

MERCIALYS

French limited company (société anonyme) with capital of Euro 92,049,169
Registered office: 16-18, rue du Quatre-Septembre, 75002 Paris, France
Paris trade and companies register: 424 064 707

ANSWERS TO WRITTEN QUESTIONS FOR THE ORDINARY AND EXTRAORDINARY GENERAL MEETING ON APRIL 23, 2020

Mercialys held its Ordinary and Extraordinary General Shareholders' Meeting as a closed session, without shareholders or their representatives attending in person, on Thursday April 23, 2020 from 10am CET. The Board of Directors answered the written questions submitted to the Company for this General Meeting:

I. Questions relating to the Company's activity and operations

- **Within Mercialys' assets, are there any large food stores that are not operated by the Casino Group, particularly following the disposal plans launched by the Casino Group? And if so, has there been or will there be any impact on the continuity of commercial leases?**

At end-December 2019, Mercialys owned 58 sites, with 47 shopping centers, six high-street retail assets and five standalone assets (two cafeterias, two fast food outlets and one land bank plot).

Out of the six high-street retail assets, five are Monoprix sites and one is a Leader Price supermarket, i.e. Casino group brands (nota bene: the Leader Price chain sale to the Aldi group is being finalized).

Out of the 47 shopping centers, all of them are anchored with a hypermarket or supermarket. Mercialys owns the premises for 24 of these large food stores, with 22 Géant hypermarkets, one Casino supermarket and one Monoprix supermarket. These are also exclusively Casino Group brands. Some of the premises for these large food stores are not 100% owned by Mercialys: for instance, the Company is the joint owner of its assets in Corsica and has set up two joint ventures with BNP Paribas which own 10 hypermarkets.

With regard to the 23 shopping centers for which Mercialys does not own the large food store premises, the Casino Group's initiative to divest its premises and operations has led to changes in the food banners.

For instance, the Rodez site is already anchored with a Hyper U hypermarket, while the Rennes site has a Leclerc hypermarket and, subject to approval from the French competition authorities, the four sites on Reunion island will soon be anchored with three Carrefour hypermarkets and one RunMarket hypermarket (local brand affiliated with Intermarché).

Concerning the continuity of leases, the majority of the hypermarket leases signed by Mercialys with the Casino Group are traditional 3-6-9-12 year leases with a fixed rent structure and no variable component, covered by a traditional indexation clause. Details of these leases were published in the 2019 Universal Registration Document on page 47. The sales completed at this stage have not had any impact on the continuity of these leases, because they have not concerned any premises owned by Mercialys.

Moreover, the current context is not in any way affecting their continuity, as all the food-anchored tenants across Mercialys' portfolio are open.

➤ **What proportion of rental income is represented by “essential” stores, i.e. stores authorized to remain open during this crisis period by the French Government’s March 2020 Decree?**

The essential stores covered by the Government Decree of March 15, 2020 include a significant number of the retailers present in Mercialys' shopping centers, whose retail mixes are focused primarily on everyday consumption, and specifically:

- Food (all formats, fresh and frozen produce);
- Mobility (vehicle equipment, maintenance, repairs and fuel);
- Information (IT and communications equipment and maintenance);
- Health (pharmacies, drugstores and funeral services);
- Hygiene (laundromats and dry cleaners);
- Press (newspapers and stationery);
- Tobacco;
- Construction (hardware and retail construction materials stores);
- Financing (banking and insurance networks).

The categories of stores authorized to continue trading represent almost 40% of the Company's total rental base. While certain retailers have not been able to or have not wanted to remain open, the food-anchored tenants, which represent 26% of the Company's annualized rental income, are systematically continuing to operate.

➤ **What support measures are you putting in place or considering for retailers in the current context?**

Faced with an unprecedented situation, Mercialys has from the outset capitalized on its adaptability and responsiveness to meet the challenges resulting from the current health crisis. All its efforts are focused on effectively safeguarding, with the strictest respect for the safety measures, its business and its relationships with all its stakeholders.

For its tenant retailers, Mercialys has established regular dialogue since the start of the crisis. Its lettings teams have already been in touch with nearly 500 of the 900 retailers in the portfolio in order to take stock of the situation. Alongside this, the operational teams in the centers are working locally to relay feedback and requests from retailers, whether or not their stores are open. This two-tier approach is enabling Mercialys to ensure a high level of coverage for tenants across its portfolio and to assess, both in real time and on a case-by-case basis, the actual situation for retailers.

Very early on, the Company took some major decisions supporting a large majority of retailers, particularly those that are not authorized to open, including monthly rather than quarterly requests for rent and charges, as well as the suspension of the collection of rent and charges from April 1, 2020 and for subsequent shutdown periods ordered in connection with the health state of emergency. Targeted measures will also be rolled out for very small businesses.

In addition, Mercialys is looking to reduce and defer when possible the costs and billing for work to be charged back to all its tenants, while maintaining all the arrangements needed to ensure the safety of people.

The Company is continuing to actively listen to its ecosystem and, in line with a civic-minded spirit to support the national solidarity effort, it has responded to the French Government's appeals to moderate dividends. It is also taking on board the French Ministry for the Economy's appeals for certain rents to be canceled.

➤ **Are you contributing to community interest actions as part of the fight against the epidemic and its consequences?**

Mercialys is a responsible company, as illustrated by its CSR strategy, which was put in place in 2015 and has been recognized each year with awards from the best rating agencies and industry benchmarks.

The Company has been very active since the start of the epidemic.

Firstly, in all the areas where it operates, it is maintaining regular links with its end customers by offering appropriate content for the situation (e.g. entertainment for children), thanks to the tools from its powerful digital ecosystem.

In addition, it is working to support local solidarity through several operations, covering 42 centers to date. These initiatives aim specifically to:

- maintain links with elderly people in nursing and retirement homes, with the "1 letter, 1 smile" operation, which has made it possible to date to send more than 2,000 messages to people who may be isolated;
- provide shelter for women victims of domestic violence, liaising with the French Secretary of State for Gender Equality, with Mercialis setting up two active units in Brive and on Reunion island;
- donate products and equipment to the fire services, hospitals, pharmacies, nursing homes, Secours Populaire and Fondation des Hôpitaux de Paris, with nearly 200 local actions supported by retailers at our sites;
- support local trade, with local producers promoted at 21 sites.

An operation to organize blood drives in center car parks, in partnership with Etablissement Français du Sang, is also being looked into.

➤ **How will the new services rolled out in 2019 (particularly in terms of last-mile logistics) enable your tenants to continue operating during the lockdown period?**

The new consumer expectations and the targeted responses identified by Mercialis include the need to position the centers within the last-mile logistics ecosystem.

In this context, Mercialis has developed Ocitô, a proprietary technical home-delivery solution, which has currently been deployed at the Espace Anjou site in Angers. At this stage, the solution makes it possible to order meals from the center's food outlets, which are then delivered to consumers at home or work.

In time, this platform will cover all the categories of products that are sold by the shopping center's stores and that are suitable for simple home delivery. It will also be deployed at several other Mercialis centers in the next few quarters.

At the Angers site, Mercialys has also set up a groundbreaking partnership with OneStock to optimize the shipping of e-commerce packages from points of sale in its centers, further strengthening their omnichannel dimension.

OneStock's software provides retailers with a virtual unification solution for their storage points and enables them to identify the best store to ship products ordered online depending on the delivery address with its ship from store capabilities. Mercialys is making available secure premises in the shopping center, making it possible to centralize the storage of packages for retailers using the OneStock service. The Company has also set up a daily collection of packages from retailers, as well as a single collection by the transport provider Colissimo for all shipments from the centralization facility.

By reducing delivery costs and times, this approach aims to provide a concrete response to the challenge of last-mile logistics for retailers, while enabling end customers to benefit from a unified and loyalty-building buying experience. This service will also be gradually extended to cover the entire portfolio.

The abovementioned projects relating to last-mile management were inaugurated recently and will therefore not be able to have a major impact for our retailers during this crisis. Nevertheless, Mercialys has accelerated the schedule for rolling out its Ocitô service at new centers, which will make it possible to help the retailers concerned with the resumption of their activities once the lockdown has been lifted.

➤ **Were there any development projects underway before the start of the health crisis? What is the situation now and are they expected to be delivered in 2020? How are you going to allocate the cash relating to the significant asset sales carried out in 2019?**

At end-December 2019, Mercialys' portfolio of development projects represented Euro 468.6 million, including a very limited number of projects that were underway. The only project planned for 2020 was to complete work building the Retail Park at the Le Port Cap-Sacré Cœur site on Reunion island, representing a total investment of Euro 11.3 million, with just Euro 5.7 million still to be committed. The current lockdown, which concerns not only mainland France, but also French overseas territories, has at this stage suspended this development, which will resume when the conditions allow it to start up again.

In general, Mercialys' project portfolio has the advantage of being both deep (the projects planned concern 26 of the 53 shopping centers and high-street sites owned by the Company at end-2019) and flexible (enabling Mercialys to benefit from quick and sequenced building starts in line with opportunities at the various sites, and particularly emerging needs within their respective catchment areas). Almost two thirds of these projects are to be initiated by Mercialys.

With regard to the sales carried out in 2019 and the allocation of the resulting capital, note first of all that the Euro 122.4 million of sales completed last year is significant in relation to the usual rate of operations for Mercialys and the size of its portfolio. It is also important to highlight that all the types of assets held by the Company have been subject to interest from investors, from hypermarkets to shopping centers and high-street retail sites.

As regards the allocation of this capital, Mercialys has distributed part of it as dividends, in line with the regulatory requirements under the SIIC tax system for real estate investment trusts. The rest is contributing to the Company's balanced financial position and particularly its ability, with a carefully thought out and value-creating approach, to capitalize on the opportunities for investment, both internally and externally, that will emerge with the current crisis.

In any event, Mercialis is maintaining its positive dynamic approach: for instance, at the end of 2019, the Company filed a building permit for its mixed-use urban development project in Saint-Denis, to the north of Paris.

- **At the La Galerie Nacarat site in Clermont-Ferrand, the shoe retailer PittaRosso left a few months ago, leaving a large retail unit vacant, probably the second largest after the hypermarket. Is this a strategic vacancy or are you looking into possibilities to relet this space?**

The Italian shoe retailer PittaRosso decided, at the end of 2019, to leave the French market, launching a process to close all its stores. Mercialis' portfolio included two stores: one at the Clermont-Ferrand site and another at the La Valentine site in Marseille. These two spaces have been covered by an active reletting process for the past few months.

A new lease has been signed for the Marseille La Valentine site with the retailer Besson Chaussures. Its opening was planned for May 2020, but work to fit out the unit has been interrupted by the current crisis.

In Clermont-Ferrand, several possibilities are being looked into, including the creation of a medical center, as we have done at our Bastia Furiani site. This initiative is fully in line with our strategy to diversify the use of our sites.

These two vacant spaces are not included in our strategic vacancy calculations.

II. Questions relating to the balance sheet ratios and dividend

- **Is the current crisis likely to modify access to liquidity for Mercialis, particularly in terms of the commercial paper that has been used alongside bonds and that had negative rates up until now?**

Mercialis has a good level of financial resources, with Euro 410 million of undrawn financing and Euro 270 million of cash at end-March 2020, which notably includes the rent paid in the first quarter of 2020. These resources largely cover the outstanding commercial paper amounts and no further repayments are scheduled before the Euro 750 million bond maturing in March 2023.

The commercial paper market and related interest rates are currently fluctuating. The Company is continuing to closely monitor opportunities to extend its positions.

Alongside this, Mercialis is maintaining regular contact with all its banks, which have assured it of their confidence and support concerning the lines in place. The major measures adopted by the European Central Bank (ECB) seem likely to guarantee the banking system's liquidity.

Lastly, in its latest retail property research, the rating agency Standard & Poor's kept Mercialis' rating unchanged at BBB negative outlook.

- **Is extending the maturity of debt a priority for Mercialis?**

The Company's effective management of the duration of liabilities is an important dimension for the Company's Board of Directors and Executive Leadership Team.

The average maturity of Mercialys' drawn debt, including commercial paper, was 3.8 years at December 31, 2019. Excluding commercial paper, the repayment schedule for the bonds and financial resources (which are all undrawn) shows that no repayments are due before the Euro 750 million bond maturing in March 2023.

- **You have decided to limit the amount of the dividend for 2019 to the level strictly required by regulations with the SIIC tax status. Have you defined a medium-term dividend policy?**

In response to the French authorities' appeal, and in line with a civic-minded spirit to support the national solidarity effort, Mercialys' Board of Directors decided, during its exceptional meeting on April 1, 2020, to reduce the proposed dividend for 2019 from Euro 1.15 per share to Euro 0.95 per share. This amount corresponds strictly to the distribution requirements under the SIIC tax system for real estate investment trusts.

The initial amount set at Euro 1.15 per share aimed to respect the commitment made by the Executive Leadership Team for the 2019 full-year guidance, with "a dividend to be at least stable, within a range of 85% and 95% of 2019 FFO".

Mercialys has never set a medium-term dividend policy and its policy in this area is determined on an annual basis. As such, the Company made a commitment for 2020 in February this year, before announcing on March 16 that its full-year guidance was no longer applicable due to the unprecedented shock generated by the closing of all non-essential stores, to pay "a dividend that will be at least stable, within a range of 85% and 95% of 2020 FFO".

As the context does not allow the Company at this stage to quantify the impact of the covid-19 crisis on its performance, results and guidance for the year, this guidance, including the dividend policy for 2020, has not been updated and will only be once the outlook for the health context has become clearer.

- **Mercialys' share is trading at one third of its Net Asset Value (NAV), the lowest level since it floated on the stock market in 2005. At the 2019 General Meeting, you indicated that you were not planning to buy back shares beyond what was needed to cover the bonus share plans for employees and executive officers. Could you not, as a minimum, cancel these shares?**

The long-term variable compensation for executives, awarded based on bonus shares, is systematically subject to presence, holding and performance criteria. These extremely demanding performance criteria aim to ensure the effective alignment of interests between the executives and shareholders.

The bonus shares effectively received by Management have represented very low amounts for the last few years. Furthermore, as you will have read in the 2019 Universal Registration Document, the Management team did not receive any bonus shares for 2019.

Paris, April 23, 2020