

## **Standard Financial Analysis Code (SFAC)**

Current as of 28/12/2007

### **1. Area of confidentiality**

The analysis of financial instruments constitutes a separate area of confidentiality as defined by the applicable Standard Compliance Code of the Austrian banking industry.

### **2. Independence**

Financial analysts – whether salaried or freelancers – must perform their tasks independently and freely in the interest of investors and customers (institutional investors, private investors). In the case of salaried analysts, instructions issued by the employer from outside the area of confidentiality may not be arbitrary or opinion-forming. The analyst must be able – notwithstanding any external instructions – to do his work in compliance with the Standard Financial Analysis Code. In keeping with such independence, the ultimately responsible head of an analysis unit reports directly to a member of the management board / management.

### **3. Objectivity and integrity**

The financial analyst shall perform his tasks with utmost objectivity and integrity but also to the best of his knowledge and belief. Objectivity requires strict professionalism and impartiality. The financial analyst shall defy any instructions that run counter to such principles. The compliance officer shall be notified if any such instruction is maintained. In addition, financial analysts agree to adhere to the code of ethics of a professional association.

### **4. Conflicts of interest**

In many cases, financial analyses are decisive for the customer's behaviour when investing in financial instruments. A functioning capital market requires the investors' and customers' confidence in the integrity of recommendations and services of financial analysts. Compliance with the provisions of secs. 48 et seq. of the Stock Exchange Act regarding the prevention and disclosure of conflicts of interest as well as the provisions of Art. 25 of the MiFID Implementing Directive 2006/73/EC is hence part and parcel of the professional duties. Over and beyond this, financial analysts and other relevant persons involved in the preparation of financial analyses may not accept any benefits from persons who have a material interest in the object of such financial analyses (with the exception of inducements up to a total value of EUR 100 p.a.). Financial analysts may not participate in any other activities – other than the preparation of financial analyses – where such involvement is inconsistent with the maintenance of their objectivity (recital 36 of Directive 2006/73/EC). Activities of an analysis team are permitted to the extent that an exchange of information liable to trigger a conflict of interests is prevented or controlled.

## **5. Transparency**

The analysis shall specify the basic principles applicable for the preparation of an analysis and the evaluation method applied. In case the disclosure is not in proportion with the length of the analysis, at least a reference to the analyst's or to the analysing financial services provider's relevant website shall be included, where such information can be obtained. In such a case, it must be ensured that the interested parties can find such data easily. Any conflicts of interest must also be disclosed.

The analysis shall include a note indicating that it was prepared based on the Austrian Analysis Standards (SFAC and minimum standards).

## **6. Expertise / personal responsibility**

The financial analyst shall always perform his tasks with utmost professionalism. Performance of financial analyses requires adequate professional expertise and practical experience. Relevant professional training with an international certificate (e.g. CEFA, CFA, CIIA) is desirable. Furthermore, membership in a professional association (e.g., in the ÖVFA or Austrian Association for Financial Analysis and Asset Management) is recommended. These generally accepted principles of financial analysis shall be applied by each financial analyst at his own initiative.

## **7. Collection of information**

The financial analyst shall be required to use current and high-quality information, which shall be obtained comprehensively and carefully and should cover all major influencing factors.

## **8. Compliance with market standards**

Analyses regarding financial instruments shall be prepared taking into account the relevant market standards (e.g., minimum standards for financial analyses of the ÖVFA). In principle, the financial analysis shall be flawless, in compliance with applicable laws and regulations and be performed in accordance with generally accepted financial analysis methods. It is not possible for analyses to be safe as such, but they can be plausible and must be consistent with the generally accepted financial analysis methods.

## **9. Remuneration**

Notwithstanding the provisions of employment law, the remuneration of a financial analyst should be independent from the results of the investment banking units. Performance-related components, for instance, should be based on the quality of analysis, accuracy of recommendation and clarity of presentation.

## **10. Proprietary transactions**

Proprietary trading of financial analysts with financial instruments managed by themselves shall be subject to the provisions of the Standard Compliance Codes of the Austrian banking industry, in particular to the Guidelines for Transactions by Employees in Credit Institutions, as amended. Each credit institution or securities services company shall be free to set forth stricter rules for their employees. In principle – taking into account Art. 25 (2) sub-paras. a) and b) of Directive 2006/73/EC – it is recommended that analysts do not hold financial instruments of companies they themselves manage. If this is the case, however, this fact must be disclosed.

## **Minimum Financial Analysis Standards**

**Current as of 20 October 2006**

### **1. Scope of application**

For these Minimum Standards, financial analyses or recommendations are defined as follows:

Financial analysis serves to select or review financial instruments for investment purposes and thus provides the basis for well-founded investment decisions. It is based on a systematic investigation and assessment of financial instruments, their issuers as well as the decision-relevant environment performed in compliance with specific criteria. The task of a financial analysis is to provide information on the one hand and a forecast on the other. A sell-side analysis contains direct or indirect recommendations regarding the investment decision. Art. 24. (1) sub-para. b) of Directive 2006/73/EC clearly states that a financial analysis does not constitute investment advice as defined in MiFID 2004/39/EC.

Financial analyses are prepared by an independent analyst, a securities company, any other persons whose main task is to prepare financial analyses or a natural person working for one of said institutions under an employment agreement or similar. As part of their analysis, analysts rely on published or publicly accessible information, possibly also on information provided directly by the issuer.

Secondary analyses are financial analyses prepared mainly on the basis of data or documents from third parties (e.g., consensus profit estimates, third-party analyses, etc.). Depending on the type and scope of the secondary analysis product, these Minimum Standards shall apply analogously.

A direct recommendation comprises the analyst's investment opinion and thus is the result of the financial analysis of one or several financial instruments or issuers of financial instruments, including a current and future assessment of the value or price of such instruments. An indirect recommendation does not include an explicit investment opinion, but provides a basis which a reasonable investor can use to derive an investment recommendation for himself.

Financial analyses or recommendations are made available in a wide variety of forms and at different points in time. Their design may be very varied. Distinctions are made based on:

- Form and modality of presentation (in writing: printed or electronically; orally as part of presentations and public appearances);
- Frequency (periodically or occasionally due to new events);
- Scope (extensive base analyses or summary analysis and comments), as individual analyses or as part of aggregated analyses;

- Investor group (private investors, institutional investors, the media);
- Primary market or secondary market;
- Equity investments, interest-bearing securities or other financial instruments;
- Type of analysis activity (primary research or secondary research).

Notwithstanding the statutory requirements and regardless of the respective characteristics of the financial analysis products, the preparation requirements set forth in the standards below (information gathering and processing, dissemination) also apply to financial analyses.

The quality of the report ultimately depends on the quality of the preparation process. Well-founded, structured and systematic preliminary work is therefore indispensable particularly for summary analyses and comments or for public appearances and detailed base analyses. The following requirements therefore describe the main quality stages of the process chain required for drawing up of a well-founded financial analysis. A systematic process of information gathering and the structured processing of information are essential – regardless of the form and of the target group the financial analysis/recommendation addresses. A comprehensive evaluation of the data and information, by way of the business model for instance, forms an indispensable step along the financial analysis process chain, even if such detailed evaluation are only published in the case of a base analysis due to its scope.

Financial analyses, which exclusively serve internal (bank) purposes and thus are usually not intended for publication, are not subject to these standards, notwithstanding the applicability of individual principles set forth in this paper.

These standards do not concern the marketing notifications in accordance with Art. 24 (2) of Directive 2006/73/EC or mere marketing notifications by issuers and their distributions which do not contain any recommendations as defined in Directive 2004/39/EC (e.g. promotional or other information material for sales support). This information does not fall under the definition of financial analyses, but is subject to the special information and prospectus obligations under civil and capital market law. This applies to complete sales prospectuses containing all relevant information and also to – apparently incomplete – partial information in the form of newspaper adverts, abstracts, flyers, etc.

The standards do not aim at standardising financial analyses products; rather, analysts are free to design their studies as long as the minimum requirements are met.

The directives apply as rules of professional conduct and thus do not directly affect the civil law relationship under statutory provisions and agreements between customers and analysts or their employers.

## **2. General requirements of financial analysis**

Notwithstanding the statutory provisions in sec. 48 of the Stock Exchange Act, the Standard Financial Analysis Code (SFAC), as amended, provides the framework for the proper preparation of financial analyses.

### **2.1. Stating authors, professional standards and the competent regulatory authority**

The financial analysis must provide the name and professional qualifications of the person authoring a financial analysis and, in case of securities companies and credit institutions, the competent regulatory authority.

The analysis shall include a note indicating that it was prepared based on the Austrian Analysis Standards (SFAC and minimum standards).

### **2.2. Organisation for the prevention of conflicts of interest**

By way of internal organisational and communication rules, companies preparing financial analyses or independent financial analysts shall ensure the prevention of conflicts of interest and the implementation of "Chinese Walls".

### **2.3. Quality management**

Prior to submission, base analyses, IPO analyses analysis updates as well as secondary analyses must be double checked and approved by a qualified professional from inside or outside the company. In so doing, the plausibility of the contents of a financial analysis, compliance with provisions of capital market law and with SFAC as well as these minimum standards shall be reviewed. However, the author shall bear sole responsibility for the final contents of the financial analysis. Assumptions and estimates resulting in the forecast model and business appraisal must be documented.

### **2.4. Reference to external sources**

Financial analysts shall not make unauthorised use of third party services or publications. To the extent that they use third party services and publications in their financial analysis in an authorised and appropriate manner, they must identify the source.

### **2.5. Disclaimer**

Any financial analysis/recommendation must make reference to the limitations of liability (disclaimer). The respective national statutory provisions must be observed.

### **2.6. Documentation**

The proper documentation and storage of the material used for preparing a base analysis or IPO analysis shall be ensured.

### **3. Contents of a financial analysis**

The following information relates to the required contents of a base analysis. Special characteristics of other financial analysis products which have also undergone the process of analysis will be dealt with separately in Chapter 4.

#### **3.1. Executive summary/investment case**

The executive summary summarises core statements, conclusions and investment recommendation.

#### **3.2. Strengths/weaknesses analysis**

The strengths-weaknesses analysis (SWOT - strengths, weaknesses, opportunities, threats) shall include the major strengths/weaknesses as well as opportunities/risks of the analysed company within its industry. In so doing, industry-specific competition is analysed, among other aspects, based on factors such as price, product quality and potential, selling capacity, product differentiation in order to better determine the market position of the analysed company. Factors such as management, organisation and cost structure as well as productivity should also be taken into account.

#### **3.3. Assessment**

The assessment shall be based on the generally accepted methods of financial analysis and business appraisal. The assessment procedures applied as well as all the data required for the openness of valuation must be published as a matter of principle. If several different assessment methods are applied resulting in different values or ranges, the determined values shall be compared using an adequate form of presentation. The selection of the final value or of the final range must be specified. The relevant sensitivity analysis shall only refer to the discount interest rate used and to the expected growth rate in a DFC model.

No comparison needs to be made if additional assessment methods are applied along with a central assessment, but these are not used for an independent assessment but only for the purpose of controlling and classifying the already established value.

Generally, methodical continuity should be ensured. Any deviations from such methodical continuity must be justified.

#### **3.4. Company profile**

The company profile should reflect the main benchmark data of corporate development, object of the company and the business model. A detailed description is expedient particularly if the company was previously not listed or if the analyst included it in his coverage for the first time.

#### **3.5. Management**

The management analysis should primarily take into account the qualification and professional experience in the relevant industry.

### **3.6. Corporate governance**

The corporate governance analysis should be used to render transparent the structures and processes of company leadership, management and control. The base analysis should therefore check whether the internationally or nationally recognised standards of responsible corporate governance are applied. In any event, the analysis must indicate whether the issuer recognises the respective applicable local corporate governance code.

### **3.7. Shareholder structure**

The shareholder structure is included mainly to show the influence and any conflicts of interest of the various shareholder groups.

### **3.8. Market and competition analysis**

The market environment sets the framework conditions for the company's future economic success. The analysis should primarily examine with the following issues:

- Products
- Market shares
- Growth opportunities and risks
- Market entry barriers
- Competitors and competitive conduct
- Position of buyers and suppliers
- Industry development and industry attractiveness

### **3.9. Fundamental analysis/forecast model**

The fundamental analysis examines the company's essential indicators (income figures, balance sheet structure, liquidity, capital gearing). The financial analyst should show up special accounting characteristics as well as deviations from the industry's usual relations specific of the company in terms of the income statement, cash flow statement and valuations in the balance sheet. References shall be made to any risks outside the balance sheet (contingent liabilities, leasing transactions, pension underfunding). After a critical appraisal of historic data, forecasts shall be explained.

A prerequisite for determining the company value is the critical examination of the company's planning and forecast figures. A closed forecast model requires that income statement, cash flow development as well as assets and liabilities in the balance sheet are shown. Only a closed forecast model for a period of at least two forecast years allows for an adequate presentation or estimate of the financial effects on corporate development.

### **3.10. Investment recommendation**

As a matter of principle, the base analysis contains a general investment recommendation for investors (cf. sec. 1 above). This may either be an absolute or a relative recommendation. An absolute recommendation exclusively concerns the expected price development of the analysed company, whereas a relative recommendation includes the price performance in relation to an index (market/industry) as valuation benchmark. The investment recommendation is a snapshot only. If general conditions change, a re-evaluation should be undertaken. Such re-evaluation shall be justified. Investment recommendations should therefore be subjected to a continuous evaluation process. *After the fact*, it is only possible to prove whether a base analysis was carried out diligently and in

compliance with prevailing market practice. Any investment recommendation derived from a financial analysis may be proven wrong after the event by the performance of the market and company.

The recommendation may be classified e.g. on a five- or three-stage scale. The scale must be documented in the financial analysis. The scale for an absolute and relative recommendation, for instance, may be structured as follows:

Recommendation/investment opinion	expected price development
Buy	> 15%
Accumulate	> 5% ≤ 15%
Hold (neutral)	between -5% and +5%
Reduce	between -5% and -15%
Sell	> -15%

If a relative recommendation is issued, the respective reference index must be published. Any investment recommendation includes information about the time horizon to which it refers. Usually the time horizon involves a period of 6 to 12 months. In the case of a re-evaluation due to changes - e.g., because of corporate news, changes in the competitive environment or attainment of the target price - reasons shall be provided together with the new investment recommendation. Any discontinuance of coverage shall be notified with a statement of the reasons for discontinuance.

## **4. Products**

This section sets forth the minimum contents of individual financial analysis products; they include the products specified in subsections 4.1 to 4.5 as well as those listed in the table. The attached table of financial analysis products constitutes an integral part of these minimum standards.

### **4.1. Base analysis**

Base analyses are extensive and complete financial analyses of the relevant securities or companies explicitly containing all essential aspects of relevance for the assessment. Base studies are prepared when an analyst takes up coverage or when corporate structures or the market environment change significantly.

Ideally, they should include all steps of the analysis process chain and thus the following contents:

- Executive summary/investment case
- Strengths/weaknesses analysis
- Assessment
- Company profile
- Market/competition analysis
- Corporate governance
- Comment on the management
- Shareholder structure
- Fundamental analysis/forecast model
- Investment recommendation

Formally, the base analysis must include the following, notwithstanding the provisions of sec. 48f of the Austrian Stock Exchange Act:

- Reason for the financial analysis
- Name of the analyst
- Date of preparation
- Current share price
- Overview of key data
- Definition of the recommendation (if there is a recommendation )
- Reference to conflicts of interest
- Disclaimer

#### **4.2. IPO analysis**

In principle, an IPO analysis has the same contents as a base analysis and follows the same process of analysis. In addition to the information in the base analysis, it includes information regarding the application of revenues from the issue in case of a change in the company capital. To avoid conflicts of interest, IPO analyses should not include any recommendations.

#### **4.3. Financial analysis update**

Financial analysis updates are prepared on special occasions and therefore focus on the assessment of such processes. The financial analysis update is usually prepared on the following occasions:

- Extensive comments on company reports
- Analyst conferences/company visits
- Re-evaluation (changes to recommendations and assessments)

For reasons of space and time, publication of the following contents may be dispensed with in case of financial analysis updates: company profile, management analysis, shareholder structure, market and competition analysis, corporate governance analysis. Reference shall be made to the underlying forecast model.

#### **4.4. Summary analysis**

A summary analysis is a condensed financial analysis, which is usually prepared for special company or market-related occasions or for the sales support of specific customer groups. A summary analysis usually consists of a few lines and no more than 1 or 2 pages. Relevant occasions include previews of company results or comments on company reports, changes to recommendations or evaluations.

If a direct investment recommendation is given, the summary analysis should at least include a brief summary of the assessment and the strengths/weaknesses analysis.

In accordance with the requirements of these minimum standards, the unpublished steps of the analysis must be completed prior to publication in order to warrant a high-quality analysis.

#### **4.5. Comment**

A comment is a timely assessment of news and results published by analysed companies. This comment is usually comprised of several lines (e.g. dailies, flashes, etc.).

## Minimum standards for financial analyses – table of financial analysis products

	Occasion	Summary/investment case	Strengths/weaknesses analysis	Assessment	Profile	Market/competition analysis	Corporate governance	Comment on management	Comment on shareholder structure	Fundamental analysis/forecast model	Application revenue from issue	Investment recommendation/qualitative opinion	Price	Name of the analyst	Date	Overview of key data 6)	Definition of the recommendation 1)	References regarding conflicts of interest	Disclaimer	
Base analysis	x	x	x	x	x	x	x	x	x	x		x 4)	x	x	x	x	x	x	x	x
IPO analysis	x	x	x	x 10)	x	x	x	x	x	x	x			x	x	x	x	x	x	x
Financial analysis update	x	x	x	x						x		x 4)	x	x	x	x	x	x	x	x
Summary analysis 5)	x		x 3)	x 3)								x 4)	x	x	x	x	x	x	x	x
Commentary 9)	x											x 4)	x	x	x		x 11)	x	x	x
Recommendation/indicator lists												x 4)	x	x	x	x	x	x	x	x
Presentations												x 4)	x	x	x		x	x	x	x
Press releases												x 4)	x	x	x		x 2)	x 2)	x 2)	x 2)
TV interview												x 4)		x	x 7)		x 11)	x 11) 8)	x 11)	x 11)
Radio interview												x 4)		x	x 7)		x 11)	x 11) 8)	x 11)	x 11)
Press interview												x 4)		x	x 7)		x 11)	x 11) 8)	x 11)	x 11)

### Legend:

**X Mandatory**

- 1) Necessary only in case of investment recommendation (direct or indirect). Compliance with statutory provisions must be observed.
- 2) Please note the disclaimer, the definition of the recommendation and references regarding possible conflicts of interest, which can be found at www.xxxx.xxx or phone "Compliance".  
The medium must agree by way of contract to publish the references. (e.g., one-off standard agreement with each interviewed bank)
- 3) In case of a direct investment recommendation, the financial analysis must include a brief summary of the evaluation and the major opportunities/risks or a reference to the detailed explanations in the most recent (base) analysis on the website.
- 4) As a rule, sell-side analyses include a direct investment recommendation.
- 5) Such as comments on company reports, previews, changes to recommendation and evaluation.
- 6) Summary of major P&L-/ balance sheet and evaluation indicators, market capitalisation, free float, chart, etc.
- 7) In case of repeats, the date when it was first aired shall be provided.
- 8) Interview partner shall be made aware of possible conflicts of interest. Compliance with statutory provisions must be observed.
- 9) Such as dailies, flashes, ...
- 10) If permitted in the course of the transaction.
- 11) Reference to the website that includes the required information is sufficient.  
The medium must agree by way of contract to publish the references. (e.g., one-off standard agreement with each interviewed bank)