

# RESULTS

AS THE CLEAR GLOBAL LEADER  
IN INSPECTION, VERIFICATION,  
TESTING AND CERTIFICATION,  
SGS AIMS TO BE THE MOST  
COMPETITIVE AND PRODUCTIVE  
SERVICE ORGANISATION IN THE  
WORLD. SGS IS COMMITTED  
TO PROVIDE CONSISTENTLY  
INNOVATIVE, BEST-IN-CLASS  
SOLUTIONS FOR CLIENTS, LOCALLY,  
REGIONALLY AND GLOBALLY.  
MADE UP OF 39 000 PEOPLE IN  
A NETWORK OF MORE THAN  
1 000 OFFICES AND LABORATORIES  
AROUND THE WORLD, SGS IS  
PRIMED AND READY TO MEET  
THE CHALLENGES THAT LIE AHEAD.

# SGS ANNUAL REPORT 2004

Please click on the contents  
(right) to go directly to your  
chosen page.

To return to this 'contents  
page' click on the page  
number/section indicator at  
the bottom of each page.

<b>SGS GROUP FINANCIAL HIGHLIGHTS</b>	<b>2</b>
<b>REVIEW 2004</b>	<b>6</b>
<b>CORPORATE GOVERNANCE</b>	<b>30</b>
<b>SGS GROUP RESULTS</b>	
Consolidated balance sheet	52
Consolidated profit and loss account	53
Consolidated statement of changes in shareholders' equity	54
Consolidated statement of cash flows	55
Notes to the consolidated financial statements	58
Report of the Auditors	87
<b>SGS SA RESULTS</b>	
Balance sheet	90
Profit and loss account	91
Notes to the financial statements	92
Proposal of the Board of Directors for the appropriation of available retained earnings	95
Report of the Auditors	96
SGS Group five-year statistical data	100
SGS Group statement of value added	103
SGS Group share information	104
SGS Group principal operating and holding companies	106



ALBERTA

HERD FEED SUPPLIED UNDER HACCP STANDARDS

GERMANY

PRE-CLINICAL SAFETY ASSESSED PESTICIDES

DELHI

YOGURT ANALYSED AND CERTIFIED SAFE FOR CONSUMPTION

MISSISSAUGA

TASTED AND APPROVED BY JESSICA



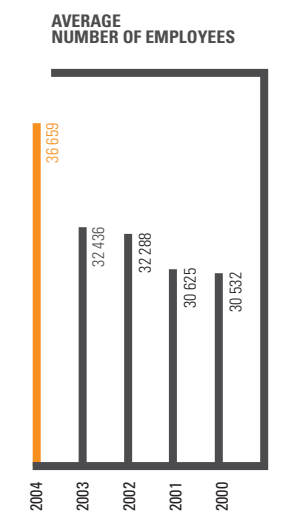
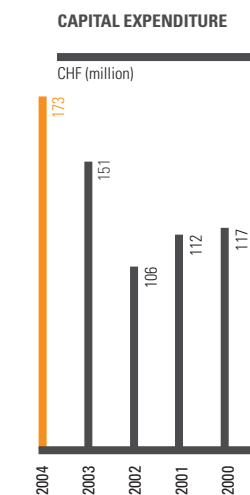
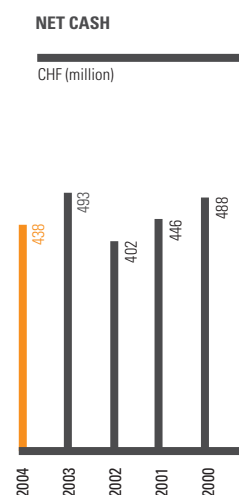
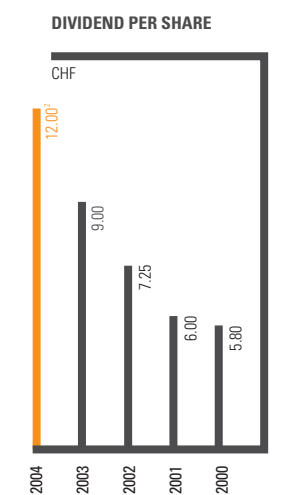
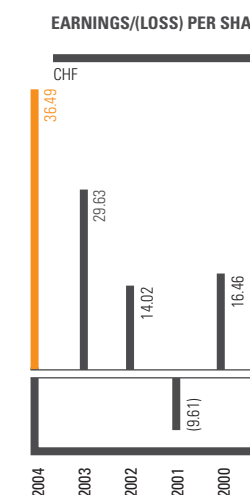
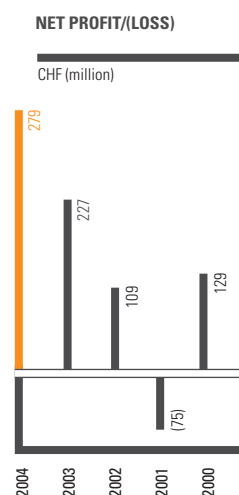
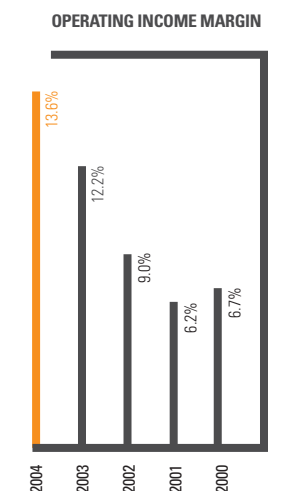
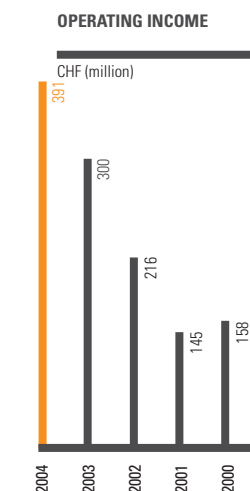
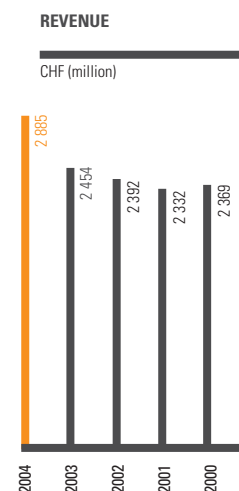


# SGS GROUP

## FINANCIAL HIGHLIGHTS

CHF (million)

	2004	2003
<b>SGS GROUP</b>		
Revenues	2 885	2 454
Operating income	391	300
Operating income margin	13.6%	12.2%
Exceptionals	3	3
Net profit	279	227
Net profit (before exceptionals, net of tax)	276	224
Shareholders' equity	1 229	1 072
Net cash	438	493
Basic earnings per share (in CHF)	36.49 <sup>1</sup>	29.63
<b>SGS SA</b>		
Net profit	91	45
Shareholders' equity	912	890
Dividends as proposed by the Board of Directors	92	69
Dividend per share (in CHF)	12.00 <sup>2</sup>	9.00



<sup>1</sup>For the purpose of calculating earnings per share information, the average number of shares in circulation for the period is used.

<sup>2</sup>As proposed by the Board of Directors.

# LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE

Dear shareholders and stakeholders,

## 2004 HAS BEEN A SUCCESSFUL YEAR FOR SGS, A CONFIRMATION OF THE GROUP'S COMMITMENT TO ACHIEVE INDUSTRY LEADERSHIP IN TERMS OF BOTH GROWTH AND FINANCIAL PERFORMANCE.

Group revenues improved to CHF 2 885 million, a 17.6% increase over prior year. While the five acquisitions completed during the year performed well and contributed 7.8% to this top line expansion, the driving force in 2004 has been the solid organic growth of 10.7% on a constant currency basis, driven in the main by Minerals, Consumer Testing, Industrial and Trade Assurance Services, each with growth rates in excess of 15%.

Volume growth, coupled with operational efficiency initiatives, boosted annual operating margins to 13.6%, with the second semester coming in at 14.1%, the highest level since the remaking of SGS started in 2002. At constant currencies, operating income increased by a third to CHF 391 million.

As a consequence, net income rose to CHF 276 million, up 23.2% on the prior year.

In view of this performance and the annual operating cash flow of CHF 425 million, the Board proposes a dividend of CHF 12 per share, an increase of CHF 3 over the CHF 9 paid for 2003.

The year has seen SGS accelerate towards its ambition to become the undisputed leader in its industry. In particular, the 2004 financial results exemplify how our Group's new vision, focused on the importance of and need for great leadership at every level of the organisation, on delivery to the highest standard of our core skills and on portfolio enhancement and strengthening, is impacting the way SGS operates worldwide.

The diversification of our services portfolio continued in 2004 in line with our Group strategy.

Oil, Gas & Chemicals Services was strengthened by the acquisition in the USA of the in-plant materials handling specialist Petroleum Services Corporation as well as the acquisition of the leading international diagnostics specialist Vernolab based in France. These specialised activities, both acquired in January, are now fully integrated within the SGS network and their technology and expertise is being actively replicated around the Group.

Life Science, Environmental and Consumer Testing Services also benefited from the full integration and efficiency savings extracted from the centralised laboratory facilities of the newly acquired Belgian company Medisearch International in December 2003 and Institut Fresenius in March 2004.

On-going investments in new equipment, coupled with Six Sigma process improvement programmes, delivered strong organic growth in almost all businesses whilst boosting margins.

The Oil, Gas & Chemical Services new laboratories in Qatar and Caojing place us in a strong position to benefit from the expected growth in the Asia and Middle East petrochemical and chemical activities.

Similarly, the continued strengthening of our international sales teams in the USA, Europe and Japan and strategic investments in facilities, have enabled Consumer Testing Services to provide professional services on a global scale. We are now market leader in Restrictive Substances Testing Services (RSTS) and will become in 2005 the leader in the Far East for GSM, Bluetooth and WiFi testing.

Strategic investments in new laboratories in India, China and Korea, provide a new foothold for Environmental Services in air, water and soil testing in these strategic markets.

Industrial Services is focused on replicating successful business segments such as statutory inspections, construction supervision and testing and supply chain controls in new attractive markets.

Some businesses continue to require a sharpening of their focus.

The cost of diversifying our Agricultural Services to inland services pushed margins slightly down in 2004. At the same time this diversification has placed us in a better position to seek new developments in 2005.

Systems and Services Certification also performed below expectations in part due to the higher than expected negative impact of a substantial drop in renewals services following the ISO 9000 – 2000 transition up until December 2003. The realigning of cost structures and the introduction of new sector based certification schemes will provide a platform for renewed growth in 2005.

Due to depressed traditional off-lease and auction volumes in the USA and despite the acquisition of ACO Securitest part way through the year, Automotive Services revenues dropped. We remain confident however that thanks to the start-up of new contracts in 2004 we will report significantly improved performance in the medium term.

We thank and congratulate all our 38 728 SGS employees for having taken on the challenge of adopting our new performance driven culture, for supporting the ambitious strategy set for the Group and for maintaining and defending the highest possible level of integrity that makes the strength of SGS. Without them, these results would simply not have been possible. We also welcome the nearly six thousand new colleagues who joined the SGS family this year as part of our acquisition drive.

Our culture, founded on the "drive, develop, decide and deliver" principles and engrained in the workings of our Operations Council, has enabled the Group to maintain its course with commitment and determination despite the unexpected succession of two Chief Executive Officers during the year - Sergio Marchionne in June and Werner Pluss in September.

Through his strong leadership and tireless energy, Sergio Marchionne began a process of fundamental and lasting transformation of our Group in 2002 and we thank him for his contribution and welcome his appointment as Vice Chairman of the Board.

Werner Pluss, although unable to lead our Group as Chief Executive beyond September for health reasons, provided the Operations Council with an invaluable intimate knowledge of SGS gained over his thirty-two years in the Group and we thank him for his leadership during this period.

The Board would like to extend his deep appreciation to Mr Johan Allegaert who was ready to take over the position of CEO as of September.

## 2005 LOOKS PROMISING.


The momentum for growth gained in 2004 will be sustained in the coming year through a combination of acquisitions and continued expansion of our laboratory network. Focus on replicating best practice across the Group and progressively diversifying our services portfolio is expected to enhance operating margins in all businesses.

We confirm our commitment to deliver 2005 earnings per share of CHF 45.

At the forthcoming Annual Shareholders' Meeting, Mr Carlo Maria Vismara will relinquish his position as Member of the Board. Board and Operations Council would like to express their gratitude for his unwavering support. Mr Pascal Lebard will be proposed as a new member.



Georges Muller  
Chairman



Johan Allegaert  
Chief Executive



# REVIEW

DETROIT

OFF-LEASE VAN CHECKED FOR FAST REMARKETING

HO CHI MINH CITY

PIZZA OVENS BUILT ACCORDING TO SPECIFICATIONS

ITALY

TOMATOES GROWN FROM PEST-FREE CERTIFIED CROP

MILWAUKEE

SANDRO'S PIZZAS TASTE THE BEST AND ARE DELIVERED ON TIME



AGRICULTURAL  
SERVICES MINERALS  
SERVICES OIL, GAS &  
CHEMICALS SERVICES  
LIFE SCIENCE SERVICES  
CONSUMER TESTING  
SERVICES SYSTEMS &  
SERVICES  
CERTIFICATION  
INDUSTRIAL SERVICES  
ENVIRONMENTAL  
SERVICES AUTOMOTIVE  
SERVICES TRADE  
ASSURANCE SERVICES

REVENUES

	CHF (million)	%
Agricultural Services	257.1	8.9
Minerals Services	319.5	11.1
Oil, Gas & Chemicals Services	574.6	19.9
Life Science Services	106.5	3.8
Consumer Testing Services	360.6	12.5
Systems & Services Certification	235.4	8.1
Industrial Services	379.8	13.2
Environmental Services	208.6	7.2
Automotive Services	187.7	6.5
Trade Assurance Services	255.4	8.8
TOTAL	2 885.2	100.0

OPERATING INCOME

	CHF (million)	%
Agricultural Services	23.6	6.1
Minerals Services	46.3	11.8
Oil, Gas & Chemicals Services	68.6	17.6
Life Science Services	12.8	3.3
Consumer Testing Services	65.2	16.6
Systems & Services Certification	30.5	7.8
Industrial Services	46.1	11.8
Environmental Services	16.8	4.3
Automotive Services	20.0	5.1
Trade Assurance Services	61.5	15.6
TOTAL	391.4	100.0



# AGRICULTURAL SERVICES

BOOST

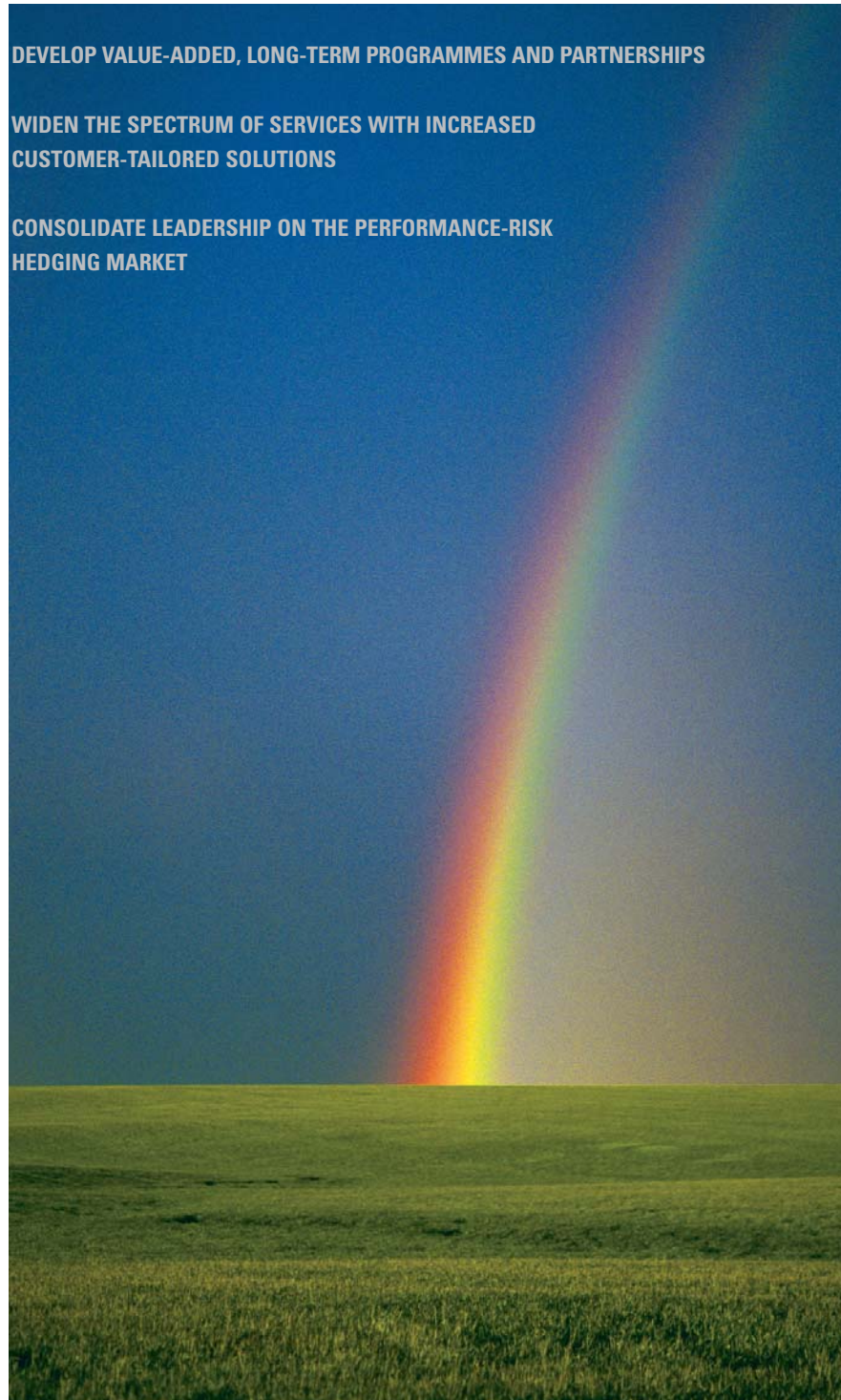
DEVELOP VALUE-ADDED, LONG-TERM PROGRAMMES AND PARTNERSHIPS

CREATIVITY

WIDEN THE SPECTRUM OF SERVICES WITH INCREASED CUSTOMER-TAILORED SOLUTIONS

RISK-MITIGATION

CONSOLIDATE LEADERSHIP ON THE PERFORMANCE-RISK HEDGING MARKET



Comparable revenues in Agricultural Services grew by 7.4% to CHF 257.1 million. The sector reported full year operating margins of 9.2% with margins accelerating to 10.4% in the second semester.

The year was one in which SGS established clear market leadership in Global Business Solutions and Collateral Management through increased marketing efforts. As a result, sales in GBS have marked a 10% increase, while sales in CMA have grown 30% over the previous year.

Agricultural Services' product portfolio continues to diversify from core trade related activities to higher value-added services, such as Identity Preserved and UP\*Sourcing programmes. These producer oriented service categories form the backbone of its efforts to widen its portfolio and capitalise on the demand for analytical and logistics related activities within the agricultural products chain. As part of this initiative SGS has begun to roll-out its standard information technology execution platforms (X-Track & DigiTrade) which will provide commonality of service delivery both in internal operations and to their clients.

At a strategic level, the newly nominated Executive Vice President has locked-in several first range targets. Specifically these are:

- gain market share in traditional inspection and testing markets through improved customer satisfaction
- integrate the value chain by offering complete service packages
- implement at all operational levels clear and standardised technical governance principles and
- apply Six Sigma at field and laboratory levels.

From a structural point of view, the creation of category focused global marketing and business development teams have started implementing the Agricultural Services strategy at regional levels. Development managers have been embedded at the operational level of regional teams, therefore enhancing customer focus and identification of opportunities.

## CASE STUDY

### INTEGRATING INLAND WITH PORT ACTIVITY IN RUSSIA

Importers of grain become increasingly wary about quality – and exporters strive to achieve increased customer satisfaction. SGS was asked by one of the major Russian grain producing companies to design a solution that would allow them to keep track of the quality of grain they were carrying in their inventories as much upstream as possible. The programme was implemented in June 2004 at 10 of the customer's silos in one of the main grain producing areas. This programme allows the customer to be sure that the parcels earmarked for export at the inland silo are loaded on the vessel and that there is no discrepancy in the exported quality due to problems at the inland silo.

## CASE STUDY

### REGULATING THE PRODUCTION OF FISH IN PERU

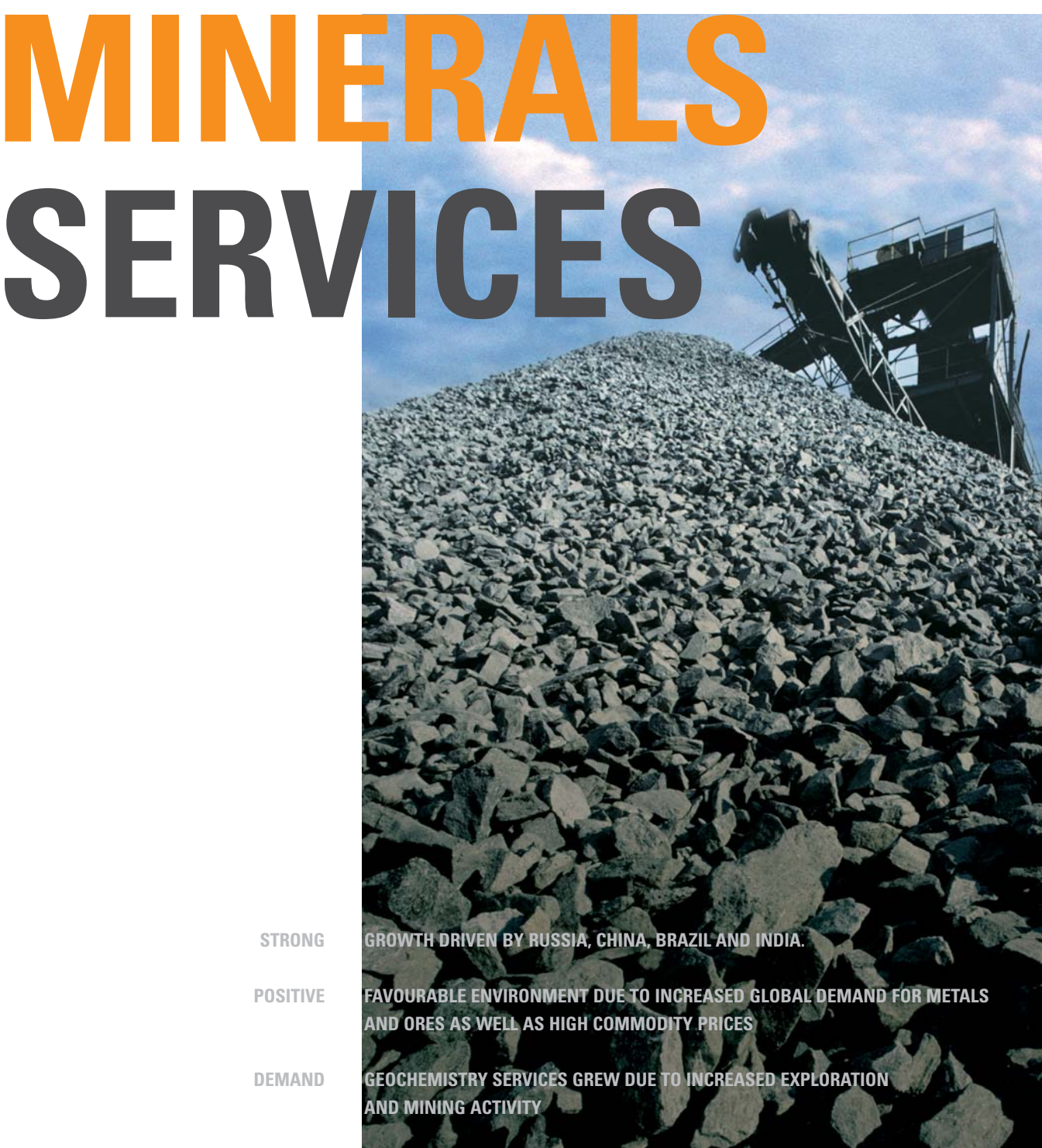
Due to lack of control, the Peruvian Ministry of Fisheries was facing a situation where the fish production of the country was exceeding the quotas assigned by international treaties due to illegal fishing – and the fact that tax evasion related to non-declared fish production was heavily weighing on the country's budget.

SGS has put in place a system whereby all Peruvian fishing-boats calling for discharge are automatically controlled by SGS – and reports about the quantity and variety of fish landed are sent live to the corresponding authorities. This system implies a 24/7 presence of SGS teams in more than 200 locations in ports and fish plants.

CHF (million)

	2004	2003
<b>REVENUES</b>	<b>257.1</b>	<b>241.8</b>
Change in %	6.3	–
<b>OPERATING INCOME</b>	<b>23.6</b>	<b>24.3</b>
Change in %	(2.9)	–
Operating margin %	9.2	10.0





# MINERALS SERVICES

**STRONG** GROWTH DRIVEN BY RUSSIA, CHINA, BRAZIL AND INDIA.

**POSITIVE** FAVOURABLE ENVIRONMENT DUE TO INCREASED GLOBAL DEMAND FOR METALS AND ORES AS WELL AS HIGH COMMODITY PRICES

**DEMAND** GEOCHEMISTRY SERVICES GREW DUE TO INCREASED EXPLORATION AND MINING ACTIVITY

CHF (million)

	2004	2003
REVENUES	319.5	279.9
Change in %	14.1	–
OPERATING INCOME	46.3	35.5
Change in %	30.4	–
Operating margin %	14.5	12.7

Minerals Services revenues of CHF 319.5 million grew by 14.1% over prior year. Operating margin rose to 14.5% from 12.7% on the back of increased demand and a favourable mix driven by geochemistry and mineralogy related activities.

Minerals Services is the market leader. Its expertise, extensive laboratory network and comprehensive sampling procedures meet the global service requirements of clients engaged in exploration, mineral and coal processing, power generation, risk management and seaborne trade in bulk commodities.

Focus has been on the delivery of standardised services and service delivery. This has allowed Minerals Services to develop strategic partnerships with its clients to enhance performance and drive margin improvement.

Minerals Services now offers the entire range of services required by its clients and its focus on standardised services and service delivery has supported margin improvements.

Minerals Services develops strategic partnerships with clients in order to enhance performance and with its global network of offices and laboratories is able to deliver services to those partners anywhere in the world.

Targeted sales activity and improved execution drove growth in each of the business units, most noticeably in geochemistry and mine site services, metallurgy and mineralogy, fertilisers and non-ferrous metals. Metallurgy and mineralogy benefited from the integration of Lakefield into the global service offering, thereby covering the entire minerals value chain from pit to port and beyond. Projects (High Pressure Acid Leach (HIPAL) pilot plants) performed on behalf of major mining houses were very successful. SGS is now recognised as the leading service provider in this testing field.

New mine site laboratory facilities in Africa and South America strengthened the SGS geochemical laboratory network reaching a total of 65 sites globally. Standardised systems and procedures were implemented in each of these laboratories to drive consistency in service delivery and improve quality performance. Outsourcing remains a key development area for this business as clients recognise the benefits of SGS expertise in managing mine-site laboratories. A five year contract for exploration and grade control was awarded by Newcrest Mining for one of its largest mines in Australia.

The full integration of the Metallurgy and Mineralogy business units created a major improvement in margins. Growth of more than 20% was achieved in SGS Lakefield, as clients outsourced their major metallurgical programmes. For example, CVRD, one of the world's largest mining houses used the SGS HIPAL facility in Perth, Western Australia to help determine the feasibility of an extraction process for one of its mines in South America. The same company also outsourced its metallurgical laboratory in Belo Horizonte to SGS.

Growth in trade services was particularly notable, especially in fertilisers and non-ferrous metals inspection.

The non-ferrous inspections business exceeded all expectations and SGS is now one of the dominant players in this market. SGS is a key player in the International Fertilizer Association process designed to improve the standard of fertiliser inspections worldwide and is also a key contributor to the European Fertilizer Manufacturing Association's stewardship programme which focuses on safety and good business practice in fertiliser manufacture.

Minerals Services continued success is a direct result of this value proposition, its geographical coverage and the excellence of SGS employees worldwide.

## CASE STUDY SGS INDIA - PUTTING INNOVATION AND TECHNOLOGY TOGETHER

KPCL, a major power utility in southern India, sources its steam coal requirement from many suppliers across India. The highly heterogeneous nature of coal coming from various sources combined with particle sizes up to 250 mm, posed a unique challenge in obtaining a representative sample from each wagon for quality determination. Six rail car unloading stations and six conveyor belts carrying coal to the power station demanded an innovative approach to ensure accuracy and consistency in the sampling process.

SGS India developed a customised solution to efficiently and accurately obtain representative samples in line with the client's contractual requirements with their suppliers. A Mobile Mechanical Auger sampling system mounted on a moving rail car platform was developed to enable this and additionally ensure a quick turn around of the rail wagons to help mitigate any demurrage costs on the wagons. The Auger sampling system is supported by a state-of-the-art, on-site SGS coal-testing laboratory.



# OIL, GAS & CHEMICALS

## SERVICES

### DEMAND

PETROLEUM AND CHEMICALS PRODUCTS TESTING ENABLED BUSINESS TO RECORD DOUBLE DIGIT GROWTH

### TACTICAL

STRATEGIC INVESTMENTS IN LABORATORIES IN EAST ASIA, MIDDLE EAST, AND RUSSIA

### ADDED VALUE

NEW PRODUCTS: IN-PLANT LOGISTICS SERVICES, LABORATORY OUTSOURCING, COMPREHENSIVE ENGINE PERFORMANCE AND FUEL TESTING

OGC revenues increased by 30.9% with operating margins improving to 11.9% supported by a good all-round business performance particularly enhanced by excellent results in the USA, extensive market capture in Eastern Europe, strong performance across Europe and good growth in Asia spearheaded by Singapore and China.

Value added products improved our portfolio which is tailored to our clients who seek to reduce cost and improve efficiency within their plant or terminal, or add value to their products. These include in-plant logistics services, laboratory outsourcing, product enhancement (blending & additives), and comprehensive engine performance and fuel testing service packages.

OGC continued to make good progress having successfully added several outsourcing and terminal management contracts during 2004. Outsourcing now represents more than 30% of the business' revenue.

As part of the service portfolio enhancement strategy two acquisitions were made in 2004. Petroleum Services Corporation (USA) specialises in product handling and contract services to the refining, chemical, and marine transportation industries.

PSC is the recognised leader in this field in the US Gulf region. OGC also acquired Vernolab of France specialising in the outsourcing of predictive maintenance testing of lubricants used in transportation, heavy equipment and marine engines. Both acquisitions occupy an important place in our objective to capture opportunities presented for outsourcing the non-core activities of our customers.

Inspection and testing services were further developed to the Liquefied Natural Gas industry where SGS retained a leadership position. LNG has become one of the most important sources of clean energy for industry and for domestic heating and as feedstock for petrochemical manufacturing. LNG is also the feedstock for gas to liquids technology, where production will quadruple in the coming decade. These clean products will become an increasingly important component of fuel supplies. This will see LNG becoming one of the fastest growing sources of energy in the next 10 years and will enable SGS to increase our revenues in this segment accordingly. Strategic investments made in the new laboratory network during 2004, principally in East Asia, Middle East, and Russia, are positioned to fuel growth objectives for the coming year. As production and consumption patterns shift, SGS is uniquely positioned to capture the market, leveraging the breadth of the network and international customer base.

### CASE STUDY USING ADDITIVES

SGS helped Valero, one of the largest independent refiners in the USA, to transform some of its trading activity. Until OGC demonstrated how certain specifications of oil cargoes could be modified with the use of additives, Valero senior traders were not aware that they could enhance cargo value at a relatively low cost and at the same time give them added market flexibility. With a "one stop shop" service approach. In the laboratory, OGC identifies the most cost-effective additive, supplies the additive from one of many sources and manages the application at the correct dose rate. "This is really unlocking profit from our raw material", said one trader.

### CASE STUDY GOING WITH THE LEADERS IN THE FIELD

SGS Australia was selected to partner with Petrofac Facilities Management in Papua New Guinea to provide a turnkey laboratory solution for the new Interoil Refinery at Napa Napa, Port Moresby. This is a classical laboratory outsourcing solution entrusted to SGS (leaders in this field), as well as contract management of in-plant facilities. Interoil soon recognised the unrivalled expertise of SGS and the relationship quickly evolved into other areas of refinery operations including jetty management, tank calibration and operational consultancy. Partnering with customers in this way prompted one senior manager to remark "we could not have come so far so quickly without SGS".

CHF (million)

	2004	2003
REVENUES	574.6	439.1
Change in %	30.9	–
OPERATING INCOME	68.6	47.9
Change in %	43.2	–
Operating margin %	11.9	10.9



# LIFE SCIENCE SERVICES

EXPANSION

GROWTH IN ASIAN QUALITY CONTROL MARKET, WITH NEW LABORATORIES IN INDIA, THAILAND AND HONG KONG

SUCCESS

INTEGRATION AND ORGANIC GROWTH IN THE QUALITY CONTROL BUSINESS OF INSTITUT FRESENIUS

SOLID

STRONG GROWTH IN CLINICAL RESEARCH



CHF (million)

	2004	2003
<b>REVENUES</b>	<b>106.5</b>	<b>59.1</b>
Change in %	80.2	–
<b>OPERATING INCOME</b>	<b>12.8</b>	<b>5.9</b>
Change in %	116.9	–
Operating margin %	12.0	10.0

Revenues increased by 80.2% to CHF 106.5 million and margins further improved to 12% from 10% in 2003. This performance was driven by the successful integration of Medisearch International acquired in December 2003 and the Life Science activities of Institut Fresenius acquired in March 2004 which positively impacted the main business segments of Clinical Research and Quality Control Testing.

During 2004 a number of important changes were accomplished to drive future growth. A global business team was formed by selecting recognised experts from the industry and talents from inside SGS. The new structure consists of two globally operating sales and marketing teams who actively pursue international key account management and business development activities. One Six Sigma project has successfully been implemented to increase efficiencies in the main clinical research unit, and a new Six Sigma project has been conducted to harmonise and streamline all quality control laboratories. A state-of-the-art, web-based laboratory information management system is being implemented to further improve efficiency and service levels.

Life Science activities have expanded in India resulting in the opening of new laboratories at the biotech park in Chennai, South East India. Bioanalytical testing is offered in addition to quality control services. New and validated bioanalytical assays have been established for all bioanalytical labs to further attract generics business and drug-to-drug interaction studies. Also, site management activities have been initiated to support the growing demand for proof-of-concept studies.

Clinical Research performed very well with significant growth in Phase I and continuous strong growth in data management and the services provided by the former Medisearch International. Growth also came from providing clinical research services in North America.

The Quality Control business performed very well in Canada, Germany and India, with France and Belgium being able to retain their market leading position despite difficult market conditions for chemistry-based pharmaceuticals. In 2005, additional Quality Control laboratories will be opened in several Asian countries including Hong Kong and Thailand.

Future growth is expected to come from growing demand in outsourcing from pharmaceutical, biotech, medical devices, research tool clients and its suppliers; by increasing market share in the more traditional segment of testing chemistry-based drugs; and by further development of the business for Phase I, First-in-Man, bioequivalence and proof-of-concept studies.

In addition, acquisitions especially in the North American market will be considered to further expand the international laboratory network, and new business initiatives will be commenced to address the growing demand for testing the safety, efficacy, quality and stability of new drugs, especially biopharmaceuticals.

## CASE STUDY

### RECRUITING, WHERE MARKETING MEETS SCIENCE

SGS was asked by a pharmaceutical company to support a Phase I clinical trial which required samples of bone marrow to be obtained. As bone marrow punctures may not be without risk and can be painful, the company asked SGS to execute a pre-screening to gauge whether the required number of participants could be found within the time frame. Through successful recruitment techniques including database marketing, all the volunteers were gathered within two weeks, a month before the start of the trial.

## CASE STUDY

### OUTSOURCING OF THE ENTIRE QC LABORATORY ACTIVITIES TO SGS

A major pharmaceutical company had shut down production at one of their plants in North America. The facility was thereafter only used as a distribution centre for drugs that were imported from other facilities in Europe or Asia. Since local regulations requested quality control testing of the imported pharmaceuticals in North America the laboratory in the old plant still performed the analysis of the drugs. The reasons for keeping their own testing laboratory at the old plant were: concerns about the quality provided by contract service laboratories and concerns about the future of the employees of the laboratory; although, from an economical point of view, outsourcing of the tests would have been by far, the better decision for the company.

After discussions with the pharmaceutical company, SGS provided a solution that took into account both of the concerns. It was agreed that SGS take over one of the three employees of the old laboratory; two others found a new job within the QA department of the pharmaceutical company. At the same time SGS took over the necessary equipment to perform the tests. This ensured consistent testing results at the new location.

Method transfer was performed in tight coordination with the manufacturing schedule of the European plants. By doing so it was ensured that when a product was imported, the respective testing method was already transferred and validated at SGS. Within SGS, the former employees of the client served as key contact persons during the method transfer process. Due to excellent communication, the entire transfer of the QC methods from the client to SGS was finished ahead of the original plan and the process did not cause any delay for the customer.



# CONSUMER TESTING SERVICES

## DEDICATION

STRONG SALES MOMENTUM IN KEY BUYING MARKETS IN NORTH AMERICA, EUROPE AND ASIA

## RETURNS

IMPROVING RETURNS ON INVESTMENT IN ELECTRICAL & ELECTRONIC INFRASTRUCTURE IN ASIA

## BEST-IN-CLASS

CLEAR LEADER IN THE FIELD OF RESTRICTED SUBSTANCES TESTING AND RELATED SERVICES

CHF (million)

	2004	2003
<b>REVENUES</b>	<b>360.6</b>	<b>272.3</b>
Change in %	32.4	–
<b>OPERATING INCOME</b>	<b>65.2</b>	<b>39.4</b>
Change in %	65.5	–
Operating margin %	18.1	14.5

Comparative revenue grew by 35.9% to CHF 360.6 million with operating margins improving to 18.1% from 14.5% in 2003.

The strong increase in both revenue and operating margins is due to a combination of increasing activities in E&E (Electrical & Electronics), Softlines and Hardlines laboratories across Asia, an efficiency improvement in food laboratories in Europe and a strong development in the field of Restricted Substances Testing and Services.

The acquisition of Institute Fresenius in Germany has also contributed to revenue and margin improvements. The acquisition has strengthened Consumer Testing Services' position within the German market and has created promising opportunities in the Food and Hardlines sectors with services being replicated across Europe and Asia.

International sales efforts during 2004 in key buying markets in Europe, US and Japan have generated additional volume for the Asian laboratories, thus improving utilisation ratio across the region. The trend is expected to accelerate next year as the global sales strategy is gathering momentum.

Inspection and auditing activities have remained strong. Publicity for corporate social responsibility and government's requirement for supply chain security initiatives have become the key drivers for auditing services.

The increasing awareness and regulatory requirements with regard to restricted substances in consumer products have created strong demands for chemical testing and related services. Led by the Restricted Substances Testing and Services (RSTS) team, the expertise developed across the network, the focus on R&D and the early entry into this market has established SGS as the clear leader in this new field. Demands are expected to grow significantly over the coming years. Investments made in E&E infrastructure in Asia are now generating accelerating returns. New products and production migration to Asia have created increasing demands for testing services in traditional and new GSM, Wi-Fi and Bluetooth markets.

## CASE STUDY

### MOBILE PHONE TESTING IN CHINA

With 37 mobile phone producers, China has become one of the world's largest. In less than five years, their product outputs added up to nearly 500 million units generating US \$60 billion in sales revenue and US \$20 billion in exports. By the end of 2003, its mobile phone output accounted for 40% of the global market. This year, China has produced over 170 million units for both local use and international export.

Foreign investors have accelerated the technological transfer and building of R&D centers in China together with an expansion of the investment scale.

In response to this rapid R&D migration and increasing test demands, SGS established its first mobile phone testing laboratory in Shanghai in late 2003. The laboratory has since been granted GCF (Global Certification Forum) and ISO 17025 accreditation, and it is at the present time one of only two laboratories recognised by the China Ministry of Information Industry.

In less than a year, volume in the laboratory has increased to near full capacity and expansion plans are in hand.

The earlier entry to this mobile phone testing market in China has not only allowed SGS to capture significant market share but also has enabled SGS to provide the necessary technical supports and trust to its clients to migrate production and source products out of China.

SGS counts Nokia, Sony, Motorola, TCL, BENQ, Hua Wei and Bird & Amoi amongst its existing clients.

## CASE STUDY

### WAY TO A BETTER FUTURE

The focus on testing services has shifted from traditional performance, quality and safety tests, to high-end testing services for restricted substances.

The trend can be observed from the mounting concerns on environment protection around the world. People from all over the world are increasingly aware of protecting the environment and such phenomenon affects their purchasing habits. To use and to produce environmental friendly products has become an obligation and responsibility for both buyers and manufacturers. The concern is further realised through the upsurge of regulations and directives (such as RoHS, WEEE, REACH, California Proposition 65) in the European and US markets against substances that are hazardous to the environment.

SGS is the pioneer in offering one stop services to customers and will enhance itself for the ever-developing regulations.

With such strategy and corresponding investment in the laboratories as well as continuous R&D, SGS has become the obvious leader in this area. Key customers include global brands, general retailers and manufacturers from various industries such as Sony, Panasonic, Epson, Nike, adidas-salomon, C&A, Carrefour and otto group (german companies).



# SYSTEMS AND SERVICES



## DRIVE

ISO 14000 AND INDUSTRY SPECIFIC SCHEMES, STRONG DRIVERS FOR SYSTEMS CERTIFICATION

## GLOBAL

SERVICE CERTIFICATION: A NEW MARKET GLOBALLY, SGS FRANCE LEADING WITH THE QUALICERT SCHEME

## FOCUS

SERVICING CLIENT NEEDS THROUGH 2<sup>ND</sup> PARTY AUDIT SCHEMES, NEW PRODUCT OFFERINGS AND INTEGRATED GLOBAL SERVICES

Systems & Services Certification revenues of CHF 235.4 million were up 2.5% over prior year despite some CHF 30 million of 2004 scheduled renewal certificate revenue being captured in 2003 due to the requirement by the accreditation bodies that all ISO 9000 certificates be upgraded to the new ISO 9001: 2000 version of the standard. Corrected for this effect, revenue growth was 10%.

In 2004 while ISO 9000 remained the main force in the global market, other certification schemes such as Environmental Management Systems certification, health and occupational and industry oriented standards have rapidly increased their share in the SSC portfolio.

While growth was dominated by ISO 9000, strong double digit growth rates were recorded in the environmental segment lead by ISO 14000 certifications. Regionally very strong performance was recorded in China - Hong Kong, where the continued expansion of the economy fuelled companies' needs for certified management systems.

In Western Europe aggressive marketing and diversification allowed for continued growth although the traditional ISO 9001 market has been maturing. Service certification displayed steady growth. In France, Service Certification (QualiCert) represented more than half of the total revenue. In the UK, SGS is one of the few qualified organisations allowed to deliver Charter Mark, a public sector service certification re-launched by the Government in 2004.

On a global scale, second party auditing, against client specific standards, grew at record rates. Several new global initiatives were implemented to accelerate growth. Initiatives in the food, automotive and aerospace sectors have allowed for the development of additional auditor and sales capability. Additional programmes have been launched in the field of social responsibility, information security and performance assessment, including Six Sigma.

Expansion of the international sales model has increased the number of global contracts signed and executed, they range from traditional certification audits performed on a global scale to second party audits to integrated services.

SSC provides its clients with complete services that allow them to implement proactive risk management, leveraging SGS global capabilities to assert and evaluate global and dispersed operations using a single standard. Clients come from the chemical to nuclear and from the food to beauty products industries.

## CASE STUDY

### SECOND PARTY AUDITS

SSC developed a complete 2<sup>nd</sup> party audit solution for AREVA, a global client, leader in the field of energy production. The objective was to provide the client with the ability to set up a streamlined and centralised industrial safety policy. The services provided included 2<sup>nd</sup> party audits, whereby SGS was contracted to audit and report on the client's facilities worldwide. Using a standard audit report format globally has allowed SGS to record all audit data into one central database and to give the client instant access to all global audit data via the internet. SGS manages the database content, validity and access rights on behalf of the client. The client's organisation then uses this service to drive its industrial safety policy globally.

## CASE STUDY

### MEASURING ILLEGAL TRADE

SGS was engaged by a global FMCG (Fast Moving Consumer Goods) client to provide assurance of aspects of their global brand protection programme. SSC helped design an audit programme to assess supplier's compliance with the company's methodologies to measure illegal trade. SSC was responsible for implementation of the procedure with the client's suppliers worldwide, as well as the training of the suppliers' personnel. Thanks to a continuous integration of SSC services within the client's business processes, the compiled information is transmitted immediately so that the client can take action where necessary.

CHF (million)

	2004	2003
<b>REVENUES</b>	<b>235.4</b>	<b>229.7</b>
Change in %	2.5	–
<b>OPERATING INCOME</b>	<b>30.5</b>	<b>34.7</b>
Change in %	(12.1)	–
Operating margin %	13.0	15.1



# INDUSTRIAL SERVICES

- BUILD

STRONG AND CONTINUING GROWTH IN CONSTRUCTION SERVICES
- FOCUS

STRENGTHENED GLOBAL SALES AND SUPPLY CHAIN SERVICES TEAM TO FOCUS ON LARGE INTERNATIONAL PROJECTS
- FUTURE

INVESTING IN ADVANCED NDT TECHNOLOGY IS PROVIDING HIGHER VALUE SERVICES TO EXISTING AND NEW CUSTOMERS



CHF (million)		
	2004	2003
REVENUES	379.8	330.1
Change in %	15.1	–
OPERATING INCOME	46.1	34.9
Change in %	32.1	–
Operating margin %	12.1	10.6

Revenues grew 15.1% and margins improved to 12.1% up 1.5%, mainly due to productivity gains and increased volumes of activity in key regions. All regions grew with the exception of North America which continues to suffer from the lack of project work from Mexico.

The global sales and supply chain team was strengthened to provide quality control, quality assurance, vendor surveillance and expediting services to large multinational projects in the design and construction phase. Contractors or owners of major oil, gas, energy and public infrastructure projects source the equipment and components from suppliers around the world and rely on Industrial Services to provide a consistent high quality and timely service. The service is growing well, particularly in China and Korea where much of this equipment is now manufactured.

The statutory and construction services business in Spain, the largest Industrial Services operation, continues to grow profitably in an environment that is becoming increasingly more competitive. The expertise of the Spanish affiliate in services such as building inspection and site supervision have been successfully transferred to Eastern Europe where these services are now starting to show promising growth.

Non destructive testing (NDT) volumes were higher due to a peak in the plant shutdown cycle in the Benelux region and organic growth in Germany, where new advanced NDT technology has been introduced.

CASE STUDY

CONSTRUCTION OF A LIQUIFIED NATURAL GAS (LNG) PLANT IN EGYPT

Leveraging the experience gained from working on the Nigeria Bonny Island LNG plant combined with the NDT knowledge of several European affiliates, Industrial Services successfully set up a site inspection team for all the NDT work during construction of an LNG plant in Egypt. A complete testing and inspection facility with film development and storage rooms, SGS staff offices and amenities were set up on site to meet the customer’s demanding schedule.

During the construction phase, Industrial Services performed as many as 26 000 joint inspections, allowing the constructors to continue at full speed and achieve the tight commissioning deadlines for the plant.

CASE STUDY

CONSTRUCTION OF TAIWAN’S 101 FINANCIAL CENTRE

Industrial Services is the market leader in the construction material testing laboratories market in Taiwan, as well as an important player in the Taiwan NDT market. During construction of the Taiwan 101 Financial Centre in Taipei, Industrial Services supervised large parts of the QA/QC work for this project. SGS validated the fabrication and erection of the steel construction in accordance with the design specifications, tested most of the construction materials in their own labs and performed all the NDT on the steel construction. SGS also supported the customer with the preparation of the technical file, making sure all test reports, certificates, declarations and other QA/QC related documents were filed appropriately. Given the support provided by SGS, the constructor and owner were able to focus their attention on constructing this formidable tower.

CASE STUDY

POWER PLANT UPGRADES, POLAND

European Union environmental protection regulations require the upgrade of power plants (for example, Fuel Gas Desulphurisation, Combined Gas Power Units) in many new member states. In Poland, Industrial Services has been successfully representing and protecting the owners, banks or constructors interests in these power plant refurbishments and modifications. In particular, Industrial Services provided independent consultancy and supervision, ensured that the documentation conformed to the regulations, assessed the environmental impact of the improvements, and monitored the schedule of work and progress against budget.

Also in Poland, Industrial Services successfully completed the representative role during the project cycle on various plant upgrades.

These representative services are now being provided to customers in other new EU member states.

CASE STUDY

PALLET INSPECTIONS

Wooden pallets are used to facilitate the transport and storage of goods across the globe. Failure of these simple pallets may result in the destruction of valuable wares. In agreement with the associations of pallet manufacturers, dealers, repairers, users and logistics companies, Industrial Services inspects on a sample basis, some 40 million pallets currently in circulation across Europe. The inspections are carried out in accordance with the guidelines established by these associations, ensuring exchangeability of the pallets between all concerned parties.



# ENVIRONMENTAL SERVICES

GROWTH  
NETWORK  
POSITIONING

CONTINUED ACCELERATION THROUGH CONCENTRATION OF PORTFOLIO  
STRENGTHENED THROUGH GERMAN ACQUISITION AND START UP OF OPERATIONS IN NEW COUNTRIES  
THE ONLY TRULY GLOBAL ENVIRONMENTAL TESTING NETWORK ABLE TO SUPPORT CUSTOMERS ON A REGIONAL OR GLOBAL BASIS

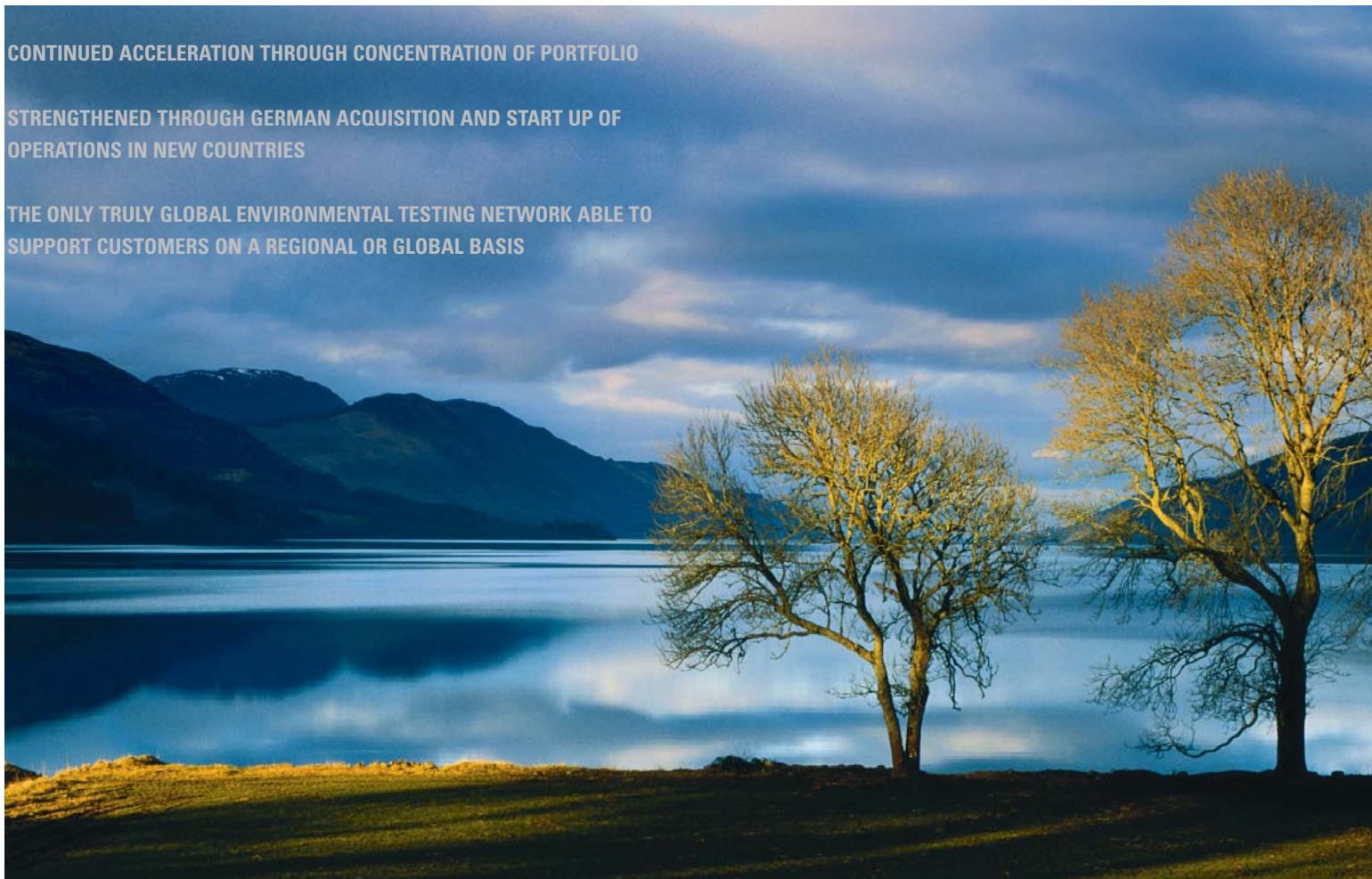
Environmental Services revenues of CHF 208.6 million were up 21.3% over the previous year. Operating margins increased to 8.1% continuing the positive trend from 2003. Restructuring measures begun in earnest in 2003 were completed in 2004 as the Group continued its efforts to streamline the product portfolio, and rationalise sub-optimal lab sites. In addition to efforts in existing operations, the Environmental Services Group also made positive steps in introducing the service into new geographies that are expected to generate significant future demand.

Through the acquisition of the Institut Fresenius lab network the Group's position was reinforced in the German environmental market. Institut Fresenius provided a true volume laboratory for soil and water testing in Europe, allowing SGS to strengthen its offering. The task now is to blend the strong individual country operations into one seamless European structure, allowing SGS to reap the scale benefits necessary to be truly competitive.

In Asia work continues to expand the business into India and China, markets that should provide substantial growth potential, and where SGS has the laboratory infrastructure in place to start operations quickly. During 2004, laboratories were opened in Korea and in Shanghai, China to support international customers in the environmental market.

These new operations were set up with the active support of the existing operations in the transfer of their knowledge and techniques to the new countries.

Environment Services' core market is testing and measurement of contaminants or pollutants in air, soil and water. The laboratory network in Europe has significantly strengthened and the pace of network expansion accelerated into areas of solid potential. International firms are starting to look for a partner on a regional or global basis and Environmental Services is uniquely positioned to service these customers.



## CASE STUDY PROTECTING THE CANADIAN WATER SUPPLY

The tragic events resulting from an e.coli outbreak in May 2000 in Walkerton, Ontario, initiated the introduction of new legislation by the Ontario Government to provide more stringent testing of the region's drinking water. SGS has been testing drinking water since 1994 and today tests approximately 45% of the drinking water available in Ontario, whether from main supplies or from domestic wells helping to safeguard the health of Ontario's citizens.

## CASE STUDY ENVIRONMENTAL CONDITION OF A SITE

Brussels airport, like most international airports, is a large site covering more than 13 km². It was important to identify any potential environmental pollution prior to the transfer of ownership of the site, as environmental liabilities can materially impact the underlying value of the real estate. In order to provide this picture SGS field operators made 1.9 km of drillings to investigate soil and groundwater quality on 432 different locations. The SGS environmental laboratory analysed 307 soil and 198 groundwater samples. Depending on the requirements, the analyses included the determination of heavy metals, mineral oil, polycyclic aromatic hydrocarbons, BTEX and extractable or volatile chlorinated hydrocarbons. At the edges of the runways the fall out of carbon particles from airplanes was also investigated in 170 places. Obviously the investigation required a reliable coordination between the SGS crew and the airport authorities to guarantee the safety of everyone.

CHF (million)

	2004	2003
<b>REVENUES</b>	<b>208.6</b>	<b>172.0</b>
Change in %	21.3	–
<b>OPERATING INCOME</b>	<b>16.8</b>	<b>11.2</b>
Change in %	50.0	–
Operating margin %	8.1	6.5



# AUTOMOTIVE SERVICES

## SUCCESS

STRENGTHENING OF POSITION IN STATUTORY VEHICLE INSPECTION

## DIVERSE

EFFECTIVE GEOGRAPHICAL DIVERSIFICATION OF AUTOMOTIVE COMMERCIAL SERVICES

## LEADERSHIP

REINFORCED LEAD IN VEHICLE DATA MANAGEMENT SERVICES IN THE USA



CHF (million)

	2004	2003
REVENUES	187.7	211.0
Change in %	(11.0)	–
OPERATING INCOME	20.0	20.8
Change in %	(3.8)	–
Operating margin %	10.7	9.9

Automotive Services comparative revenue decreased by 11% to CHF 187.7 million. This is due primarily to depressed off-lease and off-rental volumes carried forward from second semester 2003 in the US market. Operating margins improved to 10.7% from 9.9% in 2003 due to cost controls and improved product mix as the group transitions to a larger proportion of revenues being delivered from the statutory and data management product lines.

In commercial related activities, US operations have been adjusted. Reduced volumes and diversification efforts are now bringing concrete results. At the same time, new mandates have been gained in Europe for off-lease inspection such as with Europe's leading fleet management company, LeasePlan. Services provided to manufacturers, dealerships and financial institutions and more recently, consumers have historically been provided in the US only. The strategy has been to expand the service offering by leveraging the Group's technology base in the US to other locations, while continuing to develop new services such as title management and focus on new client segments such as consumers.

Services in the field of statutory vehicle inspection performed well and even expanded in line with strategy. Diversifying the portfolio into a larger share of statutory vehicle inspection and data management services remains a priority for the sector. The future for further privatisation of government run programmes, and modernisation of exiting schemes to more advanced technology requirements looks promising. SGS now has a suite of solutions and existing reference sites enabling a full range of statutory inspection options to be offered.

The SGS portfolio includes turnkey fixed site operations, franchised networks, and distributed data management each customised to specific client requirements, or delivered in combination.

The operations in Ireland, Spain and London continued to deliver good results while a new concession was obtained in Santiago de Chile. To reinforce this service segment, SGS acquired 76% of Securitest SA and 95% of ACO Sécurité SA, which operate one of the largest statutory vehicle inspection networks in France with 830 franchised testing centres of which 50 are wholly owned. The statutory vehicle inspection operations in Argentina, Uruguay and Ivory Coast have made good contributions despite difficult economic environments.

SGS Testcom, the Group's provider of data management services in the US, performed well by obtaining two new mandates, California and Upstate New York, while the contract for Downstate New York was extended and the scope of the mandate in Massachusetts increased.

## CASE STUDY

### NEW CONTRACT IN CALIFORNIA

The Californian Bureau of Automotive Repair (BAR) has contracted SGS Testcom to design, develop and operate the new Electronic Transmission (ET) System supporting California's Smog Check Programme. The SGS Testcom ET System is expected to begin operation in mid-2005. It will connect 8 000 Smog Vehicle Check stations to SGS Testcom, BAR and DMV databases. The System will process more than 14 million inspections per year. The advanced design features a wide variety of data mining, analysis and reporting tools to support BAR's enforcement and administrative activities. Hardware and software components of the ET System are highly redundant, insuring reliability and availability.

## CASE STUDY

### NEW STATUTORY VEHICLE INSPECTION CONCESSION IN CHILE

In June 2004, SGS Chile was awarded, by the Ministry of Transport and Telecommunications, one of the four concessions granted in Santiago de Chile to operate testing plants for private cars, taxis and trucks for a period of 10 years. Under this concession SGS has built four plants for private cars with five lanes each and one plant with three lanes for taxis and three lanes for trucks. The total vehicular population subject to inspection in Santiago is over 900 000 of which 800 000 are private cars. The concession became operational in February 2005.





# TRADE ASSURANCE SERVICES

ROBUST

STRONG PERFORMANCE IN AFRICA AND LATIN AMERICA ENABLED HIGH OPERATING MARGIN

SPEED

NON PRE-SHIPMENT INSPECTION BUSINESS IS THE FASTEST GROWING SEGMENT OF TAS

INNOVATION

TAS CONTINUES TO INTRODUCE NEW SERVICES

CHF (million)

	2004	2003
REVENUES	255.4	219.5
Change in %	16.4	–
OPERATING INCOME	61.5	45.1
Change in %	36.4	–
Operating margin %	24.1	20.5

Trade Assurance Services revenues increased by 17.2% on a comparable basis (16.4% reported) mainly due to higher volume in Africa and South America. During 2004, contracts with the governments of Burundi, Mauritania, and Cameroon were extended while the contracts with the Governments of Peru and Ethiopia were completed and the mandate in Burkina Faso terminated.

Margins continued to improve significantly to 24.1% in 2004, from 20.5% in 2003 and 11% in 2002. This improvement was achieved through gains in productivity and diversification into non pre-shipment inspection (PSI) services.

Trade Assurance Services was successful during 2004 in rolling-out new services to governments and institutions that were developed during the previous two years.

The main achievements in non-PSI included a customs valuation assistance programme for Mexican Customs to identify more than three thousand cases of valuation and origin fraud; assisting the Gambian authorities to introduce cargo scanning equipment and risk assessment as part of a programme to modernise and accelerate the customs clearance process; and the use of SGS forestry monitoring services by the Governments of Ghana and Indonesia to monitor export flows and to control the flow of timber from source to market to guarantee the legality of marketed products.

During 2004 SGS was successful in obtaining accreditations as a verification body under the new European Union Emissions Trading Scheme (EU ETS) and the Clean Development Mechanism related to the Kyoto Protocol. Approximately 100 contracts were signed in 2004 for the validation of project or verification of greenhouse gas emission inventories in 15 countries. The ratification of the Kyoto Protocol, start of the EU ETS and growth in voluntary reporting initiatives in many countries presents excellent opportunities for the Climate Change Programme and will be key to the growth of the SGS Climate Change Programme in the coming years.

The success of these programmes has attracted other governments and institutions to consider hiring SGS for similar programmes. Advanced discussions are ongoing with governments in Africa, Asia, Eastern Europe and CIS, Latin America, and the Middle East. These programmes will be the key to Trade Assurance Services revenue growth in the years ahead. The role of SGS is also evolving from being solely a service provider to becoming an investor and service provider. With this expanded role SGS will be able to lengthen the average duration of contracts.

Trade Assurance Services has continued to develop new services in the three core areas of revenue enhancement, trade facilitation and sustainable development. Promising developments during 2004 include the initial investigation of a transit monitoring and facilitation service in Eastern Europe and the assessment of Non-Governmental Organisations towards either improved management practices or third-party certification.

CASE STUDY  
MADAGASCAR AND BURUNDI  
COMPREHENSIVE MODERNISATION  
PROGRAMMES

SGS was contracted in mid 2003 by the Government of Madagascar to provide comprehensive and evolving customs support services in the areas of inspection, valuation, classification, risk management, capacity building, and automation. This ambitious programme is yielding strong results in terms of increased revenues and improved customs performance.

The Government of Burundi has contracted SGS to implement a similar comprehensive evolutionary customs support programme.

CASE STUDY  
GHANA TRADENET

The roll-out of the Ghana TradeNet is now complete with more than 95% of import and export declarations being filed electronically. In 2004, the customs clearance process was taking, on average, about one third the time it used to take prior to the TradeNet implementation. TradeNet also contributed significantly to the excellent customs revenue performance with increases in local currency by 50% in 2003 and more than 60% in 2004. The World Bank has evaluated the programme and published a review emphasising that this project can be considered best-practice.



# CORPORATE GOVERNANCE

SAO PAULO

ENGINE CERTIFIED TO AIRLINE SPECIFICATION

PARIS

FUEL SPECIFICATIONS DEFINED AND CONTROLLED

IN-FLIGHT

CABIN AIR QUALITY INSPECTED AND CERTIFIED

ANYWHERE

NOBODY LOSES SLEEP WITH THESE JETS





# 2004 DIRECTORS' REPORT ON CORPORATE GOVERNANCE

INTRODUCTION		
<b>1.</b>	<b>GROUP STRUCTURE AND SHAREHOLDERS</b>	<b>34</b>
1.1.	Group structure	34
1.2.	Significant shareholders	35
<b>2.</b>	<b>CAPITAL STRUCTURE</b>	<b>35</b>
2.1.	Issued share capital	35
2.2.	Authorised and conditional share capital	35
2.3.	Changes of capital	35
2.4.	Shares and participation certificates	35
2.5.	Bonus certificates	35
2.6.	Limitations on transferability and nominee registrations	35
2.7.	Convertible bonds and options	35
<b>3.</b>	<b>BOARD OF DIRECTORS</b>	<b>36</b>
3.1.	Members of the Board of Directors	36
3.2.	Other activities and functions	37
3.3.	Cross-involvement	37
3.4.	Elections and terms of office	38
3.5.	Internal organisational structure	38
3.5.1.	Nomination and Remuneration Committee	38
3.5.2.	Audit Committee	38
3.5.3.	Professional Conduct Committee	38
3.6.	Definition of areas of responsibility	38
3.7.	Information and control instruments vis-à-vis the Management	39
<b>4.</b>	<b>OPERATIONS COUNCIL (GROUP MANAGEMENT)</b>	<b>39</b>
4.1.	Members of the Operations Council	39
4.2.	Other activities and functions	41
4.3.	Management contracts	41
<b>5.</b>	<b>COMPENSATION, SHAREHOLDINGS AND LOANS</b>	<b>42</b>
5.1.	Company's remuneration policies	42
5.2.	Compensation for acting members of governing bodies	42
5.2.1.	Non-executive Directors	42
5.2.2.	Chairman's and Vice Chairman's remuneration	42
5.2.3.	Chief Executive's remuneration	43
5.2.3.1.	General principles	43
5.2.3.2.	Base salary and other employment benefits	43

5.2.3.3.	Annual performance bonus	43
5.2.3.4.	Long-term incentive programmes	43
5.2.3.5.	Employment contracts	44
5.2.4.	Directors' remuneration in 2004	44
5.2.4.1.	Remuneration paid in cash	44
5.2.4.2.	Share options granted in 2004	45
5.2.4.3.	Pension benefits	45
5.2.5.	Compensation paid to the Operations Council members	46
5.2.5.1.	Cash compensation	46
5.2.5.2.	Share options	46
5.2.5.3.	Total compensation of the Operations Council	46
5.2.6.	Company's performance	46
5.3.	Compensation for former members of governing bodies	47
5.3.1.	Compensation paid to former Directors	47
5.3.2.	Severance payments paid to former members of the senior management	47
5.4.	Share allotment in the year under review	47
5.5.	Share ownership	47
5.6.	Options	48
5.7.	Additional fees and remuneration	48
5.8.	Loans to members of governing bodies	48
5.9.	Highest total compensation	48
<b>6.</b>	<b>SHAREHOLDERS' PARTICIPATION RIGHTS</b>	<b>48</b>
6.1.	Voting rights restrictions and representation	48
6.2.	Statutory quorums	48
6.3.	Convocation of General Meetings of Shareholders	48
6.4.	Agenda	48
6.5.	Registration in the share register	48
<b>7.</b>	<b>CHANGE OF CONTROL AND DEFENCE MEASURES</b>	<b>49</b>
7.1.	Duty to make an offer	49
7.2.	Clauses of changes of control	49
<b>8.</b>	<b>AUDITORS</b>	<b>49</b>
8.1.	Duration of the mandate and term of office	49
8.2.	Auditing fees	49
8.3.	Additional fees	49
8.4.	Supervisory and control instruments vis-à-vis the auditors	49
<b>9.</b>	<b>INFORMATION POLICY</b>	<b>49</b>



## INTRODUCTION

The Board of Directors of SGS considers matters of corporate governance and public disclosure of such information to be of great significance to shareholders and other stakeholders alike.

In this Report, the Board has endeavoured to adhere to the rules of the Swiss Code of Best Practice for Corporate Governance issued by the SWX Swiss Exchange in July 2002 and the related Commentary, as amended. The objective is to comply with the highest standards of transparency that can be expected from a publicly listed company.

The section on Directors and Executives' remuneration has been drafted to include information generally required under UK disclosure principles. It has been extended to comply with specific Swiss corporate governance requirements.

## 1. GROUP STRUCTURE AND SHAREHOLDERS

### 1.1. GROUP STRUCTURE

SGS SA (also referred to as the "Company") is the ultimate holding company of the Group (hereinafter to include SGS SA, direct and indirect subsidiaries, and entities under its significant influence) which provides independent inspection, testing, verification, certification and quality assurance services through its worldwide network of subsidiaries, branches and agencies.

The Shares of SGS SA are listed on the SWX Swiss Exchange and are traded on Virt-X (Swiss Security Number: 249745; ISIN: CH0002497458). On 31 December 2004, SGS SA had a market capitalisation of CHF 6 230 million.

None of the companies under the direct or indirect control of SGS SA have listed their shares on any stock exchange or have any of their securities listed on any exchange.

The principal entities consolidated within the SGS Group are listed on pages 106 to 111 of the Annual Report, with indications regarding their share capital, the percentage of shares controlled, directly or indirectly, by SGS SA, their registered office or their principal place of business.

Details of material acquisitions made by the SGS Group during 2004 are provided in note 12 to the Consolidated Financial Statement of SGS SA (pages 67-69).

Operationally, the Group is divided into 10 geographic operations which are responsible for the local execution of the SGS businesses, and the implementation of Group policies and strategies. In the course of 2004, these operations have been re-allocated to fit with the evolving distribution of the Group business.

As of December 2004, these geographic operations are:

- Western Europe
- Central and North West Europe
- South East Europe
- Eastern Europe and Middle East
- Africa
- North America
- South America
- East Asia
- China and Hong Kong
- South East Asia & Pacific

Each operating area is led by a Chief Operating Officer who is a member of the Group's Operations Council, the most senior executive body of the Group.

The Group is also arranged into 10 lines of business, with each business being in charge of the global development of Group activities in its own sphere of specialisation, and executing strategies in conjunction and with the support of the Chief Operating Officers. These businesses are:

- Agricultural
- Minerals
- Oil, Gas & Chemicals
- Life Science
- Consumer Testing
- Systems & Services Certification
- Industrial
- Environmental
- Automotive
- Trade Assurance Services

Each line of business is placed under the leadership of an Executive Vice President who is also a member of the Operations Council.

## 1.2. SIGNIFICANT SHAREHOLDERS

At 31 December 2004 August von Finck and members of his family acting in concert held 23.7% of the share capital and voting rights of the Company. Worms & Cie held 23.8% of the shares.

Neither SGS SA nor its direct and indirect subsidiaries have any cross shareholding in any other entity, whether publicly traded or privately held.

# 2. CAPITAL STRUCTURE

## 2.1. ISSUED SHARE CAPITAL

SGS SA has a share capital of CHF 156 443 320 fully paid in, and divided into 7 822 166 registered shares of a par value of CHF 20 unchanged from last year.

On 31 December 2004, SGS SA directly and indirectly held 182 670 of its own shares. In 2004, the Company, through an entity under its control has purchased 37 023 of its shares under the terms of the share buy back programme announced on 9 September 2002. During the period under review, 15 000 treasury shares were sold.

## 2.2. AUTHORISED AND CONDITIONAL SHARE CAPITAL

The Board of Directors was given the authority to increase the share capital of the Company by a maximum of 500 000 registered shares of a par value of CHF 20 each, corresponding to a maximum increase of CHF 10 000 000 in share capital. The Board is mandated to issue the new shares at the market conditions prevailing at the time of issue. In the event that the new shares are issued for an acquisition, the Board is authorised to waive the shareholders' preferential right of subscription or to allocate such subscription rights to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 1 December 2005.

The shareholders have conditionally approved an increase of share capital in the amount of CHF 20 000 000 divided into 1 000 000 registered shares of a par value of CHF 20 each. This conditional share capital increase is intended to procure the necessary shares to satisfy option or conversion rights to be incorporated in convertible bonds or similar equity-linked instruments that the Board is authorised to issue. The right to subscribe to such conditional capital is reserved to holders of such convertible bonds or similar debt instruments, and therefore excludes shareholders' preferential rights of subscription.

The Board is authorised to determine the timing and conditions of such issues, provided that they reflect prevailing market conditions. The term of exercise of the options may not exceed 10 years from the date of issuance of the equity-linked instruments.

## 2.3. CHANGES OF CAPITAL

The share capital of the Company has not changed within the last three financial years.

## 2.4. SHARES AND PARTICIPATION CERTIFICATES

As at 31 December 2004, the Company had 7 822 166 fully paid-in shares in issue, each with a par value of CHF 20. All shares participate equally in the dividends declared by the Company and they all have equal voting rights. The Company has not issued any participation certificates (bons de participation/Partizipationsscheine).

## 2.5. BONUS CERTIFICATES

Since 1992, the Company has offered to exchange previously issued bonus certificates (bons de jouissance/ Genussscheine) for ordinary registered shares of the Company. As of 31 December 2004, 54 such certificates had not been exchanged and are held by third parties.

Each certificate incorporates the same rights to dividends and liquidation proceeds as five registered shares of the Company. In the event of a capital increase, bonus certificates also entitle the bearer to preferential subscription rights. The bearer of a bonus certificate does not have any voting rights.

## 2.6. LIMITATIONS ON TRANSFERABILITY AND ADMISSIBILITY OF NOMINEE REGISTRATIONS

SGS SA does not limit in any way the transferability of its shares.

Registration of shares held by nominees is not allowed according to the Company's Articles of Association, except by special resolution of the Board of Directors.

By decision of the Board, made public by a note issued by SEGA on 4 October 2001, the Company's shares can be registered in the name of a nominee acting in a fiduciary capacity for an undisclosed principal. Such shares however are not allowed to vote at the General Meeting except with the approval of the Board of Directors.

The Company has a single class of shares and no privilege, statutory or otherwise, has been granted to any shareholder.

## 2.7. CONVERTIBLE BONDS AND OPTIONS

No convertible bonds have been issued by the Company or by any entity under its direct or indirect control. Options granted to senior managers and Directors of the Group are detailed under section 5. Disclosure of all options outstanding is provided in note 29 of the consolidated financial statements of the Group. No other options or similar instruments have been issued by the Company or any of the Group entities.



## 3. BOARD OF DIRECTORS

The Board of Directors convenes regularly scheduled meetings and meets as often as otherwise required, in person or by phone conference. They may pass resolutions by unanimous written consent. In 2004, the Board met on six occasions.

### 3.1. MEMBERS OF THE BOARD OF DIRECTORS

The composition of the Board of Directors is unchanged from last year. Since 1 July 2004 when Mr. Marchionne relinquished his Chief Executive function, the Board comprises seven non-executive Directors (including the Chairman and Mr. Marchionne who has been appointed Vice Chairman as of July 2005).

The Company is exempt from the legal requirement of a majority of Swiss Directors. The following persons acted as members of the Board of Directors during 2004:

#### CHAIRMAN

##### **GEORGES MULLER (1940)**

Swiss

Lausanne (CH)

Honorary professor and attorney at law

Member of the Board of SGS since May 2002

#### VICE-CHAIRMAN

##### **SERGIO MARCHIONNE (1952)**

Canadian/Italian

Cham (CH)

Chief Executive of the FIAT Group

Member of the Board of SGS since May 2001; (Chief Executive Officer between February 2002 and June 2004)

##### **DOMINIQUE AUBURTIN (1951)**

French

Paris (F)

Chairman of the Executive Board of Worms & Cie

Member of the Board of SGS since May 2001

##### **AUGUST VON FINCK (1930)**

German

Munich (D)

Industrialist

Member of the Board of SGS since October 1998

##### **AUGUST FRANÇOIS VON FINCK (1968)**

German

Freienbach (CH)

Industrialist

Member of the Board of SGS since May 2002

##### **MICHAEL KENNETH MOORE (1947)**

New Zealander

Geneva (CH)

Former Director General of the World Trade Organisation (WTO)

Member of the Board of SGS since May 2003

##### **CARLO MARIA VISMARA (1957)**

Italian

Paris (F)

Member of the Executive Board of Worms & Cie

Member of the Board of SGS since May 2003

The SGS Group General Counsel, Jean-Pierre Méan acts as the Company Secretary and is not a member of the Board of Directors.

Additional biographical information on the members of the Board of Directors may be viewed on the Group website which is regularly updated. <http://www.sgs.com>

The Directors bring a wide range of experience and skills to the Board. They participate fully in decisions on key issues facing the Group. The Board undertakes a periodic review of Director's interests in which all potential or perceived conflicts of interests and issues relevant to their independence are considered. Based on this review, the Board has concluded that all the non-executive Directors (including the Chairman) are independent from management and free of any relationship that could materially interfere with the exercise of their independent judgement. With the exception of Sergio Marchionne, the Group's former Chief Executive, none of the Directors or their close relatives has or had any management responsibility within the SGS Group. None of the members of the Board of Directors or their close relatives has or had any material business connections with the Company or its affiliated companies. The remuneration of the members of the Board of Directors is detailed under section 5.2.4.

### 3.2. OTHER ACTIVITIES AND FUNCTIONS

The following list discloses all material activities in governing and supervisory boards, management positions and consultancy functions, official tenures and political engagements of each of the Board Members, both in Switzerland and abroad, as of 31 December 2004:

#### GEORGES MULLER

##### *Major Board assignments*

Serono SA, Coinsins (CH)  
Chairman of the Board since 1992

Alinghi Holdings Ltd., (Jersey)  
Member of the Board since 2003

Bertarelli & Cie, Chésérèx (CH)  
Vice Chairman of the Board since 1988

Swiss Life Holding, Zurich (CH)  
Member of the Board since 1995

Schindler Aufzüge AG, Ebikon (CH)  
Member of the Board since 1999

##### *Other assignments*

Of Counsel, Etude Bourgeois, Muller, Pidoux et Associés, Lausanne (CH)

Fondation pour la création d'un Musée des Beaux-Arts, Lausanne (CH)  
Chairman of the Board of Trustee since 2001

ISREC, Institut Suisse de Recherche Expérimentale sur le Cancer, Epalinges (CH). Chairman of the Board of Trustee since 1990

World Arts Forum, Geneva (CH)  
Member since 1997

#### SERGIO MARCHIONNE

##### *Major Board assignments*

Lonza Group, Basel (CH)  
Chairman since 2002  
Member of the Board since 1999

Serono SA, Coinsins (CH)  
Member of the Board since 2000

FIAT SpA, Turin (I)  
Member of the Board since 2003,  
Chief Executive since July 2004

#### DOMINIQUE AUBURTIN

##### *Major Board assignments*

Worms & Cie, Paris (F)  
Chairman of the Executive Board since 1999

Arjo Wiggins SAS, Paris (F)  
Chairman of the Supervisory Board since 2002

Permal Group, Paris (F)  
Member of the Board since 2002

Antalis International, Paris (F)  
Member of the Supervisory Board since 2001

##### *Other assignments*

La Gazette du Palais, Paris (F), since 1998

Les Petites Affiches, Paris (F), since 1993

#### AUGUST VON FINCK

##### *Major Board assignments*

Generali Holding Vienna AG, Vienna (A)  
Member of the Board since 1974

Semper idem Underberg AG, Rheinberg (D)  
Member of the Board since 1989

Würzburger Hofbräu AG, Würzburg (D)  
Member of the Board since 1980

#### AUGUST FRANÇOIS VON FINCK

##### *Major Board assignments*

Custodia Holding, Munich (D)  
Member of the Board since 1999

Carlton Holding, Allschwil (CH)  
Member of the Board since 2001

RHI AG, Vienna (A)  
Member of the Board since 2004

#### MICHAEL KENNETH MOORE

##### *Official appointments and major engagements*

Economic Development Board, South Australia, Member

Teletech NZ  
Member of the Advisory Board

Economic Advisor to the South Australian Government

Special Advisor to the UN Global Compact on Business and Development

Global Commission on International Migration, Commissioner

#### CARLO MARIA VISMARA

##### *Major Board assignments*

Arjo Wiggins SAS, Paris (F)  
Member of the Supervisory Board since 2003

Antalis International, Paris (F)  
Member of the Supervisory Board since 2003

### 3.3. CROSS-INVOLVEMENT

No member of the Board of Directors of the Company is subject to any formal or informal cross appointment arrangement with any other listed companies.

Georges Muller and Sergio Marchionne are both Board Members of Serono SA, Coinsins (CH).



### 3.4. ELECTIONS AND TERMS OF OFFICE

The Articles of Association of SGS SA provide that the Members of the Board of Directors are elected by the shareholders for a maximum tenure of four years. There is no limit to the number of terms a Director may serve. The tenure of all the current Board Members will expire at the 2006 Annual General Meeting, at which time all Board positions will be subject to election by the shareholders. There is no provision for partial, rotating or staggered renewal of the Board of Directors. By-elections may be held before the end of the term of office in the event of vacancies.

The initial date of appointment of each Board Member is indicated in section 3.1.

### 3.5. INTERNAL ORGANISATIONAL STRUCTURE

The duties of the Board of Directors and its Committees are defined in the Company's internal regulations which are reviewed periodically. They set out all matters reserved for decision by the Board of Directors. In addition to the decisions reserved by Swiss company law, the Board of Directors approves the Group's strategies and key business policies, investments, acquisitions, disposals and commitments in excess of delegated limits.

The Members of the Board of Directors are briefed in advance of Board meetings on matters to be addressed at the meeting and each Board Member receives monthly reports on the Group's operational results and financial position. They are regularly updated on key aspects of the Group's business and other material issues. The Board of Directors meets with all senior members of management (Operations Council) at least twice a year, and some managers are requested to attend Board meetings from time to time to discuss matters under their direct responsibility.

The Board has established the following committees:

- Nomination and Remuneration
- Audit
- Professional Conduct

Each committee acts within terms of reference set by the Board in the internal regulations and the minutes of their meetings are circulated to all Directors.

#### *3.5.1. Nomination and Remuneration Committee*

The membership and duties of the Nomination and Remuneration Committee are described in section 5.1. of this report.

#### *3.5.2. Audit Committee*

The Audit Committee is comprised of non-executive Directors. During 2004, the membership of the Committee was as follows:

- Georges Muller (Chairman)
- François von Finck
- Carlo Maria Vismara

The Audit Committee held three meetings during the year. The Committee assists the Board of Directors in discharging its duties regarding financial reporting, including considering the appropriateness of accounting policies, the adequacy of internal controls and regulatory compliance and the effectiveness of the internal and external auditors. The Committee receives reports from and meets regularly with the Group internal and external auditors. The Committee reports regularly to the Board.

#### *3.5.3. Professional Conduct Committee*

The Professional Conduct Committee consists of the Chairman, the Chief Executive, the Chief Compliance Officer, one non-executive Director and a person external to the Group. All members of the Committee are appointed by the Board of Directors. During 2004, the following individuals served on the Committee:

- Georges Muller (Chairman)
- Sergio Marchionne (until 30 June 2004)
- Werner Pluss  
(from 1 July 2004 to 30 September 2004)
- Johan Allegaert  
(since 1 October 2004)
- Michael Kenneth Moore
- Franz A. Blankart  
(member external to the Group)
- Jean-Pierre Méan  
(Chief Compliance Officer)

The Committee met twice in 2004 and also passed several resolutions in writing.

The Committee assists the Board of Directors and Management in delineating policies relating to professional conduct, and oversees their implementation. The Group's professional conduct policies are embodied in a Code of Integrity and Professional Conduct which sets out the principles governing the business conduct required by the whole SGS Group. These principles reflect the Business Principles for Countering Bribery issued by Transparency International and Social Accountability International and incorporate the rules recently adopted by IFIA, (International Federation of Inspection Agencies), the professional association for the inspection industry.

### 3.6. DEFINITION OF AREAS OF RESPONSIBILITY

In accordance with the Company's internal regulations, operational management of the Group is the responsibility of the Operations Council, a function which the Board of Directors has delegated. The Operations Council has the authority and responsibility to decide on all issues which are not reserved to the Board of Directors. In the event of uncertainty on a particular issue regarding the delineation of responsibility between the Board of Directors and the Management, the question is finally decided by the Chairman of the Board.

The Chairman is regularly informed on the activities of the Operations Council, and he reports to the full Board on such matters. The composition, role and organisation of the Operations Council are detailed in section four.

### 3.7. INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE MANAGEMENT

The Board of Directors has ultimate responsibility for the systems of internal controls established and maintained by the Group and for periodically reviewing their effectiveness. These systems are intended to provide reasonable assurance against financial misstatement and/or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information and the compliance with relevant legislation, regulation and industry practice.

The Group has an established governance framework which is designed to oversee its operations and assist the Company to achieve its objectives. The main principles of the control instruments include a definition of the role of the Board and its Committees, an organisational structure with documented delegated authority from the Board to management and procedures for the approval of major investments, acquisitions and other capital allocations.

The Group has dedicated internal audit and compliance functions, headed by a senior member of management who has direct access to the Chairman of the Board, and to the whole Board of Directors if necessary. In addition, the main businesses have specialised technical governance units which ensure compliance with internally-set quality standards and best industry practices.

Formal procedures are in place for both internal and external auditors to report their findings and recommendations independently to the Company's Audit Committee.

## 4. OPERATIONS COUNCIL (GROUP MANAGEMENT)

Group management is the responsibility of the Operations Council which is chaired by the Chief Executive. The Operations Council is the Group's most senior executive management body and is composed of the Group's most senior managers: Chief Operating Officers (in charge of the geographic operations), Executive Vice Presidents (entrusted with the global management and development of the main lines of business of the Group) and Senior Vice Presidents, representing the principal Group support functions.

The Operations Council convenes as often as required by the business, in principle at least six times a year. In between meetings, the Council holds regular phone conferences and may make decisions on such calls, or by majority vote via e-mails.

### 4.1. MEMBERS OF THE OPERATIONS COUNCIL

The following persons acted as members of the Operations Council as of 31 December 2004:

#### JOHAN ALLEGAERT (1943)

Belgian  
Chief Executive (since September 2004)  
Degree in Business Administration  
Joined SGS in 1974 in Taiwan  
Previous responsibilities: EVP Consumer Products; COO East Asia; Managing Director Greater China

#### FERNANDO BASABE (1959)

Spanish  
Western Europe  
Master in Business Administration  
Joined SGS in 1996 in Spain as Business Development Manager  
Previous responsibilities Managing Director Spain  
Prior work experience: Deputy Managing Director, Grupo Fosforera Spain

#### HELGE BASTIAN (1960)

German  
Life Science Services  
PhD in Biochemistry  
Joined SGS in 2003  
Prior work experience: Qiagen GmbH, Germany

#### ABDELKRIM BELHIA (1951)

Swiss/Algerian  
Africa  
PhD in Geophysics  
Joined SGS in 1993 in Azerbaijan  
Previous responsibilities: COO Eastern Europe; Business Development Manager, OGC Eastern Europe, Sub-Regional Manager Caspian region

#### AGNES BERKI (1941)

Hungarian  
South East Europe  
Degree in Business Administration  
Joined SGS in 1961 in Hungary  
Previous responsibilities: Managing Director SGS Hungary and SGS Austria



**JEAN-LUC DE BUMAN (1953)**

Swiss

Corporate Communications & Investor Relations

Legal studies

Joined SGS in 1998

Prior work experience: Country Head Switzerland, Sales Fixed Income, UBS

**HELMUT CHIK (1960)**

Chinese

China and Hong Kong

Master in Business Administration

Joined SGS in 1991 in Hong Kong

Previous responsibilities: Managing Director SGS Hong Kong

**ALEJANDRO GOMEZ DE LA TORRE (1959)**

Peruvian

South America

Degree in Import /Export Administration

Joined SGS in 1986 in Peru

Previous responsibilities: Regional Manager Latin America; Managing Director SGS Peru;

**FRIEDRICH HECKER (1962)**

German

Industrial Services

BA in Economics

Joined SGS in 2002

Previous responsibilities: COO Central Europe

Prior work experience: TÜV Süd, Germany

**DIRK HELLEMANS (1958)**

Belgian

Central & North West Europe

Master in Business Administration

Joined SGS in 1988 in Belgium

Previous responsibilities: Managing Director SGS Belgium

**FRED HERREN (1956)**

Swiss

Automotive Services

BA in Economics

Initially joined SGS in 1986

Previous responsibilities: Head of Global Marketing, SGS Trade Assurance Services, 1998 to 2003

Other work experience: 1995 to 1998, Chief Executive, Unilabs International Geneva

**ROLF JEKER (1946)**

Swiss

Trade Assurance Services

PhD in Business Administration

Joined SGS in 1999

Prior work experience: Deputy Minister for Foreign Economic Relations for the Swiss Government

**CHRISTIAN JILCH (1957)**

Austrian

North America

PhD in Law

Joined SGS in 1982 in Austria

Previous responsibilities: COO East Asia & Pacific; COO Eastern Europe; Managing Director Russia and Ukraine

**CHRISTOPHER KIRK (1956)**

British

Minerals Services

Environmental Services

Post graduate certificate in Education

Joined SGS in 1981 in New Zealand

Previous responsibilities: COO South East Asia & Pacific; Managing Director Singapore & sub-region

**FRANCIS LACROZE (1953)**

French

Agricultural Services

Post graduate certificate in Economics

Joined SGS in 1987 in France

Previous responsibilities: EVP Systems & Services Certification, Regional Sector Manager Consumer products, Europe, Africa & Middle East

**CLAUDE LANOUHE (1950)**

French

South East Asia & Pacific

PhD in Economics

Joined SGS in 1987

Previous responsibilities: Managing Director SGS India; SGS Vietnam and SGS Senegal

**HUGH MARKEY (1950)**

Canadian

Corporate Development & Taxation

Chartered Accountant

Joined SGS in 2002

Prior work experience: Partner, International Taxation, Ernst & Young

**JEFFREY MCDONALD (1964)**

Australian

Systems & Services Certification

Post Graduate Certificate Education

Joined SGS in 1995 in Thailand as Business Manager

Previous responsibilities:

Global Project Manager,

Systems & Services Certification

**JEAN-PIERRE MÉAN (1944)**

Swiss/Canadian

Legal & Compliance

Dr. of Law, Admitted to the bar in Canada and Switzerland

Joined SGS in 1996

Other work experience:

Between 2002 and 2003: Chief

Compliance Officer, European Bank for Reconstruction and Development

**JAN MILIO (1948)**

Belgian

Oil, Gas & Chemicals Services

BS Industrial Chemistry

Joined SGS in 1974 in Belgium

Previous responsibilities: Manager, Oil Gas & Chemicals, North America

**FRANKIE NG (1966)**

Swiss/Chinese

Consumer Testing Services

BA in Economics and Electronic Engineering

Joined SGS in 1994 in Hong Kong

Previous responsibilities:

Managing Director US Testing,

Operations Manager China & Hong

**ALIM SAIDOV (1964)**

Azeri

Eastern Europe & Middle East

PhD in Science

Joined SGS in 1993 in Georgia

Previous responsibilities: COO North

America; Managing Director Canada;

Regional Manager Caspian region

**RICHARD TOBIN (1963)**

American

Chief Finance Officer & IT

Master in Business Administration

Joined SGS in 2002

Previous responsibilities:

COO North America

Prior work experience:

Alcan, USA

**DENNIS YANG (1949)**

Taiwanese

East Asia

Degree in Marine Engineering

Joined SGS in 1975 in Taiwan

Previous responsibilities: General

Manager SGS Taiwan

Sergio Marchionne (Chief Executive), Werner Pluss (Oil, Gas & Chemicals Services and Chief Executive), Alessandro Baldi (Group Control), Gerald Houet-Dutruge (Africa Middle East), Bernhard Paul (Central Europe) and Jean Tardieu (Agricultural Services) have relinquished their position as members of the Operations Council during the period under review. Heinz Baehni (Group Treasurer) and Stefan Schnydrig (Information Technology), while remaining in their positions, are no longer members of the Operations Council. Olivier Merkt acts as Secretary to the Council.

Additional information, including biographical details can be found on the Company's website at: <http://www.sgs.com> which is regularly updated.

**4.2. OTHER ACTIVITIES AND FUNCTIONS**

The following list discloses all material activities in governing and supervisory boards, management positions and consultancy functions, official tenures and political engagements held by each member of the Operations Council outside the Group, both in Switzerland and abroad:

**JEAN-LUC DE BUMAN**

SWX Swiss Exchange, Zurich (CH)

Member of the Board since 1999

CCIG Chambre de Commerce et de

l'Industrie de Genève, Geneva (CH)

Member of the Board since 1999

Association pour le développement des

compétences bancaires, Geneva (CH)

Member of the Board since 1999

**FRED HERREN**

The Latin-American Chamber of

Commerce, Zurich (CH)

Member of the Board since 2004

**ROLF JEKER**

The South-East Asian Chamber of

Commerce, Zurich (CH)

Member of the Board since 2002

CLIPP, Climate Private Partnership,

Zurich (CH)

Chairman since 2003

Swiss Export Promotion Office (OSEC)

Zurich (CH)

Chairman of the Board since 2004

**4.3. MANAGEMENT CONTRACTS**

The Company is not party to any management contract delegating management tasks to companies or individuals outside the Group.



## 5. COMPENSATION, SHAREHOLDINGS AND LOANS

### 5.1. COMPANY'S REMUNERATION POLICIES

The Company's compensation policies on Directors and senior executives (members of the Operations Council) are defined and approved by the Nomination and Remuneration Committee which consists of independent non-executive Directors. The compensation of Directors, including the Chairman's and the Chief Executive's, is approved by the full Board of Directors, on recommendation of the Committee. Neither the Chairman nor the Chief Executive is allowed to participate in discussions and decisions on their own compensation.

The following Directors served on the Nomination and Remuneration Committee in 2004:

- Georges Muller (Chairman)
- Sergio Marchionne (Since July 2004)
- August von Finck
- Dominique Auburtin

The Chief Executive attends meetings of the Committee, except when his own remuneration is being discussed. The Committee met on three occasions during the year.

When reviewing executive remuneration policies, the Committee has received advice from the Group Human Resources staff, and has relied on publicly available information on Directors' and senior management remuneration paid by other Swiss companies, and to a lesser extent on European comparables.

The overriding objective of the Company's remuneration policy is to motivate its leadership team to create shareholder value. Annual bonuses and long-term incentive programmes are all conditional upon the achievement of key financial performance targets.

In addition to a base salary, members of the Operations Council (including the Chief Executive) are entitled to a performance related annual bonus which, if target objectives are met, yields an incentive payment of between 30% to 70% of base salary. If targets are exceeded, annual bonuses are increased on a multiplier basis with a maximum payout equal to a range of 75% to 175% of base salary (up to 250% for the Chief Executive). In the event of underperformance against target, the bonus is rateably reduced on a multiplier basis, so that no bonus is paid in the event a pre-established minimum target is not achieved. The current Company policy on performance related bonuses was introduced in 2002 and was applied first in order to determine the bonuses paid in 2003 on the basis of the 2002 performance. Annual bonus amounts (as a percentage of base salary) and financial/operational targets are approved in advance by the Committee.

Bonuses of senior executives of the Group are assessed on the basis of the actual performance of the Group as a whole, of the relevant Business lines and of Operations against specific financial targets.

Once the quantum of a bonus is determined, it is settled 50% in cash and 50% in options. Although such options are granted immediately, they vest rateably over a period of three years and are only exercisable in the fourth and fifth year after grant.

The current Long-Term Incentive Plan was set up by the Company in 2003 (the 2003 LTI Plan). Under this plan, options granted to some senior executives of the Group, will vest in January 2006 under the conditions that (i) the Group has reached or exceeded in 2005 the target of CHF 45 earnings per share (before exceptional items) and (ii) the beneficiary is still employed by or rendering services for the Group on the date of vesting. The 2003 LTI Plan involves the granting of option to acquire shares of the Company at a strike price of CHF 416. Such options are in the form of traded warrants, with 100 warrants required to purchase one share.

The Company originally set aside 5 475 000 such warrants for this purpose (see note 29 to the consolidated financial statements). This plan is designed to motivate the senior leadership to achieve the long-term stated objective by 2005. No other long-term incentive plan was set up during the period under review.

Full details on the structure and workings of these options incentive plans are provided in note 29 to the consolidated financial statements.

### 5.2. COMPENSATION FOR ACTING MEMBERS OF GOVERNING BODIES

#### 5.2.1. Non-executive Directors

In 2004, each Board Member has been entitled to a fixed board membership fee of CHF 150 000 per annum, increased by 50% from the previous year. Members of the Board serving on a Committee are entitled to an additional fee of CHF 30 000 per committee, unchanged from last year.

Non-executive Directors do not hold service contracts, and are not entitled to any termination payments. They do not participate in the Company's share option plans (except for the Chairman and Vice Chairman) or other benefit schemes and the Company does not make any pension contribution for their benefit. The Chairman's remuneration is detailed under section 5.2.2.

#### 5.2.2. Chairman's and Vice Chairman's remuneration

As non-executive Chairman of the Board of Directors, Mr. Muller is entitled to a fixed board membership fee of CHF 300 000 per annum, increased by 50% from last year.

By decision of the Board of Directors, the Chairman is eligible to receive an amount of share options corresponding to 25% of the options granted to the Chief Executive as part of his annual performance bonus payable in options, under the same conditions of award, vesting and exercise period as the Chief Executive's award. In 2004, 331 171 such options were awarded to the Chairman.

In July 2004, after relinquishing his position as Chief Executive, Mr. Marchionne was appointed as Vice Chairman of the Board of Directors. In this position, he is entitled to a fixed board membership fee of CHF 200 000 per annum.

### 5.2.3. Chief Executive's remuneration

After the end of his tenure as Chief Executive of the Company in June 2004, Mr. Marchionne was succeeded by Mr. W. Pluss (until September 2004) and then by Mr. J. Allegaert. Neither Mr. Pluss nor Mr. Allegaert were members of the Board of Directors in 2004. Sections 5.2.3.1. to 5.2.3.5. which detail the principles of the Chief Executive's remuneration apply equally to Chief Executives who are not members of the Board of Directors. The description of the remuneration paid to Board Members in 2004 in Section 5.2.4. applies only to Board Members. The remuneration earned by Mr. Pluss and Mr. Allegaert during their tenure as Chief Executive is included under section 5.2.5. (Compensation paid to the Operations Council members).

#### 5.2.3.1. General principles

The Chief Executive's remuneration consists of a base salary, other employment benefits, an annual performance bonus, and a long-term incentive plan. All elements of the remuneration are detailed in this section.

The proportions of the fixed and variable cash components of the Chief Executive's remuneration as a percentage of total cash compensation in any given year, are represented in the chart below.

	<i>Below minimum target performance</i>	<i>On target performance</i>	<i>Maximum performance</i>
Base cash remuneration	100%	68%	46%
Variable cash remuneration	0%	32%	54%

#### 5.2.3.2. Base salary and other employment benefits

The base salary, including benefits, is determined by the Nomination and Remuneration Committee by comparison with salary levels for similar positions.

Other employment benefits include housing (for a limited time), car allowance, health insurance coverage, and (when applicable) tuition fees allowance for children.

The Chief Executive also participates on the same basis as other Swiss employees of the Group, in the Company's pension plans, i.e. one defined benefit scheme under the Swiss LPP regulations up to an insured amount of CHF 100 000 and one defined benefit scheme applicable for any amounts of the pensionable remuneration in excess of CHF 100 000. Employees contribute 8% of their base salary and the Company contributes an amount equal to one and a half times the contributions paid by all employees to the scheme.

#### 5.2.3.3. Annual performance bonus

The Chief Executive's annual performance bonus is conditional upon the achievement by the Group of an improvement in financial results. The achievement of target objectives yields a bonus corresponding to 70% of the base salary.

If targets are exceeded, the annual bonus is increased on a multiplier basis with a maximum cash payout equal to 117% of base salary. In the event of an improvement which is below target, the bonus is rateably reduced on a multiplier basis. No bonus is paid if no improvement has been achieved in the financial results of the Group.

The total annual bonus is settled 50% in cash and 50% in options, with the latter being governed by the rules regarding vesting and blocking periods applicable to the other members of the Operations Council as outlined in section 5.1. above.



#### 5.2.3.4. Long-term incentive programmes

No options were issued to the Chief Executive under the 2003 LTI plan during 2004. As a consequence of Mr. Marchionne relinquishing his executive position for end of June, 2004, 1 200 000 warrants that were awarded to him under the 2003 LTI Plan have lapsed.

#### 5.2.3.5. Employment contracts

Employment contracts of Chief Executives of the Company have no fixed term for a period longer than three months and can be terminated by either party with a three-month notice period.

Mr Marchionne's employment contract provided for a severance payment equivalent to two years total remuneration payable in the event that the employment contract is terminated or constructively terminated (including in the event of a change of control) by the Company other than for cause. No severance payment was due if the employment relationship is terminated in any other circumstance. The employment contracts of neither Mr. Pluss nor Mr. Allegaert include similar provisions.

#### 5.2.4. Directors' remuneration in 2004

This section sets out the remuneration which was paid to the Directors during the year. It has been subject to audit.

##### 5.2.4.1. Remuneration paid in cash

The following chart details each Director's base salary and fees and other benefits paid in cash during 2004, exclusive of pension benefits, which are mentioned separately, under section 5.2.4.3. below.

CHF (thousand)									
Name	Date of appointment	Salary	Board fee	Committee fees	Other benefits	Annual performance bonus	Total cash remuneration 2004	Total remuneration 2004 (including options)	Total cash remuneration 2003
G. Muller	May, 2002	–	300	60	25	–	385	668	285
S. Marchionne <sup>1</sup>	May 2001, CEO from Feb, 2002 to June 2004	990	175	15	108	490	1 778	2 155	3 310
D. Auburtin	May, 2001	–	150	30	–	–	180	180	130
A. von Finck	October, 1998	–	150	30	–	–	180	180	130
F. von Finck	May, 2002	–	150	30	–	–	180	180	130
M. Moore	May, 2003	–	150	30	–	–	180	180	83
C.M. Vismara	May, 2003	–	150	30	–	–	180	180	83

<sup>1</sup> Mr. Marchionne's salary (including compensation for accumulated vacation), other benefits and performance bonus represent the remuneration that was earned during the first six months of 2004 while he acted as Chief Executive of the Group. The annual bonus represents the cash component of the on target bonus, pro-rata temporis and was paid in July 2004. By decision of the Board of Directors, Mr. Marchionne was elected as Vice Chairman of the Board and member of the Nomination and Remuneration Committee with effect as of 1 July 2004. The Board fee and Committee fee reported in this chart represent the remuneration earned in 2004.

#### 5.2.4.2. Share options granted in 2004

The following information summarises options that were granted to Company's Directors in 2004.

Name	at 1 January 2004	Granted 2004	Exercised 2004	Cancelled or lapsed 2004 <sup>2</sup>	at 31 December 2004	Vested 2004 <sup>3</sup>	Exercise price CHF	Tax value of 2004 grant <sup>4</sup>
G. Muller	1 257 192 nil	nil 331 171	nil nil	nil nil	1 257 192 331 171	638 128 110 390	416 <sup>1</sup> 734 <sup>1</sup>	283 184
S. Marchionne	5 028 770 nil	nil 1 324 683	nil nil	1 200 000 883 122	3 828 770 441 561	2 552 513 441 561	416 <sup>1</sup> 734 <sup>1</sup>	377 579

<sup>1</sup> One hundred options give the right to acquire one share.

<sup>2</sup> Unvested options which have lapsed upon Mr. Marchionne's relinquishing his Chief Executive role.

<sup>3</sup> Including options having vested in prior years. None of these options were exercisable as of 31 December 2004.

<sup>4</sup> Tax value for Swiss taxation reporting purpose of the options granted during the period at the time of the grant (in CHF).

#### 5.2.4.3. Pension benefits

No Director is entitled to pension benefits unless he acts also as Chief Executive. During the first six months of the year 2004, Mr. Marchionne has accumulated pension benefits as follows:

1. *Defined benefit scheme*: under the company defined benefit scheme he is entitled to the retirement and disability benefit in accordance with Swiss mandatory LPP regulations up to an amount of CHF 100 000.
2. *Defined benefit plan*: any pensionable amount in excess of the Swiss mandatory LPP regulations is insured by a defined benefit plan.

The following charts describe the contributions made by the Company and the Chief Executive and the corresponding changes in transfer values under the Company's defined benefit plans.

CHF (thousand)

#### Defined benefit scheme (mandatory LPP coverage)

Transfer value January 2004	Accrued return on assets	Company's contribution 2004	CEO's contribution 2004	Prior years buy out by the Company	Prior years buy out by the CEO	Transfer value 30 June 2004
333	15	5	4	–	–	357

CHF (thousand)

#### Defined benefit plan (in excess of the mandatory LPP coverage)

Transfer value January 2004	Accrued return on assets	Company's contribution 2004	CEO's contribution 2004	Prior years buy out by the Company	Prior years buy out by the CEO	Transfer value 30 June 2004
4 065	29	333	222	150	150	4 949



#### 5.2.5. Compensation paid to the Operations Council members

This section sets out the global remuneration which was paid to members of the Operations Council of the Group during 2004, excluding the compensation earned by Mr. Marchionne, Board Member and Chief Executive of the Company during the first six months of the period under review.

##### 5.2.5.1. Cash compensation

A total of CHF 12 145 000 was earned by members of the Operations Council (31 senior executives) as remuneration for their service during 2004. The amount includes bonuses payable in 2005 in relation to the 2004 financial results.

##### 5.2.5.2. Share options

A total of 1 984 544 options granting the right to acquire shares of SGS at a strike price of CHF 734 (100 options give the right to acquire one share) were granted to members of the Operations Council in 2004. Such options vest one-third in 2004, 2005 and 2007 and are subject to a blocking period ending in 2007. At grant these options had an aggregate value (calculated on the basis of taxation for Swiss reporting purposes) of CHF 1 696 984.

In addition, 600 000 options were awarded to the Operations Council members in 2004 under the 2003 LTI Plan detailed in section 5.1. above.

A total of 200 000 options were forfeited by the Operations Council members who have left the Company during 2004.

##### 5.2.5.3. Total compensation of the Operations Council

The Operations Council (32 senior members, including the Chief Executive) received total compensation (cash and options) of CHF 15 344 312 (2003: 18 285 824).

#### 5.2.6. Company's performance

The following graphs compare the TSR (Total Shareholder Return) of the Company with the TSR of the Swiss Market Index (SMI) over 2003-2004 (table 1) and for the two year period 2003 and 2004 (table 2). The company measures its performance against the SMI index because this index tracks the performance of large companies based in Switzerland, which are also active internationally. Given the lack of direct industry comparables, the SMI is viewed as being the best relevant benchmark. It is a good indication of the market performance of other comparable Swiss companies during the period.

Table 1: Comparison of relative returns between SGS and the SMI index, assuming that dividends are re-invested to purchase additional equity at the closing price on the date of payment of dividends for the period 1 January to 31 December 2004.

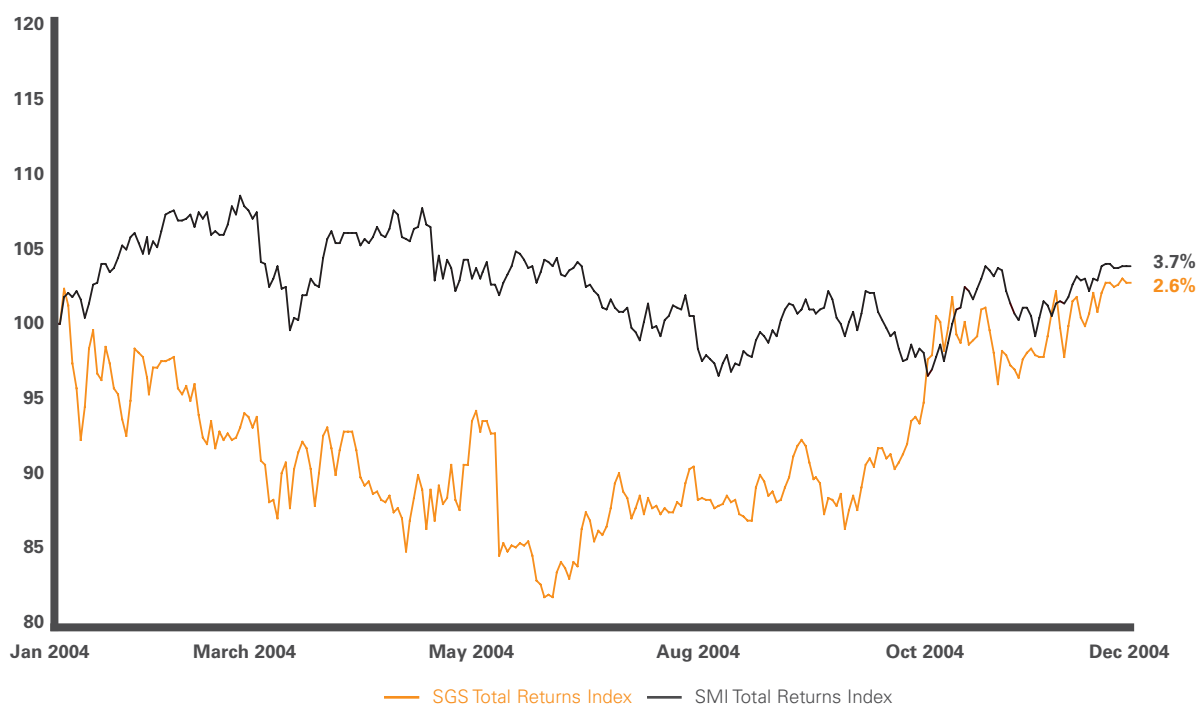
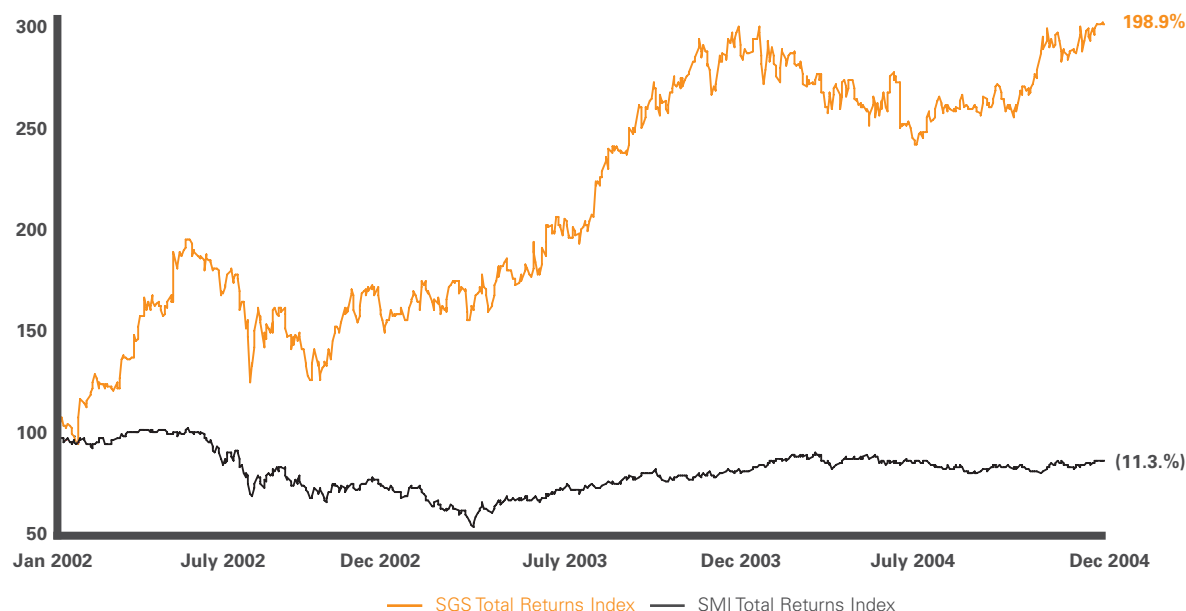


Table 2: Comparison of relative returns between SGS and the SMI index, assuming that dividends are re-invested to purchase additional equity at the closing price on the date of payment of dividends for the period 1 January 2002 to 31 December 2004.



### 5.3. COMPENSATION FOR FORMER MEMBERS OF GOVERNING BODIES

#### 5.3.1. Compensation paid to former Directors

In 2004, no compensation was paid to former members of the Board of Directors.

#### 5.3.2. Severance payments paid to former members of the senior management

In 2004, the Group paid an aggregate amount of CHF 3 214 704 as severance payments (including the attribution of options not yet vested) to four former members of the Group's senior management (Operations Council).

### 5.4. SHARE ALLOTMENT IN THE YEAR UNDER REVIEW

In 2004, the Company did not allot any shares to executive or non-executive members of the Board of Directors or to any related parties.

### 5.5. SHARE OWNERSHIP

On 31 December 2004, the members of the Operations Council, including the Chief Executive and persons closely linked to such persons, held a total of 4 330 shares in the Company.

Non-executive members of the Board of Directors and persons closely linked to such persons held a total of 3 712 012 shares.

The Directors owned the following number of shares in the Company at the end of the period under review:

Name	Number of shares
D. Auburtin	1
A. von Finck	19 670
F. von Finck	777 300
S. Marchionne	50
M. K. Moore	3
G. Muller	1 010
C.M. Vismara	1



## 5.6. OPTIONS

The options in the Company's shares held by executive and non-executive members of the Board of Directors are detailed in section 5.2.4.2. Options granted to members of the Operations Council in 2004 are detailed in section 5.2.5.2.

## 5.7. ADDITIONAL FEES AND REMUNERATION

None of the Directors, members of the Operations Council or related parties have invoiced the Group any additional fees or have they received any form of additional remuneration in 2004.

## 5.8. LOANS TO MEMBERS OF GOVERNING BODIES

As of 31 December 2004, the Company had no outstanding loans to members of its governing bodies.

## 5.9. HIGHEST TOTAL COMPENSATION

The compensation earned by Mr. Marchionne as Chief Executive and detailed under section 5.2.4. was the highest compensation paid by the Group in the year under review.

# 6. SHAREHOLDERS' PARTICIPATION RIGHTS

All registered shareholders receive a copy of the half year and full year results upon the publication of such results by the Company. They can receive a copy of the Company's annual report and are personally invited to attend the Company's shareholders' meeting.

## 6.1. VOTING RIGHTS RESTRICTIONS AND REPRESENTATION

All registered shareholders can attend and vote during the shareholders' meetings. The shareholders may also elect to grant a power of attorney to the independent proxy holder appointed to this effect by the Company, to a bank or a regulated financial intermediary or to any other registered shareholders.

There is no voting restriction, subject to the exclusion of nominee shareholders representing undisclosed principals, as detailed in section 2.6.

## 6.2. STATUTORY QUORUMS

The General Meeting can validly deliberate regardless of the number of shares represented at the meeting.

Resolutions are passed at the absolute majority of the votes cast. If a second ballot is necessary, a relative majority is sufficient.

In addition to the specific provisions of Swiss company law, the following resolutions require a majority of 2/3 of the votes cast ("Special Majority"):

- share capital increase
- election and removal of a member of the Board of Directors
- changes in the maximum number of Board Members
- amendment of the Special Majority requirement.

## 6.3. CONVOCAATION OF GENERAL MEETINGS OF SHAREHOLDERS

The rules regarding the convocation of the General Meetings of Shareholders do not deviate from Swiss Company Law.

## 6.4. AGENDA

The Agenda of the General Meetings of Shareholders is defined by the Board of Directors. Shareholders representing shares of a minimum par value of CHF 1 000 000 are authorised to request the inclusion of an item on the agenda of the General Meeting, provided that such a request reaches the Company at least 40 days prior to the General Meeting.

## 6.5. REGISTRATION IN THE SHARE REGISTER

The Company does not impose any deadline for registering shares prior to the General Meeting. However, a technical notice of two business days is required to process the registration.

## 7. CHANGE OF CONTROL AND DEFENCE MEASURES

There is no change of control restriction in the Company's articles of association.

### 7.1. DUTY TO MAKE AN OFFER

In the absence of any specific statutory rules in the Company's articles of association, any investor or group of investors acquiring more than 33.3% of the shares and voting rights in the Company will be subject to the duty to make a public offer, as per the applicable Swiss takeover rules.

### 7.2. CLAUSES OF CHANGES OF CONTROL

There are no general plans or standard agreements offering specific protection to Board Members, senior management or employees of the Group in the event of a change of control, subject to the ordinary rules regarding termination of employment.

The contracts of a limited number of senior managers include specific provisions which may trigger a severance payment equivalent to up to a maximum of two years remuneration and the immediate vesting of options granted to them in the event there is a change of control in the Company.

## 8. AUDITORS

### 8.1. DURATION OF THE MANDATE AND TERM OF OFFICE

Following a competitive process in 2000, Deloitte & Touche SA, Geneva was appointed as auditor of the Company and of the SGS Group by the Annual General Meeting of Shareholders upon recommendation of the Board of Directors. The auditors of the Company are subject to re-election by the Annual General Meeting every year. Deloitte & Touche has audited the Company financial statements starting with the financial year 2000.

The current lead auditor, Mr. Gerhard Ammann, began serving in this role in 2000.

### 8.2. AUDITING FEES

The audit fees charged by Deloitte for the audit of the Company and the Group financial statements in 2004 amounted to CHF 3.9 million.

### 8.3. ADDITIONAL FEES

In addition, Deloitte charged SGS Group in 2004 an aggregate amount of CHF 1.3 million for other professional services, unrelated to the audit activity.

### 8.4. SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

SGS strives to safeguard and support the independence of the auditor by avoiding conflicts of interests. By application of this policy, the Company carefully examines when attributing other consultancy assignments that such appointments do not endanger the independence of its auditor.

The Audit Committee of the Board of Directors conduct annual assessments of the audit services provided to the Group.

## 9. INFORMATION POLICY

The policy of SGS is to provide individual and institutional investors directly or through financial analysts, business journalists or investment consultants (financial community) and the employees with financial and business information in a consistent, timely and transparent manner.

SGS's website, <http://www.sgs.com> has a section fully dedicated to Investor Relations where all financial information and presentations are available.

SGS meets regularly with institutional investors, holds results presentations, road shows and one-on-one meetings.

SGS publishes consolidated half year unaudited and yearly audited results. These documents are sent to each registered shareholder and are available in English (binding version) and in French. SGS applies article 72 of the listing rules (ad hoc publicity) and its notes are published by the Swiss Admission Board.

SGS acknowledges the Directives on the Independence of Financial Research issued by the Swiss Bankers Association, particularly articles 26 and 29-32. In addition, SGS complies with rules regarding information and reporting of the Federal Act on Stock Exchange and Securities Trading, and the Ordinance on Stock Exchanges and Security Trading.



# SGS GROUP RESULTS

CAMEROON

SUSTAINABLE FOREST MANAGED

BRITISH COLUMBIA

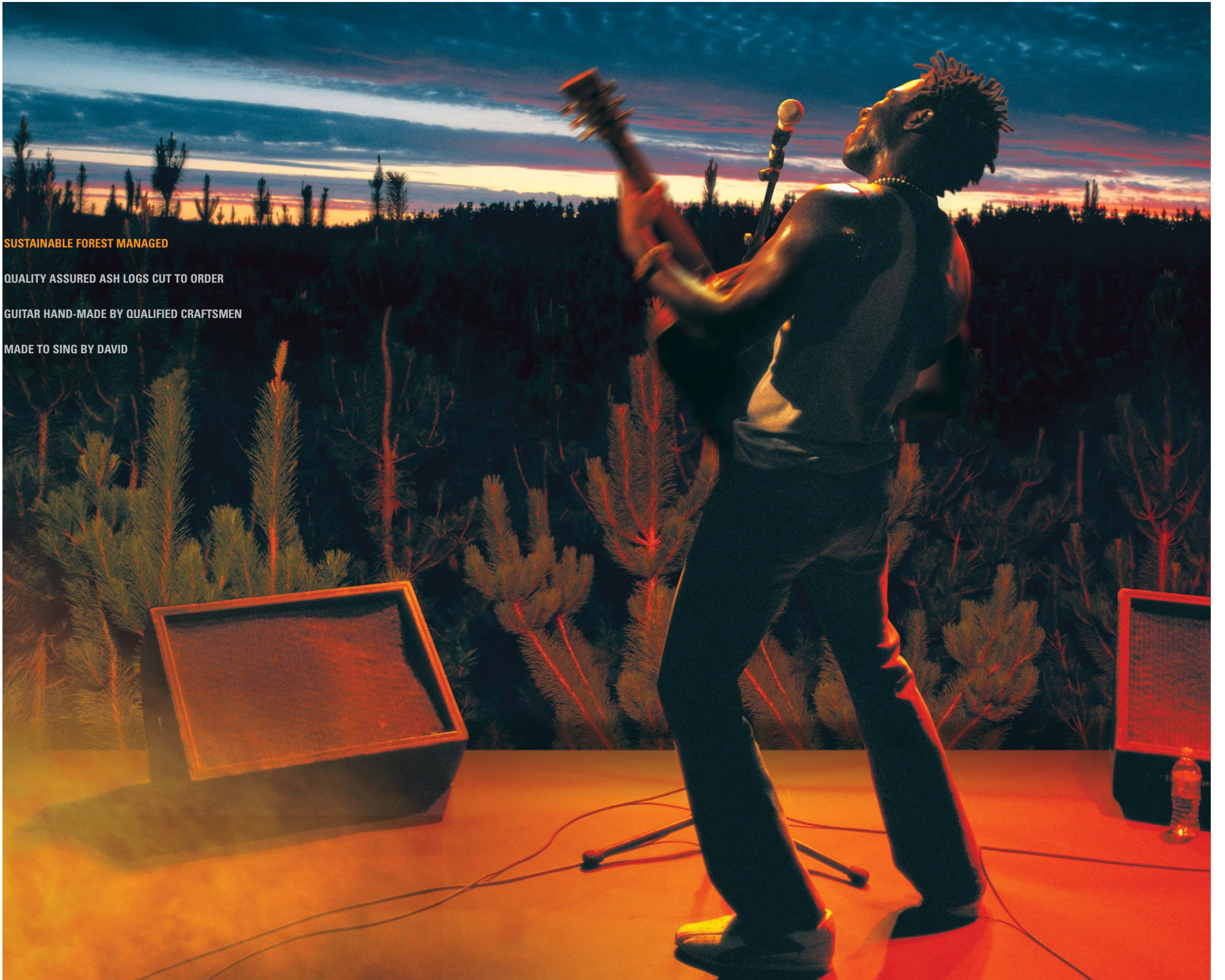
QUALITY ASSURED ASH LOGS CUT TO ORDER

ALICANTE

GUITAR HAND-MADE BY QUALIFIED CRAFTSMEN

KINGSTON

MADE TO SING BY DAVID





# CONSOLIDATED BALANCE SHEET

at 31 December (before appropriation of available retained earnings)

CHF (million)

	Notes	2004	2003
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Land, buildings and equipment	3	493	415
Goodwill	5	242	117
Other intangible assets	6	62	30
Investments in associated and other companies		2	2
Deferred income tax assets	24	107	95
Other non-current assets	4	21	23
<b>TOTAL NON-CURRENT ASSETS</b>		<b>927</b>	<b>682</b>
<b>CURRENT ASSETS</b>			
Work-in-progress and inventories	7	118	108
Trade accounts and notes receivable	8	579	571
Other receivables and prepayments	9	132	135
Marketable securities	10	10	55
Cash and cash equivalents	11	446	471
<b>TOTAL CURRENT ASSETS</b>		<b>1 285</b>	<b>1 340</b>
<b>TOTAL</b>		<b>2 212</b>	<b>2 022</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	156	156
Reserves		1 150	978
Treasury shares		(77)	(62)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1 229</b>	<b>1 072</b>
<b>MINORITY INTERESTS</b>		<b>26</b>	<b>18</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	15	8	11
Deferred income tax liabilities	24	64	72
Provisions	16	185	209
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>257</b>	<b>292</b>
<b>CURRENT LIABILITIES</b>			
Loans	18	10	22
Trade and other payables	19	329	299
Current tax liabilities		45	36
Other creditors and accruals	20	316	283
<b>TOTAL CURRENT LIABILITIES</b>		<b>700</b>	<b>640</b>
<b>TOTAL LIABILITIES</b>		<b>957</b>	<b>932</b>
<b>TOTAL</b>		<b>2 212</b>	<b>2 022</b>

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the years ended 31 December

CHF (million)

	Notes	2004	2003
<b>REVENUES</b>	33	<b>2 885</b>	<b>2 454</b>
Salaries and wages		(1 434)	(1 240)
Subcontractors' expenses		(181)	(155)
Depreciation and amortisation (excluding goodwill)	3 & 6	(115)	(96)
Other operating expenses	21	(764)	(663)
<b>OPERATING INCOME</b>	33	<b>391</b>	<b>300</b>
Exceptionals	22	3	3
Goodwill amortisation	5	(16)	(10)
<b>EARNINGS BEFORE INTEREST AND TAX (EBIT)</b>		<b>378</b>	<b>293</b>
Financial income/(expense)	23	6	10
<b>PROFIT BEFORE TAXES AND MINORITY INTERESTS</b>		<b>384</b>	<b>303</b>
Taxes	24	(90)	(68)
<b>PROFIT AFTER TAXES</b>		<b>294</b>	<b>235</b>
Minority interests		(15)	(8)
<b>NET PROFIT</b>		<b>279</b>	<b>227</b>
<b>BASIC EARNINGS PER SHARE (IN CHF)</b>	25	<b>36.49</b>	<b>29.63</b>
<b>DILUTED EARNINGS PER SHARE (IN CHF)</b>	25	<b>36.25</b>	<b>29.52</b>
<b>DIVIDEND PER SHARE (IN CHF)</b>		<b>12.00<sup>1</sup></b>	<b>9.00</b>

<sup>1</sup> As proposed by the Board of Directors

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended 31 December

CHF (million)

	Share capital	General legal reserve <sup>1</sup>	Cumulative exchange adjustment	Retained earnings and Group reserve	Treasury shares	Deferred financial gains/losses	Total equity
Balance at 1 January 2003	156	34	(108)	878	(62)	(1)	897
Deferred gains recognised in the profit and loss account	–	–	–	–	–	–	–
Fair value adjustments for marketable securities	–	–	–	–	–	–	–
Dividends paid <sup>1</sup>	–	–	–	(56)	–	–	(56)
Net profit for the year	–	–	–	227	–	–	227
Exchange differences <sup>2</sup>	–	–	4	–	–	–	4
Treasury shares	–	–	–	–	–	–	–
<b>BALANCE AT 31 DECEMBER 2003</b>	<b>156</b>	<b>34</b>	<b>(104)</b>	<b>1 049</b>	<b>(62)</b>	<b>(1)</b>	<b>1 072</b>
Deferred gains recognised in the profit and loss account	–	–	–	–	–	–	–
Fair value adjustments for marketable securities	–	–	–	–	–	–	–
Dividends paid <sup>1</sup>	–	–	–	(69)	–	–	(69)
Net profit for the year	–	–	–	279	–	–	279
Exchange differences <sup>2</sup>	–	–	(38)	–	–	–	(38)
Treasury Shares	–	–	–	–	(15)	–	(15)
<b>BALANCE AT 31 DECEMBER 2004</b>	<b>156</b>	<b>34</b>	<b>(142)</b>	<b>1 259</b>	<b>(77)</b>	<b>(1)</b>	<b>1 229</b>

<sup>1</sup> The amounts available for dividends are based on the SGS SA's unconsolidated shareholders' equity determined in accordance with the legal provisions of the Swiss Code of Obligations. In accordance with the statutes of SGS SA, dividends which have not been claimed after five years amounting to nil for 2004 (2003: nil) have been transferred to the legal reserve. The general legal reserve reflected in the shareholders equity of SGS SA has been established in accordance with the legal provisions of the Swiss Code of Obligations.

<sup>2</sup> In 2004, exchange differences included net exchange gains of CHF 9 million on long-term loans treated as net investment in a foreign entity according to International Accounting Standard (IAS) 21 (2003: losses of CHF 3 million).



# CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended 31 December

CHF (million)

	Notes	2004	2003
Net profit		279	227
Adjustments for:			
Amortisation of intangibles	6	17	10
Amortisation of goodwill	5	16	10
Depreciation	3	98	86
Net financial income		(6)	(10)
Change in provisions		(21)	(2)
Taxes		90	67
Gains on disposals		(2)	(1)
Minority interests		15	8
		<b>486</b>	<b>395</b>
Working capital movements:			
(Increase)/decrease in work-in-progress and inventories		(9)	2
(Increase) in trade accounts and notes receivable		(4)	(65)
Decrease in other receivables and prepayments		2	2
Increase in trade and other payables		18	30
Decrease/(increase) in other creditors and accruals		31	(4)
(Decrease)/increase in other provisions		(27)	4
Taxes paid		(72)	(39)
<b>OPERATING CASH FLOW</b>		<b>425</b>	<b>325</b>
Purchase of land, buildings, equipment and other intangible assets	3 & 6	(201)	(171)
Cash paid for acquisitions less cash acquired	12	(194)	(31)
Cash received on disposals less cash sold		–	8
Decrease in marketable securities		52	54
Decrease/(increase) in long-term loans and other assets		1	(3)
Interest and dividends received		13	17
Sales of land, buildings and equipment		14	25
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(315)</b>	<b>(101)</b>
Dividends paid		(69)	(56)
Purchase of treasury shares		(15)	–
Interest paid		(7)	(9)
(Decrease) of minority interests in net assets		(14)	(7)
(Decrease) in long-term loans		(9)	(40)
(Decrease) in short-term loans		(19)	(60)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(133)</b>	<b>(172)</b>
(Decrease)/increase in cash and cash equivalents at average rates		(23)	52
Translation differences on flows		12	(1)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS AT CLOSING RATES</b>		<b>(11)</b>	<b>51</b>
Cash and cash equivalents at beginning of year		471	419
Effects of exchange rate changes on opening balances		(14)	1
Cash & cash equivalents at 1 January retranslated at closing rates		457	420
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>446</b>	<b>471</b>
Reconciliation with net cash:			
(Decrease)/increase in cash and cash equivalents at average rates, as above		(23)	52
Reverse decrease in marketable securities		(52)	(54)
Reverse decrease in loans		28	100
Net marketable securities & loans acquired		(7)	–
Translation difference on flows		17	(1)
Translation differences on opening balances		(18)	(6)
<b>(DECREASE)/INCREASE IN NET CASH AT CLOSING RATES</b>		<b>(55)</b>	<b>91</b>





SHEEP DIPPED FOR WARBLE FLY LOWER PASTURE

GRADED AS FINE MERINO AT SPINNER'S RECEIVING STATION

TOURNAMENT GRADE BAIZE, DYED AND CUT

KEEPING THE BALL ROLLING

HIKARUA FARM

CLYDESDALE

CAPE TOWN

MANCHESTER

# NOTES



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. ACTIVITIES OF THE GROUP

SGS SA and its subsidiaries (the "Group") operate in more than 140 countries under the name SGS. The head office of the Group is located in Geneva, Switzerland.

SGS is the global leader and innovator in inspection, verification, testing and certification services supporting international trade in agriculture, minerals, petroleum and consumer products. It also provides these services to governments, international institutions and to customers engaged in the industrial, environment and life science sectors.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Group are stated in millions of Swiss francs. They are prepared from the financial statements of the individual companies within the Group for which the significant companies have a year-end of 31 December 2004. The consolidated financial statements comply with the accounting and reporting requirements of the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The accounting conventions and accounting policies are the same as those applied in the 2003 consolidated financial statements, with the exception of IFRS 3 on business combinations, which impacts the accounting treatment of all new acquisitions on or after 31 March 2004.

The requirements of IAS 36 (revised 2003) Impairment of Assets and IAS 38 (revised 2003) Intangible Assets have been adopted in respect of those acquisitions to which IFRS 3 applies.

The financial statements are prepared on an accrual basis and under the historical cost convention, modified as required for the revaluation of certain financial instruments.

### BASIS OF CONSOLIDATION

#### *Subsidiaries*

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The equity and net profit attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and profit and loss account, respectively. The principal operating and holding companies of the Group are listed on pages 106 to 111.

#### *Associates*

Associates are enterprises over which the Group has significant influence, but no control, over the financial and operating policies. The consolidated financial statements include the Group's share of the earnings of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses of an affiliate, if any, exceeds the carrying amount of the associate on the Group's balance sheets, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

#### *Jointly controlled entities*

Jointly controlled entities are enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

#### *Investments in other companies*

Investments in other companies (normally below 20% shareholding levels) are stated at cost less any provision for impairment. The fair value of these investments cannot be reliably measured. Dividends received from these investments are included in financial income/expense.

#### *Transactions eliminated on consolidation*

All significant intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

#### *Foreign currency transactions*

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognised in the profit and loss account.



### *Consolidation of foreign companies*

All assets and liabilities of foreign companies that are consolidated are translated using the exchange rates in effect at the balance sheet date (the current method). Income and expenses are translated at the average exchange rate for the year. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment.

Average rates of exchange have been used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

### **LAND, BUILDINGS AND EQUIPMENT**

Land is stated at historical cost and is not depreciated. Buildings and equipment are stated at historical cost less accumulated depreciation. Subsequent expenditures are capitalised only if they increase the future economic benefits embodied in the related item of property and equipment. All other expenditures are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	12 - 40 years
Machinery and equipment	3 - 10 years
Other tangible assets	3 - 10 years

### **LEASES**

Assets acquired under finance lease agreements, which provide the Group with substantially all the risks and rewards of ownership, are capitalised at amounts equivalent to the estimated present value of the underlying minimum lease payments. The corresponding liabilities are included in long and short-term loans. These leased assets are depreciated over the lease period or their estimated useful lives, whichever is shorter.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are expensed on a straight-line basis over the lease terms.

### **ACQUISITIONS**

In the case of acquisitions of businesses, the acquired identifiable assets and liabilities are recorded at fair value. The difference between the purchase price and their fair value is classified as goodwill and recorded in the balance sheet as an intangible asset.

Goodwill arising from business combinations for which the agreement date is prior to 31 March 2004, is capitalised and is amortised on a straight-line basis over its expected useful life ranging from 5 to 20 years. The estimated useful life is determined by management at the time of acquisition, based upon such factors as the acquired company's current and expected profitability, growth prospect, stability of market share and technical innovation.

Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004, is measured at cost less any accumulated impairment losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recorded in the relevant foreign currency and are translated using the period end exchange rate.

On disposal of part of or the whole of a business which was previously acquired and which gave rise to the recording of acquisition goodwill, the relevant amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

### **OTHER INTANGIBLE ASSETS**

Intangible assets, including software, licences, trademarks and customer relationships are capitalised and amortised on a straight-line basis over their estimated useful lives, normally not exceeding 20 years. Their carrying amounts are tested for impairment annually and whenever there is an indication that the asset may be impaired. Other intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably.

Internally generated intangible assets are recognised if the asset created can be identified, it is probable that future economic benefits will be generated from it and the related development costs can be measured reliably. These assets are amortised on a straight-line basis over their useful lives, which usually does not exceed four years. All other development costs are expensed as incurred.

### **IMPAIRMENT OF ASSETS**

At each balance sheet date or whenever there is an indication that an asset may be impaired, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. If indications of impairment are present, the carrying value of the asset is reduced to its recoverable value. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the greater of the net selling price and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **IMPAIRMENT LOSSES ARE RECOGNISED AS AN EXPENSE IMMEDIATELY**

Where an impairment loss on assets other than goodwill subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognised. A reversal of an impairment loss is recognised as income immediately.

## WORK-IN-PROGRESS AND INVENTORIES

Work-in-progress is measured at the lower of the costs incurred in providing the service or its ultimate invoice price less costs to complete.

Inventories are recorded at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs to complete and costs to be incurred in selling and distribution.

## RECEIVABLES

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

## MARKETABLE SECURITIES

Marketable securities are recorded in the balance sheet at fair value.

Movements in fair value for marketable securities held for trading are reported in the profit and loss account as financial income/expense. For marketable securities designated as being available for sale, the movements in fair value are recorded as a component of shareholder's equity and recognised in the profit and loss account at the time of disposal.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, deposits held with banks and investments in money market instruments with an original maturity of three months or less. Bank overdrafts are included within current loans.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting are accounted for on a mark to market basis.

Derivative financial instruments are recognised initially at cost.

Subsequently, derivative financial instruments are stated at fair value.

The treatment of gains or losses resulting from the fair value restatement depends on the item to which they relate (see Hedging below).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

## HEDGING

### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised as a component of shareholders' equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the related cumulative gain or loss on the hedge is removed from equity and included in the measurement of the asset or liability. In all other cases, the cumulative gain or loss is removed from equity and recognised in the profit and loss account at the same time as the recording of the hedged transaction. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognised in the profit and loss account immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realised to the point of termination remains in shareholders' equity and is recognised at the same time as the related transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss held in shareholders' equity is recognised in the profit and loss account immediately.

### *Hedge of monetary assets and liabilities*

Where a derivative financial instrument is used to hedge the foreign exchange exposure of a recognised monetary asset or liability, any related gains and/or losses on the hedging instrument resulting from fair value restatements are recognised in the profit and loss account.

### *Hedge of net investment in foreign operation*

Where a foreign currency liability or a derivative instrument is used to hedge a net investment in a foreign operation, related foreign exchange differences arising on translation of the liability or fair value restatement of the derivative instruments are recorded as a separate component of shareholders' equity.

## EMPLOYEE BENEFITS

### *Pension plans*

The Group maintains several defined benefit and defined contribution pension plans in accordance with local conditions and practices in the countries in which it operates. Defined benefit pension plans are based on employees' years of service and remuneration earned by the employee during a pre-determined period. Contributions to these plans are normally paid into funds which are managed independently of the Group, except in rare cases where there is no legal liability to fund. In such cases, the liability is recorded in the Group's consolidated balance sheet.

The Group's obligation to fund defined benefit pension plans and the annual cost recognised in the profit and loss account is determined by independent actuaries using the projected unit credit method. Actuarial gains and losses which exceed 10% of the present value of the obligation or the fair value of plan assets are amortised over the average remaining service lives of the employees. Past service costs are recognised over the average period remaining until the benefits become vested.

Payments to defined contribution plans are recognised as an expense in the profit and loss account as incurred.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### *Post employment plans other than pensions*

The Group operates some post employment defined benefit schemes, mainly healthcare plans. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension plans.

#### *Equity compensation plans*

The Group provides additional benefits to certain members of senior management and employees through equity compensation plans (see note 29). No expense is recognised in the profit and loss account for shares and options granted to members of senior management and employees under these plans.

### **TRADE PAYABLES**

Trade payables are recorded and stated at their nominal value.

### **PROVISIONS**

The Group records provisions when it has an obligation, legal or constructive, to satisfy a claim; it is probable that an outflow of Group resources will be required to satisfy the obligation, and a reliable estimate of the amount can be made.

In the case of litigation and claims relating to services rendered, the amount that is ultimately recorded is the result of a complex process of assessment of a number of variables, and relies on management's informed judgement about the circumstances surrounding the past provision of services. It also relies on expert legal advice and actuarial assessments. Changes in estimates are reflected in the profit and loss account in the period in which the change occurs.

### **REVENUE RECOGNITION**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenues represent fees for services rendered to third parties after the deduction of discounts and are recognised when the service has been completed. No margin is recognised on work-in-progress. Completed but unbilled services are recorded at net selling prices. Only the gross margin on contract hire of technical personnel is included in revenues.

### **BORROWING COSTS**

Borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

### **TAXES**

Income taxes include all taxes based upon the taxable profits of the Group including withholding taxes payable on the transfer of income from Group companies and tax adjustments from prior years. Taxes on income are recognised in the profit and loss account except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognised in equity. Provisions of income and withholding taxes that could arise on the remittance of subsidiary retained earnings are only made where there is a current intention to remit such earnings. Other taxes not based on income, such as property taxes and capital taxes, are included within operating expenses.

Deferred taxes are provided using the full liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying values in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries where their reversal will not take place in the foreseeable future. Deferred income tax assets relating to the carry-forward of unused tax losses and tax credits are recognised to the extent that it is probable that future profits be available against which they can be utilised.

Current and deferred income tax assets and liabilities are offset when the income taxes levied by the same taxing authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.



## EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's net profit by the weighted average number of shares outstanding during the year, excluding treasury shares. For diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming conversion of all potential dilutive shares. Group net profit is also adjusted to reflect the net after-tax impact of conversion.

## DIVIDENDS

Dividends are reported as a movement in shareholders' equity in the period in which they are approved by the shareholders.

## TREASURY SHARES

Treasury shares are reported as a deduction to shareholders' equity. The original cost of treasury shares and the proceeds of any subsequent sale are recorded as movements in shareholders' equity.

## USE OF ESTIMATES

The preparation of financial statements and related disclosures that conform to International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates are used in accounting for bad debt provisions on accounts receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring reserves, provisions, and contingencies. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the profit and loss account.

The most significant currencies for the Group were translated at the following exchange rates:

			<i>Year-end rates</i>		<i>Annual average rates</i>	
			<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
Australia	AUD	100	87.86	93.24	91.45	87.65
Euro	EUR	100	154.49	156.06	154.41	152.09
Great Britain	GBP	100	217.93	221.55	227.50	219.86
USA	USD	100	113.42	124.86	124.35	134.57

### 3. LAND, BUILDINGS AND EQUIPMENT

CHF (million)

	Land & buildings	Machinery & equipment	Other tangible assets	2004	2003
<b>COST</b>					
At 1 January	290	501	313	1 104	1 018
Additions	11	102	60	173	151
Acquisition of subsidiaries	32	36	19	87	6
Sale of subsidiaries	–	–	–	–	(4)
Disposals	(5)	(37)	(37)	(79)	(59)
Exchange differences	(7)	(18)	(18)	(43)	(8)
At 31 December	321	584	337	1 242	1 104
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January	98	349	242	689	644
Depreciation for the year	11	57	30	98	86
Acquisition of subsidiaries	11	30	14	55	3
Sale of subsidiaries	–	–	–	–	(2)
Disposals	(1)	(33)	(34)	(68)	(43)
Exchange differences	(2)	(15)	(8)	(25)	1
At 31 December	117	388	244	749	689
<b>NET BOOK VALUE 2004</b>	<b>204</b>	<b>196</b>	<b>93</b>	<b>493</b>	
<b>NET BOOK VALUE 2003</b>	<b>192</b>	<b>152</b>	<b>71</b>		<b>415</b>
<b>INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS:</b>					
Purchase cost of leased tangible assets	20	1	1	22	26
Accumulated depreciation	8	1	1	10	11
<b>NET BOOK VALUE AS AT 31 DECEMBER</b>	<b>12</b>	<b>–</b>	<b>–</b>	<b>12</b>	<b>15</b>

At 31 December 2004, the Group has commitments of CHF 3.1 million (2003: CHF 0.8 million) for the acquisition of land, buildings and equipment.

Included in the land, buildings and equipment are construction in progress projects amounting to CHF 6.7 million (2003: CHF 4.4 million).

The values of buildings and equipment for fire insurance purposes are as follows:

CHF (million)

	2004	2003
Buildings	415	284
Machinery, equipment and other tangible assets	787	761

## 4. OTHER NON-CURRENT ASSETS

CHF (million)

	2004	2003
Long-term loans to third parties	2	3
Other non-current assets	19	20
<b>TOTAL</b>	<b>21</b>	<b>23</b>

Depending on nature of the loan, currency and date of maturity, interest rates on long-term loans to third parties range between 0% and 15%.

Other non-current assets are non-interest bearing and consist mainly of deposits for guarantees.

At 31 December 2004 and 2003, the fair value of the Group's other non-current assets approximate to their carrying value.

## 5. GOODWILL

CHF (million)

	2004	2003
<b>COST</b>		
At 1 January	146	111
Additions	148	27
Disposals	–	(4)
Exchange differences	(8)	12
At 31 December	286	146
<b>ACCUMULATED AMORTISATION</b>		
At 1 January	29	19
Amortisation for the year	16	10
Disposals	–	(2)
Exchange differences	(1)	2
At 31 December	44	29
<b>NET BOOK VALUE AT 31 DECEMBER 2004</b>	<b>242</b>	
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>		<b>117</b>

Goodwill arising from business combinations, for which the agreement date is on or after 31 March 2004, amounts to CHF 50 million. Of this amount, CHF 40 million is carried within the North America Oil, Gas and Chemicals cash generating unit. The recoverable amount of this cash-generating unit is based on a value in use calculation with cash flow projections based on actual operating results. The growth rate assumption for the first ten years is based on past experience and existing business plan. The ten-year cash flow projection period is supported by the stable track record of this activity. Cash flows for subsequent years are extrapolated using a flat one percent growth rate, which is below general market expectations. A pre-tax discount rate of nine percent has been used in discounting the projected cash flows. The unit's recoverable amount exceeds its carrying amount.

Goodwill additions include an amount of CHF 9 million of contingent consideration paid in relation to the acquisition of the Lakefield Group in 2001.



## 6. OTHER INTANGIBLE ASSETS

CHF (million)						
	Trademarks	Customer relationships	Computer software and other assets Internally generated	Purchased	2004	2003
<b>COST</b>						
At 1 January	–	–	15	56	71	48
Additions	–	–	5	23	28	26
Acquisition of subsidiaries	3	17	–	10	30	–
Disposals	–	–	–	(2)	(2)	(2)
Exchange differences	–	–	–	(1)	(1)	(1)
At 31 December	3	17	20	86	126	71
<b>ACCUMULATED AMORTISATION</b>						
At 1 January	–	–	3	38	41	33
Amortisation for the year	–	1	3	13	17	10
Acquisition of subsidiaries	–	–	–	7	7	–
Disposals	–	–	–	(1)	(1)	(2)
At 31 December	–	1	6	57	64	41
<b>NET BOOK VALUE AT 31 DECEMBER 2004</b>	<b>3</b>	<b>16</b>	<b>14</b>	<b>29</b>	<b>62</b>	
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>–</b>	<b>–</b>	<b>12</b>	<b>18</b>		<b>30</b>

The Group is implementing global management information systems focussing on contract management, finance and sales order processing. In particular, additions relating to the Group's new ERP system, currently under implementation, amount to CHF 6 million (2003: CHF 17 million) and is being amortised over a period of four years.

Incremental costs relating to internally generated assets are capitalised when incurred and amortised over a period of four years from the time of occurrence. Purchased intangible assets mainly consist of purchased computer software and consultancy services required for implementations.

## 7. WORK-IN-PROGRESS AND INVENTORIES

CHF (million)		
	2004	2003
Work-in-progress	98	92
Inventories	20	16
<b>TOTAL</b>	<b>118</b>	<b>108</b>

## 8. TRADE ACCOUNTS AND NOTES RECEIVABLE

CHF (million)

	2004	2003
Trade accounts and notes receivable	952	957
Allowance for doubtful accounts	(373)	(386)
<b>TOTAL</b>	<b>579</b>	<b>571</b>
Relating to TAS (government receivables)	44	71

Receivables from Trade Assurance Services clients (TAS), namely governments and international institutions, are disclosed separately due to their specific risk profile.

Management considers that the carrying amount of trade accounts and notes receivable, net of an allowance for doubtful accounts, approximates fair value.

The Group's credit risk is diversified due to the large number of entities that make up the Group's customer base and the diversification across many different industries and geographic regions.

In 2001, CHF 177 million of accounts receivable balances on terminated TAS contracts were recorded in the balance sheet at zero and the adjustment charged as an exceptional item in the profit and loss account. The recoveries of these receivables have been and will continue to be reported as exceptional items. During the current year CHF 3 million has been collected (2003: CHF 3 million).

## 9. OTHER RECEIVABLES AND PREPAYMENTS

CHF (million)

	2004	2003
Prepayments and deposits	57	55
Other receivables	75	80
<b>TOTAL</b>	<b>132</b>	<b>135</b>

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 10. MARKETABLE SECURITIES

CHF (million)

	2004	2003
Held for trading	–	45
Available for sale	10	10
<b>TOTAL</b>	<b>10</b>	<b>55</b>

Unrealised gains or losses on marketable securities designated as available for sale and which are recorded in shareholders' equity amounted to a gain of CHF 0.1 million for 2004. The accumulated losses relating to these items amounted to a loss of CHF 0.5 million in 2004 (2003: loss CHF 0.6 million).

## 11. CASH AND CASH EQUIVALENTS

CHF (million)

	2004	2003
Cash and short-term deposits	445	470
Short-term loans	1	1
<b>TOTAL</b>	<b>446</b>	<b>471</b>

There are no restrictions on the use or access to cash and short-term deposits. The credit risk on liquid funds is limited as the counterparties are financial institutions with high credit-ratings assigned by international credit-rating agencies.

## 12. ACQUISITION OF SUBSIDIARIES

During 2004, the Group completed two significant acquisitions: 100% of Institut Fresenius Chemische und Biologische Laboratorien AG (Institut Fresenius), based in Germany, effective 1 March 2004 and 100% of Petroleum Services Corporation (PSC), based in the USA, effective 1 January 2004. Institut Fresenius is a market leader in Germany in the fields of pharmaceutical products quality assurance, environmental, consumer products and microelectronic testing and mineral water certification. PSC specialises in in-plant outsourcing services for the oil refining and chemical industries and operates the largest tankerman pool in the USA, handling over 35 000 shipments per year.

These transactions have been accounted for by applying the purchase method of accounting. The value of the identifiable assets and liabilities reflects best estimates at the end of the period.

CHF (million)

	Carrying amount before combination	Fair value adjustment	Amount recognised at the acquisition date
<b>INSTITUT FRESENIUS</b>			
Tangible and intangible assets	23	2	25
Deferred tax assets	1	5	6
Current assets excluding cash & cash equivalents	15	–	15
Cash & cash equivalents	4	–	4
Interest bearing loans	(7)	–	(7)
Current liabilities	(23)	(13)	(36)
Non-current liabilities	(7)	–	(7)
<b>NET ASSETS ACQUIRED</b>	<b>6</b>	<b>(6)</b>	<b>0</b>
Goodwill on acquisition			69
<b>TOTAL PURCHASE PRICE</b>			<b>69</b>
Less:			
Cash & cash equivalents acquired			(4)
Deferred consideration			(1)
<b>NET CASH OUTFLOW ON ACQUISITION</b>			<b>64</b>

The purchase agreement date for the Institut Fresenius acquisition is prior to 31 March 2004. Therefore, the goodwill arising on this acquisition has been capitalised and an amortisation charge has been recorded for the ten month period to 31 December 2004. The remaining balance of the restructuring provision initially recognised on acquisition is CHF 10 million.



CHF (million)

	Carrying amount before combination	Fair value adjustment	Amount recognised at the acquisition date
<b>PETROLEUM SERVICES CORPORATION</b>			
Tangible and intangible assets	1	13	14
Deferred tax assets	–	21	21
Financial Assets	1	–	1
Current assets excluding cash & cash equivalents	11	–	11
Cash & cash equivalents	4	–	4
Current liabilities	(7)	–	(7)
<b>NET ASSETS ACQUIRED</b>	<b>10</b>	<b>34</b>	<b>44</b>
Goodwill on acquisition			40
<b>TOTAL PURCHASE PRICE</b>			<b>84</b>
Less:			
Cash & cash equivalents acquired			(4)
<b>NET CASH OUTFLOW ON ACQUISITIONS</b>			<b>80</b>

The purchase agreement date for the Petroleum Services Corporation acquisition is subsequent to 31 March 2004. The goodwill arising on this acquisition relates to the value of anticipated synergies, future profits and the value of the qualified workforce that do not meet the criteria for recognition as separable intangible assets.

The above acquisition contributed CHF 9 million to the Group operating income for the financial year.

The Group also acquired other businesses and increased its percentage holding in certain subsidiaries.

<i>CHF (million)</i>			
<b>OTHER</b>	<i>Carrying amount before combination</i>	<i>Fair value adjustment</i>	<i>Amount recognised at the acquisition date</i>
Tangible and intangible assets	7	9	16
Deferred tax assets	1	–	1
Current assets excluding cash & cash equivalents	12	–	12
Cash & cash equivalents	10	–	10
Minority Interests	(1)	–	(1)
Current liabilities	(16)	–	(16)
Non-current liabilities	(1)	–	(1)
<b>NET ASSETS ACQUIRED</b>	<b>12</b>	<b>9</b>	<b>21</b>
Goodwill on acquisition			39
<b>TOTAL PURCHASE PRICE</b>			<b>60</b>
<i>Less:</i>			
Cash & cash equivalents acquired			(10)
<b>NET CASH OUTFLOW ON ACQUISITIONS</b>			<b>50</b>

Other acquisitions include 100% of Vernolienne de Laboratoires SA (Vernolab) effective 1 February 2004, 100% of ACO Sécurité SA and 90% of Securitest SA both effective 1 July 2004 (ACO Securitest).

The 2004 acquisitions contributed CHF 22 million to the Group operating income for the financial year. Had the effective dates of these acquisitions been 1 January 2004, Group revenues would have been increased by CHF 27 million for the year and Group operating income would have been increased by CHF 4 million.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

### *Risk management activities*

The Group uses various derivative instruments to manage the Group's exposure to fluctuations in foreign currency exchange rates. These activities are carried out in accordance with the Group's treasury policies in areas such as counterparty exposure and hedging practices. Counterparties to these agreements are major international financial institutions with high credit ratings and positions are monitored using market value and sensitivity analyses.

The associated credit risk is therefore limited. These agreements generally include the exchange of one currency for a second currency at a future date.

The following table summarises foreign exchange contracts outstanding at the end of the year. The notional amount of derivatives summarised below represents the gross amount of the contracts and includes transactions which have already closed but which have not yet matured. Therefore the figures do not reflect the Group's net exposure at the end of the

year. The market value approximates the amounts payable or receivable to settle the outstanding contracts. These market values should not be viewed in isolation but in relation to the market values of the underlying hedged transactions and the overall reduction in the Group's exposure to adverse fluctuations in foreign exchange rates.

Outstanding derivative financial instruments at 31 December are as follows:

<i>CHF (million)</i>						
	<i>Notional value</i>		<i>Book value</i>		<i>Market value</i>	
	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
<b>FOREIGN EXCHANGE FORWARD CONTRACTS</b>						
<b>Currency:</b>						
AUD	(58)	28	–	–	–	–
CAD	(53)	(35)	–	–	–	–
EUR	(25)	(46)	–	–	–	–
GBP	(47)	(47)	–	–	1	–
HKD	8	7	–	–	–	–
JPY	(28)	(13)	–	–	–	–
KRW	(2)	(7)	–	–	–	–
NZD	(9)	–	–	–	–	–
TWD	(7)	(5)	–	–	–	–
USD	(156)	(84)	3	–	4	1
ZAR	(4)	(2)	–	–	–	–
Other	(19)	(6)	–	–	(1)	–
<b>TOTAL</b>	<b>(400)</b>	<b>(210)</b>	<b>3</b>	<b>–</b>	<b>4</b>	<b>1</b>



## 14. SHARE CAPITAL

	Registered shares CHF 20 nominal value Number of shares			Non-voting rights	Total share capital
	In circulation	Treasury shares	Total issued	Number	CHF (million)
<b>BALANCE AT 1 JANUARY 2003</b>	<b>7 661 416</b>	<b>160 750</b>	<b>7 822 166</b>	<b>80</b>	<b>156</b>
Conversion of non-voting rights into registered shares	23	(23)	–	(6)	–
<b>BALANCE AT 31 DECEMBER 2003</b>	<b>7 661 439</b>	<b>160 727</b>	<b>7 822 166</b>	<b>74</b>	<b>156</b>
Net treasury shares acquired	(22 023)	22 023	–	–	–
Conversion of non-voting rights into registered shares	80	(80)	–	(20)	–
<b>BALANCE AT 31 DECEMBER 2004</b>	<b>7 639 496</b>	<b>182 670</b>	<b>7 822 166</b>	<b>54</b>	<b>156</b>

### *Treasury shares*

Pursuant to the terms of the share buy back programme announced on 9 September 2002, the Group acquired 181 023 registered shares at an average price of CHF 425.10 per share. Furthermore, the Group owns 1 647 shares issued in 1992 following the offer to exchange the category A non-voting rights ("bons de jouissance") for registered shares. Twenty category A bons de jouissance were exchanged for registered shares in 2004. These treasury shares remain at the disposal of the Board of Directors and have been earmarked for utilisation in connection with the equity incentive scheme for senior managers and employees of the Group, as outlined in note 29.

The shareholders of SGS SA approved the following changes to the capital structure at the Extraordinary Shareholders' Meeting held on 9 December 2003 in Geneva.

### *Conditional share capital*

The capital of the Company has been increased conditionally by an amount of CHF 20 000 000 divided into 1 000 000 registered shares with a nominal value of CHF 20 each. This increase, which is to the exclusion of preferential rights of current shareholders, is to be associated with the issuance of convertible bonds or similar equity-linked instruments by the Company or by a company under its control in one or more issues. The term to exercise the conversion rights may not exceed 10 years from the date of the bond issue.

### *Authorised share capital*

The Board received authority to increase the share capital in one or more steps up to an amount of CHF 10 000 000 divided into 500 000 registered shares with a nominal value of CHF 20 each. The Board is authorised to waive the shareholders' preferential right of subscription and to allocate shares or subscription rights to third parties in the event of the acquisition of an enterprise or part thereof, the acquisition of a shareholding in an enterprise or a company, or similar transactions. The Board will determine the issuance price and other conditions of the issue of the new shares, which shall reflect market conditions at that time. This authority expires on 1 December 2005.

## 15. LONG-TERM LOANS

CHF (million)

	2004	2003
Long-term loans	2	2
Finance lease obligations	6	9
<b>TOTAL</b>	<b>8</b>	<b>11</b>

All loans mature before 31 December 2006.

Depending on nature of the loan, currency and date of maturity, interest rates on long-term loans to third parties range between 0% and 23%.

Long-term loans and capital lease obligations mature as follows:

CHF (million)

	Long-term loans		Lease obligations	
	2004	2003	2004	2003
Within three years	2	1	4	6
In the fourth to fifth year inclusive	–	–	2	2
After the fifth year	–	1	–	1
<b>TOTAL</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>9</b>

## 16. PROVISIONS

CHF (million)

	31 December 2003	Acquisition of subsidiaries	Charged to P&L	Released to P&L	Payments	Exchange differences	31 December 2004
Provisions for employee benefit obligations	74	4	19	(2)	(28)	(2)	65
Legal and warranty claims on services rendered	99	–	14	(19)	(8)	(2)	84
Demobilisation and reorganisation	19	–	6	(1)	(3)	(2)	19
Other provisions	17	1	10	(5)	(6)	–	17
<b>TOTAL</b>	<b>209</b>	<b>5</b>	<b>49</b>	<b>(27)</b>	<b>(45)</b>	<b>(6)</b>	<b>185</b>

The movement in the provision for the 2004 employee benefit obligations is reported in note 17.

A number of Group companies are subject to litigation and other claims arising out of the normal conduct of their business that can be best viewed as

claims on services rendered. The claim provision represents the sum of estimates of amounts payable on identified claims and of losses incurred but not yet reported. They therefore reflect estimates of the future payments required to settle both reported and unreported claims.

The process of estimation is complex, dealing with uncertainty, requiring the use of informed estimates, actuarial assessment, and the judgement of management. Any changes in these estimates are reflected in the profit and loss statement in the period in which the estimates change.

The timing of cash outflows from pending litigation and claims is uncertain since it depends, in the majority of cases, on the outcome of administrative and legal proceedings. The Group does not discount its provisions, as the timing of the cash outflows cannot be reasonably and reliably determined.

In the opinion of management, based on all currently available information, the provisions adequately reflect exposure to legal and warranty claims

on services rendered. The ultimate outcome of these matters is not expected to materially affect the Group's financial position, results of operations or cash flows.

For specific long-term contracts with two to five years duration, the Group is required to dismantle infrastructure and dismiss personnel on the termination of the contract. These demobilisation costs are provided for during the life of the contract.

Experience has shown that these contracts may be either extended or terminated earlier than expected. The timing of these demobilisation outflows is difficult to assess. The amounts are therefore not discounted.

In some jurisdictions, there is a legal obligation to make a termination payment to employees upon leaving the Group. These obligations are included under other provisions.

## 17. POST EMPLOYMENT BENEFIT PLANS

The main defined benefit pension plans within the Group are in Switzerland, USA, UK, Netherlands, and Germany. Contributions to these plans, with the exception of Germany are paid to pension funds that are legally separate entities. A liability for the unfunded obligation in Germany is recognised in the balance sheet. Other post employment benefit plans are principally healthcare plans in the USA.

Reconciliation of assets and liabilities recognised in the balance sheet at 31 December for defined benefit pension and other plans:

<i>CHF (million)</i>				
	<i>Pension plans</i>		<i>Other plans</i>	
	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
Present value of funded obligations	678	697	18	24
Fair value of plan assets	(577)	(567)	–	–
<b>NET FUNDED STATUS</b>	<b>101</b>	<b>130</b>	<b>18</b>	<b>24</b>
Present value of unfunded obligation	54	31	–	–
Actuarial (losses)/gains not yet recognised	(136)	(132)	(9)	(11)
Past service cost not yet recognised	(1)	(1)	–	–
Unrecognised asset	38	33	–	–
<b>LIABILITY INCLUDED IN THE BALANCE SHEET</b>	<b>56</b>	<b>61</b>	<b>9</b>	<b>13</b>

Amounts recorded in the profit and loss account:

<i>CHF (million)</i>				
	<i>Pension plans</i>		<i>Other plans</i>	
	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
Current service cost	19	16	–	–
Interest cost	35	34	2	2
Expected return on plan assets	(37)	(34)	–	–
Actuarial losses/(gains) recognised	6	6	(3)	(3)
Past service costs	(7)	(3)	–	–
Transfer to the unrecognised asset	2	3	–	–
<b>TOTAL INCLUDED IN SALARIES AND WAGES</b>	<b>18</b>	<b>22</b>	<b>(1)</b>	<b>(1)</b>



Movements in the net liability during the period:

<i>CHF (million)</i>	<i>Pension plans</i>		<i>Other plans</i>	
	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
Net liability at 1 January	61	80	13	14
Exchange differences	(1)	4	(1)	(1)
Expense recognised in the income statement	18	22	(1)	(1)
Contributions paid by the Group	(24)	(43)	(2)	1
Benefits paid	(2)	(2)	–	–
Acquisitions of subsidiaries	4	–	–	–
<b>NET LIABILITY AT 31 DECEMBER</b>	<b>56</b>	<b>61</b>	<b>9</b>	<b>13</b>

SGS occupies property that is included in the Plan assets with a fair value of CHF 2 million (2003: CHF 2 million). The property is rented at fair market rental rates. Included within Plan assets are 22 300 of SGS SA shares with a fair value of CHF 18 million (2003: 22 300 shares with a fair value of CHF 17 million).

Actuarial assumptions vary according to local prevailing economic and social conditions. The principal weighted average actuarial assumptions used in determining the cost of benefits for both 2004 and 2003 are as follows:

	<i>Pension plans</i>		<i>Other plans</i>	
	<b>2004</b>	<i>2003</i>	<b>2004</b>	<i>2003</i>
Discount rate	4.9%	5.2%	6,3 %	6.3%
Return on assets	6.6%	6.6%	8,5 %	8.5%
Salary progression rate	2.8%	2.8%	–	–
Healthcare cost increase	–	–	9,0 %	10.0%

The amount recognised as an expense in respect of defined contribution plans during 2004 was CHF 18 million (2003: CHF 12 million).

## 18. LOANS

<i>CHF (million)</i>		
	<b>2004</b>	<i>2003</i>
Bank loans	3	10
Overdrafts	5	9
Finance lease obligations, short-term	2	3
<b>TOTAL</b>	<b>10</b>	<b>22</b>

## 19. TRADE AND OTHER PAYABLES

CHF (million)

	2004	2003
Trade accounts and other payables	329	299

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs. At 31 December 2004 and 2003 the fair value of the Group's trade accounts and other payables approximates to their carrying value.

## 20. OTHER CREDITORS AND ACCRUALS

CHF (million)

	2004	2003
Accrued expenses	268	243
Advance billings	30	27
Advances from clients	18	13
<b>TOTAL</b>	<b>316</b>	<b>283</b>

At 31 December 2004 and 2003 the fair value of the Group's other creditors and accruals approximates to their carrying value.

## 21. OTHER OPERATING EXPENSES

CHF (million)

	2004	2003
Rental expenses, insurance, utilities and sundry supplies	156	143
Consumables, repairs and maintenance	177	146
Communication costs	76	68
Travel costs	187	166
Miscellaneous operating costs	168	140
<b>TOTAL</b>	<b>764</b>	<b>663</b>

Included in other operating expenses are operating lease expenses totalling CHF 46 million (2003: CHF 43 million).

## 22. EXCEPTIONALS

CHF (million)		
	2004	2003
Cash received on fully provided TAS trade receivables	3	3

## 23. FINANCIAL INCOME/(EXPENSE)

CHF (million)		
	2004	2003
Income from cash, deposits and marketable securities	7	9
Financial expense	(7)	(8)
Foreign exchange gains/(losses)	6	9
<b>TOTAL</b>	<b>6</b>	<b>10</b>

## 24. TAXES

CHF (million)		
	2004	2003
<b>MAJOR COMPONENTS OF TAX EXPENSE</b>		
Current taxes	91	64
Deferred tax expense relating to the origination and reversal of temporary differences	(1)	5
Deferred tax expense/(income) resulting from tax rate changes	–	(1)
<b>TOTAL</b>	<b>90</b>	<b>68</b>

The Group has operations in various countries that have differing tax laws and rates. Consequently, the effective tax rate on consolidated income varies from year to year. A reconciliation between the reported income tax expense and the amount that would arise using the weighted average statutory tax rate of the Group is as follows:



CHF (million)

	2004	2003
<b>RECONCILIATION OF TAX EXPENSE</b>		
Tax at the domestic rates applicable to the profits earned in the country concerned	85	70
Tax effect of expenses that are not tax deductible	9	5
Tax charge from (usage of) unrecognised tax losses	(10)	(12)
Tax benefit from tax rate changes	–	(1)
Non creditable foreign withholding taxes	10	7
All other, net	(4)	(1)
<b>TAX CHARGE</b>	<b>90</b>	<b>68</b>

CHF (million)

	2004		2003	
	Assets	Liabilities	Assets	Liabilities
<b>COMPONENTS OF DEFERRED INCOME TAX BALANCES</b>				
Fixed assets	12	11	8	6
Inventories & receivables	6	4	6	23
Provisions & other	50	49	66	43
Intangible assets	18	–	–	–
Tax loss carryforwards	21	–	15	–
<b>DEFERRED INCOME TAXES</b>	<b>107</b>	<b>64</b>	<b>95</b>	<b>72</b>

CHF (million)

	Fixed assets	Inventories & trade receivables	Operating provisions & other	Intangible assets	Tax loss carryforwards	Total
<b>NET CHANGE IN DEFERRED TAX ASSETS (LIABILITIES)</b>						
Net deferred income tax asset (liability) at the beginning of the year	2	(17)	23	–	15	23
(Charged)/credited to the income statement	2	20	(25)	(1)	5	1
Additions/(disposals)	(3)	–	4	21	–	20
Effect of change in tax rates	–	–	–	–	–	–
Exchange differences and other	–	(1)	(1)	(2)	1	(1)
<b>NET DEFERRED INCOME TAX ASSET (LIABILITY) AT THE END OF THE YEAR</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>18</b>	<b>21</b>	<b>43</b>

The Group has unrecognised tax loss carryforwards amounting to CHF 58 million (2003: CHF 110 million) of which CHF 21 million (2003: CHF 72 million) expire within the next five years. No tax loss carryforwards expired in 2004.

CHF (million)

2004 2003

**REFLECTED IN THE BALANCE SHEET AS FOLLOWS:**

Deferred tax assets	107	95
Deferred tax liabilities	(64)	(72)
<b>TOTAL</b>	<b>43</b>	<b>23</b>

## 25. EARNINGS PER SHARE

Basic earnings per share are calculated as follows:

2004 2003

Net profit CHF (million)	279	227
Weighted average number of shares	7 645 225	7 661 816
<b>BASIC EARNINGS PER SHARE (CHF)</b>	<b>36.49</b>	<b>29.63</b>

Diluted earnings per share are calculated as basic earnings per share except that the weighted average number of shares includes the dilutive effect of the Group's share option plans (see note 29).

CHF (million)

2004 2003

Diluted weighted average number of shares	7 697 326	7 689 147
<b>DILUTED EARNINGS PER SHARE CHF</b>	<b>36.25</b>	<b>29.52</b>

## 26. CONTINGENT LIABILITIES

In the normal course of business, the Group and its subsidiaries are parties to various lawsuits and claims. It is not possible to predict with certainty whether or not the Group and/or its subsidiaries will ultimately be successful in defending these legal matters or, if not, what the impact might ultimately be. Provisions have been made as required and disclosed in note 16. Management does not expect that the outcome of any of these legal proceedings will have a material adverse effect on the Group's financial position, results of operations or cash flows.

## 27. GUARANTEES AND PLEDGED ASSETS

CHF (million)

2004 issued 2003 issued

Guarantees	107	106
Performance bonds	44	41
<b>TOTAL</b>	<b>151</b>	<b>147</b>

The Group has issued unconditional guarantees to certain financial institutions that have provided credit facilities (loans and guarantee bonds) to its subsidiaries. In addition, it has issued performance bonds and bid bonds to commercial customers on behalf of its subsidiaries. Management believes the likelihood that a material payment will be required under these guarantees is remote.

The Group had no significant pledged assets at 31 December 2004 (2003: nil).

## 28. OPERATING LEASES

Operating lease rentals are payable as follows:

CHF (million)		
	2004	2003
Less than one year	32	21
Between one and five years	53	23
More than five years	12	8
<b>TOTAL</b>	<b>97</b>	<b>52</b>

## 29. EQUITY COMPENSATION PLANS

### 29.1 SHARE OPTION PLANS 2003 AND 2004

#### i) Grants to senior management and directors

A total of 2 757 276 options granting the right to acquire shares of SGS SA at a strike price of CHF 734.00 (100 options give the right to acquire one share and each option expires in January 2009 (these options hereinafter referred to SGSUP)) were granted to the members of the Operations Council in 2004. One-third of these options vest or have vested in each of the years 2004, 2005 and 2007 and can be exercised or sold between 2007 and 2009. At the date of grant, these options had an aggregate value (calculated on the basis required for Swiss tax reporting purposes) of CHF 2 357 747.

#### ii) Grants to other employees

In 2004, an additional 2 224 663 SGSUP options were granted to employees, other than members of the Operations Council and the Board of Directors. One-third of these options vest or have vested in each of the years 2004, 2005 and 2007 and can be exercised or sold between 2007 and 2009. At the date of grant, these options had an aggregate value (calculated on the basis required for Swiss tax reporting purposes) of CHF 1 902 309.

Description	Exercise period		Strike price	Options outstanding at 31 December 2003	Granted	Exercised	Cancelled	Options outstanding at 31 December 2004
	from	to						
Ordinarily issued	January 2006	January 2008	416	5 126 300	–	–	205 977	4 920 323
Exchanged	January 2005	January 2008	416	4 785 962	–	–	–	4 785 962
LTI Plan	January 2006	January 2008	416	5 475 000	600 000	–	1 400 000	4 675 000
SUB TOTAL			–	15 387 262	600 000	–	1 605 977	14 381 285
Ordinarily issued	January 2007	January 2009	734	–	4 981 939	–	–	4 981 939
TOTAL			–	15 387 262	5 581 939	–	1 605 977	19 363 224



## 29.2 SHARE OPTION PLANS 2002 AND PRIOR YEARS

Prior to 2003, the Group has issued share options to selected members of management. The terms of all the outstanding share options are as follows:

<i>Exercise period from</i>	<i>to</i>	<i>Exercise price CHF</i>	<i>Options outstanding at 1 January 2003</i>	<i>Repurchased</i>	<i>Exchanged</i>	<i>Options outstanding at 31 December 2003</i>	<i>Exercised</i>	<i>Options outstanding at 31 December 2004</i>
31 July 2003	31 July 2005	280	6 875	(5 175)	–	1 700	(1 700)	–
31 May 2004	31 May 2009	387	4 845	–	–	4 845	(3 876)	969
21 Mar 2005	21 Mar 2012	319	3 548	(954)	–	2 594	–	2 594
18 Jan 2002	18 Jan 2007	250 to 450	41 875	–	(41 875)	–	–	–
<b>TOTAL</b>		–	<b>57 143</b>	<b>(6 129)</b>	<b>(41 875)</b>	<b>9 139</b>	<b>(5 576)</b>	<b>3 563</b>

## 29.3 EMPLOYEE SHARE PURCHASE PLANS

The Group had two employee share purchase plans (the “Plans”) which were terminated in 2004.

Shares held by the Plans on behalf of the employees in respect of active grants are summarised below:

<i>Year of grant</i>	<i>Shares held at 1 January 2003</i>	<i>Shares transferred to employees</i>	<i>Shares purchased by employees</i>	<i>Shares repurchased by the Plans and cash settled to employees</i>	<i>Shares held at 31 December 2003</i>	<i>Shares purchased by employees and cash settled to employees</i>	<i>Shares repurchased by the Plans and cash settled to employees</i>	<i>Shares held at 31 December 2004</i>
1995	100	(100)	–	–	–	–	–	–
1997	20 700	(19 575)	–	(950)	175	–	(175)	–
1999	20 760	–	–	(175)	20 585	(20 435)	(150)	–
2001	3 304	–	–	–	3 304	(3 304)	–	–
2002	4 415	–	–	–	4 415	–	–	4 415
<b>TOTAL</b>	<b>49 279</b>	<b>(19 675)</b>	–	<b>(1 125)</b>	<b>28 479</b>	<b>(23 739)</b>	<b>(325)</b>	<b>4 415</b>
Market value of shares CHF (million)	20.5				22.1			3.5

The number of shares held by the Plans on behalf of senior management (see note 30) at 31 December 2004 was 1 880 (2003: 6 950).

The share purchase and option plans are partially administered by a legally independent Swiss Foundation (Fondation pour l'intéressement du personnel au développement du Groupe SGS (hereinafter "Foundation"). This entity is not consolidated in the Group financial statements. Movements in SGS shares held by the Foundation are as follows:

	<i>Number of registered shares</i>
At 1 January 2003	80 413
Repurchased shares and cash settled to employees (equity purchase plan)	1 125
Repurchased options (cash settled to employees)	6 129
Cancelled and exchanged options	41 875
Options reissued on exchange	(47 860)
Sale of shares	(3 000)
<b>AT 31 DECEMBER 2003</b>	<b>78 682</b>
Repurchased shares and cash settled to employees (equity purchase plan)	325
Repurchased shares and cash settled to employees (Option exercised)	4 607
Options granted (SGSUP Plan)	(49 820)
<b>AT 31 DECEMBER 2004</b>	<b>33 794</b>

As part of the enlargement of the share option plan to the Operations Council and other employees of the Group, the Company has decided to support the Foundation to ensure that it makes available through share repurchase programmes or otherwise, a sufficient number of shares to satisfy the obligations arising from the granting of options.

The Group and the Foundation have entered into separate agreements with UBS SA, whereby the Company and the Foundation have an obligation to sell to UBS the shares underlying the option programme at the relevant strike price whenever these shares become unblocked. UBS is not obliged to purchase these shares and the obligation of the Foundation shall expire for any untaken share on the expiry date of the relevant option.

At 31 December 2004, the Company and the Foundation had the following shares available to satisfy the option and share purchase plan programmes.

	<i>Foundation</i>	<i>SGS Group</i>	<i>Total</i>
Number of unallocated shares held	139 452	181 023	320 475
Blocked shares held under share purchase plans	(4 415)	–	(4 415)
Shares held for 2002 and prior option plans	(51 423)	–	(51 423)
Shares held for 2003 option plans	–	(95 954)	(95 954)
Shares held for 2004 option plans	(49 820)	–	(49 820)
<b>SHARES AVAILABLE FOR FUTURE OPTION PLANS AT 31 DECEMBER 2004</b>	<b>33 794</b>	<b>85 069</b>	<b>118 863</b>

The market value of these unallocated shares at 31 December 2004 was CHF 27 million (2003: CHF 61 million).

## 30. RELATED PARTY TRANSACTIONS

During 2004 and 2003, no member of the Board of Directors or of the Operations Council had a personal interest in any business transactions of the Group.

These related parties participate in the share option plans and employee share purchase plan as disclosed in note 29. Director's fees relating to 2004 were CHF 1 475 000 (2003: CHF 1 015 000). For the Operations Council, including the Chief Executive, total cash compensation paid and accrued for the year 2004 was CHF 13 733 000 (2003: CHF 13 956 000).

### *Loans to members of governing bodies*

As of 31 December 2004, the Company had no outstanding loans (2003: CHF 0.2 million) to members of the former form of the Operations Council to finance share purchases under share purchase plans in force at that time.

Additional information is disclosed under the Director's report on Corporate Governance in this report (page 48).

## 31. SIGNIFICANT SHAREHOLDERS

At 31 December 2004, August von Finck and his family held 23.7% of the capital and voting rights of the Company, whilst Worms & Cie held 23.8%.

## 32. APPROVAL OF FINANCIAL STATEMENTS AND SUBSEQUENT EVENTS

The Board of Directors are responsible for the preparation and presentation of the financial statements. These financial statements were authorised for issue by the Board of Directors on 13 January 2005, and will be submitted for approval by the shareholder's Annual General Meeting to be held on 23 March 2005.

No events occurred between 31 December 2004 and 13 January 2005 that would require an adjustment or amendment to these financial statements.

## 33. INFORMATION BY BUSINESS AND GEOGRAPHICAL SEGMENT

The Group classifies its operations in two dimensions: by business segment, which is the primary and dominant view, where activities are grouped according to the nature of the services provided, and secondly by geographical segment.

The Group evaluates segment performance and allocates resources based on several factors of which net sales revenue, operating income and return on capital are the primary criteria.

Segmented information has been compiled using the accounting policies detailed in note 2. There are no intercompany sales or profits or losses on segmented revenue due to the difference in nature of services being rendered.

The 2003 segment information has been adjusted to reflect the changes in organisational structure.

Revenue and operating income are attributed to geographic areas based on the location in which the services are rendered.

CHF (million)

	2004	%	2003	%
<b>REVENUES BY BUSINESS SEGMENT</b>				
Agricultural Services	257	8.9	242	9.9
Minerals Services	319	11.1	280	11.4
Oil, Gas & Chemicals Services	575	19.9	439	17.9
Life Science Services	106	3.8	59	2.4
Consumer Testing Services	361	12.5	272	11.1
Systems & Services Certification	235	8.1	230	9.4
Industrial Services	380	13.2	330	13.4
Environmental Services	209	7.2	172	7.0
Automotive Services	188	6.5	211	8.6
Trade Assurance Services	255	8.8	219	8.9
<b>TOTAL</b>	<b>2 885</b>	<b>100.0</b>	<b>2 454</b>	<b>100.0</b>
<b>REVENUES BY GEOGRAPHICAL SEGMENT</b>				
Europe/Africa/Middle East	1 646	57.0	1 399	57.0
Americas	686	23.8	585	23.8
Asia/Pacific	553	19.2	470	19.2
<b>TOTAL</b>	<b>2 885</b>	<b>100.0</b>	<b>2 454</b>	<b>100.0</b>
<b>OPERATING INCOME BY BUSINESS SEGMENT</b>				
Agricultural Services	24	6.1	24	8.0
Minerals Services	46	11.8	36	12.0
Oil, Gas & Chemicals Services	69	17.6	48	16.0
Life Science Services	13	3.3	6	2.0
Consumer Testing Services	65	16.6	39	13.0
Systems & Services Certification	30	7.8	35	11.7
Industrial Services	46	11.8	35	11.7
Environmental Services	17	4.3	11	3.7
Automotive Services	20	5.1	21	7.0
Trade Assurance Services	61	15.6	45	14.9
<b>TOTAL</b>	<b>391</b>	<b>100.0</b>	<b>300</b>	<b>100.0</b>
<b>OPERATING INCOME BY GEOGRAPHICAL SEGMENT</b>				
Europe/Africa/Middle East	223	57.0	172	57.3
Americas	46	11.8	39	13.0
Asia/Pacific	122	31.2	89	29.7
<b>TOTAL</b>	<b>391</b>	<b>100.0</b>	<b>300</b>	<b>100.0</b>



CHF (million)

	2004	%	2003	%
<b>OPERATING INCOME BY BUSINESS SEGMENT INCLUSIVE OF GOODWILL AMORTISATION</b>				
Agricultural Services	20	5.3	24	8.3
Minerals Services	40	10.7	30	10.4
Oil, Gas & Chemicals Services	67	17.9	47	16.2
Life Science Services	11	2.9	5	1.7
Consumer Testing Services	64	17.1	38	13.1
Systems & Services Certification	30	8.0	35	12.1
Industrial Services	45	12.0	34	11.7
Environmental Services	16	4.3	11	3.8
Automotive Services	20	5.3	21	7.2
Trade Assurance Services	62	16.5	45	15.5
<b>TOTAL</b>	<b>375</b>	<b>100.0</b>	<b>290</b>	<b>100.0</b>
<b>OPERATING INCOME BY GEOGRAPHICAL SEGMENT INCLUSIVE OF GOODWILL AMORTISATION</b>				
Europe/Africa/Middle East	214	57.1	168	57.9
Americas	43	11.5	37	12.8
Asia/Pacific	118	31.4	85	29.3
<b>TOTAL</b>	<b>375</b>	<b>100.0</b>	<b>290</b>	<b>100.0</b>
<b>OPERATING ASSETS BY BUSINESS SEGMENT</b>				
Agricultural Services	88	8.0	141	9.7
Minerals Services	156	14.2	240	16.6
Oil, Gas & Chemicals Services	212	19.3	233	16.1
Life Science Services	49	4.5	43	3.0
Consumer Testing Services	148	13.4	155	10.7
Systems & Services Certification	54	4.9	90	6.2
Industrial Services	150	13.6	210	14.5
Environmental Services	100	9.1	103	7.1
Automotive Services	52	4.7	81	5.6
Trade Assurance Services	91	8.3	152	10.5
<b>TOTAL</b>	<b>1 100</b>	<b>100</b>	<b>1 448</b>	<b>100.0</b>
<b>OPERATING ASSETS BY GEOGRAPHICAL SEGMENT</b>				
Europe/Africa/Middle East	98	8.9	550	38.0
Americas	447	40.6	357	24.6
Asia/Pacific	555	50.5	541	37.4
<b>TOTAL</b>	<b>1 100</b>	<b>100.0</b>	<b>1 448</b>	<b>100.0</b>

CHF (million)

2004

2003

**RECONCILIATION OF OPERATING ASSETS  
BY BUSINESS SEGMENT TO THE BALANCE SHEET**

Assets by business segment as above	1 100	1 448
Non operating assets	1 112	574
<b>TOTAL ASSETS PER BALANCE SHEET</b>	<b>2 212</b>	<b>2 022</b>

CHF (million)

2004

%

2003

%

**OPERATING LIABILITIES BY BUSINESS SEGMENT**

Agricultural Services	78	8.9	82	9.9
Minerals Services	97	11.1	95	11.4
Oil, Gas & Chemicals Services	174	19.9	149	17.9
Life Science Services	32	3.8	20	2.4
Consumer Testing Services	109	12.5	92	11.1
Systems & Services Certification	71	8.1	78	9.4
Industrial Services	115	13.2	112	13.4
Environmental Services	63	7.2	58	7.0
Automotive Services	57	6.5	72	8.6
Trade Assurance Services	76	8.8	75	8.9
<b>TOTAL</b>	<b>872</b>	<b>100.0</b>	<b>833</b>	<b>100.0</b>

**OPERATING LIABILITIES BY GEOGRAPHICAL SEGMENT**

Europe/Africa/Middle East	691	79.2	679	81.5
Americas	55	6.3	44	5.3
Asia/Pacific	126	14.5	110	13.2
<b>TOTAL</b>	<b>872</b>	<b>100.0</b>	<b>833</b>	<b>100.0</b>

CHF (million)

2004

2003

**RECONCILIATION OF OPERATING LIABILITIES BY  
BUSINESS SEGMENT TO THE BALANCE SHEET**

Liabilities by business segment as above	872	833
Non operating liabilities	85	99
<b>TOTAL LIABILITIES PER BALANCE SHEET</b>	<b>957</b>	<b>932</b>

CHF (million)

	2004	%	2003	%
<b>DEPRECIATION AND AMORTISATION BY BUSINESS SEGMENT</b>				
Agricultural Services	12	9.2	8	7.5
Minerals Services	21	16.0	19	17.9
Oil, Gas & Chemicals Services	25	19.1	20	18.9
Life Science Services	7	5.3	4	3.8
Consumer Testing Services	20	15.3	15	14.1
Systems & Services Certification	5	3.8	4	3.8
Industrial Services	12	9.2	11	10.4
Environmental Services	14	10.7	12	11.3
Automotive Services	8	6.1	7	6.6
Trade Assurance Services	7	5.3	6	5.7
<b>TOTAL</b>	<b>131</b>	<b>100.0</b>	<b>106</b>	<b>100.0</b>
<b>DEPRECIATION AND AMORTISATION BY GEOGRAPHICAL SEGMENT</b>				
Europe/Africa/Middle East	76	58.0	60	56.6
Americas	24	18.3	20	18.9
Asia/Pacific	31	23.7	26	24.5
<b>TOTAL</b>	<b>131</b>	<b>100.0</b>	<b>106</b>	<b>100.0</b>

	2004	2003
<b>AVERAGE NUMBER OF EMPLOYEES BY GEOGRAPHICAL SEGMENT</b>		
Europe/Africa/Middle East	18 014	16 180
Americas	9 227	7 719
Asia/Pacific	9 418	8 537
<b>TOTAL</b>	<b>36 659</b>	<b>32 436</b>
Number of employees at year-end	38 728	33 006
<b>CAPITAL EXPENDITURES BY GEOGRAPHICAL SEGMENT</b>		
Europe/Africa/Middle East	90	103
Americas	42	29
Asia/Pacific	69	45
<b>TOTAL</b>	<b>201</b>	<b>177</b>

# REPORT OF THE SGS GROUP AUDITORS TO THE GENERAL MEETING OF SGS SA



To the General Meeting of SGS SA

As Group auditors, we have audited the consolidated financial statements of the SGS Group presented on pages 52 to 86 for the year ended 31 December 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

DELOITTE & TOUCHE SA

A handwritten signature in black ink, appearing to be "G. Ammann".

Gerhard Ammann  
Auditor in charge

A handwritten signature in black ink, appearing to be "P. Quigley".

Peter Quigley

Geneva, 13 January 2005



# SGS SA RESULTS

MOSCOW	ENVIRONMENTAL IMPACT ASSESSMENT
GUANGZHOU	ORE QUALITY AND QUANTITY CONTROLLED
TEXAS	TRUCK VERIFIED AND SOLD ON INTERNET
BUENOS AIRES	MAKING SURE SAMUEL CAN STILL MAKE HIS BIRDIE





# BALANCE SHEET AT 31 DECEMBER

(before appropriation of available retained earnings)

CHF (million)

	2004	2003
<b>ASSETS</b>		
<b>NON CURRENT ASSETS</b>		
Land, building and equipment	5	6
<i>Financial assets</i>		
Investments in subsidiaries	570	561
Loans to subsidiaries	368	268
Other financial assets	1	1
<b>TOTAL NON-CURRENT ASSETS</b>	<b>944</b>	<b>836</b>
<b>CURRENT ASSETS</b>		
Amounts due from subsidiaries	11	115
Other current assets	4	2
Cash and deposits	243	58
<b>TOTAL CURRENT ASSETS</b>	<b>258</b>	<b>175</b>
<b>TOTAL ASSETS</b>	<b>1 202</b>	<b>1 011</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	156	156
General legal reserve	34	34
Reserve for own shares	77	62
Retained earnings	645	638
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>912</b>	<b>890</b>
<b>CURRENT LIABILITIES</b>		
Provisions	41	47
Amounts due to subsidiaries	244	69
Other liabilities and accruals	5	5
<b>TOTAL LIABILITIES</b>	<b>290</b>	<b>121</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1 202</b>	<b>1 011</b>

# PROFIT AND LOSS ACCOUNT

for the years ended 31 December

CHF (million)

	2004	2003
<b>INCOME</b>		
Dividends from subsidiaries	95	48
Interest income	12	10
Other income	1	–
Exchange gain, net	4	8
<b>TOTAL INCOME</b>	<b>112</b>	<b>66</b>
<b>EXPENDITURE</b>		
Administrative expenses	(7)	(6)
Liquidation of subsidiaries, net	(1)	(5)
Depreciation	(1)	(1)
Financial expenses	(8)	(4)
Provisions	–	(3)
<b>TOTAL EXPENDITURE</b>	<b>(17)</b>	<b>(19)</b>
<b>PROFIT</b>		
Profit before taxes	95	47
Taxes	(4)	(2)
<b>NET PROFIT</b>	<b>91</b>	<b>45</b>

# NOTES TO THE FINANCIAL STATEMENTS

SGS SA ("the Company") is the holding company of the Group which owns and finances either directly or indirectly its subsidiaries and joint ventures throughout the world. The financial statements are prepared in accordance with the accounting principles of Swiss law. During the year, there were no changes in accounting policies.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### *Investments in subsidiaries*

Investments in subsidiaries are valued at acquisition cost less an appropriate adjustment for impairment.

### *Foreign currencies*

Balance sheet items denominated in foreign currencies are converted at year end exchange rates with the exception of investments in subsidiaries which are valued at the historical exchange rate. All unrealised gains and losses arising on foreign exchange transactions are included in the determination of the net profit.

## 2. SHAREHOLDERS' EQUITY

CHF (million)

	<i>Share capital</i>	<i>General legal reserve</i>	<i>Reserve for own shares</i>	<i>Retained earnings</i>	<i>Total</i>
<b>BALANCE AT 1 JANUARY 2003</b>	<b>156</b>	<b>34</b>	<b>62</b>	<b>648</b>	<b>900</b>
Dividends paid	–	–	–	(55)	(55)
Allocation to the reserve for own shares	–	–	–	45	45
<b>BALANCE AT 31 DECEMBER 2003</b>	<b>156</b>	<b>34</b>	<b>62</b>	<b>638</b>	<b>890</b>
Dividends paid	–	–	–	(69)	(69)
Dividends on 2004 own shares	–	–	–	0	0
Allocation to reserves for own shares	–	–	15	(15)	0
Net profit for the year	–	–	–	91	91
<b>BALANCE AT 31 DECEMBER 2004</b>	<b>156</b>	<b>34</b>	<b>77</b>	<b>645</b>	<b>912</b>



### 3. SHARE CAPITAL

	Registered shares CHF 20 nominal value Number of shares			Bons de jouissance	Total share capital
	In circulation	Treasury shares	Total issued	Number	CHF (million)
<b>BALANCE AT 1 JANUARY 2003</b>	<b>7 661 416</b>	<b>160 750</b>	<b>7 822 166</b>	<b>80</b>	<b>156</b>
Conversion of bons de jouissance into registered shares	23	(23)	–	(6)	–
<b>BALANCE AT 31 DECEMBER 2003</b>	<b>7 661 439</b>	<b>160 727</b>	<b>7 822 166</b>	<b>74</b>	<b>156</b>
Net treasury shares acquired	(22 023)	22 023	–	–	–
Conversion of bons de jouissance into registered shares	80	(80)	–	(20)	–
<b>BALANCE AT 31 DECEMBER 2004</b>	<b>7 639 496</b>	<b>182 670</b>	<b>7 822 166</b>	<b>54</b>	<b>156</b>

The total number of registered shares outstanding with a nominal value of CHF 20 is 7 822 166 (2003: 7 822 166) - the Company held, directly or indirectly, 182 670 of its own shares (2003: 160 727).

Under the terms of the share buyback programme announced on 9 September 2002, the Company acquired on 20 September 2002 through its subsidiary SGS Investments Limited, Jersey, (formerly Supervise Investment Limited, Jersey) 159 000 registered shares at CHF 392.50 each. During 2004, 37 023 shares were acquired at an average rate of CHF 687.65 and 15 000 shares were sold with a net gain of CHF 4.4 million.

Furthermore, the Company owns 1 647 (2003: 1 727) registered shares issued in 1992 following the offer to exchange the category A bons de jouissance for registered shares. 20 category A bons de jouissance were exchanged against 80 registered shares in 2004 (2003: 6 bons de jouissance against 23 registered shares). The shares remain at the disposal of the Board of Directors.

At the Extraordinary Shareholders' Meeting held on 9 December 2003 in Geneva, the shareholders of SGS SA approved the following changes to the capital structure:

#### *Conditional issue of share capital (article 5 bis)*

The Company conditionally increased its share capital by an amount of CHF 20 000 000 divided into 1 000 000 registered shares with a nominal value of CHF 20 each.

The option or conversion rights to subscribe to the shares shall be granted to the holders of convertible bonds or similar instruments, to be issued by the Company or by a company under the control of the Company in one or several issues.

The shareholders' right of preferential subscription is waived in favour of the holders of convertible bonds or similar debt instruments. The shareholders will not be granted a preferential right to subscribe to the convertible bonds.

The Board will determine the conditions of the convertible bonds, which shall be issued at market conditions. The term to exercise the conversion rights may not exceed ten years as of the date of the bond issue.

#### *Increase in authorised share capital (article 5 ter)*

The Board is authorised to increase the share capital in one or more steps up to an amount of CHF 10 000 000 divided into 500 000 registered shares with a nominal value of CHF 20 each.

The Board is authorised to waive the shareholders' preferential right of subscription and to allocate shares or subscription rights to third parties in the event of the acquisition of an enterprise or part thereof, the acquisition of a shareholding in an enterprise or a company, or similar transactions.

The Board will determine the issuance price and other conditions of the issue of the new shares, which shall be offered at their market price at the time of issue. The present article (article 5 ter) is valid until 1 December 2005.

## 4. GUARANTEES AND COMFORT LETTERS

CHF (million)				
	2004 issued	2004 utilised	2003 issued	2003 utilised
Guarantees	158	82	212	83
Comfort letters	–	–	2	2
Performance bonds	14	14	9	9
<b>TOTAL</b>	<b>172</b>	<b>96</b>	<b>223</b>	<b>94</b>

SGS SA has unconditionally guaranteed or provided comfort to financial institutions providing credit facilities (loans and guarantee bonds) to its subsidiaries. In addition, it has issued performance bonds to commercial customers on behalf of its subsidiaries.

## 5. FIRE INSURANCE VALUE OF FIXED ASSETS

CHF (million)		
	2004	2003
Buildings	14	14

## 6. SUBSIDIARIES

The list of principal subsidiaries appears on pages 106 to 111 of the Annual Report.

## 7. SIGNIFICANT SHAREHOLDERS

At 31 December 2004, Mr. August von Finck and his family held 23.7% (2003: 23.7%) of the capital and voting rights of the Company, whilst Worms & Cie held 23.8% (2003: 23.8%).

There are no further items which require disclosure in accordance with article 663 of the Swiss Code of Obligations.

# PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

CHF

	2004	2003
Net profit for the year	90 859 787	45 353 963
Balance brought forward from previous year	568 552 752	592 155 070
Allocation to the reserve for own shares	(14 542 446)	–
Dividends not paid on own shares	99 000	–
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR APPROPRIATION</b>	<b>644 969 093</b>	<b>637 509 033</b>
<i>Proposal of the Board of Directors:</i>		
Dividends <sup>1</sup>	(91 677 192)	(68 956 281)
<b>BALANCE CARRIED FORWARD</b>	<b>553 291 901</b>	<b>568 552 752</b>
<i>Ordinary gross dividend per:</i>		
Registered share	12.00	9.00
Bons de jouissance	60.00	45.00

<sup>1</sup> No dividend is paid on treasury shares held directly or indirectly by SGS SA.

# REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF SGS SA



To the General Meeting of SGS SA

As statutory auditors, we have audited the accounting records and the financial statements of SGS SA presented on pages 90 to 95, for the year ended 31 December 2004.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

DELOITTE & TOUCHE SA

A handwritten signature in black ink, appearing to be "G. Ammann".

Gerhard Ammann  
Auditor in charge

A handwritten signature in black ink, appearing to be "P. Quigley".

Peter Quigley

Geneva, 13 January 2005



**BALANCE SHEET AT 31 DECEMBER  
(BEFORE APPROPRIATION OF  
AVAILABLE RETAINED EARNINGS).  
PROFIT AND LOSS ACCOUNT FOR  
THE YEARS ENDED 31 DECEMBER.  
NOTES TO THE FINANCIAL  
STATEMENTS. 1. SIGNIFICANT  
ACCOUNTING POLICIES.  
2. SHAREHOLDERS' EQUITY.  
3. SHARE CAPITAL. 4. GUARANTEES  
AND COMFORT LETTERS.  
5. FIRE INSURANCE VALUE OF FIXED  
ASSETS. 6. SUBSIDIARIES.  
7. SIGNIFICANT SHAREHOLDERS.  
PROPOSAL OF THE BOARD  
OF DIRECTORS FOR THE  
APPROPRIATION OF AVAILABLE  
RETAINED EARNINGS. REPORT OF  
THE STATUTORY AUDITORS TO THE  
GENERAL MEETING OF SGS SA.**



# DATA

MONTFERRAND

BIO-ACTIVE BABY FOOD CHECKED

HOUSTON

LAB PROTOCOLS DEFINED FOR FDA APPROVAL IN CLINIC

ASUNCION

PACKAGED UNDER MONITORED STERILE CONDITIONS

SYDNEY

BEN AND CARA CAN'T WAIT FOR THEIR BREAKFAST





# SGS GROUP FIVE-YEAR STATISTICAL DATA

## CONSOLIDATED BALANCE SHEET

at 31 December

CHF (million)

	2004	2003	2002	2001	2000
Land, buildings and equipment	493	415	374	392	386
Goodwill and other intangible assets	304	147	106	65	33
Investments in associated and other companies	2	2	3	3	7
Deferred tax and other long-term assets	128	118	86	85	86
<b>TOTAL NON-CURRENT ASSETS</b>	<b>927</b>	<b>682</b>	<b>569</b>	<b>545</b>	<b>512</b>
Work-in-progress and inventories	119	108	108	112	114
Trade accounts and notes receivable	579	571	495	513	641
Other receivables and prepayments	132	135	146	171	213
Cash and marketable securities	455	526	532	649	642
<b>TOTAL CURRENT ASSETS</b>	<b>1 285</b>	<b>1 340</b>	<b>1 281</b>	<b>1 445</b>	<b>1 610</b>
<b>TOTAL</b>	<b>2 212</b>	<b>2 022</b>	<b>1 850</b>	<b>1 990</b>	<b>2 122</b>
Share capital	156	156	156	156	156
Reserves	1 073	916	741	825	943
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1 229</b>	<b>1 072</b>	<b>897</b>	<b>981</b>	<b>1 099</b>
<b>MINORITY INTERESTS</b>	<b>26</b>	<b>18</b>	<b>18</b>	<b>26</b>	<b>21</b>
Long-term loans	7	11	48	42	44
Deferred income tax liabilities	65	72	54	42	49
Provisions	185	209	218	228	265
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>257</b>	<b>292</b>	<b>320</b>	<b>312</b>	<b>358</b>
Loans	10	22	82	162	110
Trade and other payables	329	299	260	272	283
Current tax liabilities	45	36	21	28	19
Other creditors and accruals	316	283	252	209	232
<b>TOTAL CURRENT LIABILITIES</b>	<b>700</b>	<b>640</b>	<b>615</b>	<b>671</b>	<b>644</b>
Total liabilities	957	932	935	983	1 002
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2 212</b>	<b>2 022</b>	<b>1 850</b>	<b>1 990</b>	<b>2 122</b>
<b>CAPITAL EXPENDITURE</b>					
Land, buildings and equipment	173	151	106	112	117

# SGS GROUP FIVE-YEAR STATISTICAL DATA

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the years ended 31 December

CHF (million)

	2004	2003	2002	2001	2000
<b>REVENUES</b>	<b>2 885</b>	<b>2 454</b>	<b>2 392</b>	<b>2 332</b>	<b>2 369</b>
Salaries and wages	(1 434)	(1 240)	(1 252)	(1 255)	(1 246)
Subcontractors' expenses	(181)	(155)	(142)	(133)	(147)
Depreciation	(115)	(96)	(95)	(101)	(103)
Other operating expenses	(764)	(663)	(687)	(697)	(715)
<b>OPERATING INCOME</b>	<b>391</b>	<b>300</b>	<b>216</b>	<b>146</b>	<b>158</b>
Exceptionals, net	3	3	(80)	(178)	15
Goodwill amortisation	(16)	(10)	(9)	(8)	(4)
<b>EARNINGS BEFORE INTEREST AND TAX (EBIT)</b>	<b>378</b>	<b>293</b>	<b>127</b>	<b>(40)</b>	<b>169</b>
Financial income/(expense), net	6	10	13	17	18
<b>PROFIT/(LOSS) BEFORE TAXES AND MINORITY INTERESTS</b>	<b>384</b>	<b>303</b>	<b>140</b>	<b>(23)</b>	<b>187</b>
Taxes	(90)	(68)	(27)	(44)	(52)
<b>PROFIT/(LOSS) AFTER TAXES</b>	<b>294</b>	<b>235</b>	<b>113</b>	<b>(67)</b>	<b>135</b>
Minority interests	(15)	(8)	(4)	(8)	(6)
<b>NET PROFIT/(LOSS)</b>	<b>279</b>	<b>227</b>	<b>109</b>	<b>(75)</b>	<b>129</b>
<b>OPERATING MARGINS</b>	<b>13.6</b>	<b>12.2</b>	<b>9.0</b>	<b>6.3</b>	<b>6.7</b>
<b>EMPLOYEES</b>					
Average number of employees	36 659	32 436	32 288	30 625	30 532



# SGS GROUP FIVE-YEAR STATISTICAL DATA

CHF (unless indicated otherwise)

	2004	2003	2002	2001	2000
<b>SHARE INFORMATION</b>					
<b>REGISTERED SHARES</b>					
Number of shares issued	7 822 166	7 822 166	7 822 166	7 822 166	2 595 791
Number of shares with dividend rights	7 822 166	7 822 166	7 822 166	7 822 166	2 595 791
<i>Price:</i>					
High	803	798	530	519	785
Low	633	409	258	178	431
Year-end	796.5	776	416	267	500
Par value	20	20	20	20	20
<b>BEARER SHARES<sup>1</sup></b>					
Number of shares outstanding fully diluted	–	–	–	–	1 045 275
Number of shares with dividend rights	–	–	–	–	1 045 275
<i>Price:</i>					
High	–	–	–	–	3 680
Low	–	–	–	–	1 959
Year-end	–	–	–	–	2 350
Par value	–	–	–	–	100
<b>BONS DE JOUISSANCE<sup>2</sup></b>					
Number of bons de jouissance	54	74	80	80	80
<b>KEY FIGURES BY SHARES</b>					
Shareholders' equity per					
Registered share in circulation at 31 December	160.86	139.35	117.03	125.5	140.54
Bearer share	–	–	–	–	702.70
Basic Earnings/(loss) per					
Registered share <sup>4</sup>	36.49	29.63	14.02	-9.61	16.46
Bearer share	–	–	–	–	82.3
Dividend per					
Registered share	12.00 <sup>3</sup>	9.00	6.00	6.00	5.80
Bearer share	–	–	–	–	29
Special dividends per Registered share	–	–	1.25	–	–
<b>DIVIDEND CHF (MILLION)</b>					
Ordinary	92 <sup>3</sup>	69	56	47	45

1 At the Annual General Meeting on 10 May 2001, the shareholders accepted the resolution to create a unitary share structure. All the bearer shares were converted into registered shares on the basis of one bearer share being equal to five registered shares.

2 Bons de jouissance have been de-listed from the stock exchange as of 15 November 1993.

3 As proposed by the Board of Directors.

4 Calculation of the basic earnings/(loss) per share (weighted average for the year) is disclosed in note 25, page 78.

# SGS GROUP STATEMENT OF VALUE ADDED

CHF (million)

	2004	%	2003	%
<b>ORIGIN OF VALUE ADDED</b>				
Sales	2 885	–	2 454	–
Income from cash and investments	6	–	9	–
<b>TOTAL INCOME</b>	<b>2 891</b>	<b>100.0</b>	<b>2 463</b>	<b>100.0</b>
Services bought from third parties				
Subcontractors' expenses	(181)	–	(155)	–
Other operating expenses				
Excluding non-income related taxes	(733)	–	(634)	–
<b>GROSS VALUE ADDED</b>	<b>1 977</b>	<b>–</b>	<b>1 674</b>	<b>–</b>
Depreciation of property, plant & equipment including amortisation of intangibles and goodwill	(131)	–	(106)	–
<b>TOTAL NET VALUE ADDED</b>	<b>1 846</b>	<b>63.8</b>	<b>1 568</b>	<b>63.7</b>
Non-recurring items	2	–	3	–
<b>TOTAL NET VALUE ADDED GROUP</b>	<b>1 848</b>	<b>63.9</b>	<b>1 571</b>	<b>63.8</b>
<b>DISTRIBUTION OF VALUE ADDED</b>				
<i>To staff:</i>				
Salaries and wages	(1 107)	–	(953)	–
Pensions	(26)	–	(30)	–
Other social security contributions	(216)	–	(183)	–
Other personnel costs	(85)	–	(74)	–
<b>TOTAL PERSONNEL COSTS</b>	<b>(1 434)</b>	<b>77.6</b>	<b>(1 240)</b>	<b>78.9</b>
<i>To public authorities:</i>				
Income and other taxes	(113)	6.1	(88)	5.6
<i>To lenders:</i>				
Interest on debt	(7)	0.4	(8)	0.5
<i>To shareholders:</i>				
Dividends paid	(69)	3.7	(56)	3.6
<i>To the company:</i>				
Net income including minorities	294	–	235	–
Less dividends paid	(69) (225)	12.2	(56) (179)	11.4
<b>TOTAL</b>	<b>(1848)</b>	<b>100.0</b>	<b>(1 571)</b>	<b>100.0</b>
<b>DISTRIBUTION OF VALUE ADDED PER EMPLOYEE</b>				
Salaries and wages		30 197		29 381
Pensions		709		925
Other social security contributions		5 892		5 642
Other personnel expenses		2 319		2 281
<b>TOTAL PER EMPLOYEE</b>		<b>39 117</b>		<b>38 229</b>

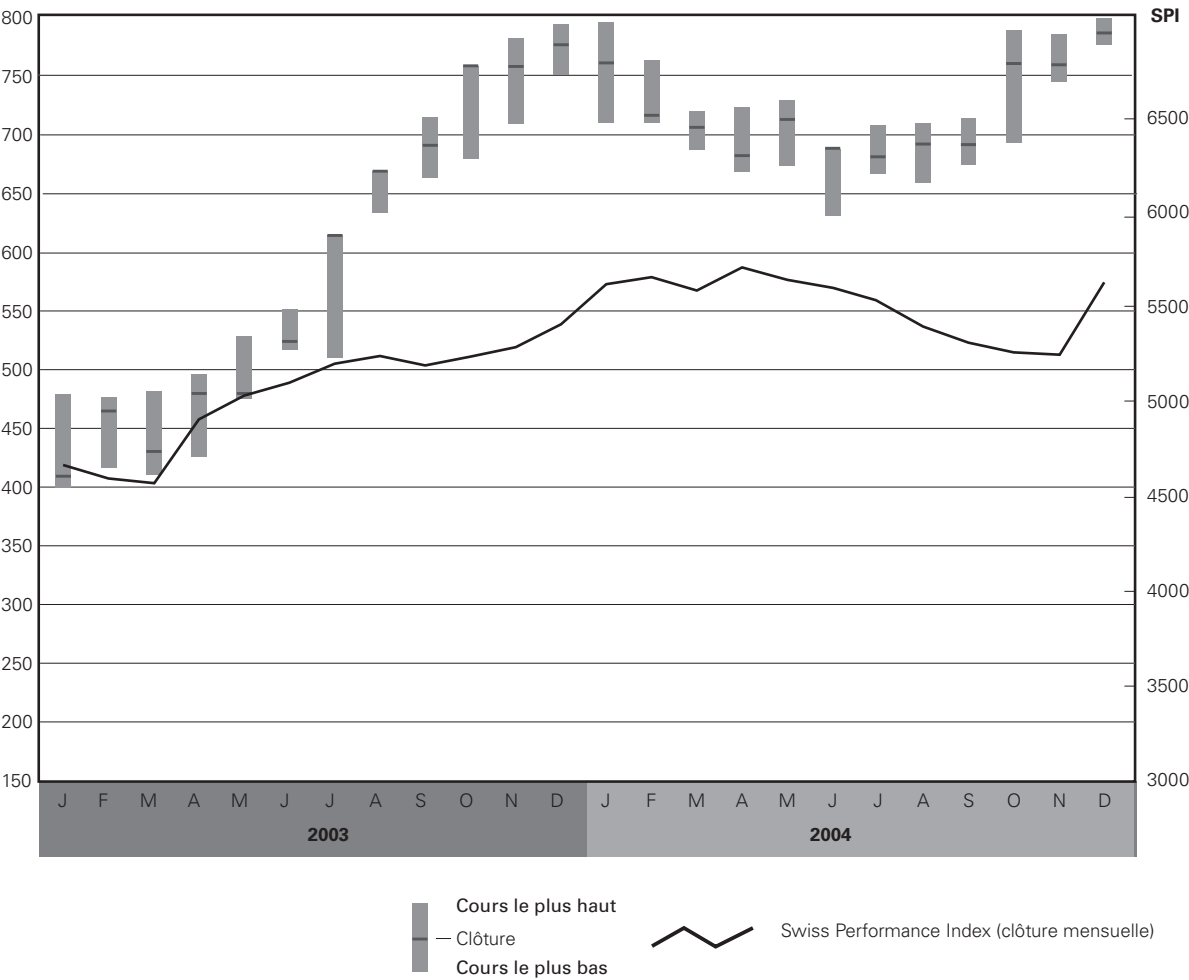
# SGS GROUP SHARE INFORMATION

## SHARE TRANSFER

SGS SA has no restrictions as to share ownership, except that registered shares acquired in a fiduciary capacity by third parties may not be registered in the shareholders' register, unless a special authorisation has been granted by the Board of Directors.

## MARKET CAPITALISATION

At the end of 2004, market capitalisation was approximately CHF 6 230 million (2003: CHF 6 070 million). Shares are quoted on the SWX Swiss Exchange.



**SGS GROUP FIVE-YEAR  
STATISTICAL DATA  
CONSOLIDATED BALANCE  
SHEET AT 31 DECEMBER.  
SGS GROUP FIVE-YEAR  
STATISTICAL DATA  
CONSOLIDATED PROFIT  
AND LOSS ACCOUNT  
FOR THE YEARS ENDED  
31 DECEMBER. SGS GROUP  
FIVE-YEAR STATISTICAL  
DATA. SGS GROUP  
STATEMENT OF VALUE  
ADDED. SGS GROUP SHARE  
INFORMATION. SGS GROUP  
PRINCIPAL OPERATING  
AND HOLDING COMPANIES.**



# SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
Algeria	Qualitest Algérie SPA, Alger	DZD	50 000 000	51	D
Angola	SGS Angola Limitada, Luanda	USD	100 000	100	D
Argentina	SGS Argentina S.A., Buenos-Aires	ARS	4 171 536	100	D
Australia	SGS Australia Holdings Pty. Ltd., Bentley	AUD	2 675 000	100	D
Australia	Gearhart Australia Limited [SSL Group], Perth	AUD	5 609 210	100	I
Australia	SGS Scientific Services Limited, Perth	AUD	30 198 953	100	D
Austria	SGS Austria Controll-Co. Ges.m.b.H., Vienna	EUR	185 000	100	D
Azerbaijan	SGS Azeri Ltd., Baku	USD	100 000	100	D
Bahamas	SGS Bahamas Ltd., Freeport	BSD	5 000	100	D
Bangladesh	SGS Bangladesh Limited, Dhaka	BDT	100 000	100	D
Belarus	SGS Minsk Ltd., Minsk	USD	20 000	100	D
Belgium	SGS Medisearch International NV, Mechelen	EUR	569 000	100	I
Belgium	SGS Cortex N.V., Antwerpen	EUR	62 000	100	I
Belgium	SGS Belgium, Antwerpen	EUR	2 178 200	100	I
Belgium	SGS Coordination Center N.V., Antwerpen	EUR	52 300 000	100	D
Benin	SGS Bénin S.A., Cotonou	XOF	10 000 000	100	D
Bermuda	Transmonde Services Insurance Company Limited, Hamilton	USD	120 000	100	D
Bolivia	SGS Bolivia S.A., La Paz	BOB	41 900	100	D
Bosnia-Herzegovina	SGS Bosna i Hercegovina (d.o.o.) Ltd., Sarajevo	BAM	2 000	100	D
Botswana	SGS Botswana (Proprietary) Limited, Gaborone	BWP	1 000	100	D
Brazil	SGS do Brasil Ltda., Paulinia	BRL	47 969 996	100	D
Bulgaria	SGS Bulgaria Ltd., Sofia	BGN	10 000	100	D
Cameroon	SGS Cameroun S.A., Douala	XAF	10 000 000	100	D
Canada	SGS Lakefield Research Limited, Lakefield/Ontario	CAD	18 809 575	100	D
Canada	SGS Canada Inc., Mississauga	CAD	24 900 000	100	D
Cayman Islands	Lakefield Research Caribbean Limited, George Town	USD	4 526 000	100	I
Chile	SGS Chile Limitada, Santiago	CLP	180 000 000	100	D

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
China	SGS CSTC Standards Technical Services Ltd., Beijing	USD	700 000	65	D
Colombia	SGS Colombia S.A., Bogota	COP	84 965 360	100	D
Congo	SGS Congo [S.A.], Pointe-Noire	XAF	10 000 000	100	D
Croatia	SGS Adriatica, w.l.l., Rijeka	HRK	1 300 000	100	D
Czech Republic	SGS Czech Republic s.r.o., Praha	CZK	7 607 000	100	I
Denmark	SGS Danmark A/S, Frederiksberg	DKK	500 000	100	I
Ecuador	SGS del Ecuador S.A., Guayaquil	USD	147 680	100	D
Egypt	SGS Egypt Ltd., Giza/Cairo	EGP	1 500 000	60	D
Estonia	SGS Estonia Ltd., Maardu	EEK	660 000	100	I
Ethiopia	SGS Ethiopia Private Limited, Addis Abeba	ETB	15 000	100	D
Finland	SGS Inspection Services Oy, Helsingfors	EUR	102 000	100	I
Finland	SGS Fimko Oy, Helsingfors	EUR	260 000	100	I
France	SGS Vernolab SAS, Verneuil sur Avre	EUR	720 000	100	I
France	SGS Holding France SAS, Cachan	EUR	3 172 613	100	I
France	SGS Qualitest Industrie SAS, Orsay	EUR	200 000	100	I
France	SGS Oil, Gas & Chemicals SAS, Cachan	EUR	200 000	100	I
Georgia	SGS Georgia Ltd., Batumi	USD	80 000	100	D
Germany	SGS Gottfeld NDT Services GmbH, Herne	EUR	750 000	100	I
Germany	SGS Germany GmbH, Hamburg	EUR	1 210 000	100	I
Germany	SGS Institut Fresenius GmbH, Taunusstein	EUR	7 490 000	100	I
Ghana	SGS Ghana Limited, Accra	GHC	52 020 000	100	D
Ghana	Ghana Community Network Services Limited, Accra	USD	5 300 000	60	D
Great Britain	SGS Holding UK Ltd., Ellesmere Port	GBP	10 700 000	100	I
Great Britain	SGS United Kingdom Limited, Ellesmere Port	GBP	8 000 000	100	I
Great Britain	Technology Project Services PLC, London	GBP	494 565	100	I
Greece	SGS Greece SA, Peristeri	EUR	300 930	100	D
Guam	SGS Guam, Guam	USD	25 000	100	D
Guatemala	SGS de Guatemala, S.A., Guatemala-City	GTQ	1 068 000	100	D

# SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
Guinea	SGS Guinée Conakry S.A., Conakry	GNF	50 000 000	100	D
Haiti	SGS Haïti S.A., Port-au-Prince	USD	5 000	100	D
Hong Kong	SGS Hong Kong Limited, Hong Kong	HKD	100 000	100	D
Hungary	SGS Hungária Kft., Budapest	HUF	18 000 000	100	I
India	SGS India Private Ltd., Mumbai	INR	800 000	100	D
Indonesia	P.T. Sucofindo (Persero), Jakarta	IDR	75 000 000 000	5	D
Indonesia	P.T. SGS Indonesia, Jakarta	USD	200 000	100	D
Iran	SGS (Iran) Limited, Tehran	IRR	50 000 000	100	D
Iran	Independent Technical Inspection Company, Tehran	IRR	1 500 000 000	50	D
Ireland	SGS Ireland (Holdings) Limited, Dublin	EUR	62 500	100	I
Ireland	National Car Testing Service Limited [Ireland], Dublin	EUR	2 748 753	100	I
Italy	SGS Italia S.p.A., Milan	EUR	2 500 000	100	I
Ivory Coast	SGS Côte d'Ivoire S.A., Abidjan	XOF	300 000 000	80	D
Ivory Coast	Société Ivoirienne de Contrôles Techniques Automobiles et Industriels S.A., Abidjan	XOF	200 000 000	95	D
Jamaica	SGS Supervise Jamaica Limited, Kingston	JMD	1 569 520	100	D
Japan	SGS Japan Inc., Yokohama	JPY	350 000 000	100	D
Jersey, Channel Isl.	SGS Capital Limited, Saint-Hélier	CHF	10 000	100	D
Jordan	SGS (Jordan) Private Shareholding Company, Amman	JOD	100 000	50	D
Kenya	SGS Kenya Limited, Mombasa	KES	2 000 000	100	D
Korea (Republic of)	SGS Korea Co., Ltd., Seoul	KRW	217 540 000	100	D
Korea (Republic of)	SGS Testing Korea Co., Ltd., Gunpo-shi	KRW	50 000 000	100	D
Kuwait	SGS Kuwait W.L.L., Kuwait	KWD	50 000	49	D
Latvia	SGS Latvija Limited, Riga	LVL	83 200	100	I
Lebanon	SGS (Liban) S.A.L., Beirut	LBP	30 000 000	99.99	D
Libya	Redwood International S.A., Tripoli (Branch office)	-	-	-	-
Lithuania	SGS Klaipeda Ltd, Klaipeda	LTL	40 000	100	I
Luxemburg	SGS Luxembourg S.A., Mamer	EUR	38 000	100	I
Luxemburg	SGS Finance (Luxembourg) S.A.,	EUR	25 000 000	100	D
Madagascar	SGS Madagascar SARL, Antananarivo	MGF	100 000 000	100	I

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
Malawi	SGS Malawi Limited, Blantyre	MWK	30 000	100	D
Malaysia	Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	150 000	70	D
Malaysia	SGS (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	60 000	100	I
Mali	Analabs Mali SARL, Kayes	XOF	2 500 000	100	I
Mauritius	SGS (Mauritius) LTD, Phoenix	MUR	100 000	100	D
Mexico	SGS de Mexico, S.A. de C.V., Mexico	MXN	7 065 828	100	D
Moldavia	SGS (Moldova) S.A., Chisinau	USD	10 000	100	D
Mongolia	Analabs Co. Ltd., Khan-Uul District	USD	700 000	100	I
Morocco	SGS Maroc S.A., Casablanca	MAD	7 500 000	100	D
Mozambique	SGS Moçambique, Limitada, Maputo	MZM	100 000 000	100	D
Myanmar	SGS (Myanmar) Limited, Yangon	BUK	300 000	100	D
Namibia	Richlab Namibia (Pty) Ltd., Walvis Bay	NAD	2	100	I
Netherland Antilles	SGS Curaçao N.V., Curaçao	ANG	10 000	100	I
Netherlands	SGS Nederland B.V., Spijkenisse	EUR	250 000	100	I
Netherlands	SGS Nederland Holding B.V., Spijkenisse	EUR	3 025 000	100	I
Netherlands	European Holding B.V., Spijkenisse	EUR	5 000 000	100	D
New Zealand	SGS New Zealand Limited, Auckland-Onehunga	NZD	4 522 190	100	D
Nigeria	SGS Inspection Services Nigeria Limited, Apapa	NGN	200 000	50	D
Norway	SGS Norge A/S, Oslo	NOK	800 000	100	I
Pakistan	SGS Pakistan (Private) Limited, Karachi	PKR	2 300 000	80	D
Panama	SGS Panama Control Services Inc., Panama	USD	500 000	100	D
Papua-New-Guinea	SGS PNG Pty. Limited, Port Moresby	PGK	2	100	I
Paraguay	SGS Paraguay S.A., Asuncion	PYG	1 962 000 000	100	D
Peru	SGS del Perú S.A.C., Lima	PEN	11 738 890	100	D
Philippines	SGS Global Trade Solutions Philippines, Inc., Manila	PHP	8 325 000	100	D
Philippines	SGS Philippines, Inc., Manila	PHP	24 620 000	100	D
Poland	SGS Polska Sp.z o.o., Warsaw	PLZ	1 674 800	100	I
Portugal	SGS Portugal - Sociedade Geral de Superintendência S.A., Lisbon	EUR	500 000	100	I
Rumania	SGS Romania S.A., Bucurest	CHF	200 000	100	I



# SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
Russia	SGS Vostok Limited, Moscow	RUR	5 605 900	100	D
Saudi Arabia	SGS Inspection Services Saudi Arabia Ltd., Jeddah	SAR	1 000 000	75	D
Senegal	SGS Sénégal S.A., Dakar	XAF	35 000 000	100	D
Serbia-Montenegro	SGS Beograd d.o.o., Beograd	CHF	150 000	100	I
Singapore	SGS Singapore (Pte.) Limited, Singapore	SGD	100 000	100	I
Singapore	SGS Testing & Control Services Singapore Pte. Ltd., Singapore	SGD	100 000	100	D
Slovakia	SGS Slovakia spol.s.r.o., Kosice	SKK	600 000	100	I
Slovenia	SGS Slovenija d.o.o. - Podjetje za kontrol blaga, Koper	SIT	2 500 000	100	I
South Africa	SGS South Africa (Proprietary) Limited, Johannesburg	ZAR	5 100 000	100	D
Spain	SGS Española de Control S.A., Madrid	EUR	240 000	100	I
Spain	SGS Tecnos, S.A., Sociedad Unipersonal, Madrid	EUR	12 072 041	100	I
Spain	SGS International Certification Services Ibérica, S.A., Madrid	EUR	60 101	100	I
Sri Lanka	SGS Lanka (Private) Limited, Colombo	LKR	9 000 000	100	D
Sweden	SGS Sweden AB, Göteborg	SEK	1 500 000	100	I
Switzerland	SGS Société Générale de Surveillance S.A., Geneva	CHF	10 000 000	100	D
Switzerland	SGS SA, Geneva	CHF	156 443 320	-	Ultimate parent company
Switzerland	SGS Group Management SA, Geneva	CHF	100 000	100	D
Taiwan (R.O.C.)	SGS Taiwan Limited, Taipei	TWD	12 000 000	100	I
Tanzania	SGS Tanzania Superintendence Co. Limited, Dar-es-Salaam	TZS	250 000	100	D
Thailand	SGS (Thailand) Limited, Bangkok	THB	20 000 000	99.999	D
Thailand	SGS Holding (Thailand) Limited, Bangkok	THB	5 000 000	49	D
Togo	SGS Togo S.A., Lomé	XOF	10 000 000	100	D
Tunisia	SGS Tunisie S.A., Tunis	TND	50 000	50	D
Turkey	SGS Supervise Gözetme Etüd Kontrol Servisleri Anonim Sirketi, Istanbul	TRL	5 000 000 000	100	D
Turkmenistan	SGS Turkmen Ltd., Ashgabat	USD	50 000	100	D
Uganda	SGS Uganda Limited, Kampala	UGS	5 000 000	100	D

<i>Country</i>	<i>Name and domicile</i>	<i>Issued currency</i>	<i>Amount</i>	<i>% Group</i>	<i>Direct/ Indirect</i>
Ukraine	SGS Ukraine, Odessa	USD	400 000	100	D
United Arab Emirates	SGS Gulf Limited, Abu Dhabi, Dubai (Branch office)	-	-	-	-
United States	SGS U.S. Holding Inc., Wilmington/Delaware	USD	100	100	D
United States	Medisearch International Corp., Germantown /USA	USD	150 000	100	I
United States	Petroleum Service Corporation Inc., Baton Rouge	USD	825 000	100	I
United States	SGS North America Inc., Wilmington	USD	73 701 996	100	I
United States	SGS Automotive Services Inc. [USA], Parsippany	USD	400	100	I
United States	SGS U.S. Testing Company Inc., New-York	USD	303 625	100	I
United States	SGS Environmental Services Inc., Wilmington	USD	5 169 487	100	I
Uruguay	SGS Uruguay Limitada, Montevideo	UYU	1 500	100	D
Uruguay	Sociedad Uruguaya de Control Técnico de Automotores Sociedad Anónima, Montevideo	UYU	24 000 000	100	I
Uzbekistan	SGS Tashkent Ltd., Tashkent	USD	50 000	100	D
Venezuela	SGS Venezuela S.A., Caracas	VEB	243 237 000	100	D
Vietnam (Socialist Republic of)	SGS Vietnam Ltd., Ho Chi Minh City	USD	288 000	100	D
Zambia	SGS Zambia Limited, Lusaka	ZMK	2 000 000	100	D
Zimbabwe	SGS Zimbabwe (Private) Limited, Harare	ZWD	5 000	100	D

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STOCK EXCHANGE LISTING

SWX Swiss Exchange, SGSN

STOCK EXCHANGE TRADING

Virt-X

COMMON STOCK SYMBOLS

Bloomberg: Registered Share: SGSN.VX  
Reuters: Registered Share: SGSN.VX  
Telekurs: Registered Share: SGSN  
ISIN: Registered Share: CH0002497458  
Swiss security number: 249745

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ANNUAL GENERAL MEETING OF SHAREHOLDERS

Wednesday, 23 March 2005

Location: Hotel President Wilson, Geneva

PROJECT MANAGEMENT

Carole Streng

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STANDARDS. GERMANY, PRE-CLINICAL SAFETY ASSESSED  
PESTICIDES. DELHI, YOGURT ANALYSED AND CERTIFIED  
SAFE FOR CONSUMPTION. MISSISSAUGA, TASTED AND  
APPROVED BY JESSICA. DETROIT, OFF-LEASE VAN CHECKED  
FOR FAST REMARKETING. HO CHI MINH CITY, PIZZA OVENS  
BUILT ACCORDING TO SPECIFICATIONS. ITALY, TOMATOES  
GROWN FROM PEST-FREE CERTIFIED CROP. MILWAUKEE,  
SANDRO’S PIZZAS TASTE THE BEST AND ARE DELIVERED  
ON TIME. SAO PAULO, ENGINE CERTIFIED TO AIRLINE  
SPECIFICATION. PARIS, FUEL SPECIFICATIONS DEFINED  
AND CONTROLLED. IN-FLIGHT, CABIN AIR QUALITY  
INSPECTED AND CERTIFIED. ANYWHERE, NOBODY LOSES  
SLEEP WITH THESE JETS. CAMEROON, SUSTAINABLE  
FOREST MANAGED. BRITISH COLUMBIA, QUALITY ASSURED  
ASH LOGS CUT TO ORDER. ALICANTE, GUITAR HAND-MADE  
BY QUALIFIED CRAFTSMEN. KINGSTON, MADE TO SING  
BY DAVID. HIKARUA FARM, SHEEP DIPPED FOR WARBLE  
FLY LOWER PASTURE. CLYDESDALE, GRADED AS FINE  
MERINO AT SPINNER'S RECEIVING STATION. CAPE TOWN,  
TOURNAMENT GRADE BAIZE, DYED AND CUT.  
MANCHESTER, KEEPING THE BALL ROLLING. MOSCOW,  
ENVIRONMENTAL IMPACT ASSESSMENT. GUANGZHOU,  
ORE QUALITY AND QUANTITY CONTROLLED. TEXAS,  
TRUCK VERIFIED AND SOLD ON INTERNET. BUENOS AIRES,  
MAKING SURE SAMUEL CAN STILL MAKE HIS BIRDIE.  
MONTFERRAND, BIO-ACTIVE BABY FOOD CHECKED.  
HOUSTON, LAB PROTOCOLS DEFINED FOR FDA APPROVAL  
IN CLINIC. ASUNCION, PACKAGED UNDER MONITORED  
STERILE CONDITIONS. SYDNEY, BEN AND CARA CAN’T  
WAIT FOR THEIR BREAKFAST.

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WHEN YOU NEED TO BE SURE

