

# Neochimiki<sup>2,7</sup>

Chemicals

06 November 2006

## Strong Buy

Price EUR13.0 / Fair Value EUR15.94 (15.25)



### COMPANY STRUCTURE CHANGED - IMPORTANT ACQUISITION AHEAD

Due to the positive news flow (intended acquisition of INTERKEM S.A., sale of cosmetics activities to Lamda Detergents, simplification of the company structure) in combination with strong Q3 figures, we increase our fair value by approx. 4% to €15.94. In a first step, we increase our EPS estimates for 2007 and 2008 by 4% and 7% respectively. We will include the positive synergies of the acquisition of INTERKEM in our model after the government has approved the deal in late 2006/beginning 2007. With a PER07e of 12.6 (excl. the positive effects of the INTERKEM acquisition), the share appears significantly undervalued, given its huge growth potential. **Strong buy.**

### STRONG Q3 FIGURES

Growth momentum accelerated in Q3. Nevertheless Neochimiki was not able to reach our sales estimate of €82m for Q3 and posted sales of €76.5m, up by more than 100%. Growth was driven by the Plastics segment, which benefited from the cooperation with Lukoil and the second paint factory which has been put into operation. Margins improved clearly stronger than expected. Gross margin increased from the depressed level of 24% in Q2 to 28% in Q3, despite higher SG&A spending. EBITDA nearly doubled to €16.7m in Q3. EBIT was therefore higher than expected by us and showed an over-proportional increase of 147% to €13.7m. Net profit was up by nearly 93% to €6.1m, clearly surpassing our estimates. Due to these strong numbers, we are confident that Neochimiki should at least reach our estimates for 2006.

### MARGIN ENHANCING ACQUISITION AHEAD

Neochimiki has signed an acquisition agreement with INTERKEM S.A. which is subject to final approval of the Greek antitrust committee. The acquisition is a strategically important step, as Neochimiki will acquire the only harbor in that area that has a licence for chemicals and access to the railway system.

12 month high/low €	13.4/4.90
Rel. %	1m 1.5 3m -4.1 12m 118.5
Abs. %	1m 4.8 3m 5.5 12m 171.3

### Market Data

Reuters	NCHR.AT
Bloomberg	NEOCHI GA
Market cap. €bn	0.5
Number of shares m	36.0
Free float %	66.0
Daily turnover shares	41,000

### Next Events

Full year results	n.a.
AGM	n.a.
Interim results	n.a.

### Rel. Sector

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### Key Changes

EPS %  
Rating

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### Key Data

	2004	2005	2006e	2007e	2008e
Revenues	83	142	300	460	585
EBIT	7	14	40	63	76
Net profit	2	5	71	37	43
adj. EPS	0.05	0.14	0.61	1.03	1.20
Dividend	0.07	0.08	0.17	0.25	0.33
PER	79.4	30.6	21.1	12.6	10.8
Div. yield %	1.9	2.0	1.3	1.9	2.6
EV/EBITDA	17.8	13.7	13.6	9.7	8.2
EV/Revenues	2.7	2.0	2.3	1.6	1.3
Price to book	2.6	2.6	3.7	3.0	2.5
EBIT margin %	8.2	9.5	13.5	13.7	13.0
ROE %	3.1	8.0	16.8	22.8	21.9
ROCE %	4.8	6.8	12.7	18.1	20.5
EPS CAGR 04-08: 125%		Equity ratio 06: 34%		Gearing 06: 114%	

High synergies after INTERKEM acquisition – not yet included in our model

It took Neochimiki six years to acquire this company. This deal, will be closed until the end of 2006. It should lead to significant synergies, as it strengthens the existing distribution business. In addition, Neochimiki will gain access to several new customers. Neochimiki needs the harbor for the consolidation of the distribution industry in Greece. In addition, the company has a powder coating unit. Customers are paint companies in Greece and abroad (40% of sales). Overall sales of the company are approx. €40m. The profitability of the company is currently low but the idea behind the acquisition is the huge synergies for the distribution business of Neochimiki. (e.g. the logistic center of Neochimiki is just at the opposite site of the harbour). Acquisition price including required investments should be in the region of €40-60m. We will include the deal after the closing end of 2006.

Also Neochimiki benefiting from sale of Cosmetics business to subsidiary Lamda Detergent

Neochimiki has sold the cosmetics activities for approx. €12m in cash paid in the coming quarter to its subsidiary Lamda Detergent, which runs the detergents segment. After the acquisition, Lamda will become a one-stop shop for Multinationals like Henkel Unilever or Sara Lee for both detergents and cosmetics, which should lead to top line synergies. We therefore expect that sales of cosmetics will already reach €20m in 2007 (instead of €10m) reaching the goal for 2008 one year earlier. Another reason for the acquisition of Lamda Cosmetics is the huge cost synergies. In our view, distribution costs might be reduced by approx. 0.5% of sales. In addition, there should be synergies in production, as manufacturing of some cosmetics is based on the same raw materials as detergents. Due to these synergies, sales of Neochimiki will improve by approx. €10m and net profit by approx. €1m in 2007, as Neochimiki owns approx. 50% of Lamda.

Simplification of company structure improves EPS ...

In addition, Neochimiki will simplify its company structure. By merging its subsidiaries, Neochimiki should be able to reduce administration costs by approx. 0.5% of sales p.a. in the coming years. This means that overall administration costs will be reduced by €2.3m in 2007 and €2.9m in 2008, which improves EPS by €0.05 in 2007 (approx. +5%) and €0.065 in 2008 (approx. +5%). This step becomes possible as Neochimiki has set up Chinese walls within the mother company, at the request of several customers.

... and cash flow

Neochimiki will also benefit from tax relief in Greece. As Neochimiki will be able to use non-tax deductible reserves, it will reduce its tax bill by approx. €1m per month, leading to an increase of cash flow of €12-15m in 2007.

Valuation

Significant discount in a dynamic comparison

Given a PER07e of 12.8, the share – in a static comparison with European specialty chemicals – is valued with a discount of 5% (sector PER07e 13.5). In an EV/EBITDA07e comparison, Neochimiki (9.8) shows a premium of 24% to the sector average of 7.9. However, by analyzing the earnings growth in the period 03-07e, Neochimiki (EPS CAGR: 62%) is significantly ahead of the sector average (EPS CAGR 5.7%), which makes the share highly attractive. As a result, the dynamic valuation in PEG terms of Neochimiki (0.21) is significantly below the sector average of 2.4. In the next few years, we expect a continuation of the strong growth, as there are sufficient growth opportunities (e.g. in the logistics segment), especially in the Balkan countries.

<b>Valuation comparison of Neochimiki</b>											
			Price on	EPS CAGR	EV/EBITDA	PER	EBIT-Margin	EV/Sales	EBITDA-Margin	Dividend yield	PEG
			03/11/2006	03-07e	07e	07e	07e	07e	07e	07e	03-07e
	CibaSC	CHF	77.00	2.79	4.40	14.69	9.17	0.65	14.75	2.60	5.27
	Clariant	CHF	17.80	4.44	5.89	10.84	7.55	0.64	10.84	1.40	2.44
	DSM	EUR	36.41	41.86	5.63	10.72	10.58	0.91	16.19	2.88	0.26
<b>Specialty Chemicals</b>	Givaudan	CHF	1018.01	4.95	11.08	15.36	19.81	2.65	23.89	2.04	3.10
	Lamda	EUR	5.50	66.02	8.39	11.90	13.98	1.57	18.70	1.58	0.18
	Lonza	CHF	96.45	3.54	10.16	17.99	13.81	2.22	21.86	1.50	5.08
	Neochimiki	EUR	13.26	61.80	9.83	12.82	13.73	1.66	16.93	1.26	0.21
	<b>Average</b>			<b>26.49</b>	<b>7.91</b>	<b>13.48</b>	<b>12.66</b>	<b>1.47</b>	<b>17.60</b>	<b>1.90</b>	<b>2.36</b>
<b>Chemical Sector Average</b>				<b>18.98</b>	<b>7.22</b>	<b>16.24</b>	<b>12.21</b>	<b>1.40</b>	<b>18.73</b>	<b>2.51</b>	<b>n.a.</b>

Source: Oppenheim Research

### Conclusion

Neochimiki has clearly exceeded our earnings estimates in Q3, mainly due to the stronger than expected rise of the gross margin. With the announced three important steps, the management has shown again that it is able to expand the company profitably and to increase shareholder value. We therefore clearly confirm our strong buy rating.

**Neochimiki – P&L (Cost of sales)**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Revenues</b>	<b>82.9</b>	<b>142.5</b>	<b>300.0</b>	<b>460.0</b>	<b>585.0</b>
Cost of revenues	56.2	99.6	209.7	322.7	415.2
<b>Gross operating result</b>	<b>26.7</b>	<b>42.9</b>	<b>90.3</b>	<b>137.3</b>	<b>169.8</b>
Selling costs	10.6	16.0	28.5	43.7	55.6
Administrative costs	4.5	7.0	10.2	15.6	20.5
R&D costs	0.0	0.0	0.1	0.1	0.1
Other operating income/expenses	0.8	0.7	0.0	0.0	0.0
EBITDA	12.4	20.6	51.5	77.9	93.7
EBIT pre exceptionals	6.8	13.6	40.5	63.2	75.9
<b>EBIT</b>	<b>6.8</b>	<b>13.6</b>	<b>40.5</b>	<b>63.2</b>	<b>75.9</b>
Interest result	-4.0	-6.2	-7.6	-8.5	-9.1
<b>Financial result</b>	<b>-4.0</b>	<b>-6.2</b>	<b>-7.6</b>	<b>-8.5</b>	<b>-9.1</b>
<b>Earnings before tax</b>	<b>2.8</b>	<b>7.4</b>	<b>81.8</b>	<b>54.7</b>	<b>66.9</b>
Taxes	1.0	2.4	5.8	8.4	12.0
Tax rate %	35	32	7	15	18
<b>Profit/loss for the year</b>	<b>1.8</b>	<b>5.1</b>	<b>76.0</b>	<b>46.3</b>	<b>54.9</b>
Minority interest	0.2	0.0	5.0	9.0	11.7
<b>Net profit</b>	<b>1.7</b>	<b>5.0</b>	<b>71.0</b>	<b>37.2</b>	<b>43.2</b>
Adjustments	0.0	0.0	-48.9	0.0	0.0
<b>Adjusted net profit</b>	<b>1.7</b>	<b>5.0</b>	<b>22.1</b>	<b>37.2</b>	<b>43.2</b>

**Key ratios and numbers**

<b>Data per share</b>					
Number of total shares	36.0	36.0	36.0	36.0	36.0
EPS (reported)	0.05	0.14	1.97	1.03	1.20
adj. EPS	0.05	0.14	0.61	1.03	1.20
Dividend per share	0.07	0.08	0.17	0.25	0.33
Sustainable FCFPS	0.35	0.54	-0.47	0.43	0.79
FCFPS	-0.70	-1.21	-0.65	0.60	1.08
Book value per share	1.43	1.67	3.50	4.29	5.15
<b>Growth rates %</b>					
Revenues change	48.5	71.9	110.5	53.3	27.17
EBIT change	-20.4	99.7	198.2	56.0	20.2
Earnings before tax change	-57.5	163.2	1001.9	-33.2	22.3
Net profit change	-69.0	198.8	1312.3	-47.6	15.9
adj. EPS change	-69.0	198.8	339.9	68.2	15.9
<b>Margins %</b>					
Gross margin	32.2	30.1	30.1	29.8	29.0
EBITDA margin	15.0	14.4	17.2	16.9	16.0
EBIT margin	8.2	9.5	13.5	13.7	13.0
Net profit margin	2.0	3.5	23.7	8.1	7.4
ROE	3.1	8.0	16.8	22.8	21.9
ROCE	4.8	6.8	12.7	18.1	20.5
<b>Expense ratios %</b>					
Depreciation to Revenues	6.8	4.9	3.7	3.2	3.0
<b>Other ratios</b>					
EVA @ SOP	6.4	10.2	13.3	17.1	15.0
ΔEVA @ SOP	6.4	3.8	3.1	3.8	-2.1
Sustainable FCF yield %	9.4	12.7	-3.6	3.3	6.1
Interest cover	1.7	2.2	5.3	7.4	8.4
Equity ratio %	34.5	26.0	34.2	34.8	36.2
Gearing %	157.7	203.3	113.5	82.4	52.9
Net financial liabilities/EBITDA	7.0	6.5	3.1	2.1	1.8

@ EVA, ΔEVA is a registered trademark

**Neochimiki - Statement of Cash Flows**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Cash flow from operating activities</b>					
EBIT	6.8	13.6	40.5	63.2	75.9
Depreciation / amortization	5.6	7.0	11.0	14.7	17.8
Change in other provisions	0.6	0.6	0.0	0.0	0.0
Non Cash Items	3.8	0.5	2.7	7.9	7.2
Taxes / tax refunds	1.0	2.4	5.8	8.4	12.0
Change in Working Capital	0.3	-5.3	54.4	45.5	39.3
<b>Cash flow from operating activities</b>	<b>15.5</b>	<b>24.6</b>	<b>-6.0</b>	<b>31.9</b>	<b>49.5</b>
<b>Cash flow from investing activities</b>					
Investments in tangible assets	-32.3	-66.8	-79.0	-18.0	-21.0
Investments in intangible assets	-1.5	-0.4	0.0	0.0	0.0
Disinvestments	0.0	3.3	69.4	0.0	0.0
Changes in other L.T. assets / acquisitions	0.0	0.0	-0.1	-0.1	-0.1
<b>Cash flow from investing activities</b>	<b>-33.8</b>	<b>-63.9</b>	<b>-9.7</b>	<b>-18.1</b>	<b>-21.1</b>
<b>Cash flow from financing activities</b>					
Financial result	-4.0	-6.2	-7.6	-8.5	-9.1
Change in financial liabilities	46.6	83.4	30.7	6.4	-1.8
Change in shareholder's Equity	0.0	0.0	0.0	0.0	0.0
Change in pensions and similar provisions	-23.3	-42.1	0.0	0.0	0.0
Dividend payments in previous year	2.0	2.2	2.0	6.0	9.0
Other	-3.1	1.7	-0.1	16.1	19.6
<b>Cash flows from financing activities</b>	<b>14.2</b>	<b>34.7</b>	<b>21.1</b>	<b>8.0</b>	<b>-0.3</b>
<b>Change in cash and cash equivalents</b>	<b>-4.0</b>	<b>-4.6</b>	<b>5.4</b>	<b>21.9</b>	<b>28.2</b>
Cash and cash equivalents (begin. of period)	1.2	1.8	4.8	10.2	32.1
Cash and cash equivalents (end of period)	-2.8	-2.8	10.2	32.1	60.3

**Ratios and key figures**

Free cash flow to entity	-21.3	-37.6	-15.8	29.9	48.0
Free cash flow to shareholder	-25.3	-43.7	-23.4	21.4	39.0
FCFPS	-0.70	-1.21	-0.65	0.60	1.08
Free cash flow yield	-18.9	-28.5	-5.0	4.6	8.3
Sustainable free cash flow to entity	12.5	19.5	-16.8	15.4	28.5
Sustainable free cash flow to shareholder	8.6	13.3	-24.4	6.9	19.4
Sustainable FCFPS	0.3	0.5	-0.5	0.4	0.8
Sustainable FCF yield	9.4	12.7	-3.6	3.3	6.1
Operating cash flow/Capex	0.5	0.4	-0.1	1.8	2.4
Operating cash flow/avg. net financial pos.	0.2	0.2	0.0	0.2	0.4
Maintenance capex/revenues	3.6	3.6	3.6	3.6	3.6
Depreciation/capex	0.2	0.1	0.1	0.8	0.8
Net working capital/revenues	0.3	0.2	0.3	0.2	0.2

**Neochimiki - Balance Sheet**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Assets</b>	<b>156.6</b>	<b>242.3</b>	<b>385.9</b>	<b>469.5</b>	<b>545.1</b>
<b>Fixed assets</b>	<b>113.4</b>	<b>175.9</b>	<b>242.5</b>	<b>245.9</b>	<b>249.2</b>
Intangible assets	6.0	11.2	9.0	8.8	8.8
Property, plant + equipment (PPE)	107.4	164.6	232.8	236.3	239.5
Financial assets	0.0	0.1	0.7	0.8	0.9
<b>Current assets</b>	<b>42.5</b>	<b>66.0</b>	<b>143.4</b>	<b>223.6</b>	<b>295.9</b>
Inventories	19.1	36.7	70.7	100.8	120.2
Accounts receivable	21.6	24.5	62.5	90.7	115.4
thereof trade receivables	21.4	24.3	62.5	90.7	115.4
Marketable securities	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.8	4.8	10.2	32.1	60.3
Deferred tax assets	0.6	0.4	0.0	0.0	0.0
<b>Total assets</b>	<b>156.6</b>	<b>242.3</b>	<b>385.9</b>	<b>469.5</b>	<b>545.1</b>
<b>Liabilities &amp; Shareholders' equity</b>	<b>156.6</b>	<b>242.3</b>	<b>385.9</b>	<b>469.5</b>	<b>545.1</b>
<b>Shareholders' equity</b>	<b>54.1</b>	<b>63.1</b>	<b>132.1</b>	<b>163.3</b>	<b>197.5</b>
Capital subscribed	10.8	10.8	10.8	10.8	10.8
Reserves	43.3	52.3	121.3	152.5	186.7
thereof additional paid-in reserves	5.7	5.7	5.7	5.7	5.7
thereof retained earnings	37.6	46.6	115.6	146.8	181.0
Items btw shareholders' equity + debt	0.3	4.1	27.6	36.7	48.4
<b>Debt</b>	<b>99.8</b>	<b>171.3</b>	<b>216.2</b>	<b>255.0</b>	<b>278.6</b>
Provisions	0.2	0.2	0.2	0.2	0.2
Pension provisions	0.1	0.1	0.2	0.2	0.2
Other provisions	0.1	0.0	0.1	0.1	0.1
Liabilities	99.6	171.1	216.0	254.8	278.4
Financial liabilities	87.0	132.9	160.0	166.4	164.6
Other liabilities	12.6	38.3	56.0	88.4	113.8
thereof trade liabilities	12.6	38.3	56.0	88.4	113.8
Deferred tax liabilities	2.4	3.8	9.9	14.5	20.6
Other liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>156.6</b>	<b>242.3</b>	<b>385.9</b>	<b>469.5</b>	<b>545.1</b>
<b>Ratios and key figures</b>					
Current assets %	27.2	27.2	37.2	47.6	54.3
Long-term assets %	72.4	72.6	62.8	52.4	45.7
Equity ratio %	34.5	26.0	34.2	34.8	36.2
Book value per share	1.43	1.67	3.50	4.29	5.15
Gearing %	157.7	203.3	113.5	82.4	52.9
Interest cover	1.7	2.2	5.3	7.4	8.4
Net working capital	28.1	22.9	77.2	103.2	121.8
Net financial position	-85.3	-128.2	-149.9	-134.5	-104.5
Net financial liabilities/EBITDA	7.0	6.5	3.1	2.1	1.8
Enterprise value	221.0	282.4	702.2	755.4	771.3

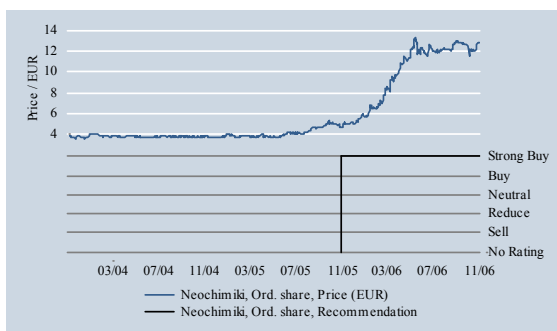
**Neochimiki - Divisional breakdown**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Revenues</b>	<b>82.9</b>	<b>142.5</b>	<b>300.0</b>	<b>460.0</b>	<b>585.0</b>
Detergents/Cosmetics	35.9	55.0	107.0	155.0	212.0
Chg. %	54.1	53.2	94.5	44.9	36.8
Plastics	10.6	21.0	55.0	80.0	100.0
Chg. %	63.1	98.1	161.9	45.5	25.0
Paint & Lacquer	9.7	19.0	47.0	90.0	110.0
Chg. %	94.0	95.9	147.4	91.5	22.2
Fertilizers	4.0	19.3	46.5	77.0	95.0
Chg. %	0.0	381.5	141.5	65.6	23.4
Other Chemical distribution	22.7	28.2	44.5	58.0	68.0
Chg. %	33.5	24.4	57.6	30.3	17.2
Total	82.9	142.5	300.0	460.0	585.0
Chg. %	48.6	71.9	110.5	53.3	27.2
<b>Gross profit</b>					
Detergents/Cosmetics	16.0	23.4	51.4	72.9	95.4
Chg. %	58.4	46.1	119.9	41.8	30.9
Plastics	2.6	4.7	6.2	9.5	11.1
Chg. %	52.9	80.8	31.9	53.2	16.8
Paint & Lacquer	2.4	4.3	10.3	19.8	23.1
Chg. %	84.6	79.2	139.5	92.2	16.7
Fertilizers	0.9	4.0	12.6	22.3	26.6
Chg. %	-10.0	344.4	215.0	77.0	19.3
Other Chemical distribution	6.0	6.5	9.8	12.8	13.6
Chg. %	22.4	26.4	26.4	30.6	6.3
Total	27.9	42.9	90.3	137.3	169.8
Chg. %	46.8	53.7	110.6	52.0	23.7
<b>Margins</b>					
Gross margin %	33.7	30.1	30.1	29.8	29.0
Detergents/Cosmetics	44.6	42.5	48.0	47.0	45.0
Plastics	24.5	22.4	11.3	11.9	11.1
Paint & Lacquer	24.7	22.6	21.9	22.0	21.0
Fertilizer	22.5	20.8	27.1	29.0	28.0
Other Chemical distribution	26.4	23.0	22.0	22.1	20.0

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Rating Distribution

Recommendation	Coverage Universe		Investment banking-relationship	
	No.	in %	No.	in %
Strong Buy	15	4.6	10	66.7
Buy	125	38.2	26	20.8
Neutral	135	41.3	12	8.9
Reduce	23	7.0	0	0.0
Sell				

Timely updates are provided in connection with noteworthy events, changes in ratings, significant model adjustments, as well as the publishing of quarterly figures.

The rating system of Sal. Oppenheim: Sal. Oppenheim's rating system uses the grades STRONG BUY, BUY, NEUTRAL, REDUCE and SELL.

The ratings are based on the analysts' expectations for the stock's absolute change in stock price over a period of 6 to 9 months. The change in stock price results from the difference between the current share price and the analysts' performance expectations, which are generally based on a fair value calculation.

Along with the expected high change in value, the STRONG BUY and SELL ratings also reflect the high degree of security which the analyst has in the given fair value.

Rating: Potential for change in stock price % (Difference between share price and performance expectations)

STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); SELL (< -10%)

Time horizon: The ratings are based on the expected change in value of a stock within a time scale of 6 to 9 months

Fair value: The calculation of a stock's fair value is generally based on the following models: 1) Discounted Free Cash Flow Model; 2) by a key comparable analysis

Concerning the continuing requirements of § 34 b WpHG please refer to the homepage of Bank Sal. Oppenheim:

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**2 The following conflict of interest is referred to: Sal. Oppenheim jr. & Cie. KGaA or its affiliated entities managed or co-managed a public offering of securities for the subject company in the last three years.**

**7 The following conflict of interest is referred to: Sal. Oppenheim jr. & Cie. KGaA or its affiliated entities received compensation for investment banking service from the subject company in the past 12 months.**

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