



Press Release

Luxembourg, 29 November 2019

CPI PROPERTY GROUP reports financial results for the third quarter of 2019

CPI PROPERTY GROUP (hereinafter “CPIPG” the “Company” or together with its subsidiaries the “Group”), the largest owner of income-generating real estate in the Czech Republic, Berlin and the CEE region, hereby publishes its unaudited financial results for the third quarter of the 2019 financial year.

“Thanks to the efforts of our teams, the strength of our markets and the scale and quality of our portfolio, all key business and financial indicators continued on a positive trajectory in the third quarter,” said Martin Němeček, CEO of CPIPG. “The planned expansion of our footprint in the attractive Warsaw office market is a natural strategic step and will further establish our position as the leading income-generating real estate company in the region.”

Key highlights for the third quarter of 2019 include:

- **Property portfolio increased to €7.9 billion (up €335 million** versus year-end 2018), driven primarily by a combination of capex, acquisitions and positive revaluations;
- **Total assets increased to €9.5 billion (up €1.2 billion** versus year-end 2018), driven by increases to the property portfolio as well as an increase in cash and cash equivalents;
- **Gross rental income of €234 million** in the first nine months of the year (**up 5%** versus the prior period), reflecting the combined effects of **3.3% like-for-like growth in rental income**, improvement in **occupancy to 94.6%** and also acquisitions since the prior period;
- **Total revenues of €491 million** in the first nine months of the year (**up 12%** versus the prior period);
- **Funds from operations (FFO) of €171 million** in the first nine months of the year (**up 33%** versus the prior period);
- **EPRA NAV increased to €4.6 billion (up 2%** versus year-end 2018);
- **Net Interest Coverage Ratio (Net ICR) improved to 7.9x** for Q3 2019 (**up 3.7x** versus full year 2018), reflecting the combination of **higher EBITDA generation** as well as a **reduction of interest costs** following significant refinancing activity in 2018;
- **Net Loan to Value (Net LTV) decreased to 32.9%** (from 36.7% at year-end 2018);
- **Unencumbered assets** as a percentage of total assets reached a **record of 70%** (versus 65% at year-end 2018);
- **Secured debt reduced to 30%** of total debt, relative to 37% at the end of 2018;



- Acquisition of 362,152,327 of own shares for the price of €0.30 per share (in total €108.6 million) in July 2019;
- Tap issuance of US \$100 million (approximately €90 million equivalent) of senior unsecured bonds under the Company's EMTN programme in July 2019;
- Acquisition of complex of seven homes in Notting Hill, London in September 2019;
- **Total available liquidity** (comprising cash and undrawn revolving credit facilities) at the end of the third quarter stood at approximately **€1.4 billion**.

“CPIPG is the first company in the CEE to issue a benchmark Euro-denominated green bond, a testament to our focus on ESG and further demonstration of our ongoing efforts to strengthen and diversify our capital structure,” said David Greenbaum, CFO of CPIPG. “The Group now has significant firepower to execute the planned acquisition pipeline in Warsaw while still remaining fully committed to our financial policies and credit ratings.”

FINANCIAL HIGHLIGHTS

Performance		30-Sep-19	30-Sep-18	Change
Gross rental income	€ million	234	223	5%
Total revenues	€ million	491	440	12%
Net business income	€ million	261	246	6%
Consolidated adjusted EBITDA	€ million	223	211	6%
Funds from operations (FFO)	€ million	171	129	33%
Profit before tax	€ million	249	218	14%
Interest expense	€ million	(37)	(66)	(43%)
Net profit for the period	€ million	221	181	22%

Assets		30-Sep-19	31-Dec-18	Change
Total assets	€ million	9,485	8,259	15%
Property portfolio	€ million	7,890	7,555	4%
Gross leasable area	sqm	3,337,000	3,318,000	1%
Occupancy	%	94.6	94.5	0.1 p.p.
Like-for-like gross rental growth	%	3.3	4.9	(1.6 p.p.)
Total number of properties*	No.	381	375	2%
Total number of residential units	No.	11,935	11,917	0%
Total number of hotel beds**	No.	12,070	11,300	7%

* Excluding residential properties in the Czech Republic

** Including hotels operated, but not owned by the Group

Financing structure		30-Sep-19	31-Dec-18	Change
Total equity	€ million	5,004	4,362	15%
EPRA NAV	€ million	4,572	4,480	2%
Net debt	€ million	2,593	2,775	(7%)
Loan to value ratio (Net LTV)	%	32.9	36.7	(3.8 p.p.)
Secured consolidated leverage ratio	%	10.8	12.9	(2.1 p.p.)
Secured debt to total debt	%	29.5	36.7	(7.2 p.p.)
Unencumbered assets to total assets	%	69.5	65.1	4.4 p.p.
Net ICR		7.9x	4.2x	3.7x

STATEMENT OF COMPREHENSIVE INCOME*

The income statement for the nine-month period ended on 30 September 2019 and 30 September 2018 was as follows:

INCOME STATEMENT (€ million)	30-Sep-19	30-Sep-18
Gross rental income	234	223
Service charge and other income**	88	80
Cost of service and other charges**	(62)	(59)
Property operating expenses	(42)	(40)
Net rental income	218	204
Development sales	32	16
Development operating expenses***	(30)	(17)
Net development income	2	(1)
Hotel revenue	102	93
Hotel operating expenses	(68)	(58)
Net hotel income	34	35
Other business revenue	35	28
Other business operating expenses***	(28)	(21)
Net other business income	7	7
Total revenues**	491	440
Total direct business operating expenses**	(230)	(195)
Net business income	261	245
Net valuation gain****	123	125
Amortization, depreciation and impairment	(25)	(28)
Administrative expenses	(37)	(35)
Other operating income	7	3
Other operating expenses	(4)	(4)
Operating result	325	306
Interest income	9	10
Interest expense	(37)	(66)
Other net financial result****	(47)	(31)
Net finance costs	(75)	(87)
Share of profit of equity-accounted investees (net of tax)	(1)	(1)
Profit before income tax	249	218
Income tax expense	(28)	(37)
Net profit from continuing operations	221	181

* The presented financial statements do not represent a full set of interim financial statements as if prepared in accordance with IAS 34.

** In connection with the adoption of IFRS 15, the Group changed, in respect of service charges, revenue recognition from net to gross, before deduction of cost of services (refer to the annual management report for 2018 for further detail). The presentation of the statement of profit or loss for the nine-month period of 2018 was adjusted due to the changes in the accounting policy.

*** To provide reliable and more relevant information, the Group reclassified the following items, which are no longer presented separately in the consolidated financial statements:



- *Cost of goods sold related to Development sales and Other business were reclassified to Development operating expenses and Other business operating expenses. The comparative information for the period ended 30 September 2018 was adjusted accordingly.*
- *Net gain/(loss) on disposal of subsidiaries and investees was reclassified to Net gain/(loss) on the disposal of investment property and subsidiaries. The comparative information for the period ended 30 September 2018 was adjusted accordingly.*

***** The Group reclassified the effect of changing foreign exchange rates on the revaluation of the investment properties from Other net financial result to Net valuation gain or loss. The comparative information for the period ended 30 September 2018 was adjusted accordingly.*

Net rental income

Net rental income increased by 7% to €218 million in the nine-month period ended 30 September 2019 compared to €204 million in the nine-month period ended 30 September 2018, primarily due to the acquisitions of Atrium office complex in Poland (+€2 million) and Futurum Hradec Králové shopping centre (+€2 million), as well as the impact of increasing rents in the Berlin portfolio (+€5 million).

Net development income

Development sales in the nine-month period ended 30 September 2019 were represented by sales of apartments in Nice (€21 million) and sales of family houses in Březiněves (€3 million).

Net hotel income

Net hotel income increased in the nine-month period ended 30 September 2019 primarily due to the acquisitions of CPI Hotels Italy (€4 million) and Orchard Hotel (€1 million) compared to the nine-month period ended 30 September 2018.

Net valuation gain

Net valuation gain relates primarily to the Prague office portfolio (€39 million), Czech residential portfolio (€9 million) and Berlin office portfolio (€10 million) in the nine-month period ended 30 September 2019.

Amortization, depreciation and impairments

The increase in amortization, depreciation and impairments in the nine-month period ended 30 September 2019 was affected by the goodwill write-off (€7 million), which was recognized in 2014 in connection with the acquisition of the Group's agriculture business.

Interest expense

Interest expense decreased to €37 million in the nine-month period ended 30 September 2019 compared to €66 million in the nine-month period ended 30 September 2018. The decrease reflects substantial refinancing activity in 2018, resulting in a significant decrease in interest expense from bank loans (decrease of €13 million) and bonds (decrease of €15 million).

Other net financial result

The negative other net financial result is comprised mainly of foreign exchange losses of €38 million in the nine-month period ended 30 September 2019 relating to retranslation of intragroup loans in different currencies (compared to foreign exchange losses of €24 million in the nine-month period ended 30 September 2018).

BALANCE SHEET*

BALANCE SHEET (€ million)	30-Sep-19	31-Dec-18
NON-CURRENT ASSETS		
Intangible assets and goodwill	105	110
Investment property	6,976	6,687
Property, plant and equipment	801	736
Deferred tax assets	195	195
Other non-current assets	214	91
Total non-current assets	8,291	7,819
CURRENT ASSETS		
Inventories	54	72
Trade receivables	65	68
Cash and cash equivalents	846	99
Assets linked to assets held for sale	70	67
Other current assets	159	134
Total current assets	1,194	440
TOTAL ASSETS	9,485	8,259
EQUITY		
Equity attributable to owners of the Company	3,850	3,776
Perpetual notes	1,110	542
Non-controlling interests	44	44
Total equity	5,004	4,362
NON-CURRENT LIABILITIES		
Bonds issued	2,157	1,648
Financial debts	1,221	1,062
Deferred tax liabilities	782	762
Other non-current liabilities	69	53
Total non-current liabilities	4,229	3,525
CURRENT LIABILITIES		
Bonds issued	30	7
Financial debts	32	158
Trade payables	70	98
Other current liabilities	120	109
Total current liabilities	252	372
TOTAL EQUITY AND LIABILITIES	9,485	8,259

* The presented financial statements do not represent a full set of interim financial statements as if prepared in accordance with IAS 34.



Total assets

Total assets increased by €1,226 million to €9,485 million (+15%) as at 30 September 2019 compared to 31 December 2018.

The increase in total assets reflects primarily increases in investment property (€289 million), property, plant and equipment of (€65 million, primarily relating to CPI Hotels), cash and cash equivalents (€747 million) and other non-current assets (€123 million).

Total liabilities

Total liabilities increased by €584 million to €4,481 million (+15%) as at 30 September 2019 compared to 31 December 2018. The increase is primarily attributable to issuance of USD bonds (€421 million equivalent) and HKD bonds (€82 million equivalent), in addition to the drawing of new unsecured Schuldschein loans (€170 million). Partly offsetting this was the repayment of bank loans of €148 million.

EQUITY AND EPRA NAV

Total equity increased from €4,362 million as at 31 December 2018 to €5,004 million as at 30 September 2019. The main elements impacting total equity during the period were:

- Issuance of €550 million perpetual notes in April 2019, treated as equity under IFRS;
- Profit for the period attributable to the owners of the Company of €188 million;
- Share repurchases of €-109 million;
- Hedging, translation and revaluation reserve of €-5 million, and;
- Changes in the below adjustments to EPRA NAV of €18 million.

EPRA NAV was €4,572 million as at 30 September 2019, an increase of 2% relative to 31 December 2018. The main drivers of the increase were the factors affecting total equity as described above.

EPRA NAV (€ million)	30-Sep-19	31-Dec-18
Equity attributable to owners of the company	3,850	3,776
Effect of exercise of options, convertibles and other equity interests	0	0
Diluted NAV, after the exercise of options, convertibles and other equity interests	3,850	3,776
Revaluation of trading property and property, plant and equipment	4	7
Fair value of financial instruments	-	(5)
Deferred tax on revaluations	762	745
Goodwill as a result of deferred tax	(43)	(43)
Total	4,572	4,480



U.S. Litigation Update

On 10 April 2019, a group of Kingstown companies, Investhold LTD and Verali Limited (together, the Kingstown Plaintiffs) filed a claim in the United States District Court of the Southern District of New York against, among others, CPIPG and Mr Radovan Vitek. The claims brought by the Kingstown Plaintiffs against CPIPG include alleged violations of RICO. CPIPG believes that the claims are without merit and were designed to create negative press attention for CPIPG and force an undue settlement.

On 10 September 2019, CPIPG filed a motion to dismiss the New York case based on a lack of jurisdiction and other pleading defects. Rather than replying to the motion to dismiss, on 22 November 2019 the Kingstown Plaintiffs filed an amended complaint in the Southern District of New York court. The amended complaint does nothing to cure the serious pleading defects and jurisdictional infirmities present in the original complaint, and CPIPG will be moving to dismiss the case on substantial grounds in due course.

Key events occurring after quarter-end include:

- **Successful issuance of €750 million of Reg S senior unsecured 7.5-year green bonds** under the Company's EMTN programme in October 2019 at a rate of **1.625%**. Following this issuance, total available liquidity sources increased to over **€2 billion**;
- The Company intends to use a significant portion of this liquidity to acquire **over €800 million of high-quality office properties in central Warsaw**, Poland during Q4 2019 and 2020. The acquisitions of Equator IV and Eurocentrum have already closed in November 2019, while preliminary purchase agreements have been signed for Green Corner A and Equator II. Discussions on several other significant assets are also in advanced stages.
- CPIPG's subsidiary **CPI FIM SA acquired an entity which owns three luxury residential properties** in the south of France and 67 million shares of CPIPG (0.7% of shares outstanding). The Group expects to continue reducing its exposure to France through asset sales, and has a strong track record in this regard. CPIPG now directly owns 362,152,327 of its own shares (4% of its own share capital and voting rights). The voting rights associated with the shares held by the Company are temporarily suspended. In addition, CPI FIM SA now directly owns 252,302,248 of CPIPG shares (2.8% of shares and voting rights) and indirectly owns 67,000,000 of CPIPG shares (0.7% of shares and voting rights).



Investor Contacts:

David Greenbaum
Chief Financial Officer
CPI Property Group
d.greenbaum@cpipg.com

Joe Weaver
Director of Capital Markets
CPI Property Group
j.weaver@cpipg.com

Media / PR Contact:

Kirchhoff Consult AG
Andrew Stammler
Herrengaben 1
20459 Hamburg
T +49 40 60 91 86 18
F +49 40 60 91 86 60
E andrew.stammler@kirchhoff.de

GLOSSARY

Alternative Performance Measures (APM)	Definition	Rationale
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.
Loan-to-Value or Net LTV	It is calculated as Net debt divided by fair value of Property Portfolio.	Loan-to-value provides a general assessment of financing risk undertaken.
Net ICR	It is calculated as Consolidated adjusted EBITDA divided by a sum of interest income as reported and interest expense as reported.	This measure is an important indicator of a firm's ability to pay interest and other fixed charges from its operating performance, measured by EBITDA.
Secured debt to total debt	It is calculated as a sum of secured bonds and secured financial debts as reported divided by a sum of bonds issued and financial debts as reported.	This measure is an important indicator of a firm's financial flexibility and liquidity. Lower levels of secured debt typically also means lower levels of mortgage debt - properties that are free and clear of mortgages are sources of alternative liquidity via the issuance of property-specific mortgage debt, or even sales.
Unencumbered assets to total assets	It is calculated as total assets as reported less a sum of encumbered assets as reported divided by total assets as reported.	This measure is an important indicator of a commercial real estate firm's liquidity and flexibility. Properties that are free and clear of mortgages are sources of alternative liquidity via the issuance of property-specific mortgage debt, or even sales. The larger the ratio of unencumbered assets to total assets, the more flexibility a company generally has in repaying its unsecured debt at maturity, and the more likely that a higher recovery can be realized in the event of default.
Consolidated adjusted EBITDA	Net business income as reported deducting administrative expenses as reported.	This is an important economic indicator showing a business's operating efficiency comparable to other companies, as it is unrelated to the Group's depreciation and amortization policy and capital structure or tax treatment. It is one of the fundamental indicators used by companies to set their key financial and strategic objectives.
Funds from operations or FFO	It is calculated as net profit for the period adjusted by non-cash revenues/expenses (e.g. deferred tax, net valuation gain/loss, impairment, amortization/depreciation, goodwill etc.) and non-recurring (both cash and non-cash) items (e.g. net gain/loss on disposals etc.). The calculation also excludes accounting adjustments for unconsolidated partnerships and joint ventures.	Funds from operations provide an indication of core recurring earnings.
Secured consolidated leverage ratio	Secured consolidated leverage ratio is a ratio of a sum of secured financial debts and secured bonds to Consolidated adjusted total assets.	This measure is an important indicator of a firm's financial flexibility and liquidity. Lower levels of secured debt typically also means lower levels of mortgage debt - properties that are free and clear of mortgages are sources of alternative liquidity via the issuance of property-specific mortgage debt, or even sales.
Consolidated adjusted total assets	Consolidated adjusted total assets is total assets as reported deducting intangible assets and goodwill as reported.	

Non-financial definitions	Definition
Company	CPI Property Group S.A.
Property Portfolio value or PP value	The sum of value of Property Portfolio owned by the Group
Gross Leasable Area or GLA	Gross leasable area is the amount of floor space available to be rented. Gross leasable area is the area for which tenants pay rent, and thus the area that produces income for the property owner.
Group	CPI Property Group S.A. together with its subsidiaries
Net debt	Net debt is borrowings plus bank overdraft less cash and cash equivalents.
Occupancy	Occupancy is a ratio of estimated rental revenue regarding occupied GLA and total estimated rental revenue, unless stated otherwise.
Property Portfolio	Property Portfolio covers all properties held by the Group, independent of the balance sheet classification, from which the Group incurs rental or other operating income.

APM RECONCILIATION

EPRA NAV reconciliation (€ million)	30-Sep-19	31-Dec-18
Equity attributable to owners of the company	3,850	3,776
Effect of exercise of options, convertibles and other equity interests	0	0
Diluted NAV, after the exercise of options, convertibles and other equity interests	3,850	3,776
Revaluation of trading property and property, plant and equipment	3	7
Fair value of financial instruments	0	(5)
Deferred tax on revaluation	761	745
Goodwill as a result of deferred tax	(43)	(43)
EPRA NAV	4,572	4,480

Net LTV reconciliation (€ million)	30-Sep-19	31-Dec-18
Financial debts	1,253	1,219
Bonds issued	2,187	1,655
Net debt linked to assets held for sale	(1)	0
Cash and cash equivalents	(846)	(99)
Net debt	2,593	2,775
Total property portfolio	7,890	7,555
Net LTV	32.9%	36.7%

Net Interest coverage ratio reconciliation (€ million)	30-Sep-19	31-Dec-18
Interest income	9	14
Interest expense	(37)	(78)
Net business income	261	320
Administrative expenses	(37)	(49)
Net Interest coverage ratio	7.9x	4.2x

Secured debt as of Total debt reconciliation (€ million)	30-Sep-19	31-Dec-18
Secured bonds	0	0
Secured financial debts	1,015	1,055
Total debts	3,440	2,874
Secured debt as of Total debt	29.5%	36.7%

Unencumbered assets reconciliation (€ million)	30-Sep-19	31-Dec-18
Bonds collateral	0	0
Bank loans collateral	2,890	2,883
Total assets	9,485	8,259
Unencumbered assets ratio	69.5%	65.1%

Consolidated adjusted EBITDA reconciliation (€ million)	30-Sep-19	30-Sep-18
Net business income	261	246
Administrative expenses	(37)	(35)
Consolidated adjusted EBITDA	223	211

Funds from operations reconciliation (€ million)	30-Sep-19	30-Sep-18
Net profit for the period	221	180
Deferred income tax	19	17
Net valuation gain or loss on investment property	(123)	(125)
Net valuation gain or loss on revaluation of derivatives	(0)	(2)
Net gain or loss on disposal of investment property	(0)	0
Net gain or loss on disposal of inventory	(3)	1
Net gain or loss on disposal of assets	(1)	1
Amortization, depreciation and impairments	25	29
Other non-recurring / non-cash items	34	27
Funds from operations	171	129

Secured consolidated leverage ratio reconciliation (€ million)	30-Sep-19	31-Dec-18
Secured bonds	0	0
Secured financial debts	1,015	1,055
Consolidated adjusted total assets	9,380	8,149
Secured consolidated leverage ratio	10.8%	12.9%

Property portfolio reconciliation (€ million)	30-Sep-19	31-Dec-2018
Investment property - Office	3,287	3,165
Investment property - Retail	2,120	2,097
Property, plant and equipment - Retail	1	1
Property, plant and equipment - Hospitality	688	630
Investment property - Residential	671	640
Property, plant and equipment - Residential	9	9
Investment property - Land bank	546	540
Property, plant and equipment - Mountain resorts	75	74
Investment property - Agriculture	94	90
Investment property - Industry and logistics	108	80
Inventories - Development	36	48
Inventories - Land bank	10	20
Assets held for sale	68	66
Investment property - Development	146	71
Property, plant and equipment - Office	9	7
Property, plant and equipment - Agriculture	12	9
Share of profit of equity - accounted investees	3	4
Others	6	5
Total	7,890	7,555