



SILVIA QUANDT
RESEARCH GMBH

DEUTSCHE EUROSHOP AG RELIABLE + CHEAP = BUY

RESEARCH



_ WE RECOMMEND TO BUY DEUTSCHE EUROSHOP AG WITH A TARGET PRICE OF €25.00

_ DEUTSCHE EUROSHOP AG HAS EXCEEDED 2008 ESTIMATES AND RAISED ITS 2009 FINANCIAL GUIDANCE, WHICH RARELY HAPPENED IN THE GERMAN REAL ESTATE SECTOR

_ WE BELIEVE THAT DEUTSCHE EUROSHOP'S BUSINESS MODEL ALLOWS TO SUCCESSFULLY MASTER THE CURRENT DIFFICULT TIMES. IN FACT, LOWER INTEREST RATES AND POTENTIALLY DECLINING CREDIT SPREADS MIGHT ENABLE THE COMPANY TO RE-ENTER ITS GROWTH PATH.

_ AT CURRENT SHARE PRICE, THE STOCK TRADES 30% BELOW ITS NAV, WHICH IS TWICE THE HISTORIC AVERAGE. HOWEVER, THAT AVERAGE INCLUDES SEVERAL YEARS, WHEN DEUTSCHE EUROSHOP'S CASH EARNINGS DID NOT COVER ITS DIVIDEND PAYOUTS. THESE TIMES ARE OVER, HENCE DEUTSCHE EUROSHOP AG SHOULD DESERVE HIGHER VALUATIONS.

Deutsche Euroshop AG

Price target 25.00 €	<i>Year end Dec., in € millions</i>	2005	2006	2007	2008	2009	2010e
Up/downside 20.6%	Profit loss						
No of analysts 24	Sales	81.65	112.88	100.84	115.33	126.70	130.50
Headquarter Deutsche EuroShop AG 20149 Hamburg DE	y-o-y in %		38.2%	-10.7%	14.4%	9.9%	3.0%
IR Patrick Kiss	EBITDA	65.72	90.40	81.21	98.30	105.61	109.42
Tel: +49 (40)4135-790	EBIT (I)	32.11	51.52	41.01	98.28	105.59	109.40
Stock data Main Market MDAX	EBIT margin in %	39.3%	45.6%	40.7%	85.2%	83.3%	83.8%
Market cap (€m): € 687.50	Net income	48.70	100.31	94.18	68.80	65.64	76.76
No.of shares (m) 34.38	EPS SQR (€)	1.55	2.92	2.74	2.00	1.91	2.23
Daily volume (shares m) 0.12	y-o-y in %		89.0%	-6.2%	-27.0%	-4.6%	16.9%
Last price € € 20.00	EPS consensus (€)	1.55	2.92	2.74	1.51	1.46	1.58
Free float % 80.52%	DPS (€)	1.00	1.05	1.05	1.05	1.10	1.10
	Payout ratio %	64.7%	36.0%	38.3%	52.5%	57.6%	49.3%
	Dividend yield %				5.3%	5.5%	5.5%
	Cash flow						
	Net income	48.70	100.31	94.18	73.64	71.14	82.76
	Depreciation/ Amortisation	0.02	0.02	0.02	0.02	0.02	0.02
	Operating cash flow	19.58	17.19	77.00	32.89	53.04	49.83
	Net capex	58.69	43.16	144.34	65.00	38.00	38.00
	Free cash flow	-39.11	-25.97	-67.34	-10.74	-2.99	-40.27
	Free cash flow yield	-47.90%	-23.01%	-66.78%	-9.31%	-2.36%	-30.86%
	Balance sheet/Key ratios						
	Total Assets	1,543.56	1,796.21	1,976.34	1,961.87	2,082.30	2,099.43
	Closing net debt (cash)	489.14	684.70	786.96	763.36	779.76	838.25
	Gearing	73%	86%	91%	79%	78%	79%
	ROA/ROE		118.07%	80.35%	70.36%	77.72%	71.69%
	ROE	1.65%	5.09%	6.21%	7.12%	6.53%	7.27%
	ROCE						
	ROA	3.34%	6.01%	4.99%	5.01%	5.07%	5.21%
	Valuation						
	Enterprise value (€m)	1,304.69	1,652.18	1,600.96	1,450.86	1,467.26	1,525.75
	Book value (€m)	665.63	796.26	860.78	865.37	894.92	933.87
	Market cap (€m)	815.55	967.48	814.00	687.50	687.50	687.50
	EV/Sales	15.98	14.64	15.88	12.58	11.58	11.69
	EV/EBITDA	19.85	18.28	19.71	14.76	13.89	13.94
	PER	16.72	9.64	8.64	9.99	10.47	8.96
	PBV	1.23	1.22	0.95	0.79	0.77	0.74
	NAV		26.12	28.34	27.44	28.02	29.35

Source: company data, bloomberg, Silvia Quandt Research GmbH

Key points from this note

When Deutsche EuroShop AG (DEQ) released its preliminary 2008 results on February 9th 2009, it again proved the **resilience and stability of its business model** – even and particularly in volatile times. DEQ exceeded its own operational and analysts' consensus estimates and – most important in these times – provided a detailed and quantitative outlook for 2009.

2009 might look vulnerable in terms of economic outlook, but less so for DEQ. As its shopping centres are the 'real' centres of medium sized cities, their tenants do everything to remain solvent and in DEQ's centres. DEQ expects the likelihood of rent defaults to rise slightly – from 0.25 % to around 0.75 % of total rental income. This will be more than compensated by **DEQ's active tenant management** and the fact that rents in its shopping centres are linked to CPI and not to building price indices or other, singular basis.

DEQ continues to expand – but in established centres. Typically, DEQ's centres are legally closed end funds, with small minority holdings. Most of these co-investors can sell their holdings tax free now, after having held them for 10 years. DEQ plans to benefit from this situation and acquire additional holdings in its established and well performing centres. We understand that DEQ can use its own funds and € 80 m of credit facilities on a short term basis at rates close to 3%. This implies that DEQ's credit rating remains solid and that DEQ continues score the highest credit ratings.

DEQ will only invest, if its net initial yield reaches at least 5.5 % - 6.0 %. DEQ is cash rich, lowly geared, has excellent banking contacts and strong investors: DEQ will benefit from opportunities in the coming months. If larger opportunities emerge, we would not rule out a capital call – but not on a blind pool basis.

DEQ is cash flow positive, achieves FFOs levels ahead of its dividend payments (€ 1.05/share tax free), trades at 30% discount to a conservatively estimated NAV and runs its company at a very low – but scalable – cost base. DEQ is one of only few German companies (the other one would be VIB Vermoegen AG), which actively redeems its debt by amortisation during the run of the credit contract. DEQ's credits run approx. 30 years, with 1- 2% redemption per year – the re-negotiations on the interest levels happen more frequently. Investors should add € 12.5 m to their cash flow statements 2009 - 2012 – or € 0.36/share – to make DEQ's cash flow comparable to other companies within the peer group.

DEQ represents the highest quality within the German real estate universe at the moment. While it is less volatile, it still offers a very attractive risk return pattern. We believe that share prices around € 19 should be regarded as bottom levels, as they represent a 5.5% dividend yield, which is DEQ's base initial yield requirement for new investments. It is difficult to assess investors required risk premia for the stock, but we would assume that a level of 5.5% for a stock with a 0.74% beat is acceptable. In this case, DEQ's stock price should close the gap between the current level and its NAV, which was € 27.44 by the end of 2008.

We recommend accumulating DEQ shares at current levels and recommend the stock with a target price of at least € 25.00, which would still assume a 14% discount to the expected 2009 NAV. However, this discount represents the average discount since 2001. Given the scalability of DEQ's business model, declining specific management costs and upcoming investment opportunities, lower discounts should be envisaged, which would lead to an even higher share price target.

Executive Summary & Description

2008 was a devastating year for real estate stocks. High leverage factors on the operational side, vanishing re-financing possibilities and disappearing financial investors impaired the operational earnings potential of most real estate companies. Rental income remained a safe haven for the companies. However, also in this area, differences emerged during the year: office and commercial real estate companies faced declining demand and falling peak rent levels, as tenants postponed office expansion and new office rental contracts in light of the upcoming financial and economic crisis.

Residential and retail/shopping centres effectively bucked this trend: residential rents remained at previous year's levels as demand also remained resilient, as demographic trends prevailed. In particular the demand for inner city apartments outpaced new construction, which fell in 2008 to the lowest level since the German re-unification, creating a shortfall of more than 100,000 units. On the retail side, Germany's strict zoning laws inhibited further strong space expansion.

In particular inner city shopping centres remained a successful business opportunity. Hence, IFRS valuation for DEQ's shopping centres remained high and yield expansion subdued.

Deutsche EuroShop AG's is a pure retail real estate company with a portfolio of shopping centres in Germany (12), Austria (1) and Eastern Europe (3), which provides a stable and rising cash income in the coming years. Its shopping centre sites are in very attractive local areas. This view is underpinned by strongly growing IFRS40 valuation gains, copying increasing rental income in the past years. Deutsche EuroShop AG (DEQ) is ahead of its 10th anniversary. The company was created out of a Deutsche Bank subsidiary, with a focus on retail space investments. DEQ operates as a financial investor in shopping centre developments. It participates mainly financially, but also takes small shares in the actual building process. The focus of the company is in Germany. Being a financial investor, it requires excellent shopping centre managers to guarantee stable and rising rental income. DEQ relies exclusively onto ECE as centre managers. The corporate structure of DEQ allows it to distribute tax free dividends (effectively capital repayments) – at least for the next 10 years. Investors will not pay a withholding tax on payouts until they sell the share of DEQ.

We believe that DEQ is poised for further growth in the coming years, unlike most of its peers: on the one hand, DEQ can increase the holding in its portfolio of shopping centres, as DEQ typically owns less than 100 % in each centre. DEQ would benefit from the fact that most other investors could benefit from the tax exemption of asset sales after a 10 year holding period. Also, DEQ could invest into existing sites on centre expansion. This will happen in Dresden and at the MTZ (Main Taunus Zentrum). Finally, DEQ can upgrade existing centres, when previous large tenants leave a centre. This occurred just at the end of 2008, when DEQ was able to acquire 50 % in City Point Kassel for € 56 m (at an initial yield of well above 6.5 %) from ailing Arcandor Group. DEQ will re-let the space for a higher rent to attractive fashionable groups.

Also, we understand that DEQ sees – for the first time in years – opportunities for the acquisition of new sites in Germany. The absence of financial investors limits price boosting auctions, allowing DEQ and its operator ECE to source new projects with initial yields of 5.5% and more. DEQ always stated that it would like to invest about 10% of its operating assets on an annual basis. Given its current investment projects in existing shopping centres, a new investment would require DEQ to increase its capital base. We assume that this would not happen at prices at or below € 19.50/share (5.4% cash capital costs based on DEQ's dividend of € 1.05/share), assuming current interest scenario prevails (i.e. financing costs of around 4.4% - 5.3%). This said, we would DEQ expect to only make EPS and FFO enhancing investments.

We continue recommending DEQ as a buy with an initial target price of € 25.00. At this price, we estimate DEQ's shares trading at a 14% discount to NAV, which represents the average discount over the past 8 years. Also, it would lead DEQ to trade at a P/E of 11.7 times estimated 2009 earnings, a FFO yield of 6.2% (estimated 2009 FFO/share € 1.55) and a dividend yield of 4.2%.

Valuation & Action

We believe that DEQ represents one of the most predictable German real estate companies in terms of earnings and corporate structure. DEQ's rental income is granular, stemming from more than 1,600 tenants. Rent payments defaults are small: they represent just 0.25% of total rental income. Also DEQ's debt management and debt size is conservative, allowing the firm to predict with high certainty the future payments and duration structures. This makes the company a very low risk investment, particularly in relation to the market and to other German real estate companies.

DEQ is a relatively low beta stock

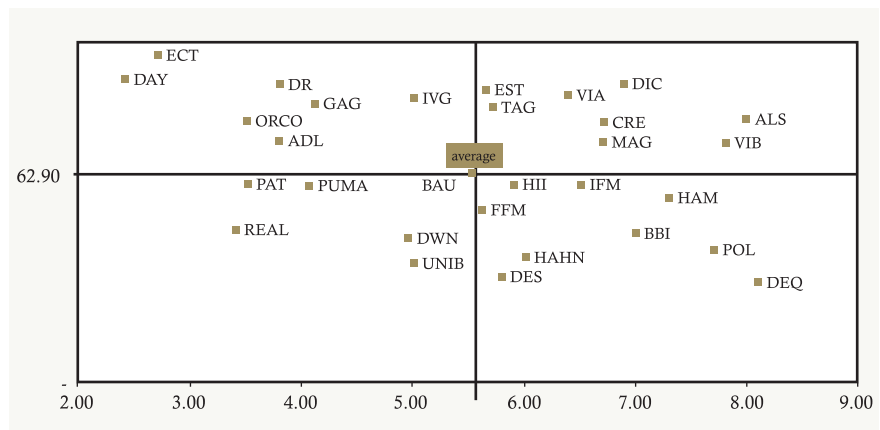
<i>Company</i>	<i>2 year Beta</i>	<i>6 month Beta</i>	<i>Company</i>	<i>2 year Beta</i>	<i>6 month Beta</i>
ORCO GERMANY	0.38	0.15	ORCO GERMANY	0.15	0.38
IFM IMMOBILIEN	0.59	0.34	DR REAL ESTATE	0.28	0.68
DTE EUROSHOP	0.64	0.74	IFM IMMOBILIEN	0.34	0.59
TAG TEGERNSEE	0.66	0.53	VIB VERMOEGEN	0.49	0.77
DR REAL ESTATE	0.68	0.28	TAG TEGERSEE	0.53	0.66
VIB VERMOEGEN	0.77	0.49	FRANCONOFURT	0.62	0.80
FRANCONOFURT	0.80	0.62	DTE EUROSHOP	0.74	0.64
EUROCASTLE	0.86	1.17	PATRIZIA	0.85	1.19
GAGFAH SA	0.93	1.01	POLIS	0.91	0.96
POLIS	0.96	0.91	ALSTRIA REIT	0.92	1.24
ESTAVIS	1.03	0.96	ESTAVIS	0.96	1.03
DTE WOHNEN	1.08	1.02	GAGFAH SA	1.01	0.93
PATRIZIA	1.19	0.85	DTE WOHNEN	1.02	1.08
IVG IMMOBILIEN	1.22	1.23	VIVACON AG	1.07	1.29
ALSTRIA REIT	1.24	0.92	EUROCASTLE	1.17	0.86
VIVACON AG	1.29	1.07	DIC ASSET	1.20	1.40
DIC ASSET	1.40	1.20	IVG IMMOBILIEN	1.23	1.22
ORCO PROPERTY (F)	1.41	1.58	COLONIA REAL ESTATE	1.23	1.43
COLONIA REAL ESTATE	1.43	1.23	ORCO PROPERTY (F)	1.58	1.41

Source: Bloomberg

Comparing the beta of DEQ against the sector, the company ranks third in terms of its 2-year beta. Ahead of DEQ are only IFM Immobilien AG (with more than 30% held by a Norwegian family office and further 30% by selected private and institutional investors) and ORCO Germany (with only 14% free float and the majority owned by French ORCO Property Group). On a 6 months basis, DEQ ranks 7th, with mostly special situations (Franconofurt: selling of FranconoRheinMain supported the company. DR and VIB: low free float) showing lower beta factors.

However, we believe that none of the shares with lower beta represent companies with lower than DEQ's earning volatility.

Best quality for DEQ



Source: company data, bloomberg, Silvia Quandt Research GmbH

The chart above shows that almost all German real estate companies in the sample list trade at significant discounts to NAV (2008 year end data, where available). We have looked at risks associated with the asset quality and potential financing risks. The latter would include not only the question of short/long term debt and LTVs, but also include a counterparty risk. Counterparty risks emerged most recently as some US banks entered the market in recent quarters more aggressively and now face re-financing issues. In risk terms, we define as 2 = very high risks (low quality) and 9 = very low risks (high quality).

In terms of risk/NAV discount, four quadrants exist: the lower left quadrant contains companies, where we believe that investors might face further share price erosion. The upper left quadrant is the 'make-it-or-break-it' quadrant: companies housed in this sector should emerge to the right: with more clarity and operational transparency, the asset quality and risk situation should improve. In this case, the shares should either move to the upper right or the lower right segment. Basically, investors want to see their shares in the lower right sector: here, the companies share price reflects – partially – the underlying asset quality. In the case of DEQ, this is clearly the case: however, given the market uncertainty, we understand that DEQ's discount to NAV is twice as high as on average over the past 8 years, which was around 14%.

DEQ's discount/premium to NAV since 2001

NAV calculation	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Assets	0.704	0.815	1.096	1.203	1.343	1.653	1.839	1.845	1.952	2.009	2.045	2.164
other assets	0.229	0.187	0.144	0.167	0.196	0.141	0.134	0.114	0.127	0.087	0.117	0.117
Total Assets	0.933	1.002	1.239	1.370	1.540	1.794	1.973	1.959	2.079	2.096	2.162	2.281
long term debt	0.298	0.409	0.477	0.598	0.616	0.753	0.851	0.849	0.928	0.881	0.892	0.913
short term debt	0.030	0.018	0.026	0.036	0.069	0.064	0.088	0.079	0.077	0.084	0.090	0.113
Net Assets	0.605	0.574	0.737	0.735	0.855	0.977	1.034	1.031	1.074	1.131	1.180	1.255
Minorities	0.005	-0.003	0.056	0.049	0.064	0.101	0.113	0.101	0.111	0.122	0.134	0.148
NAV attributable	0.600	0.577	0.681	0.686	0.791	0.876	0.921	0.930	0.963	1.009	1.045	1.107
Shares	15.625	15.625	15.625	15.625	15.885	34.375	34.375	34.375	34.375	34.375	34.375	34.375
NAV attrib./share	38.41	36.91	43.56	44.90	47.58	25.61	26.91	27.44	28.02	29.35	30.40	32.20
deferred taxes	0.008	0.015	0.044	0.051	0.070	0.081	0.064	0.068	0.071	0.077	0.081	0.088
NNAV attrib./share	37.90	35.95	40.75	40.64	45.39	23.13	24.93	25.09	25.94	27.10	28.06	29.65
Average NAV	n.a.	37.66	40.24	44.23	46.24	36.60	27.17	27.73	28.68	29.88	31.30	33.10
Average price/year	n.a.	32.23	31.64	35.09	43.72	29.16	27.28	23.75	19.50	25.69	26.92	28.47
Year end price (calc)	n.a.	31.59	34.26	35.62	44.98	20.41	23.68	24.30	24.67	25.24	26.15	27.69
Year end price (real)	30.50	30.73	33.75	38.52	47.45	56.29	23.68	24.30				
Price prem/disc. to average NAV		-14.4%	-21.4%	-20.7%	-5.5%	-20.3%	0.4%	-14.4%	-14.0%	-14.0%	-14.0%	-14.0%

Source: company data, Silvia Quandt Research GmbH

Based on the calculation above, we would assume that DEQ's fair share price would be at least around the long term average discount to NAV, i.e. at € 25.00 - € 26.00/share.

DEQ and other German companies: discount to NAV

<i>Company</i>	<i>Code</i>	<i>Discount to most recent NAV in %</i>
ALSTRIA OFFICE REIT-AG	ALS	75.63
IFM IMMOBILIEN AG	IFM	57.45
IVG IMMOBILIEN AG	IVG	84.70
EUROCASTLE	ECT	98.43
HAMBORNER	HAM	55.38
POLIS REIT	POL	39.52
GAGFAH SA	GAG	79.89
COLONIA REAL ESTATE AG	CRE	76.00
DEUTSCHE WOHNEN AG-REG	DWN	40.63
PATRIZIA IMMOBILIEN AG	PAT	62.03
PUMA BRANDENBURG	PUMA	63.36
DAWNAY DAY TREVERIA	DAY	90.93
DEUTSCHE EUROSHOP AG	DEQ	26.75
BBI BUERGERLICHES BRAUHAUS IMM	BBI	43.65
VIB VERMOEGEN AG	VIB	70.43
ORCO GERMANY S.A.	ORCO	85.51
DIC ASSET AG	DIC	85.31
DR REAL ESTATE AG	DR	86.00
MAGNAT REAL ESTATE OPPORTUNITY	MAG	75.00
ESTAVIS AG	EST	86.48
TAG IMMOBILIEN AG	TAG	82.78
FRANCONOFURT AG	FFM	52.17
ADLER REAL ESTATE AG	ADL	74.50
HAMBURGISCHE IMMOBILIEN INVE	HII	61.86
BAU-VEREIN ZU HAMBURG AG	BAU	59.31
DESIGN BAU AG	DES	32.10
VIVACON AG	VIA	84.47
FRANCONRM	FRM	-5.50
HAHN IMMOBILIEN	HAHN	36.67
DTE REAL ESTATE	REAL	46.29
UNIBAIL RODAMCO	UNIB	32.70
average		62.59

Source: company data, bloomberg, Silvia Quandt Research GmbH

Currently, DEQ trades at a 30% discount to NAV, which is about half of the average of the German universe. However, as mentioned before, the NAV of DEQ appears to be sounder than that of others. Most recently, IVG reported its 2008 preliminary results, with a € 944 m IFRS valuation decline. In contrast, DEQ reported of higher asset values. In fact, we would not expect DEQ's assets to devalue significantly in the coming years. On the one hand, the location of the inner city shopping centres is unique and essentially represents the economic centre of the respective city. On the other hand, tenants in DEQ's shopping centres frequently report of higher sales per square metre and higher customer frequency than in adjacent high streets, making it unlikely that potential vacancies would not be filled instantly.

Comparable market data of peer group companies

Name	Country	Last price	NAVPS	Discount to NAV	Market CAP €m	% CHG YTD	2008 CONS PE EST	2009 CONS PE EST
UNIBAIL-RODAMCO	FR	96.64	150.56	-35.8%	7.871.22	-9.3%	10.91	10.36
CORIO NV	NE	26.55	48.94	-45.8%	1.785.55	-19.3%	8.62	8.21
EOROCOM.PROPERTY	NE	19.19	25.56	-24.9%	687.78	-20.0%	10.69	10.61
KLEPIERRE	FR	12.50	25.89	-51.7%	2.076.85	-28.6%	7.47	6.71
CITYCON OYJ	FI	1.45	3.16	-54.1%	320.45	-13.7%	7.92	7.63
DEUTSCHE EUROSHOP AG	GE	20.47	27.44	-25.4%	703.66	-16.5%	13.55	14.00
AVERAGE				-39.6%		-17.9%	9.86	9.59

Source: Bloomberg, Silvia Quandt Research GmbH

Among the companies with a retail/shopping centre focus, DEQ is almost the smallest company in terms of market capitalisation, despite the fact that DEQ is Germany's leading inner city shopping centre owner. However, despite of Eurocommercial, it currently experiences the lowest discount to NAV and a similar year-to-date share price decline. DEQ's current low LTV of less than 50% suggests that its financial structure is superior to highly leveraged companies. Together with its focus onto the resilient German market (which did not incur massive yield compression in the past years), DEQ offers a better risk/return pattern, we believe, than its peers. For this reason, we continue to recommend DEQ as a core real estate investment.

Detailed comments on points of interest

Consumption remains stable in Germany, at least in shopping centres

The leading economic institutes expect a decline in Germany's GDP of around 2.0 – 2.5 % in 2009, before a stabilisation with a slight economic growth should set in 2010. Retail sales, according to HDE data, have grown by 1.1 % nominal in 2008 to € 366 bn. In 2009, initial figures are indicating that consumers benefit from lower energy costs and a massive rebate and discount environment. However, rising uncertainty over the future economic trend and increasing use of short time work with companies is likely to reduce consumption and consumer sentiment.

Lower energy costs improve purchase power by about € 30 bn in 2009. In addition, tax repayments (commuter charge) and effects of high wage settlements in 2008 are felt in 2009. As inflation drops towards zero (1.0 % in February 2008), real wage increases are even higher.

Although it seems to be inevitable that savings rates increase and willingness to purchase shrinks, consumer spending is likely to remain relatively stable, at least in 2009, given the positive effects from energy and tax sides. A potential reduction in VAT on certain items will further increase real purchase power. We believe that DEQ's shopping centre layout, which combines fashion (>50 % of retail space) with daily needs and food products is likely to outperform other retail concepts. An exception might be the hard discount scene (Aldi, Lidl), which is also seen as a beneficiary of the current scenario. In such an environment, rental income from DEQ's shopping centres should remain at least stable.

Shopping centres in Germany

<i>Operator</i>	<i>number of centres</i>	<i>rental space sqm</i>	<i>average sqm/centre</i>
ECE	79	2,344,965	29,683
- thereof DEQ	12	491,100	40,925
Metro	30	975,100	32,503
mfi	18	652,850	36,269
cev	15	390,615	26,041
JLL	14	308,760	22,054
epm assetis	8	302,510	37,814
civ	12	239,210	19,934
wealthcap	6	200,140	33,357
dtz	11	232,835	21,167
HAHN	10	191,595	19,160
	203	6,329,680	31,181
Germany	399	12,616,600	31,621

Source: EHI, data end of 2008

The table above shows the current situation in the shopping centre scene as of 2008. DEQ owns the largest shopping centres by average size. In the coming 4 years, it is expected that the number of shopping centres in Germany rises by 66 to 465.

DEQ's shopping centre yields remain stable

DEQ was able to acquire a 50% stake in City-Point Kassel for € 53 m. This price included all debt of the 50% stake – held beforehand by the City-Point SPV – and some € 2.5 m in renovation contribution. Arcandor sub-rented the space to Hertie, a previous subsidiary of the Arcandor Group, which went bankrupt in 2008. The transaction closed in January 2009. DEQ now owns 90% of the shopping centre and will use the space (around 30% of the retail space) to attract new and fashionable brands.

Given that Hertie was under administration, the shop did not fulfil its function as anchor tenant. The average turnover was well below of typical department stores in a centre, indicating that the Hertie store was rather a burden for the centre than an anchor.

DEQ benefited from its sound financial position: while the seller, Arcandor, has been in restructuring for the past four years, DEQ operates its business with a LTV of around 50% and a very slim operating cost level. In addition, it secured a € 100 m credit line earlier, which allows DEQ to act fast and with no time delay on request of financing banks. We believe that DEQ benefited from Arcandor's 'fire sale' by acquiring the 50% stake some € 5-10 m cheaper than normal. Hence, the initial yield would be around 6.5% - 7.0%. After the renovation and the re-letting to potent new tenants, the yield will most likely reach more than 7.5%.

Shopping centre yields remained generally stable in 2008 and are expected to remain stable around the 4.25 - 4.75% (gross, net yield at 5.5% - 6.0%) level in 2009. This is supported by the above mentioned macro economic trend. Key issue in this context is that the majority of shopping centres in Germany are in inner city centres:

___ 42.3% of shopping centres in Germany are in inner cities, but 84% of DEQ's shopping centres are in cities. In fact, DEQ's shopping centres mostly mark the centre of a city. Hence, a consolidation of consumer spending – if local aspects are concerned – will shift spending into the city centres.

___ 38.9% of shopping centres are in suburbs. We would suggest regarding the MTZ (Main Taunus Zentrum), which is DEQ's most important centre, as a sub-urban centre.

___ 18.8% of shopping centres are 'green field' centres.

Rental income transparency is very high at DEQ

DEQ reckons that rental income defaults amounted to less than € 250,000 p.a. in the past years. Compared to the total rental income of € 167 m in its shopping centres (consolidated at DEQ € 115.3 m) this represents a negligible amount.

DEQ reckons that in the current economic environment, this default ratio might increase to € 750,000 – however, only if DEQ management is not taking a proactive tenant screening approach. However, this is precisely what DEQ does. Each quarter, DEQ management receives turnover data of all of its >1,600 retailers. This includes disaggregated data of each franchisee and branch, for example, of a Media Markt (Metro Group). DEQ analyses each of the tenants to evaluate the tenant's ability to pay its rents. Typically, DEQ's tenants pay about 5.0% – 8.5% of turnover as rents on average. Any figure, which is above 10%, attracts DEQ's attention. Larger stores are nor-

mally closer to the 10 % level, as their turnover/sqm ratio is lower than, e.g. of jewellery stores. On the other hand, larger stores have less of a problem in paying higher rents as a percent of sales, as their turnover related wages are lower.

DEQ tracks rental income and turnover development of its tenants closely. This allows it to act fast and proactive, if it sees potential problems arising. In other words: DEQ will be able to look for potential successors of certain 'problematic' tenants, before the problem in terms of rent default actually surfaces. Average annual rents amount to € 250/sqm, which equals to 5.3 % of average turnover/sqm in DEQ's shopping centres.

Rental contracts: average maturity greater 8 years

DEQ operates its centres through the help of ECE, the shopping centre developer and operator, which is owned by the Otto Family (who also owns 19 % of DEQ). DEQ started operating as a stock listed company in January 2001 with a number of shopping centres previously owned by Deutsche Bank funds. Typically, DEQ only operates with long term (standard 10 years) lease contracts. Therefore, some of its existing tenant contracts are due for renewal in the coming years: 1% of rental contracts in 2009 (in terms of value), 3 % in 2010, 12 % in 2011 (10 years after launch of DEQ), 14 % in 2012 and 69 % after 2013. The weighted maturity of contracts is 8.3 years, which coincides with the average duration of its debt (7.0 years, with 81 % after 2013).

DEQ is very predictable in terms of rental income. The tenant structure (48 % larger retailers/franchisees, 24 % regional chains and 28 % local entrepreneurs) is flexible enough to scope with economic changes. DEQ only offers – through ECE – standard 10 year rental contracts, with no incentives and no opt-out clauses. Also, rent contracts are partly turnover based: this means that any renewal of rental contracts would start at the level of previous turnover rent agreements. This will make DEQ's future rental income stream even more predictable.

DEQ's low risk rental maturity schedule

Year	2008	2009	2010	2011	2012	> 2013
% mature	1.0%	1.0%	3.0%	12.0%	14.0%	69.0%
% rental income €m	1.14	1.23	3.80	15.84	19.09	

Source: Deutsche EuroShop AG, Silvia Quandt Research

Investments in existing assets can be carried out with no recourse on capital markets

DEQ will invest in its existing shopping centres in the coming year. The most prestigious and value adding investment will be in Dresden, where the Altmarkt Galerie faces an 18,000 sqm extension. The total investment will be € 150 m, of which DEQ carries € 75 m. The extension will be finished in Q1 2011 (opening ahead of the Easter sales 2011). DEQ's participation in the expansion is 50 %, hence € 37.5 m equity and € 37.5 m debt.

Also, DEQ will participate in the expansion of the Frankfurt based MTZ within the next two years. This investment - € 83 m in total – will be almost exclusively debt financed. The SPV, which owns the asset, has € 3 m in equity. DEQ's 43 % participation requires it to invest € 36 m (i.e. € 18 m annually), which will come out of its credit lines.

Aside of these more sizable investments, further investments will be in Hamm (€ 1.8 m) and in Kassel (around € 5 m, of which € 2.5 m was paid by Arcandor as purchase price reduction for the 50 % stake acquired by DEQ late in 2008) In addition, DEQ anticipates investments to the tune of € 1.5 m annually into maintenance.

We understand that DEQ can carry out these investments easily from cash and ongoing cash flows. In addition, it still has open credit facilities of around € 80 m (from an initial € 100 m credit line), which it can access with credit spread of 80 bps.

Financing not an issue – unless opportunities arise, but even then...

DEQ is one of the real estate companies in Germany with REIT like financial structure. Debt/equity ratio is close to 50 %. DEQ's average effective interest rate is 5.33 %, well above current rates. DEQ sees itself in a good position with banks. Currently, credits spreads have widened to levels around 80 – 100 bps, but interest rates have declined at the same time. Even at 100 bps, 10 year rates would come in at around 4.5 – 5.0 %, well below DEQ's current effective interest rates. Hence, if DEQ decides to invest and use its debt facility, its average interest rates would decline, while rental yields are above DEQ's 5.5 % threshold level. Between 2009 and 2012, only € 76 m of outstanding debt of € 875 m are due to renewal, and € 50 m would be redemptions. DEQ is one of very few companies in the sector, which effectively redeem their debt. Loans are therefore not for 'renewal', but only the interest agreement.

DEQ will have no problems to 'renew' its debt arrangements. Cash flows are positive and well in excess of interest payment requirements. More importantly, its redemption plan is unique and fully kicks in only now. Typically, loans are signed with a 3-4 year redemption-free period. As most of its expansion occurred in the past four years, DEQ will see its redemptions rising. While this would be an enormous effort for other, higher leveraged companies, it is not for DEQ. Hence, its debt levels will – like-for-like – shrink by € 12.5 m annually. Investors would need to add these payments to the cash flow figure when comparing DEQ to its peers.

Profitability likely to rise, as scale effects emerge

DEQ's profits are expected to rise on a like-for-like basis in the coming years, chiefly as new rental contracts will allow the firm to lock in current turnover based rents as base rents. We would not expect DEQ to suffer significantly from potentially declining CPI inflation rates: firstly, turnover linked rents account for only 2 - 3 % of DEQ's total rental income. Secondly, DEQ's overall cost levels are low: these costs are not expected to rise significantly in the coming years as rent related management costs (of ECE) stay at 8 % and DEQ's own costs are not expected to jump. Finally, DEQ might benefit from declining VAT levels, as retailers are likely to benefit from the cut through higher turnover. However, the most important feature is the fact that DEQ's intention to build up and extend existing and established shopping centres allows the firm to instantly benefit from these changes. Consumers know the centres and will accept any new offering. DEQ is also likely to benefit from a change in the retail landscape: with ailing department stores (mostly with turnover per sqm well below the centre average and dragging the centre averages lower) leaving shopping centres, more modern and attractive retailers and fashion groups could enter or expand their own, highly attractive shops.

DEQ should be seen as the one of core suppliers of retail space in core city centres, together with ECE. DEQ benefits from ECE's Strong German footprint (managing 79 shopping centres). This will allow DEQ to fully implement ECE's rental contracts.

DEQ's profit and loss account

	2006	2007	2008	2009e	2010e	2011e
Sales	91.14	94.35	113.61	122.96	126.75	131.99
Total revenues	108.85	96.82	115.33	126.70	130.50	135.77
Administration costs	-5.76	-6.08	-5.00	-7.47	-7.47	-7.61
Personell costs	-1.03	-1.18	-1.30	-1.46	-1.64	-1.85
other costs	-15.25	-12.37	-10.74	-12.15	-11.97	-12.44
Total costs	-22.04	-19.63	-17.03	-21.08	-21.08	-21.90
<i>% of sales</i>	24.2%	20.8%	15.0%	17.1%	16.6%	16.6%
EBITDA	86.80	77.19	98.30	105.61	109.42	113.87
EBIT	86.34	77.17	98.28	105.59	109.40	115.85
<i>% of sales</i>	94.7%	81.8%	86.5%	85.9%	86.3%	87.8%
IFRS 40	65.92	50.77	21.96	22.56	35.23	20.94
Pre tax earnings	117.68	77.84	86.75	83.82	99.36	91.73
Attrib. net profits	100.31	94.18	68.80	65.64	76.76	71.15
EPS	2.92	2.74	2.00	1.91	2.23	2.07
FFO	1.01	1.45	1.45	1.45	1.48	1.64
DPS	1.00	1.05	1.05	1.10	1.10	1.15
<i>DPS/FFO</i>	91.1%	72.5%	74.6%	75.7%	74.4%	69.9%

Source: Bloomberg, Silvia Quandt Research GmbH

Financials

Consolidated P&L

	2006	2007	2008	2009e	2010e	2011	2012
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
accounting standard							
Group rental income	91.145	94.348	113.607	122.958	126.753	131.992	136.364
other income	1.704	1.414	1.725	1.737	1.750	1.781	1.813
Change in Assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Profits from asset sales	14.829	0.000	0.000	0.000	0.000	0.000	0.000
Other Group sales	1.168	1.057	0.000	2.000	2.000	2.000	2.000
Group Performance	108.846	96.819	115.332	126.695	130.502	135.773	140.177
<i>Admin. costs for asset management(verwaltung)</i>	<i>-5.755</i>	<i>-6.082</i>	<i>-5.000</i>	<i>-7.470</i>	<i>-7.473</i>	<i>-7.614</i>	<i>-7.664</i>
<i>Personal costs</i>	<i>-1.034</i>	<i>-1.179</i>	<i>-1.297</i>	<i>-1.459</i>	<i>-1.641</i>	<i>-1.846</i>	<i>-2.077</i>
<i>Costs related to renting/ area operation</i>	<i>-3.789</i>	<i>-4.826</i>	<i>-4.068</i>	<i>-4.403</i>	<i>-4.538</i>	<i>-4.726</i>	<i>-4.883</i>
<i>Net rental costs</i>	<i>-1.758</i>	<i>-1.552</i>	<i>-1.495</i>	<i>-2.118</i>	<i>-1.638</i>	<i>-1.705</i>	<i>-1.762</i>
<i>Infrastructure and financing costs</i>	<i>-0.655</i>	<i>-0.458</i>	<i>-0.559</i>	<i>-0.563</i>	<i>-0.567</i>	<i>-0.577</i>	<i>-0.587</i>
<i>other/honorar/currency losses</i>	<i>-9.052</i>	<i>-5.535</i>	<i>-4.615</i>	<i>-5.070</i>	<i>-5.222</i>	<i>-5.433</i>	<i>-5.610</i>
Operating Costs	-22.043	-19.632	-17.033	-21.082	-21.080	-21.901	-22.582
<i>Margin</i>	<i>-20.3%</i>	<i>-20.3%</i>	<i>-14.8%</i>	<i>-16.6%</i>	<i>-16.2%</i>	<i>-16.1%</i>	<i>-16.1%</i>
EBITDA	86.803	77.187	98.298	105.613	109.423	113.872	117.594
<i>Margin</i>	<i>0.797</i>	<i>0.797</i>	<i>0.852</i>	<i>0.834</i>	<i>0.838</i>	<i>0.839</i>	<i>0.839</i>
Depreciation	-0.462	-0.016	-0.020	-0.020	-0.020	-0.020	-0.020
<i>As % of Sales</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>
Goodwill Amortisation	0.000	0.000	0.000	0.000	0.000	1.000	2.000
<i>As % of Sales</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>-0.007</i>	<i>-0.014</i>
Amortisation of Other Intangibles	0.000	0.000	0.000	0.000	0.000	1.000	2.000
<i>As % of Sales</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>-0.007</i>	<i>-0.014</i>
EBIT	86.341	77.171	98.278	105.593	109.403	115.852	121.574
<i>Margin</i>	<i>0.793</i>	<i>0.797</i>	<i>0.852</i>	<i>0.833</i>	<i>0.838</i>	<i>0.853</i>	<i>0.867</i>
Non-Recurring Items	0.000	0.000	0.000	0.000	0.000	1.000	2.000
EBIT After Non-Recurring Items	86.341	77.171	98.278	105.593	109.403	115.852	121.574
<i>Margin</i>	<i>0.793</i>	<i>0.797</i>	<i>0.852</i>	<i>0.833</i>	<i>0.838</i>	<i>0.853</i>	<i>0.867</i>
Share of Net Profits From Associates	1.940	1.505	2.300	2.760	3.312	3.974	4.769
Interest Expense plus investments plus depr.on AS40	-38.874	-40.193	-40.985	-46.300	-46.990	-47.141	-47.393
Add ons IAS40 (assets)	65.923	50.769	21.958	22.563	35.233	20.941	42.471
Write-offs IAS40 (assets)	0.000	0.000	0.000	0.000	0.000	1.000	2.000
Add ons IAS39 (participations) (as EQ since 2005)	4.560	0.000	5.700	5.985	6.284	6.598	6.928
Write-offs IAS39 (assets) (in EQ since 2005)		-0.009					
Non-Recurring Items/3rd party	-6.376	-14.087	-3.500	-4.000	-4.000	-4.500	-4.500
Interest Income	2.346	2.682	3.000	3.200	2.400	2.600	2.600
Net Interest/Financial Expense	29.519	0.667	-11.527	-15.792	-3.761	-16.528	6.876
Pre Tax Income	117.676	77.838	86.751	83.816	99.358	91.726	119.522
Taxes	-17.365	16.344	-13.013	-12.572	-16.493	-15.226	-19.841
thereof latent taxes	-16.865	16.719	-3.294	-3.384	-5.849	-3.476	-7.050
thereof cash taxes	-0.500	-0.375	-9.719	-9.188	-10.645	-11.750	-12.790
<i>Tax Rate</i>	<i>14.8%</i>	<i>-21.0%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>16.6%</i>	<i>16.6%</i>	<i>16.6%</i>
other taxes	-0.003	-0.005	-0.100	-0.100	-0.100	-0.900	1.900
Net Income	100.308	94.178	73.638	71.144	82.764	77.399	101.581
Minority Interest (notional)	0.000	0.000	-4.835	-5.500	-6.000	-6.250	-6.500
<i>as % of cont. net</i>	<i>0.000</i>	<i>0.000</i>	<i>-0.013</i>	<i>-0.015</i>	<i>-0.017</i>	<i>-0.018</i>	<i>-0.020</i>
booked as capital	0.000	0.000	0.000	0.000	0.000	1.000	2.000
Net Income to Common Shareholders	100.308	94.178	68.803	65.644	76.764	71.149	95.081
<i>margin</i>	<i>0.922</i>	<i>0.973</i>	<i>0.597</i>	<i>0.518</i>	<i>0.588</i>	<i>0.524</i>	<i>0.678</i>
Weighted Average Shares Outstanding (m)	34.375	34.375	34.375	34.375	34.375	34.375	34.375
EPS	2.92	2.74	2.00	1.91	2.23	2.07	2.77
EPS (cash. SQR)	1.01	1.45	1.41	1.45	1.48	1.64	1.79
Net Dividend Per Share (SQR)	1.00	1.05	1.05	1.10	1.10	1.15	1.15
<i>Payout ratio</i>	<i>34%</i>	<i>38%</i>	<i>52%</i>	<i>58%</i>	<i>49%</i>	<i>56%</i>	<i>42%</i>
<i>Div, on cash EPS</i>	<i>91.1%</i>	<i>72.5%</i>	<i>74.6%</i>	<i>75.7%</i>	<i>74.4%</i>	<i>69.9%</i>	<i>64.3%</i>
<i>Increase in cash EPS</i>	<i>97.3%</i>	<i>32.0%</i>	<i>-2.9%</i>	<i>3.3%</i>	<i>1.7%</i>	<i>11.3%</i>	<i>8.8%</i>
<i>Increase in DPS</i>	<i>4.17%</i>	<i>5.00%</i>	<i>0.00%</i>	<i>4.76%</i>	<i>0.00%</i>	<i>4.55%</i>	<i>0.00%</i>
Dividend sum	34.375	36.094	36.094	37.813	37.813	39.531	39.531
Retained earnings	65.933	58.084	32.709	27.831	38.952	31.618	55.550

Source: Deutsche EuroShop AG, Silvia Quandt Research GmbH

We expect DEQ to also record IFRS gains in 2009, chiefly on the back of higher rental income and declining interest rates. Based on DEQ's own IFRS valuation formula (appraisers: Feri Trust and GfK), A key determinate for the IFRS valuation is the discount rate and the appropriate risk factor. The latter is a function of the macro economic scenario and the local economic situation. While this might not look sound at the moment, it should be expected that the global economic programs show some results by the end of 2009. At the same time, however, interest rates are expected to remain at relatively low levels. Credit spreads, however, are seen shrinking as a result of massive government intervention into the financing banking sector. We therefore expect these issues to outpace potential negative effects on the consumer spending side.

Balance sheet

	2006	2007	2008	2009e	2010e	2011e	2012e
Assets							
Balance sheet total (assets)	1.796	1.976	1.962	2.082	2.099	2.165	2.284
Intangible assets. WIP	0.155	0.144	0.066	0.098	0.099	0.076	0.133
Investment property	1.382	1.606	1.700	1.771	1.811	1.879	1.915
Impairments IAS40	0.070	0.051	0.022	0.023	0.035	0.021	0.042
Financial assets (IAS 39)	0.029	0.033	0.037	0.040	0.044	0.049	0.054
others	0.017	0.005	0.020	0.020	0.020	0.020	0.020
Capital assets	1.653	1.839	1.845	1.952	2.009	2.045	2.164
<i>percent of total B/S</i>	<i>92.0%</i>	<i>93.1%</i>	<i>94.0%</i>	<i>93.8%</i>	<i>95.7%</i>	<i>94.5%</i>	<i>94.7%</i>
Receivables (long term)	0.002	0.003	0.003	0.003	0.003	0.003	0.003
Receivables associated comps	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<i>percent of total B/S</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Work-in-process							
Receivables (current. for rents. leases)	0.002	0.004	0.002	0.002	0.002	0.002	0.002
Securities	0.001						
Total receivables	0.003	0.004	0.002	0.002	0.002	0.002	0.002
<i>total receivables percent of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
other assets	0.042	0.021	0.020	0.030	0.030	0.030	0.030
Current assets (excl. cash)	0.047	0.028	0.025	0.035	0.035	0.035	0.035
Cash and equivalents	0.096	0.109	0.092	0.095	0.055	0.085	0.085
Total current assets	0.141	0.134	0.114	0.127	0.087	0.117	0.117
Liabilities							
Balance sheet total (debt&equity)	1.796	1.976	1.962	2.082	2.099	2.165	2.284
base capital	0.022	0.034	0.034	0.034	0.034	0.034	0.034
capital reserves (incl. IAS 39)	0.558	0.546	0.546	0.546	0.546	0.546	0.546
retained earnings	0.116	0.185	0.216	0.249	0.277	0.316	0.347
Group Profit	0.100	0.094	0.069	0.066	0.077	0.071	0.095
Shareholders Equity	0.796	0.860	0.865	0.895	0.934	0.967	1.023
Minorities	0.101	0.113	0.101	0.111	0.122	0.134	0.148
Total Equity	0.897	0.973	0.966	1.006	1.056	1.102	1.171
bank loans (long term)	0.752	0.850	0.847	0.926	0.879	0.890	0.911
other long term liabilities	0.001	0.001	0.002	0.002	0.002	0.002	0.002
Deferred taxes	0.081	0.064	0.068	0.071	0.077	0.081	0.088
Long term debt	0.834	0.915	0.917	0.999	0.958	0.973	1.001
other provisions (short term)							
bank loans (short term)	0.029	0.047	0.047	0.039	0.038	0.039	0.050
other	0.008	0.009	0.009	0.010	0.012	0.013	0.015
<i>Advances percent of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Accounts payable (short term. trade)	0.018	0.025	0.015	0.018	0.022	0.022	0.026
other liabilities	0.010	0.007	0.008	0.010	0.013	0.016	0.021
Short term debt	0.065	0.088	0.079	0.077	0.084	0.090	0.113
Balance sheet ratios	2006	2007	2008	2009	2010e	2011	2012
<i>percent EQ of B/S</i>	<i>44%</i>	<i>43%</i>	<i>44%</i>	<i>43%</i>	<i>44%</i>	<i>45%</i>	<i>45%</i>
<i>percent st debt of B/S</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>5%</i>
<i>percent total debt/EQ</i>	<i>113%</i>	<i>117%</i>	<i>115%</i>	<i>120%</i>	<i>112%</i>	<i>110%</i>	<i>109%</i>
<i>percent total debt/BS</i>	<i>50%</i>	<i>51%</i>	<i>51%</i>	<i>52%</i>	<i>50%</i>	<i>49%</i>	<i>49%</i>
<i>ratio st debt to cash</i>	<i>0.7</i>	<i>0.8</i>	<i>0.9</i>	<i>0.8</i>	<i>1.5</i>	<i>1.1</i>	<i>1.3</i>

Source: Deutsche EuroShop AG, Silvia Quandt Research GmbH

We expect DEQ to grow its balance sheet only mildly, in accordance with its debt/equity ratio principle. However, if DEQ sees opportunities in the market field – i.e. investments with a potential initial rental yield of more than 5.5%, we expect DEQ to tap the capital market. At current market prices, this would be hardly possible, but share prices at or above € 21.00 – we believe – would fulfil the minimum requirements for DEQ to raise additional capital, providing interest rates to remain at the current low level. So far, we have not included a potential capital increase in our model.

Cash Flow

	2006	2007	2008	2009e	2010e	2011e	2012e
Net profit	100.3	94.2	68.8	65.6	76.8	71.1	95.1
depreciation (+)/apreciation(-)	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Loss (+)/profit(-) on asset sales	-14.8	0.0	0.0	0.0	0.0	0.0	0.0
Loss (+)/profit(-) on asset valuation IAS40	-66.5	-46.8	-22.0	-22.6	-35.2	-20.9	-42.5
Loss (+)/profit(-) on asset valuation IAS39	(5.8)	(4.2)	(5.7)	(6.0)	(6.3)	(6.6)	(6.9)
shareprogramme (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>increase (+)/decrease(-) in minoritoies</i>	6.4	14.1	(12.0)	10.1	11.1	12.2	13.4
<i>increase (+)/decrease(-) in def tax lia</i>	16.7	(16.7)	3.7	5.8	3.5	7.1	10.0
Cash Flows	36.7	40.6	32.9	53.0	49.8	62.9	69.1
<i>increase (+)/decrease(-) in other tax lia</i>	(5.5)	(0.1)	1.0	0.0	0.0	0.0	0.0
<i>increase (+)/decrease(-) in inventoties</i>	(7.6)	3.5	5.0	5.0	10.0	10.0	7.0
<i>increase (+)/decrease(-) in acc payable</i>	(9.0)	33.0	-11.4	-9.7	10.4	4.5	-0.8
Cash Flows from operations	14.6	77.0	27.5	48.3	70.3	77.3	75.3
receipts from asset sales (+)	80.9					1.0	2.0
payment rel to acquisitions (-)	(207.6)	(144.0)	(66.0)	(98.0)	(99.0)	(76.0)	(133.0)
payments for investments in cap assets (-)	(4.9)		(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Cash Flows from investing activities	(131.6)	(144.0)	(71.0)	(103.0)	(104.0)	(80.0)	(136.0)
increase in long term borrowings (+)	49.0	119.3	72.4	93.5	(47.7)	74.7	100.2
Net inflow from cap increasees (+)					83.0	1.0	2.0
share buy-backs(+)/payments to owners (-)	(38.4)	(40.2)	(39.6)	(41.8)	(41.8)	(44.0)	(44.0)
other							
Cash Flow from financing	10.6	79.1	32.8	51.7	(6.5)	(31.7)	(58.1)
FCF	(106.4)	12.1	(10.7)	(3.0)	(40.3)	(29.1)	(2.5)
Funds at start of year	157.0	96.8	109.0	98.2	95.2	55.0	85.0
Funds at end of year	96.8	109.0	98.2	95.2	55.0	85.0	(84.5)
change in consolidation	3.2					1.0	2.0

Source: Deutsche EuroShop AG, Silvia Quandt Research GmbH

It should be noted that DEQ actively redeems its debt, which is not part of the cash flow statement in the sense that we have not added these redemptions back. Typically, non-German and most of the German real estate companies do not redeem their debt.

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