

Projecting Financial Statements

REFINING OUR ASSUMPTIONS

Refining Model Assumptions

Reflecting Management Guidance

Alstria Model – Refining Our Assumptions

- After completing a working copy of our model using temporary placeholders, it is now time to reflect management guidance on key drivers of the business model.
- Typically management might give guidance on items such as:
 - What will **2011E Total Rental Income** look like?
 - Will there be any changes in **NOI Margin** from the 2010 level of 91.9%?
 - Will **Corporate Expense** change from 2010 levels?
 - Is there any other guidance on key financial metrics, like **Interest Expense, FFO** or **Dividends**?
- Some guidance is offered in the annual report's ***Outlook Section*** (p. 27), the ***Financial Guidance for 2011*** slides in the 2010 investor presentation (pg. 9 - 11), and the 2010 conference call transcript

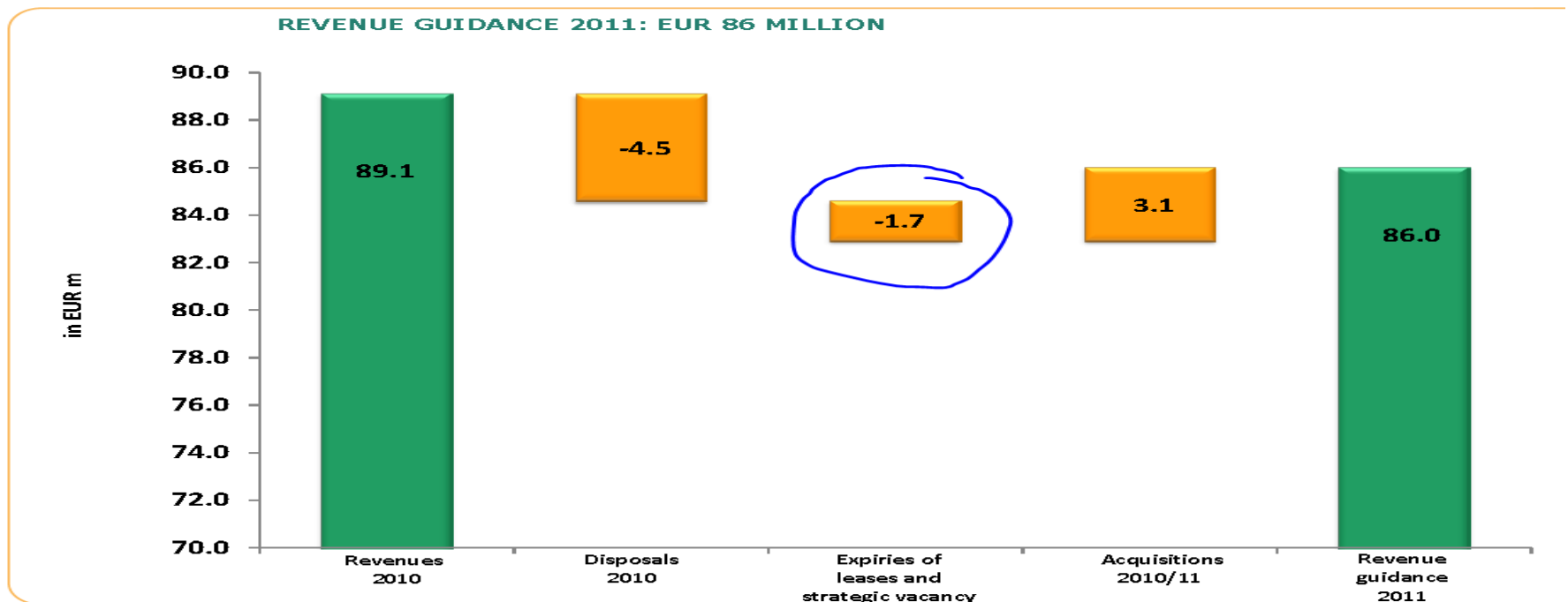
Refining Model Assumptions

Organic Rental Income Assumptions

Alstria Model – Refining Organic Rental Income Assumptions

- From the investor presentation we understand lease expiries and strategic vacancies will reduce rents by €1.7m on the organic side

Financial guidance for 2011



Refining Model Assumptions

Organic Rental Income Assumptions

Alstria Model – Refining Organic Rental Income Assumptions

- While no organic upside guidance was given in the investor presentation, from the conference call we learned that 2010A inflation-related rent indexation was about €500k

Obviously, as you all know, inflation was not really the flavor of the day in 2010. So, we had a very slow indexation effect of EUR 500,000, which get us to almost EUR 90 million of contractual rent in 2010. We always mentioned that

Refining Model Assumptions

Organic Rental Income Assumptions

Alstria Model – Refining Organic Rental Income Assumptions

- This brings us to a 2011E organic rental loss of €1.2m (€0.5m - €1.7m = -€1.2m), or -1.3% in percentage terms vs. 2010A levels
- For 2012E, we keep our 2.0% initial estimate, hypothesizing a moderate uptick in rental indexation without significant expiries

	2009A	2010A	2011E	2012E
Alstria Model Income Statement				
Rental Income - Organic	102,510	89,094	87,936	91,734
Organic rental growth	NM	-13.1%	-1.3%	2.0%
Rental Income - External	NM	NM	2,000	4,000
Total Rental Income	102,510	89,094	89,936	95,734
Operating Expenses	(10,433)	(7,250)	(7,094)	(7,312)
NOI	92,077	81,844	82,842	88,423
NOI Margin	89.8%	91.9%	92.1%	92.4%
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144	72,487	78,068

Refining Model Assumptions

External Rental Income Assumptions

Alstria Model – Refining External Rental Income Assumptions

- From the investor presentation we see €165m in **2010A Sales** at a 4.7% yield
- Moreover €67m of **2011E Acquisitions** were made – announced in 2010, but closing in 2011E – at a 6.8% yield

in EUR k

Date	No. of assets	City	Rent p.a.	Book value	Disposal price	Premium to book value	Buyers' yield*
Jan-10	2	Hamburg	3,900	75,825	84,200	11.0%	4.4%
Jul-10	2	Hamburg	2,800	52,200	52,201	0.0%	5.1%
Jul-10	2	Hamburg	1,500	25,700	29,500	14.8%	4.8%
Total	6		8,200	153,725	165,901	7.9%	4.7%

* Assuming 5% transaction costs

	Karlsruhe	Hamburg assets	Total
Total lettable area (sqm)	26,800	16,000	42,800
Total annual rent (EUR k)	2,630	1,950	4,580
Average lease length (years)	15	5.2	10.9
Vacancy rate (%)	0%	14%	5%
Acquisition price (EUR k) *	36,200	31,000	67,200
Acquisition price (EUR/sqm)	1,351	1,938	1,570
Yield (%)	7.3%	6.3%	6.8%

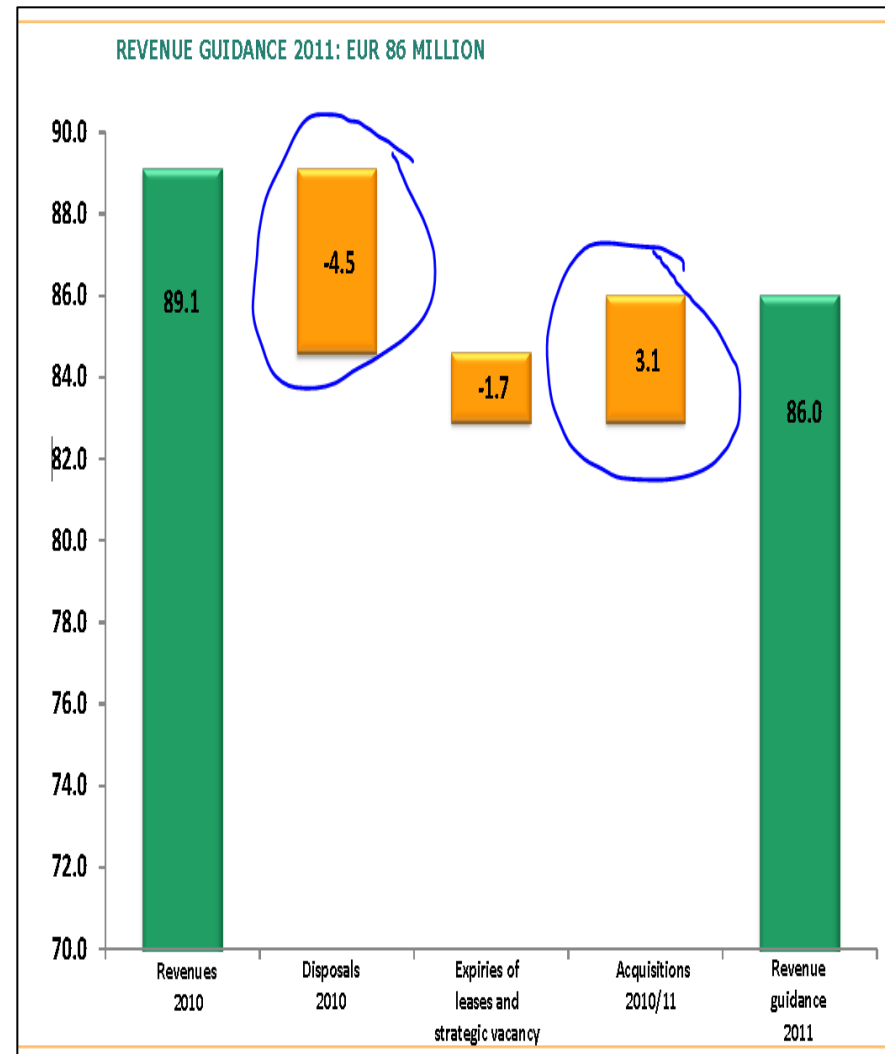
* All-in cost

Refining Model Assumptions

External Rental Income Assumptions

Alstria Model – Refining External Rental Income Assumptions

- The full-year impact on 2011E from **2010A Sales** (€4.5m) offset by rent gains from **2011E Acquisitions** (€3.1m) sums to a guided 2011E external rent loss of €1.4m



Refining Model Assumptions

External Rental Income Assumptions

Alstria Model – Refining External Rental Income Assumptions

- Conference call guidance to moderate additional B/S capacity suggests €33m of incremental acquisitions aren't unrealistic. So we keep our previous €100m placeholder
- We assume a total **2011E Acquisition Yield** at 6.8%, the same level as deals recently closed
- Given the high **2010A Sales Volume**, we zero out further sales for 2011E
- For 2012E, we set both **Acquisition Volume & Sales Volume** to €50m, ensuring that no further acquisition debt is needed, in line with management's guided effort not to increase debt
- We maintain our original **2012E Acquisition Yield** of 6.5% and **2012E Sales Yield** of 5.0%

E48		fx 50000				
	A	B	C	D	E	F
47	Acquisitions, net of Sales	2009A	2010A	2011E	2012E	
48	Acquisition Volume	NM	NM	100,000	50,000	
49	Acquisition Yield (gross)	NM	NM	6.80%	6.50%	
50	Rental Income Gained, total per acquisition	NM	NM	6,800	3,250	
51						
52	New Rent from 2011E Acquisitions (mid-year)	NM	NM	3,400	3,400	
53	New Rent from 2012E Acquisitions (mid-year)	NM	NM	-	1,625	
54	New Rent from Acquisitions, per year	-	-	3,400	5,025	
55						
56	Sales Volume	NM	NM	-	50,000	
57	Sales Yield (gross)	NM	NM	5.00%	5.00%	
58	Rental Income Lost, total per sale	NM	NM	-	2,500	
59						
60	Rent lost from 2010A Sales (mid-year)	NM	NM	(4,500)	-	
61	Rent lost from 2011E Sales (mid-year)	NM	NM	-	-	
62	Rent lost from 2012E Acquisitions (mid-year)	NM	NM	-	(1,250)	
63	Rent lost from Acquisitions, per year	-	-	(4,500)	(1,250)	
64						
65	Rental Income - External	NM	NM	(1,100)	3,775	

Refining Model Assumptions

External Rental Income Assumptions

Alstria Model – Refining External Rental Income Assumptions

- Incorporating refined organic and external rental growth assumptions, our **2011E Total Rental Income** comes roughly in line with management guidance

	2009A	2010A	2011E	2012E
1				
2 Alstria Model Income Statement				
3 Rental Income - Organic	102,510	89,094	87,936	88,572
4 <i>Organic rental growth</i>	NM	-13.1%	-1.3%	2.0%
5 Rental Income - External	NM	NM	(1,100)	3,775
6 Total Rental Income	102,510	89,094	86,836	92,347
7 Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
8 NOI	92,077	81,844	76,633	84,036
9 NOI Margin	89.8%	91.9%	88.3%	91.0%
10 Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
11 Other Expenses & Income, net	(314)	1,577		
12 EBITDA				
13 EBITDA Margin				
14 D&A	(473)	(570)	(689)	(808)
15 EBIT	81,038	72,574	65,588	72,873
16 Cash Interest Expense, net	(52,117)	(42,887)	(34,658)	(34,359)
17 PBT	28,921	29,687	30,931	38,513
18 Cash Taxes	-	-	-	-
19 Tax Rate	-	-	-	-
20 JV Income & Other	(264)	(31)	(1,484)	363
21 Add back: D&A	473	570	689	808
22 FFO	29,130	30,226	30,136	39,685

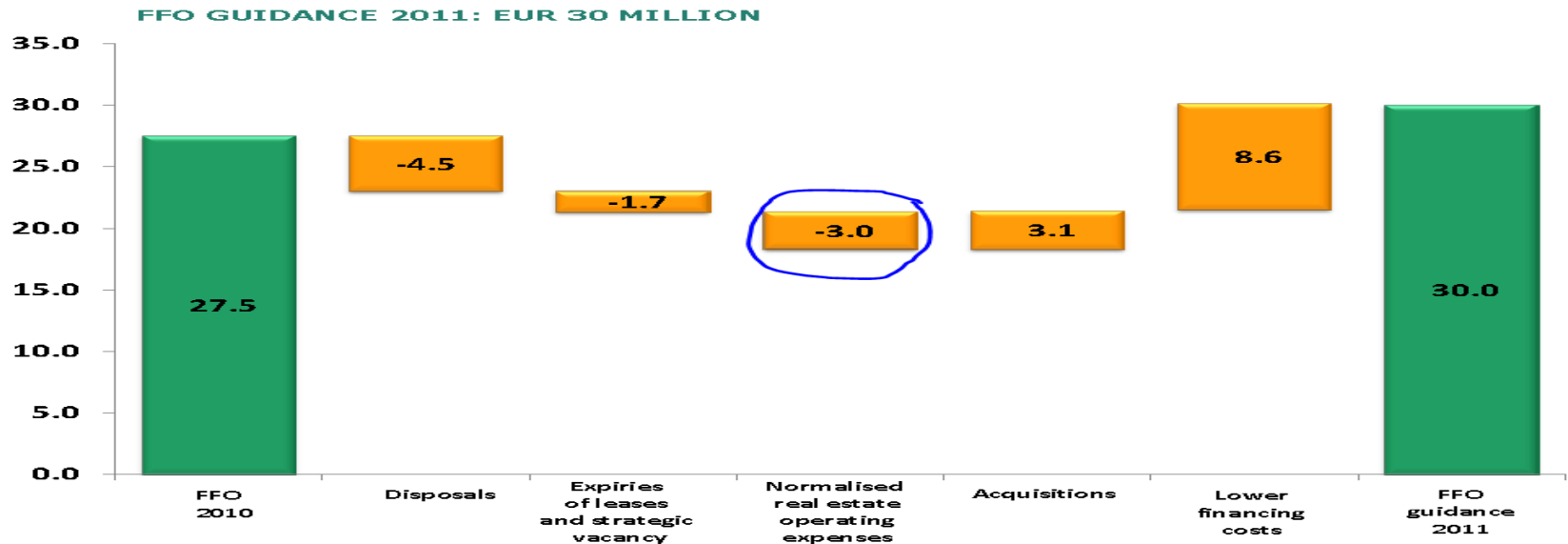
2011E Total Rental Income
roughly in line with full-year
guidance to €86m

Refining Model Assumptions

Operating Margin Assumptions

Alstria Model – Refining NOI Margin Assumptions

- From the investor presentation and conference call we learned that **2011E Operating Expenses** will likely rise by €3.0m
- Longer term, we have conference call guidance to operating expenses of 8-10%



assume a long-term average of real-estate operating expenses more between 8 and 10%

Refining Model Assumptions

Operating Margin Assumptions

Alstria Model – Refining NOI Margin Assumptions

- Assuming **2011E Operating Expenses** increase by €3m as guided in the presentation implies a **2011E NOI Margin** of 88.3%
- Using the 8-10% long-term guidance for operating expenses implies an NOI margin range of 90%-92%. We choose the midpoint of 91%

	2009A	2010A	2011E	2012E
Alstria Model Income Statement				
Rental Income - Organic				
Organic rental growth				
Rental Income - External	NM	NM	(1,200)	3,775
Total Rental Income	102,510	89,094	86,830	92,347
Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
NOI	92,077	81,844	76,633	84,036
NOI Margin	89.8%	91.9%	88.3%	91.0%
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144	66,278	73,681

Reflect guidance to **2011E Operating Expenses** increase of €3m and a normalized **2012E NOI Margin** of 91%

Refining Model Assumptions

Corporate Expense Assumptions

Alstria Model – Refining Corporate Expense Assumptions

- From the conference call we understand that SG&A (Selling General and Administrative Expenses) aka **Corporate Expense** is “highly scalable” – i.e. it is not expected to increase, even as the business expands

why revenues are down here by around 13%. SG&A has been very stable, actually throughout the last couple of years and would have been even slightly on the expensive side here. And the reason for this was that we thought one of the key values that alstria is actually developing and that constitute one of the key value drivers of alstria is the asset management platform as we deliver is highly scalable.

Refining Model Assumptions

Corporate Expense Assumptions

Alstria Model – Refining Corporate Expense Assumptions

- We therefore keep the 2011E and 2012E **Corporate Expense** flat, in-line with management guidance on the conference call

	2009A	2010A	2011E	2012E
Alstria Model Income Statement				
Rental Income - Organic	102,510	89,094	87,936	88,572
<i>Organic rental growth</i>	<i>NM</i>	<i>-13.1%</i>	<i>-1.3%</i>	<i>2.0%</i>
Rental Income - External	<i>NM</i>	<i>NM</i>	(1,100)	3,775
Total Rental Income	102,510	89,094	86,836	92,347
Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
NOI	92,077	81,844	76,633	84,036
<i>NOI Margin</i>	<i>89.8%</i>	<i>91.9%</i>	<i>88.3%</i>	<i>91.0%</i>
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655		-
EBITDA	81,511	73,144	66,288	73,681
<i>EBITDA Margin</i>	<i>80.0%</i>	<i>81.0%</i>	<i>76.3%</i>	<i>79.8%</i>
D&A	(475)	(570)	(602)	(600)
EBIT	81,038	72,574	65,588	72,873
Cash Interest Expense, net	(52,117)	(42,887)	(34,658)	(34,359)
PBT	28,921	29,687	30,931	38,513

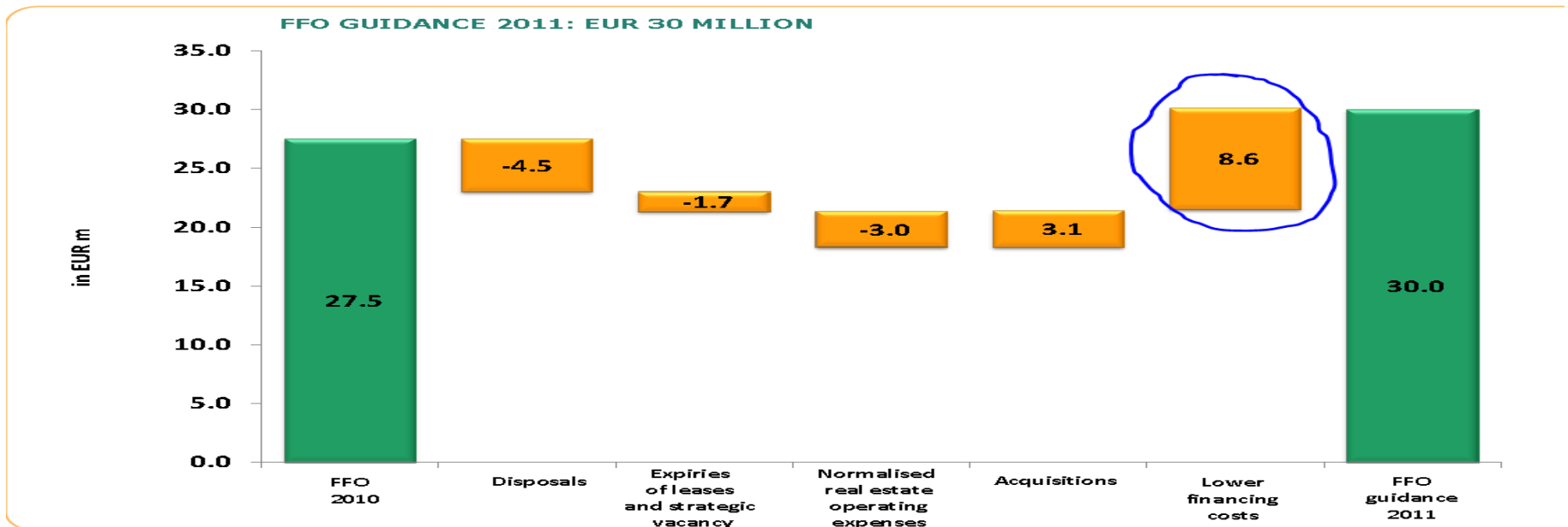
Keep flat **Corporate Expense** assumption unchanged in line with guidance.

Refining Model Assumptions

Interest Expense Assumptions

Alstria Model – Refining Interest Expense Assumptions

- From the investor presentation and the conference call we know that management anticipates a **2011E Interest Expense** reduction of €8.6m



the last year. The single most significant effect here on the FFO guidance is a reduction in financing expenses and that is driven obviously by... I mean mainly by the de-leveraging effect by the reduction of loans outstanding and is in total an effect of around 8.6 million.

Refining Model Assumptions

Interest Expense Assumptions

Alstria Model – Refining Interest Expense Assumptions

- In our model, **Interest Expense** calculates dynamically and isn't directly taken from management guidance
- However, we should still verify that our figures aren't too far off management guidance. Otherwise one of our assumptions may be unrealistic
- Double-checking our calculated **2011E Cash Interest Expense** figure of €34.7m, implies an €8.2m decline vs. **2010A Cash Interest Expense** – close enough to management guidance

Alstria Model Income Statement	2009A	2010A	2011E	2012E
Rental Income - Organic	102,510	89,094	87,936	88,572
Organic rental growth	NM	-13.1%	-1.3%	2.0%
Rental Income - External	NM	NM	(1,100)	3,775
Total Rental Income	102,510	89,094	86,836	92,347
Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
NOI	92,077	81,844	76,633	84,036
NOI Margin	89.8%	91.9%	88.3%	91.0%
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA				
EBITDA Margin				
D&A	(473)	(570)	(589)	(808)
EBIT	81,038	72,574	65,588	72,873
Cash Interest Expense, net	(52,117)	(42,887)	(34,663)	(34,383)
PBT	28,921	29,687	30,926	38,490

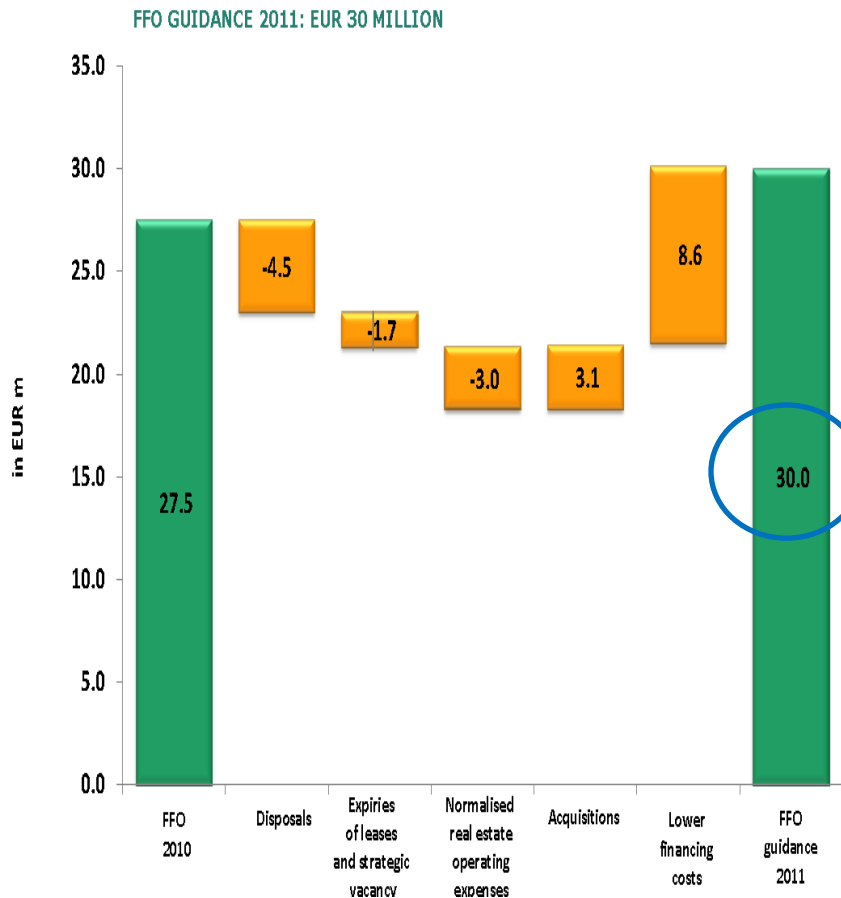
Calculated decline in **2011E Cash Interest Expense** of €8.2m is close to management guidance.

Refining Model Assumptions

FFO Assumptions

Alstria Model – Refining FFO Assumptions

- On a **2011E FFO** basis, management is guiding to €30m, very close to our €30.1m figure



Alstria Model Income Statement	2009A	2010A	2011E	2012E
Rental Income - Organic	102,510	89,094	87,936	88,572
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Rental Income - External	NM	NM	(1,100)	3,775
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NOI	92,077	81,844	76,633	84,036
NOI Margin	89.8%	91.9%	88.3%	91.0%
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144	66,278	73,681
EBITDA Margin	79.5%	82.1%	76.3%	79.8%
D&A				
EBIT				
Cash Interest Expense, net	(52,117)	(42,887)	(34,663)	(34,383)
PBT	28,921	29,687	30,916	38,490
Cash Taxes	-	-	-	-
Tax Rate	-	-	-	-
IV Income & Other	(264)	(31)	(1,484)	363
Add back: D&A	473	570	809	808
FFO	29,130	30,226	30,131	39,661

Calculated **2011E FFO** is very close to management guidance.

Refining Model Assumptions

FFO Assumptions

Alstria Model – Refining FFO Assumptions

- On a y/y basis, €30m in **2011E FFO** implies ca. 9% FFO growth on **2010A FFO** of €27.5m reported by management
- Recall however, that our assessment of **2010A FFO** was €30.2m – about €2.7m above management’s calculated FFO of €27.5m. As such, we project more-or-less flat **2011E FFO**
- For 2012E, we expect strong FFO growth of over 30%, however, as rental contributions from recent acquisitions hit the P&L and margins increase

Alstria Model Income Statement	2009A	2010A	2011E	2012E
Rental Income - Organic	102,510	89,094	87,936	88,572
<i>Organic rental growth</i>	<i>NM</i>	<i>-13.1%</i>	<i>-1.3%</i>	<i>2.0%</i>
Rental Income - External	<i>NM</i>	<i>NM</i>	(1,100)	3,775
Total Rental Income	102,510	89,094	86,836	92,347
Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
NOI	92,077	81,844	76,633	84,036
<i>NOI Margin</i>	<i>89.8%</i>	<i>91.9%</i>	<i>88.3%</i>	<i>91.0%</i>
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144	66,278	73,681
<i>EBITDA Margin</i>	<i>79.5%</i>	<i>82.1%</i>	<i>76.3%</i>	<i>79.8%</i>
D&A	(473)	(570)	(689)	(808)
EBIT	81,038	72,574	65,589	72,873
Cash Interest Expense, net	-	-	-	(3)
PBT	81,038	72,574	65,589	72,870
Cash Taxes	-	-	-	-
Tax Rate	-	-	-	-
JV Income & Other	(264)	(31)	(1,484)	363
Add back: D&A	473	570	689	808
FFO	29,130	30,226	30,131	39,661

Calculated **2011E FFO** is very close to management guidance.



Refining Model Assumptions

FFO per Share Assumptions

Alstria Model – FFO per Share Assumptions

- To derive **2011E FFO per Share** we have to update our share number
- Recall, we used the **Average Shares Outstanding** in 2010A and applied these to future years 2011E and 2012E

Average number of shares outstanding (thousands)	57,525	56,833
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- This is technically inaccurate however, as 2011E Shares Outstanding should be based on year-end 2010A shares, not 2010A Average Shares

Composition of subscribed capital, voting rights and special rights

As per the balance sheet date of December 31, 2010, the share capital of alstria is EUR 61,599,999.00, divided into **61,599,999 no par value bearer shares**. All shares have equal rights

Refining Model Assumptions

FFO per Share Assumptions

Alstria Model – FFO per Share Assumptions

- Using the corrected share number, we derive **2011E FFO per Share** of €0.49
- Note: Alstria's reported **FFO per share** numbers are calculated using year-end shares, not average shares as in our analysis. Alstria's reported **FFO per Share** numbers therefore need to be adjusted accordingly to be comparable

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Rental Income - External	<i>NM</i>	<i>NM</i>	(1,100)
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<i>NOI Margin</i>	89.8%	91.9%	88.3%
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Other Expenses & Income, net	(214)	1,655	-
EBITDA	81,511	73,144	66,278
<i>EBITDA Margin</i>	79.5%	82.1%	76.3%
D&A	(473)	(570)	(689)
EBIT	81,038	72,574	65,588
Cash Interest Expense, net	(52,117)	(42,887)	(34,663)
PBT	28,921	29,687	30,925
Cash Taxes			
Tax Rate			
JV Income & Other			
Add back: D&A	473	570	689
FFO	29,130	30,226	30,131
Shares Outstanding (average)	56,833	57,525	61,599
FFO per Share	€0.51	€0.53	€0.49

Using corrected **2011E Shares Outstanding** of 61.6m, **2011E FFO per Share** is €0.49

Refining Model Assumptions

Dividend Assumptions

Alstria Model – Refining Dividend Assumptions

- The final guidance to be incorporated into our model concerns the **2011E Dividend** of €0.44 per share and the target future year **Payout Ratio** of 90%

- Dividend proposal to AGM for 2010: EUR 0.44 per share

- Expected payout ratio 2011: 90% of FFO

Alstria Model Income Statement	2009A	2010A	2011E	2012E
Rental Income - Organic	102,510	89,094	87,936	88,572
<i>Organic rental growth</i>	<i>NM</i>	-13.1%	-1.3%	2.0%
Rental Income - External	<i>NM</i>	<i>NM</i>	(1,100)	3,775
Total Rental Income	102,510	89,094	86,836	92,347
Operating Expenses	(10,433)	(7,250)	(10,203)	(8,311)
NOI	92,077	81,844	76,633	84,036
<i>NOI Margin</i>	89.8%	91.9%	88.3%	91.0%
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144	66,278	73,681
<i>EBITDA Margin</i>	79.5%	82.1%	76.3%	79.8%
D&A				
EBIT				
Cash Interest Expense, net				
PBT				
Cash Taxes				
Tax Rate				
JV Income & Other	(264)	(31)	(1,484)	363
Add back: D&A	473	570	689	808
FFO	29,130	30,226	30,142	39,717
Shares Outstanding (average)	56,833	57,525	61,599	61,599
FFO per Share	€0.51	€0.53	€0.49	€0.64
Dividends	€0.52	€0.50	€0.44	€0.58
Payout Ratio	101%	95%	90%	90%

The guided **2011E Dividend** of €0.44 implies a **Payout Ratio** of 90%. For 2012E the guided 90% **Payout Ratio** implies €0.58 in **Dividends per Share.**

Comparing Projections with Actual Results

Comparing 2011E Projections w/ 2011A Actuals

Alstria Model – Comparing Projections to Actuals

- Following publication of Alstria's 2011 Results on Feb 21, 2012 we can cross-check our projections against actual results

<i>2011E Alstria Model Projections vs. 2011 Actuals</i>	2011E	2011A	Difference	
			Absolute	% Difference
Rental Income	86,836	90,798	3,962	4.6%
Operating Expenses	(10,203)	(9,831)	372	
NOI	76,633	80,967	4,334	5.7%
<i>NOI Margin</i>	88.3%	89.2%		
Corporate Expense	(10,355)	(11,721)	(1,366)	
Other Expenses & Income, net	-	1,508	1,508	
EBITDA	66,278	70,754	4,476	6.8%
<i>EBITDA Margin</i>	76.3%	77.9%		
D&A	(689)	(500)	189	
EBIT	65,588	70,254	4,666	
Cash Interest Expense, net	(34,652)	(35,200)	(548)	
PBT	30,937	35,054	4,117	13.3%
Cash Taxes	-	-		
Tax Rate	0.0%	0.0%		
Other non-operating items, net	(1,484)	1,618	3,102	
Add back: D&A	689	500	(189)	
FFO	30,142	37,172	7,030	23.3%
Shares Outstanding (average)	61,599	69,245		
FFO per Share	€0.49	€0.54	€0.05	9.7%
Published FFO per Share (adjusted, based on avg shares)		€0.50		

- Examining our projections in light of actuals shows a significant deviation, as our **2011E FFO** estimate fell 23% short of actual results (10% on an **FFO per Share** basis). Part of this delta is due to higher-than expected acquisitions and a related capital increase. Other large variances arose from a miss on **JV Income**.
- The takeaway is that studying the financials & reflecting management guidance gets you only so far but does not guarantee accurate estimates. In the famous words of George Box “**all models are wrong, but some are useful.**”

The Use and Misuse of Financial Models

A Word of Caution

The Usefulness of Financial Models

- Certainly **there is merit to the analytical process of financial modeling**: combing through public data, interviewing management teams, learning about industry trends and comparing different companies on specific, empirical data.
- Unfortunately, models are often misunderstood (and misused) as accurate or precise predictors. **Exactness in forecasting does not exist and reliance on model estimates is a dangerous mistake.** In this vein, skeptical and selective use of financial models is suggested:
 - **Models can serve as a checklist & reminder to investigate published disclosure** and market data, but they **can never produce reliable or exact estimates**. Such precision in a dynamical, complex and interconnected business environment is an illusion.
 - Usefulness of **financial projections deteriorates rapidly, the further out the forecast is made**. As such, a financial estimate looking 12-18 months out is more useful than gazing 3-10 years into the future (rendering most DCF valuations falsely accurate and totally misleading).
 - **Models can sometimes be useful to give broad directional signals** – e.g. Company A looks much more expensive or risky than Company B – but **they can never give a specific or accurate answer**, like Company A is worth €8.57 per share.
 - Given the inherent inaccuracies associated with financial projections, **buy/sell decisions should never be exclusively based on such projections**. Again, a broad directional signal is the best one can hope for. Even then **common sense always trumps model outputs**.