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COMPANY NEWS | EDITION 8

November 2017

In this newsletter

A WORD FROM OUR CEO

As we enter the final quarter in this newsletter I'm excited to introduce you to our expanded asset management team. We have always said our people are the driving force behind our success and we are proud to boast the top retail and property experts in Europe. I look forward to working with all of them to further grow and develop our exciting portfolio.

We have also provided an update on the Polish economy as well as developments impacting the property industry.

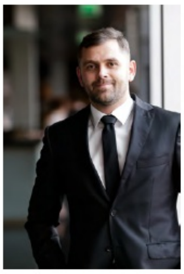
Hadley Dean
CEO

EPP BOLSTERS TALENTED ASSET MANAGEMENT TEAM

With the dynamic expansion of our portfolio we have decided to further enhance our specialised leasing and asset management department. This team will handle all portfolio and asset management functions, including the commercialisation and re-commercialisation of available space.

EPP's experts will support tenants with an aim to improve their turnover and financial results. Our team will launch a new innovative asset management system which will modernise, and improve the tenant mix at our various malls. The team will also offer financial, technical and administrative support in all areas in order to enhance the operations of our assets.

Marek Gładki, who until recently was the director of the shopping centres' commercialisation and marketing department at Echo Investment and joined EPP in September, will lead the team. His colleagues who will all work as assets managers includes Marta Kusiak, who has more than 10 years of experience in working for our tenants. She was responsible for expansion of such brands as New Look Poland, Takko, and IC Companys; Anna Piotrowska who worked for Multi Development, JLL, and Apsys; Jakub Ociepka who worked for Multi Development, Neiver, Colliers, and IKEA, as well as Marcin Ziółkowski who worked for various shopping centres located across Poland. All of the team are well-seasoned asset managers with a solid track tecord of retail and asset management having worked for key retail players in the Polish market. By the end of the year, EPP's Leasing & Asset Management team will consist of six highly skilled and talented people.



MAREK GŁADKI

MARTA KUSIAK

JAKUB OCIEPKA

ANNA PIOTROWSKA

MARCIN ZIÓŁKOWSKI

A GROWING POLISH ECONOMY

The Polish economy's growth continues unabated, largely because of brisk industrial activity and healthy retail sales growth. Recent third quarter gross domestic product figures indicate that industrial output continued to increase 4,3% year-on-year, which lead to solid growth in industrial activity in the third quarter.

This growth in industrial activity is valuable and meaningful as it took place across a wide range of sectors. The industrial output of 29 of Poland's 34 main industry groups rose in September.

Economists expect this solid rate of expansion in production to continue. This has been signaled by a sharp increase in new industrial orders; especially exports in recent months and the latest purchasing managers index (PMI) readings. The Polish manufacturing PMI rose from 52.5 in August to 53.7 in September. Solid growth in the German economy, which is Poland's most important trade partner with a 27.1% share in exports, should support industrial activity in Poland in the near term.

Poland and Germany are now serving each other's markets, which is boosting growth for each economy.

Retail sales are being helped by strengthening consumer spending. Poland's employment rose 3.4% year-on-year in the second quarter of 2017, having already grown 3.5% year-on-year in the first quarter of the year. Wages and salaries grew on average by 4.6% in the second quarter of 2017, having grown on average by 4.1% in the prior quarter.

Retail sales grew 8.6% year-on-year in September and 6.9% year-on-year in August. The unemployment rate according to Poland's Labour Force Survey was 4.7% in August and 4.8% in July.

Both the International Monetary Fund (IMF) and Standard & Poor's (S&P) recently raised its gross domestic product (GDP) forecast for Poland for 2017. The IMF increased its forecast to 3.8% from 3.4% for 2017 and to 3.3% for 2018, from 3.2%. S&P upgraded its GDP forecast to 4.2% for 2017 from 3.6% and to 3.8% for 2018 from 3.1%.

The National Bank of Poland left interest rates at a record low of 1.5% unchanged at the beginning of October. The NBP Governor also maintained that interest rates were likely to stay unchanged until the end of 2018. The governor has said inflation will remain moderate for a few quarters.

"This will result from moderate price growth in the external environment of the Polish economy, alongside a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation lying persistently above the target in the medium term is limited," the governor said.

TENANT FEATURE: EMPIK

Empik Media & Fashion SA operates retail and wholesale businesses throughout Poland and is an anchor tenant present in all EPP properties. As one of EPP's long-term business partners Empik has average leases of five to seven years with average retail space per centre of 500+m².

Boasting an innovative approach which combines offline and online sales Empik is the only operator of its kind in Poland. It offers the full scope of entertainment accessories ranging from books, music, films, records, toys, educational products, office supply, decorations, games, event tickets personal computer software, photography equipment to clothing and accessories.

On the e-commerce side Empik operates online e-commerce websites, including empik.com; and manages the distribution of digital content, such as e-books, music recordings, and games. In addition, the company is involved in the preparation and distribution of digital content to online bookstores; online sale of textbooks; and the operation of children's megastores. The company also offers advisory, human resources, information technology, and telecommunications services. Empik operates in Russia, Ukraine, the Czech Republic, Slovakia, Germany, and Switzerland. The company is listed on the Warsaw stock exchange.

UPDATE ON PROPOSED INDUSTRY RELATED LEGISLATION

Sunday trading ban remains under discussion

In the original draft of new regulations, the Solidarity trade union wanted all shops, with only a few exceptions, to be closed every Sunday. However on 27 October the Parliamentary Committee of Social Policy and Family made several amendments to the draft, allowing for trade on the second and fourth Sunday of the month, and additional Sundays before Christmas, Easter etc. The draft law now needs to be discussed further and may still require the notification of the European Commission given that there are also proposals to introduce certain constrains on internet trade. According to the latest press releases the requirement of notification means that the introduction of the ban could be further delayed by at least 18 months, should the European Commission consider that it is in conformity with EU law.

Various Poles have been surveyed about the potential loss of business. According to a recent poll by Kantar TNS, only

36% of respondents were in favour of a total ban on Sunday trading. Allowing trade every other Sunday slightly improved the approval rate. However, more than three quarters of Poles, or 76%, would support changes in the Labour Code allowing employees at least two free Sundays a month without introducing the ban on trade. According to the Business Centre Club's research, a ban on Sunday trade would result in a 5% decrease in trade, and lead to around 36,000 people losing their jobs.

'Although a Sunday trading ban has existed for years in various forms in some Western European countries (e.g. Germany or Austria) the approval rate for its introduction in Poland is quite limited. Poles got used to Sunday shopping and the ban would impose a significant change in shopping habits, moving the trade to other days of the week. Given that the final shape of the regulation, including the permitted exceptions, is still being discussed, the overall potential impact on the economy and employment is yet to be assessed. The recent example of Hungary shows, that while the introduction of the ban in March 2015 did not have a notable negative impact on the economy, the low approval rates contributed to its eventual cancellation only one year later. Judging by the Hungarian example it is reasonable to predict that if the ban is implemented the customers' shopping habits will change and more shopping activity will happen during weekdays (lunch breaks and after work) with a strong peak on Saturdays. It is possible that some shopping centres may decide to prolong opening hours to a certain extent to compensate for Sunday closing, says Agata Sekuła, head of capital markets JLL.

Update on proposed REIT legislation from September 2017 discussions:

The Ministry of Finance is revising its plans considerably and is working on a third version of the draft real estate law. Following critical comments from the President of the NBP, a number of changes have been announced. During the conference organised by Powermeetings.eu and REIT Poland Association, the Ministry of Finance announced that REITs in Poland will only be applicable to the residential property sector.

The Ministry of Finance maintains the exemption of dividends paid by REITs, while taxing these payments at a REIT level. The Ministry of Finance indicates that there will be changes to the current rate of 8.5% tax. The new taxation rules for REITs earning more than PLN 100K from real estate activity, will see the tax rate jump from 8.5% to 12.5%. In practice, this means that from the dividend paid to a small investor, the REIT will pay 8.5% tax, whereas on a dividend paid to a larger investor such as an investment fund it will pay 12.5% tax.

It is unlikely that the law will enter into force on 1 January 2018 and the real estate industry will continue to lobby the Government for commercial REITs to be included.

Update on changes to Polish corporate Income tax (CIT)

On 25 October 2017, a new version of the draft bill proposing changes to the CIT law was published by the Ministry of Finance. The key proposed changes include:

- implementation of a so-called "minimum levy" of a monthly 0.035% (0.42% p.a.) on the value of commercial real estate exceeding PLN 10 million (approx. EUR 2.35 million);
- limitation of the deduction of financing costs (in particular interest) to 30% of tax EBITDA with a safe harbour of PLN 3 million (approx. EUR 700k) – the above limitation will apply to both third party financing and financing from related entities. Non-deductible financing costs can be deducted within 5 years;
- limitation of deduction of interest in case of excessive intercompany financing;
- limitation of tax-deductibility of financing costs (in particular interest) related to debt push down (where debt is drawn for the purpose of acquisition of shares);
- limitation of deduction of costs of intangible services purchased from related entities and exceeding PLN 3m (approx. EUR 700k) to 5% of tax EBITDA.

While these new changes are not in law, EPP is expecting them to be introduced from 1 January 2018 and we are currently modelling their impact on EPP.

Rapenburgerstraat 175/M
1011VM Amsterdam
Netherlands

Tel. (+48) 22 43 00 300
Fax (+48) 22 43 00 301
E-mail: HQoffice@echo-pp.com

IR related comments / feedback welcome: **IR@singular.co.za**