

P R E S S R E L E A S E

Sal. Oppenheim predicts share price gains in 2006 Low valuation offsets risks

- *DAX to climb to up to 6,000 points in the course of 2006*
- *Growth drivers: low valuation, takeovers and rising profits*
- *Tightening of monetary policy worldwide but only slight increase in capital market rates*
- *Outperformance of small and mid-caps to come to an end*

Frankfurt/Cologne, 8 December 2005 – Experts at Sal. Oppenheim jr. & Cie., Cologne, expect further price gains for German and European equities in 2006. According to Dr. Wolfgang Sawazki, head of Equity Research, the DAX could hit the 6,000 point mark in the course of the year. The year-end forecast for the DAX stands at between 5,700 and 5,800, while the EuroSTOXX is expected to close the year at between 3,850 and 3,900 points. This positive market outlook is based on further growth in corporate profits for the DAX (+13% in 2006 and +10% in 2007), a moderate market valuation (DAX P/E ratio 2006e: 12.4) and a sustained high level of the sort of corporate action that traditionally drive share prices up, such as increasing dividends, share buybacks and the persistence of lively M&A activity.

“Corporate profits are on the rise not only due to cyclical and currency effects, but also as a result of the considerable success of the restructuring measures implemented over the last few years”, explained Dieter Pfundt, personally liable partner responsible for Investment Banking at Sal. Oppenheim.

This is compounded by purely arithmetic changes resulting from the implementation of the IFRSs which have a positive effect on earnings, such as those concerning goodwill and pensions, for example. Despite the factors propping up share prices there are nevertheless a number of risks to be considered. In 2006, all of the world's leading central banks (USA, Japan, Europe) will be tightening their monetary policy or removing their accommodation simultaneously for the first time, a move which will gradually reduce excess liquidity on the markets. There is also the risk of a hard landing in the USA, due in particular to a difficult housing market. The strengthening of the US dollar is also petering out. "In regional terms, the euphoria about Germany, supported in particular by massive purchases by American investors, is over," said Pfundt. "However, in light of valuations, we do not see this group withdrawing, rather continued interest on a selective basis." The composition of the new federal government and its coalition agreement suggest a moderate continuation of the reform process at best, and the massive increase in VAT planned for 2007 could prove to be very damaging to the economy, which involves medium-term risks.

Matthias Jörss, head of Equity Strategy, also predicts structural shifts on the capital market, firstly because the ECB is expected to continue its policy of moderate interest rate hikes (expected target 2.75%), and secondly due to the potential for increased credit spreads. Banks and automotive stocks are expected to suffer, while defensive sectors with higher-quality balance sheets, such as healthcare and food, are likely to profit. Overall, the Sal. Oppenheim strategy team initially favours overweighting the insurance, pharmaceuticals and industrial goods & services sectors in 2006. These should be followed by consumer goods/retail and technology as the year progresses, while the materials, automotive and construction sectors are not expected to perform well. After a positive reporting season, profit taking is advised for banks and chemical stocks.

For the first time in several years, growth stocks are likely to perform better than value stocks, which are considered over-priced. Sal. Oppenheim's experts expect

the outperformance of small and mid-caps to tail off for the same reason. According to Dr. Wolfgang Sawazki, the big-caps Allianz, AstraZeneca, Conti, DSM, EADS, Deutsche Post, EON, SocGen, France Telekom, Philips, SAP, Swiss Re, UBS and UCB, as well as the small-caps Beiersdorf, Carl Zeiss Meditec, GEA, Ersol, Kontron, Nemetschek, Mobilcom, Mühlbauer, Intercell, Givaudan, Neochimiki, ElringKlinger, Schwarz Pharma, Takkt, Hannover Rück and United Internet are likely to rank among the top performers in 2006.

Norbert Braems, Chief Economist at Sal. Oppenheim, believes that the European equity market scenario outlined above is based on the ongoing stability of the global economy, which is likely to weaken only slightly in 2006. There will, however, be a shift in growth momentum. While US economic growth could drop back to a rate slightly below the trend, Japan and Europe are expected to show further recovery. The German economy is expected to receive at least a short-term boost from the effects of stimulating measures introduced by the new government and anticipatory effects due to VAT. The investment engine has also picked up steam. Overall, the economists at Sal. Oppenheim expect the German economy to grow by 1.8% and 1.3% in 2006 and 2007 respectively.

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