Deutsche Bank

17 Feb 2005

SGS

Dan Kerpelman appointed new CEO

Year End 31-Dec	Revenue CHFm	PBT DB CHFm	PBT Stated CHFm	EPS DB CHF	EPS Stated CHF	DB EPS growth %	P/E (DB EPS) x	EV / EBITA x	DPS CHF
2004E	2,850	388	375	36.89	35.20	22.23	22.99	16.25	12.00
2005E	3,140	478	478	45.35	45.35	22.94	18.70	13.05	14.75
2006E	3,410	566	566	53.68	53.68	18.37	15.80	10.82	17.46
2007E	3,709	639	639	60.90	60.90	13.45	13.92	9.20	19.80

Source: Deutsche Bank Estimates and Company Data : "DB" means pre goodwill, non-recurring items

Shares Outstanding (Million):	*8*	Market Cap (million):	*CHF 6,596.0*
Local Index (.SPI):	*4,392.00*	52-week High/Low:	*CHF 884 - 642*

Recommendation
Buy

Price at 16 Feb 2005
CHF 848.00

Target Price
CHF 1000.00

Ticker/Code
SGSN.VX

We believe the appointment of Dan Kerpelman as CEO of the group should allow the group to fix new medium term target. We are pleased to see a strong manager with financial and international experience joining.

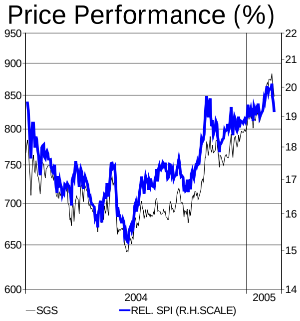
2004 was a tumultuous year for the group with three consecutive CEOs. Sergio Marchionne led the group during the first half of the year but resigned to join Fiat as CEO. Werner Pluss followed in June but resigned for health reason in September. Johan Allegaert –who had planned to retire at the end of 2004- was then appointed as interim CEO. Dan Kerpelman is the first outsider and hopefully will last a little longer.

Dan Kerpelman (46 years old) will join SGS as CEO on 11 April, 2005. Mr Kerpelman has been at Eastman Kodak since 2002 as president of the Health Imaging Group and was foreseen as the next CEO of the group. The Health Imaging division is Eastman Kodak's second largest division in terms of sales (2003 sales USD2.4bn) but largest contributor to the group's operating profit (2003 EBIT USD481m).

Before Eastman Kodak, Mr Kerpelman spent 17 years at General Electric, mostly within the Healthcare unit in which he served as General Manager, Global X-Ray Division based in Paris; General Manager, Global Quality and General Manager, Global Service Operations based in Milwaukee; Region Service Manager for Italy, Turkey and Greece based in Milan and Manager, Logistics for Europe, Middle East and Africa, based in Paris. During his time in Global Quality, he led GE Medical Systems' Six Sigma initiative. Prior to GE, he worked in information systems at IATA and at Hewlett-Packard, both based in Geneva. Dan Kerpelman holds a BS in Computer Science from the University of Maryland, a MS in Computer Engineering from Rensselaer Polytechnic Institute, and a MBA from Northwestern University.

Mr Kerpelman gained a solid reputation at GE and Eastman Kodak and was viewed as a hands on operator. Mr Kerpelman's background in healthcare is not fully relevant but should not worry investors in our view. We have always said that the company had an experienced management team underneath CEO level and we do not believe that any of the division needs a manager bringing additional sector know how. On the other hand: he has a strong background in several critical areas:

Price Performance (%)



Relative Performance

1m	-0.1%
3m	5.5%
12m	10.7%

Pascal Moura
+41 1 227 3377
pascal.moura@db.com

- Mr Kerpelman has worked in two *large corporation* and it is worth mentioning that the operating mode of GE around an operation council is similar to SGS'own management structure:

- SGS has an ongoing *Six Sigma* initiative to drive further efficiencies. GE was one of the pioneer in Six Sigma and Mr Kerpelman led GE Medical Systems' Six Sigma initiative.

- SGS *IT* platform is an important component of the business and Mr Kerpelman's IT background should be an advantage.

- SGS operation council is very *international* mixing culture and Mr Kerpelman clearly has a multi cultural background.

- Mr Kerpelman last year opened a multi-million dollar health imaging centre in *Shangai* and had some exposure in SGS fast moving market.

- Within Eastman Kodak he performed several *acquisitions* to build up the business among which PracticeWorks which brought over USD 200m in revenues. According to our US analyst, he did a good job at integrating the company.

- The previous two CEOs had no *investor/market exposure*. In his role Mr Kerpelman has had exposure to the investment community and we would expect a solid "performance" once he gets in front of investors later this year.

In conclusion, we are very pleased with the appointment of Dan Kerpelman. We expect that one of his first task will be to set new medium term target for the group:

The company is currently enjoying 10% organic growth rate and is active in a still very fragmented environment with numerous external growth opportunities. Remember that a) Last year, external growth was 9% b) We forecast a net cash position by 2006 of CHF870m C) that the group could generate 5%-7% external growth by using its free cash flow D) that by gearing up its B&S, SGS could use CHF2.7bn in cash for an acquisition without any capital increase. Our current forecasts do not assume additional acquisitions. Finally we expect further operating margin improvement due to further efficiency gains and leverage from top line growth.

We expect SGS to post EPS growth of about 20% per annum over the next three years (25% growth in 2005, 18% in 2006 and 13% in 2007).

We expect the next news flow at the time of the AGM on March 23 where we expect the company to give a positive update on the current year. On April 11th the new CEO will start and after that we have the H1 results on July 13th. We would expect Dan Kerpelman to be in contact with investors at the very latest at the time of the H1 results and we do not exclude that he gets some contact earlier.

Our 12 months price target of CHF1000 implies a 2006E P/E of 18.6x in line with its historical valuation. Our DCF analysis indicates a value per share of CHF1,000, assuming a 3.3% long-term growth rate and a WACC of 8.7%. The main risks to our price target are a potential slowdown in international trade and ongoing market concerns about the current gap in management.

A similar fading 30 years DCF as the one used in DB recent Intertek's report lead to a similar price target. Main assumptions :

Years 3-5: revenue growth of 8.5% and EBITA margins of 16.8%.

Years 6-10: revenue growth of 8.0% EBITA margins of 14.2%.

Years 11-20: revenue growth of 7.0%, EBITA margins of 11.6%.

Years 21-30: revenue growth of 6.0%, EBITA margins of 8.9%.

Year 31+: no revenue growth is assumed, EBITA margins of 6.3%.

WACC: 8.0%

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure Checklist			
Company	*Ticker*	*Price*	*Disclosure*
,SGS	SGSN.VX	848	6,8,13,14
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Special Disclosures

None

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.
Pascal Moura

Deutsche Bank Research Ratings Key

Buy: Total return expected to appreciate 10% or more over a 12 month period.

Hold: Total return expected to be between 10% to -10% over a 12 month period.

Sell: Total return expected to depreciate 10% or more over a 12 month period.

The target prices of shares mentioned in the accompanying text are based on an assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the subsequent notes will have priority.