

UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

for the six months ended 30 June 2018



EPP N.V. (previously Echo Polska Properties N.V.) (Incorporated in The Netherlands)
(Company number 64965945) JSE share code: EPP ISIN: NL0011983374
LEI code: 7245003P709N5BN8C098 ("EPP" or "the company" or "the group")



Highlights

Net property income up 45% to **€66.2 million**
(H1 2017: €45.5 million)

Distributable earnings up 32% to **€48.3 million**
(H1 2017: €36.6 million)

Distribution per share up 12% to **€5.82 cents**
(H1 2017: €5.19 cents)

Total investment properties value exceeded **€2 billion**

Net asset value ("NAV") per share increased by 4% to **€1.37**
(December 2017: €1.32)

Successful acquisition of tranche 1 of M1 portfolio over **194 000 m²**

Consolidated statement of profit or loss

	Period from 1 January 2018 until 30 June 2018 €'000	Period from 1 January 2017 until 30 June 2017 €'000
Rental income	67 145	46 364
Service charge income	25 304	19 983
Property operating expenses	(26 235)	(20 816)
Net property income	66 214	45 531
Other income	735	1 029
Other expenses	(972)	(611)
Administrative expenses	(6 728)	(4 161)
Net operating profit	59 249	41 788
Profit on investment properties	28 802	15 582
Profit from operations	88 051	57 370
Finance income	1 236	1 600
Finance costs	(16 689)	(9 596)
Foreign exchange (losses)/gains	5 853	(2 680)
Participation in profits of joint ventures	25 321	2 682
Profit before taxation	103 772	49 376
Taxation		
Current income tax	(4 883)	(1 466)
Deferred tax	(19 490)	(8 355)
Profit for the period	79 399	39 555
Profit for the period attributable to EPP shareholders	79 399	39 555
Basic and diluted earnings per share (€ cents)	10.0	6.2
Headline earnings and diluted headline earnings per share (€ cents)	6.4	3.8

Consolidated statement of other comprehensive income

	Period from 1 January 2018 until 30 June 2018 €'000	Period from 1 January 2017 until 30 June 2017 €'000
Profit for the period	79 399	39 555
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		
Foreign currency translation reserve	(8 563)	(3 019)
Total comprehensive income for the period, net of tax	70 836	36 536
Total comprehensive income attributable to the parent for the period, net of tax	70 836	36 536

Consolidated statement of financial position

	As at 30 June 2018 €'000	As at 31 December 2017 €'000
ASSETS		
Non-current assets	2 224 382	1 797 545
Investment in joint ventures	138 485	116 009
Tangible assets	89	47
Investment property	2 066 718	1 655 572
Financial assets	18 071	25 917
Deferred tax asset	1 019	–
Current assets	95 294	154 569
Inventory	679	525
Tax receivable	3 738	209
Trade and other receivables	16 827	26 723
Financial assets	3 995	3 955
Restricted cash	13 092	23 613
Cash and cash equivalents	56 963	99 544
Total assets	2 319 676	1 952 114
EQUITY AND LIABILITIES		
Equity	975 988	833 821
Share capital	642 778	571 026
Share premium	187 668	147 534
Treasury shares	(3 095)	(783)
Accumulated profit	150 789	111 419
Share-based payment reserve	6 694	4 909
Foreign currency translation reserve	(8 846)	(284)
Non-current liabilities	1 191 623	941 710
Bank borrowings	1 067 031	831 183
Related party liabilities	1 762	1 741
Other liabilities	13 075	15 033
Deferred tax liability	109 755	93 753
Current liabilities	152 065	176 583
Bank borrowings	123 338	117 155
Related party liabilities	3 003	18 019
Tax payables	5 683	879
Trade and other payables	18 555	40 353
Provisions	1 486	177
Total equity and liabilities	2 319 676	1 952 114

Statement of changes in equity

	Share capital €'000	Share premium/ capital reserves €'000	Treasury shares €'000	Accumu- lated profit/ (loss) €'000	Foreign currency translation reserve €'000	Share- based payment reserve €'000	Total equity €'000
Balance as at							
31 December 2017	571 026	147 534	(783)	111 419	(284)	4 909	833 821
Profit for the year	-	-	-	79 399	-	-	79 399
Other comprehensive income	-	-	-	-	(5 565)	-	(5 565)
Other comprehensive income from joint ventures	-	-	-	-	(2 997)	-	(2 997)
Total comprehensive income	-	-	-	-	(8 562)	-	(8 562)
Issue of ordinary shares	71 752	40 748	-	-	-	-	112 500
Transaction cost related to issuance of shares	-	(614)	-	-	-	-	(614)
Acquisition of own shares	-	-	(2 312)	-	-	-	(2 312)
Recognition of share-based payments	-	-	-	-	-	1 785	1 785
Dividend paid	-	-	-	(40 029)	-	-	(40 029)
Balance as at 30 June 2018	642 778	187 668	(3 095)	150 789	(8 846)	6 694	975 988

Statement of changes in equity (restated)

	Share capital €'000	Share premium/ capital reserves €'000	Accumu- lated profit/ (loss) €'000	Foreign currency translation reserve €'000	Total equity €'000
Balance as at 31 December 2016 after restatement	474 702	95 095	38 075	(434)	607 438
Profit for the year	–	–	39 555	–	39 555
Other comprehensive income	–	–	–	(5 523)	(5 523)
Other comprehensive income from joint ventures	–	–	–	2 504	2 504
Total comprehensive income	–	–	39 555	(3 019)	36 536
Issue of ordinary shares	97 287	55 687	–	–	152 974
Transaction cost related to issuance of shares	–	(4 190)	–	–	(4 190)
Special dividend due	–	–	(16 849)	–	(16 849)
Dividend paid	–	–	(18 402)	–	(18 402)
Balance as at 30 June 2017	571 989	146 592	42 379	(3 453)	757 507

Condensed consolidated statement of cash flow

	Period from 1 January 2018 until 30 June 2018 €'000	Period from 1 January 2017 until 30 June 2017 €'000
Cash generated from operations	64 472	78 279
Tax paid	(3 910)	(1 328)
Net cash generated from operating activities	60 562	76 951
Investing activities		
Purchase of investment property	(375 874)	(223 953)
Acquisition of business net of cash acquired	–	5 196
Investments in joint ventures	–	(29 554)
Capital expenditure on completed investment property	(14 997)	(19 117)
Loans granted	–	(39 104)
Loans repaid	9 950	–
Interest received/(paid)	–	(1 431)
Net cash utilised in/generated from investing activities	(380 921)	(307 963)
Financing activities		
Proceeds from borrowings	249 526	194 505
Repayment of borrowings	(10 195)	(36 076)
Proceeds from issue of share capital	112 500	148 785
Transaction costs on issue of shares	(614)	–
Treasury shares	(2 313)	–
Dividends paid	(40 029)	(19 930)
Loans repaid	(17 892)	–
Interest paid	(12 250)	(8 471)
Interest received	800	–
Net cash generated from/(utilised in) financing activities	279 533	278 813
Net increase in cash and cash equivalents	(40 826)	47 801
Cash and cash equivalents at the beginning of the period	99 544	21 921
Effect of foreign exchange fluctuations	(1 621)	299
Cash and cash equivalents at the end of the period	57 097	70 021

Headline earnings reconciliation

	Period from 1 January 2018 until 30 June 2018 €'000	Period from 1 January 2017 until 30 June 2017 €'000
Profit for the period attributable to EPP shareholders	79 399	39 555
Change in fair value of investment properties	(28 802)	(15 582)
Headline and diluted earnings attributable to EPP shareholders	50 597	23 973
Actual number of shares in issue	793 552 888	704 970 211
Weighted number of shares in issue	793 552 888	637 298 120
Basic and diluted earnings per share (€ cents)*	10.0	6.2
Headline earnings and diluted headline earnings per share (€ cents)**	6.4	3.8

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

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

Commentary

1. Reporting entity

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. The company's portfolio is complemented by high quality offices located in regional cities across Poland. As of 30 June 2018 the company manages a portfolio of 18 retail centres and six offices located in the majority of regional cities in Poland. In addition to these income generating properties, EPP also has two developments in the capital – Warsaw, namely Towarowa 22 and Młociny (set to open in April 2019). By the end of 2020, EPP expects to own 28 shopping centres post the conclusion of the M1 transaction.

As of 30 June 2018, EPP owns and operates over 630 000 m² of retail and over 130 000 m² office GLA, excluding 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, located in strong catchment areas and which have asset management opportunities in terms of extensions across Poland. EPP intends continuing to divest from offices and recycle the proceeds to fund purchases of retail assets.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting*, the Dutch Civil Code, the JSE Listings Requirements and the Rules and Regulations of the LuxSE.

These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated annual financial statements of the group as at and for the year ended 31 December 2017.

The accounting policies applied in the preparation of these unaudited condensed consolidated financial statements are consistent with those applied in the previous IFRS financial statements as of and for the year ended 31 December 2017, with the exception of implementation of IFRS 15 and IFRS 9.

3. Significant accounting policies – impact of new standards

IFRS 9 Financial Instruments

The group performed an assessment of the impact of IFRS 9 on its consolidated financial statements. Two separate classes of financial assets, currently accounted for under amortised cost in line with IAS 39, did not pass the SPPI (“**Solely Payments of Principal and Interest**”) test and are classified as FVTHPL (“**Fair Value Through P&L**”) under IFRS 9. The financial assets considered are:

- ▶ Other financial assets representing loans granted to Kalisz Retail sp. z o.o. and to Aradiana Ltd, a shareholder and a controlling party of Kalisz Retail sp. z o.o. (“**Kalisz loans**”).
- ▶ Other financial assets in related entities representing advances to each of the Right Of First Offer (“**ROFO**”) entities in connection with the ROFO projects (“**ROFO loans**”).

In relation to Kalisz loans granted by the EPP Group, in the first half-year of 2018 the borrowers repaid in total €10.75 million of the initial aggregated amount of €23.30 million. There are various repayment scenarios possible that include a prepayment of the loan, repayment of the loan after a five-year period, refinancing of the loan after a five-year period, sale of the underlying asset and repayment of the loan. Options available are outside of EPP control, as such the group management decided to assume that the loan will be repaid after a five-year period. Under that assumption amortised cost valuation as of 30 June 2018 approximates the fair value of the loan granted.

In relation to ROFO loans the fair value is calculated using a present value technique, where the present value of expected net cash flows from the asset is discounted at a current market-based rate. The cash flows related to the selling price of the building and the final outcome of the ROFO transaction are impacted by a number of factors, which are very difficult to estimate. We concluded that the carrying amount of the ROFO loans approximates its fair value.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 does not have a significant impact on the group’s consolidated financial statements. Note that IFRS 15 does not affect the recognition of lease income as this is still dealt with under IAS 17: *Leases*.

IFRS 16: Leases – not yet effective

The standard is effective for periods beginning on or after 1 January 2019 and has not been adopted by the group yet. The management is currently assessing the impact of the new standard.

4. Financial results

The net profit for the six months ended 30 June 2018 amounted to €79.4 million and distributable income totalled €48.3 million. Total NAV amounted to €975.99 million equating to a NAV per share of €1.37. The net loan-to-value ratio as of 30 June 2018 was 50.9% with an average cost of debt of 2.38%.

Commentary *(continued)*

Acquisition of M1 portfolio

In October 2017 EPP has reached an agreement to acquire a portfolio of retail properties for a combined consideration that values the portfolio at €692.1 million. During the first half of 2018, the group successfully purchased the first tranche of the M1 portfolio consisting of four properties for a consideration of €359 million.

Acquisition of remaining properties is conditional upon fulfilment of outstanding conditions precedent and is scheduled as follows:

- ▶ the Second Tranche Portfolio comprising a further six properties with an aggregate GLA of 184 000 m², an aggregate value of €222.5 million and an aggregate purchase consideration of €75.2 million with the expected completion date by either 27 June 2019 or 10 July 2019; and
- ▶ the Third Tranche Portfolio comprising a further two properties with an aggregate GLA of 68 100 m², an aggregate value of €110.9 million and an aggregate purchase consideration of €44.1 million with the expected completion date 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.

5. Related-party transactions

In January 2018 EPP repaid €18.03 million loans received from Echo Investment. In May 2018 there was a partial repayment of loans granted to Kalisz Retail sp. z o.o. and to Aradiana Ltd, a shareholder and a controlling party of Kalisz Retail sp. z o.o. as described in section 3 above.

6. Segment information

	Retail €'000	Office €'000	Unallocated €'000	Total €'000
Six months ended 30 June 2018				
Segment profit				
Rent and recoveries income	77 342	14 127	980	92 449
Property operating expenses	(21 188)	(4 367)	(680)	(26 235)
Net property income	56 154	9 760	300	66 214

	Retail €'000	Office €'000	Unallocated €'000	Total €'000
As at 30 June 2018				
Segment assets				
Investment in joint ventures	136 911	–	–	136 911
Investment property	1 758 318	308 400	–	2 066 718
Total segment assets	1 895 229	308 400	–	2 203 629
Bank borrowings	929 178	160 725	100 466	1 190 369
Total segment liabilities	929 178	160 725	100 466	1 190 369

Headline earnings to distributable income reconciliation

	Period from 1 January 2018 until 30 June 2018 €'000	Period from 1 January 2017 until 30 June 2017 €'000
Headline and diluted earnings attributable to EPP shareholders	50 597	23 973
Amortised cost valuation of long-term financial liabilities	2 469	901
Foreign exchange and other items	(3 061)	1 800
Fair value losses/(gains) in joint ventures	(25 096)	(2 105)
Change in deferred tax	19 490	8 355
Provision for long-term incentive plan	1 785	–
Antecedent dividend*	2 121	3 678
Distributable income	48 306	36 602
Actual number of shares in issue	793 552 888	704 970 211
Shares issued on 31 July 2018	36 436 916	–
Shares in issue for distributable earnings	829 989 804	704 970 211
Distributable income per share (€ cents)	5.82	5.19

* Antecedent dividend relates to issuance of shares on 31 July 2018 in connection with acquisition of Marcellin Shopping Centre.

7. Subsequent events

Acquisition of Symetris Business Park phase II

On 27 July 2018 EPP concluded the acquisition of the second phase of Symetris Business Park as part of the ROFO agreement.

Commentary *(continued)*

Acquisition of Marcelin and new equity raise

EPP successfully placed 36 436 916 new shares with Redefine Properties Limited at a price of R19.26 per share to partially fund the acquisition of the King's Cross Marcelin Shopping Centre. The acquisition of King's Cross Marcelin was concluded on 31 July 2018 for a net purchase consideration of €91.1 million subject to working capital and other potential price adjustments.

8. Dividend declaration

EPP's dividend policy states that the company intends to declare 100% of its distributable income to shareholders. The company intends declaring half-yearly dividends, which are expected to be declared for the periods ended 30 June and 31 December of the relevant year. No assurance can be made that dividends will be proposed or declared in any given year.

The board has declared an interim dividend of €5.82000 cents per ordinary share for the six months ended 30 June 2018.

A further announcement informing shareholders of the salient dates and tax treatment of the dividend will be released in due course.

Group management report

Portfolio performance

During the first half of the year, we successfully purchased the first tranche of the M1 portfolio consisting of four properties for a consideration of €359 million. The total retail gross lettable area ("GLA") added was over 194 000 m² with an average property size of over 48 000 m². The majority of assets are located in the much desired Silesia region in Poland. Post interim period end the company acquired the King Cross Marcelin, a 45 353 m² shopping centre located in the affluent western part of Poznań. Following this acquisition EPP's total GLA space amounts to almost 700 000 m².

The portfolio continues to perform well. The Sunday trading ban introduced in March 2018, had a limited impact on sales and footfall.

Construction at EPP's flagship Warsaw-based shopping centre Młociny remains on track and on schedule to open in April 2019. Młociny is more than 75% pre-leased, with many first time entrants to Poland looking to open in the shopping centre. Towarowa 22 is in the process of zoning approval which is expected in 2019.

Vacancy profile

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

	30 June 2018
Vacancy based on total GLA (%)	
Office	6.0
Retail	0.6
Total	1.57

Tenants

As of the end of the quarter retail tenants totalled 1 828 with 91 office tenants.

Group management report *(continued)*

Geographic profile

City	Project	By GLA %	By fully let NOI %
Wrocław	Pasaż Grunwaldzki	6.23	10.42
Szczecin	Galaxy, Outlet, Oxygen	12.73	17.87
Kielce	Galeria Echo, Astra Park	11.09	11.28
Kalisz	Galeria Amber	4.32	4.15
Łomża	Galeria Veneda	1.94	1.87
Jelenia Góra	Galeria Sudecka	3.90	2.84
Bełchatów	Galeria Olimpia, CH Bełchatów	4.21	2.70
Przemyśl	Centrum Handlowe Przemyśl	0.74	0.31
Kraków	Zakopianka, Opolska Business Park, M1	14.64	14.81
Zamość	Twierdza Zamość	3.07	2.89
Kłodzko	Twierdza Kłodzko	2.97	2.38
Wrocław	Wzorcownia Wrocław	3.27	2.87
Inowrocław	Galeria Solna	3.03	2.96
Poznań	Malta Office Park	3.64	3.56
Warszawa	Park Rozwoju	4.32	4.25
Łódź	Symetris, M1	6.18	3.90
Czeladź	M1	6.91	6.29
Zabrze	M1	6.80	4.68

Sectoral profile

	By GLA %	By fully let NOI %
Retail	82.29	82.70
Office	17.71	17.30
Total	100.00	100.00

WAULT*

Sector	By GLA	By rental income
Retail	5.36	4.59
Office	4.16	4.16

* Weighted average unexpired lease term in years.

Prospects

EPP has a quality portfolio of dominant retail properties complemented by high quality office properties. The company continues to focus on integrating its recent acquisitions into the portfolio, exploring asset management opportunities and continuing on its asset recycling strategy. The Polish economy continues to perform well and the current property fundamentals remain favourable.

The board remains confident that EPP will deliver on its stated full year distribution per share guidance of between €11.6 cents to €11.8 cents.

There have been no changes to the board during the period under review.

By order of the board

EPP N.V.

7 September 2018

Company information

Directors

Hadley Dean (chief executive officer)

Jacek Bagiński (chief financial officer)

Robert Weisz* (chairman)

Marek Belka*

Peter Driessen*

Maciej Dyjas**

Dionne Ellerine*

Andrew König**

Nebil Senman**

Andrea Steer*

Marc Wainer**

* *Independent non-executive*

** *Non-executive*

Registered office

Gustav Mahlerplein

28, 1082 Amsterdam

The Netherlands

Company secretary

Rafal Kwiatkowski (Master of Laws)

al. Solidarnosci 36

25-323 Kielce

Poland

Transfer secretaries

Computershare Investor Services (Pty) Ltd

Rosebank Towers

15 Biermann Avenue

Rosebank

2195

PO Box 61051

Marshalltown

2107

LUXSE listing agent

M Partners

56, rue Charles Martel L-2134

Luxembourg

JSE sponsor

Java Capital

6A Sandown Valley Crescent

Sandton

2196



www.echo-pp.com

www.echo-pp.com

www.echo-pp.com

www.echo-pp.com