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Wealth Management Research 21 April 2006

UBS investor's guide

Special edition
Football World Cup 2006

Economists' view

And the world champion is...

The 11 performers

Our World Cup equity team



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21 April 2006

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As the climax of that most beautiful game, the FIFA World Cup will cast its spell on fans around the planet and show just what globalisation means. Bankers like to score goals too – with improvised means, as in the cover picture, or, more likely, with professional methods to help them draw up investment strategies and concrete recommendations.

You will find a comprehensive glossary of technical terms on the internet site www.ubs.com/1/e/about/bterms.html

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Dear Readers,

Thank goodness it's just seven weeks until the FIFA World Cup kicks off. I don't know how things are with you, but World Cup fever is starting to reach a climax at the Wellershoff family home. There's hardly an evening meal that goes by where we don't discuss whether Cissé is from the Ivory Coast or from France, whether Buffon or Casillas is the best goalie, or whether the Brazilians will make it to the final again. Four sons and one dad – my poor wife.

The whole thing was set in motion by the inevitable appearance of World Cup collectors' cards. By the way, this is also an interesting economic phenomenon and I was able to hold an almost philosophical discussion on the terms "value" and "price" with my 12-year-old. What is the value of a football card with Ronaldinho on it? Packet price divided by the number of cards per pack? The ten-year-old even wanted to try using arbitrage. In Appenzell five cards cost 80 centimes, in Zurich they cost 90.

While my sons are busy collecting diversified portfolios of football cards, we once again dedicate ourselves to more serious issues – in this case, our profession as forecasters. In his focus article, in this special World Cup edition of the "UBS investor's guide", Andreas Höfert attempts to use statistical methods to determine the outcome of the tournament. His prediction: Italy will lift the FIFA World Cup. We are on the edge of our seats waiting to see whether the otherwise accurate head of our economics team has overdone it this time.

We will be checking statistical regularities on the stock and capital markets of emerging countries even more rigorously. It's worth noting that defeats have a negative effect on the markets while victories make no difference at all. It seems a bit of a shame when you think about it if you consider that 31 of the 32 participating countries will have lost by the end of the tournament. Oscar Andreu is somewhat more optimistic in this respect: in his article he presents his top eleven – eleven shares that stand to benefit from the FIFA World Cup over the course of the next few months.

Have fun reading a not-entirely-serious special World Cup edition of the "UBS investor's guide"!



Yours, Klaus W. Wellershoff

And the world champion is...

«Economic analysis: neat tools applied to dirty data,
Sport analysis: dirty tools applied to neat data.»

Anonymous, 2006

The question of who will be the next world champion is a topic of endless discussion among the countless fans of that “most beautiful game”, football (or “soccer”, if you will). Trading at betting shops is booming, and if you take their figures as a benchmark of the economic risk people are prepared to take, then Brazil will beat England, Germany and Argentina into the top slot. Italy and France are hot tips according to those in the know.



Andreas Höfert

Interestingly enough, this forecast does not match up with FIFA's rankings. Brazil is undeniably the world number 1, the number 2 spot is however occupied by the Czech Republic,

ranked a respectable tenth by betting shops. FIFA's number 3 rank is held by Paraguay, which occupies positions 19 to 23 if you follow the betting shop system. England is ninth in this world ranking and Germany... well, according to the FIFA list they are going to have a tough time getting through to the last sixteen. We, all of us self-proclaimed football experts, aren't quite at ease with the FIFA rankings. We would rather place our trust in the betting shops. As the internet's betting shops are almost entirely British, England has a certain “home bias” and a somewhat high-

er rating than perhaps deserved. From a subjective point of view we consider the fact that Brazil, Germany, Argentina, and Italy hold the top spots to be largely rational, despite the miserable performance of some of these teams. But is this also justified? To be able to answer this question positively, we need to draw on statistics and econometrics to provide us with a possible FIFA World Cup scenario.

An exclusive club

FIFA World Cup winners make up a fairly exclusive club. While 2006 will see the hosting of the 18th FIFA World Cup, so far only seven countries have succeeded in lifting the cup. Three of which (Brazil, Germany and Italy) make up two thirds of all World Cup titleholders, and five (the previous three plus Argentina and Uruguay) almost 90%. Semi-finalists are also in a class of their own: 24 countries have so far managed to grab at least one of the 68 semi-final places on offer, with three of

the above countries (Brazil, Germany and Italy) occupying 40% of all slots, and seven countries (the previous three plus Argentina, France, Sweden and Uruguay) so far taking up two thirds of all places in the penultimate round.

It is of course a great privilege to be able to take part in such a tournament. Seventy-five national squads have so far managed to make history by winning the 361 World Cup places. This is not as many as it seems though, as FIFA now has a membership of more than 205 national teams. A small elite has also arisen among participants in the FIFA World Cup. Brazil, Germany and Italy have managed to secure 13.9% (of a maximum 14.9%) of all starting places. Ten teams have snapped up 40% of all allocated places, and 25 some 75%.

Home turf often helps

Based on this assumption, not every country has the same chance of winning the World Cup – some have definite advantages. What's more, the home team has one definite advantage. Six of the seventeen FIFA World Cup titles so far have been won by the host country. If every participating team were to have the same chance, then the statistical likelihood of the host team winning would be a mere 0.0011% of all possible cases, an irrelevant result if you allocate every host team a prior probability of 33% of winning “their” World Cup. The home advantage therefore gives Germany a definite edge in the competition.

A similar phenomenon is evident when considering the continent of the winning team. The traditional duel of Latin America against Europe, played out since 1930, is most probably set to continue into its eighteenth round at this year's FIFA World Cup. The Latin American nations are currently 9:8 ahead, with all FIFA World Cups ever held there won by one or other of them. European teams have so far won eight of the nine FIFA World Cup tournaments held in Europe. Brazil has won once in Europe (1958 in Sweden) and has also won the two FIFA World Cups held in “neutral territory” (1994 in the USA and 2002 in Japan/South Korea). We have therefore awarded a “Brazil bonus” in the final rounds.

The economy hardly plays its part

In view of the sporting variables in force, no one socio-economic factor can be pinpointed in favour of one team winning. We have calculated various estimates from demographic data (population size to indicate the potential talent pool, average age of population, number of urban dwellers as a percentage of the total, birth rate etc.) and macroeconomic variables (GDP per capita, average growth in the last five years, inflation, unemployment rate etc.), with the result that neither one nor the other of the variables has a particularly noticeable effect on the result. This shouldn't really come as a surprise as it would be hard to identify a common socio-economic denominator for Brazil, Germany and Italy. Unfortunately, it is not possible to directly quantify the degree of “football craziness” in these countries.

Football yesterday and today

As proposed above, an exclusive club of teams has formed as a result of the FIFA World Cup. This is not only subjectively evident; it also serves as a useful statistical tool. Two variables are relevant in almost all simulations: the number of FIFA World Cup participants and the number of qualifications for the semi-final.

These “historic” variables are joined by two of more recent origin. The first is the number of outstanding players in a team. We didn't of course calculate this variable ourselves, but left it to a seasoned expert by the name of Pelé. In 2004 he published his own list of the 120 best living footballer players. And 30 of these stars will be lining up at this year's FIFA World Cup. The second variable was the “Elo rating” of the teams in the March before each FIFA World Cup. In contrast with the FIFA ranking, which does not weight the teams' wins and losses, the Elo rating – named after the US-Hungarian physicist and chess player Arpad Elo – is used to assess chess masters and works on the principle that winning against Brazil is a greater achievement than beating Andorra, a home victory is worth less than an away win, an 8:0 win is worth more than a 1:0 victory, and qualifying for the World Cup counts more than a friendly match. With the aid of a Probit model (an estimate used to express the probability of an event actually happening), the game plan of the FIFA World Cup was determined by specifying and assessing a new model for each round. For the first round (playing for the last 16 places) and the quarterfinals, the data of all FIFA World Cups

held since 1986 were included. For qualification for the semi-finals and finals as well as for the winner, the data of all FIFA World Cups held since 1970 were included. Besides the probability determined by the model, the results of direct encounters involving the 16 finalists in the last ten years were also taken into account. We gave this factor one third of the weighting, and the results of the model two thirds.

Let's start with the first round

Table 1 lists the teams that have made it through the first round as well as all qualification probabilities and the five hot outsiders. Groups C (the “group of death”), D, E and G will be particularly interesting. Our model has worked successfully for between 13 and 15 of the last 16 from the previous five World Cups. The biggest surprises for the model to date were France's early exit in 2002 and Spain's in 1998, and the successes of Costa Rica and Cameroon in 1990 and Morocco in 1986 in making it to the last 16.

Sudden death

For the 16 teams that survive the preliminary round, we have taken calculated probabilities from the preliminary round to ascertain who will win or come second in their group. Brazil, Spain, France and according to the model, Germany are more or less certain to go through. Due to their varying strengths, this procedure is not as conclusive for teams in the other groups. Table 2 shows how the FIFA World Cup will continue after the first round.

- Our model has correctly predicted 70% of the winners of all quarter final matches of the previous five FIFA World Cups; 17.5% of other games were in the range of inexactitude, i.e. the relative probability for the winner was between 45% and 55%. Only 12.5% of the matches were incorrectly predicted. The greatest upsets for our model were the qualification of South Korea against Italy in 2002, which was astounding even when taking the home advantage into account, Senegal's win over Sweden in 2002, and Romania's victory against Argentina in 1994. According to our simulation, in 2006 only the “traditional” teams, i.e. six of the seven previous world champions (history matters!) along with Holland and Spain, will make it through to the exclusive last 16.
- Our method has correctly forecast 65% of all winners of the quarter final matches for the previous five World Cups. A further 10% were in the range of inexactitude, and 25% of results were incorrectly predicted. The largest errors produced by the model (and thus greatest performance of the winning teams) were the victory of Bulgaria against Germany in 1994, and Croatia against Germany in 2002, along with Brazil's ouster by France in 1986. As a result of this, the quarter finalists that will make the semi-finals are the most difficult to forecast. Only a win for Brazil against Spain seems to be a foregone conclusion at this year's FIFA World Cup. Germany-Argentina, Italy-France and Holland-England also appear to demonstrate similar predicted probab-

ilities. We will however back the teams with the marginally higher probability, in this case Germany, France and England.

- Our method has correctly predicted 89% of all semi-final winners from the last nine FIFA World Cups. Only Argentina's win over Italy to reach the final in 1990 has to be recorded as an error by the model. It is however much easier to predict the finalists than the semi-finalists. If we've been right up until now (which probably isn't true), then Brazil will beat Holland and Italy will win against Argentina.
- Brazil or Italy? The Europeans and the Latin Americans have faced each other twice (in 1970 and 1994) in the final. However, our probability model speaks in favour of the Italians. Brazil is the only team to have won FIFA World Cups outside its home continent, but the special “Brazil factor” easily tops the home-continent factor. So this means Italy will be world champions.

But wait a minute! How certain is such a forecast at the end of the day? When we follow Italy's route back to the first round, they only have a 9% chance of winning the FIFA World Cup. This is in fact three times more than 1/32, but it's still very low. This is of course where the charm of the tournament lies. To win the title remains an infrequent event full of excitement. At the end of the day, the Greeks can teach us a thing or two – and not their philosophers, but their football players, who succeeded in winning the European

Economists' view

Championship in 2004 despite being apparent no-hopers according to this elaborate forecasting model.

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1st round and probability to make it to the 2nd round in %

Group A		Group E	
Germany	88	Italy	72
Poland	53	Czech Republic	63
Costa Rica	32	USA	52
Ecuador	27	Ghana	13
Group B		Group F	
England	74	Brazil	75
Sweden	66	Croatia	56
Paraguay	45	Japan	36
Trinidad & Tobago	15	Australia	32
Group C		Group G	
Argentina	65	France	84
Netherlands	61	Switzerland	57
Serbia & Mont.	47	Korea Republic	48
Ivory Coast	27	Togo	11
Group D		Group H	
Mexico	76	Spain	84
Portugal	61	Ukraine	56
Iran	48	Tunisia	36
Angola	15	Saudi Arabia	25

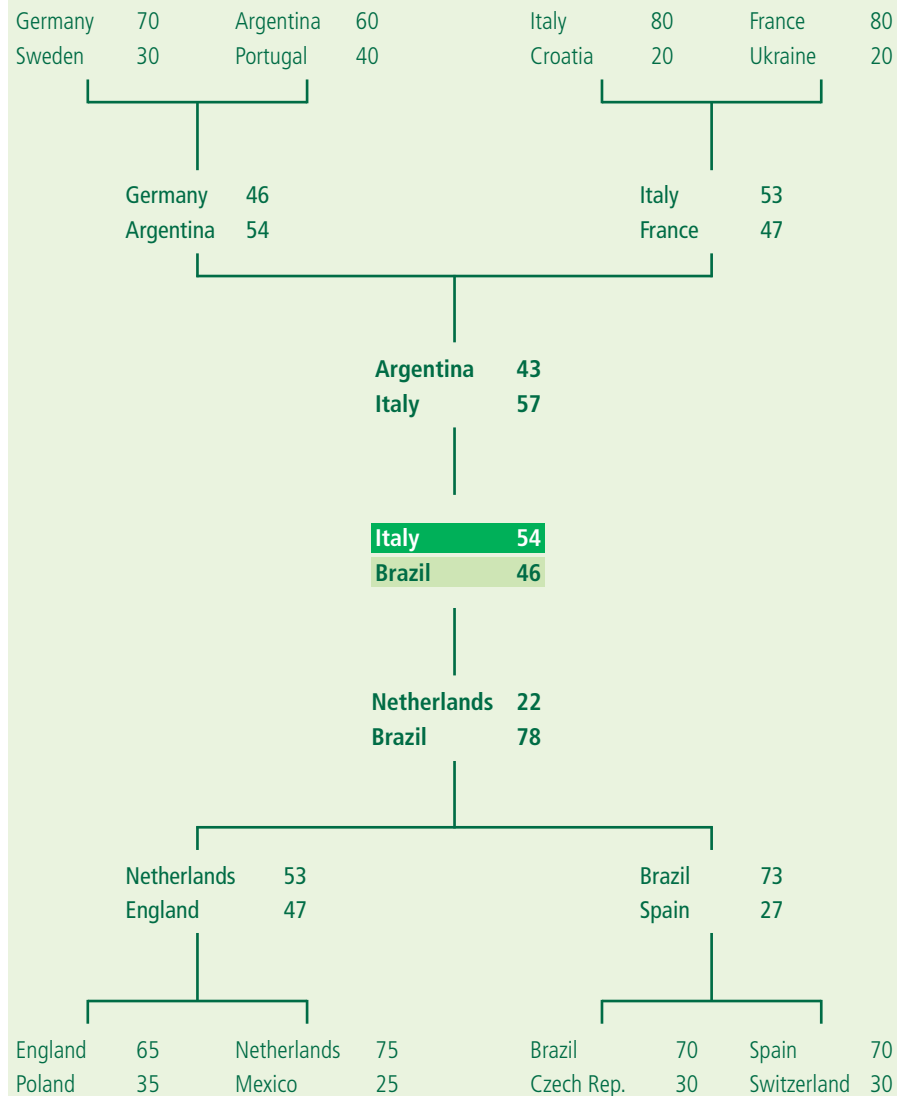
Bold = qualified

Bold orange = hottest outsider

Source: UBS WMR, see page 42

Economists' view

2nd round and probability to win in %



Source: UBS WMR, based upon appendix

Group A



Germany

Germany, for once, is not a real favorite in its own world cup
Possible ranking: Reaching the quarter finals is possible



Costa Rica

The "Ticos" have already surprised once in 1990.
Possible ranking: Passing the first round is not out of reach



Poland

Not the marvelous Poland of the 80s, but still a favorite within the group
Possible ranking: Reaching the eighth-finals for certain, afterwards it becomes difficult



Ecuador

On paper the weakest team of the group
Possible ranking: Probably they won't make it to round 2

Group B



England

As usual high expectations. Will the nerves hold this time?
Possible ranking: Quarter- or Half-final



Paraguay

A serious contender. England and Sweden should pay attention.
Possible ranking: Could make it to the second round



Trinidad & Tobago

The Tom Thumb of this year's World Cup
Possible ranking: Elimination in the first round



Sweden

Traditionally a strong team at the World Cup
Possible ranking: Surprises in the second round are possible



Germany

After years in the doldrums, economic sentiment in Germany has picked up markedly in recent months. Ongoing wage moderation has boosted price competitiveness of German manufacturers, allowing them to take full advantage of robust global demand. Even the consumer sector – the traditional Achilles heel of the German economy - is showing some timid signs of life. Consumer sentiment has been rising gradually, albeit from a very low level. Clearly, a victory at the World Cup would provide a welcome further boost to confidence. With three wins under their belt, Germany can look back at an impressive World Cup record, and the home field advantage should help them win Group A. Even if a team like Argentina were to prove an insurmountable obstacle for the young German squad in the quarter finals, an expected 3.5 million football fans should leave a positive imprint on the host nation's economy this year.

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Costa Rica

The second-smallest participant in the FIFA World Cup™ in terms of population is often underestimated if it is perceived at all. Yet the per capita income of Costa Ricans is higher than in Brazil and even slightly above that of Mexico. Costa Rica is traditionally associated with coffee and bananas. These two products now only account for 12 % of the nation's total export volume. Now, Costa Rica's principal export is microchips, which account for an astounding 15% of all exports. The main concerns of this Central American economy are highly unstable public finances and a dollar-pegged currency system, which could slide into crisis at any time, considering the 10% inflation rate. Despite this, the country has fairly good prospects, with anticipated growth for 2006 at 4-4.5%.

Even in sporting terms it would be unwise to underestimate the "Ticos". In 1990 they made the first round, beating such teams as Sweden and Scotland. So watch out Germany!

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Poland

Poland has no interest in a strong German football team. This is because the Polish team will compete against the co-favourite Germany during the World Cup qualifiers. The Polish economy, on the other hand, is highly dependent on Germany being on top form economically. One percent of investment growth in Germany can boost Polish gross domestic product by around 0.4%, through direct investment of German companies in Poland as well as through increased demand for Polish export products. So far, Poland has lost nothing, because independent of the results of the Football World Cup, Polish GDP will once again rise by around 5% in 2006. While in 2004, Poland's entry into the European Union generated momentum for strong growth, the development significantly stagnated in the past year (+3.2%). During the World Cup year, the construction and investment sectors in particular will be attacking on the flank, increasingly supported by private consumption, which is gaining ground thanks to falling unemployment.

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Ecuador

For a long time, Ecuador has been famous for its political instability (with 18 different constitutions since 1830), its banana and oil exports rather than for its soccer team. However, this year's participation at the World Cup is the second in a row bringing the country to the 38th position in the Fifa ranking. While the mountainous Andean part of the country creates infrastructural challenges, the altitude might have helped the team to remain unbeaten in Quito throughout the qualification campaign.

The country adopted the dollar in 2000 in the aftermath of a severe economic crisis – establishing a solid anchor for previously soaring inflation. After being absent from international financial markets for several years, it successfully placed a new bond last December. Nevertheless, a weak president, a shaky political environment, continuous spending pressure and tight liquidity require investors to be prudent.

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Key facts Germany

GDP per capita (PPP, in USD)	30 150
GDP growth (avg. 5 years, in %)	0.7
Inflation (avg. 5 years, in %)	1.5
Population (in millions)	82.5
Median age	41.2
FIFA ranking	22
World Cup participations	15

Key facts Costa Rica

GDP per capita (PPP, in USD)	10 316
GDP growth (avg. 5 years, in %)	4.2
Inflation (avg. 5 years, in %)	10.9
Population (in millions)	4.3
Median age	26.1
FIFA ranking	25
World Cup participations	2

Key facts Poland

GDP per capita (PPP, in USD)	13 440
GDP growth (avg. 5 years, in %)	2.9
Inflation (avg. 5 years, in %)	2.3
Population (in millions)	38.5
Median age	36.5
FIFA ranking	26
World Cup participations	6

Key facts Ecuador

GDP per capita (PPP, in USD)	4 297
GDP growth (avg. 5 years, in %)	4.5
Inflation (avg. 5 years, in %)	7.3
Population (in millions)	13.2
Median age	24.0
FIFA ranking	38
World Cup participations	1

Tables: see page 42 for explanations and sources



England

A World Cup win for England could be useful for the whole of the UK. Amazingly, there is statistical substance to the claim that a World Cup victory enhances the economic growth of the winning finalist. Is this merely fortuitous? Is it just that the four year gap between World Cup tournaments is perfectly timed to coincide with the peaks in the business cycle? The link between growth rates and goals is a tenuous one, but there is some appeal in the notion that the feel good factor that follows a victory actually boosts consumer sentiment. Whatever the causality, the UK consumer could do with an excuse to feel more positive. The consumer-driven recovery that we were previously expecting for this year is looking less vigorous, in spite of a buoyant housing market and demand for mortgage equity withdrawal. It seems as though a deterioration in job security lies at the heart of a less confident consumer, making this a trend worth watching more closely.

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Paraguay

With a per capita income of USD 1150 in 2005 and approx. 6.5 million inhabitants, Paraguay is an economic flyweight in the South American context. Players on the financial markets will scarcely be aware of the country, unless they are avid meat eaters. The agricultural sector generates some 30% of GNP; in export terms, this figure is even in excess of 75%. In terms of growth, Paraguay and Uruguay brought up the rear in South America from 2001 to 2005. The same cannot, however, be said of football. Paraguay reached the last 16 at the 1998 and 2002 FIFA World Cups: a result that many economically heavyweights can only dream of. But even in cyclical terms, 2005 was highly promising. Fiscal consolidation is proceeding with a rising primary government surplus and a stable debt ratio. Paraguay's ambitions are not just confined to football.

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Trinidad & Tobago

The two Caribbean islands Trinidad and Tobago form a nation with a population of only 1.3mn people and a strong energy sector that accounts for approx. 40% percent of GDP and over 80% of exports. While high oil prices are reinforcing Trinidad & Tobago's balance of payment and contributing to a fiscal surplus, it also raises inflationary pressure. Containing inflation remains a future challenge. If real GDP growth were an indicator for the performance of the football team, Trinidad & Tobago would be among the favourites with an impressive average GDP growth rate of 7.5% over the last five years. However, on the football field when confronting long-established and experienced teams and as the last team to book their ticket to Germany and newcomer in the World Cup, the Caribbean team will have to leverage: on their renowned Dutch coach Leo Beenhakker and the ex-scorer of the unbeatable Manchester United of 1999, Dwight York

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Sweden

Were there a European Cup for the best economic situation, the Scandinavians would no doubt be in the final. The experts at NIER, the Swedish National Institute of Economic Research, sum the situation up as follows: "The Swedish economy is currently enjoying a positive spiral of healthy growth, an improving labour market and low inflation." This uniquely unproblematic situation, without parallel in Europe, is likely to continue throughout 2006, with estimated average growth of 3.5% and a forecast rate of inflation significantly below 2%.

The chances of success of the tradition-steeped team from the north (it has been a World Cup finalist once and a semi-finalist three times) may not be quite as good as its economic situation. Nevertheless, with ace striker Zlatan Ibrahimovic and heartthrob Frederik Ljungberg, there are some sound and attractive arguments in favour of the Swedes coming off well.

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Key facts England

GDP per capita (PPP, in USD)	30 277
GDP growth (avg. 5 years, in %)	2.4
Inflation (avg. 5 years, in %)	1.4
Population (in millions)	50.1
Median age	39.0
FIFA ranking	9
World Cup participations	11

Key facts Paraguay

GDP per capita (PPP, in USD)	4 663
GDP growth (avg. 5 years, in %)	1.3
Inflation (avg. 5 years, in %)	7.4
Population (in millions)	6.2
Median age	20.8
FIFA ranking	33
World Cup participations	6

Key facts Trinidad & Tobago

GDP per capita (PPP, in USD)	13 958
GDP growth (avg. 5 years, in %)	7.5
Inflation (avg. 5 years, in %)	4.4
Population (in millions)	1.3
Median age	29.4
FIFA ranking	49
World Cup participations	0

Key facts Sweden

GDP per capita (PPP, in USD)	29 537
GDP growth (avg. 5 years, in %)	2.0
Inflation (avg. 5 years, in %)	1.6
Population (in millions)	9.0
Median age	40.1
FIFA ranking	16
World Cup participations	10

Tables: see page 42 for explanations and sources

Group C



Argentina
One of the favorites
Possible ranking: Could well make it to the final



Serbia & Montenegro
Unfortunately in a very strong group
Possible ranking: A qualification for the second round is already an effort



Côte d'Ivoire
Would be a co-favorite in an easier group
Possible ranking: It will be very difficult to make it through the first round



Netherlands
The other favorite of the tournament in this group
Possible ranking: If it doesn't run into Brazil in the half, could make it to the final

Group D



Mexico
Traditional team, which is unfortunately always eliminated early on
Possible ranking: Elimination in the Eighth-finals



Iran
Far less exotic than it seems; could surprise
Possible ranking: Second round is feasible



Angola
First time in the World Cup
Possible ranking: Chances of making it to the second round are low



Portugal
The outstanding team of the past ten years is getting older
Possible ranking: Qualification for the second round should be a piece of cake, afterwards it will be more difficult



Argentina

As a famous football nation, Argentina's prospects in this World Cup arguably look much better than the longer term economic outlook. On the back of very high GDP growth rates over several years running, Argentina has chosen to retain procyclical monetary policy, even in the face of persistently high and rising inflation. At the same time, heavy intervention in the currency markets has succeeded in keeping the Argentine peso at artificially cheap levels in a bid to support its export lead recovery.

The government's willingness to intervene aggressively in the economy is an important cause for concern for the long-term outlook. For example, coerced price agreements and export bans indicate that short-term political objectives are given priority over allowing market forces to work efficiently. While economic activity may remain at elevated levels over the shorter term, the sustainability of the current recovery appears very questionable.

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Serbia & Montenegro

Serbia and Montenegro has a challenging year ahead. Next to the preparations for a referendum on the independence of Montenegro, the political agenda also contains the highly sensitive issue of the status of Kosovo.

Economically, high inflation coupled with a current account deficit at around 10% of GDP will likely force the government to tighten fiscal policy in order to curb domestic demand. Whereas growth has been solid in export-oriented industries, it remains lacklustre in many unstructured enterprises. Within this foggy outlook, the performance of the country's soccer team shines like a bright star. Undefeated throughout the qualifiers, the team is said to have one of Europe's strongest defence lines – always good for a positive surprise.

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Côte d'Ivoire

Qualifying for the World Cup finals for the first time was a huge surprise – after all Cameroon, considered to be a far stronger competitor, was eliminated. In political and economic terms, however, the situation remains unsettled. After the failure to hold elections scheduled for October 2005, the UN Security Council felt compelled to intervene: President Laurent Gbagbo was granted a one-year extension of office, simultaneously losing the bulk of his executive power to the new Prime Minister Charles Konan Banny. Considerable effort on the part of the international community will be required to prevent a widening of the rift between the political camps of Gbagbo and Banny. Positive economic stimuli are unlikely in the immediate future owing to the strained and hence uncertain political situation. Growth for 2006 is expected to be a mere 1.2%.

Felix Brill



Netherlands

The Dutch soccer team again enters this tournament as one of the favourites, as it occupies the 3rd position in the FIFA ranking. But its track record would suggest that it will fail to deliver, again. We can draw a striking parallel with Dutch economic growth. Despite high expectations, economic growth over the past 5 years has been an underwhelming 0.6% p.a., only surpassed on the negative side by countries such as Argentina, Germany and Portugal. The high expectations were due to a fairly liberal economic policy, but the "Polder model", or consensual relationship between unions, government and employers was maintained. The resulting high tax rate most probably slowed the economy down. The consensus expectation is, in line with FIFA's optimistic ranking of the Dutch soccer team, for Dutch growth to pick up again to 2.4% this year, almost matching the OECD average of 2.6%.

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Key facts Argentina

GDP per capita (PPP, in USD)	13 153
GDP growth (avg. 5 years, in %)	0.3
Inflation (avg. 5 years, in %)	10.4
Population (in millions)	38.7
Median age	28.9
FIFA ranking	4
World Cup participations	13

Key facts Serbia & Montenegro

GDP per capita (PPP, in USD)	5 204
GDP growth (avg. 5 years, in %)	3.3
Inflation (avg. 5 years, in %)	20.0
Population (in millions)	10.5
Median age	36.5
FIFA ranking	46
World Cup participations	8

Key facts Côte d'Ivoire

GDP per capita (PPP, in USD)	1 493
GDP growth (avg. 5 years, in %)	-0.1
Inflation (avg. 5 years, in %)	2.9
Population (in millions)	18.2
Median age	18.5
FIFA ranking	32
World Cup participations	0

Key facts Netherlands

GDP per capita (PPP, in USD)	30 573
GDP growth (avg. 5 years, in %)	0.6
Inflation (avg. 5 years, in %)	2.4
Population (in millions)	16.3
Median age	39.3
FIFA ranking	3
World Cup participations	7

Tables: see page 42 for explanations and sources



Mexico

Mexican voters head into general elections in July, and at this stage, there is probably more consensus on Mexico's chances of winning the World Cup than which party will emerge as the dominant force. Former leftist Mexico City mayor and PRD candidate Lopez Obrador has consistently maintained a lead over the PAN's Felipe Calderon and the PRI's Roberto Madrazo, but there is far less clarity on what the balance of power in Congress will be.

Mexico's strong economic institutions help mitigate concerns regarding a possible worsening of the political environment. In particular, Mexico's solid monetary and fiscal policy performance, coupled with its active sovereign liability management, illustrates the strong strides made in the past years. That said, a divisive election outcome will lower the prospects for structural reforms in Mexico, raising longer term risks to the outlook.

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Iran

With President Ahmadinajad at the helm, a novice in national politics with no international experience, Iran looks set to be increasingly isolated on the world stage. Unlike most other oil exporting countries, Iran has saved little of the oil revenue windfall. Indeed, expenditures have been rising almost as fast as revenues, as the government attempts to keep popular discontent at bay.

It is not clear how long current policies can be sustained. Oil prices cannot continue rising as fast as they have during the last two years. This means that the government will be unable to continue increasing spending. With a very young and rapidly increasing labour force, little reform and an anaemic private sector, unemployment will start increasing, raising political pressure on the government. Two events can help reduce such pressure in the short term: the political diversion of a showdown with the international community over nuclear energy, or the "feel good" factor of a good performance in the World Cup. The latter appears less likely.

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Key facts Mexico

GDP per capita (PPP, in USD)	10 090
GDP growth (avg. 5 years, in %)	1.6
Inflation (avg. 5 years, in %)	4.9
Population (in millions)	107.0
Median age	25
FIFA ranking	7
World Cup participations	12

Key facts Iran

GDP per capita (PPP, in USD)	8 065
GDP growth (avg. 5 years, in %)	5.8
Inflation (avg. 5 years, in %)	15.2
Population (in millions)	69.5
Median age	23.4
FIFA ranking	19
World Cup participations	2



Angola

Angola – the second-largest oil-producing nation south of the equator – is not only booming in economic terms. World Cup fever has taken hold of the nation's football fans. Based on the team that won the 2001 African under-20 championships, thus qualifying them for the under-20 world championships in Argentina, coach Goncalves has succeeded in putting together a strong eleven team. In 2005 this enabled Angola to qualify for the World Cup instead of favourite Nigeria. In economic terms, the country is currently benefiting from the rapid growth of oil production. The IMF estimates that Angola's economy will grow at an average rate of 18% between 2005 and 2007. However, non-oil sectors are developing only sluggishly, as the country is still suffering from the after-effects of the long civil war that ended in 2002. In addition, the abundant oil revenues are easing the pressure on the government to rapidly implement plans for more stable and transparent general economic conditions.

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Key facts Angola

GDP per capita (PPP, in USD)	2 829
GDP growth (avg. 5 years, in %)	7.6
Inflation (avg. 5 years, in %)	69.0
Population (in millions)	15.9
Median age	16.6
FIFA ranking	60
World Cup participations	0



Portugal

Taking the qualifying rounds as a benchmark, Portugal would have to be among the favourites. A goal difference of 35:5 and 7 points ahead of the second-ranking team, Slovakia, speaks for itself. After reaching the final at the last European Cup played at home, the coming tournament could be a glorious climax for the "golden generation" surrounding Luis Figo. A result like this could breathe fresh wind into the economy. The second EU deficit proceedings within only three years have upped the pressure on the government to sustainably consolidate the budget and tackle other urgently needed reforms. Measures to date have, however, resulted in a spate of public protests. Discontent is bolstered even further by the negative trend in the labour market in recent years. Since there is very little impetus from exports, Portugal's economy is likely to face a hard time following the path of past sporting successes.

Felix Brill

Key facts Portugal

GDP per capita (PPP, in USD)	19 388
GDP growth (avg. 5 years, in %)	0.4
Inflation (avg. 5 years, in %)	3.1
Population (in millions)	10.5
Median age	39.4
FIFA ranking	10
World Cup participations	3

Tables: see page 42 for explanations and sources

Group E



Italy
The underrated favorite
Possible ranking: Final



Ghana
A priori the weakest team in the group
Possible ranking: Not very likely to make it to the second round



USA
Is becoming stronger with each World Cup
Possible ranking: Hottest outsider for making it to the second round



Czech Republic
Very strong team, which could go far
Possible ranking: At least in the Eight Final

Group F



Brazil
Comments are superfluous
Possible ranking: Final



Croatia
Not as strong as in 1998, but profiting from an easy group, despite Brazil.
Possible ranking: Eighth Finals



Australia
Not much more than just exotic
Possible ranking: Won't make it into the second round



Japan
Not playing at home this year
Possible ranking: Brazil and Croatia seem out of reach



Italy

With zero GDP growth last year, the Italian economy has booked a firm slot at the bottom end of the Eurozone GDP growth league table. The external environment is developing favourably and GDP growth is expected to accelerate to about 1% this year, which, compared to an average growth rate of only 0.4% in the past four years would seem like quite a brisk pace of expansion. The Italian economy is plagued by structural deficiencies, which have seen a constant erosion of global competitiveness in recent years and it remains to be seen whether the new government can rectify the problems. At the World Cup, the Italians will face strong competition in Group E, but their tough defence and potent strike force should secure them a place on top of their group. Unfortunately, the midfield is the missing piece in the jigsaw, and without more guile and playmaking in this position, the Azzuris will have a tough time. They are nevertheless one of the favourites.

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Ghana

Having won the African Championships four times, Ghana's qualification for the World Cup was long overdue. The success of star striker Michael Essien and his young team is attributable to trainer Ratomir Dujkovic's style, which is founded essentially on discipline. Discipline will also be needed when it comes implementing the economic reforms adopted by the government. Thus, the private and agricultural sectors are to be supported in order to consolidate the positive economic growth experienced in recent years. High inflation, on the other hand, is still a major bugbear and one that is being further aggravated by high oil prices and an expansive fiscal policy. However, in combating inflation, the central bank faces the problem that it must not curb credit demand too strongly, so as not to counteract the government's economic reforms.

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USA

The US is a country of superlatives. It is a military leader, a political superpower and an economic powerhouse. The US economy features strong productivity gains, a flexible labour market, and highly developed capital markets. But as a tenet of economic theory states: "everything has its price". One price the US pays to be on top of the world economic ladder is a huge current account deficit of 7% of GDP, coupled with fading sources of domestic financing. While overall US economic fundamentals are sound, the lack of domestic savings is a latent risk that in our view will start to take its toll on growth in 2006. Similar to its economic prowess, the US has managed to build up a world class soccer team (soccer is an abbreviation for Association Football, formed in 1863). Its FIFA ranking improved from 28 in 1993 to 5 in 2006. The price to pay? For soccer fans, no price is high enough.

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Czech Republic

There's no ignoring the ambition of the Czechs: the Czech football team is number two in the FIFA world ranking list, right behind world champion Brazil. The Czech Republic is not just strong when it comes to football, as its key macro-economic data are not lagging far behind the Football team. With a growth rate of more than 6%, the country's economy also holds a top position in global comparison. A significant contributing factor was the country's rising foreign trade. Given the overall accelerated growth in Western Europe, the recent economic boom is not expected to level off just yet and interest rates are expected to continue to rise. Although the rise in prices has so far been moderate, the inflationary pressure is imminent. This pricing pressure is partly softened by the strong appreciation potential of the Czech Koruna (CZK). As the EU continues to converge, the CZK is set to appreciate further.

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Key facts Italy

GDP per capita (PPP, in USD)	29 218
GDP growth (avg. 5 years, in %)	0.9
Inflation (avg. 5 years, in %)	2.4
Population (in millions)	58.1
Median age	42.3
FIFA ranking	12
World Cup participations	15

Key facts Ghana

GDP per capita (PPP, in USD)	2 601
GDP growth (avg. 5 years, in %)	5.1
Inflation (avg. 5 years, in %)	18.8
Population (in millions)	22.1
Median age	19.8
FIFA ranking	50
World Cup participations	0

Key facts USA

GDP per capita (PPP, in USD)	41 571
GDP growth (avg. 5 years, in %)	2.3
Inflation (avg. 5 years, in %)	2.4
Population (in millions)	298.2
Median age	36.1
FIFA ranking	5
World Cup participations	7

Key facts Czech Republic

GDP per capita (PPP, in USD)	19 488
GDP growth (avg. 5 years, in %)	2.9
Inflation (avg. 5 years, in %)	1.4
Population (in millions)	10.2
Median age	35.0
FIFA ranking	2
World Cup participations	8

Tables: see page 42 for explanations and sources



Brazil

Brazil enters the 2006 presidential election cycle in defensive mode – with local interest rates at such high levels that, this time around, it will be just too expensive to bet against the currency. Such cautious stance is in sharp contrast to the strategy the Brazilian National Team will be pursuing in the 2006 World Cup. There, strikers such as Ronaldinho, Ronaldo, Gaúcho, Cacá and Adriano will focus on scoring goals – relegating defence strategies to a secondary role.

And yet, when dealing with the Brazilian economy, playing defensive is good news. Brazil has a dreadful track record of reactions to political shocks, with asset prices oscillating violently during an election campaign. Will it be different this time? We think so – at least on economic grounds, where we expect asset price volatility to be tamed. In football terms, however, Brazil will keep on playing offensively and will remain the major contender for the Cup.

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Croatia

The memory of Croatia's legendary rush to the semi-final in its first FIFA World Cup appearance in 1998 remains vivid. Similarly impressive is the rapid economic upturn the country has experienced in the wake of a turbulent decade. Thanks to a strong tourism sector and the establishment of internationally competitive textile and chemicals industries, the country has managed to achieve average GNP growth of 4.4% over the past five years. Today Croatia is a candidate country for EU membership, yet it must still overcome some hurdles. Government intervention is still the order of the day, and the privatisation of state-run companies is challenging. However, reforms are a high priority, with the result that Croatia could become a full member of the EU as early as 2009. In the meantime, Croatia can wow sports fans in Germany with its national team: Its strong midfield combined with striker ace Dado Prso mean that Croatia is well on its way to realising its ambitions.

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Key facts Brazil

GDP per capita (PPP, in USD)	8 453
GDP growth (avg. 5 years, in %)	1.8
Inflation (avg. 5 years, in %)	8.2
Population (in millions)	186.4
Median age	26.8
FIFA ranking	1
World Cup participations	17

Key facts Croatia

GDP per capita (PPP, in USD)	12 364
GDP growth (avg. 5 years, in %)	4.4
Inflation (avg. 5 years, in %)	2.5
Population (in millions)	4.6
Median age	40.6
FIFA ranking	19
World Cup participations	2



Australia

Australia counts among the so-called primary producing countries, despite the fact that it has a diversified economy with strong industrial and service sectors. Yet the raw-material sector does play a more substantial role than in other developed nations. The country is now reaping the benefits of this position, too, as the demand for raw materials has increased sharply. This is the reason behind Australia's many years of strong growth figures, and why the Reserve Bank of Australia had to put the brakes on the economy as far back as the end of 2003 to stop it from overheating. This year all the signals are once again set to green, and we expect commensurate growth. The World Cup is not likely to inspire tremendous interest Down Under, even though the country is fielding a team for the first time in a long time. Football is not one of the most popular sports in Australia. Thus, Aussie "soccer" fans are likely to be more enthusiastic about an Australian Football League match-up between Carlton and Collingwood than about the World Cup final.

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Key facts Australia

GDP per capita (PPP, in USD)	31 318
GDP growth (avg. 5 years, in %)	3.3
Inflation (avg. 5 years, in %)	2.9
Population (in millions)	20.2
Median age	36.6
FIFA ranking	44
World Cup participations	1



Japan

Having been in the throws of an economic crisis for more than a decade, nobody really expected Japan to make a sustained recovery. But like a Phoenix rising from the ashes, Japan has recovered in the past few years and is as strong as ever. The banking system has largely eliminated the non-performing loans which stemmed from the real estate crisis and are once again back on track. Years of deflation seem to have come to an end and with it the zero interest rate policy of the central bank. Only national debts have not seen any improvements and a great deal of effort is needed to reverse the current trend. Nobody is really counting on Japan when it comes to the final round of the Football World Cup. But the same was true with regard to its economy. The country was almost written off. Perhaps Japan will surprise us with more than just its economy.

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Key facts Japan

GDP per capita (PPP, in USD)	31 406
GDP growth (avg. 5 years, in %)	1.5
Inflation (avg. 5 years, in %)	-0.5
Population (in millions)	128.1
Median age	42.9
FIFA ranking	18
World Cup participations	2

Tables: see page 42 for explanations and sources

Group G



Switzerland

One of the best Swiss teams ever

Possible ranking: Eighth Final is feasible, everything afterward is a bonus



France

A better World Cup than 2002 is likely, but the winners of 98 are eight years older

Possible ranking: At least the quarter finals



Korea Republic

Always a strong contender, on a good day they could win against every opponent

Possible ranking: The second round cannot be excluded



Togo

Probably only a sparring-partner, but Senegal was also rated like this back in 2002.

Possible ranking: Elimination in the first round

Group H



Spain

A disappointment this year again?

Possible ranking: Elimination against Brazil in the quarter finals



Ukraine

Shevchenko should be able to boost Ukraine in the second round

Possible ranking: At least Eighth Finals



Tunisia

A surprise is possible

Possible ranking: Through the first round seems difficult



Saudi Arabia

A team that gets better year after year, but in a very tough group

Possible ranking: Elimination in the first round is very likely



Switzerland

During the World Cup qualifiers, the young and hopeful “Nati” (national team) from Switzerland showed with two draws against France and the draw against Ireland that there is plenty of potential. The Swiss economy is also proving to be in excellent condition. After around 2% growth in 2004 and 2005, there was no sign of the boom waning. Strong impetus continues to come from foreign demand, which this small and open national economy, with more than 45% coming from exports, is particularly reliant on. The livelier economic situation in Europe should generate additional export orders, especially since the Swiss Franc continues to be low. At the same time, companies are stepping up recruitment and beginning to invest in production plants. Unemployment in 2006 should thus decline from 3.8% (2005) to an expected 3.4%. Overall, we expect a growth rate of 2.3% for 2006, with a low inflation rate of only 0.8%.

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France

When France lifted the World Cup in 1998, the event triggered a spending frenzy that helped the economy weather the storms of global downturn. Over the past years the French economy has outperformed the Eurozone. Consumer expenditure has been the mainstay of French growth and consumption has been driven largely by falling savings and rising indebtedness; even though the latter was matched by an impressive increase in housing wealth. Housing activity has likely peaked already and given relatively modest wage growth and high unemployment, French consumer spending looks vulnerable to a downturn on the housing market. So far, the French consumers have proved to be extremely resilient and a similar spirit should see the French national team win their Group G. However, winning the quarter-finals, where they will face the likes of Italy will be a different matter for the ageing French team.

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Korea Republic

South Korea is Asia’s indisputable powerhouse – at least in terms of football. The national team has made it to the final round of every FIFA World Cup since 1986. Four years ago it celebrated an absolute high point in its nation’s World Cup history, when the team made the semifinal as host country. Economically, however, Korea has not been able to keep pace with its neighbours (apart from Japan) in the last few years. Average economic growth slowed to 4% in recent years, down from around 9% in the 1980s. It must be said, though, that South Korea has by now attained a very high standard of living on an equal footing with that of southern European countries, which reduces the amount of catching up required in economic terms. Yet if economic growth were the decisive factor in winning, Korea would remain the favourite for a long time to come. In France and Switzerland, the country faces two tough (footballing) competitors in its World Cup group.

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Togo

To everybody’s surprise, the little country on Africa’s west coast managed to secure a place in the World Cup on the final day of the qualifiers. It remains to be seen how the combination of African football skills and discipline – the team is being coached by German Otto Pfister – will help the team of eleven from the former German protectorate of Togo during the World Cup. Economically and politically, Togo has also recently experienced turbulent times. Following the death of long-time president Gnassingbé Eyadéma in February 2005 and the controversial election of his son Faure Gnassingbé as successor, political unrest swept the country. Economic growth was correspondingly low at around one percent. 2006 is expected to see growth acceleration to 3% thanks to increased production in agriculture and growing foreign trade.

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Key facts Switzerland

GDP per capita (PPP, in USD)	33 168
GDP growth (avg. 5 years, in %)	0.8
Inflation (avg. 5 years, in %)	0.8
Population (in millions)	7.3
Median age	40.8
FIFA ranking	35
World Cup participations	7

Key facts France

GDP per capita (PPP, in USD)	29 019
GDP growth (avg. 5 years, in %)	1.6
Inflation (avg. 5 years, in %)	2.0
Population (in millions)	60.5
Median age	39.3
FIFA ranking	8
World Cup participations	11

Key facts Korea Republic

GDP per capita (PPP, in USD)	22 666
GDP growth (avg. 5 years, in %)	4.6
Inflation (avg. 5 years, in %)	3.3
Population (in millions)	47.8
Median age	35.1
FIFA ranking	31
World Cup participations	6

Key facts Togo

GDP per capita (PPP, in USD)	1 600
GDP growth (avg. 5 years, in %)	1.6
Inflation (avg. 5 years, in %)	1.8
Population (in millions)	6.1
Median age	17.9
FIFA ranking	58
World Cup participations	0

Tables: see page 42 for explanations and sources



Spain

Spain's economy has been doing outstandingly for years. In real terms, GDP growth is not only accelerating, but at 3.4% in 2005 was also well above the average in the Eurozone (1.4%). The driving force behind the Spanish economy was the strong domestic demand. We expect that with anticipated growth of 3.0% in 2006 and 2.5% in 2007 Spain will be able to score points in an international comparison. Nevertheless, some weaknesses can be made out: High inflation rates have for years been eroding the competitiveness of Spanish businesses and private debt is comparatively high. Politically, the situation has calmed down following an agreement with the Catalans who have been striving for greater independence. Overall, we see Spain in a positive light – rapid and significant changes are not expected. In sporting terms, this consistency could not be wished on "La Selección". After all this would entail a disappointingly early retirement from the competition for the Spanish football team, as has so often been the case in previous major international tournaments.

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Key facts Spain

GDP per capita (PPP, in USD)	24 803
GDP growth (avg. 5 years, in %)	3.1
Inflation (avg. 5 years, in %)	3.1
Population (in millions)	43.1
Median age	38.6
FIFA ranking	6
World Cup participations	11



Ukraine

While the Ukraine's chances in this year's World Cup may look doubtful, recent economic and political developments are also not encouraging. Early results following the March 26 parliamentary elections did not produce a clear winner, suggesting that complicated coalition building will dominate the landscape for the time being. It remains unclear whether former Prime Minister Yulia Tymoshenko will succeed in outdoing efforts by President Yushchenko to build his own coalition with (former) political foe Yanukovich.

On the economy itself, both growth and the current account surplus has slowed markedly. While in part this can be explained by base effects, looking ahead the prospects are not bright, given lacklustre investment spending and depressed activity owing to political concerns. While the Ukraine's large international reserves are supportive, the worsening current account will continue to warrant close monitoring given the negative effects of the Russia-Ukraine gas dispute earlier in the year.

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Key facts Ukraine

GDP per capita (PPP, in USD)	7 182
GDP growth (avg. 5 years, in %)	4.2
Inflation (avg. 5 years, in %)	5.8
Population (in millions)	46.5
Median age	39.0
FIFA ranking	42
World Cup participations	0



Tunisia

Tunisia wrote sporting history in 1978 when it became the first African team to win a game at a football World Cup. Seeking competitiveness not only on the pitch, the economy widely embraces a liberal trade policy – exemplified by the country's export-oriented textile industry. After experiencing a setback following the dissolution of the Multifibre Agreement at the start of 2005, the sector is actually expected to attract new direct investments in the coming years. Together with a strong tourist industry and investments in infrastructure, the recovery of the textile industry will likely contribute to stronger GDP growth in 2006, after a slight downturn in 2005. Being one of the few emerging market countries regularly issuing debt securities denominated in EUR, the country's assets provide an alternative in an increasingly USD focused asset class.

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Key facts Tunisia

GDP per capita (PPP, in USD)	8 223
GDP growth (avg. 5 years, in %)	4.5
Inflation (avg. 5 years, in %)	2.7
Population (in millions)	10.1
Median age	26.8
FIFA ranking	24
World Cup participations	3



Saudi Arabia

The country with the world's largest proven oil reserves is steadily consolidating its position as one of the region's strongest football teams. They completed the 12 qualifiers undefeated – participating in a World Cup for the fourth time in a row. Almost as recurrent as the country's appearances in recent World Cups is the government's attempt to diversify its economy away from the oil sector. The latter, however, remains dominant making up approximately one third of GDP, three quarters of government revenues, and more than four fifths of export income.

When it comes to investing in Saudi Arabian assets, most investors are relegated to mere spectators. Markets remain broadly inaccessible for foreigners, such that the football team's performance at the coming World Cup will probably have more impact for most readers than the performance of the country's stock exchange.

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Key facts Saudi Arabia

GDP per capita (PPP, in USD)	14 592
GDP growth (avg. 5 years, in %)	3.3
Inflation (avg. 5 years, in %)	0.3
Population (in millions)	24.6
Median age	21.6
FIFA ranking	34
World Cup participations	3

Tables: see page 42 for explanations and sources

More than only short-term influence

Major football events touch more than just supporters' hearts. Verifiably, stock markets and economies are influenced. But is this economic fact or psychology? Can strategies be developed to benefit from these effects? While the economic impact is tangible – particularly in the host country – stock market moves appear driven by subjectivity. We have looked at equity market performance at country and sector levels. Moreover, we have explored whether this influence is different for developed countries and emerging markets.

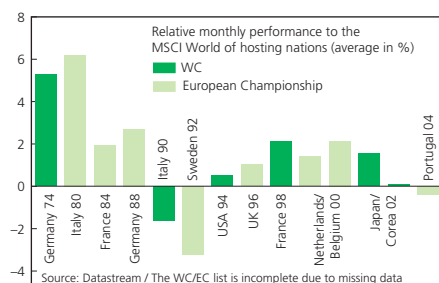
The economic impact of the World Cup is clearly visible, especially in Germany. Based on a simulation study, German GDP is expected to increase by roughly EUR1.8bn in 2006 with an overall effect of EUR6.8bn between 2002 and 2010. However, other participants are hardly influenced apart from an apparent impact on consumer confidence, depending on a team's success.

Academic research shows losses can have a statistically significant (negative) impact on stock market performance, whereas victories do not. The markets of 39 football nations averaged worse the day after a loss than they did well the day after victories. This corresponds to our findings. For example, the German market dropped 1.42% after its loss in a friendly match

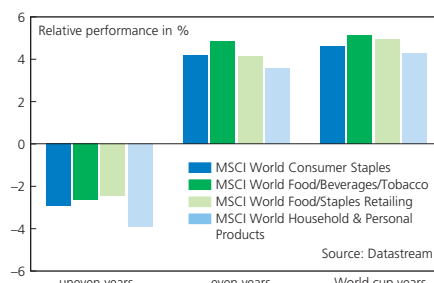
against Italy in March this year, while rising 0.25% after winning against the US four weeks later. Needless to say, this relationship only exists in "football" countries and not in countries like the US.

We believe there is also a mid-term influence on stock markets, though confined to the host country. In detail, we found that in 11 out of 14 cases since 1974, as the left-hand graph shows, the "hosting" stock market outperformed the broad market from April to August in the tournament year. Interestingly, World Cup 2006 host Germany outperformed the broad market both in 1974 and 1988 when they hosted a World Cup and a European Championship, respectively.

Hosting equity markets outperform during World Cup (April – August)



Consumer Staples outperform during World Cup (April – August)



Football tournaments tend to influence the performance of certain sectors. As shown in the right-hand graph, "Consumer Staples" and its sub sectors outperformed the market in tournament years beginning in 1996 and especially during World Cup years. Other sectors like Media and Transportation, where one may also expect high correlation to such events, did not profit from the same effect.

Generally, there seems to be an effect on emerging markets with strong football cultures. Especially nations like Brazil tend to react very strongly to football results. However, this is not always true and the impact is difficult to assess, given that high market volatility and low liquidity influence these markets.

The results are likely mostly psychologically driven, with the effect on consumer confidence a good example. The loss effect is probably caused by overly enthusiastic expectations before a game, so losses surprise more than victories. Put differently, the "home" team is always expected to win. The same likely applies for the strong performance of some sectors in the mid term. Investors appear to prefer certain sectors because they are expected to profit from major football events. However, profits, as measured by EPS growth, are barely influenced. The overall positive performance impact on hosting countries, on the other hand, can derive itself both from positive sentiment and economic data: GDP is influenced positively beyond the actual year of the tournament and a generally positive mood can influence the stock market psychologically. Small market capitalization is a reason why emerging markets are influenced more easily than developed markets. Besides, due to higher local ownership,

emerging markets tend to be affected more by national football given its large influence on locals.

Obviously, these findings must be treated carefully, as statistical significance is doubtful and we have found several exceptions. That said Germany, as host of the 2006 World Cup, is an interesting example itself. It has already received the award of "World Champion" in pessimism. While not connected to the World Cup, it reflects Germany's view on football, with an unusually low 9% believing the home team can become World Champion. Hence, investment opportunities could emerge with low expectations leaving room for upside potential if football surprises positively. However, banking on this or any other of the shown effects bears significant risks and is certainly not suitable for the faint hearted.

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The Good, the Bad, and the Ugly

This year's qualifiers for the world cup have produced an eclectic mix of countries. One should not be surprised if local markets in some of these have a short-lived rally on the "feel good" factor of a good performance at the World Cup. But investors looking for such opportunities in the more exotic markets may be frustrated.

A strong performance on the football field by Angola, Ghana, Paraguay and Togo cannot have any market implications as these countries have almost no securities available. Saudi Arabia and Iran, on the other hand, are countries that do have securities markets (very liquid in Saudi Arabia's case), but are largely closed to foreign investors. Any rally will be enjoyed only by the locals. Côte d'Ivoire's bonds, on the other hand, may be attractive for investors with a taste for distressed assets. But no football-related enthusiasm will be sufficient to raise the recovery value of defaulted bonds.

The bulk of the remaining countries, however, have reasonably liquid tradable markets. However, investors should carefully distinguish between those that are good medium-term ideas and those where a rally would be providing a good opportunity to sell. Two famous football countries provide an excellent example of these two groups: Brazil and Argentina. With sound economic fundamentals, Brazil's real-denominated bonds and equities continue to provide investors with excellent opportunities. Argentina's increasingly radical approach to economic policies invites radical investment strategies. This is a market for investors to remain vigilant, nimble, and ready to exit.

Countries that continue to provide investors with good medium-term economic prospects include Croatia, the Czech Republic, Korea, Mexico, Poland and Tunisia. More uncertain prospects face Ecuador, Serbia and the Ukraine. Of the former group, we find the greatest value in Korean equities as well as selected Mexican corporate bonds and peso-denominated fixed income products. In Poland, the Czech Republic and Tunisia, while economic prospects are very bright, bond and equity market valuations are not particularly compelling. Within the latter group, the worsening current account and political uncertainties are dampening the outlook for the Ukraine. Recent news of Ecuador's partial call of its high coupon 2012 is certainly positive for the debt outlook.

A good investment strategy is to use any world-cup-related market movements to adjust portfolios in line with medium-term economic and market fundamentals. For example, a bad performance by Brazil may provide a good opportunity to invest in Brazilian assets, while a good performance by Argentina could provide the right moment to sell Argentinean investments.

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Asset class availability			
	Equities	USD/EUR Bonds	Local Currency Bonds
Angola	☹️	☹️	☹️
Argentina	😊	😊	😊
Brazil	😊	😊	😊
Costa Rica	☹️	😊	😊
Cote d'Ivoire	😊	😊	😊
Croatia	😊	😊	😊
Czech Republic	😊	😊	😊
Ecuador	😊	😊	☹️
Ghana	😊	☹️	☹️
Iran	☹️	😊	☹️
Korea	😊	😊	😊
Mexico	😊	😊	😊
Paraguay	☹️	☹️	☹️
Poland	😊	😊	😊
Saudi Arabia	😊	😊	☹️
Serbia	☹️	😊	😊
Togo	☹️	☹️	☹️
Trinidad & Tobago	😊	😊	😊
Tunisia	😊	😊	😊
Ukraine	😊	😊	😊

Source: S&P, Bloomberg, UBS WMR
The table indicates existence of the different assets. However, it is possible that some assets are not accessible for all investors.

The 11 Performers: Our World Cup Equity Team

A football team has 11 players, and we have selected our own team of 11 stocks that have consistently outperformed the broad market in the three-month period leading up to two major football events, the World Cup and the European Championship. These 11 stocks constitute our ideal stock line-up for the World Cup. We recommend investing in these stocks immediately and closing the investment on the final day of the World Cup.

We have screened the universe of global stocks looking for stocks that have consistently outperformed the broad market in the three months leading up to the finals of our two major tournaments, the World Cup and the European Championship.

Talent spotting

For our back-test, we selected the last four European Championships and the last three World Cups. The following criteria were used for selecting the stocks for our team:

- The stocks must have outperformed the broad market (the MSCI World) in the three months leading up to the final day of the championship
- The outperformance in this three-month period must be traceable to the actual

football event and not to other reasons. Hence, we only include stocks whose outperformance in the three-month period is stronger than its outperformance during the rest of that same year. This way, we exclude companies whose outperformance is due to reasons other than football championships.

- We only include companies that have consistently outperformed the market in these periods. Hence, we only include stocks that fulfil the previous two criteria in at least five of the last seven football championships; the last three World Cups and the last four European Championships.
- We only include companies covered by UBS Wealth Management Research.

Seventy two stocks fulfilled the above criteria. Out of these 72 companies, we have selected the 11 whose business activities should benefit the most from the football events from a fundamental point of view. We have positioned each of the 11 stocks on the playing field in order to give additional flavour to the solution. The table on page 38 shows our dream team of stocks ready to play the World Cup.

Compelling back-testing

If we had selected an equally-weighted basket of these 11 selected stocks in the

three-month period ahead of the final games of our seven major football championships, this basket would have had extraordinary results, as shown in the table below.

For a start, the basket outperformed the MSCI World index six out of seven times; and the outperformance was very significant in most cases. Even in the last three events, when the index was down, this basket of stocks would have shown clear positive results.

The average performance of our 11 stocks would have been 9.03% in the three months prior to the finals, while the index itself yielded a negative 1.01% in that period.

Players and positions

In order to better understand why these companies consistently outperform the market during football championships, we will take a brief look at each company's activities and comment on the reasons for their consistent outperformance. For some companies, the reasons for outper-

forming the market are more obvious than for others. We have included a comment as to where we think each player should be positioned as depicted on the pitch on page 41.

Nintendo: playmaker in the midfield

Nintendo no doubt stands to profit from big football tournaments through its various football video games. Youngsters (and not-so-young-sters) get excited by the World Cup and the hype surrounding the star players. This large group is primed to play (and hence to buy) Nintendo football videogames.

Nintendo is our playmaker in the midfield, a position requiring a high degree of technical skill, excellent peripheral vision and quick reflexes. By moving the ball around quickly and accurately in the midfield, Nintendo will no doubt create many scoring chances for our attacking line

Holcim: goalkeeper

The World Cup always involves major infrastructure projects in the host country. Holcim should benefit handsomely from an increase in building materials sales, as well as in its engineering consulting services.

A great team always starts with a great goalkeeper, and here we have a rock-solid choice. Solidity is a key asset for a goalkeeper as it inspires confidence in the whole defence. Holcim can build a concrete wall in front of the goal, making sure that no shots go in.

Heineken: defensive midfielder

Increased beer consumption during the World Cup seems likely, based on empirical field observations by the analyst team, so the tournament should be a positive for the stock.

The 11 selected stocks		
Stock	Valor	ISIN
Nintendo	762 921	JP3756600007
Holcim	1 221 405	CH0012214059
Heineken	1 804 984	NL0000009165
Canon	761 599	JP3242800005
Coca-Cola	919 390	US1912161007
Scottish & Newcastle	404 256	GB0007839698
Fuji Photo Film	761 845	JP3814000000
Tesco	408 910	GB0008847096
Intercontinental Hotels	2 148 614	GB00B07Q1P26
Puma	481 322	DE0006969603
Beiersdorf	324 660	DE0005200000

Source: UBS WMR

Back-testing results			
Event	Dates	Our 11 selected players (%)	MSCI World index (%)
Sweden 1992	26 March – 26 June 1992	13.86	0.51
USA 1994	17 May – 17 August 1994	17.42	1.93
England 1996	30 March – to 30 June 1996	11.69	3.01
France 1998	12 May – 12 August 1998	-1.83	0.97
Netherlands 2000	2 April – 2 July 2000	4.82	-3.47
Japan-Korea 2002	30 March – June 2002	10.22	-8.99
Portugal 2004	4 April – 4 July 2004	6.99	-1.02
Average		9.03	-1.01

Source: Citigroup, UBS WMR

We position Heineken as a defensive midfielder. This is a tricky position: on the one hand, its distribution capabilities should make sure the ball moves swiftly up field from the defensive zone to the midfield; on the other hand, too much beer can blur a team's defensive capabilities

Canon: forward player

The huge interest in big football tournaments, with their worldwide media attention, is beneficial for digital imaging technology devices, such as cameras, video recorders, etc.

Canon is one of our forwards, as its top-of-the-line cameras have the necessary quick reflexes to run the right wing of the attacking line. Canon will "freeze" the opposite team's defenders easily, opening up many scoring opportunities.

Coca-Cola: midfield player

Coca-Cola is present at most major sporting events. This World Cup will be no exception, as the company is one of the main sponsors of the competition. This presence will help sales and raise awareness even further.

The next-generation midfield player: Coca-Cola is omnipresent, everywhere at the same time, well-positioned to continuously intercept the ball from the opposing team, a key to a strong counterattack. This bubbly player will surely lift our team's morale, and its sweet character will energize play, another key asset in a midfielder.

Scottish & Newcastle: defence player

Beer consumption and pub attendance in the UK increase famously during a World Cup. This will clearly benefit Scottish & Newcastle. Scottish & Newcastle is a defen-

sive player. Very stable movements ensure a solid defence. The downside is that too much beer and chips consumption may lead to clumsiness and unnecessary penalties. That is why we put it on the left side of the defence rather than the middle.

Fuji Photo Film: forward player

As with Canon, the attractiveness of the game and the worldwide media attention are beneficial for digital imaging technology devices, such as cameras, video recorders etc. We put Fuji in the attacking line for the same reasons as Canon. This company specializes in fast movements, ideal for the left wing. Fuji and Canon know each other very well and that familiarity will foster the kind of well-oiled teamwork that can really hurt opposing teams.

Tesco: left defence player

During the World Cup, especially in the UK, people will cook less often and rely more on ready-made food. Tesco stands to benefit from this trend, as it targets the lower- and middle-class UK consumer, the UK's main target groups for football-related sales. Tesco is a defensive player, and as such, provides the perfect complementary skills for Beiersdorf at the centre of our defensive line. The breadth of its food range is a must to protect and nurture our goalkeeper.

Intercontinental Hotels: right defence player

We foresee a surge in hotel bookings during the World Cup, as people from all over the world will need accommodation when they visit Germany to attend the games. Our right-back and fourth defender. Interconti's hospitality know-how will ensure that our goalkeeper is undisturbed. As a

global player, our right-back knows the other teams well. This is an important asset in order to prepare conscientiously for the matches.

Puma: forward player

Sporting goods sales should rise in the run-up to the competition, as well as during the matches. Based in the host country, Germany, we are convinced Puma will benefit from higher-than-average brand awareness. Our fiercest attacker. Quick: Puma's speed will allow it to run past an opponent's defensive line. Agile: perfect for jumping high and heading balls into the back of the net. Aggressive: will not be intimidated by strong defenders. Puma is certainly one of the main contenders, together with Ronaldinho, to become the top-scoring player of the tournament.

Beiersdorf: defence player

It may be difficult to see the link between Beiersdorf and the World Cup, but the quantitative results are compelling. We could suggest, without being too far-fetched, that the World Cup leads to an increase in sales for packaging, personal care products and suntan lotion.

This solid and defensive player is ideal for the centre of our defensive line. It is ideally positioned to protect our goalkeeper and mask the effect of the opponent team's attacks. Its surgical capabilities will ensure our goalie remains healthy. Also, its "creamy" nature will ensure a smooth transition from defence to mid-field.

Conclusion

If you want to win the World Cup, you need your team to have a wide range of skills. Another key asset for your team is confi-

dence based on consistent good performance during past tournaments. With this selection of 11 stocks, we have satisfied both of these criteria. So, enjoy the games and join us in watching how our 11 stocks perform.

oscar.andreu@ubs.com

Our World Cup line-up



Enterprises

Argentina 1. Beiersdorf 2. Brazil 1, 3. Canon 4. Coca-Cola Co. 1, 4, 5, 6, 7, 8, 9. Croatia 10. Ecuador 2. Fuji Photo Film 4. Heineken 4. Holcim 1, 3, 11. Kingdom of Sweden 10. Korea (Republic of) 1, 3. Mexico 1, 3. Nintendo 4. Poland 12. Puma 4. Republic of Italy 1, 3. Scottish & Newcastle 1, 11, 13, 14. Tesco 1, 4, 15. Ukraine 1, 3. United Kingdom of Great Britain 1, 3.

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Explanations and sources for the tables

GDP per capita: in USD, purchasing power parity – adjusted exchange rate (PPP, 2005), Source: IMF

GDP growth: Average GDP growth of last 5 years in %, Source: IMF

Inflation: Average inflation rate of last 5 years, in %, Source: IMF

Population: Source: UNO

Median age: Source: UNO

FIFA ranking: March 2006, Source: FIFA

World Cup participations: excl. 2006, Source: FIFA

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