

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

Sal. Oppenheim publishes capital market outlook for 2007:

**Moderate potential for the equity market –
increased risks**

- *Sal. Oppenheim's analysts expect the DAX to reach 6950 points in 2007*
- *Price drivers: Lack of appeal of alternative investment opportunities, REITs, tax reforms and corporate activities (takeovers, share buybacks)*
- *Global economic growth to remain sufficient*
- *Looming risk of corrections on the back of tight valuations and further European Central Bank (ECB) rate hikes towards the 4% mark*

Cologne/Frankfurt, 30 November 2006 – Analysts at Sal. Oppenheim jr. & Cie. believe that the environment for the German and European equity markets is exceptionally favourable at present. This is the conclusion reached by the bank's capital market outlook for 2007, which was presented by Oppenheim Research in Frankfurt today. Dieter Pfundt, a personally liable partner at Sal. Oppenheim, explained, "despite the waning imbalances in the US and the dip in the German economy that is expected to follow the VAT increase at the turn of the year, global economic growth is proving to be stronger than expected." The oil price, for example, is having a positive effect on the economy and the equity markets. What is even more encouraging, however, is the fact that "Germany is also starting to contribute to this growth trend again", according to Pfundt.

Several tax and employment market reforms, years of wage restraint by employees and the restructuring successes seen at many companies have fuelled a self-propelled upturn on the German and European economies over the past few years, with domestic forces also playing an ever more dominant role in sustaining the upswing. "We now hope that the policy of reforms will continue and that we

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won't fall back into the old consensus trap, as was recently the case with the reform of the healthcare system", warns Pfundt.

Equity markets to rise to 6950 on the DAX and 4400 on the EURO STOXX 50

In light of the above, Dr. Wolfgang Sawazki, Head of Equity Research, expects the German and European equity markets to continue to rise in 2007, with the DAX forecasted to climb to 6950 and the EURO STOXX 50 to 4400. The recent strong rally, however, is likely to be followed by continued corrections in the short term. The lack of appeal of alternative investment opportunities, the announced tax reforms, the introduction of REITs in Germany, further corporate activities in the form of takeovers and share buybacks and a moderate increase in operating profits will drive further development on the equity markets. "Profits in Europe will continue to increase by around 7% to 9% in 2007 and 2008, whereby accounting effects and special effects resulting from restructuring measures, particularly in Germany, will have a positive impact on these figures on the whole", explains Dr. Sawazki.

In Germany, the intended tax reform, which plans to cut corporation tax rates, is likely to contribute an average of 3% to 4% to the above-average earnings growth (in 2007 +15% and in 2008 +14%). These figures do not yet include the likely restructuring expenses which will be incurred over the next few years but are difficult to quantify.

The introduction of REITs for commercial properties will allow some German companies to reduce the amount of capital tied up in fixed assets and to use this capital for more lucrative purposes in operational terms.

German and European equities have closed the valuation gap

According to Matthias Jörss, Head of Equity Strategy at Sal. Oppenheim, the equity markets will not, however, chart "unlimited growth" in 2007. A tight market valuation on a cash-earnings basis, further rate hikes by the European Central Bank (ECB) and the realisation of peak earnings in certain sectors such as chemicals, steel, raw materials or investment banking are resulting in an accumulation of correction risks – a trend that is not yet sufficiently reflected in the behaviour of market participants. Following considerable share price gains

over the past few years, German and European equities have now closed the valuation gap in cash flow terms. Only in P/E terms does the market still appear to be valued slightly below the historical average.

On a sectoral basis, Sal. Oppenheim believes that industrials/logistics, technology and insurance stocks currently offer the highest potential. The investment favourites for the next few months include the following major companies: Adecco, Air Liquide, Fresenius, Deutsche Postbank, Raiffeisen International, SAP and Munich Re. Sal. Oppenheim believes that the following SMEs offer further upside potential: BDI, Carl Zeiss Meditec, Drägerwerke, Qiagen, Telegate, Solarworld, Technotrans, Patrizia, LHS and Sixt.

Increasingly self-propelled upswing in Germany thanks to domestic factors

The main force behind the current positive capital market environment is the very robust global economic growth of around 5%, which is only expected to decline slightly in 2007. A healthy slowdown in the US, which is helping to rid the economy of imbalances, is countered by growth of above 2% in Japan and, for the first time, in Europe, too. Momentum also remains high on the emerging markets, setting this particular cycle well apart from those seen in the past.

The fact that the German economy is in good economic shape at the moment is encouraging (2006e: 2.5% and 2007e: 1.8%), although the VAT increase will lead to a temporary economic dip in the first quarter of 2007. Norbert Braems, Chief Economist at Sal. Oppenheim, explains, “The fact that the economic forces have shifted towards domestic factors such as investment, construction and consumption is fuelling an increasingly self-sustaining upswing.” Contrary to the view taken by many market participants, the economist does not expect the Fed to cut interest rates in the first instance and predicts that the ECB will implement further rate hikes towards a neutral policy of around 4%, which could then result in a slight increase in capital market interest rates, too.

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