Echo Polska Properties

CONDENSED CONSOLIDATED

FINANCIAL INFORMATION

for the nine month period ended 30 September 2017

Echo Polska Properties N.V. (Incorporated in The Netherlands) | (Company number 64965945)
JSE share code: EPP | ISIN: NL0011983374 | LEI code: 7245003P7O9N5BN8C098 | ("EPP" or "the company" or "the group")

Highlights

DISTRIBUTABLE EARNINGS **€59.2 MILLION**

DISTRIBUTION PER SHARE **8.41** EURO CENTS

MARKET CAP UP TO **€962 MILLION**

VACANCIES **1.99%**

RETAIL WALT BY NOI **4.7** YEARS

€55.4 MILLION ACQUISITION OF SOLNA IN NORTHERN POLAND

OPENING OF THIRD PHASE OF OUTLET PARK SZCZECIN **(3 300m²)**

POST PERIOD **€692 MILLION** ACQUISITION OF M1 PORTFOLIO OF 12 PROPERTIES

Consolidated statement of profit or loss

	Period from 1 January 2017 until 30 September 2017 EUR'000	Period from 4 January 2016 until 30 September 2016 EUR'000
Rental income and recoveries	**107 216**	65 203
Property operating expenses	**(32 805)**	(20 340)
Net property income	**74 411**	44 863
Other income	**1 889**	1 435
Other expenses	**(952)**	(2 663)
Selling costs	**(575)**	(343)
Administrative expenses	**(5 679)**	(6 338)
Net operating profit	**69 094**	36 954
Gain on investment properties	**12 281**	12 507
Profit from operations	**81 375**	49 461
Finance income	**2 444**	3 304
Finance costs	**(16 772)**	(14 083)
Cost of refinancing	**–**	(5 881)
Foreign exchange (losses)/gains	**(734)**	(11 811)
Participation in profits of joint ventures	**(1 117)**	–
Profit before taxation	**65 196**	20 990
Taxation		
Current income tax	**(2 497)**	(685)
Deferred tax	**(7 816)**	41 009
Profit for the period	**54 883**	61 314
Earnings per share:		
Basic and diluted earnings, on profit for the period (EUR cents)	**8.3**	21.0

Consolidated statement of other comprehensive income

	Period from 1 January 2017 until 30 September 2017 EUR'000	Period from 4 January 2016 until 30 September 2016 EUR'000
Profit for the period	**54 883**	61 314
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Foreign currency translation reserve	**(4 312)**	12 024
Other comprehensive income, net of tax, to be reclassified to profit or loss in subsequent periods	**(4 312)**	12 024
Other comprehensive income, net of tax, not to be reclassified to profit or loss in subsequent periods	**–**	–
Total comprehensive income for the period, net of tax	**50 571**	73 338
Total comprehensive income attributable to the parent for the period, net of tax	**50 571**	73 338

Consolidated statement of financial position

	As at 30 September 2017 EUR'000	As at 31 December 2016 EUR'000
ASSETS		
Non-current assets	**1 815 623**	1 423 834
Investment in joint ventures	**94 750**	54 285
Tangible assets	**51**	85
Investment property	**1 692 694**	1 359 432
Financial assets	**28 128**	10 032
Current assets	**81 784**	85 564
Inventory	**482**	74
Tax receivable	**4 350**	9
Trade and other receivables	**12 739**	32 658
Financial assets	**7 874**	9 057
Restricted cash	**20 865**	21 845
Cash and cash equivalents	**35 474**	21 921
Total assets	**1 897 407**	1 509 398
EQUITY AND LIABILITIES		
Equity	**766 579**	623 794
Share capital	**571 989**	474 702
Share premium	**146 554**	95 095
Accumulated profit	**52 782**	54 431
Foreign currency translation reserve	**(4 746)**	(434)
Non-current liabilities	**1 072 795**	818 458
Bank borrowings	**981 103**	741 776
Related-party liabilities	**1 733**	5 885
Other liabilities	**12 428**	11 881
Deferred tax liability	**77 531**	58 916
Current liabilities	**58 033**	67 146
Bank borrowings	**25 080**	52 845
Related-party financial liabilities	**2 958**	221
Tax payables	**8 062**	175
Trade payables	**21 847**	13 819
Provisions	**86**	86
Total equity and liabilities	**1 897 407**	1 509 398

Consolidated statement of changes in equity

	Share capital EUR'000	Share premium/ capital reserves EUR'000	Accumulated profit/(loss) EUR'000	Foreign currency translation reserve EUR'000	Total equity EUR'000
Balance as at 4 January 2016	20	–	–	–	20
Profit for the period	–	–	76 764	–	76 764
Other comprehensive income	–	–	–	(434)	(434)
Total comprehensive income	–	–	76 764	(434)	76 330
Issue of ordinary shares	474 682	110 157	–	–	584 839
Acquisition of subsidiary and transaction costs	–	(15 062)	–	–	(15 062)
Dividend paid	–	–	(22 333)	–	(22 333)
Balance as at 1 January 2017	474 702	95 095	54 431	(434)	623 794
Profit for the period	**–**	**–**	**54 883**	**–**	**54 883**
Other comprehensive income	**–**	**–**	**–**	**(4 312)**	**(4 312)**
Total comprehensive income	**–**	**–**	**54 883**	**(4 312)**	**50 571**
Issue of ordinary shares	**97 287**	**55 687**	**–**	**–**	**152 974**
Acquisition of subsidiary and transaction costs	**–**	**(4 228)**	**–**	**–**	**(4 228)**
Special dividend due	**–**	**–**	**(1 528)**	**–**	**(1 528)**
Dividend paid	**–**	**–**	**(55 004)**	**–**	**(55 004)**
Balance as at 30 September 2017	**571 989**	**146 554**	**52 782**	**(4 746)**	**766 579**

Condensed consolidated statement of cash flow

	Period from 1 January 2017 until 30 September 2017 EUR'000	Period from 4 January 2016 until 30 September 2016 EUR'000
Cash generated from operations	**96 700**	81 963
Tax paid	**(2 397)**	–
Dividends paid/due to shareholders	**(56 532)**	(22 333)
Net cash generated from operating activities	**37 771**	59 630
Net cash utilised in/generated from investing activities	**(364 884)**	(236 798)
Net cash generated from/(utilised in) financing activities	**346 094**	272 214
Net increase in cash and cash equivalents	**18 981**	95 046
Cash and cash equivalents at the beginning of the period	**21 921**	–
Effect of foreign exchange fluctuations	**(5 428)**	12 482
Cash and cash equivalents at the end of the period	**35 474**	107 528

Headline earnings reconciliation

	Period from 1 January 2017 until 30 September 2017 EUR'000	Period from 4 January 2016 until 30 September 2016 EUR'000
Profit for the period attributable to EPP shareholders	**54 883**	61 314
Change in fair value of investment properties	**(12 281)**	(12 507)
Headline and diluted earnings attributable to EPP shareholders	**42 602**	48 807
Actual number of shares in issue	**704 970 211**	414 901 280
Weighted number of shares in issue	**660 103 366**	291 750 144
Basic and diluted earnings per share (EUR cents)*	**8.3**	21.0
Headline earnings and diluted headline earnings per share (EUR cents)**	**6.5**	16.7

* *There are no dilutionary instruments in issue and therefore basic and diluted earnings are the same.*

** *There are no dilutionary instruments in issue and therefore headline earnings and diluted headline earnings are the same.*

Commentary

Introduction

During the past quarter EPP continued implementing its strategy of building the group into one of the leading retail landlords in Poland with the €55.4 million acquisition of Solna shopping centre in Northern Poland and continued enhancements in the existing portfolio with the opening of the third phase of Outlet Park Szczecin, adding €0.7 million in annual net operating income ("**NOI**"). €28.5 million was invested in capital improvements throughout the portfolio with the extension to Galaxy opening post period end in November.

EPP's asset management and leasing team has been bolstered during the period and the experienced team is well positioned to handle all portfolio and asset management functions, including the commercialisation and re-commercialisation of available space.

Post period end EPP announced its acquisition of the M1 portfolio comprising 12 retail properties located across Poland (see Acquisitions below). In line with EPP's strategy three offices were disposed of post period end (see Disposals below).

"Our Q3 results reflect our commitment to delivering sustainable growth in ROE and NAV while building the company into one of the leading retail landlords in Poland. Our strategic acquisitions as well as existing portfolio enhancements and extensions during the period as well as post the quarter end are a further step in achieving this aim," commented Hadley Dean CEO.

Profile

EPP is a real estate company that indirectly owns a portfolio of 14 prime retail and nine prime office assets located throughout Poland, a dynamic Central and Eastern European ("**CEE**") economy with a very attractive real estate market, and two retail developments in Warsaw. The properties are high quality, modern assets with solid property fundamentals. The majority of the buildings are less than five years old.

The property portfolio offers an attractive and secure yield ranging from 6% to 7% fully let, a long lease expiration profile and a portfolio weighted average unexpired lease term of 5.4 years in the retail sector and 3.8 years in the office sector by gross lettable area ("**GLA**").

The investment portfolio has a diversified tenant base of leading retailers with international brands in the case of retail properties, and primarily blue chip companies in the case of office properties.

Commentary *(continued)*

EPP was incorporated as a private company with limited liability *(besloten vennootschap met beperkte aansprakelijkheid)* under Dutch law on 4 January 2016 in accordance with the applicable laws of The Netherlands and converted to a public company on 12 August 2016. The company's official seat *(statutaire zetel)* is in Amsterdam, The Netherlands, and its registered address is at Rapenburgerstraat 175 M, 1011VM Amsterdam, The Netherlands. The company is registered with the Dutch trade register under number 64965945.

On 30 August 2016 EPP listed on Euro MTF market of the Luxembourg Stock Exchange ("**LuxSE**") and on 13 September 2016 listed on the Johannesburg Stock Exchange ("**JSE**") in the Real Estate Holdings and Development Sector. The company has primary listings on both the LuxSE and the Main Board of the JSE.

The condensed consolidated financial statements for the nine months ended 30 September 2017 comprise the financial statements of the company and its subsidiaries (the "**group**" or "**EPP Group**").

Financial results

The net profit for the nine month period ended 30 September 2017 amounted to €54.883 million and distributable income amounted to €59 276 million. Total net asset value amounted to €844 million equating to an NAV per share of €1.20. The loan-to-value ratio remained static at 52.7% with an average cost of debt of 2.09%.

Segment information

	Retail EUR'000	Office EUR'000	Total EUR'000
Nine month period ended 30 September 2017			
Segment profit			
Rent and recoveries income	75 031	32 185	107 216
Property operating expenses	(24 066)	(8 739)	(32 805)
Net property income	50 965	23 446	74 411
As at 30 September 2017			
Segment assets			
Investment in joint ventures	94 750	–	94 750
Investment property	1 270 782	421 912	1 692 694
Total segment assets	1 365 532	421 912	1 787 444
Bank borrowings	685 772	234 541	920 313
Total segment liabilities	685 772	234 541	920 313

Headline earnings to distributable income reconciliation

	Period from 1 January 2017 until 30 September 2017 EUR'000	Period from 4 January 2016 until 30 September 2016 EUR'000
Headline and diluted earnings attributable to EPP shareholders	**42 602**	48 807
Amortised cost valuation of financial liabilities	**2 310**	(2 682)
Change in deferred tax	**7 816**	(41 009)
Foreign exchange losses/(gains)	**734**	11 810
Cost of refinancing	**–**	5 881
Fair value losses/(gains) in joint ventures	**1 714**	–
Other non-distributable items	**1 778**	314
Non-distributable capital gains	**(1 356)**	–
Antecedent dividend	**3 678**	–
Distributable income	**59 276**	23 121
Actual number of shares in issue	**704 970 211**	414 901 280
Distributable income per share (EUR cents)	**8.41**	5.6

Portfolio performance

During the period we increased the portfolio from 10 to 15 retail properties. Retail GLA increased from 402 638m² to 426 845m² with footfall up 5.1% and sales increasing 9.6%. The office portfolio comprises 188 795m² of GLA.

Construction at Galeria Mlociny in Warsaw is progressing well, on schedule and on budget. The development is 57% pre-let with anchor tenants including MediaMarkt, Zara, Intermarche, Van Graaf, H&M, C&A, Go Sport, Rossman, Smyk. Towarowa in Warsaw is on schedule and is awaiting town planning approvals.

Vacancy profile

Vacancies across the portfolio reduced during the quarter from 2.26% to 1.99% for the total portfolio with vacancies in retail at 2.7% and in offices at 1.66%.

The vacancy profile indicated below reflects the vacancy percentage in terms of current GLA by sector.

	Vacancy based on total GLA* (%)
Office	2.7**
Retail	1.66
Total	**1.99****

* Based on existing leases at 30 September 2017.
** Including three years 100% rental guarantee from Echo Investment S.A.

Tenants

During the quarter retail tenants totalled 1 402 with 123 office tenants.

Geographic profile

The portfolio is located in high catchment, rapidly growing cities across Poland as outlined below:

City	Project	By GLA %	By fully let NOI %
Kielce	Galeria Echo, Astra Park	13.95	14.16
Szczecin	Galaxy, Outlet, Oxygen	12.99	13.12
Wrocław	Pasaż Grunwaldzki, West Gate	10.53	15.38
Kraków	Zakopianka, Opolska Business Park	7.52	8.14
Kalisz	Galeria Amber	5.46	4.88
Warszawa	Park Rozwoju	5.44	4.92
Bełchatów	Galeria Olimpia, CH Bełchatów	5.31	3.62
Jelenia Góra	Galeria Sudecka	4.95	3.66
Katowice	A4 Business Park etap I-III	4.87	4.74
Poznań	Malta Office Park	4.59	4.83
Włocławek	Wzorcownia Włocławek	4.13	4.07
Gdańsk	Tryton	3.88	3.76
Zamość	Twierdza Zamość	3.87	3.74
Inowrocław	Galeria Solna	3.84	3.66
Kłodzko	Twierdza Kłodzko	3.74	3.11
Łomża	CH Veneda	2.44	2.32
Łódź	Symetris	1.56	1.48
Przemyśl	CH Przemyśl	0.94	0.43
Total		**100.00**	**100.00**

Sectoral profile

	By GLA %	By fully let NOI %
Retail	69.33	70.66
Office	31.88	30.58
Total	**100.00**	**100.00**

WAULT

Sector	By GLA	By rental income
Retail	5.3	4.7
Office	3.7	3.8

Weighted average unexpired lease term in years.

Prospects

EPP has a high quality portfolio of Polish commercial properties with attractive and secure yields, tenanted by a diverse range of primarily blue chip global clients. The predominantly retail focused portfolio is located in one of the most dynamic and fastest growing economies in Europe. The company continues to expand its team of property and financial professionals to adequately support the growth of its portfolio. The Polish economy continues to perform well and property fundamentals currently remain favourable.

EPP continues to be well positioned to operate and benefit from favourable market conditions. The board is confident that the company will meet its 2017 full year dividend guidance of €10.8 cents per share.

EPP's dividend for the 12 month period to 31 December 2018 is forecast to increase by between 7.5% and 8.5%. This dividend growth is based on the following assumptions:

- That a stable global and Polish macro-economic environment will prevail;
- No major tenant failures;
- That the acquisition of the Metro tranche 1 acquisition is implemented in accordance with its terms and the planned sale of certain office assets is implemented in accordance with EPP's policy framework;
- That no new acquisitions or disposals (beyond those already publicly announced) are implemented during the reporting period.

This guidance and the forecast underlying such statement are reported on by the board and have not been reviewed by EPP's auditors.

Basis of preparation

The condensed consolidated financial information for the period ended 30 September 2017 has been prepared in compliance with International Financial Reporting Standards ("**IFRS**"), the presentation and disclosure requirements of IAS 34: *Interim Financial Reporting*, the Dutch Civil Code, the JSE Listings Requirements and the Rules and Regulations of the LuxSE.

Jacek Bagiński, EPP's Chief Financial Officer, was responsible for supervising the preparation of these condensed consolidated financial statements for the period ended 30 September 2017, which have not been reviewed or reported on by EPP's independent external auditors.

Subsequent events

Acquisitions

M1 portfolio

On 10 October 2017, EPP concluded a preliminary agreement relating to the acquisition of a portfolio comprising eight M1 superregional shopping centres (with GLAs ranging from 30 000m² to 55 000m²) and four PP power retail parks (with GLAs ranging from 20 000m² to 35 000m²) with over 620 stores situated in strong regional cities across Poland. The M1 portfolio has an aggregate gross lettable area of 446 500m².

The transaction will occur in three separate tranches of:

- firstly, the First Tranche Portfolio comprising four properties with an aggregate GLA of 194 400m², an aggregate value of €358.7 million and an aggregate purchase consideration of €135.0 million (the "**First Tranche Acquisition**");
- secondly, the Second Tranche Portfolio comprising a further six properties with an aggregate GLA of 184 000m², an aggregate value of €222.5 million and an aggregate purchase consideration of €75.2 million (the "**Second Tranche Acquisition**"); and
- thirdly, the Third Tranche Portfolio comprising a further two properties with an aggregate GLA of 68 100m², an aggregate value of €110.9 million and an aggregate purchase consideration of €44.1 million (the "**Third Tranche Acquisition**").

The expected completion date of the:

- First Tranche Acquisition is late December 2017 or January 2018;
- Second Tranche Acquisition by either 27 June 2019 or 10 July 2019; and
- Third Tranche Acquisition by either 29 June 2020 or 9 July 2020.

The delay in completing the Second and Third Tranche Acquisitions is to enable the seller to implement various contracted asset management initiatives (including certain lease renewals or renegotiations) to align those acquisitions with EPP's investment requirements and strategy. Further details regarding the acquisition of the M1 portfolio can be found in the announcements published on 11 October 2017 and 4 December 2017.

In management meetings with investors in South Africa last week a few queries regarding the transaction were raised. These have been addressed in a document available on the EPP website www.echo-pp.com.

Disposals

On 3 October 2017, EPP and Echo Polska Properties (Cyprus) PLC (EPP's wholly owned subsidiary) concluded a preliminary agreement with Griffin Premium RE N.V. (the "**Purchaser**") for the disposal of a portfolio of office properties, being Tryton Business House in Gdansk, A4 Business Park in Katowice and West Gate in Wroclaw (the "**Office Portfolio**"). The agreed estimated transaction price for the shares in the companies controlling the Office Portfolio shall amount to €160 million (the "**Price**"), (jointly the "**Transaction**"). The company intends utilising the sale proceeds from the disposal to finance further retail acquisitions.

Subject to the satisfaction of certain conditions by 31 January 2018 (with a mechanism for prolonging the long stop date in case the condition listed under item 3 below is not satisfied on time), EPP and the Purchaser shall be obliged to enter into a final share purchase agreement in respect of the shares, and consequently the Purchaser shall pay the Price and the Seller shall transfer the shares.

The conditions include:

1. the acquisition of at least 50% plus one share in the share capital of the Purchaser by Globalworth Asset Managers SRL and/or Globalworth Real Estate Investments Ltd. ("**GREIL**") in the tender offer announced by GREIL pursuant to an investment agreement relating to the shares in the Purchaser executed on or about the date of the agreement for the disposal of the Office Portfolio;
2. the receipt by the Seller of the originals, and by the Purchaser of copies, from the relevant financing banks of a payoff letter(s) specifying the amount to be paid to the financing banks upon the completion of the Transaction to discharge the in-place financing; and
3. the approval of the acquisition of shares by the general meeting of shareholders of the Purchaser.

Commentary *(continued)*

Further details on the disposal of the Office Portfolio can be found in the announcement published on 4 October 2017.

By order of the board

Echo Polska Properties N.V.

14 December 2017

For more information

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Notes

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