

Strategic Growth Plan: Upgrade to Buy 1; CHF1200 PT

■ Ambitious targets set for 2008 (organic + acquisitions)

SGS has set 2008 financial targets of CHF5bn in revenue (15% CAGR, 10% org); 17% EBITA margin and CHF80 EPS, which implies an 05-08E EPS CAGR of c+20% (UBSe). Although in our view, SGS could potentially miss its organic sales growth and margin targets, we believe that any shortfall will be compensated by higher M&A activity, resulting in it achieving its CHF80 EPS target.

■ +ve market trends, solid B/S and market leading position

The new strategic growth plan is aimed at capitalising on SGS's current market leading position, favourable market trends and its solid B/S (debt capacity of >CHF1.5bn). The plan entails 3 main steps: (1) growing the existing portfolio organically and via acquisitions; (2) executing strategic initiatives; and (3) improving the operating system.

■ We now include bolt-on acqs in deriving value for SGS

With increased visibility with respect to SGS's medium term targets and acquisition plans, we have now adjusted our DCF valuation to take into account expected bolt-on acquisitions and derive a new PT of CHF1200 (old CHF1030).

■ Valuation: Upgrade to Buy 1; CHF1200 PT

We upgrade to Buy 1 on valuation grounds and point out the following: (1) SGS's attractive portfolio of businesses; (2) somewhat limited downside risks; (3) solid B/S providing M&A potential; (4) high EPS CAGR and ROIC; and (5) excellent track record. Minor EPS changes from 05-07E (less than 2%) due to acquisitions in H205.

Highlights (CHFm)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	2,454	2,885	3,242	3,590	3,924
EBIT	290	375	488	567	637
Net income (UBS)	234	292	361	418	469
EPS (UBS, CHF)	30.43	37.94	46.90	54.10	61.45
Net DPS (UBS, CHF)	9.00	12.00	15.00	18.00	20.00

Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	7.7	13.0	15.1	15.8	16.2
ROIC (EBIT) %	25.6	44.3	49.6	54.3	58.9
EV/EBITDA x	13.2	10.8	12.4	10.7	9.3
PE (UBS) x	25.3	18.9	21.7	18.9	16.6
Net dividend yield %	1.2	1.7	1.5	1.8	2.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF1,020.00 on 07 Nov 2005 20:01 GMT

Darren Cohen

Analyst
darren.cohen@ubs.com
+41-1-239 1657

Mark Shepperd

Analyst
mark.shepperd@ubs.com
+44-20-7568 1977

Switzerland

Industrial Services

Rating **Buy 1**
Prior: Neutral 1

Price target CHF1,200.00/US\$9.19
Prior: CHF1,030.00/US\$7.89

Price CHF1,020.00/US\$7.81 (ADR)

RIC: SGSN.VX BBG: SGSN VX

8 November 2005

Trading data (local/US\$)

52-wk. range	CHF1,020.00-747.00/US\$7.93-6.43
Market cap.	CHF7.98bn/US\$6.11bn
Shares o/s	7.8m (REG)/782m (ADR)
ADR ratio	100 ADR :1 REG
Free float	62%
Avg. daily volume ('000)	21/OTC
Avg. daily value (CHFm)	20.6

Balance sheet data 12/05E

Shareholders' equity	CHF1.48bn
P/BV (UBS)	5.3x
Net cash (debt)	CHF0.61bn

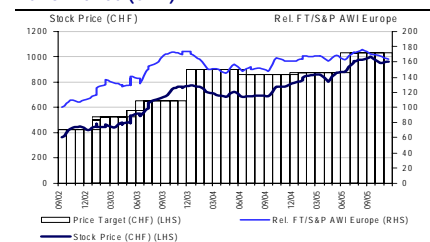
Forecast returns

Forecast price appreciation	+17.6%
Forecast dividend yield	1.5%
Forecast stock return	+19.1%
Market return assumption	6.4%
Forecast excess return	+12.7%

EPS (UBS, CHF)

	12/05E			12/04
	From	To	Cons.	Actual
H1E	22.23	22.23	-	17.15
H2E	24.55	24.68	-	20.79
12/05E	46.78	46.90	47.31	
12/06E	53.58	54.10	54.00	

Performance (CHF)



Source: UBS

www.ubs.com/investmentresearch

**This report has been prepared by UBS
AG**

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Strategic Growth Plan

The major restructuring/refocusing program completed under Sergio Marchionne effectively strengthened SGS's global network, slimmed its corporate structure and slightly diversified its overall portfolio. In an effort to capitalise on its leading market position (in several segments), current favourable market trends and a sound financial base, the new CEO – Dan Kerpelman has initiated a new strategic plan focused on growth. According to management, the plan can be broken down as follows:

- (1) **Grow the current portfolio** by expanding current offerings and increasing competitive barriers. In addition, **accelerate Life Sciences, Consumer Testing Services and Industrial Services** (largest potential market). SGS has laid out specific organic growth plans for each individual division. In addition, M&A activity in terms of bolt-on acquisitions is expected to intensify over the next 3 years with management targeting: (1) lab expansion in OGC, Minerals and Environmental; (2) Statutory auto inspection (Automotive); (3) Regional expansion in Life Sciences; Industrial Services and Consumer Testing Services.
- (2) **Execute Strategic growth initiatives** – SGS management has identified certain strategic markets (Governments & Institutions; Financial Services; Energy/Infrastructure and Software), which it believes are trending towards outsourcing and is currently underserved. As these industries require a multitude of services, SGS believes that these markets offer significant growth potential and therefore plans to penetrate these segments with newly developed service offerings, but at the same time, leveraging on existing know-how and the group network. SGS is targeting acquisitions in the Energy/Infrastructure and Software segments.
- (3) **Improve the operating system** – While the first 2 steps are focused primarily on growth, SGS also plans to improve its “operating system” by: (1) creating a flexible network of labs (shared capacity and capability); (2) creating a virtual back office (to support labs, inspections etc.); and (3) attempt to align customer requirements with business goals.

Through the execution of the steps mentioned above, SGS plans to achieve new 2008 financial targets (based on current exchange rates). These are as follows:

- **Revenue** of CHF5bn (Organic CAGR of 10%; Total CAGR of 15%)
- **EBITA margin** of 17.0% (compares to previous 16% target for 2005)
- **EPS of CHF80** (implies a CAGR of +c20% for 05-08E according to UBSe)

Although the organic growth and margin target is only “slightly” above our current estimates, the absolute revenue target of CHF5bn and EPS target of CHF80 is significantly ahead of our 2007E forecasts (3-year forecast period), due to the fact that we do not forecast future acquisitions in our estimates. Although we have previously discussed the fact that SGS was in a position to make substantial EPS enhancing acquisitions (refer to UBS note on July 15th, 2005), we had not adjusted our valuation to take this into account, given the lack of visibility with respect to the level of M&A activity. With SGS now having

quantified specific targets for 2008, which include anticipated acquisitions, we have adjusted our DCF valuation (see below) to incorporate potential acquisitions until 2008 (*bear in mind that we only adjust our estimates for acquisitions for the purposes of deriving value for SGS, however, we do not as a policy adjust our underlying estimates for acquisitions until they materialise*).

Our optimism with respect to the potential for SGS to make bolt-on acquisitions, stems not only from the fact that SGS management claims its acquisition pipeline is currently full, but also due to the fact that Intertek and Bureau Veritas management have also eluded to significant potential for small to mid-sized bolt-on acquisitions. While Intertek has only recently increased momentum with respect to M&A activity, Bureau Veritas has been very active over the past few years. SGS itself has made several small acquisitions over the past 2 years, adding roughly CHF270m+ in terms of group revenues (UBSe). We believe it is worth noting that SGS management has previously referred to a potential debt capacity of up to CHF1.5bn, implying that the group essentially has well in excess of CHF2bn to potentially spend on acquisitions.

Valuation and Conclusion

As discussed above, we have incorporated expected bolt-on acquisitions in our DCF valuation for the purposes of deriving our PT for SGS. Our DCF valuation (see chart 1 and calculations below) now implies a value per share of CHF1200 (previously CHF1030).

Chart 1: DCF Valuation

CHFm	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Revenue	2,332	2,392	2,454	2,885	3,242	3,836	4,443	4,998	5,398	5,830	6,296	6,800	7,344	7,932
growth, %		2.6%	2.6%	17.6%	12.4%	18.3%	15.8%	12.5%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
organic growth (1)		6.5%	7.0%	10.7%	10.5%	9.8%	9.3%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
M&A (1)		3.7%	0.2%	8.6%	2.6%	8.5%	6.5%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency		-7.6%	-4.5%	-1.8%	-0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITA	145	216	300	391	488	606	724	830	864	933	1,007	1,088	1,175	1,269
EBITA margin (2)	6.2%	9.0%	12.2%	13.6%	15.1%	15.8%	16.3%	16.6%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
growth, %		49.2%	39.1%	30.3%	24.9%	24.1%	19.5%	14.6%	4.1%	8.0%	8.0%	8.0%	8.0%	8.0%
Less: Taxes	-38	-38	-62	-90	-115	-142	-174	-207	-216	-233	-252	-272	-294	-317
Tax Rate (3)	26.4%	17.5%	20.6%	22.9%	23.5%	23.5%	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
NOPLAT	106	178	238	301	373	463	550	622	648	700	756	816	881	952
Add: Depreciation (4)	102	95	96	115	132	165	191	215	233	251	271	293	317	342
% of sales	4.4%	4.0%	3.9%	4.0%	4.1%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Gross Cash Flow	209	273	334	416	505	629	742	838	880	951	1,027	1,109	1,198	1,294
Less: Capex (4)	-117	-106	-171	-201	-187	-207	-240	-270	-291	-315	-340	-367	-397	-428
% of sales	-5.0%	-4.4%	-7.0%	-7.0%	-5.8%	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%
NWC	286	216	196	139	170	211	244	275	297	321	346	374	404	436
NWC/Sales	12.3%	9.0%	8.0%	4.8%	5.3%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
-Increase in NWC	147	70	20	57	-31	-41	-33	-31	-22	-24	-26	-28	-30	-32
Free cash flow	239	237	183	272	287	381	469	537	567	612	661	714	771	833
growth, %		-1%	-23%	49%	5%	33%	23%	15%	6%	8%	8%	8%	8%	8%

Valuation	
NPV of Terminal value	6,052
NPV of cash flows	3,819
Enterprise Value	9,871
Less: Net debt 2006 (5)	- 90
Less: Provisions	- 61
Add: Peripherals	7
Less: Minority interest	- 330
Equity Value	9,397
# of shares	7.8
Price per share	1,201

Assumptions	
WACC (6)	8.6%
Terminal growth	2.00%

WACC Computation	
Risk free rate	4.0%
Beta (6)	1.25
Equity risk premium	4.5%
Cost of equity	9.6%
Pre-tax cost of debt	6.0%
Tax-rate	25.0%
Post-tax cost of debt	4.5%
Debt/Total Capital (6)	20.0%
WACC	8.6%

Source: UBS estimates

DCF valuation notes:

- (1) **Revenue:** We have left our organic growth assumptions unchanged for 05-07E i.e. between 8.0-9.8% p.a. As we firmly believe that SGS will reach its CHF5bn revenue target supported by acquisitions (making up any shortfall in organic growth below 10%), we have assumed that CHF700m in sales will be acquired (in addition to bolt-on acquisitions already made during 2005) over the next 3 years (UBSe CHF250m in 2006E; CHF250m in 2007E; CHF200m in 2008E).
- (2) **EBITA margin:** With acquisitions expected in certain higher margin segments e.g. Life-Sciences; Consumer Testing Services (according to management), we have assumed that higher margin mix should support the EBITA margin expansion to 16.6% by FY 08E (versus management's target of c17%). Management are targeting for the acquisitions to be margin accretive to the individual business segment's operating margin within 1 year. On the back of the proposed acquisitions, we have raised our mid-term margin assumption to 16.0% (previously 15.5%)
- (3) **Tax rate:** We have assumed the tax rate will gradually increase to c25% by 2008E.
- (4) **Capex and depreciation:** According to SGS management, the capex/sales ratio should remain within the historical range (we have assumed a ratio of 5.4%).
- (5) **Net debt:** According to our estimates, the average price paid for bolt-on acquisitions by SGS has ranged between 1.0-1.3x (price/sales). We have assumed in our DCF valuation that the CHF700m sales are acquired at a multiple of c1.3x price/sales (i.e. @ CHF910m). In deriving our net debt for 2006E, we have deducted the CHF910m paid for acquisitions from our previous (underlying net cash assumption of CHF820m for FY 06E).
- (6) **WACC calculation:** We have made 2 adjustments to our WACC calculation. Firstly, we have raised our Beta assumption from 1.1 to 1.25 to take into account the increased risk in SGS executing its M&A targets by 2008. Secondly, with SGS expected to fund its future acquisitions with free cash flow, we now assume a target debt/equity ratio of c20% (previously 0% given its high net cash position). The resulting WACC is 8.6% (previously 9.0%).

Conclusion

Assuming SGS's margin performance falls below management expectations (i.e. below the 17% target for 2008E), we expect that the shortfall will be covered by additional bolt-on acquisitions i.e. thereby exceeding the CHF5bn sales target. This is to some extent similar to what is expected to happen in 2005, where the EBITA margin is not expected to reach management's original 16% target, however additional sales (via organic growth and bolt-on acquisitions) should result in SGS exceeding its original CHF45 EPS target (UBSe CHF46.9 for FY 05E). The reason for our explanation on the composition of the 2008E EPS is to reiterate the fact that we believe SGS should meet its 2008E EPS target of

CHF80, even if organic growth or margins fall slightly below expectations (this is based on the assumption that SGS is able to execute its planned acquisitions at reasonable multiples).

Table 1: PE at current price and price target (with and without M&A)

(Assuming no M&A)	2005E	2006E	2007E	2008E
Current EPS estimates	46.9	54.1	61.5	66.4 (1)
PE @ CHF1020 (current price)	21.7	18.9	16.6	15.4
PE @ CHF1200 (price target)	25.6	22.2	19.5	18.1

(Assuming M&A i.e. CHF700m in sales is acquired)	2005E	2006E	2007E	2008E
EPS (2)	46.9	56.1	67.0	80.0
PE @ CHF1020 (current price)	21.7	18.2	15.2	12.7
PE @ CHF1200 (price target)	25.6	21.4	17.9	15.0

Source: UBS estimates

Notes: (1) Assuming growth at +8.0% for 2008E

Notes: (2) For the purpose this comparison, we have assumed that EPS will grow linearly by +c20% p.a. to CHF80 per share in 2008E

From the table above it is possible to see the contrast between the PE valuation multiples on current estimates (assuming no M&A) versus management's target of reaching CHF80 EPS by 2008E (with the support of acquisitions) While the target valuation appears demanding for 2006E, the high EPS growth to 2008E (c+20%) translates to a c15x PE for 2008E. We upgrade to Buy 1, as we believe the target valuation is justified when taking into account the following factors:

- Owing to certain market trends e.g. outsourcing, increasing regulations etc, SGS is becoming a less-cyclical business and has already demonstrated its ability to delivering strong y/y organic growth with relatively stable (and in some several cases increasing) margins;
- In our opinion, there are no significant downside risks for the stock in the near to mid-term. Although individual divisions do have certain risks (e.g. declining TAS pre-shipment inspection market), SGS's portfolio is made up of 10 divisions, which to a large extent reduces the risk that a disappointment in 1 division could significantly impact the group as a whole.
- SGS has a solid balance sheet. Even after assuming SGS spends CHF900m+ on acquisitions over the next few years, it would still, according to our estimates, be net cash flow positive by 2007E and should generate FCF in excess of CHF500m p.a. This would allow for further M&A potential in the future. Although management has not detailed potential share buybacks or special dividends in their new strategic plan, it has also not ruled this out.
- We forecast SGS to generate a ROIC of 50%+ for 05E/06E (excl. acquisitions).
- In our view, SGS's existing management track record is excellent and the new CEO has made a strong impression.

Table 2: Divisional Revenue Estimates

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E
Agricultural Services	124	133	257	138	149	287	314	336
% change vs. py	1.9%	10.9%	6.3%	10.9%	12.2%	11.5%	9.4%	7.0%
Organic	1.0%	14.4%	7.4%	10.9%	11.1%	11.0%	8.0%	7.0%
Currency	-0.9%	-3.5%	-1.0%	-0.1%	-1.0%	-0.6%	0.0%	0.0%
M&A	0	0	0	0	3	3	4	0
Minerals Services	151	169	320	177	199	375	430	465
% change vs. py	13.7%	14.5%	14.1%	17.3%	17.6%	15.5%	12.0%	8.0%
Organic	12.2%	20.6%	16.0%	18.8%	13.5%	16.0%	12.0%	8.0%
Currency	1.6%	-6.1%	-1.9%	-1.5%	-0.1%	-0.5%	0.0%	0.0%
M&A	0	0	0	0	7	7	10	0
Oil, Gas & Chemicals	283	292	575	302	328	629	685	740
% change vs. py	33.3%	28.6%	30.9%	6.9%	11.8%	9.4%	9.0%	8.0%
Organic	12.6%	13.1%	12.6%	8.7%	11.2%	10.0%	9.0%	8.0%
Currency	0.0%	-5.0%	-1.9%	-2.2%	0.5%	-0.8%	0.0%	0.0%
M&A	44	45	89	1	0	1	0	0
Life Sciences Services	51	56	107	62	65	127	142	156
% change vs. py	72.0%	88.5%	80.2%	21.8%	16.5%	19.0%	12.0%	10.0%
Organic	-4.7%	-3.8%	-4.2%	18.1%	6.4%	12.0%	12.0%	10.0%
Currency	2.4%	-8.4%	0.0%	-0.6%	-0.3%	-0.5%	0.0%	0.0%
M&A	22	28	50	2	6	8	0	0
Consumer Testing Services	166	195	361	214	230	444	515	592
% change vs. py	31.0%	33.7%	32.4%	29.3%	17.8%	23.1%	16.0%	15.0%
Organic	19.1%	26.0%	22.1%	25.6%	15.2%	20.0%	16.0%	15.0%
Currency	-0.2%	-6.4%	-2.6%	-1.6%	-0.5%	-1.1%	0.0%	0.0%
M&A	15	20	35	9	6	15	0	0
Systems & Services Cert.	114	121	235	127	135	262	296	317
% change vs. py	8.3%	-2.5%	2.5%	11.2%	11.5%	11.4%	13.0%	7.0%
Organic	7.4%	0.9%	3.9%	12.6%	11.4%	12.0%	13.0%	7.0%
Currency	0.9%	-3.4%	-1.4%	-1.4%	0.1%	-0.6%	0.0%	0.0%
Industrial Services	182	198	380	209	231	440	491	540
% change vs. py	14.9%	15.2%	15.1%	14.9%	16.9%	15.9%	11.2%	10.0%
Organic	12.7%	17.8%	15.1%	12.1%	13.8%	13.0%	11.0%	10.0%
Currency	2.1%	-2.6%	-0.1%	-0.4%	-0.5%	-0.5%	0.0%	0.0%
M&A	0	0	0	6	7	13	1	0
Environmental Services	97	111	209	111	122	233	256	276
% change vs. py	26.4%	19.0%	21.3%	44.0%	10.0%	11.8%	9.7%	8.0%
Organic	11.2%	7.8%	9.2%	11.2%	5.2%	8.0%	8.0%	8.0%
Currency	3.3%	-3.7%	-0.1%	-0.8%	-0.2%	-0.5%	0.0%	0.0%
M&A	7	14	21	4	6	9	4	0
Automotive Services	89	99	188	97	115	212	239	258
% change vs. py	-20.5%	-0.4%	-11.0%	9.3%	16.1%	12.9%	12.7%	8.0%
Organic	-17.9%	-8.8%	-13.4%	1.1%	6.6%	4.0%	8.0%	8.0%
Currency	-3.2%	-6.0%	-4.0%	-2.7%	0.1%	-1.2%	0.0%	0.0%
M&A	0	14	14	10	9	19	10	0

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E
Trade Assurance Services	133	122	255	120	114	233	222	244
% change vs. py	37.5%	-0.3%	16.4%	-10.2%	-7.0%	-8.6%	-5.0%	10.0%
Organic	37.7%	0.7%	17.0%	-9.5%	-6.3%	-8.0%	-5.0%	10.0%
Currency	-0.2%	-1.0%	-0.7%	-0.6%	-0.7%	-0.6%	0.0%	0.0%
Total Group	1,390	1,495	2,885	1,557	1,685	3,242	3,590	3,924
% change vs. py	18.4%	16.8%	17.5%	12.0%	12.7%	12.4%	10.7%	9.3%
organic	10.2%	11.3%	10.7%	11.1%	10.0%	10.5%	9.8%	9.3%
currency	0.7%	-4.2%	-1.8%	-1.3%	-0.2%	-0.7%	0.0%	0.0%
M&A	7.5%	9.7%	8.6%	2.2%	3.0%	2.6%	1.0%	0.0%

Source: UBS estimates

Table 3: Divisional EBITA estimates

CHFm	H1 04	H2 04	2004	H1 05	H2 05E	2005E	2006E	2007E
Agricultural Services	9.5	14.1	23.6	15.0	18.0	33.0	39.2	43.6
% EBITA margin	7.6%	10.6%	9.2%	10.9%	12.1%	11.5%	12.5%	13.0%
Minerals Services	21.1	25.2	46.3	27.2	31.7	58.9	68.9	76.7
% EBITA margin	14.0%	14.9%	14.5%	15.4%	16.0%	15.7%	16.0%	16.5%
OGC	33.1	35.5	68.6	36.9	43.6	80.5	92.5	99.9
% EBITA margin	11.7%	12.2%	11.9%	12.2%	13.3%	12.8%	13.5%	13.5%
Life Sciences	5.7	7.1	12.8	8.7	9.7	18.4	22.7	25.8
% EBITA margin	11.2%	12.8%	12.0%	14.0%	14.9%	14.5%	16.0%	16.5%
Consumer Services	28.3	36.9	65.2	45.6	52.0	97.6	118.4	142.1
% EBITA margin	17.1%	18.9%	18.1%	21.3%	22.7%	22.0%	23.0%	24.0%
SCS	14.0	16.5	30.5	19.7	20.9	40.6	45.9	47.5
% EBITA margin	12.3%	13.6%	13.0%	15.5%	15.5%	15.5%	15.5%	15.0%
Industrial	20.7	25.4	46.1	27.3	31.3	58.6	68.7	78.3
% EBITA margin	11.4%	12.9%	12.1%	13.0%	13.5%	13.3%	14.0%	14.5%
Environmental	6.2	10.6	16.8	11.0	13.5	24.5	30.7	35.9
% EBITA margin	6.4%	9.5%	8.1%	9.9%	11.0%	10.5%	12.0%	13.0%
Automotive	9.7	10.3	20.0	12.3	14.8	27.1	31.1	33.5
% EBITA margin	10.9%	10.4%	10.7%	12.6%	12.9%	12.8%	13.0%	13.0%
TAS	28.8	32.7	61.5	25.1	23.9	49.0	48.8	53.6
% EBITA margin	21.7%	26.7%	24.1%	21.0%	21.0%	21.0%	22.0%	22.0%
Total EBITA	177.1	214.3	391.4	228.8	259.4	488.2	566.9	637.0
% EBITA margin	12.7%	14.3%	13.6%	14.7%	15.4%	15.1%	15.8%	16.2%

Source: UBS estimates

■ **SGS**

SGS is the largest inspection, testing and certification organisation in the world. The core services offered by SGS (split between 10 divisions) can be divided into three categories: (1) inspection services - SGS inspects and verifies the quantity, weight and quality of traded goods; (2) testing services - SGS tests product quality and performance against various health, safety and regulatory standards; and (3) certification services - SGS certifies that systems or services meet the requirements of standards set by governments, standardisation bodies or by SGS customers.

■ **Statement of Risk**

A weakening US dollar is likely to result in downside risk to our estimates given SGS's US dollar translation exposure of between 40-45%.

■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS AG, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	37%	35%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	50%	32%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	13%	28%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2005.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

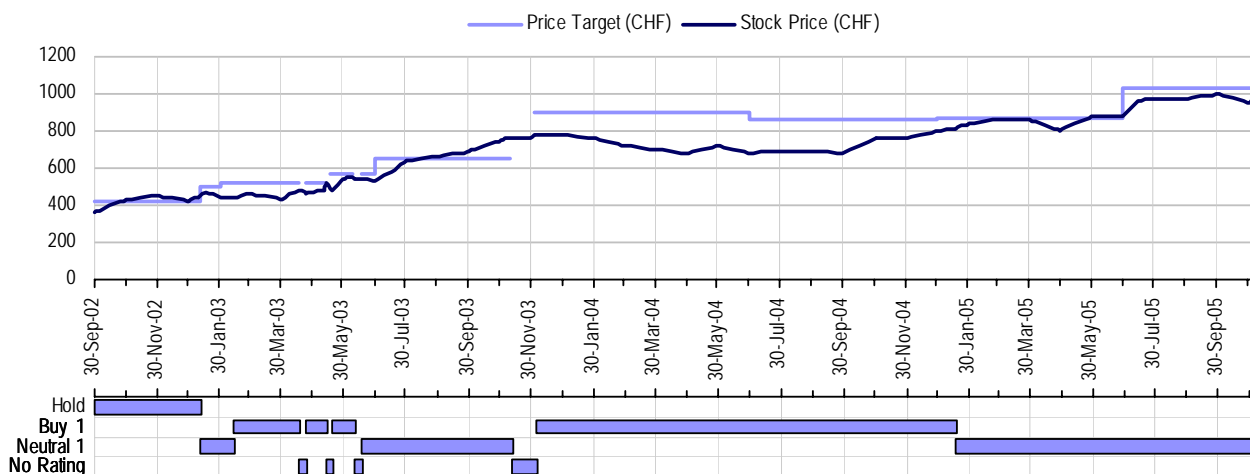
Company Name	Reuters	Rating	Price	Price date/time
SGS ^{4,5,13}	SGSN.VX	Buy 1	CHF1,020.00	07 Nov 2005 23:38 GMT

Source: UBS. GMT: Greenwich mean time.

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company within the next three months.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

SGS (CHF)



Source: UBS; as of 7 November 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer

This report has been prepared by UBS AG, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS AG, Europastrasse 1, CH-8152 Opfikon Phone: +41-1-238 1111

This report has been prepared by UBS AG or an affiliate thereof ('UBS'). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the research analyst unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as equity market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact UBS Italia SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS Securities South Africa (Pty) Limited (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. UBS South Africa (Pty) Limited is an authorised Financial Services Provider, Licence No 7328 **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

© 2005 UBS. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect.

