EPP

SHAPING THE FACE OF RETAIL IN POLAND

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2020

EPP 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")

SALIENT FINANCIAL FEATURES

Total investment properties and joint ventures decreased by **3.9%** to €2.40 billion (December 2019: €2.49 billion)

Net loan to value increased marginally to **51.7%** (December 2019: 50%)

Cost of debt remained stable at **2.5%** (December 2019: 2.5%)

Interest costs were hedged at **84%** (December 2019: 84%)

Weighted average debt maturity increased to **3.8 years** (December 2019: 3.3 years)

Net asset value per share declined to **€1.21** (December 2019: €1.32)

Net property income declined to €52.7 million as a result of COVID-19 restrictions and rental concessions.

Administrative costs declined by **5.5%** to €6.9 million (June 2019: €7.3 million)

Distributable earnings per share declined to €2.38 cents **which is in line with guidance provided in June 2020**

OPERATIONAL HIGHLIGHTS

Footfall was at **69%** of 2019 footfall levels as of 30 June 2020 and has improved to **85%** of 2019 footfall levels as of September 2020

Tenant sales were at **82%** of 2019 levels as of 30 June 2020 and have improved to **93%** of 2019 turnover levels as at end of July 2020

As of 30 June 2020, **93%** of EPP's retail GLA was operational and has increased to nearly **100%** since July 2020

Primark opened its **first store** in Poland at Galeria Młociny in August 2020

Retail WALT in portfolio has increased to **4.7 years** from 4.2 years in May 2020.

Occupancy in the portfolio remained stable at **97.3%**

Average rental collections for rentals invoiced months from March 2020 to June 2020 stood at **79%,** since July rental collections are in excess of **90%** on discounted rentals

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Unaudited period from 1 January 2020 until 30 June 2020 €'000	Unaudited period from 1 January 2019 until 30 June 2019 €'000
Rental income and recoveries	**63 673**	76 352
Service charge income	**13 138**	24 842
Property operating expenses	**(24 164)**	(29 356)
Net property income	**52 647**	71 838
Other income	**378**	21
Other expenses	**(3 354)**	(345)
Administrative expenses	**(6 865)**	(7 266)
Net operating profit	**42 806**	64 248
Net result from fair value adjustment on investment properties	**(95 321)**	8 759
Profit/(loss) from operations	**(52 515)**	73 007
Finance income	**623**	953
Finance costs	**(21 409)**	(22 267)
Foreign exchange gains/(losses)	**56 034**	(9 274)
Participation in profits of joint ventures	**(8 137)**	3 142
Profit/(loss) before taxation	**(25 404)**	45 561
Current income tax	**(2 408)**	(5 263)
Deferred tax	**3 501**	(5 870)
Profit/(loss) for the period	**(24 311)**	34 428
Attributable to EPP shareholders	**(24 311)**	34 428
Earnings per share:		
Basic and diluted earnings, on profit/(loss) for the period (€ cents)	**(2.7)**	4.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited period from 1 January 2020 until 30 June 2020 €'000	Unaudited period from 1 January 2019 until 30 June 2019 €'000
Profit/(loss) for the period	**(24 311)**	34 428
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Foreign currency translation reserve	**(58 201)**	8 954
Total comprehensive income for the period, net of tax	**(82 512)**	43 382
Total comprehensive income attributable to the owners of EPP for the period, net of tax	**(82 512)**	43 382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30 June 2020 €'000	Audited as at 31 December 2019 €'000
ASSETS		
Non-current assets	**2 402 702**	2 501 054
Investment property	**2 230 236**	2 321 384
Investment in joint ventures	**164 904**	171 117
Other non-current assets	**16**	845
Tenants deposits and other monetary assets	**6 558**	7 021
Deferred tax asset	**988**	687
Current assets	**213 165**	105 661
Inventory	**21**	110
Tax receivable	**1 351**	1 193
Trade and other receivables	**20 103**	17 129
Loans receivable	**1 739**	6 723
Tenants deposits and other monetary assets	**13 272**	13 187
Cash and cash equivalents	**176 679**	67 319
Total assets	**2 615 867**	2 606 715
EQUITY AND LIABILITIES		
Equity	**1 003 575**	1 087 372
Share capital	**735 437**	735 437
Share premium	**228 227**	228 227
Treasury shares	**(677)**	–
Accumulated profit	**89 028**	113 339
Share-based payment reserve	**5 972**	6 580
Foreign currency translation reserve	**(54 412)**	3 789
Non-current liabilities	**1 536 158**	1 443 837
Bank borrowings	**1 397 150**	1 291 838
Trade payables and other liabilities	**11 993**	13 234
Deferred tax liability	**100 469**	109 443
Lease liabilities	**26 546**	29 322
Current liabilities	**76 134**	75 506
Bank borrowings	**19 208**	34 127
Tax payables	**1 418**	359
Trade payables and other liabilities	**52 929**	38 181
Lease liabilities	**2 579**	2 839
Total liabilities	**1 612 292**	1 519 343
Total equity and liabilities	**2 615 867**	2 606 715

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital €'000	Share premium €'000	Treasury shares €'000	Accumu-lated profit/ (loss) €'000	Foreign currency trans-lation reserve €'000	Share-based payment reserve €'000	Total equity attribu-table to the owners of EPP €'000
Balance as at 31 December 2018 (audited)	672 292	203 318	–	147 250	(6 093)	5 921	1 022 688
Profit/(loss) for the period	–	–	–	66 165	–	–	66 165
Other comprehensive income	–	–	–	–	8 898	–	8 898
Other comprehensive income from joint ventures	–	–	–	–	984	–	984
Total comprehensive income	–	–	–	66 165	9 882	–	76 047
Issue of ordinary shares	63 145	26 343	–	–	–	–	89 488
Transaction cost related to issuance of shares	–	(1 434)	–	–	–	–	(1 434)
Acquisition of own shares	–	–	(2 142)	–	–	–	(2 142)
Transfer of own shares	–	–	2 142	–	–	(2 142)	–
Share-based payments expenses	–	–	–	–	–	2 801	2 801
Dividend provided for or paid	–	–	–	(100 076)	–	–	(100 076)
Balance as at 31 December 2019 (audited)	735 437	228 227	–	113 339	3 789	6 580	1 087 372
Profit/(loss) for the period	–	–	–	(24 311)	–	–	(24 311)
Other comprehensive income	–	–	–	–	(52 425)	–	(52 425)
Other comprehensive income from joint ventures	–	–	–	–	(5 776)	–	(5 776)
Total comprehensive income	–	–	–	(24 311)	(58 201)	–	(82 512)
Issue of ordinary shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transaction cost related to issuance of shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of own shares	**–**	**–**	**(677)**	**–**	**–**	**–**	**(677)**
Transfer of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments expenses	**–**	**–**	**–**	**–**	**–**	**(608)**	**(608)**
Dividend provided for or paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance as at 30 June 2020 (unaudited)	**735 437**	**228 227**	**(677)**	**89 028**	**(54 412)**	**5 972**	**1 003 575**

CONSOLIDATED STATEMENT OF CASH FLOW

	Unaudited period from 1 January 2020 until 30 June 2020 €'000	Unaudited period from 1 January 2019 until 30 June 2019 €'000
Cash generated from operations	**53 722**	46 391
Tax paid	**(2 940)**	(5 445)
Net cash generated from operating activities	**50 782**	40 946
Investing activities		
Purchase of investment property	**–**	(232 379)
Capital expenditure on completed investment property	**(5 475)**	(11 068)
Proceeds from disposal of investment property	**–**	60 179
Loans granted	**(9 746)**	–
Loans repaid	**1 400**	3 017
Investments in joint ventures	**(213)**	–
Interest received	**353**	–
Profit share	**3 500**	–
Net cash utilised in investing activities	**(10 181)**	(180 251)
Financing activities		
Proceeds from borrowings	**95 000**	180 832
Repayment of borrowings	**(7 075)**	(48 843)
Borrowing arrangement fees	**(349)**	–
Proceeds from issue of share capital	**–**	89 488
Transaction costs on issue of shares	**–**	(1 435)
Acquisition of own shares	**(677)**	(2 142)
Dividends paid	**–**	(47 415)
Interest paid	**(16 382)**	–
Change in other monetary assets related to financing activity	**(1 142)**	–
Lease payments	**(616)**	–
Net cash generated from financing activities	**68 759**	170 485
Net increase in cash and cash equivalents	**109 360**	31 180
Cash and cash equivalents at the beginning of the period	**67 319**	60 340
Effect of foreign exchange fluctuations	**–**	–
Cash and cash equivalents at the end of the period	**176 679**	91 520

HEADLINE EARNINGS RECONCILIATION

	Unaudited period from 1 January 2020 until 30 June 2020 €'000	Unaudited period from 1 January 2019 until 30 June 2019 €'000
Profit/(loss) for the period attributable to EPP shareholders	**(24 311)**	34 428
Change in fair value of investment properties including joint ventures (net of tax)	**86 988**	(9 043)
Headline and diluted earnings attributable to EPP shareholders	**62 677**	25 385
Actual number of shares in issue	**907 946 793**	907 946 793
Weighted number of shares in issue	**907 946 793**	829 989 804
Basic and diluted earnings per share (€ cents)*	**(2.7)**	4.0
Headline earnings and diluted headline earnings per share (€ cents)**	**6.9**	3.0

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

** *Calculated based on actual number of shares in issue as at 30 June 2020 and 30 June 2019, respectively.*

COMMENTARY

1. INTRODUCTION

EPP is a Dutch-based real estate company that follows the REIT formula and is one of the leading owners of retail space in Poland. As at 30 June 2020 the company manages a portfolio of 26 retail centres and 6 high-quality offices located in the majority of regional cities in Poland. In addition to these income-generating properties, EPP owns the Towarowa 22 development in Warsaw. The 26 retail centres under management include the flagship Warsaw development Galeria Młociny, which successfully opened in May 2019. By the end of 2020, EPP expects to own or co-own 29 shopping centres post the conclusion of the final tranche of the M1 transaction (see "Tranche 3" below for further detail).

At period end EPP owned and operated approximately 900 000 m² of retail gross lettable area ("**GLA**") and 147 000 m² of office GLA, including joint ventures. The investment portfolio has a diversified tenant base of leading retailers with international brands in the retail properties, and primarily blue-chip companies in the office properties.

The company's operations are fully internalised and all asset management and property management is done in-house.

EPP's shares are listed on the official list and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange ("**LuxSE**") and on the Main Board of the JSE Limited ("**JSE**") in the Real Estate Holdings and Development Sector. The company has primary listings on both the LuxSE and the JSE.

The company's strategy is to own large dominant shopping centres in mid and big size cities, located in strong catchment areas within the respective cities across Poland. The company's strategy is also to capitalise on the scale of its operations and on the best-in-class asset and property management services that have been built within EPP.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 ("**the period**") have been prepared by the management of the company in accordance with International Financial Reporting Standards, IAS 34: *Interim Financial Reporting*, the Dutch Civil Code, the JSE Listings Requirements and the Rules and Regulations of the LuxSE.

The accounting policies applied in the preparation of the unaudited condensed consolidated financial information for the period is consistent with those applied in the previous IFRS financial statements as of and for the year ended 31 December 2019 except for the adoption of new standards effective as of 1 January 2020.

The group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the group.

These financial results have not been reviewed or reported on by the company's auditors.

3. SIGNIFICANT ACCOUNTING POLICIES – CHANGES IN ACCOUNTING POLICIES

3.1 New standards, interpretations adopted by EU as at 1 January 2020

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments had no impact on the consolidated financial statements of the group, but may impact future periods should the group enter into any business combinations.

3.2 Standards and interpretations applicable, not yet effective

Amendment to IFRS 16: *Leases COVID-19-Related Rent Concessions*

In May 2020 the IASB issued COVID-19-Related Rent Concessions – Amendment to IFRS 16: *Leases* ("**the Amendment**"). The Amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including financial statements not yet authorised for issue at 28 May 2020.

The Amendment provides an optional relief to lessees from applying IFRS 16's guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expediency, a lessee may elect not to assess whether a rent concession meets the conditions of a lease modification.

Lessor accounting for rent concessions remains unchanged and is based on the current guidance in IFRS 16. As the group predominantly acts as the lessor, the Amendment does not have a material impact on the group. The Amendment has not yet been endorsed by the EU.

Other new standards, interpretations and amendments effective, and endorsed by the EU, as of 1 January 2020, did not have a material impact on the group's condensed consolidated interim financial statements. The group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4. FINANCIAL RESULTS

COVID-19 pandemic

In response to the continued spread of the coronavirus and it being classified as a global pandemic by the World Health Organisation, in addition to numerous other measures put in place, the Polish government signed a decree on 13 March 2020 in terms of which all Polish shopping centres and retail locations measuring over 2 000 m^2 of retail space were closed from 14 March 2020 for over 1.5 months.

Starting from 4 May 2020 trading restrictions on all Polish shopping centres and retail locations measuring over 2 000 m^2 of retail space were lifted. Restaurants were fully reopened on 18 May and entertainment facilities on 6 June 2020. The principles regarding social distancing remained in place which include wearing a face mask and maintaining social distancing in public spaces. The group ensured that all shopping centres in the portfolio adhere to the strict social distancing and hygiene requirements for shoppers, tenants and employees as outlined by the government.

Rent collection and discounts

The Polish government provided clear guidance on the rental obligations of tenants during the lockdown period. According to the guidelines, landlords were not allowed to charge rental and maintenance costs from 14 March 2020 to 4 May 2020, in return for an extension of the lease terms for a period of six months plus the lockdown period. This impacted approximately 79% of EPP's retail portfolio for a period of seven weeks.

Upon the reopening of shopping centres on 4 May 2020, the majority of tenants re-opened their shops and started trading. A limited number of tenants decided not to reopen their shops with the intention of trying to negotiate further rent reductions. In addition, a few tenants reopened their units while anticipating some form of support from EPP post the lockdown period.

EPP has approached tenant negotiations on a case-by-case basis and has considered multiple factors, such as the analysis of the tenants' financial situation, potential government support received, historical sales performance and the type of industry in which the tenant operates (fashion outlets, restaurants and cinema and leisure facilities were impacted more than others). In line with EPP's strategy, discounts or deferrals were offered to tenants with the aim of extending lease periods and increasing long-term rentals. The company has not and will not entertain turnover-only based rentals.

The collection rates for the months of March, April, May and June have been at the level of 79% for these four months collectively. The collection rates decreased for those four months, partially as a result of cash flow problems for some tenants, as well as due to protracted negotiations on rental discounts with other tenants. Therefore, as at 30 June 2020, the accounts receivable balance was significantly higher when compared to the previous reporting periods. EPP has taken a careful and prudent approach when calculating expected credit loss ("**ECL**") on the balance under IFRS 9 with consideration of current condition and forecast of future economic conditions.

As a result the increased balance of ECL included not only provisions calculated based on historical default matrix, but also balances which will not be paid due to subsequent negotiations on rent reductions, as well as a result of individual analysis of all balances from tenants who historically had payment issues, especially those who were severely affected by COVID-19.

Subsequently, the collection rates have increased to over 90% based on discounted rental levels agreed with the tenants as of July (ordinarily collection rates are in excess of 99%). With most of the negotiations now concluded or nearing conclusion, the July and August collection rates have already been close to pre-COVID-19 levels and it is expected that the collection rates will return to pre-COVID-19 levels within the next weeks.

Valuation of investment property

The valuations of investment property as at 30 June 2020 were performed by Savills Sp. z o.o, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

Those appraisals have been performed in the context of uncertainties associated with the current COVID-19 pandemic due to the lack of transactions and increased volatility in the market. As a result the presentation of the valuations is subject to material valuation uncertainty, meaning that less certainty can be attached to the valuations than will usually be the case.

Liquidity

Given the uncertainty of future trading conditions and the difficulty in determining the impact of COVID-19 on EPP as a whole, the board decided to prioritise EPP's sustainability, by adopting prudent precautionary measures to preserve capital and maintain liquidity. As a consequence, the board has resolved in terms of Dutch corporate law, to revoke the declaration of a dividend. Accordingly, no distribution was paid to shareholders for the six-month period ended 31 December 2019. The €53 million that was retained by EPP because of the revocation of the dividend ensured that EPP remains well capitalised to meet its liquidity needs during this period of uncertainty.

5. INVESTMENT PROPERTIES

	Retail	Office	Total
Balance as at 31 December 2019	2 156 976	133 700	2 290 676
Acquisitions	–	–	–
Capital expenditure on owned properties	3 061	1 309	4 370
Disposals	(79)	(4)	(83)
Capitalised letting fees	336	252	588
Amortisation of letting fees	(67)	(50)	(117)
Net gain/(loss) from fair value adjustment	(88 768)	(6 206)	(94 974)
Balance as at 30 June 2020 per external valuer	2 071 459	129 001	2 200 460
Right of use – perpetual usufruct of land (IFRS 16)	24 656	5 120	29 776
Balance as at 30 June 2020	2 096 115	134 121	2 230 236

Reconciliation to the remeasurement of IP

	Retail €'000	Office €'000	Total €'000
Straight-line rental income	(52)	(176)	(228)
Fair value adjustment – right of use, perpetual usufruct of land (IFRS 16)	(117)	(2)	(119)
Net gain/(loss) from fair value adjustment	(88 768)	(6 206)	(94 974)
Profit/(loss) from investment properties	(88 937)	(6 384)	(95 321)

EPP group is a real estate group that owns a portfolio of 25 retail and 3 office assets located throughout Poland, a dynamic CEE economy with a very attractive real estate market. The properties are high quality, modern assets with solid property fundamentals.

The property portfolio offers an attractive and secure yield ranging from 5.7% to 10.1% fully let, a long lease expiration profile and a portfolio weighted average unexpired lease term of over six years for the retail portfolio and four years for the office portfolio.

Valuation techniques
The fair value of completed investment properties is determined using a discounted cash flow method. Investment properties are measured at fair value and are categorised as level 3 of the fair value hierarchy.

Key inputs and assumptions for investment properties valued using the direct income capitalisation and discounted cash flow methods, in the process of leasing and for stabilised assets are as follows:

	Valuation €'000	Valuation technique	Net initial yield %	Discount rate %	Exit cap rate %
2020					
Retail	2 071 459	Discounted cash flow	5.70 – 10.10	6.70 – 9.85	5.60 – 10.10
Office	129 001	Discounted cash flow	8.50 – 9.17	7.85 – 9.10	7.20 – 7.95
Total	2 200 460		–	–	–

6. SEGMENT INFORMATION

	Retail €'000	Office €'000	Unallocated €'000	Total €'000
Unaudited				
Six months ended 30 June 2020				
Segment profit				
Rent and recoveries income	70 277	6 520	14	76 811
Property operating expenses	(22 207)	(1 928)	(29)	(24 164)
Net property income	48 070	4 592	(15)	52 647
Unaudited				
As at 30 June 2020				
Investment in joint ventures	140 085	24 819	–	164 904
Investment property	2 096 116	134 120	–	2 230 236
Total segment assets	2 236 201	158 939	–	2 395 140
Bank borrowings	1 109 922	60 821	245 615	1 416 358
Total segment liabilities	1 109 922	60 821	245 615	1 416 358

7. HEADLINE EARNINGS AND DISTRIBUTABLE EARNINGS RECONCILIATION

	Unaudited period from 1 January 2020 until 30 June 2020 €'000	Unaudited period from 1 January 2019 until 30 June 2019 €'000
Headline and diluted earnings attributable to EPP shareholders	**62 677**	25 385
Change in deferred tax (other than the deferred tax change related to fair value of investment properties)	**14 609**	4 206
Fair value losses/(gains) in joint ventures (other than the change in fair value of investment properties in JV)	**(1 710)**	1 005
Amortised cost valuation of long-term financial liabilities and other	**2 282**	2 984
Provision for LTI	**(608)**	1 186
Unrealised foreign exchange losses/(gains)	**(56 034)**	9 274
Amortisation of selling fees	**665**	–
Rental lease straight-lining, IFRS 9 remeasurements, other items	**(228)**	–
Antecedent dividend*	**–**	2 848
Other non-distributable items	**–**	5 773
Distributable earnings	**21 653**	52 661
Actual number of shares in issue	**907 946 793**	907 946 793
Shares in issue for distributable earnings	**907 946 793**	907 946 793
Distributable earnings per share (€ cents)**	**2.38**	5.80

* *Antecedent dividend for 2019 relates to the equity issue on 24 April 2019.*

** *Calculated based on actual number of shares in issue as at 30 June 2020 and 30 June 2019, respectively.*

GROUP MANAGEMENT REPORT

COVID-19 AND ECONOMIC UPDATE

Since the beginning of the pandemic, nearly all countries around the world experienced some form of lockdown and Poland was no different. The overall impact of the lockdown measures taken by the Polish government had a significant impact on the retail, leisure and restaurant sectors. On 13 March 2020, a decree was signed which implemented trading restrictions on all Polish shopping centres and retail locations measuring over 2 000 m^2 of retail.

During this period only grocers, pharmacies, drug stores and DIY stores were allowed to trade and these accounted for approximately 21% of EPP's GLA. The restrictions resulted in a significant slowdown in the spread of the virus. As a consequence, currently Poland has one of the lowest infection rates in Europe relative to the size of population, with 77 000 active COVID-19 cases as of 18 September 2020 and a current rate of between of 19 and 20 cases for a 14-day cumulative number of COVID-19 cases per 100 000 citizens. This is one of the lowest rates in Europe, significantly lower than other bigger European countries (Spain – 292, France – 172, Czech Republic – 166, or Romania – 90 cases per 100 000 citizens) in the 14-day period ended on 18 September 2020. Poland is similar to Germany, which had a rate of 24 cases as per the last reported data. The Polish government continues to assure that they will be ready for a potential second wave, if it does arise, and have procedures in place to avoid any severe lockdown in the future.

Due to Poland's efficient reaction to the pandemic, it was able to start reopening the economy earlier than many other countries. The reopening of the economy was done carefully and in considered phases commencing with retail operators on 4 May 2020 and all other services including food operators and cinemas being allowed to reopen by 6 June 2020. Presently, all retail, leisure and food, fitness and entertainment operators are allowed to operate in Poland meaning that nearly 100% of EPP's GLA is currently operational. The COVID-19-related restrictions now relate mostly to sanitary measures, which include wearing masks in shopping centres, washing hands, maintaining a social distance where possible, and regular disinfection and sanitising of equipment.

Moreover, as a response to the pandemic the Polish government and banking authorities stepped in to provide businesses with financial support in the form of "anti-crisis shields", with the support programmes totalling €70 billion (approximately 15% of Poland's GDP). The main objectives of these programmes are the protection of jobs, provision of liquidity to businesses, promoting economic activity, and supporting the health sector. In addition, the National Bank of Poland lowered interest rates from 1.5% to 0.1% since the commencement of the pandemic, which has brought interest cash flow relief to consumers as well as businesses borrowing in Polish zlotys. The recent pandemic also saw a unification of the EU block with EU leaders agreeing to a €750 billion recovery package to support countries in their recovery comprising €390 billion in grants and €360 billion low interest loans. This support is expected to provide additional support to aid the speed of recovery across Europe and Poland. Further, EU leaders preliminary signed off the regular seven-year EUR budget for the period 2021 to 2027 with the total package amounting to €1.1 trillion. Poland is expected to be a large beneficiary of both programs.

EPP believes that the Polish government's quick and efficient response to the pandemic has allowed Poland to minimise the impact of the pandemic, and resulted in Poland becoming one of the first countries in Europe to reopen its economy and even accelerate certain stages of the reopening, with shopping centres allowed to operate earlier than initially expected. It is also expected that the further stimulation packages announced by the EU will further accelerate the recovery in Poland.

FUNDING, LIQUIDITY AND OPERATIONAL COSTS

The company's current liquidity remains stable with cash on hand of €177 million. This has been boosted by the retention of the second half dividend of 2019, operational cash flow and the drawdown of its corporate credit facility. During the period the company saw a valuation decline in its property portfolio on a like-for-like basis of 3.9%, mainly attributable to market impacts and marginally related to the cash flow impact (largely as a result of temporary rental discounts extended to tenants). The devaluation has led to an increase in the loan to value ("**LTV**") from 50% in the prior year to 51.7%. This LTV remains well below the average LTV covenant level of 68%. The company furthermore focused on enhancing its operational liquidity by reducing pay roll costs by 20% since the beginning of May 2020, reduction in operational costs at a property level and deferring non-essential capital expenditures. The company continues to explore ways of further enhancing operational liquidity.

FOOTFALL AND TENANT TURNOVERS

Footfall levels were up 2.1% for the first two months to end of February and sales were robust at a level of +4.3% over the same period with collection rates of approximately 98%. On the reopening of shopping centres on 4 May, the majority of tenants were able to trade and at the end of June 93% of EPP's GLA in malls were operational. The retail portfolio became nearly fully operational during July when fitness and entertainment facilities commenced trading. Footfall levels reached 69% compared to the previous year's levels as of June 2020 and this positive growth trend continued in September when footfall levels reached around 85% of 2019 levels. Tenant turnovers also reported a positive trend since the reopening of shopping centres. As at the end of June, tenant sales reported stood at 82% of previous year's levels and this has further improved to 93% of 2019 levels as of the end of July 2020.

NEW STORE OPENINGS IN THE PORTFOLIO

Despite the disruption caused by COVID-19 a number of retailers continued to open new stores which is testament to retailers' belief in the future performance of shopping centres with the likes of CCC, PEPCO, Carrefour, KIWI, Hebe, W.KRUK, Super-Pharm, 50 style, eobuwie.pl, Modivo and the first Primark in Poland at Galeria Młociny all opening since the beginning of the year.

METRO TRANCHE 3

In December 2017, EPP announced that it would acquire 12 shopping centres consisting of eight M1 branded shopping centres and four Power Parks. The shopping centres were to be acquired in three tranches, with the first two tranches being successfully completed in January 2018 and June 2019, respectively. The eight M1 branded shopping centres that are currently owned by EPP are dominant in their catchment areas and are anchored by grocery (Auchan), electronics (MediaMarkt) and DIY (OBI) stores. The nature of the business of the anchor tenants in these shopping centres, their large floor space and ample parking allowed the majority of the tenants of these shopping centres to continue to trade during the lockdown, which was very positive in the current environment.

EPP was scheduled to acquire the third tranche of the Metro portfolio (comprising four Power Parks situated in Olsztyn, Tychy, Kielce and Opole, with a total GLA of 110 000 m^2) in June 2020. However, given the impact of the COVID-19 pandemic, EPP and the Chariot Group have agreed to extend the date of closing of the purchase of the third tranche until later in 2020. The acquisition of the third tranche of the Metro portfolio will be funded from available cash reserves and new debt funding (assumed at an LTV of less than 50%).

VACANCY PROFILE

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

	Unaudited 30 June 2020
Vacancy based on total GLA (%)	
Retail*	2.20
Office**	0.44
Total	2.64

* *Including M1.*
** *Including office projects held in JV with Henderson Park (Malta Office Park, Symetris, Opolska Business Park).*

TENANTS

During the period retail units totalled 2 440 and EPP had 98 office tenants.

WALT

	By GLA	By rental income
Sector		
Retail*	4.67	4.13
Office**	3.69	3.71

* *Including M1.*
** *Including Henderson Project (Malta Office Park, Symetris, Opolska Business Park).*

CHANGES TO THE BOARD

During the period Mr Tomasz Trzósło was appointed as an executive director of the board and as Chief Executive Officer effective from 25 June 2020. Mr Marc Wainer passed away on 20 April 2020. Marc was a director on EPP's board since listing in September 2016 and was instrumental in the establishment of EPP. As a stalwart in the South African property sector and with a wealth of property experience, he made a critical contribution to the board over the past four years. Mr Andrew König was appointed to the board as non-executive director from 25 June 2020. Mr Hadley Dean and Ms Andrea Steer retired from the board at the conclusion of EPP's annual general meeting held on 25 June 2020.

PROSPECTS AND OUTLOOK

The board remains confident that EPP will deliver on its full year earnings guidance of between €4 and €5 cents per share for the year ended 31 December 2020, as announced on SENS on 29 June 2020. Given the recovery in its operations and the progress it has made in the last couple of months with renegotiated leases, the board feels that it is in a position to revise its full year earnings guidance to between €4.75 and €5.25 cents per share for the year ended 31 December 2020.

This is based on the following assumptions:

- the Polish economy continues its projected recovery in the second half of the year;
- no significant tenant failures occur;
- successful conclusion of remaining tenant discussions; and
- no second wave of COVID-19 occurs that will have a detrimental impact on shopping centres such as closures in the second half of the year.

To date 2020 has been a very challenging year for the global economy and also the overall real estate markets globally. Also EPP's business in Poland has been impacted very materially, especially given that tenants were released from paying rent to retail landlords for the period of the lockdown, and significant rental discounts had to be provided to tenants thereafter in order to provide them with the necessary support to survive. However EPP believes all the steps taken by the Polish Government, and especially the decision to open shopping centres earlier than in most European countries, have put the Polish economy on a path of smooth recovery from the COVID-19-related shock. This has allowed shopping centres to start their recovery sooner than most other countries. It will undoubtedly still take time to fully recover, but we have seen encouraging and stable growth in both footfall and tenant turnover every month from reopening of the shopping centres at the beginning of May 2020 until today. We expect this trend to continue further.

EPP has an unparalleled operational platform with an excellent portfolio of shopping centres across Poland, which is complemented by office assets. However, although operations in the portfolio are recovering steadily and well, it is also expected to take some time for retail turnovers to consistently return to pre-pandemic levels. Although the speed at which operations are recovering is encouraging, the necessity to provide significant financial support to tenants in the second half of 2020 will result in a significant decline in revenues during this period. Therefore, it is prudent for EPP to focus on initiatives to strengthen its balance sheet and to retain maximum liquidity. This will ensure that the company is well positioned to navigate through the recovery phase which is expected to take until 2021.

Further, throughout the balance of 2020 and in 2021 the board will focus on reducing the loan to value in the business. The primary way to achieve this is by way of the disposal of a selected group of assets through either outright sales or sales to new partners in joint ventures. Consequently, at this stage, the company does not envisage the need for a capital raise. Importantly, the management team will follow a measured approach in executing its disposal strategy, and any potential asset disposals will be considered only if the right pricing can be secured. The management team believes that there is liquidity in the Polish market but it is prudent to allow time for the disposals in order to benefit from increasing investor interest as the overall investment environment improves in the Polish real estate market in line with post-COVID-19 recovery. Accordingly, the disposal programme is not expected to be concluded earlier than in the next 12 to 18 months.

As part of this process, EPP's board of directors has elected not to distribute a dividend for the first half of the year to June 2020 and will assess the payment of the second half dividend to December 2020 when finalising its full year results which is expected in March 2021.

The financial information contained in this announcement has not been reviewed or reported on by EPP's auditors.

By order of the board

EPP N.V.

29 September 2020

COMPANY INFORMATION

Directors
Tomasz Trzósło (Chief Executive Officer)
Jacek Bagiński (Chief Financial Officer)
Robert Weisz* (Chairman)
Marek Belka*
Maciej Dyjas**
Dionne Ellerine*
Andrew König**
James Templeton*
Pieter Prinsloo**
Taco de Groot*
* *Independent non-executive*
** *Non-executive*

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