UNIBAIL-RODAMCO-WESTFIELD

October 2, 2020
Sent via Email

Dear Mr Koster,

Thank you for your letter dated September 29, 2020, which raised a number of questions and issues. We have attached our responses and trust they addresses the matters you raised. For your information, the questions referring to the views of the Supervisory Board have been answered on its behalf by the Chairperson, Colin Dyer.

Should you have further questions, we would be more than happy to address these either in a meeting or in writing. Please feel free to reach out via our IR team as necessary.

Kind regards,

Colin Dyer
Chairman of the Supervisory Board

Christophe Cuvillier
Group Chief Executive Officer and Chairman of the Management Board

1. **Based on what analysis does URW believe capital raise of EUR 3.5 Bn is sufficient to endure the most adverse scenario?**

   In response to the outbreak of the COVID-19 pandemic, the Group has performed a rigorous scenario analysis to determine the steps required to further strengthen its balance sheet and ensure the Group can maintain uninterrupted access to the capital markets to be able to execute its strategy for the benefit of all of the Groups' stakeholders. With €24 Bn of debt and a weighted average maturity of eight years, access to debt markets is critical as the Group on average must refinance approximately €3 Bn of debt maturities per year. Furthermore, equity investors expressed concerns about the Group's leverage following the onset of the pandemic.

   The RESET plan, developed by URW's Senior Management Team and discussed extensively with the Supervisory Board, advisors and the rating agencies, will restore the financial strength through a €9.0+ Bn deleveraging plan and consists of:

   - A fully underwritten €3.5 Bn capital raise to be used to immediately reduce leverage;
   - Limiting cash dividends through scrip and/or a lower payout ratio, resulting in €1.0 Bn cash savings over the next two years;
   - A further €0.8 Bn reduction in development and non-essential operating capex; and
   - €4.0 Bn of disposals expected to be completed by year-end 2021.

   This plan is designed to enable the Group to preserve the Group's strong investment grade credit rating (which the rating agencies confirmed with ratings of A- / Baa1), secure uninterrupted access to credit markets and maintain a sustainable capital structure with an LTV below 40% and net debt / EBITDA below 9x. This will best position URW to execute on its long-term strategy.

   The RESET presentation contains several scenarios with respect to potential asset value evolution and future cashflows. These scenarios show that following the €3.5 Bn capital increase and completion of the €4 Bn disposal programme, the Group could withstand a potential 20% fall in asset values while keeping the LTV under 40%, the high end of URW's 30-40% LTV internal target zone.

2. **Why hasn't URW chosen to increase the size of its disposal program, and in doing so, limit the number of shares to be issued with the capital raise?**

   The RESET plan has been carefully calibrated to use the many levers at URW's disposal to accomplish its deleveraging objective. URW had already increased its disposal programme and now has accelerated it, planning to sell €4 Bn of Continental European assets before year-end 2021. While this is an ambitious target, the Group is confident in its ability to achieve those disposals. However, disposals do take time and, by themselves, are not enough to get to the leverage level necessary to ensure the above-mentioned goals are met within a timeframe URW considers prudent in light of the uncertainties associated with the COVID1-9 pandemic.

   Massively increasing the disposal target further and relying only on URW's capacity to successfully execute such disposals in in the current market in just 18-months would have been irresponsible.

3. **During consecutive quarterly financial results presentation, URW repeatedly stated that there was "ample headroom" with respect to the leverage ratio, as stipulated in the covenant agreement. Management remarked on various occasions over the past years that the covenant-LTV was considered "the most relevant" as "it governed access to liquidity". The key reason for the capital raise now appears to be that URW wants to preserve a strong credit rating to ensure access to debt markets.**
    a. **What is the rationale of the sudden change in focus as it appears in communication?**

    The LTV governs access to the Group's credit facilities and this ratio has been included in the Group's presentations to address specific questions investors have been asking about the URW's covenants.

    Deleveraging has been a critical priority for the Group for some years now. Disposals have always been seen by URW's senior management team as the principal method by which to accomplish this. The unprecedented and unforeseen COVID-19 pandemic has impacted several industries particularly hard, including airlines, the hospitality industry as well as retail, both retailers and retail landlords. The pandemic required a significant acceleration of the Group's deleveraging in order to maintain the necessary access to the debt markets described above. The Group does not wish to pin the future of URW solely on the hope that a vaccine will be available soon and that life will return to normal quickly. The RESET plan is a prudent step by management to ensure the Group maintains unfettered access to the capital markets and is in line with the Group's H1-2020 results commentary. During the earnings call the Management Board indicated that deleveraging is a priority for the company and while disposals were the preferred option and main focus, all options were always on the table.

    b. **What is the relevance of the covenant-LTV ratio given that RESET has primarily been the consequence of credit rating agencies' view on URW's financial position?**

    The LTV covenant is very relevant as breaching such covenant level would result in a default. However, it is likely that a LTV higher than today but still below the covenant levels could impede the Group's consistent access to capital. In the event LTV would reach levels the market would consider "too risky," investor demand could wane as the perceived risk exceeds their relative risk tolerance levels. Through the RESET plan, the company is able to address the consequences of potential negative asset revaluations. Pro-forma for the capital raise and disposals, the IFRS LTV, the only LTV ratio on which the covenants are based, would amount to 30.9%.

    c. **Is URW willing to publish a LTV calculation that is more in line with the definitions that are used by the rating agencies?**

    The rating agencies and investors each have their own calculation and make their own assumptions with respect to expected operational performance and asset valuations. URW publishes both an IFRS and Proportionate LTV and provides the necessary building blocks to make adjustments so everyone can calculate the LTV they determine to be relevant to them.

4. **Has Unibail considered not paying a dividend so that the size of the capital raise could be limited?**

   Yes. Just after the onset of the pandemic, URW announced it would cancel the second installment of the dividend for 2019, thus saving approx. EUR 750 Mn in cash. One of the five strategic priorities of the RESET plan is limiting cash dividends through scrip and/or a lower payout ratio, resulting in €1.0 Bn cash savings over the next two years. URW is committed to adhere to the payout obligations of the REIT regimes in the countries in which it is a REIT and can do so using various tools.

5. **According to RESET, URW target EUR 1 Bn in cash savings over the next two years by introducing a scrip dividend. Is URW willing to consider the introduction of a 100 percent cash dividend instead? If not, why**?

   URW has considered several alternatives for the dividend, however, the €1 Bn cash savings through a scrip dividend and/or lower payout is an integral part of the RESET plan to delever. The plan is to limit the cash dividend during the next two years to accomplish the €1.0 Bn in savings. The payout ratio will of course be taken into consideration and this will determine the composition of the dividend over the next two years. Thereafter, management expects to revisit the dividend.

6. **Did the URW Supervisory Board reconsider the position of the Management Board members as a result of the disappointing share price performance and increasing lack of confidence of shareholders over the past years?**

   The SB unanimously supports the RESET plan and the proposed capital increase as the only method to ensure the operational flexibility of the Group, to the benefit of its shareholders and other stakeholders. We strongly support our management's ability to execute the RESET plan, and to continue their proven operational and financial leadership of the company. This is underscored by the SB's unanimous commitment to subscribe to the issue.

7. **Does the Supervisory Board believe the awarded and granted variable compensation of Management Board members over the past years can be justified?**

   Yes. The remuneration policy is designed after careful consideration, in line with best market practices and shareholder interest. The policy ensures the alignment of the Management Board with shareholders and with the Group's strategy. The objectives and guiding principles are outlined in the URW Registration Document available on the Group's website.

   Each year the Remuneration Policy is subject to a binding ex-ante vote submitted to the AGM. In addition, every year the AGM is asked through a binding ex-post vote to approve the remuneration of Management Board members for the past year (Short Term Incentive can only be paid out after shareholder approval) and the remuneration report for the past year (SB fees are suspended in case of non-approval by shareholders).

It is to be noted that the Long-Term Incentives granted to the Management Board members are subject to very strict external and internal performance conditions linked to the company's relative performance to peers (Total Shareholder Return) and capacity to reach earnings guidance. Finally, as shareholders themselves, the Management Board members are directly exposed to share price movements and fully share the other shareholders' experience.

8. **In the aforementioned press release, a brief update was provided on key operating statistics in most of the countries URW operates in. However, no data was provided on the US. Can URW share more data with investors with respect to US operations (at least footfall, tenant sales, and rent collection?**

   URW will provide an update on the US performance in the Q3 results, which will be published on November 1. As the RESET plan presentation focused on countries that were fully reopened, the US was not included, as indoor operations for five malls in LA county continue to be suspended and Westfield World Trade Centre in New York City only reopened on September 9, as indicated in the RESET plan press release of September 16, hence operational data for the US are not yet meaningful.

9. **There is a clear difference in financial performance between the UK and the US on the one hand and Continental Europe, on the other hand. The former Westfield-assets were already underperforming; however, this is aggravated since the COVID-19 outbreak. Did URW perform a root-cause-analysis on the Westfield-acquisition in 2017 as company performance has subsequently been subpar?**

   While the US and the UK retail markets were clearly more challenging, URW was making good progress and delivering on announced cost and revenue synergies. COVID-19 dramatically changed the situation and has exacerbated trends already in motion and for which the Group had been positioning its portfolio. It is always possible to debate the price paid for any asset in retrospect with the benefit of hindsight, however the Group is still convinced about the strategic rationale of the Westfield transaction, creating a unique high quality cross-Atlantic platform offering an unparalleled experience for customers and making URW a critical partner for retailers and brands.