# Prime Office REIT-AG

**EXCELLENCE IN GERMAN REAL ESTATE**

## Conference call regarding the publication of the financial report for the first nine months of 2012

Munich, 08 November 2012





# Disclaimer

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, general economic conditions, including in particular economic conditions in the core business of Prime Office REIT-AG and core markets, general competitive factors, the impact of acquisitions, including related integration issues, and reorganization measures. Furthermore, the development of financial markets, interest rate levels, currency exchange rates, as well as national and international changes in laws and regulations, in particular regarding tax matters, can have a corresponding impact. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

The company assumes no obligation to update any information contained herein.

# Highlights Q1-Q3/2012 (I)

Prime Office

- Strong funds from operations (FFO) in Q1-Q3/2012: Substantial FFO increase from 15.3 m Euro in Q1-Q3/2011 to 19.6 m Euro
- Significant improvement of financial result from -31.8 m Euro in the previous year to -24.2 m Euro in Q1-Q3/2012 as a result of substantially lower net debt
- Net income of 7.3 m Euro or 0.14 Euro per share in the reporting period negatively affected by valuation effects and temporary vacancies: “EPRA earnings” i.e. the net income adjusted by valuation effects, increase by 44.4% to 15.6 m Euro (Q1-Q3/2011: 10.8 m Euro)
- On-going financial crisis: Interest rate levels continue to cause non-cash losses of about 12.3 m Euro from the valuation of the derivative hedges (swap market values)
- Net debt increases slightly to 576.3 m Euro in spite of loan repayments (12.8 m Euro) as a result of the valuation of the interest rate hedges: Leverage at 60.0%, loan-to-value at 64.9%

# Highlights Q1-Q3/2012 (II)

- REIT equity ratio of 41.5% slightly up versus mid-year level (41.4%). Equity ratio still below the 45% threshold under the REIT law due to the swap valuations
- Net asset value per share increases from 8.86 Euro per share on 30/06/2012 to 8.94 on 30/09/2012
- Sale of Imtech Headquarters in Hamburg: free cash (about 16 m Euro) will be used inter alia for the early repayment of existing financings with interest rates that substantially exceed current interest rate levels (further decreasing the cost of debt); expected profit of approx. 5.7 m Euro according to the German Commercial code (HGB) will be carried forward as potential future dividends strengthening the REIT equity ratio
- FFO guidance for FY2012 increased: At revenues of 72 to 74 m Euro the FFO guidance is increased by 3 m Euro from originally 17 to 19 m Euro to 20 to 22 m Euro. The dividend guidance for the fiscal year 2012 is confirmed of 9 to 12 m Euro in the interest of a stable risk profile of the company

# Property report

# emporia – Stuttgart-Moehringen

Prime Office

## Breitwiesenstraße 5-7, Stuttgart-Moehringen

**Property**

| | |
|---|---|
| Rentable area: | 25,284 sqm |
| WALT: | 8.4 years |
| Market value (30/06/2012): | 40.5 m Euro |
| Value per sqm: | 1,601 Euro |
| Annual rent: | 1.3 m Euro |
| Average rent per sqm: | 4.20 Euro (incl. vacancies) |
| Gross initial yield (GIY): | 3.2% (total rent incl. vacancies) |
| Occupancy level: | 38.9% |

## Letting activities

– Yoy decline of office letting take-up in the Stuttgart market by 23%

– Prospective tenant from the automotive sector for the entire remaining space:

 – Chance for signing in Q4/2012

– Three potential tenants of various sizes and in various stages of negotiation

# Westend-Ensemble – Frankfurt

### Ludwig-Erhard-Anlage 2-8, Frankfurt / Main

**Property**

| | |
|---|---|
| Rentable area: | 35,101 sqm |
| WALT: | 0.5 years |
| Market value (30/06/2012): | 157.9 m Euro |
| Value per sqm: | 4,489 Euro |
| Annual rent: | 9.7 m Euro |
| Average rent per sqm: | 27.49 Euro |
| Gross initial yield (GIY): | 6.1% |
| Occupancy level: | 89.6% |

### Letting activities

- Frankfurt property market remains difficult due to the economic environment (particularly for the financial sector)
- While the Frankfurt market is currently being reviewed by several major tenants, they tend to hold back given the economic environment:
  - Major tenants that have been approached keep holding back for now
- Refurbishment for fire prevention purposes completed
  - Additional show rooms to support marketing activities available on short notice
- Various marketing activities agreed, inter alia event marketing to increase awareness of potential tenants
- Senckenberg-Carré: Exploratory talks on marketing of spaces < 5,000 sqm

# Dusseldorf – Xcite

## Am Seestern 1, Dusseldorf

**Property**

| | |
|---|---|
| Rentable area: | 35,819 sqm |
| WALT: | 0.8 years |
| Market value (30/06/2012): | 72.2 m Euro |
| Value per sqm: | 2,016 Euro |
| Annual rent: | 7.1 m Euro |
| Average rent per sqm: | 16.63 Euro |
| Gross initial yield (GIY): | 9.9% |
| Occupancy level: | 100% |

## Letting activities

- Marketing activities continue with good momentum; positive feedback from prospective tenants
- Sub-Contractors: Concrete letting process now under way after decision on new, less spacious office layout
  - Written contact to all potential tenants
  - Initial talks show clear interest from prospective tenants
  - Prime Office has its own coordinator on site
  - Letting opportunities > 5,000 sqm clearly visible
  - Signings needed until February 2013 from the perspective of contractual parties
  - Additional prospective tenants for up to 3,000 sqm each (IT service centre)
- Potential major prospective tenant for approximately 15,000 sqm (10 years)
  - Decision postponed to Q4/2012
- Due diligence of two potential tenants from the financial services sector (8,000 - 15,000 sqm) completed:
  - Decision expected in Q4/2012

# Other

## BMW Design-Center, Munich

– Advanced negotiations with Semcon-Group regarding the prematurely prolongation of the lease contract for the existing spaces (44% of the total space)

## Neckarturm, Heilbronn

– Leases for over 900 sqm lead to full occupancy
– Leases by Kaufland, a bakery and a medical practice
– Lease expiry (about 3,100 sqm) in March 2013: There are three potential tenants with concrete interest for about 3,000 sqm

## Sigmund-Schuckert-Haus, Nuremberg

– Deutsche Rentenanstalt prolonged until the end of 2014 (original expiry at the end of 2013)

# Sale Hamburg

Prime Office

## Imtech Headquarters, Hamburg


**Property**

| | |
|---|---|
| Rentable area: | 16,008 sqm |
| WALT: | 10.4 years |
| Market value (30/09/2012): | 44.0 m Euro |
| Value per sqm: | 2,748 Euro |
| Annual rent: | 2.9 m Euro |
| Average rent per sqm: | 15.10 Euro |
| Gross initial yield (GIY): | 6.6% |
| Occupancy level: | 100% |

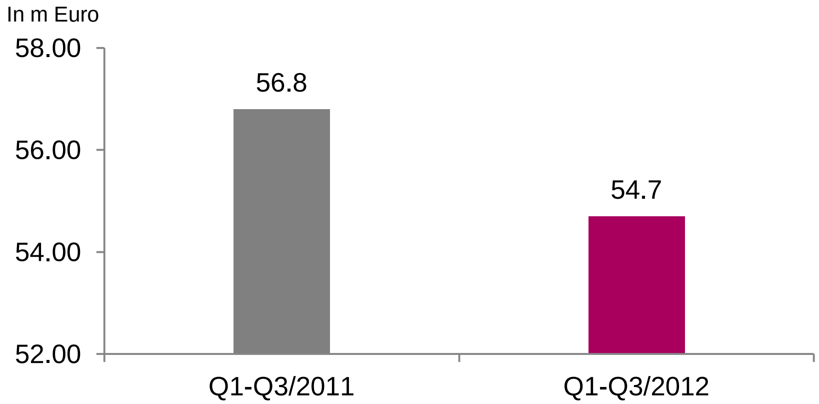
## Facts

- Notarised on 02 November 2012
- Economic ownership will be transferred on 31 December 2012
- Free cash after deduction of rent, other costs and repayment of financings amounts to about 16 m Euro
    - Sales price exceeds the market valuation of the property between 2008 and Prime Office's IPO valuation (39.7 m Euro)
- Proceeds of the sale inter alia for the early repayment of existing financings with interest rates that substantially exceed current interest-rate levels
- Reduction of future net financial results
- Expected profit of about 5.7 m Euro according to German Commercial Code (HGB) carried forward as potential future dividends
- REIT equity ratio improves by two percentage points

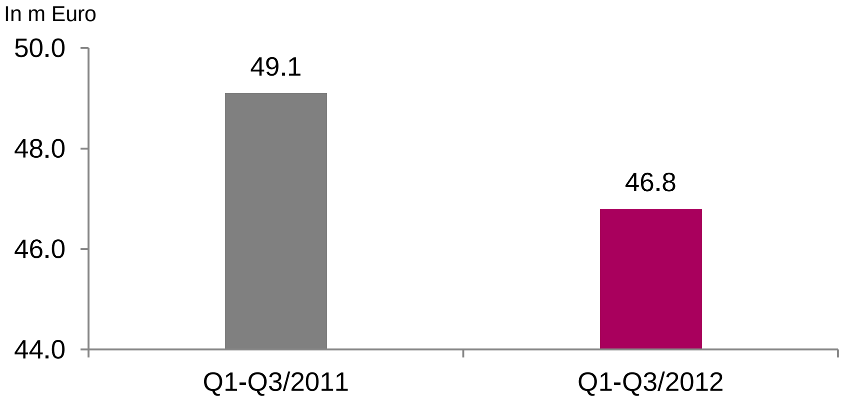
# Financial data Q1-Q3/2012 (IFRS)

# Key financial data in Q1-Q3/2012 (I)

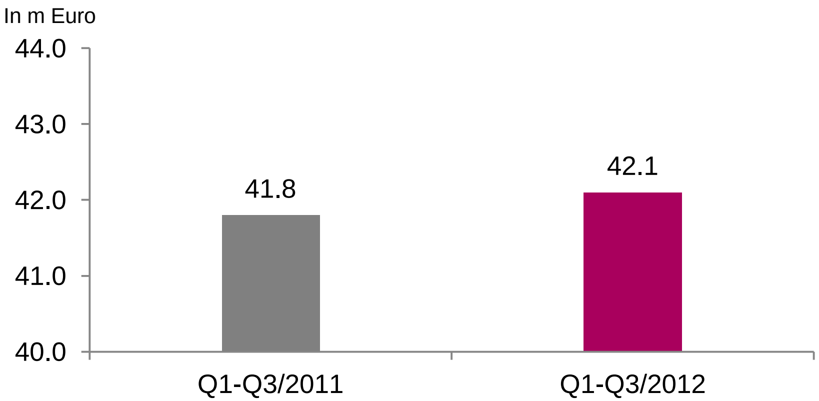
## Gross rental income




## Net rental income




## Operating earnings (EBIT) before valuation effects




## Comments

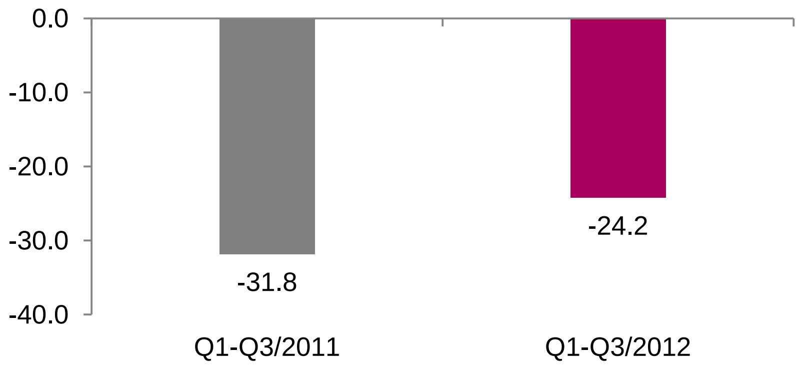
- Gross rental income of 54.7 m Euro in Q1-Q3/2012 slightly down compared to Q1-Q3/2011 due to temporary vacancies
- Net rental income with 46.8 m Euro below Q1-Q3/2011 as expected
- Slight yoy increase of operating earnings before valuation effects to 42.1 m Euro as a result of substantially lower other operating expenses

# Key financial data in Q1-Q3/2012 (II)

Prime Office

## Financial result

In m Euro

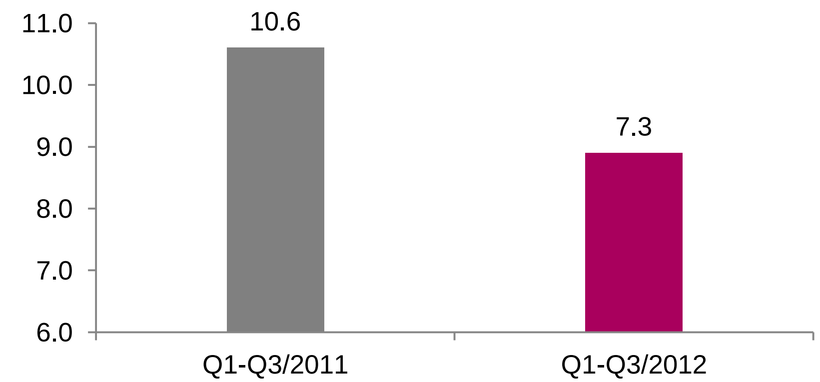



## Comments

- Interest expenses with 22.5 m Euro in Q1-Q3/2012 substantially below Q1-Q3/2011 (28.6 m Euro)
- Financial result in Q1-Q3/2012 sustainably improved compared to Q1-Q3/2011
- Sizeable net income in Q1-Q3/2012: 7.3 m Euro
- Substantial increase of EPRA earnings (Net income adjusted by valuation effects) compared to Q1-Q3/2011

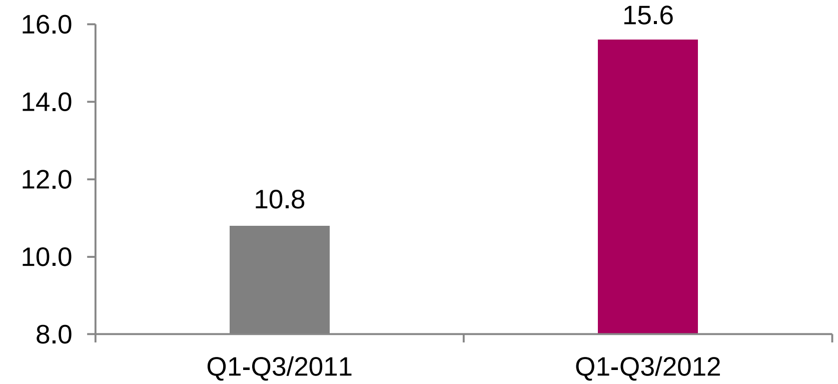
## Income for the reporting period

In m Euro




## EPRA earnings

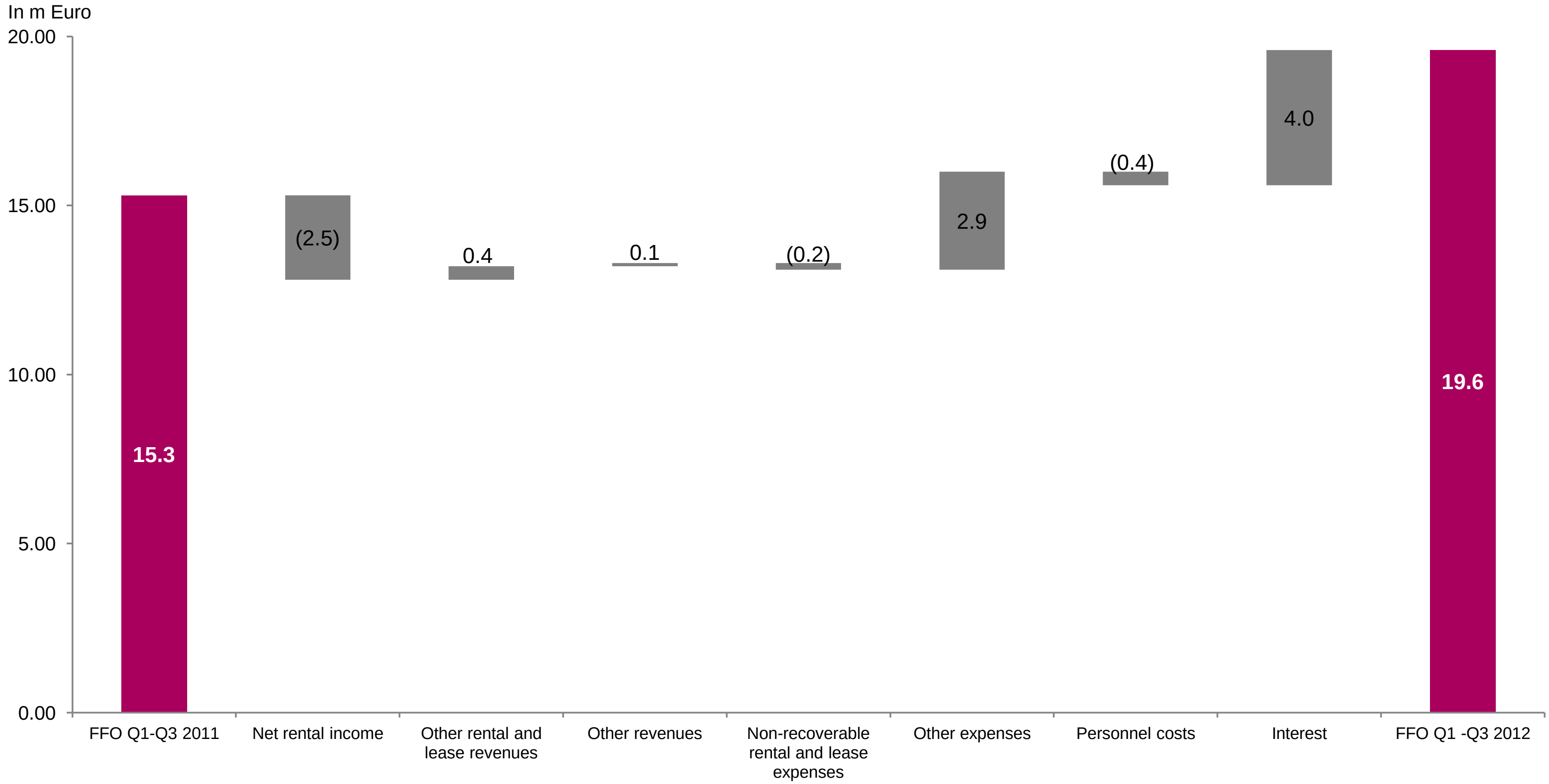
In m Euro



# Key financial data in Q1-Q3/2012 (III)

Prime Office

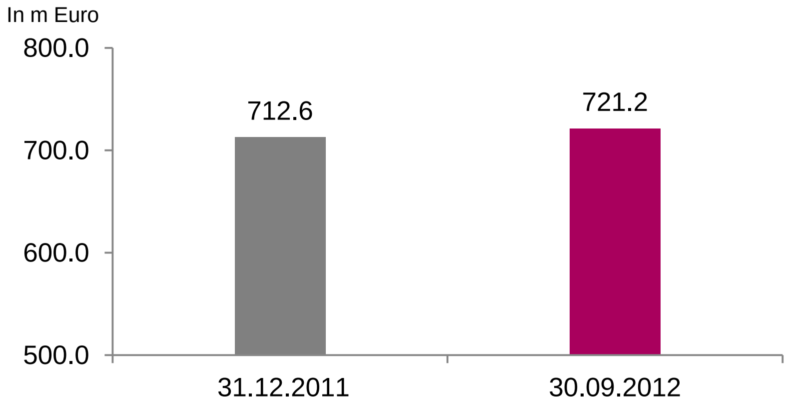
## FFO bridge



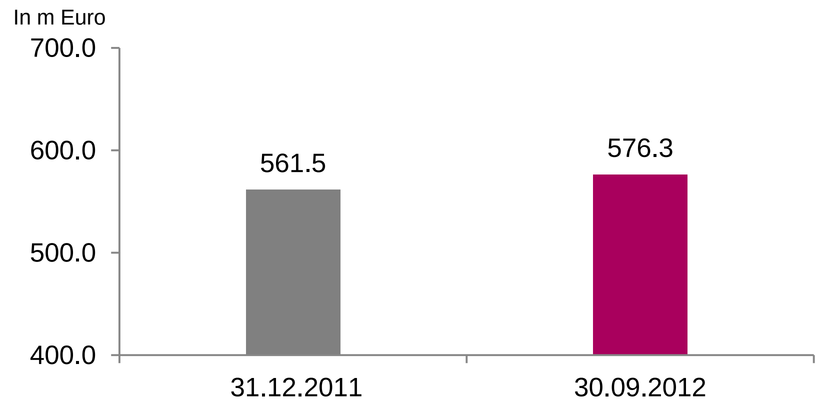

– FFO of 19.6 m Euro in Q1-Q3/2012 substantially exceed Q1-Q3/2011 and the guidance for fiscal year 2012

# Key financial data in Q1-Q3/2012 (IV)

**Total liabilities[1)]**




**Net debt[2)]**




**Comments**

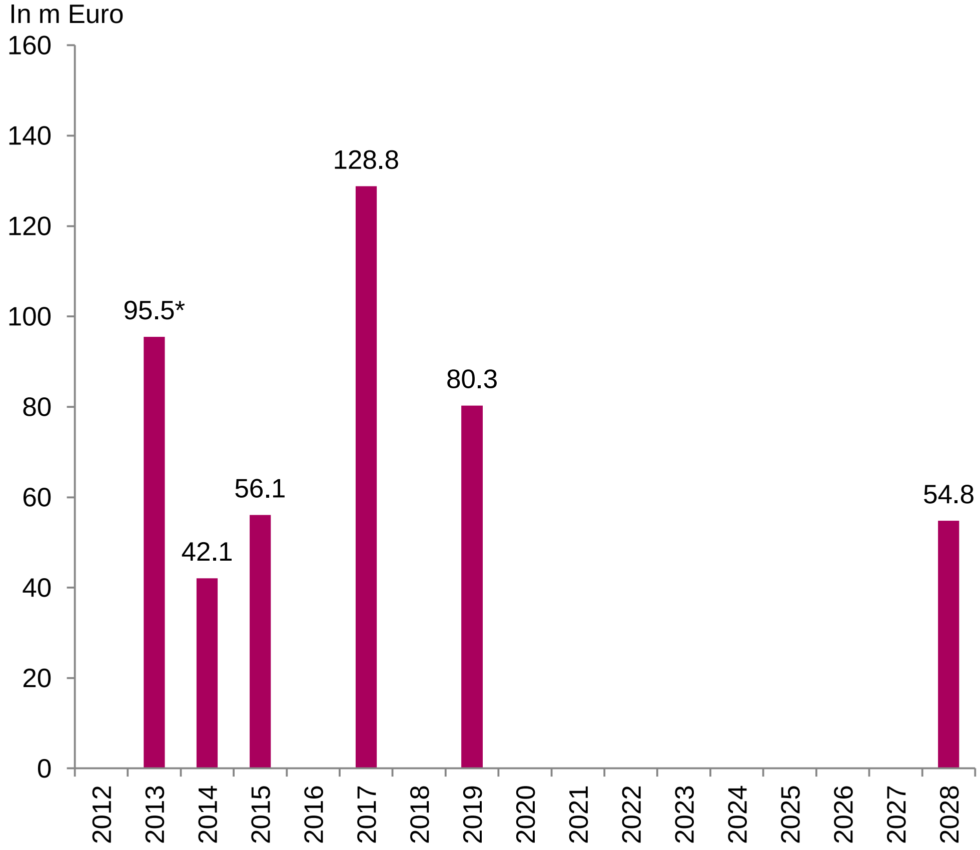
- Total liabilities slightly up by 8.6 m Euro or 1.2% compared to 31 December 2011, mainly due to the valuation of the derivative financing instruments at market rates
- Net debt of 576.3 m Euro (IFRS) slightly up compared to 31 December 2011 due to the swap valuation
- Leverage at 60.0%; LTV at 64.9%

[1)] Current + non-current liabilities [2)] Liabilities - current assets

# Key financial data in Q1-Q3/2012 (V)

Prime Office

### Maturity profile



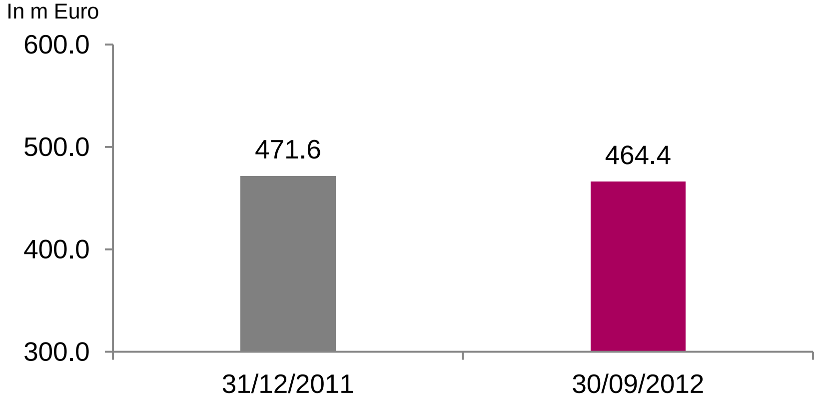

* Of these about 45 m Euro from the IPO proceeds are held against financings

### Comments

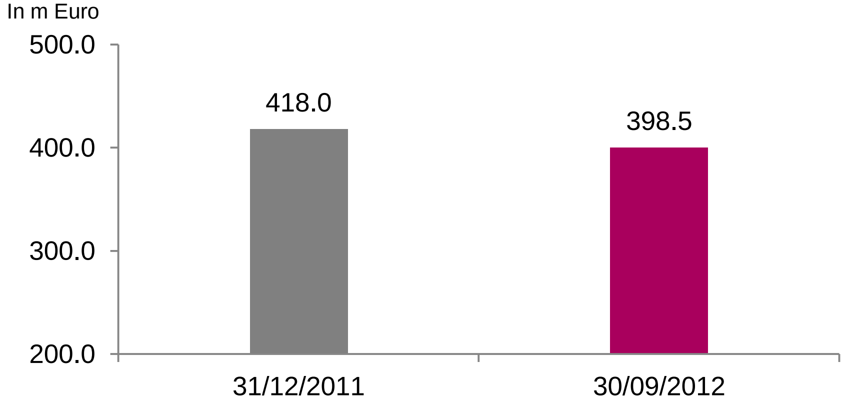
- Grand total of the loans to be prolonged until 2028: 457.6 m Euro
- In addition: CHF loan the nominal amount of which is being provided for in CHF (59.9 m Euro). Repayment planned for September 2013

# Key financial data in Q1-Q3/2012 (VI)

**Net asset value**




**Equity**




**Comments**

- NAV per share at 8.94 Euro on 30 September 2012, slightly up compared to mid-year (8.86 Euro)
- The on-going financial and euro crisis with its continually low interest rate environment again weighed on the equity through the valuation of the long-term derivative interest and currency hedging instruments
- Equity of 398.5 m Euro on 30 September 2012
- REIT equity ratio on balance sheet date at 41.5%: Slight increase from mid-year level (41.4%)

# Guidance

- Increase of FFO guidance for 2012: At revenues of 72 to 74 m Euro the board increases its FFO guidance by 3 m Euro from originally 17 to 19 m Euro to 20 to 22 m Euro

- The dividend guidance for the fiscal year 2012 is confirmed at last year's level of 9 to 12 m Euro in the interest of a stable corporate risk profile

Many thanks for your attention!

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