

# REPORT OF THE SUPERVISORY BOARD

## DEAR SHAREHOLDERS,

During the 2008 financial year, the Supervisory Board performed the duties incumbent on it according to the law and the Articles of Association and closely followed the performance of Deutsche EuroShop AG. The strategic orientation of the Company was coordinated with the Supervisory Board and the progress of strategy implementation discussed at regular intervals. The Supervisory Board monitored and advised the Executive Board in its management of the business. The Executive Board informed us regularly, promptly and in detail of business developments.

### FOCUS OF ADVISORY ACTIVITIES

We examined our Company's net assets, financial position and results of operations, as well as its risk management, regularly and in detail. In this context, we checked that the formal conditions for implementing an efficient system of monitoring our Company were met and that the means of supervision at our disposal were effective. We were informed on an ongoing basis of all significant factors affecting the business.

Our discussions focused on the development of the portfolio properties, their sales trends, outstanding accounts, occupancy rates, construction measures and liquidity as well as investment cost trends for our new development projects.

Particularly intensive and repeated discussions with the Executive Board focused on the Company's strategy in light of the turmoil on the capital markets. In these discussions, the Executive Board also presented various investment options to the Supervisory Board.

Other current topics were discussed by the Chairman of the Supervisory Board and the Executive Committee of the Supervisory Board together with the Executive Board as required. Transactions requiring the approval of the Supervisory Board were dis-

“PARTICULARLY INTENSIVE AND REPEATED DISCUSSIONS WITH THE EXECUTIVE BOARD FOCUSED ON THE COMPANY'S STRATEGY IN LIGHT OF THE TURMOIL ON THE CAPITAL MARKETS.”

cussed and resolved in meetings held according to plan. In addition, for transactions of the Executive Board requiring approval, an extraordinary meeting of the Supervisory Board and two conference calls of the Executive Committee were held and circular resolutions were passed in writing. All resolutions of the reporting period passed unanimously.

### MEETINGS

During the 2008 financial year, four regularly scheduled and one extraordinary Supervisory Board meetings took place. No Supervisory Board member participated in less than half of the Supervisory Board's meetings.

In the extraordinary meeting on 24 January 2008, the Executive Board presented two development projects to be implemented through joint ventures. The Supervisory Board granted its approval of these transactions. The higher development risk and the importance of these projects for the strategy of the Company in particular were discussed in this context.

In the first planned meeting on 17 April 2008, the annual review of efficiency of the Supervisory Board was completed and the agenda for the Annual General Meeting approved. In this context, we selected the auditor who was proposed to the shareholders for election. With regards to the audit of the annual financial statements, we once again attached great importance to the explanations of the Executive Board and those of the auditor on the real estate appraisals. The report of the Executive Board on the spot checks by the German Financial Reporting Enforcement Panel completed in March 2008 and the statements of the auditors and the Executive Board on the effects of the German business tax reform were also addressed.

In the meeting on 19 June 2008, the first action was to elect the undersigned once again as Chairman of the Supervisory Board and Dr. Gellen as Deputy Chairman pursuant to Section 107 of the Aktiengesetz (AktG – German Public Companies Act). Regular elections of members of the Supervisory Board took place in the Annual General Meeting concluded prior to this. In addition to a discussion of business development, we also passed a resolution to approve the expansion of Altmarkt-Galerie in Dresden.

In the third meeting on 18 September 2008, we discussed in depth the possible impact that dwindling economic prospects might have on our Company. The Executive Board also presented a shopping center in Germany as an investment opportunity. The Executive Board also informed us that one of the joint ventures approved in January was not realised because the necessary land had been bought by a competitor.

In the last meeting on 25 November 2008, the Executive Board presented its ideas on increasing the investment in City-Point in Kassel. The Supervisory Board discussed this investment and gave its approval for pursuing this opportunity further. In view of the approaching end of the year, the Executive Board reported to us on its assessment of the real estate portfolio appraisal. In consi-

deration of the worsening outlook for the retail sector, we monitored the statements of the Executive Board on the revenues of our tenants and the outstanding rents in our shopping centers more closely than ever. Because of the general scepticism about retail trends, we will continue to watch these figures in a timely fashion in order to assess their impact on our Company and initiate countermeasures at an early stage.

An extensive discussion also ensued on the projection and medium-term performance planning of the Company presented by the Executive Board.

## COMMITTEES

The Supervisory Board has formed two separate committees, an Executive Committee and an Audit Committee, each with three members. We consider this to be appropriate, given the size of the Company and the number of Supervisory Board members. During

“IN THE LAST MEETING ON 25 NOVEMBER 2008, THE EXECUTIVE BOARD PRESENTED ITS IDEAS ON INCREASING THE INVESTMENT IN CITY-POINT IN KASSEL.”

the reporting period, both committees met on 9 April 2008, with the Executive Committee of the Supervisory Board also convening in conference calls on 15 April 2008 and 17 December 2008.

## CORPORATE GOVERNANCE

In December 2008, together with the Executive Board, we issued an updated declaration of conformity with the recommendations of the government commission pursuant to Article 161 of the Aktiengesetz (AktG – German Public Companies Act) and made this permanently available on the Deutsche EuroShop website in December 2008. A separate report on implementation of the German Corporate Governance Code is included in this Annual Report. The members of the Supervisory Board and the Executive Board declared in writing at the beginning of 2009 that no conflicts of interest occurred.

## FINANCIAL STATEMENTS OF DEUTSCHE EUROSHOP AG AND THE GROUP FOR THE PERIOD ENDED 31 DECEMBER 2008

At the Audit Committee meeting on 7 April 2009 and the Supervisory Board meeting on 23 April 2009, the Audit Committee and the Supervisory Board examined in detail the annual financial statements of Deutsche EuroShop AG in accordance with German commercial law, and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), each as at 31 December 2008, as well as the management report and group management report for financial year 2008.

The documents relating to the financial statements, the auditor's reports and the Executive Board's proposal for the appropriation of the unappropriated surplus were presented to us in good time. The auditor elected by the Annual General Meeting on 19 June 2008 – Hamburg-based BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft – had audited the previous sets of financial statements and issued an unqualified audit opinion in each case. The auditor also confirmed that the accounting policies, assessment and consolidation methods in the consolidated financial statements complied with relevant accounting provisions. In addition, the auditor determined in the course of his assessment of the risk management system that the Executive Board has undertaken all required measures pursuant to Article 91 (2) of the AktG in order to identify risks promptly which could jeopardise the continued existence of the Company.

The auditor's representatives took part in the discussion on the annual financial statements and the consolidated financial statements on the occasions of the Audit Committee meeting on 7 April 2009 and the Supervisory Board meeting on 23 April 2009 and explained their main findings.

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

The adverse environment for the real estate sector persisted during financial year 2008 and was worse still than the previous year. The Company's conservative strategy has continued to prove successful.

The positive development of our Company in this environment is also a result of the dedication of the Executive Board and our employees. The Supervisory Board would like to express its gratitude for this to the Executive Board and to the employees.

Hamburg, 23 April 2009



Manfred Zaß, Chairman