Arkadin Managed Calls

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Speakers: Thomas Eisenlohr, CFA, Head of Investor Relations, Rolf Buch, CEO, Stefan Kirsten, CFO

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OPERATOR: Dear ladies and gentlemen, welcome to the telephone conference regarding the full year results 2014 of Deutsche Annington Immobilien SE. At our customer's request this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press the star key followed by zero on your telephone for operator assistance. May I now hand you over to Thomas Eisenlohr who will lead you through this conference. Please go ahead, sir.

THOMAS EISENLOHR: Thank you, Vera, and good afternoon, ladies and gentlemen. A warm welcome to our full year 2014 (Inaudible) analyst call. This call is hosted by our CEO, Rolf Buch, and our CFO also, Stefan Kirsten. Both will lead you first with a presentation and are happy to answer your questions afterwards. And with this I would like now to hand over to Rolf Buch.

ROLF BUCH: Ladies and gentlemen, thank you very much for attending our call. We will talk today about our year end figures. You will find out that we are as boring as we have promised, so no bad surprises only some good indications.

In 2014 all our KPIs are now at the top end of the guidance or even slightly above. We came out with a routine; the presentations that we came out with for like for like came to a close of 2.5 per cent, the FFO 1 increased to about 28.2 per cent to 286.6 million which is slightly above the guidance which was in the latest version 280 - 285. AfS value per share is up by 6 per cent which is also above the guidance which was between 23 and 24, and the post-dividends they both favour our dividend proposal of 78 per cent per share.

In this presentation we will close all the main blocks themes for the year 2014. We reported the whole year about our cost saving programme. In the end the cost saving programme was very effective though it leads to a decline of our overall costs by 9 per cent to a new per unit cost of €754 per unit a year. Our modernisation programme which we initially announced as 150 million and the increased guidance to 160 million in the Q3 now came out with 172 million. Probably one additional indication you know we are targeting a yield of 7 per cent. The first apartments which are now on the market of the 2014 programme give us a signal that the yield is slightly higher, it's around 7.5 per cent at the moment so we are very confident that we also can confirm at least our 7 per cent yield for this investment programme and the acquisitions of DeWAG and Vitus is fully integrated and is actually history from the integration point of view.

Stefan will show you that we will confirm our positive outlook for the 2015 guidance and concerns the GAGFAH transaction which is not the major topic of this call today. The closing will be expected very short in the next days and the governance sector is established and the management team below the board is already designed and we have a finished integration paper on hand which will start immediately if we get control and you will get further detailed information in our Q1 reporting which will take place on 1 June.

I will actually give you a slight overview of the strategy so you know our 4 plus 1 strategy. We can summarise that the property management strategy or KPIs improved. Efficiency gains, as I said, and the investment in our building is more than €29 per square metre which is a very high number and shows that we are improving our buildings. Financing strategy maturity profile has (Inaudible) and Stefan will tell you about hybrid bonds and other innovative financial tools. In our portfolio management strategy we have had the sales in 2014 up to record level and in the extension actually the TGS is fully on track to get still better and of course you will see a significant increase in the TGS during the year 2015 so what effectively it will do, it reduces capacity now also for the GAGFAH portfolio. In acquisition actually we achieved two major acquisitions in 2014, DeWAG and Vitus, which is fully integrated and we are ready now to integrate the GAGFAH portfolio.

Now I'll hand over to Stefan to give you the figures.

STEFAN KIRSTEN: Thank you, Rolf. Now it's my call. Also a very warm welcome from my side. Before we dig into the numbers on page 4, I would like to draw your attention to one point. We had a little bit of a misunderstanding in the communication this morning where some people articulated that we are very close to a cash capital increase over the next days. I can clearly squash that. I think most analysts have already corrected this. That was a misunderstanding because the matter of the GAGFAH close is that we are getting our payment in kind capital increase registered with the quarter over the next days which is more dependent on court clerks than processes than on anything else so there will be no capital increase before the AGM because we have no capital left before the AGM.

I also would like to apologise to everybody in the room because we're all coughing here; this is the drawback of a wet winter, and that includes myself.

Okay, page 4, FFO 1. You've seen that our FFO 1 is marginally above the guidance with €287 million. This is an FFO 1 per share on the year end basis of €1 and 6 versus €1 before. This is of course a true calculation because the FFO 1 is important for our dividend measurement but bear in mind if you look at it economically, if you would use it on the weighted number of shares, the increase would be from €1.05 to €1.17 or 11.4 per cent. So that makes it even more remarkable. The FFO 1 increase is mainly driven by our EBITDA because our financial results stayed de facto the same. And you will see later a touch of more analysis behind that.

NAV, more details on page 29. Six per cent NAV per share increase. The NAV of 28.4 per cent, the increase was of course very much driven by two cash capital increases and one in kind capital increase. AfS owed a number which is, from my point of view, very often overlooked. I like the €258 million because you should base it on the number of shares which were available at year end. This shows that even with our increased number of shares we are not overspending on the dividends. This is of course a different story now with the GAGFAH transaction but I think everybody understood that one.

Let's turn to page 5, please. Residential in place rent. The driver for the rent increases on a like for like basis, which have been by the way more explained on page 24 and segmentised on page 31. The key driver for the growth is the modernisation programme. Just as a reminder, we are able to bring between 1.3 and 1.6 per cent of rent increase in through our bread and butter business without any modernisation. The fluctuation in this number is dependent on the subsidised rent levels. Everything on top comes from the modernisation of X minus 1. So we are harvesting now what we spent in 2014 and we will harvest next year what we are spending in 2015.

Vacancy rate: another 10 bits down. You see also that between 31 December 2010 and 2014 we reduced by 140 basis points. There is a physiological level between 2 and 2.5 per cent where you can't come lower or you have no fluctuation which is also not healthy. So this is not the main driver of profitability but it is a show of operational excellence.

Adjusted EBITDA. There will be more explanation on page 25 on this one. There are two important figures in there; the first one is that our EBITDA has cruised through the 500 million mark again and that's on the rental basis alone and that we have a significant bonanza on our EBITDA sales mainly driven by a higher proportion of privatisations at higher margins.

Fair values. Fair values increased significantly. We will talk about that later because I know that you will have questions about yield compression.

All right let's move to page 6 which explains the FFO 1. I'm happy that I can repeat myself after the last quarter. It is a boring chart because our FFO 1 is in every category increasing. We are extremely pleased about that. What I must say and what I like too, is that our interest expense stays the same so it's for once not the financial result which drives it but it is the operating participation of our acquisitions. Why does our interest rate stay the same? Because we financed with the same interest a billion more debt. You can also see the adjusted EBITDA sales, a number which I just referred to beforehand.

Next page on page 7, now it gets even a bit more exciting. This is the steady NAV growth chart and here I need to illustrate a little bit more. You will find on page 29 a reconciliation of our NAVs. You might recall that in Q3 and also in Q2 we already indicated that we would change the way we calculate the EPRA NAV. This has to do with the way we treat deferred taxes. We have added to the previous year's number, €348 million into this year's number of €440 million. These were deferred taxes which do not link to the respective properties. Therefore, we have a general lift up in our resulting policy aligned with LEG as well as with GAGFAH.

Now let's talk a little bit about yield compression. We have 22 locations in Germany where we've got 25 basis points of reduction in the cap rate. This has led to yield compression of €260 million or based on the year end number of shares, 96 cents. If you look at these locations, these are of course the usual suspects, the Munichs and the Berlins of the world. It is interesting to see that we are now stepping into a discussion with CBRE about secondary locations where we also see that value increases are manifesting themselves. I am now talking about the (Several inaudible words) of the world which most of us wouldn't be able even to point out on the map. But yield compression will go on. I believe in this concept because if you have 95 per cent of your balance sheet in one number, you want this number as accurate and truthful as possible. So far for the NAV growth.

Financing structure, page 8. If we wouldn't have had GAGFAH it would be a bloody boring year for us because we're completely financed for 2015 already. With GAGFAH we will of course have acquisition price financings and maybe refinancings during the course of this year. So, our loan to value ratio is 49.7 per cent so we are in our target range. The unencumbered ratio, it's at 50 per cent it's 50.7 per cent or something like that. So this is also in line with our expectations on ITR and financing cost. What you see in the maturity profile is that even if it had the equity character we have the second hybrid with the respective call date already pencilled in because I'm expecting it to be refinanced. What you can also see is that within one and a half years we have moved our debt shift to more than 60 per cent in the unsecured area. This is something which made us the second biggest bond issuer in continental Europe. Well, actually in the whole of Europe.

Let's move to the guidance chart, page 9. It's of course always great for a CFO to present something which only has green tick marks. So we are in the like for like rental growth, the exact number is 2.54 per cent so we're leaning a little bit to the upper end of the guidance which we have given to you. The modernisation programme has sped up and also has been supported by the mild start of the winter so we are even beating the guidance of September. Same on disposals, step up on fair market values and FFO 1. The proposed dividend has yesterday been agreed with our supervisory board, that we are proposing this to the AGM on 30 April, was 78 cents. So we are extremely pleased with the results of 2014.

Now let's look a little bit more into the future now at page 10. Now let's be very clear what we are talking about here. We're talking about the Deutsche Annington Group which includes DeWAG, it includes Vitus. I'm now looking to the Group Controller, does it include Franconia?

ROLF BUCH: Yes, it does.

STEFAN KIRSTEN: Yes. It includes Franconia for nine months and their business plan but it does not include anything from GAGFAH. That's something we have to keep in mind and again I would like to remind you what Rolf just said. This is one of the reasons why we don't make big investor meetings today because the really exciting date of this year is 1 June where we, for the first time, come out with combined data between GAGFAH and ourselves, a revised guidance, revised synergy protections refinancing plans, etc.

Nevertheless, let's look at the guidance and we would like to repeat what we have already promised three months ago or let's say after the third quarter. We expect the like for like rental growth mainly in the increase driven by modernisation of 2.6 to 2.8 per cent. Rental income confirmed, €880 - €900 million. These are a lot of full year effects from the acquisitions of course. FFO 1, 340 - 360. NAV per share, 24 - 25. Mod programme, above 200. And then I've been asked today various times why are we so bearish on disposal driven step-ups. This is not really a major target for us. We are trying to generate a certain degree of cash flow for our modernisation equity portion, etc, so if we exceed that in the numbers we will brief you but we would like to keep it at this level because this is the level with which we cap.

Our dividend policy will stay at 70 per cent of FFO 1 and this has proven to be the correct measure for us in the capital market.

With that for the more operational things I would like to hand back to Rolf. Thank you.

ROLF BUCH: Thank you, Stefan. So, on page 11 you'll see the overview which we have delivered the whole year on our maintenance and modernisation standing. You can see that we have increased specially modernisation in the last five years so we are absolutely on a record level which guarantees because what I'm saying, modernisation especially maintenance of today is the rent of tomorrow so we make sure that the rent of tomorrow is coming. On page 12 it's also to close the chapter of the cost saving programme. We have successfully fulfilled the cost saving programme as you can see here in our €754 per unit. Of course you might argue the numbers of units is not correct but in this model of course units are counted pro rata so the (Inaudible) units are only there for one quarter and that's why the figure is smaller; it will become bigger in the next year. And then if you want me to then of course also we will have the full year effect of the cost cut involved.

On page 13 you see our modernisation programme of the year 2014. As I mentioned already we came out with 172, which was even a little bit more than we had promised beforehand due to the fact that the winter was not as long as we expected. We managed around 12,000 units and as I said already the unlevered asset yield is a little bit higher at the moment of the units we already can judge at around 7.5 per cent. So this is a very good signal and we are very sure it will be confirmed that we will spend €200 million plus for the end of year loan. In the year 2017 this will be around a little bit more than €12,000 and the yield of 7 per cent is also confirmed.

On page 14 our privatisation and non-core disposal, I think Stefan already talked about the privatisation; nothing more to add. The new target is 30 - 35 so we even exceeded the target by 37.6. What is also good is the non-core disposal. Please keep in mind that in the year 2013 we had a package deal of 2,100 units. We had not made any package deal in the year 2014 so we are more or less in the number of units on the level of last year but what is good is that the (Inaudible) market value step-up on the disposal this year is about 10.9 per cent, it's not really our main target but I think this also gives you a signal that real estate prices in Germany are increasing.

We have talked very often about our investment programme. I will give you the short update in the final phase. We actually, in the year 2014, finished 400 projects and with an average investment of €6.7K. In January and February alone we signed 350 new projects so this will give you a feeling of the numbers of projects which we will do in the whole year. Again here is also the problem of how we can handle this and we will start now with the next containers. We will roll out this programme now all over Germany and of course later in the year also on the GAGFAH portfolio.

The next one on page 16 I have seen also and the investors they have also seen now a full description but for the purpose of time, probably I'm very short so we have finished our pilot implementation of our metering system in 1,000 flats in Bergkamen and with 6,000 metres and 25 modems in place. This is now technically feasible; it has cost advantages, it has quality advantage for the tenants and that's why we will now roll it out in the future not only on our own one but also of course later the GAGFAH.

On page 17 we have one slide to talk about acquisitions. As you know even having the integration of GAGFAH, we feel comfortable in acquiring additional portfolios so we are looking very carefully on all portfolios coming through the market. We have the statistics and the IPO and our German-wide presence is actually an advantage, we will see everything because of the repetition probably the one which are attending our call every quarter. Page 18 is nothing new so you know we have (Inaudible) our strategic fit mainly in the guidance. We have our acquisition criteria and we have our sorting by portfolio type, and with all these together these are actually the framework where we decide if a portfolio fits to us or no. So we see in journal(?) still a lot of portfolios coming through the market but that we also have to admit that at the moment in journal the prices are getting more expensive and I think this is something which all our peers will note as well.

So, we are now coming to the GAGFAH integration. You heard from Stefan and from me that we are very close to get comfortable on the GAGFAH in the next days. Because the acquisitions of DeWAG and Vitus is fully integrated our systems and processes are ready so now we really have everything to integrate to GAGFAH.

But we are also allowed to do before the control, for example, appointment of a board and senior management is already done. Financing structure has been kicked off with a perpetual hybrid as Stefan said. The next step will be after control we will start the integration; the integration plan is already in our hands. We know exactly how we will structure the IT structures, how we will work to get combined portfolio and of course there's also geo-funding strategy in place. So you will hear from us about the GAGFAH, the main and the completely new forecast, the synergy potential of every single (Inaudible) and the detailed timeline in our Q1 reporting which will be done on 1 June. We will have also on 15 and 16 June a Capital Markets Day where we will show you some more other things not only about GAGFAH but also some more other innovative developments which we are doing. On 2016 concerning GAGFAH we will realise the picture of the synergies and then of course later in the year the rest.

So let me summarise our presentation. We have the second year, the year 2014 is the second year we can say we promised and delivered. Everything that we promised at the beginning of the new year was delivered so we are doing what we are saying. We strictly follow our strategy; we will still continue to acquire portfolios if possible. We are doing all our homework to get the best cost structure up and running and to get rent up and to use vacancy. So we are ready to go for a very good year 2015; it will be another interesting and challenging year for us. Thank you very much for your attention.

STEFAN KIRSTEN: Vera, if we can go into questions now.

OPERATOR: Sure. Thank you. We will now begin our question and answer session. If you have a question for our speakers please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask a question. If you find your question is answered before it's your turn to speak you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please, for the first question. The first question comes from Mark Mousi, Societe Generale.

MARK MOUSI: Yes, very good morning, gentlemen and congratulations for your numbers. On my side I would have three main questions. The first one will be on your cost saving programme, standalone. Can we have an update on what is the output you might have been able to save in 2014 or if you would like to answer it differently, about 9 per cent of reduction in cost per unit, how much is coming from volume and how much is coming from price?

STEFAN KIRSTEN: We're still there and calculating. Come on, keep on asking your questions while we're calculating.

MARK MOUSI: Okay. The second question is are you considering that the 37 million of synergies with GAGFAH are on the financing cost at 2.7 per cent refinancing can be significantly higher today? Considering where interest rates are and what typically LEG has been able to refinance and can we have the final quarter on how much or where those financial synergies could be (Inaudible) debt pricing? And the third one will be how do you intend to treat the hybrid in your net asset value calculation when you will integrate GAGFAH? Thank you.

STEFAN KIRSTEN: Okay. Let me do question number 2 and question number 3. Question number 2, how confident are we that we can beat the financial synergies with GAGFAH? Well, you will get a clear answer on 1 June but I can tell you I have no indication at all that I won't beat it. Yes? So, we're looking at these numbers we have to set up the proper synergy accounting but alone the hybrid issuance in last December was 70 - 80 basis points below our business plan and we intend to keep going with that. But

I would not give you a quantifiable indication, just a direction and I have to tell you 1 June is the right moment for that.

How do we treat our hybrid? The hybrid -- we had two hybrids issued last year; one on a debt basis and one on an equity basis. You're referring mainly to the one on the equity basis because that's a bit more difficult to look at. So, (1) it's not in our NAV number, yes? That's important to understand. (2) How is it treated at the FFO? You will have an FFO or an FFO 1 that's irrespective in which direction you look at that, and that FFO number is attributable to minorities, Deutsche Annington shareholders and hybrid owners. So the 40 million of interest on this 1 billion hybrid, this is calculated on a full year basis. On last year it was 1.2 million only, not in the FFO because it is de facto a pre-payment of a dividend. Is that answering your question?

MARK MOUSI: Yes, thank you.

STEFAN KIRSTEN: Okay.

ROLF BUCH: Probably coming back to your cost savings, so the overall cost saving of the year was 25 million on a full year basis. Your question about how much is to volume and how much is to savings. The way we calculate it, we took the costs of the year 2013 and then we compared to the costs of 2014 and the difference is 25 million. The point of more apartments is actually not in this calculation but it is not so much relevant because the majority of the apartments came in late in the year so probably the correct answer is the same as 25 million and I think we had noted 24 million at the last quarter so we are actually also here on the budget, and of course technically you will divide the same costs in the next year by more apartments because this is on full year and the cost per unit will then go down where this is a technical effect.

MARK MOUSI: Okay. Thank you very much indeed.

OPERATOR: Thank you. The next question comes from Bianca Reemer, Morgan Stanley.

BIANCA REEMER: Yes, good morning. I have a question about the Bloomberg headlines this morning which was saying that you are intending to do a capital rate to fund further acquisitions. Could you confirm that and could you maybe also give us an idea of how much in euro terms you are currently considering potentially buying please?

STEFAN KIRSTEN: Bianca, thank you for that clarifying questions to start. This is so hypothetical. I have no shares left to make any capital increases at the moment because we had Vitus, we had two ABBs plus GAGFAH during the course of last year. So what we are intending to do, and this was what we discussed yesterday with our board, is that we will ask for a moderate approved capital in our next AGM. Then you know that we don't have an acquisition target, therefore acquisitions are by definition opportunistic but in the moment if it becomes sizeable we will of course accompany it with a capital rate. But there is nothing at the moment which we can really speak about because this is a little bit about the very hypothetical because we have nothing with which we could raise the capital at the moment. So we thought it was a little bit misleading, that was the reason for my opening remarks in the presentation today. Is that answering your question?

BIANCA REEMER: Yes, thank you very much. My second question is about your portfolio valuations and interest for German residential access generally. So, you said that you sold your non-core assets at over 10 per cent above book value. Other companies in your segment have commented that they have received unsolicited offers from German life insurance companies at over 20 per cent above their latest book value.

Could you give us maybe some colour on what type of investor has been buying your non-core assets and whether you also maybe have already received some unsolicited offers from insurers at all?

STEFAN KIRSTEN: Bianca, let's keep one thing in mind; we're talking about German residences which means it's very small pieces, very small houses. So if you're a pension fund or an insurer, you're looking for the next shopping centre, for the next office tower, for the next logistics centre. So, though I can clearly deny that, what we are having is still the small to medium size buyer who, in his own home town, believes that they can turn around, because they are very local, the respective long core part. Please do not over-emphasise whether or not we have 8 per cent plus on the same or 2 per cent minus. This is very opportunistically driven by that deal and if we for instance sell ten pieces of land in that process, we might have a gigantic leap forward by 3 or 4 points or if we don't sell land there's a pure mix effect. So I would not calculate along these lines.

If you look at the portfolio valuation in Germany, the trend is still upwards. We are seeing - and now I'm talking rental - the first big cities where rents seem to stagnate. We are having the German rent break which went through the German Parliament during the course of today with very limited effect on our numbers as you are aware. So the trend is intact but no, there is no comments where people are asking us in an unsolicited way.

BIANCA REEMER: Thank you very much.

OPERATOR: Thank you. The next question comes from Kai Klose, Berenberg.

KAI KLOSE: Yes, good afternoon, gentlemen. Two key questions from my side. The first one is for an item in the income statement where we had 85.6 million as capitalised internal expenses after 42 million in 2013. May you be able to give some more detail as to how you derived that number? And the second question is, in general, how much of the modernisation works in the last year was done by TGS and how much was done by third parties?

STEFAN KIRSTEN: You are actually asking the same question in a different way because the 80 plus million which doubled since last year shows that TGS has done significantly more modernisation work but TGS, as you know, have to go for a margin. And if they go for a margin we have to deduct that margin when we're capitalising the numbers and that's one of the reasons why we have capitalised the internal modernisation expenses which are increasing so significantly. One moment. There is one chart -- sorry, Rolf.

ROLF BUCH: So to answer your question, to give you the precise figures, if you put maintenance modernisation together we have an order volume we had, an order volume in 2014 of around 350 million and the TGS volume is around 177. So it's more or less half.

STEFAN KIRSTEN: That's not on the chart. It will have more details on page 30 in the appendix.

KAI KLOSE: All right and on the margins you mentioned for the capitalisation?

STEFAN KIRSTEN: The margins are relatively simply driven by way of different prices in different regions but the margins are more driven by tax authorities than by profitability margins.

KAI KLOSE: And the capitalisation rate to arrive to the 85.6 million?

STEFAN KIRSTEN: I'll have to come back to that. Around 6 per cent-ish but don't nail me on that number, please.

KAI KLOSE: Many thanks indeed.

OPERATOR: Thank you. The next question comes from Richard Evans, King Street.

RICHARD EVANS: Hi. Can you talk a little bit about the proposal for the GAGFAH financing because there's been various headlines; whether you are or whether you aren't looking to break the GAGFAH CNBS and then refinance that cheaper with your own bonds? I'm just wondering what your current thinking around that is, please.

STEFAN KIRSTEN: We will give you more confirmation on 1 July. I will be a little bit dancing around the issue, Richard, for an obvious reason, the CNBS is a capital market product and I don't want to influence pricing there. Our working assumption was that we take the CNBS earlier out versus later. This is something we will check once we have control whether or not it is economically sensible. You can be absolutely assured that we will do the most economical route; this is very clear. We are also in discussions with a rating agency which is waiting for taking control.

The first step for us has to be that we have to finance 1.9 billion of cash portion in the GAGFAH transaction. One billion is already ticked off with a hybrid which we launched in December, and the other billion, there are various instruments available. As always, we will be reliable but not predictable when to choose what, but we will definitely work along the interest opinion which the ECB has put out there which means we will capture some of the lower interest rates.

So we are thinking we may be (Inaudible) not with a capital increase before the AGM as mentioned before. On the CNBS I would like to keep everybody a little bit on the back foot; we are working on that. Sorry for being a bit fluffy there but there is not more there.

RICHARD EVANS: Okay. Just one second follow-on question is, when the GAGFAH deal was announced there was also a suggestion you could reduce leverage through accelerating disposal of non-core portfolio and a notional amount put there. How are you thinking about potential reshaping of the portfolio when you have the much larger GAGFAH and Annington portfolio combined?

ROLF BUCH: So the message stays the same. We are at the moment in the process as much as we can do at the moment because we think we have no control but we have a much better understanding of the GAGFAH portfolio and the Deutsch Annington portfolio. The match is clear that the sum of the two non-core is lower than the new disposal so we will sell more than the two together as a detailed figure. Again, we will give you all together with the Q1 figures because then we have a solid sorting which we are at this moment doing.

RICHARD EVANS: Okay.

ROLF BUCH: But the match stays the same.

OPERATOR: Thank you. The next question comes from Georg Kanders, Bankhaus Lampe.

GEORG KANDERS: Good afternoon. I have a question here regarding why there is the higher amount on the modernisation spending in 2015 on the same number of units you were working on, as you mentioned, in both cases, 12,000 units? The other question that I have is are there any portfolios where you are taking a closer look at currently for acquisition or are you more or less completely shut down due to GAGFAH?

STEFAN KIRSTEN: Okay, well the second question is easy. Our acquisition department is not affected by the GAGFAH merger which means, very simply, they keep on going. So if something attractive is there, we would be willing to look at that. Can you just come back to me on the first question about why we can increase our modernisation bit?

ROLF BUCH: It's easy so it's rounding the figure so it's not exactly precise as the (Inaudible). The difference might be that some modernisation is more complex than the others. Sometimes there is a heating system in it. So this is not something which should be too precise but it's a question also of rounding.

STEFAN KIRSTEN: And there is one other aspect. If you look at page 22 you see the German map and you see our portfolio segmentation as we have it at the moment. Even if upgraded optimised together were 45 per cent before and are now 44 per cent, this is no major difference. The number of units is significantly higher and as Rolf said this is more rounding than anything else. By the way, the most lucrative kind of modernisation is always heating systems so there's a little hint.

GEORG KANDERS: Okay, thanks.

OPERATOR: Thank you. The next question comes from Bernd Jansen, Victoria Partners.

BERND JANSEN: Good afternoon. Two questions. One on the revaluation and one on like for like rental growth. If I may ask them one by one; you elaborated already on the yield compression and the contribution that made to the 371 million revaluation. The first part of the question would be, how much of these 22 locations have been within the old Deutsche Annington portfolio and how much was contributed by DeWAG and Vitus?

STEFAN KIRSTEN: I can't give you the exact number I can just tell you that due to the quality of DeWAG, DeWAG itself had a higher proportion of yield compression. But that's sheer location driven. I can't give you an exact number there. They both were of course contributing. Why can't I give you an exact number? We would have to run it separately but as Rolf said, in the moment when we conclude our own integration we can't distinguish any more except with, let's say, more labour behind it whether or not this is an old portfolio from here or from there.

BERND JANSEN: But the general point is that you have -- or the CBRE have already undertaken first revaluations on the acquisitions that you undertook during 2014.

STEFAN KIRSTEN: Yes. In the moment when they are in our systems, CBRE can really vividly recall that we will immediately tackle them on a street by street basis. And this is a normal process for us when we integrate them because we want to get them from a methodological point of view and from a data point of view at eye level with DeWAG portfolios but for use as quickly as possible.

BERND JANSEN: That's understood. The second part of the question; you mentioned the discussion with appraisers on secondary locations. What we understand is that one of the reasons why appraisers are probably a bit more forthcoming in locations like Berlin, vis-à-vis other locations, is that you have more transactions that are city-specific in Berlin than you might have in many other locations where they are typically cross-cities and therefore the data points are just not there.

First question: what do you see as potential, call it, multiple expansion, call it yield compression, in those secondary locations and what would be the Deutsche Annington view on revaluations even at an early stage where those data points are hardly available?

STEFAN KIRSTEN: At first I can absolutely confirm with you the hesitance of the valuers comes from the lack of data points. So it's not the interest level because everybody knows where the ten year point is at the moment. It is very simply that they don't have the hard data and therefore they would like to own the conservative side. This is a normal balance of power between the two parties. Our view is rather simple because our view is down to 10 basis points, the same as CBRE's, because what we do is we run both our models and then we hash out where we have major differences. Therefore, if CBRE is not willing to give in on something because they don't have enough data points it is not on us because we definitely don't have a better market transparency than CBRE. So the only thing we can do is keep up the pressure, collect the data, look at this. I mean with 350,000 apartments, or 340,000, what would tend to happen (Inaudible) and we of course having a completely different look at the market again also more into some of the newer stage and therefore we're not unhappy to have a different database on which we can work.

BERND JANSEN: Okay, thank you. The second question is much shorter on like for like rental growth. I would have gone for a slightly lower contribution in 2014 for modernisation and probably a bit higher from new rentals. So what I would like to understand is that I guess those units that are modernised are not accounted for in your rentals. So is the lower number at least according to my forecast, is this mainly a result of lower units accounting for new rentals or is it a lower reversionary potential?

STEFAN KIRSTEN: No. I don't know whether I fully understood your question. Let me just talk a little bit about it and then you correct my views, please. If you see on page 24, 90 basis points for modernisation, this is of course the vintage of 2013 which comes into effect in 2014.

BERND JANSEN: Yes.

STEFAN KIRSTEN: So if we agree on that then you know that we will have a significantly higher number in 2015 based on the 2014 ones. That's the first aspect. The second bit is the 1.6 per cent subtotal excluding modernisation includes, on the second line, "Sitting tenants (subsidised) 0.3". This 0.3 only happened every three years. I'm just looking at the building copy, every three years. So, on the normal bread and butter type of rent increases we have only 1.3, 1.4 per cent per year and this has to do with the normal fluctuation of much bigger structures, of new rentals, etc.
If we have an apartment for instance which is optimised and we rent it out, then this is of course in the modernisation. If then after a year the tenant changes it's of course a new rental. The initial one is definitely a modernisation and this is actually the right way to look at these types of numbers. One moment, I have one additional argument. No, drop that one. So the bread and butter bit will be around core inflation and the rest comes from modernisation. Was that good enough as an answer because I don't know whether I got your question correctly?

BERND JANSEN: Well in 2013 you had a contribution from new rentals of 90 basis points that dropped to 50 basis points. I assume this is mainly due to the reason that you highlighted that from ten fluctuations you use more flats in the modernisation programme. The underlying point that I want to get to is what the reversionary potential is. So do you still see it somewhere around 8 - 10 per cent or even higher in those units that are vacated and that are not used for modernisation?

STEFAN KIRSTEN: Same type of fluctuation which we have seen before.

BERND JANSEN: And same reversionary potential between old rents and market rents?

STEFAN KIRSTEN: Same reversionary potential. But the point is and I'm seeing what you're alluding to which is of course more and more empty flats when they get vacated that say, "Oh, right, we can optimise on them" and therefore they flip from new rentals into the modernisation.

BERND JANSEN: That's what I meant. Okay, all right.

STEFAN KIRSTEN: I'm glad I could confirm.

BERND JANSEN: Thank you.

OPERATOR: Thank you. We have a follow-up question from Mark Mousi, Societe Generale.

MARK MOUSI: Yes, excuse me, gentlemen but on this like for like rental income question I think this is something where I'm also a bit struggling to understand how it works. If I'm correct, next year you are coming from 2.6 to 2.8 per cent like for like rental growth. You're including the modernisation and you had a high yield this year on the 2014 (Inaudible) date modernisation. Therefore, if I'm correct - but maybe I'm miscalculating things - the contribution from modernisation should be on a yearly average between 1.5 and 1.7 per cent. Therefore, why the indexation or the inflation related remaining parts will be only close to 1 per cent-ish?

STEFAN KIRSTEN: There are a couple of remarks, Mark. Let's start with the first one. The subtotal excluding modernisation is for 2014 1.6 per cent including the 0.3 per cent for sitting tenants. So you can assume a run rate of 1.3 per cent. That would lead, even at the upper end of our guidance, 1.5 per cent from modernisation and we are moving the modernisation, as you know, volumes up so this is in line. The remark about higher yields out of the modernisation I have to discount because when Rolf said that that's an early indicator that was definitely not the basis for our guidance. And there is a second aspect and this comes back to me what the question from Bernd just was. If we say 7 per cent yield, this is 6 per cent from rent increase and 1 per cent from vacancy reduction, so bear that in mind that you can't use the full 7 per cent asset yield in the rent increase number. With that it should tally. We have a tendency of going to the upper end of our guidance; I hope we can play that stunt again but early March is a bit too early to confirm.

MARK MOUSI: Okay, brilliant. No, thank you very much.

OPERATOR: Thank you. The next question comes from Peter Papadakus, Green Street Advisors.

PETER PAPADAKUS: Good afternoon. Stefan, could I just check, so the 350 million on a standalone basis for the FFO for 15, that is before the 40 million interest on the hybrid bond, right?

STEFAN KIRSTEN: Correct.

PETER PAPADAKUS: Yes. So then assuming the dividend guidance, really we should be thinking in terms of a pay-out ratio is closer to 80 per cent rather than 70 of available cash.

STEFAN KIRSTEN: I know that you hate this hybrid bit but you can calculate it that way. Let's put it that way. With a company growing at the pace -- and I mean there is one thing we have to keep in mind. The hybrid is in pure cash on our balance sheet at year end. The hybrid was taken in for GAGFAH, all right? So you're comparing a standalone

(Inaudible) number at the moment with a pre-financing for GAGFAH which we expect to have for ten months in the numbers. So just to put this into perspective.

PETER PAPADAKUS: Yes.

STEFAN KIRSTEN: One other last point. If we say we are going for a 70 per cent FFO 1 dividend policy with a growing number of FFO 1, the 30 per cent remaining is also growing and this is of course easily covering the hybrid.

PETER PAPADAKUS: Sure, yes, but these are also covering your structural capex that you need to spend on a portfolio.

STEFAN KIRSTEN: Yes, clearly. We have an internal sources and usage chart which we exactly use for that purpose. So how much do we need for modernisation equity portions? How much do we need for capitalised maintenance? How much do we need for pension payments, which is fortunately enough constant it's likely decreasing, and how much would we need for that? How much is attributable to hybrid owners? So the 30 per cent out of the 70 per cent grows disproportionately high at the moment and therefore we can use it. On top of that, bear in mind that we have from sales for the FFO 2 of course a constant cash flow which also fuels our cash recycling into modernisation, etc.

PETER PAPADAKUS: Got it. Okay.

STEFAN KIRSTEN: You know what? It's a very fair point especially if and when we are together with GAGFAH. We will do, in the first quarter, a cash reconciliation because we know that GAGFAH runs KPIs which are very close to that, it's called cash attributable distribution; CAD. We won't use the full concept but I can assure you we can give you an overlook how that one tallies because I know this is something which is very close to your heart.

PETER PAPADAKUS: Yes. Thank you. And then I didn't really see anything in terms of your commitment to a stronger capital structure for Deutsche Annington. Is that just you're waiting for the June presentation to reaffirm that?

STEFAN KIRSTEN: I can reaffirm it now. As successful as the GAGFAH transaction looks to be, it is a little bit of a setback for us here if you want to deliver of course. We don't have any new data with regard to pro forma accounting or anything like that so, in the moment when we have change of control, we will put the new organisation in place as step 1 and we will start delivering at step 2. The commitment of this management team also, in its enlarged form, to deliver the company is unvarying and completely there.

PETER PAPADAKUS: Understood, message is clear. Thanks, Stefan.

OPERATOR: Thank you. We have another follow-up question from Mark Mousi, Societe Generale.

MARK MOUSI: Yes. Sorry, gentlemen. Stefan, just to make things clear because I've received messages from investors and individuals about your FFO guidance for 2015. So the 340, 360 range, is it including negative contribution of 40 million from your hybrid or is it before 40 million, meaning we should remove 40 million of financial cost?

STEFAN KIRSTEN: The hybrid interest of 40 million is not included there.

MARK MOUSI: If I include it in them it will be 310?

STEFAN KIRSTEN: No, that's the wrong approach. I mentioned that before. Because it doesn't include anything from GAGFAH but the hybrid is for the GAGFAH financing.

MARK MOUSI: Yes, but your guidance is standalone and your guidance has been set up in September, before the acquisition of GAGFAH. So the hybrid is a separate feature from your guidance which is standalone.

STEFAN KIRSTEN: On the standalone basis this is the number. We then issued in December a hybrid and the hybrid interest number is not included in our FFO number.

MARK MOUSI: Okay.

STEFAN KIRSTEN: But the assets we are buying with that hybrid are also not included, Mark.

MARK MOUSI: Yes, fair enough. Okay. No, just to make things clear.

STEFAN KIRSTEN: It's good that you asked because if you have that question many others will have that question too.

MARK MOUSI: Thank you very much.

OPERATOR: Thank you. Currently there are no further questions. As a final reminder, if you would like to ask a question, please press 01 on your telephone keypad now. There are no further questions. I hand back to the speakers.

THOMAS EISENLOHR: So, then, thank you very much, ladies and gentlemen, for attending this call. I'm looking forward to seeing you on the different roadshows on the announcement of the Q1 results on 1 June this year. Thank you very much. Bye bye.

STEFAN KIRSTEN: Thank you.

OPERATOR: Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may now disconnect.