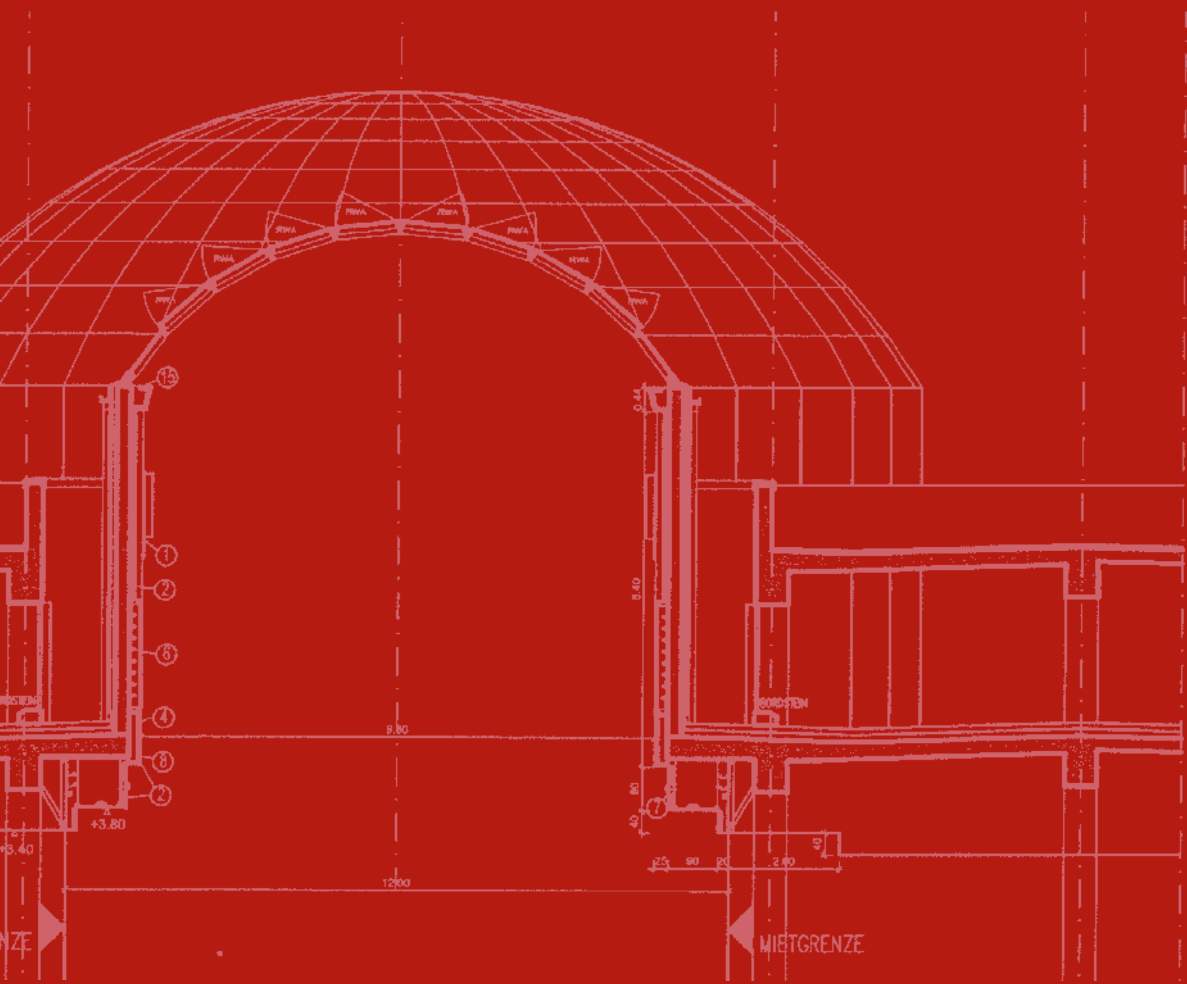
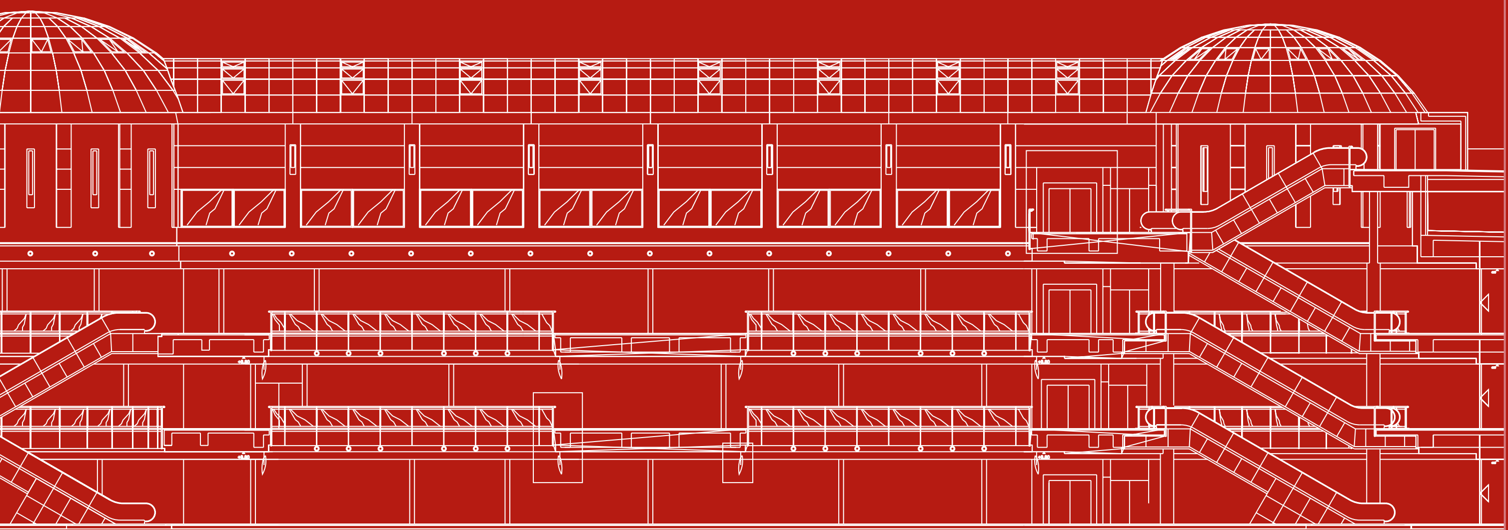


PROJECT: Annual Report 2005

# BUILDING BUSINESS

PRODUCED BY:

Deutsche EuroShop AG

# KEY DATA



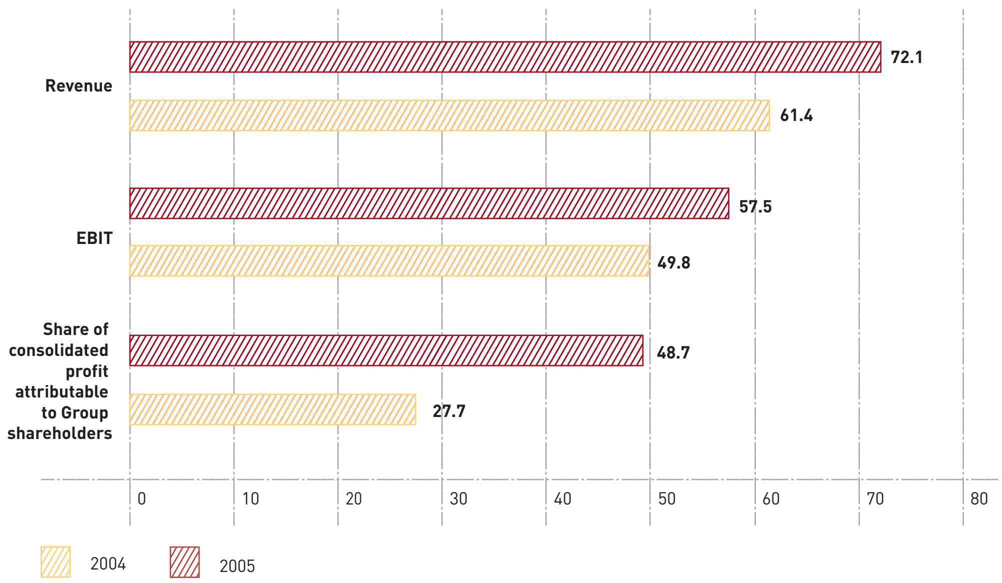
| € million | 2005 | 2004 | Change |
|---|---|---|---|
| Revenue | 72.1 | 61.4 | 17% |
| Income from investments | 5.0 | 4.8 | 4% |
| Net interest expense | -31.4 | -25.3 | 24% |
| EBIT | 57.5 | 49.8 | 16% |
| EBT | 81.1 | 37.3 | 118% |
| Share of consolidated profit attributable to Group shareholders | 48.7 | 27.7 | 76% |
| Earnings per share (€) [1] | 3.09 | 1.78 | 74% |
| Equity | 787.4 | 684.4 | 15% |
| Liabilities | 677.1 | 612.6 | 11% |
| Total assets | 1,543.6 | 1,370.2 | 13% |
| Equity ratio (%) | 51.0 | 49.9 | |
| Gearing (%) | 96 | 100 | |
| Net asset value | 794.5 | 686.8 | 16% |
| Net asset value per share (€) | 46.22 | 43.96 | 5% |
| Number of shares | 17,187,499 | 15,625,000 | |
| Cash and cash equivalents | 197.2 | 150.3 | 31% |
| Dividend per share (€) | 2.00 [2] | 1.92 | 4% |

[1] undiluted

[2] proposal

**Revenue, EBIT Consolidated Profit 2004–2005**

€ million



# HIGHLIGHTS IN 2005



**February**
- Forum Wetzlar opens

**June**
- Annual General Meeting on 23 June 2005 and renewed distribution of a dividend of €1.92 per share

**August**
- Olaf G. Borkers appointed to the Executive Board effective 1 October 2005

**September**
- Topping-out ceremony at City Arkaden Klagenfurt

**October**
- 100% occupancy rate achieved at City Arkaden Klagenfurt
- Investments in Main-Taunus-Zentrum, Rhein-Neckar-Zentrum and Shopping Etrembières increased

**November**
- Acquisition of Rathaus-Center Dessau
- 10% capital increase placed successfully
- Acquisition of Stadt-Galerie Hameln

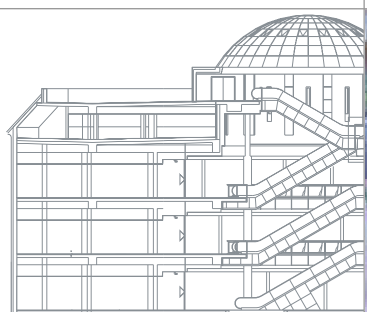
## "BUILDING BUSINESS" IS THE MAIN THEME OF OUR 2005 ANNUAL REPORT.

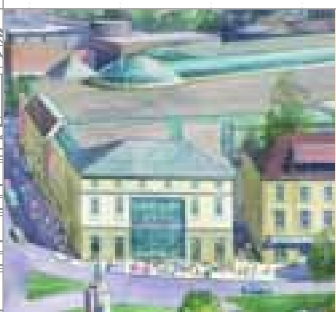


This theme has two aspects: we are active in the "building business"; building high-quality shopping centers is our profession. And we are continuously expanding this business with new shopping centers. This requires precise planning and involves many details. Sometimes we choose the traditional route, occasionally the visionary one. This applies equally to the development of a shopping center and to the expansion of our portfolio.

With this Annual Report, we invite you to take a look behind the scenes: we have used the City Arkaden Klagenfurt, whose grand opening we celebrated on 29 March 2006, to provide insights into the architecture and technology behind a shopping center. On the inside pages of this report, you can see details of the various development stages of the Austrian shopping center. For the pages separating the chapters, we zoomed in on the technical details that are mostly hidden from the day-to-day visitors to the shopping center.

City Arkaden Klagenfurt





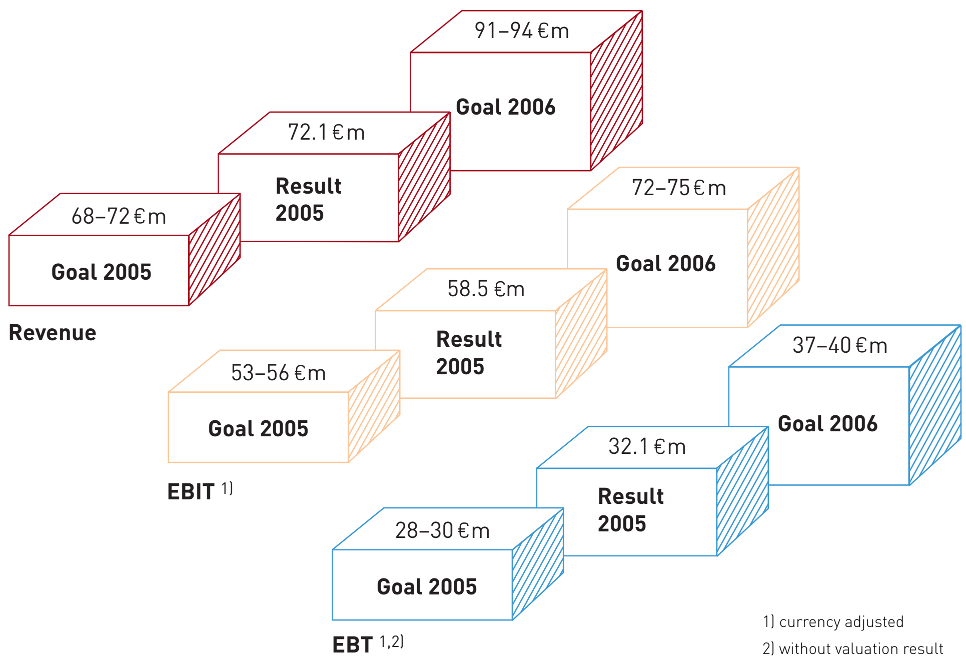
# OUR VALUES / OUR GOALS

## Our 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.

## Our 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.




1) currency adjusted
2) without valuation result

# FOREWORD BY THE EXECUTIVE BOARD

*Dear Shareholders and Friends,*

we took on a lot in the past financial year – and we achieved it. We anticipated revenues of €68–72 million; in the end, we generated €72.1 million, which represents an increase of 17.4% year-on-year. We increased the share of the consolidated profit attributable to Group shareholders by 76%, from €27.7 million to €48.7 million, thanks to an extremely favourable valuation of our shopping center portfolio.

Undiluted earnings per share rose from €1.78 to €3.09 – operating business contributed €1.24 per share to this gain, while €1.85 resulted from the higher valuation of the shopping centers. Our Company's net asset value rose from €686.8 million as at 31 December 2004 to €794.5 million at year-end 2005. This represents an increase of €107.7 million and a net asset value per share of €46.22.

The foundation of this success is our excellent shopping center portfolio. The 16 centers are situated in first-class locations in six European countries, are fully leased and provide reliable long-term income.

We intended in 2005 to expand our portfolio with new investments amounting to between €100 million and 150 million. Like architecture, portfolio management requires careful design that covers every detail. Following the completion of the planning phase, we rapidly implemented our projects, recording one transition after another in autumn 2005:

- In October, we increased our investments in the Main-Taunus-Zentrum, Rhein-Neckar-Zentrum and Shopping Etrembières shopping centers.

- In addition, we welcomed two new additions to the portfolio in November:
  The Rathaus-Center in Dessau has been successful on the market since 1995 and is recording steadily rising revenues. All shop space (25,000 m$^2$, around 80 shops) here is also leased long-term to prominent retail companies. The investment volume amounts to more then €100 million, and our initial return is over 7%.

  We expect to open the Stadt-Galerie Hameln in spring 2008. The investment volume here amounts to around €82 million. The Stadt-Galerie will enhance Hamelin's city center with around 90 shops on three levels and retail space of around 20,000 m$^2$. Over 50% of space in the Stadt-Galerie has already been leased, two years prior to its opening.

- In mid-February, we opened the Forum Wetzlar project on schedule and fully leased. It has since been contributing to our revenue.

▸ Claus-Matthias Böge ▸ Olaf G. Borkers

One of the most important aspects in planning a new shopping center is the financing. This is why we prepared our long-planned capital increase at the same time as our acquisitions, and successfully implemented it in November. We used the proceeds of the issue amounting to around €66 million to finance our investments, which currently amount to more than €200 million.

Since the capital market situation in October was uncertain, we placed the new shares – with the agreement of the Supervisory Board and in line with the advice of the banks advising us – by way of an accelerated bookbuilding process at close to the stock market price. Unfortunately, we were only able to address institutional investors in this procedure and had to disapply shareholders' pre-emptive rights. Up until the beginning of November, we had focused all preparations towards a capital increase including pre-emptive rights, but decided on the more secure route in the light of the capital market environment and thus for a procedure in line with our corporate philosophy. However, our express goal with future capital measures is to involve our existing shareholders more closely again, and to give them the opportunity to take part.

Our share price performed very encouragingly over the course of the year: it rose from €38.51 to €47.45 – an increase of 23.2%. Together with the dividend of €1.92 per share paid out in June 2005, our investors generated a performance of around 28% within 12 months, after around 20% in the previous year. We will be proposing an increased dividend of €2.00 per share for 2005 to the Annual General Meeting. This corresponds to a return of 4.2% at the closing price for 2005. We thus continue to offer one of the highest dividend returns on the German stock market, with the added advantage of it being tax-free.

We have ambitious plans for 2006: our revenue target is between €91 and 94 million; this represents growth of over 25% year-on-year. We aim to increase currency-adjusted earnings before interest and taxes (EBIT) from €58.5 million to between €72 and 75 million. On the basis of this key data, we expect that our shareholders will be able to count on another attractive dividend for financial year 2006.

To achieve these ambitious goals and the leading position in the European market that we are striving for, we will continue to pursue our already very successful strategy of selectively expanding our portfolio. We would like to thank you for your confidence in us and look forward to your continued support in implementing our plans and expanding our business in future.

Hamburg, April 2006

Claus-Matthias Böge

Olaf G. Borkers

▶ Manfred Zaß

122.0 6.7

# REPORT OF THE SUPERVISORY BOARD

*Dear Shareholders,*

the Supervisory Board closely followed the development of Deutsche EuroShop AG during financial year 2005, performing the duties incumbent on it according to the law and the Articles of Association and advising the Executive Board. The latter informed us regularly, promptly and in detail concerning the development of the business.

## ▶ Focus of the advisory activities

We examined the Company's net assets, financial position and results of operations, as well as its risk management, in detail. Our discussions focused on the development of the portfolio properties, their sales trends, outstanding accounts, the occupancy rate, construction measures and the liquidity of the Company's investees. We also received information from the Executive Board about construction progress, the letting situation and investment cost trends for new development projects.

Furthermore, the Executive Board submitted reports concerning various investment opportunities and the measures for preparing and implementing the capital increase.

Specific current topics were discussed by the Executive Board and the Chairman of the Supervisory Board and/or the Executive Committee of the Supervisory 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 either did not take part in voting or abstained.

## ▶ Meetings and committees

During financial year 2005, four regular Supervisory Board meetings took place, which were attended by all Supervisory Board members.

At the first meeting on **14 April 2005** we selected the new auditor who was proposed for election at the Annual General Meeting. In this connection we approved the agenda for the Annual General Meeting. In addition, we discussed for the first time the acquisition of a shopping center development project in Hameln. We agreed to this following circulation of the relevant documents in mid-August 2005.

At the meeting on **23 June 2005** we discussed once more the progress of the negotiations to acquire the shopping center project in Hamelin and the acquisition of a possible interest in a shopping center in Dessau. The intention to increase the interests held in the Main-Taunus-Zentrum and Rhein-Neckar-Zentrum shopping centers was also a topic of discussion at this meeting. We approved the increase in the interests held following circulation of the relevant documents in mid-October 2005. Moreover, we appointed Mr Borkers as a member of the Company's Executive Board with effect from 1 October 2005.

The third meeting on **16 September 2005** led to the decision to acquire the interest in the shopping center in Dessau. The Executive Board presented and explained in detail the H1 2005 report and a preliminary projection of the results for the whole of 2005 to us. We also discussed the ongoing shopping center development project in Klagenfurt on the occasion of the topping-out ceremony there two days earlier.

The last meeting of the financial year, on **24 November 2005**, focused in particular on discussion of and reporting on the 10% increase in the Company's share capital which had been successfully implemented. In particular we discussed the decision – reached jointly with the Executive Board – to implement the increase of about 10% of the share capital by disapplying shareholders' pre-emptive rights, contrary to the original plans. The reason for this was the deterioration in the capital market environment at the end of October/in early November 2005. In addition, we discussed the Executive Board's planning for financial year 2006 and initiated an efficiency review, which was carried out at the beginning of 2006.

The Supervisory Board has formed two separate committees, an Executive Committee and an Audit Committee. During the period under review, both committees met on 5 April 2005. Furthermore, the committee members discussed and agreed on a number of issues by telephone on several occasions.

## ▶ Corporate governance

On 23 December 2005, together with the Executive Board, we issued an updated declaration of conformity regarding the recommendations of the Government Commission pursuant to section 161 AktG and made this permanently available to shareholders on the Deutsche EuroShop website. In accordance with section 3.10 of the Code, a separate report on corporate governance is contained in this annual report.

## ▶ Financial statements of the AG and the Group for the period ended 31 December 2005

At the Audit Committee meeting on 24 March 2006 and the Supervisory Board meeting on 19 April 2006, 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 2005, as well as the management report and group management report for financial year 2005. 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 23 June 2005, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, had previously audited the financial statements and issued an unqualified audit opinion. The compliance of the accounting policies and consolidation methods in the consolidated financial statements with the relevant accounting provisions was confirmed. 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 24 March 2006 and the Supervisory Board meeting on 19 April 2006 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 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 Supervisory Board wishes to thank the Executive Board and the employees for their hard and successful work for the Company in financial year 2005.

Hamburg, 19 April 2006

Manfred Zaß, Chairman

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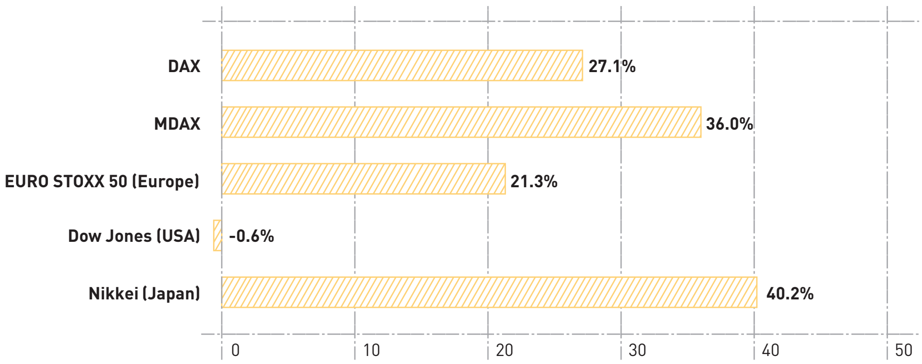
# THE SHOPPING CENTER SHARE

For the most part, the European and Asian financial markets experienced positive growth in 2005. Only the US stock markets lagged behind the trend. Although the continuous sharp rise in the price of crude oil slowed economic growth, stock markets continued their upward trend of the previous year on the strength of increasing corporate earnings and a positive outlook. Once again, second-line stocks were the focus of investor attention, and Deutsche Euroshop's shares were no exception, with a performance of 28.2% in 2005.

**Stock market development in 2005**




## ▶ Second-line stocks again outperform DAX

In 2005, as in the previous year, stocks from the second (MDAX) and third (SDAX) tiers outperformed the blue chips congregated in the DAX. While German's premier stock index rose 27.1% from 4,256 to 5,408 points, the second- and third-line MDAX and SDAX indices grew by 36% and 35.2% respectively. The TecDAX, the benchmark index for technology and growth stocks, lagged behind this performance with a 14.7% increase.

## ▶ Deutsche EuroShop shares hit new record high

Our shares started the year at €38.51 and headed steadily upwards until the end of July 2005; even rapidly making up for the ex-dividend markdown on 24 June. On 27 July, Deutsche EuroShop shares reached a new all-time high of €50.50 (Xetra closing prices). In September and October, the mood on the capital markets was nervous, which also affected the price of our shares. In November, investors in general regained their optimism and, after its successful capital increase, Deutsche EuroShop trended upwards once again. It wound up the 2005 financial year at €47.45. Deutsche EuroShop's market capitalisation rose by around €214 million, from €602 million at the end of 2004 to €816 million at the end of 2005.

Shares peaked at €50.50

## ▶ Performance in excess of 28%

The price of our shares posted a year-on-year rise of 23.2%. Adding the dividend of €1.92 that was distributed, this amounts to a performance of 28.2%. This puts Deutsche EuroShop's shares at the head of its European peers. Open-ended real estate funds, with whom we also compete for investment capital, generated an average performance of 3.4% in 2005 (2004: 3.3%). However, they suffered total outflows in excess of €3.4 billion, due among other things to declining returns recorded by several funds.

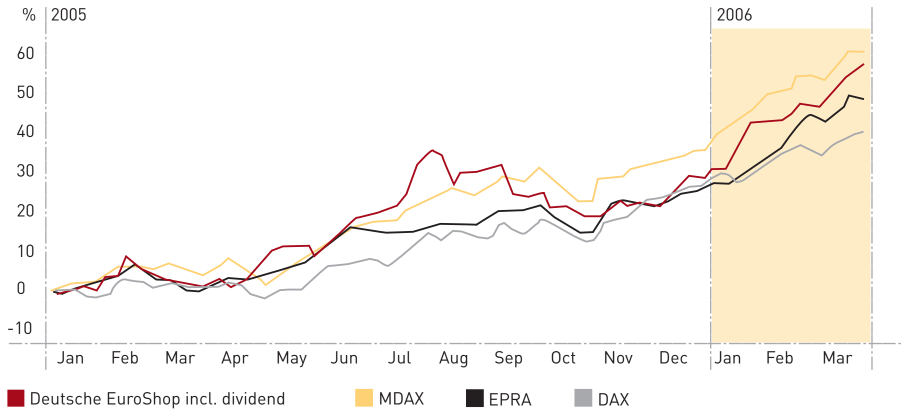
**Trend of the share**
in €

## ▶ Capital increase successful

New shares placed at €43.00 per share

In November 2005 we implemented a capital increase of approximately 10%, disapplying shareholders' pre-emptive rights. 1,562,499 new shares were placed with institutional investors at €43.00 per share as part of a private placement, generating gross issue proceeds of approximately €67.2 million. As a result of the capital increase, the number of shares issued by Deutsche EuroShop has risen from 15,625,000 to 17,187,499.

**Trend of the share (indexed)**
01 January 2005 = 0




## ▶ Busy agenda for Investor Relations

Valuable investor contacts made

During the past year, we presented Deutsche EuroShop to an international audience of investors at 11 roadshows and ten major capital market conferences, as well as conducting numerous one-on-one discussions. This not only maintained our relationships with our shareholders but also brought us valuable new contacts among investors. In order to intensify our IR activities in future and respond to the ongoing increase in interest from investors, we have expanded our communications staff.

## ▶ Coverage by analysts on the rise

Thirteen analysts (as at 31 March 2006; up from nine the previous year) at well-known institutions in Germany and abroad now monitor our shares on a regular basis, opening up new groups of investors with their recommendations. For further information on the individual recommendations, please visit our website at www.deutsche-euroshop.com/research. Various banks are also planning to begin covering Deutsche EuroShop's shares.

## ▶ Annual General Meeting convenes in Hamburg for first time

The Ordinary General Meeting for the 2004 financial year, held for the first time in Hamburg, took place on 23 June 2005. The shareholders in attendance, numbering about 270, represented 57.2% of the capital and approved all agenda items by over 99.8% of the votes.

## Annual Report wins international recognition

We went straight to sixth place in our first-ever appearance in the MDAX category of Manager Magazin's "Best Annual Report" ranking. As in the previous year, our Annual Report won a prize in the largest international competition for annual reports, the "Academy Awards of Annual Reports", receiving the silver award in the category of "Title Page Design" and the bronze award in the "Online Annual Report" category. In the 2004 Vision Awards competition held by the League of American Communications Professionals, our 2004 Annual Report took 16th place – among over 1,400 entries. With 95 out of a possible 100 points, it garnered the Gold award in the "Real Estate" category.

Top placing in national and international rankings

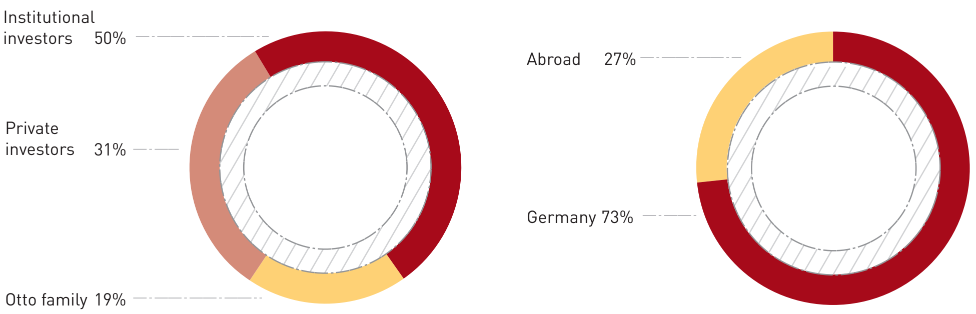
## Innovative IR web pages launched

Investor Relations remains a key focus of our website – an area that has already been recognised in the past as one of the most investor-friendly German public companies. To further improve on this high level, Deutsche EuroShop is offering a technical innovation in capital market communications: podcasting. Users of mobile MP3 players can conveniently subscribe to downloads of the most recent audio files from the IR area of Deutsche EuroShop's website.

## Institutional investors dominate shape shareholder structure

Currently, the Deutsche EuroShop share register lists approximately 7,100 shareholders (as at 31 March 2006), almost 1% more than a year ago. The proportion of institutional investors among Deutsche EuroShop's shareholders has continued to increase from 30% to 50%, while the proportion of foreign investors rose significantly from 13% to 27%.

**Shareholder structure**
in %




| | | | |
|---|---|---|---|
| PROJECT: ANNUAL REPORT | | YEAR: 2005 | PRODUCED BY: Deutsche EuroShop AG |
| CHAPTER: Investor Relations | | | |
| TOPIC: The Shopping Center Share | | PAGES: 12/13 | +++The Shopping Center Company+++ |

## ▶ Dividend climbs to €2.00 per share

Dividend policy geared to continuity

The Executive Board and the Supervisory Board will propose to the Annual General Meeting, to be held in Hamburg on 22 June 2006, that a dividend of €2.00 per share (increased from €1.92) be distributed for the 2005 financial year. With our long-term strategy of a dividend policy based on continuity, and a comparatively high yield of around 4.2% (based on the 2005 year-end closing price of €47.45), we hope to cement the confidence of our existing shareholders and attract new investors. In future, too, we intend to distribute a dividend of at least €2.00 per share.

## ▶ Distribution still completely tax-free

What is special about our dividend is its tax-free status for shareholders domiciled 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). According to our current planning and on the basis of applicable tax law, we will be able to continue to distribute a tax-free dividend for several more years

| **Deutsche EuroShop Shares – Key Figures** | |
|---|---|
| WKN / ISIN | 748 020 / DE 000 748 020 4 |
| Ticker-Symbol | DEQ |
| Share capital in € | 21,999,998.72 |
| Number of shares (no-par value registered shares) | 17,187,499 |
| Indices | MDAX, EPRA, GPR 250, EPIX 30 |
| Official market | Prime Standard Frankfurt Stock Exchange and Xetra |
| OTC markets | Berlin-Bremen, Dusseldorf, Hamburg Hanover, Munich and Stuttgart |

**Would you like further information?**
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Fax: +49 (0)40 - 41 35 79-29

E-mail: ir@deutsche-euroshop.de
Internet: www.deutsche-euroshop.com/ir

▶ Patrick Kiss ▶ Nicolas Lissner

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Market capitalisation (basis: year-end closing price) (€m) | 816 | 602 | 527 | 484 | 477 |
| High (€) | 50.50 (27.07.05) | 38.88 (29.12.04) | 34.70 (18.11.03) | 37.15 (28.05.02) | 39.50 (12.03.01) |
| Low (€) | 38.23 (05.01.05) | 32.90 (12.08.04) | 29.70 (03.03.03) | 27.80 (31.10.02) | 30.00 (21.09.01) |
| Year-end closing price (31 Dec) (€) | 47.45 | 38.51 | 33.75 | 31.00 | 30.50 |
| Dividend per share (€) | 2.00 [1] | 1.92 | 1.92 | 1.92 | 1.92 |
| Dividend yield (31 Dec) (%) | 4.2 | 5.0 | 5.7 | 6.2 | 6.3 |
| Annual performance excl./incl. dividend | 23.2%/28.2% | 14.1%/19.8% | 8.9%/15.1% | 1.6%/7.9% | -20.6%/- |
| Average daily trading volume (shares) | 38,393 | 18,349 | 6,219 | 1,779 | 2,756 |
| EPS (€) (undiluted) | 3.09 [2] | 1.78 [2] | 1.22 [2] | -0.18 [3] | -0.96 [3] |
| CFPS (€) | 1.91 | 1.39 | 1.33 | - | - |

All share price information up to 2002 relates to the Frankfurt Stock Exchange; all information from 2003 onwards relates to Xetra

1) proposal 2) IFRS accounting 3) HGB accounting

## Development of share performance and market capitalisation


PROJECT: ANNUAL REPORT | YEAR: 2005 | PRODUCED BY: DES Deutsche EuroShop AG

CHAPTER: Investor Relations

TOPIC: The Shopping Center Share | PAGES: 14/15 | +++The Shopping Center Company+++

# MARKETING

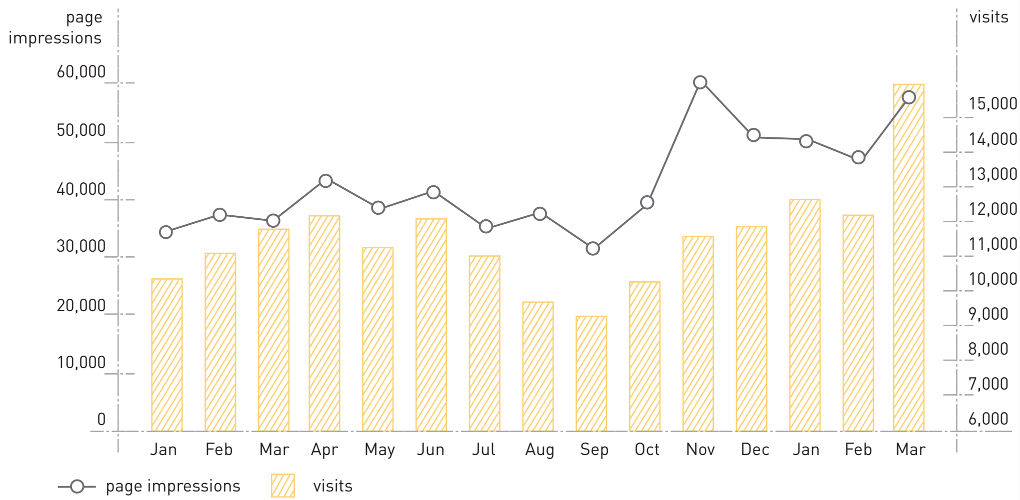
Our shareholders are our customers. Our shares are the product we sell. That's why the marketing focus at Deutsche EuroShop is on investor relations. The section entitled "The Shopping Center Share" reports on our investor relations activities during the past year. Along with share marketing, we focus 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.

## ▶ New, more user-friendly website allows even easier access

Accessible website

In November 2005 we unveiled the new Deutsche EuroShop website. We paid particular attention to fast page loading and accessibility. Accessibility means that the site's design and functionality take handicaps into account, making it much easier for people with visual impairments to use. Online visitors can now access approximately 200 clearly designed pages in German and English with information on all aspects of the Company. The new website can be accessed at the following domain **www.deutsche-euroshop.com**, **www.des.ag** and **www.shoppingcenter.ag**.

**www.deutsche-euroshop.de**
Number of page impressions and visits per month



▸ Image advertisements

▸ Hamburg Exchange Convention

## ▸ Image advertisements

During 2005, 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. In our print advertising campaign tied to the publication of our H1 and Q3 reports, we used motifs drawn from the theme for 2005, "The Art of Shopping". In this way, we drew attention to the successful growth of our company in specialist publications for investors in second-line stocks and real estate experts. The positive response leads us to believe that we have achieved our goal of increasing the positive appeal of our company and confidence in it, while increasing our name recognition.

Positive response to advertising campaign

## ▸ Presentation at 5th Property Share Initiative Conference

On 26 October 2005, around 180 industry experts, investors, analysts and journalists from Germany and abroad met in Frankfurt am Main for the fifth Initiative Immobilien-Aktie (Property Share Initiative) conference. The initiative, co-founded by Deutsche EuroShop, has become a fixture in the calendars of capital market and real estate experts. The group of property companies giving presentations has now grown to nine. Additional information can be found at **www.initiative-immobilien-aktie.de**.

## ▸ First appearance at Hamburg Exchange Convention

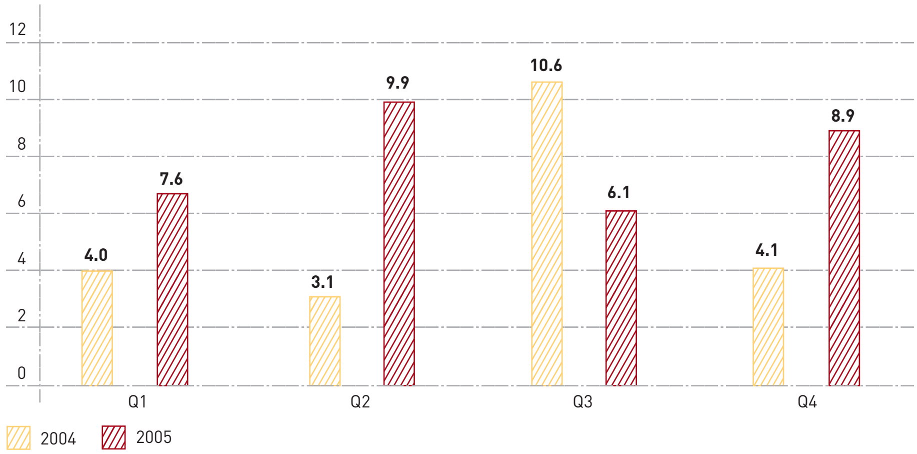
Shortly after the Property Share Initiative Conference, Deutsche EuroShop was an exhibitor at the Hamburger Börsentag (Hamburg Exchange Convention) for the first time on 29 October 2005. The convention is an important financial congress for Northern Germany. Roughly 5,500 attendees had an opportunity to gain information about our shares. We had numerous discussions with interested attendees and satisfied private investors.

## ▶ Media response up significantly

Deutsche EuroShop is seeing growing interest in the Company from business and financial journalists. We are pleased with the development of our media coverage in terms of both quantity and quality. The circulation of newspapers and magazines reporting on us rose from 21.8 million during 2004 to 31.5 million (+45%). If we had hoped to achieve the same presence through advertising, we would have had to spend approximately €2.9 million (ad equivalency). The level in the third quarter was lower than that for the comparable quarter of the previous year owing to the coverage our admission to the MDAX received in 2004. The publication of our 2004 earnings in the second quarter drew particularly strong media attention, as did our successful capital increase and new investments in the fourth quarter of 2005.

**Growth in media coverage**

Circulation of reporting newspapers and magazines in millions



# CORPORATE GOVERNANCE REPORT

Corporate Governance is defined as responsible corporate management and control that is oriented towards long-term added value. Its aim is to create a transparent legal and enterprise-specific framework for the management of listed companies. Good corporate governance aims to promote the confidence of investors, lenders, employees and the public in the management and supervision of these companies.

**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 2 June 2005. In the future as well, the Government Commission will 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.

Principles observed before introduction

Good corporate governance was of critical importance to Deutsche EuroShop even before the Code was published. After all, the success of a company is based on close and efficient collaboration between the executive and supervisory boards, respect for shareholders' interests, open corporate communications, proper accounting and auditing procedures and a responsible approach towards entrepreneurial risk. For this reason, the Code and its amendments did not necessitate any fundamental changes at Deutsche EuroShop.

## Management and control structure

**Executive Board**

The Executive Board of Deutsche EuroShop manages the company in accordance with the provisions of German company law. 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 appointed: 2001
Appointment ends: 2010
On joining Deutsche EuroShop at the end of 2001, Claus-Matthias Böge became a member of the Executive Board. In 2003 he assumed his current position as spokesman for the Executive Board. He functions simultaneously as Managing Director of Deutsche EuroShop Verwaltungs GmbH and of Deutsche EuroShop Management GmbH. Claus-Matthias Böge is also a personally liable partner of a foreign subsidiary.

**Olaf G. Borkers**
Born 10 December 1964
First appointed: 2005
Appointment ends: 2008
On joining Deutsche EuroShop in October 2005, Olaf G. Borkers became a member of the Executive Board. He also functions simultaneously as Managing Director of Deutsche EuroShop Verwaltungs GmbH and of Deutsche EuroShop Management GmbH.

## Supervisory Board and committees established by it

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 General Meeting.

The Supervisory Board has established the information and reporting requirements of the Executive Board and has formed an **Executive Committee** and an **Audit Committee**, each comprising three people.

The Executive Committee of the Supervisory Board is composed of the Chairman of the Supervisory Board, the deputy chairman and one other member 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 Audit Committee comprises three Supervisory Board members. 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. The Audit Committee submits proposals on the adoption of the annual financial statements by the Supervisory Board based on the auditor's report. The Audit Committee is also responsible for the Company's business relations with the auditor and for monitoring the Company's risk management.

The Executive Committee and the Audit Committee perform a significant portion of the duties of the Supervisory Board.

Further information on the members of the Supervisory Board can be found on page 107.

## ▶ Compensation system

**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 a fixed basic annual compensation component and a variable compensation component. This compensation component is oriented on the Group's economic and financial position and on its outlook for the future. Further criteria for determining individual fixed and variable compensation components include, in particular, the duties and the contribution of the member of the Executive Board in question, his personal performance and the performance of the Executive Board as a whole. 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.

Compensation system with fixed and variable components

**Compensation system for the Supervisory Board**

The compensation of the Supervisory Board is based on Article 7 (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 on its economic and financial position. On the suggestion of the Executive and Supervisory boards, the Annual General Meeting resolved on 23 June 2005 to grant the members of the Supervisory Board the following compensation for the 2004 financial year: €30,000 p.a. for

Compensation determined by the Annual General Meeting the chairman, €22,500 p.a. for the deputy chairman and €15,000 p.a. 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**

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. A pension commitment exists in respect of one member of the Executive Board and his dependents. Beyond this, no pension commitments have been made to any other active member of the Executive or Supervisory boards, or to their dependents.

In his position as personally liable partner of Centro Commerciale Friuli, Claus-Matthias Böge & Co. SaS, Milan, Italy, Mr Böge has a 0.5% interest in the profit of that company. During the 2005 financial year Mr Böge received a dividend payout from previous years in the amount of €34,800.

## ▶ Declaration of conformity

On 23 December 2005, the Executive and Supervisory boards of the Company submitted their joint declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code for the 2005 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 and is also published on page 24 of the Annual Report.

## ▶ Shareholdings

**Shares held by the Executive Board**

As at 31 December 2005, the Executive Board held a total of 25,150 shares, less 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 govern the reporting duties of Executive 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.

**Shares held by the Supervisory Board**

As at 31 December 2005, the Supervisory Board held a total of 2,130,025 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 Supervisory Board govern the reporting duties of Supervisory Board members. These cover 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.

## ▶ 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 address items on the agenda and to submit questions about them.

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.

The Executive Board gives regular presentations to analysts and investors as part of our 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. Moreover, Deutsche EuroShop offers financial information and other information about the Deutsche EuroShop Group via its websites.

## ▶ Accounting and audits

Deutsche EuroShop is required under Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 to prepare consolidated financial statements in accordance with the International Accounting Standards (IASs/IFRSs). The annual financial statements of Deutsche EuroShop AG will continue to be prepared in line with the accounting provisions of the German Commercial Code (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, who is 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 gain in importance. In our opinion, it would be advisable to create a framework of European standards that ensure freedom on the national level to take into account national peculiarities or typical company law issues. For individual companies, "market forces" will also have a substantial influence on the extent to which corporate governance principles are implemented.

## ▶ Declaration of Conformity

The Executive Board and the Supervisory Board resolved the following declaration of conformity in December 2005 in accordance with section 161 of the Aktiengesetz.

Deutsche EuroShop's departures from the stipulations of the German Corporate Governance Code in financial year 2005 are listed below, along with the relevant section of the Code.

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

**No stock option programmes or similar securities-based incentive systems are currently 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 2005

The Executive Board and the Supervisory Board
Deutsche EuroShop AG

# FEATURE:

## HOW DOES A SHOPPING CENTER COME INTO BEING?

Deutsche EuroShop currently manages a portfolio of 16 shopping centers. Since its IPO in 2001, five investments, realised as new construction projects, have been added. Our feature will give you an idea of the work performed by architects as a new shopping center comes into being. What factors must be taken into consideration when a location is selected? What are the stages of construction? What is it about designing a shopping center that appeals to an architect?

### ▶ Finding the right "marketplace"

Our shopping centers are meeting points, places to relax – and to shop. Making visitors feel good takes priority for us. All of our planning when developing a new project serves this goal, from the very first minute onward.

16 shopping centers in prime locations

We start by selecting the ideal location – and it is only ideal if it can be reached easily and quickly, whether by foot, with public transportation, or by car. Each one of our 16 shopping centers is in a prime location – usually directly in the city centre. Often they represent the focal point of a pedestrian zone. Working closely with local authorities, we integrate our centers into the existing urban structure in the best manner possible.

▶ City Arkaden Klagenfurt, site plan

▶ Model of entrance

▶ Model of rotunda

Reflected ceiling plan, City Arkaden Klagenfurt

## Building at its most beautiful

When integrating the shopping center into its immediate surroundings, functional planning is especially important. In this process, routing is designed for pedestrians and visitors who use the car to go shopping, or new lighting systems are developed especially for this location – to name only two examples. This is also the point at which intelligent car park solutions must be found and applied. And on top of all this, in certain cases issues relating to the preservation of historical monuments may have to be taken into account. Collaborating on traffic planning ensures a highly functional infrastructure.

We set particularly high quality standards for the architecture of our centers. The four elements of functionality, customer-friendly ambiance, careful selection of materials and environmental compatibility are crucial. From the outside, our shopping centers should look appealing and inviting; in addition, striking interior design gives each of our shopping centers a completely individual character.

High quality standards

Visitors, our tenants and naturally our shareholders all benefit from thorough planning and the high-quality and functional appointments of our centers, as the proven quality of our properties assures a solid and reliable investment. Part and parcel of our quality concept is our practice of giving our shopping centers a thorough revitalisation at regular intervals in cooperation with the operators of the shops. This allows our shopping centers to keep up with the times and retain their attractiveness and value over the long run.

Shopping centers remain attractive and valuable

## Cooperation with strong partners

We work closely with experienced partners in each of our projects. In the case of the City Arkaden Klagenfurt, which opened in March 2006, and of our current new development, Stadt-Galerie Hameln, our partner is ECE. With more than 260 architects and construction overseers at its disposal, ECE guarantees expertise and extensive know-how. The real estate properties designed by ECE meet extremely high quality standards, allow seamless integration in terms of city planning, and attract the eye with their elegant functionality.

## ▶ Evolution of a shopping center: five stages as seen by the architect

Planning and constructing a shopping center takes more than two years. This period breaks down into five stages:

1 In the **design stage**, the team of architects first defines tasks. The goal of this stage is to consider all project-specific requirements and develop a realistic planning scheme on this basis.

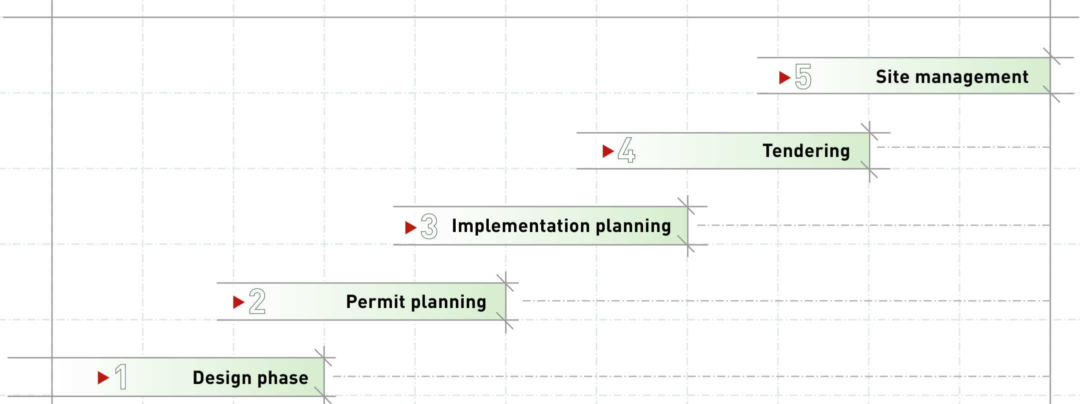
2 **Permit planning** covers all activities up to the point at which planning permission is obtained. It is based on the design from the design stage. The complex building application includes a description of the building, documentation of stability (structural analysis), floor plans, views and cross-sections, among other things.

3 Based on this, **implementation planning** involves drawing up a detailed plan for realising the project in practice. This step involves intensive cooperation with the employees of the craft enterprises involved and above all with the building contractor. The focus is on preparing the working drawings, which can then be put into effect by the craftsmen and other service providers. These drawings are, so to speak, the "assembly instructions" for the shopping center.

4 During the **tendering** stage potential providers such as building contractors and craftsmen are given uniform tender specifications and then asked to submit bids. The architects examine the bids received extremely carefully. Contracts are then awarded to the individual companies.

5 The last step is **site management**. In this stage the architects spend most of their time on location at the construction site. They monitor and inspect the services of the building contractor and tradesmen, and coordinate the activities of everyone involved in construction. This also includes preparing and monitoring the schedule, as well as documenting all construction work in daily construction records. This stage ends with the final building inspection and transfer of the property.

In order to give you a rudimentary idea of the many details that go into a shopping center, we have used elements from almost every stage as illustrations for our annual report.



▸ Renate Müller

# INTERVIEW

## WITH **RENATE MÜLLER**, HEAD OF INTERNATIONAL ARCHITECTURE AT ECE

**What appeals to you about developing shopping centers?**

The topic of city-centre shopping arcades is very interesting for architects because customized solutions that take into account both urban planning and architectural issues must be found for every city and every location. Every project brings its own particular challenges.

**What are the basic differences between designing a shopping center and other buildings?**

Architecture and trade have had common roots since the dawn of time – starting with the Stone Age, when people bartered goods and lived in caves, all the way to the development of cities, thousands of years later, when marketplaces emerged. All of these areas had always been places where people met, goods and services were offered and information was exchanged. Architecture must do justice to this public function while at the same time creating an attractive atmosphere and a lively marketplace where people feel good.

**How many architects are involved in developing a center like the City Arkaden Klagenfurt? How long does the planning stage last?**

Staffing levels for a project like the City Arkaden Klagenfurt vary widely over the various planning stages.

The preliminary design is usually prepared by one or no more than two architects. How long it takes to finish depends on the specifications and alternatives.

▸ ARCHITECTURE AND TRADE HAVE HAD COMMON ROOTS SINCE THE DAWN OF TIME ◂

**Personal details:** Graduate architect, born in 1955, studied in Mainz, at ECE since 1984, head of International Architecture since 2001, previously worked at various architectural offices in Hamburg

In the design stage the planning team is made up of three to four architects and interior designers, as well as a draftsman. This is the point at which planning must be very precisely coordinated – with the specialist engineers involved as well: the structural engineer, facilities engineer, electronics engineer, the facade consultant and the traffic planner. The design is the basis for the planning permission application. It takes about six months to prepare the design and plan the planning permission application.

Once the planning permission application has been submitted, the authorities begin to review it. This process varies in duration from state to state and from city to city. During this period the bidding documents are prepared – i.e. details of facades, storefronts, flooring and ceiling design are worked out. In other words, everything necessary to define what the architect has in mind and what the characteristics of the building will be.

When a project enters the implementation stage, a planning team is deployed on-site that consists of two architects, two to three interior designers and a draftsman.

**What basic conditions do you as an architect see as crucial when building a shopping center?**

The most important basic conditions are of course the location, the layout of the lot, the surrounding area, transport connections and above all the permissible type and dimensions of the development. The larger the project, the more extensive the requirements from the official and town planning perspective that need to be taken into account and coordinated. The spatial programme and consideration of potential tenants' specifications are important preconditions for successful design. My job as architect is to examine all of the specifications and requirements and to find the best possible solution.

**Can you give us a picture of the gigantic shopping center construction site, taking Klagenfurt as an example: how many construction workers are on site, and how many companies are involved in construction? How long did the construction work take?**

In Klagenfurt a total of 40 companies or craft enterprises, totalling as many as 850 people, were involved in building. Demolition of the buildings that used to be on this lot took three months, and

▸ THE TREND IS MOVING AWAY FROM SIMPLE CONSUMPTION AND MEETING NEEDS, TOWARDS SHOPPING AS AN EXPERIENCE ◂

the actual construction work took 16 months on top of that: eight months for shell construction and another eight months to complete it.

**What special features does City Arkaden Klagenfurt have? What is your favourite detail at the center?**

The special thing about the City Arkaden building is the fact that it is perfectly integrated into the Klagenfurt cityscape. Both the historical-style facades on Heuplatz Square and on St. Veiter Strasse and the staggered vertical lines and positioning at street level mask the real proportions of the property. The roof light dome extends across the entire row of shops, revealing a generous view of the mall. We think the reconstructed facade of the building known as the "Neuner Haus" with the original balcony, complete with balustrades, is particularly successful.

**What is typical of today's shopping centers? What trends have been seen over the past years?**

The trend is moving away from simple consumption and meeting needs, towards shopping as an experience. "I shop, therefore I am" characterises the buying behaviour of today's customers. People no longer shop because they need a certain product – rather, they shop because they define themselves as individuals through the product they buy. The ambience of shopping centers has evolved in line with this. We create a pleasant atmosphere, a marketplace where people like to linger, where they can meet other people, relax in a cafe with a cappuccino and take part in the many promotions and events being held in the shopping center – for example, fashion shows.

> THAT IS WHY I AM AN ABSOLUTE FAN OF SHOPPING ARCADES – NOT UNFORTUNATELY JUST ON THE JOB, BUT IN MY PRIVATE LIFE AS WELL

**Where do you personally like to shop the most?**

Being an architect I am often on the road, so unfortunately my shopping has to be timed perfectly. That is why I am an absolute fan of shopping arcades – not unfortunately just on the job, but in my private life as well. I am guaranteed to find a parking space, I have a wide range of options thanks to the extremely carefully chosen mix of sectors, and I can relax and enjoy an espresso after my shopping trip.

**Many thanks for this interview and all the best for the future!**

# THE CENTERS

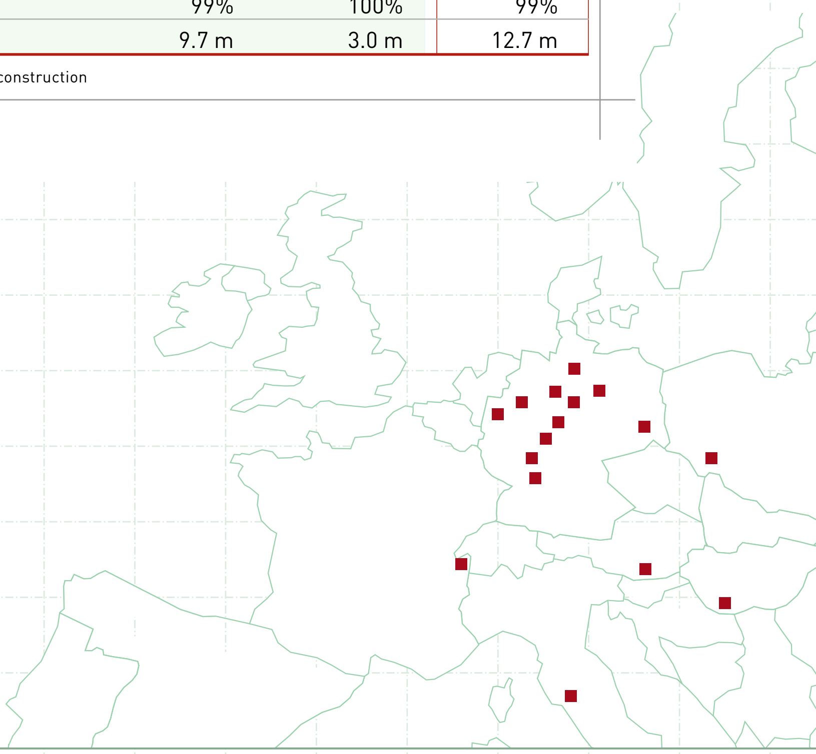
2005 saw many gratifying changes to our portfolio. We opened Forum Wetzlar; increased our interests in the Rhein-Neckar-Zentrum, Main-Taunus-Zentrum and Shopping Etrembières properties; added the Rathaus-Center Dessau, a shopping center with a successful ten-year track record, to our portfolio; and acquired an interest in a new development, Stadt-Galerie Hameln. This brings our current investments to a total of 16 shopping centers in six European countries, with leasable space of approximately 593,100 m² and around 1,465 shop units.

## ▶ Investments across Europe

Of our 16 shopping centers, 11 are located in Germany, the focus of our investment activities, while France, Italy, Austria, Poland and Hungary each have one. Every individual center boasts a prime location, either directly in the city centre or in an established location with excellent access – such as the Main-Taunus Zentrum, located just outside Frankfurt on the most heavily travelled Autobahn in Germany (the A66). All told, nearly 13 million people live in the catchment areas of our shopping centers.

| | In Germany | Abroad | Total |
|---|---|---|---|
| Leasable space in m² | 464,700 | 128,400 | 593,100 |
| No. of centers | 11 | 5 | 16 |
| No. of shops | 1,025 | 440 | 1,465 |
| Occupancy rate* | 99% | 100% | 99% |
| Inhabitants in catchment area | 9.7 m | 3.0 m | 12.7 m |

* including office space, not including properties under construction




▸ Rathaus-Center Dessau


▸ Stadt-Galerie Hameln (drawing)


▸ Forum Wetzlar

## ▶ Center debuts

Forum Wetzlar opened

In February 2005 we celebrated the opening of Forum Wetzlar. This center features an attractive mix of businesses in approx. 23,500 m² of retail space on two levels. Visitors are served by 1,700 parking spaces. All of the roughly 110 specialty shops, cafes and restaurants are leased for the long term. The Forum has become a strong public attraction for Wetzlar's city centre and draws customers from a catchment area with around half a million people.

City Arkaden Klagenfurt opened

March of the current fiscal year 2006 saw another debut with City Arkaden Klagenfurt, our first shopping center in Austria. Around 120 specialty shops in approx. 27,000 m² of retail space await visitors, among them 20 international chains whose presence here marks their entry onto the Austrian market. The catchment area contains approx. 420,000 inhabitants and covers the area where Austria, Italy and Slovenia intersect. City Arkaden has already gained a reputation as "the" fashionable centre of Carinthia. Demand from the retail sector was so high that within five months of opening, all shop space was leased for the long term.

## ▶ Other changes to the portfolio

**Rathaus-Center Dessau**

Acquisition of Rathaus-Center Dessau

We acquired 94.9% of the shares in the Rathaus-Center in the Bauhaus city of Dessau, Saxony-Anhalt with effect from 1 January 2006; the investment volume stood at over €100 million. The Rathaus-Center opened in 1995 and can look back on a very successful history. The roughly 80 shops are spread across two levels and cover 25,000 m² of retail space across from the town hall and the marketplace; they offer a broad mix of goods and are all leased for the long term. Visitors have 850 parking spaces at their disposal, while around half a million people live in the catchment area of the shopping center.

Interests increased

The Company increased its interests in the Main-Taunus-Zentrum in Sulzbach, the Rhein-Neckar-Zentrum in Viernheim and the Shopping Etrembières center in Annemasse with effect from the end of 2005. Our interest in the Main-Taunus-Zentrum increased to 43.1% and in the Rhein-Neckar-Zentrum and Shopping Etrembières to 99.8%. The Main-Taunus-Zentrum and the Rhein-Neckar-Zentrum are among the strongest revenue producers in Germany in this category of property. Taken together, the investment volume for the three transactions added up to more than €20 million.

The 16th property in our portfolio is the Stadt-Galerie Hameln, in which we hold a 94.9% interest. It broke ground in April 2006 and the opening is planned for spring 2008; the investment volume stands at approx. €82 million. With 90 shops on three levels and retail space of around 19,000 m², the Stadt-Galerie will provide an elegant venue for shopping and entertainment in Hameln's city centre. Approximately 400,000 people live in the center's catchment area, with an additional 3.8 million people a year visiting the city made famous by the legend of the Pied Piper. More than two years before its planned opening, over 50% of the shop space has been leased to well-known retailers for the long term.

Acquisition of Stadt-Galerie Hameln

## Our top tenants

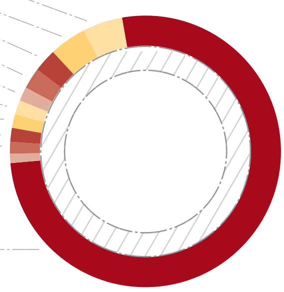
Our top tenant, with a 4.9% share, is the Douglas group. Besides being identified with the perfumeries of the same name, it is also represented in our shopping centers with its other brands (e.g. Thalia bookstores, Christ jewellers, Appelrath-Cüpper fashion stores, Hussel confectioners). The group's nevertheless comparatively small share of our rental income emphasizes the high degree of diversification in our tenant structure. Our ten top tenants together contribute 23.8% of our rental income , which means we are not dependent on any one tenant.

Broad diversification of tenant structure

**Tenant mix by share of rental income**

in %

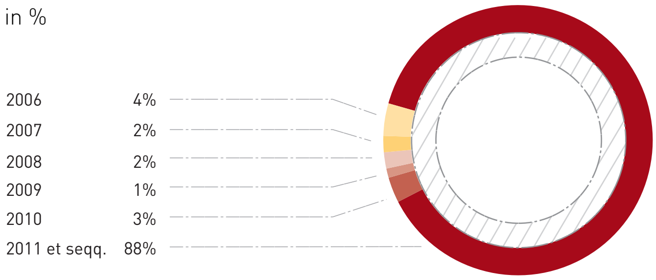
| | |
|---|---|
| Douglas group | 4.9% |
| Metro group | 4.5% |
| Peek & Cloppenburg | 2.7% |
| H & M | 2.4% |
| Deichmann | 1.8% |
| Zara | 1.7% |
| New Yorker | 1.6% |
| Engelhorn & Sturm | 1.6% |
| dm – Drogeriemarkt | 1.3% |
| REWE group | 1.3% |
| **Total top 10 tenants** | **23.8%** |
| Other tenants | 76.2% |



## ▶ Long-term leases

Our leases have residual terms averaging more than eight years. Eighty-eight per cent of rental income is guaranteed until 2011 at least.

**Term of contracts**
in %




## ▶ External center management

Management of our 16 shopping centers is completely outsourced to partners with specialised experience in this business. Their knowledge and experience enable us to achieve maximum success for our centers.

**ECE Projektmanagement**
ECE Projektmanagement has been developing, planning, implementing, leasing and managing large shopping centers for more than 40 years. The company is the European market leader in this sector with 83 city-centre shopping centers, galleries, arcades, train stations and district centers under management in 15 countries. ECE manages 14 of our centers, including all of our centers in Germany.

www.ece.de

**Espansione Commerciale**
Espansione Commerciale is responsible for the management of the Centro Commerciale Tuscia in Viterbo, Italy. Based in Modena, it is celebrating its 20th anniversary this year and manages 46 centers in Europe with a focus on Italy.

www.espansione.de

**Unibail – Espace Expansion**
The manager of our Shopping Etrembières center in Annemasse, France, is Espace Expansion, a subsidiary of Unibail Holding with more than 35 years of experience in planning, developing and leasing retail properties. Unibail's current portfolio comprises 24 shopping centers in France.

www.unibail.fr

## ▶ Sector and tenant mix

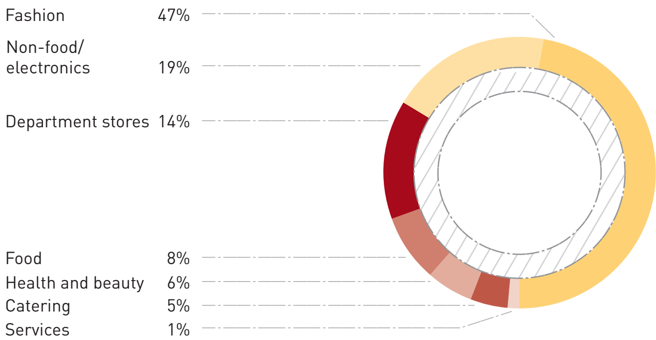
The proper mix and placement of shops is one of the main tasks of center management and is crucial to the success of any shopping center. Whereas every landlord on a shopping street in a city centre, for example, is concerned with maximising his or her individual rental income, causing whole blocks to be dominated exclusively by large chains with deep pockets, the center management provider strives to optimise the tenant structure. In addition to the large clothing chains, such retailers as toy shops and pet suppliers – many of which are no longer found in pedestrian zones within the city centre due to the extremely high rents overall – are represented in shopping centers. However, these tenants enhance the attractiveness of a center for all target groups, thereby increasing the number of visitors.

Main task of center management

### Focus on fashion

With a share of roughly 47%, fashion represents a focal point of our shopping centers. Visitors will also find an attractive range of other retail offerings – from electronics shops, groceries and chemists all the way to department stores. Service providers such as travel agencies, banks and dry cleaners round off the selection. Cafés, fast-food restaurants and ice-cream vendors provide refreshment and relaxation during shopping trips.

**Sector mix**
in % of space



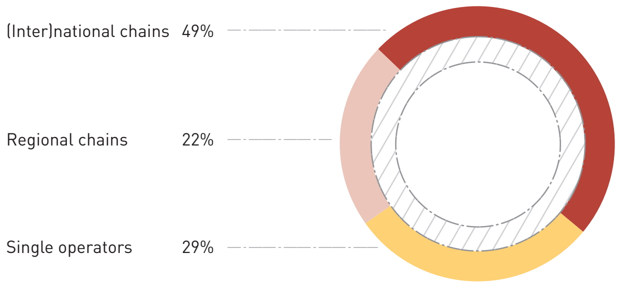

### Well-known tenants

The list of brands represented at our shopping centers reads like a "Who's Who" of retailing: e.g. Aldi, Bijou Brigitte, Benetton, C&A, dm-Drogerie, Douglas, Esprit, Fielmann, Gerry Weber, Görtz, H&M, Karstadt, MediaMarkt, Mexx, New Yorker, Peek & Cloppenburg, REWE, Saturn, S.Oliver and Zara.

### Regional ties of tenants

Almost half of our tenants are well-known international and German chains. 22% of the tenants are regional chains and 29% are single operators. This too demonstrates the balanced nature of the tenant mix and gives every center a very individual character.

**Tenant mix**
in % of space




### Promotions at centers

The tenants of our shopping centers are members of the centers' advertising associations. Together with center management, these plan and organise various promotions throughout the year that bring the "shopping center experience" closer to customers and visitors. They include fashion shows, exhibitions on various topics, and naturally Easter and Christmas events. Many of our centers also open for business on Sundays as and when permitted by regional authorities, receiving a very positive response from visitors and tenants.

▶ **Phoenix-Center Hamburg**

4,7

# THE CENTERS AT A GLANCE

## GERMANY

### ▶ Main-Taunus-Zentrum

**Sulzbach**

| | |
|---|---|
| **Investment:** | 43.1% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | rd. 103,400 m$^2$ |
| **of which retail space:** | rd. 79,000 m$^2$ |
| **No. of shops:** | around 100 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 2.2 million inhabitants |
| **Grand opening:** | 1964 |
| | renovation/modernisation 2001, 2003/2004 |
| **FERI rating:** | A (very good) |

### ▶ Rhein-Neckar-Zentrum

**Viernheim**

| | |
|---|---|
| **Investment:** | 99.8% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 63,600 m$^2$ |
| **of which retail space:** | around 60,000 m$^2$ |
| **No. of shops:** | around 110 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 1.4 million inhabitants |
| **Grand opening:** | 1972 |
| | renovation/expansion 2000–2003 |
| **FERI rating:** | A (very good) |

## ▶ Altmarkt-Galerie

**Dresden**

| | |
|---|---|
| **Investment:** | 50.0% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 44,500 m$^2$ |
| **of which retail space:** | around 26,000 m$^2$ |
| **No. of shops:** | around 110 |
| **Occupancy rate:** | 99% |
| **Catchment area:** | around 1.0 million inhabitants |
| **Grand opening:** | 2002 |
| **FERI rating:** | A (very good) |

## ▶ Phoenix-Center

**Hamburg**

| | |
|---|---|
| **Investment:** | 50.0% |
| **Purchased by Deutsche EuroShop:** | August 2003 |
| **Leasable space:** | around 39,200 m$^2$ |
| **of which retail space:** | around 26,500 m$^2$ |
| **No. of shops:** | around 110 |
| **Occupancy rate:** | 96% |
| **Catchment area:** | around 0.6 million inhabitants |
| **Grand opening:** | 2004 |
| **FERI rating:** | A (very good) |

## ▶ Allee-Center

### Hamm

| | |
|---|---|
| **Investment:** | 87.7% |
| **Purchased by Deutsche EuroShop:** | April 2002 |
| **Leasable space:** | around 35,100 m² |
| **of which retail space:** | around 21,000 m² |
| **No. of shops:** | around 80 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 1.0 million inhabitants |
| **Grand opening:** | 1992 |
| | renovation/restructuring 2002–2003 |
| **FERI rating:** | A (very good) |


## ▶ Forum

### Wetzlar

| | |
|---|---|
| **Investment:** | 65.0% |
| **Purchased by Deutsche EuroShop:** | Oktober 2003 |
| **Leasable space:** | around 34,500 m² |
| **of which retail space:** | around 23,500 m² |
| **No. of shops:** | around 110 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 0.5 million inhabitants |
| **Grand opening:** | 2005 |
| **FERI rating:** | A (very good) |

## ▶ Rathaus-Center

### Dessau

| | |
|---|---|
| **Investment:** | 94.9% |
| **Purchased by Deutsche EuroShop:** | November 2005 |
| **Leasable space:** | around 30,600 m² |
| **of which retail space:** | around 25,000 m² |
| **No. of shops:** | around 80 |
| **Occupancy rate:** | 98% |
| **Catchment area:** | around 0.5 million inhabitants |
| **Grand opening:** | 1995 |
| **FERI rating:** | B+ (well above average) |

## ▶ City-Galerie

### Wolfsburg

| | |
|---|---|
| **Investment:** | 89.0% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 30,100 m² |
| **of which retail space:** | around 20,000 m² |
| **No. of shops:** | around 90 |
| **Occupancy rate:** | 100% |
| **Catchment area** | around 0.6 million inhabitants |
| **Grand opening:** | 2001 |
| **FERI rating:** | A (very good) |

## ▶ City-Point

### Kassel

| | |
|---|---|
| **Investment:** | 40.0% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 29,500 m$^2$ |
| **of which retail space:** | around 20,000 m$^2$ |
| **No. of shops:** | around 60 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 0.8 million inhabitants |
| **Grand opening:** | 2002 |
| **FERI rating:** | A (very good) |


## ▶ City-Arkaden

### Wuppertal

| | |
|---|---|
| **Investment:** | 72.0% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 28,700 m$^2$ |
| **of which retail space:** | around 20,000 m$^2$ |
| **No. of shops:** | around 85 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 0,7 million inhabitants |
| **Grand opening:** | 2001<br>renovation 2004 |
| **FERI rating:** | A (very good) |

## ▶ Stadt-Galerie

**Hameln**

| | |
|---|---|
| **Investment:** | 94.9% |
| **Purchased by Deutsche EuroShop:** | November 2005 |
| **Leasable space:** | around 25.000 m² |
| **of which retail space:** | around 19.000 m² |
| **No. of shops:** | around 90 |
| **Occupancy rate:** | > 50% |
| **Catchment area:** | around 0.4 million inhabitants |
| **Grand opening:** | Spring 2008 |
| **FERI rating:** | to be performed for the first time in 2008 |

# THE CENTERS AT A GLANCE

ABROAD

## ▶ City Arkaden

**Klagenfurt, Austria**

| | |
|---|---|
| **Investment:** | 50.0% |
| **Purchased by Deutsche EuroShop:** | 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 million inhabitants |
| **Grand opening:** | 2006 |
| **FERI rating:** | to be performed for the first time in 2006 |

## ▶ Árkád

**Pécs, Hungary**

| | |
|---|---|
| **Investment:** | 50.0% |
| **Purchased by Deutsche EuroShop:** | November 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 million inhabitants |
| **Grand opening:** | 2004 |
| **FERI rating:** | A (very good) |

## ▶ Galeria Dominikanska

**Breslau, Poland**

| | |
|---|---|
| **Investment:** | 33.3% |
| **Purchased by Deutsche EuroShop:** | Dezember 2003 |
| **Leasable space:** | around 32,700 m² |
| **of which retail space:** | around 30,000 m² |
| **No. of shops:** | around 100 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 1.0 million inhabitants |
| **Grand opening:** | 2001 |
| **FERI rating:** | A (very good) |

## ▶ Centro Commerciale Tuscia

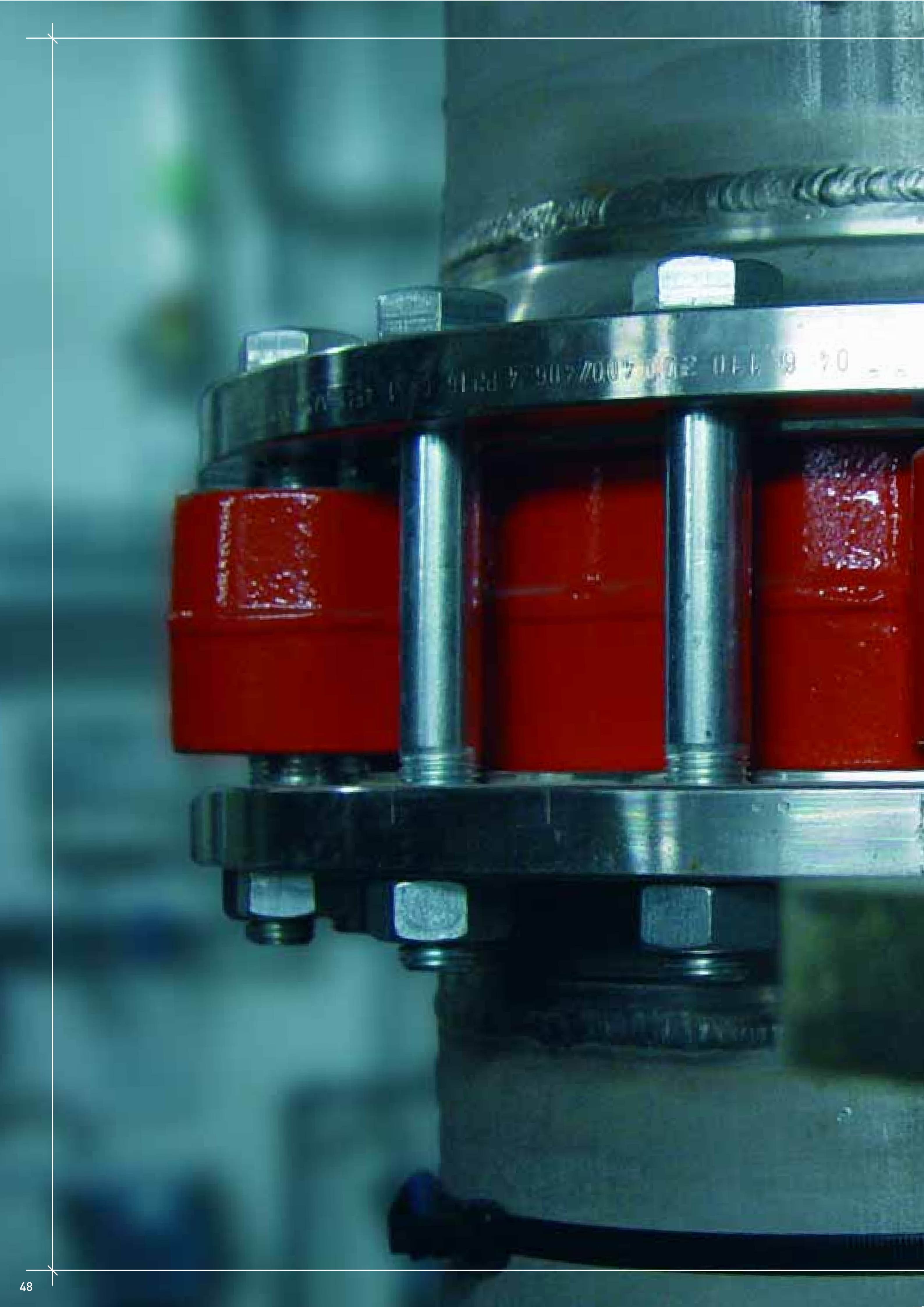
**Viterbo, Italy**

| | |
|---|---|
| **Investment:** | 100% |
| **Purchased by Deutsche EuroShop:** | March 2001 |
| **Leasable space:** | around 15,200 m² |
| **of which retail space:** | around 40 |
| **No. of shops:** | 100% |
| **Catchment area:** | around 0.3 million inhabitants |
| **Grand opening:** | 1998 |
| **FERI rating:** | AA (excellent) |

## ▶ Shopping Etrembières,

**Annemasse, France**

| | |
|---|---|
| **Investment:** | 99.8% |
| **Purchased by Deutsche EuroShop:** | September 2000 |
| **Leasable space:** | around 8,600 m²<br>plus arround 8,000 m²<br>of the Migros self-service department store |
| **No. of shops:** | around 50 |
| **Occupancy rate:** | 100% |
| **Catchment area:** | around 0.8 million inhabitants |
| **Grand opening:** | 1994 |
| **FERI rating:** | A (very good) |



## BUTTERFLY VALVE

Regardless of the outside temperature, three heat exchangers with a total heating capacity of 3,200 KW always ensure the correct temperature for the optimum shopping experience.

PUBLISHED BY:
DES
Deutsche EuroShop AG
+++The Shopping Center Company+++

## Macroeconomic Environment

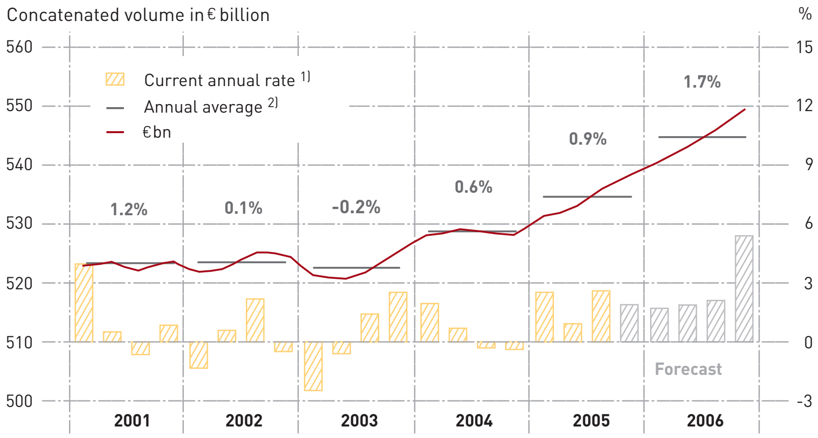
Gross domestic product (GDP) rose by 0.9% in Germany in 2005. After adjustment for the negative calendar effect – the year under review had fewer workdays than the preceding year – the rise in GDP was 1.1%. At the beginning of 2006, data from the real economy point to a recovery. In its economic report, the Federal Government anticipates an increase of 1.4% in GDP.

### Germany benefits from globalisation

Exports remain strong

The moderately positive development of the German economy over the past two years has been driven almost exclusively by continuing high export surpluses. 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 1.1 percentage points. This confirms the long-term trend that German companies are able to hold their own in international markets, but domestic demand is not picking up. Accordingly, it is mainly export-oriented companies that profit from the current development, if they are well positioned in the global competitive environment.

**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 2005).

### Weak domestic demand

Germany's domestic economy is more noticeably marked by structurally weak growth than other countries: the value added by the various economic sectors varies considerably; falling employment rates, rising energy prices and the high public-sector debt weaken both government and private demand. At the same time the savings rate, at 10.5%, has reached its highest level since 1995.

Admittedly, the perceived mood is evidently better than the economic data would at present lead us to expect. This is shown by the results of the surveys that the ifo Institute for Economic Research regularly conducts in order to capture the business situation of trade and industry.

### Rising inflation rate

Inflation at 2.1%

The index of consumer prices continued its upward trend in the past year and reached a high not seen for years at the end of December. The rate of inflation in December, at 2.1%, lay distinctly above the previous year's level (1.8%). The continuing sharp rise in the cost of petrol, gas and heating oil was mainly responsible for this. If the index value is adjusted for this effect, the underlying price development is quite mild.

### Labour market situation remains strained

Unemployment rises to 11.7%

On an annual average, the unemployment rate rose to 11.7% (previous year: 10.5%); 4.86 million people (previous year: 4.38 million) were out of work. With France, Germany thus brings up the rear of the employment market statistics in the euro zone. Globalisation and the accompanying outsourcing of jobs – especially in industry – is linked to a distinct reduction in employment subject to statutory social security contributions.

### Flat private consumption

In 2005, the decisive weak point in the German economy was once again private consumption. The spending power of private households was considerably diminished by the hefty rise in energy prices. In addition, initial uncertainty over the new government's economic policy following the general election and the debate about plans for tax increases will probably have put a brake on propensity to spend. As a result of these factors, consumer expenditure stagnated in real terms in 2005.

### More positive development in euro zone as a whole

Economic development was sluggish in the euro zone compared with other parts of the world. Real gross domestic product grew by 1.4% and therefore slightly more than in Germany. However, there were major differences between the various member countries: while Ireland, Spain and Greece reached growth rates of more than 3%, Germany, Italy and the Netherlands finished last as regards economic development. The inflation rate for the euro area as a whole was 2.2% in 2005 (previous year: 2.1%); the unemployment rate was 8.6% (previous year: 8.9%). Spending by private households displayed a slight upwards trend.

## ▶ Retail Sector

Following three consecutive years of falling revenues, the German retail trade reached a turning point in 2005: revenues were 1.5% higher in nominal terms, and 1.1% higher in real terms (after adjustment for price rises) than in the preceding year.

### Young fashion a success, department stores with losses

Chains develop compelling concepts

Following a subdued first half in 2005, the retail trade became more dynamic in the second half. As in 2004, above all well-established chains with strong credit ratings succeeded in increasing their revenues. Suppliers of young fashion concepts and vertical textiles suppliers were thus again successful. Bookshop chains with large outlets continued to expand. High-street chemists, shoe shops, food retailers, grocers, sporting goods and luxury items and accessories were also very strong. On the other hand, retailers with traditional department store concepts had to struggle.

### Shopping center percentage still low in Germany

Shopping center share of revenue just under 10%

Shopping centers are doing well across Europe. Large and well-managed shopping centers in Germany, especially those in city-centre locations, are reporting growing sales and market shares. The shopping center share of retail trade revenue in Germany amounted to nearly 10% in 2005. In the opinion of experts, there is still potential here by international standards. Shopping centers in Austria had a share of 14% of retail revenue, in France 26% and in the United Kingdom 28%.

## ▶ Property market

Prices on the German property market are still considered to be reasonable by global standards, while the markets in France, the United Kingdom and the USA are showing signs of price overheating. German retail properties enjoyed buoyant demand in 2005, as in previous years. Since the supply remained relatively scarce, owing to German approval requirements for new retail space, yields on new investment sank further as prices rose.

### Demand focussed in spaces from 100 to 500 $m^2$

The advantage of shopping centers compared with other inner city retail properties is their flexibility: they can offer a variety of floor space sizes, formats and layouts without too much building effort, which is what makes them resistant to changes in demand trends. According to a survey by Kemper's, a real estate management company that specialises in retail properties, the retail spaces in most demand in the past year were those between 100 and 500 $m^2$ (60% share). Larger areas were also sought after: more than one rental in four was in the range above 500 $m^2$, 12% of rentals related to spaces over 1,000 $m^2$. According to Kemper's, about 4% of rentals related to shop spaces of over 2,000 $m^2$.

Shopping centers offer high degree of flexibility

### New shopping centers in Germany

Surveys by EuroHandelsinstitut (EHI), an international retail research institute, indicate that nine shopping centers with floor space of at least 10,000 $m^2$ were completed in 2005. This means there were 372 large centers with a total area of more than 11.6 million $m^2$ as at 31 December 2005.

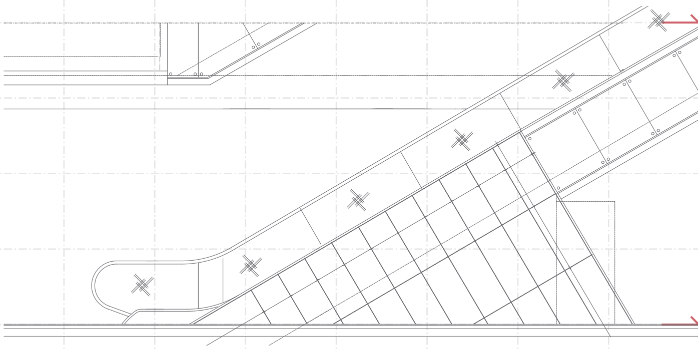
## ▶ Strategy

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.

Focus on generating high free cash flow



**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**

Sustained growth in 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**

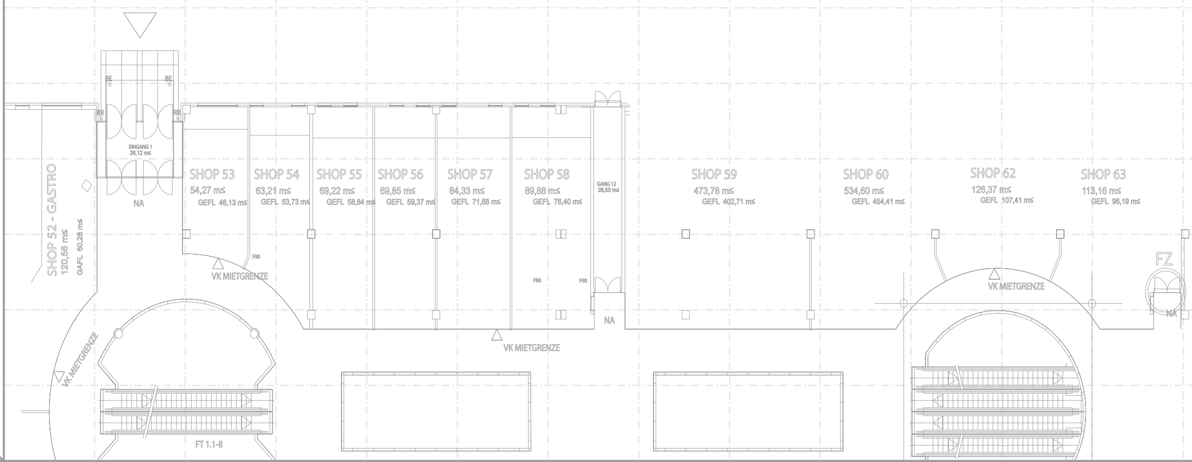
Attractive sector mix and long-term optimisation of rental income

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. Our lessees pay rent dependent on 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**

Professional center management the key to success

We have outsourced center management to experienced external partners. These are currently ECE, Espansione Commerciale and Unibail, who have a proven track record stretching back decades. 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 15 operational shopping centers on average every day are fascinated by the variety of sectors represented, but also by our unusual, unconventional promotions such as "Beach Olympics" or "Body & Soul". These turn shopping centers into marketplaces where something new and spectacular is constantly on offer.



# REPORT ON ECONOMIC POSITION

Deutsche EuroShop can look back on the best financial year in its existence. We continue to be very well positioned with our shopping centers. In particular the newly opened centers in Wetzlar and Hamburg made a contribution to the increase in Group revenue by roughly 17% to €72.1 million. The profit attributable to Group shareholders increased by 76% to €48.7 million. Our net asset value per share was €46.22, up around 5% on the previous year's figure (€43.96). Earnings per share totalled €3.09 (previous year: €1.78).

## ▶ Revenue

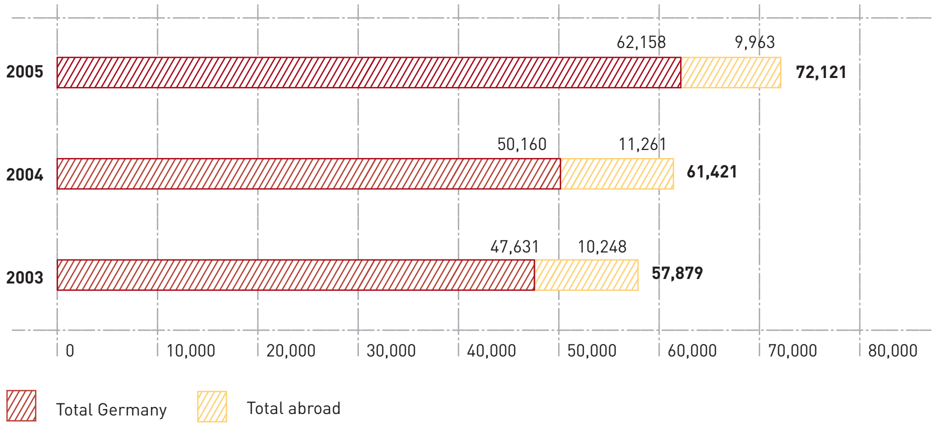
Retail sales rose by a nominal 1.5% in 2005. This development was reflected in the revenue generated by tenants of our shopping centers which – in a comparable space – also achieved a rise in revenue of 1.5%. If international properties are included in this comparison, then our tenants generated space-adjusted revenue growth of 2.7%. The revenue (rental income) of Deutsche EuroShop recorded disproportionate growth.

**Consolidated revenue up by 17.4%**

Consolidated revenue was up by 17.4% from €61.4 million to €72.1 million in financial year 2005. This development is mainly attributable to the newly opened shopping centers. The Pécs Árkád in Hungary and the Phoenix-Center Hamburg were opened during 2004 and thus made a contribution to Group revenue during the whole of the year under review. Forum Wetzlar, which opened in February 2005, generated revenue for the first time.

Success with newly opened shopping centers

**Revenue**
in € thousand



### Higher rental income recorded for all centers

The rental income of City-Arkaden Wuppertal, where a decline in income was experienced in the previous year owing to conversion work following the insolvency of a major tenant, recorded encouraging growth. The rental income of our Italian property Centro Commerciale Tuscia in Viterbo was also distinctly higher than in the previous year. However, €220 thousand of this was a one-off accounting effect.

The appreciable increase in the revenue from City-Galerie Wolfsburg is due partially to one-time settlement payments made by former tenants. After adjusting for the new properties, all other properties achieved higher rental income than in the previous year. Only for our French property, Shopping Etrembières, do we report a slight decline in revenue. Rents in fact increased here, but an operating cost back-payment for 2004 had a negative effect which compensated for the increase in rental income.

### Revenue 2005

| in € thousand | 2005 | 2004 | Change |
|---|---|---|---|
| Rhein-Neckar-Zentrum | 15,984 | 15,745 | 239 |
| Allee-Center, Hamm | 8,938 | 8,894 | 44 |
| City-Galerie, Wolfsburg | 8,157 | 7,698 | 459 |
| City-Arkaden, Wuppertal | 7,891 | 7,381 | 510 |
| Altmarkt-Galerie, Dresden | 6,044 | 6,042 | 2 |
| City-Point, Kassel | 2,874 | 2,850 | 24 |
| Phoenix-Center, Hamburg | 5,050 | 1,550 | 3,500 |
| Forum, Wetzlar | 7,220 | 0 | 7,220 |
| **Subtotal Germany** | **62,158** | **50,160** | **11,998** |
| Centro Commerciale Tuscia, Viterbo | 3,112 | 2,693 | 419 |
| Centro Commerciale Friuli, Udine | 0 | 2,467 | -2,467 |
| Shopping Etrembières, Annemasse | 3,435 | 3,472 | -37 |
| Árkád, Pécs | 3,416 | 2,629 | 787 |
| **Subtotal – international** | **9,963** | **11,261** | **-1,298** |
| **Total** | **72,121** | **61,421** | **10,700** |

### Vacancy rate remained under 1%

As in the previous year, the vacancy rate was under 1%. The need for write-downs for rent losses was, at around €0.2 million or 0.3% of revenue, at a level which impressively confirms the quality of center management.

## ▶ Results of operations

**Other operating income decreases**

Other operating income was €2.3 million, around €7.0 million below the previous year's figure. The decline is essentially due to the fact that, in 2004, this item included a gain on the sale of the shopping center in Udine amounting to €4.8 million, as well as exchange rate gains by our Hungarian subsidiary amounting to €2.0 million.

**Property operating and administrative costs reported for the first time**

For reasons of transparency, we have reported the expenses that arise from operating our shopping centers separately from the pure management and other administrative costs in the income statement for the first time. The property operating costs decreased considerably against the previous year. This is due above all to the low write-downs of rent receivables and the one-time costs for our newly opened shopping centers, which were included in the preceding year's expenses. The property administration costs increased over 2004 owing to the costs of the newly opened properties.

Property operating costs down

**Lower other operating expenses than in previous year**

Other operating expenses declined in comparison to the previous year by €0.7 million to €4.6 million. This is the result of several offsetting effects; the most important were on the one hand the exchange rate losses of our Hungarian property holding company amounting to €1.0 million reported this year, and on the other the financing arrangement fees amounting to €1.8 million included in the previous year, which were not incurred in 2005.

**Net finance costs increase due to investments**

Net finance costs deteriorated by €5.8 million to €-26.4 million. Firstly, interest income declined substantially by around €0.4 million to €2.2 million due to increased investment activity and the resulting reduction in cash funds. Secondly, interest expenses from the recognition of the borrowing costs for our newly opened properties rose by €5.6 million to €33.6 million. Income from investments was €0.2 million above the previous year's income because our Polish investee in Wroclaw distributed more income than in the preceding year.

**Gains on measurements rose to €49.9 million**

Gains on fair value adjustments rose year-on-year by €41.9 million from €8.0 million to €49.9 million. Our newly opened centers in Hamburg and Wetzlar were recognised at their market values for the first time. This made possible the recognition of measurement gains amounting to €33.8 million. The revaluation of existing properties also led to materially higher Group income. These properties recorded increases in value of €25.2 million. Only one German property was written down by €6.6 million. The expenses of €2.5 million associated with investment in these properties incurred in the year under review are deducted from this amount.

Shopping centers record high increases in value

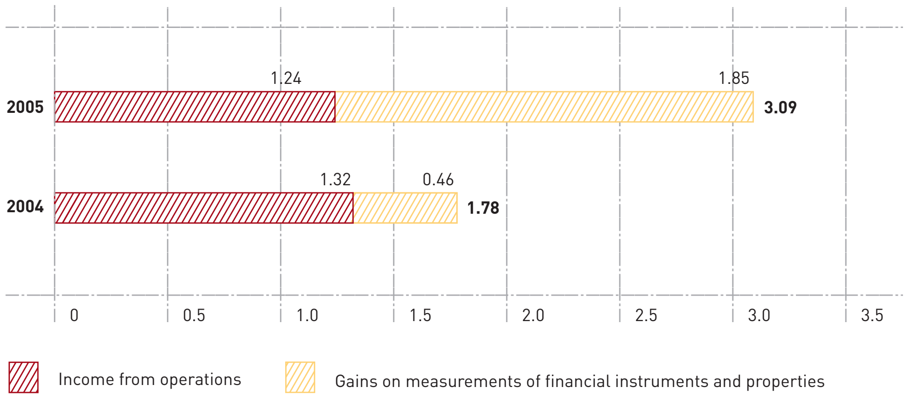
**Changes in the value of investments taken directly to equity under IAS 39**
The changes in the value of the investments in Main-Taunus-Zentrum and Galeria Dominikanska in Wroclaw, which must be recognised in accordance with IAS 39, are no longer included in the gains on fair value adjustments, as the accounting pronouncements have changed. Changes in value will be reported directly in equity from 2005 onwards.

**Portfolio 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 and GfK Prisma Institut für Handels-, Stadt- und Regionalforschung.

**Consolidated net profit more than doubled**
In the year under review, earnings before income and taxes (EBIT) increased by 15.6% from €49.8 million to €57.5 million, while EBT (profit before taxes) grew by 117.6% from €37.3 million to €81,1 million. After deducting income taxes amounting to €19.3 million and other taxes amounting to €0.1 million, consolidated net profit reached €61.7 million (previous year: €26.4 million). This corresponds to a rise of 133.3%. Of this, €48.7 million (previous year: €27.7 million) is attributable to Group shareholders and €13.0 million (previous year €-1.3 million) to minority shareholders. The share attributable to minority interest increased considerably in 2005, as the outside shareholders in our Wetzlar property – due to initial measurement – received a substantially higher share in profits than in the previous year, at €9.3 million.

**Earnings per share increased**
Earnings per share (basic) amounted to €3.09 compared with €1.78 in the previous year. Of this amount, €1.24 per share (2004: €1.32) is attributable to operations (-6%) and €1.85 (2004: €0.46) to gains on measurements of financial instruments and properties (+302%). The reduction in operating profit is explained by the one-time disposal and exchange rate gains generated in the previous year.

**Earnings per share**
in €, undiluted



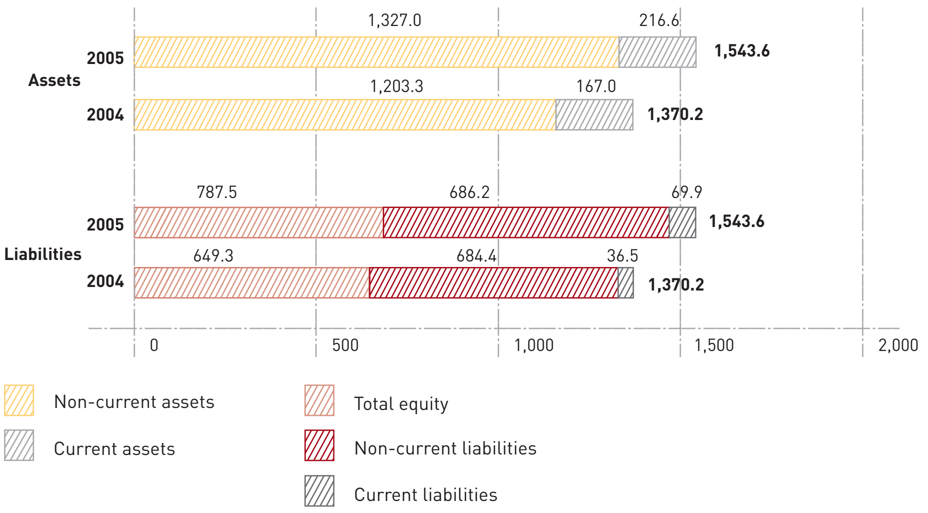
### Dividend proposal: €2.00 per share

The Executive and Supervisory Boards will propose to the shareholders at the Annual General Meeting on 22 June 2006 in Hamburg that a dividend of €2.00 per share be distributed for financial year 2005.

## ▶ Net assets

The Group's total assets increased by €173.4 million to €1.544 billion in the year under review.

**Structure of the balance sheet**
in € million




### Non-current assets increase

In a year-on-year comparison, non-current assets rose overall by €123.8 million to €1,327.0 million. Investment in property, plant and equipment amounted to €56.2 million in 2005. In addition, the far values of the properties have risen by €52.5 million. In all, new investments worth €11.8 million were acquired, and those reported in accordance with IAS 39 were written up by €3.3 million.

**Cash rises to €197.2 million**

Cash amounted to €197.2 million as at the reporting date. This liquidity is composed of cash balances amounting to €175.2 million and money market fund shares of €22.0 million. The rise in cash by €46.9 million against the previous year is attributable above all to the capital increase in November 2005. This increased Deutsche Euroshop's equity by €65.9 million. This was offset by substantial cash outflows for the payment of invoiced construction services and the utilisation of provisions amounting to €16.6 million, and various smaller item changes amounting to €2.4 million.

**Equity ratio reaches 51%**

Equity in the year under review increased by around €103.0 million to €787.4 million. Of this, €65.9 million results from the capital increase and €3.3 million from measurement gains on the investments reported in accordance with IAS 39. In addition, the equity attributable to our minority shareholders increased by €13.5 million. The remaining amount results essentially from reporting a higher consolidated net profit than in the previous year. By contrast, the dividend payment in June 2005 reduced equity.

**€69.8 million in deferred taxes reported**

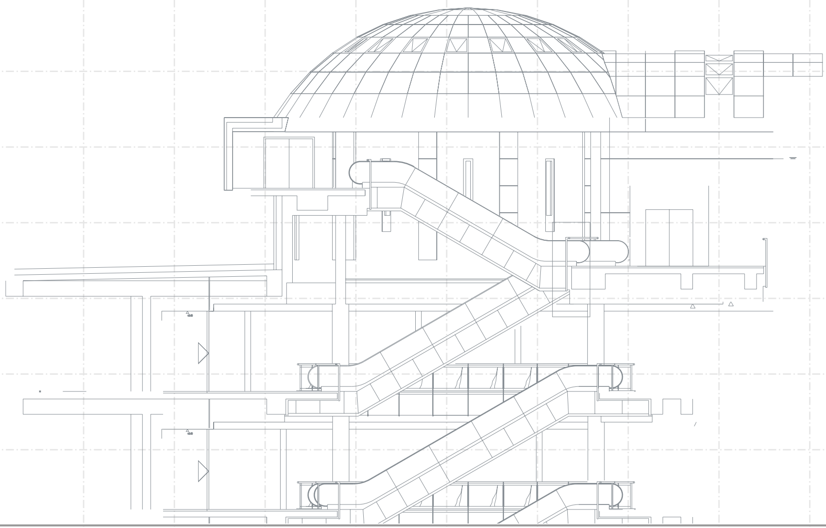
€18.4 million of the net income for the year was allocated to deferred tax liabilities; they amounted to €69.8 million at the balance sheet date compared with €51.7 million in the previous year. This is offset in part by a reduction in equity from deferred taxes of €0.3 million as a result of the capital increase.

**Bank loans and overdrafts higher due to investments**

Current and non-current bank loans and overdrafts amounted to €664.3 million. This corresponds to a rise of €60.1 million compared with the previous year. Of this amount, €41.5 million alone is attributable to additional loan payments associated with construction of the centers in Wetzlar and Klagenfurt. In addition, Deutsche EuroShop raised a loan of €18.6 million to finance its investment in Stadt-Galerie Hameln.

**Net asset value rises**

Based on the consolidated financial statements, the Group's net asset value as at 31 December 2005 was €794.5 million (€46.22 per share) compared with €686.8 million (€43.96 per share) in the previous year.



**Net asset value**

| in € thousand | 2005 | 2004 |
|---|---|---|
| Non-current assets | 1,327,005 | 1,203,251 |
| Current assets | 216,553 | 166,957 |
| **Total assets** | **1,543,558** | **1,370,208** |
| less<br>Non-current liabilities | -636,427 | -597,662 |
| Current liabilities | -49,859 | -36,458 |
| **Net assets** | **857,272** | **736,088** |
| less<br>equity attributable to minority interest | -62,792 | -49,271 |
| **Net assets of Deutsche EuroShop<br>= Net Asset Value** | **794,480** | **686,817** |
| Number of shares | 17,187,499 | 15,625,000 |
| **Net asset value per share in €** | **46.22** | **43.96** |

## ▶ Financial position

The Group's net liquidity increased by €16.2 million to €146.7 million in the year under review. Of the €106.4 million in net liquidity that is attributable to Deutsche EuroShop AG, €34.4 million is earmarked for dividend distribution in June 2006.

The net liquidity of the subsidiaries amounted to €40.3 million as at 31 December 2005. Of this amount, €20 million is designated as collateral for a bank loan to a foreign subsidiary; otherwise these funds are used to finance investments. The remaining amount will be distributed in 2006 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

At the end of 2005, the Deutsche EuroShop Group owned 15 shopping centers in Germany, France, Italy, Austria, Poland and Hungary. In November 2005 we extended our portfolio to include Rathaus-Center Dessau with effect from 1 January 2006, and acquired our 16th shopping center with Stadt-Galerie Hameln, which is under construction. In October we increased our investment in Main-Taunus-Zentrum by 5.74 percentage points to the present 43.1%. At the same time, we increased our investment in Rhein-Neckar-Zentrum – and thus in Center Shopping Etrembières – by seven percentage points; the new interest of 99.8% takes effect on 1 March 2006. In all, Deutsche EuroShop will spend over €200 million on the shopping centers and investments acquired.

The Group has sufficient own funds and committed loans for these investments. The capital increase by approximately 10% of the share capital has contributed here. Equity of €65.9 million flowed to our Company from this capital increase.

**Investment mainly in completion of shopping centers**

The investments by the Deutsche EuroShop Group shown in the balance sheet for financial year 2005 amounted to around €68 million. About €12 million of this relates to the acquisition of the shares in Main-Taunus-Zentrum and €46 million to the shopping centers under construction in Klagenfurt and Hameln. A total of €10 million related to remaining investments in the completed properties Forum Wetzlar and Phoenix-Center Hamburg. Approximately €56 million of the investments were financed by debt, and €12 million by equity.

In early 2006, we invested a total of around €112 million in Rhein-Neckar-Zentrum, Center Shopping Etrembières and Rathaus-Center Dessau, acquired in 2005, which were completely financed using cash funds available as at the reporting date.

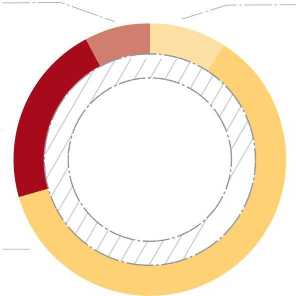
**Plans to modify the financing and interest rate structure**

Equity ratio at 51%

At the end of 2005, the Group reported a conservative equity ratio of 51.0% (previous year: 49.9%). We are aiming at an equity ratio of at least 45% to finance our property portfolio.

Debt in the Deutsche EuroShop Group remains mainly long-term. This increases reliable planning in view of the rental contracts, which are also long-term. 71% of our loan liabilities therefore have fixed-interest periods of more than five years. The average effective annual rate of interest on total loan liabilities was 5.5% as at 31 December 2005. To increase flexibility, we also agreed loans with shorter maturities and interest rates of less than 3.5% per annum for the first time in financial year 2005. As interest rate agreements expire, we will successively ensure that the structure of our loans is more flexible going forward by staggering maturities. This is linked to our additional objective of reducing interest expenses.

**Fixed-interest periods of bank loans and overdrafts**

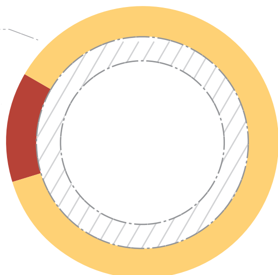



**Real property assets rise to €1.33 billion**

Deutsche EuroShop Group's real property and property investment assets amounted to €1.33 billion as at 31 December 2005 and were thus €124 million higher than in the previous year. The operating shopping centers measured at fair value under IAS 40 reported an asset value of €1.14 billion. These include Forum Wetzlar and Phoenix-Center in Hamburg for the first time. The shopping centers under construction in Klagenfurt and Hameln have an asset value totalling €71.9 million, while the investments reported in accordance with IAS 39 have a value of €116.8 million.

At the end of 2005, the Deutsche EuroShop Group was thus invested 87% in Germany and 13% abroad.

**Real property assets**
Distribution by area



# RISK REPORT

## ▶ Risk management

**Principles, methods and objectives of risk management**

Risk management an integral part of our strategy

Our approach to risk is closely aligned with 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. Regular annual financial statements, income statements and financial control reports are submitted for each 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**

- Development of outstanding accounts
- Occupancy rates
- Development of retail sales in the shopping centers
- Variance against projected income from the properties

**2. Centers under construction**

- Pre-letting levels
- Construction status
- Budget status

Evaluation of economic data

Risks are identified by observing issues and changes that deviate from the original planning and budgets. The systematic evaluation of economic data such as consumer confidence or the development of retail sales also flows into risk management. The planning processes were optimised and the quality of data available for risk analysis was improved during the past financial year by the implementation of a Management Information System.

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 continued high level of structural unemployment, flat retail sales and the further absence of a sustained economic recovery are all part of a context of macroeconomic risks to which Deutsche EuroShop is exposed. The debate about increasing VAT in 2007, fear of unemployment and increased petrol and energy prices are continuing to depress German consumer spending.

We try to counteract these risks, which correlate with each other, by locating our shopping centers in prime inner city locations and by ensuring broad diversification within the centers. In addition, it is essential to recognize new consumer trends in good time and to orient our shopping centers on them.

### Market and sector risks

Structural changes in the retail sector

We have observed that the retail sector has changed structurally in recent years and that such developments must also be considered by adopting a differentiated approach under risk management aspects. While department stores have been losing market share for a long time, discounters and specialty stores can still achieve revenue growth. The textiles sector in particular has suffered for some time under weak domestic demand. This is causing the business performance of the various operators to drift apart. The German retail sector as a whole recorded nominal sales growth of 1.5% in 2005.

We try to anticipate this risk with in-depth market intelligence and to minimise it by concluding long-term contracts with tenants with strong credit ratings.

### Risk of rent loss

It is possible that existing rental contracts can no longer be performed by tenants or that with new and follow-on rentals, the previous rents can no longer be obtained. As a result, income would turn out to be less than budgeted, and might force us to reduce distributions to our shareholders. If the receipts for a property holding company are 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 development of outstanding accounts 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 adequate 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 over-runs 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, in individual cases it is fundamentally impossible to completely avoid cost over-runs in current investment projects.

**Valuation risk**

The value of a property is essentially determined by its capitalised earnings value, 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 value growth of the properties is significantly influenced by a variety of macroeconomic or regional factors as well as developments specific to the property that are neither foreseeable nor quantifiable. 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 a higher volatility of consolidated net profit. However, as a rule this has no effect on the Group's solvency.

**Currency risk**

Deutsche EuroShop's activities are limited 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 forint or the 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 reduce the interest rate risk for new property financing to the largest extent possible by entering into long-term loans with fixed-interest periods of 10 to 15 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 refinance or to grant an extension of credit lines. We monitor the interest environment closely so as to be able to react appropriately to interest rate changes with financing alternatives or collateral if necessary. Financing alternatives are continually examined. From today's perspective, this involves an opportunity rather than a risk, given an average rate of interest of 5.50% in the Group.

**Risk of damage**

The individual property holding companies bear the risk of total or partial destruction of the properties. The insurance payments that may become due 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 refuse to compensate.

**IT risk**

Deutsche EuroShop's information system is based on a centrally managed network solution. Care and 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 is designed to protect against attacks from outside. All data relevant to operations is backed up on a daily basis. In the event of hardware or software failure in the system, all data can be reproduced at short notice.

**Legal risk**

The concept of 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.

# 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 five persons and therefore did not prepare a separate **human resources report**.

# REPORT ON EXPECTED DEVELOPMENTS

Germany remains the most important market

Germany continues to be Deutsche EuroShop's most important market. At the beginning of 2006, cyclical indicators point to a recovery of the German economy. The Federal Government anticipates an increase of 1.4% in GDP. Surveys by the retail sector showed a distinct improvement in sentiment for the current year. Due to our good locations, our indexed and turnover-based leases and an occupancy rate of over 99%, we are optimistic that we will be able to increase our income from operations in this environment further.

**Short-term economic upturn forecast**

The economic research institutes expect a positive development of the German economy, although this is due to the good shape of the global economy. The continuing debate on tax and contribution hikes, high energy prices and stagnation in the labour market will not put the Germany economy on the road to a sustained turnaround in private spending.

## Economic Forecasts for 2006

Forecasts for 2006 in Germany by German economic research institutes

| in % | SVR Annual Report | HWWA | ifo | DIW | IWH | IfW | RWI |
|---|---|---|---|---|---|---|---|
| | 11/05 | 01/06 | 12/05 | 01/06 | 12/05 | 03/06 | 03/06 |
| GDP, real | 1.0 | 1.5 | 1.7 | 1.7 | 1.7 | 2.1 | 1.8 |
| Consumption* | -0.2 | 0.5 | 0.3 | 0.3 | 0.3 | 0.5 | 0.4 |

* real spending by private households

SVR = German Council of Economic Advisors
HWWA = Hamburg Institute of International Economics
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

### One-time factors expected in retail sector

We anticipate positive trends in the retail sector in 2006. The emerging improvement in consumer sentiment, the football World Cup and buying ahead of the planned value added tax increase could make 2006 a good year in the retail sector. On the other hand, a noticeable reticence could arise in the first quarters of 2007 before the propensity to consume stabilises during the course of the year.

### Value-added portfolio expansion strategy will to be pursued in future

We shall continue to strive to optimise and expand our shopping center portfolio. However, our demands on potential new investments are high. At the same time, competition for good locations is getting tougher – falling yields are the result. Growth therefore only makes sense if it brings added value to the existing portfolio and resulting cash flows. Only thus can we generate surpluses that support our dividend orientation. Our existing portfolio is precisely tailored to this and our ongoing business activities ensure long-term income. In spite of the current comparatively low level of interest rates, we wish to retain our conservative financing structure with an equity ratio of at least 45%.

### Focus remains on selection of most successful retailers

In selecting tenants we shall in future, too, lay emphasis on creditworthiness and a good market position within the individual sectors. Moreover, optimisation of the sector mix within the shopping centers is more important than a short-term maximisation of rentals. Combined with the proven focus on shopping centers in inner city locations with densely populated catchment areas, we anticipate positive revenue development going forward – for our tenants and for the Deutsche EuroShop Group.

Sector mix more important than maximisation of rentals

**Price rises to be used for disposals**

Our high-quality shopping center portfolio repeatedly recorded value rises in past years. Moreover, in addition to local investors, international investors are also discovering the market for retail properties and have demonstrated this through acquisitions in Germany and other European countries. The result is price increases for shopping centers throughout Europe, which we would like to take advantage of by selling our centers in France and Italy in the short to medium term.

**Klagenfurt opened in March 2006, construction begins in Hameln**

Our shopping center in Klagenfurt was opened on schedule and fully let on 29 March 2006. Currently, our planned proportionate investment volume of around €75 million is expected to be at least €4.3 million lower. City Arkaden Klagenfurt will thus contribute to the results of operations of the Deutsche EuroShop Group for the first time in 2006. Construction work on our shopping center in Hameln will begin in the spring. Letting of the property is already under way in parallel. At present, over 50% of leasable space has been let to prominent retailers (as at March 2006). The shopping center is expected to be opened in the spring of 2008.

**Future revenue and earnings planned on the basis of agreed business**

The Deutsche EuroShop Group's revenue and earnings planning for 2006 and 2007 does not include the purchase 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. 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 center in Hameln 2006/2007 and the opening of the new shopping center in Klagenfurt with its rental income from March 2006

c) the additional contributions to revenues and earnings from the purchase of the shopping center in Dessau from 2006

d) the initial partial consolidation of Main-Taunus-Zentrum from 2006, after increasing our participation to 43.1% and at the same time creating the legal conditions for partial consolidation.

**Revenue increase of 26 to 30% anticipated**

We anticipate revenue of between €91 and €94 million in financial year 2006 (2005: €72.1 million), and between €92 and €95 million in 2007. The shopping center in Hameln will not contribute to revenue before 2008, for the reasons described above.

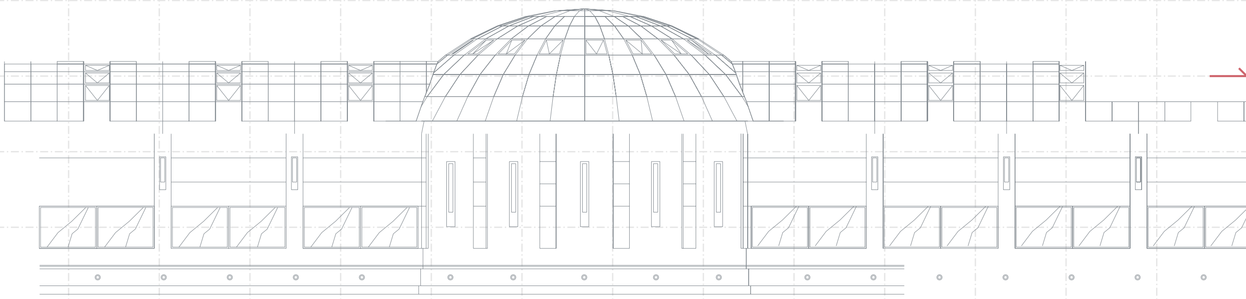
**Further improvement in EBIT and EBT planned**

In the case of earnings before interest and taxes (EBIT), we expect an increase to €72 to €75 million compared with €57.5 million in 2005, and for financial year 2007 we anticipate a further rise to €75 to €78 million. We expect profit before taxes (EBT without gains/losses on measurements) to reach €37 – €40 million in financial year 2006 and €40 to €43 million in financial year 2007. By way of comparison: 2005 EBT was €31.2 million.

**Probable introduction of REITs in Germany in 2007**

In view of the current debate, it seems likely that Real Estate Investment Trusts (REITs) will be introduced. The financial and real estate sectors are still interested and it seems that a political majority in favour of introduction has been found. However, the concrete structures have still not been finalised and the issues still unresolved will prevent introduction before 2007 at the earliest. We are watching developments closely and shall continue to play an active part in the discussion. However, a final appraisal of the pros and cons of a REIT structure for Deutsche EuroShop will only be possible after a corresponding draft law has been published.

Hamburg, March 2006



# CONSOLIDATED FINANCIAL STATEMENTS

## IFRS CONSOLIDATED BALANCE SHEET

as at 31 December 2005

| ASSETS | Note | 31 Dec. 2005 (in € thousand) | 31 Dec. 2004 (in € thousand) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 1. | 18 | 12 |
| Property, plant and equipment | 2. | 71,912 | 183,100 |
| Investment property | 3. | 1,138,271 | 918,470 |
| Non-current financial assets | 4. | 116,804 | 101,669 |
| **Non-current assets** | | **1,327,005** | **1,203,251** |
| | | | |
| **Current assets** | | | |
| Trade receivables | 5. | 2,059 | 1,985 |
| Other current assets | 6. | 17,302 | 14,697 |
| Current financial assets | 7. | 22,002 | 63,945 |
| Cash | 8. | 175,190 | 86,330 |
| **Current assets** | | **216,553** | **166,957** |
| **Total assets** | | **1,543,558** | **1,370,208** |

| EQUITY AND LIABILITIES | Note | 31 Dec. 2005 (in € thousand) | 31 Dec. 2004 (in € thousand) |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity and reserves** | | | |
| Share capital | | 21,999 | 20,000 |
| Capital reserves | | 558,588 | 496,363 |
| Retained earnings | | 95,362 | 91,042 |
| Consolidated net profit for the period | | 48,705 | 27,736 |
| **Subtotal** | | **724,654** | **635,141** |
| **Minority interest** | | **62,792** | **49,271** |
| **Total equity** | 9. | **787,446** | **684,412** |
| | | | |
| **Non-current liabilities** | | | |
| Bank loans and overdrafts | 10. | 613,829 | 597,576 |
| Deferred tax liabilities | 11. | 69,826 | 51,676 |
| Noncurrent trade payables | 12. | 2,000 | 0 |
| Other non-current liabilities | | 544 | 86 |
| **Non-current liabilities** | | **686,199** | **649,338** |
| | | | |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 10. | 50,505 | 6,675 |
| Current trade payables | 12. | 6,544 | 3,742 |
| Tax provisions | 13. | 2,076 | 3,329 |
| Other provisions | 14. | 7,098 | 18,158 |
| Other non-current liabilities | 15. | 3,690 | 4,554 |
| **Current liabilities** | | **69,913** | **36,458** |
| | | | |
| **Total equity and liabilities** | | **1,543,558** | **1,370,208** |

# IFRS CONSOLIDATED INCOME STATEMENT
for the period 1 January to 31 December 2005

| | Note | 2005 (in € thousand) | 2004 (in € thousand) |
|---|---|---|---|
| Revenue | 16. | 72,121 | 61,421 |
| Other operating income | 17. | 2,264 | 9,343 |
| Property operating costs | 18. | -7,869 | -11,401 |
| Property management costs | 19. | -4,461 | -4,318 |
| Other operating expenses | 20. | -4,558 | -5,287 |
| **Earnings before interest and taxes (EBIT)** | | **57,497** | **49,758** |
| | | | |
| Income from investments | 21. | 5,001 | 4,799 |
| Interest income | | 2,240 | 2,649 |
| Interest expense | | -33,594 | -27,961 |
| **Net finance costs** | | **-26,353** | **-20,513** |
| | | | |
| **Measurement gains/losses** | 22. | **49,948** | **8,018** |
| **Profit before tax (EBT)** | | **81,092** | **37,263** |
| | | | |
| Income tax expense | 23. | -19,372 | -10,774 |
| Other taxes | 24. | -69 | -62 |
| **Consolidated profit** | | **61,651** | **26,427** |
| | | | |
| Attributable to Group shareholders | | 48,705 | 27,736 |
| Minority interest | | 12,946 | -1,309 |
| | | | |
| Basic earnings per share (€) | | 3.09 | 1.78 |
| Diluted earnings per share (€) | | 2.83 | 1.78 |

# IFRS CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 31 December 2005

| | 2005 (in € thousand) | 2004 (in € thousand) |
|---|---|---|
| **Profit after tax** | **61,651** | **26,427** |
| Depreciation of property, plant and equipment | 20 | 14 |
| Changes in value of investment property in accordance with IAS 40 | -52,467 | -9,422 |
| Changes in value of financial instruments in accordance with IAS 39 | 0 | -2,398 |
| Investments during the financial year | 2,519 | 3,802 |
| Gains on the disposal of non-current assets | 0 | -4,825 |
| Increase in deferred taxes | 18,482 | 8,090 |
| **Operating cash flow** | **30,205** | **21,688** |
| Changes in receivables | -2,679 | 5,630 |
| Changes in current provisions | -12,313 | 13,475 |
| Changes in liabilities | 4,396 | -3,763 |
| **Cash flow from operating activities** | **19,609** | **37,030** |
| Proceeds from the disposal of property, plant and equipment | 2 | 62,000 |
| Payments to acquire property, plant and equipment and intangible assets | -58,693 | -157,926 |
| Payments to acquire non-current financial assets | -11,807 | 21,761 |
| **Cash flow from investing activities** | **-70,498** | **-74,165** |
| Changes in interest-bearing financial liabilities | 60,083 | 122,839 |
| Payments to owners | -33,379 | -36,031 |
| Contributions by owners | 65,928 | 0 |
| **Cash flow from financing activities** | **92,632** | **86,808** |
| **Net change in cash and cash equivalents** | **41,743** | **49,673** |
| **Cash and cash equivalents at beginning of period** | **150,275** | **101,988** |
| Changes in consolidated Group | 4,182 | -1,386 |
| Other changes | 992 | 0 |
| **Cash and cash equivalents at end of period** | **197,192** | **150,275** |

# STATEMENT OF CHANGES IN EQUITY

as at 31 December 2005

| in € thousand | Share capital | Capital reserves | Other retained earnings |
|---|---|---|---|
| **Balance at 1 Jan. 2004** | **20,000** | **507,365** | **90,590** |
| Consolidated profit | | | |
| Dividend payments | | -11,002 | |
| Withdrawals from capital reserves | | | |
| Appropriation to retained earnings | | | |
| Change in first-time application reserves | | | -1,687 |
| Change due to currency translation effects | | | 139 |
| Other changes | | | |
| **Balance at 31 Dec. 2004** | **20,000** | **496,363** | **89,042** |
| | | | |
| 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 | | | 3,045 |
| Adoption of IAS 39 for deferred tax assets | | | 284 |
| Change due to currency translation effects | | | 991 |
| Changes in consolidated Group | | | |
| Other changes | | 228 | |
| **Balance at 31 Dec. 2005** | **21,999** | **558,588** | **93,362** |

| Legal reserve | Net profit for the period | Total | Minority interest | Total equity |
|---|---|---|---|---|
| **1,979** | **19,019** | **638,953** | **56,348** | **695,301** |
| | 27,736 | 27,736 | -1,309 | 26,427 |
| | -18,998 | -30,000 | -6,031 | -36,031 |
| | | 0 | | 0 |
| 21 | -21 | 0 | | 0 |
| | | -1,687 | 270 | -1,417 |
| | | 139 | | 139 |
| | | 0 | -7 | -7 |
| **2,000** | **27,736** | **635,141** | **49,271** | **684,412** |
| | | | | |
| | 48,705 | 48,705 | 12,946 | 61,651 |
| | -27,736 | -30,000 | -3,379 | -33,379 |
| | | 67,186 | | 67,186 |
| | | -1,257 | | -1,257 |
| | | 331 | | 331 |
| | | 3,045 | | 3,045 |
| | | 284 | | 284 |
| | | 991 | | 991 |
| | | 0 | 4,182 | 4,182 |
| | | 228 | -228 | 0 |
| **2,000** | **48,705** | **724,654** | **62,792** | **787,446** |

# 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 |
| **Cost** | | | | |
| Intangible assets | 15 | 10 | 0 | 0 |
| Land, advance payments and assets under construction | 183,075 | 56,146 | 0 | -167,334 |
| Other equipment, operating and office equipment | 51 | 18 | -2 | 0 |
| **Total** | **183,141** | **56,174** | **-2** | **-167,334** |
| | | | | |
| **Fair values** | | | | |
| Investment property | 897,559 | 0 | 0 | 167,334 |
| Non-current financial assets | 97,648 | 11,807 | 0 | 0 |
| **Total** | **995,207** | **11,807** | **0** | **167,334** |
| **Total non-current assets** | **1,178,348** | **67,981** | **-2** | **0** |

| Balance at 31 Dec. 2005 | Balance at 1 Jan. 2005 | Depreciation and amortisation/impairment losses and reversals for the financial year | Disposals | Balance at 31 Dec. 2005 | Balance at 31 Dec. 2004 | Balance at 31 Dec. 2005 |
|---|---|---|---|---|---|---|
| | Depreciation and amortisation/impairment losses, fair value adjustments and reversals of impairment losses | | | | Book values | |
| | | | | | | |
| 25 | -3 | -4 | 0 | -7 | 12 | 18 |
| 71,887 | 0 | 0 | 0 | 0 | 183,075 | 71,887 |
| 67 | -26 | -16 | 0 | -42 | 25 | 25 |
| **71,979** | **-29** | **-20** | **0** | **-49** | **183,112** | **71,930** |
| | | | | | | |
| | | | | | | |
| 1,064,893 | 20,911 | 52,467 | 0 | 73,378 | 918,470 | 1,138,271 |
| 109,455 | 4,021 | 3,328 | 0 | 7,349 | 101,669 | 116,804 |
| **1,174,348** | **24,932** | **55,795** | **0** | **80,727** | **1,020,139** | **1,255,075** |
| **1,246,327** | **24,903** | **55,775** | **0** | **80,678** | **1,203,251** | **1,327,005** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2005

## ▶ BASIS OF PRESENTATION

In accordance with Directive (EC) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002, Deutsche EuroShop AG is required to prepare consolidated financial statements in accordance with International Accounting Standards (IASs/IFRSs).

The consolidated financial statements have been prepared in accordance with the Standards issued by the International Accounting Standards Board (IASB), London, applicable on the reporting date and take the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) into account.

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

Amounts are presented in thousands of €.

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.

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 dates on which IFRSs, IASs, or SIC Interpretations are approved and the dates on which they come into force regularly differ. However, the IASB generally recommends the early adoption of Standards and Interpretations that have been approved but are not yet in force.

The Deutsche EuroShop Group orientates its accounting policies on those Standards that have binding force on or before the date of preparation of the financial statements.

The income statement was restructured in the area of operating expenses in order to improve the transparency of the current expenses arising from the operation of our shopping centers. The previous year's figures were adjusted accordingly. The changes made are explained in detail in the income statement disclosures.

## ▶ BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

**Consolidated group**

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 2005, the basis of consolidation comprised, in addition to the parent company, 12 (previous year: 10) fully consolidated domestic and foreign subsidiaries and six (previous year: six) proportionately consolidated domestic and foreign companies.

In the year under review, Stadt-Galerie Hameln KG, Hamburg and Deutsche EuroShop Management GmbH, Hamburg, 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. These include the investments in DB Immobilienfonds 12 Main-Taunus Zentrum Wieland KG, Hamburg, and Ilwro Joint Venture Sp. z o. 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. This refers to the investment in City-Point Beteiligungs GmbH, Pöcking and in Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg.

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.

The annual financial statements of the consolidated companies were prepared as at 31 December 2005, 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 and tested for impairment at least once a year, or whenever there are indications of impairment.

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.

The minority interest item is used to report minority interests in equity held by third parties.

## ▶ 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 profit and loss account.

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 profit and loss account 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 252.87 (previous year: HUF 245.93) and an average rate of HUF 248.05 (closing rate: HUF 251.78) were used in the translation of the Hungarian single-entity financial statements from forint to euros.

## ▶ 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 City-Arkaden Klagenfurt KG and Stadt-Galerie Hameln KG are 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 properties**

Under IAS 40, investment properties 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 properties 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.

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 2005, average management costs of 13.5% (previous year: 12.6%) were recognised.

The average interest rate of 6.54% (previous year: 6.56%) 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 4.7% (previous year: 4.75%) compared with the current 3.6% (as at January 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 1.84% (previous year: 1.81%).

On the basis of the expert appraisals, the real estate portfolio has a theoretical initial net yield of 5.46% for the 2006 financial year, compared with 5.48% 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.

**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 from 2005 onwards. 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. 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 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. No deferred tax assets are recognised at present.

**Current financial instruments**

The securities reported relate to current available-for-sale 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/losses 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.

**Liabilities**

Trade payables and other liabilities are carried at their redemption amount.

**Derivatives and hedging relationships**

Deutsche EuroShop AG does not employ any derivatives, so the special hedge accounting provisions of IAS 39 and their disclosure in accordance with IAS 32 do not apply.

**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

## NON-CURRENT ASSETS

### 1. Intangible assets

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| 1 January 2005 | 12 | 5 |
| Additions | 10 | 9 |
| Amortisation | -4 | -2 |
| | **18** | **12** |

Additions relate to the acquisition costs of software installed at the Hamburg premises of the parent company.

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. 2005 | 31 Dec. 2004 |
|---|---|---|
| 1 January 2005 | 183,075 | 64,613 |
| Additions | 56,146 | 154,124 |
| Reclassifications | -167,334 | -35,662 |
| | **71,887** | **183,075** |

Additions relate to remaining investments in Forum Wetzlar, which commenced operations in February 2005, and in Phoenix-Center Hamburg, which opened in September 2004. The amounts were initially recorded at cost. They are presented as a reclassification as at reporting date following initial measurement of these properties.

Investments were also made in the properties still under construction, City Arkaden Klagenfurt and Stadt-Galerie Hameln, whose shares were acquired by Deutsche Euroshop AG on 1 December 2005.

The total amount includes interest capitalised in the financial year amounting to €1.414 thousand, which was incurred during construction.

### 2b. Operating and office equipment

| in € thousand | 31. Dec. 2005 | 31. Dec. 2004 |
|---|---|---|
| 1 January 2005 | 24 | 32 |
| Additions | 18 | 4 |
| Disposals | -2 | 0 |
| Depreciation | -16 | -12 |
| | **24** | **25** |

Additions mainly relate to computer hardware for Deutsche Euroshop AG's business premises.

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

### 3. Investment properties

| in € thousand | 31. Dec. 2005 | 31. Dec. 2004 |
|---|---|---|
| 1 January 2005 | 918,470 | 930,475 |
| Reclassifications | 167,334 | 35,662 |
| Disposals | 0 | -57,090 |
| Reversals of impairment losses | 59,047 | 15,743 |
| Impairment losses | -6,580 | -6,320 |
| | **1,138,271** | **918,470** |
| *directly attributable rental income* | *70,513* | *58,008* |
| *directly attributable operating expenses* | *-9,963* | *-9,267* |

Reclassifications relate to Forum Wetzlar and Phoenix-Center Hamburg, which were reported for the first time at fair value under IAS 40.

The properties are secured by mortgages. Land charges exist in the amount of €685,365 thousand (previous year: €481,804 thousand).

## 4. Non-current financial assets

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| 1 January 2005 | 101,669 | 100,320 |
| Additions | 11,807 | 4 |
| Disposals | 0 | -1,053 |
| Impairment losses and reversals of impairment losses | 3,328 | 2,398 |
| | **116,804** | **101,669** |

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.

Deutsche EuroShop AG holds a 40.77% interest in the fund company DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG. In addition, Deutsche EuroShop AG acquired 5.74% of the Main-Taunus-Zentrum Wieland KG property holding company, with the result that, following this acquisition, it holds 37.35% directly and 5.74% indirectly, i.e. a total of 43.09%, in the Main-Taunus-Zentrum Wieland KG property holding company.

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.

Deutsche EuroShop Management GmbH was formed on the basis of a shareholders' agreement dated 5 July 2005. It is a 100% subsidiary of Deutsche EuroShop with fully paid-up capital of €25 thousand.

Net impairment losses amounting to €3,328 thousand were reversed in the year under review for the investments DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG and Ilwro Joint Venture Sp. z o.o. In view of the changes in accounting pronouncements starting in 2005, the reversals were reported directly for the first time.

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.

## CURRENT ASSETS

### 5. Trade receivables

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Trade receivables | 3,544 | 3,529 |
| Allowances for doubtful accounts | -1,485 | -1,544 |
| | **2,059** | **1,985** |

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

### 6. Other current assets

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Value added tax receivables | 10,801 | 11,584 |
| Deductible withholding tax on dividends/solidarity surcharge | 991 | 847 |
| Miscellaneous assets | 5,510 | 2,266 |
| | **17,302** | **14,697** |

Miscellaneous assets mainly consist of interest and loan receivables as well as other receivables from tenants.

### Receivables

| in € thousand | Total | up to 1 year | more than 1 year |
|---|---|---|---|
| Trade receivables | 2,059<br>(1,985) | 2,059<br>(1,985) | 0<br>(0) |
| Other assets | 17,302<br>(14,697) | 17,276<br>(14,697) | 26<br>(0) |
| Prior-year figures in parentheses | **19,361**<br>**(16,682)** | **19,335**<br>**(16,682)** | **26**<br>**(0)** |

## 7. Current financial assets

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| DWS money market fund shares | 22,002 | 63,945 |
| | **22,002** | **63,945** |

This relates to DWS fund shares carried at fair value at 31 December 2005.

## 8. Cash

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Time deposits | 60,189 | 57,999 |
| Demand deposits | 110,917 | 14,474 |
| Current accounts | 4,074 | 13,833 |
| Cash | 10 | 24 |
| | **175,190** | **86,330** |

The maturity of all cash items is under one year.

## 9. Equity and reserves

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

### 9a. Share capital and capital reserves

The share capital amounts to €21,999,998.72 and is composed of 17,187,499 no-par value registered shares. Of this amount, 1,562,499 no-par value registered shares with a notional value of €1,999,998.72 were added to subscribed capital under a capital increase on 9 November 2005.

In accordance with section 272(2) no. 1 of the HGB, an amount of €65,187 thousand was transferred to the capital reserves.

The capital increase was entered in the commercial register on 16 November 2005.

The notional value of each share is €1.28.

The Executive Board is authorized, 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.

Deutsche EuroShop AG reports an unappropriated surplus of €34,375 thousand. The Executive and Supervisory Boards will propose to the Annual General Meeting on 22 June 2006 that the unappropriated surplus be distributed in full. This corresponds to a dividend of €2.00 per share.

### 9b. Minority interest

The minority interest relates to the interest of other shareholders in capital to be consolidated from acquisition accounting and to their shares of profit and loss.

### 9c. Retained earnings

Retained earnings comprise the legal reserve and other retained earnings.

| in € thousand | 1 Jan. 2005 | Change | 31 Dec. 2005 |
|---|---|---|---|
| Legal reserve | 2,000 | 0 | 2,000 |
| Initial measurement in accordance with IAS 39 discounts | 20,081 | 0 | 20,081 |
| Initial measurement reserve in accordance with IAS 39 financial instruments | 18,964 | 0 | 18,964 |
| Initial measurement reserve in accordance with IAS 40 investment property | 67,083 | 0 | 67,083 |
| Initial measurement reserve in accordance with IAS 12 deferred taxes | -22,421 | 0 | -22,421 |
| Adoption of IAS 39 measurement of investments | 0 | 3,045 | 3,045 |
| Adoption of IAS 39 deferred taxes | 0 | 284 | 284 |
| Other changes | 5,335 | 991 | 6,326 |
| | **91,042** | **4,320** | **95,362** |

The adoption of IAS 39 relates to investments which are reported as available for sale. They are measured at their fair value at the balance sheet date. From 2005, fair value gains must be reported directly in equity.

Other equity items include currency translation differences.

### 10. Bank loans and overdrafts

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Current bank loans and overdrafts | 50,505 | 6,675 |
| Non-current bank loans and overdrafts | 613,829 | 597,576 |
| | **664,334** | **604,251** |

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 are 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 revalued. 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 €706,554 thousand.

Bank loans and overdrafts relate to loans raised to finance real property acquisitions and investment projects. Land charges on company properties amounting to €685,365 thousand (previous year: €583,824 thousand) serve as collateral.

Discounts are amortised over the term of the loan. In the year under review, €4,651 thousand (previous year: €4,341 thousand) was recognised in income.

### 11. Deferred tax liabilities

| in € thousand | Balance at 1 Jan. 2005 | Utilisation | Reversal | Addition | Balance at 31 Dec. 2005 |
|---|---|---|---|---|---|
| **Deferred tax liabilities** | **51,676** | **0** | **0** | **18,150** | **69,826** |

The deferred tax liabilities were recognised for the current consolidated net profit for the period. Additions for companies in Germany amounted to €15,923 thousand, and €2,558 thousand for companies abroad.

They are offset in part by a deferred tax asset of €331 thousand recognised on the transaction costs incurred in the course of the capital increase.

Deferred tax assets arising from the carryforward of unused tax losses are recognised with an amount of €24,759 thousand.

### 12. Trade payables

| in € thousand | 31. Dec. 2005 | 31. Dec. 2004 |
|---|---|---|
| Construction services | 2,124 | 1,061 |
| Fees | 5,971 | 1,405 |
| Mortgage registration fees | 0 | 656 |
| Other | 449 | 620 |
| | **8,544** | **3,742** |

### 13. Tax provisions

| in € thousand | Balance at 1 Jan. 2005 | Utilisation | Reversal | Addition | Balance at 31 Dec. 2005 |
|---|---|---|---|---|---|
| Other income taxes | 2,186 | 833 | 0 | 537 | 1,890 |
| Real property tax | 1,143 | 554 | 467 | 64 | 186 |
| | **3,329** | **1,387** | **467** | **601** | **2,076** |

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

In addition, provisions were recognised for Deutsche EuroShop AG relating to trade tax payable under minimum taxation, and for foreign taxes on income for our property holding companies in Italy and France.

Real property tax provisions relate exclusively to companies in Germany.

### 14. Other provisions

| in € thousand | Balance at 1 Jan. 2005 | Utilisation | Reversal | Addition | Balance at 31 Dec. 2005 |
|---|---|---|---|---|---|
| Maintenance and construction services already performed but not yet invoiced | 16,039 | 15,159 | 216 | 3,718 | 4,382 |
| Fees | 722 | 326 | 68 | 663 | 991 |
| Other | 1,397 | 1,159 | 109 | 1,596 | 1,725 |
| | **18,158** | **16,644** | **393** | **5,977** | **7,098** |

The provisions for maintenance and construction services already performed, but not yet invoiced relate primarily to Forum Wetzlar and to City Arkaden Klagenfurt, which is currently under construction.

All provisions have a term of up to one year.

### 15. Other current liabilities

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Service contract liabilities | 385 | 334 |
| Rental deposits | 1,386 | 1,165 |
| Value added tax | 844 | 950 |
| Debtors with credit balances | 157 | 303 |
| Miscellaneous | 918 | 1,802 |
| | **3,690** | **4,554** |

The Miscellaneous item mainly comprises liabilities for supplementary heating and ancillary costs.

### Liabilities

| in € thousand | Total | up to 1 year | One to 5 years | more than 5 years |
|---|---|---|---|---|
| Bank loans and overdrafts | 664,334 | 50,505 | 32,373 | 581,456 |
| | (604,251) | (6,675) | (50,571) | (547,005) |
| Trade payables | 8,544 | 6,544 | 2,000 | 0 |
| | (3,742) | (3,742) | (0) | (0) |
| Other liabilities | 4,234 | 3,690 | 278 | 266 |
| | (4,641) | (4,555) | (0) | (86) |
| thereof taxes | 846 | 846 | 0 | 0 |
| | (950) | (950) | (0) | (0) |
| | **677,112** | **60,739** | **34,651** | **581,722** |
| Prior-year figures in parentheses | (612,634) | (14,972) | (50,571) | (547,091) |

## ▶ OTHER FINANCIAL OBLIGATIONS

**Rental, lease and loan obligations**

| in € thousand | 31 Dec. 2005 | 31 Dec. 2004 |
|---|---|---|
| Due to mature in 2006 | 58 | 60 |
| Due to mature in 2007 | 40 | 102 |
| Due to mature after 2007 | 0 | 0 |
| | **98** | **162** |

## ▶ CONTINGENCIES AND COMMITMENTS

Deutsche EuroShop AG has entered into contingent liabilities in the form of a debtor warrant in the amount of €1,078 thousand.This relates to a performance-related contingent purchase price consideration to be paid to the sellers of the Árkád Pécs shopping center over a period of up to ten years.

## ▶ OTHER DISCLOSURES

The Group employed five staff as at 31 December 2005.

In accordance with section 160(1) no. 8 of the AktG, we hereby disclose that our Company received notice of the following investments and changes in voting rights in accordance with the disclosure obligations under the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) during financial year 2005:

- Alexander Otto, Hamburg (DE), notified us in accordance with section 21(1) of the WpHG that his share in the voting rights of Deutsche EuroShop AG fell below the thresholds of 10% and 5% on 8 November 2005 and now amounts to 3.498%. This includes the voting rights of AROSA Vermögensverwaltung G.m.b.H. amounting to 2.5%, which are attributable to him under section 22(1) no. 1 of the WpHG. Furthermore, AROSA Vermögensverwaltung G.m.b.H., Wandsbeker Str. 3 – 7, 22179 Hamburg (DE), notified us in accordance with section 21(1) of the WpHG that its share in the voting rights of our Company fell below the thresholds of 10% and 5% on 8 November 2005 and now amounts to 2.5%.

- Alexander Otto, Hamburg (DE) notified us in accordance with section 21(1) of the WpHG that his share in the voting rights of Deutsche EuroShop AG rose above the thresholds of 5% and 10% on 25 November 2005 and now amounts to 12.27%. This includes the voting rights of AROSA Vermögensverwaltung G.m.b.H. amounting to 11.36%, which are attributable to him under section 22(1) no. 1 of the WpHG. Furthermore, AROSA Vermögensverwaltung G.m.b.H., Wandsbeker Str. 3 – 7, 22179 Hamburg (DE), notified us in accordance with section 21(1) of the WpHG that its share in the voting rights of our Company rose above the thresholds of 5% and 10% on 25 November 2005 and now amounts to 11.36%.

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 Euro Shop AG in issue (total: 17,187,499) as at 31 December 2005:

| | 31 Dec. 2005 |
|---|---|
| Supervisory Board | 2,130,025 shares |
| *- thereof Alexander Otto > 1%* | *2,109,125 shares* |
| | |
| Executive Board | 25,150 shares |

## ▶ DISCLOSURES ON THE CONSOLIDATED INCOME STATEMENT

### 16. Revenue

| in € thousand | 2005 | 2004 |
|---|---|---|
| Rental income | 70,513 | 59,558 |
| Other revenue | 1,608 | 1,863 |
| | **72,121** | **61,421** |
| *thereof rental income directly attributable to investment property in accordance with IAS 40* | *70,513* | *58,008* |

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

### 17. Other operating income

| in € thousand | 2005 | 2004 |
|---|---|---|
| Book gains on the sale of current financial instruments | 1,496 | 791 |
| Exchange rate gains | 23 | 2,197 |
| Income from the reversal of provisions | 212 | 1,087 |
| Income from the sale of properties | 0 | 4,825 |
| Miscellaneaous | 533 | 443 |
| | **2,264** | **9,343** |

### 18. Property operating costs

| in € thousand | 2005 | 2004 |
|---|---|---|
| Maintenance and repairs | -472 | -479 |
| Real property tax | -743 | -920 |
| Insurance | -394 | -588 |
| Center marketing | -1,544 | -1,491 |
| Infrastructure costs | 0 | -1,674 |
| Ancillary operating costs France | -743 | -782 |
| Rental costs | -2,495 | -3,814 |
| Write-downs of rent receivables | -217 | -1,012 |
| Other | -1,261 | -641 |
| | **-7,869** | **-11,401** |
| *thereof operating expenses directly attributable to investment property in accordance with IAS 40* | *-5,652* | *-5,528* |

In the previous year, the operating expenses of the shopping centers and the expenditure on management and administration, which mainly arise at the Group holding company, were combined under Other operating expenses. In order to make this cost item more transparent, current shopping center expenses were presented separately for the first time in the Property operating costs, Property management costs and Administrative expenses items in Other operating expenses.

The real property tax (€920 thousand) reported in the previous year in “Other taxes” was reclassified to property operating costs in 2005.

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

### 19. Property management costs

| in € thousand | 2005 | 2004 |
|---|---|---|
| Center management / Agency agreement costs | **-4,461** | **-4,318** |
| *thereof operating expenses directly attributable to investment property in accordance with IAS 40* | *-4,311* | *-3,739* |

## 20. Other operating expenses

| in € thousand | 2005 | 2004 |
|---|---|---|
| Personnel expenses | -854 | -813 |
| Marketing costs | -661 | -485 |
| Appraisal costs | -201 | -107 |
| Exchange rate losses | -1,010 | -56 |
| Depreciation and amortisation | -20 | -14 |
| Miscellaneous | -1,812 | -3,812 |
| | **-4,558** | **-5,287** |

From 2005 onwards, depreciation/amortisation and personnel expenses are combined with other operating expenses. The personnel expenses include insurance premiums for a pension commitment since 1 July 2005 in favour of a member of the Executive Board.

Other expenses include audit and consultancy fees for the audit of the consolidated financial statements by BDO Deutsche Warentreuhand AG amounting to €87 thousand. No other services were provided by BDO Deutsche Warentreuhand AG in financial year 2005.

## 21. Income from Investments

| in € thousand | 2005 | 2004 |
|---|---|---|
| Income from Investments | 5,001 | 4,799 |
| | **5,001** | **4,799** |

Income from Investments comprises distribution from Investments considerung the valuation in accordance with IAS 39.

### 22. Measurement gains/losses

| in € thousand | 2005 | 2004 |
|---|---|---|
| Fair value gains/losses on investments in accordance with IAS 39 | 0 | 2,398 |
| Investments during the financial year | -2,519 | -3,802 |
| Fair value gains in accordance with IAS 40 | 59,047 | 15,743 |
| Fair value losses in accordance with IAS 40 | -6,580 | -6,321 |
| | **49,948** | **8,018** |

The fair value gains on the measurement of investments in accordance with IAS 39 reported in the previous year were no longer recognised in profit or loss but rather – due to the change in accounting pronouncements – directly in equity.

Investments during the current financial year amounting to €2,519 thousand comprise additions to property assets previously 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.

For reasons of transparency, net finance costs and measurement gains and losses were reported separately this year.

### 23. Income tax expense

| in € thousand | 2005 | 2004 |
|---|---|---|
| Current tax expense | -891 | -2,684 |
| Deferred tax liabilities – domestic companies | -15,923 | -4,545 |
| Deferred tax liabilities – foreign companies | -2,558 | -3,545 |
| | **-19,372** | **-10,774** |

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 2005, a tax rate of 25% for deferred taxes was calculated for companies in Germany. In addition, a solidarity surcharge of 5.5% on calculated corporation tax was recognised. The respective local tax rates were recognised for companies abroad.

### 24. Other taxes

| in € thousand | 2005 | 2004 |
|---|---|---|
| Other taxes | -69 | -62 |
| | **-69** | **-62** |

The real property tax (€920 thousand) reported under this item in the previous year was reclassified to property operating costs in 2005. Trade tax was incurred in Hungary during the financial year.

## ▶ 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 DWS fund shares.

**Operating cash flow**

After adjustment of the net profit for the period, the operating cash flow amounts to €30,205 thousand. All changes to cash flows from net finance costs (interest income and income and expense from investments) are allocated to operating activities.

**Cash flow from operating activities**

Changes in receivables, provisions and liabilities are allocated to cash flow from operating activities.

**Changes in receivables**

| in € thousand | 31 Dec. 2004 | Change in cash flow | 31 Dec. 2005 |
|---|---|---|---|
| Trade receivables | 1,985 | 74 | 2,059 |
| Other assets | 14,697 | 2,605 | 17,302 |
| | **16,682** | **2,679** | **19,361** |

### Changes in provisions

| in € thousand | 31 Dec. 2004 | Change in cash flow | 31 Dec. 2005 |
|---|---|---|---|
| Tax provisions | 3,329 | -1,253 | 2,076 |
| Other provisions | 18,158 | -11,060 | 7,098 |
| | **21,487** | **-12,313** | **9,174** |

### Changes in other liabilities

| in € thousand | 31 Dec. 2004 | Change in cash flow | 31 Dec. 2005 |
|---|---|---|---|
| Trade payables | 3,742 | 4,802 | 8,544 |
| Other liabilities | 4,640 | -406 | 4,234 |
| | **8,382** | **4,396** | **12,778** |

### Cash flow from investing activities

Cash additions/disposals of non-current assets during the current year are disclosed.

### Cash flow from financing activities

In financial year 2005, a dividend in the amount of €33,379 thousand was paid to minority shareholders.

In addition, a capital increase was implemented on 9 November 2005. This resulted in a cash inflow amounting to €65,928 thousand.

### Changes in the consolidated Group

The purchase of Stadt-Galerie Hameln as at 1 December 2005 resulted in an increase in minority interest in equity amounting to €4,182 thousand.

### Other changes

The translation of the Hungarian investment at the closing rate results in translation differences in equity amounting to €992 thousand.

Following the capital increase implemented on 9 November 2005, Deutsche EuroShop AG's share capital is composed of 17,187,499 no-par value registered shares. For purposes of calculating cash flow per share comparable with the previous year, the newly issued shares were time-weighted for 38 days.

**Cash flow per share**

| | | 2005 | 2004 |
|---|---|---|---|
| Average number of no-par value shares outstanding | Shares | 15,787,670 | 15,625,000 |
| Operating cash flow | € thousand | 30,205 | 21,688 |
| Operating cash flow per share | € | 1.91 | 1.39 |
| Cash flow from operating activities | € thousand | 19,609 | 37,030 |
| Cash flow per share | € | 1.24 | 2.37 |

## ▶ EARNINGS PER SHARE

In accordance with IAS 33, earnings per share are calculated by dividing the consolidated net 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.

Following the capital increase implemented on 16 November 2005, Deutsche EuroShop AG's share capital is composed of 17,187,499 no-par value registered shares. The shares were admitted to trading on the Frankfurt Stock Exchange from 24 November. To enable the calculation of comparable earnings per share, the newly issued shares were time-weighted for 38 days.

| | | 2004 | Capital increase | 2005 |
|---|---|---|---|---|
| No-par value shares outstanding | Shares | 15,625,000 | 1,562,499 | 17,187,499 |
| Weighting 2005 (dilutive effect) | Shares | | | 15,787,670 |
| Consolidated net profit attributable to Group shareholders | € thousand | 27,736 | | 48,705 |
| Earnings per share (diluted) | € | 1.78 | | 2.83 |
| Earnings per share (basic) | € | 1.78 | | 3.09 |

## ▶ SEGMENT REPORTING

As a holding company, Deutsche EuroShop AG holds equity interests in German and foreign shopping centers as a single business gment. No separate segment reporting is therefore se presented. Revenue is generated exclusively from rental and lease income.

**Information by geographical segment**

| in € thousand | domestic | foreign | thereof EU | Total |
|---|---|---|---|---|
| Revenue | 62,158 | 9,963 | 9,963 | 72,121 |
| Prior-year figures in parentheses | (50,160) | (11,261) | (11,261) | (61,421) |

## ▶ RELATED PARTIES IN ACCORDANCE WITH IAS 24

Deutsche EuroShop AG's investments 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 €3,193 thousand (previous year: €2,507 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 €22,022 thousand (previous year: €24,545 thousand) were paid to the ECE Group, of which Deutsche EuroShop AG Supervisory Board member Mr. Alexander Otto is Managing Director. €10,042 thousand (previous year: €15,121 thousand) of this amount related to properties under construction, and €11,980 thousand (previous year: €9,424 thousand) to operational properties.

## ▶ SUPERVISORY BOARD AND 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
a) Deutsche Börse AG, Frankfurt am Main (Deputy Chairman; until 25 June 2005)

**Dr. Michael Gellen**, Cologne, Deputy Chairman
Lawyer
a) Deutsche Wohnen AG, Eschborn (Deputy Chairman)

**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
Platinum 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

b) Peek & Cloppenburg KG, Dusseldorf

**Dr. Bernd Thiemann**, Frankfurt am Main
Co-owner of Drueker & Co., Frankfurt
a) Celanese AG, Kronberg (Chairman)
EM.TV AG, Munich (Chairman)
M.M. Warburg & Co. KGaA Holding, Hamburg (Deputy Chairman)
Bankhaus Hallbaum AG & Co., Hanover
Thyssen Krupp Stainless AG, Duisburg
VHV Vereinigte Hannoversche Versicherung a.G., Hanover
VHV Leben AG, Hanover

b) Fraport AG, Frankfurt
Würth Group, Künzelsau (Deputy Chairman)
Odewald & Companie, Berlin (Deputy Chairman)

## Executive Board

**Claus-Matthias Böge**, Hamburg (spokesman of the Executive Board)

**Dirk Hasselbring**, Hamburg (until 30 April 2005)

**Olaf Borkers**, Hamburg (since 1 October 2005)
a) ClanSailing AG, 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 | Variable remuneration |
|---|---|
| Manfred Zaß | 34.8 |
| Dr. Michael Gellen | 26.1 |
| Thomas Armbrust | 17.4 |
| Alexander Otto | 17.4 |
| Dr. Jörn Kreke | 17.4 |
| Dr. Bernd Thiemann | 17.4 |
| (incl. 16% value added tax) | **130.5** |

No advances or loans were granted to the members of the Supervisory Board.

The **remuneration of the Executive Board** amounted to €506 thousand, and is broken down as follows:

| | Fixed salary € thousand | Variable remuneration € thousand | Other benefits € thousand | Total € thousand |
|---|---|---|---|---|
| Claus-Matthias Böge | 255 | 130 | 10 | 395 |
| Dirk Hasselbring (until 30 April 2005) | 39 | 30 | 0 | 69 |
| Olaf Borkers (since 1 October 2005) | 42 | 0 | 0 | 42 |

No advances or loans were granted to the members of the Executive Board.

The Company has not entered into any contingencies or commitments in favour of these persons.

In addition, the Declaration of Conformity with the German Corporate Governance Code required by section 161 of the AktG has been issued, and was made available to shareholders via publication on the Internet in December 2005.

Hamburg, 21 March 2006
Deutsche EuroShop AG
The Executive Board

**Claus-Matthias Böge** **Olaf G. Borkers**

# GROUP COMPANIES

| Company name and domicile | Nominal equity | Interest in nominal capital | thereof indirect | thereof direct | HGB profit/loss 2005 |
|---|---|---|---|---|---|
| **Fully consolidated companies** | **in €** | | | | **in € thousand** |
| Deutsche EuroShop Verwaltungs GmbH, Hamburg | 50,000.00 | 100.00% | - | 100.00% | 1,174 |
| Deutsche EuroShop Management GmbH, Hamburg | 25,000.00 | 100.00% | | 100.00% | -1 |
| Centro Commerciale Tuscia Galleria s.r.l., Milan/Italy | 10,000.00 | 100.00% | - | 100.00% | 304 |
| Centro Commerciale Tuscia Viterbo s.r.l., Milan/Italy | 10,000.00 | 100.00% | - | 100.00% | 66 |
| Rhein-Neckar-Zentrum KG, Hamburg | 235,000,000.00 | 92.82% | - | 92.82% | 2,607 |
| SCI Val Commerces, Paris/France | 5,000.00 | 92.82% | 92.82% | - | 643 |
| Centro Commerciale Friuli Claus-Matthias Böge & Co. S.a.s., Milan/Italy | 5,600,000.00 | 92.82% | 92.82% | - | 239 |
| City-Galerie Wolfsburg KG, Hamburg | 50,000,000.00 | 89.00% | - | 89.00% | 873 |
| Allee-Center Hamm KG, Hamburg | 21,630,000.00 | 87.74% | - | 87.74% | 1,334 |
| City-Arkaden Wuppertal KG, Hamburg | 50,000,000.00 | 72.00% | - | 72.00% | -693 |
| Forum Wetzlar KG, Hamburg | 44,700,000.00 | 65.00% | - | 65.00% | -169 |
| Stadt-Galerie Hameln KG, Hamburg | 82,000,000.00 | 94.90% | - | 94.90% | -1,506 |
| **Proportionately consolidated companies** | **in €** | | | | **in € thousand** |
| Altmarkt-Galerie Dresden KG, Hamburg | 83,000,000.00 | 50.00% | - | 50.00% | 834 |
| Einkaufs-Center Arkaden Pecs KG, Hamburg | 41,300,000.00 | 50.00% | - | 50.00% | 1,644 |
| Objekt City-Point Kassel GmbH & Co. KG, Pöcking | 42,400,000.00 | 40.00% | 40.00% | - | -1,232 |
| City-Arkaden Klagenfurt KG, Hamburg | 60,300,000.00 | 50.00% | - | 50.00% | -2,007 |
| EKZ Eins Errichtungs- und Betriebs Ges. mbH & Co. OEG, Vienna | 1,000.00 | 50.00% | 50.00% | - | -2,229 |
| Immobilien KG FEZ Harburg, Hamburg | 40,700,000.00 | 50.00% | - | 50.00% | -447 |
| **Investees** | **in PLN** | | | | **PLN thousand** |
| Ilwro Joint Venture Sp, zo,o,. Warschau/Polen | 21,000,000.00 | 33.33% | - | 33.33% | 22,468 |
| | **in €** | | | | **in € thousand** |
| Ilwro Joint Venture Sp. z o.o., Warsaw/Poland | 12,688,000.00 | 43.09% | 37.35% | 5.74% | 9,891 |
| DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG, Hamburg | 150,000,000.00 | 40.77% | - | 40.77% | 6,117 |
| City-Point Beteiligungs GmbH, Pöcking | 25,564.60 | 40.00% | - | 40.00% | 7 |
| Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg | 25,000.00 | 50.00% | 50.00% | - | -108 |

# 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 January 1 to December 31, 2005. 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, 24 March 2006
**BDO Deutsche Warentreuhand Aktiengesellschaft,**
Wirtschaftsprüfungsgesellschaft

**(Rohardt)**
Wirtschaftsprüfer

**(zu Inn- u. Knyphausen)**
Wirtschaftsprüfer

# GLOSSARY

## A

**Accelerated bookbuilding**
An accelerated procedure for placing shares. It is used in the case of secondary placements which have a placement period ranging from several hours to several days, depending on the volume and the receptivity of investors.

**Ad hoc disclosures**
The Wertpapierhandelsgesetz (German Securities Trading Act) requires listed companies to immediately publish significant information that could materially affect the company's share price. This is designed to prevent price-sensitive information being known only to insiders who then exploit their knowledge edge to their own advantage.

**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

**Cash flow per share (CFPS)**
Calculated by dividing the cash flow by the number of shares issued by a company. The cash flow per share serves as the basis for calculating the price/cash flow ratio.

**Closed-end fund**
In this type of fund the sale of units ceases when the predefined issuing volume has been reached. There is no provision for the issuing company to buy back the units during the term of the fund.

**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.

**Designated sponsor**
An enterprise admitted to exchange trading that provides bid and ask prices for certain securities, thus ensuring additional liquidity for them.

**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.

**DVFA earnings**
DVFA stands for "Deutsche Vereinigung für Finanzanalyse und Asset Management" (German Society of Investment Analysis and Asset Management). DVFA earnings are calculated on the basis of the DVFA's generally accepted guidelines for the preparation of corporate accounts, adjusted for one-time factors.

## E

**EBIT**
Earnings before interest and taxes.

**EBITDA**
Earnings before interest, taxes, depreciation and amortization.

**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.

**EPS**
Earning per share.

## F

**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.

**Fungibility**
Fungible securities are securities that can be easily bought and sold at an individual level. The stock exchange is a market for fungible goods.

## 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

**HGB accounting**
The Handelsgesetzbuch (German Commercial Code – HGB) is the primary law governing the activities of business people in Germany and contains the regulations governing the preparation of annual financial statements. HGB accounting is based on the principle of prudence, the aim of which is to protect the interests of creditors.

## 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.

**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.

## 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.

**Open-ended fund**
The most common type of fund in Germany, in which the number of units issued is unlimited. Depending on the volume of funds received, new units are issued to investors and redeemed on an ongoing basis. Strong inflows of funds increase the total assets of the open-ended fund. The additional funds are allocated to the cash reserves until an investment is made in corresponding assets.

**Outsourcing**
The term "outsourcing", which originated in the USA, stands for the words "outside resource using". The objective is usually to optimise a company's structures from a financial perspective.

**Overage**
A rental payment that is calculated on the basis of the sales revenue generated on a leasable space rather than the space itself.

**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.

**Regional center**
A central location that meets all the needs (including specific and highly specialised requirements) of its own population, as well as of a broad population in the surrounding area. In other words, the purchasing power of a regional center exceeds the amount actually generated there.

**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. More on this subject in the focus on page 18.

**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.

**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.

**TecDAX**
The successor to the NEMAX 50, comprising the 30 largest German listed technology securities in terms of market capitalisation and market turnover.

**Volatility**
Statistical measure for price fluctuations. The greater the fluctuations in the price of a security, the higher its volatility.

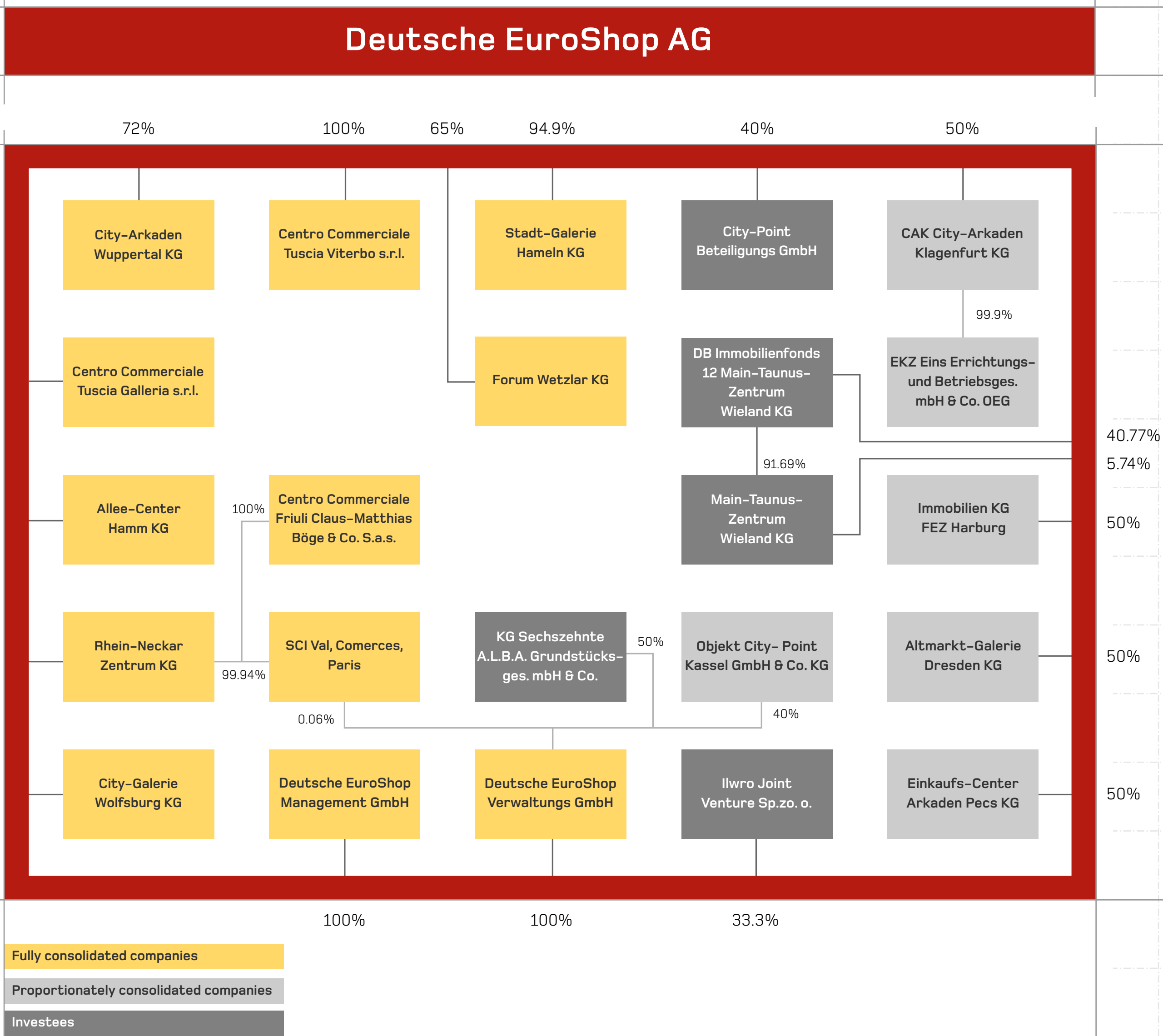
**Xetra**
An electronic stock exchange trading system for location-independent trading. The central, open order book is accessible to all market participants, thus increasing market transparency. Trading hours are 9.00 a.m. to 5.30 p.m. (as of March 2006).

# INDEX

# INVESTMENT STRUCTURE

(as at December 31, 2005)

4.7




▶ Longitudinal section historicised facade

# MULTI-YEAR-OVERVIEW 2003–2005

| € million | 2003 | 2004 | 2005 |
|---|---|---|---|
| Revenue | 57.9 | 61.4 | 72.1 |
| Income from investments | 3.5 | 4.8 | 5.0 |
| Net interest expense | -22.0 | -25.3 | -31.4 |
| EBIT | 39.5 | 49.8 | 57.5 |
| EBT | 26.9 | 37.3 | 81.1 |
| Share of consolidated profit attributable to Group shareholders | 19.0 | 27.7 | 48.7 |
| Earnings per share (€) [1] | 1.22 | 1.78 | 3.09 |
| Equity | 695.3 | 684.4 | 787.4 |
| Liabilities | 493.6 | 612.6 | 677.1 |
| Total assets | 1,240.5 | 1,370.2 | 1,543.6 |
| Equity ratio (%) | 56.1 | 49.9 | 51.0 |
| Gearing (%) | 78 | 100 | 96 |
| Net asset value | 682.5 | 686.8 | 794.5 |
| Net asset value per share (€) | 43.68 | 43.96 | 46.22 |
| Number of shares | 15,625,000 | 15,625,000 | 17,187,499 |
| Cash and cash equivalents | 102.0 | 150.3 | 197.2 |
| Dividend per share (€) | 1.92 | 1.92 | 2.00 [2] |

[1] undiluted

[2] proposal

# THE DEUTSCHE EUROSHOP TEAM

from left to right: Olaf G. Borkers, Patrick Kiss, Birte Gatzke, Kirsten Kaiser, Nicolas Lissner, Birgit Schäfer, Claus-Matthias Böge

# DETAILS

### Publications for our shareholders

- Annual Report (German and English)
- Interim Reports for the first, second and third quarters (German and English)

**The above information can be obtained from:**
Deutsche EuroShop AG, Investor Relations,
Oderfelder Straße 23, 20149 Hamburg, Germany
or by e-mail: ir@deutsche-euroshop.de

### Online Annual Report

The Annual Report of Deutsche EuroShop AG is available online at www.deutsche-euroshop.com in PDF format and as an interactive online version.

### 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 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 forecasted.

### 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.

**May**

15. Interim report Q1 2006
16. Roadshow Paris, DZ Bank
17. Roadshow Zurich, Sal. Oppenheim
18. Roadshow Madrid, Morgan Stanley
19. Roadshow Edinburgh, Berenberg Bank
25. Citigroup Jour Fixe, London
26. Roadshow Dublin, Equinet
31. Deutsche Bank German Corporate Conference, Frankfurt am Main

**June**

01. Kempen & Co European Property Seminar, Amsterdam
07. Cheuvreux European Small & MidCap Conference, London
22. Annual General Meeting, Hamburg
22. Supervisory Board meeting, Hamburg
23. Dividend payment
29. WestLB German Properties & Financials Conference, Zurich

**August**

11. Interim report H1 2006
16. Roadshow Vienna, HSBC Trinkaus & Burkhardt

**September**

13. Supervisory Board meeting, Hamburg
26. HVB German Investment Conference, Munich

**October**

07.10. Hamburg Exchange Convention
6th Property Share Initiative Conference, Frankfurt am Main

**November**

14. Interim report Q1-3 2006
15.–16. WestLB Deutschland Conference 2006, Frankfurt am Main
21. Roadshow Milan, HVB
27. German Equity Forum, Frankfurt am Main
29. Supervisory Board meeting, Hamburg

Our financial calendar is updated continuously. Please check our website for the latest events: **http://www.deutsche-euroshop.com/ir**

# LEGAL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Investor & Public Relations
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Germany

SENDER*:
Name:
Street:
Post code, City/town:
E-mail:
Shareholder number (if any):

* All data are stored in accordance with applicable data protection laws

# FINANCIAL CALENDAR

**January**

| | |
|---|---|
| 11. | Morgan Stanley German Property Day, London |
| 23.–24. | Roadshow Amsterdam and Brussels, Petercam |
| 30.–31. | Roadshow Stockholm, Helsinki and Copenhagen, HVB |

**February**

| | |
|---|---|
| 14. | HSBC Trinkaus Real Estate Conference, Frankfurt am Main |

**March**

| | |
|---|---|
| 24. | Audit Committee meeting, Hamburg |
| 29. | Opening of City-Arkaden Klagenfurt |

**April**

| | |
|---|---|
| 04. | CB Seydler Small & MidCap Conference, Frankfurt am Main |
| 05. | Sal. Oppenheim Real Estate Conference, Frankfurt am Main |
| 12. | Ground-breaking ceremony of Stadt-Galerie Hameln |
| 19. | Supervisory Board meeting, Hamburg |
| 20. | Annual earnings press conference, Hamburg |
| 21. | Roadshow London, Deutsche Bank |
| 21. | Roadshow Frankfurt am Main, Morgan Stanley |
| 24.–28. | Roadshow USA, WestLB |
| 25. | WestLB Real Estate Day, New York |

▶▶

PROJECT: Financial Calendar

BUILDING BUSINESS

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**I am a Deutsche EuroShop shareholder and ...**

- ...would like to subscribe to the free e-mail newsletter.
- ...prefer not to receive the annual report by mail in future.
- ...prefer not to receive quarterly reports by mail in future.
- ...have a new address, which I have entered on the front of the card.

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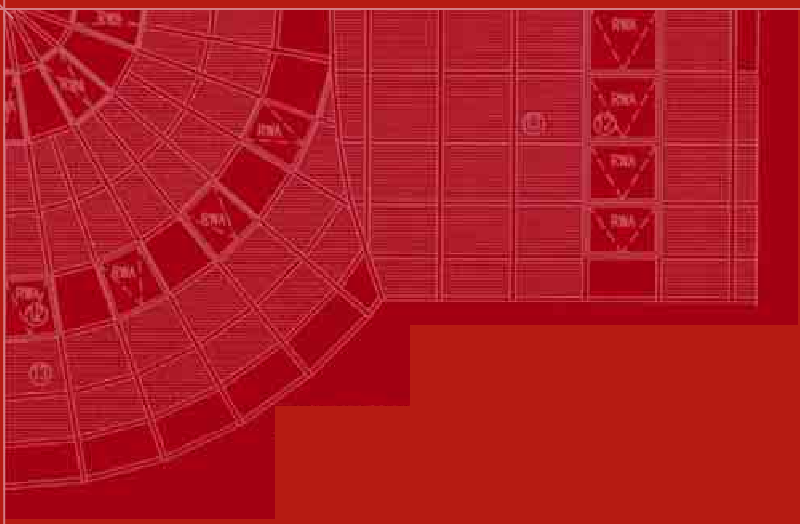
- ...would like to subscribe to the free e-mail newsletter.
- ...would like to receive the annual report regularly by mail in future.
- ...would like to receive quarterly reports regularly by mail in future.

**I have entered my full address on the front of the card.**

**What I have always wanted to tell you (praise, criticism, etc.):**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