2005

ANNUAL REPORT

SGS

SGS IS THE WORLD'S LEADING INSPECTION, VERIFICATION,TESTING AND CERTIFICATION COMPANY. RECOGNISED AS THE GLOBAL BENCHMARK FOR QUALITY AND INTEGRITY, SGS EMPLOYS OVER 43 000 PEOPLE AND OPERATES A NETWORK OF OVER 1 000 OFFICES AND LABORATORIES AROUND THE WORLD.

RESPONDING TO MARKET NEEDS

As globalisation continues, the opportunities are greater than ever before. At the same time, businesses, governments and institutions need greater mutual understanding and interconnectivity to maximise progress while minimising risks. Our core abilities in inspection, verification, testing and certification help create a climate of mutual trust. We make operating in a highly regulated environment simpler and more efficient. What's more, we can help improve quality and productivity, reduce risk and ensure compliance. In short SGS can give clients a competitive advantage.

INSPECTION

We inspect the quantity and quality of traded goods. This can vary from factory inspection during production to random inspection of final stored products, and from laboratory inspection to on-site inspection at the time of loading and unloading.

VERIFICATION

Our verification ensures that products and services comply with global standards and local regulations. Combining global coverage with local knowledge, unrivalled experience and expertise in virtually every industry, we cover the entire supply chain from raw materials to final consumption.

TESTING

We test product quality and performance against various technical, safety and regulatory standards. To support that, we operate a global network of state-of-the-art laboratories and testing facilities.

CERTIFICATION

SGS certifies that products, systems or services meet the requirements of standards set by governments, international standardisation bodies, or by clients. We also help develop customised standards and certify clients against them based on specific competitive needs. In addition, SGS provides solutions such as six sigma and ISO 9001 audit scoring, allowing clients to continuously improve their quality management systems.

OUR MOST IMPORTANT ASSETS

OUR PEOPLE

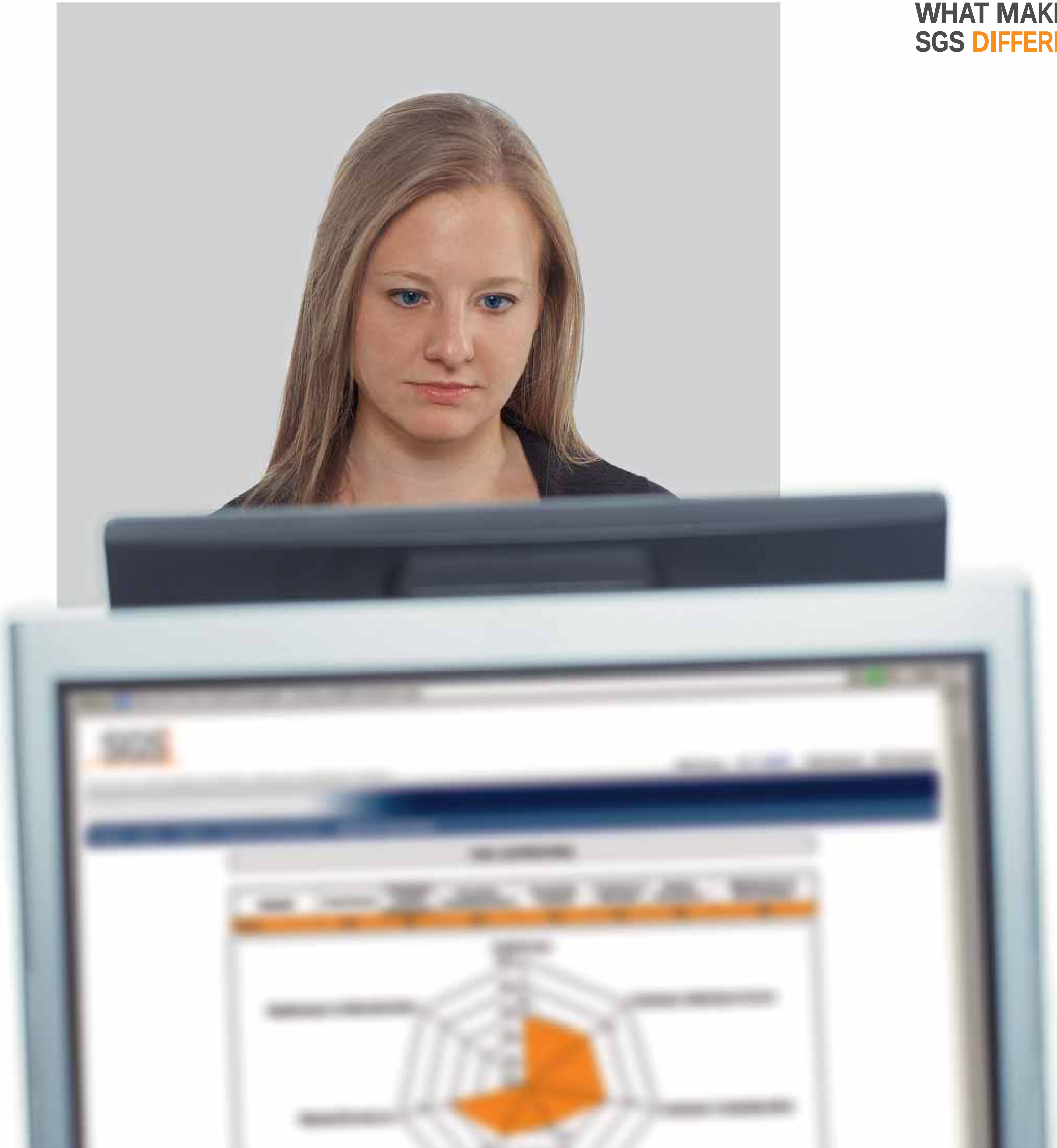
The unrivalled expertise, experience and commitment of our people make them our greatest asset. We actively seek out professionals who bring specialisation in their field, allied to an understanding of our clients' needs.

OUR EXPERTISE

In the highly specialised areas where we work, there is no substitute for expertise. We combine rigorous training with continuous improvement. What's more, we draw on the best thinking available to ensure we are always justified in our claim of being real experts.

OUR COMMITMENT

Commitment is easy to claim, but we demonstrate it every day. We invest heavily in training and developing people to deliver the best products and services. As a company, we live up to the highest ethical standards. These values are the foundation upon which SGS has built its worldwide reputation as a trustworthy partner.



WHAT MAKES SGS DIFFERENT?

WORKING ACROSS INDUSTRIES

SGS provides services across industries, such as agricultural, automotive, food and forestry. With trained specialists in individual sectors who can interact across geographies, markets and cultures, we ensure that we can deliver vertical integration and horizontal cover.

COVERING SUPPLY CHAINS

Supply and value chains are becoming more complex but also more integrated. As a consequence, clients are looking for efficient means to assure the quality, value and origin of goods. At SGS our services are designed to create greater clarity in all aspects of transactions from raw materials to finished products.

THINKING GLOBALLY

SGS is a global company with over 1 000 offices worldwide. That helps clients make global decisions and to apply global standards. Just as importantly, we have over 43 000 highly skilled employees who can be exactly where they are needed, when they are needed.

ACTING LOCALLY

From one country to the next, we still believe that local clients need local solutions. That's why we have the best local talent and services. They are flexible enough to react to individual needs, but have access to the broadest global tools and networks.

USING THE RIGHT TECHNOLOGY

Technology alone isn't the answer, but the right technology is. We are constantly renewing our systems and tools, to bring better technology systems to the field, to laboratories and into our offices.

DELIVERING A COMPETITIVE EDGE

BY ENHANCING QUALITY

To stay competitive, businesses are looking for new and better ways to improve quality and efficiency while at the same time lowering costs.
At SGS, we provide a range of flexible services that allow clients to measure and then improve systems, services and processes.

BY IMPROVING PRODUCTIVITY

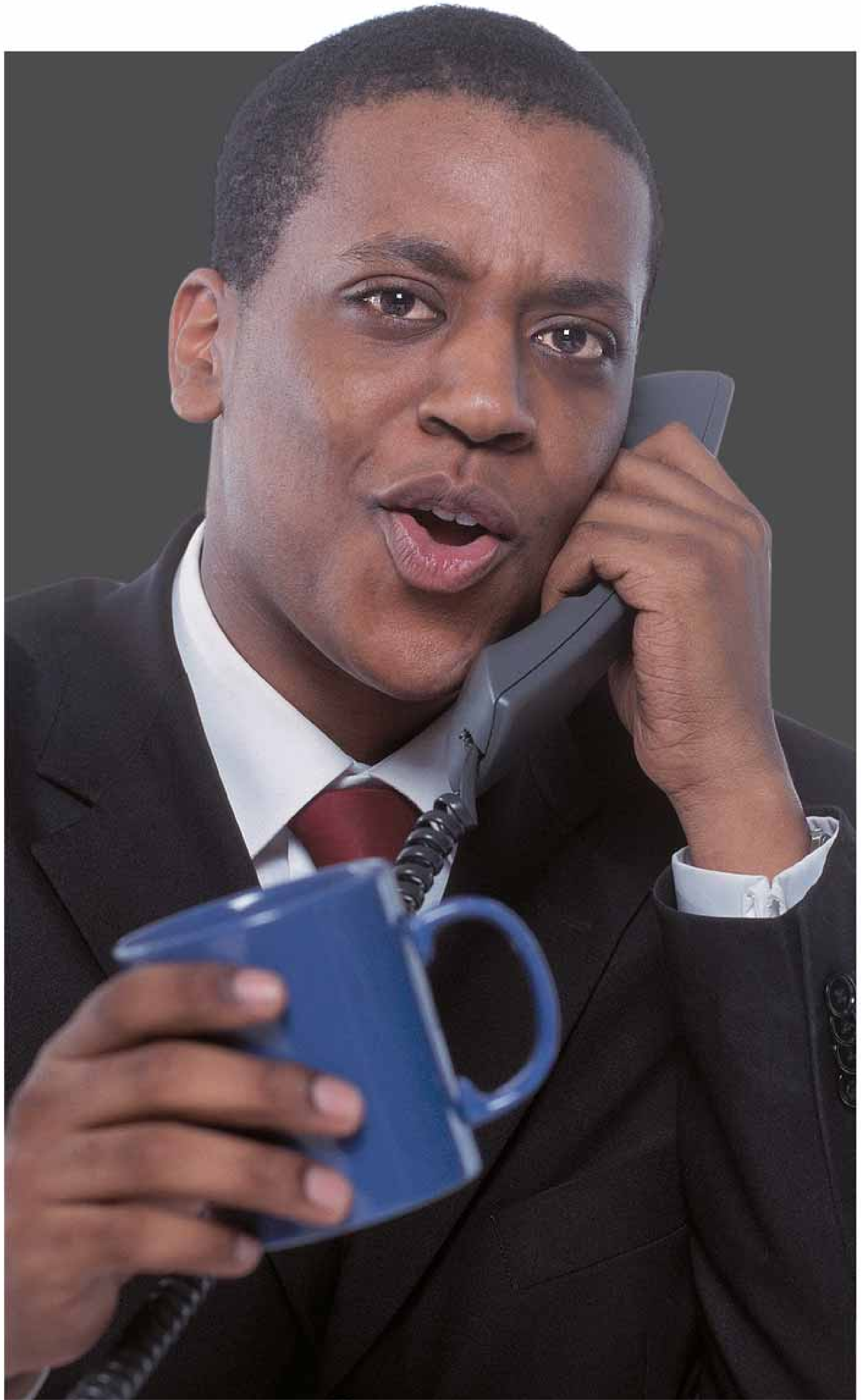
Our core services cut waste and rework; they can also reduce cycle times and optimise inventory. Clients can use us to help streamline their processes, or outsource to us to create economies of scale. We can help clients enhance productivity by making inspection, verification, testing and certification more streamlined, modular and interconnected.

BY REDUCING RISK

At SGS, we work closely with our clients to ensure the best possible risk-management solutions. We can be their “eyes and ears” anywhere on the planet. By creating trust between all parties, we can be part of improving margins and making business faster, simpler and more profitable.

BY ENSURING COMPLIANCE

Increasing regulatory requirements are a reality today’s business is facing and contractual obligations are often complex. We bring clarity to transactions and we facilitate compliance by market, industry, region or between parties.
In this way, compliance can translate into market confidence and free clients to concentrate on core business needs.

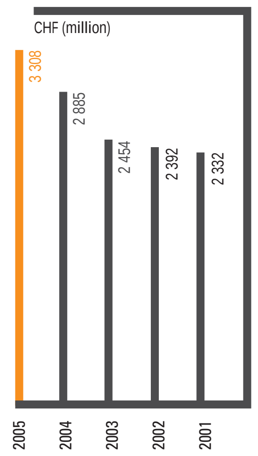


SGS GROUP FINANCIAL HIGHLIGHTS

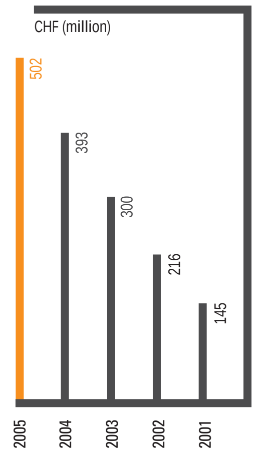
CHF (million)

	2005	2004[1]
SGS GROUP		
Revenue	3 308	2 885
Operating income	502	393
Operating income margin	15.2%	13.6%
Recoveries on pre-2002 terminated contracts	–	3
Profit attributable to Equity holders of SGS SA	371	278
Total equity	1 475	1 189
Cash flow from operations	411	425
Net cash	430	439
Basic earnings per share (in CHF)[2]	49.45	37.21
SGS SA		
Profit for the year	161	91
Total equity	981	912
Dividends as proposed by the Board of Directors	237	92
Dividend per share (in CHF)	31.00[3]	12.00
Reduction in nominal value per share (in CHF)	19.00[3]	–

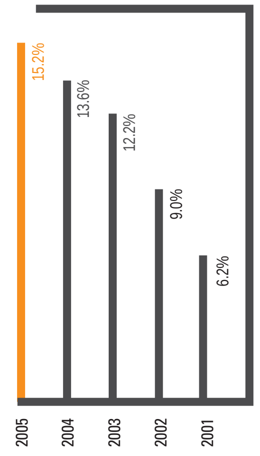
REVENUE



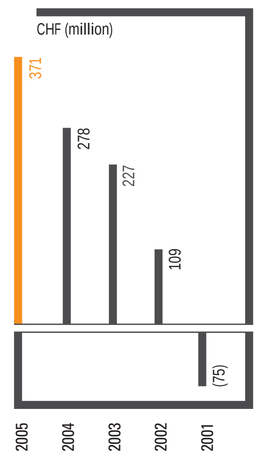
OPERATING INCOME



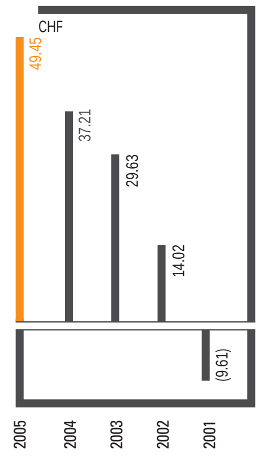
OPERATING INCOME MARGIN



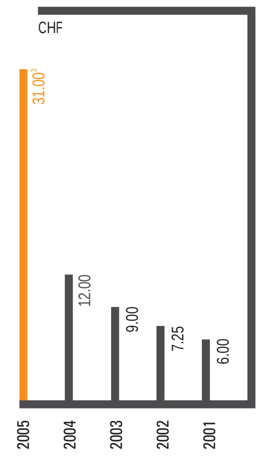
NET PROFIT/(LOSS)



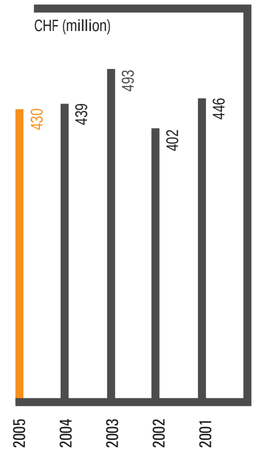
EARNINGS/(LOSS) PER SHARE[2]



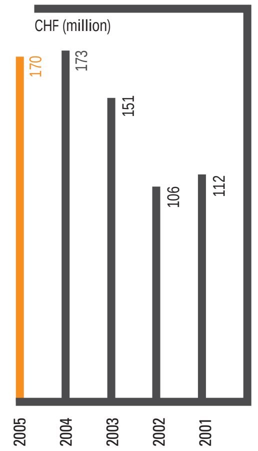
DIVIDEND PER SHARE



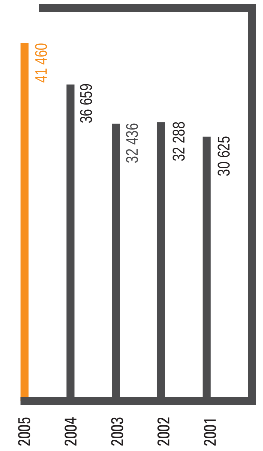
NET CASH



CAPITAL EXPENDITURE



AVERAGE NUMBER OF EMPLOYEES



[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

[2] *For the purpose of calculating earnings per share information, the average number of shares in circulation for the period is used.*

[3] *As proposed by the Board of Directors.*

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

2005 was another historical year for SGS and represents the successful conclusion of the turnaround started in 2002. Revenue grew 14.7% with 11.4% from ongoing operations and the rest from current and prior period acquisitions. Operating income reached the CHF 0.5 billion mark for the first time in the company's history with net income improving by 33.5% to CHF 371 million.

Nine out of ten of our businesses grew, seven at double-digit rates. All businesses, except Trade Assurance Services (TAS) improved their operating margin. TAS attenuated its potential margin decline by proactively managing costs ahead of declines in traditional pre-shipment inspection services, and redeploying resources to growing alternative services.

While each business responds to its unique market conditions and customer requirements, there are nonetheless factors that are consistent across the Group. Top line growth was driven by service diversification, geographical expansion, acquisitions, improving struggling businesses and nurturing smaller businesses. Many businesses were helped by market favourability.

Our businesses made strides in diversifying their portfolio of service offerings, moving up the customer value chain and providing outsourcing of non-strategic customer activities, such as laboratory management, where SGS can provide increased economies of scale and know-how. Many businesses offered one-stop shopping for multiple services such as logistics and process planning.

Most businesses expanded their geographical reach, bringing specific solutions to local customer needs or in some cases leveraging the SGS network to replicate best practices around the world. Our geographical footprint grew in such a way as to mirror the evolution of raw material sourcing, manufacturing and retailing in the world economy.

Agricultural Services, Environmental Services, and Systems & Services Certification all made notable progress in improving their operating results which had underperformed in prior periods. This paid off in 2005 as these businesses took their place amongst their stronger performing peers.

We successfully targeted Life Science Services, Consumer Testing Services and Industrial Services for accelerated growth in 2005. This was achieved in part by innovating early in underserved segments and by gaining share from existing players in core services. And these businesses did not grow at the expense of profitability as margins increased in all three cases.

SGS delivered strong growth in all regions with Asia standing out at over 25%.

Revenue was further enhanced by the successful integration of acquisitions. We welcomed the 500 people of Aquatic Health, X-Per-X, Auto Sécurité, MinnovEX, Casco and Paradigm to our family as these companies became an integral part of our operations.

Market conditions were favourable for SGS in 2005 with demand, prices and trade flows high for agriculture, energy, construction and manufacturing commodities. While our Group has evolved to lessen its dependency on commodity pricing and trade flows, we nonetheless continued to enjoy favourable conditions in the year.

As with revenue, operating income results were achieved differently in each business but with certain factors characteristic across the Group.

Volume leverage helped increase utilisation rates, both of people and of fixed laboratory assets. This was amplified in cases where prior investments had been made in laboratory capacity, enabling incremental revenue without proportional incremental investment. Continuous improvement projects contributed to profitability in the form of reduced and more predictable cycle time. Pricing was carefully managed by leveraging value-selling.

No year is without disappointments. We were unhappy, although not surprised, to see the end of the Venezuela and Nigeria pre-shipment inspection contracts. Although improved, we are not yet satisfied with our performance in North America. And we continue to focus on improving working capital performance.

Overall, we are very proud of our 2005 results. But these results aren't only the consequence of good strategy, good execution and favourable market conditions. These results are the product of the dedication, professionalism and hard work of the 43 517 men and women who make up the SGS team and we'd like to express our sincere thanks to all of them. SGS is a services company. In other words, we are a people company. And it is our people whom customers choose, and who deliver the quality customers expect, time and time again.

At the 2005 Annual General Meeting, we welcomed Pascal Lebard and Tiberto Ruy Brandolini d'Adda to the Board of Directors, replacing Dominique Auburtin and Carlo Maria Vismara whom we thank for their important contribution to the company.

Turning to the future, our vision is to be our clients' partner of choice in achieving competitive advantage. We will continue to provide services to help enhance their quality, productivity, risk management and compliance. This holds true for clients in the private and public sectors, engaged in producing goods or services, and wherever they are in the value chain from exploration to extraction to trading to manufacturing to retailing to recycling. We will continue to engage in services that are of social value supporting sustainable development, facilitating trade growth and protecting consumers.

This all adds up to growth for SGS. Late last year, we announced a strategic growth plan. The plan is challenging but represents a goal about which our organisation is excited and committed to achieve. It is made up of three pillars of growth, supported by a foundation of competitive advantage. The first pillar is continuity. We will continue to enrich our service offerings within our core portfolio and to expand our geographic reach. The second pillar is acceleration. We have targeted three businesses: Life Science Services, Consumer Testing Services and Industrial Services for accelerated growth, complemented by acquisitions. These businesses offer underlying market growth, and diversification of our revenue profile. The third pillar consists of strategic growth initiatives. These include services that cross the lines of our core businesses, bringing tailored offerings to underserved but growing strategic markets such as governments, energy infrastructure and financial services. This pillar also consists of new, near neighbour services such as independent software quality assurance.

Our plan underlies the three growth pillars with a foundation of competitive advantage made up of initiatives to optimise our operational capabilities for the best customer quality and productivity in the industry. It will come from maximising utilisation of our resources, harmonising workflow, sharing support operations, and managing talent flow to recruit, develop and retain the best people in the industry.

SGS is turning a page in its history. Having closed the gap with industry leaders over the last several years, we now turn our attention to widening the gap we leave behind as the new leader advancing toward the future.

Georges Muller
Chairman

Dan Kerpelman
Chief Executive Officer

COMPETITIVE ADVANTAGE

CONTINUOUS IMPROVEMENT

We are working to improve client satisfaction through continuous quality improvements. At the same time we are continuing to develop our own competitive advantage, namely, process improvement, talent development, technology and productivity initiatives.

SGS has put in place a three-year strategic plan that will drive CHF 1.7 billion of growth while continuing to improve profitability. For this to be achieved, SGS is refining execution systems to enable the Group to effectively penetrate new markets, integrate acquisitions and deliver an industry best cost-to-quality position.

Under the Continuous Improvement Programme, launched in 2003, a number of six sigma projects aimed at laboratory efficiency were carried out in different geographies. Results and the knowledge gained from these projects provided the foundation for a renewed initiative called Network Advantage.

During the year, plans were developed to create a flexible network of laboratories with shared capacity and capability - in effect, a high-volume laboratory "factory" model. In addition, a virtual back office will evolve to provide laboratories, inspections and audits with optimised dispatch and support. Finally, plans were made to better align both the flexible network and virtual back office with client requirements and business goals.

Optimising the network leads to increased client satisfaction and productivity through:

- reduced lead times and improved quality
- flexible network capacity to meet demand peaks
- expanded client offerings by cross-border fulfillment
- a standardised operating model to facilitate acquisition integration.

Regional project teams have been created and pilot programmes are running in North America and Europe.

ETHICS AND INTEGRITY

Integrity has been a core value of the SGS Group and the common thread through all of the Group's activities. These values and standards are the foundations upon which SGS has built its worldwide reputation as a trustworthy partner.

These values and how to work within them have been set out in the SGS Code of Integrity and Professional Conduct which has been translated into nearly 30 languages. The Code lays down straightforward rules of behaviour for every employee of the SGS Group and provides guidance in day-to-day business.

During the year we renewed our commitment as new elements were introduced to the global compliance programme. These included among others an annual integrity training programme for all SGS employees. Three thousand supervisors and managers are being trained to run the programme and to evaluate the results in terms of employees understanding and embracing the principles of the Code. Additionally, through an interactive programme, employees are confronted with simulated issues that may occur in their day-to-day activities. As a result they are better prepared to deal with such situations should they arise.

HUMAN RESOURCES

The effective development management and optimisation of human resources lies at the heart of the SGS business strategy. Our competitive and profit-driven culture encourages people to challenge the status quo.

Accountability and performance ethos are the leadership traits at SGS. Our focus continues to be on developing and driving leadership and business skills. During the second half of 2005, an organisation and staffing review process was launched with the participation of the CEO and respective Operations Council members. The programme will be repeated every six months to facilitate and speed the development of talent and organisational vitality.

The addition of new employees to the Group, through acquisition of new companies, has added knowledge and competence and provides the basis to introduce best practices for clients.

INFORMATION TECHNOLOGY

Progress was made in reducing the number of information systems being used within SGS and in harmonising systems globally.

The implementation of BOSS, an integrated software package used mainly for order-to-cash processes and finance, continued to be rolled out. This included operations in Italy, Australia, New Zealand and Hong Kong.

A further highlight was the start of a new global application, Tradeworks, with significant benefits for Trade Assurance Services. The centralised database allows information to be shared across operations in different countries. Thirty per cent of business orders are currently handled through the application and this will rise during 2006.

A similar major initiative was undertaken by Systems & Services Certification to reduce and standardise processes under one application. The web-enabled execution system, CertNet, standardises processes for back office, sales and other functions. It was rolled out to seven countries in three months, with worldwide coverage planned by the end of 2006.

Migration to a global data communications network managed by one service provider began in 2005. The new network now connects 250 sites across the world, allowing simplified network management and improved performance to cover the increasing demand for communication. In total, 700 sites will be connected by the end of 2006.

Finally, an employee intranet and collaboration tool, SGS.net, was created to share information and create common team sites. It has already become a regularly used platform for communication and teamwork within SGS, including the Operations Council.

REVIEW

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

REVENUE

	CHF (million)	%
Agricultural Services	294.8	8.9
Minerals Services	393.7	11.9
Oil, Gas & Chemicals Services	635.3	19.2
Life Science Services	125.3	3.8
Consumer Testing Services	476.2	14.4
Systems & Services Certification	274.0	8.3
Industrial Services	444.8	13.5
Environmental Services	235.0	7.1
Automotive Services	200.2	6.0
Trade Assurance Services	228.6	6.9
TOTAL	**3 307.9**	**100.0**

OPERATING INCOME

	CHF (million)	%
Agricultural Services	33.5	6.7
Minerals Services	63.1	12.6
Oil, Gas & Chemicals Services	79.4	15.8
Life Science Services	19.1	3.8
Consumer Testing Services	102.1	20.3
Systems & Services Certification	46.5	9.3
Industrial Services	58.6	11.7
Environmental Services	26.0	5.2
Automotive Services	25.2	5.0
Trade Assurance Services	48.5	9.6
TOTAL	**502.0**	**100.0**

AGRICULTURAL SERVICES

SGS traces its origins to 1878 when its founders understood the need for traders to be represented at the loading and discharge of vessels. To ensure contractual terms were complied with, SGS set up a unique network of specialists and laboratories in major ports. Over time, SGS certificates reflecting weight, number of bags and quality of goods became so trusted they would trigger payment for the buyer.

Today Agricultural Services, as the global market leader, helps clients move millions of tons of products through the agricultural supply chain and reduces the risks involved in transactions.

Overall, comparable revenue in Agricultural Services grew by 14.7% with full year operating margins improving to 11.4% from 9.2% in prior year.

Highlights of the year include the growth of operations in the Netherlands for Cargill Inc, where Agricultural Services manages the logistics of the supply chain for the grain and oilseeds crushing plant for North West Europe. Agricultural Services helps Cargill to import and move grains from South America and the countries in the Danube basin to the Netherlands. SGS also manages the quality of products imported and the day-to-day supply to processing plants. The first contract started 10 years ago and is being replicated throughout Cargill plants in Europe. Further growth is expected from complementing routine inspection services with laboratory, quality control and storage management outsourcing for primary processors.

A major contract was signed this year with Busch Agricultural Resources Inc., Canada and Rhar Malting Ltd. to develop solutions for traceability, security and quality verification of grain. Working along the supply chain, from growing barley in Canada, through delivery at beer manufacturing plants in the US, Agricultural Services ensures that the client's strict quality requirements, including the use of fertilisers, pesticides and herbicides, are met. SGS enables the sharing of inspection, quality and traceability information via standardised auditing tools and secure websites. This programme will expand during 2006.

Despite significant challenges, import of grains from Australia, US and Canada were successfully facilitated using on-the-ground teams, demonstrating the benefits of SGS's global footprint.

In early 2005, an opportunity was seen to extend Agricultural Services' forwarding and documentation services into the international trade execution sector. The changing market in Eastern Europe revealed a gap in the availability of expertise in transportation and trade document management. Special expertise is needed for this work, especially concerning trade contracts, credit requirements and freight. Agricultural Services saw the opportunity to bridge the gap and introduced services to enable customers to access new markets.

Replicating knowledge between teams continues. The rapidly growing bio-diesel industry is a good example. Technical, management and sales programmes are in place to improve the capabilities of the teams with a strong emphasis on standardisation of documentation, tools and processes.

CHF (million)

	2005	2004[1]
REVENUE	**294.8**	**257.1**
Change in %	14.7	–
OPERATING INCOME	**33.5**	**23.6**
Change in %	41.9	–
Operating margin %	11.4	9.2

FASTER AND MORE ACCURATE

SGS oversees weighing operations in many ports around the world.

In Egypt, SGS now operates the weighing service in the main ports, creating a system that works to international standards and uses modern techniques such as computerised, digital scales and electronic tools to share information and assist speed of trade. As a result, accuracy and speed have been improved and the chance of fraud has been reduced.

MINERALS SERVICES

Minerals Services offers an all-encompassing range of value-added solutions which reduce risk, enhance value and maximise returns at each step of the minerals value chain. Services range from the simplest quality and quantity inspection and testing for traded minerals to complex flow sheet design which optimises the recovery of metals in processing plants. With a unique coverage of the minerals value chain and truly global presence, Minerals Services is the leading supplier of innovative, technologically advanced services to help clients achieve their goals.

Overall, total revenue for Minerals Services grew by 23.2% to CHF 393.7 million, with an organic growth of 17.1%. Operating margins reached 16.0%, a 160 basis point improvement from last year.

Highlights of the year include two important acquisitions and the award of a major contract.

In August, SGS acquired MinnovEX Technologies Inc a Canadian company headquartered in Toronto, Canada. With revenues of CAD 10 million, MinnovEX is the global market leader in the application of unique metallurgical technologies to optimise plant and asset performance in the mining sector. These include unique high-level simulation models and systems recognised by the major mining houses. By integrating MinnovEX's technical expertise with that of SGS Lakefield Research, Minerals Services will be the worldwide leader in metallurgical testing, process control and feedback systems into the foreseeable future.

Also in August, SGS acquired Casco Australia Pty Ltd, a laboratory service provider offering a range of testing and superintending services primarily in the coal testing markets. With over 50 years of experience and revenues in excess of AUD 10 million, Casco operates a network of laboratories in the Australian states of New South Wales and Queensland. The acquisition of Casco will provide SGS with a complete laboratory network in the region for its coal business.

Minerals Services was awarded an outsource contract worth CHF 5 million over three years to provide analytical services on-site to Newmont Gold's Ahafo project in Ghana. The award further strengthens Minerals Services' position as a provider of geochemical analysis to mining projects globally. Ahafo is one of ten geochemistry laboratories operated by SGS in West Africa.

During the year, Minerals Services became the world's leading independent diamond exploration testing house, offering bulk sampling, caustic fusion, diamond picking and indicator minerals services.

Knowledge, expertise and technology are being actively transferred across the business line, particularly with SGS Lakefield Research, whose metallurgical testing service offering is being developed on a global basis. Skills developed in Canada to identify metals for exploration purposes are being transferred to centres of excellence laboratories in Australia, Peru and South Africa.

CHF (million)	2005	2004[1]
REVENUE	**393.7**	**319.5**
Change in %	23.2	–
OPERATING INCOME	**63.1**	**46.1**
Change in %	36.9	–
Operating margin %	16.0	14.4

WHEREVER YOU NEED US

In a remote copper and gold mine in South East Africa, Minerals Services has built an on-site laboratory to provide metallurgical testing, quality control and data for plant optimisation and internal benchmarking. This activity is part of the client's continuous improvement plan.

Minerals Services also conducts concentrate and bullion sampling, and analysis both at loading and discharge in China, Japan, Korea and South Africa. The service covers the entire value chain from mine to final processor.

OIL, GAS & CHEMICALS SERVICES

Oil, Gas & Chemicals (OGC) Services is the market leader in independent inspection, testing, verification and specialised technical services to the oil, gas and chemical industries. Alongside trade-related activity, OGC Services provides a wide range of up and downstream services including blending and additives services, sample management, static and dynamic calibration, emergency response, logistics and laboratory outsourcing and contract management services.

OGC Services is committed to helping customers maintain their reputation for high quality products and reducing the commercial and environmental risks associated with production, trading, distribution and storage of oil, gas and chemicals.

OGC Services performed positively, with revenue increasing by 10.6% and operating margins expanding to 12.5%. This was achieved despite the market impact of Hurricanes Katrina and Rita and their effect on oil and gas production in the Gulf of Mexico.

A highlight of the year was the opening of a specialised OGC laboratory in Caojing, near Shanghai, China. This strengthens the Group's position in this strategic market and is the fifth of a series of laboratories planned in the region over the next few years.

The gasoline blending laboratory in Amsterdam was relocated and state-of-the-art equipment introduced to meet growing demand from clients in this region.

Benelux and Germany delivered substantial improvement in revenues and operating margins due to newly developed value-added services and outsource contracts won in 2004.

A major laboratory outsource contract was awarded by Lukoil Neftochim for the largest refinery on the Balkan Peninsula. OGC Services will manage and operate the laboratory complex that supports the refinery, petrochemical and polymer plants and will manage a QA/QC support business of over three hundred employees. OGC Services is well placed to take advantage of the continued trend for outsourcing and the growing needs of upstream companies within the oil, gas and chemicals industry.

Additional testing services were introduced during the year including a service to detect the presence of mercury in gas and crude oil, an area of concern in the petrochemical sector. OGC Services invested in instrumentation and developed various sampling techniques and analytical methods to determine the level of mercury down to parts-per-billion levels. Other new offerings included allocation accounting and crude oil assay testing.

During 2005, OGC Services turned its attention to the financial community, with a service offering designed to support risk management associated with financing oil and petroleum product transactions. A collateral management service was introduced to help financial clients implement the requirements of the Basel II protocol by securitising pledged oil.

CHF (million)	2005	2004[1]
REVENUE	**635.3**	**574.6**
Change in %	10.6	–
OPERATING INCOME	**79.4**	**70.2**
Change in %	13.1	–
Operating margin %	12.5	12.2

OPTIMISING ASSETS

In Russia and Malaysia OGC Services was awarded pioneering collateral management contracts for oil stored in offshore vessels. As the oil industry had not seen oil pledged as collateral on floating storage before, OGC Services was challenged by the financing bank and other major stakeholders to take responsibility for securitising several hundred thousand tons of oil over a period of six months.

Our procedures allowed oil to be securely delivered to the floating storage from a smaller vessel, then held in secure storage in the vessel's tanks. This oil could then be pledged as collateral. When authorised for release, the oil would be delivered to other vessels for delivery to buyers all over the world.

LIFE SCIENCE SERVICES

Life Science Services (LSS) is a leading provider of drug development services for Phase I to IV clinical trials, biostatistical management services, regulatory affairs services and bioanalytical laboratory services, plus services for the development and approval of agrochemicals, pesticides, biocides and chemicals. In addition, LSS delivers comprehensive high quality testing capabilities in microbiology, analytical chemistry, biocompatibility, safety, sterility, method development and stability testing to pharmaceuticals, biotechnology, medical devices, agrochemical, cosmetics and life science products producing companies worldwide.

Life Science Services total revenue grew during the year by 17.7% to CHF 125.3 million, with an organic growth of 15.5%, and operating margins reached 15.2%. These results were driven by the solid performance of both the clinical research and quality control testing segments.

Highlights of the year include successful organic growth in North America across all services and in general clinical research services, which grew exceptionally well.

Quality Control Testing showed strong organic growth in Canada, US and Belgium. SGS retained its market leading position in France and Germany. In Asia, the laboratories in Hong Kong, Taiwan and India showed disproportionate growth reflecting the potential in the region.

To further strengthen the Asian laboratory network, approval was given to open three new QC laboratories in Singapore, South Korea and China. To ensure consistency and quality of the service, experts from Germany and Canada assisted in the set-up phase and trained the local staff. These new labs will offer analytical testing services to pharmaceutical and biopharmaceutical companies and benefit from the expected growth in this region. They will be in operation by March 2006.

Life Science Services has also launched a project to enter quality control testing for biopharmaceuticals/biologics. The new laboratory in Wavre, Belgium, will be expanded and will serve as a centre of excellence to address this growing market segment.

Resulting from a six sigma project, harmonised lab structures with streamlined sample and information flow, are being implemented in all QC laboratories. The implementation of a new laboratory information management system will be completed in 2006.

By fully utilising the global sales team and the network of harmonised laboratories, LSS was able to secure its first multinational contract with a top 10 pharmaceutical company.

Life Science Services for the agrochemicals industry is also a recognised player for laboratory and field studies. In 2005, crop residue field trials (in co-operation with Agricultural Services), residue analysis, crop residue processing studies and ground water monitoring studies showed pleasing growth rates.

In clinical research, outstanding growth has come through bioanalytical, data-management and Phase I services. The sales team in North America has been substantially expanded and is starting to make an impact.

Projects initiated in 2004, such as the expansion of validated methods on LC-MS/MS technology in the area of bioanalysis and the development of a network of investigational sites for gaining access to certain patient groups, are now successfully underway. Clinical research activities will be expanded internationally, both organically and inorganically.

During 2005, the business team has worked intensively on qualifying acquisition targets and anticipates taking advantage of these efforts in early 2006. The purchase of aster.cephac, a full-service provider of clinical pharmacology trials and bioanalytical services, makes SGS the European leader in early clinical research. This allows SGS to further improve its clinical and laboratory service offering to multinational and local drug development companies. In 2006, expansion is also planned to occur in quality control testing.

CHF (million)	2005	2004[1]
REVENUE	**125.3**	**106.5**
Change in %	17.7	–
OPERATING INCOME	**19.1**	**12.7**
Change in %	50.4	–
Operating margin %	15.2	11.9

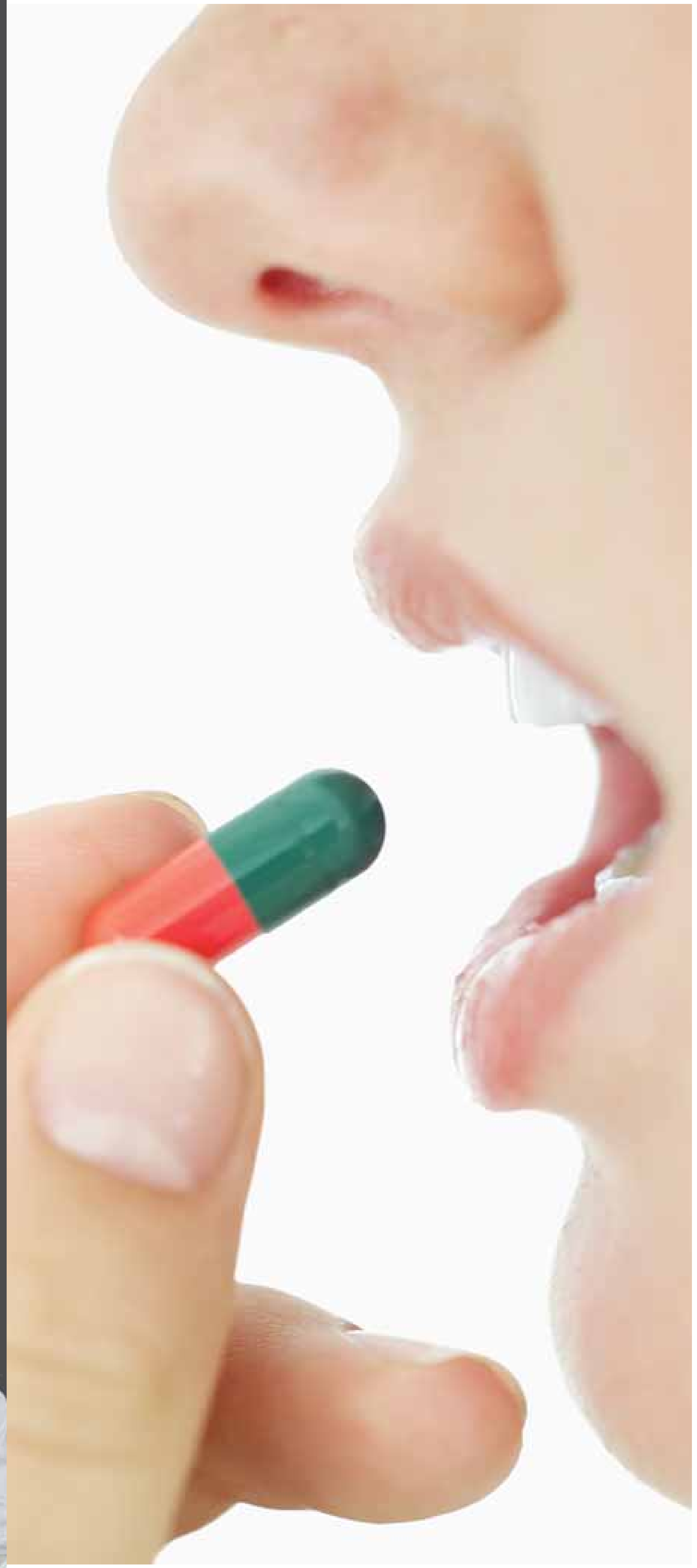
VOLUNTEERS TO HELP WIN THE RACE

The development of a new drug is a race against time. Delays in bringing a drug to the market can cost millions of dollars a day. More importantly, these delays prevent a broader and potentially lifesaving choice of treatments for patients. One of the big hurdles is recruitment of subjects for clinical trials. SGS is a specialist in efficient recruitment of volunteers for Phase I clinical trials.

Recently a pharmaceutical company was preparing for a clinical trial in which bone marrow samples were to be obtained. Since bone marrow extraction has inherent risks, and can be painful, the company was concerned about recruiting participants within the time frame. However, the SGS recruitment team managed to gather all the volunteers in just two weeks.

This was achievable because our dedicated recruitment team specialises in database marketing. They were able to target groups within the 6 000 volunteer database with a well thought-out message and recruit the best sample for the trial. To ensure this volunteer database delivers results, a promotional mix of direct marketing and advertising is used to keep the numbers and sample at optimum. Added to that, our expertise in this particular field of recruiting against subject criteria allows SGS to help in the design of a more practical protocol, without compromising scientific integrity. This significantly raises the chances of success for the trial.

The trial in this particular case was a complete success.



CONSUMER TESTING SERVICES

Quality expectations and the range of safety requirements our clients must satisfy become more complex every day. To help meet these needs, Consumer Testing Services (CTS) offers a complete range of services for manufacturers, importers, exporters and retailers of consumer products, including laboratory testing, product inspection and consulting, process assessment and technical assistance. CTS helps clients to reduce risk, improve efficiency and ensure compliance to contractual or regulatory requirements in manufacturing sourcing.

Services are available on a global basis for consumer products such as textiles, toys, footwear, hardware, housewares, electrical and electronic goods and food. For food, CTS covers the entire food production chain from primary production through food processing, transportation and distribution networks to the final consumer, including services for hotels and restaurants.

With total revenue of CHF 476.2 million, the Consumer Testing Services business grew by 32.1%, of which 27.2% was organic, and generated operating margins of 21.4%.

China and other Asian countries such as Korea, India and Taiwan were significant contributors to revenue growth and margins as prior investments came on line and laboratory utilisation rates grew. Good performance in Europe, particularly Germany, also contributed to strong results.

Restricted substances testing and services remained an important growth driver for CTS and market share continued to increase. Testing capacity was added in key Asian and European locations to cope with increased demand, while development centres created in Taiwan and Hong Kong continued to develop expertise and leading-edge methodologies.

Aquatic Health was acquired by SGS in January 2005. The company provides services along the value chain for the Chilean salmon farming industry – the second largest producer in the world. These services include veterinary analysis, outsourcing and facilities to support aquaculture feed and pharmaceutics research. The company has been integrated into the CTS network and skills and methodology are now being replicated for producers in other markets.

Technology transfer from SGS Institute Fresenius to the laboratory network continued to accelerate, with a special focus on drinking water, automotive and cosmetics testing markets.

New laboratory infrastructure and the activity of the global sales teams drove share growth of the top 25 global retailers and fashion brands. This was particularly noticeable in soft-line and hard-line testing. Investments in electronic and electrical communications/software laboratories (3G, GSM and Bluetooth) gained market traction with significant contract wins. Share gains in textile testing were achieved as new laboratories in India, China and Turkey began to compete aggressively.

CHF (million)

	2005	2004[1]
REVENUE	**476.2**	**360.6**
Change in %	32.1	–
OPERATING INCOME	**102.1**	**65.6**
Change in %	55.6	–
Operating margin %	21.4	18.2

MAKING SEAFOOD MORE PALATABLE

Vietnam's seafood exports have grown swiftly in the last few years and have the potential to continue to grow rapidly. Yet the quality of exports has suffered due to high bacteria counts, chemical residues and the use of banned pharmaceuticals. For long-term success, there needed to be a more defined and formal process for ensuring the quality, safety and most importantly, sustainability of seafood for processing and export.

The local government asked CTS to suggest a solution which, after consultation with many parties, led to the development of an on-farm, quality assurance and safety programme for farmed shrimp and fish. Applicable on a local level, it ensured that all participants understood the benefits of adopting the correct processes to become certified to international standards. The programme expanded to five provinces in Vietnam and the first farms achieved certification in 2005. The success and high level of endorsement of this qualitative programme has encouraged other industries, such as rice and cocoa, to look at the CTS programme for their supply chain management, to improve transparency and integrity.

SYSTEMS AND SERVICES CERTIFICATION

Systems and Services Certification (SSC) has more than 60 000 clients worldwide and is the world's preferred auditing and certifying body.

An SGS certificate is recognised globally as a symbol of both compliance with standards and of business excellence. Those purchasing from an SGS certified company trust that their business will be handled according to their quality, environmental and safety requirements.

Beyond certification, SSC partners with clients to provide customised audit solutions designed with the client to increase the quality, effectiveness and efficiency of business processes. SSC also provides training, in class or over the internet, to enable clients to drive quality at every level of their organisation.

Systems and Services Certification total revenue grew 16.4% during the year, with operating margins expanding to 17.0% as volumes leverage improved auditor utilisation rates, productivity improvement efforts were realised and certification standard mix improved.

The business achieved a strong bounce back in European based revenue, driven by France, Benelux and Germany. This was achieved by focusing more on newer standards and sector schemes such as ISO 1400, ISO 22000, OHSAS 18001, ISO 13845, ISO 27001 and including customised audit solutions (second-party audits). Industry specific standards grew at double-digit rates validating the objective of targeting high potential segments.

Developing markets continued to demonstrate strong demand for the more traditional schemes (ISO 9001, ISO 14001) with South East Europe, South East Asia Pacific and particularly China delivering excellent performance. The movement of a significant portion of the global manufacturing base and the resulting shift in supply chains into growing economies opened up new opportunities.

The expansion of international sales efforts led to an increase in the number of multi-million CHF global contracts, as large multinationals continued to decrease the number of vendors and consolidate services with single global providers.

During the year, SSC forged an alliance with the Orthodox Union to deliver an integrated hygiene-management system solution into the kosher food supply chain. By working together, safety and quality management standards are met, while production steps and ingredients comply with kosher requirements.

A new, web-enabled execution system which standardises processes for back office sales, IT and other functions, has been rolled out to seven countries. A further 20 countries will adopt the system by the end of 2006. Other advances included the development of SGS OnSite solutions to provide clients with access to value-added information based on audit services and the development of auditor resources for sectors such as information technology, security management, food safety/security management and six sigma. A new e-learning platform was created to spread knowledge within the auditor community. Other developments included the creation of a global marketing tool and a global key account management team. Sustainability Report Assurance was also successfully introduced.

SSC continued to benefit from six sigma initiatives in sales and operations. Further projects are planned for 2006.

CHF (million)

	2005	2004[1]
REVENUE	**274.0**	**235.4**
Change in %	16.4	–
OPERATING INCOME	**46.5**	**30.9**
Change in %	50.5	–
Operating margin %	17.0	13.1

CLEAR AND SIMPLE SOLUTIONS

A major global food and beverage manufacturer asked SSC to conduct a second-party audit of their internal product quality and safety management systems. They wanted to do this to determine and address the risks to their production and bottling processes.

SSC put together a global project team. In two separate phases 27 facilities in 17 countries across Latin America, the Caribbean, North America, Europe and Asia were visited. At each facility an audit was conducted to assess existing control procedures and the ability of each facility to comply with them. The SSC project team demonstrated its ability to partner within the client's business to provide an independent view of compliance and to recommend pragmatic solutions that could be quickly deployed.

INDUSTRIAL SERVICES

Industrial Services is a global service provider of technical verification, inspection, testing and conformity assessment. Industrial Services assures that the quality and performance of products or installations meet applicable requirements, whether regulatory, voluntary or client specific. The goals are to help improve the integrity, quality and efficiency of equipment, assure safe and healthy working conditions for employees and minimise the environmental impact of industrial activities.

Overall, total revenue for Industrial Services grew by 17.1% to CHF 444.8 million, with an organic growth of 12.5%, and operating margins reached 13.2%. The organic growth was achieved by continuing to focus on the energy and construction sectors and by further utilising the SGS network.

During the year, inspection and testing services, particularly non destructive testing for the liquid natural gas industry, continued to grow with contract wins in Nigeria, Qatar and Russia. Construction services also grew, mainly due to increased volumes in project monitoring and engineering services for power plant upgrade projects in Eastern Europe.

Industrial Services benefited from its ability to provide supply chain services to international petrochemical projects. High volumes and good margins were generated in the Middle East, particularly in Iran, a country that is making significant investments in its oil and gas extraction and processing capabilities.

In February, Industrial Services acquired X-Per-X Inc, based in Quebec, Canada. With revenues of CAD 12 million in 2004, X-Per-X is an internationally recognised company specialising in inspection, project surveillance and quality control of metal and electrical products, as well as materials engineering. X-Per-X was fully integrated into the network, strengthening the service offering in North America.

In September, a wind energy coordination hub was established in Hamburg, Germany. The investment, which also includes expansion of the team, will give better support to existing and new customers in the wind industry, including turbine manufacturers and wind farm owners. The European wind industry is expected to grow rapidly, so that by 2010, more than 86 million Europeans will receive their power from the wind.

In the last five years alone, the oil and gas industry has allocated USD 24.7 billion towards oil sands development and the outlook for the future is for even more investment in this sector. A large energy infrastructure programme required the expertise of OGC, Minerals Services and Industrial Services that are expanding their presence and growth potential in this sector.

CHF (million)

	2005	2004[1]
REVENUE	**444.8**	**379.9**
Change in %	17.1	–
OPERATING INCOME	**58.6**	**45.6**
Change in %	28.5	–
Operating margin %	13.2	12.0

OILING THE FLOW

The BTC crude oil pipeline connects the Caspian Sea oil fields with the Mediterranean and its international tanker routes. Industrial Services was contracted to undertake the non destructive testing of girth welds for a large section of pipeline that runs through Turkey.

Quality and adherence to delivery and installation dates, as well as safety on-site were paramount. This was made more challenging due to the size of the project, its economic and strategic impact and the challenging environmental conditions. For control of the welding process and smooth work flow, it was necessary for test results to be available to the contractor not later than 24 hours after production of each weld.

Industrial Services successfully completed testing of the last weld in October 2005, and the first crude oil reached the port of Ceyhan at the end of 2005.

ENVIRONMENTAL SERVICES

Our global ecosystem is affected daily by both natural and human factors. This results in pollution of the soil, water and the air. Pollution affects people from all walks of life equally and will threaten our public health worldwide if not controlled and abated. Sustainable development is therefore fundamental to us all.

To help governments and industry to integrate environmental management into their operations, Environmental Services provides a comprehensive international network of analytical services and is well placed to assist at both a global and a local level.

By focusing primarily on environmental testing of contaminants in soil, water and air, Environmental Services has now demonstrated a promising future. Revenue grew for the year by 12.7% and its operating margin reached 11.1%.

Highlights of the year included the winning of a major contract for Northern Dynasty Minerals Ltd, in support of its permit application to establish a large mine site in Alaska. Environmental Services provided analytical support for the baseline study of the potential environmental impact of the mine, providing a level of quality and speed of work that was fundamental for meeting project time pressures and weather conditions.

Another highlight was the improvement in international cooperation within the business. One example of this is how a team from Alaska helped set up a new laboratory in Korea. In this way Environmental Services transferred best practices and quality systems to ensure compliance to international standards. What's more, an international customer working in Kenya required analysis not available locally. Environmental Services provided a team and equipment from India, with the knowledge to complete the assignment.

Knowledge and working practices are being transferred across Environmental Services. In December 2005, SGS purchased environmental testing laboratory Paradigm Analytical Laboratories, located in Wilmington, USA. Paradigm's particular specialities are testing for dioxins, furans and PCB congeners and the company has significant experience working with the US government and armed forces.

Centres of excellence continued to be created to achieve better asset utilisation where there is a low volume of tests but a high cost for instrumentation and a need for specialist knowledge. The centres of excellence also allow SGS to offer better quality service with a large knowledge base. Three centres have been established so far in Europe for testing and analysis of air, pesticide, dioxins and PCBs.

CHF (million)

	2005	2004[1]
REVENUE	**235.0**	**208.6**
Change in %	12.7	–
OPERATING INCOME	**26.0**	**16.6**
Change in %	56.6	–
Operating margin %	11.1	8.0

REMOVING GEOGRAPHY FROM THE EQUATION

A Nordic environmental consultant, working for an Indian client company, needed to conduct analysis to international standards not available in India and to be able to supervise the sampling and testing process.

By utilising the Group's global network, one point of contact was provided in Finland, local SGS expertise was used in India for sampling and testing, and then analysis was undertaken in Belgium and Germany. Together the SGS team provided the types and quality of testing required to ensure compliance with international standards regardless of the geographical differences between the parties.

AUTOMOTIVE SERVICES

Automotive Services focuses on the design, construction and operation of motor vehicle inspection solutions throughout the world. They are provided to governments, manufacturers, traders, financial institutions and insurance companies on five continents. Automotive Services has two main offerings – statutory vehicle inspection services and automotive verification services.

Overall, Automotive Services revenue increased 6.7% to CHF 200.2 million with operating margins increasing to 12.6% versus 11.2% in the prior year. Highlights of the year include the renewal of a major contract for twelve years in Ivory Coast for periodic vehicle inspection services. SGS also started a major initiative for the Ministry of Transport and Telecommunications in Chile. Under the ten-year concession, Automotive Services operates testing stations in Santiago for private cars, taxis and trucks.

In California, a purpose built data management programme will go live early in 2006 to connect 8 000 emission testing stations with the Department of Motor Vehicles and the Bureau of Automotive Repair (BAR). The programme will process more than 13 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. Added to similar contracts with the States of New York and Virginia, SGS Testcom is the operator of the largest and most comprehensive data management systems in North America.

In August 2005, SGS acquired Auto Sécurité Group from MAAF Assurances SA. With revenue in 2004 in excess of Euro 10 million, Auto Sécurité Group operates one of the largest networks in France with more than 850 franchised testing centres. This, combined with the 2004 acquisition of Securitest and ACO Sécurité, reinforces the Group's position in the European statutory vehicle inspection market and serves as a platform for further development in this strategic market.

A smaller acquisition was completed of UK company, Auto Marine Specialists (AMS). Their expertise is in commercial vehicle inspection at ports to determine damage during transportation.

With the goals to make logistics risk management more efficient and to improve quality of logistics throughout the supply chain, a dedicated business-to-business web application was further developed in 2005. Called HERMES, it offers risk management for vehicle transport with paperless, transparent, interactive and real-time claims processing, and loss control. Also during the year, SGS IT platform VINCI was rolled out across 15 European countries to provide a single off-lease and valuation reporting methodology.

Automotive Services led a new initiative, with several SGS business lines, to answer the needs of the customer across all aspects of the automotive industry – from the manufacturing of the smallest component by a supplier, to the recycling of vehicles.

For the future, Automotive Services is well placed in terms of expertise and its global footprint. In this way we can support vehicle manufacturers as production and sourcing move to new and remote locations, bringing additional challenges and risks.

CHF (million)

	2005	2004[1]
REVENUE	**200.2**	**187.7**
Change in %	6.7	—
OPERATING INCOME	**25.2**	**21.1**
Change in %	19.4	–
Operating margin %	12.6	11.2

KEEPING TAXIS WORKING

The Republic of Ireland's Commission for Taxi Regulation recently awarded Automotive Services a major outsource contract for inspection services to allow licensing of small public services vehicles (sPSV). This builds on the position of being the Republic's sole tester of private vehicles.

The contract moves the industry towards a one-stop shop arrangement. It minimises the number of agencies with which the commercial drivers of taxis, hackneys and limousines need to deal with. An integrated database of the sPSV population, as well as other measures, will help with the enforcement of regulations.

The contract was won due to Automotive Services' experience and for intelligently applying new technology. An automated booking system is used to manage licence renewals and the Internet, SMS and a call centre are being used to communicate with commercial drivers.

TRADE ASSURANCE SERVICES

Trade Assurance Services (TAS) provides a wide range of trade verification, government revenue enhancement and sustainable development services aimed at facilitating trade, while supporting good governance and compliance with regulatory requirements. Clients are primarily governments and international institutions but, to facilitate compliance of trade with government requirements, services are also offered to the private sector.

In recent years TAS has developed a new portfolio of innovative services apart from its traditional, government mandated Pre-shipment Inspection (PSI) programmes, under which TAS verifies the quality, quantity, price and classification of imports for customs duty assessment and/or capital flight avoidance purposes.

The new non-PSI services utilise TAS core skills, including price verification, independent monitoring and validation of declared information, coupled with new technologies and IT systems.

Although the traditional PSI market is in decline and revenue for Trade Assurance Services in total declined by CHF 26.7 million, TAS operating margins only reduced slightly from 23.8% to 21.2%. TAS was successful in covering contract demobilisation costs through decisive action, productivity improvements on continuing contracts and new contract wins and renewals.

Non-PSI revenue continued to grow during the period as new products, validation and verification schemes were introduced. These included Tr@deNet, ValuNet, ValiTrade, cargo scanner services, timber legality, clean development mechanism (CO_2), EU emissions trading, aid monitoring and Non-Governmental Organisation benchmarking.

New contracts were signed with the governments of Bangladesh for a PSI programme; Kenya and Nigeria for verification of the conformity of imports with product standards; Indonesia for an intellectual property rights protection support service for DVDs and CDs; and Russia, Khaborovsk region, for a timber legality validation scheme.

Extensions were obtained to the PSI programme in Ecuador, the foreign exchange monitoring service for the Government of Zimbabwe, forestry contracts in Papua New Guinea and Cambodia, and the monitoring contract with the Japanese Bank for International Cooperation.

As part of the evolution of the current PSI programmes, cargo scanning services were implemented for the Government of Madagascar and agreed with the Government of Cameroon. The PSI programme for Nigeria will be phased out in early 2006 and replaced with a destination inspection programme under which SGS was awarded a contract to provide cargo scanning services at certain ports of entry, with risk-management, price verification and classification support to Customs. The PSI contracts with the Governments of Venezuela, Guinea Conakry and Democratic Republic of Congo were completed. Agreements were reached with the Governments of Ivory Coast and Madagascar for the implementation of Tr@deNet services.

TransitNet was developed to facilitate the movement of road transport, using customs transit procedures to and within the EU and EFTA. It complements the new computerised transit system implemented in the EU and EFTA and allows submission of electronic transit declarations, covered by bank guarantees arranged by SGS, to Customs. The service recently started on the Russia to EU transport route.

SGS, in addition to being accredited for validation, received accreditation for verification under the clean development mechanism related to the Kyoto Protocol.

CHF (million)

	2005	2004[1]
REVENUE	**228.6**	**255.3**
Change in %	(10.5)	–
OPERATING INCOME	**48.5**	**60.8**
Change in %	(20.2)	–
Operating margin %	21.2	23.8

DEMONSTRATING IP COMPLIANCE TO THE WORLD

In an effort to combat the regional problem of piracy of DVDs, CDs and similar digital media, the Indonesian Directorate General of Intellectual Property Rights and the Indonesian Ministry of Trade introduced a unique requirement – verification of compliance of all machinery, accessories, raw material, pre-recorded, recordable and rewritable optical discs imported into Indonesia.

SGS was selected by the Indonesian, state-owned surveyors to implement this programme in the countries of supply. TAS ensures that the machinery, accessories and optical grade polycarbonate raw material are imported only by licenced importers and meet the technical specifications approved by the Indonesian government. This programme is complemented in Indonesia by a multi-departmental audit of licenced producers and dealers, supported by data supplied by SGS. This type of programme is being replicated in other areas where counterfeiting is rife.

2005 DIRECTORS' REPORT ON

CORPORATE GOVERNANCE

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 endeavours 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.

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, its 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 2005, SGS SA had a market capitalisation of CHF 8 667 million.

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

The principal entities consolidated within the SGS Group are listed on pages 120 to 125 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 2005 are provided in note 18 to the Consolidated Financial Statement of SGS SA (pages 87 to 88).

Operationally, the Group is divided into 10 regions which are responsible for the local execution of the SGS businesses and the implementation of Group policies and strategies.

As of December 2005, the geographic operations are:

Europe, Africa, Middle East

- Western Europe
- Central & North West Europe
- South East Europe
- Eastern Europe & Middle East
- Africa

Americas

- North America
- South America

Asia Pacific

- Eastern 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. Each business is in charge of the global development of Group activities in its own sphere of specialisation and of the execution of 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

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 2005 August von Finck and members of his family, acting in concert, held 23.7% of the share capital and voting rights of the Company. Sequana Capital SA (formerly 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 156 448 720 fully paid in and divided into 7 822 436 registered shares of a par value of CHF 20 unchanged from last year.

On 31 December 2005, SGS SA directly and indirectly held 316 973 of its own shares. The increase from last year is essentially due to the consolidation of a foundation (Fondation pour l'Intéressement du Personnel au Développement du Groupe SGS) in accordance with new accounting requirements. During the period under review, 944 treasury shares were released into circulation.

2.2. AUTHORISED AND CONDITIONAL SHARE CAPITAL

The Board of Directors has the authority to increase the share capital of the Company by a maximum of 499 730 registered shares of a par value of CHF 20 each, corresponding to a maximum increase of CHF 9 994 600 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 22 March 2007.

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 was increased on 23 March 2005 by the issuance of 270 registered shares of a par value of CHF 20 out of the authorised share capital. The purpose of this increase is detailed under section 2.5.

2.4. SHARES AND PARTICIPATION CERTIFICATES

As at 31 December 2005, the Company had 7 822 436 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. By decision of the shareholders on 23 March 2005, the 54 certificates still outstanding were abolished against delivery of five registered shares for each certificate.

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 do not carry voting rights except with the approval of the Board of Directors. On 23 March 2005, the Board of Directors decided to approve the registration of such shares with voting rights up to 5% of the share capital of the Company in the aggregate. This decision was communicated to SAG (formerly SEGA).

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 2005, the Board met on six occasions.

3.1. MEMBERS OF THE BOARD OF DIRECTORS

The composition of the Board of Directors was changed at the Annual General Meeting of Shareholders on 23 March 2005. The Board comprises seven non-executive Directors (including the Chairman and the Vice Chairman).

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 2005:

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

Walchwil (CH)

Chief Executive of the Fiat Group

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

DOMINIQUE AUBURTIN (1951)

French

Paris (F)

Chairman of the Executive Board of Worms & Cie until May 2005

Member of the Board of SGS from May 2001 until March 2005

TIBERTO RUY BRANDOLINI D'ADDA (1948)

Italian

Paris (F)

Chairman and Chief Executive Officer of Sequana Capital SA (formerly Worms & Cie)

Member of the Board of SGS since March 2005

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

PASCAL LEBARD (1962)

French

Paris (F)

Deputy Managing Director of Sequana Capital SA (formerly Worms & Cie)

Member of the Board of SGS since March 2005

MICHAEL KENNETH MOORE (1947)

New Zealander

Geneva (CH)

Former Prime Minister of New Zealand and 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 until May 2005

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 the Directors' 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 judgment. 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 2005.

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, Chéserex (CH)
Vice Chairman of the Board since 1988

Animan Publications SA, Lausanne (CH)
Member of the Board since 2001

Lavotel SA, Nyon (CH)
Member of the Board since 1993

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 BMP Associés, Lausanne (CH)

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

World Arts Forum, Geneva (CH)
Member since 1997

SERGIO MARCHIONNE

Major Board assignments

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

TIBERTO RUY BRANDOLINI D'ADDA

Major Board Assignments

Sequana Capital SA, Paris (F)
Chairman and Chief Executive Officer since 2005

Antalis International SAS, Paris (F)
Chairman of the Supervisory Board since 2005

Antonin Rodet SAS, Mercurey (F)
Chairman of the Supervisory Board since 2005

ArjoWiggins SAS, Issy les Moulineaux (F)
Chairman of the Supervisory Board since 2005

Espirito Santo, Luxembourg
Member of the Board since 1992

Exint, Paris (F)
Chief Executive Officer since 2005

Exor Group, Luxembourg
Vice Chairman and Managing Director since 2003

Fiat SpA, Turin (I)
Member of the Board since 2004

IFIL S.p.A., Turin (I)
Member of the Board and of the Executive Committee since 1981

Vittoria Assicurazioni SpA, Milan (I)
Member of the Board since 2004

AUGUST VON FINCK

Major Board assignments

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

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

Staatl. Mineralbrunnen AG, Bad Brückenau (D)
Member of the Board since May 2001

PASCAL LEBARD

Major Board assignments

Sequana Capital SA, Paris (F)
Deputy Managing Director and Member of the Board since 2004

Antalis International SAS, Paris (F)
Member of the Supervisory Board since 2004

ArjoWiggins SAS, Issy les Moulineaux (F)
Member of the Supervisory Board since 2004

Club Méditerranée, Paris (F)
Member of the Supervisory Board since 1995

Permal Group SAS, Paris (F)
Chairman of the Supervisory Board since 2004

LISI SA, Paris (F)
Member of the Board since 2002

MICHAEL KENNETH MOORE

Official appointments and major engagements

Economic Development Board, South Australia
Member of the Board since 2002

Special Advisor to the UN Global Compact on Business and Development since 2001

UN Commissioner for Legal Empowerment of the Poor since 2005

Senior Councillor to Fonterra Group of Companies since 2003

Adjunct Professor La Trobe University, Melbourne, Australia, 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).

Sergio Marchionne and Tiberto Ruy Brandolini d'Adda are both Board Members of Fiat SpA, Turin (I).

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 of Directors held six meetings in 2005.

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 2005, the membership of the Committee was as follows:

- Georges Muller (Chairman)
- François von Finck
- Carlo Maria Vismara (until 23 March 2005)
- Pascal Lebard (since 23 March 2005)

The Audit Committee held two 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's 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 Officer, 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 2005, the following individuals served on the Committee:

- Georges Muller (Chairman)
- Johan Allegaert (until 10 April 2005)
- Dan Kerpelman (since 11 April 2005)
- Michael Kenneth Moore
- Franz A. Blankart (member external to the Group)
- Jean-Pierre Méan (Chief Compliance Officer)

The Committee met three times in 2005 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 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-A-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 Officer. 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, it 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 are members of the Operations Council as at 31 December 2005:

DAN KERPELMAN (1958)

American/Italian

Chief Executive Officer (since April 2005)

Master's degrees in Computer Engineering and Business Administration

Joined SGS in 2005

Prior work experience:
President Health Imaging Group, Eastman Kodak, USA
General Manager, Diagnostic X-Ray, GE Healthcare, USA

FERNANDO BASABE (1959)

Spanish

Western Europe

BA in law and Master in Business Administration

Joined SGS in 1996

Previous responsibilities:
Managing Director, SGS Spain

HELGE BASTIAN (1960)

German

Life Science Services

PhD in Molecular Biology

Joined SGS in 2003

Prior work experience:
Qiagen GmbH, Germany

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, Switzerland

HELMUT CHIK (1960)

Chinese

China and Hong Kong

Master in Business Administration

Joined SGS in 1991

Previous responsibilities:
Managing Director, SGS Hong Kong

DUILIO GIACOMELLI (1950)

Italian

South East Europe

Diploma in Industrial Chemistry

Joined SGS in 1970

Previous responsibilities:
Managing Director, SGS Italy

ALEJANDRO GOMEZ DE LA TORRE (1959)

Peruvian

South America

Degree in Business Administration, Post Graduate Specialisation in International Commerce

Joined SGS in 1986

Previous responsibilities:
Regional Manager, Latin America

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

Degree in Chemical Engineering and Master in Business Administration

Joined SGS in 1988

Previous responsibilities:
Managing Director, SGS Belgium

FRED HERREN (1955)

Swiss

Automotive Services

BA in Economics

Initially joined SGS in 1986

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

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

Doctorate in Law

Joined SGS in 1982

Previous responsibilities:
COO East Asia & Pacific

CHRISTOPHER KIRK (1956)

British

Minerals Services,
Environmental Services

Post graduate certificate in Education

Joined SGS in 1981

Previous responsibilities:
COO South East Asia & Pacific

FRANCIS LACROZE (1953)

French

Agricultural Services

Post graduate certificate in Economics

Joined SGS in 1987

Previous responsibilities:
EVP Systems & Services Certification

CLAUDE LANOUHE (1950)

French

South East Asia & Pacific

PhD in Economics

Joined SGS in 1987

Previous responsibilities:
Managing Director, SGS India

HUGH MARKEY (1950)

Canadian

Corporate Development & Taxation

BA in Business Administration

Joined SGS in 2002

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

ROBERT MARKUS (1956)

Dutch

Africa

BS in Mechanical Engineering

Joined SGS in 1982

Previous responsibilities:
Managing Director, Western Africa

JEFFREY MCDONALD (1964)

Australian

Systems & Services Certification

Post Graduate Certificate Education

Joined SGS in 1995

Previous responsibilities:
Global Project Manager, Systems & Services Certification

JEAN-PIERRE MEAN (1944)

Swiss/Canadian

Legal & Compliance

Doctorate in 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

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

FRANKIE NG (1966)

Swiss/Chinese

Consumer Testing Services

BA in Economics and Electronics Engineering

Joined SGS in 1994

Previous responsibilities:
Managing Director US Testing,
Operations Manager,
China & Hong Kong

ALIM SAIDOV (1964)

Azeri

Eastern Europe & Middle East

PhD in Science

Joined SGS in 1993

Previous responsibilities:
COO North America

RICHARD TOBIN (1963)

American

Chief Financial Officer & IT

Master in Business Administration

Joined SGS in 2002

Previous responsibilities:
COO North America

TODD VANDERVEN (1959)

American

Strategy & Continuous Improvement

Master in Business Administration

Joined SGS in 2005

Previous work experience:
General Manager, Programmes, Marketing, Business Development, Health Imaging Group,
Eastman Kodak, USA

DENNIS YANG (1949)

Taiwanese

East Asia

Master of Business Administration

Joined SGS in 1975

Previous responsibilities:
General Manager, SGS Taiwan

Abdelkrim Belhia (Africa) and Agnes Berki (South East Europe) have relinquished their positions as members of the Operations Council during the period under review.

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.

DAN KERPELMAN

University of Rochester Medical Center, Rochester (USA)
Member of the Board since 2004

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

MyClimate-CLIPP, Climate Private Partnership, Zurich (CH)
Chairman since 2003

Swiss Export Promotion Office (OSEC) Zurich (CH)
Chairman of the Board since 2004

Precious Wood Holding Ltd., Zurich (CH)
Member of the Board since 2005

Swiss Climate Penny, Zurich (CH)
Member of the Board since 2005

JEAN-PIERRE MÉAN

ICC International Chamber of Commerce Switzerland, Zurich (CH)
Member of the Board since 2005

Transparency International, Berne (CH)
Member of the Board since 2005

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 the Directors, including the Chairman's, and that of the Chief Executive Officer, is approved by the full Board of Directors, on recommendation of the Committee. Neither the Chairman nor the Chief Executive Officer is allowed to participate in discussions and decisions on their own compensation.

The following Directors served on the Nomination and Remuneration Committee in 2005:

- Georges Muller (Chairman)
- Sergio Marchionne
- August von Finck
- Tiberto Ruy Brandolini d'Adda (since March 2005)

The Chief Executive Officer attends meetings of the Committee, except when his own remuneration is being discussed. The Committee met on two 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 Officer) 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 Officer). 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, are scheduled to vest in January 2006 under the conditions that (i) the Group reach or exceed in 2005 the target of CHF 45 earnings per share (before exceptional items), which condition has been met, 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 options 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 was 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 option 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 2005, each Board Member has been entitled to a fixed board membership fee of CHF 150 000 per annum, unchanged from last 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) 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, Georges Muller is entitled to a fixed board membership fee of CHF 300 000 per annum, unchanged 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 Officer as part of his annual performance bonus payable in options, under the same conditions of award, vesting and exercise as the Chief Executive Officer. In 2005, 182 064 such options were awarded to the Chairman.

As non-executive Vice Chairman of the Board of Directors, Sergio Marchionne is entitled to a fixed board membership fee of CHF 200 000 per annum.

5.2.3. Chief Executive Officer's remuneration

At the end of his tenure as Chief Executive Officer of the Company in April 2005, Johan Allegaert was succeeded by Dan Kerpelman.

Sections 5.2.3.1. to 5.2.3.5. detail the principles of the Chief Executive Officer's remuneration. The description of the remuneration paid to Board Members in 2005 in section 5.2.4. applies only to Board Members. The remuneration earned by Johan Allegaert and Dan Kerpelman during their tenure as Chief Executive Officer is included under section 5.2.5. (Compensation paid to the Operations Council members).

5.2.3.1. General principles

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

	Below minimum target performance	*On target performance*	*Maximum performance*
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.

The Chief Executive Officer 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 contribution scheme for a pensionable remuneration in excess of CHF 100 000 up to a maximum of CHF 774 000 per year. 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 Officer'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 Officer under the 2003 LTI plan during 2005.

5.2.3.5. Employment contracts

Employment contracts of Chief Executive Officers 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 and a severance payment equivalent to up 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 is due if the employment relationship is terminated in any other circumstance.

5.2.4. Directors' remuneration in 2005

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 fees and other benefits paid in cash during 2005.

CHF (thousand)

Name	Date of appointment	Board fee	Committee fees	Other benefits	Total cash remuneration 2005	Total remuneration 2005 (including options)	Total cash remuneration 2004
Georges Muller	May, 2002	300	60	25	385	763	385
Sergio Marchionne	May, 2001	200	30	-	230	230	1 778
August von Finck	October,1998	150	30	-	180	180	180
François von Finck	May, 2002	150	30	-	180	180	180
Michael Kenneth Moore	May, 2003	150	30	-	180	180	180
Tiberto Ruy Brandolini d'Adda	May, 2005	116	23	-	139	139	0
Pascal Lebard	May, 2005	116	23	-	139	139	0
Carlo Maria Vismara	May, 2003	34	7	-	41	41	180
Dominique Auburtin	May, 2001	34	7	-	41	41	180

5.2.4.2. Share options granted in 2005

The following information summarises options that were granted to the Company's Directors in 2005.

Name	at 1 January 2005	Granted 2005	Exercised 2005	Cancelled or lapsed 2005	at 31 December 2005	Vested 2005[2]	Exercise price CHF	Tax value of 2005 grant[3]
Georges Muller	1 257 192	nil	957 192	nil	300 000	nil	416[1]	
	331 171	nil	nil	nil	331 171	220 780	734[1]	
	–	182 061	nil	nil	182 061	60 687	759[1]	377 886
Sergio Marchionne	3 828 770	nil	3 828 770	nil	nil	nil	416[1]	
	441 561	nil	nil	nil	441 561	441 561	734[1]	

[1] One hundred options give the right to acquire one share.

[2] Including options having vested in prior years. None of these options were exercisable as of 31 December 2005.

[3] Tax value for Swiss taxation reporting purposes of the options granted during the period at the time of the grant (in CHF).

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 2005, including the compensation earned by Chief Executives of the Company.

5.2.5.1 Cash compensation

A total of CHF 13 196 000 was earned by members of the Operations Council (28 senior executives) as remuneration for their service during 2005 (2004: CHF 13 733 000). The amount includes bonuses payable in 2006 in relation to the 2005 financial results.

5.2.5.2. Share options

A total of 2 387 533 options granting the right to acquire shares of SGS at a strike price of CHF 759 (100 options give the right to acquire one share) were granted to members of the Operations Council in 2005. Such options vest one-third in 2005, 2006 and 2008 and are subject to a blocking period ending in January 2008. At grant these options had an aggregate value (calculated on the basis of the fair value at grant date) of CHF 4 955 563.

5.2.5.3. Total compensation of the Operations Council

The Operations Council (28 senior members, including the Chief Executive) received total compensation (cash and options) of CHF 17 676 967 (2004: 16 644 927).

5.2.6. Company's performance

The following graphs compare the performance index of the Company with the performance of the Swiss Market Index (SMI) in 2005 (table 1) and for the three-year period 2003 to 2005 (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 the SGS Index and the SMI Index for the period 1 January to 31 December 2005.

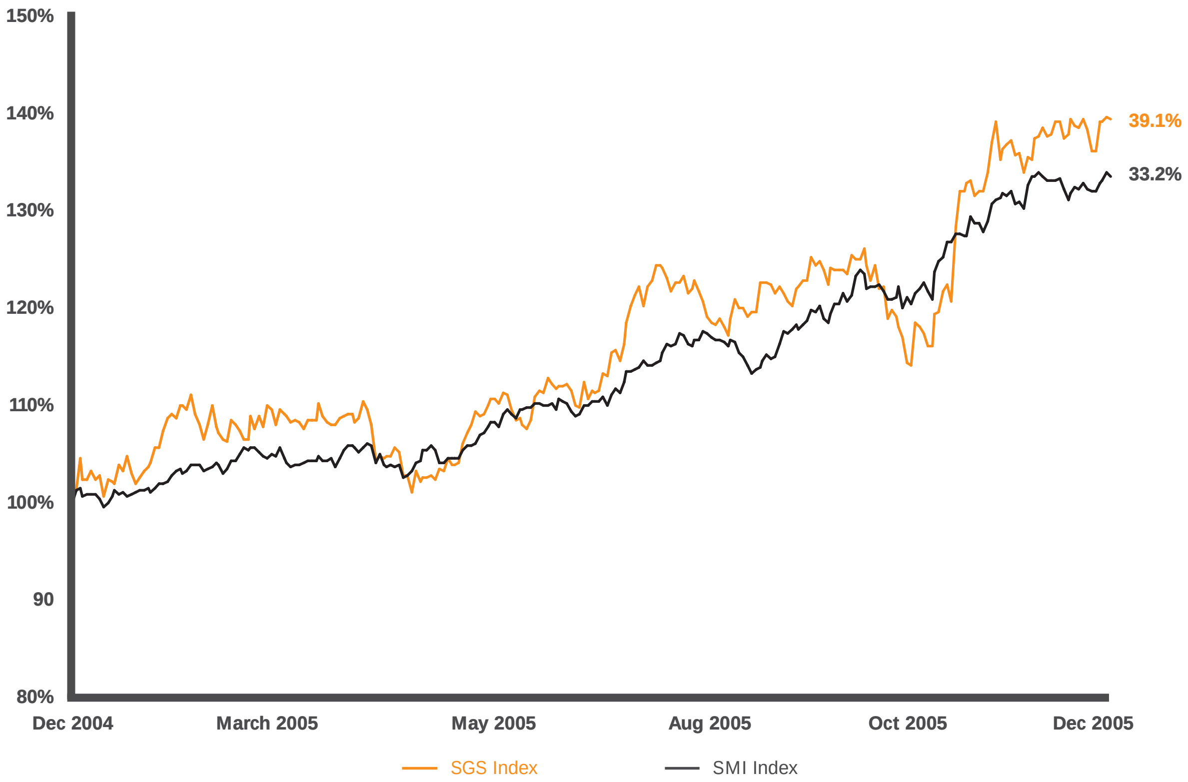
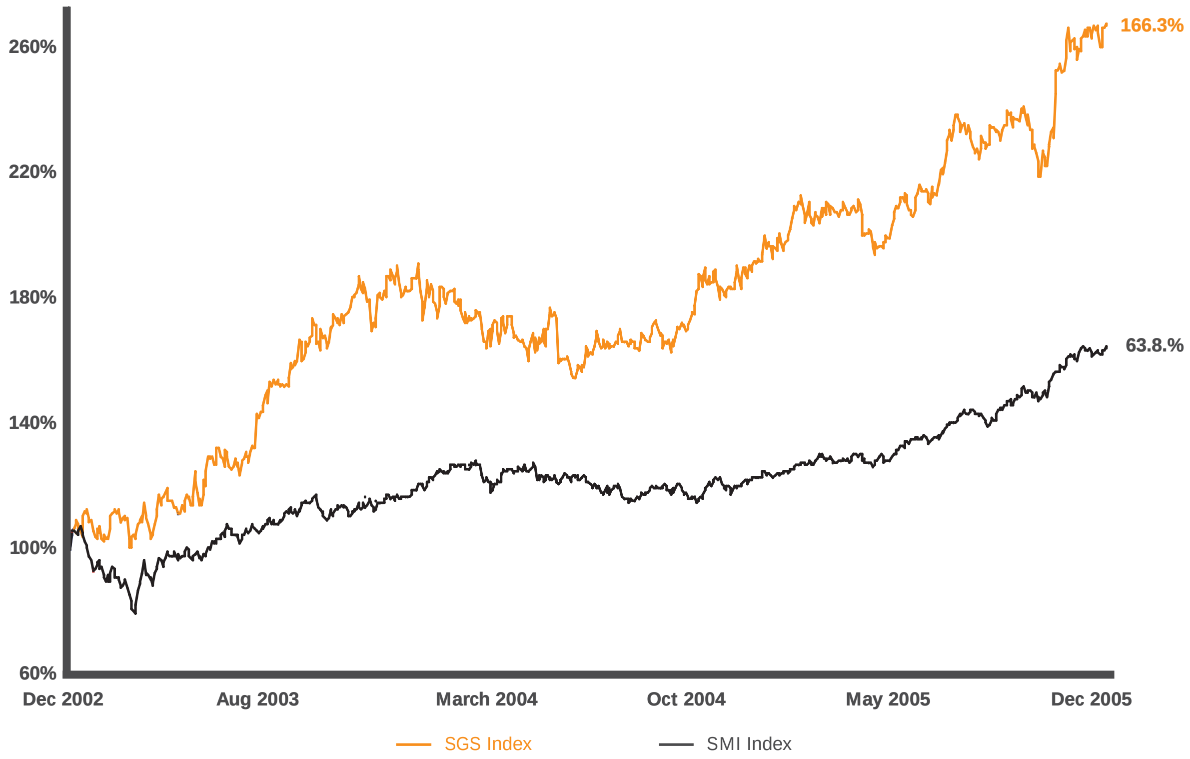


Table 2: Comparison of relative returns between the SGS Index and the SMI Index for the period 1 January 2003 to 31 December 2005.



5.3. COMPENSATION FOR FORMER MEMBERS OF GOVERNING BODIES

5.3.1 Compensation paid to former Directors

In 2005, Board fees of CHF 82 000 were paid to former members of the Board of Directors.

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

In 2005, the Group paid an aggregate amount of CHF 2 106 603 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 2005, the Company has allotted 384 shares to the Chief Executive Officer.

5.5. SHARE OWNERSHIP

On 31 December 2005, the members of the Operations Council, including the Chief Executive Officer and persons closely linked to such persons, held a total of 1 649 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*
Tiberto Ruy Brandolini d'Adda	1
Pascal Lebard	10
Sergio Marchionne	50
Michael Kenneth Moore	3
Georges Muller	110
August von Finck	19 670
François von Finck	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 2005 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 2005.

5.8. LOANS TO MEMBERS OF GOVERNING BODIES

As of 31 December 2005, the Company had no outstanding loans to members of its governing bodies.

5.9. HIGHEST TOTAL COMPENSATION

The highest compensation paid by the Group to a member of the Board of Directors in the year under review amounts to CHF 762 886.

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 General Meeting of Shareholders.

6.1. VOTING RIGHTS RESTRICTIONS AND REPRESENTATION

All registered shareholders can attend the shareholders' meeting and vote their shares. 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. CONVOCATION OF GENERAL MEETINGS OF SHAREHOLDERS

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

6.4. AGENDA

The Agenda of the General Meeting of Shareholders is defined by the Board of Directors. Shareholders representing shares of a minimum par value of CHF 1.0 million 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 (now Deloitte SA), 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 at the Annual General Meeting every year. Deloitte SA has audited the Company's financial statements starting with the financial year 2000.

The current lead auditor, Peter Quigley, began serving in this role in 2005.

8.2. AUDITING FEES

The audit fees charged by Deloitte SA for the audit of the Company and the Group financial statements in 2005 amounted to CHF 4.4 million.

8.3. ADDITIONAL FEES

In addition, Deloitte SA charged SGS Group in 2005 an aggregate amount of CHF 1.0 million for other professional services, unrelated to the audit activity.

8.4. SUPERVISORY AND CONTROL INSTRUMENTS VIS-A-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 conducts 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' 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

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December

CHF (million)	*Notes*	**2005**	*2004*[1]
REVENUE	3	**3 308**	**2 885**
Salaries and wages		(1 615)	(1 435)
Subcontractors' expenses		(217)	(181)
Depreciation and amortisation (excluding goodwill)	9 & 11	(140)	(115)
Other operating expenses	4	(834)	(761)
OPERATING INCOME		**502**	**393**
Recoveries on pre-2002 terminated contracts	5	–	3
Goodwill amortisation		–	(16)
EARNINGS BEFORE INTEREST AND TAX (EBIT)		**502**	**380**
Financial income/(expense)	6	5	6
PROFIT BEFORE TAXES		**507**	**386**
Taxes	7	(119)	(93)
PROFIT FOR THE YEAR		**388**	**293**
Profit attributable to:			
Equity holders of SGS SA		371	278
Minority interests		17	15
BASIC EARNINGS PER SHARE (IN CHF)	8	**49.45**	**37.21**
DILUTED EARNINGS PER SHARE (IN CHF)	8	**48.84**	**36.99**
DIVIDEND PER SHARE (IN CHF)		**31.00**[2]	**12.00**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

[2] As proposed by the Board of Directors.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the years ended 31 December

CHF (million)	**2005**	*2004*[1]
Exchange differences[2]	41	(28)
Actuarial gains and losses	(54)	(10)
NET INCOME RECOGNISED DIRECTLY IN EQUITY	**(13)**	**(38)**
Profit for the year	388	293
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**375**	**255**
ATTRIBUTABLE TO:		
EQUITY HOLDERS OF SGS SA	**358**	**233**
MINORITY INTERESTS	**17**	**22**
	375	**255**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

[2] In 2005, exchange differences included net exchange losses of CHF 8 million on long-term loans treated as net investment in a foreign entity according to International Accounting Standard (IAS) 21 (2004: losses of CHF 9 million).

Effects of adoption of new and revised accounting standards on 2004 consolidated accounts.

CHF (million)	*Profit for the year*	*Assets*	*Liabilities*	*Total equity*
31 DECEMBER 2004 – PUBLISHED	**279**	**2 212**	**983**	**1 229**
Presentation of financial statements (IAS 1 revised)	15	–	(26)	26
Employee post-employment benefits (IAS 19)	7	39	106	(74)
Share-based payments (IFRS 2)	(7)	–	–	7
Special purpose entities (SIC 12)	(1)	1	–	1
31 DECEMBER 2004 – AMENDED	**293**	**2 252**	**1 063**	**1 189**

For information on the new and revised accounting standards see note 2.

CONSOLIDATED BALANCE SHEET

at 31 December (before appropriation of available retained earnings)

CHF (million)	Notes	2005	2004[1]
ASSETS			
NON-CURRENT ASSETS			
Land, buildings and equipment	9	586	493
Goodwill	10	329	242
Other intangible assets	11	100	62
Investments in associated and other companies		2	2
Deferred tax assets	7	161	146
Other non-current assets	12	62	21
TOTAL NON-CURRENT ASSETS		**1 240**	**966**
CURRENT ASSETS			
Work-in-progress and inventories	13	147	118
Trade accounts and notes receivable	14	713	579
Other receivables and prepayments	15	134	133
Marketable securities	16	10	10
Cash and cash equivalents	17	521	446
TOTAL CURRENT ASSETS		**1 525**	**1 286**
TOTAL ASSETS		**2 765**	**2 252**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital		156	156
Reserves		1 373	1 096
Treasury shares		(90)	(89)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA		**1 439**	**1 163**
MINORITY INTERESTS		**36**	**26**
TOTAL EQUITY	20	**1 475**	**1 189**
NON-CURRENT LIABILITIES			
Loans and obligations under finance leases	21	7	8
Deferred tax liabilities	7	51	64
Retirement benefit obligations	22	261	168
Provisions	23	106	122
TOTAL NON-CURRENT LIABILITIES		**425**	**362**
CURRENT LIABILITIES			
Loans and obligations under finance leases	21	94	10
Trade and other payables	24	329	330
Provisions	23	33	29
Current tax liabilities		58	45
Other creditors and accruals	25	351	287
TOTAL CURRENT LIABILITIES		**865**	**701**
TOTAL LIABILITIES		**1 290**	**1 063**
TOTAL EQUITY AND LIABILITIES		**2 765**	**2 252**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended 31 December

CHF (million)	Notes	2005	2004[1]
Profit for the year		371	278
Adjustments for:			
Amortisation of intangibles	11	23	17
Amortisation of goodwill	10	–	16
Depreciation	9	117	98
Net financial income		(6)	(6)
Change in provisions		(44)	(30)
Share-based payment expense		9	7
Taxes		119	93
Gains on disposals		(8)	(2)
Minority interests		17	15
		598	**486**
Working capital movements:			
(Increase) in work-in-progress and inventories		(18)	(9)
(Increase) in trade accounts and notes receivable		(81)	(4)
Decrease in other receivables and prepayments		10	2
(Decrease)/increase in trade and other payables		(24)	18
Increase in other creditors and accruals		53	31
(Decrease) in other provisions		(20)	(27)
Taxes paid		(107)	(72)
OPERATING CASH FLOW		**411**	**425**
Purchase of land, buildings, equipment and other intangible assets	9 & 11	(205)	(201)
Cash paid for acquisitions less cash acquired	18	(95)	(194)
Decrease in marketable securities		1	52
(Increase)/decrease in long-term loans and other assets		(11)	1
Interest and dividends received		16	13
Sales of land, buildings and equipment		15	14
CASH FLOW FROM INVESTING ACTIVITIES		**(279)**	**(315)**
Dividends paid		(90)	(68)
Purchase of treasury shares		(1)	(15)
Interest paid		(11)	(7)
(Decrease) of minority interests in net assets		(7)	(14)
(Decrease) in long-term loans		(3)	(9)
Increase/(decrease) in short-term loans		81	(19)
CASH FLOW FROM FINANCING ACTIVITIES		**(31)**	**(132)**
Increase/(decrease) in cash and cash equivalents at average rates		101	(22)
Translation differences on flows		(41)	10
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS AT CLOSING RATES		**60**	**(12)**
Cash and cash equivalents at beginning of year		446	472
Effects of exchange rate changes on opening balances		15	(14)
Cash & cash equivalents at 1 January retranslated at closing rates		461	458
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**521**	**446**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

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 2005. 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 2004 consolidated financial statements, except for the Group's adoption of new or revised IFRS rules effective 1 January 2005. The 2004 comparatives have been amended to reflect these changes.

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.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Presentation of financial statements (IAS 1 revised)

IAS 1 (revised) requires minority interests to be included in the Group's equity in the consolidated balance sheet rather than as a separate category in the balance sheet, and requires that minority interests be no longer deducted in arriving at the Group's profit.

Employee post-employment benefits (IAS 19)

The Group has decided to adopt from 1 January 2005, the new immediate recognition option under IAS 19. Under this option, the actuarial gains/losses from valuing the assets and liabilities of defined benefit plans at fair value at the balance sheet date are immediately recognised in the balance sheet with a corresponding movement in equity. The prior policy of amortising into the income statement the actuarial gains/losses in excess of the "corridor" (the higher of 10% of plan assets or liabilities) is no longer applicable.

Share-based payments (IFRS 2)

Effective 1 January 2005, IFRS 2 requires the fair value of equity instruments granted to employees to be recognised as an expense. The amounts for share-based compensation are charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. The fair value of the granted options is their market value on grant date. Prior-year consolidated financial statements have been adjusted to reflect the cost of options granted after 7 November 2002, and not yet vested as at 1 January 2005.

Business combinations (IFRS 3)

Under IFRS 3, with effect from 1 January 2005, all goodwill is considered to have an indefinite life and is not amortised, but is subject to annual impairment testing. This new accounting policy was also applied in 2004 for transactions on or after 31 March 2004.

Special purpose entities (SIC-12)

With effect from 1 January 2005, the revised Standing Interpretations Committee SIC-12 requires the consolidation of equity compensation plans. For comparability purposes the Group has opted to apply the revised standard commencing 1 January 2004.

The impact of the above changes on the Group 2004 consolidated accounts is disclosed on page 65.

The impact of the above changes on basic and diluted earnings per share is disclosed in note 8.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6: Exploration for and Evaluation of Minerals Resources
- IFRS 7: Financial instruments disclosure
- IFRIC 4: Determining whether an Arrangement contains a Lease
- IFRIC 5: Right to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6: Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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 profit attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively. The principal operating and holding companies of the Group are listed on pages 120 to 125.

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 income statement.

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.

GOODWILL

In the case of acquisitions of businesses, the acquired identifiable assets, liabilities and contingent 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, has been capitalised and amortised in 2004 on a straight-line basis over its expected useful life ranging from 5 to 20 years. Starting 1 January 2005, this goodwill is no longer amortised but tested for impairment.

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.

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit (or group of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units (or groups of cash-generating units) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 EXCLUDING GOODWILL

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 income statement 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 income statement 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 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 income statement 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 income statement 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 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 equity is recognised in the income statement 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 income statement.

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 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 obligation 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 income statement is determined by independent actuaries using the projected unit credit method. Actuarial gains and losses are immediately recognised in the consolidated balance sheet with the corresponding movement being recorded in the statement of recognised income and expense.

Past service costs are recognised as an expense over the average period remaining until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or change to, a defined benefit plan, the expense is recognised immediately.

Payments to defined contribution plans are recognised as an expense in the income statement as incurred.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to 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). An expense is recognised in the income statement 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 income statement 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 income statement 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 income statement 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 are 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 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 profit is also adjusted to reflect the after-tax impact of conversion.

DIVIDENDS

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

TREASURY SHARES

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the entity's accounting policies described above, management has made the following judgements that have a significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with in the following paragraphs).

Legal and warranty claims on services rendered

The Group is subject to litigation and other claims as described in note 23. Management bases its judgements on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industries and markets, prevailing commercial terms and legal precedent. The Group's legal and warranty claims are reviewed, at minimum, on a quarterly basis by a cross-functional representation of management.

Use of estimates

The key assumptions concerning the future, and other key sources of estimation at the balance sheet date that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Recoverability of trade accounts and notes receivable

Trade accounts and notes receivable are reflected net of an estimated allowance for doubtful accounts (see note 14). These allowances for uncollectible amounts are estimated based primarily on the Group's aging policy guidelines, individual client analysis and an analysis of the underlying risk profile of each major revenue stream by business and geography.

Impairment of Goodwill

The Group determines whether goodwill is impaired at minimum on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit that holds the goodwill at a determined discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at the balance sheet date was CHF 329 million. No impairment loss was recognised in 2005. Details of the impairment loss calculation are provided in note 10.

Estimations of employee post-employment benefits obligations

The group maintains several defined benefit pension plans in accordance with local conditions and practices in the countries in which it operates. The related obligations recognised in the balance sheet represent the present value of the defined benefit obligations calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, return on assets, salary progression rates and mortality rates. These actuarial assumptions vary according to the local prevailing economic and social conditions. Details of the assumptions used are provided in note 22.

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

			Year-end rates		Annual average rates	
			2005	*2004*	**2005**	*2004*
Australia	AUD	100	96.57	87.86	94.87	91.45
Euro	EUR	100	155.68	154.49	154.83	154.41
Great Britain	GBP	100	226.97	217.93	226.34	227.50
USA	USD	100	131.56	113.42	124.49	124.35

3. 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.

There are no significant intercompany sales or profits or losses on segmented revenue due to the difference in nature of services being rendered. Revenue and operating income are attributed to geographic segments based on the location in which the services are rendered.

CHF (million)	2005	%	2004[1]	%[1]
REVENUE BY BUSINESS SEGMENT				
Agricultural Services	295	8.9	257	8.9
Minerals Services	394	11.9	319	11.1
Oil, Gas & Chemicals Services	635	19.2	575	19.9
Life Science Services	125	3.8	106	3.8
Consumer Testing Services	476	14.4	361	12.5
Systems & Services Certification	274	8.3	235	8.1
Industrial Services	445	13.5	380	13.2
Environmental Services	235	7.1	209	7.2
Automotive Services	200	6.0	188	6.5
Trade Assurance Services	229	6.9	255	8.8
TOTAL	**3 308**	**100.0**	**2 885**	**100.0**
REVENUE BY GEOGRAPHICAL SEGMENT				
Europe/Africa/Middle East	1 815	54.9	1 646	57.0
Americas	772	23.3	686	23.8
Asia/Pacific	721	21.8	553	19.2
TOTAL	**3 308**	**100.0**	**2 885**	**100.0**
OPERATING INCOME BY BUSINESS SEGMENT				
Agricultural Services	33	6.6	23	5.9
Minerals Services	63	12.5	46	11.7
Oil, Gas & Chemicals Services	79	15.7	70	17.8
Life Science Services	19	3.8	13	3.3
Consumer Testing Services	102	20.3	65	16.5
Systems & Services Certification	47	9.3	31	8.0
Industrial Services	59	11.8	46	11.7
Environmental Services	26	5.2	17	4.3
Automotive Services	25	5.0	21	5.3
Trade Assurance Services	49	9.8	61	15.5
TOTAL	**502**	**100.0**	**393**	**100.0**
OPERATING INCOME BY GEOGRAPHICAL SEGMENT				
Europe/Africa/Middle East	274	54.6	223	56.7
Americas	63	12.5	50	12.7
Asia/Pacific	165	32.9	120	30.6
TOTAL	**502**	**100.0**	**393**	**100.0**

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

CHF (million)	2005	%	2004[1]	%[1]
OPERATING INCOME BY BUSINESS SEGMENT INCLUSIVE OF GOODWILL AMORTISATION				
Agricultural Services	33	6.6	20	5.3
Minerals Services	63	12.5	40	10.6
Oil, Gas & Chemicals Services	79	15.7	68	18.0
Life Science Services	19	3.8	11	2.9
Consumer Testing Services	102	20.3	64	17.0
Systems & Services Certification	47	9.3	31	8.2
Industrial Services	59	11.8	45	12.0
Environmental Services	26	5.2	16	4.2
Automotive Services	25	5.0	21	5.6
Trade Assurance Services	49	9.8	61	16.2
TOTAL	**502**	**100.0**	**377**	**100.0**
OPERATING INCOME BY GEOGRAPHICAL SEGMENT INCLUSIVE OF GOODWILL AMORTISATION				
Europe/Africa/Middle East	274	54.6	213	56.5
Americas	63	12.5	47	12.5
Asia/Pacific	165	32.9	117	31.0
TOTAL	**502**	**100.0**	**377**	**100.0**
OPERATING ASSETS BY BUSINESS SEGMENT[2]				
Agricultural Services	168	6.9	151	8.0
Minerals Services	310	12.7	269	14.2
Oil, Gas & Chemicals Services	564	23.0	366	19.3
Life Science Services	79	3.2	84	4.4
Consumer Testing Services	346	14.1	255	13.4
Systems & Services Certification	115	4.7	93	4.9
Industrial Services	435	17.8	259	13.7
Environmental Services	210	8.6	172	9.1
Automotive Services	65	2.7	89	4.7
Trade Assurance Services	155	6.3	158	8.3
TOTAL	**2 447**	**100.0**	**1 896**	**100.0**
OPERATING ASSETS BY GEOGRAPHICAL SEGMENT[2]				
Europe/Africa/Middle East	1 091	44.6	863	45.5
Americas	663	27.1	476	25.1
Asia/Pacific	693	28.3	557	29.4
TOTAL	**2 447**	**100.0**	**1 896**	**100.0**

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

CHF (million)	2005	2004[2]
RECONCILIATION OF OPERATING ASSETS BY BUSINESS SEGMENT TO THE BALANCE SHEET		
Assets by business segment as above	2 447	1 896
Non operating assets	318	356
TOTAL ASSETS PER BALANCE SHEET	**2 765**	**2 252**

[2] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2) and a classification correction.

CHF (million)	2005	%	2004[1]	%[1]
OPERATING LIABILITIES BY BUSINESS SEGMENT				
Agricultural Services	107	8.9	87	8.9
Minerals Services	143	12.0	108	11.0
Oil, Gas & Chemicals Services	231	19.2	195	19.9
Life Science Services	45	3.7	36	3.7
Consumer Testing Services	173	14.4	122	12.5
Systems & Services Certification	100	8.3	79	8.1
Industrial Services	161	13.4	129	13.2
Environmental Services	85	7.1	71	7.3
Automotive Services	73	6.1	64	6.5
Trade Assurance Services	83	6.9	87	8.9
TOTAL	**1 201**	**100.0**	**978**	**100.0**
OPERATING LIABILITIES BY GEOGRAPHICAL SEGMENT				
Europe/Africa/Middle East	835	69.5	723	73.9
Americas	184	15.3	126	12.9
Asia/Pacific	182	15.2	129	13.2
TOTAL	**1 201**	**100.0**	**978**	**100.0**

CHF (million)	2005	2004[1]
RECONCILIATION OF OPERATING LIABILITIES BY BUSINESS SEGMENT TO THE BALANCE SHEET		
Liabilities by business segment as above	1 201	978
Non operating liabilities	89	85
TOTAL LIABILITIES PER BALANCE SHEET	**1 290**	**1 063**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

CHF (million)	2005	%	2004	%
DEPRECIATION AND AMORTISATION BY BUSINESS SEGMENT				
Agricultural Services	10	7.1	12	9.2
Minerals Services	18	12.9	21	16.0
Oil, Gas & Chemicals Services	26	18.6	25	19.1
Life Science Services	6	4.3	7	5.3
Consumer Testing Services	29	20.7	20	15.3
Systems & Services Certification	5	3.6	5	3.8
Industrial Services	14	10.0	12	9.2
Environmental Services	16	11.4	14	10.7
Automotive Services	9	6.4	8	6.1
Trade Assurance Services	7	5.0	7	5.3
TOTAL	**140**	**100.0**	**131**	**100.0**
DEPRECIATION AND AMORTISATION BY GEOGRAPHICAL SEGMENT				
Europe/Africa/Middle East	74	52.9	76	58.0
Americas	26	18.5	24	18.3
Asia/Pacific	40	28.6	31	23.7
TOTAL	**140**	**100.0**	**131**	**100.0**

	2005	2004
AVERAGE NUMBER OF EMPLOYEES BY GEOGRAPHICAL SEGMENT		
Europe/Africa/Middle East	19 446	18 014
Americas	10 252	9 227
Asia/Pacific	11 762	9 418
TOTAL	**41 460**	**36 659**
Number of employees at year-end	43 517	38 728
CAPITAL EXPENDITURES BY GEOGRAPHICAL SEGMENT		
Europe/Africa/Middle East	85	90
Americas	44	42
Asia/Pacific	76	69
TOTAL	**205**	**201**

4. OTHER OPERATING EXPENSES

CHF (million)	2005	2004[1]
Rental expenses, insurance, utilities and sundry supplies	175	156
Consumables, repairs and maintenance	207	177
Communication costs	84	76
Travel costs	217	187
Miscellaneous operating costs	151	165
TOTAL	**834**	**761**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

Included in other operating expenses are operating lease expenses totalling CHF 67 million (2004: CHF 46 million).

5. RECOVERIES ON PRE-2002 TERMINATED CONTRACTS

CHF (million)	2005	2004
Cash received on fully provided TAS trade receivables	–	3

6. FINANCIAL INCOME/(EXPENSE)

CHF (million)	2005	2004
Income from cash, deposits and marketable securities	12	7
Financial (expense)	(10)	(7)
Foreign exchange gains	3	6
TOTAL	**5**	**6**

7. TAXES

CHF (million)	2005	2004[1]
MAJOR COMPONENTS OF TAX EXPENSE		
Current taxes	116	91
Deferred tax expense relating to the origination and reversal of temporary differences	2	2
Deferred tax expense/(income) resulting from tax rate changes	1	–
TOTAL	**119**	**93**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

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)	2005	2004[1]
RECONCILIATION OF TAX EXPENSE		
Tax at the domestic rates applicable to the profits earned in the country concerned	113	88
Tax effect of expenses that are not tax deductible	5	9
Tax charge from (usage of) unrecognised tax losses	(5)	(10)
Tax benefit from tax rate changes	–	–
Non creditable foreign withholding taxes	14	10
All other, net	(8)	(4)
TAX CHARGE	**119**	**93**

CHF (million)	2005		2004[1]	
	Assets	Liabilities	Assets	Liabilities
COMPONENTS OF DEFERRED INCOME TAX BALANCES				
Fixed assets	12	21	12	11
Inventories & receivables	8	8	6	4
Actuarial gains & losses on pensions	63	–	39	–
Provisions & other	29	22	50	49
Intangible assets	20	–	18	–
Tax loss carryforwards	29	–	21	–
DEFERRED INCOME TAXES	**161**	**51**	**146**	**64**

CHF (million)	Fixed assets	Inventories & trade receivables	Operating provisions & other	Actuarial gains & losses on pensions	Intangible assets	Tax loss carryforwards	Total
NET CHANGE IN DEFERRED TAX ASSETS (LIABILITIES)							
Net deferred income tax asset (liability) at the beginning of the year	1	2	1	39	18	21	82
(Charged)/credited to the income statement	(7)	(3)	2	–	(1)	7	(2)
Additions/(disposals)	(3)	–	–	–	–	–	(3)
(Charged)/credited to the shareholders' equity	–	–	–	18	–	–	18
Effect of change in tax rates	–	–	(1)	–	–	–	(1)
Exchange differences and other	–	1	4	7	3	1	16
NET DEFERRED INCOME TAX ASSET (LIABILITY) AT THE END OF THE YEAR	**(9)**	**–**	**6**	**64**	**20**	**29**	**110**

The Group has unrecognised tax losses carried forward amounting to CHF 53 million (2004: CHF 58 million) of which CHF 16 million (2004: CHF 21 million) expire within the next five years. No tax losses carried forward expired in 2005.

CHF (million)	2005	2004[1]
REFLECTED IN THE BALANCE SHEET AS FOLLOWS:		
Deferred tax assets	161	146
Deferred tax liabilities	(51)	(64)
TOTAL	**110**	**82**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

8. EARNINGS PER SHARE

Basic earnings per share are calculated as follows:

	2005	2004[1]
Profit attributable to equity holders of SGS SA CHF (million)	371	278
Weighted average number of shares	7 501 173	7 488 913
BASIC EARNINGS PER SHARE (CHF)	**49.45**	**37.21**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

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).

	2005	2004[1]
Diluted weighted average number of shares	7 594 441	7 532 400
DILUTED EARNINGS PER SHARE (CHF)	**48.84**	**36.99**

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

Impact of adoption of new accounting standards:

	Impact on basic earnings per share		*Impact on diluted earnings per share*	
	2005	2004	2005	2004
Recognition of share-based payments as expense	(1.2)	(0.85)	(1.19)	(0.85)
Immediate recognition of actuarial gains and losses	1.07	0.85	1.05	0.85
Consolidation of special purpose entities	0.88	0.72	0.63	0.74
TOTAL IMPACT OF NEW ACCOUNTING STANDARDS	**0.75**	**0.72**	**0.49**	**0.74**

9. LAND, BUILDINGS AND EQUIPMENT

CHF (million)	*Land & buildings*	*Machinery & equipment*	*Other tangible assets*	2005	2004
COST					
At 1 January	321	584	337	1 242	1 104
Additions	17	103	50	170	173
Acquisition of subsidiaries	7	12	6	25	87
Sale of subsidiaries	–	(1)	(2)	(3)	–
Disposals	(3)	(27)	(30)	(60)	(79)
Exchange differences	14	58	21	93	(43)
At 31 December	356	729	382	1 467	1 242
ACCUMULATED DEPRECIATION					
At 1 January	117	388	244	749	689
Depreciation for the year	12	69	36	117	98
Acquisition of subsidiaries	1	9	4	14	55
Sale of subsidiaries	–	(1)	(1)	(2)	–
Disposals	(1)	(23)	(27)	(51)	(68)
Exchange differences	4	34	16	54	(25)
At 31 December	133	476	272	881	749
NET BOOK VALUE 2005	**223**	**253**	**110**	**586**	**–**
NET BOOK VALUE 2004	**204**	**196**	**93**	**–**	**493**
INCLUDED IN LAND, BUILDINGS AND EQUIPMENT ARE LEASED ASSETS AS FOLLOWS:					
Purchase cost of leased tangible assets	16	2	1	19	22
Accumulated depreciation	6	1	–	7	10
NET BOOK VALUE AS AT 31 DECEMBER	**10**	**1**	**1**	**12**	**12**

At 31 December 2005, the Group has commitments of CHF 1.3 million (2004: CHF 3.1 million) for the acquisition of land, buildings and equipment.

Included in the other tangible assets are construction in progress projects amounting to CHF 4.3 million (2004: CHF 6.7 million).

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

CHF (million)	2005	2004
Buildings	373	415
Machinery, equipment and other tangible assets	1 080	787

10. GOODWILL

CHF (million)	2005	*2004*
COST		
At 1 January	286	146
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (see note 2)	(44)	–
Additions	64	148
Disposals	–	–
Exchange differences	23	(8)
At 31 December	329	286
ACCUMULATED AMORTISATION		
At 1 January	44	29
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (see note 2)	(44)	–
Amortisation for the year	–	16
Disposals	–	–
Exchange differences	–	(1)
At 31 December	–	44
NET BOOK VALUE AT 31 DECEMBER 2005	**329**	–
NET BOOK VALUE AT 31 DECEMBER 2004	–	**242**

Goodwill additions include no contingent consideration paid in relation to prior year acquisitions (2004: CHF 9 million).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit (CGU) or group of CGUs that are expected to benefit from the business combination.

Goodwill arising from business combinations in the year has been allocated as follows:

CHF (million)	2005
Auto Sécurité - Automotive Services, France	25
Minnovex - Minerals Services, North America	15
Paradigm - Environmental Services, North America	9
X-Per-X - Industrial Services, North America	6
Aquatic Health - Consumer Testing Services, Chile	6
Others - various	3
TOTAL	**64**

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices or direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecast. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from most recent financial results and budgets approved by management for the next five years. These cash flows are extrapolated for the following five years based on an estimated growth rate of no more than 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

11. OTHER INTANGIBLE ASSETS

CHF (million)			*Computer software and other assets*			
	Trademarks	*Customer relationships*	*Internally generated*	*Purchased*	**2005**	*2004*
COST						
At 1 January	3	17	20	86	126	71
Additions	–	–	10	25	35	28
Acquisition of subsidiaries	2	17	–	2	21	30
Disposals	–	–	–	(1)	(1)	(2)
Exchange differences	–	2	1	6	9	(1)
At 31 December	5	36	31	118	190	126
ACCUMULATED AMORTISATION						
At 1 January	–	1	6	57	64	41
Amortisation for the year	–	1	7	15	23	17
Acquisition of subsidiaries	–	–	–	1	1	7
Disposals	–	–	–	(1)	(1)	(1)
Exchange differences	–	–	(1)	4	3	–
At 31 December	–	2	12	76	90	64
NET BOOK VALUE 2005	**5**	**34**	**19**	**42**	**100**	**–**
NET BOOK VALUE 2004	**3**	**16**	**14**	**29**	**–**	**62**

The Group is implementing global management information systems focusing 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 (2004: CHF 6 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.

12. OTHER NON-CURRENT ASSETS

CHF (million)	2005	*2004*[1]
Non-current loans to third parties	1	2
Other non-current assets	61	19
TOTAL	**62**	**21**

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

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 2005 and 2004, the fair value of the Group's other non-current assets approximate to their carrying value.

13. WORK-IN-PROGRESS AND INVENTORIES

CHF (million)	2005	*2004*
Work-in-progress	123	98
Inventories	24	20
TOTAL	**147**	**118**

14. TRADE ACCOUNTS AND NOTES RECEIVABLE

CHF (million)	2005	*2004*
Trade accounts and notes receivable	1 113	952
Allowance for doubtful accounts	(400)	(373)
TOTAL	**713**	**579**
Relating to TAS (government receivables)	54	44

Receivables from Trade Assurance Services (TAS) clients, 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 income statement. The recoveries of these receivables have been and will continue to be reported separately as "recoveries on pre-2002 terminated contracts". During the current year no such receivables have been collected (2004: CHF 3 million).

15. OTHER RECEIVABLES AND PREPAYMENTS

CHF (million)	2005	*2004*
Prepayments and deposits	48	57
Other receivables	86	76
TOTAL	**134**	**133**

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

16. MARKETABLE SECURITIES

CHF (million)	2005	*2004*
Available for sale	10	10
TOTAL	**10**	**10**

Unrealised gains or losses on marketable securities designated as available for sale and which are recorded in equity amounted to a gain of CHF 0.2 million for 2005 (2004: gain CHF 0.1 million). The accumulated losses relating to these items amounted to a loss of CHF 0.3 million in 2005 (2004: loss CHF 0.5 million).

17. CASH AND CASH EQUIVALENTS

CHF (million)	2005	*2004*[1]
Cash and short-term deposits	520	445
Short-term loans	1	1
TOTAL	**521**	**446**

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

At 31 December 2005 there were some restrictions on the use of cash and cash equivalents amounting to CHF 7 million. Typical examples are cash-deposits for performance bonds, rentals and other short-term operating obligations.

18. ACQUISITION OF SUBSIDIARIES

During 2005, the Group completed the acquisition of 100% of the Auto Sécurité Group, based in France, effective 1 August 2005. The Auto Sécurité Group operates one of the largest Statutory Vehicle Inspection networks in France with more than 850 franchised testing centres.

CHF (million)

AUTO SECURITE	Carrying amount before combination	Fair value adjustment	Amount recognised at the acquisition date
Tangible and intangible assets	1	15	16
Current assets excluding cash & cash equivalents	2	–	2
Cash & cash equivalents	14	–	14
Current liabilities	(3)	–	(3)
Non–current liabilities	(1)	–	(1)
NET ASSETS ACQUIRED	**13**	**15**	**28**
Goodwill on acquisition			25
TOTAL PURCHASE PRICE			**53**
Less:			
Cash & cash equivalents acquired			(14)
Deferred consideration			–
NET CASH OUTFLOW ON ACQUISITION			**39**

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 2 million to the Group operating income for the financial year.

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

CHF (million)

OTHER	Carrying amount before combination	Fair value adjustment	Amount recognised at the acquisition date
Tangible and intangible assets	12	3	15
Current assets excluding cash & cash equivalents	15	–	15
Cash & cash equivalents	3	–	3
Current liabilities	(10)	–	(10)
Non-current liabilities	(3)	–	(3)
NET ASSETS ACQUIRED	**17**	**3**	**20**
Goodwill on acquisition			39
TOTAL PURCHASE PRICE			**59**
Less:			
Cash & cash equivalents acquired			(3)
NET CASH OUTFLOW ON ACQUISITIONS			**56**

Other acquisitions include 100% of Aquatic Health Chile SA (effective 1 January 2005), 100% of X-Per-X Inc. (effective 1 February 2005), 100% of Auto Marine Services Ltd. (effective 1 February 2005), 100% of MinnovEX Technologies Inc. (effective 1 July 2005), Casco Australia Pty. Ltd. (effective 1 July 2005) and 100% of Paradigm Analytical Laboratories Inc. (effective 1 November 2005).

The 2005 acquisitions contributed in total CHF 7 million to the Group operating income for the financial year. Had the effective dates of these acquisitions been 1 January 2005, Group revenues would have been increased by CHF 27 million for the year and Group operating income would have been increased by CHF 5.5 million.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Risk management activities

The Group uses three types of foreign exchange contracts; fair value, cash flow and net investments in foreign operations 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 and are accounted for at settlement 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 costs 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:

CHF (million)

	Notional value		Book value		Market value	
	2005	2004	**2005**	2004	**2005**	2004
FOREIGN EXCHANGE FORWARD CONTRACTS						
Currency:						
AUD	(74)	(58)	–	–	(1)	–
CAD	(89)	(53)	(1)	–	(2)	–
EUR	(36)	(25)	–	–	–	–
GBP	(49)	(47)	–	–	–	1
HKD	15	8	–	–	–	–
JPY	(26)	(28)	(1)	–	(1)	–
KRW	(8)	(2)	–	–	–	–
NZD	(10)	(9)	–	–	–	–
TWD	(8)	(7)	–	–	–	–
USD	(216)	(156)	(3)	3	(3)	4
ZAR	(3)	(4)	–	–	–	–
Other	(41)	(19)	–	–	–	(1)
TOTAL	**(545)**	**(400)**	**(5)**	**3**	**(7)**	**4**

20. SHARE CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

CHF (million)	Share capital	Treasury shares	Capital reserve	Cumulative translation adjustments	Retained earnings and Group reserves	Attributable to: Equity holders of SGS SA	Minority interests	Total equity
BALANCE AT 1 JANUARY 2004	**156**	**(62)**	**–**	**(104)**	**1 082**	**1 072**	**18**	**1 090**
Effect of adoption of new accounting standards	–	(11)	4	–	(58)	(65)	–	(65)
AS AMENDED	**156**	**(73)**	**4**	**(104)**	**1 024**	**1 007**	**18**	**1 025**
Total recognised income and expense for the year	–	–	–	(35)	268	233	22	255
Share-based payments	–	–	7	–	–	7	–	7
Treasury shares	–	(16)	–	–	–	(16)	–	(16)
Dividends paid	–	–	–	–	(68)	(68)[1]	(14)	(82)
BALANCE AT 31 DECEMBER 2004 (AMENDED)	**156**	**(89)**	**11**	**(139)**	**1 224**	**1 163**	**26**	**1 189**
BALANCE AT 31 DECEMBER 2004 AS PUBLISHED	**156**	**(77)**	**–**	**(142)**	**1 292**	**1 229**	**26**	**1 255**
Effect of adoption of new accounting standards	–	(12)	11	3	(68)	(66)	–	(66)
AS AMENDED	**156**	**(89)**	**11**	**(139)**	**1 224**	**1 163**	**26**	**1 189**
Total recognised income and expense for the year	–	–	–	41	317	358	17	375
Share-based payments	–	–	9	–	–	9	–	9
Treasury shares	–	(1)	–	–	–	(1)	–	(1)
Dividends paid	–	–	–	–	(90)	(90)[1]	(7)	(97)
BALANCE AT 31 DECEMBER 2005	**156**	**(90)**	**20**	**(98)**	**1 451**	**1 439**	**36**	**1 475**

[1] *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. 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.*

	Registered shares CHF 20 nominal value Number of shares: In circulation	Treasury shares	Total issued	Bonus certificates Number	Total share capital CHF (million)
BALANCE AT 31 DECEMBER 2003	**7 661 439**	**160 727**	**7 822 166**	**74**	**156**
Effect of adoption of new accounting standards	(135 681)	135 681	–	–	–
BALANCE AT 31 DECEMBER 2003 (AMENDED)	**7 525 758**	**296 408**	**7 822 166**	**74**	**156**
Net treasury shares acquired	(22 023)	22 023	–	–	–
Conversion of bonus certificates into registered shares	80	(80)	–	(20)	–
BALANCE AT 31 DECEMBER 2004 (AMENDED)	**7 503 815**	**318 531**	**7 822 166**	**54**	**156**
BALANCE AT 31 DECEMBER 2004 AS PUBLISHED	**7 639 496**	**182 670**	**7 822 166**	**54**	**156**
Effect of adoption of new accounting standards	(135 037)	135 037	–	–	–
BALANCE AT 31 DECEMBER 2004 (AMENDED)	**7 504 459**	**317 707**	**7 822 166**	**54**	**156**
Capital increase	–	270	270	(54)	–
Abolition of bonus certificates against delivery of registered shares	60	(60)	–	–	–
Treasury shares released into circulation, net	944	(944)	–	–	–
BALANCE AT 31 DECEMBER 2005	**7 505 463**	**316 973**	**7 822 436**	**–**	**156**

Issued share capital

SGS SA has a share capital of CHF 156 448 720 (2004: 156 443 320) fully paid in and divided into 7 822 436 (2004: 7 822 166) registered shares of a par value of CHF 20 unchanged from last year.

On 31 December 2005, SGS SA held, directly or indirectly 316 973 of its own shares. At 31 December 2003, SGS SA has recognised 135 681 shares held by the Foundation (Fondation pour l'Intéressement du Personnel au Développement du Groupe SGS) as treasury shares, since such shares are effectively controlled by the Company. During the period, 944 treasury shares have been released into circulation at an average value of CHF 874 and 60 registered shares were delivered following the abolition of 12 bonus certificates.

Authorised and Conditional issue of share capital

The Board has the authority to increase the share capital of the Company by a maximum of 499 730 registered shares of a par value of CHF 20 each corresponding to a maximum increase of CHF 9 994 600 in share capital. The Board is to issue the new shares at the market conditions 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 right to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 22 March 2007.

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 options, 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 right of subscription.

Change of capital

The share capital of the Company was increased on 23 March 2005 by the issuance of 270 registered shares of a par value of CHF 20 out of the authorised share capital. The purpose of this increase is detailed under the section Bonus Certificates below.

Share and participation certificates

At 31 December 2005, the Company had 7 822 436 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 have all voting rights.

The Company has not issued any participation certificates (bons de participation/Partizipationsscheine).

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. By decision of the shareholders on 23 March 2005, the 54 certificates still outstanding were cancelled against delivery of five registered shares for each certificate.

21. LOANS AND OBLIGATIONS UNDER FINANCE LEASES

CHF (million)	**2005**	*2004*
Bank overdrafts	8	5
Bank loans	87	5
Finance lease obligations	6	8
TOTAL	**101**	**18**
Current	94	10
Non-current	7	8

Depending on the nature of the loan, currency and date of maturity, interest rates on long-term loans from third parties range between 0% and 9% and on short-term loans from third parties range between 2% and 7%.

The loans from third parties exposed to fair value interest rate risk amount to CHF 5.9 million and the loans from third parties exposed to cash flow interest rate risk amount to CHF 81.5 million.

Loans and finance lease obligations mature as follows:

CHF (million)	*Loans and overdrafts*		*Lease obligations*	
	2005	*2004*	**2005**	*2004*
On demand or within one year	92	8	2	2
Within the second year	–	–	2	–
Within the third year	1	2	1	4
Within the fourth year	–	–	1	–
Within the fifth year	1	–	–	2
After five years	1	–	–	–
TOTAL	**95**	**10**	**6**	**8**

22. RETIREMENT BENEFIT OBLIGATIONS

The main defined benefit pension plans within the Group are in Switzerland, USA, UK, Netherlands, Germany, Italy and Taiwan. Contributions to these plans, with the exception of Germany are paid to pension funds that are legally separate entities. 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:

CHF (million)	*Pension plans*		*Other plans*	
	2005	*2004*	**2005**	*2004*
Present value of funded obligations	820	678	–	–
Fair value of plan assets	(661)	(577)	–	–
NET FUNDED STATUS	**159**	**101**	**–**	**–**
Present value of unfunded obligation	61	54	18	18
Past service cost not yet recognised	(1)	(5)	–	–
NET LIABILITY	**219**	**150**	**18**	**18**

Amounts in the balance sheet are made up of:

CHF (million)	*Pension plans*		*Other plans*	
Liabilities	243	150	18	18
Assets	(24)	–	–	–
NET LIABILITY	**219**	**150**	**18**	**18**

Amounts recorded in the income statement:

CHF (million)	*Pension plans*		*Other plans*	
	2005	*2004*	**2005**	*2004*
Current service cost	12	19	–	–
Interest cost	35	35	1	1
Expected return on plan assets	(38)	(38)	–	–
Past service cost/(credit)	3	(7)	(9)	(3)
TOTAL INCLUDED IN SALARIES AND WAGES	**12**	**9**	**(8)**	**(2)**

Amounts recorded in the statement of recognised income and expense:

CHF (million)	*Pension plans*		*Other plans*	
	2005	*2004*	**2005**	*2004*
Cumulative amount of losses at the beginning of the period	104	95	11	11
Net actuarial losses recognised in the year	70	15	7	1
Exchange differences	12	(6)	1	(1)
Cumulative amount of losses at the end of the period	186	104	19	11

Movements in the net liability during the period:

CHF (million)	Pension plans		Other plans	
	2005	*2004*	**2005**	*2004*
Net liability at 1 January	150	154	18	24
Exchange differences	12	(6)	3	(3)
Expense recognised in the income statement	12	9	(8)	(2)
Contributions paid by the Group	(25)	(25)	(2)	(2)
Acquisitions of subsidiaries	–	3	–	–
Net actuarial losses recognised in the year	70	15	7	1
NET LIABILITY AT 31 DECEMBER	**219**	**150**	**18**	**18**

Change in the defined benefit obligation is as follows:

CHF (million)	Pension plans		Other plans	
	2005	*2004*	**2005**	*2004*
Opening present value of the defined benefit obligation	732	728	18	24
Current service cost	12	19	–	–
Interest cost	35	35	1	1
Plan participants' contributions	6	6	2	2
Actuarial losses	89	10	7	1
Past service cost/(credit)	(2)	(2)	(9)	(3)
Liabilities assumed in a business combination	–	3	–	–
Exchange differences on foreign plans	44	(26)	3	(3)
Benefits paid	(35)	(41)	(4)	(4)
NET LIABILITY AT 31 DECEMBER	**881**	**732**	**18**	**18**

Change in fair value of plan assets is as follows:

CHF (million)	Pension plans		Other plans	
	2005	*2004*	**2005**	*2004*
Opening fair value of plan assets	577	573	–	–
Expected return	38	38	–	–
Actuarial gains and (losses)	19	(5)	–	–
Plan participants' contributions	6	6	–	–
Employer contributions	25	25	–	–
Exchange differences on foreign plans	31	(19)	–	–
Benefits paid	(35)	(41)	–	–
FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER	**661**	**577**	**–**	**–**
Actual return on plan assets	57	33	–	–

The major categories of plan assets as a percentage of total plan assets are as follows:

Weighted average %	Pension plans		Other plans	
	2005	*2004*	**2005**	*2004*
Equity securities	36.8%	37.5%	–	–
Debt securities	29.0%	28.2%	–	–
Property	12.0%	12.6%	–	–
Other	22.2%	21.7%	–	–
TOTAL	**100.0%**	**100.0%**	–	–

SGS occupies property that is included in the Plan assets with a fair value of CHF 2 million (2004: CHF 2 million). The property is rented at fair market rental rates. There are no SGS SA shares included in Plan assets at 31 December 2005 (2004: 22 300 shares with a fair value of CHF 18 million).

The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and portfolio weighting, and future estimates of long-term investment returns.

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 2005 and 2004 are as follows:

Weighted average %	*Pension plans*		*Other plans*	
	2005	*2004*	**2005**	*2004*
Discount rate	4.4%	4.8%	5.8 %	5.5 %
Return on assets	6.5%	6.5%	–	–
Salary progression rate	3.5%	3.4%	–	–
Future pension increases	1.3%	1.3%	–	–
Healthcare cost trend rate assumed for the next year	–	–	9.0 %	8.0 %
Ultimate trend rate	–	–	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate	–	–	2 014	2 011

Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

Funded status for the current and previous period are as follows:

CHF (million)	*Pension plans*		*Other plans*	
	2005	*2004*	**2005**	*2004*
Defined benefit obligation	881	732	18	18
Plan assets	(661)	(577)	–	–
Deficit	220	155	(18)	(18)
Experience (gain)/loss on plan liabilities	15	(9)	3	–
Experience (gain)/loss on plan assets	23	2	–	–

The amount recognised as an expense in respect of defined contribution plans during 2005 was CHF 16 million (2004: CHF 18 million).

The group expects to contribute approximately CHF 24 million to its defined benefit plans in 2006.

23. PROVISIONS

CHF (million)	*Legal and warranty claims on services rendered*	*Demobilisation and reorganisation*	*Other provisions*	**TOTAL**
AT 1 JANUARY 2005	84	50	17	151
Acquisition of subsidiaries	–	–	1	1
Charge to income statement	12	24	2	38
Release to income statement	(12)	(7)	(1)	(20)
Payments	(19)	(19)	(5)	(43)
Exchange differences	7	3	2	12
AT 31 DECEMBER 2005	**72**	**51**	**16**	**139**

Analysed as:	**2005**	*2004*
Current liabilities	33	29
Non-current liabilities	106	122
	139	**151**

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 income 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.

24. TRADE AND OTHER PAYABLES

CHF (million)	**2005**	*2004*
Trade accounts and other payables	329	330

Trade accounts and other payables principally comprise amounts outstanding for trade purchases and ongoing operating costs.

At 31 December 2005 and 2004 the fair value of the Group's trade accounts and other payables approximates to their carrying value.

25. OTHER CREDITORS AND ACCRUALS

CHF (million)	**2005**	*2004*
Accrued expenses	298	239[1]
Advance billings	31	30
Advances from clients	22	18
TOTAL	**351**	**287**

[1] Transfer of CHF 29 million in short-term portion of provisions.

At 31 December 2005 and 2004 the fair value of the Group's other creditors and accruals approximates to their carrying value.

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 23. 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)	**2005** *issued*	*2004 issued*
Guarantees	324	107
Performance bonds	16	44
TOTAL	**340**	**151**

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 has CHF 7 million of cash with restrictions on the use of cash (2004: nil).

28. OPERATING LEASES

Operating lease rentals are payable as follows:

CHF (million)	**2005**	*2004*
Less than one year	58	32
Between one and five years	94	53
More than five years	31	12
TOTAL	**183**	**97**

29. EQUITY COMPENSATION PLANS

29.1 SHARE OPTION PLANS 2003 TO 2005

i) Grants to senior management and directors

A total of 2 569 594 options granting the right to acquire shares of SGS SA at a strike price of CHF 759 (100 options give the right to acquire one share and each option expires in January 2010 (these options hereinafter referred to SGSMU)) were granted to the members of the Operations Council in 2005. One-third of these options vest or have vested in each of the years 2005, 2006 and 2008 and can be exercised or sold between 2008 and 2010. At the date of grant, these options had an aggregate value (calculated on the basis required for Swiss tax reporting purposes) of CHF 3 289 080. The estimated fair value of the options granted is CHF 5 333 449.

ii) Grants to other employees

In 2005, an additional 2 315 650 SGSMU 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 2005, 2006 and 2008 and can be exercised or sold between 2008 and 2010. At the date of grant, these options had an aggregate value (calculated on the basis required for Swiss tax reporting purposes) of CHF 2 964 032. The estimated fair value of the options granted is CHF 4 806 363.

Description	Exercise period from	to	Strike price	Options outstanding at 31 December 2004	Granted	Cancelled	Options outstanding at 31 December 2005
Ordinarily issued	January 2006	January 2008	416	4 920 323	–	85 644	4 834 679
Exchanged	January 2005	January 2008	416	4 785 962	–	–	4 785 962
LTI Plan	January 2006	January 2008	416	4 675 000	–	800 000	3 875 000
SUB TOTAL			**–**	**14 381 285**	**–**	**885 644**	**13 495 641**
Ordinarily issued	January 2007	January 2009	734	4 981 939	–	109 604	4 872 335
Ordinarily issued	January 2008	January 2010	759	–	4 948 055	62 811	4 885 244
TOTAL			**–**	**19 363 224**	**4 948 055**	**1 058 059**	**23 253 220**

29.2 SHARE OPTION PLANS 2002 AND PRIOR YEARS

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

Exercise period from	to	Exercise price CHF	Options outstanding at 1 January 2004	Options outstanding at 31 December 2004	Exercised	Repurchased	Options outstanding at 31 December 2005
31 May 2004	31 May 2009	387	969	969	–	(969)	–
21 Mar 2005	21 Mar 2012	319	2 594	2 594	(750)	(1 300)	544
TOTAL		**–**	**3 563**	**3 563**	**(750)**	**(2 269)**	**544**

29.3 EMPLOYEE SHARE PURCHASE PLANS

At 31 December 2005 no shares were held by the Plans on behalf of the employees in respect of active grants.

	Shares held at 1 January 2004	Shares purchased by employees and cash settled to employees	Shares repurchased by the Plans and cash settled to employees	Shares held at 31 December 2004	Shares transferred to employees	Shares repurchased by the Plans and cash settled to employees	Shares held at 31 December 2005
1997	175	–	(175)	–	–	–	–
1999	20 585	(20 435)	(150)	–	–	–	–
2001	3 304	(3 304)	–	–	–	–	–
2002	4 415	–	–	4 415	(4 225)	(190)	–
TOTAL	**28 479**	**(23 739)**	**(325)**	**4 415**	**(4 225)**	**(190)**	**–**
Market value of shares CHF (million)	22.1			3.5			–

The share purchase and option plans are partially administered by a Swiss Foundation (Fondation pour l'intéressement du personnel au développement du Groupe SGS (hereinafter "Foundation"). This entity is consolidated in the Group financial statements. Movements in SGS shares held by the Foundation are as follows:

	Number of registered shares
AT 1 JANUARY 2004	**78 682**
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)
AT 31 DECEMBER 2004	**33 794**
Repurchased shares and cash settled to employees (equity purchase plan)	–
Repurchased shares and cash settled to employees (option exercised)	2 269
Partial repurchases	190
Options cancelled	1 096
AT 31 DECEMBER 2005	**37 349**

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 2005, the Company and the Foundation had the following shares available to satisfy the option and share purchase plan programmes.

	Foundation	SGS Group	Total
Number of unallocated shares held	134 477	180 639	315 116
Shares held for 2002 and prior option plans	(544)	–	(544)
Shares held for 2003 option plans	(47 860)	(87 097)	(134 957)
Shares held for 2004 option plans	(48 724)	–	(48 724)
Shares held for 2005 option plans	–	(48 853)	(48 853)
SHARES AVAILABLE FOR FUTURE OPTION PLANS AT 31 DECEMBER 2005	**37 349**	**44 689**	**82 038**

The market value of these unallocated shares at 31 December 2005 was CHF 91 million (2004: CHF 95 million).

The Group recognised during the year total expenses of CHF 9 million in relation with equity-settled share-based payments.

30. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in the note.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

CHF (million)	2005	2004
Short-term benefits	16	15
Post-employment benefits	1	1
Share-based payments	5	4
Termination benefits	1	2
TOTAL	**23**	22

During 2005 and 2004, 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.
The share-based payments are valued at their fair value in the year of grant. Director's fees relating to 2005 were CHF 1 515 000 (2004: CHF 1 475 000). For the Operations Council, including the Chief Executive, total cash compensation paid and accrued for the year 2005 was CHF 13 196 000 (2004: CHF 13 733 000).

Loans to members of governing bodies

As of 31 December 2005, the Company had no outstanding loans (2004: nil) 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 43).

31. SIGNIFICANT SHAREHOLDERS

At 31 December 2005, August von Finck and members of his family acting in concert held 23.7% (2004: 23.7%) of the share capital and voting rights of the Company, whilst Sequana Capital SA held 23.8% (2004: 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 16 January 2006, and will be submitted for approval by the shareholder's Annual General Meeting to be held on 20 March 2006.

Effective 1 January 2006, the Group entered into a definitive agreement to acquire 100% of the issued share capital of aster.cephac headquartered in Paris, France. Aster.cephac provides early clinical pharmacology trials and bioanalytical drug development services, generating annual revenues in excess of CHF 55 million. Final net cash outflow on acquisition, fair value of assets and liabilities acquired as well as the goodwill arising on this transaction cannot be provided due to the timing of the transaction and the required carve out of a portion of aster.cephac which was not purchased by the Group.

Further to the Board meeting held on 17 January 2006, a reduction of share capital of the Company, by a decrease of the nominal value of CHF 19 per share, will be proposed to the Annual General Meeting.

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

Deloitte.

To the General Meeting of SGS SA

As Group auditors, we have audited the consolidated financial statements of the SGS Group presented on pages 64 to 102 for the year ended 31 December 2005.

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 Swiss auditing standards 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 SA

P. Quigley   L A Watson

Peter Quigley   Lisa Watson
Auditor in charge

Geneva, 16 January 2006

SGS SA

RESULTS

INCOME STATEMENT

for the years ended 31 December

CHF (million)	**2005**	*2004*
INCOME		
Dividends from subsidiaries	163	95
Interest income	21	12
Other financial income	0	0
Other income	1	1
Exchange gain, net	1	4
TOTAL INCOME	**186**	**112**
EXPENDITURE		
Administrative expenses	(5)	(7)
Liquidation of subsidiaries, net	–	(1)
Depreciation	(1)	(1)
Financial expenses	(13)	(8)
Provisions	(2)	–
TOTAL EXPENDITURE	**(21)**	**(17)**
PROFIT		
Profit before taxes	165	95
Taxes	(4)	(4)
PROFIT FOR THE YEAR	**161**	**91**

BALANCE SHEET AT 31 DECEMBER

(before appropriation of available retained earnings)

CHF (million)	**2005**	*2004*
ASSETS		
NON CURRENT ASSETS		
Land, building and equipment	5	5
Financial assets		
Investments in subsidiaries	573	570
Loans to subsidiaries	614	368
Other financial assets	1	1
TOTAL NON-CURRENT ASSETS	**1 193**	**944**
CURRENT ASSETS		
Amounts due from subsidiaries	1	11
Other current assets	2	4
Cash and deposits	176	243
TOTAL CURRENT ASSETS	**179**	**258**
TOTAL ASSETS	**1 372**	**1 202**
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	156	156
General legal reserve	34	34
Reserve for own shares	77	77
Retained earnings	714	645
TOTAL EQUITY	**981**	**912**
CURRENT LIABILITIES		
Provisions	43	41
Current liabilities		
Amounts due to subsidiaries	341	244
Other liabilities and accruals	7	5
TOTAL LIABILITIES	**391**	**290**
TOTAL EQUITY AND LIABILITIES	**1 372**	**1 202**

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 except for the recognition as treasury shares of the shares held by the Foundation (Fondation pour l'Intéressement du Personnel au Développement du Groupe SGS) – see note 3.

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. TOTAL EQUITY

CHF (million)	Share capital	General legal reserve	Reserve for own shares	Retained earnings	Total
BALANCE AT 1 JANUARY 2004	**156**	**34**	**62**	**638**	**890**
Dividends paid	–	–	–	(69)	(69)
Allocation to the reserve for own shares	–	–	15	(15)	–
Profit for the year	–	–	–	91	91
BALANCE AT 31 DECEMBER 2004	**156**	**34**	**77**	**645**	**912**
Dividends paid	–	–	–	(92)	(92)
Reversal from the reserve for own shares	–	–	(0)	0	–
Capital increase by conversion of bonus certificates	–	–	–	(0)	(0)
Profit for the year	–	–	–	161	161
BALANCE AT 31 DECEMBER 2005	**156**	**34**	**77**	**714**	**981**

3. SHARE CAPITAL

	Registered shares CHF 20 nominal value Number of shares			Bonus certificates	Total share capital
	In circulation	Treasury shares	Total issued	Number	CHF (million)
BALANCE AT 1 JANUARY 2004	**7 661 439**	**160 727**	**7 822 166**	**74**	**156**
Treasury shares	(22 023)	22 023	–	–	–
Conversion of bonus certificates into registered shares	80	(80)	–	(20)	–
BALANCE AT 31 DECEMBER 2004	**7 639 496**	**182 670**	**7 822 166**	**54**	**156**
Recognition of shares held by Foundation at 1 January 2005	(135 037)	135 037	–	–	–
Treasury shares released into circulation, net	944	(944)	–	–	–
Capital increase by cancellation of 54 bonus certificates (1:5)	–	270	270	(54)	–
Abolition of bonus certificates against delivery of registered shares	60	(60)	–	–	–
BALANCE AT 31 DECEMBER 2005	**7 505 463**	**316 973**	**7 822 436**	**0**	**156**

Issued share capital

SGS SA has a share capital of CHF 156 448 720 (2004: 156 443 320) fully paid in and divided into 7 822 436 (2004: 7 822 166) registered shares of a par value of CHF 20 unchanged from last year.

On 31 December 2005, SGS SA held, directly or indirectly, 316 973 of its own shares. SGS SA has recognised 135 037 shares held by the Foundation (Fondation pour l'Intéressement du Personnel au Développement du Groupe SGS) as treasury shares, since such shares are effectively controlled by the Company. During the period 944 treasury shares have been released into circulation at an average value of CHF 874 and 60 registered shares were delivered following the abolition of 12 bonus certificates.

Authorised and Conditional issue of share capital

The Board has the authority to increase the share capital of the Company by a maximum of 499 730 registered shares of a par value of CHF 20 each corresponding to a maximum increase of CHF 9 994 600 in share capital. The Board is to issue the new shares at the market conditions 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 right to third parties. The authority delegated by the shareholders to the Board of Directors to increase the share capital is valid until 22 March 2007.

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 options, 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 right of subscription.

Change of capital

The share capital of the Company was increased on 23 March 2005 by the issuance of 270 registered shares of a par value of CHF 20 out of the authorised share capital. The purpose of this increase is detailed under the section Bonus Certificates below.

Shares and participation certificates

At 31 December 2005, the Company had 7 822 436 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 have all voting rights.

The Company has not issued any participation certificates (bons de participation/Partizipationsscheine).

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. By decision of the shareholders on 23 March 2005, the 54 certificates still outstanding were cancelled against delivery of five registered shares for each certificate.

Reduction of capital

Further to the Board meeting held on 17 January 2006, a reduction of share capital of the Company, by a decrease of the nominal value of CHF 19 per share, will be proposed to the Annual General Meeting.

4. GUARANTEES AND COMFORT LETTERS

CHF (million)	**2005** *issued*	**2005** *utilised*	*2004 issued*	*2004 utilised*
Guarantees	317	215	158	82
Comfort letters	0	0	0	0
Performance bonds	8	8	14	14
TOTAL	**325**	**223**	**172**	**96**

The Company 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)	**2005**	*2004*
Buildings	14	14

6. SUBSIDIARIES

The list of principal subsidiaries appears on pages 120 to 125 of the Annual Report.

7. SIGNIFICANT SHAREHOLDERS

At 31 December 2005, August von Finck and members of his family acting in concert held 23.7% (2004: 23.7%) of the share capital and voting rights of the Company. Sequana Capital SA (formerly Worms & Cie) held 23.8% (2004: 23.8%) of the shares.

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

CHF	**2005**	*2004*
Profit for the year	160 792 595	90 859 787
Balance brought forward from previous year	553 291 901	568 552 752
Reversal from/allocation to the reserve for own shares	319 488	(14 542 446)
Dividends not paid on own shares	–	99 000
Capital increase by conversion of bonus certificates	(5 400)	–
TOTAL RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	**714 398 584**	**644 969 093**
Proposal of the Board of Directors:		
Dividends[1]	(236 838 140)	(91 677 192)
BALANCE CARRIED FORWARD	**477 560 444**	**553 291 901**
Ordinary gross dividend per:		
Registered share	31.00	12.00
Bonus certificates	–	60.00

[1] No dividend is paid on treasury shares held directly or indirectly by SGS SA (except Foundation).

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

Deloitte.

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 106 to 111, for the year ended 31 December 2005.

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 Swiss auditing standards, 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 SA

Peter Quigley
Auditor in charge

Lisa Watson

Geneva, 16 January 2006

DATA

SGS GROUP FIVE-YEAR STATISTICAL DATA CONSOLIDATED INCOME STATEMENT

for the years ended 31 December

CHF (million)	2005	2004[1]	2003	2002	2001
REVENUE	**3 308**	**2 885**	**2 454**	**2 392**	**2 332**
Salaries and wages	(1 615)	(1 435)	(1 240)	(1 252)	(1 255)
Subcontractors' expenses	(217)	(181)	(155)	(142)	(133)
Depreciation and amortisation	(140)	(115)	(96)	(95)	(101)
Other operating expenses	(834)	(761)	(663)	(687)	(698)
OPERATING INCOME	**502**	**393**	**300**	**216**	**145**
Recoveries on pre-2002 terminated contracts	–	3	3	(80)	(178)
Goodwill amortisation	–	(16)	(10)	(9)	(8)
EARNINGS BEFORE INTEREST AND TAX (EBIT)	**502**	**380**	**293**	**127**	**(41)**
Financial income/(expense)	5	6	10	13	18
PROFIT/(LOSS) BEFORE TAXES	**507**	**386**	**303**	**140**	**(23)**
Taxes	(119)	(93)	(68)	(27)	(44)
PROFIT/(LOSS) FOR THE YEAR	**388**	**293**	**235**	**113**	**(67)**
PROFIT/(LOSS) ATTRIBUTABLE TO:					
EQUITY HOLDERS OF SGS SA	**371**	**278**	**227**	**109**	**(75)**
MINORITY INTERESTS	17	15	8	4	8
OPERATING MARGINS	**15.2**	**13.6**	**12.2**	**9.0**	**6.3**
EMPLOYEES					
Average number of employees	41 460	36 659	32 436	32 288	30 625

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

SGS GROUP FIVE-YEAR STATISTICAL DATA CONSOLIDATED BALANCE SHEET

at 31 December

CHF (million)	2005	2004[1]	2003	2002	2001
Land, buildings and equipment	586	493	415	374	392
Goodwill and other intangible assets	429	304	147	106	65
Investments in associated and other companies	2	2	2	3	3
Deferred tax and other long-term assets	223	167	118	86	85
TOTAL NON-CURRENT ASSETS	**1 240**	**966**	**682**	**569**	**545**
Work-in-progress and inventories	147	118	108	108	112
Trade accounts and notes receivable	713	579	571	495	513
Other receivables and prepayments	134	132	135	146	171
Cash and marketable securities	531	457	526	532	649
TOTAL CURRENT ASSETS	**1 525**	**1 286**	**1 340**	**1 281**	**1 445**
TOTAL ASSETS	**2 765**	**2 252**	**2 022**	**1 850**	**1 990**
Share capital	156	156	156	156	156
Reserves	1283	1 007	916	741	825
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	**1 439**	**1 163**	**1 072**	**897**	**981**
MINORITY INTERESTS	**36**	**26**	**18**	**18**	**26**
TOTAL EQUITY	**1 475**	**1 189**	**1 090**	**915**	**1 007**
Non-current loans	7	8	11	48	42
Deferred tax liabilities	51	64	72	54	42
Provisions and retirement benefit obligations	367	290	209	218	228
TOTAL LONG-TERM LIABILITIES	**425**	**362**	**292**	**320**	**312**
Loans and obligations under finance leases	94	10	22	82	161
Trade and other payables	329	330	299	260	273
Current tax liabilities	58	45	36	21	28
Other creditors and accruals	384	316	283	252	209
TOTAL CURRENT LIABILITIES	**865**	**701**	**640**	**615**	**671**
Total liabilities	1 290	1 063	932	935	983
TOTAL EQUITY AND LIABILITIES	**2 765**	**2 252**	**2 022**	**1 850**	**1 990**
CAPITAL EXPENDITURE					
Land, buildings and equipment	170	173	151	106	112

[1] *2004 data has been amended to reflect the adoption of new accounting standards (see note 2).*

SGS GROUP FIVE-YEAR STATISTICAL DATA

CHF (unless indicated otherwise)	**2005**	*2004*[1]	*2003*	*2002*	*2001*
SHARE INFORMATION					
REGISTERED SHARES					
Number of shares issued	7 822 436	7 822 166	7 822 166	7 822 166	7 822 166
Number of shares with dividend rights	7 822 436	7 822 166	7 822 166	7 822 166	7 822 166
Price:					
High	1 111	803	798	530	519
Low	642	633	409	258	178
Year-end	1 108	796.5	776	416	267
Par value	20	20	20	20	20
BONUS CERTIFICATES[2]					
Number of bonus certificates	–	54	74	80	80
KEY FIGURES BY SHARES					
Equity attributable to equity holders of SGS SA per share in circulation at 31 December	191.72	155.00	139.35	117.03	125.5
Basic earnings/(loss) per share[4]	49.45	37.21	29.63	14.02	(9.61)
Dividend per share	31.00[3]	12.00	9.00	6.00	6.00
Special dividends per registered share	–	–	–	1.25	–
DIVIDEND CHF (MILLION)					
Ordinary	237[3]	92	69	56	47

[1] 2004 data has been amended to reflect the adoption of new accounting standards (see note 2).

[2] Bonus certificates 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 8, page 82.

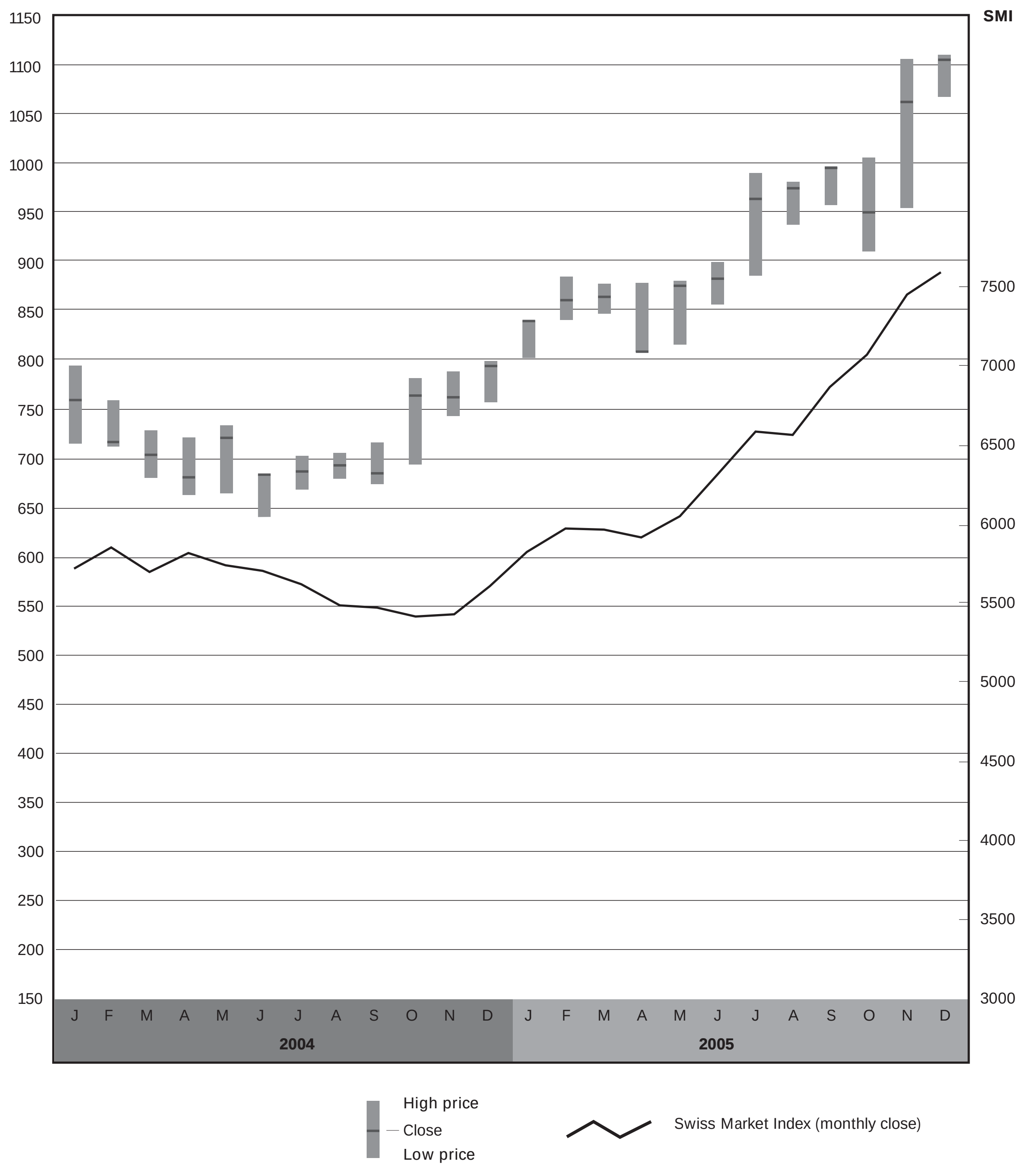
SGS GROUP SHARE INFORMATION

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 2005, market capitalisation was approximately CHF 8 667 million (2004: CHF 6 230 million). Shares are quoted on the SWX Swiss Exchange.



SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
Albania	SGS Albania Ltd., Tirana	ALL	100 000	100	D
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, Perth	AUD	5 609 210	100	I
Australia	SGS Scientific Services Pty. Ltd., Perth	AUD	30 198 953	100	I
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 N.V., Mechelen	EUR	569 000	100	I
Belgium	SGS Belgium N.V., 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	I
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
Burkina Faso	SGS Burkina S.A., Ouagadougou	XOF	10 000 000	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., Missisauga	CAD	20 900 000	100	D
Canada	SGS X-Per-X Inc., Montreal	CAD	2 628 844	100	I
Canada	Minnovex Technologies Inc., Toronto	CAD	101	100	I
Chile	SGS Chile Limitada, Santiago	CLP	180 000 000	100	D
Chile	SGS Aquatic Health Chile S.A., Puerto Montt	CLP	5 000 000	100	I

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
China	SGS CSTC Standards Technical Services Ltd., Beijing	USD	1 700 000	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	I
Cyprus	SGS Cyprus Control & Testing Limited, Limassol	CYP	10 000	100	D
Czech Republic	SGS Czech Republic s.r.o., Praha	CZK	7 607 000	100	I
Denmark	SGS Danmark A/S, Frederiksberg	DKK	600 000	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
France	Securitest S.A., Paris	EUR	2 745 000	91.986	I
France	SGS Auto Sécurité SAS, Rueil Malmaison	EUR	3 917 600	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	GHC	11 871 624 000	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	301 731	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
Guinea	SGS Guinée Conakry S.A., Conakry	GNF	50 000 000	100	D

SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
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	Arya–SGS Quality Services, Private Joint Stock Co.,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, 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
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
Kazakhstan	SGS Kazakhstan Limited, Almaty	KZT	146 527	100	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	SGS Inspection Services Limited, Tripoli (Branch office)	–	–	–	–
Lithuania	SGS Klaipeda Ltd., Klaipeda	LTL	40 000	100	I
Luxembourg	SGS Luxembourg S.A., Mamer	EUR	38 000	100	I
Luxembourg	SGS Finance (Luxembourg) S.A., Luxembourg	EUR	25 000 000	100	D
Madagascar	SGS Madagascar SARL, Antananarivo	MGF	100 000 000	100	I
Malawi	SGS Malawi Limited, Blantyre	MWK	30 000	100	D
Malaysia	Petrotechnical Inspection (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR	150 000	70	D

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
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	MDL	488 050	100	D
Mongolia	SGS Mongolia LLC, Ulaanbaatar	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, Yangoon	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	SGS 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., Asunción	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
Romania	SGS Romania S.A., Bucharest	CHF	200 000	100	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

SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
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
Sudan	SGS Inspection Services Co. Ltd., Khartoum	SDD	10 000 000	51	D
Sweden	SGS Sweden AB, Göteborg	SEK	1 500 000	100	I
Switzerland	SGS Société Générale de Surveillance SA, Geneva	CHF	10 000 000	100	I
Switzerland	SGS Société Générale de Surveillance IP SA, Gland	CHF	100 000	100	D
Switzerland	SGS SA, Geneva	CHF	156 448 720	–	Ultimate parent company
Switzerland	SGS Group Management SA, Geneva	CHF	100 000	100	I
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	YTL	50 000	100	D
Turkmenistan	SGS Turkmen Ltd., Ashgabat	USD	50 000	100	D
Uganda	SGS Uganda Limited, Kampala	UGS	5 000 000	100	D
Ukraine	SGS Ukraine, Odessa	USD	400 000	100	D
United Arab Emirates	SGS Gulf Limited, Abu Dhabi, Dubai (Branch office)	–	–	–	–

Country	Name and domicile	Issued currency	Amount	% Group	Direct/ Indirect
United States	SGS U.S. Holding Inc., Wilmington/Delaware	USD	100	100	D
United States	SGS North America Inc., Wilmington	USD	73 701 996	100	I
United States	SGS Automotive Services Inc., Rutherford	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

SGS GROUP FIVE-YEAR STATISTICAL DATA CONSOLIDATED BALANCE SHEET AT 31 DECEMBER. SGS GROUP FIVE-YEAR STATISTICAL DATA CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER. SGS GROUP FIVE-YEAR STATISTICAL DATA. SGS GROUP SHARE INFORMATION. SGS GROUP PRINCIPAL OPERATING AND HOLDING COMPANIES.

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Monday, 20 March 2006
Location: Hotel President Wilson, Geneva

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