Fprop plc

Interim Results

(for the 6 months ended 30 Sep 2014)

First Property Group plc
26 Nov 2014

IPD Funds Measured Gold Level

The performance of funds managed by First Property Group ranked No.1 vs IPD CEE universe over the eight years to 31 December 2013, having previously ranked No.1 over the three, four, five, six & seven years to 31 December 2008, 2009, 2010, 2011 & 2012.

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Interim Results FY 2014/15
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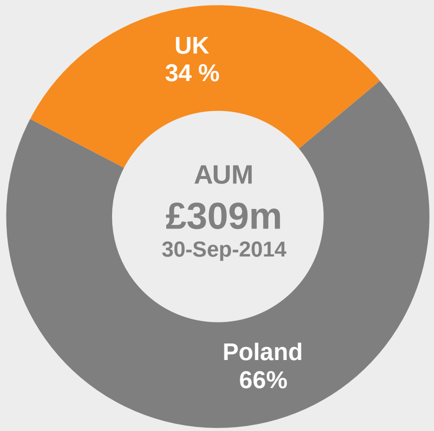
First Property Group plc
Business Model

First Property Group plc is a co-investing direct property fund manager with operations in the United Kingdom and Central Europe.

Its business model 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.

At 30 September 2014 the Group had some £309 million of direct property assets under management, invested across seven funds managed by its wholly owned subsidiary First Property Asset Management Ltd (FPAM).



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Highlights

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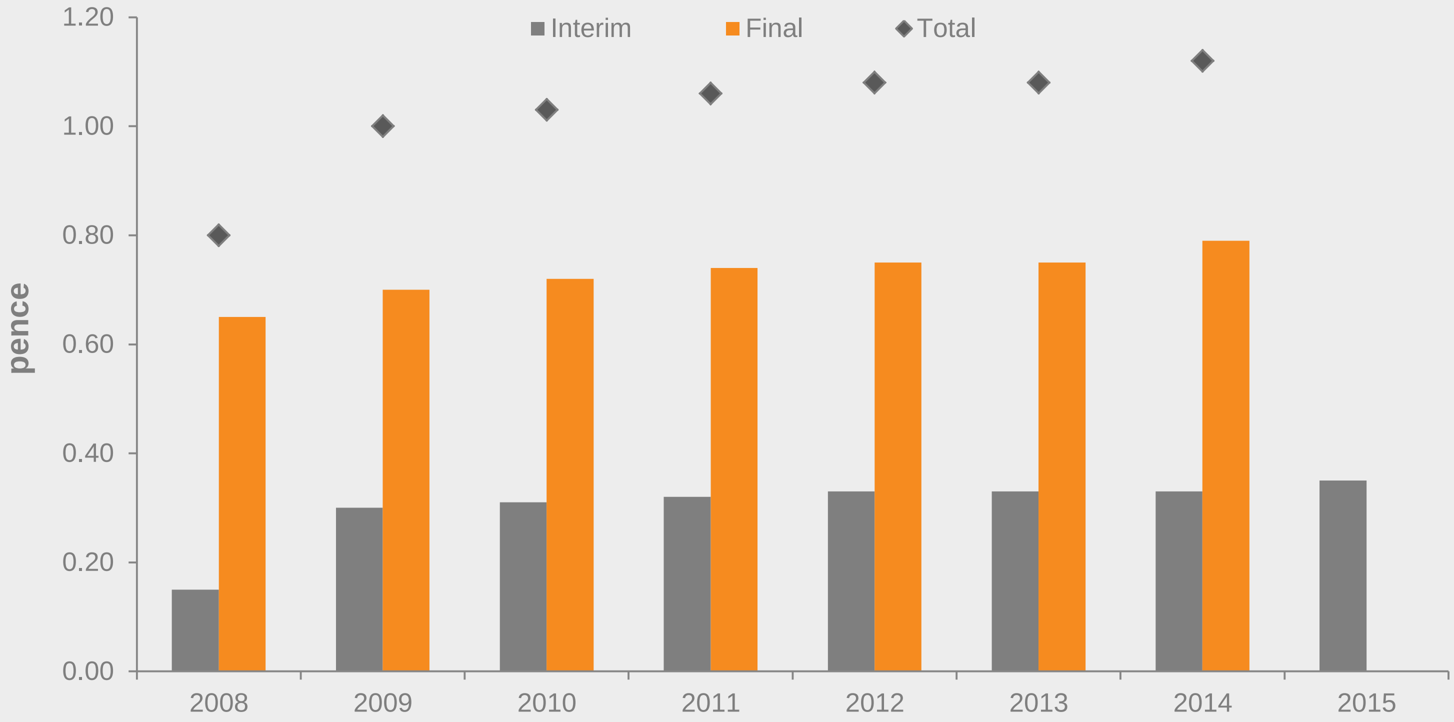
Highlights
Financial Highlights

	Unaudited Six months to 30-Sep-2014	Unaudited Six months to 30-Sep-2013	Percentage change	Audited Year to 31-Mar-2014
Profit before tax	**£5.42m**	£1.91m	**+184%**	**£6.6m**
Diluted Earnings per share	**4.07p**	1.27p	**+220%**	**4.53p**
Total Dividend	**0.35p**	0.33p	**+6%**	**1.12p**
Profit before tax and unallocated central overheads by segment:				
Profit before tax from property fund management (FPAM)	**£2.90m**	£1.41m	**+106%**	**£2.63m**
Profit before tax from total Group Properties (incl FOP)	**£2.97m**	£0.89m	**+234%**	**£6.32m**
Average €/£ in the period	**1.250**	1.171	**-7%**	**1.188**
Period end €/£	**1.283**	1.196	**-7%**	**1.210**
Net Assets	**£26.62m**	£19.45m	**+37%**	**£23.46m**
Cash Balances	**£12.05m**	£10.60m	**+14%**	**£11.28m**
Gross Debt	**£56.66m**	£25.11m	**+126%**	**£51.56m**
Assets under management	**£309m**	£338m	**-9%**	**£341m**
Poland	**66%**	71%		**67%**
UK	**34%**	26%		**30%**
Romania	**-**	3%		**3%**

Explanatory Notes/ Highlights:

- The impact of a weaker Euro versus Sterling during the period compared to the same period last year resulted in profit before tax being c£177,000 lower than it would otherwise have been.
- The increase in profit before tax to £5.42 million (2013: £1.91 million) was largely attributable to the contribution made to earnings by:
  - Fund Management:
    - Fprop PDR (est Oct 2013, to identify office investments suitable for residential conversion pursuant to permitted development rights) – contributed c£1.9 million (2013: nil) to profit before tax.
  - Group Properties:
    - FOP - the 2x investments made in 2H last year resulted in a contribution to Group PBT of £585,000 (2013: nil);
    - Blue Tower - the increase in our shareholding from 28.5% to 48.2% during 2H last year resulted in an increased contribution to Group PBT of £741,000 (2013: £566,000);
    - Romania - the purchase and subsequent refinancing of 3x properties in Romania contributed £1.26 million (2013: nil) to Group PBT. It should be noted that of the £1.26 million, £1.12 million represents a non-cash item on the recognition of negative goodwill created by the refinancing of the bank loan secured on the properties.
- Interim dividend increased by 6% to 0.35 pence per share (2013: 0.33 pence per share).

The Board recommends an increased Interim dividend of 0.35p (2013: 0.33p)

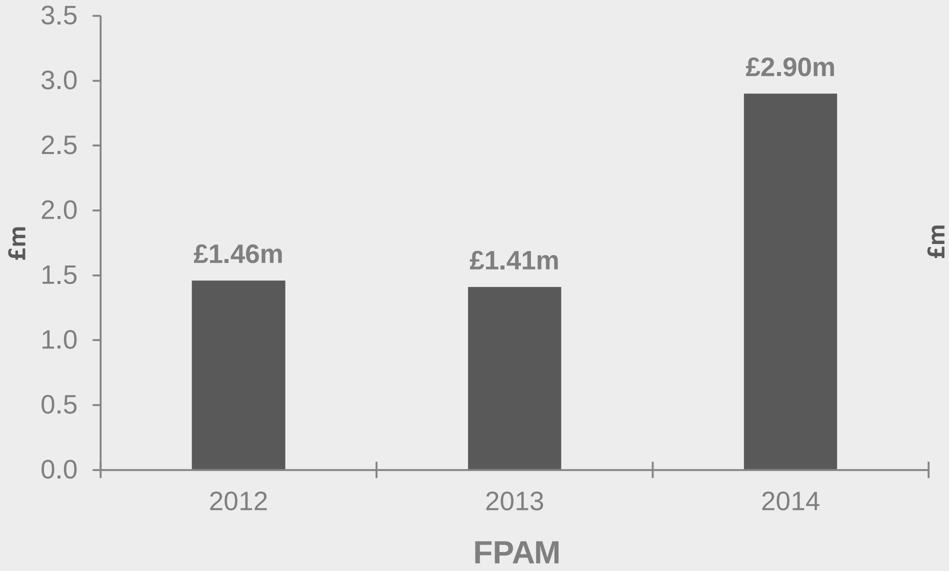


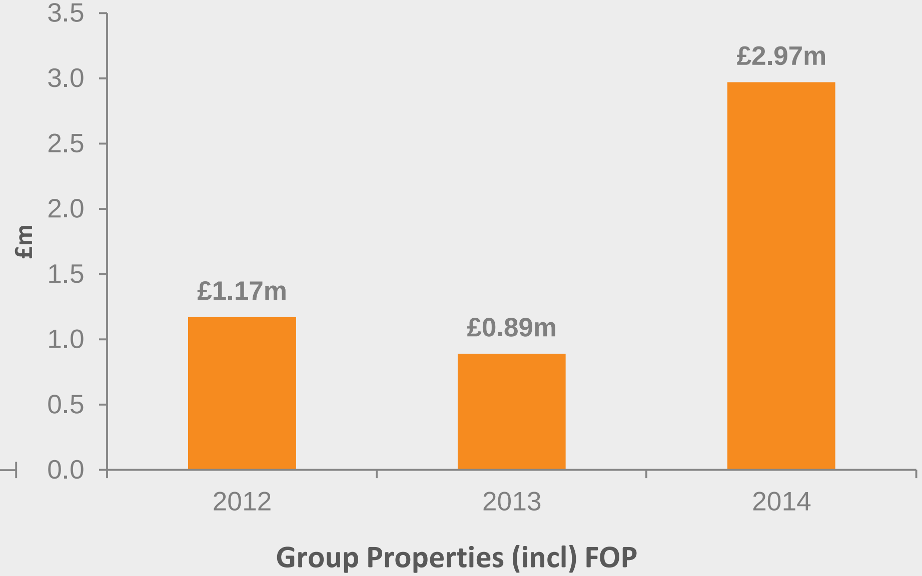
Interim Dividend:

Ex-Dividend	18-Dec-2014
Record Date	19-Dec-2014
Payment Date	15-Jan-2015

Segmental Analysis

Profit before Tax by Segment (1H 2012/13- 1H 2014/15)





NB. Recurring annual fund management fee income declined year on year by some £1.1 million per annum, caused largely by property disposals by the USS fund (expiry Aug-2015), but also by a weaker Euro and lower Polish property values. The seven properties sold by USS so far were acquired either by the Group or by funds managed by FPAM, the anticipated earnings from which should materially mitigate the decline in fee income which the Group will experience when the USS fund management mandate ends next year

Assets under Management (AUM)

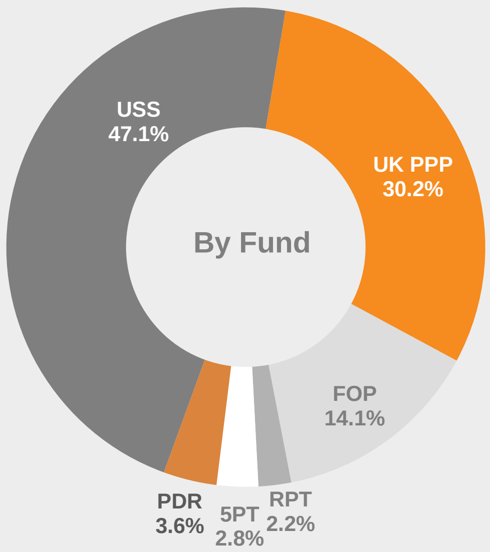
at 30 Sep-2014:

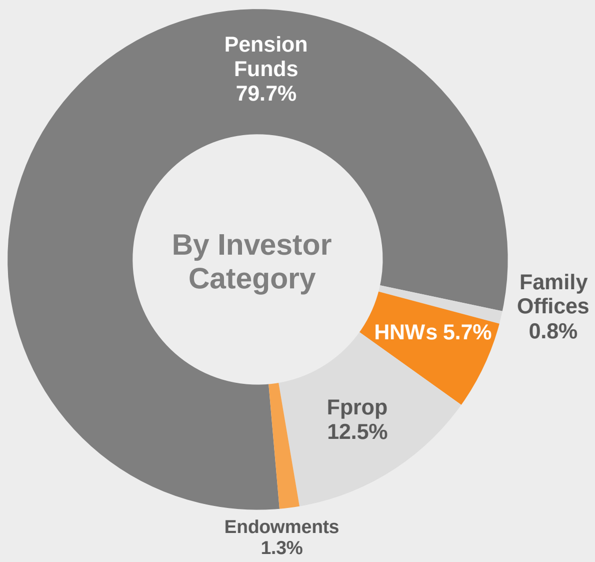
Fund	Established	Termination Date (unless extended)	AUM 30 Sep 2014	% total assets under management
SAM Property Company Ltd **(SAM)**	Aug-2004	Rolling	Not subject to revaluation	n/a
Regional Property Trading **(RPT)**	Aug-2004	Aug-2015	£6.7 million	2.2%
5th Property Trading **(5PT)**	Dec-2004	Dec-2017	£8.5 million	2.8%
USS Fprop Managed Property Portfolio LP **(USS)**	Aug-2005	Aug-2015	£145.8 million	47.1%
UK Pension Property Portfolio LP **(UK PPP)**	Feb-2010	Feb-2017	£93.4 million	30.2%
Fprop Opportunities plc **(FOP)**	Oct-2010	Oct-2020	£43.7 million	14.1%
Fprop PDR LP **(PDR)**	Oct-2013	May-2018	£11.2million	3.6%
Total			**£309.3 million**	**100%**

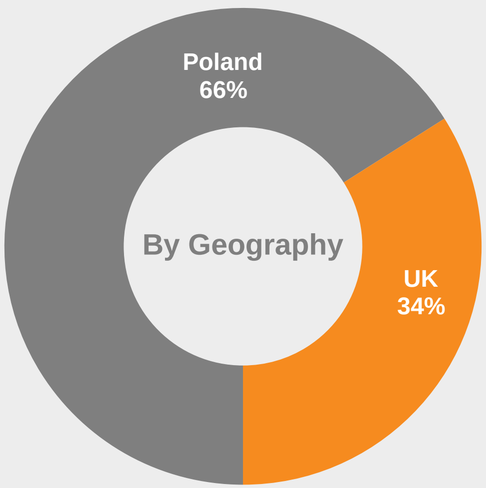
NB. Blue Tower and the 3x Romanian properties are excluded from AUM because they are not held within funds managed by FPAM.

Revenue earned by this division increased by 82% to £3.55 million (2013: £2.02 million), resulting in a profit before tax and unallocated central overheads of £2.90 million (2013: £1.41 million). This represents 49.4% (2013: 61.3%) of Group profit before tax and unallocated central overheads. The increase in profit before tax is largely attributable to the performance fee earned by the Group of £1.9 million, on profits made by Fprop PDR.

Segmental Analysis – FPAM
AUM Breakdown







Group Properties:

Profit before tax and unallocated central overhead costs from Group Properties, including FOP, was £2.97 million (2013: £0.89 million). This represents 50.6% (2013: 38.7%) of Group profit before tax and unallocated central overheads.

- **Comprised during the half year:**

  1. Blue Tower (office building in Warsaw's CBD) – 48.2% interest;
  2. 3x properties in Romania;
  3. Co-investments in 5 of the 7 funds managed by FPAM (see next page).

- **Direct Investments:**

  - **Blue Tower:**
    - Contributed £741,000 (2013: £566,000) to PBT;
    - Increase due to Group's increased shareholding (wef Nov-2013) from 28.5% to 48.2%.
  - **3x properties in Romania:**
    - Contributed £1.26 million (2013: nil) to PBT;
    - Included non-cash profit of £1.12 million representing the recognition of negative goodwill created by the refinancing of the bank loan on the properties.

Group Properties (cont.)

Co-investments in funds managed by FPAM as at 30 Sep-2014:

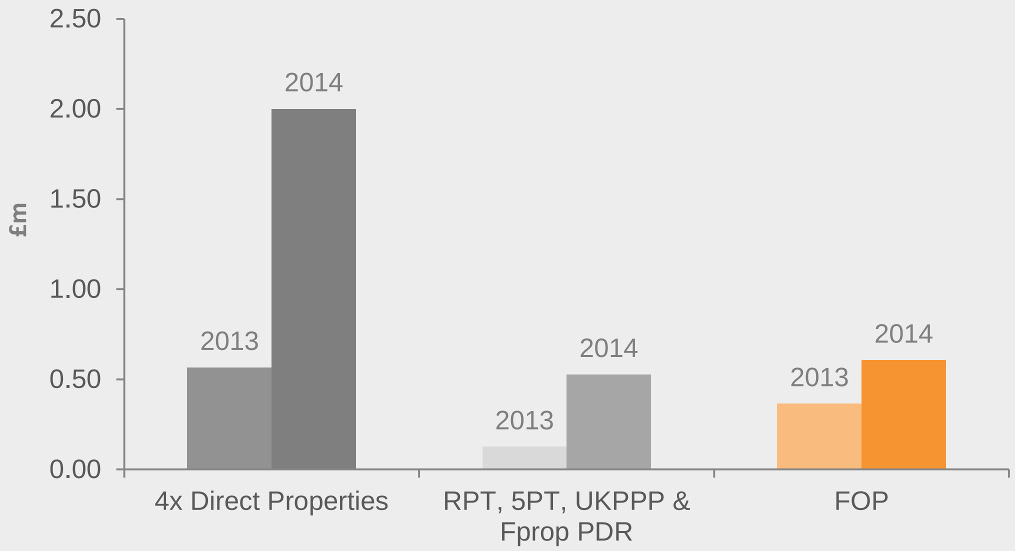
Fund	Group's shareholding	Book value of Group's Share	Market Value of Group's share	Group's share of earnings
Investments:				
UK Pension Property Portfolio (UK PPP)	0.9%	£900,000	£900,000	£30,000
Fprop PDR LP	5.0%	£1.2m	£1.2m	£nil
Interest in associates:				
5th Property Trading (5PT)	37.8%	£868,000	£1.21m	£81,000
Regional Property Trading (RPT)	28.6%	£147,000	£214,000	£26,000
Share of Results in Associates				**£107,000**
Consolidated undertaking:				
Fprop Opportunities plc (FOP)	76.2%	£7.1m	£10.9m	£606,552

NB. It is the Group's policy to carry its investments at the lower of cost or market value for accounting purposes, and to recognise dividends when received.

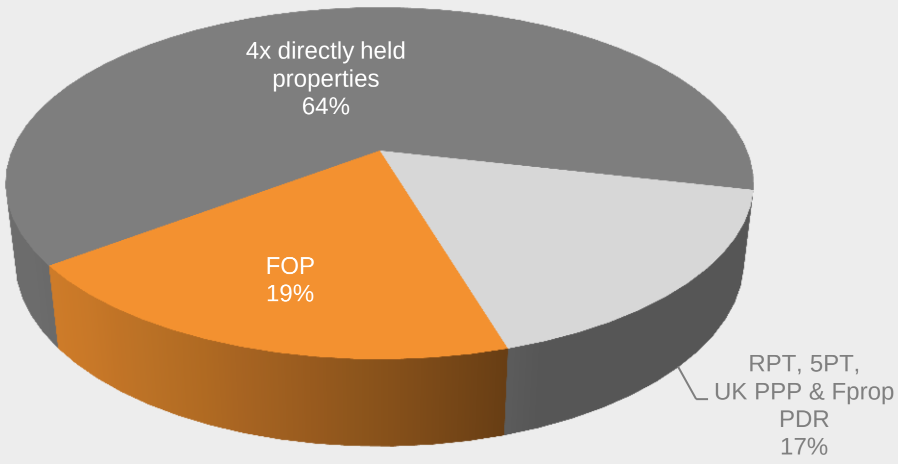
The dividend from our co-investment in Fprop PDR of £390,000, received after the period end, will be accounted for in the results for the year to 31 Mar-2015.

Segmental Analysis – Group Properties
Earnings

In monetary terms:



In percentage terms



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Outlook

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Investment Markets
Poland

Economy:

- GDP growth - FY2014 (E) = 3.2%, 2015 (E) = similar, despite headwinds from EU & Ukraine.
- Confidence - Oct PMI = 51.2, >50 for first time since Jun (50.3). Recent high = 55.9 in Feb.
- Inflation - CPI -0.3% YoY (Sep). Not expected to reach target of 2.5% p.a. until 2016.
- Interest Rates - cut by 50bp in Oct to 2%, lowest on record. Further cuts expected.
- FX - broadly range bound from PLN 4.1-4.3 / € since mid-2012.
- Politics - Former Polish PM Donald Tusk to be next EU President wef 1 Dec 2014. National elections in 2015.
- Euro malaise - Growth rate forecasts slashed across Euro zone, including Germany, Poland's biggest trading partner.

Commercial Property Market:

- Commercial property transactions forecast > €3 bn, similar to 2013, itself highest volume year since 2006.
- Offices:
  - Occupational market - new development in Warsaw leading to rising vacancy rates - currently 13.4%.
  - Investment market - prime yields c6%.
- Retail:
  - Occupational market - new shopping centre development leading to rising vacancy rates.
  - Investment market - prime yields: c5.9% for shopping centres, c7.5% for retail warehouses.
- Industrial:
  - Occupational market - vacancy rates down by 2% across Poland, by 5.5% in Warsaw. But equivalent of c10% of existing stock under construction, highest level since 2008.
  - Investment market - prime yields c7.1%.
- Banks - well capitalised and willing to lend. Plus nascent transactional evidence of willingness to sell NPL's.

Economy:

- GDP growth - slowing. FY2014 (E) = 2.9%, 2015 (E) = 2.7%.
- Confidence - Oct composite PMI = 55.8, lowest since Jun 2013.
- Inflation - surprise fall in Sep to 1.2% YoY, a 5 year low. Recent peak = 1.9% YoY in June.
- Interest Rates - 10-yr Gilts settling into new (lower) range of c2.2% p.a.

Property Market:

- Commercial Property - gap between prime and good secondary commercial property values still narrowing.
- Offices:
  - Occupational market - 2014 take-up likely to hit 5-year high. Central London grade B space availability at c5m ft^2, a 13 year low. London prime rents up 7.6% YTD, regions up 5.5% YTD.
  - Investment market - £3.1bn transacted YTD, a 6 year high.
- Retail:
  - Occupational market - high street vacancy rates down to c13% from c16% in 2012. Vacancy rates for retail warehousing at 8%, lowest since 2006.
  - Investment market - retail warehouse yields tighter by c75bp YTD on c£3bn of transactions, highest since 2007.
- Industrial:
  - Occupational market - rents up 3% YoY, led by London then West Midlands.
  - Investment market - similarly strong.
- Residential:
  - Av UK house price now £274k (ONS). Range = av £514k in London to av £154k in North East.
  - CEBR predicts UK house prices to fall by 0.8% in 2015, due to new mortgage lending rules.
  - Mortgages - LTV growth up 12% YTD.
  - Help to Buy - BoE stated H2B does not pose risk to financial stability nor is it responsible for pushing up prices - has been most popular in areas where prices have risen least. Both parts of scheme so far account for only 5% of total mortgage lending.
  - Supply - annual housing starts totalled 137,780 in year to Jun 2014, up 22% YoY, but still insufficient to address the structural imbalance between supply and demand, in particular in the south of England.

Outlook

We have some £12 million in cash which is intended to seed new funds and invest in properties.

Poland

- USS contract expires in Aug-2015. Will not be renewed.
- Have already virtually entirely mitigated the anticipated loss in income from the USS contract by new investments made by FOP and the Group.
- Anticipate making additional investments during the course of this and next year. Our investment focus remains on properties which international investors are not focused on, from which we can earn high rates of income return from rent alone.
- Expect continued high income returns from properties under management and owned by the Group.

UK

- Expect additional trading profits from Fprop PDR, the quantum of which is hard to predict.
- Fewer investments available to be made by Fprop PDR as we near the end of the legislation in May 2016.
- Working on raising new UK mandates.

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Appendix 1

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Appendix 1
Shareholders > 3% at 28-Oct-2014

	No of shares	% held (of issued and fully paid)
Ben Habib (Chief Executive Officer)	16,700,000	14.7%
J C Kottler Esq	15,006,783	13.2%
New Pistoia Income Ltd	11,440,000	10.1%
Universities Superannuation Scheme Limited	9,550,000	8.4%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.5%
Total	**61,268,773**	**53.95%**

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Appendix 1
Share Statistics at 7-Nov-2014

LSE (AIM) Symbol	FPO.L
Share price	26.5p
Market Cap	£30.1 million
Dividend yield	0.35p (subject to shareholder approval)
EPS (undiluted)	4.19p (2013: 1.34p)
EPS (diluted)	4.01p (2013: 1.27p)

	2014	2013	% change
Issued & Fully Paid	114,851,115	114,851,115	-
Issued (excl Treasury)	113,669,360	111,180,025	+2.23%
Shares held in Treasury	1,181,755	3,671,090	-67.81%
Outstanding share options over Ordinary shares	5,050,000	7,500,000	-32.67%
Average strike price of outstanding share options	15.32p	15.72p	-2.54%

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Appendix 1
Plc Management Team

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, 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 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).

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

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. 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.

Appendix 2

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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 94% of total returns over the 10 years to 31-Dec-2013 and 73% over the 30 years to 31-Dec-2013).
- **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.
  - Recommenced development activity in the UK in May 2013 in response to government legislation relaxing the planning regime.
- **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 decision when phase 2 of the credit crunch began (2H 2011) and the financing market - upon which the property market relies - deteriorated, to implement a policy of only buying property in Poland high yielding enough to virtually allow us to earn our target returns from rental income alone.** Liquidity remains thin (except for very prime properties of large lot sizes) hence our policy to obtain liquidity from income.
- **Our return to development activity in the UK following relaxation of planning laws, effective 30 May 2013 and a boosting of demand as a result of "Help to Buy".**

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