LEG Immobilien SE
Speech by the CEO
Lars von Lackum
Annual general meeting
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- Check against delivery -

Dear shareholders,
Dear customers,
Dear employees of our LEG,
Ladies and gentlemen,

Welcome to our Annual General Meeting.

In the past three years, we have only been able to meet virtually.

Now, **personal interaction** is finally possible again.

Together with my colleagues on the Executive Board, I am very much looking forward to this.

You know Dr. Volker Wiegel, the COO of LEG Immobilien SE, very well.

Dr. Kathrin Köhling is a new member of our team and CFO of the Company. She has just briefly introduced herself to you. For Volker and me, Kathrin has been an esteemed colleague for many years.

Dear Kathrin, it's great to have you with us today for the first time in your new role.

2022 was a year of unforeseen challenges. German Chancellor Olaf Scholz put it in a nutshell: The Russian war of aggression against Ukraine represents a **turning point**.

Already last year I told you about the speedy and spirited **help of the LEG team** for Ukrainian refugees.

By the end of 2022, LEG prepared and allocated 1,700 apartments in around 60 cities for people from the war zone.

I am very proud of the great and continuing commitment of many colleagues, whether as private individuals, in the company or through our "Your Home Helps" foundation.

The effects of the changing times are still being felt by everyone in Germany. **Energy costs and the cost of living** have risen enormously.

We welcome the rapid relief measures introduced by the German government. This applies above all to the **Wohngeld Plus** program that specifically benefits lower-income households.

We **flank government support** – for example, with energy-saving measures, assistance with applications, and the offer of installment payments.

Even though as German society we made it through the winter of 2022/2023 in good shape, we remain vigilant. After all, the next winter is sure to come.

In a word, just like during the Corona pandemic, we are doing everything we can to keep our loyal customers. This has proven successful – for our tenants and for us.

Last but not least, the general conditions for our business have changed considerably in the wake of **inflation and rising interest rates**.

At the same time, the **immense demand for affordable housing** in the face of declining new construction represents a permanently resilient business model.

Our core business is in good shape. And we are ideally equipped for the future.

Let me present the details to you using the following three topics:

- In a look back at the year 2022

- Our cash-focused strategy adjustment and the outlook for the full year 2023

- Our innovation and growth offensive for green and digital solutions for the entire housing industry.

First, let‘s look back. Despite all the challenges, 2022 was a good year for LEG.

- We set new records in the rental business. Our operating performance is excellent.

- We integrated the largest purchase in our company's history quietly.

- We successfully launched our first green future joint venture, RENOWATE.

- We have increased customer satisfaction. Our tenants reward our reliability in times of crisis.

- We boosted employee satisfaction. Thank you for your efforts, dear LEG team. You are the best!

We have thus met or exceeded our targets for 2022.

- The **vacancy rate** fell to 2.4 percent. In our traditional turf, the vacancy rate was as low as 1.9 percent at the end of 2022.

- The **actual rent** increased to an average of EUR 6.32 per square meter in the period under review. This corresponds to an increase of 3.1 percent. We thus slightly exceeded our target for rental growth.

  With a basic rent of 6.32 euros, we continue to stand for **good living at fair prices in Germany**. That is and remains our product!

- **FFO I increased** by almost 14 percent to around 482 million euros.

- The **AFFO**, which was also reported previously but with less focus, was actually 18 percent higher than the previous year at 108.8 million euros.

  As spending discipline and liquidity provisioning become more important in the changed environment, we have made cash-oriented AFFO the key performance indicator for the company in 2023.

  AFFO is a much better reflection of the liquidity surplus generated than the previous FFO I. It is calculated based on FFO I reduced by capitalized portfolio investments.

- Thus, we have put the brakes on **investment in our existing portfolio**, which now stands at just under 41 euros per square meter.

  As we only want to spend what we earn.

- The **net asset value of our real estate**, the so-called NTA, increased by 4 percent to 153.52 euros per share as of the December 31st 2022 reporting date.

  This was due to the significant increase in the value of the real estate portfolio in the strong first half of 2022. In contrast, NTA declined by 4 percent in the second half of the year, which was in line with our expectations.

- We continue to see pronounced **buying restraint** in the residential real estate market. There are no clear price signals.

  In this environment, we sold around 600 units in 2022. In doing so, we have remained true to our principles: On average, we want to confirm our book value through sales.

  We are not under time pressure. We will therefore not sell any properties below their value.

- Despite the very good 2022 fiscal year, the market environment continues to be characterized by many uncertainties regarding the further development of inflation and interest rates.

- The Executive Board and the Supervisory Board of LEG Immobilien SE have therefore decided, to suspend the **dividend payment** for fiscal year 2022.

  This really has not been easy for us. We know: In many cases, our dividends flow as interest into funds and pension funds for people who have no or hardly any state pension rights.

  Nevertheless, in our discussions with investors and shareholders, we found a lot of understanding for the fact that we are using the funds to strengthen the balance sheet against the background of sharply increased financing costs and persistently low volumes in the transaction markets. We would like to express our sincere thanks to our shareholders for this.

We are certain that a strong balance sheet will enable us to get through the current difficult phase more quickly and with a stronger future.

Financial stability is as much a hallmark of LEG as operational excellence. And we intend to keep it that way:

- Thus, our **medium-term target for the loan-to-value, LTV**, which is our net debt in relation to real estate assets, remains unchanged at 43 percent. As of December 31st, 2022, the LTV was just above this at 43.9 percent.

  We do not have any major maturities until the beginning of 2024. We have already been able to extend the outstanding financial liabilities for 2023 or redeemed – or will – redeem them.

  Existing cash resources, our commercial paper program and syndicated working capital lines provide us with a solid liquidity reserve.

Furthermore, clear, individual and measurable **sustainability targets** are an integral part of our strategy. Here we have achieved or exceeded all targets. This applies to all three sustainability dimensions: Environment, Social and Governance.

Customer satisfaction is of particular importance in this context:

- We now survey the **Customer Satisfaction Index** or CSI once a quarter. Compared with the first measurement at the end of 2020, we improved by six percentage points last year.

  What's new is that we will also check with our tenants directly after each contact with our main customer service center or repair desk to see if their concerns have been addressed to their satisfaction.

- In addition, our **foundations** have expanded the range of assistance services and hired more social managers.
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  Finally, we are pleased to be able to offer more light-hearted events with and for tenants again now that Corona has lost its dread. Especially when it comes to critical neighborhood issues, direct, personal communication is hard to replace.

A brief word on the **first quarter of 2023:** It follows on seamlessly from the good development in fiscal year 2022. We have started the year well and have confirmed our guidance for 2023 with the publication of the quarterly figures.

In a nutshell:

- Operationally, we are strong.
- We are financially prudent.
- Sustainability is a top priority for us.

I now come to part 2 of my speech "Strategy and Outlook". We focused our LEG systematically and at an early stage on capital efficiency in times of rising interest rates. This is paying off.

The situation on the residential real estate market is paradoxical.
On the one hand, **demand for housing** is higher than ever. This is particularly the case for the segment in which we operate - affordable housing.

In this respect, we are doing much better than other industries where demand has collapsed due to the triple emergency of the Ukraine war, the energy crisis, and inflation.
This will not change; on the contrary, the necessary influx of skilled workers and the admission of refugees will reinforce this trend.

Population growth in 2022 was the second strongest since the Federal Republic came into existence.

Pestel, a well-known German research institute, has calculated that around 700,000 new apartments would have to be built in our country every year to meet the rising demand.

In fact, according to current estimates, the number of new buildings this year will only be around 230,000 units.

This is no surprise: It is simply no longer possible to build affordable new buildings in Germany.

The gap between supply and demand is therefore widening.

This is particularly true in our market segment – affordable housing.

Our clear focus on "good housing at fair prices in Germany" is especially paying off now.

As a result, our portfolio is generating a gross return of 4.2 percent, an attractive rental yield even in the current environment.

Our apartments rent like the "greatest thing since sliced bread".

In terms of **key operating figures,** we are breaking one record after another. In 2022, for example, we recorded a **vacancy rate of 1.9 percent** in our established regions. I mentioned this at the beginning. This means full occupancy, because the low residual vacancy rate is explained by renovation periods when tenants change.

In a word: **Our business model is sound and crisis-resistant; our operating performance is outstanding.**

On the other hand, Germany's real estate industry is currently facing **enormous challenges and expectations**.

Exploding construction costs and energy prices, the highest inflation rate in 50 years, shortages of skilled workers and materials, ever-increasing climate protection requirements, and shrinking as well as regularly changing funding regimes go hand in hand with a regulatory zeal on the part of the EU, federal, state and local governments.

This hits us in a phase of rising interest rates and financing costs. We therefore must **pay** very careful **attention to our liquidity**. And this is what we are doing.

Lack of price signals in the transaction market is also an issue. Many buyers are sitting on the sidelines.

Concrete gold remains fundamentally in demand – but no one wants to get back in too early and no one wants to sell too cheaply. Accordingly, we also find it much more difficult than usual to provide an outlook for property valuations in the first half of the year; we currently expect depreciation in the mid-single digits.

At LEG, we are benefiting in this difficult environment from our traditionally **conservative financing policy** and our **solid balance sheet.**

We are ideally placed to navigate the current rough seas for the housing industry.

In addition, however, we want to **navigate** LEG **through the storm as intelligently as possible**. For this reason, the Executive Board decided as early as fall 2022, with the approval of the Supervisory Board, to adjust the business strategy for the duration of the unfavorable market environment.

Since then, we have been systematically and vigorously implementing our **four-point plan** to focus on capital efficiency. The points in detail:

- **Point one is: Improving cost structures and strengthening the operating business**

  A key driver of the adjusted strategy is **the reduction in portfolio investment** per square meter.

  For 2023, we have set ourselves the target of spending only 35 euros per square meter. Compared with the original planning for 2022 of 46 to 48 euros per square meter and taking increased construction costs into account, this represents a real reduction of more than 40 percent.

  At the same time, we expect **rents to rise robustly** by 3.3 to 3.7 percent on a like-for-like basis in 2023. With rental growth of **3.8 percent in the first quarter of 2023**, we are currently well on target.

  We are also **reducing our cost base, targeting savings** of more than 10 million euros.

- **Point two is: Rapid run-off of the capital-intensive project development business**

  The development of new construction projects is capital-intensive and no longer viable against a backdrop of rising construction costs and interest rates, increasing environmental requirements and uncertain subsidy conditions. This is particularly true in our segment, affordable housing.

  Our customers are mainly people with low and middle incomes. They can no longer afford to rent new buildings.

  We therefore decided as early as November 2022 to **discontinue our new construction activities completely**.

  Anyhow, our project development business is quite small. It was

already not part of LEG's core business. We can therefore implement this run-off quickly once our current projects have been completed. Capital expenditure on new buildings will be cut in half already in the coming year. From 2026, there will be no more expenditure on new developments.

- **Point three is: positioning as a net seller**

Due to the change in the capital market environment, we have no longer been making **purchases** since October 1, 2022.

In addition, the **marketing of more than 5,000 apartments** is ongoing. This will allow us to position ourselves as a net seller as soon as the transaction market returns.

At the moment, the wait-and-see attitude of a large proportion of investors means that only small lots can be sold to confirm value. We have therefore sold around 600 apartments in 2022 – in total, at or slightly above book value. In the first quarter of 2023, we have sold around 430 apartments to date on average at book value.

The good thing is that we want to sell but don't have to.

In the interests of commercial prudence, we have not budgeted for any sales proceeds in 2023. Irrespective of this, we expect the markets to recover.

In our view, this is supported by the increase in new rental income in our markets. In the first quarter, for example, we were able to increase new rental income in the growth markets by 5.7 percent compared with the first quarter of the previous year. We are sure that – sooner or later – this will also have a positive impact on the transaction market.

- **Point four is: Preserve and strengthen innovative spirit and sustainability**

It is important to us to think about the future. Especially in economically challenging times, pushing forward future projects and acting sustainably are crucial.

Here, we benefit from our medium-sized structures and our "problem-tackling" mentality.

Here, too, we pay attention to smart, capital-saving and digital measures.

"Out of crisis mode - into green growth" – this is our motto.

I will come back to our current plans after the outlook for the current fiscal year.

2023 will not be an easy year for the housing industry. But LEG's facts and figures are accurate:

- The year got off to a successful start.
- We are making good progress in implementing our cash-focused strategy adjustment.
- We expect AFFO for the current fiscal year to be in the range of 125 million euros to 140 million euros. Thus, the improved outlook from March 2023 remains unchanged.

This brings me to the third and final part of my speech: our innovation and growth offensive for green and digital solutions for the entire housing industry.

I have just gone giddy for a moment.

Despite all the savings and optimization, we have not lost our agility.

After all, what would our LEG be without smart growth ideas and a proactive look ahead?

We continue to tap attractive growth potential – even in the current market situation.

A particular focus is on smart, digital innovations for efficient CO_2 avoidance for the entire European housing industry.

LEG sees the green transformation of the economy as an opportunity to make progress on its own climate path while at the same time developing new value-creating business models and partnerships beyond portfolio management.

Here, we have built up a strong base in a short period of time, which is something to be proud of:

- **RENOWATE** – our joint venture with Austria's Rhomberg-Bau for the **serial refurbishment of buildings** – got off to a flying start in 2022.

  In its one-year existence, the young joint venture has already successfully completed work on two of a total of 14 planned refurbishment properties for LEG. The third project has been underway for a few days.

  RENOWATE has also received its first external order from another housing company at the end of 2022 – over a year ahead of schedule.

  The company is thus already embarking on its intended path as a leading provider of serial refurbishment in the entire DACH region.

  Our efforts in the political arena to improve funding conditions for serial refurbishment have also paid off. There is now a 15 percent refurbishment bonus for this.

- For our **air-to-air heat pump offensive,** we have entered a strategic partnership with Mitsubishi Electric Europe from Ratingen near Düsseldorf.

In the future, we intend to equip a large proportion of our portfolios with decentralized heating systems like gas floor heating with air-to-air heat pumps. Unlike other types of heat pump, this technology is particularly well suited for use in uninsulated buildings. In our pilot quarters, the building's energy efficiency class improved from G to C. When the equipment is supplied with green electricity, the building's CO2 emissions even drop to zero.

In other countries, the use of these units has long been part of everyday life.

After a ramp-up phase, we aim to install around 7,000 to 9,000 of these units per year in our portfolios as of 2027. The **cost and efficiency advantages for our company** compared with other decarbonization technologies are substantial. We can **reduce the investment** volume required to comply with our climate path by 2030 by installing air-to-air heat pumps **by around 500 million euros**.

Following a successful pilot phase, we have already started rolling out the systems and negotiating with potential joint venture partners. As with RENOWATE, we want to offer our experience in the use of air-to-air heat pumps to the entire industry and generate third-party business here as well.

The plants are available in large quantities on the world market. The installation can be done in one day. No tenant has to move to a hotel for this. Moreover, the switch from an old, fossil-fuel heating system to the new systems is generally rent-neutral for our customers. At the same time, we increase the quality of living by providing a perfect indoor climate on cold and warm days.

One of our tenants from the Leverkusen quarter got to the crux of how satisfied customers are with it. She told the German TV consumer magazine PlusMinus: "My neighbors are jealous."

Finally, our air-to-air heat pumps meet the **requirements of the German government's Building Energy Act**. The act is currently the subject of controversial debate. According to this law, damaged gas or oil heating systems must be replaced by systems with a share of at least 65 percent renewable energies starting in 2024.

But we had to do a lot of convincing to do this! The first draft of the law did not include decentralized air-to-air heat pumps as a solution option. This clearly shows how dangerous it is when politicians do not confine themselves to setting targets but want to prescribe every implementation step in detail. This can only backfire.

We continue to believe that the current draft legislation is unrealistic. Its implementation will present smaller landlords and homeowners with almost unsolvable and unaffordable tasks. There is also huge uncertainty on the tenant side. We are therefore campaigning for further improvements in the parliamentary process.

In principle, many legislative proposals for more climate protection currently reflect a great deal of skepticism toward the business community.

We have therefore further expanded and intensified our dialog with policymakers and our involvement in the Housing Associations 2022.

We advocate **emission targets instead of efficiency specifications, feasibility instead of maximum requirements, and, finally, openness to technology and well-prepared legislation.**

Therefore, I would like to call for more trust once again in companies and entrepreneurs. As a housing industry, we are very aware of our responsibility for climate protection. We develop innovative and efficient solutions – even without detailed regulatory requirements.

This must remain the case, otherwise we will miss the targets by a wide margin.

- Another example of smart climate protection from LEG is our latest joint venture **Seero** – a joint venture with Oventrop, a leading specialist in heating technology, and the Munich-based digital company Mantro. The first product development "seero.pro" looks like a fancy digital thermostat. But: it can do much, much more!

  It captures the radiator's setting, periodically sends the data to a cloud-based, self-learning algorithm, which then optimizes the system in two ways:

  - first, it causes more efficient **control of the secondary heating circuit** – meaning the consumption of the individual radiator in the apartment.

  - second, it ensures **hydraulic balancing** – which means optimizing the heating output in the entire house using a digital and thus practical approach.

    This is estimated to reduce energy consumption by up to **30 percent.** The system is quickly scalable, with very low CO2 avoidance costs. And this is precisely where we see our specific responsibility as a landlord of affordable housing: avoiding CO2 as cost-effectively as possible – especially in the interests of tenants with small wallets. Climate protection must remain affordable for everyone. And we are not the only ones who see it that way.

    For seero.pro, the success for the third market business is already noticeable due to great interest shown by potential customers from Germany and other European countries.

    Unfortunately, our customers will have to be patient for a little while longer. Seero is a real research and development project.

We expect to produce the first 300 "seero.pro" units in September.

At this point, I can do without explaining of the agenda. The Chairman of the Supervisory Board, Mr. Michael Zimmer, has already presented the contents in detail.

I therefore come to my **concluding remarks**.

When we presented our adjusted business strategy in the fall of 2022, we thought the headline **"Cash is king"** was very appropriate. But with a little distance it becomes clear that this title does not fully do justice to our program.

We don't just want to mitigate the impact of the current challenges. Our roadmap also includes measures to make our LEG even more resilient, sustainable, and successful.
Our claim can be summarized in three points:

- First: **Stable in the present, bold in the future** – this is what our LEG stands for with its "Good housing at fair prices in Germany" business model.

- Second: Thanks to our **increased cash flow orientation** and **forward-looking financial planning**, we feel well positioned – even in a challenging capital markets environment.

- And finally: **Continuous improvements** in our core business and a **passion for innovation** are driving us clearly forward.

Let me conclude by first saying thanks to you, our shareholders. We are thrilled that you are accompanying us on this journey. I don't want to end my presentation without thanking you for your trust and loyalty, especially in these tougher times.

We would also like to thank our customers, our employees, our business partners and, of course, our Supervisory Board.