

# Report of the

# SUPERVISORY BOARD

## Dear Shareholders,

During financial year 2011, the Supervisory Board performed the duties incumbent on it according to the law and the Articles of Association and closely followed the performance of Deutsche EuroShop AG. The strategic orientation of the Company was coordinated with the Supervisory Board, and the status of the strategy implementation was discussed at regular intervals. The Supervisory Board monitored and advised the Executive Board on its management of the business, and the Executive Board informed us regularly, promptly and in detail of business developments.

### FOCUS OF ADVISORY ACTIVITIES

We examined the Company's net assets, financial position and results of operations, as well as its risk management, regularly and in detail. In this context, we checked that the formal conditions for implementing an efficient system of monitoring our Company were met and that the means of supervision at our disposal were effective. We were informed on an ongoing basis of all significant factors affecting the business. We considered the development of the portfolio properties, their turnover trends, the accounts receivable and occupancy rates, the Company's liquidity position and the progress of the expansion projects.

Intensive and repeated discussions were conducted with the Executive Board on trends on the capital, credit, real estate and retail markets and the effects of these on the Company's strategy. The Executive Board and Supervisory Board also examined various investment options. We received regular reports detailing the turnover trends and payment patterns of our tenants and the credit policies of the banks.

The Chairman of the Supervisory Board and the Executive Committee of the Supervisory Board also discussed other topical issues with the Executive Board as required. Transactions requiring the approval of the Supervisory Board were discussed and resolved upon at the scheduled meetings. In addition, for transactions of the Executive Board requiring approval, circular resolutions were passed in writing by the Supervisory Board. In the event of decisions that could potentially have led to conflicts of interest, the Supervisory Board members in question abstained from voting. All resolutions in the reporting period were passed unanimously.

### MEETINGS

Four scheduled Supervisory Board meetings took place during financial year 2011. In one of those meetings only, one member of the Supervisory Board was excused from attending.

At the first scheduled meeting, on **27 April 2011**, the Supervisory Board's annual review of efficiency was completed and the agenda for the Annual General Meeting was approved. We selected the auditor, who was proposed to the shareholders for election. In relation to the audit of the annual financial statements, we once again attached great importance to the explanations of the Executive Board and those of the auditor on the real estate appraisals. In addition, the Executive Board explained the documentation relating to the internal risk control system (IRCS) and the review of transactions with related parties. In addition, the Executive Board reported to us in particular on the expansion of the Altmarkt-Galerie in Dresden, the Main-Taunus-Zentrum near Frankfurt and the A10 Center in Wildau, near Berlin, and the acquisition of the Billstedt-Center in Hamburg. The explanations on the occupancy situation focused on the City-Arkaden center in Wuppertal and the City-Galerie in Wolfsburg. In both of these centers, which are now in their tenth year, significant numbers of leases were renewed. For the first time, the Executive Board presented the possibility of acquiring a stake in the Allee-Center in Magdeburg.

At the meeting on **16 June 2011**, the Executive Board informed us of the leasing activities in the extension to the Main-Taunus-Zentrum and in the City-Galerie in Wolfsburg and City-Arkaden in Wuppertal. The Executive Board also presented the possibility of acquiring an 11% participating interest in the City-Galerie in Wolfsburg, an acquisition which we approved. It was also decided to amend the German name of the Audit Committee from "Bilanzausschuss" to "Prüfungsausschuss" in line with the Bilanzrechtsmodernisierungsgesetz (German Accounting Law Modernisation Act – BilMoG). Furthermore, the rules of procedure of the Executive Board were amended in accordance with the provisions of current regulations. As the mandate periods of several members of the Supervisory Board expire in 2013 and 2014 and given the diversity requirements of supervisory boards, we held extensive discussions on the future composition of our body.

At the third meeting on **22 September 2011**, the Executive Board reported on progress in the acquisition of a 50% stake in the Allee-Center Magdeburg, after we had unanimously approved this investment in writing by means of a circular resolution in July 2011. The Executive Board also reported on various other investment possibilities that were being examined. An extensive discussion also ensued on the effects on our company of the latest court decision on the expanded trade tax deduction, after the Executive Board drew our attention to an associated ruling, and possible courses of action open to Deutsche EuroShop AG. We also determined the desired future composition of our company's Supervisory Committee with regard to its powers and gender balance and set out how this would be achieved.

The last meeting, on **17 November 2011**, was held in the Main-Taurus-Zentrum on the same day as the official opening of the extension there, which enabled us to see for ourselves that it was fully let. The Executive Board also reported on the further acquisition possibilities and the conclusion of important refinancing agreements for our portfolio properties, including the Altmarkt-Galerie in Dresden. The Executive Board also discussed the status of investigations into the possibility of a restructuring for trade tax purposes. With this in mind, the Executive Board was keen to acquire sole ownership of further property companies and was currently seeking to achieve this shortly at three companies. We also held extensive discussions on the Company's projections and medium-term performance planning as presented by the Executive Board, and on the Company's and Group's internal control system based on the documentation presented.

### COMMITTEES

The Supervisory Board has established three committees: the Executive Committee of the Supervisory Board, the Audit Committee and the Capital Market Committee. Each of these is made up of three members. The Executive Committee of the Supervisory Board functions simultaneously as a nomination committee. Given the size of the Company and the number of Supervisory Board members, we consider the number of committees and members to be appropriate. During the reporting period, the Executive Committee of the Supervisory Board and the Audit Committee met on 14 April 2011. The Audit Committee also discussed the quarterly financial reports with the Executive Board in conference calls on 10 May, 9 August and 4 November 2011.

### CORPORATE GOVERNANCE

In November 2011, together with the Executive Board, we issued an updated declaration of conformity in relation to the recommendations of the government commission pursuant to section 161 of the Aktiengesetz (German Public Companies Act – AktG) and made this permanently available on the Deutsche EuroShop AG website. A separate report on the implementation of the German Corporate Governance Code is included in this Annual Report. The members of the Supervisory Board and the Executive Board declared in writing at the beginning of 2012 that no conflicts of interest had arisen.

### FINANCIAL STATEMENTS OF DEUTSCHE EUROSHOP AG AND THE GROUP FOR THE PERIOD ENDING 31 DECEMBER 2011

At the Audit Committee meeting on 18 April 2012 and the Supervisory Board meeting on 26 April 2012, the Audit Committee and the Supervisory Board examined in detail the annual financial statements of Deutsche EuroShop AG in accordance with German commercial law, and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), each as at 31 December 2011, as well as the management report and group management report for financial year 2011.

The documents relating to the financial statements, the auditor's reports and the Executive Board's proposal for the appropriation of the unappropriated surplus were presented to us in good time. The auditor appointed by the Annual General Meeting on 16 June 2011 – BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg – had already audited the financial statements and issued an **unqualified audit opinion** in each case. The auditor also confirmed that the accounting policies, measurement methods and methods of consolidation in the consolidated financial statements complied with the relevant accounting provisions. In addition, the auditor determined in the course of its assessment of the risk management system that the Executive Board had undertaken all required measures pursuant to section 91 (2) AktG to promptly identify risks that could jeopardise the continued existence of the Company.

The auditor's representatives took part in the discussion of the annual financial statements and the consolidated financial statements on the occasions of the Audit Committee meeting on 18 April 2012 and the Supervisory Board meeting on 26 April 2012 and explained the main findings.

Following its own examination of the annual financial statements of Deutsche EuroShop AG, the consolidated financial statements and the corresponding management reports, the Supervisory Board did not raise any objections, agreed with the findings of the auditor's examination and approved the annual financial statements of Deutsche EuroShop AG and the consolidated financial statements. The annual financial statements have thus been adopted. The Supervisory Board endorses the Executive Board's proposal for the appropriation of the unappropriated surplus and distribution of a dividend of €1.10 per share.

The Company's success in financial year 2011 was the result of its conservative strategy and the dedication shown by the Executive Board and our employees, for which the Supervisory Board would like to express its particular gratitude.

Hamburg, 26 April 2012



Manfred Zaß, Chairman



**Manfred Zaß**  
(Chairman)



**Dr Michael Gellen**  
(Deputy Chairman)



**Thomas Armbrust**

Name	Manfred Zaß (Chairman)	Dr Michael Gellen (Deputy Chairman)	Thomas Armbrust
Born	1941	1942	1952
Place of residence	Königstein im Taunus	Köln	Reinbek
Nationality	German	German	German
End of term of office	2013 Annual General Meeting	2014 Annual General Meeting	2014 Annual General Meeting
Committee activities	Chairman of the Executive Committee, Member of the Audit Committee, Chairman of the Capital Market Committee	Member of the Executive Committee, Member of the Audit Committee, Member of the Capital Market Committee	Member of the Executive Committee, Chairman of the Audit Committee, Member of the Capital Market Committee
Membership of other statutory supervisory boards	-	-	C.J. Vogel Aktiengesellschaft für Beteiligungen, Hamburg (Chairman) Platinum AG, Hamburg (Chairman) TransConnect Unternehmensberatungs- und Beteiligungs AG, Munich (Chairman) Verwaltungsgesellschaft Otto mbH, Hamburg
Membership of comparable supervisory bodies of business enterprises in Germany or other countries	-	-	ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg (Deputy Chairman)
Profession	Banker	Independent lawyer	Member of Management of KG CURA Vermögensverwaltung G.m.b.H. & Co., Hamburg
Key positions held	1965-2002: DekaBank Deutsche Girozen- trale, Frankfurt of which: 1980-1999: Member of the Executive Board 1999-2002: Chairman of the Executive Board, until 2005: Deutsche Börse AG, Frankfurt, Deputy Chairman of the Supervisory Board 2008-2009: Hypo Real Estate Group AG, Unterschleissheim, Member of the Supervisory Board	1971-1983: Deutsche Bank AG, Düsseldorf, Frankfurt (various positions) 1984-1995: Deutsche Centralbodenkredit-AG, Cologne, Member of the Executive Board 1995-1997: Europäische Hypothekenbank AG, Luxembourg, Member of the Executive Board 1997-2000: Deutsche Bank AG, Frankfurt, Managing Director 2001-2003: DB Real Estate GmbH, Frankfurt, Managing Director	until 1985: Auditor and tax advisor 1985-1992: Gruner + Jahr AG & Co KG, Hamburg, Director of Finance since 1992: Member of Management of KG CURA Vermögensverwaltung G.m.b.H. & Co., Hamburg (family office of the Otto family)
Relationship to majority / major shareholders:	none	none	Shareholder representative of the Otto family
Deutsche EuroShop securities held as at 31 December 2011:	12,500	0	



**Dr Jörn Kreke**



**Alexander Otto**



**Dr Bernd Thiemann**

**Dr Jörn Kreke**

**Alexander Otto**

**Dr Bernd Thiemann**

1940	1967	1943
Hagen	Hamburg	Kronberg im Taunus
German	German	German
2013 Annual General Meeting	2013 Annual General Meeting	2014 Annual General Meeting
-	-	-
Capital Stage AG, Hamburg Douglas Holding AG, Hagen (Chairman)	Verwaltungsgesellschaft Otto mbH, Hamburg	Deutsche Pfandbriefbank AG, Unterschleissheim (Chairman) EQC AG, Osnabrück (Deputy Chairman) Hypo Real Estate Holding AG, Unterschleißheim (Chairman) IVG Immobilien AG, Bonn VHV Vereinigte Hannoversche Versicherung a.G., Hanover M.M. Warburg & Co. KGaA, Hamburg (Deputy Chairman) Wave Management AG, Hamburg (Deputy Chairman)
Kalorimeta AG & Co. KG, Hamburg Urbana Gruppe, Hamburg	Peek & Cloppenburg KG, Düsseldorf	Würth Finance International B.V., Amsterdam Würth Gruppe, Künzelsau (Deputy Chairman)
Businessman	CEO of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg	Former Chairman of the Executive Board of DG Bank Deutsche Genossenschaftsbank AG, Frankfurt am Main
Study in the USA, Doctorate from the University of Frankfurt 1963-2001: Rudolf Hüssel Süßwaren AG, Hagen (later Douglas Holding AG) of which: 1963-1969: Assistant to the Management Board 1969-2001: Chairman of the Executive Board, since 2001: Chairman of the Supervisory Board	Studied at Harvard University and Harvard Business School, Cambridge, USA 1994-2000: ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg since 2000: Chief Executive Officer	1976-1991: NORD/LB Norddeutsche Landesbank Girozentrale, Hanover of which 1976-1981: Member of the Executive Board 1981-1991: Chairman of the Executive Board 1991-2001: DG Bank Deutsche Genossenschaftsbank AG, Frankfurt, Chairman of the Executive Board
none	Major shareholder	none
0	5,136,390	6,597