



# Preliminary Results

Year ended 31 March 2014

**First Property Group plc**

3 June 2014



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.

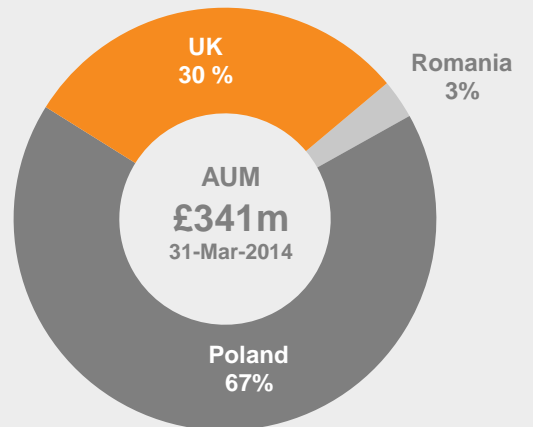
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First Property Group plc is a co-investing direct property fund manager with operations in the United Kingdom and Central Europe.

**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 31 March 2014 the Group had some £341 million of direct property assets under management, invested across seven funds managed by its wholly owned subsidiary First Property Asset Management Ltd (FPAM).



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.

# Highlights

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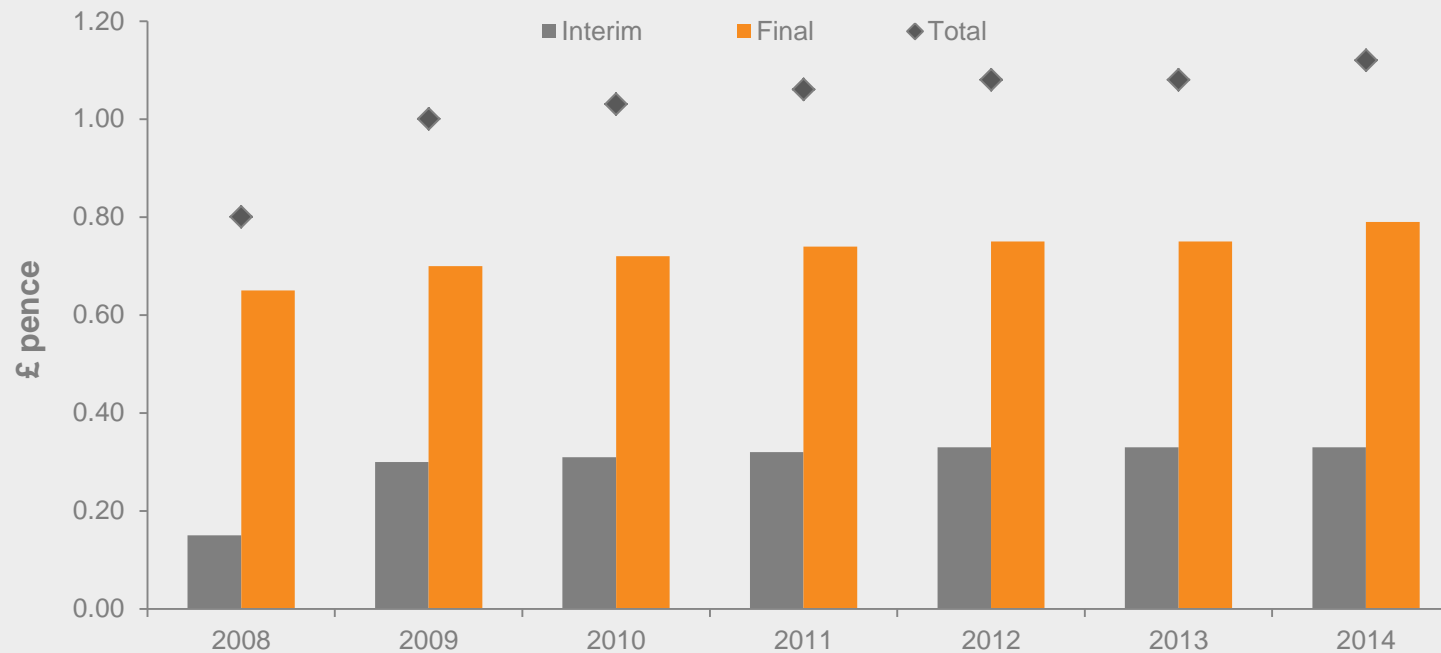
	Year to 31-Mar-2014 (Unaudited)	Year to 31-Mar-2013 (Audited)	Percentage change
Profit before tax	£6.57m	£3.54m	+86%
Diluted Earnings per share	4.53p	2.18p	+108%
Total Dividend	1.12p	1.08p	+4%
<b>Profit before tax and unallocated central overheads by segment:</b>			
Profit before tax from property fund management (FPAM)	£2.63	£2.84m	-7%
Profit before tax from total Group Properties (incl FOP)	£6.32	£2.07m	+205%
<b>Average €/\$ in the period</b>	<b>1.188</b>	1.226	-3.1%
<b>Period end €/\$</b>	<b>1.210</b>	1.183	+2.3%
<b>Net Assets</b>	<b>£23.46m</b>	£18.54m	+27%
<b>Cash Balances</b>	<b>£11.28m</b>	£12.98m	-13.1%
<b>Assets Under management</b>	<b>£341m</b>	£353m	-3.4%
Poland	67%	71%	
UK	30%	26%	
Romania	3%	3%	

### Operational Highlights:

- Return to development activity in the UK generating a non-recurring contribution to earnings of some £3.8 million;
- New fund, Fprop PDR, established October 2013 with total commitments of some £41 million, to undertake office to residential conversions. £22 million worth of offices acquired so far, which should earn development profits in due course;
- Resumption of investment by FOP in income producing commercial property in Poland (totalling some €35 million during the year);
- Reduction in cash balances by £1.7 million from £12.98 million to £11.28 million principally as a result of £7.5 million of investments made by the Group in FOP, Blue Tower, and our new fund Fprop PDR;
- Funds under management in Central and Eastern Europe once again rated by Investment Property Databank (IPD) as the best performing versus the IPD Central & Eastern European universe, now for the eight years to 31 December 2013.

## The Board recommends an increased Final dividend of 0.79p

When combined with the Interim dividend of 0.33p this equates to a total dividend for the year of 1.12p (2013: 1.08p)



### Final Dividend:

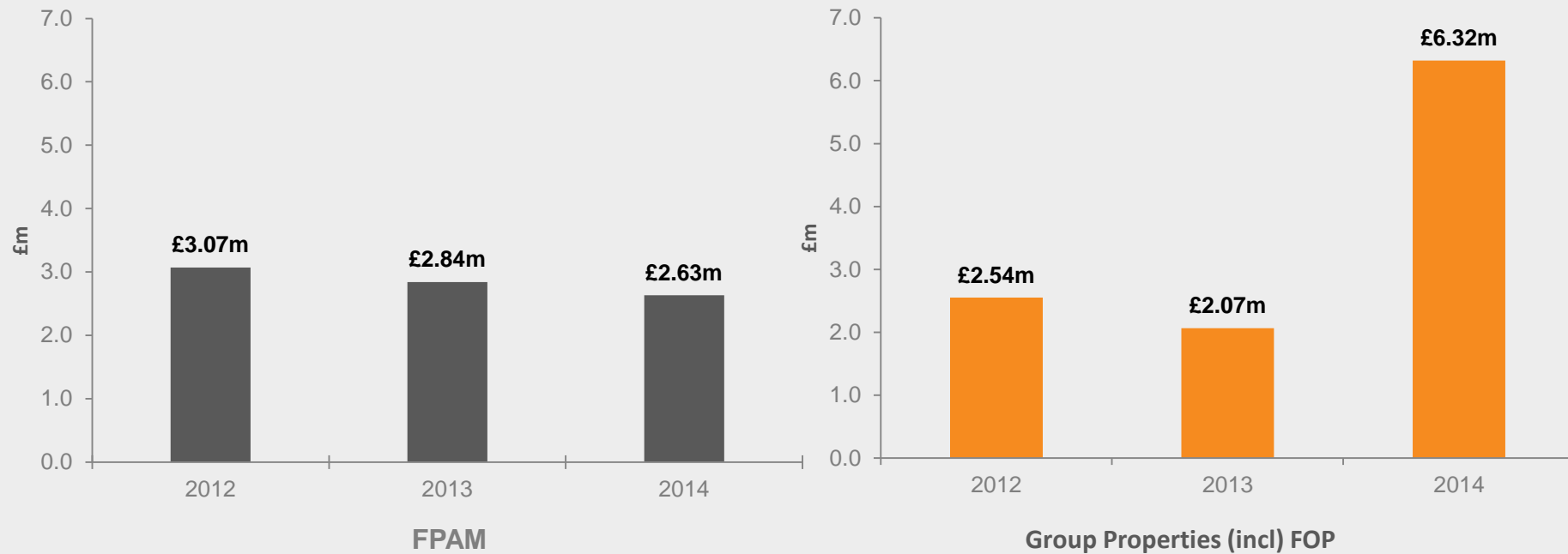
Ex-Dividend	20-Aug-2014
Record Date	22-Aug-2014
Payment Date	25-Sep-2014

# Segmental Analysis

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### Profit before Tax by Segment (FY 2012- FY 2014)

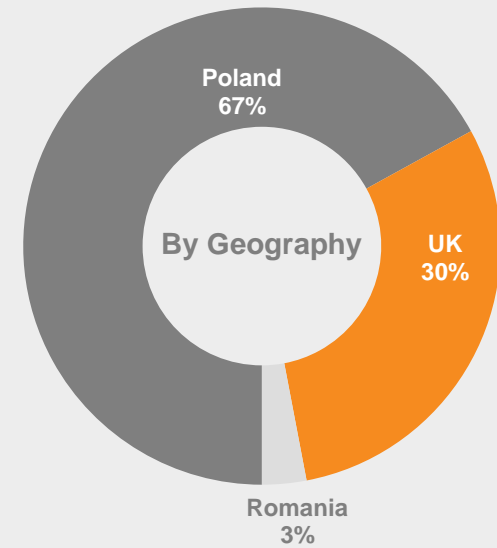
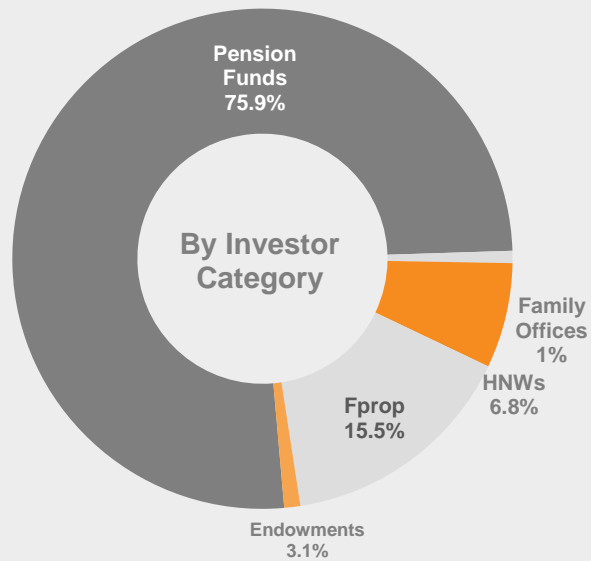
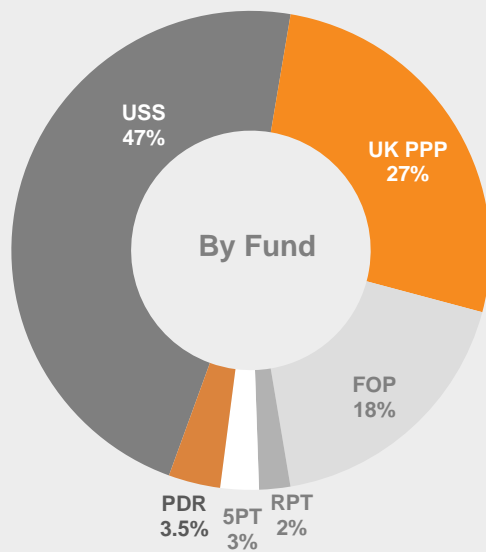


### Assets under Management (AUM)

at 31 March 2014:

Fund	Established	Termination Date (unless extended)	AUM 31-Mar-2014	% total assets under management
SAM Property Company Ltd ( <b>SAM</b> )	Aug-2004	Rolling		Not subject to revaluation
Regional Property Trading ( <b>RPT</b> )	Aug-2004	Aug 2015	£7.1 million	2.1%
5 <sup>th</sup> Property Trading ( <b>5PT</b> )	Dec-2004	Dec 2014	£9.0 million	2.6%
USS Fprop Managed Property Portfolio LP ( <b>USS</b> )	Aug-2005	Aug 2015	£160.5 million	47.1%
UK Pension Property Portfolio LP ( <b>UK PPP</b> )	Feb-2010	Feb 2017	£90.5 million	26.5%
Fprop Opportunities plc ( <b>FOP</b> )	Oct-2010	Oct 2020	<sup>1</sup> £62.0 million	18.2%
Fprop PDR LP ( <b>PDR</b> )	Oct-2013	May-2018	£11.8million	3.5%
<b>Total</b>			<b>£340.9 million</b>	<b>100%</b>

<sup>1</sup> Excludes £4.14 million of un-invested cash



### Group Properties:

NB. It is the Group's policy to carry its investments at the lower of cost or market value for accounting purposes.

➤ **Comprised during the year:**

1. Blue Tower (office building in Warsaw's CBD) – 48.2% interest;
2. 2x office buildings in UK (Woking & Bracknell) – both now sold;
3. Co-investments in five of the seven funds managed by FPAM (see table on following page).

➤ **Blue Tower:**

- Initial 28.5% interest now valued at £11.74m (acquired Dec-2008 for £8.3m).
- Nov-2013 - acquired further 19.7% interest for £4.47 million, increasing total interest from 28.5% to 48.2%.
- Contributed £1.26 million (pre-tax) during period (prior to deduction of unallocated central overhead costs).

➤ **2x office properties in Woking & Bracknell:**

- Acquired July 2013 for total consideration of £3.4 million.
- Planning consent for their conversion to residential use subsequently obtained, followed by sale of both, contributing some £3.8 million to earnings.

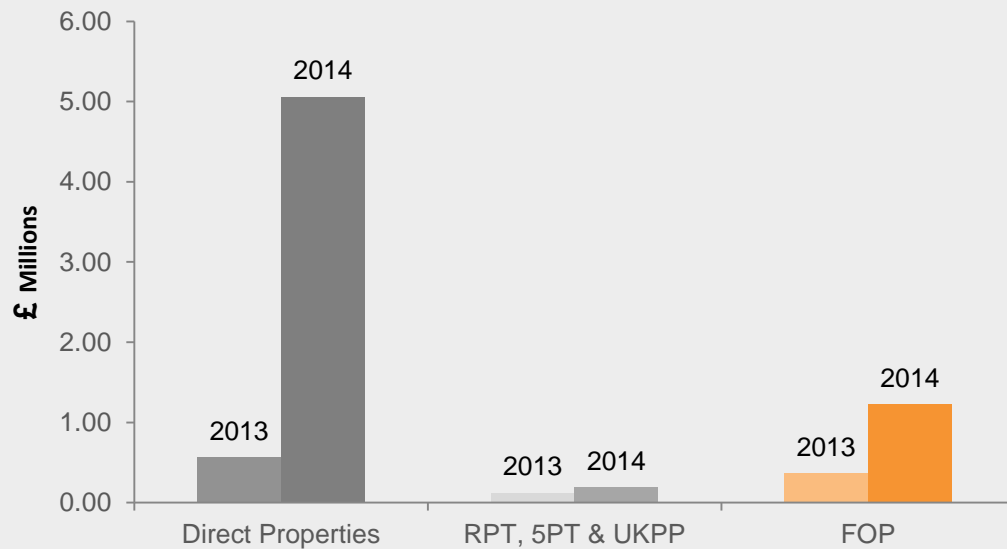
### Group Properties (cont.)

Co-investments in funds managed by FPAM as at 31 March 2014:

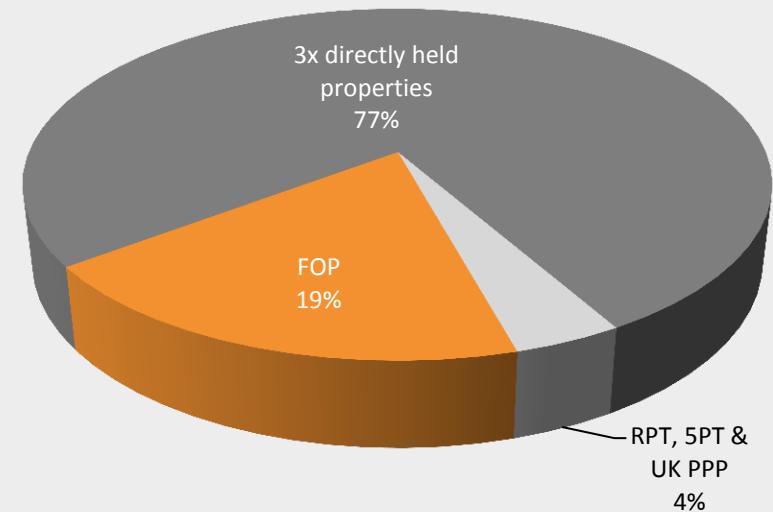
Fund	Group's shareholding	Book value of Group's Share	Market Value of Group's share	Group's share of earnings
<b>Investments:</b>				
UK Pension Property Portfolio (UK PPP)	0.9%	£857,000	£847,000	£63,000 <sup>1</sup>
Fprop PDR LP	4.9%	£849,000	£849,000	nil
<b>Interest in associates:</b>				
5 <sup>th</sup> Property Trading (5PT)	37.8%	£863,000	£1,273,000	£198,000
Regional Property Trading (RPT)	28.6%	£120,000	£177,000	(£8,000) <sup>2</sup>
Share of Results in Associates		<b>£983,000</b>		<b>£190,000</b>
<b>Consolidated undertaking:</b>				
Fprop Opportunities plc (FOP)	76.2%	£7,937,000	£12,920,000	£940,000 <sup>3</sup>
<b>Total</b>		<b>£10,626,000</b>	<b>£16,066,000</b>	<b>£1,193,000</b>

1. Represents dividend received
2. Loss caused by a foreign currency exchange loss arising on the refinancing of the fund
3. After the deduction of non-controlling interest.

In monetary terms:



In percentage terms:



# Outlook

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### Poland:

- Fprop Opportunities plc (FOP) - raised additional £3.71 million in Apr 2013, including an investment of £2 million by the Group. We expect to complete investing the remaining equity in FOP during the current financial year.

### UK:

- Fprop PDR LP – established Oct 2013 with some £41 million in commitments, principally from clients of a leading global investment business, to acquire office blocks in the UK with a view to convert these to residential use. The Group committed some £2 million to the partnership.



## Economy:

- GDP growth:
  - 2013: 1.6% (actual)
  - 2014E: 3%
  - 2015E: 3.1%
- Inflation
  - 2014E: 1.4%
  - 2015E: 2%
- Confidence
  - Purchasing Managers Indices (PMI) – monthly readings consistently in excess of 50.
  - Consumer spending rebounding
- Possible contagion from Ukraine:
  - c43% of Polish public debt held by foreign investors (Feb 2014) – a risk to PLN in event of capital flight;
  - c60% of Polish gas imported from Russia in 2013. Measures being taken to reduce dependency including proposing EU Energy Union, construction of LNG terminals on Baltic coast, acceleration of shale gas exploration – all will take time;
  - 5.2% of Polish exports in 2012 were to Russia – manageable in event of sanctions.

## Commercial Property Market:

- Turnover:
  - 2005 (peak): €5.2 billion
  - 2013: €3 billion
  - Dominated by international investors (>90% in 2013)
- Prime yields – in c25bp from last year to c6%
- Demand still mainly limited to large prime offices in Warsaw's CBD & large prime shopping centres in Warsaw and other major cities.
- Low liquidity for higher yielding commercial property of lot sizes sub €50 million – also an opportunity if pricing adjusted to reflect illiquidity.

## Economy:

- GDP growth:
  - 2013: 1.9% (actual)
  - 2014E: 2.9%
  - 2015E: 2.5%
- Inflation – annual rate increased to 1.8% in April having dipped to 1.6% in March, its lowest annual rate since Oct-2009;
- Interest rate rise expected Q1 2015.

## Property Market:

- Turnover in 2013 of £53.4 billion, a 6 year high;
- Demand for commercial investment property has spread out to the regions. Valuation gap between prime and good secondary commercial property beginning to narrow;
- Prime commercial rents rose by 1.1% in Q1, up 3% YoY but secondary rents broadly unchanged;
- Residential values rising at fastest rate since 2010, boosted by the Government measures including “Funding for Lending” and “Help to Buy” schemes;
- Residential mortgage lending in Q1 2014 some 37% higher than Q1 2013.

We have some £11 million of cash which is intended to seed new funds and invest in high yielding properties.

### Poland

- USS contract expires in 2015. Will not be renewed.
- Investment by FOP and of the Group's cash balances should go a long way towards mitigating any reduction in fee income associated with expiry of USS contract.

### UK

- Fprop PDR LP – no ongoing management fees, only a share of profits from realisations. Development profits expected in current financial year.
- Rising property prices likely to reduce forecast returns in due course.

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# Appendix 1

22	Shareholders >3% at 13-May-2014
23	Share Statistics at 13-May-2014
24	Plc Management Team

	No of shares	% held (of issued and fully paid)
Ben Habib (Chief Executive Officer)	16,700,000	14.8%
J C Kottler Esq	15,006,783	13.3%
Universities Superannuation Scheme Limited	9,550,000	8.5%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.6%
New Pistoia Income Ltd	6,875,000	6.1%
<b>Total</b>	<b>56,703,773</b>	<b>50.3%</b>

<b>LSE (AIM) Symbol</b>	FPO.L	
<b>Share price</b>	31p	
<b>Market Cap</b>	£34.3 million	
<b>Dividend yield</b>	3.6%	1.12p – comprising Final dividend of 0.79p (subject to shareholder approval) + Interim dividend of 0.33p
<b>PER (undiluted)</b>	6.5x	EPS 4.75p (2013: 2.31p)
<b>PER (diluted)</b>	6.8x	EPS 4.53p (2013: 2.18p)

	2014	2013	% change
<b>Issued &amp; Fully Paid</b>	114,851,115	114,851,115	-
<b>Issued (excl Treasury)</b>	112,952,158	111,153,755	+1.62%
<b>Shares held in Treasury</b>	1,898,957	3,697,360	-48.64%
<b>Outstanding share options over Ordinary shares</b>	5,750,000	7,500,000	-23.3%
<b>Average strike price of outstanding share options</b>	15.49p	15.72p	-1.46%

### 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

26	Investment Philosophy
27	Investment Approach

## 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.
  - Recommended 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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