



# Interim Results

for the half year ended 30 September 2016

**First Property Group plc**

23 November 2016

IPD® Measured Fund



**FPAM funds rank No.1 versus MSCI's Investment Property Databank (IPD) Central & Eastern European (CEE) Benchmark for the ten years from the commencement of its operations in Poland in 2005 to 31 December 2015, and for the annualised periods from 2005 to the end of each of the years between 31 December 2008 and 31 December 2015.**

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**First Property Group plc** is an award winning property fund manager and investor with operations in the United Kingdom and Central Europe. Around one third of the shares in the Company are owned by management and their families.

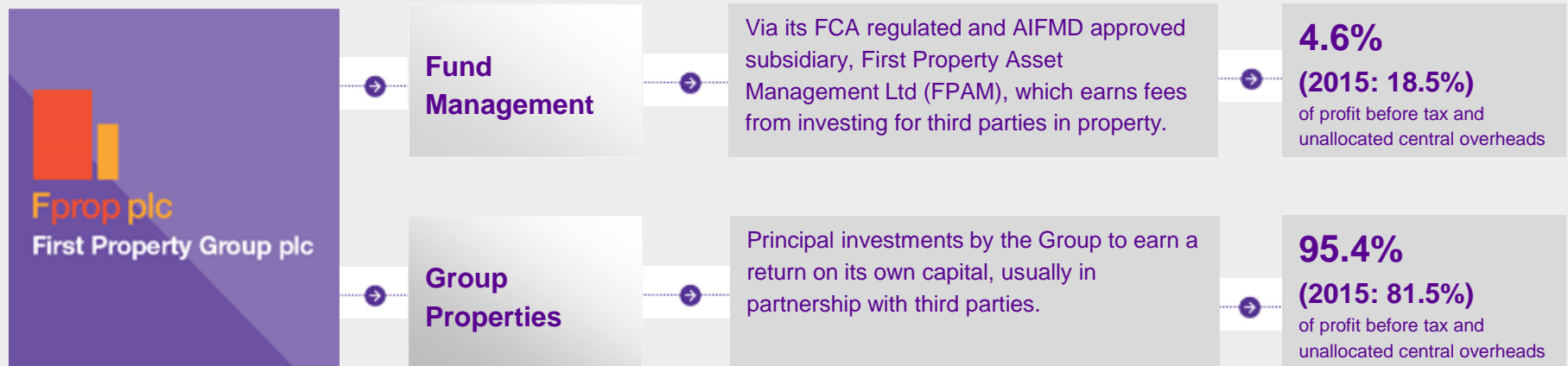
- Its focus is on higher yielding commercial property with sustainable cash flows;
- The company is flexible and takes an active approach to asset management;
- It has an excellent track record.

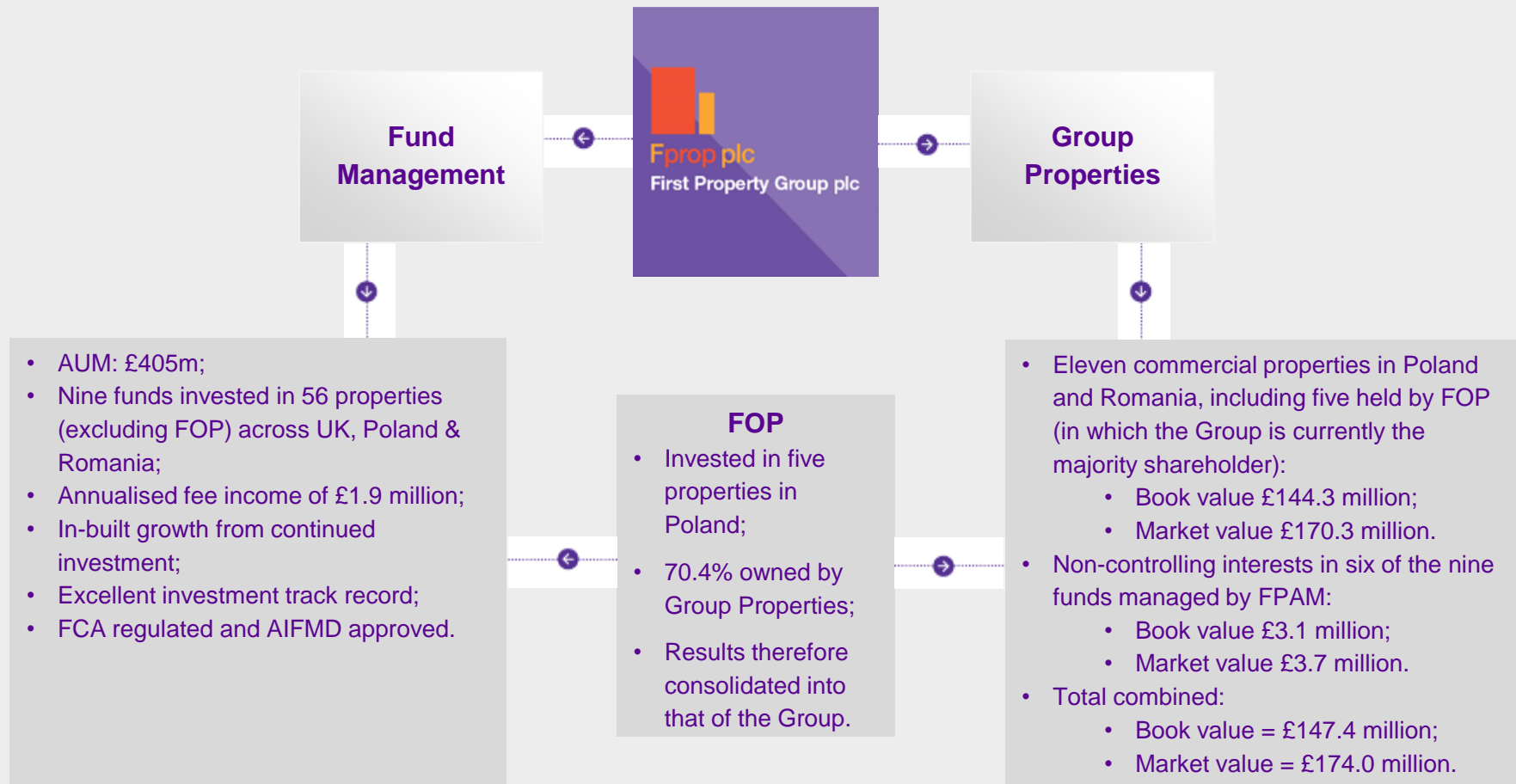
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The Company operates via two divisions:





- **Sustainable income is a priority:**
  - The yield at purchase of any property investment must ALWAYS exceed debt service costs;
  - We assess investments with an emphasis on ROE as opposed to IRR (because IRR's require an exit price assumption);
  - Over the long term it is income and not capital value movements which largely determine total returns;
  - Sustainable high income streams can sustain leverage and thereby enable total equity returns to be boosted;
  - Capital is better protected if investments yield a high income, preferably from a low (reversionary) rent level.
- **Property is illiquid** – but this illiquidity can be mitigated by rental income – liquidity through income.
- **An active approach to asset management (where possible):**
  - Largely exited the UK commercial property market in 2005, re-entered in 2009. We act dynamically;
  - Reversed asset management policy of waiting until lease expiry to renew leases following onset of the credit crunch in 2008;
  - Recommenced development activity in the UK in May 2013 in response to the introduction of Permitted Development Rights and the boosting of demand for residential property with the “Help to Buy” scheme.
- **Flexibility in the light of market changes.**

**We target higher yielding properties with sustainable income streams, enabling us to boost returns by applying leverage.**

### 1. Expertise:

- Experienced, nimble management team;
- Excellent investment track record: 24% annualised growth in net assets between Apr-2008 and Sep-2016;
- Ranked No.1 vs MSCI's Investment Property Databank Central & Eastern European Benchmark.

### 2. Reliable earnings:

- Diversified income streams from investment returns and fund management fees;
- Very nearly ALL profits are of a recurring nature;
- Cash generative with a strong balance sheet;
- Progressive dividend policy. Currently circa three times covered by earnings.

### 3. Growth:

- In-built growth in net assets from high return on equity invested;
- All fund management clients have had good experiences - should lead to more fund management contracts;
- £14m of cash available for future deals;
- Operationally geared – can take on new business without material increases in overheads.

### 4. Geographically diversified:

- Operations in UK, Poland and Romania;
- All three countries performing well economically and amongst the highest growth areas in Europe;
- Mix of jurisdictions provides a natural hedge for Brexit volatility.

# Interim Results - Highlights



## Highlights:

- Profit before tax of £4.47m in line with the prior year despite a significant reduction in one-off non-recurring items to £290,000 (2015: £1.58 million);
- Total assets under management up 43% to £405 million (2015: £283 million);
- Adjusted NAV per share up 20% to 45.86 pence per share (2015: 38.27 pence per share restated);
- Annualised fund management fee income at the period end, excluding performance fees, increased by 46% to some £1.9 million (2015: £1.3 million);
- Weighted average unexpired fund management contract term increased to 6.42 years (2015: 3.75 years);
- Interim dividend up 3.9% to 0.40 pence per share (2015: 0.385 pence per share).

	Unaudited Six months to 30 September 2016	Unaudited Six months to 30 September 2015 Restated*	Percentage change	Audited Year to 31 March 2016
<b>Income Statement:</b>				
Statutory profit before tax	£4.47m	£4.46m	+0.2%	£7.35m
Non-recurring items	£0.29m	£1.58m	-81.6%	£1.76m
Diluted earnings per share	2.40p	2.89p	-17.0%	4.28p
Dividend per share	£0.400p	£0.385p	+3.9%	1.50p
Average €/£ rate used	1.217	1.386		1.363
<b>Balance Sheet at period end:</b>				
Net assets	£36.43m	£30.58m	+19.1%	£34.09m
Net assets per share	29.50p	25.86p	+14.1%	27.75p
Adjusted net assets	£54.43m	£45.40m	+19.9%	£51.03m
EPRA NNNNAV per share**	45.86p	38.27p	+19.8%	£43.01p
Cash Balances	£14.12m	£14.20m	-0.6%	£8.98m
Period-end €/£ rate	1.156	1.357		1.213

\* Restated in order to provide a like for like prior year comparison to the period just ended, in which a provision has been made for incentive payments to staff at the financial year-end.

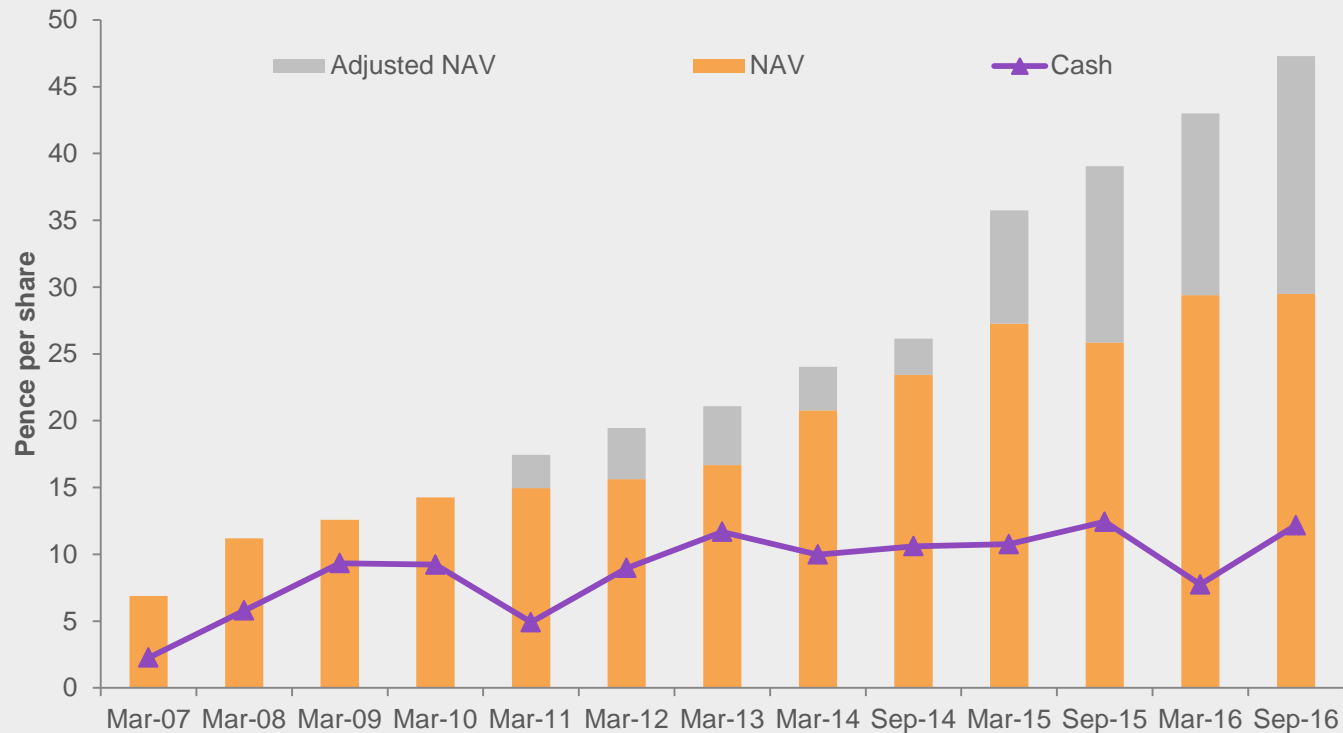
\*\* EPRA – European Public Real Estate Association providers of industry standards of NAV calculations.

\*\*\* It is the Group's policy to hold assets at the lower of cost or value adjusted for prevailing FX rates.

	Unaudited Six months to 30 September 2016	Unaudited Six months to 30 September 2015 Restated*	Percentage change	Audited Year to 31 March 2016
<b>Group Property Portfolio at period end:</b>				
Group Properties at book value***	£144.3m	£125.9m	+14.6%	£134.5m
Group Properties at market value	£170.3m	£145.3m	+17.2%	£156.9m
Gross Debt secured against Group properties	£122.0m	£108.3m	+12.7%	£114.8m
LTV %	71.6%	74.5%		73.2%
<b>Total assets under management:</b>	<b>£405m</b>	<b>£283m</b>	<b>+43.1%</b>	<b>£353m</b>
Poland	48.6%	53.8%		51.5%
United Kingdom	46.6%	43.6%		43.8%
Romania	4.8%	2.6%		4.7%

\* Restated in order to provide a like for like prior year comparison to the period just ended, in which a provision has been made for incentive payments to staff at the financial year-end.

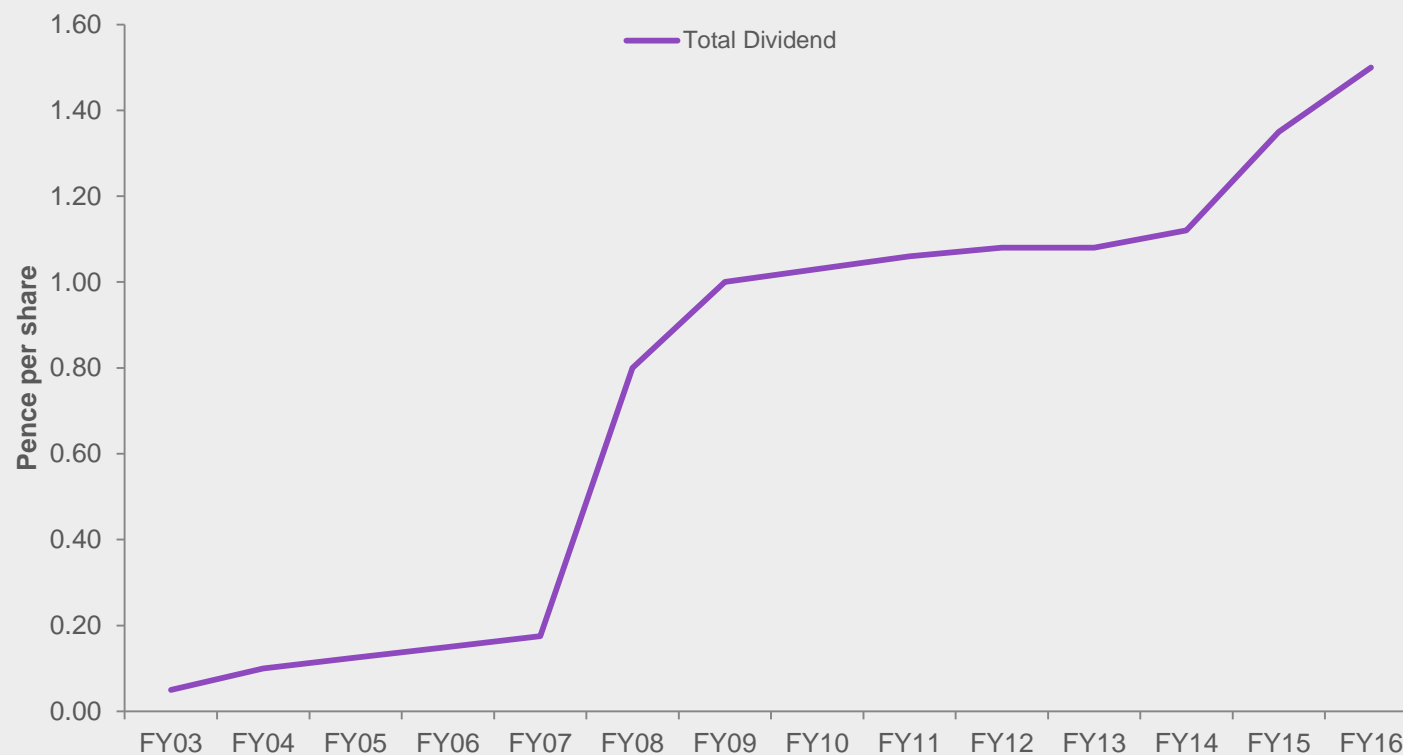
\*\*\* It is the Group's policy to hold assets at the lower of cost or value adjusted for prevailing FX rates.



**Adjusted NAV** = in line with European Public Real Estate Association (EPRA) methodology, which includes fair values of: financial instruments; debt; deferred taxes.

### External valuers

CBRE, BNP Paribas, Polish Properties Sp. z o.o.



### Interim dividend:

0.40p

(2015: 0.385p)

+3.9%

### Total dividend for year to Mar-2016:

1.50p

(2015: 1.35p)

+11.1%

### Policy:

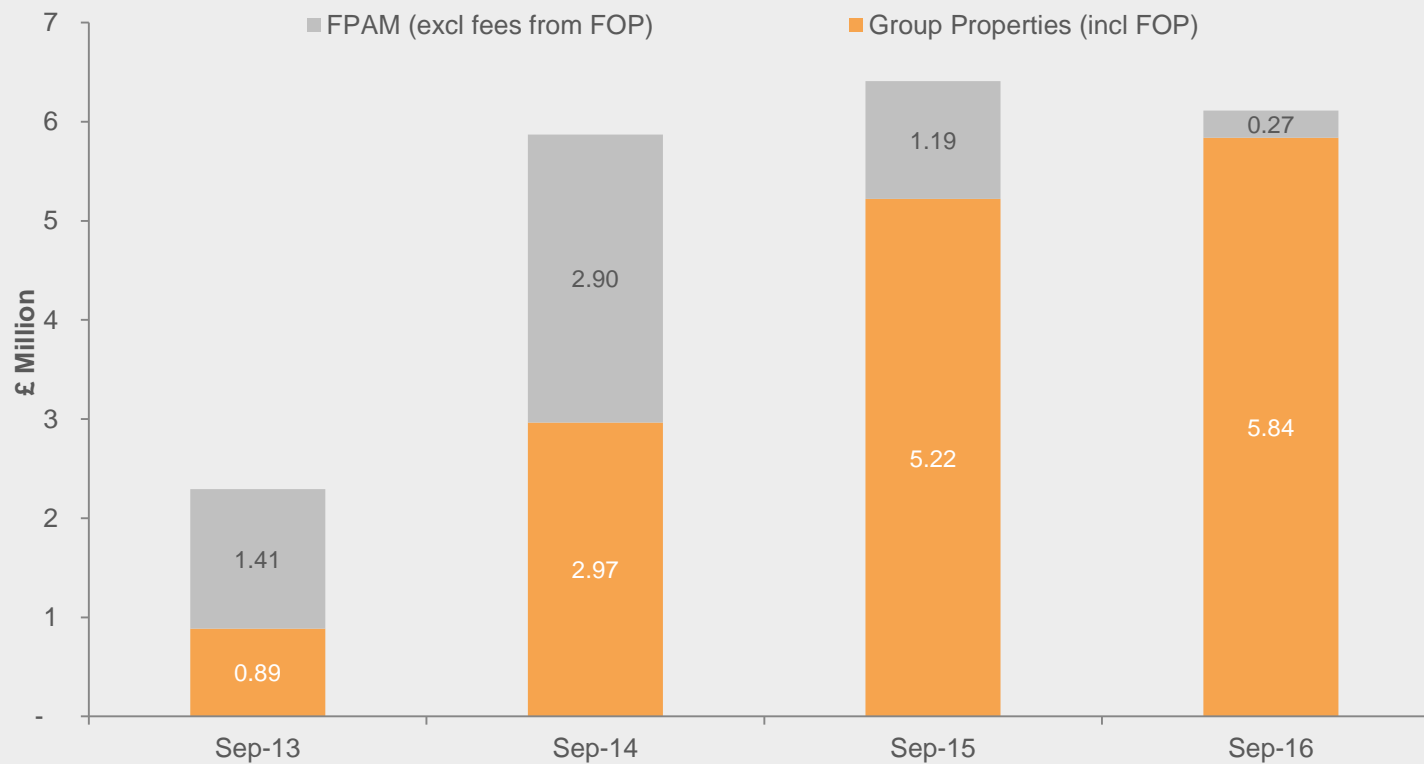
Progressive

**Ex div date:** 1 Dec

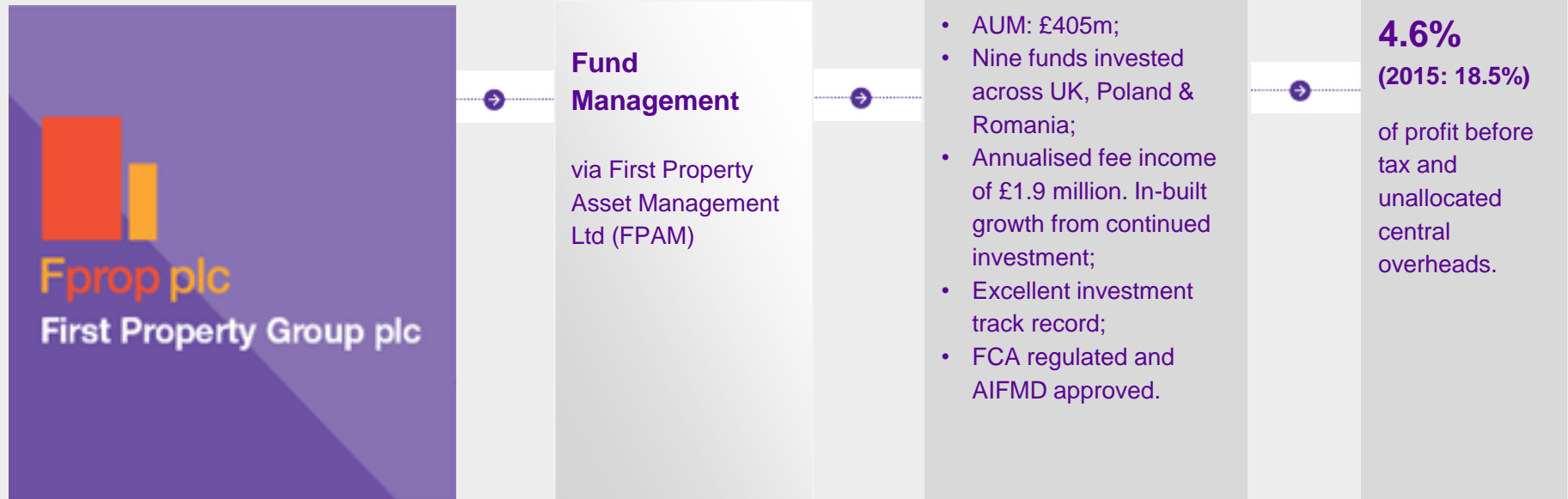
**Record date:** 2 Dec

**Payment date:** 30 Dec

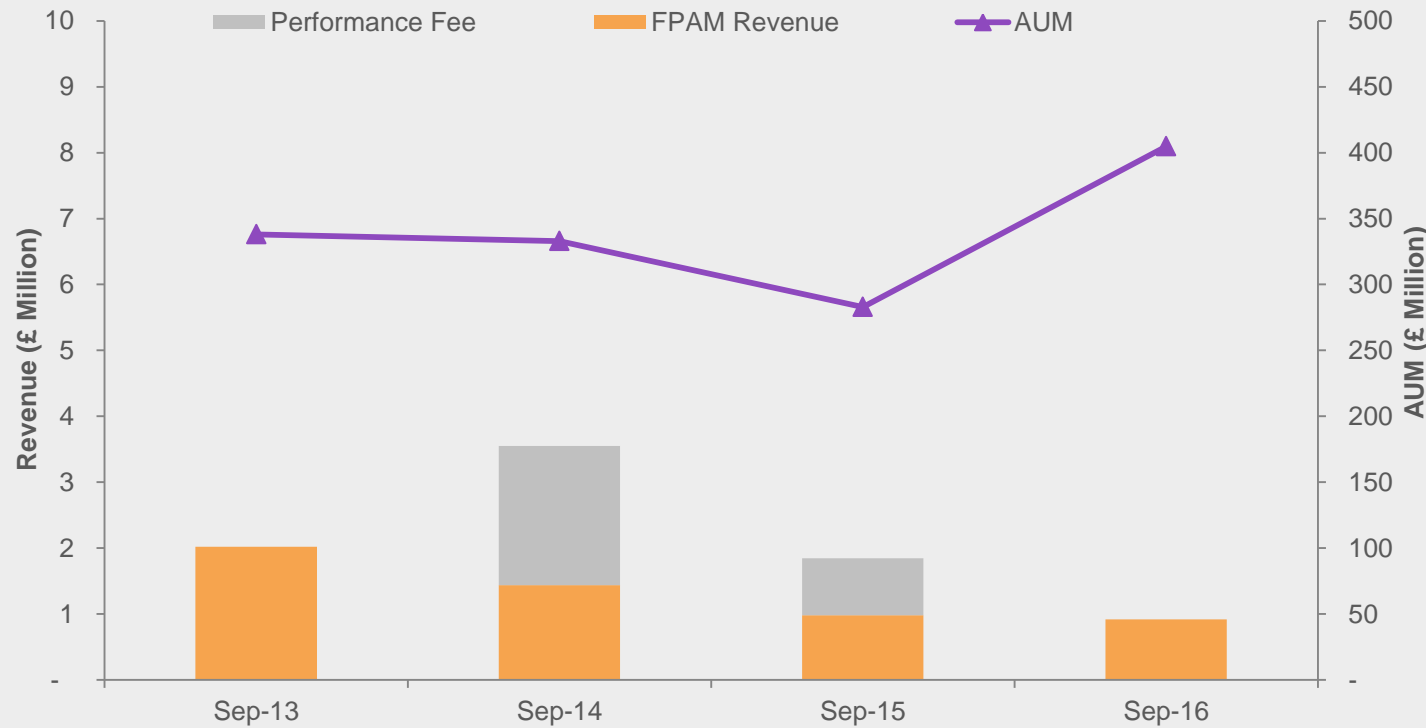
# Segmental Analysis



- **Group Properties** – rising contribution due to investments made in FY2014 and FY2015 being held for the full period. Should now level off unless we make new investments.
- **FPAM** – declining contribution mainly due to absence of performance fees in period just ended.



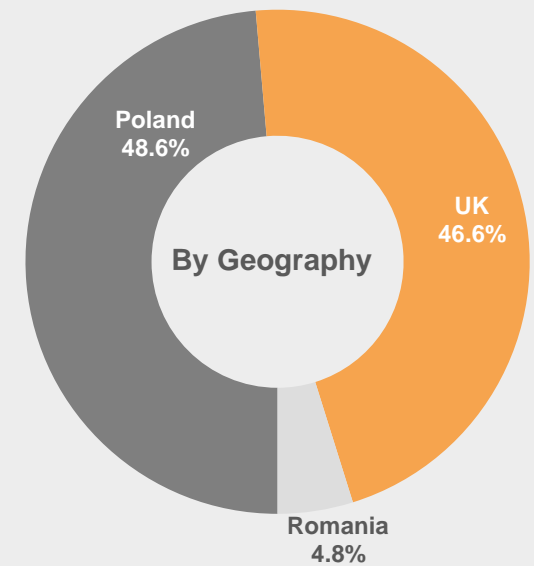
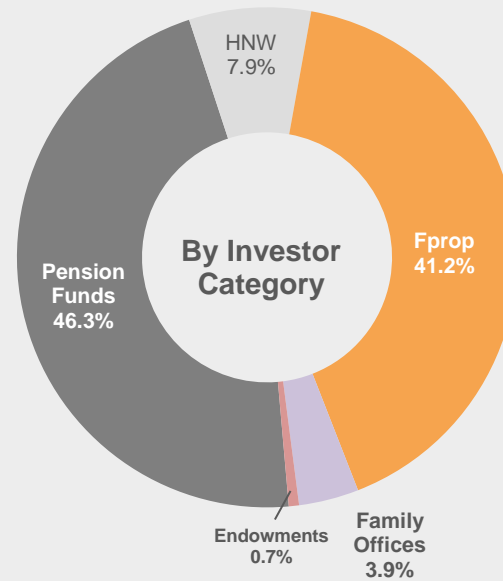
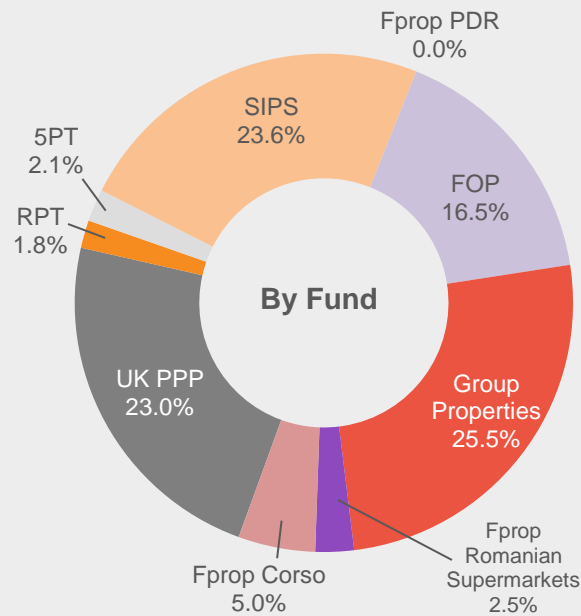




- **AUM** set to continue rising as we invest remainder of SIPS fund;
- **Underlying fund management fee income** set to grow with AUM;
- Lost fee income from expiry of USS fund in 2015 largely replaced.

# Segmental Analysis – Fund Management (FPAM)

## Breakdown of AUM (incl Group Properties)





### Group Properties

Principal investments by the Group, to earn a return on its own capital, usually in partnership with third parties.

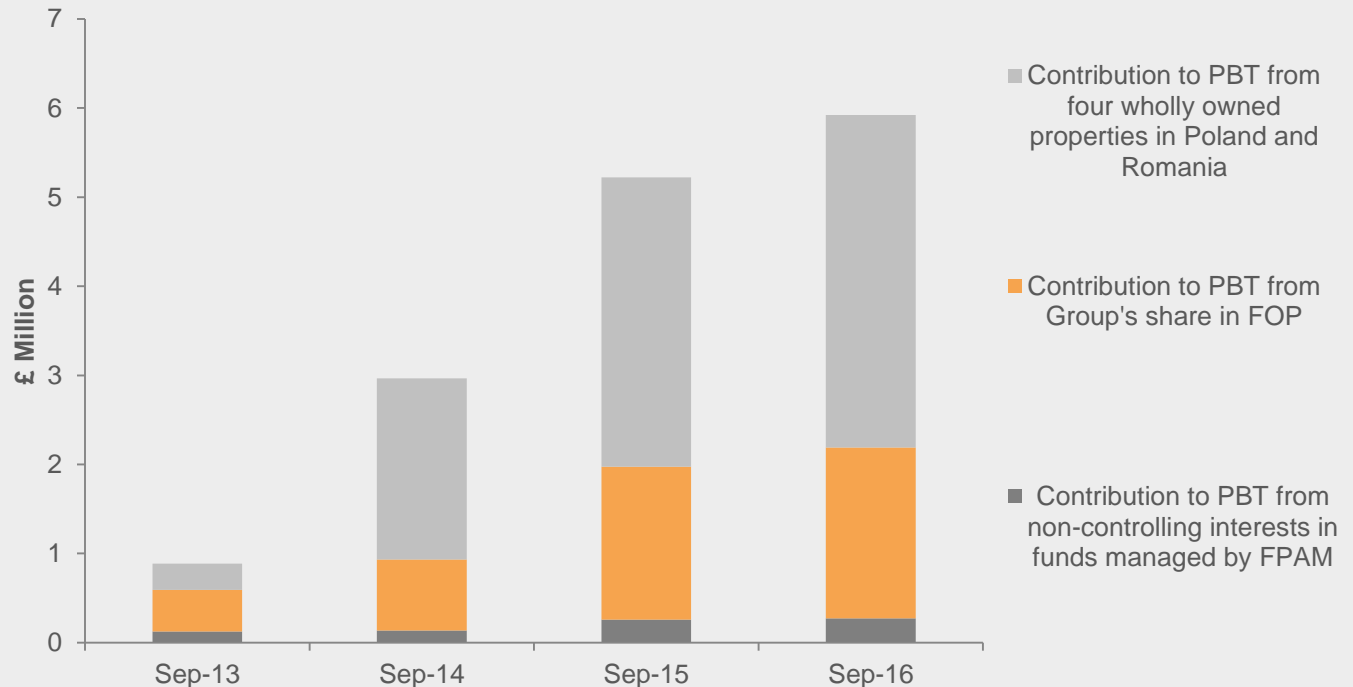
1. Eleven commercial properties in Poland and Romania, including five held by FOP (in which the Group is currently the majority shareholder):
  - Book value £144.3 million;
  - Market value £170.3 million.
2. Non-controlling interests in six of the nine funds managed by FPAM:
  - Book value £3.1 million;
  - Market value £3.7 million.
3. Combined:
  - Total book value = £147.4 million;
  - Total market value = £174.0 million.

**95.4%**  
(2015: 81.5%)

of profit before tax and unallocated central overheads.

### Group Properties:

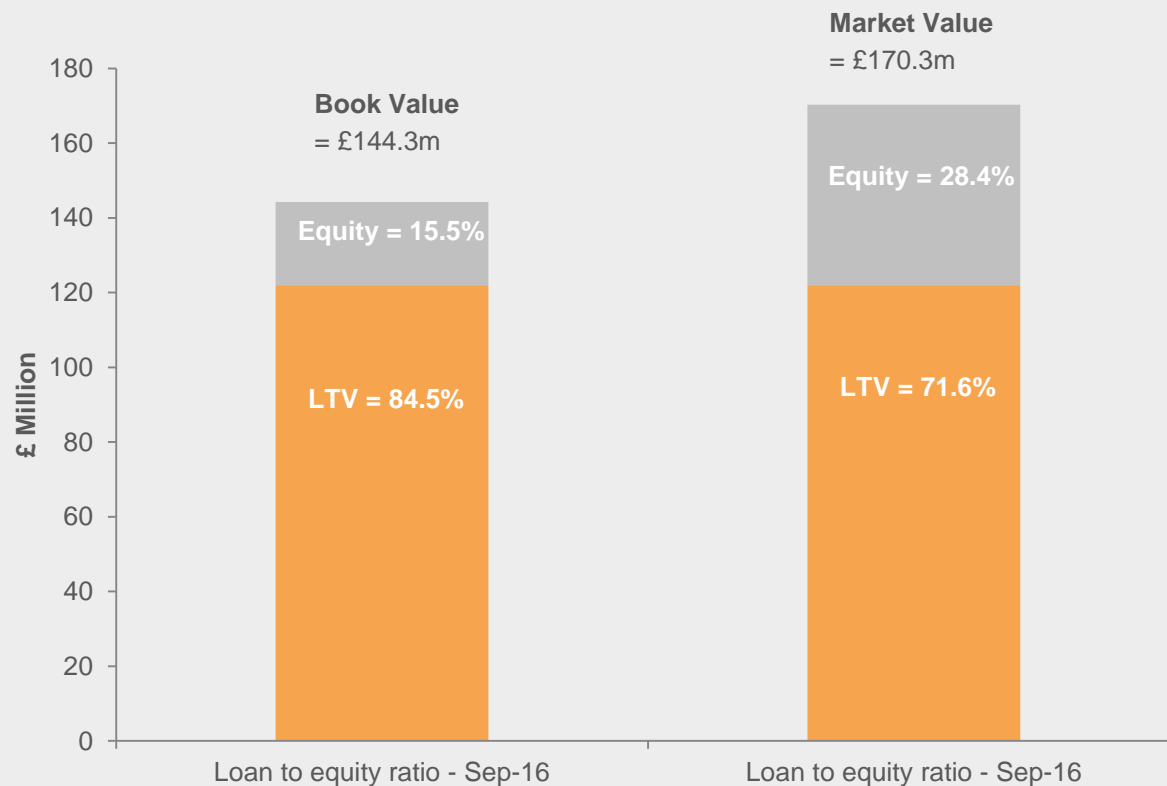
- Contributed £5.65m (2015: £4.96m) to PBT and unallocated central overheads;
- Represents **95.4%** (2015: 95.1%) of Group PBT and unallocated central overheads.



## Segmental Analysis – Group Properties

### Cash flows from eleven properties owned by the Group and FOP

	Six months to 30 Sep 2016 €m.	Six months to 30 Sep 2015 €m.
Net operating income (NOI)	9.66	9.69
Interest expense on bank loans / finance leases	(1.67)	(1.92)
<b>NOI after interest expense</b>	<b>7.99</b>	<b>7.77</b>
Current tax	(0.61)	(0.53)
Debt amortisation	(3.60)	(3.47)
Capital expenditure	(0.46)	(1.38)
<b>Free cash</b>	<b>3.32</b>	<b>2.39</b>
Market value of properties	€196.87	€197.16m
Average yield on market value	9.8%	9.8%
Bank loans / finance leases outstanding	€141.00	€146.96
Loan to value (LTV)	71.6%	74.5%
Weighted average unexpired lease term (WAULT)	3.73yrs	4.39 yrs
Vacancy rate	1.8%	4.0%



- Properties are held in separate non-cross collateralised SPV's which are non-recourse to the Group;
- Interest rates:
  - Current weighted average borrowing cost = c2.59% (2015: 2.87%) p.a.;
  - Group exposure to interest rate rises is mitigated by selective use of interest rate caps and fixes.
- Valuation:
  - Yield vs market value = c9.7%
  - Yield vs book value = c11.5%
- Period end € / £ rate = 1.156

	Tenant	Sector	%
1	Asseco S.A.	Technology	27.4%
2	Citibank Europe Plc	Finance	11.6%
3	Carrefour	Food Retail	7.9%
4	Aquila	Logistics	6.3%
5	Skanska S.A.	Construction	6.0%
6	Tesco (Polska) sp z o.o.	Food Retail	3.3%
7	Operator Logistyczny Paliw Płynnych	Energy	3.1%
8	NFZ Warszawa	Health Insurance	2.8%
9	First Property Poland	Property	2.3%
10	Bank Zachodni WBK SA	Finance	2.1%
<b>% of rental income attributable to top 10 tenants</b>			<b>72.8%</b>

- Weighted Average Unexpired Lease Term (WAULT) = 3 yrs, 9 mths (2015: 4 yrs, 5 mths);
- Occupancy ratio = 98.2% (2015: 96.0%).

# Markets



### ➤ GDP Growth:

- 2016: 3.7% (F)
- 2017: 3.6% (F)



### ➤ Commercial Property:

- Rent levels for office property in Warsaw and other main cities have generally softened over the past couple of years, as the pace of new development has increased;
- Capital values for prime property have increased;
- Capital values for good secondary property remain largely unchanged from their credit crunch lows, yielding around one third more than equivalent property in Western Europe;
- Transaction volumes in 2016 are expected to exceed the €4 billion recorded in 2015, which was the second highest year on record in Poland and the highest since the onset of the credit crunch;
- Government plans to introduce REIT legislation in Poland should lead to increased domestic demand for commercial property in due course.

### ➤ Debt market:

- Senior loan margin = 2 – 2.5% over EURIBOR;
- Banking sector is well capitalised and keen to lend against property at record low interest rates.

➤ **GDP Growth:**

- 2016: 4.2% (F)
- 2017: 3.7% (F)

➤ **Commercial Property:**

- Occupier and investor demand picking up from a relatively low level;
- Still a mismatch between buyer and seller pricing expectations.

➤ **Debt market:**

- Senior loan margin = 4-4.5% over EURIBOR;
- Margins beginning to reduce, which should boost investment demand for commercial property in due course.



➤ **GDP Growth:**

- 2016: c2% (F) - fastest growing G7 nation
- 2017: c1.5% (F)



➤ **Commercial Property:**

- Commercial property values fell in the wake of the Referendum, in particular for properties with shorter leases, or requiring asset management;
- Prime properties with longer leases were less affected, apart from in Scotland, due to heightened fears of a second referendum on Scottish independence;
- It is our view that values will recover. The occupier market remains robust and the Bank of England's decision in August to cut the base rate from 0.5% to 0.25% and institute a further round of QE should provide substantial support.

➤ **Debt market:**

- Senior loan margin = 2-2.5% over LIBOR.

# Outlook

- In-built earnings growth from additional fund management commitments, once invested;
- Very nearly all profits of a recurring nature;
- The assets we own and manage are performing well, as are the economies in which we operate. We expect continued earnings growth;
- The contribution to earnings from Group Properties has increased substantially in recent years as a result of us taking advantage of opportunities for which we had no fund management mandates. Going forward, we expect the relative contribution from fund management to rise. The synergies between these two activities further balance the business;
- We are confident that our strong balance sheet (cash: £14m), operational gearing and experienced team will continue to drive the Group's growth and look forward to taking advantage of the in-built opportunities available to us.

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# Appendix

## Segmental Analysis – Fund Management (FPAM)

### Funds under management at 30 September 2016

Fund	Country of Investment	Fund expiry	AUM 30-Sep-16	% of total AUM	AUM 30-Sep-15
SAM Property Company Ltd ( <b>SAM</b> )	UK	Rolling	*	*	*
Regional Property Trading ( <b>RPT</b> )	Poland	Aug 2020	£7.0m	1.7%	£6.3m
5 <sup>th</sup> Property Trading ( <b>5PT</b> )	Poland	Dec 2022	£8.5m	2.1%	£7.8m
UK Pension Property Portfolio LP ( <b>UK PPP</b> )	UK	Feb 2022	£93.1m	23.0%	£95.1m
Fprop PDR LP ( <b>PDR</b> )	UK	May 2018	Nil (commitment of £42m)	-	Nil
SIPS Property Nominee Ltd ( <b>SIPS</b> )	UK	Jan 2025	£95.3m (commitment of £125m)	23.6%	£28.0m
Fprop Romanian Supermarkets Ltd ( <b>FRS</b> )	Romania	Jan 2026	£10.2m	2.5%	-
Fprop Galeria Corso Ltd ( <b>FGC</b> )	Poland	Jan 2026	£20.4m	5.0%	-
<b>Sub Total</b>			<b>£234.5m</b>	<b>57.9%</b>	<b>£137.2m</b>
Fprop Opportunities plc ( <b>FOP</b> )	Poland	Oct-2020	£67.0m	16.6%	£55.5m
Group Properties	Poland & Romania	n/a	£103.3m	25.5%	£89.8m
<b>Sub Total</b>			<b>£170.3m</b>	<b>42.1%</b>	<b>£145.3m</b>
<b>Total</b>		<b>6.42 yrs</b>	<b>£404.8m</b>	<b>100%</b>	<b>£282.5m</b>

\* Not subject to recent valuation



## Segmental Analysis – Fund Management (FPAM)

### Reconciliation of movement in funds under management

	Funds managed for third parties (including funds in which the Group is a minority shareholder)				Group Properties (including FOP)		Totals	
	UK £m.	CEE £m.	Total £m.	No. of prop's	All CEE £m.	No. of prop's	AUM £m.	No. of prop's
<b>As at 1 April 2016</b>	<b>154.7</b>	<b>41.5</b>	<b>196.2</b>	<b>50</b>	<b>156.9</b>	<b>11</b>	<b>353.1</b>	<b>61</b>
Purchases	37.7	-	37.7	6	-	-	37.7	6
Sales	-	-	-	-	-	-	-	-
Property Depreciation	-	-	-	-	(0.8)	-	(0.8)	-
Property Revaluation	(4.0)	0.7	(3.3)	-	(0.1)	-	(3.4)	-
FX Revaluation	-	3.9	3.9	-	14.3	-	18.2	-
<b>As at 30 Sep 2016</b>	<b>188.4</b>	<b>46.1</b>	<b>234.5</b>	<b>56</b>	<b>170.3</b>	<b>11</b>	<b>404.8</b>	<b>67</b>

## Segmental Analysis – Group Properties composition

### Group Properties at 30-Sep-2016

Property	No. of properties	Book value	Market value	Contribution to Group PBT to 30 Sep-16	Contribution to Group PBT to 30 Sep-15
Poland	3	79.6m	94.0m	3.15m	2.79m
Romania	3	6.0m	9.3m	0.58m	0.45m
FOP (consolidated undertaking)	5	58.7m	67.0m	1.92m	1.72m
<b>Total</b>	<b>11</b>	<b>£144.3m</b>	<b>£170.3m</b>	<b>£5.65m</b>	<b>£4.96m</b>

Fund	% owned by First Property Group	Book value of First Property's share in fund	Current market value of holdings	Group's share of pre-tax profits earned by fund 30-Sep-16	Group's share of pre-tax profits earned by fund 30-Sep-15
<b>Interest in associates:</b>					
5 <sup>th</sup> Property Trading (5PT)	37.8%	£560,000	£1,012,000	£61,000	£59,000
Regional Property Trading (RPT)	28.6%	£185,000	£220,000	£26,000	£6,000
Fprop Romanian Supermarkets Ltd (FRS)	24.1%	£737,000	£764,000	£83,000	-
Fprop Galeria Corso Ltd (FGC)	28.2%	£1,585,000	£1,661,000	£101,000	-
<b>Sub Total</b>		<b>£3,098,000</b>	<b>£3,657,000</b>	<b>£271,000</b>	<b>£65,000</b>
<b>Investments:</b>					
UK Pension Property Portfolio (UK PPP)	0.9%	£905,000	£905,000	£18,000	£29,000
Fprop PDR LP	5.0%	£13,000	£13,000	-	£163,000
<b>Sub total</b>		<b>£918,000</b>	<b>£918,000</b>	<b>£18,000</b>	<b>£192,000</b>
<b>Total</b>		<b>£4,016,000</b>	<b>£4,575,000</b>	<b>£289,000</b>	<b>£257,000</b>

NB: It is the Group's accounting policy to hold its direct properties and shares in associates at the lower of cost or valuation.

	No of shares	% held (of issued and fully paid)
Ben Habib (Chief Executive Officer)	16,700,000	14.4%
New Pistoia Income Ltd	15,090,000	13.0%
J C Kottler Esq	12,206,783	10.5%
Universities Superannuation Scheme Limited	9,550,000	8.2%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.4%
<b>Total</b>	<b>62,118,773</b>	<b>53.5%</b>

<b>LSE (AIM) Symbol</b>	FPO.L	
<b>Share price</b>	45p	
<b>Market Cap</b>	£52 million	
<b>Dividend</b>	<b>HY2016</b>	<b>FY2016</b>
<b>Interim</b>	0.40p	0.385p
<b>Final</b>	-	1.115p
<b>Total for year</b>	-	1.50p
<b>EPS (undiluted)</b>	2.46p	4.37p
<b>EPS (diluted)</b>	2.40p	4.93p

	<b>HY 2016</b>	<b>HY 2015</b>
<b>Issued &amp; Fully Paid</b>	116,601,115	114,851,115
<b>Issued (excl Treasury)</b>	115,980,040	114,205,912
<b>Shares held in Treasury</b>	621,075	645,203
<b>Outstanding share options over Ordinary shares</b>	2,700,000	4,450,000
<b>Average strike price of outstanding share options</b>	14.65p	16.26p

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

Alasdair began his career in banking. In 1982 he established a Singapore-based business providing finance for and investing in shipping and offshore oil service companies, which was subsequently acquired by Henry Ansbacher & Co Ltd.

On his return to the UK he established Abbot Group plc in 1990, which he took public in 1995. Upon its sale to private equity in 2008 Abbot Group was one of the leading oil drilling, engineering and contracting businesses in the world, with approximately 8,000 employees in over 20 countries and an annual turnover of cUS\$1.8 billion. The equity value of the disposal was in excess of £900 million.

Alasdair maintains a wide portfolio of business interests including insurance, retailing and petroleum. He is also Chairman of Argenta Holdings plc, an unlisted holding company which trades in Lloyds of London and Non-Executive Chairman of Hardy Oil & Gas plc.



### **Independent Non-Executive Director — Peter Moon, BSc (Econ)**

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 from 1990-1995, and adviser to Lincolnshire County Council, Middlesbrough Borough Council and the London Pension Authority. Earlier roles included Chief Investment Officer with British Airways Pensions and investment management positions at National Provident Institution, Slater Walker and the Central Board of Finance of the Church of England.

Peter is also non-executive chairman of Scottish American Investment Company plc and Bell Potter (UK) Limited and the senior non-executive director at Gresham House plc and a non-executive director of JPMorgan Asian Investment Trust plc. He is a former non-executive director of MBNA Europe and former non-executive chairman of Arden Partners plc.



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

Ben founded and is CEO of First Property Group plc, an award winning commercial property fund manager with operations in the United Kingdom and Central Europe.

Prior to setting up First Property, Ben was Managing Director of a private property development company, JKL Property Ltd, from 1994 - 2000. He started his career in corporate finance in 1987 at Shearson Lehman Brothers. He moved in 1989 to PWS Holdings plc, a FTSE 350 Lloyds reinsurance broker, to be its Finance Director.

He was educated at Rugby School and Cambridge University.

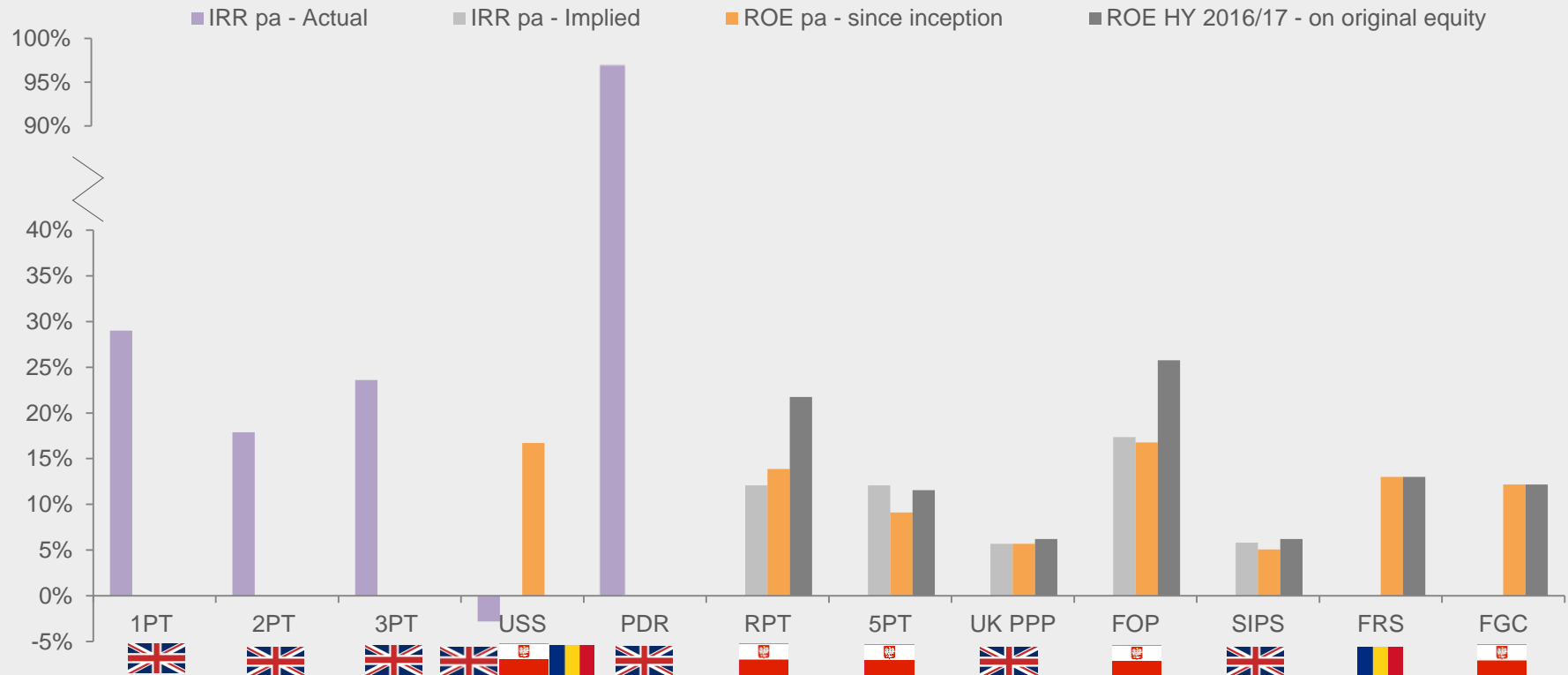


### **Group Chief Financial Officer & Company Secretary — George Digby, BA (Hons), ACA**

George joined Fprop in 2003 following a five year period of running a private accountancy consultancy. Between 1989 and 1998 he was FD of Fired Earth plc, overseeing 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.

At Fprop he has overseen a rapid expansion of the fund management division, particularly from 2005, including the development of the Polish operations. He now oversees the financial accounting and reporting for 41 separate Group and underlying fund companies, incorporated both in the UK and Europe.





- Implied IRR calculations use NAVs as at 30-Sep-2016.
- No Implied IRR generated for Fprop Romanian Supermarkets (FRS) or Fprop Galeria Corso (FGC) as not long enough period since inception.
- ROE's since inception are calculated using average pre-tax income per FY ÷ original shareholders' equity employed.
- ROE's for 2016/17 HY are calculated using annualised pre-tax income for FY period ÷ by original equity employed.



IPD® Measured Fund



FPAM funds rank No.1 versus MSCI's Investment Property Databank (IPD) Central & Eastern European (CEE) Benchmark for the ten years from the commencement of its operations in Poland in 2005 to 31 December 2015, and for the annualised periods from 2005 to the end of each of the years between 31 December 2008 and 31 December 2015.



Best Property Fund Manager 2016 – Winner



Best Direct Property Fund Manager 2016 - UK



### Shortlisted:



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