

Buy

Price target:
18.00 €

Price: 11,95
21.11.2005 17:30 h
Last rating: Buy

Last Analysis:
09.08.2005

S&P Rating: none

Medical Technologies

Number of shares:
3.25 million.

Market capitalisation:
38.8 € xx million

Index: Techn. All Share

Index weighting: 0.09%

Beta: 1.60

Accounting:
IFRS

Calendar: FY 2006 on
31.03.2006

Dividend 2005e:
€ 0.15

ISIN DE0005659700

Bloomberg: EUZ GR

Reuters: EUZG.DE

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Eckert & Ziegler

8 November 2005

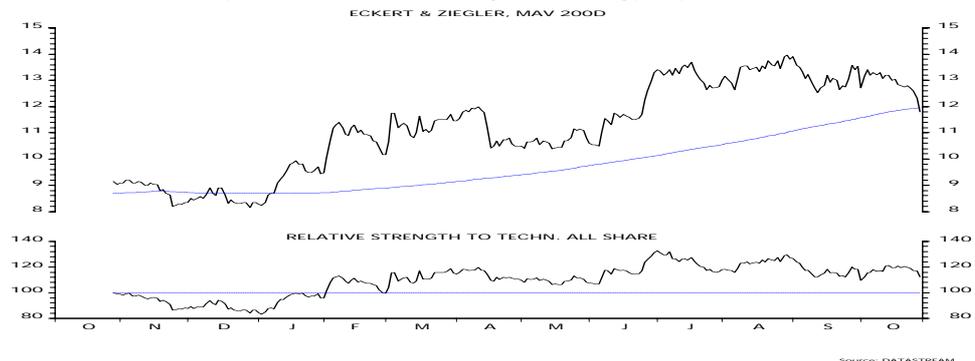
Walking new ways with new products

Eckert & Ziegler (EUZ) is growing at a stable pace in line with our expectations. The company is driving forward its acquisition strategy and the additional applications, higher cost refunds and new business areas are opening up new opportunities for EUZ. We have adjusted our valuation model to account for the current situation and continue to recommend buying EUZ shares.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2004*	0,72	0,74	1,0	6,0	16,7
2005e	0,54	0,54	1,0	5,4	0,3
2006e	0,70	0,70	0,8	4,7	17,1
2007e	0,81	-	0,8	4,4	14,8

Company Data	Revenues €m	EBITDA €m	EBIT €m	EBIT-Margin	Net Profit €m
2004*	35,5	7,2	3,4	9,7 %	2,2
2005e	40,7	8,0	4,1	10,0 %	1,8
2006e	47,0	9,1	4,9	10,5 %	2,3
2007e	51,7	9,8	5,4	10,5 %	2,6

*without one time exceptionals from SFAS 143 and changes of accounting principles



Pros and cons at a glance

- ++ World-renowned, established isotope specialist
- + Growth through acquisitions
- + Strong growth in the Therapy segment
- Major contracts cause shifts in sales, for example
- Sub-segments experience fairly sluggish market growth
- Weak earnings forecast

Please read the disclaimer on the last page of this study.

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Executive Summary

Established isotope specialist.

Eckert & Ziegler (EUZ) manufactures products based on isotope technologies for niche markets and is well established in these markets. The company has a market share of over two-thirds in some market segments. However, these markets tend to be comparatively small and also mature, which means that their scope for growth is limited.

"Recycling"

EUZ's acquisition strategy is designed in such a way that the company continuously expands its product portfolio. The Executive Board somewhat smugly likes to call this strategy "recycling" because in many cases what EUZ does is take over divisions that other companies are unable or no longer able to run at a profit. EUZ then incorporates these companies into the Group, integrating and streamlining administration, sales and production. Ultimately, the "sum" of the acquired companies should make a positive contribution to the Group's earnings once again.

An innovation leader in mature markets

The fact that EUZ comes up with innovative ideas for products in very mature markets which can lighten users' workload makes the company stand out from the crowd. A case in point is the conversion of the radiation sources for after-loaders for export to countries whose logistics make it very difficult to provide a continuous supply of replacement radiation sources.

Establishing forms of treatment

EUZ is the undisputed leader in Europe when it comes to establishing brachytherapy, especially for the treatment of prostate cancer. This form of treating early-stage prostate cancer, which is much less severe than a radical prostatectomy, is long established in the USA, but is just starting to take off in Europe with more and more new cost refund commitments being made. EUZ is very involved in this development, not just a passive observer.

In this context, we are still somewhat non-committal about EUZ's acquisition of SpondylAT from Altmann for the treatment of Ankylosing Spondylitis (Bechterew's Disease). There is still a lack of strictly conducted feasibility studies and the findings of a Health Technology Assessment so far have resulted in an awaiting outlook for this form of treatment up to now.

Expansion into new segments

The acquisition of f-con marked EUZ's expansion into the market for contrast media for positron emission tomography (PET). Acquiring EURO-PET also enables the company to start producing generic radiopharmaceuticals. In this area, EUZ is holding out a tempting morsel to investors, having already signed an agreement with a US company on the production of a generic radiopharmaceutical. However, details of the agreement (such as the name of the partner, the indication, etc.) have not been made public.

SWOT profile

Strengths

- EUZ is a world-renowned, established isotope specialist.
- The markets for industrial radiation sources are very stable.
- EUZ has a large market share in the area of industrial radiation sources.
- In Europe, EUZ is a leading supplier in the brachytherapy segment.
- Some European countries already have regulations in place regarding cost reimbursement for brachytherapy (in particular for the treatment of prostate cancer).

Weaknesses

- The implementation of major projects (equipment manufacturing, tender contracts) may cause shifts in sales and lead to uncertainty. This is also reflected in the company's earnings forecasts.
- Market growth rates for industrial radiation sources are fairly low.
- In some countries, no solution or at least no satisfactory solution has yet been found to the issue of cost refunds for the treatment of prostate cancer with brachytherapy.
- EUZ's market capitalisation is very low, which means that the security is not very interesting to many institutional investors.

Opportunities

- In Europe, brachytherapy is emerging as an established form of treatment for specific indications, in particular for the treatment of prostate cancer, and there is considerable potential for growth.
- The development and launch of innovative products is continuing to open up new horizons for EUZ in terms of customers and sales, even in mature markets.
- More widespread use of positron emission tomography (PET) through new indication areas (such as the treatment of Alzheimer's Disease) or cost reimbursement regulations could also prove to be a positive development for EUZ as a supplier of radiation sources.
- EUZ's acquisitions and their subsequent reorganisation and integration into the Group hold potential for increased sales and earnings.
- In EUZ's view, SpondylAT is an opportunity, as many patients have been successfully treated, and only a strictly conducted clinical study is missing.

Threats

- If a general cost refund policy is not introduced in Germany (the current system is based on Diagnosis Related Groups), this may prove to be an obstacle to the more widespread use of this type of treatment.
- The company plans to produce generic radiopharmaceuticals which, like the acquisition of SpondylAT, should expose the company to registration risks.
- Short-sightedness on the part of insurance providers (in particular statutory health insurance fund) could prevent the significant advancement of technologies like PET and thus also of suppliers of radiation sources.

With a company the size of EUZ, which is clearly a leader in small markets and is both innovative and profitable, the possibility of a takeover soon raises its head. However, we feel this is unlikely because of the shareholder structure. On the other hand, if an offer were so lucrative as to be accepted by the major shareholders Eckert and Ziegler, such a takeover would have to be seen as an opportunity rather than a threat. However, a concrete offer would have to be on the table before such a decision could be made.

No valuation based on multiples

The data pool of "comparable" companies is not suitable for such a valuation.

Adjustment of the interest rate and risk premium

Valuation

Valuation based on multiples

- We are still of the view that a valuation based on multiples would not be useful for EUZ.
- A useful valuation based on multiples would require comparable companies and reliable data on their future development. Furthermore, we would not perform a valuation based on sales ratios for a profitable company like EUZ because investors are ultimately only interested in "the bottom line". A useful valuation based on multiples would also require comparable companies that are similarly profitable.
- While it does not take long to find comparable companies (the Belgian company IBT International Brachytherapy and the US-based Theragenics), the second prerequisite for a reliable multiplier valuation (i.e. profitability) cannot be met. The "peer group" shown below illustrates this point.

Company	Currency	Price	EPS		PER		EV	EBITDA		EV/EBITDA	
			05e	06e	05e	06e		05e	06e	05e	06e
IBT	€	5,40	-0,08	0,18	neg.	30,0	43,1	1,2	2,6	35,9	16,7
Theragenics	USD	3,45	n.a.	n.a.	n.a.	n.a.	48,1	n.a.	n.a.	n.a.	n.a.
Eckert & Ziegler	€	11,95	40,21	0,70	0,3	17,1	42,8	8,0	9,1	5,4	4,7

Sources: Bloomberg; LBBW

Discounted cash flow method

- Our DCF model makes the following basic assumptions:

DCF model - assumptions

Risk free interest rate	3,4 %
Market premium	6,0 %
Beta factor	1,60
Cost of equity	13,0 %
Cost of debt (after tax)	3,5 %
Equity ratio target	60,0 %
WACC	9,2 %
Terminal growth rate	1,0 %

Source: LBBW

- In our basic assumptions, we have adjusted only the risk-free interest rate and the risk premium to reflect the current situation. The other figures are the same as in the most recent information we provided on EUZ shares.
- On the basis of five-year detailed planning and five-year planning based on growth drivers, the DCF is calculated in the following way:

Free Cashflow (€m)	2005e	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e
Revenues	40,7	47,0	51,7	55,3	59,2	63,3	67,8	72,5	77,6	83,0
<i>Growth (yoy)</i>	14,5 %	15,5 %	10,0 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %
EBIT	4,1	4,9	5,4	5,8	6,2	6,3	6,8	7,3	7,8	8,3
<i>EBIT margin</i>	10,0 %	10,5 %	10,5 %	10,5 %	10,5 %	10,0 %	10,0 %	10,0 %	10,0 %	10,0 %
Taxes	1,9	2,2	2,3	2,4	2,5	2,5	2,7	2,9	3,1	3,3
<i>Tax rate</i>	50,0 %	48,0 %	46,0 %	43,0 %	43,0 %	40,0 %	40,0 %	40,0 %	40,0 %	40,0 %
Depreciation/Amortisation	3,9	4,1	4,3	4,5	4,8	4,4	4,7	5,1	5,4	5,8
<i>to revenues</i>	9,7 %	8,8 %	8,4 %	8,2 %	8,1 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %
Provisions	2,9	3,2	3,5	3,8	4,2	7,0	7,5	8,0	8,5	9,1
<i>to revenues</i>	7,1 %	6,8 %	6,8 %	6,9 %	7,1 %	11,0 %	11,0 %	11,0 %	11,0 %	11,0 %
Change	0,3	0,3	0,3	0,3	0,4	2,7	0,5	0,5	0,6	0,6
Cashflow from operating activities	6,4	7,2	7,7	8,4	8,9	11,0	9,3	10,0	10,6	11,4
Investments	3,0	3,3	3,6	4,0	4,4	4,4	4,7	5,1	5,4	5,8
<i>to revenues</i>	7,4 %	7,0 %	7,0 %	7,2 %	7,4 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %
Working Capital	12,2	13,1	14,1	15,4	16,7	15,8	16,9	18,1	19,4	20,8
<i>to revenues</i>	30,0 %	27,9 %	27,3 %	27,8 %	28,3 %	25,0 %	25,0 %	25,0 %	25,0 %	25,0 %
Change	1,6	0,9	1,0	1,2	1,4	-0,9	1,1	1,2	1,3	1,4
Free Cashflow	1,8	2,9	3,1	3,1	3,1	7,4	3,4	3,7	3,9	4,2

Source: LBBW

Fair value per share
based on DCF: € 23.97

- These projections and a final growth rate of 1.0% produce a fair value of € 23.97 per share.

Calculation of share value (€mn)

Present value planned Free Cashflows	26,2
Present value Terminal Value	48,0
Enterprise Value	74,2
<i>Ratio Terminal Value to Enterprise Value</i>	<i>64,7 %</i>
Net financial debt	- 4,0
Minorities	0,2
Provisions for pensions	0,2
Fair value	77,9
Number of shares (mn)	3,3
Fair value per share (€)	23,97

Source: LBBW

- Performing a sensitivity analysis of this calculated fair value returns the following result:

Sensitivity analysis		Discounting rate		
Value per share (€)		Discounting rate		
		8,2 %	9,2 %	10,2 %
	0,0 %	24,23	22,36	20,82
Terminal value growth	1,0 %	26,28	23,97	22,11
	2,0 %	28,98	26,01	23,72

Source: LBBW

In our opinion, the fair value is not achievable within six months

Low market capitalisation

Complex products and acquisition strategy

Possible sales shifts

From our point of view SpondylAT still to be given neutral evaluation

Buy at an upside target of € 18.00

Recommendation

- We are still of the opinion that EUZ shares are unlikely to achieve our calculated fair value of € 23.97 within the six-month recommendation period.
- For one thing, the market capitalisation is still very low. Large institutional investors are rarely willing to accept the risks associated with a narrow market. Investors like Union Investment, which has maintained its investment in EUZ for many years, are the exception rather than the rule.
- Furthermore, EUZ's products are relatively complex, even if they are actually much more "tangible" than many other pharmaceutical products. EUZ's acquisition strategy further increases this complexity to some degree and may indeed contribute to the restraint of some investors.
- In the SWOT profile above, we addressed the problem of EUZ having to contend with major contracts for equipment manufacturing or tenders occasionally causing a shift in sales between individual quarters. If this occurs in particular during the transition from Q4 to Q1, it will naturally have a considerable effect on the overall net income for the year. Acquisitions, which are currently part of EUZ's business development, may also create uncertainty. Accordingly, management at EUZ has fixed its EPS estimates for 2005 at the lower end of the former corridor at approximately 0,50 €.
- We are still non-committal about EUZ's acquisition of SpondylAT from Altmann for treating Ankylosing Spondylitis. The conditional approval of the drug runs out at the end of 2005. For this reason, the purchase price is subject to constraints for a feasibility study. EUZ plans to invest €2.4 million in the study in the next few years so that the drug is approved. In light of the fairly negative findings of the Health Technology Assessment carried out by the German Medical Association and the Association of Statutory Health Insurance Physicians, many people in the health care sector have serious reservations about radium therapy, particularly due to the lack of feasibility studies and long-term results.
- Given this situation, we are sticking to our approach of reducing the calculated fair value of € 23.97 by 25% in order to calculate the upside target. Accordingly, we are slightly reducing our upside target at €18.00 and our "buy" rating still applies.

Isotope specialist

Company profile

- EUZ is an isotope producer based in Berlin. The company's products are used in industrial and medical applications and include radiation sources for detection devices, as well as therapeutic products for cancer treatment.
- The company is divided into the following segments for reporting purposes:
 - Nuclear Medicine and Industry
 - Therapy
 - Others
- These segments were redefined for 2004 and a recalculation was made for 2003 in the annual financial statements. This reorganisation also explains the slight discrepancy in the 2003 sales figures between the old and new calculations.

Reorganisation of business segments

Revenues (€mn)	2002	2003	2004
Industry & Nuclear Imaging	20,9	17,8	-
Cardiology & Oncology	10,4	10,8	-
Immunology	0,0	0,2	-
Others	2,3	2,3	-
Total	33,6	31,1	-
Nuclear medicine and industry	-	-	17,8
Therapy	-	-	10,8
Others	-	-	2,3
Total	-	-	30,9

Source: Eckert & Ziegler AG

- Based on the new segments, the company performed as follows:

2004 (€mn)	Nuclear medicine and industry	Therapy	Others	Total
Revenues	19,4	16,3	0,6	36,3
<i>Previous year</i>	<i>17,8</i>	<i>10,8</i>	<i>2,3</i>	<i>30,9</i>
Depreciation	1,2	2,4	0,1	3,7
<i>Previous year</i>	<i>1,0</i>	<i>2,5</i>	<i>0,2</i>	<i>3,6</i>
Interest result	-0,6	-0,8	1,1	-0,3
<i>Previous year</i>	<i>-0,7</i>	<i>-0,7</i>	<i>1,2</i>	<i>-0,2</i>
non-cash items	0,3	1,7	1,0	3,0
<i>Previous year</i>	<i>-1,4</i>	<i>-0,5</i>	<i>0,0</i>	<i>-1,8</i>
Taxes	0,6	0,8	-0,2	1,3
<i>Previous year</i>	<i>0,6</i>	<i>0,6</i>	<i>0,2</i>	<i>1,4</i>
Result from ongoing operations	1,1	1,4	-0,2	2,3
<i>Previous year</i>	<i>1,0</i>	<i>0,8</i>	<i>0,3</i>	<i>2,1</i>

Source: Eckert & Ziegler AG

Obvious exchange rate effects

- Shifting our focus from segment reporting to Group accounting affords us a view of EUZ's longer-term development, which is obviously influenced by exchange rate developments, particularly as regards sales.

€mn	2000	2001	2002	2003	2004
Revenues	23,6	32,8	31,2	29,2	35,5
Gross profit	9,4	14,0	15,3	13,5	16,3
EBITDA	4,6	12,7	6,3	5,9	7,2
EBIT	2,0	5,1	2,0	2,2	3,4
EBT	2,5	5,2	0,9	1,9	3,6
Annual result (before exceptionals and minorities)	1,3	3,2	0,3	0,8	2,3
EPS before exceptionals (€)	0,39	1,00	0,11	0,25	0,72
EPS (€)	0,39	1,00	0,11	-0,42	1,08

Source: Eckert & Ziegler AG

Acquisitions influence sales growth

- In 2004, however, the exchange rate effects on sales were more than compensated for by a positive development of operations and acquisition growth, which explains the substantial jump in sales.

Mature markets in Nuclear Medicine and Industry

- The company's strategy in the Nuclear Medicine and Industry segment is based on relatively mature markets. Here, EUZ benefits from its very strong market position but also continues to shape the market with product innovations. In addition, the company benefits from the fact that existing technologies are finding new applications or are in increasing demand due to cost refund commitments by health insurance providers. One example of this trend is PET, which we mentioned in the SWOT profile.

Therapy: a growth area

- The Therapy segment, on the other hand, is clearly a growth area. Here, EUZ targets markets in which the growth rate frequently runs into double figures. However, this is sometimes because EUZ itself helps to create these markets. A clear example of this is the treatment of prostate cancer with permanent implants (seeds).

Brachytherapy: the therapy of choice in the USA

- In the US, this method is the treatment of choice for patients whose carcinomas are detected at an early stage. Approximately one-third of the prostate carcinomas diagnosed in the US are treated with seeds.
- In Europe, this therapy is still at a relatively early market stage, which is undoubtedly related to the fact that cost reimbursement is still limited. In this area, EUZ has done a lot of the necessary groundwork by explaining the advantages of the method to both patients and health insurance providers. These include a much lower risk of impotence and incontinence, as well the possibility of the procedure being carried out on an out-patient basis.
- As a result of these efforts, material costs are now reimbursed in Belgium, in Germany costs are reimbursed in accordance with the in-patient DRG catalogue and a policy of cost refunds within fixed budgets is now in place in France. This development is reflected in the growth rates of over 20% recorded by EUZ in this segment.

The European market is still growing

Cost refund policies still differ within the EU

Acquisitions enhance the product portfolio

- Furthermore, EUZ announced in early 2005 that it had reached agreement with a partner on the in-licensing of a generic radiopharmaceutical. The name of the partner, the drug and the indication for which it is to be used

SpondylAT for treating Ankylosing Spondylitis (Bechterew's Disease)

Purchase price of up to € 1.6 million

Investments in to clinical trials to the tune of € 2.4 million

Long-term observations required

Additional applications for brachytherapy

are still under wraps, however. In the teleconference on the Q2 results, the Executive Board provided some information on the procedure but said that further details would not be made public until the application for approval is submitted in 2006.

- In September 2005 EUZ announced that it was taking over a radium therapy product named SpondylAT from Altmann which is used to treat Ankylosing Spondylitis. This procedure has had the conditional approval of the German Federal Institute for Drugs and Medical Devices (BfArM) since 2000. The condition is the development of a systematic feasibility study; despite this form of therapy being used for a vast number of applications, no study has been conducted up to now. The price paid for SpondylAT was €1.6 million, with certain conditions being imposed on Altmann: EUZ plans to have designed a study with Altmann's help by the end of the year on the basis of which it hopes that the BfArM will extend its conditional approval. In the future, EUZ intends to invest up to €2.4 million in the clinical trial, thus ensuring that the product is approved and the conditions are lifted. We believe, however, that even if the findings of a feasibility study are positive, EUZ will still be required to conduct long-term observations: Recommendations for patients suffering from Ankylosing Spondylitis to undergo treatment with SpondylAT already have to have their blood count monitored once a year for 25 years are not officinal. Follow ups, that are officinal after 3, 6 and 12 months and after 1, 3 and 5 years, lack of patient compliance after their medical condition has improved significantly.
- In our opinion, EUZ's acquisition strategy is comparable. With the acquisition of the afterloader business of both Schering and HEK, the company's focus was on centralising production, administration and sales in Berlin with a view to making the business more profitable. Since afterloaders use alternative radiation sources with a considerably longer half-life than the materials used in the past, they are also attracting interest in markets where brachytherapy previously found little application due to logistical difficulties.
- Furthermore, afterloaders enabled brachytherapy as used to treat prostate cancer to be employed for a whole range of other indications. A distinction is made between low dose rate (LDR) and high dose rate (HDR) brachytherapy in this context.

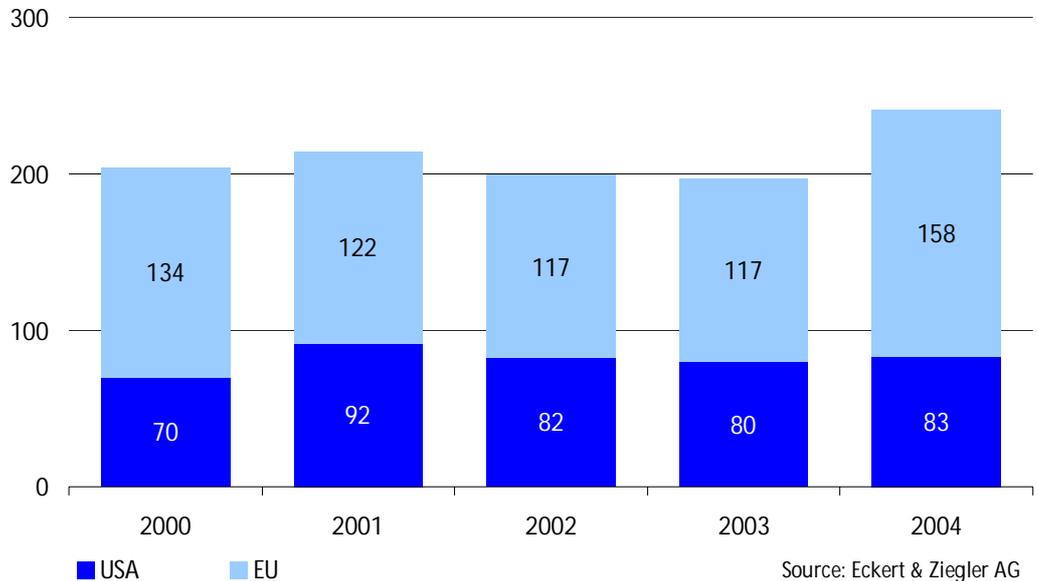
Device	Brachytherapy	Indication (cancer)
Curietron	LDR	Cervix
MultiSource	HDR	Bladder, Breast, Uterus, Cervix, Brain, Neck, Lung, Prostate, Throat, Tongue

Source: Eckert & Ziegler AG

Employee figures influenced by acquisitions

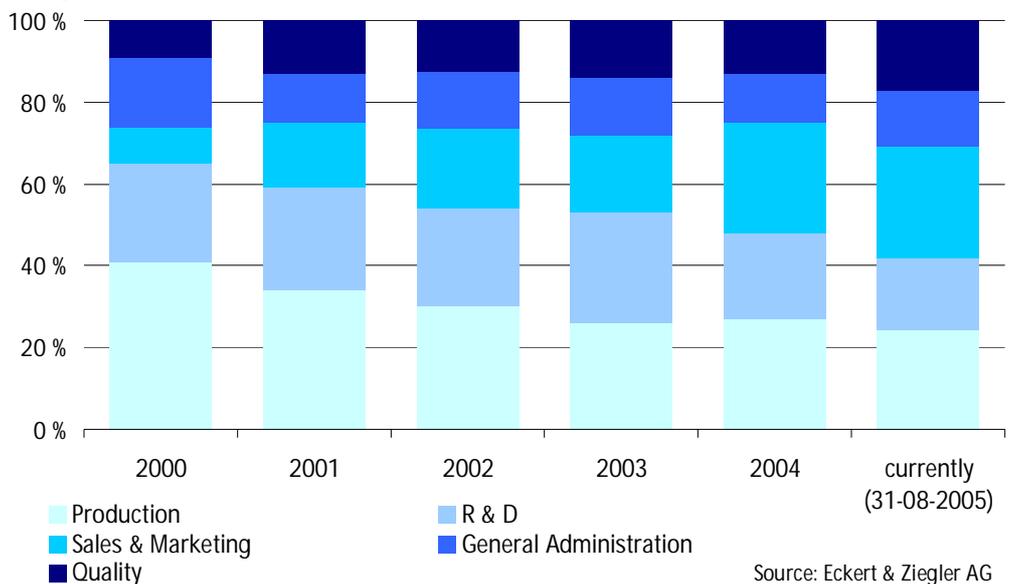
- The number of employees at EUZ rose significantly again last year, first on account of the expansion and then due to the restructuring. This is also a result of the company's acquisition strategy.

Staff



- If we look at the development of the number of employees by function, we can see that on the one hand there is a drop in the number of administrative expenses, which can be expected from an acquisition strategy.
- On the other hand, we can see that EUZ is moving away from a focus on research and production towards a clear focus on sales. This is a welcome development from our point of view because the age-old nugget of business wisdom that the most money is to be made in sales rings true here as well. EUZ has sound products, is innovative and now needs a sales force to place its products. Its employee figures indicate the direction it is taking.

Staff by function



Different perceptions of the markets

Market leader in calibration sources for imaging procedures

Regional differences with regard to brachytherapy

Established in the US. Still developing in Europe

Low rate of growth in the US market

Market and competition

- EUZ is active in a large number of individual markets, each with its own unique volumes and growth rates. Different pictures emerge, depending on how these markets are aggregated.
- EUZ itself provides an interesting overview of the market position in the various fields, based on its own market position.
- For example, EUZ regards itself as the clear market leader in the imaging market, i.e. the market for calibration sources for imaging procedures, with a global market share of over two-thirds.
- In the Therapy segment – particularly the treatment of prostate carcinomas with permanent implants – the company's market position varies from region to region. EUZ's presence in this market in the USA is negligible since it reached an agreement with Theragenics to split the market. In Europe, on the other hand, EUZ has played a key role in establishing this market, a role that is also reflected in its market share.

Market shares in Brachytherapy (2003)

Company	France	Germany	Italy	UK	Europe
C.R.Bard	42,6 %	17,9 %	19,5 %	15,5 %	22,7 %
IBT	0,0 %	5,6 %	2,9 %	0,0 %	2,8 %
Nucletron	5,8 %	1,4 %	4,1 %	1,9 %	2,8 %
Oncura	13,5 %	55,8 %	69,4 %	81,4 %	54,4 %
BEBIG*	38,1 %	19,3 %	4,1 %	1,2 %	17,3% ¹

* Subsidiary of Eckert & Ziegler AG

Source: Millenium Research Group, Eckert & Ziegler AG

¹ without OEM business, including OEM would raise the share to 25 - 30 %

- European markets in this segment are still in their infancy. In the US, the method enjoyed a breakthrough in the late 1980s and approximately one-third of all prostate cancer patients there are now treated using brachytherapy. In Germany, by contrast, interstitial seed implantation was for a long time offered by only a small number of clinics. Furthermore, it was only available on an in-patient basis and was only covered by health insurance providers on a case-by-case basis. One of the main advantages of this form of therapy – its application in out-patient treatment – has been utilised since 1999. However, it was not until the end of 2003 that health insurance providers began to refund the costs of this procedure as part of in-patient treatment. There is still no general refund of costs for out-patient care in Germany outside of the opening clauses of the German Health Care Reform Act (GMG).
- The maturity of the brachytherapy market in the USA is also reflected in expectations for the further development of different forms of treatment.

Number of patients (US)	2002	2008e	CAGR
Prostatectomy	48,2	57,1	2,9 %
Brachytherapy	56,3	60,8	1,3 %
External beam radiation therapy	59,3	72,3	3,4 %
Cryosurgery	3,5	15,3	27,8 %
High-intensity focused ultrasound	0,0	2,3	-
Total	167,3	207,7	3,7 %

Source: Medtech Insight

Growth in Europe, but in the context of cost refunds that are often unregulated

Different cost refund policies in different countries

Rheumatologists as indirect new customers

Analyses of the market for prevalence vary considerably

Figures differ by almost as much as ten-fold

Average age where the disease manifests itself: 28.3 years

- The situation regarding the use of brachytherapy to treat prostate cancer is different in Europe. Here, the market is still in the growth phase. One reason for this is that there is little or no regulation of cost refunds in many European countries.
- This situation has changed somewhat in recent years, however. In Belgium, for example, material costs are now reimbursed. In Germany, cost refunds have been included in the DRG catalogue for hospitals. Meanwhile, in France, EUZ managed to have a system of cost refunds within fixed budgets for this treatment put in place. On the back of these developments, EUZ is predicting annual growth of approximately 20% in the Therapy segment in Europe over the next few years.
- By acquiring SpondylIAT from Altmann, EUZ has ventured into a new area of therapy. Similar to seed implantation in prostate cancer, where a urologist must call in a radiologist, when treating Ankylosing Spondylitis with SpondylIAT a rheumatologist must also call in a radiologist. EUZ feels it is in a good position in this context thanks to its past experience with seeds and its good contacts in the area of nuclear medicine.
- Analyses of the market for Ankylosing Spondylitis vary considerably, however. The Health Technology Assessment carried out by the German Medical Association and the Association of Statutory Health Insurance Physicians in 2003/04, for example, assumes a prevalence of 1.9 per thousand men and 0.7 per thousand women. Assuming that Germany has a population of 82.5 million, made up of 40.3 million men and 42.2 million women (source: DESTATIS), this results in a prevalence of around 106,000 patients in Germany with Ankylosing Spondylitis. By contrast, the web page www.bechterew.com, which focuses on this disease, assumes that 0.2% of the population suffer from this disease across Europe, 70% of them men. This gives a prevalence of 165,000. Some publications put the prevalence figures at between 0.5% and 1%. EUZ used this last figure as the basis for disclosing its acquisition of SpondylIAT, backing up its estimate with higher numbers of patients who according to the IMS are treated for Ankylosing Spondylitis without medicine; these figures do not include physiotherapy and surgery.
- On the other hand, the data on the age at which Ankylosing Spondylitis manifests itself is generally reliable. Patients are an average of 28.3 years old when the initial symptoms appear.

Age	Occurrence
< 15	4 %
15-40	90 %
> 40	6 %

Source: HTA Morbus Bechterew

Multitude of competitive products

As a rule: the better the drug works, the worse the side effects

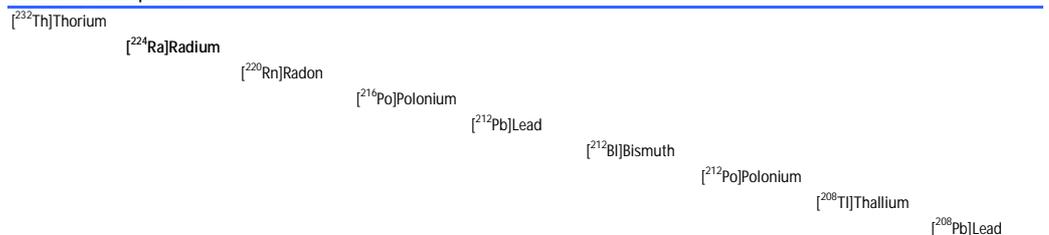
One-off treatment only, because of type of approval

Long-term observations of patients required by law

SpondylAT also produces some side effects

- There is a lot of competition for the therapy. Available forms of treatment range from simple physiotherapy to a vast number of medical and also surgical options.
- The list of drugs is very extensive and starts with non-steroid antiphlogistics such as Ibuprofen, Diclofenac, etc. Anti-rheumatic drugs are also used, e.g. cortico steroids, immune suppressant drugs, cytostatics, tumour necrosis factor- α antagonists, bisphosphonates, opiates and anti-depressants. Most of these approaches have the same principle: the better the effect, the worse the side effects.
- According to EUZ, one of the advantages of SpondylAT is that the treatment would be a single occurrence, and patients would not have to take drugs for the rest of their lives. This formulation falls somewhat short, in our opinion. SpondylAT, for example, is not a one-off therapy; it is administered ten times during the cycle of treatment (10 weeks). Due to the half-life of the radiation material, the timetable must be observed consistently by the patient and the physician. Also, and especially from a regulatory view, SpondylAT has only been approved as one-off therapy up to now. Follow-ups for five years often lack of patient compliance after their medical condition has improved significantly.
- On top of this, SpondylAT is by no means free of side effects. Initially, patients may experience increased pain, similar to the stimulating X-ray therapy of a calcaneal spur. Iridocyclitis (recurring inflammation of the anterior ocular chamber and the iris) or liver damage have been observed on occasion. Some patients have even died of myelopathy (bone marrow damage) after radium therapy. Although this seems unlikely when an α -radionuclide like Radium-224 is given because the middle ranges of the α -particles are only 50 μm , the products in the decay chain also emit β - and γ -radiation. According to EUZ, the myelopathies occurred during the 50s and 60s, when radium therapy was based on much higher doses (up to 10 times higher) than today.

Radioactive decomposition



Source: HTA Morbus Bechterew

HTA is rather reserved about the use of SpondylAT

Prospective

- An overall Health Technology Assessment (HTA) carried out by the German Medical Association and the Association of Statutory Health Insurance Physicians expresses strong reservations about the use of SpondylAT for treating Ankylosing Spondylitis. The HTA claims that the studies carried out to date do not prove the effectiveness of SpondylAT due to methodological

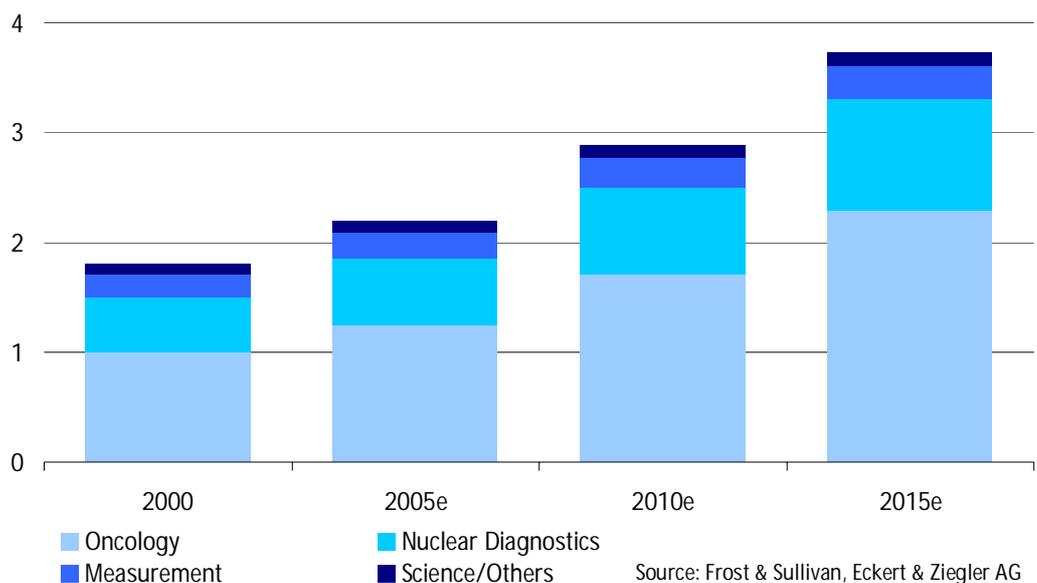
randomised phase III study with blinding called for...

... even for inclusion in the EBM list

shortcomings even as effectiveness itself is not called in doubt. A prospective randomised phase III study with blinding is called for. In our opinion, this is the road EUZ should go down when trying to obtain approval for SpondylAT. EUZ is confident to reach an agreement with the BfArM to be granted a further conditional approval until a clinical phase III study is closed.

- If we base our analysis of the market and market development on EUZ's business segments, the following picture emerges:

Worldwide market for isotope technologies (USDbn)



"Stable" metrology and science markets

- In earlier studies, we mentioned the fact that the metrology and science/others sub-segments are "stable" markets, i.e. they show little growth.

Additional indications and more cost refunds

- The area of nuclear diagnosis, on the other hand, is benefiting from additional indications and from more cost refunds. Positron Emission Tomography (PET) is a prime example of this.
 - PET scanners were originally stand-alone devices used to diagnose metastases in cancer patients. This could occur before, during or after any form of treatment. In the USA the costs of PET have been reimbursed for many years, but in Europe health insurance providers are very cautious. In Germany in particular, statutory health insurance funds do not refund any PET costs at present.
 - The possibilities of PET diagnosis are growing all the time. It has been proven, for example, that PET can diagnose Alzheimer's Disease at an early stage by identifying plaques (clumps or deposits of degenerating cells) in the brain. Cost reimbursement for PET for the diagnosis of Alzheimer's Disease was introduced relatively quickly in the USA after the death of one of the most prominent Alzheimer's patients, the former President Ronald Reagan.
 - Furthermore, PET is increasingly being used in conjunction with computer tomography in hybrid scanners (PET/CT). These combination scanners unite the advantages of both PET (which shows the metabolism in detail) and CT

Stand-alone device for diagnosing metastases

Expansion into the diagnosis of Alzheimer's Disease

Hybrid PET/CT scanners

The use of radiation is increasing and the technology continues to improve

Fairly conservative market analysis

Alternative treatment methods may be developed, giving rise to competition for EUZ

However, their success must first be demonstrated

Regional differences are disregarded

Improved cost refund situation in many European countries.

Market growth^e ≠ Sales growth^e

Sales growth^e > Market growth^e

(which picks up the exact location of the metastases) and have been causing a stir among experts for some time.

- This explains the growing demand for calibration sources and contrast media.
- By contrast, the oncology sector enjoys the highest growth rates of the four areas of isotope technology. In the past, radiation therapies were always part and parcel of cancer treatment. The forms of radiation have changed considerably over time and have become less invasive for patients (external focused beam radiation, for example, or the brachytherapy offered by EUZ).
- However, a market volume that has only slightly more than doubled in 15 years (this corresponds to an annual growth rate of 5-6%) does not necessarily impress investors who are used to biotechnology companies with their substantial double-digit growth rates. However, a number of factors have to be taken into account here.
 - We consider the market forecast conservative, since it obviously takes into account the introduction of alternative treatment methods on the market, which might decelerate the growth of radiotherapy. These alternative therapies include cryoablation and ultrasound-guided methods and, in particular, biotechnology products (such as antibodies), many of which are still undergoing clinical trials. Whether these new therapies will really constitute serious competition for radiotherapy depends on whether the clinical trials are successful, whether the side effects profile is better than those of the various forms of radiotherapy, whether doctors actually implement the new technologies and drugs, and whether health insurance providers will cover the costs.
 - Furthermore, the view of the market as a whole ignores regional differences. Earlier, we mentioned the special case of brachytherapy for treating early-stage prostate cancer. While this form of treatment is well established in the USA and the regional market is still showing low growth rates, EUZ can expect this method to achieve annual growth rates of 20% in Europe.
 - In addition, the cost refund situation for brachytherapy is constantly improving, particularly in relation to the treatment of early-stage prostate cancer. We already outlined the current cost refund situation in various European countries, as well as EUZ's efforts to improve the situation.
- Against this background, the market growth expectations are not automatically the same as EUZ's sales growth expectations. EUZ can in fact expect a much higher rate of growth, as has been demonstrated in previous years. EUZ is forecasting a sustained annual growth rate of approximately 20%. It is our view that, shorn of the basis effect, this forecast is ambitious but still perfectly achievable.

Shifting of sales from Q1 to Q2

Conservative earnings forecast on our side

Acquisitions may be a burden

Development in the current financial year

- In the current financial year, EUZ has already experienced one of the shifts in sales mentioned above, i.e. a shift from Q1 to Q2. The delivery of afterloaders was postponed in this case due to delays in obtaining planning permission from local authorities.
- However, the lost ground was made up in Q2 and in our opinion EUZ is now "back on track".
- We are also still confident that EUZ will be able to achieve our earnings forecast of €0.54. Comparing this forecast with EUZ's predictions of €0.50 to €0.80 per share, our forecast is on the conservative side. However, we believe that EUZ's far-reaching acquisition strategy may prove to be a burden on earnings this year.

Date	Acquired company	Additional information
March 2 nd , 2005	EURO-PET Berlin Zyklotron GmbH	Acquisition of 70 % of the company Cash acquisition No price revealed Nuclearmedical generics/radiopharmaceutical products
June 30 th , 2005	f-con Europe GmbH	Acquisition of 51 % of the company Revenues of app. €mn 3 with "moderate profitability" Headcount of 10 Contrast agents für PET
August 11 th , 2005	Analytics Inc. (USA)	Acquisition of 100 % of the company Products for the surveillance of nuclear power plants Calibration sources for nuclear medicine Revenues of app. USDm 3 with a double-digit EBT-margin Financed by a vendor note
September 15 th , 2005	SpondylIAT by Altmann	Radioactive therapy to treat Morbus Bechterew Price up to €mn 1.6 with additional requirements to Altmann Conditional approval by BfArM until end of 2005 Clinical Phase III study required

Source: Eckert & Ziegler AG, LBBW

- If we look at a breakdown of the 2005 income statement by quarter, the following picture emerges:

Profit & Loss Account (€mn)	2005		
	Q1	Q2	Q3
Nuclear medicine and industry	4,9	4,9	8,4
Therapy	3,7	3,2	5,1
Total revenues	8,6	8,2	13,5
Gross profit	3,3	4,9	4,9
EBITDA	1,1	2,1	1,6
EBIT	0,2	1,1	0,6
EBT	0,4	1,0	0,4
Annual result (before exceptionals and minorities)	0,3	0,6	0,2
EPS before exceptionals (€)	0,08	0,16	0,04
EPS (€)	0,08	0,16	0,04

Source: Eckert & Ziegler AG

- Based on the figures presented for Q3, we are confident that EUZ can reach the annual targets we have forecast.

Many open issues

The company has no control over certain developments

Refund of costs

Out-patient treatment is an advantage

EUZ can deliver arguments but has no decision-making power

Acquisitions are to continue

Substantial acquisition growth in 2005

Outlook

- What is the outlook for EUZ? What will happen as regards general cost refunds in Germany? How is the company's acquisition strategy to be driven forward? Which new areas are to be explored?
- There are still many questions surrounding EUZ and we can only answer some of these at present. Some of these outstanding questions even cannot be answered by the company itself, but rather lie in the hands of external organisations over which EUZ has little or no influence.
 - The cost refund situation in Germany is one such issue. At the end of 2003, EUZ could report the inclusion of seed brachytherapy in the DRG catalogue for hospitals and thus also in the health insurance providers' billing catalogue.
 - However, a clear advantage of this type of treatment is that it can be administered on an out-patient basis. With billing based on the DRG, this is only effective to the extent that the legal framework of the health care service now includes opening clauses on innovative procedures. This allows hospitals to use the in-patient DRG catalogue to bill a procedure that is actually administered on an out-patient basis.
 - General cost refunds, on the other hand, have not yet been granted. EUZ is trying to convince the relevant committees to have this form of treatment included in the general cost refunds list but the success of these efforts is ultimately out of the hands of the company and lies instead with the boards of the health insurance providers, which will make the final decision.
 - We have summarised the current situation concerning refunds for seed implants in different European countries in the overview above.

Country	Regelung
Belgium	Reimbursement of all costs
France	Reimbursement within the framework of fixed budgets in selected state-run cancer centers General reimbursement in private hospitals
Germany	Reimbursement within the framework of DRG and "Integrierte Versorgung"
Great Britain	Reimbursement by NHS (National Health Service) in selected hospitals
Italy	Reimbursement in several regions
Netherlands	Reimbursement of all costs within the framework of an authorised budget
Portugal	Reimbursement within the framework of the two state-run cancer centers' budgets
Switzerland	Reimbursement of a fixed amount

Source: Eckert & Ziegler AG

- The Executive Board of EUZ already spoke of the progress made in the acquisition strategy at the analyst conference in May this year. According to the company's plans, further acquisitions will boost sales by between €5 million and €15 million in 2006.
- At that time, however, the Executive Board also announced acquisition growth of approximately €3 million for 2005. Yet if we look at the acquisitions so far this year, this figure has already been clearly exceeded with the second acquisition (f-con at the end of June). We assume that acquisitions that may have been planned or expected for 2006 were brought forward to the current year. This leads us to anticipate that additional external growth in 2006 could in fact bolster sales by between €5 million and €10 million (on the current basis).

Changes in equity seem fairly unlikely

- To finance these acquisitions, EUZ is likely to dig as deeply as possible into its own cash and cash equivalents. However, we believe the company would raise debt if the funds needed exceed its cash and cash equivalents. According to management, a capital increase is fairly unlikely, since the associated dilution would be undesirable, in particular from the point of view of existing shareholders.

Balance sheet (€mn)	FY 2004	FY 2005		
		Q1	Q2	Q3
Current assets	21,1	22,7	22,5	24,0
thereof cash and cash equivalents	7,1	7,1	6,4	5,2
Fixed assets	27,9	33,6	34,3	37,6
Assets	49,0	56,4	56,7	61,6
Short-term liabilities	6,8	8,0	7,6	9,8
Long-term liabilities	9,5	15,0	14,9	17,6
Shareholder's equity	32,7	33,4	34,2	34,2
Passiva	49,0	56,4	56,7	61,6

Source: Eckert & Ziegler AG, LBBW

New segments are being developed

Contrast media

Generic radiopharmaceutical

SpondylAT could also generate revenue

Conditional approval expires at the end of 2005

Risk of approval not being extended

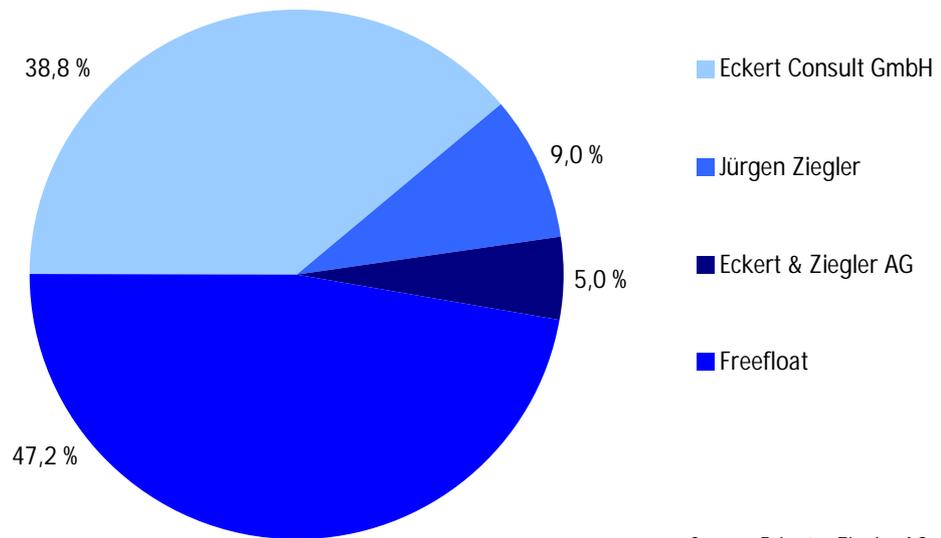
- EUZ has already started exploring new segments but the details are still few and far between. By acquiring majority stakes in EURO-PET and f-con, EUZ is in a good jumping-off point for gaining ground in the PET area. In the future, contrast media will also be sold in this market.
- In addition, EUZ expects the first contribution to sales to be made by a generic radiopharmaceutical it in-licensed from a US manufacturer as early as 2007. No information about the license partner, the subject of the license, the indication for which the generic drug is used or even the financial details of the transaction has been provided as yet.
- EUZ could also generate additional revenue with SpondylAT. According to the company, this product netted Altmann sales of between €1 and €2 million per year. However, the conditional approval of SpondylAT expires at the end of 2005 and whether the BfArM will extend the conditional approval or not will depend to a large extent on the design of the study with which EUZ hopes to convince the BfArM to extend the approval. SpondylAT could thus only achieve a real breakthrough after the successful completion of a phase III study at the earliest (in our opinion mid to late 2007). There is still a risk, however, that the BfArM will refuse to extend the approval, which would make it difficult to conduct a clinical study.

Stable shareholder structure

Shareholder structure

- EUZ's shareholder structure is very stable. Its CEO is a major shareholder through Eckert Consult and the former Executive Board member Ziegler still has an investment in EUZ.

Shareholder structure of EUZ



Source: Eckert & Ziegler AG

Takeover requires the consent of at least one major shareholder

- We feel that the shareholder structure makes it unlikely that EUZ could be taken over against the wishes of the Executive Board. With its consent, however, an acquirer could take over the majority of EUZ shares very quickly.

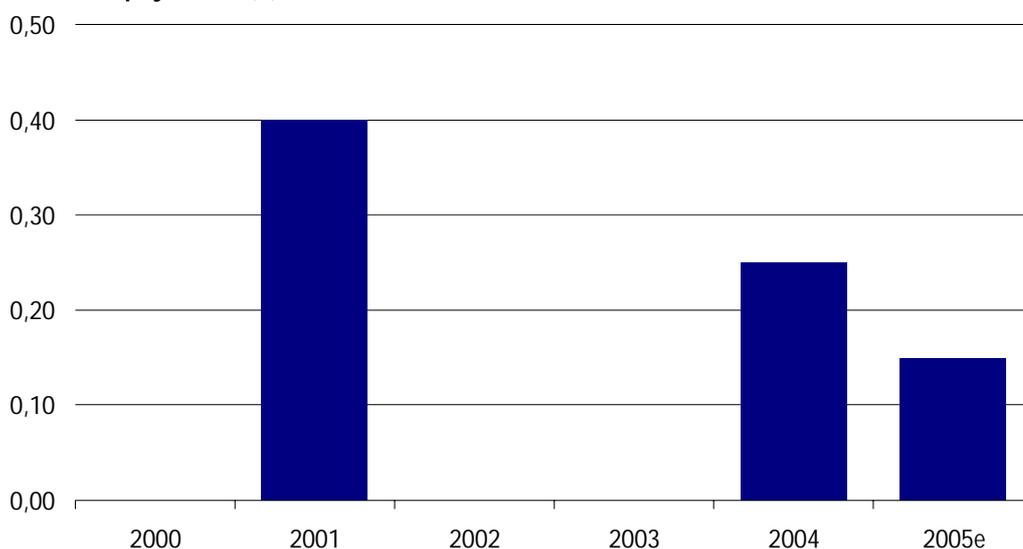
The company cannot really be said to have a dividend "policy" at present

The lower earnings per share anticipated lead us to expect lower dividends

Dividend policy

- Talking about a dividend policy in the case of EUZ is a bit premature in our opinion. At the Annual General Meeting for the 2001 financial year, the shareholders voted against the proposal of the Executive Board to pay a dividend of €0.40 per share from the extraordinary income in 2001.
- In the years that followed, no dividend was paid due to the poor results. It was not until 2005 that a dividend of €0.25 per share was paid (for 2004), also at the proposal of management.
- We assume that shareholders can also expect to receive dividends for the current year. In light of the fact that earnings per share are expected to be lower, we assume that this dividend will be €0.15.

Dividend payments (€)



Source: Eckert & Ziegler AG, LBBW

Appendix

Profit & Loss Account	2003	2004e	2005e	2006e	2007e
€mn					
Revenues	29,2	35,5	40,7	47,0	51,7
Cost of Sales	-15,7	-19,2	-21,6	-25,4	-27,9
Gross Profit	13,5	16,3	19,1	21,6	23,8
<i>Margin</i>	<i>46,1%</i>	<i>45,9%</i>	<i>47,0%</i>	<i>46,0%</i>	<i>0,0%</i>
R&D Expenses	-2,2	-0,4	-1,4	-1,6	-1,8
G&A Expenses	-9,3	-12,5	-13,6	-15,0	-16,5
Other Income	0,2	0,0	0,0	0,0	0,0
EBITDA	5,9	7,2	8,0	9,1	9,8
<i>Margin</i>	<i>20,1%</i>	<i>20,2%</i>	<i>19,7%</i>	<i>19,3%</i>	<i>0,0%</i>
Depreciation and Amortisation	-3,7	-3,7	-3,9	-4,1	-4,3
EBIT	2,2	3,4	4,1	4,9	5,4
<i>Margin</i>	<i>7,5%</i>	<i>9,7%</i>	<i>10,0%</i>	<i>10,5%</i>	<i>0,0%</i>
Net Financial Income/Expense	-0,3	0,2	-0,3	-0,4	-0,3
EBT	1,9	3,6	3,7	4,6	5,1
<i>Margin</i>	<i>6,4%</i>	<i>10,2%</i>	<i>9,2%</i>	<i>9,7%</i>	<i>0,0%</i>
Income Taxes	-1,0	-1,3	-1,9	-2,2	-2,3
EAT	0,8	2,3	1,9	2,4	2,7
<i>Margin</i>	<i>2,8%</i>	<i>6,5%</i>	<i>4,6%</i>	<i>5,1%</i>	<i>0,0%</i>
Extraordinaries	-2,0	1,1	0,0	0,0	0,0
Minorities	-0,1	-0,1	-0,1	-0,1	-0,1
Net Profit	-1,3	3,3	1,8	2,3	2,6
<i>Margin</i>	<i>neg.</i>	<i>9,4%</i>	<i>4,3%</i>	<i>4,8%</i>	<i>0,0%</i>
Earnings per share before extraordinaries (€)	0,25	0,72	0,54	0,70	0,81
Earnings per share before minorities(€)	-0,39	1,11	0,57	0,73	0,84
Earnings per share before extraordinaries and minorities (€)	0,28	0,75	0,57	0,73	0,84
Earnings per share (€)	-0,42	1,08	0,54	0,70	0,81

Source: Eckert & Ziegler AG, LBBW

Balance sheet	2003	2004	2005e	2006e	2007e
€mn					
Assets	45,7	49,0	53,8	57,1	61,0
Goodwill	6,0	6,9	6,9	6,9	6,9
Other intangible assets	3,7	4,6	3,6	3,2	2,9
Tangible assets	14,9	12,8	15,6	15,6	15,6
Financial assets	0,5	0,4	0,4	0,5	0,5
Other fixed assets	2,2	3,2	2,0	2,2	2,4
Fixed assets	27,3	27,9	28,6	28,4	28,4
Inventories	3,0	5,5	5,0	5,5	6,1
Trade receivables	3,7	6,9	9,4	10,2	11,0
Other receivables and assets	2,8	3,2	6,2	9,7	11,2
Cash	8,9	5,5	4,6	3,3	4,4
Current assets	18,4	21,1	25,3	28,7	32,7
Liabilities	45,7	49,0	53,8	57,1	61,0
Equity	28,8	32,7	35,1	37,4	40,2
Minority interests	0,2	0,2	0,2	0,2	0,2
Pension provisions	0,1	0,1	0,2	0,2	0,2
Other provisions	1,8	2,6	2,9	3,2	3,5
Financial liabilities	4,3	2,6	4,3	4,3	4,3
Trade payables	0,7	1,8	2,2	2,5	2,9
Other liabilities	9,8	8,9	9,1	9,3	9,7

Source: Eckert & Ziegler AG, LBBW

Cashflow statement	2003	2004	2005e	2006e	2007e
€mn					
Consolidated net profit	- 1,3	3,3	1,8	2,3	2,6
Depreciation	3,7	3,7	3,9	4,1	4,3
Change in pension provisions	0,0	0,0	0,0	0,0	0,0
Change in working capital	- 0,5	- 3,6	- 4,3	- 3,9	- 1,8
Other changes	2,2	- 0,9	0,0	0,0	0,0
Cashflow from operating activities	4,2	2,6	1,4	2,5	5,2
Capital expenditure	- 1,5	- 8,4	- 3,0	- 3,3	- 4,0
Disposals/divestments	1,2	2,7	0,0	0,0	0,0
Other changes	0,7	0,0	0,0	0,0	0,0
Cashflow from investing activities	0,3	- 5,7	- 3,0	- 3,3	- 4,0
Proceeds from capital increase	0,0	0,0	0,0	0,0	0,0
Dividend payment	0,0	0,0	- 0,8	- 0,5	- 0,5
Change in financial liabilities	- 1,6	- 0,2	1,7	0,0	0,0
Other changes	0,0	0,0	- 0,2	- 0,1	0,4
Cashflow from financing activities	- 1,6	- 0,3	0,7	- 0,5	0,0
Other changes	- 0,1	0,0	0,0	0,0	0,0
Change in cash and cash equivalents	2,8	- 3,4	- 0,9	- 1,3	1,1
Cash and cash equivalents at start of year	6,1	8,9	5,5	4,6	3,3
Cash and cash equivalents at end of year	8,9	5,5	4,6	3,3	4,4

Source: Eckert & Ziegler AG, LBBW

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12 months rating history

Date	Rating
2004-11-09	Buy
2005-02-02	Buy
2005-04-06	Buy
2005-05-10	Buy
2005-08-09	Buy

Percentage of companies in rating category		
Buy	Hold	Sell
43,9%	43,3%	12,8%

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- The ongoing monitoring of compliance with statutory duties by employees in the Compliance Unit.

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Please note: Following the integration of former BW-Bank analysts, the responsibility for coverage of certain stocks may have changed. Certain stocks may also have been added to LBBW's coverage universe.