

# PETERCAM

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Germany / The three Musketeers

April 27, 2007

## Deutsche EuroShop

### The three Musketeers

- Gross rental income went up 29% from EUR 72.1m to EUR 92.9m in 2006, which was in line with our forecast. The first time full inclusion of Main-Taunus and Forum Wetzlar, the opening of the shopping centre in Austria and acquisition of the Rathaus-Centre in Dessau added EUR 22.6m. The sale of Viterbo and Annemassee took out EUR 2.7m. Like-for-like growth was 1.9% (EUR 0.9m), vacancy rate remained under 1% and derives only from office space;
- Other operating income amounted to EUR 16m (EUR 2.3m in '05) and is foremost determined by sales results (EUR 14.8m). Operational costs increased to EUR 10.4m (+24%) due to the full inclusion of the above mentioned centres and the increased pipeline under construction. The same applied for management costs, which went up by EUR 1.3m to EUR 5.8m. EBIT increased from EUR 57.5m to EUR 86.3m. Financing costs went up by EUR 5.3m to EUR 38.9m due to the pipeline and newly opened shopping centres. Average rate is currently 5.5% overall as many old loans are still in place. Income from investments declined from EUR 5m to EUR 1.9m due to the inclusion of Main-Taunus. Cash flow per share was EUR 2.15 (EUR 1.91 in '05), dividend proposed increased to EUR 2.10 per share. Indirect result went from EUR 49.9m to EUR 72.3m, which made the NAV increase from EUR 46.2 to EUR 51.05. Average net property yield is 5.37%;
- Due to the expected bill for the exit tax (EUR 18-56m) it's expected that the company will not convert into a REIT before 2008. Cost of funding is currently very high and will remain for the next few years after which expensive loans start to expire and can be refinanced much cheaper. The tight bonds with the Otto family, that plays 3 different roles, seem not to be in breach with any compliance rules;
- It's hard to find promising investments for the company seen the growing competition, higher construction costs and lack of space for extensions in inner-cities. For 2007 we expect guidance is achievable if no new investments are made (EBIT 71-73m), in 2008 the 3 new centres will start to hit the P&L. We believe the assets are at least 5% undervalued, which provides us a 12-month fair value of EUR 62.70

Year end	Rental income (m)	Direct result (m)	Cash direct EPS	P/E (*)	Total debt / Assets	NAV per share	Discount (*)	Div.	Yield (*)
12/03	57.9	19.0	0.84	40.2	39%	44.0	23.2%	1.92	5.7%
12/04	61.4	27.7	1.32	29.2	44%	44.0	12.4%	1.92	5.0%
12/05	72.1	17.3	1.24	38.3	47%	46.2	-2.7%	2.00	4.2%
12/06	92.9	26.3	1.53	36.7	49%	51.1	-10.0%	2.10	3.7%
12/07e	95.4	28.9	1.67	35.9	46%	52.2	-15.0%	2.15	3.6%
12/08e	114.6	37.7	2.05	29.3	46%	54.6	-9.8%	2.25	3.8%
12/09e	130.4	45.2	2.23	26.9	46%	57.2	-4.9%	2.25	3.8%

(\*) 2003-2006 figures of P/E, Discount and Yield are based on end F.Y. price

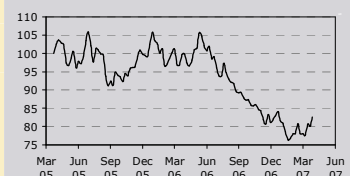
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Price:	EUR 60.00
	(26/04/07)
Target price:	62.70
Risk:	Low
Reuters:	DEQn.DE
Bloomberg:	DEQ GY
Shares number (m):	17.19
Market cap. (m):	1,031
NAV 20/02/2006 :	51.79
Discount :	-16%
H/L 1 year:	60.18 - 50.20
1 year price perf.:	6.7%
Diff. with EPRA Eurozon	-21.5%
Volume (sh./day):	21,809
Free Float	81%
Otto Family	19%

### Company description:

Deutsche EuroShop is the only public company in Germany, that invests solely in shopping centers in prime locations. The company currently has equity interests in 16 European shopping centers in Germany, Austria, Hungary and Poland.

Deutsche EuroShop relative to EPRA Eurozone (26/04/07)



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## Facts

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### P&L

**Gross rental income** went up 29% from EUR 72.1m to EUR 92.9m in 2006, which was exactly in line with our forecast. The following items were really helpful in this respect:

- EUR 22.6m; the full first time inclusion of the Main-Taunus-Zentrum, Forum Wetzlar, the opening of the shopping centre in Austria and the acquisition of the Rathaus- Centre in Dessau;
- EUR -2.7m; both the sale of Viterbo and Annemasse took out respectively EUR -0.3m and -2.4m;
- EUR 0.9m; 1.9% was added due to indexation, which is still very much CPI based. The rate of turnover-linked rents was 2.2% (2.8% in 05)

**Retail sales** in their home country rose by 0.8% in nominal terms. However, on a like for like basis their shopping centres achieved a 3.3% increase in revenue on a like-for-like basis, and 4.7% including the centres abroad. In Q1 2007 profits went up 7%, especially driven by sunny March. The increase in VAT had a relatively low impact. It is clear to see that the economy is picking up.

The average rent per square meter is between EUR 240-300 and rent-to-sales-ratio is 6.5-8.5%, which makes clear that the company is not trying to achieve the highest rents possible. The weighted maturity of rental contracts is longer than 8 years. Indexation on a cumulative basis for CPI is set every 2 years, only contracts that have a duration longer than 10 years are bound by certain strict regulations (e.g. 7.5%/100%)<sup>1</sup>. Only 12.3% of total rental income is from abroad. Vacancy rate unchanged less than 1% as in the previous year and derives only from office space. Losses due to defaults were only EUR 0.3m (0.3% of revenue). In Wolfsburg rental income remained very much behind as a major tenant terminated its lease much earlier than expected.

**Largest tenant** today is again the Metro Group with 5%, the Douglas Group is second (4.9%), Peek & Cloppenburg (3%), H&M (2.4%) and New Yorker (2.1) closes the top 5. 79% of all contracts expire after 2012, 14% in 2011. Fashion is good for 47%, electronics 19%, international retailers make up for 49%, regional chains 22%, the remainder local entrepreneurs.

**Other operating income** amounted to EUR 16m (EUR 2.3m in '05) and is foremost determined by sales results; Annemasse and Viterbo showed a book profit of EUR 14.8m. By means of the sale of shares quite some tax savings can be achieved. **Operational costs** increased to EUR 10.4m (+24%) due to the full inclusion of the above mentioned centres and the increased pipeline under construction. The same applied for **management costs**, which went up by EUR 1.3m to EUR 5.8m. EUR 2.1m occurred as one-off additional sales costs for both the Annemasse and Viterbo premises, and were taken up under 'other operating expenses'.

Earnings before income and taxes (**EBIT**) increased from EUR 57.5m to EUR 86.3m. Adjusted for one-time proceeds from the disposal of the two shopping centres, EBIT amounted to Euro 73.6 million in 2006.

In accordance with IAS 32, **minority interests** are treated as debt in the balance sheet, which means that the profit attributable to minority interests is reported under net finance costs and therefore results in a decline in EBT. **Financing costs** went up by EUR 5.3m to EUR 38.9m due to the pipeline and newly opened shopping centres. Interest income remained pretty much unchanged; EUR 2.3m. Income from investments declined from EUR 5m to EUR 1.9m due to the inclusion of the Main-Taunus-Zentrum. Overall, net finance costs increased to EUR -41.0m (EUR -39.3m in 05). Average interest rate by the end of 2006 was 5.5% as cheap

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<sup>1</sup> If cumulative indexation based upon CPI reaches a threshold of 7.5%, rents will be amended by + 7.5% for 100% of the lease.

loans have been sold in combination with the Viterbo and Annemassee premises. Interest costs would have been EUR 6m lower if these transactions wouldn't have taken place.

**EBT** adjusted for proceeds from disposals and excluding measurement gains and losses amounted to EUR 32.7m in 2006.

Consolidated net profit after income taxes (EUR 17.4m) amounted to EUR 100.3m (EUR 48.7m in 05), an increase of 106%. Due to the ongoing high depreciation and huge amount of losses carried forward (past and current developments) for fiscal purposes, net earnings have been negative for a long time, and will remain to be, as long as they keep investing. Therefore, the company is very **tax efficient**. The sole taxes that popped up were deferred taxes for Germany (EUR 20.6m) and abroad (EUR 3.8m). In 2006 the effective income tax rate was 15%. The company doesn't pay local taxes (on top of corporate tax) as it tends to hold investments longer than 10 years.

Another consequence is that **dividend** is regarded as the distribution of equity instead of profit, which makes that no withholding tax applies. The dividend proposal for the AGM is EUR 2.10 per share (EUR 2 in 05). The "after tax" dividend yield will be approximately 3.5%.

Bottom-line earnings per share (**EPS**) arrived at EUR 5.84 (EUR 3.09 in 05);

- EUR 1.53 per share (2005: Euro 1.24) is attributable to operations (+23%);
- EUR 1.33 per share derives from disposal gains;
- EUR 2.98 (2005: Euro 1.85) is due to measurement gains (+61%).

**Cash flow per share** was EUR 2.15 (EUR 1.91 in 05).

**Indirect result** increased from EUR 49.9m to EUR 72.3m, of which EUR 22.3m was due to the centres in Klagenfurt and the Rathaus-Centre in Dessau. The remainder (EUR 47.2m) was the result for the existing portfolio. EUR 3.4m on expenses are deducted from this amount. The net yield based upon EBITDA is 5.39% (5.5% in 05), gross yield 6.25%.

## Balance Sheet

Per year-end the net asset value was EUR 877.4m i.e. EUR 51.05 per share compared to EUR 794.5m (EUR 46.22 per share) in 05. Exhibit 1 (next page) includes the minorities that are regarded as non-current liabilities (IAS 32).

By the end of last year, the company was invested for 87% in Germany and only 13% abroad, their guideline is 75/25%. The portfolio was amongst all again rated by Feri Research at a firm A, just like last year. The group's total asset base went up by EUR 252.7m to EUR 1,796.2m of which EUR 1,652.9m can be regarded as fixed assets. The fair value of the properties rose by EUR 69.9m. Changes in the consolidation added EUR 288.1m, only the Main-Taunus-Zentrum is now included proportionately. The sale of both centres took out EUR 83.6m. Investments in property, plants and equipment amounts to EUR 26.8m. Assets amounting to EUR 155.3m reflect the investment already made for the three pipeline items Hameln, Passau and Gdansk. All centres are by the way fully (pre)let. This item is reported at cost. The largest item on their balance sheet is their stake in Rhein-Neckar, which makes up for 18% of total assets at market value, and which stake has been extended by 7 basis points to 99.9%.

## Exhibit 1 NAV per share

in € thousand	2006	2005
Non-current assets	1,652,890	1,327,031
Current assets	143,323	216,527
<b>Total assets</b>	<b>1,796,213</b>	<b>1,543,558</b>
less Non-current liabilities (excl. deferred taxes)	-854,145	-679,165
less Current liabilities	-64,634	-69,913
<b>Net asset value of Deutsche EuroShop</b>	<b>877,434</b>	<b>794,480</b>
Number of shares	17,187,499	17,187,499
<b>Net asset value per share (€)</b>	<b>51.05</b>	<b>46.22</b>

Source: Deutsche EuroShop

Except for EUR 1m on money-market products the 'cash' item of EUR 96.9m was fully composed by cash held on account. The year-on-year decline by EUR 100m was mainly due to investment expenditures.

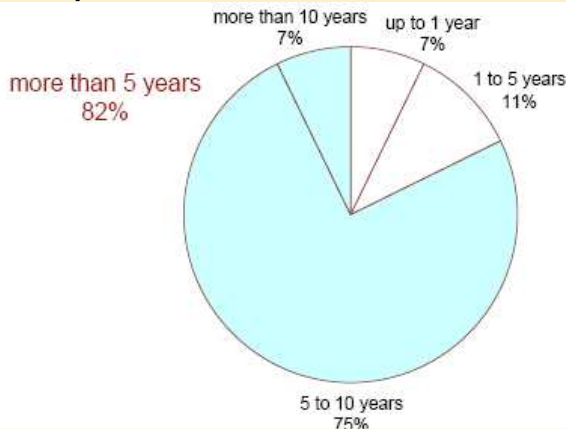
Mostly due to the newly implemented IAS 32 guideline the equity ratio changed from 46.9% to 44.3%. Overall, equity increased by EUR 71.6m to EUR 796.3m.

Provision for deferred taxes went from EUR 69.8m to EUR 81.2m. The sale of both centres took out EUR 10m, nearly EUR 27m of profit before tax was allocated to the provisions.

Debt increased by EUR 97.8m because of the enlargement of the stake in the Main Taunus Centre and Galeria Baltyka. An additional EUR 10.2m was drawn for Klagenfurt, EUR 29.3m for Hameln and Passau. In the end bank loans and overdrafts ended at EUR 780.6m.

Deutsche EuroShop is known for its relatively conservative interest risk management approach; the liability structure should reflect both P&L and asset profile. 82% of all liabilities to banks have a fixed interest rate for more than 5 years. Due to the long interest durations, the fact that cheap loans have been sold with the centres in Italy and France and taking into account that most loans have been arranged many years ago at higher rates, the average interest rate resides at 5.5%. Today the mark-up above Euribor is 37 basis points, which was 100 basis points a few years ago. By the end of the 90s the margins were even lower; 30 basis points.

## Exhibit 2 Debt maturity



Source: Deutsche EuroShop

## Issues

### Probably no REIT conversion

Will Deutsche EuroShop convert to a REIT? We were always convinced this company is born to be one as it is a long term asset holding company. However, the bill due to the announced exit tax (50% of corporate tax) will arrive between EUR 18 and 56m, the first excluding, the latter including local taxes. Furthermore, the company has to sell-off their stake in Galeria Dominikanska as they are only allowed to hold 100% stakes in foreign SPV's. However, if the bill is at the lower end of the range Deutsche EuroShop won't consider to transform into a REIT before 2008, by then corporate taxes will be reduced from 25% to 15%. Additionally, the company –currently paying no local tax- has to fulfil them after having applied for the REIT status.

Bottom-line, not many real estate companies are expected to be converted into a REIT, seen the costs for the exit tax.

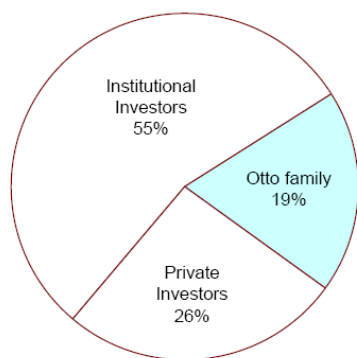
### High cost of funding

Deutsche EuroShop's average cost didn't go any lower and remained at 5.5%, which is relatively high in our spectrum. Most existing loans, mostly with a mortgage, were closed some years ago against higher rates and cheaper loans have been sold together with the shares in Viterbo and Annemassee. Today the company is able to (re)finance itself at 4.85% for 10 year fixed and 5% for 20 year fixed. The interest rate yield curve seems to be very flat. The inclusion of Wetzlar, Main-Taunus and Klagenfurt made interest costs go down by EUR 6m, but at the same time off set by the result for minority costs. EUR 7m was saved by means of the sale of Annemassee/Viterbo and redemption of debt. The costs for further refinancing (i.e. replacing old loans) would currently be too high.

This year only 7% of the total loans portfolio will expire, in another 1-5 years 11% is due and 75% in 5-10 years (see exhibit 2). It will therefore take some more years to get into lower financing costs ranges. Gearing is expected to remain unchanged, loan-to-value resides at 50%, but may temporarily direct to 60%.

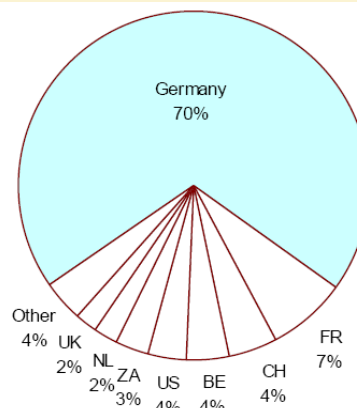
### The Otto's

Exhibit 3 Shareholders



Source: Deutsche EuroShop

Exhibit 4



Source: Deutsche EuroShop

The Deutsche EuroShop has been in affair with the Otto family for quite a while in several ways; two Otto brothers currently have a 19% stake in the company, of which Mr. Alexander Otto –CEO of ECE Projektmanagement GmbH- owns 12%. Within the 26% stake of private investors a certain part is also represented by several Otto family members, mostly grand children. Furthermore, Mr. Alexander Otto is a member of the Supervisory Board. ECE and individual Otto family members are the major investment partners in many projects. Finally, they also manage some centres (leasing, accounting). Obvious question raised is how can

conflicts of interest be avoided? One thing stands clear; Deutsche EuroShop is not caught in any (non-written) agreement for a mandatory inlet of projects. It is free to decide with whom it performs business but it seems that ECE has proven to be the best partner compatible to Deutsche EuroShop's business model and requirements. The three roles taken by the Otto's are distinctive and also operationally treated as such. If there are decisions to be taken on non-joint efforts/projects/issues Mr. Alexander Otto or any other family member involved is simply leaving the room. However, we understand confusion is part of many investors or stakeholders.

The management fee for the Otto family is 8%, of which 4% is currently taken by the tenants. Deutsche EuroShop expects this 8% rate to go down to 6% in the mid to long term.

## Conservative revaluation

The average gross and net yield per year-end was 6.25% respectively 5.39%, i.e. a 10 basis point yield reduction on a year-on-year level. In order to give one a clue about true potential one should look at deals made recently. For the sale of Viterbo, which was valued at EUR 43m last year, the auction saw this amount as a starting position and the centre was sold for EUR 58m. The gross and net exit yield for this centre was 5.2% respectively 4.6%. Furthermore, one has assessed all pipeline items recently; Galeria Baltica which bears a net yield of 6.3% increased in value by 10% since the project was started, the same percentage applied to Passau (5.5% net yield). The sale of Annemassee for EUR 41m delivered an after tax profit of approximately EUR 3.5m (EUR 5.6m before tax).

In their home country Deutsche EuroShop and many other listed companies active in Germany, are facing severe competition from open-end funds, which is already having a consequence for property yields. Furthermore, banks like ING (RE) and Merrill Lynch are very active in Germany.

Valuing properties is a sensitive and subjective discipline; e.g. Deutsche EuroShop today's operational costs applied are 13.6%, if one would take the sector's average of 8% the overall portfolio value shifts by EUR 150m, ceteris paribus property yields.

## Expanding business

The annual target for the moment is still a 10% expansion whereby the focus remains Germany and adjacent countries. Main trigger for investments is catchments area, not the size of the city. Besides looking for new projects and existing centres –which won't be easy taking into account Deutsche EuroShop's minimum requirement of 5.5% net initial yield- and increasing stakes in holdings, the company is also exploring the extension route. The 13,000m<sup>2</sup> planned extension of the Main-Taunus Centre is a good example, but for inner-city centres the game is more difficult due to the scarcity of ground plots and high costs involved. In case of the City Galerie in Wolfsburg it's a matter of technical restrictions as the centre is surrounded by a pedestrian area. In Wuppertal the adjacent buildings are owned by many smaller parties which makes it difficult to start negotiations. For the City Point Centre in Kassel no clear opportunities are seen.

The Árkád centre in Pecs (HU) that currently bears 35,200 m<sup>2</sup> will be a candidate for enlargement, the Phoenix centre in Hamburg will get an additional 3 levels. The Altmarkt Galerie in Dresden could technically be extended but the neighbour's plot seems to be very expensive. For the Galeria Baltycka an additional plot of land has already been acquired for future extensions.

Countries that are looked at for new opportunities are the existing ones but if an excellent one pops up somewhere else Mr. Böge will be the last to reject it in advance. However, yields in for instance Poland have in the meantime sunk further to 5.5% levels. The Czech Republic is more of a target. The company will definitely not step into Switzerland as they regard it as being too expensive and think there is a lack of product. Countries like Russia or Ukraine are regarded as "not suitable for a listed company" by Deutsche EuroShop's management.

Besides quantity Deutsche EuroShop very much stands for quality. As most buildings have been built in a sustainable way only EUR 1m is foreseen for future upgrading/refurbishment purposes. Many other costs will be taken by the tenants anyhow.

Major concern for development activities is the recent increase in construction costs. Last 6 months this increase amounted to more than 20% (up to 50%!), especially materials like wood, concrete have become expensive. Furthermore, there is a structural shortage of (construction) labour in Germany. For Deutsche EuroShop specifically it is expected that costs will increase by EUR 2m in 2007 and EUR 1m in the year after. Deutsche EuroShop announced that it will row more upstream if it comes to development projects in order to achieve higher yields. However, expertise will have to come from third parties.

## Share split

In order to improve liquidity and get the notional value per share back to EUR 1 (instead of EUR 1.28) a capital increase from capital reserves and subsequent share split is due. A proposal will be made to shareholders to increase the share capital of EUR 21,999,998.72, (17,187,499 shares) to EUR 34,374,998.00 without issuing new shares. Immediately after this, a 1:2 share split takes place. It is planned for shareholders to receive one additional bonus share for each regular share in their possession.

## Forecast 2007 and 2008

Most important driver for nearby future growth is the opening of the three shopping centres in 2007 and 2008; Stadt-Galerie Hameln, Stadtgalerie Passau and Galeria Baltycka. The latter is more or less fully let, the others for over 75%.

The company expects 07 revenues to be in line with the 06 top line figures (between EUR 92m and EUR 94m). Galeria Baltycka, which will be opened in fall 2007, will partially make up for the loss in rental income due to the sale of Annemassee and Viterbo (4.2% of 2006 revenue). According to their forecast for 2007 EBIT will arrive between EUR 71m and EUR 73m.

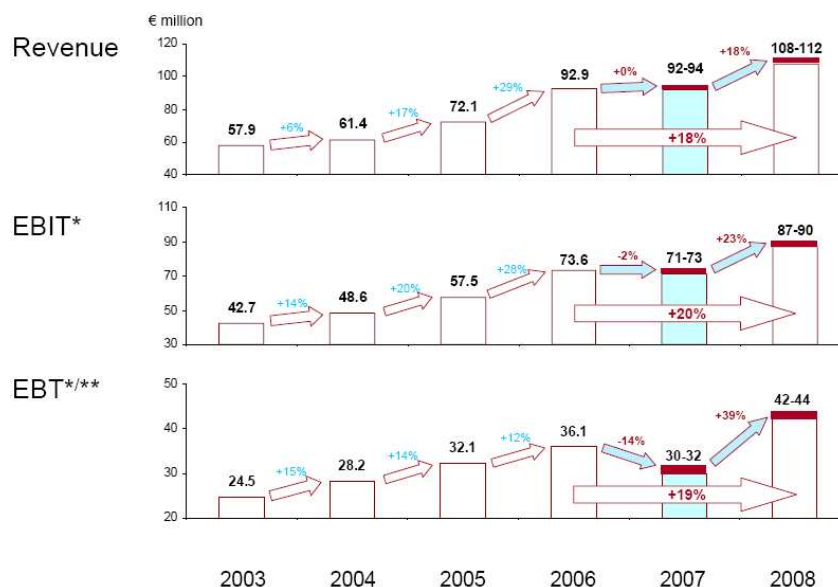
From 2008 things will get momentum and a rise of rental income of approximately 18% is expected; both centres in Hameln and Passau will have their grand opening beginning 2008 and contribute to revenue and earnings by then. In addition, Galeria Baltycka will be in operation for its first full financial year. Much is expected from the centre as it connects 3 neighbouring cities and is close to the historical centre. In 2008, once all properties currently under construction have opened, this is expected to increase EBIT to between EUR 87m and EUR 90m.

EBT is expected to end between EUR 30m and EUR 32m in 2007 and between EUR 42m and EUR 44m by the end of 2008.

The focus will very much be in the area of fashion as the catchments area for this line of business is relatively large; people tend to travel from far for new fashionable clothes.

Due to tax reasons (capital gains) and the fact that the current centres provide for sufficient upside, no disposals are foreseen for the coming years.

## Exhibit 5 Guidance



Source: Deutsche EuroShop

Looking at their guidance we believe both 2007 revenues and EBIT are slightly at the low side –besides the fact that they assume no new standing investments are made- and EBT (EUR 30-32) somewhat higher due to our increasing/higher financing costs. We expect top line revenues to end at EUR 95.4m as rental income is helped by the opening of Galeria Baltyka in autumn 2007, EBIT will shift accordingly. For 2008 EBIT is more in line with our forecast.

## Valuation

One of our main methodologies for valuing buy & hold real estate companies compares a company's total (future) return on capital (ROIC) with its weighted average cost of capital (WACC). A positive difference implies that a company generates a return on capital exceeding its WACC. In that case, the shares should trade at a premium to the NAV. Conversely, if the company produces a ROIC below its WACC, the shares should trade at a discount to the NAV. The calculations have been made for a time horizon of 3 and 6 years, starting on 01/01/2007. The NAV is the latest plain vanilla NAV published at year-end 2006 (EUR 51.05/share), NNNNAV is set at EUR 51.80; a correction to the NAV has been made for running direct result (1/1/07 to date) and a triple net adjustment for the fact that the company is financed more expensive than market practises (5.5% versus 4.8%). The WACC is estimated at 6.23%.



## Exhibit 6 Valuation EVA

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating result		57,497	88,441	74,470	57,497	88,441	74,470	89,702	102,721	112,377	121,286	132,947
Net indirect property result		47,448	72,299	0	47,448	72,299	57,974	85,273	85,209	96,870	83,161	89,608
Total return		104,945	160,740	74,470	104,945	160,740	132,444	174,975	187,930	209,247	204,447	222,555
Average Capital employed		1,301,528	1,506,567	1,254,095	1,301,528	1,506,567	1,725,199	1,959,941	2,284,580	2,549,252	2,770,626	2,989,84
ROIC		8.06%	10.67%	5.94%	8.06%	10.67%	7.68%	8.93%	8.23%	8.21%	7.38%	7.44%
WACC		6.23%	6.23%	6.23%	6.23%	6.23%	6.23%	6.23%	6.23%	6.23%	6.23%	6.23%
Difference		1.84%	4.44%	-0.29%	1.84%	4.44%	1.45%	2.70%	2.00%	1.98%	1.15%	1.22%
Value contribution		23,925	66,956	-3,597	23,925	66,956	25,050	52,969	45,715	50,556	31,975	36,437
average # shares		16,406,250	17,187,499	17,283,229	16,406,250	17,187,499	17,283,229	18,398,139	20,248,151	21,565,418	22,538,288	23,511,11
Value per share		1.46	3.90	0.19	1.46	3.90	1.45	2.88	2.26	2.34	1.42	1.55
NPV of values contributions				6.34	10.31							
NAV Today				51.79	51.79							
Fair Value				58.13	62.11							
						fair value	NAV at true value					
						60.12	62.7					

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	20
Invested Capital												
Long term interest bearing debt	597662	679165	854145	597662	679165	854145	864704	974382	1065674	1120903	1177675	12336
Short term interest bearing debt	6,675	50,505	28,529	6675	50505	28529	33808	88647	134294	161908	190294	2183
Cash	86330	175190	95934	86330	175190	95934	146497	152396	158528	164096	169871	1758
net Debt	518007	554480	786740	518007	554480	786740	752015	910634	1041440	1118715	1198098	12761
Adjustment debt to market												
Provisions	51676	69826	81158	51676	69826	81158	98840	124438	143677	163880	185110	2074
Shareholders' funds	684412	724654	796275.9987	684412	724654	796276	935368	1098586	1250384	1380407	1495043	16178
Capital employed	1254095	1348960	1664173.999	1254095	1348960	1664174	1786224	2133658	2435501	2663002	2878251	31014

Source: Petercam assumptions

With the EVA method on a 3-year horizon time, we arrive at a 12-month fair value of EUR 58.13, while the same calculation on a 6-year horizon gives us a 12-month fair value of EUR 62.10. This all under the assumption that no additional investments are made besides the three centres which are currently under development.

By taking the NNNNAV per share today and future proceeds as announced we get to a fair value of EUR 60.12. We have applied a modest indexation (CPI+retail sales growth) and a 15 basis point yield squeeze per annum and are confident this 12 month target will be made. If we would benchmark the non-current assets at true market value, of which we believe these are between 5-10% undervalued, we get to a EUR 62.70 (assets 5% undervalued). If EUR 100m will be invested additionally spread over 2007 and 2008, the fair value increases by 10 basis points. We see that due to the increased construction costs for Deutsche EuroShop the costs involved depress the economic added value of pipeline items. We set our new target price at EUR 62.70 as we are confident the premises are at least 5% undervalued, that serious interest costs savings will be due on the mid/long term, our assumptions with regard to investment volume is at the low side, operating expenses will decrease and retail sales growth indexation gradually takes over from CPI. Investor demand because of the G-REIT and lower corporate taxes will do the remaining part.

For 2007 we expect NAV will arrive at EUR 52.20, for 2008 EUR 54.70 is feasible.

# PETERCAM

The following overview contains the most commonly used ratios in order to see whether the 4.5% upside is justifiable. P/E ratio is pretty much in line with its major peers (ECP and Rodamco Europe), dividend yield is lower than the Dutch average but higher than the French and German ones. EV/EBITDA definitely lacks behind, which also applies to its premium. However, a full benchmark for the latter is diluting one's analysis.

**Exhibit 7 Ratios for retail scope**

<i>data as of April 26, 2007</i>	Market cap. (EUR m)	Price (EUR)	Direct P/E 06e	Direct P/E 07e	Yield 06e	Yield 07e	EV/ EBITDA 06e	EV/ EBITDA 07e	NAV	Pre- mium	Target price	Upside	Reco
<b>Dutch companies</b>													
Corio	4,388	66.23	20.1	21.8	4.1%	3.7%	22.9	22.6	50.94	30%	70.00	5.7%	Hold
Eurocommercial Prop.	1,514	42.93	18.8	25.0	5.3%	4.0%	26.3	30.7	35.72	20%	41.62	-3.1%	Hold
NSI	782	21.86	16.5	14.5	6.1%	6.9%	18.4	17.9	17.66	24%	19.90	-9.0%	Reduce
Rodamco Europe	9,741	108.72	21.8	23.3	4.1%	3.9%	29.9	31.2	77.16	41%	112.00	3.0%	Add
VastNed Retail	1,240	73.38	20.8	19.7	4.8%	5.1%	21.4	20.1	58.72	25%	79.83	8.8%	Add
Wereldhave	2,232	107.41	19.6	24.0	4.6%	3.9%	20.3	21.1	90.96	18%	101.00	-6.0%	Reduce
<b>French companies</b>													
Klepierre	6,625	144.10	22.7	22.9	2.5%	2.5%	24.3	24.7	91.94	57%	162.00	12.4%	Add
Unibail	9,426	205.35	27.2	27.7	2.7%	2.9%	24.8	24.5	140.61	46%	225.00	9.6%	Add
<b>German companies</b>													
Deutsche EuroShop	1,031	60.00	19.6	35.9	3.7%	3.6%	20.8	26.1	51.79	16%	62.70	4.5%	Add
<b>Average</b>			<b>20.4</b>	<b>22.5</b>	<b>4.5%</b>	<b>4.4%</b>	<b>22.6</b>	<b>23.3</b>		<b>34.8%</b>			

Source: Petercam assumptions

## Conclusion

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The company from Hamburg which is specialised in inner-city centres seems to be somewhat stuck in the old inner-city. It's hard to find promising investments seen the growing pressure on yields in- and outside Germany, competition, higher construction costs, lack of investment grade products and space for extensions in these inner-city areas. For 2007 we don't expect that the company will surprise us to beat the investment target of EUR 100-150m per annum. The challenge for the nearby future will be to add value x volume. In order to do so the following solutions have been mentioned;

- Go further upstream if it comes to development project;
- Exploring possibilities to extent surfaces and stakes in current centres (e.g. Main-Taunus);
- Actively monitor and improve rental income for existing centres.

Looking at the above mentioned strategic solutions we foresee a close(r) cooperation with ECE and other 'providers' as an unavoidable one.

The fact that the European economy, and more specifically the German one is picking up definitely helps. For the moment it seems that the company won't leverage on the G-REIT ruling but seen the REIT-like set up it has already today (no dividend tax, tax efficient structure) this doesn't seem to be a show stopper. We are confident they won't convert before 2008 when the corporate tax will be reduced to 15%.

Interest costs savings are pretty much stuck for the moment but on the long term we foresee a reduction to 4.7-4.9% levels for Deutsche EuroShop, which is at least substantially lower than the net rental yields today and probably slightly lower than the ones in 5 years time.

Recurring earnings per share will increase (9%) in 2007 to due to strong rental growth (retail sales growth indexation) and the opening of Galeria Baltyka. We believe no assets will be sold in 2007, hardly any new (standing) investments will be made and a similar revaluation result applies. We expect total EPS to end at EUR 5.03 overall, of which EUR 1.67 for operational result and EUR 3.35 for indirect result. For 2008 a solid EUR 6.44 overall is expected.

At the most intrinsic level we are confident that there is quite some hidden value in the current portfolio and pipeline, so for the coming years NAV will rise steadily. After that, we don't know. Yields might go up but quality pays back on the long term. Going more upstream and actively explore possibilities to extent current centres is the only way forward.

A solid corporate action with a solid partner that follows a similar controlled growth path, high quality assets, look-alike indexation, risk appetite and financing policy would bring an outcome for the long term future. The recent merger between Unibail and Rodamco Europe has made the market awake and aware of the last step for full economies of scale. We believe EuroCommercial Properties might be a good fit.

We reiterate our add recommendation and apply a 12-month fair value per share of EUR 62.70

<b>Profit &amp; Loss (EUR m)</b>	<b>12/03</b>	<b>12/04</b>	<b>12/05</b>	<b>12/06</b>	<b>12/07e</b>	<b>12/08e</b>	<b>12/09e</b>
Rental income	57.9	61.4	72.1	92.9	95.4	114.6	130.4
Operating costs	-17.6	-19.3	-12.3	-16.2	-17.0	-20.1	-22.2
<b>Net rental income</b>	-	-	-	-	-	-	-
Sales result	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-
Overhead costs	-0.8	-0.8	-4.5	-3.8	-3.9	-4.8	-5.4
Other costs	-	-	-	-	-	-	-
Depreciation	0.0	0.0	0.0	-0.5	0.0	0.0	0.0
<b>EBIT</b>	<b>40.5</b>	<b>50.7</b>	<b>57.5</b>	<b>88.4</b>	<b>74.5</b>	<b>89.7</b>	<b>102.7</b>
Interest charges	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-
<b>Financial Result</b>	<b>-12.6</b>	<b>-12.5</b>	<b>-39.3</b>	<b>-41.0</b>	<b>-45.1</b>	<b>-51.7</b>	<b>-57.1</b>
Exceptionals	-	-	-	-	-	-	-
Minorities	-0.4	1.3	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax result</b>	<b>27.5</b>	<b>39.5</b>	<b>18.2</b>	<b>47.5</b>	<b>29.4</b>	<b>38.0</b>	<b>45.6</b>
Taxes	-8.5	-11.8	-0.9	-0.5	-0.3	-0.3	-0.4
<b>Direct result</b>	<b>19.0</b>	<b>27.7</b>	<b>17.3</b>	<b>26.3</b>	<b>28.9</b>	<b>37.7</b>	<b>45.2</b>

<b>Balance Sheet (EUR m)</b>	<b>12/03</b>	<b>12/04</b>	<b>12/05</b>	<b>12/06</b>	<b>12/07e</b>	<b>12/08e</b>	<b>12/09e</b>
Property investments	930.5	918.5	1,138.3	1,452.0	1,534.6	1,882.0	2,183.9
Property not in operation	64.6	183.1	71.9	155.3	155.3	155.3	155.3
Other Investments	100.3	101.7	116.8	45.6	45.6	45.6	45.6
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total investments</b>	<b>1,095.4</b>	<b>1,203.3</b>	<b>1,327.0</b>	<b>1,652.9</b>	<b>1,735.5</b>	<b>2,082.9</b>	<b>2,384.7</b>
Cash position	80.0	86.3	175.2	95.9	146.5	152.4	158.5
Tradable receivables	65.0	80.6	41.3	47.4	60.5	60.5	60.5
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>1,240.7</b>	<b>1,370.2</b>	<b>1,543.6</b>	<b>1,796.2</b>	<b>1,942.5</b>	<b>2,295.8</b>	<b>2,603.8</b>
Total Equity	695.3	684.4	724.7	796.3	935.4	1,098.6	1,250.4
Equity	639.0	635.1	724.7	796.3	935.4	1,098.6	1,250.4
Minorities & preferred	56.3	49.3	0.0	0.0	0.0	0.0	0.0
Provisions & deferred taxes	43.6	51.7	69.8	81.2	98.8	124.4	143.7
LT bearing interest debt	476.9	597.7	679.2	854.1	864.7	974.4	1,065.7
ST bearing interest debt	5.0	6.7	50.5	28.5	33.8	88.6	134.3
<b>Total debt</b>	<b>481.9</b>	<b>604.3</b>	<b>729.7</b>	<b>882.7</b>	<b>898.5</b>	<b>1,063.0</b>	<b>1,200.0</b>
Tradable payables	19.9	29.8	19.4	36.1	9.8	9.8	9.8
<b>Total Liabilities</b>	<b>1,240.7</b>	<b>1,370.2</b>	<b>1,543.6</b>	<b>1,796.2</b>	<b>1,942.5</b>	<b>2,295.8</b>	<b>2,603.8</b>

Notes -

Per Common Share (EUR)	12/03	12/04	12/05	12/06	12/07e	12/08e	12/09e
<b>Cash direct result</b>	<b>0.84</b>	<b>1.32</b>	<b>1.24</b>	<b>1.53</b>	<b>1.67</b>	<b>2.05</b>	<b>2.23</b>
Y/Y	-	57%	-6%	23%	9%	22%	9%
Indirect result	0.38	0.46	1.85	2.98	3.35	4.39	4.04
Dividend	1.92	1.92	2.00	2.10	2.15	2.25	2.25
Y/Y	-	0%	4%	5%	2%	5%	0%
Book Value	43.68	43.96	46.22	51.05	52.16	54.64	57.17
Y/Y	-	1%	5%	10%	2%	5%	5%
<b>Shares (m)</b>							
At the end of F.Y.	15.625	15.625	17.187	17.187	17.379	19.417	21.079
Average number	16.016	16.016	16.406	17.187	17.283	18.398	20.248
Fully diluted Average number	-	-	-	-	-	-	-
EV and CE details (EUR m)	12/03	12/04	12/05	12/06	12/07e	12/08e	12/09e
<b>Market cap.</b>	<b>527.3</b>	<b>601.7</b>	<b>815.5</b>	<b>965.2</b>	<b>1,042.7</b>	<b>1,165.0</b>	<b>1,264.7</b>
+ Net financial debt	401.9	518.0	554.5	786.7	752.0	910.6	1,041.4
(of which LT debt)	476.9	597.7	679.2	854.1	864.7	974.4	1,065.7
(of which ST debt)	5.0	6.7	50.5	28.5	33.8	88.6	134.3
(of which Cash position)	80.0	86.3	175.2	95.9	146.5	152.4	158.5
+ Provisions (pension)	-	-	-	-	-	-	-
+ Minorities (MV)	-	-	-	-	-	-	-
- Peripheral assets (MV)	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
<b>Enterprise Value</b>	<b>1,065.6</b>	<b>1,255.3</b>	<b>1,545.2</b>	<b>1,847.9</b>	<b>1,941.3</b>	<b>2,228.1</b>	<b>2,464.7</b>
<b>Equity (group share)</b>	<b>639.0</b>	<b>635.1</b>	<b>724.7</b>	<b>796.3</b>	<b>935.4</b>	<b>1,098.6</b>	<b>1,250.4</b>
+ Net financial debt	401.9	518.0	554.5	786.7	752.0	910.6	1,041.4
+ Provisions (pension)	-	-	-	-	-	-	-
+ Minorities	56.3	49.3	0.0	0.0	0.0	0.0	0.0
- Peripheral assets	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
<b>Capital employed (for ROCE)</b>	<b>996.5</b>	<b>1,220.9</b>	<b>1,284.2</b>	<b>1,669.4</b>	<b>1,650.5</b>	<b>1,973.7</b>	<b>2,241.4</b>
Ratios	12/03	12/04	12/05	12/06	12/07e	12/08e	12/09e
<b>Valuation analysis</b>							
P/E	40.2	29.2	38.3	36.7	35.9	29.3	26.9
P/BV	0.8	0.9	1.0	1.1	1.2	1.1	1.0
EV/Rental Income	18.4	20.4	21.4	19.9	20.3	19.4	18.9
EV/EBITDA	26.3	24.8	26.9	20.8	26.1	24.8	24.0
EV/EBIT	26.3	24.8	26.9	20.9	26.1	24.8	24.0
EV/CE	1.1	1.0	1.2	1.1	1.2	1.1	1.1
Discount on NAV	23.2%	12.4%	-2.7%	-10.0%	-15.0%	-9.8%	-4.9%
Div. Yield	5.7%	5.0%	4.2%	3.7%	3.6%	3.8%	3.8%
Payout	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Financial ratios</b>							
Net Debt/Equity	57.8%	75.7%	76.5%	98.8%	80.4%	82.9%	83.3%
Equity/Total Assets	56.0%	49.9%	46.9%	44.3%	48.2%	47.9%	48.0%
ROCE	-	-	-	-	-	-	-
ROCE post-tax	4.1%	4.2%	4.5%	5.3%	4.5%	4.5%	4.6%
ROE	3.0%	4.4%	2.4%	3.3%	3.1%	3.4%	3.6%
<b>Margin analysis</b>							
EBITDA / Rental income	70.0%	82.5%	79.8%	95.7%	78.0%	78.3%	78.8%
EBIT / Rental income	70.0%	82.5%	79.7%	95.2%	78.0%	78.3%	78.8%
Direct result / Rental income	32.9%	45.1%	24.0%	28.3%	30.3%	32.9%	34.7%
<b>Growth analysis</b>							
Rental Income	-	6.1%	17.4%	28.7%	2.8%	20.0%	13.8%
EBITDA	-	25.0%	13.5%	54.6%	-16.2%	20.4%	14.5%
EBIT	-	25.0%	13.5%	53.8%	-15.8%	20.5%	14.5%
Direct result	-	45.8%	-37.6%	51.9%	9.9%	30.3%	20.1%
<b>Notes</b>	-						

