Eurocommercial Properties N.V.

Annual Report 30 June 2006

European shopping centres

Eurocommercial Properties N.V.

One of Europe's most experienced owners of shopping centres, Eurocommercial Properties (ECP) has a continuous record of rising asset values and income since 1991.

Eurocommercial Properties focuses on the retail sector in France, Northern Italy and Sweden, wealthy countries with the common thread of turnover rents which provide market transparency and management efficiency.

Contents

Centro Commerciale I Gigli, Florence

Property values and rents rise in strong markets

Net asset value

+19%

to €32.98

Net asset value rose over the year by 18.9% from €27.74 to €32.98 per depositary receipt on the adjusted basis, which takes into account neither contingent capital gains tax liabilities if all properties were to be sold simultaneously – an unrealistic assumption in the view of the Board – nor the fair value of financial derivatives. If those items were to be taken into account under IFRS guidelines net asset value would have risen by 22.4% to €29.41 per depositary receipt.

Direct investment result

+14%

to €56.1 million

The Direct Investment Result for the financial year ended 30 June 2006 rose 14.0% to €56.1 million from €49.2 million for the previous financial year. The Direct Investment Result is defined as net property income less net interest expenses, currency movements and company expenses and in the view of the Board better represents continuing underlying earnings than the IFRS Profit after Taxation. This would include unrealised capital increases in property values less contingent nominal capital gain taxes and fair value movements in derivatives.

Dividend

+3.2%

to €1.60

In accordance with the Company's dividend policy to pay out 100% of the Direct Investment Result, the Board proposes increasing the Company's annual dividend by 3.2% to €1.60 per depositary receipt (ten ordinary shares) from €1.55 in 2005. Holders of depositary receipts will again be offered the option of taking new depositary receipts from the Company's share premium reserve if they wish, instead of the cash dividend payable on 30 November 2006.

Property values

+12.5%

All Company properties were independently revalued at 30 June 2006 resulting in an increase of €197 million or 12.5% compared with June 2005 underlining the continued strength of property investment markets, particularly in the retail sector of major Western European countries. ECP properties in France rose by 15.4% over the year, in Italy by 12.1%, in Sweden by 12.0% and in The Netherlands by 0.3% (office and warehouse only).

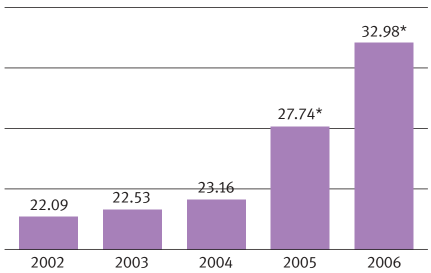
Net rental income

+8.0%

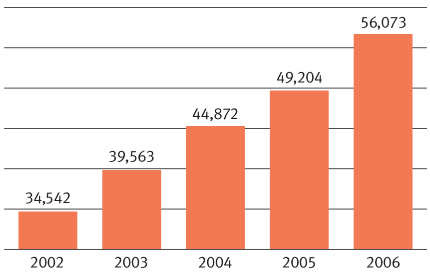
Rental income for the financial year ended 30 June 2006 was €102.4 million compared with €96.4 million for the previous financial year an increase of 6.1%. When direct and indirect property expenses (branch overheads) are deducted net rental income rose by 8.0% to €87.2 million from €80.8 million in 2005.

Net asset value (€)

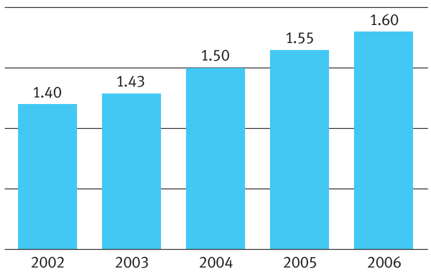
*Adjusted net asset value.



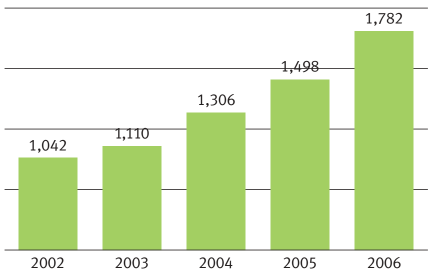
Direct investment result (€,000)



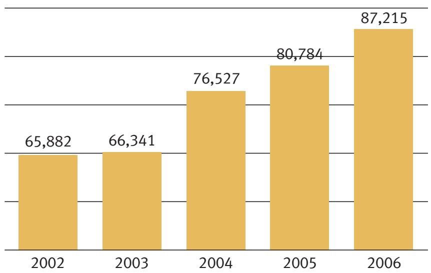
Dividend (€)



Property values (€ million)



Net rental income (€,000)



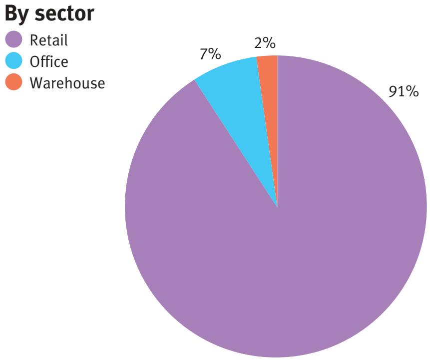
Investment approach and methodology

ECP owns and manages shopping centres in France, Italy and Sweden. It has experienced national teams with the specialist management and research skills to match the retail mix of shopping centres to local spending patterns. ECP has been present in France for 14 years, Italy 12 years and Sweden for 5 years.

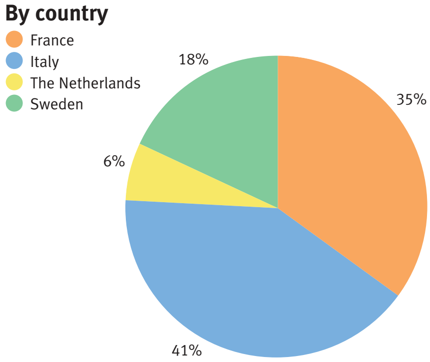
Jeremy Lewis
Chief Executive

Overall portfolio balance (€)

By sector

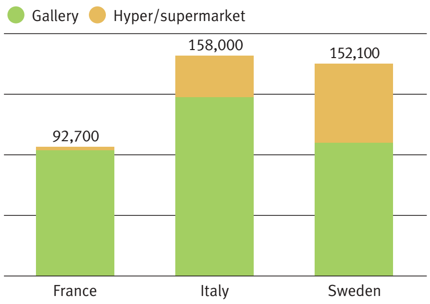


By country



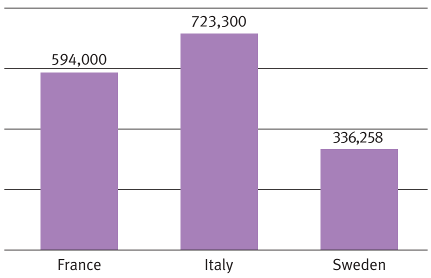
Retail properties floor area (m²)

By country



Retail properties market value (€,000)

By country



Company structure
ECP is a tax exempt quoted Netherlands based Investment Institution with the advantage that all investment income, whatever its source is tax free at the corporate level if it is distributed to shareholders. The Company is also tax exempt in France as a SIIC (société d'investissements immobiliers cotée) but in Italy and Sweden invests through taxable entities, although with careful planning, minimal levels of tax are currently paid.

Investment strategy
The retail sector has been chosen by ECP because supply and demand factors are more easily verified than for any other type of property, provided the investor has the necessary research capability and the experience to interpret the relevant statistics.

Demand can be calculated through studies of the number, origin, wealth and taste of potential shopping centre customers. Supply is also more easily assessed than in other property sectors because no shopping centre is ever built without a considerable degree of tenant precommitment, particularly for the anchor stores. Planning consents for out of town centres are also generally very difficult and time consuming to obtain, ensuring limits on supply.

ECP has a massive database of retail facilities in its markets and can identify retail space density with great accuracy. Our numbers always include, for example, retail warehouses and major in-town stores as well as shopping centres. Detailed demographic and economic research is central to ECP's approach ensuring that shop rental levels are appropriate for achievable sales turnover across the range of store type and size. This ensures sustainability of income and maximises growth potential.

France, Italy and Sweden have been chosen by ECP because they are the only European countries where the majority of shopping centre rents are related to sales turnover (over an indexed base) ensuring market transparency and providing a vital management tool in the constantly evolving retail sector.

In addition, turnover rents give ECP shareholders a direct exposure to the sales growth of major European retailers. Although the economies of France, Italy and Sweden are quite differently based, with a wide range of retailers providing diversity of risk, all three are wealthy democratic countries, share many underlying cultural assumptions and particularly in the retail sector have an extremely international outlook.

The experienced ECP teams in France, Italy and Sweden give us the local knowledge to invest confidently in provincial cities where, although risks are often lower, returns can be higher than in capital cities, normally the first choice for aggressive foreign investors. Our existing infrastructure also makes it economic for us to invest in smaller but often very attractive investments, effectively barred to large newcomers to the markets.

Management structure
ECP has an efficient management structure based upon a team of highly skilled property professionals with many years of service to the Company. All major property decisions are taken jointly by the Property Committee at a weekly meeting which includes the Group economist, and the heads of the French, Italian and Swedish businesses and their deputies.

The system ensures that senior management is kept abreast of and involved in events in all the Company's markets and a variety of points of view can be expressed on particular issues. This leads to robust decisions which reflect broad Company policy and also ensures the greatest possible synergy between markets and the latest international retail and investment trends.

This system also prevents the undesirable perception of an insular head office dictating to branch offices without understanding their problems, which can arise under a more hierarchical system.

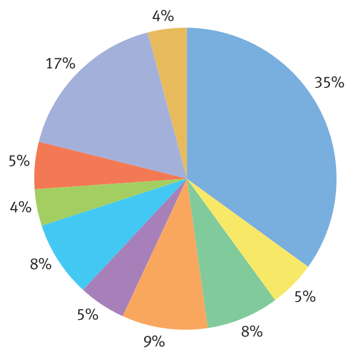
The third great advantage of this "collegiate" structure is that the Company's ethos and culture is widely understood and disseminated so that coherent long term planning is made much easier.

Gallery merchandising mix (m^2)

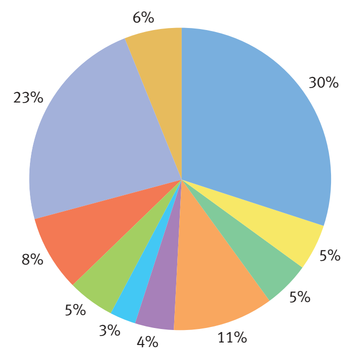
Tenant mix as a proportion of floor area reflecting differing national characteristics.

- Fashion
- Shoes
- Sport
- Food – restaurant
- Services
- Home
- Gift
- Health
- Electrical
- Toys

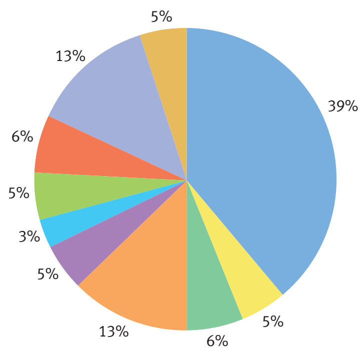
Total galleries



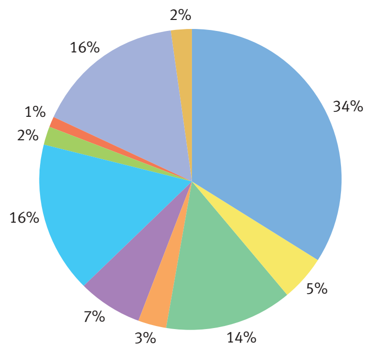
France



Italy



Sweden



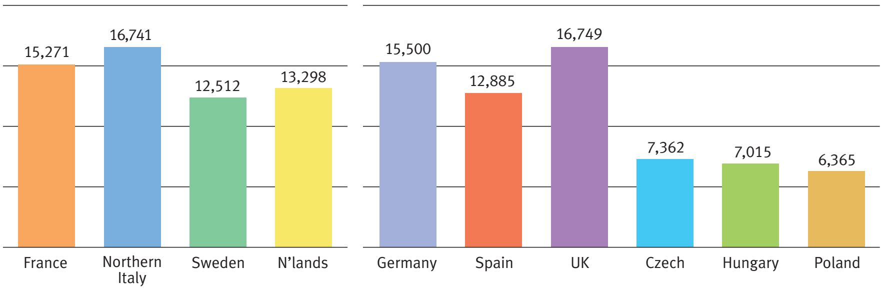
Market commentary and investment plans

Once again we can report that European property markets generally remain extremely strong, especially in the retail sector, but increasingly also for offices, particularly in Paris.

It is difficult to judge how long property price growth will continue at current rates before consolidating but there is no doubt that at the moment there is more demand for good quality institutional investments than there is supply.

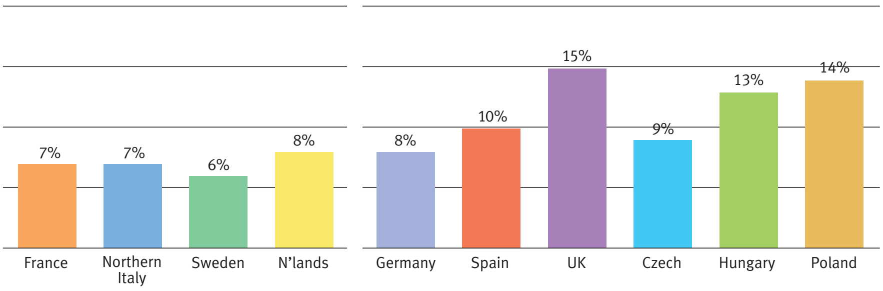
Household disposable income per head (PPCS €)

Source: Eurostat 2003



European rent to turnover ratios (%)

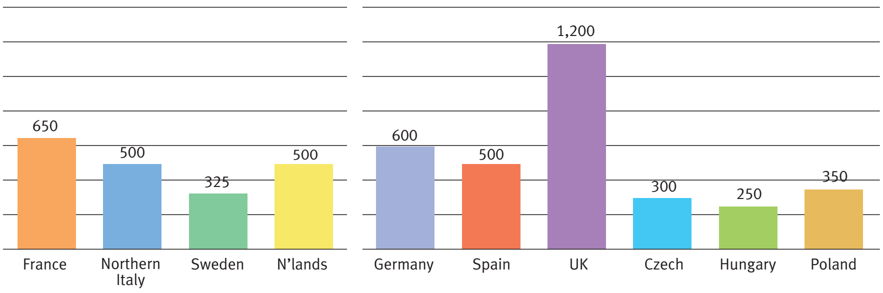
Source: ECP estimates/RCG



Rental levels (€/sqm/pa)

Average regional shopping centre rents for shops less than 300sqm

Source: ECP estimates/RCG



Market background
The strong demand for property investments arises from the relative attraction of property yields compared with equities, fixed interest securities and cash. It also benefits from the fact that major investors in the USA, UK, Japan and Australia are "internationalising" their portfolios. This is generally to diversify risk rather than to increase returns, although Euro interest rates still (just) allow for a positive property income margin, which is not the case in the US, UK or Australia.

The rationale for investment is that it should result in increased earnings and provide higher capital values. Institutional standard property investments in major European markets today offer a very small positive initial yield margin over long term interest rates. The investment case can only be made therefore if rents and capital values are expected to rise.

Rental growth prospects
In the case of shopping centres, rents will generally rise with increased consumer spending provided that the initial level is not too high as has sometimes been the case in emerging markets in Eastern Europe where rents are actually falling because rent to turnover levels were too demanding.

Consumer spending and rents, are rising in tandem in France and Sweden where the economies are relatively strong and also in Italy despite lower growth levels because the overall supply of shopping centres is less there. Even in these countries, though, initial property yields as low as 4.5% mean that the decision to invest is a finely balanced one.

A major attraction in most West European countries nevertheless is that rents are indexed to inflation, currently running at around 2% in our main markets, although the French building price index, used for the majority of leases there, is likely to be significantly higher in 2006. This can be a mixed blessing if underlying spending levels fail to keep up, particularly if Central Banks are forced to raise interest rates substantially to subdue inflation as they have done, for example, in Hungary and Turkey.

Investment policy
ECP's investment policy today is that it will not buy investment properties at yields of much less than 5% unless there are attractive growth prospects. Our preference is to buy properties in provincial cities in our core markets of France, Italy and Sweden leased at moderate, sustainable rents. This is possible because the majority of the new major international competitors are aiming at larger properties in well known capital cities because they often have neither the knowledge nor the infrastructure to make smaller investments worthwhile. They also often have raised very large sums of money that they need to invest rapidly in significant tranches and do not have the time to bother with properties with a value of less than €50 million.

We can see, looking forward, some economic clouds looming – Middle East conflicts, oil price rises, increasing inflation and interest rates and the effect all or any of these may have on international economic growth and consumer spending. These can turn around very rapidly because of a change in sentiment and predicting or even observing the critical point is notoriously difficult. We do not think that we have reached such a point yet but history tells us that at some stage it is inevitable.

The correct strategy, we think, is to continue investing with a prudent yield allowance, based on rents that can survive a downturn in consumer spending.

ECP has very deliberately invested in centres with the lowest rent to turnover levels, ensuring sustainability of income. It has not invested in countries where shopping centres are a new phenomenon with initially high rents that cannot be supported in the longer term by national disposable income levels as shopping centre densities rise.

The Company carefully investigated the West German shopping centre market during the year but decided in the end not to make any acquisitions. Property yields, which initially appeared attractive have reduced to levels no higher than in France and Italy as a result of buoyant investor demand. Total return prospects, accordingly, do not appear favourable given continued depressed levels of German consumer spending, likely to be further hit by planned VAT increases in 2007. The tax situation for foreign investors also remains less attractive than for France, Italy or Sweden.

Shopping centre extensions
We are in the fortunate position that we can extend many of our existing centres whose catchments we know well and achieve much higher yields than would be available from new "ready made" investments in the market. These extensions will only be started after a substantial level of preleasing, largely removing vacancy risks and, taking the longer view, we can set rents at a lower level than would a developer only interested in maximising short term profits.

The programme for the extension of all our eight existing centres in Sweden has commenced with the completion on schedule of the major enlargement of Burlöv Centre and can produce yields at least 2% above open market levels as should the two major extensions in Italy, the first, at Imola and the second at Milan, expected to be finished in 2008. In France, plans are progressing for the enlargement of Tours and Amiens but the long-standing national planning freeze for "out of town" centres means that these projects are some way off. The total expansion programme could well reach €300 million over the next three years however, making a significant positive contribution to earnings on completion.

ECP's ability in this area has been greatly enhanced by the building up of our own skilled teams whose construction management expertise is often transferable between our major markets.

The future
The evolution of ECP from a relatively passive cross border diversified investor at its inception in 1991, to a specialist in the management and enhancement of major shopping centres has been, we believe an appropriate response to extremely competitive markets for a medium sized company such as ours and allows us to look forward to a continued supply of sound investments with excellent growth prospects.

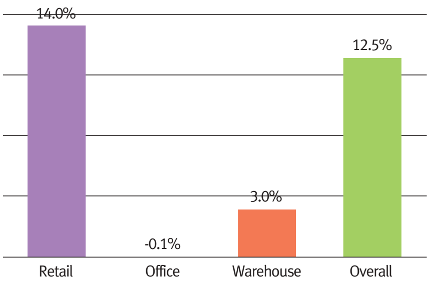
Property valuations

Strong investment markets, particularly for retail properties in Western Europe continued, resulting in an overall independent valuation uplift of €197 million or 12.5% for the year, increasing property assets to €1.78 billion.

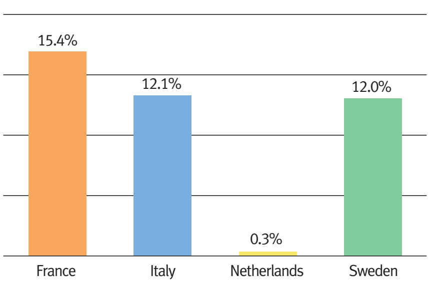
The strongest market for ECP was France where values rose by 15.4% followed by Italy at 12.1% and Sweden at 12%. The Netherlands (6% of the portfolio) where the Company owns an office building and four warehouses, showed minimal growth of 0.3%.

Value growth (%)

By sector

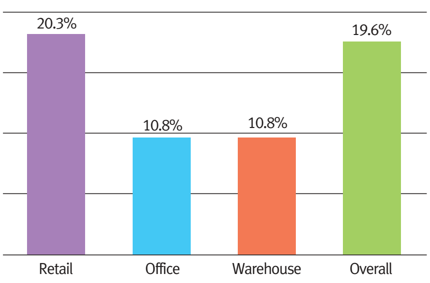


By country

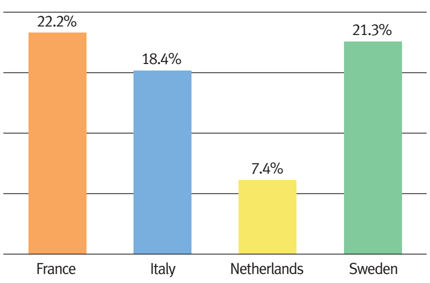


Total return (%)

By sector

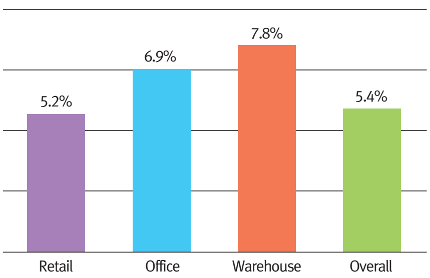


By country

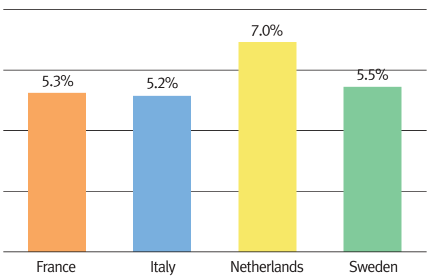


Yields (%)

By sector



By country



Valuations at 30 June 2006

Address	Net value 2005 € million	Net value 2006 € million	Increase %	Net yield %	Cost to date € million	Total return per annum since purchase	Acquisition date
France retail							
Amiens Glisy, Amiens (Somme)	32.10	36.00	12.15%	5.8%	15.79	20.44%	Jan/1995
Buchelay Retail Park (Yvelines)	–	6.68	–	6.2%	6.71	–	Mar/2006
Les Trois Dauphins, Grenoble (Isère)	25.79	30.00	16.32%	5.5%	23.63	13.72%	Jan/2003
Centr'Azur, Hyères (Var)	31.60	35.12	11.14%	5.7%	16.53	15.64%	Dec/1993
Passage du Havre, Paris (includes 10 rue du Havre)	190.96	229.40	20.13%	4.6%	163.97	11.89%	Oct/2000
Passy Plaza, Paris	92.74	106.00	14.30%	5.0%	70.75	11.87%	Jul/1999
74 rue de Rivoli, 1-3 rue du Renard, Paris	12.45	16.90	35.74%	4.1%	10.36	10.69%	Mar/1998
Les Portes de Taverny, Taverny (Val d'Oise)	32.17	38.89	20.89%	5.7%	23.51	14.18%	Aug/1995
Les Atlantes, Tours (Indre et Loire)	79.25	93.00	17.35%	5.6%	46.18	14.94%	Jun/1992
Tourville la Rivière (Seine-Maritime)	1.88	2.04	8.51%	7.0%	1.68	12.62%	Sep/2001
France warehouse							
Parisud, Sénart (Seine et Marne)	9.90	10.70	8.08%	7.0%	11.66	6.35%	May/2001
Rue des Béthunes, Saint-Ouen l'Aumone (Val d'Oise)	17.00	17.00	–	8.6%	17.43	9.07%	Jan/2001
Italy retail							
Curno, Bergamo (Lombardia)	81.50	89.74	10.11%	5.2%	33.48	19.09%	Jan/1994
Centro Lame, Bologna (Emila Romagna)	30.90	34.62	12.04%	5.6%	28.35	14.52%	Dec/2003
Il Castello, Ferrara (Emila Romagna)	73.33	86.35	17.76%	5.6%	62.32	13.16%	Jul/2001
I Gigli, Firenze (Toscana)	188.12	229.30	21.89%	4.9%	148.49	12.75%	Nov/1999
Centro Leonardo, Imola (Emila Romagna)	22.50	25.65	14.00%	6.3%	18.29	11.24%	Jul/1998
La Favorita, Mantova (Lombardia)	41.71	47.56	14.03%	5.8%	30.55	11.13%	Dec/1997
Carosello, Carugate, Milano (Lombardia)	172.90	192.10	11.10%	5.0%	87.67	19.36%	May/1997
Centroluna, Sarzana (Liguria)	16.40	17.98	9.63%	4.1%	10.04	13.27%	Jul/1998
Sweden retail							
Bergvik, Karlstad (Värmland)	37.36	46.82	25.33%	5.25%	36.84	28.42%	Apr/2005
Mellby Centre, Laholm (Halland)	14.53	16.06	10.52%	6.0%	12.74	15.60%	Oct/2003
Burlöv Centre, Malmö (Skåne)	84.59	104.67	23.74%	5.3%	71.75	14.64%	Apr/2001
Maxihuset, Norrköping (Östergötland)	30.87	36.86	19.38%	5.5%	27.85	17.41%	Oct/2003
Maxihuset, Skövde (Västergötland)	26.42	33.54	26.98%	5.5%	25.44	17.50%	Oct/2003
Moraberg, Södertälje (Södermanland)	–	39.72	–	5.7%	37.33	–	Apr/2006
Hälla Shopping Centre, Västerås (Västmanland)	19.10	22.51	17.90%	5.5%	14.90	20.01%	Dec/2002
Samarkand, Växjö (Småland)	31.30	36.07	15.24%	6.0%	27.65	18.40%	Oct/2003
The Netherlands office							
Kingsfordweg 1, Amsterdam Sloterdijk (Noord-Holland)	87.10	87.00	(0.11%)	6.9%	84.85	7.53%	Oct/1998
The Netherlands warehouse							
Galvanibaan 5, Nieuwegein (Utrecht)	4.10	4.02	(1.95%)	7.4%	3.31	14.70%	Nov/1994
Horsterweg 20, Maastricht-Airport (Limburg)	4.00	4.27	6.75%	6.5%	3.95	12.93%	Nov/1996
Koeweistraat 10, Waardenburg (Gelderland)	2.10	2.12	0.95%	7.8%	1.67	13.33%	Sep/1995
Standaardruiter 8, Veenendaal (Utrecht)	3.42	3.64	6.43%	7.4%	2.78	16.87%	Nov/1991

All ECP properties are independently valued at the 30 June balance date and at the end of December each year.

Valuations are always carried out according to accepted international standards as set out in the "Red Book" of the Royal Institution of Chartered Surveyors.

The instruction given to the valuers is to provide a figure at which they would expect the property to be sold in the open market on the day of valuation. This figure is arrived at by capitalising the valuer's judgment of present and expected net rental income.

The selection by the valuers of the appropriate yield at which to capitalise income is the key judgement and the yield figures given in the table are the result of dividing expected net income by the valuation figure to which has been added a standardised market allowance for deemed purchaser's costs (usually transfer tax) in the particular country. The total allowance used this year amounted to €84 million being approximately 4.5% of gross valuations.

Valuations are brought to account as a net amount after deduction of relevant national transfer taxes.

The following firms conducted the valuations at 30 June 2006:

France – FPD Savills, ICADE Expertise, Knight Frank, Retail Consulting Group
Italy – CB Richard Ellis, Jones Lang LaSalle, Savills
Sweden – Cushman & Wakefield, DTZ
The Netherlands – Boer Hartog Hooft.

Rental income

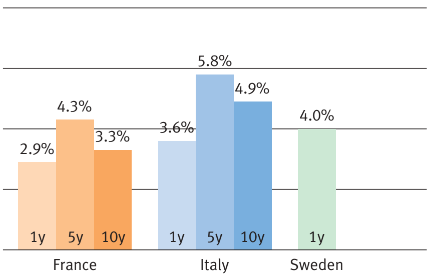
The most important component of long term growth in a property investment company is that derived from rental income. Investment yields and therefore capital values can rise and fall with interest rates or market trends but rental levels are the true test of the value placed upon a property by its users.

Top ten tenants

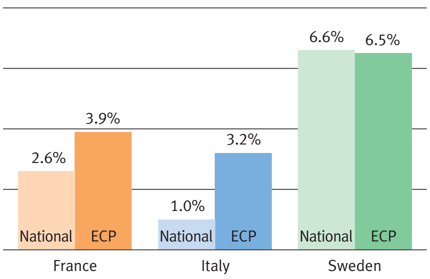
	Rent € million	Income %
Netherlands Government	7.0	7.0%
Carrefour	4.7	4.7%
ICA Maxi	3.2	3.2%
Coop Forum	3.2	3.2%
Fnac	2.7	2.8%
H&M	2.6	2.6%
Vis Pathé	1.8	1.9%
MediaMarkt	1.7	1.7%
Groupe Casino	1.6	1.6%
Gruppo Coin	1.5	1.6%

ECP rental statistics

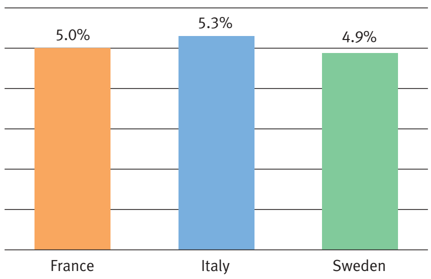
Retail rental growth per annum (%)



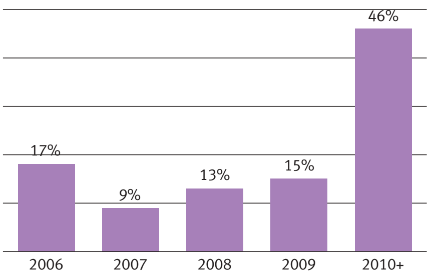
Retail turnover growth year to June 2006 (%)



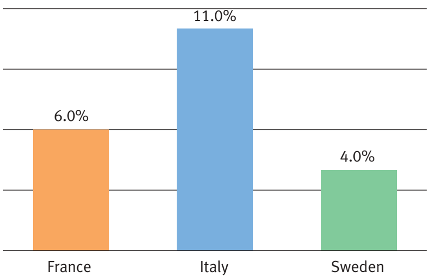
Retail rent to turnover ratios – excluding hypermarkets (%)



Unexpired retail lease terms (%)



Potential retail rental reversions (%)



For the financial year ended 30 June 2006 the like for like (same floor area) rental growth, including indexation averaging 1%, in the Company's retail properties (91% of the portfolio) was 3.4% overall; 2.9% in France, 3.6% in Italy and 4% in Sweden. Rents rose marginally by 1.5% in the two office buildings (7% of the portfolio) and reduced overall by 13.5% in the warehouse properties (2% of the portfolio). All rental growth figures compare tenancy schedules at the relevant dates.

Turnover growth averaged 4.5% overall for the year, the ECP French centres achieving 3.9%, the Italian 3.2% and those in Sweden 6.5%. These figures compare well against the relevant consumer price indexes and national retail sales numbers.

Rent to turnover ratios

All ECP centres have low rent to turnover ratios, the average excluding hypermarkets being 5.1%. We know therefore, that our retailers have successful businesses and that rents are sustainable even if economic conditions deteriorate. We can also expect continued high tenant demand and consistent rental growth.

Retailers will always relate the rent they are prepared to pay to the business turnover they can generate from a particular shop. This relationship exists in the same way as for other costs such as staff, stock etc. but it is only in France, Italy and Sweden, in Europe, that the ratio between sales turnover and rent is routinely made explicit at the commencement of the lease in the vast majority of shopping centres.

A fashion boutique, for example, will wish to pay less than 7 or 8% of its turnover in rent in a suburban centre but may accept up to 12% perhaps even 15% in the best central fashion streets in the capital. Having agreed an appropriate initial rental level, a retail tenant will undertake to declare his sales turnover to the lessor from that shop every month. At the end of the year the agreed percentage of turnover is compared with the initial base rent plus indexation. If the percentage of turnover exceeds the indexed base rent the tenant will pay the difference to the landlord.

The key advantage to retailers of this system is that one of its major overheads, rent, is always in proportion to turnover and there is no conflict of interest between landlord and tenant. If things go well, both benefit.

The shopping centre owner has a vital management tool, in that every month the real performance of the centre can be assessed, not just as a whole but separately in every sector and within each sector each individual trader.

Merchandising mix

It is thus possible periodically to reshape the retail mix of the centre to match changing consumer tastes. We can tell very quickly, for example, with our 24 centres and 900 tenants whether a drop or rise in sales is because of a broad trend or because a particular retailer is failing or booming.

This is in direct contrast to the markets where rents are periodically reviewed "to market" with no turnover clauses and may not relate at all to the business carried out in a particular shop and where the lessor may only discover the mismatch when the tenant fails and leaves.

Shopping centres to be attractive and viable in the long term must offer a balanced mix of retailers, some of which are essential but cannot pay high rents. A dry cleaner or shoe repairer for example can probably only afford half the rent of a jeweller but both are vital components of a balanced shopping centre.

There is no doubt that the benefits of turnover leases in shopping centres is becoming more widely understood in Europe, beyond France, Italy and Sweden as it has for much longer in the US and Australia. There is a definite increase in the number of centres with turnover rents in Spain and even Germany but the majority still do not have this attraction.

The ratio of turnover sales to rent, if it is known, also gives an experienced investor an instant and reliable measure of the success of a shopping centre. An average overall boutique rent to turnover ratio of more than 10% in a suburban shopping centre gives a warning that there is a problem – over 15% a very serious problem, suggesting that rents are unsustainable.

Passy Plaza, Paris
Recent lettings to Geox (Shoes) & Swarovski (Jewellery) have enhanced the merchandising mix at Passy Plaza.

Funding

The performance of property investments can be enhanced or diminished significantly by funding policies.

ECP is a long term property investor and believes that the funding of its investments should also be planned on a long term basis reflecting the overall risk profile of the business.

Evert Jan van Garderen
Finance Director

Bergvik, Karlstad
ECP recently arranged a new loan with a major Swedish bank for an amount of SEK 700 million with a term of ten years to finance Bergvik in Karlstad and Burlöv Centre in Malmö.

I Gigli, Florence
ECP recently arranged a new loan with a major Italian bank for an amount of €72 million with a term of 15 years to finance I Gigli in Florence.

The Company has adopted the following funding policies:

Borrowing levels
Group borrowing will not exceed the net equity of the Company, so that the debt/equity ratio is less than one. In fact at 30 June 2006 total long and short term debt is €644 million against net equity of €1,038 million giving a ratio of 0.62 to 1. Debt as a ratio of total assets is 34%. Individual loan to property value ratios rarely exceed 50%.

Loan recourse
All lenders have full recourse to the balance sheet of the Company either through guarantees, mortgages or both. ECP believes strongly that it should honour all of its obligations at all times; its most valuable asset being its good reputation. This is appreciated by lenders and results in lower than average margins and funding costs for the Company.

Financing methods
The Company believes that simplicity and clarity in funding also helps to lower borrowing costs. All loans are therefore made directly with major reputable banks, usually with a mortgage. ECP does not think that it is efficient for a company of its size to enter financing programmes using securitisation of debt where apparently low margins can be increased significantly by up front and other advisory fees. Furthermore, the required minimum size of these programmes would reduce the current flexibility and spread of maturities enjoyed by ECP.

In addition, securitisation programmes are often for relatively short terms, requiring frequent refinancing and there can be the difficulty of another corporate security trading alongside the Company's depositary receipts but with different price determinants.

Loan terms – Facility and interest periods
The average term of committed ECP loan facilities is nine years disposed as shown in the chart.

The Company believes that, although in normal markets interest rates are higher for longer terms, from a risk point of view property investments should not be funded for the short term merely to benefit from a temporary positive property yield margin over interest costs.

If the return from a property will not stand longer term (5-10 years) interest rates, it probably should not be bought – the risk of rising interest rates is too great.

Although all ECP borrowings are made with interest rates expressed as three months *Euribor* or equivalent, derivatives are then entered into extending interest periods so that at the balance date the Company's interest period disposition is as shown in the chart. The advantage of this system is that the Company has complete flexibility to repay loans at any time without having to change the overall interest rate risk cover for the loan portfolio.

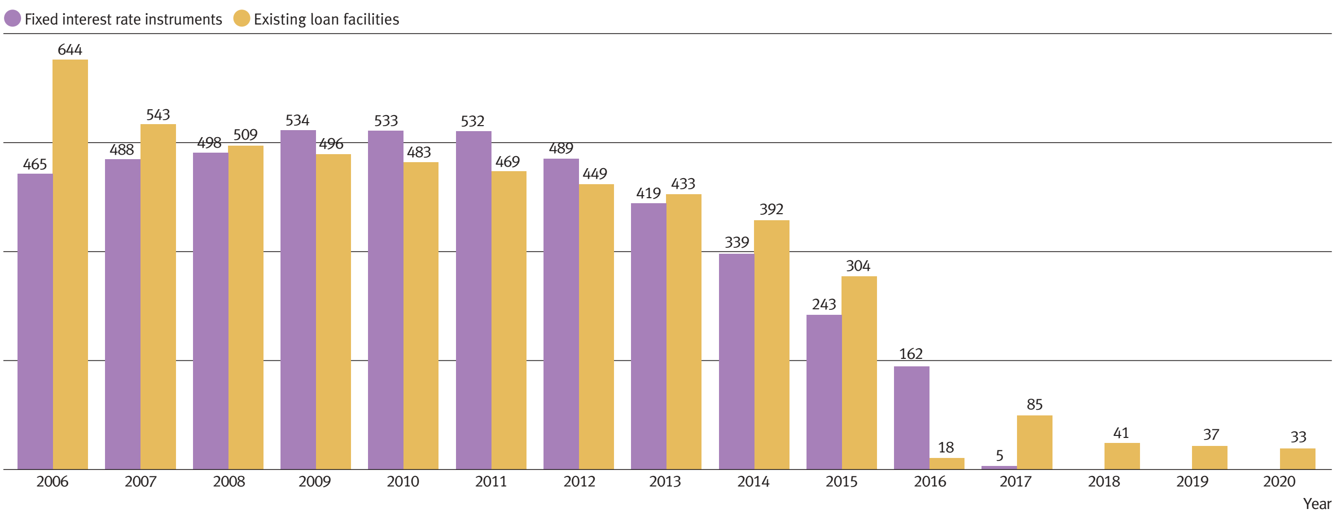
At 30 June 2006 80.5% of the debt was hedged. Interest rate instruments have a similar average period as the loan facilities and an overall interest rate of 4.8% including margin.

Because of the use of derivatives the Company has been well insulated against recent interest rises so that through careful management of the debt book interest expenses actually fell in 2006 compared with 2005 by 3.4% from €24.9 million to €24.1 million. The average overall interest rate for the Company during the financial year was 4.5% including margin. The negative fair value of interest rate derivatives has fallen significantly as interest rates have risen. The figure for 30 June 2006 was €8.7 million compared with €54.5 million at 30 June 2005.

Share issues
ECP has never issued new shares representing more than 10% of existing capital or at a price less than Net Asset Value unless the shares were issued on a "rights" or pre-emption basis to all existing shareholders.

Ordinary shares and depositary receipts have equal proportionate voting rights and are fungible against each other at no cost.

Borrowings (€ million)



ECP currently has drawn facilities in place with the following banks:

- Banca Antoniana Popolare Veneta S.p.A.
- Banca di Roma S.p.A.
- Banca di Imola S.p.A.
- Banca Intesa S.p.A.
- Banca San Paolo IMI S.p.A.
- UniCredit Banca d'Impresa S.p.A.
- ING Bank N.V.
- ING Vastgoed Financiering N.V.
- Nordea A.B.

Eurocommercial Properties in France

ECP's first French shopping centre acquisition was that of Centre Commercial Les Atlantes at Tours in 1992. The centre has continued to be one of the most successful investments in France.

The Company acquired its first city centre property, rue du Rivoli in Paris in 1998 and subsequent acquisitions followed at Passy and Passage du Havre. Today the French retail portfolio has a total floor area of 92,700m^2 in eight properties together with two warehouse properties of 48,700m^2.

Economic snapshot

Population (2005, million)	60.6
GDP 2006E	+2.1%
Inflation 2006E	+2.1%
GDP per capita (€ PPS)	24,213
Disposable Income per capita (€ PPCS)	15,271
Unemployment rate (July 2006)	8.9%

Source: Eurostat, The Economist

Property total return

+22.2%

Retail rental growth

+2.9%

Valuation increase

+15.4%

Turnover growth

+3.9%

Highlights 2005/06

- The acquisition of Buchelay Retail Park to the west of Paris at a cost of €6.7 million and a net yield of 6.25%. This terrace of three units leased to Tati, Bata and Salon Centre was purchased as a forward commitment and delivery took place on time in June 2006. The units form part of an important zone where anchors include Leroy Merlin and Decathlon.
- The refurbishment programme in France has been initiated at Les Portes de Taverny where a thorough "relookage" and updating of the gallery has now been completed. The works have coincided with the arrival of new retailers and a new centre manager directly employed by ECP.
- At Tours Les Atlantes ECP is in detailed discussions with the local and regional authorities in the expectation of carrying out a major refurbishment and remodelling to the gallery. The city of Tours is promoting the arrival of a new IKEA store on land opposite the shopping centre. ECP has subdivided the Toys R Us unit into two and Hennes & Mauritz will open a new store of 1,200m^2 in September 2006.
- Another excellent year at Le Passage du Havre with turnover up 5.2% and the lease renewal programme underway.
- Parisud warehouse unit relet in its entirety to La Grande Récré.

National shopper profile

Consumption expenditure per household	
Total expenditure (€ PPS)	24,597
Food, beverages and tobacco	18.0%
Clothing and footwear	5.8%
Furnishing, household equipment	5.5%
Recreation and culture	7.4%
Restaurants and hotels	5.8%

Average number of members per household	**2.42**
Households owning a car	**91.2%**

The retail market
Invented in France, the hypermarket has now been exported to many European countries.

In France, the "golden age" of hypermarket construction was in the sixties and seventies as the demographic shift towards the suburbs of the cities accelerated. During this period hypermarkets appeared on wide expanses of land well served by road networks on the periphery of virtually every conurbation.

Hypermarket groups tend to describe themselves as locomotives and the wagons and carriages quickly followed in the form of galleries of forty plus shops together with specialist box type retailers established in clusters on the land around. This format has created a number of powerful groups who were initially complimentary to the hypermarket, but who are now, by virtue of their increasing buying power and expertise starting to poach market share.

Thus retail densities in France, whilst average in terms of integrated shopping centres, are much higher when box retailers are taken into account.

These elevated densities combined with complicated local politics explain why new shopping centres are hard to develop. Increasingly politicians are seeking to protect town centres and to limit further out of town expansion.

The CDEC or Commission Départmentale d'Equipement Commercial is the principle planning instrument and in order to obtain such a permit the support of local and regional politicians, chambers of commerce and local interest groups is required.

Thus the development industry is focussed on three areas.

Town centre projects
Local politicians support town centre projects which modernise and enhance existing infrastructure. Most of these schemes are mixed use and tend to be anchored on either FNAC, the cultural champion of France or variety store Monoprix. Alternative anchors are supermarkets and Saturn (electrical).

Retail parks
Whilst there is no shortage of box retailing in France a political case can be mounted for modernising the stock and assembling operators into retail parks rather than on unattractive strip developments on the main highways.

Extensions
Local authorities are generally supportive of measures which can be seen to provide more attractive architectural treatments that replace and enlarge outmoded concepts.

The team
The Eurocommercial Properties team in France consists of ten people.

All are French nationals with backgrounds in commerce, engineering and marketing as well as shopping centre management and investment.

Commercial management together with rent collection are carried out from the office in Paris. Tenant relations and marketing capabilities are enhanced by a direct presence in each of our shopping centres.

Left to right: Jeanne Martinelli, Damien Malherbe, Caroline Bonaldi, Pascal Le Goueff, Tom Newton, Veronique Ballereau, Ambroise Leroy, Eric Compain and Christine Marest.

Retail trends

Recent pressures on the hypermarket sector can be ascribed to the wider choice increasingly available to consumers.

In the food sector supermarkets and hard discounters offering convenience continue to nibble away although the hypermarket groups have responded by creating their own hard discount concepts, both inside their existing stores and in small stand alone units.

Discount fashion is expanding aggressively out of town where Vivarte and Group Eram (Gémo, Tati, Fabio Lucci) continue to thrive. The sector is also being addressed both by Bata and C&A.

The major international chains of H&M and Inditex continue to gain market share and maintain aggressive expansion plans for large stores in both city centre locations and in regional shopping centres. Others with expansion plans include Esprit and New Look but the difficulty in securing prime locations and the level of key money required suggests that buying weaker chains will become increasingly common. This year Inditex have acquired shops from Bouchara and Celio have acquired Jennyfer.

In the town centre FNAC the electrical/cultural specialist remains important for most city councillors who recognise the value of attracting and retaining an educated and wealthy clientèle. Competition to FNAC is however mounting in the periphery via Saturn (Metro Group), and Cultura (Mulliez/Auchan group).

Investment market

Shopping centre ownership in France has a consolidated base of both specialist institutional investors and also the largest retailers in the country.

Weight of money from both established and new sources continues to overhang the market but with open market shopping centre transactions few and far between there is little hard evidence for valuers. In the nascent retail park sector however two recent transactions in the Paris region have established a benchmark at just over 5%.

The price discount from prime to secondary stock has diminished and there are signs that the favourable tax treatment permitted to vendors under the SIIC legislation allied to a strong market could release a flow of smaller retail properties held until now by retailers and private entrepreneurs.

Buchelay retail park

A 3,800m^2 retail park acquired in June 2006 leased to Bata, Salon Center and Tati.

Les Portes de Taverny
ECP carried out a complete gallery refurbishment including new floors, entrances and toilet areas.

Les Atlantes, Tours
“Tous ensemble avec les Bleus” world cup animation.

Lease law
Lease law in France is regulated by Decree 53-960 of 30 September 1953. This also defines the all important concept of tenant goodwill which is known as "propriété commerciale", the fundamental right of a retailer to a lease of a minimum term of nine years with the right to either renew for a further term of nine years or to receive an eviction premium in compensation.

Retailers pay significant premiums to obtain representation in successful shopping centres. In practice these payments are split between the landlord and the outgoing tenant as compensation for loss of propriété commerciale.

The concept of a market rental increase upon renewal, or "déplafonnement", applies automatically to those leases which are granted for a term in excess of nine years. This explains why professionally managed shopping centres operate with lease terms in excess of nine years and variable turnover rent.

Thus rental increases are achieved by landlords via four means:

a) Annual indexation to the INSEE cost of construction index.

b) Market rental increase upon lease renewal.

c) Changes of tenancy mix.

d) Turnover rent.

Turnover and rental growth
All centres have shown positive sales growth this year. Perhaps the most significant result has been the Passage du Havre which is up 5.2% with growth evenly distributed across all sectors from FNAC to fashion. Passy Plaza up just 0.4% has suffered from an over exposure to Gap, whose sales continue to disappoint, whereas Tours Les Atlantes, up 2.7%, has seen strong figures from medium surfaces specialised in sport, fashion and electrical.

Retail rental growth of 2.9% against indexation of 0.7% means real growth has been 2.2%. Tours and Hyères each up about 5.5% have benefitted from a strong uplift on the H&M letting at Tours and the continuing positive impact of lease renewal negotiations at Hyères.

Valuations
An overall increase of 15.4% includes rises of 21% at the Passage du Havre and 36% at rue du Rivoli. The valuers of these two properties have reflected both the strength of the investment market in central Paris and latent reversionary potential in ascribing initial yields of 4.6% and 4% respectively. For the provincial hypermarket anchored galleries the average initial yield is 5.7%. The overall initial yield for the French portfolio is 5.3%.

Passage du Havre
ECP's largest investment in France where turnovers were up 5.2% in the year and lease renewals are now under way.

French portfolio summary

Retail

Property	Total lettable area	ECP ownership	Occupancy	Major tenants	Renewal profile	Rental income (€ mn)	Rent to turnover ratio	Turnover growth 2005/06	Rental growth 2005/06	Catchment	Household disposable income 2003 (€ PPCS)
Amiens Glisy, Amiens (Somme)	Total: 22,769m^2 Gallery GLA: 6,279m^2 (Géant) Hyper: 16,000m^2 Other: 490m^2	6,279m^2	100%	Flunch, Camaieu, Nocibé	2006: 55% leases	2.24	6.3%	3.8%	3.0%	205,000	14,355
Buchelay Retail Park (Yvelines)	Retail: 3,800m^2	3,800m^2	100%	Bata, Tati	2015: 66% retail leases	0.42	N/A	N/A	N/A	202,000	16,645
Les Trois Dauphins, Grenoble (Isère)	Total: 16,800m^2 Retail: 8,300m^2 Hotel/office: 4,073m^2 Residential: 4,402m^2	16,800m^2	100%	Fnac, C&A, Group Accor	2006: 33% retail leases	2.08	N/A	N/A	4.3%	400,000	15,424
Centr'Azur, Hyères (Var)	Total: 17,043m^2 Gallery GLA: 6,243m^2 (Géant) Hyper: 10,800m^2	6,243m^2	100%	Casino Cafétéria, Okaidi		2.15	5.4%	9.2%	5.8%	205,000	15,424
Passage du Havre, Paris (includes 10 rue du Havre)	Total: 20,447m^2 Retail: 13,839m^2 Office: 4,271m^2 Residential: 2,337m^2	20,447m^2	100%	Fnac, Nature et Découverte, Zara, H&M, Eole Finance	2006: 76% leases	12.31	3.6%	5.2%	3.0%	675,000	21,838
Passy Plaza, Paris	Retail: 8,077m^2	8,077m^2	100%	Inno, H&M, Zara, Gap		5.91	9.0%	0.5%	0.2%	162,000	32,222
74 rue de Rivoli, 1-3 rue du Renard, Paris	Total: 2,842m^2 Retail: 710m^2 Office: 200m^2 Residential: 1,934m^2	2,842m^2	100%	Natalys, Minelli	2006: 50% retail leases	0.84	N/A	N/A	2.0%	N/A	N/A
Les Portes de Taverny, Taverny (Val d'Oise)	Total: 30,354m^2 Gallery GLA: 5,482m^2 (Auchan) Hyper: 16,200m^2 Other: 8,672m^2	5,482m^2	100%	Paul, Krys, Promod		2.43	6.2%	1.1%	0.1%	330,000	19,700
Les Atlantes, Tours (Indre et Loire)	Total: 39,347m^2 Gallery GLA: 22,747m^2 (Carrefour) Hyper: 16,600m^2	22,747m^2	100%	Go Sport, Flunch, Saturn, Toys R Us, H&M		5.67	5.0%	2.7%	5.3%	420,000	15,882

Warehouse

Property	Total lettable area	ECP ownership	Occupancy	Tenants	Rental income (€ mn)	Rental growth 2005/06
Parisud, Sénart (Seine et Marne)	20,097m^2	20,097m^2	100%	La Grande Récré	0.80	N/A
Rue des Béthunes, Saint-Ouen l'Aumone (Val d'Oise)	28,599m^2	28,599m^2	100%	Bic, Lancel	1.54	3%

Number of retail properties	9
Number of visitors per annum	c.36 million
Number of shops	300
Floor area owned including warehouses	141,000m^2
Average size of shops in galleries	138m^2
Largest non-food tenants	Fnac, H&M
Largest food tenant	Inno

Eurocommercial Properties in Italy

ECP was one of the first investors in the Italian shopping centre market acquiring Centro Commerciale Curno in 1994 (then the largest centre in the country) and remains one of the leading players in the sector. The Italian portfolio comprises eight shopping centres, a retail park and a multiplex cinema, all in central and northern Italy, a total of 158,000m² with total annual visitor numbers of 44 million.

Economic snapshot

Population (2005, million)	58.5
GDP 2006E	+1.3%
Inflation 2006E	+2.1%
GDP per capita (€ PPS)	23,448
Disposable income per capita Northern Italy (€ PPCS)	16,741
Unemployment rate Northern Italy (Q1 2006)	4.9%

Source: Eurostat, The Economist

Property total return
+18.4%

Retail rental growth
+3.6%

Valuation increase
+12.1%

Turnover growth
+3.2%

Highlights 2005/06

- Carosello, Milano – The land required for the 11,300m² extension of the centre has been acquired and the approval process is proceeding as planned. The technical building consent is expected by the end of 2006 with construction to begin in early 2007. Discussions are now beginning with anchor tenants and the selection of the merchandising mix is underway.
- Curno, Bergamo – Two years after completion of the refurbishment and re-merchandising of the centre, Curno continues to show very strong year on year turnover growth of 8%. This growth has driven down the rent to turnover ratio of the centre to 4.6%, indicating very sustainable rents and strong reversionary potential.
- Leonardo, Imola – The leasing of the entire centre is proceeding well (95% pre-let) and ECP has a turn-key contract to acquire the extension from the developer upon satisfactory completion.
- Lame, Bologna – An interior refurbishment has been completed in order to refresh this strong neighbourhood centre which has seen new competition in the form of a large new supermarket and retail park nearby. Upon completion of the exterior refurbishment in 2007 we expect turnover growth to accelerate further, capitalising on the excellent location of the centre close to Bologna city centre.
- I Gigli, Firenze – Now in its ninth year I Gigli still holds the record for annual visitor numbers for shopping centres in Italy at 13.7 million. The centre continues to grow despite increased competition principally owing to its dominant size and strength of retail offer. ECP is evaluating both additional car parking and further retail space both in and around the centre.

National shopper profile

Consumption expenditure per household	
Total expenditure (€ PPS)	27,220
Food, beverages and tobacco	20.9%
Clothing and footwear	7.5%
Furnishing, household equipment	7.6%
Recreation and culture	6.3%
Restaurants and hotels	4.6%

Average number of members per household	2.62
Households owning a car	90%

The retail market
ECP focuses solely on the retail sector in the centre and north of the country and the emphasis is on extensions, refurbishment, better services to customers, marketing and merchandising mix. This activity is preceded by research into spending patterns and the potential of each centre in its catchment. The aim being to convert the attraction of the centres into increased visitor spending, a precursor to sustainable rental growth.

Shopping centres
Shopping centres are an established and important part of the retail offer in Italy. This is largely due to high car ownership and the constraints of historic city centres, particularly in terms of lack of modern retail floor space and car parking.

The large number of middle sized towns and cities in Italy (80 towns in central and northern Italy alone with populations in excess of 50,000) are well suited to the easily accessible edge of town shopping centre model.

The first wave of modern shopping centre development in Italy occurred only in the early 1990's and copied the French model of a hypermarket anchored centre with a gallery of shops. 80% of centres in excess of 20,000m^2 are anchored by a hypermarket and the latter will typically have a sales area of 8-10,000m^2.

Today there are some 230 shopping centres in Italy with total GLA in excess of 15,000m^2 (including hypermarket).

Whilst there are some large shopping centres being developed, particularly in Rome, the trend is still towards medium sized properties with a total GLA of some 20-25,000m^2 as they best suit the middle sized towns which they serve. ECP's centres (including hypermarkets) range in size from 15,000m^2 at Centroluna to 65,000m^2 at I Gigli.

ECP focuses very closely on supply data for existing and proposed projects in its own catchments as well as monitoring national trends. The most useful measure of supply is the GLA of shopping centre floorspace per 1,000 population within a centre's catchment and the average currently for the ECP portfolio in Italy is below the European average. Supply is increasing particularly in Rome and southern Italy but this is still from a low base.

Nevertheless this increased competition emphasises the need to carefully research a centre's catchment and to invest where appropriate to upgrade a centre's appeal.

The result will be an improvement in the quality of shopping centres nationally.

The team
Eurocommercial Properties has a team of 16 managing the Italian portfolio, ten of whom are based in the Company's Milan office. All are Italian nationals and have backgrounds in retailing, marketing, development, asset management, centre management, shopping centre administration and finance.

Left to right: Elisabetta Gasparini, Fabrizio Da Rin, Simona Gelain, Stefano De Robertis, Fabrizio Aquilina, Sara Cirilli, Silvia Dibisceglia, Monica Oppini, Marco Bas, Roberto Fraticelli, Rossella Parisi, Valeria Di Nisio, Luca Fabbrini, Tim Santini and Marco Garibaldi. Not in the photo – Sergio Olgiati.

Retail parks and factory outlet centres
Retail parks are in their infancy in Italy but are growing fast owing to their slightly easier planning regime and simplicity of construction.

Unlike in France and Sweden, a significant number of specialist retail park operators has not yet emerged and the few parks that do exist often provide a similar retail offer to that found in shopping centres. By way of example, Media World, the country's leading electrical retailer is actively seeking stores in both retail parks and shopping centres, believing the latter offer increased footfall and more propensity for impulse purchases albeit at a slightly higher occupancy cost.

Rents in shopping centres are indeed only marginally higher than retail parks and it is interesting that retail park rents in Italy are significantly higher than those in France where the format is long established, perhaps raising a warning note for retail parks in Italy if supply continues to rise, thereby reducing their scarcity value.

Factory outlet centres are slowly increasing in number and are almost all in central and northern Italy. These are usually located on motorway junctions away from important city centres to avoid competing with retailers' in-town outlets.

The Italian consumer is typically very brand conscious and these outlet centres work well when they attract a concentration of prestigious brands. Their attraction revolves however almost solely around discounting branded goods otherwise not affordable on the high street.

Retail trends
Large multiple retailers claim a smaller share of retail sales in Italy than is the case in much of Western Europe.

As these multiples are the natural occupiers for shopping centres, attention is required in tenant selection to avoid creating a centre no different to that of the competition.

The challenge is therefore to identify strong independent retailers which complement the national and international operators to offer a merchandising mix that best meets local needs.

In ECP's Italian shopping centres tenants can be classified as follows:

- International retailers 51%
- National retailers 26%
- Local or regional retailers 23%

Interestingly the independents tend to outperform national retailers as they are more in tune with local tastes and perhaps offer better service, whilst international retailers benefit from their economies of scale and professionalism and as such can usually afford to pay higher rents and entry premiums. In terms of the most important retailers, the ubiquitous Inditex Group (Zara) and Hennes & Mauritz are expanding aggressively, although the latter has been much slower to start. At year end Inditex had 93 stores in Italy and Hennes & Mauritz 12.

Their expansion and that of other new entrants to the market has forced Italian retailers to improve their offer and perhaps not surprisingly the last 12 months has seen a large amount of corporate activity in the retail sector with La Rinascente, Coin, Cisalfa and others falling into the hands of private equity groups. This activity has been underpinned by very strong property values as some of the retailers have tended to own a significant portion of their outlets.

Investment market
There have been a number of important transactions in the shopping centre market over the last 12 months and these confirm that net yields are now at 5% and perhaps slightly under for the very best.

The major feature of this market has been the depth of interest with an investor base now comparable to that of the major markets of Western Europe.

There seems to be a premium for large properties and it is interesting to note that it is these larger shopping centres that have performed best within ECP's portfolio.

The new 223 Law has increased transaction costs for the purchase of property outside a corporate body. It is too early to tell if this will impact on investment activity or pricing but we do not believe so as this Decree, as currently drafted, brings Italy into line with other European markets.

Lease law
There are two types of agreement in Italy which govern the contractual relationship between landlord and tenant:

- Locazione leases: A codified lease with a term typically of 6+6 years, whereby the tenant has an option to terminate at the end of the 6th year.
- Affitto d'Azienda: A business agreement in which the parties are free to agree terms as they choose and the trading licence, which a retail unit needs to operate, belongs to the landlord.

The Company has a preference for the Affitto d'Azienda for the flexibility and control of tenant mix it provides and the earlier review of the rent it offers.

As the term is usually 5-7 years for smaller units this means the rent is increased to market levels upon expiry rather than after 12 years with Locazione leases.

Both type of lease include turnover clauses.

Carosello, Milano
Carosello was acquired in 1997 and was the Company's second centre in Italy. It is located opposite IKEA and Castorama on Milano's ring road with a population of some 1.4 million in 20 minutes drive time.

Curno, Bergamo
Curno, ECP's first Italian acquisition in 1994, remains one of the best performing Italian centres. Following a major refurbishment and small increase of lettable area in 2004, turnover grew by 8% over the last year with 6.6 million visitors.

Centro Lame, Bologna
Acquired in December 2003, Lame is a strong neighbourhood centre anchored by an Ipercoop hypermarket and located very close to the city centre of Bologna. The gallery was refurbished internally in 2005.

Leonardo, Imola
Leonardo was acquired in 1998. A major refurbishment and a 9,300m^2 extension is nearing completion. The completed gallery will have an area of 15,000m^2.

Marketing
ECP has recently employed a marketing professional with many years experience of the shopping centre industry to improve the quality and effectiveness of each centre's marketing spending.

The Company is placing increased importance on building a relationship with customers through targeted marketing events, new services such as mother and baby rooms and service desks which will order taxis, lend umbrellas and pushchairs and advise on events in the community.

Turnover and rental growth
Overall year on year turnover growth of 3.2% for the Italian portfolio masks some significant variations between properties. Larger centres have performed well, particularly Curno (+8%) and I Gigli (+4.5%) with the former benefitting from a major refurbishment and complete remerchandising in 2004. I Gigli is one of the largest centres in Italy and this, coupled with a very active marketing campaign, has enabled it to differentiate itself. The only negative performer was La Favorita which saw a competing centre open in 2005. A refurbishment of the gallery will take place in 2007.

Rental growth of 3.6% in the year is split between indexation of the rents (45% of the growth) and re-lettings during the year (55% of the growth).

Valuations
An overall increase of 12.1% included rises of 20% at I Gigli and 17% at Il Castello. The valuers have been able to draw on a number of recent transactions in the market to support these valuations.

Apart from Sarzana which is highly reversionary owing to an expiring headlease in 2008 and therefore has a very low initial yield, net yields range from 4.9% to 6.3% with an average net yield for Italy of 5.2%.

Il Castello, Ferrara
Acquired in 2001, Il Castello is the dominant shopping centre in Ferrara anchored by an Ipercoop hypermarket.

Italy portfolio summary

Retail

Property	Total lettable area	ECP ownership	Occupancy	Major tenants	Renewal profile	Rental income (€ mn)	Rent to turnover ratio	Turnover growth 2005/06	Rental growth 2005/06	Catchment	Household disposable income 2003 (€ PPCS)
Curno, Bergamo (Lombardia)	Total: 35,348m² Gallery GLA: 15,603m² Hypermarket (Auchan): 17,245m²	15,603m²	100%	Media World, Passatempo, Cisalfa, Brek	2009: 21.4% leases 2015: 50.8% leases	5.29	4.6%	8.0%	3.0%	431,000	14,991
Centro Lame, Bologna (Emilia Romagna)	Total: 16,560m² Gallery GLA: 5,524m² Hypermarket (Ipercoop): 11,036m²	5,524m²	100%	Bata, Camst, Benetton	2008: 59.5% leases	2.08	7.4%	0.6%	5.4%	302,835	21,311
Il Castello, Ferrara (Emilia Romagna)	Total: 36,552m² Gallery GLA: 17,838m² Hypermarket (Ipercoop) 15,350m² Other: 1,184m²	15,588m²	99%	Euronics, Oviesse, Cisalfa	2007: 22.6% leases 2009: 21.4% leases 2010: 26.2% leases	4.82	6.2%	2.4%	4.3%	316,000	16,167
I Gigli, Firenze (Toscana)	Total: 79,177m² Gallery GLA: 44,962m² Hypermarket (Panorama): 23,000m² Cinema: 11,215m²	56,177m²	100%	Leroy Merlin, Media World, Coin, Zara, Vis Pathè	2008: 16% leases 2009: 23.6% leases 2010: 24.5% leases	12.49	4.5%	2.5%	4.2%	934,000	17,342
Centro Leonardo, Imola (Emilia Romagna)	Total: 22,694m² Gallery GLA: 6,494m² Hypermarket (Ipercoop): 16,200m²	6,494m² (excluding extension)	100%	Pittarello, Benetton, Douglas	2011: 34.4% leases 2013: 39.4% leases	1.29	N/A	N/A	1.5%	142,000	18,518
La Favorita, Mantova (Lombardia)	Total: 33,079m² Gallery GLA: 7,400m² Retail Park GLA: 6,279m² Hypermarket (Ipercoop) 11,000m² Brico: 5,700m² Cinema: 2,700m²	13,679m²	100%	Media World, UPIM, Piazza Italia, Scarpe & Scarpe	2007: 17.5% leases 2008: 35% leases	3.05	6.5%	-2.2%	7.7%	313,000	16,167
Carosello, Carugate, Milano (Lombardia)	Total: 42,072m² Gallery GLA: 11,005m² Hypermarket (Carrefour) 29,947m² Other: 180m²	41,132m²	100%	Carrefour, Oviesse, Autogrill, Zara	2009: 89.2% leases	9.42	5.9% (Gallery only)	4.4% (Gallery only)	2.3% (Gallery only)	753,000	19,253
Centroluna, Sarzana (Liguria)	Total: 15,176m² Gallery GLA: 3,596m² Hypermarket (Ipercoop): 11,580m²	3,596m²	100%	Piazza Italia, Benetton	2007: 58.3% leases	0.82	7.3%	1.2%	1.7%	208,262	15,726

Number of shopping centres	8
Number of visitors per annum	c.44 million
Number of shops	516
Floor area owned	158,000m²
Average size of shops in galleries	127m²
Largest non-food retail tenants	Media World, Gruppo Coin
Largest food tenant	Carrefour

Eurocommercial Properties in Sweden

Following two years of market research, ECP made its first acquisition in Sweden during April 2001, purchasing Burlöv Centre, Malmö. At the same time, the Company started to develop long term relationships with the two main food groups, ICA and KF (Coop), not only as important retailers but also as a potential source of investment product. These relationships directly resulted in several important subsequent acquisitions. Today the Company has eight retail properties located throughout Sweden with a total area of 152,100m².

Economic snapshot

Population (2005, million)	9
GDP 2006E	+3.7%
Inflation 2006E	+1.4%
GDP per capita (€ PPS)	25,193
Disposable Income per capita (€ PPCS)	12,512
Unemployment rate (July 2006)	6%

Source: Eurostat, The Economist

Property total return

+21.3%

Retail rental growth

+4.0%

Valuation increase

+12.0%

Turnover growth

+6.5%

Highlights 2005/06

- The acquisition of Moraberg Retail Park, Södertälje (19,000m²) at a cost of €39 million and a net yield of 6%. This modern retail park is located adjoining the busy E4 motorway, 30km south of Stockholm and is let to the main Swedish multiple tenants in electrical, sport, DIY, household and garden centres for an average term of eight years and at rental levels (€130m²) which provide a sound basis for future growth.
- The completion of a 6,000m² extension and the relaunch of Burlöv Centre in June 2006 following the comprehensive refurbishment of the existing centre (35,000m²) and the introduction of 20 new tenants. The project was completed on time and on budget (€29 million) and has re-established this regional centre as one of the most important in Skåne, particularly strong in fashion and household. The return on cost was above 8%.
- Securing planning consent for an extension of 8,600m² at Skövde in December 2005. Pre-letting of the anchor tenants is underway, including a possible 2,300m² extension to the ICA Maxi hypermarket. It is anticipated that construction could start in early 2007. The projected cost is €27 million.
- Submitting a planning application for an extension of 7,500m² at Norrköping with a decision expected by the end of 2006. Substantial pre-lets have already been secured with Stadium (1,500m²) and Intersport (1,200m²), Sweden's two leading sport brands. The projected cost is €24 million.

National shopper profile

Consumption expenditure per household	
Total expenditure (€ PPS)	21,673
Food, beverages and tobacco	18.3%
Clothing and footwear	5.2%
Furnishing, household equipment	5%
Recreation and culture	14.6%
Restaurants and hotels	3.8%

Average number of members per household	2.17
Households owning a car	82.3%

The retail market
Sweden has a mature retail market and first developed shopping centres from the 1960's when municipalities built them to support suburban residential expansion.

Shopping centres
In terms of retail density, Sweden appears fully supplied with shopping centre floor space when compared to other European countries. However, this masks the fact that Sweden also has a much higher percentage of its retail spending executed in shopping centres. This is partly due to climatic reasons, and partly because there are few other retailing formats, with most town centres really only comprising a collection of shopping centres (galleria), often converted former department stores. Like municipal centres, these tend to be mixed use, often with a substantial office and residential content and many are now in need of refurbishment.

In terms of wealth and employment, the country is very homogeneous, which encouraged the Company's policy to focus on provincial Sweden. Acquisitions have therefore concentrated on important provincial towns of over 50,000 people (there are 37 in Sweden) where, because of distance, catchments can be significantly larger, more secure and easier to identify.

On the supply side, measurement of future floor space is more difficult to predict in the absence of a national planning framework. However, municipal planning is normally well defined with policies which protect the town centre but are flexible towards extensions of external shopping centres, especially where they are located in an approved retail zone normally containing the town's main food outlets.

Retail parks
"Box" retailing is again very established in Sweden with a wide variety of retailers using this low cost format, particularly in the discount, electrical, DIY, household, furniture and sport sectors. With the exception of the very largest retail parks around Stockholm, fashion retailers continue to resist boxes and favour shopping centres where they can usually acquire large units at similar rents but with the benefit of much higher footfall.

There is no shortage of supply of retail boxes, but there are few locations which have been planned with sufficient infrastructure and scale to qualify as modern retail parks for which there is good tenant demand. Municipalities increasingly try to restrict the operation and use of retail boxes to "bulky goods" in order to complement rather than compete with the town centre retail offer.

Retail trends
Sweden is characterised by having strong national anchor retailers in all sectors:

Food (ICA, COOP), fashion (H&M, KappAhl, Lindex, JC), Sport (Stadium, Intersport), electrical (Siba, OnOff, El Giganten, Expert) and household (Ikea, Cervera, Duka, Hemtex).

Recent trends have seen the rapid expansion throughout Sweden of new Scandinavian formats in fashion including several brands from Bestseller (Denmark) and Varner Group (Norway) bringing needed variety to the sector. International groups such as Inditex are now established in major city centres and are starting to look externally to shopping centres. The electrical sector is about to see the arrival of Media Markt which will inevitably lead to some consolidation in what is already a crowded market. Unlike France and Italy, the major Swedish hypermarket formats, ICA Maxi and Coop Forum do not always own their stores, and will take long leases, usually for terms of between 10 and 15 years.

The team
ECP has a team of four people responsible for acquisitions and projects together with the supervision of leasing and property administration which is currently outsourced. These activities are centralised in Stockholm where the Company has recently taken new office premises.

From left to right: Peter Mills, Jenny Hägglöf, Maria Lindström and Martin Björn.

Investment market

The last five years has seen a rapid consolidation in the ownership of shopping centres with the main buyers being long term retail specialists. Sellers have been retailers, particularly the main food groups, municipalities, opportunity funds and local investors who have chosen to specialise in other less management intensive sectors. Establishing a portfolio of quality, individual retail assets in single transactions is now very difficult given the competition, thereby putting a premium value on larger portfolios, even for very passive investments such as supermarkets/ hypermarkets which have recently been sold to new market entrants under extreme pressure to invest raised capital.

Yields have steadily fallen and are now in line with most other markets, eroding any previous discount. Under these circumstances, ECP has found better value and less competition by concentrating on local, individual property acquisitions, many of which have been acquired off the market. The Company is also investing considerable management time on its shopping centre extension programme which provides comparative yield advantage while at the same time securing the property's long term market position.

Lease law

Swedish leases in shopping centres are reasonably balanced and tend to be quite short, typically three or five years. Rents can be reviewed to market levels at the end of the term. Standard shop leases provide for 100% annual indexation and contain a turnover rent provision, although this is rare with leases to hypermarkets or tenants on retail parks where the landlord is compensated by longer lease periods, typically at least ten years.

Leases used to be let on "gross rents" which included running costs with the exception of marketing and property tax which is normally collected separately. This system was very common in municipal centres and could leave the owner with a large cost shortfall. However, the situation has changed in most modern shopping centres, with tenants increasingly prepared to pay their share of running costs through normal service charge arrangements.

Moraberg Retail Park, Södertälje

A 19,000m^2 retail park acquired in April 2006 at a net yield of 6%.

Burlöv Centre, Malmö
A 6,000m^2 extension and internal refurbishment were completed during 2006.

Turnover and rental growth

Like for like turnover growth of 6.5% exactly matched national sales figures over the last year and results from strong GDP growth and falling unemployment. The outstanding performer has been Burlöv Centre following the extension and refurbishment where the shops have produced absolute turnover growth of 42% for the first six months of 2006 and 52% for the second quarter. Bergvik, Karlstad which the Company acquired in April 2005 continues to outperform with turnover growth of 14% over the last 12 months and further strong growth anticipated when the new Ikea opens in 2007 on adjoining land.

Like for like rental growth was 4% against inflation of around 1%. These rents are 5% reversionary with the exception of Burlöv Centre where most of the units have recently been let or renewed resulting in an overall increase in rent of 25% at Burlöv Centre over the last year.

Valuations

Overall the valuations have increased by 12% over the year. The average initial yield on the properties was 5.5% with the range being 5.25% to 6%. The recently acquired Moraberg Retail Park in Södertälje also saw an increase in value despite the fact that it had only been owned by the Company for three months with the valuation yield of 5.7% comparing favourably with the acquisition yield of 6%.

Hälla Shopping Centre, Västerås
An 8,000m^2 gallery acquired in December 2002.

Sweden portfolio summary

Retail

Property	Total lettable area	ECP ownership	Occupancy	Major tenants	Renewal profile	Rental income (€ mn)	Rent to turnover ratio	Turnover growth 2005/06	Rental growth 2005/06	Catchment	Household disposable income 2003 (€ PPCS)
Bergvik, Karlstad Värmland	Total: 48,150m^2 Gallery GLA: 13,750m^2 (ICA COOP) Hypers: 30,000m^2 Retail Boxes: 4,400m^2	13,750m^2	100%	H&M, Stadium, Intersport, Lindex, KappAhl, JC	2008: 90% leases	2.66	4.5%	14.6%	4%	304,000	11,261
Mellby Centre, Laholm Halland	Total: 11,420m^2 Gallery GLA: 3,185m^2 ICA Maxi Hypermarket GLA: 8,235m^2	11,420m^2	100%	ICA Maxi, KappAhl, Lindex, Dressman	2008/9: 50% leases	1.19	3.3%	5.7%	-1%	56,000	11,261
Burlöv Centre Malmö Skåne	Total: 41,350m^2 Gallery GLA: 22,000m^2 Coop Forum Hypermarket GLA: 19,350m^2	41,350m^2	100%	Coop Forum, H&M, KappAhl, Lindex, Stadium, Systembolaget, JC, Cubus, OnOff, Cervera	2009 & 2010: 55% leases	6.38	4.7%	14.5%	25.37% (7.7% like for like)	418,000	12,637
MaxiHuset, Norrköping Östergötland	Total: 16,580m^2 Gallery GLA: 7,000m^2 ICA Maxi Hypermarket GLA: 9,580m^2	16,580m^2	100%	ICA Maxi, H&M, KappAhl, Stadium, Lindex, JC	2006/7: 80% leases	2.26	3.2%	5.9%	1.16%	261,000	11,761
MaxiHuset, Skövde Västergötland	Total: 17,445m^2 Gallery GLA: 9,195m^2 ICA Maxi Hypermarket GLA: 7,500m^2 Office: 750m^2 Land: property includes adjoining site of 12,000m^2 with warehouse of 2,900m^2	17,445m^2 plus land	100%	ICA Maxi, KappAhl, Lindex, Siba, Sportex, Elgiganten, Cervera	2006: 50% leases	1.97	3.1%	6.7%	1.62%	240,000	11,636
Moraberg, Södertälje Södermanland	Total: 19,040m^2	19,040m^2	100%	OnOff, Siba, Elgiganten, Rusta, Jysk, Plantagen, Intersport, Silvan	2010: and later 90% leases	2.44	N/A	N/A	N/A	218,000	12,887
Hälla Shopping Centre, Västerås Västmanland	Total: 18,000m^2 Gallery GLA: 8,000m^2 (ICA) Hyper GLA: 10,000m^2	8,000m^2	100%	H&M, Stadium, KappAhl, Lindex, Team Sportia, JC	2007: 53% leases	1.37	5%	3%	3.76%	297,000	12,387
Samarkand, Växjö Småland	Total GLA: 37,000m^2 Retail Park GLA: 14,400m^2 (ICA,COOP) Hypers GLA: 22,600m^2	24,530m^2	100%	Coop Forum, H&M, KappAhl, Stadium, Systembolaget, OnOff, Intersport	Diversified 2006-2012	2.6	4.9%	0.3%	1.89%	177,000	11,636

Number of shopping centres	8
Number of visitors per annum	c.23 million
Number of shops	191
Floor area owned	152,100m^2
Average size of shops in galleries	500m^2
Largest non-food tenants	KappAhl, H&M, Lindex, Stadium
Largest food tenants	ICA, Coop

Eurocommercial Properties in The Netherlands

ECP began investing in Dutch property in the early 1990's. The Company initially concentrated on the warehouse sector, attracted by higher yields and the strategic importance of The Netherlands in European logistics. Later, the Company acquired Randstad office properties and realised substantial gains when the majority of the properties were sold just before a weak service sector coincided with massive speculative development to bring a cyclical downturn to the market. The Company currently owns one single office property, Kingsfordweg 1, in the Teleport area of Amsterdam, which is let to the Netherlands Government for a further three years at an undemanding rent of around €155m^2.

The team
At the head office of Eurocommercial Properties there is a dedicated team for the Group's financial control, treasury, finance and IT systems. All are Dutch nationals with backgrounds in accounting and control, treasury and finance, and information technology.

From left to right: Jaco Veldhuis, Danette Albers, Tycho Klitsee, Josépha Vlietstra and Marc Alvares.

The market
An improving economy is just starting to allow some cautious optimism to permeate through to the Dutch office market. Take up is slowly improving, although a lot of early movers are tenants using a weak market to upgrade their accommodation on favourable terms. With headline rents having been artificially supported by incentives for so long, these will first need to be eroded before there can be any return to real rental growth.

The relative scarcity of prime industrial space has been a support to rental levels, although rents for the increasing supply of older property are falling. The Company recently re-let its 8,700m² distribution centre at Beek, outside Maastricht Airport to Eagle Logistics who were re-locating from more expensive premises nearby. Although the rent achieved of €40m² was lower than the rent paid by the previous occupier, the fact that no void was incurred was a reflection of the quality of the location adjoining the A2 motorway, and the property value actually marginally increased, helped by the new five year lease term.

Kingsfordweg, Amsterdam
Acquired in 1998.

The Netherlands portfolio summary

Office

Property	Total lettable area	ECP ownership	Occupancy	Tenant	Renewal profile	Rental income (€ mn)	Rental growth 2005/06
Kingsfordweg 1, Amsterdam Sloterdijk Noord-Holland	39,475m²	39,475m²	100%	Government of The Netherlands	Lease expires in August 2009	6.95	1.8%

Warehouse

Property	Total lettable area	ECP ownership	Occupancy	Tenants	Renewal profile	Rental income (€ mn)	Rental growth 2005/06
Galvanibaan 5, Nieuwegein Utrecht	5,446m²	5,446m²	100%	Koninklijke Fabriek Inventum	Lease expires in June 2009	0.38	1.2%
Horsterweg 20, Maastricht-Airport Limburg	8,760m²	8,760m²	100%	Eagle Global Logistics (Holland)	Lease expires in December 2010	0.35	-28.0%
Koeweistraat 10, Waardenburg Gelderland	2,900m²	2,900m²	100%	Koninklijke Olland Groep	Lease expires in February 2009	0.2	1.8%
Standaardruiter 8, Veenendaal Utrecht	7,170m²	7,170m²	100%	Boxal Netherlands	Lease expires in February 2009	0.35	1.6%

Management Board and Directors

Jeremy Lewis
Chief Executive

The founding Director of the Company in 1991, Mr Lewis (61), by profession a chartered surveyor, has had more than 30 years international experience in the running of quoted property investment vehicles.

Evert Jan van Garderen
Finance Director

Evert Jan van Garderen (44), a Netherlands national and graduate of Erasmus University Rotterdam, joined the Company in 1994. He is a qualified lawyer and chartered accountant.

Peter Mills
Director

Peter Mills (47) joined ECP in 1993 and is the Director responsible for the Company's property investment in the Netherlands and Sweden. Prior to joining the Company, he worked for major international property consultants covering the UK and European retail markets in France and Italy. Peter Mills is a chartered surveyor having previously read Land Economy at Cambridge University.

Tom Newton
Director

Having acquired experience in the property markets of UK, Australia and France, Tom Newton (48) joined ECP in 1992. Since then he has been involved in the acquisition programme in France and Italy and now has responsibility for the portfolio in France. Tom Newton has a degree in modern languages from Durham University and is a chartered surveyor.

Tim Santini
Director

Tim Santini (40) joined ECP in 1994 and is the Director responsible for the Italian activities of the Company. Prior to joining ECP he was with the retail team of a major international property consultant in London working on projects in the United Kingdom and continental Europe. Tim speaks French and Italian and is a chartered surveyor.

Refurbished mall at Burlöv Centre, Malmö.

Corporate governance

In accordance with the Dutch Corporate Governance Code, a broad outline of the corporate governance structure of the Company is presented in this section including any departures from the Code's best practices. A detailed list of these best practice provisions can be found on the Company's website.

General Meeting of Shareholders

The General Meeting of Shareholders has core overriding powers on such matters as statutory changes, adoption of the annual accounts and the profit appropriation. It has powers regarding appointment, suspension, dismissal and remuneration of members of the Board of Management and the Supervisory Board.

The General Meeting of Shareholders is usually held in the first week of November each year. Holders of depositary receipts are entitled to attend and to vote at the meeting. Upon written request by shareholders and holders of depositary receipts who solely or jointly represent 10 per cent of the issued capital, the Board of Management and the Supervisory Board shall be required to convene a General Meeting of Shareholders, the notice calling that meeting to specify the items to be considered. The secretary appointed for the meeting will take minutes of the proceedings at the meeting. The minutes will be signed by the Chairman of the meeting and by the secretary. In principle, the minutes will be published on the Company's website within three months after the meeting and copies of such minutes are available free of charge on request.

Supervisory Board

The Supervisory Board's primary task is to supervise the activities of the Company and to provide advice and guidance to the Board of Management. In pursuing these responsibilities, the Supervisory Board takes the interests of all stakeholders into account. Supervision focuses on the achievement of corporate goals and strategy. In addition, the Supervisory Board supervises the proper execution of internal risk and control structures, the property and financial reporting process, and legal and regulatory compliance. Finally, the Supervisory Board is involved in drawing up the remuneration policy of the Company and ratifies the individual remuneration of the Board of Management members according to the policy and remuneration proposals approved by the General Meeting of Shareholders.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders from a binding nomination to be drawn up by the Meeting of Holders of Priority Shares. The General Meeting of Shareholders determines the remuneration of members of the Supervisory Board. The members of the Supervisory Board are independent of one another, the Board of Management and any particular interest. Pursuant to the Articles of Association, the Supervisory Directors retire under a rotation scheme. In view of the current size of the Supervisory Board (four members), each appointment will be made for a maximum period of four years. Any proposal for appointment or reappointment to the General Meeting of Shareholders shall be properly explained. In the case of a reappointment, account will be taken of the candidate's performance and functioning as a Supervisory Director. The rules and regulations of the Supervisory Board stipulate that the maximum term of office is twelve years, unless there are weighty reasons (for which explanations must be expressly given) to justify a longer term. A resolution by the General Meeting of Shareholders to dismiss or suspend can be passed with a simple majority of the votes cast, representing more than half of the issued capital.

The Supervisory Board has decided to also function as the audit committee, the remuneration committee and the selection and appointment committee, as the Supervisory Board consists only of four members.

The Supervisory Board meets according to a fixed schedule of meetings and at least four times a year. Furthermore, there is a special meeting dedicated to a discussion – without the Board of Management being present – of the Supervisory Board's own functioning, the relationship to the Board of Management and the composition, assessment and remuneration of the Board of Management. The Supervisory Board profile with which the members of the Supervisory Board are expected to comply will be evaluated annually and, where necessary, revised.

In the year under review no business transactions took place in which conflicts of interest could have played a role. Any business transactions between the Company and the members of the Boards will be published in the Annual Report. The profile and rules and regulations of the Supervisory Board and the resignation rota for members of the Supervisory Board are published on the Company's website and are available free of charge on request.

Board of Management

The Board of Management is responsible for managing the Company and its subsidiaries. It is accountable for the pursuit and achievement of corporate goals and objectives of the Company and its subsidiaries, its strategy and policies. In addition to determining strategy and its implementation, the Board of Management should optimise risk management and control, financing and ensuring the Company and its subsidiaries comply with legal and other applicable regulatory requirements.

The members of the Board of Management are appointed by the General Meeting of Shareholders, from a binding nomination to be drawn up by the Meeting of Holders of Priority Shares. Managing Directors are appointed for a maximum period of four years. The Board of Management's remuneration is determined in line with the policy set out in the remuneration report. The remuneration of the Board of Management will be submitted to the General Meeting of Shareholders for approval. In 2004 the Supervisory Board drew up a remuneration report, which has been updated recently. The report is posted on the Company's website. A resolution by the General Meeting of Shareholders to dismiss or suspend can be passed with a simple majority of the votes cast, representing more than half of the issued capital. The amount of compensation that a member of the Board of Management may receive on termination of his employment may not exceed one year's salary.

Hostile takeover defence

The mechanism for protecting the Company against hostile takeovers comprises the hundred priority shares, which have been issued and are held by the Stichting Prioriteitsaandelen Eurocommercial Properties. The Board of Trustees of this foundation *(stichting)* currently comprises the Chairman of the Board of Management and an independent member. The determination of the number of Managing Directors and Supervisory Directors of the Company and the drawing up of a binding nomination for their appointment and the approval of the appropriation of income of the Company are the principal rights attached to the priority shares. The priority shares are in all other respects identical to the registered ordinary shares.

Under powers granted to it by the General Meeting of Shareholders for the period to 30 November 2008, the Meeting of Holders of Priority Shares is empowered to authorise the issue of new shares and the terms of issue, including the power to limit or exclude the pre-emptive rights of existing shareholders. Mutatis mutandis the same applies to the granting of rights to subscribe for shares.

Internal risk management and control system

The Company has clearly identified its risks comprising strategic risks, operational risks, financial risks, reporting risks and compliance risks. The strategic risks mainly concern the property sector and country allocation as well as timing of investments and disinvestments and the leverage used. Operational risks include asset and tenant selection, performance by suppliers, third parties and the Company's organisation and systems but also the technical condition of the properties and risks related to taxation. Financial risks comprise interest rate and currency risk as well as (re)financing risk. The Company operates a comprehensive insurance programme for those risks which can be effectively and efficiently insured.

The Company has appropriate internal risk management and control systems. Key elements in the internal control systems are a management structure designed to enable effective and collegiate decision-making, monthly review of important indicators, such as turnovers in shopping centres, vacancy and doubtful debtors and weekly meetings between the Board of Management and area directors to review each country's performance against budget and long term financial plans. Detailed procedures and responsibilities for the various country teams as well as for the segregation of duties and authorisation structures have been implemented and maintained. Strict procedures are also observed for the periodic drawing up of monthly, quarterly and annual figures on the basis of the adopted policies. The internal management reporting system is designed to directly identify developments in the value of investments and in income and expenses. For this purpose use is made of electronic data processing within automated, integrated central information systems.

Although the Board of Management believes that the internal risk management and control systems are adequate and effective given the size and activities of the Company, views and opinions as well as standards and references about "in control statements" are in the process of further development among companies in the property sector. More clarity and certainty may be expected in the next years, which will be monitored by the Board of Management and, if applicable, used when testing and developing its systems.

Corporate governance (continued)

Because of its size the Company has no internal audit department. The Supervisory Board discusses the external auditors' findings on the Company's internal control environment with the Board of Management and the external auditors.

The Supervisory Board supervises the internal control framework and procedures and the assessment of risks facing the Company and its subsidiaries. During the financial year ended 30 June 2006 there have been no reasons to believe that the systems and procedures were not functioning in accordance with their purposes.

External auditor

The external auditor is appointed by the General Meeting of Shareholders. The external auditor will attend the meeting of the Supervisory Board and the Board of Management at which the annual and half-year figures are discussed and adopted. The quarterly, half-year and annual figures presented in press releases will be discussed with the external auditor prior to publication. The annual accounts are audited by the external auditor and the half-year accounts are subject to a limited review by the external auditor.

The General Meeting of Shareholders may question the external auditor about his report on the fairness of the annual accounts. The external auditor may address the meeting in respect of this matter.

Corporate governance best practice

After the publication of the Dutch Corporate Governance Code in December 2003 the Supervisory Board and the Board of Management have discussed in detail the effect of the Code on the corporate governance structure of the Company. Various codes and rules and regulations for the Company and its subsidiaries were prepared and adopted.

The Company complies with all but five best practices of the Code and has amended its Articles of Association and Conditions of Administration to bring the corporate governance structure further in compliance with the Code. These amendments were tabled and approved at the Annual General Meeting of Shareholders held on 2 November 2004. All introduced or amended codes and rules and regulations have been posted on the website of the Company.

The only best practice provisions with which the Company does not fully comply or which require an explanation are:

Provision III.4.3 of the Code

Due to its size the Company will not appoint a company secretary.

Provision IV.1.1 of the Code

The Netherlands Civil Code provides for the possibility to set aside binding nominations for the appointment of directors by a shareholders' resolution passed by two thirds of the votes cast representing more than half of the issued capital. The Company will maintain this system so that a substantial majority of shareholders and holders of depositary receipts decides these issues.

Provision IV.1.7 of the Code

The present system for casting votes has worked in a completely satisfactory way since the inception of the Company and we believe that there is no benefit to it, its shareholders and holders of depositary receipts to change this.

Provision IV.3.1 of the Code

No arrangements will be made to follow analysts' and shareholders' meetings in real time by means of webcasting or telephone for reasons of cost.

Provision V.3.1 of the Code

Due to its size the Company will not appoint an internal auditor.

Organisation and risk

Organisation

ECP has had offices in Amsterdam and London since inception, but the Company's increased focus on France, Italy and Sweden, has led to the opening of additional offices in Paris and Milan and last year also in Stockholm.

The three senior directors responsible for property have a regional management role as well as contributing their expertise to collective major investment decisions. Tom Newton is responsible for France, Tim Santini for Italy and Peter Mills for The Netherlands and Scandinavia.

The Management Board and regional directors keep the Supervisory Board of the Company fully informed of operations through formal managing reports and informal discussions as necessary.

We are very sad to report the death of Henk Bevers on 21 November 2005 at the age of 73. Mr Bevers, the former Agent of the Dutch Ministry of Finance (Director of the National Debt Management and Issuing Office), joined the Company's Board of Supervisory Directors in 1996. He made a major contribution to the success of the Company, with his deep knowledge of capital markets and extensive government and business contacts. We will all miss his expert advice and friendship very much.

Remuneration

The remuneration policy for Supervisory Directors and Managing Directors has been continued. Supervisory Directors receive a fixed fee. Managing Directors may be entitled to cash bonuses in addition to their base salaries. These bonuses like those of the senior managers are entirely and directly linked to the annual growth in the Company's net asset value and dividend per share. This growth percentage, if any, is used to calculate the variable income as a percentage of base salary. Since 2000 a stock option plan has been in place for Managing Directors and certain staff of the Company. Under this scheme options may be granted from time to time, but these can only be exercised after three years have lapsed since the date of granting. The remuneration policy is set out in the remuneration report posted on the Company's website. A summary of the remuneration report is included in the report of the Board of Supervisory Board on page 39.

Risk management policy and hedging activities

The Company has a long term investment horizon, especially for retail properties, and monitors its exposure to risks deriving from its investment policies. Established controls are in place covering the implementation of its policies and the monitoring of the related results and implications. Policies, guidelines, reporting systems and segregation of duties have been issued and are currently in place to enable the abovementioned controls.

Credit risk: the Company minimises the risks related to the possible defaults of its counterparties by dealing with a large number of major financial institutions for all its borrowings, interest rate swaps, foreign exchange contracts and deposits. The counterparty risk associated with these transactions is limited to the cost of replacing these agreements at the current market rate should an event of default occur. The Company, however, considers the risk of incurring losses as a result of default remote. The credit risk associated with lease debtors is determined through a detailed analysis of the outstanding debt. The credit risk has also been reduced by investing in mature markets and by choosing major tenants also on the base of their financial strength. Moreover, the Company mitigates the potential negative effects of a possible default by tenants by acquiring deposits, upfront payments or bank guarantees from tenants to cover rents for a limited period.

Currency risk: the Company has increased its exposure to the Swedish property markets over the year, therefore increasing its exposure to the Swedish Krona, the only significant foreign currency exposure for the Company. However, due to SEK loan facilities with major banks, a hedging of the foreign currency is achieved up to 47 per cent. The remaining exposure is relatively limited compared to the total size of the portfolio and will in principle not be hedged. A weakening of this currency by 5 per cent would result, for example, in a decrease of shareholders equity of only 0.9 per cent of reported net asset value.

Interest rate risk: as the Company's policy is to have long term investments, the borrowings used for funding them also have a long term (preferably for ten years or more). The Company uses interest rate swaps and other financial instruments to manage its interest rate risk. It is the policy of the Company to operate a defensive interesting rate hedging policy to protect the Company against increase of interest rates. The Company is hedged at an average interest rate of 4.8 per cent and only 19.5 per cent of the current loans are at a floating rate. An increase in interest rates of 1 per cent would therefore only have a limited negative impact of an additional annual interest expense of €1.26 million or 2.2 per cent of reported direct investment result.

Liquidity risk: in order to reduce liquidity risk the Company has adopted a strategy of spreading the debt maturity profile of its borrowings and the relative repayment dates. Moreover, the Company has at its disposal flexible long term borrowings (which allow no penalty repayments and re-drawing of funds up to agreed amounts) and short term committed lines. During this financial year the Company (re)negotiated three loans with Italian banks and one loan with a Swedish bank to increase its long term exposure (for further details please refer to note 17 (borrowings) of the consolidated financial statements).

Other price risk: an analysis of the risk related to the fluctuation of the fair value of future cash flows of financial instruments because of changes in market prices is provided in note 18 (derivative financial instruments) of the consolidated financial statements.

Organisation and risk (continued)

Insurance
The Company is fully insured against property damage and liability and consequent loss of income for the period during which the property is rebuilt and relet. Terrorism, flooding and earthquake cover is limited by current market conditions, but the Company believes it has achieved a reasonable balance of risk cover and premium costs. Its insurance programme has been benchmarked against its peer groups.

Permit
Since its inception the Company has been granted a permit under the Netherlands Act on the Supervision of Investment Institutions. This act was amended on 1 September 2005 requiring the Company to apply for a new permit, which was granted by the Netherlands Authority for the Financial Markets on 7 July 2006.

International Financial Reporting Standards (IFRS)
In accordance with the European and national rules and regulations the Company has drawn up its financial statements for the financial year ending 30 June 2006 based on IFRS. During the financial year the Boards and the Company's external auditors have had various discussions about the impact and the implementation of IFRS. In the notes to the consolidated financial statements in this report a detailed summary of the effects of IFRS on the Company's consolidated opening balance sheet as per 1 July 2004 and the results for the financial year 2004/2005 as well as the main differences between IFRS and Netherlands GAAP is provided. As a result of IFRS the presentation of the figures has changed and the comparative figures have been adjusted. For more detailed information reference is made to the notes to the consolidated financial statements, which also include the accounting principles used by the Company under IFRS.

The IFRS Profit after Taxation (Total Investment Result) for the financial year ended 30 June 2006 increased by 105 per cent to €233.9 million compared with €113.9 million for the financial year ended 30 June 2005. The IFRS Profit after Taxation includes contributions from unrealised increases in property values less contingent nominal capital gains taxes and also includes fair value movements in derivatives.

However, the Company has also chosen to continue presenting next to the IFRS profit, the Direct Investment Result and the Indirect Investment Result, which it believes is an important distinction as the Direct Investment Result represents in the view of the Board the continuing underlying earnings better than the IFRS profit figure, which includes unrealised "capital" movements.

The IFRS net asset value is net of contingent nominal capital gains taxes and the fair value of derivatives. The IFRS net asset value at 30 June 2006 was €29.41 per depositary receipt compared with €24.03 at 30 June 2005. The Board regards as unrealistic the IFRS requirement to deduct the entire theoretical contingent capital gains tax (CGT) liability of €117.2 million, when calculating net asset value. Under current circumstances in the only two markets where CGT would be payable by ECP, Italy and Sweden, the majority of larger property transactions are made through the sale of the owning corporate entity and purchasers accept all or a major part of the potential CGT liability.

Amsterdam, 22 August 2006

Board of Management
J.P. Lewis, Chairman
E.J. van Garderen

Report of the Board of Supervisory Directors

To the General Meeting of Shareholders

Financial statements
We are pleased to present the annual report of Eurocommercial Properties N.V. for the financial year ending 30 June 2006, as drawn up by the Board of Management. The auditors, Ernst & Young, have examined the financial statements and have issued an unqualified report thereon. We recommend that you adopt the financial statements.

Dividend proposal
We support the proposal of the Board of Management to distribute a cash dividend of €1.60 per depositary receipt (ten ordinary shares) for the financial year ending 30 June 2006. We also support the offer, at the option of the holders of depositary receipts, of a scrip issue to be charged to the share premium reserve as an alternative to the cash dividend.

Activities
During the year under review there were four meetings of the Supervisory Board which meetings were attended by the members of the Board of Management. In addition to those meetings there was regular contact between the Supervisory Board members and the members of the Board of Management with particular reference to the Company's ongoing property acquisition strategy. Amongst the topics discussed were strategy and risk, property and financial markets, management and financial accounts, funding, currency and dividend policy, the system of internal controls, remuneration levels and systems and corporate governance. Furthermore, the contents of press releases, the annual report, the interim report and the quarterly reports were discussed. The Supervisory Board is kept informed of activities and financial performance through monthly management accounts with detailed analysis of rental income, company expenses and investment developments. The Supervisory Board also met in the absence of the Board of Management to discuss its own functioning and that of the Board of Management. None of the members of the Supervisory Board was frequently absent. There have been no matters of conflict of interests.

Corporate governance
In accordance with the recommendations of the Dutch Corporate Governance Committee (the Tabaksblat committee), a broad outline of the corporate governance structure of the Company is presented in the Report of the Board of Management. In this report we report about various corporate governance items in compliance with the Committee's recommendations.

The Supervisory Board as a whole is also functioning as the Audit Committee and had two meetings with the auditors of the Company as well as one meeting with the auditors of the Company in the absence of the Board of Management. The Supervisory Board as a whole is also functioning as the Remuneration Committee. Remuneration was discussed in two meetings on the basis of an updated external benchmark report and the draft updated remuneration report. The Supervisory Board is also functioning as the Selection and Appointment Committee, which discussed the proposed appointment of a new member of the Supervisory Board as set out in more detail below.

Summary remuneration report
The purpose of our remuneration policy is to attract, motivate and retain qualified executives and staff who will contribute to the success of the Company. The remuneration policy aims to reward management and key staff for their contribution to the performance of the Company and its subsidiaries. The Supervisory Board proposes the remuneration policy and any material adjustments to it, to the Annual General Meeting of Shareholders based on recommendations of the Board of Management. The Supervisory Board recommends decisions on all aspects of the remuneration of the members of the Board of Management within the scope of the remuneration policy, to the Annual General Meeting of Shareholders. The Annual General Meeting of Shareholders is invited to approve both the remuneration policy and the remuneration of the members of the Board of Management.

At the end of each financial year, the Supervisory Board reviews and discusses the remuneration of the members of the Board of Management. The level of remuneration for the members of the Board of Management reflects the differences in responsibilities of the Board members as well as their individual performance. The benchmark for remuneration of the Board of Management is based on an independent survey of the remuneration for Directors of international real estate companies with comparable positions, determined by size and complexity of the organisation and the responsibilities of the board members.

The Company's remuneration package for employees and members of the Board of Management comprises the following elements:

- base salary – total annual gross fixed income including holiday allowance;
- short term variable annual performance-related gross cash bonuses;
- long term incentives through a stock option plan;
- pension and other benefits.

Variable cash bonuses may be granted each year in addition to the base salary. Variable cash bonuses for executives and members of the Board of Management are entirely and directly linked to the annual growth in the Company's net asset value and dividend per share. There is no minimum bonus guaranteed. Only one member of the Board of Management has joined a pension scheme. This scheme is a defined contribution scheme with current annual premiums being capped.

Supervisory Directors only receive a fixed fee.

The remuneration policy for Supervisory Directors and Managing Directors has been continued during the year under review. Following a benchmark study it is proposed for the next financial year to increase the remuneration for the Supervisory Directors by €2,500 to €25,000 for each member and by €5,000 to €35,000 for the Chairman. The Annual General Meeting of Shareholders is invited to approve the proposed remuneration of the members of the Supervisory Board.

Report of the Board of Supervisory Directors (continued)

Board of Supervisory Directors
Left to right: J.H.Goris, W.G. van Hassel (Chairman), H.W. Bolland and J.C. Pollock.

Profile and composition of the Supervisory Board

All members of the Supervisory Board are independent. The profile and role and responsibility of the Supervisory Board are laid down in specific rules and regulations which are available for inspection at the Company's office and placed on the website of the Company.

During the year under review the Supervisory Board was composed as follows:

Mr W.G. van Hassel (59), Chairman, of Dutch nationality, member of the Supervisory Board since 1997, was reappointed in 2003 for a period of three years. He is a former partner and chairman of a major Dutch law firm and former Dean of The Dutch Bar Association. He is a member of the following supervisory boards:

Holding AVR-Bedrijven N.V. (Chairman)
Ahoy Rotterdam N.V (Chairman)
Stichting Woningbedrijf Rotterdam
Bakkenist & Emmens N.V. (Chairman)

Mr H.Th.M. Bevers (73), of Dutch nationality, member of the Supervisory Board since 1996, who was reappointed in 2004 for a period of fours years, sadly passed away on 21 November 2005. He was the former Agent of the Dutch Ministry of Finance (Director of the National Debt Management and Issuing Office). He was a member of the board of CF-Kantoor voor Staatsobligaties (Chairman).

Mr H.W. Bolland (60), of British nationality, member to the Supervisory Board since 1998, was reappointed in 2004 for a period of four years. He was Vice Chairman of Schroder Investment Management Limited of London. He is a member of the following boards:

Fidelity Asian Values plc
JP Morgan Fleming Indian Investment Trust plc

Mr J.H. Goris (74), of Dutch nationality, member of the Supervisory Board since 1996, was reappointed in 2003 for a period of three years. He is a former member of the Executive Board of Philips N.V. and a former professor in corporate finance of the University of Tilburg, The Netherlands. He is a member of the following supervisory boards:

Blue Sky Groep B.V.
Groeneveld Groep B.V.
Koninklijke Nederlandse Springstoffen Fabriek N.V.
Phoenix Megatronica N.V.
Van Straten Bouw N.V.

Mr J.C. Pollock (66), of British nationality and resident in The Netherlands, member of the Supervisory Board since 2005, was appointed in 2005 for a period of four years. He is a former partner of Ernst & Young and worked for many years as a certified public accountant in the international practice. He was the auditor of the Company until 1999.

Appointments
At the Annual General Meeting of Shareholders held on 1 November 2005, Mr J.C. Pollock was appointed as member of the Supervisory Board for a period of four years.

At the forthcoming Annual General Meeting of Shareholders to be held on 7 November 2006, Mr J.H. Goris is proposed for reappointment for one year, as he will then reach the age limit, and Mr W.G. van Hassel is proposed for reappointment for four years. At this meeting it is also proposed to appoint Mr A.E. Teeuw for a period of four years. His appointment would increase the number of members of the Supervisory Board to five. Mr Teeuw (60), of Dutch nationality, is a former Chief Executive Officer of the listed financial institution Binck N.V. of Amsterdam and a former Managing Director of Barclays Bank plc. Mr Teeuw holds 4,000 depositary receipts in the capital of the Company and worked for more than 30 years as a banker in the international practice until he retired at the end of 2005. Next to being a Senior Advisor with Binck, he is a member of the Supervisory Board of RDC Datacentrum B.V., based in Amstelveen.

Rotation scheme
Under a rota devised by the Supervisory Board, each director will retire by rotation every four years. This rotation scheme for the next few years is as follows:

2008: Mr H.W. Bolland
2009: Mr J.C. Pollock

Members of the Supervisory Board will resign in the annual general meeting of shareholders held after the end of the financial year in which they reach the age of 75.

Staff
We would like to take this opportunity to express our gratitude to the Board of Management and all staff for their efforts during the year.

Amsterdam, 22 August 2006

Board of Supervisory Directors
W.G. van Hassel, Chairman
H.W. Bolland
J.H.Goris
J.C. Pollock

Contents

Ten year financial summary

Key financial information (consolidated)

For the financial year ended	30/06/1997 € '000	30/06/1998 € '000	30/06/1999 € '000	30/06/2000 € '000	30/06/2001 € '000	30/06/2002 € '000	30/06/2003 € '000	30/06/2004 € '000	30/06/2005 € '000	30/06/2006 € '000
	Neth GAAP	Neth GAAP	Neth GAAP	Neth GAAP	Neth GAAP	Neth GAAP	Neth GAAP	Neth GAAP	IFRS	IFRS
Profit and loss account										
Net property income	20,619	26,394	32,541	43,062	56,775	65,882	66,341	76,527	80,784	87,215
Net interest expense	(3,551)	(4,058)	(5,565)	(9,489)	(19,244)	(23,986)	(20,519)	(23,154)	(24,631)	(23,477)
Company expenses	(2,656)	(3,205)	(3,686)	(5,033)	(6,247)	(6,961)	(5,940)	(6,986)	(6,874)	(7,685)
Direct investment result	14,412	19,128	23,281	28,540	31,284	34,542	39,563	44,872	49,204	56,073
Indirect investment result	8,902	34,495	35,106	44,637	26,576	40,162	13,704	17,666	64,749	177,854
Profit after taxation	23,314	53,623	58,387	73,177	57,860	74,704	53,267	62,538	113,953	233,927
Balance sheet before income appropriation										
Total assets	356,514	462,122	532,314	784,796	1,060,959	1,216,662	1,254,015	1,416,811	1,597,042	1,891,430
Property investments	280,066	387,235	509,552	766,677	1,013,753	1,041,545	1,110,356	1,306,304	1,498,081	1,782,338
Cash and deposits	67,068	57,336	8,802	1,949	22,016	156,628	122,293	84,070	73,011	76,581
Borrowings	129,704	121,892	131,397	269,369	463,729	512,004	507,567	590,367	566,191	643,537
Shareholders' equity	210,607	322,209	371,166	456,684	533,088	631,277	659,224	707,424	828,144	1,037,679
Number of depositary receipts representing shares in issue at balance sheet date	13,810,930	18,876,549	19,575,700	23,038,762	25,544,853	28,572,841	29,263,103	30,540,500	34,462,476	35,277,619
Average number of depositary receipts representing shares in issue	12,138,702	17,072,268	19,284,547	21,853,009	24,943,097	26,073,611	28,977,543	29,937,616	31,589,214	34,938,162
Per depositary receipt (€)										
Net asset value	15.25	17.07	18.96	19.82	20.87	22.09	22.53	23.16	24.03	29.41
Direct investment result	1.19	1.12	1.21	1.31	1.25	1.32	1.37	1.50	1.56	1.60
Indirect investment result	0.74	2.02	1.82	2.04	1.07	1.54	0.47	0.59	2.05	5.10
Dividend	1.11	1.13	1.19	1.26	1.33	1.40	1.43	1.50	1.55	1.60
Property information Sector spread (%)										
Retail	63	65	62	74	77	84	85	88	90	91
Office	30	30	34	23	19	12	11	9	7	7
Warehouse	7	5	4	3	4	4	4	3	3	2
	100	100	100	100	100	100	100	100	100	100
Stock market prices										
Last sale at the end of June on Euronext Amsterdam (€; depositary receipts)	17.88	18.38	20.40	18.40	18.85	19.10	21.55	24.95	30.10	29.96

*Note

The Company's shares are listed in the form of bearer depositary receipts on Eurolist by Euronext Amsterdam (the Amsterdam Stock Exchange) and Eurolist by Euronext Paris (the Paris Stock Exchange). One bearer depositary receipt represents ten ordinary registered shares.

The calculation of the direct and indirect investment results per depositary receipt is based on the weighted average of the number of depositary receipts representing the ordinary shares in issue over the year. This allows for the fact that, although payment for newly issued shares was made during the respective financial year, they ranked for dividend from the start of the respective financial year.

Consolidated profit and loss account

	Note	2005/2006 € '000	2004/2005 € '000
Rental income	4	102,360	96,447
Service charges income	4	13,049	12,038
Service charges expenses		(15,725)	(14,262)
Property expenses	5	(12,469)	(13,439)
Net property income	2	87,215	80,784
Investment revaluation	6	193,715	140,680
Interest income	7	599	287
Interest expenses	7	(24,076)	(24,918)
Foreign currency result	7	48	111
Fair value movement derivative financial instruments	7	42,077	(34,702)
Net financing income/cost	7	18,648	(59,222)
Company expenses	8	(7,685)	(6,874)
Investment expenses	10	(2,919)	(2,021)
Profit before taxation		288,974	153,347
Corporate income tax	11	(28)	(186)
Deferred tax	11	(55,019)	(39,208)
Profit after taxation		233,927	113,953
Per depositary receipt (€)			
Profit after taxation	24	6.70	3.61
Diluted profit after taxation	24	6.56	3.55

Direct, indirect and total investment results

	2005/2006 € '000	2004/2005 € '000
Rental income	102,360	96,447
Service charges income	13,049	12,038
Service charges expenses	(15,725)	(14,262)
Property expenses	(12,469)	(13,439)
Net property income	87,215	80,784
Interest income	599	287
Interest expenses	(24,076)	(24,918)
Foreign currency result	48	111
Net financing expenses	(23,429)	(24,520)
Company expenses	(7,685)	(6,874)
Direct investment result before taxation	56,101	49,390
Corporate income tax	(28)	(186)
Direct investment result	56,073	49,204
Investment revaluation	193,715	140,680
Fair value movement derivative financial instruments	42,077	(34,702)
Investment expenses	(2,919)	(2,021)
Indirect investment result before taxation	232,873	103,957
Deferred tax	(55,019)	(39,208)
Indirect investment result	177,854	64,749
Total investment result	233,927	113,953
Per depositary receipt (€)		
Direct investment result	1.60	1.56
Indirect investment result	5.10	2.05
Total investment result	6.70	3.61

Consolidated balance sheet

(before income appropriation)

	Note	30-06-06 € '000	30-06-05 € '000
Property investments	12	1,782,338	1,498,081
Tangible fixed assets	13	788	859
Receivables	14	1,767	7,736
Derivative financial instruments	18	4,677	0
Total non-current assets		1,789,570	1,506,676
Receivables	14	25,279	17,355
Cash and deposits	15	76,581	73,011
Total current assets		101,860	90,366
Total assets		1,891,430	1,597,042
Creditors	16	47,857	39,997
Borrowings	17	71,030	141,567
Total current liabilities		118,887	181,564
Creditors	16	31,255	34,347
Borrowings	17	572,507	424,624
Derivative financial instruments	18	13,421	54,504
Deferred tax liabilities	19	117,207	73,387
Provision for pensions	20	474	472
Total non-current liabilities		734,864	587,334
Total liabilities		853,751	768,898
Net equity		1,037,679	828,144
Equity Eurocommercial Properties shareholders			
Issued share capital	21	176,388	172,312
Share premium reserve	22	327,196	330,879
Other reserves	23	300,168	211,000
Undistributed income		233,927	113,953
		1,037,679	828,144
Number of depositary receipts representing shares in issue	21	35,277,619	34,462,476
Net asset value – € per depositary receipt		29.41	24.03

Consolidated cash flow statement

	Note	2005/2006 € '000	2004/2005 € '000
Cash flow from operating activities			
Profit after taxation		233,927	113,953
Adjustments:			
Movement stock options	22	316	210
Investment revaluation	6	(193,448)	(140,570)
Derivative financial instruments	18	(42,077)	34,702
Deferred tax	19	55,019	39,208
Other movements		1,097	1,454
		54,834	48,957
Cash flow from operations			
Increase in receivables		(2,831)	(2,374)
Increase in creditors		31,172	27,711
Capital gains tax		(20,007)	(39,967)
Derivative financial instruments	7	(3,694)	0
Interest paid		(24,998)	(24,410)
Interest received		559	287
		35,035	10,204
Cash flow from investment activities			
Property acquisitions	12	(39,330)	(34,830)
Capital expenditure	12	(40,341)	(19,893)
Additions to tangible fixed assets	13	(212)	(628)
		(79,883)	(55,351)
Cash flow from finance activities			
Proceeds issued shares	21	143	78,516
Borrowings added	17	297,451	161,115
Repayment of borrowings	17	(222,160)	(182,214)
Dividends paid		(28,446)	(24,282)
Increase in non-current creditors		1,654	630
		48,642	33,765
Net cash flow		3,794	(11,382)
Currency differences on cash and deposits		(224)	323
Increase/decrease in cash and deposits	15	3,570	(11,059)
Cash and deposits at beginning of year	15	73,011	84,070
Cash and deposits at end of year	15	76,581	73,011

Consolidated statement of changes in shareholders' equity

The movements in shareholders' equity in the financial year ended 30 June 2006 were:

	Note	Issued share capital € '000	Share premium reserve € '000	Other reserves € '000	Undistributed income € '000	Total € '000
30-06-2005 reported	28	172,312	330,666	258,680	128,777	890,435
IFRS adjustments	28		213	(47,680)	(14,824)	(62,291)
30-06-2005 amended	28	172,312	330,879	211,000	113,953	828,144
Issued shares	21	4,076	(3,933)			143
Profit previous financial year	23			85,573	(85,573)	0
Profit for the period					233,927	233,927
Dividends paid			(66)		(28,380)	(28,446)
Stock options granted	22		316			316
Foreign currency translation differences				3,595		3,595
30-06-2006		176,388	327,196	300,168	233,927	1,037,679

The movements in shareholders' equity in the previous financial year ended 30 June 2005 were:

	Note	Issued share capital € '000	Share premium reserve € '000	Other reserves € '000	Undistributed income € '000	Total € '000
30-06-2004 reported	28	152,703	271,807	220,376	62,538	707,424
IFRS adjustments	28		3	(44,221)	(677)	(44,895)
30-06-2004 amended	28	152,703	271,810	176,155	61,861	662,529
Issued shares	21	19,609	58,907			78,516
Profit previous financial year	23			37,627	(37,627)	0
Profit for the period					113,953	113,953
Dividends paid			(48)		(24,234)	(24,282)
Stock options granted	22		210			210
Foreign currency translation differences				(2,782)		(2,782)
30-06-2005		172,312	330,879	211,000	113,953	828,144

Notes to the consolidated financial statements

As at 30 June 2006

1 Principal accounting policies

Adoption of IFRS
Eurocommercial Properties N.V. (the Company) domiciled in Amsterdam, The Netherlands, is a closed end property investment company. The consolidated financial statements of the Company for the financial year starting 1 July 2005 and ending 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'Group').

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) and as adopted by the European Commission. Until 30 June 2005 the Group reported in accordance with Generally Accepted Accounting Principles in The Netherlands (Netherlands GAAP). These are the Group's first consolidated financial statements in accordance with IFRS. The Group has applied IFRS, which provides certain options to depart from various standards, at the moment of first adoption. The Company has elected to apply the following exemptions under IFRS:

- To report all cumulative translation differences at zero at 30 June 2004.
- Not to opt for restating all previous business combinations prior to 30 June 2004 and to apply IFRS 3 Business Combinations and account for any goodwill on a prospective basis as from 30 June 2004.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2006 or later. The Group has decided not to adopt immediately such standards, amendments and interpretations.

(b) Basis of preparation
The financial statements are presented in euros, rounded to the nearest thousand euros unless stated otherwise. They are prepared on the historical cost basis except that the following assets and liabilities are stated at fair value: property investments, derivative financial instruments and non-current creditors. Borrowings are stated at amortised costs.

The comparative figures for the financial year 2004/2005 have been taken from last year's financial statements drawn up under Netherlands GAAP and subsequently adjusted applying IFRS.

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revisions affect only that period, or in the year of the revisions and future periods if the revisions affect both current and future periods.

The profit and loss account included in the Company financial statements is presented in abbreviated form in accordance with Article 2:402 of the Netherlands Civil Code.

(c) Basis of consolidation
(i) Subsidiaries
Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include those of the holding company and its wholly owned subsidiaries:

Boleto B.V., Amsterdam
Holgura B.V., Amsterdam
Sentinel Holdings II B.V., Amsterdam
Eurocommercial Properties Ltd., London
Eurocommercial Properties Azur S.a.r.l, Paris
Eurocommercial Properties Caumartin S.N.C., Paris
Eurocommercial Properties France S.A., Paris
Eurocommercial Properties Midi S.N.C., Paris
Eurocommercial Properties Normandie S.N.C., Paris
Eurocommercial Properties Passy S.a.r.l., Paris
Eurocommercial Properties Seine S.N.C., Paris
S.C.I. les Portes de Taverny, Paris
Eurocommercial Properties Italia S.r.l., Milan
Juma S.r.l., Milan
Aktiebolaget Laholm Mellby 2:219, Stockholm
Aktiebolaget Norrköping Silvret 1, Stockholm
Aktiebolaget Skövde K-mannen 2, Stockholm
Bergvik Köpet 3 K.B., Stockholm
Burlöv Centre Fastighets A.B., Stockholm
ECP Moraberg K.B., Stockholm
Eurocommercial Properties Sweden A.B., Stockholm
Hälla Shopping Fastighets A.B., Stockholm
Premi Fastighets A.B., Stockholm
Samarkandfastigheter A.B., Stockholm

(ii) Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency translations
The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. Assets and liabilities denominated in foreign currencies are translated into Euros at the rate of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the average monthly exchange rate. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The functional currency of the Swedish and UK subsidiaries are SEK and GBP respectively. As at the reporting date, the assets and liabilities of these Swedish and UK subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and, their profit and loss accounts are translated at the average monthly exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity (currency translation reserve). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the profit and loss account.

As at 30 June 2006

1 Principal accounting policies (continued)

Property investments

Property investments are stated at fair value. It is the Company's policy that all property investments be revalued semi-annually by qualified independent experts. These experts are instructed to appraise in accordance with the Appraisal and Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS) and the International Valuation Standards published by the International Valuation Standards Committee (IVSC). Both documents contain mandatory rules, best practice guidance and related commentary for all RICS members and appraisers undertaking property valuations. These revaluations represent the price, net of normal purchaser's costs, at which the property could be sold in the open market on the date of revaluation. At the balance sheet date the fair value of each property investment is based on comprehensive valuation reports from the independent experts. At 31 December the independent experts draw up an update of the previous comprehensive valuation report. At 30 September and 31 March the fair value is based on an internal review of the experts' valuations to take into account any material change to the property.

If an existing property investment is renovated and/or extended for continued future use as a property investment, it is also measured at fair value. Property investments held under finance leases and leased to tenants under operational leases are stated at fair value.

Movements in the fair value of property investments are recognised in the profit and loss account in the period in which they occur. Any realised gains or losses from the sale of a property investment are recognised in the period in which the sale takes place as the balance between the net sale proceeds and the latest published fair value. Depreciation is not provided on property investments since these are stated at fair value in accordance with IAS 40.

Property investments are initially brought to account at their full acquisition cost, including registration duties, legal and other consultants' fees until the first reporting date, when the fair value is presented. Any subsequent capital expenditure including the aforesaid duties and fees and any directly attributable costs to bring the asset to working order for its intended use, is added to the cost of the property investment. The cost of financing the renovation or extension of property investments is capitalised as part of the cost of the investment, which cost amount will be published in the notes in addition to the fair value.

Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. They are depreciated over the expected useful lives of the assets concerned varying from two to five years using the straight-line method taking into account the residual value of the respective assets. The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Share capital

Depositary receipts, each representing ten ordinary shares in the capital of the Company, are classified as equity. External costs directly attributable to the issue of new depositary receipts are shown as a deduction, net of tax, in equity from the proceeds. When depositary receipts recognised as equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased depositary receipts are classified as treasury depositary receipts and presented as a deduction from equity. Dividends are recognised as a liability in the period in which they are declared.

Borrowings

All borrowings are at a floating interest rate, rolled over for a period of generally three months. Interest rate risk is managed by using interest rate swaps and other derivative financial instruments. Therefore, the fair value of borrowings is considered to be reflected by the nominal value. Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

Non-current creditors

Non-current creditors are stated at present value.

Derivative financial instruments

The Company and its subsidiaries use derivative financial instruments to hedge (part of) its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivative financial instruments will not be held or issued for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Under IFRS, derivatives must be shown on the balance sheet at their fair value, the value changes are recognised immediately in the profit and loss account, unless hedge accounting applies, in which case the value changes are accounted for directly in the equity. The Company implements its derivative hedging at a consolidated corporate level, therefore the detailed requirements of a formal hedge accounting procedure are not applied.

Derivative financial instruments are recognised initially at cost (fair value). Subsequent to initial recognition, derivative financial instruments are stated at their fair value. The gain or loss on remeasurement to fair value is recognised in profit or loss. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. In connection with the non-current borrowings the derivative financial investments are presented as non-current assets and non-current liabilities.

Deferred tax liabilities

Deferred tax liabilities represent the nominal value of contingent liabilities to taxation arising from differences between the property appraisals and book values for tax purposes and other taxable temporary differences, taking into account recoverable tax losses of which it is probable that these can be utilised, provided there is a legal enforceable right to offset, settlement dates are similar and tax is levied by the same tax authority on the same taxable entity.

As at 30 June 2006

1 Principal accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when a legal or actual obligation would exist, as a result of a past event and when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company has various defined contribution pension plans and only one defined benefit pension plan for a limited number of employees. The net receivable or liability in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of the plan assets is deducted. The defined benefit obligation is calculated annually by independent external actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments or changes in assumptions are recognised in the profit and loss account, if and as far as the balance of these gains and losses exceeds 10 per cent of the greater of the present value of the obligations and the fair value of the assets. The majority of the Company's employees are members of a defined contribution scheme for which the annual premiums are an expense of the period.

Other assets and liabilities

Unless stated otherwise, assets and liabilities are shown at the amounts at which they were acquired or incurred. A provision for bad debts is deducted under receivables, if appropriate.

Rental income

Rental income from property investments leased under operational leases is recognised in the profit and loss account on a straight-line basis over the term of the lease. Rent-free periods, rent discounts and other lease incentives are recognised over the term of the lease or over the period until the first break option if shorter, on a straight-line basis as a reduction of rental income. This applies mutatis mutandis for entry fees as an increase of rental income.

Service charges income and service charges expenses

Service charges for which the Company acts as a principal are presented in the profit and loss account. Therefore, for those property investments for which the Company is in full control of the service charges, the service charges invoiced to tenants and the corresponding expenses are shown separately on an accrual basis. In addition, service charges expenses also include charges related to vacant units and/or other irrecoverable service charges due to contractual limits or insolvent tenants.

Direct and indirect property expenses

These expenses include costs directly related to the leasing of investment property, such as maintenance, insurance, management, property tax, etc. and are expensed as incurred. These expenses at a property level are referred to as direct property expenses. Letting fees, relocation expenses and other outgoings when a lease is concluded, are recognised over the term of the lease on a straight-line basis as indirect property expenses. Property expenses also include expenses associated with non Netherlands property holding companies and its staff and offices and some local taxes, accounting, audit and advisory fees, which are charged to the relevant buildings rather than the general expense pool. These expenses at a corporate level are referred to as indirect property expenses.

Net financing income/cost

Net financing income/cost comprise interest payable on borrowings calculated using the effective interest rate method net of interest capitalised, interest income, foreign exchange gains and losses on foreign currency transactions and fair value movements of derivative financial instruments that are recognised in the profit and loss account. Interest income is recognised in the profit and loss account as it accrues.

Company expenses and investment expenses

Company expenses comprise general overhead such as advisory fees, office expenses, personnel costs and Directors fees. Expenses relating to the investigation of potential property investments and the valuation of property investments including that part of staff bonuses linked to property value performance are recognised as investment expenses.

Stock options granted to employees

Since 2000 a stock option plan has been in place for Managing Directors and certain staff of the Company. The cost of stock options granted under this plan is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial number. The cost is recognised, together with a corresponding increase in shareholders equity, over the period in which the performance and service conditions are fulfilled ending on the vesting date.

Corporate income tax and deferred tax

As an Investment Institution under Netherlands tax law *(fiscale beleggingsinstelling)* the Company is subject to a nil rate of Netherlands corporate income tax, provided it meets certain conditions, notably the distribution of all taxable income (after permitted deductions) to Shareholders within eight months of the end of each financial year. As of 1 July 2005 the Company has opted for the French tax regime applicable to "Sociétés d'investissements immobiliers cotées" (SIIC). As from that date the revenues and capital gains from the French portfolio of the Company are tax-exempt, provided it meets certain conditions, notably a listing at Euronext Paris and the distribution of at least 85 per cent of French tax-exempt income and of at least 50 per cent of French tax-exempt capital gains to shareholders.

However, corporate income tax may be payable on the fiscal results of Netherlands and foreign subsidiaries, which do not have the aforesaid tax-exempt status. This tax on taxable income for the year is recognised in the profit and loss account.

Income tax on profit and loss for a year comprises corporate income tax and deferred tax and is calculated on results before taxes, taking into account any tax-exempt components of profit and non-deductible costs.

Corporate income tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates prevailing at the balance sheet date and any adjustment to taxation in respect of previous years. Tax receivable is only taken into account if it is reasonably expected that losses will be compensated.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the book value of assets and liabilities and their fiscal book value for tax purposes, taking into account the applicable taxation rate, any fiscal facilities available and recoverable tax losses which can probably be utilised. Deferred tax recognised in the profit and loss account is the movement in deferred tax liabilities and deferred tax assets, if any, during the period.

As at 30 June 2006

1 Principal accounting policies (continued)

Direct investment result and indirect investment result
Alongside the consolidated profit and loss account the Company presents results as direct and indirect investment results, enabling a better understanding of results. The direct investment result consists of net property income, net financing expenses, company expenses and corporate income tax. The indirect investment result consists of the investment revaluation, the fair value movement of derivative financial instruments, investment expenses and deferred tax. This presentation is not obligatory under IFRS.

Cash flow statement
The cash flow statement is prepared according to the indirect method. Cash flows in foreign currencies are translated at average exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Cash and deposits include bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Segment information
Segment information is primarily presented by country (France, Italy, Sweden and The Netherlands) and secondarily by property sector (retail, office, warehouse).

2 Segment information

	France		Italy		Sweden		The Netherlands		Total	
	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000
Rental income	36,235	35,618	39,944	38,408	18,511	14,621	7,670	7,800	102,360	96,447
Service charge income	4,560	5,001	2,757	2,792	5,337	3,701	395	544	13,049	12,038
Service charge expenses	(5,705)	(5,887)	(2,757)	(2,834)	(6,868)	(4,997)	(395)	(544)	(15,725)	(14,262)
Property expenses	(4,192)	(4,709)	(5,347)	(5,751)	(2,048)	(2,284)	(882)	(695)	(12,469)	(13,439)
Net property income	**30,898**	30,023	**34,597**	32,615	**14,932**	11,041	**6,788**	7,105	**87,215**	80,784
Investment revaluation	**81,904**	51,473	**77,777**	59,109	**34,077**	32,625	**(43)**	(2,527)	**193,715**	140,680
Segment result	**112,802**	81,496	**112,374**	91,724	**49,009**	43,666	**6,745**	4,578	**280,930**	221,464
Net financing income/cost									**18,648**	(59,222)
Company expenses									(7,685)	(6,874)
Investment expenses									(2,919)	(2,021)
Profit before taxation									**288,974**	153,347
Corporate income tax									(28)	(186)
Deferred tax									(55,019)	(39,208)
Profit after taxation									**233,927**	113,953
Property investments	621,730	525,840	723,300	627,360	336,258	244,161	101,050	100,720	1,782,338	1,498,081
Tangible fixed assets	143	256	392	362	7	–	246	241	788	859
Receivables	12,548	12,945	9,415	11,101	4,007	1,045	1,076	–	27,046	25,091
Derivative financial instruments	152	–	2,118	–	2,407	–	–	–	4,677	–
Cash and deposits	876	1,395	435	438	5,825	4,220	69,445	66,958	76,581	73,011
Total assets	**635,449**	540,436	**735,660**	639,261	**348,504**	249,426	**171,817**	167,919	**1,891,430**	1,597,042
Creditors	22,845	20,346	10,161	9,104	12,283	8,792	2,568	1,755	47,857	39,997
Non-current creditors	22,076	28,842	9,177	5,505	2	–	–	–	31,255	34,347
Borrowings	150,000	150,000	337,086	339,685	156,451	76,506	–	–	643,537	566,191
Derivative financial instruments	6,627	23,249	6,164	27,235	630	4,020	–	–	13,421	54,504
Deferred tax liabilities	–	–	67,458	25,522	49,749	35,600	–	12,265	117,207	73,387
Provision for pensions	–	–	–	–	–	–	474	472	474	472
Total liabilities	**201,548**	222,437	**430,046**	407,051	**219,115**	124,918	**3,042**	14,492	**853,751**	768,898
Acquisitions and capital expenditure (including capitalised interest)	**12,914**	1,925	**18,041**	4,588	**49,966**	52,111	**–**	–	**80,921**	58,624

As at 30 June 2006

2 Segment information (continued)

	Retail		Offices		Warehouses		Total	
	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000
Rental income	90,437	83,970	8,644	8,269	3,279	4,208	102,360	96,447
Service charge income	12,128	11,494	396	544	525	–	13,049	12,038
Service charge expenses	(14,715)	(13,718)	(396)	(544)	(614)	–	(15,725)	(14,262)
Property expenses	(11,485)	(12,714)	(733)	(622)	(251)	(103)	(12,469)	(13,439)
Net property income	**76,365**	69,032	**7,911**	7,647	**2,939**	4,105	**87,215**	80,784
Investment revaluation	**188,912**	138,268	**4,120**	133	**683**	2,279	**193,715**	140,680
Segment result	**265,277**	207,300	**12,031**	7,780	**3,622**	6,384	**280,930**	221,464
Net financing income/cost							**18,648**	(59,222)
Company expenses							(7,685)	(6,874)
Investment expenses							(2,919)	(2,021)
Profit before taxation							**288,974**	153,347
Corporate income tax							(28)	(186)
Deferred tax							(55,019)	(39,208)
Profit after taxation							**233,927**	113,953
Property investments	1,621,588	1,342,721	119,000	114,840	41,750	40,520	1,782,338	1,498,081
Receivables	25,435	20,937	628	204	114	–	26,177	21,141
Segment assets	**1,647,023**	1,363,658	**119,628**	115,044	**41,864**	40,520	**1,808,515**	1,519,222
Unallocated assets							82,915	77,820
Total assets							**1,891,430**	1,597,042
Creditors	45,023	37,772	2,816	2,111	18	114	47,857	39,997
Non-current creditors	30,825	33,890	–	–	430	457	31,255	34,347
Segment liabilities	**75,848**	71,662	**2,816**	2,111	**448**	571	**79,112**	74,344
Unallocated liabilities							774,639	694,554
Total liabilities							**853,751**	768,898
Acquisitions and capital expenditure (including capitalised interest)	**80,921**	58,624	**–**	–	**–**	–	**80,921**	58,624

3 Exchange rates

It is generally the Company's policy for non-Euro investments to use debt denominated in the currency of investment to provide a (partial) hedge against currency movements. Exceptionally forward contracts may be entered into from time to time when debt instruments are inappropriate for cost or other reasons. The only non-Euro investment assets and liabilities of the Company are in Sweden and to a very small extent in the United Kingdom as the Company has an office in London. As at 30 June 2006 SEK 10 was €1.08240 (30 June 2005: €1.06090) and GBP 1 was €1.44488 (30 June 2005: €1.48324).

As at 30 June 2006

4 Rental income and service charges income

Rental income in the current financial year comprised:

	30-06-06 € '000	30-06-05 € '000
Gross lease payments collected/accrued	101,299	95,514
Amortisation of capitalised entry fees	1,061	933
	102,360	96,447

The Group leases out its property investments under operating leases. The future aggregate minimum rent (turnover rent not included) receivable under non-cancellable operating leases as from 30 June 2006 is approximately amounting to:

– less than one year	€77 million
– one to five years	€214 million
– five years or more	€27 million
– Total	€318 million

Approximately 3 per cent of the rental income for the year ended 30 June 2006 is turnover rent (2004/2005: 3 per cent).

Service charges income represents income receivable from tenants for the services of utilities, caretakers, etc. when the Group acts as principal.

5 Property expenses

Property expenses in the current financial year were:

	30-06-06 € '000	30-06-05 € '000
Direct property expenses		
Bad debts	184	282
Centre marketing expenses	729	745
Insurance premiums	771	644
Managing agent fees	1,376	1,540
Property taxes	1,041	1,520
Repair and maintenance	959	2,096
Shortfall service charges	182	(128)
	5,242	6,699
Indirect property expenses		
Accounting and advisory fees	994	788
Audit fees	235	200
Depreciation fixed assets	119	113
Dispossession indemnities	593	856
Italian local tax (IRAP)	711	636
Letting fees and relocation expenses	1,427	853
Local office and accommodation expenses	977	1,021
Pension contributions	8	6
Salaries, wages and bonuses	1,250	960
Social security charges	510	476
Stock options granted (IFRS 2)	66	44
Other local taxes	163	654
Other expenses	174	133
	7,227	6,740
	12,469	13,439

Indirect property expenses include the expenses of the Milan office, the Paris office and the Stockholm office.

Local office and accommodation expenses include rent paid under operating leases for the Company's group offices in Milan and Stockholm. These leases are standard lease contracts with no contingent rents and sublease payments and are expiring in May 2009 and September 2009 respectively.

The depreciation amount is related for €43,000 (2004/2005: €48,000) to the Paris office, €76,000 (2004/2005: €65,000) to the Milan office.

As at 30 June 2006

6 Investment revaluation

Realised and unrealised value movements on investments in the current financial year were:

	30-06-06 € '000	30-06-05 € '000
Revaluation of property investments	197,225	139,554
Other movements	(3,510)	1,126
Investment revaluation	193,715	140,680

Other movements mainly relate to capitalised letting fees, which are eliminated from revaluation and fair value adjustments of other assets and liabilities. The negative movement of €3,510,000 (2004/2005: €1,126,000) includes a negative realised amount of €287,000 (2004/2005: €622,000) and a negative unrealised amount of €3,233,000 (2004/2005: €1,748,000).

7 Net financing income/costs

Net financing income/cost in the current financial year comprised:

	30-06-06 € '000	30-06-05 € '000
Interest income	599	287
Gross interest expense	(24,404)	(25,023)
Capitalised interest	328	105
Foreign currency result	48	111
Unrealised fair value movement interest rate swaps	45,771	(34,702)
Realised fair value movement interest rate swaps	(3,694)	–
	18,648	(59,222)

Gross interest expense consists of interest payable on loans calculated using the effective interest rate method. The interest payable to finance the extension/acquisition of an asset are capitalised until completion/acquisition date and are reported as capitalised interest. The interest rate used for capitalised interest during this financial year was 4.55 per cent.

8 Company expenses

Company expenses in the current financial year comprise:

	30-06-06 € '000	30-06-05 € '000
Audit fees	169	126
Depreciation fixed assets	159	106
Directors' fees	1,168	1,122
Legal and other advisory fees	931	662
Office and accommodation expenses	792	768
Pension contributions	423	520
Salaries, wages and bonuses	2,071	1,857
Social security charges	298	298
Statutory costs	528	304
Stock options (IFRS 2)	250	166
Travelling expenses	558	599
Other expenses	338	346
	7,685	6,874

Office and accommodation expenses include the expenses of the Amsterdam office and the London office and include rent paid under operating leases for the Company's head office at Herengracht 469, Amsterdam and the Group office at 4 Carlton Gardens, London. These leases are standard lease contracts with no contingent rents and sublease payments and are expiring February 2008 and March 2010 respectively.

The depreciation amount is related for €120,000 (2004/2005: €60,000) to the Amsterdam office and €39,000 (2004/2005: €46,000) to the London office.

As at 30 June 2006

9 Personnel costs

Total personnel costs in the current year comprise:

	30-06-06 € '000	30-06-05 € '000
Salaries and wages	4,121	3,568
Social security charges and taxes	1,158	972
Pension contributions	479	573
Bonuses	2,102	1,066
	7,860	6,179

Total personnel costs are partly presented under indirect property expenses (€1,768,000 (2004/2005: €1,442,000), partly under company expenses (remuneration of the members of the Board of Management inclusive) (€3,859,000 (2004/2005: €3,698,000) and partly under investment expenses (€2,233,000 (2004/2005: €1,039,000). The bonuses paid to senior executives are entirely and directly linked to the annual growth in the Company's net asset value and dividend per share. The Group employed an average of 38 full-time equivalent persons during the financial year (2005: 37) of which 26 are working outside The Netherlands. The Group staff (holdings of the members of the Board of Management excluded) holds 15,212 depositary receipts and 399,100 ordinary registered shares, in total representing 0.16 per cent of the issued share capital of the Company.

10 Investment expenses

Investment expenses in the current financial year comprise:

	30-06-06 € '000	30-06-05 € '000
SIIC regime expenses	–	548
Aborted acquisition costs	376	246
Bonuses linked to NAV growth	2,002	932
Social security charges and taxes	231	107
Property valuation fees	310	188
	2,919	2,021

11 Taxation

Recognised in the profit and loss account:

	30-06-06 € '000	30-06-05 € '000
Corporate income tax	28	186
Effect of unrealised value movements investment property and derivative financial instruments	55,794	39,641
Benefit of tax losses recognised	(775)	(433)
Deferred tax	55,019	39,208
Total taxation amount recognised in the profit and loss account	55,047	39,394

Reconciliation of effective tax rate:

	30-06-06 € '000	30-06-05 € '000
Profit before taxation	288,974	153,347
Tax-exempt income (including effect of FBI and SIIC)	(130,103)	(13,458)
Taxable profit	158,871	139,889
Total taxation amount recognised in the profit and loss account	(55,047)	(39,394)

The average weighted tax rate was 34.6 per cent (2004/2005: 28.2 per cent).

As an Investment Institution under Netherlands tax law (fiscale beleggingsinstelling) the Company is subject to a nil rate of Netherlands corporate income tax and as a "Société d'investissements immobiliers cotée" (SIIC) the revenues and capital gains from the French portfolio of the Company are tax exempt.

In Italy and Sweden the properties are held by taxable entities. In Italy the nominal tax rate is 37.25 per cent or 33.0 per cent depending on the type of property and in Sweden the nominal tax rate is 28 per cent. The taxable net property income in these countries is reduced by depreciation and interest expense.

As at 30 June 2006

12 Property investments

The book value of each property is its full cost of acquisition until revalued, and thereafter revaluation plus subsequent improvements or net proceeds in case of a sale. The independent valuation figures for the Company's properties represent the net price expected to be received by the Company from a notional purchaser who would deduct any purchaser's costs including registration tax. All properties in the Group are freehold with the exception of Kingsfordweg 1, Amsterdam (perpetual ground lease). All properties were revalued at 30 June 2006. The yields described in the Board of Management report reflect market practice and are derived by dividing property net rent by the gross valuation (net valuation figure plus purchaser's costs including transfer duties) expressed as a percentage. The current property portfolio is:

	30-06-06 Book value € '000	30-06-05 Book value € '000	30-06-06 Costs to date € '000	30-06-05 Costs to date € '000
Retail				
France				
Centre Commercial Amiens Glisy, Amiens	36,000	32,100	15,794	15,805
73 Le Chemin d'Apermont, Buchelay	6,680	–	6,713	–
Les Trois Dauphins, Grenoble	30,000	25,790	23,626	23,181
Centr'Azur, Hyères	35,120	31,600	16,534	16,514
Centre les Portes de Taverny, Paris	38,890	32,170	23,511	19,076
*Passage du Havre, Paris	197,400	163,220	135,291	135,227
*Passy Plaza, Paris	106,000	92,740	70,751	70,671
*74 rue de Rivoli, 1-3 rue de Renard, Paris	16,900	12,450	10,363	10,308
*Centre les Atlantes, Tours	93,000	79,250	46,176	45,064
Tourville la Rivière	2,040	1,880	1,685	1,685
	562,030	471,200	350,444	337,531
Italy				
*Curno, Bergamo	89,740	81,500	33,479	33,252
*Centro Lame, Bologna	34,620	30,900	28,352	28,063
*Il Castello, Ferrara	86,350	73,330	62,318	62,245
*I Gigli, Florence	229,300	188,120	148,486	140,622
*Centro Leonardo, Imola**	25,650	22,500	18,287	16,154
*La Favorita, Mantova	47,560	41,710	30,547	30,352
*Centro Carosello, Milan	192,100	172,900	87,671	80,410
*Centroluna, Sarzana	17,980	16,400	10,044	10,044
	723,300	627,360	419,184	401,142
Sweden				
*Bergvik Köpcentre, Karlstad	46,824	37,360	36,839	36,839
*Mellby Centre, Laholm	16,063	14,534	12,736	12,736
*Burlöv Centre, Malmö	104,668	84,586	71,746	59,756
*MaxiHuset, Norrköping	36,856	30,872	27,852	27,687
*MaxiHuset, Skövde	33,543	26,416	25,443	25,044
*Moraberg, Södertälje	39,724	–	37,330	–
*Hälla Shopping Centre, Västerås	22,514	19,096	14,905	14,894
*Samarkand, Växjö	36,066	31,297	27,653	27,582
	336,258	244,161	254,504	204,538
	1,621,588	1,342,721	1,024,132	943,211

As at 30 June 2006

12 Property investments (continued)

	30-06-06 Book value € '000	30-06-05 Book value € '000	30-06-06 Costs to date € '000	30-06-05 Costs to date € '000
Office				
France				
*Passage du Havre, Paris†	32,000	27,740	28,683	28,683
The Netherlands				
Kingsfordweg 1, Amsterdam	87,000	87,100	84,846	84,846
	119,000	114,840	113,529	113,529
Warehouse				
France				
Rue des Béthunes, Saint-Ouen L'Aumone	17,000	17,000	17,431	17,431
Parisud, Sénart	10,700	9,900	11,656	11,656
	27,700	26,900	29,087	29,087
The Netherlands				
Horsterweg 20, Maastricht-Airport	4,270	4,000	3,949	3,949
Galvanibaan 5, Nieuwegein	4,020	4,100	3,308	3,308
Standaardruiter 8, Veenendaal	3,640	3,420	2,777	2,777
Koeweistraat 10, Waardenburg	2,120	2,100	1,673	1,673
	14,050	13,620	11,707	11,707
	41,750	40,520	40,794	40,794
	1,782,338	1,498,081	1,178,455	1,097,534

*These properties carry mortgage debt up to €580 million at 30 June 2006 (30 June 2005: €431 million).
**The Group has entered into an agreement to acquire the extension of Centro Leonardo at Imola, Italy. The total investment amount approximates €42 million. Completion is scheduled for November 2006.
†Part of the retail complex.

Changes in property investments for the financial year ended 30 June 2006 were as follows:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	1,498,081	1,306,304
Acquisitions	43,094	36,839
Capital expenditure	37,499	21,680
Capitalised interest	328	105
Revaluation	197,225	139,554
Exchange rate movement	6,111	(6,401)
Book value at end of year	1,782,338	1,498,081

13 Tangible fixed assets

Tangible fixed assets represent office equipment and inventory for the Company's head office at Herengracht 469, Amsterdam and the Group offices at 4 Carlton Gardens, London, Via del Vecchio Politecnico 3, Milan, 10 rue du Havre, Paris and Norrlandsgatan 22, Stockholm. These costs are depreciated over the expected useful lives of the assets concerned varying from two to five years. The movements in the current and the previous financial year were:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	859	453
Additions	212	628
Depreciation	(283)	(222)
Book value at end of year	788	859
Cost at end of year	1,700	1,488
Accumulated depreciation	(912)	(629)
Book value at end of year	788	859

As at 30 June 2006

14 Receivables

	30-06-06 € '000	30-06-05 € '000
Funds held by managing agents	183	228
Prepayment for extension Centro Leonardo	5,700	5,700
Rents receivable	12,965	11,036
Staff loans	–	255
Trademark licence	2,138	2,404
VAT receivable	3,568	3,163
Other receivables and prepayments	2,492	2,305
	27,046	25,091

Receivables at 30 June 2006 include an amount of €1.8 million (30 June 2005: €7.7 million) which is due after one year.

15 Cash and deposits

Cash and deposits consist primarily of time deposits, with small amounts held as bank balances and other liquid assets.

	30-06-06 € '000	30-06-05 € '000
Bank balances	9,581	6,208
Deposits	67,000	66,803
Total	76,581	73,011

16 Creditors

(i) Current liabilities

	30-06-06 € '000	30-06-05 (€ '000)
Accruals and deferrals	7,749	5,982
Corporate tax payable	8,183	8,509
Creditors	5,308	6,624
Interest payable	3,829	4,525
Local and property tax payable	424	772
Payable on purchased property	6,300	1,444
Rent received in advance	16,001	11,031
VAT payable	63	1,110
	47,857	39,997

(ii) Non-current liabilities

Corporate tax payable	14,853	21,865
Purchase price land	6,626	3,025
Tenant rental deposits	6,891	6,770
Entry fees	2,885	2,687
	31,255	34,347

The corporate tax payable relates to French capital gains tax at the concessionary reduced rate of 16.5 per cent payable in three remaining annual instalments in December 2006, 2007 and 2008. This so called exit tax is payable as a result of the application for the tax-exempt status of the Company in France as per 1 July 2005 and is discounted.

As at 30 June 2006

17 Borrowings

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	566,191	589,348
Drawdown of funds	297,451	161,115
Repayments	(222,160)	(182,214)
Exchange rate movements	1,796	(2,190)
Movement prepaid borrowing costs	259	132
Book value at end of year	643,537	566,191

Borrowings maturity profile	Secured € '000	Unsecured € '000	30-06-06 Total borrowings € '000	Average interest rate in %	30-06-05 Total borrowings € '000
Current borrowings	7,542	63,488	71,030	3.1	141,567
Non-current borrowings					
One to two years	8,683	–	8,683		52,717
Two to five years	37,478	–	37,478		32,706
More than five years	526,346	–	526,346		339,201
Total non-current borrowings	572,507	–	572,507	4.7	424,624
Total borrowings	580,049	63,488	643,537	4.5	566,191

Currency and interest rate profile	Fixed rate borrowings € '000*	Floating rate borrowings € '000**	Total borrowings € '000	Weighted average interest rate in %	Interest maturity in years	Weighted average maturity of borrowings in years
2005/2006						
Euro	428,335	57,605	485,940	4.6	7.4	9.4
Swedish krona	89,081	68,516	157,597	4.2	5.9	7.8
Total	517,416	126,121	643,537	4.5	7.0	9.0
2004/2005						
Euro	371,632	117,166	488,798	5.1	6.6	7.0
Swedish krona	60,485	16,908	77,393	2.9	6.7	9.0
Total	432,117	134,074	566,191	4.8	7.4	7.4

*Fixed rate borrowings consist of all external financing with a remaining interest period of more than one year taking into account the effect of interest rate swaps.

**Floating rate borrowings consist of all external financing with a remaining interest period of less than one year taking into account the effect of interest rate swaps.

As at 30 June 2006

17 Borrowings (continued)

The borrowings are all directly from major banks with average committed unexpired terms of almost nine years. Borrowings of €580 million are secured on property (30 June 2005: €431 million). The average interest rate on borrowings with remaining periods to maturity of more than one year including hedges is currently 4.7 per cent (30 June 2005: 4.7 per cent). The average interest rate is calculated as the weighted average interest rate over the remaining principals until the respective interest maturity dates.

SEK borrowings amount to €157.6 million (30 June 2005: €77.4 million). The total property investments in Sweden are €336.3 million so 47 per cent of this SEK exposure is hedged at 30 June 2006 (30 June 2005: 63 per cent). The remaining exposure is relatively limited compared to the total size of the portfolio and will in principle not be hedged. A weakening of this currency by 5 per cent would result, for example, in a decrease of shareholders' equity of only 0.9 per cent of reported net asset value.

At 30 June 2006 the Company has at its disposal undrawn borrowing facilities for a total amount of €78 million. These amounts are committed and immediately available to the Company and are eventually subject to reimbursements schemes.

18 Derivative financial instruments

It is the policy of the Company to operate a defensive interest rate hedging policy by using derivates to protect the Company against increase in interest rates. The Company intends to hedge the majority of its loans outstanding for the medium to long term (5 to 15 years). The fair value (mark to market) of the current interest rate hedge instruments as at 30 June 2006 is a negative value of €8.7 million (30 June 2005: €54.5 million).

The current interest rate hedge instruments as at 30 June 2006 have a similar average period as the loan facilities and the Company is hedged at an average interest rate of 4.8 per cent. Only 19.6 per cent of the total borrowings is at a floating rate. An increase in interest rates of 1 per cent would therefore only have a limited negative impact of an additional annual interest expense of €1.26 million or 2.2 per cent of reported direct investment result.

Interest rate swaps as at 30 June 2006	Notional amount € '000	Fair value € '000
Up to one year	–	–
From one year to five years	–	–
From five years to ten years	355,666	(1,156)
Over ten years	162,896	(7,588)
Total	518,562	(8,744)

Derivative financial instruments comprise the fair value of interest rate swap contracts entered into to hedge the Group's interest rate exposure. The Company accounts for the purchase/sale of an interest rate swap at its transaction date.

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	(54,504)	(19,802)
Unrealised fair value movement interest rate swaps	45,760	(34,702)
Book value at end of year	(8,744)	(54,504)

As at 30 June 2006 the negative fair value balance of the derivative financial instruments is composed of instruments having a positive fair value of €4.7 million and instruments having a negative fair value of €13.4 million. As at 30 June 2005 there were no instruments with a positive fair value.

As at 30 June 2006

19 Deferred tax liabilities

Deferred tax liabilities are attributable to the following items:

	Balance 01-07-05 € '000	Recognised in profit and loss account	Movement through balance*	Exchange rate movement	Balance 30-06-06 € '000
Investment property	87,511	44,947	(12,020)	827	121,265
Derivative financial instruments	(11,759)	10,847	–	(6)	(918)
Tax value of loss carry-forwards recognised	(2,365)	(775)	–	–	(3,140)
Deferred tax liabilities	73,387	55,019	(12,020)	821	117,207

Deferred tax liabilities are attributable to the following items in the previous year:

	Balance 01-07-04 € '000	Recognised in profit and loss account	Movement through balance**	Exchange rate movement	Balance 30-06-05 € '000
Investment property	71,748	47,224	(32,138)	677	87,511
Derivative financial instruments	(4,176)	(7,583)	–	–	(11,759)
Tax value of loss carry-forwards recognised	(1,932)	(433)	–	–	(2,365)
Deferred tax liabilities	65,640	39,208	(32,138)	677	73,387

*2006: Relates to the payment of Netherlands capital gains tax due to the transfer of the Kingsfordweg 1 office building from its corporate structure to the FBI regime of the Company in The Netherlands.

**2005: Relates to reclassification from deferred tax liabilities to current and non-current liabilities due to election by the Company of the SIIC regime in France.

The increase related to investment property for the year is derived from an increase in market value of the investment properties and a decrease of the fiscal value of the buildings in Italy and Sweden due to the standard fiscal depreciation. As at 30 June 2006 the total amount of deferred tax liabilities of €117.2 million is related to Italy for an amount of €67.5 million, whereas an amount of €49.7 million is related to Sweden.

There are no unrecognised deferred tax assets.

As at 30 June 2006

20 Provision for pensions

Movements in the provision were as follows:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	472	340
Current service costs	224	237
Contributions paid by the employer	(293)	(282)
Past service costs	–	–
Other finance income	(19)	(4)
Actuarial loss	78	178
Exchange rate movement	12	3
Book value at end of year	474	472

Amounts recognised under company expenses in the profit and loss account in respect of the defined benefit plan are as follows:

	30-06-06 € '000	30-06-05 € '000
Current service costs	224	237
Past service costs	–	–
Other finance income	(19)	(4)
Actuarial loss	78	178
Other plan costs	24	6
	307	417

Major assumptions used by the actuary:

	30-06-06 %	30-06-05 %
Pensionable salary growth	4.5	4.1
Earnings cap growth	3.0	2.6
Pension escalation	3.0	2.6
Discount rate	5.25	5.0
Inflation assumption	3.0	2.6

Assets and expected rate of return:

	Expected rate of return 2006/07 %	Value at 30-06-06 € '000	Expected rate of return 2005/06 %	Value at 30-06-05 € '000
Equities	7.75	1,783	8.0	1,281
Bonds	5.0	95	5.0	74
Property	7.0	10	7.0	21
Cash	4.5	113	4.75	165
Total market value of assets		2,001		1,541
Present value scheme liabilities		(2,475)		(2,013)
Deficit in the scheme		(474)		(472)

Pension benefit obligations and the related effects on operations are calculated using actuarial models. As the scheme's assets are valued at fair (i.e. market) value, the financial assumptions are based on market expectations at the end of the accounting period. Although there is always a margin of discretion in the interpretation of market expectations, this margin is rather limited and at the time of publication the Company is not aware of any reason why the true figures could differ significantly from the enclosed projections. The discount rate used for determining the fair value of the scheme assets is based on long term (over 15 years) AA corporate bond yield. The calculations have been performed by a qualified and independent actuary.

As at 30 June 2006

21 Issued share capital

Share capital comprises:
• 999,999,900 authorised ordinary shares of €0.50 par value, of which 352,776,088 shares are issued and fully paid as at 30 June 2006.
• 100 authorised priority shares of €0.50 par value, which are entirely issued and fully paid.

The weighted average of the number of shares in issue in the current financial year is 349,381,620.

The Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Shareholders meetings of the Company. The holders of depositary receipts are entitled to receive dividends as declared from time to time and are entitled to ten votes per depositary receipt at Shareholders meetings of the Company.

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	172,312	152,703
Issued shares exercised stock options	38	–
Issued bonus shares	4,038	4,109
Issued shares placement	–	15,500
Book value at end of year	176,388	172,312

As at 30 June 2006 679,500 staff stock options were outstanding, representing 2 per cent of the current issued share capital. The options each confer the right to one depositary receipt representing ten ordinary shares of €0.50 par value and were all granted on 8 November 2004 at an exercise price of €24.82. The options can only be exercised after three years have lapsed since the date of granting. Thereafter, the options can be exercised during a period of seven years. Having regard to the market prices of depositary receipts, the exercise price of €24.82 and the first possible date for exercise, the value of the outstanding options at the date of granting was assessed at €1,115,000 using the appropriate formula to calculate options values.

The Company has not bought back depositary receipts to cover future possible exercises of options granted to staff. It is the intention to issue new depositary receipts if and when options are exercised.

As at 30 June 2006

22 Share premium reserve

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	330,879	271,810
Stock options granted	316	210
Issued shares exercised stock options	105	–
Release for issued bonus shares	(4,038)	(4,109)
Issued shares placement	–	65,100
Issue costs	–	(2,084)
Dividends paid	(66)	(48)
Book value at end of year	327,196	330,879

For Dutch tax purposes the share premium reserve is also regarded as paid-up capital.

23 Other reserves

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	211,000	176,155
Profit previous financial year	85,573	37,627
Foreign currency translation differences	3,595	(2,782)
Book value at end of year	300,168	211,000

As at 30 June 2006

24 Earnings per depositary receipt

Basic earnings per depositary receipt

The calculation of basic earnings per depositary receipt at 30 June 2006 was based on the profit attributable to holders of depositary receipts of €233.9 million (30 June 2005: €113.9 million) and a weighted average number of depositary receipts outstanding during the year ended 30 June 2006 of 34,938,162 (30 June 2005: 31,589,214), calculated as follows:

Profit attributable to holders of depositary receipts:

	30-06-06 € '000	30-06-05 € '000
Profit for the year	233,927	113,953

Weighted average number of depositary receipts:

	30-06-06	30-06-05
Issued depositary receipts at beginning of year	34,462,476	30,540,500
Effect of depositary receipts issued in November 2004 (stock dividend)	–	479,673
Effect of depositary receipts issued in May 2005 (share placement)	–	569,041
Effect of depositary receipts issued in November 2005 (stock dividend and staff stock options exercised)	475,686	–
Weighted average number of depositary receipts at end of year	34,938,162	31,589,214

Diluted earnings per depositary receipt

The calculation of diluted earnings per depositary receipt at 30 June 2006 was based on profit attributable to holders of depositary receipts of €233.9 million (30 June 2005: €113.9 million) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 35,649,226 (30 June 2005: 32,060,200), calculated as follows:

Profit attributable to holders of depositary receipts (diluted):

	30-06-06 € '000	30-06-05 € '000
Profit for the year	233,927	113,953

Weighted average number of depositary receipts (diluted):

	30-06-06	30-06-05
Weighted average number of depositary receipts at end of year	34,938,162	31,589,214
Effect of issued options on depositary receipts	711,064	470,986
Weighted average number of depositary receipts (diluted) at end of year	35,649,226	32,060,200

25 Commitments not included in the balance sheet

As at 30 June 2006 bank guarantees have been issued for a total amount of €2.93 million. Interest rate swap agreements have been entered into to hedge the exposure to interest rate movements for a total notional amount of €519 million (See also note 18 to the consolidated financial statements and note 11 to the Company financial statements).

As at 30 June 2006 the Group's off balance sheet investment commitments approximate €42 million and is related to the acquisition of the extension of Centro Leonardo at Imola, Italy.

As at 30 June 2006

26 Related parties

Introduction
The Group has related party relationships with its subsidiaries and with its Supervisory Board and Board of Management.

Remuneration
The Directors' fees recognised in the Company expenses include an amount of €101,300 (2004/2005: €97,500) in respect of gross remuneration paid to the members of the Supervisory Board to be specified as follows:

	30-06-06 € '000	30-06-05 € '000
W.G. van Hassel	30.0	30.0
H.Th.M. Bevers	11.3	22.5
H.W. Bolland	22.5	22.5
J.H. Goris	22.5	22.5
J.C. Pollock	15.0	–

The Directors' fees also include an amount of €1,650,000 (2004/2005: €1,383,000) in respect of gross remuneration, including social security charges, for the members of the Board of Management to be specified as follows:

	J.P. Lewis		E.J. van Garderen	
	30-06-06 € '000	30-06-05 € '000	30-06-06 € '000	30-06-05 € '000
Salary	482	445	318	306
Bonus	433	293	250	201
Pension premiums	7	7	41	40
Social security charges	114	87	5	4

The bonuses paid to members of the Board of Management are entirely and directly linked to the annual growth in the Company's net asset value and dividend per share.

Stock options
The members of the Board of Management hold the following stock options, which were granted on 8 November 2004 at an exercise price of €24.82.

J.P. Lewis	120,000
E.J. van Garderen	100,000

Shareholdings
Mr Lewis and entities associated with him hold 852,014 depositary receipts, in total representing 2.42 per cent of the issued share capital of the Company. Mr van Garderen holds 30,000 depositary receipts, in total representing 0.085 per cent of the issued share capital of the Company. Mr van Hassel indirectly holds 1,721 depositary receipts representing 0.005 per cent of the issued share capital of the Company. None of the other members of the Board of Supervisory Directors has any holdings in the Company.

No loans
There are no loans granted to members of the Supervisory Board and members of the Board of Management.

27 Accounting estimates and judgements

The Board of Management discussed with the Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Critical accounting estimates and assumptions
Accounting estimates and assumptions discussed in this section are considered to be the most critical to an understanding of the financial statements because they inherently involve significant judgements and uncertainties. For all of these estimates, the Board of Management cautions that future events may not develop exactly as forecast, and the best estimates routinely require adjustment.

Critical accounting judgements in applying the Group's accounting policies
The critical accounting judgements in applying the Group's accounting policies have been described in the investment property policy notes (see note 1).

28 Main transition effects from Netherlands GAAP to IFRS

With reference to note 1 these consolidated financial statements of the Company are the first statements prepared in accordance with IFRS. The comparative figures for the financial year 2004/2005 have been taken from last year's financial statements drawn up under Netherlands GAAP and subsequently adjusted applying IFRS. An explanation of the transition from Netherlands GAAP to IFRS for the opening consolidated balance sheet of the Company as per 1 July 2005 and for the consolidated profit and loss account and the consolidated cash flow statement for the financial year 2004/2005 is provided in the tables below and the accompanying notes.

As at 30 June 2006

28 Main transition effects from Netherlands GAAP to IFRS (continued)

Consolidated profit and loss account Eurocommercial Properties N.V. for 2004/2005 € '000

Profit and loss account based on 2004/2005 accounting principles		IFRS adjustments: Adjustments to presentation	Service charges	Letting fees and lease incentives	Employee benefits	Derivative financial instruments	Non-current creditors	Deferred tax		Profit and loss account based on IFRS
Revenue										***Revenue***
Property income	96,889	281	–	(723)	–	–	–	–	96,447	Rental income
	–	–	12,038	–	–	–	–	–	12,038	Service charges income
	–	–	(14,262)	–	–	–	–	–	(14,262)	Service charges expenses
Property expenses	(15,672)	(281)	2,224	334	(44)	–	–	–	(13,439)	Property expenses
Net property income	81,217	–	–	(389)	(44)	–	–	–	80,784	Net property income
Other income	143	(143)	–	–	–	–	–	–	–	
Total income	81,360	(143)	–	(389)	(44)	–	–	–	80,784	
Investments revaluation	135,666	3,411	–	(432)	–	–	2,035	–	140,680	Investment revaluation
Total revenue	**217,026**	**3,268**	**–**	**(821)**	**(44)**	**–**	**2,035**	**–**	**221,464**	***Total revenue***
Expenses										***Expenses***
	287	–	–	–	–	–	–	–	287	Interest income
	(24,918)	–	–	–	–	–	–	–	(24,918)	Interest expenses
	111	–	–	–	–	–	–	–	111	Foreign currency result
	–	–	–	–	–	(34,702)	–	–	(34,702)	Fair value movement derivative financial instruments
Net financing costs	(24,520)	–	–	–	–	(34,702)	–	–	(59,222)	Net financing costs
Company expenses	(7,746)	1,038	–	–	(166)	–		–	(6,874)	Company expenses
Financial and investment expenses	(983)	(1,038)	–	–	–	–	–	–	(2,021)	Investment expenses
Total expenses	(33,249)	–	–	–	(166)	(34,702)	–	–	(68,117)	*Total expenses*
Net revenue before taxation	183,777	3,268	–	(821)	(210)	(34,702)	2,035	–	153,347	Net revenue before taxation
Corporate income tax	(186)	–	–	–	–	–	–	–	(186)	Corporate income tax
Deferred tax	(54,814)	(51)	–	–	–	–	–	15,657	(39,208)	Deferred tax
Profit after taxation	**128,777**	**3,217**	**–**	**(821)**	**(210)**	**(34,702)**	**2,035**	**15,657**	**113,953**	***Profit after taxation***
Investments revaluation	135,666	3,411	–	(432)	–	–	2,035	–	140,680	Investment revaluation
	–	–	–	–	–	(34,702)	–	–	(34,702)	Fair value movement derivative financial instruments
Financial and investment expenses	(983)	(1,038)	–	–	–	–	–	–	(2,021)	Investment expenses
Deferred tax	(54,814)	(51)	–	–	–	–	–	15,657	(39,208)	Deferred tax
Indirect investment result	**79,869**	**2,322**	**–**	**(432)**	**–**	**(34,702)**	**2,035**	**15,657**	**64,749**	***Indirect investment result***
Total investment result	128,777	3,217	–	(821)	(210)	(34,702)	2,035	15,657	113,953	Total investment result
Less indirect investment result	(79,869)	(2,322)	–	432	–	34,702	(2,035)	(15,657)	(64,749)	Less indirect investment result
Direct investment result	**48,908**	**895**	**–**	**(389)**	**(210)**	**–**	**–**	**–**	**49,204**	***Direct investment result***

As at 30 June 2006

28 Main transition effects from Netherlands GAAP to IFRS (continued)

Consolidated balance sheet Eurocommercial Properties N.V. as per 1 July 2005 € '000

Balance sheet based on 2004/2005 accounting principles		IFRS adjustments: Adjustments to presentation	Adjustments previous year	Letting fees and lease incentives	Employee benefits	Derivative financial instruments	Non-current creditors	Deferred tax		Balance sheet based on IFRS
Assets										**Assets**
Investments										
Property investments	1,498,081	–	–	–	–	–	–	–	1,498,081	Property investments
	–	859	–	–	–	–	–	–	859	Tangible fixed assets
	–	–	–	–	–	–	–	–	–	Derivative financial instruments
	–	7,736	–	–	–	–	–	–	7,736	Receivables
	–	8,595	–	–	–	–	–	–	1,506,676	***Total non-current assets***
Cash and deposits	73,011	–	–	–	–	–	–	–	73,011	Cash and deposits
	1,571,092									
Receivables	28,121	(8,623)	(2,044)	(99)	–	–	–	–	17,355	Receivables
	–	(8,623)	(2,044)	(99)	–	–	–	–	90,366	***Total current assets***
Other assets										
Tangible fixed assets	859	(859)	–	–	–	–	–	–	–	
Total assets	**1,600,072**	**(887)**	**(2,044)**	**(99)**	**–**	**–**	**–**	**–**	**1,597,042**	***Total assets***
Liabilities										**Liabilities**
Current liabilities										
Creditors	39,156	–	684	157	–	–	–	–	39,997	Creditors
Borrowings	141,567	–	–	–	–	–	–	–	141,567	Borrowings
	180,723	–	684	157	–	–	–	–	181,564	***Total current liabilities***
Non-current liabilities										
Creditors	35,257	–	560	565	–	–	(2,035)	–	34,347	Creditors
Borrowings	425,511	(887)	–	–	–	–	–	–	424,624	Borrowings
	–	–	19,802	–	–	34,702	–	–	54,504	Derivative financial instruments
Provision for contingent tax liabilities	67,834	–	21,642	–	–	–	–	(16,089)	73,387	Deferred tax liabilities
Provision for pensions	312	–	160	–	–	–	–	–	472	Provision for pensions
	–	(887)	42,164	565	–	34,702	(2,035)	(16,089)	587,334	***Total non-current liabilities***
Total liabilities	**709,637**	**(887)**	**42,848**	**722**	**–**	**34,702**	**(2,035)**	**(16,089)**	**768,898**	***Total liabilities***
Net assets	890,435	–	(44,892)	(821)	–	(34,702)	2,035	16,089	828,144	***Net assets***
Shareholders' equity										***Shareholders' equity***
Issued share capital	172,312	–	–	–	–	–	–	–	172,312	Issued share capital
Share premium reserve	330,666	–	3	–	210	–	–	–	330,879	Share premium reserve
Reserves	258,680	–	(47,680)	–	–	–	–	–	211,000	Reserves
Undistributed income	128,777	–	2,785	(821)	(210)	(34,702)	2,035	16,089	113,953	Undistributed income
	890,435	**–**	**(44,892)**	**(821)**	**–**	**(34,702)**	**2,035**	**16,089**	**828,144**	

As at 30 June 2006

28 Main transition effects from Netherlands GAAP to IFRS (continued)

Consolidated cashflow statement Eurocommercial Properties N.V. for 2004/2005 € '000

Cashflow statement based on 2004/2005 accounting principles		IFRS adjustments: Adjustments to presentation	Service charges	Letting fees and lease incentives	Employee benefits	Derivative financial instruments	Non-current creditors	Deferred tax		Cashflow statement based on IFRS
Cash flow from operating activities										***Cash flow from operating activities***
Profit after taxation	**128,777**	**3,217**	**–**	**(821)**	**(210)**	**(34,702)**	**2,035**	**15,657**	**113,953**	**Profit after taxation**
Adjustments:										***Adjustments:***
	–	–	–	–	210	–	–	–	210	Movement stock options
Investment revaluation	(135,666)	(3,898)	–	1,029	–	–	(2,035)	–	(140,570)	Investment revaluation
	–	–	–	–	–	34,702	–	–	34,702	Derivative financial instruments
Deferred tax	54,814	51	–	–	–	–	–	(15,657)	39,208	Deferred tax
Additions to provisions for pensions	132	(132)	–	–	–	–	–	–	–	
Other movements	–	1,241	–	213	–	–	–	–	1,454	Other movements
	48,057	**479**	**–**	**421**	**–**	**–**	**–**	**–**	**48,957**	
Cash flow from operations										***Cash flow from operations***
Increase/decrease in receivables	(1,752)	(1,172)	–	550	–	–	–	–	(2,374)	Increase in receivables
Increase/decrease in creditors	(34,440)	65,005	–	(2,854)	–	–	–	–	27,711	Increase in creditors
	–	(39,967)	–	–	–	–	–	–	(39,967)	Capital gain tax
	–	–	–	–	–	–	–	–	–	Derivative financial instruments
	–	(24,410)	–	–	–	–	–	–	(24,410)	Interest paid
	–	287	–	–	–	–	–	–	287	Interest received
	11,865	**222**	**–**	**(1,883)**	**–**	**–**	**–**	**–**	**10,204**	
Cash flow from investment activities										***Cash flow from investment activities***
Property investments	(56,606)	19,893	–	1,883	–	–	–	–	(34,830)	Property investments
	–	(19,893)	–	–	–	–	–	–	(19,893)	Capital expenditure
Additions to tangible fixed assets	(406)	(222)	–	–	–	–	–	–	(628)	Additions to tangible fixed assets
	(57,012)	**(222)**	**–**	**1,883**	**–**	**–**	**–**	**–**	**(55,351)**	
Cash flow from finance activities										***Cash flow from finance activities***
Proceeds issued shares	78,516	–	–	–	–	–	–	–	78,516	Proceeds issued shares
Borrowings added	161,115	–	–	–	–	–	–	–	161,115	Borrowings added
Repayment of borrowings	(182,214)	–	–	–	–	–	–	–	(182,214)	Repayment of borrowings
Dividends paid	(24,282)	–	–	–	–	–	–	–	(24,282)	Dividends paid
Increase in non-current creditors	630	–	–	–	–	–	–	–	630	Increase in non-current creditors
	33,765	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33,765**	
Net cash flow	(11,382)	–	–	–	–	–	–	–	(11,382)	***Net cash flow***
Currency differences on cash and deposits	323	–	–	–	–	–	–	–	323	Currency differences on cash and deposits
Decrease in cash and deposits	(11,059)	–	–	–	–	–	–	–	(11,059)	Decrease in cash and deposits
Cash and deposits at beginning of year	84,070	–	–	–	–	–	–	–	84,070	Cash and deposits at beginning of year
Cash and deposits at end of year	**73,011**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**73,011**	Cash and deposits at end of year

As at 30 June 2006

28 Main transition effects from Netherlands GAAP to IFRS (continued)

The standards, including International Accounting Standards (IAS), which have the most significant impact for the Company's financial reporting comparing Netherlands GAAP and IFRS, are:

IFRS	Standard	Adjustment
IAS	12	Provisions for contingent tax liabilities from discounted to nominal
IAS	32/39	Interest rate hedge instruments at fair value on balance
IAS	32/39	Borrowings from nominal to amortised costs
IAS	40	Letting fees and lease incentives included in fair value of property investments
IAS	19	Defined benefit pensions fully recorded for the net liability amount
IFRS	2	Value of stock options charged to profit and loss account

(i) Provisions for contingent tax liabilities

Under Netherlands GAAP the provision for deferred contingent capital gains tax liabilities was calculated on the basis of the discounted present value of contingent tax liabilities, taking the applicable tax rate for the entity owning the respective property, when disposing, into account. Tax losses carried forward were taking into account in case these could be used in the event of a disposal. IFRS requires that deferred tax liabilities are calculated at the nominal value, taking into account the expected manner of realisation or settlement of the carrying amount of assets and liabilities and the applicable tax rate. Under IFRS deferred tax assets and deferred tax liabilities are primarily recognised separately increasing total assets and total liabilities in such case.

(ii) Interest rate hedge instruments

Under Netherlands GAAP derivative financial instruments (interest rate swap agreements entered into by the Company) were not reported on balance. These instruments were reported in the notes as commitments not included in the balance sheet and any change in the fair value of these instruments had no implications for the profit and loss account. IFRS requires that the fair value of interest rate hedge instruments is recorded on the balance sheet. Any movements in the fair value of these instruments is included in the profit and loss account.

(iii) Borrowings

Borrowings were reported at nominal value under Netherlands GAAP. Under IFRS, the first recognition of borrowings must take into account directly attributable transaction costs and fees, which are an integral part of the effective interest rate to be charged. These costs and fees were previously separately charged to the profit and loss account. Subsequent to initial recognition, borrowings are stated at amortised costs.

(iv) Letting fees and lease incentives

IAS 40 states that in determining the fair value of investment property, an entity does not double-count assets and liabilities that are recognised as separate assets and liabilities. This implies that the prepaid letting fees and relocation expenses which were recorded as part of the receivables under Netherlands GAAP, should not be recognised under IFRS. Although the Company already applied a policy of straight-lining (letting fees and lease incentives are depreciated over the term of the relevant lease) under Netherlands GAAP, entry fees were not straight-lined as is now required under IFRS.

(v) Pensions

Only five employees of the Company have a pension scheme which is classified under IFRS as 'defined benefit'. Due to this, taking into account future salary rises, average employment terms, inflation and such, future pension charges must be estimated under IFRS. To this end the Company has had, taking into account the IFRS rules and the current pension scheme rules, an actuarial report drawn up by an independent actuary. Based on this report the Company's provision increased slightly resulting in a small negative impact on shareholders' equity under IFRS. All other employees with entitlement to pensions have a defined contribution scheme, which triggered no impact when adopting IFRS.

(vi) Options

On 7 November 2002 the Company granted 15,000 conditional options to employees. On 8 November 2004 the Company granted 716,000 conditional options to employees. Under Netherlands GAAP these options had no impact on the profit and loss account at the respective date of granting, but under IFRS this resulted in slightly higher personnel costs charged to the profit and loss account with a movement in shareholders' equity for the same amount.

Company balance sheet
(before income appropriation)

	Note	30-06-06 € '000	30-06-05 € '000
Property investments	3	101,050	13,620
Investments in subsidiaries	4	617,171	414,247
Due from subsidiaries	5	279,917	355,589
Tangible fixed assets	7	283	182
Total non-current assets		998,421	783,638
Receivables		1,764	603
Cash and deposits	6	69,390	66,829
Total current assets		71,154	67,432
Total assets		1,069,575	851,070
Creditors		7,738	2,568
Due to subsidiaries		196	259
Borrowings	8	23,488	19,627
Total current liabilities		31,422	22,454
Provision for pensions		474	472
Total liabilities		31,896	22,926
Net equity		1,037,679	828,144
Shareholders' equity	9		
Issued share capital		176,388	172,312
Share premium reserve		327,196	330,879
Legal revaluation reserve		331,924	128,752
Currency translation reserve		2,050	(1,545)
Retained profit reserve		(33,806)	83,793
Undistributed income		233,927	113,953
		1,037,679	828,144

Company profit and loss account

	2005/2006 € '000	2004/2005 € '000
Company profit after taxation	17,923	13,453
Result from subsidiaries after taxation	216,004	100,500
Profit after taxation	233,927	113,953

Notes to the Company financial statements

As at 30 June 2006

1 General

The description of the Company's activities and structure, as included in the notes to the consolidated financial statements, also applies to the Company financial statements. The corporate accounts have been prepared in accordance with the financial reporting requirements of Part 9, Book 2 of the Netherlands Civil Code. The consolidated annual financial statements of companies publicly listed in the European Union must, for the financial years starting on or after 1 January 2005, be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission. Consequently, the consolidated financial statements of the Group for the financial year ending on 30 June 2006 have been prepared accordingly. In order to harmonise the accounting principles of the corporate accounts with the consolidated accounts, the Board of Management has decided, from 1 July 2005 onward, to adopt the provisions of Article 2:362 paragraph 8 of the Netherlands Civil Code, whereby the accounting principles applied in the consolidated accounts also apply to the Company financial statements of the Company.

The Netherlands Act on the Supervision of Investment Institutions has been amended with effect from 1 September 2005. The amended act provides for new rules for the contents of the financial statements of investment institutions. The Company applied most of these new rules when preparing its financial statements for the financial year ended 30 June 2006.

2 Principal accounting policies

The accounting principles as described in the notes to the consolidated financial statements also apply to the Company financial statements unless indicated otherwise.

Change in accounting principles to IFRS

As of the financial year 2005/2006 the Group has drawn up the consolidated financial statements in conformity with IFRS as adopted by the European Union. In the consolidated financial statements, the first application of these accounting principles has led to changes in the accounting principles used and valuation of assets, provisions and debts (the 'IFRS 1-adjustments'). These IFRS 1-adjustments have been carried out, mainly with retroactive effect, in the comparing figures as of 1 July 2004.

As from 1 July 2005, the Company has chosen to also apply, in the Company financial statements, the accounting principles that are used in the consolidated financial statements. The Company has chosen this option because this leads to an improvement in the reporting of the Company financial statements. As a result the shareholders' equity and net profit for the year in the Company financial statements in principle are equal to the consolidated financial statements, which is accepted Netherlands practice. This also leads to a simplification of the reporting, because the Company can suffice with only one set of accounting principles for its (consolidated) participations.

Compared to the financial statements for the financial year 2004/2005 this had led to:

- Adjustment of the shareholders' equity as of 1 July 2004 and 30 June 2005 as a result of the IFRS 1-adjustments;
- Adjustment of the profit after taxation for the year 2004/2005 as a result of the IFRS 1-adjustments.

The impact of the change in accounting principles to IFRS on equity and profit for the year are equal to the information in the paragraph 'Main transition effects from Netherlands GAAP to IFRS', note 28 of the consolidated financial statements.

Investments in subsidiaries

In accordance with Article 2:362 paragraph 8 of the Netherlands Civil Code, all subsidiaries are accounted for on an equity basis. For determining the equity value all assets, liabilities and profits and losses are subject to the accounting principles as applied to the consolidated financial statements.

In determining the equity value consideration is given to the transitional provisions for determining the values and accounting principles of first time application of IFRS as applied in the consolidated financial statements. Also refer to note 1 of the consolidated financial statements.

Change in accounting principles Netherlands Civil Code

As of 1 January 2005 the applicable legal regulations concerning realisation and maintaining legal and revaluation reserves for investment property and subsidiaries have been changed. The change implicates that as from financial years starting 1 January 2005 or later positive revaluations of investment property and subsidiaries have to be reflected in a legal revaluation reserve under the Netherlands Civil Code and can no longer be netted with negative revaluations. As a result of this change in the Netherlands Civil Code and the relating accounting principles, the other reserves have been split in a legal revaluation reserve, a currency translation reserve and a retained profit reserve and the composition of the shareholders' equity has been changed accordingly. The change in accounting principles did not affect net profit when compared to the previously applied accounting principles. For the impact on equity please refer to note 9 of these financial statements.

As at 30 June 2006

3 Property investments

Changes in property investments for the financial year ended 30 June 2006 were as follows:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	13,620	14,220
Acquisitions	87,200	–
Revaluation	230	(600)
Book value at end of year	101,050	13,620

4 Investments in subsidiaries

Movements in investments in subsidiaries for the financial year ended 30 June 2006 were as follows:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	414,247	313,861
Dividends from subsidiaries	(13,080)	–
Investments	–	100
Legal merger subsidiary	–	(214)
Result from subsidiaries	216,004	100,500
Book value at end of year	617,171	414,247
Cost at end of year	287,389	287,389
Cumulative result from subsidiaries	329,782	126,858
Book value at end of year	617,171	414,247

As at 30 June 2006

5 Due from subsidiaries

The balance at 30 June 2006 principally represents funds advanced to Sentinel Holdings II B.V., Eurocommercial Properties Caumartin S.N.C., Eurocommercial Properties France S.A., Eurocommercial Properties Midi S.N.C., Eurocommercial Properties Normandie S.N.C., Eurocommercial Properties Passy S.a.r.l, Eurocommercial Properties Seine S.N.C., Eurocommercial Properties Taverny S.N.C., Bergvik Köpet 3 K.B., ECP Moraberg K.B., Eurocommercial Properties Sweden A.B., Hälla Shopping Fastighets A.B. and Premi Fastighets A.B.

Most of these advances were made under long-term loan facilities.

6 Cash and deposits

Cash and deposits consist primarily of time deposits, with small amounts held as bank balances and other liquid assets.

7 Tangible fixed assets

Tangible fixed assets represent office equipment and inventory for the Company's head office at Herengracht 469, Amsterdam. These costs are depreciated over the expected useful lives of the assets concerned varying from two to five years. The movements in the current and the previous financial year were:

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	182	112
Additions	254	147
Depreciation	(153)	(77)
Book value at end of year	283	182
Cost at end of year	787	533
Accumulated depreciation	(504)	(351)
Book value at end of year	283	182

As at 30 June 2006

8 Borrowings

	30-06-06 € '000	30-06-05 € '000
Book value at beginning of year	19,627	–
Draw down of funds	26,082	19,973
Repayments	(22,873)	–
Exchange rate movements	652	(346)
Book value at end of year	23,488	19,627

9 Shareholders' equity

The movements in shareholders' equity in the current financial year were:

	Issued share capital € '000	Share premium reserve € '000	Legal revaluation reserve € '000	Currency translation reserve € '000	Other reserves € '000	Retained profit reserve € '000	Undistributed income € '000	Total € '000
30-06-2005 reported	172,312	330,666			258,680		128,777	890,435
IFRS adjustments		213			(47,680)		(14,824)	(62,291)
Netherlands Civil Code adjustments			128,752	(1,545)	(211,000)	83,793		0
30-06-2005 amended	172,312	330,879	128,752	(1,545)	–	83,793	113,953	828,144
Issued shares	4,076	(3,933)						143
Profit previous financial year						85,573	(85,573)	0
Profit for the period							233,927	233,927
Dividends paid		(66)					(28,380)	(28,446)
Stock options granted		316						316
Foreign currency translation differences				3,595				3,595
Addition to legal reserve			203,172			(203,172)		0
30-06-2006	176,388	327,196	331,924	2,050	–	(33,806)	233,927	1,037,679

The movements in shareholders' equity in the previous financial year were:

	Issued share capital € '000	Share premium reserve € '000	Legal revaluation reserve € '000	Currency translation reserve € '000	Other reserves € '000	Retained profit reserve € '000	Undistributed income € '000	Total € '000
30-06-2004 reported	152,703	271,807			220,376		62,538	707,424
IFRS adjustments		3			(44,221)		(677)	(44,895)
Netherlands Civil Code adjustments			295,462	1,237	(176,155)	(120,544)		0
30-06-2004 amended	152,703	271,810	295,462	1,237	–	(120,544)	61,861	662,529
Issued shares	19,609	58,907						78,516
Profit previous financial year						37,627	(37,627)	0
Profit for the period							113,953	113,953
Dividends paid		(48)					(24,234)	(24,282)
Stock options granted		210						210
Foreign currency translation differences				(2,782)				(2,782)
Addition to legal reserve			(166,710)			166,710		0
30-06-2005	172,312	330,879	128,752	(1,545)	–	83,793	113,953	828,144

Reference is also made to the consolidated financial statements and the notes thereto for movements in components of shareholders' equity.

As of 1 January 2005 the applicable legal regulations concerning realisation and maintaining legal and revaluation reserves have been changed. As a result of this change in the Netherlands Civil Code and the relating accounting principles, the composition of the shareholders' equity has been changed. The impact on the opening balance as per 1 July 2005 is a reclassification within equity of €128,752,000. Due to further revaluation during the year an amount of €203,172,000 had to be added to the legal reserve, which has lead to a negative retained profit reserve as per 30 June 2006. For dividend distribution however, both the retained profit reserve and share premium reserve are available.

As at 30 June 2006

9 Shareholders' equity (continued)

Holders of depositary receipts representing 47 per cent of the issued share capital (last year 47 per cent) opted for 807,643 bonus depositary receipts at an issue price of €31 from the Company's share premium reserve, instead of a cash dividend of €1.55 per depositary receipt for the financial year ended 30 June 2005. Accordingly, an amount of €20.9 million of the 2004/2005 direct investment result and an amount of €64.7 million of the 2004/2005 indirect investment result were taken to the retained profit reserve.

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations with a functional currency other than that of the Company as, well as from the translation of liabilities (including quasi equity loans) that hedge the Company's net investment in a foreign subsidiary.

10 Expense ratio

Pursuant to the Netherlands Act on the Supervision of Investment Institutions it is required to report the expense ratio of the Company. This ratio is calculated as the total costs, which include property expenses, net service charge expenses, company expenses, investment expenses and corporate income tax, divided by the weighted average net asset value of the last five quarters. Over the financial year 2005/2006 this expense ratio amounted to 2.86 per cent (2004/2005: 3.64 per cent).

11 Commitments not included in the balance sheet

The Company has entered into guarantees in favour of IntesaBCI S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. to an amount of €98.7 million and for guarantees issued for Eurocommercial Properties Italia S.r.l. to an amount of €2.1 million.

The Company has entered into guarantees in favour of UniCredit Banca d'Impresa S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. to an amount of €71.5 million and for guarantees issued for Eurocommercial Properties Italia S.r.l. to an amount of €0.03 million.

The Company has entered into a guarantee in favour of Banca di Roma S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. to an amount of €20 million.

The Company has entered into a guarantee in favour of Banca Antoniana Popolare Veneta S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. to an amount of €40.4 million.

The Company has entered into a guarantee in favour of Banca di Imola S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. to an amount of €8.4 million.

The Company has entered into guarantees in favour of ING Bank N.V., Milan Branch, for guarantees issued for Eurocommercial Properties Italia S.r.l. to an amount of €40 million.

The Company has entered into guarantees in favour of Banca SanPaolo IMI S.p.A. for debts incurred by Eurocommercial Properties Italia S.r.l. and Juma S.r.l. to an amount of €86.5 million and for guarantees issued for Eurocommercial Properties Italia S.r.l. and Juma S.r.l. to an amount of €0.8 million.

The Company has entered into a guarantee in favour of ING Bank N.V. and ING Vastgoed Financiering N.V. for debts incurred by Eurocommercial Properties Caumartin S.N.C., Eurocommercial Properties France SA, Eurocommercial Properties Normandie S.N.C.and Eurocommercial Properties Seine S.N.C. to an amount of €150 million.

The Company has entered into guarantees in favour of Nordea AB for debts incurred by Aktiebolaget Laholm Mellby 2:129, Aktiebolaget Norrköping Silvret 1, Aktiebolaget Skövde K-mannen 2, Hälla Shopping Fastighets A.B. and Samarkandfastigheter A.B. to an amount of SEK 550 million and for debts incurred by Burlöv Centre Fastighets A.B. and Bergvik Köpet 3 K.B. to an amount of SEK 700 million.

The Company has entered into guarantees in favour of credit institutions for interest rate swap contracts hedging the exposure of subsidiaries to interest rate movements over a total notional amount of €519 million. (See also notes 18 and 25 to the consolidated financial statements).

Amsterdam, 22 August 2006

Board of Management
J.P. Lewis, Chairman
E.J. van Garderen

Board of Supervisory Directors
W.G. van Hassel, Chairman
H.W. Bolland
J.H. Goris
J.C. Pollock

Other information

Priority shares

All issued priority shares are held by Stichting Prioriteitsaandelen Eurocommercial Properties.

The holders of the priority shares are entitled to determine the number of members of the Company's Supervisory and Management Boards, to nominate the persons to be submitted to the vote of all Shareholders for election to the Board of Management and the Supervisory Board and to approve the appropriation of income of the Company.

For the period to 30 November 2008, they are empowered to authorise the issue of new shares and the terms of issue, including a power to limit or exclude the pre-emptive rights of existing Shareholders. Mutatis mutandis the same applies to the granting of rights to subscribe for shares. The priority shares are in all other respects identical to the registered ordinary shares.

The Board of Stichting Prioriteitsaandelen Eurocommercial Properties at 30 June 2006 comprised:

J.P. Lewis
N.R.L. Mijnssen

Provisions in the Articles of Association concerning the appropriation of income

The appropriation of income is subject to the Provisions of Article 44 of the Articles of Association of the Company of which the major provisions are as follows:

(a) Out of the profit as evidenced by the adopted annual accounts and after deduction of all taxes due by the Company, such amount may be reserved as the Board of Management shall determine, which reserve shall be at the exclusive disposal of the Board of Management.

(b) The remainder of the profit shall be at the disposal of the General Meeting of Shareholders for distribution of dividend, either in cash or in shares in the capital of the Company, or a combination of both, on the priority shares and ordinary shares, or for reserves or such other purposes covered by the objects of the Company, as the General Meeting of Shareholders shall decide after prior approval of the meeting of holders of priority shares. If it is decided to distribute dividends in full or in part, the distributable part of the profit shall be distributed amongst holders of priority shares and holders of ordinary shares pro rata to the nominal value of their shares.

(c) The distribution of profit shall take place after the adoption of the annual accounts showing that such distribution is permitted. (Interim) dividends may be distributed in cash or in shares in the capital of the Company or a combination thereof.

Dividend distribution

The Board of Management proposes to the Annual General Meeting of Shareholders to be held at the Amstel Inter Continental Hotel, Prof. Tulpplein 1, Amsterdam on 7 November 2006 at 11.00 hours to distribute a cash dividend of €1.60 per depositary receipt (ten ordinary shares) for the financial year ended 30 June 2006 (30 June 2005: €1.55 per depositary receipt). Subject to its fiscal and other limitations, the Company will offer holders of depositary receipts the option of taking new depositary receipts from the Company's share premium reserve, instead of a cash dividend. The percentage of such scrip issue will be announced on 3 November 2006. The distribution will be payable as from 30 November 2006. In the case of the scrip issue, the depositary receipts would be issued from the share premium reserve and will therefore not be subject to Netherlands dividend withholding tax which is charged at the rate of 25 per cent and 15 per cent for the Netherlands and certain overseas holders respectively. The depositary receipts will rank pari passu with the existing depositary receipts of the Company in respect of the financial year 2006/2007. Holders of depositary receipts are given the opportunity to make their choice known until and including 23 November 2006. If notification is not received by that date a cash dividend only will be payable. The part of the profit not distributed in cash will be added to shareholders' equity.

Financial calendar

3 November 2006	Announcement of scrip issue price
7 November 2006	Annual General Meeting of Shareholders
9 November 2006	Ex-dividend date
10 November 2006	Announcement of first quarter results 2006/2007
30 November 2006	Dividend payment date
9 February 2007	Announcement of half-year results 2006/2007
11 May 2007	Announcement of third quarter results 2006/2007
31 August 2007	Announcement of annual results 2006/2007
6 November 2007	Annual General Meeting of Shareholders

Statements pursuant to the General Listing Rules (Fondsenreglement) Euronext Amsterdam Stock Market

The members of the Board of Stichting Administratiekantoor Eurocommercial Properties and the Company are together of the opinion that Stichting Administratiekantoor Eurocommercial Properties is independent from the Company as referred to in Annex X of the Listing Rules of Euronext Amsterdam N.V..

The members of the Board of Stichting Prioriteitsaandelen Eurocommercial Properties and the Company are together of the opinion that Stichting Prioriteitsaandelen Eurocommercial Properties is independent from the Company as referred to in Annex X of the Listing Rules of Euronext Amsterdam N.V..

Other information (continued)

Statements pursuant to the Act on the Supervision of Investment Institutions 2005
The Netherlands Authority for the Financial Markets granted a permit to the Company on 7 July 2006. of which a copy is available at the Company's office and is also available on the Company's website: www.eurocommercialproperties.com.

The members of the Board of Supervisory Directors and the members of the Board of Management of Eurocommercial Properties N.V. have no personal interest in investments made by Eurocommercial Properties N.V. now nor at any time in the past year. The Company has no knowledge of property transactions taking place in the year under review with persons or institutions which can be considered to stand in a direct relationship to the Company.

Holders of depositary receipts/ordinary shares with a holding of 5 per cent or more
Under the Act on the Disclosure of Major Holdings in Listed Companies, Eurocommercial Properties N.V. has received notification from five holders of depositary receipts/ordinary shares with interests greater than 5 per cent in the Company. According to the latest notifications these interests were as follows:

Stichting Administratiekantoor Eurocommercial Properties (66.7 per cent), the Government of Singapore (12.59 per cent), Stichting Pensioenfonds voor de Gezondheid, Geestelijke en Maatschappelijke Belangen (10.28 per cent), and ING Groep N.V. (5.1 per cent).

The dates of the aforesaid notifications were 6 April 1994, 16 May 2002, 31 December 1999 and 13 August 1998 respectively.

Stock market prices and turnover 2005/2006
The Company is listed on Euronext Amsterdam (the Amsterdam Stock Exchange) and on Euronext Paris (the Paris Stock Exchange) and is admitted to the Next 150 index and the NextPrime market segment.

	High	Low	Average
Closing price 30 June 2006 (€; depositary receipts) 29.96	33.45	27.06	30.25
Average daily turnover (in depositary receipts)	50,458		
Average daily turnover (€' 000,000)	1.53		
Total turnover over the past twelve months (€' 000,000)	456.7		
Market capitalisation (€' 000,000)	1,057		
Total turnover divided by market capitalisation	43%		

Liquidity providers:	ABN AMRO Bank
	Amsterdams Effectenkantoor
	Kempen & Co

Depositary receipts listed on Euronext Amsterdam are registered with Centrum voor Fondsenadministratie B.V. under code: 28887.

Depositary receipts listed on Euronext Paris are registered under code: NSCFR0ECMPP3

ISIN – Code NL 0000288876

Stock market prices are followed by:

Bloomberg	ECMPA NA
Datastream	307406 or H:SIPF
Reuters	SIPFc.AS

Valuers
The following independent firms have valued the Company's properties at 30 June 2006

France	FPD Savills, ICADE Expertise, Knight Frank, Retail Consulting Group
Italy	CB Richard Ellis, Jones Lang LaSalle, Savills
Sweden	Cushman & Wakefield, DTZ
The Netherlands	Boer Hartog Hooft

Other information (continued)

Report of the Auditors

Introduction
We have audited the financial statements of Eurocommercial Properties N.V., Amsterdam, for the financial year ended 30 June 2006 (as set out on pages 44 to 77). These financial statements consist of the consolidated financial statements and the Company financial statements. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope
We conducted our audit in accordance with auditing standards generally accepted in The Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of 30 June 2006 and of the result and the cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code as far as applicable and the Act on the Supervision of Investment Institutions.

Furthermore, we have to the extent of our competence, established that the Annual Report is consistent with the consolidated financial statements.

Opinion with respect to the Company financial statements
In our opinion, the Company financial statements give a true and fair view of the financial position of the Company as of 30 June 2006 and of the result for the financial year then ended in accordance with accounting principles generally accepted in The Netherlands and also comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code as far as applicable and the Act on the Supervision of Investment Institutions.

Furthermore, we have to the extent of our competence, established that the Annual Report is consistent with the Company financial statements.

Amsterdam, 22 August 2006
Ernst & Young Accountants

J.J. Nooitgedagt RA

Directory

Supervisory Board
W.G. van Hassel, Chairman
H.W. Bolland
J.H. Goris
J.C. Pollock

Management Board
J.P. Lewis, Chairman
E.J. van Garderen

Directors
J.P.C. Mills
T.R. Newton
T.G.M. Santini

M. Bjöörn
J.M. Camacho-Cabiscol
V. Di Nisio
P.H. Le Goueff

Administration
J.M. Veldhuis, Group Controller
M.V. Alvares, Senior Group Manager
R. Fraticelli, Finance Director Italy
C.M.A. van Niel-Mangel, Controller France

Board of Stichting Prioriteitsaandelen Eurocommercial Properties
J.P. Lewis, Chairman
N.R.L. Mijnssen

Board of Stichting Administratiekantoor Eurocommercial Properties
A. Plomp
B.T.M. Steins Bisschop

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