COMPANY PROFILE

Sector:
Switzerland - Services

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While the strong organic sales growth of the past years may slow on the back of declining global trade and lower commodity prices, we believe that SGS' potential for growth is intact. We see the following factors as triggers for new business and growth: 1) strengthening of product regulation in many countries; 2) increasing variety of product types with shorter life cycles; 3) many sectors and regions not yet served by SGS' services; 4) increased outsourcing; 5) acquisitions. Besides its growth potential, SGS is targeting further improvement of its profitability. Increased volumes will lead to higher capacity utilization in the labs, with the same infrastructure. In addition, a shift towards more testing / upstream services vs. inspection will help as well. We believe that the financial strength of the company and its ongoing focus on working capital improvement will continue to facilitate returns of cash to shareholders in the coming years. We consider SGS as fairly valued and have a NEUTRAL rating on the stock.

Stock Profile

Market capitalization	CHFbn	9.9	Sales 2009E	CHFm	5018	Net debt 2009E	CHFm	-401
Div. rank. shares (equiv.)		7.473	Org. growth in lc 05-08	% p.a.	12.3	Pension liabilities	CHFm	130
Stock price	CHF	1328	EBIT	CHFm	818	Equity	CHFm	2'105
Performance 2009	%	20.7	EBIT margin (normalized)	%	16.3	Goodwill	CHFm	600
Economic value/share	CHF	1585	Net profit	CHFm	580	Net debt/EBITDA	x	-0.4
Soft factors deduction	%	0.0	Free cash flow	CHFm	533	ROIC	%	31.7
Fair value NZB/share	CHF	1585	P/E	x	17.1	FCF yield	%	5.4
Up-/Downside potential	%	19.3	EV/EBITDA	x	9.1	Dividend yield	%	2.8

Guidance & Estimates

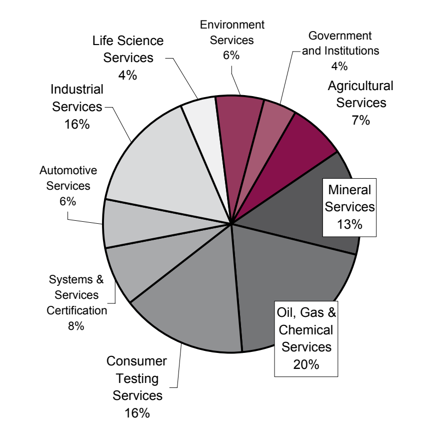
Company guidance FY 2009		NZB estimates			Consensus estimates		
Sales:	organic growth in the single digits	Sales:	CHFm	5018	Sales:	CHFm	#N/A
EBIT margin:	level of 2008	EBIT:	CHFm	818	EBIT:	CHFm	#N/A

Business Description and Strategy

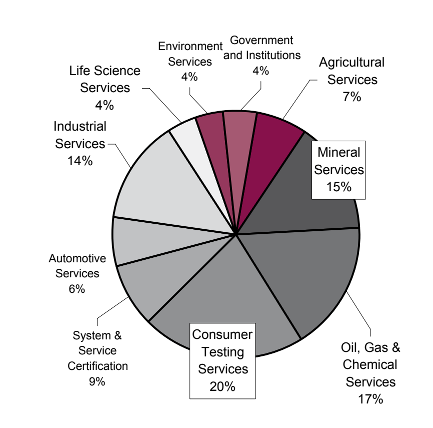
SGS is the world's leading inspection-, verification-, testing- and certification company. With more than 55,000 employees, it operates a network of over 1,000 offices and laboratories around the world, assisting customers such as manufacturers, retailers, governments and traders to master the increasing complexities of their respective businesses. Based on its long-year experience and track record, SGS is recognized as the global benchmark for quality and integrity. The company operates ten different divisions and is diversified across both countries and sectors. At the end of 2005, it embarked on a growth strategy which remains unchanged today. Its main goal is to expand its current service portfolio by increasing its offerings and enlarging competitive barriers. SGS also plans to balance its group revenue profile by accelerating growth in divisions such as Life Science, Consumer and Industrial, thereby reducing its exposure to commodity-related businesses. In order to fulfill its plan, SGS is targeting further acquisitions facilitated by its strong financial position (net cash).

Business Mix

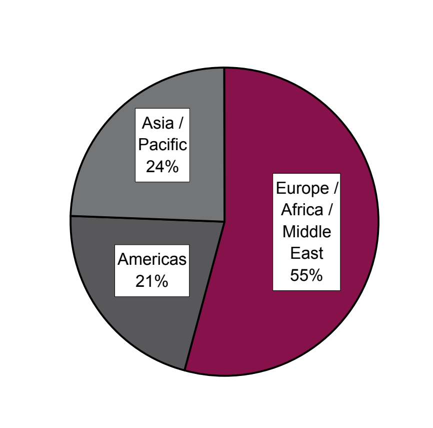
Sales by division 2009E



EBIT by division 2009E



Sales by geography 2009E



Divisional Overview

Agricultural Services:	**Sales 09E (CHFm):**	**365**	**EBIT 09E (CHFm):**	**55**

The division provides services that cover all aspects of the agricultural industry, help customers manage crops, enhance seed development, conduct soil testing and harvesting, move products through the global supply chain, and manage trade inspection for exports and imports.

Market:	CHF 1bn
Market position:	#1 position in shipment inspection
Competiton:	Governments bodies, Intertek
Customers:	Various - all players in the feed-food supply chain - from the trading houses to purchasing agencies and end users, food aid organizations, banks and insurance companies
Suppliers:	Various - no dominant suppliers

Minerals Services:	**Sales 09E (CHFm):**	**669**	**EBIT 09E (CHFm):**	**120**

The division provides services that range from quality and quantity inspection and testing for a vast array of commodities to advanced services, which optimise the recovery of metals in processing plants.

Market:	CHF 2bn
Market position:	# 1 positions in metallurgy and geochemistry
Competiton:	ALS Chemex (owned by Campbell Brothers), Intertek
Customers:	Various - all players in the mineral industry from the global houses to junior mining companies
Suppliers:	Various - no dominant suppliers

Oil, Gas & Chemical Services:	**Sales 09E (CHFm):**	**995**	**EBIT 09E (CHFm):**	**139**

The division provides services and solutions for every part of the oil-, gas- and chemical industry (both upstream and downstream) that improve efficiency, reduce risk and deliver competitive advantages.

Market:	CHF 3-4bn
Market position:	# 1
Competition:	Intertek, Inspicio, Saybolt, Bureau Veritas
Customers:	Various - all players in the OGC industry
Suppliers:	Various - no dominant suppliers

Life Science Services:	**Sales 09E (CHFm):**	**221**	**EBIT 09E (CHFm):**	**31**

The division provides outsourcing services which ensure both the quality and safety of drug ingredients and the drug development process from its early stages to the commercialisation of finished products. The Clinical Trials services and Quality Control testing activities help improve efficiency, reduce costs and ensure the safety of pharmaceutical products.

Market:	CHF 5bn
Market position:	Leading position in clinical trials services in Europe
Competition:	Covance, Quintiles
Customers:	Various - pharma companies
Suppliers:	Various - no dominant suppliers

Consumer Testing Services:	**Sales 09E (CHFm):**	**788**	**EBIT 09E (CHFm):**	**173**

The division provides services that ensure the quality and safety of every type of consumer product from textiles to appliances, furniture, food and electronics.

Market:	<CHF 10bn
Market position:	# 2 position overall, # 1 position in E&E (Electrical and Electronics)
Competition:	Intertek, Bureau Veritas, Underwriters Laoboratories (UL), Eurofins Scientific, TÜV
Customers:	All kind of industries, from food to IT to textiles and toy companies
Suppliers:	Various - no dominant suppliers

Divisional Overview

Systems & Services Certification:	**Sales 09E (CHFm):**	**378**	**EBIT 09E (CHFm):**	**70**

The division provides services in the audit-, certification-, training- and advisory areas in order to allow customers to enhance their business processes.

Market:	CHF 2bn
Market position:	#1 position together with Bureau Veritas
Competiton:	Bureau Veritas, advising / auditing companies
Customers:	Various - more than 80,000 customers in 80 countries around the world
Suppliers:	Various - no dominant suppliers

Industrial Services:	**Sales 09E (CHFm):**	**791**	**EBIT 09E (CHFm):**	**112**

The division provides services in the energy-, process- and construction industries that ensure that the quality and safety of products or installations meet applicable requirements whether regulatory, voluntary or customer specific.

Market:	CHF 15bn
Market position:	In the top five position
Competiton:	Bureau Veritas, Intertek, Dekra, Alcontrol, Apave
Customers:	Various - no dominant customers
Suppliers:	Various - no dominant suppliers

Environmental Services:	**Sales 09E (CHFm):**	**297**	**EBIT 09E (CHFm):**	**30**

The division provides services to governments and industries in order to develop sustainable solutions, offering them guidance and assistance in complying with environmental regulations and in assessing their environmental performance. The division also provides state-of-the-art laboratory and monitoring facilities.

Market:	CHF 5-6bn
Market position:	Very fragmented market; SGS is generally a subcontractor from consulting companies
Competiton:	Consulting companies
Customers:	Various - no dominant customers
Suppliers:	Various - no dominant suppliers

Automotive Services:	**Sales 09E (CHFm):**	**300**	**EBIT 09E (CHFm):**	**52**

The division provides services focusing on the design, construction and operation of motor vehicle inspection solutions at every step of the value chain. Governments, manufacturers, financing and insurance companies, as well as consumers rely on SGS' independent and secure solutions to limit damages, increase road safety and improve remarketing of pre-owned vehicles.

Market:	CHF 5-6bn
Market position:	#1 positions France, Ireland, North Africa, strong position in the US
Competiton:	Dekra, TÜV, Applus
Customers:	Various - no dominant customers
Suppliers:	Various - no dominant suppliers

Governments & Institutions Services:	**Sales 09E (CHFm):**	**215**	**EBIT 09E (CHFm):**	**37**

The division supports governments, institutions and partner organisations by verifying trade information, setting up electronic business processing and scanning operations, and assessing efficiency and legal compliance in aid delivery schemes and forestry operations.

Market:	CHF 2bn
Market position:	#1 position
Competiton:	Bureau Veritas, Intertek, Cotecna
Customers:	Various governments and international institutions - no dominant customers
Suppliers:	Various - no dominant suppliers

SWOT Analysis

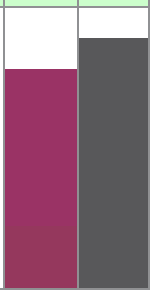
Strengths	Weaknesses
▪ Leading market positions in the majority of its markets ▪ Experienced management team with strong track record ▪ Global footprint ▪ Sound balance sheet with net cash position ▪ Financial expertise and discipline	▪ Low profitability in the Americas region ▪ Weak track record in the Life Science division ▪ Underperforming Environmental Services

Opportunities	Threats
▪ New directives (REACH, a EUR directive on harmful substances) ▪ Increasing outsourcing ▪ Growing quality and safety concerns ▪ Replication of innovative technologies for other new markets ▪ New services in the Agricultural Services (precision farming, seed testing, etc.)	▪ Litigation and political risk ▪ Global trade slowdown including increased trade protectionism ▪ Fall in the oil price is triggering a cut in capital investment in the sector

Value Drivers

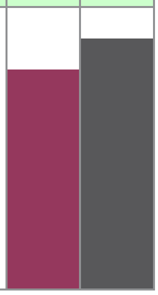
Top-line Growth — A — P

- Double digit growth in the past years, single-digit growth through the cycle
- Global players will continue to gain market share to the detriment of local players
- Acquisitions will continue to fuel growth
- Structural growth thanks to outsourcing, increasing regulations, growing quality and safety concerns, market trends linked to sustainable development



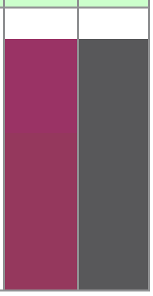
Operating Profitability — A — P

- Record margin of 16.8% in 2008
- Company targets continued profitable growth
- Target 2009 is to maintain the operating margin
- Further improvement in the long term thanks to business mix



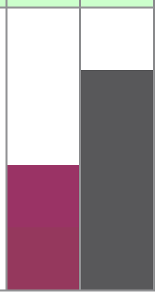
Capital Efficiency & Taxes — A — P

- With ROICs of > 30%, SGS has reached high levels in recent years
- Depending on the capex needs in the coming years, SGS should be able to sustain that high level of return
- Underlying group tax rate of 25-26% is good for a globally active group



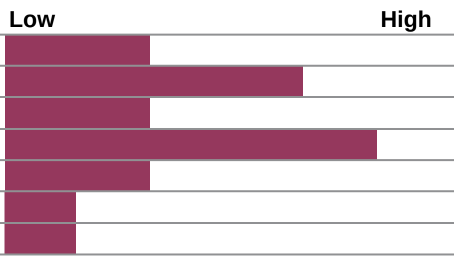
Financial Leverage — A — P

- SGS has a negative gearing of -20% and a net cash position of CHF 0.4m
- Potential to increase financial leverage is high, but company continues to pursue a sensibly conservative financing strategy
- SGS, is, however ready to increase its leverage in case of a larger acquisition



A = actual, current **A**chievement by company
P = overall **P**otential / importance of the value driver

Key Sensitivities



	Comments
Cyclicality	▪ Small part of the business is cyclical
Earnings visibility	▪ High visibility on average
Operating leverage	▪ 50% of costs are personnel costs
Dependence on currency movements	▪ Translation exposure only
Dependence on raw material prices	▪ Indirect impact
Dependence on key customers	▪ No dominant customer
Dependence on key suppliers	▪ No dominant supplier

Background Information

Newsflow

Upcoming events:	▪ 15 July 2009: H1 2009 results
March 24, 2009 - AGM:	▪ First two months in the upper end of the 2009 guidance (single-digit organic growth)
February 20, 2009 - acquisition:	▪ Acquisition of Ustav Paliv a Maziv, (UPM) operating two labs in the Czech Republic ▪ UPM is the market leader in the Czech Republic for independent fuel testing ▪ UPM was founded in 1997, 48 employees and revenues of CHF 4m
January 15, 2009 - FY 2008 results:	▪ FY 2008 results above expectations ▪ Acceleration of organic top-line growth in H2 2008 to above 15% ▪ CHF 50 dividend (CHF 35 ordinary / CHF 15 additional), CHF 250m share buy-back ▪ Outlook for 2009: single-digit organic growth, operating margin at 2008 level (16.8%) ▪ EPS target of CHF 105 by 2011 confirmed

Company Milestones

April 2008:	▪ Agreement with the Government of the Republic of the Philippines (CHF 150m)
November 2006:	▪ Chris Kirk takes over as new CEO from Dan Kerpelman
March 2006:	▪ Sergio Marchionne (former CEO) takes over as Chairman of the Board
November 2005:	▪ Growth strategy with 3-year targets (CHF 5bn sales, 17% margin, EPS CHF 80)
January 2002:	▪ Sergio Marchionne named CEO
1985:	▪ IPO, SGS listed on Swiss Exchange
1919:	▪ Registered in Geneva (Switzerland) as Société Générale de Surveillance
1878:	▪ Founded in Rouen (France) as grain shipment inspection house

Management:

CEO: Chris Kirk (1956)	▪ CEO since 2006 (with SGS since 1987) ▪ Bachelor of Zoology
CFO: Richard Tobin (1963)	▪ CFO since 2004 (with SGS since 2002) ▪ MBA

Board of Directors:

Chairman:	▪ Sergio Marchionne (1952)	
Members:	▪ Tiberto Ruy Brandolini d'Adda (1948)	▪ Shelby R. du Pasquier (1960)
	▪ Carlo Sant'Albano (1964)	▪ Thomas Limberger (1967)
	▪ August von Finck (1930)	▪ Peter Kalantzis (1945)
	▪ François von Finck (1968)	

Corporate Governance:

Compensation:	▪ Base salary, annual bonus and long-term incentive plans paid in options (conditional upon achieving or exceeding an EPS target of CHF 105 in 2011) ▪ Total compensation 2008 for current operations council and senior management members: CHF 16m
Shareholdings:	▪ Board of directors: 752,542 shares (10% of outstanding shares) ▪ Main shareholders von Finck family and EXOR represented in the board

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