



**MAS Real Estate Inc.**  
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(“MAS”, “the Group” or “the Company”)

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## VOLUNTARY TRADING STATEMENT

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### Introduction

Since the announcement of 16 March 2020 detailing MAS’ (hereafter referred to as the Company or the Group) measures minimising operational disruption and preserving liquidity throughout the COVID-19 pandemic, trading conditions and prospects deteriorated compared to those described in the Directors’ Commentary accompanying the Financial Results for the six months ending 31 December 2019.

Government-enforced temporary closure of non-essential tenants and social distancing significantly affected operations. Initial lockdowns are lifted and trading restrictions eased, however, measures may be re-introduced if there are significant secondary COVID-19 infection outbreaks in the Group’s markets, resulting in additional, short-term negative impact on operations.

Currently, the Group is preparing for the predicted longer-term recessionary consequences, which potentially includes a significant and prolonged reduction in consumption, as well as new investment and development opportunities that may emerge as a result.

This voluntary announcement summarises the pandemic’s impact on operations to date, alterations to strategy as MAS prepares for a significant reduction in consumption, potential changes to prospects compared to those described with the Financial Results for the six months ending 31 December 2019 and the declaration of dividends for the current financial period. The financial information in this document has not been reviewed or reported on by Company’s auditors.

### Operations

MAS owns and operates retail assets in Central and Eastern Europe (CEE) i.e. Romania, Bulgaria, and Poland, retail and logistic assets in Germany, a logistic asset in Switzerland and hospitality, retail, office, industrial assets and development land in UK (hereafter, the latter three countries are referred to as Western Europe or WE). MAS has retail and residential development exposure in Romania via the Development Joint Venture (DJV) with Prime Kapital (PK).

Authorities in all jurisdictions where MAS operates have introduced pandemic regulatory restrictions, which have resulted in the closure of all non-essential retail property and hospitality operations for different periods depending on jurisdiction. Typically, closures commenced in March and remained in full effect until mid-May. This directly impacted the financial health of MAS’ retail and hotel tenants. Currently, except for non-essential tenants in Romania’s enclosed malls (this includes the enclosed portions of all the open-air malls and the mall in Arad), Bulgarian entertainment and leisure tenants, German leisure operations and the Scottish hotel operations, all tenants in MAS’ retail assets have re-opened for trade. Tenants representing 10.5% of gross rental income (all numbers are presented on a proportional accounting basis, except where stated differently) are currently not allowed to trade, while restrictions remain in place for most other retail tenants.

### CEE

The temporary closures had an immediate impact on collections from tenants. In CEE, 28.6% of the rental income is generated by essential retailers and other tenants with uninterrupted operations. These tenants were invoiced normally, and the Group collected 76.9% of invoices issued to these tenants in respect of rental income and service charges for March, April and May.

Given the significant impact of closures on retail tenants, the Company did not invoice non-essential tenants for April and May (lockdowns were not imposed at the invoice date in March). In Poland, this was enforced by legislation making rent and service charges of €0.9 million unrecoverable during lockdown. In Romania and Bulgaria, MAS will offer tenants rental holidays for the duration of the lockdown periods amounting to approximately €4 million (assuming no trading bans remain at the end of June 2020) in exchange for measures to be negotiated tenant-by-tenant, and additionally, on a case-by-case basis and dependent on sales, partial rent deferrals for the months immediately following lockdown.

Tenants whom MAS cannot reach agreement with, will be invoiced in full for April and May (and will not receive credit notes for March).

Operating costs have been reduced, mitigating closures' impact. Excepting Poland, non-essential tenants' operational costs during lockdown (other than €0.2 million in marketing costs) should be recoverable over time, assuming they remain solvent. Non-recoverable operational costs in Poland during lockdown are approximately €0.14 million.

In preparation for reopening, MAS is planning initiatives to create safe shopping environments, attracting clients to boost tenants' sales. The non-recoverable cost thereof is estimated to be up to €0.9 million.

## **WE**

In WE 78.7% of rental income relates to essential retail tenants, and other tenants with operations unaffected by the pandemic. The Group recovered 90.6% of total rental income and service charges due in respect of the WE assets for March, April and May, with the balance deferred up to December 2020. Approximately 80% of the deferred rent is expected to be written off. The Company may agree limited further deferrals for the months immediately following lockdown.

## **WE asset sales**

The sale of Langley land failed as purchasers' funders withdrew from the transaction. Selling approximately €508 million of property in WE in 2020 calendar year is no longer feasible as most potential purchasers are adopting a wait-and-see approach. Therefore, the Group will be managing some of the WE assets longer than anticipated. This includes the Flensburg, Braunschweig and Bruchsal retail assets in Germany as well as the Adagio hotel and the land holdings in UK. MAS is adopting management changes to effect operational improvements to these assets and to reduce their high operating costs. Sales worth €105.5 million are currently under way, and the Group will put assets of a further €234.2 million on the market in September 2020 with a view to complete these sales by December 2020. The Company targets for total net proceeds of €158.4 million from these transactions.

## **Developments**

Given the unfolding events, all ongoing construction works in relation to developments, extensions and redevelopments, except for completing Dambovita Mall (originally opening in May 2020 but postponed to 20 August 2020), refurbishment and reconfiguration works of Atrium Mall and Galleria Stara Zagora, ongoing works in Zurich and development works in relation to Marmura Residence, were put on hold early March 2020. At the end of April 2020, MAS had invested €28.2 million in DJV developments put on hold or not yet under construction.

## **Bank debt and liquidity**

To enhance liquidity, MAS drew down in full the available bank debt facilities at the start of the COVID-19 crisis in Europe, and, as a result, had €468.2 million of secured and unsecured debt as at the end of April 2020. Of this amount, €30.2 million is repayable by 30 April 2021 and a further €61.7 million is repayable by 30 April 2022.

The Group's secured bank debt entails compliance with both income-based covenants (twelve-month rolling debt service coverage ratios that are backward looking based on reported numbers, and forward looking, based on management forecast) and loan to value (LTV) covenants. Covenants generally are not of concern. Stress test forecasts indicate that breaches of LTV covenants are unlikely. Romania and Bulgaria have introduced measures protecting borrowers in relation to the lockdowns and banks are generally supportive in granting waivers where required due to lockdown. MAS expects appropriate waivers will be granted as required to deal with income covenant breaches due to lockdown, if required.

In addition to secured bank debt, MAS has an unsecured revolving facility at MAS Real Estate Inc level, which is currently fully drawn and expires in June 2022. The financial covenants governing this facility include a Group wide minimum consolidated net asset value of €600 million, a minimum 2.5 ratio of consolidated EBITDA to accrued interest on Group senior debt and a Group LTV ratio not exceeding 50%. Breach of these covenants, amongst other, results in a suspension of dividend distributions while the breach continues. Current stress test forecasts indicate that breaches are unlikely.

MAS held €68.0 million in cash on 30 April 2020 and a further €40.9 million in listed securities (figures not proportionally consolidated). This leaves the Company in a strong position to meet day-to-day financial obligations, including commitments to the DJV. On 30 April 2020 the Group had an ongoing undrawn commitment to the DJV of €250 million (in addition to the €18.3 million balance of the vendor financing facility payable to the DJV). If funding is requested, but not immediately available, MAS' obligations are limited to €120 million on a rolling six-month basis. Even though no relevant drawdown request has currently been made and the DJV has deferred most construction costs associated with its development pipeline, it may seek to drawdown funds as new investment opportunities are identified. These may

include, in addition to development and redevelopment opportunities, acquisitions of income producing assets and investments in listed securities.

### Strategy changes and prospects

Prior to the pandemic, MAS' strategy was to dispose of Western European assets and invest the proceeds in higher growth Central and Eastern European retail assets and residential developments, partially via DJV to which MAS has an outstanding funding commitment. This was based on a predicted high growth in consumption in CEE (compared to WE). The performance of MAS' Western European assets had previously negatively impacted total returns. The Group targeted high growth, ambitious total returns which involved extensions to existing assets and asset management measures. It was expected to take approximately four years from December 2019 for the redeployment strategy and asset management initiatives to take full effect (as planned developments and extensions in CEE were expected to be completed during 2023). The factors expected to have a major influence on total returns over the period were:

1. growth in rental income from retail properties driven by growth in consumption and asset management initiatives: the Group set out to achieve approximately 5% like-for-like (LFL) growth in annual rental income in CEE from the 2019 base to 2025;
2. net proceeds from the disposal of Western European assets and listed securities;
3. timing and successful deployment of approximately €891million in developments and extensions in property directly owned by MAS and in the DJV (figures not proportionally consolidated), and the generation of further development pipeline;
4. cost and availability of debt finance;
5. capital raising and/or buying back of MAS' shares; and
6. new income investment opportunities in CEE.

The pandemic not only altered consumers' short-term behaviour and severely disrupted retailers' operations, it also caused a deep global recession. Even if there is significant uncertainty as to the recession's length, it is expected to cause a significant contraction in consumption, which will directly affect tenants' financial health, annual rental income growth derived from retail properties and demand for residential properties. The Group no longer expects to achieve approximately 5% LFL growth in annual rental income from its Central and Eastern European retail properties over the period to 2025. Instead, the Group expects that consumption in CEE should contract significantly and is making plans based on the assumption that annual net rental income will take between 4 and 5 years to recover to pre-pandemic levels. Strong LFL growth in annual rental income not only drives growth in distributable earnings per share, but also impacts the Company's long-term borrowing capacity (via growth in asset values), enabling further investment as more capital is generated for investment even if distributable earnings are paid out to shareholders. Robust long-term growth has an amplified positive bearing on total returns. The opposite is the case if LFL earnings are negative, as relative gearing increases and substantially less capital is available for investment over the same period.

A significant reduction in consumption will probably also affect the feasibility of development opportunities in the current pipeline, which is why MAS and DJV are reconsidering the developments and extensions opportunities previously reported. This assessment will be completed when adequate data related to the second half of the 2020 calendar year is available, assuming further strict trading restrictions are not introduced during this period) and there is a low probability of lockdowns during 2021 calendar year. If the reduction in consumption is comparable to the one the Group is preparing for, most pipeline developments will be delayed.

Net proceeds for some Western European assets may be negatively affected by the recession, but this could be offset by other assets in WE becoming more attractive due to highly secure income streams and low interest rates (the result of financial stimulus in WE). This includes assets leased to essential retailers, such as the Edeka portfolio, Germany, and assets leased to tenants with payment capabilities unaffected by the recession such as New Uberior House leased to the Bank of Scotland, the Zurich industrial asset leased to DPD and the German industrial asset leased to Volkswagen.

Long-term, consumption growth in CEE is still expected to outperform WE. Even if less capital is available for investment over the same timeframe than anticipated before the pandemic, it is expected that the recession should generate investment opportunities to acquire assets in CEE at attractive prices and to participate in growth from a lower base. The recession is also expected to negatively impact construction costs and cause financial distress to competitors. If this occurs, new opportunities may emerge.

### Dividends

MAS calculates distributable earnings per share consistently and combines this with a sustainable dividend policy. Considering the matters discussed previously, in relation to the impact of the recession on rental income LFL growth and long-term borrowing capacity, outstanding funding commitments to the DJV, the uncertainty of asset sales in WE and other capital expenditure (currently postponed), the Company will not be declaring a dividend in respect of the six months ending on 30 June 2020 (4.97 Euro cents per share was declared for the six months ended 30 June 2019). Once funding commitments are covered, MAS will consider dividend payments in the context of relevant circumstances and factors, such as the availability and attractiveness of investment opportunities relative to available liquidity and in

line with the long-term investment approach of maximising total long-term returns from investments on a per share basis by concentrating on capital allocation, operational excellence, sensible leveraging and cost efficiency, thereby sustainably growing distributable earnings per share.

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