

INTERVIEW

with the Executive Board



“We plan conservatively and flexibly.”

In 2011, Deutsche EuroShop pursued all three opportunities for growth: new acquisitions, increased shareholdings and center expansions. Business is going according to plan and the earnings are impressive. Yet there were a few unexpected developments, as well. Interview with Claus-Matthias Böge and Olaf Borkers of the Executive Board.



Deutsche EuroShop just keeps growing and growing. Where is this growth coming from?

Claus-Matthias Böge: In principle, there are three ways that we can grow: acquiring new shopping centers, increasing shareholdings and expanding existing, successful centers. Like the previous year, we were able to pursue all three opportunities for growth in 2011. We acquired a stake in Allee-Center Magdeburg, increased our shareholdings in the facilities in Hameln and Wolfsburg to 100% and completed the expansions to Altmarkt-Galerie Dresden, the A10 Center and Main-Taunus-Zentrum.

Olaf Borkers: And with the start of the 2012 financial year, we also increased our shareholdings in the centers in Viernheim, Hamm and Dessau to 100%. These may have been smaller investments, yet all were done with the aim of optimising our portfolio.

Will the shopping center company continue to grow so strongly in the future, as well?

Claus-Matthias Böge: At least that's our goal. But conditions have to be right and the growth has to be profitable. While we don't have a plan in the drawer, there's definitely a list of centers that we'd acquire if the price were right. There's no center that we absolutely have to have, however. Our portfolio is on sound footing and will continue to put a smile on our shareholders' faces for the next few years.

Where do your greatest opportunities lie?

Claus-Matthias Böge: On the German market because of the volume. But we still consider Poland and Austria interesting and we've also already taken a look at Italy. It always depends on the price, though, as well as the future prospects of each individual center.

The market just can't be predicted. But opportunities will always arise for us to grow successfully. Our last three acquisitions were good examples of this. Whether the A10 Center, the Billstedt-Center or Allee-Center Magdeburg: Our flexible, opportunistic approach combined with the ability to conduct these transactions swiftly make us a speedboat on our market.

How was growth in 2011 reflected in the results?

Olaf Borkers: Very satisfactorily. One year ago we planned for revenue of €184–188 million and increased this forecast to €188–190 million after three quarters. In the end we hit €190 million - right at the upper edge of the range. That represents an increase of 32%.

The other results were similar: The earnings before interest and taxes, EBIT for short, were supposed to fall between €157–161 million, in November we boosted the forecast to €160–163 million and in the end we managed a 34% increase to €165.7 million.

Without the unforeseeable impact of the measurement gains and losses, we initially expected the EBT, or the earnings before taxes, to lie around €75–79 million and increased this to €79–82 million. In the end it reached €86.5 million, 35% higher than the previous year.

Lastly, we originally anticipated that funds from operations, or FFO for short, would be around €1.48–1.52 per share. In fall we adjusted our prediction to €1.49–1.54 and in the end this figure settled at €1.61 per share.

Then the question is: Were you too cautious in your predictions?

Claus-Matthias Böge: We plan conservatively and flexibly. Although I wouldn't say that the predictions we made were too cautious. Nevertheless we're happy that lost rent, for instance, which we incorporate into our calculations, hasn't actually been as high as expected in the past few years. We'll stick to this approach. After all, our calculated pessimism could turn out to be right one of these years. We're happy to "err" on this point.

Some figures have popped up in the annual report that Deutsche EuroShop has never used before. What's up with EPRA earnings, EPRA NAV and NNNAV?

Claus-Matthias Böge: We always strive for transparency and like to be compared against our European competitors. These figures will help with that comparison. EPRA stands for European Public Real Estate Association, the association of listed real estate companies in Europe. EPRA has made recommendations on how real estate companies and REITs should calculate and adjust their results so that they can be compared without special items and one-off effects.

EPRA earnings is the real estate-specific result per share. The net asset value or EPRA NAV is equity adjusted for deferred taxes and the present value of swaps. To determine NNNAV on the other hand, also called a triple-net-NAV, the NAV is adjusted for deferred taxes, the present value of swaps and additionally for the difference between the market value of bank loans and overdrafts and their carrying amounts. The result is supposed to approximate the company's liquidation value.

I'm pleased to say that we were able to boost all of the figures: EPRA earnings by 21%, NAV by 4.9% and triple-net NAV by 1.2%.

About valuation: Which centers stood out – both positively and negatively?

Olaf Borkers: Our center in Pécs, Hungary, was devalued by about 7.4%. That came as no surprise to us due to the economic developments in Hungary. It's also the first center in our portfolio with vacant stores, at present some 7% of the retail space without a tenant. In light of that, the devaluation is justified. But we also think that the center will stabilise.

Main-Taunus-Zentrum, City-Galerie Wolfsburg and Galeria Baltycka stood out positively with each having increased in value by around €10 million.

Taxes – a complicated topic. Could you explain briefly which changes were made with regard to trade tax?

Claus-Matthias Böge: A practice that has been in use for decades and was recognised by the tax authorities was suddenly, and to the great surprise of most experts, declared inadmissible in a ruling by the German Federal Fiscal Court (BFH).

As an asset management holding company, we're now afraid that we will no longer be able to avail ourselves of the "extended trade tax deduction". In a case concerning a limited company involved in a general 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.

Consequently, there's a chance that all of our domestic earnings could also be subject to trade tax. And this concerns past financial years as well as the hidden reserves of non-current domestic assets.

We corrected the 2010 consolidated financial statements and adjusted our forecasts taking the worst case scenario into account. While the whole thing is extremely aggravating, only €2.4 million in tax payments had an impact on cash in 2011. Our dividend is not at risk. This amount will increase over time, however, so we're therefore working hard to find a long-term solution for the problem. That will take some time, though.

How does Deutsche EuroShop look on the financing side?

Olaf Borkers: Very good. Our debt finance terms are fixed at 4.59% for an average period of 6.6 years. Based on the previous year's average of 5.03%, we succeeded in considerably reducing the average interest rate while also improving the maturity and interest rate structure of our bank loans and overdrafts. Existing loans had a significant impact on this with a total residual volume of €304.7 million which we prematurely extended or replaced with new loans. The new loans have an average residual term of 8.6 years at an average interest rate of 4.07%. Previously the figures were a 2.4-year residual term and an average interest rate of 5.42%. That alone reduces our interest expense by nearly €4 million a year.

What can shareholders expect from Deutsche EuroShop in 2012?

Claus-Matthias Böge: Further improvements in performance, a reliable dividend and untroubled sleep. We'll continue to optimise our portfolio and try to bring about profitable growth.

Thank you for talking to us.

Interview: Patrick Kiss





Claus-Matthias Böge

CEO

After successfully qualifying as a bank clerk and completing a business administration degree, Mr. Böge began his professional career in 1987 at the Düsseldorf-based Privatbankhaus Trinkaus & Burkhardt in Mergers & Acquisitions. His work, for which he was made a Prokurist (authorised signatory) in 1989, focused on advising small and medium-sized companies on buying and selling companies and equity interests. In 1990, Mr. Böge was appointed to the management of KST Stahltechnik GmbH, a subsidiary of the Austrian industrial plant construction group VA Technologie AG, where he was responsible for the financial control, personnel, legal, tax and administration departments. In autumn 1993, Mr. Böge moved to ECE Projektmanagement G.m.b.H. & Co. KG in Hamburg, the European market leader for the development, realisation, leasing and long-term management of shopping centers. It was here that he first became fascinated with the world of shopping centers. In addition to a series of management positions at subsidiaries in the ECE group, his work focused on concept planning, financing and ongoing profitability optimisation of property investments. Mr. Böge joined the Executive Board of Deutsche EuroShop AG in October 2001. He is married and has two children.

Olaf Borkers

CFO

After serving as a ships officer with the German Federal Navy, Mr. Borkers qualified as a bank clerk with Deutsche Bank AG in 1990. He then studied business administration in Frankfurt/Main. From 1995, Mr. Borkers worked as a credit analyst for Deutsche Bank AG in Frankfurt and Hamburg. In 1998, he joined RSE Grundbesitz und Beteiligungs-AG, Hamburg, as assistant to the Executive Board. In 1999, Mr. Borkers was appointed to the Executive Board of TAG Tegernsee Immobilien und Beteiligungs-AG, Tegernsee and Hamburg, where he was responsible for finances and investor relations until September 2005. In addition, Mr. Borkers held various Supervisory Board and management positions within the TAG Group. Olaf G. Borkers joined the Executive Board of Deutsche EuroShop AG in October 2005. He is married and has two children.