

Price (Euro) **44.36**
52 weeks range 44.36 / 13.75

Key Data

Country	Austria
Industry	Technology & Construction
ISIN	AT0000609607
WKN	850185
Reuters	ABGV.VI
Bloomberg	POS AV
Internet	www.porr-group.com
Reporting Standard	IFRS
Fiscal Year	31/12
Market Cap (EUR million)	528.0
Number of shares (million)	11.9
Free Float	11.6%
Free Float MCap (million)	61.1

Multiples	2012	2013e	2014e	2015e
MarketCap/ Sales	0.23	0.21	0.18	0.18
PE-Ratio	41.7	11.3	9.7	7.9
Dividend Yield	0.4%	2.3%	2.3%	3.8%
Price-to-Book ratio	163.7%	147.8%	129.6%	114.1%

Key Data per Share (Euro)	2012	2013e	2014e	2015e
Earnings per Share (EPS)	1.06	3.92	4.57	5.63
Dividends per Share (DPS)	0.18	1.00	1.00	1.69

Financial Data (Euro '000)	2012	2013e	2014e	2015e
Revenues	2,314,828	2,522,000	2,945,000	2,992,000
EBITDA	103,837	154,680	151,020	166,585
Operating Profit (EBIT)	53,809	88,000	98,600	112,865
Pre-tax profit (EBT)	22,008	60,510	75,200	89,535
Net profit (after minorities)	17,993	53,385	67,740	80,175
Adjusted Shareholders' Equity	322,553	357,336	407,376	462,554
RoE after tax	5.6%	14.9%	16.6%	17.3%

Financial Calendar

Annual report 2013	9 Apr 2014
1Q 2014 interim report	12 May 2014
1H 2013 report	29 Aug 2014
SRC Forum Financials & Real Estate	10 Sep 2014

Main Shareholders

Syndicate (Strauss-/Ortner-group)	68.0%
Renaissance Construction AG	7.0%
Vienna Insurance Group	6.7%
PORR Management	4.3%
Wiener Stadtwerke Holding AG	2.5%

Analysts

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Excellent 2013 prelims far above our projections – we strongly lift our target to 60 Euros

Yesterday, on 24 March, Austrian real estate construction and technology group PORR AG disclosed some key 2013 prelims, which were far above our expectations from our initiating coverage report from 28 January.

The operating profit on the cash-driven EBITDA level steeply increased by 49% from Euro 104m in 2012 to now almost Euro 155m. Our forecast was much more cautious, assuming a hike of only 9% to Euro 113m.

With regards to the operating profit at EBIT level it also steeply increased by 63% from Euro 54m to Euro 88m. Our forecast was much lower at Euro 60m.

With regards to the pre-tax result, PORR disclosed that it almost tripled from Euro 22.0m to Euro 60.5m. Our forecast was again much more conservative with a pre-tax projection of only Euro 29m. With regards to our talks with the management, we assume four main reasons for these excellent preliminary numbers.

- 1) **A very strong fourth quarter** in all business units, in particular in Business Unit 1 (building construction and civil engineering in German-speaking Europe as well as TEERAG-ASDAG for the road constructions)
- 2) **A higher contribution from the cost cutting program "Fit For Future"** already coming to the firm's P & L in 2013
- 3) **A better risk management than in the past** to avoid some under-performing projects to dilute the overall margin of the group
- 4) **Lower financing costs bringing the financing expenses much below the level of the last year** (our projection was that the financing costs remain more or less stable, but with a better operating performance and a higher cash-inflow PORR might be able to bring down financing expenses already in 2013). **Another important point in yesterday's news was that net debt was brought down significantly below Euro 400m to only Euro 357.5m.** Our forecast was that PORR would be able to deliver a net debt in a range of Euro 360m – 390m, whereas PORR's guidance was only to come to below a Euro 500m net debt.

We clearly lift our P & L forecast for 2014 and following years as we take a record high order backlog of Euro 4.6bn (+36%) and a clearly improved profitability with a lower net debt into our consideration. The share already exceeded our initial target of 42 Euros. We maintain our Buy recommendation and lift our target price from € 42.00 to € 60.00.

PORR AG

Industry: Construction / Infrastructure
Sub-segment: all kinds of real estate
Country: Austria
Headquarter: Vienna
Foundation: 1869
Employees (9M 2013): 11,339

IR Contact
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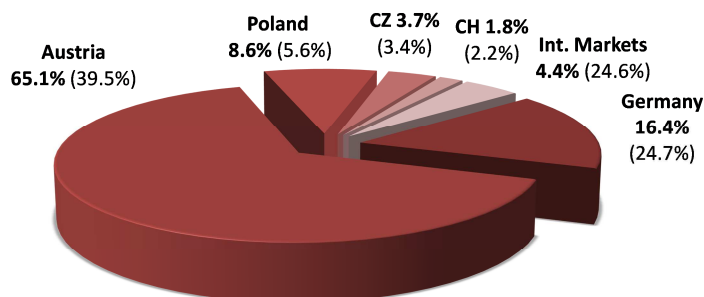
Management Board of PORR
GD Ing. Karl-Heinz Strauss (CEO)
MMag. Christian Maier (CFO)
J. Johannes Wenkenbach (COO)

Supervisory Board of PORR
Dr. Dr. Karl Pistotnik (Chairman)
Dipl.-Ing. Klaus Ortner Dr. Walter Knirsch
Prof. Dr. Bernhard Vanas Dr. Susanne Weiss
Dipl.-Ing. Nematollah Farrokhnia
Dipl.-Ing. Iris Ortner, MBA Dr. Martin Krajcsir
Dr. Thomas Winischhofer, LL.M., MBA
Peter Grandits Walter Huber
Walter Jenny Michael Kaincz
Dipl.-Ing. Michael Tomitz

Founded in 1869 as Allgemeine österreichische Baugesellschaft PORR AG is today a full service provider for construction and infrastructure projects with a leading market position in Austria and also a good footprint as one of the leading firms in other important European core markets like Germany, Switzerland, Poland and Czech Republic. These five home markets stand for more than 90% of group's production output. Furthermore, there are also some project-specific activities and profitable niches in Eastern and South-Eastern Europe as well as in some countries of Middle East. Here -as well as in its core markets- PORR markets its high expertise in modern infrastructure like tunneling, metro building, solid railway (slab-track), highways and other special earthworks. Besides Infrastructure there is also another modern and quickly growing business unit that has a focus on environmental engineering (waste management, dumps and sorting plants etc.) which will accelerate future profits outside the classic building construction business. In October 2012 the Strauss-group acquired an approx. 38% stake of PORR from B & C group and entered a syndicate agreement with Ortner group to replace B & C. After a mandatory takeover bid, the syndicate now holds c. 68% and the management 4.3%. The Vienna Insurance Group (6.7%) and the Wiener Stadtwerke Holding AG (2.5%) also hold stakes in PORR. The free float is approx. 12%, but should grow with the next capital hike, which we expect for the current year 2014 or early 2015. The firm has been a solid dividend payer in the past - except for 2011, where write-downs in Eastern Europe impaired the P & L.

PORR's strategy is to strengthen group's profitability by setting the focus on profitable projects like large-scale infrastructure business and by a program to cut internal costs and streamline the entire organization to avoid management redundancies. We expect the firm to lift RoE, cash flow and operating margins (and lastly equity ratio) and to reduce net debt by selling major parts of its non-core real estate assets. The 2013 prelim numbers confirm PORR's strategy.

Euro 2.3bn production output after 9M 2013
(order backlog at record levels of Euro 4.7bn, shares in brackets)



Source: Company data, SRC Research

SWOT Analysis

Strengths

- PORR is a strong brand in the European construction business. The clients like PORR for its reliable work to finish demanding products in-time and in-budget. This is the most decisive advantage to pitch for lucrative new construction projects and to grab a higher market share by beating competitors.
- Austria is the home market of PORR where the firm is the No. 1. With regards to the home market region with Germany, Switzerland, Poland and CZ the firm has a strong footprint, in particular in metropolises like Berlin, Frankfurt, Warsaw and Prague, with several well-known landmark projects.
- The order backlog is at record levels in company's history. After Euro 3.4bn in 2012, it surged to about Euro 4.6bn as of year-end 2013. This means that PORR has a very full project pipeline for its staff for at least 18 months without gaining any new projects. This allows the firm to cherry-pick the most lucrative future projects and to abstain from any "price wars."
- The firm is not only strong in building construction but also in mostly public infrastructure construction projects like tunnel, bridge and highway construction as well as the prominent Green Line metro in Doha. The business unit infrastructure is the second biggest revenues driver for the group.
- The company already worked to improve the balance sheet by reducing working capital and net debt position. Net debt shrunk from Euro 636m in 2011 to Euro 586m in 2012 to about Euro 357m in 2013, even outperforming our forecasted range of Euro 360m to Euro 390m.

Weaknesses

- The firm had in past some severe losses and bad debts with projects mainly in CEE/SEE countries like Hungary and Romania, which impaired the 2011 results (net result Euro -73m). But PORR learned its lessons to sign new business in these shaky countries only on a very selective basis.
- The equity ratio used to be slightly below its peers, although the favorable 2013 net profit should lift it towards the desired range. With estimated real estate asset sales of more than Euro 200m in 2013, which reduce debt and lifts the group's cash position, it will quickly come back to levels near 20% in our view. The high output (+19% in 2013) and the fruits from its cost savings program "Fit for Future" will also help to quickly restore profitability and the balance sheet quality.
- Some parts of PORR's debt are quite expensive. The so-called ABAP profit-participation rights (Euro 70m total volume) have an interest of 13% for a Euro 40m stake and 8% coupon for the remaining 30m. These parts of debt should be quickly repaid with the planned capital hike. The annual interest payments for the ABAP rights are substantial at about Euro 7.6m.

Opportunities

- Significant upside for the share to come from higher profits (efficiency gains, better operating margins, lower financial expenses) and a higher free float.
- Stable economic situation in PORR's home markets and slightly growing construction business activities in almost all decisive countries.
- Good margins at the Doha Green Line Metro and further infrastructure projects will foster group's numbers the next 4 - 5 years.

Threats

- Relatively low refinancing needs in 2014 (except a Euro 100m bond maturing in Nov. 2014), but more refinancing to come in 2015 (c. Euro 265m) and the construction industry is not the most wanted at banks for execution risks etc.
- An overall economic downturn in Europe would also affect PORR's business.

Discounted Cashflow for PORR AG (Entity WACC Method)

Assumptions:

Equity ratio long-term	35%	Beta factor	1.65
CoE Cost of Equity	12.7%	Risk-free return	2.0%
CoL Cost of Liability	5.5%	Market risk premium	6.5%
Weighted Average Cost of Capital (WACC)	8.0%		
Years until first pay-out	0.92		
Growth in Terminal Value	2.0%		

Euro '000	2014e	2015e	2016e	2017e	2018e	Terminal Value
Total revenues	2,945,000	2,992,000	3,180,000	3,405,000	3,405,000	3,243,600
<i>Sales revenues growth</i>	16.8%	1.6%	6.3%	7.1%	3.4%	2.0%
EBIT	98,600	112,865	122,630	136,013	149,395	152,383
Real Estate EBIT share	6,000	4,000	2,000	1,800	1,500	1,500
EBIT without rental income	92,600	108,865	120,630	134,213	147,895	150,883
Taxes	-7,460	-9,360	-17,890	-23,291	-23,291	-23,757
Net operating profit after tax (NOPAT)	85,140	99,505	102,740	110,921	124,604	127,126
+ depreciation	52,420	53,720	54,350	54,980	55,250	55,000
- investments	-64,000	-65,000	-62,000	-61,000	-60,000	-62,220
Free cash flow	73,560	88,225	95,090	104,901	119,854	1,266,535
Present value of free cash flows	58,755	65,248	65,116	66,513	88,640	743,568

PV of terminal value 743,568

PV of detailed period 189,119

Sum of PVs 932,686

+ net asset value of real estate assets that are not necessary for operating business (as of 31 Dec 2013e) 205,000

+ cash / cash equivalents (without real estate entities) (as of 31 Dec. 2013e) 240,000

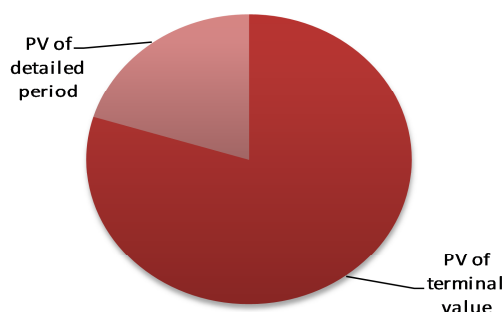
- interest bearing liabilities without real estate entities (as of 31 Dec. 2013e) 500,000

Market value of equity 877,686

Expected average number of shares in million 14.0

Fair market value per share in Euro 62.69

Enterprise value breakdown



Development of value drivers	2013e	2014e	2015e	2016e	2017e	2018e
Sales growth	8.9%	16.8%	1.6%	6.3%	6.7%	7.1%
EBITDA margin	6.1%	5.1%	5.6%	5.6%	5.8%	6.0%
EBIT margin	3.5%	3.3%	3.8%	3.9%	4.1%	4.4%
Investment-to-sales ratio	2.2%	2.2%	1.9%	1.8%	1.8%	1.9%

Sensitivity analysis (per share)

Growth in Terminal Value	Equity Ratio				
	25%	30%	35%	40%	45%
1.0%	64.77	59.42	55.10	50.52	46.79
1.5%	69.48	63.45	58.61	53.51	49.39
2.0%	75.09	68.18	62.69	56.96	52.36
2.5%	81.87	73.83	67.52	61.00	55.81
3.0%	90.21	80.69	73.31	65.78	59.86

Growth in Terminal Value	WACC				
	7.0%	7.5%	8.0%	8.5%	9.0%
1.0%	69.94	61.87	55.10	49.38	44.49
1.5%	75.38	66.21	58.61	52.24	46.85
2.0%	81.91	71.33	62.69	55.54	49.54
2.5%	89.89	77.48	67.52	59.39	52.65
3.0%	99.87	85.00	73.31	63.94	56.28

Growth in Terminal Value	No. Of Shares (Millions)				
	12.0	13.0	14.0	15.0	16.0
1.0%	64.29	59.34	55.10	51.43	48.22
1.5%	68.37	63.11	58.61	54.70	51.28
2.0%	73.14	67.51	62.69	58.51	54.86
2.5%	78.77	72.71	67.52	63.02	59.08
3.0%	85.53	78.95	73.31	68.43	64.15

Current share price 44.36
Up/Downside 41.3%

Source: SRC Research

P&L PORR AG									
31/12 IFRS (Euro '000)	2011	2012	2013e	2014e	2015e	2016e	2017e	2018e	CAGR '14e - '17e
Revenues	2,212,490	2,314,828	2,522,000	2,945,000	2,992,000	3,180,000	3,292,500	3,405,000	
Own work capitalized in non-current assets	4,152	4,210	4,450	5,100	5,295	5,380	5,423	5,465	
Share of profit/loss of associates	17,916	20,201	19,450	20,180	21,850	26,300	28,525	30,750	
Other operating income	67,158	70,312	79,450	66,280	71,850	76,500	78,825	81,150	
Cost of materials and other related production servi	-1,470,861	-1,455,484	-1,580,000	-1,912,300	-1,925,000	-2,096,100	-2,191,650	-2,287,200	
Staff expense	-580,804	-625,309	-641,550	-706,000	-728,000	-741,000	-747,500	-754,000	
Other operating expenses	-239,225	-224,921	-249,120	-267,240	-271,410	-274,100	-275,445	-276,790	
Operating result (EBITDA)	10,826	103,837	154,680	151,020	166,585	176,980	190,678	204,375	8.1%
Depreciation, amortisation and impairment expense	-51,291	-50,028	-66,680	-52,420	-53,720	-54,350	-54,665	-54,980	
Operating result (EBIT)	-40,465	53,809	88,000	98,600	112,865	122,630	136,013	149,395	11.3%
Income from financial investments and other current financial assets	1,738	5,976	7,190	6,320	5,120	5,500	5,200	4,900	
Finance costs	-44,342	-37,777	-34,680	-29,720	-28,450	-27,200	-26,050	-24,900	
Earnings before tax (EBT)	-83,069	22,008	60,510	75,200	89,535	100,930	115,163	129,395	15.3%
Income tax expense	12,880	-4,015	-7,125	-7,460	-9,360	-17,890	-20,591	-23,291	
Profit/loss for the period	-70,189	17,993	53,385	67,740	80,175	83,040	94,572	106,104	11.8%
of which attributable to non-controlling interest	2,749	742	1,100	1,200	1,350	1,520	1,535	1,550	
Profit/loss for the period attributable to shareholders of the parent and holders of profit-participation rights	-72,938	17,251	52,285	66,540	78,825	81,520	93,037	104,554	11.8%
of which attributable to holders of profit-participation rights	5,600	5,600	5,600	2,500	0	0	0	0	
Profit/loss for the period attributable to shareholders of the parent	-78,538	11,651	46,685	64,040	78,825	81,520	93,037	104,554	13.3%
Diluted/basic earnings per share (EPS)	-28.99	1.06	3.92	4.57	5.63	5.82	6.65	7.47	
Dividends per share (DPS)		0.31	1.00	1.00	1.69	1.75	1.99	2.24	
No. Of shares	10,836	10,951	11,903	14,000	14,000	14,000	14,000	14,000	
Adjusted Shareholders' Equity without minorities	224,820	322,553	357,336	407,376	462,554	519,618	556,212	592,806	10.9%
RoE after Tax	-31.2%	5.6%	14.9%	16.6%	17.3%	16.0%	16.9%	17.9%	
Key ratios & figures	2011	2012	2013e	2014e	2015e	2016e	2017e	2018e	
Growth rates in %									
Revenues	-	4.6%	8.9%	16.8%	1.6%	6.3%	6.7%	7.1%	
EBITDA	-	-2.5%	33.3%	-21.4%	2.5%	1.2%	1.2%	1.2%	
EBIT	-	-233.0%	63.5%	12.0%	14.5%	8.7%	15.2%	21.8%	
EBT	-	-126.5%	174.9%	24.3%	19.1%	12.7%	20.5%	28.2%	
Net profit after minorities	-	-114.8%	196.7%	26.9%	18.4%	3.6%	15.7%	27.8%	
Margins in %									
EBITDA	0.5%	4.5%	6.1%	5.1%	5.6%	5.6%	5.8%	6.0%	
EBIT	-1.8%	2.3%	3.5%	3.3%	3.8%	3.9%	4.1%	4.4%	
EBT	-3.8%	1.0%	2.4%	2.6%	3.0%	3.2%	3.5%	3.8%	
Net Profit	-3.3%	0.7%	2.1%	2.3%	2.6%	2.6%	2.8%	3.1%	
Expense ratios in %									
Personnel costs to sales	26.3%	27.0%	25.4%	24.0%	24.3%	23.3%	22.7%	22.1%	
Cost of material to sales	66.5%	62.9%	62.6%	64.9%	64.3%	65.9%	66.5%	67.2%	
Depreciation to sales	2.3%	2.2%	2.6%	1.8%	1.8%	1.7%	1.7%	1.6%	
Tax rate	-15.5%	-18.2%	-11.8%	-9.9%	-10.5%	-17.7%	-17.9%	-18.0%	
Profitability in %									
Net profit to sales ratio	-3.3%	0.7%	2.1%	2.3%	2.6%	2.6%	2.8%	3.1%	
Return on equity (RoE)	-31.2%	5.6%	14.9%	16.6%	17.3%	16.0%	16.9%	17.9%	
Valuation									
PE-ratio	-1.53	41.69	11.31	9.70	7.88	7.62	6.78	5.94	
Dividend yield in %	0.0%	0.7%	2.3%	2.3%	3.8%	3.9%	4.5%	5.1%	
Market Cap / Sales	0.24	0.23	0.21	0.18	0.18	0.17	0.16	0.16	
Market Cap / EBITDA	48.77	5.08	3.41	3.50	3.17	2.98	2.78	2.58	
Data per share									
Number of shares in k	10,836	10,951	11,903	14,000	14,000	14,000	14,000	14,000	
EpS	-28.99	1.06	3.92	4.57	5.63	5.82	6.65	7.47	
DpS	0.00	0.31	1.00	1.00	1.69	1.75	1.99	2.24	

Balance Sheet PORR AG								
31/12 IFRS (Euro '000)	2011	2012	2013e	2014e	2015e	2016e	2017e	
Non-current assets								
Intangible assets	51,022	58,733	60,495	62,310	64,179	66,105	68,088	
Property, plant and equipment	409,752	393,535	403,520	423,696	444,881	467,125	490,481	
Investment property	407,496	339,782	288,815	231,052	184,841	147,873	118,299	
Shareholdings in associates	195,523	209,053	204,872	219,213	234,558	250,977	268,545	
Loans	35,123	29,380	30,555	31,777	33,049	34,370	35,745	
Other financial assets	25,440	20,115	21,121	22,177	23,286	24,450	25,672	
Other non-financial assets	44,251	40,442	42,464	44,587	46,817	49,158	51,615	
Deferred tax assets	9,452	7,570	8,176	8,830	9,536	10,299	11,123	
Total current assets	1,178,059	1,098,610	1,060,017	1,043,642	1,041,146	1,050,356	1,069,568	
Current assets								
Inventories	55,125	81,133	85,190	89,449	93,922	98,618	103,549	
Trade receivables	602,639	610,146	612,740	652,568	694,985	740,159	788,269	
Other financial assets	113,022	121,152	115,320	103,788	93,409	84,068	75,661	
Other receivables and current assets	17,594	12,111	12,717	13,352	14,020	14,721	15,457	
Cash and cash equivalents	153,813	110,411	98,450	98,500	98,500	98,500	98,500	
Assets held for sale	16,800	24,381	25,600	26,880	28,224	29,635	31,117	
Total non-current assets	958,993	959,334	950,016	984,538	1,023,060	1,065,701	1,112,553	
Total assets	2,137,052	2,057,944	2,010,034	2,028,179	2,064,206	2,116,057	2,182,122	
Equity and liabilities	2011	2012	2013e	2014e	2015e	2012	2016e	
Shareholders' equity								
Share capital	19,896	19,896	24,200	24,200	24,200	24,200	24,200	
Capital reserves	121,353	121,353	125,000	135,000	135,000	135,000	135,000	
Other reserves	83,571	85,303	128,946	218,759	293,467	355,015	427,634	
Equity from profit-participation rights	75,530	92,119	75,200	25,000	5,000	0	0	
Non-controlling interest	2,893	3,882	4,270	4,697	5,167	5,684	6,252	
Total equity	303,243	322,553	357,616	407,657	462,834	519,899	593,086	
Non-current liabilities								
Bonds	224,088	273,103	225,000	100,000	50,000	100,000	100,000	
Provisions	101,676	115,581	123,672	132,329	141,592	151,503	162,108	
Non-current financial liabilities	408,241	169,173	186,090	204,699	225,169	247,686	272,455	
Other non-current financial liabilities	20,881	16,963	17,472	17,996	18,536	19,092	19,665	
Other liabilities	33,981	0	0	0	0	0	0	
Deferred tax liabilities	22,839	17,974	17,075	16,222	15,410	14,640	13,908	
Total non-current liabilities	811,706	592,794	569,309	471,246	450,707	532,921	568,136	
Current liabilities								
Bonds	69,630	0	100,000	125,000	175,000	100,000	100,000	
Provisions	73,717	117,236	135,120	131,500	136,760	142,230	147,920	
Current financial liabilities	87,908	254,635	85,900	35,000	45,000	45,000	45,000	
Trade payables	502,176	515,158	501,876	591,857	519,618	492,926	435,655	
Other current financial liabilities	122,758	95,194	91,000	88,500	88,250	88,000	87,750	
Other current liabilities	161,571	155,145	162,902	171,047	179,600	188,580	198,009	
Tax payables	4,343	5,229	6,310	6,373	6,437	6,501	6,566	
Total current liabilities	1,022,103	1,142,597	1,083,108	1,149,277	1,150,664	1,063,238	1,020,900	
Total liabilities	1,833,809	1,735,391	1,652,417	1,620,523	1,601,372	1,596,159	1,589,035	
Total equity and liabilities	2,137,052	2,057,944	2,010,034	2,028,179	2,064,206	2,116,057	2,182,122	
Source: Company data, SRC estimates								

SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
PORR AG	28 January 2014	Buy	27.30 €	42.00 €

Please note:

The PORR share price mentioned in this report is from 24 March 2014.

PORR AG mandated SRC Research for covering the PORR share.

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