DES

Deutsche EuroShop

ANNUAL REPORT 2006

feel estate

www.shoppingcenter.ag

INTERVIEW

FACE TO FACE WITH THE EXECUTIVE BOARD

+

Style Test

ARE YOU WELL DRESSED?

IN DETAIL:

16 CENTER,

16 CITIES

THE VALUE OF A SHOPPING CENTER

SHOPPING

WHY WE LOVE IT SO MUCH

editorial

Dear Shareholders and Friends,

we have taken a radical approach to our Annual Report for 2006: the design and layout are as lively and fresh as a lifestyle magazine. Our aim is not just to tell you about our successes, but to give you an insight into the ever-changing world of our business with articles, features and interviews on all aspects of shopping and real estate.

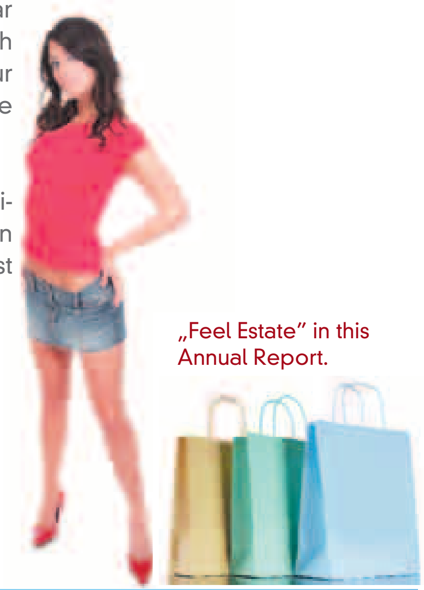
Claus-Matthias Böge, CEO

A magazine also needs attractive advertising. As a sign of the importance we attach to good partnerships, we have given our tenants free advertising space in this report as a thank you – undoubtedly a first for a German annual report. Our tenants make a significant contribution to the success of our shopping centers and therefore of Deutsche EuroShop.

Of course we also want to inform you of our results for financial year 2006. After all, we achieved an increase in our earnings for the fifth year running. Deutsche EuroShop is a successful company. Our shareholders have also profited from our success, with the share price scaling new record heights.

I hope that you will find reading the report a pleasurable experience, rather like a shopping trip. Not for nothing have we given the magazine the title "Feel Estate". Shopping centers are not just properties, they also embody emotions.

With best wishes



„Feel Estate" in this Annual Report.

Tour in Gdansk

The Phoenix-Center in Hamburg at night

welcome!

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Demographic Change
and Retailing

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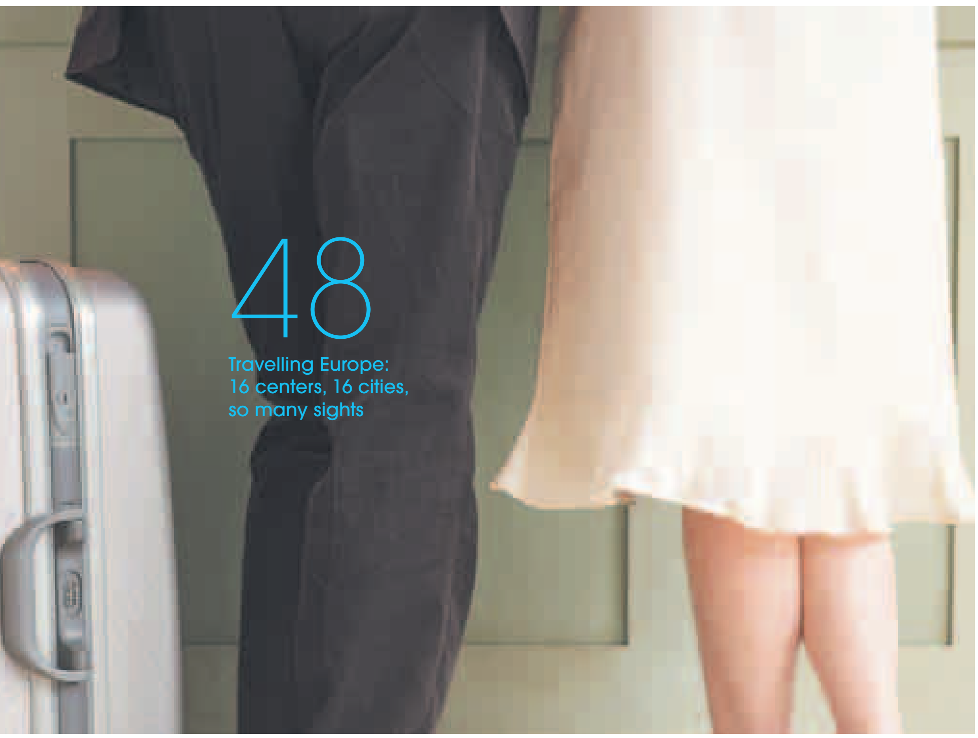

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16 centers, 16 cities,
so many sights

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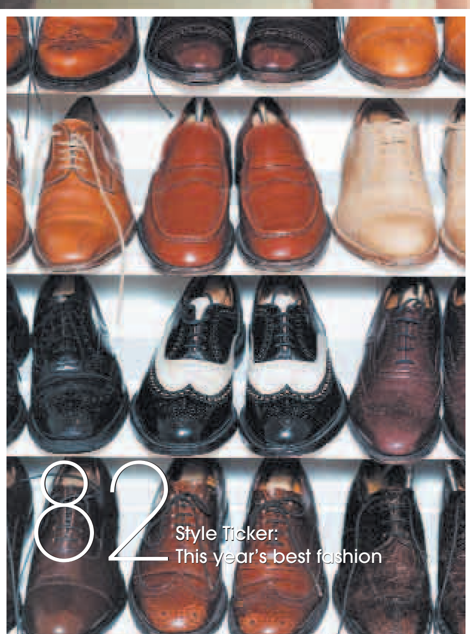

82 Style Ticker: This year's best fashion

THE DES ANNUAL REPORT 2006

Covermodel Nicolette Maurer wears trousers and jacket by H&M, bag and headband by New Yorker, ring by Jette Joop/Christ. backside: jacket by s.Oliver, T-shirt by H&M, necklace by Bijou Brigitte, jeans by New Yorker.

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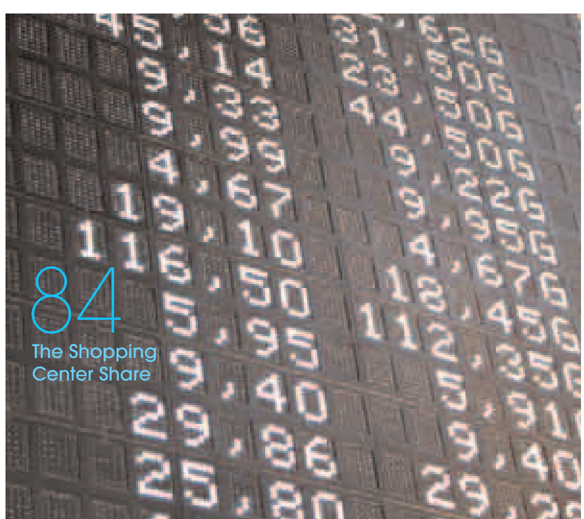
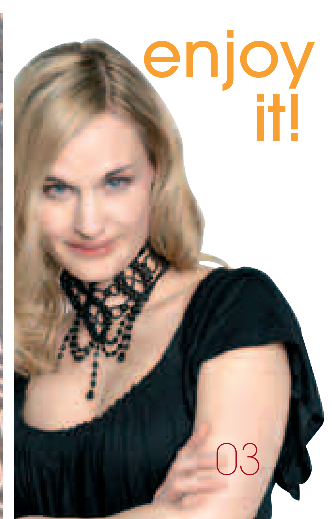




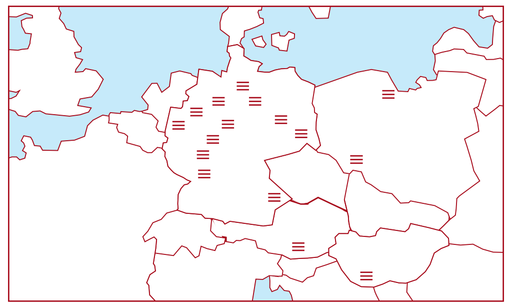
DEUTSCHE EUROSHOP AG

AN OVERVIEW

EARNINGS PER SHARE

€5.84 +89%

THE CENTERS IN EUROPE AS OF 2006



KEY DATA 2005–2006

€ million	2006	2005	CHANGE
Revenue	92.9	72.1	29%
EBIT	86.3	57.5	50%
Income from investments	1.9	5.0	-62%
Net finance costs	-41.0	-39.3	-4%
EBT	117.7	68.1	73%
Consolidated profit	100.3	48.7	106%
Earnings per share (€)[1]	5.84	3.09	89%
Equity	796.3	724.7	10%
Minority interest	101.6	62.8	62%
Liabilities	797.3	677.1	18%
Total assets	1,796.2	1,543.6	16%
Equity ratio (%)[2]	50.0	51.0	
Gearing (%)	100	96	
Net asset value	877.4	794.5	10%
Net asset value per share (€)	51.05	46.22	10%
Number shares	17,187,499	17,187,499	
Cash and cash equivalents	96.9	197.2	-51%
Dividend per share (€)	2.10[3]	2.00	5%

[1]undiluted [2]incl. minority interest [3]proposal

HIGHLIGHTS IN 2006

March
City Arkaden Klagenfurt opens

April
Sale of the center Shopping Etrembières, Annemasse

June
Annual General Meeting on 22 June 2006 and distribution of a dividend of €2.00 per share.
Deutsche EuroShop wins the Capital Investor Relations Prize 2006 in the MDAX category

July
Laying of the foundation stone for the Stadt-Galerie Hameln

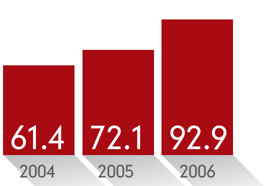
August
Acquisition of a 74% interest in the Galeria Baltycka, Gdansk

September
Laying of the foundation stone for the Galeria Baltycka, Gdansk

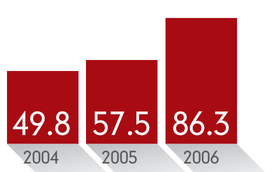
December
Acquisition of a 75% interest in the Stadtgalerie Passau
Sale of the Centro Commerciale Tuscia, Viterbo

AT A GLANCE

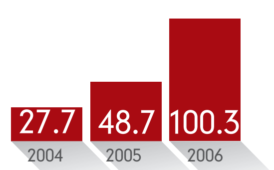
→ Revenue € million



→ EBIT € million



→ Consolidated profit € million



Our values, our goals

Values

We are the only public company in Germany that invests solely in shopping centers in prime locations. We invest only in carefully chosen properties. High quality standards and a high degree of flexibility are just as important to us as sustained earnings growth from index- and turnover-linked rental contracts. In addition, we boast a higher than average occupancy rate of around 99% and professional center management – these are the pillars of our success.

Goals

Deutsche EuroShop does not seek short-term success, but rather long-term growth and the resulting stable increase in the value of our portfolio. Our objective is to distribute an attractive dividend to our shareholders every year from secure long-term income. In order to achieve this, we shall acquire further prime properties and hence establish ourselves as one of the largest companies in Europe focusing on retail properties.

“Investors’ interest in shopping centers remains high”

Deutsche EuroShop has put yet another highly successful financial year under its belt, and shareholders are benefiting from this. However, it is becoming increasingly difficult to keep up the pace. We spoke to Claus-Matthias Böge, Chief Executive Officer, and Olaf G. Borkers, Chief Financial Officer.

Interview: Patrick Kiss / Photos: Werner Bartsch

Claus-Matthias Böge (left side):
Suit, shirt and tie: Karl Lagerfeld (SinnLeffers)

Olaf G. Borkers (right side):
Suit: s.Oliver Selection (SinnLeffers)
Shirt and tie: Karl Lagerfeld (SinnLeffers)

Mr Böge, what kind of year was 2006 for Deutsche EuroShop?

Böge: It was an excellent year. Once again, we had set ourselves a large number of targets – and met them too. We expected revenue to increase from €72.1 million to between €91 and €94 million. The final figure of €92.9 million was almost exactly in the middle of this range.

What was the reason for this impressive 29% increase?

Böge: There are a number of different reasons. The Rathaus-Center in Dessau made its first contribution to consolidated revenue at the beginning of 2006, as did City Arkaden Klagenfurt, which opened at the end of March. In addition, the Main-Taunus-Zentrum was included proportionately in the consolidated financial statements for the first time.

What were your bottom line earnings in 2006?

Böge: Consolidated profit was approximately €100 million, more than twice as high as last year's, due in part to measurement gains on our shopping center portfolio.

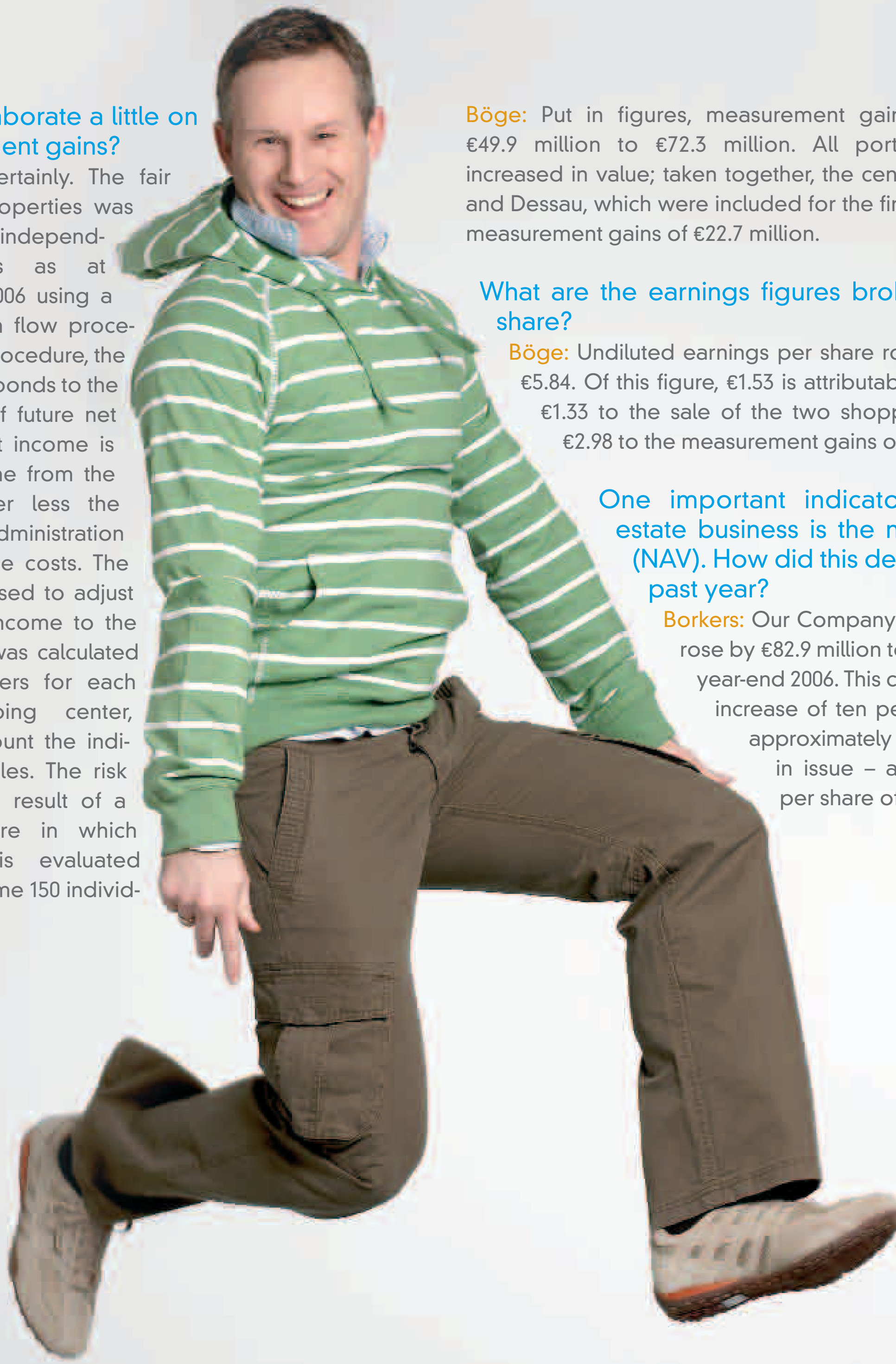
Borkers: This figure contains gains from disposals. In April 2006, we sold the Shopping Etrembières center in France for €41 million. This was followed at the end of the year by the sale of the Centro Commerciale Tuscia in Viterbo, Italy, for €57.6 million – a figure that was far higher than we had originally expected. Taken together, these two transactions generated a profit of €14.8 million. This corresponded to a premium of approximately 18% or so on the most recent market values of the properties recognised in the financial statements.

"We had set ourselves a large number of targets – and met them too."

Blazer and shirt: Smog (New Yorker)
Trousers: Giorgio (Sinn Leffers)
Scarf: New Yorker
Watch: Emporio Armani (Christ)
Shoes: Geox (Görtz)

Could you elaborate a little on the measurement gains?

Borkers: Yes, certainly. The fair value of the properties was determined by independent appraisers as at 31 December 2006 using a discounted cash flow procedure. With this procedure, the fair value corresponds to the present value of future net income. The net income is the rental income from the shopping center less the management, administration and maintenance costs. The discount rates used to adjust the future net income to the valuation date was calculated by the appraisers for each specific shopping center, taking into account the individual risk profiles. The risk profiles are the result of a rating procedure in which each center is evaluated according to some 150 individual criteria.



Böge: Put in figures, measurement gains increased by €49.9 million to €72.3 million. All portfolio properties increased in value; taken together, the centers in Klagenfurt and Dessau, which were included for the first time, recorded measurement gains of €22.7 million.

What are the earnings figures broken down per share?

Böge: Undiluted earnings per share rose from €3.09 to €5.84. Of this figure, €1.53 is attributable to operations, €1.33 to the sale of the two shopping centers and €2.98 to the measurement gains of the portfolio.

One important indicator in the real estate business is the net asset value (NAV). How did this develop over the past year?

Borkers: Our Company's net asset value rose by €82.9 million to €877.4 million at year-end 2006. This corresponds to an increase of ten percent and – with approximately 17.2 million shares in issue – a net asset value per share of €51.05.

Hoodie: New Yorker
Shirt: New Yorker
Trousers: s.Oliver
Shoes: Geox (Görtz)

"Our excellent shopping center portfolio is the foundation of our long-term success."

You have already told us about the disposals. What other changes have there been in the portfolio?

Böge: Quite a few. We intended in 2006 to expand our portfolio by making new investments amounting to between €100 and €150 million. We exceeded our own growth target, having invested €220 million in very promising new shopping centers.

Which shopping centers are these exactly?

Borkers: Firstly, Galeria Baltycka in Gdansk, Poland, in which we acquired a 74% interest in August. Our share of the investment volume amounts to around €123 million. Galeria Baltycka has been under construction since the beginning of May 2006; its grand opening is planned for this autumn. The initial yield is 6.8%. The shopping center will present approximately 190 specialist shops on three levels. 100% of the space has already been leased to well-known retailers long before the center is scheduled to open.

Böge: Shortly before Christmas 2006, we followed up this very interesting project in Poland with a further investment in Germany. We acquired a 75% interest in the Stadt-Galerie in Passau, Bavaria, which has been under construction since October 2006, for approximately €95 million. The initial yield is 6.1%. The shopping center is scheduled to open in autumn 2008. It will offer some 95 specialist shops on three levels. Over 70% of the space has already been leased.

Who will manage the centers?

Borkers: Once again, ECE is our partner of choice for both projects. It not only looks after center management, but is also responsible for planning, development and leasing.

Böge: We consider professional center management to be the key to the success of a shopping center. This is why we have outsourced it to the European market leader. We concentrate on portfolio management. Our excellent shopping center portfolio is the foundation of our long-term success. The 16 centers are situated in first-class locations in four European countries. The operational properties are fully leased and provide reliable long-term income. We are more than optimistic that, in addition to Gdansk, the two other new development projects in Passau and Hameln will be fully leased by the time they open, matching the success of our other portfolio properties.

T-shirt, jacket and trousers: s.Oliver
Scarf: Gerry Weber
Necklace: Christ
Wristband: D+G (Christ)
Shoes: Geox (Görtz)

What does the future have in store?

Borkers: In 2007, we wish to consolidate the high level that we achieved in 2006 so that we can pick up speed again in 2008 with the new centers that are due to open. It must be taken into account that, with the sale of the centers in France and Italy, over four percent of our operating revenue has been sold or transferred to new development projects that are not yet generating income. In 2007, we expect Galeria Baltycka to at least partially offset the deficit in rental income brought about by the disposals.

Could you express this in figures? In the past, Deutsche EuroShop has always met its forecasts reliably. What are your expectations as regards revenue, EBIT and EBT?

Borkers: We expect revenue for 2007 to be on a par with that of the previous year, i.e. between €92 and €94 million. As of 2008, the shopping centers in Hameln and Passau will contribute to revenue for the first time. In addition, Galeria Baltycka will be in operation for its first full financial year. In view of this, we expect revenue to jump to between €108 and €112 million in 2008.

In 2006, EBIT was €73.6 million when adjusted for disposal income. For 2007, we expect it to be in the region of €71 to €73 million. When all centers have been opened, EBIT for 2008 should increase from €87 to €90 million.

Excluding the measurement gains and the disposal income, EBT for 2006 was €32.7 million. For the 2007 financial year, we expect this figure to be between €30 and €32 million. In 2008, it should be possible to achieve between €42 and €44 million.

In which countries does Deutsche EuroShop wish to expand? What do you have in the pipeline?

Böge: We will continue to focus primarily on Germany. However, I am glad that this question has come up because it gives me the opportunity to emphasise that it is not easy to achieve growth through acquisitions at present, be it in Germany or elsewhere.

Blazer and necklace: New Yorker
Sweatshirt: s.Oliver
Wristband: D+G (Christ)

"We can pick up speed again in 2008 with the new centers that are due to open."

"We place more value on the quality of our shopping centers than on the rate of growth of our portfolio."

Why is this?

Böge: Because investor interest in shopping centers in Germany and Europe remains high. Prices are rising and yields are falling. The minimum yield that we look for from new investments is over 5%. This is almost impossible to generate at the moment.

Borkers: In addition, the price of construction material and services has been rising for some time. This increases the cost of new development projects in particular.

How are you planning to address this situation?

Böge: The real estate business is long-term in nature. We have the necessary stamina for this. Our aim of expanding our portfolio by €100 to 150 million annually should be seen as an average over several years. In the last two years, we have invested more than €410 million. We could sit back and just observe the market for a year or two without deviating from our strategy. However, we are keeping close to the action and will be able to react quickly to make the most of any opportunities that arise. In any case, in line with our "buy & hold" approach, we place more value on the quality of our shopping centers than on the rate of growth of our portfolio.

Borkers: And we always have growth opportunities within the existing portfolio. For instance, a planning permission application is currently being prepared to expand the Main-Taunus-Zentrum by some 13,000 m^2 in leasable space. Provisional planning permission has already been granted. All being well, construction work can begin at the end of 2007.

How did the DES share price perform in 2006?

Borkers: Very encouragingly. The share price rose from €47.45 to €56.16 – an increase of over 18%. Thanks to the relatively low volatility of the shares, our shareholders were once again able to sleep soundly in 2006. Together with the dividend of €2.00 per share paid out in June, they achieved an impressive performance of just under 23%, after around 28% in the previous year.

Suit: s.Oliver Selection (SinnLeffers)
Shirt and tie: Karl Lagerfeld (SinnLeffers)
Belt: Gardeur (SinnLeffers)
Watch: Emporio Armani (Christ)
Shoes: Lloyd (Görtz)

Böge: Quite right. We succeeded in increasing shareholder value once again. Our market capitalisation is now in excess of €1 billion. Five years ago, it was less than half this figure. This is further proof that real estate investment pays in the long term.

How do shareholders benefit from this?

Böge: In view of our successful financial year, we are proposing an increase in the dividend for our shareholders: from €2.00 to €2.10 per share. This corresponded to a return of 3.7% at the year-end closing price. It also continues to be one of the highest dividend returns on the German stock market. And dividends are tax-free this year, too.

One final question: The Executive Board photos for this interview are rather unusual. What is the reason for this?

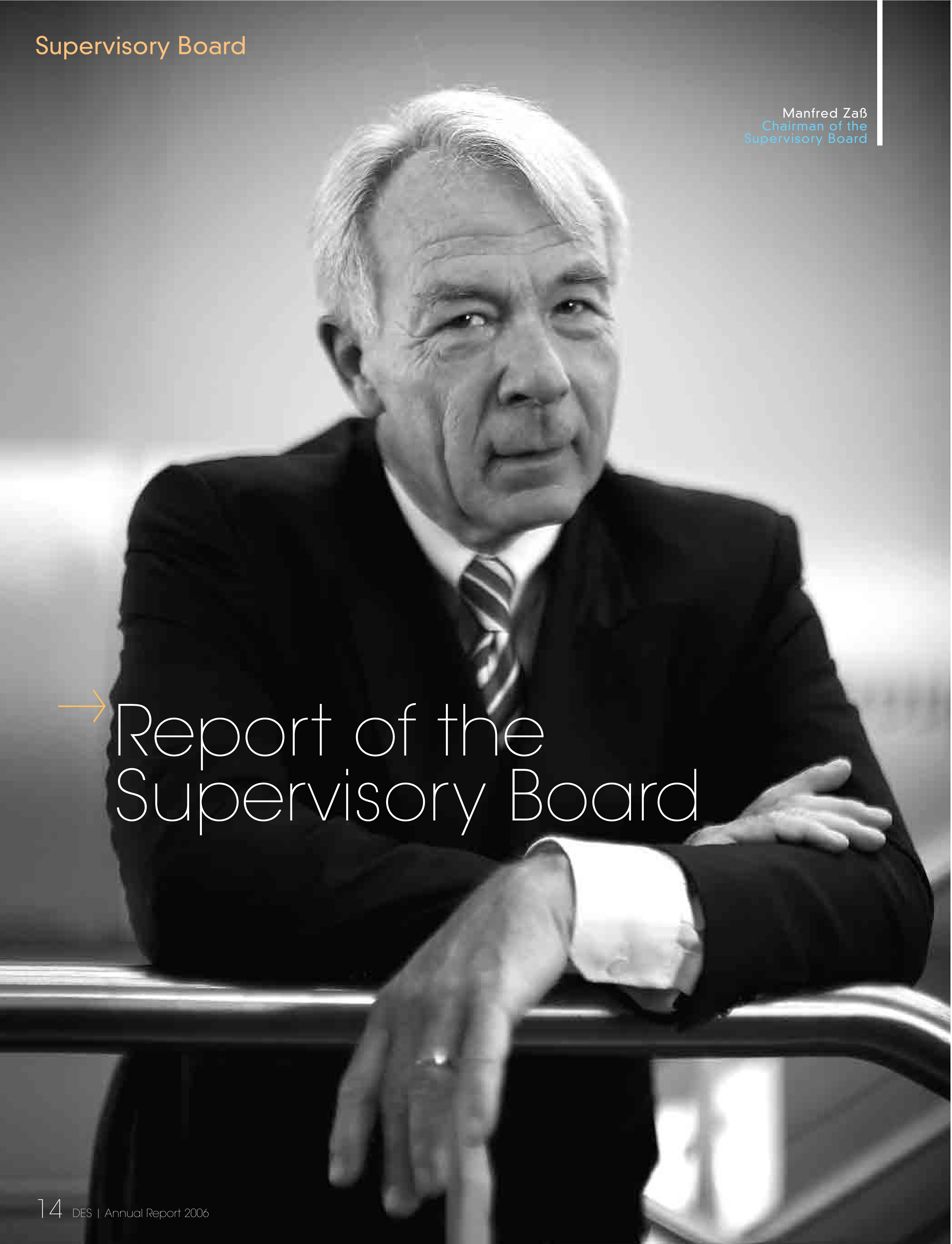
Böge: I firmly believe that if a thing's worth doing, it's worth doing properly. And I think that it is only fitting to use fashion from our shopping centers to give our Annual Report the character of a lifestyle magazine.

Borkers: The world of shopping centers is fascinatingly varied, and the properties exude a sense of vitality – which is why we came up with the idea of "Feel Estate". The photos should be in keeping with this.

Thank you for talking to us.

„Dividends are tax-free this year, too."

Shirt and jumper:
Marc O'Polo



Manfred Zaß
Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

during financial year 2006, the Supervisory Board performed the duties incumbent on it according to the law and the Articles of Association and closely followed the development of Deutsche EuroShop AG. It monitored and advised the Executive Board in its management of the business. The Executive Board informed us regularly, promptly and in detail of business developments.

Focus of advisory activities

We examined our Company's net assets, financial position and results of operations, as well as its risk management, regularly and in detail. In this context, we checked that the formal conditions for implementing an efficient system of monitoring our Company were met and that the means of supervision at our disposal were effective. We ensured that all significant factors affecting the business were reported to us. Our discussions focused on the development of the portfolio properties, their sales trends, outstanding accounts, occupancy rates, construction measures and liquidity as well as investment cost trends for our new development projects.

The Executive Board presented us with timely information on various investment opportunities as well as the intended and implemented measures for the sale of our shopping centers in France and Italy.

Specific current topics were discussed by the Chairman of the Supervisory Board and/or the Executive Committee of the Supervisory Board together with the Executive Board as needed. Transactions requiring the approval of the Supervisory Board were discussed and resolved in the relevant meetings. We took urgent decisions following the circulation of the relevant documents. In the case of decisions that could have led to conflicts of interest, the Supervisory Board members concerned did not take part in voting. All resolutions in the period under review were approved unanimously.

Meetings

During financial year 2006, four regular Supervisory Board meetings took place, which were attended by all Supervisory Board members.

In the first meeting on 19 April 2006, we completed the annual review of the efficiency of the Supervisory Board and approved the agenda for the Annual General Meeting. In this context, we selected the auditor who was proposed to the shareholders for election. The resolution concerning the creation of contingent capital for the issue of a convertible bond was discussed at length as a material change to the Articles of Association. In addition, the pros and cons of selling our shopping center in Italy were discussed and the decision was made to sell the property via a bidding process.

As a result of the high measurement gains on our real estate portfolio in relation to operating profit at the end of 2005, we again discussed the methods used by our expert valuers and the resulting sensitivity in our meeting on 22 June 2006. We established that measurement gains and losses have a very significant influence on the income statement for our Company, as for all other real-estate companies preparing their financial statements in accordance with IFRSs. Moreover, these measurement gains and losses are determined by factors beyond the control of the Executive Board. A number of investment opportunities, including the interest in the Galeria Baltycka in Gdansk, were also presented to us in this meeting. We agreed to the acquisition of a 74% interest on 24 July 2006 following

»The Executive Board informed us regularly, promptly and in detail of business developments.«

» The development of the Company has been very positive, thanks in particular to the efforts of the Executive Board and of the employees. «

circulation of the relevant documents. In the third meeting on 13 September 2006 the Executive Board presented initial information to us on the offer to acquire an interest in the Stadtgalerie in Passau. We also discussed our Company's financing strategy in view of the general capital markets and interest rate situation.

In the last meeting on 29 November 2006, a resolution was passed to acquire a 75% interest in the Stadtgalerie Passau. In addition, we agreed to the conversion and expansion of the Main-Taunus-Zentrum near Frankfurt am Main and the purchase of a piece of developed land in Gdansk for the possible future expansion of the Galeria Baltycka. Following a report from the Executive Board on the result of the bidding process for our shopping center in Viterbo in Italy, we resolved to sell the center to the highest bidder.

→ Committees

The Supervisory Board has formed two separate committees, an Executive Committee and an Audit Committee, each with three members. We consider this to be appropriate given the size of the Company and the number of Supervisory Board members. During the year under review, both committees held meetings on 24 March 2006. The members of the committees also consulted each other by telephone.

→ Corporate Governance

In December 2006, together with the Executive Board, we issued an updated declaration of conformity with the recommendations of the Government Commission pursuant to section 161 AktG and made this permanently available on the Deutsche EuroShop website on 10 January 2007. A separate report on the implementation of the Corporate Governance Code is included in this annual report.

→ Financial statements of the AG and the Group for the period ended 31 December 2006

At the Audit Committee meeting on 29 March 2007 and the Supervisory Board meeting on 19 April 2007, the Audit Committee and the Supervisory Board examined in detail the annual financial statements of Deutsche EuroShop AG in accordance with German commercial law, and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), each as at 31 December 2006, as well as the management report and group management report for financial year 2006.

The documents relating to the financial statements, the auditor's reports and the Executive Board's proposal for the appropriation of the unappropriated surplus were presented to us in good time. The auditor elected by the Annual General Meeting on 22 June 2006, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, had previously audited the financial statements and issued an unqualified audit opinion in each case. The auditor also confirmed that the accounting policies and consolidation methods in the consolidated financial statements complied with the relevant accounting provisions. Furthermore, the auditor determined within the framework of his assessment of the risk management system that the Executive Board has taken the measures required by section 91(2) AktG to ensure early recognition of developments likely to endanger the continued existence of the Company.

The auditor's representatives took part in the discussion on the annual financial statements and the consolidated financial statements on the occasions of the Audit Committee meeting on 29 March 2007 and the Supervisory Board meeting on 19 April 2007 and explained the material results.

Following its own examination of the annual financial statements of the AG, the consolidated financial statements and the management reports appertaining thereto, the Supervisory Board did not raise any objections, agreed with the result of the auditor's audit and approved the annual financial statements of the AG and the consolidated financial statements. The annual financial statements have thus been adopted. The Supervisory Board endorses the Executive Board's proposal for the appropriation of the unappropriated surplus.

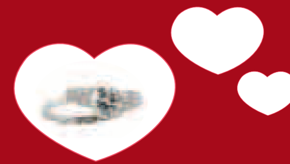
The development of the Company has been very positive, thanks in particular to the efforts of the Executive Board and of the employees. The Supervisory Board wishes to thank the Executive Board and the employees for their hard and successful work for the Company in financial year 2006.

Hamburg, 19 April 2007

Manfred Zaß, Chairman

From left to right
Dr. Michael Gellen (Deputy Chairman), Thomas Armbrust, Manfred Zaß (Chairman), Alexander Otto, Dr. Jörn Kreke, Dr. Bernd Thiemann


Douglas
CARD
Douglas



Shopping *Why* WE LOVE IT SO MUCH

Some people do it every day, for others once a month is plenty. Some are exhausted after a single session, while others just can't get enough. Everyone can do it and everyone does. Shopping has achieved the status of a popular sport, alongside television and sex. A pure necessity has turned into a pleasurable pastime, relentlessly hyped by advertisers and the media. In every popular TV series – from "Dallas" to "Sex and the City" and "The O.C." – they shop until they drop. And if you open the pages of "Gala" or "Vanity Fair", you see the same actors and actresses weighed down with bulging shopping bags in real life. Eva Longoria, for example, famous as shopping-mad "desperate housewife" Gabrielle Solis, took just 90 minutes to spend €50,000 at the most recent Harrods sale in London.

Shopping is now taken for granted in our western consumer society to such an extent that it almost seems pointless to reflect on why. People buy things because they want them, end of story. But is it really as simple as that? What is it that drives hordes of people to go shopping in their valuable spare time, and even sends Hollywood stars, who presumably have every conceivable luxury, into a shopping frenzy? Is there more to shopping than just buying goods? What is it about shopping that makes us love it so much?

Is there more to shopping than just buying goods?

Well, let's not be under any illusions. Even with UMTS mobiles in our pockets, we are still driven by archaic instincts from the Stone Age. One example is our desire to belong to a group. As gregarious animals, human beings don't like to be alone and shopping provides a marvellous opportunity for a casual chat at the cold cuts counter or in the boutique round the corner. In the past, when there were old-fashioned grocery stores instead of supermarkets and your clothes were made up by the tailor, every shopping trip was a social event as well, with established rituals including tea and conversation.

And shopping is even more than this. Eager anticipation, finding what you want, trying things on and trying things out, haggling, exchanging, getting a bargain: shopping offers all the fun of the fair for adults. That's why eBay is so successful, because it caters to precisely these desires. "Three, two, one, mine!": the bidder can live out his play instinct to the full, enjoys thrills galore delivered straight to his home and experiences a genuine shopping drama before he finally reaches his desired destination. A lot of people get so carried away by the excitement of the chase that they're afraid of missing something and buy things they don't really need or pay more than they should have.

But even if online trading is becoming ever more popular – and in Germany at least €10.1 billion in sales was generated by the click of a mouse in 2006 – the look and feel of shopping is still important for most people. And people go shopping to get away from everyday life for a few hours. Shopping then becomes an escape into a dream world promising ecstatic experiences. After all, a new dress or a new handbag can conjure up a feeling of being in love just as much as a new man or a new woman. Indeed, in the view of the American psychiatrist and behavioural scientist Gregory Berns, we do not choose the things we buy simply for the use to which we put them: the thrill of something new is far more important. According to Berns, neurological research has shown that the brain reacts to unexpected events with an increase in "happy messengers", a shot of dopamine that can be highly addictive. So women like Carrie Bradshaw or Imelda Marcos really can't help it if they always

Shopping then becomes an escape into a dream world

have to go shopping for shoes. A survey of 1,000 American women by the Unilever Group even found that the majority of them would give up sex for 15 months if they could have a wardrobe full of new clothes in return. After all, a new dress can turn a woman into a princess in the twinkling of an eye, and what man can match that?

What is more, anyone who would prefer to be a diva, a cowboy or an English gentleman can try these roles out on a shopping trip with no obligation. Shopping provides an opportunity to reinvent yourself constantly, to discover new sides to your personality and to present yourself in a new light. According to the philosopher and management consultant Wolfgang Ullrich, your shopping basket reflects your identity: what sort of person am I? The spectrum ranges from the connoisseur through the adventurer to the traditionalist. Because in most cases we are buying a brand as well as a product – a brand which is surrounded by its own brand aura, which in turn rubs off on the owner. Issues which were previously determined by political ideologies are now down to which new watch we choose or the "right" jeans; these decide who the members of a particular group are. And this group membership gives the purchaser a sense of security and recognition. I shop therefore I am, is the profession of faith of the modern consumer.

> I shop therefore I am, is the profession of faith of the modern consumer

Shopping also satisfies our all too human thirst for power. Is there anyone who doesn't enjoy the effects of their own actions when the checkout scanner bleeps as they make a purchase? And what an uplifting feeling it is to leave the shop as the owner of the coveted object and finally be able to do whatever you want with it. It doesn't matter whether you've bought a Porsche or just a bag of sweets. What counts is that, as the purchaser, you have the power to make the engine roar and can decide whether and when to bite the heads off the jelly babies. Finally, shopping also responds to our urge for freedom, because shopping means freedom of choice. A dream that was fulfilled for millions of East Germans when they were finally able to use their first blue West German banknotes to buy what they had previously seen on western television. But what happens if, instead of the regulation-issue bar of chocolate, there are suddenly hundreds of different types of chocolate all shouting "buy me" and if the government-designed standard men's suits go out of fashion from one day to the next and you now have to choose from thousands of styles, colours and materials and keep up with the latest trends as well? The paradise of freedom is rapidly eclipsed by the torture of having too much choice. Even worse: the limited household budget usually has to be divided up in such a way as to keep all members of the family happy. This places an enormous responsibility on the head of purchasing, who is usually a woman. Even so, she is precisely the one for whom shopping finally represents an opportunity to enjoy a feeling of independence for once. For many women who are financially dependent on their husbands, shopping is the one area where they finally have responsibility for making decisions, explains Wolfgang Ullrich. And for old people, struggling to make it to the supermarket on crutches, or for pampered celebrities, shopping simply represents an opportunity to remain independent and so retain their status as adults. That's why Eva Longoria can be seen paying at the till at Harrods and why Michael Schumacher buys strawberry jam in person at his local supermarket.

It should be noted that the behaviour patterns of men and women when shopping are quite different. While women take great pleasure in wandering aimlessly through the shops, shopping is frequently at the bottom of the list of their partners' preferred leisure time activities. A British psychologist has even found that Christmas shopping causes stress levels in men equivalent to those experienced by fighter aircraft pilots or policemen faced with the task of controlling an enraged mob. Shopping enables women, on the other hand, to have a wonderfully relaxing time. The reasons for this also go back to the Stone Age. Men are hunters. They want to track down and kill their prey as quickly as possible and then get it

back to a warm cave. Anything else would be a waste of time and would only scare off the rest of the herd. In contrast, women are gatherers. Since primeval times, they have been used to wandering about with no apparent aim, sniffing at anything that looks usable, feeling and tasting it, while at the same time chatting to their neighbours about God and the world and keeping an eye on their offspring. The main thing is to have a nice day, whether their baskets are full or empty in the evening. But a hunter who comes home without his prey is revealed to the whole horde as a failure.

Men are hunters. They want to track down and kill their prey as quickly as possible and then get it back to a warm cave.

The supposedly "weaker" sex also seems to be physically better equipped for shopping. It is true that the female brain is relatively smaller than the male, but the two halves are better coordinated with each other. Shopping requires the ability to keep a wide range of products in view and match them against needs and wants, explains the American journalist Thomas Hine. Researchers have therefore suggested that the superior integration of the female brain may enable it to process these different types of input more easily than the male brain, in which the halves operate more independently. Unstructured shopping excursions, with constant changes of direction and no particular aim, are therefore necessarily more than the male species can handle. In order to make shopping as pleasant as possible for "Him", department stores often position menswear right by the entrance. "He" can then find what he's looking for straight away, with no risk of getting lost, never to be seen again, somewhere between the cosmetics and the ladies' underwear departments.

Shopping center operators also use every trick in the book to ensure that men (and women too of course) enjoy their visit. When the architect Victor Gruen knocked together the first shopping mall half a century ago in the USA, his intention was to create a replacement for the traditional village marketplace in the anonymous suburbs. The idea was a success. More and more people today combine pleasure with utility; a trip to the shopping center is increasingly replacing the family day out in the country. After all, shopping centers present themselves as multi-option pleasure domes, where you can shop, wander round, eat, drink, play sports, relax or just have fun, so providing people with both bread and circuses. Indeed, American shopping centers frequently have integrated leisure parks, and you can spend your whole holiday in the "Mall of America", the largest in the world, in Minneapolis. The operators' hope is that customers in a holiday mood will lose all their inhibitions and go on a spending spree.

But while the layout of American malls is so full of nooks and crannies that you can get lost in them for days on end, European shopping centers appeal to their customers with open spaces and straight lines. Roof domes and columns give them an almost ecclesiastical character and so add to the feeling of having escaped from cold, dull everyday reality. Bright, safe, clean, always friendly: a perfect, if artificial, alternative world where you can enjoy leisure time activities, sensory pleasures and a few hours of relaxation and diversion. The intention is to make customers feel so good that they forget their everyday worries and, quite incidentally, spend as much money as possible.

So Shopping is much more than just buying things.

So shopping – whether in a shopping center or somewhere else – is much more than just buying things. It is as much a part of life today as dental floss or Nordic walking. Shopping gives us identity and a feeling of security, kills boredom, creates excitement in everyday life and makes us feel powerful and free. Shopping arouses emotions and serves our deepest desires, satisfies fundamental biological needs and speaks directly to our subconscious.The means to an end has become an end in itself. And that's the reason why we love shopping so much.

Nicolette Maurer

Suggested reading:

Wolfgang Ullrich: "Haben wollen – Wie funktioniert die Konsumkultur?"

Gregory Berns: "Satisfaction – The Science of Finding True Fulfillment"

Thomas Hine: "I Want That!: How We All Became Shoppers"

Allan & Barbara Pease: "Why Men Don't Have a Clue and Women Always Need More Shoes"


TOMMY HILFIGER

The typical visitor to a DES SHOPPING CENTER

Customer age groups:

Up to 19 years old 11%
20-29 years old 23%
30-39 years old 19%
40-49 years old 17%
50-59 years old 13%
60 and above 17%

Personal details

...is relatively young (up to 39 years old)
53%

...lives in a family or two-person household
61%

...is employed/studying/learning a profession
82%

...has a net household income of up to €2,500
56%

...is female
58%

Behaviour

...visits the center at least once every two weeks
55%

...rates the center as good or very good
82%

...is visiting the center on a shopping spree
95%

...travels to the center by car or motorbike
44%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Outdoorsportler starten ihre Tour bei SportScheck. Ob (Hütten-) Wanderung oder Sportkletter-Route – Sie finden bei uns Outfit und Ausrüstung für Ihren Sport – sportlich kompetente Beratung und Testmöglichkeit am hauseigenen Indoor-Felsen inklusive.
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SportScheck

"WHAT I BOUGHT IN 2006"

Maria Hans, Personal Shopper and Style Coach:

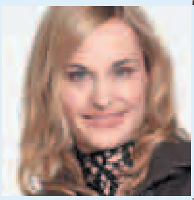
"I was in a suitcase-buying frenzy – a Samsonite and a TITAN, because ... you never know where you're going to have to travel to. I also bought a chest of drawers that gives me pleasure every day, because I can make so many things invisible by stowing away my other beautiful possessions in it."

Raimund Ellrott, Member of the Management Board, GfK GeoMarketing GmbH:

"A ticket for the Rolling Stones concert in Hanover in July 2006. A multi-generation concert with an unusually high average age – there were entire extended families there: grandparents, parents and their children all together in the stadium."

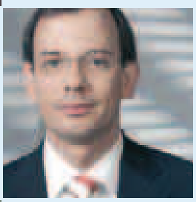
Olaf G. Borkers, Member of the Executive Board, Deutsche EuroShop:

"A ticket for my family and myself for a beach cinema in Warnemünde to see the classic film 'Poseidon': complete with beach chairs, the Baltic Sea and a wonderful sunset."



Nicolette Maurer, Freelance Journalist:

"Since having my twins Luisa and Emilia, I always seem to end up by magic in children's clothes or toy departments. Nevertheless, I also got round to buying a new mobile phone in 2006: the Nokia 6111. It's ultra-small, with far more features than I need – and pink, like my twins…"



Klaus Striebich, Member of the Management of ECE Projektmanagement G.m.b.H. & Co. KG:

"Last year, I bought a Bosch children's workbench for my young son – after all, it's never too early to start building shopping centres. And he can already say 'sprinkler system' …"

Patrick Kiss, Head of Investor & Public Relations, Deutsche EuroShop:

"When our daughter Maja Sophia was born in February 2006, I bought my wife classic diamond ear studs."

Kay Bommer, Managing Director of DIRK – the German Investor Relations Association:

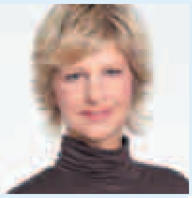
"I was lucky enough to be able to buy a ticket for the Ecuador versus Costa Rica World Cup match here in Hamburg and was able to enjoy this unique experience right up close."

Claus-Matthias Böge, CEO, Deutsche EuroShop:

"We bought a new barbecue for our patio. It was a real hit in the record-breaking summer of 2006. Hopefully, we'll have the same luck in 2007!"

Josef Grübl, Author and Editor:

"Stars up close: Martin Schoeller's unembellished photo portraits never fail to fascinate me – that's why the magnificent volume of photos entitled "Close Up" (published by teNeues) was my purchase of the year. After all, when were you ever this close to Angelina Jolie, Bill Clinton, or Eminem?"



Birgit Schäfer, Executive Secretary, Deutsche EuroShop:

"I treated myself to the wonderful GEO book "The Earth From Above" with breathtaking photos of our planet."

Alexander Otto, CEO of ECE Projektmanagement:

"Last spring, the heavy snowfall made Hamburg's Alsterwanderweg hiking trail perfect for cross-country skiing. So I went out and bought new skis right away and tried them out there."

Nicolas Lissner, Manager Investor & Public Relations, Deutsche EuroShop:

"I finally bought myself an iPod nano, so that I can have my favourite music in my coat pocket even when I am travelling. Needless to say, my favourite album – "Wave" by Tom Jobim – was the first thing I loaded onto it."

Christian A. Völxen, Rating & Valuation, Feri Rating & Research:

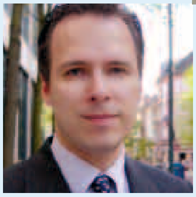
"Last year, I bought myself an oil painting set. I am interested in painting and now I try and put colour on the canvas on Sunday afternoons."

Christian Schiffmacher, Editor in Chief, Institutional Investment Real Estate Magazin:

"Last year, I bought a box of Cohiba Esplendido cigars, because the fund managers always give me their IPO research first if I give them a Cohiba."

Kirsten Kaiser, Head of Accounting, Deutsche EuroShop:

"Last year, I finally bought myself a new washing machine. Not only it is much faster than the old one, it also uses far less power and water. And it looks good, too!"



Bodo Hoffmann, Chief Executive, IT Future AG:

"My key purchase of 2006 was a home cinema: with a beamer, screen and Dolby Surround so that I could enjoy the World Cup in all its glory."

Frank Riebel, Member of the Executive Board, IR-One AG & Co. KG:

"A Russell Hobbs toaster, so that there is at least one thing that shines in my kitchen, even if it isn't my talent for cooking."

Gerd Rückel, Freelance Financial Journalist:

"The best thing I bought in 2006 was a Playmobil ambulance. Not for me, of course, but for my three-and-a-half-year-old daughter! I'll never forget how her eyes shone when she first caught sight of it."

Werner Bartsch, Photographer:

"After our second child, Nina, was born in mid-February I bought: various Babygros (size 50), cherry stone bags, masses of Fixies disposable nappies (new born size), a handful of dummies (which admittedly turned out to be a bad investment), and flights to Vancouver for our first trip as a family of four."

HOLLYWOOD GOES shopping

Welcome to the flashy nineties! In the comedy film "Clueless", party girl Alicia Silverstone is busy with the two best things in the world: going shopping and dating. Is this how she will meet Mr. Right? Of course, we won't tell...

It happens at the till, on the escalator or between bookshelves: People are constantly flirting when they go shopping. Stars like Hugh Grant, Meg Ryan and Julia Roberts show us how to do it in style. A Hollywood guide.

The man isn't exactly making life easy for the sales assistants in the nightwear department: He only wants the pyjama jacket, not the trousers. That's how he attracts the attention of a good-looking lady who isn't just interested in the pyjama trousers but also in the purchaser of the top half... Gary Cooper and Claudette Colbert demonstrated in the Hollywood classic Bluebeard's Eighth Wife what experts in the art of flirting have always known: shopping is an excellent way to meet someone. At the freezer cabinet, in the queue for the till or in front of the changing room – there's always an opportunity for a quick flirt. And anyone who wants to deliver a performance good enough for the cinema would do well to take a tip from Hollywood. From Steve Martin and Claire Danes, for example, who get to know each other in the box office hit Shopgirl: He's the customer and she's the sales assistant in the glove department at Saks Fifth Avenue. When he delivers a parcel of gloves to her door, the smart businessman has already won her heart... You've Got Mail is also about a shopgirl: Meg Ryan plays a book dealer who uses the term as her handle on an Internet dating site where she meets her dream man. Played by superstar Tom Hanks, he just happens to be her biggest competitor. Although he drives her into bankruptcy, the spark still manages to jump the gap between bookshelf and till. Bookshops seem to be a particularly good bet in matters of the heart and bring together another dream pair in Notting Hill: Julia Roberts and Hugh Grant. Even if the two of them have to catch a shoplifter before they can fall into each other's arms... If it's been a while since a couple first (successfully) struck up their acquaintance, other talents are called for – and here, too, Hollywood has the answer, of course. Bette Midler and Woody Allen, for example, show how to bring a tired marriage back to life in Scenes From A Mall: On their 16th or 17th anniversary (they're not too sure themselves any more) the pair treat themselves to a trip to the shopping mall. Once there, between surfboard shop and sushi bar, they first of all get into an argument about extramarital affairs, only to make it up again in the darkness of a cinema... Farrah Fawcett is also in the middle of a relationship crisis in Dr T and the Women – at least it's not just her husband's attention she attracts by taking a public bath in a shopping center fountain. Things are really off the wall in the award-winning comedy Punch-Drunk Love: Adam Sandler plays an ordinary guy who wants to fly to Hawaii in pursuit of his beloved – a businesswoman with a full schedule. He gets a lot closer to his objective with the help of pudding from the local shopping center: every cup comes with frequent-flier miles from an airline... The film shows that in shopping romances one thing is needed more than anything else: persistence. Not every flirtation ends in marriage and many a charming encounter needs to be encouraged to blossom first. And what if it takes even longer? Then we can turn to the hit comedy The 40-Year-Old Virgin...: The offbeat hero, a sales assistant in an electronics megastore, finds his sweetheart despite years in which his love life was in the doldrums. Where? In the shop opposite of course.

Josef Grübl

top ten books '06

powered by Thalia

	non-fiction book	fiction – hardcover book	fiction - paperback
1	SCHLUSS MIT LUSTIG Hahne, Peter	MEASURING THE WORLD Kehlmann, Daniel	THE DA VINCI CODE Brown, Dan
2	MINIMUM Schirrmacher, Frank	THREE BAGS FULL: A SHEEP DETECTIVE STORY Swann, Leonie	NACHTZUG NACH LISSABON Mercier, Pascal
3	DER DEUTSCHLAND-CLAN Roth, Jürgen	LE VOYAGE D'HECTOR Lelord, Francois	THE SHADOW OF THE WIND Ruiz Zafón, Carlos
4	RUSSLAND IM ZANGENGRIFF Scholl-Latour, Peter	HÖHENRAUSCH Kürthy, Ildikó von	DER SCHWARM (NZ) Schätzing, Frank
5	SÜSSER VOGEL JUGEND ,,, Karasek, Hellmuth	WITH NO ONE AS WITNESS George, Elizabeth	PERFUME Süskind, Patrick
6	HURRA, WIR KAPITULIEREN! Broder, Henryk M,	IF YOU COULD SEE ME NOW Ahern, Cecelia	VOLLIDIOT Jaud, Tommy
7	SCHOTT'S ORIGINAL MISCELLANY Schott, Ben	DIGITAL FORTRESS Brown, Dan	THE LAST TEMPLAR Khoury, Raymond
8	MACHTWAHN Müller, Albrecht	DAS ECHO DER SCHULD Link, Charlotte	LAUTLOS Schätzing, Frank
9	WIR DEUTSCHEN Matussek, Matthias	THE DA VINCI CODE Brown, Dan	IANGELS AND DEMONS Brown, Dan
10	DIE TAGESSCHAU ERKLÄRT DIE WELT Tempel, Sylke	BLOOD FROM A STONE Leon, Donna	KISSCUT Slaughter, Karin

Hardcover · paperback

Reading recommendations

Meinolf Nitsche	MEIN LIEBSTES BUCH VOM EINKAUFEN (children's book)
Henrik C, Maris	NOBELMARKEN ZU SCHNÄPPCHENPREISEN
Brenda Kinsel	BRENDA'S WARDROBE COMPANION: A GUIDE TO GETTING DRESSED FROM THE INSIDE OUT
Fred Grimm	SHOPPING HILFT DIE WELT VERBESSERN
Plum Sykes	PARK AVENUE PRINZESSINNEN
Sophie Kinsella	THE SECRET DREAM WORLD OF A SHOPAHOLIC
Lauren Weisberger	DER TEUFEL TRÄGT PRADA
Wäis Kiani	NICHTS ANZUZIEHEN – Geschichten aus dem Kleiderschrank

NEW

New publications 2007

Maggie Davis
101 THINGS YOU BUY BEFORE YOU DIE

Uli Stein
LANGER SAMSTAG!

a wift of eternity

The most popular perfumes –
for Ladies and Gentlemen

top ten fragrances '06

powered by Douglas

female fragrances

1	ARMANI CODE	Giorgio Armani
2	POUR ELLE	Annayake
3	SUN DELIGHT	Jil Sander
4	BOSS FEMME	Hugo Boss
5	NATSUMI	Annayake
6	CHANEL NO. 5	Chanel
7	THE ONE	Dolce & Gabbana
8	LIGHT BLUE	Dolce & Gabbana
9	DK BE DELICIOUS	Aramis
10	EUPHORIA	Calvin Klein

male fragrances

1	LE MALE	Jean Paul Gaultier
2	UNDO MEN FRAGRANCE	Annayake
3	ARMANI CODE HOMME	Giorgio Armani
4	POUR LUI	Annayake
5	BOSS SELECTION	Hugo Boss
6	DIOR HOMME	Christian Dior
7	ALLURE HOMME SPORT	Chanel
8	HOMME	Joop
9	ACQUA DI GIO HOMME	Giorgio Armani
10	SILVER SHADOW	Davidoff

Are you *well* dressed?

What the shield
was in the Middle Ages,
the correct clothing is
to us today.
Is your fashion
armoury right for
every occasion?

By courtesy of PARK AVENUE

1 Please complete the advertising slogan: "Brand-name shoes at…

A … such a reasonable price – Deichmann"
B Never heard it.
C Shouldn't it be "made-to-measure shoes"?

2 Who do you think is the most stylish?

A Merkel's looking pretty good.
B Harald Schmidts,
C Michel Würthles

3 The tailor, who also made your father's clothes, delivers a suit for you that's at least two sizes too big. What's your reaction?

A My tailor only knows how to shorten trousers.
B I complain and get a new suit made.
C I say nothing and hang the suit up in wardrobe, for good.

4 Errors are allowed once every two generations. When do you wear shorts?

A As soon as the temperature's over 19 degrees. And then it's off to the allotment. Wonderful!
B For sport
C Never. I don't wear shirts that are too short either.

5 Talking of shirts, shirts itch if they cost less than...

A …€3.99.
B …€100
C …£280

6 Please complete the following sentence: If you're wearing a white suit…

A …you must be painting the kitchen.
B …no one can touch you.
C …you're probably an admiral.

7 On the way to an important meeting, one of your heels gets stuck in a grating and breaks off. How do you solve the problem?

A My Buffalos don't get stuck in gratings.
B The heels on my Manolos don't break off that easily.
C Always wear flat shoes to important meetings!

8 What do you think of the military look which has been fashionable for such an incredible length of time?

A I think it's cool, with those combat trousers and everything.
B I'm against any type of uniform.
C One couldn't possibly wear it in town of course. But military clothing is just the thing for big game hunting.

9 When did you last wear a white scarf?

A On my hundredth birthday
B Just the other day, to the opera
C At the launch event for my autobiography.

10 How many buttons do you have undone on your jacket sleeve?

A You can't undo them.
B Only one. The lowest button on the right sleeve.
C None, unless I'm washing my hands after going hunting.

11 What did you wear with your Germany shirt during the World Cup?

A Shorts, thick socks, football boots
B I wore it with my suit.
C Under my Davies&Son shirt. You don't have to put everything valuable on display.

12 My watch…

A …is worn over my cuff.
B …had an eleven-year waiting list. And it looks better on me than it did on Paul Newman.
C …was inherited from my father.

13 Which item of clothing would you never save money on?

A My trainers. They're always of the highest quality.
B My winter coat
C My cufflinks. Only platinum will do.

14 Which item of clothing do you sometimes save money on?

A You can get shoes for almost nothing these days, with rubber soles, really hardwearing.
B My summer coat. After all, I'm not Humphrey Bogart.
Ich bin ja nicht Humphrey Bogart,
C I don't spend anything on trainers.

15 What's your general rule for belts?

A The bigger the buckle, the cooler the belt.
B The belt has to match your shoes.
C If I lived by rules, I wouldn't be ticking "C" the whole time, would I?

16 What sort of sunglasses do you wear?

A Blue ones, I got them on Gran Canaria. I really like them.
B Oakley.
C Ray-Ban Aviator.

17 Which luxury do you allow yourself from time to time?

A A cold beer in the evening. Or are you still talking about fashion?
B Twice a year I fly over to London to Richard James.
C I go to France once a year for a Berluti meeting, where we polish our shoes with Dom Pérignon.

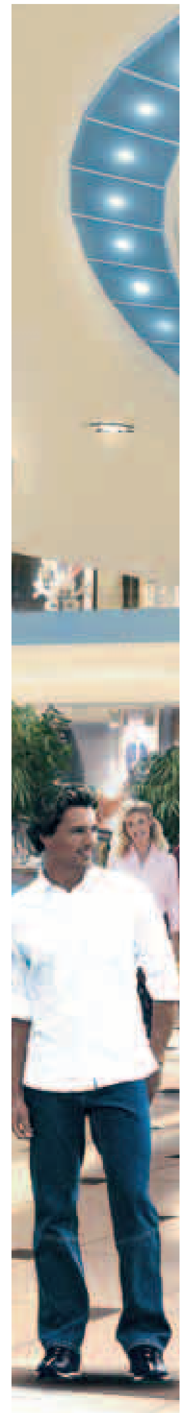
18 My kind of woman wears…

A …a navel piercing.
B …something she designed herself.
C …pearl earrings.

19 My idea of an elegant woman is…

A …Gina Wild.
B …Ursula von der Leyen.
C …Jackie O.

Solution on page 177



Stadtgalerie Passau

THE CENTERS

2006 was a particularly eventful year for our portfolio. The City Arkaden center in Klagenfurt was opened. We disposed of two properties – the Shopping Etrembières center in Annemasse and the Centro Commerciale Tuscia in Viterbo. In return, we welcomed two attractive new developments to our portfolio, Galeria Baltycka in Gdansk and Stadtgalerie Passau. Our portfolio now consists of 16 shopping centers in four countries with over 1,650 retail units and leasable space of around 643,800 m^2.

Galeria Baltycka

Altmarkt-Galerie Dresden

Main-Taunus-Zentrum

City Arkaden Klagenfurt

	GERMANY	ABROAD	TOTAL
Leasable space in m^2	491,400	151,900	643,300
No. of centers	12	4	16
No. of shops	1,105	550	1,655
Occupancy rate*	99%	100%	99%
Inhabitants in catchment area	9.4 m	3.1 m	12.5 m

* including office space, not including properties under construction

GERMANY, AUSTRIA, POLAND AND HUNGARY

With 12 shopping centers in Germany, two in Poland and one in each of Austria and Hungary, Germany remains the strategic focus of our investments. In addition to unique architecture and a very high standard of construction quality, our centers have one thing above all in common: their prime locations.

Our strategy is to concentrate on the "original marketplaces", the city centre areas. In addition, the Main-Taunus-Zentrum in Sulzbach near Frankfurt and the Rhein-Neckar-Zentrum in Viernheim near Mannheim represent two established locations in our portfolio offering outstanding transport connections and excellent accessibility by car. The Rhein-Neckar-Zentrum is located between the motorway junctions at Weinheim (A5) and Viernheim (A6), while the Main-Taunus-Zentrum is directly on the A66 between Frankfurt and Wiesbaden. A total of 12.5 million people live in the catchment areas of our centers, 9.4 million of them in Germany. From a statistical point of view, therefore, every ninth German lives within reach of one of our shopping centers.

A SHOPPING CENTER ON LAKE WÖRTH

On 29 March 2006, the City Arkaden shopping center, Deutsche EuroShop's first shopping center in Austria, opened in Klagenfurt city centre. A massive 70,000 people, far more than expected, visited the center on the first day alone. The previous evening, a ceremony was held with 1,000 guests from the worlds of politics, business and the arts, who were impressed by the lavish architectural design and the successful mix of shops. Attendees included the Vice Chancellor of Austria Hubert Gorbach, the Governor of the Province of Carinthia Jörg Haider, the CEO of ECE Projektmanagement Alexander Otto and the members of the Executive Board of Deutsche EuroShop. The City Arkaden center has roughly 120 specialist shops, as well as service providers and catering outlets, with retail space of around 27,000 m^2, and acts a shopping and leisure time magnet for a catchment area of around 400,000 people. Two floors of parking with around 880 spaces are available for those arriving by car.

SALE OF ANNEMASSE AND VITERBO, NEW INVESTMENTS IN POLAND AND BAVARIA

In mid-April 2006, we sold the Shopping Etrembières center in Annemasse to a group of French investors. This was followed at the end of December 2006 by the sale of the Centro Commerciale Tuscia shopping center in Viterbo to an investment fund with international activities. This transaction completed the restructuring of the portfolio, announced some time in advance. Both disposals generated a substantial profit.

We have increased our investment in Poland with the Galeria Baltycka in Gdansk. Deutsche EuroShop now has a 74% interest in this shopping center in the heart of the Gdansk-Gdynia-Sopot conurbation (known as the Tricity). Deutsche EuroShop's share of the investment volume was around €123 million. Approximately 1.2 million people live in the center's catchment area; their retail purchasing power is around 20% above the Polish average. The Galeria Baltycka has been under construction since May 2006 and the opening is planned for autumn 2007. The center will have around 200 specialist shops on three levels and some 47,200 m^2 of retail space with around 1,000 parking spaces, inviting both locals and tourists in the former Hanseatic League city to come and stroll around, and of course to go shopping. By February 2007, 100% of the retail space had already been leased on a long-term basis to well-known retailers.

Deutsche EuroShop has taken a 75% interest in the Stadtgalerie in Passau in Bavaria. Deutsche EuroShop's share of the investment volume was around €95 million. The shopping center will offer around 95 specialist shops on three sales levels with retail space of around 27,500 m^2. One and a half years in advance of the planned opening in autumn 2008, 70% of the shop space has already been leased to well-known chains and retailers from the region. The Stadtgalerie with its artistically designed facade is being built in the "New Centre" of Passau, directly by the central bus station and close to the main railway station . Some 400,000 people live in the center's catchment area.

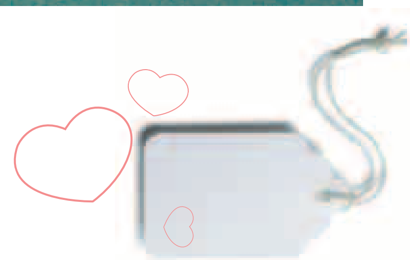

swatch
SPRING-SUMMER
COLLECTION
2007
Diese und weitere Modelle aus der aktuellen Swatch Kollektion erhalten Sie in allen Swatch Stores.

Passau

OUR TOP 10 TENANTS

Our top tenant, with a 5.0% share, is the Metro group, represented in our centers with Galeria Kaufhof, Media Markt, Saturn, Real and Extra. Next is the Douglas group, with the perfumeries of the same name, Thalia (bookstores), Christ (jewellers), Appelrath-Cüpper (fashion stores) and Hussel (confectioners).

The fact that both groups nevertheless each account for only a small proportion of our rental income demonstrates the high degree of diversification of our tenant structure. The top 10 tenants together represent 25.5% of Deutsche EuroShop's rental income, showing that we are not dependent on any one tenant.

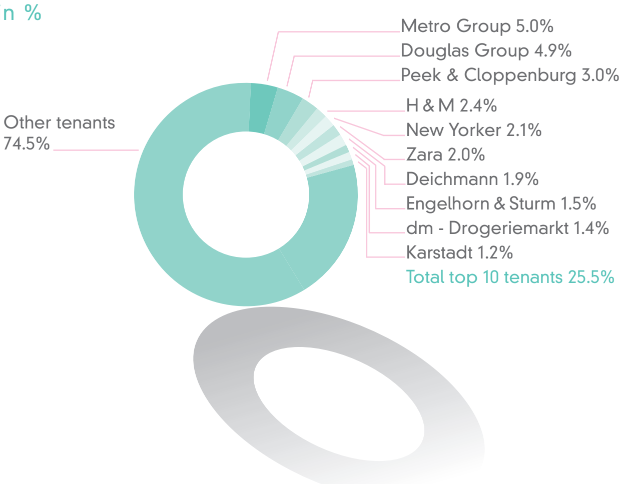


LONG-TERM LEASES

Our leases have residual terms averaging more than eight years. Seventy-nine per cent of rental income is guaranteed until 2012 at least.

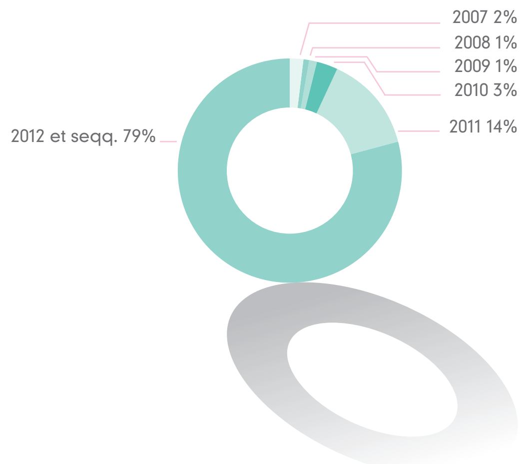
TENANT MIX BY SHARE OF RENTAL INCOME

→ in %



LONG-TERM LEASES

→ Lease terms in %



Dreamcars

Kids' costume party

EXTERNAL CENTER MANAGEMENT

The management of our shopping centers and the development of properties still under construction is the responsibility of our partner ECE Projektmanagement. ECE has established itself as a specialist in this business and is the undisputed market leader in Europe. It has been developing, planning, implementing, leasing and managing shopping centers since 1965. We benefit from this know-how and experience, which enables us to achieve the maximum success for our centers and to focus our very lean structures at Deutsche EuroShop on our core responsibility and competency, portfolio management. www.ece.de

Claus-Matthias Böge,
CEO,
Deutsche EuroShop AG:

"ECE has been developing, planning, implementing, leasing and managing shopping centers for us since the very beginnings of Deutsche EuroShop in the year 2000. To start with, we had six centers in Germany; now we have 16 in four countries. Our shareholders often ask us why we don't manage the centers ourselves. Our answer is: from the point of view of quality and professionalism, we would not be able to do it better."

SECTOR AND TENANT MIX

One of the main tasks of center management is to put together the right mix of sectors and tenants for each center, one which specifically adds to what is already available in the city centre. The particular needs and preferences of the customers are taken into account: For example, our shopping centers also include retailers who can hardly be found in pedestrianised shopping areas any more because of the constantly rising rents in prime city-centre locations. They include specialist shops for glassware, porcelain and ceramics, pet shops and toy shops.

An additional success factor is the differentiated rental system: a greengrocer naturally cannot pay the same rent as a jewellery business. The advantage for our tenants is that the rent they pay is linked to their sector. The advantage for us is that we can optimise the overall rent generated by our shopping centers.

Shopping centers can adjust to new trends. The advantage shopping centers have over other city-centre retail properties is their flexibility: they offer a variety of floor space sizes, formats and layouts without the need for excessive expenditure on building work. As a result, they have a secure future as far as trend changes in demand are concerned.

Almost one half of our tenants come from the fashion sector. In addition to them, customers can find the complete range of retailing businesses in each of our centers including, among others, specialist electronics shops, supermarkets and chemists, as well as department stores.

A variety of service providers is also available, such as travel agents, banks, hairdressers and dry cleaners. Visitors to the shopping centers can therefore save time by using the services they need while on a shopping trip. Fast-food restaurants and ice cream cafés provide refreshment or simply an opportunity to take a quick break.

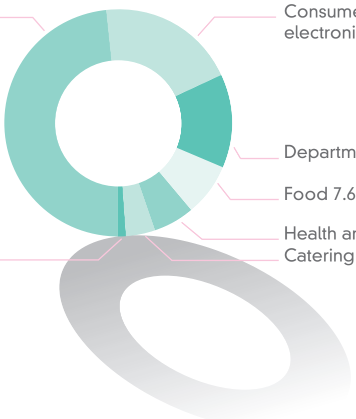
In addition to chain stores with shops throughout Germany and abroad, the visitor to our shopping centers will also always find regional and local retailers, making up around half the total. Together they give each center its unmistakable individual charm and character.

Kicker Champions 2006

Autographic session with ice hockey players

SECTOR MIX IN % OF SPACE

→ Total space 100%



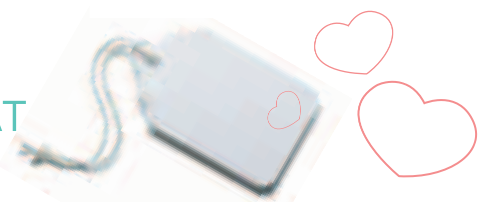
REGIONAL TENANT MIX IN % OF SPACE

→ Total space 100%

MAJOR NAMES

Our 16 centers have more than 1,650 shops. The success of our shopping centers is guaranteed by the following tenants, among others: Aldi, Bijou Brigitte, Breuninger, C&A, dm - Drogeriemarkt, Douglas, Esprit, Fielmann, Gerry Weber, Görtz, H&M, Karstadt, Media Markt, Marc O' Polo , New Yorker, Peek & Cloppenburg, REWE, Saturn, s.Oliver, Starbucks, Tommy Hilfiger and Zara.

PROMOTIONS AT CENTERS



The tenants of our shopping centers are all members of the centers' advertising associations. These plan and organise marketing promotions throughout the year in order to continually offer the customers new shopping experiences. They include fashion shows or special events at Easter and Christmas. Young and old alike also enjoy exhibitions to mark particular events, such as in 2006 for the football World Cup in Germany.

The responsibilities of the advertising association also include coordinating a consistent advertising approach, producing shopping center newspapers in the form of pull-outs in regional daily papers, and placing radio spots and citylight posters produced exclusively for the center.

Shop opening hours

The new, liberalised law on shop opening hours is gradually coming into force in the different federal German states. Hesse was first in December 2006, while Lower Saxony, for example, will follow in April 2007. Other states such as Saxony intend to issue new regulations shortly.

The center management decides together with the tenants which opening hours are likely to be most successful for the particular shopping center, taking into account the preferences of customers and visitors of course. The experience gained during the weeks of the football World Cup also contributes to this process.

It is becoming apparent that late Thursday opening is making a comeback in many centers, with shops open until 22:00. Some centers will be offering a long weekend, opening on both Friday and Saturday until 22:00. Moreover, Sunday opening, which was always a great success in the past, is planned for selected weekends.

The most important thing in this context is that all the tenants in our shopping centers have the same opening hours as each other in every case. This is a major competitive advantage compared with city-centre shopping areas where individual retailers decide on their own opening hours. Visitors and customers at our shopping centers can therefore rely on the knowledge that every shop in the center will be fully there for them up until the last minute.

PALMERS

DER NEUE PALMERS-SHOP

Eine Synthese aus Individualität und Intimität

... und weiterem Wachstum in Deutschland und International.

INCREASE IN VAT

*

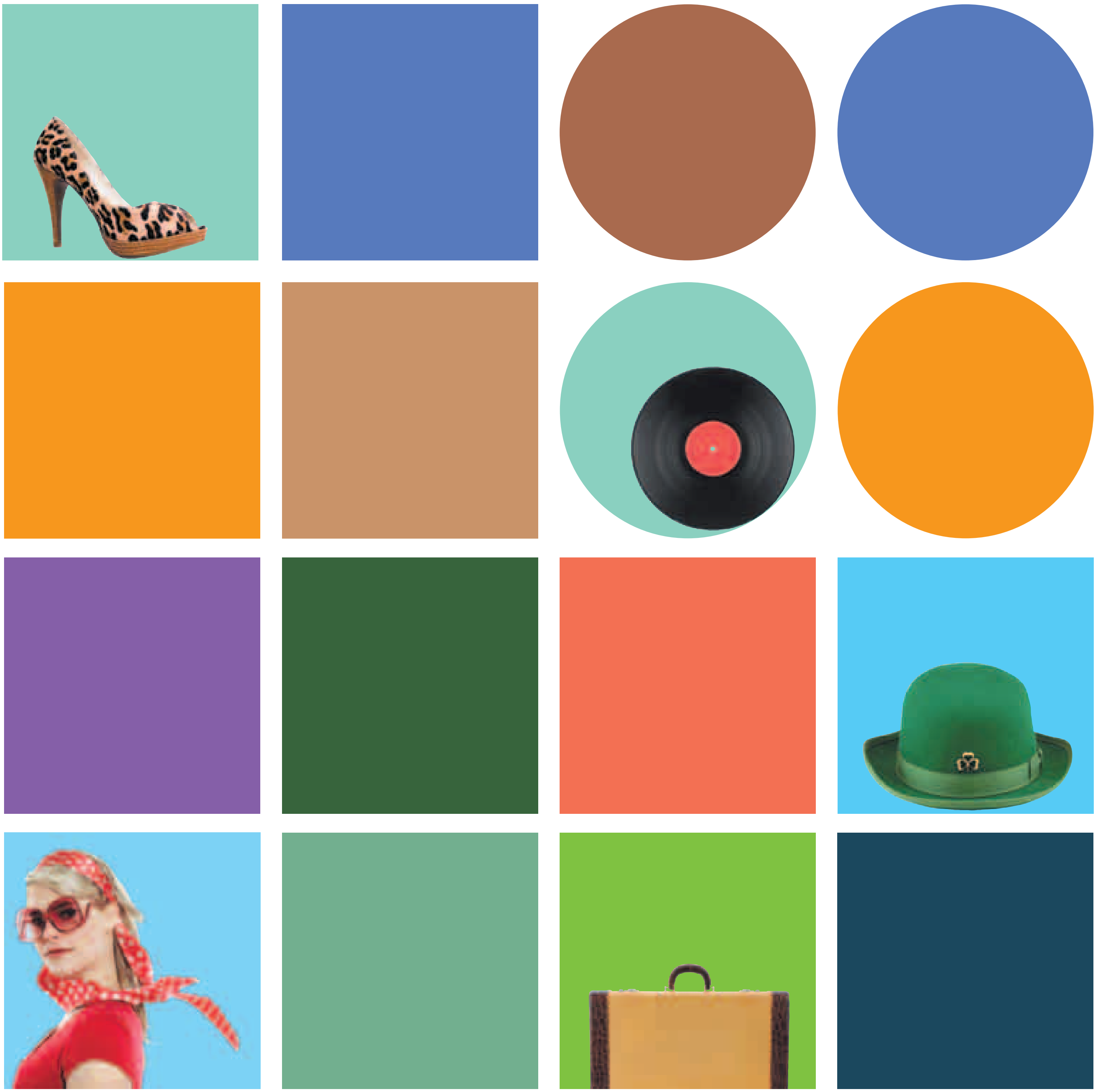
In January 2007, the standard rate of VAT was increased by 3 percentage points from 16% to 19%. The reduced rate of 7% (e.g. on food, flowers, and newspapers and magazines) did not change. According to the Federal Statistical Office, around 53% of private expenditure on consumption is affected by the increase. Analysts are therefore forecasting that an increase in the rate of inflation of 1.5% will result solely from higher prices due to the rise in VAT.

Estimates of the amount of purchases brought forward in anticipation of the increase in VAT were somewhat too high. The buying frenzy detected by surveys seems to have been more in the mind than reflected in actual purchases, since traditional retailers reported only a small nominal increase of 0.8% in 2006. The figures varied widely among different retailers, however: sales in the food sector fell by 1.3%, while consumer electronics enjoyed a rise of 9%.

In 2007, however, a shock reaction to the increase in prices has yet to materialise. Retailers have passed on only a very small amount of the increase in VAT to their customers. This may help to reduce consumers' uncertainty about the future direction of the cost of living. The odds are increasing that the general upturn in the economy will also spread to the retail sector.

*)

The centers at a glance



The Main-Taunus-Zentrum in Sulzbach

Land of mountains, castles and spas

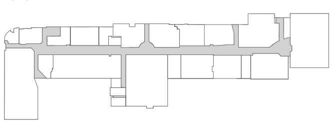
View of the Saalburg, the only reconstructed Roman fort in Europe.

www.main-taunus-zentrum.de

Opened

in 1964, the first shopping center in Germany offers products and services from a wide range of sectors on approximately 79,000 m² of retail space.

GROUND PLAN:



Investment: 43.1%
Purchased by DES: September 2000
Leasable space: around 103,400 m²
of which retail space: around 79,000 m²
No. of shops: around 100
Occupancy rate: 100%
Catchment area: around 2.2 m. inhabitants
Parking: around 4,000
Grand opening: 1964, renovation/modernisation 2001, 2003–2004
Anchor tenant: Breuninger, Galeria Kaufhof, Karstadt, Media Markt
FERI-rating: A (very good)

3 THE MAIN-TAUNUS district is often termed the "land of spas" – and with good reason: for a start, there is the "Taunus-Therme" thermal spa, which offers an impressive range of wellness activities and even has its own cinema. Also well worth a visit are the "Kur-Royal" day spa in Bad Homburg and the Kurbad Königstein spa, which offers a glorious view of the Taunus and the Königstein castle ruins. To name just a few.

2 THE LANDSCAPED OPEL-ZOO is home to dromedaries and Bactrian camels as well as arctic foxes, lynxes, raccoons and many other species. All in all, over 1,000 animals from all corners of the world can be found here. Visitors have the opportunity to accompany a vet on his/her rounds or to go on guided tours on "Communication in the Animal Kingdom", making a visit to the zoo an unforgettable experience.

1 THE SAALBURG fort was once one of sixty or so erected along the 550-km "Limes" wall protecting the ancient border between the Roman empire and the Germanic territories. The Saalburg fort in the Taunus region, in the direct vicinity of the Limes wall – which was declared by UNESCO to be a World Heritage Site – is the only reconstructed Roman fort in Europe. Today, it is an open-air museum and exhibition centre.

The Rhein-Neckar-Zentrum in Viernheim

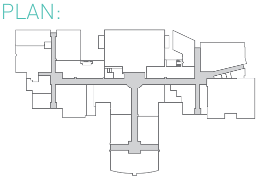
The town in the Rhine-Neckar triangle

Apostelkirche church in the town centre: Neo-Gothic construction, built between 1896 and 1899

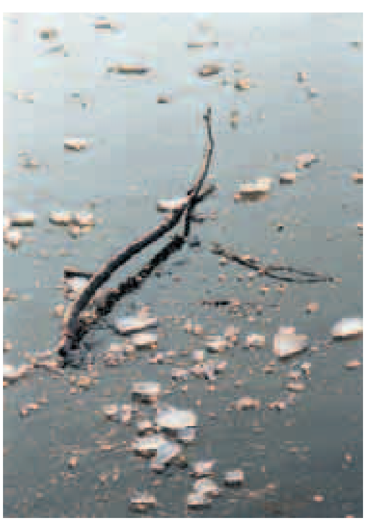
www.rhein-neckar-zentrum-viernheim.de

THE LARGEST CENTER in the Rhine-Neckar metropolitan region in Viernheim attracts some 30,000 visitors every day.

GROUND PLAN:



Investment: 99.9%
Purchased by DES: September 2000
Leasable space: around 63,600 m²
of which retail space: around 60,000 m²
No. of shops: around 100
Occupancy rate: 100%
Catchment area: around 1.4 m. inhabitants
Parking: around 3,800
Grand opening: 1972
renovation/modernisation 2000–2002
Anchor tenant: Engelhorn Active Town, Karstadt, Peek & Cloppenburg
FERI-rating: A (very good)

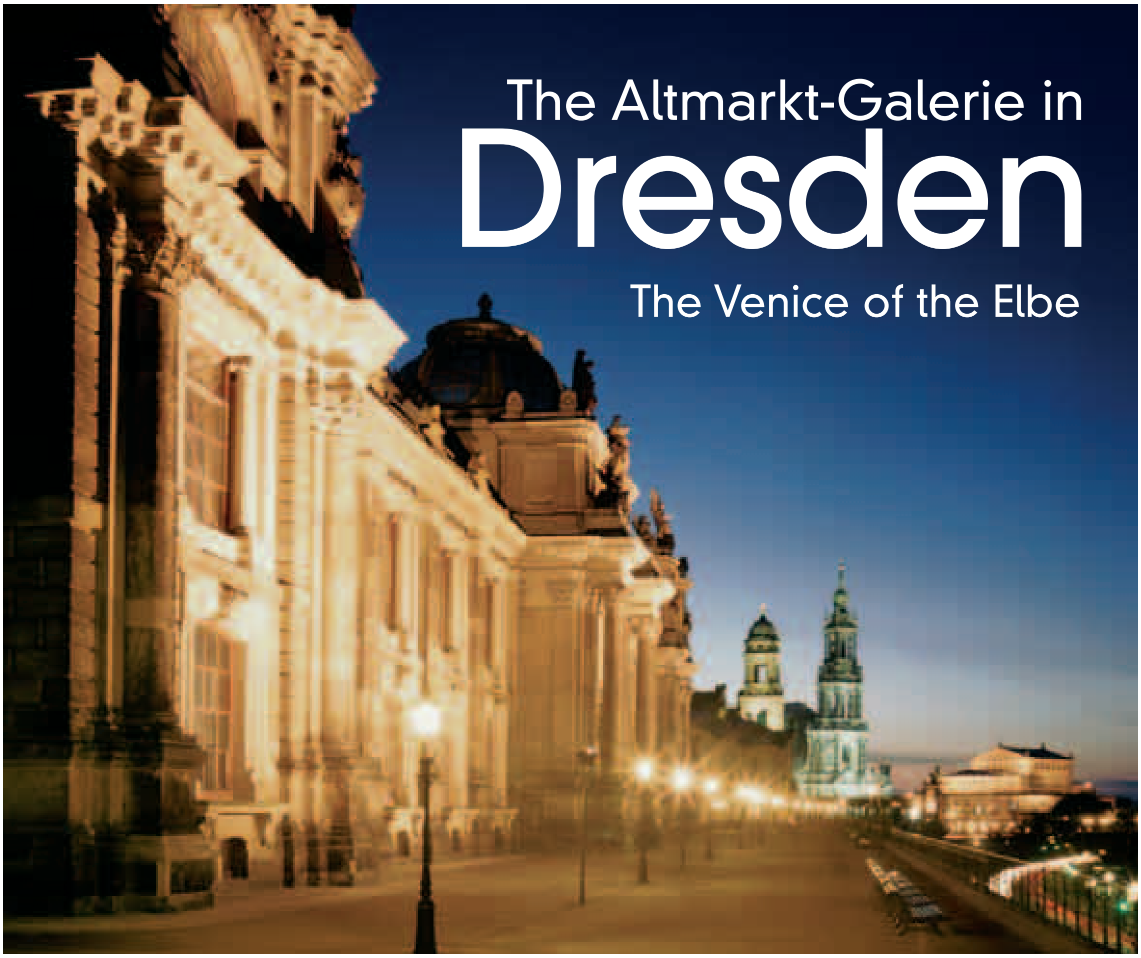


1 AS VIERNHEIM is not far from Mannheim, visitors to the Rhein-Neckar-Zentrum should also take the opportunity to see the nearby city and its many places of interest. One of the main highlights is the Wasserturm – a water tower with a striking art nouveau design and a distinguishing feature of the city.

2 THE REGION offers many opportunities for relaxation and a wide variety of leisure activities. Odenwald, Neckartal, Bergstrasse, Pfälzer Wald and Weinstrasse are all popular local recreation areas. And the holiday park in Hassloch is not only a treat for children, but also caters for grown-ups with an extensive programme of evening events and shows.

The Altmarkt-Galerie in Dresden

The Venice of the Elbe

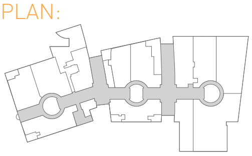


Brühl's Terrace is also dubbed the "balcony of Europe"

www.altmarkt-galerie.de

LOCATED IN THE HEART of the Altstadt – the old town – the Altmarkt-Galerie offers shoppers everything from small shops to well-known chains, as well as a relaxed, pleasant atmosphere.

GROUND PLAN:



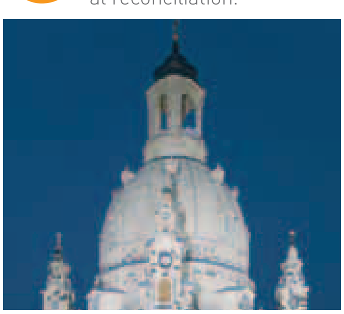
Investment: 50.0%
Purchased by DES: September 2000
Leasable space: around 44,500 m²
of which retail space: around 26,000 m²
No. of shops: around 110
Occupancy rate: 99%
Catchment area: around 1.0 m. inhabitants
Parking: around 500
Grand opening: 2002
Anchor tenant: Saturn, SinnLeffers, Zara
FERI-rating: AA (excellent)

2

THE DRESDEN PHILHARMONIC ORCHESTRA is one of the most important of the city's cultural institutions. Based in the Kulturpalast in the Altmarkt district of Dresden, the orchestra's concerts attract locals and tourists alike. The appeal of the Dresden Philharmonic Orchestra is by no means limited to its home city: during its most recent tour of Japan, the ensemble was greeted with standing ovations and sold-out venues.

3

THE MOST FAMOUS symbol of Dresden is the Frauenkirche – The Church of Our Lady. This magnificent Baroque creation is both an anti-war memorial and a symbol of international reconciliation.



1

ANOTHER VITAL PART of any trip to Dresden is a visit to the Semperoper opera house and the Zwinger Palace, one of the most significant examples of late Baroque architecture in Europe. As well as its sophisticated architecture and charm, the Semperoper is also famed for its wonderful performances.

The Phoenix-Center in Hamburg

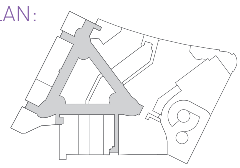
Gateway to the world

The view from the roof of the "white castle on the Alster" – the Hotel Atlantic Kempinski

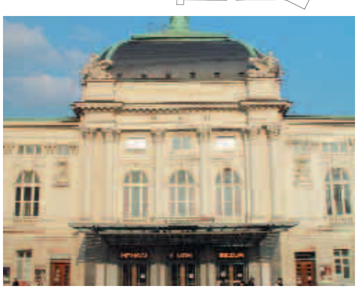
www.phoenix-center-harburg.de

BATHED IN LIGHT, the Phoenix-Center is a place where many Hamburg residents go, not only to shop, but also to give their taste buds a treat.

GROUND PLAN:



Investment: 50.0%
Purchased by DES: August 2003
Leasable space: around 39,200 m²
of which retail space: around 26,500 m²
No. of shops: around 110
Occupancy rate: 97%
Catchment area: around 0.6 m. inhabitants
Parking: around 1,600
Grand opening: 2004
Anchor tenant: C&A, Media Markt, New Yorker, SinnLeffers
FERI-rating: A (very good)

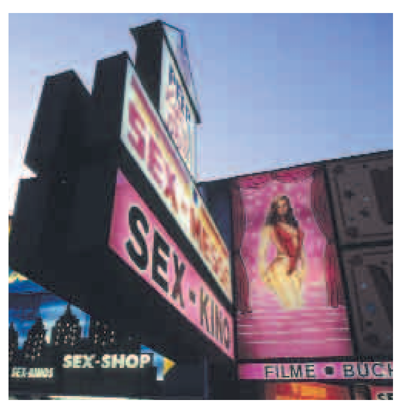


1

HAMBURG has much to offer from a tourism, business and cultural perspective: for instance, the Deutsches Schauspielhaus theatre, with a history stretching back over 100 years, has around 1,300 seats, making it the largest spoken theatre venue in Germany. Already voted Theatre of the Year several times, the theatre boasts both a long list of famous managers and a programme of classical and contemporary, modern works. In addition, Hamburg is a veritable musical metropolis, attracting visitors with musicals such as Disney's "The Lion King" and "Dirty Dancing". Scheduled to open in 2010, the Elbphilharmonie concert hall will further enhance Hamburg's cultural life and cityscape.

3

FOR THE PEOPLE OF HAMBURG, it is not of prime importance that their port is the second-largest in Europe and one of the nine largest container ports in the world. For them, it is rather the gateway to the world, the impressive backdrop to their city and a magnet for many cultural and gastronomic delights. The lively activity on the ships and wharves is a sight to behold, day and night.



2

ST. PAULI has far more to offer than the sex trade and erotic shows: on the "Kiez" there are pubs, clubs and bars catering for all tastes, as well as musicals and theatres.

The Allee-Center in Hamm

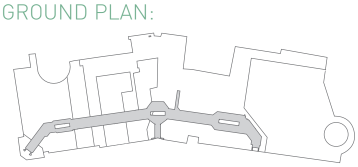
Where the artists are at home

Glass elephant in Maximilianpark: the city's best-known work of art

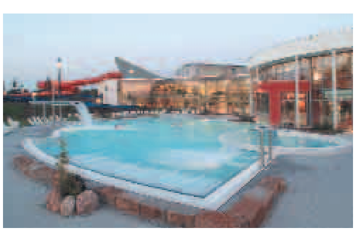
www.allee-center-hamm.de

WITH ITS GREEN surroundings in the heart of the city, the two-level Allee-Center offers a lively shopping experience for the people of Hamm.

GROUND PLAN:



Investment: 87.7%
Purchased by DES: April 2002
Leasable space: around 35,100 m^2
of which retail space: around 21,000 m^2
No. of shops: around 80
Occupancy rate: 100%
Catchment area: around 0.6 m. inhabitants
Parking: around 1,300
Grand opening: 1992,
renovation/modernisation 2002–2003
Anchor tenant: H&M,
Peek & Cloppenburg, Saturn
FERI-rating: A (very good)



2 THE CITY'S ARCHITECTURAL HIGHLIGHT and most prominent feature is the glass elephant in Maximilianpark, which was built on the disused coal washery. It is the world's largest building in the shape of an animal. Many other significant industrial structures can be seen in Maximilianpark, which is well worth a visit. For those who wish to relax, there is the Maximare – a thermal spa with extensive sports and wellness facilities and a large sauna garden (3,000 m^2). While the saltwater outdoor pool does you good, there are also slides for fun and games.

1 THE GUSTAV-LÜBCKE-MUSEUM is a successful marriage of architecture and art. While the building itself is striking in its own right, the museum's collections are even more impressive. Permanent exhibitions include Egyptian art, applied arts and twentieth-century painting.

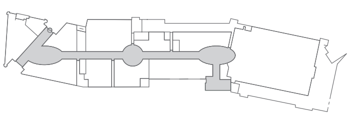
The Baroque Hospitalkirche church was built in 1764

Forum in Wetzlar

City of old churches and castles

THE HIGHLIGHT of the center is its market area in which fresh delicacies can be found.

GROUND PLAN:



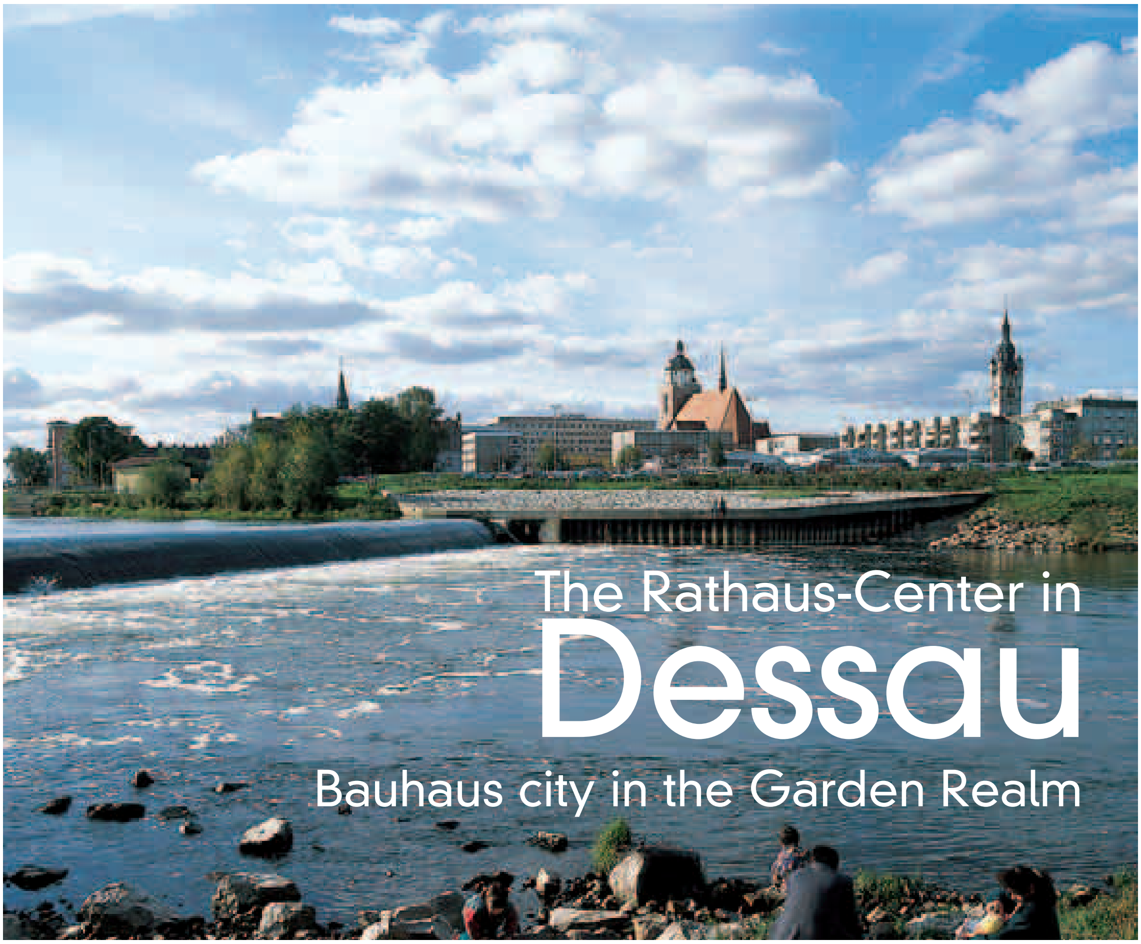
Investment: 65.0%
Purchased by DES: October 2003
Leasable space: around 34,300 m²
of which retail space: around 23,500 m²
No. of shops: around 110
Occupancy rate: 100%
Catchment area: around 0.5 m. inhabitants
Parking: around 1,700
Grand opening: 2005
Anchor tenant: Kaufland, Media Markt
FERI-rating: A (very good)

1

THE WETZLAR FESTIVAL has taken place every summer since 1953 and is the highlight of the town's cultural life. The festival is held primarily on the open-air stage in the Rosengärtchen – a park behind Wetzlar Cathedral – as well as in the Hofgut in Hermannstein and in the Lottehof, the birthplace of Charlotte Buff, Goethe's "Lotte". Traditionally, the festival consists of a colourful mix of diverse events, from jazz concerts and operas to plays and comedy shows.

2

THE UNFINISHED Wetzlar Cathedral was built as far back as 1230 – originally in the Romanesque style. Later construction work continued in the styles of the Gothic and Baroque eras. However, for various reasons, work came to a standstill on numerous occasions. It was not until 1490 that the south tower was completed. Work did begin on the planned north tower, but has yet to be completed to this day.



The Rathaus-Center in Dessau

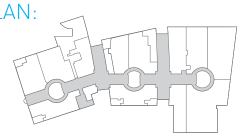
Bauhaus city in the Garden Realm

Thanks to the Mulde and Elbe rivers, Dessau is blessed with an extensive meadow landscape

www.rathaus-center-dessau.de

WITH SOME 80 specialist shops, the Rathaus-Center – which is located between the City Hall (Rathaus) and the city park in the third-largest city in Saxony-Anhalt – is a veritable shopper's paradise.

GROUND PLAN:



Investment: 94.9%
Purchased by DES: November 2005
Leasable space: around 30,600 m^2
of which retail space: around 20,000 m^2 (without Karstadt)
No. of shops: around 80
Occupancy rate: 98%
Catchment area: around 0.5 m. inhabitants
Parking: around 850
Grand opening: 1995
Anchor tenant: H&M, Peek & Cloppenburg
FERI-rating: B+ (well above average)

1

DESSAU is known internationally as the place where Hugo Junkers revolutionised air travel with his aeroplane constructions, and as the home of the Bauhaus movement. As one of the first design colleges and the adopted home of many renowned architects and artists (including Paul Klee, Wassily Kandinsky and Mies van der Rohe), the Dessau Bauhaus played a significant role in the history of architecture, art and culture in the 20th century. The Bauhaus building, which was designed by Walter Gropius, is now home to the Bauhaus Dessau Foundation. It was added to UNESCO's list of World Heritage Sites in 1996.

2

THE CITY on the Elbe and the Mulde has more than the Bauhaus movement to its name. Formerly the seat of the Princes of Anhalt, Dessau boasts many historic buildings. For instance, one of the defining symbols of Dessau is the City Hall (Rathaus), built in 1901; the Rathaus-Center, named after it, was constructed in the direct vicinity of this building. Also of particular appeal are the various castles and parks – notably the Georgium Palace which houses the Anhalt Art Gallery collection.

The City-Galerie in Wolfsburg

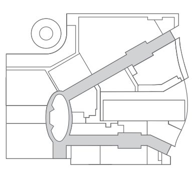
The Autostadt

The Volkswagen Autostadt – information and events relating to mobility

www.city-galerie-wolfsburg.de

THE CITY-GALERIE, located in the busy pedestrian zone on Porschestraße, is roughly six years old.

GROUND PLAN:



Investment: 89.0%
Purchased by DES: September 2000
Leasable space: around 30,000 m²
of which retail space: around 20,000 m²
No. of shops: around 90
Occupancy rate: 100%
Catchment area: around 0.3 m. inhabitants
Parking: around 800
Grand opening: 2001
Anchor tenant: Extra, Saturn, Sport-Scheck
FERI-rating: A (very good)

2 THERE IS MORE THAN CARS to be discovered in Wolfsburg. The city is more than "just" the home of Volkswagen cars. Particularly worth a visit are the striking Wolfsburg Castle and Fallersleben Castle. As well as lending its name to the city, Wolfsburg Castle is an impressive architectural creation in the style of the Weser Renaissance. Inside the 700-year-old building is the City Gallery, which showcases works of modern art. Similarly, Fallersleben Castle is home to the Hoffmann von Fallersleben-Museum.

1 WITH 3000 M² of pools and 2,400 m² of sauna landscape – BadeLand in the Allerpark is Germany's largest leisure baths. Here, visitors can swim to their hearts' content, explore the surroundings or relax in the sauna – all while enjoying the glorious view of the Allersee Lake and the Allerpark.

3 HANDS-ON KNOWLEDGE is the order of the day at phæno, the interactive science centre where science is made accessible to everyone. In a spectacular and futuristic building designed by architect Zaha Hadid, visitors can experience science right up close in any of 250 experimental stations and in a variety of laboratories.

City-Point in Kassel

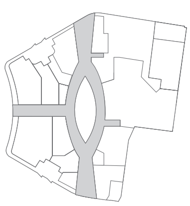
Home to the documenta exhibition

Since 1955, the Kunsthalle Fridericianum has been the focal point of the documenta exhibition of modern and contemporary art.

www.city-point-kassel.de

WITH A GLASS-COVERED INNER COURTYARD and an ornate facade, the City-Point has many architectural charms.

GROUND PLAN:



Investment: 40.0%
Purchased by DES: September 2000
Leasable space: around 29,500 m²
of which retail space: around 20,000 m²
No. of shops: around 60
Occupancy rate: 100%
Catchment area: around 0.8 m. inhabitants
Parking: around 220
Grand opening: 2002
Anchor tenant: Hertie, Hugendubel, Saturn
FERI-rating: A (very good)

1 DOCUMENTA is considered to be the world's leading exhibition of contemporary art. It was founded in 1955 by artist and art teacher Arnold Bode with a view to showing the German public works by international modern artists who were banned during the National Socialist dictatorship. Held every five years, this exhibition has presented works of contemporary art ever since.

2 HOWEVER, there is far more to Kassel than just documenta. The city offers an extensive range of cultural activities of an international standard. No trip to Kassel is complete without a visit to the Brothers Grimm Museum in the historic Palais Bellevue. This permanent exhibition explores the life and work of Jacob and Wilhelm Grimm. And the Wilhelmshöhe Park – the largest upland park in Europe, with its castle and Hercules figure – is another sight that cannot be missed.

An attraction since 1901: the suspension line

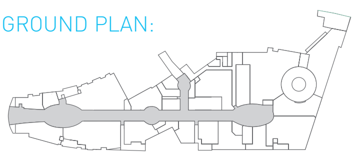
www.city-arkaden-wuppertal.de

The City-Arkaden in Wuppertal

Floating above it all

HAVE YOU ever crossed a street without realising it when out shopping? This is certainly possible at the City-Arkaden, which is built over a street.

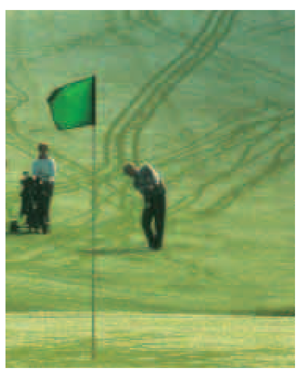
GROUND PLAN:



Investment: 72.0%
Purchased by DES: September 2000
Leasable space: around 28,700 m²
of which retail space: around 20,000 m²
No. of shops: around 85
Occupancy rate: 100%
Catchment area: around 0.7 m. inhabitants
Parking: around 650
Grand opening: 2001, renovation 2004
Anchor tenant: Akzenta, MediMax, Zara
FERI-rating: A (very good)

1

THE "STEEL CENTIPEDE" is what Wuppertal locals call their world-famous suspension railway. Every day, some 75,000 people use it to travel across the city, making it the principal form of public transport. However, the railway is not just an important means of transport, but also the city's number one tourist attraction.

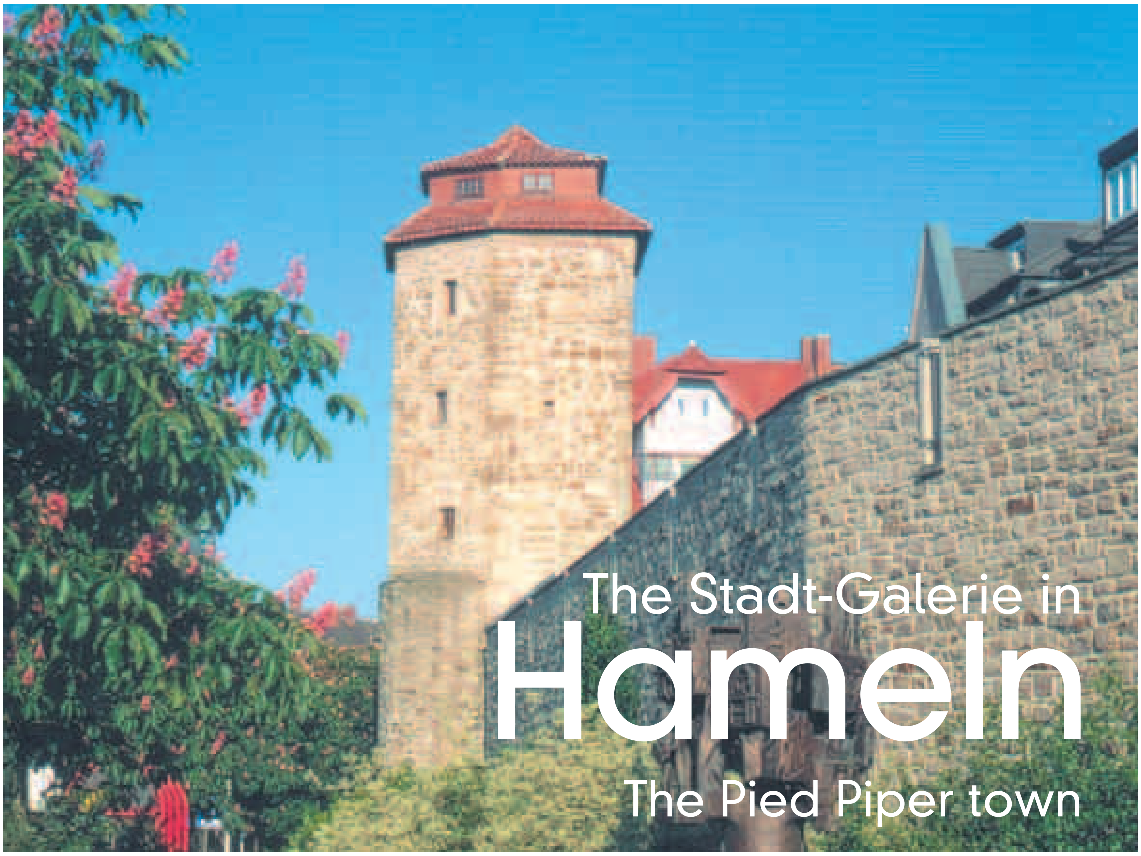


2

WITH OVER 300,000 VISITORS, the annual Vohwinkeler flea market is the largest one-day flea market in the world. At the colourful market below the suspension railway, shoppers can haggle with the 500 to 600 stand owners in search of a bargain. On sunny days, the market has been known to attract up to 500,000 visitors.

3

WHEN THE RIVER WUPPER leaves Wuppertal, it flows through the Bergisches Land, which is renowned for its unspoilt scenery and quiet woodlands. With its varied landscapes comprising hills and steep valleys, this area is perfect for relaxing trips in unspoilt country. As well as the extensive woodlands, there are brooks and streams typical of the area through which the Rhine, Ruhr and Wupper rivers all run.



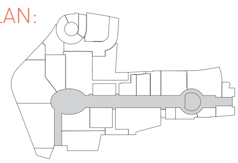
The Stadt-Galerie in Hameln

The Pied Piper town

Hameln was once protected by the town wall and 22 towers such as the Haspelmathturm

SPRING 2008 will see the opening of the Stadt-Galerie. Long-term leases for most of the retail space have already been concluded.

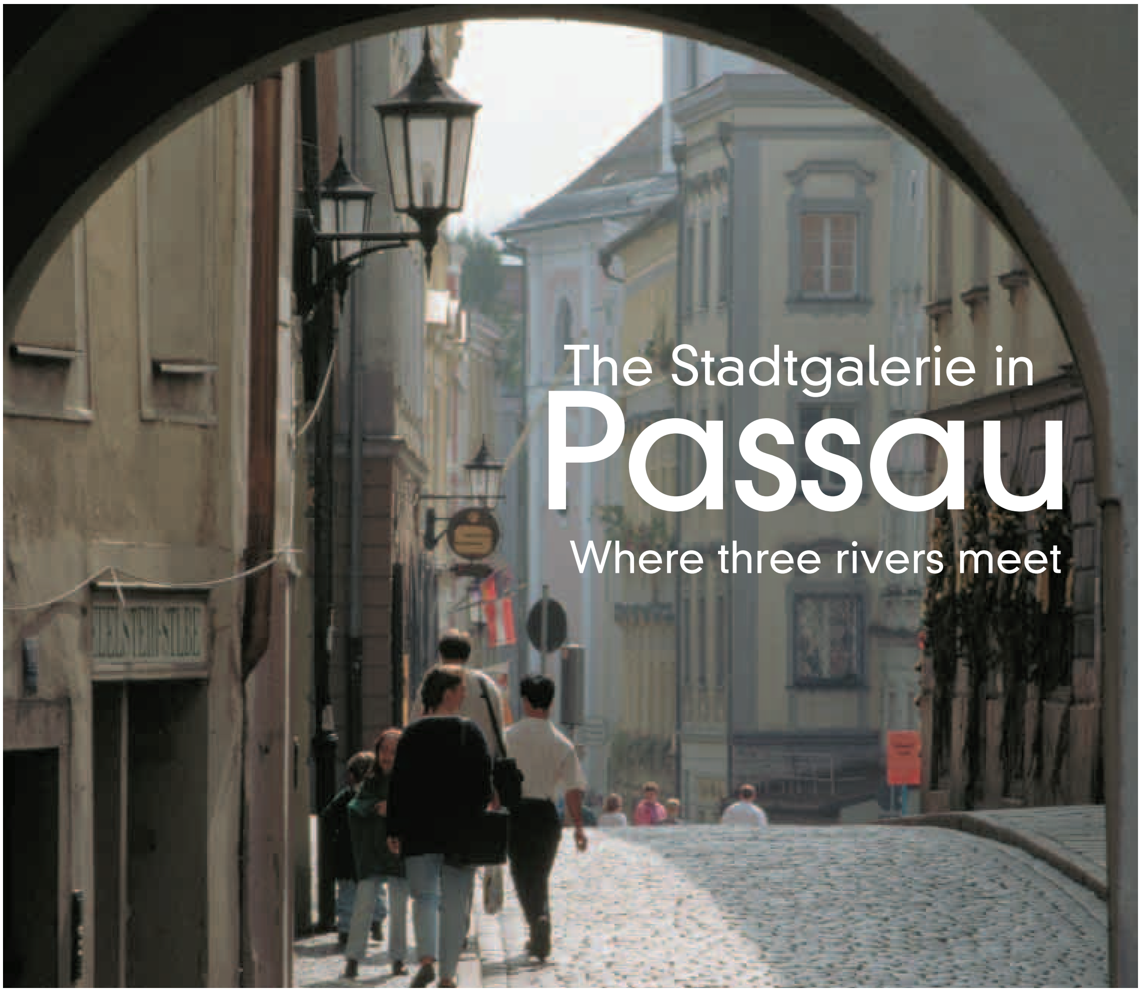
GROUND PLAN:



Investment: 94.9%
Purchased by DES: November 2005
Leasable space: around 25,000 m^2
of which retail space: around 19,000 m^2
No. of shops: around 90
Occupancy rate: > 75%
Catchment area: around 0.4 m. inhabitants
Parking: around 500
Grand opening: Spring 2008
FERI-rating: to be performed
for the first time in 2008

1 THE BROTHERS GRIMM made the Pied Piper's city world famous. Legend has it that the piper first led the rats out of the town and then, because the townspeople would not pay him for his services as promised, lured away their children. Less well known is the fact that Hameln has an extremely attractive old town with charming sandstone and half-timbered buildings dating back to the 16th, 17th and 18th centuries. The charming Renaissance buildings that are characteristic of Hameln are central to the town's appeal. Visitors who explore the town on foot are guided to the main sights by thousands of rats painted along the routes.

2 THE CRAFT demonstrated in the historical Pulverturm tower goes back many, many years. Here in the Hameln glassworks, glass-blowers perform their work, showing admiring onlookers how exquisite glass objects have been created in the Weserbergland region without the use of moulds since as far back as 1130.

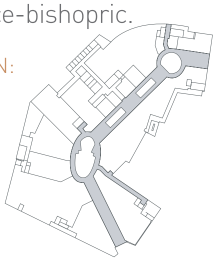


Quaint little lanes give the town its flair

THE STADTGALERIE

is a modern marketplace under construction in the heart of the former prince-bishopric.

GROUND PLAN:



Investment: 75.0%
Purchased by DES: December 2006
Leasable space: around 27,500 m²
of which retail space: around 21,000 m²
No. of shops: around 90
Occupancy rate: 70%
Catchment area: around 0.4 m. inhabitants
Parking: around 500
Grand opening: Autumn 2008
FERI-rating: to be performed for the first time in 2009

1 PASSAU is where the Danube, the Inn and the Ilz meet and flow eastwards together. However, this is not the only attraction of the pleasant Lower Bavarian university town: St. Stephen's Cathedral is the mother church of the Eastern Danube region. The magnificent Bishop's Residence is located at the highest point of the old town (Altstadt). In 1662, it was almost completely destroyed by a devastating fire and was rebuilt by architect Carlo Lurago. With 17,974 pipes and 233 registers, the cathedral organ is the largest in the world.

2 THE EUROPEAN WEEKS Festival was established in 1952 and has taken place every summer since then. It was the first festival in post-war Germany to pursue not only cultural but also political objectives, which is still the case today. Every year, 60 or so events are held from a variety of areas, (opera, theatre, exhibitions, etc.), attracting visitors from all over Europe. Above all, the European Weeks Festival is renowned for its premieres of contemporary works.



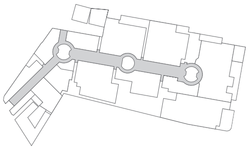

The City Arkaden in Klagenfurt

Renaissance gem on Lake Wörth

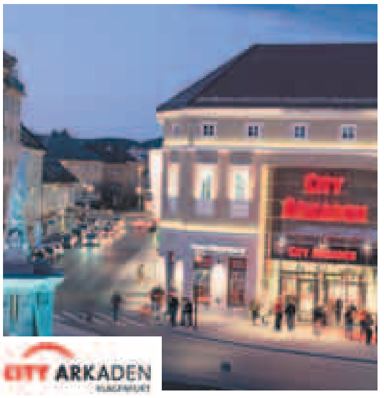
A prominent feature of the city: Hercules fighting the dragon

THE GLASS ROOF of the Arkaden allows ample daylight into a building that is in perfect harmony with the architecture of the old town.

GROUND PLAN:



Investment: 50.0%
Purchased by DES: August 2004
Leasable space: around 36,700 m²
of which retail space: around 27,000 m²
No. of shops: around 120
Occupancy rate: 100%
Catchment area: around 0.4 m. inhabitants
Parking: around 880
Grand opening: 2006
Anchor tenant: C&A, Peek & Cloppenburg, Saturn
FERI-rating: A (very good)



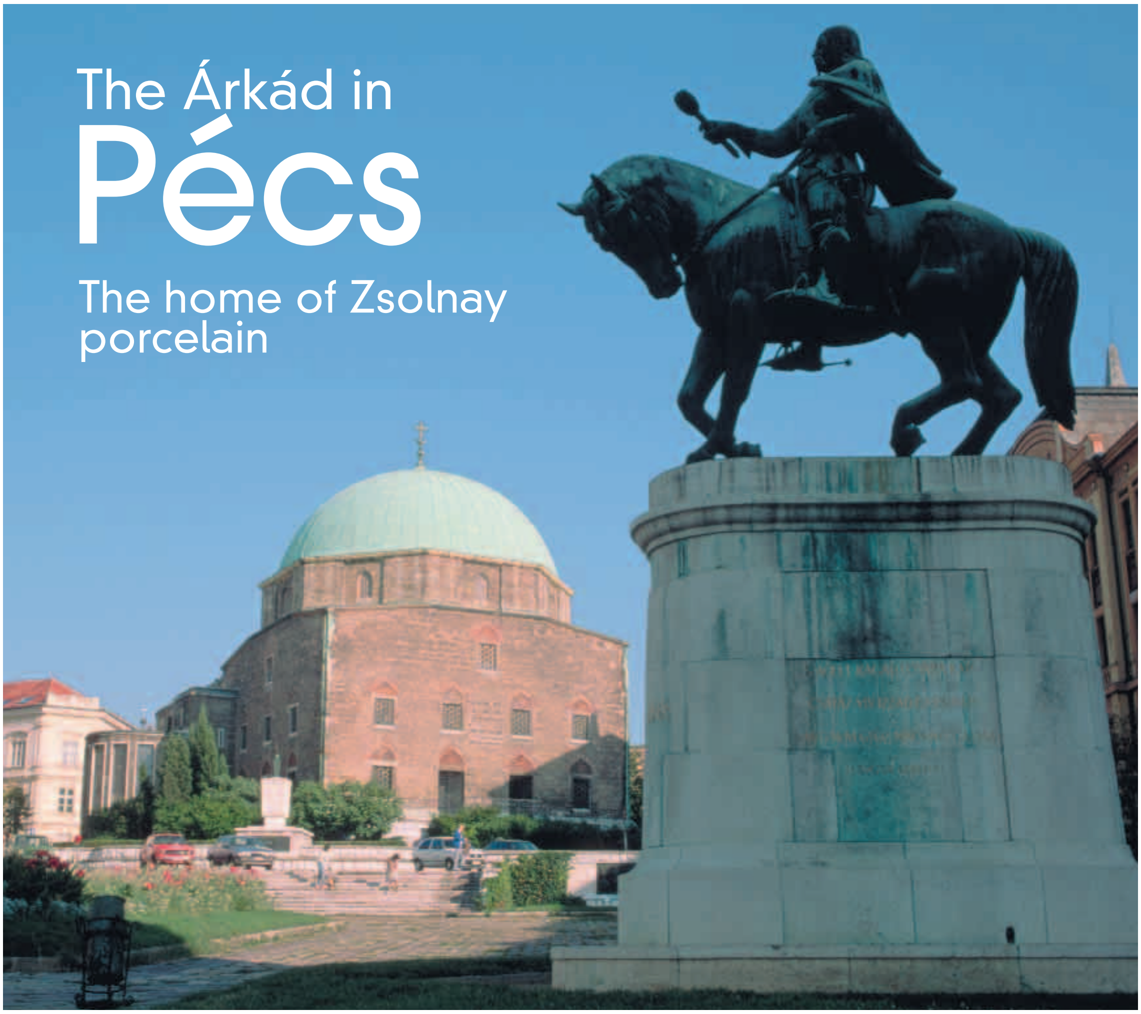
1 THE CAPITAL of the southernmost federal state in Austria – Kärnten – has one of the country's most attractive old towns. Situated directly on Lake Wörth, with the lake bathing area in Europe, Klagenfurt is an extremely popular place for holidays and recuperation.

2 VOLLEYBALL dominates the summer season in Klagenfurt. Every August, beach volleyball grand-slam tournaments are held here, with World Cup and Olympic players also participating.

3 CASTLES are a characteristic feature of the Klagenfurt region and are the destination of many tours: a total of 23 well-preserved and restored castles of different sizes can be found in the vicinity of the city.

The Árkád in Pécs

The home of Zsolnay porcelain

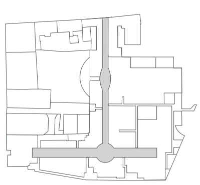


A mosque from the time Péc was occupied by the Turks – today, it is used as a Catholic church

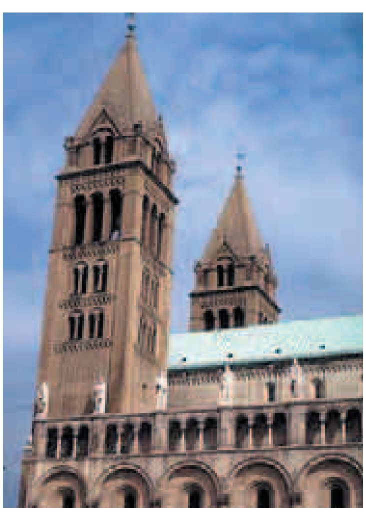
www.arkadpecs.hu

THE ÁRKÁD PÉCS is a colourful marketplace and lively event venue in the city centre.

GROUND PLAN:



Investment: 50.0%
Purchased by DES: Nov. 2002
Leasable space: around 35,200 m²
of which retail space: around 35,000 m²
No. of shops: around 130
Occupancy rate: 100%
Catchment area: around 0.5 m. inhabitants
Parking: around 850
Grand opening: 2004
Anchor tenant: C&A, Interspar, Media Markt
FERI-rating: A (very good)



2 AS FAR BACK AS 1009, Pécs was declared an episcopal see by Stephen I of Hungary. St. Peter's Cathedral was also built in the 11th century. Although it was altered many times, it never lost its Romanesque characteristics and is considered today to be a significant relic of medieval art. In addition to the cathedral, the early Christian burial chambers, some of whose murals and ceiling frescoes date as far back as the fourth century, are a particular cultural heritage of the city.

1 PÉCS is located at the feet of the Mecsek mountains, which gives the city a favourable climate and a Mediterranean flair, which would seem to explain its popularity among Italian tourists. The unique atmosphere is created by the many small cafés and restaurants and by the countless fig trees that are characteristic of the Mecsek slopes. Pécs is also a city of grapes and vines that are used to produce exquisite wines – even though more and more vineyards are falling prey to the growing city.

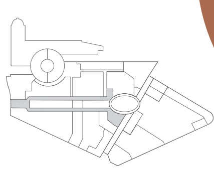
Wroclaw City Hall – a symbol of the city for 700 years

Galeria Dominikanska in Wroclaw

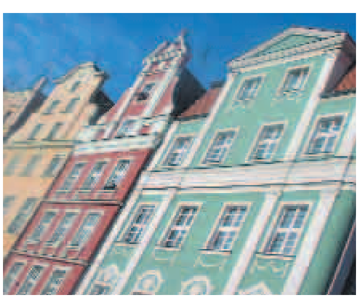
The chessboard city

FUTURISTIC architectural elements and parts of the historic city wall, which are integrated in the building, are striking features of Galeria Dominikanska.

GROUND PLAN:



Investment: 33.3%
Purchased by DES: Dec. 2003
Leasable space: around 32,800 m²
of which retail space: around 30,000 m²
No. of shops: around 100
Occupancy rate: 100%
Catchment area: around 1.0 m. inhabitants
Parking: around 900
Grand opening: 2001
Anchor tenant: C&A, Media Markt, van Graaf
FERI-rating: AA (excellent)



2

WROCLAW IS KNOWN as the chessboard city owing to the design of its city centre with the marketplace in its centre. Surrounded by historical buildings in a diversity of architectural styles, the marketplace also offers cosy restaurants, cafés and interesting museums.

1

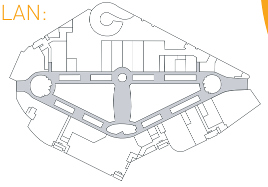
AMONG THE MOST BEAUTIFUL Gothic buildings in Central Europe is Wroclaw City Hall, which initially consisted of one storey and gradually assumed its current form. To the east of the marketplace is Slowacki Park with the Panorama Raclawicka, a gigantic painting depicting the Battle of Raclawice in 1794, where the Russians were defeated by an army of farmers. The Cathedral Bridge leads to the Cathedral Island, which, since a tributary of the Oder was filled in the 19th century, is no longer an island as such, but is nonetheless home to a total of five medieval churches.

Galeria Baltycka in
Gdansk
One of the oldest and most important cities in Europe

The City Hall, the Rechtstädtische Rathaus, dates back to the 14th century

TRICITY is the collective name given to Gdansk, Gdynia and Sopot, from which Galeria Baltycka can be reached very easily.

GROUND PLAN:



Investment: 74.0%
Purchased by DES: August 2006
Leasable space: around 47,200 m²
of which retail space: around 39,500 m²
No. of shops: around 200
Occupancy rate: 100%
Catchment area: around 1.2 m. inhabitants
Parking: around 900
Grand opening: Autumn 2007
FERI-rating: to be performed for the first time in 2008

2

THE STARE MIASTO (old town) and Glówne Miasto (main town) districts of Gdansk offer many interesting sights for tourists – the latter predates the former and was independent for many years. Glówne Miasto boasts countless magnificent patrician houses, the City Hall and the Marienkirche church with room for 25,000 people.

1

THE NEPTUNE FOUNTAIN, which is located at the Long Market in Glówne Miasto, took 15 years to complete. The Neptune statue was modelled by local artists Peter Husen and Johann Rogge, cast in bronze in Augsburg and erected in the fountain in 1633. It is found in front of Artus Court, one of the most beautiful historical monuments in the Hanseatic style. This building was used as a meeting place for the city's rich citizens and merchants and is named after the Celtic king Arthur.

in&out

WHAT'S HOT, WHAT'S NOT?

Aperol Sour

Drainpipe jeans

"Grey's Anatomy"

Black and red

Ballerinas and high-heel pumps

Organic food

Costume jewellery

The Nintendo wii

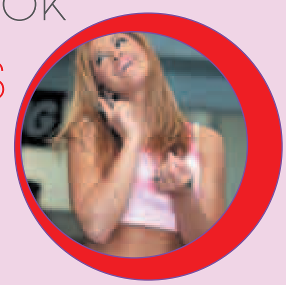
Bermuda shorts

Holidays in Germany

Inline skates

Worn look

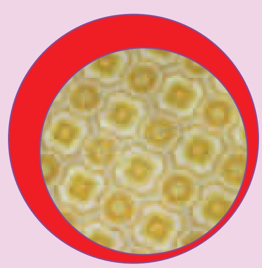
Bare midriffs



Synthetics

Tube TVs

Designer stubble



70s style

Ringtone subscriptions

Long skirts

Novelty ties

What is the key to success in the retail sector?

Klaus Striebich, Managing Director Leasing, ECE

Unfair as it may be, the retail sector has a bad reputation. A reputation for badly paid work and unenviable working hours. Employees sometimes have to get their hands dirty, and there are grumbling customers who always know everything better. The most popular employers – particularly in the case of the sought-after university high-flyers – are generally large, international brand-name companies, consulting firms, investment bankers, or internet companies – retailers are seldom mentioned, if at all.

A pity, really, since this is not a true reflection of the fascinating retail sector – and it really is fascinating! What could be better than seeing a smiling woman leaving your shop, eyes gleaming after having found the perfect purchase – à la "Sex and the City" (isn't it interesting to see how shoe designer Manolo Blahnik makes women happy).

These days, things are tough in all sectors and all areas. But how can retailers be successful on the German market? First of all, retailers must understand that the main focus is no longer on the distribution aspect, but rather on generating demand. Tchibo (one of the most interesting and successful retail concepts of all) sees its retail task as selling to people who already have everything they need.

Apart from determining what a customer wants, retailers must also ensure that the products in question are made available. Here, the technologisation of the retail sector calls for closed-loop merchandise management systems and for all kinds of retail and production stages to be skipped over – the advent of verticalisation. In spite of this, it is astonishing to note that, for example, the standard sizes for men's suits in Germany (48/50) are almost impossible to get hold of, while sizes 56, 26, or 106 are even available at reduced prices.

Once retailers have mastered these first two tasks, all they have to do is present their wares.

This creates added value in the form of an "experience" that also justifies charging a high price for the goods. After all, consumers do not pay for goods, they pay for an experience. For many (female) customers, the act of shopping itself seems to have more of a therapeutic effect than actually owning the product in question (hence the term "frustration purchases").

This was the advent of the idea of "lifestyle". Retailers such as P&C and Ansons sell taste, not clothing. The collections of monobrands such as Esprit, s.Oliver, Mexx, or Tom Tailor provide a kind of sartorial security (consumers only have to imagine the field day their colleagues would have if they were found to be wearing clothes that did not go), and customers come to have faith in their selection. And this reliability is readily rewarded. You are someone if you are wearing Brand XY (personally, I am also pleased when my lady colleague notices on Monday morning that I am wearing a new tie, and that it "looks good" too).

Retail space has been replaced by "retail stages" – leading to constant new challenges for shop designers. Employees are no longer salespeople but rather players. In the Varner Group (including Dressmann), which is highly successful in Norway, new employees learn the Dressmann dance and how to view the shop as a stage before they learn about the products and the like.

Concentration on high-profile brands is increasing in all segments. A unique product range, "message" and service provided, etc. – this is what sets retailers apart from the competition and what makes customers choose one over the other. It is no accident that in Germany perfumeries are frequently equated with Douglas, or that the name Deichmann invariably springs to mind at the mention of a shoe retailer.

The sheer depth of the ranges in question can be seen by looking at the example of "shirts and ties" (an area formerly devoid of all sexiness). In recent years, a wide variety of concepts have sprung up, differentiated in terms of target groups and product ranges. Olymp, Eterna and Seidensticker are synonymous with sophisticated businessmen, van Laack and Jacques Britt with upmarket customers, and Signum and Casa Moda with leisurewear with a sporting touch. These are flanked by individual concepts for custom-made shirts, such as Sovrano from North Rhine-Westphalia.

This phenomenon is illustrated even more clearly by the coffee concepts that have emerged in recent years. Formerly a luxury, filtered coffee has now lost much of its mystique. New roasts, specialities, means of preparation and sales concepts have replaced the time-honoured café with coffee bars all'italiana (Segafredo, Lavazza, Illy and more to come), American-style coffee shops (Starbucks with their "third place" approach – i.e. a third place to spend time other than at home or at work), or a mixture of these (the Coffeeshop Company owned by the Austrian Schärf Group) and many excellent regional operators (World Coffee or Balzac Coffee in North Germany, Woyton in North Rhine-Westphalia, Coffee Fellows in South Germany, and many more). In terms of volume, Tchibo is the biggest coffee seller, but focuses on a different target group and message.

After years of extraordinary expansion in retail space and the unyielding march of the discounters, the large food retailers are once again focusing more on the content of their product ranges. Recent "supermarkets of the year" have been those featuring gourmet products rather than run-of-the-mill outlets offering basic groceries. A good atmosphere even when buying essentials at the last minute, ample choice and first-class presentation – all of these serve to whet the appetite, something that is captured very effectively by the current EDEKA advertising slogan "Wir lieben Lebensmittel" – "We love food". However, REWE has also chalked up great successes with its fresh produce. Sector observers will be keeping a particularly close eye on the progress made by Migros, the upmarket Swiss retailer that has recently opened its first outlet in the south of Germany.

What could be better than seeing a smiling woman leaving your shop, eyes gleaming after having found the perfect purchase

Life tastes good, according to the slogan of WMF's relaunched retailing concept. But Villeroy & Boch, or concepts such as Depot, Butlers and Cult at Home also allow us to feel good at home again, making a stand against IKEA and other category killers and taking the place of the near-extinct household goods specialists.

Specialisation and precise target group definitions lead to increased customer loyalty and market share. In the restaurant business, particularly in the field of ethnic food, clear regional patterns initially emerged. Asian food was very popular in the east of Germany, owing to the close ties between the former GDR and Vietnam, while doner kebabs initially struggled for attention. In the West, it was the other way around. These days up to three different Asian food concepts can be found in some food courts (Chinese, Thai/Vietnamese and Japanese/sushi). These are joined by Indian, Arabic and many more. The most brilliant concept of the moment, though, is Vapiano. Based on classic Italian pasta, this concept offers wellness cuisine, lifestyle, fresh products, front cooking and mass catering all rolled into one. A significant feat, when you consider the locations in which Vapiano has been successful.

The modern retail age is also characterised by a veritable information explosion. The Internet, several thousand print media and cable, satellite and digital TV, etc. all provide customers with information – rapidly, intensively and reliably. In some sales situations, customers know (or think they know) more about the products than the salespeople. The original function of the employee at the POS – i.e. to advise and inform – is developing into a guiding function: steering the customer in the direction of a sale.

Among other factors, customer mobility has led to the creation of new sales channels. Hybrid shopping behaviour – i.e. frequenting both discounters and classy boutiques – forces providers to keep as high a profile as possible. This was the advent of multi-channelling. Among clothing retailers, this has been demonstrated impressively by the CBR Group. In the beginning, it was merely a wholesaler for Street One. Following this, it was one of the first to develop the shop-in-shop system and, later on, the first monobrand stores. Directly after this, the Group established additional specialised brands such as Cecil or One Touch. Then the existing successful brands were simply brought together to form a multi-brand retail concept under the CBR retail concept. In some cities, these three brands can be found in department stores, clothes shops, monostores and multi-brand stores – a very successful way to increase market share. Only e-commerce has yet to be recognised for its worth. This is demonstrated at least equally impressively by suppliers such as Esprit – with their segments edc (young fashion), Esprit Men (male target group) and Esprit Collection (upmarket) – s.Oliver, or Gerry Weber.

The Internet and e-commerce present new challenges for the retail sector. It is not enough to purchase a suitable webshop software and to set up a homepage on the Net. Rather, retailers must find the right solutions for technology, advertising and mail order logistics. Almost everything – but not quite everything – can be ordered online. This is what prompted most retailers to set up a webshop (and those who have not yet done so are busy working on it).

However, it is interesting to note that virtual dealers are now beginning to develop in the direction of "bricks and mortar" retailing. Mytoys.de, a toy provider that formerly operated exclusively over the Internet, has opened its first walk-in outlets, acquired through a takeover. And even more abstract concepts like www.jochen-schweizer.de, an online portal for "boxed experiences", has set up its first five stores, selling gift vouchers for experiences such as bungee jumping, gliding, excavator driving (particularly popular with men) and even flying a MiG jet in Russia.

Private labels (generally termed "own brands") have also demonstrated impressive growth. In these concepts, the product range and retail concept either have the same name (e.g. Bonita), or a number of different own brands (used for differentiation) are combined in a single retail concept (e.g. Smog, Amisu, etc. at New Yorker). These concepts turned out to have great export potential, and are expanding across Europe or even worldwide (see how Bijou Brigitte entered the US market).

Looking at the wealth of ideas, opportunities and challenges, it is clear that the retail sector will never stop moving. Tomorrow, there is sure to be something new and surprising for customers – and I for one am already looking forward to showing all this in our shopping centers.

As my wife always tells me, I have the best job in the world – shopping.

Klaus Striebich


www.gerryweber.de

„Demographic Change and Retailing“

by Raimund Ellrott, Management Board, GfK GeoMarketing

"The demographic clock is ticking away relentlessly": As with other European countries, the Federal Republic of Germany is undergoing far-reaching demographic change, the implications of which are now becoming increasingly clear to the public, politicians and businesses alike. The decline in the population in the future, the radical change in the age structure of the resident population and the structural shifts in regional populations and households have been recognised as major issues affecting the future of our country. Among other things, discussion is focusing on the effects demographic developments will have on the outlook for retailing and shopping centers.

General demographic data

Germany has the largest population of all the countries in the European Union by some distance, with 82.5 million inhabitants at present. This figure is likely to be close to the historical peak, if that point has not already been reached. According to the latest official population forecast (for the period up to 2050), the population in Germany is only likely to increase slightly over the next few years if immigration and life expectancy trends are extremely positive. From 2025 or so, the figures will start trending downwards and the population will fall slightly below the current level by 2050.

However, scenarios in which immigration will be significantly lower and life expectancy will increase more slowly, and which anticipate a decline in the German population after 2020 at the latest, are in fact much more likely. Depending on the assumptions made, in this case the German population would fall to around 75 million or around 67 million by 2050.

An additional factor is that, assuming a continuing increase in the proportion of one- and two-person households, growth in the number of private households is likely to outperform that of the population. According to the Federal Regional Planning Forecast (Bundesraumordnungsprognose), for example, the number of private households is expected to rise by at least around 1 million to 39.2 million by 2020 – an increase of just under 3% compared with the year 2000.

The change in the age structure of the population obviously also has to be taken into account. The first point to make is that statistics show that the most numerous age groups in Germany have been people of working age, in particular between 40 and 50. However, in keeping with the increase in life expectancy from significantly less than 70 years at the end of World War II to the current figures of a good 75 years for men and 81 years for women, it is to be expected that this will change as early as 2025, with the most numerous age group comprising people around 70 years old.

In contrast, the base of the population pyramid will be considerably narrower than in the year 2000.

One consequence of this change in the population pyramid described above is that the potential workforce in Germany will fall significantly in future. Currently a good 50 million people fall into the working age group of between 20 and 65 years – irrespective of whether they are on labour market as employees or unemployed but looking for work or whether, for example, they are still in education or on parental leave, or have taken early retirement. According to the 10th coordinated official population forecast (mid-range assumption), this hypothetical maximum potential workforce will remain almost unchanged until around 2020, when it will amount to at least 50 million people.

In the following years, however, a substantial decline can be expected as a result of demographic changes, with the result that the corresponding figure for 2050 will only be somewhat in excess of 40 million people, i.e. 10 million less than at present.

Regional population trends

Nevertheless, it would be a mistake to assume that the population trend described above will be distributed evenly over the whole area of the Federal Republic. Instead, sharply differing changes can be expected in different regions.

The Federal Regional Planning Forecast (based on 40 regional planning areas in Germany for the period to 2020, see figure 1) published by the Federal Office for Building and Regional Planning (BBR – Bundesamt für Bauwesen und Raumordnung) contains important information on foreseeable regional development trends. In very broad terms, it forecasts an intensification of the North-South drift towards southern Germany observed in recent years and of the East-West drift towards western Germany that has been taking place since reunification. The forecast also reflects the phenomenon of population movement from cities to the surrounding areas.

General data affecting retailing

As shown by a wide variety of statistics, including the official sample survey of income and expenditure, the highest incomes in Germany classified by age group are earned by those sections of the population aged between their mid-30s and mid-50s. Income then declines as age increases. If, therefore, the proportion of old people in Germany is going to increase substantially in the coming decades as the information and figures given above suggest, it seems at first glance practically inevitable that total consumer spending in Germany will also decline in future.

However this conclusion is not necessarily inevitable. Retail sales do not necessarily have to fall just because the population in Germany is declining and ageing or new or different patterns of consumer spending emerge.

The counterargument is as follows: Firstly, the savings rate, i.e. the ratio of savings to current income, also tends to fall noticeably with increasing age as well as income. Secondly, expenditure on housing during people's lives falls as age increases – after a peak reached around the age of 50. This is due, among other things, to the fact that owner-occupied houses and flats have (largely) been paid off. Accordingly, disposable income does not in fact fall but instead tends to rise. Inheritances also contribute to this effect, because the 'inheritance generation' typically consists of people well over 50 years of age. Against this background, a recent survey of overall spending power for consumer purchases broken down by age groups conducted by GfK Marktforschung demonstrates the above-average importance of older people: according to the survey, the 50+ generation currently represents around 37% of the population but accounts for an impressive 46% of total purchasing power. Purchasing power per capita in each of the three age groups from 50 years upwards is also substantially higher than the overall average.

Older people's requirements

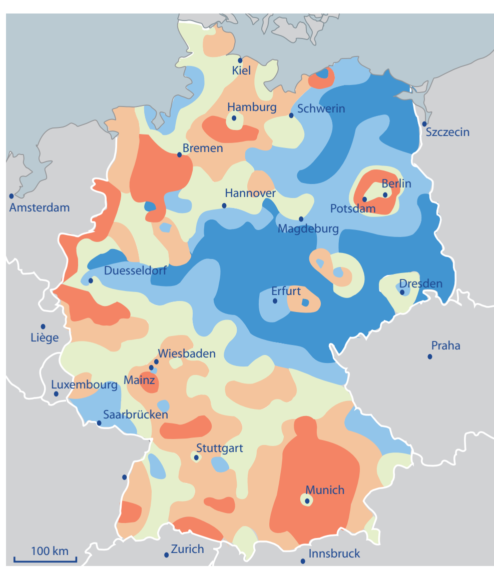
The secular growth trend in the older generations shows that retailers wishing to refocus on new customer groups or to find niche markets must pay close attention to their needs as a high priority. They represent the largest future target group, in both relative and absolute terms, which is now being referred to with increasing frequency in marketing-speak. However, there is typically no more talk about 'senior citizens' – instead, a range of other terms are en vogue: silver agers, woopies, elderly people, golden generation, empty nesters, master consumers, selpies (second life people), or other expressions.

In order to conduct business successfully with this target group, their specific requirements and life needs must be properly addressed. One factor to note is that older people typically react more

Population shifts between 2002 and 2020

- strong decline
- slight decline
- stable
- slight increase
- strong increase

Source: population forecast 2002-2020 of the Bundesamt für Bauwesen und Raumordnung



20 – 40 Young	60 Young-old	80 Old
HAVE – be – live	have – BE – live	have – be – LIVE
pre/early family pre-/early professional identity-seeking innovation-friendly consumption-friendly	late/post-family late/post-professional established innovation-critical quality-conscious service-driven	
physical health secondary, may overdo things	physical constraints compensated in daily life	physical constraints dominate daily life
main target group for advertising and consumption	a lost cause up to now for advertising and consumption	
2004: 45.3 m. inhabitants 2020: 44.1 m. inhabitants	16.9 m. inhabitants 18.4 m. inhabitants	3.4 m. inhabitants 5.7 m. inhabitants

slowly to fashions and trends. Fashions will remain important, but greater attention will have to be paid in future to whether the minimum mass levels of demand necessary for profitable trading can actually be generated.

On the other hand, it is noticeable that older people show a very high degree of brand loyalty. In more modern terminology, one could even say that as consumers they can clearly be characterised as brand freaks.

With respect to the product ranges and consumer themes that are of more interest to older people, health and wellness, house and garden, travel, domestic appliances and home furnishings are among the areas in which they show significantly greater consumer interest than younger or middle-aged people.

Additional relevant factors are the comparatively greater amount of time available to older people and their specific means of mobility. Finally, account must be taken of the particular, more restrictive physical requirements of older people, who tend to need more space for merchandise presentation, aisles and service areas, as well as special assistance (e.g. as a result of limited vision).

At the same time, however, an approach which explicitly treats older consumers as old people seems likely to fail. 'OAP specials' are definitely out of fashion and have a certain stigma attached to them; older people do not want to be forced into a separate role as old people.

It should also be noted that general consumer trends also apply to older people. As with consumers in general, demand from older people for items in the middle of the price and quality ranges is also decreasing. In contrast, the trend is for growth in the discount and branded segments, the latter extending as far as luxury items; customers' behaviour is becoming increasingly hybrid, i.e. it is increasingly difficult to order them neatly by individual categories. To an ever greater extent, they are distinguishing between needs (everyday goods and purchases made purely out of necessity, where they are highly price-sensitive) and wants ('must-haves' such as mobile phones and top brands, for which price plays a minor role).

Conclusion

Retailing and the consumer economy in general are undoubtedly facing major challenges but also major opportunities given the foreseeable democratic change.

This demographic change will not happen overnight, but will allow sufficient time in principle for adjustment, be it in the political sphere or by administrative bodies or companies.

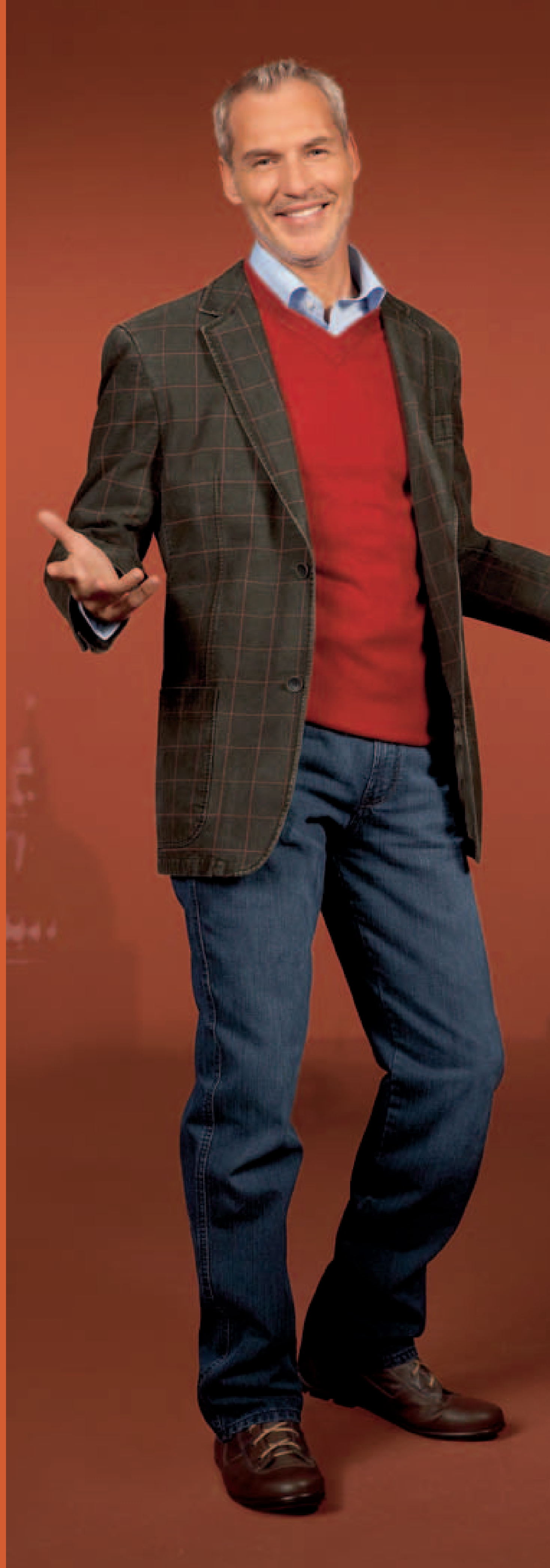
As a result, the response should not be a panic reaction but a considered search for answers to the demographic challenges relating to companies, product ranges and types of business. One thing is certain, however: Demographic change will come as surely as night follows day.

Among the principal types of retail businesses, shopping centers as managed retail properties are best suited in the opinion of the experts to meet these challenges actively and to respond to them.

Just as customers and shops (including an H&M and its customers) grow older together, shopping centers will also become more experienced and older together with their customers. But a proactive and anticyclical center management policy together with centrally focused strategic objectives will enable shopping centers to respond to these developments much more effectively than other retail locations, including in areas such as architecture and appearance, sector and tenant mix, choice of materials and colours, etc. In this way, they will be able to stay ahead in the competition between retailing concepts and locations.

Even in times of demographic change – and in fact particularly at such times – the shopping center can be considered to be the form of retailing that will recognise the opportunities of demographic change earliest and respond to them most effectively. By doing so, it will ensure that it remains a very attractive and high-yielding form of real estate investment for the long term.

Raimund Ellrott



GDANSK

The historic "Pearl of the Baltic"

AN EVENTFUL HISTORY, COUNTLESS MAGNIFICENT BUILDINGS, HANSEATIC FLAIR AND PLEASANT STREETS FULL OF SMALL CAFÉS AND RESTAURANTS – ALL CAN BE FOUND IN THE CITY ON THE MOTLAWA RIVER

Visitors to Gdansk can readily believe that this city was known in the late Middle Ages as the "Queen of the Baltic". Everywhere one looks, there are patrician houses with pointed gables and magnificent facades, and giant brick churches towering above. Things were quite different in the aftermath of the Second World War, when the splendour of Gdansk – since restored – had all but faded. This is because the historic Stare Miasto (old town) and Glówne Miasto (main town) districts were almost entirely destroyed by German assaults in 1944. After the war, the city was rebuilt bit by bit based on its original medieval design.

Strolling through the thousand-year-old city, one gets a feel not only for the prosperity of Gdansk, with its magnificent buildings stemming from the city's golden age, but also for the vaguely Hanseatic atmosphere of the city, whose port used to be one of the most important in all of Europe. Those familiar with Northern Germany will recognise many familiar touches – the architectural influence of the Hanseatic League is all around.

When visiting the Tricity conurbation (formed by Gdansk, Sopot and Gdynia after the Second World War), there is a whole host of sights to discover, primarily in the old town and main town areas. When walking through the main town, it is best to take the impressive Royal Route, formerly used by Polish monarchs when visiting Gdansk. This begins at the High Gate, passes through the Golden Gate, Long Street and Long Market, ending behind the Green Gate at the Motlawa river.

The elegant Golden Gate marks the beginning of Long Street, which is lined with tall, narrow houses. This 400-metre-long street was once home to the city's patricians, merchants and dignitaries – in short, the higher echelons of Gdansk society. At the end of Long Street is the City Hall, with a high tower (over 80 metres) that dwarfs the surrounding houses. At the top is a gold-plated life-size figure of King Zygmunt August II, who ruled Poland from 1548 to 1572.

At the City Hall, the Long Street leads into the Long Market, the centre of the main town (Glówne Miasto). Right next to the City Hall is Artus Court, the largest and most impressive building in the area, in which rich merchants used to meet, sealing business deals with a glass of beer. Behind its light exterior and enormous windows, there is just one hall. However, with its well-proportioned vaulted ceilings, which are adorned with golden stars and strongly reminiscent of church architecture, it is a sight to behold.

Upon walking through the Green Gate at the end of the Long Market, visitors will find on their left-hand side the Long Bridge with the Crane Gate – arguably the most popular photographic image of Gdansk. Before the New Port was constructed, the Long Bridge served for centuries as the city's main transhipment centre for goods and commodities. Erected in the mid-15th century with two brick towers and a wooden hoisting construction, the Crane Gate protected the city and the port from attacks from the sea in medieval times. The hoisting device, which was operated by convicts, was capable of lifting up to four tonnes.

Not far from the Crane Gate is Mariacka Street, which is said to be the most attractive street in Gdansk. Although it is less extravagant than the Royal Route, it is cosier and more intimate. If you are looking for amber you are sure to find it in one of the many small shops here. At the end of Mariacka Street is the striking St. Mary's Church. With room for some 25,000 people, it is thought to be the largest brick church in the world.

Visitors not only flock to Gdansk's Glówne Miasto (main town) district to take in the many famous sights, but also to go on leisurely shopping trips, picking up typical souvenirs of the area too, no doubt. There are many shops selling arts and crafts, Kashubian porcelain and books, especially on the promenade along the Motlawa river, in Mariacka Street and in the Long Market.

Besides the Glówne Miasto area, visitors to Gdansk should be sure to see the Stare Miasto (old town), Granary Island and its surroundings and the Baltic Sea coast. It is well worthwhile planning several days to visit this city – after all, there is so much to discover here.

Nadine Lewerenz

Hotel tips:

Sofitel Grand Sopot: Situated a stone's throw away from the beach and the picturesque Gdansk Bay, this hotel offers comfortable rooms and a modern and relaxing wellness area; luxury class; www.sofitel.com
Mercure Hevelius Gdańsk: This hotel is located right in the heart of the city, on the edge of the old town, with impressive views of the old town and the shipyard; medium price class; www.mercure.com

Restaurant tips:

Gdańska: Polish-Pomeranian cuisine; in this restaurant in the north of the Glówne Miasto (main town) area, we recommend starting with a spicy beetroot soup (barszcz) followed by a schnitzel in sauce chasseur with honey and raisins for the main course, and finishing up with a glass of "gold water", a clear liqueur. Price class: high; Address: ul. Âw. Ducha 16
Hanza: Stylish fish restaurant also located in the north of the main town, complete with English-style café. On the patio, guests can look down on to the Motlawa river. Price class: high; Address: ul. Dziana 5/7


JIMMY CHOO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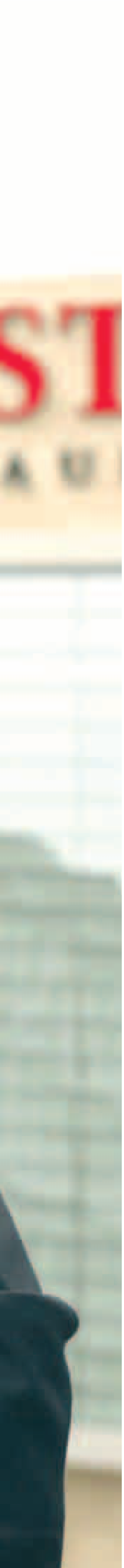
Clear potential
for innovative shopping centers

by Alexander Otto,
CEO of ECE Projektmanagement



Many sceptical observers point out, particularly in relation to plans for new city-centre shopping galleries, that Germany already has a very high level of retail space per head of population. They are right – discounters in particular have recorded rapid growth in recent years and are achieving revenues that are well above the average for the EU. However, the amount of shopping center space per head of population in Germany is not only less than in countries such as Spain, France, or the United Kingdom, it is actually far below the average for the EU 15 countries. Perhaps this is one of the reasons why Germany's retail sales also lag behind. In any event, our tenants once again achieved a significant increase in revenues in 2006 of 2.5% on a same-store basis.

I am therefore firmly convinced that there is a continuing need for additional modern and flexible retail space in city centre locations. At the same time, the winnowing-out process among locations, retail concepts and tenants will increase substantially in the future. Specialty shops without a clear profile will be among the losers, while many basic greenfield retail developments will not survive in the future. In addition, secondary locations will focus on individualised retail concepts and specialist customer groups because they are unable to provide appropriate space for international retailers. Even if a city has ten shops standing empty, each with 200 square metres of space, a consumer electronics megastore requiring 2,000 square metres will not be able to move in.

„Each shopping center must be unique providing generously dimensionend, well-lit surroundings where people enjoy spending their time."

Successful retailers, on the other hand, will expand and open new locations such as innovative shopping centers. In addition to the location, forward-looking architecture is of crucial importance when building a shopping gallery. The retail space must be both functional and flexible in order to be able to respond to the regularly changing requirements of the shop tenants. In addition, each shopping center must be unique, creating an identity for the city or region – by providing generously dimensioned and well-lit surroundings where people enjoy spending their time. Innovative design elements such as light pipes, interactive fountains, or artistically designed facades are as important as high-quality leather sofas and wooden floors and railings.

There is another reason for going to these lengths apart from urban planning considerations: the increasing comparability of products and services offered – including on the Internet – has raised customers' expectations. If the stationary retail business wants to survive in competition with other sales channels, it must either adopt an aggressive pricing strategy or offer a shopping experience – with a wide range of services, leading brands, merchandise presentations and a clear orientation towards lifestyle and convenience.

This continuing polarisation and concentration in retailing is increasingly also determining the sector mix in shopping centers. Internationally successful retailing concepts are expanding, while more and more small providers are disappearing from the market. In order to counteract this trend, we place particular emphasis when selecting our tenants on attracting medium-sized businesses and start-ups. These niche retailers enhance the sector mix with fresh ideas and a high degree of individuality. Shopping centers represent an ideal platform for newcomers to present their goods and services. In this year alone, we are supporting the introduction of new retailing concepts via two franchise fairs in Frankfurt and Leipzig.

I also see growth potential in the catering area. Attractive facilities such as large food courts are proven to increase visitors' length of stay. The proportion of space devoted to catering, which is around five percent in today's shopping centers, is expected to double in the next ten years. In addition to established classics such as ice cream parlours, Italian restaurants and finger food, there will also be an increasing number of coffee shops, ethnic restaurants and "local heroes".

Finally, the internationalisation of the retail business will also continue at breakneck speed. In Eastern Europe, a competition for the best locations is already well underway. However, the Western and Central European market also continues to offer good opportunities for expansion. All in all, shopping centers will speed up the process of international substitution among retailers and ensure that successful retail concepts with international potential spread rapidly. For example, numerous German retailers such as Fielmann and Peek&Cloppenburg opened their first stores in Poland in ECE centers. This enables retailers to rely on familiar partners and outstanding location quality as they expand.

„Retailers can rely on familiar partners and outstanding location quality as they expand."

Against this background, I anticipate that there will be a further concentration of shopping center operators in the future. Only big international operators can generate the necessary synergies when it comes to leasing, customer loyalty strategies and the events and activities staged by the center management teams. Last year, ECE leased out more retail sales space in Germany than the ten biggest estate agents combined – and this know-how is priceless.

Alexander Otto

STYLE TICKER 2007

The fashion market is in the process of redefining itself completely. We are being taught to think for ourselves. There is such a vast range of designs and directions that we are now expected to find out for ourselves what suits us. An admirable opportunity for self-rediscovery.

For both women and men, the order of the day is a mixture of simplicity and glamour – the aim is to be charming and smart. Sex sells, but not without style. Accessories are essential – attention to detail is ever more important. Treat yourself to a casual style combined with jewellery and out-of-the-ordinary shirts, ties and shoes.Various labels are making a comeback, prime examples being sporty classics such as Adidas, Puma and Lacoste.Colours are unobtrusive, reflecting the urban attitude to life.Of great importance for both sexes is underwear – just because it isn't seen doesn't mean that it shouldn't look good.There are clear signs that customer quality expectations are growing. Muted colours are the order of the day, combined with berry and jewel shades. For the moment, less is definitely more again. The emphasis here is on "for the moment", as designers have already announced that bright colours are on the way again. Foreign countries will have even more influence on design.

WOMEN

Slim is in – with a classic, clean look. Leggings are in again too, as are smart Bermuda shorts worn just above the knee and made of high-grade cotton or elegant wool. Simple designs are accompanied by elaborate stitching and prominent back pockets. A new pragmatism is being propagated, along with attention to detail. And all this is combined with longer shirts or pullovers.

As well as the "skinny look", extremely wide and long Marlene Dietrich-style trousers are coming in again. Another major trend is dresses – there's no getting around them.
Central to the "simple" look are details and a mix of hard/soft, smooth/soft and matt/shiny materials. A more voluminous look is reserved for the top.
As well as this, there is the "layered look" – the seasons are generally ignored: when it's chilly, simply reach for an extra layer. For instance, a blouse can be worn between a top and a pullover. Not to mention outsize scarves and knitted caps.

The suitable shoes for this are Mary Jane shoes, T-straps1, or peep toes. In the autumn, these can be worn with stockings. Platform soles can be worn – but only very selectively.

MEN

Modern, yet unconventional – but serious. A mixture of classic and casual lends a certain nonchalance.

Materials such as modern wool, soft cotton and denim will be all the rage.

There will be an increase in formality in addition to the jeans 'n' jacket look. There's no getting around suits any more. The jacke has a slim cut, single-breasted with three buttons. The shirt is also slim and waisted, as are the matching trousers. A touch of spandex (approx. 3%) ensures that it stays comfortable. Care should be taken with clothes sizes – after all, it would be a pity to have a good suit that didn't fit to perfection. The trend is towards smart Italian suits, ideally made-to-measure. The classic colours of grey, brown and black are still in, as is blue chalk stripe.
Simple ties are the order of the day – here, too, quality is the key – and ties are also tending towards the slim. The art of knotting a tie is as important as ever. The "four in hand" is the current knot of choice.

The need for accessories also seems to have asserted itself, with high-quality bags and belts growing in importance for men.

Finally, don't be afraid of making a visual statement!

Maria Hans


Marc O'Polo®
www.marc-o-polo.com

Deutsche EuroShop shares rise and stabilise at a high level

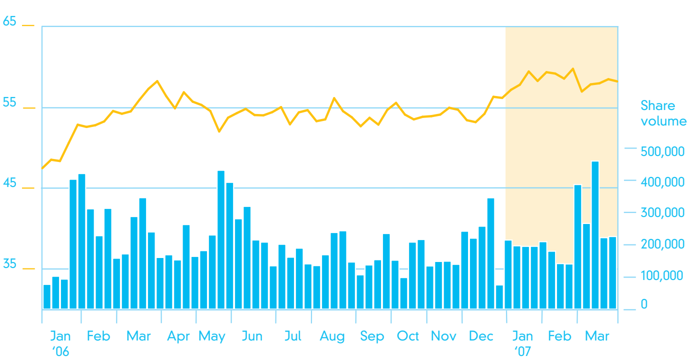
Our shares started the year at €47.45 and continued the upward trend started in mid-December 2005 until the end of the first quarter of 2006. The shares reached their high for the year of €58.24, which was also a new all-time high, on 31 March (Xetra closing prices). As a result, Deutsche EuroShop's market capitalisation exceeded €1 billion for the first time. At the start of May, our shares were also affected by the sharp price falls on the global stock markets and the price fell to €50.20. After the dividend payment on 23 June, the shares entered a phase of sideways movement between €53.00 and €55.00 lasting until December – in other words they stabilised at a high level. At the end of the year, Deutsche EuroShop shares broke out of the corridor in which they had been trading for six months and moved upwards. At the close of 2006 they were quoted at €56.16. The market capitalisation of Deutsche EuroShop rose by around €150 million in 2006 from €816 million to €965 million.

Performance of around 23%

The performance of Deutsche EuroShop shares – taking into account the dividend paid of €2.00 per share – amounted to 22.6% year-on-year. The share price rose by 18.4%. This means that Deutsche EuroShop's share performance trailed that of other German real estate companies and its European peers[1] somewhat, although on the other hand the volatility of our shares was lower. We are also in competition with open-ended real estate funds for investment capital: In 2006, as in the past, an investment in our real estate share would have produced a higher return than an investment in open-ended real estate funds, which achieved an average performance of 4.3% (2005: 3.4%). In this context, some funds again suffered outflows. In total, more than €7.4 billion was withdrawn from open-ended real estate funds in 2006 (2005: €3.4 billion).

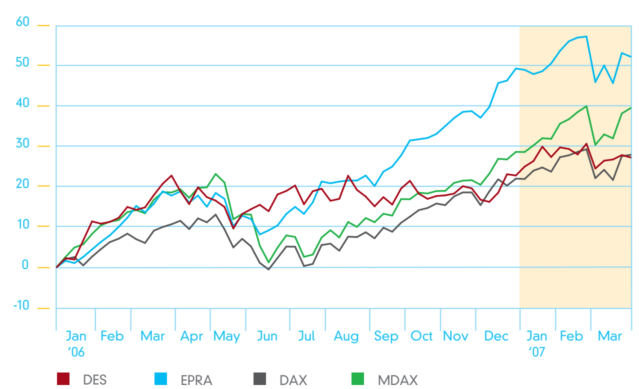
TREND OF THE SHARE

in €



TREND OF THE SHARE (INDEXED)

in %



[1] Corio, Eurocommercial Properties, Klepierre, Liberty International and Rodamco Europe


ZARA
www.zara.com

Variety of opinions from analysts

Our share is now regularly followed by 19 analysts (as at 31 March 2007, compared with 13 a year earlier) from well-known German and international financial institutions[2], and their recommendations introduce us to new groups of investors. Additional banks have indicated that they will begin coverage of Deutsche EuroShop shares in 2007. Information on the analysts' recommendations can be found at: www.deutsche-euroshop.com/research

Awards for IR activities

In 2006, Deutsche EuroShop received the "Capital Investor Relations Prize" in the MDAX category for its investor relations activities. Each year, the financial magazine "Capital" awards this well-known prize for outstanding communication with the financial markets, judging companies on their target group focus, transparency, track record and extra financial reporting. www.capital.de

The readers of the investment magazine "Börse Online" chose Deutsche EuroShop as the company which they felt treated them most fairly from the point of view of open and honest capital market communication. We were chosen from 160 companies in the DAX, MDAX, SDAX and TecDAX indices. www.boerse-online.de/bird2006

Higher proportion of institutional and international shareholders

Currently (as at 31 March 2007) around 6,800 investors are listed in Deutsche EuroShop's share register. Of these, the 50 largest shareholders hold 50% of the shares. During 2006, institutional investors bought around 1.3 million shares from private investors. As a result, the proportion of institutional investors in Deutsche EuroShop rose again from 50% to 55%. At the same time, the proportion of foreign investors increased from 27% to 30%.

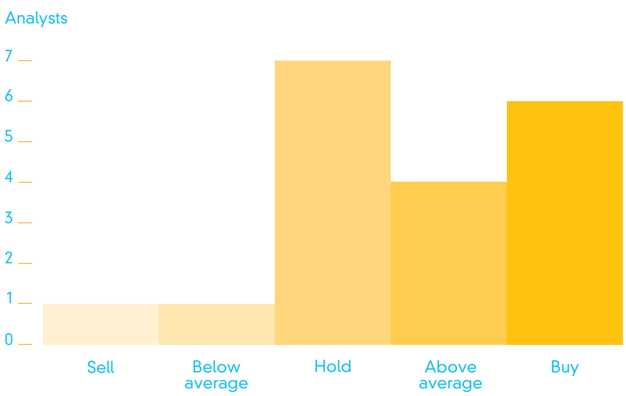
Dividend increased again

In financial year 2005, we increased the dividend by 4% to € 2.00. The Executive and Supervisory Boards will propose a further rise in the dividend to €2.10 per share for the 2006 financial year to the Annual General Meeting on 21 June 2007 in Hamburg. With our long-term strategy of a dividend policy based on continuity, and a comparatively high yield of 3.7% (based on the 2006 year-end closing price of €56.16), we hope to further cement the confidence of our existing shareholders and attract new investors. In future, we intend to distribute a dividend of at least €2.10 per share.

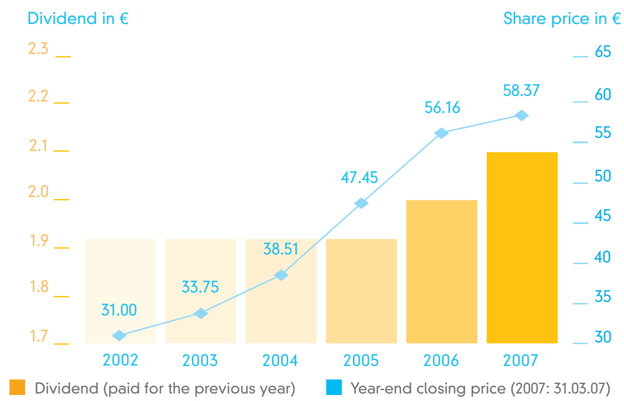
Dividend remains tax-free

What is special about the Deutsche EuroShop dividend is its tax-free status for investors in Germany. Dividends paid to shareholders domiciled in Germany are generally subject to income or corporation tax. Exceptions may be made under certain circumstances for dividend payments that are regarded as equity repayments for tax purposes (distributions from EK04 – equity class 04 – or, since 2001, from the tax-recognised contribution account). Deutsche EuroShop's dividend fulfils this requirement. For shareholders, the dividend payment constitutes untaxable (i.e. tax-free) income in accordance with section 20 (1) number 1 sentence 3 of the Einkommensteuergesetz (German Income Tax Act).

DIVERSITY OF ANALYSTS´ OPINION

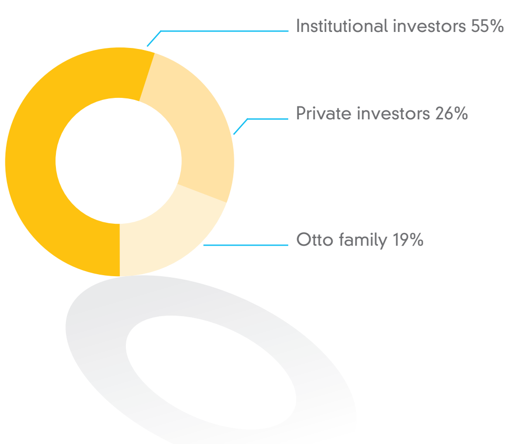


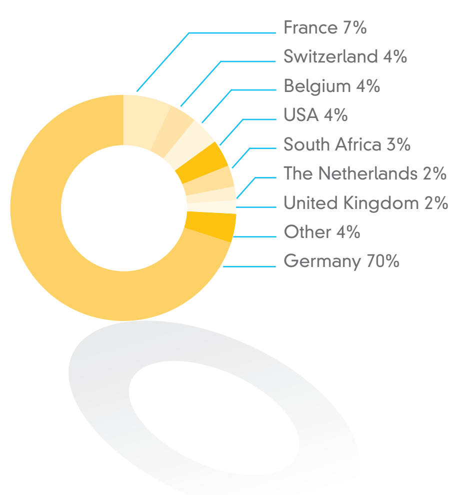
DIVIDEND AND PERFORMANCE



[2] Aurel Leven, Bankhaus Lampe, Berenberg Bank, Cazenove, Deutsche Bank, equinet, Hamburger Sparkasse, HSBC, HSH Nordbank, HVB/UniCredit, Kempen & Co., Kepler Equities, Lehman Brothers, Merrill Lynch, Metzler, M.M. Warburg & Co, Petercam Bank, Sal. Oppenheim and WestLB

SHAREHOLDERS` STRUCTURE



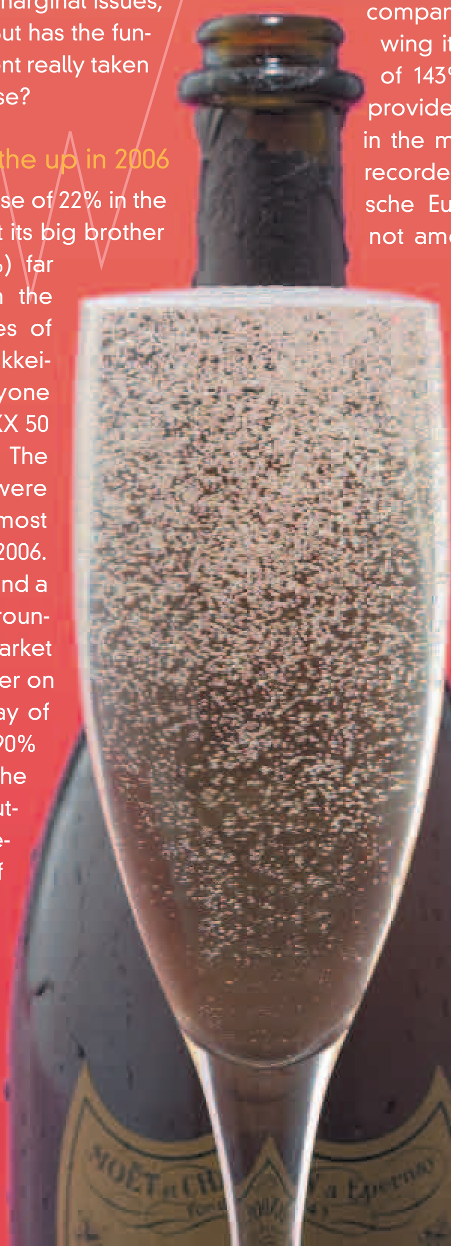


Will the CHAMPAGNE MOOD on the stock market continue this year as well?

When the Shanghai stock exchange reported its biggest one-day fall for around 10 years at the end of February 2007 with a drop of over 9%, there they were again: the prophets of doom! The crowd who in recent years – thanks to huge price gains in all corners of the globe – could hardly get a hearing in stock exchange trading rooms. Suddenly the proverbial glass was half empty – and, without exception, shares were fundamentally overvalued! Political risks, previously treated as no more than marginal issues, promptly entered the spotlight. But has the fundamental and political environment really taken such a long-term turn for the worse?

Global stock exchanges on the up in 2006

Let's look back at 2006: The increase of 22% in the German blue-chip DAX index left its big brother the Dow Jones Industrial (+16%) far behind. In London, investors in the FTSE-100 enjoyed a rise in prices of around 11%, while in Tokyo, the Nikkei-225 rose by just under 7%. Anyone who had backed the EURO STOXX 50 was rewarded with a solid 15%. The biggest winners in the DAX were ThyssenKrupp shares, which almost doubled over the 12 months of 2006. Sharp rises in commodity prices and a strong dose of speculation surrounding consolidation in the steel market made the shares the top performer on the DAX. However, on the last day of trading, VW shares also cost 90% more than at the beginning of the year. Equally, Lufthansa and Deutsche Börse presented their investors with handsome gains of over 60%.



In contrast, there were no profits to be had (once again) from the "people's shares" in Deutsche Telekom – the pink giant's share price closed in the red.

MDAX outperforms DAX

The MDAX went one better. The 29% rise in the index even outstripped the TecDAX (+25%). The fact that prices did so well in the end was down to Deutz shares, among others. Investors who bought the company's stock at the start of 2006 following its restructuring chalked up a gain of 143%. And the run on commodities provided another outstanding performer in the midcap segment: Salzgitter shares recorded a fabulous return of 117%. Deutsche EuroShop shares were admittedly not among the turnaround stocks, commodities beneficiaries or takeover winners (such as Schwarz Pharma, for example), but the bottom line was a solid and relatively risk-free return of 23%. The substantial price gains in real estate stocks in 2006 were reflected in the EPRA Index – a barometer of the performance of the largest European and North American real estate companies. Calculated on a euro basis, the latter was able to report an increase of over 45%.

Gerd Rückel

Stock market development in 2006

DAX	+ 22.0%
MDAX	+ 28.6%
EURO STOXX 50 (Europe)	+ 15.1%
Dow Jones (USA)	+ 16.3%
Nikkei (Japan)	+ 6.9%

Chart analysis

Bodo Hoffmann, a former assistant to Dr. Hans-Dieter Schulz, the famous "Chart Doctor", and Chief Executive of IT Future AG, analyses Deutsche EuroShop's share price chart.

In the period between mid-2004 and April 2006, Deutsche EuroShop shares rose within an upward trend channel, rising from €32.90 to approximately €55. In the second half of 2006, the share price then consolidated within this upward channel in a zone between €52.50 and approximately €55.50, which represents a massive support line. The triangle shown depicts a temporary interruption to the upward trend within the intact upward trend channel and confirms the consolidation. In other words, the stock was simply taking a healthy breather.

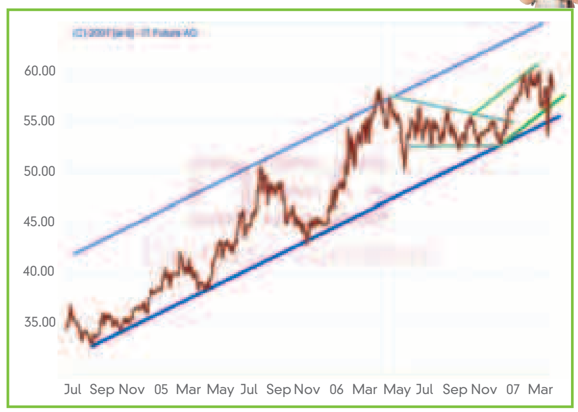
In mid-December 2006 the shares successfully broke through the upper edge of this formation after testing the lower boundary of the 2004 trend channel, resulting in a price target of approximately €60. This was reached relatively quickly in February 2007, with the all-time high of €60.11. However, the share was unable to continue at the €60 level; this was tested but not breached a number of times in the past weeks and thus represents a resistance line.

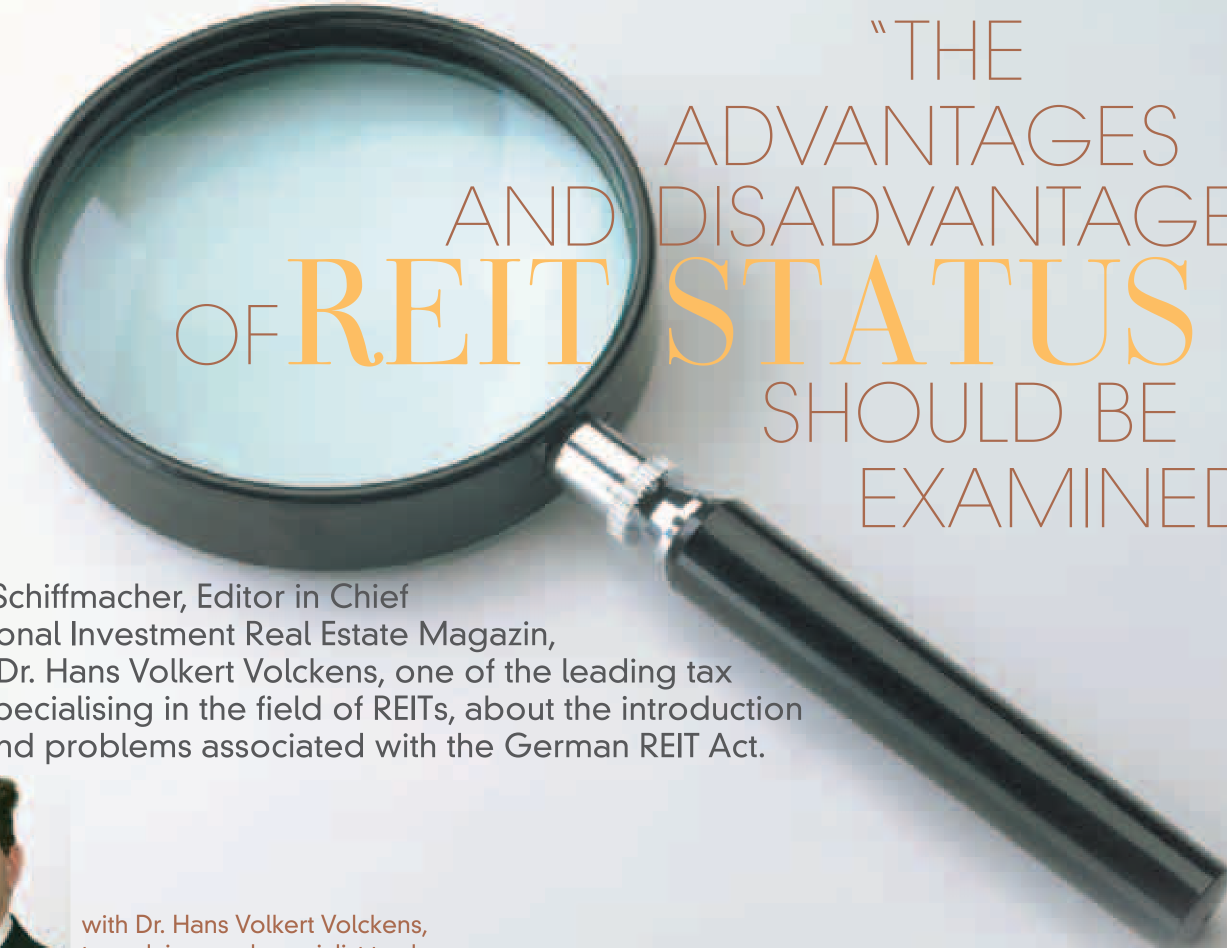
Despite the recent market turbulence, the share is currently in the upward channel it has been in since December, the lower support line for which is approximately €57. This also roughly corresponds to the current moving average for the last 100 trading days; as a result, it can be assumed that this line cannot easily be breached. If this nevertheless happens, the moving average for the last 200 trading days together with the lower limit of the upward trend channel that has been in existence since 2004 at approximately €55.40 and the zone between €55.50 and €52.50 form a massive support line. This bulwark in chart analysis terms will not be easy to breach.

On the upside, the shares are currently bounded by the €60 mark. If they can break through this barrier and reach new all-time records, there are no further resistance lines; in this case, the next targets should be €65, followed by €70. If one takes other indicators such as the MACD (moving average convergence/divergence indicator) and the RSI (relative strength index) into account, these suggest that the shares will rise, making them a good investment in the near future.

Short-term target: € 63.80
Short-term stop-loss: € 55.29

Bodo Hoffmann





"THE ADVANTAGES AND DISADVANTAGES OF REIT STATUS SHOULD BE EXAMINED"

Christian Schiffmacher, Editor in Chief of Institutional Investment Real Estate Magazin, spoke to Dr. Hans Volkert Volckens, one of the leading tax lawyers specialising in the field of REITs, about the introduction of REITs and problems associated with the German REIT Act.

with Dr. Hans Volkert Volckens, tax advisor and specialist tax lawyer, Beiten Burkhardt

Real Estate Magazin: In your view, what are the key advantages of REITs?

DR. VOLCKENS: The REIT concept is an internationally recognised form of indirect real estate investment. The attractiveness of this investment is attributable to the need to comply with asset and income limits, its tax transparency and mandatory high dividends. In spite of differences between REIT legislation in individual countries, REITs all over the world share the same basic criteria. This means that international investors have a familiar and reliable vehicle for their portfolio allocations.

Real Estate Magazin: And what, in your opinion, are the key problems associated with the German REIT-Gesetz (REIT Act)?

DR. VOLCKENS: The REIT-Gesetz offers many advantages, but a number of key elements are in need of improvement. The introduction of the half-income system (Halbeinkünfteverfahren) and of the tax exemption in accordance with section 8b of the Körperschaftsteuergesetz (KStG – Corporation Tax Act) for income subject to upstream taxation is decisive, as is the revision of exit tax rules to reflect market requirements. In order to create a successful investment product, the REIT-Gesetz must strike a balance between fiscal necessity on the one hand, and market necessity on the other. The Finance Committee of the German Bundestag has requested the Federal Ministry of Finance to specify the half-income system and the tax exemption in accordance with section 8b Corporation Tax Act for income subject to upstream taxation as the standard procedures before the end of this year.

Real Estate Magazin: Do you expect amendments to be made to the law in the medium term and shall we also see residential REITs in Germany?

DR. VOLCKENS: As with all tax legislation, amendments will be made to the law in the short term. Whether it will be possible to gain political acceptance for residential REITs is questionable. If the objective arguments are considered, there is no reason why residential properties should not be included in the German REIT-Gesetz.

Real Estate Magazin: What kinds of portfolios and companies will be the first to attain REIT status?

DR. VOLCKENS: As the REIT legislation requires companies to adhere to certain specifications, I believe that "synthetic portfolios" will be the first to attain REIT status. By contrast, "conventional" real estate companies will first examine their current business model and portfolio allocation in detail in order to definitively establish the advantages and disadvantages of REIT status for themselves and their investors.

Real Estate Magazin: Thank you for sharing your insights with us.

The interview was conducted by Christian Schiffmacher.

Roadshows and conferences in 2006

The Executive Board and the Investor Relations department again completed a demanding programme of roadshows and capital market conferences in 2006, with the objective of making the Deutsche EuroShop share and the Company itself better known and of developing contacts with potential and existing institutional shareholders.

A **roadshow** involves a team consisting of a member of the Executive Board and a member of the Deutsche EuroShop Investor Relations department, together with representatives of the organising bank (such as, for example, analysts and account executives), travelling to a financial centre to meet existing or interested potential investors and provide them with information on the strategy and current performance of the Company. This gives investors the opportunity to meet a member of the management in person and put any questions to him directly. It is not unusual for up to ten meetings to be held in one city on a single day.

In addition to the major financial centres such as London, Paris and Frankfurt, which we visited a number of times during the past year in response to high demand, our itinerary included roadshows in Geneva, Vienna, Amsterdam and Milan. We visited investors in Stockholm, Dublin and Luxembourg for the first time. On two occasions we travelled to the USA, where we held meetings in Boston, New York and other locations.

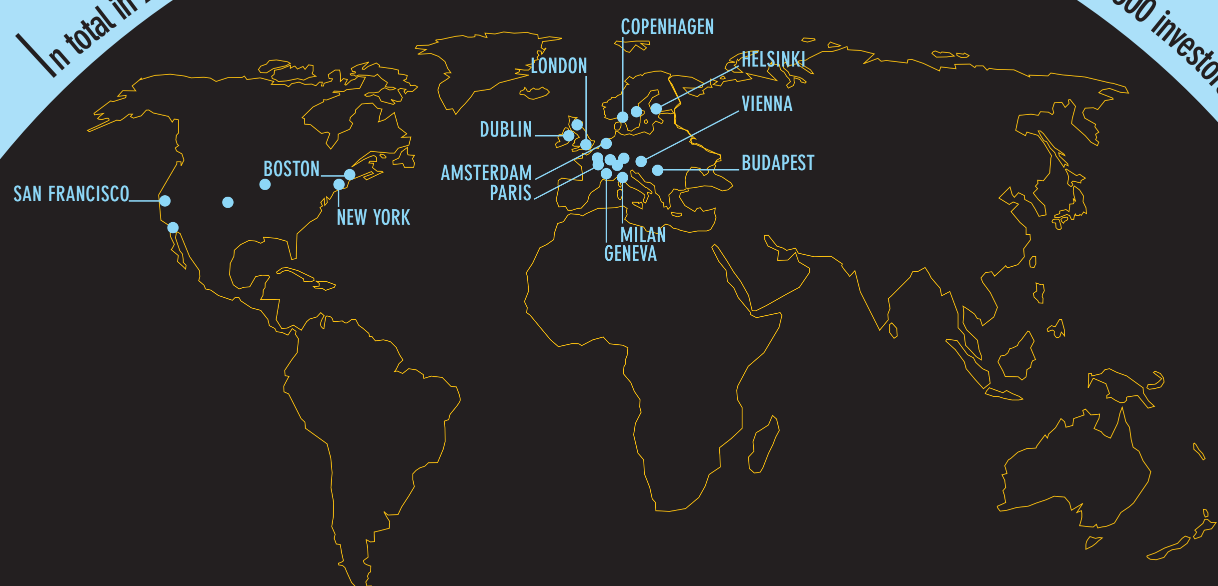
In 2006, we took part in conferences in Frankfurt, Munich, London, Amsterdam, Zurich, Budapest and New York. In each case, the conferences were organised by well-known international banks.

In 2007, our intention is again to present Deutsche EuroShop at roadshows and at selected conferences. A regularly updated schedule of investor relations activities can be found online at www.deutsche-euroshop.de/englisch/investor/index.php.

Capital market conferences give institutional investors the opportunity to meet as many companies as possible on the same day in one place. Representatives of the companies give presentations to participants, while group and one-on-one discussions create the opportunity to go into particular questions in detail.

Olaf G, Borkers
at the IIA conference

In total in 2006, at 20 roadshows and 19 conferences we held one-on-one discussions with more than 300 investors.

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ANNUAL REPORT trend scouting

If you look around you in the world of fashion, there are always new trends to be observed in every season. So-called "trend scouts" are employed to track down the trends for the coming season as early as possible. But what sort of trends can we expect in the coming season for annual reports? Can any trends be identified at all?

One thing is quite clear: the annual report has not remained stuck in the past as the dinosaur of corporate communications, but is evolving year by year.

This evolutionary process is taking place on two levels. On the one hand, there is the creative image part of the annual report and on the other, the mandatory part with the formal requirements.

These days, it has become accepted that the function of the image section is to communicate a message to the reader. Companies focus on identifying core statements which best describe their activities during the year. The core message for the financial year runs like a thread through the whole report, beginning with a powerful statement on the cover, followed by an informative summary on the initial pages and with a bold layout on the lead pages.

A very good example – as in previous years – is the current annual report in your hands. Why does an annual report always have to be nothing more than a jungle of text? Isn't the reader interested in the layout as well? Deutsche EuroShop has already made a consistent impact with innovative concepts and creative ideas in its annual reports for 2003 to 2005. This was recognised by German and international judges who awarded the annual report numerous prizes.

LACP 2005
Vision Awards Annual Competition
Annual Report 2005: Platinum
in the category
Real Estate

Gold in the category
Most Engaging

18th place
among
1,900 participants

Deutsche Standards
2006 | 2005
Best Online
Annual Report
2005 in MDAX

International ARC
Awards 2005 | 2004
The World's
Best Annual Reports
Annual Report 2004:
Silver Winner
Cover Photo/Design

Bronze Winner
Online
Annual Report 2005

However, the mandatory section is growing ever larger at the expense of the image section. The first major step in this direction came with the conversion from HGB to IFRS accounting. The volume of the notes alone in the financial section increased by up to 50%.

The size of the management report will also continue to increase as a result of the enhanced statutory publication and reporting obligations (the European Modernisation and Fair Value Directives).
New requirements have to be met: companies must publish information on their organisational form and control systems, a remuneration report and other disclosures under section 315 (4) of the HGB.

The conclusion is clear:

LIKE SLEEPING BEAUTY, ANNUAL REPORTS HAVE WOKEN FROM THEIR ENCHANTED SLEEP.

Together with improved corporate earnings figures, they are again becoming a key focus for corporate communications, as a vehicle for promoting transparency and investor confidence. At the same time, they serve to position the company as a brand in the financial markets.

Frank Riebel

Marketing

Along with share marketing, we focus on building and maintaining the Deutsche EuroShop brand. Our goal here is to further increase brand awareness and recognition. Deutsche EuroShop aims to establish itself as the brand for investments in shopping centers.

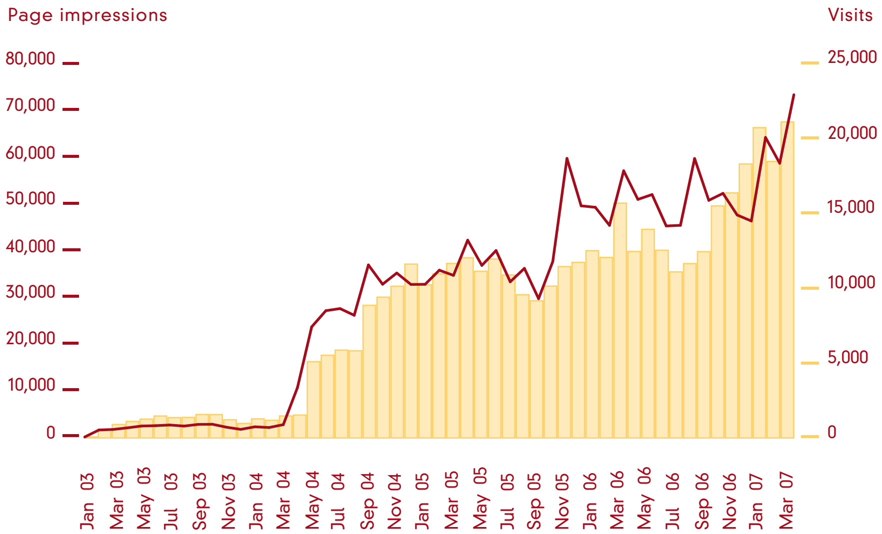
Image promotion through advertisements

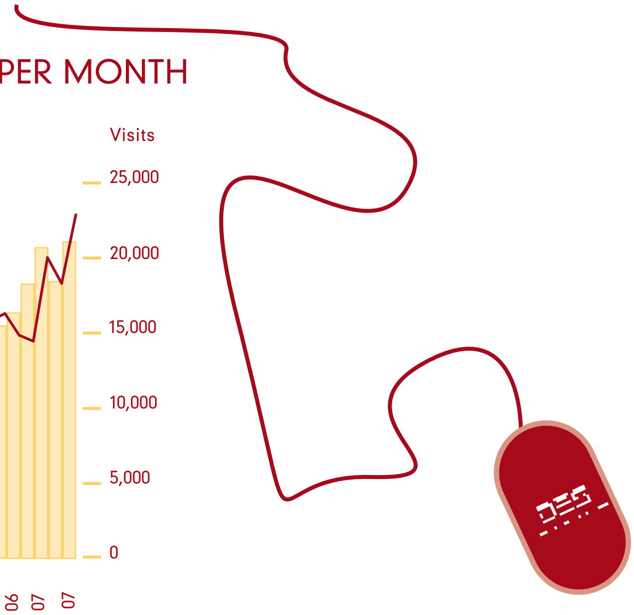
During 2006, we continued to pursue our strategy of running image advertisements aimed at highly specific target groups and timed to coincide exactly with the release of current results. The advertising campaign tied to the publication of our annual and quarterly reports used the key theme for 2006, "Building Business". With it, we drew attention to the successful development of our business in specialist publications. The positive response leads us to believe that we have achieved our goal of increasing the appeal of our company and confidence in it, while increasing our name recognition.

Website a popular information platform

Deutsche EuroShop's accessible website again enjoyed increasing popularity in 2006. Online visitors can now access approximately 200 clearly designed pages in German and English with information on all aspects of the Company. The website can be accessed at the domain www.deutsche-euroshop.com.

NUMBER OF PAGE IMPRESSIONS AND VISITS PER MONTH



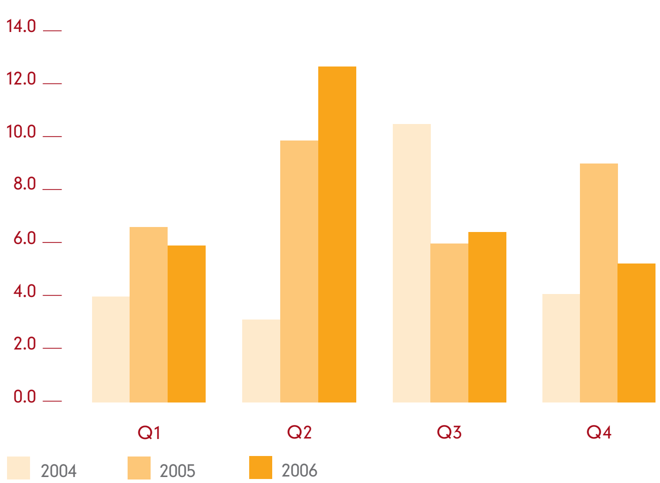


Valuable coverage

Deutsche EuroShop continues to enjoy wide interest from business and financial journalists. Our media coverage remained almost unchanged: while the circulation of newspapers and magazines reporting on us fell slightly from 31.5 million in 2005 to 30.4 million, the ad equivalency of this amount of coverage rose from around €2.9 million to just under €4.0 million. The level in the fourth quarter was lower than that for the comparable quarter of the previous year owing to the coverage of the capital increase implemented in 2005. Coverage of the publication of our annual results for 2005 in April 2006 was particularly intensive.

MEDIA COVERAGE

→ Circulation of reporting newspapers and magazines in millions



EVENTS

ANNUAL GENERAL MEETING

More than 250 shareholders and guests attended Deutsche EuroShop's Annual General Meeting on 22 June 2006. In keeping with the motto for the 2005 Annual Report, "Building Business", the AGM took place in the historic building of the Hamburg Chamber of Skilled Crafts and Small Businesses.

The Executive Board and the Supervisory Board provided detailed information on developments in financial year 2005 and the objectives for 2006. The new investments in shopping centers were a major theme. Interested visitors were able to speak directly to employees of Deutsche EuroShop at the information stand. The Annual General Meeting approved the items on the agenda by a large majority, including the authorisation to issue convertible bonds and the creation of conditional capital against cash contributions.

Deutsche EuroShop's Annual General Meeting this year will be held on 21 June 2007 at the famous Hotel Atlantic in Hamburg.

www.deutsche-euroshop.com/ir

HAMBURG EXCHANGE CONVENTION

The 11th Hamburg Exchange Convention, now the largest financial fair in North Germany, took place on 7 October 2006. More than 5,000 attendees came to the Chamber of Commerce to gather information from more than 90 exhibitors in the historic trading rooms of the Hamburg Stock Exchange. In addition, 60 talks were given on current topics in the field of business and finance, aimed at finance professionals and beginners alike.

For the second year running, Deutsche EuroShop was represented at the fair with its own stand, demonstrating its close ties with Hamburg as a business location. Numerous shareholders and interested parties took advantage of the opportunity to put their questions in person to the Executive Board and the employees who were present. Deutsche EuroShop will also be participating in this year's event, which is free for visitors: the next Hamburg Exchange Convention will take place on 10 November 2007.

www.boersentag.de

REAL ESTATE SHARE INITIATIVE

The Real Estate Share Initiative is an association of German real estate companies, currently with twelve members. It was founded in 2001 by Deutsche EuroShop and three other leading real estate companies in order to increase the market acceptance of investment in German real estate shares.The Real Estate Share Initiative's 6th conference took place in Frankfurt on 12 October 2006 with around 250 investors, financial analysts and real estate specialists from Germany and abroad. The participants had an opportunity to meet the leading market players and to find out about all the latest developments and trends affecting real estate shares in talks, podium discussions and company presentations. G-REITs (German Real Estate Investment Trusts) were a major area of focus.Olaf G. Borkers (CFO) presented Deutsche EuroShop's current development and strategy to a large audience, and the Executive Board together with the IR team spoke to numerous investors, analysts and media representatives individually and in groups.The Initiative's next conference will take place on 25 and 26 October 2007 in Frankfurt.

www.initiative-immobilien-aktie.de

Claus-Matthias Böge, Olaf G. Borkers

Hamburd Exchange Convention

"SUPPLY EXCEEDS DEMAND"

Interview with Kay Bommer, Managing Director of DIRK – Deutscher Investor Relations Verband e.V.

DES: Two laws came into force on January 2007 which aim to improve transparency on the capital markets, namely the EHUG (Gesetz über elektronische Handelsregister und Genossenschaftsregister sowie das Unternehmensregister – German Electronic Commercial Register, Cooperative Society Register and Company Register Act) and the TUG (Transparenzrichtlinienumsetzungsgesetz – German Transparency Directive Implementation Act). What is your opinion of them?

Bommer: Both laws have their origins in the fundamentally welcome attempt to achieve uniform transparency requirements in Europe and to improve investors' access to significant company news and information.

Having said that, German legislators regularly tend to go beyond what is actually necessary in implementing EU directives in national law. This results, on the one hand, in a substantial extra administrative burden without any noticeable additional benefit for investors. In addition, it frustrates the second principal aim of the directives, namely the establishment of a uniform legal framework for the capital markets across Europe. This is not the way to create a level playing field. I am pleased to say that, in the case of the TUG, DIRK – together with issuers and other associations – was able to use its influence to achieve a more balanced implementation of the directive for the capital markets.

DES: What challenges do issuers face in implementing the directives in practice?

Bommer: A fundamental principle of the new regulatory framework is that, from now on, significant company news must be disseminated throughout Europe using a variety of media. To date, not everyone is convinced that the new EU law makes sense: A Luxembourg radio station whose fax machine is constantly jammed with incoming annual reports is threatening the companies concerned with cease and desist orders. To put it in the language of the capital markets: The current supply of information clearly exceeds the demand.

Therefore: The objective of all participants must be to find best practice solutions as rapidly as possible and to establish them definitively so that all issuers can rely on them.

DES: What do you see as the current trends and challenges for investor relations work over the next 12 months?

Bommer: Firstly, compliance with the new requirements described above, without neglecting the real needs of investors. A clear distinction must be made between mandatory requirements and voluntary information. Given the information overkill now imposed by law, there is a need to prepare the most important information specifically for each target group. The majority of investors will not obtain their information via the newly created channels, but will want everything in the familiar format.

I think the second major trend will be the increasing importance of the IR manager as an adviser to the executive board. IR is not a one-way street used solely for broadcasting company information to the outside world. Rather, capital market sentiment and developments, as well as investors' expectations, must be captured and passed on to the management. Only executive boards that are well informed about these things can act successfully in today's environment.

DES: Mr. Bommer, thank you for talking to us.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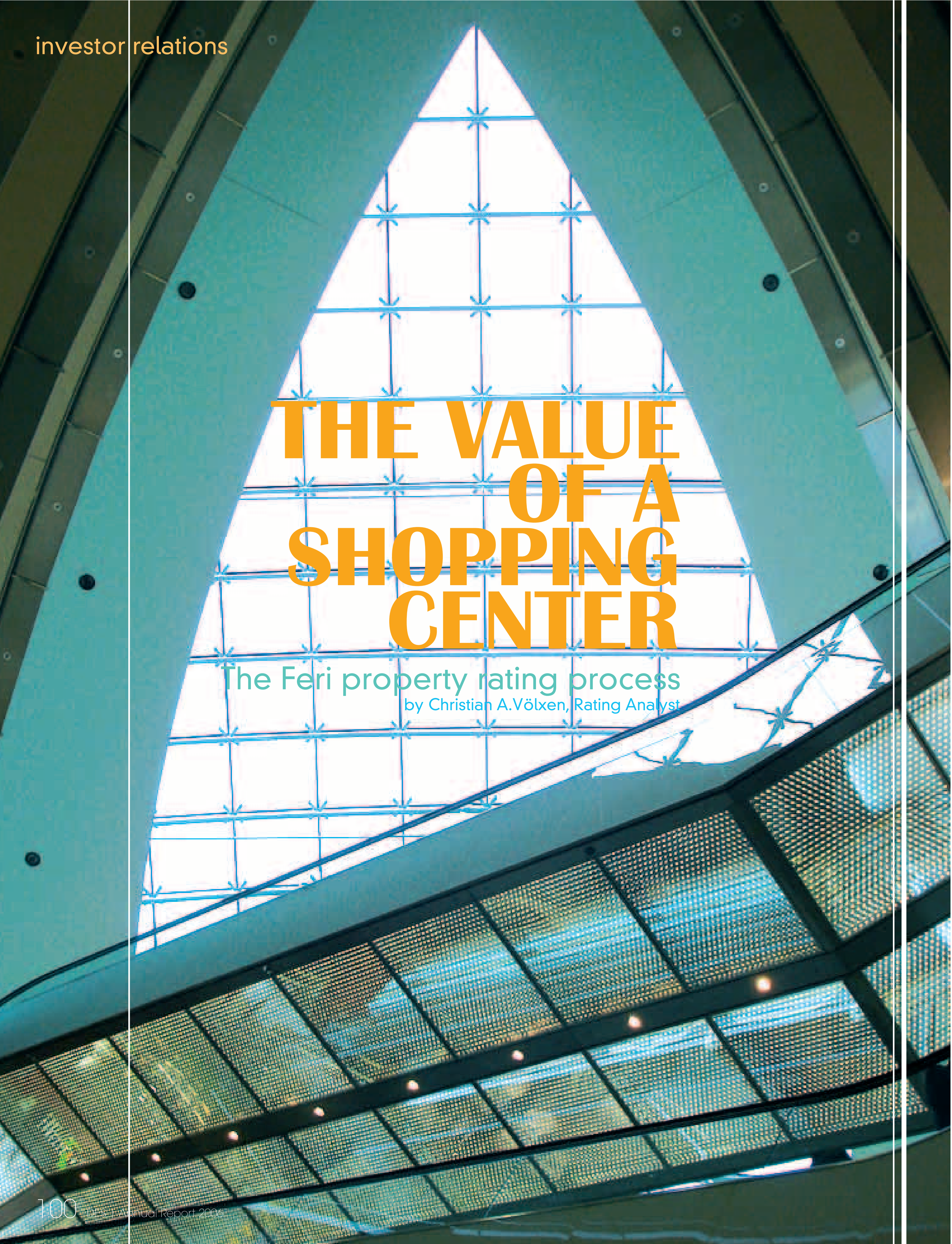

THE VALUE OF A SHOPPING CENTER

The Feri property rating process

by Christian A.Völxen, Rating Analyst

VALUING SHOPPING CENTERS

For property valuers, establishing the fair value of shopping centers is an extremely complex task. Shopping centers have organisational structures similar to those of large middle-market companies generating revenues in the low to middle millions. Shopping centers with tens of thousands of square metres of retail space are retail towns in their own right and frequently represent a significant proportion of the retail space in a particular city or region.

The Feri property rating process allows a comprehensive and market-driven analysis and valuation of the numerous different criteria that need to be addressed.

RATING

Although everyone talks about ratings, there is no standard definition of the term that is accepted throughout the industry.

Feri defines property ratings as analyses of the quality of the property market, a particular property, or a real estate product with regard to its expected appreciation potential and risks from an investor perspective.

Types of rating

Ratings are multi-dimensional valuations performed with a view to a particular objective. Basically speaking, two types of rating have become established in practice:

- Credit ratings
- Investment ratings

Credit ratings are assessments of the ability of a debtor (a country, a company, etc.) to meet its financial obligations. Investment ratings analyse the quality of an investment (stocks, real estate, funds, etc.) from a risk/return perspective. Whereas in the case of credit ratings the focus is on determining the likelihood of default, and hence solely on the risk involved, investment ratings also examine the opportunities offered by an investment.

Common to all ratings is the idea that they should enable third parties to assess different alternatives quickly and easily, without having access to all the necessary information or to perform their own detailed examinations.

Requirements

For ratings to meet the expectations placed in them, they must fulfil a number of requirements:

- Forecast-driven

Ratings are designed to provide assistance in making investment decisions. They must therefore reflect future developments.

- Long-term

Since property investments have a long-term focus, the same has to apply to ratings as well.

- Comparability

To be able to compare alternative investments and risks, comparability between different investment properties in different locations and with different uses must be ensured.

- Quantitative

For results to be verifiable, ratings must be expressed in quantitative terms.

- Transparent

The results must be presented in such a way that users can understand the reasoning behind them.

Rating scales

At the end of the rating process, the assessment is expressed in the form of a rating score. All rating criteria are expressed on a scale from 1 to 100 in line with the Feri rating algorithm. Finally, the results for the individual categories are combined to produce a weighted overall score that is assigned to one of ten grades ranging from AAA (absolutely outstanding) to E- (extremely poor).

THE IMPORTANCE OF FORECASTS

One of the main requirements of a qualified rating is that it should be forecast-driven. Feri has been producing ratings for almost 20 years on the economic development of countries, sectors, and the capital and real estate markets. All property valuations are based on forecasts of the development of the real estate market concerned, supply and demand indicators, and yields and prices. Feri uses a top-down approach for real estate market forecasts.

Property valuations

When establishing the fair value of a property, Feri produces a property rating to determine the attractiveness of, and the risks associated with, the property as the basis for establishing the fair value.

A top-down approach is used when assessing the property that analyses the relevant parameters from supraregional market trends down to the specific features of the microlocation and the property concerned, and weights these according to their respective importance.

A particular feature of the Feri approach is that it is based on explicit cash flow forecasts for the property, which automatically include the market forecasts for the location.

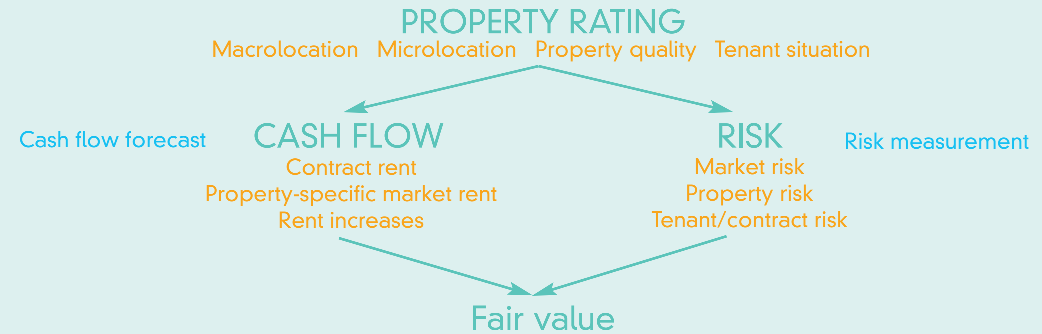

Figure: The Feri Property Rating valuation model

The Feri property rating is based on an analysis of the

- macrolocation
- microlocation
- property quality, and
- tenant situation.

The attractiveness of a property, which is determined by the quality of the macrolocation, the microlocation and the property itself, is determined using a comprehensive catalogue of approximately 150 individual criteria.

In addition to providing a detailed overview of all relevant quality criteria for a particular property, the attractiveness is used to derive a property-specific market rent, which is appropriate over the long term for the property to be valued.

This also includes Feri's market forecast, which is broken down to the level of the individual property using the attractiveness components.

In addition, the attractiveness is used to determine the risk-adjusted rate of return for the property. Feri calls this figure, which takes into account all risks associated with the property and which is used as the capitalisation rate during the valuation process, the "break even return".

The rental contracts are analysed in order to establish the cash flows, which serve as the basis for calculating the fair value of the property using a discounted cash flow model (DCF), as well as to establish the tenant risk.

However, analysing the rental contracts is not enough on its own to establish the income from a property, which is why forecast rental trends and lease renewal scenarios are crucially important. In this context, the heterogeneous structure of shopping centers must be borne in mind. This is why Feri has entered into a partnership with GfK Geomarketing, which contributes its expertise in the field of retail properties and shopping centers to the valuations.

To sum up, Feri property ratings deliver fair values calculated in accordance with international valuation standards and in which all factors influencing the calculation are transparent and verifiable, thus making a long-term contribution to improving the transparency of the property sector.

Christian Völxen

Corporate Governance

Deutsche EuroShop is a transparent enterprise whose actions are aimed at achieving long-term success. This focus on continuity is an essential part of our corporate culture. Our aim is to promote the confidence of investors, lenders, employees, business partners and the public in the management and control of our Company on the basis of the legal and enterprise-specific framework for the management of listed enterprises. This aim coincides with the objectives of high-quality corporate governance.

The Government Commission on the German Corporate Governance Code published the German Corporate Governance Code on 26 February 2002 and approved amendments and additions to individual recommendations and suggestions most recently on 12 June 2006. Going forward, the Government Commission will continue to monitor the development of corporate governance in legislation and in practice and will adapt the Code as needed.

Deutsche EuroShop welcomes the German Corporate Governance Code presented by the Government Commission. The Code not only creates a transparent legal framework for corporate management and control in Germany; it also documents generally accepted standards for good and responsible corporate leadership.

Management and control structure

The Supervisory Board and the Executive Board work together closely and on the basis of mutual trust for the benefit of the Company. The Supervisory Board is informed regularly, promptly and comprehensively by the Executive Board about the Company's business development, strategy and planning and the risk situation. Detailed information on the main areas of focus of the Supervisory Board' s activities in financial year 2006 can be found in its report on pages 14 to 17.

In financial year 2006, there were no advisory or other contracts for work or services in existence between members of the Supervisory Board and the Company.

Executive Board

The Executive Board of Deutsche EuroShop manages the Company in accordance with the provisions of German company law and with its rules of procedure. The Executive Board's duties, responsibilities and business procedures are laid down in its rules of procedure and in its schedule of responsibilities. The chief management duties of the Executive Board are the determination of the Group's strategic orientation and management, planning, and the establishment and implementation of risk management. The Executive Board of Deutsche EuroShop currently comprises two members.

Claus-Matthias Böge

Born 13 February 1959
First appointment: 2001
Appointment ends: 2010

Claus-Matthias Böge joined Deutsche EuroShop in 2001, as a member of the Executive Board. In 2003 he assumed his current position as spokesman for the Executive Board. He is also a Managing Director of Deutsche EuroShop Verwaltungs GmbH and of Deutsche EuroShop Management GmbH. In addition, Mr. Böge is a personally liable partner of a foreign subsidiary.

Olaf G. Borkers

Born on 10 December 1964
First appointment: 2005
Appointment ends: 2008

Olaf G. Borkers joined Deutsche EuroShop in October 2005, as a member of the Executive Board. He is also a Managing Director of Deutsche EuroShop Verwaltungs GmbH and of Deutsche EuroShop Management GmbH.

Supervisory Board

The Supervisory Board supervises and advises the Executive Board in its management activities in accordance with the provisions of German company law and its rules of procedure. It appoints members of the Executive Board, and significant business transacted by the Executive Board is subject to its approval. The Supervisory Board is composed of six members who are elected by the Annual General Meeting.

The Supervisory Board has established the information and reporting duties to be met by the Executive Board and has formed an Executive Committee and an Audit Committee, each comprising three people.

The members of the Supervisory Board are:

Manfred Zaß, Chairman
Dr. Michael Gellen, Deputy Chairman
Thomas Armbrust
Dr. Jörn Kreke
Alexander Otto
Dr. Bernd Thiemann.

The members of the Executive Committee are Mr. Zaß, Dr. Gellen and Mr. Armbrust. The Executive Committee is chaired by the Chairman of the Supervisory Board. The Committee discusses and passes relevant resolutions on urgent business matters. Moreover, it is responsible for human resources issues concerning the Executive Board and for reviewing the Company's corporate governance principles.

The members of the Audit Committee are also Mr. Zaß, Dr. Gellen and Mr. Armbrust. The Audit Committee is chaired by Mr. Armbrust. It is responsible for issues relating to accounting, auditing and the preparation of the annual and consolidated financial statements. Former members of the Company's Executive Board and the Chairman of the Supervisory Board generally do not chair the Audit Committee, to avoid conflicts of interest.

Remuneration

The detailed disclosures relating to the remuneration, ancillary benefits and pension commitments of the Executive Board and the Supervisory Board can be found in the remuneration report, which is part of the management report, and in the notes.

Shareholdings

Executive Board

As at 31 December 2006, the Executive Board held a total of 15,150 shares, less than 1% of Deutsche EuroShop's share capital.

Supervisory Board

As at 31 December 2006, the Supervisory Board held a total of 2,113,025 shares, more than 1% of Deutsche EuroShop's share capital.

In addition to the general legal provisions requiring public disclosure, the rules of procedure of the Executive Board and of the Supervisory Board govern the reporting duties of Executive Board and Supervisory Board members in the event of dealings involving shares of the Company or related rights of purchase or sale, as well as rights directly dependent on the Company's share price.

Directors' dealings

The following securities transactions by members of the Executive Board and of the Supervisory Board or by certain persons related to members of the executive bodies were notified to Deutsche EuroShop during financial year 2006 in accordance with section 15a of the WpHG:

Shareholder relations

Shareholders exercise their rights in matters concerning the Company at the Annual General Meeting. The Annual General Meeting elects the members of the Supervisory Board and passes resolutions approving the actions of the Executive and Supervisory Boards. It decides on the appropriation of the unappropriated surplus and also on the compensation of the Supervisory Board, as well as on amendments to the Company's Articles of Association. The Annual General Meeting, at which the Executive and Supervisory Boards give an account of the past financial year, takes place once a year. When resolutions are adopted at the Annual General Meeting, each share grants one vote in line with the principle of "one share – one vote". Every shareholder is entitled to attend the Annual General Meeting and to speak and submit questions about items on the agenda.

NOTIFYING PARTY	DATE OF TRANSACTION	TRANSACTION	NUMBER	PRICE PER SHARE IN €
Gabriele Cattarius-Armbrust	14.03.2006	Sale of shares	2,063	55.65
Gabriele Cattarius-Armbrust	15.03.2006	Sale of shares	15,437	55.60
Thomas Armbrust	21.03.2006	Sale of shares	17,500	55.75
Claus-Matthias Böge	23.03.2006	Sale of shares	10,000	56.80
Manfred Zaß	27.03.2006	Sale of shares	1,500	57.21
Manfred Zaß	22.05.2006	Sale of shares	1,500	50.50

Deutsche EuroShop reports to its shareholders and to the public on the Company's business development, financial position and results of operations four times a year in line with a financial calendar. Press releases also inform the public and the media of Company activities. Information that may materially influence the Company's share price is published in the form of ad hoc disclosures in accordance with the legal requirements.

The Executive Board gives regular presentations to analysts and at investor events as part of the Company's investor relations activities. Analyst conferences on the release of the annual and quarterly financial statements are broadcast over the Internet, where they are available to anyone interested in the Company. In addition, Deutsche EuroShop provides financial information and other information about the Deutsche EuroShop Group on its web site.

Accounting and audits

The Deutsche EuroShop Group prepares its financial statements according to International Financial Reporting Standards (IFRSs) on the basis of section 292a of the Handelsgesetzbuch (German Commercial Code). The annual financial statements of Deutsche EuroShop AG will continue to be prepared in line with the accounting provisions of the HGB. The Executive Board is responsible for the preparation of the financial statements. The chairman of the Audit Committee commissions the auditor of the annual financial statements, previously elected by the Annual General Meeting. The increased requirements for the independence of the auditor are met in this process.

Outlook

Discussion of the principles governing good corporate management and control continue – within the industry as well. European initiatives will continue to gain in importance and create a framework of standards that will allow for freedom at a national level to take into account national peculiarities and typical company law issues. The "discipline of the marketplace" will also have a considerable influence on the scope of corporate governance in practice.

Declaration of conformity

In December 2006, the Executive and Supervisory Boards of the Company jointly submitted their updated declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code for the 2006 financial year in accordance with section 161 of the AktG (Aktiengesetz – German Public Companies Act). The declaration was made permanently available to the public on the Company's website at www.deutsche-euroshop.com.

Joint declaration by the Executive and Supervisory Boards of Deutsche EuroShop AG relating to the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 AktG

The Executive Board and the Supervisory Board of Deutsche Euroshop AG declare that the Company has conformed and will conform with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Federal Gazette on July 4, 2003, as amended on June 12, 2006, with the following exceptions:.

• Deutsche EuroShop AG will not broadcast the Annual General Meeting via modern communication media, e.g. the Internet (section 2.3.4).

The Company has decided not to broadcast the Annual General Meeting via modern communication media as a result of the need for confidentiality expressed by a large number of shareholders and the low demand in relation to the costs that is expected due to the size of the Company and the number of shareholders.

• The D & O insurance does not include a deductible for the Executive Board and the Supervisory Board (section 3.8 (2)).

The Executive Board and the Supervisory Board of Deutsche EuroShop AG have acted in a responsible manner and have managed and supervised the Company in line with the principles of adding enterprise value ever since the Company was established, and thus before the official introduction of corporate governance guidelines. The Company therefore believes that the agreement of a deductible is not necessary, in particular as this has no effect on the level of the insurance premium.

• The compensation of the Executive Board members does not include stock options (section 4.2.3 (3)).

No stock option programmes or similar securities-based incentive systems are in place at the Company (section 7.1.3).

Share price performance is dependent on various factors that do not necessarily reflect the Company's actual business performance. This could counteract the long-term incentive effect of stock option programmes. For this reason, the Company has not launched any stock option programmes or similar securities-based incentive systems to date.

• The compensation of the Supervisory Board is specified by resolution of the Annual General Meeting. Membership in committees is not taken into account when determining the compensation of the Supervisory Board (section 5.4.7 (1)). The compensation does not contain any performance-related components (section 5.4.7 (2)).

Additional (performance-related) compensation of the Supervisory Board means that it is not possible, in the Company's opinion, to ensure that Supervisory Board and committee work are independent of financial interests.

• The consolidated financial statements are publicly accessible within 120 days of the end of the financial year (section 7.1.2).

It is important to the Company to publish audited annual financial statements that have been approved by the Supervisory Board. An earlier publication date is not possible due to the schedules for the preparation, auditing and adoption of the annual financial statements.

Hamburg, December 2006

The Executive Board and the Supervisory Board
Deutsche EuroShop AG

Deutsche EuroShop AG

management report 2006

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Macroeconomic Environment

The pace of Germany's economic recovery accelerated in 2006. Gross domestic product (GDP) rose by 2.7% in Germany (previous year: 0.9%). After adjustment for the negative calendar effect – the year under review had two fewer working days than the preceding year – the rise in GDP was 2.9% for 2006 (2005: 1.1% after adjustment for the calendar effect), the fastest growth rate since 2000.

Economy driven by exports

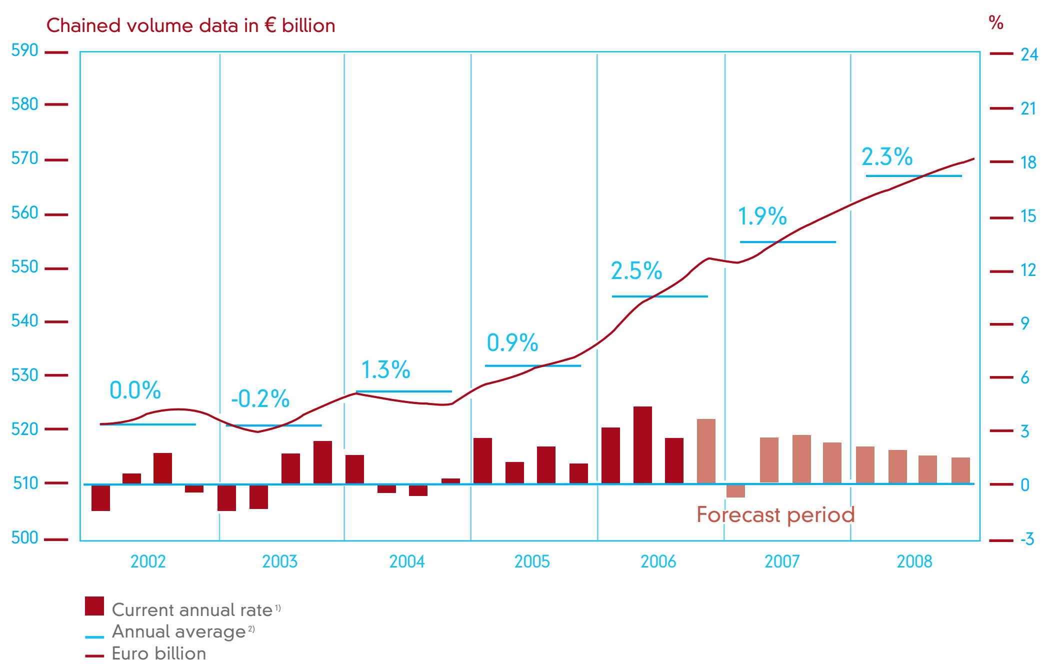
The positive development of the German economy over the past two years has primarily been driven by continuing high export surpluses. In spite of the euro's sharp appreciation against the US dollar, demand from abroad continued unabated and caused double-digit growth in exports (+12.4% in real terms). According to information from the Federal Statistical Office, the share of net exports in GDP growth in the financial year under review amounted to 0.7 percentage points. In 2004 this figure was 0.4 percentage points.

Domestic demand gathers momentum

Unlike in previous years, the domestic economy also gathered momentum in 2006. Investments in construction and capital goods expanded fairly rapidly. Not only capital expenditure, but also consumer spending rose in Germany, driven by modest wage increases (+1.8%) and a small decline in the savings rate (from 10.6% to 10.5%): Private consumption, which accounts for 59% of nominal GDP and is therefore its most significant component, increased by 2.1% after two virtually flat years.

GROSS DOMESTIC PRODUCT

→ Seasonally and working-day adjusted



[1] Percentage q/q change, extrapolated to annual rate (right-hand scale).
[2] Figures: y/y change.

Source: Federal Statistical Office, calculations and estimates by the ifo Institute (December 2006).

Inflation at 1.7%

The consumer price index declined in 2006. Averaging 1.7%, annual inflation was below that of the previous year (2.0%). The development in inflation in 2006 was mainly driven by energy prices. Domestic energy and fuel prices rose by 8.5% and drove prices upwards for almost the entire year. Excluding the effect of energy prices, the average inflation rate would only have been 0.9%.

Situation on the labour market brightens

On an annual average, the unemployment rate fell to 10.8% (previous year: 11.7%); 4.49 million people (previous year: 4.86 million) were out of work. This significant decline in unemployment primarily reflects a cyclical increase in employment liable to social security contributions.

EMU economy expands

The European Monetary Union (EMU) experienced a strong economic upturn in 2006. According to the Statistical Office of the European Communities (Eurostat), GDP grew by 2.6% in 2006 (previous year: +1.4%). After adjustments for calendar effects, it is estimated that growth would have been just over 0.1 percentage points higher. However, there were major differences between the various member states: while Ireland and Luxembourg reached growth rates of more than 5%, Germany (2.7%) again ranked among the poorer performers as regards economic development, ahead of France (+2.2%), Italy (+1.7%) and Portugal (+1.2%). The euro zone inflation rate in 2006 was 2.2%, similar to the previous year, and unemployment fell sharply to 7.8% (2005: 8.6%). Private consumption increased considerably. While Germany enjoyed its first upturn in years, growth in France, Spain and Italy was positively buoyant.

Retail Sector

According to preliminary results from the Federal Statistical Office, German retail sales rose by 0.8% in nominal terms in 2006 and by 0.1% in real terms (after adjustment for prices). 2006 had two fewer selling days than 2005. The increase in revenues was primarily due to the non-food retail trade (+1.1% in nominal terms, +1.2% in real terms). Food, beverage and tobacco retail sales, however, were only 0.3% higher than in 2005 in nominal terms; after adjustment for prices, sales declined by 1.6%.

Retail trade hardly benefits from Football World Cup

Unlike the catering trade (+4%), electronics retailing was the only segment of the retail trade that benefited from a significant World Cup effect, in spite of extended shop opening hours in some cases. In the period from December 2005 up to and including June 2006, this segment's nominal sales increased by 5.2%, driven for example by the sale of flat-screen TVs. The retail trade as a whole only recorded a 1.2% rise in sales in this period.

Success with higher-quality clothing concepts

As in 2005, well-established chains with strong credit ratings succeeded in particular in increasing their sales. Suppliers of young fashion and higher-quality clothing concepts were again successful. Bookshop chains, telecommunications concepts and the footwear trade also expanded. On the other hand, retailers with traditional department store concepts had to cope with declining sales.

Space expansion continues

Space expansion in the retail trade continued in 2006, although growth was somewhat slower than in previous years. According to the Hauptverband des deutschen Einzelhandels (HDE – German Retail Federation), total retail space increased by 1.4 million m² to 119.4 million m². A survey conducted by the Institut für Gewerbezentren (IfG – Institute for Shopping and Trade Center Research) found that Germany's 360 shopping centers with retail space of 15,000 m² or more accounted for 11.4 million m² of space, or 9.6% of total German retail space.

Property Market

Investors once again showed a great deal of interest in German shopping centers, department stores, retail parks and factory outlet centers. According to Jones Lang LaSalle, one of the world's leading estate agents and property consultants, retail properties became the top revenue-generating asset class in the German property sector for the first time. With a transaction volume of €18.5 billion (2005: €6.5 billion), they relegated the traditional leader, office properties, to second place with €18.2 billion. As in the rest of Europe, unlisted investors were the most important group of buyers.

Higher prices, lower returns

High overall demand and relatively scarce supply, combined with higher prices, led to falling returns for shopping centers and the pressure on margins continues. At the end of 2006, the return generated by German shopping centers in prime locations as calculated by Jones Lang LaSalle was 4.95%.

Tenant demand focussed on spaces of up to 250 m²

According to a survey by Kemper's, a real estate agent that specialises in retail properties, the retail spaces in most demand in the past year were those in the up to 250 m² size class (56% share). Larger spaces were also in demand: Every fourth lease was for over 500 m².

Investors aiming for diversification

A study carried out by economic research and forecasting institute Feri Rating & Research found that 77% of German institutional investors want to increase the share of real estate in their total assets over the next few years, thus continuing the trend of many years. The reasons quoted include greater diversification of the total investment portfolio, stable income and positive performance expectations. Furthermore, many investors currently regard the returns generated by real estate as more attractive than those achievable with fixed-income securities.

Strategy

We focus on investment in top-quality shopping centers in city centres and established locations that have the potential for stable, lasting value growth and generate substantial distributable free cash flows on an ongoing basis.

Clear goals and principles

Deutsche EuroShop's two primary investment objectives are to generate high surplus liquidity from long-term leases that is distributed to shareholders in the form of annual dividends, and to achieve sustained growth in the value of its portfolio. The Company diversifies risk by investing in shopping centers in a number of European regions, with the focus on Germany. The desired high return is achieved through indexed and turnover-based commercial rents coupled with a center management strategy that focuses on long-term performance.

High-yield portfolio with stable value

Deutsche EuroShop has a well-balanced, diversified portfolio of German and European shopping centers. We will continue to concentrate future investment on properties in premier locations that are expected to generate a high yield and maintain their value in the long term, so as to guarantee a high level of investment security.

Making the most of opportunities, maximising value

In line with our "buy & hold" strategy, we consistently place more value on the quality of our shopping centers than on the rate of growth of our portfolio. We monitor the market continuously and are able to act as buyers when an opportunity arises. Short decision-making channels and considerable flexibility in terms of potential investment and financing structures enable us to adapt to any competitive situation. At the same time, we are committed to optimising the value of the existing properties in our portfolio.

Differentiated rental system

An important component of our leasing concept is a differentiated rental system. While individual owners in city centers are often concerned with achieving the highest possible rents for their property (thus resulting in a monostructured retail offering), we ensure an attractive sector mix and long-term optimisation of our rental income through combined costing. The rent our lessees pay is dependent on their sector and turnover. Indexed minimum rents (based on the consumer price index) provide a guaranteed minimum level of income for Deutsche EuroShop in economic slowdowns.

The concept of shopping as an experience

We have outsourced center management to an experienced external partner, the Hamburg-based ECE Projektmanagement. ECE has been developing, planning, implementing, leasing and managing shopping centers since 1965. With currently 90 shopping centers under management, the company is the European market leader in this segment. We consider professional center management to be the key to the success of a shopping center. It not only ensures uniform opening hours and a consistently friendly, bright, safe and clean shopping atmosphere, it makes shopping an experience with in some cases striking presentations of merchandise, promotions and exhibitions. The 300,000 to 400,000 people who visit our 13 operational shopping centers on average every day are fascinated by the variety of sectors represented, but also by our unusual, unconventional promotions such as "California Dreams" or "Space Adventure". These turn shopping centers into marketplaces where something new and spectacular is constantly on offer.

REPORT ON ECONOMIC POSITION

The 2006 financial year ended with a record result for Deutsche EuroShop. During the year under review, we expanded the consolidated group through acquisitions and opened our shopping center in Klagenfurt. Moreover, the sale of our properties in Italy and France contributed to our good performance. Consolidated revenue rose by around 29% to €92.9 million. The share of consolidated profit attributable to Group shareholders increased by 106% to €100.3 million (previous year: €48.7 million). Our net asset value per share increased by around 10%, from €46.22 to €51.05. Earnings per share amounted to €5.84 (previous year: €3.09).

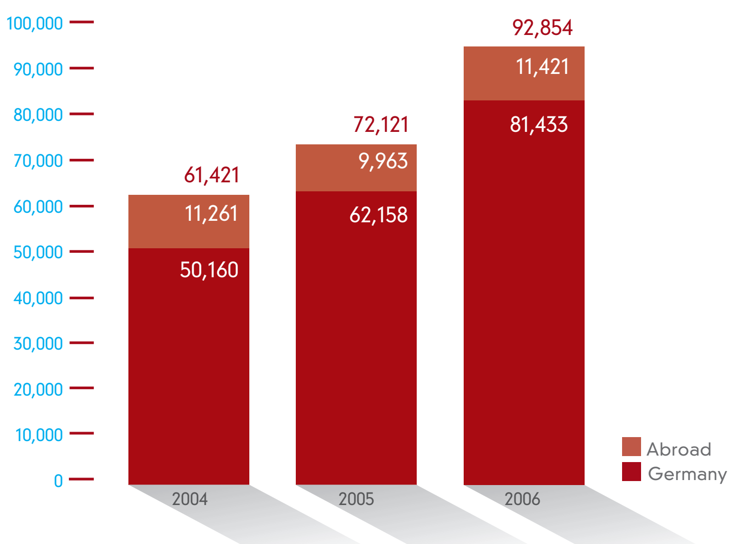
Revenue

Although German retail sales rose by 0.8% in nominal terms in 2006, the tenants of our shopping centers achieved a 3.3% increase in revenue on a same-store basis. If our international properties are included in this comparison, then our tenants generated space-adjusted revenue growth of 4.7%.

Consolidated revenue up by 29%

Consolidated revenue was up by 29% from €72.1 million to €92.9 million in financial year 2006. Both the opening of our shopping center in Austria and the acquisition of the Rathaus-Center in Dessau made a positive contribution to the Group's revenue in that year. In addition, the Main-Taunus-Zentrum was included in the consolidated financial statements on a proportionate basis for the first time. Equally, Forum Wetzlar contributed full-year operations to revenue for the first time.

REVENUE
→ in € thousand



Higher rental income for all portfolio properties

Rental income grew positively for all portfolio properties in the year under review, rising by 1.9%. The only exception was our shopping center in Wolfsburg, where early termination of the lease of a major tenant and the resulting restructuring led to a decline in income. Following its opening in February 2005, Forum Wetzlar contributed to revenue for a whole financial year in 2006. Our center in Klagenfurt opened in March 2006.

Our properties in France and Italy were sold in the course of the year, so that the revenue generated by them does not correspond to a full year of operation.

REVENUE 2006

€ thousand	2006	2005	Change
Rhein-Neckar-Zentrum, Viernheim	16,014	15,984	30
Main-Taunus-Zentrum, Sulzbach*	9,781	0	9,781
Allee-Center, Hamm	9,209	8,938	271
Forum, Wetzlar	7,982	7,220	762
Rathaus-Center, Dessau	7,941	0	7,941
City-Arkaden, Wuppertal	7,925	7,891	34
City-Galerie, Wolfsburg	7,704	8,157	-453
Altmarkt-Galerie, Dresden*	6,214	6,044	170
Phoenix-Center. Hamburg*	5,270	5,050	220
City-Point, Kassel*	2,980	2,874	106
Total Germany	**81,020**	**62,158**	**18,862**
City Arkaden, Klagenfurt*	4,024	0	4,024
Árkád, Pécs*	3,527	3,416	111
Centro Commerciale Tuscia, Viterbo	2,848	3,112	-264
Shopping Etrembières, Annemasse	1,022	3,435	-2,413
Total abroad	**11,421**	**9,963**	**1,458**
Other revenue	413	0	413
Total	**92,854**	**72,121**	**20,733**

* = proportionately consolidated

Vacancy rate unchanged at under 1%

As in the previous year, the vacancy rate was under 1%. The need for write-downs for rent losses was around €0.3 million (2005: €0.2 million), or 0.3% of revenue, as in the previous year.

Results of Operations

Other operating income includes disposal proceeds

Other operating income amounted to €16.0 million (previous year: €2.3 million) and primarily includes gains of €14.8 million from the sale of our shopping centers in France and Italy.

Higher property operating and management costs

Property operating costs increased by €2.5 million year on year to €10.4 million. Property management costs rose by €1.3 million to €5.8 million. This increase is due to an enlarged consolidated group as well as to the recognition of certain capital expenditure items for newly constructed properties.

One-time effect on other operating expenses

Other operating expenses increased in comparison to the previous year by €1.7 million to €6.3 million. This is mainly attributable to agent's commission incurred in connection with the sale of our Italian shopping center. In all other respects, administrative expenses were similar to the previous year's.

Net finance costs widen due to investments

Net finance costs deteriorated by €1.7 million to €-41.0 million, after €-39.3 million in 2005. For the first time, those components of minority interests in profit or loss to be reported as debt in accordance with IAS 32 are presented in this item. Prior-year figures have been adjusted accordingly.

Increased investment activity and our newly opened shopping centers pushed borrowing costs up €5.3 million to €38.9 million. There was no significant change in interest income amounting to €2.3 million compared to the previous year (€2.2 million). Income from investments declined from €5.0 million to €1.9 million, because the previous year's figure had included dividends paid by DB Immobilienfonds 12 and Main-Taunus-Zentrum Wieland KG. In the year under review, the only item reported under income from investments is the dividends paid by our Polish property holding company in Wroclaw.

Measurement gains climb to record level

The measurement gains and losses item rose year-on-year by €22.4 million from €49.9 million to €72.3 million. Our newly opened center in Klagenfurt and the Rathaus-Center in Dessau acquired as at 1 January 2006 were recognised at their market values for the first time. This resulted in the recognition of measurement gains amounting to €22.3 million. The revaluation of existing properties also led to materially higher Group income. These properties recorded increases in value of €44.2 million.

Moreover, the reported measurement gains include any excess of identified net assets acquired over cost of acquisition (measured according to IFRS 3) resulting from changes in the consolidated group and from the increase in interests held in portfolio properties. These primarily arose from the initial proportionate consolidation of the Main-Taunus-Zentrum and DB Immobilienfonds 12 as well as from the increase in our interest held in the Rhein-Neckar-Zentrum. Total income from the above amounted to €4.6 million in the year under review.

Portfolio quality continues to be rated "very good"

The results of the property rating have not changed in comparison to the prior year. On average Deutsche EuroShop's real estate portfolio was again rated very good (A) by the appraisers, Feri Research GmbH, Bad Homburg, and GfK GeoMarketing GmbH, Hamburg.

Consolidated profit up 106% – minority interests reported differently

In the year under review, earnings before income and taxes (EBIT) increased by 50% from €57.5 million to €86.3 million, while EBT (profit before taxes) grew by 73% from €68.1 million to €117.7 million. In accordance with IAS 32, minority interests are treated as debt in the balance sheet, which means that the profit attributable to minority interests is reported under net finance costs and therefore results in a decline in EBT. We have adjusted the comparable prior-year figure accordingly.

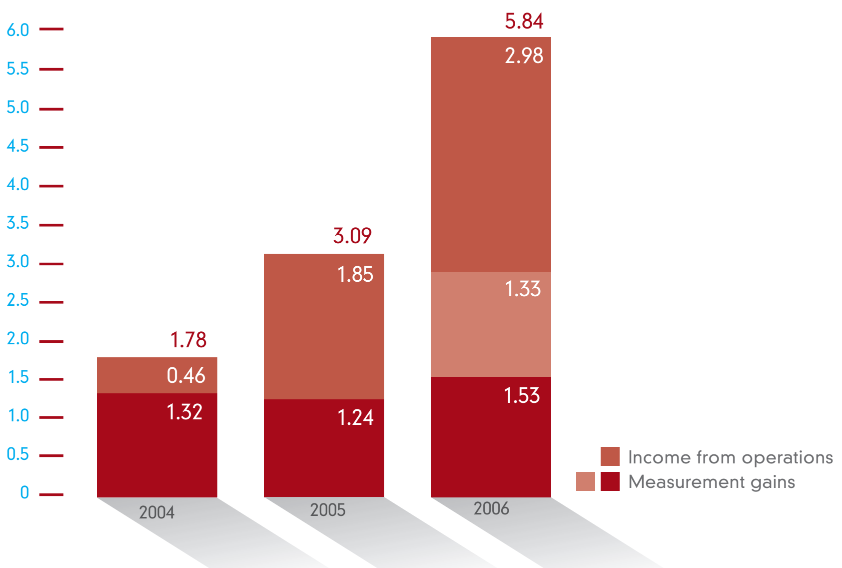
After adjustment for income taxes of €17.4 million, consolidated profit amounted to €100.3 million (2005: €48.7 million), an increase of 106%.

Earnings per share increased

Earnings per share (basic) amounted to €5.84 compared with €3.09 in the previous year. Of this amount, €1.53 per share (2005: €1.24) is attributable to operations (+23%) and €2.98 (2005: €1.85) to measurement gains (+61%). The disposal gains on our shopping centers in Italy and France resulted in additional earnings per share attributable to operations of €1.33.

EARNINGS PER SHARE

→ in €, undiluted

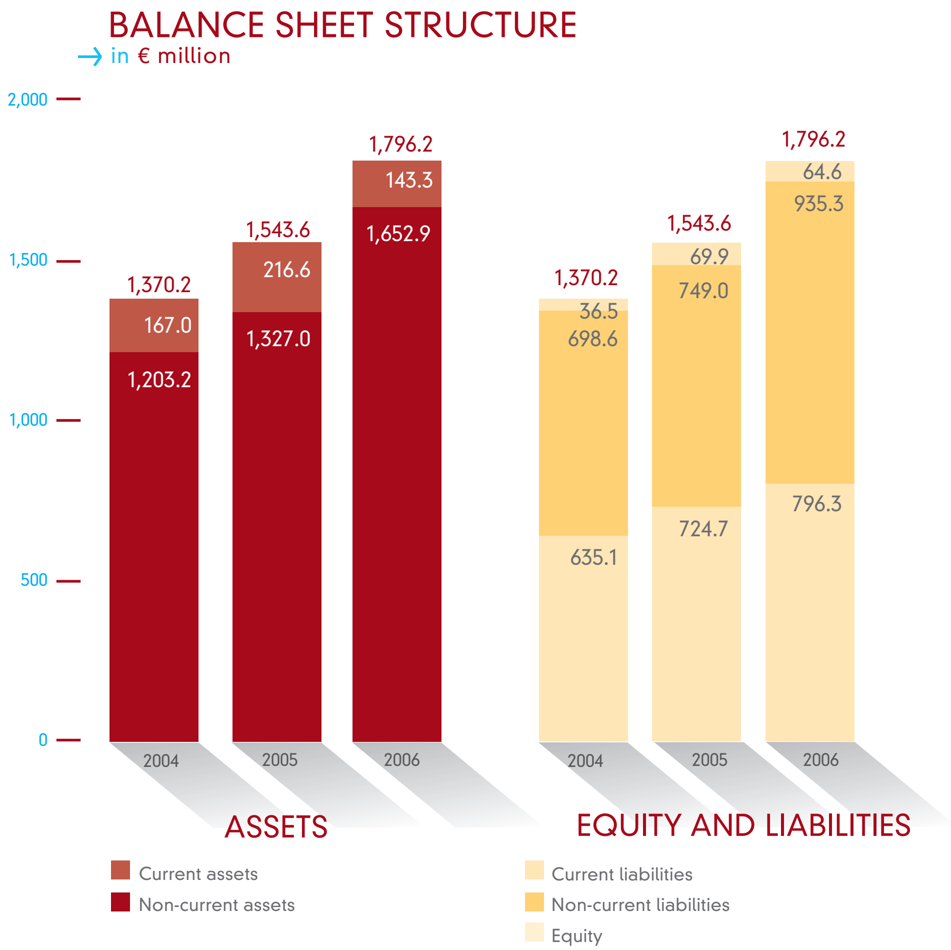


Dividend proposal: €2.10 per share

Due to the successful financial year, the Executive Board and Supervisory Board will propose to the shareholders at the Annual General Meeting on June 21, 2007 in Hamburg that a higher dividend of €2.10 per share be distributed for financial year 2006.

Net Assets

The Group's total assets increased by €252.7 million to €1,796.2 million in the year under review.



Non-current assets increase

In a year-on-year comparison, non-current assets rose overall by €309.4 million to €1,636.4 million. Investments in property, plant and equipment amounted to €26.8 million in 2006. In addition, the fair values of the properties rose by €69.9 million. Changes in the consolidated group added €288.1 million to non-current assets. The sale of the properties in Italy and France led to a decline of €83.6 million in the investment property item. For details, please refer to the notes.

Cash declines to €96.9 million

Cash amounted to €96.9 million as at the reporting date. It was composed of cash balances amounting to €95.9 million and money market fund shares of €1.0 million. The year-on-year decline by €100.3 million is mainly due to Deutsche EuroShop's significant investment activity. In the year under review alone, there were cash outflows of €195.9 million to acquire new investments.

Equity ratio down due to modified reporting of minority interests

With reference to IAS 32, the way minority interests in equity are reported was changed in the year under review. The previous year's figures were adjusted accordingly. However, the new method of presentation led to a decline in the equity ratio in 2006, which stood at 44.3% as at the reporting date (2005: 46.9%). Equity in the year under review increased by around €71.6 million to €796.3 million. The remeasurement of interests attributable to group shareholders in accordance with IAS 39 resulted in a gain of €3.1 million. The remaining amount results essentially from reporting a higher consolidated profit than in the previous year. By contrast, the dividend payment in June 2006 reduced equity.

€81.2 million in deferred taxes

€26.9 million of the profit before tax was allocated to deferred tax liabilities. This was offset by a €10.0 million reversal of deferred income taxes due to the sale of the foreign properties. The net effect was a €11.4 million increase in deferred taxes, from €69.8 million to €81.2 million.

Bank loans and overdrafts higher due to investments

Current and non-current bank loans and overdrafts amounted to €780.6 million. This corresponds to a rise of €116.3 million compared with the previous year. Of this figure, €97.8 million was attributable to the enlarged consolidated group and relates to the Main-Taunus-Zentrum and Galeria Baltycka properties. Loans of €10.2 million were drawn down for the Klagenfurt property. In addition, Deutsche EuroShop raised loans of €29.3 million to finance its new properties in Hameln and Passau.

Net asset value rises by 10%

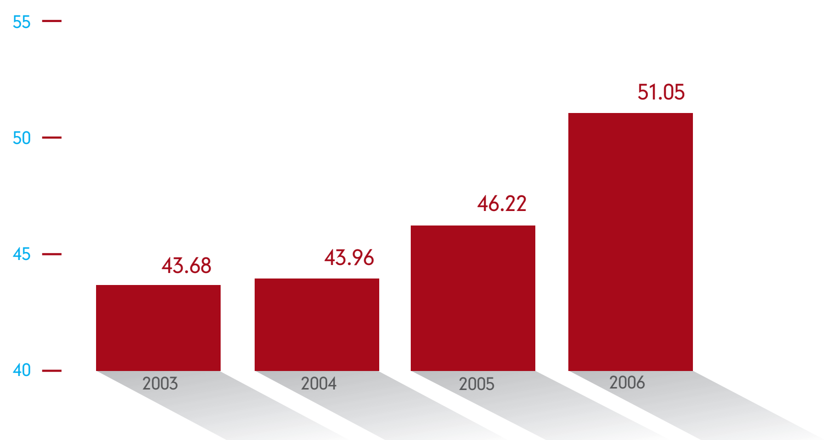
Net asset value as at 31 December 2006 was €877.4 million (€51.05 per share) compared with €794.5 million (€46.22 per share) in the previous year.

NET ASSET VALUE

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

NET ASSET VALUE

per share in €



Financial Position

The Group's net liquidity decreased by €51.4 million to €95.2 million in the year under review. €26.2 million of this figure is attributable to Deutsche EuroShop AG. The net liquidity of the subsidiaries amounted to €52.5 million as at December 31, 2006. It is mainly used to finance investment activities. Any remaining amounts are distributed to Deutsche EuroShop AG and the minority shareholders of the fully consolidated subsidiaries.

All liquid funds are invested with a short-term horizon in term deposits and time deposits, as well as in current financial instruments (mainly money market funds).

Investment and Financing

As in the previous year, Deutsche EuroShop again exceeded its long-term investment target, which averages €100-150 million per year, by concluding agreements with a contract volume of more than €210 million in the 2006 financial year. It bought two shopping centers under construction in Germany and Poland.

In doing so, we adhered to our investment criteria, even though initial returns on both the German and the European markets have fallen further as a result of rising purchase prices. This development affected us positively when selling and negatively when buying properties.

Taking into account the sale of our two shopping centers in France and Italy in the same period, our portfolio comprised an unchanged number of 16 shopping centers as at the end of 2006.

Acquisitions in Poland and Germany

The acquisition of the Galeria Baltycka in Gdansk, which is under construction, has strengthened our presence in Poland. The shopping center is expected to open in the autumn of 2007. In addition, we acquired an interest in the Stadt-Galerie in Passau, another property under construction. The opening is planned for autumn 2008.

Investments made in the year under review amounted to €26.8 million, most of which related to the construction of the property in Hameln, which is expected to be completed in early 2008. The figure also includes residual investments in the Klagenfurt shopping center, which has been operational since March 2006.

In addition, the statement of changes in non-current assets shows additions resulting from changes in the consolidated Group amounting to €288.1 million. €115.2 million of this amount relates to the Galeria Baltycka in Gdansk, which is under construction, and the Stadt-Galerie in Passau, while €172.9 million relates to the Main-Taunus-Zentrum and Rathaus-Center Dessau shopping centers, which were reported as investment property for the first time.

Disposals in France and Italy

Exploiting the positive market development for shopping centers, Deutsche EuroShop sold its shopping centers Shopping Etrembières in Annemasse/France and Centro Commerciale Tuscia in Viterbo/Italy. At 8,600 m^2 and 15,200 m^2 respectively, these two centers were the smallest in our portfolio. We did not think that these properties offered significant opportunities for expansion. The leasable space of our 16 shopping centers now averages around 39,800 m^2; the 14 inner-city centers in our portfolio have average leasable space of approximately 33,600 m^2. The property in France fetched a purchase price of €41.0 million and the one in Italy €57.6 million. The Italian shopping center in particular significantly exceeded our price expectations due to buoyant investor interest. The gains from the two sales totalled €14.8 million.

Financing and interest rate structure

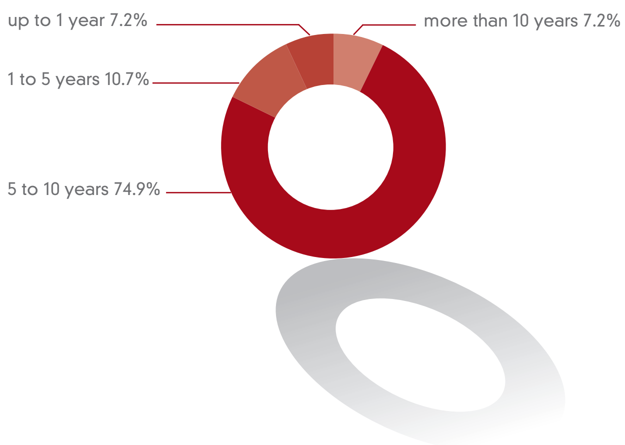
We believe that a clear, simple financing structure for the Group reduces our financing costs. In addition, as a long-term investor, we are convinced that the financing of our investments should also be long-term in order to match the risk profile of this business. Property should therefore not be financed through short-term arrangements in order to achieve a higher return on equity. The risk of rising interest rates is too high. In our opinion, good property investment has to be able to generate the returns to cover the interest payable on longer-term finance, which is usually higher.

Towards the end of the financial year, long-term interest rates moved significantly closer to the interest rates for short- and medium-term financing. This created conditions that are ideal for our debt financing strategy for new investments. The agreed credit lines for purchasing shopping centers have proven their worth and enable us to respond quickly to opportunities that arise in the market.

Thus the debt finance for the Deutsche EuroShop Group remains largely long-term. Approximately 82% of liabilities to banks have a fixed interest rate period in excess of five years. In financial year 2006, we used a swap agreement for the first time to secure the interest rate associated with a loan in the amount of €30 million for a 20-year period. The average effective interest rate for all debt liabilities as at 31 December 2006 was 5.5%.

LOAN STRUCTURE AS AT 31 DECEMBER 2006

→ Fixed-interest periods



Real property assets rise to €1.64 billion

Deutsche EuroShop Group's real property and property investment assets amounted to €1.64 billion as at 31 December 2006, €309 million more than at the end of the previous year. Apart from the sale of our centers in France and Italy, the reasons for this change include the initial recognition of the shopping centers in Dessau, Passau and Gdansk and the initial partial consolidation of the Main-Taunus-Zentrum. Other factors included the progress of construction in Hameln and the higher value of our portfolio. The twelve operating shopping centers, which are measured at fair value according to IAS 40, represented an asset value of €1.45 billion. The shopping centers in Dessau and Klagenfurt and the Main-Taunus-Zentrum were included in consolidation for the first time. Assets amounting to €155.3 million reflected the investments recognised in the balance sheet as at the reporting date for the three shopping centers under construction in Hameln, Passau and Gdansk. The investment in our property in Wroclaw, which is measured according to IAS 39, accounts for €24.6 million of our total portfolio.

At the end of 2006, the Deutsche EuroShop Group was thus 87% invested in Germany and 13% abroad. According to our strategy, the foreign share of our portfolio should not exceed 25%.

Other disclosures

The subscribed capital amounts to €22,000 thousand and is composed of 17,187,499 no-par value registered shares. The notional value of each share is €1.28.

According to Article 5 of the Articles of Association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to a total of €8,000 thousand on one or several occasions until 18 June 2009 by issuing up to 6,250,001 (no-par value) registered shares against cash or non-cash contributions.

The Executive Board is authorised, with the approval of the Supervisory Board, until 21 June 2011 to issue convertible bonds with an aggregate principal amount of up to €150,000 thousand and maturities of up to seven years and to grant bond holders or creditors conversion rights to up to 3,750,000 new no-par value registered shares in the Company corresponding to a proportionate amount of the share capital of up to €4,800 thousand as detailed in the terms and conditions for convertible bonds to be published by the Executive Board, with the approval of the Supervisory Board.

Deutsche EuroShop AG, Hamburg, is the parent company of the Deutsche EuroShop Group. Its shares are traded on the Frankfurt Stock Exchange, among other places. As at 31 December 2006, 80.69% of the shares were held in free float (2005: 80.69%), 12.27% were owned by Alexander Otto (2005: 12.27%) and 7.04% by Benjamin Otto (2005: 7.04%).

Members of the Executive Board are appointed and dismissed on the basis of sections 84 and 85 of the Aktiengesetz (AktG – German Public Companies Act). Changes to the Articles of Association are made in accordance with sections 179 and 133 of the AktG, and the Supervisory Board is also authorised, without a resolution of the Annual General Meeting, to adapt the Articles of Association to new legal provisions that become binding on the Company, as well as to resolve changes to the Articles of Association that only relate to the wording.

RISK REPORT

Risk Management

Principles, methods and objectives of risk management

Our approach to risk arises from our aim of generating sustainable growth and increasing the value of our company. Our policy is to minimise risks as much as possible. Risk management is therefore an integral part of the planning and implementation of our business strategies. Due to the small number of staff our Company employs, the Executive Board is directly involved in all risk-relevant decisions.

Under existing service contracts, the Executive Board of Deutsche EuroShop is continuously briefed about the course of business at individual property holding companies. Financial statements and financial control reports are submitted on a quarterly basis, and medium-term corporate planning is submitted annually for every shopping center. The Executive Board regularly reviews and analyses these reports, using the following key information to assess the level of risk:

1. Portfolio properties

- Trends in accounts receivable
- Occupancy rates
- Retail sales trends in the shopping centers
- Variance against projected income from the properties

2. Centers under construction

- Pre-letting levels
- Construction status
- Budget status

Risks are identified by observing issues and changes that deviate from the original planning and budgets. The systematic analysis of economic data such as consumer confidence and retail sales trends is also incorporated in risk management. The activities of competitors are also monitored continually.

The Company's risk management activities are documented once a quarter and the results submitted to the Supervisory Board at its meetings.

Analysis of Material Individual Risks

Cyclical and macroeconomic risks

The economic situation in Europe, and particularly in Germany, is currently experiencing a slight pickup. The economic and capital market decentralisation associated with globalisation has helped to stimulate the labour market turnaround. The low interest rate policies at the central banks have improved the investment climate and strengthened consumer confidence. For the first time since German reunification, domestic demand contributed more to gross domestic product than exports. Studies show that, although rises in connection with the value added tax hike in fact started during the World Cup, consumers have coped well with this accelerated increase. However, the planned reforms to the social system in Germany remain a considerable source of consumer uncertainty. If they result in additional burdens, consumer confidence could be depressed over the long term.

Deutsche EuroShop is not as strongly affected by economic developments as other sectors are in terms of its business model – long-term, inflation-proofed letting of retail space – and the associated risks. Past experience has demonstrated that by locating our shopping centers in prime inner city locations and by ensuring broad diversification within the centers, we can achieve commercial success even during periods of stagnation.

Market and sector risks

Structural changes have taken place in the retail sector in recent years and these must also be included in a differentiated approach to risk management issues. While department stores have been losing market share for a long time, online merchants, discounters and specialty stores are achieving revenue growth. The clothing sector in particular has suffered for some time from weak domestic demand. This is causing the business performance of the various operators to diverge. The German retail sector as a whole recorded nominal sales growth of 0.8% in 2006.

We try to anticipate market and sector risks through in-depth market intelligence and to minimise them by concluding long-term contracts with tenants with strong credit ratings.

Risk of rent loss

It is possible that tenants may be unable to meet their obligations under existing leases or that the previous rents may no longer be obtained in the case of new and follow-on rentals. As a result, income would turn out to be less than budgeted, and distributions to shareholders might have to be reduced. If the rental income for a property holding company is no longer sufficient to meet the interest and repayment obligations, this could lead to the loss of the entire property. Tenants' revenue trends and the accounts receivable trends are regularly analysed in this respect, and measures to find new tenants are initiated at an early stage if there are signs of any negative developments.

The tenants furnish security deposits against the risk of default. Additionally, write-downs are recognised in individual cases.

Cost risk

Expenditure on current maintenance or investment projects can turn out higher than expected on the basis of experience. We minimise risks from cost overruns in current investment projects by costing in all identifiable risks in the planning stage as a precautionary measure. In addition, construction contracts are only awarded on a fixed-price basis to prime contractors with strong credit ratings. During the building phase, professional project management is performed by the companies we commission. However, it is impossible in principle to completely avoid cost overruns in ongoing construction projects in individual cases.

Valuation risk

The value of a property is essentially determined by its capitalised earnings value ('Ertragswert'), which in turn depends on factors such as the level of annual rental income, the underlying location risk used, the evolution of long-term interest rates and the general condition of the property. A reduction in rental income or a deterioration of the location risk necessarily involves a lower capitalised earnings value. Thus the appreciation of the properties is also significantly influenced by a variety of macroeconomic or regional factors as well as developments specific to the property that can neither be foreseen nor influenced. The factors described flow into the annual market valuations of our portfolio properties by independent appraisers. Changes in value are recognised in the income statement in accordance with the requirements of IAS 40 and may thus lead to increased volatility of the consolidated profit. However, as a rule this has no effect on the Group's solvency.

Currency risk

Deutsche EuroShop's activities are limited exclusively to the European economic area. Manageable currency risks arise in the case of the Eastern European investees. Because of the translation of the annual financial statements at the reporting date, the Group's income statement is affected by unrealised translation gains and losses, and is thus exposed to an incalculable volatility. These risks are not hedged as a rule because this is purely an issue of translation at the reporting date and therefore does not expose the Company to cash flow risks. The currency risk from operations is largely hedged by linking rents and loan liabilities to the euro. A risk could arise if the Hungarian forint or the Polish zloty were to plummet against the euro and the tenants were no longer able to pay what would then be considerably higher rents denominated in foreign currency.

Financing risk

We minimise the interest rate risk for new property financing as far as possible by entering into long-term loans with fixed-interest periods of 10 to 20 years. It cannot be ruled out that refinancing is only possible at higher interest rates than before. The interest rate level is materially determined by the underlying macroeconomic conditions and is thus not predictable by us. The possibility cannot be completely excluded that – for example owing to a deterioration in the Company's results of operations – banks may not prepared to provide refinancing or to extend credit lines. We monitor the interest rate environment closely so as to be able to react appropriately to interest rate changes with alternative financing concepts or hedging if necessary. From today's perspective, this involves an opportunity rather than a risk, given an average rate of interest of 5.52% in the Group.

Beginning in 2006, Deutsche EuroShop has also used derivatives that qualify for hedge accounting to a limited extent to hedge interest rate risks. This makes it possible to use an interest rate swap to offset the risk of a negative change in the fair value of a loan. An interest rate swap is an effective hedge if the principal amounts, maturities, repricing or repayment dates, the dates for interest payments and principal repayments, and the basis of calculation used to determine the interest rates for the hedge are identical to those of the underlying.

Risk of damage

The individual property holding companies bear the risk of total or partial destruction of the properties. The insurance payouts due in such a case might be insufficient to compensate fully for the damage. It is conceivable that sufficient insurance cover for all theoretically possible losses does not exist or that the insurers may refuse to provide compensation.

IT risk

Deutsche EuroShop's information system is based on a centrally managed network solution. Corrective and preventive maintenance of the system is carried out by an external service provider. A virus protection concept and permanent monitoring of data traffic with respect to hidden and dangerous content are designed to protect against external attacks. All data relevant to operations is backed up on a daily basis. In the event of a hardware or software failure in the system, all data can be reproduced at short notice.

Legal risk

The concept for our business model is based on the current legal situation, administrative opinion and court decisions, all of which can change at any time.

Evaluation of the overall risk position

On the basis of the monitoring system described, Deutsche EuroShop has taken appropriate steps to identify at an early stage developments jeopardising its continued existence and to counteract them. The Executive Board is not aware of any risks that could jeopardise the continued existence of the Company.

REMUNERATION REPORT

Compensation system for the Executive Board

Compensation for the Executive Board is set by the Executive Committee of the Supervisory Board. The compensation system provides for a fixed basic annual compensation component based on the individual Executive Board member's duties and a variable compensation component. This compensation component is paid annually and is based on personal performance and the performance of the Executive Board as a whole, as well as the Company's economic situation, success and future prospects in comparison with its peer group. The variable compensation is paid by the Supervisory Board on the approval of the consolidated financial statements. There are no stock option plans or similar securities-based incentive systems. In the event that the Company does not wish to renew the existing contracts of the members of the Executive Board upon their expiration, Mr. Claus-Matthias Böge would receive a one-time severance payment of €150 thousand and Mr. Olaf Borkers would receive three months' salary.

Compensation system for the Supervisory Board

The compensation of the Supervisory Board is based on Article 8(4) of the Articles of Association of Deutsche EuroShop AG, according to which each member of the Supervisory Board shall receive appropriate compensation after the close of the financial year, as determined by resolution of the Annual General Meeting. Membership in committees is not taken into account when the compensation paid to the Supervisory Board is determined. Moreover, compensation does not contain any performance-based elements. The proposal to the Annual General Meeting is based on the size of the Company and hence the responsibility associated with the role, as well as on the Company's financial position.

In line with the proposal by the Executive Board and Supervisory Board, the Annual General Meeting resolved on 22 June 2006 to grant the members of the Supervisory Board the following compensation for the 2005 financial year: €30,000 for the chairman, €22,500 for the deputy chairman and €15,000 for each of the other members of the Supervisory Board. In addition, travel costs are reimbursed. Members who have served on the Board for less than a full financial year receive pro-rated compensation.

Miscellaneous

In his position as personally liable partner of Centro Commerciale Friuli Claus-Matthias Böge & Co. S.a.s., Milan, Italy, Mr Böge received €9 thousand in compensation for previous years.

Members of the Executive and Supervisory boards do not receive loans from the Company. No pensions are paid to former members of the Executive or Supervisory boards or to their dependents.

For further details, please refer to the supplementary disclosures on remuneration contained in the Notes.

REPORTS NOT INCLUDED

A **research and development (R&D)** report is not required as part of the Management Report because Deutsche EuroShop does not need or pursue any research and development in line with its original business purpose.

No disclosures were made about **environmental protection** because Deutsche EuroShop's business activities cannot result in any danger to the environment.

The Company's business purpose, which is to manage assets, does not require **procurement** in the traditional sense. For this reason, this topic is not covered by a separate section of the Management Report.

At the reporting date, Deutsche EuroShop employed only four persons and therefore did not prepare a separate **human resources report**.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements based on estimates of future developments by the Executive Board. The statements and forecasts represent estimates based on all the information currently available. If the assumptions on which the statements and forecasts are based do not materialise, actual results may differ from those currently forecast.

REPORT ON EXPECTED DEVELOPMENTS

The German economy grew by 2.7% in the past year. Fears that the value added tax increase by three percentage points at 1 January 2007 could derail this trend have proven to be unfounded to date. Additionally, there have been no significant price increases to date. Although growth is expected to be slow during the first quarter of 2007 as a result of pull-forward effects in capital expenditure and private spending in 2006, the federal government expects economic development to remain stable and is anticipating that the economy will grow by approximately 1.7% in 2007 overall.

International investors have been anticipating such a development for some time and expect this to positively impact their industrial and real estate investments in Germany.

Economic forecasts for 2007

Forecasts for 2007 in Germany by German economic research institutes

in %	SVR	OECD	ifo	DIW	IWH	IfW	RWI	EC
GDP, real	1.8	2.6	1.9	2.2	1.4	2.8	2.3	1.8

SVR = German Council of Economic Advisors
OECD = Organisation for Economic Cooperation and Development
ifo = ifo Institute for Economic Research
DIW = German Institute for Economic Research
IWH = Halle Institute for Economic Research
IfW = Kiel Institute for World Economics
RWI = RWI Essen
EC = European Commission

Our investment focus remains on Germany, our most important market. In addition, we continue to pursue our previous strategy of the long-term, conservative holding and letting of a portfolio of shopping centers.

Three shopping centers to open in 2007 and 2008

The construction measures for our three shopping centers Stadt-Galerie Hameln, Stadt-Galerie Passau and Galeria Baltycka in Gdansk, Poland are progressing as planned. Galeria Baltycka is already fully let and will open in autumn 2007. The property should therefore at least partially offset reductions in rental income in financial year 2007 resulting from the sale of our French and Italian shopping centers. The opening of Stadt-Galerie Hameln in spring 2008 and Stadt-Galerie Passau in fall 2008 will also contribute to the Deutsche EuroShop Group's results of operations.

The two shopping centers are over 75% and 70% let, respectively, although it is still approximately twelve months and one and a half years, respectively, until they open their doors. In addition, financial year 2008 will be the first full year of operation for Galeria Baltycka – which will lead to a corresponding increase in rental income to our Group.

Price increases impede portfolio expansion

We aim to expand our portfolio by €100 million to €150 million on average per year. Given the sustained investor interest in shopping centers in Germany and Europe, we are anticipating further price increases for existing properties and new construction projects. In addition, over the past few months we have seen significant price increases for construction services, which are further increasing price expectations among sellers of new construction projects. For this reason, our expected returns of more than 5% on new investments are almost impossible to achieve.

After having invested or entered into investment obligations totalling approximately €410 million in 2005 and 2006, we are relatively cautious regarding investments in further shopping centers at this time. We will, however, take advantage of favourable opportunities.

The expansion of the Main-Taunus-Zentrum by approximately 13,000 m^2 of leasable space could prove to be an attractive investment opportunity. Provisional planning permission has already been granted. We are currently working at full steam on the planning permission application. We do not anticipate this to be completed before the end of this year, however.

Agreed transactions are the foundation for revenue and earnings planning

The Deutsche EuroShop Group's revenue and earnings planning for 2007 and 2008 does not include the purchase or sale of any properties. Likewise, the results of the annual appraisal of our shopping centers and exchange rate factors are not included in our planning, since they are not foreseeable. It must be borne in mind that, in 2006, the Company sold two shopping centers that no longer contribute rental income to revenue and earnings. Forecasts about the future revenue and earnings situation of our Group are thus based on:

a) the development of revenue and earnings of the existing shopping centers,

b) the construction activities described above for the shopping centers in Gdansk, Hameln and Passau as well as the resulting revenue and earnings performance following their opening, and the construction activities for the Main-Taunus-Zentrum and its effects.

2007 revenue similar to previous year, 2008 revenue expected to rise approximately 18%

We anticipate revenue in financial year 2007 to remain on a level with the previous year (between €92 million and €94 million) as a result of the sales in the previous year. We expect that the Galeria Baltycka, which will open in fall 2007, will be able to partially offset the revenue losses caused by the sale of the two shopping centers (4.2% of 2006 revenue).

Beginning in 2008, the shopping centers in Hameln and Passau will contribute to revenue and earnings for the first time. In addition, Galeria Baltycka will be in operation for its first full financial year. We therefore expect revenue to climb to between €108 million and €112 million in 2008.

Clear earnings growth anticipated in 2008

Adjusted for one-time proceeds from the disposal of the two shopping centers, earnings before income and taxes (EBIT) amounted to €73.6 million in 2006. According to our forecast, EBIT will amount to between €71 million and €73 million in the current financial year. In 2008, once all properties currently under construction have opened, this is expected to increase to between €87 million and €90 million.

Earnings before tax (EBT) adjusted for proceeds from disposals and excluding measurement gains and losses amounted to €32.7 million during the year under review. We expect the corresponding figure to be between €30 million and €32 million for financial year 2007 and between €42 million and €44 million for financial year 2008.

Hamburg, March 2007

Deutsche EuroShop AG, Hamburg

consolidated financial statements

IFRS CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

ASSETS in € thousand	Note	31 Dec. 2006	31 Dec. 2005
Assets			
Non-current assets			
Intangible assets	1.	13	18
Property, plant and equipment	2.	155,290	71,912
Investment property	3.	1,452,002	1,138,271
Non-current financial assets	4.	29,077	116,804
Total		**1,636,382**	**1,327,005**
Other non-current assets	5.	16,508	26
Non-current assets		**1,652,890**	**1,327,031**
Current assets			
Trade receivables	6.	2,337	2,059
Recievables from other investees and investors	7.	2,184	0
Other current assets	8.	41,900	17,276
Current financial assets	9.	968	22,002
Cash	10.	95,934	175,190
Current assets		**143,323**	**216,527**
Total assets		**1,796,213**	**1,543,558**

EQUITY AND LIABILITIES in € thousand	Note	31 Dec. 2006	31 Dec. 2005
Equity and liabilities			
Equity and reserves			
Share capital		22,000	21,999
Capital reserves		558,588	558,588
Retained earnings		115,381	95,362
Consolidated net profit for the period		100,307	48,705
Total equity	11.	**796,276**	**724,654**
Non-current liabilities			
Bank loans and overdrafts	12.	752,100	613,829
Deferred tax liabilities	13.	81,158	69,826
Right to redeem of limited partners	14.	101,642	62,792
Non-current trade payables		0	2,000
Other non-current liabilities		403	544
Non-current liabilities		**935,303**	**748,991**
Current liabilities			
Bank loans and overdrafts	12.	28,529	50,505
Current trade payables	15.	6,497	6,544
Tax provisions	16.	1,308	2,076
Other provisions	17.	18,543	7,098
Other current liabilities	18.	9,757	3,690
Current liabilities		**64,634**	**69,913**
Total equity and liabilities		**1,796,213**	**1,543,558**

IFRS CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2006

in € thousand	Note	1 Jan. - 31 Dec. 2006	1 Jan. - 31 Dec 2005
Revenue	19.	92,854	72,121
Other operating income	20.	15,997	2,264
Property operating costs	21.	-10,409	-7,869
Property management costs	22.	-5,755	-4,461
Other operating expenses	23.	-6,346	-4,558
Earnings before interest and taxes (EBIT)		**86,341**	**57,497**
Income from investments	24.	1,940	5,001
Interest income		2,346	2,240
Interest expense		-38,874	-33,594
Profit/loss attributable to limited partners	25.	-6,376	-12,946
Net finance costs		**-40,964**	**-39,299**
Measurement gains/losses	26.	**72,299**	**49,948**
Profit before tax (EBT)		**117,676**	**68,146**
Income tax expense	27.	-17,365	-19,372
Other taxes	28.	-4	-69
Consolidated profit		**100,307**	**48,705**
Basic earnings per share (€)		5.84	3.09
Diluted earnings per share (€)		5.84	2.83

IFRS CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2006

in € thousand	1 Jan. - 31 Dec. 2006	1 Jan. - 31 Dec. 2005
Profit after tax	**100,307**	**48,705**
Gains on the disposal of non-current assets	-14,829	0
Profit/loss attributable to limited partners	6,376	12,946
Depreciation of property, plant and equipment	18	20
Impairment losses on non-current financial assets	443	0
Changes in value of investment property in accordance with IAS 40	-69,909	-52,467
Other non-cash income and expenses	-2,390	2,519
Deferred taxes	16,866	18,482
Operating cash flow	**36,882**	**30,205**
Changes in receivables	-4,065	-2,679
Change in non-current tax provisions	-5,534	0
Changes in current provisions	-4,837	-12,313
Changes in liabilities	-5,101	4,396
Cash flow from operating activities	**17,345**	**19,609**
Proceeds from the sale of consolidated companies	80,921	0
Payments to acquire consolidated companies	-164,457	-2,559
Payments to acquire property, plant and equipment and intangible assets	0	2
Proceeds from the disposal of property, plant and equipment*	-43,160	-56,134
Payments to acquire non–current financial assets	-4,889	-11,807
Cash flow from investing activities	**-131,585**	**-70,498**
Changes in interest-bearing financial liabilities	49,048	60,083
Payments to owners	-38,392	-33,379
Contributions by owners	0	65,928
Cash flow from financing activities	**10,656**	**92,632**
Net change in cash and cash equivalents	**-103,584**	**41,743**
Cash and cash equivalents at beginning of period	**197,192**	**150,275**
Changes in consolidated Group	2,687	4,182
Other changes	607	992
Cash and cash equivalents at end of period	**96,902**	**197,192**

*This is partially included in the changes in consolidated Group item in the statement of changes in non-current assets

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2006

in € thousand	Share capital	Capital reserves
Balance at 1 Jan. 2005	**20,000**	**496,363**
Consolidated profit		
Dividend payments		-2,264
Capital increase	1,999	65,187
Transaction costs		-1,257
Deferred taxes – transaction costs		331
Adoption of IAS 39 for measurement of investments		
Adoption of IAS 39 for deferred tax assets		
Change due to currency translation effects		
Other changes		228
Balance at 31 Dec. 2005	**21,999**	**558,588**
Balance at 1 Jan. 2006	**21,999**	**558,588**
Consolidated profit		
Dividend payments		
Change in first-time application reserves IAS 39		
Change in first-time application reserves IAS 40		
Change due to IAS 39 measurement of investments		
Change due to IAS 39 measurement of deferred taxes		
Cash flow hedge		
Change in profits brought forward		
Other changes	1	
Balance at 31 Dec. 2006	**22,000**	**558,588**

Other retained earnings	Legal reserve	Net profit for the period	Total
89,042	**2,000**	**27,736**	**635,141**
		48,705	48,705
		-27,736	-30,000
			67,186
			-1,257
			331
3,045			3,045
284			284
991			991
			228
93,362	**2,000**	**48,705**	**724,654**
93,362	**2,000**	**48,705**	**724,654**
		100,307	100,307
14,330		-48,705	-34,375
-18,964			-18,964
3,688			3,688
3,428			3,428
-284			-284
2,011			2,011
15,464			15,464
346			347
113,381	**2,000**	**100,307**	**796,276**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS AS AT 31 DECEMBER 2006

	Acquisition costs/fair values				
in € thousand	Balance at 1 Jan. 2006	Additions	Disposals	Changes in consolidated Group	Reclassifications
Cost					
Intangible assets	25	0	0	0	0
Land, advance payments and assets under construction	71,887	26,860	0	115,243	-58,490
Other equipment, operating and office equipment	67	8	0	0	0
Total	**71,979**	**26,868**	**0**	**115,243**	**-58,490**
Fair values					
Investment property	1,064,893	386	-73,411	268,536	58,490
Non-current financial assets	109,455	4,889	0	-95,639	0
Total	**1,174,348**	**5,275**	**-73,411**	**172,897**	**58,490**
Total non-current assets	**1,246,327**	**32,143**	**-73,411**	**288,140**	**0**

	Depreciation and amortisation/impairment losses, fair value adjustments and reversals of impairment losses				Book values	
Balance at 31 Dec. 2006	**Balance at 1 Jan. 2006**	**Depreciation and amortisation/ impairment losses and reversals fo the financial year**	**Disposals**	**Balance at 31 Dec. 2006**	**Balance at 31 Dec. 2005**	**Balance at 31 Dec. 2006**
25	-7	-5	0	**-12**	18	**13**
155,500	0	-230	0	**-230**	71,887	**155,270**
75	-42	-13	0	**-55**	25	**20**
155,600	**-49**	**-248**	**0**	**-297**	**71,930**	**155,303**
1,318,894	73,378	69,909	-10,179	**133,108**	1,138,271	**1,452,002**
18,705	7,349	3,776	-754	**10,372**	116,804	**29,077**
1,337,599	**80,727**	**73,685**	**-10,933**	**143,480**	**1,255,075**	**1,481,079**
1,493,199	**80,678**	**73,437**	**-10,933**	**143,183**	**1,327,005**	**1,636,382**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS AS AT 31 DECEMBER 2005

	Acquisition costs/fair values				
in € thousand	Balance at 1 Jan. 2005	Additions	Disposals	Reclassifications	Balance at 31 Dec. 2005
Cost					
Intangible assets	15	10	0	0	**25**
Land, advance payments and assets under construction	183,075	56,146	0	-167,334	**71,887**
Other equipment, operating and office equipment	51	18	-2	0	**67**
Total	**183,141**	**56,174**	**-2**	**-167,334**	**71,979**
Fair values					
Investment property	897,559	0	0	167,334	**1,064,893**
Non-current financial assets	97,648	11,807	0	0	**109,455**
Total	**995,207**	**11,807**	**0**	**167,334**	**1,174,348**
Total non-current assets	**1,178,348**	**67,981**	**-2**	**0**	**1,246,327**

Depreciation and amortisation/impairment losses, fair value adjustments and reversals of impairment losses				Book values	
Balance at 1 Jan. 2005	Depreciation and amortisation/ impairment losses and reversals fo the financial year	Disposals	Balance at 31 Dec. 2005	Balance at 31 Dec. 2004	Balance at 31 Dec. 2005
-3	-4	0	**-7**	12	**18**
0	0	0	**0**	183,075	**71,887**
-26	-16	0	**-42**	25	**25**
-29	**-20**	**0**	**-49**	**183,112**	**71,930**
20,911	52,467	0	**73,378**	918,470	**1,138,271**
4,021	3,328	0	**7,349**	101,669	**116,804**
24,932	**55,795**	**0**	**80,727**	**1,020,139**	**1,255,075**
24,903	**55,775**	**0**	**80,678**	**1,203,251**	**1,327,005**

Deutsche EuroShop AG, Hamburg

notes to the consolidated financial statements

for financial year 2006

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Basis of Presentation

The Group parent is Deutsche EuroShop AG, Hamburg, Germany. The Company's registered office is Oderfelder Strasse 23, 20149 Hamburg, Germany and is entered in the Hamburg commercial register under HRB 91799.

The consolidated financial statements of Deutsche EuroShop AG have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB. All IFRSs and IFRIC interpretations endorsed by the European Commission and required to be applied as of 31 December 2006 have been applied.

In addition to the consolidated balance sheet and the consolidated income statement, the consolidated financial statements comprise the statement of changes in equity, the cash flow statement and the notes.

Amounts are presented in thousands of €.

Since it began operating in 2000, Deutsche EuroShop AG has focused on acquiring, managing, using and selling investments of all kinds, and in particular investments in retail properties.

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date, as well as the recognition of income and expenses during the reporting period. The actual amounts can differ from these estimates.

The amendment of IAS 32 results in the reclassification of minority interests in commercial partnerships, which had previously been presented in equity, as non-current liabilities in the amount of €101,052 thousand (previous year: €62,792 thousand). In addition, the share of consolidated profit attributable to minority interests is reported in net finance costs. The previous year's figures were adjusted accordingly.

Basis of Consolidation and Consolidation Methods

Basis of consolidation

The consolidated financial statements include all material subsidiaries in which Deutsche EuroShop AG directly or indirectly holds a majority of voting rights, plus those companies which are joint ventures.

As at 31 December 2006, the basis of consolidation comprised, in addition to the parent company, 13 (previous year: 12) fully consolidated domestic and foreign subsidiaries and eight (previous year: six) proportionately consolidated domestic and foreign companies.

In the year under review, Rathaus-Center Dessau KG, Hamburg, Stadt-Galerie Passau KG, Hamburg, Galeria Baltycka G.m.b.H. & Co. KG, Hamburg, and Centrum Handlowe Polska 5 Sp. zo.o., Warsaw, were fully consolidated for the first time.

Investments over which Deutsche EuroShop AG does not exercise control are measured at fair value, in line with the provisions of IAS 39. This includes the investment in Ilwro Joint Venture Sp. zo.o., Warsaw.

Companies with no business operations or with a low volume of business are not included in the consolidated financial statements. Overall, they account for less than 1% of consolidated revenue and earnings. These are the investments in City-Point Beteiligungs GmbH, Pöcking, Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg and Caspia Investments Sp. zo.o., Warsaw, which was acquired on 29 November 2006 by our Polish property holding company, Centrum Handlowe Polska 5 Sp. zo.o. Sp. kom., Warsaw, for a purchase price of PLN 66 thousand. After this, share capital was increased by PLN 15,000 thousand. At the balance sheet date, the net carrying amount of the investment was the equivalent of €3.9 million.

A detailed list of the companies included in the consolidated financial statements is included as part of the notes. A list of shareholdings in accordance with section 285 no. 11 of the HGB and section 313(2) nos. 1 to 4 and (3) of the HGB is filed with the Hamburg Commercial Register.

During the year under review, the following interests were purchased or increased:

→ Purchase of 94.9% of Rathaus-Center Dessau KG, Hamburg, as at 1 January 2006 for a purchase price (including liabilities acquired) of €101.9 million. The company generated €7.9 million in revenue in financial year 2006 and recorded net profit for the period of €9.5 million.

- Purchase of 74% of Einkaufs-Center Galeria Baltycka G.m.b.H. & Co. KG, Hamburg, as at 15 August 2006 for a purchase price (including contributions yet to be paid) of €57.7 million. The company did not generate any revenue during the year under review and recorded a net loss of €45 thousand in financial year 2006. Galeria Baltycka G.m.b.H. & Co. KG holds 99.99% of the shares in Centrum Handlowe Polska 5 Sp. zo.o Sp. kom., Warsaw.

- Purchase of 94.9% of Stadt-Galerie Passau KG, Hamburg, as of 15 December 2006 for a purchase price (including contributions yet to be paid) of €94.4 million. The company did not generate any revenue during the year under review and recorded a net loss of €2.9 million.

- Increase by 7 percentage points (to 99.9%) in the interest in Rhein-Neckar-Zentrum KG, Hamburg, for a purchase price of €10.7 million.

The total purchase prices, including contribution obligations, of the acquired companies amounted to €264.7 million, of which €195.9 million was recognised as expenditure during the reporting year.

The following interests were disposed of during the year under review:

- Disposal of SCI Val Commerces, Annemasse as at 11 April 2006 for €22.9 million

- Disposal of Centro Commerciale Tuscia Viterbo, Viterbo as at 22 December 2006 for €57.6 million

- Disposal of Centro Commerciale Tuscia Galleria, Viterbo as at 22 December 2006 for €0.5 million

The total sales prices of the companies sold amounted to €81.0 million, and was received in cash.

During the previous year, 94.9% of Stadt-Galerie Hameln KG, Hamburg, was acquired as at 1 December 2005 for a purchase price (including contributions yet to be paid) of €77.8 million. Of this, €41.9 million was recognised as expenditure as at the balance sheet date.

Overall, €286.4 million in non-current assets, €39.5 million in current assets (excluding cash and cash equivalents), €26.0 million in cash and cash equivalents and €131.0 million in non-current and current liabilities were acquired as a result of the purchase and consolidation of companies and the disposal of consolidated companies. The fair values of the assets and liabilities acquired correspond to the carrying amounts.

The annual financial statements of the consolidated companies were prepared as at 31 December 2006, the reporting date of the consolidated financial statements.

Consolidation methods

For purchase accounting, the carrying amount of the investment is eliminated against the parent's interest in the revalued equity of the subsidiaries at the date of acquisition or initial consolidation. Any remaining excess of cost of acquisition over identified net assets acquired is recognised as goodwill in intangible assets, unless it can be allocated to the carrying amounts of properties.

Joint ventures are included proportionately in the consolidated financial statements in accordance with IAS 31. The assets and liabilities as well as the income and expenses of jointly controlled entities are included in the consolidated financial statements according to the interest held in these entities. Proportionate consolidation and accounting for goodwill follows the same principles applied to the consolidation of subsidiaries.

Intragroup transactions are eliminated as part of the consolidation of intercompany balances and of income and expenses.

Beginning in 2006, the non-current liabilities item is used to report minority interests in equity.

Currency Translation

The Group currency is the euro (€).

Ongoing transactions in foreign currencies are translated at the middle rate on the date of the respective transaction. Realised translation differences are recognised in the income statement.

The companies located outside the European Monetary Union that are included in the consolidated financial statements are treated as foreign entities. Under IAS 21, annual financial statements prepared in foreign currencies are translated using the functional currency method. All assets and liabilities are translated at closing rates. The items in the income statement are measured at average rates. The resulting difference in balance sheet carrying amounts is taken to equity in the item Change due to currency translation effects.

Unrealised translation gains and losses and differences from the consolidation of intercompany balances and of income and expenses are recognised in profit or loss.

A closing rate of HUF 251.77 (previous year: HUF 252.87) and an average rate of HUF 264.26 (closing rate: HUF 248.05) were used in the translation of the Hungarian single-entity financial statements from forint to euros. A closing rate of PLN 3.831 and an average rate of PLN 3.896 were used in the currency translation of the single-entity financial statements of the Polish property holding company.

Changes in Accounting Policies

The International Accounting Standards Board (IASB) has issued several amendments to the existing International Financial Reporting Standards (IFRSs), as well as a number of new IFRSs, which are required to be applied effective 1 January 2006. The following IFRSs were applied for the first time during the year under review:

→ IAS 1 "Presentation of Financial Statements" – amendments resulting from amendments to IAS 19

→ IAS 21 "The Effects of Changes in Foreign Exchange Rates" – provisions on net investment in a foreign operation

→ IAS 24 "Related Party Disclosures" – amendments resulting from amendments to IAS 19

→ IAS 32/39 "Financial Instruments: Disclosure and Presentation/Recognition and Measurement" – amendments regarding financial guarantee contracts, the fair value option and cash flow hedge accounting

The following new or revised Standards and Interpretations relevant to the Group's business activities were published as of 31 December 2006 but are not yet required to be applied as of the balance sheet date:

→ IAS 1 "Presentation of Financial Statements" effective 1 January 2007

→ IFRS 7 "Financial Instruments: Disclosures" effective 1 January 2007

→ IFRS 8 "Segment Reporting" effective 1 January 2009

→ IFRIC 10 "Interim Financial Reporting" effective 1 January 2006

Significant Accounting Policies

Revenue and expense recognition

Revenue and other operating income is recognised once the relevant service has been rendered or once the risk has passed to the customer. Operating expenses are recognised once the service has been utilised or at the time when they are incurred. Interest income and expense are accrued. Borrowing costs are recognised as an expense in accordance with the benchmark treatment laid down in IAS 27.3.

Intangible assets

Intangible assets relate exclusively to software purchased by Deutsche EuroShop AG. Additions are measured at cost. The benchmark treatment is applied to subsequent measurement. Under this, the assets are amortised using the straight-line method over the expected useful life of five years. The method of amortisation and the amortisation period are reviewed annually at the end of each financial year.

Property, plant and equipment

Property, plant and equipment is reported at cost less depreciation and, where applicable, impairment losses.

Properties constructed or developed for future use as investment property are initially reported as property, plant and equipment and then, following completion, as investment property. In the year under review, the properties under construction Stadt-Galerie Hameln, Stadt-Galerie Passau and Galeria Baltycka have been reported under property, plant and equipment, as they have not yet been valued.

Borrowing costs relating to the financing of property, plant and equipment are capitalised during the construction period. Maintenance measures relating to property, plant and equipment are recognised as an expense in the year in which they occur.

Operating and office equipment comprises office equipment, fittings and technical equipment belonging to Deutsche EuroShop AG, and is depreciated using the straight-line method over three to thirteen years. The method of depreciation and the depreciation period are reviewed annually at the end of each financial year.

Investment property

Under IAS 40, investment property must initially be measured at cost at the date of acquisition. Subsequently, all properties must be measured at their fair value, and the annual net changes recognised in income in net finance costs. Investment property is property held to earn rentals or for capital appreciation. Under IAS 40, investment property measured using the fair value model is not depreciated.

The fair values of the property in the period under review were determined by recognised independent external appraisers using the discounted cash flow method. Fair value is the amount that a purchaser would be willing to pay to the seller at the time the property is valued. The purchaser would also be required to bear additional transaction costs, such as real estate transfer tax or estate agent's fees.

The fair values correspond to the present value of future net income discounted back to the reporting date. Net income is the rental income from the property less the management costs of administration, operation, maintenance and rent loss. In the case of the expert appraisals prepared in 2006, average management costs of 13.6% (previous year: 13.5%) were applied.

The average interest rate of 6.44% (previous year: 6.54%) used for discounting future net income is based on the expected yield of 10-year bunds, which was forecast by the experts at an average of 4.73% (previous year: 4.70%) compared with the current 3.93% (as at 31 December 2006). Risk premiums for the individual properties are added to this. The level of the risk premium depends on trends for a large number of individual indicators. Assessment of regional economic development plays a decisive role here.

This assessment includes a long-term forecast of population development, the level of employment and the associated effects on retail demand, a forecast of the development of the competitive environment and also of construction activity. The experts applied average risk premiums of 1.71% (previous year: 1.84%).

On the basis of the expert appraisals, the real estate portfolio has a theoretical initial net yield of 5.39% for the 2007 financial year, compared with 5.46% in the previous year.

Financial instruments

Financial assets and liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions governing the financial instrument.

Derivatives that qualify for hedge accounting in accordance with IAS 39 are used to a limited extent to hedge interest rate risks. They are used to cap the interest rate risk of a variable-interest rate loan. These interest rate hedges are recognised at fair value under other receivables. Changes are taken to equity. Present value is calculated based on discounted cash flows using current market rates.

The distinction between equity and liabilities is set out in IAS 32 "Financial Instruments: Disclosure and Presentation". In accordance with this Standard, the equity interests of minority shareholders in commercial partnerships are reclassified as liabilities due to the shareholders' potential right of redemption. In accordance with sections 131 ff. of the HGB, shareholders in commercial partnerships have a regular legal right of termination of six months to the end of the fiscal year, which the shareholders' agreement can define in greater detail, but not exclude. As a result of this stipulation, a liability rather than equity is recognised in the balance sheet. This liability must be measured at fair value.

Non-current financial assets

Non-current financial assets are classified as available for sale and consist exclusively of the Other investments item under the HGB. Investments over which Deutsche EuroShop AG does not exercise control are measured at fair value, in line with the provisions of IAS 39. The measurement gains and losses are recognised directly in equity. The fair value of financial instruments for which there are no quoted market prices is estimated on the basis of the market values of the properties determined by appraisals, less net indebtedness. The determination of fair value assumes the existence of a going concern.

For reasons of materiality no fair value is reported for the investments in City-Point Beteiligungs GmbH, Pöcking, and in Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg. In addition, our Polish property holding company acquired an interest in CASPIA Investments Sp. zo.o. in Poland in November 2006. This is a property company with no significant business operations and has therefore not been included in the consolidated financial statements. These investments are carried at cost.

Receivables and other assets

Receivables and other assets are carried at their principal amounts or at cost less write-downs.

Deferred taxes

In accordance with IAS 12, deferred taxes were recognised for all differences between the tax accounts and the IFRS balance sheet, using the currently enacted tax rate. Deutsche EuroShop AG calculates its deferred taxes from the current IFRS income statement. A uniform corporation tax rate of 25% at present plus the solidarity surcharge of 5.5% is used for German companies, and the local tax rates for foreign companies. In accordance with IAS 12.74 deferred tax assets on existing loss carryforwards are offset at present against deferred tax liabilities.

Current financial instruments

The securities reported relate to money market fund shares that are classified as available for sale and carried at their fair value at the balance sheet date in accordance with IAS 39. The resulting gains on disposal are recognised in income in the item Other operating income.

Liabilities to banks/Bank loans and overdrafts

Liabilities to banks/bank loans and overdrafts are reported at their redemption amount. Discounts have been deducted, which under IAS 39 must be amortised over the term of the loan agreement and recognised annually as an expense.

Other provisions

Under the IFRSs, other provisions may only be recognised if an obligation exists to a third party and settlement is probable. Long-term provisions are discounted.

Current trade payables

Trade payables are carried at their redemption amount.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances at their principal amounts.

Other liabilities are carried at their redemption amount.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are included in the cost of that asset until the time at which the asset is largely ready for its intended use. Income from the temporary investment of specifically borrowed funds is deducted from the borrowing costs of these assets to be capitalised until the latter are used to obtain qualifying assets.

All other borrowing costs are recognised in income in the period in which they occur.

Consolidated Balance Sheet Disclosures

1. Intangible assets

in € thousand	31 Dec. 2006	31 Dec. 2005
1 January 2006	18	12
Additions	0	10
Amortisation	-5	-4
	13	**18**

Amortisation was based on a useful life of two to five years. It was calculated at 20 to 50% using the straight-line method.

2. Property, plant and equipment

2a. Property, advance payments and assets under construction

in € thousand	31 Dec. 2006	31 Dec. 2005
1 January 2006	71,887	183,075
Additions	26,860	56,146
Changes in consolidated Group	115,243	0
Reclassifications	-58,490	-167,334
Depreciation	-230	0
	155,270	**71,887**

Additions primarily refer to the new builds in Hameln and Klagenfurt. The shopping center in Klagenfurt was completed and initially measured during the year under review. The amounts were originally recorded at cost and were presented as a reclassification as at the reporting date following initial measurement of the property.

Additions to the consolidated Group primarily contain advance payments for the shopping centers under construction in Passau and Gdansk.

The total amount includes interest capitalised in the financial year amounting to €2,890 thousand, which was incurred during construction.

2b. Operating and office equipment

in € thousand	31 Dec. 2006	31 Dec. 2005
1 January 2006	25	24
Additions	8	18
Disposals	0	-2
Depreciation	-13	-16
	20	**25**

Additions mainly relate to computer hardware for Deutsche EuroShop AG's business premises and the purchase of a trade fair booth.

Depreciation was based on a useful life of three to thirteen years.

3. Investment propertyInvestment property

in € thousand	31 Dec. 2006	31 Dec. 2005
1 January 2006	1,138,271	918,470
Additions	386	0
Reclassifications	58,490	167,334
Disposals	-83,590	0
Reversals of impairment losses	69,909	59,047
Impairment losses	0	-6,580
Changes in consolidated Group	268,536	0
	1,452,002	**1,138,271**
directly attributable rental income	91,150	70,513
directly attributable operating expenses	-14,051	-9,963

Reclassifications relate to City Akaden Klagenfurt, which was reported for the first time at fair value under IAS 40.

Disposals relates to the two shopping centers sold in France and Italy.

Fair value increased by €69,909 thousand in the year under review; this amount is reported under Measurement gains and losses.

Changes in the consolidated group result from the Main-Taunus-Zentrum and Rathaus-Center Dessau shopping centers, which were reported under Investment property for the first time.

The properties are secured by mortgages. Land charges exist in the amount of €871,829 thousand (previous year: €679,774 thousand).

4. Non-current financial assets

in € thousand	31 Dec. 2006	31 Dec. 2005
1 January 2006	116,804	101,669
Additions	4,889	11,807
Impairment losses and reversals of impairment losses	3,777	3,328
Changes in consolidated Group	-96,393	0
	29,077	**116,804**

The Polish property holding company Centrum Handlowe Polska 5 Sp. zo.o Sp. kom., in which Deutsche EuroShop AG has held an indirect interest since August 2006, acquired an interest in CASPIA Investments Sp. zo.o on 29 November 2006 for PLN 65 thousand. This will see the company become the owner of a piece of land with a leased administrative building. The land was purchased as a potential extension area for Galeria Baltycka.

For reasons of materiality, the company was not included in the consolidated financial statements.

Effective 31 October 2005, Deutsche EuroShop Verwaltungs GmbH acquired an interest in Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co. This company owns consolidation plots around Phoenix-Center Hamburg. It is reported at cost at the balance sheet date and has not been consolidated for reasons of materiality. The investment was increased in 2006 by €957 thousand.

Due to permanent impairment, €443 thousand was written down as a precautionary measure at the balance sheet date.

Non-current financial assets contain investments that are not included in consolidation but that are classified as available for sale in accordance with IAS 39 and recognised at their fair values. During the year under review, timpairment losses relating to Ilwro Joint Venture Sp. zo.o., Warsaw, were reversed in the amount of €4,220 thousand for a total of €24,573 thousand.

Deutsche EuroShop AG increased its interest in Main-Taunus-Zentrum Wieland KG at the end of 2005. The investment is therefore no longer measured in accordance with IAS 39 as in prior periods, but rather is included proportionately in the consolidated financial statements. Changes in non-current financial assets are reported as changes in the consolidated Group.

In addition, the ending balance contains the investment in City-Point Beteiligungs GmbH, Pöcking. The company's activities are limited to acting as the general partner of City-Point Kassel KG, Pöcking. It has not been consolidated for reasons of materiality.

5. Other non-current assets

in € thousand	31 Dec. 2006	31 Dec. 2005
Other non-current assets	16,508	26

This item refers to leasing expenses paid in advance by our Polish property holding company, which will be reversed during initial measurement in 2008. In addition, it includes capital contributions still to be received from minority shareholders for Stadt-Galerie Hameln KG and Stadt-Galerie Passau KG.

The item also includes an interest rate swap in the amount of €1,804 thousand resulting from a long-term loan taken out by Deutsche EuroShop AG, which was entered into to hedge the variable interest rate with an interest rate hedge in the same amount. The swap was measured at €383 thousand at the balance sheet date. In addition, our Polish property holding company took out an option to hedge against rising capital market rates in 2006. This will result in cash inflows of €2,070 thousand in the period up to 2016. The present value of the long-term interest receivable on the balance sheet date was 1,421 thousand.

6. Trade receivables

in € thousand	31 Dec. 2006	31 Dec. 2005
Trade receivables	3,894	3,544
Allowances for doubtful accounts	-1,557	-1,485
	2,337	**2,059**

Receivables result primarily from rental settlements and uncharged payments for investments. Guarantees, cash security deposits and letters of comfort serve as collateral.

7. Receivables from other investees and investors

in € thousand	31 Dec. 2006	31 Dec. 2005
Receivables from other investees and investors	**2,184**	**0**

Receivables from other investees and investors relates to the distribution by DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG, which fell due in December 2006 and which was received in January 2007.

8. Other current assets

in € thousand	31 Dec. 2006	31 Dec. 2005
Value added tax receivables	19,978	10,801
Unpaid contributions	15,273	2,959
Income tax receivables	2,360	0
Deductible withholding tax on dividends/solidarity surcharge	1,092	991
Interest rate swap	207	0
Miscellaneous assets	2,990	2,525
	41,900	**17,276**

Unpaid contributions refer to capital contributions yet to be paid by minority shareholders for Stadt-Galerie Passau KG, Stadt-Galerie Hameln KG and Centrum Handlowe Polska 5 Sp. zo.o. in Gdansk.

Value added tax receivables relate to our investments in Italy and Poland. The Italian tax receivable of €7.7 million was received in February 2007.

Miscellaneous assets primarily consist of other receivables from tenants as well as prepaid leasing fees.

The interest rate swap relates to the short-term portion of the interestreceivable explained under other non-current assets.

Receivables

in € thousand	Total	up to 1 year	more than 1 year
Trade receivables	2,337 (2,059)	2,337 (2,059)	0 (0)
Other assets	58,408 (17,302)	41,900 (17,276)	16,508 (26)
	60,745 **(19,361)**	**44,237** **(19,335)**	**16,508** **(26)**

Prior-year figures in parentheses

9. Current financial assets

in € thousand	31 Dec. 2006	31 Dec. 2005
DWS money market fund shares	**968**	**22,002**

This relates to DWS fund shares carried at fair value.

10. Cash

in € thousand	31 Dec. 2006	31 Dec. 2005
Demand deposits	40,400	110,917
Current accounts	28,059	4,074
Time deposits	26,920	60,189
Guarantee accounts	532	0
Cash	23	10
	95,934	**175,190**

The maturities of all cash items are under one year.

11. Equity and reserves

Changes in equity are presented in the statement of changes in equity.

11a. Share capital and capital reserves

The share capital amounts to €22,000 thousand and is composed of 17,187,499 no-par value registered shares.

The notional value of each share is €1.28.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to a total of €8,000 thousand on one or several occasions until 18 June 2009 by issuing up to 6,250,001 no-par value registered shares against cash or non-cash contributions.

The Executive Board is authorised, with the approval of the Supervisory Board, until 21 June 2011 to issue convertible bonds with a nominal value of up to a total of €150,000 thousand and maturities of up to seven years and to grant bond holders or creditors conversion rights to up to 3,750,000 new no-par-value registered shares in the Company with a proportionate amount of share capital of up to €4,800 thousand as detailed in the terms and conditions for convertible bonds to be published by the Executive Board, with the approval of the Supervisory Board.

As the parent company of the Group, Deutsche EuroShop AG has reported an unappropriated surplus of €45,092 thousand. The Executive Board and Supervisory Board will propose that €36,094 thousand be distributed as a dividend of €2.10 per share at the Annual General Meeting on 21 June 2007. The remainder in the amount of €8,998 thousand will be carried forward. The previous year's unappropriated surplus was paid out in full to the shareholders.

11b. Retained earnings

Retained earnings comprise the legal reserve and other retained earnings.

in € thousand	1 Jan. 2006	Change	31 Dec. 2006
Legal reserve	2,000	0	2,000
First-time application reserve in accordance with IAS 39 – discounts	20,081	0	20,081
First-time application reserve in accordance with IAS 39 – financial instruments	18,964	-18,964	0
First-time application reserve in accordance with IAS – 40 investment property	67,083	3,688	70,771
First-time application reserve in accordance with IAS 12 – deferred taxes	-22,421	0	-22,421
Change due to IAS 39 measurement of investments	3,045	3,428	6,473
Change due to IAS 39 measurement of deferred taxes	284	-284	0
Additions to retained earnings brought forward	0	29,794	29,794
Additions to cash flow hedge	0	2,011	2,011
Currency and other changes	6,326	346	6,672
	95,362	**20,019**	**115,381**

Changes in the initial measurement reserve in accordance with IAS 40 reflect the disposal of the remeasurement reserves of the two shopping centers in Italy and France recognised in the amount of €15,276 thousand on first-time application of the IFRSs. This is offset by the reclassification of the first-time application reserve for the Main-Taunus-Zentrum in the amount of €18,964 thousand.

The consolidated profit in the amount of €14,300 thousand remaining after the distribution of a dividend in the amount of €34,375 thousand and remeasurement reserves are recorded in accordance with IAS 40 as an addition to retained earnings brought forward.

The interest rate swap results from a long-term loan taken out by Deutsche EuroShop AG. The present value of the swap is €383 thousand. This item also includes an additional interest rate swap from our Polish property holding company, recognised at a present value of €1,628 thousand. For further information regarding the two swaps, please refer to Other assets.

Other equity items primarily include currency translation differences.

12. Bank loans and overdrafts

in € thousand	31 Dec. 2006	31 Dec. 2005
Non-current bank loans and overdrafts	752,100	613,829
Current bank loans and overdrafts	28,529	50,505
	780,629	**664,334**

Since 2005, there have been extended disclosure requirements for financial instruments under IAS 39. In the consolidated financial statements of Deutsche EuroShop, this affects the recognition of bank loans and overdrafts, which must be classified as "loans and receivables" and reported at amortised cost. In order to determine the fair value, i.e. the present value of a loan repayment obligation until the end of the fixed-interest period or earlier termination date under the BGB (German Civil Code), the bank loans and overdrafts were remeasured. To do so, the annuities due up to this time, together with any residual amount according to the redemption schedule, were discounted to the balance sheet date at market rates of interest plus a margin. The fair value of the bank loans and overdrafts at the balance sheet date amounts to €795,854 thousand.

Bank loans and overdrafts relate to loans raised to finance real property acquisitions and investment projects. Land charges on company properties amounting to €871,829 thousand (previous year: €679,774 thousand) serve as collateral.

Discounts are amortised over the term of the loan. In the year under review, €5,310 thousand (previous year: €4,651 thousand) was recognised in income.

13. Deferred tax liabilities

in € thousand	Balance 1 Jan. 2006	Utilisation	Reversal	Addition	Balance 31 Dec. 2006
Deferred tax liabilities	69,826	5,534	10,011	26,877	81,158

The deferred tax liabilities were recognised for the current consolidated profit for the period. Additions for companies in Germany amounted to €20,648 thousand, while additions of €6,229 thousand were made for companies abroad.

Due to the disposal of the investments in Italy and France, the tax payments incurred abroad are presented under utilisation. In addition, deferred taxes were reversed since the deferred tax liabilities previously recognised were not utilised in full due to the disposals.

Deferred tax liabilities relate primarily to properties reported at fair value in accordance with IAS 40. At the balance sheet date, they amounted to €107,502 thousand (previous year: €94,585 thousand) and were partially offset by deferred tax assets on tax loss carryforwards of €26,344 thousand (previous year: €24,759 thousand).

14. Right to redeem of limited partners

in € thousand	31 Dec. 2006	31 Dec. 2005
Right to redeem of limited partners	**101,642**	**62,792**

In accordance with IAS 32, minority interests in commercial partnerships are no longer recognised in equity, but rather as debt. As a result, the corresponding amounts have been reclassified to non-current liabilities.

15. Trade payables

in € thousand	31 Dec. 2006	31 Dec. 2005
Construction services	5,208	2,124
Fees	107	5,971
Other	1,182	449
	6,497	**8,544**

16. Tax provisions

in € thousand	Balance 1 Jan. 2006	Utilisation	Reversal	Addition	Consolidation adjustments	Balance 31 Dec. 2006
Other income taxes	1,890	1,137	13	217	0	957
Real property tax	186	0	0	119	46	351
	2,076	**1,137**	**13**	**336**	**46**	**1,308**

The previous year's other income taxes include a tax payment connected with the disposal of our Italian property in 2004, which is being paid over a period of four years.

In addition, trade tax provisions were recognised for Deutsche EuroShop AG, Deutsche EuroShop Verwaltungs GmbH and Deutsche EuroShop Management GmbH under the minimum taxation requirements, and corporation tax provisions were recognised for Deutsche EuroShop Management GmbH.

Real property tax provisions relate exclusively to companies in Germany.

17. Other provisions

in € thousand	Balance at 1 Jan. 2006	Utilisation	Reversal	Addition	Consolidation adjustments	Balance 31 Dec. 2006
Maintenance and construction services already performed but not yet invoiced	4,382	3,804	73	2,472	4,620	7,597
Fees	991	812	178	1,710	4,001	5,712
Other	1,725	1,473	35	4,468	549	5,234
	7,098	**6,089**	**286**	**8,650**	**9,170**	**18,543**

The provisions for maintenance and construction services already performed but not yet invoiced relate primarily to the properties in Gdansk and Hameln, which are currently under construction.

All provisions have a term of up to one year.

18. Other current liabilities

in € thousand	31 Dec. 2006	31 Dec. 2005
Service contract liabilities	2,492	385
Value added tax	1,113	844
Rental deposits	752	1,386
Debtors with credit balances	189	157
Miscellaneous	5,210	918
	9,757	**3,690**

The Miscellaneous item mainly comprises liabilities for supplementary heating and ancillary costs, as well as prepaid rent for the following year. This item also includes a land purchase price for the Stadt-Galerie Passau property, which is not yet due.

Liabilities

in € thousand	Total	up to 1 year	1 to 5 years	more than 5 years
Bank loans and overdrafts	780,629 (664,334)	28,529 (50,505)	34,230 (32,373)	717,870 (581,456)
Trade payables	6,497 (8,544)	6,497 (6,544)	0 (2,000)	0 (0)
Other liabilities	10,160 (4,234)	9,757 (3,690)	214 (278)	189 (266)
thereof taxes	1,114 (846)	1,114 (846)	0 (0)	0 (0)
	797,286 (677,112)	**44,783 (60,739)**	**34,444 (35,015)**	**718,059 (581,722)**

Prior-year figures in parentheses

Disclosures on the Consolidated Income Statement

19. Revenue

in € thousand	2006	2005
Rental income	89,101	68,502
Turnover rent	2,049	2,011
Other revenue	1,704	1,608
	92,854	**72,121**
thereof rental income directly attributable to investment property in accordance with IAS 40	91,150	70,513

Other revenue relates primarily to ancillary costs that were uncharged and compensation for use and settlement payments made to former tenants.

20. Other operating income

in € thousand	2006	2005
Income from the sale of properties	14,829	0
Book gains on the sale of current financial instruments	302	1,496
Exchange rate gains	179	23
Income from the reversal of provisions	75	212
Miscellaneous	612	533
	15,997	**2,264**

Our shopping centers in France and Italy were disposed of in share deals during the year under review. The purchase price of shares in SCI Val Commerces in France was €22.9 million. The shares in Centro Commerciale Tuscia Viterbo S.r.l. and Centro Commerciale Tuscia Galleria S.r.l. in Italy were sold for €57.6 million and €0.5 million, respectively. Overall, gains on disposal amounted to €14.8 million.

21. Property operating costs

in € thousand	2006	2005
Center marketing	-1,780	-1,544
Rental costs	-1,487	-2,495
Real property tax	-822	-743
Insurance	-680	-394
Maintenance and repairs	-507	-472
Write-downs of rent receivables	-271	-217
Ancillary operating costs France	-204	-743
Other	-4,658	-1,261
	-10,409	**-7,869**
thereof operating expense directly attributable to investment property in accordance with IAS 40	-8,396	-5,652

The disclosures on operating expenses directly attributable to investment property under IAS 40 relate to properties that are recognised at fair value.

22. Property management costs

in € thousand	2006	2005
Center management/agency agreement costs	**-5,755**	**-4,461**
thereof operating expenses directly attributable to investment property in accordance with IAS 40	-5,655	-4,311

The disclosures on operating expenses directly attributable to investment property under IAS 40 relate to properties that are recognised at fair value.

23. Other operating expenses

in € thousand	2006	2005
Personnel expenses	-1,034	-854
Marketing costs	-451	-661
Appraisal costs	-160	-201
Exchange rate losses	-35	-1,010
Depreciation and amortisation	-462	-20
Miscellaneous	-4,204	-1,812
	-6,346	**-4,558**

Miscellaneous expenses includes €267 thousand in fees for the audit of Group companies. €248 thousand of this figure is attributable to BDO Deutsche Warentreuhand AG. No other services were provided by BDO Deutsche Warentreuhand AG in the financial year.

In addition, this item includes estate agent and consultancy fees relating to the disposal of the two foreign properties amounting to €2,130 thousand.

24. Income from investments

in € thousand	2006	2005
Income from investments	**1,940**	**5,001**

In the previous year, this item also included dividends paid by DB Immobilienfonds 12 and Main-Taunus-Zentrum KG. As a result of the increase in the equity interests held, their shares of revenue and profit are now included proportionately in the consolidated group.

In the year under review, this item included the dividend paid by Ilwro Joint Venture Sp. zo.o. and City-Point Beteiligungs GmbH.

25. Profit/loss attributable to limited partners

in € thousand	2006	2005
Minority interest in commercial partnerships	**-6,376**	**-12,946**

In accordance with IAS 32, minority interests in commercial partnerships are no longer recognised in equity, but rather as debt. As a result, the corresponding income statement items have been classified as net finance costs. The share of profit attributable to minority interests was lower than in the previous year, as the outside shareholders in our Wetzlar property received a substantially higher share in profits than in the year under review, due to its initial measurement

26. Measurement gains/losses

in € thousand	2006	2005
Fair value gains in accordance with IAS 40	69,909	59,047
Investments during the financial year	-3,418	-2,519
Excess of identified net assets acquired over cost of acquisition resulting from changes in the consolidated Group in accordance with IFRS 3	4,560	0
Fair value losses in accordance with IAS 40	0	-6,580
Exchange rate gains	1,053	0
Other	195	0
	72,299	**49,948**

Investments during the current financial year amounting to €3,418 thousand comprise additions to property assets capitalised under German commercial law. As a result of the recognition of properties at fair value, the investments are recognised in full as a current expense in the year in which they arose. The values of all properties increased in the year under review.

The increased equity interests in Main-Taunus-Zentrum KG and Rhein-Neckar-Zentrum KG led to an excess of identified net assets acquired over cost of acquisition, which according to IFRS 3 must be recognised in income.

27. Income tax expense

in € thousand	2006	2005
Current tax expense	-500	-891
Deferred tax liabilities – domestic companies	-20,647	-15,923
Deferred tax liabilities – foreign companies	3,782	-2,558
	-17,365	**-19,372**

In measuring deferred taxes, the tax rates applicable in accordance with IAS 12 are the ones valid under current legislation at the date at which the temporary differences will probably reverse. In 2006, a tax rate of 25% for deferred taxes was calculated for companies in Germany. In addition, a solidarity surcharge of 5.5% on the calculated corporation tax was recognised. The respective local tax rates were recognised for companies abroad.

In connection with the sale of the foreign shopping centers, deferred taxes were reversed since the taxes previously recognised were not utilised in full due to the disposals.

Tax reconciliation

The income taxes in the amount of €17,365 thousand during the year under review are derived as follows from an expected income tax expense that would have resulted from the application of the parent company's statutory income tax rate to the profit before tax. This was calculated using a corporation tax rate of 25% plus the 5.5% solidarity surcharge.

in € thousand	2006	2005
Consolidated profit before income tax	**117,676**	**68,146**
Theoretical income tax 26.375%	**-31,037**	**-17,974**
Reversal of deferred taxes	10,011	0
Tax-free income	3,452	0
Miscellaneous	209	-1,398
Effective income tax	**-17,365**	**-19,372**

Deutsche EuroShop AG is a commercial enterprise by virtue of its legal form and its trade income is are subject to trade tax.

However, since 2003 Deutsche EuroShop AG has met the requirements for the extended reduction of trade tax in accordance with section 9(1) sentence 2 of the Gewerbsteuergesetz (GewStG – Trade Tax Act). As a result, no significant trade tax payments have been made to date.

At present, the trade tax is only applied to income not covered by the extended reduction of trade tax, such as interest income. In the current year, €135 thousand in trade tax expense was included in the effective tax expense.

In financial year 2006, the effective income tax rate was 15%.

28. Other taxes

in € thousand	2006	2005
Other taxes	**-4**	**-69**

Disclosures on the Consolidated Cash Flow Statement

Disclosures on the consolidated cash flow statement

The cash flow statement has been prepared in accordance with IAS 7 and is broken down into operating cash flow and cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. Cash and cash equivalents consist of cash, bank balances and money market fund shares.

Cash and cash equivalents

in € thousand	31 Dec. 2006	31 Dec. 2005
Cash	95,934	175,190
Current financial assets	968	22,002
	96,902	**197,192**

Cash and cash equivalents consist of bank balances, cash and DWS money market fund shares. The money market funds are fund shares that are available for sale and that are only subject to minor fluctuations in value. The money market funds serve among other things to meet the Company's payment obligations and to this extend act as liquidity reserves (cash equivalents).

As part of the indirect calculation method, the changes to balance sheet items made in connection with operating activities are adjusted for the effects in the consolidated Group. As a result, the changes in these balance sheet items cannot be reconciled with the corresponding carrying amounts in the published consolidated balance sheet.

Operating cash flow

After adjustment of the profit for the period, the operating cash flow amounts to €36,882 thousand. All changes to cash flows from net finance costs are allocated to operating activities.

Cash flow from operating activities

Changes in receivables, provisions and liabilities are allocated to cash flow from operating activities.

Cash flows from operating activities include, among other things:

→ interest income in the amount of €2.3 million (previous year €2.2 million)

→ interest expense in the amount of €33.3 million (previous year: €29.8 million)

→ income taxes paid in the amount of €0.5 million (previous year: €0.9 million)

Cash flow from investing activities

Cash additions/disposals of non-current assets during the current year are disclosed. Main-Taunus-Zentrum KG and DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG were consolidated proportionately for the first time with the increase in the shares held in the former company. Additionally, shares were acquired during the year under review in Rathaus-Center Dessau KG, Galeria Baltycka G.m.b.H. & Co. KG and Stadt-Galerie Passau KG, which were fully consolidated during the year under review. Galeria Baltycka G.m.b.H. & Co. KG holds 99.99% of the shares in Centrum Handlowe Polska 5 Sp. zo.o Sp. kom., which was also fully consolidated. The investments in SCI Val Commerces, Centro Commerciale Tuscia Viterbo S.r.l. and Centro Commerciale Tuscia Galleria S.r.l. were sold during the year under review.

Cash flow from financing activities

In financial year 2006, a total of €38,392 thousand was paid as dividends to shareholders and distributions to minority shareholders.

Other changes

This item is primarily the result of currency translation in relation to our foreign investments.

Cash flow per share

		2006	2005
Average number of no-par value shares outstanding	Shares	17,187,499	15,787,670
Operating cash flow	€ thousand	36,882	30,205
Operating cash flow per share	€	2.15	1.91
Cash flow from operating activities	€ thousand	17,345	19,609
Cash flow per share	€	**1.01**	**1.24**

Earnings per Share

In accordance with IAS 33, earnings per share are calculated by dividing the consolidated profit for the period by the weighted average number of shares in issue. This ratio can be diluted by "potential" shares (convertible bonds and stock options) or by capital increases.

The share capital of Deutsche EuroShop AG is composed of 17,187,499 no-par value registered shares.

		2006	2005
No-par value shares outstanding	Shares	17,187,499	17,187,499
Consolidated net profit attributable to Group shareholders	€ thousand	100,307	48,705
Earnings per share (diluted)	€	**5.84**	**3.09**
Earnings per share (basic)	€	**5.84**	**2.83**

Segment Reporting

As a holding company, Deutsche EuroShop AG holds equity interests in shopping centers in the European Union. The investees are pure shelf companies without staffs of their own. Operational management is contracted out to external service providers under agency agreements, meaning that the companies' activites are exclusively restricted to asset management. Due to the Company's uniform business activities within a relatively homogeneous region (the European Union), no separate segment reporting has been presented (single-product, single-region entity).

Other Financial Obligations

Rental, lease and loan obligations

in € thousand	31 Dec. 2006	31 Dec. 2005
Due to mature in 2007	52	58
Due to mature in 2008	47	40
Due to mature after 2008	46	0
	145	**98**

Other Disclosures

The Group employed four staff as at 31 December 2006.

Events after the Balance Sheet Date

No significant events occurred between the balance sheet date and the date of preparation of the financial statements.

The Supervisory Board and the Executive Board

SUPERVISORY BOARD

a) Membership of other statutory supervisory boards

b) Membership of comparable German and foreign supervisory bodies of business enterprises

Manfred Zaß, Königstein im Taunus, Chairman
Banker

Dr. Michael Gellen, Cologne, Deputy Chairman
Lawyer

a) Deutsche Wohnen AG, Frankfurt am Main (Deputy Chairman, until 10 August 2006)
Reality Capital Partners AG, Bonn (since 1 June 2006)

b) Rhein-Pfalz Wohnen GmbH, Mainz
MT Wohnen GmbH, Frankfurt am Main
Rhein-Main Wohnen GmbH, Frankfurt am Main
Rhein-Mosel Wohnen GmbH, Mainz
Main-Taunus Wohnen GmbH & Co. KG, Frankfurt am Main

Thomas Armbrust, Hamburg
Member of the management of KG CURA Vermögensverwaltung G.m.b.H. & Co., Hamburg

a) C.J. Vogel Aktiengesellschaft für Beteiligungen, Hamburg (Chairman)
TransConnect Unternehmensberatungs- und Beteiligungs AG, Munich (Chairman)
Verwaltungsgesellschaft Otto mbH, Hamburg
Platium AG, Hamburg (Chairman)

b) ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg (Deputy Chairman)
Spiegel Holdings, Inc., Chicago/USA

Dr. Jörn Kreke, Hagen
Businessman

a) Douglas Holding AG, Hagen (Chairman)

Alexander Otto, Hamburg
CEO of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg

a) HSH Nordbank AG. Hamburg
Verwaltungsgesellschaft Otto mbH. Hamburg
British American Tobacco (Industrie) GmbH. Hamburg
British American Tobacco (Germany) GmbH. Hamburg
BATIG Gesellschaft für Beteiligungen. Hamburg
Hamburg-Mannheimer Versicherungs AG. Hamburg

b) Peek & Cloppenburg KG. Düsseldorf

Dr, Bernd Thiemann, Frankfurt am Main
Co-owner of Drueker & Co., Frankfurt am Main

a) Celanese AG, Kronberg (Chairman)
EM.TV AG, Munich (Chairman)
M.M. Warburg & Co. KGaA Holding, Hamburg (Deputy Chairman)
ThyssenKrupp Stainless AG, Duisburg
VHV Vereinigte Hannoversche Versicherung a.G., Hanover
VHV Leben AG, Hanover

b) Fraport AG, Frankfurt am Main
Würth Gruppe, Künzelsau (Deputy Chairman)
Odewald & Companie, Berlin (Deputy Chairman)

EXECUTIVE BOARD

Claus-Matthias Böge, Hamburg (spokesman of the Executive Board)

Olaf G. Borkers, Hamburg

The **remuneration of the members of the Supervisory Board** amounted to €131 thousand in the year under review, and is broken down as follows:

in € thousand	Total
Manfred Zaß	34.80
Dr. Michael Gellen	26.10
Thomas Armbrust	17.40
Alexander Otto	17.40
Dr. Jörn Kreke	17.40
Dr. Bernd Thiemann	17.40
Incl. 16% value added tax	**130.50**

No advances or loans were granted to the members of the Supervisory Board.

The **remuneration of the Executive Board** amounted to €679 thousand, and is broken down as follows:

in € thousand	Fixed salary	Variable remuneration	Other benefits	Total
Claus-Matthias Böge	270	155	66	**491**
Olaf Borkers	168	20	0	**188**

The other benefits include payments by the Company to a pension scheme in favour of Executive Board member Claus-Matthias Böge and his dependents, and the provision of a car for his business and private use.

No advances or loans were granted to members of the Executive Board. The Company has not entered into any contingencies or commitments in favour of these persons.

For further details, please see the supplementary disclosures on remuneration contained in the management report.

Corporate governance

The Declaration of Conformity with the German Corporate Governance Code required by section 161 of the Aktiengesetz (AktG – German Public Companies Act) has been issued jointly by the Supervisory Board and the Executive Board, and was made available to shareholders via publication on the Internet in January 2007.

By reference to section 161 of the AktG, we hereby disclose in accordance with the recommendations of the German Corporate Governance Code (section 6.6) that the Supervisory Board and Executive Board members held the following number of shares of Deutsche EuroShop AG in issue (total: 17,187,499) as at 31 December 2006:

	31 December 2006
Supervisory Board	**2,112,525 shares**
of which Alexander Otto → 1%	2,109,125 shares
Executive Board	**15,150 shares**

RELATED PARTIES IN ACCORDANCE WITH IAS 24

Deutsche EuroShop AG's subsidiaries as well as the members of its Executive Board and the Supervisory Board are regarded as related parties in accordance with IAS 24. In the ordinary course of business, the Company maintained relationships involving the provision of goods and services with this group of persons and companies; the relevant terms and conditions fulfil the criteria for arm's length transactions.

Income of €4,291 thousand (previous year: €3,193 thousand) was generated in the financial year from the Douglas Group under existing rental contracts. Deutsche EuroShop AG Supervisory Board member Dr. Jörn Kreke is Chairman of the Supervisory Board of the Douglas Group.

Fees for service contracts amounting to €47,050 thousand (previous year: €22,022 thousand) were paid to the ECE Group, of which Deutsche EuroShop AG Supervisory Board member Mr. Alexander Otto is Managing Director. €36,985 thousand (previous year: €10,042 thousand) of this amount related to properties under construction and €10,065 thousand (previous year: €11,980 thousand) to operational properties. This was partially offset by income from rental contracts with the ECE Group in the amount of €3,246 thousand (previous year: €2,459 thousand).

In addition, a prime contractor agreement worth €91,400 thousand was signed with the ECE Group for the Stadt-Galerie Passau. Instalment payments amounting to €12,900 thousand were made in the year under review.

With effect from 1 January 2006, 45.9% of the limited partner shares in Rathaus-Center Dessau KG were acquired from ARENA Vermögensverwaltung (G.m.b.H. & Co.), a company attributable to Mr. Alexander Otto, for a purchase price of €20,488 thousand.

Hamburg, 23 March 2007
Deutsche EuroShop AG

The Executive Board

Claus-Matthias Böge

Olaf G. Borkers

Shareholdings

List of shareholdings in accordance with section 285 of the HGB as at 31 December 2006:

Company name and domicile	Nominal equity in €	Interest in nominal capital in %	thereof indirect in %	thereof direct in %	HGB profit/loss 2006 in €
Fully consolidated companies					
Deutsche EuroShop Verwaltungs GmbH, Hamburg	50,000.00	100.0	–	100.0	-234,114.64
Deutsche EuroShop Management GmbH, Hamburg	25,000.00	100.00	–	100.00	30,223.38
Rhein-Neckar-Zentrum KG, Hamburg	235,000,000.00	99.90	–	99.90	13,002,506.02
Centro Commerciale Friuli Claus-Matthias Böge & Co. S.a.s., Milan/Italy	5,600,000.00	99.90	99.90	–	3,262.02
City-Galerie Wolfsburg KG, Hamburg	50,000,000.00	89.00	–	89.00	-36,781.87
Allee-Center Hamm KG, Hamburg	21,630,000.00	87.74	–	87.7	2,442,445.05
City-Arkaden Wuppertal KG, Hamburg	50,000,000.00	72.00	–	72.00	-537,202.54
Forum Wetzlar KG, Hamburg	44,700,000.00	65.00	–	65.00	619,123.81
Stadt-Galerie Hameln KG, Hamburg	82,000,000.00	94.90	–	94.90	-2,276,184.17
Rathaus-Center Dessau KG, Hamburg	46,200,000.00	94.90	–	94.90	-3,406,572.89
Stadt-Galerie Passau KG, Hamburg	125,900,000.00	75.00	–	75.00	-2,938,899.51
Einkaufs-Center Galeria Baltycka G.m.b.H. & Co. KG, Hamburg	54,960,000.00	74.00	–	74.00	-108,197.08
	in PLN				**in PLN**
Centrum Handlowe Polska 5 Sp. z o.o. Sp. kom., Warsaw/Poland	186,799,620.00	74.00	74.00	–	3,268,372.40
Proportionately consolidated companies	**in €**				**in €**
Altmarkt-Galerie Dresden KG, Hamburg	83,000,000.00	50.00	–	50.00	1,229,560.31
Immobilien KG FEZ Harburg, Hamburg	40,700,000.00	50.00	–	50.00	-485,029.48
Objekt City-Point Kassel GmbH & Co. KG, Pöcking	42,400,000.00	40.00	40.00	–	-931,638.64
DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG, Hamburg	150,000,000.00	40.77	–	40.77	7,506,603.89
Main-Taunus-Zentrum KG, Hamburg	12,688,000.00	43.12	37.38	5.74	11,362,239.81
City Arkaden Klagenfurt KG, Hamburg	51,700,000.00	50.00	–	50.00	-541,514.57
EKZ Eins Einrichtungs- und Betriebsges. mbH & Co. OEG, Vienna	1,000.00	50.00	50.00	–	-3,785,790.51
Einkaufs-Center Arkaden Pécs KG, Hamburg	41,300,000.00	50.00	–	50.00	1,595,363.63
Investees	**in PLN**				**in PLN**
Ilwro Joint Venture Sp. z o.o., Warsaw/Poland	21,000,000.00	33.33	–	33.33	69,272,694.75
CASPIA Investments Sp. z o.o., Warsaw/Poland	50,000.00	74.00%	74.00%	–	-76,831.86
	in €				**in €**
City-Point Beteiligungs GmbH, Pöcking	25,564.60	40.00	–	40.00	7,223.54
Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg	25,000.00	50.00	50.00	–	-126,844.51

Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – and the group management report prepared by Deutsche EuroShop AG, Hamburg, for the financial year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 29 March 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rohardt
Wirtschaftsprüfer

zu Inn- u, Knyphausen
Wirtschaftsprüfer

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Bylined texts do not necessarily represent the views of Deutsche EuroShop AG. The respective authors are responsible for the content of their own texts.

Forward-looking statements
This Annual Report contains forward-looking statements based on estimates of future developments by the Executive Board. The statements and forecasts represent estimates made on the basis of all available information at the present time. If the assumptions on which the statements and forecasts are based do not materialise, actual results may differ from those currently expected.

Trademarks
All trademarks and product names referred to in this Annual Report are the property of their respective owners. This applies in particular to DAX, MDAX, SDAX, TecDAX and Xetra, which are registered trademarks and the property of Deutsche Börse AG.

Publications for our Shareholders
- Annual Report (German and English)
- Interim Reports for the first, second and third quarters (German and English)

Online Annual Report
Deutsche EuroShop's Annual Report is available online at www.deutsche-euroshop.com in PDF format and as an interactive online version.

Sudoku 5 8

Do you know the code?

Rule: Fill in the grid so that every row, every column, and every 3x3 box contains the digits 1 though 9.

Easy

4	6				5			
9						7		2
	7		9				6	
	1	4			3			
6	3	7				9	5	8
			7			3	4	
	5				7		1	
1		8						5
			4				9	3

Difficult

	4	6	7					
2		3		8				
9			1				4	
6			2			1	9	
	9		3		4		8	
	2	8			5			7
	6				2			1
				4		8		9
					1	4	5	

Solution on page 177

glossary

A

Anchor tenant
The key tenant used to attract other tenants. Its high customer footfall attracts increased traffic to the entire shopping center. The smaller tenants clustered around the anchor tenant profit from the higher customer footfall of their larger neighbour. A rational center structure in terms of the organisation of the shops and the range of goods offered is crucial to its success.

Annual financial statements
Under German (HGB) accounting principles, the annual financial statements consist of a company's balance sheet, profit and loss account, the notes to the financial statements and the management report. The annual financial statements of a public company are prepared by its executive board, audited by a certified public accountant (in Germany: Wirtschaftsprüfer) and adopted by the supervisory board.

C

Class of assets
Division of the capital and real estate market into different classes of assets or asset segments.

Consumer price index
Also called the cost-of-living index, this is calculated in Germany by the Federal Statistical Office on a monthly basis. The CPI is the most important statistical indicator of a change in prices; the price of a basket of goods during a given period is compared with the price of the same basket during the base year. This change is also known as the inflation rate.

Corporate governance
The rules for good, value-driven corporate management. The objective is to control the company's management and to create mechanisms to oblige executives to act in the interests of their shareholders.

Coverage
Information provided on a listed public company by banks and financial analysts in the form of studies and research reports.

D

DAX
Germany's premier equity index. The composition of the DAX is established by Deutsche Börse AG on the basis of the share prices of the 30 largest German companies listed in the Prime Standard in terms of market capitalisation and market turnover.

Discounted cash flow model (DCF)
Method for the assessment of companies which is used to determine the future payments surplusses and discount them to the valuation date.

Dividend
The share of the distributed net profit of a company to which a shareholder is entitled in line with the number of shares he or she holds.

E

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes.

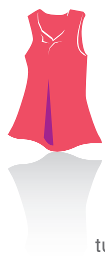
EPRA
European Public Real Estate Association. Based in Amsterdam, the EPRA is an organisation that represents the interests of the major European property management companies and supports the development and market presence of European public property companies. The well-known international index named after it, the EPRA index, tracks the performance of the largest European and North American listed property companies.

E-commerce/Electronic commerce
Direct commercial relationship between supplier and buyer via the internet including the provision of services.

EPS
Earnings per share.

F

Fair value
According to IFRS, a potential market price under ideal market conditions for which an asset value may be traded or an obligation between competent and independent business partners, willing to make a contract, may be settled.



Food court
Type of plaza in a shopping centre with different food stalls and self service restaurants sharing a common dining area.

Free cash flow
The surplus cash generated from operating activities recognised in the profit and loss account. This expresses a company's internal financing power, which can be used for investments, the repayment of debt, dividend payments and to meet funding requirements.

G

Gearing
Ratio which shows the relationship between liabilities and equity.

Gross domestic product (GDP)
The value of all goods and services produced or rendered internally against payment by a national economy during a given period.

H

Hedge accounting
Financial mapping of two or more financial instruments that hedge one another.

I

ifo Business Climate Index
The ifo Business Climate Index is an important forward indicator for economic development in Germany. In order to calculate the index, the ifo Institute asks approximately 7,000 companies every month for their assessment of the economic situation and their short-term corporate planning.

Interest rate swap
Exchange of fixed and variable interest payable on two nominal amounts of capital for a fixed period.
By means of an interest rate swap, interest rate risks may be controlled actively.

International Financial Reporting Standards (IFRSs)
International Financial Reporting Standards are based on International Accounting Standards (IASs). Since 1 January 2005, listed companies have been required to apply IFRSs. IASs/IFRSs focus on the decision-usefulness of accounts. The key requirement with regard to the annual financial statements is fair presentation that is not qualified by aspects of prudence or risk provision.

M

Macrolocation
The area in which a property is located, including its catchment and surrounding areas, such as a particular district, town, or region.

Mall
Row of shops in a shopping center.

Market capitalisation
The current quoted price for a share multiplied by the number of shares listed on the stock.

MDAX
German mid-cap index comprising the 50 most important securities after the DAX members. exchange. Market capitalisation is calculated for individual companies, sectors, and entire stock markets, thus enabling comparisons between them.

Microlocation
The property itself and its immediate surroundings.

Monobrand stores
Retailer, who offer store brands only, especially in the textile industry.

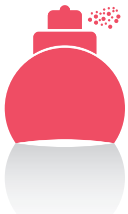
Multi channelling
Using a combination of online and offline communication tools in marketing.

N

Net asset value (NAV)
The value of an asset after deduction of liabilities. With regard to shares, the NAV constitutes their intrinsic value. The net net asset value (NNAV) is calculated by deducting deferred taxes from the NAV.

P

Peer group
A share price performance benchmark consisting of companies from similar sectors, put together on the basis of individual criteria.



Performance
The term performance describes the percentage appreciation of an investment or a securities portfolio during a given period.

R

REIT
REIT stands for “Real Estate Investment Trust”. REITs are listed real estate corporations that are exempt from tax at the company level. To qualify, a minimum of 75% of their income must come from real estate rental, leasing and sales and 90% of profits must be distributed to shareholders as dividends.

Restaurant chains
Type of gastronomy which is characterised by a standardised and uniform structure.

Retail space
Space in a building and/or an open area that is used for sales by a retail operation and that is accessible to customers. Service areas required for operational and legal purposes are not taken into account, nor are stairways or shop windows. The retail space is part of the leasable space of a business.

Roadshows
Corporate presentations to institutional investors.

S

Savings ratio
Share of savings of the income available in households.

SDAX
The small-cap index comprising the 50 most important securities after the members of the DAX and the MDAX.

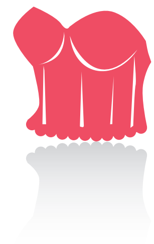
Share capital
The capital stipulated in a corporation’s articles of association. The articles also specify the number of shares into which the share capital is divided. The company issues shares in the amount of its share capital.

Share register
Register that German public companies which issue registered shares must maintain. It lists each shareholder together with his or her name, date of birth and address, thus allowing the company to gain an overview at any time of the current shareholder structure and any changes. Shareholders have the right to be informed about the details of their own entry in the share register.

T

TecDAX
The successor to the NEMAX 50, comprising the 30 largest German listed technology securities in terms of market capitalisation and market turnover.

V



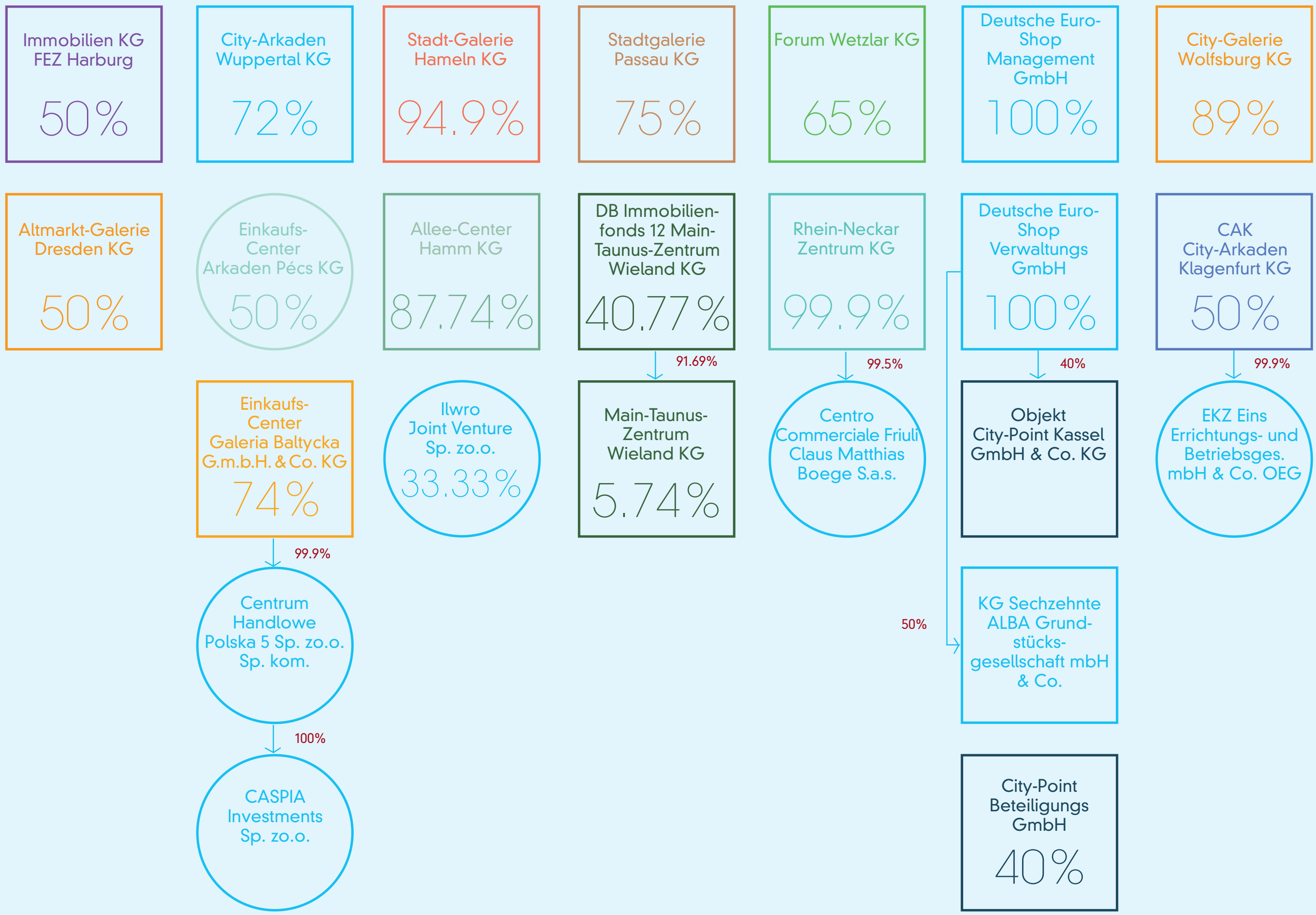
Vertical integration
Expansion of retailers' activities to the preceding production steps (backward integration) or expansion of producers' activities to the following retailers (forward integration).

Volatility
Statistical measure for price fluctuations. The greater the fluctuations in the price of a security, the higher its volatility.

X

Xetra
An electronic stock exchange trading system for location-independent trading. The central, open order book is accessible to all market participants, thus increasing market transparency. Trading hours are 9.00 a.m. to 5.30 p.m. (as of March 2007).

Investment Structure **Deutsche EuroShop**



Sudoku

Solution

Easy

4	6	3	2	7	5	1	8	9
9	8	5	6	1	4	7	3	2
2	7	1	9	3	8	5	6	4
8	1	4	5	9	3	6	2	7
6	3	7	1	4	2	9	5	8
5	9	2	7	8	6	3	4	1
3	5	9	8	2	7	4	1	6
1	4	8	3	6	9	2	7	5
7	2	6	4	5	1	8	9	3

Difficult

1	4	6	7	5	3	9	2	8
2	5	3	4	8	9	7	1	6
9	8	7	1	2	6	5	4	3
6	3	5	2	7	8	1	9	4
7	9	1	3	6	4	2	8	5
4	2	8	9	1	5	6	3	7
5	6	4	8	9	2	3	7	1
3	1	2	5	4	7	8	6	9
8	7	9	6	3	1	4	5	2

* Solution

Mainly B, only question nine A:
Mr. Heesters! How nice to see you at Deutsche EuroShop. Keep well!

Mainly A:
People can hear you coming a long way off because of your squeaky rubber soles, which you wear with loose camouflage trousers held up by a belt with a shiny cowboy buckle. The best thing about your clothes is that we'll probably never get to see them, because no one will let you in anywhere looking like that.

Mainly B:
One thing is certain: You're not going to make any really bad fashion faux pas. Your shirts are made of good-quality cloth and your shoes aren't cheap. However, you lack that certain casual flair that enables people to wear even old clothes with great style. But then you're still young, aren't you?

Mainly C:
Your London tailor is always pleased to get a call from you. Not because you have spent a lot of money with him in the past. But because he feels that you lend his clothes a certain dignity when you wear them. It makes us feel good that people like you are reading our report!

Readers' letters

There is no need for you to send me your annual and interim reports by post in future because I can access them via your website, on which I would like to congratulate you.

Sebastian Weser, Leipzig

I like your lively and informative investor relations activities. I would be interested to know whether you also offer a DRIP (dividend reinvestment plan)? I have bought Deutsche EuroShop shares as a long-term investment for my children and a programme of this type would make sense.

Annette Paul, Heidelberg

DES: Deutsche EuroShop does not currently have a dividend reinvestment plan. Our Executive Board regularly reviews the possibility of such an arrangement, with particular reference to the legal and tax considerations as well. At the moment, we are not planning to set up a programme of this type.

As a private investor, I have two questions for you: When will your quarterly reports be published this year? Will you disclose the compensation paid to the Executive Board in future in accordance with the new recommendations of the Corporate Governance Code and the Vorstandsvergütungs-Offenlegungsgesetz (German Act on the Disclosure of Executive Board Remuneration)? Or will you make use of the provision allowing you to obtain the approval of the Annual General Meeting not to publish the Executive Board's compensation?

Michael Scheffer. Berlin

DES: In 2007, our interim report for the first quarter will be published on 11 May, the half-yearly report on 14 August and the interim report for the first nine months on 9 November. All of our reports are available online as interactive versions. All previously published reports, as well as a regularly updated financial calendar, can be found on our IR website: www.deutsche-euroshop.de/ir. On your question relating to Executive Board compensation: We already have a policy of open information in this respect, as the remuneration of the Executive Board has been published in the annual report ever since our IPO. You will find the figures for 2006 in this report.

Please could you tell me on which date and for how long my EuroShop shares have to be held in my securities account in order to qualify for the dividend.

Stephan Bergmann, Dusseldorf

DES: The dividend for the most recent financial year is paid to all shareholders who have Deutsche EuroShop shares in their account following the market close on the day of the Annual General Meeting.

Thank you for the best wishes you sent me on my 88th birthday. I am a shareholder in numerous companies and I have to say that none of them is as shareholder-friendly as Deutsche EuroShop. Congratulations to you and your staff, keep it up!

Dr. Karl-Heinz Blum, Rosenheim

The 2005 Annual Report is just great in every respect and enabled me to build up a good picture of your company very quickly. And the tax-free dividend is a really brilliant idea!

Juliane van Kammer, Cologne (by E-Mail)

Your opinion, please

Deutsche EuroShop AG
Investor & Public Relations
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20149 Hamburg

info@deutsche-euroshop.com

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☐ a DES shareholder
☐ just interested

Something I have always wanted to tell you
(positive and negative feedback, etc.):

____

Name: ______________________________
Street: ______________________________
Postcode and city: ______________________________
E-Mail: ______________________________
Shareholder Reference
Number (SRN) (if known): ______________________________

*From now on, we will send the annual report to our shareholders only if desired. The quarterly report will be available for download on our Investor Relations website, (www.deutsche-euroshop.com/ir)

Franking
optional

BUSINESS REPLY

Deutsche EuroShop AG
Investor & Public Relations
Oderfelder Straße 23

D-20249 Germany

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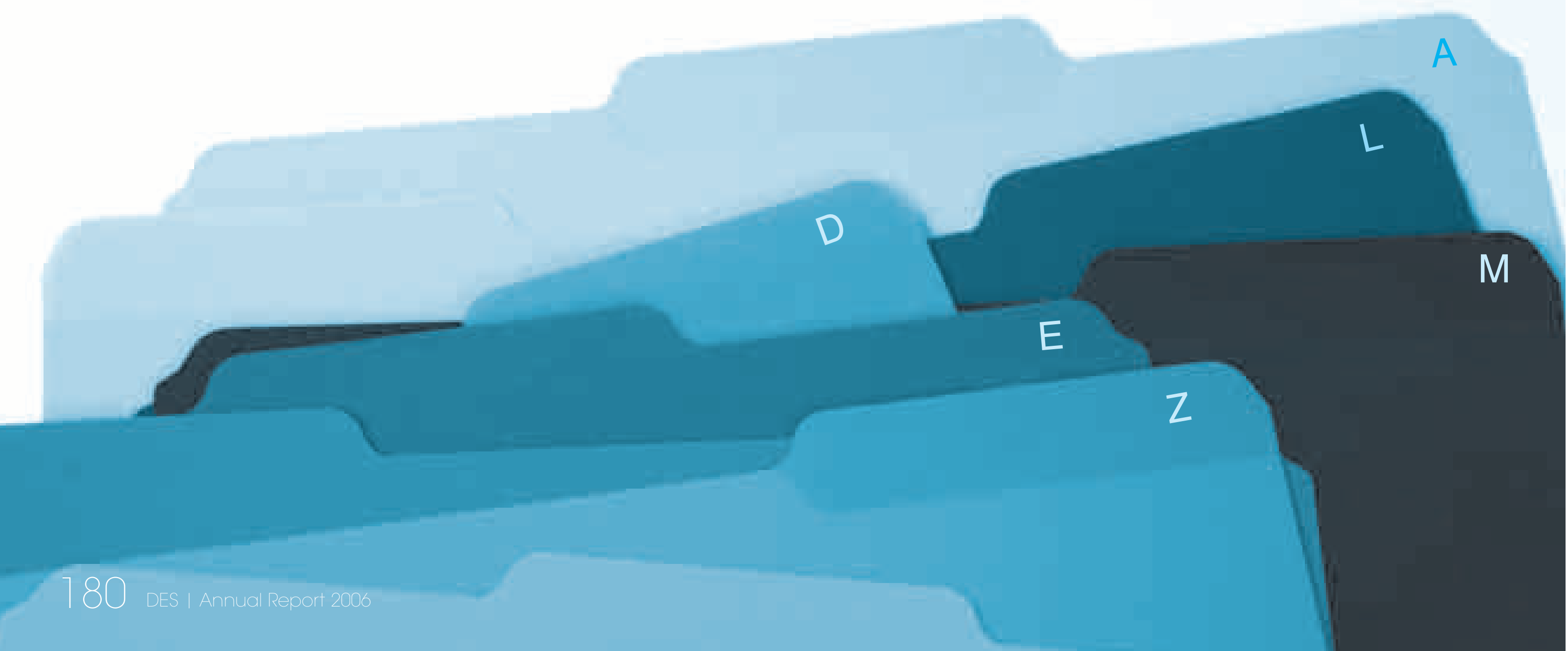

MULTY-YEAR-OVERVIEW

€ million	2003	2004	2005	2006
Revenue	57.9	61.4	72.1	92.9
EBIT	39.5	49.8	57.5	86.3
Income from investments	3.5	4.8	5.0	1.9
Net finance costs	-22.0	-25.3	-39.3	-41.0
EBT	26.9	37.3	68.1	117.7
Consolidated profit	19.0	27.7	48.7	100.3
Basic earnings per share €[1]	1.22	1.78	3.09	5.84
Equity	695.3[2]	684.4[2]	724.7	796.3
Liabilities	493.6	612.6	677.1	797.3
Total assets	1,240.5	1.370.2	1,543.6	1,796.2
Equity ratio in %[2]	56.1	49.9	51.0	50.0
Gearing in %	78	100	102	100
Net asset value	682.5	686.8	794.5	877.4
Net asset value per share in €	43.68	43.96	46.22	51.05
Number of shares	15,625,000	15,625,000	17,187,499	17,187,499
Cash and cash equivalents	102.0	150.3	197.2	96.9
Dividend per share in €	1.92	1.92	2.00	2.10[3]

[1] undiluted [2] incl. minority interest [3] proposal

Multy-Year-Overview

2003 — 2006

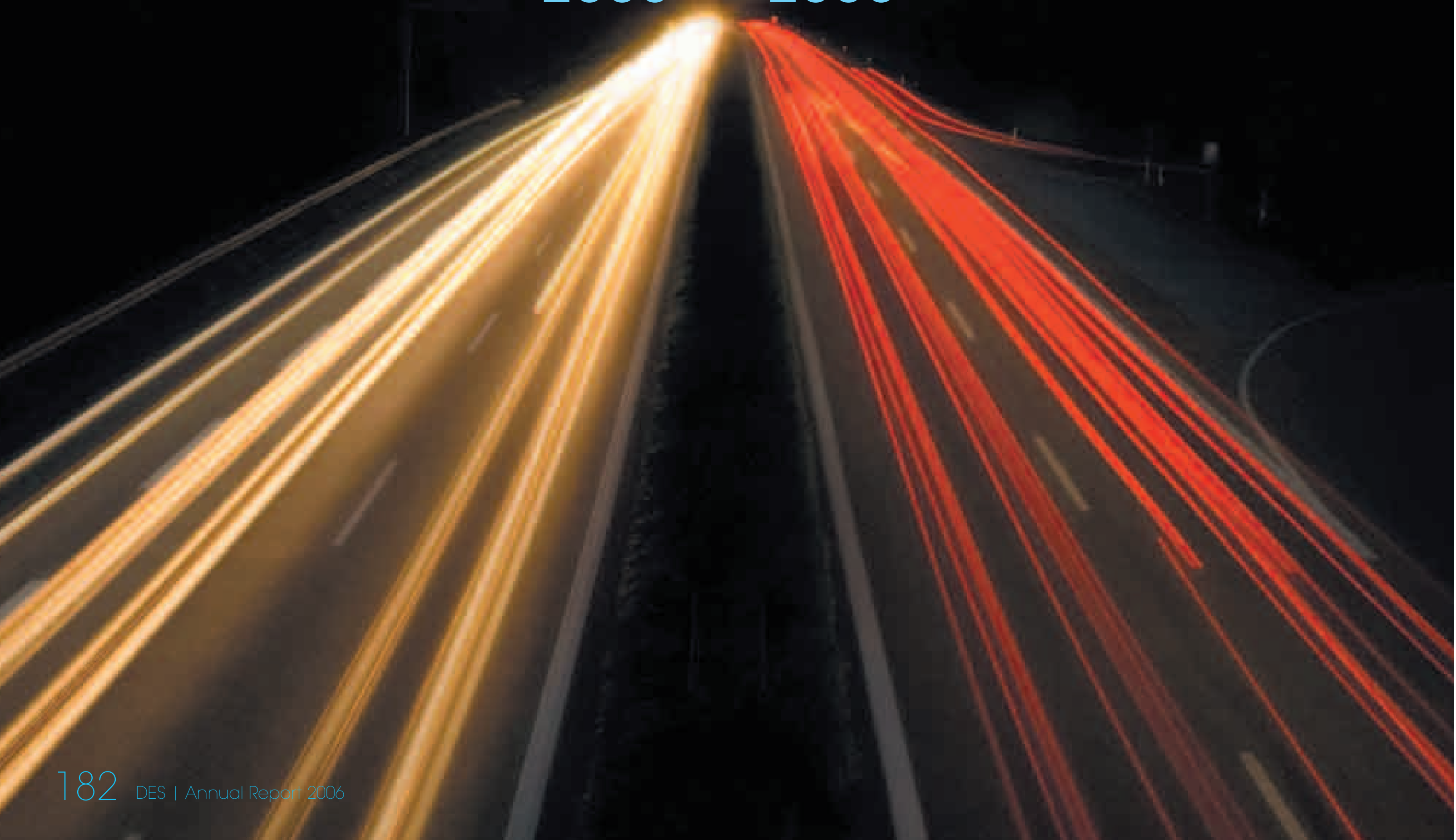

Photo competition
MY FAVOURITE SHOPPING THEME

At Deutsche EuroShop, everything revolves around shopping. If shopping is one of your favourite activities too, send us your most original shopping photo and win shopping vouchers for our centers.

Deutsche EuroShop is looking for the photo of the year on the subject of “My favourite shopping theme”.

What do you need to do?

If you would like to take part, please send us your photograph by 30 September 2007 as a paper print (minimum size 10x15 cm) to the following address:
Deutsche EuroShop AG, keyword „Shopping-Foto“,
Oderfelder Str. 23. 20149 Hamburg.
or simply e-mail it to
lissner@deutsche-euroshop.de.

The judges’ decision is final.

A panel consisting of Deutsche EuroShop employees will choose the three most original photographs from among those submitted. The winners will be awarded vouchers for our shopping centers worth **€100.00 (1st prize)**, **€75.00 Euro (2nd prize)** and **€50.00 Euro (3rd prize)**. The winning photographs will be displayed on the Deutsche EuroShop website and published in the next annual report.

Financial calendar

2007

10.01. Morgan Stanley German Property Day, London
16.01. Cheuvreux German Corporate Conference, Frankfurt
28.02. HSBC Trinkaus Real Estate Conference, Frankfurt
29.03. Audit Committee meeting, Hamburg
12.04. Kepler European Real Estate Conference, Milan
19.04. Supervisory Board meeting, Hamburg
20.04. Annual earnings press conference, Hamburg
Laying of the foundation stone, Stadtgalerie Passau
23.04. Roadshow Brussels, Petercam
24.04. Roadshow Munich, equinet
WestLB German Real Estate Day, New York
25.-27.04. Roadshow USA and Canada, Deutsche Bank
25.04. Roadshow Paris, Aurel Leven
26.-27.04. Roadshow Madrid and Lisbon, Berenberg
11.05. Interim report Q1 2007
14.05. Roadshow Edinburgh, Morgan Stanley
Roadshow Zurich, Kempen & Co
15.05. Roadshow Dublin, HVB
14.-15.05. Deutsche Bank German Corporate Conference, Tokio
16.05. Roadshow Frankfurt, HVB
24.05. Roadshow London, M.M. Warburg
Topping-out ceremony of Galeria Baltycka, Gdansk
30.05. Kempen & Co. European Property Seminar, Amsterdam
31.05. UniCredit Financials Conference, Stockholm
21.06. Annual General Meeting, Hamburg
Supervisory Board meeting, Hamburg
29.06. Sal. Oppenheim Real Estate Conference, Zurich
04.07. Topping-out ceremony of Stadt-Galerie Hameln
14.08. Interim report H1 2007
15.08. Roadshow Cologne and Dusseldorf, HSBC
16.08. Roadshow Vienna, Sal. Oppenheim
06.-07.09. EPRA Annual Conference, Athens
12.09. Roadshow Zurich, WestLB
13.09. Supervisory Board meeting, Hamburg
25.-27.09. HVB German Investment Conference, Munich
Oct. Grand opening of Galeria Baltycka, Gdansk
08.-10.10. Expo Real, Munich
18.10. Société Générale Pan European
Real Estate Conference, London
25.-26.10. Real Estate Share Initiative, Frankfurt
09.11. Interim report Q1-3 2007
10.11. Hamburg Exchange Convention
14.-15.11. WestLB Deutschland Conference, Frankfurt
23.11. Supervisory Board meeting, Hamburg


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