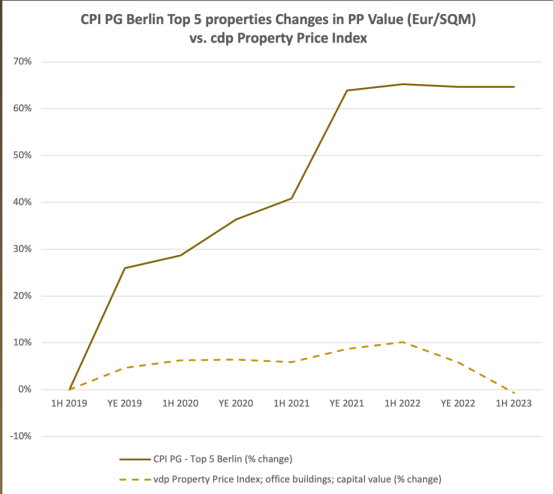


# CPI Property Group S.A. (CPIPGR)

## Part 2: Overvalued Assets, Overstated Occupancy

January 22, 2024



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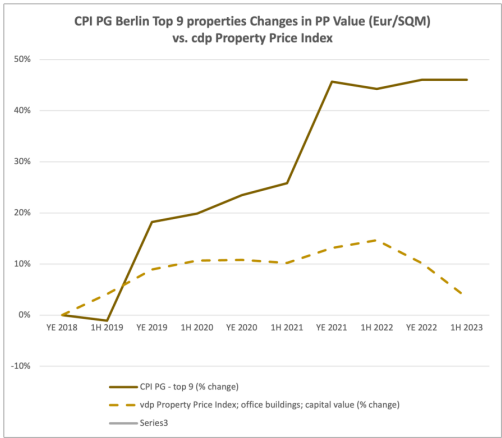
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# CPI PG's Berlin Office Portfolio Valuation Seems to Defy Market Realities

Below: Valuation Gains at CPI PG's Top 9 Berlin Properties vs. VDP 3Q23 German Office Property Price Index<sup>1,2</sup>

Note that we use the Top Nine because CPI PG consistently presented nine properties from 2018 – onward. Note also that Helmholtzstraße and Franklinstraße (also among Top 5, cover) added 14,000 sqm during this period, representing an increase of only 6.5% of the GLA for the Top 5 and 3.6% for the Top 9. These appear to rent at a premium to the existing square meterage in these buildings. However, we believe the overall valuation gains taken during this period are well in excess of realistic views of the market for its properties.



<sup>1</sup> "vdp Property Price Index 2003 - Q3 2023, time series (XLSX); Büro (office buildings)" [https://www.pfandbrief.de/site/en/vdp/real\\_estate/financing\\_and\\_market/vdp-property-price-index.html?utm\\_campaign=website&utm\\_medium=email&utm\\_source=sendgrid.com#](https://www.pfandbrief.de/site/en/vdp/real_estate/financing_and_market/vdp-property-price-index.html?utm_campaign=website&utm_medium=email&utm_source=sendgrid.com#). vdpResearch regularly publishes transaction-based rent and price indices on the development of the real estate markets in Germany. Fifteen sub-indices are compiled every quarter, which reflect the most important segments of the German real estate market. It is based on transaction data (actual purchase prices and rents) supplied by over 700 banks in the German financial sector for their real estate financing business. This provides timely and reliable market information."

<sup>2</sup> CPI PG Management Report 2018, Pg. 37 and Management Report 1H 2023, p. 20.

## CPI Property Group S.A.

Muddy Waters is short the credit of CPI Property Group ("CPI PG"). As shown on the preceding slide, CPI PG's Berlin office portfolio appears significantly overvalued based on the divergence in its valuation from overall German market trends. This Part 2 addresses CPI PG's valuations of its purported €19.2 billion investment properties and hotels is significantly inflated. We show that CPI PG seems to significantly inflate the reported vacancy rates in its Prague and Warsaw office portfolios, which seemingly is used to justify inflated asset values. To illustrate the brazenness of CPI PG's valuation results and techniques, this report focuses on four granular examples of properties that CPI PG carries at a combined value of €627 million.

As illustrated by the preceding slide on the Berlin portfolio, we believe the overvaluation issues are far more pervasive than just these properties. We selected these properties because assessing whether, and to what extent, they are overvalued is significantly less subjective than with most of the rest of the portfolio. Three of these properties are land that was undeveloped at the time CPI PG took seemingly egregious gains. Additionally, one building in Berlin for which CPI PG has doubled the carrying value stands out as an obvious overstatement because the capex CPI PG has invested pales in comparison.

We also show that CPI PG seems to significantly mislead investors about the states of its Prague and Warsaw occupancy levels. Prague and Warsaw purportedly have the highest and third highest occupancy levels in its office portfolios. These apparent overstatements imply that the valuations for properties in these markets (€2.8 billion) are inflated.<sup>1</sup>

<sup>4</sup> CPI PG H1 2023 Management Report, Pg. 16.

# Reuchlinstraße 10-11: Too Valuable to Be True?

CPI Very Questionably Doubled the Valuation of a Poorly Maintained Office Complex in Under Four Years to €199 Million

## Reuchlinstraße 10-11 Overview

CPI PG seems to have taken obvious improper fair value gains on at least one office property in its Berlin portfolio. Several other German properties' valuations also produced red flags associated with their condition, vacancies, and/or aggressive timing of new gains and lack of negative adjustments as the property market cools; however, assessing overvaluations on these is more subjective in our view.

At Reuchlinstraße 10-11, we identify ~€87 million, or ~84% of the property's valuation gains recent, as seemingly unjustified. We arrive at this figure after deducting reasonable local gains from the total valuation gain over the same period.

Reuchlinstraße 10-11 nearly doubled in reported value between June 2018 and December 2021; however, we find no plausible explanation for the dramatic increase in value. Our investigators found the complex in a state of disrepair, implying that it has not even been maintained properly, let alone improved. Notably, there has been no expansion of gross lettable area.<sup>1</sup>

As shown supra, while German office property valuations have declined -10% since mid-2022, CPI PG's Berlin office valuations remain unchanged. Reuchlinstraße 10-11 seems to be a prime example of how CPI PG manipulates its Berlin office portfolio valuations.

Below: From CPI PG's 1H 2023 Interim Report



Reuchlinstraße 10-11, Rest-West

## Reuchlinstraße 10-11:

We sent an investigator to examine the Reuchlinstraße 10-11 site to determine the state of the complex. The investigator found “occupancy [apparently] limited with substantial areas vacant. Moreover, as shown in some of the images below, the condition of the building is poor or even derelict in many areas.”



## Reuchlinstraße 10-11:

Site visit findings also implied little deployment of refurbishment or maintenance capex, with graffiti and broken windows left unaddressed by Reuchlinstraße 10-11's management.



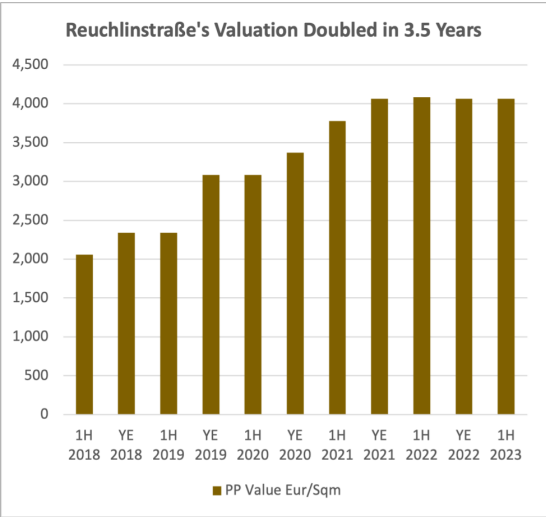
# Reuchlinstraße 10-11: Too Valuable to Be True?

In June 2018, Reuchlinstraße 10-11 had a reported portfolio property value (PP value) of €103 million.<sup>1</sup>

By YE 2022, Reuchlinstraße 10-11's PP value increased to €199 million—93.2% more.<sup>2</sup>

**What about the building changed?  
Apparently, nothing.**

Reuchlinstraße visibly shows insufficient maintenance while its GLA has remained 49,000.<sup>4</sup>



<sup>1</sup> CPI PG Management Report 1H 2018, Pg. 51

<sup>2</sup> CPI PG Management Report 1H 2023, Pg. 20.

<sup>3</sup> PP value appears to match the IFRS carrying value. Prior to 2017, CPI reported its segments at the carrying values. From 2017 on, this changed to PP value, and comparisons of the 2016 carrying value closely match the 2017 reporting of FY2016's PP value. PP Value is defined simply as "the sum of Property Portfolio owned by the Group", where "Property Portfolio covers all properties and investees held by the Group, independent of the balance sheet classification, from which the Group incurs rental or other operating income. CPIPG's PP value is especially relevant as it is used to measure NetLTV." PP Value is used in the Net Loan-to-Value metric.

<sup>4</sup> CPI PG Management Report 1H 2018, Pg. 51, Management Report 1H 2023, Pg. 20.

# Prague & Warsaw Office Vacancies

CPI Seemingly Materially Exaggerates the Occupancy Rates of its Prague & Warsaw Office — These Properties Supposedly Have the Highest Occupancy Rates in its Entire Office Portfolio. The Inflated Occupancy Rates Likely Justify Inflated Asset Valuations.

## Prague & Warsaw Office Vacancies — Overview

### Listings at Key Properties Indicate Vacancies over 2x Higher Than Reported

According to CPI PG, Prague has the highest occupancy in its office portfolio. CPI PG reports portfolio-leading high occupancy of 93.7% (6.3% vacancy), with tenants extending leases and occupancy increasing YoY.<sup>1</sup> But realtor listings in Prague advertise space for lease at its key buildings total ~14.3% of total GLA—or ~126% higher than the expected levels of 6.3% based on CPI PG reported data.

Warsaw supposedly has the third highest occupancy at 93.0% (7.0% vacancy), but realtor listings advertise space for lease at its key buildings totaling ~14.0% of total GLA— double the expected level.

#### Office segment summary in figures

	Office H1 2023				Office 2022			
	PP value (€ million)	Occupancy (%)	GLA (m <sup>2</sup> )	No. of properties	PP value (€ million)	Occupancy (%)	GLA (m <sup>2</sup> )	No. of properties
Berlin	3,011	90.6%	932,000	48	3,000	91.4%	932,000	48
Warsaw	1,781	93.0%	563,000	24	1,789	95.8%	561,000	24
Prague	1,021	93.7%	317,000	22	1,012	93.5%	316,000	22
Vienna	812	93.2%	233,000	20	900	94.4%	244,000	22
Budapest	703	86.6%	331,000	20	700	86.8%	332,000	20
Bucharest	572	86.9%	278,000	12	570	84.2%	278,000	12
Düsseldorf	519	76.3%	88,000	3	568	71.3%	88,000	3
Other	774	84.3%	473,000	52	880	83.1%	518,000	60
Globalworth	581	-	-	-	591	-	-	-
<b>Total</b>	<b>9,774</b>	<b>89.6%</b>	<b>3,214,000</b>	<b>201</b>	<b>10,010</b>	<b>89.9%</b>	<b>3,270,000</b>	<b>211</b>

<sup>1</sup> CPI PG 2023 Interim Management Report, Pg. 17, 26.

# Prague Office Vacancies – Key Prague Office Properties<sup>1</sup>

## Key office properties in Prague

Red annotations added: Advertised space for lease



<sup>1</sup> CPI PG 2023 Interim Management Report, Pg. 27. Data on space advertised from local real estate agents in November 2023 added in red.

## Prague Office Vacancies — Calculations

Listings at CPI PG's key Prague office properties account for 73% and 78% of the Prague office GLA and PP value, respectively.

Listings by Colliers<sup>1</sup> and CBRE<sup>2</sup> for these properties in November 2023 indicate significant vacancies of ~14.3% across its key building, or ~128% higher than those reported in CPI's 2023 Interim Management Report.

We believe the realtor listings more accurately reflect current and near-term office occupancy levels in Prague, which CPI appears to overstate significantly.

CPI PG - Key Office Properties in Prague				
Key Office Buildings	Reported GLA	Reported PP Value (Eur mm)	Nov 2023 Advertised Vacancy	Nov 2023 Advertised Vacancy %
Na Příkopě 14	17,000	€ 100	578	3.4%
Quadrio	17,000	€ 127	364	2.1%
Bubenska 1	22,000	€ 87	1,892	8.6%
Tokovo	22,000	€ 40	12,000	54.5%
myhive Palmovka	26,000	€ 81	4,847	18.6%
City West (Siemensova)	29,000	€ 79	3,358	11.6%
Zlatý Anděl	14,000	€ 50	1,078	7.7%
myhive Pankrac House	19,000	€ 46	1,740	9.2%
Palác Archa	22,000	€ 72	4,578	20.8%
Meteor Centre Office Park	19,000	€ 57	1,112	5.9%
Luxembourg Plaza	23,000	€ 75	1,254	5.5%
<b>Sub-total - Key Office Building Vacancies (Realtor Listings)</b>	<b>230,000</b>	<b>€ 814</b>	<b>32,801</b>	<b>14.3%</b>
CPI stated Prague office occupancy - 1H 2023	317,000	€ 1,021		93.7%
<b>CPI stated Prague office vacancy - 1H 2023</b>				<b>6.3%</b>
<b>Difference - Vacancy at Key Office Buildings vs. Reported Vacancy for Segment</b>				<b>126%</b>

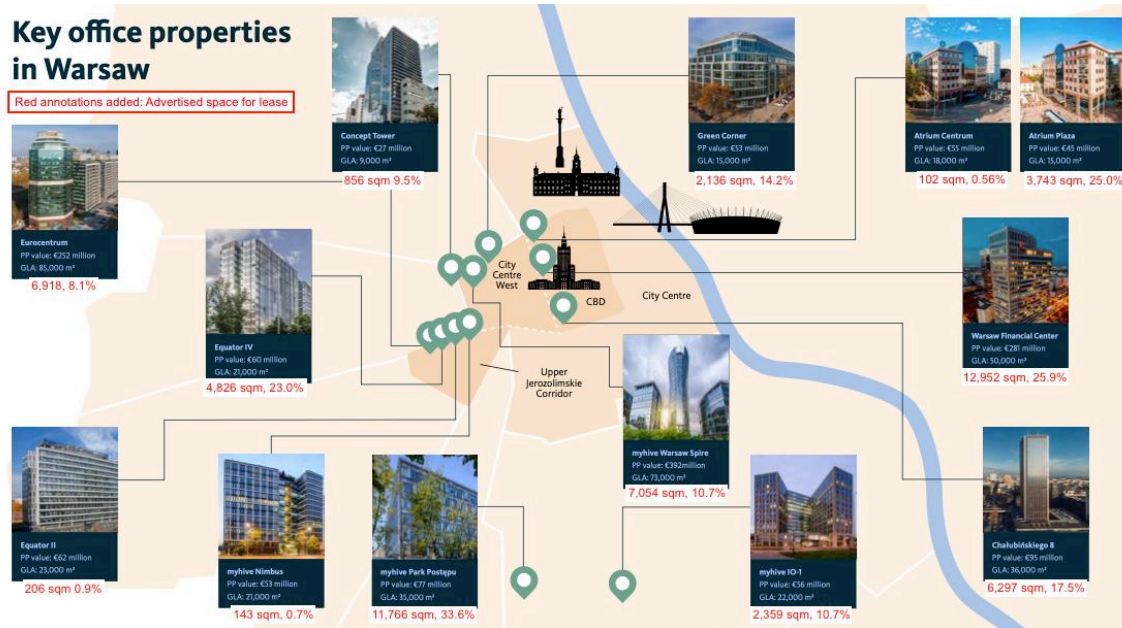
Sources: CPI PG 1H 2023 Management Report, Pp. 17, 27

Vacancy information calculated from advertised office space for lease at Colliers & CBRE Czech websites

<sup>1</sup> <https://www.propertymaps.cz/en/kancelare/prague>

<sup>2</sup> <https://www.cbreproperties.cz/en/>

# Warsaw Office Vacancies – Key Warsaw Office Properties<sup>1</sup>



<sup>1</sup> CPI PG 2023 Interim Management Report, Pg. 17, 25. Data on space advertised from local real estate agents in November 2023 added in red.

## Warsaw Office Vacancies — Calculations

Listings at CPI PG's key Warsaw office properties account for 75% and 85% of the Prague office GLA and PP value, respectively.

Listings by JLL, Cushman & Wakefield, and Savill's Poland websites for these properties in November 2023 indicate significant vacancies of ~14% across its key building, or twice that reported in CPI's 2023 Interim Management Report.

We believe these realtor listings reflect current and near-term office occupancy levels in Warsaw which are significantly lower than what CPI PG reports to bondholders.

CPI PG - Key Office Properties in Warsaw				
Key Office Buildings	Reported GLA	Reported PP Value (Eur mm)	Nov 2023 Advertised Vacancy	Nov 2023 Advertised Vacancy %
Eurocentrum	85,000	€ 252	6,918	8.1%
Equator II	23,000	€ 62	206	0.9%
Equator IV	21,000	€ 60	4,826	23.0%
Concept Tower	9,000	€ 27	856	9.5%
Green Corner	15,000	€ 53	2,136	14.2%
Atrium Centrum	18,000	€ 55	102	0.6%
Atrium Plaza	15,000	€ 45	3,743	25.0%
Warsaw Financial Center	50,000	€ 281	12,952	25.9%
Chalubińskiego 8	36,000	€ 95	6,297	17.5%
myhive IO-1	22,000	€ 56	2,359	10.7%
myhive Warsaw Spire	73,000	€ 392	7,054	9.7%
myhive Park Postępu	35,000	€ 77	11,766	33.6%
myhive Nimbus	21,000	€ 53	143	0.7%
<b>Sub-total - Key Office Building Vacancies (Realtor Listings)</b>	<b>423,000</b>	<b>€ 1,508</b>	<b>59,358</b>	<b>14.0%</b>
CPI stated Warsaw office occupancy - 1H 2023	563,000	€ 1,781		93.0%
<b>CPI stated Warsaw office vacancy - 1H 2023</b>				<b>7.0%</b>
<b>Difference - Vacancy at Key Office Buildings vs. Reported Vacancy for Segment</b>				<b>100%</b>

Sources: CPI PG 1H 2023 Management Report, Pp. 17, 25

Vacancy information calculated from advertised office space for lease at JLL, Cushman & Wakefield, and Savill's Poland websites, etc.

<sup>1</sup> Reference listing websites: <https://www.officefinder.pl/offices-for-rent.html>, <https://www.renobilis.pl/en>, <https://en.sandlis.pl/>, [www.hamilton-commercial.com](http://www.hamilton-commercial.com), <https://www.office.pl/en>, <https://www.officelist.pl/en>, etc.

## Berlin's Vacancy Issues







CPI PG's largest office market, Berlin, is not immune from vacancy issues. As discussed [infra], our investigators reported Reuchlinstraße 10-11 had "limited occupancy" with "substantial areas vacant".

Listings at CPI PG's German company, GSG, show another key German property Aqua-Höfe at Lobeckstraße 30–35 with an eye-wateringly high vacancy level of ~38%.<sup>1</sup> (Shown at right).

Some but not all appear to be related to redevelopment in-process. During and after Covid, CPI PG took some space out of circulation for refurbishment, some "intentionally", and has been or will soon be relisting them in a challenging business environment.<sup>2</sup>

Management cites refurbishment as part of the reason for slight declines in overall occupancy in both Prague and Berlin.<sup>3</sup> We believe that if all space under refurbishment were listed, that Berlin's and likely other cities vacancy rates would also jump.

### GSG shows Aqua-Höfe Berlin is also 38% Vacant

	<b>Erstbezug nach Sanierung! Hochwertige und moderne Gewerbefläche in Berlin-Kreuzberg</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	433 m <sup>2</sup>	12,979.50 €	→
	<b>Erstbezug nach Sanierung! Hochwertige und moderne Gewerbefläche in Berlin-Kreuzberg</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	654 m <sup>2</sup>	19,611.00 €	→
	<b>Erstbezug nach Sanierung! TOP moderne Fläche   GSG Aqua Höfe - Berlin-Kreuzberg</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	278 m <sup>2</sup>	8,345.10 €	→
	<b>Ihr neuer Firmenstandort! TOP sanierte Bürofläche über 2 Etagen, inkl. Terrasse in Berlin-Kreuzberg</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	3782 m <sup>2</sup>	121,034.56 €	→
	<b>AQUA-HÖFE / ÄSTHETIK UND FUNKTIONALITÄT / ca. 2.424 m<sup>2</sup> in Berlin-Kreuzberg - inkl. Terrasse</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	2424 m <sup>2</sup>	75,150.20 €	→
	<b>AQUA-HÖFE / moderne Bürofläche mit Terrasse / ca. 1.348 m<sup>2</sup> in Berlin-Kreuzberg</b> Lobeckstr. 30-35, Ritterstr. 24-27, 10969 Berlin / Kreuzberg	Büro & Gewerbe	1348 m <sup>2</sup>	41,791.10 €	→

<sup>1</sup> <https://www.gsg.de/en/gewerbefloer/aqua-hoefe/>, note: the listing 2nd to the bottom includes the same space as that on the last line; the total discrete area listed is 7,571 smq.

<sup>2</sup> CPI PG, 1H 2023 earning call. CPI PG claims about "one-third [of vacancy] is intentional" so that the company could commence refurbishment projects even at the expense of removing a large tenant. CPI PG gave the example of Berlin's Gebauer Yards (Franklinstraße 9-15a), a different large site from the example Aqua-Höfe above.

<sup>3</sup> CPI PG, 1H 2022 earning call, "The drop in occupancy in Prague and Berlin was minor and partially reflects our strategy of refurbishing or developing certain properties, which might be vacant or partially vacant for a short period."

## Office Vacancies – Potential Implications

Together Prague & Warsaw account for 27.4% of CPI PG's GLA and 28.7% of its PP value. Because CPI PG apparently under-reports vacancies and tenant turnover in these top markets, it stands to reason that such misrepresentation is endemic in CPI PG's portfolio.

CPI PG does not break out its key properties among the 52 office assets in Vienna, Budapest, and Bucharest, nor does it provide detail on the 52 "other" properties in the portfolio. Vienna, Budapest, Bucharest, and Other combine to equal over 50% of CPI PG's total properties, 41% of its total GLA, and 29% of the PP value (€2.9 billion). In our view, problems in these markets are even more likely, given this lack of transparency.

Seemingly, CPI PG's reported occupancy rates are the basis for its various asset valuations. Regardless, underreported vacancies means lower rental income which reduces EBITDA and cash flow driven valuations, impacting critical ratios like interest coverage and LTV. Models assuming cash flows based on  $GLA \times Occupancy (\%) \times Leasing Rate$  or valuations based on DCF models using the same inputs without discounting for additional vacancy will likely underestimate risk.

## Prague & Warsaw Office Vacancies — Recap

Commercial realtors currently show key CPI PG's office buildings in Prague with vacancy rates ~14.3%, 128% of the rate indicated in management's 1H23 report. Listings for Warsaw show key CPI PG's office buildings with vacancy rates of ~14.0%, two times that CPI PG reported.

This should be especially troubling because Prague and Warsaw commercial real estate is central to CPI PG's EEC focused business and other large portions of the portfolio remain opaque.

# Bubny Landbank

A Brownfield in Prague—Through Appraisals Based on a Small Sample of Cherrypicked Comps, Bubny Appears to Have Been Overvalued by ~100% or ~€138 Million

## Bubny Landbank Overview

CPI PG seems to have taken massive, unfounded fair value gains on its largest landbank asset in Czechia—the Bubny Landbank (“the Prague Brownfield”). We estimate the value has been inflated by ~100% of market, or ~€139 million. This manipulation is based on JLL valuation that uses **six** cherry-picked comps.

Our comp database consists of publicly available data for 70 submarket land properties, totaling over 110,000 sqm. Our database average value is approximately €690/sqm, which is approximately half of CPI's €1,378/sqm carrying value. We therefore estimate that CPI PG inflates the Bubny landbank PP value (or carrying value<sup>1</sup>) by ~100%. Note that the comps appear to all have zoning approved for development, while Bubny still does not.<sup>2</sup>

CPI PG carries the asset value of the Bubny landbank as €276.9 million—or €1,378/sqm. CPI also discloses JLL's appraisal of the fair value for the Bubny landbank—€1,223/sqm, which despite its clear flaws, produces a valuation 13% lower than CPI PG's carrying value. We estimate JLL's valuation was inflated by approximately 77%.<sup>3</sup>

Landbank and Development	Fair Value 2022	Fair Value 2021	Valuation technique	Significant unobservable Inputs	Range (weighted avg) 2022	Range (weighted avg) 2021
Land bank Bubny	246	220	Comparable	Fair value per sqm	(€1,223)	(€1,094)
Land bank Zbrojovka	144	119	Comparable	Fair value per sqm	(€622)	(€515)
Development Vysočany***	13	-	Comparable	Fair value per sqm	(€2,084)	-
<b>Total</b>	<b>1,637</b>	<b>1,514</b>				

<sup>1</sup> CPI FIM 2022 Management Report, p. 16 & Notes to the Consolidated Financial Statements p.24. The Group's Property Portfolio is reported at the carrying value. These values are used to report the Investment Properties' values and the valuation gains.

<sup>2</sup> CPI FIM 2022 Management Report, Pg. 35-36.

<sup>3</sup> CPI FIM 2022 Management Report, Pg. 35.

# What is the Bubny Landbank?

The 201,000 sqm brownfield known as the Bubny landbank is a significant asset in CPI PG's Czech portfolio.<sup>1</sup>

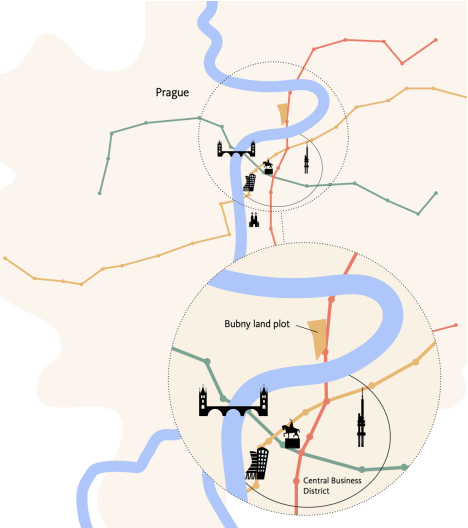
The site is located in Prague's Bubny neighborhood, a former industrial area across the Vltava from Old Town. The landbank was still under a construction ban in 2022—and we have seen no indication that the ban has since been lifted.<sup>2</sup>

### Landbank in the Czech Republic

The majority of the Czech landbank is situated in Prague, mainly relating to **Bubny**, a 201,000 m<sup>2</sup> area strategically located close to the **CBD** and where we completed the redevelopment of flagship office **Bubenská 1** in late 2020. During 2022, the Group sold a smaller landplot in Prague at a multiple premium to its book value.

The majority of the remainder of the Czech Republic's landbank relates to **Nová Zbrojovka, Brno** – where the Group is completing the **regeneration and redevelopment of one of the largest brownfields in Brno** and in 2020, the Group completed the development of our first office property in the new neighbourhood, **ZET**, office.

Given the scarce availability of land in Prague and across the country and constraints in obtaining building permits, the value of strategic land plots has been increasing.

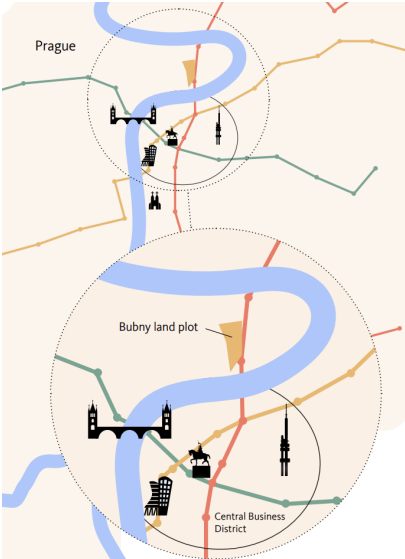


Source: CPI PG 2022, Annual Report

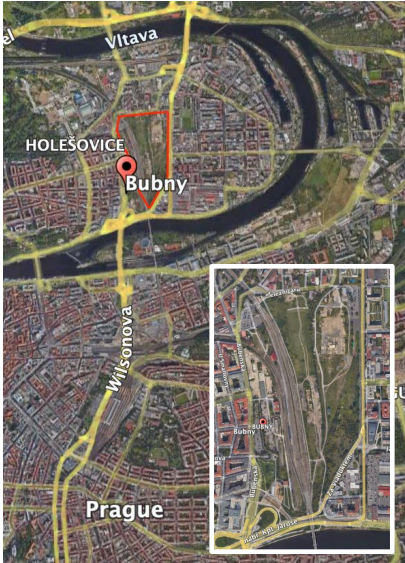
<sup>1</sup> CPI PG Management Report 2022, Pg. 56  
<sup>2</sup> CPI FIM Consolidated Financials 2022, Pg. 36. As a brownfield the landbank may require clean-up or remediation.  
<sup>3</sup> CPI FIM Consolidated Financials 2022, Pg. 21.

# The Bubny Landbank Site

Below: Site location from CPI  
PG's investor materials



Satellite image of Bubny Site



Source: Google Earth

## We Estimate that CPI PG Overvalues Bubny by Approximately 100%

CPI PG, through its subsidiary CPI FIM, presents the Bubny Landbank's asset value as well as a fair value on range (weighted average by comparator property similarity to the Landbank) per sqm basis.<sup>1,2</sup> CPI's carrying value is slightly higher than the valuation by Jones Lange Lasalle (JLL), which appears quite flawed. While JLL uses the comparable method for the Bubny landbank, *it only uses from a sample size of six properties, none of which are identified.*

In 2022, CPI carried the Bubny Landbank at €276.9 million, or ~€1,378/sqm based on its reported 201,000 sqm. JLL's 2022 range weighted average equates to €245.8 million or ~1,223/sqm.

Landbank and Development	Fair Value 2022	Fair Value 2021	Valuation technique	Significant unobservable Inputs	Range (weighted avg) 2022	Range (weighted avg) 2021
Land bank Bubny	246	220	Comparable	Fair value per sqm	(€1,223)	(€1,094)
Land bank Zbrojovka	144	119	Comparable	Fair value per sqm	(€622)	(€515)
Development Vysočany***	13	-	Comparable	Fair value per sqm	(€2,084)	-

JLL: Bubny landbank range (weighted avg) value: **€1,223/sqm**

<sup>1</sup> CPI FIM Consolidated Financials 2022, Pp. 27, 35. (Note: Bubny is 20% held by CPI FIM and 80% held by CPI's German subsidiary GSG Europa Beteiligungs GmbH.)

<sup>2</sup> <https://app.iprpraha.cz/app/cenova-mapa/index.html?lang=en>

## **We Estimate that CPI PG Overvalues Bubny by Approximately 100%**

We use public land price value data from Prague's **Building Land Price Map**, a dynamically updated database from the city of Prague that uses both transaction data and statistical methods to establish likely land prices. Our investigators' queries with locals indicate that these valuations are regarded as well-founded.

To create its current pricing model, Prague's **Building Land Price Map** started with 1,938 real estate contracts from 2021 and 2022 and then scrubbed the transactions to exclude outliers. This yielded a data set of 1,612 sales. From this set, 115 sales were selected as representative sales and applied to the pricing groups shown in the map. The pricing groups normally comprise multiple adjacent buildings.

We followed JLL, which values Bubny slightly lower than CPI PG's carrying value, in using the comparable method, making two estimates: 1) using the 2023 valuation of a sample set of 70 neighboring plots including 5 with modern developments; and 2) with the same sample set but excluding the 5 plots with modern developments.

**In the following slides, we describe JLL's methodology, our methodology, our data, and examples of data points from our own data set.**

<sup>1</sup> The Prague Building Land Price Map. The Land Price Map's methodology can be found fully elaborated in Decree No. 32/1998 as amended in Decree No. 18/2021 (and all amendments preceding it) in the records of the City of Prague.

<sup>2</sup> CPI FIM Consolidated Financials 2022, Pp. 27, 35. (Note: Bubny is 20% held by CPI FIM and 80% held by CPI's German subsidiary, GSG.)

<sup>3</sup> <https://app.iprpraha.cz/apl/app/cenova-mapa/index.html?lang=en>

## CPI PG's Appraisals Seem to Use Cherry-Picked Comps to Skew the Weighted Average

*We have criticized real estate appraisers over the years for their apparent malleability in the hands of their clients—most recently, for valuations provided to Vivion Investments.<sup>1</sup>*

JLL made its property valuation estimate by comparing the Bubny Landbank to six other properties in the area (less than 1/10th of those used in our estimate).<sup>2</sup> Three of the six properties are valued between €2,100 and €3,000/sqm (CZK ~50,000 to CZK 73,000), on par with the Prague Building Land Price Map's most expensive. For example, properties around Wenceslas Square and the popular Pařížská commercial street are only as high as CZK 69,870.

JLL uses a weighted average, showing inputs but providing neither the calculation nor sufficient information to recreate it. For FY2022, the area-weighted average value of JLL's six properties with recent transactions equals €896, but JLL's range weighted average is €1,223/sqm: 32.1% higher. The weighing factors have multiples at the low end of 0.85x for development status (e.g. construction ban) to 1.21x for market improvement since the transaction. To get to a 32.1% increase, it seems the weighting system must have heavily skewed towards the upside while setting the weighting of any downside factors to near zero.

<sup>1</sup> See "Vivion Investments S.á.r.l.: A Multi-Billion Euro Shell Game". Published December 14, 2022.

<sup>2</sup> CPI FIM 2022 Management Report, Pp. 35-36.

## CPI PG's Appraisals Seem to Use Cherry-Picked Comps to Skew the Weighted Average

Given the enormous difference in our results, we believe the simplest explanation for JLL's valuation findings is that three of the six comparable properties were cherry-picked, with several smaller, higher valued properties employed to push up the average value/sqm.

JLL's three larger, but lower value sites have values of €400-€900/sqm, closer to our findings for land values in comparable plots lacking significant, recent redevelopment. Obviously, recently developed land is a poor comparator for undeveloped, brownfield land (under a construction ban, no less).

### Appraisal for Bubny as at 31 December 2022

Bubny is a land bank with a size over 202 thousand square meters and is located near the Prague's city center. The majority of the site is currently not used. As at 31 December 2022 and 2021, a valuation of the land bank was conducted by external valuation expert Jones Lang La Salle ("JLL") using the comparable method. This method was based on 6 recently executed land site transactions in Prague, included in below table:

2022	Comparative method					
	1	2	3	4	5	6
Zoning plan	Mixed use	Mixed use	Mixed use	Mixed use	Industrial -> Residential	Mixed use
Size (sqm) – approx.	44,000	67,000	10,000	9,000	80,000	20,000
Transacted price per sqm (EUR)	500	900	3,000	2,200	400	2,100

## MW Valuation Data – Methods 1 & 2

Data Summary	Method 1	Method 2
Total SQM sample	124,133	110,855
Total land value sample	€ 90,297,617	€ 76,469,212
<b>Avg. price/sqm of sample</b>	<b>€ 727</b>	<b>€ 690</b>
Median price/sqm of sample	€ 744	€ 744
Mode price/sqm of sample	€ 744	€ 744

Land Plot #	Area (sqm)	Orientation wrt Bubny	Prague City Value/SQM (CZK)	Method 1 Prague City Value/SQM (Eur)	Method 1 Land Value (Eur)	Method 2 Prague City Value/SQM (Eur)	Method 2 Land Value (Eur)
61	1,257	NW	2,390	€ 99	€ 124,162	€ 99	€ 124,162.26
267/1	1,095	NW	7,810	€ 323	€ 353,445	€ 323	€ 353,444.78
267/2	1,487	NW	7,810	€ 323	€ 479,975	€ 323	€ 479,974.79
268/1	1,415	NW	7,810	€ 323	€ 456,735	€ 323	€ 456,734.58
283	746	NW	14,700	€ 608	€ 453,224	€ 608	€ 453,223.67
284	2,754	N	14,700	€ 608	€ 1,673,161	€ 608	€ 1,673,160.85
291	213	N	14,700	€ 608	€ 129,406	€ 608	€ 129,405.69
292	570	N	14,700	€ 608	€ 346,297	€ 608	€ 346,296.91
300/2	1,211	N	14,700	€ 608	€ 735,729	€ 608	€ 735,729.05
302	1,187	N	14,700	€ 608	€ 721,148	€ 608	€ 721,148.12
398/1	3,494	N	5,620	€ 232	€ 811,551	€ 232	€ 811,550.67
198/1	3,097	N	7,810	€ 323	€ 999,652	€ 323	€ 999,651.60
198/6	361	N	7,810	€ 323	€ 116,524	€ 323	€ 116,523.81
199/1	1,375	N	7,810	€ 323	€ 443,823	€ 323	€ 443,823.36
205/2	3,674	N	21,110	€ 872	€ 3,205,412	€ 872	€ 3,205,411.64
254/1	760	N	21,110	€ 872	€ 663,068	€ 872	€ 663,068.28
254/5	700	N	21,110	€ 872	€ 610,721	€ 872	€ 610,720.78
337	448	N	14,700	€ 608	€ 272,177	€ 608	€ 272,177.22
338	516	N	14,700	€ 608	€ 313,490	€ 608	€ 313,489.83
356	590	N	14,700	€ 608	€ 358,448	€ 608	€ 358,447.68
373/1	2,692	N	14,700	€ 608	€ 1,635,493	€ 608	€ 1,635,493.47
373/21	2,719	N	14,700	€ 608	€ 1,651,897	€ 608	€ 1,651,897.01
348/1	1,794	N	21,100	€ 872	€ 1,564,449	€ 872	€ 1,564,448.67
2415/22	3,057	NE	23,500	€ 971	€ 2,969,065	€ 971	€ 2,969,065.13
2415/52	7,073	NE	23,500	€ 971	€ 6,869,545		
504/8	352	NE	22,600	€ 934	€ 328,782		
504/7	863	NE	22,600	€ 934	€ 806,075		
771	630	NE	14,700	€ 608	€ 382,749	€ 608	€ 382,749.21
777	793	E	18,000	€ 744	€ 589,932	€ 744	€ 589,932.22
787	898	E	14,700	€ 608	€ 545,570	€ 608	€ 545,569.52
788	763	E	14,700	€ 608	€ 463,552	€ 608	€ 463,551.83
789	2,138	E	14,700	€ 608	€ 1,298,917	€ 608	€ 1,298,917.18
773/58	6,452	E	18,000	€ 744	€ 4,799,802	€ 744	€ 4,799,801.62
773/59	1,588	E	18,000	€ 744	€ 1,181,352	€ 744	€ 1,181,352.29
797/1	2,195	E	18,000	€ 744	€ 1,632,915	€ 744	€ 1,632,914.53

Land Plot #	Area (sqm)	Orientation wrt Bubay	Prague City Value/SQM (CZK)	Method 1 Prague City Value/SQM (Eur)	Method 1 Land Value (Eur)	Method 2 Prague City Value/SQM (Eur)	Method 2 Land Value (Eur)
1075/4	5,512	E	14,700	€ 608	€ 3,348,752	€ 608	€ 3,348,751.86
1095/1	1,323	E	18,000	€ 744	€ 984,212	€ 744	€ 984,212.27
1098	1,318	E	18,000	€ 744	€ 980,493	€ 744	€ 980,492.64
1100/1	1,098	E	18,000	€ 744	€ 816,829	€ 744	€ 816,829.23
1101	1,480	E	18,000	€ 744	€ 1,101,008	€ 744	€ 1,101,008.43
1120	618	E	18,000	€ 744	€ 459,745	€ 744	€ 459,745.41
1122/4	2,222	E	28,240	€ 1,167	€ 2,593,374		
1123/4	2,768	E	28,240	€ 1,167	€ 3,230,630		
1169	801	E	18,000	€ 744	€ 595,884	€ 744	€ 595,883.62
1170	5,825	E	18,000	€ 744	€ 4,333,361	€ 744	€ 4,333,360.89
1174	2,403	E	18,000	€ 744	€ 1,787,651	€ 744	€ 1,787,650.85
1175	1,036	E	18,000	€ 744	€ 770,706	€ 744	€ 770,705.90
1192/2	8,349	SE	10,000	€ 413	€ 3,450,570	€ 413	€ 3,450,570.34
1192/3	408	SE	10,000	€ 413	€ 168,623	€ 413	€ 168,622.91
1192/4	316	SE	10,000	€ 413	€ 130,600	€ 413	€ 130,600.10
1193	1,051	SE	18,000	€ 744	€ 781,865	€ 744	€ 781,864.77
1205	489	SE	18,000	€ 744	€ 363,779	€ 744	€ 363,779.14
1206	343	SE	18,000	€ 744	€ 255,166	€ 744	€ 255,166.14
1207	330	SE	18,000	€ 744	€ 245,495	€ 744	€ 245,495.12
1208	725	SE	14,220	€ 588	€ 426,083	€ 588	€ 426,082.82
1244	7,996	SW	22,600	€ 934	€ 7,468,573	€ 934	€ 7,468,573.32
1296	649	SW	18,000	€ 744	€ 482,807	€ 744	€ 482,807.08
1298	652	W	18,000	€ 744	€ 485,039	€ 744	€ 485,038.85
1300/1	607	W	18,000	€ 744	€ 451,562	€ 744	€ 451,562.24
1359	412	W	18,000	€ 744	€ 306,497	€ 744	€ 306,496.94
1448	1,579	W	18,000	€ 744	€ 1,174,657	€ 744	€ 1,174,656.97
1449	389	W	18,000	€ 744	€ 289,387	€ 744	€ 289,386.68
1450	392	W	18,000	€ 744	€ 291,618	€ 744	€ 291,618.45
1451	1,620	W	18,000	€ 744	€ 1,205,157	€ 744	€ 1,205,157.88
1462	588	W	18,000	€ 744	€ 437,428	€ 744	€ 437,427.67
1463	830	NW	14,700	€ 608	€ 504,257	€ 608	€ 504,256.90
1469	1,101	NW	18,000	€ 744	€ 5,481,237	€ 744	€ 5,481,236.57
1472	267	NW	18,000	€ 744	€ 198,628	€ 744	€ 198,627.87
1473	311	NW	18,000	€ 744	€ 231,361	€ 744	€ 231,360.56
1487	7,368	NW	14,700	€ 608	€ 4,476,343	€ 608	€ 4,476,343.20

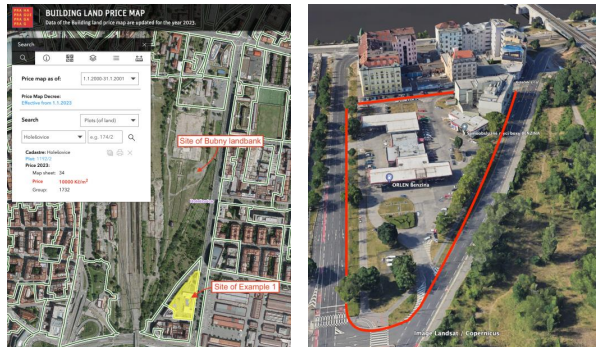
Source: Prague Building Land Price Map

CZK to Eur: 24.196

Indicates exclusion from Method 2 due to recent development

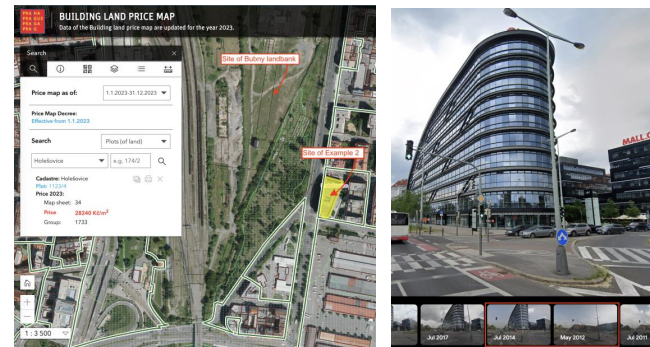
## Valuation – Example Data Points

Example 1: Plot 1192/2 (in yellow)  
 Location: directly SE of Bubny landbank  
 Land price / sqm: CZK 10,000 / €413  
 Condition: Old buildings, gas station on site predates 1985  
 Significance: This land is the largest plot with price date next to the Bubny landbank, land is well below the sample set's mean and median values



Above left: Image from the Prague landbank, orientation north.  
 Above right: Image from Google Earth, orientation looking south.

Example 2: Plot 1123/4 (in yellow)  
 Location: directly SE of Bubny landbank  
 Land price / sqm: CZK 28,240 / €1,167  
 Condition: Newly developed in 2013 – excluded from Method 2  
 Significance: This land is the highest valued around Bubny's perimeter, well above the mean and median land values (not representative)

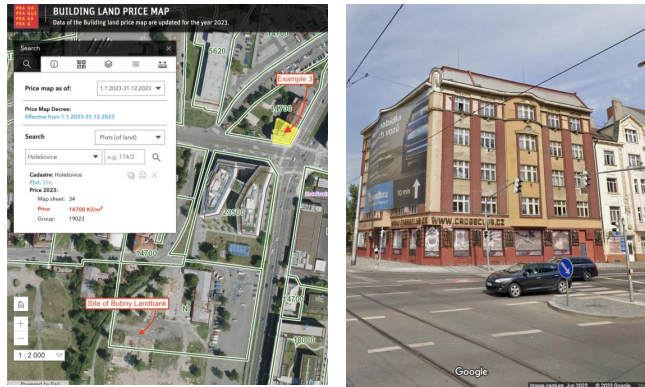


Above left: Image from the Prague landbank, orientation north.  
 Above right: Image from Google Earth street view, orientation looking north.

Note: These two sites face one another diagonally.

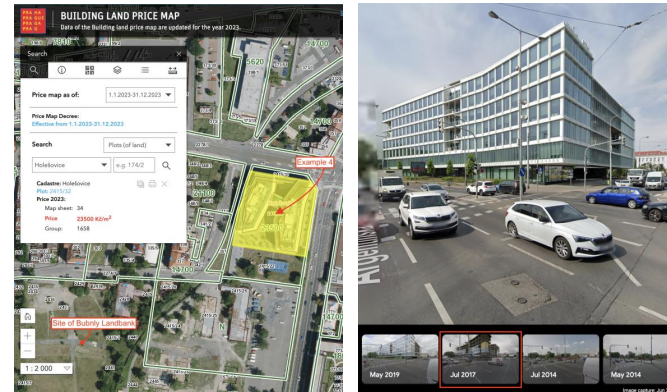
## Valuation – Example Data Points

Example 3: Plot 356 (in yellow)  
 Location: NE of Bubny landbank  
 Land price / sqm: CZK 14,700 / €608  
 Condition: Older, rundown, more traditional design.  
 Significance: Land value below the mean and median values.



Above left: Image from the Prague landbank, orientation north.  
 Above right: Image from Google maps, orientation looking east.

Example 4: Plot 2415/32 (in yellow)  
 Location: NE of Bubny landbank  
 Land price / sqm: CZK 23,500 / €971  
 Condition: Developed in 2017-2018—excluded from Method 2  
 Significance: This land is among the highest valued around Bubny's perimeter.

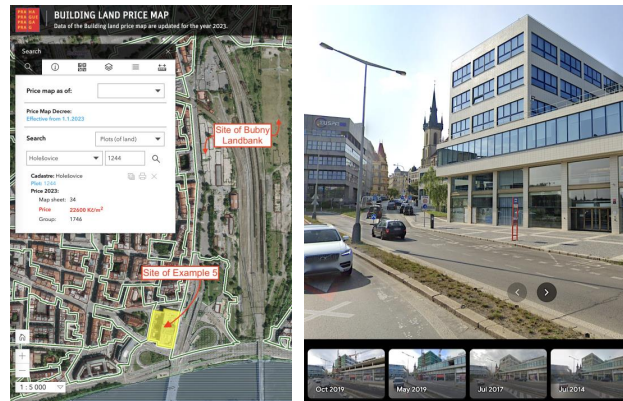


Above left: Image from the Prague landbank, orientation north.  
 Above right: Image from Google maps, orientation looking south-west.

Note: These two sites are directly across the street from one another.

## Valuation – Example Data Points

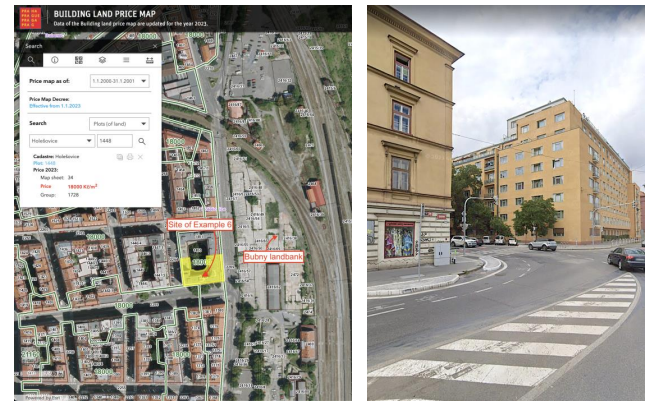
Example 5: Plot 1244 (in yellow)  
 Location: SW of Bubny landbank  
 Land price / sqm: CZK 22,660 / €934  
 Condition: a CPI PG refurbishment project completed ~2019-2020  
 Significance: Site of Bubenska 1, a recent refurbishment project by CPI PG



Above left: Image from the Prague landbank, orientation north.  
 Above right: image from Google maps, orientation looking northeast.

Note: This site is cited by CPI PG as successful development

Example 6: Plot 1448 (in yellow)  
 Location: W of Bubny landbank  
 Land price / sqm: CZK 18,000 / €744  
 Condition: Older, communist-era residential development.  
 Significance: Land value above the mean and median values.



Above left: Image from the Prague landbank, orientation north.  
 Above right: image from Google maps, orientation looking north-west.

## MW Valuation Data – Method 3

We identified and collected the data from 50 zones around the Bubny landbank's perimeter. 40 had price data.

**The average value was €687/sqm.**

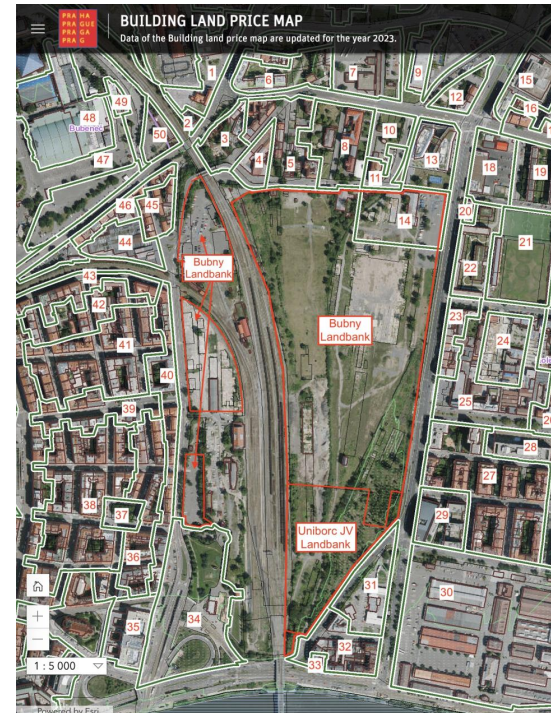
Both median and mode were €744/sqm.

Land Plot Zone Ref #	Prague City Value/SQM (CZK)	Prague City Value/SQM (Eur)	Land Plot Zone Ref #	Prague City Value/SQM (CZK)	Prague City Value/SQM (Eur)
1	14,700	608	26	18,000	744
2	2,390	99	27	18,000	744
3	7,810	323	28	14,700	608
4	14,700	608	29	28,240	1,167
5	14,700	608	30	N	N
6	21,100	872	31	10,000	413
7	N	N	32	18,000	744
8	N	N	33	14,220	588
9	5,620	232	34	N	N
10	21,100	872	35	22,600	934
11	14,700	608	36	18,000	744
12	14,700	608	37	N	N
13	23,500	971	38	18,000	744
14	N	N	39	18,000	744
15	22,600	934	40	18,000	744
16	18,000	744	41	18,000	744
17	18,000	744	42	18,000	744
18	N	N	43	N	N
19	18,000	744	44	14,700	608
20	14,700	608	45	18,000	744
21	N	N	46	18,000	744
22	18,000	744	47	N	N
23	18,000	744	48	N	N
24	18,000	744	49	16,450	680
25	14,700	608	50	14,700	608

FX Dec 31:

24.196

N: Price not determined



### Valuation Data – Method 3

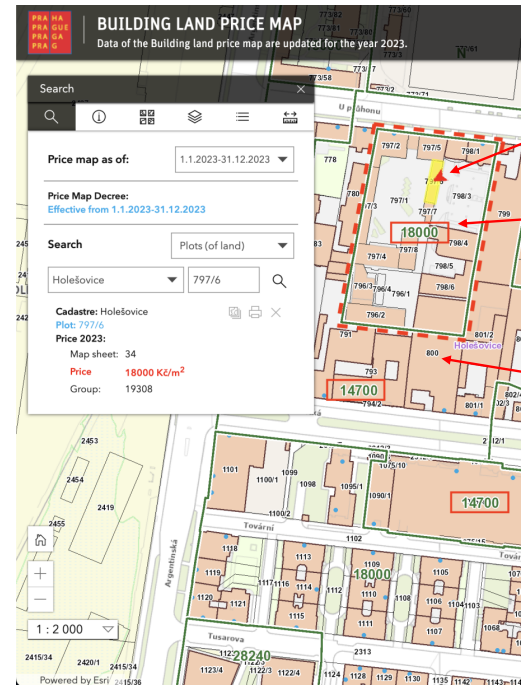
The Prague Building Land Map tool applies pricing from recent redevelopments and improvements to adjacent properties, putting these into individual pricing zones or groups.

These groups are depicted in the image on the right with a solid green line. The price value applied to that zone is in bold, green, larger font.

A red dotted line indicates the zone boundary, and the red box indicates its price value. Those groups marked “N” indicate an undetermined price.

The smaller numbers, in black, are the plot numbers. Clicking on a plot on the map will cause the individual property data, with its land price, to appear.

All of the plots in the green-outlined zone have the same land price value. The same value is given to plots with and without buildings.



Selected plot,  
plot # 797/2

Land price for the  
“group or zone”

Plot number

## MW Data and Methodology – Detailed Explanation



We derived our own estimates of the 2022 landbank's value by using the comparable method.

We used the Prague Building Land Price Map<sup>1</sup> to sample land plots neighboring the Bubny Landbank. (We inquired with local investigators about how data from the Land Price Map was used and were told that users “consider the map to be accurate and useful.”) Land price data is not available for all plots. The Bubny site, along with some other aging industrial and commercial sites, lack data. The majority of smaller commercial and residential sites have listed prices. These priced sites include both developed and un- or under-developed land. All the sample properties were from the Holešovice District. The furthest was only three city blocks away.

Our estimates use a much larger dataset—70 sites—than that used by JLL. The plot locations are identified in our valuation table.

To ensure we were using a comparable or latter period, we used the Prague Building Land Price Map's 2023 price data in our comparison with CPI FIM's YE 2022 valuations.

**Cont'd on next slide...**

<sup>1</sup> The Prague Building Land Price Map uses recent transaction prices, along with statistical estimates of likely land values, to provide land values in and around Prague. It is maintained by the Prague authorities, and, according to our independent on-the-ground investigators in Czechia, it is generally considered reliable. The Land Price Map's methodology can be found fully elaborated in Decree No. 32/1998 as amended in Decree No. 18/2021 (and all amendments preceding it) in the records of the City of Prague.

## MW Data and Methodology – Detailed Explanation



We calculated the valuation two ways:

- 1) A sample set including plots with recently constructed, modern buildings.
- 2) Another sample set, which excludes recently constructed, modern buildings.

We run the second estimate because sites with newly completed modern buildings show higher values: improving the site with new construction improves the land value.

In contrast, Bubny is not only undeveloped, but also a brownfield. It may require substantial additional investment in environmental remediation. Therefore, we believe older, less improved sites have greater comparison value.

We note that the Prague building land map tool applies pricing from recent redevelopments and improvements to adjacent properties to create clusters or zones. We checked the results against the average price of 40 zones around Bubny's perimeter for which price data was available. The result was slightly under the lower of our two estimates.

## Bubny Landbank — Recap

The Bubny Landbank—a brownfield in Prague—seems wildly overvalued, and the fact pattern suggests that this overvaluation was encouraged by manipulative business practices at CPI PG.

With a carrying value of €1,378 per square meter (~€277 million total) and a recalculated value of ~€690 per square meter (~€138.7 million), we estimate that the Bubny Landbank's value is overstated by ~€138 million, or ~100%.

# Polygon BC and MQM Czech (Part 2)

After Vitek Seemingly Creamed ~€36.7 Million in Cash Gains by Round-Tripping Land Plots, CPI PG Took Highly Questionable Fair Value Gains on Them, Padding Reported Asset Values and Profits

## Polygon BC and MQM Czech Part 1 Review (a Dubious Roundtrip)

In 2014, in an undisclosed related party transaction, a proxy entity for Vitek acquired two holdcos from CPI PG. Each of the two holdcos—Polygon BC and MQM Czech—held undeveloped landbanks in the Prague area.<sup>1</sup> The consideration was €14.2 million.

In 2017, Vitek completed the roundtrip, selling the holdcos back to CPI PG for €50.9 million. **Vitek's profit on the roundtrip was €30.9 million**, even though neither parcel of land had undergone any development.

The proxy entity was established and directed by Martin Nemecek, then the CEO of CPI PG. In CPI PG's response to our criticism of these transactions, it argued that the entity was owned by J&T Finance Group.<sup>2</sup> As far as we're concerned, the point stands and the entity was obviously a proxy for Vitek.

<sup>1</sup> Polygon BC's landbank is located in Prague 9. MQM Czech's is located in Řitka, a small town about 16km southeast of Prague.

<sup>2</sup> CPI PG December 8, 2023, response, pg. 11, 13. The parent company of Nas Privy Realty is Poštova banka (now 365 Bank), which is ultimately controlled by the J&T Finance Group SE, a.s. This also makes J&T Banka, a.s. a sister company of Poštova banka and Nas Privy Realty.

## Polygon BC and MQM Czech — More Subterfuge Through Valuation Gains Without Development

Between 2017 and 2021, the years immediately following the MQM Czech and Polygon BC repurchase from Vitek's proxy, CPI PG booked another €68.1 million in valuation gains on the properties. These gains appear disconnected from any physical improvement to the landbank holdings of either holdco—neither MQM Czech nor Polygon BC had been fully permitted, nor had they started construction when the gains were taken.

Polygon BC took a suspect €53.0 million fair value gain in 2021 alone, the year before construction started on the first of its six buildings at the development Kolbenova Park. (Some construction has since commenced.) The €53.0 million gain seemingly represents much of the projected profit for the entire six-building development, yet still strikes us as unrealistic.

By 2022, MQM Czech had nearly tripled its value from 2017, rising from €13.7 million to €38.9 million—but according to CPI PG only received a permit in 2022,<sup>1</sup> and had not yet begun any construction as of Fall 2023.

When CPI PG sold the vacant land to its proxy J&T in 2014, the valuation used the comparable method. When CPI then bought them back from J&T and Vitek in 2017, CPI PG “shifted to the future development valuation (FDV) method,” based on “the prospect of earning permits.”<sup>2</sup>

<sup>1</sup> See Dec8 response pp. 10-12; CPI PG response, Dec 8, 2023, p. 12

<sup>2</sup> Ibid.

## The FV Gains: MQM Czech

The landbank assets in Ritka increased in value to €24.4 million and €38.9 million in 2021 and 2022, respectively. Of this €14.5 million increase, €11.0 million was the reported FV gain.

As at 31 December 2021

	Bubny Development Land bank	STRM Alfa Land bank	MQM Czech Land bank	Polygon BC Land bank	Vysočany Office Land bank	Total
Proportion of ownership interests	20%	20%	20%	20%	20%	-
<b>NCI – at the beginning of the year</b>	<b>138,887</b>	<b>25,760</b>	<b>9,197</b>	<b>28,756</b>	<b>1,931</b>	<b>204,531</b>
<b>NCI – profit for the period</b>	<b>4,900</b>	<b>22,329</b>	<b>7,124</b>	<b>34,283</b>	<b>4,154</b>	<b>72,790</b>
<b>Condensed financial information</b>						
<i>Non-current assets</i>	250,309	16,390	24,114	94,488	11,462	396,763
<i>Current assets</i>	41	54,623	310	61	0	55,035
<b>Total assets</b>	<b>250,350</b>	<b>71,013</b>	<b>24,424</b>	<b>94,549</b>	<b>11,462</b>	<b>451,798</b>
<i>Equity attributable to owners</i>	179,734	60,111	20,401	78,799	7,606	346,651
<i>Non-current liabilities and other</i>	70,616	10,902	4,023	15,750	3,856	105,147
Total equity and liabilities	250,350	71,013	24,424	94,549	11,462	451,798
Profit for the year	6,125	27,911	8,905	42,854	5,193	90,988
Net increase/(decrease) in cash and cash equivalents	(3,600)	(3,581)	(1)	(33)	(65)	(7,280)

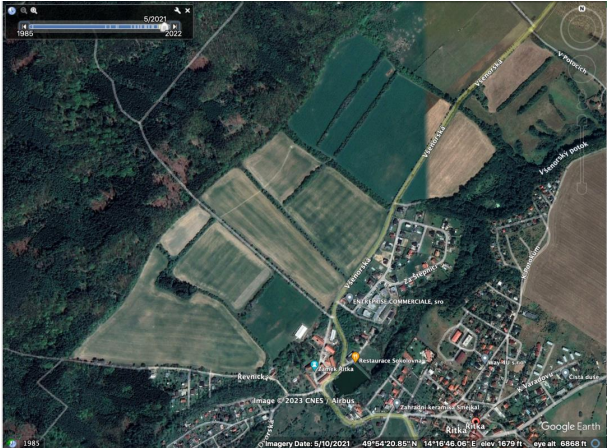
As at 31 December 2022

	Bubny Development Land bank	STRM Alfa Land bank	MQM Czech Land bank	Polygon BC Land bank	Vysočany Office Land bank	Total
Group's interest	20%	20%	20%	20%	20%	-
<b>NCI – at the beginning of the year</b>	<b>143,789</b>	<b>48,088</b>	<b>16,321</b>	<b>63,038</b>	<b>6,085</b>	<b>277,321</b>
<b>NCI – profit for the period</b>	<b>11,435</b>	<b>7,339</b>	<b>8,631</b>	<b>5,559</b>	<b>441</b>	<b>33,405</b>
<b>Condensed financial information</b>						
<i>Non-current assets</i>	276,902	23,131	38,480	111,842	12,565	462,920
<i>Current assets</i>	26	63,399	407	96	6	63,934
<b>Total assets</b>	<b>276,928</b>	<b>86,530</b>	<b>38,887</b>	<b>111,938</b>	<b>12,571</b>	<b>526,854</b>
<i>Equity attributable to owners</i>	194,028	69,285	31,189	85,748	8,157	388,407
<i>Non-current liabilities and other</i>	82,900	17,245	7,698	26,190	4,414	138,447
Total equity and liabilities	276,928	86,530	38,887	111,938	12,571	526,854
Profit for the year	14,294	9,174	10,788	6,949	551	41,756
Net increase/(decrease) in cash and cash equivalents	-	(13)	-	-	-	(13)

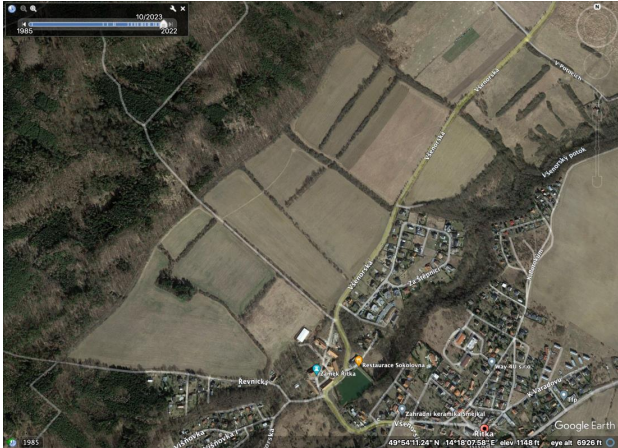
Source: CPI FIM, 2022 Consolidated Financials, Pp. 27-28.

# MQM Czech Landholdings in Ritka

No development in 2021



Still no development 2023





## MQM Czech

The above images, confirming no development, were taken by our investigators in Q3 2023.

**Although Polygon BC wouldn't begin construction until mid-2022,<sup>1</sup> CPI PG recognized a €53.0 million fair value gain on the asset in 2021, increasing the carrying value to €94.5 million.<sup>2</sup>**

Below: Fair value increase disclosure from CPI FIM Consolidated Financial Statements, 2022.

**Valuation gain**

In 2022, the valuation gain related primarily to the Group's Czech land bank portfolio in total amount of EUR 105.8 million, primarily related to future development projects Bubny Development of EUR 26.8 million, Nová Zbrojovka of EUR 14.7 million, MQM Czech of EUR 13.4 million and CPI – Land Development EUR 10.7 million. On the other hand, the Group recognized valuation loss mainly from Polish portfolio of EUR 25.1 million and one Czech land bank of EUR 12.8 million.

In 2021, the valuation gain related primarily to the Group's Czech office and land bank portfolio in total amount of EUR 226.1 million, primarily related to future development projects Residence Pragovka of EUR 58.4 million, Polygon of EUR 53.0 million, STRM Alfa of EUR 34.4 million, Bubny Development of EUR 20.6 million and MQM Czech of EUR 11.0 million. Further, the Group recognized valuation gain from Polish and Italian portfolio of EUR 24.3 million and EUR 12.9 million, respectively.

In 2021, both MQM Czech and Polygon are clearly described as part of the Czech land bank portfolio.

In 2022, MQM Czech once again is listed as being part of the land bank portfolio.

<sup>1</sup> <https://kibnpark.cz/en/about>

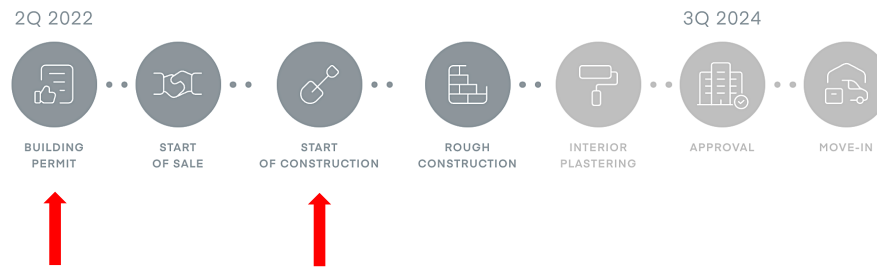
<sup>2</sup> CPI FIM Consolidate Financial Statements 2022, Pg. 24.

## The Polygon FV Gain

The €53 million gain recognized in 2021 was achieved by reclassifying all of Polygon as an "investment property under development"— before construction or sales had begun on a single building.

Below: The development timeline for Building C as shown on CPI PG's Kolbenova Park website

### Current state of the building C



Source: <https://klbnypark.cz/en/about>

## Polygon BC and MQM Czech – 2017~2021 Unjustified FV Gains

CPI PG's December 8<sup>th</sup> response indicates that since reacquisition in 2017, the two Czech landbanks held by MQM and Polygon BC were valued as "Investment Properties Under Development", not as "Land and Vacant Buildings."<sup>1</sup>

By reclassifying these landbanks, CPI PG booked massive fair value gains, boosting both its profits and assets.

These reclassifications appear to conflict with CPI PG's own written accounting policies.

We contend that the reclassifications were premature and highly aggressive, and that the gains are unjustified.

Below: CPI PG explanation in response

- 3) At the time of sale in 2014, the land plots were valued using the comparable transactions method as potential development was considered a long way off.
- 4) In the following years, planning permission on the land plots (particularly within Polygon BC) progressed significantly, and the valuation shifted to the future development value (FDV) method. The valuation increase was driven by general improvement of the real estate market in the Czech Republic and the prospect for obtaining building permits for about 1,000 apartments.
- 5) In 2017, Radovan Vitek acquired the properties and contributed the assets to CPIPG at the valuation price and **disclosed a related-party transaction.**
- 6) Polygon BC refers to CPIPG's residential land plot in Kolbenova. Construction began on the units in Q2 2022, and the most recent valuation by JLL was €113.5 million (2017: €37.2 million and 2014: €16.7 million), meaning that the transaction brought significant value to CPIPG stakeholders.
- 7) MQM Czech refers to Řitka, which finally received a building permit in 2022 and was valued by JLL at the end of 2022 at €38 million (2017: €13.7 million and 2014: €3.3 million).

<sup>1</sup> CPI PG response, December 8, 2023, p. 12

## Polygon BC and MQM Czech – 2017~2021 Unjustified FV Gains, Cont.

In 2021 and 2022, CPI FIM, a holding company for MQM and Polygon BC, describe both companies' assets as "Landbanks." CPI FIM also reports the two companies' fair value gains and asset values.<sup>1</sup>

However, per CPI PG's response, both companies benefited from a change to the "Investment Properties Under Development" methodology. The reclassification resulted in €68.1 million in fair value gains in the years 2017-2021.

In 2022, the year in which Polygon started construction and MQM purportedly received its permit, CPI PG booked another €31.9 million in fair value gains. While this year's classification seems more reasonable, it is eclipsed by prior years' massive and unjustified gains.

MQM & Polygon Valuation Gains					
Units: '000		MQM Czech (Ritka)	Polygon BC (Prague)		MQM & Polygon Combined
2017 Transaction price	€	13,700	€		37,200
2021 Asset value	€	24,424	€		94,549
<b>Gains</b>	€	<b>10,724</b>	€	<b>57,349</b>	€ <b>68,073</b>
2022 Asset Value	€	38,900	€		111,938
<b>Gains</b>	€	<b>14,476</b>	€	<b>17,389</b>	€ <b>31,865</b>
<b>Total 2017-2022 Gains</b>				€	<b>99,938</b>

<sup>1</sup> CPI FIM, 2022 Consolidated Financials, Pp. 24, 27-28

## Polygon BC and MQM Czech – CPI PG’s Valuation Policies

Below: CPI PG "Land and vacant buildings" valuation policy follows the comparable method

(iii) Land and vacant buildings

Land and vacant buildings have been valued using the direct comparison method to arrive at the value of the property in its existing state. A comparison was performed with other similarly located and zoned plots of land or buildings that are currently on the market.

The sales price of the properties that are judged to be most comparable tend to indicate a range in which the value indication for the subject property will fall. The valuer estimated the degree of similarity or difference between the subject property and the comparable sales by considering various elements of comparison.

Below: CPI PG "Investment property under development" valuation policy adopts the potential value

(v) Investment property under development

The valuer used the Residual Value Approach for the valuation of the investment property under development. In order to assess the market value of the sites, the valuer undertook a development appraisal to assess the potential value (Gross Development Value) of the fully completed and leased development as currently proposed, and deducted hard costs, soft costs, financing costs and a developer’s expected required profit (which reflects the required level of return to a developer and the risk of undertaking the project).

In assessing the Gross Development Value, the valuer adopted a market approach by estimating the market rental values for the accommodation being developed, and the appropriate capitalisation rate which a potential investor would require, to arrive at the Market Value of the completed and leased building.

Source: CPI PG 2022 Annual Management Report, Pg.126.

## Polygon BC and MQM Czech – Gains Booked Disregard CPI PG’s own Valuation Policies, contd.

We believe the €53.0 million gain booked for Polygon BC in 2021 likely represents most of the future profits to be recognized upon the completion and sale/leasing of **multiple, if not all, of the buildings in the complex**. Based on online sales price data for the Kolbenova development, we estimate the total revenue from Building C will be ~€80 million.<sup>1</sup> (Naturally, this number excludes construction, development, administrative, or legal costs.)

Because construction and sales at Polygon BC had not even started in 2021, we regard this gain as very aggressive at the very least. It seems to indicate further efforts by CPI PG to inflate the value of assets on its book.

Our investigators’ 2023 site visits found only Building C under construction. As our estimates indicate, the 2021 gains likely book most of the revenue for the development. The additional €17.4 million gains booked on Polygon in 2021 are even more questionable.

Based on CPI PG’s response that the prior years’ gains were justified on similar grounds – prospects for potential future development – we believe all €68.1 million in gains booked prior to any construction start (2017-2021) at both Polygon and MQM seriously abuse if not directly contradict its own accounting policies.

2022’s additional combined €31.9 gains at both Polygon and MQM also seem highly exaggerated. We think that no development gains should have been booked until 2022 at the earliest and even then, the gains should be limited to only what is fully permitted and under construction; otherwise, such large paper gains severely distort CPI PG’s true financial picture.

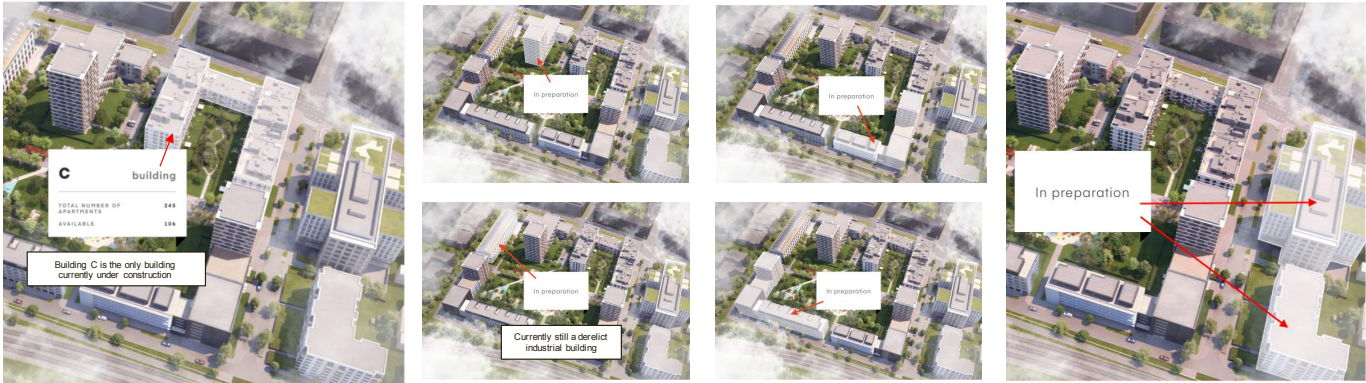
<sup>1</sup> Calculated from sale and pricing data available at <https://klnpark.cz/en/pricelist> and <https://www.propertymaps.cz/en/obchody/prague/afi-home-kolbenova-209> and advertised retail space leasing rates of €16/sqm at <https://www.propertymaps.cz/en/obchody/prague/afi-home-kolbenova-209>.

# Polygon's development: Kolbenova Park

Only one building, Building C, is currently under construction. This is the first of the buildings planned for the Kolbenova Park development.

In January 2023, Kolbenova Park's website the other five buildings remain "in preparation" and are to be built in stages.<sup>1,2</sup>

Below: Only Building C is under construction. The building in the on the far left is a derelict industrial building. The other four buildings "in preparation" are still empty land.



<sup>1</sup> <https://klbnvpark.cz/en/apartments?krok=1>

<sup>2</sup> <https://klbnvpark.cz/en/about>

## Polygon's development: Kolbenova Park Site Visits

Our investigators' site visits confirmed that only one building, Building C, is currently under construction. This is the first of the buildings planned for the Kolbenova Park development.

Below: Kolbenova Building C, Sept 2023



Below: Kolbenova Building C, Dec 2023



## Polygon's development: Kolbenova Park Site Visit

The other building on site is an old industrial building / warehouse that remained in a derelict state at the time of our investigators' visits in September and December 2023. We do not see signs of significant improvement to this structure or indications that it would be a significant contributor to justify the claimed €53 million gain.

Below: Kolbenova Site Visit – Derelict Industrial Building - Sept 2023

