CPI Property Group

Half-year **Management Report** 2019

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Alexandrinenstraße 2-3, Berlin, Germany

The CEO's **Message**

Palác Archa, Prague, Czech Republic

We maintained our *long-term focus,* improved our capital structure and **strengthened** our corporate governance.

Martin Němeček
CEO

To our tenants, employees and other stakeholders,

CPIPG's superb operational and financial performance during the first half of 2019 reflects the hard work of our teams, the strength of our markets and the quality of our assets. We maintained our long-term focus, improved our capital structure and strengthened our corporate governance.

Compared to the slower growth reported in some European countries, CPIPG's core markets of the Czech Republic, Berlin and the CEE region are bright spots. The Czech economy still benefits from low unemployment and rising wages, which have supported strong office demand and increases in both sales and footfall in our shopping centres. Berlin's reputation as a centre for creative innovation, entrepreneurship and technology has driven outperformance versus the rest of Germany, with steady job creation and record-low office vacancy. Poland and Hungary continue to see strong office and retail demand, and CPIPG's hotels across the CEE region are welcoming a constant flow of business and leisure travellers. All these trends have attracted an influx of real estate investors from Western Europe, Asia and the US who are seeking to invest in similar assets in our regions and sectors.

CPIPG's total assets reached a new high of €9.5 billion as of the end of June 2019, with a property portfolio of €7.9 billion (an increase of 4% from year-end 2018). The increase in our property portfolio resulted from acquisitions, capex and revaluations. Higher valuations are attributable both to strong markets and the performance of our properties: like-for-like rental growth was 3.9% for the first half of 2019 (and exceeded 11% in Berlin), while occupancy rose to a new record of 94.6%. These factors drove a 13% increase in total revenues to €322 million, an 8% increase in net business income to €168 million, and an 18% increase in funds from operations (FFO I) to €103 million.

The Company's terrific operational results were made possible by our asset management teams, who work intensively with tenants every day. In January, CPIPG announced our intention to take over the property management of our shopping centres in the Czech Republic which will bring savings, better operational control and unification of services across our portfolio. In Hungary, our team was voted Asset Management Company of the Year for 2018 at the Real Estate Awards gala. Other initiatives, including CPI Akademie (skill enhancement for retail tenants in the Czech Republic) and our Czech asset management team's leadership of a new course titled "Introduction to Shopping Centre Management" at the University of Economics in Prague, demonstrate the passion of our colleagues to continually improve CPIPG's performance and profile in the marketplace.

Investing in our properties to support long-term performance is a critical element of CPIPG's strategy. In Berlin, we have nearly finished the complete refurbishment of Prinzessinnenstraße, which is already fully pre-let at very attractive rents. In the Czech Republic, we began the refurbishment of Citypark Jihlava, partially completed a major refurbishment of Olympia Teplice and will soon begin construction of a beautifully redesigned retail park to replace Spektrum shopping centre. Each investment considers both economic and environmental factors; CPIPG joined the Czech Green Building Council in March as a sign of our commitment to sustainable practices. In Budapest, Balance Hall office will open in November and represents CPIPG's first "Conscious Building" development in Hungary.

CPIPG was modestly acquisitive during the first half of 2019; the Company remains highly selective about pricing and quality. In the Czech Republic, we acquired hotels in Brno and Ostrava which enhance our existing network of congress and convention centres. In the UK, we acquired a property in St James's Square in London for an attractive price, with excellent long-term potential. CPIPG's development efforts are currently small in scale (about 2% of our portfolio) and more than 90% of our property portfolio consists of yielding assets. However, we were proud to open the Mayhouse office development in Prague and to initiate construction of the Benjamin office in Berlin during the first half of 2019. Over time, CPIPG sees an opportunity to continue selectively developing our strategic land bank.

The quality of CPIPG's property portfolio is matched only by the strength of our capital structure. All key financial metrics recorded new records in the first half of 2019: net loan-to-value (LTV) declined to 30%, the level of unencumbered assets increased to 69% and our net interest coverage ratio (ICR) increased to 7.2x. CPIPG also benefits from a comfortable liquidity position, with nearly €1 billion in cash and a €510 million undrawn three-year revolving credit facility with 11 regional and international banks which was signed in March. Over time, CPIPG intends to invest cash in a disciplined manner through our capex programme and by pursuing acquisitions across our geographies.

International bond investors have noticed CPIPG's operating performance and are actively supporting our funding programme with more than €900 million of hybrid and senior unsecured bonds issued during the first half of 2019. In March, CPIPG issued our inaugural $350 million US Dollar bond which was subsequently increased by $100 million in July. Asian institutions were key investors for our US Dollar bonds; CPIPG's investor marketing in Asia also resulted in two private placements totalling 733 million Hong Kong Dollars (€82 million equivalent). In keeping with CPIPG's FX policy, our non-Euro transactions were fully hedged using cross-currency swaps. Also in March, CPIPG issued €170 million of Schuldschein, a German loan-style instrument, which diversified our investor base among Asian and European regional banks. In April, CPIPG returned to the hybrid bond market, completing a €550 million issue to further strengthen our capital structure. Proceeds from all transactions were used either for refinancing or held in cash.

CPIPG's capital structure transformation and operational outlook gave us the confidence to tighten our financial policy. CPIPG now targets an LTV below 40% and an ICR of 4x or above. In conjunction with the increase in CPIPG's share repurchase authorisation and subsequent buy-back, we clarified our future distribution policy: no dividends and CPIPG's intention to retain and reinvest between 50% to 100% of annual FFO going forward.

CPIPG believes in continually strengthening our corporate governance. At our annual general meeting in May, Mr. Omar Sattar was appointed to the Board of Directors as CPIPG's second independent director. Omar will join the Audit Committee and the Remuneration & Related Party Transaction Committee; his extensive experience in the CEE real estate market will be invaluable to the board going forward. CPIPG also tendered for the role of group auditor, following eight years with KPMG. We are delighted to have selected Ernst & Young as our new auditor, supporting an extremely high standard of transparency and accuracy in our reporting. Formal appointment is expected in October subject to a shareholder general meeting.

Sometimes, success comes with undesired challenges. In April, Kingstown and other parties filed a lawsuit in New York against CPIPG, our primary shareholder and other individuals alleging mistreatment of minority shareholders and violations of the RICO statute. In many respects, the New York case was substantively similar to the legal action filed in 2015 by Kingstown in Luxembourg. In June, the Luxembourg court dismissed CPIPG from that case due to lack of substance; we believe all of Kingstown's claims have no merit and will continue to vigorously defend CPIPG's position through the courts. Since April, CPIPG has actively communicated with our bond investors, who have shown confidence in our credit. Our bonds now trade at even better levels compared to the period before the lawsuit was filed.

What's next for CPIPG? We will continue investing in our property portfolio and will pursue acquisitions, taking advantage of our healthy liquidity position. Our future goals include achieving "high BBB" credit ratings and issuing green bonds to support CPIPG's long-term sustainable future. We will continue hiring the best talent and will encourage the development of well-rounded teams who share CPIPG's vision for the future.

I am proud to be part of the CPIPG team. Thank you to our tenants, employees, investors, lenders, other stakeholders and partners for an exciting start to the year!

Sincerely,

Martin Němeček

View from Quadrio roof terrace, Prague, Czech Republic

Key Figures

Total Assets
€9.5 bn
+15% versus end of 2018

Total Liquidity
€1.5 bn
as of 30 June 2019

Net LTV
30%
-6 p.p. versus end of 2018

Quadrio, Prague, Czech Republic

Property Portfolio
€7.9 bn
+4% versus end of 2018

EPRA NAV
€4.7 bn
+4% versus end of 2018

Total Revenues
€322 m
+13% versus H1 2018

Unencumbered Assets
69%
+4 p.p. versus end of 2018

Net Interest Coverage Ratio
7.2x
+3.0x versus full year 2018

Interest Expense
€25 m
-43% versus H1 2018

Occupancy
94.6%
+0.1 p.p. versus end of 2018

Consolidated adjusted EBITDA
€143 m
+9% versus H1 2018

Funds from Operations (FFO)
€103 m
+18% versus H1 2018

Credit Ratings
Baa2
by Moody's
(stable)

BBB
by Standard & Poor's
(stable)

A-
by Japan Credit Rating Agency
(stable)

These H1 2019 results reflect the quality and scale of CPIPG's property portfolio and our efforts to further strengthen our capital structure.

David Greenbaum, CFO

Geneststraße 5, Berlin, Germany

Performance

		30 June 2019	30 June 2018	Change
Gross rental income	€ million	**155**	147	6%
Total revenues	€ million	**322**	285	13%
Net business income	€ million	**168**	156	8%
Consolidated adjusted EBITDA	€ million	**143**	131	9%
Funds from operations (FFO)	€ million	**103**	87	18%
Profit before tax	€ million	**186**	185	1%
Interest expense	€ million	**(25)**	(45)	(43%)
Net profit for the period	€ million	**166**	161	3%

Assets

		30 June 2019	31 December 2018	Change
Total assets	€ million	**9,498**	8,259	15%
Property portfolio	€ million	**7,855**	7,555	4%
Gross leasable area	m²	**3,339,000**	3,318,000	1%
Occupancy	%	**94.6%**	94.5%	0.1 p.p.
Like-for-like gross rental growth	%	**3.9%**	4.9%	(1.0 p.p.)
Total number of properties*	No	**381**	375	2%
Total number of residential units	No	**11,991**	11,917	1%
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 June 2019	31 December 2018	Change
Total equity	€ million	**5,091**	4,362	17%
EPRA NAV	€ million	**4,668**	4,480	4%
Net debt	€ million	**2,386**	2,775	(14%)
Loan to value ratio (Net LTV)	%	**30.4%**	36.7%	(6.3 p.p.)
Secured consolidated leverage ratio	%	**11.1%**	12.9%	(1.8 p.p.)
Secured debt to total debt	%	**31.3%**	36.7%	(5.4 p.p.)
Unencumbered assets to total assets	%	**69.1%**	65.1%	4.0 p.p.
Net ICR		**7.2x**	4.2x	3.0x

Group Overview

CPIPG is the largest owner of income-generating real estate in the Czech Republic, Berlin and the CEE region.

Our property portfolio continues to grow and improve in quality, driven by complementary acquisitions and the positive impact of our asset management strategy. Because of the Group's long-term investment horizon, our teams are able to focus their efforts and expertise on investments and strategies to improve the performance (rents, occupancy, tenant and lease profile) of each asset in our portfolio.

At the end of the first half of 2019, 78% of the Group's property portfolio was located in the Czech Republic and Berlin, unchanged from the end of 2018. We expect that Berlin and the Czech Republic will remain 70% of the portfolio over the long term.

Office and retail accounted for 69% of the Group's portfolio at the end of the first half of 2019. We intend to maintain a diversified portfolio. Our residential and hotel assets each constitute 10% or less of the overall Group in terms of portfolio value. We will continue to selectively invest in these sectors, but do not expect their contribution to the group to be meaningfully above 10% of our portfolio over the long term.

Development activity will remain 10% or less of the Group's portfolio. Today our exposure to development is well below this level. We also hold a sizeable land bank, the majority of which is located in Prague.

Mamaison Riverside Hotel, Prague, Czech Republic

Group Management

Historical **Milestones**

1965
Foundation of GSG by the city of Berlin

1991
Foundation of Czech Property Investments a.s. (CPI a.s.)

1999–2003
Residential portfolio acquired
Purchase of residential assets which today make up CPI BYTY's portfolio

2002
Issuance of bonds in the Czech Republic
CPI a.s. moves to the forefront of the most significant Czech real estate investors

2013
Expansion abroad
Acquisition of ABLON Group, a significant property portfolio in the CEE region

2014
Integration of CPI a.s. & GSG and establishment of CPIPG
This step created an extraordinarily strong Luxembourg-based European property group with a diversified portfolio in the Czech Republic, Berlin and the CEE region

2014
Quadrio project completed
Most significant development completed by CPIPG and our flagship property in Prague

2016
Local bond leader
Active issuance in local bond markets to capture strong credit appetite, further enhancing our funding profile

2017
Investment grade rating and bond issues
Baa3 rating by Moody's and issuance of inaugural senior unsecured bonds of €825 million

2017
Acquisition of retail portfolio from CBRE Global Investors

2018
Positive rating developments
New BBB rating by S&P, upgrade to Baa2 by Moody's, new A- rating from JCR

2018–2019
Capital structure transformation
Hybrid bonds, senior unsecured bonds in EUR, CHF, JPY, HKD and USD

The largest acquisition by the Group
A retail portfolio of 11 shopping centres in the Czech Republic, Hungary, Poland and Romania

Moravské náměstí 8, Brno, Czech Republic

CPIPG is *growing* our portfolio while maintaining a **strong commitment** to financial policy.

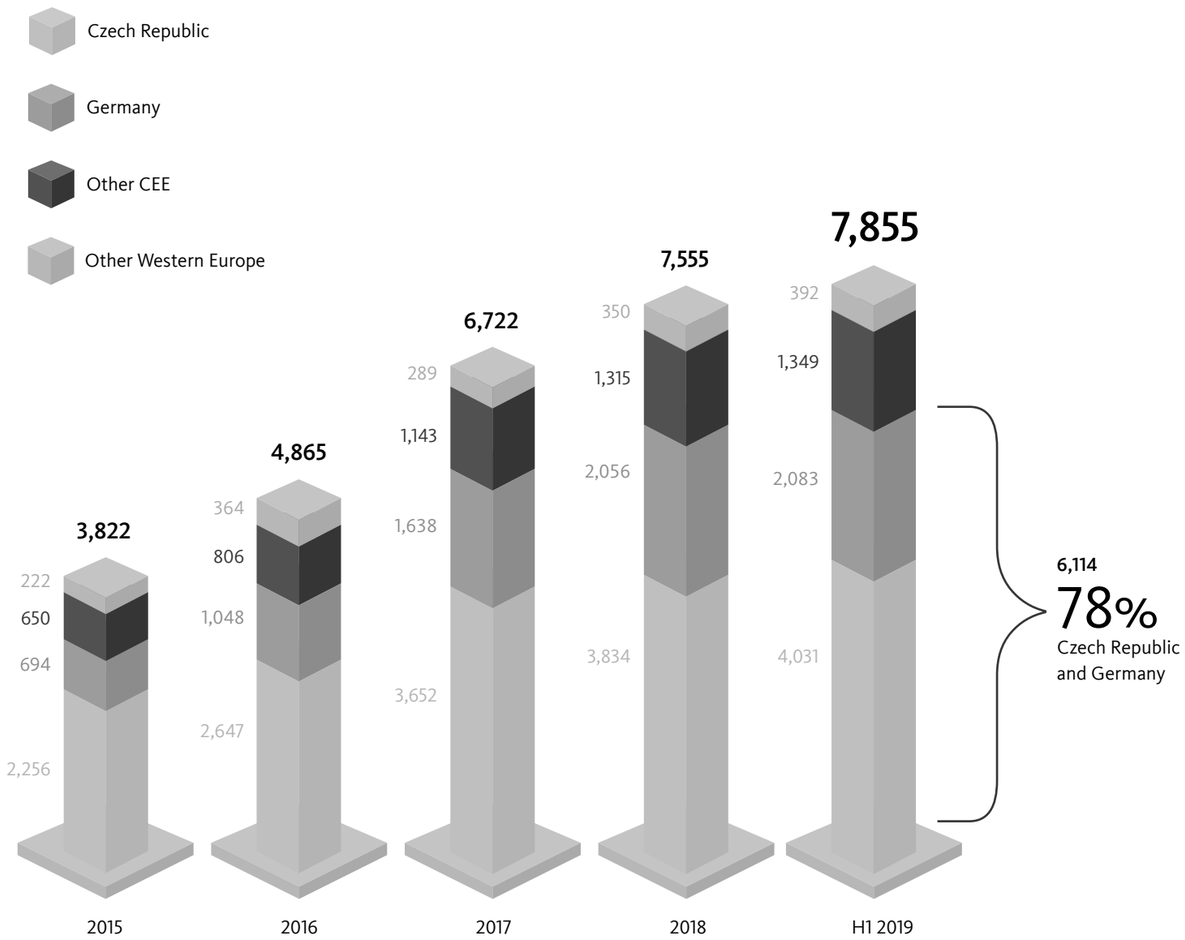
Palác Archa Terrace, Prague, Czech Republic

During the first half of 2019, CPIPG continued to benefit from strong performance across our property portfolio and maintained our dominant position in the Czech Republic, Berlin and the CEE region.

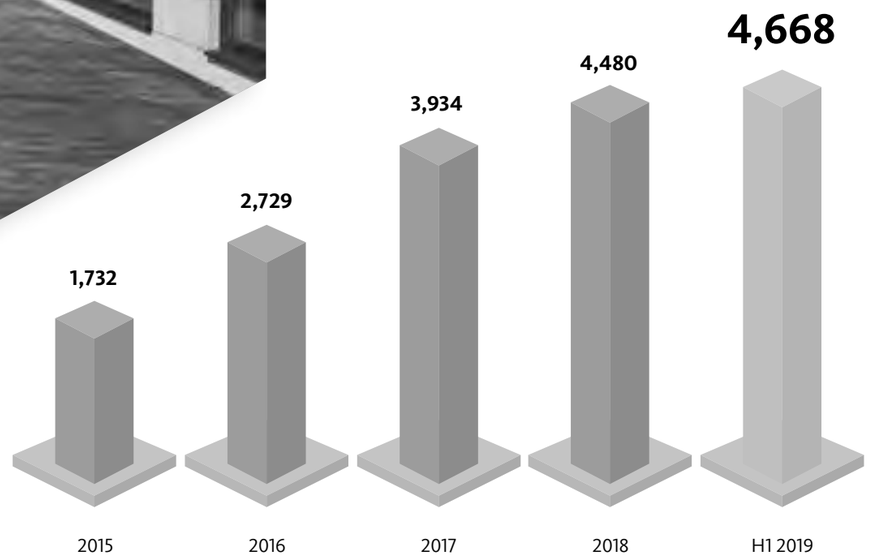
The Group's property portfolio increased due to selective acquisitions, increases in property valuation and completion of key development projects. Continued growth in the portfolio reflects the robust performance of and continued tenant demand for our properties, underpinned by strong asset management and benign prevailing market conditions in the markets in which we operate.

Net LTV declined significantly as we further strengthened our capital structure via issuance of additional hybrid bonds and through retention of FFO generation in the period, owing to our conservative financial policy. EPRA NAV rose by 4%, reflecting the combined effects of our activities during the first half of the year.

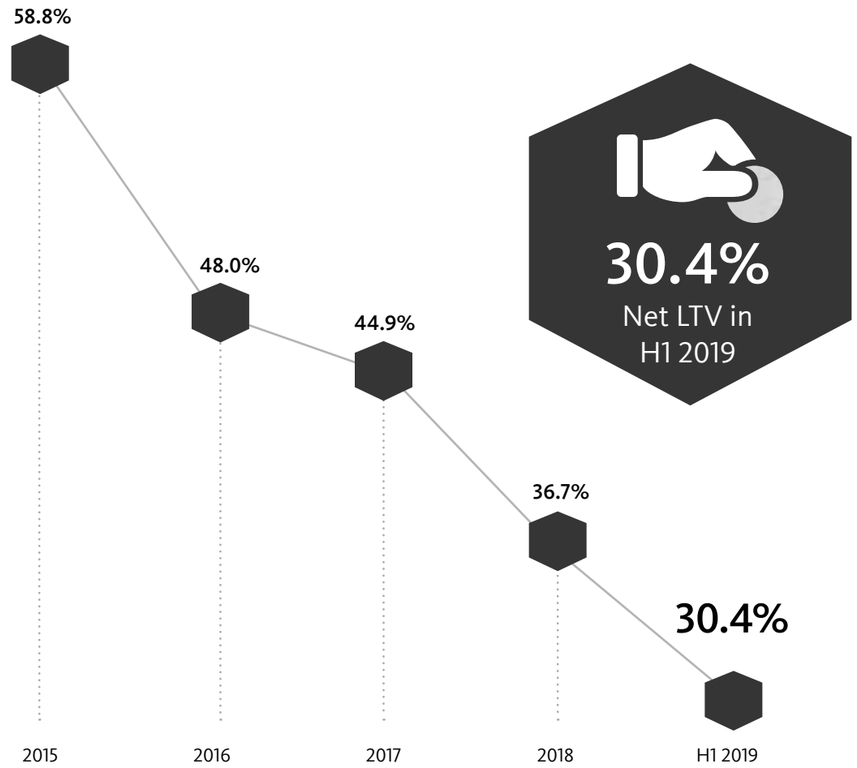
Growth of the Group's property portfolio
(€ million)



EPRA NAV
(€ million)



Net LTV

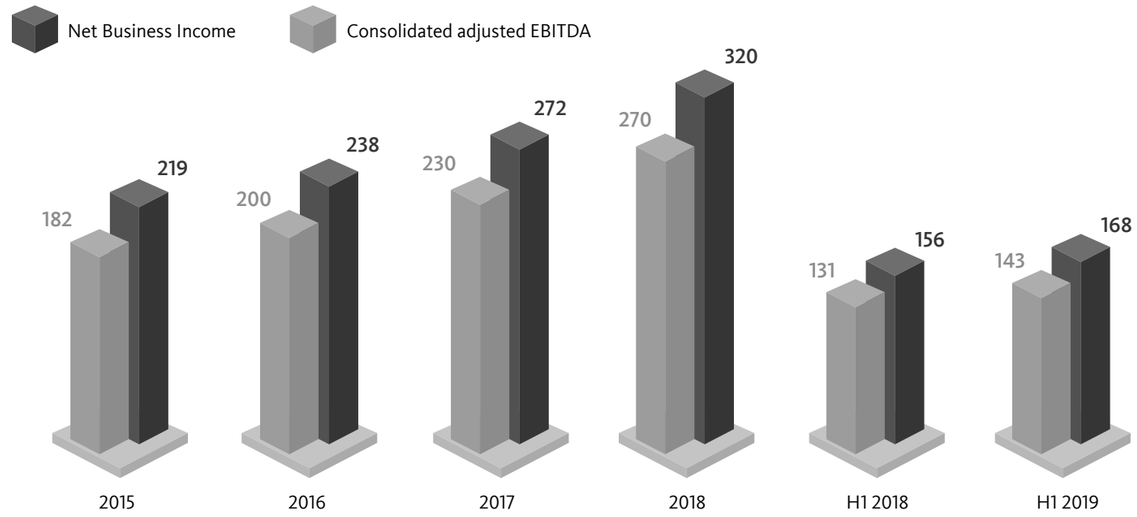


Mayhouse, Prague, Czech Republic

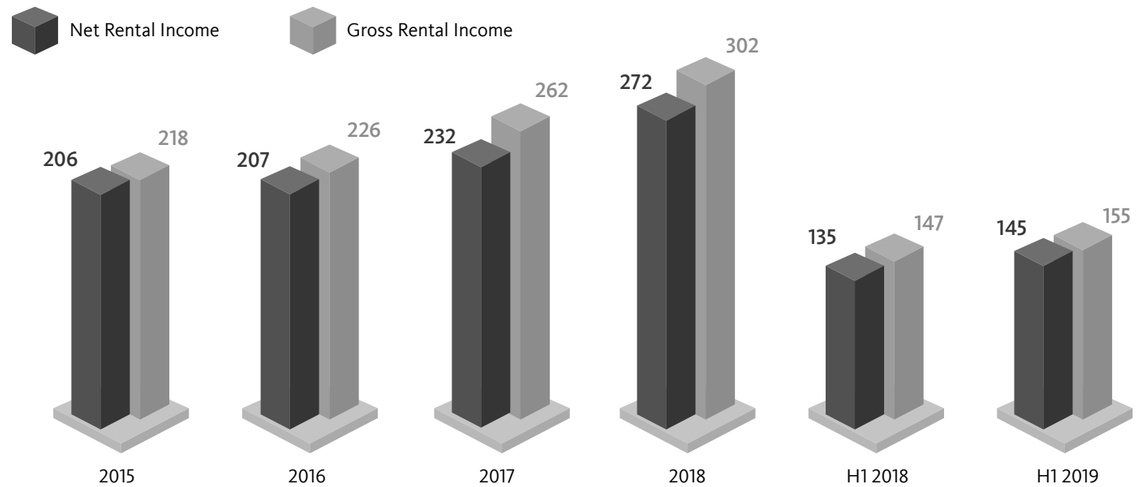
CPIPG is an active owner and asset manager, operating in markets with positive fundamentals. Our focus is to continually improve the performance and quality of our assets through strong local asset management teams. The advantages of this strategy are clear: CPIPG continues to achieve record levels of rental income and occupancy across the portfolio.

In the first half of 2019, we achieved high single digit growth across all income-based measures, supported by like-for-like growth across all segments, and to a lesser extent the impact of new developments. Occupancy growth continued to increase slightly, and we maintain a positive outlook for further take-up of vacant space across the portfolio given robust market conditions.

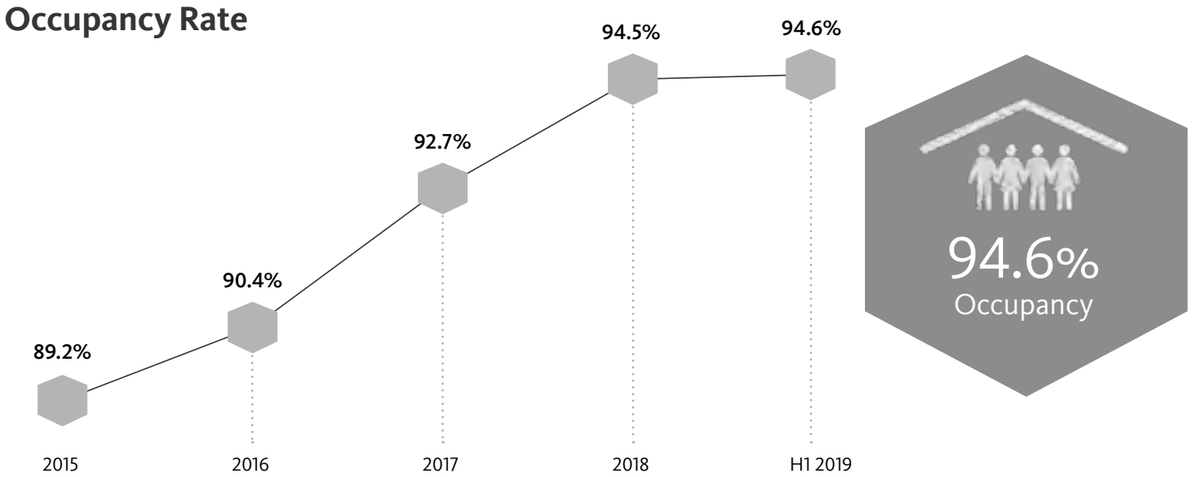
Net Business Income and EBITDA (€ million)



Gross and Net Rental Income (€ million)



Occupancy Rate



Our Group Operates in Four Key Segments

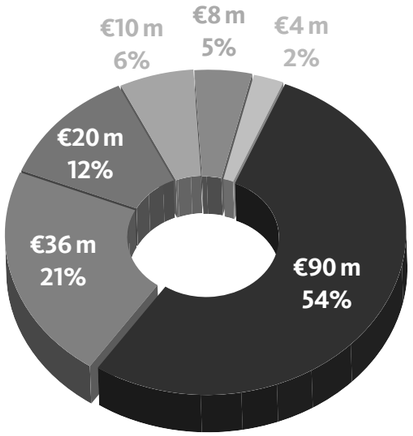
CPIPG's four operating segments are the **Czech Republic, Berlin, Hotels & Resorts,** and our **Complementary Assets Portfolio.** The Czech Republic segment encompasses our retail, office, land bank, residential and other properties. The Berlin segment is comprised of GSG, our office platform in Berlin. Hotels & Resorts includes our congress and convention hotels, city hotels, mountain resorts and other hotels in the CEE region, Switzerland and Italy. Our Complementary Assets Portfolio includes mostly retail and office assets primarily in Hungary and Poland.

Specialised teams locally and in our headquarters work together to optimise the performance of each asset. In each segment, we believe strongly in owning platforms which are able to meet the long-term needs of a diverse range of tenants.

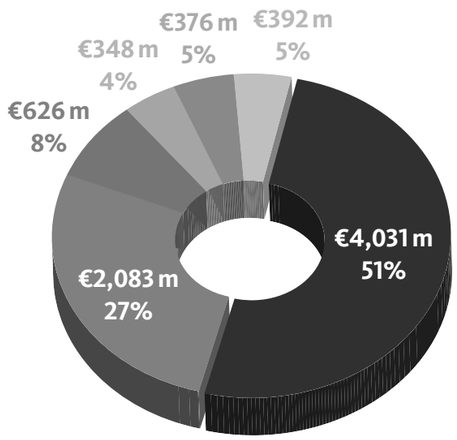
Property Portfolio by Geography (as of 30 June 2019)

Czech Republic | Germany | Hungary | Poland | Other CEE | Other Western Europe

Net business income €168 million



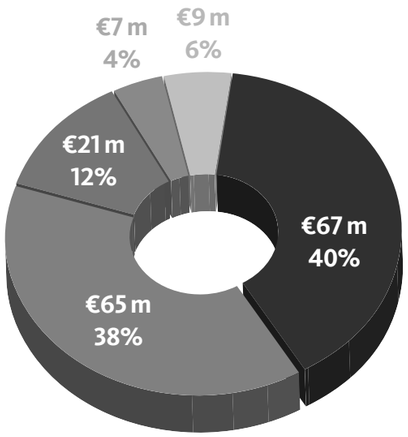
Property portfolio €7,855 million



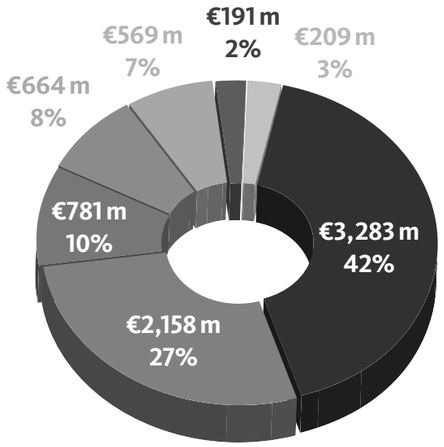
Property Portfolio by Segment (as of 30 June 2019)

Office | Retail | Hotels & Resorts | Residential | Land Bank | Development | Other

Net business income €168 million



Property portfolio €7,855 million



Property Portfolio Detail (as of 30 June 2019)

Country	Sector	€ million	Share of total
Czech Republic		**4,031**	**51.3%**
	Retail	1,612	20.5%
	Office	842	10.7%
	Residential	467	5.9%
	Hotels & Resorts	374	4.8%
	Land Bank	497	6.3%
	Development	73	0.9%
	Other	166	2.1%
Germany		**2,083**	**26.5%**
	Office	1,987	25.3%
	Development	59	0.8%
	Land Bank	32	0.4%
	Other	4	0.1%
Hungary		**626**	**8.0%**
	Office	247	3.1%
	Retail	230	2.9%
	Hotels & Resorts	57	0.7%
	Development	30	0.4%
	Land Bank	23	0.3%
	Other	38	0.5%
Poland		**348**	**4.4%**
	Retail	166	2.1%
	Office	147	1.9%
	Hotels & Resorts	29	0.4%
	Land Bank	7	0.1%
Croatia	Hotels & Resorts	**186**	**2.4%**
France		**117**	**1.5%**
	Residential	106	1.4%
	Development	11	0.1%
Slovakia		**126**	**1.6%**
	Retail	120	1.5%
	Office	6	0.1%
Switzerland	Hotels & Resorts	**75**	**1.0%**
Italy		**55**	**0.7%**
	Hotels & Resorts	38	0.5%
	Development	18	0.2%
Romania		**41**	**0.5%**
	Retail	31	0.4%
	Land Bank	9	0.1%
United Kingdom		**145**	**1.8%**
	Residential	91	1.2%
	Office	54	0.7%
Russia	Hotels & Resorts	**23**	**0.3%**
Total		7,855	100%

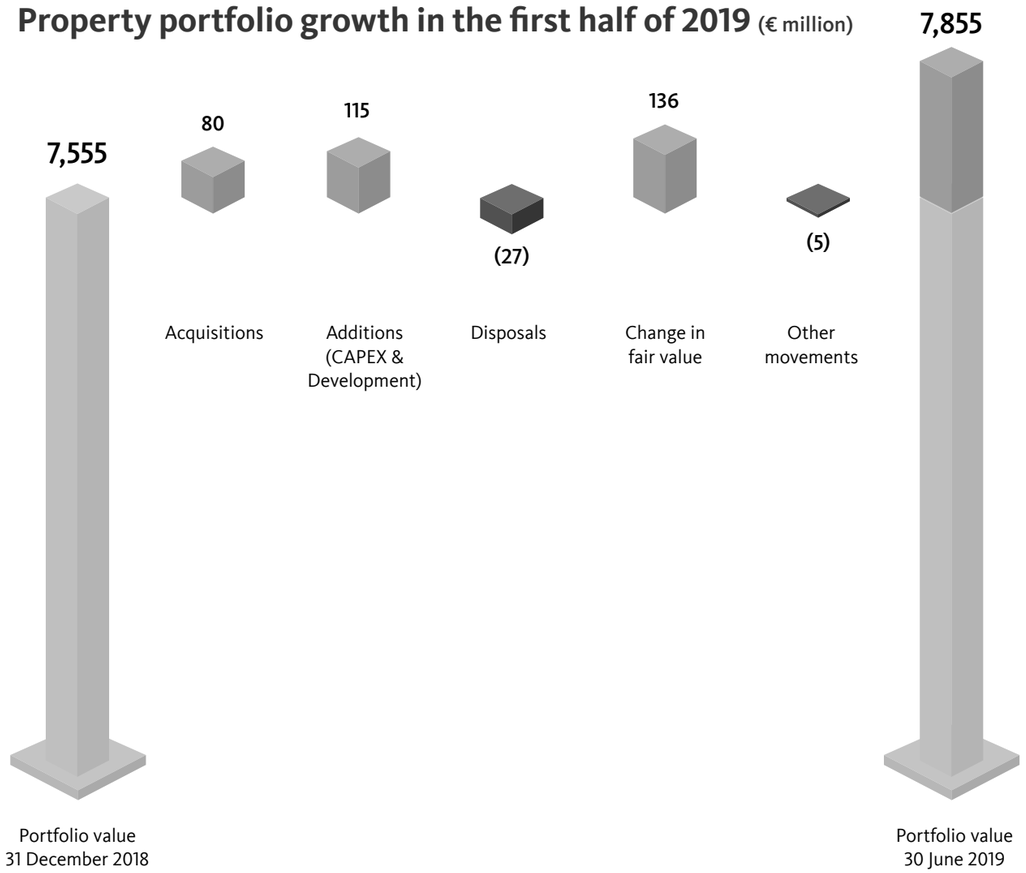
Data disclosed in this report might include rounding difference which resulted from data processing of rounded amounts and percentage rates.

View from Quadrio roof terrace, Prague, Czech Republic

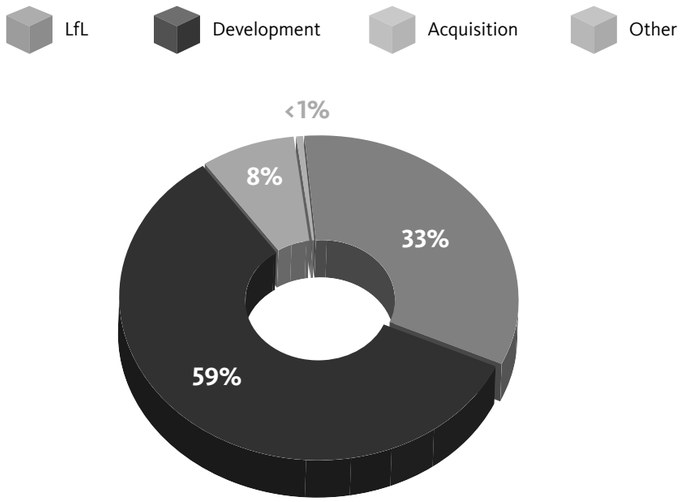
Changes to the total property portfolio value in the first half of 2019 were as follows:

- Acquisitions of **€80 million**, consisting of a property in London and two hotels in Brno and Ostrava, Czech Republic;
- Capital expenditure and development of **€115 million**;
- Disposals of **€27 million**, principally sale of inventories in France and in the Czech Republic;
- Change in fair value of **€136 million**, relating primarily to the Prague office portfolio;
- Other movements include depreciation and other transfers.

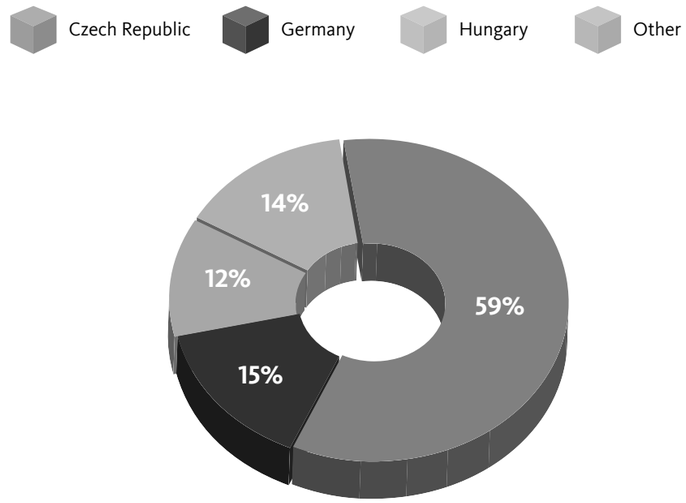
Property portfolio growth in the first half of 2019 (€ million)



Additions by type



Additions by Country



* *LfL represents CAPEX spent on an existing portfolio on a like-for-like basis. Development comprises refurbishment and development projects. Acquisition represents CAPEX spent on properties acquired in 2018 or 2019. Other includes disposals and other transfers.*

ČEZ – BB Centrum, Prague, Czech Republic

Our tenants

The strength of the Group's property portfolio is reflected in the international nature and diversity of our tenant base. Our offices in the Czech Republic host the regional headquarters of ČEZ, Generali, Siemens and others. Our largest tenant (Ahold Delhaize) accounts for 3.0% of gross rental income, while our top 10 tenants represent 14.5% of gross rental income. In Berlin, our unique office platform continues to meet the needs of a wide variety of tenants, including the vibrant technology and creative sectors.

The Group's lease maturity profile is well balanced, with no more than 17% of leases up for renewal in any of upcoming five years, and a WAULT of 3.4 years. While the Group typically prefers lease terms of five to ten years in office and five years in retail, maintaining a slightly shorter WAULT in areas like Berlin has allowed us to capture the benefits of rising market rents.

Our asset management teams work actively with our tenants to renew contracts or arrange new tenants well before the lease maturity. The quality of our tenant base is also reflected in a rental delinquency rate of significantly less than 1%.

Top 10 tenants by rental income

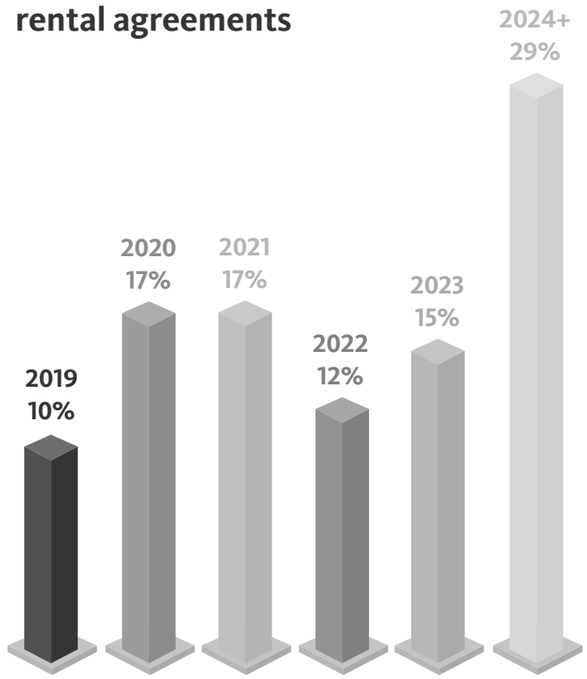
Tenant	€ million	Rent as % of GRI*	WAULT** (years)
Ahold	9.7	3.0%	5.3
TESCO	6.5	2.0%	7.6
ČESKÁ POJIŠŤOVNA	6.4	2.0%	4.3
SIEMENS	4.8	1.5%	8.0
CEZ GROUP	4.7	1.5%	7.8
PENNY	3.5	1.1%	4.9
BILLA	3.3	1.0%	2.6
TAKKO FASHION	2.9	0.9%	2.8
dm	2.8	0.9%	3.5
Continental	2.5	0.8%	9.1
Total	47.2	14.5%	5.7

* *Based on annualized headline rent.*
** *WAULT reflecting the first break option.*

WAULT by Country and Segment

Country	Segment	WAULT (years)
Czech Republic	Retail	3.7
	Office	4.2
Total Czech Republic		**3.4**
Germany	Office	3.1
Total Germany		**3.1**
Hungary	Retail	3.0
	Office	3.3
Total Hungary		**3.2**
Poland	Retail	3.1
	Office	2.6
Total Poland		**2.9**
Slovakia	Retail	6.5
	Office	3.3
Total Slovakia		**6.4**
Total Group		3.4

Maturity profile of fixed rental agreements



Excluding residential properties and reflecting the first break option.

Our Team

CPIPG encourages and empowers its employees to work together towards the Group's success. The property management team believes continuous improvement in customer care is the best way we can contribute to this objective.

Jakub Korf, Director of Property and Facility Management

Miroslav Jánošík, Head of Property Management; Rudolf Kraina, Head of Facility Management; Jakub Korf, Director of Property and Facility Management; Lucie Horáková, Head of Property Finance Management; Kamila Neswedová, Property Manager; Vanda Cepková, Property Finance Manager, Prague, Czech Republic

As one of the largest owners of income-generating real estate in Europe, CPIPG has demonstrated the ability to attract and retain high-quality talent.

CPIPG has strong local teams in each of our regions reporting to the headquarters team in Luxembourg. Although CPIPG has grown in size over the years, the Group has retained the respectful character of a family business. Each employee is motivated and encouraged to develop on a professional and personal level.

Managers are encouraged to give their teams as much responsibility as possible coupled with mentoring and regular feedback. The Group promotes short and long-term training programmes to provide our employees the skills they need to perform their current and future duties optimally. Managers support employees in determining their needs and work together on further training activities.

Wherever possible, the Group allows employees to work remotely and applies a flexible working schedule. The Group respects statutory leave and daily and weekly resting time so that our employees can rejuvenate and lead satisfying personal lives. Healthy and sound relationships represent one of the Group's core values.

Team Spotlight
Property Management

Earlier this year CPIPG announced that we will be taking over the management of our shopping centres in the Czech Republic which were previously managed by third parties. The process will start in January 2020 and is expected to be completed during 2021.

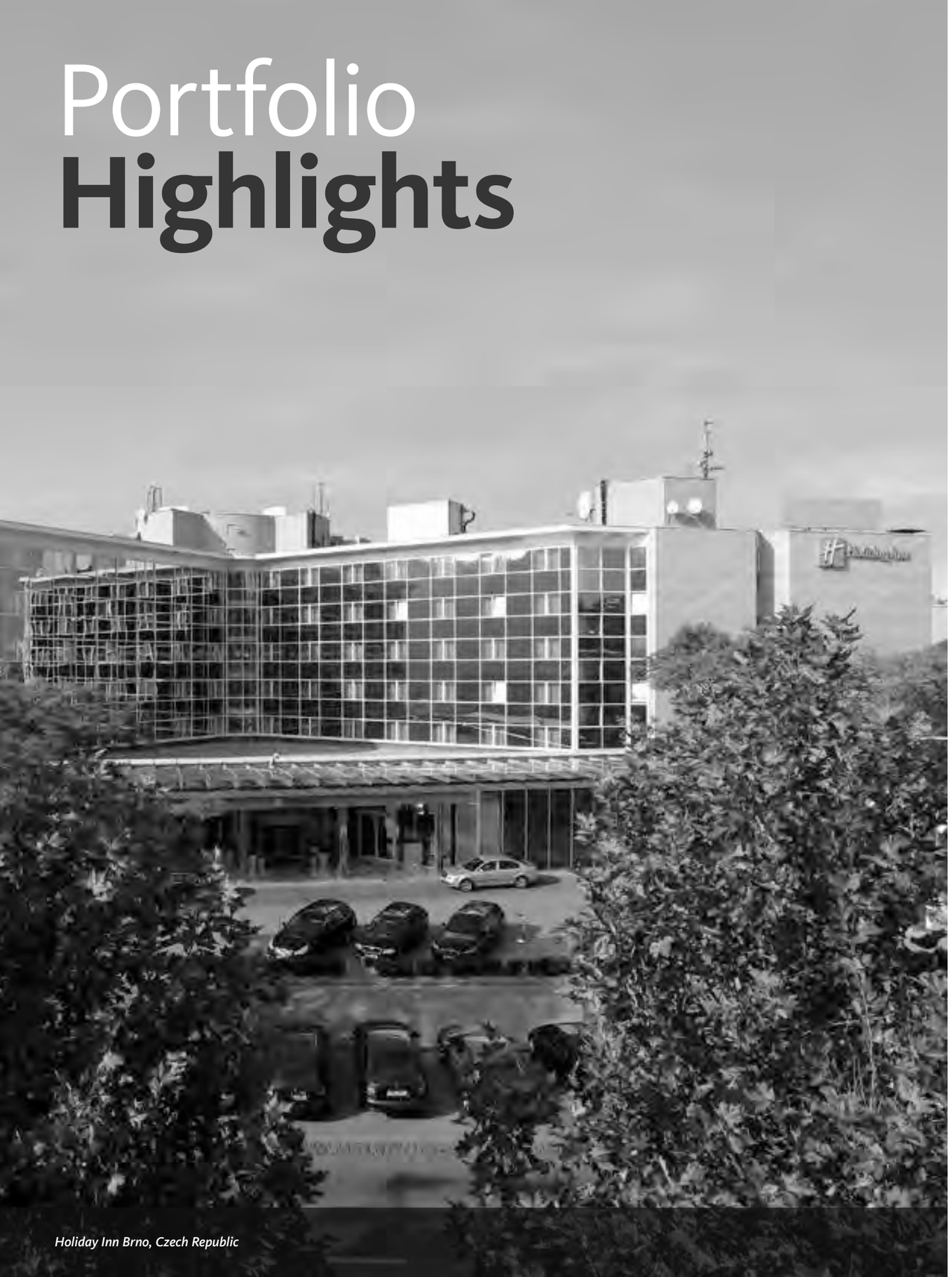
The Group has an in-house property management department to oversee the transition, headed by Jakub Korf, Director of Property and Facility Management in the Czech Republic.

Jakub's team of property management specialists, supported by over 100 head office and local employees, will be closely managing a wide range of services covering tenant relationship and contract management, facility management and maintenance services, as well as finance management such as invoicing.

In-house management will allow CPIPG to provide a more comprehensive and unified set of services to our tenants, leading to increases in operational efficiency and delivering cost savings.

Primary Locations

Portfolio **Highlights**



Holiday Inn Brno, Czech Republic

Selective acquisitions and **successful completion** of developments.

Acquisition of Hotel Park Inn in Ostrava

In February 2019, the Group acquired Hotel Park Inn in Ostrava, Czech Republic. This four-star hotel extends the Group's portfolio and offers 185 modern rooms and six congress halls with capacity for up to 400 people. The hotel was rebranded under the Quality brand and is operated by CPI Hotels.

Acquisition of Hotel Holiday Inn in Brno

In June 2019, the Group entered the hotel market in Brno, the second largest city in the Czech Republic, by acquiring a four star congress hotel Holiday Inn. The hotel offers 200 double rooms and a congress hall with capacity for up to 600 people in a strategic location close to the trade fair and exhibition compound in Brno. This expands the Conference & Convention Centre portfolio of CPI Hotels and is operated under the Holiday Inn brand.

Completion of Mayhouse office in Prague

In May 2019, the Group finished the development of Mayhouse office building in Prague. The property extends the Company's Prague office portfolio by almost 8,000 m² and offers tenants attractive spaces in the city centre.

Completion of new hall at Airport City Logistics Park in Hungary

In April 2019, the Group completed a new 13,000 m² logistics hall in Hungary, expanding upon our existing building to create total warehouse and office space of 55,000 m². The asset was 80% pre-let at opening and reached 85% as of August.

Acquisition of 7 St James's Square in London

In June 2019, the Group acquired a property in the highly sought-after area of St James's Square in London. The building will be held for the long-term and will offer up to 33,000 square feet of GLA for offices.

Corporate **News**

Annual general meeting of shareholders

The annual general meeting of the shareholders of CPIPG was held on 29 May 2019 in Luxembourg (the "AGM"), with approximately 88% of the voting rights present or represented. The AGM approved the statutory and consolidated annual accounts, as well as the allocation of financial results for the financial year ending 31 December 2018. The AGM also granted a discharge to the members of the Company's Board of Directors and the auditor for the performance of their duties during the financial year ending 31 December 2018.

Board composition strengthened by a new independent director

The AGM further resolved to re-appoint the following persons as members of the Company's Board of Directors until the annual general meeting of 2020: Edward Hughes, Philippe Magistretti, Martin Němeček, Tomáš Salajka, Oliver Schlink, Radovan Vítek, and Marie Vítek. Martin Němeček was appointed as the Managing Director (*administrateur délégué*) of the Company.

A new independent Board member, Omar Sattar, was also appointed by the AGM. Mr. Sattar is a seasoned property professional and a RICS qualified Chartered Surveyor with over 25 years of experience. Omar is from the UK, but has spent most of his career working in the CEE region in roles such as the Managing Director of Colliers International and DTZ Zadelhoff in the Czech Republic. Mr. Sattar has also became a member of the Company's Audit Committee and Remuneration and Related Party Transaction Committee, further strengthening the role of independent directors within the Company.

Change of the auditor

CPIPG started a process to tender the auditor. The AGM held on 29 May 2019 did not approve KPMG as auditor for the year 2019. KPMG has served as auditor of CPIPG since 2013.

Following the completion of a tender process, the Company's Audit Committee recommended an appointment of Ernst & Young ("EY") as CPIPG's new auditor for the financial year commencing on 1 January 2019. The appointment of EY as an auditor will be proposed at the general meeting of the shareholders, expected to be held in October 2019.

Approval of share buy-back programme and repurchase of shares

The AGM approved the terms and conditions of a share buy-back programme enabling CPIPG to repurchase up to 1,000,000,000 shares of CPIPG for a purchase price comprised in the range between one eurocent (€0.01) and five Euros (€5) for a period of five years from the date of the AGM.

On 1 July 2019, CPIPG acquired a total of 362,152,327 shares for the proposed acquisition price of €0.30 per share (representing a total repurchase cost of about €108.6 million). Shareholders participating in the repurchase were unrelated to the Company's primary shareholder, Mr. Radovan Vítek.

The Company now directly holds 362,152,327 of its own shares, which represent 4.02% of the Company's share capital and voting rights. In addition, the Company's indirect subsidiary CPI FIM SA holds 252,302,248 shares issued by the Company, which represent 2.80% of the Company's share capital and voting rights.

Kingstown dispute in the United States

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 Vítek. 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. Moreover, the basis of claims brought against CPIPG in the United States are similar to civil claims unsuccessfully pursued by Kingstown companies against CPIPG in Luxembourg since 2015.

CPIPG intends to vigorously contest the claims and has retained an international law firm, Hogan Lovells, with an experienced team of litigators and significant experience in RICO cases.

CPIPG becomes member of the Czech Green Building Council

In March 2019, CPIPG has expanded its commitment to corporate social responsibility by becoming a member of the Czech Green Building Council. The membership will strengthen the Group's efforts in improving the quality of life experienced in its buildings and beyond. As a member, we will be able to actively participate in various working groups that seek out innovative solutions in the efficient administration of sustainable properties. We will also gain access to information on legislative affairs and the transposition of EU law across the whole region.

Financing activities

Senior unsecured financings

During the first half of 2019, CPIPG issued senior unsecured bonds in Hong Kong Dollars and US Dollars totalling €394 million equivalent under CPIPG's EMTN programme. All notes are rated Baa2 (stable) by Moody's and BBB (stable) by Standard & Poor's and proceeds were converted into Euros through cross-currency swaps.

In March 2019, the Group also completed Schuldschein loans for €170 million. Terms and conditions of the Schuldschein are fully aligned with CPIPG's EMTN programme.

In July 2019, we increased the size of the existing US Dollar bond by €90 million equivalent; proceeds were swapped into Euros.

Revolving credit facility

In March 2019, CPIPG signed a €510 million three-year unsecured revolving credit facility, which replaced the Company's €150 and €80 million facilities signed in 2018. All nine lenders of 2018 facilities increased and extended their commitments, while Goldman Sachs and Bank of China also joined the facility.

Successful issuance of undated subordinated ("hybrid") notes

In April 2019, CPIPG issued €550 million of undated 4.875% fixed rate resettable subordinated notes (the "Hybrid Notes"). The Hybrid Notes have no fixed maturity date and are callable by CPIPG from 16 October 2025. The Hybrid Notes were issued under CPIPG's EMTN programme, which was increased to €5 billion on 8 April 2019. The Hybrid Notes will be accounted as equity under IFRS and receive 50% equity credit treatment from Moody's and S&P.

Financial policy update

In keeping with the Group's objective to achieve "high BBB" credit ratings, CPIPG decided to tighten the original financial policy guidance which was first communicated to the market in May 2018. The original guidance included a net loan-to-value (LTV) ratio pf 45% or below, and a net interest coverage ratio (ICR) of 3x or above.

CPIPG now targets a net LTV of 40% or below in the normal course of business. In the case of acquisitions with high strategic merit, the Group may consider a net LTV up to 45% on a temporary basis. The Group has also revised the ICR target to 4x or above and aims to retain 50–100% of FFO annually. In addition, CPIPG reiterates its commitment to maintaining a high level of unencumbered assets and substantial levels of liquidity.

Strengthening

our *corporate governance*

to support our funding activities and **solidify**

our reputation as a *leader in our region.*

Economic Review

Mamaison Residence Izabella Budapest, Hungary

Europe

The EU economy continued to expand in the first half of 2019, with the EU28 average GDP growth rate reaching 1.3% in Q2, partly due to a number of temporary factors and fiscal policy measures, which boosted household disposable income in several Member States.

On a quarterly basis, growth lost momentum in the second quarter, slowing from 0.5% in Q1 to 0.2% in Q2, as external factors including global trade tensions and significant policy uncertainty have begun to bite, particularly affecting the manufacturing sector. The manufacturing PMI was weak in Q2 2019, and a sharp downturn in industry confidence caused economic sentiment to fall to a near three-year low in June.

However, weakness in the manufacturing sector has been to an extent offset by relatively robust services sector activity, with the services business activity index rising to a seven-month high in June. In addition, the unemployment rate fell to a new low in May.

The forecast for Euro area GDP growth in 2019 remains unchanged at 1.2%, while the forecast for 2020 has been lowered slightly to 1.4% following the more moderate pace expected in the rest of this year. The GDP forecast for the EU remains unchanged at 1.4% in 2019 and 1.6% in 2020.

The average inflation rate in the EU remained 1.6% in June 2019, unchanged from Q1 2019 and decreasing by 0.1% versus the final quarter of 2018. Inflation is forecast to remain below the ECB's target of under but close to 2.0% in the coming quarters. In light of persistently below-target inflation, combined with geopolitical and event risk, the ECB has adopted a more dovish tone in recent weeks and months, potentially hinting at a renewal of its quantitative easing programme, subject to the strengths of data in the coming months and quarters.

Potential risks to the outlook stem from increasingly protectionist sentiment globally, continued slowdown in the manufacturing sector (especially the German automotive sector), trade tensions between the US and China, as well as potential political event risk due to uncertainty around Brexit, and geopolitical tensions in the Middle-East, which could impact oil prices.

Sources: European Commission, Focus Economics

Key macro figures for group core economies

	Annual GDP growth (%) *Q2 2019*	Annual inflation rate (%) *June 2019*	Unemployment rate (%) *June 2019*	Gross public debt (% of GDP) *Q1 2019*
Germany	0.4	1.5	3.1	61.0
Czech Republic	2.7	2.4	1.9	34.0
Hungary	5.1	3.4	3.4	48.9
United Kingdom	1.2	2.0	3.9	85.2
Poland	4.1	2.3	3.8	49.1
EU average	1.3	1.6	6.3	80.7

Sources: Eurostat, Federal Statistical Office (Destatis), Czech National Bank, Czech Statistical Office, European Central Bank, Ministry of Finance of the Czech Republic, FocusEconomics, Office for National Statistics

The table uses June 2019 GDP growth, inflation rates and unemployment rates. Q1 2019 data on Gross public debt as a percentage of GDP were used due to data limitations.

Czech Republic

The Czech Republic maintained strong economic growth momentum at the start of the year, with an annual increase in GDP of 2.7% at the end of the first half of 2019, in line with the annual growth rate at the end of 2018. The quarterly increase of 0.6% in Q2 was in line with the growth rate in Q1. Nevertheless, the rate of economic growth is expected to decline moderately this year, weighed on by expectations of increasingly subdued export demand and investment levels. According to the survey of macroeconomic forecasts conducted by the Ministry of Finance, GDP is expected to grow by 2.5% for the full year.

Inflation edged down from 2.9% in May to 2.7% in June. As a result, it moved closer to the midpoint of the Central Bank's 1.0%–3.0% tolerance range. Annual average inflation held steady at May's 2.4% in June.

Despite expectations for a modest slowdown in growth, the majority of economic indicators remain very positive. The Czech Republic reached an unemployment rate of 1.9% at the end of June, the lowest of all EU states. The tightness of the labour market supported strong nominal wage growth of 7.4% in the first quarter compared to the end of 2018, which in turn has boosted consumer confidence and spending. Consumer Spending increased to 571.97 CZK billion in the first quarter of 2019 from 563.20 CZK billion in the fourth quarter of 2018, while the Czech consumer confidence indicator rose to 105.1 in June, the strongest reading in five months.

In terms of industrial activity, exports climbed 8.8% percent from a year earlier in May of 2019. Among major trade partners, exports rose to Germany (7.7%), Slovakia (5.1%), Poland (9.5%) and France (8.7%). Year on year increase in industrial production also increased by 3.2% in May 2019. However, business confidence has deteriorated throughout the first half of the year across the majority of industrial sectors, falling to 93.1 at the end of June, largely reflective of concerns about the slowing of economic growth and external challenges.

However, the story is much more positive in services, where the business confidence balance indicator is at the strongest level of all observed sectors, at +33 points. In Q2 2019, sales in services adjusted for calendar effects increased at constant prices by 1.4% on a year on-year basis, while year-on-year sales in the retail trade increased by 4.6% in June 2019.

The Czech Republic has maintained low levels of government debt relative to GDP, being the fifth lowest in the EU. The Czech National Bank remains focused on fiscal stability and manages the national currency carefully to maintain close parity with the Euro. The Czech Koruna has remained stable against the Euro in the first six months of the year, despite a 25bps interest rate increase by the central bank and diverging inflation expectations compared to the Euro area. The Czech National Bank predicts a modest strengthening of the Koruna against the Euro for the remainder of the year.

Potential challenges to the economic outlook stem primarily from the critical external sector, in particular challenges in Germany's automobile sector, dependency on the level of exports and the inflow of foreign investment in the context of a slowdown across continental Europe, as well as the shortage of labour leading to high wage inflation.

Sources: Focus Economics, Czech Statistical Office, Eurostat, Trading Economics, Central European Financial Observer.eu

Central Tower, Warsaw, Poland

Germany

The German economy achieved positive albeit modest annual GDP growth of 0.4% in Q2 2019. While the economy continues to grow, the rate of growth has begun to slow primarily due to external factors impacting the domestic economy, namely challenges in the automotive sector and lingering global trade tensions impacting business confidence and investment. As a result, the government has downgraded GDP growth forecasts for the year – now forecasting 0.5% growth this year and 1.5% in 2020. Nevertheless, domestic fundamentals remain relatively positive. Retail sales recovered in April–May as the labour market remained tight, with an unemployment rate of 3.1% and inflation at 1.5%, both at the end of June. In addition, the services PMI increased in the second quarter over the prior quarter, somewhat offsetting the downturn in industrial activity.

Despite the cooling of the German economy as a whole, Berlin specifically continues to demonstrate very strong economic growth, having achieved annual GDP growth of 3.1% in 2018 compared to 1.4% nationally.

With just under 3.7 million inhabitants and almost 1.5 million employees contributing to social insurance, Berlin is the largest and most densely populated city in Germany. At €73,400, the GDP per employed person is still 3% below the national average and well below the figures for the other major German cities. For historical reasons, Berlin is in the process of catching up economically. Both the GDP and the number of employees have been growing at an above-average rate for years.

While the unemployment rate in Berlin was 7.8% at the end of June 2019, significantly higher than the national figure of 3.1% as of June 2019, this is gradually decreasing given steady growth in total employment across the vast majority of sectors, together with consistent growth in new job creation. According to the most recent data available, 10,300 jobs were newly reported in Berlin in February 2019, an increase of 28% compared to the same month last year. In addition, in 2018, Berlin recorded the highest number of new start-ups per ten thousand inhabitants of all cities and regions in Germany.

Sources: Berlin.de – Senate Department for Economics, Energy and Business Administration Department, Eurostat, European Commission, Cushman & Wakefield, CBRE

Other Central and Eastern Europe

All CEE countries achieved GDP growth rates above the EU28 average of 1.3% in the second quarter of 2019. In fact, Poland, Hungary and Croatia ranked as the top three countries in the region in terms of GDP growth. As in previous years, CEE countries benefit from strong fundamentals including young and well-educated labour forces, low levels of unemployment, increasing domestic consumption and strong levels of local business activity and foreign investment.

Regional growth is seen moderating this year across CEE, due to intensifying capacity constraints and a weakening EU economy. However, activity will remain solid, with domestic demand firmly in the driver's seat, bolstered by sustained inflows of EU funds and strong wage growth.

Regional inflation inched down to 2.8% in June from 2.9% in May. Inflation decreased in most economies except for Poland and Slovenia. Inflation has been trending up in some of the larger economies in the region since the start of the year, notably in Hungary, Poland and Romania, driven in part by rising oil prices. In Poland, rising food prices also drove up inflation.

Monetary policy tightening has paused in the region and fiscal policy has loosened in 2019, given central banks are influenced by the ECB's increasingly dovish stance, and against a more challenging external backdrop. CEE currencies have been largely stable against the Euro, expect for Hungary's Forint, which lost some ground due to the central bank's decision to leave rates unchanged. While weak data from the Eurozone weighed on the Euro, Mario Draghi's better-than-expected assessment of the economy provided some support. Robust GDP growth is expected to support CEE currencies this year.

In Poland, economic growth lost some steam in the second quarter, after both domestic demand and the external sector powered a strong showing in the first quarter. However, annualised GDP growth remained robust at 4.1%. While business sentiment worsened in the second quarter, consumer sentiment remains robust. Nominal retail sales rose 5.3% year-on-year in June, with rises across multiple categories. Unemployment was down to 3.8% at the end of June 2019, indicating tight labour conditions, supporting consumer confidence and spending.

In Hungary, the economy advanced 5.1% year-on-year in the second quarter of 2019, following a 5.2% rise in the previous period. The economy lost some traction in the second quarter as export growth softened amid weak economic activity in the Euro area, together with a reduction in business sentiment. However, consumer activity remained positive – the unemployment rate decreased to an all-time low of 3.4% in June 2019, which, together with increasing retail sales in each quarter, and increasing consumer confidence since January, paints a relatively strong picture.

Sources: Emerging-Europe, Focus-Economics, Trading Economics

United Kingdom

The UK economy grew by 1.2% year-on-year in the second quarter of 2019, although it fell into negative territory on a quarterly basis, with quarter-on-quarter GDP contraction of -0.2%. Annual inflation at the end of June stood at 2%, in line with the Bank of England's target of 2%. However, wage growth across the country remains relatively flat, which, combined with weak economic growth and Brexit uncertainty, has led to the Bank of England keeping the base interest rate on hold at 0.75% since August 2018, and expected to remain flat for the remainder of 2019.

The uncertainty surrounding Brexit has hampered investment and business confidence primarily, a trend expected to continue for the coming months until a resolution has been reached. With the appointment of Boris Johnson as Prime Minister in July, the likelihood of the UK leaving the EU without a deal at the end of October has increased significantly. The impact of a disorderly exit is expected to have negative effects on the UK and its close European trading partners, especially in the short-term. The impact on Europe would likely be felt most acutely in industrial sectors, for example Germany's automotive sector, which is already showing signs of weakness so far this year.

The Group's exposure to a disorderly UK exit from the EU is expected to be limited. Direct exposure to the UK is negligible, with UK assets accounting for less than 2% of the Group's property portfolio by value and cross-border trade not being a significant factor for the Group. The indirect effects of such a disorderly exit, based on the potential economic impact on our core geographies, is not expected to have a meaningful knock-on effect on the specific real estate markets and segments the Group operates in, where we believe our assets are largely shielded from potential spill-over effects. Moreover, Brexit could bring new opportunities for corporates previously headquartered or with significant presence in the UK to other European states.

Sources: Office for National Statistics, PWC

Business Segments

The group operates in four segments: **Czech Republic, Berlin, Hotels & Resorts and our Complementary Assets Portfolio.** In each segment we have a market-leading platform and benefit from scale, experience and active asset management.

Tomáš Salajka
Director of Acquisitions,
Asset Management & Sales

Property Portfolio
€3.7 bn
H1 Net Business Income
€80 m

Czech Republic

Largest owner of real estate nationally

#1 retail owner nationally

#1 office owner in Prague

Berlin

Largest owner of commercial property in Berlin

#1 office landlord in Berlin

Nearly 1 million square metres of GLA

Property Portfolio
€2.1 bn
H1 Net Business Income
€36 m

Property Portfolio
€0.8 bn
H1 Net Business Income
€21 m

Hotels & Resorts

Regional leader

#1 congress & convention hotel owner in the Czech Republic

Resorts in Hvar, Croatia and Crans-Montana, Switzerland

Complementary Assets

Strong platforms in Hungary and Poland

Long-term presence in Slovakia

Western European assets

Property Portfolio
€1.3 bn
H1 Net Business Income
€31 m

Czech Republic

Our history in the Czech Republic dates back to the founding of Czech Property Investments, a.s. in 1991 by the Group's primary shareholder, Radovan Vítek. This is CPIPG's largest market, where our experience and local expertise are unparalleled.

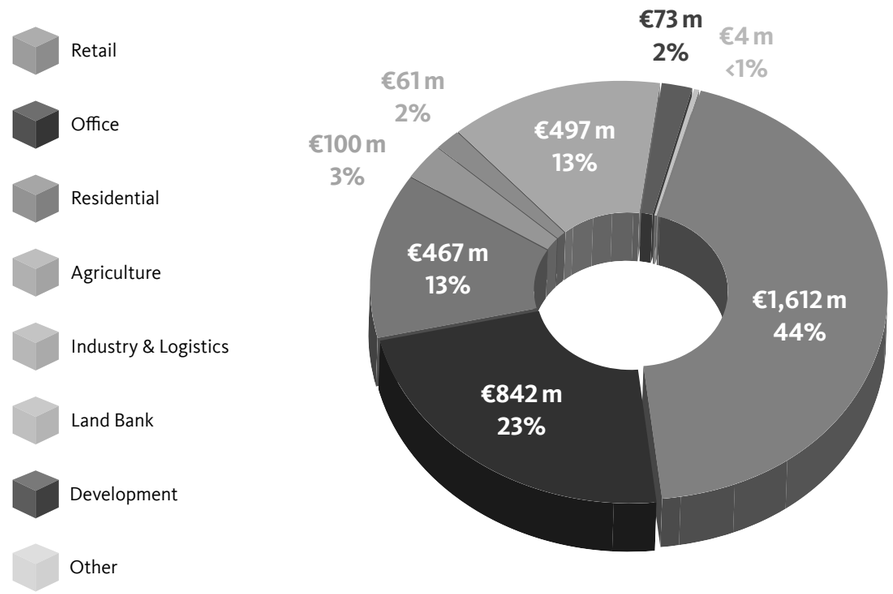
The Group owns the largest real estate portfolio in the Czech Republic, with leading market positions in office, retail and residential properties. We actively manage our portfolio, work closely with our tenants, and have a long history in the local market.

In the office segment, CPIPG is focused on Prague where we have a #1 position including headquarters of prominent multinational companies. In the retail segment, we hold a #1 position in the Czech Republic, with dominant shopping centres in regional cities of the Czech Republic, and high-quality, well-located retail assets in Prague. The Group is also the second largest residential landlord in the Czech Republic and owns hotels, which are reported as part of our "Hotels & Resorts" segment.

- Over 1.8 million square metres of GLA
- #1 retail landlord in the Czech Republic
- #1 office landlord in Prague
- #2 residential landlord in the Czech Republic
- 14% market share in Czech shopping centres
- 6% market share in the Prague office market
- High-quality portfolio with an average age of 14 years

Zdeněk Havelka
Executive Director

Czech Property Portfolio by Sector



Note: shopping centre market share based on centres with GLA above 5,000 m².
The Group's hotels in the Czech Republic are reported as part of the "Hotels & Resorts" segment.

Segment **Summary**

The portfolio value of the Czech Republic segment rose from €3.5 billion to **€3.7 billion** compared to the end of 2018. We completed the Mayhouse office development in Prague, and to a lesser extent also achieved modest increases in valuations in our Prague office portfolio.

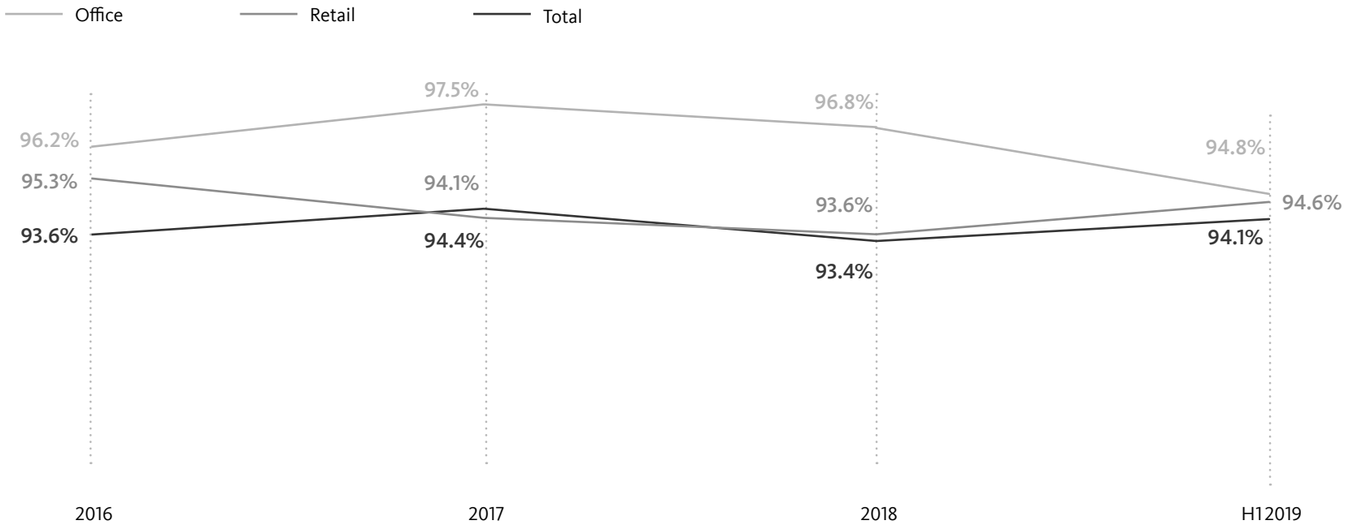
Occupancy across all segments also rose from 93.4% to **94.1%**, driven by increases in our retail shopping centre portfolio, as well as a very strong increase in our residential portfolio. Occupancy in the office portfolio declined slightly due to temporary factors, which we expect to reverse in the second half.

Growth in net rental income was **2.3%** in the first half of 2019, reflecting the stability of rents across the portfolio. Excluding exceptional factors such as the sale of the Modřanská office property in the second half of 2018, as well as higher refurbishment and fit-out costs in retail, growth would have been even stronger.

The outlook remains positive. The market for prime, well located offices in Prague remains very strong. In retail, despite sectoral challenges in many other European markets, our shopping centres are enjoying better footfall and tenant sales growth than ever, achieving growth of **6.5%** and **9.1%** in the first half respectively.

Mayhouse, Prague, Czech Republic

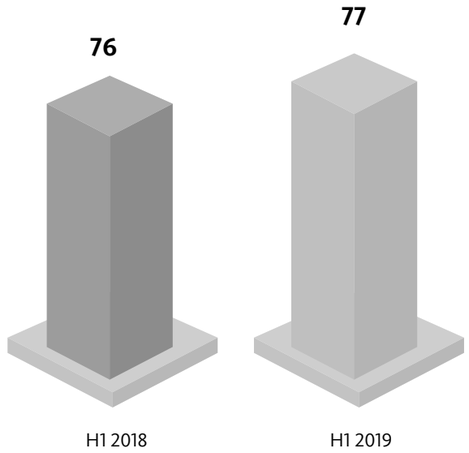
Occupancy Rate (based on Estimated Rental Value)



Increase in tenant sales

Increase in footfall

Net Rental Income (€ million)



	Czech Republic (as at 30 June 2019)					Czech Republic (as at 31 December 2018)				
	PP value (€ million)	Occupancy (%)	GLA (m²)	Land area (m²)	No. of properties	PP value (€ million)	Occupancy (%)	GLA (m²)	Land area (m²)	No. of properties
Retail	**1,612**	**94.6%**	**673,000**	**–**	**181**	1,584	93.6%	672,000	–	182
Office	**842**	**94.8%**	**312,000**	**–**	**25**	756	96.8%	306,000	–	24
Residential	**467**	**90.0%**	**745,000**	**–**	**–**	452	85.7%	741,000	–	–
Agriculture	**100**	**–**	**–**	**223 320 000***	**–**	99	–	–	223,320,000*	–
Industry & logistics	**61**	**92.6%**	**83,000**	**–**	**12**	49	91.8%	83,000	–	12
Land Bank	**497**	**–**	**–**	**19,483,000**	**–**	500	–	–	19,585,000	–
Development	**73**	**–**	**–**	**–**	**8**	57	–	–	–	7
Other	**4**	**–**	**–**	**–**	**–**	4	–	–	–	–
Total	**3,657**	**94.1%**	**1,814,000**	**242,803,000**	**226**	**3,502**	**93.4%**	**1,802,000**	**242,905,000**	**225**

* *Includes farmland operated, but not owned by the Group.*

Top **Assets**

in the Czech Republic (outside of Prague)

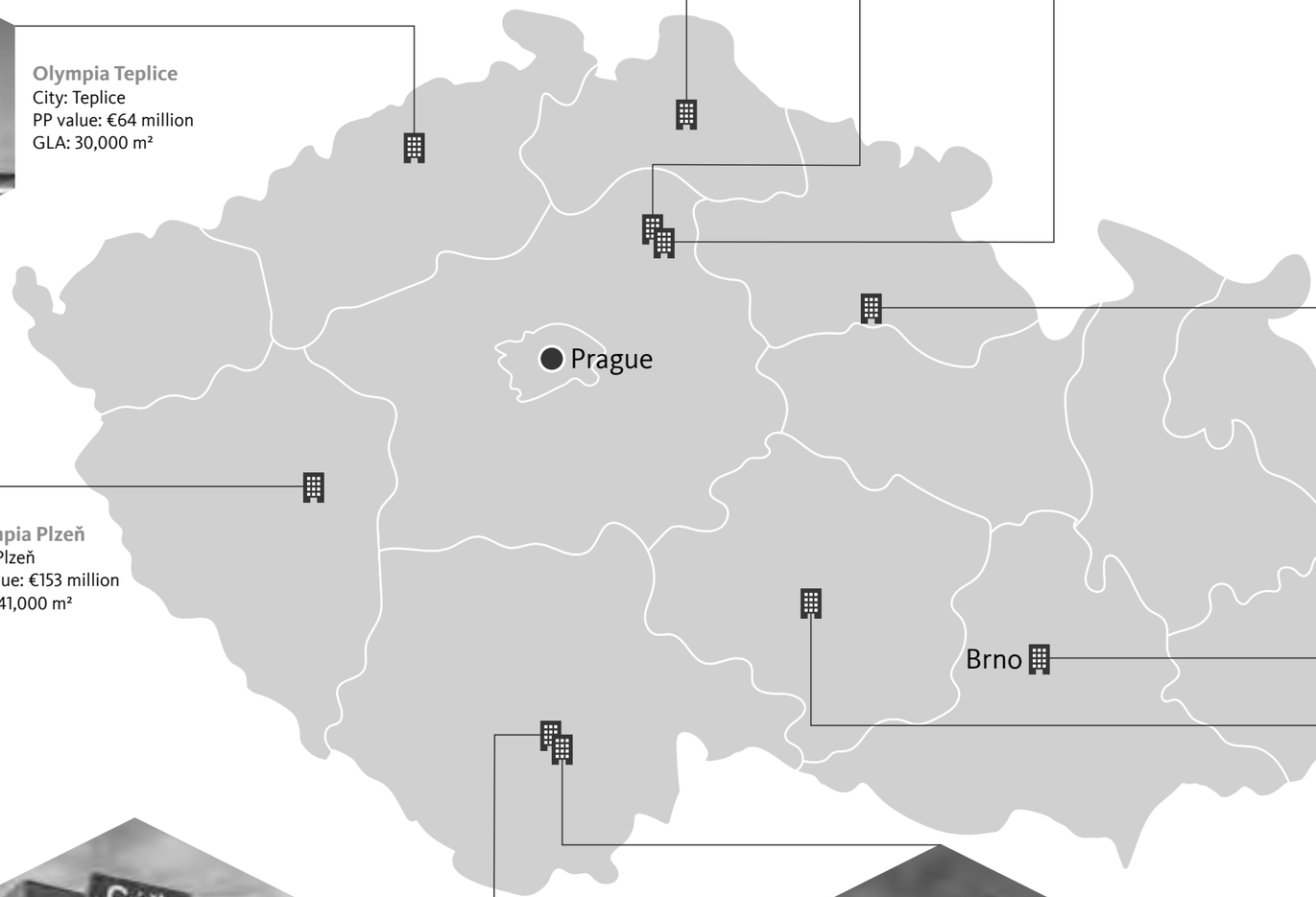
Bondy
City: Mladá Boleslav
PP value: €62 million
GLA: 21,000 m²

Olympia Mladá Boleslav
City: Mladá Boleslav
PP value: €58 million
GLA: 23,000 m²

Nisa
City: Liberec
PP value: €103 million
GLA: 50,000 m²

Olympia Teplice
City: Teplice
PP value: €64 million
GLA: 30,000 m²

Futurum Hradec Králové
City: Hradec Králové
PP value: €130 million
GLA: 39,000 m²



Olympia Plzeň
City: Plzeň
PP value: €153 million
GLA: 41,000 m²

Královo Pole
City: Brno
PP value: €67 million
GLA: 27,000 m²

Géčko
City: České Budějovice
PP value: €33 million
GLA: 11,000 m²

IGY
City: České Budějovice
PP value: €69 million
GLA: 25,000 m²

Citypark
City: Jihlava
PP value: €117 million
GLA: 29,000 m²

Top **Assets**

in Prague

Office
Hotel
Shopping Centre

1 Hradčanská Office Centre
2 Clarion Hotel Prague Old Town
3 Buddha-Bar Hotel Prague
4 Mamaison Hotel Riverside Prague

Longin Centre
PP value: €32 million
GLA: 10,000 m²

Quadrio
PP value: €244 million
GLA: 25,000 m²

Tokovo
PP value: €38 million
GLA: 22,000 m²

Shopping Centre Fénix
PP value: €53 million
GLA: 14,000 m²

Clarion Congress Hotel Prague
PP value: €99 million
Hotel beds: 1,114

Palác Archa
PP value: €60 million
GLA: 22,000 m²

City West
PP value: €78 million
GLA: 29,000 m²

Zlatý Anděl
PP value: €143 million
GLA: 21,000 m²

Generali / Česká Pojišťovna
PP value: €89 million
GLA: 37,000 m²

Luxembourg Plaza
PP value: €71 million
GLA: 23,000 m²

Courtyard by Marriott Prague City
PP value: €24 million
Hotel beds: 322

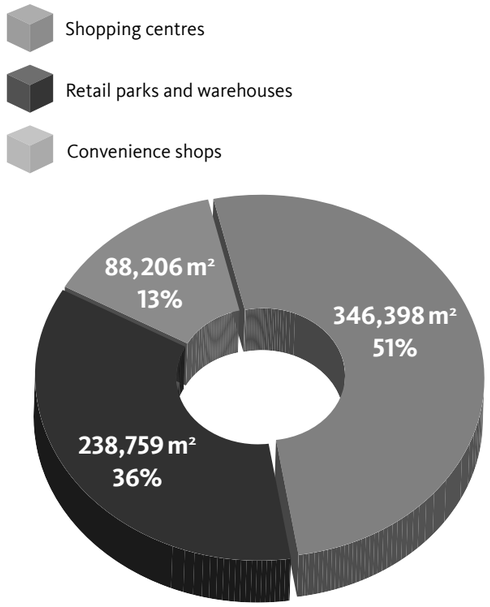
BB Centrum
PP value: €74 million
GLA: 16,000 m²

Libeň
Vysočany
Holešovice
Bubenská 1
Hradčany
Meteor Centre Office Park
Žižkov
Hotel Fortuna City
Strašnice
Mamaison Residence Belgická
Vinohrady
Řepy
Hotel Fortuna West
Smíchov
Nusle
Mayhouse
Michle
Stodůlky

Retail Properties

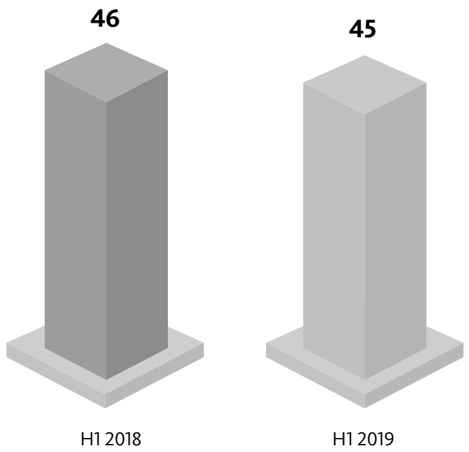
IGY Shopping Centre, České Budějovice, Czech Republic

Retail assets by type (GLA)



Retail parks are multi-store assets with no common areas/ common indoor space; retail warehouses are stand-alone retail assets. Convenience shops include small retail assets (i.e., individual shops).

Net Rental Income – Retail
(€ million)



Focused on regionally dominant shopping centres and retail parks

Footfall in our shopping centres increased by **6.5%** to **37.1 million** in the first half of 2019 compared to 34.8 million in the prior year. Total sales achieved by our tenants also increased by **9.1%** to **CZK 6.7 billion**, from CZK 6.1 billion in the first half of 2018. Footfall and tenant sales increased in all shopping centres apart from Citypark Jihlava, which is currently undergoing extensive refurbishment, due for completion in the coming months.

Occupancy in our retail portfolio improved to **94.6%** from 93.6% at the end of 2018, following strong leasing performance.

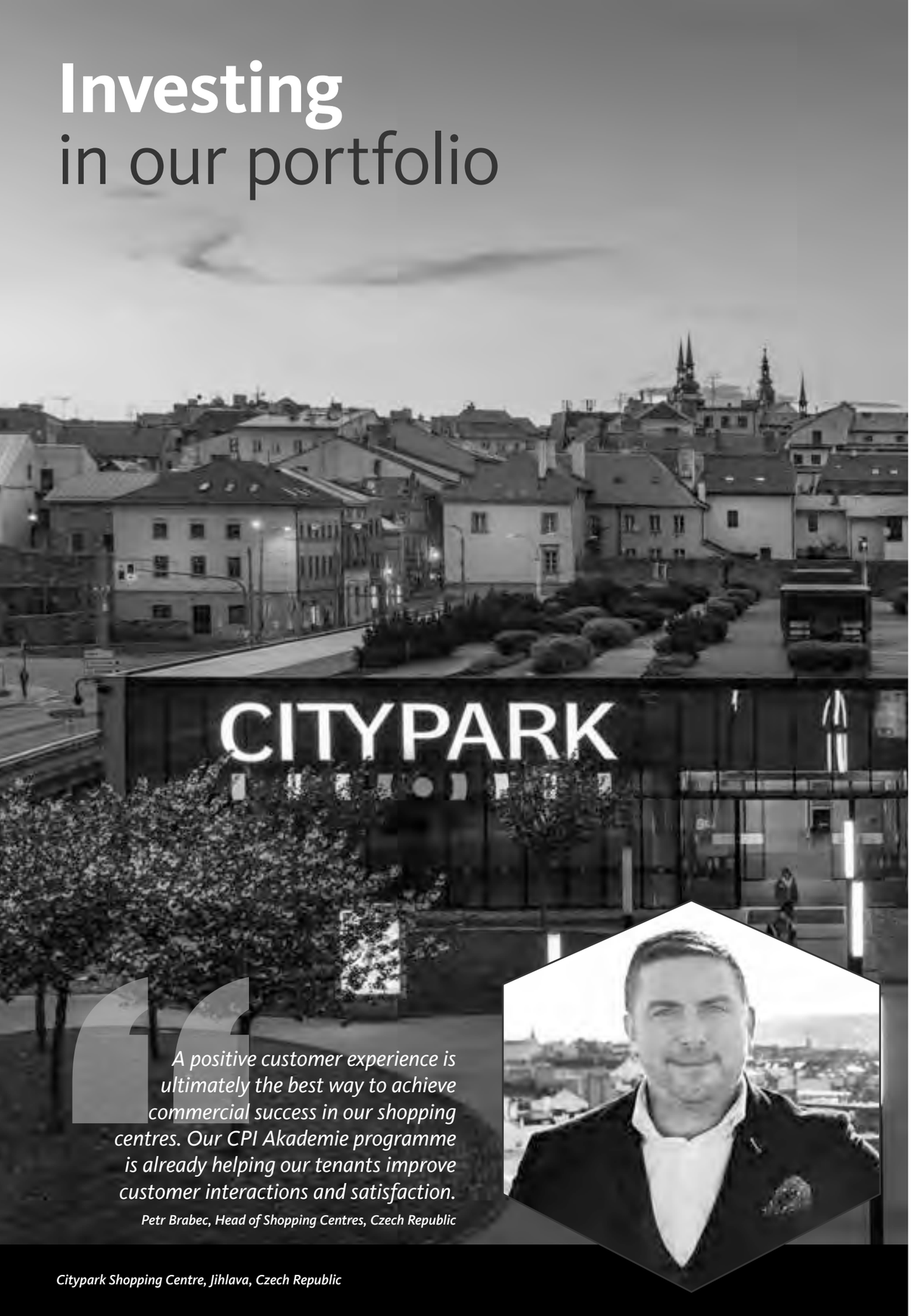
In our shopping centres, a record number of retailers extended their leases or entered into new contracts. In the first six months of the year, we concluded 50 new contracts in respect of new tenant relationships or existing tenant relocations. In addition, we extended an additional 121 lease contracts. We have also agreed on a deal with LPP Group for the bulk renewal of ten lease contracts across more than 15,000 m² of space in our shopping centres. Nine out of the ten contracts have already been signed.

Our retail parks continue to demonstrate resilient, stable performance, with occupancy close to 100% across the portfolio. We renewed or extended 17 leases during the period, with an average extension of lease maturities by six years. 5+ year lease contracts were signed with new tenants e.g. Möbelix, as well as renewals of leases with existing tenants such as Planeo and Jysk, where we increased WALTs and rent levels.

Net rental income achieved overall in the Czech retail segment decreased slightly to €44.6 million from €45.6 million in the prior year. This was largely due to the impact of asset sales at the end of 2018, together with higher refurbishment and fit-out costs. Excluding the impact of asset sales alone, growth of net rental income would have increased slightly.

	Retail (as at 30 June 2019)				Retail (as at 31 December 2018)			
	PP value (€ m)	Occupancy (%)	GLA (m²)	No. of properties	PP value (€ m)	Occupancy (%)	GLA (m²)	No. of properties
Prague	**354**	**94.2%**	**94,000**	**38**	349	94.5%	94,000	38
Major cities	**908**	**93.6%**	**347,000**	**27**	895	93.1%	346,000	27
Other	**350**	**97.2%**	**232,000**	**116**	341	93.9%	232,000	117
Total	**1,612**	**94.6%**	**673,000**	**181**	**1,584**	**93.6%**	**672,000**	**182**

Investing in our portfolio



A positive customer experience is ultimately the best way to achieve commercial success in our shopping centres. Our CPI Akademie programme is already helping our tenants improve customer interactions and satisfaction.

Petr Brabec, Head of Shopping Centres, Czech Republic

Citypark Shopping Centre, Jihlava, Czech Republic

Some of the Group's shopping centres are currently undergoing extensive refurbishment aimed at reviving the premises and making the shopping experience more enjoyable for customers.

Spektrum redevelopment, Prague-Čestlice, Czech Republic

Olympia Teplice

Refurbishment works are ongoing and due for completion in March 2020.

Improvements are already yielding excellent results, with significant increases in footfall of **13%** in the first half of the year, as well as **21%** in June. Tenant sales growth reached a record of **10%** and is still increasing.

Additional upside potential remains, given that over 10% of GLA is still under refurbishment.

Citypark Jihlava

An extensive refurbishment programme commenced in April, which is expected to conclude in the second half of the year.

Once complete, shoppers will be provided with a modern combined retail and entertainment offering, a selection of new brands, as well as being able to enjoy stunning views from the scenic lift.

Citypark Jihlava has a dominant position as the sole shopping centre in the Vysočina region and is currently home to 113 retail units.

Other initiatives

We are also at various stages across a number of other shopping centres for potential future refurbishment and extensions.

Furthermore, those of our centres that have been recently refurbished are delivering excellent performance. For e.g. IGY České Budějovice, 18 months after refurbishment and extension the centre achieved footfall growth of **12%** and tenant sales growth of **17%** in the first half.

Preparing our assets **for the future**

Focused on *enhancing* shopping experiences and **optimising tenant mix** to preserve the **destination status** of our assets.

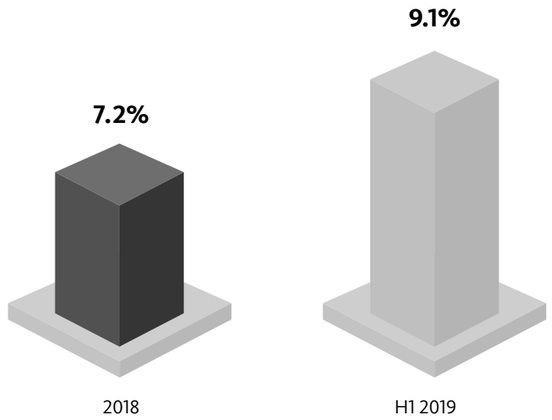
Food court, Quadrio, Prague, Czech Republic

Physical retail continues to perform robustly in the Czech Republic, supported by:

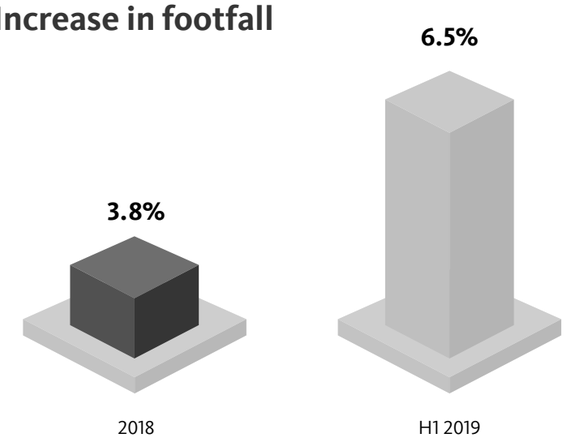
- **solid economic growth drivers,**
- **lower physical retail density** compared to more developed Western European or US retail markets,
- **low exposure** to department store tenants, and
- very **limited high street retail.**

CPIPG's shopping centres are typically the dominant centre in a regional city, with a large catchment area and strong transportation connections.

Increase in tenant sales



Increase in footfall



E-commerce has been a factor in the Czech Republic for several years, with both local and international retailers active in the sector. E-commerce penetration (as a % of total sales) in the Czech Republic is above 10%, compared to the EU average of 6%.

Despite the presence of E-commerce, CPIPG's shopping centres continue to see increasing footfall and sales. Our centres are considered destinations by the local populations, and we are consistently undertaking new measures to improve customer experience and shopping centre performance, including:

Refurbishments

- Almost every shopping centre in our portfolio has either recently been refurbished, or is soon to be refurbished. **IGY and Olympia Teplice are both achieving double digit footfall and tenant sales growth.**
- Right-sizing and recalibration to ensure focus remains on food retail, whilst also scaling back our exposure to hypermarkets.

Working with tenants

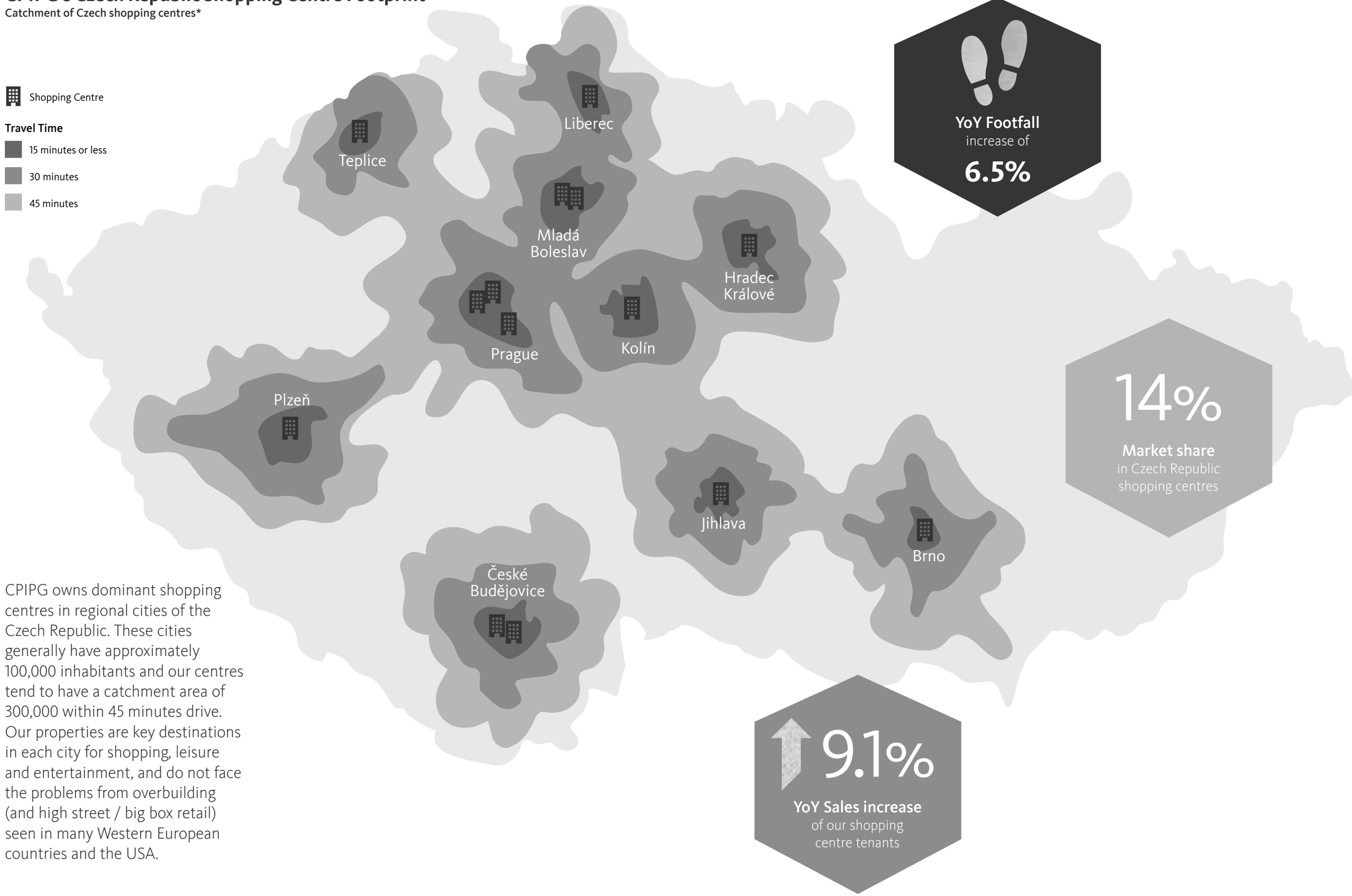
- In February we launched our Akademie Retail development and educational programme to help shop managers better respond to the evolving retail market and create an enhanced customer experience at the point-of-sale.

Understanding consumer behaviour

- CPI has conducted an extensive and unique customer behaviour research survey called MASCOT ("Mall Shoppers Connection Typology"), which will help us to better understand customer preferences and needs. For example, **87%** of the country's population aged between 15 and 75 years of age visit a shopping centre at least once a year, and almost 100% of the local population in big cities such as Prague, Brno, Pilsen or Ostrava.

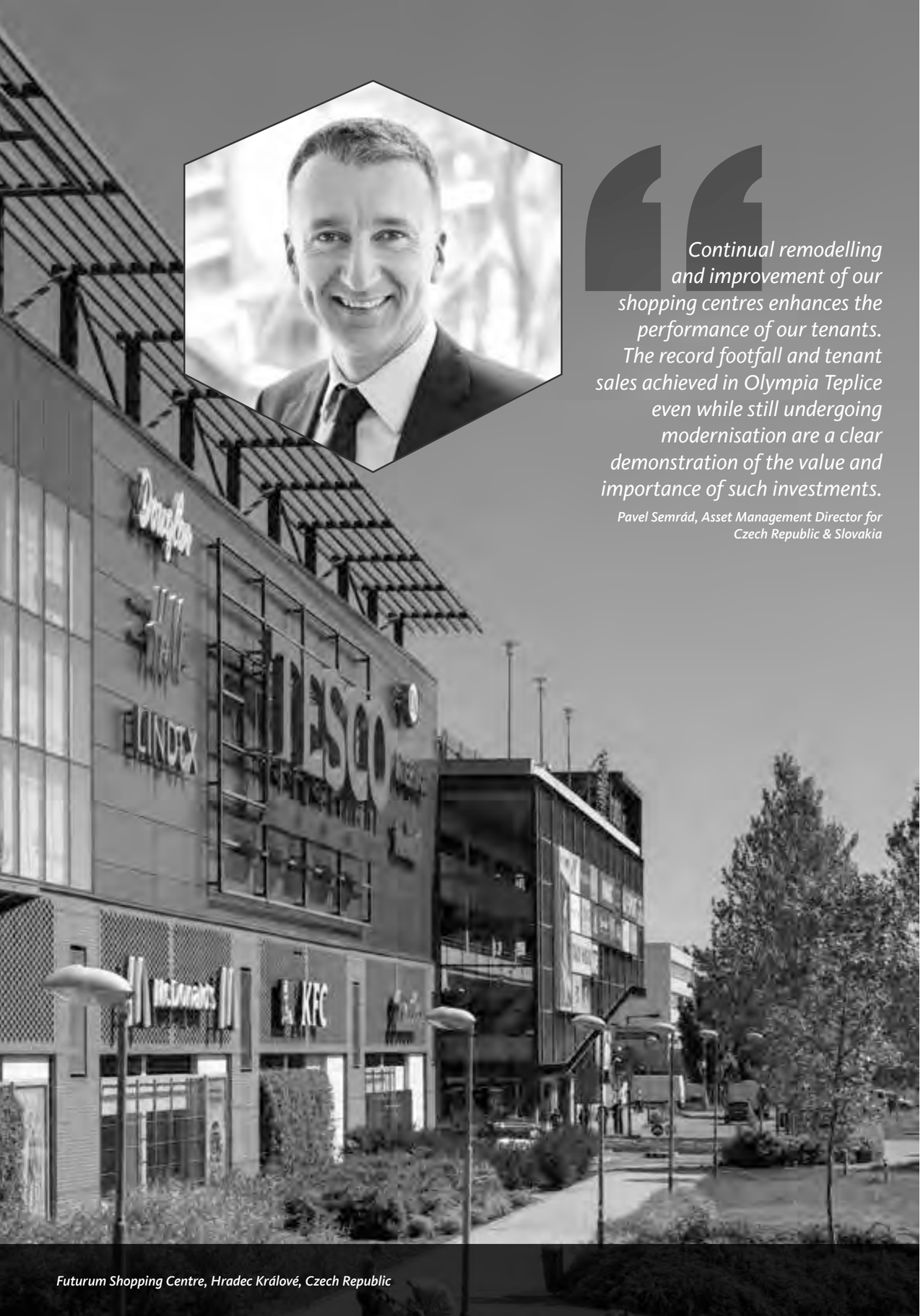
CPIPG's Czech Republic Shopping Centre Footprint

Catchment of Czech shopping centres*



CPIPG owns dominant shopping centres in regional cities of the Czech Republic. These cities generally have approximately 100,000 inhabitants and our centres tend to have a catchment area of 300,000 within 45 minutes drive. Our properties are key destinations in each city for shopping, leisure and entertainment, and do not face the problems from overbuilding (and high street / big box retail) seen in many Western European countries and the USA.

**GfK for CPI, August 2017*

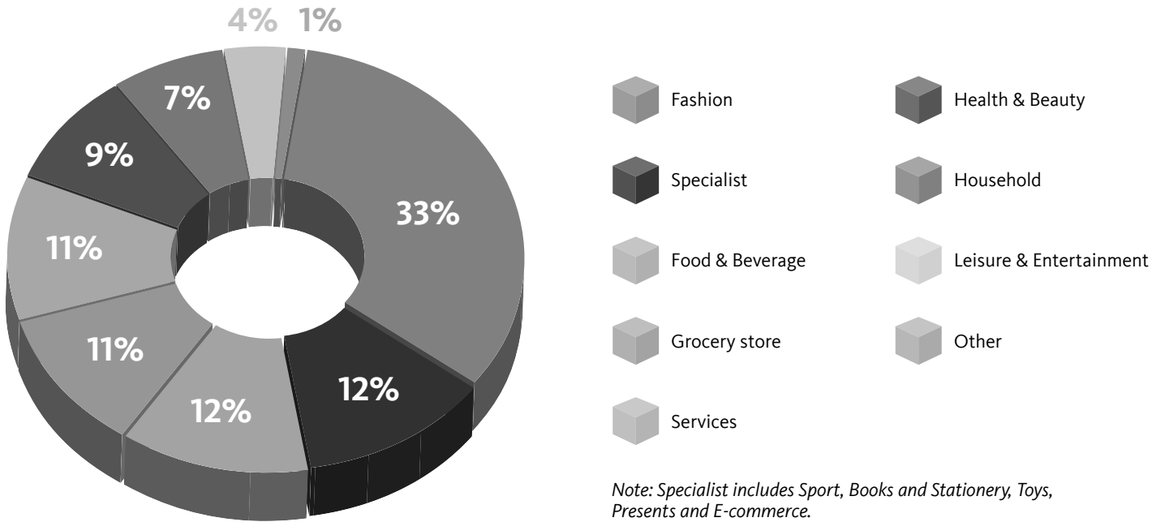


Continual remodelling and improvement of our shopping centres enhances the performance of our tenants. The record footfall and tenant sales achieved in Olympia Teplice even while still undergoing modernisation are a clear demonstration of the value and importance of such investments.

Pavel Semrád, Asset Management Director for Czech Republic & Slovakia

Futurum Shopping Centre, Hradec Králové, Czech Republic

Shopping Centre tenants by type (according to headline rent)



Note: Specialist includes Sport, Books and Stationery, Toys, Presents and E-commerce.

Market overview

Total retail sales in the Czech Republic grew by 6.2% year-on-year in June 2019, adjusting for working days, supported by strong clothing and footwear sales. Food and non-food sales also contributed significantly to the growth.

Czech Republic prime rents continue to grow on the high street and in shopping centres. In Prague, the June 2019 year-on-year growth in prime rents of 6.1% was in line with the CAGR over the past five years. Prime rent growth in out of town retail parks was relatively flat. Shopping centre prime yields remain stable, at around 4.5% in Prague, in line with continued increase in valuations.

Prime retail locations continue to attract new tenants in all segments of the market. About 30 new brands entered the Czech retail market in 2018, which demonstrates the continuous attractiveness of the Czech Republic for international retailers, especially the clothing and F&B sectors.

New development in shopping centres remains limited and activity is primarily focused on refurbishments and extensions. Without any new delivery on the Czech market, total shopping centre volume remained flat at 2.4 million m² by GLA. Only four shopping centres are under construction with a total GLA in excess of 30,000 m² each. Due to very marginal supply, shopping centre density remained stable at 226 m² per 1,000 inhabitants.

The Czech Republic is one of the largest retail park markets in Central and Eastern Europe, with increasing demand for small retail park schemes serving only their primary town or the closest regional catchment. Demand for retail park space is supported by newcomers, increasing interest from F&B and leisure operators, value retailers and e-commerce operators.

Sources: Cushman & Wakefield, ING, CBRE, Czech Statistical Office

Office Properties

6.0%
market share in Prague Office

We treat all employees of our tenants as our customers and are investing in common areas, lobbies, sport facilities, terraces, courtyards and bike rooms to create a positive environment for their work. This helps lead to more stable occupancy and supports better long term performance.

Pavel Hain-Schmiedberský, Senior Asset Manager, Czech Republic

Vladislavova Spálená, Prague, Czech Republic

The valuation of our office portfolio in the Czech Republic increased at the end of June 2019 by **11.4%** to **€842 million**. The increase was driven by the completion of the Mayhouse office development, together with modest increases in valuations.

Net rental income decreased slightly to €19.8 million in the first half compared to €20.5 million in the prior year, primarily due to the sale of Modřanská (Nestlé building) in the second half of 2018, as well as the temporary effect of tenant changes in Luxembourg Plaza.

Occupancy in our office portfolio declined temporarily to 94.8% from 96.8% at the end of 2018 as we completed Mayhouse, a new 7,600 m² development located in Prague 4. Given continued robust demand dynamics for Prague offices, we actively took the decision to bring the property to the market when it was 33% let, with the full expectation that this will increase significantly in the second half of the year.

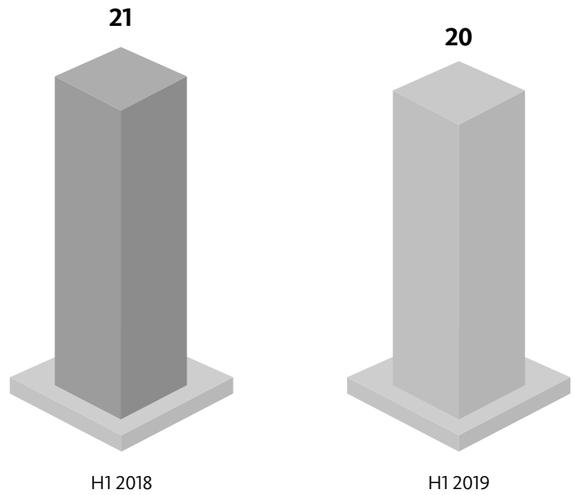
We expect active negotiations with tenants to support occupancy and rents in the second half of the year. One example is a recent new lease signed with Exxon Mobil in Luxembourg Plaza extending their space by more than 50% and their contract until 2027 for an attractive rent. We are also having positive negotiations to extend leases across the rest of the portfolio, especially in Česká Pojišťovna and ZET.office in Nová Zbrojovka.

The Group's office portfolio average age is around 13 years. While our assets are modern, high quality and have limited need for short-term investment, we recognise the importance of maintaining the long-term competitiveness of our portfolio. Therefore we are making targeted investments into selected buildings to further enhance communal and reception areas, workout zones, terraces and outdoor courtyards. Examples include in Olympic Garden, Vladislavova 17 and Tokovo Archa.

Regional Headquarters

GENERALI
CTP
CEZ GROUP
SIEMENS
WPP
CUSHMAN & WAKEFIELD

Net Rental Income – Office (€ million)



	Office (as at 30 June 2019)				Office (as at 31 December 2018)			
	PP value (€ m)	Occupancy (%)	GLA (m²)	No. of properties	PP value (€ m)	Occupancy (%)	GLA (m²)	No. of properties
Prague	**798**	**94.6%**	**285,000**	**20**	713	96.9%	278,000	19
Major cities	**44**	**98.3%**	**27,000**	**5**	43	95.1%	27,000	5
Total	**842**	**94.8%**	**312**	**25**	**756**	**96.8%**	**306**	**24**

Office Market

Mayhouse, Prague, Czech Republic

At the end of June 2019, the total modern office stock in Prague increased by 2.6% to 3,566,900 m² while the share of A-class office space stands at 72%.

The rate of gross take-up growth slowed slightly in the first half of the year compared to 2018, though demand remains at very high levels. The most active sector was Professional Services (20%), followed by the public sector (17%) and IT (17%).

In Q2 2019, the highest level of leasing activity was recorded in Prague 8 (38% of total gross demand) where the largest transaction of the quarter was signed – the renegotiation of Clearstream (17,100 m²) in Futurama Business Park. Other active districts included Prague 4 (29%) and Prague 5 (10%).

There was a modest uptick in vacancy to 4.6% at the end of June 2019 (+30 bps q-o-q), although still close to historical lows. However, regional variance in average vacancy rates is broad across the city, where the highest rate is seen in Prague 5 at 6.9%, while the lowest vacancy is recorded in Prague 3 at 1.9%.

Prime headline rents in the city centre remained relatively stable at €21.00–23.00, although are expected to continue on an upward trajectory for A-grade offices in the most sought after locations. Average rents in inner-city are somewhat lower at €15.00–16.50, while outer-city is down at €13.50–15.00.

Annual supply should amount to more than 220,000 m² in 2019. Currently 334,000 m² is under construction and refurbishment, of which approximately 50% is pre-let, thus average vacancy rates are not expected to increase as new supply comes online. In addition to Mayhouse, during the second quarter two other major developments were completed: ČSOB SHQ (30,000 m²) and also Praga Studios (10,530 m²).

Sources: Cushman & Wakefield, JLL, BNP Paribas

Residential **Properties**

CPI BYTY is a core business for the group and can be traced back to CPIPG's origins. We have a significant market share in our geographic locations and believe that by investing in our portfolio we can continue to offer a solid value proposition to our tenants.

Petr Mácha, Director of CPI BYTY, Czech Republic

#2

residential landlord
in the Czech Republic

Letňany Apartments, Prague, Czech Republic

The Group's residential portfolio, operated under the brand CPI BYTY, is the second-largest in the Czech Republic.

Primarily focused on residential properties in regions of the Czech Republic as well as in Prague, CPI BYTY is a stable business and is one of the Group's longest held platforms with origins going back to the 1990s.

Gross rental income exhibited solid growth of €0.3 million (3.0%) compared to the prior year, attributed to a combination of an increase in overall portfolio occupancy from 89.1% to 89.8%, together with growth in like-for-like rents.

Receivables remain stable across all regions, where we continue to maintain tenant default rates below 1%.

The key driver of the occupancy increase is the Ostrava Region, with continuous positive development in our portfolios in Třinec, Český Těšín (where we see very solid demand for flats following reconstruction), and in the Ústí region, mainly in the Ústí nad Labem and Litvínov portfolios. In the Liberec and Prague regions, occupancy is already close to 100%.

In the Liberec region we completed the reconstruction of remaining vacant flats in Česká Lípa in the first quarter of 2019, and all units have since been let. We see potential for moderate rent increases in Česká Lípa.

In the Prague region we have increased the scale of investments into vacant flats, particularly in the district of Letňany, where the majority of flats are located. The area has excellent proximity and transport links to the city centre, with very robust demand for flats. Therefore, we see potential for significant future rent increases.

We are also in the process of selling a limited number of properties in Ústí nad Labem and Třinec, mainly properties we identified that require significant investment and provide limited opportunity for rent increase. Sales commenced in the first half, which will continue in the second half of the year and into 2020.

Average market rents in our regions are higher than the rents we charge in our portfolio. While our strategic priority is focused primarily on reducing the volume of vacant flats in the portfolio there is an opportunity for further rent increases in our portfolio, while preserving affordability for our core tenant base.

Region	Residential (as at 30 June 2019)				Residential (as at 31 December 2018)			
	PP value (€ million)	Occupancy* (%)	No. of units	No. of rented units	PP value (€ million)	Occupancy* (%)	No. of units	No. of rented units
Prague	**72**	**98.1%**	**462**	**453**	72	98.7%	465	459
Ostrava region	**174**	**87.9%**	**4,326**	**3,802**	172	87.0%	4,322	3,758
Ústí region	**137**	**87.4%**	**5,085**	**4,442**	127	86.9%	5,013	4,357
Liberec region	**78**	**98.2%**	**2,019**	**1,982**	76	96.7%	2,018	1,952
Central Bohemia	**5**	**97.4%**	**77**	**75**	5	98.7%	77	76
Total	**467**	**89.8%**	**11,969**	**10,754**	**452**	**89.1%**	**11,895**	**10,602**

* *Occupancy based on rented units.*

Development **Properties**

Selective development is an attractive way to continue growing our portfolio of income-generating assets. Our approach towards development is conservative, and we typically develop to hold.

Overall development activity in the Czech Republic remains subdued given the challenges associated with obtaining building permits.

CPIPG's development activities in the Czech Republic include both new developments and redevelopments of existing office and retail properties. The Company benefits from an extensive land bank which can be developed over time.

Once work on a development project is commenced, the area is presented either as a future sale (potential gross saleable area) or as a future rental (potential gross leasable area). The group primarily develops properties to hold and rent.

Bubenská redevelopment

The Bubenská 1 redevelopment in Prague 7 is ongoing and in 2020 will become the Prague headquarters of WPP, who signed a lease for 18 years.

The property of 25,000 m² is spread over six floors and will provide a modern combination of primarily office space as well as retail, wellness, big hall, storage and common space, built to the highest technological standards.

Thanks to its position near an important traffic node and one of Prague's trunk roads, Bubenská will also be easily accessible by both car and public transport.

ZET.office of Nová Zbrojovka development in Brno

The Zet.office development, due to be completed in the coming months, is a 20,000 m² modern office development in Brno. This is the first modern development in the disused area of the former Zbrojovka factory. To its future tenants, the ZET.office building will offer modern office and co-working spaces, cafes as well as a fitness facility. The building will also feature a roof terrace with a 360-degree view. Hand-over is scheduled for September 2019. We are in advanced negotiations with prospective tenants and close to securing a lease agreement with a single tenant for over 50% of GLA.

Selective development
focused on
long-term properties
we intend to hold

	Development (as at 30 June 2019)			Development (as at 31 December 2018)		
	PP value (€ million)	Potential GLA (m²)	Potential GSA (m²)	PP value (€ million)	Potential GLA (m²)	Potential GSA (m²)
Prague	**48**	**26,000**	**23,000**	42	34,000	20,000
Major cities	**18**	**20,000**	**–**	9	20,000	–
Other	**7**	**7,000**	**–**	6	7,000	–
Total	**73**	**53,000**	**23,000**	**57**	**61,000**	**20,000**

Land Bank in the Czech Republic

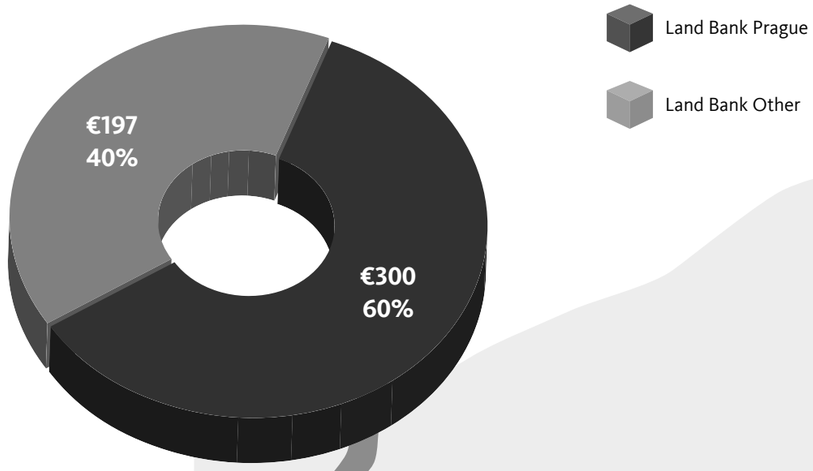
The Group's land bank of close to €500 million in the Czech Republic is a key strategic asset which can be held and developed over the long-term.

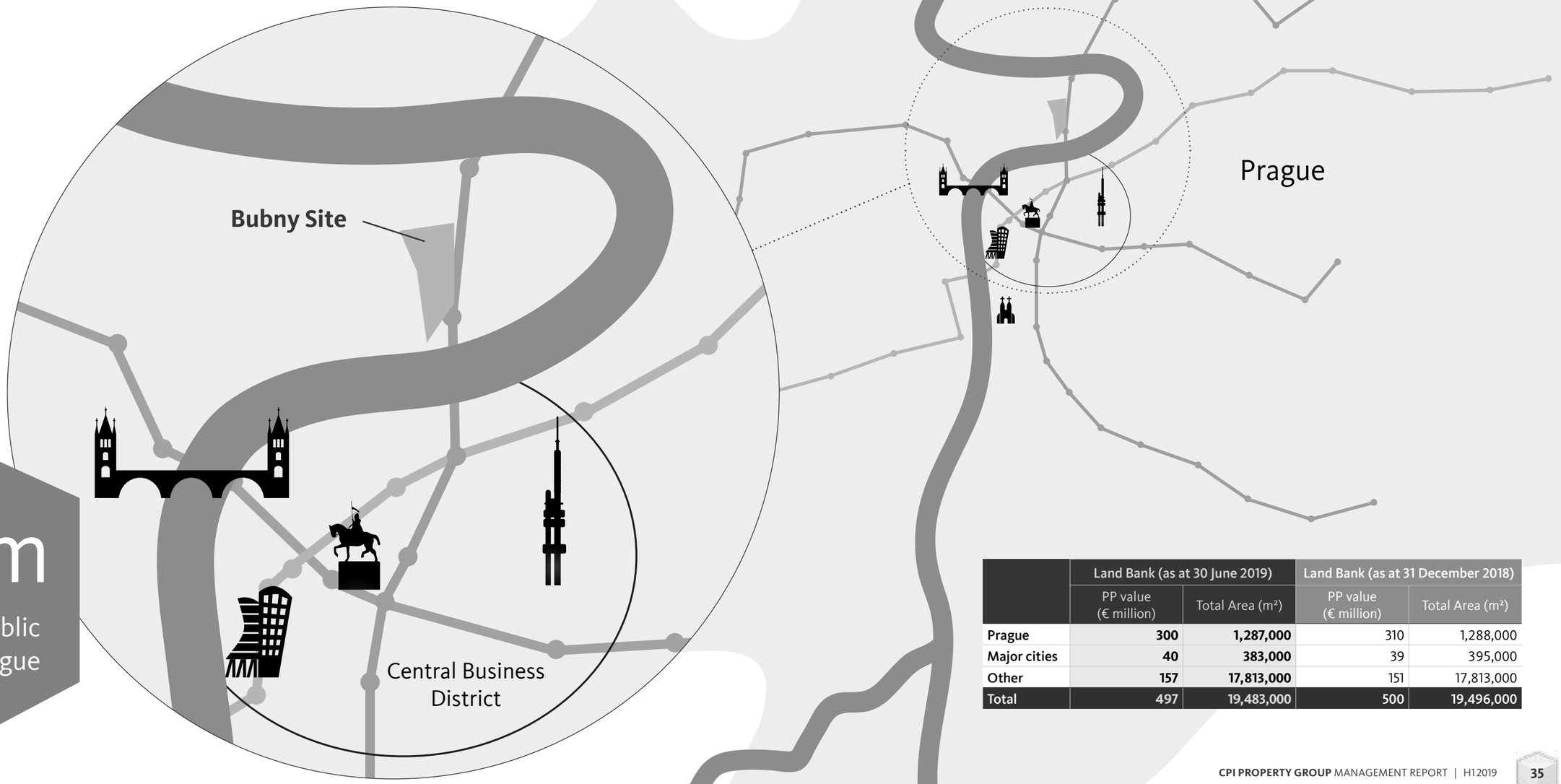
€300 million (60%) of the Czech land bank is in Prague, largely relating to Bubny, a 202,000 m² area strategically located close to the CBD and where we are already redeveloping one of our flagship offices, Bubenská 1, due for completion in 2020.

Our land bank is an important competitive advantage given the scarce availability of land in Prague, steadily increasing property valuations and constraints in obtaining building permits.

Land Bank in the Czech Republic

(€ million and %)





€300m

of our Czech Republic land bank is in Prague

	Land Bank (as at 30 June 2019)		Land Bank (as at 31 December 2018)	
	PP value (€ million)	Total Area (m²)	PP value (€ million)	Total Area (m²)
Prague	**300**	**1,287,000**	310	1,288,000
Major cities	**40**	**383,000**	39	395,000
Other	**157**	**17,813,000**	151	17,813,000
Total	**497**	**19,483,000**	**500**	**19,496,000**

Berlin

GSG | BERLIN

Our subsidiary, Gewerbesiedlungs-Gesellschaft mbH ("GSG"), is the largest owner of commercial property in Berlin with nearly 1 million m² of office space.

GSG provides multi-functional premises for all kinds of small and medium-sized companies from the technology, creative, services and light manufacturing sectors. The strong market for office space in Berlin and GSG's asset management have driven consistently improving performance in terms of occupancy, rents and valuation.

GSG's portfolio is comprised of three main clusters:

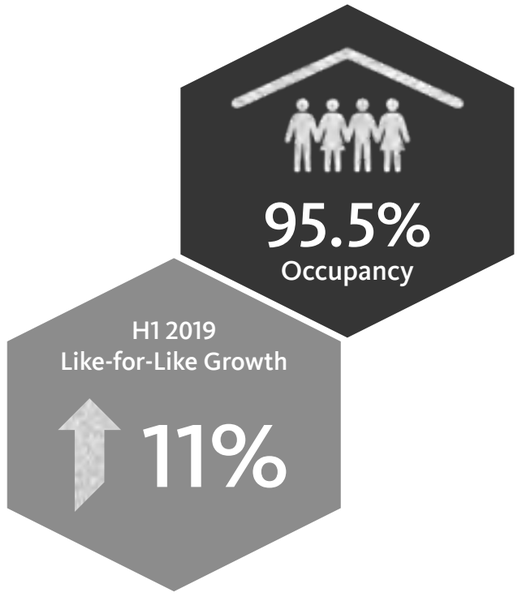
Kreuzberg is a district which has become a hub for the tech and start-up industries, which continue to experience strong employment growth.

Rest-West includes assets which are located in several western districts in Berlin. Most of these buildings have served industrial tenants in the past, but there is an increasing demand by tenants from the service, technology and creative industries.

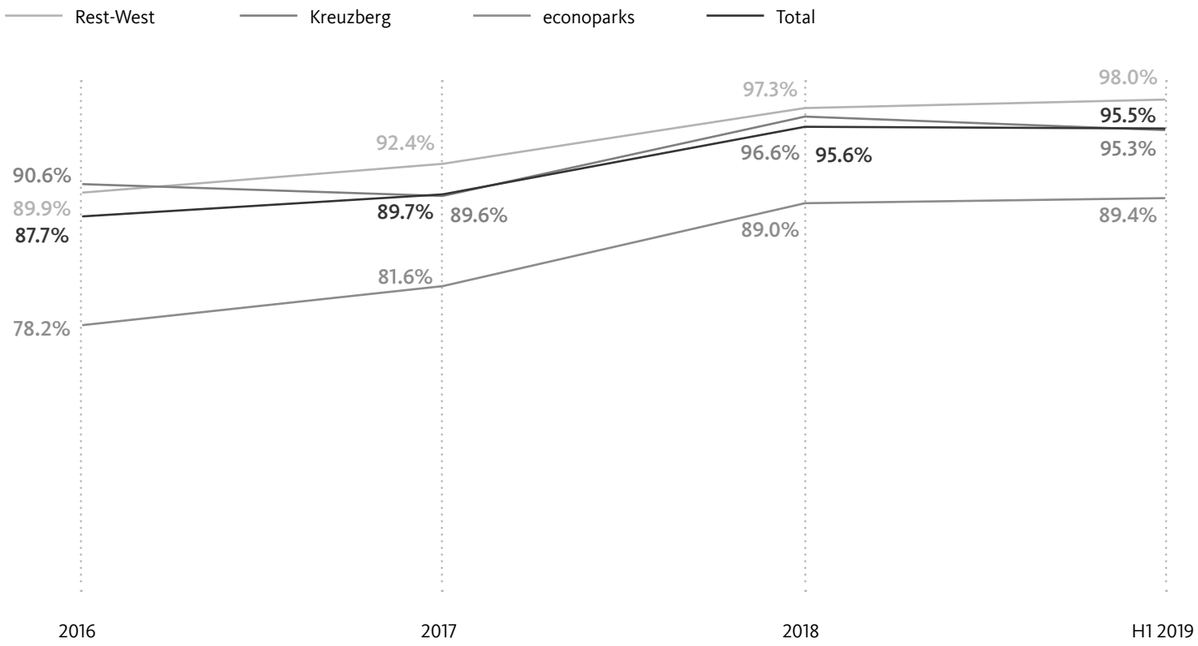
econoparks include assets from Eastern parts of Berlin with good inner-city connections and competitively priced space which tenants can tailor to meet their business needs and development/growth plans.

History of GSG

GSG was founded in 1965 as a joint venture by the Federal State of Berlin and local trade organizations to promote the development of economic infrastructure in West Berlin by developing or redeveloping suitable office and commercial space to offer to small and medium-sized enterprises and start-ups. The company was privatized in 2007 and was acquired by the Group in 2014.



Occupancy Rate
(based on Estimated Rental Value)



Berlin is one of the *best-performing* German cities, and our portfolio is **uniquely positioned** for **continued strong performance**.

- #1 commercial real estate platform in Berlin
- Portfolio uniquely suited to creative and IT sectors
- Nearly 2,000 tenants
- Strong market with 1.4% overall vacancy

Oliver Schlink
CFO, GSG Berlin

Segment **Summary**

GSG continues to deliver strong growth and we still have significant upside potential on rents together with exciting future development projects.

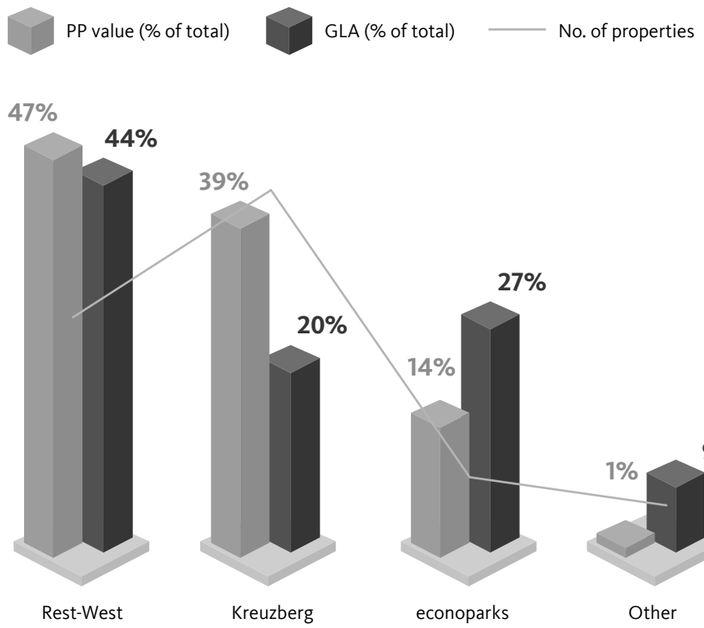
Sebastian Blecke, COO, GSG Berlin

The value of GSG's portfolio increased slightly in the first half of 2019 to **€2.1 billion** (versus €2 billion at year end) owing to revaluations of a small number of properties.

Net rental income increased by **€4.0 million** (12%) to €36 million in the first half of 2019 the majority of this increase is attributed to like-for-like growth. While occupancy remained steady at around 95.5%, the continued positive economic performance of Berlin relative to other cities in Germany and a continued supply/demand imbalance for new space in Berlin continued to drive average rents higher. Part of the increase was also driven by the successful redevelopment of AQUA-Höfe in the second half of 2018.

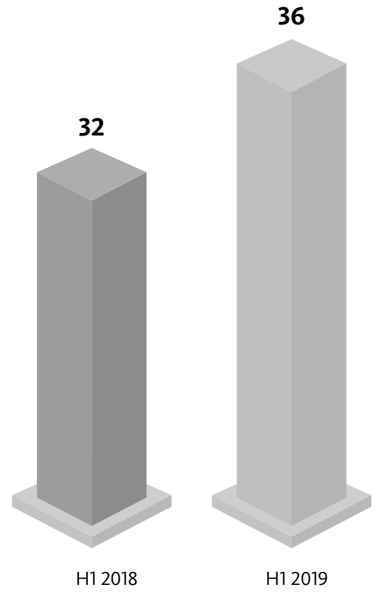
Average rents continued to increase across the portfolio to €6.8 per m² from €6.6 per m² at the end of 2018 and €6.3 per m² as at 30 June 2018. For example, in the Kreuzberg cluster GSG increased rents by 23% compared to the equivalent period in 2018, and by 6% compared to the end of 2018. In addition, higher rents have been achieved in the econoparks cluster, in certain cases almost double what was achieved on comparable deals last year.

Our Berlin Portfolio



Net Rental Income

(€ million)



	Berlin (as at 30 June 2019)				Berlin (as at 31 December 2018)			
	PP value (€ million)	Occupancy* (%)	GLA (m²)	No. of properties	PP value (€ million)	Occupancy* (%)	GLA (m²)	No. of properties
Rest-West	**969**	**98.0%**	**431,000**	**16**	958	97.3%	430,000	16
Kreuzberg	**802**	**95.3%**	**199,000**	**25**	794	96.6%	204,000	25
econoparks	**284**	**89.4%**	**263,000**	**5**	277	89.0%	263,000	5
Other*	**27**	**100.0%**	**84,000**	**3**	27	100.0%	84,000	3
Total	**2,083**	**95.5%**	**976,000**	**49**	**2,056**	**95.6%**	**981,000**	**49**

* *"Other" consists of Wupperstraße and Ettlingen*

Top **Assets**

in Berlin

Reuchlinstraße 10-11
PP value: €117 million
GLA: 50,000 m²

Gustav-Meyer-Allee 25
PP value: €120 million
GLA: 76,000 m²

Voltastraße 5
PP value: €94 million
GLA: 34,000 m²

Wolfener Straße 32-34
PP value: €73 million
GLA: 75,000 m²

AQUA-Höfe
PP value: €96 million
GLA: 19,000 m²

Helmholtzstraße 2-9
PP value: €115 million
GLA: 37,000 m²

Franklinstraße 9 – 15a
PP value: €93 million
GLA: 31,000 m²

Plauener Straße 163-165
PP value: €82 million
GLA: 82,000 m²

Geneststraße 5
PP value: €87 million
GLA: 33,000 m²

Schlesische Straße 26
PP value: €104 million
GLA: 25,000 m²

Waldemarstraße, Berlin, Germany

Outlook for our Berlin Properties

According to management analysis in consultation with external advisors, GSG's average rents are well below the Berlin market average – whilst our average rents increased to €6.8 per m² at the end of the first half of the year, Savills places our estimated average market rents at €11 per m², in contrast to the Berlin average of €24 per m². The Group sees significant upside potential in the Berlin portfolio, notwithstanding the strong results already delivered so far this year.

Considering the quality and location of our properties, we see strong potential for GSG to continue increasing rents closer towards market averages, which should support valuations and lead to further yield compression. Nevertheless, rents are expected to remain comparatively affordable compared to most prime office real estate in Berlin.

We also see a positive outlook for occupancy rates, especially in our econoparks cluster where the vacancy rate remains over 10%. Increasingly, some tenants are seeking more affordable locations away from the CBD. Here we offer great opportunities with our high quality assets. We already signed a number of leases which will come into effect in the second half of the year, and we also expect to lease additional units with high vacancies currently, where we made significant investments this year.

€24/m²
market average in Berlin

€6.8/m²
our average rent for Berlin

€11/m²
Savills estimated average market rent for our portfolio

Average rent
(per m² by Berlin clusters)

	2015	2016	2017	2018	H1 2019
Rest West	€5.95	€6.30	€6.62	€6.80	**€6.97**
Kreuzberg	€7.22	€8.00	€9.00	€10.44	**€11.05**
econoparks	€4.41	€4.44	€4.48	€4.56	**€4.63**
Other	€1.20	€2.03	€2.05	€2.98	**€2.99**
Total	€5.49	€5.86	€6.22	€6.63	€6.83

Note: "Other" consists of Wupperstraße and Ettlingen

Development Properties & Land Bank in Berlin

GSG's land bank plots are in close proximity to our existing assets, providing opportunities for low risk extensions and developments.

Given the magnitude of office demand in Berlin, which continues to exceed supply, property prices are rising. Utilising our land bank in Berlin to expand our portfolio without relying solely on organic growth and/or acquisitions is a clear advantage. GSG's development and extension pipeline at the end of June 2019 stood at 15,200 m², consisting of three key projects. For significant new-build developments, GSG always applies for BREEAM certification, which helps support the Group's ESG objectives.

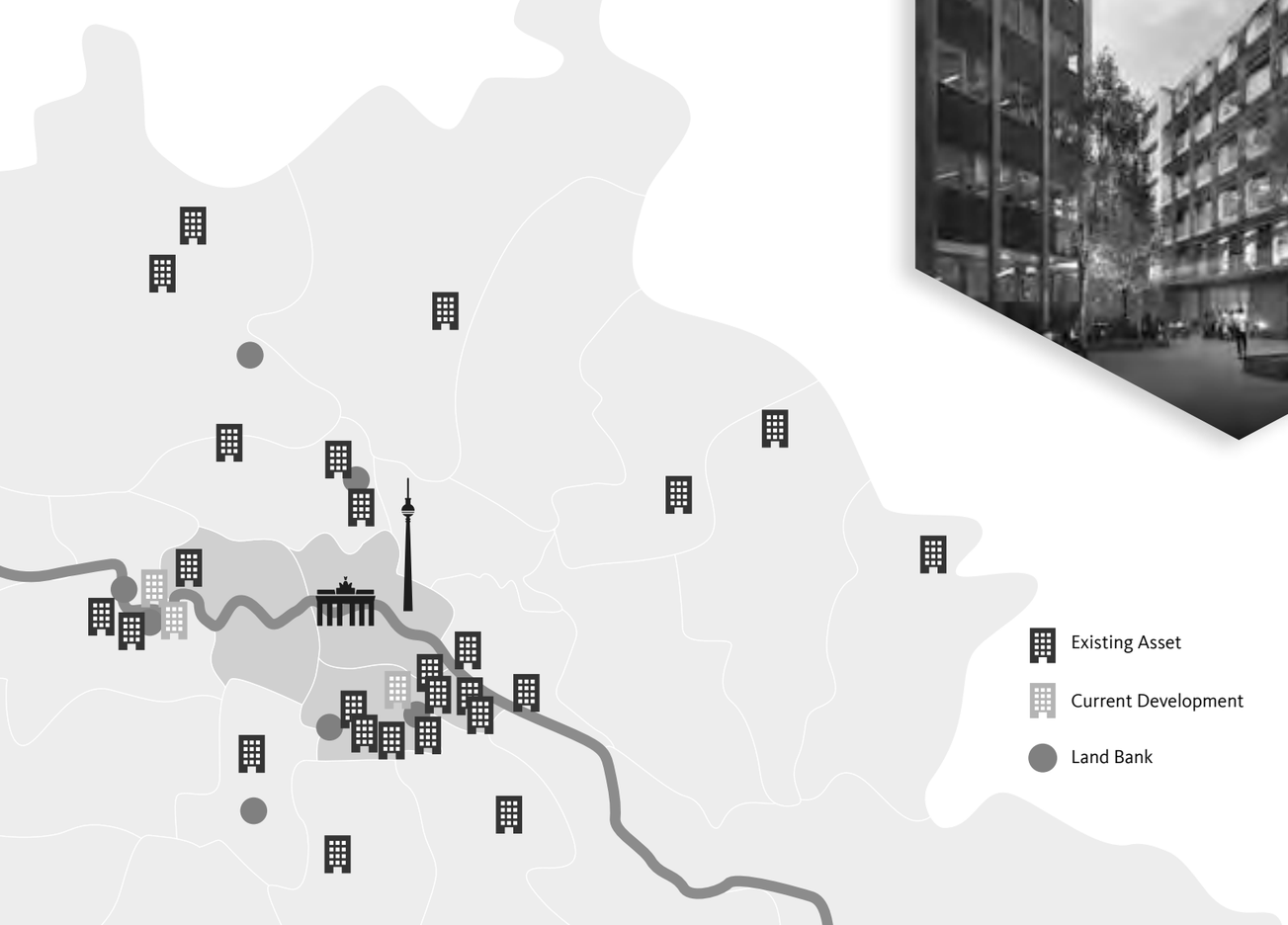
GSG owns plots of land in **attractive areas, close to our existing assets.** In some cases, plots are directly adjacent to existing buildings, **providing excellent opportunities to extend with limited risk e.g. Prinzessinnen-Höfe.**

The Briq

The Briq will be a complete modernization and conversion of an existing storage building into a modern office space in a highly attractive location in the Franklinstraße area, close to the Spree river, creating over 1,400 m² of additional GLA upon completion in the second half of 2020. The conversion of storage space will create new rentable area. The property is already fully pre-let having secured a new long-term lease with Daimler. Target rent will be above €20 per m².

Prinzessinnen-Höfe

Prinzessinnen-Höfe comprises the modernization and redevelopment of an existing building combined with the development of a new building in a highly attractive part of Kreuzberg, Prinzessinnenstraße, creating over 8,800 m² of additional GLA. Although the property is over one year from scheduled completion in the second half of 2020, it is already fully let, having secured leases with three separate tenants. Target rent will be above €25 per m².



The Benjamin

The Benjamin will be a new landmark building in the Franklinstraße area, located directly on the Spree river. The property is due for completion in Q4 2020 and will deliver over 5,000 m² of new GLA. Advanced and promising discussions are ongoing with multiple tenants. Target rent will be above €20 per m².

Nico Knäusel, Head of Leasing Department; Johanna Klein, Leasing Manager; Luise Schmidt, Leasing Manager, Berlin Germany

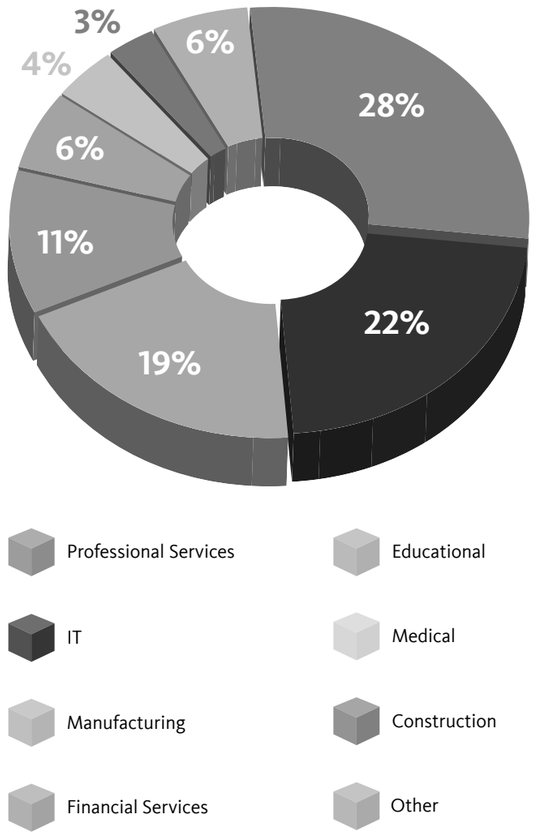
Schlesische Straße 26, Berlin, Germany

Our tenants

GSG has about 2,000 individual tenants across nearly one million square metres of space in Berlin. Strong markets and active asset management allows us to retain tenants, even as rents are rising across the portfolio; the "churn" rate of tenants continues to improve, having fallen to around 2.1% at the end of the first half of the year on an annualised basis, compared to 5.7% at the end of 2018.

Our offices cater to burgeoning demand from dynamic, creative IT and professional services-focused companies and other small businesses. At the same time, tenant diversity as well as granularity is a key strength as GSG also attracts large international companies. We recently signed a new lease with Daimler, which represents the first DAX 30-listed company in our portfolio.

GSG tenants by type



Berlin Markets

Berlin's office market continues to flourish, supported by a combination of economic and market-related factors.

Economically, Berlin has been catching up to the rest of Germany for some time, with higher unemployment levels (7.8% versus 3.1%) and 3% lower GDP per capita than the national average. However, significantly higher annual GDP growth is steadily narrowing the gap – in 2018 Berlin's GDP growth was 3.1% compared to 1.4% for Germany as a whole. Part of the reason for this is due to the sharp rise in the working population (33.1% from 2009 to 2018), and demand for office space in Berlin from a wide variety of domestic and international tenants, both small and large. In this context, the demand for office space vastly outstrips the pace of new supply.

At 395,500 m², office space take-up in the first half of 2019 maintained the high level of the last three years. The proportion of lettings in projects rose from 30% in the first half of last year to 41% this year, driven by the shortage of space in existing stock and the marketing launch of various development projects.

The vacancy rate fell to 1.4% by mid-year, down from 2.2% last year. This is the lowest vacancy rate nationwide. 96% of the 100,700 m² of newly completed or core refurbished space in the first half of the year is let. 89% of the additional 236,600 m² planned for the remainder of the year has already been pre-let. Therefore new supply this year is unlikely to impact the structural supply demand imbalance, at least in the short term.

Prime rents also achieved a new record of €37.00 per m², an increase of 17% on the prior year, while weighted average rents rose to €23.30 per m², an increase of 19% on the prior year.

Office investment volume totalled almost €3.6 billion in the first half of the year, higher than in any other city in Germany. Office yields meanwhile continued to grind tighter at 3.1% for city centre and 4.3% in peripheral locations.

Sources: Cushman & Wakefield, berlin.de

Hotels & Resorts

CPIPG owns and operates our hotels, which are primarily located in the CEE region. We benefit from local knowledge, scale, and the ability to tightly control costs and quality.

The Group's hotel business, CPI Hotels, is one of the largest hotel owners in central Europe and operates in several segments:

Congress & Convention Centres: operating under the Clarion and Holiday Inn brands, these hotels are designed for conferences and events with a dedicated sales force to attract and retain corporate groups.

Resort Hotels: the Group owns Sunčani Hvar, which is the leading owner and operator of hotels on the Croatian resort island of Hvar.

Boutique Hotels & Residences: well established brand Mamaison Hotels & Residences and Buddha-Bar Hotel, located in the heart of European capitals. The very highest quality of accommodation and personal touch.

Residential Hotels: these hotels are well-suited for long-term accommodation and are popular with business travellers and tourists. Our properties in this segment are primarily located in Prague.

Mountain Resorts: the Group is the majority owner of Crans-Montana Aminona SA ("CMA"), which operates and maintains the ski lifts, pistes, shops and restaurants in the Swiss ski resort of Crans-Montana.

Spa Hotels: the newly established brand Spa & Kur Hotels offers wellness and spa treatment properties located in the world-famous spa city Františkovy Lázně.

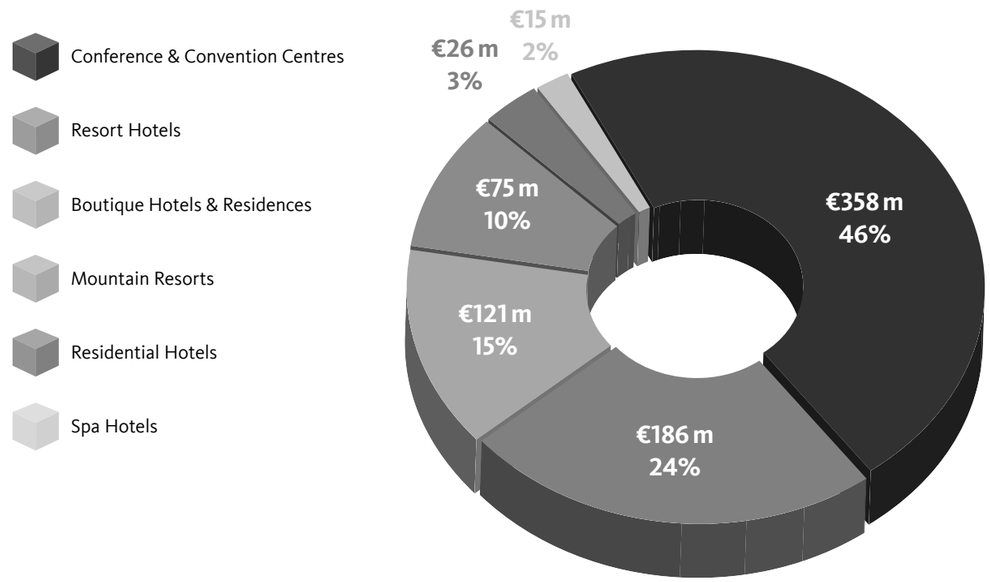
Jan Kratina,
Director of CPI Hotels

Three
five-star
and 27
four-star hotels

#1
congress & convention
hotels provider in the Czech Republic

#1
resort
on the premier island of Hvar, Croatia

CPIPG Hotels by type (based on property portfolio value)

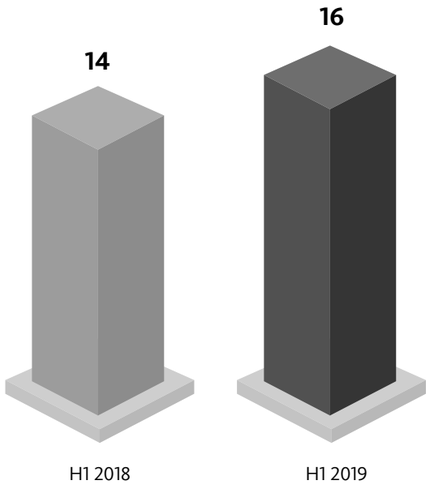


Segment **Summary**

Buddha-Bar Hotel Prague, Czech Republic

CPIPG's hotels and resorts portfolio increased by **7.6%** to **€781 million** at the end of the first half of 2019, rising from €726 million at the end of 2018, primarily due to the acquisition of two properties in the Czech Republic in the second half: Quality Ostrava City (in February) and Holiday Inn Brno (in June). The profile of our owned and operated hotels portfolio remained very similar to the end of 2018, with just less than half (46%, €358 million value) relating to conference and convention centres, around a quarter (€186 million) relating to resort hotels in Hvar, with the other quarter split between primarily boutique hotels (€121 million) and the Crans-Montana mountain resort (€75 million).

Net Hotel Income (€ million)



Our hotel brands and partnerships

Clarion Hotel
Comfort Hotel
mamaison Hotels & Residences
Holiday Inn
sunčani hvar hotels
buddha-bar hotel PRAGUE
FORTUNA HOTELS
PRIVATE LABEL HOTELS
SPA & KUR HOTELS

	Hotels & Resorts (as at 30 June 2019)					Hotels & Resorts (as at 31 December 2018)				
	PP value (€ million)	Hotel Beds	RevPAR YoY increase (%)	ADR YoY increase (%)	No. of properties	PP value (€ million)	Hotel Beds	RevPAR YoY increase (%)	ADR YoY increase (%)	No. of properties
Czech Republic	**374**	**8,625**	**8**	**6**	**22**	332	7,855	4	5	20
Croatia	**186**	**1,646**	**5**	**(5)**	**7**	178	1,646	(13)	(6)	7
Hungary	**57**	**756**	**11**	**8**	**4**	58	756	0	(2)	4
Italy	**38**	**543**	**9**	**47**	**1**	38	543	–	–	1
Poland	**29**	**216**	**(5)**	**1**	**2**	26	216	(10)	(6)	2
Russia	**23**	**184**	**(16)**	**(15)**	**1**	21	184	18	17	1
Switzerland	**75**	**–**	**–**	**–**	**1**	74	–	–	–	1
Slovakia	**–**	**100**	**17**	**22**	**–**	–	100	23	1	–
Total	**781**	**12,070**	**6**	**5**	**38**	**726**	**11,300**	**8**	**9**	**36**

Note: Czech Republic & Slovakia includes hotels operated, but not owned by the Group.

Holiday Inn Rome Eur Parco Dei Medici, Italy

Performance overview

Total hotel revenues increased by a very healthy €6.7 million **(13.4%)** in the first half of 2019 compared to the prior year, reaching €56.7 million. Net hotel income rose by **8.9%**, rising from €14.3 million to €15.6 million. The increase is largely attributed to the improvement in RevPAR and ADR across our portfolio of **6%** and **5%** respectively, while maintaining stable occupancy at **63%**. Revenues also increased following our acquisition of the Holiday Inn hotel in Rome in June 2018.

Czech Republic

In our largest market, the Czech Republic, we achieved a RevPAR increase of **8%** and ADR increase of **6%**, against prior year figures, while in Hungary we achieved growth of **11%** and **8%** respectively. Together with slightly higher average occupancy figures (1% in Czech Republic and 4% in Hungary) overall hotel revenues grew significantly.

Furthermore, the growth we witnessed in our Czech Republic portfolio was broad-based across all hotel types, with close to **90%** of individual hotels achieving growth in revenues, RevPAR and ADR.

The Group announced the acquisition of a four star congress hotel in Brno at the end of the first half of 2019, expanding our congress hotel portfolio and our regional presence. This was our first hotel acquisition in Brno, the second largest city in the Czech Republic, and will operate under the Holiday Inn brand. The hotel is in a strategic location close to the trade fair and exhibition compound in Brno.

CPI Hotels further strengthened its position in the regional cities in the Czech Republic, in February acquiring the Park Inn Hotel in Ostrava with the following rebranding to Quality Hotel Ostrava City. Quality Hotel Ostrava City is a modern four-star conference hotel with 185 rooms and conference space for up to 400 delegates.

Croatia

Sunčani Hvar, our resorts business in Croatia, is the #1 owner of hotels on the island of Hvar. In the first half of 2019 we had the best pre-season to date, achieving total revenues of **€8.8 million**, an increase of €1.0 million **(12.5%)** compared to the same period in 2018. The increase was driven by strong growth in average occupancy from 66% to **72%** and RevPAR from €67.1 to **€70.4**. Our five largest resorts, which together represent close to 90% of Sunčani Hvar's revenues (Amfora, Adriana, Riva, Pharos and Vela Vala Beach), all achieved average revenue growth over the prior year of **17.8%**. On 1st September, we will open Hvar's first and only five-star hotel, Palace Elisabeth. The hotel will boast 45 luxury rooms and suites, and some of the finest views of the island.

Given many of our visitors come from demanding and technology-driven tourism markets such as the USA and UK, digital marketing is fundamental to our marketing strategy. Besides continued investment in social media and PR in order to increase brand recognition and awareness, we continue to improve user access and experience through digital innovation (e.g. “mobile first” philosophy, Google smart bidding in the US market, new software that will enable a "360 degree view" of our guests and their preferences).

Top **Assets**

Hotels & Resorts

Number of Hotel beds in each country

Courtyard by Marriott Prague City
Country: Czech Republic
City: Prague
PP value: €24 million
Hotel beds: 322

Clarion Congress
Hotel Prague
Country: Czech Republic
City: Prague
PP value: €99 million
Hotel beds: 1,114

Clarion Congress Hotel České Budějovice
Country: Czech Republic
City: České Budějovice
PP value: €25 million
Hotel beds: 407

Crans-Montana Ski Resort
Country: Switzerland
City: Crans-Montana
PP value: €75 million

Holiday Inn Rome Eur Parco Dei Medici
Country: Italy
City: Rome
PP value: €38 million
Hotel beds: 543

Mamaison Hotel Le Regina
Country: Poland
City: Warsaw
PP value: €18 million
Hotel beds: 122

Clarion Congress Hotel Ostrava
Country: Czech Republic
City: Ostrava
PP value: €24 million
Hotel beds: 327

Europeum Marriott Courtyard
Country: Hungary
City: Budapest
PP value: €26 million
Hotel beds: 468

Pharos Hotel
Country: Croatia
City: Hvar
PP value: €27 million
Hotel beds: 400

Adriana Hotel
Country: Croatia
City: Hvar
PP value: €26 million
Hotel beds: 118

Amfora Grand Beach Resort
Country: Croatia
City: Hvar
PP value: €98 million
Hotel beds: 648

Poland
216

Czech Republic
8,625

Slovakia
100*

Hungary
756

Switzerland

Croatia
1,646

Italy
543

** Operator: CPI Hotels, Owner: third party investor*

As the only luxury five-star hotel on the island of Hvar, Palace Elisabeth will further enhance our dominant market position by improving and broadening our offering to customers.

Gordana Tomičić, President of the Management Board, Sunčani Hvar Hotels, Croatia

Palace Elisabeth Hotel, Hvar, Croatia

Hotel Markets

Czech Republic and Prague

Tourism numbers increased again in the Czech Republic in the first half of 2019, the sixth year of continual growth. The total number of guests was up **4.9%** compared to the same time last year, with overnight stays growing by **3.8%**. There was a roughly 50:50 split between Czech nationals and foreigners.

In the second quarter, all regions except Vysočina saw an increase in guests and all regions except Vysočina and Zlín had increased overnight stays. Broad-based growth across the country shows encouraging increases in tourism beyond Prague to many of the country's other notable urban and natural sights.

Germany was the biggest source of foreign tourists visiting the Czech Republic, up **3.2%**, followed by Slovakia, Poland, Russia and China, USA, the UK, South Korea, Italy and France.

Hungary and Budapest

In Hungary, tourism figures were modestly positive in the first half of 2019 – total overnight stays increased **0.4%** compared to the same period in the prior year. Overnight stays of international tourists grew by **0.8%** while domestic tourists grew by 0.1% over the same period. However, on the basis of June alone, data suggests more robust recent growth and as an important indicator for the summer season – with **3.7%** growth in tourism nights. Growth in the total gross sales rose by **9%** at current prices in the first half of the year, and up by **13%** in June. Budapest overnight stays data was slightly below the average across the country, for e.g. 2.1% in June. However, in Budapest alone ADR increased significantly by **13.3%** in June compared to the prior year, driving revenues **14.1%** higher.

Croatia and Hvar

A total of 6.88 million tourists visited Croatia in the first half of 2019, **6%** higher than the same period in the previous year. Overnight stays also increased over the same period. Hvar continues to establish itself as a holiday destination of choice for both long and short haul travellers. Hvar's guests come from all over the world, with heavy demand from the USA, followed by the UK, Canada, Australia and Brazil. For the first time, in the first half of 2019, Ireland and Canada also featured in top 10 countries in terms of overnight stays. China and other Asian markets are also important markets for Hvar, as the number of Chinese tourists in Croatia has significantly increased in the last few years. 2019 is the Year of Culture and Tourism between China and Croatia and is expected to bring more visitors. Visits to the island and to our hotels were also enhanced during the preseason due to an increase of catamaran lines. High season in the second half of the year will also benefit from this increase.

Sources: Czech Statistical Office, Hungarian Central Statistical Office, croatiaweek.com, CEIC

Complementary Assets Portfolio

The complementary assets portfolio primarily consists of the Group's platforms in Hungary and Poland. This segment also includes investments in Slovakia, France, Italy, the UK and Romania.

Overall portfolio value increased slightly to more than **€1.3 billion**, primarily as a result of completed developments and positive revaluations in Hungary, together with the acquisition of 7 St James's Square in London.

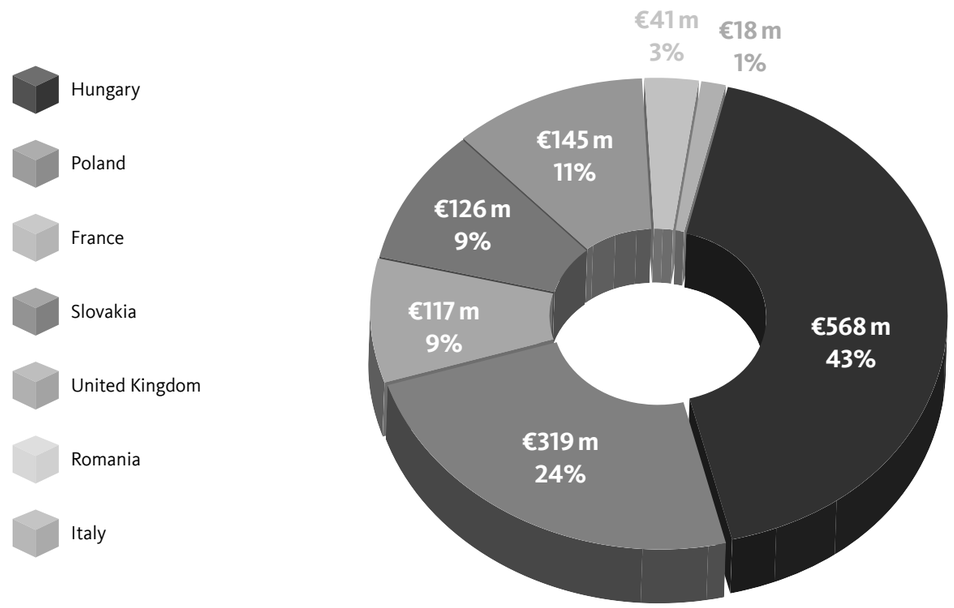
NRI increased to **€32 million** in the first half of the year compared to €27 million in the prior year. This was mainly driven by office and retail acquisitions in Poland at the end of the first half of 2018, but also bolstered by buoyant market conditions in the Budapest office market where like-for-like rents increased across our portfolio.

Occupancy declined slightly to 94.2% from 95.2% at the end of 2018, a temporary drop skewed slightly by the delivery of a new hall at the Airport City Logistics Park in Hungary, which was 80% pre-let at the end of June with strong expectations to increase occupancy in the second half of the year.

CPIPG has a positive outlook for both Poland and Hungary, and believes our platforms are well-positioned for future growth in both office and retail. Slovakia is a small market; however, the Group's assets complement the Czech Republic portfolio. Assets in Romania, France and Italy are non-core and may be considered for disposal in the future.

- Assets primarily in Hungary and Poland, with local teams and platforms
- Net rental income increased by 15% in the first half
- Provides the Group with an additional level of diversification
- Potential to consider further acquisitions

Complementary Assets Portfolio (by value)

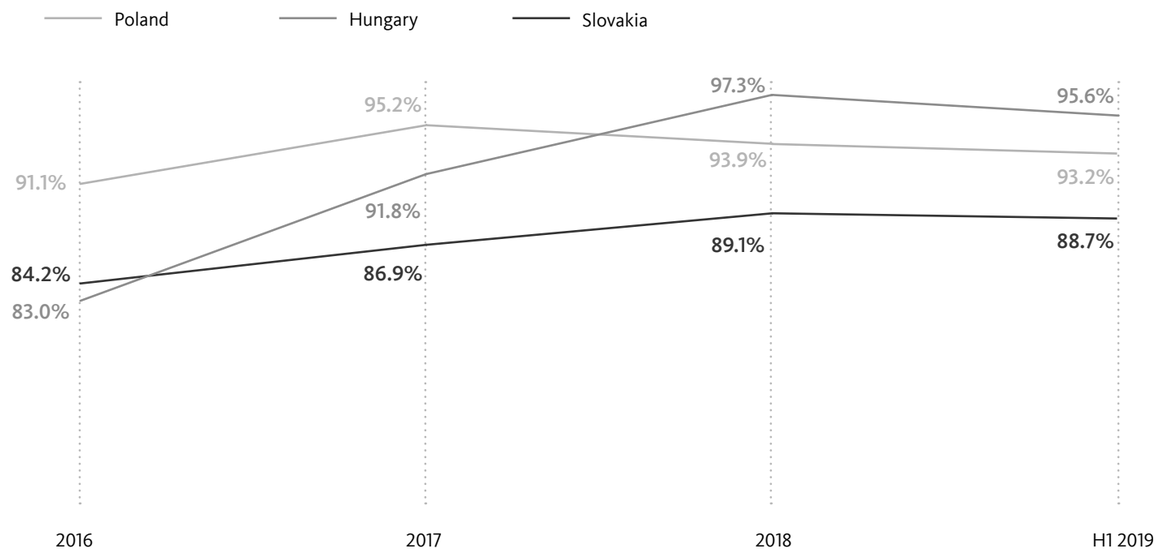


CPIPG's Hungarian portfolio enhancements are largely centred around a desire to consistently meet the needs of everyone working, living and shopping in our properties.

Mátyás Gereben, Country Manager, Hungary

Quadra Building, Budapest, Hungary

Occupancy Rate



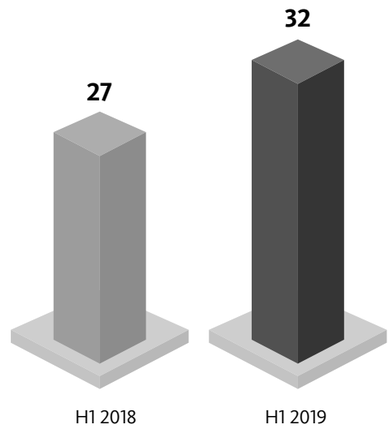
Significant investments in "Green" assets

Many of the assets in the complementary assets portfolio are certified "green."

In Hungary, office buildings certified as BREEAM "very good" include Arena Corner, Gateway Office Park, Quadra Building, Balance Loft and Andrássy Palace.

In Poland, Ogrody shopping centre is certified BREEAM "very good" while Atrium Centrum offices are certified BREEAM In-Use "Good."

Net Rental Income
(€ million)



	Complementary assets portfolio (as at 30 June 2019)				Complementary assets portfolio (as at 31 December 2018)			
	PP value (€ million)	Occupancy (%)	GLA* (m²)	No. of properties	PP value (€ million)	Occupancy (%)	GLA* (m²)	No. of properties
Hungary	**568**	**95.6%**	**305,000**	**20**	549	97.3%	293,000	18
Poland	**319**	**93.2%**	**128,000**	**13**	316	93.9%	128,000	13
France	**117**	**–**	**6,000**	**13****	132	–	6,000	13**
Slovakia	**126**	**88.7%**	**94,000**	**18**	126	89.1%	94,000	18
United Kingdom	**145**	**–**	**5,000**	**2**	91	–	5,000	1
Romania	**41**	**99.6%**	**11,000**	**1**	41	96.9%	11,000	1
Italy	**18**	**–**	**–**	**1**	15	–	–	1
Total	**1,334**	**94.2%**	**548,000**	**68**	**1,270**	**95.2%**	**536,000**	**65**

* *Excluding GLA/GSA under development.*
** *Includes residential properties.*

Top **Assets**

Complementary Assets Portfolio

Number of Assets in each country

United Kingdom
2

France
13

Poland
13

Slovakia
18

Hungary
21

Romania
1

Italy
1

Shopping Centre Ogrody
Country: Poland
City: Elbląg
PP value: €120 million
GLA: 42,000 m²

Atrium Centrum
Country: Poland
City: Warsaw
PP value: €47 million
GLA: 18,000 m²

Atrium Plaza
PP value: €37 million
GLA: 15,000 m²

Central Tower
Country: Poland
City: Warsaw
PP value: €37 million
GLA: 14,000 m²

Buxmead Apartments
Country: United Kingdom
City: London
PP value: €91 million
Residential units: 11

Balance Office Park
Country: Hungary
City: Budapest
PP value: €62 million
GLA: 34,000 m²

Campona
Country: Hungary
City: Budapest
PP value: €75 million
GLA: 40,000 m²

Gateway Office Park
Country: Hungary
City: Budapest
PP value: €77 million
GLA: 36,000 m²

Arena Corner
Country: Hungary
City: Budapest
PP value: €67 million
GLA: 30,000 m²

Andrássy Complex
Country: Hungary
City: Budapest
PP value: €22 million
GLA: 8,500 m²

Polus Centre
Country: Hungary
City: Budapest
PP value: €93 million
GLA: 41,000 m²

Hungary Overview

Portfolio overview

Our portfolio increased by **3.5%** to **€568 million** in the first half of 2019, primarily due to the completion of the new E-F hall of Airport City Logistics Park, offering 55,000 m² of mainly warehouse and office space, together with further modest positive revaluations in our offices.

Net rental income growth was very strong at **12.4%** compared to the prior period, with like-for-like growth partly accounting for the increase as we were able to increase rents across the office portfolio owing to strong market conditions. Lower fit-out costs in 2019 in the office portfolio also contributed to the increase.

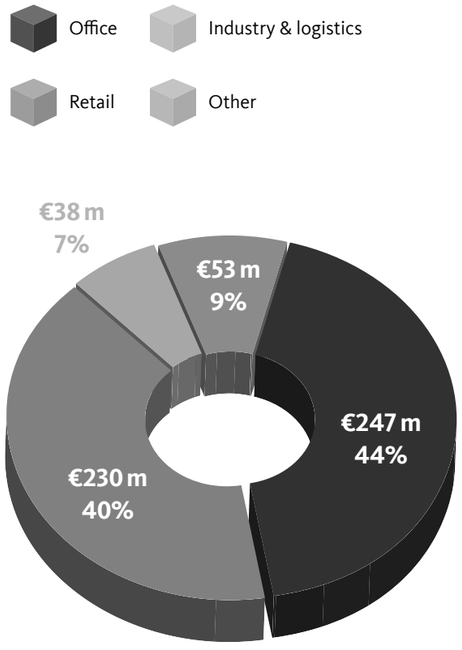
Both office and retail portfolio occupancy levels remain well above **95%** and are still improving. After the end of the period we signed new leases increasing occupancy close to 98% in both portfolios. Gateway, our largest office property, is now 100% leased for the first time since 2008.

Occupancy across the portfolio declined temporarily due to the delivery of Airport City Logistics Park. The asset was 80% pre-let at opening and has already reached 85% occupancy in August. We plan to increase this further in the second half of the year.

CPIPG is also proud to be at the forefront of innovation in CSR and ESG initiatives as well as building development, having won multiple awards. Balance Hall, due to open in the fourth quarter of 2019, will be Hungary's first "Conscious Building", a 15,520 m² eco-friendly and ultra-modern office property development.

Airport City Logistics Park, Budapest, Hungary

Hungarian Assets (by PP Value)



Retail Market

Retail sales growth reached 6.1% in the first half of 2019 compared to the prior year, as economic growth and consumer spending remain healthy, with strong demand for non-food items such as fashion (10.7%) and household products (9.6%). Six new brands entered the Hungarian retail market in the first half.

E-commerce retail, while growing rapidly, still remains below 6% of total retail, less than other CEE countries.

Vacancy rates continue to decline due to continued strong demand combined with little new retail supply, given that only two projects are due to be delivered later in 2019 (together below 10,000 m²). Average rents fell slightly for prime shopping centres in Budapest to €95/m², though the rental market remains robust.

Office Market

The office market continued to strengthen in the first half of 2019, with a particularly solid second quarter. At the end of June 2019 average vacancy rates in Budapest were down from 7.3% to 6.3%, the lowest level on record.

Average rents in Budapest continued to climb, reaching €12.6/m² from €12.2/m² at the beginning of the year. Due to scarcity of available space, Grade A rents also climbed slightly from €14.8/m² to €14.9/m². The greatest appreciation in average rents was found in Central Pest and Váci Corridor.

Leasing activity remains high, particularly in the second quarter where 78% of the 163,400 m² leases signed were related to pre-leasing activity, with renewals only constituting 22%. 84% of the pre-leasing activity was signed along the Váci Corridor.

While three new office completions were delivered in the second quarter (31,700 m²), supply levels are significantly down from the prior year. However, over 506,000 m² of pipeline remains outstanding, with just less than a quarter of this due in the remainder of 2019, though development delays could push some supply into 2020.

Source: CBRE

An innovative and award-winning platform

Balance Hall development, Budapest, Hungary

Balance Hall – Hungary's first "Conscious Building"

We are excited to deliver a new 15,520 m² office development in November, Balance Hall, CPIPG's first "Conscious Building" development. Balance Hall will be a human-centred, eco-friendly office building in a superb and in-demand location on the Váci Corridor, designed to fulfil all 21st-century requirements in terms of cost-effective operations, conscious application of sustainable and modern technologies, and competitive prices. As of August 2019 Balance Hall is more than 60% pre-let by high quality international tenants, and is due to be completed in the final quarter of 2019.

In recognition of the "Conscious Building" initiative, the company received the CIJ Innovation of The Year Award (2018) and HOF Award CEE (2019) in category New Concept/Innovation. CPIPG also received the accolade of Asset Management Company of the Year 2018 at this year's Real Estate Awards Gala.

At the forefront of CSR and ESG initiatives in Hungary

CPIPG is proud to be at the forefront of CSR and ESG-related activities, through supporting innovative programmes such as:

- Human Innovation Program ("HIP") is a support programme provided to tenants in our office buildings aimed at supporting and improving their mental and physical health and well-being.
- Access4you is a company that audits and certifies buildings based on their access to people with special needs. We are the first real estate company in Hungary to be certified.
- Spaceflow is an app that will enable tenants in "HIP" office buildings to follow events and programmes organised by the HIP community managers.
- Recobin is a range of bins made of recycled materials for selective waste collection. They can reduce waste transportation costs by as much as 50% and the services comply with the ISO14001 and the EMAS office standards regarding waste recycling.

CIJ Innovation of The Year Award (2018)

HOF Award CEE (2019) New Concept/Innovation

Asset Management Company of the Year 2018

Poland
Overview

Thanks to our active asset management approach, our retail portfolio remains resilient to Sunday retail ban regulations, achieving record levels of tenant sales. At the same time, our office portfolio is well positioned to continue to benefit from strong market conditions in Warsaw.

Barbara Topolska, Country Manager, Poland

Atrium Centrum Office, Warsaw, Poland

Retail

Portfolio overview

Our retail assets in Poland delivered solid growth in net rental income for the first half of the year compared to the same period in 2018 – up by **18.0%** to **€5.4 million** from €4.6 million, largely due to the impact of the acquisition of four retail parks in April 2018. On a like-for-like basis, gross rental income growth increased by a robust **6.8%**.

Across our retail assets, we are seeing increased tenant sales despite the impact of the Sunday trading ban.

Ogrody, a 41,900 m² GLA food-anchored shopping centre in Elblag, is the only modern shopping mall in the city. During the first half of 2019, occupancy remained stable at around 96%. Absolute footfall in the first half fell by 6.9% compared to the same period in 2018, though when adjusted for allowed trade days, average daily footfall remained more stable (-0.9%). Nevertheless, tenant sales in fact increased by **1.5%**, demonstrating not only higher average spend per customer but also the muted impact of the Sunday trading ban on sales.

The performance at Orkana (8,000 m² convenience-oriented local shopping centre based in Lublin) further demonstrates this trend – while total footfall declined slightly (–0.7%), tenant sales increased by **8.4%**.

The Group also owns six retail parks in Poland. Four were acquired in April 2018 and are operating under the HopStop brand, but in 2019 will be rebranded under City Market. Occupancy remains close to 100% across the portfolio, and performance was robust over the year.

Market overview

The vacancy ratio in shopping centres in the main markets remains low at around 4%. In addition, the Polish market still attracts large international brands such as Urban Outfitters, Monki, WeekDay and the long-awaited Primark, all of which announced their debut this year.

The sector remains resilient to challenges such as the ban on Sunday trading, the steady rise of the e-commerce sector and fierce competition on the market.

Since January this year, the modern retail market has increased by 225,000 m² and new supply in the whole of 2019 will be around 400,000 m², lower than previous years. Limited new supply and the format and size of projects delivered indicate that the market has reached maturity.

Galeria Młociny, opened in a northern, densely populated part of Warsaw (76,000 m² of GLA) is the only large shopping centre launch this year. In the coming 2-3 years, no new openings of large shopping centres are expected.

At the end of June, around 360,000 m² of leasable space was under construction, out of which half is expected to be delivered by the end of this year. 70% of new space will be below 20,000 m². The importance of cities with fewer than 100,000 residents is steadily growing, with half of new supply under construction located in such cities.

Further Sunday trading ban restrictions are due to be implemented from January 2020, when the only allowed trading Sundays (seven specified Sundays in a year) will be before Christmas and Easter to accommodate seasonal sales. Throughout 2019 one Sunday per month is still allowed for trading.

Sources: JLL, BNP Paribas Real Estate

Central Tower, Warsaw, Poland

Offices

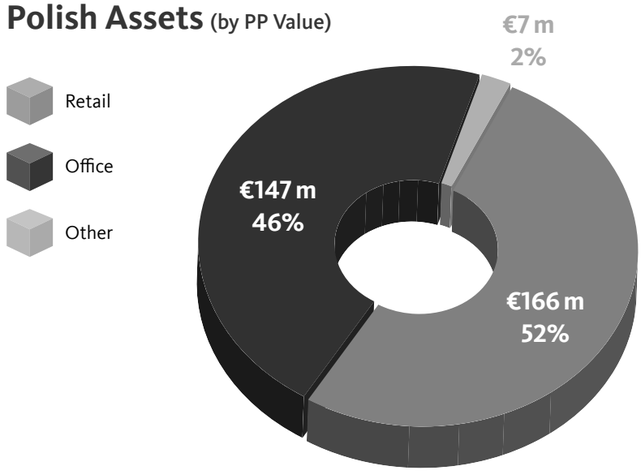
Portfolio overview

The Group is the owner of five high-quality office buildings in Poland, all located in Warsaw Central Business District (CBD). The portfolio delivered robust growth in gross rental income for the first half of the year compared to the same period in 2018 – up to **€5.4 million** from €2.7 million. The majority of the increase is due to our acquisition of Atrium Complex in May 2018.

Occupancy across the portfolio was stable compared to the end of 2018, while average office rents also remained stable. However, the outlook for the remainder of the year is positive given the constructive office market environment in Warsaw, and we expect to increase occupancy given advanced discussions with a number of tenants in Atrium Centrum and Prosta 69.

Leasing activity in the first half of the year was robust, as new contracts were signed for more than **€3.3 million** of portfolio NRI, representing a total GLA of more than 7,000 m². This included Warsaw University (1,300 m²) in Prosta 69, Polski Bank Komorek Macierzystych (1,300 m²) in Atrium Centrum, Green Cafe Nero and Paragona (720 m²) in Atrium Plaza, and Electromobility (610 m²) in Central Tower. In addition, in Atrium Centrum, Dentons Business Services EMEA (DBSE) took over additional premises (~1,600 m²) via an extension and renewal of their existing lease contract.

Polish Assets (by PP Value)



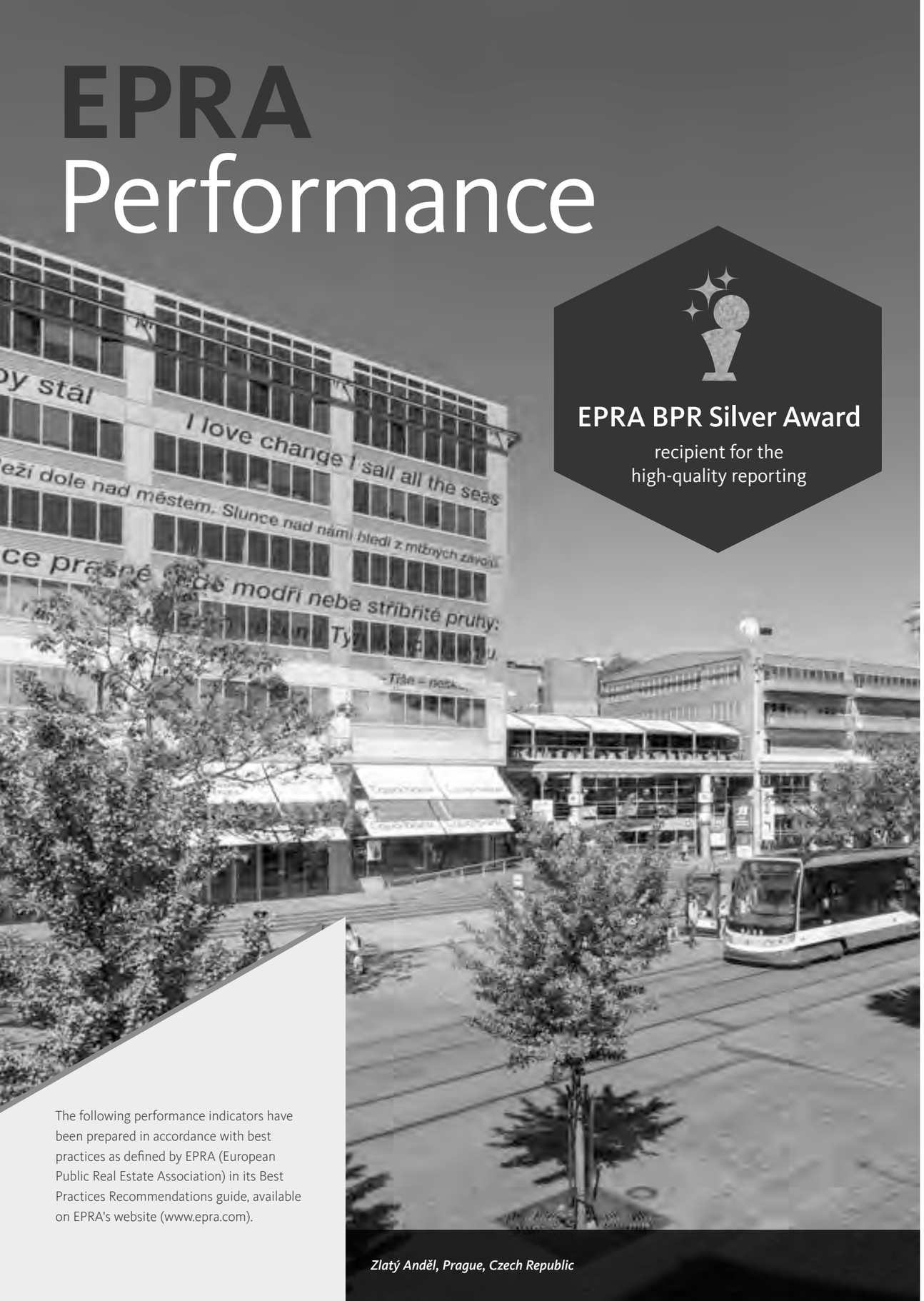
Market overview

Warsaw is the fastest growing office market in the EU, benefiting from companies relocating due to Brexit, attracting financial institutions and other business services companies considering a move away from London. JP Morgan is one recent example of a major company making such a move. Prime headline rents rose in the central areas of Warsaw (at €17.0 – €24.0 m² per month), due to a combination of high demand, low vacancy and increasing construction costs. Prime assets located in the best non-central areas lease for €11.0 – €15.0 m² per month. Prime yields stood at 4.75% for offices at the end of the first half of the year, while the vacancy rate was 5.6% at the end of the first half of the year in the city centre.

Total pipeline supply in Poland stood at 1.65 million m² at the end of June, of which Warsaw accounted for close to half (758,000 m²). Availability of new office space in the central part of the city should improve in early 2020 when roughly 196,200 m² of new supply is expected to be delivered. Most of the space completed in the first half of 2019 was located outside the city centre. However, construction activity dominates in the centre, especially in its western part. Due to the current shortages, owners are limiting lease incentives. In the first half of 2019, a total of approximately 406,000 m² was leased, 3% lower than the first half of 2018. Nevertheless, the second quarter of 2019 brought the highest quarterly take-up level in the history of the Warsaw office market at 265,800 m².

Sources: JLL, BNP Paribas Real Estate, CBRE

EPRA Performance



EPRA BPR Silver Award

recipient for the high-quality reporting

The following performance indicators have been prepared in accordance with best practices as defined by EPRA (European Public Real Estate Association) in its Best Practices Recommendations guide, available on EPRA's website (www.epra.com).

Zlatý Anděl, Prague, Czech Republic

EPRA Earnings

A rationale for using EPRA Earnings is that unrealized changes in valuation, gains or losses on disposals of properties and certain other items do not necessarily provide an accurate picture of the company's underlying operational performance. EPRA Earnings measures the underlying operating performance of an investment property company excluding fair value gains, investment property disposals, and limited other items that are not considered to be part of the core activity of an investment property company.

EPRA Earnings (€ million)

	H1 2019	H1 2018*
Earnings per IFRS income statement	**166**	**161**
Adjustments to calculate EPRA Earnings, exclude:		
Changes in value of investment properties, development properties held for investment and other interests	80	154
Profits or losses on disposal of investment properties, development properties held for investment and other interests	0	0
Profits or losses on sales of trading properties including impairment charges in respect of trading properties	1	1
Tax on profits or losses on disposals	0	0
Negative goodwill / goodwill impairment	(7)	0
Changes in fair value of financial instruments and associated close-out costs	1	1
Acquisition costs on share deals and non-controlling joint venture interests	0	0
Deferred tax in respect of EPRA adjustments	(16)	(19)
Adjustments to the above in respect of joint ventures (unless already included under proportional consolidation)	0	0
Non-controlling interests in respect of the above	0	0
EPRA Earnings	**107**	**25**
Basic number of shares	8,761,566,410	8,761,566,410
EPRA Earnings per Share (EPS) (€)	**0.012**	**0.003**
Company specific adjustments:		
Impairments	6	4
Amortisation, depreciation	(16)	(15)
Net foreign exchange gain – unrealised	0	0
Net foreign exchange loss – unrealised	12	(46)
Company specific Adjusted Earnings	**104**	**83**
Company specific Adjusted EPS	**0.012**	**0.009**

* *The Group reclassified effect of changing foreign exchange rates on the revaluation of the investment properties from the Other net financial result to the Net valuation gain or loss (refers to paragraph 2.1 of Consolidated Financial Statements).*

EPRA Net Asset Value

EPRA NAV is a measure of the fair value of net assets assuming a normal investment property company business model. Accordingly, there is an assumption of owning and operating investment property for the long term.

The objective of the EPRA NAV measure is to highlight the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. Similarly, trading properties are adjusted to their fair value under EPRA's NAV measure.

EPRA Net Asset Value (€ million)

	H1 2019	2018
NAV per the financial statements	**3,952**	**3,776**
Effect of exercise of options, convertibles and other equity interests (diluted basis)	0	0
Diluted NAV, after the exercise of options, convertibles and other equity interests	**3,952**	**3,776**
Include		
Revaluation of investment properties (if IAS 40 cost option is used)	0	0
Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used)	0	0
Revaluation of other non-current investments	0	0
Revaluation of tenant leases held as finance leases	0	0
Revaluation of trading properties	4	7
Exclude		
Fair value of financial instruments	6	5
Deferred tax	(761)	(745)
Goodwill as a result of deferred tax	43	43
EPRA NAV	**4,668**	**4,480**
Fully diluted number of shares	8,761,566,410	8,761,566,410
EPRA NAV per share (€)	0.533	0.511

EPRA Vacancy Rate

The EPRA vacancy rate is calculated by dividing the market rents of vacant spaces by the market rents of the total space of the whole property portfolio (including vacant spaces).

The rationale for using the EPRA vacancy rate is that it can be clearly defined, should be widely used by all participants in the direct real estate market and comparable from one company to the next.

EPRA Vacancy Rate (€ million)

	H1 2019	2018
Estimated rental value of vacant space	**20**	20
Estimated rental value of the whole portfolio	**366**	358
EPRA Vacancy Rate	**5.4%**	**5.5%**

EPRA Triple Net Asset Value (NNNAV)

EPRA NNNAV is similar to EPRA NAV except it includes the fair value of deferred tax liabilities, debt, and financial instruments. The measure can be considered a 'spot' measure of the fair value of all assets and liabilities. The objective of the EPRA NNNAV measure is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV.

EPRA Triple Net Asset Value (€ million)

	H1 2019	2018
EPRA NAV	**4,668**	**4,480**
Include		
Fair value of financial instruments	6	5
Fair value of debt	(30)	31
Deferred tax	(261)	(244)
EPRA NNNAV	**4,383**	**4,273**
Fully diluted number of shares	8,761,566,410	8,761,566,410
EPRA NNNAV per share (€)	**0.500**	**0.488**

EPRA Net Initial Yield and EPRA "Topped-Up" Net Initial Yield

The EPRA NIY (Net Initial Yield) is calculated as the annualized rental income based on passing cash rents, less non-recoverable property operating expenses, divided by the gross market value of the property. The EPRA "Topped-up" NIY is calculated by making an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent-free periods and step rents).

EPRA NIY and EPRA "topped-up" NIY are aimed at encouraging the provision of comparable and consistent disclosure of yield measures across Europe. These two yield measures can be clearly defined, widely used by all participants in the direct and indirect European real estate market and should be largely comparable from one company to the next and with market evidence.

EPRA NIY and "topped-up" NIY (€ million)

	H1 2019	2018
Investment property – wholly owned	6,942	6,687
Investment property – share of JVs/Funds	0	0
Trading property (including share of JVs)	0	0
Less: Developments	**778**	**701**
Completed property portfolio	6,165	5,986
Allowance for estimated purchasers' costs	0	0
Gross up completed property portfolio valuation	**6,165**	**5,986**
Annualised cash passing rental income	313	301
Property outgoings	38	39
Annualised net rents	**275**	**262**
Add: Notional rent expiration of rent free periods or other lease incentives	**12**	**15**
Topped-up net annualised rent	**286**	**277**
EPRA NIY	**4.46%**	**4.38%**
EPRA "topped-up" NIY	**4.65%**	**4.63%**

Blücherstraße 22, Berlin, Germany

EPRA Cost Ratio

EPRA cost ratio is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administrative expenses as a percentage of gross rental income.

The EPRA Cost Ratios are aimed at providing a consistent base-line from which companies can provide further information around costs where appropriate.

EPRA Cost Ratios (€ million)

	H1 2019	H1 2018
Include:		
Administrative/operating expense line per IFRS income statement	54	53
Net service charge costs/fees	(18)	(16)
Management fees less actual/estimated profit element	0	0
Other operating income/recharges intended to cover overhead expenses less any related profits	0	0
Share of Joint Ventures expenses	0	0
Exclude (if part of the above):		
Investment property depreciation	0	0
Ground rent costs	1	0
Service charge costs recovered through rents but not separately invoiced	0	0
EPRA Costs (including direct vacancy costs)	**35**	**37**
Direct vacancy costs	2	2
EPRA Costs (excluding direct vacancy costs)	33	35
Gross Rental Income less ground rents – per IFRS	**155**	**146**
Less: service fee and service charge costs components of Gross Rental Income (if relevant)	0	0
Add: share of Joint Ventures (Gross Rental Income less ground rents)	0	0
Gross Rental Income	155	146
EPRA Cost Ratio (including direct vacancy costs)*	**0.23**	**0.25**
EPRA Cost Ratio (excluding direct vacancy costs)*	**0.22**	**0.24**

Note: Our EPRA cost ratio is higher than some peers because of CPIPG's consistent reinvestment in our properties to improve rents, occupancy and valuations.

Valuation Summary

CPIPG's property portfolio has grown because of higher valuations and our proactive approach to acquisitions. The company remains open to exploring acquisitions which are appropriately priced and fit our areas of expertise.

Jiří Dedera, Director of Corporate Finance

Property Valuation

The consolidated financial statements for the six months ended 30 June 2019 have been prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by European Union, which include the application of the fair value method. Since the property portfolio owned by the Group must be stated at fair value (present value), the regular valuation of these properties by independent experts is recommended.

The Group revalues the entire portfolio on an annual basis; for the semi-annual period, CPIPG revalues properties where the performance has been exceptional (positively or negatively). Under the terms of the Group's EMTN programme, 90% of the portfolio must be externally valued by reputable independent valuation company on an annual basis.

The Group's management analysed the situation on the real estate market at the time together with current yields and then applies discount rates and other factors used by independent valuators in their appraisals as of 31 December 2018. As a result, the fair value of the majority of the property portfolio as of 30 June 2019 was determined based on the management's analysis described above and it does not significantly differ from the fair value as of 31 December 2018.

The property portfolio valuation as at 30 June 2019 is based on reports issued by:

- **Jones Lang LaSalle**
- **Savills**
- **Cushman & Wakefield**
- **RSM TACOMA**
- **Knight Frank**
- **CBRE**
- **BNP**
- **Mazars**
- **other appraisers**

The following table summarizes the number and value of the Group's real estate assets appraised by individual firms as well as the share of the appraised value in the total valuation. For the purpose of higher informativeness, individual appraisers' workload and valuation results are presented by business cluster. The contribution of individual firms to total valuation summarized across business clusters is also included.

Split by appraisers and segments (as at 30 June 2019)

Appraisers	Segments	Number of properties	Valuation	% of total PP value
Jones Lang Lasalle	Czech Republic	114	2,844	36%
	Hotels & Resorts	3	143	2%
	Complementary Assets Portfolio	25	694	9%
Savills	Berlin	49	2,075	26%
	Czech Republic	1	117	1%
	Complementary Assets Portfolio	1	91	1%
Cushman & Wakefield	Czech Republic	41	368	5%
	Hotels & Resorts	22	446	6%
Tacoma	Czech Republic	3	157	2%
	Hotels & Resorts	9	97	1%
CBRE	Czech Republic	1	78	1%
	Complementary Assets Portfolio	17	120	2%
BNP	Hotels & Resorts	1	38	0%
	Complementary Assets Portfolio	14	135	2%
Knight Frank	Complementary Assets Portfolio	9	231	3%
Other	Czech Republic	66	94	1%
	Berlin	0	8	0%
	Hotels & Resorts	3	57	1%
	Complementary Assets Portfolio	2	63	1%
Total		381	7,855	100%

Portfolio Net Yields

	EPRA Net Initial Yield	EPRA Topped-up Net Initial Yield	Net Equivalent Yield	Prime Yield
Czech Republic	**5.0%**	**5.2%**	**5.3%**	
Retail	5.7%	5.8%	6.0%	4.3%
Office	4.4%	5.2%	5.0%	4.3%
Berlin	**3.6%**	**3.6%**	**3.7%**	
Office	3.6%	3.6%	3.7%	3.1%
Complementary Assets Portfolio	**6.1%**	**6.4%**	**7.2%**	
Retail	7.0%	7.1%	7.9%	5.2%
Office	5.0%	5.5%	6.2%	5.1%
Total	4.5%	4.7%	4.8%	

The table shows a comparison of yields across various countries and segments of the Group. The EPRA NIY (Net Initial Yield) is calculated as the annualised rental income based on passing cash rents, less non-recoverable property operating expenses, divided by the gross market value of the property. The EPRA "Topped-up" NIY is calculated by making an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent-free periods and step rents). The Net Equivalent Yield is calculated as a weighted average of the net initial yield and the reversionary yield, representing the return a property will produce. The reversionary yield is based on ERV (Estimated rental value) of vacant areas stated by appraisers for each property.

The relatively lower EPRA "Topped-up" Yields in comparison to Net Equivalent Yields are mainly due to excluding income on vacant spaces.

On a Group basis, the EPRA Net Initial Yield of our portfolio edged up to 4.5% from 4.4% at the end of 2018, as the rate of increase in rental income has been higher than the rate of increase in the value of the portfolio.

Buxmead, London, United Kingdom

Finance Review

Pavel Měchura, Group Finance Director

In the first half of 2019, CPIPG continued to optimise our capital structure. We further improved our credit metrics, strengthened our liquidity and tightened our financial policy, reflecting CPIPG's focus on achieving "high BBB" ratings in the coming years.

During the first half of 2019, CPIPG continued our successful track record on the international capital markets and extended our global bond investor base by issuing **over €900 million** equivalent of Euro hybrids, Hong Kong Dollar senior unsecured bonds, and US Dollar senior unsecured bonds via our EMTN programme. In March 2019, we also completed Schuldschein loans for **€170 million**. Proceeds were partially used to refinance debt including a bridge loan related to our UK acquisition at the end of 2018 and drawings under our revolving credit facility; some of the proceeds have been held in cash.

We further strengthened our liquidity by signing a **€510 million** three-year revolving credit facility with 11 regional and international banks, replacing the Group's €150 and €80 million facilities signed during 2018.

In keeping with the Group's objective to achieve **"high BBB"** credit ratings, we tightened our financial policies. CPIPG now targets a **net LTV of 40% or below** in the normal course of business. In the case of acquisitions with high strategic merit, the Group may consider a net LTV up to 45% on a temporary basis. CPIPG also revised the ICR target to 4x or above. Consistent with previous guidance, CPIPG does not intend to begin paying shareholder dividends. While the Company has repurchased shares in 2015, 2018 and in July 2019, we expect to retain between 50-100% of annual FFO going forward.

CPIPG's **Financial Policy**

1 Rating commitment

Absolute commitment to strong investment grade ratings

Focused on achieving **"high BBB"** ratings in coming years

2 Leverage

We now target a **Net LTV of 40% or below**

CPI may consider a Net LTV up to 45% temporarily for strategic acquisitions

3 Interest coverage

CPI now intends to maintain an **ICR of 4x or above**

4 Shareholder distributions

Shareholder distributions will be subject to **50% – 100% FFO retention annually**

No intention to institute dividend distributions

5 Funding strategy

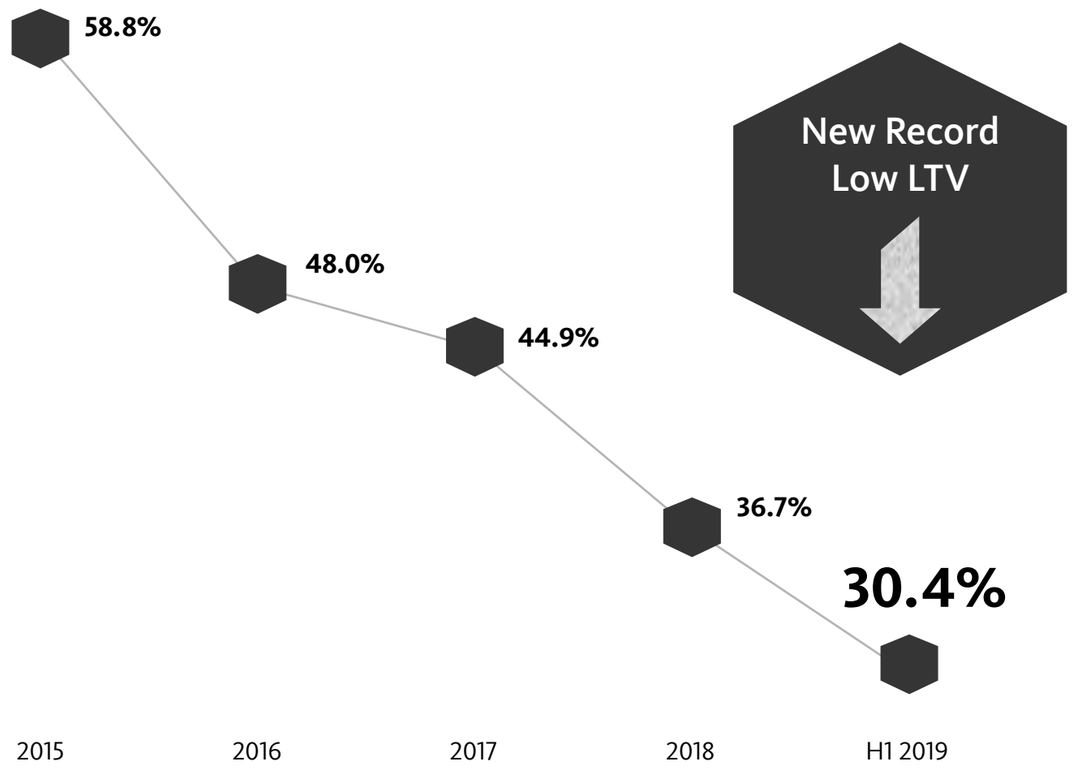
Maintain a high level of unencumbered assets

Proactive management of our maturity profile

6 Access to liquidity

In March 2019, we signed a new 3-year revolving credit facility totalling **€510 million**

LTV in period 2015–H1 2019 (%)



The Group's net LTV reached a record low of 30.4% at the end of June 2019. CPIPG now targets a net LTV of 40% or below, although we may consider an LTV of up to 45% in the case of acquisitions with high strategic merit. CPIPG recognises that a conservative leverage policy is important for our bondholders, lenders, rating agencies and other counterparties.

CPI City Centre, Ústí nad Labem, Czech Republic

Undated Subordinated ("Hybrid") Notes

In April 2019, the Group issued €550 million of undated 4.875% fixed rate resettable subordinated "hybrid" notes. The notes were issued under the Group's €5 billion Euro Medium Term Note programme (EMTN). The notes are classified as equity under IFRS and receive 50% equity credit treatment from Moody's and S&P.

Senior Unsecured Financing

CPIPG issued €394 million of senior unsecured bonds under our EMTN programme during the first half of 2019. €82 million were issued in Hong Kong Dollars with maturities in 2024 and 2026, and €312 million were issued in US Dollars with a maturity in 2023. In July 2019, we increased the size of the US Dollar bond by €90 million equivalent. The HKD and USD bond proceeds were swapped to EUR. The Group also completed Schuldschein loans for €170 million in March 2019.

Active Presence on the Capital Markets

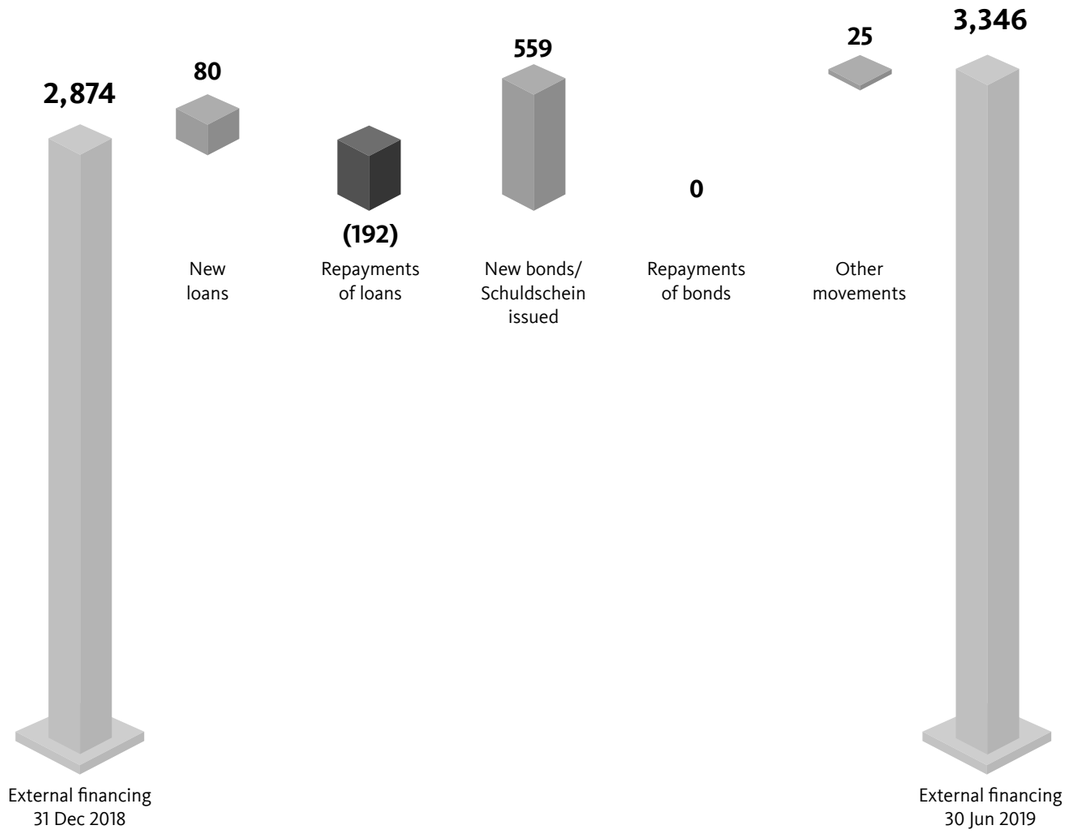
The Group has maintained an active presence on the international capital markets. Since October 2017, CPIPG has issued senior unsecured bonds via our EMTN programme in Euros, Swiss Francs, Japanese Yen, Hong Kong Dollars and US Dollars. In 2018 and 2019, the Group issued Euro hybrid bonds under our EMTN programme, and in 2019 issued three tranches of Euro-denominated Schuldschein (assignable loans).

Issue Date	Currency	Amount (million)	€ equivalent (million)	Coupon (%)	Maturity Date	Format	% swapped to EUR
Jun 2019	HKD	283	32	4.450	Jun 2026	EMTN	100%
Apr 2019	EUR	550	550	4.875	Perpetual	EMTN (hybrid)	—
Mar 2019	EUR	111	111	FRN	Mar 2023	SSD	—
Mar 2019	EUR	49	49	FRN	Mar 2025	SSD	—
Mar 2019	EUR	10	10	2.696	Mar 2027	SSD	—
Mar 2019/Jul 2019	USD	450	402	4.750	Mar 2023	EMTN	100%
Feb 2019	HKD	450	50	4.510	Feb 2024	EMTN	100%
Dec 2018	JPY	8,000	62	1.414	Dec 2021	EMTN	100%
Dec 2018	JPY	3,000	23	1.995	Dec 2028	EMTN	100%
Oct 2018	CHF	165	145	1.630	Oct 2023	EMTN	61%
Oct 2018	EUR	610	610	1.450	Apr 2022	EMTN	—
May 2018	EUR	550	550	4.375	Perpetual	EMTN (hybrid)	—
Oct 2017/Dec 2017	EUR	825	825	2.125	Oct 2024	EMTN	—

Note: EMTN denotes issuance under our EMTN programme; all bonds are senior unsecured unless otherwise noted. SSD denotes Schuldschein. Terms on the Schuldschein (covenants, etc.) are completely aligned/match our EMTN programme.

Changes in External financing during H1 2019

(€ million)

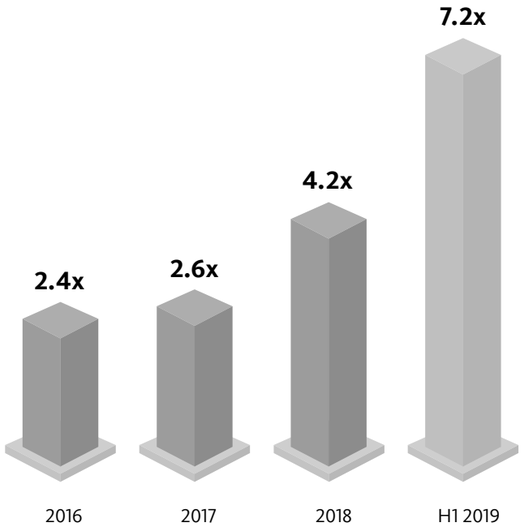


Note: the chart above does not include the impact of our €1.1 billion hybrid bonds, which are treated as equity for IFRS purposes.

View from Central Tower, Warsaw, Poland

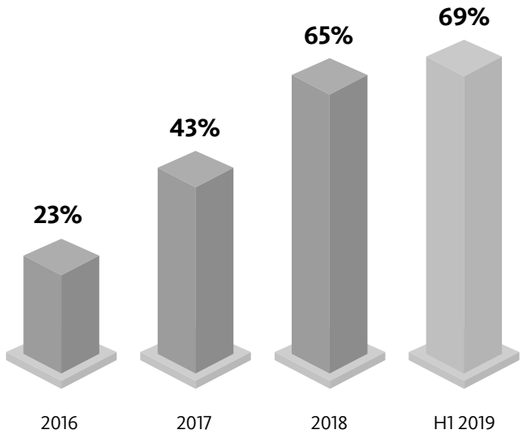
Improvement in the Group's Net Interest Coverage (ICR)

By refinancing legacy high-coupon bonds and higher-interest debt and through continual improvements in profitability, the Group's Net ICR has improved significantly to **7.2x** for the first half 2019. We tightened our financial policy in 2019 and revised the ICR target to 4x or above.



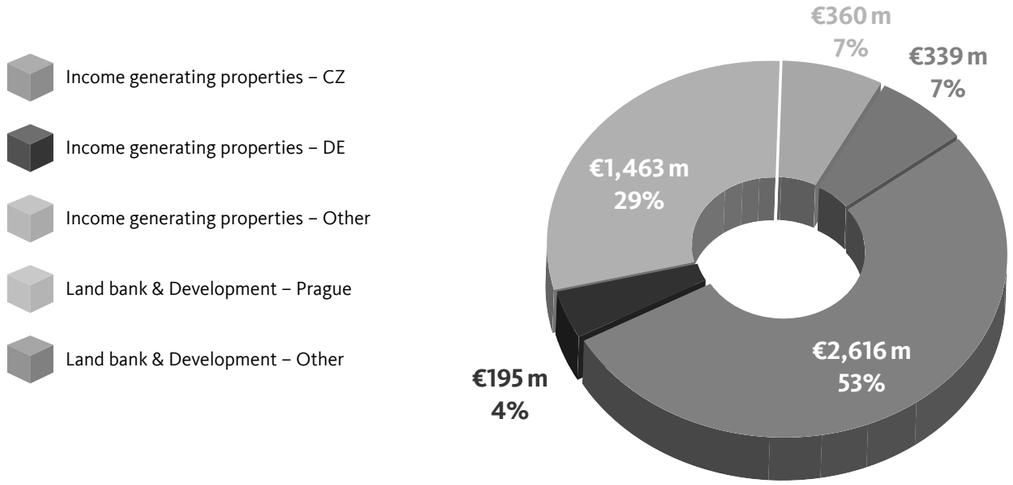
Increased Level of Unencumbered Assets

The Group reached a record **69%** of unencumbered assets at the end of June 2019, relative to 65% at the end of 2018. Unencumbered assets primarily consisted of retail and office properties in the Czech Republic, along with land bank, residential assets and selected assets in Germany and other geographies of the Group.



Zossener Straße, Berlin, Germany

Composition of Unencumbered Asset Portfolio

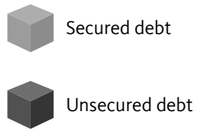


Senior Unsecured Debt a Majority of Funding

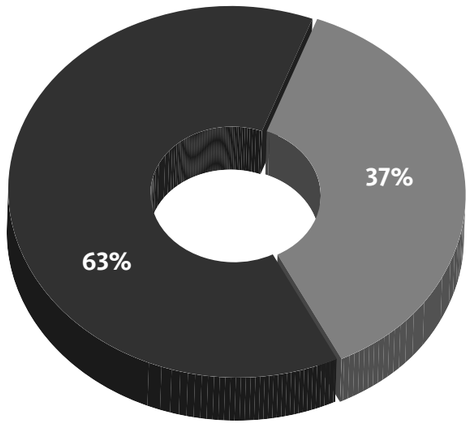
The Group further reduced the level of secured debt as a percentage of total debt to 31% at the end of June 2019, relative to 37% at the end of 2018. CPIPG intends to maintain a simple, flexible capital structure focused primarily on senior unsecured financing..

New Record
Low Secured Debt

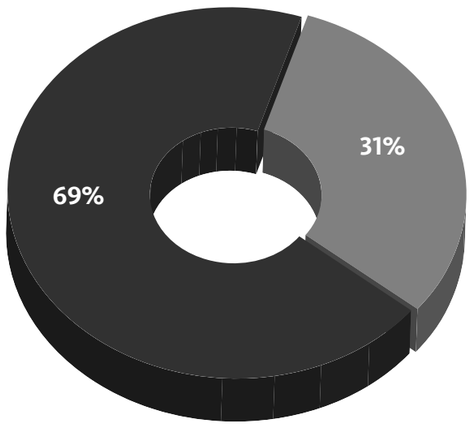
31%



2018



H1 2019



Central Tower, Warsaw, Poland

Unsecured Revolving Credit Facilities

In March 2019, the Group signed a new **€510 million** three-year revolving credit facility with eleven international and regional banks, replacing the **€150 million** and **€80 million** facilities signed during 2018.

Revolving credit facilities offer CPIPG significant flexibility to access cash quickly and at low cost. The Group draws and (repays) our revolving credit facilities regularly for general corporate purposes and to manage short-term cash needs.

Total Available Liquidity of the Group

At the end of August 2019, the Group has nearly **€1.5 billion** of available liquidity, as noted below. Considering CPIPG's limited amount of debt maturities in coming years, this offers significant flexibility for the group.

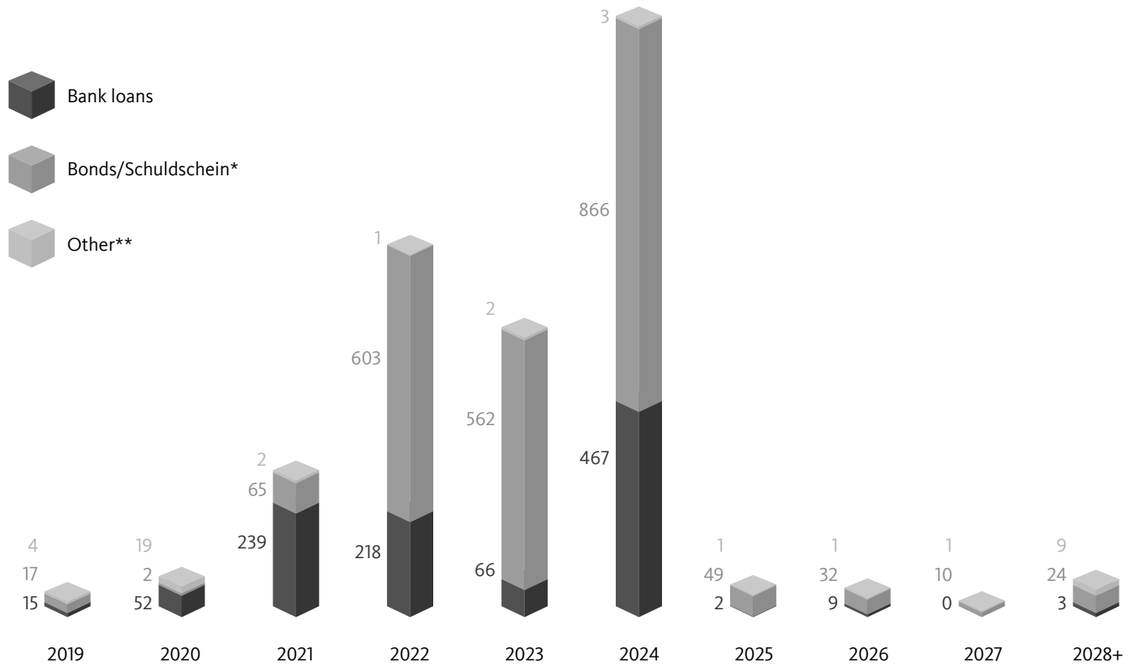
Cash as at 30 June 2019 (€ million)	**959**
(–) Share repurchase (July 2019)	(109)
(+) Proceeds from USD bond tap (July 2019)	90
(+) RCF – fully undrawn	510
Total liquidity as at 31 August 2019	**1,450**

Debt Maturity Profile

The Group has no significant debt maturities over the next few years and is confident in our liquidity position. We will continue to explore pre-financing debt maturities and lengthening our maturity profile whenever possible.

The Group's hybrid bonds totalling **€1.1 billion** are callable in 2023 and 2025 respectively. While the hybrids are classified as equity under IFRS, the Group incorporates the hybrid into our internal financing and refinancing plans and sees hybrids as an important part of the Group's capital structure.

Maturity profile of external debt by type of debt (€ million)

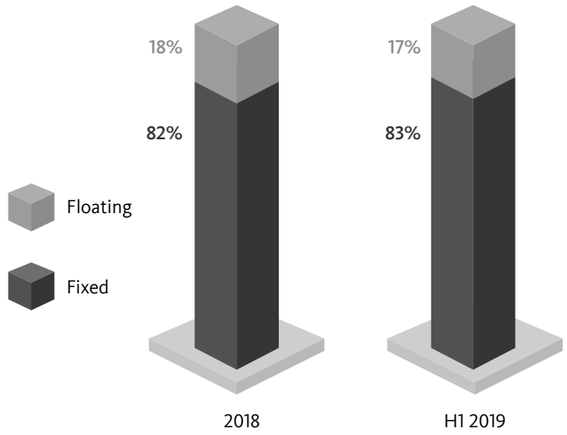


* *Bonds 2019 and 2020 include only accrued interest payable in 2019/2020.*
** *Other debt comprises non-bank loans from third parties and financial leases.*

Fixed Versus Floating Rated Debt

The Group's level of fixed-rate debt was approximately 83% at the end of June 2019, relative to 82% at the end of 2018. We target a minimum of 80% fixed-rate debt going forward. The Group therefore has a high degree of protection against interest rate volatility.

If interest rates on all of our variable borrowings increase by 3 p.p., the cost of the Group's external debt will rise only by 0.4 p.p. In addition to our bonds which carry fixed coupons, many of our loan agreements include arrangements which convert the loan to a fixed rate obligation. The Group can also make use of hedging instruments as required to manage the level of fixed and floating rate debt.



Average Interest Rate Sensitivity

(% p.a.) as of 30 June 2019*

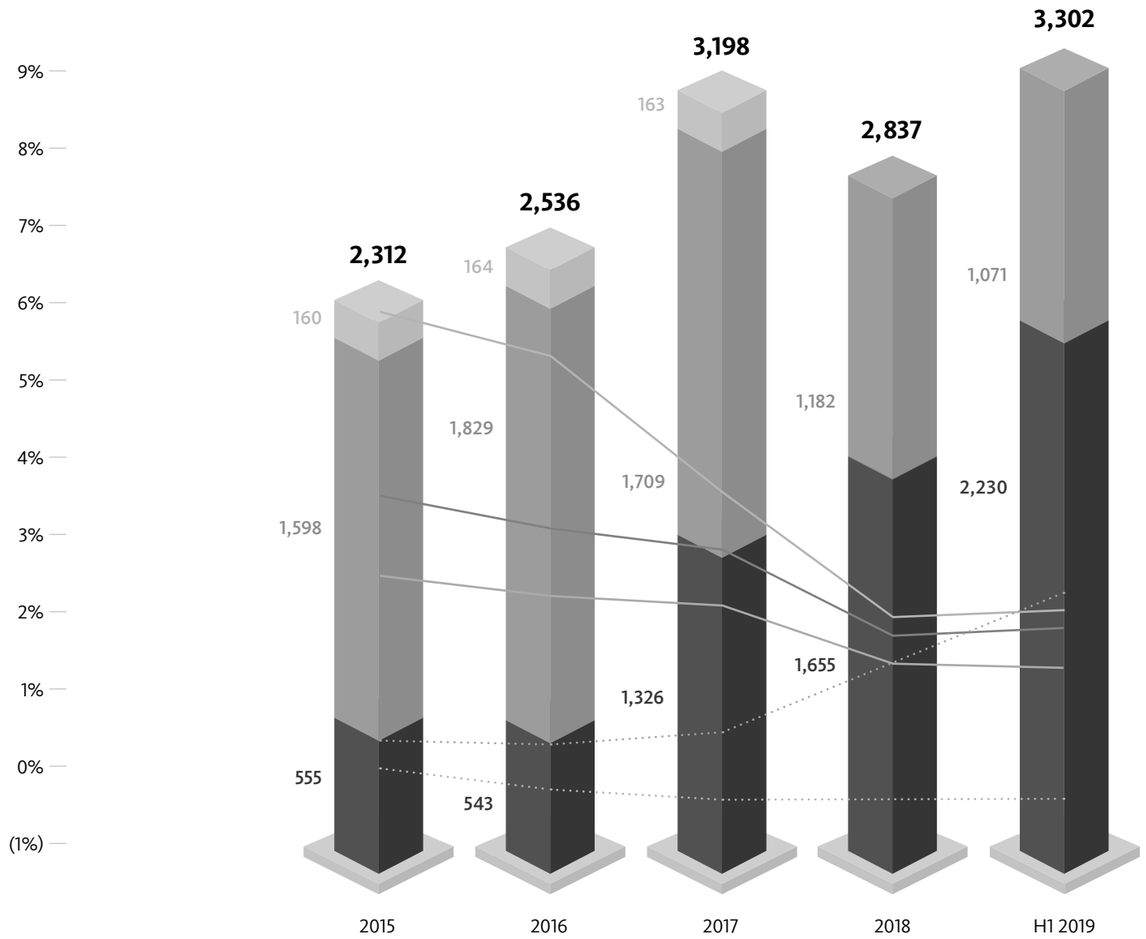
Type of liability	Share on external debt	Interest rate as of 30 Jun 2019	if market interest rate +1 p.p.	if market interest rate +2 p.p.	if market interest rate +3 p.p.
Bonds/Schuldschein	67%	1.9%	2.0%	2.1%	2.2%
Bank loan	32%	1.2%	1.5%	1.8%	2.1%
Leasing	1%	0.9%	1.0%	1.2%	1.4%
Non bank loan	0%	1.6%	1.7%	1.7%	1.7%
Total	**100%**	**1.7%**	**1.8%**	**2.0%**	**2.1%**

* *Includes impact of contracted interest rate swaps.*

Rieger Plaza Development, Hradec Králové, Czech Republic

Structure of External Debt, Average Interest Rates and Market Rates

(€ million)



Project bonds	160	164	163	0	**0**
Bank loans	1,598	1,829	1,709	1,182	**1,071**
Corp. bonds/Schuldschein	555	543	1,326	1,655	**2,230**
Avg. bond interest rate	5.46%	4.93%	3.34%	1.84%	**1.89%**
Avg. bank loan interest rate	2.32%	2.10%	1.96%	1.29%	**1.20%**
Total average interest rate	**3.29%**	**2.89%**	**2.60%**	**1.61%**	**1.66%**
Average 3m EURIBOR	(0.02%)	(0.27%)	(0.33%)	(0.32%)	**(0.31%)**
Average 3m PRIBOR	0.31%	0.29%	0.41%	1.27%	**2.07%**

At the end of June 2019, the Group's cost of debt remained almost stable in the comparison with the end of 2018, reflecting our active presence on the international capital markets.

Secured Bank Loans

At the end of June 2019, the Group had €1,046 million of secured debt, which represented 31% of total debt (versus 37% at the end of 2018).

The majority of the Group's bank loans are denominated in Euros, with only €9 million denominated in Swiss Francs. The largest portion of the Group's secured loans (56%) relate to Berlin, where a loan balance of €577 million (mainly due 2024) remains outstanding.

94% of outstanding secured bank loans (€966 million) are drawn from six banks. In total, the Group has secured loans from 12 banks who are active in the CEE region and Germany.

I joined CPIPG in June 2019. I was attracted to the quality of the team, the superb assets and the company's forward-thinking approach to credit ratings, capital structure and sustainability.

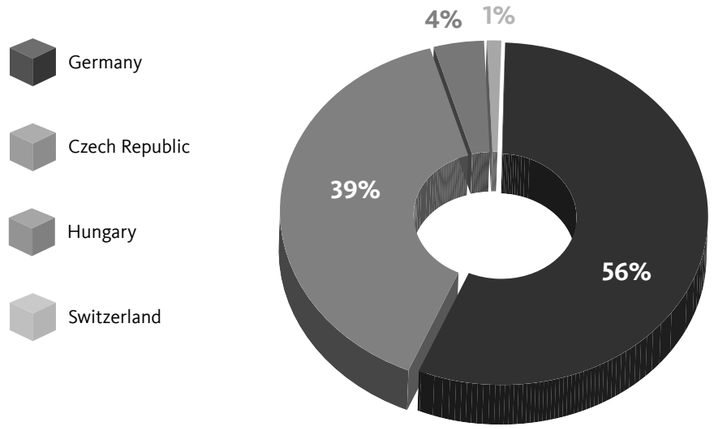
Joe Weaver, Director of Capital Markets

Quadrio Offices lobby, Prague, Czech Republic

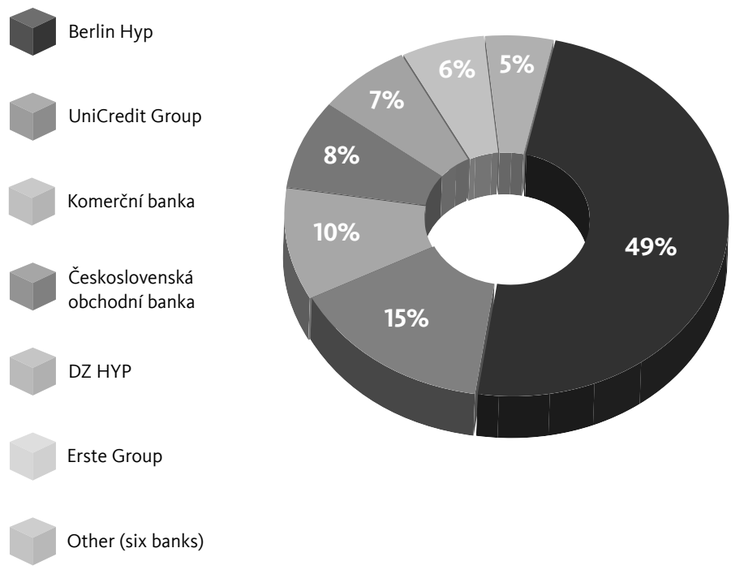
Secured Bank Debt

(breakdown by principal) as of 30 June 2019

by Geography



by Bank



New terrace at Tokovo high-rise, Prague, Czech Republic

Foreign Exchange Risk

The Group is exposed to fluctuations in foreign currencies, primarily the Czech Koruna (CZK). The impact of foreign exchange is mostly unrealized (non-cash), and arises whenever there is a mismatch between the currency in which a property is valued and the functional currency of the entity into which the property is consolidated. 32% of the property portfolio is valued in CZK and is consolidated through sub-holdings into CPIPG which is a Euro functional currency company. To a lesser extent, there is also an effect related to intra-group loans.

During the first half of 2019, due to the slight appreciation of CZK relative to EUR, CPIPG recorded an unrealised FX loss of €12 million on Euro-denominated assets in the Czech Republic.

In addition to the non-cash effects, the Group is exposed to foreign currencies (primarily CZK) through rental income and expenses. In the first half 2019, 29% of the Group's gross rental income was received in CZK. However, 49% of the Group's property operating expenses and 42% of administrative expenses were also denominated in CZK. As a result, the net remaining exposure to CZK is limited.

The analysis below demonstrates the effect that a depreciating CZK would have on CPIPG's net loan-to-value (LTV), net interest coverage ratio (ICR), and EBITDA. Because the Group's CZK expenses largely cancel out CZK income, and because a large majority of properties are valued and generate income in EUR, even a sharp move in the CZK would have a negligible effect on CPIPG's key figures.

FX sensitivity

CZK depreciation against EUR	5%	10%	15%	20%	25%
LTV	+0.5 p.p.	+1.0 p.p.	+1.5 p.p.	+1.9 p.p.	+2.3 p.p.
Net ICR	(0.09x)	(0.18x)	(0.25x)	(0.32x)	(0.38x)
EBITDA*	(€2.4 m)	(€4.5 m)	(€6.5 m)	(€8.3 m)	(€10.0 m)

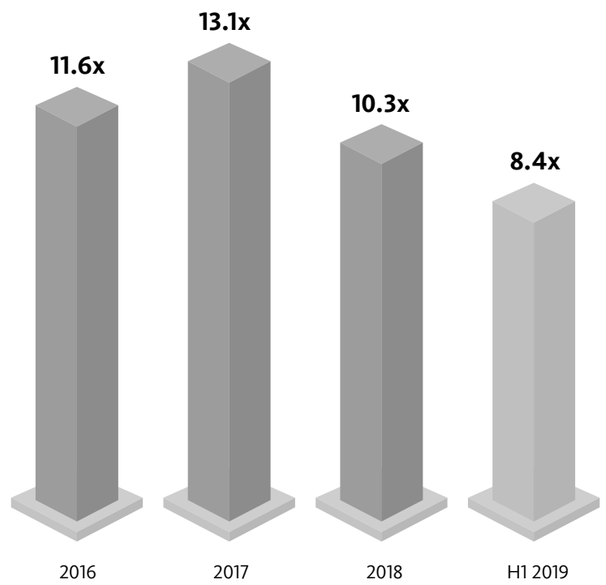
** Annualized.*

EBITDA and Net Debt/EBITDA Measurements

The Group reports Consolidated adjusted EBITDA per the request of our rating agencies and investors. However, the Group does not focus on EBITDA as a profitability measure. Some of the Group's investments, including refurbishment and maintenance, are reflected in property operating expenses. Finally, as a diversified portfolio, EBITDA margins vary considerably. For instance, the margin is much higher in office than in hotels.

In general, the Group's target is to continue reducing the level of Debt/EBITDA, although we may consider increasing the level in a short term period in the case of acquisitions with high strategic merit.

The level of Net debt/EBITDA has been decreasing. 2017 was affected by the Group's acquisition of retail assets from CBRE, where only 9 months of the properties' performance were included in EBITDA.



Results & Net Assets

Net rental income grew by 8% to €145 million, versus €135 million in the first half of 2018.

The positive development in net rental income was predominantly driven by an increase in our gross rental income, while property operating expenses were stable.

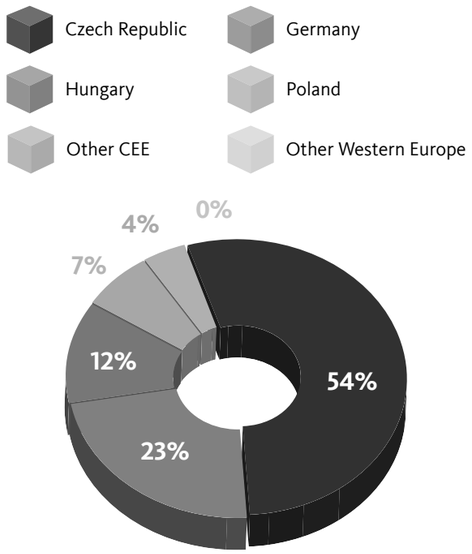
The growth of net hotel income reflects the outstanding y-o-y improvement in ADR and RevPAR and the impact of acquisition of hotel in Ostrava and Brno, Czech Republic.

Income Statement (part 1)

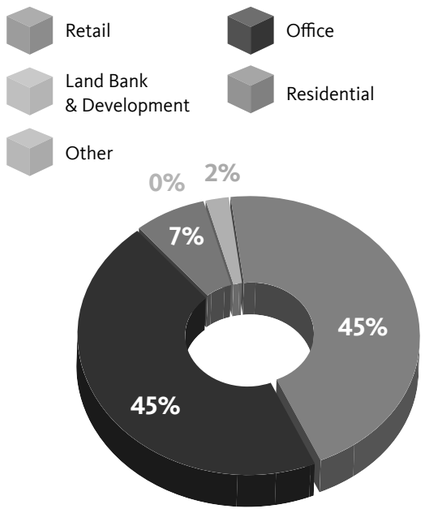
€ million	H1 2019	H1 2018
Gross rental income	155	147
Service charge and other income	65	56
Cost of service and other charges	(46)	(40)
Property operating expenses	(28)	(28)
Net rental income	**145**	**135**
Development sales	18	8
Development operating expenses	(18)	(10)
Net development income	**(0)**	**(2)**
Hotel revenue	57	50
Hotel operating expenses	(41)	(36)
Net hotel income	**16**	**14**
Other business revenue	27	24
Other business operating expenses	(20)	(16)
Net income from other business operations	**8**	**8**
Total revenues	322	285
Total direct business operating expenses	(154)	(130)
Net business income	168	156
Administrative expenses	(25)	(25)
Consolidated adjusted EBITDA	143	131

In the first half 2019, the Group generated gross rental income of €155 million, representing a y-o-y increase of 6% compared to €147 million in the first half 2018, reflecting our successful asset management and the impact of properties acquired during 2018.

Gross rental income by country



Gross rental income by segment



Our focus to continually improve the performance and quality of our assets is reflected in the robust 3.9% increase in gross rental income on a like-for-like basis.

The growth occurred across all countries and asset classes; the greatest increase (11.2%) was realised in Berlin's office properties.

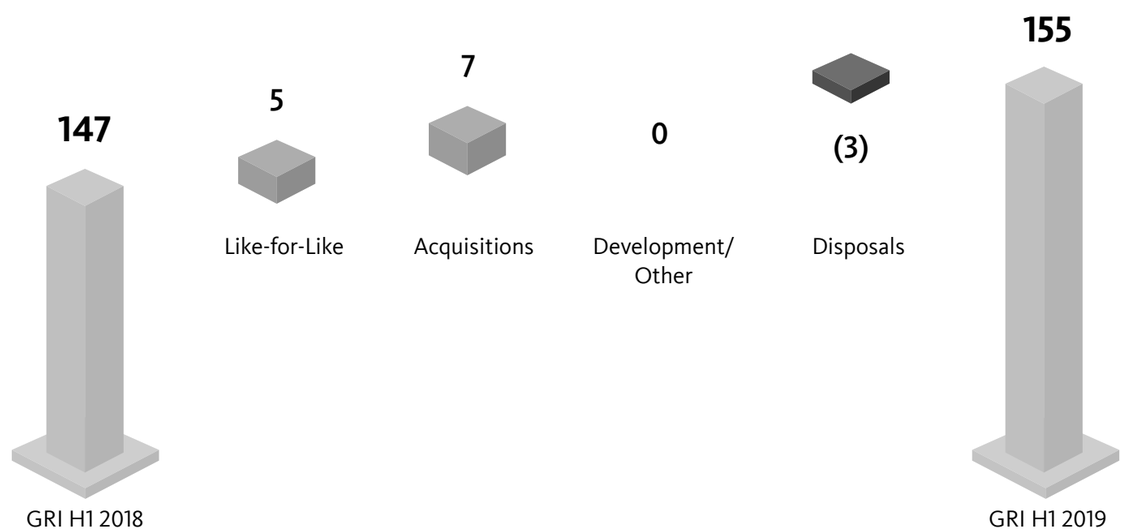
Approx. 84% of the like-for-like growth was driven by an increase of rents, the rest by an increase in occupancy.

Like-for-like gross rental income	H1 2019 € m	H1 2018 € m	Increase/ (decrease)
Czech Republic	**66.7**	66.5	0.3%
Germany	**35.0**	31.5	11.2%
Hungary	**17.5**	16.5	5.8%
Slovakia	**4.2**	4.1	1.8%
Poland	**7.0**	6.8	2.9%
Other	**1.6**	1.6	2.8%
Total like-for-like gross rental income	**132.0**	127.0	3.9%
Not like-for-like gross rental income			
Acquisitions/Transfers	**8.7**	1.9	
Disposals	**3.4**	6.8	
Development	**10.9**	11.0	
Other	**0.1**	0.1	
Total gross rental income	**155.2**	146.9	5.6%

In-place-rent LfL **3.3%**

Total Like-For-Like **3.9%**

Occupancy LfL **0.6%**



Income Statement (part 2)

€ million	H1 2019	H1 2018
Consolidated adjusted EBITDA	**143**	**131**
Net valuation gain*	80	154
Net gain or loss on the disposal of investment property and subsidiaries	0	(0)
Amortization, depreciation and impairments	(16)	(12)
Other operating income	3	1
Other operating expenses	(4)	(4)
Operating result	**206**	**269**
Interest income	6	7
Interest expense	(25)	(45)
Other net financial result*	1	(46)
Net finance income / (costs)	**(19)**	**(84)**
Share of profit of equity-accounted investees (net of tax)	(0)	(0)
Profit / (Loss) before income tax	186	185
Income tax expense	(21)	(24)
Net profit / (Loss) from continuing operations	166	161

* *Adjusted, refers to paragraph 2.1 of Consolidated Financial Statements as at 30 June 2019*

Net valuation gain of €80 million results principally from the valuation gain on the office and retail portfolio in Prague. Properties with indications of significant changes in their performance were revalued as of 30 June 2019. Their fair value amounted to €1.8 billion at the end of 2018.

The following graphs show the split of net valuation gain the first half 2019 by country and segment.

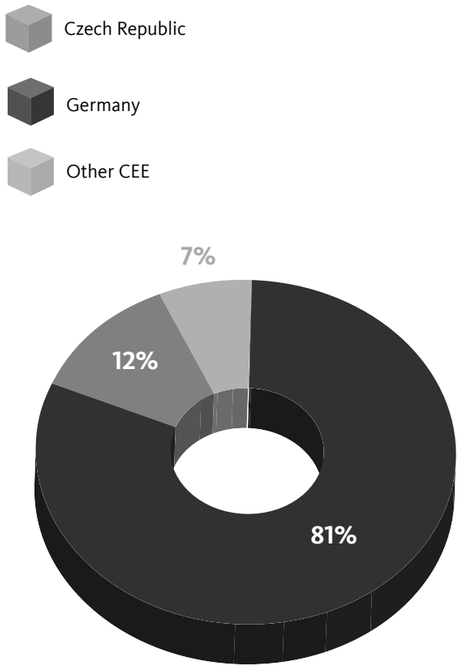
Interest expense was €25 million in the first half 2019 compared to €45 million in the first half 2018.

This significant decrease reflects the change in the Group's capital structure when a substantial portion of high-coupon bonds and secured bank loans was repaid during 2018.

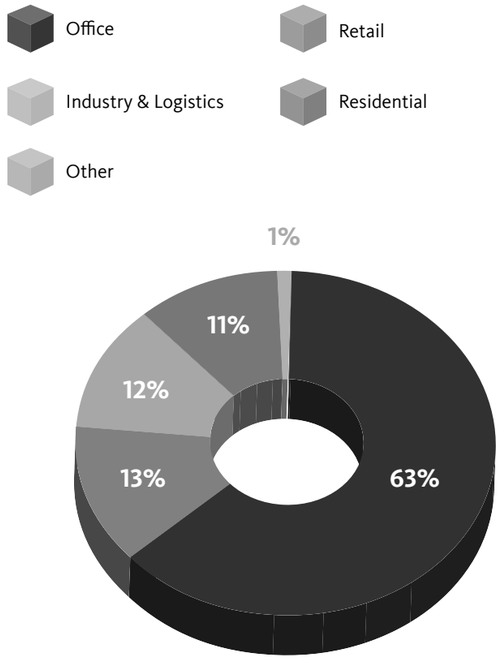
Interest Expenses (€ million)	H1 2019	H1 2018
Interest expense from bank and other loans	(8.0)	(18.0)
Interest expense on bonds issued	(17.0)	(26.4)
Interest expense related to leases	(0.3)	(0.2)
Other interest expenses	(0.2)	(0.3)
Total interest expenses	(25.5)	(44.9)

Change in other net financial result is primarily attributable to a slight strengthening of the CZK/EUR exchange rate during the first half 2019, relative to a depreciation of CZK/EUR during the first half 2018. The impact of foreign exchange relates principally to intra-group loans.

Valuation gain by country

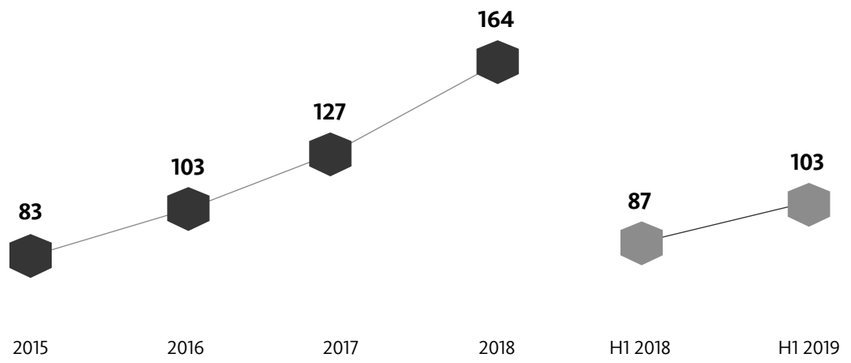


Valuation gain by segment



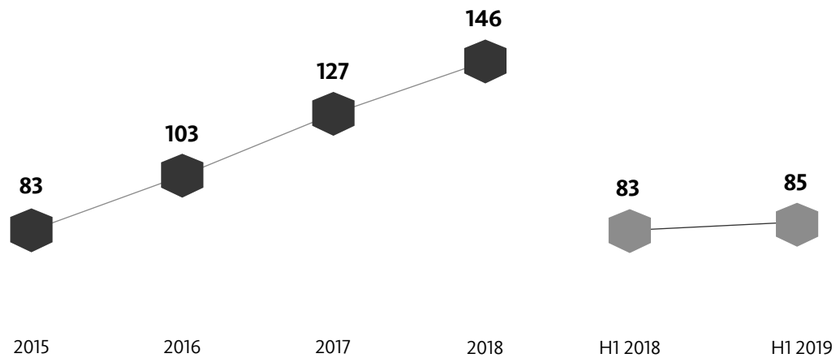
Funds from operations – FFO (€ million)

Funds from operation (FFO) increased to €103 million, up 18% relative to H1 2018.



Funds from operations – FFO II (€ million)

FFO II, which includes the effect of coupon payments on hybrid bonds, increased by 3% relative to H1 2018.



Balance sheet

€ million	30 Jun 2019	31 Dec 2018
Non-Current Assets		
Intangible assets and goodwill	**105**	110
Investment property	**6,942**	6,687
Property, plant and equipment	**794**	736
Deferred tax asset	**195**	195
Other non-current assets	**151**	91
Total non-current assets	**8,188**	7,819
Current Assets		
Inventories	**56**	72
Trade receivables	**77**	68
Cash and cash equivalents	**959**	99
Assets held for sale	**73**	67
Other current assets	**146**	134
Total current assets	**1,310**	440
Total assets	**9,498**	8,259
Equity		
Equity attributable to owners of the Company	**3,952**	3,776
Perpetual notes	**1,097**	542
Non controlling interests	**43**	44
Total equity	**5,091**	4,362
Non-Current Liabilities		
Bonds issued	**2,041**	1,648
Financial debts	**1,230**	1,062
Deferred tax liabilities	**782**	762
Other non-current liabilities	**63**	53
Total non-current liabilities	**4,116**	3,525
Current liabilities		
Bonds issued	**19**	7
Financial debts	**56**	158
Trade payables	**81**	98
Other current liabilities	**134**	110
Total current liabilities	**290**	372
Total equity and liabilities	**9,498**	8,259

Property Portfolio (IP, PPE, INV, AHFS)
Change in PP by €300 million primarily due to:

- Change in fair value of €136 million
- CAPEX and development of €115 million
- Acquisitions of €80 million including a property in London and two hotels in Brno and Ostrava, Czech Republic
- Disposals of €27 million

Total Assets
Total assets increased by €1,239 million (15%) to €9,498 million as of 30 June 2019, primarily driven by higher investment property (€255 million) and cash and cash equivalents (€860 million).

Equity
Equity increased mainly due to:

- + €148 million profit for the year
- + €551 million hybrid issued
- + €23 million hedging and translation reserves
- + €6 million revaluation reserve

Financial Debts
Financial debts increased due to:

- + €170 million of Schuldschein drawn
- – €68 million of bridge loan repaid
- – €34 million of RCF repaid

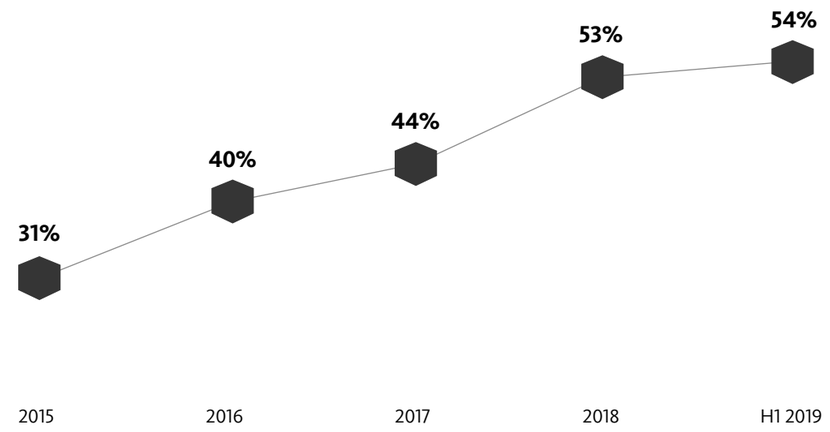
Bonds Issued
All bonds issued are represented by notes used by CPI PROPERTY GROUP S.A. under our EMTN programme.

Bonds issued increased due to:

- + €312 million of USD bonds
- + €82 million of HKD bonds

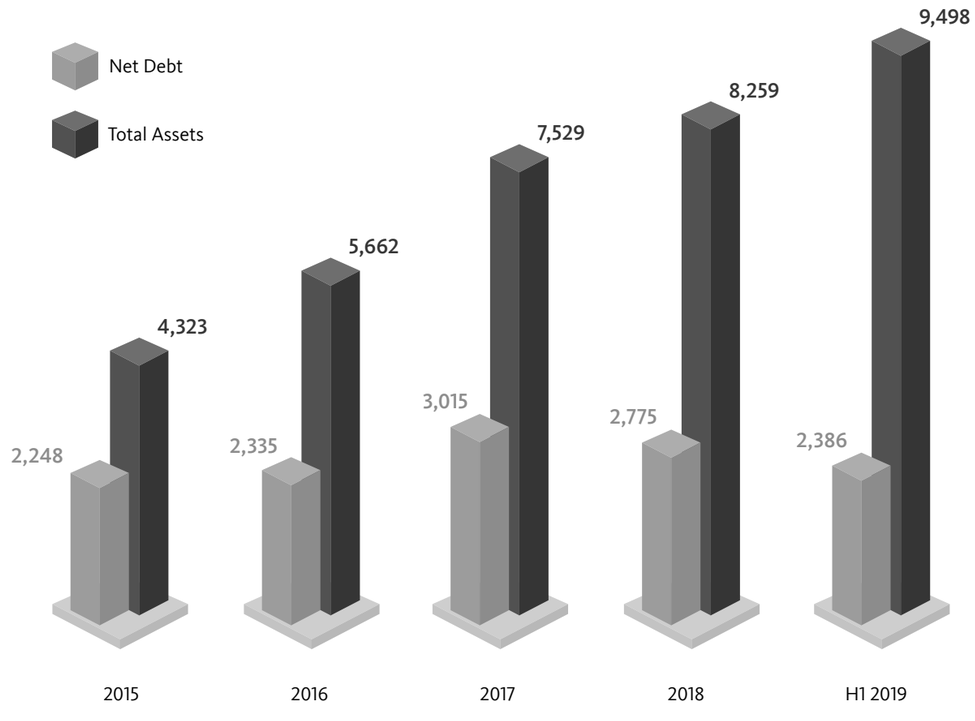
Equity ratio

CPIPG's equity ratio rose due to the Group's retention of profit, higher property portfolio valuations and hybrid bond issuance in 2019.



Total assets and Net debt

In the first half 2019, the Group continued increasing total assets through moderate acquisitions and revaluations and also via hybrid bond issuance with proceeds primarily held in cash at the end of June 2019.



Governance & Sustainability

Governance Principles

CPIPG believes that good corporate governance safeguards the interests of our stakeholders including shareholders, bondholders, lenders, tenants and employees. Our objectives are excellence and transparency in our management controls, external reporting and internal procedures. We believe this supports a corporate culture which is balanced between entrepreneurial spirit and the identification, control and prevention of risk.

CPIPG continually reviews and implements industry best practices with respect to corporate governance and has adjusted our internal practices to meet international standards. CPIPG aims to communicate regularly with our shareholders and stakeholders regarding corporate governance and to provide regular updates on our website.

Sustainability Principles

CPIPG's goal is to gradually increase the share of green and certified buildings in our portfolio and to utilise environmental certification schemes to validate the sustainability of key assets in all main environmental areas (management, health & well-being, energy, water, materials, waste, land use, pollution, transport). Our key sustainability principles are:

- promoting a sustainable approach towards real estate development and management;
- contributing to environmental protection and the development of local communities in which the Group operates;
- pursuing a sustainable business model that allows the Group to achieve its business objectives without placing an excessive burden on the environment;
- actively managing the Group's assets to continually improve environmental performance, quality and resilience; and
- encouraging proactive contributions from all employees, tenants, customers and stakeholders of the Group to meeting all objectives in compliance our principles.

CPIPG continues to strengthen our corporate governance, and is taking steps to reduce our impact on the environment.

Martin Matula, General Counsel

CPIPG's Sustainability Strategy

The Group sustainability strategy covers every aspect of governance and operations. The Group believes that sustainability begins with good corporate governance to safeguard the interests of all our stakeholders: shareholders, bondholders, lenders, tenants, employees, suppliers and contractors, communities and local authorities.

The Group's corporate governance practices primarily follow the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange (**"The X Principles"**). The Group's equity and debt securities are listed on several regulated exchanges including Frankfurt, Luxembourg, Dublin, Tokyo, Warsaw and Zurich. In each listing venue, CPIPG must also comply with applicable disclosure and governance rules.

CPIPG has implemented industry best practices with respect to corporate governance policies and external reporting. In 2019, the Group approved the "Code of Business Ethics and Conduct of CPI Property Group" (the **"Code of Ethics"**) and also newly updated policies governing procurement, supplier and tenants' conduct, anti-bribery and corruption, anti-money laundering, sanctions and export controls, whistleblowing, human capital and employment and corporate social responsibility (CSR).

The Group integrates CSR and environmental factors into the business decision-making process and has established a set of environmental KPIs comprising energy consumption emissions of greenhouse gases, water consumption, and level of achieved sustainability certifications. CPIPG has also committed to carry out a life-cycle assessment (LCA) for all new real estate projects over 10,000 m², new development projects which are assessed by sustainability certification schemes such as BREEAM or LEED and key capital expenditures (such as major building refurbishments or replacement of core building technologies) beginning in March 2019.

The X Principles

CPIPG primarily follows the X Principles of Corporate Governance of the Luxembourg Stock Exchange.

The X Principles provide companies with guidance in the application of corporate governance rules and have evolved over time in line with changes in regulations and market practices. The X Principles are based on Luxembourg legislation regarding commercial companies, and specifically on the financial regulations that are applicable to companies listed on the Luxembourg Stock Exchange (and in general to all companies listed in the EU). The X Principles can be summarized as follows:

I Corporate governance framework

The Company has adopted the X Principles as its main corporate governance framework. The Board of Directors considers corporate governance as vital for the Company's operation and progress. The Board regularly reviews the governance policies, works of its committees and communications with shareholders and investors. The Company publishes a statement on corporate governance in its annual report. The Group has a set of policies regulating the corporate governance framework.

II The Board of Directors' remit

The Board is responsible for the management and supervision of the Group. It acts in the best corporate interest of the Company, its shareholders and other stakeholders. The key goal of the Board is to ensure the long-term success of the Company.

The Board takes into account the Group's corporate social responsibility and the interests of all stakeholders in Board's deliberations. During its meetings, the Board regularly evaluates its conduct and operation and relations with management.

III Composition of the Board of Directors and of the special committee

The Board of the Company is composed of highly experienced and qualified real estate and finance professionals with an excellent track record and thorough knowledge of the Group and its business. The Board is composed of executive directors, two independent directors and non-executive directors representing shareholders. A new independent Board member, Omar Sattar, was appointed by the AGM during the first half of the year. The Board intends to propose candidate(s) as additional independent director(s) to the Company's shareholders in May 2019. The Board has established an Audit Committee, a Remuneration and Related Party Transaction Committee (the **"Remuneration Committee"**) and a Corporate Social Responsibility Committee (the **"CSR Committee"**) with specific roles and responsibilities.

IV Appointment of members of the Board of Directors

The composition of the Board has been stable given their conduct and the Company's performance. Candidates for appointment to the Board are carefully evaluated. The Board, before submitting candidates to shareholders' general meeting for voting, conducts interviews and evaluations such that all prospective candidates are competent, honest, and qualified persons with relevant professional background and experience.

V Professional ethics

The Board as a governing body as well as each of the directors exercises their respective mandates with integrity and commitment. The Board represents the shareholders as a whole and makes decisions in the Company's interest. A director who has a direct or indirect conflict between his interests and those of the Company in any business or matter to be resolved upon by the Board (i) must promptly inform the Board of such potential conflict; (ii) must request that it is stated in the minutes of the Board meeting; and (iii) cannot take part in such deliberations nor vote in relation to the matter in which such director is conflicted.

The Code of Ethics, as an integral part of our internal rules, together with our Group policies, forms a framework for our Corporate Governance and Compliance. It states basic standards of conduct for all employees and agents acting on behalf of the Group, as well as for all members of the Group's corporate bodies and management (employees, agents and members of the Group's corporate bodies and management hereinafter the "Representatives"), and is intended to prevent illegal, unethical or otherwise socially improper conduct.

VI Executive Management

The Company has become a very successful real estate group, which has experienced significant growth in recent years. A swift decision-making process and co-operative atmosphere are among the Company's competitive advantages. To ensure a seamless continuation of this success, the Company has formally established an Executive Board comprised of its top executives. The Executive Board reports to the Board of Directors, receives instructions therefrom and is responsible for managing all day-to-day matters of the Group.

In order to streamline the decision-making process and clarify responsibilities, the members of the Executive Board have been assigned divisions and departments under their direct responsibilities and reporting lines. The co-ordination and communication among various divisions and departments and principally the people themselves are vital for the Company's success and have the full support of management.

VII Remuneration policy

The Directors and the members of the Company's Executive Board are remunerated in a manner that is compatible with the long-term interests of the Company. To attract and also maintain best talent, the Group strives to provide employees with competitive wages and other employment-related benefits, while ensuring observance of the equal pay for equal work rule.

Aside from cash remuneration, the Group uses various other tools to retain people. The Group conducts regular satisfaction surveys and encourages its Representatives to share feedback with the Group so that actions can be taken to maintain a healthy work atmosphere and work-life balance. The Group hires and develops leaders, not bosses, and offers valuable learning experiences and career development tools. Last, but not least, the Group strives to create a brand that the Representatives will feel proud to be part of.

VIII Financial reporting, internal control and risk management

The Company has established a set of rules and procedures designed to protect the Group's interests in the areas of financial reporting, internal control and risk management, including cyber risks. The Group's overall approach to risk is conservative. Key risks are assessed by ranking exposure on the basis of probability and magnitude and are closely managed. Analysis of sensitivity to these key risks is conducted at Group level.

IX Corporate social responsibility (CSR)

CPIPG's Board of Directors has created a CSR Committee focusing on the supervision of sustainability, environmental, corporate social responsibility, green financing, and compliance matters for the Group.

The Group is fully committed to shared responsibility with the communities and environments wherever it is active. It strives to act transparently, ensure accountability and promote accessibility, inclusivity and smart livelihoods through its assets. The Group considers itself a reliable, responsible, equitable and proactive partner for all stakeholders and communities. In this spirit, it actively seeks relevant stakeholders, develops communication channels and addresses grievances.

The Group endorses all the 17 Sustainable Development Goals as defined by the United Nations for the period 2015–2030, as well as the 2015 Paris Agreement within the United Nations Framework Convention on Climate Change. The Group contributes to the fulfilment of the Sustainable Development Goals in all its operations.

In 2018, CPIPG began working with the University Centre for Energy Efficient Buildings (UCEEB) of the Czech Technical University in Prague. UCEEB helped CPIPG to establish and quantify environmental KPIs and advised CPIPG in setting up the regular monitoring, reporting and targeting process to align with ISO 14001, GRI and EPRA environmental reporting guidelines.

Through the partnership with the University the Group continuously works to improve its environmental performance and establish a strong EMS comprising processes and practices designed to promote environmental objectives.

In 2019, the Group became a member of the Czech Green Building Council (CZGBC). The CZGBC was established in 2009 to support the principles of sustainable building. The CZGBC is a member of the European Regional Network of the World Green Building Councils and can influence EU legislation in its initial phase. It closely cooperates with the certification organizations operating LEED, BREEAM, DGNB and Czech SBToolCZ. Current activities are focused around: energy management and innovations, sustainable materials and waste, water management, healthy internal environment and brownfields/industrial.

X Shareholders

The Company's primary purpose is the creation of value for its shareholders. The Company respects the rights of its shareholders and ensures that they are treated equally. The Company constantly improves its communication with shareholders and the transparency of its reporting and conducts regular communication with its investors through our semi-annual and annual management reports, press releases, presentations, investor roadshows and semi-annual investor webcast.

Contribution to UN Sustainable Development Goals

CPIPG backs all the 17 Sustainable Developments Goals (SDGs), as defined by the United Nations for the period 2015-2030. CPIPG sees the SDGs as part of the business decision-making processes at all levels within the Group. In addition, the Group endorses the 2015 Paris Agreement within the United Nations Framework Convention on Climate Change

CPIPG has identified priority goals for which it intends to play a key and increasing role:

SDG 3:

Good health and well-being; Green buildings improve people's health and well being

SDG 7:

affordable and clean energy (through the production and purchase of renewable energy, and by improving energy efficiency in our properties);

SDG 8:

decent work and economic growth (through CPIPG's actions to foster gender equality for instance and policies dealing with health, safety and the quality of life in the workplace);

SDG 9:

Industry, Innovation and Infrastructure (solutions and commitments to promote Smart City, sustainable mobility and certified buildings);

SDG 11:

Sustainable cities and communities (through stringent criteria applied to services and public transportation);

SDG 13:

Climate action; Energy efficient buildings produce fewer emissions of greenhouse gases and help to combat the climate change

SDG 15:

Life on land (promoting best practices by applying stringent criteria to the choice of sites and locations).

Involvement of stakeholders

CPIPG maintains a continuous dialogue with a wide range of stakeholders including tenants, employees, investors, and members of local communities. The Board of Directors, through the CSR Committee, supervises and directs these efforts.

The Group's key principles of stakeholders' involvement are as follows:

- Commitment to maintain strong relationships with our tenants;
- Open communication with our investors and financial stakeholders;
- Active dialogues with local governments and authorities;
- Participation in industry-level working groups (such as the CZGBC) and public inquires with respect to sustainability, regulatory and financial topics;
- Actively collecting and responding to feedback from our tenants, employees, and investors.

In 2019, the Group conducted an anonymous employee survey covering over 750 of our employees in the Czech Republic, Germany, Hungary, Slovakia, Poland and Croatia. The response rate was more than 95% (excluding sick/holiday leave), with a large majority indicating a high degree of satisfaction.

The Group conducts periodic occupier satisfaction surveys to determine the level of tenant satisfaction with our properties. The surveys mix quantitative and qualitative questions and are voluntary, anonymous, and confidential.

Partially in response to feedback from our tenants, in 2019 the Group launched the "CPI Akademie" retail development and educational programme. The programme is designed to respond to the changing market and improve the competitiveness of traditional brick-and-mortar shops by creating a better customer experience at the point-of-sale, while also helping tenants to retain skilled staff.

While the Group strives to provide a healthy and comfortable indoor environment for our tenants, occupant preferences have a significant impact on energy and water consumption, production of greenhouse gases and solid and effluent wastes. We recognise the importance of engaging, educating and cooperating with occupants to reduce the environmental impact of our portfolio.

The Code of Ethics sets the following standards of conduct towards stakeholders:

Towards Customers

We endeavour to build a partnership with our customers (including tenants) that operates in a manner consistent with our values, including ethical, social and environmental aspects. We strive to ensure that our customers share our values. At the same time, our priority is to satisfy the of needs and expectations of our customers. Therefore, we conduct our business with due care and focus on protection and support of our customers' interests. We avoid any steps and actions which could damage our trustworthiness in our customers' eyes or distort their perception of our services.

Because assurance of infrastructural health and safety compatibility is a prerequisite to our customers' satisfaction, we:

- Comply with the highest customer general safety and fire safety standards;
- Regularly monitor and assess safety-related issues as part of our extensive due diligence activities;
- Carry out regular on-site customer property management; and
- Ensure transparency of all measures and work conducted for customers.

Petr Brabec, Head of Shopping Centres; IPSOS Lecturers – Kateřina Müllerová; Vladimír Hrabal; Petra Knoblochová, Retail Marketing Specialist

We also pay attention to customers' complaints and inform them on handling of complaints, including remedial steps and measures to be taken. We always prefer an amicable solution to any disputes. If such an amicable solution cannot be reached, we inform the customer on all available out-of-court solutions to the respective dispute.

Towards Business Partners

We endeavour to build a partnership with our business partners (including suppliers and lenders) in a manner consistent with our values, including ethical, social and environmental aspects. We place the same ethical, social and environmental requirements on our business partners as on ourselves and our Representatives.

We establish and develop honest relationships with our business partners based on mutual trust and respect for contractual obligations. We prefer long-term relationships with our business partners and enter into relationships only with those adhering to applicable laws and using financial resources not resulting from illegal activities. In contractual negotiations and invoicing, we act in a fair and transparent manner. We respect the rights of our business partners to protect their trade secrets and other confidential information.

Towards Employees

We recognise and respect all legitimate rights of employees, including participation in trade unions. We create safe working conditions and an environment of trust and mutual respect, enabling each employee to develop his/her knowledge and skills. We strictly adhere to applicable laws on a healthy and injury-free workplace. We invest in continual education of our employees and participate in their professional development. We provide adequate remuneration for the work completed and, in addition, reward exceptional performance.

We neither support nor tolerate any kind of discrimination or harassment; we support diversity and create conditions for work engagement of disabled individuals. We respect the personal lives of our employees by facilitating work-life balance. We conduct background checks of candidates as to previous breaches of applicable laws or ethical rules.

On the other hand, our employees are expected to advance the Group's legitimate business interests. They shall not enter into competition with the Group, provide unjustified advantages to any third party to the detriment of the Group or take advantage of business opportunities available to the Group for themselves or for their family members.

Towards Shareholders and Investors

We strive for continuous long-term increasing value for our shareholders and investors (including bondholders). We apply Corporate Governance rules in order to achieve balanced relationships between shareholders, investors, corporate bodies, executive management, employees, customers and other stakeholders. We provide our shareholders and investors with information on a regular basis in transparent and non-discriminatory manner.

Towards Public Authorities and Regulators

We respect powers and competences of all relevant public authorities and regulators (including the respective stock exchanges), and their rules, decrees, decisions and other acts. We provide them with due and appropriate cooperation and information.

Towards Communities and Society as a whole

We strive to contribute to friendly and peaceful cohabitation within our communities. We are committed to high standards in environmental, social and ethical matters. Our staff receive training on our policies in these areas and are informed when changes are made to these policies. Our environmental policy is to comply with applicable laws, while pursuing energy efficient solutions wherever possible.

CSR Governance and management

In early 2019, CPIPG's Board of Directors created the CSR Committee focusing on the supervision of sustainability strategy, social and environmental risks management, corporate social responsibility, green financing, and compliance matters for the Group.

In relation to the social and environmental impacts the Committee monitors and enhances:

- Improvement of energy efficiency and energy savings in line with current strategies and objectives;
- Consideration of the life cycle implications at all stages of investments and planning for major developments;
- Optimisation of usage of natural and other resources in order to benefit from efficient and responsible use, minimise waste, prevent pollution and promote reusing and recycling of raw materials;
- Active promotion and encouragement of environmentally friendly conduct both internally and externally;
- The portfolio of renewable energy assets in the Group's operations, including solar panels;
- Efforts to document environmental performance of our assets, including green BREEAM / LEED certifications, as well as other relevant external certifications or environmental impacts, where possible;
- The Group's commitment to electro mobility, development of biking infrastructure, proximity to public transport and access to amenities, and support of the concept of smart cities;
- The share of green buildings in the Group's portfolio wherever possible and seeking to apply real estate life cycle assessment on new real estate projects;
- Application of innovative approaches in the Group's undertakings; and
- Setting of verifiable and measurable goals in pursuit of improvement of the ESG performance.

In relation to the corporate social responsibility the CSR Committee monitors and enhances:

- Transparency and accountability within the Group and vis-à-vis its stakeholders. The CSR Committee promotes active interaction with relevant stakeholders and development of communication channels within the Group's assets;
- Promotion of accessibility, inclusivity and smart livelihoods through Group's assets;
- Achievement of Group's sustainability, social and business objectives through proper supply chain monitoring, sensible and sustainable procurement, as well as engagement in relevant social development matters;
- Promotion of personal and professional development of Group's employees;
- Promotion of diversity and equal opportunity in the workspace in line with the Group's Human Capital and Employment Relationships Policy and applicable legal standards.;
- Proper disclosures in relation to corporate social responsibility efforts on regular basis, including the disclosures in the form of a CSR report in our annual and semi-annual management report.

The CSR Committee reports to the Board of Directors on a regular basis. The members of the CSR Committee are appointed by the Board of Directors. The CSR Committee currently has six members.

The CSR Committee is composed of highly experienced and qualified professionals with an excellent track record and thorough knowledge of the Group and its business. The CSR Committee shall be composed of a balanced mix of executive and independent directors as well as senior managers from finance, operations and legal departments, preferably from various jurisdictions. The head of the CSR Committee shall be an independent (non-executive) member of the Board.

The CSR Committee meets four times a year. The head of the CSR Committee reports on the progress of ESG programs directly to the Board of Directors every quarter.

Responsible procurement policy

The Group introduced a procurement policy, the aim of which is to set out universal standards for Group procurement processes, so that all procurement within the Group is conducted in a cost-effective, transparent and non-discriminatory manner and in compliance with applicable laws, and to ensure that the Representatives understand all their responsibilities relating to the procurement and procurement processes.

The main principles in relation to the procurement within the Group are the:

- **Legality:** The procurement and procurement processes shall be conducted in accordance with applicable laws and the Group's internal rules.
- **Non-Discrimination:** The procurement and procurement processes shall be conducted in a non-discriminatory manner, and all current and potential suppliers shall be treated equally and without any special preference. The suppliers may be placed upon the black list for material reasons only.
- **Transparency:** The procurement and procurement processes shall be conducted in a transparent manner. All relevant processes, qualifications, evaluations and communications shall be conducted in a way which does not raise doubts about proper selection of the most suitable supplier for the Group. The relevant documentation must be properly archived to allow subsequent reconstruction of each procurement process.
- **Cost-Efficiency:** The purpose of the procurement shall be to optimize the value-for-money ratio, i.e., to determine which supplier can provide the Group with the best price, quality and added value.
- **Binding Nature:** The procurement policy or the principles relating to the procurement and procurement processes, as the case may be, shall not be circumvented. The Representatives are prohibited to split or manipulate any relevant documents (including orders or invoices) or in any other way distort the processes prescribed herein in order to avoid application of procurement policy or the principles relating to the procurement and procurement processes, as the case may be.
- **Confidentiality:** The Representatives are prohibited to provide any third party with information related to specific terms and conditions, especially prices, under which the Group procures or intends to procure goods or services from its suppliers or potential suppliers.

CPIPG expects suppliers and business partners to meet the same ethical, social and environmental standards as the Group. Relationships with business partners are governed by the Group's suppliers and tenants' codes of conduct and the procurement policy. Compliance with these policies is monitored through on-site visits and periodic reviews of suppliers. The Group reserves the right to exclude suppliers from new projects if breaches of policy are identified.

Ensuring business ethics

At CPIPG ethical practice is a core component of our corporate philosophy and we are committed to transparency in our management structure, corporate reporting and internal procedures and rules. We believe that this supports a corporate culture which is balanced between entrepreneurial spirit and core ethical values. An ethical approach combined with proper corporate governance enables us to conduct our European-wide business with the highest ethical and legal standards, which we owe to our stakeholders, communities and public authorities.

The Group's essential tenet is to comply with applicable laws, industry standards and best practices. Therefore, we obey applicable laws, both in letter and in spirit, and continually review and implement industry standards and best practices, including those relating to Corporate Governance and Compliance. This approach ensures that our internal procedures and rules comprise all pivotal pillars of Corporate Governance and Compliance, including environmental issues, conduct of employees, suppliers and tenants, sanctions and export controls, whistle-blowing, procurement, data and information protection, conflict of interests, as well as prevention of insider trading, bribery, corruption, fraud, money laundering, terrorist financing and anti-competitive practices.

The Code of Ethics, as an integral part of our internal rules, together with our Group policies, forms a framework for our Corporate Governance and Compliance. It sets basic standards of conduct for all employees and agents acting on behalf of the Group, as well as for all Representatives, and is intended to prevent illegal, unethical or otherwise socially improper conduct.

We also expect our shareholders, investors, customers and other business partners to comply with the Code of Ethics.

The Code of Ethics helps us build openness and trust by explaining our core values:

- **Compliance with applicable laws, industry standards and best practices** – In all countries where we operate, our primary concern is to comply with applicable laws, industry standards and best practices. Therefore, we prevent conflict of interest, money laundering and terrorist financing and neither support, nor tolerate any insider trading, sanctions circumventing, bribery, corruption or fraud, anti-competitive conduct, discrimination or harassment. We protect the environment and support sound social values and good relationships with our employees, shareholders, investors, customers, business partners and stakeholders.
- **Fairness, Integrity and Professionalism** – We promote the highest standards of integrity by always conducting our affairs in an honest and ethical manner. Each of us makes a commitment not to allow any kind of situation to undermine our standards for fairness and integrity in dealing with employees, shareholders, investors, customers and other business partners, public authorities, communities and other stakeholders. We always keep the highest standards of professional correctness and courtesy in any interaction and communication with our employees, shareholders, investors, customers and other business partners, public authorities, communities and other stakeholders.
- **Experience, Quality and Entrepreneurship** – We have excellent know-how in our field of expertise, understand our business thoroughly and intend to deliver solely top-quality performance to our customers. We actively support a culture of empowerment and accountability, in which our employees can thrive personally and professionally, enhancing creativity in every discipline of the Group.
- **Pro-Active Approach and Teamwork** – Each of us is committed to take a pro-active approach in relation to our shareholders, investors, customers and other business partners, public authorities and communities, as well as our fellow employees. We try to satisfy wishes and needs of other people, and to recognize and understand their problems. The Group is proud to comprise a Europe-wide team of people who are aligned, motivated and rewarded for contributing to the team and to the long-term value of the Group.
- **Stability** – We are a strong, successful and stable Group, standing as a symbol of reliability to our employees, shareholders, investors, customers and other business partners and stakeholders.
- **Safety** – We are committed to a healthy and injury-free workplace and to the safety of our employees, contractors, visitors and communities in which we operate. Safety is fundamental to our overall operational and managerial excellence.
- **Community** – As our corporate culture is centred around respect and professionalism, we believe in giving back to our communities. We contribute to the sustainable economic, social and environmental development of our communities.

It is our policy to comply with applicable laws of each country where we operate. Our Representatives* shall be aware of applicable laws that impact our business, comply therewith and refrain from any activity which is unethical, illegal or would endanger the safety of others. Our Representatives shall also ensure that their actions cannot be interpreted as being, in any way, in violation of applicable laws. The Group will not condone any activity of any Representative who achieves results through violation of applicable law or through non-ethical business dealings.

Conflicts of Interest

A conflict of interest may arise when a Representative's personal interests (or personal interests of his/her family members) interfere or appear to interfere with his/her ability to act in the best interest of the Group.

We respect the rights of our Representatives to manage their personal affairs and investments, and we do not wish to impinge on their personal lives. However, any activities that create or may create a conflict of interest are prohibited, unless specifically approved in compliance with applicable laws and the Group's internal rules. In turn, our Representatives may not engage in transactions directly or indirectly which lead to or could lead to a conflict of interest.

Even the appearance of a conflict of interest, where none exists, can be detrimental to the Group and shall be avoided. This also means that, as in all other areas of their duties, Representatives working with customers, business partners, competitors or any other persons cooperating with the Group shall act in the best interests of the Group to exclude consideration of personal preferences or benefits.

We expect our Representatives to be free from influences that conflict with the best interests of the Group or might deprive the Group of their undivided loyalty in business dealings. Our Representatives are required to refuse any intervention, coercion or influence that could jeopardize the impartiality of their decision-making relating to our business affairs and, at the same time, to inform their supervisor and the Compliance Officer of the Group (the "Compliance Officer"). The same notification duty applies if such Representative is uncertain whether a conflict of interest exists or will exist. Members of the Group's corporate bodies and management shall in such cases report to, and consult with, the Audit Committee of CPIPG.

Whistle-blowing

We expect our Representatives, as well as shareholders, investors, customers and other business partners and stakeholders to speak out if they have any concerns about breaches of applicable laws, the Code of Ethics, the Group's internal rules or any other illegal or unethical matters. We have a whistle-blowing procedure which enables anyone to raise in confidence, whether anonymously or otherwise, concerns on such possible improprieties relating, but not limited, to:

- Conduct, which is an offence or breach of applicable laws, the Code of Ethics, other Group's internal rules;
- Alleged miscarriage of justice;
- Health and safety risks;
- Unauthorised use of public funds;
- Possible fraud, corruption and bribery;
- Sexual, physical or verbal harassment;
- Bullying or intimidation of employees, customers or other persons;
- Abuse of authority; or
- Other illegal or non-ethical conduct.

Reports can be made to the e-mail whistleblowing@cpipg.com. All reports made in good faith shall be kept confidential and no person making a report will be subject to discrimination or adverse treatment by virtue of making that report. However, anyone making that report under the whistle-blowing procedure shall acknowledge and accept that the Group may, by reason of the matters reported, need to address this with the relevant public authorities, and that it may have consequences for the reporter under applicable laws.

Under the whistle-blowing procedure, arrangements are in place for independent investigations and for appropriate follow-up actions to be taken.

Prohibition of Corruption, Bribery and Fraud

We do not tolerate corruption, bribery or fraud in any form. Regardless of our geographic location, the Group and its Representatives shall comply with applicable anti-corruption, anti-bribery and anti-fraud laws (including the UK Bribery Act of 2010 and US Foreign Corrupt Practices Act of 1977). No Representative shall directly or indirectly:

- Offer, make, promise or authorize the transfer of anything of value to a public official (or his/her family member) to obtain or retain a business advantage or to influence any decision by such official in his/her official capacity, unless authorised by applicable laws;
- Offer, make, promise or authorize the transfer of anything of value to any private person or entity to improperly influence that person in the legitimate performance of his/her expected duties and obligations; and
- Accept or receive anything of value from any person, where such a thing is offered, promised or given with the intention of improperly influencing that Representative to obtain or retain business for the Group or secure an improper business advantage.

Our Representatives are required to report any actual or suspected corruption, bribery or fraud to the Compliance Officer or through the whistle-blowing procedure. For the purposes of combating corruption, our employees have an anti-corruption clause in their employment contracts. Any violation of the above rules is considered a gross violation of work discipline.

Further, as giving gifts or entertainment to public officials is highly regulated and very often prohibited, each Representative shall avoid any activity that may be construed as a bribe, corruption or improper payment. In such cases, the Representatives shall always obtain relevant approval within the Group, and never offer gifts or entertainment to public officials without first checking with the Compliance Officer.

Procurement within the Group shall be conducted in a cost-effective, transparent and non-discriminatory manner and in compliance with applicable laws. Therefore, we expect our suppliers and other business partners to compete fairly and vigorously for our business and endorse the principles of the Code of Ethics and other relevant Group's internal rules. We select our suppliers and other business partners strictly on merit, rather than on improper benefit given or offered. Our Representatives may neither give to, nor accept from, anyone who conducts or seeks to conduct business with the Group, any gift, service or special treatment of any kind, unless:

- It is provided with good intentions and for legitimate business purposes;
- It is consistent with good business practices and ethical standards;
- It is permitted by applicable laws and the Group's internal rules;
- It is permitted by the counterparty's own business policies;
- It is of value not exceeding normal business practices, not in the form of cash payment and cannot be interpreted as a bribe or reward;
- There is no expectation that such special treatment will follow;
- It does not create an appearance of impropriety;
- Potential publicizing the information on providing such gift, service or special treatment of any kind would not be detrimental to the Group's reputation; and
- Providing such gift, service or special treatment of any kind was approved within the Group, if required.

We always treat our customers honestly, fairly and objectively. Our Representatives may provide gifts or entertainment to, or receive gifts or entertainment from, existing or potential customers only if conditions set out in the preceding paragraph are met.

Otherwise, our Representatives are obliged to refuse any such gift, entertainment, service or special treatment of any kind, warn the counterparty of the inadmissibility of such conduct and inform the Compliance Officer. If a Representative cannot avoid accepting such gift, entertainment, service or special treatment of any kind above the value of normal business practices, he/she must report it to the Compliance Officer, who will decide on further steps and measures to be taken.

Finally, any Representative may never try to induce by any means any business partner to give him/her any gift, entertainment, service or special treatment of any kind.

Anti-Money Laundering and Counter-Terrorism Financing

The Group's business activities are to be conducted in accordance, and all Representatives shall at all times comply, with applicable laws on the prohibition and prevention of money laundering and terrorism financing. This means, among others, that we must always have thorough knowledge of the business partners we do business with. In addition, we take steps and measures to prevent misusing our services for money laundering and terrorism financing.

* *defined as employees, agents and members of the Group's corporate bodies*

Prohibition of Securities Fraud and Insider Trading

Our Representatives may have access by reason of their position in, or relation to, the Group to information that is not public (including information on financing, mergers and acquisitions) and that would probably result in a significant impact on the share price of any company inside or outside the Group or on related financial derivative instruments, had it been released.

As we comply with applicable laws on prohibition of securities fraud and insider trading, neither the Group, nor its Representatives may trade in the shares or other securities of any company in question, either directly or through another person, as long as this information has not been made public, and may not disclose such information, other than in the normal course of business.

In addition, within the Group any inside information shall only be disseminated to other Representatives on a need to know basis, such as a business purpose, and each Representative shall exercise care to keep such information secure from unnecessary or unintended disclosure, including disposal of documents containing such information.

International Sanctions and Export Controls

A number of countries have adopted laws regulating the import and export of goods, services, software and technology. Failure to comply with foreign economic and trade sanctions, export controls, embargoes and international boycotts of any type may constitute a crime and the sanctions for non-compliance can include fines and imprisonment. An entity that does not comply may also be denied the right to participate in foreign trade with the state whose laws were breached.

Therefore, the Group and its Representatives comply with applicable laws of the European Union, USA, United Kingdom and other countries concerning the import and export of goods, services, software and technology, foreign economic and trade sanctions, export controls, embargoes and international boycotts of any type.

Participation in Public Procurement and Public Tenders

We comply with laws on public procurement and public tenders, if applicable to us. We have a zero-tolerance policy in respect of any illegal or unethical practices relating to public procurement and public tenders, including bribery, corruption and fraud.

Prohibition of Cartels and Anti-Competitive Practices

Our policy is to conduct business honestly and fairly, and to comply with applicable competition and antitrust laws. This means that (i) the Group utilises competitive advantages while treating competitors appropriately, (ii) neither the Group, nor any of its Representatives may participate in illegal anti-competitive acts, including abuse of dominance or agreements to fix prices, manipulate or divide markets, limit production or otherwise unfairly restrict competition, and (ii) neither the Group nor any of its Representatives may exchange any commercially sensitive information with the Group's competitors.

Violations of competition and antitrust laws may result in severe penalties and significant fines against the Group. There may also be sanctions against individual Representatives, including substantial fines and prison sentences.

Protection of Intellectual Property

We recognise and respect the intellectual property rights of other persons and entities and fulfil all ethical and legal obligations concerning use of intellectual property.

The Group requires Representatives to respect copyrights, trademarks, patents and other intellectual property rights of all persons and entities to any material (including material downloaded from the internet and computer software), through:

- Using all proprietary information, property and rights only for the purposes for which they are intended and approved for use; and
- Avoiding copying, improper use or distribution of any work subject to intellectual property rights without the owner's prior permission, as violations of the above may result in civil or criminal liability for the Group or the Representatives.

Additionally, software purchases on behalf of the Group are permitted only with the appropriate approval granted within the Group, and any software shall be installed only by employees designated by the Information Technology department of the Group or through processes and resources sanctioned by the Information Technology department of the Group. In the majority of cases, computer software is licensed to the Group by the software developer, thus such software and related documentation is not owned by the Group. Unless authorized by the software developer, neither the Group, nor any Representative have the right to reproduce or copy the software or related documentation.

On the other hand, the Group reserves all rights to any intellectual property, including patents, trademarks and copyrights, developed by the Representatives on the Group's time or utilising the Group's resources during the course of their relationship to the Group.

Protection of Confidential Information

One of our most important assets is confidential (or otherwise privileged) information, including our internal information and trade secrets. Such information, whether developed by us or provided to us by our customers, suppliers or other business partners, may include the list of current and prospective customers, suppliers or assets of the Group, financial and technical information concerning the Group's assets (e.g., period of renewal of leases, rents and expenses, financial projections, maintenance level of buildings and projects, or information relating to future disposals or acquisitions of assets), as well as training and organisational documents.

Each Representative shall comply with applicable information protection laws, which implies that each Representative has a duty to refrain from disclosing confidential information, unless and until such information is released to the public through approved channels, or unless he/she obtained the approval of the responsible member of the Group's management to disclose the confidential information. Additionally, before disclosing such information, the individual or entity receiving the information shall enter into a confidentiality or non-disclosure agreement with the Group. The aforesaid also requires that Representatives shall refrain from discussing confidential information with outsiders and even with other Representatives, unless those fellow Representatives have a legitimate need to know the information in order to perform their duties.

Unauthorised posting or discussion of any confidential information concerning the Group's business or prospects on the internet is prohibited, and all e-mails, voice mails and other communications within the Group are presumed confidential and shall not be forwarded or otherwise disseminated outside the Group, except where required for legitimate business purposes. Representatives leaving the Group shall return to the Group all confidential information in their possession as unauthorised keeping, use or distribution of such information could be illegal and result in civil liability and/or criminal penalties.

Finally, the Representatives shall take care not to inadvertently disclose confidential information. For this reason, all materials that contain confidential information, such as memos, notebooks, computer disks and laptop computers shall be stored securely.

Protection of Personal Data

We comply with applicable laws on privacy and data protection, including Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR).

We collect and retain personal data only to the minimum extent and for proper purposes as required by applicable laws and the Group's operational requirements. We also take all necessary or appropriate steps and measures to comply with applicable laws to safeguard and fairly process personal data, to maintain the confidentiality of personal data and prevent any accidental destruction, alteration, modification, loss, misuse, unlawful use or processing of, or unauthorized access to, personal data.

Certain Group companies have appointed Data Protection Officers with the functional and organisational responsibility for compliance with applicable laws and the Group's internal rules on personal data protection. The Group companies and their Representatives shall report any alleged breach of applicable laws or the Group's internal rules on personal data security to the relevant Data Protection Officer.

Use of Group's Assets

The Group's assets, facilities and services provided to the Representatives are for professional use only. Without prior authorization it is forbidden to take possession of or use the Group's assets for personal gain or advantage, to alter, remove or destroy the Group's assets, or to use the Group's services or equipment for personal purposes. Also, the Group's landlines and cell phones, e-mail services, internet access and other equipment and subscriptions must be used primarily for professional purposes. Concerning access to the internet, it is forbidden to download non-professional data or to visit websites whose content is unlawful or could be otherwise detrimental to the Group's reputation.

Use of Agents

Honesty and integrity are key standards for the selection and retention of those who represent, or act on behalf of, the Group. Our policy is that agents acting on our behalf must be willing to certify their compliance with our internal rules and procedures, including the Code of Ethics, and may never be retained to circumvent our ethical and business standards.

Political Involvement, Lobbying and Public Policy

We encourage our Representatives to become involved in civic affairs and to participate in the political process. This way, we can all practise good citizenship and make meaningful contributions to our communities. However, any political activity on the Representative's own behalf must occur strictly in an individual and private capacity, not on behalf of the Group, strictly in the Representative's own time and may not be detrimental to the reputation of the Group.

Moreover, use of the Group's resources or funds to campaign for an elected position or make a contribution to a political party or candidate is strictly prohibited. The Representatives interested in serving in an elected or appointed public position shall advise the Compliance Officer to ensure understanding of the Group's internal rules and possible legal ramifications and to manage possible conflicts of interest, including anti-bribery and anti-corruption compliance requirements.

Any lobbying activities on behalf of the Group may be pursued only by persons duly authorised thereto. Any such activities may never be detrimental to the reputation of the Group or conflict with rules concerning the prohibition of corruption, bribery and fraud (as specified in the above section on Prohibition of Corruption, Bribery and Fraud).

Protecting our Reputation

In order to avoid inappropriate or inaccurate publicity related to the Group, we disclose information concerning the Group and its work to the media (whether printed, broadcasted or on the internet) or otherwise to the public only through authorised persons and specific limited channels. We disclose only true, accurate and not misleading information. We also use only decent and ethical marketing and advertising. Representatives may not provide any information to the media or public about the Group on or off-the-record, for background only, confidentially or secretly. All inquiries or calls from the press shall be referred to the PR and Marketing Director of the Group.

Accounts on social networks under the Group's brand can be established only with prior consent of the Group. Information published by Representatives on social networks via their private accounts may not be detrimental to the Group's reputation.

Rules for Gifts and Hospitality

Giving gifts to or accepting gifts from, as well as providing hospitality to or accepting hospitality from, individuals or entities that we do business with may be a valuable way for the Group to establish and maintain good business relationships. However, it may never conflict with rules concerning prohibition of corruption, bribery and fraud (as specified in the above section on Prohibition of Corruption, Bribery and Fraud).

Rules for Charity and Sponsorship

We believe that charity and sponsorship are important to the communities where we operate. We respect our local communities and do our best to broaden recognition of the Group's capabilities and improve community relations. We provide financial support to specific sport, cultural, charitable and social projects and activities; however, never in order to obtain illegal or unethical benefit or advantage. We always keep an apolitical position and never provide financial or other support to political parties or movements.

Energy transition & circular economy

City West Siemens, Prague, Czech Republic

Environmental practices and Green Building Membership

The Group is committed to sustainably improving the environmental performance of its portfolio. It is fully aware of the global challenge of climate change, and CPIPG is willing to contribute to meeting the goals of the Paris agreement and European energy regulations.

In 2018, the Group began working with the University Centre for Energy Efficient Buildings (UCEEB) of the Czech Technical University in Prague (CTU). UCEEB supported the establishment and quantification of environmental Key Performance Indicators (KPIs) and the setting up of regular monitoring, reporting and targeting, which will align with GRI reporting guidelines. CPIPG continuously improves its environmental reporting tools and processes in order to fine-tune the quality and accuracy of its consolidated data. In cooperation with UCEEB the Group has been developing a new reporting tool in order to gather and homogenise all tools, processes, and indicators for all regions at the Group level. The new reporting tool will provide more transparency and increase the reliability of the KPIs.

It is the Group's goal to standardise environmental practices for existing assets in operation and new acquisitions as well as new developments. A new sustainability acquisition guide has been introduced and is being implemented.

The Group is a member of a key industry initiative in our region, the Czech Green Building Council (CZGBC). The Council was established in 2009 with the aim to support the principles of sustainable building. It is a member of the European Regional Network of the World Green Building Councils and can influence the EU legislation in its initial phase. It closely cooperates with certification organisations including LEED, BREEAM, DGNB and Czech SBToolCZ.

By participating in task groups with leading developers, consultants, engineers and manufacturers the Group can gain practical insights into innovative solutions for effective property management and access information on upcoming legislation and the process of EU law transposition to the region. CPIPG has joined forces with CZGBC and consultants to produce a statistical analysis that defines the boundary lines for the top 15% of the most energy-efficient commercial buildings in the Czech Republic. It amounts to the first available statistical analysis of this kind in the region. Establishing this analysis has allowed to independently confirm that certain of CPIPG's properties without third-party environmental certification are also top energy performers and align with CPIPG's Green Bond Framework criteria.

Green or certified buildings

The Group's goal is to gradually increase the share of green and certified buildings in its portfolio and to utilise environmental certification schemes to validate the sustainability of key assets in all areas (management, health & well-being, energy, water, materials, waste, land use, pollution, transport). Certification criteria are considered for new developments, major refurbishments as well as for buildings in operation.

At the end of the reporting period the Groups portfolio consisted of **12 certified assets** accounting for 230,282 m² in the office segment and 79,791 m² in the shopping centre segment. New certifications were added in first half of 2019 which represent an **increase of 7.5%** of certified area from the previous year.

The current share of certified assets by country is Hungary 45%, Czech Republic 33% and Poland 22%.

Certifications planned for second half of 2019 were revised to amount 120,370 m² and represent an **increase of certified assets by 38.8%** by GLA. The target rating for all certifications for BREEAM In-Use is Very Good and above and in LEED Gold and above.

Green building portfolio – list of certified assets as of 30 June 2019

Asset name	Building type	Certification scheme	Rating	Year of certification
Czech Republic				
City West B2	Office	BREEAM In-Use	Excellent	2019
City West B3	Office	BREEAM In-Use	Excellent	2017
Zlatý Anděl	Office	BREEAM In-Use	Excellent	2015
SC Nisa	Shopping centre	BREEAM In-Use	Excellent	2018
Quadrio	Shopping centre & Office	LEED BD+C	Silver	2014
Hungary				
Quadra-B30	Office	BREEAM In-Use	Very Good	2018
Gateway Office Park	Office	BREEAM In-Use	Very Good	2018
Balance Loft	Office	BREEAM In-Use	Very Good	2017
Arena Corner	Office	BREEAM In-Use	Very Good	2018
Andrássy Palace	Office	BREEAM In-Use	Very Good	2018
Poland				
Ogrody Shopping Centre	Shopping centre	BREEAM 2009 Europe Commercial	Very Good	2016
Atrium Centrum	Office	BREEAM In-Use	Good	2018

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Board of Directors

The Company is administered and supervised by the Board of Directors appointed as a collegiate body by the general meeting of shareholders. The Board of Directors represents the shareholders as a group and acts in the best interests of the Company. All members, and in particular the independent and non-executive members, are guided by the interests of the Company's stakeholders including shareholders, bondholders, creditors, tenants, and employees.

Appointment of Directors

The members of the Board of Directors are elected by the general meeting of shareholders for a period not exceeding six years. They are eligible for re-election and may be removed at any time by a resolution adopted by a simple majority of votes of the general meeting of shareholders. The Directors may be either natural persons or legal entities. In the event of a vacancy on the Board of Directors, the remaining members may co-opt a new member.

Powers of the Board of Directors

The Board of Directors is empowered to perform any acts necessary or useful in achieving the Company's objectives. All matters not expressly reserved to the general meeting by law or by Company's articles of association are within the competence of the Board of Directors.

Deliberations

Meetings of the Board of Directors may be convened by any Director. The Board can validly deliberate and act only if the majority of its members are present or represented.

Delegation of Powers

The Board of Directors may delegate all or part of its powers concerning the day-to-day management and the representation of the Company in connection therewith to one or more Directors, corporation's directors, chief operating officers, chief executive officers, managers or other officers, who need not be shareholders of the Company. Currently, Martin Němeček, has been appointed as the Company's Managing Director.

Current Board of Directors

As at 30 June 2019, the Board of Directors consisted of the following members:

- Edward Hughes, Chairman of the Board;
- Philippe Magistretti;
- Martin Němeček, Managing Director;
- Tomáš Salajka;
- Omar Sattar;
- Oliver Schlink;
- Radovan Vítek; and
- Marie Vítek.

The Board of Directors is comprised of:

- Four executive members representing the management of the Group: Martin Němeček, CEO, Tomáš Salajka, Director of Acquisitions, Asset Management & Sales, Oliver Schlink, CFO of Company's subsidiary GSG Berlin, and Philippe Magistretti, president of CMA S.A. (Crans-Montana ski resort);
- two independent, non-executive members: Edward Hughes and Omar Sattar; and
- two non-executive members representing shareholders: Radovan Vítek and Marie Vítek.

The current Board members were appointed during the Company's annual general meeting of 2019 and their term expires at the annual general meeting of 2020 concerning the approval of the annual accounts of the Company for the financial year ending 31 December 2019.

Audit Committee

The Audit Committee reviews the Company's accounting policies and the communication of financial information. In particular, the Audit Committee follows the auditing process, reviews and enhances the Company's reporting procedures by business lines, reviews risks factors and risk control procedures. During 2018 the Audit Committee met four times.

The Audit Committee is comprised of the following members:

- Edward Hughes;
- Omar Sattar;
- Iveta Krašovicová.

Remuneration and Related Party Transaction Committee

The Remuneration and Related Party Transaction Committee presents proposals to the Board of Directors concerning the remuneration and incentive programs to be offered to the management and the Directors of the Company. The Remuneration Committee also deals with the related party transactions.

The Remuneration Committee is comprised of the following members:

- Radovan Vítek;
- Omar Sattar;
- Edward Hughes.

Financial Reporting, Internal Control and Risk Management

The Company has organized our internal control environment by identifying the main risks to which we are exposed, determining the level of control over these risks, and strengthening the reliability of our financial reporting and communication processes. The Groups overall approach to risk is conservative. There are inherent risks determined by the nature of our business, such as fluctuations in the value of assets, vacancies, volatility in market rents or risks associated with development activities. Key risks are assessed by ranking exposure on the basis of probability and magnitude and are closely managed. Analysis of sensitivity to these key risks is conducted at Group level. The Group's management structure is designed to enable effective decision making. The periodic reviews of key performance indicators are conducted: tenants' turnovers, vacancies, rent collection, arrears and doubtful debtors, and review of performance against budgets are schedules. An internal audit and cost control functions are regularly performed. Strict procedures are also observed for the periodic production of quarterly and annual figures on the basis of the adopted policies. There are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions. The internal management reporting system is designed to identify fluctuations in the value of investments, income and expenses. Capital projects, major contracts and business property acquisitions are reviewed in detail and approved by the Board of Directors where appropriate.

Financial risk

The Group maintains a prudent financial policy. Foreign exchange risks are effectively managed by shifting risks associated with movements in exchange rates to its tenants in most of its Euro-denominated contracts in order to hedge exposure to currency risks in its loans; it uses interest rate swaps to hedge against interest rate risks and uses a credit rating scorecard to manage credit risk associated with its tenants. The Group is also able to draw on a diverse range of capital and liquidity sources including international capital markets bonds issued under the Company's EMTN programme, RCF, secured loans from its relationship banks and equity investment from its majority shareholder. The Group has strong credit metrics, which management believes provide it with the capacity to further de-lever. For financial risk, comprising of credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk) please refer to [Note 7 in Consolidated financial statements as of 31 December 2018]

Information technology risks

The Group has developed a strong information technology team, with dedicated information security specialists. The threat of data breach and loss or cyberattacks are taken very seriously. IT systems used across the Group are designed and developed in order to provide maximum security. Information security risk is carefully monitored and information security policies are reviewed and updated. Employees are regularly guided to be aware of potential IT and cyber security related risks. The Group makes use of electronic data processing within automated information systems. Offsite data back-up and recovery measures are in place.

Legal risk

The Group has established a legal team at the central and local level to ensure proper implementation of legal services and compliance with applicable laws and regulations. Internal legal teams support management in daily operations with respect to ongoing transactions and legal relationships with clients, customers, banks, suppliers, administrative and governmental bodies, as well as courts. The legal teams monitor legislative changes and regulatory changes to minimise associated legal risks.

Complex transactions, litigation as well as certain legal services are outsourced to reputable law firms to ensure obtaining of the highest standards of legal services and minimization of legal risks.

Local legal departments provide regular litigation reports to the general counsel who reports directly to the CEO. Legal reports, including litigation updates, are provided to the Board on quarterly basis, with major legal issues being reported immediately.

Development, construction and refurbishment projects

The Group employs construction and development exerts and skilled project managers for its construction and refurbishment projects. The suppliers of architectural, permitting, construction and refurbishment works are always tendered from reputable companies with relevant experience and financial capacity.

Project timing, progress and budgets are carefully monitored, mostly with the support of external project monitoring organizations. Health, safety and environmental risks are monitored before and during construction.

Transaction and asset management risk

Acquisitions of new assets are carefully examined through a detailed financial, legal, and operational evaluation prior to Board approval. Reputable external advisors are engaged to assist with acquisition processes starting from evaluation, due diligence, transaction negotiation and implementation.

Asset management initiatives are carefully scrutinized before implementation, taking costs and benefits into account. An experienced asset management team evaluates market pricing of lease transactions and also assists with acquisition processes.

An experienced property management team monitors retail tenants turnovers, vacancies, rent collection, arrears and doubtful debtors. Rent collection is closely monitored and enforced in cooperation with the legal team. The tenant base is well diversified and there is small exposure to individual tenants.

Asset protection/insurance

The Group insures all income-producing properties with all-risk property insurance at reinstatement cost, business interruption (revenues for 24 months) and third-party liability insurance. Some properties are also insured against terrorist acts. Properties under development have construction all-risk insurance. Insurance is contracted from reputable international insurers. The Audit Committee and the Remuneration Committee have specific duties in terms of internal control.

Subsequent events

Please refer to Note 11 of the Financial Statements as of 31 December 2018.

Financial risks exposure

For detail description of the principal risks and uncertainties, please refer to Note 2 Basis of Preparation of the Consolidated Financial Statements as of 31 December 2018.

Required Information

In reference to the information required by paragraphs (a) to (k) of Article 11(1) of the Law of 19 May 2006 transposing Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, the Board of Directors states the following elements:

(a) The structure of the capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents:
The share capital of the Company is represented by 9,013,868,658 ordinary shares of one class, out of which 112,135,971 shares (approximately 1.24% of the total number of shares), registered under ISIN code LU0251710041, are admitted to trading on the regulated market of the Frankfurt Stock Exchange in the General Standard segment. The remaining 8,901,732,597 Company shares (approximately 98.76% of the total number of shares) are currently not listed and are non-tradeable on a regulated market.

The Extraordinary General Meeting of the shareholders of the Company held on 26 June 2017 decided to introduce the possibility to create and issue up to ten billion (10,000,000,000) non-voting shares, having a par value of ten eurocents (€0.10) each, and also the possibility to create and issue up to ten billion (10,000,000,000) beneficiary shares without any voting rights and being under registered form only. None of these shares have not been issued by the Company yet.

(b) Any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to Article 46 of Directive 2001/34/EC:
There are no restrictions on the transfer of Company's shares or other securities issued by the Company. However, final terms of certain series of the notes issued under Company's €5,000,000,000 Euro Medium Term Note (EMTN) Programme include a "Prohibition of Sales to EEA Retail Investors" legend. In such case these notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA, within the meaning of (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

(c) Significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross shareholdings) within the meaning of Article 85 of Directive 2001/34/EC:
Based on the latest shareholders' declarations received as at 30 June 2019, the following table sets out information regarding the ownership of the Company's shares:

Radovan Vítek and entities controlled by Mr. Vítek	7,914,502,824	87.80%
Treasury shares by CPI FIM SA (subsidiary of CPIPG)	252,302,248	2.80%
Others	847,063,586	9.40%
Total	**9,013,868,658**	**100%**

(d) The holders of any securities with special control rights and a description of those rights:
None of the Company's shareholders has voting rights different from any other holders of the Company's shares. The Company respect the rights of its shareholders and ensure they receive equitable treatment. The Company has established a policy of active communication with the shareholders.

(e) The system of control of any employee share scheme where the control rights are not exercised directly by the employees:
The Company has no employee share scheme.

(f) Any restrictions on voting rights, such as limitation on the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities:
There no restriction on voting rights of the securities issued by the Company, except for the own shares held by the Company.

(g) Any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC:
To the knowledge of the Company, there are no shareholders or similar agreements entered into by and between shareholders that are in effect as of the date of this report with similar effects.

(h) the rules governing the appointment and replacement of board members and the amendment of the articles of association:
The Company is managed by Board of Directors appointed as a collegiate body by the general meeting of shareholders. The Board of Directors shall be composed of the number of members determined by the general meeting of the shareholders and shall amount to at least three members. The Directors are elected by the general meeting of shareholders for a period of maximum six years. The directors are eligible for re-election and may be removed with or without cause at any time by decision of the general meeting of shareholders by simple majority vote. In the event of a vacancy in the Board of Directors, the remaining members may co-opt a new member. The Directors may be either natural persons or legal entities.

The articles of association may be modified by an extraordinary general meeting of the shareholders, deliberating with a quorum of at least half of the corporate capital and deciding by a vote of at least a two-thirds majority of the votes cast.

(i) the powers of board members, and in particular the power to issue or buy back shares:
The Board of Directors is empowered to perform any acts necessary or useful in achieving the Company's objectives. All matters not expressly reserved to the general meeting by law or by Company's articles of association are within the competence of the Board of Directors.
In particular, the Board of Directors has the following tasks and competencies, without such list being exhaustive:

- Setting the objectives and management policies of the Company;
- Preparing the annual operating and financing plans;
- Managing the Company's business affairs and performing all the acts and operations relating to the corporate purpose that do not fall within the duties attributed to other bodies of the Company;
- Representing the Company in or out of court;
- Acquiring or selling real estate;
- Incorporating companies;
- Adopting resolutions regarding the issuance of bonds, or borrowings;
- Approving issuance of new shares pursuant to the authorized share capital.

As at 30 June 2019, the authorized share capital of the Company amounts to €4,975,000,000, which would authorize the Board of Directors to issue up to 39,750,000,000 new ordinary shares and up to 10,000,000,000 new non-voting shares in addition to the shares currently outstanding. As at 30 June 2019, the Company is authorized to redeem/repurchase up to 637,847,673 own shares under the buy-back programme approved in 2019. For more details on the authorized share capital and the buy back please refer to Note 6.10 of the Consolidated financial statements as of 30 June 2019.

(j) any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements:

The base prospectus dated 30 May 2019, prepared in connection with the Company's €5,000,000,000 Euro Medium Term Note Programme, as amended (the "Programme") contains a change of control put clause, i.e. redemption at the option of the noteholders upon a change of control, provided certain other criteria defined in the Programme occur. Change of control event pursuant to the Programme occurs in case any person or any persons acting in concert (other than Mr. Radovan Vítek, any member of his immediate family or any entity directly or indirectly controlled by him or them) shall acquire a controlling interest in (A) more than 50 per cent., of the issued or allotted ordinary share capital of the Issuer or (B) shares in the issued or allotted ordinary share capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, subject to further conditions. For exact terms please refer to Condition 7.6. of the base prospectus of the Programme. Changes of control provisions are stipulated in the Revolving Credit Facility and Schuldschein agreements entered into by the Company in 2019.

Certain credit facility documentation with financing banks of the Group contain market standard change of control clauses.

(k) any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Not applicable as of 30 June 2019.

Group **Management**

Buddha-Bar Hotel Prague, Czech Republic

Martin Němeček

Chief Executive Officer

Martin Němeček was appointed CEO of CPI Property Group in March 2014. Martin is responsible for the Group's corporate strategy, business development and legal matters. He led the integration of CPI and GSG into CPIPG in 2014, managed the foreign expansion of the Group and has completed acquisitions with a total value exceeding €2.5 billion. Martin has 18 years of real estate experience with a 10-year legal background for Linklaters and Dentons law firms.

Zdeněk Havelka

Executive Director

Zdeněk Havelka was appointed Executive Director of CPI Property Group in June 2014. Zdeněk is responsible for the Group's property management, operational risk management, communications and information technology. Zdeněk has 16 years of real estate experience in CPIPG, working as Chief Financial Officer as well as Chief Executive Officer.

Tomáš Salajka

Director of Acquisitions, Asset Management & Sales

Tomáš Salajka was appointed Director of Acquisitions, Asset Management & Sales of CPI Property Group, in June 2014. Tomáš is responsible for asset management of the Group's portfolio, including all the transactions and platforms in Germany, Poland and Hungary. Tomáš has 18 years of real estate experience, with five years at CPIPG, previously working for GE Real Estate CEE/Germany and ČSOB for 10 years.

David Greenbaum

Chief Financial Officer

David Greenbaum was appointed CFO of CPI Property Group in February 2018. David is responsible for the Group's capital structure, external financing, corporate finance and other strategic matters. David joined CPIPG after 15 years at Deutsche Bank, where he was most recently co-head of debt capital markets for the CEEMEA region.

Pavel Měchura

Group Finance Director

Pavel Měchura was appointed Group Finance Director of CPI Property Group in February 2018. Pavel is responsible for the Group's accounting and reporting, consolidation, valuations, and strategic planning. Pavel has 12 years of real estate experience, nine years at CPIPG and six years with KPMG.

Jan Kratina

Director of CPI Hotels

Jan Kratina has served for more than 12 years as Chief Executive Officer and nine years as Chairman of the Board of CPI Hotels. He is responsible for strategic development of the Group's hotel portfolio including key projects such as entering into Slovakia, Poland, Hungary, Russia and Croatia in 2014. Jan has over 20 years of experience in hospitality.

Glossary

Alternative performance measures	Definition	Rationale
Consolidated adjusted EBITDA	Net business income as reported deducted by 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.
Consolidated adjusted total assets	Consolidated adjusted total assets is total assets as reported deducted by intangible assets and goodwill as reported.	
EPRA Cost Ratios	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.
EPRA Earnings	Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.
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.
EPRA NNNAV	A 'spot' measure of NAV which shows all assets and liabilities at their fair value.	The objective of the EPRA NNNAV is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV.
EPRA Net Initial Yield (NIY)	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	"A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y."
EPRA 'topped-up' NIY	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	
EPRA Vacancy Rate	The EPRA vacancy rate is calculated by dividing the market rents of vacant spaces by the market rents of the total space of the whole portfolio (including vacant spaces).	The rationale for using the EPRA vacancy rate is that it can be clearly defined, should be widely used by all participants in the direct real estate market and comparable from one company to the next.
Equity ratio	It is calculated as total equity as reported divided by total assets as reported.	Provides a general assessment of financial risk undertaken.

Alternative performance measures	Definition	Rationale
Funds from operations or FFO	It is calculated as net profit for the period adjusted by non-cash revenues/expenses (like deferred tax, net valuation gain/loss, impairment, amortization/depreciation, goodwill etc.) and non-recurring (both cash and non-cash) items (like net gain/loss on disposals etc.). Calculation also excludes accounting adjustments for unconsolidated partnerships and joint ventures.	Funds from operations provide an indication of core recurring earnings.
FFO II	It is calculated as Funds from operations (FFO) deducted by interest on perpetual notes as reported.	
Net 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 debt/EBITDA	It is calculated as Net debt divided by Consolidated adjusted EBITDA.	A measure of a company's ability to pay its debt. This ratio measures the amount of income generated and available to pay down debt before covering interest, taxes, depreciation and amortization expenses.
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 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.
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.

Alternative performance measures not used anymore	Last definition	Reason that this APM no longer provides relevant information
Consolidated coverage ratio	Consolidated coverage ratio is a ratio of Consolidated adjusted EBITDA to interest expense as reported.	Related to covenant calculation of one bond issue, might be confusing for the reader
Consolidated leverage ratio	Consolidated leverage ratio is a ratio of a sum of financial debts as reported and bonds issued as reported to Consolidated adjusted total assets.	Related to covenant calculation of one bond issue, might be confusing for the reader

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.
Potential Gross Leasable Area	Potential Gross Leasable Area is the total amount of floor space and land area being developed which the Group is planning to rent after the development is complete.
Potential Gross Saleable Area	Potential Gross Saleable area is the total amount of floor space and land area being developed which the Group is planning to sell after the development is complete.

Unencumbered assets to total assets reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Bonds collateral	0
B	Bank loans collateral	2,938
	Investment property	2,718
	Property, plant and equipment	164
	Trade receivables	24
	Bank accounts	32
C	Total assets	9,498
(C-A-B)/C	Unencumbered assets ratio	69%

Net interest coverage ratio reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Interest income	6
B	Interest expense	(25)
C	Consolidated adjusted EBITDA	143
C/-(A+B)	Net ICR	7.2

Secured debt to total debt reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Secured bonds	0
B	Secured financial debts	1,046
C	Total debts	3,346
	Bonds issued	2,060
	Financial debts	1,286
(A+B)/C	Secured debt as of Total debt	31%

Consolidated adjusted EBITDA reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Net business income	168
B	Administrative expenses	(25)
A+B	Consolidated adjusted EBITDA	143

Secured consolidated leverage ratio reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Secured bonds	0
B	Secured financial debts	1,046
C	Consolidated adjusted total assets	9,393
	Total assets	9,498
	Intangible assets and goodwill	105
(A+B)/C	Secured consolidated leverage ratio	11%

Net debt/EBITDA reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Net debt	2,386
B	Net business income*	336
C	Administrative expenses*	(50)
A/(B+C)	Net debt/EBITDA	8.4

** Annualized.*

Funds from operations (FFO) reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Net profit/(Loss) for the period	166
B	Deferred income tax	(14)
C	Net valuation gain or loss on investment property	80
D	Net valuation gain or loss on revaluation of derivatives	1
E	Net gain or loss on disposal of investment property	0
F	Net gain or loss on disposal of inventory	1
G	Net gain or loss on disposal of PPE/other assets	1
H	Impairment/Reversal of impairment	(1)
I	Amortization/Depreciation	(16)
J	Other non-cash items	11
K	GW/Bargain purchase	0
L	Other non-recurring items	0
M	JV adjustments	0
(A-B-C-D-E-F-G-H-I-J-K-L-M)	Funds from operations	103

FFO II reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Funds from operations	103
B	Interest on perpetual notes	(17)
A+B	Funds from operations	85

Equity Ratio reconciliation

(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Total assets	9,498
B	Total equity	5,091
B/A	Equity Ratio	54%

Quadrio, Prague, Czech Republic

Property portfolio reconciliation
(€ million)

as at 30-Jun-2019	H1 2019
Investment property – Office	3,275
Investment property – Retail	2,126
Property, plant and equipment – Retail	1
Property, plant and equipment – Hospitality	683
Investment property – Residential	655
Property, plant and equipment – Residential	9
Investment property – Land bank	548
Property, plant and equipment – Mountain resorts	75
Investment property – Agriculture	91
Investment property – Industry and logistics	104
Inventories – Development	52
Assets held for sale	70
Investment property – Development	138
Inventories – Land bank	0
Property, plant and equipment – Office	9
Property, plant and equipment – Agriculture	10
Share of profit of equity-accounted investees	4
Inventories – Agriculture	0
Other	4
Total	7,855

Net LTV reconciliation
(€ million)

Item per Consolidated financial statements as at 30-Jun-2019		H1 2019
A	Financial debts	1,286
B	Bonds issued	2,060
C	Net debt linked to AHFS	(1)
D	Cash and cash equivalents	959
E	Property portfolio	7,855
(A+B+C-D)/E	Net LTV	30.4%

DECLARATION LETTER

INTERIM FINANCIAL REPORT

AS AT 30 JUNE 2019

1.1. Person responsible for the Semi - Annual Financial Report

Mr. Martin Němeček, acting as Chief Executive Officer and Managing Director of the Company, with professional address at 40 rue de la Vallee, L-2661 Luxembourg, Grand-Duchy of Luxembourg, m.nemecek@cpipg.com.

1.2. Declaration by the persons responsible for the Semi - Annual Financial Report

The undersigned hereby declares that, to the best of its knowledge:

- the condensed consolidated interim financial statements of the Company as at 30 June 2019, prepared in accordance with the International Accounting Standards ("IFRS") as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Company and its subsidiaries included in the consolidation taken as a whole; and

- the Management report as at 30 June 2019, provides a fair view of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Approved by the Board of Directors and signed on its behalf by Mr. Martin Němeček.

Luxembourg, 28 August 2019

Mr. Martin Němeček
CEO & Managing Director

CPI Property Group
Société anonyme
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Space means opportunity

CPI PROPERTY GROUP

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

CPI PROPERTY GROUP's Board of Directors has approved the condensed consolidated interim financial statements for the six-month period ended 30 June 2019 on 28 August 2019.
All the figures in this report are presented in millions of Euros, except if explicitly indicated otherwise.

Condensed consolidated interim statement of comprehensive income

The accompanying notes form an integral part of these consolidated financial statements.

	Note	Six-month period ended 30 June 2019	30 June 2018 Adjusted*
Gross rental income	5.1	155.2	146.9
Service charges and other income*	5.2	64.8	56.2
Cost of service and other charges*	5.2	(46.5)	(40.2)
Property operating expenses	5.3	(28.5)	(28.3)
Net rental income		**145.0**	**134.6**
Development sales		17.8	7.9
Development operating expenses*		(18.0)	(9.6)
Net development income		**(0.2)**	**(1.7)**
Hotel revenue		56.7	49.9
Hotel operating expenses		(41.1)	(35.6)
Net hotel income		**15.6**	**14.3**
Other business revenue		27.3	24.1
Other business operating expenses*		(19.6)	(15.7)
Net other business income		**7.7**	**8.4**
Total revenues	4.1, 4.2	321.8	285.0
Total direct business operating expenses	4.1	(153.7)	(129.4)
Net business income	4.1	**168.1**	**155.6**
Net valuation gain*	5.4	79.9	153.6
Net gain/(loss) on disposal of investment property and subsidiaries*		0.4	(0.1)
Amortization, depreciation and impairment	5.6	(16.4)	(11.7)
Administrative expenses	5.7	(25.2)	(24.8)
Other operating income		3.1	0.8
Other operating expenses		(4.1)	(4.1)
Operating result		**205.8**	**269.3**
Interest income		5.7	7.3
Interest expense	5.8	(25.5)	(44.9)
Other net financial result*	5.9	0.6	(46.3)
Net finance costs		**(19.2)**	**(83.9)**
Share of loss of equity-accounted investees (net of tax)		(0.4)	(0.4)
Profit before income tax		**186.2**	**185.0**
Income tax expense	5.10	(20.6)	(24.2)
Net profit from continuing operations		**165.6**	**160.8**
Items that may or are reclassified subsequently to profit or loss			
Translation difference		22.0	(44.6)
Cash flow hedges		2.4	(10.8)
Income tax on other comprehensive income items		(1.0)	2.0
Items that will not be reclassified subsequently to profit or loss			
Revaluation of hotel property	6.3	6.6	8.7
Income tax on other comprehensive income items		(1.1)	(1.4)
Other comprehensive income for the period, net of tax		**28.9**	**(46.1)**
Total comprehensive income for the period		**194.5**	**114.7**
Profit attributable to:			
Owners of the parent		147.7	155.4
Non controlling interests		0.9	1.5
Perpetual notes holders		17.4	3.9
Profit for the period		**166.0**	**160.8**
Total comprehensive income attributable to:			
Owners of the parent		176.6	109.3
Non controlling interests		0.9	1.5
Perpetual notes holders		17.4	3.9
Total comprehensive income for the period		**194.9**	**114.7**
Earnings per share			
Basic earnings in EUR per share	6.10	**0.02**	**0.02**
Diluted earnings in EUR per share		0.02	0.02

* Comparative financial information adjusted due to change in accounting policy, for more information refer to note 2.1.

Condensed consolidated interim statement of financial position

The accompanying notes form an integral part of these consolidated financial statements.

	Note	30 June 2019	31 December 2018
Non-current assets			
Intangible assets and goodwill	6.1	105.5	110.3
Investment property	6.2	6,942.3	6,687.1
Property, plant and equipment	6.3	793.6	736.2
Hotels	6.3	*661.7*	*626.0*
Other property, plant and equipment		*131.9*	*110.2*
Biological assets		2.3	1.7
Equity accounted investees		3.5	3.9
Other financial assets		20.9	15.1
Loans provided	6.4	124.5	69.9
Deferred tax assets		195.2	195.2
Total non-current assets		**8,187.8**	**7,819.4**
Current assets			
Inventories	6.5	56.0	71.5
Biological assets		4.4	3.7
Income tax receivables		8.8	7.6
Trade receivables	6.6	76.5	68.4
Loans provided	6.4	68.6	63.8
Cash and cash equivalents	6.7	958.9	99.2
Other financial current assets		13.5	17.8
Other non-financial assets		51.0	40.9
Assets linked to assets held for sale	6.9	72.5	66.7
Total current assets		**1,310.2**	**439.6**
Total assets		**9,498.0**	**8,259.0**
Equity			
Equity attributable to owners of the parent	6.10	3,951.5	3,775.6
Share capital	6.10	*876.2*	*876.2*
Share premium	6.10	*1,013.4*	*1,013.4*
Other reserves	6.10	*357.1*	*328.2*
Retained earnings	6.10	*1,704.8*	*1,557.8*
Non-controlling interests		42.5	44.2
Perpetual notes	6.10	1,097.2	542.5
Total equity		**5,091.2**	**4,362.3**
Non-current liabilities			
Bonds issued	6.11	2,041.1	1,648.4
Financial debts	6.13	1,229.7	1,061.6
Deferred tax liability		782.2	761.6
Provisions		9.5	8.9
Other financial liabilities	6.14	53.9	44.0
Total non-current liabilities		**4,116.4**	**3,524.5**
Current liabilities			
Bonds issued	6.11	19.3	6.7
Financial debts	6.13	55.9	157.6
Trade payables		81.3	97.5
Income tax liabilities		6.5	8.3
Other financial liabilities	6.15	94.0	82.2
Other non-financial liabilities		27.4	17.3
Liabilities linked to assets held for sale	6.9	6.0	2.6
Total current liabilities		**290.4**	**372.2**
Total equity and liabilities		**9,498.0**	**8,259.0**

Condensed consolidated interim statement of changes in equity

The accompanying notes form an integral part of these consolidated financial statements.

	Note	Share capital	Share premium	Translation reserve	Legal reserve	Hedging reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of the parent	Equity attributable to perpetual notes investors	Equity attributable to shareholders of the parent and perpetual notes holders	Non controlling interests	Total equity
Balance at 1 January 2019 (audited)		876.2	1,013.4	23.9	5.8	7.6	290.9	1,557.8	3,775.6	542.5	4,318.1	44.2	4,362.3
Profit for the period		-	-	-	-	-	-	147.7	147.7	17.4	165.1	0.9	166.0
Translation difference		-	-	22.0	-	-	-	-	22.0	-	22.0	-	22.0
Cash flow hedges		-	-	-	-	2.4	-	-	2.4	-	2.4	-	2.4
Revaluation of property, plant and equipment		-	-	-	-	-	6.6	-	6.6	-	6.6	-	6.6
Income tax on other comprehensive income items		-	-	-	-	(1.0)	(1.1)	-	(2.1)	-	(2.1)	-	(2.1)
Total other comprehensive income for the period		-	-	22.0	-	1.4	5.5	-	28.9	-	28.9	-	28.9
Total comprehensive income for the period		-	-	22.0	-	1.4	5.5	147.7	176.6	17.4	194.0	0.9	194.9
Issuance of perpetual notes	6.10	-	-	-	-	-	-	-	-	537.3	537.3	-	537.3
Acquisition of NCI	6.10	-	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)	(2.6)	(3.3)
Balance at 30 June 2019		876.2	1,013.4	45.9	5.8	9.0	296.4	1,704.8	3,951.5	1,097.2	5,048.7	42.5	5,091.2

	Note	Share capital	Share premium	Translation reserve	Legal reserve	Hedging reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of the parent	Equity attributable to perpetual notes investors	Equity attributable to shareholders of the Company and perpetual notes investors	Non controlling interests	Total equity
Balance at 1 January 2018 (audited)		923.6	1,060.8	46.8	5.8	13.3	271.2	955.9	3,277.4	-	3,277.4	37.8	3,315.2
Adjustment on initial application of IFRS 9		-	-	-	-	-	-	(4.9)	(4.9)	-	(4.9)	-	(4.9)
Adjusted balance at 1 January 2018		923.6	1,060.8	46.8	5.8	13.3	271.2	951.0	3,272.5	-	3,272.5	37.8	3,310.2
Profit for the period		-	-	-	-	-	-	155.4	155.4	3.9	159.3	1.5	160.8
Translation difference		-	-	(44.6)	-	-	-	-	(44.6)	-	(44.6)	-	(44.6)
Cash flow hedges		-	-	-	-	(10.8)	-	-	(10.8)	-	(10.8)		(10.8)
Revaluation of property, plant and equipment		-	-	-	-	-	8.7	-	8.7	-	8.7	-	8.7
Income tax on other comprehensive income items		-	-	-	-	2.0	(1.5)	-	0.5	-	0.5	-	0.5
Total other comprehensive income / (expense)		-	-	(44.6)	-	(8.7)	7.2	-	(46.1)	-	(46.1)	-	(46.1)
Total comprehensive income for the period		-	-	(44.6)	-	(8.7)	7.2	155.4	109.4	3.9	113.3	1.5	114.7
Capital increase	6.10	25.0	25.0	-	-	-	-	-	50.0	-	50.0	-	50.0
Share buy-back	6.10	(72.4)	(72.4)	-	-	-	-	-	(145.0)	-	(145.0)	-	(145.0)
Issuance of perpetual notes	6.10	-	-	-	-	-	-	-	-	537.9	537.9	-	537.9
Balance at 30 June 2018		876.2	1,013.4	2.2	5.8	4.6	278.4	1,106.4	3,286.9	541.8	3,828.7	39.2	3,867.9

Consolidated cash flow statement

The accompanying notes form an integral part of these consolidated financial statements.

	Note	Six-month period ended 30 June 2019	30 June 2018 Adjusted*
Profit before income tax		**186.2**	**185.1**
Adjusted by:			
Net valuation gain*	5.4	(80.6)	(153.6)
Net (gain) loss on the disposal of investment property and subsidiaries		(0.4)	0.1
Amortization, depreciation and impairment	5.6	16.4	11.7
Gain on the disposal of property, plant and equipment		(0.8)	-
Interest expense, net		19.8	37.6
Net finance costs		3.0	3.7
Share of loss of equity accounted investees		0.4	0.4
Unrealized exchange rate differences and other non-cash adjustments*		(22.4)	46.4
Profit before changes in working capital and provisions		**121.6**	**131.4**
(Increase) decrease in inventories		(5.0)	1.5
(Increase) decrease in trade receivables		(11.6)	0.4
Increase (decrease) in trade payables		9.7	(10.9)
Change in provisions		0.6	(4.8)
Income tax paid		(3.7)	(6.1)
Net cash from operating activities		**111.6**	**111.5**
Acquisition of subsidiaries, net of cash acquired	3.2	(53.6)	(155.3)
Acquisition of non-controlling interest		(3.5)	-
Proceeds from disposals of subsidiaries, net of cash disposed		-	21.6
Purchase and expenditures on investment property	6.2	(59.3)	(42.3)
Purchase and expenditures on property, plant and equipment		(45.9)	(11.7)
Expenditure on investment property under development		(15.8)	(1.8)
Purchase of intangible assets		(0.7)	(0.6)
Proceeds from sale of investment property		0.8	4.4
Proceeds from sale of property, plant and equipment		-	0.1
Proceeds from sale of inventories		17.7	-
Loans provided	6.4	(58.4)	(77.1)
Loans repaid	6.4	3.8	3.2
Interest received		(3.4)	7.2
Net cash used in investing activities		**(218.3)**	**(252.3)**
Proceeds from issue of share capital	6.10	-	50.0
Share buy-back	6.10	-	(145.0)
Proceeds from perpetual notes	6.10	537.3	537.9
Proceeds from bonds issued	6.11	388.8	-
Repayment of bonds issued	6.11	-	(30.0)
Interest paid		(12.5)	(36.8)
Drawings of loans and borrowings	6.13	256.2	133.4
Repayments of loans and borrowings	6.13	(201.8)	(129.9)
Drawings (repayment) of lease liabilities	6.13	(1.3)	(4.7)
Net cash from / (used in) financing activities		**966.7**	**374.9**
Net increase in cash		**860.0**	**234.1**
Cash and cash equivalents at the beginning of the year	6.7	99.2	238.9
Less: Cash and cash equivalents reclassified to asset held for sale		(0.3)	0.4
Cash and cash equivalents at the end of the six-month period ended		**958.9**	**473.4**

* Comparative financial information adjusted due to change in accounting policy, for more information refer to note 2.1.

Notes to the consolidated financial statements

1 General information

CPI PROPERTY GROUP S.A. (hereinafter also the "Company" or "CPI PG", and together with its subsidiaries as the "Group") is a real estate group founded in 2004 as ORCO Germany S.A. Since its foundation the Group has been operating in Germany and concentrated mainly on commercial property, project development and asset management, principally in Berlin. With its subsidiary Gewerbesiedlungs-Gesellschaft (GSG), the Group is the largest lessor of commercial property in the Berlin area. After the incorporation into Czech Property Investments a.s. (hereinafter also as "CPI" and together with its subsidiaries as "CPI Group") in 2014, the Group expanded to a number of CEE countries primarily the Czech republic.

The Group primarily focused on investment properties, as well as development and asset management for third parties.

CPI PROPERTY GROUP S.A. is the parent company of the Group. The Company is a Luxembourg *Société Anonyme*, whose shares registered under ISIN code LU0251710041 are listed on the regulated market of the Frankfurt Stock Exchange in the General Standard segment.

The registered office of the Company is located at 40, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

Description of the ownership structure

As at 30 June 2019, Radovan Vítek indirectly owned 87.80 % of CPI PROPERTY GROUP S.A. (94.23 % voting rights).

For the list of shareholders as at 30 June 2019 refer to note 6.10.

Board of Directors

Chairman:	Edward Hughes
CEO & Managing Director:	Martin Němeček
Members:	Philippe Magistretti
	Tomáš Salajka
	Omar Sattar
	Oliver Schlink
	Radovan Vítek
	Marie Vítek

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34, 'Interim Financial Reporting'.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

The Group's operations are not subject to any significant seasonal fluctuations.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 28 August 2019.

The interim condensed consolidated financial statements have not been audited.

(b) New and amended standards and interpretations adopted in the six-month period ended 30 June 2019

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16, 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard allows two recognition exemptions for lessees – leases of low-value assets and short-term leases (leases with a lease term of 12 months or less). At the lease commencement date, a lessee recognised the lease liability and an asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the asset. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17.

The Group adopted IFRS 16 using the cumulative catch-up method of adoption with the date of initial application of 1 January 2019. Under this method the Group does not restate comparative information and measures assets at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Outstanding liability is calculated using incremental borrowing rate last date of transition.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment and cars that are considered of low value.

Impact on the statement of financial position (increase/(decrease)) as at 30 June 2019:

	30 June 2019
Right-of-use assets (included in other property, plant and equipment)	10.3
Total assets	**10.3**
Retained earnings	(0.1)
Total equity	**(0.1)**
Interest-bearing loans and borrowings	10.4
Non-current liabilities	**10.4**
Total equity and liabilities	**10.3**

Impact on the statement of profit or loss (increase/(decrease)) for the six-month period ended 30 June 2019:

	30 June 2019
Depreciation expense (included in hotel operating expenses)	(0.7)
Rent expense (included in hotel operating expenses)	0.9
Net business income	0.2
Operating result	**0.2**
Finance costs	(0.3)
Net finance costs	**(0.1)**
Profit before income tax	**(0.1)**
Net profit from continuing operations	**(0.1)**

Impact on the statement of cash flows (increase/(decrease)) for the six-month period ended 30 June 2019:

	30 June 2019
Net cash flows from operating activities	0.3
Net cash flows from financing activities	(0.3)

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

- Right-of-use assets: The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.
- Lease liabilities: At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.
- Short-term leases and leases of low-value assets: The Group applies the short-term lease recognition exemption to its short-term leases. Short term leases have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.
- The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

IFRIC Interpretation 23, 'Uncertainty over Income Tax Treatment'. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation specifically addresses: 1) Whether an entity considers uncertain tax treatments separately. 2) The assumptions an entity makes about the examination of tax treatments by taxation authorities. 3) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. 4) How an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

(c) Changes in accounting policies applied in the six-month period ended 31 December 2018

Change in classification of foreign exchange gains or losses on revaluation of the investment properties

The Group reclassified effect of changing foreign exchange rates on the revaluation of the investment properties from the Other net financial result to the Net valuation gain or loss. Management finds the adjusted presentation reliable and more relevant, because the effect is already included in determination of the fair value of the relevant investment properties by the Group's subsidiaries.

Comparative information for the six-month period ended 30 June 2018 was adjusted accordingly. The change in the accounting policy had no impact on the statement of financial position, the impact on the statement of comprehensive income is presented in the table below:

	30 June 2018	Effect of the accounting policy change	30 June 2018 Adjusted
Net business income	**155.6**	**-**	**155.6**
Net valuation gain	95.1	58.5	153.6
Operating result	**210.8**	**58.5**	**269.3**
Other net financial result	12.2	(58.5)	(46.3)
Net finance costs	**(25.4)**	**(58.5)**	**(83.9)**
Profit before income tax	**185.0**	**-**	**185.0**
Net profit from continuing operations	**160.8**	**-**	**160.8**

Change in recognition of service charges from net to gross

The Group changed, in respect of service charges, revenue recognition policy from net to gross, before deduction of cost of services.

Management also concluded that service revenue should no longer be presented separately from other service charges, because combined presentation of the service charges provides more relevant information about the business. More detail on service charge and other income is provided in note 5.2.

Comparative information for the six-month period ended 30 June 2018 was adjusted accordingly. The change in the accounting policy had no impact on the statement of financial position, the impact on the statement of comprehensive income is presented in the table below:

	30 June 2018	Effect of IFRS 15 adoption	30 June 2018 Adjusted
Gross rental income	146.9	-	146.9
Service revenue	5.8	(5.8)	-
Net service charge income	10.2	(10.2)	-
Service charge and other income	-	56.2	56.2
Cost of service and other charges	-	(40.2)	(40.2)
Property operating expense	(28.3)	-	(28.3)
Net rental income	**134.6**	**-**	**134.6**
Total revenues	**244.8**	**40.2**	**285.0**
Total direct business operating expenses	**(89.2)**	**(40.2)**	**(129.4)**
Net business income	**155.6**	**-**	**155.6**

Other classification changes

The Group reclassified Income tax liabilities from Other current non-financial liabilities to present them, in line with IAS 1, separately in the consolidated statement of financial position. Comparative information of EUR 8.3 million as at 30 June 2018 was adjusted accordingly.

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, respectively. Comparative information of EUR 0.1 million and EUR 1.1 million as at 30 June 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. Comparative information of EUR 0.1 million as at 30 June 2018 was adjusted accordingly.

3 The Group structure

As at 30 June 2019 the Group comprises its parent company and 345 subsidiaries controlled by the parent company (353 subsidiaries as at 31 December 2018) and 3 joint ventures.

3.1 Changes in the Group in the six-month period ended 30 June 2019

3.1.1 Entities acquired or founded

Entity	Change	Share owned by the Group in %	Date of acquisition/foundation
Régie du Rhộne Crans-Montana SA	Acquisition	99.70%	6 February 2019
Orchard Hotel a.s.	Acquisition	100.00%	27 February 2019
Vysočany Office, a.s.	Founded	97.31%	23 April 2019
7 St James's Square Limited	Acquisition	100.00%	7 June 2019
Brno INN, a.s.	Acquisition	100.00%	28 June 2019

3.1.2 Entities either disposed or liquidated

On 8 May 2019, the Group liquidated the following subsidiaries registered in Cyprus: AVACERO LIMITED, AVIDANO LIMITED, DERISA LIMITED, GOMENDO LIMITED, GORANDA LIMITED, ISTAFIA LIMITED, JONVERO LIMITED, OSMANIA LIMITED, PRINGIPO LIMITED and TUNELIA LIMITED.

3.1.3 Property asset acquisitions

On 27 March 2019, the Group founded 7 St James's Square Limited. The entity had no assets as at that date.

On 7 June 2019, 7 St James's Square Limited acquired a building which was purchased in a shell condition and it will offer up to 33,000 square feet of gross leasable area. The total consideration paid for the building was GBP 48.2 million (EUR 54.3 million).

3.1.4 Acquisitions through Business combinations

Acquisition of Régie du Rhộne Crans-Montana SA

On 6 February 2019, the Group acquired Régie du Rhộne, a real estate company from Switzerland. The company offers a large range of services: property management, sell properties, co-ownership, sales brokerage and rentals, as well as real estate project development.

The consideration paid for 100% stake amounted to CHF 1.6 million (EUR 1.4 million). Régie du Rhộne was renamed to One Crans Montana on 27 June 2019.

The fair value of the identifiable assets and liabilities at the date of acquisition was as follows:

Trade receivables	0.1
Cash and cash equivalents	1.1
Other financial current assets	0.1
Identifiable acquired assets	**1.3**
Financial debts	(0.8)
Other non-current liabilities	(0.2)
Advance payments	(0.1)
Other financial current liabilities	(0.8)
Other non-financial current liabilities	(0.2)
Identifiable acquired liabilities	**(2.1)**

Net identifiable assets of this subsidiary acquired at the date of the acquisition amounted to EUR -0.8 million. As a result of this business combination, the Group recognized a goodwill in the amount of EUR 2.2 million.

Due to the acquisition, the Group acquired cash and cash equivalents EUR 1.1 million. The net cash outflow connected with the acquisition amounted to EUR 0.3 million.

If the acquisition had occurred on 1 January 2019 with all other variables held constant, Group total revenues in the six-month period ended 30 June 2019 would have been EUR 322.0 million and net profit from continuing operations would have been EUR 165.8 million.

Acquisition of Orchard Hotel a.s.

On 27 February 2019, the Group acquired a 100% stake in Orchard Hotel a.s. in the center of Ostrava, the Czech Republic, with 185 rooms. The consideration paid was EUR 0.6 million.

The fair value of the identifiable assets and liabilities at the date of acquisition was as follows:

Property, plant and equipment	10.5
Trade receivables	0.1
Cash and cash equivalents	0.2
Identifiable acquired assets	**10.8**
Financial debts	(9.9)
Other current liabilities	(0.3)
Identifiable acquired liabilities	**(10.2)**

Net identifiable assets of this subsidiary acquired at the date of the acquisition amounted to EUR 0.6 million.

Due to the acquisition, the Group acquired cash and cash equivalents EUR 0.2 million. The net cash outflow connected with the acquisition amounted to EUR 0.4 million.

If the acquisition had occurred on 1 January 2019 with all other variables held constant, Group total revenues in the six-month period ended 30 June 2019 would have been EUR 322.3 million and net profit from continuing operations would have been EUR 165.2 million.

Acquisition of BRNO INN, a.s.

On 28 June 2019, the Group acquired a four-star congress hotel in Brno, the Czech Republic. The hotel offers 200 double rooms and a congress hall with capacity for up to 600 people in a strategic location close to the trade fair and exhibition compound in Brno.

The consideration paid represents EUR 16.6 million (app. CZK 422.5 million).

The fair value of the identifiable assets and liabilities at the date of acquisition was as follows:

Property, plant and equipment	15.5
Cash and cash equivalents	2.5
Other current assets	0.5
Identifiable acquired assets	**18.5**
Deferred tax liabilities	(1.7)
Other current liabilities	(0.3)
Identifiable acquired liabilities	**(2.0)**

Net identifiable assets of this subsidiary acquired at the date of the acquisition amounted to EUR 16.5 million.

Due to the acquisition, the Group acquired cash and cash equivalents EUR 2.5 million. The net cash outflow connected with the acquisition amounted to EUR 14.1 million.

If the acquisition had occurred on 1 January 2019 with all other variables held constant, Group total revenues in the six-month period ended 30 June 2019 would have been EUR 323.7 million and net profit from continuing operations would have been EUR 165.7 million.

4 Segment reporting

The Board of Directors, which is the main corporate body and decision maker, also reviews the Segment adjusted EBITDA. Segment adjusted EBITDA is segment net business income reduced by administrative expenses. Segment adjusted EBITDA is one of the key metrics used to evaluated and manage operating segments as it is an important economic indicator of operating efficiency. Segment adjusted EBITDA is not defined or recognised under IFRS and is considered as a non-IFRS financial measure used to evaluate current business performance.

For management purposes, the Group is structured into four operating segments corresponding primarily to geographic regions: Czech Republic, Berlin, Hotels & Resorts in Europe (including those in the Czech Republic) and Complementary assets in Europe.

The Group engages in the following business activities:

- The Group owns aportfolio comprising retail, office, residential and land bank assets in the Czech Republic, and also operates agricultural farms.
- The Group is a leading office provider in Berlin, Germany.
- The Group operates primarily congress and convention hotels in the Czech Republic, in major CEE region cities, as well as resorts on the Croatian island Hvar and ski mountain resorts in Switzerland.
- The Group's complementary assets portfolio primarily consists of the office and retail portfolio in Hungary, Poland and Slovakia.

4.1 Income statement per operating segments

30 June 2019

	Czech Republic	Berlin	Hotels & resorts in Europe	Complementary assets in Europe	Corporate and not attributable	Total
Gross rental income	83.3	36.3	-	35.6	-	155.2
Service charge and other income	32.3	17.1	-	15.4	-	64.8
Cost of service and other charges	(24.3)	(8.2)	-	(14.0)	-	(46.5)
Property operating expenses	(14.0)	(9.2)	-	(5.3)	-	(28.5)
Net rental income	**77.3**	**36.0**	**-**	**31.7**	**-**	**145.0**
- Office portfolio	*19.8*	*35.5*	*-*	*10.7*	*-*	*66.0*
- Retail portfolio	*44.6*	*-*	*-*	*20.6*	*-*	*65.2*
- Residential portfolio	*7.4*	*-*	*-*	*(1.6)*	*-*	*5.8*
- Other	*5.5*	*0.5*	*-*	*2.0*	*-*	*8.0*
Development sales	2.5	-	-	15.3	-	17.8
Development operating expenses	(1.6)	-	-	(16.4)	-	(18.0)
Net development income	**0.9**	**-**	**-**	**(1.1)**	**-**	**(0.2)**
Hotel revenue	-	-	56.7	-	-	56.7
Hotel operating expenses	-	-	(41.1)	-	-	(41.1)
Net hotel income	**-**	**-**	**15.6**	**-**	**-**	**15.6**
Other business revenue	7.1	-	20.2	-	-	27.3
Other business operating expenses	(4.7)	-	(14.9)	-	-	(19.6)
Net other business income	**2.4**	**-**	**5.3**	**-**	**-**	**7.7**
Total revenues	125.2	53.4	76.9	66.3	-	321.8
Total direct business operating expenses	(44.6)	(17.4)	(56.0)	(35.7)	-	(153.7)
Net business income	**80.6**	**36.0**	**20.9**	**30.6**	**-**	**168.1**
Administrative expenses	(11.1)	(5.8)	(0.1)	(1.5)	(6.7)	(25.2)
Segment adjusted EBITDA	**69.5**	**30.2**	**20.8**	**29.1**	**(6.7)**	**142.9**
Valuation gain	77.3	9.8	0.1	10.5	-	97.7
Valuation loss	(12.6)	-	(0.3)	(4.9)	-	(17.8)
Net gain/(loss) on disposal of investment property and subsidiaries	0.4	-	-	-	-	0.4
Amortization, depreciation and impairments	(9.1)	(0.5)	(7.9)	(0.3)	1.4	(16.4)
Segment operating result	**125.5**	**39.5**	**12.7**	**34.4**	**(5.3)**	**206.8**
Other operating income					3.1	3.1
Other operating expenses					(4.1)	(4.1)
Operating result						**205.8**
Interest income					5.7	5.7
Interest expense					(25.5)	(25.5)
Other net financial result					0.6	0.6
Net finance costs					**(19.2)**	**(19.2)**
Share of profit of equity-accounted investees (net of tax)					(0.4)	(0.4)
Profit before income tax						**186.2**
Income tax expense					(20.6)	(20.6)
Net profit from continuing operations						**165.6**

30 June 2018

	Czech Republic	Berlin	Hotels & resorts in Europe	Complementary assets in Europe	Corporate and not attributable	Total
Gross rental income	84.7	31.5	-	30.7	-	146.9
Service charge and other income	27.3	15.2	-	13.7	-	56.2
Cost of service and other charges	(20.4)	(7.5)	-	(12.3)	-	(40.2)
Property operating expenses	(16.0)	(7.2)	-	(5.1)	-	(28.3)
Net rental income	**75.6**	**32.0**	**-**	**27.0**	**-**	**134.6**
- Office portfolio	20.5	31.5	-	7.5	-	59.5
- Retail portfolio	45.6	-	-	19.5	-	65.1
- Residential portfolio	5.9	-	-	(0.3)	-	5.6
- Other	3.5	0.5	-	0.4	-	4.4
Development sales	0.6	-	-	7.3	-	7.9
Development operating expenses	-	-	-	(9.6)	-	(9.6)
Net development income	**0.6**	**-**	**-**	**(2.3)**	**-**	**(1.7)**
Hotel revenue	-	-	49.9	-	-	49.9
Hotel operating expenses	-	-	(35.6)	-	-	(35.6)
Net hotel income	**-**	**-**	**14.3**	**-**	**-**	**14.3**
Other business revenue	6.1	-	18.0	-	-	24.1
Other business operating expenses	(4.4)	-	(11.3)	-	-	(15.7)
Net other business income	**1.7**	**-**	**6.7**	**-**	**-**	**8.4**
Total revenues	118.7	46.7	67.9	51.7	-	285.0
Total direct business operating expenses	(40.8)	(14.7)	(46.9)	(27.0)	-	(129.4)
Net business income	**77.9**	**32.0**	**21.0**	**24.7**	**-**	**155.6**
Administrative expenses	(10.4)	(5.9)	(0.8)	(2.1)	(5.6)	(24.8)
Segment adjusted EBITDA	**67.5**	**26.1**	**20.2**	**22.6**	**(5.6)**	**130.8**
Valuation gain	77.2	29.6	-	52.9	-	159.7
Valuation loss	(3.8)	-	-	(2.4)	-	(6.2)
Net gain/(loss) on disposal of investment property and subsidiaries	0.1	-	-	(0.2)	-	(0.1)
Amortization, depreciation and impairments	(2.6)	(0.5)	(6.6)	(0.4)	(1.5)	(11.6)
Segment operating result	**138.4**	**55.2**	**13.6**	**72.5**	**(7.1)**	**272.6**
Other operating income					0.8	0.8
Other operating expenses					(4.1)	(4.1)
Operating result						**269.3**
Interest income					7.3	7.3
Interest expense					(44.9)	(44.9)
Other net financial result					(46.3)	(46.3)
Net finance costs					**(83.9)**	**(83.9)**
Share of profit of equity-accounted investees (net of tax)					(0.4)	(0.4)
Profit before income tax						**(185.0)**
Income tax expense					(24.2)	(24.2)
Net profit from continuing operations						**160.8**

4.2 Revenues generated by countries

The following table presents revenues by countries:

	Six-month period ended			
	30 June 2019		30 June 2018	
	Amount	In %	Amount	In %
Czech Republic	158.3	49%	169.7	59%
Germany	53.4	17%	39.2	14%
Hungary	33.5	10%	24.5	9%
Poland	17.3	5%	9.6	3%
Croatia	8.8	3%	7.7	3%
Other	50.5	16%	34.3	12%
Total revenues generated by the Group	**321.8**	**100%**	**285.0**	**100%**

4.3 Non-current assets by operating segments and countries

The following table presents investment property by operating segments and countries:

	30 June 2019 Amount	In %	31 December 2018 Amount	In %
By operating segments				
Czech Republic	3,609.3	52%	3,453.3	52%
- *Office portfolio*	*841.7*	*23%*	*751.9*	*22%*
- *Retail portfolio*	*1,611.6*	*45%*	*1,587.1*	*45%*
- *Residential portfolio*	*457.7*	*13%*	*447.1*	*13%*
- *Land bank*	*493.1*	*14%*	*472.0*	*14%*
- *Development*	*48.9*	*1%*	*51.7*	*2%*
- *Other*	*156.3*	*4%*	*143.5*	*4%*
Berlin	2,074.7	30%	2,049.8	31%
- *Office portfolio*	*1,979.2*	*95%*	*2,013.9*	*98%*
- *Land bank*	*31.6*	*2%*	*31.5*	*2%*
- *Development*	*59.4*	*3%*	-	-
- *Other*	*4.5*	-	*4.4*	-
Complementary assets in Europe	1,258.3	18%	1,184.0	17%
- *Office portfolio*	*454.0*	*36%*	*417.0*	*35%*
- *Retail portfolio*	*503.7*	*41%*	*513.8*	*43%*
- *Land bank*	*23.0*	*2%*	*22.6*	*2%*
- *Development*	*29.9*	*2%*	*28.1*	*2%*
- *Residential portfolio*	*197.7*	*16%*	*196.8*	*17%*
- *Other*	*50.0*	*3%*	*5.7*	*1%*
Total	6,942.3	100%	6,687.1	100%
By countries				
Czech Republic	3,609.3	52%	3,453.3	52%
Germany	2,074.7	30%	2,049.8	31%
Hungary	568.2	8%	548.5	8%
Poland	312.2	4%	312.2	5%
Other	377.9	6%	323.3	4%
Total	6,942.3	100%	6,687.1	100%

The following table presents property, plant and equipment by operating segments and countries:

	30 June 2019 Amount	In %	31 December 2018 Amount	In %
By operating segments				
Hotels and resorts	759.5	96%	704.8	96%
Czech Republic	24.3	3%	22.8	3%
Berlin	9.5	1%	8.2	1%
Complementary assets in Europe	0.3	-	0.4	-
Total	793.6	100%	736.2	100%
By countries				
Czech Republic	398.7	50%	353.6	48%
Croatia	185.9	23%	178.0	24%
Switzerland	75.1	10%	74.4	10%
Hungary	57.7	7%	58.4	8%
Other	76.2	10%	71.8	10%
Total	793.6	100%	736.2	100%

The following table presents goodwill by operating segments and countries:

	30 June 2019 Amount	31 December 2018 Amount
Czech Republic	-	7.1
Berlin	42.6	42.6
Hotels and resorts	48.7	45.9
Complementary assets in Europe	1.9	1.9
Total	93.2	97.5

5 Condensed consolidated interim statement of comprehensive income

5.1 Gross rental income

	Six-month period ended 30 June 2019	30 June 2018
Gross rental income	155.2	146.9
Total gross rental income	155.2	146.9

Increase of gross rental income in the six-month period ended 30 June 2019 was driven by the segments of Berlin (increased by EUR 4.8 million compared to the six-month period ended 30 June 2018) and Other complementary assets (increased by EUR 5.2 million compared to the six-month period ended 30 June 2018).

5.2 Net service charge and other income

	Six-month period ended 30 June 2019	30 June 2018 Adjusted*
Service revenue	3.5	5.8
Service charge income	53.8	43.6
Revenues from sales of utilities	7.5	6.8
Service charges and other income	64.8	56.2
Service charge expenses	(42.4)	(35.8)
Cost of utilities	(4.1)	(4.4)
Cost of service and other charges	(46.5)	(40.2)
Total net service charge and other income	18.3	16.0

* The Group, adopting IFRS 15, changed accounting policy for service charge income from net to gross revenue recognition. Comparative information for the six-month period ended 30 June 2018 was adjusted accordingly, refer to note 2.1 for more detail.

5.3 Property operating expenses

	Six-month period ended 30 June 2019	30 June 2018
Building Maintenance	(13.3)	(12.8)
Personnel expenses (5.3.1)	(4.1)	(4.2)
Real estate tax	(2.3)	(2.4)
Other property related expenses	(8.8)	(8.9)
Total net property operating expenses	(28.5)	(28.3)

5.3.1 Personnel expenses

	Six-month period ended 30 June 2019	30 June 2018
Wages and salaries	(3.0)	(3.1)
Social and health security contributions	(1.0)	(1.0)
Other social expenses	(0.1)	(0.1)
Total personnel operating expenses	(4.1)	(4.2)
Wages and salaries	(9.9)	(8.9)
Social and health security contributions	(2.6)	(2.1)
Other social expenses	(0.3)	(0.9)
Total personnel administrative expenses (note 5.7)	(12.8)	(11.9)
Wages and salaries	(13.1)	(10.6)
Social and health security contributions	(3.5)	(2.9)
Other social expenses	(0.3)	(0.2)
Total personnel expenses – hotel operations	(16.9)	(13.7)
Wages and salaries	(8.7)	(7.0)
Social and health security contributions	(1.6)	(1.4)
Other social expenses	(0.3)	(0.2)
Total personnel expenses – other business operations	(10.6)	(8.6)
Total personnel expenses	(44.4)	(38.4)

The Group has 4,141 employees as at 30 June 2019 (3,928 employees as at 30 June 2018).

5.4 Net valuation gain

	Six-month period ended 30 June 2019	30 June 2018
Fair value change, net of foreign exchange gain/(loss)	92.3	95.1
Net foreign exchange gain/(loss)	(12.4)	58.5
Net valuation gain	**79.9**	**153.6**

Valuation gains and losses per operating segments

	Czech Republic	Berlin	Complementary assets in Europe	Total
Six-month period ended 30 June 2019				
Valuation gain	77.3	9.8	10.5	97.6
Valuation loss	(12.8)	-	(4.9)	(17.7)
Net valuation gain	**64.5**	**9.8**	**5.6**	**79.9**
Six-month period ended 30 June 2018*				
Valuation gain	76.7	29.6	53.0	159.3
Valuation loss	(3.2)	-	(2.5)	(5.7)
Net valuation gain	**73.5**	**29.6**	**50.5**	**153.6**

* The Group reclassified effect of changing foreign exchange rates on the revaluation of the investment properties from the Other net financial result to the Net valuation gain. Comparative information for the period ended as of 30 June 2018 was adjusted accordingly, refer to note 2.1 for more detail.

In the six-month period ended 30 June 2019, the most significant valuation gain was generated by the Czech office portfolio, located primarily in Prague. Significant valuation gains of EUR 15.8 million and EUR 9.0 million were generated by Prague's office project Zlatý Anděl and the Czech residential portfolio, respectively. An additional valuation gain of EUR 9.8 million relates to the Berlin office portfolio, given strong market conditions.

In the six-month period ended 30 June 2018, the valuation gain of EUR 29.6 million related to the Berlin office portfolio. There was significant impact of changing foreign exchange rates on the revaluation of the investment properties of EUR 31.2 million and EUR 8.7 million in respect of the Hungarian and Polish portfolio, respectively.

In the six-month period ended 30 June 2018, the valuation gain of EUR 30.4 million was gained by retail and office centre CPI Národní. Significant valuation gain of EUR 20.1 million was generated by the Czech residential portfolio. There was significant impact of changing foreign exchange rates on the revaluation of the investment properties of EUR 31.2 million and EUR 8.7 million in respect of the Hungarian and Polish portfolio, respectively. Additional valuation gain of EUR 29.6 million relates to the Berlin office portfolio.

5.5 Net gain on the disposal of investment property and subsidiaries

	Six-month period ended 30 June 2019	30 June 2018
Proceeds from disposal of investment property and subsidiaries	1.1	4.4
Carrying value of investment property and subsidiaries disposed of and related cost	(0.7)	(4.5)
Total gain on the disposal of investment property	**0.4**	**(0.1)**

5.6 Amortization, depreciation and impairment

	Six-month period ended 30 June 2019	30 June 2018
Depreciation and amortization	**(15.7)**	**(15.4)**
Impairment of assets	**(0.7)**	**3.7**
Reversal of impairment of property, plant and equipment	5.1	7.4
Impairment of goodwill	(7.0)	-
Impairment of trading property	(0.1)	-
Impairment of other receivables	-	(0.7)
Impairment of trade receivables	(0.2)	(1.2)
Reversal of impairment/ (Impairment) of provided loans	1.5	(1.8)
Amortization, depreciation and impairment	**(16.4)**	**(11.7)**

In the six-month period ended 30 June 2019, the Group wrote-off goodwill related to the acquisition of agricultural group Spojené farmy in the amount of EUR 7.0 million (see note 6.1.).

5.7 Administrative expenses

	Six-month period ended 30 June 2019	30 June 2018
Personnel expenses (5.3.1)	(12.8)	(11.9)
Other administrative expenses	(12.4)	(12.9)
Total administrative expenses	**(25.2)**	**(24.8)**

5.8 Interest expense

	Six-month period ended 30 June 2019	30 June 2018
Interest expense from bank and other loans	(8.0)	(18.0)
Interest expense on bonds issued	(17.0)	(26.4)
Interest expense related to leases	(0.3)	(0.2)
Other interest expenses	(0.2)	(0.3)
Total interest expense	**(25.5)**	**(44.9)**

In the six-month period ended 30 June 2019, the interest expense related to bank and other loans decreased due to repayment of significant portion of the bank loans and bills of exchange during 2018.

In the six-month period ended 30 June 2019, the interest expense on bonds decreased due to repayment of local bonds in 2018 and new issuance of international bonds with lower interest rates.

5.9 Other net financial result

	Six-month period ended 30 June 2019	30 June 2018 Adjusted*
Change in fair value and realized result on derivative instruments not used for hedging	1.1	0.7
Other net financial result	(4.1)	(3.6)
Net foreign exchange gain / (loss)	6.5	(42.6)
Bank charges	(2.9)	(0.8)
Total other net financial result	**0.6**	**(46.3)**

* The Group reclassified effect of changing foreign exchange rates on the revaluation of the investment properties in the amount of EUR 63.4 million from Other net financial result to Net valuation gain. Comparative information for the six-month period ended 30 June 2018 was adjusted accordingly, refer to note 2.1 for more information.

In the six-month period ended 30 June 2018, the net foreign exchange loss relates primarily to losses incurred from retranslation of financial debts by the Hungarian and Polish subsidiaries.

5.10 Income tax expense

	Six-month period ended 30 June 2019	30 June 2018
Current income tax expense	(5.2)	(6.3)
Adjustment for prior years	(1.0)	0.1
Total current income tax expense	**(6.1)**	**(6.2)**
Origination and reversal of temporary differences	(14.5)	(18.0)
Deferred income tax expense	(14.5)	(18.0)
Total income tax recognised in profit or loss	**(20.6)**	**(24.2)**

Tax expense for the six-month period ended 30 June 2019 is recognized based on management's best estimate of the effective tax rate for full financial year 2019. The Company's effective tax rate in respect of continuing operations for the six-month period ended 30 June 2019 was approximately 11.3 %.

6 Condensed consolidated interim statement of financial position

6.1 Intangible assets and goodwill

The Group wrote off goodwill of EUR 7.0 million, which was recognized at acquisition of agricultural group Spojené farmy in 2014 and which was allocated to the Czech Republic.

In 2019, upon acquisition of Régie du Rhône Crans-Montana SA, the Group recognized goodwill of EUR 2.2 million (refer to note 3.1.5).

The Group has tested goodwill for impairment as at 31 December 2018. As at 30 June 2019, the Group did not identify any indications of impairment. The key assumptions used to determine the recoverable amount were disclosed in the annual consolidated financial statements for the year ended 31 December 2018.

6.2 Investment property

	Note	Czech Republic	Berlin	Complementary assets in Europe	Total Adjusted*
Balance at 1 January 2019		3,453.2	2,049.9	1,184.0	6,687.1
Acquisitions		-	-	54.3	54.3
Transfers to/from inventories		4.0	-	-	4.0
Development costs and other additions		53.4	15.5	16.2	85.1
Disposals		(4.1)	(0.5)	(1.3)	(5.9)
Valuation gain/(loss)	5.4	64.5	9.8	5.1	79.4
Translation differences		38.3	-	-	38.3
Balance at 30 June 2019		3,609.3	2,074.7	1,258.3	6,942.3

* The Group reclassified effect of changing foreign exchange rates on the revaluation of the investment properties in the amount of EUR 58.5 million from Other net financial result to Net valuation gain. Comparative information as of 30 June 2018 was adjusted accordingly, refer to note 2.1 for more information.

	Note	Czech Republic	Berlin	Hotels & resorts in Europe	Complementary assets in Europe	Total Adjusted*
Balance at 1 January 2018		3,195.7	1,627.6	38.2	946.4	5,807.9
Acquisitions		121.0	-	-	102.1	223.1
Transfers to/from PPE		-	-	(38.2)	2.4	(35.8)
Development costs and other additions		24.5	15.5	-	4.0	44.0
Disposals		(4.3)	-	-	(0.2)	(4.5)
Valuation gain/(loss)	5.4	75.8	29.6	-	19.5	124.9
Translation differences		(64.1)	-	-	(13.4)	(77.5)
Balance at 30 June 2018		3,348.6	1,672.7	-	1,060.8	6,082.1

Investments and acquisitions

In the six-month period ended 30 June 2019, the Group acquired investment property for a total value of EUR 54.3 million, fully related to the acquisition of the building in 7 St James's Square, London.

In the six-month period ended 30 June 2018, the Group acquired investment property for a total value of EUR 223.1 million. The most significant investment property acquisitions were:

- significant shopping centre in Hradec Králové, the Czech Republic in the value of EUR 121.0 million;
- office complex in Warsaw, Poland in total value of EUR 78.1 million; and
- retail parks in Poland in total value of EUR 21.6 million.

Transfers from investment property to property, plant and equipment

In the six-month period ended 30 June 2018, the Group acquired operator of the Holiday Inn hotel in Rome. The hotel, previously classified as investment property, was after the acquisition of its operator, reclassified to property, plant and equipment (see note 6.3).

Development costs and other additions

In the six-month period ended 30 June 2019, the development costs primarily related to the office portfolio in Germany (EUR 15.5 million), to development project Nová Zbrojovka in Brno, Czech Republic in the amount of EUR 9.1 million, an office park in Hungary (EUR 8.8 million) and Prague's Bubenská project (EUR 6.2 million), industrial and logistics park in Bor, the Czech Republic (EUR 15.9 million), Prague's Lockhart project (EUR 5.6 million) and refurbishment of Czech shopping centres in Teplice (EUR 3.6 million), Hradec Králové (EUR 3.3 million) and Mladá Boleslav (EUR 2.5 million).

In the six-month period ended 30 June 2018, the most significant development costs related to the Berlin office portfolio (EUR 15.5 million).

6.3 Property, plant and equipment

a) Hotels

	30 June 2019	30 June 2018
Fair value		
Balance at 1 January	685.5	639.9
Acquisitions through business combinations	26.1	-
Additions	5.6	4.2
Other disposals	(0.1)	(0.3)
Transfer from/to investment property	-	38.2
Effect of movements in exchange rates	6.2	(2.5)
Valuation Gain/Loss through other comprehensive income	6.6	8.7
Balance at 30 June	729.9	688.2
Accumulated depreciation and impairment losses		
Balance at 1 January	(59.5)	(41.0)
Depreciation for the period	(9.5)	(8.5)
Reversal of impairment loss	0.7	1.7
Other disposals	-	0.3
Effect of movements in exchange rates	0.1	(0.3)
Balance at 30 June	(68.2)	(47.8)
Carrying amount as at 1 January	626.0	598.9
Carrying amount as at 30 June	661.7	640.4

Additions

In the six-month period ended 30 June 2019, the Group acquired hotel Brno Inn (EUR 15.5 million) and Orchard hotel (EUR 10.5 million), both located in the Czech Republic.

In the six-month period ended 30 June 2018, the Group acquired hotel Ibis (EUR 15.5 million) in Olomouc, Czech Republic.

b) Other property, plant and equipment

In the six-month period ended 30 June 2019, the Group capitalized lease contracts in total amount of EUR 10.3 million (see note 2.1 for more details) and invested in hotel projects in Hvar, Croatia in the amount of EUR 6.6 million.

6.4 Loans provided

6.4.1 Non-current

	30 June 2019	31 December 2018
Loans provided - related parties and joint ventures	119.6	65.9
Loans provided - third parties	5.0	4.1
Impairment to non-current loans provided to related parties	(0.1)	(0.1)
Total non-current loans provided net of impairment	124.5	69.9

6.4.2 Current

	30 June 2019	31 December 2018
Loans provided - related parties and joint ventures	63.2	59.5
Loans provided - third parties	1.5	0.5
Bills of exchange - third parties	3.9	3.8
Total current loans provided net of impairment	68.6	63.8

Group provides loans to related parties from Luxembourg (refer to note 10).

6.5 Inventories

	30 June 2019	31 December 2018
Projects and property for resale	20.1	56.7
Impairment of projects and property for resale	(9.4)	(24.3)
Projects under development	42.3	34.3
Other inventories	3.0	4.8
Total inventories	56.0	71.5

The decrease of projects and property for resale in the six-month period ended 30 June 2019 relates primarily to sale of apartments in France.

6.6 Current trade receivables

	30 June 2019	31 December 2018
Trade receivables due from related parties	1.2	0.8
Trade receivables due from third parties	89.1	83.3
Impairment to trade receivables due from third parties	(13.8)	(15.7)
Total current trade and other receivables	**76.5**	**68.4**

6.7 Cash and cash equivalents

	30 June 2019	31 December 2018
Bank balances	957.1	98.3
Cash on hand	1.8	0.9
Total cash and cash equivalents	**958.9**	**99.2**

Total restricted cash in bank accounts amounted to EUR 33.0 million as at 30 June 2019 (EUR 24.8 million as at 31 December 2018). Use of these accounts is subject to the respective bank approval. These accounts are held for special purposes under the loan agreements.

6.8 Other non-financial current assets

	30 June 2019	31 December 2018
Other advances paid to third parties	8.2	7.4
Value added tax receivables	7.4	6.2
Other tax receivables (excl. CIT and VAT)	2.3	2.0
Agricultural subsidies	7.4	5.4
Prepaid expenses	25.7	19.9
Total other non-financial current assets	**51.0**	**40.9**

6.9 Assets/Liabilities linked to assets held for sale

The following subsidiaries are classified as assets held for sale as at 30 June 2019 and 31 December 2018:

- One retail project in Romania with total fair value of EUR 30.5 million and EUR 29.9 million, respectively;
- Mamaison Hotel in Russia with total value of EUR 19.5 million and EUR 20.5 million, respectively;
- Land bank projects in Romania and Poland with total fair value of EUR 16.4 million and EUR 13.7 million, respectively.

6.10 Equity

Share capital and share premium

As of 30 June 2019 and 1 January 2019, the share capital of the Company was EUR 901.4 million and is represented by 9,013,868,658 ordinary fully paid shares with a nominal value of EUR 0.10. Of the total amount, 252,302,248 (EUR 25.2 million) represents treasury shares held by the Group.

There were the following changes in the share capital a share premium in the six-month period ended 30 June 2018:

	Number of shares	Share Capital	Share premium
Balance as at 1 January 2018	**9,488,722,610**	**923.6**	**1,060.7**
Share buy-back - 12 March 2018 - treasury shares held by the Group	-	(72.4)	(72.4)
Capital increase on 10 April 2018	250,000,000	25.0	25.0
Cancellation of treasury shares on 14 May 2018	(724,853,952)	-	-
Balance as at 30 June 2018	**9,013,868,658**	**876.2**	**1,013.3**

Share buy-back programme

The annual general meeting of the shareholders of the Company held on 29 May 2019 (the "2019 AGM") approved the terms and conditions of a buy-back programme of the Company enabling the repurchase by the Company of its own shares and authorised the Company to redeem/repurchase its own shares under the terms and conditions set forth therein. In particular, the 2019 AGM authorised the Board of Directors of the Company to repurchase, in one or several steps, a maximum number of one billion (1,000,000,000) shares in the Company from the existing and/or future shareholders of the Company, for a purchase price comprised in the range between one eurocent (EUR 0.01) and five euros (EUR 5), for a period of five (5) years from the date of the 2019 AGM. The 2019 AGM further resolved to grant power to the Board of Directors of the Company (i) to proceed with the payment of the relevant repurchase price out of the Company's available funds, (ii) to take all required actions to complete any repurchase of shares and (iii) to verify that the process of share repurchase is made in compliance with the legal provisions.

On the basis of the authorization by the 2019 AGM, the Board has decided on 17 June 2019, to proceed to a buy-back of certain shares of the Company under the buyback programme, the terms of which are set forth in the buy-back offer published by the Company on 17 June 2019.

A total of 362,152,327 shares in the Company with a par value of EUR 0.10 each have been acquired for the proposed acquisition price of EUR 0.30 per share (representing in aggregate app. EUR 108.6 million) on 1 July 2019. At the time of buy-back this represented a direct holding of 4.02% of the Company's share capital. Following the share repurchase of 1 July 2019, the Company is authorised to redeem/repurchase up to 637,847,673 own shares under the buy-back programme approved by the 2019 AGM.

Perpetual notes

On 9 May 2018, the Company issued 5,500 undated 4.375% fixed rate resettable subordinated notes (perpetual notes) in total amount of EUR 550 million. The perpetual notes have no fixed maturity date and are callable at the Company's sole discretion from 2027. The issue price of the notes was 98.833% of the nominal amount equating to EUR 543.6 million. Less the issue costs of EUR 5.7 million, the perpetual notes were initially recognized in the amount of EUR 537.9 million.

On 16 April 2019, the Company issued another 5,500 undated 4.875% fixed rate resettable subordinated notes (perpetual notes) in total amount EUR 550 million. The perpetual notes have no fixed maturity date and are callable at the Company's sole discrecretion from 2027. The issue price of the notes was 98.676% of the nominal amount equating to EUR 542.7 million. Less the issue costs of EUR 5.4 million, the perpetual notes were initially recognized in the amount of EUR 537.3 million.

The Company may, at its sole discretion, also elect to defer any payment of interest on the perpetual notes. As such, the notes contain features of both debt and equity. Based on the analysis of IAS 32, the Company concluded it holds unconditional rights to avoid delivering cash in respect of both, the principal and interest (until redemption option is called or payment of interest is declared, respectively). The perpetual notes therefore do not satisfy the financial liability definition and therefore are classified as equity instrument.

Movement of the perpetual notes in the six-month period ended 30 June 2019:

	30 June 2019	31 December 2018
Opening balance as of 1 January	542.5	-
Issuance of the perpetual notes	537.3	537.9
Interest to perpetual notes holders	17.4	17.1
Payment of the interest to the perpetual notes holders	-	(12.5)
Closing balance	**1,097.2**	**542.5**

Acquisition of non-controlling interest

On 5 April 2019, the Group acquired its non-controlling interest in Croatian hotel complex Suncani Hvar for a consideration of EUR 3.5 million. The carrying value of the non-controlling interest as of the acquisition date was EUR 2.8. The difference of EUR 0.7 million was recognized against the Group's retained earnings.

Mandatory takeover bid for CPI FIM SA (formerly Orco Property Group) shares

On 8 June 2016 the Company's fully owned subsidiary Nukasso Holdings Limited directly and indirectly acquired approximately 97.31% of shares in CPI FIM. As a consequence, Nukasso Holdings Limited became obliged to launch a mandatory takeover bid to purchase any and all of the ordinary shares of CPI FIM (the "Mandatory Takeover Offer"). On 22 August 2016, the Czech Office for the Protection of Competition granted the merger clearance for the acquisition of CPI FIM by the Group, whereas its decision became final and binding on 23 August 2016.

On 8 December 2017 the CSSF published press releases in which it stated, inter alia, that it has decided not to approve the offer document in the Mandatory Takeover Offer as a consequence of the existence of an undisclosed concert action with respect to CPI FIM. On 15 March 2018 the CSSF published a press release informing that the decisions detailed in the above-mentioned CSSF press releases of 8 December 2017 have been challenged before the Luxembourg administrative courts.

Earnings per share

	30 June 2019	30 June2018
At the beginning of the period	**9,236,420,362**	**9,236,420,362**
Shares issued	9,488,722,610	9,488,722,610
Treasury shares held by the Group	(252,302,248)	(252,302,248)
Weighted average movements	**-**	**112,500,000**
Issue of new shares	-	366,198,883
Treasury shares held by the Group	-	(253,698,883)
Weighted average outstanding shares for the purpose of calculating the basic earnings per share	**9,236,420,362**	**9,348,920,362**
Weighted average outstanding shares for the purpose of calculating the diluted earnings per share	**9,236,420,362**	**9,348,920,362**
Net (loss)/profit attributable to the Equity holders of the parent	**147.7**	**155.4**
Net (loss)/profit attributable to the Equity holders of the parent after assumed conversions/exercises	**147.7**	**155.4**
Total Basic earnings in EUR per share	**0.02**	**0.02**
Diluted earnings in EUR per share	**0.02**	**0.02**

Basic earnings per share (EPS) are calculated by dividing the profit attributable to the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

6.11 Bonds issued

	30 June 2019		31 December 2018	
	No. of bonds issued	Value	No. of bonds issued	Value
Proceeds from issued bonds (ISIN CH0441186472)	33,000	148.6	33,000	146.4
Proceeds from issued bonds (ISIN XS1894558102)	6,100	606.8	6,100	606.2
Proceeds from issued bonds (ISIN XS1917855337)	30	24.5	30	23.8
Proceeds from issued bonds (ISIN XS1917880012)	80	65.2	80	63.6
Proceeds from issued bonds (ISIN XS1693959931)	8,250	821.2	8,250	820.9
Proceeds from issued bonds (ISIN XS1950499639)	450	50.6	-	-
Proceeds from issued bonds (ISIN XS1955030280)	1,750	306.3	-	-
Proceeds from issued bonds (ISIN XS2008905155)	283	31.8	-	-
Less: transaction costs		(13.9)		(12.5)
Total non-current bonds		2,041.1		1,648.4
Accrued interest on bonds		19.3		6.7
Total current bonds		19.3		6.7
Total bonds		2,060.4		1,655.1

CPI PROPERTY GROUP S.A. bonds issued in the six-month period ended 30 June 2019

- ISIN XS1950499639: On 12 February 2019, the Company issued unsecured bonds of HKD 450 million. The bonds were issued under the EMTN Programme, mature on 12 February 2024 and bear fixed interest at a rate of 4.51% p.a. Interest is due annually on 12 February. The bonds are listed on the regulated market of Euronext Dublin. The Company converted the proceeds from HKD into Euros through a cross-currency swap.
- ISIN XS1955030280: On 8 March 2019, the Company issued unsecured bonds of USD 350 million. The bonds were issued under the EMTN programme, mature on 8 March 2023 and bear fixed interest at a rate 4.75% p.a. The bonds are listed on the Main Market of the Irish Stock Exchange (trading as Euronext Dublin) and are accepted for clearance through Euroclear and Clearstream, Luxembourg. The Company converted the US Dollar principal and coupons into Euros through cross-currency swaps.
- ISIN XS 2008905155: On 6 June 2019, the Company issued bonds of HKD 283 million under the EMTN programme. The bonds mature on 6 June 2026 and bear a fixed interest at a rate of 4.45 % p.a. The bonds are listed on the regulated market of Euronext Dublin. The bonds were fully hedged to EUR.

Covenants

Bonds issued by CPI PROPERTY GROUP S.A. are subject to covenants. The covenant ratios were met as at 30 June 2019.

Structure of bond financing

As at 30 June 2019, the total value of unsecured bonds amounts to EUR 2,060.4 million (EUR 1,655.1 million as at 31 December 2018). Unsecured bonds are bonds that are not collateralized by any assets.

6.12 Derivative instruments

The fair value of the open derivative instruments is summarized in the following table:

	30 June 2019		31 December 2018	
Type of derivative	Assets	Liabilities	Assets	Liabilities
Interest rate swaps used for hedging	-	-	4.7	-
Cross currency swap contracts used for hedging	9.7	-	3.6	-
Other interest rate swaps	4.0	(5.9)	1.8	(3.7)
Total	13.7	(5.9)	10.1	(3.7)
Classification				
Non-current	13.7	(5.9)	10.1	(3.7)
Total	13.7	(5.9)	10.1	(3.7)

6.13 Financial debts

6.13.1 Non-current financial debts

	30 June 2019	31 December 2018
Loans from related parties	0.6	2.6
Loans from third parties	11.3	9.7
Bank loans	1,190.7	1,032.0
Lease liabilities	27.1	17.3
Total non-current financial debts	1,229.7	1,061.6

6.13.2 Current financial debts

	30 June 2019	31 December 2018
Loans from related parties	0.1	-
Loans from third parties	3.5	5.3
Bank loans	50.4	150.2
Lease liabilities	1.9	2.1
Total current financial debts	55.9	157.6

On 14 March 2019, the Group repaid EUR 68.2 million senior unsecured loans provided by Barclays Bank PLC and Deutsche Bank Luxembourg S.A. and also repaid part of the revolving facility of EUR 34.9 million including interest.

On 15 March 2019, the Group entered into three Schuldschein loans in the total amount of EUR 170 million. The loans, individidualy amounting to EUR 49 million, EUR 111 million and EUR 10 million are unsecured and repayable in 4, 6 and 8 years respectively.

On 22 March 2019, the Company signed a new EUR 510 million 3-year unsecured revolving credit facility with a group of 11 leading international banks. The EUR 510 million facility aligns with Group's Euro Medium Term Note (EMTN) programme. The facility was undrawn as of 30 June 2019.

As at 30 June 2019, the total value of unsecured financial debts amounts to EUR 239.1 million (EUR 164.2 million as at 31 December 2018).

As at 30 June 2019, financial debts in the amount of EUR 1,046.5 million (EUR 1,055.0 million as at 31 December 2018) represented secured financing.

Reconciliation of movements of liabilities to cash flows arising from financing activities

As at 30 June 2019

	Loans and borrowings	Lease liabilities	Bonds issued	Total
Balance at 1 January 2019	1,199.8	19.4	1,655.1	2,874.3
Proceeds from bonds issued	-	-	388.8	388.8
Interest paid	(7.8)	(0.3)	(4.4)	(12.5)
Drawings of loans and borrowings	256.2	-	-	256.2
Repayments of loans and borrowings	(201.8)	-	-	(201.8)
Repayment of lease liabilities	-	(1.3)	-	(1.3)
Total changes from financing cash flows	46.6	(1.6)	384.4	429.4
The effect of changes in foreign exchange rates	2.2	-	5.4	7.6
Interest expense	8.0	0.3	17.0	25.3
Other net financial result	-	-	(1.5)	(1.5)
New lease contracts	-	10.9	-	10.9
Balance at 30 June 2019	1,256.6	29.0	2,060.4	3,346.0

6.14 Other financial non-current liabilities

	30 June 2019	31 December 2018
Tenant deposits	29.2	28.7
Advances received	7.5	1.4
Payables from retentions	5.3	3.1
Trade and other payables due to third parties	6.0	7.1
Derivative instruments	5.9	3.7
Total other financial non-current liabilities	53.9	44.0

6.15 Other financial current liabilities

	30 June 2019	31 December 2018
Advances received from third parties	39.1	35.5
Tenant deposits	24.6	18.0
Deferred income and accrued liabilities	14.3	11.9
Other payables due to related parties	0.8	1.2
Other payables due to third parties	15.2	15.6
Total other financial current liabilities	94.0	82.2

7 Fair value measurement

7.1.1 Fair value of financial instruments

Fair value measurements of financial instruments reported at fair value are classified by level of the following measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six-month period ended 30 June 2019.

The following tables show the carrying amounts at fair value of financial assets and liabilities, including their level in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	30 June 2019		31 December 2018	
Financial assets measured at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivative instruments	13.7	13.7	10.1	10.1
Financial assets not measured at fair value				
Long-term Equity investments	0.6	0.6	0.5	0.5
Loans provided	189.2	187.0	129.9	137.4
Financial liabilities measured at fair value				
Derivative instruments	(5.9)	(5.9)	(3.7)	(3.7)
Financial liabilities not measured at fair value				
Bonds	2,060.4	2,094.4	1,655.1	1,622.0
Financial debt – bank loans (floating rate)	876.0	876.0	770.3	770.3
Financial debt – bank loans (fixed rate)	365.1	364.5	412.0	407.8
Financial debt – other	44.5	41.1	37.0	36.2

The Group classifies derivative instruments as Level 2 in the fair value measurement hierarchy.

7.1.2 Fair value measurement of investment property, hotels and biological assets

The Group's investment properties, hotels and biological assets were valued at 31 December 2018 in accordance with the Group's accounting policies. In cases where there have been indicators of significant changes identified, the value of the asset has been updated based on the external or internal appraisal as of 30 June 2019.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six-month period ended 30 June 2019.

7.1.3 Main observable and unobservable inputs

The table below presents the fair value hierarchy of the valuation, the valuation method, the key observable and unobservable inputs for each class of property owned by the Group, used by the valuers as at 30 June 2019.

Class of property - Retail	Fair Value 2019 MEUR	Valuation technique	Key unobservable inputs	Range (weighted avg) 2019
Czech Republic, Prague - Shopping Centres and Galleries Level 3	**128**	Income capitalisation	ERV per sqm NRI per sqm Equivalent yield Vacancy rate	€690 €613 3.8% 6.4%
Czech Republic, Prague - Shopping Centres and Galleries Level 3	**96**	DCF	ERV per sqm NRI per sqm Discount Rate Exit Yield Vacancy rate	€556 €582 4.5% 4.3% 0.0%
Czech Republic - Shopping Centres and Galleries Level 3	**122**	DCF	ERV per sqm NRI per sqm Discount Rate Exit Yield Vacancy rate	€145-€176 (€159) €122-€129 (€125) 6.5%-7.1% (6.8%) 6.1%-6.3% (6.2%) 6.0%-33.0% (18.8%)

Class of property - Office	Fair Value 2019 MEUR	Valuation technique	Key unobservable inputs	Range (weighted avg) 2019
Czech Republic - Office Level 3	**124**	Income capitalisation	ERV per sqm NRI per sqm Equivalent yield Vacancy rate	€140-€234 (€200) €125-€232 (€214) 4.4%-7.6% (5.0%) 0.0%-8.3% (6.9%)
Czech Republic - Office Level 3	**616**	DCF	ERV per sqm NRI per sqm Discount rate Exit Yield Vacancy rate	€81-€203 (€163) €0-€298 (€148) 5.0%-8.9% (6.6%) 5.5%-8.4% (6.3%) 0%-60.6% (4.0%)
Berlin – Office Level 3	**145**	DCF	ERV per sqm NRI per sqm Discount rate Exit Yield Vacancy rate	€60-€191 (€112) €47-€129 (€76) 4.5%-5.5% (4.8%) 4.5%-5.5% (5.1%) 1.5%-10.9% (8.1%)
Complementary Assets Portfolio - Office Level 3	**108**	Income capitalisation	ERV per sqm NRI per sqm Equivalent yield Vacancy rate	€139-€155 (€151) €114-€130 (€118) 6.6%-7.1% (6.7%) 4.9%-11.8% (10.1%)

Class of property - Industry & Logistics	Fair Value 2019 MEUR	Valuation technique	Key unobservable inputs	Range (weighted avg) 2019
Czech Republic - Industry & Logistic Level 3	**54**	DCF	ERV per sqm NRI per sqm Discount rate Exit yield Vacancy rate	€24-€105 (€56) €21-€97 (€57) 6.5%-12.0% (7.2%) 6.5%-11.5% (7.0%) 0%-58.0% (4.9%)
Complementary Assets portfolio - Industry & Logistic Level 3	**38**	Income capitalisation	ERV per sqm NRI per sqm Equivalent yield Vacancy rate	€41-€62 (€57) €36-€62 (€47) 6.8%-7.4% (7.2%) 0%-38.5% (17.7%)

Class of property - Residential	Fair Value 2019 MEUR	Valuation technique	Key unobservable inputs	Range (weighted avg) 2019
Czech Republic - Residential Level 3	**385**	Comparable	Fair value per sqm	€86-€1,087 (€588)
Czech Republic, Prague - Residential Level 3	**70**	Comparable	Fair value per sqm	€2,406

Class of property – Landbank & Development	Fair Value 2019 MEUR	Valuation technique	Key unobservable inputs	Range (weighted avg) 2019
Complementary Assets Portfolio - Development Level 3	**30**	Development Appraisal	Gross development value Development margin	€2,543 7.0%

8 Contingencies and Litigations

Kingstown dispute in Luxembourg

The Company announced that on 20 January 2015 it was served with a summons containing petition of the three companies namely Kingstown Partners Master Ltd. of the Cayman Islands, Kingstown Partners II, LP of Delaware and Ktown LP of Delaware (together referred to as „Kingstown"), claiming to be the shareholders of CPI FIM, filed with the *Tribunal d´Arrondissement de et a Luxembourg* (the "Court". The petition seeks condemnation of the Company together with CPI FIM and certain members of CPI FIM´s board of directors as jointly and severally liable to pay damages in the amount of EUR 14.5 million and compensation for moral damage in the amount of EUR 5 million. According to Kingstown's allegation the claimed damage has arisen as a consequence of inter alia alleged violation of CPI FIM´s minority shareholders rights. To the best of Company´s knowledge, Kingstown was not at the relevant time (and is not up to now) a shareholder of the Company. Therefore, and without any assumption regarding the possible violation, the Company believes that it cannot be held liable for the violation of the rights of the shareholders of another entity.

The Management of the Company has been taking all available legal actions to oppose these allegations in order to protect the corporate interest as well as the interest of its shareholders. Accordingly, the parties sued by Kingstown raised the exceptio judicatum solvi plea, which consists in requiring the entity who initiated the proceedings and who does not reside in the European Union or in a State which is not a Member State of the Council of Europe to pay a legal deposit to cover the legal costs and compensation procedure. The Luxembourg District Court rendered on 19 February 2016 a judgement, whereby each claimant has to place a legal deposit in the total amount of EUR 90 thousand with the "Caisse de Consignation" in Luxembourg in order to continue the proceedings. Kingstown paid the deposit in January 2017, and the litigation, currently being in a procedural stage, is pending.

In October 2018, Kingstown's legal advisers filed additional submission to increase the amount of alleged damages claimed to EUR 157 million. The Company continues to believe the claim is without merit and intends to vigorously contest it.

On 21 June 2019 the Company received a first instance judgment, which declared that a claim originally filed by Kingstown in 2015 was null and void against CPIPG. The Court dismissed the claim against CPIPG because the claim was not clearly pleaded ("*libellé obscur*"). Specifically, Kingstown did not substantiate or explain the basis of their claim against CPIPG and failed to demonstrate how CPIPG committed any fault. In relation to the admissibility of Kingstown's claim against CPI FIM S.A. and other defendants, the Court is expected to rule only after it further examines positions of the remaining parties on certain procedural aspects; until then, the case will continue in a procedural stage. The merits of the case will be pleaded by any remaining defendants only if the Court declares the claim admissible.

Kingstown dispute in the United States

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 Vítek. 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. Moreover, the basis of claims brought against CPIPG in the United States are similar to civil claims unsuccessfully pursued by Kingstown companies against CPIPG in Luxembourg since 2015.

CPIPG intends to vigorously contest the claims and has retained an international law firm, Hogan Lovells, with an experienced team of litigators and significant experience in RICO cases.

CPI PG has guaranteed certain debt of CPI FIM SA

The Company agreed to guarantee certain warranties given by CPI FIM SA to the buyer of Capellen building in Luxembourg. The guaranteed warranties related to pending claims in relation to the building and are limited to EUR 250 thousand. The duration of the guarantee is 24 months from 25 January 2017.

Disputes related to warrants issued by CPI FIM SA

The Group's subsidiary CPI FIM SA was sued by holders of the warrants holders of 2014 Warrants registered under ISIN code XS0290764728 (the "2014 Warrants"). The first group of the holders of the Warrants sued CPI FIM for approximately EUR 1.2 million in relation to the Change of Control Notice published by CPI FIM SA SA, notifying the holders of the 2014 Warrants that the Change of Control, as defined in the Securities Note and the Summary for the 2014 Warrants, occurred on 8 June 2016. The second holder of the 2014 Warrants sued CPI FIM SA for approximately EUR 1 million in relation to the alleged change of control which allegedly occurred in 2013. These litigations, currently being in a procedural stage, are pending

CPI FIM SA will defend itself against these lawsuits. It is reminded that in accordance with the judgement of the Paris Commercial Court (the "Court") pronounced on 26 October 2015 concerning the termination of the CPI FIM SA's Safeguard Plan, liabilities that were admitted to the Safeguard, but are conditional or uncalled (such as uncalled bank guarantees, conditional claims of the holders of 2014 Warrants registered under ISIN code XS0290764728, provided that they were admitted to the Safeguard plan), will be paid according to their contractual terms. Pre-Safeguard liabilities that were not admitted to the CPI FIM SA's Safeguard will be unenforceable. As such, only claims of holders of the 2014 Warrants, whose potential claims were admitted to the CPI FIM SA's Safeguard Plan, could be considered in respect of the present Change of Control. Claims of holders of the 2014 Warrants that were not admitted to the CPI FIM SA's Safeguard will be unenforceable against CPI FIM SA. To the best of Company's knowledge, none of the holders of the 2014 Warrants who sued CPI FIM SA filed their claims 2014 Warrants-related claims in the CPI FIM SA's Safeguard Plan.

Hagibor Office Building dispute

In March 2016, the insolvency administrator of the CPI FIM SA's subsidiary HAGIBOR OFFICE BUILDING ("HOB"), filed a lawsuit, requesting that the CPI FIM SA returns to HOB in aggregate USD 16.49 million, paid by HOB to CPI FIM SA in 2012. CPI FIM SA is of the opinion that the lawsuit has no merit given that in 2012 HOB duly repaid its loan to CPI FIM SA. CPI FIM SA will defend itself against this lawsuit. In August 2016, thel itigation has been stayed until litigation concerning the ownership of the Radio Free Europe building is resolved. In December 2016 CPI FIM SA filed a lawsuit claiming the non-existence of pledges registered on the Radio Free Europe building in favor of the financing bank. A hearing on the matter of the non-existence of pledges took place in November 2018. After the lawsuit was dismissed, CPI FIM SA filed a new claim in the matter of non-existence of pledges. A court hearing on the non-existence of pledges is expected to take place in the second half of 2019.

Vitericon

On 15 March 2019, the Company received a summons from the Berlin Court. The Company was sued by an insolvency administrator of the Company's former subsidiary. The insolvency administrator is claiming invalidity of a intragroup debt settlement from 2013 and claims a payment of EUR 10.4 million from the Company. The Company appointed a counsel and is prepared to defense itself in front of the Berlin Court.

9 Capital and other commitments

Capital commitments

The Group has capital commitments in total amount of EUR 63.1 million in respect of capital expenditures contracted as at 30 June 2019 (EUR 73.6 million as at 31 December 2018).

10 Related party transactions

The Group has a related party relationship with its members of Board of Directors (current and former) and executive management (key management personnel), shareholder and companies in which these parties held controlling or significant influence or are joint ventures.

The remuneration of the key management personnel and members of Board of Directors are summarized in following table:

	Six-month period ended	
	30 June 2019	30 June 2018
Remuneration paid to the key management personnel and members of Board of Directors	0.4	0.3
Total remuneration	**0.4**	**0.3**

Breakdown of balances and transactions with the key management personnel and members of Board of Directors and the Group:

Balances at	30 June 2019	31 December 2018
Loans provided	0.1	0.1
Trade receivables	0.6	-
Trade payables	0.1	-
Perpetual notes	0.2	0.2
Transactions	30 June 2019	30 June 2018
Interest income and other revenues	0.5	-
Other costs	(0.5)	-
Advisory services	-	(0.6)

Breakdown of balances and transactions with the majority shareholder of the Group:

Balance at	30 June 2019	31 December 2018
Loans provided	-	0.1
Trade receivables	0.4	0.6
Other receivables	-	4.7
Other payables	-	0.4
Perpetual notes	4.9	4.9
Transactions	30 June 2019	30 June 2018
Interest income	-	1.3

Breakdown of balances and transactions with other related parties:

Entities over which the majority shareholder has control		
Balances at	30 June 2019	31 December 2018
Loans provided	171.2	114.0
Trade receivables	0.1	0.2
Loans received	0.3	2.5
Transactions	30 June 2019	30 June 2018
Interest income	3.7	4.7
Other costs	(0.1)	-
Close family members/entities controlled by close family members of the majority shareholders		
Balances at	30 June 2019	31 December 2018
Other payables	0.8	0.8
Entities controlled by members of Board of Directors		
Balances at	30 June 2019	31 December 2018
Other receivables	-	0.2
Trade receivables	0.1	-
Loans received	0.4	0.1
Transactions	30 June 2019	30 June 2018
Other revenues	0.2	-
Interest income on loans	-	0.1
Lease and rental expenses	(0.1)	-
Joint ventures		
Balances at	30 June 2019	31 December 2018
Loans provided	11.5	11.2
Transactions	30 June 2019	30 June 2018
Interest income	0.4	0.4

Main transactions with related parties in the six-month period ended 30 June 2019

Perpetual notes

On 9 May 2018, the Group issued perpetual notes (see note 6.10). The Group's management and the majority shareholder held the perpetual notes in total amount of EUR 5.1 million as at 30 June 2019.

Loans provided by the Group to the majority shareholder and related parties

As at 30 June 2019, the Group provides loans to entities closely related to the majority shareholder in the total outstanding balance of EUR 171.2 million (EUR 113.9 million as at 31 December 2018). The majority of these loans bears a fixed interest at a rate of 5% p.a. and is repayable in 2019 and 2021.

11 Events after the reporting period

Share Buy-back

On 1 July 2019, the Company acquired a total of 362,152,327 own shares for the acquisition price of EUR 0.30 per share (representing a total repurchase cost of about EUR 108.6 million).

The Company now directly holds 362,152,327 of its own shares, which represent 4.02% of the Company's share capital and voting rights. The voting rights associated with the shares held by the Company are temporarily suspended. In addition, the Company's indirect subsidiary CPI FIM SA holds 252,302,248 shares issued by the Company, which represent 2.80% of the Company's share capital and voting rights.

Bonds issued

On 29 July 2019, the Group issued an additional USD 100 million (EUR 89.9 million) of Reg S bonds under the Company's Euro Medium Term Note (EMTN) programme. The bonds, due 8 March 2023, are rated Baa2 (stable) by Moody's and BBB (stable) by Standard & Poor's. The bonds will be listed on the regulated market of Euronext Dublin (ISIN XS2034727144). The Notes will be consolidated with the existing USD 350 million notes and form a single series totaling USD 450 million with ISIN code XS1955030280. The Group has converted the US Dollar proceeds into Euros through cross currency swaps.

New subsidiaries

On 2 July 2019, the Group acquired JD-THOM s.r.o. located in Tachov, the Czech Republic for consideration of EUR 1.0 million. The company was renamed on 11 July 2019 to Tachov Investments, s.r.o.

On 10 July 2019, the Group founded new company Kosmonosy Investments, s.r.o.

On 15 July 2019, the Group founded new company Kravařská zemědělská, a.s.

On 18 July 2019, the Group acquired 98.56% share in AVENA, VOD for consideration of EUR 4.2 million.

On 5 August 2019, the Group acquired 97.31% share in Saint Barthemely sp. z o.o. for consideration of EUR 2.4 thousand.

Appendix I - Changes to group entities

On 1 March 2019 MB Futurum HK, s.r.o. has merged with BAYTON ONE, s.r.o. - the "successor company" (with the effective date of 7 April 2018). All assets and liabilities of MB Futurum HK, s.r.o. passed to the successor company. BAYTON ONE, s.r.o. changed its name to Futurum HK Shopping, s.r.o. on 7 April 2018.

Orco Property Group S.A. changed its name to CPI FIM S.A. on 24 April 2019 ("CPI FIM").

CPI Retail Two Kft. changed its name to CPI Hotels Europeum Kft. on 25 April 2019.

CPI Retail Store Kft. changed its name to Real Estate Energy Kft. on 25 April 2019.

On 1 June 2019 CPI BYTY, a.s. has merged with CPI Residential, a.s. - the "successor company" (with the effective date of 1 July 2018). All assets and liabilities of CPI BYTY, a.s. passed to the successor company. CPI Residential, a.s. changed its name to CPI BYTY, a.s. on 1 July 2018.