

## 2015 Annual General Meeting

Deutsche Annington Immobilien SE

Remarks by Rolf Buch (CEO)

Ladies and Gentlemen,

Welcome to the Ordinary Annual General Meeting of Deutsche Annington here in Düsseldorf.

As you will have already seen from the invitation and our agenda, we have a lot to cover today.

As well as providing you with detailed information on the last financial year, we would like to discuss a total of ten agenda items with you today, the plan being to pass resolutions on agenda items 2 to 10, including any sub-items.

In general, allow me to refer to the details on these agenda items set out in the invitation to the Annual General Meeting.

In particular, I presume that there is no need to provide any further information on the ratification of the acts of the members of the Management Board and Supervisory Board for the 2014 financial year, on the selection of the auditor of the annual financial statements and consolidated financial statements for the 2015 financial year or on the review of the interim financial reports for the 2015 financial year at this point.

Dr Bernotat has just explained the resolution on agenda item 5, which relates to the approval of the variable long-term remuneration component, and will be providing you, in addition to other information, with a brief overview of the resolution to elect new Supervisory Board members or confirm the court-appointed ones after my speech.

I would, however, like to present and explain a number of agenda items in detail.

Despite this packed agenda, please allow me to begin with a brief comment that is very important to me personally.

At last year's Annual General Meeting, which was Deutsche Annington's first since the company's IPO, I made you a promise.

*I said that "a company can only be successful in the long term if it not only generates added value for its owners, but also provides added value for society at large in the form of affordable, attractive living space that enhances quality of life."*

The results of the 2014 financial year are testimony to how this approach can work on the residential real estate market.

In the 2014 financial year, we managed to not only lift our earnings to a record level, but also to increase our spending on maintenance and our investments in modernisation to an all-time high.

The results for the 2014 financial year show that this strategy is already bearing fruit. They also motivate us to continue to systematically pursue this approach. We will continue to focus on ensuring that our customers are satisfied, because satisfied customers are also in the interests of our shareholders and the capital market.

At the end of the last financial year, we took another major step that will change the face of our company in the long term – not in terms of its strategy, but in terms of its size, stability and ability to work in the interests of our stakeholders in an even more personal, efficient and cost-effective manner.

The voluntary public takeover offer we made to the GAGFAH shareholders saw us set new standards in the consolidation process that is under way on the German residential real estate market. Intensive discussions conducted prior to the takeover offer revealed that Deutsche Annington and GAGFAH have a great deal in common.

Both companies have similar roots and the same targets. They pursue similar approaches in terms of business policy, operate nationwide and have a clear understanding of what “sustainable development” means for a residential real estate company. The merger will create potential for new business models and services, which could, for example, range from long-term care services to energy services.

It makes sense to pool these competencies, because exploiting economies of scale is the key to successful property management. With around 350,000 residential units and a combined portfolio value of around € 21 billion, the merger turns us into a German champion of European dimensions. Within Europe, the only company that is bigger than us is Unibail-Rodamco. We are now responsible for around one million tenants. Although this is almost twice the size of the population of Düsseldorf, our market share still comes in at only 1.5 per cent.

But size alone cannot be viewed as an end in itself. We are combining the best of two worlds in order to first and foremost provide solutions to the major challenges facing the residential real estate sector today and tomorrow. First, the sector has to make a contribution to the energy

transition and second, it has to find answers to the challenges associated with demographic change. The global political situation also means that people from many parts of the world are seeking protection and work in Germany – and the residential real estate sector can work with other stakeholders to find solutions for these people too.

The winners of the merger of Deutsche Annington and GAGFAH will be both you, our shareholders, but also our customers. Our size will make us even more stable in terms of our business development and will also make us even more attractive to new investor groups. I'd like to give you one example of how our customers will benefit from our size in the future: 10,000 new windows or doors cost a lot less than 500 new windows or doors on a per-unit basis. Tenants will benefit directly from these lower costs.

Within the Management Board, we agree that success can only be achieved with satisfied tenants. Incidentally, I prefer to refer to the tenants living in our apartments as our customers. Thinking of them as customers means focusing on their concerns and providing them with support. We cannot achieve customer satisfaction by continually thinking in terms of specific properties and their costs. In other sectors, particularly those characterised by fierce competition, this sort of customer-focused approach has long been a matter of course. I am convinced that this will also apply to the residential real estate sector in the future and will allow us to enjoy commercial success.

My colleagues and I also measure ourselves based on customer satisfaction levels: the quality of our customer service is taken into account in our variable remuneration. I am therefore particularly pleased that we once again managed to boost tenant satisfaction last year, as is evident from the year-on-year increase of 5.7 per cent in the Customer Satisfaction Index (CSI).

Before I continue with my speech, I do not want to miss the opportunity to briefly introduce you to our two new Management Board members. Thomas Zinnöcker is my deputy on the Management Board of Deutsche Annington and is responsible for the implementation of the merger with GAGFAH, as well as acquisitions and distribution. Gerald Klinck is our new Chief Controlling Officer. He will be responsible for group and portfolio controlling, property valuation, issues relating to the Residential Property Act (WEG) and central procurement.

It makes more sense, however, for my new colleagues to say a few words about themselves:

Mr Zinnöcker introduces himself:  
(brief career history and experience in the sector)

Mr Klinck introduces himself:  
(brief career history and experience in the sector)

Ladies and Gentlemen,

I would now like to give you an overview of the business and financial developments at your company in the 2014 financial year.

The two words that best sum up last year are:

### **eventful and successful**

We not only managed to once again improve significantly on the main key figures that apply in our business, but even overshot some of our own targets by a wide margin.

As I mentioned at the start of my speech, we also clearly overachieved on the targets set as part of our maintenance and modernisation programme, which was very ambitious to begin with.

We are glad that we managed to achieve the results we promised in 2014, too.

Let me use a few highlights to illustrate how successful the 2014 financial year was:

- The **value** of a real estate company is generally expressed by its net assets, or the **EPRA net asset value (NAV)**. Last year, our EPRA net asset value rose by 28.4 per cent to € 6.58 billion.
- When managing the long-term earnings power of our core business, property management, the main figure used is **Funds from Operations 1 (FFO 1)**. This is also

the value that the dividend payment is based on. We increased FFO1 by 28.2 per cent in a year-on-year comparison to € 286.6 million.

- The **vacancy rate** within our portfolio fell from 3.5 per cent to a record low of 3.4 per cent, meaning that it remains at a very low level. So as you can see, the demand for our apartments is higher than ever.
- We were able to record a moderate increase in **rents** last year. With a 2.5 per cent increase in the square metre price to an average of € 5.55 (like-for-like), we will continue to offer our customers an affordable home in the future, too.
- We also improved our **cost structure** again last year, reducing the costs per apartment by 9 per cent. These costs include, in particular, our ongoing high level of investment in our housing stocks based on a high technical quality level and the further professionalisation of our processes.

- Our positive business development was also rewarded by the capital market last year. The 56.2 per cent **increase in our share price** between the start and the end of 2014 speaks for itself. At the same time, Deutsche Annington's market capitalisation also increased considerably to € 7.7 billion as at December 31, 2014.
- This excellent share price performance, coupled with the increased tradability of the company's shares, also resulted in us being admitted to the MDAX in September 2014. This means that we already rank among Germany's largest listed companies.
- The 2014 financial year also brought fundamental changes in our **shareholder structure**, with the major shareholders Terra Firma and CPI Capital Partners disposing of their interests in Deutsche Annington. This pushed the free float, based on Deutsche Börse's definition, up considerably in the course of the year to 80.3 per cent. By way of comparison: the free float stood at only 10.2 per cent at the start of last year. This means that we now have an even higher profile among major investors such as international pension funds, which is a positive foundation for our future share price performance.
- In the meantime, the free float, based on Deutsche Börse's definition, has actually increased even further to 94.0 per cent due to the exit of the Abu Dhabi Investment Authority in April 2015.

Based on this positive all-round development of your company, we are proposing, in agenda item 2, that today's

Annual General Meeting pass a resolution to use the company's profit to pay a dividend of € 0.78 per share, an increase of 11.4 per cent on the previous year's dividend, with the remaining profit carried forward to new account.

The **capital structure** of Deutsche Annington remains extremely comfortable. The average maturity of the company's financial liabilities as at the balance sheet date of December 31, 2014, stands at around 8 years, with refinancing costs down from 3.3 per cent to 3.2 per cent interest per annum.

The success of our financing strategy is also reflected in our access to the capital markets. With a solid equity ratio of around 40.4 per cent, the loan-to-value ratio came in at around 50 per cent on December 31, 2014.

This prompted leading rating agency Standard + Poor's to lift our **credit rating from BBB to BBB+** at the beginning of March this year. Standard & Poor's cited the advantages that are expected to arise from the merger of Deutsche Annington and GAGFAH as the reason behind its upgrade. In particular, Standard & Poor's pointed towards increased profitability in the management of the larger portfolio and more stable revenue, even in potentially cyclical market environments.

The expansion of the portfolio in regions that are showing positive demographic development, such as Berlin, Dresden and Hamburg, is also viewed as a positive development. The improved rating will reduce our future borrowing costs even further.

Ladies and Gentlemen,

The last financial year saw Deutsche Annington invest a total of around **€ 346 million in its property portfolio**, split roughly 50-50 between maintenance and modernisation. In terms of our portfolio's total living area, this corresponds to exactly € 29.12 per square metre, which leads the way in our industry. Even if I report the maintenance costs separately, as the tenants' associations require, then we are well above the average for the sector at € 14.65 and also exceed the requirements of the demanding social charters.

All in all, more than 10,000 residential units underwent energy efficiency improvements, while 3,000 further units were converted in order to meet the needs of older people and high quality standards. This increased the volume of our energy-efficient units to more than 3 per cent, well ahead of the German average of around 1 per cent.

As a responsible landlord, we are thus providing answers to the challenges facing society as a whole as a result of the energy transition and demographic change.

Energy efficiency upgrades allow savings of up to 30 per cent in energy consumption, while age-appropriate conversion measures allow older people to stay in their own four walls for longer.

Ladies and Gentlemen,

I'd like to follow on from this brief review of last year's highlights by turning our attention to the much more interesting outlook for 2015.

We already confirmed our **outlook for 2015** at the press conference on the financial statements in March. All of the figures for the outlook for this year take into account the acquisitions of DeWAG, Vitus and Franconia but NOT the merger with GAGFAH. We will be announcing our 2015 forecast for the combined company on June 1 when we publish our Q1 figures.

In 2015, Deutsche Annington – excluding GAGFAH – plans to invest more than € 400 million, or more than € 31 per square metre, in its apartments. This amount will again be split roughly half and half between maintenance and modernisation.

We expect rental income to rise by between 2.6 and 2.8 per cent this year. All in all, we predict that our rental income will increase from € 789.3 million in 2014 to between € 880 and 900 euros. Once again: please bear in mind that this does not include the integration of GAGFAH.

For the 2015 financial year, we expect our funds from operations, which form the basis for the level of the dividend we distribute, to increase by somewhere in the region of 20 to 25 per cent (2014: € 286.6 million; 2015: € 340–360 million).

We plan to lift our NAV by up to 4 per cent, bringing it up to between € 24 and € 25 per share. Deutsche Annington will be sticking to its dividend policy of distributing around 70 per cent of FFO1 to its shareholders in 2015.

By the end of the year, we also expect the vacancy rate to have slid further to around 3.3 per cent, although this will then bring us down to the technical limit. We need a certain vacancy level in order to be able to carry out our extensive maintenance and modernisation programme.

That was our forecast thus far for this financial year based on the business figures of Deutsche Annington excluding GAGFAH.

Naturally, Ladies and Gentlemen, the success of your company is also the result of the strategy we have been systematically pursuing. We are using efficient portfolio management to boost our operating KPIs and are optimising our financing costs using an innovative and internationally competitive financing structure.

Our active portfolio management allows us to generate added value for your company and to expand our property-related services on a step-by-step basis.

But in order to achieve new dimensions of growth and earnings, it is not, of course, sufficient to optimise the existing portfolio and rely on organic growth. We will also be using further acquisitions in order to achieve growth,

although strict adherence to our criteria is a matter of course. We will only make a purchase if it will lead to a quantifiable increase in value and we will only acquire real estate that represents a good geographical fit for us and that we can manage properly by having the necessary proximity to the customer.

In order to be able to continue on this growth path, which is associated with major competitive advantages, we need a high degree of flexibility. As a result, we would ask you to consent to the authorised and conditional capital we are requesting today. You can be sure – as in the past – that we will treat the assets of our shareholders, your assets, in a highly responsible and disciplined manner.

Within the framework of the individual measures taken to use the 2013 and 2014 authorised capital, excluding shareholders' subscription rights, the Management Board and the Supervisory Board both spent a great deal of time in in-depth discussions, checking that the rights and interests of our shareholders were protected and that the legal requirements were met.

In particular, we checked in each case that the issue price at which the new shares were being issued in return for contributions in kind was not inappropriate or, in the event of issues in return for cash contributions, was not significantly lower than the stock market price.

At this point, I'd like to refer you to the further details set out in the detailed written reports sent out along with the invitation to the Annual General Meeting, which can also

be consulted at today's Annual General Meeting and on the company's website.

I will be happy to answer any further questions you may have on the use of the authorised capital and the associated acquisitions later on.

At last year's Annual General Meeting, I provided you with a brief introduction to the companies Vitus and DEWAG, which we had acquired shortly beforehand. In the course of the year, we successfully integrated around 11,000 apartments belonging to the DEWAG portfolio and around 20,000 units from the Vitus portfolio into our own property portfolio. I had already explained to you the corresponding value contribution in terms of NAV and earnings.

These two acquisitions expanded our housing stocks by 20 per cent last year, strengthening our presence in northern Germany, mainly in Bremen and Kiel.

In the third quarter of the 2014 financial year, we also acquired a portfolio of more than 5,000 apartments, mainly in Berlin and eastern Germany, from the CitCor Residential Group for around € 323 million as part of the Franconia acquisition, with a closing date of April 1, 2015. The integration is scheduled for completion in the first half of 2015.

Ladies and Gentlemen,

I gave you a brief introduction to our **own craftspersons' organisation**, Deutsche TGS, at last year's Annual General Meeting.

Although we did not establish this organisation until 2011, it is already operating in 545 locations across Germany with a workforce of around 1,800.

A large-scale outsourcing strategy is not an approach that makes sense at Deutsche Annington. We can generate our own economies of scale thanks to our size. We have the expertise we need for successful further development within our company. In addition, outsourcing would not lead to any advantages in terms of personnel costs; in fact, we believe that outsourcing would be associated with tax disadvantages. We need our own craftspeople that both we and our customers can rely on. We want our own employees who are fast, reliable and friendly.

And this is precisely what Deutsche TGS offers. Deutsche TGS means that Deutsche Annington's customers have their own craftspeople. This reduces interfaces and costs, makes it easier to arrange appointments, increases reliability when repair work has to be done and significantly boosts customer satisfaction. After all, Deutsche TGS attends more than 32,000 on-site appointments with customers every month. We have firm plans in place for the further growth of this organisation, which is so important to us strategically. We are also exploring unconventional routes, for example by recruiting qualified employees from central and eastern Europe,

because the German employment market is no longer able to cover our demand. Our experience here has been very positive and this strategy allows us to make up for the lack of specialist employees on the German market.

But our potential is nowhere near exhausted by the move to bring services like these back into the company. Just consider all of the meters and measuring devices in apartments, or electricity and heating from our own cogeneration plants.

Or the rising number of older tenants that we not only offer senior-friendly living space to, but to whom we could also offer long-term care services as part of cooperation initiatives. Although these services are not yet reflected in our forecasts for 2015, we are in the process of making plans for them.

As part of our partnership with Deutsche Telekom, which was launched back in 2011, we will be equipping 145,000 apartments with state-of-the-art fibre-optic technology to provide our tenants with their own TV signal. By the end of 2014, 55,000 apartments had already been equipped.

We are already offering specific energy services as part of a pilot project in Bergkamen, where we are able to read heating and water meters in real time by way of remote transmission in 1,000 households. We can also provide tenants with monthly energy bills, which brings advantages for both parties.

I'd like to briefly touch on another project with you:  
**Essen's Eltingviertel district:** With its historical charm, industrial character and contemporary development, this district in the heart of the city offers a large number of opportunities for modern urban development.

Over the next few years, we want to work together with residents and owners, the local authority and other partners from the business community to turn the district into an InnovationCity area. This will involve a number of measures including modern energy supply systems that ensure low energy consumption, new residential concepts, improved infrastructure and the inclusion of social projects. This will allow us to make the Eltingviertel district fit for the future, while at the same time retaining its character as a district that offers real quality of life.

As the biggest landlord in the Eltingviertel district, Deutsche Annington will play a key role in this process, investing around € 9 million in the sustainable development of the district as part of the first step. The aim is to secure property values and increase the quality of life and well-being for people living in the district.

So as you can see, we have already identified numerous growth fields offering interesting potential for your company, and I am sure that even more opportunities will present themselves in the future.

Two mega trends are extremely important when it comes to Deutsche Annington's further strategic development: the energy transition and demographic change.

This is why a significant portion of our investment is aimed at energy-efficient modernisation. We are modernising heating systems, replacing windows and renewing the heat insulation in our buildings. Our customers benefit directly from the cost savings we can achieve thanks to a larger purchasing volume.

This not only allows us to respond to the political calls made by the German federal government, but also enables us to offer our customers homes with a much better energy profile.

Demographic change within our society is already clearly reflected in our tenant structures, with some 35 per cent of our tenants over the age of 60.

A very large number of people in this age group want to stay in their familiar environment and their neighbourhood for as long as possible. We are addressing this wish and continually converting an ever larger proportion of our apartments in order to meet the needs of older people.

As part of a dedicated bathroom programme, for example, we are offering older customers in selected locations the opportunity to have their bathroom converted to make it senior-friendly within only one to two weeks.

We have already implemented 400 projects like these since the summer of 2014. To date, more than 350 other customers have shown an interest in having a new bathroom installed in 2015.

Ladies and Gentlemen,

I'd like to round off by coming back to talk about GAGFAH. It is a conscious decision on my part not to refer to this as an acquisition, because, after talks between the Management and Supervisory Boards of both companies last year, we took a joint decision to **merge** our companies.

At the end of the extended acceptance period pursuant to the German Securities and Takeover Act on February 9, 2015, around 94 per cent of GAGFAH shareholders had accepted the public takeover offer. This high acceptance rate shows that the market also supports this consolidation move.

We are aiming to achieve savings totalling € 84 million a year with the merger, mainly as a result of two factors: The first effect is already partly visible with the improvement in our rating to BBB+: our financing costs are falling further.

Our new size will also allow us to pursue our active portfolio management strategy even more systematically than the two individual companies could have done on their own. We will be making substantial savings on the procurement side of things.

For us, size means being able to manage major cost blocks more cost-effectively.

As I already mentioned at the start of my speech, the merger of Deutsche Annington and GAGFAH will change the face of the German real estate sector in the long term.

Although the merger will naturally be keeping us busy over the next few months, we have already achieved a number of key milestones:

- As expected, we managed to close the deal in early March 2015.
- As I explained, the purchase price is financed in full.
- The leadership structure and management levels have been defined.
- The integration process has started as scheduled.

We will be presenting the first combined figures and a detailed report on the status of the integration process to you on June 1 as we present the first quarter of the year. By then, we will also have a good idea of the actual figures, the outlook for the year, synergies and financing. All of the indicators available to me at the moment are pointing in the right direction.

The developments seen over the past two years have resulted in marked changes not only to the profitability

and size of our company, but most importantly to its identity and culture too. We have taken the merger with GAGFAH as an opportunity to mirror this back to the outside world. Deutsche Annington and GAGFAH are starting a new chapter together. I would even go as far as to talk of a new beginning, because almost all of the former investors in both companies have made an exit.

We now want to make this change visible to the outside world in our company name and will be passing a corresponding resolution on this today under agenda item 8.a).

You will already have seen the **company name “VONOVIA”** in your invitation to the Annual General Meeting. Incidentally, the decision not to include a logo on this slide is a deliberate one.

We will shortly be asking you, the owners of the future VONOVIA, to approve this new company name. We consciously opted for a completely new name, since it was not possible to combine GAGFAH and Deutsche Annington. VONOVIA is easy to pronounce and has a pleasant, harmonious ring to it. VONOVIA is an artificial name without any original meaning – neither in Germany nor in the many different countries our tenants come from – and this was important to us when we chose it. The first part conjures up associations with the German word “Wohnen” (living) and, combined with “NOVIA”, it implies a “new way of living”. This means that our business model, which consists of housing plus service, is reflected well in the new name.

We will be unveiling the new name and the logo, which still has to be created, to the public later on this year in a professional communications campaign that is nevertheless financially manageable – the key phrase here is “down to earth”. This campaign will focus on our locations. We will then be entering the new company name in the Commercial Register in the autumn of 2015.

In addition to changing the company name to VONOVIA SE and making the resulting amendments to other parts of the Articles of Association, we have also proposed resolutions on various other amendments to the Articles of Association. I believe I can leave any detailed explanations of these proposals aside for the time being.

As a company that is seeking to strike a balance between profitability and social responsibility, we want to achieve successful further development under this new name in the future, too. We will be converting the economies of scale that are now available to us into operational strength, boosting customer satisfaction even further and most importantly – as I said earlier – keeping our promises.

This means that we can look ahead to a 2015 that is set to be exciting and successful in equal measure for all customers, shareholders and employees of Deutsche Annington, or what is soon to become VONOVIA.

Thank you for listening and allow me to hand over to Dr Bernotat again.