Interim report as of 30 September 2016

Luxembourg, 30 November 2016

Reinforcement of Hotel Portfolio, New Financing and Development launched

Corporate news

The Group increases further its share capital

On 23 November 2016, CPI PROPERTY GROUP (hereinafter "the Company" or together with its subsidiaries "the Group") raised EUR 130 million and issued 1.3 billion new shares for a global cash contribution of EUR 130 million. The new shares were subscribed by the current shareholder EFIMACOR S.a r.l., an entity closely associated with Mr. Radovan Vítek.

The new shares, having a par value and a subscription price of EUR 0.10 each, were issued in a reserved capital increase under the Company's authorised share capital and fully paid by cash. The total number of shares comprising the share capital of the Company is 7,751,103,436 as of 30 November 2016.

Portfolio highlights

Acquisition of hotel operator CPI Hotels

On 31 August 2016, the Group acquired 100% stake at CPI Hotels, a.s. (the „CPI Hotels") a long-term business partner of the Group operates 24 hotels owned by the Group. The Office for the Protection of Competition, Czech Republic, granted a merger clearance for this acquisition on 16 November 2016, whereas its decision became final and binding on 22 November 2016. Since 1997, CPI Hotels has been the exclusive representative of the international hotel chain Choice Hotels International known as the Clarion brand in the Czech Republic and Slovakia. In 2009, CPI Hotels introduced the unique project of the five-star Buddha Bar Hotel Prague, the first hotel of the international chain Buddha-Bar Hotels & Resorts. CPI Hotels operates its own brand Fortuna Hotels and brand Spa & Kur Hotels. In 2014, the portfolio operated by CPI Hotels expanded to Mamaison Hotels & Residences.

Acquisition of additional shares in Sunčani Hvar

In Q2 2016, the Group acquired 61.95% of the shareholding in SUNČANI HVAR d.d. (hereinafter as "SHH"), hotel company operating on the Island of Hvar, Croatia. During the mandatory buyout procedure, shareholders of SHH, including the Restructuring and Sale Centre of the Republic of Croatia, tendered over 30% of SHH shares. Currently the Group's stake on SHH shares exceeds 96%. The SHH shares are currently being delisted from the regulated market of the Zagreb Stock Exchange.

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Nová Zbrojovka, the largest development project in Group's history

The Group launched the revitalisation of the 20-hectare brownfield land in central Brno, Czech Republic. The Group's ambition is to create a lively, modern and easily accessible area, which expands the current supply of residential and leisure opportunities. The project is expected to comprise of 800 apartments, 30,000 sqm of office space, 40,000 sqm of industrial space etc. Total investments are planned to exceed EUR 150 million.

The Group launches residential project 'Family Homes Březiněves'

The Group has started the construction of 'Family Homes Březiněves' offering 115 exclusive homes over four construction phases. Future residents will soon have the opportunity to set up residence in this popular part of Prague. The expected total costs amount to EUR 27 million.

Disposal of Vaci properties

On 30 November 2016, the Group disposed of the Vaci 188 and 190 properties in Budapest, Hungary. The disposal has been structured as a share deal transaction, with a consortium of Hungarian investors as a counterparty. The project company, which has been sold owns two properties: Vaci 188 - the office building with a gross area of 15,000 sqm and plot size of 5,844 sqm and Vaci 190 – with a 4,583 sqm development plot.

Acquisition of luxury residential projects in France

In November 2016, the Company has completed the first phase of acquisition of luxury residential projects located near Nice, France. The Company acquired seven Monaco and French companies that owns luxury residential villas. Each of the luxury properties has potential for leasing and/or redevelopment and further disposal. This business opportunity is being considered a high-potential mid to long-term investment that will perfectly fit the Company's portfolio along with other luxury projects such as Palais Maeterlinck in Nice, Porto Cervo villas in Sardinia and Crans-Montana portfolio in Switzerland.

Valuation opinion on the value of OPG's shares in the context of the mandatory takeover

On 8 June 2016, the Group through its wholly owned subsidiary Nukasso indirectly acquired 97.31% shares in ORCO Property Group ("OPG"). Nukasso has submitted a draft offer document for approval to the CSSF in its capacity as competent supervisory authority. Once approved the offer document will be published on the websites of the Group. On 22 September 2016, the CSSF appointed PricewaterhouseCoopers société cooperative (Luxembourg) as the independent for the determination of the equitable price to be offered to the shareholders of OPG in the context of the mandatory takeover bid over any and all of the ordinary shares of OPG. The valuation report will take 8 June 2016 as the valuation report date.

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Capital market financing

New bonds issuance up to EUR 100 million

The Company granted J&T BANKA the mandate to place the new mid-term debt securities of up to EUR 100 million to be issued via its wholly owned subsidiary CPI Finance Slovakia II, a.s. The bonds are registered under ISIN code SK4120012097 and are due in 2022. Each bond carries a fixed rate coupon of 5.00% p.a. and its nominal value is EUR 1,000. The prospectus is available in electronic form at www.cpifinanceslovakiaii.sk.

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Financial highlights

Key figures

Performance		30-Sep-16	30-Sep-15	Change in %
Gross rental income	MEUR	169	162	4%
Occupancy in % *	%	90%	89%	--
Net rental income	MEUR	153	154	-1%
Total revenues	MEUR	258	205	26%
Operating result	MEUR	145	127	14%
Funds from operations (FFO)	MEUR	73	73	0%
Profit before tax	MEUR	79	78	1%
Net interest expense	MEUR	(61)	(50)	22%
Net profit for the period	MEUR	60	68	-12%

* Excluding hotels

Assets		30-Sep-16	31-Dec-15
Total assets	MEUR	4,943	4,323
Property Portfolio	MEUR	4,282	3,822
Gross lettable area *	sqm	3,078,000	2,977,000
Total number of properties **	No.	424	402
Total number of residential units	No.	12,403	12,483
Total number of hotel beds	No.	11,911	10,331
EPRA NAV	MEUR	2,135	1,732

* Excluding hotels

** Excluding residential properties

Financial Structure	30-Sep-16	31-Dec-15	Change in %
Total equity	1,753	1,338	29%
Equity ratio	35%	31%	--
Net debt	2,291	2,245	3%
Loan to value ratio in %	53.5%	58.8%	--

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Income statement

Income statement for the 9 months' period ended on 30 September 2016 is as follows:

MEUR	30-Sep-16	30-Sep-15
Gross rental revenue	169	162
Net service revenue	19	17
Property operating expenses	(35)	(24)
Net rental income	**153**	**155**
Development sales	0	5
Cost of goods sold	0	(4)
Development operating expenses	(1)	0
Net development income	**(1)**	**1**
Hotel revenue	48	11
Cost of goods sold	0	0
Hotel operating expenses	(26)	(6)
Net hotel income	**22**	**4**
Revenues from other business operations	22	10
Cost of goods sold	0	(1)
Related operating revenues	(17)	(6)
Net income from other business operations	**5**	**3**
Total revenues	**258**	**205**
Total direct business operating expenses	**(79)**	**(42)**
Net business income	**179**	**163**
Net valuation gain or loss on inv. property	2	10
Net gain or loss on disposal of inv. property	(3)	(1)
Net gain or loss on disposal of subsidiaries	--	2
Gain/Loss on the disposal of equity-accounted investees	--	--
Amortization, depreciation and impairments	(6)	(3)
Other operating income	15	5
Administrative expenses	(28)	(28)
Other operating expenses	(13)	(21)
Operating result	**145**	**127**
Interest income	7	19
Interest expense	(68)	(69)
Other net financial result	(5)	1
Net finance income / (costs)	**(66)**	**(49)**
Profit / (Loss) before income tax	**79**	**78**
Income tax expense	(19)	(10)
Net profit / (Loss) for the period	**60**	**68**

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Net rental income

Net rental income marginally decreased by 1% to EUR 153 million in Q3 2016 (Q3 2015: EUR 155 million). The reason of the minor decrease represents the higher property operating expenses that rose by EUR 11 million. The overall positive development in the real estate sector motivated the Group to invest more in repairs and maintenance costs to support the long-term value and marketability of the assets. Furthermore, the Group has reclassified approximately EUR 5 million of its Gross rental revenue into the Net Hotel Revenue part of its income statement, reflecting the acquisition of CPI Hotels - the operator of majority of Group‘s hotels.

Net hotel income

This substantial increase is primarily attributable to the acquisition of the portfolio Sunčani Hvar hotels in May 2016 and the acquisition of CPI Hotels in August 2016.

Net income from other business operations

Net income from other business operations represents the revenues from agriculture and mountain resorts. As the mountain resort was acquired in November 2015, its revenues represents the main driver of the substantial increase in the overall volume of related revenues and expenses.

Net valuation gain on investment property

The property portfolio valuation was kept stable in Q3 2016 with a EUR 2 million net gain. In comparison, the net valuation gain of EUR 10 million in Q3 2015 primarily resulted from the valuation gain on the office and retail portfolio in the Czech Republic.

Other operating income

The main reason of the increase in other operating income represents the gain on bargain purchase of EUR 10 million reflecting the acquisition of portfolio Sunčani Hvar hotels.

Other operating expenses

The drop in other operating expenses is directly attributable to the change in fair value by EUR 12 million of a contingent consideration that was recognised by the Group in 2015, reflecting the expected future settlement with the counterparty.

Net finance income / costs

Total net finance result worsened from a net loss of EUR 49 million in Q3 2015 to a net loss of EUR 66 million in Q3 2016. The main adverse impact on the total net finance result was the decrease of interest income from EUR 19 million in Q3 2015 to EUR 7 million in Q3 2016. The drop in interest income reflects the acquisition of own shares from the main shareholder in September 2015 that were settled by certain receivables and interest bearing loans.

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Balance sheet

MEUR	30-Sep-16	31-Dec-15
NON-CURRENT ASSETS		
Intangible assets and goodwill	117	73
Investment property	3,823	3,534
Property, plant and equipment	366	184
Biological assets	2	2
Deferred tax assets	111	6
Other non-current assets	47	46
Total non-current assets	**4,466**	**3,845**
CURRENT ASSETS		
Inventories	97	85
Biological Assets	5	4
Trade receivables	95	66
Cash and cash equivalents	194	159
Other current assets	86	164
Total current assets	**477**	**478**
TOTAL ASSETS	**4,943**	**4,323**
EQUITY		
Equity attributable to owners of the Company	1,720	1,317
Non-controlling interests	33	21
Total equity	**1,753**	**1,338**
NON-CURRENT LIABILITIES		
Bonds issued	589	656
Financial debts	1,422	1,368
Deferred tax liabilities	424	410
Other non-current liabilities	45	41
Total non-current liabilities	**2,480**	**2,475**
CURRENT LIABILITIES		
Bonds issued	36	59
Financial debts	435	321
Trade payables	66	42
Other current liabilities	173	88
Total current liabilities	**710**	**510**
TOTAL EQUITY AND LIABILITIES	**4,943**	**4,323**

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Total assets and total liabilities

Total assets increased by EUR 620 million (14%) to EUR 4,943 million as at 30 September 2016. The increase is primarily connected with the increase in property portfolio which rose by EUR 460 million as a result of the acquisitions carried out in 2016.

As a result of the issuance of new shares as described above and together with the positive result of EUR 60 million for the nine-month period ended by 30 Sep 2016, the equity rapidly increased by EUR 415 up to EUR 1 753 million.

Non-current and current liabilities total EUR 3,190 million as at 30 September 2016 which represents an increase of EUR 195 million (6.9%) compared to 31 December 2015. The main driver of this increase was a growth in external financing primarily reflecting the acquisitions of 2016.

Net Asset Value (EPRA NAV)

Net assets value – NAV (total equity including non-controlling interest) totals EUR 1,753 million as at 30 September 2016 significantly rose by 31% compared to 31 December 2015. The issuances of the new shares and the robust result for the nine-month period of 2016 represent the main contributor of the increase.

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