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Chronology of value destruction

3 more years of suffering at Immofinanz

27 February 2018

Executive summary

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- Following the sale of their Russian portfolio, Immofinanz ("IIA") management have told the market they are progressing their idea of merging with CA Immo ("CAI")
- The framework of any combination has changed dramatically with IIA's IFRS book value down 34% since Oliver Schumy took office while CAI's is up 23%
- February 2018, as we have said many times: The merger is dead. We hear that Oliver Schumy appears to be walking around offering the CAI stake to people in his inner circle of friends, depressing the CAI share price
- Petrus Advisers now believe a cash/share acquisition under the leadership of Oliver Schumy doesn't make any sense because management has consistently shown poor judgment and execution skills including on logistics sale, monetisation of BUWOG shares, convertible bond issuance and conversion incentives, financing, the divestiture of Russia, other portfolio actions, and FFO improvement
- The management team of Schumy / Schoenauer is deeply distrusted by international capital markets

An appointment of a new management team and a sale of the 26% stake in CAI combined with a subsequent one-off distribution structured as a return of capital of up to ~€1bn is needed

Share price -28% under Oliver Schumy

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Source: Bloomberg

1 Probably hundreds of millions foregone on the sale of the logistics portfolio[1]

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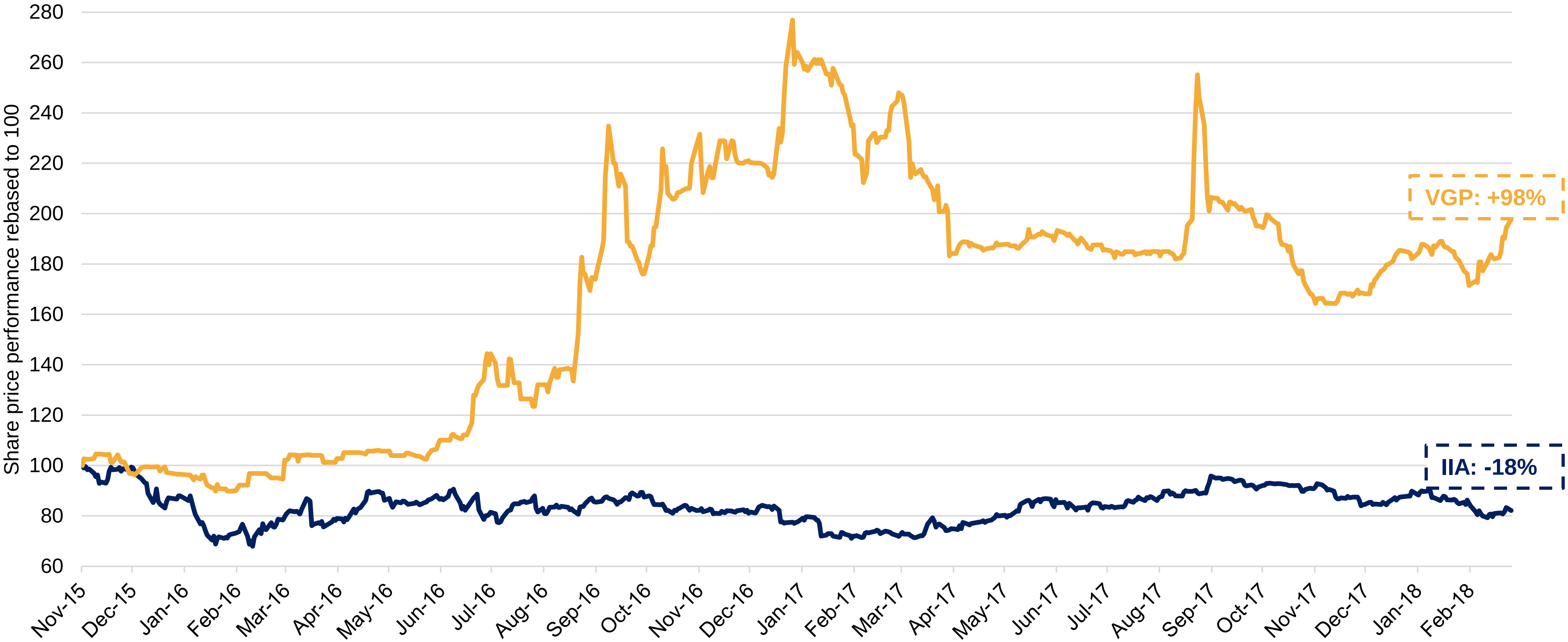
- Management sold a high-quality asset to “simplify and optimise” their portfolio
- Sale process took three months, signed in November 2015
- German peer VGP appreciated 98% during this time[2]



Source: Bloomberg, company filings

Note: 2 November 2015 = 100

1) Assuming IIA’s logistics portfolio performed in line with key peer VGP from the date it was sold for cash proceeds (net of loans) of €305m.

2) 2 November 2015 to 26 February 2017.

~€440m difference between Vonovia and IIA price achieved for Buwog

2

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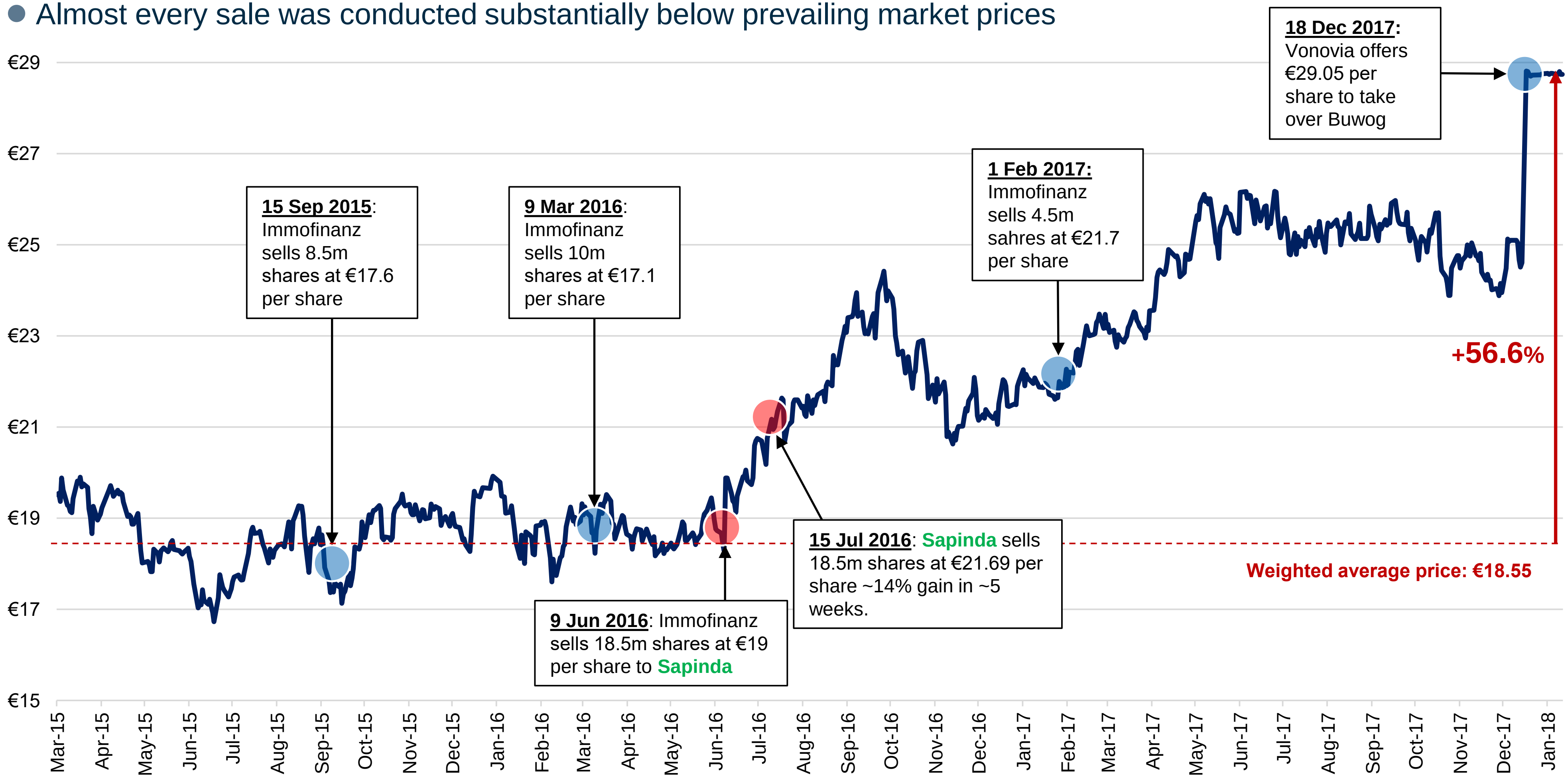
- VNA have hinted that they have been in discussions for a number of years about the sale of Buwog
- IIA management were on the BUWOG board and should have known it was a strategic target
- Almost every sale was conducted substantially below prevailing market prices



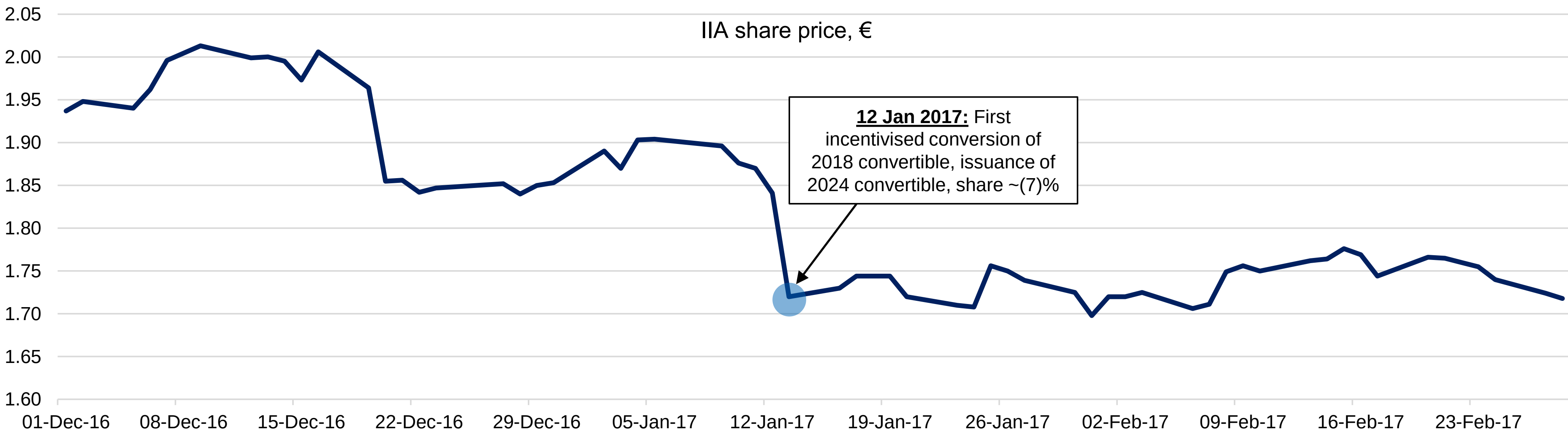
Source: Bloomberg as per 12 January 2018, company press releases

1) Based on Immofinanz's number of shares outstanding as per Q3 2017.

❸ Overly generous incentive offer to convertible bond holders

- **Dilution:**
  - The 2024 convertible issued in January 2017 will dilute existing shareholders by ~12%[1] upon conversion
  - The market's ~(7)%[2] reaction on the news indicates the looming dilution outweighs any interest savings

- **Lavish incentives:**
  - The incentivised conversion of the 2018 convertible was incredibly generous
    - Bondholders received a ~10.5%[3] premium in the January conversion



1) Based on the number of shares outstanding at 30 September 2017, adjusted for the October 2017 incentivised conversion of the 2018 convertible.
2) Share price decline between close on 12 & 13 January 2017, after the announcement of the incentivised conversion.
3) Based on the "clean" (i.e. excluding accrued interest) mid-quote of the bond on the day the transaction was announced.

4 Financing ~20% more expensive than peers

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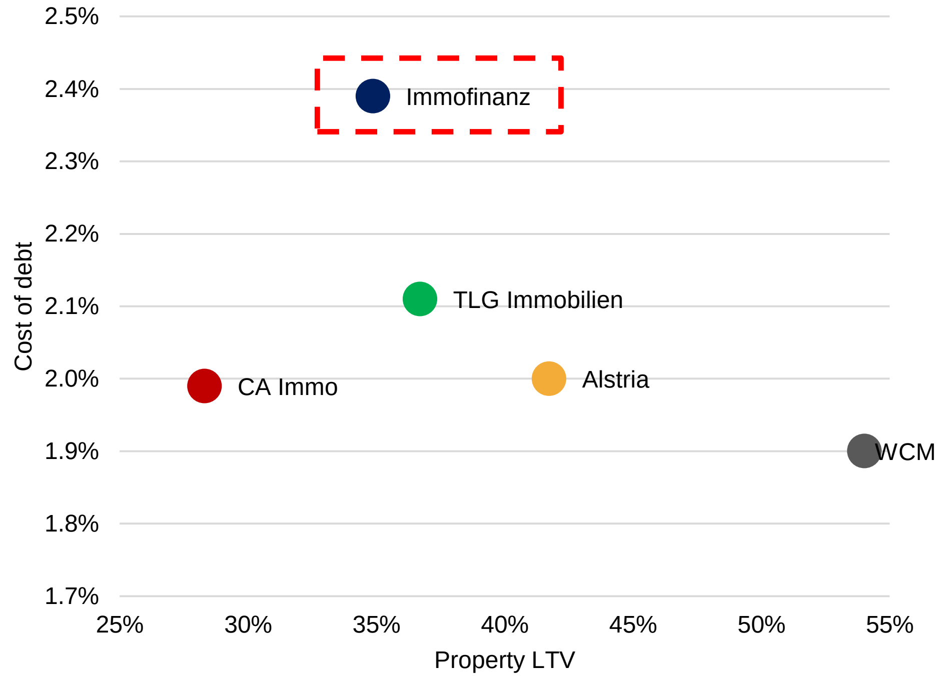
- Adjusted for its CAI stake, the sale of Russia, and the convertible bond conversion, IIA's loan-to-value ratio is very low at 35%[1]
- However, financing costs - even when adjusted for hedges - are substantially higher than peers
- More and better execution is required

Company	Property LTV[2]	Cost of debt[3]
Immofinanz	34.9%[1]	2.39%
CA Immo	28.3%	1.99%
alstria	41.7%[4]	2.00%
TLG	36.7%[5]	2.11%
WCM	54.0%	1.90%



Source: company filings

1) *Adjusted for the sale of Russia, the repayment of the 2017 convertible, and the incentivised conversion of the 2018 convertible, all of which were completed post-balance date. Treats the stake in CA Immo as "securities" (see footnote 2).*
2) *Property LTV = (total debt – cash – securities) / property assets.*
3) *Cost of debt including derivatives.*
4) *Schuldschein added to net debt, property held for sale and interests in joint-ventures deducted from net debt.*
5) *Includes property held for sale.*

5 Russian portfolio – a double black diamond ◆◆

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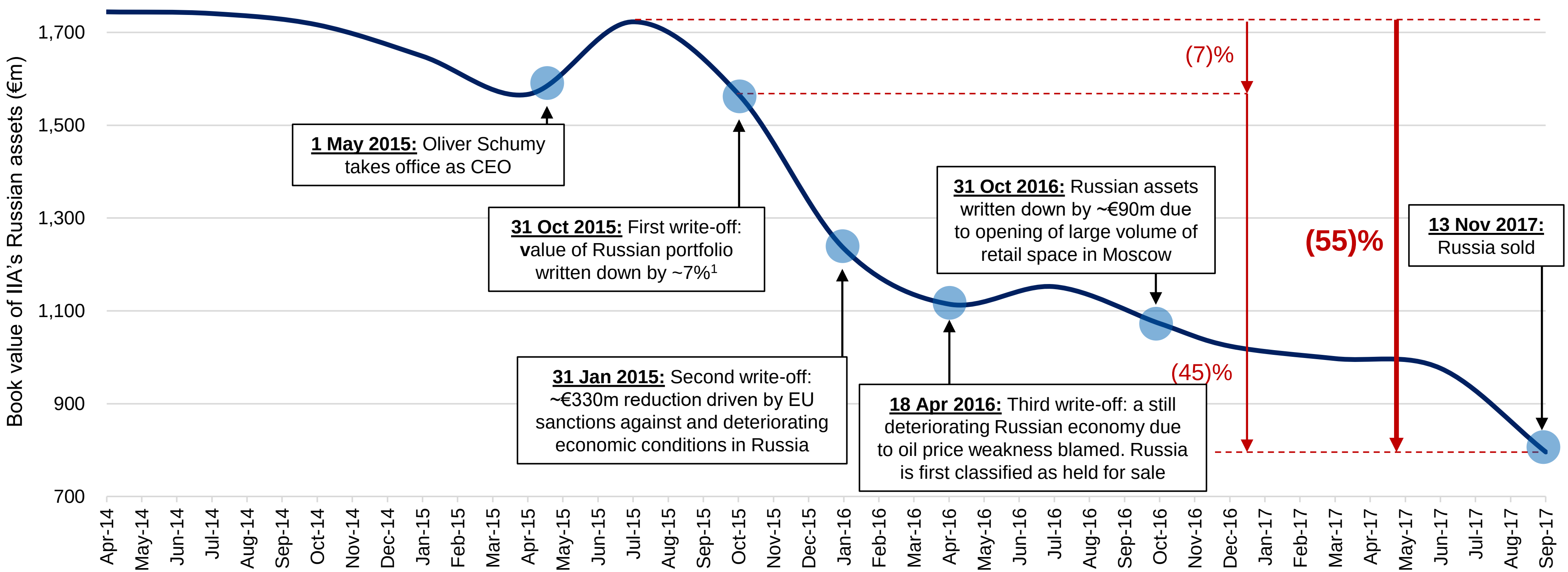
- The Russian portfolio's book value has suffered unprecedented destruction since Oliver Schumy became CEO
- The initial write-off of the Russian operations by ~€125m[1] in Oct 2015 still seems to have massively overstated the value of the business and it appears to have been held on the books of IIA at an overstated value until the bad news of the realistic sale price became apparent
- By the time the assets were sold in Nov 2017, further write-offs of ~€770m brought the total write-down to a staggering ~€927m, or ~55% of their value when Oliver Schumy took office
- Russia was classified as a discontinued operation on 18 Apr 2016
  - Given Schumy's 'substantial experience negotiating in Russia', investors trusted his assertion
  - But even from this point in time the Russian assets had to be written of by ~29%



Source: company filings

1) This figure has been adjusted for the sale of IIA's Russian logistics portfolio to Blackstone for €31m.

6 Inept portfolio management – EMPARK Warsaw

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- EMPARK Warsaw is ~€150m worth of assets
  - **April 2015 - Standing investment,** IIA bought out their JV partners in EMPARK
    - Increasing their exposure to the asset substantially by buying out the JV partners
  - **April 2016 - For sale,** IIA classifies EMPARK as held for sale
  - **September 2017 - Standing investment (again),** EMPARK is no longer held for sale
    - Expensive refurbishment commissioned
    - The asset will not produce positive FFO in the near term
    - Now Schumy and Schönauer say “a sale in the near future at a sales price reasonable in relation to the current fair value is not realistic” (quote from annual report)
    - Or is it not worth as much as its balance sheet carrying value?

Source: company filings

7 Worst-in-class FFO yield shows IIA needs an operational clean-up

Even looking into the coming year and utilising broker estimates, Immofinanz will be substantially less cash flow generative than its peers

Company	2018e FFO Yield
alstria	6.0%
TLG	5.4%
CA Immo	5.2%
S-Immo	5.2%
Peer average	**5.5%**
Immofinanz	3.8%

Source: Bloomberg consensus as of 27 February 2018

8 IIA in freefall under Oliver Schumy

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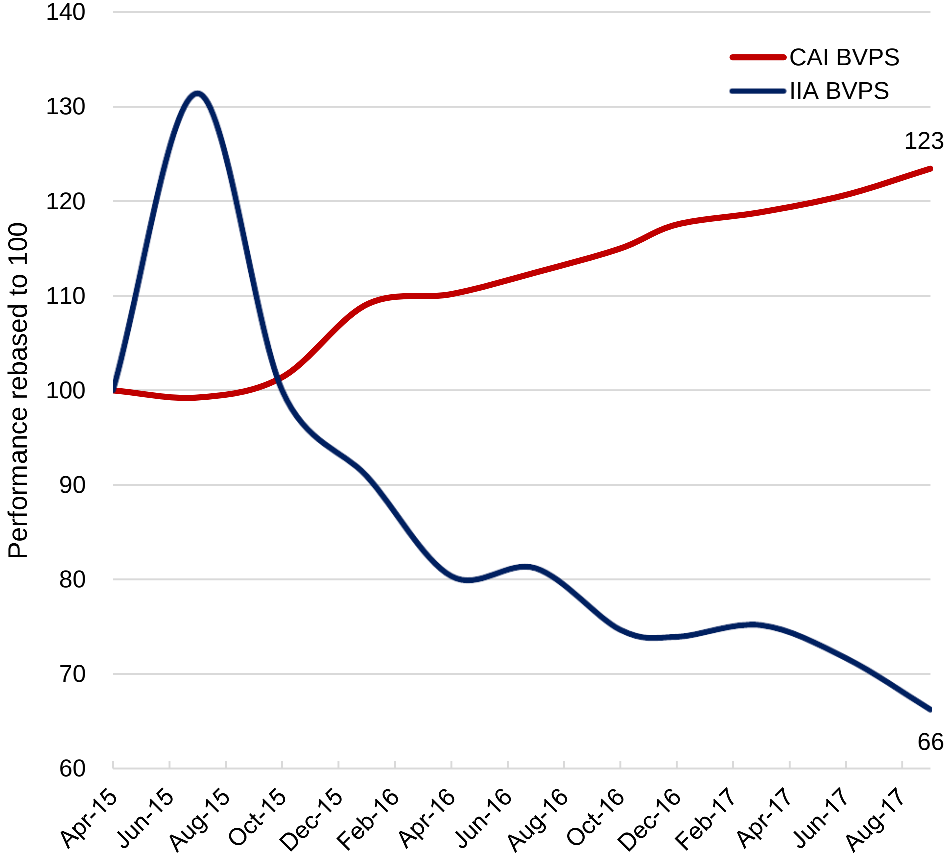
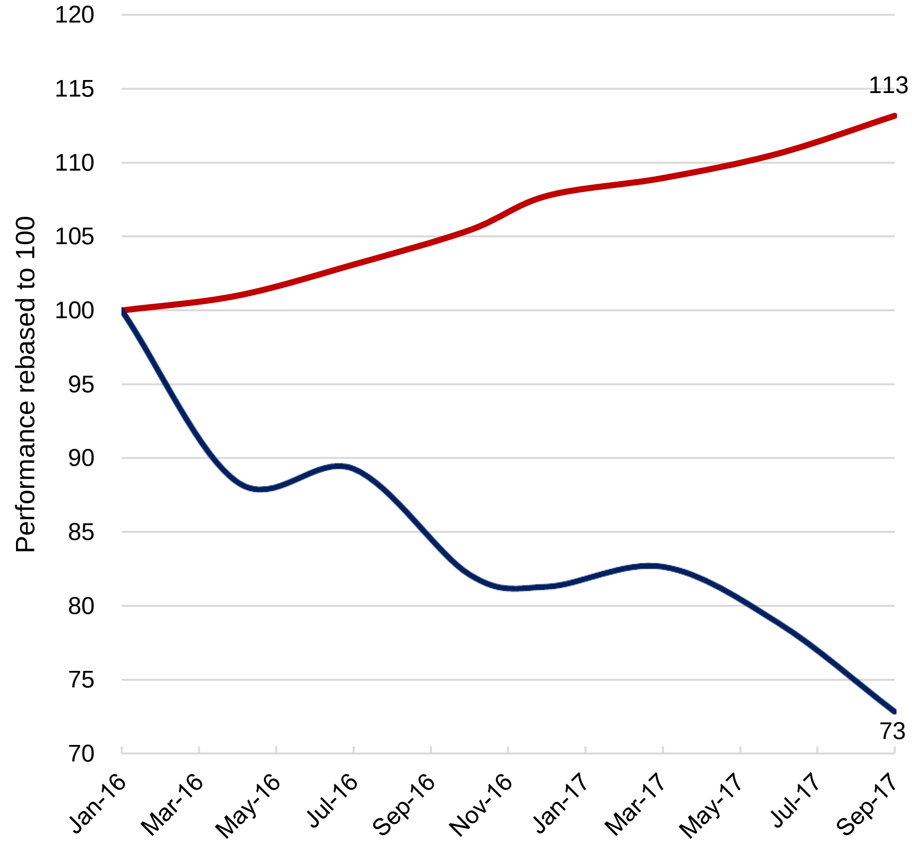
- Since announcing the CAI merger idea, IIA's BVPS[1] has lost 27% while CAI's has increased by 13% - a mind-boggling performance gap of 40%

Since Oliver Schumy took office as CEO



Since merger announced[2]



Source: company filings, common-based to 100

1) BVPS: IFRS Book Value Per Share. 2) The merger was announced on 18 April 2016. At this time, the most recently reported BVPS figures were from 31 January 2016.

Investors have numerous questions around management's performance (1/2)

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	Questions marks
Logistics sale	• How did management justify this divestiture given strong market tailwinds? • What preparatory work was performed? • Why was the process run so tightly with little time given to potential buyers? • Which advisers and banks were involved? How much were they paid?
Convertible bonds	• Who recommended offering overly generous terms to convertible bondholders / investors? • Were any advisers involved and if so who? • How much were the advisors paid?
Sale of BUWOG stake	• How did management reach the decision to sell? • Which advisers were mandated? How much were they paid? • Was Ronny Pecik paid a fee and what for? • What due diligence did IIA perform on Sapinda and Lars Windhorst in particular? • How does management explain the short-term 14% gain of Sapinda flipping the package?

Investors have numerous questions around management's performance (2/2)

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	Questions marks
Sale of Russia	• How did the company ensure no bribery / corruption occurred around the purchase and subsequent sale of the Russian portfolio? • What fees were paid in relation to the sale of the Russian portfolio? To whom? • Why did the company decide to increase its exposure to Russian assets after the onset of the Russia / Ukraine crisis? • Were there any side agreements?
Portfolio management	• What procedures are in place to vet transactions including KYC on buyers? • Can the company assure that no buildings / properties have been sold to related parties? • Were there any sales of properties to Ronny Pecik including a subsequent resale? • Why did the company purchase further shares in EMPARK and what is the value loss to investors? • How often does management mandate the same advisors / banks and how much success driven are fees?
CAI/IIA merger idea	• What lead management to believe it was commercially prudent to assume Russia could be sold when launching the CAI / IIA merger idea? • How much money has been spent on the merger project since April 2016?

Leave it to professionals

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- With a rich history of mismanagement, IIA's current management team are simply not up to the task and must be asked by their board to leave
- IIA's current management team have destroyed shareholder value in many ways
  - By botching the sale of numerous assets
  - By transferring it to bond holders
  - By paying too much for debt
  - By mismanaging their property portfolio
  - By failing to generate an acceptable FFO yield
- We think current IIA management has wasted the whole Goldilocks real-estate cycle and is unprepared for the future

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