

Deutsche EuroShop AG
management
report
2006

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Macroeconomic Environment

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

Economy driven by exports

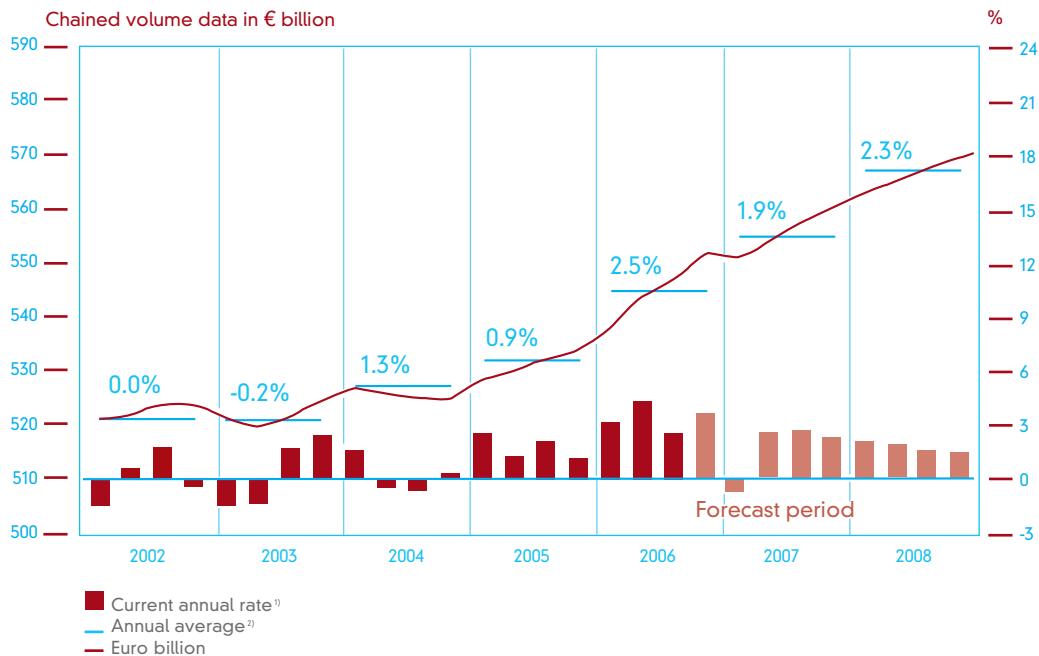
The positive development of the German economy over the past two years has primarily been driven by continuing high export surpluses. In spite of the euro's sharp appreciation against the US dollar, demand from abroad continued unabated and caused double-digit growth in exports (+12.4% in real terms).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

Domestic demand gathers momentum

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

GROSS DOMESTIC PRODUCT

→ Seasonally and working-day adjusted



¹⁾Percentage q/q change, extrapolated to annual rate (right-hand scale).

²⁾Figures: y/y change.

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

Inflation at 1.7%

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

Situation on the labour market brightens

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

EMU economy expands

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

Retail Sector

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

Retail trade hardly benefits from Football World Cup

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

Success with higher-quality clothing concepts

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

Space expansion continues

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

Property Market

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

Higher prices, lower returns

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

Tenant demand focussed on spaces of up to 250 m²

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

Investors aiming for diversification

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

Strategy

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

Clear goals and principles

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

High-yield portfolio with stable value

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

Making the most of opportunities, maximising value

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

Differentiated rental system

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

The concept of shopping as an experience

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

REPORT ON ECONOMIC POSITION

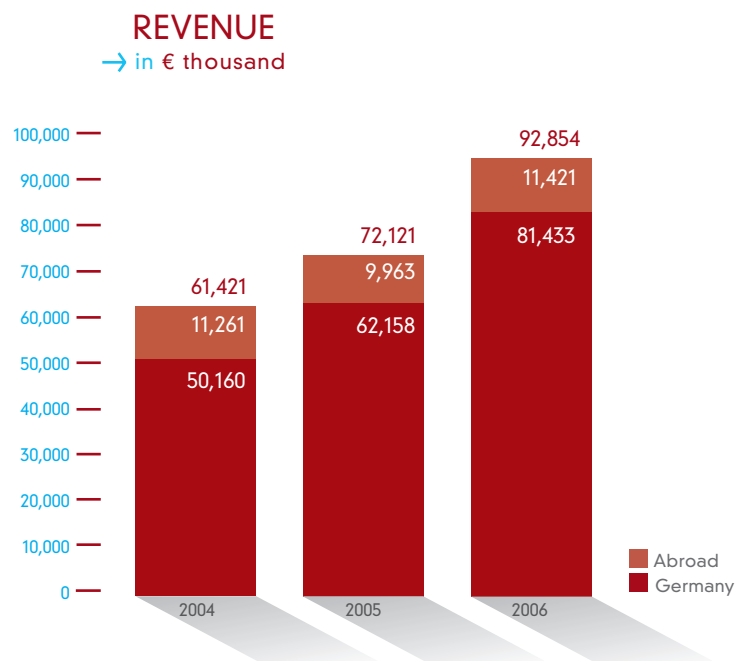
The 2006 financial year ended with a record result for Deutsche EuroShop. During the year under review, we expanded the consolidated group through acquisitions and opened our shopping center in Klagenfurt. Moreover, the sale of our properties in Italy and France contributed to our good performance. Consolidated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

Revenue

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

Consolidated revenue up by 29%

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



Higher rental income for all portfolio properties

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

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

REVENUE 2006

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

* = proportionately consolidated

Vacancy rate unchanged at under 1%

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

Results of Operations

Other operating income includes disposal proceeds

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

Higher property operating and management costs

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

One-time effect on other operating expenses

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

Net finance costs widen due to investments

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

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

Measurement gains climb to record level

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

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

Portfolio quality continues to be rated “very good”

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

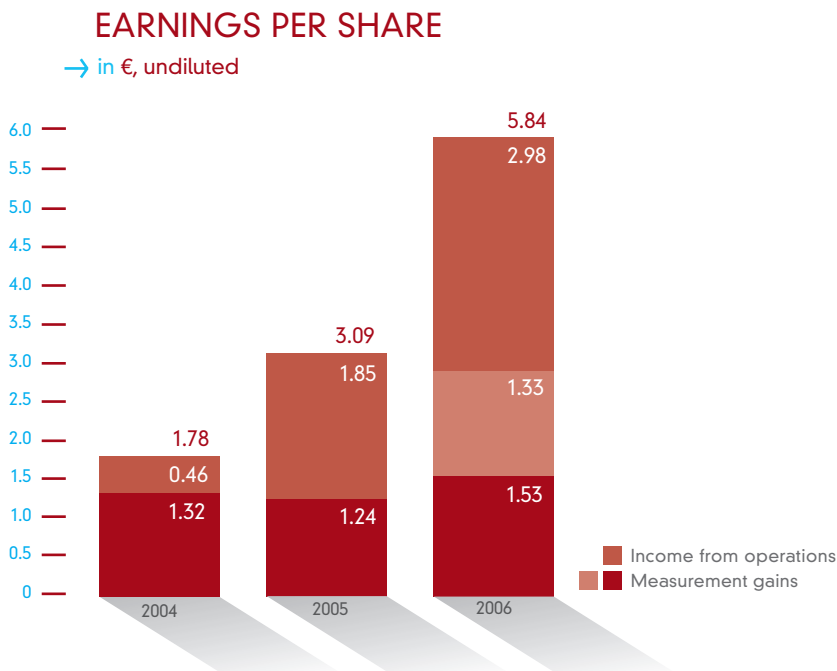
Consolidated profit up 106% – minority interests reported differently

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

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

Earnings per share increased

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

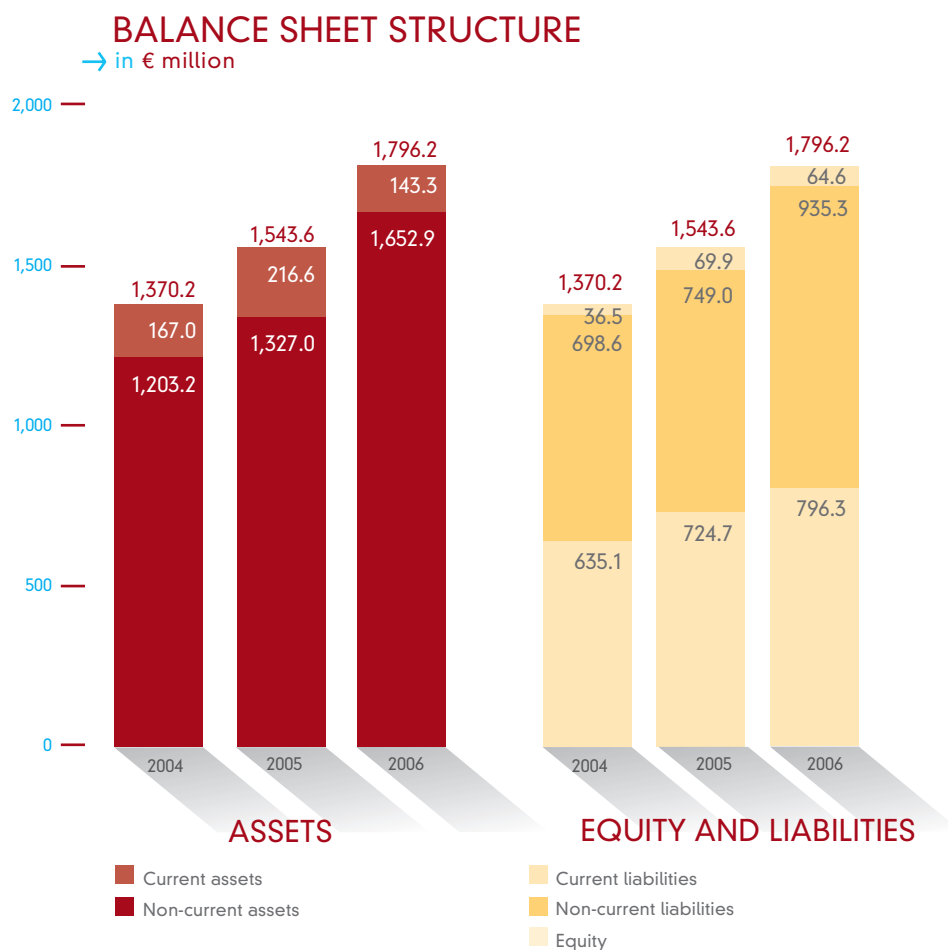


Dividend proposal: €2.10 per share

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

Net Assets

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



Non-current assets increase

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

Cash declines to €96.9 million

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

Equity ratio down due to modified reporting of minority interests

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

€81.2 million in deferred taxes

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

Bank loans and overdrafts higher due to investments

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

Net asset value rises by 10%

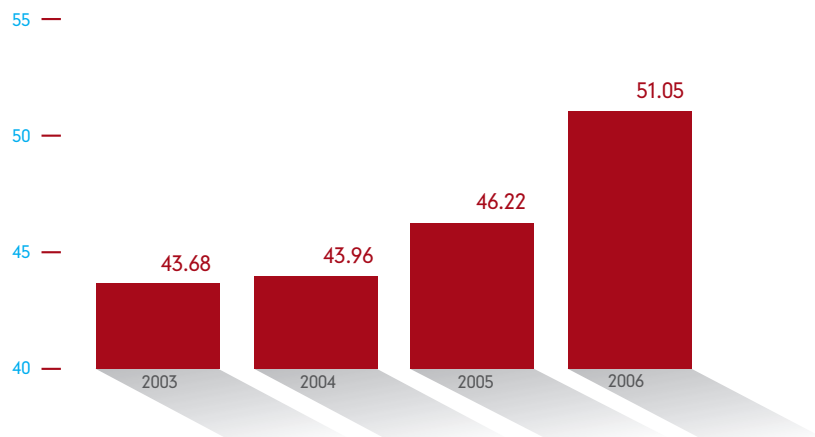
Net asset value as at 31 December 2006 was €877.4 million (€51.05 per share) compared with €794.5 million (€46.22 per share) in the previous year.

NET ASSET VALUE

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

NET ASSET VALUE

→ per share in €



Financial Position

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

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

Investment and Financing

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

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

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

Acquisitions in Poland and Germany

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

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

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

Disposals in France and Italy

Exploiting the positive market development for shopping centers, Deutsche EuroShop sold its shopping centers Shopping Etrembières in Annemasse/France and Centro Commerciale Tuscia in Viterbo/Italy. At 8,600 m² and 15,200 m² respectively, these two centers were the smallest in our portfolio. We did not think that these properties offered significant opportunities for expansion. The leasable space of our 16 shopping centers now averages around 39,800 m²; the 14 inner-city centers in our portfolio have average leasable space of approximately 33,600 m². The property in France fetched a purchase price of €41.0 million and the one in Italy €57.6 million. The Italian shopping center in particular significantly exceeded our price expectations due to buoyant investor interest. The gains from the two sales totalled €14.8 million.

Financing and interest rate structure

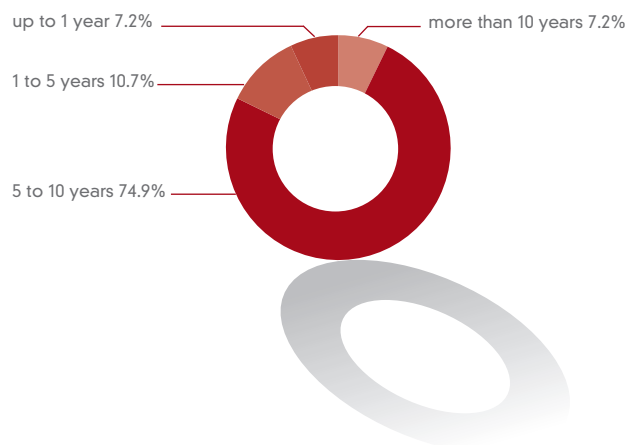
We believe that a clear, simple financing structure for the Group reduces our financing costs. In addition, as a long-term investor, we are convinced that the financing of our investments should also be long-term in order to match the risk profile of this business. Property should therefore not be financed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

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

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

LOAN STRUCTURE AS AT 31 DECEMBER 2006

→ Fixed-interest periods



Real property assets rise to €1.64 billion

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

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

Other disclosures

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

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

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

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

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

RISK REPORT

Risk Management

Principles, methods and objectives of risk management

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

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

1. Portfolio properties

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

2. Centers under construction

- Pre-letting levels
- Construction status
- Budget status

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

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

Analysis of Material Individual Risks

Cyclical and macroeconomic risks

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

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

Market and sector risks

Structural changes have taken place in the retail sector in recent years and these must also be included in a differentiated approach to risk management issues. While department stores have been losing market share for a long time, online merchants, discounters and specialty stores are achieving revenue growth. The

clothing sector in particular has suffered for some time from weak domestic demand. This is causing the business performance of the various operators to diverge. The German retail sector as a whole recorded nominal sales growth of 0.8% in 2006.

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

Risk of rent loss

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

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

Cost risk

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

Valuation risk

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

Currency risk

Deutsche EuroShop's activities are limited exclusively to the European economic area. Manageable currency risks arise in the case of the Eastern European investees. Because of the translation of the annual financial statements at the reporting date, the Group's income statement is affected by unrealised translation gains and losses, and is thus exposed to an incalculable volatility. These risks are not hedged as a rule

because this is purely an issue of translation at the reporting date and therefore does not expose the Company to cash flow risks. The currency risk from operations is largely hedged by linking rents and loan liabilities to the euro. A risk could arise if the Hungarian forint or the Polish zloty were to plummet against the euro and the tenants were no longer able to pay what would then be considerably higher rents denominated in foreign currency.

Financing risk

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

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

Risk of damage

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

IT risk

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

Legal risk

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

Evaluation of the overall risk position

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

REMUNERATION REPORT

Compensation system for the Executive Board

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

Compensation system for the Supervisory Board

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

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

Miscellaneous

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

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

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

REPORTS NOT INCLUDED

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

REPORT ON EXPECTED DEVELOPMENTS

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

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

Economic forecasts for 2007

Forecasts for 2007 in Germany by German economic research institutes

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

SVR = German Council of Economic Advisors
 OECD = Organisation for Economic Cooperation and Development
 ifo = ifo Institute for Economic Research
 DIW = German Institute for Economic Research

IWH = Halle Institute for Economic Research
 IfW = Kiel Institute for World Economics
 RWI = RWI Essen
 EC = European Commission

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

Three shopping centers to open in 2007 and 2008

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

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

Price increases impede portfolio expansion

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

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

The expansion of the Main-Taunus-Zentrum by approximately 13,000 m² of leasable space could prove to be an attractive investment opportunity. Provisional planning permission has already been granted. We are currently working at full steam on the planning permission application. We do not anticipate this to be completed before the end of this year, however.

Agreed transactions are the foundation for revenue and earnings planning

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

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

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

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

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

Clear earnings growth anticipated in 2008

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

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

Hamburg, March 2007

Deutsche EuroShop AG, Hamburg

consolidated financial statements

IFRS CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

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

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

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

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

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

in € thousand	1 Jan. - 31 Dec. 2006	1 Jan. - 31 Dec. 2005
Profit after tax	100,307	61,651
Gains on the disposal of non-current assets	-14,829	0
Profit/loss attributable to limited partners	6,376	12,946
Depreciation of property, plant and equipment	18	20
Impairment losses on non-current financial assets	443	0
Changes in value of investment property in accordance with IAS 40	-69,909	-52,467
Other non-cash income and expenses	-2,390	2,519
Deferred taxes	16,866	18,482
Operating cash flow	36,882	30,205
Changes in receivables	-4,065	-2,679
Change in non-current tax provisions	-5,534	0
Changes in current provisions	-4,837	-12,313
Changes in liabilities	-5,101	4,396
Cash flow from operating activities	17,345	19,609
Proceeds from the sale of consolidated companies	80,921	0
Payments to acquire consolidated companies	-164,457	-2,559
Payments to acquire property, plant and equipment and intangible assets	0	2
Proceeds from the disposal of property, plant and equipment *	-43,160	-56,134
Payments to acquire non-current financial assets	-4,889	-11,807
Cash flow from investing activities	-131,585	-70,498
Changes in interest-bearing financial liabilities	49,048	60,083
Payments to owners	-38,392	-33,379
Contributions by owners	0	65,928
Cash flow from financing activities	10,656	92,632
Net change in cash and cash equivalents	-103,584	41,743
Cash and cash equivalents at beginning of period	197,192	150,275
Changes in consolidated Group	2,687	4,182
Other changes	607	992
Cash and cash equivalents at end of period	96,902	197,192

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

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2006**

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

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

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

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

Depreciation and amortisation/impairment losses, fair value adjustments and reversals of impairment losses

Book values

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

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

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

Depreciation and amortisation/impairment losses, fair value adjustments and reversals of impairment losses

Book values

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

Deutsche EuroShop AG, Hamburg

notes to the consolidated financial statements

for financial year 2006

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Basis of Presentation

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

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

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

Amounts are presented in thousands of €.

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

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

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

Basis of Consolidation and Consolidation Methods

Basis of consolidation

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

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

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

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

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

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

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

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

- Purchase of 74% of Einkaufs-Center Galeria Baltycka G.m.b.H. & Co. KG, Hamburg, as at 15 August 2006 for a purchase price (including contributions yet to be paid) of €57.7 million. The company did not generate any revenue during the year under review and recorded a net loss of €45 thousand in financial year 2006. Galeria Baltycka G.m.b.H. & Co. KG holds 99.99% of the shares in Centrum Handlowe Polska 5 Sp. zo.o Sp. kom., Warsaw.
- Purchase of 94.9% of Stadt-Galerie Passau KG, Hamburg, as of 15 December 2006 for a purchase price (including contributions yet to be paid) of €94.4 million. The company did not generate any revenue during the year under review and recorded a net loss of €2.9 million.
- Increase by 7 percentage points (to 99.9%) in the interest in Rhein-Neckar-Zentrum KG, Hamburg, for a purchase price of €10.7 million.

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

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

- Disposal of SCI Val Commerces, Annemasse as at 11 April 2006 for €22.9 million
- Disposal of Centro Commerciale Tuscia Viterbo, Viterbo as at 22 December 2006 for €57.6 million
- Disposal of Centro Commerciale Tuscia Galleria, Viterbo as at 22 December 2006 for €0.5 million

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

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

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

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

Consolidation methods

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

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

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

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

Currency Translation

The Group currency is the euro (€).

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

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

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

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

Changes in Accounting Policies

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

- IAS 1 “Presentation of Financial Statements” – amendments resulting from amendments to IAS 19
- IAS 21 “The Effects of Changes in Foreign Exchange Rates” – provisions on net investment in a foreign operation
- IAS 24 “Related Party Disclosures” – amendments resulting from amendments to IAS 19
- IAS 32/39 “Financial Instruments: Disclosure and Presentation/Recognition and Measurement” – amendments regarding financial guarantee contracts, the fair value option and cash flow hedge accounting

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

- IAS 1 “Presentation of Financial Statements” effective 1 January 2007
- IFRS 7 “Financial Instruments: Disclosures” effective 1 January 2007
- IFRS 8 “Segment Reporting” effective 1 January 2009
- IFRIC 10 “Interim Financial Reporting” effective 1 January 2006

Significant Accounting Policies

Revenue and expense recognition

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

Intangible assets

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

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

Financial instruments

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

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

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

Non-current financial assets

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

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

Receivables and other assets

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

Deferred taxes

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

Current financial instruments

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

Liabilities to banks/Bank loans and overdrafts

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

Other provisions

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

Current trade payables

Trade payables are carried at their redemption amount.

Cash and cash equivalents

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

Other liabilities are carried at their redemption amount.

Borrowing costs

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

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

Consolidated Balance Sheet Disclosures

1. Intangible assets

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

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

2. Property, plant and equipment

2a. Property, advance payments and assets under construction

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

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

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

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

2b. Operating and office equipment

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

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

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

3. Investment property

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

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

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

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

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

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

4. Non-current financial assets

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

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

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

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

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

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

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

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

5. Other non-current assets

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

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

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

6. Trade receivables

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

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

7. Receivables from other investees and investors

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

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

8. Other current assets

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

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

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

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

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

Receivables

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

Prior-year figures in parentheses

9. Current financial assets

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

This relates to DWS fund shares carried at fair value.

10. Cash

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

The maturities of all cash items are under one year.

11. Equity and reserves

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

11a. Share capital and capital reserves

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

The notional value of each share is €1.28.

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

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

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

11b. Retained earnings

Retained earnings comprise the legal reserve and other retained earnings.

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

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

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

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

Other equity items primarily include currency translation differences.

12. Bank loans and overdrafts

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

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

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

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

13. Deferred tax liabilities

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

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

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

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

14. Right to redeem of limited partners

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

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

15. Trade payables

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

16. Tax provisions

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

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

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

Real property tax provisions relate exclusively to companies in Germany.

17. Other provisions

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

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

All provisions have a term of up to one year.

18. Other current liabilities

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

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

Liabilities

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

Prior-year figures in parentheses

Disclosures on the Consolidated Income Statement

19. Revenue

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

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

20. Other operating income

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

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

21. Property operating costs

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

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

22. Property management costs

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

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

23. Other operating expenses

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

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

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

24. Income from investments

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

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

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

25. Profit/loss attributable to limited partners

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

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

26. Measurement gains/losses

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

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

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

27. Income tax expense

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

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

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

Tax reconciliation

The income taxes in the amount of €17,365 thousand during the year under review are derived as follows from an expected income tax expense that would have resulted from the application of the parent company's statutory income tax rate to the profit before tax. This was calculated using a corporation tax rate of 25% plus the 5.5% solidarity surcharge.

in € thousand	2006	2005
Consolidated profit before income tax	117,676	68,146
Theoretical income tax 26.375%	-31,037	-17,974
Reversal of deferred taxes	10,011	0
Tax-free income	3,452	0
Miscellaneous	209	-1,398
Effective income tax	-17,365	-19,372

Deutsche EuroShop AG is a commercial enterprise by virtue of its legal form and its trade income is are subject to trade tax.

However, since 2003 Deutsche EuroShop AG has met the requirements for the extended reduction of trade tax in accordance with section 9(1) sentence 2 of the Gewerbesteuer-gesetz (GewStG – Trade Tax Act). As a result, no significant trade tax payments have been made to date.

At present, the trade tax is only applied to income not covered by the extended reduction of trade tax, such as interest income. In the current year, €135 thousand in trade tax expense was included in the effective tax expense.

In financial year 2006, the effective income tax rate was 15%.

28. Other taxes

in € thousand	2006	2005
Other taxes	-4	-69

Disclosures on the Consolidated Cash Flow Statement

Disclosures on the consolidated cash flow statement

The cash flow statement has been prepared in accordance with IAS 7 and is broken down into operating cash flow and cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. Cash and cash equivalents consist of cash, bank balances and money market fund shares.

Cash and cash equivalents

in € thousand	31 Dec. 2006	31 Dec. 2005
Cash	95,934	175,190
Current financial assets	968	22,002
	96,902	197,192

Cash and cash equivalents consist of bank balances, cash and DWS money market fund shares. The money market funds are fund shares that are available for sale and that are only subject to minor fluctuations in value. The money market funds serve among other things to meet the Company's payment obligations and to this extent act as liquidity reserves (cash equivalents).

As part of the indirect calculation method, the changes to balance sheet items made in connection with operating activities are adjusted for the effects in the consolidated Group. As a result, the changes in these balance sheet items cannot be reconciled with the corresponding carrying amounts in the published consolidated balance sheet.

Operating cash flow

After adjustment of the profit for the period, the operating cash flow amounts to €36,882 thousand. All changes to cash flows from net finance costs are allocated to operating activities.

Cash flow from operating activities

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

Cash flows from operating activities include, among other things:

- interest income in the amount of €2.3 million (previous year €2.2 million)
- interest expense in the amount of €33.3 million (previous year: €29.8 million)
- income taxes paid in the amount of €0.5 million (previous year: €0.9 million)

Cash flow from investing activities

Cash additions/disposals of non-current assets during the current year are disclosed. Main-Taunus-Zentrum KG and DB Immobilienfonds 12 Main-Taunus-Zentrum Wieland KG were consolidated proportionately for the first time with the increase in the shares held in the former company. Additionally, shares were acquired during the year under review in Rathaus-Center Dessau KG, Galeria Baltycka G.m.b.H. & Co. KG and Stadt-Galerie Passau KG, which were fully consolidated during the year under review. Galeria Baltycka G.m.b.H. & Co. KG holds 99.99% of the shares in Centrum Handlowe Polska 5 Sp. zo.o Sp. kom., which was also fully consolidated. The investments in SCI Val Commerces, Centro Commerciale Tuscia Viterbo S.r.l. and Centro Commerciale Tuscia Galleria S.r.l. were sold during the year under review.

Cash flow from financing activities

In financial year 2006, a total of €38,392 thousand was paid as dividends to shareholders and distributions to minority shareholders.

Other changes

This item is primarily the result of currency translation in relation to our foreign investments.

Cash flow per share

		2006	2005
Average number of no-par value shares outstanding	Shares	17,187,499	15,787,670
Operating cash flow	€ thousand	36,882	30,205
Operating cash flow per share	€	2.15	1.91
Cash flow from operating activities	€ thousand	17,345	19,609
Cash flow per share	€	1.01	1.24

Earnings per Share

In accordance with IAS 33, earnings per share are calculated by dividing the consolidated profit for the period by the weighted average number of shares in issue. This ratio can be diluted by "potential" shares (convertible bonds and stock options) or by capital increases.

The share capital of Deutsche EuroShop AG is composed of 17,187,499 no-par value registered shares.

		2006	2005
No-par value shares outstanding	Shares	17,187,499	17,187,499
Consolidated net profit attributable to Group shareholders	€ thousand	100,307	48,705
Earnings per share (diluted)	€	5.84	3.09
Earnings per share (basic)	€	5.84	2.83

Segment Reporting

As a holding company, Deutsche EuroShop AG holds equity interests in shopping centers in the European Union. The investees are pure shelf companies without staffs of their own. Operational management is contracted out to external service providers under agency agreements, meaning that the companies' activities are exclusively restricted to asset management. Due to the Company's uniform business activities within a relatively homogeneous region (the European Union), no separate segment reporting has been presented (single-product, single-region entity).

Other Financial Obligations

Rental, lease and loan obligations

in € thousand	31 Dec. 2006	31 Dec. 2005
Due to mature in 2007	52	58
Due to mature in 2008	47	40
Due to mature after 2008	46	0
	145	98

Other Disclosures

The Group employed four staff as at 31 December 2006.

Events after the Balance Sheet Date

No significant events occurred between the balance sheet date and the date of preparation of the financial statements.

The Supervisory Board and the Executive Board

SUPERVISORY BOARD

- a) Membership of other statutory supervisory boards
- b) Membership of comparable German and foreign supervisory bodies of business enterprises

Manfred Zaß, Königstein im Taunus, Chairman
Banker

Dr. Michael Gellen, Cologne, Deputy Chairman
Lawyer

- a) Deutsche Wohnen AG, Frankfurt am Main (Deputy Chairman, until 10 August 2006)
Reality Capital Partners AG, Bonn (since 1 June 2006)

- b) Rhein-Pfalz Wohnen GmbH, Mainz
MT Wohnen GmbH, Frankfurt am Main
Rhein-Main Wohnen GmbH, Frankfurt am Main
Rhein-Mosel Wohnen GmbH, Mainz
Main-Taunus Wohnen GmbH & Co. KG, Frankfurt am Main

Thomas Armbrust, Hamburg
Member of the management of KG CURA Vermögensverwaltung G.m.b.H. & Co., Hamburg

- a) C.J. Vogel Aktiengesellschaft für Beteiligungen, Hamburg (Chairman)
TransConnect Unternehmensberatungs- und Beteiligungs AG, Munich (Chairman)
Verwaltungsgesellschaft Otto mbH, Hamburg
Platium AG, Hamburg (Chairman)
- b) ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg (Deputy Chairman)
Spiegel Holdings, Inc., Chicago/USA

Dr. Jörn Kreke, Hagen
Businessman

a) Douglas Holding AG, Hagen (Chairman)

Alexander Otto, Hamburg
CEO of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg

a) HSH Nordbank AG, Hamburg
Verwaltungsgesellschaft Otto mbH, Hamburg
British American Tobacco (Industrie) GmbH, Hamburg
British American Tobacco (Germany) GmbH, Hamburg
BATIG Gesellschaft für Beteiligungen, Hamburg
Hamburg-Mannheimer Versicherungs AG, Hamburg

b) Peek & Cloppenburg KG, Düsseldorf

Dr. Bernd Thiemann, Frankfurt am Main
Co-owner of Drueker & Co., Frankfurt am Main

a) Celanese AG, Kronberg (Chairman)
EM.TV AG, Munich (Chairman)
M.M. Warburg & Co. KGaA Holding, Hamburg (Deputy Chairman)
ThyssenKrupp Stainless AG, Duisburg
VHV Vereinigte Hannoversche Versicherung a.G., Hanover
VHV Leben AG, Hanover

b) Fraport AG, Frankfurt am Main
Würth Gruppe, Künzelsau (Deputy Chairman)
Odewald & Companie, Berlin (Deputy Chairman)

EXECUTIVE BOARD

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

Olaf G. Borkers, Hamburg

The **remuneration of the members of the Supervisory Board** amounted to €131 thousand in the year under review, and is broken down as follows:

in € thousand	Total
Manfred Zaß	34.80
Dr. Michael Gellen	26.10
Thomas Armbrust	17.40
Alexander Otto	17.40
Dr. Jörn Kreke	17.40
Dr. Bernd Thiemann	17.40
Incl. 16% value added tax	130.50

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

The **remuneration of the Executive Board** amounted to €679 thousand, and is broken down as follows:

in € thousand	Fixed salary	Variable remuneration	Other benefits	Total
Claus-Matthias Böge	270	155	66	491
Olaf Borkers	168	20	0	188

The other benefits include payments by the Company to a pension scheme in favour of Executive Board member Claus-Matthias Böge and his dependents, and the provision of a car for his business and private use.

No advances or loans were granted to members of the Executive Board. The Company has not entered into any contingencies or commitments in favour of these persons.

For further details, please see the supplementary disclosures on remuneration contained in the management report.

Corporate governance

The Declaration of Conformity with the German Corporate Governance Code required by section 161 of the Aktiengesetz (AktG – German Public Companies Act) has been issued jointly by the Supervisory Board and the Executive Board, and was made available to shareholders via publication on the Internet in January 2007.

By reference to section 161 of the AktG, we hereby disclose in accordance with the recommendations of the German Corporate Governance Code (section 6.6) that the Supervisory Board and Executive Board members held the following number of shares of Deutsche EuroShop AG in issue (total: 17,187,499) as at 31 December 2006:

	31 December 2006
Supervisory Board	2,112,525 shares
of which Alexander Otto → 1%	2,109,125 shares
Executive Board	15,150 shares

RELATED PARTIES IN ACCORDANCE WITH IAS 24

Deutsche EuroShop AG's subsidiaries as well as the members of its Executive Board and the Supervisory Board are regarded as related parties in accordance with IAS 24. In the ordinary course of business, the Company maintained relationships involving the provision of goods and services with this group of persons and companies; the relevant terms and conditions fulfil the criteria for arm's length transactions.

Income of €4,291 thousand (previous year: €3,193 thousand) was generated in the financial year from the Douglas Group under existing rental contracts. Deutsche EuroShop AG Supervisory Board member Dr. Jörn Kreke is Chairman of the Supervisory Board of the Douglas Group.

Fees for service contracts amounting to €47,050 thousand (previous year: €22,022 thousand) were paid to the ECE Group, of which Deutsche EuroShop AG Supervisory Board member Mr. Alexander Otto is Managing Director. €36,985 thousand (previous year: €10,042 thousand) of this amount related to properties under construction and €10,065 thousand (previous year: €11,980 thousand) to operational properties. This was partially offset by income from rental contracts with the ECE Group in the amount of €3,246 thousand (previous year: €2,459 thousand).

In addition, a prime contractor agreement worth €91,400 thousand was signed with the ECE Group for the Stadt-Galerie Passau. Instalment payments amounting to €12,900 thousand were made in the year under review.

With effect from 1 January 2006, 45.9% of the limited partner shares in Rathaus-Center Dessau KG were acquired from ARENA Vermögensverwaltung (G.m.b.H. & Co.), a company attributable to Mr. Alexander Otto, for a purchase price of €20,488 thousand.

Hamburg, 23 March 2007
Deutsche EuroShop AG

The Executive Board



Claus-Matthias Böge



Olaf G. Borkers

Shareholdings

List of shareholdings in accordance with section 285 of the HGB as at 31 December 2006:

Company name and domicile	Nominal equity in €	Interest in nominal capital in %	thereof indirect in %	thereof direct in %	HGB profit/loss 2006 in €
Fully consolidated companies					
Deutsche EuroShop Verwaltungs GmbH, Hamburg	50,000.00	100.0	-	100.0	-234,114.64
Deutsche EuroShop Management GmbH, Hamburg	25,000.00	100.00	-	100.00	30,223.38
Rhein-Neckar-Zentrum KG, Hamburg	235,000,000.00	99.90	-	99.90	13,002,506.02
Centro Commerciale Friuli Claus-Matthias Böge & Co. S.a.s., Milan/Italy	5,600,000.00	99.90	99.90	-	3,262.02
City-Galerie Wolfsburg KG, Hamburg	50,000,000.00	89.00	-	89.00	-36,781.87
Allee-Center Hamm KG, Hamburg	21,630,000.00	87.74	-	87.7	2,442,445.05
City-Arkaden Wuppertal KG, Hamburg	50,000,000.00	72.00	-	72.00	-537,202.54
Forum Wetzlar KG, Hamburg	44,700,000.00	65.00	-	65.00	619,123.81
Stadt-Galerie Hameln KG, Hamburg	82,000,000.00	94.90	-	94.90	-2,276,184.17
Rathaus-Center Dessau KG, Hamburg	46,200,000.00	94.90	-	94.90	-3,406,572.89
Stadt-Galerie Passau KG, Hamburg	125,900,000.00	75.00	-	75.00	-2,938,899.51
Einkaufs-Center Galeria Baltycka G.m.b.H. & Co. KG, Hamburg	54,960,000.00	74.00	-	74.00	-108,197.08
	in PLN				in PLN
Centrum Handlowe Polska 5 Sp. z o.o. Sp. kom., Warsaw/Poland	186,799,620.00	74.00	74.00	-	3,268,372.40
Proportionately consolidated companies					
	in €				in €
Altmarkt-Galerie Dresden KG, Hamburg	83,000,000.00	50.00	-	50.00	1,229,560.31
Immobilien KG FEZ Harburg, Hamburg	40,700,000.00	50.00	-	50.00	-485,029.48
Objekt City-Point Kassel GmbH & Co. KG, Pöcking	42,400,000.00	40.00	40.00	-	-931,638.64
DB Immobilienfonds 12 Main-Taunus- Zentrum Wieland KG, Hamburg	150,000,000.00	40.77	-	40.77	7,506,603.89
Main-Taunus-Zentrum KG, Hamburg	12,688,000.00	43.12	37.38	5.74	11,362,239.81
City Arkaden Klagenfurt KG, Hamburg	51,700,000.00	50.00	-	50.00	-541,514.57
EKZ Eins Einrichtungs- und Betriebsges. mbH & Co. OEG, Vienna	1,000.00	50.00	50.00	-	-3,785,790.51
Einkaufs-Center Arkaden Pécs KG, Hamburg	41,300,000.00	50.00	-	50.00	1,595,363.63
	in PLN				in PLN
Ilwro Joint Venture Sp. z o.o., Warsaw/Poland	21,000,000.00	33.33	-	33.33	69,272,694.75
CASPIA Investments Sp. z o.o., Warsaw/Poland	50,000.00	74.00%	74.00%	-	-76,831.86
	in €				in €
City-Point Beteiligungs GmbH, Pöcking	25,564.60	40.00	-	40.00	7,223.54
Kommanditgesellschaft Sechzehnte ALBA Grundstücksgesellschaft mbH & Co., Hamburg	25,000.00	50.00	50.00	-	-126,844.51

Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – and the group management report prepared by Deutsche EuroShop AG, Hamburg, for the financial year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 29 March 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Rohardt
Wirtschaftsprüfer



zu Inn- u, Knyphausen
Wirtschaftsprüfer