Deutsche EuroShop

Cautious in investments but reliable in earnings

- **We confirm our Buy rating for Deutsche EuroShop.** Following final figures for FY 2008 and an analyst meeting, we reviewed our estimates for 2009 and 2010. We still feel comfortable with our positive view on the operating performance and financial structure of the company, and we prefer Deutsche EuroShop in an ongoing difficult market environment.

- **Positive arguments still in place.** Our main reasons for keeping our Buy rating are as follows: **1.** DES has a solid and long-term-oriented financial and financing structure, clearly an exception for listed real estate companies currently. **2.** Operating performance is relatively stable with limited risks (fully let, long-term leases, attractive retail space). **3.** FFO will not only cover the dividend and some smaller investments/refurbishments, but also regular debt redemption. **4.** Opportunities for further investments could arise and will probably lead to a capital increase. However, we are convinced that this would only be done if the acquisition yield was attractive enough. Additionally, the management stressed that it is not under pressure to make an investment.

- **Our TP of EUR 26.00 is based on three different valuation models.** An economic profit model results in a value of EUR 29 and demonstrates the long-term value creation. A dividend discount model is based on the company's cautious but reliable dividend policy and produces a value of EUR 25. Our NAV approach applies a 10% discount on 2010e NAV of EUR 26.92. The current share price implies a portfolio yield of 6.26%, compared to 5.64% at year-end 2008.

	2006	2007	2008	2009e	2010e
Gross rental income (EUR mn)	92.9	95.8	115.3	126.8	129.3
EBITDA (EUR mn)	86.3	78.5	98.1	106.2	109.7
Net income (EUR mn)	100.3	94.2	68.9	-0.5	47.1
EPS reported (EUR)	2.92	2.74	2.00	-0.02	1.37
EPS adj. (EPRA) (EUR)	0.76	0.94	1.13	1.23	1.29
NAVPS (EUR)	25.52	26.91	27.43	26.36	26.92
DPS (EUR)	1.05	1.05	1.05	1.15	1.15
ROE (%)	11.9	10.1	7.1	-0.1	5.0
P/E adjusted (EPRA) (x)	35.5	29.0	21.0	17.8	17.0
P/Cash earnings (x)	20.7	24.1	16.5	14.3	13.6
P/FFO diluted (x)	30.9	24.3	16.5	14.3	13.6
P/NAV (x)	1.06	1.01	0.87	0.83	0.81
EV/EBITDA (x)	18.7	21.9	17.1	15.6	15.0
Div. yield (%)	3.9	3.9	4.4	5.2	5.2

Source: Company data, UniCredit Research

Buy (prev. Buy)

Price on 04/27/09	**EUR 21.92**
Target price (prev. EUR 26.00)	**EUR 26.00**
Upside to TP	18.6%
Cost of equity	7.3%
High/Low (12M)	28.34/18.55

INVESTMENT HIGHLIGHTS

Focus on attractive and established shopping centers
Stable generation of cash flows and dividends
Solid financing and capital structure

STOCK TRIGGERS

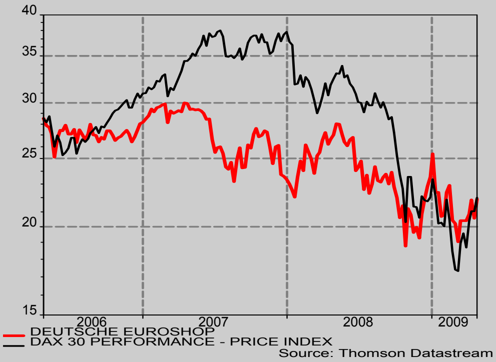
Low risk profile still a value
Next investment probably requires a capital increase

STOCK DATA

Reuters/Bloomberg	DEQGn.F/DEQ GR
Average daily volume (tds.)	103.6
Free float (%)	80.5
Market capitalization (EUR bn)	0.8
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.5%, Attfund Ltd 5.3%, free float 75.2%

UPCOMING EVENTS

Annual general meeting	30-Jun-09
Q1	14-May-09
H1/Q2	13-Aug-09



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	-9.5	-1.1	8.4
Euro STOXX 50	-7.2	3.3	15.6
ES Financ. S.	-17.1	-6.9	11.5

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Contents

Update on guidance and performance

Guidance calls for solid performance

Guidance 2009

Solid guidance for 2009. DES came out with final figures for FY 2008 in line with preliminary figures released two months ago. Overall, these figures exceeded the previous guidance of the company (Company Flash on February 10). Based on the solid performance in 2008, the company confirmed the already (February) increased guidance for 2009. Due to the full-year contribution of Hameln and Passau and the increased stake in Kassel, revenues will increase by ca. 10% and EBT by ca. 2%. The disproportional earnings increase is based on some restructuring measures of the center in Kassel, in our view.

Guidance 2010

DES also provided guidance for 2010, for the first time. Revenues, i.e. rental income will increase by ca. 2%, which is roughly a kind of like-for-like growth, as no further center will be opened in 2009 and 2010. Due to the above mentioned cost effects in 2009, earnings should increase disproportionately higher in 2010 by ca. 6% on an EBT level.

CURRENT GUIDANCE

EUR mn	2007 rep.	2008 rep.	2009e guidance	2009e UniCredit (E)	2009e consensus	2010e guidance	2010e UniCredit (E)	2010e consensus
Revenues	95.8	115.3	125-128	126.8	126.0	128-131	129.3	130.0
EBIT (excl. revaluation/disposals)	77.2	98.1	105-108	106.2	105.0	109-112	109.7	107.9
EBT (excl. revaluation/disposals)	37.7	49.9	50-52	52.9		53-55	55.3	
FFO per share (EUR)	1.12	1.45	1.45-1.50	1.54		1.55-1.60	1.61	

Source: Company data, Reuters, UniCredit Research

Strong track record on guidance

A nice track record on guidance. Management commented in the outlook that, so far, there are no indications that the company will be impaired by the crisis in 2009. This view is based on the low level of write-downs on rents of ca. 0.2% and the stable vacancy rate of below 1% (overall, including some office space) and zero for the retail space. Over recent years, the management has delivered a strong track record on guidance. The table below shows the development of the guidance provided in recent years. So far, guidance for each fiscal year was given at the beginning of the year before. In each case, DES was able to exceed targets on a revenue level and strongly exceed them on an earnings level. Overall, we still believe that the format of inner-city shopping centers, the center management by ECE, long-term lease contracts as well as the high occupancy rate of ca. 100% will protect the company from decreasing rental revenues.

GUIDANCE DEVELOPMENT – A NICE TRACK RECORD: OPERATING RESULT SEEMS TO BE UNDER CONTROL

	FY 2007			FY 2008			FY 2009e				FY 2010e			
EUR mn	Revenue	EBIT*	EBT*	Revenue	EBIT*	EBT*	Revenue	EBIT*	EBT*	FFO**	Revenue	EBIT*	EBT*	FFO**
Apr-07	**92-94**	**71-73**	**30-32**	**108-112**	**87-90**	**42-44**								
Nov-07	**93-95**	**72-74**	**31-33**	108-112	87-90	42-44								
Apr-08	**95.8**	**77.2**	**37.7**	**110-113**	**90-92**	**43-45**	**119-121**	**100-102**	**49-51**					
Vs. first guidance (%)	**+ 2-4**	**+ 6-9**	**+16-28**											
Nov-08				**113-115**	**93-95**	**45-47**	119-121	100-102	49-51					
Feb-/Apr-09				**115.3**	**98.1**	**49.9**	**125-128**	**105-108**	**50-52**	**1.45-1.50**	**128-131**	**109-112**	**53-55**	**1.55-1.60**
Vs. first guidance (%)				**+ 3-7**	**+ 9-13**	**+ 14-19**								

* excluding valuation result; ** FFO per share in EUR

Source: Company data, UniCredit Research

Increasing FFO gives room to maneuver

Focus on FFO

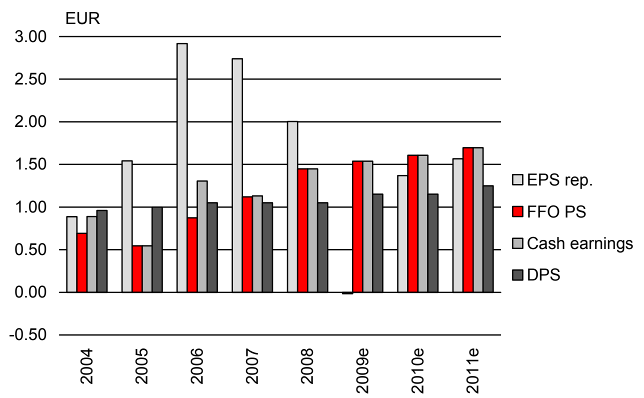
FFO reached a sufficient level. As the valuation result leads to high volatility on the bottom line, EPS is less relevant for the valuation of the company. We prefer to look at cash earnings or funds from operations (FFO). Our FFO includes neither valuation results nor disposal results and gives a clearer view of the operating performance. We appreciate that the company also gave guidance on FFO for the first time. Following a strong increase of 28% in 2007 and 29% in 2008, FFO per share reached EUR 1.45 in 2008. On average, we estimate an increase of 5% p.a. until 2011, which is a kind of organic growth rate, in our view.

Dividend with higher potential

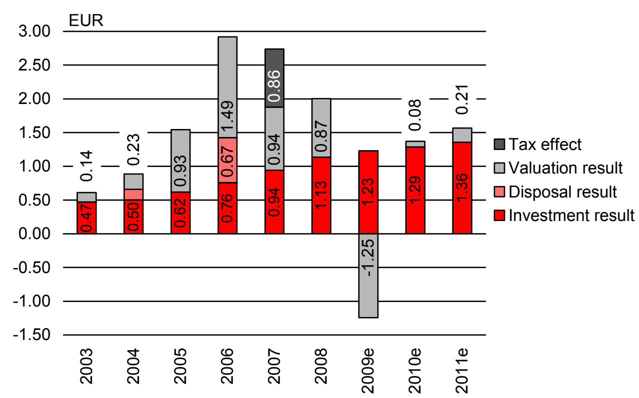
Stable dividend of EUR 1.05 for three years in a row. Given the strong FFO increase in recent years, the question raised is why the dividend has only been stable since 2006. **1.** Until 2005 the dividend was not covered by FFO. This is only time when that has been the case since then. **2.** According to management, besides the dividend payout, FFO will also be used to finance ongoing investments in portfolio properties and scheduled payments on bank loans (ca. EUR 0.30 per share p.a.). **3.** We think that the company would prefer a cautious course. This means that a cushion in a difficult market environment counts more than a 5.2% dividend yield instead of 4.8%. In the annual report, DES stated that it will be able to pay a dividend of EUR 1.05 also in 2009 and 2010. Again, we think that this is a cautious assessment. After three years of continuity (EUR 1.05), the company should be able to increase the dividend for 2009 or 2010.

OPERATING PERFORMANCE – MOST IMPORTANT FIGURES, I.E. FFO AND DIRECT INVESTMENT RESULT WITH SOLID TREND

Per share data – reported EPS less relevant, FFO important



Direct investment result with unbroken trend



Source: Company data, UniCredit Research

CHANGES IN ESTIMATES

EUR mn	2007 rep.	2008 rep.	2009e new	2009e prev.	Dev.	2010e new	2010e prev.	Dev.
Revenues	95.8	115.3	126.8	126.2	1	129.3	129.2	0
y-o-y (%)	3	20	10	9		2	2	
EBIT reported	78.5	98.1	106.2	105.9	0	109.7	108.5	1
y-o-y (%)		25	8	8		3	2	
Net income	94.2	68.9	-0.5	-0.8	-30	47.1	45.1	4
y-o-y (%)	-6	-27	-101	-101		n/a	n/a	
EPS reported (EUR)	2.74	2.00	-0.02	-0.02	-30	1.37	1.31	4
EPS adjusted (EUR)	0.94	1.13	1.23	1.23	0	1.29	1.39	-7
NAV per share (EUR)	26.91	27.43	26.36	26.36	0	26.92	26.79	1
y-o-y (%)		2	-4	-4		2	2	
DPS (EUR)	1.05	1.05	1.15	1.15	0	1.15	1.25	-8

Source: Company data, UniCredit Research

Update on strategy and financing

More cautious about new investments?

Acquisition depends on opportunities

No further acquisitions planned for 2009? For the already announced investments in Kassel (stake from 40% to 90% for EUR 53 mn), Dresden (enlargement for EUR 75 mn until 2011) and Frankfurt (Main Taunus-Zentrum; ca. EUR 36 mn until 2011) as well as for some smaller refurbishments (Kassel, Hamm), there is no need for a capital increase. However, it is obvious that a new acquisition of a further shopping center (ca. EUR 100-200 mn) would require new equity. In the annual report, DES stated that "further acquisitions will depend on the equity raising under reasonable terms and that this cannot be foreseen at present." Therefore, the company assumes that no further acquisitions will take place in 2009. We have argued for a while that the management did a good job in hesitating in an overheated market. On the one hand, the challenging market environment will probably offer some attractive investment opportunities going forward. The management did not explicatively confirm the former minimum initial yield level of 5.5% for new investments. However, this clearly depends on the property, location, etc. We assume that an "average center" like the DES portfolio so far would require a level of at least 6-6.5% net initial yield to attract the company. On the other hand, at least in Germany there is currently no evidence that such a center is available, in our view. Therefore, we view the cautious assessment of the company as the best strategy in these days. If a really attractive opportunity is on the table, the company will not be shy about investing and should also be able to finance such an acquisition, in our view. In a first step financed by debt, followed by a capital increase or via equity-linked bonds as Unibail Rodamco exercised last week with a EUR 575 mn convertible. Overall, the management made clear that there is no need to hurry to invest.

Update on current projects

For the time being and following new openings in recent years, the focus shifts to the existing shopping center portfolio. At the analyst conference, the management gave an update on the extension of centers in Dresden and Frankfurt**:**

- **Dresden:** Extension of Altmarkt-Galerie will start mid-2009 and opening is planned for spring 2011. Investment volume is EUR 150 mn, i.e. EUR 75 mn for DES, of which EUR 21 mn has already been reflected in 2008. The remainder will be financed by the existing credit line. The expected yield of 5.5% is above the current valuation yield, as Dresden is one of the best performing centers.

- **Frankfurt, Main-Taunus-Zentrum:** Extension of the MTZ will start in 2010 and opening is planned for autumn 2011. Investment volume is around EUR 85 mn, i.e. ca. EUR 36 mn for DES (43%), which is covered by the credit line.

Focus on keeping the solid financial structure

Overall no concerns

DEQ reiterated the target of a minimum equity ratio of 45%. Therefore, equity and loans for further investments should also be equally weighted. As mentioned above, the announced extensions of existing centers will not burden the overall strong capital structure. Within our German real estate coverage, DES has the most solid structure, in our view.

Main aspects

- **Equity ratio and LTV:** At year-end 2008, the equity ratio was 49% and LTV at 46%. Following the investments in recent years, gearing is slightly up; however, it is still on a comfortable level.

- **Covenants:** DES has 6 loans with DSCR between 1.1 and 1.6. Only one loan has an additional LTV covenant; however, this has a cushion up to a 25% valuation write-down.

- **Comfortable unused credit line:** DES has a EUR 100 mn available credit line, with a take-up rate of EUR 11 mn at year-end 2008. This credit line is due to be extended in mid-2010. DES will use parts of the line to finance the above mentioned projects in Dresden and Frankfurt. Earlier indications mentioned a margin of only 75-80 bp, which is a highly attractive level.

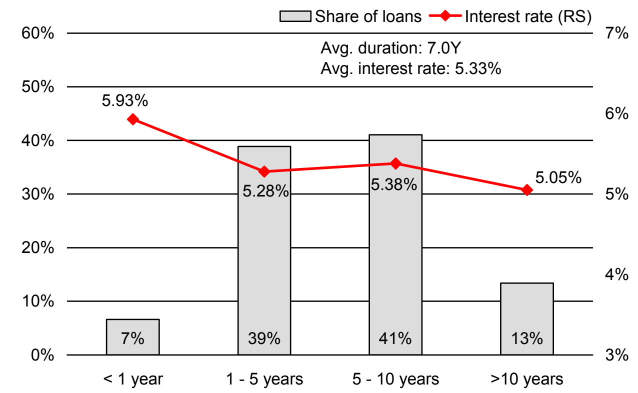
- **Average interest rate of 5.33%,** was nearly unchanged against 5.36% at year-end 2007.

- **Average maturity at 7 years:** Overall, the loan structure is long-term oriented and arranged with 20 banks (19 in Germany). In 2009, EUR 59 mn has to be refinanced, of which EUR 9.5 mn is debt redemption and EUR 50 mn is already in discussions.

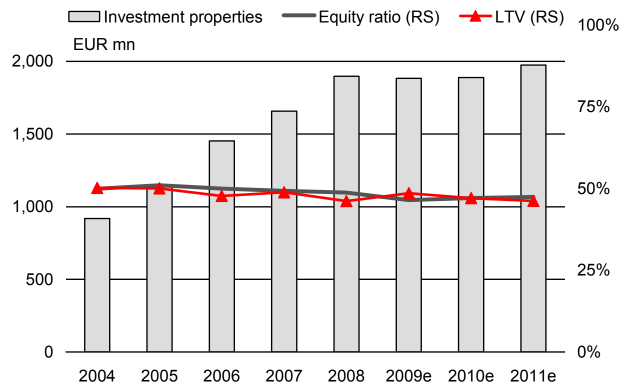
- **Scheduled repayments of ca. EUR 12 mn p.a.:** In 2009, EUR 9.5 mn will be repaid from cash flow, followed by EUR 12.8 mn p.a. between 2010 and 2013. These amounts could be funded by the delta between FFO and dividend payments and will lead to lower interest payments.

FINANCING AND CAPITAL STRUCTURE – SO FAR SO GOOD

Maturity profile of debt – no real needs until 2013 earliest

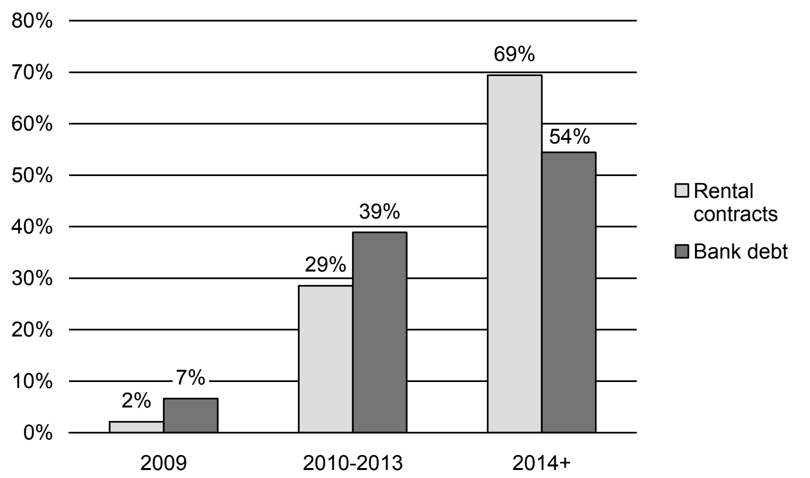


Balance sheet ratios – stable and solid



Source: Company data, UniCredit Research

LEASE EXPIRATION AND DEBT MATURITY WELL BALANCED



Source: Company data, UniCredit Research

Update on portfolio valuation

Portfolio valuation trend

Negative valuation result at year-end 2009 is not a surprise

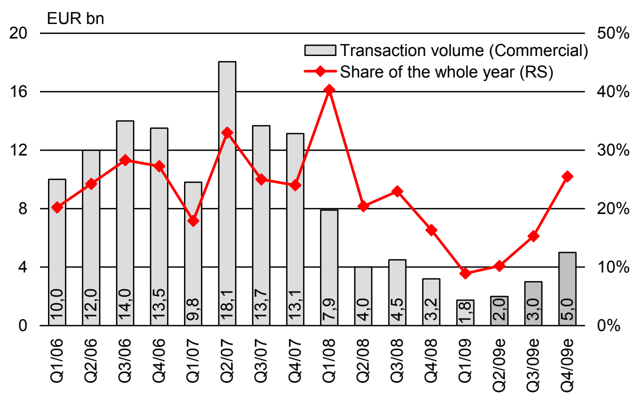
Negative valuation result for 2009 expected. Based on the appraisal value at year-end 2008, the theoretical net initial yield is 5.64%, up by 15 bp y-o-y. We calculate a gross rental income of EUR 123 mn p.a. and net operating income of EUR 107 mn p.a. and a market value of EUR 1.9 bn for investment properties (IAS40). Since 2004, DES was able to deliver positive valuation results for each year. Besides a positive market development with decreasing market yields for shopping centers until 2007, the company could profit from a solid portfolio trend as well as from positive initial valuation results for new centers. However, for 2009, we expect a negative valuation result for the first time. Reasons for this include our assumption that market yields should tend to move up again this year. We estimate a 25 bp increase to 5.90% at year-end. Based on current rental level, this will result in a negative valuation result of EUR 84 mn. DES showed a sensitivity analysis in the annual report that gives a figure of EUR -286 mn for a 100 bp yield increase and a figure of EUR +409 mn for a 100 bp yield decrease. The negative effect from the yield shift could probably be partly compensated by investment/refurbishment in Kassel, lower operating costs and lower risk premiums by the appraisers. However, for the first time, there is no new center to be valued at year end. Overall, we estimate a negative valuation result of EUR 67 mn and EUR -53.5 mn after minorities.

No real concerns about valuation

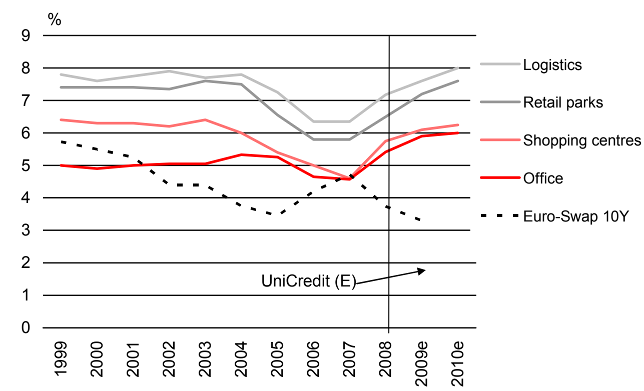
Overall, we are not concerned by a potential negative valuation in 2009. In our view, the long-term-oriented business model and portfolio of the company gives support for the current portfolio valuation with an NOI yield of 5.64%. There is clearly the question of why this is below the level of 5.75% mentioned by the real estate broker Jones Lang LaSalle for Q4/08 and also for Q1/09. **1.** Brokers are clearly facing a difficult market environment with a lack of any transaction, especially for large-scale shopping centers. Therefore, there is no clear evidence for the stated yield at the moment. **2.** Matching the view on pricing for buyers and sellers would reasonably lead to lower prices. However, property owners like DES are not forced to sell at these price levels. Therefore, the lack of transactions could probably last longer. **3.** The long-term and stable portfolio of DES will most likely not face problems on rents and cash flows. Therefore, a long-term-oriented valuation makes sense. **Overall,** one can argue that in strong market phases like 2006/2007, the portfolio has been valued too conservatively and in weaker market phases like 2008/2009, the portfolio valuation has lost an aspect of its conservatism.

MARKET ENVIRONMENT STILL DIFFICULT – GOOD TO HAVE A SOLID PORTFOLIO AND NO NEED FOR DISPOSALS

Commercial real estate transactions in Germany on a low level



Yields for commercial properties in Germany



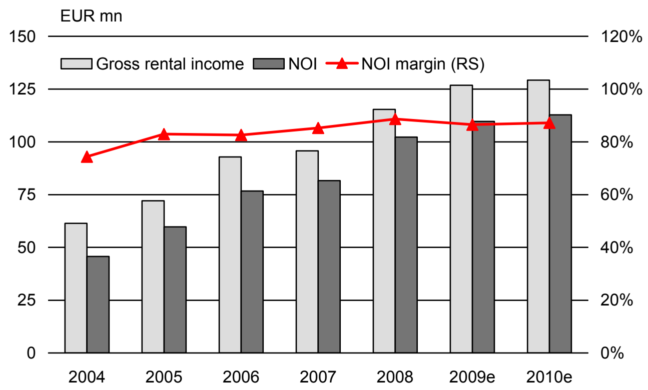
Source: Jones Lang LaSalle, UniCredit Research

Rental income risks limited

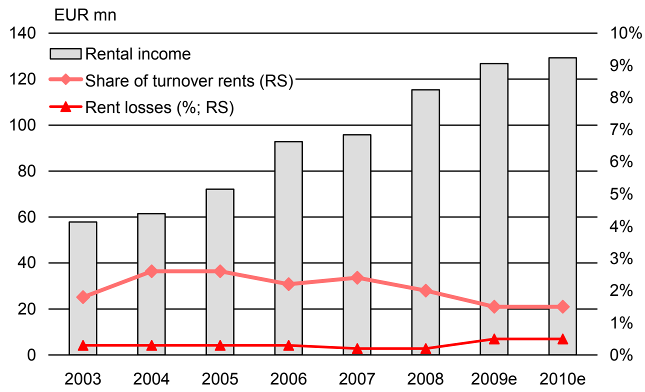
The key asset of the company is the nearly fully let portfolio with a vacancy rate of below 1% for several years already. There is only a small amount of office space in the shopping centers that is not fully let. In 2009, only 2% of leases are due to expire, of which the majority has already been prolonged. Furthermore, the company currently has no project under construction, i.e. where rental risks could arise. Write-downs on rent losses were stable at around 0.2-0.3% p.a. of total rental income for years. Overall, we expect an ongoing stable performance going forward, even if we expect lower like-for-like growth rates (1%) and slightly higher rent losses of 0.5% in 2009 and 2010.

RENTAL INCOME TREND

Stable NOI margin over years



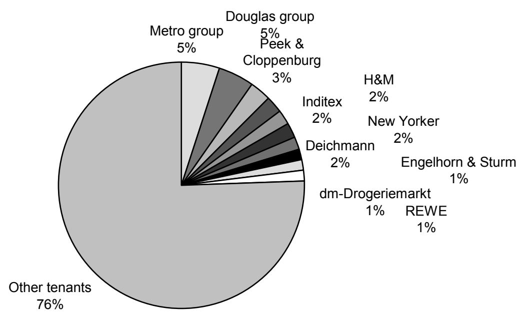
Trend of rental income – only limited write-downs on rent losses



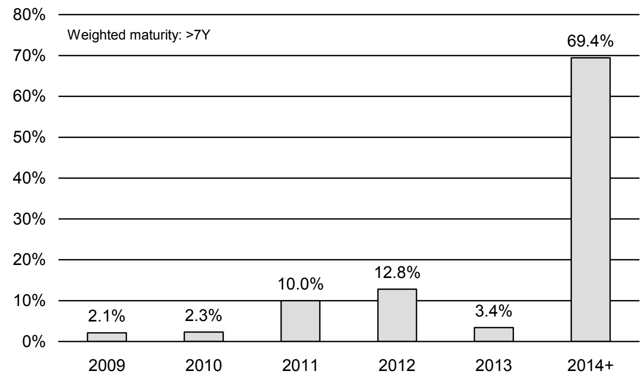
Source: Company data, UniCredit Research

TENANT AND LEASE STRUCTURE

Tenant structure – focus on broad mixture



Lease expiration schedule



Source: Company data, UniCredit Research

Valuation – Buy rating confirmed

Valuation overview

Buy rating

We confirm our Buy rating after a review of our estimates and valuation models. Valuation models are an economic profit model, a DDM and a NAV approach. For our coverage, we only use a peer group valuation for comparison. Our key arguments for our rating are:

- DES has a solid and long-term-oriented financial and financing structure.
- Operating performance is relatively stable with limited risks.
- FFO will not only cover the dividend and some smaller investments/refurbishments, but also debt redemption.
- Opportunities for investments could arise and will probably lead to a equity raising. However, we are convinced that this would only be done if the acquisition yield is attractive enough.

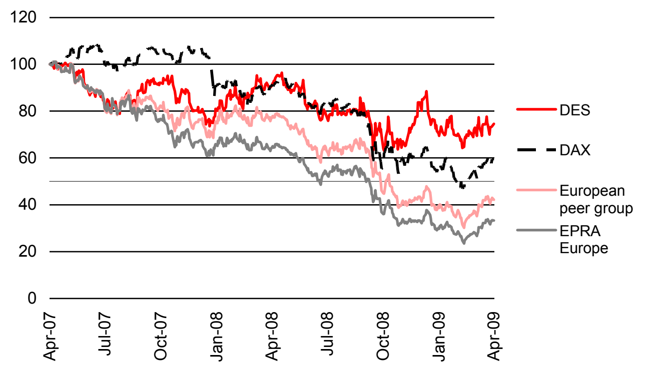
VALUATION OVERVIEW

EUR	Value per share	Weighting (%)
Economic profit (ROCE) model	29.02	33
Dividend discount model	24.85	33
NAV 2010e (10% discount)	24.23	33
Value (weighted)	**26.03**	
Peer group comparison (2009-11e)	20.48	
Target price (t+12 months)	**26.00**	
Current share price	21.92	
Valuation at:	**Target price**	**Current**
Share price	**26.00**	**21.92**
Dividend yield 2008 (%)	4.0	4.8
P/NAV 2009e	0.99	0.83
P/E adj. 2009e	21.1	17.8
FFO yield 2009e (%)	5.9	7.0
Cash earnings yield 2009e (%)	5.9	7.0

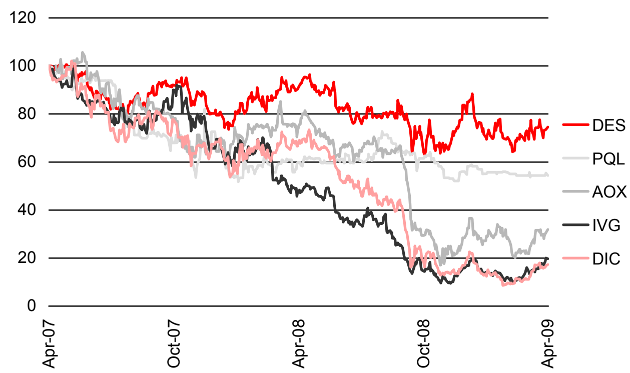
Source: UniCredit Research

STRONG RELATIVE SHARE PRICE PERFORMANCE

Relative performance compared to indexes (2Y)



Relative performance compared to commercial peers in Germany



Source: Thomson Datastream, UniCredit Research

Economic profit model

Value of EUR 29.02

The most important valuation model for a buy-and-hold company like Deutsche EuroShop is an economic profit model. This observes whether the company will be able to add value to the current NNAV over the periods to come. We are strongly convinced that the management will be able to increase NAV on a long-term basis, with the exception of 2009 for which we expect a negative valuation result.

BASIC ASSUMPTIONS FOR COST OF CAPITAL

	Earnings structure 2009-11e		
Beta derivation	**EUR mn**	**Share (%)**	**Fair beta**
Net rental income	350.2	112	0.95
Profit on disposals	0.0	0	1.00
Valuation result	-40.9	-13	0.90
Income from investments	4.5	1	1.50
Total (weighted)	**313.8**	**100**	**0.96**
Risk-free rate	%	3.00	
Risk premium	%	4.50	
Beta	x	0.96	
Cost of equity	**%**	**7.34**	
Risk premium debt	%	1.75	
Cost of debt after tax (2009-11e)	%	3.80	
Notional tax rate (2009e-11e)	%	20.0	
WACC (based on MV)	**%**	**5.45**	

ECONOMIC PROFIT MODEL

		2006	2007	2008	2009e	2010e	2011e	TV
EBITDA	EUR mn	86.3	78.5	98.1	106.2	109.7	113.1	115.3
Valuation result	EUR mn	72.3	39.0	37.1	-53.5	3.6	9.0	20.1
Income from investments	EUR mn	1.9	1.5	1.7	1.4	1.5	1.6	1.6
Taxes	EUR mn	-23.7	-31.4	-28.5	-10.8	-23.0	-24.7	-27.4
Notional tax rate	%	14.8	26.4	20.8	20.0	20.0	20.0	20.0
NOPAT	**EUR mn**	**136.9**	**87.6**	**108.4**	**43.3**	**91.9**	**99.0**	**109.6**
Total assets	EUR mn	1796.2	1,976.3	2,006.8	2,011.5	2,018.6	2,057.1	
minus current liabilities	EUR mn	64.6	88.2	52.7	59.6	59.0	59.0	
plus current financial debt	EUR mn	28.5	46.7	20.7	27.6	27.0	27.0	
minus cash	EUR mn	95.9	109.0	41.7	47.0	34.6	36.8	
minus deferred taxes	EUR mn	81.2	64.3	82.3	82.2	93.9	107.4	
Capital employed (CE)	EUR mn	1583.0	1761.5	1850.8	1850.3	1858.0	1880.9	
Capital employed (average)	**EUR mn**	**1431.1**	**1,672.3**	**1,806.2**	**1,850.6**	**1,854.2**	**1,869.5**	**1,880.9**
ROCE	%	9.6	5.2	6.0	2.3	5.0	5.3	5.8
WACC	%	5.3	5.5	5.5	5.4	5.4	5.4	5.4
ROCE-WACC	**%**	**4.3**	**-0.3**	**0.5**	**-3.1**	**-0.5**	**-0.1**	**0.4**
Economic profit	EUR mn				-56.9	-8.6	-2.4	7.6
NPV	EUR mn				-54.9	-7.9	-2.1	6.3
NPV 2009-11e	EUR mn				-64.9			
Terminal value (TV)	EUR mn				226.8			
NPV of TV	EUR mn				186.8			
Economic profit - total	EUR mn				121.9			
minus dividends to pay	EUR mn				-36.1			
NNAV prev. year	EUR mn				860.5			
Fair value equity	**EUR mn**				**946.2**			
Number of shares diluted	mn				34.4			
Fair value per share (t=0)	EUR				27.53			
Fair value per share (t+12M)	**EUR**				**29.02**			

Source: UniCredit Research

Dividend discount model

Value of EUR 24.85

We also use a DDM, because this is based on the reliable dividend policy, which may be too cautious, but keeping this in mind, a higher value per share is justified.

DIVIDEND DISCOUNT MODEL

		2008	2009e	2010e	2011e	2012e
Dividend	EUR	1.05	1.15	1.15	1.25	1.28
y-o-y	%	0	9.5	0	8.7	2.0
Beta		0.96				
Risk-free rate	%	3.00				
Risk premium	%	4.50				
Discount factor	%	7.34				
CAGR dividend 2008-2011e	%	6.0				
Dividend growth rate after 2011e	%	2.0				
NPV dividend	EUR	1.04	1.06	0.99	1.00	0.95
Sum NPV until 2011e	EUR	4.08				
NPV terminal value	EUR	19.07				
Value of equity per share	**EUR**	**23.15**				
Value per share (t+12M)		**24.85**				

SENSITIVITY ANALYSIS

Discount factor (%)	CAGR dividend after 2011e (%) 1.00	1.50	2.00	2.50	3.00
5.8	28.10	30.82	34.25	38.71	44.74
6.3	25.54	27.72	30.40	33.78	38.17
6.8	23.41	25.19	27.34	29.98	33.31
7.3	21.62	23.10	**24.85**	26.97	29.57
7.8	20.10	21.34	22.79	24.52	26.60
8.3	18.78	19.83	21.06	22.49	24.19
8.8	17.63	18.53	19.58	20.78	22.20

Source: UniCredit Research

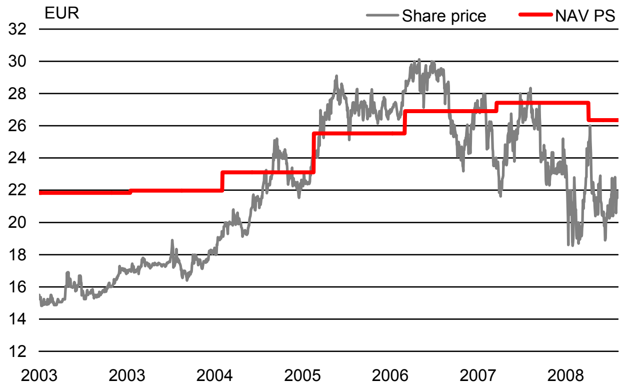
NAV approach

Value of EUR 24.23

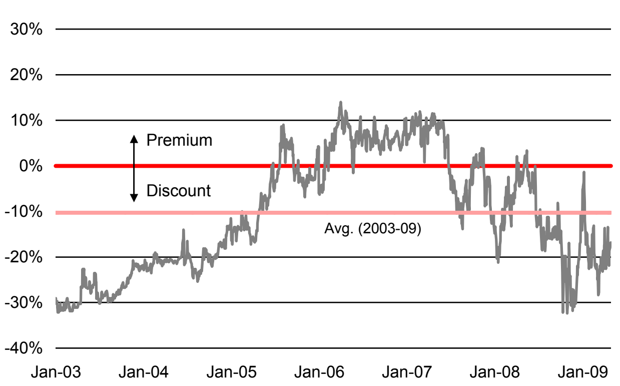
We also believe it is reasonable to take a discount on NAV, as we have done with other companies in our coverage. Overall, we apply a discount of only 10% (average for our coverage is a discount of 40%) on our 2010e NAV estimate of EUR 26.92 per share. This includes a 5% discount for being a retail player and a 5% discount for the exposure in Eastern Europe (ca. 13% of the asset base). Based on our model, the TP should go in the direction of NAV, i.e. no discount is needed within an ideal environment.

VIEW ON P/NAV TREND: OVERALL STRONG AND RELIABLE NAV TREND

Strong NAV performance for years



Still below average NAV discount



Source: Thomson Datastream, UniCredit Research

Comparison: peer group

Value of EUR 20.48

As with the rest of our real estate coverage in Germany, we only use a peer group valuation for comparison reasons. In our view, a peer group is currently highly volatile and gives very limited indications for the absolute valuation level. Furthermore, e.g. the P/NAV average gives no information about the capital structure of the different companies. However, in the case of DES, the European peer group comparison gives a lower fair value for the company of only EUR 20.50 per share.

VALUE PER SHARE BASED ON PEER GROUP (RETAIL) COMPARISON

EUR	2009e	2010e	2011e	Average
P/E adj.	13.15	16.01	16.29	15.15
P/BV	21.61	23.67	24.05	23.11
P/NAV	20.75	21.62	20.73	21.04
EV/EBITDA	31.06	25.03	24.00	26.70
Dividend yield	15.53	15.87	17.77	16.39
Average	**20.42**	**20.44**	**20.57**	**20.48**

PEER GROUP COMPARISON – RETAIL PROPERTIES EUROPE

	Price	Mcap.	P/E adj.			P/BV			P/NAV			EV/EBITDA			Dividend yield (%)			
	Local	EURmn	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2008e	2009e	2010e	2011e
Corio	34.26	2,304	11.1	11.1	10.9	0.7	0.8	0.8	0.72	0.78	0.69	18.4	15.6	15.1	7.8	7.8	7.9	8.0
Eurocommercial	23.47	844	13.2	13.0	13.6	0.8	0.9	0.9	0.89	0.91	0.85	20.8	16.4	18.0	7.6	7.6	7.7	7.8
VastNed Retail	34.23	579	9.1	9.7	10.1	0.7	0.7	0.7	0.71	0.78	n/a	16.5	13.8	13.4	10.9	10.9	10.3	10.4
Klépierre	17.55	2,916	9.9	12.3	10.3	0.7	0.8	0.8	0.79	0.82	0.76	16.4	13.8	12.9	7.3	7.3	7.5	8.0
Unibail-Rod.	118.50	9,662	13.2	12.6	11.8	0.9	0.9	0.8	0.78	0.81	0.75	16.3	14.4	13.7	6.7	6.7	7.0	7.1
Citycon	1.73	382	8.7	9.1	9.1	0.5	0.5	0.6	0.55	0.54	0.48	17.6	14.4	14.4	7.5	7.5	7.5	6.9
British Land	4.25	4,048	10.3	13.7	14.0	1.0	1.2	1.1	0.93	1.09	1.00	18.7	18.1	15.7	7.0	7.0	5.9	5.9
Hammerson	3.06	2,376	14.9	16.0	15.0	0.9	0.9	0.8	0.82	0.80	0.69	25.4	18.5	17.6	5.2	5.2	5.1	5.2
Land Securities	5.27	4,450	7.9	12.2	12.3	0.7	0.8	0.9	0.84	0.97	0.84	21.1	16.6	15.2	9.9	9.9	5.7	5.6
Liberty Intl.l	4.33	1,770	16.4	16.4	15.2	1.0	1.0	1.0	0.79	0.73	0.65	22.5	17.5	17.0	4.4	4.4	4.2	4.0
Median		**2,340**	**10.7**	**12.5**	**12.0**	**0.8**	**0.9**	**0.8**	**0.79**	**0.80**	**0.75**	**18.5**	**16.0**	**15.2**	**7.4**	**7.4**	**7.2**	**7.0**
Average		2,933	11.5	12.6	12.2	0.8	0.8	0.8	0.78	0.82	0.75	19.4	15.9	15.3	7.4	7.4	6.9	6.9
Dt. EuroShop	**21.92**	**821**	**17.8**	**17.0**	**16.2**	**0.9**	**0.8**	**0.8**	**0.91**	**0.81**	**0.79**	**16.2**	**15.6**	**15.1**	**4.8**	**5.2**	**5.2**	**5.7**

Source: Thomson Datastream, UniCredit Research

Consolidated income statement

		2006	2007	2008	2009e	2010e
Total revenues	EUR mn	184.6	135.8	153.3	127.8	130.3
Total expenses	EUR mn	-25.9	-18.3	-18.1	-75.1	-17.0
EBIT	EUR mn	158.6	117.5	135.2	52.7	113.3
Gross rental income	**EUR mn**	**92.9**	**95.8**	**115.3**	**126.8**	**129.3**
Property op./management costs	EUR mn	-16.2	-14.1	-13.1	-17.1	-16.5
as a percentage of rental income	%	17.4	14.7	11.4	13.5	12.8
Net rental income (NOI)	**EUR mn**	**76.7**	**81.7**	**102.2**	**109.7**	**112.7**
as a percentage of rental income	%	82.6	85.3	88.6	86.5	87.2
Profit on disposal of investment properties	**EUR mn**	**14.8**	**0**	**0**	**0**	**0**
Other operating income	EUR mn	1.2	1.1	0.9	1.0	1.0
Other operating expenses	EUR mn	-6.3	-4.2	-5.0	-4.5	-4.0
EBITDA (DES defin.: EBIT)	**EUR mn**	**86.3**	**78.5**	**98.1**	**106.2**	**109.7**
as a percentage of total revenues	%	46.8	57.8	64.0	83.1	84.2
Valuation result	**EUR mn**	**72.3**	**39.0**	**37.1**	**-53.5**	**3.6**
EBIT	**EUR mn**	**158.6**	**117.5**	**135.2**	**52.7**	**113.3**
as a percentage of total revenues	%	86.0	86.5	88.2	41.2	87.0
Income from investments	EUR mn	1.9	1.5	1.7	1.4	1.5
Net financial result	EUR mn	-42.9	-41.1	-49.9	-54.8	-56.0
EBT	**EUR mn**	**117.6**	**77.8**	**87.0**	**-0.7**	**58.8**
as a percentage of total revenues	%	63.7	57.3	56.8	-0.5	45.2
EBT excl. revaluation	**EUR mn**	**45.3**	**38.9**	**49.9**	**52.9**	**55.3**
Taxes	EUR mn	-17.4	16.3	-18.1	0.1	-11.8
Income tax rate	%	14.8	-21.0	20.8	20.0	20.0
Profit for the period	**EUR mn**	**100.3**	**94.2**	**68.9**	**-0.5**	**47.1**
as a percentage of total revenues	%	54.3	69.4	44.9	-0.4	36.1
Minority interests	EUR mn	0	0	0	0	0
Earnings after minority interests	**EUR mn**	**100.3**	**94.2**	**68.9**	**-0.5**	**47.1**
Adj. net income (direct investment result)	**EUR mn**	**26.1**	**32.3**	**39.0**	**42.3**	**44.2**
Indirect investment result	**EUR mn**	**74.2**	**61.8**	**29.9**	**-42.8**	**2.9**
Funds from operation (FFO)	EUR mn	30.0	38.5	49.8	52.9	55.3
EPS reported	**EUR**	**2.92**	**2.74**	**2.00**	**-0.02**	**1.37**
EPS reported/diluted	EUR	2.92	2.74	2.00	-0.02	1.37
EPS diluted (EPRA)	**EUR**	**0.76**	**0.94**	**1.13**	**1.23**	**1.29**
FFOPS basic	EUR	0.87	1.12	1.45	1.54	1.61
FFOPS diluted	**EUR**	**0.87**	**1.12**	**1.45**	**1.54**	**1.61**
DPS	**EUR**	**1.05**	**1.05**	**1.05**	**1.15**	**1.15**

Cash flow statement (excerpt)

		2006	2007	2008	2009e	2010e
Cash Earnings	EUR mn	44.9	38.9	49.8	52.9	55.3
Cash Earnings per share	**EUR**	**1.31**	**1.13**	**1.45**	**1.54**	**1.61**
Net income	EUR mn	100.3	94.2	68.9	-0.5	47.1
Cash flow from operations	**EUR mn**	**17.3**	**76.9**	**80.2**	**59.9**	**62.8**
Capital spending on fixed assets	EUR mn	-207.6	-144.3	-87.3	-68.0	-15.0
Capital spending on financial assets	EUR mn	-4.9	0	-3.9	0	0
Cash flow from investments	**EUR mn**	**-131.6**	**-144.3**	**-91.2**	**-68.0**	**-15.0**
Free cash flow	**EUR mn**	**-114.2**	**-67.4**	**-11.0**	**-8.1**	**47.8**
Receipts from capital increases	EUR mn	0	0	0	0	0
Inflow/outflow from interest-bearing debt	EUR mn	49.0	119.3	3.9	47.8	-20.6
Less previous year’s dividend	EUR mn	-38.4	-36.1	-36.1	-36.1	-39.5
Cash flow from financing	**EUR mn**	**10.7**	**79.2**	**-39.1**	**11.7**	**-60.1**
Changes in cash and cash equivalents	EUR mn	-100.3	15.8	-68.9	3.2	-12.4
Cash and cash equivalents at FY end	EUR mn	96.9	112.7	43.8	47.0	34.6

Consolidated balance sheet

		2006	2007	2008	2009e	2010e
ASSETS						
Non-current assets	**EUR mn**	**1,652.9**	**1,839.2**	**1,954.0**	**1,955.1**	**1,974.6**
Property, plant and equipment	EUR mn	155.3	144.4	21.2	36.2	51.2
Investment Properties	EUR mn	1,452.0	1,658.2	1,897.8	1,883.9	1,888.3
Financial assets	EUR mn	29.1	32.9	30.3	30.3	30.3
Other assets	EUR mn	16.5	3.8	4.7	4.7	4.7
Current assets	**EUR mn**	**143.3**	**137.1**	**52.9**	**56.4**	**44.1**
Accounts receivable	EUR mn	2.3	3.2	2.7	2.7	2.7
Receivables from other investors	EUR mn	2.2	0.0	0.0	0.0	0.0
Other assets	EUR mn	41.9	21.3	6.7	6.7	6.7
Marketable securities and cash	EUR mn	96.9	112.7	43.4	47.0	34.6
Balance sheet total	**EUR mn**	**1,796.2**	**1,976.3**	**2,006.8**	**2,011.5**	**2,018.6**
EQUITY AND LIABILITIES						
Equity	**EUR mn**	**897.9**	**974.0**	**977.8**	**934.8**	**950.7**
Capital subscribed	EUR mn	22.0	34.4	34.4	34.4	34.4
Capital surplus	EUR mn	558.6	546.2	546.2	510.1	470.1
Earnings reserves	EUR mn	115.4	186.0	279.9	279.9	279.9
Net disposable profit	EUR mn	100.3	94.2	0.0	-0.5	47.1
Right to redeem of limited partners	EUR mn	101.6	113.2	117.3	110.9	119.3
Non-current liabilities	**EUR mn**	**833.7**	**914.1**	**976.3**	**1,017.1**	**1,008.9**
Liabilities due to banks	EUR mn	752.1	849.3	879.1	920.0	900.0
Deferred tax liabilities	EUR mn	81.2	64.3	82.3	82.2	93.9
Account payable	EUR mn	0.0	0.0	0.0	0.0	0.0
Other liabilities	EUR mn	0.4	0.5	14.9	14.9	14.9
Current liabilities	**EUR mn**	**64.6**	**88.2**	**52.7**	**59.6**	**59.0**
Liabilities due to banks	EUR mn	28.5	46.7	20.7	27.6	27.0
Account payable	EUR mn	6.5	8.7	3.0	3.0	3.0
Tax provisions	EUR mn	1.3	0.5	0.7	0.7	0.7
Other provisions	EUR mn	18.5	25.1	18.2	18.2	18.2
Other liabilities	EUR mn	9.8	7.3	10.1	10.1	10.1
Balance sheet total	**EUR mn**	**1,796.2**	**1,976.3**	**2,006.8**	**2,011.5**	**2,018.6**

Key data

		2006	2007	2008	2009e	2010e
Per share data						
EPS reported	EUR	2.92	2.74	2.00	-0.02	1.37
EPS diluted (EPRA)	EUR	0.76	0.94	1.13	1.23	1.29
FFOPS diluted	EUR	0.87	1.12	1.45	1.54	1.61
Cash Earnings per share	EUR	1.31	1.13	1.45	1.54	1.61
Book value per share	EUR	26.12	28.34	28.45	27.19	27.66
NAVPS	EUR	25.52	26.91	27.43	26.36	26.92
Diluted NNAV per share	EUR	23.16	25.04	25.03	23.97	24.19
Diluted NNNAV per share	EUR	24.34	25.98	26.23	25.16	25.55
Dividend per share	EUR	1.05	1.05	1.05	1.15	1.15
Payout ratio (IFRS net profit)	%	36	38	52	-7372	84
Payout ratio (Cash Earnings)	%	80	93	72	75	72
Valuation						
P/E (rep. EPS)	x	9.2	10.0	11.9	-1,405.1	16.0
P/E (EPRA diluted)	x	35.5	29.0	21.0	17.8	17.0
P/FFO (diluted)	x	30.9	24.3	16.5	14.3	13.6
P/Cash earnings	x	20.7	24.1	16.5	14.3	13.6
P/BV	x	1.03	0.96	0.84	0.81	0.79
P/NAV	x	1.06	1.01	0.87	0.83	0.81
P/NNAV (diluted)	x	1.16	1.09	0.95	0.91	0.91
Dividend yield	%	3.9	3.9	4.4	5.2	5.2
EV/CE	x	1.1	1.0	0.9	0.9	0.9
ROCE/WACC	x	1.8	1.6	1.1	0.4	0.9
Economic profit ratio ((EV/CE)/(ROCE/WACC))	x	0.6	0.7	0.9	2.1	1.0
EV/EBITDA	x	18.7	21.9	17.1	15.6	15.0
EV/EBIT	x	10.2	14.6	12.4	31.4	14.5
Profitability						
ROE (pretax)	%	14.0	8.3	8.9	-0.1	6.2
ROE (after tax)	%	11.9	10.1	7.1	-0.1	5.0
ROCE (adj.)	%	9.6	8.6	6.0	2.3	5.0
WACC	%	5.3	5.5	5.5	5.4	5.4
ROCE - WACC	%	4.3	3.1	0.5	-3.1	-0.5
Economic profit	EUR mn	61.3	51.1	8.8	-56.9	-8.6
Earnings yield	%	10.8	10.0	8.4	-0.1	6.2
Cash Earnings yield	%	4.8	4.1	6.1	7.0	7.3
FFO yield	%	3.2	4.1	6.1	7.0	7.3
EBITDA yield	%	5.4	4.6	5.8	6.4	6.7
NOPAT yield	%	8.5	8.4	6.5	2.6	5.6
EBITDA margin (adj.)	%	46.8	57.8	64.0	83.1	84.2
EBIT margin (adj.)	%	86.0	86.5	88.2	41.2	87.0
Net margin	%	54.3	69.4	44.9	-0.4	36.1
Financial status						
Investment properties	EUR mn	1,452.0	1,658.2	1,897.8	1,950.4	1,969.9
Net debt	EUR mn	683.7	783.3	856.4	900.6	892.4
Gearing	%	76.1	80.4	87.6	96.3	93.9
Equity ratio	%	44.3	43.6	42.9	41.0	41.2
Loan to Value (LTV)	%	47.7	48.8	46.2	48.6	47.1
Net debt/EV (adj.)	%	42.5	45.5	51.1	54.4	54.2
EBITDA/interest expenses	x	2.2	2.0	2.1	2.2	2.2
ICR (adj. EBITDA/net interest result)	x	2.0	2.1	2.2	2.2	2.3

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POTENTIAL CONFLICTS OF INTERESTS

Company	Key
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RECOMMENDATIONS, RATINGS AND EVALUATION METHODOLOGY

Company	Date	Rating	Currency	Target price
Deutsche EuroShop	02/10/2009	BUY	EUR	26.00
Deutsche EuroShop	01/07/2009	HOLD	EUR	26.00
Deutsche EuroShop	10/30/2008	BUY	EUR	25.00
Deutsche EuroShop	08/14/2008	HOLD	EUR	25.00
Deutsche EuroShop	07/10/2008	HOLD	EUR	26.50
Deutsche EuroShop	05/14/2008	HOLD	EUR	30.00
Deutsche EuroShop	04/30/2008	BUY	EUR	30.00

Overview of our ratings

You will find the history of rating regarding recommendation changes as well as an overview of the breakdown in absolute and relative terms of our investment ratings on our websites hvbmarkets.de and **http://www.mib-unicredit.com/research-disclaimer** under the heading "Disclaimer."
The history of recommendations is not provided for HVB Milan and UniCredit CAIB AG.

Note on what the evaluation of equities is based:

We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):

A **Buy** is applied when the expected total return over the next twelve months is higher than the stock's cost of equity.
A **Hold** is applied when the expected total return over the next twelve months is lower than its cost of equity but higher than zero.
A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

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Not rated: Suspension of coverage.

Company valuations are based on the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DVMA, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations are also based on the Economic profit approach. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly. The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

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Overweight: We recommend having a higher portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names).
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Instrument level:

Core hold: We recommend holding the respective instrument for investors who already have exposure.
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Buy: We recommend buying the respective instrument for investors who already have exposure.

Trading recommendations for fixed-interest securities mostly focus on the credit spread (yield difference between the fixed-interest security and the relevant government bond or swap rate) and on the rating views and methodologies of recognized agencies (S&P, Moody's, Fitch). Depending on the type of investor, investment ratings may refer to a short period or to a 6 to 9-month horizon. Please note that the provision of securities services may be subject to restrictions in certain jurisdictions. You are required to acquaint yourself with local laws and restrictions on the usage and the availability of any services described herein. The information is not intended for distribution to or use by any person or entity in any jurisdiction where such distribution would be contrary to the applicable law or provisions.

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