Interim report as of 30 September 2014

Luxembourg, 27 November 2014

CPI PROPERTY GROUP continues to implement its financing and investment strategy by entering new business and further capital increase

Corporate highlights

<u>Capital increases</u>

On 22 September 2014 the Board of Directors of CPI PROPERTY GROUP ("hereinafter as the "Company" and together with its subsidiaries as the "Group") resolved to implement a reserved capital increase and raise up to EUR 31 million pursuant to the authorization granted to it by its shareholders during the extraordinary General Meeting of 28 August 2014. The Board of Directors agreed to issue 65,957,446 new ordinary shares having a par value of EUR 0.10 each, at a subscription price (2478.63 Tm)-255(28)-9( ) 107-E4357,446

period of five (5) years from 28 August 2014. The Meeting further resolved to modify, renew and replace the existing authorised share capital of the Company and to set it to an amount of EUR 400,000,000 for a period of five (5) years from the date of the Meeting and also approved the report of the Board of Directors relating to the possibility of the Board of Directors to cancel or limit any preferential subscription rights of the shareholders upon the increases of capital in the framework of the authorised share capital. Following the capital increase of 25 September 2014, the authorized share capital available to the Board of Directors is EUR 393,404,255.40 as of the date of this report.

Investments and portfolio news

The Group continued to use proceeds raised from the capital increases in the investment and financing of new projects in the Group´s current activities as well as in expansion into new businesses.

Entering new agriculture business

On 2 October 2014 the Company entered into agreements concerning the acquisition of 100% shares of Spojené farmy ("SF") for a contribution of EUR 43.5 million from a larger group of private individuals. The transaction was completed on 1 November 2014, after the approval by the anti-monopoly authority. SF is one of the largest owners of farmland and producer of high-quality organic food in the Czech Republic which operates almost 20,000 hectares of land. It produces high-quality organic beef, chicken and lamb with various certifications (kosher, halal and bio) and supplies international retail chains, restaurants, hotels and independent retailers in EU as well as in the Middle East. The expansion into agricultural business is an important move for the Group, as farmland is seen as one of the safest investments in real estate and with a high potential for growth in value, in particular in the Czech Republic. Additional investments in the expansion of SF are pre-contracted in the following two years with the approximate value of EUR 20 million and secured by the Company's corporate guarantee.

Other investments in Central Europe:

In October 2014 the Group acquired 100% shares in Office Center Poštová s.r.o. ("OCP"), which owns a refurbished office building located in the prime downtown area of Bratislava, Slovakia for a consideration of EUR 8.5 million. The acquisition follows the completion of insolvency restructuring procedure of OCP. As part of its restructuring, OCP obtained a favourable bank financing of EUR 3.5 million.

Opening new commercial premises

On 31 October 2014 the Group opened its prime commercial property in the Czech Republic – QUADRIO shopping center. This unique mixed-use complex is located in the historical centre of Prague, directly above the metro station and offers 16,400 sqm of modern A-class office space; 8,500 sqm of retail premises; 13 exclusive apartments and an underground car parking for 250 cars. Total capital investment amounts to EUR 115 million. Retail premises had been opened to the public upon the grand opening and are fully leased. Office tenants will start moving into the premises in the coming months. Out of 13 apartments, only one is remaining for sale at the date of this report. Thanks to its excellent location and its technical quality and efficiency, as well as to its panoramic views and own parking space, QUADRIO has no competition in central Prague. This project fits perfectly into the Group´s portfolio.

In November 2014 the Group opened 25th retail park in its Czech portfolio. CPI Retail Park Čáslav is located about 90 kilometres east from Prague and offers 2,600 sqm of lettable area, which was fully occupied upon the grand opening.

Capital markets' financing and investment strategy

The Company continues to look for further acquisitions in the Central and Eastern Europe, its main area of business, but also "high-end" projects further west in countries including France, Italy or Switzerland. The Board of Directors intends to raise capital looking for the best funds offers on the capital markets first with a long term financial partner and potentially in a second phase with a public offering. The funds raised will be used to finance acquisitions using opportunities from restructuring and to deleverage the Group.

Acquisition of CPI bonds: In order to deleverage the Group, EUR 49 million of bonds issued by a consolidated subsidiary have been acquired as of the date of this report.

Refinancing of the Berlin portfolio: With the improved operational performance and values, the Company has been studying the possibility to refinance existing mid-term bank loans with a long term financing to acquire additional funds for further enhancement of the new investment strategy. The issuance of bonds has been put on hold due to unsatisfactory market conditions and the Company is currently negotiating alternative refinancing options. As of 30 September 2014 a short term bank loan of EUR 26 million had been replaced by new long term financing with final maturity in July 2019.

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Financial highlights

Key figures

All the figures commented in this report relate to the pro forma presentation of the profit and loss statement of the Company as if CPI PROPERTY GROUP and Czech Property Investments, a.s. were combined as at 1 January 2013 (except if specifically specified otherwise).

Performance *		30-Sept-14	30-Sept-13	Change in %
Gross rental income	MEUR	155	119	30%
Occupancy in %**	%	87%	83%	4%
Net rental income	MEUR	140	106	32%
Total revenues	MEUR	171	130	32%
Operating result	MEUR	208	100	108%
Funds from operations (FFO)	MEUR	119	91	31%
FFO ratio on Real estate portfolio	%	4.7%	4.7%	0%
Profit before tax	MEUR	166	81	104%
Net interest expense	MEUR	47	31	55%
Net profit for the period	MEUR	122	67	83%

*as if Czech Property Investments, a.s. and CPI PROPERTY GROUP were combined as of 1 January 2013
**excluding hotels

Assets *		30-Sept-14	31-Dec-13	Change in %
Total assets	MEUR	4,122	3,818	8%
Real Estate Portfolio	MEUR	3,410	3,201	7%
Gross lettable area **	sqm	2,909,000	2,837,000	8%
Total number of properties***	No	322	315	2%
Total number of residential units	No	12,557	12,602	0%
Total number of hotel beds	No	8,129	8,129	0%
EPRA NAV	MEUR	1,730	1,493	16%

*as if Czech Property Investments, a.s. and CPI PROPERTY GROUP were combined as of 1 January 2013
**excluding hotels
***excluding residential properties

Financing structure *		30-Sept-14	31-Dec-13	Change in %
Total equity	MEUR	1,398	1,199	17%
Equity ratio	%	34%	31%	8%
Net debt	MEUR	2,029	1,971	3%
Loan to value ratio in %	%	60%	62%	-3%

*as if Czech Property Investments, a.s. and CPI PROPERTY GROUP were combined as of 1 January 2013

CPI Property Group

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Pro forma income statements

Pro forma income statement for the period of 9 months ended 30 September 2014 is as follows:

MEUR	Pro forma 30 Sept 2014	Pro forma 30 Sept 2013
Gross rental revenue	155	119
Net service revenue	12	9
Property operating expenses	-27	-22
Net rental income	**140**	**106**
Hotel revenue	3	1
Cost of goods sold	0	0
Hotel operating expenses	-2	0
Net hotel income	**1**	**1**
Total revenues	**171**	**130**
Total direct business operating expenses	**-29**	**-23**
Net business income	**142**	**107**
Net valuation gain or loss on investment property	93	10
Net gain or loss on disposal of investment property	0	-1
Amortization, depreciation and impairments	-1	2
Other operating income	2	2
Administrative expenses	-22	-16
Other operating expenses	-6	-4
Operating result	**208**	**100**
Interest income	19	25
Interest expense	-66	-55
Other net financial result	5	12
Net finance income / (costs)	**-42**	**-19**
Profit / (Loss) before income tax	**166**	**81**
Income tax expense	-43	-14
Net profit / (Loss) for the period	**122**	**67**

- Disclosed data might include rounding difference which resulted from data processing of rounded amounts and percentage rates.

Net rental income

Net rental income grew by 32% over the first nine months of 2014 to EUR 140 million. This positive development was mainly driven by 30% increase in gross rental income resulted from acquisitions performed by the Group over the last 12 months. Former Ablon and Endurance Fund assets that has been consolidated since October / November 2013 have contributed by EUR 25 million to nine months net rental income of 2014. Property operating expenses increased by 23 %. Former Ablon and Endurance Fund assets were the main contributors to this increase.

Net business income

The net business income strongly improved from EUR 107 million to EUR 142 million which corresponds with the improved result from rental activities.

Net valuation gain on investment property

In the framework of the Berlin portfolio refinancing analysis, a new valuation report on Berlin investment properties delivered a total value increase by EUR 95 million. The change in value is driven by the improved market assumptions (mainly on ERV and yields) retained by the independent expert on the rental Berlin market.

Administrative expenses

Administrative expenses are increasing year-on-year by 41% to EUR 22 million compared to EUR 16 million over the same period in 2013. The exceptional management termination costs of EUR 3 million, of which EUR 2 million paid in kind, was the main contributor to that increase. The Group expects major savings related to on-going management benefits in the future. After elimination of this one-off impact the increase in administrative expenses corresponds mainly to the integration of the Ablon activities in Hungary.

Net finance income / costs

Total net finance costs increased by EUR 13 million to EUR 42 million over 9 months of 2014. An increase in interest expenses of EUR 11 million reflecting mainly additional costs of financing in respect of the Group's real estate portfolio extension was further followed by a decrease in interest income of EUR 6 million, reflecting repayment of provided loans in 2013.

The other net financial profit decreased to EUR 5 million for 9 months of 2014 compared to EUR 12 million for the same period in 2013. In 2014 the Group recognized EUR 17 million gain on acquisition and further resale of discounted receivables as follows: a gain of EUR 9 million was realized on receivables acquired from two bank creditors of Suncani Hvar and subsequently sold for a price equalled to the nominal value; and a profit of EUR 8 million was recognized on acquisition and resale of discounted bank loans in the Czech Republic. The profit on receivables transactions was partially offset by loss on the revaluation of derivatives of EUR 5 million, loss on sale of bonds of EUR 2 million and expenses on financial advisory services of EUR 3 million.

In 2013 net finance result was significantly driven by non-recurring profit of EUR 14 million resulting from purchase of receivables with discount and subsequent collection of the nominal amount.

Net Profit

Net profit for the period amounts to EUR 122 million compared to EUR 67 million over nine months of 2013.

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Pro forma balance sheet

Pro forma balance sheet represent the Group´s financial position as if CPI and CPI PROPERTY GROUP were combined as of 1 January 2013.

MEUR	30-Sept-14	Pro forma 31-Dec-13
NON-CURRENT ASSETS		
Intangible assets and goodwill	53	52
Investment property	3,276	3,081
Property, plant and equipment	34	28
Financial assets at fair value through profit or loss	27	0
Other non-current assets	68	171
Total non-current assets	**3,458**	**3,332**
CURRENT ASSETS		
Inventories	114	98
Trade receivables	40	52
Cash and cash equivalents	103	161
Other current assets	407	175
Total current assets	**664**	**486**
TOTAL ASSETS	**4,122**	**3,818**
EQUITY		
Equity attributable to owners of the Company	1,395	1,196
Non-controlling interests	3	3
Total equity	**1,398**	**1,199**
NON-CURRENT LIABILITIES		
Bonds issued	604	629
Financial debts	1,294	1,261
Deferred tax liabilities	374	331
Other non-current liabilities	55	34
Total non-current liabilities	**2,327**	**2,255**
CURRENT LIABILITIES		
Bonds issued	54	22
Financial debts	180	221
Trade payables	27	33
Other current liabilities	136	88
Total current liabilities	**397**	**364**
TOTAL EQUITY AND LIABILITIES	**4,122**	**3,818**

- Disclosed data might include rounding difference which resulted from data processing of rounded amounts and percentage rates.

Total assets and total liabilities

Total assets increased by EUR 304 million (8%) to EUR 4,122 million as at 30 September 2014. The increase is primarily connected with increase in real estate portfolio which rose by EUR 209 million. In addition, as a part of acquisition of 50% share in Hospitality Invest S.a.r.l., the Group acquired profit participating loan to this joint-venture, disclosed under financial assets as at 30 September 2014.

Drop in other non-current assets by EUR 103 million and growth in other current assets by EUR 232 million mainly relate to change in the maturity profile of loans and other receivables. Moreover, the Company has approved loan facilities to its major shareholders, which are due at the end of December 2015 at the latest and carry 5% p.a. interest, as follows: (i) loan facility up to EUR 10 million provided to OPG and (ii) loan facility up to EUR 10 million provided to Mr. Vitek.

Cash and cash equivalent total EUR 103 million which is by 36% lower than as at 31 December 2013.

Non-current and current liabilities total EUR 2,724 million as at 30 September 2014 which represents increase by EUR 105 million (4%) compared to 31 December 2013. Main drivers of this increase were:

- growth in external financing and related financial derivatives in total by EUR 12 million,
- EUR 43 million increase in deferred tax liabilities resulted especially from revaluation of real estate portfolio,
- cash deposits received from future buyers of apartments in Palais Maeterlinck of EUR 35 million.

Net Asset Value (NAV)

After the major business combination and the related issuance of shares, EPRA Net Asset Value strongly increased to EUR 1,730 million.

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