



Echo Polska Properties

CONDENSED CONSOLIDATED

FINANCIAL INFORMATION

for the six month period ended 30 June 2017

Echo Polska Properties N.V. (Incorporated in the Netherlands)

(Company number 64965945) | JSE share code: EPP | ISIN: NL0011983374 | ("EPP" or "the company" or "the group")



Highlights

NET PROFIT **€39.555 MILLION**

DISTRIBUTABLE INCOME **€36.602 MILLION**

DISTRIBUTION PER SHARE **5.19** EURO CENTS

NAV PER SHARE **€1.23**

PORTFOLIO VALUE **€1.7 BILLION**

SUCCESSFULLY EXECUTED ACQUISITIONS IN H1 2017
€262 MILLION

ON TRACK TO DELIVER **10.8** EURO CENTS DISTRIBUTION PER SHARE
FOR YEAR 2017

Consolidated statement of profit or loss

	Period from 1 January 2017 until 30 June 2017 EUR'000	Period from 4 January 2016 until 30 June 2016 EUR'000
Rental income and recoveries	66 347	38 485
Property operating expenses	(20 816)	(12 253)
Net property income	45 531	26 232
Other income	1 029	1 026
Other expenses	(611)	(2 340)
Selling costs	(261)	(333)
Administrative expenses	(3 900)	(5 410)
Net operating profit	41 788	19 175
Gain on investment properties	15 582	13 428
Profit from operations	57 370	32 603
Finance income	1 600	3 180
Finance costs	(9 596)	(16 250)
Foreign exchange (losses)/gains	(2 680)	1 975
Participation in profits of joint ventures	2 682	–
Profit before taxation	49 376	21 508
Taxation		
Current income tax	(1 466)	(642)
Deferred tax	(8 355)	41 009
Profit for the period	39 555	61 875
Earnings per share:		
Basic and diluted earnings, on profit for the period (EUR cents)	6.2	31.9

Consolidated statement of other comprehensive income

	Period from 1 January 2017 until 30 June 2017 EUR'000	Period from 4 January 2016 until 30 June 2016 EUR'000
Profit for the period	39 555	61 875
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		
Foreign currency translation reserve	(3 019)	(1 713)
Other comprehensive income, net of tax, to be reclassified to profit or loss in subsequent periods	(3 019)	(1 713)
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	36 536	60 162
Total comprehensive income attributable to the parent for the period, net of tax	36 536	60 162

Consolidated statement of financial position

	As at 30 June 2017 EUR'000	As at 31 December 2016 EUR'000
ASSETS		
Non-current assets	1 742 726	1 423 834
Investment in joint ventures	91 920	54 285
Tangible assets	63	85
Investment property	1 623 302	1 359 432
Financial assets	27 441	10 032
Current assets	125 220	43 568
Inventory	212	74
Tax receivable	9 475	9
Trade and other receivables	11 641	32 658
Financial assets	11 207	9 057
Restricted cash	22 664	21 845
Cash and cash equivalents	70 021	21 921
Total assets	1 867 946	1 509 398
EQUITY AND LIABILITIES		
Equity	789 184	623 794
Share capital	571 989	474 702
Share premium	146 592	95 095
Accumulated profit	74 056	54 431
Foreign currency translation reserve	(3 453)	(434)
Non-current liabilities	949 667	818 458
Bank borrowings	861 159	741 776
Related-party liabilities	1 631	5 885
Other liabilities	11 912	11 881
Deferred tax liability	74 965	58 916
Current liabilities	129 095	67 146
Bank borrowings	93 363	52 845
Related-party financial liabilities	2 824	221
Tax payables	3 861	175
Trade payables	28 961	13 819
Provisions	86	86
Total equity and liabilities	1 867 946	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	–	–	39 555	–	39 555
Other comprehensive income	–	–	–	(3 019)	(3 019)
Total comprehensive income	–	–	39 555	(3 019)	36 536
Issue of ordinary shares	97 287	55 687	–	–	152 974
Acquisition of subsidiary and transaction costs	–	(4 190)	–	–	(4 190)
Special dividend due	–	–	(1 528)	–	(1 528)
Dividend paid	–	–	(18 402)	–	(18 402)
Balance as at 30 June 2017	571 989	146 592	74 056	(3 453)	789 184

Condensed consolidated statement of cash flow

	Period from 1 January 2017 until 30 June 2017 EUR'000	Period from 4 January 2016 until 30 June 2016 EUR'000
Cash generated from operations	78 279	13 933
Tax paid	(1 328)	(907)
Dividends paid/due to shareholders	(19 930)	(9 775)
Net cash generated from operating activities	57 021	3 251
Net cash utilised in/generated from investing activities	(307 963)	16 215
Net cash generated from/(utilised in) financing activities	298 743	(1 659)
Net increase in cash and cash equivalents	47 801	17 807
Cash and cash equivalents at the beginning of the period	21 921	–
Effect of foreign exchange fluctuations	(299)	–
Cash and cash equivalents at the end of the period	70 021	17 807

Headline earnings reconciliation

	Period from 1 January 2017 until 30 June 2017 EUR'000	Period from 4 January 2016 until 30 June 2016 EUR'000
Profit for the period attributable to EPP shareholders	39 555	61 875
Change in fair value of investment properties	(15 582)	(13 428)
Headline and diluted earnings attributable to EPP shareholders	23 973	48 447
Actual number of shares in issue	704 970 211	414 901 280
Weighted number of shares in issue	637 298 120	193 842 583
Basic and diluted earnings per share (EUR cents)*	6.2	31.9
Headline earnings and diluted headline earnings per share (EUR cents)**	3.8	25.0

* 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

1. Introduction

EPP is a real estate company that indirectly owns a portfolio of prime retail and office assets throughout Poland, a dynamic Central and Eastern Europe (“**CEE**”) economy with a very attractive real estate market.

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 the 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 a dual primary listing on both LuxSE and the Main Board of the JSE.

The condensed consolidated financial statements for the six month period ended 30 June 2017 comprise the financial statements of the company and its subsidiaries (the “**group**” or “**EPP Group**”).

2. Financial results

The net profit for the six month period ended 30 June 2017 amounted to EUR39.555 million and distributable income amounted to EUR36.602 million.

3. Segment information

	Retail EUR'000	Office EUR'000	Total EUR'000
Six month period ended 30 June 2017			
Segment profit			
Rent and recoveries income	44 823	21 524	66 347
Property operating expenses	(15 083)	(5 755)	(20 838)
Net property income	29 740	15 769	45 509

Commentary *(continued)*

	Retail EUR'000	Office EUR'000	Total EUR'000
As at 30 June 2017			
Segment assets			
Investment in joint ventures	91 920	–	91 920
Investment property	1 202 902	420 400	1 623 302
Total segment assets	1 294 822	420 400	1 715 222
Bank borrowings	648 568	236 082	884 650
Total segment liabilities	648 568	236 082	884 650

Headline earnings to distributable income reconciliation

	Period from 1 January 2017 until 30 June 2017	Period from 4 January 2016 until 30 June 2016
Headline and diluted earnings attributable to EPP shareholders	23 973	48 447
Amortised cost valuation of long-term financial liabilities	901	3 162
Bridge to equity loan costs	310	–
Prepaid rental income	(150)	(106)
Deferred tax	8 355	(41 009)
Foreign exchange losses/(gains)	2 680	(1 975)
Amortisation of leasing fees	261	–
Participation of profits in joint ventures	(2 105)	–
Capital gains	(1 301)	–
Consolidation adjustment on acquisition (goodwill impairment)	–	459
Antecedent dividend	3 678	–
Distributable income	36 602	8 978
Actual number of shares in issue	704 970 211	414 901 280
Distributable income per share (EUR cents)	5.19	2.2

4. Changes in fair value

The group's investment property portfolio has been valued as at 30 June 2017, by independent professionally qualified valuer, Savills. The external valuation of the portfolio resulted in a fair value adjustment of EUR15.582 million (EUR13.428 million in the period ended 30 June 2016).

5. Portfolio profile

EPP is a real estate company that owns a portfolio of 13 retail and nine office assets located throughout Poland 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 in the retail sector and 3.8 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 a tenant base of primarily blue chip companies in the case of office properties.

An analysis of the property portfolio in respect of geographic, sectoral, tenant, vacancy and lease expiry profiles is provided in the tables below.

5.1. Geographic profile

City	Project	By GLA	By fully let NOI
		%	%
Kielce	Galeria Echo, Astra Park	14.53	13.87
Szczecin	Galaxy, Outlet, Oxygen	13.46	16.89
Wrocław	Pasaż Grunwaldzki, West Gate	10.98	15.94
Kraków	Zakopianka, Opolska Business Park	7.84	7.81
Kalisz	Galeria Amber	5.68	4.94
Warszawa	Park Rozwoju	5.66	5.42
Bełchatów	Galeria Olimpia, CH Bełchatów	5.53	3.52
Jelenia Góra	Galeria Sudecka	5.12	3.59
Katowice	A4 Business Park etap I-III	5.07	4.84
Poznań	Malta Office Park	4.78	4.85
Włocławek	Wzorcownia Włocławek	4.31	4.04
Zamość	Twierdza Zamość	4.03	3.57
Gdańsk	Tryton	3.98	3.54
Kłodzko	Twierdza Kłodzko	3.90	3.05
Łomża	CH Veneda	2.54	2.27
Łódź	Symetris	1.62	1.45
Przemyśl	CH Przemyśl	0.97	0.41
Total		100.00	100.00

Commentary (continued)

5.2. Sectoral profile

	By GLA %	By fully let NOI %
Retail	68.12	69.42
Office	31.88	30.58
Total	100.00	100.00

5.3. Vacancy profile

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

	Vacancy based on total GLA* %
Office	2.8**
Retail	1.59
Total	2.26**

* Based on existing leases at 30 June 2017.

** Including three years 100% rental guarantee from Echo Investment S.A.

5.4. WAULT*

Sector	By GLA	By rental income
Retail	5.39	4.81
Office	3.78	3.90

* Weighted average unexpired lease term in years.

6. 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. With the predominantly retail portfolio located in one of the most dynamic and fastest growing economies in Europe, experienced management and well respected strategic partners, EPP represents a compelling investment.

Already the largest listed yielding Polish property company, EPP's goal is to become the leading retail landlord in Poland while targeting sustainable growth in dividends per share in the short and medium term through a combination of organic and acquisitive growth.

Combined with the organic growth retail opportunities is the potential for increasing retail rentals through a combination of the current high levels of retail sales growth in Poland (at 8.2% year-on-year in the first six months of 2017), the active asset management of EPP's portfolio of regional shopping centres by a strongly incentivised, dedicated and proven executive management team who intend on leveraging EPP's platform with retail tenants to achieve higher rentals. This strategy will be further enhanced by the development of the Warsaw retail development sites.

EPP's acquisition strategy is focused on acquiring retail assets in strategic locations, allowing the company to further leverage its portfolio and platform with retail tenants. EPP will trade office assets proactively to ensure that its portfolio remains balanced and competitive in the long term, while aiming to maintain a weighted average unexpired lease term in excess of four years. The details of the acquisition transactions completed after 30 June 2017 are detailed in note 8.1 Acquisitions, below.

In addition to the opportunities for growth in distributions per share, the company believes that there are opportunities for growth in the underlying net asset value per EPP share. The Warsaw retail developments, the ROFO assets and the extensions to certain existing retail assets all represent the potential for (in some cases substantial) enhancements in the underlying net asset value of EPP, given the costs at which they are being acquired and/or developed, relative to the anticipated valuation yields. Taking the strength and growth of the Polish economy into account, the company also believes that there is a potential for further compression in Polish commercial property yields, which would in turn result in an increase in the value of the EPP portfolio.

7. Basis of preparation

The condensed consolidated financial information for the period ended 30 June 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 interim financial statements, which have not been reviewed or reported by EPP's independent external auditors.

8. Subsequent events

8.1. Acquisitions

Galeria Solna

EPP concluded an agreement relating to the acquisition of another retail asset – Galeria Solna in Inowroclaw, North West Poland. The purchase consideration was EUR22.4 million, based on asset value of EUR55.4 million.

In line with EPP strategy, the 24 000m² centre is located in a regionally growing Polish city with a large catchment area and a proven track record since opening in 2013.

9. 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 5.192 euro cents per ordinary share for the six months to 30 June 2017.

The dividend is payable to EPP shareholders in accordance with the timetable set out below:

	2017
Announcement of Euro to Rand conversion rate on	Tuesday, 12 September
Last day to trade in EPP shares on the JSE and LuxSE in order to receive the dividend	Tuesday, 19 September
EPP shares trade ex dividend	Wednesday, 20 September
Record date for the receipt of the dividend	Friday, 22 September
Dividend paid to EPP shareholders	Tuesday, 26 September

Share certificates may not be dematerialised or rematerialised between Wednesday, 20 September 2017 and Friday, 22 September 2017, both days included. Transfers between the European and South African share registers may not take place between Tuesday, 12 September 2017 and Friday, 22 September 2017, both days included.

9.1 Tax considerations

9.1.1 *Dutch dividend withholding tax*

Dutch dividend withholding tax (“**DWHT**”) at a rate of 15% will be withheld by EPP on the dividend distribution and EPP will remit the DWHT withheld to the Dutch Tax Authorities.

The DWHT may be reduced if a shareholder qualifies for an exemption from or a reduction of DWHT on the basis of Dutch domestic law and/or a Double Tax Agreement concluded by the Netherlands (“**DTA**”) and the formal requirements that apply to such exemption from or reduction of DWHT are satisfied.

The relevant DWHT aspects for EPP's shareholders in general, the possibilities for South African shareholders to qualify for reduction or exemption of DWHT under the DTA between the Netherlands and South Africa and the formal requirements to claim such reduction, are set out in more detail on EPP's website at www.echo-pp.com/s,92,shareholder-circulars.html.

9.1.2 *South African dividends withholding tax*

Dividends received from a foreign resident company in respect of a share that is listed on the JSE are regarded as foreign dividends for South African income tax and dividends withholding tax purposes. The foreign dividends are exempt from South African income tax in respect of foreign shareholders and South African shareholders.

The dividends will however be subject to South African dividends withholding tax (“**SADWT**”) at a rate of 20%, unless a shareholder qualifies for an exemption from SADWT. For example, a South African company shareholder or retirement fund will be exempt from SADWT.

However, a shareholder who receives a dividend which is subject to SADWT and who does not qualify for an exemption, will qualify for a rebate of the foreign taxes paid in respect of such dividend. Accordingly, if 15% DWHT is suffered in the Netherlands, dividends received in respect of a share that is listed on the JSE will be subject to an additional 5% SADWT. The regulated intermediary will be responsible for withholding the 5% from the dividend payable to shareholders on the South African register and paying such amounts to the South African Revenue Service, such that the total dividend withholding tax paid by such shareholders amounts in aggregate to 20%.

Commentary *(continued)*

The information provided above does not constitute tax advice and is only provided as a general guide on the Dutch and South African tax treatment of the cash dividend declaration by EPP to South African tax resident shareholders. For shareholders residing outside of South Africa, the dividend may have other legal or tax implications and such shareholders are advised to obtain appropriate advice from their professional advisers in this regard. Tax matters are complex, and the tax consequences to a particular shareholder will depend in part on such shareholder's circumstances. Accordingly, a shareholder is urged to consult his own tax advisor for a full understanding of the tax consequences to him, including the applicability and effect of Dutch tax laws.

For shareholders residing outside of South Africa, the dividend may have legal or tax implications and such shareholders are advised to obtain appropriate advice from their professional advisers in this regard.

As at the date of declaration of this dividend, the company has 704 970 210 shares in issue.

By order of the board

Echo Polska Properties N.V.

4 September 2017

For more information

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5 September 2017

Notes

Company information

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Hadley Dean (chief executive officer)

Jacek Bagiński (chief financial officer)

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Peter Driessen*

Maciej Dyjas**

Dionne Hirschowitz*

Andrew König**

Przemysław Krych**

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Andrea Steer*

Marc Wainer**

* *Independent non-executive*

** *Non-executive*

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