

PA statement:

Despite international investment banks recommending investing into property companies in 2015, they make no recommendation of convert shares. Here, their equity ratings are predominantly negative or neutral.

PA comment:

According to Bloomberg, convert is rated “Neutral” by 5 analysts, with a “Sell” rating from 4 analysts and with zero “Buys”. Please see the table below for your reference:

Firm	Recommendation
JPMorgan	Underweight
Baader-Helva	Hold
Oddo Seydler Bank AG	Hold
Kepler Cheuvreux	Hold
Kempen & Co	Underweight
Erste Group	Hold
EVA Dimensions	Underweight
HSBC	Neutral
Goldman Sachs	Sell/Neutral

Source: Bloomberg (accessed on 15/01/2014)

PA statement:

As major shareholders of convert, we are deeply disappointed with the company’s performance and the share price development over the last 3 years. During this period, the share price dramatically underperformed the European real estate share index by over 45%. Market analysts attest the management poor administration and lack of ideas despite the company’s excellent assets:

PA comment:

convert’s share lagged significantly behind Austrian and German listed peers (companies that focus on residential real estate properties in the same region). Over the last 3 years, convert’s share also massively underperformed the European EPRA Index.

Company	Total return		
	Last 3Y	Since July 2013 ¹	Since April 2014 ²
conwert	+25.8%	+30.8%	-2.2%
Buwog	-	-	+26.3%
Deutsche Annington	-	+77.2%	+50.5%
Deutsche Wohnen	+146.1%	+82.1%	+50.8%
Gagfah	+425.8%	+124.4%	+75.3%
EPRA Index	+73.9%	+42.9%	+28.1%

Source: Bloomberg (as of 29/01/2015)

1) Deutsche Annington listed on 11/07/2013

2) Buwog listed on 28/04/2014

PA statement:

conwert suffered significant turnover reduction of EUR 20.4m in the last 3 years from third party management contracts, whilst you reduced the evidently inflated cost structure by a mere EUR 8.1m. =>

We urge you to immediately adopt a visibly more efficient and cost-effective way to work.

PA comment:

In 2011 annual report conwert reported EUR 29.5m under Revenues from property services. In 9m 2014 interim report the company shows only EUR 6.8m on the same line. If we deduct the annualised 2014 figure (EUR 9.1m) from 2011 value, we get to a negative difference of EUR 20.4m.

Personnel expenses decreased by EUR 8.1m in 3 years – from EUR 32.3m in 2011 to EUR 27.2m in 2014 – 2014 figure is again annualised (from EUR 20.4m to 27.2m).

PA statement:

In 2014, you sold CEE prime location properties “at book value”, which had previously been written down at least twice. These properties, however, had a vacancy level of 27%. For us shareholders, this constitutes inadmissible negligence on the real estate asset management and gives rise to concern. =>

We urge you to implement improved property management systems and reduce vacancies.

PA comment:

The company published an ad-hoc release on December 12th, 2014, where you presented high vacancy rates for portfolios in the Czech Republic and Slovakia that you had sold. Earlier during the year, the IR confirmed the reduction of value of both portfolios.

PA statement:

You are actively choosing a “conservative”, hence incorrect, accounting method for the properties. According to IFRS – thus applicable law – all investment property is subject to annual and fair valuation. Yet, in the last 6 years, you have carried out write-downs of net EUR 34.6m contrary to historically unique market developments. conwert’s Austrian properties are undervalued by up to EUR 150m, according to expert research. Additionally, the book values of our German properties imply an undervaluation of up to EUR 145m when benchmarked against best-in-class peer companies. Consequently, the NAV was misrepresented by up to EUR 4 per share. => **We urge you to immediately reflect the true value of all our properties and issue a corrected balance sheet for 2014.**

PA comment:

We were drawn to this topic after the H1 2014 call where Clemens Schneider explains the true market values per sqm across conwert’s core cities (*“Interesting to hear is what is the real estate price per square meters in these six hubs that we have here. And you don't have it on this slide, but maybe I want to tell you, in Berlin, the average price per square meter is €1,760; in Leipzig, it is only €900; in Potsdam, it's €1,400; in Dresden, it's €1,200; and last but not least, unbelievable, Vienna is €3,100.”*)¹. Applying his numbers to conwert’s portfolio we would get to a potential revaluation of €711m, which would translate into an NAV of €21.1/share. Our calculation based on independent research would point us towards a more conservative NAV value of €16.1

Also mentioned on the H1 2014 call was that conwert wouldn’t sell properties in Vienna (*“You might say at the moment, why don't you sell Austria? Why don't you sell Vienna? Well, to be honest in Vienna, we have our portfolio as it is at the moment, and we want to keep this as a kind of reserve for whatever might happen. You never know what the future will bring but you can be prepared for it. And therefore, when we have a building in Austria and Vienna and you walk out on the street and say, I'm selling one of our residential buildings here, you'll find a buyer, a potential buyer within five minutes. The market is very liquid here and therefore, we keep this portfolio in Vienna as kind of liquidity reserve for whatever might happen.”*)¹ and more recently during the Q&A session of the 9m 2014 conference call it was also mentioned that conwert will not be trading properties (*“We will not be in the trading of real estate anymore. We will reduce that by far. We want to have what we would call boring success.”*)² Given that according to IFRS 5 non-current assets held for sale are assets where “the sale is highly probable, within 12 months of classification as held for sale” and since you publicly renege on selling properties you must not carry such a large amount (12.3%, €223.7m plus €124.3m) of your investment properties as available for sale since this distorts the fair value calculation of the portfolio (non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell)

¹ Direct quote from 1H 2014 call

² Direct quote from 9m 2014 call

PA statement:

The issuance of bonds and convertible bonds lead convert to incur in high interest costs the company cannot afford. The financing structure is the most expensive, your interest margin, however, the lowest in comparison. Already in spring 2014, 3 Banken-Generali, Austria's leading investment company, requested you to consolidate the financing structure. You did not comply. => **We urge you to take immediate measures for a buy-back of all outstanding bonds and convertible bonds to reduce excessive interest costs.**

PA comment:

With two convertible bonds and one retail bond issued, convert's average cash-effective rate is 4.32% after hedging. With sovereign yields in Austria and Germany significantly below 1% level and virtually zero risk-premiums for high quality residential real estate assets, we consider this level as unjustified. Buwog, listed Austrian peer that also focuses on residential properties in Austria and Germany, finances its operation with average interest cost of 2.26%.

PA statement:

convert holds swaps to hedge its interest rates exposures. Despite multiple shareholder requests, you stood by and watched EUR140m of shareholder value being destroyed through falling interest rates. You seem to be the only one to still believe in a short term rise in interest rates. => **We urge you to immediately terminate all swap contracts.**

PA comment:

EUR140m of equity value was destroyed by a combination of derivative financial instruments and hedges. According to the latest interim report, equity value was decreased by EUR 43.8m by using cash flow hedges without recognition through profit or loss and additional EUR 111.3m were lost by hedges that are at P&L level recognised.

We were drawn to this issue following Thomas Doll repeatedly referring to "ineffective" (meaning useless) swaps and their destructive impact on NAV during the H1 2014 call (*"But if you look at the financial result, the only difference in comparison to last year is the valuation of the ineffective swaps that's approximately €32 million that I will give you later on more details."*, *"And now, we are coming to the financial results for the first six months 2014 on the next slide, and there you can see the significant impact of a decrease of interest rate landscape for ineffective swaps."* and *"But on the other hand, nearly 70% of this swap portfolio got ineffective but means that every deviation to the last reporting period is shown in the P&L (...)"*, for example³).

Also, during a meeting in January, at an investment conference in London, Clemens Schneider, in the presence of a third party, confirmed the €140m of current shareholder's equity reduction.

³ Direct quote from 1H 2014 call

PA statement:

Clemens Schneider's appointment to the conwert Management Board has further weakened the financial market communications – this chaos scares off investors. A previously repeatedly announced strategic reorientation never materialised. Does your focus lie on an expansion to Germany or will you concentrate on Austria? => **We urge you to immediately announce a coherent strategy for conwert and issue a statement to all shareholders on how you intend to significantly raise the company value.**

PA comment:

Petrus was promised a new strategy during the conference call after conwert's first half 2014 results. Alvier Almeida was given an answer that details will be given during October 2014 after the administrative board meeting. The strategy release date was again questioned by an investor during Q&A sessions on the conference call after 3rd quarter results in November. The answer was that conwert has yet to release a strategy update.

During a meeting with Petrus Advisers in January at an investment conference in London, Clemens Schneider, in the presence of a third party, promised to deliver the new strategy with the results for 2014 on the 25th of March 2015.