DEUTSCHE EUROSHOP AG GROUP MANAGEMENT REPORT 2008

BUSINESS AND ECONOMIC CONDITIONS

OPERATING ACTIVITIES

Deutsche EuroShop is the only public company in Germany that invests solely in shopping centers in prime locations. It currently has investments in 16 shopping centers in Germany, Austria, Poland and Hungary. The Group generated the revenue recognised from rental income for the space let in the shopping centers.

GROUP'S LEGAL STRUCTURE

Due to its lean personnel structure and its concentration on only one operating segment, the Deutsche EuroShop Group is centrally organised. The Group managing company is Deutsche EuroShop AG. It is responsible for corporate strategy, portfolio and risk management, financing and communication.

The Company's headquarters are in Hamburg. Since its establishment in 2000, Deutsche EuroShop AG has been an Aktiengesellschaft (public company) under German law. The individual shopping centers are operated as separate companies. According to interest in the nominal capital, these are consolidated in the consolidated financial statements either fully, proportionately or using the equity method. More information on indirect or direct investment is detailed in the notes to the consolidated financial statements.

Deutsche EuroShop AG shares are traded on the Frankfurt Stock Exchange and other stock exchanges. As of 31 December 2008, 12.45% were owned by Alexander Otto (2007: 12.28%).

The share capital amounts to €34,374,998 and is composed of 34,374,998 no-par value registered shares. The notional value of each share is €1.00.

According to section 5 of the Articles of Association dated 31 August 2007, 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 €17,187,499 on one or several occasions until 20 June 2012 by issuing up to 17,187,499 (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 €150,000,000 and maturities of up to 7 years and to grant bond holders or creditors conversion rights to up to 7,500,000 new no-par value registered shares in the Company with a proportionate amount of share capital of up to €7,500,000 as detailed in the terms and conditions for convertible bonds to be published by the Executive Board, with the approval of the Supervisory Board.

GOVERNANCE AND SUPERVISION

The Executive Board of Deutsche EuroShop manages the Company in accordance with the provisions of German company law and with its rules of procedure. The Executive Board's duties, responsibilities and business procedures are laid down in its rules of procedure and in its schedule of responsibilities.

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

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.

More information about the Executive Board and the Supervisory Board can be found in the Corporate Governance Report.

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. The variable compensation is paid after the Supervisory Board approves 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, Claus-Matthias Böge would receive a one-time severance payment of €150 thousand and Olaf Borkers would receive three months' salary.

Compensation system for the Supervisory Board

The compensation of the Supervisory Board is based on section 8 (4) of the Articles of Association of Deutsche EuroShop AG. In accordance with the Articles of Association, the compensation amounts to €50,000 for the chairman (previous year: €30,000), €37,500 for the deputy chairman (previous year: €22,500) and €25,000 for each of the other members of the Supervisory Board (previous year: €15,000). Membership in committees is not additionally taken into account when the compensation of the Supervisory Board is determined. Moreover, compensation does not contain any performance-based elements. The compensation is fixed based on the business model and size of the Company and hence the responsibility associated with the role. The Company's financial position is also taken into consideration. If a member of the Supervisory Board should leave the Supervisory Board during the financial year, the member shall receive the remuneration pro rata. Cash expenses are also reimbursed in accordance with section 8 (5) of the Articles of Association.

Miscellaneous

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

For further details, please see the supplementary disclosures on remuneration included in the Group Management Report.

MANAGEMENT CONTROL, OBJECTIVES AND STRATEGY

We focus on investment in top-quality shopping centers in city centers and established locations that have the potential for stable, lasting value growth and generate substantial distributable free cash flows on an ongoing basis. We invest in shopping center project developments in their early stages with up to 10% of our equity as part of joint ventures.

Clear objectives and principles

Deutsche EuroShop's two primary investment objectives are to generate high surplus liquidity from long-term leases that can be distributed to shareholders in the form of annual dividends, and to achieve sustained growth in the value of its portfolio. To achieve these objectives, 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.

High-yield portfolio with stable value

Deutsche EuroShop has a well-balanced, diversified portfolio of German and European shopping centers. We concentrate 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 and yield 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 centres 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 GmbH & Co. KG. ECE has been developing, planning, implementing, leasing and managing shopping centers since 1965. With currently 112 shopping galleries 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 350,000 to 500,000 people who visit our 16 shopping centers on average every day are fascinated by the variety of sectors represented, but also by our unusual, unconventional promotions such as "Desert Fascination" or "Roncalli". These turn shopping centers into marketplaces where something new and spectacular is constantly on offer.

OVERVIEW OF THE COURSE OF BUSINESS

Macroeconomic conditions

In 2008, growth in the German economy was considerably weaker than in the two previous years. Real (price adjusted) gross domestic product (GDP) rose by 1.3% in Germany (previous year: 2.5%). After adjustment for the negative calendar effect – the period under review had 2.7 more working days than the preceding year – the rise in GDP was 1.0% for 2008 (2007: 2.6% after adjustment for the calendar effect).

Although the German economy is still developing positively, this is attributable exclusively to the domestic economy.

In 2008, the domestic economy retained the momentum of previous years. Investments in construction and capital goods expanded fairly rapidly. In contrast, private consumption, the most substantial component of GDP, barely attained the level of the previous year (-0.1%). At 11.4%, the savings rate reached its highest value since 1994 (2007: 10.8%).

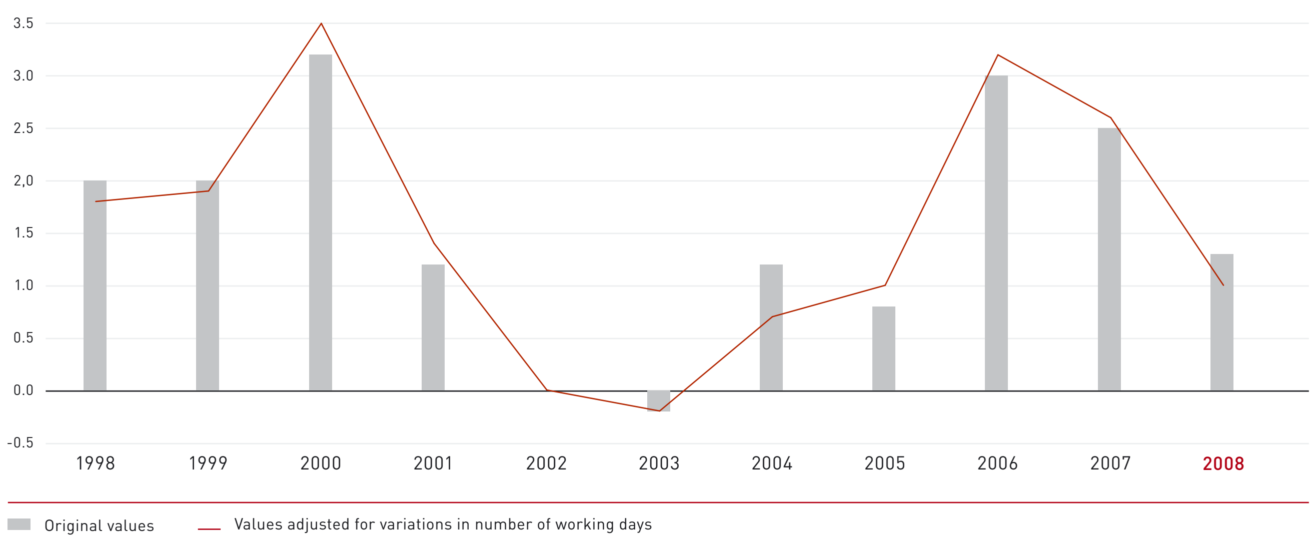
Exports, which had driven growth in the three previous years, slowed economic growth. The main reason for this was the considerably lower rise in foreign demand compared with previous years combined with the continued trend towards imports in the Germany economy. Hence, although German exports increased by 3.9% in 2008 (2007: +7.5%), imports rose by 5.2% after adjustment for prices (2007: +5.0%).

The average rate of inflation for the year was above that of the previous year (2.3%) at 2.6%. This was the highest annual increase since 1994. In particular, energy (+9.6%) and food prices (+6.4%) drove prices sharply upwards in the first quarters of 2008 and caused the average rate of inflation for the year to rise.

On an annual average, the unemployment rate fell to 7.8% (previous year: 9.0%); 3.27 million people (previous year: 3.78 million) were out of work. This significant, renewed, decline in unemployment primarily reflects a cyclical increase in employment liable to social security contributions.

In 2008, the European Monetary Union (EMU) continued to experience the economic boom of the preceding years, albeit to a lessened degree. According to the Statistical Office of the European Communities (Eurostat), real GDP increased by 0.9% in 2008 (previous year: 2.9%) in the EU-27. The euro zone inflation rate rose significantly in 2008 (+3.7%; previous year: +2.3%) and unemployment increased slightly to 7.5% (2007: 7.4%).

GROSS DOMESTIC PRODUCT IN GERMANY (AFTER ADJUSTMENT FOR PRICES) Change against the previous year in %



Economic conditions in the industry

Retail sector

According to provisional figures from the Federal Statistical Office, in 2008 German retail sales rose by 2.1% in nominal terms while falling by 0.4% in real terms (after adjustment for prices). At €399.6 billion, sales in the retail sector in the narrower sense (excluding vehicle sales, service stations, fuels and pharmacies) were slightly up on the previous year (€395.3 billion). Thus the retail sector showed itself to be fairly robust in 2008 as the crisis sentiment closed in.

The non-food sector increased its sales in 2008, including after adjustment for prices. In contrast, food retailers suffered declines in revenue in real terms. According to the Hauptverband des deutschen Einzelhandels (HDE – German Retail Federation), one reason for this was the sharp increase in the price of food and semi-luxury foodstuffs in the first three quarters.

Handelsverband BAG (German Retail Trade Association) observed that retail space throughout Germany increased by 1.3 million m² in 2008, although this represented a lower increase than in the previous year. This mainly took place in the first half of the year. As of late summer/autumn, BAG noted a tangible decrease in the reporting of new retail space. The implementation of many retail projects was either postponed or abandoned completely. Including the new additions, large-scale retail space in Germany amounts to approximately 117.8 million m².

According to BAG, this increase in retail space was primarily attributable to shopping centers, food and textiles discounters and specialty stores. Only a slight rise in retail space was recorded in east Germany, where new additions to space were offset by discontinued use of space in many cases. Once again, a certain non-typical development was observed in Berlin, where a large amount of new retail space has been created over the last few years. For the most part, the additions are in the west German states, where retail space has grown by around 1 million m² every year since 2006.

According to a survey by Kemper's Jones Lang LaSalle, a consultancy firm specialising in retail property, the highest proportion of floor-space in leases in 2008 was attributable to textile and shoe retailers, at 41% and 9% respectively, and to bookshops, telecommunications service providers, chemists and accessory retailers, at 6% each. Other important sectors in prime locations were restaurants, banks, sports shops and retailers of luxury products.

Retail spaces in the 100 m² to 250 m² size category were the most sought after in the past year. Larger spaces were also in demand: every fourth lease was for over 500 m².

Real estate market

According to a survey by Jones Lang LaSalle, the transaction volume for investments in retail property on the European continent (shopping centers, retail parks and factory outlets; excluding UK and Ireland) fell to €12.4 billion in 2008, a decline of 56% compared with the previous year (€28.2 billion). A significant reason for this development is certainly the wait-and-see attitude of investors, who are having to accept less favourable financing terms owing to the global financial crisis.

With a 55% share of the transaction volume, in 2008 shopping centers continued to be the focus of investors in mainland Europe, who are increasingly seeking defensive investment opportunities. They prefer stable market segments and favour prime locations, secure, long-term leases and high-quality tenants. However, the transaction volume for shopping centers also fell by almost 60% in Germany to €1.1 billion (2007: €2.6 billion).

However, the German market maintained its leading position with respect to retail property investments in continental Europe. At €2.5 billion, the volume in Germany represented a share of 20% (2007: 26%).

The yields from retail property increased over the course of the year due to the credit crisis. Nevertheless, the low number of transactions makes pricing in line with market rates more difficult. In addition, in individual cases investors are prepared to continue to pay higher prices and thus to accept lower yields. At the end of 2008, the yield generated by German shopping centers in prime locations as calculated by Jones Lang LaSalle was 5.75% (2007: 4.50%).

Share price performance

Deutsche EuroShop shares began 2008 with a price of €23.50. On 13 May, they reached their high for the year of €28.40 on the basis of the Xetra closing price. As of early October, the intensifying international financial crisis sparked off a flurry of at times frantic share selling on the capital markets, affecting real estate companies in particular. Our shares were not able to extricate themselves from this negative pull and the price fell to €18.50 by 20 November. Thanks to a strong recovery phase in December, Deutsche EuroShop shares escaped the generally poor sentiment for financial and property shares to some extent and closed the year on a positive note at a price of €24.30.

Evaluation of the financial year

The Executive Board of Deutsche EuroShop is very satisfied with performance in the past financial year. Thanks to the good development of the business, to which the recently opened centers in Poland (opened in 2007), Hameln and Passau made a substantial contribution, we raised our forecasts in November 2008.

Revenue was planned at between €113 million and €115 million and totalled €115.3 million as of the balance sheet date (2007: €95.8 million), corresponding to an increase of 20%. Earnings before interest and taxes (EBIT) of between €93 million and €95 million was planned; ultimately it increased by 25%, amounting to €98.1 million (2007: €78.5 million). We expected earnings before taxes (EBT) excluding measurement gains/losses of between €45 million and €47 million. They rose by 29%, totalling €49.9 million (2007: €38.9 million).

Just as in the previous year, we exceeded revenue and earnings forecasts. Deutsche EuroShop has proven once again that it has an outstanding shopping center portfolio and is well positioned, even in these difficult times for the economy and the real estate markets.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The 2008 financial year was a positive one for Deutsche EuroShop, despite the financial crisis. The Stadt-Galerie in Hameln was opened on schedule in March 2008 and the Stadt-Galerie in Passau was opened five weeks ahead of schedule. Both shopping centers had been let on a long-term basis long before the opening dates. These new openings, along with Galeria Baltycka in Gdansk, which contributed revenue for a full financial year for the first time, made a substantial contribution to the 20.4% growth in revenue from €95.8 million to €115.3 million. At €68.9 million, consolidated profit was down €25.2 million compared with the previous year (€94.2 million), which can be attributed to extraordinary tax income in the previous year in particular. Our net asset value per share increased by around 1.9% from €26.91 to €27.43. Earnings per share amounted to €2.00 (previous year: €2.74).

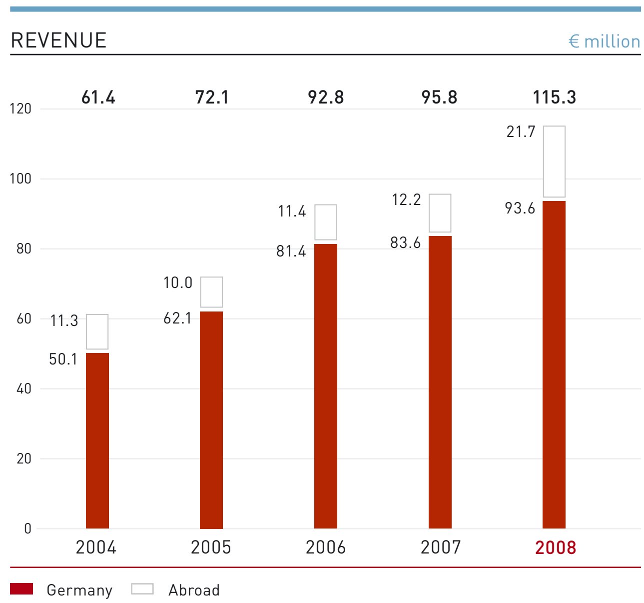
RESULTS OF OPERATIONS

Although German retail sales rose by 2.1% in nominal terms in 2008, the tenants of our shopping centers achieved only a 0.6% increase in revenue on a like-for-like basis. If our international properties are included in this comparison, then our tenants generated like-for-like revenue growth of 0.4%.

Revenue development

Consolidated revenue up 20.4%

Consolidated revenue was up 20.4% from €95.8 million to €115.3 million in the financial year. The Stadt-Galerie in Hameln (nine months), the Stadt-Galerie in Passau (four months) and the Galeria Baltycka in Gdansk, which opened in October 2007, made a significant contribution to this growth in revenue.



Higher rental income for almost all portfolio properties

For the most part, rental income for the portfolio properties developed positively. Only two properties posted slight revenue decreases due to lower settlement payments by former tenants. Total revenue rose by 2.0% on a like-for-like basis.

REVENUE

€ thousand	2008	2007	2006
Rhein-Neckar-Zentrum, Viernheim	16,686	16,307	16,014
Main-Taunus-Zentrum, Sulzbach*	10,378	10,011	9,781
Allee-Center, Hamm	9,591	9,398	9,209
City-Arkaden, Wuppertal	8,559	8,233	7,925
City-Galerie, Wolfsburg	8,323	8,326	7,704
Forum, Wetzlar	8,265	8,137	7,982
Rathaus-Center, Dessau	8,149	8,207	7,941
Altmarkt-Galerie, Dresden*	6,548	6,386	6,214
Phoenix-Center, Hamburg*	5,634	5,538	5,270
Stadt-Galerie, Hameln	5,484	0	0
City-Point, Kassel*	3,057	3,031	2,980
Stadt-Galerie, Passau	2,925	0	0
Total Germany	**93,599**	**83,574**	**81,020**
Galeria Baltycka, Gdansk	12,794	3,439	0
City Arkaden, Klagenfurt*	5,256	5,159	4,024
Árkád, Pécs*	3,694	3,590	3,527
Centro Commerciale Tuscia, Viterbo	0	0	2,848
Shopping Etrembières, Annemasse	0	0	1,022
Total abroad	**21,744**	**12,188**	**11,421**
Other revenue	0	0	413
Total	**115,343**	**95,762**	**92,854**

* = proportionately consolidated

Vacancy rate stable at under 1%

As in the previous year, the vacancy rate was under 1%. At €0.3 million (2007: €0.2 million) or 0.2% (2007: 0.2%), the need for write-downs for rent losses remained at a very low level.

Earnings development

Operating and administrative costs for property down slightly

Property operating costs declined by €2.0 million from €8.0 million to €6.0 million, which was attributable to lower maintenance costs and initial costs for new openings in particular. Property management costs climbed by €1.1 million from €6.1 million to €7.2 million due to the increase in revenue.

Other operating expenses up by €0.8 million

At €5.0 million, other operating expenses were €0.8 million higher than in the previous year, which was chiefly attributable to higher personnel expenses, an increase in the compensation of the Supervisory Board and higher consulting costs.

Net finance costs rise

Net finance costs were up €8.6 million to €48.2 million, after €39.6 million in the previous year. This rise is attributable firstly to a higher interest expense (€+5.9 million compared with the previous year) and secondly to a higher share of operating profit attributable to minority shareholders, which was €2.6 million above the level of the previous year (€3.6 million) at €6.2 million.

In the period under review, for the first time only minority shareholders' share of operating profit was recognised in net finance costs. The pro rata share of measurement gains attributable to minority shareholders is now recognised in Measurement gains. The previous year's figures were adjusted accordingly.

Both the higher interest expense and the higher share of profit attributable to minority shareholders were due mainly to the new shopping centers in Gdansk, Hameln and Passau. At €2.4 million, interest income was down €0.3 million on the previous year, while income from investments was €0.2 million above the level of the previous year at €1.7 million and contained the dividend distributions of our Polish property company in Wroclaw.

Measurement gains less than in the previous year

Measurement gains fell year-on-year by €1.9 million from €39.0 million to €37.1 million. Initial measurement of the shopping centers in Hameln and Passau resulted in net measurement gains of €12.0 million. Measurement of the portfolio properties led to net measurement gains of €54.3 million. This contains exchange gains of €38.1 million resulting from the translation of euro-based market values into Polish zloty or Hungarian forint, which led to a decline in non-current assets. Based on the euro values, the market values of the portfolio properties increased by €16.2 million. This corresponds to an average increase in market value of around 1%. This rise in value is mainly attributable to the Galeria Baltycka in Poland, whose earnings to date far exceed original planning, resulting in a market value around 19% higher than the level of the previous year. In addition, the value of four further portfolio properties appreciated by between 0.1% and 2.7%. The market value of nine properties was between 0.4% and 3.3% below that of the previous year.

We also posted unrealised exchange losses (net) amounting to €16.3 million from the exchange measurement of monetary items and bank loans of our Polish and Hungarian property companies as at the reporting date in the Measurement gains item. At €11.7 million, the share of measurement gains attributable to minority shareholders was €1.2 million above that of the previous year (€10.5 million). This was chiefly due to the high measurement gains attributable to Galeria Baltycka.

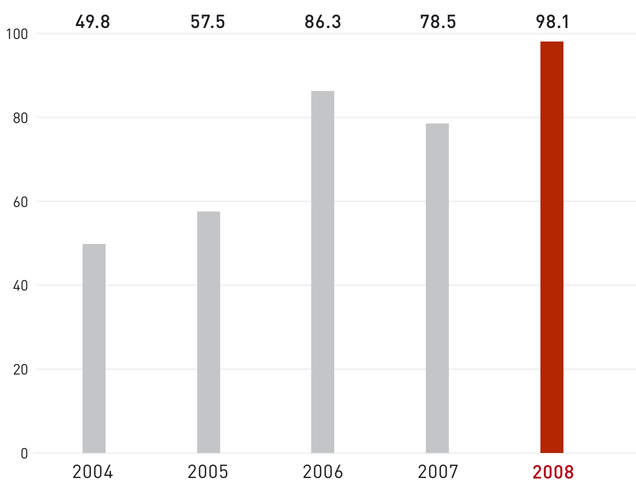
Tax item almost exclusively comprises deferred income taxes

Following net tax income of €16.3 million in the previous year due to a reversal of deferred tax provisions that was recognised in income as a result of the German business tax reform, the tax burden in the period under review amounted to €18.1 million. Of this amount, €18.0 million was attributable to deferred income tax and €0.1 million to German and foreign income tax paid.

Consolidated profit totals €68.9 million

Earnings before interest and taxes (EBIT) climbed 25% from €78.5 million to €98.1 million in the reporting year. At €87.0 million, pre-tax profit (EBT) was 12% higher than in the previous year (€77.8 million). Consolidated profit fell by 27% from €94.2 million to €68.9 million.

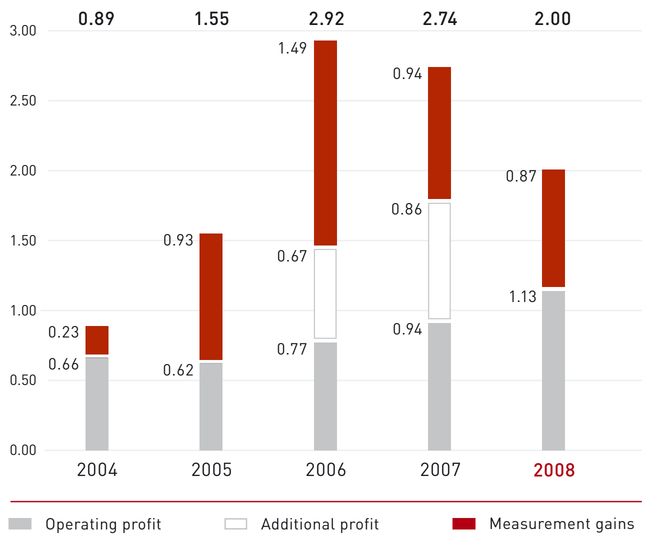
EBIT € million



Earnings per share

Earnings per share (basic) amounted to €2.00 compared with €2.74 in the previous year. Of this amount, €1.13 (2007: €0.94) was attributable to operations (+20%) and €0.87 (2007: €0.94) to measurement gains (-8%). Furthermore, in the previous year additional profit of €0.86 per share was generated from the reversal of deferred tax provisions.

EARINGS PER SHARE in €, basic



Funds from operations (FFO)

In the last few years, the funds from operations (FFO) ratio has gained increasing importance. For this reason, we have incorporated it into the Group's reporting. FFO is defined as the cash flows from operating activities and is calculated by adjusting net income for the period for measurement gains/losses and deferred income tax expense. FFO is used to finance ongoing investments in portfolio properties, scheduled payments on our long-term bank loans and the distribution of dividends. In the period under review, an FFO of €49.8 million or €1.45 per share was posted, up from €38.5 million or €1.12 per share in the previous year.

in T€	2008	2007
Net income for the period	68,872	94,177
plus deferred taxes	18,010	-16,719
less measurement gains/losses	-37,071	-38,956
FFO	**49,811**	**38,502**
FFO per share (€)	1.45	1.12

Dividend proposal: €1.05 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 30 June 2009 in Hamburg that an unchanged dividend of €1.05 per share be distributed for the 2008 financial year.

FINANCIAL POSITION AND NET ASSETS

Principles and objectives of financial management

For the purposes of financing its investments, Deutsche EuroShop uses the stock exchange for procuring equity and loans, as well as the credit markets for procuring loans. Within the Group, both individual real estate companies and Deutsche EuroShop borrow from banks. Deutsche EuroShop's credit standing has shown to be advantageous when negotiating loan conditions. The Group can also arrange its financing independently and flexibly.

Loans are taken out in euro for all Group companies. In general, the use of equity and loans for investments should be equally weighted and the equity ratio within the Group (including minority interests) should not fall below 45%.

Financing of our real estate projects is done on a long-term basis. For this purpose, derivative financial instruments are also used which serve to hedge against increasing capital market interest rates. Available credit lines enable Deutsche EuroShop to react quickly to investment opportunities. Unless used for investment, unnecessary cash is invested for financing ongoing costs or for paying dividends in the short term as term deposits or in money market funds.

Financing analysis

As of 31 December 2008, Deutsche EuroShop reported the following key financial data:

€ million	2008	2007	Change
Total assets	2,006.9	1,976.3	+30.6
Equity (incl. minority interests)	977.8	974.0	+3.8
Equity ratio (%)	48.7	49.3	-0.6
Bank loans and overdrafts	899.8	895.9	+3.9
Loan to value ratio (%)	46.0	47.0	-1.0

At €977.8 million, the economic capital of the Group, which comprises the equity of the Group shareholders (€860.5 million) and the equity of the minority shareholders (€117.3 million), is €3.8 million higher than in the previous year. The equity ratio decreased slightly by 0.6 percentage points to 48.7%.

Current and non-current bank loans and overdrafts rose from €895.9 million to €899.8 million in the reporting year, corresponding to an increase of €3.9 million. Long-term loans totalling €32.2 million were raised in the period under review. Of this amount, €28.4 million served to finance the Stadt-Galerie Passau and the purchase of property for expanding Altmarkt-Galerie Dresden. The remaining €3.8 million was used to replace an expiring loan in the Allee-Center Hamm. Meanwhile, loans amounting to €28.3 million were repaid.

The bank loans and overdrafts in place at the end of the year exclusively serve to finance non-current assets. Thus around 46% of non-current assets were financed by loans.

As in previous years, in the 2008 financial year Deutsche EuroShop had €100 million available in credit facilities, around €11 million of which was taken up as of the end of the year (2007: €35 million). This is in line with the average utilisation of credit facilities in the financial year.

Overall, the debt finance terms as of 31 December 2008 remained fixed at 5.33% p.a. (previous year: 5.36% p.a.) for an average period of 7.0 years (previous year: 7.7 years). Deutsche EuroShop maintains credit facilities with 20 banks, which – with the exception of one Austrian bank – are all German banks.

LOAN STRUCTURE as of 31 December 2008

Interest lockin	Duration	Principle amounts (€ thousand)	Share of total loan	Average interest rate
Up to 1 year	1.0	59,485	6.6%	5.93%
1 to 5 years	4.7	348,155	38.9%	5.28%
5 to 10 years	7.2	367,405	41.1%	5.38%
Over 10 years	17.3	119,900	13.4%	5.05%
Total	**7.0**	**894,945**	**100%**	**5.33%**

In 2009, the interest lock-in for a loan of around €50 million will expire and scheduled repayments amounting to €9.5 million will be made from cash flow during the course of the financial year. From 2010 to 2013, loans will be repaid at an average rate of €12.8 million per year. Interest lock-ins for loans in the amount of €26.9 million will expire in 2012, while those for loans amounting to €259.1 million expire in 2013. Our credit line is due to be extended in 2010.

Bank loans and overdrafts totalling €899.8 million were recognised in the balance sheet as of the reporting date. The difference compared with the amounts given here of €894.9 million relates to deferred interest and repayment obligations that were settled at the beginning of 2009.

Investment analysis

The Stadt-Galerie Hameln and Stadt-Galerie Passau were completed during the period under review. Following investment of €144.3 million in these two properties in the preceding years, a further investment of €66.0 million was made in the reporting year. Around €150 million is budgeted for investments for expanding the Altmarkt-Galerie Dresden. The share attributable to the Group amounts to around €75 million, of which approximately €21 million was invested in the purchase of property and planning costs in the period under review. We assume that the construction measures can commence in summer 2009 and that completion will follow in spring 2011.

Liquidity analysis

The Group's operating cash flow of €55.1 million (2007: €40.6 million) is the amount which has been generated for the shareholders following deduction of all costs from the leasing of the shopping center floor space. It serves to finance the dividends of Deutsche EuroShop and payments to minority shareholders. The rise of €14.5 million compared with the previous year chiefly results from the opening of the shopping centers in Gdansk, Hameln and Passau.

In addition to operating cash flow, cash flow from operating activities contains changes in receivables and other assets and other liabilities and provisions. At €79.8 million, cash flow from operating activities was up €2.9 million on the previous year (€76.9 million).

Investments in the reporting year amounted to €91.2 million and were thus considerably lower than in the previous year, in which €144.3 million was invested.

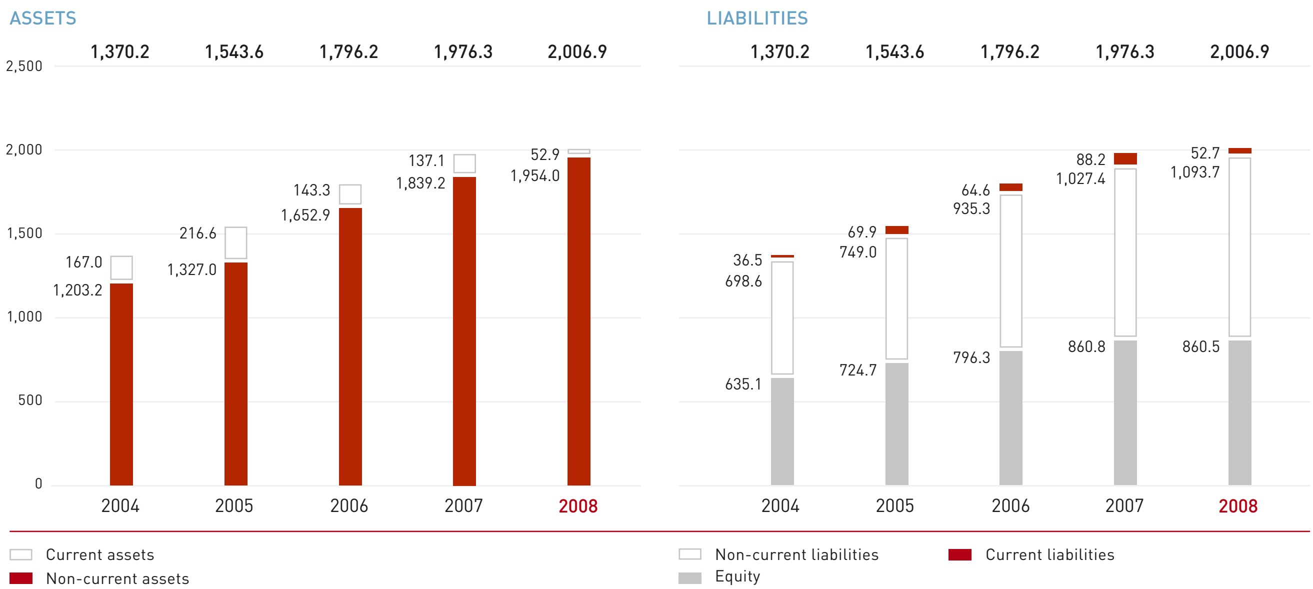
The outflow of funds from financing activities totalled €39.1 million. An increase of €3.9 million in bank loans and overdrafts was offset by payments to Group shareholders and minority shareholders of our property companies amounting to around €43.0 million.

Thus cash and cash equivalents decreased by €67.3 million in the period under review and amounted to €41.7 million on the balance sheet date.

Balance sheet analysis

The Group's total assets increased by around €30.5 million in the 2008 financial year.

BALANCE SHEET STRUCTURE € million



Current assets
As of year-end, current assets totalled €52.9 million, which corresponds to a decrease of €84.2 million compared with the previous year. This is largely attributable to the decline in other assets and lower cash and cash equivalents.

As at the balance sheet date, cash and cash equivalents amounted to €41.7 million, compared with €109.0 million in the previous year. The cash has been invested as short-term deposits and time deposits.

Non-current assets
In the period under review, non-current assets climbed from €1,839.2 million to €1,954.0 million, which represents an increase of €114.8 million.

Overall, property, plant and equipment declined by €123.1 million to €21.2 million following the opening of Stadt-Galerie Hameln and Stadt-Galerie Passau. Following completion, these shopping centers were reclassified to Investment properties and recognised at their market value for the first time as of 31 December 2008. At the end of the year, only the investments incurred to date for the expansion of Altmarkt-Galerie Dresden remained under the Property, plant and equipment item.

Investment properties grew by €239.6 million compared with the previous year. Costs for Stadt-Galerie Hameln and Stadt-Galerie Passau totalled €210.3 million. The Investment properties item increased by a further €29.3 million due to measurement effects recognised in income and recognised directly in equity.

Other non-current assets declined by €1.7 million.

Current liabilities
Current liabilities fell €35.5 million from €88.2 million to €52.7 million due in particular to the decrease in current bank loans and overdrafts (€-26.0 million).

Non-current liabilities
Non-current liabilities rose by €66.3 million from €1,027.4 million to €1,093.7 million. This is chiefly attributable to higher non-current financial liabilities (€+29.8 million) and recognition of further deferred tax provisions (€+18.0 million).

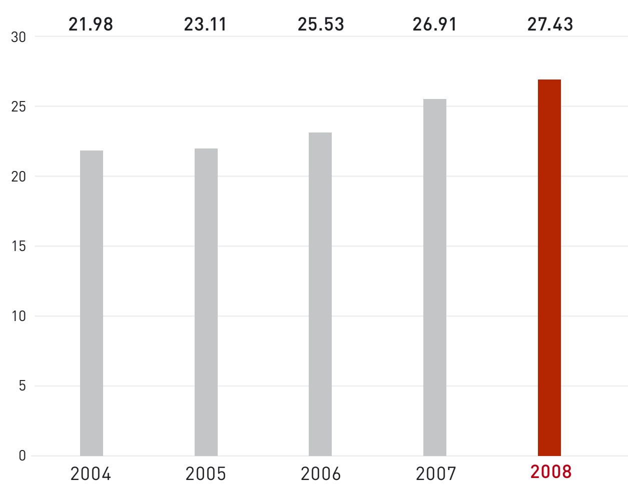
Equity
At €860.5 million, Group equity in the period under review remained at the level of the previous year (€860.8 million). Significant changes resulted from measurement of the interest swap and currency translation adjustments which reduced equity by €31.9 million. The measurement of interests attributable to Group shareholders in accordance with IAS 39 reduced equity by €0.9 million. This was largely offset by the difference of €68.9 million in consolidated profit and the dividend of €36.1 million paid in June 2008, which increased equity.

Net asset value
Net asset value as at 31 December 2008 was €942.8 million (€27.43 per share) compared with €925.1 million (€26.91 per share) in the previous year.

NET ASSET VALUE

€ thousand	2008	2007
Equity	860,450	860,798
plus deferred taxes	82,313	64,303
Net asset value of Deutsche EuroShop = net asset value	**942,763**	**925,101**
Number of shares	34,374,998	34,374,998
Net asset value per share (€)	**27.43**	**26.91**

NET ASSET VALUE per share (€)



OVERALL COMMENT ON ECONOMIC SITUATION

The past financial year confirmed the Deutsche EuroShop Group's good position. Despite the global financial crisis, we more than met our own expectations once again without any notable events.

ENVIRONMENT

Climate protection is one of the most important issues for Deutsche EuroShop. We believe that sustainability and profitability, the shopping experience and environmental awareness do not have to be opposites. Long-term thinking is part of our strategy. This includes playing our part in environmental protection.

Since 1 January 2008, eight shopping centers in our German portfolio have signed contracts with suppliers that use regenerative energy sources such as hydroelectric power for their electricity needs. From opening day onwards, the shopping centers in Hameln and Passau, which opened in 2008, have also received their certified green electricity from the 'EnergieVision' organisation with the renowned 'ok-power' accreditation.

The ten participating shopping centers used a total of around 41 million kWh of the certified green electricity for 2008. This represented over 75% of the electricity requirements in our German shopping centers. Thus, according to conservative calculations, this meant a reduction of around 10,000 metric tonnes in carbon dioxide emissions – this equates to the annual CO_2 emissions of 450 two-person households.

All other shopping centers in our portfolio are still contractually bound to local electricity providers. In the years to come, these centers – and the shopping centers abroad – will be switched to green energy.

In the past we have reduced the energy consumption of our shopping centers by using heat exchangers and energy-saving light bulbs. Since 2007, Deutsche EuroShop has been participating in the climate protection and energy efficiency initiative 'cool down' introduced by ECE and Philips. To increase energy efficiency, experts are currently working on the potential for optimising the energy consumption in our shopping centers.

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.

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 4 persons and therefore did not prepare a separate human resources report.

REPORT ON POST-BALANCE SHEET DATE EVENTS

Effective 2 January 2009, Deutsche EuroShop Verwaltungs GmbH increased its interest in City-Point Kassel from 40% to 90%. Including liabilities acquired on a pro rata basis, the total investment volume amounted to some €53 million.

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

RISK REPORT

RISKS AND OPPORTUNITIES MANAGEMENT SYSTEM

Principles, methods and objectives of risk management

Our approach to risk is in line with our strategy of increasing the value of our Company and of sustainable growth. Our policy is to minimise risks as far as is 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 business performance 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.

PRESENTATION OF MATERIAL INDIVIDUAL RISKS

Cyclical and macroeconomic risks

Based on the US real estate markets, as of summer 2007 the attention of banks and insurance companies initially focused on extensive write-downs on mortgage-backed securities. Ultimately, it was the general climate of diminishing confidence in the financial markets took its toll on the banks in particular, since liquidity supplies for short-term funding were no longer assured due to the interbank markets drying up, thus posing a threat to the banks' existence. We are all experiencing the direct effects of this at present. Since September 2008, state rescue packages for financial institutions have been launched around the world to contain the effects of the financial crisis, which has now also intensified in Germany. No one is able to predict further developments with any certainty.

The German economy grew by 1.3% in the period under review, although the downturn gained significant momentum in the second half of the year. The German government is expecting negative economic performance of 2.3% for 2009.

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. Deutsche EuroShop's business model enables it to benefit from a general shift of the market share away from the traditional specialist retailers in favour of larger retail parks and well-managed shopping centers.

This development is more of an opportunity for us, as a decline in consumer behaviour in macroeconomic terms would not necessarily have a negative impact on retailers' revenue in our shopping centers. The circumstances described are leading to a divergence of the various retail segments in terms of their success.

In 2008, the retail sector increased its revenue by 2.1% in nominal terms compared with a decline of 1.3% in the previous year due to the rise in value added tax. It must be assumed that retailers will face a difficult year in 2009.

We minimise market and sector risks through in-depth market intelligence and by concluding long-term contracts with tenants of all sectors 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, 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 are taken into account in the annual market valuations of our portfolio properties by independent appraisers. Changes in value are recognised in the income statement of the consolidated financial statements 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 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 and interest rate risks

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 up to 20 years. It cannot be ruled out that refinancing is only possible at higher interest rates than before. The interest rate level is materially determined by the underlying macroeconomic conditions and is thus not predictable by us.

The possibility cannot be completely excluded that – for example owing to deterioration of 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. At an average interest rate of 5.33%, this does not currently represent a significant risk within the Group, particularly as the most recent refinancing was concluded at lower interest rates than the original financing and the present average interest rate.

Deutsche EuroShop uses derivatives that qualify for hedge accounting to hedge interest rate risks. 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 transaction and the party to the contract fulfils the contract. Consequently, the ongoing changes in value of these items in the consolidated financial statements are recognised directly in equity. A test of effectiveness for the hedges described is regularly implemented.

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.

Personnel risk

In respect of the low number of employees of Deutsche EuroShop, the Company is dependent upon individual persons in key positions. The loss of the key staff would lead to a loss of expertise and the recruitment of replacement personnel and their induction could temporarily impair ongoing day-to-day business.

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.

OUTLOOK

The world economy is undergoing rapid decline, which is increasingly affecting Germany as an exporting nation. Thus it can currently be assumed that the supportive measures taken by governments and central banks to date will not be sufficient to steer the economy back into growth.

The forecasts published by the German government and economic research institutes to date, which assume that GDP will decrease moderately in 2009 and that growth will resume as soon as 2010, increasingly appear to display pure calculated optimism. Economists now concede that it is not possible to produce accurate forecasts at present as the economic reality can no longer be mapped in existing macroeconomic models. Similarly, many companies no longer consider it possible to provide an outlook for the 2009 financial year owing to the difficult economic environment.

Crisis cannot be measured as yet

As yet, there are no indications that the Deutsche EuroShop Group's economic situation will be significantly impaired in 2009. All the figures available so far indicate that buying patterns will remain stable. However, if the economic environment continues to deteriorate significantly, it cannot be ruled out that retailers in our shopping centers may also experience financial difficulties due to falling revenue and may no longer be able to fulfil the obligations under their leases or may not be able to fulfil them in full. Overall, however, we assume that the Deutsche EuroShop Group would only incur comparatively moderate losses in such a case.

Well-positioned portfolio

With the exception of a small amount of office space, our shopping centers are currently fully let. The average residual term of our leases is just over seven years. For the most part, the leases due to expire in 2009 have been prolonged or new tenants have been found. Currently, no shopping centers are under construction, with the result that no rental risks arise in this respect. Outstanding rents and necessary valuation allowances remain at a low level.

Situation on the financial markets impacts growth potential

Further shopping center acquisitions will depend on the possibility of obtaining new equity from the stock exchange under reasonable terms. As this cannot be foreseen at present, we assume that no further acquisitions will take place in 2009.

Restructuring measures in Kassel and Hamm

Our shopping center in Kassel, in which we increased our investment from 40% to 90% in January 2009 through acquiring shares from Arcandor AG, and the Allee-Center in Hamm are undergoing restructuring.

In Kassel, the department store space formerly occupied by Hertie is being divided up and leased to several small and medium-sized retailers. The investment required for this measure, including estimated rent losses and ancillary costs during construction, amounts to around €5.1 million. The spaces are leased on a long-term basis as far as possible.

In the Allee-Center Hamm, the lease with a hypermarket operator was terminated early. Following the renovation (investment costs: €1.8 million), a supermarket and a large textiles operation will open in this space in autumn 2009.

Altmarkt-Galerie Dresden to be expanded

We expect to be able to commence expansion of the Altmarkt-Galerie in Dresden this year. The required property has already been acquired, the demolition of existing buildings has begun and archaeological excavations are currently underway. The Altmarkt-Galerie is to be expanded by around 30,000 m². Of this area, approximately 25,000 m² will be allocated to retailers, service providers and service areas and around 5,000 m² to office space. In total, the investment volume amounts to some €150 million, of which €75 million is attributable to Deutsche EuroShop. 50% of the investment is to be debt-financed over the long term. The financing has already been secured.

Agreed transactions are the foundation for revenue and earnings planning

The Deutsche EuroShop Group's revenue and earnings planning for 2009 and 2010 does not include the purchase or sale of any properties. The results of the annual appraisal of our shopping centers and exchange rate factors are similarly not included in our planning, since they are not foreseeable. However, we must assume that we will report measurement losses for the first time in the current year if the economic circumstances deteriorate further.

Forecasts about the future revenue and earnings situation of our Group are based on:

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

b) the assumption that there will be no substantial reduction in revenue in the retail sector, in which case a number of retailers would no longer be able to meet the obligations under their existing leases.

Revenue climbs by 10% in 2009; increase of 2% expected in 2010

For the 2009 financial year, we are anticipating revenue of between €125 million and €128 million. The openings of the Stadt-Galerie shopping centers in Hameln and Passau, which will contribute to revenue for a full financial year for the first time, will have an effect in this regard, as will the first-time consolidation of the City-Point in Kassel, in which we increased our investment from 40% to 90% in January 2009. In the 2010 financial year, revenue should increase to between €128 million and €131 million.

Slight growth in earnings over the next two financial years

Earnings before interest and taxes (EBIT) amounted to €98.1 million in 2008. According to our forecast, EBIT will amount to between €105 million and €108 million in the current financial year. This is expected to increase to between €109 million and €112 million in 2010.

Earnings before tax (EBT) excluding measurement gains and losses amounted to €49.9 million during the period under review. We expect the corresponding figure to be between €50 million and €52 million for financial year 2009 and between €53 million and €55 million for financial year 2010.

FFO climbing steadily

Funds from operations (FFO) amounted to €1.45 per share in the period under review. We expect this figure to be between €1.45 and €1.50 in 2009 and between €1.55 and €1.60 in the 2010 financial year.

Dividend policy

We intend to maintain our long-term dividend policy geared towards continuity and to distribute a dividend of €1.05 per share to our shareholders again in 2009 and 2010.

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 of the information available at the current time. If the assumptions on which these statements and forecasts are based do not materialise, the actual results may differ from those currently being forecast.