Lombard Odier Darier Hentsch has very close links with the company and thus cannot claim to have an independent opinion on the stock, or the stock is in a period during which a rating is not permitted (IPO blackout period, Secondary Offering blackout period, etc.)

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 December 31, 2005 (updated quarterly)

SMI Stocks

			Investment banking services provided within the last 36 months	
Ratings	**Count**	**%**	**Count**	**%**
Buy	19	73%	2	67%
Hold	7	27%	1	33%
Sell*	0	0%	0	0%
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

			Investment banking services provided within the last 36 months	
Ratings	**Count**	**%**	**Count**	**%**
Buy	26	31%	4	25%
Hold	53	62%	9	56%
Sell*	4	5%	1	6%
Not Rated	2	2%	2	13%
Under Review	0	0%	0	0%

Achievement of the Price Target

Recipients of this research report should seek financial advice regarding the appropriateness of investing in any security, financial instrument or strategy discussed or recommended in this report and should understand that future price targets may not be realized. The price target estimate is based on a number of factors and assumptions. It should be noted that if any of these are inaccurate or are not achieved, it may be necessary to adjust the price target. Investors should note that income from such securities or financial instruments or strategies, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this research report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk. Price targets for stocks under coverage are calculated by submitting the analyst(s)' financial projections to one or more of a variety of valuation approaches. These include "absolute" methodologies such as DCF and EVA modelling, as well as relative methodologies such as peer group and market valuation multiple comparisons.

Analyst Compensation

To maximize the independence of our research, the compensation pool for members of the Equity Brokerage Unit is based exclusively on the revenues of the Equity Brokerage Unit. This does not include any revenues of the Investment Banking Unit or any other Unit of Lombard Odier Darier Hentsch. The performance bonus received by analysts is determined individually based on a "Management by Objectives" structure which excludes investment banking transactions or other factors unrelated to equity brokerage. As a result, there is no link whatsoever between an analyst's compensation and specific investment banking transactions, nor between an analyst's compensation and any specific sales transactions.

Receipt of Compensation as at December 31, 2005 (updated quarterly)

Neither Lombard Odier Darier Hentsch nor any of its affiliates received compensation from SGS within the past 36 months for investment banking services. Within the next 3 months, Lombard Odier Darier Hentsch may act in an investment banking capacity for the company recommended in this report.

Market Making

Neither Lombard Odier Darier Hentsch nor any of its affiliates make a market in the stock of SGS.

Lombard Odier Darier Hentsch Ownership as at December 31, 2005 (updated monthly)

Neither Lombard Odier Darier Hentsch nor any of its affiliates beneficially own 1% or more of the outstanding shares of SGS.

Analyst Ownership

In order to ensure the independence of our Equity Research analysts, they are expressly prohibited from owning any securities in the Lombard Odier Darier Hentsch research universe which belong to their sector(s).

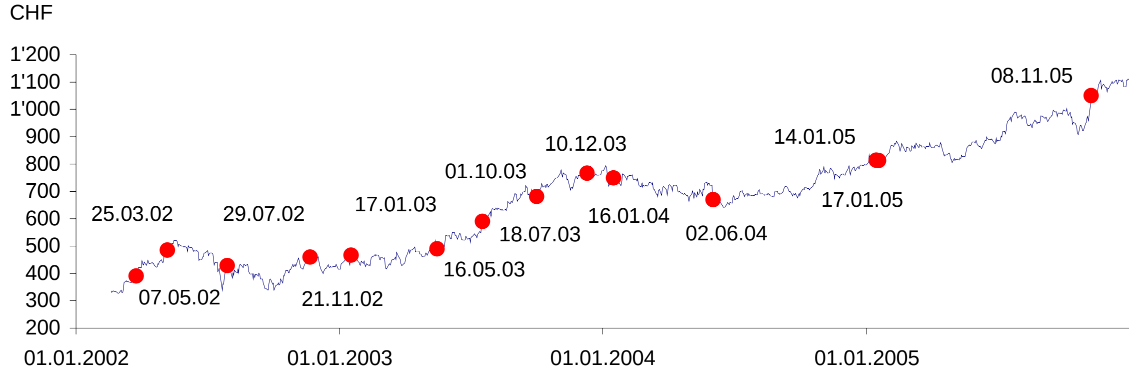
Position as Officer or Director

Neither the analyst nor his/her immediate household serves as an Officer, Director or Advisory Board Member of SGS.

Analyst Certification

The research analysts identified on the first page of this research report hereby attest that all of the views expressed in this report accurately reflect their personal views about any and all of the subject securities or issuers. In addition, the research analysts hereby attest that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analysts in this research report.

Recommendation & Price Target History of SGS (Reg.) as at December 31, 2005



Date	Rating Change	Price Target Change	Reason for Action
08.11.2005	From Hold to Buy	From 900 to CHF 1,200	Double-digit growth
17.01.2005		From UR to CHF 900	FY 2004 results
14.01.2005		From CHF 750 to UR	FY 2004 results
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