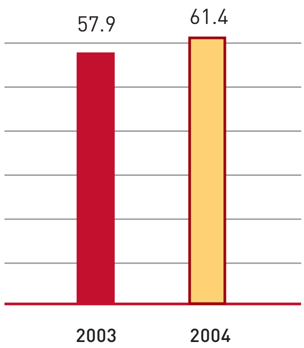
The Art of Shopping

Annual Report 2004

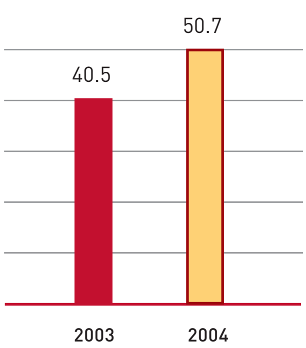
Key data

€ million	2004	2003	Change
Revenue	61.4	57.9	6 %
Income from investments	4.8	3.5	38 %
Net interest expense	-25.3	-22.0	-15 %
EBITDA	50.7	40.5	25 %
EBIT	50.7	40.5	25 %
EBT	38.2	27.9	37 %
Consolidated net profit for the period	27.7	19.0	46 %
EPS (€)	1.78	1.22	46%
Equity	684.4	695.3	-2 %
Liabilities	612.6	493.6	24 %
Total assets	1,370.2	1,240.5	10 %
Equity ratio (%)	49.9	56.1	
Gearing (%)	100	78	
Net asset value	686.8	682.5	1 %
Net asset value per share (€)	43.96	43.68	1 %
Cash and cash equivalents	150.3	102.0	47 %
Dividend per share (€)	1.92	1.92	

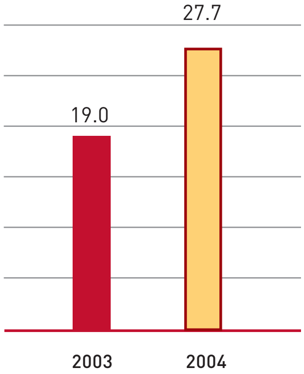
Revenue 2003–2004
€ million



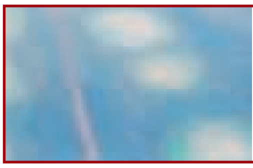
EBIT 2003–2004
€ million



Consolidated net profit for the period 2003–2004
€ million



Highlights in 2004



January

Admission to the EPRA Index

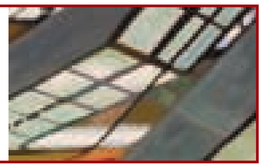
February

Topping-out ceremony for the Phoenix-Center Hamburg

March

Initial publication of the net asset value

Grand opening of the Pécs Árkád shopping center



June

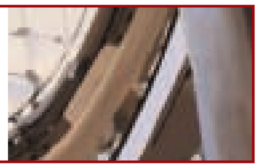
Topping-out ceremony for Forum Wetzlar

Annual General Meeting on 17 June 2004 and renewed distribution of a dividend of €1.92 per share.

July

Sale of the Centro Commerciale Friuli in Udine/Italy

Awarded the "2004 Capital Investor Relations Prize"



August

Investment in the City-Arkaden shopping center in Klagenfurt/Austria

September

Admission to the MDAX

Grand opening of the Phoenix-Center Hamburg

Key data
Highlights in 2004

Our Values/our goals

+++ Our values +++

We are Germany's only public company, 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.

The Art of Shopping

"The Art of Shopping"

The main theme of this year's Annual Report, "The Art of Shopping", expresses the close connection between the customers' shopping experience in our centers as well as our shareholders' investment motives and Deutsche EuroShop itself: we all want to shop where the prospects are excellent, on a sound basis, where funds flow freely, and for value.

Deutsche EuroShop has mastered the art of making shopping profitable. It is therefore no coincidence that the pictures in the Annual Report address the multiple meanings of the main theme in an artistic manner. The Hamburg-based artist and author, Oliver Löhr, arranged scenes from details of three of our shopping centers and used them to produce five canvases measuring 60 x 84 cm. These are reproduced in a more accessible format on the cover and as the dividers between the chapters on pages 10, 30, 52 and 72.

Shopping centers as an art – the art of shopping.

Deutsche EuroShop AG

Foreword by the Executive Board

Dear Shareholders and Friends,

the theme of this year's Annual Report is "The Art of Shopping". This art is by no means an unprofitable activity for Deutsche EuroShop. On the contrary: increased revenue, a further improvement in earnings and the growth in value of our properties showed once again in 2004 that we are on the right track.

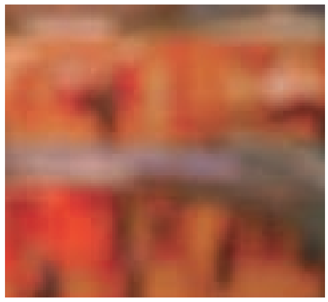
Our conversion to the International Financial Reporting Standards (IFRSs) made our success even more apparent. We are now complying with the legal requirements and in particular with the demands of the international capital markets ahead of schedule. We have described the effects in detail in the Notes to the Consolidated Financial Statements (page 93).

We can definitely be extremely satisfied with financial year 2004, given our 6.1% increase in revenue from €57.9 million to €61.4 million. We generated a 46% increase in consolidated net profit from €19 million to €27.7 million. This amounts to earnings per share of €1.78, as against €1.22 in the previous year. €1.32 per share of this amount resulted from operating activities and €0.46 from the revaluation of the shopping centers.

There were a number of changes in our portfolio in 2004. Our newly opened shopping centers in Pécs, Hungary and in Hamburg contributed to earnings for the first time. The Árkád in Pécs opened on schedule and fully leased on 31 March, followed by the Phoenix-Center in Hamburg on 29 September. In mid-July 2004, we sold the Centro Commerciale Friuli shopping center in Udine, Italy. We were able to reinvest approximately half of the sales proceeds at the beginning of August when Deutsche EuroShop entered the Austrian market for the first time by acquiring a 50% share in the City-Arkaden shopping center in Klagenfurt. This complex is set to open in early 2006 and is already 65% leased – around one year prior to the planned opening.

We are well positioned with our portfolio of 14 shopping centers in six countries. The properties are fully leased and long-term income is secured. When making further investments – we currently have over €30 million in liquid assets at our disposal – we will maintain our strategy (see page 7 f.). As a value-driven company, quality and return are more important to us than our rate of growth. We will remain focused on opportunities, risk-averse and dividend-oriented: We will again be proposing a dividend of €1.92 per share for 2004 to the Annual General Meeting. This represents the equivalent of a comparatively high dividend yield of 5.0% at the end of 2004.

Claus-Matthias Böge



We have repeatedly emphasised our wish to provide capital market players with the greatest possible transparency. In line with this, we have appointed recognised experts for retail locations and well-known appraisers to rate our shopping center portfolio and to calculate its market value. In turn, this forms the basis for calculating the net asset value of our equity interests. We presented the results for the first time at the beginning of March 2004: Our Company's net asset value as at 31 December 2003 was €682.5 million. It had risen again in 2004 to €686.8 million. This corresponds to a net asset value per share of €43.96.

The capital markets rewarded our transparency and investor relations efforts: our share price did well over the course of the year to close at €38.51 on 31 December 2004, up 14.1% on the 2003 year-end closing price. Together with the dividend of €1.92 per share paid in June 2004, this resulted in an overall performance of nearly 20%, up from around 15% in the previous year.

We were extremely pleased to be admitted to the MDAX in September 2004. This means that we achieved one of our most important medium-term goals just 18 months after joining the Prime Standard. We are proud to be one of the 100 largest listed companies in Germany. In addition, we offer one of the highest dividend yields on the German trading floor – and one that remains tax-free as well.

In 2005, we are expecting a further increase in revenue to at least €68 million, and currency-adjusted earnings before interest and taxes (EBIT) of over €53 million. We are therefore expecting to be able to pay an attractive dividend again in financial year 2005.

We would like to take this opportunity to thank you for your confidence in our artistry.

Hamburg, April 2005

Claus-Matthias Böge

Claus-Matthias Böge

Report of the Supervisory Board

Dear Shareholders,

the Supervisory Board of Deutsche EuroShop AG discussed the Company's business and strategic development in depth at four regular meetings in the past financial year. Throughout the year, it regularly advised the Executive Board on the management of the Company and supervised its conduct of the business. The Executive Board reported to us regularly, promptly and at length.

Focus of the advisory activities

The main focus of the reporting by the Executive Board on the Company's operating activities, which are continuously monitored as part of risk management, was on the development of our individual shopping center investees. The Executive Board reported to us in detail on the portfolio properties, their sales trends, outstanding accounts, the occupancy rate, construction measures and the liquidity of the investees. The Board also informed us about construction progress, the letting situation and investment cost trends for new development projects.

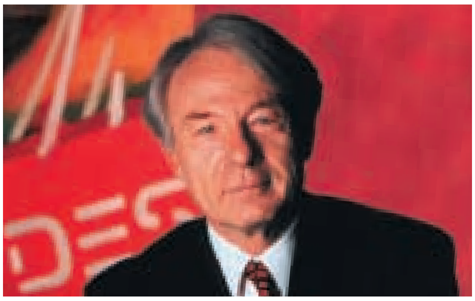
In addition, we were informed by the Executive Board about the Company's liquid assets, price and volume trends for Deutsche EuroShop's shares and investor relations activities.

Transactions that required the consent of the Supervisory Board in accordance with the Articles of Association or in line with the rules of procedure of the Supervisory Board or the Executive Board were discussed and resolved at the Supervisory Board meetings. In addition, urgent decisions were taken following the circulation of the relevant documents. Where decisions had to be taken that could have led to conflicts of interests, the Supervisory Board members affected did not participate in the votes, and abstained from voting in the case of decisions taken following the circulation of documents. Apart from these decisions, all resolutions were adopted unanimously during the period under review.

Meetings and committees

In addition, specific topical issues were discussed at regular meetings between the Executive Board and the Executive Committee of the Supervisory Board.

In our first meeting on **15 April 2004**, we discussed in depth the sale of the Centro Commerciale Friuli in Udine, and the related items and conditions. The conclusion of a preliminary sales contract was approved following the circulation of the relevant documents at the beginning of May.



Manfred Zaß

In addition, we discussed and resolved the proposals to be made to the Annual General Meeting, particularly the intended amendments to the Articles of Association and the proposals for the elections to the Supervisory Board.

In the second meeting on **17 June 2004**, the modifications to and revisions of the rules of procedure of the Supervisory Board and the Executive Board in line with the provisions of the German Corporate Governance Code, proposed by the Executive Board in conjunction with the Executive Committee of the Supervisory Board, were approved.

We were also informed by the Executive Board of the status of the roof renovation measures at Centro Commerciale Friuli, after completion of which the final sales contract was to be concluded.

By way of a letter dated July 12, 2004, the Executive Board presented us with a comprehensive decision document on the acquisition of a 50% interest in City Arkaden Klagenfurt KG, the owner of the City-Arkaden shopping center currently under construction in Klagenfurt. Due to its urgent nature, this decision document was approved following circulation to the Board members.

In the third meeting on **15 September 2004**, the report on the first six months of 2004 was discussed. Detailed information was given on the status of the IFRS conversion work, and on the effects on the Company's net assets and results of operations. In particular, the question of whether the Company should apply the fair value model or the cost model under IAS 40 was discussed at length. After considering the advantages and disadvantages, we decided on the fair value model, even though this could lead to greater earnings volatility in future.

In addition, we examined in detail the draft German legislation designed to implement the European Market Abuse Directive, so as to ensure that the Company's workflows are aligned with the new regulations in good time.

The fourth meeting on **24 November 2004** addressed the report on the first three quarters of 2004 and the planning for financial year 2005.

In the period under review, the Executive Committee met once on 26 March 2004 and the Audit Committee met twice on 12 January 2004 and on 26 March 2004, in addition to the regular Supervisory Board meetings.

Appointments to the Supervisory Board

At the close of the Annual General Meeting on 17 June 2004, Dr. Tessen von Heydebreck resigned from the Supervisory Board. The Supervisory Board wishes to thank Dr. von Heydebreck for his hard work and positive contribution during his two-year membership of the Supervisory Board.

Following DB Real Estate Management GmbH's binding declaration that it was waiving its right to appoint two Supervisory Board members, Thomas Armbrust and Dr. Michael Gellen formally resigned their positions. The Annual General Meeting praised their previous work for Deutsche EuroShop and reelected them – together with Dr. Bernd Thiemann – for a five-year term of office as members of the Supervisory Board.

In the meeting of the Supervisory Board following the Annual General Meeting, Dr. Gellen was reappointed as Deputy Chairman of the Supervisory Board and a member of the Audit Committee, and Mr. Armbrust as a member of the Executive Committee and the Audit Committee.

Audit opinion issued

The Company's bookkeeping system and annual financial statements, the management reports for the Company in accordance with German GAAP, and the consolidated financial statements including the Group management reports in accordance with International Financial Reporting Standards (IFRSs) as at 31 December 2004 were audited by KPMG, Deutsche Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and issued with an **unqualified audit opinion** in each case. Representatives of the auditors attended the meeting of the Supervisory Board convened to discuss the financial statements and the meetings of the Audit Committee and provided explanations. The auditors' reports were provided to the Supervisory Board. The Supervisory Board concurs with the findings of this audit.

Adoption of the annual and consolidated financial statements

The Supervisory Board reviewed and approved the annual financial statements of the Company as at 31 December 2004, the management report and the proposal on the utilisation of the net profit prepared by the Executive Board. The annual financial statements have thus been adopted. In addition, the Supervisory Board reviewed and approved the consolidated financial statements as at 31 December 2004 and the Group management report.

The Supervisory Board wishes to thank the Executive Board and the employees for their hard work and achievements for the Company in financial year 2004.

Hamburg, 14 April 2005

M. Zaß

Manfred Zaß, Chairman

Strategy

We focus on investments in top-quality shopping centers in city centers and established locations that have the potential for stable, lasting value growth and generate substantial distributable free cash flows on an ongoing basis. We have consistently followed this long-term strategy since our IPO in 2001. Our success to date underscores the correctness of this approach.

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 retail properties – specifically shopping centers – in a number of European regions, with the focus on Germany. The desired high return is achieved through index- and turnover-linked commercial rents coupled with a center management strategy that focuses on long-term success – an approach confirmed by our business development to date.

Focus on Germany

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 investments 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

"Opportunity takers"

In line with our "buy & hold" strategy, we consistently rate the quality of our shopping centers higher than the rate of growth of our portfolio. We monitor the market all the time and are able to act as buyers when an opportunity arises. Short decision-making channels and our 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.

"Stability pact" for returns

Capital increase planned

We intend to distribute a total dividend of at least €30 million every year. The consequence: Deutsche EuroShop can only grow organically in small steps. We are therefore aiming for a capital increase in the medium term. Investments in this context must generate a return that is at least on the same level as the existing shopping center portfolio. Thus we want to avoid any dilution of the shares and/or the dividend payment, which would adversely affect our shareholders. Investment funds required before the implementation of the capital increase will be financed through short-term loans.

Decisions based on in-depth analyses

Before we decide to invest in a shopping center, we evaluate a variety of studies on the development and market cycles of the European property markets, as well as specific location analyses. Factors influencing our decisions on whether to buy or sell properties include country- and region-specific aspects and the general tax situation. To ensure the long-term success of an investment, the price discovery process involves not only an assessment of the property's quality but also a calculation of its capitalised earnings value.

Differentiated rental system

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

The concept of shopping as an experience

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. Professional center management is 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 250,000 to 350,000 people who visit our operational shopping centers on average every day are fascinated by the variety of sectors represented, but also by our unusual, unconventional promotions such as "The World of Perfume" or "Space Adventure". These turn shopping centers into marketplaces where something new and spectacular is constantly on offer.

Experienced external partners

The Art of Shopping

Shopping with excellent prospects

City-Point Kassel

The art of getting better: Today, Deutsche EuroShop is one of the 100 largest listed companies in Germany. After a brief period in the SDAX, we have now been admitted to the MDAX. For our shareholders, this step up means an increased profile and additional potential.

Investor Relations

The Shopping Center Share

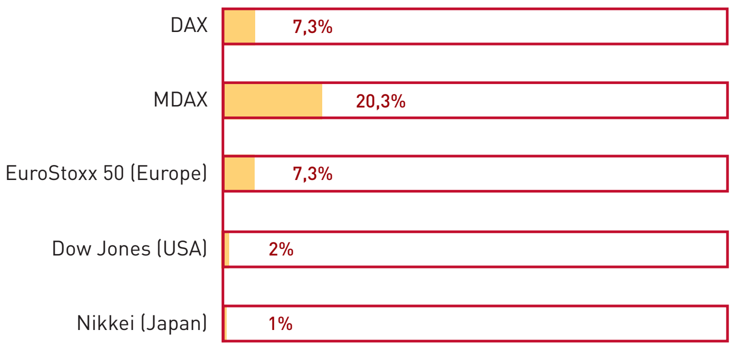
The international financial markets were comparatively stable in 2004. With economic activity still moderate, the oil price rising to record highs and the US dollar weak, the momentum achieved in the previous year eased slightly. Nevertheless, leading European equity indices closed the year on an upward note. Investors continued to favour second-line stocks. This also benefited Deutsche EuroShop's shares, which in September were admitted to the MDAX, Germany's leading mid-cap index.

DAX, MDAX and SDAX "in", TecDAX "out"

Keen interest in second-line stocks

Events on the DAX, Germany's premier equity index, were calmer in 2004 than they had been in previous years (2002: -44%, 2003: +37%). The index rose by 7.3% overall, from 3,965 to 4,256 points, and was thus only slightly down on its 52-week high on the last day of trading. As in 2003, second-line stocks last year met with keen interest on the part of investors: the MDAX index of mid-cap stocks gained 20.3% from its 2003 year-end close and climbed to a new all-time high, surpassing even the previous high reached in March 2000. The SDAX, comprising the top 50 companies below the MDAX, rose even more sharply, adding 21.6% in the course of the year. Only the TecDAX, the benchmark index for technology and growth stocks, recorded a slight fall of 3.8%.

Stock market development in 2004
in%



Deutsche EuroShop shares hit record high

Shortly before the end of the year, our shares exceeded their previous record level reached in 2001. On the penultimate day of trading, Deutsche EuroShop shares were at a new all-time high of €38.88. They had started the year at €33.75 and during the first six months followed a stable upward trajectory, with prices around the €35.00 mark. As happens every year, buying interest increased a few weeks ahead of the Annual General Meeting, causing a sharp rise in the share price to almost €38.00. This interest waned following the dividend payment on 18 June, and in August the share price dropped back to below €33.00. In mid-August 2004, the share price found its floor and subsequently trended up. Our shares ended financial year 2004 at €38.51. Deutsche EuroShop's market capitalisation rose by around €75 million, from €527 million at the end of 2003 to €602 million at the end of 2004.

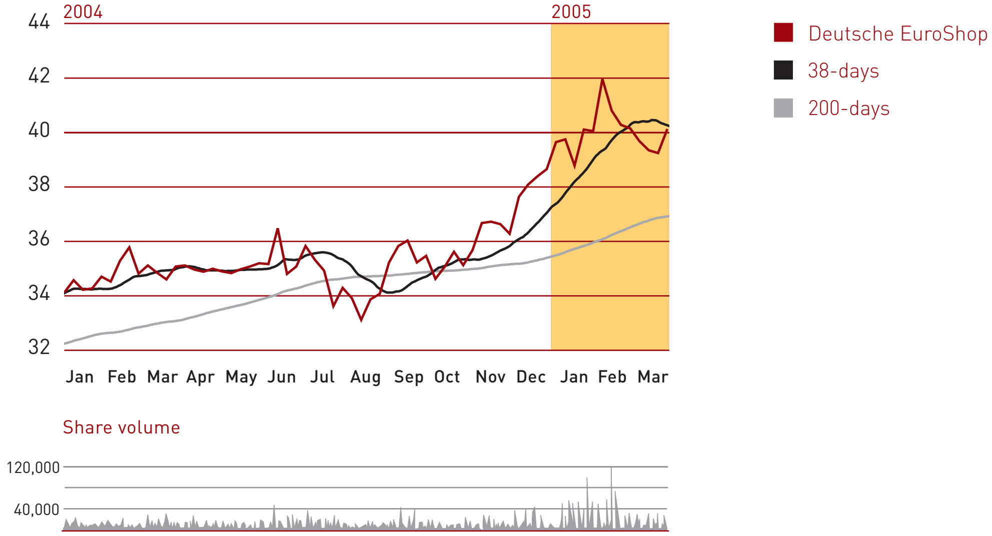
Market capitalisation increased

Performance nearly 20%

Including the dividend of €1.92 per share, the year-on-year performance of Deutsche EuroShop's shares was 19.8%. The share price rose by 14.1%. Deutsche EuroShop's shares therefore slightly underperformed other listed German property companies and their European peer group, but were also less volatile. Shares in open-ended real estate funds, with which we are also competing for investor capital, added an average of 3.3% in 2004 (2003: 3.3%).

Low volatility of Deutsche EuroShop shares

Trend of the share
in €



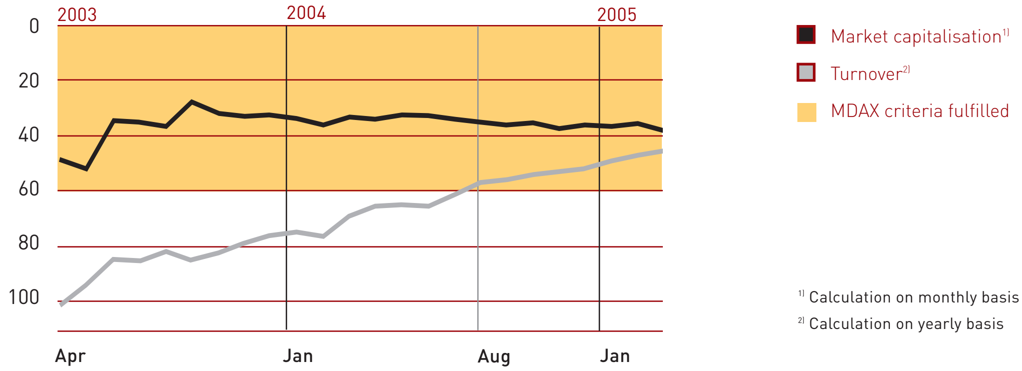
[1] Corio, Eurocommercial Properties, Klepierre, Liberty International and Rodamco Europe

Deutsche EuroShop achieves goal of admission to the MDAX

High trading volume

On 20 September 2004, Deutsche EuroShop's shares joined the MDAX, the German mid-cap index. Deutsche Börse AG's Equity Indices Working Group gave the go-ahead for the switch to the MDAX after our shares fulfilled both criteria (market capitalisation and market turnover) required for admission to the index for the first time in August. This means that we achieved one of our most important medium-term goals just 18 months after joining the Prime Standard. Our average daily trading volume almost tripled, rising from 6,200 shares in the previous year to 18,300 shares in financial year 2004 and thus cementing our place in the MDAX.

MDAX ranking trend
rank



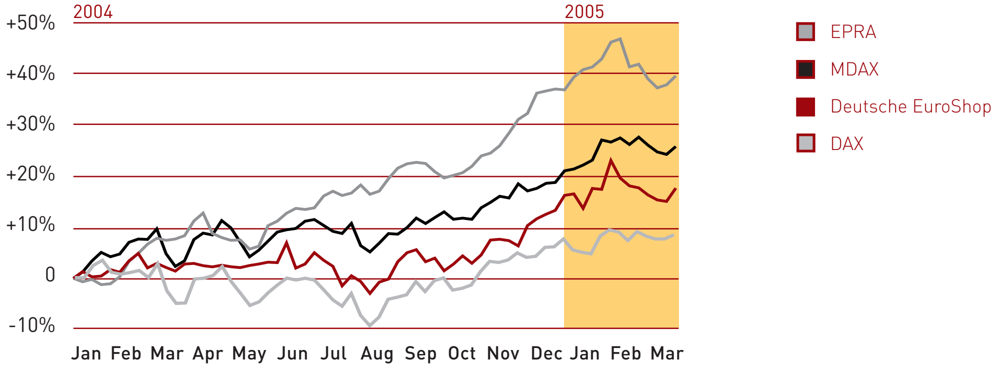
[1] Calculation on monthly basis
[2] Calculation on yearly basis

Admission to other leading indices

Member of the EPRA Index

As expected, our shares were admitted to the EPRA Index (European Public Real Estate Association), a leading global index for property shares, on 1 January 2004. Then in April 2004, they were admitted to the second recognised index for property shares, the GPR 250 (GPR – Global Property Research). We hope that the increased profile that comes with belonging to the various indices will enable us to reach even more investors and convince them of the benefits of our shopping center shares.

Trend of the share
indexed (basis 1 January 2004 = 0)



Intensive Investor Relations activities

In 2004, we continued our IR activities, which aim to attract additional investors for Deutsche EuroShop's shares. We presented our Company to international investors at seven national and international roadshows and four major capital market conferences, where we met with a positive response. We also held numerous one-on-one meetings with investors and analysts. Nine analysts (as at 31 March 2005) at well-known institutions in Germany and other European countries now monitor our shares on a regular basis, opening up new groups of investors as a result of their recommendations. For further information on the individual recommendations, please visit our website at www.deutsche-euroshop.com/research. Other banks are also planning to start research coverage of Deutsche EuroShop.

Strong interest from analysts

Annual General Meeting approves all agenda items

One of the most important IR events each year is the Ordinary General Meeting, which last financial year we convened for 17 June in Frankfurt am Main. The 120 or so shareholders in attendance represented 67.6% of the capital and unambiguously approved all agenda items with over 99.6% of the votes. The main items on the agenda concerned the creation of authorised capital, the relocation of the Company's domicile from Eschborn to Hamburg and the election or re-election of three Supervisory Board members. In this context, DB Real Estate Management GmbH completed the process of hiving off Deutsche EuroShop from the Deutsche Bank Group by foregoing its right, in accordance with the Articles of Association, to appoint two Supervisory Board members.

[1] Bankhaus Lampe, Berenberg Bank, DZ Bank, Haspa, HSBC Trinkaus & Burkhardt, HSH Nordbank, HypoVereinsbank, Independent Research und Kempen & Co.

Awards for IR activities and annual report

In 2004, Deutsche EuroShop received the "Capital Investor Relations Prize" in the SDAX category for its investor relations activities. Each year, the financial magazine Capital awards this well-known prize in recognition of the best communication with the financial markets, judging companies on the criteria timeliness, credibility, quality and corporate governance. We took part in Manager Magazin's "Best Annual Report" ranking for the first time with our 2003 annual report and ranked a respectable fourth in the SDAX category, only just failing to make it into the top three. In the "International ARC Awards – The World's Best Annual Reports" competition, our 2003 annual report received two awards, one in the "Real Estate" category and one in the "Judges' Choice" category.

Online IR content even more informative

Quick overview on the Internet

In June 2004, we re-launched our website with an improved structure and new layout. While the modern design follows the annual and quarterly reports, we have focused the content even more tightly on investor relations and providing information for the capital markets. New features include our online annual report, which enables readers to gain a quick overview of business developments on the Internet – with just a few clicks and without a long search. It was so well received by our online visitors that we will also prepare interactive, online versions of our quarterly reports in future (www.deutsche-euroshop.com/reports). In the IR Benchmark 2004 ranking by NetFederation and Handelsblatt, which focused mainly on content and service, the new website went straight to third place in the MDAX.

Registered shares: service and shareholder relationships

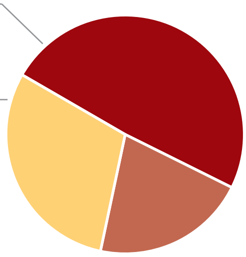
Unlike the more common bearer shares, our registered shares offer us the opportunity to "spoil" our shareholders with extra services. For example, Deutsche EuroShop's shareholders regularly receive all interim and annual reports by post – something that contributes greatly to enhanced shareholder relationships and loyalty. Via our website, shareholders can view and update the addresses stored for them in the share register and add an e-mail address, for example. There are currently around 7,000 shareholders (as at 31 March 2005) on Deutsche EuroShop's register, over 15% more than there were in March 2004.

Changes to the shareholder structure

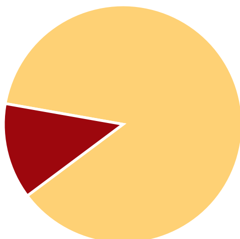
In financial year 2004, the percentage of institutional investors among Deutsche EuroShop's shareholders rose from 19% to 30%. At the same time, foreign interest in Deutsche EuroShop increased considerably: while just 2% of investors were based abroad at the beginning of 2004, the figure had risen to almost 13% in March 2005.

Shareholder structure[1]
in%

	percentages
Retail investors	49%
Institutional investors	30%
Free float	**79%**
Otto family	21%



	percentages
Germany	87%
Abroad	13%



Property Share Initiative arouses considerable interest

On 21 October 2004, around 150 industry experts, investors, analysts and journalists from Germany and abroad met in Frankfurt am Main for the fourth Initiative Immobilien-Aktie (Property Share Initiative) conference. Interest in this initiative, which was co-founded by Deutsche EuroShop, grows from year to year. For the first time, the event was designed as a capital market conference: in addition to Deutsche EuroShop, six other listed German property companies gave presentations, and a number of one-on-one and group meetings with investors and analysts took place during the event. The main subject of the fourth conference was the possible introduction in Germany of REITs (Real Estate Investment Trusts).

[1] (as at 31 March 2005)

REITs – An Overview

The new property shares

The world's first REIT structures were introduced in the USA in the early 1960s. Like the Nasdaq, REITs – a new form of property company – were not a success story from the outset. It took several years for the long inefficient property sector to change radically. Just under 200 REITs with a market capitalisation of over USD 250 billion are now listed on the US stock markets. A further 18 countries, including the Netherlands (1969), Australia (1985), Italy (1994), Japan (2000) and lastly France (2003), have adapted the model successfully. Germany and the UK plan to introduce REITs in the coming year.

Tax transparency and flexibility

REITs are listed property companies that are exempt from corporation and trade tax at corporate level provided that they distribute most of their income to the investors and also fulfil further requirements. Shareholders pay tax on the dividends at their personal tax rate. However, the 'half-income system', whereby only half of the total dividend is subject to tax, does not apply to these shareholders as it does to shareholders in other types of incorporated firm. A mixture of a property fund and a listed property company, REITs therefore offer investors a vehicle tantamount to, but much more flexible than, a tax-transparent direct investment in property.

Market potential

German investors wishing to invest flexibly in property have so far had only two alternatives: open-ended property funds and property shares. Some funds ran into a crisis in 2004 and are having to cope with outflows of funds and a tarnished image. Of the roughly 40 listed property companies in Germany, only three are of international dimensions in terms of size and market turnover. These three companies have a combined market capitalisation of almost €3 billion. This is despite the fact that Germany is the largest property market in Europe. Together, open-ended and closed-end property funds manage around €250 billion – the majority of the real property assets held by institutionals. Initiative Finanzstandort Deutschland (IFD – Finance Initiative Germany) expects the market capitalisation of German REITs (G-REITs) to be almost €130 billion in 2010. This is roughly the current volume of the MDAX (as at mid-March 2005).

Investor Protection Improvement Act in force

The Anlegerschutzverbesserungsgesetz (AnSVG – Investor Protection Improvement Act) has been in force since 30 October 2004. It implements the European Market Abuse Directive into national law and reformulates and tightens the legislation governing insider trading, ad hoc disclosures and directors' dealings. At the same time, a series of new and extensive requirements were put in place, such as the requirement to maintain insider lists. Deutsche EuroShop's actions and communication have always been based on transparency and honesty. We therefore welcome the introduction of this Act and support its further development and implementation.

Fully international in 2005

Foreign investors discover Deutsche EuroShop shares

By preparing our annual financial statements in accordance with IFRSs, we are removing a handicap that, under HGB accounting, previously made it difficult for us to communicate with investors outside Germany. Our results are now internationally comparable and require fewer explanatory notes. Having laid the foundations in this way, our goal this year is to increase awareness abroad of Deutsche EuroShop's positive outlook and potential, but without neglecting our domestic market. Foreign investors are increasingly interested in our shares – not least due to the plans to introduce REITs in Germany. Between November 2004 and March 2005 alone, their share in the Company more than tripled from 4% to almost 13%.

Dividend constantly high

Dividend strategy

The Executive Board and the Supervisory Board will again propose the distribution of a dividend of €1.92 per share for financial year 2004 to the Annual General Meeting, which is to be held in Hamburg on 23 June 2005. With our long-term strategy of a dividend policy based on continuity and a comparatively high yield of around 5% (on the 2004 year-end closing price of €38.51), we hope to cement the confidence of our existing shareholders and attract new shareholders. In future too, we intend to distribute a dividend of at least €1.92 per share.

Tax-free dividend

Requirement fulfilled

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. The dividend payment constitutes untaxable (i.e. tax-free) income for shareholders in accordance with section 20 (1) number 1 sentence 3 of the Einkommensteuergesetz (German Income Tax Act). According to our current planning, we will be able to continue to distribute a tax-free dividend for at least seven more years.

Deutsche EuroShop Shares – Key Figures

WKN / ISIN	748 020 / DE 000 748 020 4
Ticker symbol	DEQ
Share capital in €	20,000,000
Number of shares (no-par value registered shares)	15,625,000
Indices	MDAX, EPRA, GPR 250, EPIX 30
Official market	Prime Standard, Frankfurt Stock Exchange and Xetra
OTC markets	Berlin-Bremen, Dusseldorf, Hamburg, Munich and Stuttgart

	2004	2003	2002	2001
Market capitalisation (basis: year-end closing price) (€m)	602	527	484	477
High (€)	38.88 (29.12.04)	34.70 (18.11.03)	37.15 (28.05.02)	39.50 (12.03.01)
Low (€)	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.) (€)	38.51	33.75	31.00	30.50
Dividend per share (€)	1.92[1]	1.92	1.92	1.92
Dividend yield (31 Dec.) (%)	5.0	5.7	6.2	6.3
Annual performance excl./incl. dividend	14.1%/19.8%	8.9%/15.1%	1.6%/7.9%	-20.6%/ -
Average daily trading volume (shares)	18,349	6,219	1,779	2,756
EPS (€)	1.78[2]	1.22[2]	-0.18[3]	-0.96[3]
CFPS (€)	2.37	0.98	–	–

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

[1] proposed
[2] IFRS accounting
[3] HGB accounting

Would you like further information?
Then visit our website or call us:

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Internet: www.deutsche-euroshop.de/ir

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.

Website redesigned

We re-launched our website in June 2004 with an improved structure and design. The state-of-the-art design continues the line of the Annual Report and quarterly reports. We harmoniously integrated the colour scheme introduced in the 2003 Annual Report to further aid intuitive navigation. The content is presented in optimised format, and the subject matter has also been expanded.

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

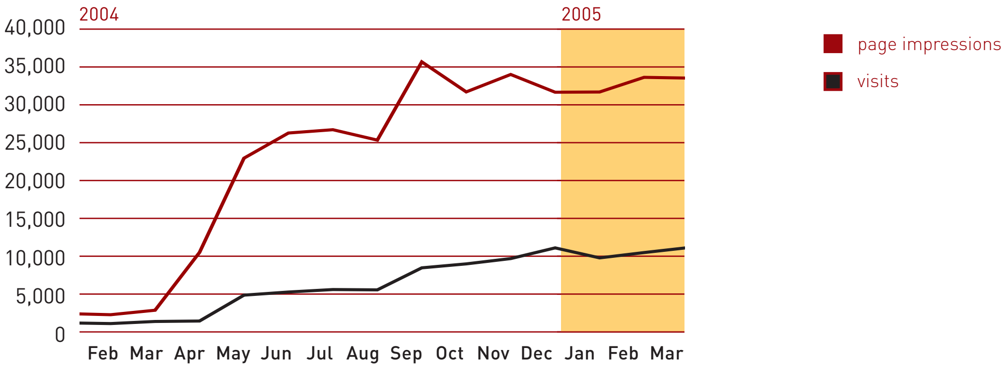


Image advertisements

We continued our image advertisement campaign begun in 2003, with a male model replacing the original female. In the previous year's version, the female figure was looking out of a fitting room; in the new campaign the male figure is sitting in a relaxed pose in front of it, waiting for her whilst thinking about his successful investment in Deutsche EuroShop shares. The aim of the advertisement was to bring across the quality of our properties and the "shopping" experience and to create a positive association with Deutsche EuroShop for the reader. The consistently positive response confirms that our refreshing and up-to-date approach has been well received by the target groups. Since most of the advertisements appeared around the same time as capital market events or editorial contributions about Deutsche EuroShop, or were related to these in terms of content, we were able to achieve high recognition levels as well as generating a positive image and confidence in our offering.

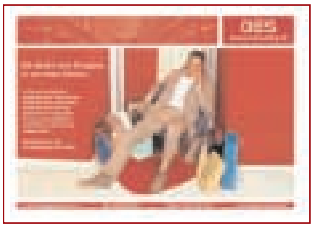


Image advertisement

Events organised to mark shopping center milestones

All shopping center construction projects involve four events that can be used to attract the attention of the public and the media: the ground-breaking ceremony, the laying of the foundation stone, the topping-out ceremony and of course the grand opening. We had a number of opportunities to make our Company and our shopping centers the topic of conversation in 2004. The foundation stone was laid for the Forum Wetzlar on 20 January, and its topping-out ceremony followed on 16 June. The Árkád in Pécs, Hungary was opened on 31 March, while the Phoenix-Center in Hamburg celebrated its topping-out on 3 February and its opening on 29 September – and the ground-breaking ceremony at the City-Arkaden in Klagenfurt took place on 14 September. All events attracted a large number of tenants, media and political representatives as well as local residents and potential investors.

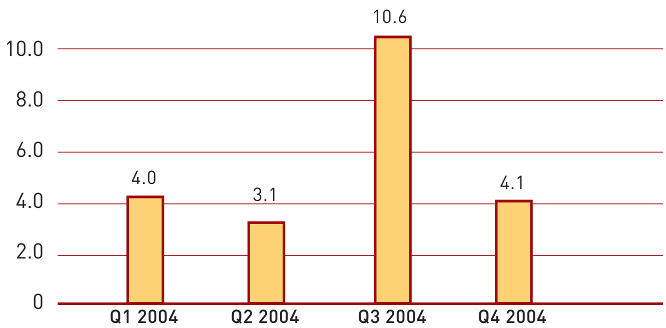
Making shopping centers the topic of conversation

The media tunes in

Deutsche EuroShop is now experiencing steady growth in interest in the Company from business and financial journalists. All major publications reported on our Company in 2004. Our media presence developed encouragingly in terms of both quality and quantity, thanks to a large number of meetings with and presentations to media representatives. Deutsche EuroShop received particularly extensive coverage in connection with its admission to the MDAX in Q3.

Increased media interest

Development of media presence
Circulation of reporting newspapers and magazines in millions



Corporate Governance Report

Good corporate governance makes a significant contribution towards increased transparency and ensures a higher level of confidence in the German capital market. We therefore expressly support the German Corporate Governance Code. At the same time, we would like to note here that the many similar initiatives on an international scale (the European Commission's plan of action, OECD Principles, etc.) leave behind an impression of overregulation. In our opinion, it would be more advisable to trust the self-regulating powers of the capital market.

Compliance with the Code

Deutsche EuroShop complies with the German Corporate Governance Code, which was published in 2002 and extended in May 2003 with only a few exceptions. The declaration of conformity (see page 28) is published on our Web site (www.deutsche-euroshop.com/corpgov) and updated each time a change is made. At the Supervisory Board meeting in June 2004, the rules of procedure of the Executive Board and Supervisory Board were supplemented in particular in line with the recommendations of the Corporate Governance Code.

Management and control structure: the Supervisory Board

In line with German company law, Deutsche EuroShop has a dual management and control structure comprising two executive bodies, the Executive Board and the Supervisory Board. The Supervisory Board consists of six members.

The rules of procedure prescribe the principle of independence for the members of the Supervisory Board. Some members of the Supervisory Board act as decision-makers in other companies, or did so in the past financial year. Deutsche EuroShop maintains normal direct or indirect business relationships with some of these companies. Arm's length conditions regarding the acquisition or sale of investments and the sourcing of services apply in these cases. In the case of transactions requiring approval involving companies for which members of the Supervisory Board work, the members concerned do not participate in the relevant votes. In our opinion, this policy ensures the independence of the Supervisory Board's decisions.

Supervisory Board members are elected for a term of office lasting five years. Four meetings are scheduled per year, and additional meetings are held as required. Rules of procedure govern the duties and working of the Supervisory Board and its committees – among other things, these cover independence, sufficient experience and expertise and the avoidance of conflicts of interest.

Additional meetings held as required

The Supervisory Board supervises and advises the Executive Board on its management of the Company's business activities. The Supervisory Board regularly discusses business developments and planning, as well as business strategy and its implementation. It monitors and reviews the quarterly reports and approves the annual and consolidated financial statements of Deutsche EuroShop AG after consideration of the auditors' reports and the results of the review by the Audit Committee. The Supervisory Board's duties also include the appointment and the remuneration of the members of the Executive Board and the definition of their responsibilities. Significant decisions by the Executive Board – e.g. acquisitions, divestitures and financing – require the approval of the Supervisory Board.

Supervisory Board Committees

The Supervisory Board has established two committees. Their tasks and responsibilities are set out in the rules of procedure for the Supervisory Board.

The **Executive Committee**, to which the Chairman of the Supervisory Board, his deputy and another Supervisory Board member belong, has the task of discussing and, where appropriate, passing resolutions on urgent business matters. It is also responsible for concluding, amending and revoking the contracts of employment and pension agreements of the Executive Board. The Executive Committee reviews the Company's corporate governance principles and ensures their further development.

The **Audit Committee** comprises three Supervisory Board members. This Committee is responsible for issues relating to accounting, auditing and the preparation of the annual and consolidated financial statements of Deutsche EuroShop. Former members of the Company's Executive Board and the Chairman of the Supervisory Board may not chair the Audit Committee, to avoid personal conflicts. The Audit Committee submits proposals on the adoption of the annual financial statements by the Supervisory Board based on the auditors' report. It addresses the Company's internal control system and risk management, as well as being responsible for the Company's business relations with the auditors. It issues the audit engagement to the auditors selected by the Annual General Meeting and decides on the focus of the audit and the remuneration of the auditors. This committee also monitors the independence, qualifications and efficiency of the auditors.

Proposals by Audit Committee

The Executive Board

The Executive Board of Deutsche EuroShop AG comprises two members. As the Group's management body, the Executive Board is bound to observe the interests of the Company and aims to increase its enterprise value in the long term. The responsibilities of the Executive Board include the definition of the Company's strategy, the planning and adoption of the budget for the Company and the management of its investment portfolio. The Executive Board is responsible for the preparation of the quarterly, annual and consolidated financial statements, as well as for all human resources issues within the Company. It works together closely with the Supervisory Board, and provides the latter with regular, timely and comprehensive information on all questions relevant to the Company as a whole.

Relationships to shareholders

Interim reporting

Deutsche EuroShop reports to its shareholders on the Company's business development, financial position and results of operations four times a year in line with a set financial calendar. The Executive Board regularly informs investors, analysts and media representatives of the quarterly and annual results. Information that may materially influence the Company's share price is published in the form of ad hoc disclosures.

The annual Ordinary General Meeting generally takes place within the first six months following the end of the financial year. Each share has one vote in line with the principle of "one share, one vote". Shareholders whose names are entered in the share register and who have registered in due time are entitled to attend the Annual General Meeting. Shareholders are entitled to exercise their voting rights through proxies, who are bound to follow the shareholders' instructions. The Annual General Meeting is chaired by the Chairman of the Supervisory Board.

The Annual General Meeting resolves on all matters assigned to it by law. These include in particular the appropriation of the net profit, the formal approval of the actions of the Executive Board and the Supervisory Board and the appointment of the auditor. The resolutions are binding for all shareholders and the Company. Shareholders are entitled to submit countermotions to resolutions proposed by the Executive Board and Supervisory Board. Amendments to the Articles of Association and capital changes are resolved exclusively by the Annual General Meeting and implemented by the Executive Board with the consent of the Supervisory Board.

The Executive Board gives regular presentations to analysts and institutional investors as part of our investor relations activities. In addition to an annual analyst conference, we organise a conference call for analysts on the publication of each set of quarterly results; this is broadcast on the Internet, where it is available to everyone interested in the Company. We also provide financial and other information about the Deutsche EuroShop Group on our web site.

Risk management

Deutsche EuroShop's system for recording and controlling business and financial risks is explained on page 66 et seqq. of this Annual Report. The risk management system is designed to recognise and manage business risks at an early stage and to ensure that the Company's business goals can be met. However, a risk management system cannot avoid all risks and therefore does not offer absolute protection against losses or fraudulent activities.

Early warning system

Accounting

The Deutsche EuroShop Group have been prepared in accordance with the International Accounting Standards (IASs) for the first time for financial year 2004. This exempts the Company from the requirement to prepare HGB financial statements in accordance with section 292a HGB (Handelsgesetzbuch – German Commercial Code). The 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.

First-time adoption of IASs

Declaration of Conformity with the German Corporate Governance Code

The Executive Board and the Supervisory Board resolved the following declaration of conformity on 30 November 2004 in accordance with section 161 of the Aktiengesetz.

Deutsche EuroShop's departures from the stipulations of the German Corporate Governance Code in financial year 2004 are listed below, along with the relevant section of the Code.

- No D&O insurance has been taken out for the members of the Executive Board and the Supervisory Board (section 3.8).

  Because the Company has not taken out D&O insurance for the Executive Board or the Supervisory Board, the demand for a suitable deductible in the case of such a policy being concluded does not apply.

- The variable portion of the remuneration of the Executive Board does not include stock options (section 4.2.3).

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

  Share price performance is also dependent on exogenous factors, which cannot be influenced by Deutsche EuroShop. This could counteract the long-term incentive effect of stock option programmes. For this reason, Deutsche EuroShop has not launched any stock option programmes to date.

- The Supervisory Board receives remuneration that is determined by the Annual General Meeting. To date, no performance-based components have been granted (section 5.4.5 (2)).

- Membership of committees is not taken into account when determining the remuneration of the Supervisory Board (section 5.4.5 (1)).

An additional performance-based remuneration of the Supervisory Board means that it is not possible, in our opinion, to ensure that control activities and committee work are independent of financial incentives.

- The consolidated and interim financial statements are currently prepared in accordance with the German Commercial Code (HGB); the IASs are being applied for the first time for financial year 2004 (section 7.1.1).

The IASs have been used for the first time in this Annual Report. Deutsche EuroShop will also comply with the Code in this respect in the future.

- The consolidated financial statements are published within 120 days after the end of the financial year, while the interim financial statements are published within 60 days after the end of the reporting period (section 7.1.2).

The conversion of the Company's accounting standards from HGB to IASs in financial year 2004 caused an increase in the amount of time and effort required for Group and investees' accounting. Following further optimisation of our internal accounting procedures, we expect to be able to publish our interim reports within the periods laid down by the Code from financial year 2005 onwards.

The Art of Shopping

Shopping on a sound basis

City-Galerie Wolfsburg

The art of establishing oneself: The respected economics institutes Feri and Gfk Prisma have awarded the properties of Deutsche EuroShop an “A” rating (very good). With good reason: 14 first-class shopping centers with a diversified range of tenants form a sound basis for our investment. However, our shareholders profit from more than the stable value growth of our properties and the high occupancy rate of around 99%: our center management is of the same high professionalism and quality. Our partner ECE is not the undisputed market leader in this field for nothing – a further guarantee of our long-term success.

Feature:

Professionally planned – professionally managed

Deutsche EuroShop currently manages a portfolio of 14 shopping center investments. Management of operational centers is completely outsourced to partners with decades of specialised experience in this business. They guarantee the long-term success of the shopping centers. Which phases does a shopping center pass through before its grand opening? What does a center manager do all day? In this feature you can read about the variety of tasks involved in creating a new shopping center and the broad range of duties performed by center managers.

Shopping center expertise – from planning through to management

Managing one of our centers means much more than just administering a property. Modern center management for buildings with an area of 30,000 m^2 and more requires retail expertise, real estate experience and marketing skills.

40 years of "shopping as an experience"

We believe that ECE Projektmanagement, Hamburg, which manages 12 of our 14 shopping centers, offers the most comprehensive expertise in this area. The company currently manages 80 centers (with 13 others in the planning or construction phases) in Germany, Austria, Poland, the Czech Republic, Hungary, Turkey and most recently also in Qatar. Over the last 40 years it has successfully put the concept of "shopping as an experience" into practice. As an investor in its own right in a large number of properties, the ECE Group manages projects in its portfolio for decades. Unlike many developers, the company is therefore an investor and partner that remains loyal to its locations. As a full-service provider, it is able to implement shopping centers from the initial idea through to the handing over of the keys to the finished property, as well as providing long-term support as a center manager. As the lead planner and project manager, it offers one-stop shopping, and also acts as the construction manager, thus providing genuine project responsibility.

How a shopping center comes into being

A shopping center is not simply born overnight. New centers are created in four project phases – from planning through to operation:

Phase 1	Phase 2	Phase 3	Phase 4
Project development	Financing	Planning and construction	Operation

The **project development phase** begins with research such as site identification and analysis, followed by: schedule planning, developing a utilisation programme and functional planning (entrances, escalators, etc.), the conceptual design of the property, economic feasibility studies, establishing the legal basis for planning permission (property developers and legal experts ensure compliance with all building regulations, so that planning permission can be obtained on time), and contract management.

Long "to-do" lists

The **financing phase** involves calculating investment requirements, preparing financing models and looking for investors. At this stage in the process, initial contact with Deutsche EuroShop may be made. We then review the basic conditions, including investment volume, the size of investment offered and the forecast return. In addition, the functionality of the building's floor plan, the microlocation, the transport network, the planning situation, information on the occupancy rate, as well as the terms and basic conditions of the rental contracts concluded are also reviewed.

Review of basic conditions

Parallel to this, the interior and exterior architecture is planned as part of the **planning and construction phase**. While the exterior architecture is concerned with sensitive urban integration, the interior must above all meet the needs of tenants and visitors. This is reflected in the use of high-quality materials as well as the employment of highly specialised lighting planners. In addition, alternative solutions are developed (costs, deadlines, quality), the expected operating costs analysed, external appraisers and specialists consulted, service contracts concluded and the entire project uniformly planned and monitored. At the same time, the leasing department searches for suitable tenants in line with a preplanned detailed mix of sectors and tenants. These tenants mostly contractually secure shop space for themselves at an early stage – based only on the floor plan.

Search for optimal sector and tenant mix

Smooth operations

The process concludes with the **operating phase**, which follows the market launch and is concerned with planning ongoing operating and maintenance costs, concluding service contracts, accounting and financial control, and ongoing marketing and PR activities. From this point on, a team of professionals comprising center managers, leasing specialists, secretarial staff, building inspectors, technicians, car park attendants and security guards guarantees smooth operations in our centers.

What does a center manager actually do?

Let us enter the world of a shopping center: bright and friendly, with granite flooring in the brightly lit passages, with gleaming chrome escalators and elaborate fountains. The entire retail space generally covers between 20,000 and 30,000 m^2, with one or two anchor tenants, fashion boutiques, successful national and international retail concepts, cafes and restaurants, long-established regional sellers, perhaps a hair salon or a travel agency as well. This is the ultimate "shopping as an experience", where shopping becomes a leisure activity. A second glance reveals that this shopping center, where over 1,000 people are employed daily, is a small town in itself, a city within a city, that is visited by up to 50,000 people between 9.00 a.m. and 8.00 p.m.

Center manager - a highly responsible job

The center manager is the mayor of this small city: he is responsible for ensuring everything runs smoothly. In reality, this means: the optimisation of the sales mix and sector structure, the implementation of marketing measures, management of the car park, heading up the advertising association, maintaining contacts with the state, city, associations and societies, and the media. An entrepreneurial approach, creativity and dedication are demanded daily in this multifaceted career. The ideal candidates for this job are experienced retail managers, such as managing directors of department stores.

The center manager is on the job as long as the shops are open – weekdays, Saturdays, sometimes Sundays as well. After the shops close, he develops ideas for center promotions or marketing, such as unusual displays of goods or special promotions. The events calendar of a shopping center is full to bursting every year. The offering covers everything from spectacular Easter and Christmas decorations, fashion shows, picture and art exhibitions, to kite shows, week-long country shows or informational presentations. The goal is to give the customer the message that: there is always something to see and to discover here, and a new reason to visit every day.

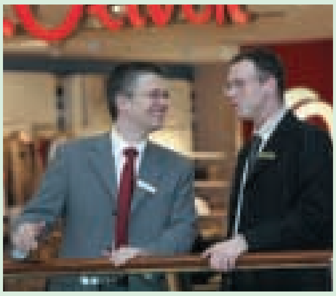
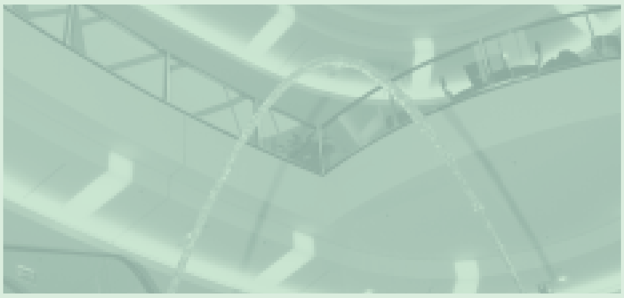
Personal details: Dirk Otto, an economics graduate, born 1966. Before joining ECE in 1997, he was employed in various functions in the retail clothing trade.

Interview with Dirk Otto,

center manager of the Phoenix-Center in Hamburg

Mr. Otto, which characteristics are necessary for a center manager?
A center manager has to be consistent and be able to react flexibly to widely varying situations and discussion partners – as well as in-house employees, these include the center tenants and also representatives of associates, societies and public authorities. Organisational talent and a level head, even in hectic moments, are also important, but above all team orientation: the center manager has to set an example for his co-workers, and so must be able to pitch in himself. As a doer and a strategist, he has to manoeuvre his center into a leading market position and ensure that it stays there. This cannot be achieved without a vision.

What do you like most about a shopping center?
Having all the shops under one roof. Being able to stroll, whatever the weather, in a bright, safe and clean environment with a friendly service team. A fantastic feel-good atmosphere with fountains, greenery, benches and cafes. Shopping as an experience thanks to an attractive, constantly changing programme of promotions. Visitors can also enjoy uniform opening times for all shops from Monday to Saturday, and cheap parking right in or next to the shopping center.

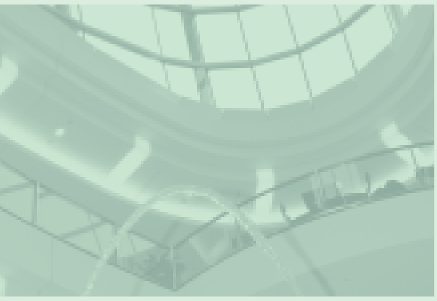



What is a typical day in the life of a center manager?
There is no such thing as a typical daily routine, but there are a few things that are repeated almost daily. On the right is an example from my schedule:

"Your" Phoenix-Center opened at the end of September 2004. What does it offer to visitors?
Everything that I have just mentioned. In addition, we have an optimum sector mix with 110 shops. Our anchor tenants, Sinn Leffers, C&A, H&M, Karstadt Sport, the Minimal supermarket chain and Media Markt, attract a lot of visitors from the surrounding region. In the fashion area we have "hot" retailers such as Esprit, S. Oliver, Tom Tailor, EDC, Cecil, Street one, New Yorker and many more. Our visitors are served by 1,600 parking spaces – these are even free for the first opening hour and every Saturday from 4.00 to 8.00 p.m. The center enjoys excellent connections to motorways and national roads, and is located directly next to the central bus station and the Harburg suburban and inter-city railway stations. It couldn't be better.

How does it go down with the visitors?
We count 25,000 to 30,000 visitors every day. Over the Christmas period it was over 46,000. We have exceeded our forecast catchment area of 562,000. In fact, we reach more than 618,000

Time	Activities
8.30 a.m.	Office: overview of schedule of the day, phone calls, e-mails
9.20–10.00 a.m.	1st rounds of the center with the building inspector: checking cleanliness, security, lift and escalator operation as well as the technical centers. Are all tenants open? How effective are tenants' presentation of their goods?
10.00–12.00 a.m.	Meeting with tenants (retail clothing stores; concerning promotions for autumn fashion show)
12.00–1.00 p.m.	Deal with post
1.00–1.30 p.m.	2nd rounds of the center
1.30–3.00 p.m.	Lunch and Preparation for in-house conference presentation



Time	Activities
3.00–6.00 p.m.	Meeting with the decoration agency: concept for the next promotions
6.00–7.30 p.m.	Meeting with leasing colleagues: sector mix, concepts proposed by new potential tenants, optimisation strategys for tenant mix, analysis of tenant sales situation
7.30–8.15 p.m.	3rd rounds of the center: checking opening times and short meeting on the overnight set-up of the next promotion with the decoration team on site.
8.15–?	Media planning, analysis of customer surveys

people, not counting the Hamburg area north of the Elbe. Business was excellent at Christmas and Easter, and our tenants are extremely satisfied.

What can we expect from the Phoenix-Center in 2005?
In May, the center will be transformed into a huge experimental laboratory. Under the motto "Take a look", all our visitors and entire school classes can conduct and experience 40 different optical experiments for themselves. Following the huge success of our live fashion shows in spring, we will present the latest fashion trends in autumn on a three-level fashion tower in the mall. We will celebrate our first birthday on 29 September together with our visitors, with numerous competitions and a great birthday programme. It's going to be spooky in late autumn with our Halloween promotion. We will end the year with our center decorated for Christmas, a Christmas market and a giant advent calendar. Not to mention many other smaller activities in between, such as car exhibitions, presentations of merchandise, presentations by local societies and groups – we have something happening every day.

Many thanks for the conversation and all the best for the future!

The Centers

In financial year 2004, two of our new construction projects celebrated their debut: the Árkád Pécs and the Phoenix-Center Hamburg shopping centers were opened. On the investment side, we acquired an investment in Austria, following the sale of a property in Italy. In total, we own investments in 14 shopping centers in what is now a total of six European countries with leasable space of over 526,000 m² and around 1,290 shop units.

Focus on Germany

Rental rate over 99%

Our investment strategy continues to focus clearly on Germany. 77% of our equity is invested here. Our biggest investment property is the Rhein-Neckar-Zentrum in Viernheim. The retail areas of Deutsche EuroShop's 14 shopping centers are 100% leased, while the overall figure – including the office space in the individual shopping centers – is over 99%. The centers are located in catchment areas with a population of almost 12 million people. In Germany, our shopping centers reach over one tenth of the population.

	In Germany	Abroad	Total
Leasable space in m²	405,400	120,600	526,000
Parking spaces	15,260	4,720	19,980
No. of shops	around 850	around 440	around 1,290
Occupancy rate*	99%	100%	99%
Catchment area	8,8 million people	3,0 million people	11,8 million people

* excluding Klagenfurt

Center debuts

On 31 March 2004, Árkád Pécs, Hungary, in which we have a 50% interest, was opened on schedule and with 130 shops fully leased. The shopping center was well-received by the public and is developing into a new shopping focus for southwest Hungary as planned.

On 29 September 2004, Hamburg-Harburg's new shopping attraction celebrated its debut: the Phoenix-Center with around 110 specialist shops, cafes and restaurants on three light-filled levels, and with a total retail space of around 26,500 m², offers an inspiring new shopping experience. All shop space is leased for the long term.

In the current financial year 2005, there was another premiere with the grand opening of the Forum Wetzlar – one of the biggest city-center shopping centers in Hessen. All of the 110 specialist shops, cafes and restaurants in the state-of-the-art center, which offers a new shopping experience on a retail space of around 23,500 m², are leased for the long term. The anchor tenants include a specialist consumer electronics retailer (Media Markt) and a self-service department store (Kaufland), among others.

Forum Wetzlar successfully launched

Portfolio changes abroad

In mid-July 2004, we sold the Centro Commerciale Friuli shopping center in Udine, Italy for €62 million to SEB Immobilien-Investment GmbH as part of our portfolio optimisation activities.

We were able to reinvest around one half of the sale proceeds at the beginning of August 2004: Deutsche EuroShop entered the Austrian market for the first time, acquiring a 50% interest in the City-Arkaden in Klagenfurt, which is scheduled to open in spring 2006. Our share of the investment volume amounts to almost €75 million.

DES now also in Austria

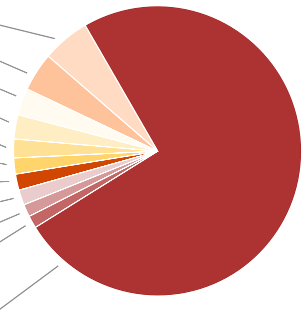
The shopping center offers 120 specialist shops on three levels with a total retail space of around 27,000 m². A further 3,000 m² will be available for restaurants and catering and ancillary retail services. Construction was begun in mid-September 2004. Over 65% of the shop space (as at March 2005) has already been leased long-term to well-known retail companies.

Low dependence on the top 10 tenants

Thanks to our diversification, our dependence on individual tenants remains low, as can be seen from the following chart.

Tenant mix by share of rental income
in %

Metro group	5.3%
Douglas group	4.3%
Karstadt group	3.0%
H&M	2.7%
Peek & Cloppenburg	2.1%
Engelhorn & Sturm	1.8%
Zara	1.8%
New Yorker	1.7%
Esprit	1.4%
Palastbetriebe	1.4%
Total top 10 tenants	**25.6%**
Other tenants	74.4%



External center management

Active, reliable center management is particularly important for our constantly growing portfolio (more details on this topic are contained in the "Feature" on page 32). ECE Projektmangement is responsible for twelve of our centers; the other two centers are managed by Espansione Commerciale and Unibail.

ECE Projektmanagement

ECE Projektmanagement G.m.b.H. & Co. KG has implemented, leased and managed shopping centers since 1965. With 80 city-center shopping centers and district centers under management, the company is the market leader in Europe.

www.ece.de

Espansione Commerciale

Espansione Commerciale S.r.l. is responsible for the management of the Centro Commerciale Tuscia in Viterbo, Italy. Founded almost 20 years ago, the company currently manages 34 shopping centers in Italy and Eastern Europe.

www.espansione.com

Unibail – Espace Expansion

Shopping Etrembières in Annemasse, France is managed by Espace Expansion. Unibail is one of the leading management companies in France in this area: it has been successfully managing shopping centers for 30 years, and currently looks after 26.

www.unibail.fr

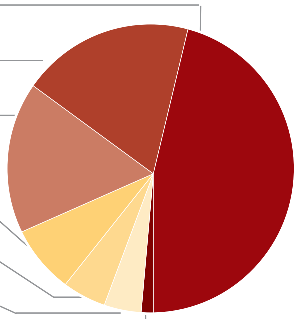
It's all in the mix

The right mixture of shops is a decisive factor for the success of a shopping center. Leasing experts draw up an individual sector mix for each center that is tailored to the respective location. Our shopping centers offer the entire range of specialist retailers, with the area of fashion being a key focus. The offering covers clothing chains, specialist shops for jeans and leisurewear, menswear, numerous fashion boutiques, as well as a broad range of specialist shops for shoes, leather goods and accessories. Well-known brand manufacturers are to be found in close proximity. These include Esprit, S.Oliver, Zara and also clothing chain stores such as P&C, C&A, H&M or Breuninger, to name but a few.

Focus on fashion

Sector mix
in% of space

Clothing	46.3%
Hardware/electronics	18.7%
Department stores	16.7%
Groceries	7.7%
Health and beauty	5.0%
Catering	4.3%
Services	1.4%



Promotions attract visitors

50,000 visitors a day

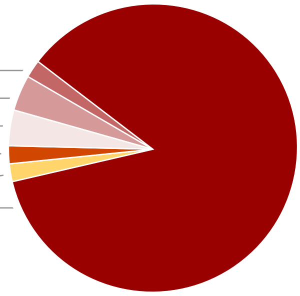
The tenants' advertising associations in the individual centers provide a constant stream of attractive promotions such as exhibitions, fashion shows and presentations by regional associations. There is no limit to the range of topics: whatever interests people should be covered in our centers. On peak days, individual centers attract up to 50,000 visitors.

Long-term agreements guarantee rental income

Rental agreements are generally of a long-term nature. 86% of rental income is contractually guaranteed until at least 2010, as can be seen in the following table:

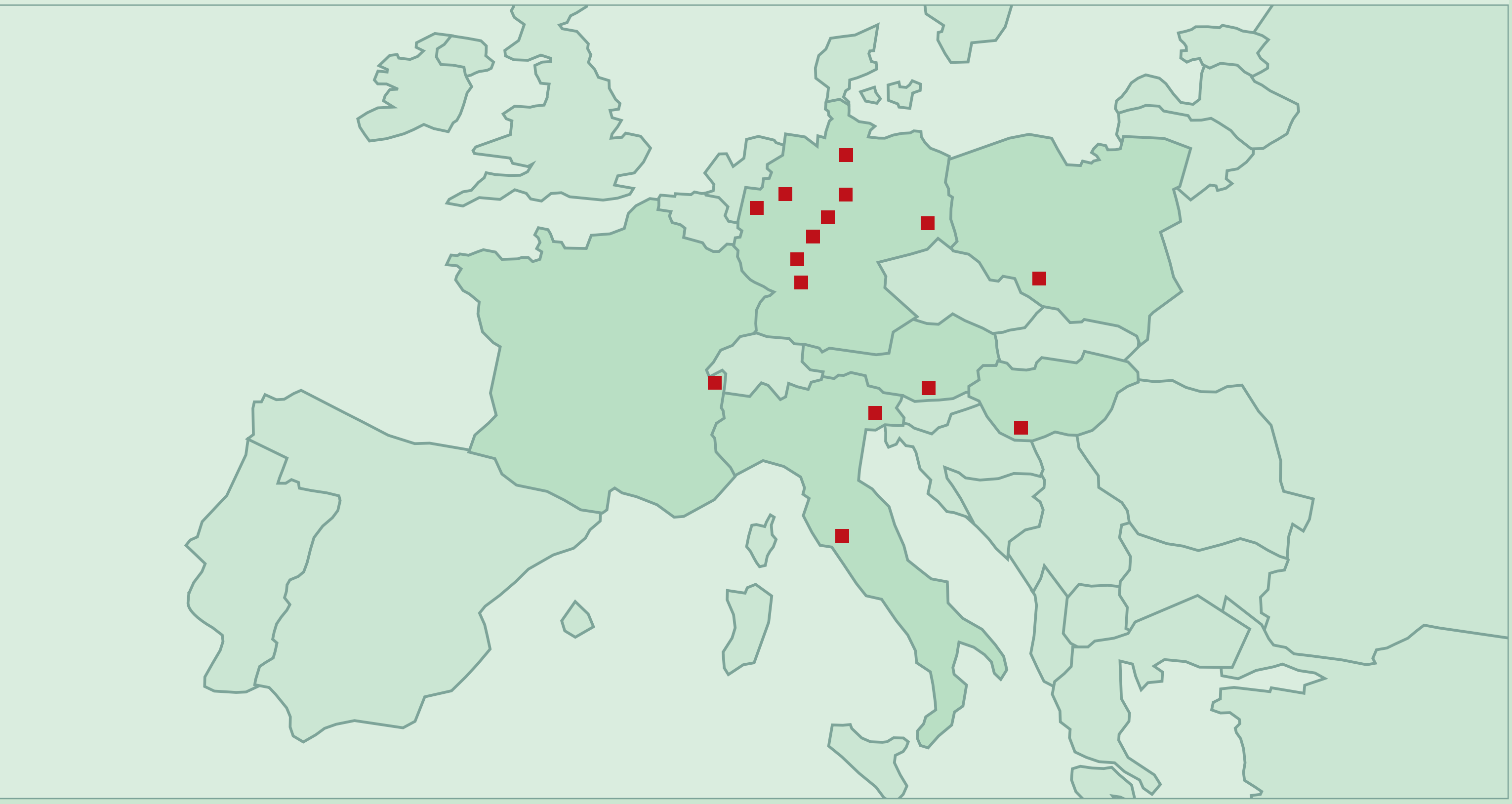
Term of contracts*
in%

2005	2%
2006	4%
2007	4%
2008	2%
2009	2%
2010 ff	86%



*as at 31 Dec. 2004
Share of rental income in%, excluding Klagenfurt

The Centers at a Glance



Germany

Rhein-Neckar-Zentrum,
Viernheim

Main-Taunus-Zentrum,
Sulzbach

City-Galerie,
Wolfsburg

Altmarkt-Galerie,
Dresden

City-Arkaden,
Wuppertal

Allee-Center,
Hamm

Phoenix-Center,
Hamburg

Forum,
Wetzlar

City-Point,
Kassel

Abroad

Centro Commerciale Tuscia,
Viterbo, Italy

Shopping Etrembières,
Annemasse, France

Árkád,
Pécs, Hungary

Galeria Dominikanska,
Breslau, Poland

City-Arkaden,
Klagenfurt, Austria

The Centers at a Glance

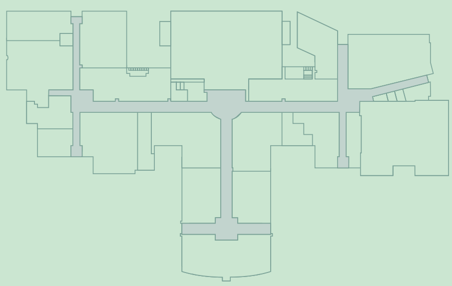
Germany

March 2005

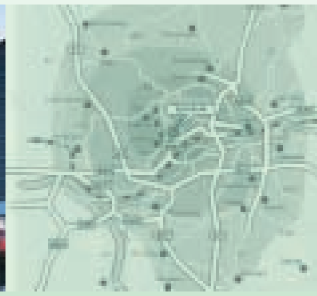
Rhein-Neckar-Zentrum

Viernheim

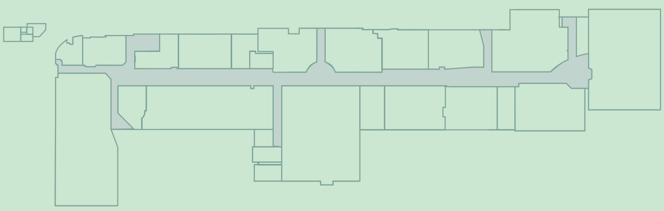

Investment:	92.8%
Proportion of funds invested:	22%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 64,000 m²
of which retail space:	around 60,000 m²
No. of shopping levels:	1
No. of shops:	around 100
Occupancy rate:	100%
Catchment area:	around 1.4 million inhabitants
Grand opening:	1972, renovation/ expansion 2000–2003
FERI rating:	A (very good)



Main-Taunus-Zentrum
Sulzbach

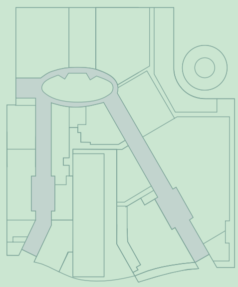



Investment:	37.4%
Proportion of funds invested:	11%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	rd. 102,000 m²
of which retail space:	rd. 79,000 m²
No. of shopping levels:	1
No. of shops:	rd. 100
Occupancy rate:	100%
Catchment area:	rd. 2.2 million inhabitants
Grand opening:	1964, renovation/modernisation 2001, 2003/2004
FERI rating:	A (very good)



City-Galerie
Wolfsburg

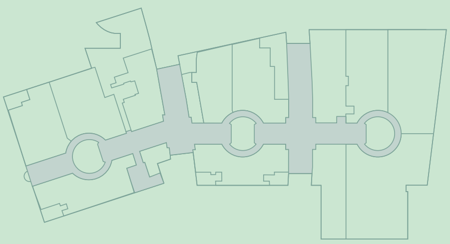

Investment:	89.0%
Proportion of funds invested:	9%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 30,000 m²
of which retail space:	around 20,000 m²
No. of shopping levels:	3
No. of shops:	around 90
Occupancy rate:	100%
Catchment area:	around 0.6 million inhabitants
Grand opening:	2001
FERI rating:	A (very good)



Altmarkt-Galerie

Dresden

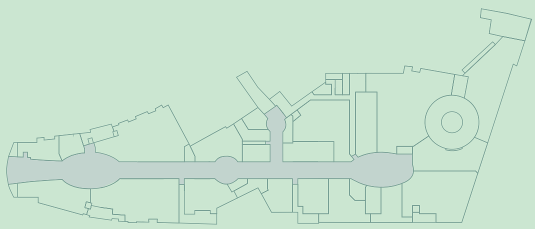
Investment:	50.0%
Proportion of funds invested:	8%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 43,800 m²
of which retail space:	around 26,000 m²
No. of shopping levels:	3
No. of shops:	around 100
Occupancy rate:	100% of retail space 96% of office space 99% in total
Catchment area:	around 1.0 million inhabitants
Grand opening:	2002
FERI rating:	A (very good)



City-Arkaden

Wuppertal

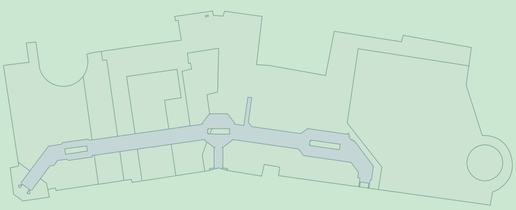
Investment:	72.0%
Proportion of funds invested:	8%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 28,100 m²
of which retail space:	around 20,000 m²
No. of shopping levels:	3
No. of shops:	around 90
Occupancy rate:	100%
Catchment area:	around 0.7 million inhabitants
Grand opening:	2001, renovation 2004
FERI rating:	B+ (well above average)



Allee-Center

Hamm

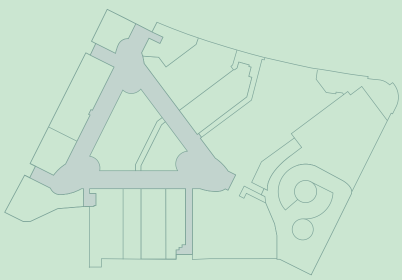
Investment:	87.7%
Proportion of funds invested:	8%
Purchased by Deutsche Euroshop:	April 2002
Leasable space:	around 34,800 m^2
of which retail space:	around 21,000 m^2
No. of shopping levels:	2
No. of shops:	around 80
Occupancy rate:	100%
Catchment area:	around 1.0 million inhabitants
Grand opening:	1992, renovation/restructuring 2002–2003
FERI rating:	A (very good)



Phoenix-Center

Hamburg

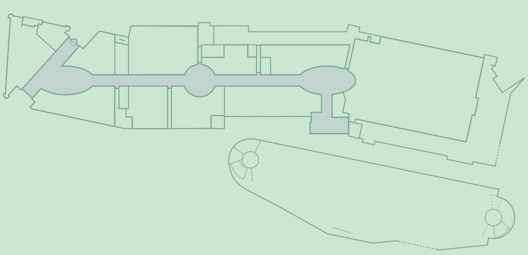
Investment:	50.0%
Proportion of funds invested:	6%
Purchased by Deutsche Euroshop:	August 2003
Leasable space:	around 39,000 m^2
of which retail space:	around 26,500 m^2
No. of shopping levels:	3
No. of shops:	around 110
Occupancy rate:	100% of retail space 17% of office space 96% in total
Catchment area:	around 0.6 million inhabitants
Grand opening:	2004
FERI rating:	to be performed for the first time in 2005



Forum

Wetzlar

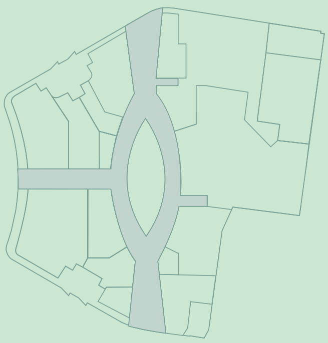
Investment:	65.0%
Proportion of funds invested:	6%
Purchased by Deutsche Euroshop:	October 2003
Leasable space:	around 34,300 m^2
of which retail space:	around 23,500 m^2
No. of shopping levels:	2
No. of shops:	around 110
Occupancy rate:	100%
Catchment area:	around 0.5 million inhabitants
Grand opening:	2005
FERI rating:	to be performed for the first time in 2005



City-Point,

Kassel

Investment:	40.0%
Proportion of funds invested:	4%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 29,400 m^2
of which retail space:	around 20,000 m^2
No. of shopping levels:	5
No. of shops:	around 60
Occupancy rate:	100%
Catchment area:	around 0.8 million inhabitants
Grand opening:	2002
FERI rating:	A (very good)



The Centers at a Glance

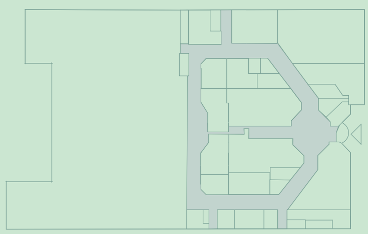
Abroad

March 2005

Centro Commerciale Tuscia,

Viterbo, Italy

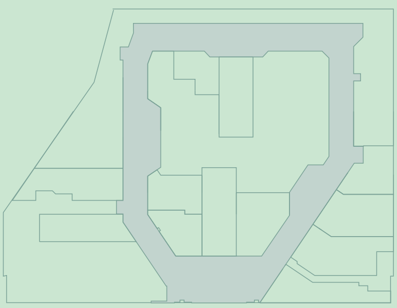
Investment:	100%
Proportion of funds invested:	2%
Purchased by Deutsche Euroshop:	März 2001
Leasable space:	around 15,200 m²
No. of shopping levels:	1
No. of shops:	around 40
Occupancy rate:	100%
Catchment area:	around 0.3 million inhabitants
Grand opening:	1998
FERI rating:	A (very good)



Shopping Etrembières,

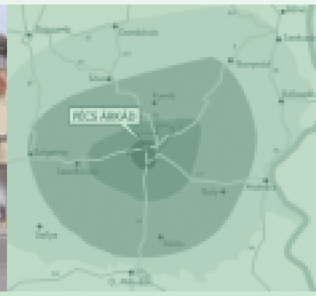
Annemasse, France

Investment:	92.8%
Proportion of funds invested:	3%
Purchased by Deutsche Euroshop:	September 2000
Leasable space:	around 8,600 m² plus around 8,000 m² of the Migros self-service department store
No. of shopping levels:	2
No. of shops:	around 50
Occupancy rate:	100%
Catchment area:	around 0.8 million inhabitants
Grand opening:	1994
FERI rating:	A (very good)

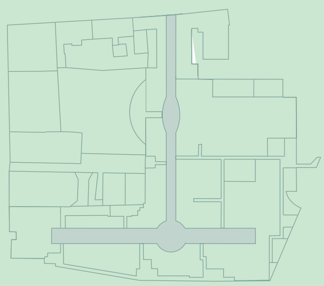


Árkád

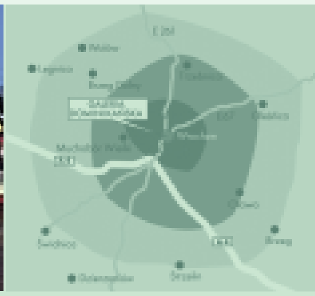
Pécs, Hungary



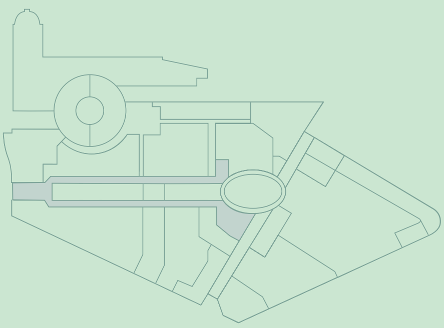
Investment:	50.0%
Proportion of funds invested:	3%
Purchased by Deutsche Euroshop:	November 2002
Leasable space:	around 34,200 m²
No. of shopping levels:	2
No. of shops:	around 130
Occupancy rate:	100% of retail space 92% of office space 99% in total
Catchment area:	around 0.5 million inhabitants
Grand opening:	2004
FERI rating:	A (very good)



Galeria Dominikanska,
Wroclaw, Poland

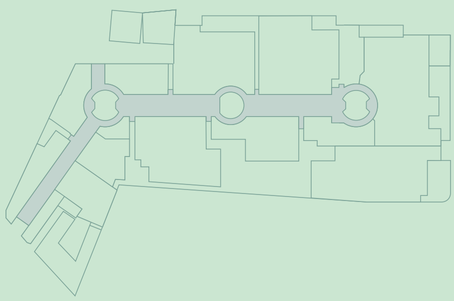


Investment:	33.3%
Proportion of funds invested:	2%
Purchased by Deutsche Euroshop:	December 2003
Leasable space:	around 32,600 m²
No. of shopping levels:	3
No. of shops:	around 100
Occupancy rate:	100%
Catchment area:	around 1.0 million inhabitants
Grand opening:	2001
FERI rating:	A (very good)



City-Arkaden,
Klagenfurt, Austria

Investment:	50.0%
Proportion of funds invested:	6%
Purchased by Deutsche Euroshop:	August 2004
Leasable space:	around 30,000 m²
No. of shopping levels:	3
No. of shops:	around 120
Occupancy rate:	65%
Catchment area:	around 0.4 million inhabitants
Grand opening:	Spring 2006
FERI rating:	due for the first time in 2006



The Art of Shopping

Shopping where funds flow freely

City-Galerie Wolfsburg

The art of generating strong dividends. Our aim is to distribute an attractive annual dividend to our shareholders on their investment. To achieve this, we generate the maximum possible cash flow from our shopping centers' long-term, turnover-linked rental contracts. The funds produced by this allowed us to distribute a dividend yield of 5.8% to our shareholders in 2003. In 2004, too, Deutsche EuroShop remains one of the most interesting stocks in Germany in terms of its dividend yield, with a distribution of €1.92 per share.

Group Management Report

Deutsche EuroShop AG Group Management Report

Deutsche EuroShop's consolidated financial statements were prepared for the first time using the International Financial Reporting Standards (IFRSs).

Macroeconomic Environment

Muted economic growth

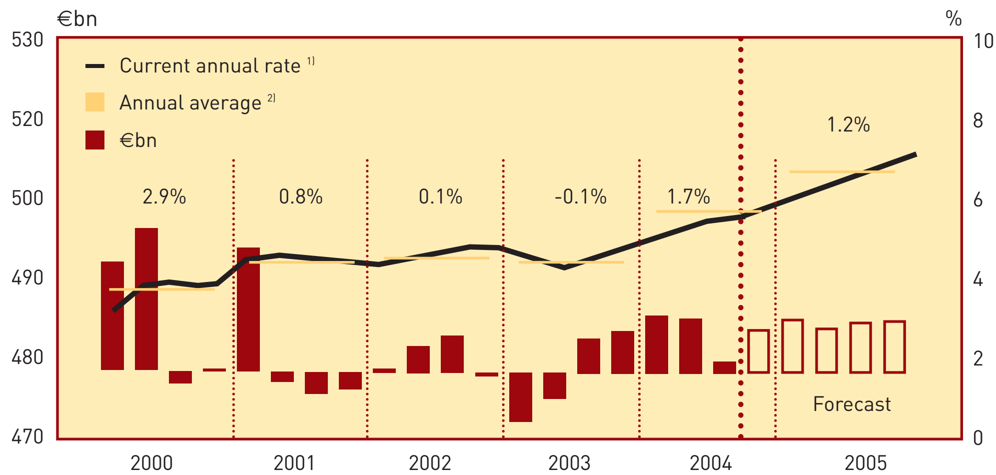
With growth in real gross domestic product (GDP) of 1.7%, the upswing in Germany's economy was muted in 2004, especially since it needs adjusting downwards by 0.5 percentage points: a number of statutory holidays fell on weekends in the past year resulting in an above-average number of workdays. In 2005, a slight economic upturn, an increase in investments and a recovery in private consumer spending are anticipated.

Germany lags behind global trend

On the whole, the German economy was weak. Whereas global economic stimuli still had a positive effect on the economy and were able to more than compensate for subdued domestic demand in the first six months of the year, this international growth faded somewhat in the second half of the year. Another factor was a strong increase in imports. This demand was lost to the domestic economy. Germany remained decoupled from the upswing in the global economy, with growth lagging behind the average for the pre-expansion EU member states.

Real GDP in Germany

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 2004)

Moderate inflation

Interest rates remained at historical lows in 2004, although the cost of living rose markedly. The main reasons for this were the sharp rise in energy costs, the substantial increases in the price of healthcare services due to the healthcare reform and two hikes in tobacco tax. Although the inflation rate was still around 1% in December 2003, it had risen to 1.8% by the end of 2004.

Situation on the labour market unchanged

The slight upturn in the economy did not yet affect the labour market. In Germany the number of registered unemployed remained nearly unchanged at 4.38 million on average in 2004. Germany's jobless rate therefore stagnated at the previous year's level of 10.5% (annual average) according to calculations by the Bundesagentur für Arbeit (Germany's Federal Labour Agency).

Private consumer spending down contrary to expectations

In contrast to the expectations of economic experts, who had anticipated an upturn in consumption of 1.3% in 2004, private consumer spending continued to decline. At -0.4% the decline was even sharper than in the previous year. The key determining factor here is said to be consumer insecurity caused by the discussion of labour market reforms (known as Hartz IV) that ultimately was not offset by the positive effect of the early implementation of the next phase of the government's tax reforms.

Euro area more positive on the whole

The downward pressures on economic performance in the euro area were comparable to those in Germany, although the effects were less negative. For instance, the inflation rate for the euro area as a whole was 1.9%, while the unemployment rate remained constant compared to 2003 at 9%. Spending by private households trended tentatively upward. In addition, real gross domestic product grew by 1.8% and therefore slightly more than in Germany.

Retail Sector

Retail sales down
In 2004 as a whole, German retailers sold 1.7% less in price-adjusted real terms than in the previous year. As a result, revenue declined for the third year in a row.

Successful retail concepts flout the downturn
Contrary to the general trend, the revenue generated by retailers with a clear profile was again positive in 2004; they were able to attract new customers with new concepts. In this context, vertically structured clothing suppliers, and youth fashion, women's outerwear and shoe brand labels, as well as speciality suppliers, were successful. Book shop chains serving the lower-priced segment also experienced strong expansion while home accessories sellers also reported very high rates of growth. High-street chemists also continued to expand at a fast rate and were able to secure first-rate properties in the best locations. A focus on expansion was also evident among coffee retailers, while the luxury segment also did well with demand rising for space on both the German and international markets.

High demand for premium space

Mobile purchasing power
The issue of vacancies has become a hot topic for German retailers. The "Rat der Immobilienweisen" (Council of Real Estate Experts) has established that although retail space continues to increase – especially due to expansion by discounters – vacancy rates are rising as well. However, there is generally no surplus of retail space; instead the problem is a lack of retail space that meets market requirements. Shops that fail to meet these requirements stand empty because consumers prefer stores with more space to display goods and those that provide greater service. Increasing mobility is loosening the ties to local retailers in favour of shops with good transport connections or ample parking facilities (mobile purchasing power). This trend favours retailers in shopping centers.

Consumers have clear wishes

Shopping centers increase market share
Experts from GfK Prisma, the market leader in site and real estate research in Germany, expect that shopping centers – particularly large, well-managed shopping centers such as those operated by Deutsche EuroShop – will continue to be able to generate higher revenue in the future than the retail sector overall. GfK Prisma believes that shopping centers are doing well across Europe. Shopping centers in Germany, especially those in city-centre locations, are also reporting growing sales and market shares.

Property market

Investors focus on retail properties

As in previous years, real estate was a popular investment alternative in 2004. The demand for shopping centers and retail properties in particular grew across Europe. According to the December 2004 "Stimmungsbarometer offene Immobilienfonds", a sentiment barometer for open-ended property funds calculated by Dr. Lübke GmbH and Dr. ZitelmannPB. GmbH, 86% (December 2003: 84%) of open-ended property funds were planning to increase their investments in retail properties in the future.

Reliable income and low volatility

The ability of retail properties to produce reliable income is primarily due to stable long-term rents coupled with high leasing rates. Compared to the market for office space, the retail property market has to date only been exposed to minor cyclical fluctuations. In addition, shopping centers situated in city-centre locations have considerable appreciation potential in the long term due to the uniqueness of their locations.

Considerable appreciation potential

Prime locations preferred

Kemper's, a real estate management company which specialises in retail properties, forecasts that demand in Germany will be concentrated in high-traffic prime locations in 2005, regardless of the size of the city concerned. Whereas vacancies were not an issue in first-rate locations, the situation in less popular locations continued to be strained.

Shopping center space grows by just under 3%

Surveys by EuroHandelsinstitut (EHI), an international retail research institute, indicate that Germany had 363 shopping centers with floor space of at least 10,000 m^2 at the end of 2004. These centers have total floor space of more than 11 million m^2. According to estimates by industry experts, Germany boasts a total of 108.5 million m^2 of shop space, which means that the share of total retail space accounted for by shopping centers is around 10%. In 2004, 11 new shopping centers opened in Germany with total floor space of approximately 290,000 m^2; the increase in retail space thus amounted to a total of about 1 million m^2.

Financial Report

Financial year 2004 was a successful year for us that went according to plan. Our shopping centers continued to perform well and were able to resist the weak retail market trend. Consolidated revenue rose by around 6% to €61.4 million, while net income for the year grew by 46% to €27.7 million. Our net asset value per share was €43.96, up around 1% on the previous year's figure. Earnings per share totalled €1.78 (previous year: €1.22).

Revenue performance

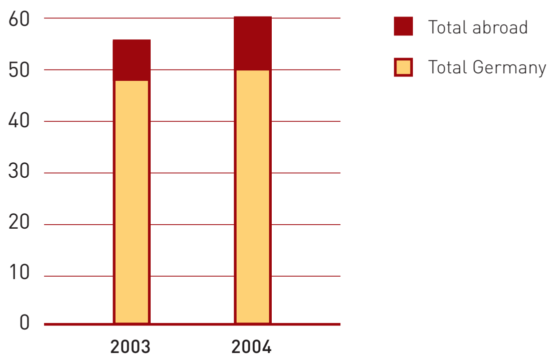
Our centers buck the negative trend in the retail sector

Although retail sales in Germany fell by a nominal 1.6% overall, tenants in our German shopping centers generated revenue growth of 3.0% in a comparable space. If international properties are included in this comparison, then our tenants generated revenue growth of 3.8%.

Consolidated revenue up by 6.1%

Consolidated revenue was up by 6.1% from €57.9 million to €61.4 million in financial year 2004. For the first time, the newly opened shopping centers in Pécs, Hungary, and Hamburg, Germany, contributed to revenue. Significant growth in revenue was reported by the Rhein-Neckar-Zentrum, which was due in particular to the modernisation and expansion measures completed in the prior year. In contrast, Centro Commerciale Friuli in Udine, Italy, no longer contributed to revenue because this center was sold in H2 2004. The revenue generated by City-Arkaden in

Revenue in 2004
€ million



Wuppertal declined as the result of the insolvency of a major tenant and the resulting vacancy period required for renovation. A slight decline was also experienced by the shopping centers in Wolfsburg and Kassel. In all other properties, we generated higher rental income on the back of index-linked rental adjustments, step-up rental payments and overage. On the whole, the share of total revenue accounted for by overage rose from 1.8% in 2003 to 2.6% in the year under review.

Higher rental income

Revenue 2004

€ thousand	2004	2003	Change	in %
Rhein-Neckar-Zentrum, Viernheim	15,745	14,778	967	6.5
Allee-Center, Hamm	8,894	8,824	71	0.8
City-Galerie, Wolfsburg	7,698	7,731	-34	-0.4
City-Arkaden, Wuppertal	7,381	7,685	-304	-4.0
Altmarkt-Galerie, Dresden	6,042	5,725	317	5.5
City-Point, Kassel	2,851	2,889	-38	-1.3
Phoenix-Center, Hamburg	1,550	0	1,550	-
Subtotal – Germany	**50,160**	**47,631**	**2,528**	**5.3**
Centro Commerciale Tuscia, Viterbo	2,693	2,554	139	5.4
Centro Commerciale Friuli, Udine	2,467	4,443	-1,976	-44.5
Shopping Etrembières, Annemasse	3,473	3,251	222	6.8
Árkád, Pécs	2,629	0	2,629	-
Subtotal – international	**11,262**	**10,248**	**1,014**	**9.9**
Total	**61,421**	**57,879**	**3,542**	**6.1**

Vacancy rate under 1%

As in the previous year the vacancy rate was under 1%. The need for write-downs from rent losses remained moderate at around €1.0 million, or 1.6% of revenue, despite the increase over 2003 of 0.2 percentage points. A tenant who has since left Rhein-Neckar-Zentrum is the main source of these write-downs.

Results of operations

High other income due to sale

Other operating income was €9.3 million – around €8.3 million up on the previous year's figure. The sale of the shopping center in Udine resulted in a one-time disposal gain of €4.8 million. We recognised income of €2.0 million from unrealised exchange rate gains from our Hungarian subsidiary (compared to exchange rate losses of €2.2 million in the previous year). Income from the reversal of provisions increased by around €1.0 million to €1.1 million; income from the sale of money market fund shares rose by €0.5 million to €0.8 million.

Expenses up due to new construction projects

Hamburg and Klagenfurt consolidated

Other operating expenses rose by €1.7 million to €19.3 million. Expensed investment costs for shopping centers under construction were up by €5.5 million on the previous year to €7.8 million due in particular to the initial consolidation of properties in Hamburg and Klagenfurt. On the other hand, no unrealised exchange rate losses arose from the consolidation of the Group's Hungarian subsidiary in contrast to the previous year, when this resulted in expenses in the amount of €2.2 million. Maintenance expenses amounted to €0.5 million – down €2.2 million on the previous year's figure.

Net interest expense deteriorates due to investments

Net interest expense dropped by €3.3 million to €-25.3 million. There were two main reasons for this. For one, interest income declined substantially by around €2.0 million to €2.6 million due to increased investment activity and the resulting reduction in cash funds. Secondly, interest expenses grew by €1.4 million to €28.0 million due to the initial recognition of interest on debt arising from the Árkád Pécs and Phoenix-Center properties, both of which opened in the year under review.

Income from investments up thanks to Wroclaw

Income from investments developed satisfactorily, increasing by €1.3 million over 2003 to €4.8 million. The main factor here was the initial contribution to earnings by our Polish investee in Wroclaw.

Gains on measurements of financial investments and properties: €8.0 million

Gains on fair value adjustments rose year-on-year by €2.5 million from €5.5 million to €8.0 million. This was the result of changes in the fair values of the shopping centers held as investment properties, which are measured in accordance with IAS 40. The expenses of €3.8 million associated with investments in these properties incurred in the year under review are deducted from this amount. At the same time, 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, were included in the gains on fair value adjustments. The changes in value resulting from the investments were calculated based on the current market values of the properties.

Independent appraisers

As in 2003, the market values of the properties as at 31 December 2004 were calculated with the assistance of independent appraisers (Feri Research GmbH and GfK Prisma Institut für Handels-, Stadt- und Regionalforschung) using the discounted cash flow method. In the discounted cash flow method, the market value corresponds to the cash value of future net income (rental income from the shopping center less management, administration and maintenance expenses). The rates used to discount the future net income on the valuation date (31 December 2004) were calculated by the experts for each property in light of the risk profile of each shopping center. The risk profiles are the result of a rating procedure that assesses each center using around 150 individual criteria.

Discounted cash flow method used

11 out of 14 shopping centers appraised

With the exception of the centers that were under construction as at 31 December 2004 (Forum Wetzlar and City-Arkaden, Klagenfurt) and the Phoenix-Center in Hamburg, which did not open until the autumn of 2004, all of the shopping centers in our portfolio were appraised.

Write-downs on four properties in Germany

Write-downs totalling €6.3 million were necessary on four properties in Germany because the experts identified higher macroeconomic site risks for these properties despite unchanged earnings estimates. The discount factor was raised to 6.53% from 6.30% in the previous year. These write-downs account for barely 1.0% of the overall fair value of these properties.

Reversals of write-downs totalling €15.7 million

In contrast to the above write-downs, write-downs of two German and two international centers of around €13.5 million were reversed; this figure corresponds to an average of 6.1% of the fair value. The reversals are due to the earnings outlook, which was rated as considerably better in some cases, and the macroeconomic site risks, which were estimated to be lower by the experts. This was also reflected in a lower discount factor (6.16% after 6.29% in the previous year).

Improved earnings outlook

The initial measurement of Árkád Pécs generated gains of €2.2 million.

Investments also see measurement gain

Gains from the measurement of investments in accordance with IAS 39 amounted to €2.4 million, which was the result in particular of the initial measurement of the investment in Galeria Dominikanska in Wroclaw.

A-rated portfolio

“Very good” rating

The results of the investment rating process did not change despite the above-mentioned changes in the discount factors. Árkád Pécs, which was measured for the first time, and Galeria Dominikanska, which is classed as an investment held as a financial instrument in accordance with IAS 39, each earned the rating of “very good” (A). On average Deutsche EuroShop’s real estate portfolio was again rated “very good” (A) by the appraisers.

Consolidated earnings up substantially

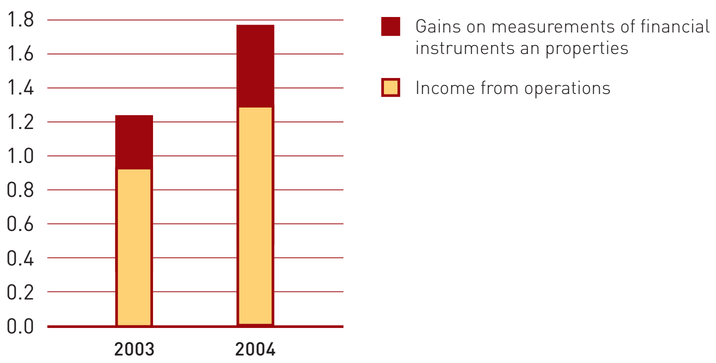
In the year under review, earnings before income and taxes (EBIT) increased by 25% from €40.5 million to €50.7 million, while EBT (earnings before taxes) grew by 37% from €27.9 million to €38.2 million. After deducting income tax of €10.8 million (including €8.1 million in deferred income tax), other taxes in the amount of €1.0 million (mainly real property taxes) and minority interest, consolidated net income for the year was up 46% on the previous year (€19.0 million) at €27.7 million.

Earnings per share (74% from operations, 26% from measurement gains)

Earnings per share amounted to €1.78 compared to €1.22 in the previous year. Of this amount, €1.32 per share (74%) is attributable to operations (2003: €0.93) and €0.46 (26%) to gains on measurements of financial instruments and properties (2003: €0.29).

Earnings per share

in €



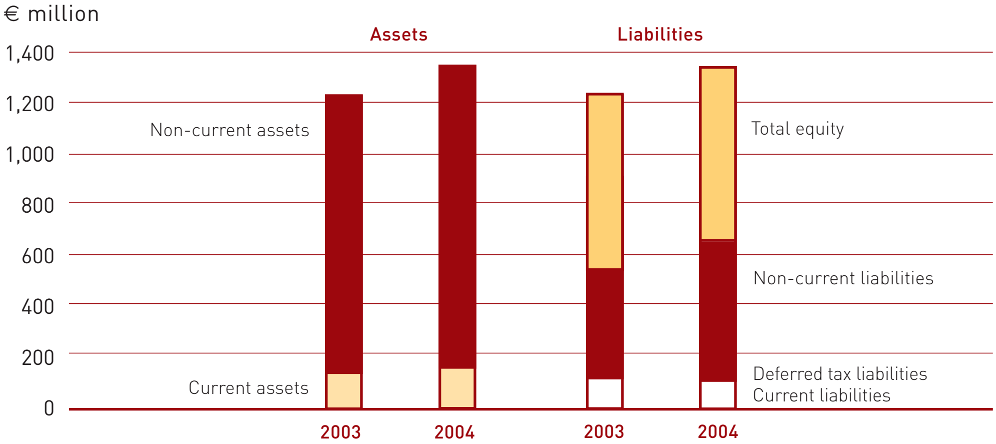
Dividend proposed: €1.92 per share

The Executive Board will propose to the Annual General Meeting to be held in Hamburg on 23 June 2005 that a dividend of €1.92 per share again be paid for financial year 2004.

Net assets

The Group's total assets increased by €130 million to €1.37 billion in the year under review.

Structure of the balance sheet
€ million



Non-current assets up

In a year-on-year comparison, non-current assets rose overall by €107.8 million to €1,203.3 million. In the year under review investments totalling €154.1 million and an increase in the fair values of properties and investments held as financial instruments of €10.8 million stood in contrast to the decline in fair value of €57.1 million due to the sale of Centro Commerciale Friuli.

Cash totals €150 million

Receivables, including prepaid expenses, declined by €26.3 million to €16.7 million especially due to the scheduled repayment of a loan by Arkaden Pécs KG. This resulted in an increase in cash, including current financial instruments classified as current assets (mainly money market funds), of €150.3 million, up €48.3 million on the previous year.

Increase in cash holdings

Equity ratio almost 50%

Slight decline in equity

Equity in the year under review decreased by around €10.9 million to €684.4 million. Of this decrease, €3.8 million is attributable to the dividend distribution and a consolidation effect associated with the sale of the shopping center in Italy; the minority interest in the equity of our property holding companies declined by €7.1 million. The equity ratio was 49.9% as at 31 December 2004, which is around six percentage points lower than in the previous year (56.1%).

€51.7 million in deferred taxes

€8.1 million of the net income for the year was allocated to deferred tax liabilities; they now amount to €51.7 million compared to €43.6 million in the previous year.

Bank loans and overdrafts higher due to investments

Current and non-current bank loans and overdrafts totalled €604.3 million, an increase of €122.8 million over the previous year. Of this amount, €119.4 million alone is attributable to additional loan payments associated with construction of the centers in Pécs, Hamburg, Wetzlar and Klagenfurt. Other current liabilities increased especially due to the increase in current provisions by €9.9 million from €19.9 million to €29.8 million.

Financial position

The Group's net liquidity increased by €10.4 million to €130.5 million in the year under review.

Of the €64.7 million in net liquidity that is attributable to Deutsche EuroShop AG, €30.0 million is earmarked for dividend distribution in June 2005.

The net liquidity of the subsidiaries amounted to €65.8 million as at 31 December 2004. €20 million is designated as collateral for the bank loan to a foreign subsidiary; otherwise these funds are used to finance investments. The remaining amount will be distributed in 2005 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).

Investments and financing

After the sale of a shopping center and the purchase of an investment in another shopping center in financial year 2004, Deutsche EuroShop's portfolio still comprises 14 shopping centers in Germany, France, Italy, Austria, Poland and Hungary.

Portfolio optimisation in Italy

Net inflow of funds

In order to optimise our portfolio, we sold the shopping center in Udine, Italy, in July 2004. Net funds of €56.9 million accrued to the Deutsche EuroShop Group from the proceeds of the sale of €62.0 million after deduction of Italian income tax and minority interest.

First investment in Austria

Premium city-center location secured

We re-invested a portion of the proceeds of the sale in August 2004 by acquiring a 50% interest in City-Arkaden in Klagenfurt, Austria. This property is currently being constructed in the capital of Carinthia state and is scheduled to open in spring 2006. This investment has enabled us to again secure a prime city-centre location for the Group for the long term. Our proportionate investment volume will amount to around €74.9 million in spring 2006; €44.7 million of this amount is financed by way of an existing long-term bank loan and €30.1 million by equity.

Total investments of €154 million

Investments in shopping centers under construction and completed in the year under review amounted to approximately €154 million overall; €119 million of this amount was financed by way of long-term bank loans and €36 million from the Group's own existing funds.

€1.2 billion in real property assets

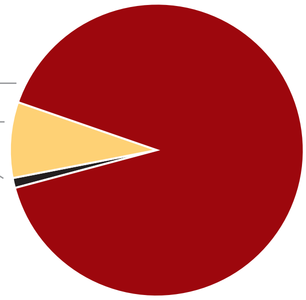
The Deutsche EuroShop Group's properties and investments in properties increased by €107.8 million over the previous year and totalled €1.2 billion as at 31 December 2004. Properties recognised at fair value in accordance with IAS 40 account for €918.5 million of this amount, while €183.1 million is attributable to properties under construction, including Phoenix-Center, which was not completed until the autumn of 2004 and is still recognised at cost, and €101.7 million is accounted for by investments in two shopping centers. 87% of the Group's assets were invested in Germany and 13% abroad.

Interest rates fixed for the long term

The debt assumed to finance real estate is mostly long term. Of the bank loans and overdrafts amounting to €604.3 million, 91% are due after more than five years and are subject to an average effective interest rate of 5.66% as at 31 December 2004. A fixed effective interest rate of 5.54% has been agreed at least until 2013 for 71% of these liabilities.

Changes in liabilities
€ thousand

Maturities	
More than five years	547,005
Between one and five years	50,571
Within one year	6,675



Net asset value increased

Based on the consolidated financial statements, the Group's net asset value as at 31 December 2004 is €686.8 million (€43.96 per share) compared to €682.5 million (€43.68 per share) in the previous year.

Net asset value

€ thousand	2004	2003
Non-current assets	1,203,251	1,095,444
Current assets	166,957	145,012
Total assets	**1,370,208**	**1,240,456**
Non-current liabilities	-597,662	-476,646
Current liabilities	-36,458	-24,923
Net assets	**736,088**	**738,887**
Minority interest	-49,271	-56,348
Net assets of Deutsche EuroShop = Net Asset Value	**686,817**	**682,539**
Net asset value per share in €	**43.96**	**43.68**

Risk Report

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.

Risk management

Regular reporting to the Executive Board and the Supervisory Board
As part of its risk management, the Executive Board of Deutsche EuroShop is continuously briefed about the course of business at individual property holding companies. Deutsche EuroShop's investment decisions are reviewed by the Supervisory Board. External appraisals are also commissioned if required.

Risk analysis and risk assessment
Risk analysis and risk assessment is performed on the basis of monthly and quarterly reports on each property holding company submitted by the service companies engaged to manage the centers or, in the case of centers under construction, engaged to provide project management. The Executive Board regularly reviews and monitors these reports, using the following key items of 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

Documentation of risk management

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

The sections below describe the key risks that could materially impact our business and our net assets, financial position and results of operations from a current perspective.

Macroeconomic risk

Deutsche EuroShop is affected by the general economic and political conditions. Weak economic growth, the ongoing difficulties in the labour market situation and the continuing discussion about tax and contribution hikes are having a sustained negative impact on private spending in Germany. We do not anticipate any economic stimulus for the retail sector if consumer confidence does not improve noticeably in the coming year.

Industry risk

An industry risk exists when the retail trade in the broad sense of the word suffers a sustained decline in sales. Industry risk is defined as the potential development from unfavourable changes in the retail sector, which saw sales decline by 1.6% in Germany in 2004. We try to anticipate this risk with in-depth market intelligence and minimise it by concluding long-term contracts with tenants with strong credit ratings.

Risks from operating activities

Risk of rent loss

Timely re-rental measures

A risk of rent loss arises when tenants become insolvent and are no longer able to meet their rental contract obligations because of their business performance. We counter this risk by regularly analysing tenants' sales trends and the development of outstanding accounts. Measures to find new tenants are initiated at an early stage if there are signs of any sustained negative development. In addition, the Company is largely protected against the risk of rent loss by the security deposits furnished by the tenants.

Cost risk

A cost risk could arise in particular in the event of unforeseen additional expenses for current investment projects. We minimise risks from cost over-runs in current investment projects (as is currently the case with City-Arkaden in Klagenfurt) by prophylactically costing in all identifiable risks in the planning stage. In addition, construction contracts are only awarded on a fixed-price basis to prime contractors with strong credit ratings. The construction phase is supported by professional project management services from service providers engaged by the Company.

Risks costed in prophylactically

Currency risk

The subsidiaries of Deutsche EuroShop mostly do business in a single currency area, which means that they are not exposed to currency risk. However, the consolidated financial statements of Deutsche EuroShop are subject to translation risks in the case of the subsidiaries/investees whose financial statements are denominated in Polish zlotys and Hungarian forints. These risks are not hedged as a rule because this is purely an issue of translations performed as of the reporting date and therefore does not expose the Company to cash flow risks. At the same time, the gains from the modified closing rate method are included in the profit and loss account and could have a not insignificant effect on consolidated income/loss due to the high currency volatility in Eastern European countries.

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. However, because the Árkád Pécs and Galeria Dominikanska properties account for only around 3% each of Deutsche EuroShop's aggregate portfolio, this risk is manageable. Nevertheless, we will continue to pay particular attention to exchange rate developments in the future.

Valuation risk

In financial year 2003 we had our properties appraised by independent experts for the first time. Since then, all portfolio properties undergo an annual rating and new properties or shopping centers that have newly opened are valued in full. Changes in the fair value of individual shopping centers will in the future be included in the Group's profit and loss account in accordance with the provisions of IFRS 40. This can lead to consolidated income being subject to increased levels of volatility.

Financing risk
A financing risk could arise in the event of a change in the interest rate of ongoing debt finance. We reduce the interest rate risk for new property financing by entering into long-term loans with fixed-interest periods of 10 to 15 years.

IT risk
In addition to improving the performance of the system, IT investments in 2004 focused on security. This is ensured by continual screening of data traffic to identify hidden and unsafe content, and especially by way of a centrally administered anti-virus system. All data is backed up on a daily basis.

Legal and other risks
No material legal or other risks can be identified.

Evaluation of the overall risk position
According to an assessment by the Executive Board, the total risks do not impact the continued existence of Deutsche EuroShop.

Supplementary Report

After the end of the financial year, Executive Board member Dirk Hasselbring announced on 1 March 2005 his intention to step down from the Executive Board as at 30 April 2005 of his own volition and in agreement with the Supervisory Board. He will leave the Company to pursue other career opportunities.

The situation in the Company has not changed either in strategic terms or at an operational level as a result. Ongoing projects are being continued.

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 a staff of only three and therefore did not prepare a separate **human resources report**.

Forecast

Germany continues to be Deutsche EuroShop's most important market. After years of declining retail sales, the European Central Bank and most economic research institutes anticipate moderate economic growth in 2005 along with a slight increase in private spending. Due to our good locations, our index- and sales-linked leases and an occupancy rate of over 99%, we are optimistic that we will be able to further increase our income from operations in this environment.

Slight economic growth expected

Experts anticipate moderate economic growth

Although the German government expects GDP to grow by 1.6% in 2005, staff at the economic research institutes are somewhat more restrained, anticipating real GDP growth to remain within a corridor of 0.6% to 1.4%. Most of them expect to see an upswing in exports, but they remain sceptical about a rapid turnaround in domestic demand. They believe that private spending will only rise if high exports and capital expenditure improves the labour market situation. However, a significant improvement in the economy is unfortunately not on the horizon despite the tax relief at the beginning of 2005, since a slight increase in the savings rate is anticipated and private households will be impacted by higher health insurance premiums from mid-year onward.

Economic Forecasts for 2005

Forecasts for 2005 in Germany by German economic research institutes

in %	SVR Annual Report	HWWA	ifo	DIW	IWH	IfW	RWI
	11/04	12/04	12/04	01/05	03/05	03/05	03/05
GDP, real	1.4	0.9	0.8	1.8	1.1	0.6	1.0
Consumption*	0.7	0.5	0.3	0.9	0.7	0.1	0.7

* = 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

Continuing our successful strategy

Home to top retailers

We expect the situation to improve somewhat in the retail sector in Germany. Nonetheless, competition makes it increasingly important to attract the most successful retailers of all types of goods to our shopping centers. Deutsche EuroShop will continue to pursue this strategy with the aim of uncoupling our business from the general trend in retail sales and generating further sales growth.

Planned increase in revenue of around 15%

After Forum Wetzlar was completed and opened successfully in February 2005, thus expanding our revenue-generating portfolio to include another shopping center, we expect that we shall continue to generate positive revenue and earnings in 2005. Our plan is to boost revenue to €68 – 72 million in 2005.

Forecast EBIT of €53-56 million

Our goal is to increase earnings before interest and taxes (EBIT) from €48.6 million to €53 – 55 million in currency-adjusted terms. By definition, gains and losses on fair value adjustments cannot be planned. Although earnings before taxes (EBT) were lifted in 2004 due to one-time gains on disposals and substantial income from the reversal of provisions, we expect currency-adjusted EBT to remain at the previous year's level of €28 – 30 million in the current financial year. This would correspond to an increase after adjustment for extraordinary effects of €4.9 – 6.9 million or 20 – 30%.

Increase in EBIT

65% occupancy rate in Klagenfurt one year before opening

The construction of City-Arkaden in Klagenfurt, currently our only uncompleted center, is continuing as planned. Demand by domestic and international retailers for retail space at this property is high. As a result, the pre-letting rate in mid-March 2005, more than a year before the opening, was already 65%. We are optimistic that all of the space in this shopping center as well will be let by the time it is completed.

Strong demand in Klagenfurt

Additional acquisitions planned

In terms of additional acquisitions, we are actively continuing to identify attractive investments in Germany and abroad. The quality and return we require from our shopping centers limits our choice of the possible properties offered for sale.

Unchanged strategy and dividend approach

We will continue to focus on quality in our efforts to optimise and expand our portfolio – this is more important to us than a rapid rate of growth. Our portfolio is solid and our ongoing business activities ensure long-term income. We are therefore under no pressure to invest and can take advantage of opportunities as they arise. The most important goal in our strategy is to generate a high free cash flow that we can distribute to our shareholders.

Focus on quality

Active participant in the REIT debate

We are closely following and actively participating in the current debate about the introduction of real estate investment trusts (REITs) in Germany. Ultimately, global competition for real estate investments does not depend on the speed of introduction of these instruments, but instead on the quality of this new type of real estate company to be created and the laws required to achieve this. When the time is right, we will examine on behalf of Deutsche EuroShop and our shareholders whether and in what form transforming the Company would make sense in strategic and economic terms.

Hamburg, March 2005

The Art of Shopping

Shopping for value

Main-Taunus-Zentrum Sulzbach

The art of remaining consistent: Deutsche EuroShop is Germany's only public listed company that invests solely in shopping centers. We consistently focus on selected properties in prime locations with long-term income prospects. This is another reason why we were able to further increase the rental income from our properties despite the overall negative trend in the retail sector in 2004 – and to increase our enterprise value by €74 million in terms of market capitalisation.

Consolidated Financial Statements

Consolidated Financial Statements

Consolidated Balance Sheet IFRS

as at 31 December 2004

ASSETS	Notes	31 Dec. 2004 (€ thousand)	31 Dec. 2003 (€ thousand)
ASSETS			
Non-current assets			
Intangible assets	1.	12	5
Property, plant and equipment	2.	183,100	64,644
Investment property	3.	918,470	930,475
Non-current financial assets	4.	101,669	100,320
Non-current assets		**1,203,251**	**1,095,444**
Current assets			
Trade receivables	5.	1,985	2,066
Receivables from affiliated companies	6.	0	20,712
Other current assets	7.	14,697	20,246
Current financial assets	8.	63,945	21,990
Cash	9.	86,330	79,998
Current assets		**166,957**	**145,012**
Total assets		**1,370,208**	**1,240,456**

EQUITY AND LIABILITIES	Notes	31 Dec. 2004 (€ thousand)	31 Dec. 2003 (€ thousand)
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital		20,000	20,000
Capital reserves		496,363	507,365
Retained earnings		91,042	92,569
Consolidated net profit for the period		27,736	19,019
Subtotal		**635,141**	**638,953**
Minority interest		**49,271**	**56,348**
Total equity	10.	**684,412**	**695,301**
NON-CURRENT LIABILITIES			
Bank loans and overdrafts	11.	597,576	476,400
Other non-current liabilities		86	246
Non-current liabilities		**597,662**	**476,646**
Deferred tax liabilities	12.	**51,676**	**43,586**
CURRENT LIABILITIES			
Bank loans and overdrafts	11.	6,675	5,012
Trade payables	13.	3,742	3,872
Tax provisions	14.	3,329	1,050
Other provisions	15.	18,158	6,962
Other liabilities	16.	4,554	8,027
Current liabilities		**36,458**	**24,923**
Total equity and liabilities		**1,370,208**	**1,240,456**

Consolidated Profit and Loss Account IFRS

for the period 1 January to 31 December 2004

	Notes	2004 (€ thousand)	2003 (€ thousand)
Revenue	17.	61,421	57,879
Other operating income	18.	9,343	1,043
Staff costs		-813	-756
Other operating expenses	19.	-19,259	-17,629
Earnings before interest, taxes and depreciation (EBITD)		**50,692**	**40,537**
Depreciation and amortisation of intangible assets and property, plant and equipment		-14	-13
Earnings before interest and taxes (EBIT)		**50,678**	**40,524**
Interest income		-25,312	-21,973
Income from investments		4,799	3,485
Adjustments to fair value of current financial instruments		0	289
Income and expense from the measurement of financial instruments and property		8,018	5,550
Net finance costs	20.	**-12,495**	**-12,649**
Profit from ordinary activities (EBT)		**38,183**	**27,875**
Income tax expense	21.	-10,774	-7,443
Other taxes	22.	-982	-1,057
Profit after taxes		**26,427**	**19,375**
Minority interest in earnings		1,309	-356
Consolidated net profit for the period		**27,736**	**19,019**
Basic earnings per share (€)		1.78	1.22

Consolidated Cash Flow Statement IFRS

for the period 1 January to 31 December 2004

	2004 (€ thousand)	2003 (€ thousand)
Earnings after taxes	**26,427**	**19,375**
Depreciation of property, plant and equipment	14	13
Changes in value of investment property in accordance with IAS 40	-9,422	-11,488
Changes in value of financial instruments in accordance with IAS 39	-2,398	-1,622
Investments during the financial year	3,802	7,560
Gains/losses on the disposal of non-current assets	-4,825	0
Increase in deferred taxes	8,090	6,983
Operating cash flow	**21,688**	**20,821**
Changes in receivables	5,630	-2,745
Changes in current provisions	13,475	-1,652
Changes in liabilities	-3,763	-1,130
Cash flow from operating activities	**37,030**	**15,294**
Proceeds from the disposal of property, plant and equipment	62,000	0
Payments to acquire property, plant and equipment and intangible assets	-157,926	-56,972
Payments to acquire non-current financial assets	21,761	-22,217
Cash flow from investing activites	**-74,165**	**-79,189**
Changes in interest-bearing financial liabilities	122,839	16,096
Payments to owners	-36,031	-32,299
Cash flow from financing activities	**86,808**	**-16,203**
Net change in cash and cash equivalents	**49,673**	**-80,098**
Cash and cash equivalents at beginning of period	**101,988**	**168,718**
Changes in consolidated Group	-1,386	13,368
Cash and cash equivalents at end of period	**150,275**	**101,988**

Consolidated Statement of Changes in Equity

as at 31 December 2004

€ thousand	Share capital	Capital reserves	Other retained earnings
Balance at 1 Jan. 2002 (HGB)	**20,000**	**570,257**	**0**
Consolidated profit			
Dividend payments		-29,361	
Withdrawals from capital reserves		-12,645	
Appropriations to retained earnings			
Other changes		261	
Balance at 31 Dec. 2002 (HGB)	**20,000**	**528,512**	**0**
Adjustments from the first-time application of IAS 39			
Measurement of investments			18,964
Adjustment of discounts			20,081
Fair value measurement of investment property			68,437
Adjustments from deferred taxes			-22,421
Changes in consolidated group			5,110
Change due to currency translation effects			105
Other changes		8,853	
Balance at 1 Jan. 2003 (IFRSs)	**20,000**	**537,365**	**90,276**
Consolidated profit			
Dividend payments		-30,000	
Withdrawals from capital reserves			
Appropriation to retained earnings			
Adjustments to the reserves in accordance with IAS 40			
Change due to currency translation effects			-25
Other changes			339
Balance at 31 Dec. 2003 (IFRSs)	**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**

Legal reserve	Net profit for the period	Total	Minority interest	Total equity
1,066	**639**	**591,962**	**5,092**	**597,054**
	8,853	8,853	-123	8,730
	-639	-30,000	-3,963	-33,963
		-12,645		-12,645
913		913		913
		261	-3,533	-3,272
1,979	**8,853**	**559,344**	**-2,527**	**556,817**
		18,964		18,964
		20,081	3,454	23,535
		68,437	44,303	112,740
		-22,421		-22,421
		5,110		5,110
		105		105
	-8,853	0	-2	-2
1,979	**0**	**649,620**	**45,228**	**694,848**
	19,019	19,019	356	19,375
		-30,000		-30,000
		0		0
		0		0
		0	-946	-946
		-25		-25
		339	11,710	12,049
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
			-7	-7
2,000	**27,736**	**635,141**	**49,271**	**684,412**

Consolidated Statement of Changes in non-current Assets

as at 31 December 2004

		Acquisition costs/fair values	
€ thousand	**Balance at 1 Jan. 2004**	**Additions**	**Disposals**
Cost			
Intangible assets	6	9	0
Land, advance payments and assets under construction	64,613	154,124	0
Other equipment, operating and office equipment	47	4	0
Total	**64,666**	**154,137**	**0**
Fair values			
Investment property	918,987	0	-57,090
Non-current financial assets	98,697	4	-1,053
Total	**1,017,684**	**4**	**-58,143**
Total non-current assets	**1,082,350**	**154,141**	**-58,143**

		Depreciation, amortisation and fair value adjustments				Book values	
Reclassification	Balance at 31 Dec. 2004	Balance at 1 Jan. 2004	Depreciation and amortisation/ reversals of write-downs for the financial year	Disposals	Balance at 31 Dec. 2004	Balance at 31 Dec. 2003	Balance at 31 Dec. 2004
0	15	-1	-2	0	-3	5	12
-35,662	183,075	0	0	0	0	64,613	183,075
0	51	-15	-12	1	-26	32	25
-35,662	**183,141**	**-16**	**-14**	**1**	**-29**	**64,650**	**183,112**
35,662	897,559	11,488	9,423	0	20,911	930,475	918,470
	97,648	1,622	2,398	0	4,020	100,319	101,668
35,662	**995,207**	**13,110**	**11,821**	**0**	**24,931**	**1,030,794**	**1,020,139**
0	**1,178,348**	**13,094**	**11,807**	**1**	**24,902**	**1,095,444**	**1,203,251**

Notes to the Consolidated Financial Statements for financial year 2004

Basis of Presentation

The consolidated financial statements as at 31 December 2004 were prepared for the first time in accordance with EC Directive 83/349/EEC (Consolidated Accounts Directive) on the basis of the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting Standards Board (IASB).

The consolidated financial statements prepared in accordance with IFRSs have an exempting effect under section 292a of the HGB (Handelsgesetzbuch – German Commercial Code). The assessment as to whether the consolidated financial statements and the Group management report comply with the 7th EC Directive follows the interpretation of the German Accounting Standards Board in German Accounting Standard 1 (GAS 1).

As an initial adopter of the IFRSs as defined in IFRS 1, Deutsche EuroShop has elected to apply the following exemption option. The exemption option specifies that a first-time adopter may elect not to apply IFRS 3 "Business Combinations" to business combinations that occurred before the date of transition to IFRSs. In line with this, the relevant consolidation adjustments were taken over from the previous statements prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code).

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 orients its accounting policies on those Standards that have binding force by the date of preparation of the financial statements. The consolidated financial statements for 2004 are based on the following International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) that are relevant for the Deutsche EuroShop Group:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IAS 1	Presentation of Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
IAS 10	Events After the Balance Sheet Date
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 18	Revenue
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	Accounting for Investments in Associates
IAS 31	Financial Reporting of Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

IAS 1 and IAS 24 were applied in the versions valid as from 1 January 2005.

In addition to the Standards listed, the consolidated financial statements of Deutsche EuroShop applied the German Accounting Standards (GASs) approved by the German Accounting Standards Board and published as at 31 December 2004.

Basis of Consolidation and Consolidation Methods

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

As at 31 December 2004, the basis of consolidation comprised, in addition to the parent company, 10 (previous year: 10) fully consolidated domestic and foreign subsidiaries and 6 (previous year: 3) proportionately consolidated domestic and foreign companies.

The limited property partnership FEZ Harburg, City-Arkaden Klagenfurt KG and EKZ Eins Errichtungs- und Betriebsgesellschaft mbH & Co., OEG, Vienna were proportionately consolidated for the first time in the year under review (2004). In addition, Forum Wetzlar KG was fully consolidated.

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 KG, Hamburg, and Ilwro Joint Venture Sp. zo. o, Warsaw.

Companies with no business operations or with a low volume of business are not included in the consolidated financial statements. Overall, they account for less than 1% of consolidated revenue and earnings. This refers to the investment in City-Point Beteiligungs GmbH, Pöcking.

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 are filed with the Hamburg Commercial Register.

The annual financial statements of the consolidated companies were prepared as at 31 December 2004, 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. In this context the revised IAS 1, which provides for this item to be reported in equity, was adopted early.

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 245.93 (previous year: HUF 262.23) and an average rate of HUF 251.78 (closing rate: HUF 253.65) were used in the translation of the Hungarian single-entity financial statements from forint to euros.

Significant differences between HGB and IFRS Accounting Principles

In accordance with the reporting requirements of section 292a of the HGB, the accounting policies and consolidation methods applied that differ from those under German law are presented in the following where they are material for the consolidated financial statements.

Deferred taxes (IAS 12): Deferred tax assets may not be recognised for tax loss carryforwards under the HGB, as the expected future tax savings are regarded as not yet realised. Under IFRSs, deferred tax assets must be recognised for all temporary differences between the carrying amount and the tax base of an asset or a liability, to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. Deferred tax liabilities must be carried for all taxable temporary differences between the carrying amount and the tax base of an asset and a liability. Deferred taxes are measured at the currently enacted tax rates, and must not be discounted. Deferred taxes are recognised and reversed in the profit and loss account provided that the underlying item was reported in the profit and loss account. However, deferred taxes may not be recognised or reversed in the profit and loss account if the underlying item was eliminated directly against equity.

Foreign currency translation (IAS 21): The two accounting systems differ in their treatment of unrealised gains from the measurement of amounts denominated in foreign currency at closing rates. Only unrealised losses may be accounted for under the HGB, while IFRSs require unrealised gains to be recognised as well.

Discounts (IAS 23): Under the HGB, discounts may be expensed in full in the year in which they arise, to the extent that the subsidiary preparing the annual financial statements is a German commercial asset management partnership. Under IFRSs, they are reversed to income over the term of the loan agreement. In principle, IAS 39 require the effective interest method to be used to amortise discounts. In contrast to this, Deutsche EuroShop AG recognises discounts relating to existing loans raised prior to 31 December 2003 over the agreed amortisation period using the straight-line method.

Provisions (IAS 37): In the case of provisions, IFRSs apply a different interpretation of the principle of prudence compared with the German HGB. IFRSs impose somewhat higher requirements regarding the probability of the relevant events and the ability to estimate the amount for which a provision may be recognised. At present, the application of this Standard has no effect on Deutsche EuroShop AG.

Non-current financial assets (IAS 39): Non-current financial assets consist of investments in subsidiaries and investments that are not consolidated. These are classified as available for sale and carried at their fair value. Changes in value are recognised in the profit and loss account. Under the HGB, financial instruments must be recognised at the lower of cost or fair value. Unrealised gains are not recognised.

Current financial instruments (IAS 39): Acquired securities are reported as available for sale securities and carried at their fair value. There is an option of recognising changes in value in profit or loss or directly in equity. Deutsche EuroShop AG recognised the change in value between the balance sheet dates in the profit and loss account. Under German accounting principles, securities must be recognised at cost or at the lower fair values. Again, unrealised gains are not recognised.

Investment property (IAS 40): Investment property is carried in the consolidated financial statements at the fair value at the balance sheet date. Under the fair value method, fair value adjustments are recorded in the profit and loss account. In the financial statements in accordance with the HGB, property is recognised at cost less depreciation.

Equity: The effects of initial application are reported in retained earnings.

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, and the benchmark treatment is applied for 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.

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 3 to 13 years. The method of depreciation and the depreciation period are reviewed annually at the end of each financial year.

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 Phoenix-Center Hamburg, which was completed in September 2004, continued to be reported under property, plant and equipment, as it had not yet been valued.

Investment property

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

The fair values of the property in the period under review were determined by recognised independent external appraisers using the discounted cash flow method.

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 HGB. Under IAS 39, investments over which Deutsche EuroShop AG does not exercise control are carried at fair value and the measurement gains/losses recognised in income under Fair value gains on investments. 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 was reported for the investment in City-Point Beteiligungs GmbH, Pöcking, which is 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 profit and loss account. 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.

Bank loans and overdrafts

Bank loans and overdrafts are reported at their redemption amounts less discounts, 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.

Conversion from HGB to IFRSs

In financial year 2004, we converted Deutsche EuroShop's accounting and reporting to the International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs), the application of which by listed companies has been obligatory since 1 January 2005. This allows us to achieve international comparability of our accounting. However, this conversion resulted in substantial changes to the Company's revenue and to its net assets, financial position and results of operations. As a result, the figures for 2003 have been adjusted retroactively to the new accounting standards. The principal effects are listed below.

Changes in the consolidated Group
The conversion to IFRSs meant that Altmarkt-Galerie Dresden KG, City-Point Kassel GmbH & Co. KG and Arkaden Pécs KG, which were previously carried as investments, must be consolidated in addition to the eight subsidiaries that were fully consolidated in the past. As a result of Deutsche EuroShop's interests of 40% (Kassel) and 50% (Dresden and Pécs), these companies were only included in the IFRS consolidated financial statements in the amount of these interests.

Effects on Net Assets - Reconciliation of the Balance Sheet

€ thousand	HGB	IFRS	Difference	Thereof proportionate consolidation
Fixed/noncurrent assets	851,845	1,095,444	243,599	93,998
Current assets	128,837	145,012	16,175	15,909
Total assets	980,682	1,240,456	259,774	109,907
Consolidated equity	528,821	638,953	110,132	11,389
Minority interest	6,876	56,348	49,472	0
Total equity	535,697	695,301	159,604	11,389
Liabilities to banks/Bank loans and overdrafts	408,642	481,412	72,770	93,157
Other liabilities	36,343	63,743	27,400	5,361
Total liabilities	980,682	1,240,456	259,774	109,907

Hidden reserves realised

The Group's total assets for financial year 2003 increased by around €259.8 million to €1,240.5 million as a result of the conversion. The share of this increase accounted for by proportionately consolidated companies amounted to €109.9 million. The remaining €149.9 million relates almost exclusively to the realisation of hidden reserves for companies belonging to the old consolidated Group. The hidden reserves resulted from real increases in value and depreciation and amortisation of non-current (fixed) assets charged in previous years in accordance with German commercial law.

Equity and liabilities increase

As a result of the realisation of hidden reserves, equity rose by €159.6 million as at 31 December 2003 to €695.3 million, after adjustment for deferred tax liabilities to be recognised. €11.4 million of this increase is due to proportionate consolidation, and €148.2 million to the old consolidated Group.

Discounts to be amortised over the term of liabilities

Bank loans and overdrafts were approximately €72.8 million higher than under the HGB (liabilities to banks). Whereas proportionate consolidation increased this figure by €93.2 million, liabilities to banks relating to the old consolidated Group fell by €20.4 million. The reason for this is the different accounting treatment of discounts. Under the HGB, these were recognised as expenses in the period in which they were paid, while under IAS 39, they must be amortised across the entire fixed-interest period and recognised as an interest expense.

The increase in other liabilities of €27.4 million is primarily due to the adjustment of the provisions for deferred tax liabilities.

Effects on Results of Operations - Reconciliation of the Profit and Loss Account

€ thousand		Thereof proportionate consolidation
Net income (HGB) as at 31 December 2003	-524	0
Rental and other income	8,912	8,907
Other expenses	-4,789	-4,711
Depreciation and amortisation	22,380	0
Income and expense from the measurement of financial instruments and properties	5,550	-1,535
Net interest income/expense	-7,613	-4,208
Income from investments	-3,030	-3,030
Taxes	228	-354
Minority interest	-2,095	0
Consolidated net loss/net income (IFRSs)	19,019	-4,931

As a result of the expanded consolidated Group, revenue (sales) and other income for financial year 2003 increased by €8.9 million. However, expenses were €4.8 million higher than the figure reported under the HGB.

The major difference between the HGB and IFRSs relates to the recognition of the depreciation of properties carried as non-current (fixed) assets. As Deutsche EuroShop's shopping centers are held to generate income in the long term, the guidance in IAS 40 must be used to measure these properties. According to this, they must be tested annually for impairment. The difference between the old and new fair value must be used to calculate the net income or loss. Depreciation is not permitted under IAS 40. In addition, all capital expenditure that was capitalised under German commercial law is recognised directly as an expense in the profit and loss account.

For 2003, application of this method led to depreciation of €22.4 million not being charged. The impairment test as at 31 December 2003 resulted in positive fair value adjustments of €5.6 million, taking into account capital expenditure in the financial year.

The net interest expense deteriorated by €7.6 million, not only due to the expanded consolidated Group, but also to the elimination of discounts paid in the relevant periods.

While the Company generated a consolidated net loss of €0.5 million for financial year 2003 under the HGB, under IFRSs it recorded a consolidated net profit of €19.0 million – an improvement of €19.5 million.

Effects on the Financial Positions – Reconciliation of Cash Flow

€ thousand	HGB*	Changes due to proportionate consolidation	Other changes	IFRSs
Net profit/net loss for the period	**-524**	**-4,931**	**24,474**	**19,019**
Minority interest	-1,738	0	2,094	356
Profit after taxes	**-2,262**	**-4,931**	**26,568**	**19,375**
Depreciation of property, plant and equipment	22,393	0	-22,380	13
Changes in value of investment property in accordance with IAS 40	0	-493	-10,995	-11,488
Changes in value of financial instruments in accordance with IAS 39	0	0	-1,622	-1,622
Investments during the financial year	0	2,028	5,532	7,560
Deferred taxes	7,364	0	-381	6,983
Operating cash flow	**27,495**	**-3,396**	**-3,278**	**20,821**
Changes in receivables, current financial assets and prepaid expenses	-3,895	1,128	22	-2,745
Changes in current provisions	-2,456	-1,251	-7,364	-1,652
Changes in liabilities and deferred income	4,389	-5,520	1	-1,130
Cash flow from operating activities	**25,533**	**-9,039**	**-10,619**	**15,294**
Disposal of non-current assets	32	0	-32	0
Payments to acquire property, plant and equipment	-43,163	-12,232	-1,577	-56,972
Payments to acquire non-current financial assets	-28,003	5,787	-1	-22,217
Cash flow from investing activities	**-71,134**	**-6,445**	**-1,610**	**-79,189**
Changes in interest-bearing financial liabilities	-792	13,741	3,147	16,096
Payments to owners	-32,303	0	4	-32,299
Cash flow from financing activities	**-33,095**	**13,741**	**3,151**	**-16,203**
Net changes in cash and cash equivalents	**-78,696**	**-1,743**	**-9,078**	**-80,098**
Cash and cash equivalents at beginning of period	**153,860**	**14,858**	**0**	**168,718**
Changes in consolidated Group and other	13,445	-25	-52	13,368
Cash and cash equivalents at end of period	**88,609**	**13,090**	**-9,130**	**101,988**

* Items reclassified for the purposes of comparison with IFRSs

The disclosures already provided on the net assets and results of operations reflect the substantially higher cash flow following conversion to IFRSs.

Effects on equity

€ thousand	Share capital	Capital reserves	Other retained earnings	Legal reserve	Net profit for the period	Total	Minority interest	Total equity
Balance at 31 Dec. 2002 (HGB)	**20,000**	**528,512**	**0**	**1,979**	**8,853**	**559,344**	**-2,527**	**556,817**
Adjustments from the first-time application of IAS 39								
Measurement of investments			18,964			18,964		**18,964**
Adjustment of discounts			20,081			20,081	3,454	**23,535**
Fair value measurement of investment property			68,437			68,437	44,303	**112,740**
Adjustments from deferred taxes			-22,421			-22,421		**-22,421**
Changes in consolidated group			5,110			5,110		**5,110**
Change due to currency translation effects			105			105		**105**
Other changes		8,853			-8,853	0	-2	**-2**
Balance at 1 Jan. 2003 (IFRSs)	**20,000**	**537,365**	**90,276**	**1,979**	**0**	**649,620**	**45,228**	**694,848**
Consolidated profit					19,019	19,019	356	**19,375**
Dividend payments		-30,000				-30,000		**-30,000**
Withdrawals from capital reserves						0		**0**
Appropriation to retained earnings						0		**0**
Adjustments to the reserves in accordance with IAS 40						0	-946	**-946**
Change due to currency translation effects			-25			-25		**-25**
Other changes			339			339	11,710	**12,049**
Balance at 31 Dec. 2003 (IFRSs)	**20,000**	**507,365**	**90,590**	**1,979**	**19,019**	**638,953**	**56,348**	**695,301**

The equity item contains adjustments from initial measurement in accordance with IFRSs recognised directly in equity. Initial measurement of investments in accordance with IAS 39 resulted in an initial application reserve of €18,964 thousand and from adjustment of discounts results an increase of equity of €20,081 thousand. Recognition of the properties at fair value resulted in an initial application reserve in the amount of €68,437 thousand. In addition, a deferred tax liability in the amount of €22,421 thousand was recognised for the above-mentioned effects.

Consolidated Balance Sheet Disclosures

Non-current assets

1. Intangible assets

Intangible assets € thousand	31 Dec. 2004	31 Dec. 2003
1 January 2004	5	5
Additions	9	1
Amortisation	-2	-1
	12	**5**

Additions relate to purchased consolidation software, which was installed in the parent's business premises in Hamburg. Amortisation was based on a useful life of 2 to 5 years. It was calculated at 20 to 50% by the day using the straight-line method.

2. Property, plant and equipment

2a. Property, advance payments and assets under construction

Property, advance payments and assets under construction € thousand	31 Dec. 2004	31 Dec. 2003
1 January 2004	64,613	13,678
Additions	154,124	50,935
Reclassifications	-35,662	0
	183,075	**64,613**

Additions relate on the one hand to the completion of the Phoenix Center in Hamburg that opened in September 2004, which is recognised at cost. They also include investments in the Forum Wetzlar and Klagenfurt properties currently under construction, and remaining investments in the Árkád Pécs shopping center property.

The reclassifications relate to the Árkád Pécs shopping center, which was recognised at market value for the first time in accordance with IAS 40.

The total amount includes capitalised interest accrued during construction in the amount of €9,502 thousand.

2b. Operating and office equipment

Operating and office equipment € thousand	31 Dec. 2004	31 Dec. 2003
1 January 2004	32	32
Additions	4	12
Amortisation	-12	-12
	24	**32**

The additions relate to fixtures and fittings in Deutsche Euroshop AG's business premises.

Depreciation was based on a useful life of 3 to 13 years.

3. Investment property

Investment property € thousand	31 Dec. 2004	31 Dec. 2003
1 January 2004	930,475	918,987
Reclassifications	35,662	0
Disposals	-57,090	0
Reversals of impairment losses	15,743	13,365
Impairment losses	-6,320	-1,877
	918,470	**930,475**
directly attributable rental income	58,008	56,741
directly attributable operating expenses	-9,267	-10,063

The reclassifications relate to the Árkád Pécs shopping center, which was recognised at market value for the first time in accordance with IAS 40.

This is matched by a disposal from the sale of the Centro Commerciale Friuli shopping center in Italy.

The properties are secured by mortgages. Land charges exist in the amount of €481,804 thousand (previous year: €447,894 thousand).

4. Non-current financial assets

Non-current financial assets € thousand	31 Dec. 2004	31 Dec. 2003
1 January 2004	100,320	82,268
Additions	4	16,430
Disposals	-1,053	0
Impairment losses and reversals of impairment losses	2,398	1,622
	101,669	**100,320**

Ancillary transaction costs for Ilwro Joint Venture Sp. Zo.o in Warsaw amounted to €4 thousand. A capital repayment was also made, which is reported as a disposal.

The non-current financial assets contain three 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 value.

Net impairment losses in the amount of €2,398 thousand were reversed to income in the year under review for the investments DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG and Ilwro Joint Venture Sp. Zo.o.

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

Trade receivables € thousand	31 Dec. 2004	31 Dec. 2003
Trade receivables	3,529	3,368
Allowances for doubtful accounts	-1,544	-1,302
	1,985	**2,066**

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

6. Receivables from affiliated companies

Receivables from affiliated companies € thousand	31 Dec. 2004	31 Dec. 2003
Receivables from shareholders	0	10,319
Loan receivables	0	10,393
	0	**20,712**

The outstanding obligatory capital contribution by the partner in Einkaufs-Center Arkaden Pecs KG, and the loan receivable from the latter company reported in the previous year were paid in full in the year under review.

7. Other assets

Other assets € thousand	31 Dec. 2004	31 Dec. 2003
Receivable value added tax	11,584	15,407
Deductible capital gains tax/solidarity surcharge	847	943
Miscellaneous assets	2,266	3,896
	14,697	**20,246**

Miscellaneous assets mainly consist of interest and loan receivables, other receivables from tenants and receivables from the settlement of contracts for the sale of land.

Receivables € thousand	Total	up to one year	more than one year
Trade receivables	1,985	1,985	0
	(2,066)	(2,066)	
Receivables from affiliated companies	0	0	0
	(20,712)	(20,712)	0
Other assets	14,697	14,697	0
	(20,246)	(12,719)	(7,527)
	16,682	**16,682**	**0**
	(43,024)	**(35,497)**	**(7,527)**

Prior-year figures in parentheses

8. Current financial instruments

Current financial instruments € thousand	31 Dec. 2004	31 Dec. 2003
DWS ABS Funds	41,663	0
DWS money market fund shares	22,282	21,990
	63,945	**21,990**

This relates to DWS fund shares carried at cost as at 31 December 2004.

9. Cash

Cash € thousand	31 Dec. 2004	31 Dec. 2003
Time deposits	57,999	64,087
Demand deposits	14,475	11,473
Current accounts	13,833	4,427
Cash	24	11
	86,330	**79,998**

The maturity of all cash items is under one year.

10. Equity and reserves

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

10a. Share capital

The share capital amounts to €20,000 thousand and is composed of 15,625,000 no-par value registered shares with a notional value of €1.28 each. 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 €10,000,000 on one or several occasions until 18 June 2009 by issuing up to 7,812,500 no-par value registered shares against cash or non-cash contributions.

Deutsche EuroShop AG has recorded an unappropriated surplus of €30,000 thousand. The Executive Board will propose to the Annual General Meeting on 23 June 2005 that the unappropriated surplus be distributed in full. This corresponds to a dividend of €1.92 per share.

10b. Minority interest

The minority interest contains equalisation items for minority interests held by other shareholders in the capital requiring consolidation and for their shares of the profit and loss.

10c. Retained earnings

Retained earnings comprise the legal reserve and other retained earnings.

Retained earnings € thousand	1 Jan. 2004	Change	31 Dec. 2004
Legal reserve	1,979	21	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 properties	68,770	-1,687	67,083
Initial measurement reserve in accordance with IAS 12 deferred taxes	-22,421	0	-22,421
Other changes	5,196	139	5,335
	92,569	**-1,527**	**91,042**

The initial measurement reserves were set up to enable the transfer to equity of the initial measurement differences between the IFRSs and the HGB for discounts, properties to be valued and investments.

In the year under review, €1,687 thousand was recorded as a disposal as a result of the sale of the property in Udine. Other equity items include currency translation diffrences.

11. Bank loans and overdrafts

Bank loans and overdrafts € thousand	31 Dec. 2004	31 Dec. 2003
Current bank loans and overdrafts	6,675	5,012
Non-current bank loans and overdrafts	597,576	476,400
	604,251	**481,412**

Bank loans and overdrafts relate to loans raised to finance real property acquisitions and investment measures. Land charges on company properties amounting to €583,824 thousand (previous year: €460,776 thousand) serve as collateral.

Properties are primarily financed by non-current bank loans and overdrafts. 91% of the bank loans and overdrafts in the amount of €604,251 thousand have a residual term of more than 5 years; the effective average rate of interest as at 31 December 2004 amounted to 5.66%. In the case of 71% of the bank loans and overdrafts, the interest rates have been fixed until at least 2013 at an effective interest rate of 5.54%.

Discounts are amortised over the term of the loan. In the year under review, €4,341 thousand (previous year: €3,958 thousand) was recognised in income.

12. Deferred tax assets

Deferred tax assets € thousand	Balance at 1 Jan. 2004	Utilisation	Reversal	Addition	Balance at 31 Dec 2004
Deferred tax assets	**43,586**	**0**	**102**	**8,192**	**51,676**

The deferred tax assets were recognised for the current consolidated net profit for the period. Additions for companies in Germany amounted to €4,545 thousand, and €3,647 thousand for companies abroad.

13. Trade receivables

Trade receivables € thousand	31 Dec. 2004	31 Dec. 2003
Construction services	1,061	3,291
Fees	1,405	0
Mortgage registration fees	656	0
Other	620	581
	3,742	**3,872**

14. Tax provisions

Tax provisions € thousand	Balance at 1 Jan. 2004	Utilisation	Reversal	Addition	Balance at 31 Dec. 2004
Other income taxes	30	8	22	2,186	2,186
Real property tax	1,020	143	136	402	1,143
	1,050	**151**	**158**	**2,588**	**3,329**

Other income taxes relate primarily to the Italian income tax payable on the gain on disposal. Real property tax provisions relate exclusively to companies in Germany.

15. Other provisions

Other provisions € thousand	Balance at 1 Jan. 2004	Utilisation	Reversal	Addition	Balance at 31 Dec. 2004
Maintenance and construction services already performed, but not yet invoiced	4,158	3,545	428	15,854	16,039
Fees	435	319	0	606	722
Other	2,369	1,396	786	1,210	1,397
	6,962	**5,260**	**1,214**	**17,670**	**18,158**

The provisions for maintenance and construction services already performed, but not yet invoiced relate primarily to Forum Wetzlar, which is currently under construction, and the Phoenix-Center Hamburg, which was completed in September 2004.

All provisions have a term of up to one year.

16. Other liabilities

Other liabilities € thousand	31 Dec. 2004	31 Dec. 2003
Service contract liabilities	334	4,336
Rental deposits	1,165	982
Value added tax	950	851
Debtors with credit balances	303	495
Miscellaneous	1,802	1,363
	4,554	**8,027**

The Miscellaneous item mainly comprises liabilities for supplementary heating and ancillary costs and rental prepayments for the following year.

Liabilities € thousand	Total	up to one year	1 to 5 years	more than five years
Bank loans and overdrafts	604,251	6,675	50,571	547,005
	(481,412)	(5,012)	(44,636)	(431,764)
Trade payables	3,742	3,742	0	0
	(3,872)	(3,872)	(0)	(0)
Other liabilities	4,641	4,555	0	86
	(8,273)	(8,027)	(0)	(246)
thereof taxes	950	950	0	0
	(986)	(986)	(0)	(0)
	612,634	**14,972**	**50,571**	**547,091**
	(493,557)	**(16,911)**	**(44,636)**	**(432,010)**

Prior-year figures in parentheses

Other financial Obligations

Rental, lease and loan obligations € thousand	31 Dec. 2004	31 Dec. 2003
Due to mature in 2004	0	78
Due to mature in 2005	60	0
Due to mature in 2006 – 2007	102	210
Due to mature after 2007	0	0
	162	**288**

Contingencies and Commitments

Collateral for third-party liabilities

€ thousand	31 Dec. 2004	31 Dec. 2003
Collateral	0	17,855

Contingent liabilities under the HGB in the previous year amounted to €17,855 thousand.

Deutsche Euroshop AG has entered into contingent liabilities in the form of a debtor warrant in the amount of €1,800 thousand. This relates to a performance-related contingent purchase price consideration to be paid to the seller of of the Árkád Pécs shopping center over a period of up to 10 years.

Other Disclosures

The Group employed three staff as at 31 December 2004.

In accordance with section 160(1) sentence 8 of the AktG (Aktiengesetz – German Public Companies Act), we hereby disclose, as required by the disclosure obligations under the Wertpapierhandelsgesetz (German Securities Trading Act), that the shareholders listed below hold voting rights of Deutsche EuroShop AG of 5% and more:

Shareholder	Shareholding notified as at	Reportable equity interest/ share of voting rights in %	thereof held directly by shareholder in %	thereof indirectly attributable* in %	hare of voting rights in registered share capital in €
Alexander Otto, Hamburg	2 April 2002	13.50	1.00	12.50	2,699,600
- AROSA Vermögens-verwaltungsges. m.b.H., Hamburg	2 April 2002	12.50	12.50	0.00	2,500,000
Benjamin Otto, Hamburg	2 April 2002	7.74	0.00	7.74	1,548,000
- "Bravo-Alpha" Beteiligungs G.m.b.H., Hamburg	2 April 2002	7.74	3.71	4.03	1,548,000

* including amounts counted additionally in accordance with section 22(1) sentence 2 of the Wertpapierhandelsgesetz

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 outstanding shares of Deutsche Euro Shop AG (total: 15,625,000) as at 31 December 2004:

	31 December 2004
Supervisory Board	**2,147,525**
- thereof Alexander Otto > 1%	2,109,125
Executive Board	**28,600**

Notes to the Consolidated Profit and Loss Account

17. Revenue

Revenue **€ thousand**	**2004**	**2003**
Rental income	59,558	56,741
Other revenue	1,863	1,138
	61,421	**57,879**
thereof rental income directly attributable to investment property in accordance with IAS 40	58,008	56,741

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

18. Other operating income

Other operating income **€ thousand**	**2004**	**2003**
Book gains on the sale of current financial instruments	791	321
Exchange rate gains	2,197	221
Income from the reversal of provisions	1,087	89
Income from the sale of properties	4,825	0
Other income	443	412
	9,343	**1,043**

19. Other operating expenses

Other operating expenses € thousand	2004	2003
Property operating costs	-3,459	-3,277
Maintenance costs	-479	-2,663
Property administration costs	-4,317	-3,332
Infrastructure costs	-1,674	-170
Financing expenses	-1,849	-903
Write-downs of rent receivables	-1,012	-791
Letting expenses	-3,814	-1,089
Agency agreement fees	0	-825
Exchange rate losses	-56	-2,207
Other	-2,599	-2,372
	-19,259	**-17,629**
thereof operating expenses directly attributable to investment property in accordance with IAS 40	-9,267	-10,063

20. Net finance costs

Net finance costs € thousand	2004	2003
Other interest and similar income	**2,649**	**4,598**
Term deposits	2,153	3,598
Other	496	1,000
Interest and similar expenses	**-27,961**	**-26,571**
Interest on loans	-27,814	-26,547
Other	-147	-24
Income from investments	**4,799**	**3,485**
Adjustment of fair value of current financial instruments	**0**	**289**
Income from measurement (fair value) of DWS money market fund shares	0	289
Income and expenses from the measurement of financial assets	**8,018**	**5,550**
Fair value gains/losses on investments in accordance with IAS 39	2,398	1,622
Investments during the financial year	-3,802	-7,560
Fair value gains in accordance with IAS 40	15,743	13,365
Fair value losses in accordance with IAS 40	-6,321	-1,877
	-12,495	**-12,649**

Income from investments primarily comprises distributions from investments.

An amount of €2,398 thousand was added to the investments in DB Immobilienfonds 12, Main-Taunus Zentrum KG and Ilwro Joint Venture Sp. Zo.o.

Investments during the current financial year amounting to €3,803 thousand comprise additions to property assets previously capitalised under German commercial law. As a result of the recognition of the fair value of properties, the investments are recognised in full as a current expense in the year in which they arose.

21. Income taxes

Income taxes € thousand	2004	2003
Current tax expense	-2,684	-461
Deferred tax liabilities for companies in Germany	-4,545	-6,255
Deferred tax liabilities for companies abroad	-3,545	-727
	-10,774	**-7,443**

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 2004, 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.

22. Other taxes

Other taxes € thousand	2004	2003
Real property tax	-920	-1,002
Other taxes	-62	-55
	-982	**-1,057**

Real property tax relates to amounts not allocable to tenants.

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, cheques and DWS fund shares.

Operating cash flow

After adjustment of the net profit for the period, the operating cash flow amounts to €21,688 thousand. All changes to cash flows from net finance costs (interest income, remeasurement gains and income and expense from investments) are allocated to operations.

Cash flow from operating activities

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

Changes in receivables € thousand	31 Dec. 2003	Change in cash flow	31 Dec. 2004
Trade receivables	2,066	-81	1,985
Other assets	20,246	-5,549	14,697
	22,312	**-5,630**	**16,682**

Changes in provisions € thousand	31 Dec. 2003	Change in cash flow	31 Dec. 2004
Tax provisions	1,049	2,280	3,329
Other provisions	6,963	11,195	18,158
	8,012	**13,475**	**21,487**

Changes in liabilities € thousand	31 Dec. 2003	Change in cash flow	31 Dec. 2004
Trade payables	3,872	-130	3,742
Other liabilities	8,274	-3,633	4,641
	12,146	**-3,763**	**8,383**

Cash flow from investing activities

The sale of Centro Commerciale Friuli in Italy resulted in the disposal of the shopping center as at 31 December 2004 and proceeds of €62,000 thousand.

Cash flow from financing activities

In financial year 2004, a dividend in the amount of €36,031 thousand was paid to minority shareholders.

Changes in the consolidated Group

The sale of Centro Commerciale Friuli in Italy along with other changes resulted in a non-cash effect of €1,386 thousand at the balance sheet date.

Cash Flow je Aktie		2004	2003
No-par value shares outstanding	No. of shares	15,625,000	15,625,000
Operating cash flow	€ thousand	26,427	20,821
Operating cash flow per share	€	1.69	1.33
Cash flow from operating activities	€ thousand	37,030	15.294
Cash flow per share	€	2.37	0.98

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 ordinaryshares (convertible bonds and stock options). The Deutsche Euroshop Group has not concludedany dilutive stock acquisition agreements. As a result, the diluted and basic earnings per share are the same.

Earnings per share			
No-par value shares outstanding	No. of shares	15,625,000	15,625,000
Consolidated net profit for the period	€ thousand	27,736	19,019
Basic earnings per share	€	1.78	1.22

Segment Reporting

As a holding company, Deutsche Euroshop AG holds investments in German and foreign shopping centers as a single business segment; no segment reporting is therefore presented. Revenue is generated exclusively from rental and lease income.

Information by geographical segment

€ thousand	Germany	Abroad	thereof EU	Total
Revenue	**50,160**	**11,261**	**11,261**	**61,421**
(prior-year figures)	(47,631)	(10,248)	(10,248)	(57,879)

Prior-year figures in parentheses

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 €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 €24,545 thousand were paid to the ECE Group, of which Deutsche EuroShop AG Supervisory Board member Mr. Alexander Otto is Managing Director. €15,121 thousand of this amount related to properties under construction, and €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)

Dr. Michael Gellen, Cologne, Deputy Chairman
Lawyer
a) Deutsche Wohnen AG, Eschborn (Deputy Chairman)
Deutschbau Immobilien Dienstleistungen GmbH, Düsseldorf (until 31 January 2004)

b) Deutschbau Holding GmbH, Düsseldorf (until 29 February 2004)
Deutschbau Wohnungsgesellschaft mbH, Berlin (until 31 January 2004)
Deutsche Bank Realty Advisors, Inc., New York (until 31 January 2004)

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. Tessen von Heydebreck, Frankfurt am Main (until 17 June 2004)
Member of the Board of Managing Directors of Deutsche Bank AG, Frankfurt am Main
a) BASF AG, Ludwigshafen
BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main
DWS Investment GmbH, Frankfurt am Main
Dürr AG, Stuttgart
Gruner & Jahr AG, Hamburg

b) Deutsche Bank Luxembourg S.A., Luxembourg (Chairman)
Deutsche Bank Polska S.A., Warsaw (Chairman)
Deutsche Bank 000, Moscow (Chairman)
Deutsche Bank Rt., Budapest (Chairman)
EFG Eurobank Ergasias S.A., Athens
Deutsche Bank Trust Corporation, New York
Deutsche Bank Trust Company America, New York

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

Dr. Bernd Thiemann, Frankfurt am Main (from 17 June 2004)
Banker
a) Celanese AG, Kronberg (Chairman)
EM.TV AG, Munich (Chairman)
Berentzen Gruppe AG, Haselünne (Deputy Chairman)
M.M. Warburg & Co. KGaA Holding, Hamburg (Deputy Chairman)
Bankhaus Hallbaum AG & Co., Hanover
Thyssen Krupp Steel AG, Duisburg
VHV Vereinigte Hannoversche Versicherung a.G., Hanover

b) Rothschild GmbH, Frankfurt (Chairman)
Fraport AG, Frankfurt
Würth Group, Künzelsau (Deputy Chairman)

Executive Board
Claus-Matthias Böge, Hamburg (spokesman of the Executive Board)
Dirk Hasselbring, 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:

€ 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
Former members of the Supervisory Board	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 €544 thousand, and is broken down as follows:

€ thousand	Fixed salary	Variable remuneration	Other benefits	Total
Claus-Matthias Böge	240	100	10	350
Dirk Hasselbring	117	75	2	194

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 (www.deutsche-euroshop.de) in November 2004.

Hamburg, 24 March 2005
Deutsche EuroShop AG
The Executive Board

Claus-Matthias Böge

Claus-Matthias Böge **Dirk Hasselbring**

Group Companies

Company name and domicile	Nominal equity	Interest in nominal capital	thereof indirect	thereof direct	HGB profit/loss 2004
Fully consolidated companies	**€ thousand**				**€ thousand**
Deutsche EuroShop Verwaltungs GmbH, Hamburg	50,000.00	100.00%	-	100.00%	1,174
Centro Commerciale Tuscia Galleria s.r.l., Milan/Italy	10,000.00	100.00%	-	100.00%	115
Centro Commerciale Tuscia Viterbo s.r.l., Milan/Italy	10,000.00	100.00%	-	100.00%	147
Rhein-Neckar-Zentrum KG, Hamburg	235,000,000.00	92.82%	-	92.82%	-1,437
SCI Val Commerces, Paris/France	5,000.00	92.82%	92.82%	-	930
Centro Commerciale Friuli Claus-Matthias Böge & Co. S.a.s., Milan/Italy	5,600,000.00	92.82%	92.82%	-	6,538
City-Galerie Wolfsburg KG, Hamburg	50,000,000.00	89.00%	-	89.00%	1,375
Allee-Center Hamm KG, Hamburg	21,630,000.00	87.74%	-	87.74%	1,260
City-Arkaden Wuppertal KG, Hamburg	50,000,000.00	72.00%	-	72.00%	-218
Forum Wetzlar KG, Hamburg	44,700,000.00	65.00%	-	65.00%	-4,260
Proportionately consolidated companies	**€**				**€ thousand**
Altmarkt-Galerie Dresden KG, Hamburg	83,000,000.00	50.00%	-	50.00%	8,470
Einkaufs-Center Arkaden Pécs KG, Hamburg	41,300,000.00	50.00%	-	50.00%	847
Objekt City-Point Kassel GmbH & Co. KG, Pöcking	42,400,000.00	40.00%	40.00%	-	-1,265
City-Arkaden Klagenfurt KG, Hamburg	60,300,000.00	50.00%		50.00%	-748
EKZ Eins Errichtungs- und Betriebsges. mbH & Co. OEG, Vienna	1,000.00	50.00%	50.00%	-	-5,964
Immobilien KG FEZ Harburg, Hamburg	40,700,000.00	50.00%	-	50.00%	-14,150
Investees	**in PLN**				**in TPLN**
Ilwro Joint Venture Sp. Zoo., Warsaw/Poland	20,000,000.00	33.33%	-	33.33%	132,231
	€				**€ thousand**
DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG, Hamburg	150,000,000.00	40.77%	-	40.77%	2,252
Main-Taunus-Zentrum Wieland KG, Hamburg	12,688,000.00	37.35%	37.35%	-	5,208
City-Point Beteiligungs GmbH, Pöcking	25,564.60	40.00%	-	40.00%	7

Declaration by the Executive Board

The Executive Board of Deutsche EuroShop AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the Group management report, as well as the other information contained in the Annual Report.

The consolidated financial statements were prepared using International Financial Reporting Standards (IFRSs).

The Group management report contains an analysis of the Group's net assets, financial position and results of operations, as well as further disclosures required by the provisions of the Handelsgesetzbuch (HGB – German Commercial Code). Appropriate estimates were made as necessary based on the information currently available. Deviations from these estimates may arise if the assumptions made do not materialise either in whole or in part.

An effective internal management and control system is in place to ensure the reliability of the data used both in the preparation of the consolidated financial statements, including the Group management report, and for internal reporting.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the consolidated financial statements and the Group management report and issued an unqualified audit opinion (see p.119).

Claus-Matthias Böge **Dirk Hasselbring**

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the in-come statement and the statements of changes in equity and cash flows as well as the notes to the financial statements prepared by the Deutsche EuroShop AG, Hamburg, for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial state-ments promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2004 has not led to any reservations.

In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, April 4, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Lemnitzer
Wirtschaftsprüfer

Adams
Wirtschaftsprüfer

Glossary

A

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.

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.

O

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.

P

Peer group
A share price performance benchmark consisting of companies from similar sectors, put together on the basis of individual criteria.

Performance
The term performance describes the percentage appreciation of an investment or a securities portfolio during a given period.

R

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.

S

SDAX
The small-cap index comprising the 50 most important securities after the members of the DAX and the MDAX.

Share capital
The capital stipulated in a corporation's articles of association. The articles also specify the number of shares into which the share capital is divided. The company issues shares in the amount of its share capital.

Share register
Register that German public companies which issue registered shares must maintain. It lists each shareholder together with his or her name, date of birth and address, thus allowing the company to gain an overview at any time of the current shareholder structure and any changes. Shareholders have the right to be informed about the details of their own entry in the share register.

T

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

V

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

X

Xetra
An electronic stock exchange trading system for location-independent trading. The central, open order book is accessible to all market participants, thus increasing market transparency. Trading hours are 9.00 a.m. to 5.30 p.m. (as of March 2005).

Index

Financial Calendar 2005

January

25. Roadshow Stuttgart, Seydler

February

10. Roadshow Milan, Berenberg Bank
15. Roadshow Frankfurt am Main, Berenberg Bank
16. Opening of Forum Wetzlar

April

4. Audit Committee meeting, Hamburg
14. Supervisory Board meeting, Hamburg
18. Annual earnings press conference and analyst conference, Hamburg
19./20. Roadshow Paris and Zurich, Berenberg Bank
22. Roadshow Vienna, HSBC Trinkaus & Burkhardt
25. Roadshow Edinburgh, HSBC Trinkaus & Burkhardt
28. Kempen & Co German Property Event, Frankfurt am Main

May

3. Roadshow Cologne and Dusseldorf, Sal. Oppenheim
10. Interim report Q1 2005
11./12. Roadshow London, Berenberg Bank
24. Sal. Oppenheim Real Estate Conference, London

June

1. Deutsche Bank German Corporate Conference, Frankfurt am Main
2. Kempen & Co European Property Seminar, Amsterdam
9./10. Roadshow Denmark, Finland and Sweden, HypoVereinsbank
23. Annual General Meeting, Hamburg
23. Supervisory Board meeting, Hamburg
24. Dividend payment

July

1. (Probable) entry into force of new Wertpapier prospektgesetz (WpPG – Securities Prospectus Act)

August

10. Interim report H1 2005
25. Topping-out ceremony at City-Arkaden Klagenfurt

September

16. Supervisory Board meeting, Hamburg
23. Citigroup Jour Fixe, London
Autumn (Probable) entry into force of Kapitalmusterver fahrensgesetz (KapMuG – Investor Test Case Act)
28./29. HypoVereinsbank German Investment Conference, Munich

October

26. 5th Property Share Initiative Conference, Frankfurt am Main

November

1. (Probable) entry into force of Gesetz zur Unter nehmensintegrität und Modernisierung des Anfech tungsrechts (UMAG – Corporate Integrity and Modernisation of Right of Recission Act)
10. Interim report Q1-3 2005
21.–23. German Equity Forum, Frankfurt am Main
24. Supervisory Board meeting, Hamburg

Details/Legal

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

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 and Xetra, which are registered trademarks and the property of Deutsche Börse AG.

Legal

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Design and Layout
IR-One AG & Co. KG, Hamburg

Print
Hamburg

Pictures
Christian Stelling, Hamburg

Picture Credits
Deutsche EuroShop AG, Hamburg

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