TRADE TAX AND ITS INFLUENCE ON DEUTSCHE EUROSHOP

Presentation on 16 September 2011

Deutsche EuroShop

The Trade Tax

- The trade tax (abbr.: GewSt) is a tax that is levied as a trade income tax on the objective profitability of a business enterprise.
- It is in parts profit-independent (additions, which include financing costs in the business tax base).
- With the corporate tax reform in 2008 the tax base was extended to stabilize the business tax revenue.
- The trade tax is a municipal tax and contributes significantly to the financing of municipalities. It is their most important primary source of revenue.

Company

(Rough) Calculation Scheme of the Trade Tax

Profit according to Income Tax Act (EStG) and Corporate Tax Act (KStG)

\+ Additions (inter alia: +25% of interest expenses)

\- Reductions (inter alia: -1.2% of rateable value)

= Trading profit before deduction of losses

\- Commercial losses from previous years

= Trade income

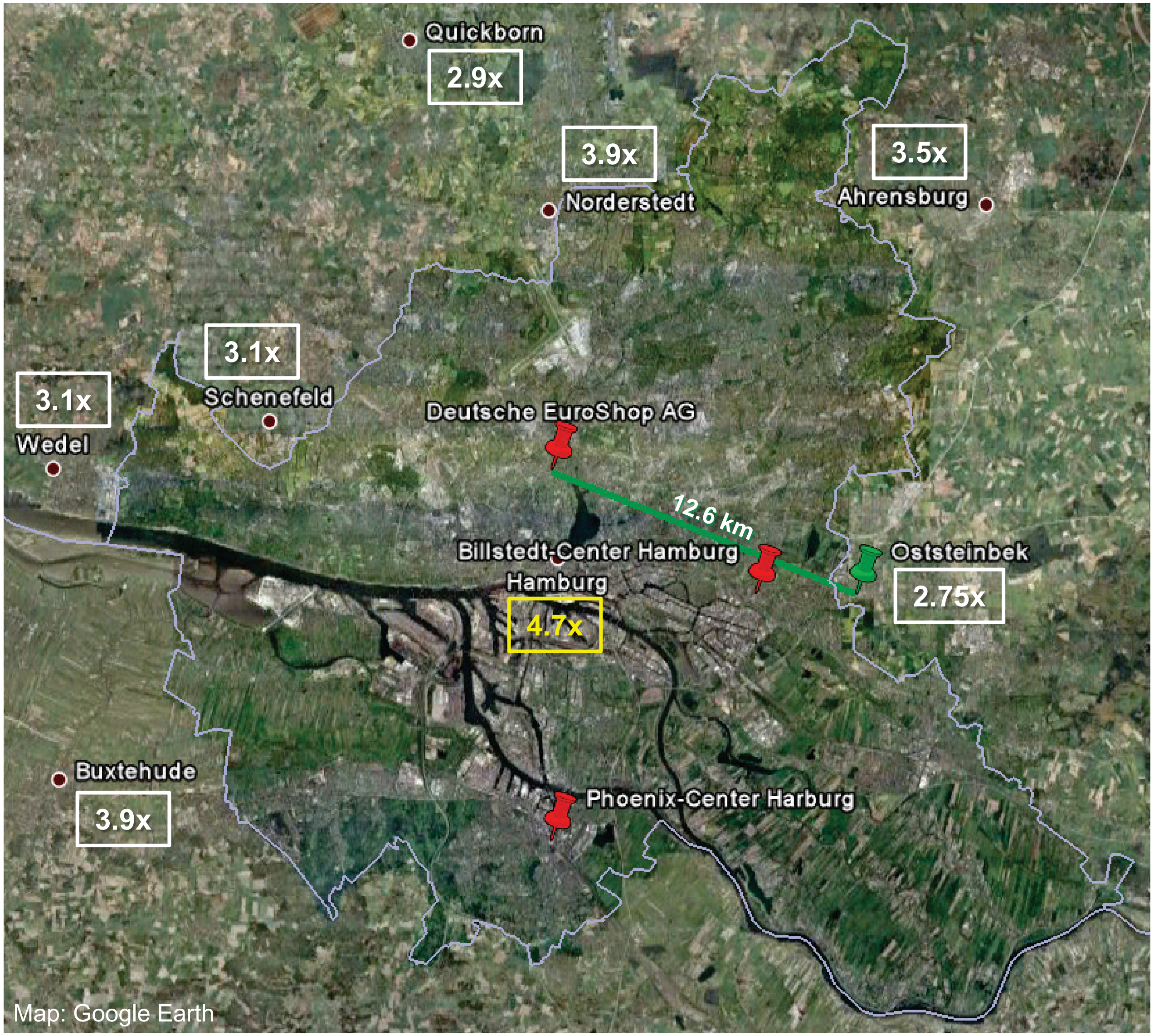
x Trade income tax rate (3.5%)

= Base value

x rate of assessment of municipality (Hamburg 470% / Oststeinbek 275%)

= Trade tax to be determined (Hamburg 16.45% / Oststeinbek 9.625%)

Trade Tax Multiplier



Changed Situation

- Deutsche EuroShop AG is an asset management holding company that has until now availed itself of “extended trade tax deduction” (section 9 para. 1 sentence 2 GewStG).
- This has been the case for many years and has always been recognised by the tax authorities.
- As a result of a ruling by the German Federal Fiscal Court (Bundesfinanzhof), there is a risk that Deutsche EuroShop AG may no longer be able to apply the above-mentioned tax treatment.
- In a case involving a limited company in a limited partnership, the BFH ruled that the company was not entitled to apply the extended trade tax deduction in connection with its participation in an asset-managing real estate partnership.
- If the tax authorities extend this ruling to Deutsche EuroShop AG, the Company would be subjected to an unprecedented trade tax burden.

Changed Situation

- Based on current knowledge, Deutsche EuroShop AG will have to set aside a provision for trade tax risks of around €6.1 million for the 2011 financial year and the preceding years.
  (€1.5 million for 2011 and €4.6 million for the preceding years)
- The Company is investigating alternative domestic and foreign locations.
- The measurement results after taxes would also be negatively affected by the trade tax obligation and deferred tax provisions would need to be increased significantly.
- If Deutsche EuroShop AG's company management remains in Hamburg, this would result in an additional provision of €85-90 million (worst-case scenario), a figure that could be reduced to up to €50 million by moving the Group headquarters to another location in Germany (moderate case).

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