KEY FIGURES

10 YEARS OF DEUTSCHE EUROSHOP AG

NUMBER OF SHOPPING CENTERS

+125 %

2001: 8 2010: 18

DIVIDEND PER SHARE

+15 %

2001: 0.96€ 2010: 1.10€

REVENUE

+535 %

2001: €22.7 million 2010: €144.2 million

EBT BEFORE VALUATION

+264 %

2001: €17.6 million 2010: €63.9 million

FFO

+271 %

2001: €17.1 million 2010: €63.6 million

FFO PER SHARE

+155 %

2001: 0.55€ 2010: 1.40€

TOTAL ASSETS

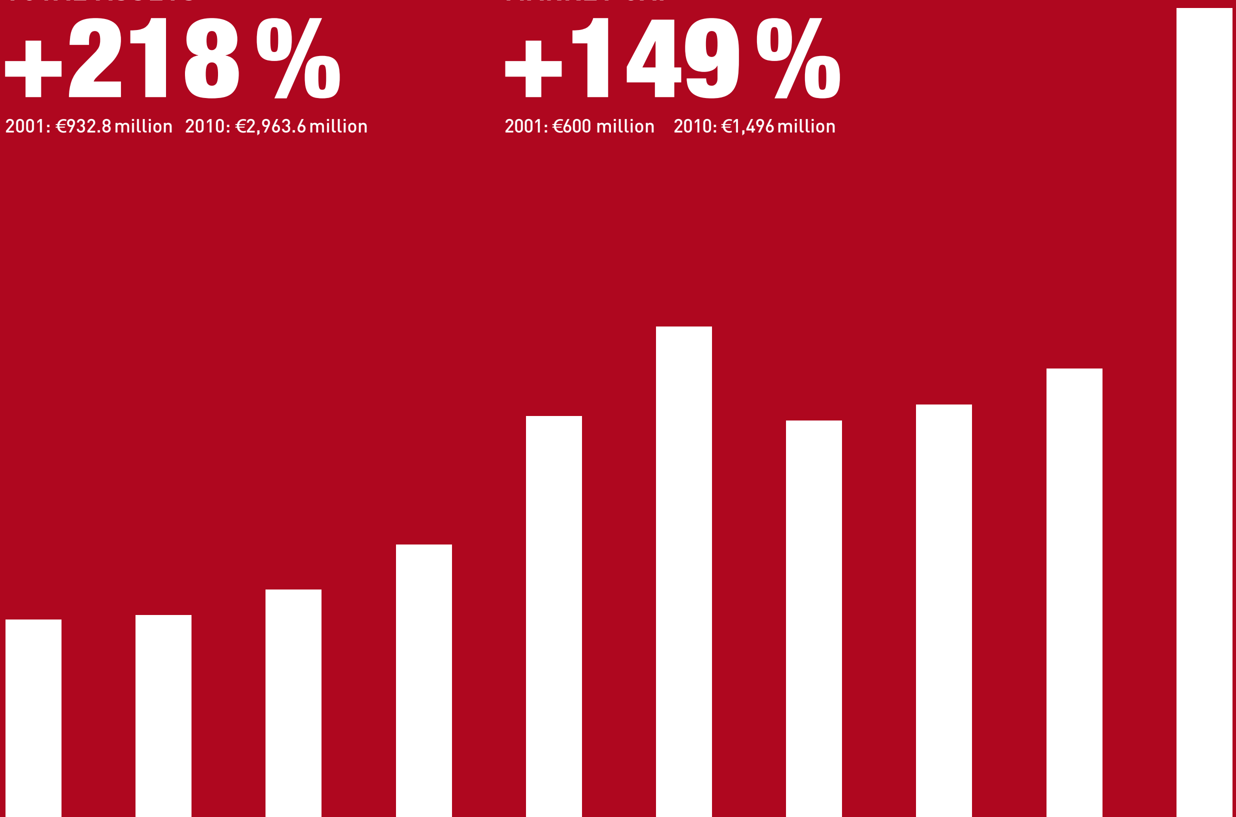
+218 %

2001: €932.8 million 2010: €2,963.6 million

MARKET CAP

+149 %

2001: €600 million 2010: €1,496 million



MARKET CAPITALISATION DEVELOPMENT since 2001

Group Management Report

DEUTSCHE EUROSHOP AG GROUP MANAGEMENT REPORT 2010

BUSINESS AND ECONOMIC CONDITIONS

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Operating activities

Deutsche EuroShop AG is the only public company in Germany to invest solely in shopping centers in prime locations. On 31 December 2010 it had investments in 17 shopping centers in Germany, Austria, Poland and Hungary. The Group generates its reported revenue from rental income on the space which it lets in the shopping centers.

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Group's legal structure

Due to a lean personnel structure and focus on just two reportable segments (domestic and international), the Deutsche EuroShop Group is centrally organised. The parent company, Deutsche EuroShop AG, is responsible for corporate strategy, portfolio and risk management, financing and communication.

The Company's registered office is in Hamburg. Deutsche EuroShop is an Aktiengesellschaft (stock corporation) under German law. The individual shopping centers are managed as separate companies and depending on their share of the nominal capital are included in the consolidated financial statements either fully, pro rata or according to the equity method. More information on indirect or direct investment is detailed in the notes to the consolidated financial statements.

Deutsche EuroShop shares are traded on the Frankfurt Stock Exchange and other exchanges. As of 31.12.10, 11.64% were owned by Alexander Otto (2009: 12,06%).

The share capital amounted to €51,631,400 on 31 December 2010 and was composed of 51,631,400 no-par value registered shares. The notional value of each share is €1.00.

According to section 5 of the Articles of Association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to a total of €14,540,467 on one or several occasions until 16 June 2015 by issuing up to 14,540,467 (no-par value) registered shares against cash or non-cash contributions (as of 31 December 2010).

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 seven 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.

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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, all of whom are 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 declaration on corporate governance.

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Declaration on corporate governance

The declaration on corporate governance, in conformity with section 3.10 of the Deutscher Corporate Governance Kodex (German Corporate Governance Code), as well as section 289a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) has been published on the Deutsche EuroShop website at www.deutsche-euroshop.de/ezu.

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Remuneration

With respect to the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Executive Board Remuneration) enacted in 2009 and changes to the Corporate Governance Code, the existing remuneration rules were reviewed by the Supervisory Board in April 2010 and amended in line with legal requirements to take effect in the 2010 financial year.

Remuneration system for the Executive Board

Remuneration for the Executive Board is set by the Supervisory Board. The remuneration system provides for a non-performance-related basic annual remuneration component based on the individual Executive Board member's duties, a performance-related remuneration component, and in-kind benefits in the form of a company car and contributions to a pension scheme.

The bonus as a performance-related remuneration component is dependent on sustained company development. It is based on the weighted average over the financial year and the two previous financial years. Group EBT (excluding measurement gains/losses) for the financial year is taken into account at 60% for the basis of calculation, that of the previous financial year at 30% and that of the financial year before that at 10%. Mr Böge receives 0.5% of the basis of calculation as a bonus and Mr Borkers receives 0.2%. The bonus is limited to 150% of the basic annual remuneration.

The non-performance-related basic annual remuneration is €300 thousand for Mr Böge and €168 thousand for Mr Borkers. For the 2010 financial year, there is an additional bonus entitlement of €294 thousand for Mr Böge and €117 thousand for Mr Borkers, which will be paid on approval of the consolidated financial statements by the Supervisory Board.

If the results of operations and net assets of the Company should worsen during the term of the respective employment contracts to such an extent that further payment of this remuneration becomes unreasonable, the rules of section 87 (2) of the AktG shall apply. The Supervisory Board shall decide at its own discretion on the extent to which such remuneration shall be reduced.

In the event that the employment contract is terminated prematurely by the Company without any good cause, the members of the Executive Board shall be entitled to a settlement in the amount of the annual remuneration outstanding to the end of the agreed contractual term, but limited to a maximum of two annual remuneration amounts (basic annual remuneration plus bonus). For the measurement of the annual remuneration amount, the average annual remuneration for the previous financial year and the probable annual remuneration for the current financial year shall be applicable.

In 2010 a long-term incentive (LTI) was agreed for the first time as a component with a long-term incentive effect. The amount of the LTI is based on changes in the market capitalisation of Deutsche EuroShop AG between 1 July 201 and 30 July 2015. Market capitalisation is calculated by multiplying the share price by the number of Company shares issued. On1 July 2010, according to information provided by the German stock exchange, market capitalisation stood at €983.5 million.

If there is a positive change in market capitalisation over the above five-year period of up to €500 million, Mr Böge will receive 0.2% and Mr Borkers 0.025% of the change. For any change over and above this amount, Mr Böge will receive 0.1% and Mr Borkers 0.0125%. The LTI will be paid out to Mr Borkers in December 2015, and to Mr Böge in five equal annual instalments, the first being paid on 1 January 2016. In the event that the employment contract is terminated prematurely by the Company, any entitlements arising from the LTI until that date will be paid out prematurely.

Due to the exceptionally satisfying performance of Deutsche EuroShop AG during the second half of 2010, the market capitalisation of the Company rose to €1,496.3 million by 31 December 2010, and was thus €512.8 million higher than at 1 July 2010. The present value of the potential entitlement to the long-term incentive arising therefrom was €960 thousand at year-end. On 31 December 2010 a reserve in the amount of €85 thousand was set aside for the first time for this purpose. Of this, €75 thousand is set aside for Mr Böge and €10 thousand for Mr Borkers.

Remuneration of the Executive Board in 2010

The remuneration of the Executive Board totalled €1,154 thousand, which breaks down as follows:

in € thousand	Non-performance-related Remuneration	Performance-related remuneration	Ancillary benefits	**Total 2010**	Total Previous year
Claus-Matthias Böge	300	439	65	804	615
Olaf G. Borkers	168	172	10	350	278
	468	**611**	**75**	**1,154**	**893**

Performance-related remuneration for the 2010 financial year amounted to €411 thousand. In addition, proportional bonuses amounting to €200 thousand were paid out for the 2009 financial year as the final bonus amount was only determined by the Supervisory Board after the annual financial statements were concluded.

Ancillary benefits include the provision of a car for business and private use and contributions to a pension scheme.

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.

Remuneration system for the Supervisory Board

The remuneration 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 remuneration amounts to €50 thousand for the chairman, €37.5 thousand for the deputy chairman and €25 thousand for each of the other members of the Supervisory Board. Committee membership is not additionally taken into account when determining the remuneration of the Supervisory Board. Moreover, the remuneration does not contain any performance-based elements. The remuneration is determined on the basis of the business model and size of the Company and 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 their remuneration pro rata. Cash expenses are also reimbursed in accordance with section 8 (5) of the Articles of Association.

Remuneration of the Supervisory Board in 2010

The remuneration of the members of the Supervisory Board totalled €223 thousand in the period under review, which breaks down as follows:

in € thousand	**Total 2010**	Total Previous year
Manfred Zaß	59.50	59.50
Dr Michael Gellen	44.62	44.62
Thomas Armbrust	29.75	29.75
Alexander Otto	29.75	29.75
Dr Jörn Kreke	29.75	29.75
Dr Bernd Thiemann	29.75	29.75
Including 19% value added tax	**223.12**	**223.12**

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

Miscellaneous

There are no agreements with members of the Executive Board providing for a settlement payment on expiry of their current employment contract.

No pensions are paid to former members of the Executive or Supervisory Boards or to their dependents

Compensation agreements concluded by Deutsche EuroShop AG with Executive Board members or employees of the Company for the event of a change of control

A change-of-control arrangement has been agreed with two employees. Under this arrangement, if and insofar as the Company informs them that they will no longer be employed in their current positions, these employees will have a special right of termination with a notice period of one month up to the end of the quarter, which will be valid for twelve months from the date the change of control takes effect.

A change of control arises if Deutsche EuroShop AG merges with another company, if a public takeover bid has been made under the Deutsches Wertpapiererwerbs- und Übernahmegesetz (WpÜG – German Securities Acquisition and Takeover Act) and accepted by a majority of shareholders, if the Company is integrated into a new group of companies or if the Company goes private and is delisted.

In the event of the termination of the employment relationship, these employees will receive a one-time payment amounting to three months' gross salary multiplied by the number of years that they have worked for the Company, but limited to a maximum of 24 months' gross salary.

The Deutsche EuroShop Group does not currently have any other compensation agreements with members of the Executive Board or other employees for the event of a change of control.

OVERVIEW OF THE COURSE OF BUSINESS

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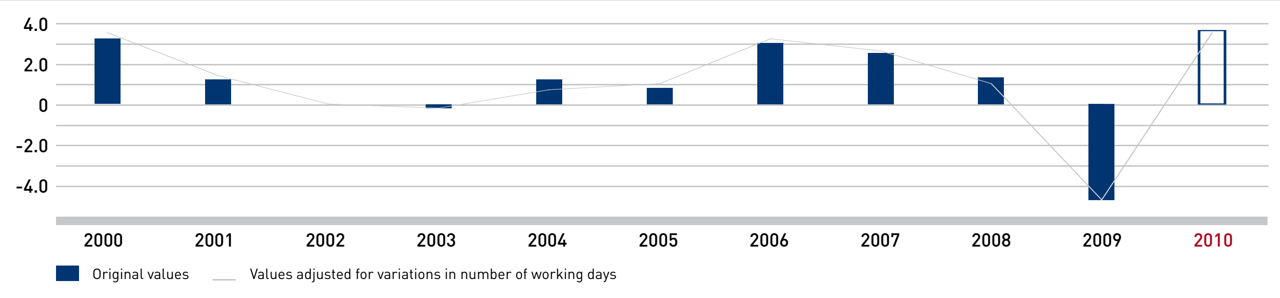
Macroeconomic conditions

The German economy performed significantly better in 2010 than it did in the previous year. Real (price-adjusted) gross domestic product (GDP) rose by 3.6% in Germany (previous year: -4.7%). As 2010 had more working days than the preceding year, there was a slight change in the growth rate (3.5%) after adjustment for the calendar effect.

GROSS DOMESTIC PRODUCT IN GERMANY (AFTER ADJUSTMENT FOR PRICES)

Change against the previous year in %



This sharp turnaround in the growth of price-adjusted gross domestic product (GDP) is primarily attributable to net exports, the difference between exports and imports, which had a dampening effect in previous years. GDP was further strengthened by investments in capital goods and consumption within Germany. This helped to balance out the weather-related fall in construction investment, in particular.

According to the Federal Statistical Office, consumption was up in 2010 over the previous year: private consumer spending, the most substantial component of GDP, rose by 0.5% (price-adjusted). Almost all spending on other purposes was higher than in 2009. Transport and communication were the only areas where spending was clearly down on the previous year. The main reason behind this is the inclusion of private vehicle purchases which saw a sharp drop in 2010 after the boom triggered by the scrapping premium in 2009. Government consumption expenditure also recorded a rise in 2010 (+2.2%). At 11.4%, the savings rate exceeded the high level of the previous year by 0.3 percentage points.

The German consumer price index rose on average over 2010 by 1.1% in comparison with the previous year. Inflation was significantly higher than in 2009 (0.4%) but viewed from a longer-term perspective it was below the annual inflation rates for most years since 1999 (1.5%). The main reason behind this sharp rise was the increase in fuel prices. Food prices increased by 1.6% in 2010, while price reductions were recorded for communication (-2.0%), among other things.

After the crisis of 2009, the labour market enjoyed the benefits of the strong economic recovery in 2010. In comparison with the previous year, unemployment in Germany fell in 2010 by 0.5 percentage points to 7.7%. The number of those out of work fell on an annual average by 179,000 to 3.24 million.

Within Europe, initial signs point to a return to growth in 2010 after the economic setback of the previous year. According to information from Eurostat, the Statistical Office of the European Community, GDP for the EU-27 rose by 1.8% during the year under review, after the significant fall of 4.2% during 2009. However, inflation rose on an annual average: after price rises of 1.0% in 2009, this value rose to 2.1% in 2010. The unemployment rate rose slightly in the eurozone to 10.0% (2009: 9.4%).

Economic conditions in the industry

Retail sector

According to provisional figures from the Federal Statistical Office, German retail sales rose by 2.3% in nominal terms in 2010 and by 1.2% in real terms (after adjustment for prices). Thus retailers were able to increase their revenue once more after the financial and economic crisis of 2009 (-3.7% in nominal terms, -3.1% in real terms). The retail sector's declining share of private consumer spending which has been an ongoing trend for decades seems to have come to a halt for the time being, rising to over 28%. At €406.7 billion, sales in the retail sector in the narrower sense (excluding vehicle sales, service stations, fuels and pharmacies) were up (1.8%) on the previous year (€399.5 billion).

Breaking the retail sector down into individual segments, it is evident that, compared to the previous year, food retailers (-0.6% in real terms) fared less well than the non-food segment (+2.6% in real terms). On the non-food side, "textiles, clothing, footwear and leather goods" performed best (+3.7% in real terms), followed by "cosmetic, pharmaceutical and medical products" (+3.6% in real terms) and "furnishings, household appliances and building materials" (+3.0% in real terms). "Other retail (such as books and jewellery)" closed the year with growth of 2.4% in real terms. However, online and mail order business saw a fall of 1.3% in real terms, as did "other retail involving goods of various types (such as department stores)" (-0-2% in real terms).

According to information from CB Richard Ellis, retail space in shopping centers was in high demand among retailers in 2010. Interest was greatest in retail spaces in the 150 m² to 349 m² size category (approx. 22%). The second most popular categories (0 m² to 149 m² and 500 m² to 999 m²) accounted for 38% (19% each). Larger spaces were also in demand: One third of leases were in the over 1,000 m² category. Overall, there is a trend towards larger-scale stores as new product group and shop interior concepts require more space. Retailers are moving away from the traditional functional structure of their sales area and are choosing concepts that are more strongly characterised by promotional aspects.

According to CB Richard Ellis, the highest proportion of floor space in leases in 2010 was attributable to clothing (31%), supermarkets / hypermarkets / beverage stores (9%), catering (8%) and footwear / leather goods (8%). Other important sectors in prime locations were chemists and perfumeries in the health / beauty segment (5%).

Real estate market

According to research conducted by Jones Lang LaSalle, the transaction volume for investments in retail property (shopping centers, retail parks and factory outlets) across continental Europe shot up in 2010 by 68% over the previous year to €20.7 billion (2009: €12.3 billion).

With a 64% (€13.2 billion) share of the transaction volume, shopping centers remained the focus of investors in mainland Europe in 2010 as they continued to seek defensive investment opportunities in the core area. They prefer stable market segments and favour prime locations, secure, long-term leases and high-quality tenants.

The German market maintained its leading position with respect to retail property investments in Europe. At €4.7 billion, the volume in Germany represented a share of just under 23%. According to Jones Lang LaSalle, shopping centers were the main area of interest in Germany: the transaction volume totalled €3.2 billion, corresponding to 68% of total transaction volume for retail property (excluding office buildings). The strongest group of investors was comprised of listed real estate companies such as Deutsche EuroShop, closely followed by asset and fund managers and open-ended property funds. The sales side was dominated by developers who represented almost half of all sales volume.

The yields from retail property decreased further over the course of the year. However, longer marketing times are required than before the financial crisis, which leads us to conclude that investors have become more risk-aware. Arranging external financing also takes more time now than it did a few years ago. High-equity investors such as sovereign funds, pension funds and some German open-ended property funds can act more rapidly, however, and are also prepared to accept lower returns because this is the only way that they can invest cash inflows promptly. At the end of 2010, the yield for German shopping centers in prime locations, according to information provided by Cushman & Wakefield, was at 5.15%. This is not far removed from the peak value of the last ten years (5.0%).

Share price performance

Deutsche EuroShop shares began 2010 with a price of €23.67. At first, the price hovered around this level until April. when the atmosphere on the stock exchanges became somewhat tougher and the second quarter was characterised by falling prices on most real estate shares. The share recorded its lowest price of the year at the start of the third quarter, reaching €21.72 on the basis of the Xetra closing price on 1 July 2010. From that point onwards, a rally ensued that saw the share price gain around 33% to reach €28.98 on the last trading day of the year. The share closed 2010 at an annual high with a performance of +28.1% (including dividend, 2009: +2.1%). Thus 2010 was the best year for shareholders in the ten-year history of Deutsche Euro-Shop AG since 2005 (28.7%).

Shareholders who invested in Deutsche EuroShop in January 2001 at the issue price of €19.20 and who participated in the rights issues last year have seen an average yield of 11% p.a. after tax over ten years. 4.7 percentage points are attributable to the dividends paid over the last ten years, and 6.3 percentage points to price gains. Over a five-year period which saw both share-price boom and financial crisis, the overall performance stood at 50.6%, which corresponds to an average yield of 8.5% p.a.

Evaluation of the financial year

The Executive Board of Deutsche EuroShop is satisfied with the past financial year. Thanks to the good development of the business, we again lived up to our forecasts. The A 10 Center, which was acquired in February 2010 and was included in our results for the first time, made a significant contribution in this regard.

Revenue was planned at between €139 million and €142 million and totalled €144.2 million (2009: €127.6 million) as of the reporting date, corresponding to an increase of 13%. Earnings before interest and taxes (EBIT) of between €1118 million and €121 million were planned; ultimately these increased by almost 12%, amounting to €124.0 million (2009: €110.7 million). We expected earnings before taxes (EBT) excluding measurement gains/losses of between €58 million and €60 million. They rose by 17%, totalling €63.9 million (2009: €54.9 million).

As in the previous year, we exceeded earnings forecasts. Deutsche EuroShop has proven once again that it has an outstanding shopping center portfolio and is well positioned even for difficult periods in the economy and on the real estate market.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Deutsche EuroShop can look back on another successful financial year. Revenue and profit were significantly up on the previous year. On the investment side, our acquisition of the A 10 Center, the Billstedt-Center and our increased stakes in City-Arkaden Wuppertal, Altmarkt-Galerie Dresden, City-Point in Kassel and Main-Taunus-Zentrum form a basis for strong growth in the years to come. We have maintained the solid financing structure of our Group. In addition to raising additional loans, we have also refinanced our investments by means of three capital increases.

Revenue rose by 13.0% to €144.2 million and, at €81.8 million, consolidated profit was 138% up on the previous year (2009: €34.4 million). This result was aided by measurement gains / losses which improved in comparison with the previous year (2009: €-14.8 million), rising by €47.9 million to €33.1 million. Adjusted for this effect, consolidated profit grew by around 16%. Earnings per share amounted to €1.80, doubling the result of the previous year (€0.88).

Net asset value per share fell slightly by 1.8%, from €26.63 to €26.16. This is solely attributable to the capital increases performed during the year under review, which led to an increase of 36.5% in the number of shares issued.

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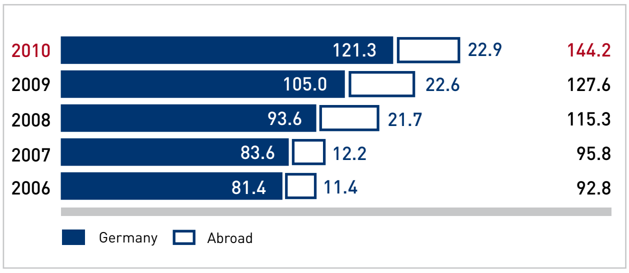
Results of operations

Retail sales (in the narrower sense) rose by a nominal 1.8% in Germany during the year under review. In contrast, the tenants of our shopping centers saw their sales stagnate. This result can be attributed to two locations in particular. Two new competitors opened in Dresden, leading to falls in revenue at the Altmarkt-Galerie, and the limited parking available at the Main-Taunus-Zentrum due to building works also had a negative impact on sales trends. At our other shopping centers, however, retail sales rose by 2.6% (adjusted for space), outperforming the market as a whole. At our foreign properties, retail sales increased by 1.2%.

Consolidated revenue up 13%

Consolidated revenue was up 13% from €127.6 million to €144.2 million in the financial year. The A 10 Center, which was acquired on 1 February 2010, contributed significantly to this revenue growth. Our increased stake in the Altmarkt-Galerie Dresden on 1 July 2010, and the Allee-Center in Hamm and City-Point in Kassel, both of which experienced vacancies in 2009 due to renovation works, also contributed to the strong growth in our revenue.

REVENUE | in € million



At eight properties, the rise in revenue was primarily due to index-related rental increases. Four properties also saw slight falls in revenue which were mainly due to renovation works. Total revenue rose by 1.1% on a like-for-like basis.

Vacancy rate stable at under 1%

As in previous years, the vacancy rate remained stable at under 1%. At €0.6 million (2009: €0.6 million) or 0.4% (2009: 0.4 %), the need for write-downs for rent losses remained at a very low level.

Operating and administrative costs for property unchanged

Property operating costs were €1.5 million higher than the previous year at €7.3 million (2009: €5.8 million) and property administrative costs were up by €0.7 million to €7.9 million (2009: €7.2 million). The increase is solely due to the acquisition of the A 10 Center, which alone caused a rise of €2.4 million in operating and administrative costs for property. However, at our other centers the same costs were down by €0.2 million in comparison with the previous year. Overall, the cost ratio came in at 10.5% of revenue, which is slightly up on the previous year (10.2%).

Other operating income and expenses

Other operating income remained unchanged at €0.9 million, while other operating expenses rose by €1.2 million to €5.9 million (2009: €4.7 million). This increase resulted from significantly higher ancillary financing costs in connection with the raising and / or extension of loans, on the one hand, and from higher personnel costs on the other.

REVENUE

in € thousand	2010	2009	Difference	in %
Rhein-Neckar-Zentrum, Viernheim	17,137	16,988	149	0.90
A 10 Center, Wildau	12,899	0	12,899	
Main-Taunus-Zentrum, Sulzbach	10,230	10,286	-56	-0.50
Allee-Center, Hamm	9,763	9,010	753	8.40
Stadt-Galerie, Passau	8,823	8,588	235	2.70
City-Arkaden, Wuppertal	8,788	8,655	133	1.50
City-Galerie, Wolfsburg	8,588	8,522	66	0.80
Forum, Wetzlar	8,583	8,498	85	1.00
Rathaus-Center, Dessau	8,080	8,195	-115	-1.40
City-Point, Kassel	7,998	7,285	713	9.80
Altmarkt-Galerie, Dresden*	7,827	6,673	1,154	17.30
Stadt-Galerie, Hameln	6,687	6,546	141	2.20
Phoenix-Center, Hamburg	5,928	5,757	171	3.00
Total Germany	**121,330**	**105,003**	**16,327**	**15.50**
Galeria Baltycka, Gdansk	13,411	13,150	261	2.00
City Arkaden, Klagenfurt*	5,409	5,328	81	1.50
Árkád, Pécs*	3,651	3,736	-85	-2.30
Other	388	345	43	12.50
Total abroad	**22,859**	**22,560**	**299**	**1.30**

* = proportionally consolidated

Net finance costs rise

Net finance costs were up €4.3 million to €60.2 million (2009: €55.9 million). This is as a result of additional interest expense incurred in connection with the financing of the acquisition of the A 10 Center and the expansion measures in Dresden (+ €5.8 million). This interest expense is offset by interest savings made through refinancing and repayment of existing loans in the amount of €1.4 million, and thus the net interest expense only increased by €4.4 million.

Although income from investments remained stable at the previous year's level, interest income rose by just under €0.4 million. This is in contrast to losses from equity-accounted shareholdings which rose by €0.54 million and the lower profit share for third-party shareholders which, at €7.9 million, was down by €0.2 million on the previous year.

Positive result for measurement gains

After the €14.8 million in measurement losses reported in 2009, measurement gains of €33.1 million were achieved in the year under review, representing an increase of €47.9 million over the previous year. Measurement of the portfolio properties led to measurement gains of €25.4 million. On average the portfolio properties increased in value by 1.3% and, with one exception (which showed a depreciation of 0.7%), market values were between 0.3% and 3.7% higher than the previous year.

The revaluation of the A 10 Center resulted in a measurement gain of €14.7 million which was offset by ancillary acquisition costs of €8.6 million.

Moreover, the acquisition of additional shareholdings in City-Point Kassel, City-Arkaden Wuppertal and indirect holdings in the Main-Taunus-Zentrum resulted in measurement gains of €4.7 million, as the stakes in the Main-Taunus-Zentrum in particular were acquired at below market value.

The share of measurement gains attributable to third-party shareholders was around €3.0 million.

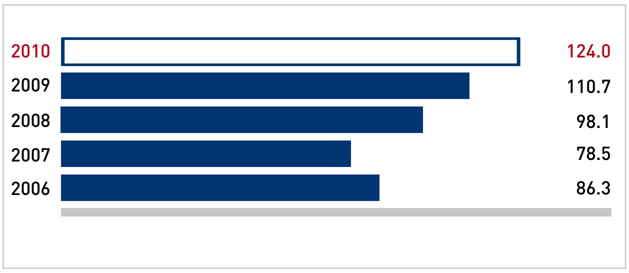
Tax item almost exclusively comprises deferred income taxes

The tax burden in the year under review amounted to €15.2 million. €14.9 million of this was attributable to deferred income taxes, and €0.3 million to income tax paid.

Consolidated profit more than doubled

Earnings before interest and taxes (EBIT) climbed 12% from €110.7 million to €124.0 million in the year under review. At €97.0 million, pre-tax profit (EBT) was 142% higher than in the previous year (€40.1 million). Consolidated profit rose by 138%, totalling €81.8 million (2009: €34.4 million).

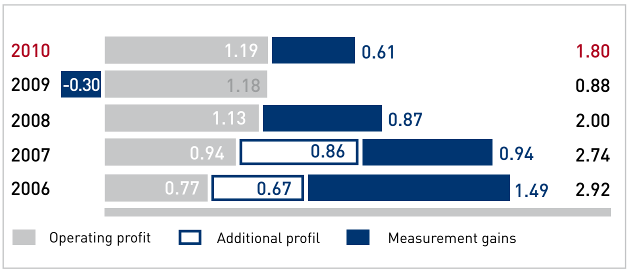
EBIT | in € million



Earnings per share

Earnings per share amounted to €1.80 compared with €0.88 in the previous year. Of this amount, €1.19 was attributable to operations (2009: €1.18) and €0.61 to measurement gains / losses (2009: €-0.30). The number of shares for the previous year upon which this is based was adjusted in accordance with IAS 33.

EARNINGS PER SHARE | in €, basic



Funds from operations (FFO)

FFO is used to finance ongoing investments in portfolio properties, scheduled payments on our long-term bank loans and the distribution of dividends. During the year under review, FFO of €63.6 million was generated, a rise of 16% over the previous year (2009: €54.8 million). FFO per share remained constant at €1.40, although the number of shares for the previous year upon which this is based was adjusted in accordance with IAS 33.

in € thousand	31.12.2010	31.12.2009
Consolidated profit	81,817	34,367
Measurement gains / losses	-33,129	14,772
Deferred taxes	14,864	5,664
FFO	63,552	54,803
Weighted number of shares	45,545	39,066
FFO per share	**1.40 €**	**1.40 €**

Dividend proposal: €1.10 per share

In view of the successful financial year, the Executive Board and Supervisory Board will propose to the shareholders at the Annual General Meeting on 16 June 2011 in Hamburg that an increased dividend of €1.10 per share be distributed for the 2010 financial year.

Financial position

Principles and objectives of financial management

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

Loans are taken out in euros 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 third-party 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 rising capital market interest rates. An available credit line enables Deutsche EuroShop to react quickly to investment opportunities. Until used for investment, cash not needed is invested in the short term as term deposits to finance ongoing costs or pay dividends

Financing analysis

As of 31 December 2010, the Deutsche EuroShop Group reported the following key financial data:

in Mio. €	2010	2009	Change
Total assets	2,963.6	2,112.1	+851.8
Equity (incl. third-party interests)	1,527.4	1,044.4	+483.2
Equity ratio (%)	51.5	49.4	+2.1
Bank loans and overdrafts	1,288.2	934.2	+354.0
Loan to value ratio (%)	47	46	1

At €1,527.4 million, the Group's economic equity capital, which comprises the equity of the Group shareholders (€1,249.6 million) and the equity of the third-party shareholders (€277.8 million), was €483.2 million higher than in the previous year. The equity ratio improved slightly by 2.1% percentage points to 51.5%.

Current and non-current bank loans and overdrafts rose from €934.2 million to €1,288.2 million in the year under review, an increase of €354 million. Of this, €31.5 million was used to finance the expansion measures at the Altmarkt-Galerie Dresden and the Main-Taunus-Zentrum. A further €186.0 million resulted from the first full consolidation of the Phoenix-Center and the Main-Taunus-Zentrum and from the increased participation in the Altmarkt-Galerie Dresden. The external financing of the purchase of the A 10 Center (€125.0 million) and the Billstedt-Center (€19.0 million) accounted for €144.0 million. Meanwhile, loans amounting to €13.7 million were repaid.

In addition, a non-current loan in the amount of €82.0 million was raised in the year under review to replace expiring loans for the Rhein-Neckar-Zentrum.

The bank loans and overdrafts in place at the end of the year are used exclusively to finance non-current assets. 47% of non-current assets were therefore financed by loans.

The current credit line amounting to €100 million was increased to €150 million, and this will be available to the Company until 2014.

Overall, the debt finance terms as of 31 December 2010 remained fixed at 5.03% (2009: 5.27%) for an average period of 6.5 years (2009: 7.1 years). Deutsche EuroShop maintains credit facilities with 17 banks which – with the exception of one in Austria – are all German banks.

OVERVIEW OF THE LOAN STRUCTURE AS OF 31 DECEMBER 2010

Total = 1,277.3 | in € million

		% of total loans	Duration (years) in %	Average interest rate in %
Up to 1 year	62.9	4.9	1.0	3.30
1 to 5 years	552.8	43.3	3.6	5.38
5 to 10 years	492.4	38.5	7.9	4.96
Over 10 years	169.2	13.3	14.3	4.74
Total		**100.0**	**6.5**	**5.03**

Of 34 loans across the Group, credit terms were agreed with the financing banks on eight of these. These involve conditions relating to the capacity to repay, the level of debt and, in one case, a condition concerning the loan-to-market value ratio. All conditions were met.

At the start of 2011, a loan amounting to €85.1 million which was raised to finance the City-Arkaden Wuppertal KG was repaid early and partially replaced by two new loans in the amount of €81 million. The purchase of the Billstedt-Center is also to be partially financed by means of a loan amounting to €80 million, which is likely to be paid out around the middle of 2011. Scheduled repayments amounting to €17.9 million will be made from operating cash flow during the 2011 financial year, and no interest lock-ins for loans will expire. Over the period from 2012 to 2015, average repayment obligations will be around €19.8 million per year. Interest lock-ins for loans amounting to €54.6 million will expire in 2012, for €137.3 million in 2013, for €205.3 million in 2014 and for €76.8 million in 2015.

Current and non-current bank loans and overdrafts totalling €1,288.2 million were recognised in the balance sheet as of the reporting date. The difference between the total indicated in the table above and the amounts given here of €10.9 million relates to deferred interest and repayment obligations that were settled at the beginning of 2011.

Investment analysis

The 2010 financial year was marked by many different investment measures. Overall, €360.8 million was invested, of which €55.0 million was attributable to the acquisition of additional shareholdings in the Altmarkt-Galerie Dresden, which were transferred to the Group as a non-cash contribution. €305.8 million were cash transactions, €233.1 million of which was accounted for by the A 10 Center until 31 December 2010. €46.6 million was invested in the expansion measures in Dresden and Sulzbach, and €17.2 million in the acquisition of shareholdings in the Main-Taunus-Zentrum. Ongoing investments in portfolio properties amounted to €2.6 million.

Liquidity analysis

The Group's operating cash flow of €72.1 million (2009: €63.2 million) is the amount that has been generated for the shareholders following the deduction of all costs from the leasing of the shopping center floor space. It serves to finance the dividends of Deutsche EuroShop AG and payments to third-party shareholders. The change is primarily attributable to the first contribution to earnings by the A 10 Center.

In addition to operating cash flow, cash flow from operating activities contains changes in receivables and other assets as well as other liabilities and provisions. In large part due to the purchase price paid for the Billstedt-Center, which amounted to €156.7 million, cash flow from operating activities stood at €-94.2 million, €154.7 million less than the previous year (2009: €60.5 million).

Cash flow from investing activities in the year under review amounted to €287.8 million and were thus considerably higher than in the previous year, in which €35.9 million was invested. This item includes the purchase price for the A 10 Center in Wildau, and also includes investments made in expansion measures at our properties in Dresden, Sulzbach and Wildau.

Cash flow from financing activities rose from €15.5 million in 2009 to €363.9 million in the year under review. Cash inflows from non-current financial liabilities, amounting to €166.2 million, resulted primarily from the raising of a new loan in relation to the A 10 Center, other payments for the expansion measures in Dresden and Sulzbach, as well as the raising of a short-term credit line by Deutsche EuroShop AG to finance the purchase price of the Billstedt-Center. Furthermore, there were three capital increases during the year under review, of which two were cash transactions and led to cash inflows in the amount of €253.7 million. Dividends paid to shareholders totalled €46.3 million. A capital increase was also completed for the Stadt-Galerie Passau, in which third-party shareholders participated in the amount of €4.2 million. Payments to third-party shareholders include the purchase prices of the shareholdings in the two centers in Wuppertal and Kassel acquired on 1 July 2010, and distributions paid out during the year under review.

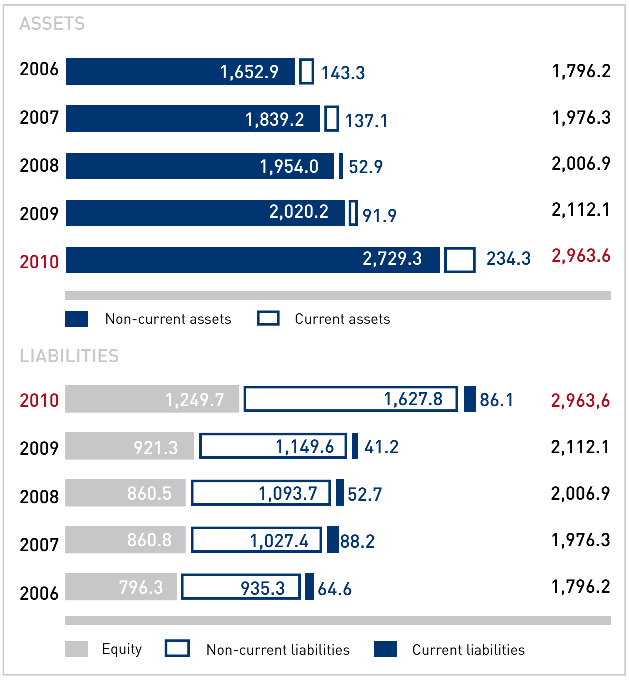
Cash and cash equivalents fell from €81.9 million in 2009 to €65.8 million in the year under review.

Net assets

Balance sheet analysis

The Group's total assets increased by €851.5 million.

BALANCE SHEET STRUCTURE in € million



Current assets

At end-2010 current assets amounted to €234.3 million, an increase of €142.4 million year-on-year (2009: €91.9 million). The price paid in advance in 2010 for the purchase of the Billstedt-Center on 1 January 2011 was €156.7 million. As at the reporting date, cash and cash equivalents amounted to €65.9 million, a fall of €16.0 million compared with the previous year (2009: €81.9 million). The majority was invested in the short term as term deposits.

Non-current assets

Non-current assets rose by €709.1 million from €2,020.2 million to €2,729.3 million in the year under review.

Investment Properties increased by €709.7 million, €600.3 million of which was attributable to the first full consolidation of the Main-Taunus Zentrum, the Phoenix-Center and the A 10 Center and to the 17 percentage point increase of our shareholding in the Altmarkt-Galerie Dresden. The expansion measures at our centers in Dresden, Sulzbach and Wildau also led to investments totalling €75.3 million. Costs of investments in portfolio properties amounted to €2.6 million. The revaluation of our property portfolio also resulted in value increases amounting to €32.3 million and value decreases totalling €1.0 million.

Other non-current assets reduced in net terms by €0.6 million.

Current liabilities

Current liabilities rose by €45.0 million from €41.1 million to €86.1 million, due in particular to the increase in current bank loans and overdrafts (+ €48.0 million). This related partly to the recourse to a short-term credit line in connection with payment of the purchase price for the Billstedt-Center, and also to the partial repayment of a loan for the City-Arkaden Wuppertal at the beginning of January 2011.

Other current liabilities fell in net terms by €3.1 million, primarily due to a reduction in other provisions.

Non-current liabilities

Non-current liabilities rose by €478.2 million from €1,149.6 million to €1,627.8 million. This is mainly attributable to the first consolidation of the Main-Taunus-Zentrum and the Phoenix-Center, and our increased stake in the Altmarkt-Galerie. Non-current bank loans alone rose as a result by €186 million and third-party interests in the equity of property companies, shown under non-current liabilities as "Right to redeem of limited partners" rose by €165.2 million. In contrast, the acquisition of interests held by third parties in the City-Arkaden Wuppertal and City-Point Kassel by Deutsche EuroShop AG and ongoing distributions led to a reduction so that, in net terms, the right to redeem against limited partners rose by €154.8 million to €277.8 million (2009: €123.0 million).

In addition to the increase in non-current bank loans for consolidation reasons, the rise is also attributable to the raising of a long-term loan amounting to €125.0 million for the acquisition of the A 10 Center. Taking scheduled repayments into account, non-current bank loans rose in net terms by €305.9 million, from €921.2 million to €1,227.1 million.

Other non-current liabilities such as deferred tax liabilities and other liabilities rose by €17.4 million.

Equity

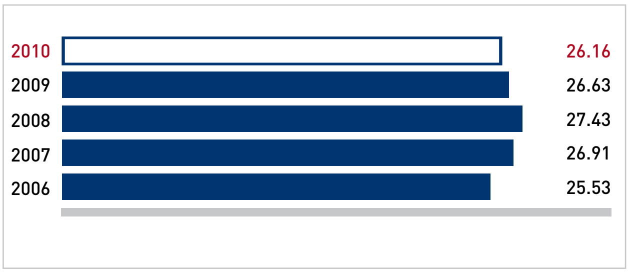
At €1,249.7 million, Group equity was up €328.4 million on the previous year (€921.3 million) in 2009. Key changes resulted from the two capital increases against cash contribution in February and November and from the non-cash capital increase in July 2010, which caused equity to rise by €294.6 million. Measurement of interest swaps and interests attributable to Group shareholders in accordance with IAS 39 led to a reduction in equity by €1.7 million. Of the other changes, the increase of €35.5 million in equity resulted in particular from the difference between the consolidated profit at €81.8 million and the dividend of €46.3 million paid out in June 2010.

Net asset value

Net asset value as at 31 December 2010 was €1,350.7 million or €26.16 per share, compared with €1,006.9 million or €26.63 per share in the previous year. Thus the net asset value has risen by €343.8 million or 34.1% over the previous year. €294.6 million is attributable to the capital measures performed in the year under review, which led to an increase in the number of shares issued by 36.5%. This has caused the net asset value per share to fall by 1.8% in comparison with the previous year.

NET ASSET VALUE

per share in €



Overall comment on the economic situation

The past financial year confirmed the Deutsche EuroShop Group's good position. We met our own expectations once again without any notable events.

NET ASSET VALUE

	31.12.2010 in € thousand	per share in €	31.12.2009 in € thousand	per share in €	Change in %
Equity	1,249,651	24.20	921,325	24.37	-0.7
Deferred taxes	101,052	1.96	85,600	2.26	-13.6
Total	**1,350,703**	**26.16**	**1,006,925**	**26.63**	**-1.8**
Number of shares	51,631,400		37,812,496		36.5

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.

In 2010, with the exception of the A 10 Center, all our German shopping centers had contracts with suppliers that use regenerative energy sources such as hydroelectric power for their electricity needs. The "EnergieVision" organisation certified the green electricity for eleven of our German centers with the renowned "ok-power" accreditation in 2010. From 2011 onwards, all centers in the Deutsche EuroShop German portfolio will be powered by green electricity. We plan to switch the centers in other countries to green electricity as well in the next few years.

The twelve participating centers used a total of around 49 million kWh of green electricity in 2010. This was 1.26 million kWh less than the previous year, and corresponds to 100% of the electricity requirements in our German shopping centers. As a result, based on conservative calculations this meant a reduction of around 18,800 tonnes in carbon dioxide emissions – this equates to the annual CO_2 emissions of around 850 two-person households. We have already reduced the energy consumption of our shopping centers by using heat exchangers and energy-saving light bulbs.

Deutsche EuroShop, through its shopping centers, also supports a range of activities at local and regional level in the areas of ecology, society and economy.

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 AG employed only four people and therefore did not prepare a separate **human resources report**.

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

The Billstedt-Center was acquired on 1 January 2011. By year-end acquisition costs (purchase price including ancillary acquisition costs) totalling €156.7 million were paid. The fair value of the center was measured by Feri / GfK Geomarketing at €156.0 million as at 1 January 2011.

No other events of significance have occurred since the balance sheet date.

RISKS AND OPPORTUNITIES MANAGEMENT, INTERNAL CONTROL SYSTEM

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Principles

Deutsche EuroShop's strategy is geared towards maintaining and sustainably increasing shareholders' assets as well as generating sustainably high surplus liquidity from leasing real estate, thereby ensuring that the shareholders can share in the success of the company over the long term through the distribution of a reasonable dividend. The focus of the risk management system is therefore on monitoring compliance with this strategy and, building on this, the identification and assessment of risks and opportunities as well as the fundamental decision on how to manage these risks. Risk management ensures that risks are identified at an early stage and can then be evaluated, communicated promptly and mitigated. Monitoring and management of the risks identified form the focal point of the internal control system, which at Group level is essentially the responsibility of the Executive Board. The internal control system is an integral part of the risk management system.

The auditor, within the framework of its legal mandate for auditing the annual financial statements, checks whether the early warning system for risks is suitable for detecting at an early stage any risks or developments that might endanger the Company.

Risk analysis involves the identification and analysis of factors that may jeopardise the achievement of objectives. The risk analysis process answers the question of how to deal with risks given ongoing changes in the environment, the legal framework and working conditions. The resulting control activities are to be embedded into processes that are essential to the realisation of business targets.

Key features

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

1. Portfolio properties
_ Trends in accounts receivable
_ Trends in 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 plans and budgets. The systematic analysis of economic data such as consumer confidence and retail sales trends is also incorporated into risk management. The activities of competitors are also monitored continually.

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Financial statement preparation process

Preparation of the financial statement is a further important part of the internal control system and is monitored and controlled at the level of the Group holding company. Internal regulations and guidelines ensure the conformity of the annual financial statements and the consolidated financial statements.

The decentralised preparation of Group-relevant reports by the service provider is followed by the aggregation and consolidation of the individual annual financial statements and the preparation of the information for reporting in the notes and Management Report in the accounting department of the holding company, with the aid of the Conmezzo consolidation tool. This is accompanied by manual process controls such as the principle of dual control for the employees charged with ensuring the regularity of financial reporting and for the Executive Board. In addition, within the scope of his auditing activities, the auditor of the consolidated financial statements performs process-independent auditing work, also with respect to financial reporting.

Advice on limitations

By virtue of the organisational, control and monitoring measures laid down in the Group, the internal control and risk management system enables the full recording, processing and evaluation of Company-related facts as well as their proper presentation in Group financial reporting.

Decisions based on personal judgement, flawed controls, criminal acts or other circumstances cannot be entirely ruled out, however, and may limit the effectiveness and reliability of the internal control and risk management system that is in use. Consequently, the application of the systems used cannot guarantee absolute security in respect of the correct, complete and timely recording of facts in Group financial reporting.

The statements made relate solely to those subsidiaries included in the consolidated financial statements of Deutsche EuroShop for which Deutsche EuroShop is in a position, directly or indirectly, to dictate their financial and operating policies.

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Presentation of material individual risks

Cyclical and macroeconomic risks

After the two-year period of massive contraction experienced by the entire global economy, a cyclical turnaround was achieved in 2010. Germany returned to positive growth, with GDP rising by 3.6% in 2010. This is thanks primarily to the economic recovery among the emerging markets and positive economic growth in Asia which led to a massive rise in exports. The federal government anticipates lower growth of 2.25% for 2011.

The situation on the financial markets has eased slightly, although the crisis is by no means over. The task of economic policymakers is still to find suitable rules to clean up the banks' balance sheets.

In addition, householders and companies in many places are looking somewhat more optimistically to the immediate future. Moderate levels of inflation are aiding this general optimism. Many positive messages are coming from the labour market at this time. While the good economic situation in Germany is reflected in increased pay and salaries for workers and employees, domestic demand is likely to continue to show positive growth.

State budget deficits have risen dramatically as a result of the crises in many EU countries, and collective rescue packages became necessary for Greece and Ireland. In the United States the tailspin seems to be coming to an end, but here unemployment is twice as high as it was before the crisis broke out, and US consumption which always gave momentum to the global economy is unlikely to provide much in the way of growth stimulus over the next few years. The US Federal Reserve has declared its disappointment in respect of the fight against unemployment, and is attempting to stimulate economic activity by buying up government bonds. This approach is controversial. Critics fear that limitless liquidity could cause price bubbles to form and the theoretical assumptions of a "crack-up boom" could become reality.

Deutsche EuroShop AG 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 locations and by ensuring broad sector 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 therefore 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 market share away from traditional specialist retailers in favour of larger retail parks and well-managed shopping centers.

This development is more of an opportunity for us right now, 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 2010 retail revenue rose by a nominal 2.3%, after falling by 3.7% in the previous year. We expect that retail revenue will see a further slight rise in 2011.

We minimise market and sector risks through in-depth market intelligence and by concluding long-term contracts with tenants of all retail segments that have 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 company is no longer sufficient to meet its 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 corresponding security deposits against the risk of default. In addition, write-downs are recognised in the accounts in individual cases.

Cost risk

Expenditure on current maintenance or investment projects can turn out higher than budgeted 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 general contractors with strong credit ratings. During the building phase, professional project management is assured 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, the evolution of long-term capital market 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. The appreciation of the properties is therefore 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 by the Company. 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 increase the volatility of the consolidated profit. However, this generally has no effect on the Group's solvency.

Currency risk

Deutsche EuroShop AG's activities are limited exclusively to the European economic area. Manageable currency risks arise in the case of the Eastern European investees. These risks are not hedged because this is purely an issue of translation at the reporting date and is therefore not associated with any 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 such that 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 therefore cannot be predicted by us.

The possibility cannot be completely excluded that, owing for example 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. At an average interest rate of 5.03%, 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 AG uses derivatives that qualify for hedge accounting to hedge interest rate risks. These interest rate swap transactions transform variable interest rates into fixed interest rates. An interest rate swap is an effective hedge if the principal amounts, maturities, repricing or repayment dates, dates for interest payments and principal repayments, and 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. Financial instruments are not subject to liquidity or other risks. The Company counters the risk of default by stringently examining its contract partners. A test of effectiveness for the hedges described is implemented regularly.

Risk of damage

The property 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, which was converted to a virtual solution during the year under review. 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 our system, all data can be reproduced at short notice.

Personnel risk

Given the small number of employees of Deutsche EuroShop AG, the Company is dependent on individual persons in key positions. The loss of these key staff would lead to a loss of expertise, and the recruitment and induction of new replacement personnel 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 may, however, change at any time.

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Evaluation of the overall risk position

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

OUTLOOK

As the German economy returned to strong growth in 2010 and far exceeded the predictions made at the start of the year, the outlook for 2011 is also positive. That said, economic experts expect the rise to flatten out somewhat. There are significant hopes of a stronger leap forward in the domestic economy, especially private consumer spending, amid expectations of a perceptible boost to salaries in real terms across Germany. The first wage agreements concluded indicate that, after years of declining or stagnating salaries in real terms, an increase may be on the cards. The robust labour market in Germany has also been a cause of some surprise. Rising employment and falling unemployment at levels which have not been seen for decades are underpinning the positive outlook.

We expect this positive trend to be echoed in our shopping centers. The expansion and modernisation measures at the A 10 Center, the Altmarkt-Galerie in Dresden and the Main-Taunus-Zentrum are included in our planning and will be completed in 2011. Leasing agreements are already in place for the majority of the additional space. This also applies to rental agreements which are up for renewal during the second half of 2011 after expiry of the first ten-year term. At the present time, the occupancy rate across all our shopping centers continues at over 99%. At the end of 2010 the overall occupancy rate was 99.3%, showing no change in comparison with the previous year, and stood at 99.9% for retail space. Outstanding rents and necessary valuation allowances remain stable at a low level. We see no sign of a significant change in this satisfactory situation.

Transaction market gains pace

Due to the ongoing uncertainty on the financial markets and fears that inflation may rise sharply, the global demand for value-secured capital investments is on the increase. This is driving the demand for real estate, amongst other things, for which there is insufficient supply at present. Retail property in particular is a focus of interest among many institutional investors, leading to rising perceptions of appropriate purchase prices among potential vendors. Due to investment pressure on the part of many investors, we consider that there is currently a risk that prices on the real estate market may once again reach extremes. We will therefore be watching developments on the real estate market very carefully over the next few months. As in the past, we will only make further investments if the return that is achievable over the long term bears a reasonable relation to the investment risks. We will continue to grow even without making further investments, thanks to the contributions made by the expansion, modernisation and restructuring measures under way in our portfolio.

Altmarkt-Galerie

The expansion of the Altmarkt-Galerie Dresden was completed at the end of the first quarter of 2011 and opened to customers and visitors on 31 March. All retail spaces were let with the exception of one, meaning the number of shops will rise from around 95 to over 200. The hotel spaces are also let on a long-term basis, and the hotel itself is planned to open for summer 2011. Tenants have not yet been found for the office spaces but rental activities are in full swing. From experience, it is likely that the marketing process will take some time. Overall, predicted rental income is slightly above expectations and investment costs are entirely within budget despite considerable delays caused by the weather. An estimated investment expenditure of €20.7 million will be attributable to measures during the current financial year.

A 10 Center

The expansion and modernisation measures underway at the A 10 Center are also within schedule. The new retail spaces within the A 10 Triangle are all let, and were opened at the beginning of April 2011. The first measures to modernise the property have begun and will be concluded by the end of 2011. It is anticipated that further investment expenditure of €32.5 million are expected to be required in 2011. Predicted rental income at the A 10 Center is also above expectations, and investment costs are being kept within budget.

Main-Taunus-Zentrum

The expansion measures at the Main-Taunus-Zentrum will be completed by the end of 2011. With the exception of a few residual areas (occupancy rate in March 2010: > 80%), new tenants have already been found for the retail space offering around 80 new shops. Predicted rental income is well above expectations, and investment costs are within budget. Of this amount, €37.0 million is likely to be attributable to the current financial year.

Scheduled reletting

We expect to see stable growth across our portfolio properties. In the City-Arkaden Wuppertal and the City-Galerie Wolfsburg, many rental agreements are due to expire on schedule in 2011 (ten years after their first opening). This gives us the opportunity to optimise the mix of tenants and sectors at these properties and to position them appropriately for the next ten years. The necessary investments (€3.3 million) will be financed from available liquidity reserves or operating cash flow.

Agreed transactions are the foundation for revenue and earnings planning

The Deutsche EuroShop Group's revenue and earnings planning for 2011 and 2012 does not include the purchase or sale of any properties. The Billstedt-Center that was acquired on 1 January 2011 is taken into account in the planning, as are the effects arising from the full consolidation of the Phoenix-Center and the Main-Taunus-Zentrum. The results of the annual valuation of our shopping centers and exchange rate factors are not included in our planning since they are not foreseeable. Forecasts about the future revenue and earnings situation of our Group are 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 that would cause a large number of retailers to no longer be able to meet their obligations under existing leases.

Revenue climbs by 29% in 2011; increase of 6% expected in 2012

We are anticipating revenue of between €184 million and €188 million for financial year 2011. The purchase of the Billstedt-Center and the full consolidation of the Phoenix-Center and the Main-Taunus-Zentrum, in particular, will make a positive contribution to revenue. In addition, the expansion and modernisation measures at the A10 Center, the Altmarkt-Galerie in Dresden and the Main-Taunus-Zentrum will also effect a significant increase in revenue. In the 2012 financial year revenue should increase again to between €198 million and €202 million.

Significant growth in earnings over the next two financial years

Earnings before interest and taxes (EBIT) amounted to €124.0 million in 2010. According to our forecast, EBIT will amount to between €157 million and €161 million in the current financial year (+28%). This is expected to increase to between €169 million and €173 million in 2012 (+7.5%).

Earnings before tax (EBT) excluding measurement gains and losses amounted to €63.9 million during the year under review. We expect the corresponding figure to be between €75 million and €78 million for the 2011 financial year (+20%) and between €84 and €87 million for the 2012 financial year (+11%).

Positive FFO trend

Funds from operations (FFO) amounted to €1.40 per share in the year under review. We expect this figure to be between €1.48 and €1.52 in 2011 (+7%) and between €1.60 and €1.64 in 2012 (+8%).

Dividend policy

We intend to maintain our long-term dividend policy geared towards continuity and to distribute a dividend of €1.10 per share to our shareholders again in 2011 and 2012.

Hamburg, 13 April 2011

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.