

Buy (old: Accumulate) Target: Euro 20.00 (old: Euro 19.00)

27 | November | 2018

| | | | | |
|---------------------------------------|--|----------------|-----------------|----------------|
| Price (Euro) | 15.20 | | | |
| 52 weeks range | 18.64 / 14.00 | | | |
| Key Data | | | | |
| Country | Austria | | | |
| Industry | Real Estate | | | |
| Market Segment | Prime Market | | | |
| ISIN | AT0000652250 | | | |
| WKN | 902388 | | | |
| Symbol | T1L | | | |
| Reuters | SIAG.VI | | | |
| Bloomberg | SPIAV | | | |
| Internet | www.simmoag.at | | | |
| Reporting Standard | IFRS | | | |
| Fiscal Year | 31/12 | | | |
| Founded | 1986 | | | |
| IPO | 1987 | | | |
| Market Cap (EUR million) | 1017.1 | | | |
| Number of shares (million) | 66.9 | | | |
| Free Float (approx.) | 70% | | | |
| Free Float MarketCap (Euro million) | 712.0 | | | |
| CAGR (EBITDA '17-20e) | 5.9% | | | |
| Multiples | | | | |
| Market cap/ Revenues-Ratio | 5.3 | 5.4 | 5.3 | 5.1 |
| P/E-Ratio | 7.7 | 7.5 | 7.3 | 7.4 |
| Dividend Yield | 2.6% | 2.6% | 3.0% | 3.3% |
| Key Data per Share (Euro) | | | | |
| Earnings per Share (EpS) | 1.97 | 2.02 | 2.07 | 2.05 |
| Dividends per Share (DpS) | 0.40 | 0.40 | 0.45 | 0.50 |
| Book Value per Share (BVpS) | 13.66 | 15.28 | 16.89 | 18.42 |
| EPRA NAV per share | 17.63 | 20.45 | 21.68 | 22.81 |
| FFO I per share | 0.64 | 0.84 | 0.91 | 0.98 |
| Financial Data (Euro '000) | | | | |
| Revenues | 191,421 | 192,084 | 202,779 | 208,312 |
| Rental income | 112,020 | 106,979 | 113,505 | 115,775 |
| Net revaluation result | 127,592 | 95,175 | 87,911 | 81,553 |
| Operating cash profit (EBITDA) | 89,556 | 86,430 | 101,389 | 106,360 |
| Operating Profit (EBIT) | 208,149 | 173,555 | 180,848 | 179,068 |
| Pre-tax profit (EBT) | 160,748 | 159,052 | 164,290 | 162,096 |
| Net profit after minorities | 130,091 | 134,614 | 138,035 | 136,295 |
| Shareholders' Equity | 914,335 | 1,022,196 | 1,130,097 | 1,232,875 |
| RoE after tax | 15.5% | 13.9% | 12.8% | 11.5% |
| Financial Calendar | | | | |
| Annual report 2018 | | | April 3, 2019 | |
| 1Q 2019 | | | May 27, 2019 | |
| AGM | | | June 14, 2019 | |
| 2Q 2019 | | | August 27, 2019 | |
| Main Shareholders | | | | |
| Immofinanz | | 29% | | |
| Own shares | | 1% | | |
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+30% FFO in a transition year – good rentals at the new completions Einsteinova and The Mark – much lower financing costs – 9M net profit 8% up – we lift target to 20 Euros

Today, S IMMO released the 9M report and invited for a conference call in the afternoon. All in all, the numbers were in-line at the rental income and EBITDA result but even better when it comes to the bottom line. Despite the tremendous sales activities in the last two years, in particular Serdika Center in Sofia and Viertel Zwei In Vienna, the rental income was quite high in our view, with a good like-for-like rental growth in the existing portfolio and new acquired properties as well as a remarkably higher contribution from hotel operations.

Despite losing Euro 15.3m by the sold Serdika and Viertel Zwei properties the rental income only came back by less than Euro 10m, from Euro 86.0 in 9M 2017 to now still high Euro 76.5m in this year. Keep in mind that the like-for-like rentals climbed by Euro 3.3m and from new acquisitions there was a contribution of Euro 2.5m coming to the top line. Another highlight were the hotel revenues steeply increasing by 17%, from Euro 32.8m to Euro 38.3m.

The EBITDA was at Euro 62.8m, in-line with our expectations, after Euro 71.3m in 9M 2017. With regards to the FFO I, there was a steep hike of almost 30%, from Euro 37m to almost Euro 48m, caused by above mentioned effects and the improved financing side without the participating certificate expenses saving Euro 3.5m and a much lower cost of debt in general. The cost of funding is now at only 2.25%, after 2.65% in 9M 2017. With a higher than from us expected 9M revaluation result of Euro 46m, S IMMO managed to lift net profit after minorities by 8%, from 73.8m to 79.6m.

We are positive for the coming quarters. The Bratislava Einsteinova is already fully let and has well-known tenants like UBM and UNIQA. The other premium landmark to be finished in the current 4Q is The Mark in Bucharest which has already a 75% pre-let status and also very well-known tenants like Deloitte, Dentons and Starbucks. The demand for superior office space in Bucharest is very high. Thus we expect the remaining space to be rented out soon for very good sqm prices. Keep in mind that Einsteinova and The Mark both strive for the second highest BREEAM sustainability certificate level "Excellent". In addition to the almost finished properties S IMMO is already in negotiations for further transactions to buy other interesting assets with upside potential, in particular in Germany but also in some CEE hubs. All in all, we feel sure that the firm will manage to deliver another significant hike in the 2019 FFO results. With a 7% rise in EPRA NAV per share in 3Q from Euro 17.96 to Euro 19.20 we lift our target price from Euro 19.00 to Euro 20.00 and expect a NAV per share above Euro 20.00 for year-end 2018. **The share lost 15% in the last 3 months due to more shaky market conditions. We upgrade our rating from Accumulate to Buy as the operating picture of the firm and the cycle management is strong.**

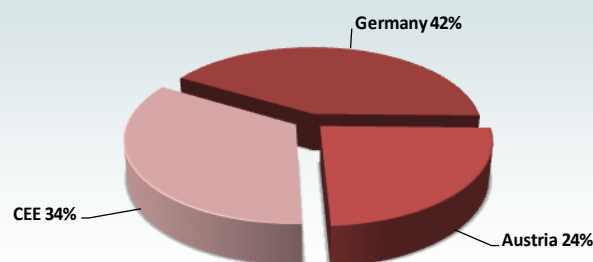
S IMMO AG Company Profile

| | | | |
|------------------------------------|-------------|--------------------------------|---------------------|
| Industry: | Real Estate | Management Board: | |
| Sub-segment: | mixed | CEO Ernst Vejdovsky | |
| Country: | Austria | Friedrich Wachernig, MBA | |
| Headquarter: | Vienna | | |
| Foundation: | 1986 | Supervisory Board: | |
| Employees (without Hotels): | 102 | Dr. Martin Simhandl (Chairman) | |
| | | Franz Kerber (Deputy Chairman) | |
| | | Christian Hager | Manfred Rapf |
| IR Contact | | Dr. Wilhelm Rasinger | Hanna Bomba |
| Andreas Feuerstein | | Andrea Besenhofer | Dr. Karin Rest, MBA |
| (Andreas.Feuerstein@simmoag.at) | | | |

S IMMO is a Vienna-based real estate holding company founded in 1986. Since 1987 the company is listed on the Vienna stock exchange and therefore Austria's longest existing property investment company. The share is member of ATX blue chip index since September 2017. Expansion activities to foreign countries were started close to the millennium. Within recent years the company acquired, according to its Buy and Hold strategy, a real estate portfolio that comprises over 200 properties, a lettable space of some 1,200k sqm amounting to a value of almost Euro 1.8bn at present (Euro 2.1bn at year-end 2016). In average, investments have a volume of a lower double digit million. The portfolio contains a widely diversified range of residential, office, business and hotel properties selected for sustainable value. All in all, commercial properties have a high 73% weighting (FY 2017). S IMMO aims on a long investment horizon but also strongly exploits opportunities for trading in these low yielding times - as done in 2016 and 2017 in Germany. In terms of portfolio value a large share of 42% is located in Germany. Austria stands for 24% while CEE stands for the remaining 34% of the total portfolio value (FY 2017). The current rental yield is still at high 6.1% at FY 2017 (6.2% at year-end 2016), even after the significant property mark-ups this is not too aggressive, in our view. In 2017, the high occupancy of 93.9% in 2016 came even further up to 94.8%. The company released its 2017 annual report on 5 April and presented the second best year in history with a net profit of more than Euro 130m. For 2017 the dividend payment was set again at 40 Cents (30 Cents base + 10 Cents bonus in 2016).

Value of portfolio by region

(Euro 1.84bn at FY 2017)



Source: Company data (FY 2017)

In addition to a stable Hold portfolio, the company has at present some promising development activities in Berlin as well as in Vienna (Quartier Belvedere Central and Siebenbrunnengasse) and Bucharest (The Mark office) as well as Bratislava (Einsteinova). The lion's share of the company's historical development activity was done in Austria and CEE. Hence, a significant share of already finished properties (like Sun shopping mall in Bukarest and recently sold Serdika Center in Sofia), held within the CEE portfolio, results from own developments. The core shareholders are RPR Privatstiftung (22%) and well-known insurer Vienna Insurance Group (10%).

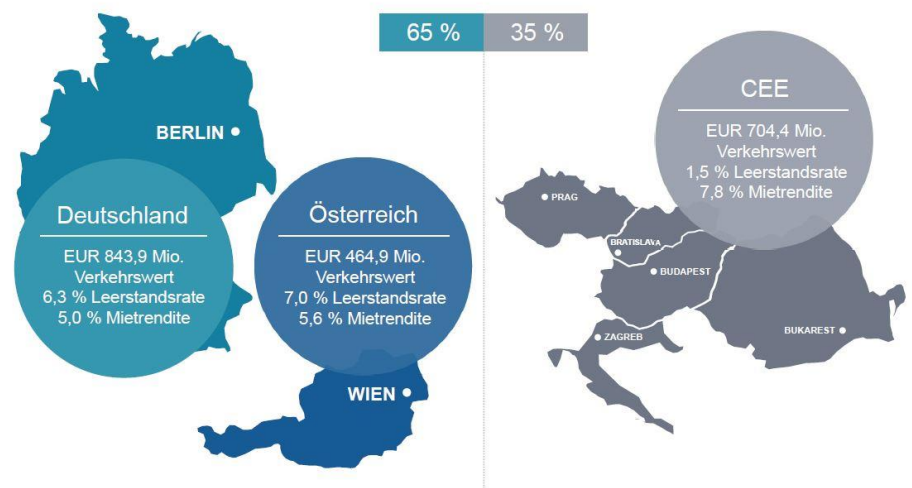
The company aimed to lift FFO I to more than Euro 40m until 2018 and already managed to reach this target in 2016, as FFO I increased by 15% from Euro 35.0m to Euro 40.1m. The FY 2017 FFO I was at almost Euro 43m, representing another hike to the full year 2016 level. We also like the improving numbers on the financing side. Cost of Funding came down to 3.12% in 2016 and even down to 2.67% in 2017. The LTV improved to 55.9% at year-end 2016 and came down after the big sale transactions in Vienna Viertel Zwei and Sofia Serdika Shopping Center to 49.3% at FY 2017. For the future upside in rental income and trading activities, S IMMO built up a promising development pipeline of about Euro 730m (c. 80% Germany and Austria and 20% CEE).

Source: Company Data, SRC Research

Diversified portfolio located in strong locations in Germany, Austria and CEE – very low vacancy in CEE allows for revaluation mark-ups to come

S IMMO has a well diversified portfolio. As of the end of 2017, about 66% of the portfolio is located in Germany and Austria, while the remaining 34% are located the CEE region. With the exception of Germany, almost all properties are located in primary cities, and in the CEE region exclusively in the capitals of the respective countries. Currently the portfolio consists of 267 objects with a total book value of about Euro 1.9bn. Germany has grown from Euro 660m last year to more than Euro 840m now and currently represents 43% of the portfolio with a vacancy rate of 6.3% (2017: 5.7%) and a rental yield of 5.0% (2017: 4.9%). The Austrian portion has slightly increased from more than Euro 440m at the end of 2017 to Euro 465m now at 1H 2018 and currently makes up for about 23% of the total portfolio. The vacancy rate in Austria is unchanged to year-end 2017 at 7.0% while the rental yield slightly increased from 5.1% to 5.6% in the first six months. The CEE region portfolio increased from approx. Euro 630m at year-end 2017 to more than Euro 700m now and makes up for c. 34% of the total portfolio. The vacancy rate of that region significantly came down from a small 3.7% at year-end 2017 to a very tiny 1.5% at half-year numbers. The rental yield only slightly came down from 8.2% to 7.8%. At this rental yield we still see plenty of potential in the property values in the CEE region to be realized in the next years.

Robustes Geschäftsmodell Ertrags- und cashflowstarkes Portfolio*



Source: 1H 2018 company presentation, 30 August 2018

The total portfolio has a low vacancy rate of 4.9% (year-end 2017: 5.1%) and a rental yield of 6.1% unchanged to 2017. The total lettable area is about 1.2m sqm and the portfolio is divided between commercial (73%) and residential (27%).

| 31/12 IFRS (Euro '000) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e | CAGR '17 - '20e |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| Revenues | 193,735 | 188,491 | 190,697 | 198,754 | 191,421 | 192,084 | 202,779 | 208,312 | 2.9% |
| └ thereof rental income | 116,707 | 111,845 | 111,686 | 118,174 | 112,020 | 106,979 | 113,505 | 115,775 | |
| └ thereof revenues from service charges | 36,827 | 34,542 | 33,465 | 37,657 | 33,435 | 34,772 | 41,254 | 43,317 | |
| └ thereof revenues from hotel operations | 40,201 | 42,104 | 45,546 | 42,923 | 45,966 | 50,333 | 48,020 | 49,221 | |
| Other operating income | 6,186 | 4,700 | 3,534 | 3,405 | 2,866 | 2,837 | 3,945 | 3,866 | |
| Expenses directly attributable to properties | -60,603 | -55,841 | -55,841 | -64,152 | -59,877 | -61,554 | -62,969 | -64,732 | |
| <i>Gross margin property segment</i> | <i>60.5%</i> | <i>61.9%</i> | <i>61.5%</i> | <i>58.8%</i> | <i>58.8%</i> | <i>56.6%</i> | <i>59.3%</i> | <i>59.3%</i> | |
| Hotel operating expenses | -29,747 | -31,344 | -33,164 | -32,037 | -36,232 | -36,236 | -34,582 | -34,755 | |
| Gross operating profit hotels (GOP) | 10,454 | 10,760 | 12,382 | 10,886 | 9,734 | 14,097 | 13,438 | 14,466 | |
| <i>Gross margin within hotel segment</i> | <i>26.0%</i> | <i>25.6%</i> | <i>27.2%</i> | <i>25.4%</i> | <i>21.2%</i> | <i>28.0%</i> | <i>28.0%</i> | <i>29.4%</i> | |
| Revenues less directly attributable expenses | 109,571 | 106,006 | 105,226 | 105,970 | 98,178 | 97,132 | 109,173 | 112,691 | 4.7% |
| <i>Total Gross margin</i> | <i>56.6%</i> | <i>56.2%</i> | <i>55.2%</i> | <i>53.3%</i> | <i>51.3%</i> | <i>50.6%</i> | <i>53.8%</i> | <i>54.1%</i> | |
| Net operating income (NOI) | 103,385 | 101,306 | 101,692 | 102,565 | 95,312 | 94,295 | 105,228 | 108,825 | 4.5% |
| <i>NOI-margin</i> | <i>53.4%</i> | <i>53.7%</i> | <i>53.3%</i> | <i>51.6%</i> | <i>49.8%</i> | <i>49.1%</i> | <i>51.9%</i> | <i>52.2%</i> | |
| Net Gains on property disposal | 6,414 | 180 | 5 | 5,133 | 10,341 | 7,123 | 9,685 | 11,400 | |
| Management expenses | -15,078 | -16,050 | -16,483 | -18,635 | -18,963 | -17,825 | -17,469 | -17,731 | |
| └ thereof personnel expenses | -5,730 | -6,019 | -7,665 | -8,916 | -8,796 | -9,356 | -9,214 | -9,072 | |
| EBITDA | 100,907 | 90,136 | 88,748 | 92,468 | 89,556 | 86,430 | 101,389 | 106,360 | 5.9% |
| <i>EBITDA-margin</i> | <i>52.1%</i> | <i>47.8%</i> | <i>46.5%</i> | <i>46.5%</i> | <i>46.8%</i> | <i>45.0%</i> | <i>50.0%</i> | <i>51.1%</i> | |
| Depreciation | -11,992 | -7,635 | -7,695 | -7,823 | -8,999 | -8,050 | -8,452 | -8,845 | |
| Property Revaluation | 6,879 | 56,552 | 84,645 | 194,035 | 127,592 | 95,175 | 87,911 | 81,553 | |
| Operating profit (EBIT) | 95,794 | 139,053 | 165,698 | 278,680 | 208,149 | 173,555 | 180,848 | 179,068 | -4.9% |
| <i>EBIT-margin</i> | <i>49.4%</i> | <i>73.8%</i> | <i>86.9%</i> | <i>140.2%</i> | <i>108.7%</i> | <i>90.4%</i> | <i>89.2%</i> | <i>86.0%</i> | |
| EBIT-profit without revaluation result | 88,915 | 82,501 | 81,053 | 84,645 | 80,557 | 78,380 | 92,937 | 97,515 | 6.6% |
| Net financial result | -53,901 | -71,737 | -48,892 | -55,297 | -41,437 | -14,503 | -16,558 | -16,972 | |
| Participating certificates expenses (hybrid capital) | -9,286 | -7,485 | -4,553 | -6,912 | -5,964 | 0 | 0 | 0 | |
| Earnings before tax (EBT) | 32,607 | 59,831 | 112,253 | 216,471 | 160,748 | 159,052 | 164,290 | 162,096 | 0.3% |
| <i>EBT margin</i> | <i>16.8%</i> | <i>31.7%</i> | <i>58.9%</i> | <i>108.9%</i> | <i>84.0%</i> | <i>82.8%</i> | <i>81.0%</i> | <i>77.8%</i> | |
| Income tax expense | -4,553 | -25,682 | -35,004 | -12,148 | -27,278 | -24,339 | -26,011 | -25,515 | |
| <i>Tax rate</i> | <i>14.0%</i> | <i>42.9%</i> | <i>31.2%</i> | <i>5.6%</i> | <i>17.0%</i> | <i>15.3%</i> | <i>15.8%</i> | <i>15.7%</i> | |
| Net profit | 28,054 | 34,149 | 77,249 | 204,323 | 133,470 | 134,713 | 138,279 | 136,581 | 0.8% |
| Minorities | -745 | -2,824 | 960 | -5,864 | -3,379 | -99 | -244 | -286 | |
| Net profit after minorities | 27,309 | 31,325 | 78,209 | 198,459 | 130,091 | 134,614 | 138,035 | 136,295 | 1.6% |
| <i>Return on sales</i> | <i>14.1%</i> | <i>16.6%</i> | <i>41.0%</i> | <i>99.9%</i> | <i>68.0%</i> | <i>70.1%</i> | <i>68.1%</i> | <i>65.4%</i> | |
| Number of shares (in million) | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | |
| Earnings per Share (EPS) in Euro | 0.41 | 0.47 | 1.17 | 2.98 | 1.97 | 2.02 | 2.07 | 2.05 | 1.2% |
| Dividends per Share (DPS) in Euro | 0.20 | 0.24 | 0.30 | 0.40 | 0.40 | 0.40 | 0.45 | 0.50 | |
| Book Value per Share (BVPS) in Euro | 10.99 | 8.06 | 9.01 | 11.49 | 13.66 | 15.28 | 16.89 | 18.42 | |
| Total assets | 1,879,648 | 1,894,672 | 2,067,356 | 2,278,900 | 2,272,255 | 2,317,700 | 2,391,867 | 2,439,704 | 2.4% |
| Shareholders' equity (after dividend payment) | 510,710 | 539,337 | 603,189 | 769,120 | 914,335 | 1,022,196 | 1,130,097 | 1,232,875 | 10.5% |
| Shareholders' equity incl. participating certificates | 735,710 | 634,876 | 659,148 | 819,120 | 971,052 | 1,022,196 | 1,130,097 | 1,232,875 | |
| Equity ratio without minorities with hybrid capital | 39% | 34% | 32% | 36% | 43% | 44% | 47% | 51% | |
| Return on Equity (RoE) | 5.6% | 6.0% | 13.7% | 28.9% | 15.5% | 13.9% | 12.8% | 11.5% | |
| Key ratios & figures | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e | |
| Growth rates in % | | | | | | | | | |
| Revenues | -1.5% | -2.7% | 1.2% | 4.2% | -3.7% | 0.3% | 5.6% | 2.7% | |
| EBITDA | 2.1% | -10.7% | -1.5% | 4.2% | -3.1% | -3.5% | 17.3% | 4.9% | |
| EBIT | -10.3% | 45.2% | 19.2% | 68.2% | -25.3% | -16.6% | 4.2% | -1.0% | |
| EBT | 1.3% | 83.5% | 87.6% | 92.8% | -25.7% | -1.1% | 3.3% | -1.3% | |
| Net profit after minorities | 7.8% | 21.7% | 126.2% | 164.5% | -34.7% | 0.9% | 2.6% | -1.2% | |
| Margins in % | | | | | | | | | |
| EBITDA | 52.1% | 47.8% | 46.5% | 46.5% | 46.8% | 45.0% | 50.0% | 51.1% | |
| EBIT | 49.4% | 73.8% | 86.9% | 140.2% | 108.7% | 90.4% | 89.2% | 86.0% | |
| EBT | 16.8% | 31.7% | 58.9% | 108.9% | 84.0% | 82.8% | 81.0% | 77.8% | |
| Expense ratios in % | | | | | | | | | |
| Depreciation to sales | -6.2% | -4.1% | -4.0% | -3.9% | -4.7% | -4.2% | -4.2% | -4.2% | |
| Tax rate | 14.0% | 42.9% | 31.2% | 5.6% | 17.0% | 15.3% | 15.8% | 15.7% | |
| Profitability in % | | | | | | | | | |
| Profit margin | 14.5% | 18.1% | 40.5% | 102.8% | 69.7% | 70.1% | 68.2% | 65.6% | |
| Return on equity (RoE) after tax | 5.6% | 6.0% | 13.7% | 28.9% | 15.5% | 13.9% | 12.8% | 11.5% | |
| Return on Assets (RoA) | 4.2% | 1.8% | 3.7% | 9.0% | 5.9% | 5.8% | 5.8% | 5.6% | |
| Return on Investment (RoI) | 1.5% | 1.8% | 3.7% | 9.0% | 5.9% | 5.8% | 5.8% | 5.6% | |
| Valuation | | | | | | | | | |
| P/E-ratio | 37.25 | 32.47 | 13.01 | 5.11 | 7.70 | 7.52 | 7.33 | 7.43 | |
| P/S-ratio | 5.25 | 5.40 | 5.33 | 5.12 | 5.31 | 5.30 | 5.02 | 4.88 | |
| Price/BVpS (PBV) | 1.38 | 1.89 | 1.69 | 1.32 | 1.11 | 1.00 | 0.90 | 0.83 | |
| Dividend yield in % | 1.3% | 1.6% | 2.0% | 2.6% | 2.6% | 2.6% | 3.0% | 3.3% | |
| Data per share | | | | | | | | | |
| Number of shares in million | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | 66.9 | |
| EPS | 0.41 | 0.47 | 1.17 | 2.98 | 1.97 | 2.02 | 2.07 | 2.05 | |
| DPS | 0.20 | 0.24 | 0.30 | 0.40 | 0.40 | 0.40 | 0.45 | 0.50 | |
| BVPS | 10.99 | 8.06 | 9.01 | 11.49 | 13.66 | 15.28 | 16.89 | 18.42 | |
| FFO I per share | 0.50 | 0.32 | 0.52 | 0.60 | 0.64 | 0.84 | 0.91 | 0.98 | |

SRC Research

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Rating Chronicle

| Company | Date | Rating | Former Price | Former Target |
|---------|------------------|------------|--------------|---------------|
| S IMMO | 30 August 2018 | Accumulate | € 17.96 | € 19.00 |
| S IMMO | 29 May 2018 | Accumulate | € 16.70 | € 18.00 |
| S IMMO | 06 April 2018 | Accumulate | € 16.50 | € 17.50 |
| S IMMO | 28 November 2017 | Buy | € 14.83 | € 16.00 |
| S IMMO | 29 August 2017 | Buy | € 12.80 | € 14.50 |
| S IMMO | 30 May 2017 | Accumulate | € 12.53 | € 13.50 |
| S IMMO | 11 April 2017 | Accumulate | € 11.93 | € 13.00 |
| S IMMO | 07 March 2017 | Buy | € 11.70 | € 13.00 |
| S IMMO | 17 February 2017 | Buy | € 11.34 | € 13.00 |
| S IMMO | 29 November 2016 | Buy | € 9.89 | € 12.00 |

Please note:

The S IMMO AG share price mentioned in this report is the closing price of 26 November 2018. S IMMO mandated SRC Research for covering the S IMMO share.

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