

# Elbit Systems

**ESLT.OQ**

## Upgrading to a Strong Buy

- Following Elbit Systems' strong Q202 results and management guidance (for the first time) for 02 EPS of \$1.25 we are increasing our 02 EPS forecast from \$1.17 to \$1.27 representing YoY growth of 21% (excl. \$10m one time charge). We are increasing our 2003 EPS forecast from \$1.17 to \$1.44.
- We are specially encouraged by the strong operating cash flow of \$52m generated in the quarter and by what seems as an underline trend of improving gross margins.
- Elbit reported Q2 revenues of \$193m and EPS (excluding one time) of \$0.32 vs. our forecast of \$0.29. Operating profit (ex one time) was \$14.7m representing operating margins of 7.6%.
- Backlog increased \$50m from the end of Q102 to reach \$1.65bn. 63% of the backlog relates to orders outside of Israel. 66% of the backlog (\$1.1bn) is for delivery by end of 2003.
- These results include a \$6.3m before tax write off for possible losses related to a project preformed by Elbit's subsidiary (Cyclone) for a company (Dornier) that went into insolvency procedures. Excluding the write off, operating profit and margins would have reached \$21m and 10.9% respectively.
- As expected, Elbit recorded a one time charge of \$9.8m (\$6.8m after tax) for a one time payment to the Office of Chief Scientist
- Elbit's business is robust with a balanced geographical spread and a backlog that supports growth for the next two years. Management reports increasing interest in wide areas but mainly in C3 and ISR-Intelligent surveillance Reconnaissance.
- Following our forecast upgrade the company is now trading on 03 PE of 10.7. We believe that this represents a discount of 30-40% to its defence peers. This is despite strong performance and 3 years forecasted average annual EPS growth of 15%.
- Based on the above, we are increasing our rating from buy to strong buy, as we believe the company will re-rate closer to our price target of \$23.5, which represents upside potential of 50%.

Elbit is an Israel-based company that specialises in defence-related products that are software-intensive.

**research team**
**US Defence**

**Ehud Helft**  
972 9 885 5902  
ehud.helft@csfb.com

**Rafael Kapelinski**  
44 20 7883 6088  
rafael.kapelinski.2@csfb.com

**Kenny Green**  
972 9 885 4105  
kenny.green@CSFB.com

**Pierre A. Chao**  
1 212 325 4155  
Pierre.chao@csfb.com

**Investors should assume that CSFB is seeking or will seek investment banking or other business from the covered companies.**

Recommendation	(formerly BUY) <b>STRONG BUY</b>
Price (01 Aug 02)	<b>15.49 (US\$)</b>
Target price (12 months)	<b>23.50 (US\$)</b>
Market cap. (US\$ m)	<b>601.72</b>
Enterprise value (US\$ m)	<b>680.73</b>
Region/country	<b>European/Israel</b>
Sector	<b>Defence</b>
Date	<b>06 August 2002</b>



The price relative chart measures performance against the isr\_ta10 index. On 01/08/02 the isr\_ta10 index closed at 359.51. On 01/08/02 the spot exchange rate was US\$0.98/eu 1. - eu0.98/US\$1.

Performance over	1mth	3mths	12mths
Absolute (%)	<b>-3.8</b>	<b>-6.6</b>	<b>-5.9</b>
Relative (%)	<b>-4.7</b>	<b>-4.6</b>	<b>14.1</b>

Year	12/00A	12/01A	12/02E	12/03E
Revenues (US\$ m)	<b>591.1</b>	<b>764.5</b>	<b>810.4</b>	<b>899.5</b>
EBITDA (US\$ m)	<b>70.1</b>	<b>93.4</b>	<b>107.9</b>	<b>124.3</b>
Net income (US\$ m)	<b>-20.5</b>	<b>41.3</b>	<b>43.5</b>	<b>60.6</b>
CSFB adj. EPS (US\$)	<b>1.12</b>	<b>1.05</b>	<b>1.27</b>	<b>1.44</b>
ROIC (%)	<b>6.5</b>	<b>8.1</b>	<b>11.1</b>	<b>12.2</b>
P/E (x)	<b>13.8</b>	<b>14.8</b>	<b>12.2</b>	<b>10.7</b>
P/E rel (%)	<b>75</b>	<b>77</b>	<b>82</b>	<b>71</b>
EV/EBITDA (x)	<b>9.3</b>	<b>7.1</b>	<b>6.2</b>	<b>5.4</b>

Dividend 2001 (US\$)	Book value/share (12/01, US\$)
<b>0.31</b>	<b>10.8</b>
Dividend yield (%)	Free float (%)
<b>2.0</b>	<b>46.0</b>
IC (12/02E, US\$ m)	Number of shares (m)
<b>669.01</b>	<b>38.85</b>
Net debt (12/02E, US\$ m)	EV/IC (12/02E, x)
<b>79.0</b>	<b>1.0</b>
Net debt/equity (12/02E, %)	Current WACC (12/02E, %)
<b>19.2</b>	<b>13.8</b>

Source: FTI, Company data, Datastream, CSFB (EUROPE) LTD. Estimates.

# Financials

**Figure 1: Elbit Systems Quarterly results excluding a \$9.8m before tax (\$7.8m after tax) one time charge in Q202**

US\$ in millions, unless otherwise stated

	2001	2002	YoY ch.					
	Q201A	Q202A	(%)	Q102F	Q202F	Q302F	Q402F	2002F
Airbone Systems	79.4	77.6	39.9%	92.3	77.6	85.4	125.7	381.0
Armored Vehicle Systems	33.4	42.9	-24.5%	27.2	42.9	43.8	12.4	126.3
C3 Systems	23.5	27.4	-5.0%	28.6	27.4	27.9	34.5	118.5
Electro Optics	25.9	35.0	52.4%	29.2	35.0	38.5	45.4	148.1
Others	7.8	10.3	-30.1%	8.5	10.3	10.5	7.2	36.5
<b>Total revenues</b>	<b>170.0</b>	<b>193.2</b>	<b>13.6%</b>	<b>185.8</b>	<b>193.2</b>	<b>206.1</b>	<b>225.3</b>	<b>810.4</b>
Cost of sales	(122.4)	(140.1)	14.5%	(133.5)	(140.1)	(146.7)	(159.8)	(580.2)
<b>Gross profit</b>	<b>47.6</b>	<b>53.1</b>	<b>11.4%</b>	<b>52.3</b>	<b>53.1</b>	<b>59.3</b>	<b>65.5</b>	<b>230.1</b>
Gross margins (%)	28.0%	27.5%		28.1%	27.5%	28.8%	29.1%	28.4%
R&D expenses	(11.7)	(12.7)	8.1%	(13.1)	(12.7)	(17.1)	(20.3)	(63.2)
R&D as % of sales	6.9%	6.6%	-4.9%	7.0%	6.6%	8.3%	9.0%	7.8%
SG&A	(21.7)	(25.7)	18.1%	(24.5)	(25.7)	(26.4)	(28.0)	(104.5)
SG&A as % of sales	12.8%	13.3%	4.0%	13.2%	13.3%	12.8%	12.4%	12.9%
<b>Operating Profit</b>	<b>14.2</b>	<b>14.7</b>	<b>3.7%</b>	<b>14.7</b>	<b>14.7</b>	<b>15.9</b>	<b>17.2</b>	<b>62.4</b>
Op. margins	8.4%	7.6%		7.9%	7.6%	7.7%	7.6%	7.7%
Financial & Other inc.	0.0	-0.4		-0.1	-0.4	-0.2	-0.8	-1.5
Profit B. Tax	<b>14.2</b>	<b>14.4</b>	1.1%	<b>14.5</b>	<b>14.4</b>	<b>15.7</b>	<b>16.4</b>	<b>60.9</b>
Taxes	(3.0)	(3.3)		(3.9)	(3.3)	(3.4)	(4.0)	(14.6)
Effective tax rate(%)	21%	23%		27%	23%	22%	24%	24%
<b>Profit After Tax</b>	<b>11.2</b>	<b>11.1</b>	<b>-1.4%</b>	<b>10.6</b>	<b>11.1</b>	<b>12.2</b>	<b>12.4</b>	<b>46.3</b>
Affiliated & Minority	(0.1)	1.5		1.1	1.5	1.0	1.3	5.0
<b>Net Profit</b>	<b>11.1</b>	<b>12.6</b>	<b>13.4%</b>	<b>11.7</b>	<b>12.6</b>	<b>13.2</b>	<b>13.7</b>	<b>51.3</b>
Net margins (%)	6.5%	6.5%		6.3%	6.5%	6.4%	6.1%	6.3%
<b>EPS</b>	<b>0.29</b>	<b>0.32</b>	<b>7.5%</b>	<b>0.29</b>	<b>0.32</b>	<b>0.33</b>	<b>0.33</b>	<b>1.27</b>
WANOS (m)	39.1	39.8	1.8%	40.1	39.8	40.6	41.6	40.5
Net profit including one time charge	11.1	4.8	-57.1%	11.7	4.8	13.2	13.7	43.4
EPS including one time charge	0.29	0.12	-59.3%	0.29	0.12	0.33	0.33	1.07

Source: Company data, CSFB estimates.

**Figure 2: Income statement**

US\$ in millions, unless otherwise stated

	1999	2000	2001	2002F	2003F
Export	337.1	431.7	537.9	571.7	606.0
YoY growth	0.0%	28.1%	33.0%	6.3%	6.0%
Domestic	98.9	159.4	226.7	238.6	293.5
YoY growth	27.8%	61.1%	42.2%	5.3%	23.0%
<b>Total revenues</b>	<b>436.0</b>	<b>591.1</b>	<b>764.5</b>	<b>810.4</b>	<b>899.5</b>
Airbone Systems	262.9	257.9	334.2	381.0	438.1
YoY growth	-2.1%	-1.9%	29.6%	14.0%	15.0%
Armored Vehicle Systems	67.0	111.8	126.3	126.3	132.6
YoY growth	27.4%	66.9%	13.0%	0.0%	5.0%
Comand Control & Comm. Systems	104.4	113.7	105.8	118.5	130.3
YoY growth	22.8%	8.9%	-6.9%	12.0%	10.0%
Electro Optics	0.0	91.1	162.7	148.1	161.4
			78.6%	-9.0%	9.0%
Others	1.7	16.6	35.5	36.5	37.0
<b>Total revenues</b>	<b>436.0</b>	<b>591.1</b>	<b>764.5</b>	<b>810.4</b>	<b>899.5</b>
YoY growth	5.1%	35.6%	29.3%	6%	11%
COGS	(314.3)	(426.1)	(554.0)	(580.2)	(640.5)
Gross profit	121.7	165.0	210.5	230.1	259.1
% of Sales	27.9%	27.9%	27.5%	28.4%	28.8%
YoY growth	6.1%	35.5%	27.6%	9.3%	12.6%
R&D expenses	(32.7)	(44.3)	(60.1)	(63.2)	(70.2)
% of Sales	7.5%	7.5%	7.9%	7.8%	7.8%
Selling & marketing exp.	(34.0)	(45.1)	(54.9)	(60.8)	(69.3)
% of Sales	7.8%	7.6%	7.2%	7.5%	7.7%
G&A expens	(15.5)	(26.3)	(43.5)	(43.8)	(45.0)
% of Sales	3.6%	4.4%	5.7%	5.4%	5.0%
<b>Op. profit excl. one off charges</b>	<b>39.5</b>	<b>49.3</b>	<b>52.0</b>	<b>62.4</b>	<b>74.7</b>
% of Sales	9.1%	8.3%	6.8%	7.7%	8.3%
YoY growth	3.2%	24.8%	5.4%	20.0%	19.6%
In process R&D	0.0	(40.0)	0.0	0.0	0.0
Restructuring cost	0.0	(22.1)	0.0	0.0	0.0
Financial & Other Exp.	1.5	0.1	(1.8)	(1.5)	(1.5)
Income B. tax	41.0	(12.7)	50.2	60.9	73.2
% of Sales	9.4%	-2.1%	6.6%	7.5%	8.1%
Income taxes	(9.7)	(6.2)	(11.0)	(14.6)	(17.6)
% of IBT	23.8%	12.6%	21.9%	24.0%	24.0%
<b>Net income</b>	<b>30.8</b>	<b>(20.5)</b>	<b>40.8</b>	<b>51.3</b>	<b>60.6</b>
Net income excl. one off charges	30.8	36.2	40.8	43.5	60.6
% of Sales	7.1%	6.1%	5.3%	5.4%	6.7%
YoY growth	10.6%	17.3%	12.8%	5.4%	39.4%
<b>EPS excluding one time charge</b>	<b>1.16</b>	<b>1.12</b>	<b>1.05</b>	<b>1.27</b>	<b>1.44</b>
Diluted WANOS (m)	26.5	32.2	39.4	40.5	42.0
<b>reported EPS</b>	<b>1.16</b>	<b>- 0.64</b>	<b>1.05</b>	<b>1.07</b>	<b>1.44</b>
YoY growth	12.2%	-154.7%	-264.6%	2.4%	34.4%

Source: Company data, CSFB estimates. \* excluding \$57m one off charges recorded in 2000 and \$7.6m after tax annual amortisation charges beginning in H200 relating to EI-Op acquisition

**Figure 3: Balance sheet**

US\$ in millions, unless otherwise stated

	1999	2000	2001	2002F	2003F
<b>ASSETS</b>					
Cash & Equivalent	36.5	51.7	44.1	41.7	48.6
Deposits with banks and other	8.5	2.9	2.9	2.9	2.9
Trade receivable	111.1	206.4	241.8	247.2	269.9
% of Sales	25.5%	34.9%	31.6%	30.5%	30.0%
Other account receivable	19.7	37.5	38.2	36.5	40.5
Inventory	65.8	131.0	185.1	185.7	198.5
% of COGS	20.9%	30.7%	33.4%	32.0%	31.0%
<b>Current Assets</b>	<b>241.6</b>	<b>429.5</b>	<b>512.1</b>	<b>513.9</b>	<b>560.4</b>
<b>Fixed Assets</b>	<b>66.7</b>	<b>165.9</b>	<b>184.8</b>	186.3	188.6
Investments in affiliates	3.6	39.6	31.5	34.0	37.0
Trade account receivable	113.3	83.9	64.8	81.0	90.0
Other assets	31.3	109.1	112.5	117.0	122.0
<b>Total Assets</b>	<b>456.5</b>	<b>828.0</b>	<b>905.7</b>	<b>932.2</b>	<b>998.0</b>
<b>LIABILITIES &amp; EQUITY</b>					
Short Term credit from banks	12.1	51.3	46.9	41.9	41.9
Trade accounts payable	80.0	94.1	111.2	116.0	128.1
% of COGS	25.4%	22.1%	20.1%	20.0%	20.0%
Other payable and accrued expenses	62.1	115.4	136.8	127.6	128.1
Advances from customers	58.0	94.5	93.3	81.0	81.0
Dividend	0.0	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>	<b>212.1</b>	<b>355.4</b>	<b>388.2</b>	<b>366.6</b>	<b>379.0</b>
Long term loans	1.3	57.7	69.2	79.2	89.2
Deferred Taxes	1.9	24.5	22.0	22.0	22.0
Liab. for severancy & vacation pay	3.2	9.3	12.5	12.5	12.5
Advances from customers	34.6	33.8	29.8	32.0	33.0
<b>Long term Liabilities</b>	<b>57.9</b>	<b>127.0</b>	<b>133.5</b>	<b>145.7</b>	<b>156.7</b>
Treasury stocks	(3.6)	(3.6)	(4.3)	(4.3)	(4.3)
Share capital	7.9	10.9	11.1	11.1	11.1
Surplus & reserves	52.7	235.5	244.6	244.6	244.6
Retained earning	127.9	98.0	126.6	162.5	204.9
Total Equity	184.9	340.7	378.0	413.9	456.3
<b>Total Liab. &amp; Equity</b>	<b>456.6</b>	<b>828.0</b>	<b>905.7</b>	<b>932.2</b>	<b>998.0</b>
<b>Net debt (cash)</b>	<b>(31.6)</b>	<b>54.4</b>	<b>69.1</b>	<b>76.5</b>	<b>79.5</b>

Source: Company data, CSFB estimates.

**Figure 4: Cash flow statement**

US\$ in millions, unless otherwise stated

	1999	2000	2001	2002F	2003F
<b>Operating Activities</b>					
Profit After Tax	30.8	-20.5	41.3	51.3	60.6
Depreciation	16.6	20.8	41.4	45.5	49.6
<b>Change in W/ C</b>					
Dec. (Incr.) in inventory	14.1	(25.2)	(72.2)	(0.6)	(12.9)
Decr (Increase) in receivables	(65.5)	(19.0)	(10.0)	(19.8)	(35.6)
Customer Advances	22.9	(10.6)	6.5	(10.1)	0.9
Increase (decr) in trade payable	42.4	(3.5)	38.0	(4.3)	12.5
Others	0.0	0.0	0.0	0.0	0.0
(Incr.)/Decr. in Working Capital	13.9	(58.4)	<b>(37.7)</b>	<b>(34.8)</b>	<b>(35.1)</b>
Non cash flows	(3.6)	43.6	(0.8)	0.0	0.0
<b>Cash flow from Oper. Active</b>	<b>57.8</b>	<b>(14.4)</b>	<b>44.2</b>	<b>62.0</b>	<b>75.1</b>
<b>Investing Activities</b>					
Net investment in fixed assets	(37.0)	(37.6)	(41.0)	(47.0)	(52.0)
Investment in aff.	(24.0)	1.0	(4.1)	(2.5)	(3.0)
Other investment	(1.8)	20.7	0.4	(4.5)	(5.0)
<b>Cash flow from Investing Active.</b>	<b>(62.7)</b>	<b>(15.8)</b>	<b>(44.7)</b>	<b>(54.0)</b>	<b>(60.0)</b>
<b>Financing Activities</b>					
Incr./(Decr.) in short term debt	6.8	32.3	(6.5)	(5.0)	0.0
Incr./(Decr.) in long term debt	(6.2)	22.1	8.7	10.0	10.0
Dividend paid	(9.0)	(9.5)	(12.1)	(15.4)	(18.2)
Proceeds from issuance of shares/exc. options	1.4	0.5	3.3	0.0	0.0
Other	(1.7)	0.0	0.0	0.0	0.0
<b>Cash flow from Financing Active.</b>	<b>(8.7)</b>	<b>45.4</b>	<b>(6.7)</b>	<b>(10.4)</b>	<b>(8.2)</b>
<b>Resulting Change in Cash:</b>	<b>(13.7)</b>	<b>15.1</b>	<b>(7.2)</b>	<b>(2.4)</b>	<b>7.0</b>
Cash & Equivalents at beginning of year	50.1	36.5	51.6	44.4	42.0
Cash & Equivalents at year end	36.5	51.6	<b>44.4</b>	<b>42.0</b>	<b>49.0</b>

Source: Company data, CSFB estimates.

AMSTERDAM..... 31 20 5754 890  
 ATLANTA ..... 1 404 897 2800  
 AUCKLAND..... 64 9 302 5500  
 BALTIMORE..... 1 410 659 8800  
 BANGKOK ..... 62 614 6000  
 BEIJING..... 86 10 6410 6611  
 BOSTON..... 1 617 556 5500  
 BUDAPEST ..... 36 1 202 2188  
 BUENOS AIRES..... 54 11 4394 3100  
 CHICAGO ..... 1 312 750 3000  
 FRANKFURT ..... 49 69 75 38 0  
 HOUSTON ..... 1 713 890 6700  
 HONG KONG ..... 852 2101 6000

JOHANNESBURG ..... 27 11 343 2200  
 KUALA LUMPUR..... 603 2143 0366  
 LONDON ..... 44 20 7888 8888  
 MADRID ..... 34 91 423 16 00  
 MELBOURNE..... 61 3 9280 1888  
 MEXICO CITY ..... 52 5 283 89 00  
 MILAN ..... 39 02 7702 1  
 MOSCOW ..... 7 501 967 8200  
 MUMBAI ..... 91 22 230 6333  
 NEW YORK..... 1 212 325 2000  
 PALO ALTO ..... 1 650 614 5000  
 PARIS..... 33 1 53 75 85 00  
 PHILADELPHIA ..... 1 215 851 1000

SAN FRANCISCO.....1 415 836 7600  
 SÃO PAULO .....55 11 3841 6000  
 SEOUL .....82 2 3707 3700  
 SHANGHAI.....86 21 6881 8418  
 SINGAPORE .....65 6212 2000  
 SYDNEY .....61 2 8205 4433  
 TAIPEI .....886 2 2715 6388  
 TOKYO .....81 3 5404 9000  
 TORONTO.....1 416 352 4500  
 WARSAW.....48 22 695 0050  
 WASHINGTON.....1 202 354 2600  
 WELLINGTON.....64 4 474 4400  
 ZURICH .....41 1 333 55 55

Copyright Credit Suisse First Boston, and its subsidiaries and affiliates, 2002. All rights reserved.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CSFB does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

Information and opinions presented in this report have been obtained or derived from sources believed by CSFB to be reliable, but CSFB makes no representation as to their accuracy or completeness. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

CSFB may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published. CSFB may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CSFB, or an associate of CSFB or CSFB may be the only market maker in such investments.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston Corporation; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Securities Canada, Inc.; in Brazil by Banco de Investimentos Credit Suisse First Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared and/or reviewed by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston Corporation in the U.S.

Please note that this research was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.