



# Interim Results

5 December 2012

First Property Group plc



The performance of funds managed by First Property Group ranked No.1 vs IPD CEE universe over the three, four, five & six years to 31 Dec 2008, 2009, 2010 & 2011

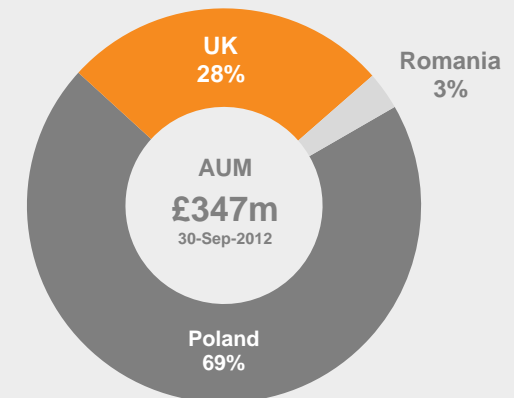
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**First Property Group plc** is a commercial property fund manager with operations in the United Kingdom & Central Europe.

First Property Group plc is listed on the AIM segment of the London Stock Exchange (AIM: FPO) and was founded in 2000 by its Chief Executive, Ben Habib. At 30 September 2012 the Group had some £347 million of direct property assets under management, invested across six funds in the United Kingdom and Central Europe, managed by its wholly owned subsidiary First Property Asset Management Ltd (FPAM).

➤ **The business model of First Property Group is to:**

- Raise third party funds to invest in income producing commercial property;
- Co-invest in these funds and thereby earn a return on its own capital invested; and
- Earn fees for the management of these funds. Fees earned are a function of the value of assets under management as well as the performance of the funds.



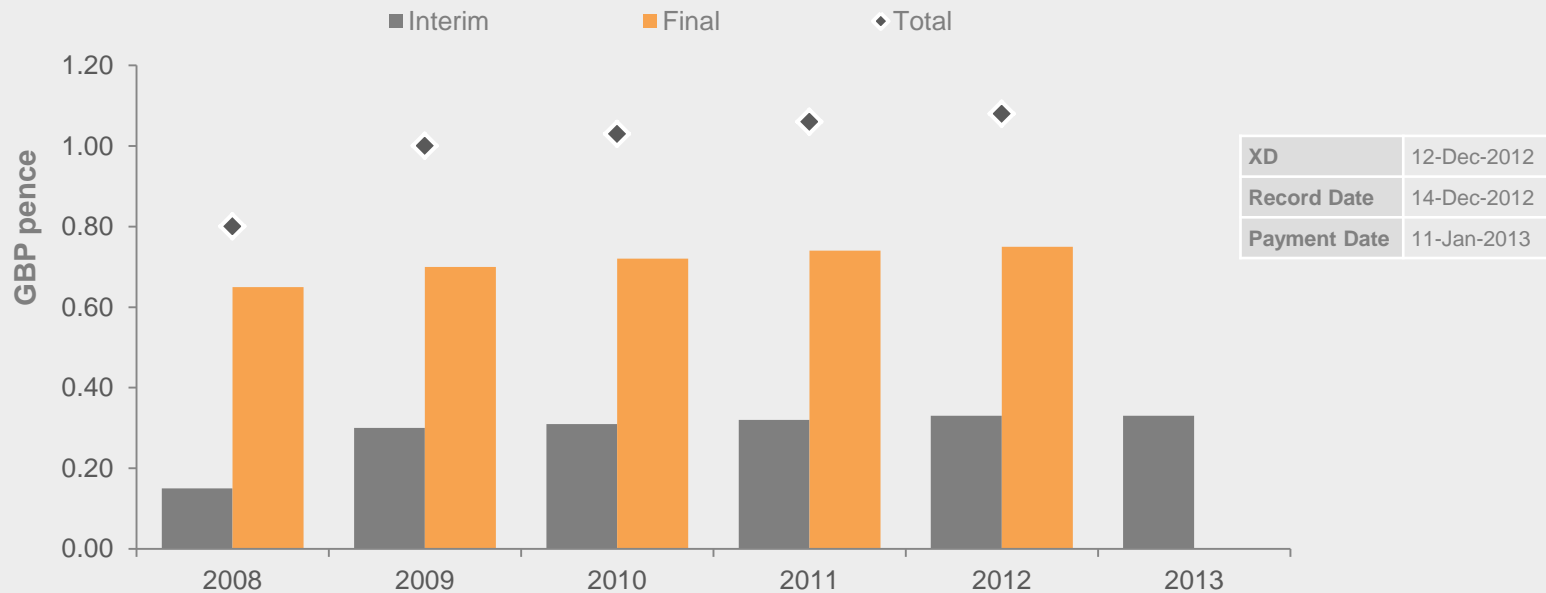
The performance of funds managed by First Property Group ranked No.1 vs IPD CEE universe over the three, four, five & six years to 31 Dec 2008, 2009, 2010 & 2011

# Highlights

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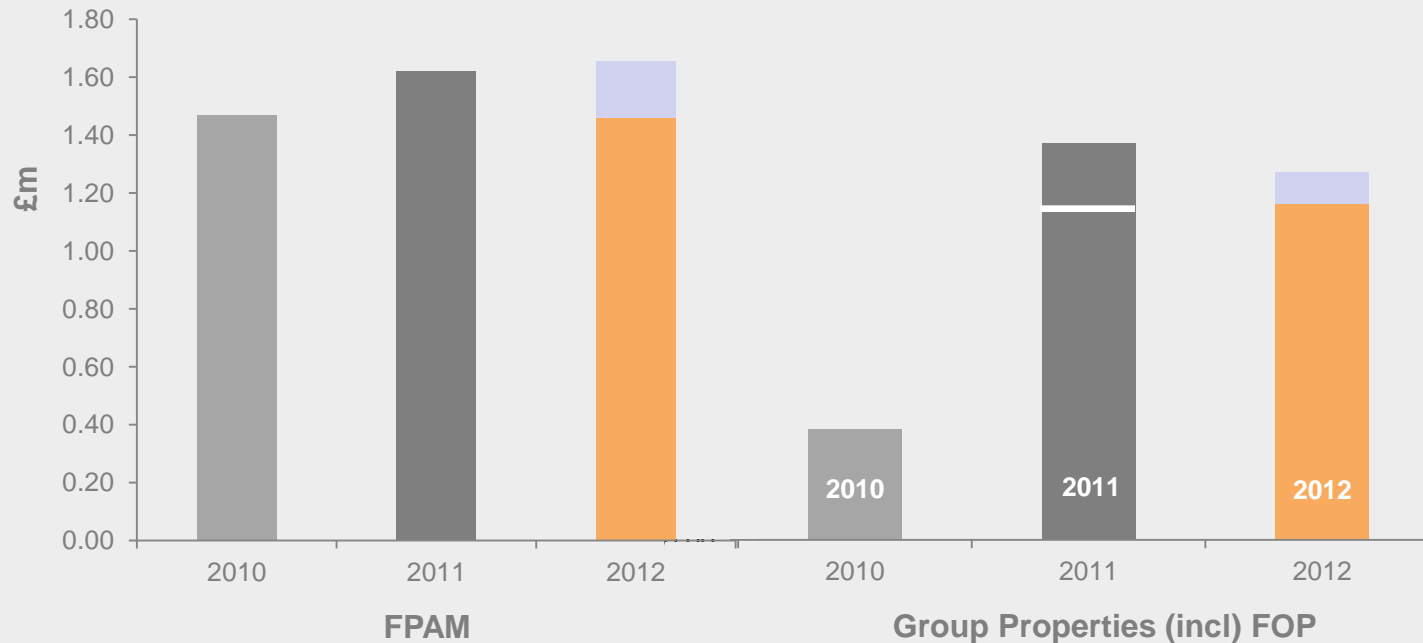
	Six months to 30-Sep-2012 (Unaudited)	Six months to 30-Sep-2012 (Unaudited)	Percentage change	Year to 31-Mar-2012 (audited)
<b>Profit before tax - continuing operations</b>	£2.21m	£2.54m	-13.0%	£3.97m
Assets under management	£347m	£374m	-7.2%	£365m
Net assets	£17.84m	£16.79m	+6.3%	£17.36m
<b>Cash Balances</b>	£11.77m	£8.97m	+31.2%	£9.98m
<b>Diluted earnings per share</b> (continuing operations)	1.46p	1.61p	-9.3%	2.73p
<b>Profit before tax by segment:</b>				
Profit before tax from property fund management (FPAM)	£1.46m	£1.62m	-9.9%	£3.07m
Profit before tax from total Group Properties (incl FOP)	£1.17m	£1.37m	-14.6%	£2.54m
Average €/\$ used	1.249	1.135	-10%	1.1611

Board recommends Interim dividend be maintained at 0.33p (2011: 0.33p)



### Profit Before Tax by Segment (2010-2012)

**N.B.** Purple bar earnings show the negative impact of foreign currency translation on 2012 earnings (by using 2011's average exchange rate on 2012 earnings). The white bar on Group's 2011 earnings denotes the effect of the increase in earnings from a one-off exchange rate gain in 2011.



### Financial Highlights (notes):

- Negative impact of foreign currency translation on:
  - a. Assets under Management      £19.9m decrease
  - b. Profit before tax                      £296,000 decrease
- Group Properties in 2011 benefitted from a one-off foreign exchange gain of £213,000

### Operational Highlights:

- Funds under management have performed well in a difficult market environment.
- The total pre-tax income return earned by our funds under management in Poland was 21.1% on an annualised basis.
- The total pre-tax income return earned by our funds under management in the UK, which are un-gearred, was 6.5% on an annualised basis.

### Current Developments:

- We are working on raising a new UK fund to mimic the investment strategy of the UK Pension Property Portfolio (UK PPP) fund (see p. 30).
- New funds are being raised into FOP to fund the purchase of a number of properties in Poland (see p. 31). We plan to close this fund raising exercise during the first quarter of 2013.



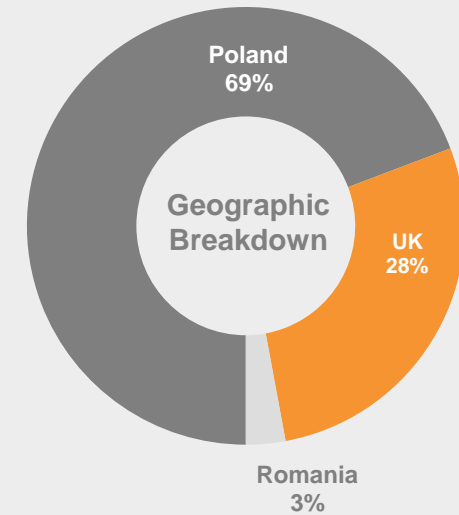
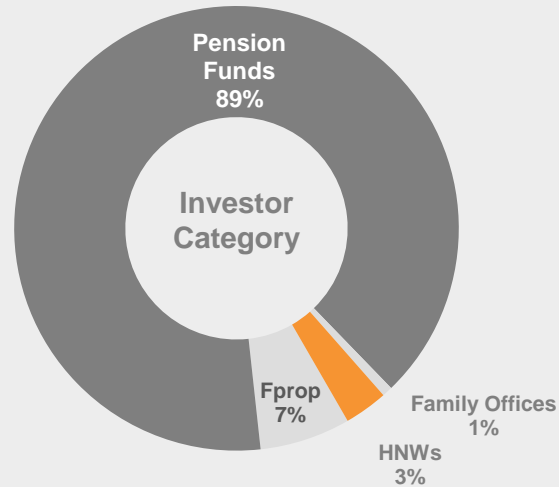
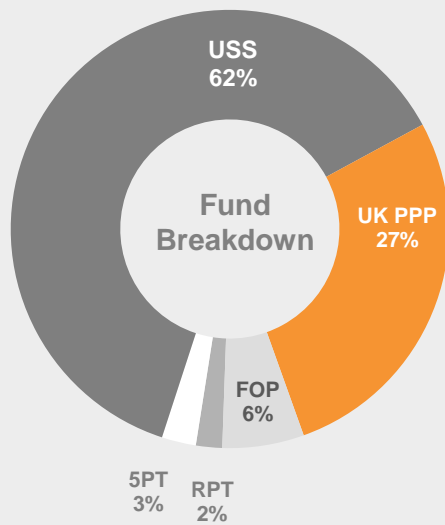
# Segmental Analysis

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### Assets under Management at 30 September 2012:

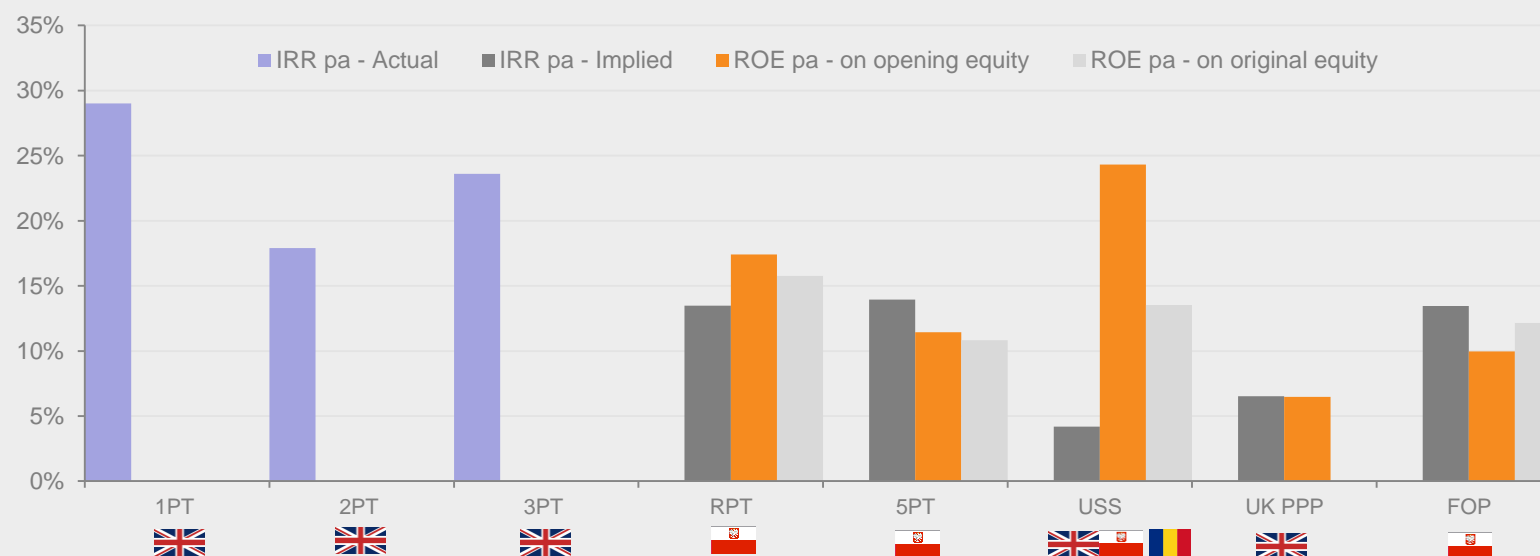
<b>Fund</b>	<b>Established</b>	<b>Termination Date (unless extended)</b>	<b>AUM 30-Sep-2012</b>	<b>Geography</b>
SAM Property Company Ltd ( <b>SAM</b> )	Aug-2004	Rolling	Not subject to revaluation	United Kingdom
Regional Property Trading ( <b>RPT</b> )	Aug-2004	Aug 2012	£6.7 million	Poland
5 <sup>th</sup> Property Trading ( <b>5PT</b> )	Dec-2004	Dec 2014	£8.8 million	Poland
USS Fprop Managed Property Portfolio LP ( <b>USS</b> )	Aug-2005	Aug 2015	£215.4 million	CEE & United Kingdom
UK Pension Property Portfolio LP ( <b>UK PPP</b> )	Feb-2010	Feb 2017	£95.2 million	United Kingdom
Fprop Opportunities plc ( <b>FOP</b> )	Oct-2010	Oct 2020	£20.9 million	Poland
<b>Total</b>			<b>£347 million</b>	

AUM breakdown by Fund, Investor Category and Geography:



### Fund performance at 30 September 2012:

- FPAM's three historic funds (all of which were invested in UK commercial property) generated a weighted average IRR of 23.0% p.a. net of fees.
- FPAM's five discretionary active funds (with inception dates ranging from 2004-10) are generating ROEs on original equity invested of between 6.5% p.a. (unleveraged) and 15.8% p.a. (leveraged) net of fees, as at 30-Sep-12.

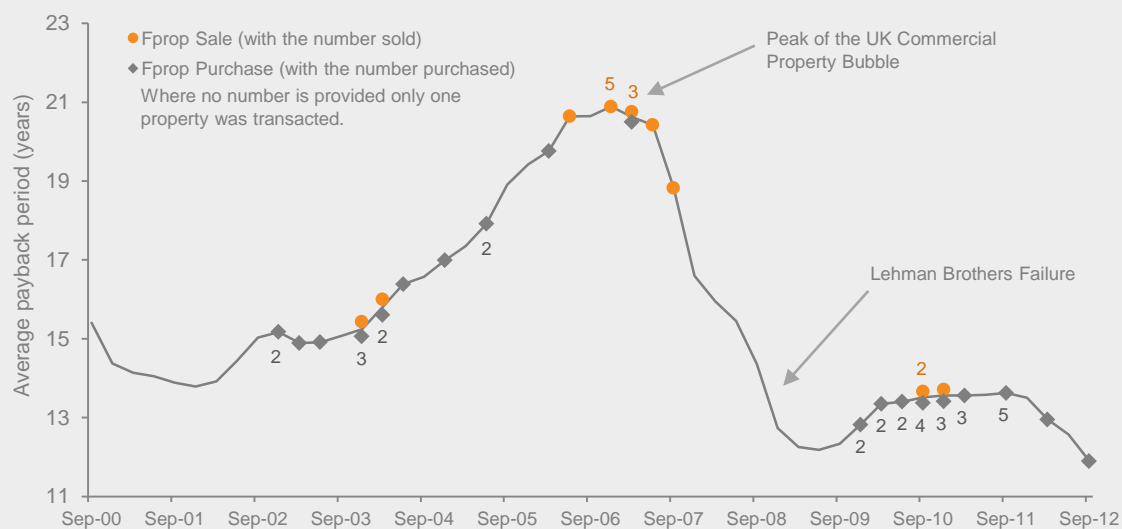


- All implied IRR calculations use NAVs at 30-Sep-2012.
- Annualised ROE's on original equity are calculated using the annualised H1 2012/3 pre-tax income ÷ original shareholders' equity employed.
- Annualised current ROE's are calculated using the annualised H1 2012/3 pre-tax income ÷ by opening equity (NAV at 31-Mar-2012).

### FPAM's UK Purchase & Sale History (2002-12)

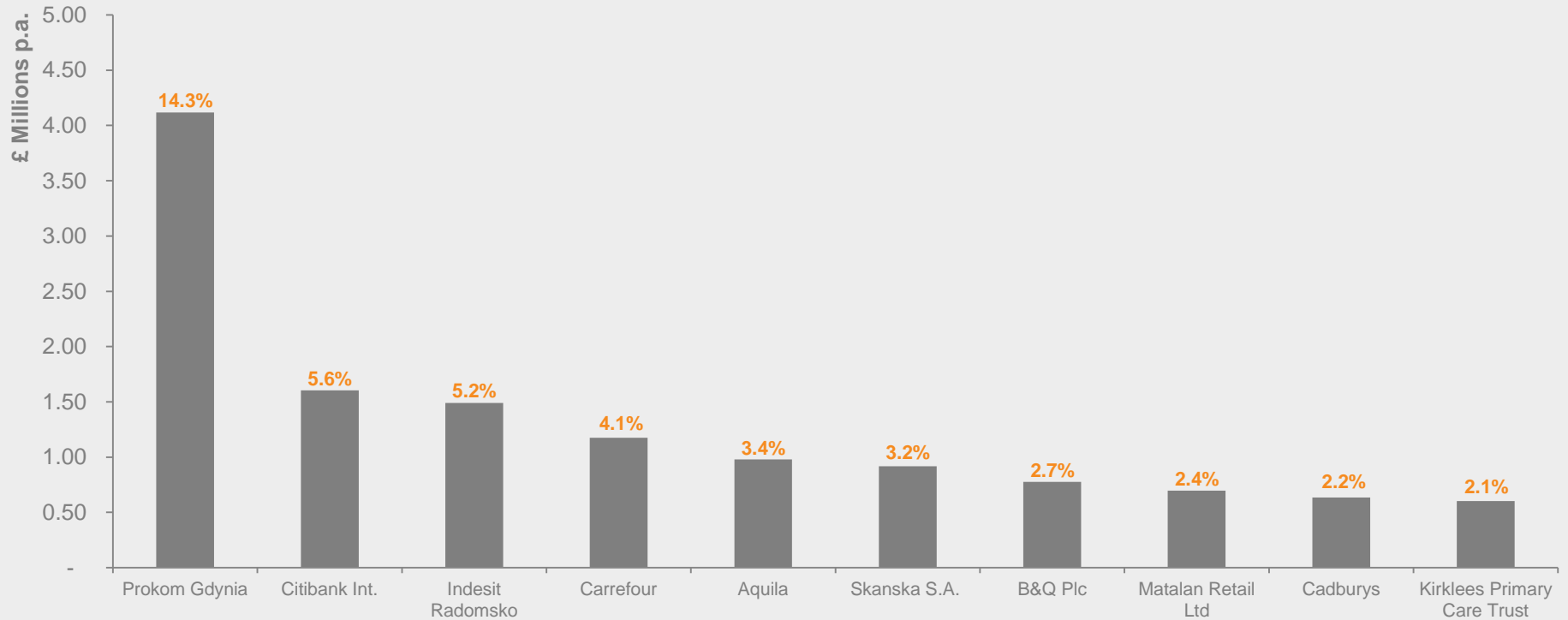
Highlighting strategic decision to exit UK commercial property at peak of the bubble.

"...the commercial property investment market in the UK has risen sharply over the last few years and a large proportion of properties for sale are, in our view, overvalued..." **Ben Habib** Fprop plc Annual Report 2005



**Graph notes:** Payback period (the curve) is the number of years before the purchase is repaid from average rental income, where average rental income is calculated with reference to UK prime & secondary office & retail yields (inverse of net initial yields) - source = CBRE.

2012	Investing in Poland & UK	Re-opening FOP to subscriptions and launch FSIF (FPAM's 6 <sup>th</sup> UK fund).
2011	Investing in Poland & UK	Decision to temporarily cease buying property in Poland when phase 2 of the credit crunch began and the financing market, upon which the property market relies, deteriorated.
2010	Investing in Poland & UK	Launch of FOP (4 <sup>th</sup> Polish fund) and UK PPP LP (5 <sup>th</sup> UK fund) .
2009	Investing in Poland & UK	Return to investing in UK following the widespread fall in commercial property prices. Investment limited to core properties let to recessionary resilient tenants on long leases
2007	Primarily investing in Poland	Majority of UK sales executed by end of 2007
2006	Primarily investing in Poland	Strategic decision to focus investment activities in Poland, the only EU member state not to enter recession since the onset of the credit crunch, and whose commercial property market is now one of the best performing in Europe
2005	Solely investing in the UK	Strategic decision to exit UK property market as a result of the virtual disappearance of the gap between property yields and the cost of debt – see graph left
2002	Investing in Poland & UK	FPAM established



**N.B:** Where applicable rents converted to GBP at €1.255/ £1.

The percentages show rental income as a percentage of the total rental income of all properties managed by FPAM excluding the Group's 1x directly held property and properties in FOP (where the fund is majority owned by the Group and accounted for within Group Properties).

**Group Properties** comprises one property owned directly by the Group and co-investments in four of the six funds managed by FPAM.

### 1. Directly owned property:

Property Name	Purchase date	Book cost	Bank loan	Valuation at 30-Sep-2012	Net Rent	Contribution to pre-tax profit	Return on Original Equity p.a. (annualised)
Blue Tower CBD, Warsaw	Dec-2008	US\$ 12.9m (£8.1m)	US\$10.6m (£6.6m)	US\$ 19.7m (£12.0m)	£1.3m	£356,000	40.7%

### 2. Co-investments in funds managed by FPAM:

Fund	Plc shareholding 30-Sep-2012	Book value of Fprop's share	Market Value of holdings 30-Sep-2012	Group's share of pre-tax profit
<b>Interest in associates:</b>				
5 <sup>th</sup> Property Trading (5PT)	37.8%	£657,000	£1.2m	£64,000
Regional Property Trading (RPT)	28.6%	£217,000	£231,000	£21,000
Share of results in associates				<b>£85,000</b>
<b>Investments:</b>				
UK Pension Property Portfolio LP (UK PPP LP)	0.9%	£942,000	£902,000	£28,000*
<b>Consolidated undertaking:</b>				
Fprop Opportunities plc (FOP)	84.1%	£6.6m**	£8.4m	£423,000***
<b>Total</b>		<b>£8.4m</b>	<b>£10.7m</b>	<b>£0.54m</b>

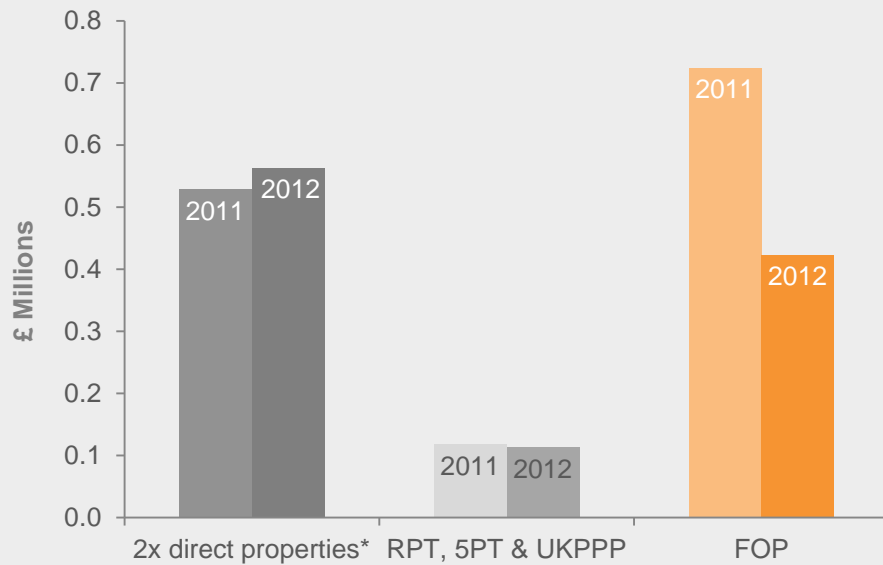
\* Represents dividend received.

\*\* Original book cost was £7 million, initially comprised 99% (£6.93 million) of non-interest bearing shareholder loan. By 30-Sep-2012 there had been 6 loan repayments of which the Group's share was £542,445 in aggregate.

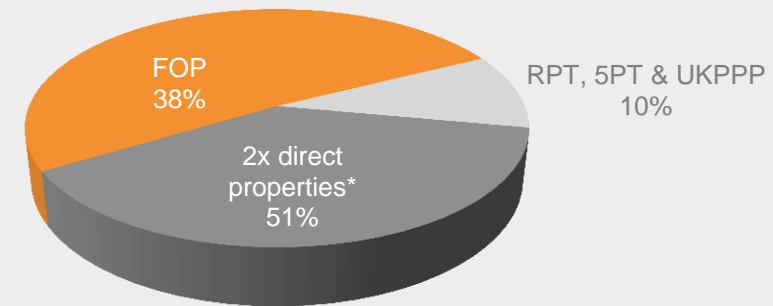
\*\*\* After non-controlling interest.



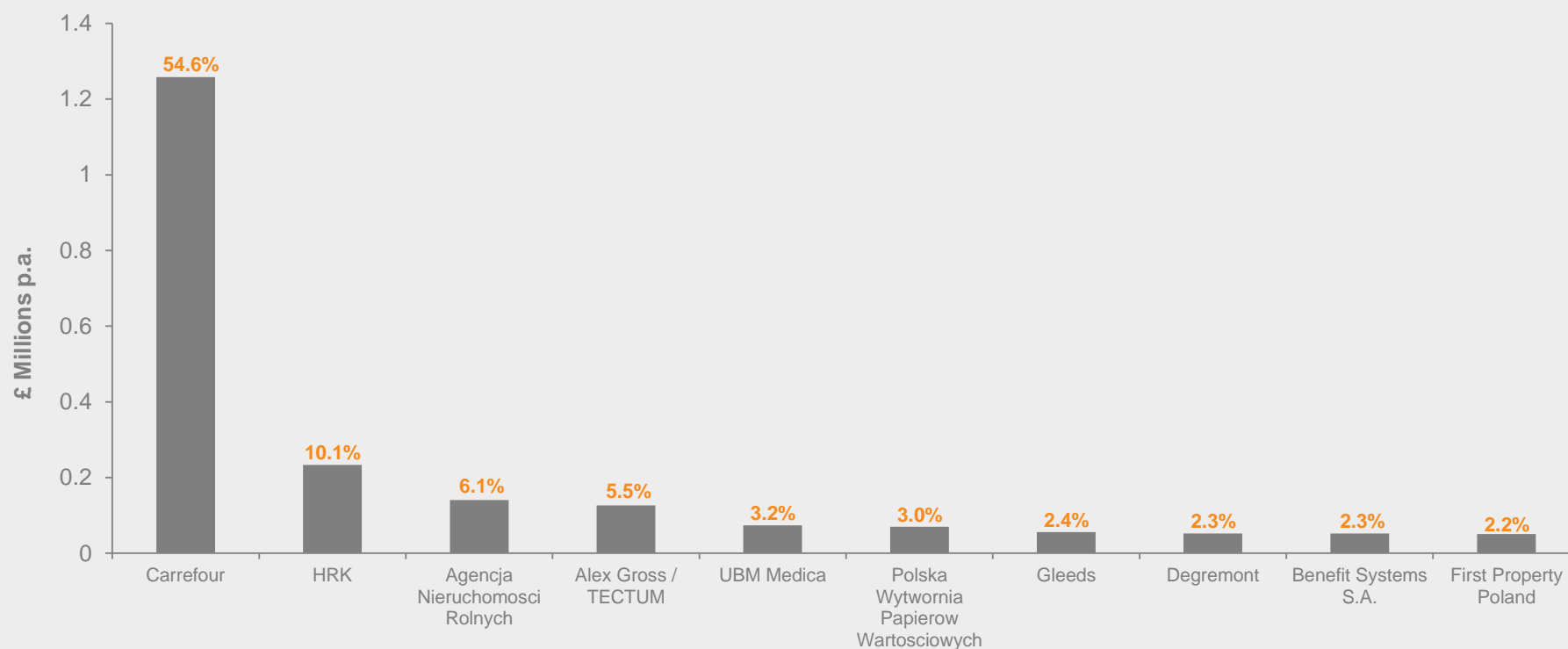
In monetary terms:



In percentage terms:



\* Of the 2x direct properties, one was sold on 7 Sep 2012 (office building in Mokotow); it contributed £207,000 to pre-tax profit during the period (comprising rental income and profit from its sale).



**N.B:** Where applicable rents converted to GBP at € 1.255/ £1.

The percentages show rental income as a percentage of the total rental income of the Group's 1x directly held property and properties in FOP (where the fund is majority owned by the Group and accounted for within Group Properties).

# Outlook

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## UK Sterling Income Fund (FSIF)

- We are in the process of raising a new UK fund and have indications of interest from a number of institutional and private investment and wealth managers.
- We are in the process of constructing a fund around these investors and their various requirements. We hope to announce positive news in this respect in due course.

## Fprop Opportunities plc (FOP)

- We are also raising new funds into FOP to finance the purchase of a number of property acquisitions we are working on.
- We plan to close this fund raising exercise during the first quarter of 2013.

### Review of Market Environment:

- In the wake of a slowdown in European growth, Poland's GDP growth has also slowed and is expected to end the year having grown some 2.4% (2011: 4.3%).
- The rates of growth in consumer spending and reduction in unemployment have also slowed. Notwithstanding this slowdown, it is still one of the fastest rates of GDP growth in Europe and the bigger story of its convergence with Western Europe continues.
- Poland's commercial investment property market has had a good year so far with over €1 billion of property changing hands during the nine months to 30 September 2012. Occupancy levels remain high and rents have risen in certain areas.
- However, the weakness in the capital markets has fed into the Polish banking sector, at least as far as lending on commercial property is concerned and a number of banks have reduced and/ or restricted their exposure to commercial property.
- We do not expect this to reverse in the near future but we are able to raise debt capital for good investments. The tighter market has also resulted in some interesting investment opportunities coming forward.

### Review of Market Environment:

- As we have mentioned in previous statements, we expect the UK economy to remain weak for a number of years.
- The commercial property investment market has softened during the first half of the year but income and values in our UK portfolio, which was acquired on a relatively high yield of 7.5% per annum, have held up relatively well and the portfolio is performing well.
- In the absence of a return to growth in the economy, we shall continue with the UK strategy we have adopted for UK PPP as set out above (also see p. 30).

### Current trading and prospects:

- The difficulties in the euro zone continue to overhang all European capital markets, although the recent announcement by the ECB of its outright market transactions has somewhat stabilised markets.
- Our earnings have been impacted by these difficulties, most notably as a result of a weakening Euro and our decision last year to suspend investment purchases in Poland. We are now in the process of acquiring a number of new properties on behalf of FOP, which should result in earnings growth in due course.

### FPAM:

- Our underlying funds are well positioned for continued good performance.
- The fund raising market is still challenging but we expect that our good track record, coupled with general investor demand for income, will result in new client wins (and therefore growth in assets under management).

### Group Properties:

- We expect continued material contribution to earnings from our directly held property and our co-investments in FPAM's funds;
- The Group has some £11.77m of cash at its disposal (incl. £4.8 m within FOP).

### First Property Group plc

**Website** <http://www.fprop.com>

**Telephone** +44 20 7340 0270

**Address** First Property Group plc  
35 Old Queen Street  
London  
SW1H 9JA

Jeremy Barkes  
Director, Business Development  
[jeremy.barkes@fprop.com](mailto:jeremy.barkes@fprop.com)

### Financial PR

**Redleaf Polhill**  
[www.redleafpolhill.com](http://www.redleafpolhill.com)

George Parrett/ Henry Columbine  
[firstproperty@redleafpolhill.com](mailto:firstproperty@redleafpolhill.com)  
+44 20 7566 6750

### NOMAD & Broker

**Arden Partners**  
<http://www.arden-partners.com>

Chris Hardie  
[chris.hardie@arden-partners.com](mailto:chris.hardie@arden-partners.com)  
+44 20 7614 5929



# Appendix 1

- 26 Shareholders >3% at 30-Sep-2012
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	No of shares	% held (of issued and fully paid)
Ben Habib (Chief Executive Officer)	16,700,000	14.5%
J C Kottler Esq	15,006,783	13.1%
Universities Superannuation Scheme Limited	9,550,000	8.3%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.5%
Whitehall Associated S.A.	4,850,000	4.4%
<i>First Property Group Plc Treasury</i>	3,723,168	3.2%
<b>Total</b>	<b>58,401,941</b>	<b>51.0%</b>

<b>LSE (AIM) Symbol</b>	FPO.L	
<b>Share price</b>	20.0p	
<b>Market Cap</b>	£22.2 million	
<b>Dividend yield</b>	5.4% pa (assuming 2012 FY divi of 1.08p)	0.33p (subject to shareholder approval)
<b>PER (undiluted)</b>	6.5x (annualised)	EPS 1.54p (2011: 1.70p)
<b>PER (diluted)</b>	6.9x (annualised)	EPS 1.46p (2011:1.61p)

	2012	2011	% change
<b>Issued &amp; Fully Paid</b>	<b>114,851,115</b>	114,851,115	0.0%
<b>Issued (excl Treasury)</b>	<b>111,127,947</b>	111,069,811	+0.1%
<b>Shares held in Treasury</b>	<b>3,723,168</b>	3,781,304	+1.5%
<b>Outstanding share options over Ordinary shares</b>	<b>7,500,000</b>	7,540,000	+0.5%
<b>Average strike price of outstanding share options</b>	15.72	15.72p	0.0%

### **Non-Executive Chairman — Alasdair Locke, MA (Oxon)**

Alasdair is the former executive Chairman of Abbot Group plc, an oil services company which he founded in 1992. It was listed on the London Stock Exchange from 1995 until its sale in 2008 for £906 million to Turbo Alpha Ltd, a company controlled by a US private equity fund. He sold his remaining interest in the Group and stepped down altogether in 2009. His early career started in investment banking at Citigroup in 1974, where he specialised in shipping and oil. Alasdair is also Chairman of Argenta Holdings plc, an unlisted holding company which trades in Lloyds of London, and a Non-Executive Director of Ceramic Fuel Cells Limited (AIM / ASX: CFU).



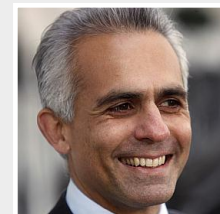
### **Independent Non-Executive Director — Peter Moon**

Peter retired as Chief Investment Officer of Universities Superannuation Scheme (USS) in 2009 following a career steeped in the UK investment management industry. Aside from his 17 year tenure at USS, he was a member of the National Association of Pension Funds (NAPF) Investment Committee between 1990-1995, and more recently an adviser to Lincolnshire County Council and London Pension Authority. Earlier roles included investment management positions with British Airways Pensions, National Provident, Slater Walker and Central Board of Finance Church of England. Additional directorships include Scottish American Investment Company plc (Independent NED) and Arden Partners plc (Non-Executive Chairman [designate]).



### **Group Chief Executive & FPAM Chief Investment Officer — Ben Habib, MA (Cantab)**

Ben founded First Property Group plc in 2000. He is responsible for all aspects of the operations of Fprop and its fund management business. Prior to setting up Fprop, Ben was Managing Director of a private property development company, JKL Property Ltd, from 1994 - 2000, in which he held a 30% interest, prior to which he was Finance Director of PWS Holdings plc, a FTSE 350 Lloyd's reinsurance broker. He started his career in corporate finance in 1987 at Shearson Lehman Brothers. He was educated at Rugby School and Cambridge University.



### **Group Finance Director & Finance Director — George Digby, BA (Hons), ACA, IMC**

George joined Fprop in 2003 and has overseen the rapid expansion of the fund management division during this period, including the development of the operation in Poland, involving in total 34 separate companies to date. Prior to Fprop, George spent 10 years as FD of Fired Earth plc until its MBO in 1998, during which period he oversaw its listing on the London Stock Exchange, a tripling of its turnover and a doubling of its pre-tax profits. He qualified with Price Waterhouse in 1981, followed by positions with Collins Publishers and Nikon UK Ltd. After Fired Earth he set up and ran a successful accounting consultancy for five years. George brings broad financial experience to the Group. He is a member of the Institute of Chartered Accountants in England and Wales and is a holder of the IMC certificate.



# Appendix 2

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Fprop Sterling Income Fund (FSIF) will invest in UK commercial property, targeting a **dividend yield of 6%+ p.a.**, coupled with the prospect of capital growth.



- Defensive strategy to navigate weak economic environment.
- Focus on higher yielding (7%+ net initial yields) but **core property** let to tenants with long leases and good covenants.
- **Our recent precedent fund** (investment vintage 2010-12) gives us confidence we can deliver (see box directly below):
- [Click here](#) for fund webpage

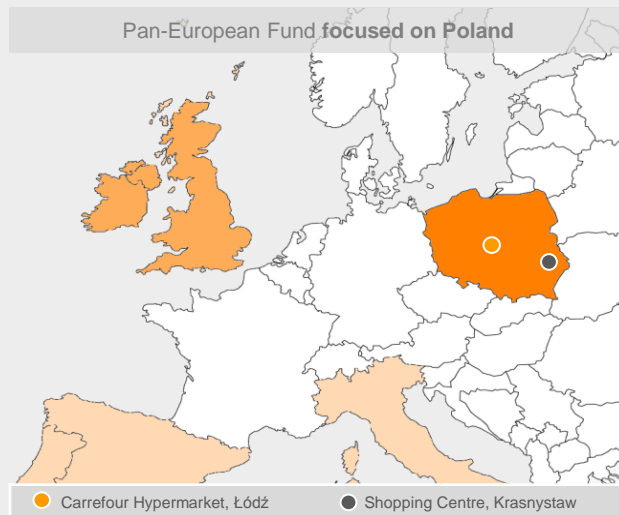
#### Precedent UK Fund (UK PPP) established 2010 at 30-Sep-2012:

<b>NIY</b>	Assembled at an average net initial yield of 7.5%
<b>WAULT</b>	Let to tenants with a weighted average unexpired lease term (WAULT) of c.12 years
<b>Covenant Strength</b>	73.9% of tenants had covenant strength rating of 5A1 (D&B's highest)
<b>Return on Equity</b>	6.5% p.a.

### KEY INFO

- Target properties at yields of 7%+ p.a.
- Focus on long leases to secure tenants
- Focus on lot sizes of £2m - £15m
- Forecast dividend yield of 6%+ p.a.
- Initially structured as an Unauthorised Unit Trust (UUT) followed by conversion to a Property Authorised Investment Fund (PAIF)

Fprop Opportunities plc (FOP) was established in Oct-2010 with £8.28 million of equity, comprising £7 million from First Property Group plc and a further £1.28 million from staff, their families and friends.



➤ **Mandate to invest in higher yielding commercial property targeting:**

- Minimum rate of Return on Equity (ROE) of 15% p.a.
- Minimum Internal Rate of Return (IRR) of 15% p.a.
- Pan European geographic remit focused on Poland;
- 99% capitalised at launch by way of non-interest bearing subordinated shareholder loans;
- Periodically open for subscriptions.

Please [click here](#) to download FOP's H1 2012 Investment Report

**Fund Status as at 30-Sep-2012**

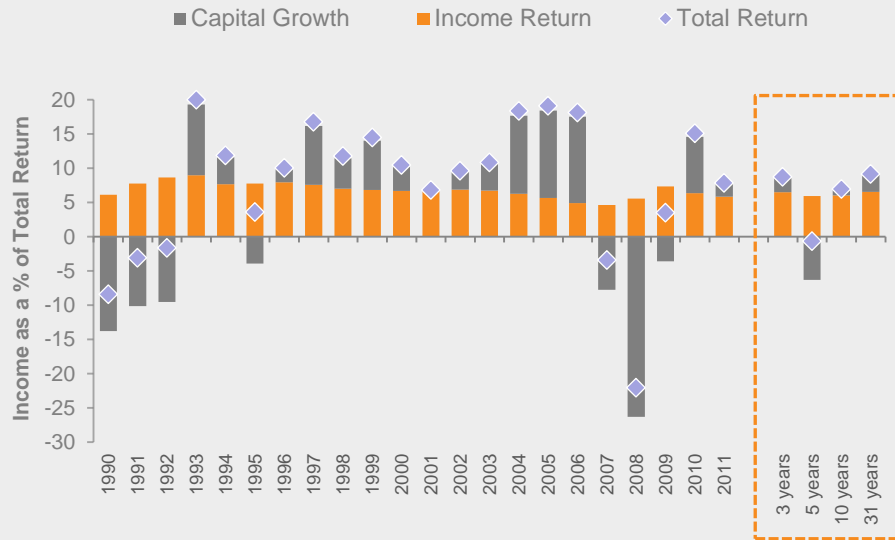
<b>AUM</b>	€25.1m (2x properties – see map)
<b>ROE (actual)</b>	13.3% p.a. (since inception)
<b>ROE (forecast)</b>	11.0% p.a. (FY to 30-Sep-13)

**N.B.** ROEs calculated at fund level and include the effect of c.£4.8m of cash.

### KEY INFO

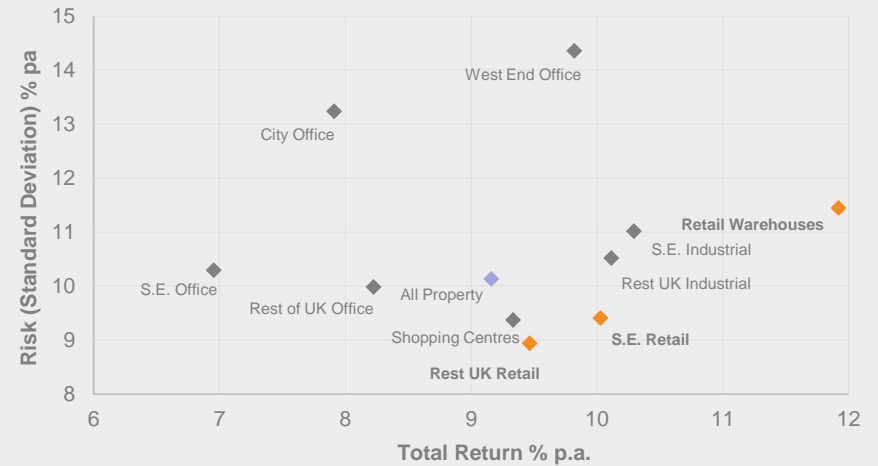
- Target ROE and IRR of 15%+ p.a.
- Raising capital of £100-200m
- Core/ core plus
- Lot sizes of €3m - €100m
- Team of 24 based in Warsaw and 10 based in London carry out **all** fund and asset management activities

Over the long term **income** is the main driver of investment returns



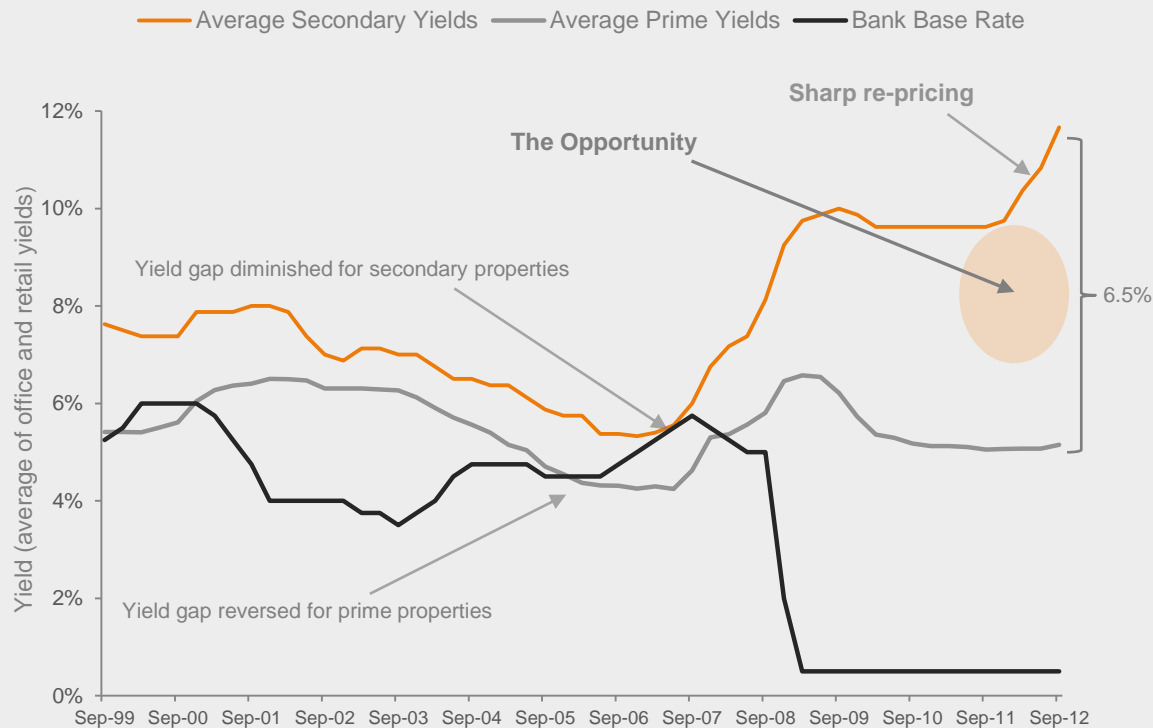
Source: IPD All Property UK Universe 1981-2011. Graph as at Dec-2011

Since 1981 **UK retail** has generated the best risk adjusted returns



Source: IPD All Property UK Universe 1981-2011. Graph as at Dec-2011





Graph as at 30 September 2012  
Source: CBRE, BoE

- Secondary property has not re-priced to the same extent as prime;
- Prime yields are, in many cases, close to or back to 2007 levels;
- It is possible to buy well located properties occupied by financially sound tenants on long leases at net initial yields of 6.5% and higher;
- Recent sharp re-pricing unlikely to reflect our target properties.



### Our investment approach:

- **Sustainable income is a priority.**
- **Property is illiquid:**
  - This illiquidity can be mitigated by rental income – liquidity through income.
  - Over the long term it is income and not capital value movements which largely determine total returns (IPD: income contributed 87% of total returns over the 10 years to 31-Dec-2011 and 71% over the 30 years to 31-Dec-2011, see p.13).
- **Capital preservation:**
  - Capital is better protected if investments yield a high income. Income cushions possible capital value reductions.
- **A fundamental approach to investing:**
  - Consensus may chase a particular investment theme but that does not justify the theme.
- **Flexibility in the light of market changes:**
  - Exited the UK commercial property market in 2005, re-entered in 2009. We act dynamically.
- **An active approach to asset management (where possible):**
  - Drive income and in turn capital values by hands-on property management, relying as much as is possible on internal resources.
- **Thinking from first principles.**

We credit our recognition of the importance of high sustainable income returns as the key reason for our market leading track record.

We recognise the need to continually monitor macro and micro changes in our markets and to adapt our asset management approach accordingly, exemplified by:

- **Our decision to largely exit the UK commercial property market in 2005** following the increase of UK property values and the resultant low income yields available. This change very largely protected the Group and its clients from the subsequent collapse in UK commercial property values (some 50% reduction in value took place between 2007 and 2009).
- **Our decision to choose Poland as our principal geographic area of focus in 2005.** Poland and its commercial property market has been one of the best performers in Europe. On a like-for-like basis our Polish portfolio's income is higher now than it was in 2007.
- **Our decision in June 2008 to change our policy of lease renewal.** In mid-2008, in order to protect rental income before the credit crunch hit Poland, 20% of our tenants (by income) were approached to extend their leases early. Many of these leases were successfully extended (at the same time as increasing rents: +3% across the portfolio). When the credit crunch hit Poland, the portfolio was in a strong position.
- **Our return to the UK in 2009** after property prices had dropped by some 50%. We remain bearish on the UK economy but we believe there is scope to earn relatively high rates of return in certain specific classes of commercial property.
- **Our bearish view on prime London property,** adopted in 2010. This is in stark contrast to the then and current market sentiment. The London market continues to gain in value but it is our view that it is in bubble territory and that at some point this bubble will burst.
- **Our decision to cease buying property in Poland when phase 2 of the credit crunch began and the financing market, upon which the property market relies, deteriorated.** The supply of bank debt denominated in Euros outside of the core countries of the Eurozone, including Poland, became constrained. FPAM adjusted its pricing expectations downwards but vendors are always slow to follow suit.

**Bloomberg TV – Ben Habib discusses outlook for commercial property in 2012 (Dec-2011)**

[www.bloomberg.com/video/82576408/](http://www.bloomberg.com/video/82576408/)



**Fprop Opportunities plc – Presentation (Dec-2010)**

[www.fprop.com/videos/top-promotional-video](http://www.fprop.com/videos/top-promotional-video)



**UK Commercial investment property - a minefield (Mar-2011)**

<http://www.fprop.com/videos/uk-cip-full>

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