Sal. Oppenheim

DEUTSCHE EUROSHOP AG

REAL ESTATE

"WE ARE FAMILY"

September 2005

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Real Estate Rel. Sector: ++

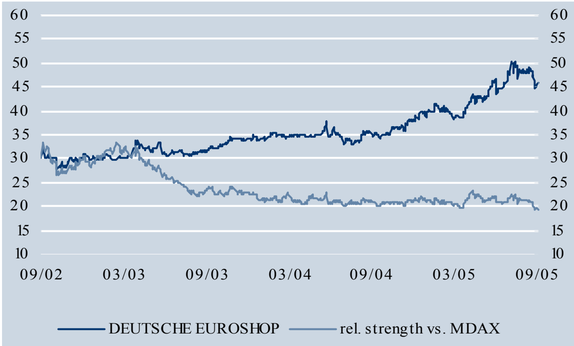
DEUTSCHE EUROSHOP

26 September 2005 €45.98 DEQGn.DE

BUY

FAIR VALUE EUR51.00

Martin Praum
+ 49 (69) 7134 - 5235



„WE ARE FAMILY"

We initiate coverage on Deutsche EuroShop (DEQ) with a Buy rating and fair value of €51 per share, reflecting 11% upside at current levels. We like DEQ's focused strategy, the strength of the market niche it is operating in, long-running tenancy agreements and the "family ties" with Otto/ECE, which in our view, guarantee profitable growth going forward. Besides its low-risk profile and high transparency, DEQ already today offers REITs-like characteristics with an after-tax dividend yield of 4.4%, which furthermore supports our Buy rating.

FY	Sales	Net Profit	adj. EPS	PER	EV/EBITDA	EV/Sales	EBIT margin	Dividend	Yield
2003	57.9	19.0	1.22	26.0	22.3	15.6	70.0%	1.92	6.1%
2004e	61.4	27.7	1.78	19.8	21.4	17.7	82.5%	1.92	5.5%
2005e	71.3	35.5	2.27	20.3	22.6	18.2	80.6%	2.00	4.4%
2006e	76.9	37.2	2.38	19.3	21.7	17.5	80.4%	2.05	4.5%
2007e	78.9	43.9	2.81	16.3	22.2	17.5	78.9%	2.10	4.6%

Rel. Performance:	Market cap: €0.72bn	EPS CAGR 03-07: 23.3%	Equity ratio: 49.4%
1 Month -8.5%	Av. d. vol. prev. m.: 33,774	PEG ratio: 0.9	ROCE: 3.1%
6 Months -5.4%	High/Low: 50.5/34.4	Free Float: 79.0%	ROE: 5.4%

____ The shopping center play with „family ties"

Deutsche EuroShop is the leading owner of shopping centers in Germany and one of the few European players with a 100% focus on this market niche. As a financial investor, the company owns 14 participations in six European countries with a total investment volume of €1.2bn. The MDAX listed company has a close co-operation with ECE, the leading shopping center manager and developer in Europe. The latter is owned by the Otto family, which also holds a 21% stake in Deutsche EuroShop's equity.

____ Focus on market niche with above market average growth rates

While some investors have a cautious view on German consumer-related stocks, Deutsche EuroShop (with 82% exposure to Germany) benefits from its market niche focus and attractive business model. While only indirectly exposed to German consumer activity, it captures the upside potential while limiting the risks via long-running tenancy agreements with minimum rents. The company's tenants furthermore show between 2% and 9% higher retail sales growth versus the overall market.

____ Trading at net asset value versus a premium of 38% for its peer group

Deutsche EuroShop currently trades at its FY2005e net asset value (NAV), while its peer group trades at a 38% premium. Based on our fair value, the company would only trade on a 12% premium, which shows the potential further upside versus its peer group. However, our dividend discount model currently also indicates a fair value of €51 per share. We see further growth potential in a further increase in NAV, further investment activities or a significant pick-up in consumer confidence. For FY2005 we expect a 4% rise in dividends, based on growth in the company's underlying business and revaluation gains from two recently opened shopping centers in Germany.

EXECUTIVE SUMMARY

PURE PLAY ON SHOPPING CENTERS

Initiate coverage with buy rating and fair value of €51 per share

We initiate coverage of Deutsche EuroShop (DEQ) with a fair value of €51 per share and a buy rating, at current trading levels reflecting a 11% upside to our fair value.

Currently trading on a 0% premium versus 38% for the sector

Based on our fair value, DEQ would trade on a 12% premium to net asset value (currently trading at a 0% premium only), which compares to the peer group average of 38%. The fair value is furthermore backed by our dividend discount model, which yields an equity value of €51 per share.

Peer group valuation

Name	Country	Retail in % of total business	Last price (local)	Market Cap	MV/EBITDA 2005e	MV/EBITDA 2006e	P/E 2005e	P/E 2006e	Price / NAV 1 H1 2005
Rodamco Europe	NL	88%	72.30	6,481	14.1	13.1	17.6	16.4	41%
Klepierre	F	85%	81.60	3,767	9.7	8.5	30.7	26.6	36%
Corio	NL	77%	48.00	3,228	12.7	12.0	15.3	14.7	42%
Vastned Retail	NL	94%	55.25	934	10.2	9.8	15.3	14.9	17%
Eurocommercial Properties	NL	90%	32.01	1,100	14.6	13.6	20.1	19.6	42%
Liberty International	UK	100%	975.00	3,136	11.6	10.9	31.6	28.9	21%
CityCon	FIN	100% (61%)*	3.49	436	6.9	6.6	16.9	15.2	69%
Deutsche EuroShop (consensus)	**D**	**100%**	**45.70**	**714**	**12.7**	**11.6**	**21.7**	**22.3**	**2%**
Deutsche EuroShop (Oppenheim estimates)			**45.70**	**714**	**12.4**	**11.5**	**20.1**	**19.2**	**0%**
Deutsche EuroShop (based on fair value)			**51.00**	**797**	**13.9**	**12.9**	**22.5**	**21.4**	**12%**
Average (ex Deutsche EuroShop)					**11.4**	**10.6**	**21.1**	**19.5**	**38%**

*Source: Company data, Oppenheim Research, * = 61% shopping center, 39% supermarkets*

Leading owner of German shopping centers

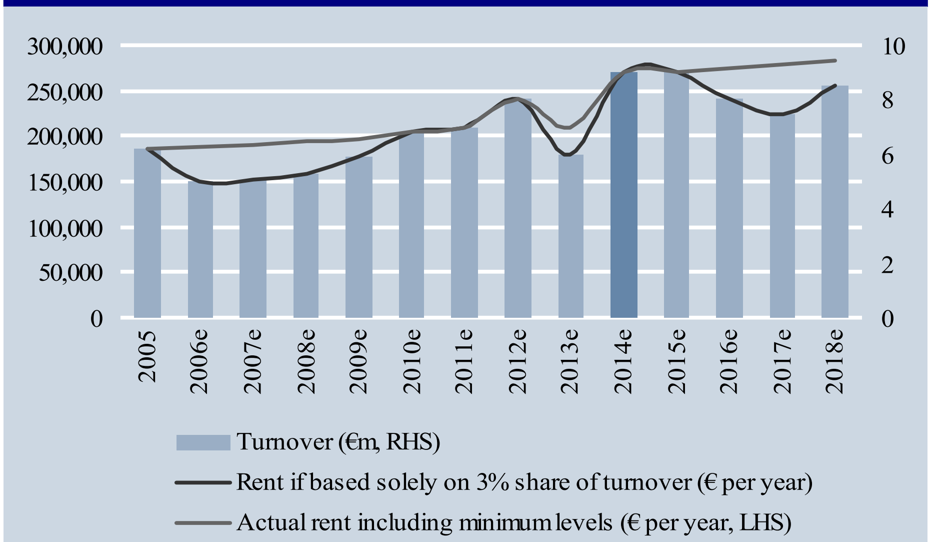
DEQ is the leading owner of German shopping centers and the only listed German player in this segment of the real estate market. Also within a European perspective it is the only player with a 100% focus on shopping centers (but only in continental European context, UK-based Liberty International also has a 100% focus on this segment). It is nevertheless still a fairly small player in terms of market cap (€741m versus €6.4bn for the segment leader Rodamco Europe). DEQ in total owns 14 participations in six European countries (of which nine in Germany) with a total invested capital of €1.2bn.

In our view, DEQ offers several advantages to investors:

- Focus on a market niche with better than market-average growth rates
- A clear strategy
- A convincing track record and conservative business planning
- A diversified portfolio of shopping centers and tenant structure
- Predictability and security via long-running rental agreements
- Upside potential from index-linked and turnover-based rents
- A solid balance sheet structure
- Transparency in terms of IFRS fair value accounting
- A tax-free dividend and high yield of 4.4%
- Hence already today REITs-like characteristics

We regard the risk profile of Deutsche EuroShop as low, given it is acting in a market niche with better than market growth rates. It is also only exposed to retail turnover on the upside, not on the downside, given long-running and index linked minimum rents.

The upside potential of rents



Source: Oppenheim Research, based on a 500 sqm shop with initial rent of €370 per sqm per year

We also expect the company to show consistent growth medium-term, with annual investments of between €100m and €150m. While this could at some stage lead to a capital increase or portfolio reshuffle, we believe the partnership with market leader ECE ensures Deutsche EuroShop will acquire attractive and low-risk projects, which will also ensure further growth in dividends.

SWOT PROFILE

DEQ SWOT

Deutsche EuroShop AG

Strengths

- #1 position in Germany
- Strong partner in center management (ECE)
- Indexed rental agreements, turnover participation
- High dividend yield, tax free dividend
- Already today a REITs-like player
- Long duration of rental agreements
- Diversification

Weaknesses

- Very high dependence on ECE
- Equity restrictions, capital increase likely
- Business model depends on only a few key people
- Sub-optimal debt structure

Opportunities

- Growth / Acquisitions
- German REITs
- VAT increase (=CPI rises and hence rents)
- Lower income taxes likely

Risks

- VAT increase (=lower consumption)
- Macro-economic risk, jobless rate in Germany
- Rising interest rates

Industry

Average score 5.0
Scoring range 1-10 (high score is positive)

Power of suppliers 3
High

High dependence on ECE which is market leader in shopping center management in Europe (but family still holds 21% of DEQ)

New entrants 8
Low

Shopping center projects are typically large-scale and require good knowledge of the market

Rivalry 4
Limited

Limited given focus on market niche

Danger of substitution 5
Low

Focused niche player, low risk, but ECE could choose other equity partner any time

Regulation 5
mid to high Risk

Lower income tax, potential REITs introduction, increase of VAT possible

Power of customers 7
Limited

Depending on location limited (cannot afford not to have shops in successful retail shopping centers)

Source: Oppenheim Research

KEY COMPARABLE & NAV VALUATION

BUY, VALUATION UPSIDE

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Source: Company data, Oppenheim Research

REITs-like characteristics, after tax dividend yield of 4.4%

We believe a premium to NAV is justified, given DEQ already today offers REITS-like characteristics, with a 2005e tax-free dividend of €2.00 per share (equivalent to an after-tax dividend yield of 4.4%), but also convincing growth prospects which will increase the net asset value medium-term.

Net asset value estimates

	2003	2004	2005e	2006e	2007e
Non-current assets	1,095.4	1,203.3	1,269.3	1,327.4	1,389.5
Current assets	145.0	167.0	170.3	173.7	177.2
Total assets	**1,240.5**	**1,370.2**	**1,439.6**	**1,501.1**	**1,566.7**
Non-current liabilities	476.6	597.7	642.7	687.7	732.7
Current liabilities	24.9	36.5	34.1	36.5	34.3
Total Liabilities	**501.6**	**634.1**	**676.8**	**724.2**	**766.9**
Net assets	**738.9**	**736.1**	**762.8**	**776.9**	**799.7**
Minority interest	-56.3	-49.3	-51.7	-54.3	-57.0
Net asset value	682.5	686.8	711.1	722.6	742.7
Number of shares	15.6	15.6	15.6	15.6	15.6
Net asset value per share (NAV)	**43.68**	**43.96**	**45.51**	**46.24**	**47.53**
Discounted latent taxes	-2.0	-1.9	-1.8	-1.7	-1.7
NNAV per share	**41.7**	**42.0**	**43.7**	**44.5**	**45.9**

Source: Company data, Oppenheim Research

Risk-averse business model

We furthermore regard Deutsche EuroShop's business model as risk-averse, given the duration of its tenancy agreements and the co-operation with the market leader in center management ECE.

Fair value backed by DDM

Our fair value is also backed by a dividend discount model, which under current assumptions yields a fair value of €51 per share.

DDM

Risk rate	6.4%											
Mid-term growth	4.0%											
Terminal growth	1.5%											
	2005e	**2006e**	**2007e**	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**	**Terminal**
Dividend per share / terminal value	2.00	2.05	2.10	2.18	2.27	2.36	2.46	2.55	2.66	2.76	2.87	59.15
Year	0	1	2	3	4	5	6	7	8	9	10	10
Discounted dividend / terminal value	2.00	1.93	1.86	1.81	1.77	1.73	1.69	1.66	1.62	1.58	1.55	31.81
Sum	**51.00**											

Source: Oppenheim Research

COMPANY PROFILE

PURE PLAY ON SHOPPING CENTERS

Founded in 1997 by Deutsche Bank Group

DEQ was founded by Deutsche Bank Group in 1997 as a retail property participation project. Operating business started in 2000 with the acquisitions of first participations, followed by the IPO at the end of December 2000.

Leading owner of German shopping centers

It is the leading owner of German shopping centers and the only listed German player in this segment of the real estate market. Also within a European perspective, it is the only player with a 100% focus on shopping centers (but only in continental European context, UK-based Liberty International also has a 100% focus on this segment). It is nevertheless still a fairly small player in terms of market cap (€741m versus €6.4bn for the segment leader Rodamco Europe). DEQ in total owns 14 participations in six European countries (of which nine in Germany) with a total invested capital of €1.2bn.

Portfolio overview

Source: Company data, Oppenheim Research

Financial investor with lean company structure

DEQ is more a financial investor than a typical real estate company with operating business units attached. It holds participations in 14 shopping centers with a total space of 526,000 sqm and 1,300 shopping units. This is also reflected in the lean company set-up, with only 7 staff on the payroll. We will focus on this in detail in the “business & products” segment of this report.

In our view, DEQ offers several advantages to investors:

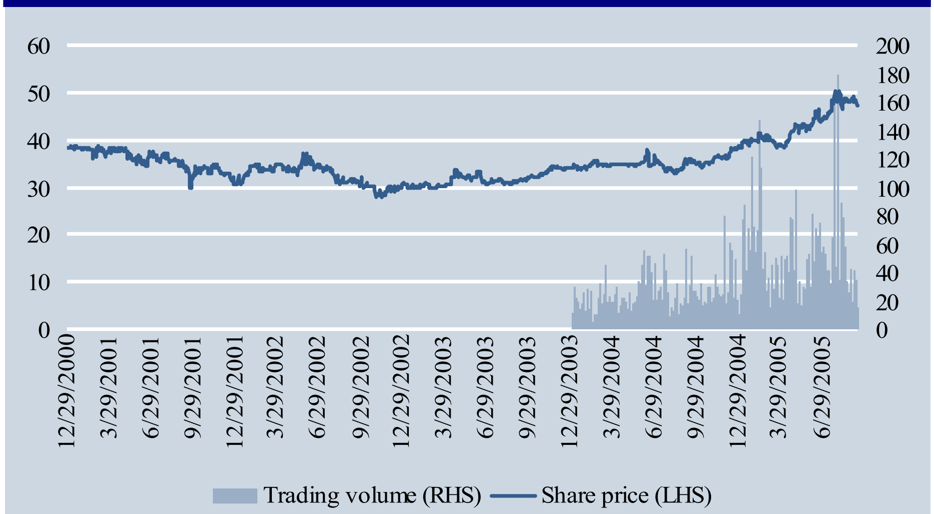
- Focus on a market niche with better than market-average growth rates
- A clear strategy
- A convincing track record and conservative business planning
- A diversified portfolio of shopping centers and tenant structure
- Predictability and security via long-running rental agreements
- Upside potential from index-linked and turnover-based rents
- A solid balance sheet structure
- Transparency in terms of IFRS fair value accounting
- A tax-free dividend and high yield of 4.4%
- Hence already today REITs-like characteristics

DEQ SHARES

Stable shareholder structure

DEQ shares have traded in a relatively narrow range since the company’s IPO, which was impacted by a very stable shareholder structure with a large number of domestic retail clients invested in the company.

Share price development and trading volumes



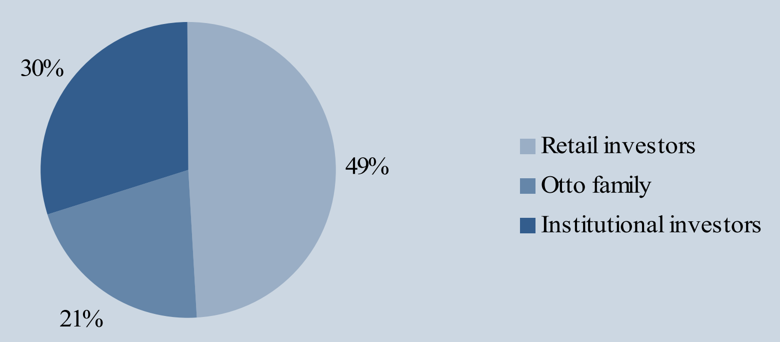
Source: Datastream, Oppenheim Research, trading volume data only available from 2004 onwards

Attractive for retail investors with 4.4% after tax yield

The share price and volumes have gained momentum with the start of the REITs discussion in Germany and increased institutional investor awareness. However, retail investors still reflect the majority of stock owners, given the company offers an attractive tax-free dividend of €2.00 (2005e) per share, equivalent to a 4.4% net dividend yield. Owing to the higher valuation and increased trading activity, DEQ entered the MDAX index in September 2004.

With a free-float of 79%, DEQ only has one major and strategic shareholder, the Otto family with its 21% stake. It should be noted that the Otto family is furthermore founder and owner of ECE Projektmanagement, the company that opened its first own shopping center in Germany in 1969 and has since then developed into the largest European player in center development and management. It is also DEQ's most important business partner and manager of most shopping centers in EuroShop's portfolio.

Shareholder structure



Source: Company data

Tax-free dividend? How would this work?

Similar to its "brother" (as it was also founded by Deutsche Bank's real estate subsidiary DB Real Estate) Deutsche Wohnen, DEQ uses a special tax structure. Its dividend payments are technically a return of registered capital to investors and hence tax-free. The distribution from the existing capital reserves (*steuerliches Einlagenkonto*, former "EK04") will, in our view, allow DEQ to pay a tax-free dividend for at least the next 7-8 years.

REITs-like characteristics

While draining the existing equity account (capital reserve), the company fills up a "new" equity account (net retained earnings) with the after-tax cash-flow earned from shopping center rental income and capital gains. The company hence already today offers REIT-like characteristics, although the tax transparency occurs at end-investor level, not at corporate taxation level.

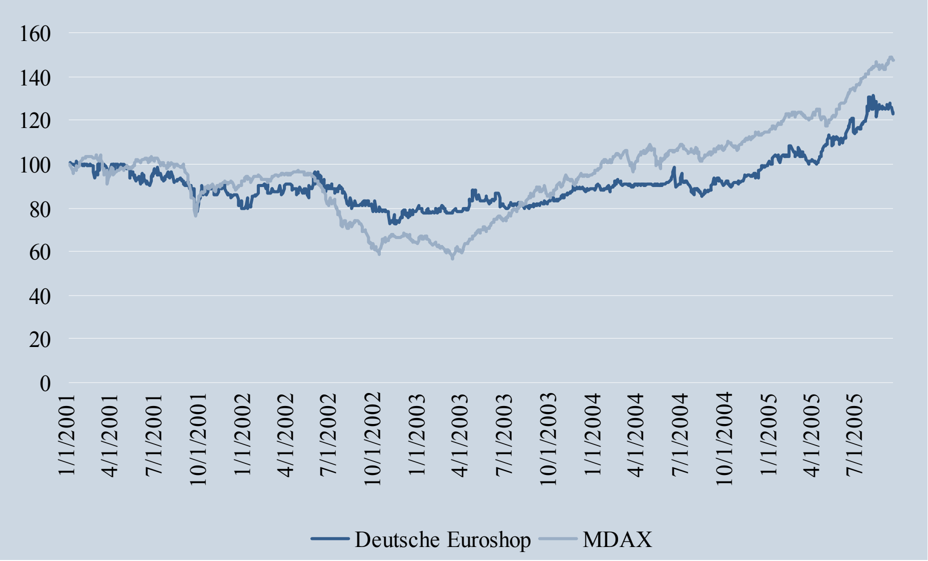
Clear advantage versus other German companies in terms of dividend

The dividend yield is especially outstanding when comparing with the German coverage universe of Oppenheim Research. The expected average pre-tax dividend yield for 2005 amounts to 2.3% versus an after tax yield of 4.4% for DEQ (which is equivalent to a 5.5% pre-tax dividend yield assuming the German *Halbeinkünfteverfahren* as a calculation basis).

MDAX under-performance as low beta play

However, since the IPO, DEQ shares have underperformed the MDAX index. We attribute this to the lower growth, low beta & dividend-driven business model of DEQ so far, versus faster growing companies included in the index.

Relative performance versus MDAX



Source: Datastream, Oppenheim Research

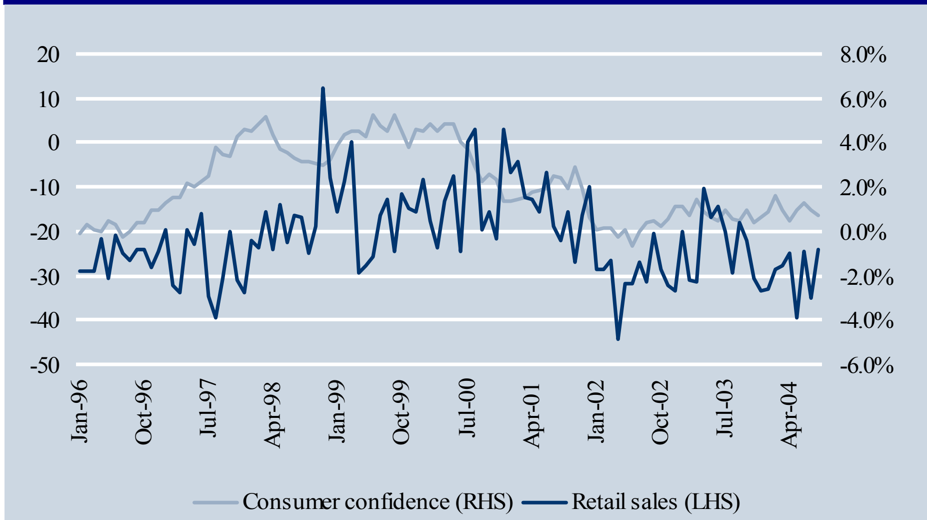
CORPORATE STRATEGY

GERMANS? CONSUMPTION?

Overall weak domestic demand

If there is anything foreign investors know about Germany, then it certainly includes comments about the weak domestic demand, the high savings rate and the lack of consumer confidence.

Retail sales versus consumer confidence correlation

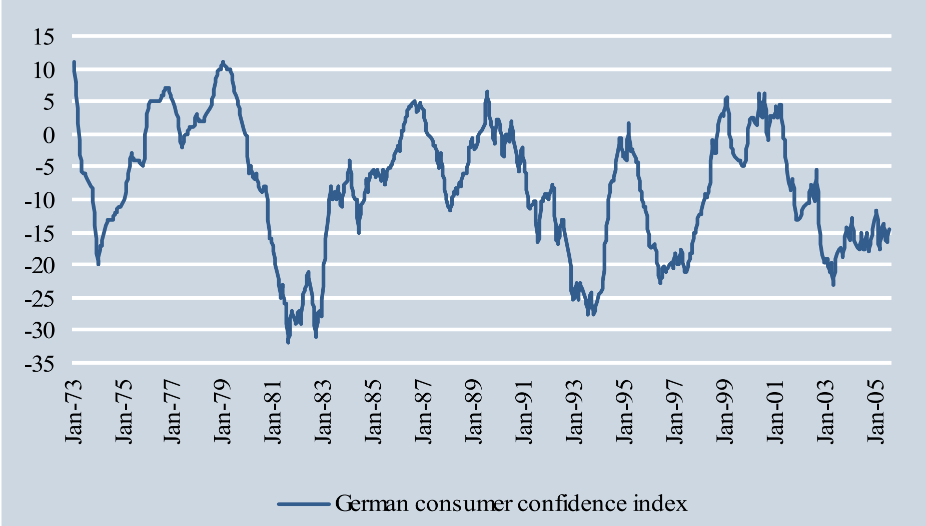


Source: Datastream, Oppenheim Research

Weak consumer confidence

As shown in the graph above, consumer confidence and retail sales admittedly have a certain correlation and still present themselves in a somewhat weak position, compared to the historical averages.

History of German consumer confidence



Source: Datastream, Oppenheim Research

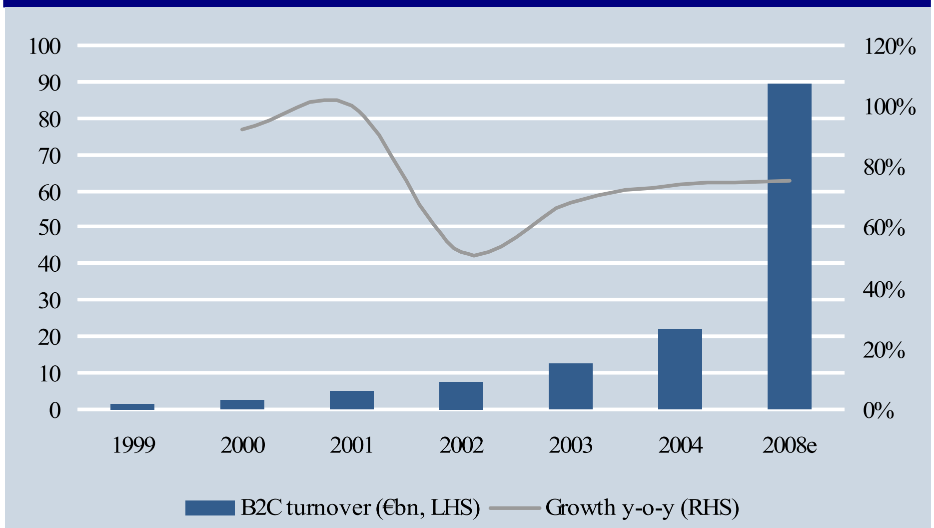
No clear direction, but first signs of bottoming out

Even having a long-term view shows no clear trend towards a significant increase in consumer confidence short-term, despite first signs of a bottoming out and smaller recovery, respectively.

Shopping centers and B2C as major threats for individual retailers

A further threat to individual retailers is not only the competition from shopping centers, but more importantly, the significant rise in B2C turnover, luring revenues away from offline to online distribution. While the current share is only 4% of total retails sales, this number could rise to 16% given double-digit growth rates. The emergence of factory outlet stores in Germany (currently only 0.3% market share) does not post a threat yet, in our view.

B2C turnover

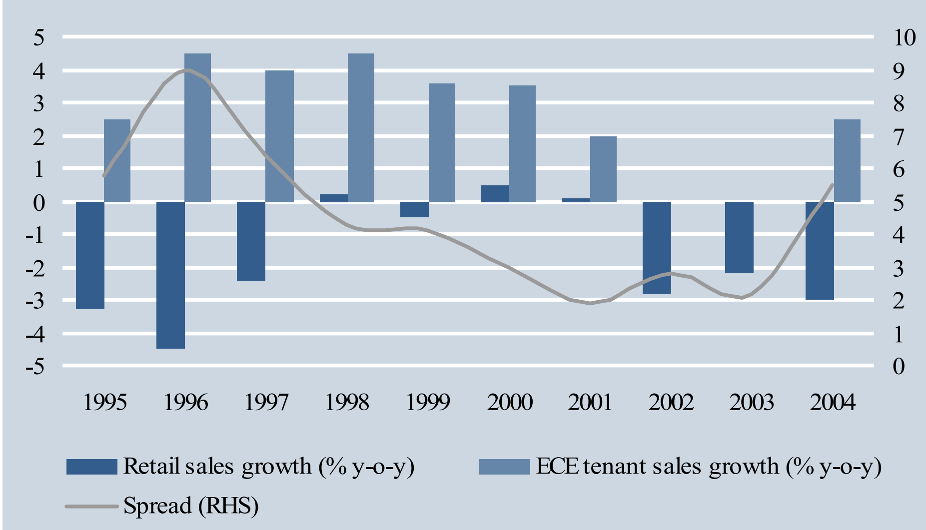


Source: BITKOM, EITO, HDE, Deutsche Bank Research

Why invest in DEQ?

So why invest in a company that is 85% exposed to this market environment (with participations in the German shopping centers)?

Retail sales comparison



Source: ECE

Retail turnover lies way above market average

Simply because shopping centers enjoy an above market average demand and are not impacted by the overall weakness in German retail sales. As can be seen from the graph above, over the last ten years the tenants of center manager ECE did not experience a single business year with negative growth rates in sales, but rather showed between 2% and 9% higher growth compared to the market average.

Change in consumer shopping habits

We attribute this success to a structural change in consumers' shopping habits. The modern consumer, in our view, looks for:

____ a broad selection of products and services in one (roofed over) place, which includes "key lodestone" shops and well-known brands
____ convenient parking and public access
____ harmonized opening hours
____ modern design
____ security
____ cleanliness
____ and all of the above rounded off by entertainment and special events.

Retailers, on the other hand, demand many of the aforementioned things, but furthermore:

____ harmonized marketing efforts
____ a healthy tenant mix
____ flexibility (e.g. to cope with requirements for rising product presentation space, i.e. rising demand for retail space over time)

Location, tenant mix and key brand names

A major success factor is hence, in our view, the location, construction and design of the center and especially the tenant (sector) composition, which includes the acquisition of "key" brand names to lure customers to the center.

The young and the beautiful

A major advantage of shopping centers in general is also the fact that they are relatively young compared to retail shopping space overall. While German city centers' character is stamped by post-war individual retail space (which often did not experience sufficient modernization efforts), the majority of German shopping centers benefits from a central management, which demands retail space tenants to meet today's design requirements.

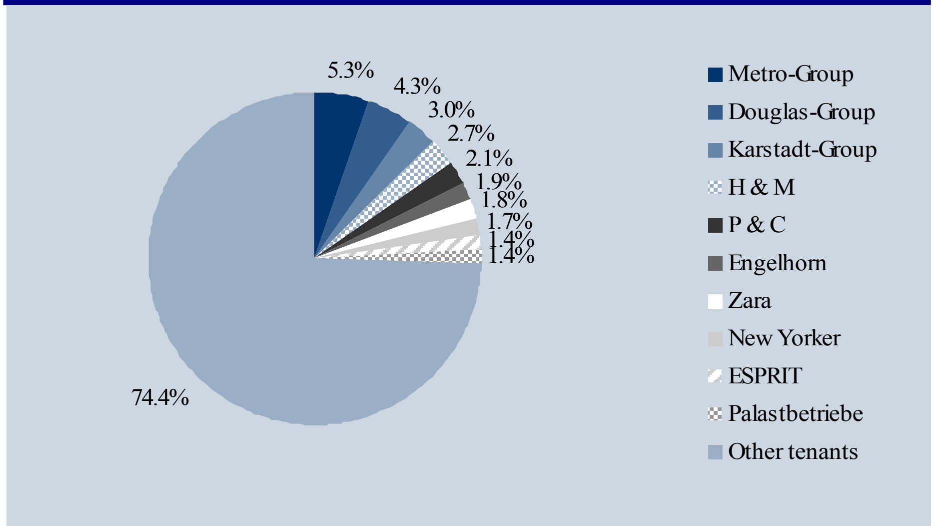
Shopping center space is more flexible

Given its "simple" and harmonized construction basis, shopping center retail space is furthermore very flexible in terms of shop-size and embodiment, which can suit many different tenant demands. As an example, should a major tenant run into insolvency, center management can easily split up the freed retail space into two or three different shops to meet the demand of interested retailers.

DEQ is not dependent on macro factors, 100% occupation

Only if a major chain runs into problems, do we see downside risk for DEQ as a landlord. This, however, is also limited via the company's strict diversification rules.

Diversified tenant base

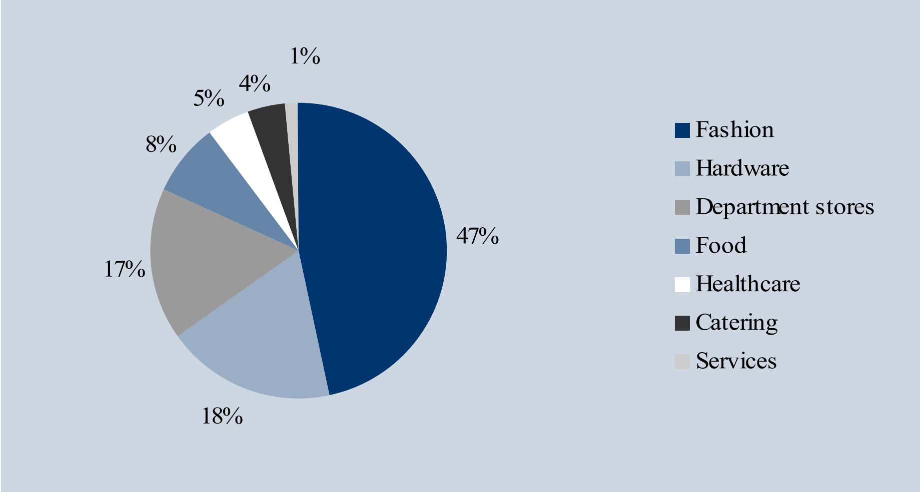


Source: Company data, Oppenheim Research

Largest tenant only accounts for 5.3% of revenues

As can be seen from the chart above, DEQ's largest tenant only accounts for 5.3% of total rents. A further risk limitation is the diversification in terms of sectors. While DEQ's portfolio is dominated by fashion shops, we see only limited risks for this sector, given there is only small scope for mail-order or B2C distribution to endanger retail sales in this area, in our view.

Sector diversification



Source: Company data, Oppenheim Research

MARKET STRUCTURE

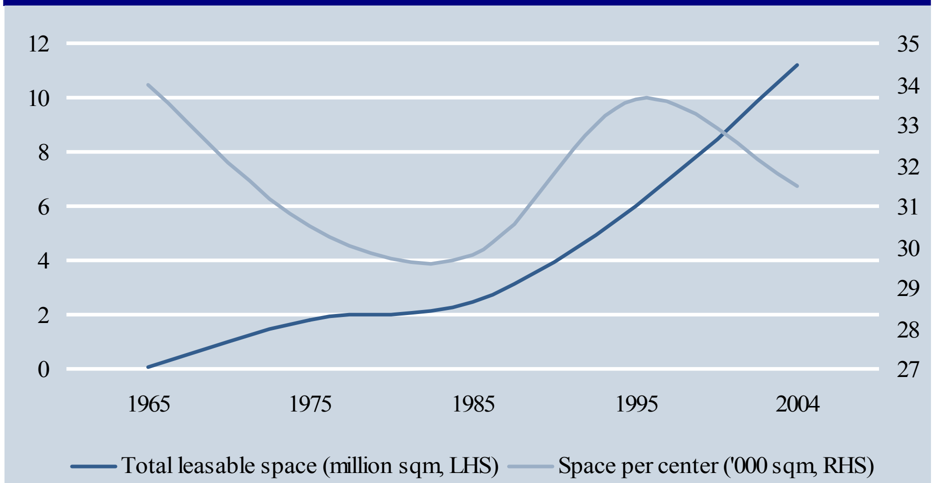
Definition of "shopping center" not harmonized

Market data for German shopping centers varies depending on source and definition, as there is no harmonized definition of "shopping center" in Germany. Hence, the total number of German centers varies between 300 and 500 with a total retail space of between 11.5m sqm and 12m sqm, which is equivalent to ca. 9% of total retail space.

Difference in size and tenant mixture and management

While statistics include shopping centers from 8,000 sqm leasable space, Deutsche EuroShop's centers have a minimum leasable space of 20,000 sqm (except for the two centers in Italy and France, which could be sold medium-term), going up to 79,000 sqm. A further distinction has to be made in the way centers are managed and the tenant mixture, as many smaller centers only include a large store, surrounded by a smaller number of other shops, which hardly deserves to be called "shopping center".

Growth of shopping centers in Germany

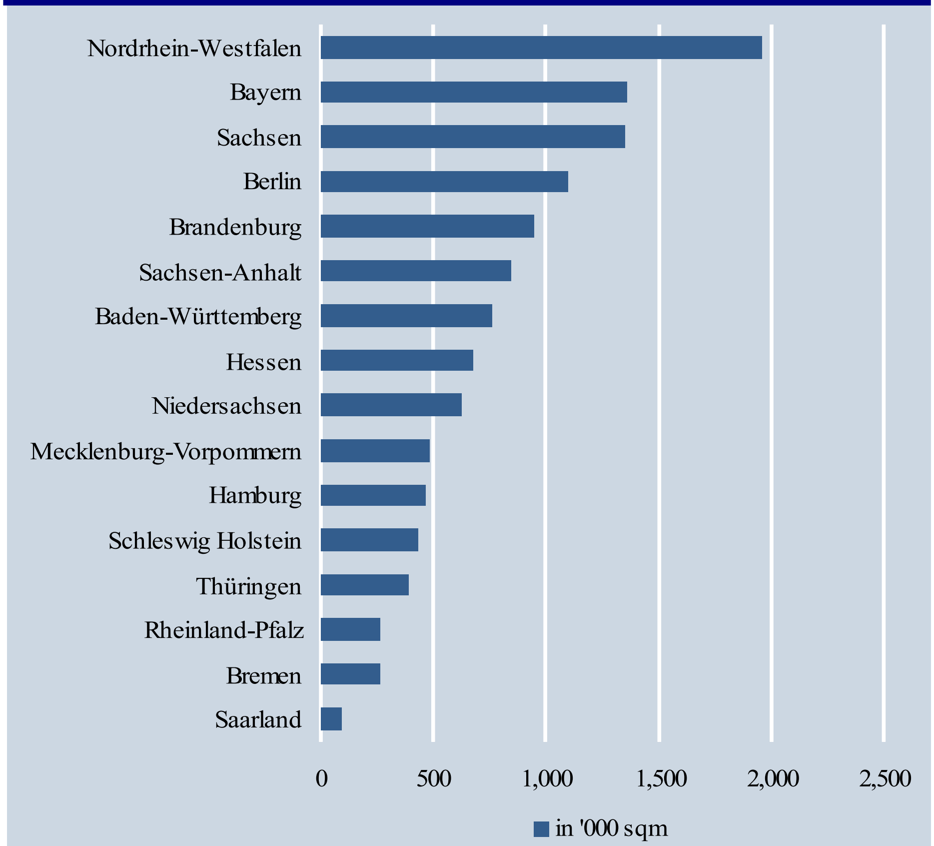


Source: BITKOM, EITO, HDE, Deutsche Bank Research

Industry has experienced significant growth

Nevertheless, the industry segment has undoubtedly experienced significant growth since the first center was opened in 1964. We believe space per center is coming down again, as more and more centers are integrated into city-center locations and the importance of green-field shopping centers declines. Deutsche EuroShop comfirms this trend, with only two out of 14 centers located out of city centers.

Split of gross leasable area in German states 2004

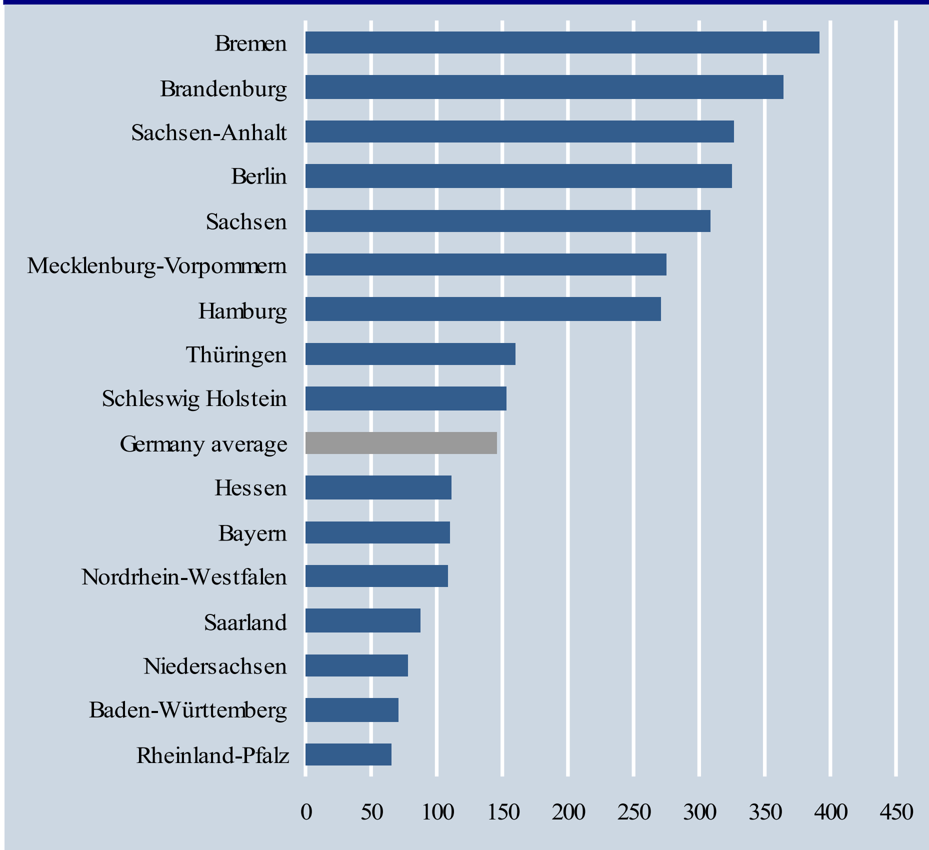


Source: I-F-G

Some downside potential in East Germany owing to increased GLA

The two charts on the distribution of shopping center area in Germany reveal a potential risk for investors in general. Especially when comparing the available gross leasable area (GLA) with the number of inhabitants and also taking into account the weak consumer spending data in some of these states, we see some downside potential for locations in East-Germany, which seem to have built up overcapacities. This is primarily an aftertaste from the post-reunification construction boom in East Germany.

GLA (Gross leasable area) in German states in sqm per 1,000 habitants



Source: I-F-G

However, Dresden among the locations with good growth prospects

However, we would like to mention that Deutsche EuroShop is well positioned with its East-German exposure (Dresden), given the latter is one out of three areas in East Germany expected to show healthy growth medium-term (besides Berlin and Leipzig).

MARKET DEVELOPMENT

Further growth expected

We expect further growth in the gross leasable shopping center space, given that the center concept is also arriving in smaller/medium-sized German cities. Assuming stable retail sales, this should happen at the cost of individual retailers in Germany, who should remain on the shrinking path.

Thematic centers as a new trend, but no threat for DEQ

We expect further growth of factory outlet centers, as well as specialized shopping centers with a focus on certain themes (focus on design, lifestyle etc). Railway stations will furthermore increasingly be developed into shopping areas. Last but not least, a combination of shopping & entertainment will also impact the development of new sites. However, we see no increased competition for DEQ's centers, given the afore-mentioned concepts will be smaller in terms of size and also will not offer the same variety of products as generalist DEQ's tenants currently do.

Trend of "moving back to the city"

While an early strategy in the sector was to build larger green-field shopping centers to lure customers away from the city centers, we believe the approach is changing again. The early centers were copied from the US, where transportation by car dominates everyday life and pedestrian areas, which dominate German city centers, are rather unique examples of shopping areas. We furthermore believe that green-field construction offered a much higher flexibility (it is easier to build from scratch than to integrate a center into a grown real estate environment) to developers, lower ground acquisition costs, a higher catchment area and faster project execution (via building permits etc.).

Main-Taunus Zentrum as well established green-field player

A good example is DEQ's participation in the Main-Taunus Zentrum, which is located in Sulzbach, 15km away from the city center of Frankfurt (in the open countryside, but with direct highway access). The location is reachable by 110,000 inhabitants within 5 minutes, 475,000 inhabitants within 15 minutes and 1.12m inhabitants within 45 minutes, bringing the total potential customers to over 2.2m. Having chosen a location west of Frankfurt, it offers a shopping alternative, not only to inhabitants of the financial center of Germany, but also to consumers from Wiesbaden / Mainz and the Bad Homburg / Taunus area.

Modernization kept center up to date

Although constructed already in 1964, the now 41-year old building was modernized on a frequent basis and today offers an average "age" of 14 years. The center furthermore benefited from its location and the growth of the surrounding cities.

But city center integrated centers are the future

We, however, believe that the future lies in city-center "integrated" shopping centers, which is already reflected in Deutsche EuroShop's portfolio (only two centers are green-field operations). To prevent the extinction of local city centers and pedestrian areas (owing to green-field centers), local authorities changed their minds over time and today show increased flexibility to settle shopping center projects in city center locations, as it is regarded as a way to lure additional consumers into the city and to the surrounding individual retailers.

City migration and demography as supporting trends

Another factor is the structural trend of migration into cities (*Landflucht*), driven by labor supply, but also demographic trends, with a rising number of elderly people living in the city.

But city integration often not without conflicts

While this sounds like a good idea in theory, Deutsche EuroShop and ECE themselves with their latest opening in Hamburg-Harburg showed the explosiveness of "integrated" centers. The 3 storey high and 26,500 sqm large Phoenix Center reportedly not only lured well funded consumers away from the adjoining pedestrian area and led to a decrease in the Harburg city center shop quality, but also cleared the rows in mfi's smaller shopping center "Harburg Arcaden", which only offers 13,600 sqm in retail space. It will, in our view, take some time for local retailers to adapt to the new situation and to find new concepts so that both players benefit, which should be the medium-term target for every shopping district.

Size matters, in our view

This also confirms our view that "size matters" in shopping center business. According to market researcher BulwienGesa, vacancy rates in larger shopping centers are lower than in smaller ones, driven by a superior tenant mix and hence a higher selection of products and a more professional center management.

Wetzlar as example for successful integration

Another, more positive example, is DEQ's recently opened "Forum Wetzlar" in Wetzlar, which reportedly from the start also attracted more consumers to the surrounding individual retailers' stores. This example shows the optimal combination of shopping centers and city center retailers and could develop as the blueprint for further developments.

MARKET PERFORMANCE

Retail property held up quite well

Despite the somewhat weak macro figures of the overall retail market, the retail property market as an asset class has in general held up quite well and even outperformed other market segments. Taking data from the German property database DID and the DIX index as a basis reveals retail property has outperformed over the last three years (although it should be noted that the database still only covers 53% of the market).

Total return of property sectors in Germany

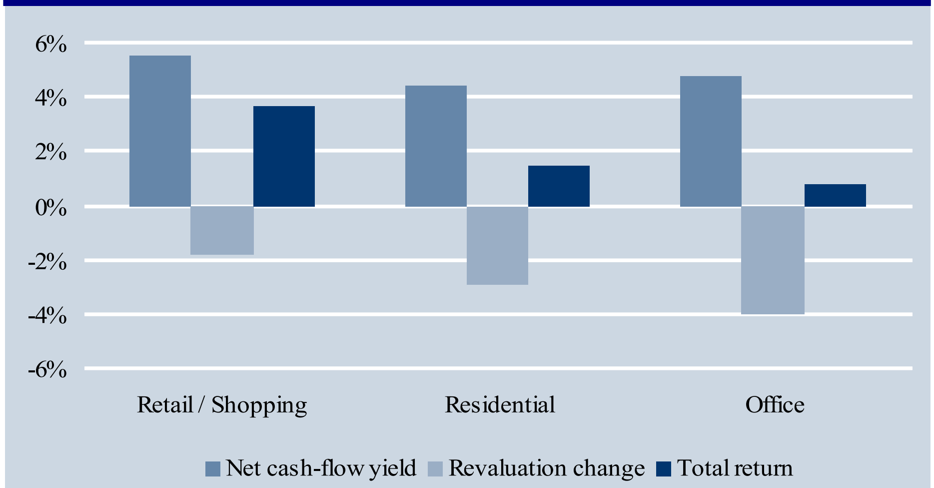
	2002	2003	2004	Accumulated
Retail / Shopping	3.9%	4.3%	3.6%	11.8%
Residential	3.1%	5.3%	1.3%	9.7%
Office	4.5%	2.8%	0.6%	7.9%
Overall market	4.1%	3.2%	1.3%	8.6%

Source: DID/DIX

Retail showed highest total return

The total return consists of two elements, the net cash-flow yield combined with revaluation gains/losses of the property. In 2004, the retail sector showed the highest cash-flow yield and the lowest revaluation requirement.

Total return of property sectors in Germany 2004

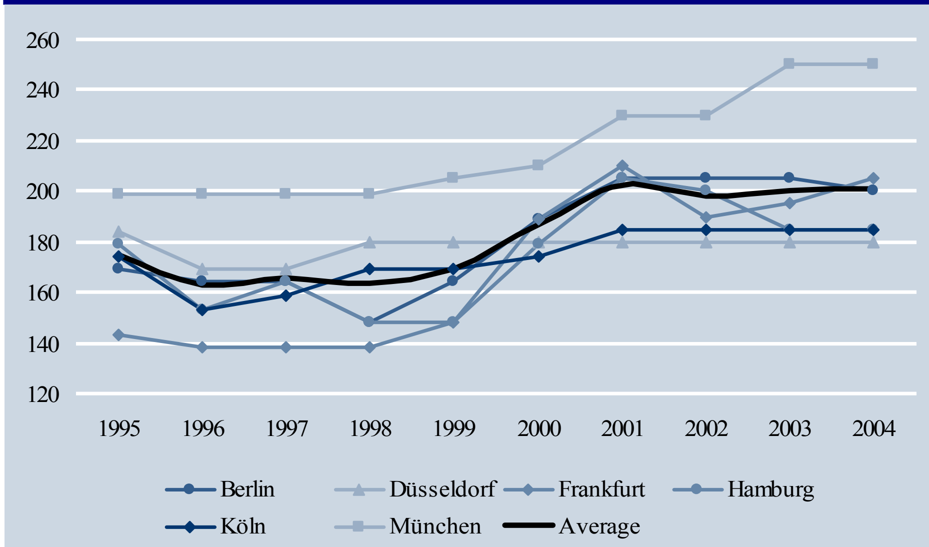


Source: DID/DIX

Low volatility sector, limited need for write-downs

We attribute this to the relatively low volatility of the sector, which is driven by the long duration of tenancy agreements, CPI-linked rents and the strength of the shopping centers sub-segment, which offsets some of the weakness of the retail sector in general.

Development of retail prime rents (net rents in € per sqm per month)



Source: ATIS Real Müller Retail Services

Net prime rents on the rise

Net prime rents in the sector in major German cities have shown quite a stable development over the last ten years, with an annual increase of 1.5% since 1995 and even an annual 2.6% increase since the low in 1996.

BUSINESS UNITS AND PRODUCTS

THE DEQ PORTFOLIO – A CLOSER LOOK

Portfolio details I

Domestic	**Rhein-Neckar-Zentrum**	**Main-Taunus-Zentrum**	**City-Galerie**
Location	**Viernheim**	**Frankfurt**	**Wolfsburg**
Participation	92.8%	37.4%	89.0%
Floor space in sqm	64,000	102,000	30,000
o/w sales area	60,000	79,000	20,000
Number of shops	ca. 100	ca. 100	ca. 90
Occupancy rate	100%	100%	100%
Coverage (inhabitants, m)	1.2	2.2	0.6
Opened	Nov-02	Sep-04	Sep-01
Invested capital (€m)	264	132	108
Storeys	1	1	3
Co-owner	7% Deutsche Bank	62.6% closed end funds	11% ECE F&F
Co-owner	0.2% Private	of Deutsche Bank	(Friends & Family)
Center manager	ECE	ECE	ECE
Location	Countryside	Countryside	City-center
Domestic	**Altmarkt-Galerie**	**City-Arkaden**	**Allee-Center**
Location	**Dresden**	**Wuppertal**	**Hamm**
Participation	50.0%	72.0%	87.7%
Floor space in sqm	43,800	28,100	34,800
o/w sales area	26,000	20,000	21,000
Number of shops	ca. 100	ca. 90	ca. 80
Occupancy rate	99%	100%	100%
Coverage (inhabitants, m)	1.0	0.7	1.0
Opened	Sep-02	Oct-01	Mar-92
Invested capital (€m)	96	96	96
Storeys	3	3	2
Co-owner	33% TLG Immobilien	25% Otto family	12.3% Private
Co-owner	17% Otto family	3% ECE F&F	
Center manager	ECE	ECE	ECE
Location	City-center	City-center	City-center
Domestic	**Phoenix-Center**	**Forum Wetzlar**	**City-Point**
Location	**Hamburg**	**Wetzlar**	**Kassel**
Participation	50.0%	65.0%	40.0%
Floor space in sqm	39,000	34,300	29,400
o/w sales area	26,500	23,500	20,000
Number of shops	ca. 110	ca. 110	ca. 60
Occupancy rate	96%	100%	100%
Coverage (inhabitants, m)	0.6	0.5	0.8
Opened	Sep-04	Feb-05	Feb-02
Invested capital (€m)	72	72	48
Storeys	3	2	5
Co-owner	25% B&L Immobilien	20% Otto family	50% Karstadt Immobilien
Co-owner	25% Otto family	15% ECE F&F	10% ECE F&F
Center manager	ECE	ECE	ECE
Location	City-center	City-center	City-center

Source: Company data, Oppenheim Research

Portfolio details II

Foreign Location	**Centro Commerciale Tuscia, Viterbo Italy**	**Shopping Etrembières Annemasse France**	**Pécs Árkád Pécs Hungary**
Participation	100.0%	92.8%	50.0%
Floor space in sqm	15,200	(8,000 +) 8,600	34,200
o/w sales area	na	na	na
Number of shops	ca. 40	ca. 50	ca. 130
Occupancy rate	100%	100%	98%
Coverage (inhabitants, m)	0.3	0.8	0.5
Opened	1998	1994	2004
Invested capital (€m)	24	36	36
Storeys	1	2	2
Co-owner	na	7% Deutsche Bank	50% Closed end funds
Co-owner	na	0.2% Private	of HGA Capital
Center manager	Espansione Comm. S.R.L.	Espace Expansion SA	ECE
Location	City-center	City-center	City-center

Foreign Location	**Galeria Dominikanska Breslau Polen**	**City-Arkaden Klagenfurt Österreich**
Participation	33.3%	50.0%
Floor space in sqm	32,600	30,000
o/w sales area	na	na
Number of shops	ca. 100	ca. 120
Occupancy rate	100%	95%
Coverage (inhabitants, m)	1.0	0.4
Opened	2001	Mar-06
Invested capital (€m)	24	72
Storeys	3	3
Co-owner	66.7% Otto family	50% Otto family
Center manager	ECE	ECE
Location	City-center	City-center

Summary	**Foreign**	**Domestic**	**Total**
Floor space in sqm	120,600	405,400	526,000
Number of shops	ca. 440	ca. 850	1,290
Occupancy rate	100%	99%	99%
Coverage (inhabitants, m)	3.0	8.6	11.6

Source: Company data, Oppenheim Research

9 German and 5 foreign centers

Deutsche EuroShop owns 9 German and 5 foreign shopping centers, of which 12 are city-center located and only 2 green-field operations (although well established ones). We believe management is considering the deconsolidation from the centers in Italy and France (which it held since the company foundation by Deutsche Bank), as they do not fit into the strategy of owning larger centers, i.e. with a GLA of more than 20,000 sqm.

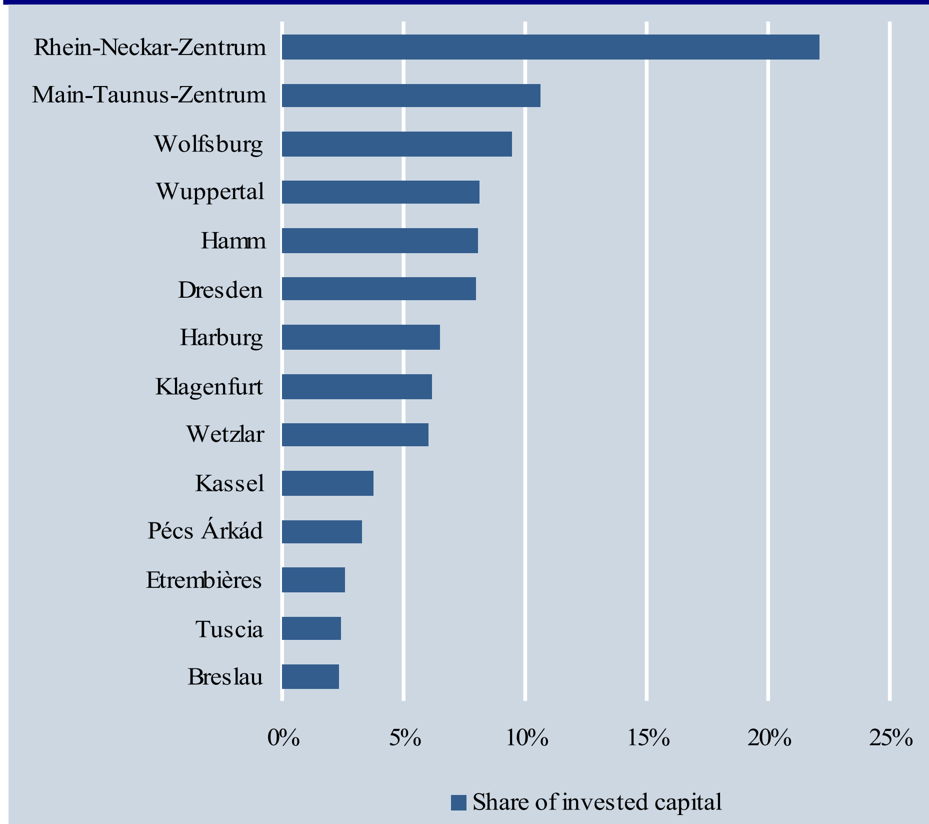
Participation rates of between 33% and 100%

The participation rate ranges from 33.3% to 100%, hence DEQ only partially consolidates its participations. Even though DEQ only owns 40% of the Kassel center, it fully consolidates the investment owing to a JV structure. All income from the other smaller centers is reflected in DEQ's P&L in the "income from participations" line.

82% of revenues domestic

In terms of revenues, DEQ in 2004 generated 82% from rental income in Germany and 18% abroad, which is roughly in line with the split of invested assets. Adjusting for the participation rates, Deutsche EuroShop consolidates 327,000 sqm with an invested capital of €1.2bn and €77m planned rental income. This is equivalent to a rental yield of 6.42%.

Invested capital split



Source: Company data, Oppenheim Research

Only 1% vacancy rate

Deutsche EuroShop has a 99% occupancy rate for the overall portfolio. While its retail space is 100% occupied, only smaller office space (which is part of the centers) is currently vacant.

Risk limitation

In terms of investment policy, Deutsche EuroShop becomes active as soon as the project developer (ECE) receives the construction permit and proves a pre-letting rate of 50%, which also acts as a risk-limitation tool.

Revenues from rental income

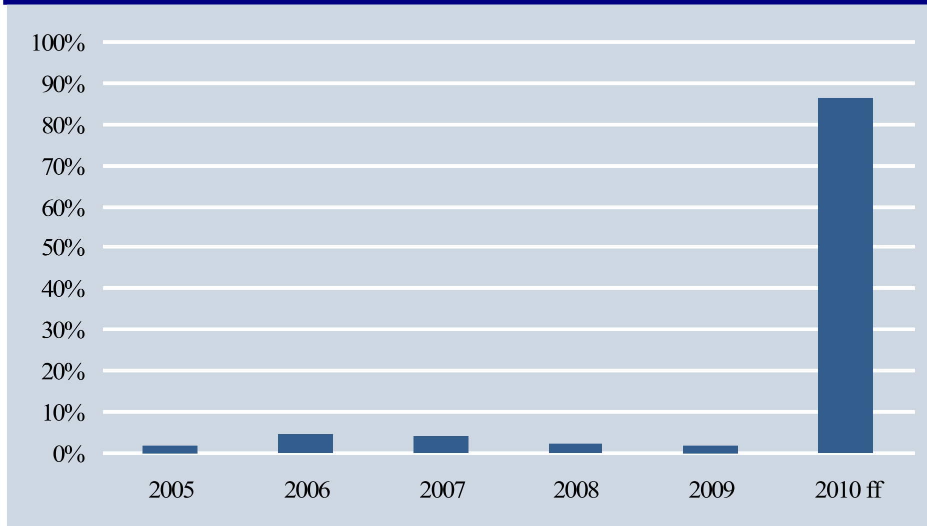
€m	2003	2004	2005e	2006e	2007e
Rhein-Neckar-Zentrum, Viernheim	14.78	15.75	16.50	17.00	17.10
Allee-Center, Hamm	8.82	8.89	9.40	9.51	9.63
City-Galerie, Wolfsburg	7.73	7.70	8.00	8.10	8.19
City-Arkaden, Wuppertal	7.69	7.38	9.40	10.40	10.52
Altmarkt-Galerie, Dresden	5.73	6.04	6.11	6.19	6.26
City-Point, Kassel	2.89	2.85	3.30	3.34	3.38
Phoenix-Center, Hamburg	0.00	1.55	5.00	5.06	5.12
Forum, Wetzlar	0.00	0.00	4.00	5.14	5.20
Main-Taunus Zentrum, Frankfurt	0.00	0.00	0.00	0.00	0.00
Domestic	**47.63**	**50.16**	**61.71**	**64.73**	**65.40**
Centro Commerciale Tuscia, Viterbo	2.55	2.69	2.73	2.77	2.82
Centro Commerciale Friuli, Udine	4.44	2.47	0.00	0.00	0.00
Shopping Etrembíeres, Annemasse	3.25	3.47	3.51	3.56	3.60
Árkád, Pécs	0.00	2.63	3.30	3.34	3.38
City-Arkaden, Klagenfurt	0.00	0.00	0.00	2.50	3.70
Galeria Dominikanska, Breslau	0.00	0.00	0.00	0.00	0.00
Foreign	**10.25**	**11.26**	**9.55**	**12.17**	**13.50**
Total revenues	**57.88**	**61.42**	**71.26**	**76.90**	**78.90**
Growth		6%	16%	8%	3%

Source: Company data, Oppenheim Research

Like for like growth of rents was 3% y-o-y

Rental income from its existing portfolio (consolidated centers) in 2004 increased 6% versus 2003. Stripping-out special events (such as pro rata consolidation and M&A activity) results in a like-for-like growth in rents of 3% y-o-y. Deutsche EuroShop is in the comfortable position that not only its rental agreements have a long duration, which certainly reduces the risk in the equity story, but it also benefits from growth and activity of its tenants.

Tenant contract maturity



Source: Company data, Oppenheim Research

Minimum rents & share of turnover

Rental agreements are based on two factors, a minimum rent linked to the development of the CPI index and a share in the tenant's turnover, should certain thresholds be exceeded.

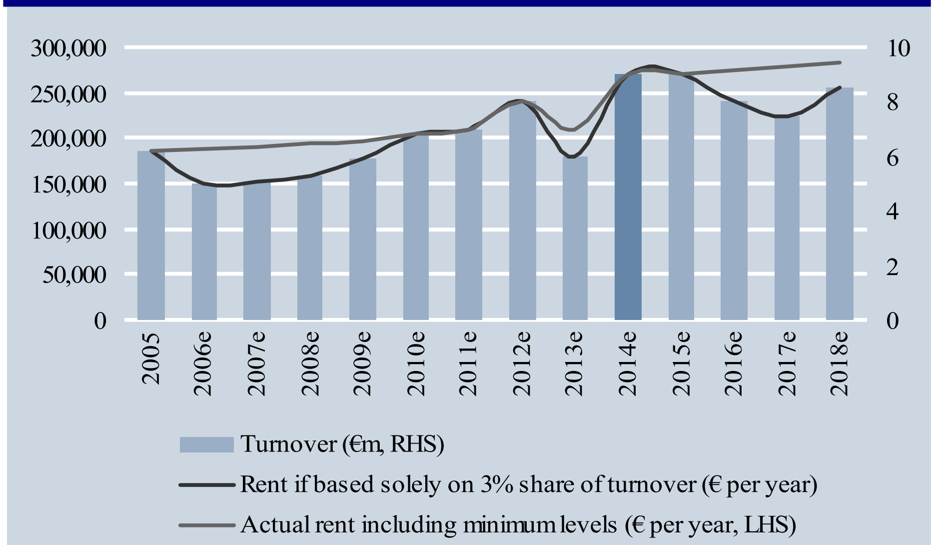
Minimum rents based on experience values, 10y fixed contracts

Minimum rents are very heterogeneous, as they are based on experience values of ECE, tailored to the tenant's size, turnover, sector and the shop's location within the shopping center. In the renting process ECE estimates the turnover the potential tenant could achieve per year and takes this as the basis for the minimum rent, which is fixed for 10 years, on average. Should the tenant generate a higher turnover than forecast, DEQ and ECE will benefit from the tenant's success via a share of between 2% and 10% of the tenant's turnover.

2.6% of rents come from "turnover rent"

In 2004, ca. 2.6% (or €1.6m) of DEQ's rental income of €61.4m was attributable to "turnover rents" (up from 1.8% in 2003), whereas the remainder and majority of income was paid "plain vanilla" with the minimum rent. This figure is estimated to increase to 8-10% over the next 8-10 years, but it is capped at these levels, as DEQ will adjust the minimum rent upwards as soon as the tenant's contract expires and the time for re-negotiation arrives.

The upside potential of rents



Source: Oppenheim Research, based on a 500 sqm shop with initial rent of €370 per sqm per year

Contracts leave it unaffected by volatility, but allow for upside potential

We have illustrated the rent management concept of DEQ in the graph above, assuming a 10-year contract, a 1.5% growth in CPI per annum and an initial minimum rent of 3% of turnover. The graph shows that the minimum rent agreement puts DEQ in a position where it remains unaffected by economic cycles (shown in the volatility of turnover).

Rental agreements offer floor protection for DEQ…

Even assuming a weaker tenant turnover, DEQ benefits from growing rental income via the link to the CPI development. At "break-even" (2011) the turnover-linked rent kicks in and DEQ benefits in line with the higher tenant turnover, while in the phase of weaker growth (2013) rental revenues do not drop back in line with turnover, but have a floor owing to the minimum rent agreement.

…but leave upside

The upside option then occurs at maturity of the contract after 10 years, when the minimum rent levels are adjusted to the new turnover situation, as shown in the year 2015, where the minimum rent jumps 11% y-o-y. However, since the majority of DEQ's tenancy agreements only mature after 2010, a major increase in the minimum rent can only be expected after this time.

Only tenant insolvency as a threat

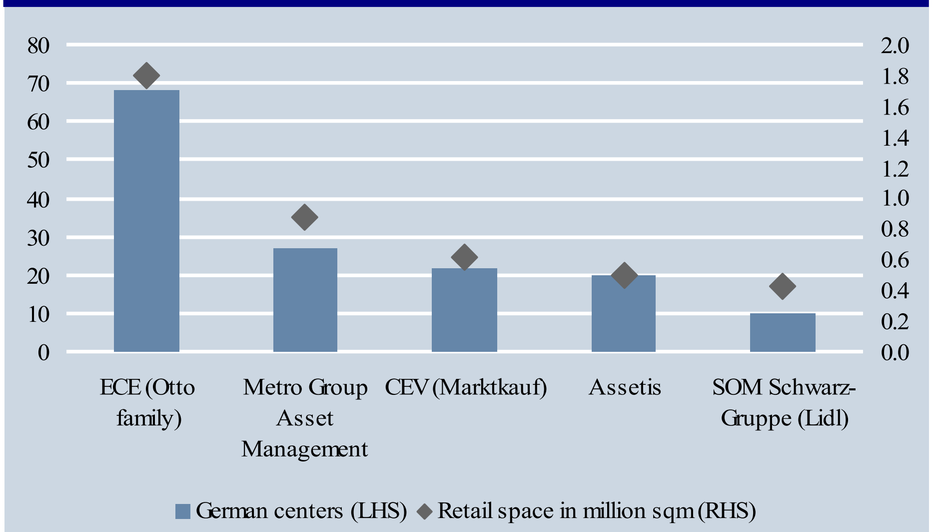
Over the time of the rental agreement, we hence see a business model with upside potential and very limited downside potential (which would be the insolvency of one of DEQ's tenants).

ECE, OTTO & DEQ – WE ARE FAMILY!

Market leader

ECE Projektmanagement GmbH & Co KG is the market leader in the management of city-center shopping centers in Europe. It is furthermore active in the development of shopping, office, logistics and transportation (railway stations) real estate. It was founded in 1965 by Werner Otto and in 2004 managed 80 shopping centers (while having 13 under construction) with a total of 7,600 tenants and 2.3m sqm retail space.

Market overview of shopping center managers in Germany



Source: I-F-G (Institut für Gewerbezentren)

Track record with €9bn realized volume

Its track record also includes 47 office and logistics real estate projects, which brings its total realized project volume as per 2004 to €9bn, with currently €2bn in the pipeline.

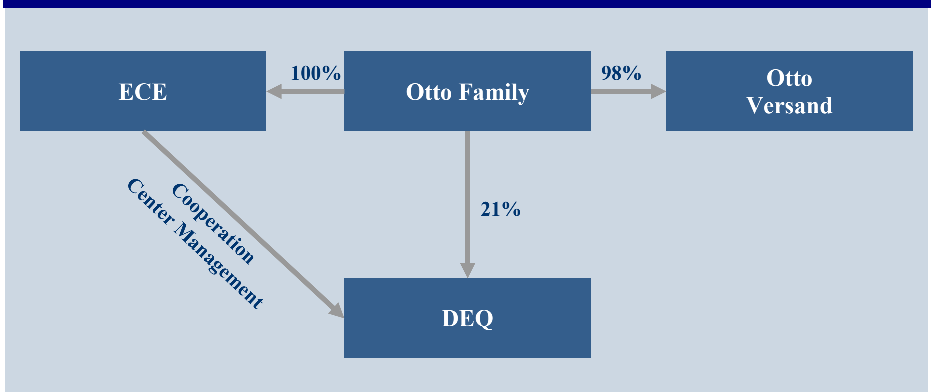
ECE managed center overview

Source: Company data

100% owned by the Otto family

ECE is 100% owned by the Otto family, who also own the largest mail-order business worldwide, Otto Versand that was founded in 1949. To build a 2nd business pillar, in 1965 Werner Otto applied his US experience to the German retail market and created the first "modern" shopping center. The business is now run by his son Alexander Otto.

The Otto family



Source: Company data, Oppenheim Research

ECE is DEQ's most important partner

ECE is the single most important business partner of Deutsche EuroShop and we believe the company is highly dependent on ECE and the Otto family. The Otto family owns 21% in DEQ and Alexander Otto represents family interests in the supervisory board of DEQ. Furthermore, with the exception of the Viterbo and Annemasse center, ECE not only manages all of DEQ's shopping centers (receiving 8% of DEQ's gross rents as compensation for management) but also develops the majority of DEQ's projects (basically all except the two previously mentioned). ECE itself is not invested in any of the projects, it only develops and manages shopping centers for Deutsche EuroShop while ECE's staff, family members and friends provide capital and are DEQ's equity partner in 8 out of the total 14 shopping centers.

CEO spent several years at ECE

Before joining the company in October 2001, Deutsche EuroShop's CEO Claus-Matthias Böge, spent eight years working for ECE, further confirming the close business relationship between the two companies.

How independent is DEQ really?

The question "how independent is DEQ really?" certainly arises on the back of the afore-mentioned facts. We acknowledge that DEQ's future growth prospects still very much depend on new ECE project developments and the willingness to let DEQ participate as a financial investor (as DEQ so far has a zero track record with "own" projects).

Financial track record

While DEQ has a solid and convincing financial track record since the start of its business, the question is whether management would have achieved the same without a strong partner like ECE. The latter however in its reports outlines that working with its partners on a long-term and trusting basis is key for its business operations.

Reliable equity sponsor

We believe DEQ has already proven to be a reliable equity sponsor for ECE and we do not expect any change of business relationship short-term. Furthermore, as long as the Otto family holds a 21% stake in DEQ, we would completely exclude any such risk. The family benefits from DEQ's tax free dividends and a further diversification of invested capital. The worst case, i.e. no new ECE projects in which DEQ can participate, would only have an impact on the add-on growth prospects for DEQ, while the profitable existing business (which already has growth elements attached via CPI-linked rents and turnover participation) already supports the company's valuation.

Risk profile low

We hence regard the risk profile of the company structure as low; rather a further co-operation with ECE should ensure DEQ benefits from attractive new project developments initiated by an experienced and successful partner.

FINANCIAL DETAILS

Transparency in financials and accounting

In our view, as previously mentioned, Deutsche EuroShop is a transparent real estate player in terms of financials and accounting. The vast majority of revenues are generated from rental income and rounded off by occasional capital gains from the sale of projects. However, we would like to reiterate that Deutsche EuroShop is not a real estate trader, rather a long-term investor and value play.

IFRS 40 fair value method

Deutsche EuroShop offers high transparency with IFRS 40 fair value accounting, resulting in zero depreciation on real estate in its balance sheet and the booking of portfolio fair value changes through its P&L (which can admittedly lead to higher volatility of results, but not cash flows). The company's equity hence comes close to its net asset value figure (contrasting other German real estate players who use the cost method approach).

Revenue forecasts

€m	2003	2004	2005e	2006e	2007e
Rhein-Neckar-Zentrum, Viernheim	14.78	15.75	16.50	17.00	17.10
Allee-Center, Hamm	8.82	8.89	9.40	9.51	9.63
City-Galerie, Wolfsburg	7.73	7.70	8.00	8.10	8.19
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Altmarkt-Galerie, Dresden	5.73	6.04	6.11	6.19	6.26
City-Point, Kassel	2.89	2.85	3.30	3.34	3.38
Phoenix-Center, Hamburg	0.00	1.55	5.00	5.06	5.12
Forum, Wetzlar	0.00	0.00	4.00	5.14	5.20
Main-Taunus Zentrum, Frankfurt	0.00	0.00	0.00	0.00	0.00
Domestic	**47.63**	**50.16**	**61.71**	**64.73**	**65.40**
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Shopping Etrembíeres, Annemasse	3.25	3.47	3.51	3.56	3.60
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Foreign	**10.25**	**11.26**	**9.55**	**12.17**	**13.50**
Total revenues	**57.88**	**61.42**	**71.26**	**76.90**	**78.90**
Growth		6%	16%	8%	3%

Source: Oppenheim Research, Company data

Two centers held as financial investments

Again, according to IFRS, both the Main-Taunus and Breslau centers are IAS39 financial investments, given the share in these centers is below 50% and no JV character exists. Revenues from these two centers are found in the P&L line "income from participations", which grew 38% y-o-y in 2004.

8% management fee paid to ECE

In terms of costs, the majority of operating costs relate to the management fee paid to ECE (ca. 8% of rental income), which amounted to €4.3m in 2004. Maintenance only plays a minor role, as DEQ and ECE virtually only provide "walls and a roof", while the tenant is responsible for the interior, maintenance and outfitting of the shop.

Investment activity is largest cost block

Another larger cost block comes from the company's investment activities, with ca. €10m attributable to new projects out of total other operating costs, which amounted to €19.3m in 2004. However, via booking investment costs through the P&L, DEQ virtually automatically generates book gains upon the first-time independent appraisal of new shopping centers.

First time valuation gains to have major impact in 2005

We expect this to have a major effect in FY 2005 with the first time market-value inclusion of the shopping centers in Wetzlar and Hamburg in DEQ's P&L. We estimate these two will generate a total of €20m in book gains upon valuation at market values (while currently standing at acquisition value in the company's books).

Further growth with €100m to €150m investment volume per year

While Deutsche EuroShop indicated a total annual investment volume of between €100m and €150m going forward, another possibility for growth would be to increase existing participations in shopping centers, which we would expect to be a considerable alternative. The proven track record of DEQ's portfolio centers would be a strong pro-argument for such a move (DEQ's centers are rated between AA and B+ by independent researcher Feri), but we believe the investment would generate lower yields, given the low risk compared to acquired projects in development.

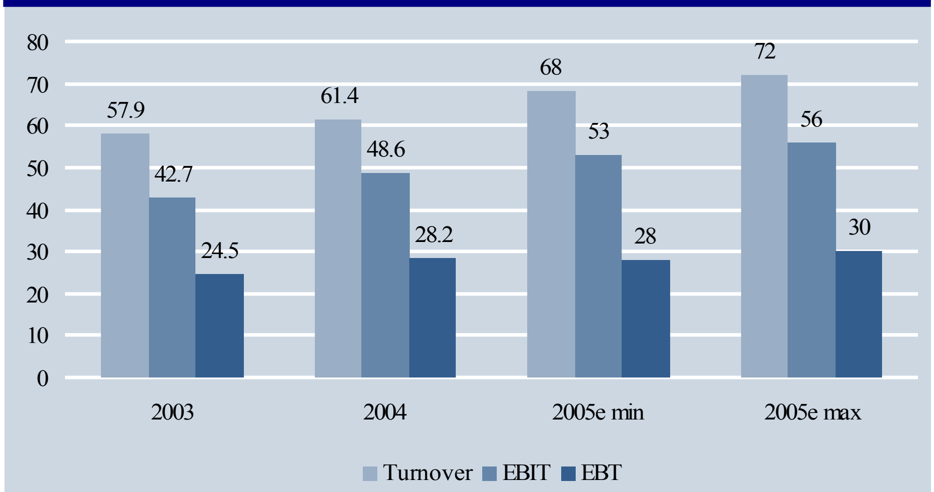
Two deals likely in 2005

Management already indicated it will either acquire two established centers during 2005 or increase its participation in existing ones. We hence expect costs to fall in 2005 versus 2004 on the back of reduced investment expenditure.

Loss of Udine revenues versus inclusion of Hamburg & Wetzlar

Looking further along in 2005, the loss in revenues from the sale of the Udine shopping center should be more than compensated by the first time (full) inclusion of Hamburg and Wetzlar. As previously mentioned, the re-valuation of the latter two should have a major impact on the bottom line, whereas management guidance excluded this factor.

2005e - company guidance



Source: Company data

Adjusted management target means 20-30% growth in 2005

It should also be taken into consideration that, although the EBT target indicates a flat development, the adjusted figures mean a growth of 20-30% y-o-y. FY 2004 was positively impacted by foreign exchange gains on the Hungarian exposure of DEQ of €2.2m and one-off gains on the sale of the Udine shopping center in Italy of €4.8m.

P&L forecast

€m	**2003**	**2004**	**2005e**	**2006e**	**2007e**
Total revenues	57.88	61.42	71.26	76.90	78.90
Other operating income	1.04	9.34	0.70	0.90	0.90
o/w book gains on sale of securities	0.32	0.79	0.30	0.50	0.50
o/w foreign exchange gains	0.22	2.20	0.00	0.00	0.00
o/w release of provisions	0.09	1.09	0.00	0.00	0.00
o/w gains on the sale of real estate	0.00	4.83	0.00	0.00	0.00
o/w other	0.41	0.44	0.40	0.40	0.40
Staff costs	-0.76	-0.81	-0.90	-1.00	-1.10
Other operating expenses	-17.63	-19.26	-13.60	-14.96	-16.46
o/w land operating costs	-3.28	-3.46	-2.50	-2.75	-3.03
o/w maintenance	-2.66	-0.48	-0.50	-0.55	-0.61
o/w admin costs	-3.33	-4.32	-4.80	-5.28	-5.81
o/w infrastructure costs	-0.17	-1.67	-1.00	-1.10	-1.21
o/w finance costs	-0.90	-1.85	-1.00	-1.10	-1.21
o/w Depreciation on rental claims	-0.79	-1.01	-0.80	-0.88	-0.97
o/w costs of pre-letting	-1.09	-3.81	-1.00	-1.10	-1.21
o/w services	-0.83	0.00	0.00	0.00	0.00
o/w foreign exchange losses	-2.21	-0.06	0.00	0.00	0.00
o/w others	-2.37	-2.60	-2.00	-2.20	-2.42
EBITDA	**40.54**	**50.69**	**57.46**	**61.84**	**62.24**
Depreciation and amortization	-0.01	-0.01	-0.02	-0.02	-0.02
EBIT	**40.53**	**50.68**	**57.45**	**61.83**	**62.22**
%	0%	25%	13%	8%	1%
Interest income	4.60	2.65	2.50	2.60	2.70
Interest expense	-26.57	-27.96	-28.00	-27.50	-28.00
Interest result	-21.97	-25.31	-25.50	-24.90	-25.30
Participations	3.49	4.80	5.00	5.20	5.40
Revaluation of securities	0.29	0.00	0.00	0.00	0.00
Revaluation IAS 39	1.62	2.40	2.00	2.00	2.00
Investments	-7.56	-3.80	-3.00	-8.00	-9.00
Positive revaluation IAS40	13.37	15.74	22.00	20.00	30.00
Negative revaluation IAS40	-1.88	-6.32	-4.00	-3.00	-3.00
Total IAS40 result	5.55	8.02	17.00	11.00	20.00
Total financial result	-12.65	-12.50	-3.50	-8.70	0.10
EBT	**27.88**	**38.19**	**53.95**	**53.13**	**62.32**
Taxes	-7.44	-10.77	-13.49	-13.28	-15.58
Other taxes	-1.06	-0.98	-1.00	-1.00	-1.00
Total taxes	-8.50	-11.76	-14.49	-14.28	-16.58
Profit after tax	19.38	26.43	39.46	38.84	45.74
Minorities	-0.36	1.31	-4.00	-1.60	-1.80
Net income	**19.02**	**27.74**	**35.46**	**37.24**	**43.94**
Number of shares	15.63	15.63	15.63	15.63	15.63
EPS (€)	**1.22**	**1.78**	**2.27**	**2.38**	**2.81**
Dividend per share (€)	**1.92**	**1.92**	**2.00**	**2.05**	**2.10**

Source: Company data, Oppenheim Research

Asset side dominated by real estate held

Looking at DEQ's balance sheet, the asset side is clearly dominated by the property the company holds. "Property, plant and equipment" (€183m) include the recently opened Phoenix center in Hamburg and Forum in Wetzlar, as well as the Klagenfurt/Austria center which is still under construction. All of these are accounted for at acquisition/construction costs.

Valued at market levels

The first two will be shifted to the "Investment property" section (€918m) in 2005 and will then be valued at market values, which leads to the afore-mentioned capital gains.

Financial investments

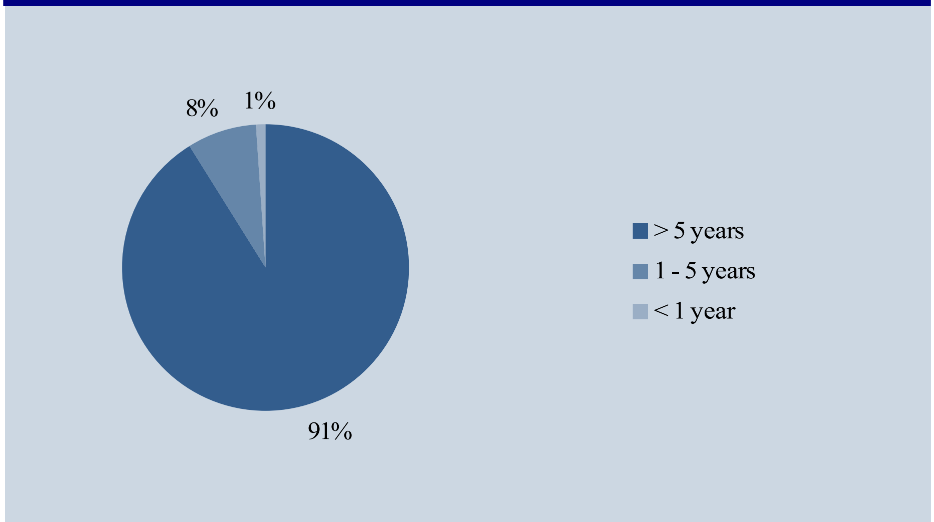
Last but not least, the "non-current financial assets" (€102m) include the two minority holdings in the Main-Taunus-Zentrum/Frankfurt and the shopping center in Breslau/Poland.

Taking the three segments together explains 88% of DEQ's asset side.

Refinancing suboptimal, company could report 24% higher earnings with 150bp lower re-financing, but current structure also makes it immune against rate moves

The liability & equity side is split between equity (€635m), minorities (€49m), long-term debt (€597m), latent tax liabilities (€52m) and short-term liabilities (€37m). The majority of long-term debt is fixed for more than five years, making the company immune against volatility in interest rates. However, looking at current interest rate levels would allow the company to save ca. €9m per year (and hence be 24% net earnings accretive, based on 2004 net income), assuming 150bp lower refinancing costs, which we believe is a realistic view. Nevertheless, the average interest burden should gradually fall with further investments the company intends to finalize already this year. These, according to the company, would be 50% debt financed.

Refinancing structure (@ average rate of 5.66%)



Source: Company data

Policy to distribute net rental cash flow as dividends, capital increase or portfolio activity likely

Given it is DEQ's policy to distribute the net cash-flow from rental income to shareholders in the form of dividends (and to reinvest capital gains), sustained investment growth would either require a capital increase or the sale of non-core shopping centers. While we believe both ways will become likely short-term, we would expect DEQ to reduce its French and Italian exposure (the centers which are not managed and were not developed by ECE).

P&L (Total cost)						
Deutsche EuroShop						
per share data in EUR	**EURm**	**2003**	**2004e**	**2005e**	**2006e**	**2007e**
Revenues		**57.9**	**61.4**	**71.3**	**76.9**	**78.9**
Change in %		na	6.1	16.0	7.9	2.60
Invent. changes & intern. prod. Assets (+/-)		0.0	0.0	0.0	0.0	0.0
Total output		57.9	61.4	71.3	76.9	78.9
Cost of materials		0.0	0.0	0.0	0.0	0.0
Personnel costs		0.8	0.8	0.9	1.0	1.1
other: Depreciation/Amortization		0.0	0.0	0.0	0.0	0.0
Other operating income/expenses		-16.6	-9.9	-12.9	-14.1	-15.6
EBITDA		40.5	50.7	57.5	61.8	62.2
EBITA		40.5	50.7	57.4	61.8	62.2
EBIT		**40.5**	**50.7**	**57.4**	**61.8**	**62.2**
Change in %		na	25.1	13.4	7.6	0.6
Non-operating income/expenses		0.0	0.0	0.0	0.0	0.0
Participation result & other fin. result		9.3	12.8	22.0	16.2	25.4
Interest result		-22.0	-25.3	-25.5	-24.9	-25.3
Financial result (+/-)		**-12.6**	**-12.5**	**-3.5**	**-8.7**	**0.1**
Extraordinary profit or loss (+/-)		0.0	0.0	0.0	0.0	0.0
Other income/expenses (+/-)		0.0	0.0	0.0	0.0	0.0
Earnings before tax		**27.9**	**38.2**	**53.9**	**53.1**	**62.3**
Change in %		na	37.0	41.3	-1.5	17.3
Taxes		8.5	11.8	14.5	14.3	16.6
Tax rate in %		30.5	30.8	26.9	26.9	26.6
Profit/loss for the year		**19.4**	**26.4**	**39.5**	**38.8**	**45.7**
Minority interest		0.4	-1.3	4.0	1.6	1.8
Net profit		**19.0**	**27.7**	**35.5**	**37.2**	**43.9**
Change in %		na	45.8	27.8	5.0	18.0
Adjustments		0.0	0.0	0.0	0.0	0.0
Adjusted net profit		**19.0**	**27.7**	**35.5**	**37.2**	**43.9**
Number of shares		15.6	15.6	15.6	15.6	15.6
Key ratios and numbers						
EPS (reported)		1.22	1.78	2.27	2.38	2.81
Adj. EPS		1.22	1.78	2.27	2.38	2.81
Change in %		na	45.8	27.8	5.0	18.0
Dividend per share		1.92	1.92	2.00	2.05	2.10
Sustainable FCFPS		na	na	na	na	na
FCFPS		-2.79	-3.46	-2.52	1.14	2.90
Book value per share		38.97	38.73	40.20	41.12	42.42
Gross margin, %		na	na	na	na	na
EBITDA margin, %		70.0	82.5	80.6	80.4	78.9
EBIT margin, %		70.0	82.5	80.6	80.4	78.9
Net profit margin, %		32.9	45.2	49.8	48.4	55.7
ROE, %		3.0	4.4	5.4	5.5	6.3
ROCE, %		2.4	2.9	3.1	3.1	3.0
EVA ® SOP		na	na	na	na	na
ΔEVA ® SOP		na	na	na	na	na
Sustainable FCF yield, %		na	na	na	na	na
Interest cover		1.8	2.0	2.3	2.5	2.5
Gearing, %		58.8	78.3	81.4	85.6	88.5
Net financial liabilities/EBITDA		11.9	11.9	11.3	11.2	11.8
PER		26.0	19.8	20.3	19.3	16.3
EV/Revenues		15.6	17.7	18.2	17.5	17.5
Enterprise value/Sustainable FCF		na	na	na	na	na
EV/EBITDA		22.3	21.4	22.6	21.7	22.2

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Statement of Cash Flows						
Deutsche EuroShop						
per share data in EUR	**EURm**	**2003**	**2004e**	**2005e**	**2006e**	**2007e**
Cash flow from operating activities						
EBIT		40.5	50.7	57.4	61.8	62.2
+ Depreciation / amortization		0.0	0.0	0.0	0.0	0.0
+ Change in other provisions		1.7	-13.5	-0.9	-1.0	-1.0
+/- Non Cash Items		0.0	0.0	0.0	0.0	0.0
Taxes / tax refunds		8.5	11.8	14.5	14.3	16.6
+ Change in other liabilities		1.1	3.8	2.1	0.0	0.6
Change in Working Capital		0.0	0.0	0.0	0.0	0.0
+ Extraordinary result		0.0	4.8	0.0	0.0	0.0
Cash flow from operating activities		**34.8**	**34.1**	**44.2**	**46.6**	**45.3**
Cash flow from investing activities						
Investments in tangible assets		-57.0	-157.9	-80.0	-20.0	0.0
Investments in financial assets		-22.2	21.8	0.0	0.0	0.0
Investments in intangible assets		0.0	0.0	0.0	0.0	0.0
+ Disinvestments		0.0	62.0	0.0	0.0	0.0
- Changes in other L.T. assets		0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		**-79.2**	**-74.2**	**-80.0**	**-20.0**	**0.0**
Cash flow from financing activities						
+ Financial result		-12.6	-12.5	-3.5	-8.7	0.1
+ Change in financial liabilities		16.1	122.8	45.0	45.0	45.0
+ Change in shareholder's Equity		0.0	0.0	0.0	0.0	0.0
+ Change in pensions and similar provisions		0.0	0.0	0.0	0.0	0.0
- Dividend payments in previous year		32.3	36.0	31.3	32.0	32.8
+/- Other		-1.4	-1.4	0.0	0.0	0.0
Cash flows from financing activities		**-15.5**	**72.9**	**10.3**	**4.3**	**12.3**
Change in cash and cash equivalents		-59.9	32.8	-25.6	30.8	57.6
Cash and cash equivalents (begin. of period)		0.0	80.0	86.3	88.1	89.8
Cash and cash equivalents (end of period)		0.0	112.8	60.7	118.9	147.4
Ratios and key figures						
Free cash flow to entity		-31.0	-41.5	-35.8	26.6	45.3
FCFPS		-2.79	-3.46	-2.52	1.14	2.90
Free cash flow yield, %		-8.8	-9.8	-5.5	2.5	6.3
Sustainable free cash flow to entity		0.0	0.0	0.0	0.0	0.0
Sustainable FCFPS				0.0	0.0	0.0
Sustainable FCF yield, %				0.0	0.0	0.0
Burn rate		na	na	na	na	na
Operating cash flow/Capex		-0.6	-0.2	-0.6	-2.3	
Operating cash flow/avg. net financial pos.			-0.1	-0.1	-0.1	-0.1
Maintenance capex/revenues, %		0.0	0.0	0.0	0.0	0.0
Depreciation/capex, %		0.0	0.0	0.0	-0.1	
Net working capital/revenues, %		32.7	-2.9	-2.7	-2.7	-1.8
thereof inventories/revenues, %		0.0	0.0	0.0	0.0	0.0
thereof accounts reveivable/revenues, %		3.6	3.2	2.8	2.7	2.7
thereof trade payables/revenues, %		6.7	6.1	5.5	5.4	4.4

Balance Sheet

Deutsche EuroShop per share data in EUR	EURm	2003	2004e	2005e	2006e	2007e
Assets		**1,240.5**	**1,370.2**	**1,439.6**	**1,501.1**	**1,566.7**
Fixed assets		**1,095.4**	**1,203.3**	**1,269.3**	**1,327.4**	**1,389.5**
Intangible assets		0.0	0.0	0.0	0.0	0.0
thereof goodwill		0.0	0.0	0.0	0.0	0.0
thereof act. development expenditure		0.0	0.0	0.0	0.0	0.0
Property, plant + equipment (PPE)		995.1	1,101.6	1,165.6	1,221.6	1,281.6
Financial assets		100.3	101.7	103.7	105.8	107.9
Other items in fixed assets		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Items btw fixed and current assets		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Current assets		**145.0**	**167.0**	**170.3**	**173.7**	**177.2**
Inventories		0.0	0.0	0.0	0.0	0.0
Accounts receivable		22.8	2.0	2.0	2.1	2.1
thereof trade receivables		2.1	2.0	2.0	2.1	2.1
Marketable securities		22.0	63.9	65.2	66.5	67.9
Cash and cash equivalents		80.0	86.3	88.1	89.8	91.6
Other current assets		**20.2**	**14.7**	**15.0**	**15.3**	**15.6**
Deferred income + prepaid expenses		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deferred tax assets		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other assets		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total assets		**1,240.5**	**1,370.2**	**1,439.6**	**1,501.1**	**1,566.7**
Liabilities & Shareholders' equity		**1,240.5**	**1,370.2**	**1,439.6**	**1,501.1**	**1,566.6**
Shareholders' equity		**695.3**	**684.4**	**711.1**	**728.9**	**752.7**
Capital subscribed		20.0	20.0	20.0	20.0	20.0
Reserves		599.9	587.4	603.9	617.3	631.8
thereof additional paid-in reserves		0.0	0.0	0.0	0.0	0.0
thereof retained earnings		0.0	0.0	0.0	0.0	0.0
Other equity capital		19.0	27.7	35.5	37.2	43.9
Minority interests		56.3	49.3	51.7	54.3	57.0
Items btw shareholders' equity + debt		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt		**493.5**	**629.6**	**674.3**	**721.7**	**765.0**
Provisions		**8.0**	**21.5**	**22.6**	**23.7**	**24.9**
Pension provisions		7.0	18.2	19.1	20.0	21.0
Other provisions		1.1	3.3	3.5	3.7	3.9
Liabilities		**485.5**	**608.1**	**651.7**	**698.0**	**740.2**
Financial liabilities		481.7	604.3	647.8	693.9	736.7
Other liabilities		3.9	3.7	3.9	4.1	3.5
thereof trade liabilities		3.9	3.7	3.9	4.1	3.5
Deferred income		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deferred tax liabilities		**43.6**	**51.7**	**51.7**	**48.0**	**47.0**
Other liabilities		**8.0**	**4.6**	**2.5**	**2.5**	**1.9**
Total liabilities		**1,240.5**	**1,370.2**	**1,439.6**	**1,501.1**	**1,566.6**
Ratios and key figures						
Book value per share		38.97	38.73	40.20	41.12	42.42
Equity ratio, %		56.1	49.9	49.4	48.6	48.0
Gearing		58.8	78.3	81.4	85.6	88.5
Net working capital		18.9	-1.8	-1.9	-2.1	-1.4
Net financial position		-408.6	-536.2	-578.8	-624.1	-666.1
Net financial liabilities/EBITDA		11.9	11.9	11.3	11.2	11.8
Burn rate			1.69			
Enterprise value		903.5	1,085.7	1,297.3	1,342.5	1,384.5

ANALYSTS

Germany

Winfried Becker, Engineering
Telephone +49 (69) 71 34 - 53 66
winfried.becker@oppenheim.de

Christian Bruns, Retail, Consumer Goods
Telephone +49 (69) 71 34 – 56 79
christian.bruns@oppenheim.de

Peter Düllmann, Life Sciences
Telephone +49 (221) 145 – 27 63
peter.duellmann@oppenheim.de

Jörg P. Frey, Retail, Consumer Goods
Telephone +49 (69) 71 34 – 52 79
joerg.frey@oppenheim.de

Alla Gorelova, Software/IT Service
Telephone +49 (69) 71 34 – 56 98
alla.gorelova@oppenheim.de

Anne Gronski, Technology, Software
Telephone +49 (69) 71 34 – 56 04
anne.gronski@oppenheim.de

Matthias Heck, Utilities, Transport
Telephone +49 (69) 71 34 – 52 03
matthias.heck@oppenheim.de

Markus Hesse, Transport
Telephone +49 (69) 71 34 – 56 41
markus.hesse@oppenheim.de

Matthias Joerss, Strategy
Telephone +49 (69) 71 34 – 56 45
matthias.joerss@oppenheim.de

Patrick Juchemich, Automotive
Telephone +49 (69) 71 34 – 56 53
patrick.juchemich@oppenheim.de

Stephan Kalb, Insurance
Telephone +49 (69) 71 34 – 52 08
stephan.kalb@oppenheim.de

Marcus Konstanti, Life Sciences
Telephone +49 (221) 145 – 25 56
marcus.konstanti@oppenheim.de

Markus Krämer, Life Sciences
Telephone +49 (221) 145 – 27 67
markus.kraemer@oppenheim.de

Ludger Mues, Life Sciences, Chemicals
Telephone +49 (221) 145 – 2764
ludger.mues@oppenheim.de

Hartmut Moers, Utilities, Transport
Telephone +49 (69) 71 34 – 56 44
hartmut.moers@oppenheim.de

Martin Praum, Banking & Financials
Telephone +49 (69) 71 34 – 52 35
martin.praum@oppenheim.de

Michael Raab, Automotive
Telephone +49 (69) 71 34 – 56 69
michael.raab@oppenheim.de

Sonia Rabussier, Software/IT Service
Telephone +49 (69) 71 34 – 51 99
sonia.rabussier@oppenheim.de

Jürgen Reck, Chemicals
Telephone +49 (221) 145 – 27 65
juergen.reck@oppenheim.de

Thomas Rothäusler, Banking & Financials
Telephone +49 (69) 71 34 - 5132
thomas.rothaeusler@oppenheim.de

Frank A. Rothauge, Telecommunications
Telephone +49 (69) 71 34 – 52 06
frank.rothauge@oppenheim.de

Marcus Sander, Telecommunications
Telephone +49 (69) 71 34 – 53 68
marcus.sander@oppenheim.de

Ulrich Scholz, Engineering
Telephone +49 (69) 71 34 – 54 98
ulrich.scholz@oppenheim.de

Metehan Sen, Banking & Financials
Telephone +49 (69) 71 34 – 51 98
metehan.sen@oppenheim.de

Nicolas P. von Stackelberg, Technology
Telephone +49 (69) 71 34 – 53 64
nicolas.stackelberg@oppenheim.de

Jürgen Wagner, Technology
Telephone +49 (69) 71 34 – 3 89
juergen.wagner@oppenheim.de

Rüdiger Weseloh, Life Science
Telephone +49 (221) 145 – 24 72
Rüdiger.weseloh@oppenheim.de

Stephan Wulf, Utilities, Transport
Telephone +49 (69) 71 34 – 52 07
stephan.wulf@oppenheim.de

Ralf Zimmermann, Strategy
Telephone +49 (69) 71 34 – 56 60
ralf.zimmermann@oppenheim.de

Switzerland

Johannes Borner, Engineering
Telephone +41 (1) 214 – 2365
johannes.borner@oppenheim.ch

Peter Casanova, Insurance
Telephone +41 (1) 214 – 2329
peter.casanova@oppenheim.ch

Urs Diethelm, Consumer Goods, Engineering
Telephone +41 (1) 214 – 2339
urs.diethelm@oppenheim.ch

Paolo Mazzoni, Media, Retail, Services
Telephone +41 (1) 214 – 2239
paolo mazzoni@oppenheim.ch

Rahul Sen Gupta, Chemicals
Telephone +41 (1) 214 – 2249
rahul.sengupta@oppenheim.ch

Heinrich Wiemer, Banks, Insurance
Telephone +41 (1) 214 – 2326
heinrich.wiemer@oppenheim.ch

Analyst	Sal. Oppenheim jr. & Cie. KGaA	Oppenheim Research GmbH	Bank Sal. Oppenheim jr. & Cie. (Schweiz) AG
Martin Praum Telephone +49 (69) 71 34 – 52 35 Martin.praum@oppenheim.de	Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 - 01	Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 - 02	Uraniastrasse 28 CH-8022 Zürich Telephone + 41 (1) 2 14 22 14
	Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 - 0	Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 - 0	Sal. Oppenheim jr. & Cie. Securities Inc. 444 Madison Avenue, 34th Floor
Publishing Team: Jane Morgan (Editor) Eleonora Ivancevic (DTP)	Odeonsplatz 12 80539 München Telephone +49 (89) 29 00 74 – 0	www.oppenheim.de/research research@oppenheim.de	New York, N.Y. 10022 USA Telephone + 1 (2 12) 8 88 52 46
Press Contact: Tel. +49 221 145-2998 presse@oppenheim.de	www.oppenheim.de info@oppenheim.de		

Further locations in:
Baden-Baden, Berlin, Dublin, Duesseldorf, Geneva, Hamburg, Luxembourg, Salzburg, Stuttgart, Vienna, Wiesbaden

For further information please contact the institutional sales desk of Sal. Oppenheim jr. & Cie.

Frankfurt: + 49 (69) 71 34 - 0		**e-mail**
Hans-Peter Fliegel	- 51 43	hans-peter.fliegel@oppenheim.de
Heiko Backmann	- 54 21	heiko.backmann@oppenheim.de
Andrea Bollina	- 54 61	andrea.bollina@oppenheim.de
Rainer Brühl	- 51 26	rainer.bruehl@oppenheim.de
A. von Franckenstein	- 54 17	alexander.franckenstein@oppenheim.de
Oliver Jürgens	- 51 57	oliver.juergens@oppenheim.de
Jürgen Kaup	- 51 59	juergen.kaup@oppenheim.de
Petra Kopper	- 55 31	petra.kopper@oppenheim.de
Matt Patterson	- 54 25	matt.patterson@oppenheim.de
Georg Scholz	- 51 29	georg.scholz@oppenheim.de
Heinz-Gerd Vinken	- 51 62	heinz-gerd.vinken@oppenheim.de

Cologne: + 49 (2 21) 1 45 -01		**e-mail**
Heribert Raskop	- 18 93	heribert.raskop@oppenheim.de
Jürgen Kaup	- 51 59	juergen.kaup@oppenheim.de

Munich: + 49 (89) 29 00 -740		**e-mail**
Jürgen Benker	- 74 52	juergen.benker@oppenheim.de
Nicola Facciorusso	- 74 55	nicola.facciorusso@oppenheim.de
Michaela Gess	- 74 57	michaela.gess@oppenheim.de
Klaus Pfaller	- 74 54	klaus.pfaller@oppenheim.de
Dr. Alex Vogel	- 74 51	alex.vogel@oppenheim.de
Robert Weller	- 74 53	robert.weller@oppenheim.de

New York: + 1 (2 12) 8 88 –		**e-mail**
Jörg Hagenbuch	- 84 57	jhagenbuch@sal-oppenheim.com
Robert Baer	- 83 06	rbaer@sal-oppenheim.com
Bill Dixon	- 52 53	wdixon@sal-oppenheim.com
Francois Gour	- 52 48	fgour@sal-oppenheim.com

Zurich: + 41 (1) 2 14 -		**e-mail**
Nicandro Barile	- 22 46	nicandro.barile@oppenheim.ch
Marco Galfetti	- 25 28	marco.galfetti@oppenheim.ch
Marcel Hofstetter	- 23 45	marcel.hofstetter@oppenheim.ch
Olivier Humm	- 23 94	olivier.humm@oppenheim.ch
Peter Hunziker	- 22 78	peter.hunziker@oppenheim.ch
Silvio Schuler	- 23 51	silvio.schuler@oppenheim.ch
Markus Sola	- 22 47	markus.sola@oppenheim.ch

Sales Trading

Frankfurt: + 49 (69) 71 34 -		**e-mail**
Olaf Belger	- 50 40	olaf.belger@oppenheim.de
Fritz Hopp	- 50 44	fritz.hopp@oppenheim.de
Martin Siegel	- 53 18	martin.siegel@oppenheim.de
Edgar Wilczek	- 50 61	edgar.wilczek@oppenheim.de

New York: +1 (2 12) 8 88 -		
Robert Florio	- 67 54	rflorio@sal-oppenheim.com
Kent Evan Penney	- 87 70	kpenney@sal-oppenheim.com

Oppenheim Research GmbH

Unter Sachsenhausen 4
50667 Köln
Telephone +49 (2 21) 1 45 - 02

Untermainanlage 1
60329 Frankfurt am Main
Telephone +49 (69) 71 34 - 0

research@oppenheim.de
www.oppenheim.de/research

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