



Thoughts on conwert's offer for a stake in KWG Kommunale Wohnen AG

April 2016

Petrus Advisers' thoughts on cwi's offer for 13.47% in KWG (1/2)

- Petrus Advisers is a significant shareholder in KWG Kommunale Wohnen AG (“KWG”) owning and controlling c. 10% in the company or nearly 50% of current freefloat of 21%
- We deem the voluntary offer made by cwi neither as attractive to KWG shareholders nor as value creative to cwi shareholders – despite being extremely unfriendly for KWG investors
- **KGW level**
 - cwi plans to force KWG shareholders representing 7.75% to remain outstanding in a delisted entity and become cwi's un-voluntary RETT blocker
 - The price offered for the KWG shares (€10.8) is too low
 - The 2015 book value per share of €10.81 was reduced from €11.35 in Q3 2015, which raises questions regarding timing and rationale of such write-downs
 - The share price offered is substantially below our estimated book value of KWG shares which we expect to develop to up to €12.9 by year-end 2016 and to continue to move higher thereafter
 - The high FFO yield of KWG (5.8%) points to a share price of €13.9-17.2 when applying peer yields (3.5-4.3%)
 - The implied value / square meter of peers also points to a substantially higher price range (€14.5-26.9)
 - While not all peer valuations are completely comparable, in particular the strong cash generation validates a higher share price
 - Petrus Advisers believe that a very conservative €13.5 / share, which is still below the implied peer FFO based price range of €13.9-17.2, seems appropriate as a minimum ask

Petrus Advisers' thoughts on cwi's offer for 13.47% in KWG (2/2)

● cwi level

- The full cost savings potential from an integration of KWG into the cwi group requires a Domination & Profit Sharing agreement, which is not planned at this point
- cwi might well end up with a hostile 7.75% rump shareholding structure in KGW – this could cause significant and time consuming issues (special audits, law suits, EGM requests, etc.)

Petrus Advisers request an improvement of the offer to KWG shareholders:

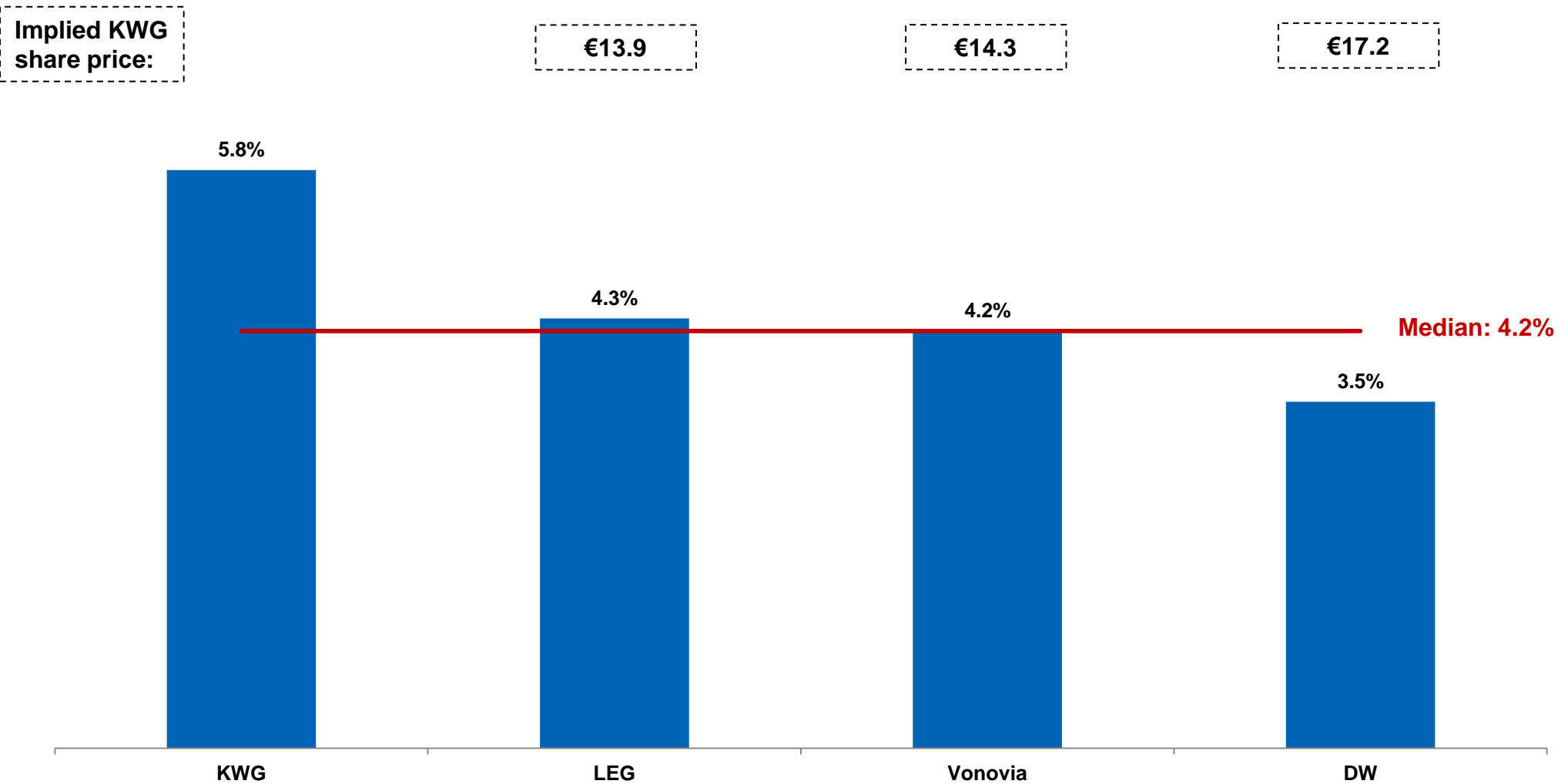
- Price reflecting KWG's fair value of at a very minimum €13.5 / share
- Offer to extend to 100% of the freefloat or 21% of shares outstanding

Facts about the KWG takeover offer (1/2)

	cwi Position	Reality
Applicable Law	<ul style="list-style-type: none">● German law only● Take-over law not applicable (WpÜG)	<ul style="list-style-type: none">● All correct but what really matters is the German Stock Corporation Law (AktG) which applies to KWG AG also post a delisting● In particular, minority protection rights and information requirements will continue to exist
Reason for Limitation to 13.47% Tender Only	<ul style="list-style-type: none">● No reason given	<ul style="list-style-type: none">● cwi wants the freefloat to act as non-voluntary RETT blocker● cwi applies a „buffer“ of 2.74% (RETT triggered at 95% or higher ownership)
Valuation Impact on Remaining Freefloat	<ul style="list-style-type: none">● No information provided	<ul style="list-style-type: none">● Post a delisting, most brokerage accounts will show zero value for the shares that are not tendered / accepted
Trading Post Delisting	<ul style="list-style-type: none">● No on exchange trading post delisting● Whether and how shares can be sold post delisting is unclear	<ul style="list-style-type: none">● Shares will be tradable on certain German exchanges in the Freiverkehr (unregulated market)● Already today shares are traded in Hamburg and Stuttgart

	cwi Position	Reality
Cost Savings Potential for cwi / KWG	<ul style="list-style-type: none"> ● No information provided ● We assume one of the main reason for the offer is to reap efficiencies from a full integration of KWG 	<ul style="list-style-type: none"> ● Any full integration of KWG into the cwi group requires a Domination & Profit Sharing Agreement (Beherrschung- und Gewinnabführungsvertrag) ● Otherwise, ALL transactions between KWG and cwi must not be to the detriment of KWG and thus arms' length or better ● Any continuous proof of such arms' length principle for ALL transactions is time and resource intense
Access to Cash from Rent & Disposals	<ul style="list-style-type: none"> ● No information provided 	<ul style="list-style-type: none"> ● Minority shareholders in KWG will share pro rata in ALL dividends paid to cwi
Minority Rights Post Delisting	<ul style="list-style-type: none"> ● No information provided 	<ul style="list-style-type: none"> ● All typical minority rights continue including <ul style="list-style-type: none"> ● Right to request a special audit ● Pro-rata participation in ALL dividends ● Information rights according to AktG including annual reporting

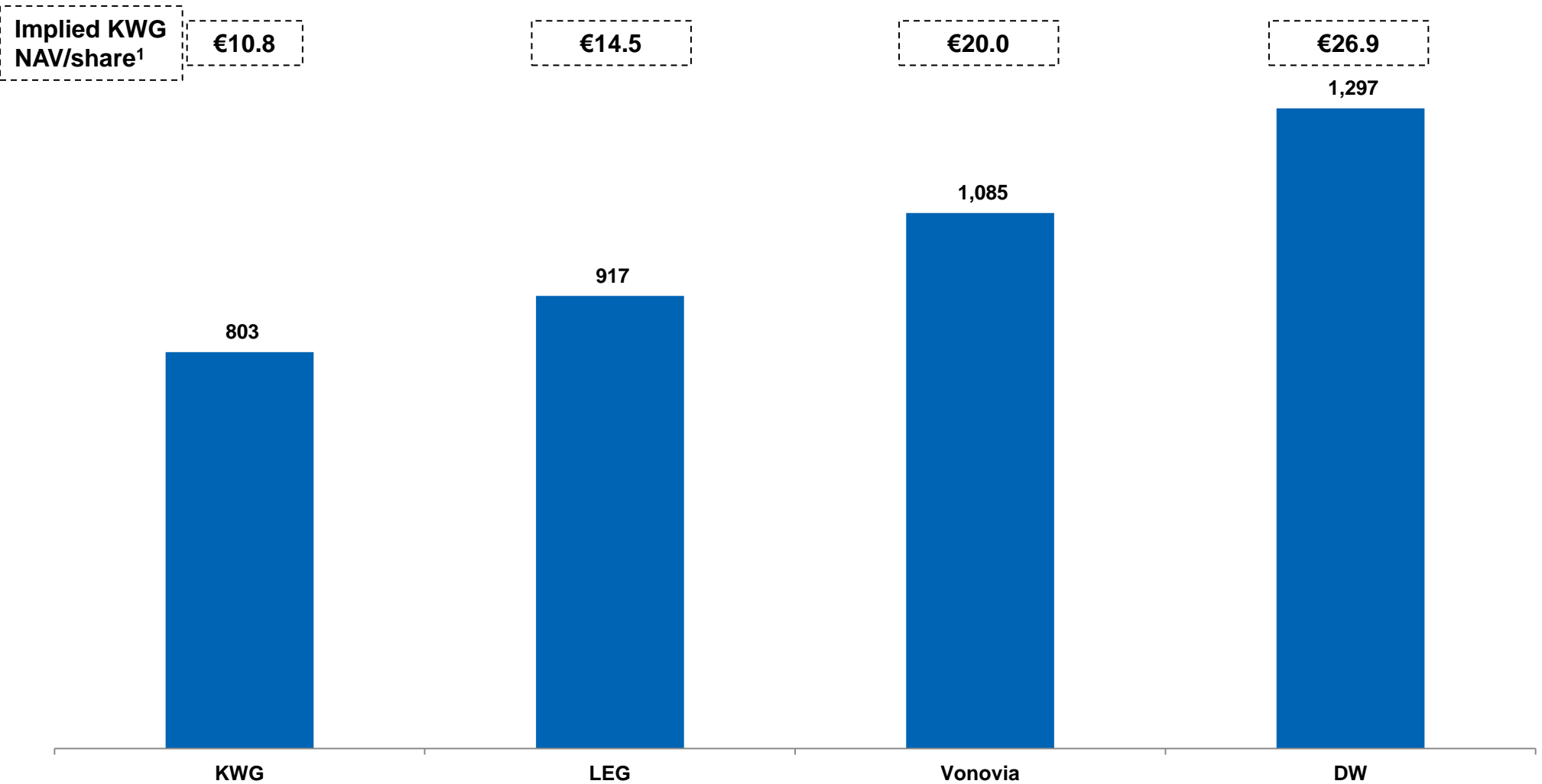
FFO yield comparison



Source: Companies FY 2015 annual reports and Bloomberg as of 15/04/2016

Property value comparison

Values in €/sqm except where mentioned



Source: Companies FY 2015 annual reports

1) Assumes revaluation to the peer levels.

Expected NAV evolution

- Unexpected and difficult to reconcile NAV/share downgrade in Q4 2015
- Significant NAV/share growth to be expected

€m, except if stated otherwise	2014	1-6/2015	1-9/2015	2015	2016E Low	2016E High
Property assets				422.3	443.9	463.9
Weighted GAV revaluation					5.1% ¹	9.9% ¹
LTV ²				54.4%	51.7%	49.5%
Net debt ^{2,3}				229.7	229.7	229.7
Weighted NAV revaluation ⁴					10.6%	19.5%
KWG IFRS NAV/share (€/share)⁵	10.96	11.17	11.35	10.81	12.0	12.9

Source: conwert, KWG

- 1) Based on the regional weights from KWG 2015FY report (20% Berlin, 18% Eastern Germany, and 62% Western Germany) and conwert's revaluation estimates for 2016. For Berlin we used conwert's estimates of 5.2-10.2%, for Eastern Germany we used the average for Leipzig (11.0-18.2%) and Dresden (6.8-13.5%), and for Western Germany we used conwert's estimate for Wuppertal (4.0-8.0%).
- 2) 2015 LTV is actual as per company. 2016 assumes zero cash generation.
- 3) Assumes the implied net debt calculated using 2015FY reported LTV remains constant.
- 4) NAV revaluation = GAV revaluation / (1 - LTV).
- 5) For 2014, 1-6/2015, and 2015 equals shareholders' equity / shares outstanding at the year end. For 1-9/2015 equals the value reported on the company press released as of 12/11/2015. For 2016E equals 2015 * (1+ Weighted NAV revaluation).

NAV/ share evolution

By disposing of parts of its portfolio that may be considered non-core (we estimate 40-60% could be considered non core), KWG would be able to pay out substantial dividends to its shareholders

€m, except if stated otherwise	% of portfolio sold		
	40%	50%	60%
GAV 2016E High	463.9	463.9	463.9
Book value of GAV sold	185.6	231.9	278.3
GAV after disposal	278.3	231.9	185.6
<i>€ Profit assuming 2.5% margin</i>	4.6	5.8	7.0
IFRS NAV/share 2016E High (€/share)	12.9	12.9	12.9
<i>IFRS NAV/share after disposal (€/share)</i>	13.2	13.3	13.4
<i>Implied LTV¹</i>	14.2%	-3.5%	-30.0%
Dividend payment to re-lever to 2016E High LTV²	98.3	122.9	147.5
Dividend per share (€/share)	6.1	7.6	9.2

Source: conwert, KWG

1) $(€229.7m \text{ implied net debt} - \text{book value of GAV sold} - \text{profit on disposal}) / \text{GAV after disposal}$.

2) $(54.4\% - \text{Implied LTV}) * \text{GAV after disposal}$.

Backup – conwert’s expected revaluation for 2016

Location	FV (€ mn)	FV/NCR (x)	Management estimate yield compression next 12 months	Value effect (€ mn)
Vienna	409.9	29.0	+ 1.0-2.0	14-28
Berlin	420.4	19.4	+ 1.0-2.0	22-43
Leipzig	263.5	13.8	+ 1.5-2.5	29-48
Potsdam	207.5	20.7	+ 0.5-1.0	5-10
Wuppertal	100.6	12.0	+ 0.5-1.0	4-8
Dresden	44.4	15.7	+ 1.0-2.0	3-6
Top 6 residential locations	1,446.2	19.0		~80-140

- + Management sees a ~€80-140mm yield compression in the top 6 cities representing a 5-10% increase over GAV in those cities
- + Additional value increase through rent increase / vacancy reduction.
- + No downward effects in non-core expected.

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