

# Equity Solutions WATCHER



## Aerospace suppliers – natural selection, or survival of the fittest

*In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. Data as of 02 May 2016, 11 p.m. Paris time.*

BUILDING TEAM SPIRIT TOGETHER

# Editorial (1/2)

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*This document cannot be considered as adapted to a person or based on the analysis of the situation of a person.*

Data & recommendations as of  
02 May, 2016 close

## **Aerospace suppliers – natural selection or survival of the fittest**

Aircraft demand is a highly cyclical variable. As GDP grows, traffic expands all over the world. More businessmen (women) travel, new airports and routes are opened, and as disposable income grows, leisure expenditures evolve along. Global GDP is slowly recovering in 2016, air traffic is getting dynamic and long-term aircraft demand is at a historical high. The four major aircraft manufacturers released their long-term outlook for air traffic with optimistic and impressive figures, implying a doubling of the global fleet in the next 15 years.

The two leading OEMs, Airbus and Boeing, developed new products during the cycle's downturn (2005/2008), and net backlogs have now reached 10 years of production. The situation is similar for engine OEMs, two of which have also developed new products (GE/Safran and MTU/United Technologies). OEMs are now phasing out old programs while ramping up new ones. Backlogs are at historical highs, requiring this program switch be achieved quickly for timely delivery. This basically is the big picture.

Large OEMs rely on a few key suppliers, each of which specialise in producing different parts of the final product. Some produce seats, nacelles, and structures; others make IT systems, safety equipment, and kitchen and toilet blocks. Each supplier is thus required to expand production at the same pace as the OEM. This is where the issue arises: OEMs are large firms, able to make heavy investments while meeting deadlines, but this is not always the case for suppliers, who need to keep pace anyway.

Although tier-1 suppliers are sometimes as large as OEMs, the industry also relies on small, local tier-3 suppliers, often serving a unique client. For instance, the French city of Toulouse, which houses the Airbus HQ, is also home to many small family businesses serving the company's final assembly lines. These small suppliers aren't able to expand nor accelerate production if the final client does not participate in the investment financing.

Airbus recently asked its suppliers to increase production with a 10% discount on unit cost. Only few will be able to both scale up production and meet client pricing, and investors will need to separate the wheat from the chaff. At this phase of the cycle where production accelerates, the supply chain is a key factor distinguishing the winners from the losers.



**Mathieu Balleron, CAIA**  
Equity Expert

# Editorial (2/2)

For instance, the FY15 results of Zodiac Aerospace, the world leader in seat manufacturing (especially the premium variety), were dramatically below expectations as it was unable to maintain the production level required by its customers. Although the group's sales have grown from EUR 1bn to EUR 3bn in about five years thanks to acquisition, it never structured nor optimised the chain, which led to major production delays despite its having 100+ facilities. Zodiac has become an attractive target in the sector. When a key supplier lose track of its production, customers are often forced to help refinance directly or even take over the supplier.

For the next two years, we expect restructuring, mergers and acquisitions to accelerate and form the significant stock-market driver in the aerospace industry. Winners will be able to generate FCF thanks to operational leverage, while losers will face significant program delays and will be forced to post lower EBITDA and FCF conversion.

Engines and aircraft have a defined proportion of pieces that must be replaced frequently because of attrition. This generates regular cash flows since airlines must 1) maintain spare-parts inventory and 2) regularly make shop visits to inspect engines and aircraft. This is a regulatory constraint, planned years in advance, and it allows suppliers to accurately predict medium-term cash flows.

The aftermarket segment is quite competitive since spare parts can be produced by any certified player, but two elements favour OEMs over other suppliers: 1) OEMs have a cost advantage with new products that require more complex production techniques, and 2) OEMs have changed their contracts from a bulk approach to a package one (pay per hours flown), which creates superior cash-flow stability and visibility. Yet, we still find single suppliers that look attractive thanks to their strategic business exposure to key OEM programs.

To be exposed to this industry, we recommend United Technologies in the US, Senior Plc in the UK and Airbus Group in the Eurozone.

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# Focus: Basket of Stocks

## **Airbus Group SE (AIR FP) – BUY – SGPB Target Price: EUR 69.00**

Airbus Group SE has been operating in the aerospace and defence (A&D) sector since 1998. Its operating segments are: Airbus Commercial (68.4% of FY14 sales), Airbus Helicopters (9.9%), Airbus Defence and Space (21.0%). Long-term outlook of air traffic implies a doubling of the global fleet by 2030. The group's R&D expenses are lower since it has entered the production phase of its cycle; and the mix of programs is favourable (A380 reached its breakeven in FY15 and finally gained new orders early this year; production of A320neo and A350XWB is set to accelerate through 2016/2018). Airbus' sensitivity to the USD and the turmoil of Boeing, its main competitor have driven down the stock along with equity markets. For 1Q16, Airbus reported revenue of EUR 12 bn, EBIT (excluding one-off) of EUR 512 mn and EPS of EUR 0.51. The FCF fell at EUR -3bn, disappointing investors although it was expected below EUR -2 bn. We believe the stock's valuation no longer reflects its long-term growth prospects and the management's attractive guidance.

## **Senior Plc (SNR LN) – BUY – SGPB Target Price: GBP 2.65**

Senior Plc designs, manufactures and markets technology components and systems for the A&D, land vehicle, and energy markets. It operates through two business divisions: Aerospace (67.7% of FY15 revenue) and Flexonics (32.3%). The firm is a small player to major suppliers but has become a tier-1 supplier. Senior is exposed to both defence and civil aerospace, as well as to all submarkets in civil aerospace, that is to say, business jets, narrow and wide commercial aircraft, and the spare-parts segment (for engine-makers, maintenance operators and airlines). The firm has a robust track record of shipsets' value improvement for years. The group has a sound financial approach with a solid balance sheet and a robust cash conversion model. Dividend increased 10% last year but payout ratio is still rather low at 32.67%. The 1Q16 revenue reported on 21 Apr through a trading update confirmed the company's positive outlook on its Aerospace activities. Net debt increased to GBP 217.2 mn but this is no surprise as business cyclicality requires increased working capital and capex investments. It has a material backlog on the OEM's next-generation craft, namely the Airbus A350XWB, A320neo family and Boeing B737Max.

## **United Technologies Corp (UTX US) – BUY – SGPB Target Price: USD 118.00**

United Technologies is an American industrial holding, diversified in several highly technical segments such as elevators (OTIS), aerospace engines (Pratt & Whitney), components (UTAS), and control and security (CCS). UTX's geographic and business diversification is a positive. Otis' China exposure, which may impact it negatively as the economy slows, is offset by the high-margin business of aerospace aftermarket services and OEM (UTAS and Pratt & Whitney) as the A&D cycle is attractive. UTX's 1Q16 results were in line with expectations. All segments remained solid in a weak global environment and we believe that long-term growth prospects still appear attractive. Its FY15 revenue reached USD 56.45 bn while EBIT was at USD 9.13 bn (16.1% margin). UTX reaffirmed FY16 guidance, with sales at USD 56–58 bn and EPS at USD 6.30–6.60. The company's 1Q16 sales were up 2% organically at USD 13.4 bn, while the adjusted EPS grew at the same pace at USD 1.47, excluding an expected restructuring charge of USD 0.05 per share. FCF conversion was maintained at 43% with cash from operations at USD 795 mn and capex at USD 286mn. The dividend yield (2.5%) and share buyback program also are more attractive than its peers'.

# Market Dashboard & Conviction-list Performance

## Conviction Lists<sup>2</sup> & Benchmarks

05/02/2016	Inception Date		Weekly	YTD
<b>Global CL</b>	<b>09/14/2009</b>	<b>45.1%</b>	<b>-3.5%</b>	<b>-5.4%</b>
Developed Asia-Pacific CL	02/22/2016	1.9%	-7.0%	1.9% <sup>1</sup>
European CL	03/10/2010	29.3%	-1.8%	-6.9%
US CL	03/10/2010	43.9%	-2.9%	-0.8%
Emerging CL	02/22/2016	7.4%	-0.9%	7.4% <sup>1</sup>
Dividend CL	02/05/2015	-0.8%	-0.5%	-1.2%
<b>MSCI AC World</b>	<b>09/14/2009</b>	<b>42.2%</b>	<b>-0.4%</b>	<b>1.2%</b>
MSCI Pacific Index	02/22/2016	7.0%	-3.1%	-3.0%
MSCI Europe	03/10/2010	28.3%	-1.6%	-6.5%
SPX Index	03/10/2010	81.7%	-0.3%	1.8%
MSCI Emerging Markets	02/22/2016	11.5%	-0.4%	5.2%
MSCI World High Dividend Yield	02/05/2015	1.3%	0.4%	6.4%

Sources: Bloomberg & Société Générale Private Banking

## MSCI World AC Group Ranked Returns

05/02/2016	Weekly	YTD	52 Week Rolling	
			Low	High
<b>MSCI AC World</b>	<b>-0.4%</b>	<b>1.2%</b>	<b>15.1%</b>	<b>-8.9%</b>
Energy	1.6%	13.7%	36.2%	-19.4%
Telecom Services	0.5%	6.3%	15.1%	-5.6%
Utilities	2.3%	7.9%	14.2%	-2.2%
Cons. Staples	0.7%	4.4%	14.5%	-1.5%
Financials	-0.7%	-2.9%	18.9%	-15.0%
Cons. Discretionary	0.0%	-0.7%	15.5%	-6.5%
Materials	1.5%	13.2%	33.0%	-14.2%
Industrials	-0.3%	4.5%	18.0%	-6.0%
Info Technology	-2.5%	-2.8%	12.3%	-7.1%
Healthcare	-2.0%	-4.0%	10.3%	-11.9%

Source: Bloomberg

## Global Style Counselling<sup>3</sup>

05/02/2016	Weekly	YTD	52 Week Rolling	
			Low	High
<b>MSCI AC WORLD</b>	<b>-0.4%</b>	<b>1.2%</b>	<b>15.1%</b>	<b>-8.9%</b>
MSCI World Value	-0.2%	1.7%	14.9%	-9.0%
MSCI World Growth	-0.7%	-0.2%	13.2%	-5.9%
MSCI World Small Cap	0.5%	2.7%	18.8%	-6.9%
MSCI World Large Cap	-0.6%	0.9%	14.5%	-9.1%

Source: Bloomberg

<sup>1</sup> Performance since 02/22/2016.

<sup>2</sup> Conviction lists' content is detailed on the following pages.

<sup>3</sup> Each style is defined according to MSCI standards, detailed in the glossary.

Past performance is not a reliable indicator of the future performance.

# Global Conviction List...

## List Definition

- List comprises Societe Generale Private Banking Equity Experts' convictions with exclusively buy rated listed companies.
- The selection derives from Societe Generale Private Banking investment universe.
- Any update in the list is announced through a "Conviction List Change" publication.

### U.S.

**Alphabet Inc** (GOOGL US)  
**Apple Inc** (AAPL US)  
**Check Point Software Technologies Ltd** (CHKP US)  
**Citigroup Inc** (C US)  
**Oracle Corp** (ORCL US)  
**Thermo Fisher Scientific Inc** (TMO US)  
**United Technologies Corp** (UTX US)  
**Walt Disney Co** (DIS US)

### EUROPE

**BNP Paribas SA** (BNP FP)  
**Bayer AG** (BAYN GR)  
**Cie de St-Gobain SA** (SGO FP)  
**ING Groep NV** (INGA NA)  
**LVMH SE** (MC FP)  
**Pernod Ricard SA** (RI FP)  
**Schneider Electric SE** (SU FP)  
**Senior Plc** (SNR LN)  
**WPP Plc** (WPP LN)

### ASIA

**Alibaba Group Holding Ltd** (BABA US)  
**Japan Airlines** (9201 JP)  
**Japan Tobacco Inc** (2914 JP)  
**Mitsubishi UFJ Financial Group** (8306 JP)  
**Samsung Electronics Co Ltd** (SMSN LI)

# ...& Historical Performance

## Global Conviction List

05/02/2016

Code	Company Name	Last Price	Perf.*	Target Price **	Upside	Industry	Entry Date
BABA US	Alibaba Group Holding Ltd	76.61	-21%	95.00	24%	Information Technology	01/19/2015
GOOGL US	Alphabet Inc	714.41	17%	850.00	19%	Information Technology	08/25/2015
AAPL US	Apple Inc	93.64	2%	125.00	33%	Information Technology	06/19/2014
BAYN GR	Bayer AG	99.81	-16%	119.00	19%	Health Care	09/09/2015
BNP FP	BNP Paribas	45.97	15%	66.00	44%	Financials	04/04/2013
CHKP US	Check Point Software Technologies Ltd	82.79	7%	98.00	18%	Information Technology	02/11/2015
SGO FP	Cie de St-Gobain	40.18	0%	51.00	27%	Industrials	04/29/2015
C US	Citigroup	46.68	-8%	57.00	22%	Financials	10/16/2013
INGA NA	ING Groep NV	10.74	-1%	16.70	56%	Financials	06/10/2014
9201 JP	Japan Airlines Co Ltd	3,860.00	-7%	4,950.00	28%	Industrials	09/11/2015
2914 JP	Japan Tobacco Inc	4,467.00	72%	5,300.00	19%	Consumer Staples	01/08/2013
MC FP	LVMH SE	147.25	-10%	190.00	29%	Consumer Discretionary	06/04/2015
8306 JP	Mitsubishi UFJ Financial	504.10	6%	720.00	43%	Financials	01/10/2013
ORCL US	Oracle Corp	40.30	34%	49.00	22%	Information Technology	06/24/2013
RI FP	Pernod Ricard SA	95.37	-7%	120.00	26%	Consumer Staples	01/19/2015
SMSN LI	Samsung Electronics Co Ltd	545.00	-14%	720.00	32%	Information Technology	02/09/2015
SU FP	Schneider Electric SE	56.71	-8%	73.00	29%	Industrials	06/30/2015
SNR LN	Senior Plc	217.60	-8%	265.00	22%	Industrials	04/21/2016
TMO US	Thermo Fisher Scientific Inc	146.50	17%	162.00	11%	Health Care	02/11/2015
UTX US	United Technologies Corp	104.37	47%	118.00	13%	Industrials	09/22/2010
DIS US	Walt Disney Co	104.36	5%	120.00	15%	Consumer Discretionary	01/08/2016
WPP LN	WPP Plc	1,596.00	124%	1,821.00	14%	Consumer Discretionary	07/27/2011

List Performance Since Inception: 45.1%

List Potential Upside: 37.0%

Sources: SGPB & Bloomberg

\* Price Return Since Inception

\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts

## Weekly Comment

- The Global Conviction List fell 3.5%, underperforming the MSCI AC World Index, which closed down 0.4%.
- The week's worst performer was Mitsubishi UFJ Financial, which lost 13.3%, followed by Apple (down 10.9%) and Bayer (down 9.3%). On the other hand, the week's best performing stocks were Citigroup and Thermo Fisher Scientific, which remained flat.
- The List offers an average upside of 37.0%, based on our Equity Experts' target prices.

Past performance is not a reliable indicator of the future performance.

# Dividend Conviction List

## List Definition

- List comprises Societe Generale Private Banking Equity Experts' convictions with exclusive buy rating and an attractive dividend yield.
- The selection aims at generating dividend income.
- The selection derives from Societe Generale Private Banking investment universe.
- Any update in the list is announced through a "Conviction List Change" publication.

05/02/2016

Bloomberg Code	Company Name	Dividend Yield*	Last Price	Perf.**	Target Price***	Upside	Industry	Entry Date
CS FP	AXA SA	5.3%	22.32	8%	29.00	30%	Financials	02/05/2015
CVX US	Chevron Corp	4.2%	103.31	3%	112.00	8%	Energy	06/23/2015
KO US	Coca-Cola	3.1%	44.98	8%	48.00	7%	Consumer Staples	02/05/2015
ENEL IM	Enel SpA	4.5%	3.96	0%	4.64	17%	Utilities	08/25/2015
ENGI FP	Engie SA	7.0%	14.32	-25%	21.00	47%	Utilities	02/05/2015
GSK LN	GlaxoSmithKline Plc	5.5%	1,459.00	-3%	1,530.00	5%	Health Care	02/05/2015
INGA NA	ING Groep NV	6.5%	10.74	-18%	16.70	56%	Financials	10/06/2015
LLOY LN	Lloyds Banking Group Plc	6.4%	67.07	-8%	86.00	28%	Financials	11/26/2015
RDSA NA	Royal Dutch Shell Plc	7.0%	22.97	-17%	31.60	38%	Energy	05/19/2015
SU FP	Schneider Electric SE	3.6%	56.71	-8%	73.00	29%	Industrials	06/30/2015
VIE FP	Veolia Environnement SA	3.8%	20.90	27%	25.00	20%	Utilities	02/05/2015
DG FP	Vinci SA	3.1%	64.94	31%	77.00	19%	Industrials	02/05/2015

List Performance Since Inception: -0.8%

List Potential Upside: 25.0%

Sources: SGPB & Bloomberg

\* Estimated annual dividend yield for the next 12 months (average of the estimates given by the contributors to the Bloomberg consensus)

\*\* Price Return Since Inception

\*\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts

Dividend Yield	%
Bovespa Index	3.3%
Euro Stoxx50	3.9%
FTSE 100	4.5%
SMI	3.6%
Straits Times Index	4.0%
S&P 500	2.2%
Nikkei 225	1.9%

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# Emerging Markets Overview

## Conviction List

05/02/2016

Code	ADR/GDR*	Company Name	Last Price	Perf.**	Target Price ***	Upside	Industry	Entry Date
BABA US	BABA US	Alibaba Group Holding Ltd	76.61	11%	95.00	24%	Information Technology	02/22/2016
BBL-R TB	-	Bangkok Bank PCL	164.00	4%	240.00	46%	Financials	02/22/2016
012330 KS	-	Hyundai Mobis	260,500.00	1%	320,000.00	23%	Consumer Discretionary	02/22/2016
SMSN LI	SMSN LI	Samsung Electronics Co Ltd	545.00	13%	720.00	32%	Information Technology	02/22/2016
2330 TT	TSM US	TSMC	150.00	-1%	172.00	15%	Information Technology	02/22/2016

List Performance Since Inception: 7.4%

List Upside: 30.0%

Sources: SGPB & Bloomberg

\* When available, ADR/GDR most liquid. \*\* Price Return since Inception

\*\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts

## Market Performances

05/02/2016	EM Index	Weekly	YTD
MXEF Index	MSCI Emerging (USD)	-0.4%	5.2%
MSEUEMEA Index	MSI EMEA (USD)	0.9%	14.9%
MXLA index	MSCI LATAM (USD)	3.2%	23.4%
MXMS Index	MSCI Emerging Asia (USD)	-1.5%	0.1%
MXRU Index	MSCI Russia	1.5%	24.1%
MXBR Index	MSCI Brazil	4.2%	37.1%
MXIN Index	MSCI India	-0.4%	-2.1%

Sources: SGPB & Bloomberg

## Convictions Highlights

The EM Conviction List lost 0.9%, underperforming the MSCI EM Index, which fell 0.4%. Hyundai Mobis was the only gainer with advances of 4.2%. TSMC was the worst performing stock as it fell 4.8%.

## MSCI Emerging Markets Index (USD)



Sources: SGPB & Bloomberg

## Macroeconomic Views

### Brazil's central bank keeps policy rates unchanged

Brazil's central bank left its benchmark interest rate unchanged at 14.25% for the sixth straight time amid political uncertainty. The central bank said that the high 12-month inflation and inflation expectations, far from the official targets, offer no room for easing of monetary policy.

### China's PMI remains in expansion zone

China's manufacturing activity slowed in April but remained in expansionary territory for the second straight month. The official manufacturing PMI declined to 50.1 (50.2 in March) slightly below consensus of 50.3.

Source: Bloomberg

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# Regional Conviction Lists

## List Definition

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## Developed Asia-Pacific

05/02/2016

Code	Company Name	Last Price	Perf.*	Target Price **	Upside	Industry	Entry Date
1299 HK	AIA Group	46.70	17%	60.00	28%	Financials	02/22/2016
4503 JP	Astellas Pharma Inc.	1,445.50	-8%	2,210.00	53%	Health Care	02/22/2016
5108 JP	Bridgestone	3,964.00	-1%	5,660.00	43%	Consumer Discretionary	02/22/2016
9201 JP	Japan Airlines Co Ltd	3,860.00	-8%	4,950.00	28%	Industrials	02/22/2016
2914 JP	Japan Tobacco Inc	4,467.00	-2%	5,300.00	19%	Consumer Staples	02/22/2016
8306 JP	Mitsubishi UFJ Financial	504.10	6%	720.00	43%	Financials	02/22/2016
8801 JP	Mitsui Fudosan	2,624.50	-1%	4,000.00	52%	Financials	02/22/2016
OCBC SP	Oversea-Chinese Banking Corp Ltd	8.77	10%	12.10	38%	Financials	02/22/2016

**List Performance Since Inception: 1.9%**

**List Potential Upside: 38.5%**

Sources: SGPB & Bloomberg

\* Price Return Since Inception

\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts

# Europe

05/02/2016

Code	Company Name	Last Price	Perf.*	Target Price **	Upside	Industry	Entry Date
ADEN VX	Adecco SA	61.80	-8%	78.00	26%	Industrials	12/17/2015
AGN NA	Aegon NV	5.09	-19%	6.25	23%	Financials	10/29/2014
AIR FP	Airbus Group SE	54.25	-3%	69.00	27%	Industrials	08/25/2015
BAYN GR	Bayer AG	99.81	-16%	119.00	19%	Health Care	09/09/2015
BNP FP	BNP Paribas	45.97	15%	66.00	44%	Financials	04/04/2013
CA FP	Carrefour SA	24.90	-2%	30.00	20%	Consumer Staples	01/08/2016
SGO FP	Cie de St-Gobain	40.18	0%	51.00	27%	Industrials	04/29/2015
EOAN GR	E.ON SE	8.96	-6%	12.00	34%	Utilities	10/13/2015
ENG SM	Enagas SA	26.61	4%	31.00	17%	Utilities	01/08/2016
ENEL IM	Enel SpA	3.96	0%	4.64	17%	Utilities	08/25/2015
FME GY	Fresenius Medical Care AG	76.50	-2%	90.00	18%	Health Care	01/08/2016
INGA NA	ING Groep NV	10.74	-1%	16.70	56%	Financials	06/10/2014
ERICB SS	LM Ericsson Telefon AB	64.50	-24%	80.00	24%	Information Technology	10/06/2015
MC FP	LVMH SE	147.25	-10%	190.00	29%	Consumer Discretionary	06/04/2015
RI FP	Pernod Ricard SA	95.37	-7%	120.00	26%	Consumer Staples	01/19/2015
PUB FP	Publicis Groupe	64.74	7%	77.00	19%	Consumer Discretionary	12/01/2015
SU FP	Schneider Electric SE	56.71	-8%	73.00	29%	Industrials	06/30/2015
SNR LN	Senior Plc	217.60	-8%	265.00	22%	Industrials	04/21/2016
TUI1 GR	TUI AG	12.82	-22%	17.00	33%	Consumer Discretionary	03/25/2015
VIE FP	Veolia Environnement SA	20.90	16%	25.00	20%	Utilities	04/08/2015
WDI GY	Wirecard AG	37.53	-3%	50.00	33%	Information Technology	05/08/2015
WIZZ LN	Wizz Air Holdings Plc	1,880.00	5%	2,150.00	14%	Industrials	11/06/2015
WPP LN	WPP Plc	1,596.00	124%	1,821.00	14%	Consumer Discretionary	07/27/2011

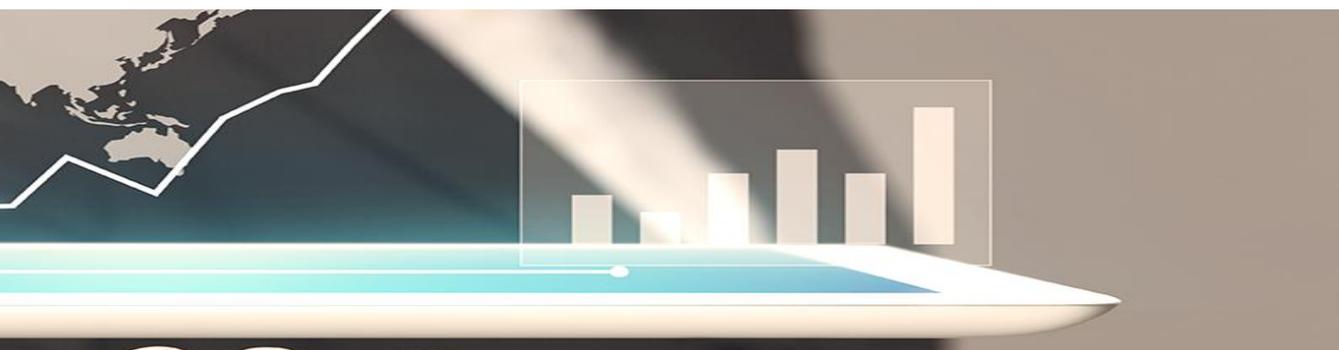
List Performance Since Inception: 29.3%

List Upside: 33.1%

Sources: SGPB & Bloomberg

\* Price Return Since Inception

\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts



# United States

05/02/2016

Code	Company Name	Last Price	Perf.*	Target Price **	Upside	Industry	Entry Date
GOOGL US	Alphabet Inc	714.41	17%	850.00	19%	Information Technology	08/25/2015
AAPL US	Apple Inc	93.64	2%	125.00	33%	Information Technology	06/19/2014
CHKP US	Check Point Software Technologies Ltd	82.79	7%	98.00	18%	Information Technology	02/11/2015
C US	Citigroup	46.68	-8%	57.00	22%	Financials	10/16/2013
KO US	Coca-Cola	44.98	21%	48.00	7%	Consumer Staples	10/04/2013
CVS US	CVS Health Corp	101.45	3%	117.00	15%	Consumer Staples	09/25/2015
GILD US	Gilead Sciences Inc	89.00	10%	125.00	40%	Health Care	06/12/2014
ORCL US	Oracle Corp	40.30	34%	49.00	22%	Information Technology	06/24/2013
TMO US	Thermo Fisher Scientific Inc	146.50	17%	162.00	11%	Health Care	02/11/2015
UTX US	United Technologies Corp	104.37	47%	118.00	13%	Industrials	09/22/2010
DIS US	Walt Disney Co	104.36	5%	120.00	15%	Consumer Discretionary	01/08/2016

List Performance Since Inception: 43.9%

List Upside: 27.6%

Sources: SGPB & Bloomberg

\* Price Return Since Inception

\*\* Target price is a 12-month forecast price defined by SGPB Equity Experts

Past performance is not a reliable indicator of the future performance.

# Convictions By Sectors

	Name	Bloomberg Code
<b>Consumer Discretionary</b>	Bridgestone Corp	5108 JP
	Hyundai Mobis Co Ltd	012330 KS
	LVMH SE	MC FP
	Publicis Groupe	PUB FP
	TUI AG	TU11 GR
	Walt Disney Co	DIS US
	WPP PLC	WPP LN
<b>Consumer Staples</b>	Carrefour SA	CA FP
	Coca-Cola	KO US
	CVS Health Corp	CVS US
	Japan Tobacco Inc	2914 JP
	Pernod Ricard SA	RI FP
<b>Energy</b>	Chevron Corp	CVX US
	Royal Dutch Shell Plc	RDSA NA
<b>Financials</b>	Aegon NA	AGN NA
	AIA Group Ltd	1299 HK
	AXA SA	CS FP
	Bangkok Bank PCL	BBL-R TB
	BNP Paribas SA	BNP FP
	Citigroup Inc	C US
	ING Groep NV	INGA NA
	Lloyds Banking Group Plc	LLOY LN
	Mitsubishi UFJ Financial Group Inc	8306 JP
	Mitsui Fudosan Co Ltd	8801 JP
	Oversea-Chinese Banking Corp Ltd	OCBC SP
<b>Healthcare</b>	Astellas Pharma Inc.	4503 JP
	Bayer AG	BAYN GR
	Fresenius Medical Care & Co KGaA	FME GY
	Gilead Sciences Inc	GILD US
	GlaxoSmithKline Plc	GSK LN
	Thermo Fisher Scientific Inc	TMO US
<b>Industrials</b>	Adecco SA	ADEN VX
	Airbus Group SE	AIR FP
	Cie de St-Gobain	SGO FP
	Japan Airlines Co Ltd	9201 JP
	Schneider Electric SE	SU FP
	Senior Plc	SNR LN
	United Technologies Corp	UTX US
	Vinci SA	DG FP
	Wizz Air Holdings Plc	WIZZ LN
<b>Information Technology</b>	Alibaba Group Holding Ltd	BABA US
	Alphabet Inc	GOOG US
	Apple Inc	AAPL US
	Check Point Software Technologies Ltd	CHKP US
	LM Ericsson Telefon AB	ERICB SS
	Oracle Corp	ORCL US
	Samsung Electronics Co Ltd	SMSN LI
	TSMC	2330 TT
	Wirecard AG	WDI GY
<b>Utilities</b>	E.ON SE	EOAN GR
	Enagas SA	ENG SM
	Enel SpA	ENEL IM
	Engie SA	GSZ FP
	Veolia Environment SA	VIE FP

# Contact Details



**Jérôme Matt**  
Head of Equity Solutions, Paris  
jerome.matt@socgen.com



**Thomas Hinault**  
Equity Expert, Paris  
thomas.hinault@socgen.com



**Mathieu Balleron, CAIA**  
Equity Expert, Paris  
mathieu.balleron@socgen.com



**Danny Van Quaethem**  
Local Head of Equity Solutions,  
Belgium  
danny.vanquaethem@sgpriv.be



**Kristof De Graeve**  
Equity Expert, Belgium  
kristof.degraeve@sgpriv.be



**Sebastien Corbic, CFA**  
Equity Expert, Switzerland  
sebastien.corbic@socgen.com



**Shishir Malik**  
Head of Equity Solutions, Bangalore  
shishir.malik@socgen.com

# Rating System

## Investment Rating Definition:

- Buy** | Company from SGPB Conviction Lists, expected return above 10% or more over a 12-month investment horizon based on our experts' assumption.
- Add** | Company outside SGPB Conviction List. Proposition to reinforce or invest in companies benefiting from positive fundamentals with a positive return expected over a 12-month investment horizon, based on our experts' assumption.

## Product Risk Rating

### Product Category Risk Rating:

The product category of single equity, stock, share is rated at '4'.

In order to draw the attention of investors to the risk linked to each investment solution, Societe Generale Private Banking has ranked each product according to its own specific risk scale from the lowest risk (class 0) to the highest risk (class 4). The risk classification in 5 levels, is a Societe Generale Private Banking internal risk indicator. These internal indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio being considered could lose in normal market conditions over a given period with a given probability (past performances and simulations of performance shall not be considered as a reliable indicator of future performance). If the VaR 95% 1 year is y%, this means that there is a 95% probability that the portfolio will not lose more than y% of its value in one year.

## Equity Risk Classification: 4

Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

# Calculation Methodology

Performance Calculation	<p>At the time of inception of the conviction list, all members are based at 100. Each stock is equally weighted, so that every member has the same probability to add value to the list. The selection is made using a bottom-up approach and may not be read as a portfolio construction.</p> <p>Performance of Conviction Lists and the members is calculated every week based on Monday's closing price or last trading day in case of a holiday. Rebased level for Conviction List members is obtained by applying the change in the share price (current price/last week price) to the previous rebased level. Rebased level for the Conviction Lists is obtained by averaging the rebased levels for all the conviction list members.</p>
Conviction List Change	<p>Performance is also calculated as mentioned above at the time of any change in Conviction Lists such as inclusion of a new member or removal of an existing member. For inclusion or removal of a member, closing price on the day prior to the announcement is used. In addition, all members are equally weighted again by applying the last rebased level of the Conviction List.</p>
Performance Measurement	<p>Weekly: % change in the current rebased level over previous week's rebased level.</p> <p>YTD: % change in the current rebased level over the rebased level at the beginning of the year.</p> <p>Since inception: % change in the current rebased level over the base value (100).</p> <p>Since inclusion (Conviction List Members): % change in the current rebased level over the rebased level at the time of inclusion.</p>
Potential Upside Calculation	<p>Of Members: is obtained by ascertaining the % difference between the current price and target price.</p> <p>Of Conviction Lists: is obtained by rebasing the upside potential of members and then averaging these rebased upside potential levels.</p>
Corporate Actions	<p>Dividend payment : the performance methodology does not take into account the impact of dividend payment. Therefore, the lists' performance is purely based on price return calculation.</p> <p>Stock Split : to adjust the effect a stock split, we adjust the target price by the same ratio as that of the stock split.</p>
Benchmarking	<p>Performance of Conviction Lists is compared with the following relative benchmarks to ascertain the outperformance/underperformance</p> <p><b>Global CL</b> (Conviction List) : MSCI AC World</p> <p><b>Asian CL</b> : MSCI AC Asia Pacific</p> <p><b>European CL</b> : MSCI Europe</p> <p><b>US CL</b> : S&amp;P 500</p> <p><b>Emerging CL</b> : MSCI Emerging Markets</p> <p><b>High Dividend CL</b> : MSCI World High Dividend Yield</p>

# Glossary (1/4)

## Societe Generale Private Banking Investment Universe

Societe Generale Private Banking defines and maintains an investment universe, aiming at ensuring the liquidity and the meaningful coverage of companies subject to potential investments.

This investment universe complies with rules defined as follows:

**-Issuers are constituents of MSCI indices:** The constituents of the indices retained cover developed and emerging countries with increased precision (average market capitalisation) for Germany, Belgium, France, the UK and Switzerland.

**-Market Capitalisation:** To avoid the inclusion of securities whose market capitalisation could be too low in light of the potential investments by clients and/or managers, only securities whose market capitalisation is greater than €500 mn have been chosen.

**-Liquidity:** To ensure minimum liquidity for investments, only securities with a six-month average daily trading volume greater than EUR 300,000 are selected.

**-Reliable Financial Information:** Only securities tracked by at least three sell side financial analysts are included in the universe.

**-Social and Environmental Responsibility Policy of SG Group:** Societe Generale has defined a framework for Social and Environmental Responsibility. This framework sets out restrictions on listed securities identified by SG Group and deleted from the universe.

## Financial Terms and Acronyms

**ADR (American Depositary Receipt):** is a negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock that is traded on a US exchange. ADRs are denominated in US dollars, with the underlying security held by a US financial institution overseas.

**BACKLOG:** often refers to a company's sales orders waiting to be fulfilled. Even if it provides the revenue visibility, the companies usually try to avoid to have an extensive backlog because that creates the risk of unmet demand and thus can have negative impact on future earnings

**BENCHMARK:** is, generally, a broad market, market-segment stock or bond index that is used as a reference to evaluate the performance of a security, mutual fund or investment manager.

**BV (Book Value):** is the total value of net assets of a company. It consists of the firm's fixed assets plus its current assets, minus short-term liabilities, long-term creditors and any provisions.

**BV/S (Book Value Per Share):** is the total value of the net assets of a company divided by the total number of outstanding shares.

**C/I (Cost Income Ratio):** is used for valuing banks. It shows a company's costs in relation to its income. Formula:  $(\text{Operating Costs}/\text{Operating Income}) \times 100$ .

**CAGR (Compound Annual Growth Rate):** is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

**CAPEX (Capital Expenditure):** is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

**CAR (Capital Adequacy Ratio):** is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures. Formula:  $(\text{Tier One Capital} + \text{Tier Two Capital})/\text{Risk Weighted Assets}$ .

**CET I (Common Equity Tier I Ratio):** is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

**DIVIDEND YIELD:** Dividend per share (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

**EBIT (Earnings Before Interest and Taxes):** profit before taking into account interest payments and income taxes. Also referred to as operating income, it is calculated as a company's gross income minus all its operating expenses.

**EBIT Margin:** Ratio that expresses EBIT as a percentage of total sales  $(\text{EBIT}/\text{Sales} \times 100)$ ; also referred to as operating margin.

**EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation):** profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation). It is calculated as a company's gross income minus its cash operating expenses only.

**EPS (Earnings Per Share):** is the division of total net profit by the number of shares.

# Glossary (2/4)

**EV (Enterprise Value)** is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) – total cash – cash equivalents.

**EV/EBITDA:** compares the total value of the company to its EBITDA.

**EV/SALES:** compares the total value of the company to its sales.

**FCF (Free Cash Flow):** represents the difference between operating cash flow and capital expenditures and shows the company's ability to generate shareholder's value after laying out the money required to maintain or expand its asset base. Without enough cash, it would be difficult for a company to develop new products, make acquisitions, pay dividends and reduce debt.

**FFO (Funds from Operations):** measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. Non-cash expenses like depreciation and amortisation are added back because value of real estate tends to rise over time rather than depreciating like other fixed assets and investments. FFO per share is often used in place of earnings per share when analysing REITs.

**FY1 (Fiscal Year One):** refers to the current fiscal year.

**FY2 (Fiscal Year Two):** refers to the next fiscal year.

**GDR (Global Depositary Receipt):** is very similar to an ADR. It is a bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.

**GOODWILL:** is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value and can have as origin the value of a company's brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology.

**GROSS INCOME:** gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

**GROSS MARGIN:** expresses gross income as a percentage of total sales (Gross Income/Sales\*100).

**IPO (Initial Public Offering):** is the first sale of stock by a private company to the public to expand its growth or, sometimes, repay its debt.

**LIKE FOR LIKE (LFL) GROWTH:** is a measure of growth in sales, adjusted for new or divested businesses. This is a widely used indicator of retailers' performance. This adjustment is important in businesses that show a significant change through expansion, disposals or closures.

**LTV (Loan-To-Value Ratio):** is a financial term used to express the ratio of a loan to the value of an asset purchased. The term is commonly used by financial institutions and real estate companies to represent the ratio of the loan as a percentage of the total appraised value of real property.

**NAV (Net Asset Value):** is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

**ND (Net Debt):** is calculated as a company's total debt minus cash and other similar liquid assets.

**NET MARGIN:** is a financial ratio which measures the profitability of the net income of a company. Formula: Net Profit/Sales.

**NI (Net Income or Bottom Line):** represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

**OPERATING MARGIN:** See definition of EBIT Margin.

**ORGANIC GROWTH:** is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

**P/E or PER (Price Earnings Ratio):** reflects the trading price of a share in relation to the expected earnings. Formula: Share Price/Earnings Per Share.

**P/TBVS (Price To Tangible Book Value):** expresses the share price with regard to the accounting value of the company. Formula: Share Price/Tangible Book Value Per Share.

**PAYOUT RATIO:** is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage. A lower payout ratio is generally preferable to a higher payout ratio. A ratio greater than 100% indicates the company is paying out more in dividends than it makes in net income.

## Glossary (3/4)

**PROFIT WARNING:** is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

**RWA (Risk Weighted Assets):** is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures. It is generally used to calculate risk-based capital ratio which is the ratio of a bank's capital to its risk weighted assets.

**REVENUE GROWTH:** Illustrates the growth of sales over a given period.

**ROA (Return on assets):** a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets

**ROC (Return on invested capital):** a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

**ROE (Return On Equity):** The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

**SHARE BUYBACK (Share Repurchase):** A program by which a company buys back its own shares from the marketplace, reducing the number of outstanding shares. It usually indicates that the company's shares are undervalued and pushes the share prices up.

**SHAREHOLDER'S EQUITY:** is the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses).

**STOCK SPLIT:** is a corporate action in which the company divides its existing shares into multiple shares to make shares seem more affordable for small investors without changing the underlying value of the company.

**TBV (Tangible Book Value):** is the book value excluding intangible assets.

**TBV/S (Tangible Book Value Per Share):** allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

**WACC (Weighted Average Cost of Capital):** also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

**WORKING CAPITAL:** is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

*Sources: FactSet, Bloomberg, SGPB*

## Indices

**MSCI AC WORLD:** is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK, and the US (as of 2 June 2014).

**MSCI AC ASIA PACIFIC:** is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed and emerging markets in the Pacific region. The MSCI AC Pacific Free Index consists of the following 12 developed and emerging market countries: Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, and Thailand (as of 2 June 2014).

**MSCI EUROPE:** is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK (as of 2 June 2014).

**MSCI EMERGING MARKETS:** is a free float-adjusted market capitalisation index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey\* and the UAE (as of 2 June 2014).

**MSCI WORLD HIGH DIVIDEND YIELD:** is based on the MSCI World Index, its parent index, and includes large- and mid-cap stocks across 23 Developed Markets (DM) countries (as of 31 March 2014). The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

## Glossary (4/4)

**MSCI WORLD VALUE:** captures large- and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries (as of 31 March 2014). The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. With 853 constituents, the index targets 50% coverage of the free float-adjusted market capitalisation of the MSCI World Index.

**MSCI WORLD GROWTH:** captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries (as of 31 March 2014). The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

**MSCI WORLD SMALL CAP:** captures small cap representation across 23 Developed Markets (DM) countries (as of 31 March 2014). With 4,302 constituents, the index covers approximately 14% of the free float-adjusted market capitalisation in each country.

**MSCI WORLD LARGE CAP:** captures large-cap representation across 23 Developed Markets (DM) countries (as of 31 March 2014). With 737 constituents, the index covers approximately 70% of the free float-adjusted market capitalisation in each country.

**MSCI EMEA:** is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East and Africa. The MSCI EM EMEA Index consists of the following 10 emerging market country indexes: the Czech Republic, Greece, Hungary, Poland, Russia, Turkey, Egypt, South Africa, Qatar and the UAE.

**MSCI LATAM:** captures large- and mid-cap representation across five emerging market (EM) countries (as of 31 March 2014) in Latin America. With 137 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country.

**MSCI EMERGING ASIA:** captures large and mid-cap representation across eight EM countries (as of 31 March 2014). With 537 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country.

**MSCI RUSSIA:** is designed to measure the performance of the large- and mid-cap segments of the Russian market. With 22 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in Russia.

**MSCI BRAZIL:** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market. With 70 constituents, the index covers about 85% of the Brazilian equity universe.

**MSCI INDIA:** is designed to measure the performance of the large- and mid-cap segments of the Indian market. With 64 constituents, the index covers approximately 85% of the Indian equity universe.

**Euro Stoxx 50:** is the leading blue-chip index for the eurozone and provides a blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries. The Index is licensed to financial institutions to serve as underlying for a wide range of investment products such as Exchange Traded Funds (ETF), Futures and Options and structured products.

**FTSE 100:** comprises the 100 most highly capitalised blue chip companies, representing approximately 81% of the UK market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds.

**S&P 500:** includes 500 leading companies in the leading industries of the US economy. It is a core component of the US indices that could be used as building blocks for portfolio construction. It is also the US component of S&P Global 1200.

**Nikkei 225:** is the leading index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the US.

*Sources: FactSet, Bloomberg, MSCI global equity indexes, SGPB*

# Important Disclosures

SG acted as co-manager in Adecco's bond issue (7.5 yr)  
SG acted as joint bookrunner in Aegon's bond issue (RegS, EUR, 5yr).  
SG acted as Sole Global Coordinator & Joint Bookrunner in Airbus' convertible bond issue (7yr).  
SG acted as joint bookrunner in BNPP's bond issue (EUR, 10yr).  
SG acted as joint bookrunner in Carrefour banque's bond issue (EUR, 4yr)  
SG acted as joint bookrunner in Carrefour Banques's bond issue (300mn, 5yr).  
SG acted as co-manager in Chevron's bond issue (USD, 2,3,5,10 yr)  
SG acted as co-manager in Citigroup's bond issue (USD)  
SG acted as co-manager in Citigroup's bond issue (USD 12y).  
SG acted as co-manager in Citigroup's bond issue (5y SEC).  
SG acted as co-manager in Citigroup's bond issue ((USD perpNC5).  
SG acted as co-manager in Citigroup's bond issue  
SG acted as co-manager in Citigroup's bond issue (10y USD)  
SG acted as passive bookrunner for Enagas's bond issue (8y EUR).  
SG is acting as joint bookrunner in Enagas's bond issue (12yr EUR Benchmark).  
SG makes a market in Enel warrants  
SG acted as a lead structuring advisor in Engie's bond tender offer.  
SG acted as joint lead manager in ING Belgium's bond issue (EUR)  
SG acted as joint bookrunner in Lloyds Bank bond issue (5y).  
SG is acting as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquisition of BG Group PLC.  
SG acted as a joint lead manager in Royal Dutch Shell's bond issue.  
SG acted as joint bookrunner in Schneider Electric's bond issue (EUR, 8yr).  
SG acted as co-manager in United Technologies's new bond issue (USD)  
SG acted as co-manager in United Technologies Corporation's bond issue (8yr, EUR).  
SG acted as senior co-manager on UTX's bond issue (EUR 2y, 5y, 10y).  
SG acted as senior co-manager on UTX's bond issue (EUR 2y, 5y, 10y).  
SG acted as sole bookrunner in Qatar Holding's bloc disposal of Vinci shares

# Important Disclaimer (1/2)

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## Subject of the document

The present document has been prepared by the experts of the group Société Générale S.A. and more particularly of Société Générale Private Banking division, to provide you with information relating to some financial and economic data. The name and function of the people having prepared this document are indicated in the first pages of this document.

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## Equity Solutions Team:

**Asia:** Bangalore: Shishir Malik, Himanshu Dawra Abhishek Iyer, Anirudh Srivastava, Jyotiraditya Sharma, Neeraj Mendiratta, Saurabh Lohariwala, Shekhar Keddia, Sriram Chellappa, Pradeep Rajwani, Wrutuja Pardeshi, Pradeep Anantharamkrishnan.

**Europe:** Jérôme Matt, Danny Van Quaethem, Kristof De Graeve, Sebastien Corbic, Thomas Hinault, Mathieu Balleron.

Societe Generale Private Banking  
Tour Alicante  
17, Cours Valmy  
92043 Paris La Défense Cedex  
France

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