

Company: Deutsche EuroShop AG
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Presenter: Claus-Matthias Böge
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Operator: Good day and welcome to the Deutsche EuroShop AG's Half Year Results 2011 Conference Call. For your information this call is being recorded. At this time I would like to turn the call over to your host today, Mr. Claus-Matthias Böge. Please go ahead.

Claus-Matthias Böge: Thank you. Good afternoon ladies and gentlemen on this rainy Thursday afternoon and I hope you are all doing well despite the crazy days we are living in. Let's go briefly through the presentation and then to your questions. Highlights, most of them are known to you, the only new is that we were able to purchase the 11% minority shareholding in City-Galerie Wolfsburg so that we are now also owned 100% there from July 1st. We purchased these 11% shareholding for 6.5 million at a slight premium to June NAV. Above that you know that we opened Dresden and the A10 Triangle. Both openings started very promising. They are currently trading on a level between €4,500 and €5,000 per square metre which I think is an encouraging number.

The key figures, consolidated profit increased by 24%, FFO per share by 28% which was fully in line with our guidance. Total equity amounts to €1.5 billion still, a slight decrease, equity ratios still at 50%, a loan to value ratio unchanged at 47%. The balance sheet, there's more or less a movement between current assets and non-current assets. The reason for that is that the Billstedt-Center was taken into non-current assets where the purchase price was shown on the current assets by the end of 2010. Above that there were investments into Main-Taunus-Zentrum and Dresden as you may know. Equity decreased in total by €25 million, that is only due to the dividend payment of €56 million by the end of June. Everything else is more or less unchanged.

The loan structure has changed slightly, we were able to renew some debt so we were able to decrease our average interest rate by 20 basis points compared to year end 2010 and we are confident that this will further decrease until year end. Duration hasn't changed that much, it went up from 6.5 to 6.6 years and by the end of the year it will be even a little higher on that side as well.

Our credit line of 150 million runs three years until February 2014. We've prolonged five loans in the first six months, €212 million with a ten year fixed interest period at 4.5%, interest 5.4% so interest saving for the next ten years 90 basis points on €212 million per annum. We are currently in discussion before maturity renewals of another three loans, approximately €160 million and we expect there a new fixed interest that is above 100 basis points lower than the current one. Finally we just recently closed the Billstedt acquisition financing, we raised €80 million for ten years at slightly above 4%.

Profit and loss accounts above the bridges, I would like to point out property operating and management costs are on the same level than the year before, 10.5% cost ratio compared to 10.6% in the first six months of 2010. The absolute increase is due to the inclusion of A10, MTZ and Hamburg.

Corporate costs increased by €600,000 mainly not only because we have these additional investments taken into account but also to one-off financing costs of €350,000. The valuation result was slightly a loss, €900,000, that is Billstedt a first time loss compared to a valuation gain from the purchase of the minority share in Hameln.

Let's come to the revenue bridge. Due to Dresden the increase by 17 percentage points in our participation, MTZ full consolidation, Hamburg full consolidation and Billstedt acquisition turnover increased by 20 million in the first half of 2011. 8.5 million was a pure bookkeeping issue due to the full consolidation of Main-Taunus-Zentrum and Hamburg; and 11.5 million turnover was increased due to acquisitions.

Increase in rents on a like for like basis was 1.3% or €700,000 to €91.1 million turnover in the first six months. Net finance costs, income from investments decreased to zero. The reason for that is that the payments we received from our Wroclaw participation is paid out as equity rather than profit and that's why even the money came in but was offset against the participation value on the balance sheet, so profit neutral. Due to Dresden, Main-Taunus-Zentrum, A10 and Phoenix-Center again interest expenses increased by €5.8 million, in turn the like for like interest expenses decreased by €0.8 million and the minority profit share increased by €3.4 million due to Phoenix-Center 50% and 48% of Main-Taunus-Zentrum other shareholders. Earnings before taxes valuation result -€0.9 million, an increase on the operating side by €8.4 million or 27% to €38.7 million profit before taxes. Finally the profit bridge valuation result after taxes, -€0.8 million, operating profit up 27%, €7.1 million to €32.3 million.

The first six months showed that we are well on track, we are in line so we just can repeat our guidance for 2011 so we can skip this slide immediately. We don't need to repeat all the numbers, they are well known to you. Let's come to the outlook, the capital market turmoil could certainly influence consumer behaviour but despite these turbulences we are really doing our job and we are doing business as usual. We don't know what's going to happen, as long as the debt market is open we'll work as we did in the past. We are currently conducting a due diligence for a German shopping centre transaction. We have exclusivity there and we expect signing within the next 4-6 weeks. That can be fully financed from the credit line and we further participate in a bidding process for another German shopping centre currently, it's an investment that certainly would require then a capital increase but this would come not before October. We will see €160 million loan renewals in the next six months, that is more or less safe. We just need to fix the fixed interest. The loan contracts are more or less negotiated and require only signing. As already mentioned we expect interest savings of above 100 basis points per annum for the next years and there will be one more highlight in 2011 in November with the opening of the Main-Taunus-Zentrum, the north extension.

That's in short an overview where we are and where we want to go for the remaining part of the year. Thanks for listening and I'm happy to answer your questions.

Operator: Ladies and gentlemen if you'd like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue. Again please press *1 to ask a question.

We will now take our first question from Michiel de Jonge of ABN AMRO.

Michiel de Jonge: Yes, good afternoon gentlemen, it's Michiel de Jonge at ABN AMRO. You indicated that you were in the negotiation of the renewal of three loans, what were the current margins you can get on these loans and how easy is it to get financing in these markets today?

Claus-Matthias Böge: Well, these markets are still the same markets as four weeks ago I must say. Nothing has changed so far, at least with the banks we are working with. The margins we can expect on these three loans vary between from my memory of 70-120 basis points on Euribor and there is no discussion at all, this is all negotiated already. We just need to formalise everything, the loans that will be repaid are cancelled already so it's more a technical issue and a timing issue when we will fix interest.

Michiel de Jonge: Alright, very good. Then you indicated to be in negotiation for another German shopping centre. Can you say anything about the size of the deal or the location of the seller?

Claus-Matthias Böge: I had better not start to give you some indication. It's a German one, I would say it's slightly above average size, a larger German city.

Michiel de Jonge: Ok. In the northern or the southern part of Germany?

Claus-Matthias Böge: Downtown.

Michiel de Jonge: Is it in the northern part of Germany or the southern part of Germany?

Claus-Matthias Böge: I really don't know, I just forgot about that.

Michiel de Jonge: Ok. How are international negotiations developing because you also indicated to be looking at Poland or...?

Claus-Matthias Böge: Yes, we looked at Poland and we lost twice because there are really crazy people on the market. They are so much fantasy, we are too boring for that and we really went up to our absolute limits and again 10%, the best was 10% above us. So we moved our two largest things in Poland, in my view interesting investments but if they are sold at that price that was on the market in my view totally overpaid.

Michiel de Jonge: Alright, that's good to hear at least that you didn't participate. Then maybe finally how much is your current budget? What can you currently spend on a new shopping centre?

Claus-Matthias Böge: That is still 300 million because the credit line...with the refinancing of Billstedt the credit line will be 100% unused by the end of August.

Michiel de Jonge: Right. How much are your unused credit lines?

Claus-Matthias Böge: 150 million as mentioned in the presentation.

Michiel de Jonge: Great. That was it from my side, thank you very much.

Claus-Matthias Böge: Ok.

Operator: We will move to our next question coming from Georg Kanders of WestLB.

Georg Kanders: Good afternoon. I have a question here concerning minorities since Q1. Normally I would have expected that the minorities against Q1 would have increased as there was this extension

Claus-Matthias Böge: It's a very slight miracle. In general we pay out much more than in the first quarter in the second quarter in dividends to the minority shareholders and that's why it decreased.

Georg Kanders: That's very good. Then the normal run rate would be the average or?

Claus-Matthias Böge: Sorry?

Georg Kanders: The normal run rate for the minorities would then be the average apart from the positive effect from Wolfsburg?

Claus-Matthias Böge: Very good question. I will let you know. I think it's not very critical, it's such a little amount what we have here, 4.1 million result in the first six months, 7.5 you can't compare that because Hameln moved out so if you think of Main-Taunus-Zentrum where we have got now 40% additional minorities, we increased the minorities on our balance sheet dramatically last year, by the end of last year as you'll remember. I haven't investigated what the new normal profit share will be because it's a no-brainer for me.

Georg Kanders: In principle due to the extension of Main-Taunus it would increase.

Claus-Matthias Böge: It will increase but Main-Taunus gets on-stream in November so there's hardly a major influence on the 2011 figures on that. Phoenix-Center is 100% there for the year and on the other side we have less minorities from Wolfsburg, from Wuppertal and from Kassel last year.

Georg Kanders: Then another question, also quarter on quarter it was on the property operating costs. I assume there is a catch-up effect from the low exponders in Q1, is this correct?

Claus-Matthias Böge: They are a little below budget, yes, but this is nothing unusual because in our budget there are write-offs for rents included in that. There is hardly anything so far and on the

other side there's maintenance which is a variable figure if you look on a quarterly basis. The budget in maintenance is much higher than the six month maintenance costs we can show here.

Georg Kanders: Thanks.

Thomas van der Meij: Good afternoon, it's Thomas at Kempen & Co. Just two questions from my side, first of all can you give some comments on the performance of your tenants? Turnover in the portfolio, rent to sales ratios for the first half of '11?

Claus-Matthias Böge: Hold on a second, I need to get the statistics. All in all second quarter was better than the first quarter but nevertheless we achieved more or less stable turnovers. The reason for that is that department stores who have a larger turnover share in that lost again 4%. The electronics markets overall are stable +0.5% and everything else was also stable only apart from Health & Beauty which had +1.3% and Services +4% but this is not that mentionable compared to the overall turnover. So stable, not more or less. Rental sales ratio is now on average at 8.5% and I think we can still live on that quite well.

Thomas van der Meij: Ok, thanks. You are now working on some re-lettings to shopping centres this year.

Claus-Matthias Böge: Yes, Wolfsburg and Wuppertal business is more or less done.

Thomas van der Meij: Could you give some comments what the re-letting rate is or the increase compared to the previous contracts?

Claus-Matthias Böge: In both cases we will have slight increase in Wolfsburg at about 5-6% all in all and in Wuppertal it's 2% or something like that, a minor figure but there are also very little investments on that.

Thomas van der Meij: Ok, great. One final question then. If you only succeed to acquire one shopping centre where you have exclusivity can you rule out a capital increase then?

Claus-Matthias Böge: Well, we never rule out capital increases as you know but we certainly need another investment then.

Thomas van der Meij: Ok, thanks.

Claus-Matthias Böge: You're welcome.

Burkhard Sawazki (Unicredit): Yes, good afternoon, also a few questions from my side also. With regards to the acquisitions you mentioned your war chest of 300 million but the discussion for one large shopping centre in Germany but you do not rule out a capital increase. Does this imply that you are considering the acquisition of a portfolio and not just one further single asset? This would be the first question. Second question would be how the performance of the assets in Dresden and in Billstedt were with regards to the occupancy level of the Dresden asset and where we saw the devaluation of the Billstedt asset, what was the reason for this? The third and last question would be did I get it right that you expect a cost reduction of 100 bps on your refinancing of the outstanding loans?

Claus-Matthias Böge: Last question: answer definitely yes, more than 100 basis points. Billstedt variation, we are talking about €700,000. I think I don't need to comment on that. The sale value of the Billstedt property and the total costs of the acquisition, that balance is slightly negative €700,000, that's correct. Dresden occupancy 100%, the extension, the shops in the extension are trading on the same tight level than the so-called old part of the property so we got 100% additional turnover into that shopping centre. They only have luxury problems there, it fits very nicely. Portfolio acquisitions or single acquisitions, what we are considering are currently only single properties as acquisition targets. There's a lot on the market.

Burkhard Sawazki: Ok, thanks Mr. Böge but you mentioned that you are currently looking at one slightly above average, an asset which is slightly above average size, so I would guess some 150 million. This would mean that there is another 150 million left for another asset so your answer more implies that you have more in mind, so I just...

Claus-Matthias Böge: I think I mentioned that on my slide of the outlook.

Burkhard Sawazki: Ok.

Claus-Matthias Böge: I will look to Mr. Kiss.

Patrick Kiss: Size is not always value.

Claus-Matthias Böge: We are also looking for shareholdings.

Burkhard Sawazki: Ok, thank you.

Thomas Rothäusler (Commerzbank): Hi, good afternoon. Just one follow-up question on the average interest rate, it came down to 4.83% in the first half and you guide for further decline. Where could be the number at the end of the year?

Claus-Matthias Böge: We haven't calculated that.

Thomas Rothäusler: Can you give us a rough estimate?

Claus-Matthias Böge: 10 basis points? €160 million is about 10% of our loan portfolio. A little more than 10% of our loan portfolio.

Thomas Rothäusler: 100 basis points down on the 160...

Claus-Matthias Böge: 10 basis points.

Thomas Rothäusler: Ok.

Operator: Ladies and gentlemen, as a reminder please press *1 to ask a question.

Claus-Matthias Böge: No more questions?

Questioner: No more questions at this time.

Claus-Matthias Böge: Ok, thank you very much. Goodbye.

Operator: Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation, you may now disconnect.