MAS Real Estate Inc.

Registered in the British Virgin Islands

Registration number 1750199

JSE share code: MSP

ISIN: VGG5884M1041

LEI code: 213800T1TZPGQ7HS4Q13

Voluntary trade update and pre-closing statement

10 December 2020

Introduction

This voluntary announcement is a pre-close update released prior to the results for the interim period ending 31 December 2020 for MAS Real Estate Inc (hereafter referred to as MAS, Company or Group), and positions the results within the context of the Covid-19 pandemic. The financial information contained has not been reviewed, or reported on, by Company's auditors. Unless otherwise indicated, all figures are presented on a proportionate consolidated basis.

Covid-19 restrictions on 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, and hospitality, retail, office, industrial assets and development land in the UK (hereafter, Germany and UK 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.

In August 2020, the Company published its Financial Results for the year ended 30 June 2020 during which period authorities in all regions where MAS operates introduced strict pandemic related restrictions, for instance, closing all non-essential retail property and hospitality operations spring 2020. Inevitably, this directly, and negatively, impacted the performance of MAS' non-essential retail and hospitality tenants and some smaller essential retailers.

By July, most restrictions were lifted and tenants representing approximately 95.2% of gross rental income could trade. Notable exceptions were indoor food and beverage and leisure tenants in Romania and the hotel and retail tenants in Scotland.

From July to the end of October, all tenants gradually re-opened, excluding the aforementioned indoor food and beverage tenants and some leisure tenants in Romania (including playgrounds and cinemas). In Europe, due to a significant rise in infections since the summer, authorities have introduced new measures to limit Covid-19's spread. Bulgarian and Polish authorities re-introduced strict trading restrictions. Polish authorities closed non-essential tenants for three weeks in November 2020, while authorities in Bulgaria closed non-essential retail operations in the last week of November 2020 with the stated intention to reopen 21 December 2020. In Romania, a patchwork of lighter regional restrictions were introduced, in November 2020, which varied from limiting trading capacity to closing non-essential retailers on certain days or weekends (Zalau, Baia Mare), with restaurants and fast food operators generally limited to takeaway. On 20 November, German authorities introduced capacity restrictions for non-essential retailers, while restaurants could only provide takeaways, with the stated intention to reopen 20 December 2020. Edinburgh's hotels and retailers have been negatively affected by the Scottish Government's introduction of travel restrictions and limited opening hours.

Operational performance

Following spring's initial hard lockdown, retail footfall in CEE for the period July to October 2020 gradually recovered, but remained significantly below levels for the same period during 2019. While the number of visitors for this period across all malls was down 18%, there was a dramatic variation between open-air malls (11% reduction), and enclosed malls (26% reduction). Overall, footfall during October was 85.3% of that recorded in the same period in 2019. Following the recovery, footfall deteriorated in November due to the re-introduction of restrictions (detailed above). While overall footfall in November was 30% lower than the previous year, again there was notable variation between open-air malls (17% reduction) and enclosed malls (45% reduction).

In WE, the Group has a large proportion of essential tenants, single tenant retail assets and assets with exterior entrances. Footfall measured at Flensburg Galerie (Germany) was significantly reduced: 76% July to October and 52% in November, compared to the same periods in 2019.

Despite lower footfall, total sales in CEE recovered strongly and progressively from July to October 2020. While overall sales were down 10% compared to the same period in 2019 (excluding hypermarket turnovers, as figures were not available at time of publication), on a per square metre basis, October 2020 sales were 4% lower as compared to those in October 2019. Sales for enclosed malls were down 18%, while sales at open-air malls were up 5% for tenants with exterior entrances and down 10% for those with only interior access. Groceries, DIY and pet shop sales outperformed per square metre sales for the same period during 2019. Entertainment, food and beverage and smaller retailers are experiencing very poor sales. Figures for November are not yet fully available at the time of publication.

Invoicing, collections, and occupancy

The table below summarises invoicing and cash collections in CEE and WE from July to October 2020 compared to pre-pandemic entitlements (the total income that would have been invoiced if tenant support measures are disregarded). Please note, that all figures were reported as of 8 December 2020.

Period	Pre-Covid-19 total income expectation	Due (invoiced)	Waived or deferred	Collected
	€million	€million	€million	€million
CEE				
July	3.8	3.6 (93%)	0.2 (7%)	3.4 (88%)
August	3.9	3.6 (93%)	0.3 (7%)	3.4 (87%)
September	4.0	3.7 (94%)	0.3 (6%)	3.5 (88%)
October	4.0	3.7 (94%)	0.3 (6%)	3.4 (86%)
WE				
July	2.8	2.8 (100%)	-	2.6 (92%)
August	2.8	2.8 (100%)	-	2.5 (90%)
September	2.8	2.8 (100%)	-	2.6 (93%)
October	2.7	2.7 (100%)	-	2.6 (94%)

While November collections in the WE are expected to commensurate with prior months, collections in November in CEE are expected to deteriorate due to the imposed retail closures in Poland, where legislation prohibits rent or service charges being recoverable from tenants closed for trade. By 8 December, 72% of the pre-Covid-19 total income expectation in CEE for November 2020 was collected.

Total portfolio occupancy on 30 November 2020 has been reduced to 95.1% (93.8% in CEE, 96.9% in WE), compared to 95.6% on 30 June 2020.

Consumption in CEE

As previously reported, MAS' Central and Eastern European retail strategy is based on expected strong, long-term growth in consumption, and is applicable to residential properties in the DJV. This drives both like-for-like (LFL) growth in annual rental income from commercial property, the timing and success of developments and extensions in property directly owned by MAS and partially via the DJV, and a strong development pipeline. The long-term growth of consumption in CEE was, and still is, expected to outperform WE, however, the intensity of the pandemic and its strong recessionary impact have necessitated a strategic re-assessment, including re-evaluating development and extension opportunities, a large number of which were placed on hold by MAS and the DJV, pending the collection and assessment of data during the second half of the 2020 calendar year.

New measures introduced by authorities in the Group's markets to limit the spread of Covid-19 since summer 2020 have generally not been as restrictive as spring's hard-lockdown. At the time of publication, thirteen Covid-19 vaccines are in the third (and last) clinical test phase, and in all cases these trials should be completed by mid-December. More than 58 vaccines are in the first and second clinical test phases. Developers of three of the thirteen vaccines in the last clinical test phase have announced preliminary results indicating up to 95% efficacy. European regulatory approval of vaccines, which have reported results from the final test phase, is estimated to occur end 2020/early 2021. The European Union (EU) has pre-contracted, or is currently pre-contracting, large numbers of doses for the most promising vaccines currently in the third clinical phase for equitable distribution across all EU countries. Should vaccines be approved and manufactured as expected, it should take up to six months to vaccinate 60% of the population in MAS' markets, and the Company expects retail trading patterns will start to return to normal in line with the roll out of the vaccine.

Private consumption in CEE has not contracted as significantly as initially expected and it appears it will recover faster due to less stringent anti-pandemic restrictions and the anticipated relief provided by vaccination. Although significant uncertainty remains, the

Group expects, and has updated plans on the basis that, private consumption in its markets will recover to pre-pandemic levels by mid-2022 (calendar year).

CEE retail prospects

Covid-19 altered consumer behaviour and severely disrupted retail operations. Leisure and food & beverage tenants, including indoor cinemas, playgrounds, restaurants, casinos and fast-food operators in food courts (especially in enclosed malls), will continue to experience extremely low turnover until the pandemic ends and confidence is restored. These categories comprise approximately 11.4% of rental income in CEE and 3.1% in WE.

Sales figures from July to October 2020 reveal that larger non-leisure anchor tenants, especially in open-air malls, are performing satisfactorily. Smaller retailers and leisure tenants are not performing well and may require ongoing support, which, where warranted, the Group will provide. The current forced trading closures and limitations are expected to be lifted by January 2021. If the sales trends mentioned above resume, and tenants remain solvent, MAS' collection rates for the 2021 financial year should exceed the previously expected 83% of pre-discounted contractual rental income in CEE, in respect of most of the 2021 financial year, except for Poland in November (where legislation prohibits rent or service charges being recoverable from tenants unable to trade) and Bulgaria in December due to trading restrictions.

Developments, extensions and refurbishments in the DJV

Retail development pipeline planning in the DJV has been adjusted to reflect the strong performance of anchor tenants in open-air malls from June to October 2020, the expectation that consumption levels in Company markets will recover to pre-pandemic levels by mid-2022 (calendar year), and belief that a vaccine will be widely available in the second half of 2021 (calendar year) enabling consumer behaviour to begin returning to normal, and is detailed below.

Construction continues at Sepsi Value Centre and the opening is planned for March 2021. Currently, 90% of the planned GLA is leased to tenants including anchors: Agroland, Carrefour, CCC, dm - drogerie markt, LC Waikiki, New Yorker, Pepco, Sinsay and Sportisimo.

Construction of Barlad and Prahova Value Centres is planned to start late March or early April 2021 with openings planned for the last quarter of 2021 calendar year. Works at Alba Iulia, in respect of an enclosed mall, as opposed to an open-air mall, are planned to commence in September 2021.Construction works at Arges Mall and Mall Moldova are presently unscheduled.

Current information regarding residential developments suggests that downward pressure on demand is disproportionally affecting lower income groups, which are not the target demographic for the DJV's developments. This information is supported by healthy sales following the summer.

Work continues on Marmura Residence, the DJV's first residential development in Bucharest, and is expected to be completed June 2022. At the end of November, of 277 apartments released for sale, 193 had been sold (70%). At Avalon Estate, 39 villas, townhouses and apartments were released for sale prior to the issue of the building permit, a further 83 apartments were released for sale late July and work commenced November. To date, 56 dwellings, including all Phase One villas (46% of Phase One units), have been sold. In February 2021, a residential sales office is planned to open at the Silk District site and, subject to permitting, residential works are planned to commence July 2021. The original Silk District office development remains on hold.

Extensions and refurbishments to directly owned assets

Planned extensions to directly owned assets, Militari Shopping Centre, Burgas Mall and Nova Park remain on hold and will be re-assessed by the second half of the 2021 calendar year. Refurbishment works of Galleria Stara Zagora have been completed and refurbishing and reconfiguration works at Arad are ongoing.

Asset Sales in WE

Disposal of Western European property is a strategic priority, rather than a necessity. In combination with the two disposals occurring after June 2020 referred to in the *Directors' Commentary* accompanying the 2020 financial results, MAS aims to dispose of property to the value of €351.6million by December 2020.

Following vendor due diligence and the dissemination of detailed relevant information to numerous potential purchasers in September 2020, interest in the assets was very strong, and, as a result, good progress has been made to date. Not only have sales to the value of €112.9million been concluded (€9.3million of which are subject to closing as of the date of this announcement), but further transactions to the value of approximately €295.6million are at advanced stages of negotiation and expected to be completed in the following weeks. Announcements will be made as appropriate.

MAS shares purchases by the DJV

After 30 June 2020, the DJV acquired 13,004,838 further MAS shares on the open market, bringing its holding to 42,998,476 (6.1% of issued shares) on the date of this announcement.

Following the initial share purchases, market participants have sought clarity on the benefits of the MAS share purchase by the DJV as opposed to direct purchase by MAS itself.

Background

'DJV' refers to a separate corporate entity, PKM Development Limited (PKM Development), that has its own board of directors and an independent governance structure. MAS owns 40% of the ordinary share capital of PKM Development, an investment that was conditional on it undertaking to irrevocably provide preference share capital to PKM Development on notice of drawdown (Funding Commitments). To date MAS has invested €186.7million in preference shares, with an outstanding obligation of €233.3million. The balance of the ordinary share capital was taken up (for €30million in cash) by Prime Kapital, who in terms of applicable contractual undertakings and restrictions:

- (i) is not permitted to undertake Central and Eastern European real estate developments outside PKM Development;
- (ii) contributed secured development pipeline to PKM Development at cost;
- (iii) takes responsibility for sourcing further developments;
- (iv) provides PKM Development with all the necessary construction and development services via the integrated in-house platform, and
- (v) does all of this exclusively with PKM Development.

These obligations are referred to as DJV Arrangements.

Prime Kapital is a private group of companies, founded in 2015 by Martin Slabbert and Victor Semionov after they resigned from the board of NEPI plc, by then a very successful property investment and development group in CEE, that they jointly founded in 2007, and after disposing of their indirect beneficial shareholdings therein. Prime Kapital benefits from exclusive capital sources, extensive in-house property construction and development functions, offices, operational permits and other assets, and has a robust track record of development in CEE. The Group is owner-managed by eight investor-partners, including Martin and Victor. It is subject to its own governance structure.

The DJV Arrangements between Prime Kapital and MAS were entered into February 2016, and pre-date Martin and Victor's appointment to MAS' Board of Directors in November 2019. Martin and Victor assumed the positions of CEO and CFO, respectively, November 2019, pursuant to, and as a requirement of, the acquisition by MAS of Prime Kapital's interest in a portfolio of Central and Eastern European assets, including the property management platform. The interest was paid for in MAS shares and approved by shareholders (and is referred to as the Transaction).

MAS' governance framework and process

MAS' Board comprises eight Non-Executive Directors and four Executive Directors (two of whom are Alternate Directors). The Board is compliant with the King IV code on corporate governance. The Executive Directors' roles are clearly defined, ensuring that they do not have unlimited power, or control over, significant decision-making processes and MAS has well-established conflict of interest procedures preventing Board members with such conflicts from participating in discussions of, and voting on, conflicted matters.

Additionally, the following principles were agreed by MAS and Prime Kapital, and approved by MAS' shareholders, at the time of the Transaction (when Martin and Victor were appointed to MAS' Board):

(i) any potential acquisition by MAS from PKM Development during Lock-in Period must be approved by MAS' shareholders;
(ii) any extensions, or alterations to, the Funding Commitments provided by MAS to PKM Development during Lock-in Period must be approved by MAS' shareholders, and
(iii) Martin and Victor are precluded from being Directors of PKM Development, and prevented from representing MAS with respect to the DJV Arrangements.

Other than this, PKM Development and MAS' Funding Commitments to it are unaffected by the Transaction.

Benefits of DJV share purchases

As disclosed in the *Directors' Commentary* accompanying the 30 June 2020 financial results, MAS cannot consider share buybacks, while it has unfunded commitments (including those to PKM Development). It also stated that MAS would consider buying back its own shares once it had provided for its funding commitments in full.

Separately, the DJV postponed some developments due to Covid-19 and has considered opportunities to mitigate the potential negative impact on returns resulting from temporary access to excess liquidity. The DJV could choose not to draw down immediately on outstanding Funding Commitments, leaving MAS with the disadvantage of having excess liquidity that cannot be otherwise invested, and the accompanying drag on earnings. Drawing down on Funding Commitments is beneficial to MAS because:

(i) it further reduces MAS' risk with respect to outstanding Funding Commitments;
(ii) it reduces MAS' temporary excess liquidity, and
(iii) it provides an indirect economic benefit to MAS, through the acquisition of MAS shares by the DJV at a substantial discount to net asset value (NAV), a price which currently implies returns that competes with, or exceeds that, available from developments.

If MAS shares are disposed of profitably, the DJV will have increased capital available for developments. Therefore, the benefits of share purchases are not only limited to the predicted uplift in MAS' share price, but should have an exponentially positive effect on the DJV's future financial performance, as increases to its capital base multiply developmental capacity and hence growth in earnings. For example, assuming a 10% net initial yield on developments, a 43% development margin and post completion debt secured equal to seven times net rental income, the DJV can perform, at cost, commercial developments to the value of more than three times its capital base. MAS' benefit from the DJV's share purchases, via the combined coupon on preference shares and ordinary shares interests in the DJV, is expected to be significantly more than its portion of the DJV's returns on the MAS shares acquired.

The Board believes that legal commitments to third parties should be fulfilled and that the DJV is a key investment to the Company's strategy. The Board does not consider it worthwhile to pursue an amendment to the DJV Funding Commitments, enabling MAS to repurchase its own shares. Such an attempted alteration will probably be detrimental to the DJV (and consequently to MAS' returns therefrom) and, as a result, counter-productive. Even if there is a case that a deferral, or reduction of, MAS' Funding Commitments to PKM Development would be in MAS' best interest, PKM Development may not consider such a proposal favourably. It cannot be simply assumed that a proposal by MAS to unilaterally reduce its Funding Commitments would be possible without exposing it to a potential loss of medium and long-term benefits associated with its contractual position in relation to the DJV. On the contrary, the rational assumption, as is generally the case in all contractual relationships, must be that a reduction of contractual obligations requires a quid pro quo and comes at some cost. It should be kept in mind that in exchange for funding commitments, Prime Kapital undertook various commitments to MAS and agreed to several exclusivity extensions in respect of the DJV Arrangements, amongst others. A significant reduction in development capacity in the DJV (potentially leaving Prime Kapital free to complete additional developments outside of the DJV) will, in all likelihood, lead to exponentially lower future earnings from the DJV which may not be fully offset by the uplift to shareholders from the resulting share buybacks.

Conclusions

Based on the above, the Board confirms that:

(i) MAS has an outstanding Funding Commitment to subscribe for up to €233.3million of preference shares in PKM Development;

(ii) the directorships of Martin Slabbert (CEO) and Victor Semionov (CFO) at MAS are predicated on the pre-existing arrangements between Prime Kapital and MAS in relation to PKM Development at the time of their appointments;
(iii) the Executives are prevented from representing MAS with respect to PKM Development and DJV Arrangements precisely to avoid potential conflicts of interest during the Lock-in Period;
(iv) it is confident that the CEO and CFO have acted and continue to act with integrity and in the best interest of MAS and that they did not, at any time, seek to advance their own interests above those of MAS' other shareholders;
(v) there is no basis on which the Executives should be expected to use their interests in Prime Kapital to compel PKM Development to agree to a reduction in, or postponement to, its drawdown rights in respect of MAS' Funding Commitments;
(vi) a reduction to PKM Development's capital base in order for MAS to fund share buybacks would not necessarily leave MAS' shareholders better off as potential exponentially lower future earnings from PKM Development may not be fully offset by the uplift to shareholders from the resulting share buybacks;
(vii) PKM Development's purchase of MAS shares benefit MAS' shareholders;
(viii) PKM Development's purchase of MAS shares and potential share buybacks by MAS are not mutually exclusive, and
(ix) MAS will consider buying back its own shares once it has provided for its funding commitments in full.

Bank debt and liquidity

On 30 November 2020, MAS held €114.2million in cash and €38million in listed securities (figures not proportionally consolidated). The Group had €450.9million of outstanding bank debt and the loan to value ratio was 29.6% on the same date.

For further information please contact:
Dan Petrisor, MAS Real Estate Inc. +40 741 184 921
Java Capital, JSE Sponsor +27 11 722 3050