



14 May 2008

Institutional Equity Research

Company

Flash

# Schaltbau

**Rating**

**Buy (unchanged)**

Promising start to the new year - Q1 surprisingly strong ▶

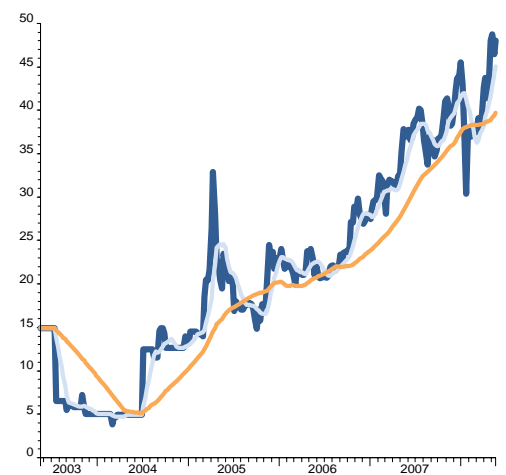
Order situation convincing ▶

Guidance for 2008 and 2009 confirmed ▶

Price target lifted from € 46.00 to € 55.00 ▶



— 38D Moving Average  
— 200D Moving Average



Source: Thomson Datastream

— 38D Moving Average  
— 200D Moving Average

Source: Thomson Datastream



## Buy

**Target price: € 55.00**

Price: € 48.00

05/20/08

17:36 h

Last rating/Target price:

Buy /€ 46.00

Last analysis:

03/12/2008

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 91.2 m

Index: CDAX

Index weight: n.a.

Beta: 1.00,0

Accounting:

IFRS

Calendar:

HV on 06/12/08

2008e dividend: € 0.30

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

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## Schaltbau

05/14/2008

Topic: Company update

### Into the new fiscal year at an orderly pace

Schaltbau AG managed to “lay down” a remarkable start to the new year. The order intake, revenues, EBIT and net income all increased considerably. The very pleasing margin development in particular struck us as positive for the current and subsequent years. In addition, Schaltbau AG has confirmed its guidance for the 2008 and 2009. However, the 2008 guidance seems too pessimistic, hence our assumptions of somewhat higher revenue and earnings estimates. Our valuation model overall yields a new price target of € 55.00. With this we are confirming our Buy rating.

| Share data | EPS          |               | EV/Sales | EV/EBIT | PER  |
|------------|--------------|---------------|----------|---------|------|
|            | current<br>€ | previous<br>€ |          |         |      |
| 2007       | 3,85         | 3,85          | 0,7      | 10,8    | 12,5 |
| 2008e      | 4,87         | 4,66          | 0,6      | 9,0     | 9,9  |
| 2009e      | 5,56         | 5,35          | 0,6      | 8,1     | 8,6  |
| 2010e      | 5,70         | -             | 0,5      | 7,9     | 8,4  |

| Company data | Revenues | EBITDA | EBIT | EBIT margin | Net Profit |
|--------------|----------|--------|------|-------------|------------|
|              | €m       | €m     | €m   | in %        | €m         |
| 2007         | 232,1    | 19,4   | 14,1 | 0,1         | 7,2        |
| 2008e        | 259,7    | 22,8   | 17,0 | 0,1         | 9,1        |
| 2009e        | 270,3    | 24,8   | 18,8 | 0,1         | 10,4       |
| 2010e        | 278,6    | 25,4   | 19,3 | 0,1         | 10,7       |

- Schaltbau raises its revenues and EBIT considerably in Q1
- Both the order backlog and order intake significantly beat the previous year's level
- Guidance for 2008 and 2009 confirmed
- New price target of € 55.00

**Please note the disclaimer on the last page of this study.**

## Valuation

### Valuation according to multiples

| Company                                | Price<br>(05/20/08) | Currency   | EV<br>(m)  | EV/Sales   |            |            |            | EV/EBITDA   |            |            |            | PER         |             |             |             |
|--|---------------------|------------|------------|------------|------------|------------|------------|-------------|------------|------------|------------|-------------|-------------|-------------|-------------|
|  |                     |            |            | 2007e      | 2008e      | 2009e      | 2010e      | 2007e       | 2008e      | 2009e      | 2010e      | 2007e       | 2008e       | 2009e       | 2010e       |
| Vossloh                                | 92,57               | EUR        | 1568       | 1,3        | 1,2        | 1,1        | 1,1        | 10,4        | 8,7        | 8,2        | 7,9        | 19,7        | 14,7        | 14,1        | 13,2        |
| Bombardier                             | 7,51                | USD        | 11569      | 0,8        | 0,7        | 0,6        | 0,6        | 11,2        | 8,3        | 6,7        | 5,9        | 60,1        | 34,5        | 17,8        | 14,4        |
| Alstom                                 | 157,50              | EUR        | 22080      | 1,3        | 1,2        | 1,0        | 1,0        | 14,1        | 11,5       | 9,7        | 8,8        | 26,1        | 20,4        | 16,3        | 14,4        |
| Faiveley                               | 45,53               | EUR        | 722        | 1,0        | 1,0        | 0,9        | 0,9        | 7,0         | 6,4        | 6,0        | 6,0        | 15,6        | 14,4        | 13,5        | 13,5        |
| Funkwerk                               | 12,16               | EUR        | 115        | 0,4        | 0,4        | 0,4        | 0,4        | 3,9         | 4,3        | 3,7        | 3,8        | 15,2        | 11,8        | 8,9         | 8,7         |
| <b>Mean</b>                            |                     |            |            | <b>1,0</b> | <b>0,9</b> | <b>0,8</b> | <b>0,8</b> | <b>9,3</b>  | <b>7,8</b> | <b>6,8</b> | <b>6,5</b> | <b>27,3</b> | <b>19,1</b> | <b>14,1</b> | <b>12,9</b> |
| <b>Median</b>                          |                     |            |            | <b>1,0</b> | <b>1,0</b> | <b>0,9</b> | <b>0,9</b> | <b>10,4</b> | <b>8,3</b> | <b>6,7</b> | <b>6,0</b> | <b>19,7</b> | <b>14,7</b> | <b>14,1</b> | <b>13,5</b> |
| <b>Schaltbau</b>                       | <b>48,00</b>        | <b>EUR</b> | <b>152</b> | <b>0,7</b> | <b>0,6</b> | <b>0,6</b> | <b>0,5</b> | <b>7,8</b>  | <b>6,7</b> | <b>6,1</b> | <b>6,0</b> | <b>12,5</b> | <b>9,9</b>  | <b>8,6</b>  | <b>8,4</b>  |
| Premium / Discount Peer Group (Median) |                     |            |            | -36,2%     | -40,0%     | -38,2%     | -40,0%     | -24,8%      | -19,2%     | -8,4%      | 0,4%       | -36,7%      | -32,8%      | -38,7%      | -37,7%      |

Source: LBBW/IBES

- Our peer group valuation is limited to companies with a significant share of revenues in the rail industry (>40%). This includes both major players such as Alstom and Bombardier and smaller companies such as Faiveley, Funkwerk and Vossloh in the consideration. We have chosen listed companies in the rail industry due to the fact that Schaltbau can best be classified in this industry in our view.
- The Schaltbau share is currently traded with a significant valuation discount to both the peer group and to the closest comparable company, Vossloh. This discount seems at least partially justified in our view, as Schaltbau has one of the lowest margins in the peer group with 8.4 % (2007 EBITDA margin). Moreover, with the exception of Funkwerk, the company is significantly less capitalised than the peer group companies. Nevertheless, we believe a PER discount of ca. 40 % to be too high.

### Discounted cash flow valuation

- We have used a three-phase model to determine the free cash flows. The detailed forecast period of 2008 to 2010 is based on concrete cash flow forecasts. In the second phase (2011 to 2017), the free cash flows are determined with the help of value drivers. The terminal value is calculated in the third phase. Here we have assumed a growth rate of 0.5 %.

■ We have come to the following assumptions for our model:

**DCF model assumptions**

|                      |       |
|----------------------|-------|
| Risk free interest   | 4,0%  |
| Market risk premium  | 5,1%  |
| Beta-factor          | 1,0   |
| Cost of equity       | 9,1%  |
| Cost of debt         | 4,9%  |
| Target equity ratio  | 70,0% |
| WACC                 | 7,8%  |
| Terminal growth rate | 0,5%  |

Source: LBBW

■ The forecast of free cash flows is outlined as follows:

| Free cash flow (€m)             | 2008e     | 2009e     | 2010e     | 2011e     | 2012e     | 2013e     | 2014e     | 2015e     | 2016e     | 2017e     |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenues                        | 260       | 270       | 279       | 286       | 293       | 300       | 308       | 315       | 323       | 331       |
| <i>Growth (yoy)</i>             | 11,9%     | 4,1%      | 3,1%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      |
| <b>EBIT</b>                     | <b>17</b> | <b>19</b> | <b>19</b> | <b>19</b> | <b>19</b> | <b>20</b> | <b>20</b> | <b>20</b> | <b>21</b> | <b>22</b> |
| <i>EBIT margin</i>              | 6,5%      | 6,9%      | 6,9%      | 6,6%      | 6,6%      | 6,5%      | 6,5%      | 6,5%      | 6,5%      | 6,5%      |
| - Income tax on EBIT            | 3         | 3         | 4         | 4         | 4         | 4         | 5         | 5         | 5         | 6         |
| <i>Tax rate</i>                 | 15,3%     | 17,6%     | 19,2%     | 21,0%     | 22,0%     | 23,0%     | 23,0%     | 24,0%     | 26,0%     | 27,0%     |
| + Depreciation & amortization   | 6         | 6         | 7         | 7         | 7         | 8         | 8         | 8         | 8         | 8         |
| <i>in % of revenues</i>         | 2,2%      | 2,2%      | 2,3%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      | 2,5%      |
| Pension provisions              | 19        | 19        | 19        | 20        | 20        | 21        | 22        | 22        | 23        | 23        |
| <i>in % of revenues</i>         | 7,4%      | 7,0%      | 6,8%      | 7,0%      | 7,0%      | 7,0%      | 7,0%      | 7,0%      | 7,0%      | 7,0%      |
| + Change of pension provisions  | -0,2      | -0,1      | 0,0       | 1,0       | 0,5       | 0,5       | 0,5       | 0,5       | 0,6       | 0,6       |
| <b>= Operating cash flow</b>    | <b>20</b> | <b>21</b> | <b>22</b> | <b>23</b> | <b>23</b> | <b>23</b> | <b>23</b> | <b>24</b> | <b>24</b> | <b>25</b> |
| - Capital expenditure           | 7         | 8         | 8         | 8         | 8         | 8         | 9         | 9         | 9         | 9         |
| <i>in % of revenues</i>         | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      | 2,8%      |
| Net working capital             | 27        | 27        | 29        | 30        | 29        | 30        | 31        | 32        | 32        | 33        |
| <i>in % of revenues</i>         | 10,4%     | 10,1%     | 10,5%     | 10,5%     | 10,0%     | 10,0%     | 10,0%     | 10,0%     | 10,0%     | 10,0%     |
| - Change of net working capital | 4         | 0         | 2         | 1         | -1        | 1         | 1         | 1         | 1         | 1         |
| <b>= Free cash flow</b>         | <b>9</b>  | <b>14</b> | <b>12</b> | <b>14</b> | <b>15</b> | <b>14</b> | <b>14</b> | <b>14</b> | <b>14</b> | <b>14</b> |
| <b>Present value</b>            | <b>8</b>  | <b>12</b> | <b>10</b> | <b>11</b> | <b>11</b> | <b>9</b>  | <b>8</b>  | <b>8</b>  | <b>7</b>  | <b>7</b>  |

Source: LBBW

- Using the DCF method as a basis, we arrive at a fair value of € 55.54 per share. Based on the current share price of € 48.00, this indicates additional share price potential of 15.7 %.

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**Calculation of fair value per share (€m)**


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|  |              |
|--|--------------|
| Present value of free cash flow in planned years | 92           |
| + Present value of terminal value                | 100          |
| <b>= Enterprise value</b>                        | <b>192</b>   |
| <i>Share of TV on enterprise value</i>           | <i>52,1%</i> |
| - Net financial debt                             | 67           |
| - Pension liabilities                            | 19           |
| - Minority interests                             | 2            |
| <b>= Market capitalization</b>                   | <b>104</b>   |
| / Number of shares (m)                           | 1,87         |
| <b>Fair value per share</b>                      | <b>55,54</b> |

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Source: LBBW

## Recommendation

- Schaltbau AG managed to “lay down” a remarkable start to the new year. The order intake, revenues, EBIT and net income all increased considerably. The very pleasing margin development in particular struck us as positive for the current and subsequent years. In addition, Schaltbau AG has confirmed its guidance for 2008 and 2009. However, the 2008 guidance seems too pessimistic, hence our assumptions of somewhat higher revenue and earnings estimates. Our valuation model overall yields a new price target of € 55.00. With this we are confirming our Buy rating.

## Development in the current business year

- Q1 2008 easily tapped into the strong development of the past year. Supported by a continuously favourable economic environment, Schaltbau AG was able to lift its revenues by 18 % and even its EBIT by 37.5 %. The margin increase from 7.2 % to 8.4 % as a result of this is predominantly attributable to streamlining measures in 2007.
- The order intake also posted a rise of 25 % to € 82.5 m. At € 198.3 m, the order backlog as of 31 March 2008 was well above the previous year's figure of € 139.6 m. This pleasing trend should represent a relatively secure basis for reaching the annual targets.

## Outlook

- In the scope of the Q1 report, Schaltbau confirmed the 2008 guidance, which it had already announced. Revenues thereafter should rise to € 255 m with "significantly better profitability". As a result, EBIT of € 17 m certainly seems realistic in our assessment (EBIT margin 6.5 %). In terms of Group profit for the year, Schaltbau expects approximately € 9.7 m, which would result in earnings per share of between € 4.50 and € 4.70. As for 2009, Schaltbau AG is again assuming that the earnings figures will improve by at least ten percent.
- We view our 2008 guidance as rather conservative and our revenue and earnings estimates call for somewhat more optimistic figures. As such, we are forecasting revenues of € 259.7 m with an EBIT margin of 6.5 % for 2008. In 2009 we expect revenues of € 270.3 m and an EBIT of € 18.8 m. This corresponds to an earnings increase of 10%.
- We have therefore adjusted our estimates upwards somewhat compared to the last update. We are lifting our earnings per share estimates for 2008 from € 4.66 to € 4.87. We then assume € 5.56 for 2009 as opposed to the previous estimate of € 5.35. This is mainly based on the pleasing development in Q1. The very strong margin development in particular continues to strike us as positive for the future.

| <b>Profit &amp; Loss Account</b> | <b>FY</b>    | <b>FY</b>    | <b>FY</b>    | <b>FY</b>    | <b>FY</b>    |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| €m                               | <b>2006</b>  | <b>2007</b>  | <b>2008e</b> | <b>2009e</b> | <b>2010e</b> |
| <b>Net sales</b>                 | <b>212,7</b> | <b>232,1</b> | <b>259,7</b> | <b>270,3</b> | <b>278,6</b> |
| <i>Change y-o-y</i>              | <i>4,3%</i>  | <i>9,1%</i>  | <i>11,9%</i> | <i>4,1%</i>  | <i>3,1%</i>  |
| Change in finished goods         | 3,1          | 4,1          | 0,0          | 0,0          | 0,0          |
| <b>Total performance</b>         | <b>215,8</b> | <b>236,1</b> | <b>259,7</b> | <b>270,3</b> | <b>278,6</b> |
| <i>Change y-o-y</i>              | <i>5,5%</i>  | <i>9,4%</i>  | <i>10,0%</i> | <i>4,1%</i>  | <i>3,1%</i>  |
| Costs of materials               | -110,3       | -123,5       | -135,1       | -140,1       | -144,7       |
| <b>Gross profit</b>              | <b>105,5</b> | <b>112,6</b> | <b>124,6</b> | <b>130,2</b> | <b>133,9</b> |
| <i>Gross profit margin</i>       | <i>49,6%</i> | <i>48,5%</i> | <i>48,0%</i> | <i>48,2%</i> | <i>48,1%</i> |
| Personal expenses                | -71,9        | -74,8        | -82,2        | -85,4        | -87,9        |
| Depreciation                     | -5,0         | -5,3         | -5,8         | -6,0         | -6,1         |
| Other operating income           | 2,7          | 3,2          | 3,3          | 3,4          | 3,4          |
| Other operating expenses         | -19,5        | -21,7        | -22,9        | -23,4        | -24,0        |
| <b>EBIT</b>                      | <b>11,8</b>  | <b>14,1</b>  | <b>17,0</b>  | <b>18,8</b>  | <b>19,3</b>  |
| <i>EBIT margin</i>               | <i>5,5%</i>  | <i>6,1%</i>  | <i>6,5%</i>  | <i>6,9%</i>  | <i>6,9%</i>  |
| Financial income                 | -3,2         | -4,1         | -5,1         | -4,9         | -4,9         |
| <b>EBT</b>                       | <b>8,6</b>   | <b>10,0</b>  | <b>11,9</b>  | <b>13,9</b>  | <b>14,4</b>  |
| <i>EBT margin</i>                | <i>4,0%</i>  | <i>4,3%</i>  | <i>4,6%</i>  | <i>5,1%</i>  | <i>5,2%</i>  |
| Income taxes                     | -2,6         | -1,9         | -1,8         | -2,5         | -2,8         |
| <i>Tax rate</i>                  | <i>29,9%</i> | <i>18,6%</i> | <i>15,1%</i> | <i>17,7%</i> | <i>19,1%</i> |
| Minority interests               | -1,1         | -1,0         | -1,0         | -1,0         | -1,0         |
| <b>Net earnings</b>              | <b>5,0</b>   | <b>7,2</b>   | <b>9,1</b>   | <b>10,4</b>  | <b>10,7</b>  |
| <b>Earnings per share in €</b>   | <b>2,67</b>  | <b>3,85</b>  | <b>4,87</b>  | <b>5,56</b>  | <b>5,70</b>  |

| <b>balance sheet</b>          | <b>2006</b>  | <b>2007</b>  | <b>2008e</b> | <b>2009e</b> | <b>2010e</b> |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| €m                            |              |              |              |              |              |
| <b>Assets</b>                 | <b>140,0</b> | <b>164,7</b> | <b>176,1</b> | <b>188,9</b> | <b>201,3</b> |
| Goodwill                      | 1,8          | 5,2          | 5,2          | 5,2          | 5,2          |
| Other intangible assets       | 4,4          | 6,2          | 6,3          | 6,3          | 6,4          |
| Tangible assets               | 37,1         | 40,4         | 40,6         | 41,0         | 41,5         |
| Financial assets              | 5,9          | 8,4          | 8,6          | 8,6          | 8,6          |
| Other fixed assets            | 10,1         | 8,7          | 8,7          | 8,7          | 8,7          |
| <b>Long-term assets</b>       | <b>59,3</b>  | <b>68,9</b>  | <b>69,3</b>  | <b>69,8</b>  | <b>70,4</b>  |
| Inventories                   | 42,3         | 46,4         | 51,9         | 54,1         | 55,7         |
| Trade receivables             | 28,3         | 33,8         | 37,4         | 38,4         | 39,0         |
| Other receivables and assets  | 5,5          | 7,8          | 7,8          | 8,1          | 8,4          |
| Cash and cash equivalents     | 4,6          | 7,9          | 9,7          | 18,6         | 27,9         |
| <b>Short-term assets</b>      | <b>80,7</b>  | <b>95,8</b>  | <b>106,8</b> | <b>119,1</b> | <b>130,9</b> |
| <b>Equity and liabilities</b> | <b>140,0</b> | <b>164,7</b> | <b>176,1</b> | <b>188,9</b> | <b>201,3</b> |
| Equity                        | - 12,3       | - 4,2        | 4,4          | 14,2         | 24,2         |
| Minority interests            | 2,2          | 2,1          | 3,6          | 5,1          | 6,6          |
| Pension provisions            | 19,3         | 19,1         | 19,1         | 19,0         | 19,0         |
| Other provisions              | 22,3         | 23,2         | 26,0         | 27,0         | 27,9         |
| Financial liabilities         | 52,9         | 61,4         | 60,0         | 58,0         | 56,0         |
| Trade payables                | 17,3         | 21,7         | 21,6         | 22,4         | 23,1         |
| Other liabilities             | 38,3         | 41,4         | 41,6         | 43,2         | 44,6         |

| Cash flow statement<br>€m                       | 2006         | 2007          | 2008e        | 2009e        | 2010e        |
|---|--------------|---------------|--------------|--------------|--------------|
| <b>Consolidated net profit</b>                  | <b>6,0</b>   | <b>8,2</b>    | <b>9,1</b>   | <b>11,4</b>  | <b>11,7</b>  |
| Depreciation                                    | 5,1          | 5,3           | 5,8          | 6,0          | 6,1          |
| Change in pension provisions                    | - 0,2        | - 0,2         | 0,0          | - 0,1        | 0,0          |
| Change in working capital                       | - 5,9        | - 3,4         | - 6,4        | 0,2          | 0,3          |
| Other changes                                   | 3,8          | 6,2           | 0,6          | - 0,1        | - 0,1        |
| <b>Cash flow from operating activities</b>      | <b>8,8</b>   | <b>16,0</b>   | <b>9,1</b>   | <b>17,4</b>  | <b>18,0</b>  |
| Capital expenditure                             | - 4,8        | - 7,9         | - 6,5        | - 6,8        | - 7,0        |
| Disposals/divestments                           | 0,2          | 0,1           | 0,3          | 0,3          | 0,3          |
| Other Changes                                   | - 0,4        | - 5,2         | 0,6          | - 0,2        | - 0,2        |
| <b>Cash flow from investing activities</b>      | <b>- 5,0</b> | <b>- 13,0</b> | <b>- 5,6</b> | <b>- 6,7</b> | <b>- 6,9</b> |
| Proceeds from capital increase                  | 0,0          | 0,0           | 0,0          | 0,0          | 0,0          |
| Dividend payment                                | - 0,1        | - 0,3         | - 0,6        | - 0,6        | - 0,6        |
| Change in financial liabilities                 | - 0,4        | 8,5           | - 1,4        | - 2,0        | - 2,0        |
| Other changes                                   | - 3,0        | - 8,1         | 0,5          | 0,5          | 0,5          |
| <b>Cash flow from financing activities</b>      | <b>- 3,5</b> | <b>0,1</b>    | <b>- 1,5</b> | <b>- 2,1</b> | <b>- 2,1</b> |
| Other changes                                   | - 0,1        | 0,2           | - 0,2        | 0,3          | 0,3          |
| <b>Change in cash and cash equivalents</b>      | <b>0,2</b>   | <b>3,3</b>    | <b>1,8</b>   | <b>8,9</b>   | <b>9,3</b>   |
| Cash and cash equivalents at start of year      | 4,4          | 4,6           | 7,9          | 9,7          | 18,6         |
| <b>Cash and cash equivalents at end of year</b> | <b>4,6</b>   | <b>7,9</b>    | <b>9,7</b>   | <b>18,6</b>  | <b>27,9</b>  |

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| Percentage of companies within this rating category |        |        |
|---|--------|--------|
| Buy   | Hold   | Sell   |
| 54.7 %  | 33.3 % | 12.0 % |

**Rating History**

| Date       | Rating |
|------------|--------|
| 11/14/2005 | Buy    |

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