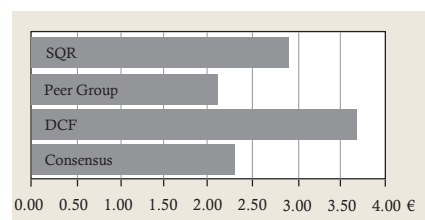




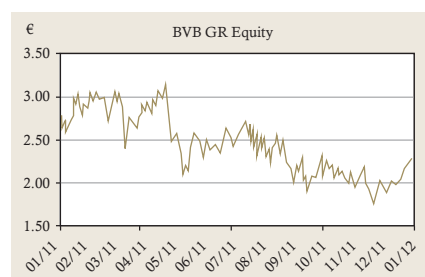
07 February 2012

Borussia Dortmund Consumer / Leisure Neutral PT €2,90, upside 7%

Target price decomposition



Stock data/Rating		Neutral	
Last price	€ 2.70	±	
SQR target	€ 2.90	7.4%	
Consensus target		2.30	
52 week high/low	€ 3.22	1.76	
All-time high/low	€ 10.30	0.80	
Performance	-1month -3months ytd		
%	35.1% 28.3%	42.4%	
Current market cap	€ 166m		
Shares out (average)	61m		
Free float	78.76%		
P&L			
	2011/2012e	2012/2013e	2013/2014e
Sales €m	182	182	190
EBITDA margin	24.8%	24.8%	20.1%
EBIT margin	14.4%	13.3%	6.6%
Net margin	8.9%	8.0%	2.3%
ROA	6.6%	5.9%	-0.6%
ROE	27.8%	22.4%	4.9%
Dividend yield	4.4%	4.4%	0.0%
Balance Sheet €m			
	2011/2012e	2012/2013e	2013/2014e
Balance Sheet	219	223	216
Operating assets	172	170	168
Cash	8.2	1.0	1.4
Equity	58	68	77
Net. Debt	78	79	73
Enterprise value	244	244	239
Valuation			
	2011/2012e	2012/2013e	2013/2014e
EV/EBITDA	5.4	5.2	7.1
P/E	10.2	10.8	43.4
P/E relative	81%	86%	343%
P/E at SQR target	11.0	11.6	46.6
Gearing	136%	107%	87%
ROE/ROA	4.2	3.8	-8.8
Book Value/Sales	0.3	0.4	0.5
ROCE	16.1%	14.3%	6.2%
Market data			
Bollinger up/low	€ 2.54	1.87	
MAV 100/200 days	€ 2.10	2.27	
Beta (6 months)	0.66		



Source: Bloomberg

After turbulent times BVB on the way to new strength with innovative concepts.

Borussia Dortmund represents the only stock exchange listed German football club, which is in economic terms part of the growing leisure market. The company receives revenues from TV and radio broadcasts, merchandising, ticket sales and corporate sponsorship and hospitality offers. Last weekend Borussia took over the lead in the German Bundesliga (20th of 34 games played). In addition the club recently extended the contract with manager Juergen Klopp (who has already led the club to victory in the 2011 championship) until 2016. This news-flow underlines the club's aim to provide management continuity.

Borussia Dortmund reported an excellent result in 2010/11

After turbulent times Borussia Dortmund has made huge progress in economic terms. Group sales increased in financial year 2010/2011 (June 30th) by 38% to EUR151.5m (2009/10: EUR110.1m). Operating profit turned from slightly negative (EUR-0.5m) in FY2009/10 into positive terrain of EUR14.9m. Net profit accelerated to EUR5.4m (2009/10: EUR-6.1m) corresponding to an EPS of EUR0.09 (2009/10: EUR-0.10). The excellent economic result was mainly attributable to Borussia winning the German Bundesliga championship in the corresponding football season, the sixth in club's history. The gap between IFRS group and also published KGaA numbers (HGB) is caused by consolidation of the affiliate handling Borussia's merchandising business and the different reporting procedure of the affiliate owning the stadium in German reporting standard HGB and IFRS.

Shareholder structure

Current advisory board member Bernd Geske is the largest shareholder representing a stake of 11.55%. The club Borussia Dortmund has a stake of 7.24% the rest is free float which means that no other shareholder owns more than 3% of the shares. After three capital increases there are 61.425 million shares currently circulating. During the restructuring process Morgan Stanley had been the largest shareholder with up to a stake of 16 % but has sold its stakes completely in the meantime.

Conclusion

According to the business model, track record and market capitalization the Borussia share can't be described in regular investment terms. Therefore the share is a speculative investment and only suitable for growth investors with a strong commitment to the specific business mission which means professional football in this case. However we have a positive impression from the way the management tackles the business and initiate coverage with a Neutral rating and a price target of EUR 2.90.

Next trigger will be the release of half year figures on February 24th. As the explanatory power of interim results is limited the sportive performance is much more important for the further prospects as investors would be pleased with a further securing of the UEFA Champions League qualification.

Content

page 02__ BVB: only German stock listed football club

BVB: only German stock listed football club

Company history

Borussia Dortmund was founded in 1909 by a youth group from a catholic parish club and was named after a local brewery the "Borussia Brauerei". Borussia is Latin for Prussia the name of the former German state. In October 2000 Borussia Dortmund KGaA went public with shares issued at a price of EUR11. In 2002 closed-end property fund "Molsiris" took over a 75% stake affiliated company which manages the stadium and the stadium ground.

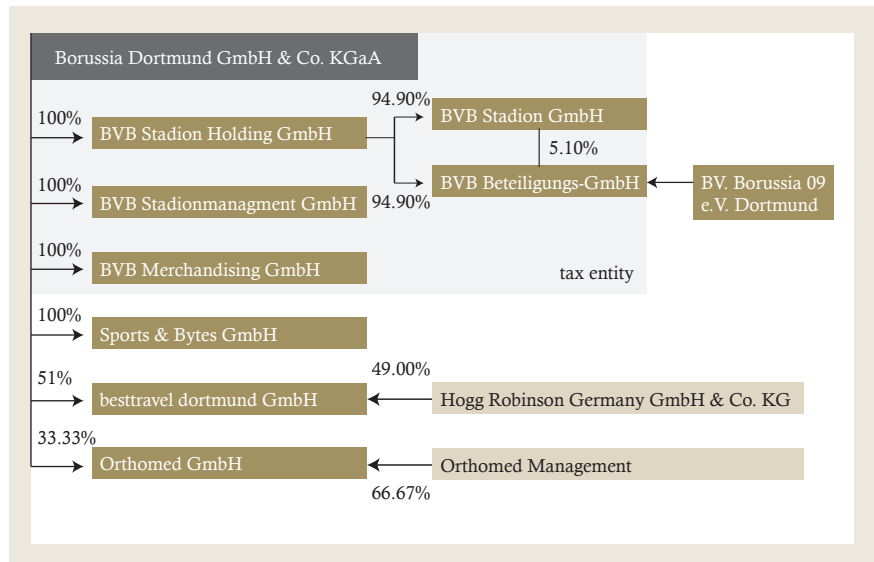
Problems became evident when Borussia failed to qualify for 2003/2004 UEFA Champions League and the company experienced an operating loss of EUR20.7m. As former management spent much money to hire an experienced but expensive squad, losses accelerated and amounted to EUR69m for FY2004/5.

A very important milestone in the restructuring process was the buy-back of the 75% stake of closed-end property fund "Molsiris" in the "Westfalenstadion" affiliated company, which took place in March 2006. After the restructuring process, institutional investors signed capital increases and stabilized equity funding to refinance the buy-back of the stake in the ground-managing company. However there was pressure on the share price which reached its all-time low of EUR0.84 on April 1st 2009.

With the tailwind of winning the German Bundesliga championship, the share price reached EUR3.10 on April 29th 2011 - its highest level since January 2004. After some profit taking, the share price fell back to EUR1.79 in December 2011 before rising again to a level of EUR1.94 after secure the 2nd position in the first half of the 2011/12 Bundesliga season and reaching the quarter final of the German FA Cup (facing forth division club Holstein Kiel in February).

Company structure and legal status

Borussia Dortmund operates under the legal status of a „Kommanditgesellschaft auf Aktien“ (limited partnership on shares). The German football licencing scheme requires in general that the football club holds the majority stake of the company (so called "50+1% rule"), although in the case of the specific legal entity „Kommanditgesellschaft auf Aktien“ it is required that the football club holds 100% of the stakes of the general partner and the limited partner (listed on the stock exchange) has greater flexibility to operate. The professional football team, amateur team and the U19 youth team operate within the stock exchange listed company while the rest of the youth teams as well as the ladies handball teams and table tennis teams operate within the club.



Source: Borussia Dortmund

Management with broad professional experience

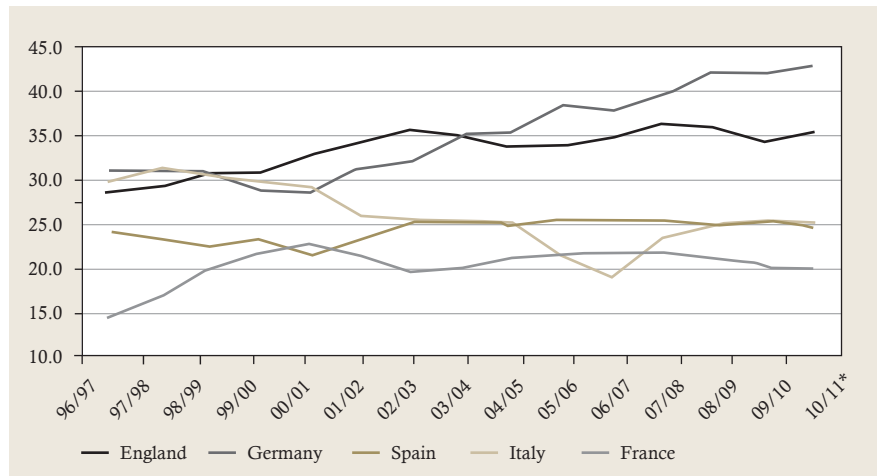
Hans-Joachim Watzke (52) holds a diploma for business administration and was appointed as managing director in 2005. From 2006 onwards he became chief managing director. In 2010 his contract was extended until June 2014. Hans-Joachim Watzke is married and has two children. Before joining Borussia Dortmund he founded a company for work wear in which he still holds the majority stake.

Thomas Treß (46) holds a diploma in business administration. He was appointed as a managing director in October 2005 and is in charge of organization and finance at Borussia Dortmund. Before joining the company Thomas Treß was chief representative and business partner at German auditing and consulting company RoelfsPartner which implemented the turnaround strategy for struggling Borussia Dortmund.

Borussia Dortmund is operating in the growth market of the German "Bundesliga"

After suffering in the Eighties when average attendances fell below 20,000, the trend in the German Bundesliga has been improving since the 1990/91 season having gained further momentum in the Nineties and beyond. Other leagues showed a mixed picture as infrastructure is lacking and prices are not seen as competitive.

Average Attendances in Europe's Top Five Leagues (in thousands)



Source: Deloitte, * = Projection

There are many reasons for the development shown in the table. Refurbished stadiums and increased capacity are two obvious points, but the success and attractive play of the German national team especially at the 2006 World Cup (hosted by Germany) and in 2010 have also contributed; as has a competitive environment with surprise Bundesliga champions e.g. VfB Stuttgart, Werder Bremen, VfL Wolfsburg and last season Borussia Dortmund.

The following table gives an overview of the 18 Bundesliga venues. One of Borussia Dortmund's (BVB) main assets is its Signal Iduna Park with the famous "South Terrace" where the BVB fans stand. One interesting aspect in Germany is that as mid-size towns like Moenchengladbach (258,000 inhabitants) and Kaiserslautern (100,000 inhabitants) provide huge stadiums relative to the size of town.

Capacity of current German Bundesliga Grounds

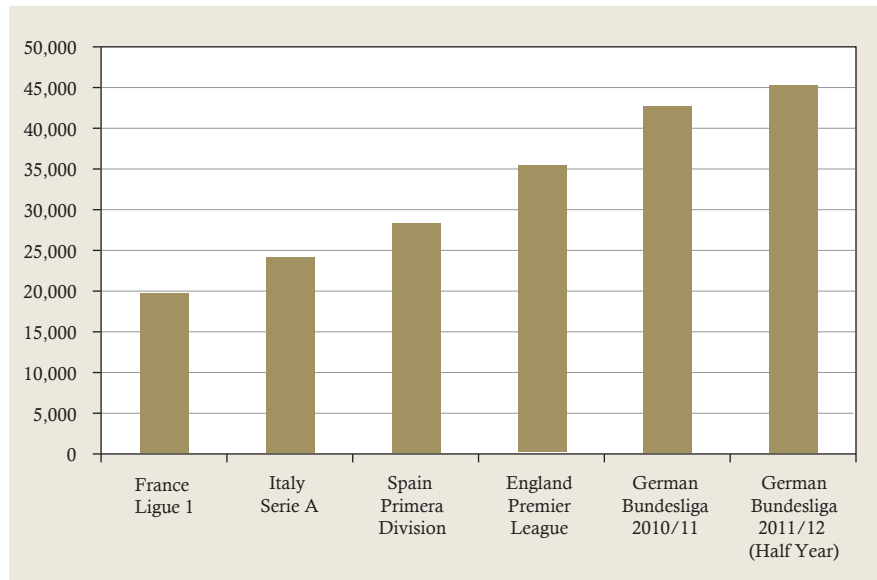
	<i>National Games*</i>
Signal Iduna Park Dortmund	80,720
Olympic Stadium Berlin	74,400
Allianz Arena Munich	69,901
Veltins Arena Gelsenkirchen	61,673
Mercedes-Benz Arena Stuttgart	60,441
Imtech Arena Hamburg	57,000
Borussia-Park Moenchengladbach	54,067
RheinEnergie Stadium Cologne	50,997
Fritz-Walter Stadion Kaiserslautern	49,780
AWD Arena Hanover	49,000
easyCredit Stadion Nuremberg	48,553
Weser-Stadion Bremen	42,358
Coface Arena Mainz	34,000
SGL Arena Augsburg	30,660
BayArena Leverkusen	30,210
Rhein-Neckar-Arena Sinsheim	30,150
Volkswagen Arena Wolfsburg	30,000
Badenova-Stadion Freiburg	24,000
Bundesliga-Average	48,773

*international capacity approx. 10-20% lower depending on the portion of terraces

Source: Welfussball.de / SQR Estimates

The increase in capacity enabled the Bundesliga in recent years to reach the highest average attendance in European football as the table below illustrates. German Bundesliga even managed to increase attendances in the first half of the current season 2011/12 from an already high level.

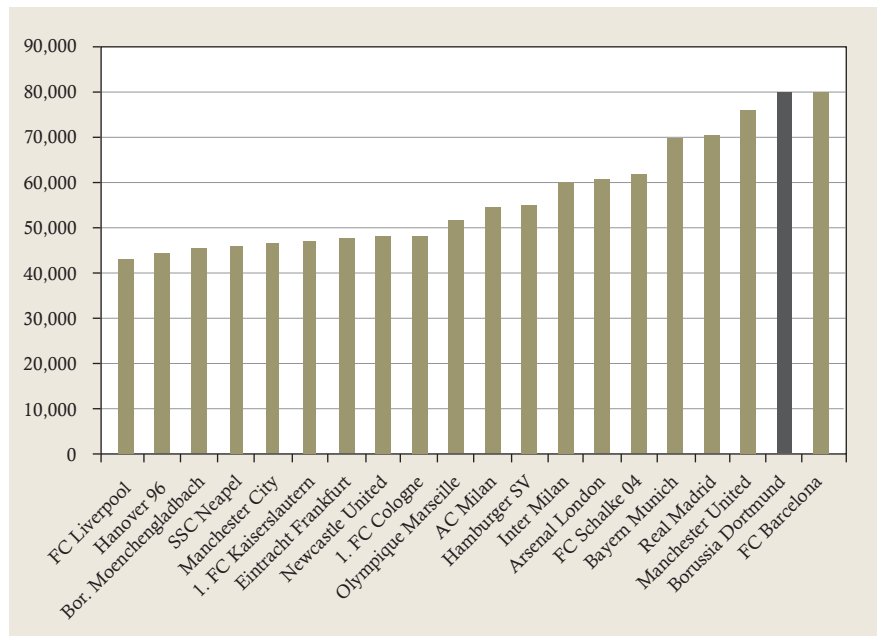
Attendances of European Football Leagues 2010/2011



Source: weltfussball.de

Therefore it is little surprise that among Europe's 20 clubs with the highest attendance nearly half are from the German Bundesliga (9 clubs), five from England, three from Italy, two from Spain and only one from France. Borussia Dortmund was ranked 2nd in the last season only behind famous FC Barcelona but it is currently top after having played half of the season in most of Europe's leagues. On a worldwide base only the NFL (American Football) has a higher average attendance (66,960) while AFL (Australian Football League 38,243) and MLB (Major League Baseball, USA 30,066) are lagging behind the German Bundesliga.

Attendances of European Football 2010/11 by club

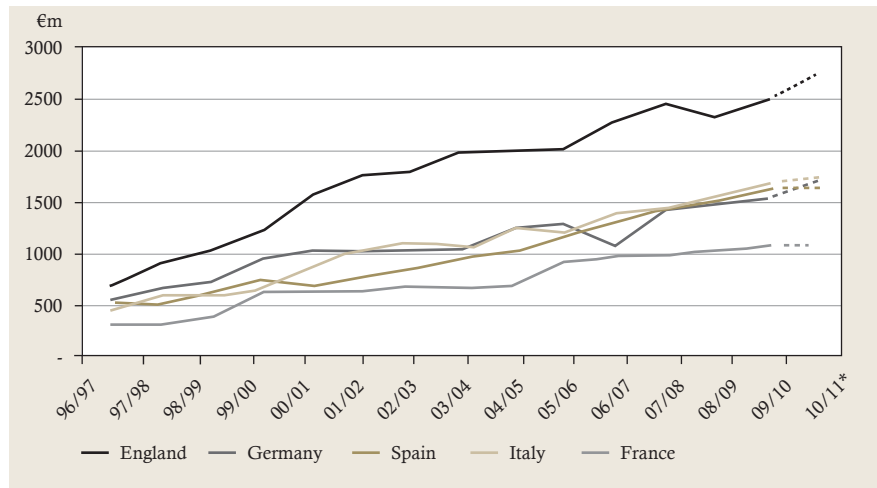


Source: weltfussball.de

Bundesliga has the broadest sales mix in Europe

The English Premier League is in a league of its own in economic terms, but the German Bundesliga holds the second position. Unlike other leagues which are dominated by two or four clubs in economic terms (Italy: Inter and AC Milan; Spain: FC Barcelona and Real Madrid) in the Bundesliga there is a huge gap between Bayern Munich and the other 17 clubs. This allows the latter more equal opportunities than is the case in the other leagues.

Sales Development of Europe's Top Five Leagues



Source: Deloitte, * = Projection

The footprint of individual German football clubs in the European sales statistics is not as impressive as in other statistics quoted in this report. Another reason is that the average price of a Bundesliga ticket (EUR23 / Source: DFL Bundesliga Report 2012) is nearly half of the price of a Premier League ticket due to the (still existing) cheap terrace tickets in the Bundesliga (roughly 10-15 Euros).

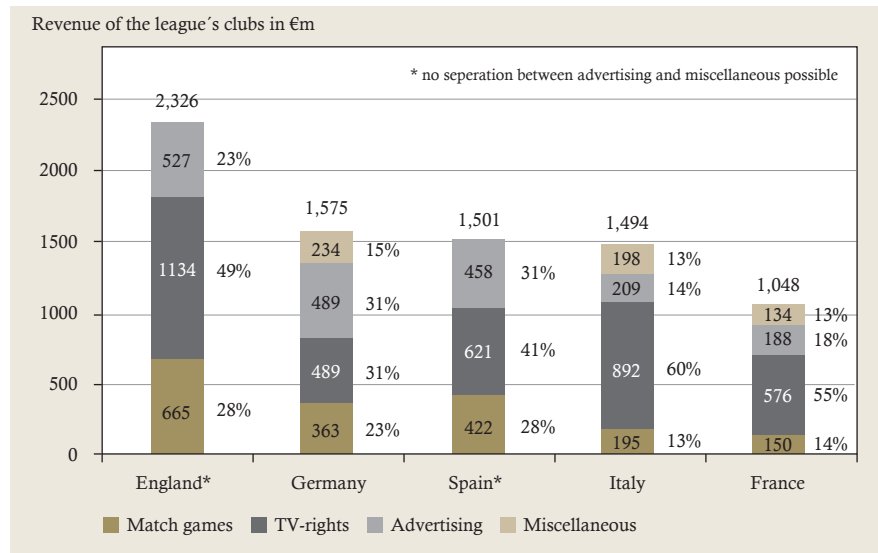
Sales Volume of European Football Clubs (2009/10)

<i>in EURm</i>	
Real Madrid	438.6
CF Barcelona	398.1
Manchester United	349.8
Bayern Munich	323.0
Arsenal (London)	274.1
FC Chelsea (London)	255.9
AC Milan	238.8
Liverpool FC	225.3
Inter (Milan)	224.8
Juventus Turin	205.0
Manchester City	152.8
Tottenham Hotspur (London)	146.3
Hamburger SV	146.2
Olympique Lyon	146.1
Olympique Marseille	141.1
Schalke 04 (Gelsenkirchen)	139.8
Atletico Madrid	124.5
AS Rome	122.7
VFB Stuttgart	114.8
Aston Villa (Birmingham)	109.4

Source: Handelsblatt / Deloitte

England generates twice the Bundesliga level in match revenue and television revenue, but the Bundesliga can compete with advertising revenues given that England and Spain do not record miscellaneous revenues which related more advertising income. In our view it is an advantage that the Bundesliga has a broad sales income mix, compared to for example Italy (60%) and France (55%) which are heavily dependent on income of TV-rights, as there is currently a discussion concerning the new TV rights from the 2013/14 season. We are convinced that the abolition of the free coverage of the Bundesliga-games in the "Sportschau" from 18:30hrs on Saturday could jeopardise advertising revenues since sponsors are very interested in reaching a huge audience which is only possible with broad TV coverage of the games. However, new business models regarding IPTV have been created by the German League Association (DFL) and it will be more than interesting to see how these models will impact on the bidding process for the TV Rights.

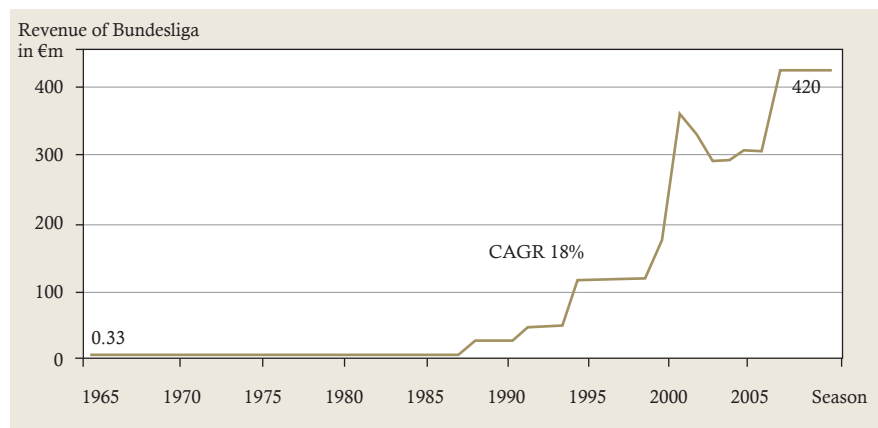
Revenue split of the Big Five leagues (2008/09)



Source: Steffen Buelow (Leipzig Graduate School of Management) / Deloitte

Despite a strong increase of prices for the Bundesliga TV rights in the last 30 years with a CAGR of 18%, TV Bundesliga rights are reasonably priced. That is why Borussia Dortmund's managing director Hans-Joachim Watzke is complaining that the French First Division (which is only ranked 5th in UEFA's 5 year country performance ranking; Bundesliga 3th) receives more revenues from TV rights as the better performing German Bundesliga.

Revenue development of TV-rights



Source: Steffen Buelow (Leipzig Graduate School of Management) / Deloitte

Given different sources, there is a gap of EUR10m between the EUR420m estimated in the chart above and the EUR410m in the table below. The table provides an accurate overview of the current situation. We believe that Bundesliga can increase revenues by a maximum of 5 to 10% but only if the association of Bundesliga clubs (DFL Ligaverband) accepts a first broadcast on Internet TV instead of the favoured "Sportschau". First broadcast in free TV would not be before 21:45hrs in this scenario. It will be interesting to see if this scenario is backed by most of the Bundesliga Clubs as the German Competition Authorities (Bundeskartellamt) have already given its approval to this potential deal.

Overview Current Media Rights Bundesliga

<i>in EURm per season</i>	
Sky	250
ARD (Public TV)	100
ZDF (Public TV)	20
Deutsche Telekom (Internet TV)	25
Sport 1	10
Radio and Miscellaneous	5
Total Bundesliga TV rights per season	410

Source: Thomson Reuterst

Economic background of German Bundesliga and European Football

The German Bundesliga has the most sophisticated auditing approval to get allowance for participation in the competition. Auditing company Ernst & Young evaluated the relative strength of Europe's football leagues setting the Bundesliga as 100%. An interesting aspect of the Ernst & Young survey is the wider standard deviation in the Italian and Spain Leagues between the financial weak and the wealthy clubs.

Financial Situation in European Club Football

<i>Financial strength in relative terms to Bundesliga</i>	<i>Average</i>	<i>Standard Deviation</i>
Bundesliga	100%	31%
Premier League (England)	94%	31%
Ligue 1 (France)	84%	26%
Serie A (Italy)	61%	50%
Primera Division (Spain)	39%	52%
Champions-League-Participants	84%	50%

Source: Ernst & Young Football Report VIII

As the Bundesliga licence approval system (Clubs have to show now a second report in autumn) is regarded by experts as the most sophisticated auditing system in Europe, it is no surprise in our view that in financial terms of strengths that five of Europe's ten healthiest clubs are from the German Bundesliga as next table underlines. However no exact ranking has been disclosed.

Top Ten of Europe's Football Clubs

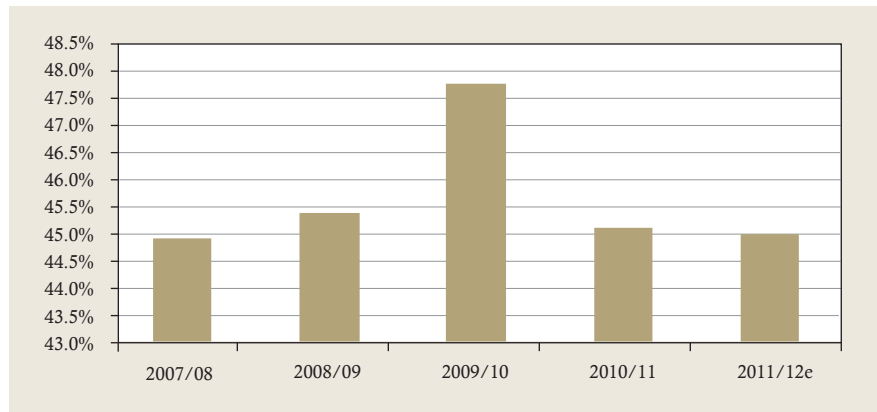
Financial Strength in alphabetical order

AC Florence (Italy)
AFC Sunderland (England)
Arsenal (London, England)
Bayern Munich (Germany)
Borussia Dortmund (Germany)
Borussia Moenchengladbach (Germany)
Juventus Turin (Italy)
Tottenham Hotspur (London, England)
VFL Wolfsburg (Germany)
Werder Bremen (Germany)

Source: Ernst & Young Football Report VIII

After Borussia Dortmund had a lack of financial resources and nearly fell into bankruptcy, the club has managed to enter a new era of solid financial planning. We will refer later in this report to Borussia Dortmund's exact figures. However at this point we note a potential conflict of objectives appears at stock exchange listed clubs between economic and sportive goals. As the Bundesliga has huge economic success the ratio for personal expenses has gone up by roughly 6 percentage points, although we believe that a ratio below 50% is still reasonable. In other leagues ratios of more than 60% are the rule rather than the exemption. As a result of the rising revenues in the Bundesliga and solid management in most of the clubs, we estimate a stable ratio in the current season 2011/12.

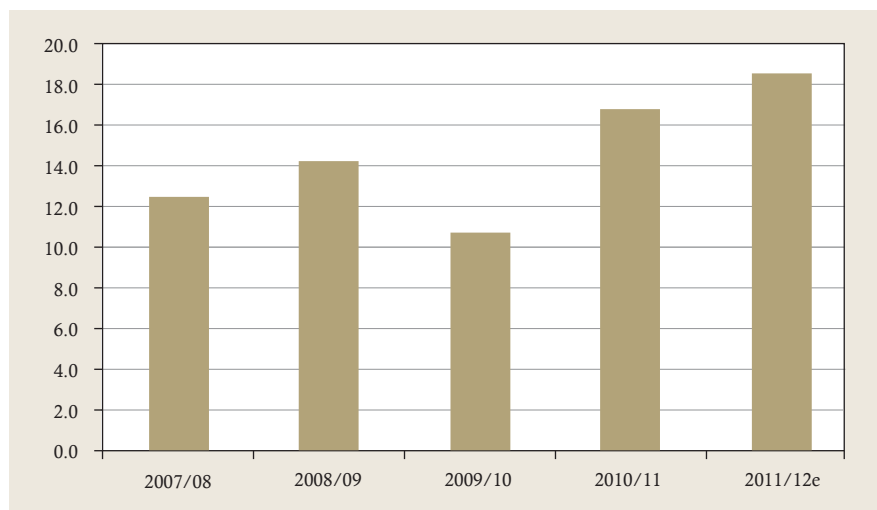
Personal Expenses in German Professional Football



Source: DFL Bundesliga Economic Report 2012, SQR estimates

Therefore economic results of the Bundesliga showed a mixed picture in recent years. For a long time the increase in sales could not be transferred one to one in operating profit as the next table highlights. The 2010/11 season has been a turning point. We believe a further increase of 10% in the current season as a result of the booming Bundesliga in connection with spending discipline in most of the clubs.

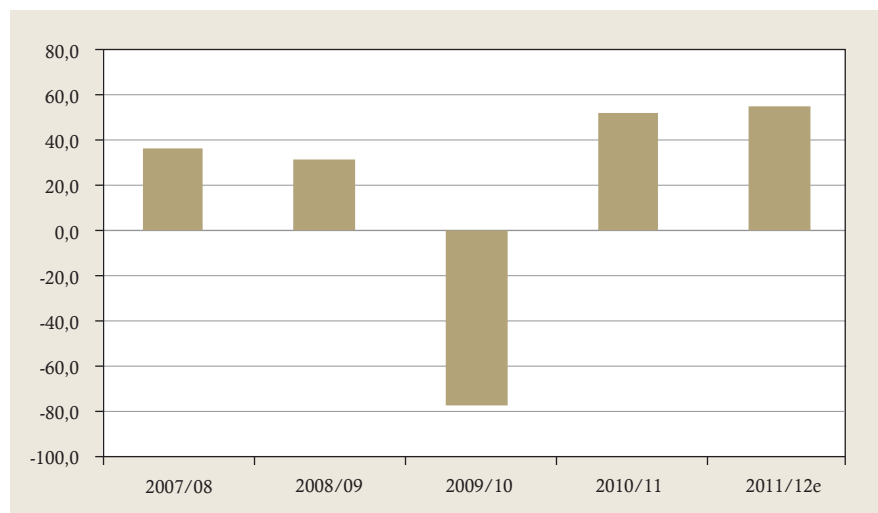
EBITDA Bundesliga average in Mio. EUR



Source: DFL Bundesliga Economic Report 2012, SQR estimates

Net results are no objective measure as many clubs own their arenas paying interest on the debts for these and have higher rates of depreciation. Also the players which are long term assets in financial terms have to be depreciated during their contract period. Thus the financial picture of the Bundesliga doesn't look on net level as gloomy as on operating level (EBITDA) as the following table underlines. In our view this table brings it to the point that profit maximisation is not the main goal of a professional football club. 93% of the total losses of EUR77.8m (2009/10) are generated by only three clubs according to the DFL (Source: DFL Ligareport 2011). At this point we believe that DFL is responsible to give these clubs restrictions on investment as football should remain a level playing field. We assume that Schalke 04 is one of these clubs. In the 2009/10 season only seven out of 18 clubs have been profitable on net earnings level. The 2010/11 season showed a turning point as 12 of the 18 being profitable. For the 2011/12 season we estimate a under average increase (in contrast to EBITDA) to EUR55m (2010/11: EUR52.5m) due to the restricted loan availability at commercial banks for football clubs.

Net Earnings Sum of all 18 Bundesliga Clubs in Mio. EUR



Source: DFL Bundesliga Economic Report 2012, SQR estimates

An interesting picture behind these averages is provided in the following which table shows that clubs in the middle of the table reported better results than clubs at the top and the bottom of the table. However the average figure especially for the Top 6 clubs of the 2009/10 is not representative as minus is attributed to one club in our perception. 93% of the overall deficit is generated by only three clubs (in absolute terms EUR72.2m).

Earnings after Taxes Average by Bundesliga Club in EURm

2009/10

Rank 1 to 6	-11.9
Rank 7 to 12	0.9
Rank 13 to 18	-2.1

Source: DFL Bundesliga Economic Report

We now attempt to reconcile the general market conditions to the single club figures and the position of Dortmund in the German football league. As Bayern Munich plays in financial terms in a league of its own and is first after the first half of season other developments are very interesting. In mathematical terms the correlation between first team budget and rank is minus 65%, between the value of squad and rank 70%. This is an advantage of the Bundesliga as we estimated that correlation in England, Spain and Italy is significantly above 80% given there is more than one dominating club in economic terms. We believe that Borussia Dortmund had a good expense reward relationship as management spent only the 6th biggest budget for the professional team and ended second after 17 games. Strong positive surprises have been Borussia Moenchengladbach and Hannover 96, while Volkswagen supported VFL Wolfsburg and Hamburger SV showed a very poor performance so far in relation to financial options available (please refer to table below).

Economic Background of Current Bundesliga Clubs

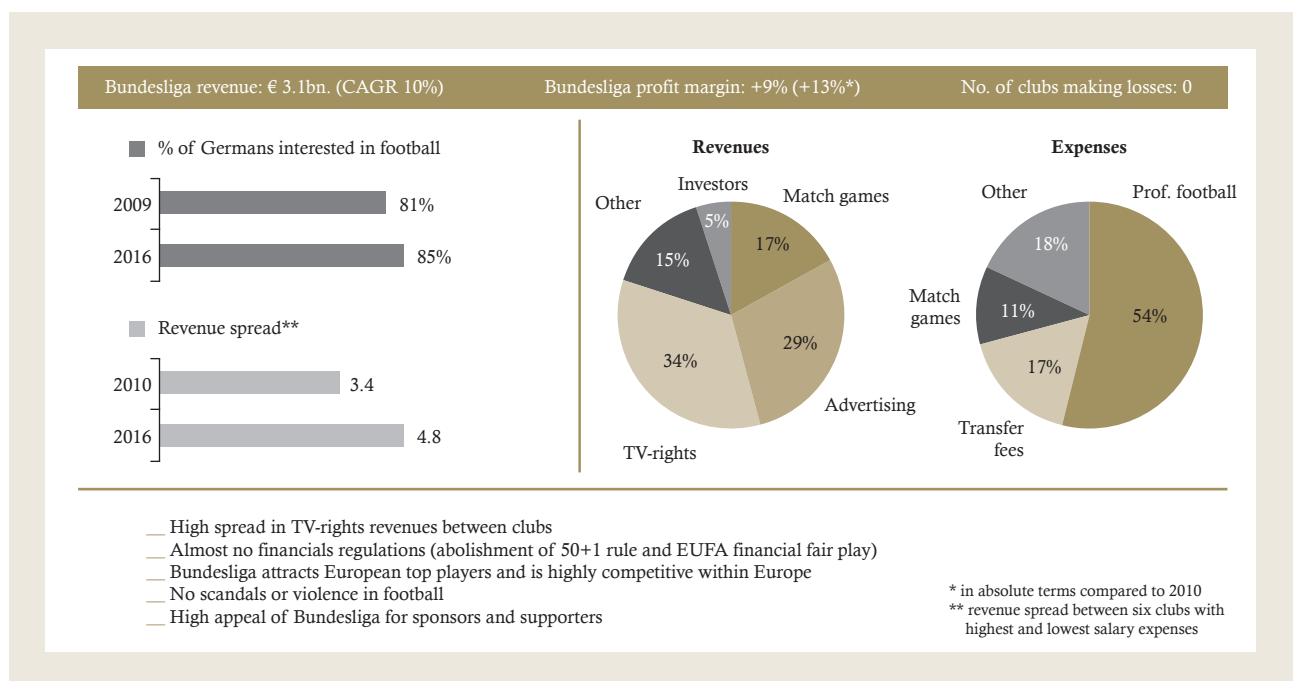
Season 2011/12 in Mio. EUR	Budget for 1st Team	Value of Squad	Rank*
FC Bayern Munich	125	333	1
Schalke 04 (Gelsenkirchen)	55	130	3
VFL Wolfsburg	50	110	12
Bayer 04 Leverkusen	47	138	6
VFB Stuttgart	42	94	8
Borussia Dortmund	41	158	2
Werder Bremen	40	113	5
Hamburger SV	37	102	13
1899 Hoffenheim	32	90	9
Borussia Moenchengladbach	28	67	4
1. FC Cologne	28	69	10
Hanover 96	25	65	7
Hertha BSC Berlin	24	46	11
FC Nuremberg	20	41	15
1. FC Kaiserslautern	19	46	16
FC Augsburg	18	29	17
FSV Mainz 05	18	50	14
SC Freiburg	15	55	18

* Table after first half of 2011/12 season after 17 of 34 games

Acknowledgement: Value of Squad / budget as published or estimated at the beginning of the season

Source: dpa, Deloitte, Bundesliga.de

Before turning to the specific issues of Borussia Dortmund we want to sum up the economic background of the German Bundesliga by quoting the following table.



Source: Steffen Buelow (Leipzig Graduate School of Management) / Deloitte

We agree that the Bundesliga has a broad revenue basis and well-balanced expense ratios. However we would oppose two arguments. Spreads in TV-rights might be high in absolute terms but still low in contrast to leagues where single clubs (Spain for e.g. with Barcelona and Real Madrid) are allowed to sell their TV rights on a stand-alone basis. Also we believe that financial regulation will gain, not lose, momentum in European football as UEFA has adopted many elements for the approval process for Champions League and Europa League.

SQR-estimates with a cautious approach

As the business development of Borussia Dortmund has a high correlation with the ranking in the Bundesliga we had to make several assumptions. Borussia Dortmund is currently ranked 2nd (18th round) and has a lead of 7 points to rank 5 which does not qualify for UEFA Champions League and a lead of 13 points to rank 7 which does not qualify for Europa League. We are convinced that Borussia Dortmund will play in next seasons Champions League. For the 2013/14 season we have calculated with Borussia Dortmund's participation in the Europa League. Our estimates calculate with EUR18m revenues in 2012/13's Champions League and EUR5m in 2013/14 Europa League. We believe that revenues of around EUR15m for participating in the Champions League and EUR4m for participating in Europa League's group stage a rough indicator. These sales are split over the different sectors and generate additional especially in the revenues in the TV and advertising sector.

Borussia Dortmund (Group Accounts)
Consolidated Income statement (Financial year ends 30.06)

<i>EURm</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14</i>	<i>2014/15</i>	<i>CAGR</i>
Net Sales	110.1	151.5	182.0	190.4	166.0	190.0	11.5%
Other operating income	2.1	4.3	2.2	2.4	2.4	2.5	3,5%
Total overall performance	112.2	155.8	184.2	192.8	168.4	192.5	11.4%
Staff costs (including administration)	48.0	61.5	65.0	69.0	66.0	67.0	6.9%
Other operating expenses	42.9	54.1	66.0	68.0	60.0	61.0	7.3%
EBITDA	16.6	32.4	45.2	47.3	33.4	54.5	26.8%
depreciation and amortisation	17.2	17.5	19.0	22.0	22.5	23.0	6.0%
EBIT	-0.5	14.9	26.2	25.3	10.9	31.5	3.8%
Net financial result	-5.7	-5.4	-5.8	-6.0	-6.0	-6.0	1.0%
Pre tax profits	-6.2	9.5	20.4	19.3	4.9	25.5	27.9%
Income and other taxes	-0.1	4.1	4.1	3.9	1.0	5.1	5.6%
Tax rate	2%	43%	20%	20%	20%	20%	n.a.
Net profit	-6.1	5.4	16.3	15.4	3.9	20.4	39.3%
Minority Inter. / Extraord. Effects	0.1	0.0	-0.1	-0.1	-0.1	-0.1	n.a.
Atributable net income	-6.0	5.4	16.2	15.3	3.8	20.4	39.2%
EPS	-0.10	0.09	0.26	0.25	0.06	0.33	38.5%
PE	-22.5	25.0	8.5	9.0	36.2	6.8	n.a.
DPS	0.00	0.00	0.10	0.10	0.00	0.10	n.a.

Source: Borussia Dortmund, SQR estimates

Player transfers have a high leverage on the earnings side in both directions are hard to predict. At the moment we have the impression that Borussia Dortmund is able to keep its squad together over the next two years. As some of Borussia Dortmund's high quality players (e.g. Mario Goetze or Mats Hummels) might play an excellent World Cup 2014 we would not expect any major sells before then. After several years of consolidation Borussia Dortmund is not forced to sell players for economic reasons as it might be the case some years ago.

The first spectacular signing for the forthcoming 2012/13 season was announced by Borussia on January 4th. Borussia Dortmund bought for EUR17.5m 22-year old forward Marco Reus (11 goals this Bundesliga-Season) from Borussia Moenchengladbach. In financial terms this means additional write offs of EUR3.5m as Marco Reus was awarded with a five-year contract. The following table summarizes our estimates on group level. Personal expenses (including administration expenses) might not increase as much as expected as we believe that some high valued contracts of some elder and / or reserve players will not be extended at current conditions or some players might be sold. Therefore we believe that there is enough scope for the salary of new signing Marco Reus (SQR: EUR3m per year) in Borussia Dortmund's first team budget.

Further on we expect dividend payments of EUR0.10 per share for financial years.

Ratios

<i>Growth ratios</i>		<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14e</i>	<i>2014/15e</i>
Sales		37.6%	20.1%	4.6%	-12.8%	14.5%
Staff costs (including administration)		28.3%	5.6%	6.2%	-4.3%	1.5%
Other operating expenses		26.2%	21.9%	3.0%	-11.8	1.7%
EBITDA		94.8%	39.4%	4.5%	-29.3%	63.2%
EBIT		-3025.5%	75.6%	-3.6%	-56.8%	189.0%
Net profit attr. Borussia shareholders		n.a.	199.3%	-5.7%	-75.0%	432.7%
EPS		n.a.	193.4%	-5.7%	-75.0%	432.7%
Profit margins	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14e</i>	<i>2014/15e</i>
EBITDA margin	15.1%	21.4%	24.8%	24.8%	20.1%	28.7%
EBIT margin	-0.5%	9.8%	14.4%	13.3%	6.6%	16.6%
Net margin	-5.5%	3.6%	8.9%	8.0%	2.3%	10.7%
Cost margins	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14e</i>	<i>2014/15e</i>
Cost of materials	4.3%	5.1%	4.4%	4.5%	5.4%	5.3%
Personnel expenses margin	43.6%	40.6%	35.7%	36.2%	39.8%	35.3%
Other operating expenses margin	39.0%	35.7%	36.3%	35.7%	36.1%	32.1%

Source: Borussia Dortmund, SQR estimates

In financial terms players are classified as intangible assets. Thus the book value in the 2012/13 balance sheet should be around EUR14m in our calculation. The current squad has a value of EUR182m (Source: www.transfermarkt.de) which means that there are reserves of around EUR160m in the balance sheet. However these figures are only a rough indicator as it can't be transferred one to one into earnings due to the inherent nature of business.

Borussia Dortmund (Group Accounts) Consolidated balance sheet

<i>EURm</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14e</i>	<i>2014/15e</i>
Assets						
Intangible assets	20.4	18.4	21.0	35.0	31.5	28.0
Property, plant and equipment	174.2	170.7	172.0	170.0	168.0	166.0
Investments in associates	0.3	0.3	0.0	0.0	0.0	0.0
Financial assets	0.6	1.1	0.6	0.6	0.6	0.6
Trade and other receivables	0.1	1.0	1.0	1.0	1.0	1.0
Deferred tax assets	6.6	4.9	2.0	1.0	1.0	1.0
Prepaid expenses	2.4	0.1	2.4	2.4	2.4	2.4
Total Non-current assets	204.6	196.6	199.0	210.0	202.1	196.6
Inventories	1.8	2.3	2.8	2.4	2.3	2.3
Trade and other receivables	5.1	19.6	6.0	6.5	7.0	7.5
Tax assets (current)	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.1	1.1	8.2	1.0	1.4	1.5
Prepaid expenses	2.6	2.1	2.7	2.7	2.7	2.7
Total Current assets	10.6	25.1	19.7	12.6	13.4	14.0
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	215.2	221.7	218.7	222.6	215.5	210.6
Equity and Liabilities						
Equity attributable to Borussia shareholders	61.8	67.3	58.0	68.1	77.2	81.1
Minority interests	0.3	0.3	0.3	0.3	0.3	0.3
Total equity	62.0	67.6	58.3	68.4	77.5	81.4
Non-current Financial Liabilities (long term)	58.6	47.9	65.4	60.0	55.7	53.0
Non-curr fin. Liabilities from finance lease	6.6	9.4	6.6	6.5	6.5	6.5
Non-current trade payables	0.2	0.0	0.2	0.2	0.2	0.2
Other non current liabilities	0.5	0.0	0.5	0.6	0.6	0.6
Non-current income tax liabilities	1.8	0.0	1.8	1.8	1.8	1.8
Deferred income	36.1	33.4	38.0	40.0	36.0	36.0
Non-current liabilities (long term)	103.7	90.7	112.5	109.1	100.8	98.1
Current financial liabilities (+ fin. Lease)	16.1	13.7	14.0	13.0	12.0	11.0
Current trade payables	6.5	10.5	7.0	7.0	7.0	7.2
Other current liabilities	10.6	19.7	11.0	12.0	9.0	6.7
Current income tax liabilities	1.1	3.2	0.9	0.4	0.2	0.2
Deferred income	15.1	16.3	15.0	12.7	9.0	6.0
Liabilities related to assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total Current liabilities	49.4	63.4	47.9	45.1	37.2	31.1
Total liabilities	153.1	154.1	160.4	154.2	138.0	129.2
Total equity and liabilities	215.1	221.7	218.7	222.6	215.5	210.6

Source: Borussia Dortmund, SQR estimates

<i>EURm</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12e</i>	<i>2012/13e</i>	<i>2013/14e</i>	<i>CAGR</i>
Total equity and liabilities	215.1	221.7	218.7	222.6	215.5	0.05%
Total Non-current assets	204.6	196.6	199.0	210.0	202.1	-0.30%
Total Current assets	10.6	25.1	19.7	12.6	13.4	6.11%
Cash and cash equivalents	1.1	1.1	8.2	1.0	1.4	6.21%
Equity	67.6	58.3	68.4	77.5	81.4	4.74%
Bank Debt	59.7	51.1	66.3	60.4	55.9	-1.61%
Net debt (incl. Finance lease)	80.2	69.9	77.8	78.5	72.8	-2.38%
Enterprise Value	218.4	208.1	216.0	216.7	211.0	-0.85%

Source: Borussia Dortmund, SQR estimates

Borussia Dortmund: Triggers and Drivers

- __ Borussia Dortmund is operating in a growth market
- __ After turbulent times the company has left the critical phase in financial terms and is on the way to being one of the dominating clubs in the Bundesliga
- __ The company has learned from mistakes in the past and now drives a solid strategy in financial terms
- __ Borussia Dortmund should play in the UEFA Champions League next season which generates revenues at least of EUR15m
- __ There is always the threat that success on the pitch is not calculable although there is a significant correlation between first team spending and rank in the Bundesliga and other European football leagues
- __ The conflict of interest between shareholders and supporters is even more evident at a football club than is the case with "regular" companies.
- __ Takeover speculation is not a topic and ability to pay a dividend might also be limited
- __ Business is very cyclical, so earnings estimates can't be accelerated
- __ Success of the Bundesliga might be affected by other leisure activities
- __ Transfers of valuable players have a huge leverage in earnings terms but affect the sportive performance of the team, current squad contains huge reserves as the disclosed value in the balance sheet is much below of the market value of the players
- __ Football is a very emotional business and can't be measured in regular terms
- __ The share is currently valued reasonable

Borussia Dortmund valuation

We initiate coverage of Borussia Dortmund with a Neutral recommendation and a target price of EUR2.90. This target price is based on a combination of our peer group model and discounted cash flow (DCF) model and shows a price potential of 7%.

Peer Group Model:

We have chosen a wide peer group of three different sectors in particular sports and gambling, tourism and leisure and broadcasting (TV and radio). As the number of close comparable companies (stock exchange listed football clubs) is limited and consensus estimates are not reliable for valuation purposes we believe that this is a suitable approach.

Peer Group Valuation Borussia Dortmund

Sector-PER: Sports/Gambling	11.9
Sector-PER: Tourism & Leisure	13.4
Sector-PER: Broadcasting (TV & Radio)	11.9
Total-Average PER Sector-Peers:	12.7

Source: SQR estimates, Bloomberg

Our peer group provides an average of 12.7 PER (2012e). In combination with our discounted average Borussia-EPS (2012-2014) estimate of EUR0.17 our peer group valuation provides a value of EUR2.12. We use this measurement to reflect very sound years as well as more moderate years with no revenues from UEFA Champions League.

Discounted Cash Flow (DCF)

Given that Borussia Dortmund has a very volatile business model we have taken this aspect in our DCF-Model. Using a WACC of 7.2% and a terminal value growth of 1.5% we derive a second value for Borussia-shares of EUR3.70. This value reflects in our view Borussia Dortmund's long term goal to build up a stable business model as a combination of stable income from the every day's Bundesliga business and add on gains from participating in UEFA Champions league and occasional sells of players.

Borussia Dortmund DCF Model (FY runs 30.06.)

EURm	2012/13e	2013/14e	2014/15e	2013/14e	2014/15e	2015/16e	2016/17e	2017/18e	2018/19e	2019/20e	Terminal value
Sales	182.0	190.4	166.0	190.0	193.8	197.7	201.6	205.7	209.8	214.0	
YOY-change		4.6%	-12.8%	14.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
EBIT	26.2	25.3	10.9	31.5	18.0	7.5	7.5	7.5	7.5	7.5	
EBIT margin	14.4%	13.3%	6.6%	16.6%	9.3%	3.8%	3.7%	3.6%	3.6%	3.5%	
Tax	4.9	5.1	2.2	6.3	6.4	6.6	6.7	6.8	7.0	7.1	
Tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
Depreciation	19.0	22.0	22.5	23.0	23.2	23.2	23.2	23.2	23.2	23.2	
Change in net working capital	1.4	7.1	5.6	5.6	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	
Other	-14.8	-12.9	-14.8	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	
Operating Cash Flow	26.9	36.4	22.0	51.8	30.8	20.2	20.0	19.9	19.8	19.6	
Capex	-4.0	-4.0	10.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-4.0	
Free cash flow	22.9	32.4	32.0	43.8	22.8	12.2	12.0	11.9	11.8	15.6	275
WACC	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Discounted Free CF	22.3	29.4	27.1	34.6	16.8	8.4	7.7	7.1	6.6	8.1	128.2
Discounting period in years	0.4	1.4	2.4	3.4	4.4	5.4	6.4	7.4	8.4	9.4	
Contribution to Enterprise value	7.5%	7.5%	9.2%	11.7%	5.7%	2.8%	2.6%	2.4%	2.2%	2.7%	43.3%
Enterprise value (today)	296.3										
Net cash (+)/ Net debt (-)	-69.0										
Shareholder value	227.3										
Fair Value per Share	3.70										
EUR											

Source: Silvia Quandt Estimates

The most important parameter of our WACC calculation is a beta of 1.2 which is an adequate risk measurement parameter for the cyclical football business within Borussia Dortmund operates.

Assumptions & WACC calculation

<i>in% or EUR mio.</i>		
TV growth rate	1.5%	
Risk free interest rate (30Years Bund)	2.51%	
Risk premium	5.5%	
Beta	1.2	
Company interest rate	6.6%	
Company tax rate	20%	
Shareholders' equity	68	50%
Net debt	69	50%
Total capital	137	100%
Cost of equity	9.1%	
Cost of debt	5.3%	
WACC	7.2%	

Source: Silvia Quandt Estimates

Sensitivity Analysis: Given that the parameters of our DCF model have a large impact on the derived fair value we have completed our calculation with a sensitivity analyses to better illustrate the effects of different assumptions. This scenario analysis takes a closer look at the sensitivity to changes in WACC and Terminal Value growth calculation.

		WACC				
TV growth rate		6.5%	7.0%	7.4%	8.0%	8.5%
	0.0%	3.63 €	3.36 €	3.26 €	2.91 €	2.72 €
	0.5%	3.80 €	3.49 €	3.38 €	3.00 €	2.80 €
	1.0%	3.99 €	3.65 €	3.52 €	3.10 €	2.88 €
	1.5%	4.22 €	3.83 €	3.69 €	3.22 €	2.98 €
	2.0%	4.51 €	4.05 €	3.89 €	3.36 €	3.10 €
	2.5%	4.86 €	4.32 €	4.13 €	3.53 €	3.23 €

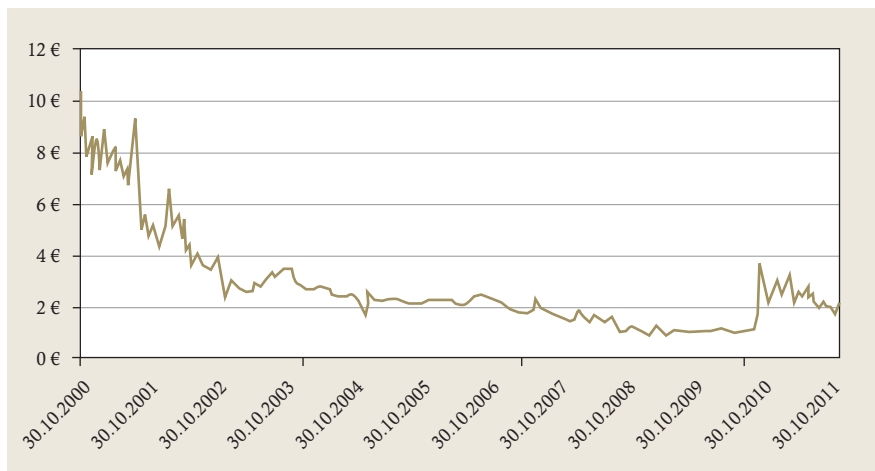
Source: Silvia Quandt Estimates

Effects of changing WACC and TV Growth: Our sensitivity analysis takes a look at how BVB's shares' fair value is affected by changing assumptions such as weighted average cost of capital (WACC) and the terminal growth rate. There is a large swing between extremely conservative assumptions with respect to the huge volatility of the business model vary from EUR2.72 up to EUR4.86.

Valuation Summary: Our DCF model suggest a fair value for the Borussia Dortmund share that offer a significant upside from the current share price, while the share seems to be valued reasonably in a peer group approach. Given the cyclical business model we believe that the current share price of Borussia Dortmund which is pending

in the middle of a range between both valuation approaches (please refer to following table) is a roughly adequate pricing for the equity.

Borussia Dortmund share price



Source: Bloomberg

Borussia Dortmund shares have underperformed the SDAX index by 15% y-o-y as some profit taking took place after Borussia Dortmund won the German Bundesliga championship in May 2012. The development since December 2011 was in line with SDAX as market prospects as well as the sportive performance of Borussia Dortmund enhanced. We believe that there is now some upwards potential as economic consequence of the bright sportive prospective in the foreseeable future.



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Investments in securities generally involve high risks. A complete loss of the invested capital cannot be excluded with this investment form. Potential investors should be aware of the fact that the prices of securities can fall as well as rise and that income from security investments may partly be subject to considerable fluctuations. Hence, no warranties or guarantees can be given in respect of the future performance of the mentioned securities and the attainable yield of the investment.

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Author of the present financial analysis: Klaus Kraenzle, Senior Analyst Consumer & Retail

2.2. Sources of information and summary of the basis of valuation and the valuation methods applied during the preparation

2.2.1. Sources of information:

Essential sources of information for the preparation of this document are publications in interior and foreign media like information services (e.g., Reuters, VWD, Bloomberg, dpa-AFX, among others), business press (e.g., "Börsenzeitung" (financial paper), "Handelsblatt", "Frankfurter Allgemeine Zeitung", Financial Times, among others), specialized press, published statistics, rating agencies as well as publications of the analysed issuers.

All information refers to the date of the publication: [Date, time, refer to the date at the end of the disclaimer]

2.2.2. Summary of the basis of valuation and the valuation methods used during the preparation:

Within the scope of the evaluation of enterprises the following valuation methods are applied: multiplier models (stock exchange value / profit, stock exchange value / cash flow, stock exchange value / book value, Enterprise Value (EV) / turnover, EV / EBIT, EV / EBITA, EV / EBITDA), Peer Group comparisons, historic valuation methods, discounting models (DCF, DDM, EVA, RIM), Break-up-Value- and Sum-of-the-Parts-approaches, substance-valuation methods or a combination of different methods. The valuation models are dependent on economic parameters like interest rates, currencies, resources and on economic assumptions. Moreover, market moods influence the valuations of enterprises. Also, the approaches are based on expectations that may change rapidly and without advance warning according to developments specific for the respective branch. Therefore, the valuation results and fair values derived from the models may also change accordingly. The results of the evaluation basically refer to a period of 12 months. Nevertheless, they are also subjected to market conditions and constitute merely a snapshot. They may be reached faster or slower or may be scaled up or down.

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NEUTRAL: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to between -10% and $<+10\%$.

AVOID: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to $\leq -10\%$.

2.3. Update

A specific update of the present analysis at a firm time has currently not yet been determined. The analysis and the opinions and assessments contained therein merely reflect the perspective taken at the date stated on the first page of the analysis. Silvia Quandt Research GmbH reserves the right to make an update of the analysis or the opinions and assessments contained therein without prior notice. The decision whether and when an update is made lies solely in the discretion of Silvia Quandt Research GmbH.

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According to section 34b WpHG and according to the FinAnV, among other things, when preparing a financial analysis an obligation exists to point out possible conflicts of interest in relation to the analysed finance instrument or the issuer.

2.4.1. Conflict of interests of Silvia Quandt Research GmbH

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2. The remuneration of the aforementioned persons and/or enterprises is dependent on investment banking transactions of their own enterprise or of affiliated enterprises.
3. In their trading portfolio the aforementioned Persons and/or enterprises regularly hold financial instruments which or the issuer of which are subjected to the financial analysis.
4. The aforementioned persons and/or enterprises hold in respect of the financial instruments, which or the issuer of which are subjected to the financial analysis, a net short (short position) of at least 1 percent of the share capital of the issuer.
5. The aforementioned persons and/or enterprises supervise financial instruments, which or the issuer of which are subjected to the financial analysis, in a market by placing purchase or selling orders (Market Making/ Designated Sponsoring).
6. The aforementioned persons and/or enterprises were involved within the preceding twelve months in lead managing a consortium for in the public offering of financial instruments, which or the issuer of which are subjected to the financial analysis.
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8. The aforementioned persons and/or enterprises, within the preceding twelve months and towards the issuer, who or whose financial instruments are subjected to the financial analysis, were bound by an agreement about services in connection with investment banking transactions or received in this period from such an agreement a benefit or a performance promise.

9. The aforementioned persons and/or enterprises expect from the issuer, who or whose financial instruments are subjected to the financial analysis, during the next three months remunerations for services in connection with investment banking transactions or seek at such remunerations.

10. The aforementioned persons and/or enterprises have concluded an agreement for the preparation of a financial analysis with the issuer, who or whose financial instruments are subjected to the financial analysis.

11. This financial analysis had been made accessible for the issuer, who or whose financial instruments are subjected to the financial analysis, before publication and was modified subsequently.

12. The aforementioned persons and/or members of the management board of the aforementioned enterprises hold seats on the board of directors or seats on the supervisory board with issuers, who or whose financial instruments are subjected to the financial analysis.

13. The aforementioned persons and/or enterprises have other important financial interests relating to the issuer, who or whose financial instruments are subjected to the financial analysis.

biw Bank für Investments und Wertpapiere AG has adopted measures of precaution to prevent and avoid possible conflicts of interest during the preparation and transmission of financial analyses as far as possible or to deal with such conflicts adequately. In particular a Watch- and a Restricted list are maintained, and in-house information barriers (Chinese Walls) have been installed to block the access of employees who transmit financial analyses to any information which could give rise to conflicts of interest in relation to the issuers concerned. As far as a conflict of interests exists, it will be disclosed.

2.5. Quarterly overview according to section 5 subsection 4 No. 3 FinAnV

Silvia Quandt Research GmbH evaluates the circulation of its recommendations once in the quarter. The quarterly overview is visible on the internet under www.silviaquandt.de.



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