MERCIALYS

**PRESS RELEASE**

Paris, February 12, 2020

# 2019 results

- **+3.6% increase in invoiced rents like-for-like,** with +1.7% excluding indexation[1], significantly higher than the objective of at least +1% excluding indexation
- **+7.9% growth in Funds From Operations (FFO)** to Euro 124.2 million, well above the objective of at least +4%
- **EPRA NNNAV of Euro 20.01 per share,** down -1.9% over six months, with an average portfolio yield rate of 5.26%
- Excellent trends for **footfall** and **retailer sales** in Mercialys' scope, clearly outperforming the national average levels. The fourth quarter benefited from a favorable basis for comparison in relation to the end of 2018, which was marked by protest movements, as well as a robust underlying trend. In a context marked by the increasing polarization of retail real estate, Mercialys is capitalizing on a portfolio that is focused on **key areas in dynamic medium-sized cities** and **refined customer knowledge** with tools enabling it to implement offers and events that are tailored to visitors, helping boost their loyalty. The rollout of these tools will continue in 2020, aiming to increase interaction between retailers and visitors. In addition, the **selection of the right retailers** for each catchment area, particularly in terms of price positioning, is a core part of Mercialys' rental policy and crucial for ensuring the attractiveness of its sites and their revenue profile
- **Loan to Value ratio** (excluding transfer taxes) of 39.5% at end-2019, compared with 40.8% at end-2018. Mercialys sold Euro 122.4 million of assets including transfer taxes in 2019, achieving an average premium versus their appraisal values of 8.4%. In a year marked by a reduction in its LTV, Mercialys also significantly reined in its investments for redevelopments and extensions. However, **significant progress was made with projects focused on the core use of assets and the sustainability of their local anchoring**: inauguration of a first health center (Furiani), delivery of two trial coworking sites (Angers and Grenoble), tests for meal delivery from a shopping center's restaurants (Angers) and delivery of interior and exterior fittings to promote customer comfort, with potential for redeployment at many other sites (Toulouse). In 2020, Mercialys **will continue moving forward with these projects, while resuming its investments and continuing with its asset rotation in order to further strengthen its balance sheet**
- Proposed **dividend of Euro 1.15 per share** for 2019, **up +2.7%** from 2018 (85% of FFO), representing a yield of 9.3% on the end-December 2019 share price. 2019 FFO covers both the dividend payment (Euro 106 million) and maintenance and IT development capex (Euro 9.5 million)
- **2020 objectives**: Mercialys is forecasting organic growth of around +2% including indexation. FFO per share is expected to be at least stable versus 2019, taking into account the impact of disposals from 2019 and 2020. The dividend will be stable as a minimum, ranging from 85% to 95% of 2020 FFO

| | Dec 31, 2018 | Dec 31, 2019 | Change (%) |
|---|---|---|---|
| Organic growth in invoiced rents including indexation | +3.7% | +3.6% | - |
| Organic growth in invoiced rents excluding indexation | +2.5% | +1.7% | - |
| Spread between the change in footfall[2] for Mercialys centers and the CNCC index[3] (year to end-December) | +310bp | +270bp | - |
| Spread between the change in sales[2] for Mercialys retailers and the CNCC index[3] (year to end-November) | +190bp | +220bp | - |
| FFO (in millions of euros) | 115.1 | 124.2 | +7.9% |
| LTV (excluding transfer taxes) | 40.8% | 39.5% | - |
| EPRA NAV (Euros per share)[4] | 20.86 | 20.53 | -1.6% |
| EPRA NNNAV (Euros per share)[4] | 21.14 | 20.01 | -5.4% |
| Dividend (Euros per share) | 1.12 | 1.15[5] | +2.7% |

[1] Assets enter the like-for-like scope used to calculate organic growth after being held for 12 months

[2] Mercialys' large centers and main neighborhood shopping centers based on a constant surface area, representing nearly 90% of the value of the Company's shopping centers

[3] CNCC index – all centers, comparable scope

[4] Calculated based on the average diluted number of shares, in accordance with EPRA (European Public Real Estate Association) guidelines

[5] Subject to approval by the Annual General Meeting to be held on April 23, 2020

# I. 2019 activity and results

**Robust management indicators**

**Invoiced rents** increased by +2.0% to **Euro 188.8 million**, driven by organic growth, which was partially offset by the prorata impact of asset disposals completed in 2018 and 2019.

**Organic growth** in invoiced rents came in at a high level of **+3.6%,** above the full-year objective for like-for-like growth of around +3%. Organic growth breaks down into +1.7% excluding indexation, significantly higher than the +1% objective, and an impact of +1.9% for indexation.

Mercialys' shopping centers continued to outperform the sector in France, in terms of **both footfall and retailer sales growth**[6].
Footfall increased by +3.0% in the year to end-December 2019, compared with growth of just +0.3% for the overall shopping center market (CNCC), giving an outperformance of **+270bp**.
Retailer sales show +3.0% growth for the year to end-November 2019, versus a +0.8% increase for the CNCC, representing a positive gap of **+220bp**. Mercialys benefited from a favorable basis for comparison in relation to the fourth quarter of 2018, which was negatively impacted by protest movements, as well as a dynamic underlying trend for consumption at its sites.

The **current financial vacancy rate** came to **2.5%**[7], stable compared with the end of 2018. The 12-month recovery rate was 96.7%, also stable versus end-2018 (96.7%).

The **occupancy cost ratio** was 10.4%, in line with the level observed at December 31, 2018 (10.5%).

**Rental revenues** climbed to **Euro 191.9 million**, up +2.4%, after the recognition of lease rights and despecialization indemnities.

**Net rental income** increased by +2.2% to **Euro 179.2 million,** reflecting the growth in rental revenues.

**+7.9% growth in Funds From Operations (FFO)**

**EBITDA** rose by +3.3% versus 2018 to **Euro 163.0 million**, while the EBITDA margin reached a high level of 85.0%, up +70bp from 2018.

The **net financial expenses** used to calculate FFO fell by -28.3% compared with 2018 to **Euro 23.5 million**, reflecting the impact of the redemption of the 4.125% bond in March 2019 and the favorable impact of the commercial paper issue. The same impacts are reflected in the real average cost of drawn debt, which came to 1.3%, consistent overall with end-June 2019 (1.4%) and down sharply from the 1.8% recorded for the full year in 2018.

**Other operating income and expenses** primarily include Euro 2.1 million of provisions recorded for a dispute at a site on Reunion Island stemming from a road network issue, as well as the Euro 1.2 million expense for research costs relating to projects that were contemplated in recent years but ultimately shelved.

The **Euro 3.3 million tax expense** mainly comprises the corporate value-added contribution (Euro 2.3 million), corporate income tax (Euro 0.8 million) and deferred tax (Euro 0.2 million).

[6] Mercialys' large centers and main neighborhood shopping centers based on a constant surface area, representing nearly 90% of the value of the Company's shopping centers.
[7] The occupancy rate, as with Mercialys' vacancy rate, does not include agreements relating to the Casual Leasing activity

The **share of net income from equity associates** (excluding amortization and impairment) came to **Euro 3.6 million** at December 31, 2019, compared with Euro 4.2 million at December 31, 2018, linked in particular to the sale of two hypermarket premises by SCI Rennes-Anglet.

**Non-controlling interests** (excluding capital gains and amortization) totaled **Euro 10.5 million** in 2019, versus Euro 10.4 million in 2018.

**Funds From Operations (FFO[8])** are up +7.9% to **Euro 124.2 million**, with Euro 1.35 per share[9], significantly higher than the objective of at least +4%.

| (In thousands of euros) | Dec 31, 2018 | Dec 31, 2019 | Change (%) |
|---|---|---|---|
| **Invoiced rents** | **185,213** | **188,849** | **+2.0%** |
| Lease rights and despecialization indemnities | 2,074 | 3,003 | +44.8% |
| **Rental revenues** | **187,287** | **191,853** | **+2.4%** |
| Non-recovered building service charges | -11,920 | -12,651 | +6.1% |
| **Net rental income** | **175,367** | **179,202** | **+2.2%** |
| Management, administrative and other activities income | 3,076 | 3,229 | +5.0% |
| Other income and expenses | -8,050 | -7,006 | -13.0% |
| Personnel expenses | -12,581 | -12,413 | -1.3% |
| **EBITDA** | **157,812** | **163,012** | **+3.3%** |
| *EBITDA margin* | *84.3%* | *85.0%* | n/a |
| Net financial items (excluding the impact of hedging ineffectiveness and banking default risk) | -32,790 | -23,512 | -28.3% |
| Reversals of / (allowance for) provisions | -1,481 | -1,252 | -15.5% |
| Other operating income and expenses (excluding capital gains on disposals and impairment) | 91 | -3,978 | n/a |
| Tax expense | -2,402 | -3,270 | +36.1% |
| Share of net income from equity associates (excluding amortization and impairment) | 4,201 | 3,631 | -13.6% |
| Non-controlling interests (excluding capital gains and amortization) | -10,371 | -10,462 | +0.9% |
| **FFO** | **115,060** | **124,168** | **+7.9%** |
| ***FFO per share[9] (in euros)*** | ***1.25*** | ***1.35*** | ***+7.9%*** |

## II. Selective asset base and innovative projects to address the polarization of the retail real estate market and consumers' new needs

The retail real estate sector is currently facing two major trends. The first concerns a dual polarization phenomenon in terms of population and wealth flows across the country, which is forcing property companies to optimize their asset management and focus their portfolios on strategic locations. The second concerns the shifts in consumption patterns and societal expectations, requiring shopping center management to be aligned as closely as possible with the needs of customers and retailers.

A review of development trends across France's various regions shows the concentration of economic and demographic growth along the country's coasts and borders, as well as in the Greater Paris Region[10]. These areas, which boast growth rates in terms of jobs and disposable income that are significantly higher than the national average, have been targeted for setting up Mercialys' assets and been central to its arbitrage strategy for a decade.

[8] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects

[9] Based on the average undiluted number of shares (basic), i.e. 91,789,610

[10] Source: INSEE

Within these highly dynamic regions, in an increasingly competitive environment (although the density of retail space in France is in line with the European average at 0.29 sq.m per inhabitant[11]), consumption is polarizing in "key areas", where retailers are keen to set up and which consumers prefer to visit. Mercialys has chosen to focus its investments on these leading and co-leading catchment areas in cities in order to consolidate its dominant position over the long term. The Company estimates that its portfolio sites located in these areas represented 86% of its shopping center portfolio in value at end-2019.

In addition, faced with the transformation of consumption patterns and societal expectations, linked more to changes in the use of shopping centers than a shift from physical consumption to e-commerce (56% of French people still see bricks-and-mortar outlets as the simplest and fastest way to shop[12]), Mercialys laid down five strategic pillars in 2018 for the transformation of its sites. Major advances were made on each of them in 2019, confirming the agility of the Group's customer-centric model to support the sustainability of its real estate and commercial success.

Mercialys has stepped up its efforts to provide **personalized interaction with retailers and end customers through its powerful digital and service ecosystem** (e-loyalty programs, interactive terminals, WIFI, services and on-site operations). This proprietary ecosystem, whose databases passed the milestone of 1 million qualified customers in 2019, makes it possible to analyze consumption needs and patterns in detail and to implement offers and activities that are tailored to each visitor, helping boost customer loyalty and center outperformance, all without any reliance on the internet giants (GAFA). These tools will continue to be developed in 2020, aiming to further strengthen interaction between Mercialys, retailers and end customers, thanks in particular to the implementation of predictive analysis capabilities.

This fine-tuning of customer knowledge enables Mercialys to capitalize fully on its strategy of **expanding the retailer mix**. This commercial policy is reflected in the integration of retailers selected in line with the characteristics of each catchment area, with a specific focus on affordability and work in three main areas:

1. Addressing daily needs, such as the opening of Action in Annecy and Chen Market in Massena;
2. Satisfying needs in terms of a distinctive offering and in-store experience, illustrated by the opening of Nespresso in Sainte Marie or Rituals in Besançon;
3. Integrating services, leisure and dining options, as evidenced by the opening of La Barbe de Papa in Agen, Brut Butcher in Fréjus and Big Fernand in Le Port.

At Bastia Furiani, the inauguration of the first health facility in a shopping center in Corsica reflects the same desire to diversify the retailer mix, generating value (YOC of 8.3%) and meeting the challenges of functional diversity and local anchoring.

Diversifying their use is another key aspect for guaranteeing the future of shopping centers. Mercialys is already working on the **multifunctionality of its sites**, illustrated by the inauguration of the new coworking space at the Angers site, which will be followed soon by Grenoble. Deployed in areas not previously intended for use as retail space, this makes it possible to increase the total rent-generating area for a limited investment (Euro 0.4 million), while offering a differentiating service adapted to emerging trends in the world of work. By helping increase the use of assets, this concept strengthens the center's key geographic position and its local base within its catchment area. The management of these spaces by Mercialys' local teams also means that the margin on this new activity is kept in-house. These shared workspaces are easy to deploy and their replication is already being looked into at four other shopping centers located in municipalities that do not yet have a structured office market and where the coworking offer is insufficient or not professionalized.

Capitalizing on its digital expertise and maturity, Mercialys also inaugurated the Ocitô service at its Angers site in November 2019. This platform for Click & Collect services and home delivery from the center's restaurants offers an additional source of growth for the brands covered by the system to date. It also positions the Company as an **intermediary for last-mile logistics**, while leveraging the omnichannel dimension of its centers. In line with this

[11] Source: Cushman & Wakefield
[12] Source: Samsung Smart Retail Barometer 2019 France

ambition, Mercialys has also launched with OneStock and Groupe La Poste at the Angers site a pilot project for intermediation of retailers' e-commerce shipments from the center's points of sale, helping improve control over their costs and delivery times. It is planned to extend these services to other centers in 2020.

All of these initiatives are making Mercialys more multi-local than ever before. To further cement its **regional anchoring and consolidate its legitimacy**, the Company has integrated all of the themes classed as material by its stakeholders within a sustainable development approach. Mercialys' ambitious CSR policy is rolled out to ensure close alignment with the various regions and adapted specifically for each center. On top of a fresh crop of awards in this area in 2019[13], the certification of the Company's greenhouse gas emission reduction targets by the international Science Based Targets initiative (SBTi) highlights the serious and proactive nature of its approach.

## III. Disposals and development portfolio

**Disposals representing Euro 122.4 million including transfer taxes in 2019, with an average premium of 8.4% above appraisal values**

The investment market slowdown continued for the retail real estate segment in 2019, despite some significant transactions in France. Against this backdrop, Mercialys made a significant number of disposals compared with its standard rate of sales, selling Euro 122.4 million of assets including transfer taxes. These divestments covered sites identified as non-core, notably because they were sized significantly below the portfolio average, as well as opportunistic deals.

Mercialys sold the **Gap site** for Euro 7.1 million including transfer taxes in February 2019, as well as the **Monoprix sites in Saint-Germain-en-Laye** for Euro 52.8 million including transfer taxes and in **La Garenne-Colombes** for Euro 44.1 million including transfer taxes in July 2019. Despite extensive due diligence by the dedicated mixed-use high-street development team, the projects envisaged for these two latter sites appeared to be compromised due to operating, legal and administrative constraints.

In addition, SCI Rennes-Anglet, in which Mercialys has a 30% stake, sold the **Anglet hypermarket premises** to a Leclerc member for Euro 21.1 million including transfer taxes in May, with Mercialys selling its directly held units at this site for Euro 3.0 million including transfer taxes at the same time. SCI Rennes-Anglet also sold the **Rennes hypermarket premises** to a Leclerc member for Euro 25.9 million including transfer taxes in July, with Mercialys selling its directly-held unit at this site for Euro 0.3 million including transfer taxes. Mercialys' interest in the disposal of the Rennes and Anglet sites represents a total of Euro 17.4 million including transfer taxes.

Lastly, Mercialys sold Euro 1.1 million of individual units during the year.

These transactions are also helping reduce Mercialys' overall exposure to its leading tenant, in line with the Company's risk diversification.

The Company intends to continue moving forward with its asset rotation policy in 2020, prioritizing around 10 assets identified as non-core, representing a portfolio value of approximately Euro 200 million including transfer taxes, combined with the possibility of selling further sites or individual units depending on market opportunities.

[13] GRESB, CDP, Ethifinance Gaïa, Vigeo Eiris, Sustainalytics, MSCI, ISS-Oekom, Grands Prix de la Transparence, EPRA

**Portfolio of development projects in response to the new retail real estate paradigm**

The underlying trends mentioned above, coupled with the need to maintain balance sheet equilibrium, are key factors driving Mercialys' investments and acquisitions. Investments therefore include a detailed analysis of dynamics for the respective sites' catchment areas, covering the rationale behind the investment and medium-term profitability.

At end-December 2019, the Company's project portfolio represented **Euro 468.6 million** through to 2026, with **Euro 26.7 million**[14] of additional rental potential and an average target yield rate of **6.9%**[14]. This change of Euro -89 million versus June 30, 2019 primarily reflects the resizing of certain projects on scopes deemed more appropriate.

The depth and flexibility of its portfolio offer Mercialys the prospect of quick and sequenced building starts in line with opportunities at the various sites, and particularly emerging needs within their respective catchment areas. 26 of the 53[15] shopping centers and high-street sites owned by the Company at end-2019 are covered by controlled or identified projects, with around two thirds of them at Mercialys' initiative.

| (in millions of euros) | Total investment | Investment still to be committed | Target net rental income | Target net yield on cost | Completion date |
|---|---|---|---|---|---|
| **COMMITTED PROJECTS** | **11.3** | **5.7** | **0.8** | **7.1%** | **2020** |
| Le Port Retail Park | 11.3 | 5.7 | 0.8 | 7.1% | 2020 |
| **CONTROLLED PROJECTS** | **218.9** | **214.3** | **10.9**[14] | **6.8%**[14] | **2021 / 2025** |
| Redevelopments and requalifications | 42.3 | 42.0 | 3.0 | 7.0% | 2021 / 2022 |
| Extensions and retail parks | 118.0 | 114.1 | 7.9 | 6.7% | 2021 / 2023 |
| Mixed-use high-street projects | 58.5 | 58.1 | n/a | n/a | 2024 / 2025 |
| **IDENTIFIED PROJECTS** | **238.4** | **237.6** | **15.1**[14] | **7.0%**[14] | **2022 / 2026** |
| **TOTAL PROJECTS** | **468.6** | **457.6** | **26.7**[14] | **6.9%**[14] | **2020 / 2026** |

- *Committed projects: projects fully secured in terms of land management, planning and related development permits*
- *Controlled projects: projects effectively under control in terms of land management, with various points to be finalized for regulatory urban planning (constructability), planning or administrative permits*
- *Identified projects: projects currently being structured, in emergence phase*

Mercialys has carried out hypermarket transformations at a number of the Company's sites since 2015, reducing their floorspace and reletting the space vacated by the food operator to benefit the shopping center. In this context, and in accordance with the clauses from the leases between the two companies, Casino and Mercialys are discussing new operations of this type.

Under these negotiations, the hypermarket may be awarded a rent reduction, while the space vacated would make it possible to create value alongside this. If it was not possible to reach an agreement with the Casino group, the Casino group could exercise its option to vacate these units with the three-year breaks based on the lease dates (see point 4.1 on page 16 of this press release). Mercialys would then look at the breakdown of these premises, reviewing the food offering in terms of both its operator and format, and increasing the space allocated to the shopping center.

[14] Excluding the impact of mixed-use high-street projects, which could also generate property development margins
[15] In addition to five dispersed assets

# IV. Portfolio and debt

**EPRA NNNAV down -5.4% over 12 months**

Mercialys' portfolio value represents **Euro 3,634.4 million** including transfer taxes, down -3.9% over 12 months and -3.1% over six months. Like-for-like[16], Mercialys' portfolio value contracted by -1.4% over 12 months and -0.7% over six months.
Excluding transfer taxes, the portfolio value represents Euro 3,419.5 million, also down -3.9% over 12 months and -3.1% over six months.

At end-2019, Mercialys' portfolio mainly comprised **53[17] shopping centers and high-street sites,** with 47% regional or large shopping centers and 53% leading local retail sites (neighborhood shopping centers and high-street retail assets).

The average size of these shopping centers (excluding high-street retail assets) was nearly 17,200 sq.m at end-2019, versus 7,400 sq.m in 2010. Their average value was Euro 73.9 million including transfer taxes, compared with Euro 26.9 million in 2010.

The average appraisal yield rate came to **5.26%** at December 31, 2019, compared with 5.20% at June 30, 2019 and 5.10% at December 31, 2018.

**Mercialys' EPRA NNNAV is down -5.4%** over 12 months to Euro 20.01 per share. This change of Euro -1.13 per share over one year reflects the following impacts:
- Dividend payment: Euro -1.09;
- Funds From Operations: Euro +1.35;
- Change in unrealized capital gains (i.e. difference between the net book value of assets on the balance sheet and their appraisal value excluding transfer taxes): Euro -0.58, including a yield effect for Euro -1.18, a rent effect for Euro +0.56, and other effects for Euro +0.04;
- Change in fair value of fixed-rate debt: Euro -0.55;
- Change in fair value of derivatives and other items: Euro -0.26.

**Balanced financial structure, with a competitive cost of financing**

On March 26, 2019, Mercialys redeemed the Euro 479.7 million bond with a coupon of 4.125% at maturity. Mercialys also issued commercial paper over the year, with Euro 250 million outstanding at end-December 2019, based on a negative average rate. The Euro 1,450 million of drawn debt at end-December 2019 is therefore made up of three bond issues and commercial paper.

At end-2019, Mercialys had Euro 410 million of undrawn financial resources, unchanged compared with end-2018. During the first half of the year, the Company set up a new Euro 30 million bank line with a French bank that was not previously part of the banking pool. In December 2019, Mercialys also refinanced its undrawn syndicated credit facility, with a new maturity of December 2022, for Euro 225 million. Alongside this, the current account advance with the Casino group was reduced from Euro 50 million to Euro 35 million, and its maturity extended until the end of 2021. Lastly, Mercialys has a Euro 500 million commercial paper program, with the capacity to issue a further Euro 250 million taking into account the amount outstanding at December 31, 2019.

The **real average cost of drawn debt** for 2019 was **1.3%,** comparable with the rate of 1.4% observed at end-June 2019 and significantly lower than the 1.8% recorded in 2018, reflecting the impact of both the redemption of the 4.125% coupon bond and the favorable impact of the commercial paper issue.

The **average maturity of drawn debt** was **3.8 years** at December 31, 2019, virtually stable versus the end of 2018 (3.7 years).

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[16] Sites on a like-for-like GLA basis
[17] Added to these are five geographically dispersed assets with an appraisal value including transfer taxes of Euro 12.3 million

Mercialys' financial structure is still extremely solid. The **LTV ratio excluding transfer taxes**[18] came to **39.5%** at December 31, 2019, considerably lower than the 40.8% recorded at December 31, 2018. The **ICR**[19] was **7.4x** at December 31, 2019, also a significant improvement versus December 31, 2018 (5.0x) following the redemption at maturity of the March 2019 bond with a 4.125% coupon.

Mercialys will maintain its solid financial profile over the medium term.

# V. Dividend and outlook

**Dividend**

Mercialys' Board of Directors will submit a proposal at the Annual General Meeting on April 23, 2020 for a dividend of **Euro 1.15 per share** (including the Euro 0.47 per share interim dividend already paid in October 2019). The proposed dividend is up +2.7% versus 2018. This distribution corresponds to 85% of 2019 FFO and is in line with the objective announced by Mercialys for its dividend to be at least stable within a range of 85% to 95% of 2019 FFO. The dividend offers a yield of 5.7% on the EPRA NNNAV of Euro 20.01 per share at end-2019 and 9.3% on the year's closing price.

The ex-dividend date is April 27, 2020, and the dividend will be paid on April 29, 2020.

This payment corresponds to the distribution of 95% of the recurrent taxable profit excluding capital gains, in accordance with SIIC rules (Euro 0.84 per share), as well as capital gains available for distribution based on the assets sold in 2019 (Euro 0.11 per share), and Euro 0.20 per share of exempt income recorded on the Company's balance sheet.

**2020 outlook**

In 2020, Mercialys will continue to develop its portfolio, its retailer mix and the use of its sites by leveraging the development of its customer knowledge tools, against a backdrop of the polarization of retail sites in France and changing consumption patterns.

Mercialys has set the following objectives for 2020:
- Organic growth in invoiced rents to reach around +2% including indexation;
- Funds From Operations (FFO) per share including the impact of disposals from 2019 and 2020 to be at least stable versus 2019;
- Dividend to be included within a range of 85% to 95% of 2020 FFO and at least stable versus 2019.

[18] LTV (Loan To Value): Net financial debt/(portfolio's fair value excluding transfer taxes + market value of investments in associates, i.e. Euro 59.7 million for 2019 and Euro 64.4 million for 2018, since the value of the portfolio held by associates is not included in the appraisal value)
[19] ICR (Interest Coverage Ratio): EBITDA/Net finance costs

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This press release is available on [www.mercialys.com](http://www.mercialys.com)

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*WARNING*

*This press release contains certain forward-looking statements regarding future events, trends, projects or objectives. These forward-looking statements are subject to identified and unidentified risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements. Please refer to the Mercialys registration document available at [www.mercialys.com](http://www.mercialys.com) for the year ended December 31, 2018 for more details regarding certain factors, risks and uncertainties that could affect Mercialys' business. Mercialys makes no undertaking in any form to publish updates or adjustments to these forward-looking statements, nor to report new information, new future events or any other circumstances that might cause these statements to be revised.*

# APPENDIX TO THE PRESS RELEASE

*Financial report*

# Financial report

Pursuant to Regulation (EC) No. 1606/2002 of July 19, 2002, the Mercialys group consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and applicable at December 31, 2019. These standards are available on the European Commission website at: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en. The accounting policies set out below were applied consistently to all the periods presented in the consolidated financial statements, after taking into account, or with the exception of, the new standards and interpretations described below.

## 1. Financial statements

The audit procedures on the consolidated accounts have been completed. The certification report is currently being issued.

### 1.1. Consolidated income statement

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Rental revenues** | **191,853** | **187,287** |
| Service charges and property tax | (47,811) | (45,668) |
| Charges billed to tenants | 42,236 | 40,668 |
| Property operating expenses | (7,076) | (6,920) |
| **Net rental income** | **179,202** | **175,367** |
| Management, administrative and other activities income | 3,229 | 3,076 |
| Other income | 276 | 285 |
| Other expenses | (7,283) | (8,335) |
| Personnel expenses | (12,413) | (12,581) |
| Depreciation and amortization[20] | (40,440) | (37,016) |
| Reversals of / (Allowances for) provisions | (1,252) | (1,481) |
| Other operating income | 102,496 | 30,481 |
| Other operating expenses | (98,792) | (25,610) |
| **Operating income** | **125,023** | **124,186** |
| Income from cash and cash equivalents | 190 | 430 |
| Gross finance costs | (22,180) | (31,697) |
| **(Net finance costs) / Income from net cash** | **(21,990)** | **(31,267)** |
| Other financial income | 255 | 285 |
| Other financial expenses[20] | (3,111) | (2,195) |
| **Net financial items** | **(24,846)** | **(33,177)** |
| Tax expense | (3,270) | (2,402) |
| Share of net income from equity associates and joint ventures | 2,289 | 1,012 |
| **Consolidated net income** | **99,196** | **89,619** |
| attributable to non-controlling interests | 8,856 | 8,768 |
| attributable to owners of the parent | 90,340 | 80,851 |
| **Earnings per share[21]** | | |
| Net income, attributable to owners of the parent (in euros) | 0.98 | 0.88 |
| Diluted net income, attributable to owners of the parent (in euros) | 0.98 | 0.88 |

[20] Application of IFRS 16 "Leases" from January 1, 2019 in line with the simplified retrospective method
[21] Based on the weighted average number of shares over the period adjusted for treasury shares
Weighted average number of shares (non-diluted) in 2019 = 91,789,610 shares
Weighted average number of shares (fully diluted) in 2019 = 91,789,610 shares

## 1.2. Consolidated balance sheet

| **ASSETS *(in thousands of euros)*** | **Dec 31, 2019** | **Dec 31, 2018** |
|---|---|---|
| Intangible assets | 3,588 | 2,710 |
| Property, plant and equipment other than investment property | 857 | 8 |
| Investment property | 2,222,452 | 2,322,755 |
| Rights-of-use assets[22] | 9,981 | - |
| Investments in equity associates | 36,355 | 35,160 |
| Other non-current assets | 51,867 | 46,773 |
| Deferred tax assets | 1,200 | 1,727 |
| **Non-current assets** | **2,326,300** | **2,409,134** |
| Trade receivables | 20,532 | 22,341 |
| Other current assets | 36,594 | 49,448 |
| Cash and cash equivalents | 72,024 | 377,106 |
| Investment property held for sale | 111 | 3,753 |
| **Current assets** | **129,262** | **452,648** |
| **Total assets** | **2,455,562** | **2,861,781** |

| **EQUITY AND LIABILITIES *(in thousands of euros)*** | **Dec 31, 2019** | **Dec 31, 2018** |
|---|---|---|
| Share capital | 92,049 | 92,049 |
| Additional paid-in capital, treasury shares and other reserves | 565,909 | 587,551 |
| Equity, attributable to owners of the parent | 657,958 | 679,601 |
| Non-controlling interests | 202,072 | 199,944 |
| **Equity** | **860,030** | **879,545** |
| Non-current provisions | 1,128 | 1,063 |
| Non-current financial liabilities | 1,234,944 | 1,208,999 |
| Deposits and guarantees | 21,502 | 22,081 |
| Non-current lease liabilities[22] | 9,640 | - |
| Other non-current liabilities | 12,939 | 3,580 |
| **Non-current liabilities** | **1,280,154** | **1,235,723** |
| Trade payables | 13,839 | 14,769 |
| Current financial liabilities | 261,643 | 690,939 |
| Current lease liabilities[22] | 959[22] | - |
| Current provisions | 10,920 | 7,538 |
| Other current liabilities | 27,542 | 33,218 |
| Current tax liabilities | 474 | 49 |
| **Current liabilities** | **315,378** | **746,513** |
| **Total equity and liabilities** | **2,455,562** | **2,861,781** |

[22] Application of IFRS 16 "Leases" from January 1, 2019 in line with the simplified retrospective method

### 1.3. Consolidated cash flow statement

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Net income, attributable to owners of the parent | 90,340 | 80,851 |
| Non-controlling interests | 8,856 | 8,768 |
| **Consolidated net income** | **99,196** | **89,619** |
| Depreciation, amortization [2] and provisions, net of reversals | 54,226 | 41,507 |
| Expenses/(income) relating to stock options and similar | 206 | 235 |
| Other calculated expenses/(income) [3] | (2,133) | (1,964) |
| Share of net income from equity associates | (2,289) | (1,012) |
| Dividends received from associates | 2,449 | 4,397 |
| Income from asset disposals | (17,443) | (8,119) |
| Expenses/(income) from net financial debt | 21,990 | 31,268 |
| Net financial interest in respect of lease agreements [1] | 328 | - |
| Tax expense (including deferred tax) | 3,270 | 2,402 |
| **Cash flow** | **159,800** | **158,333** |
| Taxes received/(paid) | (2,572) | (305) |
| Change in working capital requirement relating to operations, excluding deposits and guarantees [4] | (1,688) | 8,729 |
| Change in deposits and guarantees | (579) | (612) |
| **Net cash flow from operating activities** | **154,960** | **166,144** |
| Cash payments on acquisitions of: | | |
| investment properties and other fixed assets | (26,412) | (79,294) |
| non-current financial assets | (1) | (221) |
| Cash receipts on disposals of: | | |
| investment properties and other fixed assets [5] | 96,285 | 27,890 |
| non-current financial assets | | - |
| Investments in equity associates [6] | (1,625) | (975) |
| Impact of changes in the scope of consolidation with change of ownership | - | (44) |
| Change in loans and advances granted [8] | 10,839 | (7,826) |
| **Net cash flow from investing activities** | **79,086** | **(60,470)** |
| Dividends paid to shareholders of the parent company | (56,863) | (62,403) |
| Interim dividend | (43,123) | (45,805) |
| Dividends paid to non-controlling interests | (6,728) | (10,844) |
| Other transactions with shareholders | - | - |
| Changes in treasury shares | 960 | (3,510) |
| Increase in borrowings and financial liabilities [7] | 1,499,700 | 1,080,043 |
| Decrease in borrowings and financial liabilities [7] | (1,912,400) | (857,000) |
| Repayment of lease liabilities [1] | (644) | - |
| Net interest received | 33,349 | 31,140 |
| Net interest paid | (53,332) | (56,715) |
| **Net cash flow from financing activities** | **(539,080)** | **74,904** |
| **Change in cash position** | **(305,034)** | **180,577** |
| Net cash at beginning of year | 377,046 | 196,469 |
| Net cash at end of year | 72,012 | 377,046 |
| of which cash and cash equivalents | 72,024 | 377,106 |
| of which bank overdrafts | (12) | (60) |

*(1) Application of IFRS 16 “Leases” from January 1, 2019 using the simplified retrospective method*

*(2) Depreciation charges exclude the impact of impairments on current assets*

| | *Dec 31, 2019* | *Dec 31, 2018* |
|---|---|---|
| *(3) Other calculated expenses and income mainly comprise:* | | |
| *- discounting adjustments to construction leases* | *(355)* | *(444)* |
| *- lease rights received from tenants and spread out over the term of the lease* | *(2,899)* | *(1,980)* |
| *- financial expenses spread out* | *921* | *402* |
| *- interest on non-cash loans* | *102* | *(50)* |

*(4) The change in working capital requirement breaks down as follows:*

| | | |
|---|---|---|
| *Trade receivables* | *1,623* | *(7,076)* |
| *Trade payables* | *(929)* | *2,228* |
| *Other receivables and payables* | *(2,382)* | *13,577* |
| | ***(1,688)*** | ***8,729*** |

*(5) In 2019, cash inflows related to disposals mainly consist of disposals of the sites in Gap for Euro 6.4 million excluding transfer taxes, Anglet for Euro 2.8 million, La Garenne-Colombes for Euro 39.7 million and Saint-Germain-en-Laye for Euro 47.6 million.*
*In 2018, cash inflows related to disposals were essentially composed of the disposals of the sites at Saint-Paul and Lannion for Euro 25.2 million excluding transfer taxes*

*(6) On June 28, 2019, the Annual General Meeting of SCI Rennes-Anglet unanimously resolved to allocate losses between the partners in proportion to their share in the capital, i.e. Euro 1,625 thousand for Mercialys.*
*During the first half of 2018, Mercialys contributed Euro 975 thousand to an SCI AMR capital increase*

*(7) In 2019, increases and reductions in borrowings and financial debt corresponded to subscriptions and redemptions of commercial paper, i.e. Euro (67) thousand net of fees in 2019, as well as the redemption of the bond loan in the amount of Euro 479.7 million.*
*In 2018, the increases and reductions of borrowings and financial debt corresponded to subscriptions and redemption of commercial papers and the establishment of the new bond representing Euro 298,466 thousand net of expenses in 2018 an Euro 148,260 thousand net of expenses in 2018*

*(8) In 2018, Mercialys granted a supplementary loan to SCI Rennes-Anglet for Euro 7.8 million. It was fully repaid by SCI Rennes-Anglet in the amount of Euro 10.8 million in 2019*

## 2. Main highlights of 2019

In February 2019, Mercialys finalized the sale of the Gap site for Euro 7.1 million including transfer taxes.

In March 2019, Mercialys redeemed at maturity a residual bond of Euro 479.7 million (Euro 650 million issued in March 2012, partly redeemed in December 2014), bearing a fixed coupon of 4.125%.

In April 2019, Mercialys changed its registered office, which is now located at 16-18 rue du Quatre Septembre, 75002 Paris.

In May, SCI Rennes-Anglet, which is 30% owned by Mercialys, sold the premises of the Anglet hypermarket for Euro 21.1 million including transfer taxes. At the same time, Mercialys sold units directly held on this site for Euro 3.0 million including transfer taxes.

SCI Rennes-Anglet, in which Mercialys has a 30% stake, sold at the beginning of July the Rennes hypermarket premises for Euro 25.9 million including transfer taxes. At the same time, Mercialys sold a directly held unit on this site for Euro 0.3 million including transfer taxes.

In July 2019, Mercialys sold the Monoprix site in Saint-Germain-en-Laye for Euro 52.8 million including transfer taxes, as well as the Monoprix site in La Garenne-Colombes for Euro 44.1 million including transfer taxes.

In December 2019, a rider was concluded to the current account cash advance agreement between Mercialys and Casino Finance. This rider brings the advance to Euro 35 million (vs. Euro 50 million previously), amends the financial conditions and extends the term of the agreement to December 31, 2021.

In December 2019, Mercialys extended the maturity of its undrawn revolving credit facility by three years, the amount being reduced from Euro 240 million to Euro 225 million.

In 2019, Mercialys' share capital underwent change following the July 2018 announcement by the Casino Group of the definitive sale of 15% of its stake in Mercialys in the form of an equity swap with Crédit Agricole. In April and then in September 2019, Crédit Agricole declared to the AMF that it had crossed the thresholds of 15% and 10% of the capital and voting rights downwards, bringing its stake to 14.98% and then 9.95%. On January 14, 2020, Crédit Agricole declared to the AMF that it had crossed the threshold of 5% in capital and voting rights downwards, and that it accordingly held 4.99% of Mercialys' capital and voting rights. Lastly, according to the disclosure threshold report filed with the AMF on January 31, 2020 by the concert structure comprising Mr. Jean-Charles Naouri and companies that he directly or indirectly controls, on this date the Casino group held 25.16%, Foncière Euris held 0.32% and Crédit Agricole held 4.47% of Mercialys' capital and voting rights.

# 3. Summary of the main key indicators for the period

| | **Dec 31, 2019** |
|---|---|
| **Organic growth in invoiced rents** | **+3.6%** |
| **EBITDA**[23] | **Euro 163.0 million** |
| *EBITDA/rental revenues* | *85.0%* |
| **Funds From Operations (FFO)** | **Euro 124.2 million** |
| **Funds From Operations (FFO**[24]**) per share** | **Euro 1.35** |
| **Fair value of the portfolio** (including transfer taxes) | **Euro 3,634.4 million** |
| *Change vs. 12/31/2018 (total scope)* | *-3.9%* |
| *Change vs. 12/31/2018 (excluding the impact of 2018 and 2019 disposals)* | *-1.4%* |
| **EPRA NNNAV per share** | **Euro 20.01** |
| *Change vs. 12/31/2018* | *-5.4%* |
| **Loan to Value (LTV) - excluding transfer taxes** | **39.5%** |

# 4. Review of activity

## 4.1. Main management indicators

- **Renewals and re-lettings** generated average growth in the annualized rental base of +9.2%[25] for the period.
- Details of the **lease expiry schedule** can be found in the table below:

| | **Number of leases** | **Annual MGR* + variable rents (in millions of euros)** | **Share of leases expiring (% annual MGR + variable rents)** |
|---|---|---|---|
| Expired at December 31, 2019 | 358 | 17.2 | 9.5% |
| 2020 | 200 | 13.1 | 7.2% |
| 2021 | 158 | 8.9 | 4.9% |
| 2022 | 161 | 10.4 | 5.8% |
| 2023 | 105 | 8.2 | 4.6% |
| 2024 | 146 | 10.2 | 5.6% |
| 2025 | 148 | 9.4 | 5.2% |
| 2026 | 218 | 24.4 | 13.5% |
| 2027 | 251 | 48.4 | 26.8% |
| 2028 | 233 | 15.5 | 8.6% |
| 2029 and beyond | 166 | 14.8 | 8.2% |
| | **2,144** | **180.6** | **100%** |

**MGR = Minimum Guaranteed Rent*

The number of expired leases at end-2019 is due to ongoing negotiations, non-renewal of leases with payment of eviction compensation, comprehensive negotiations by retailers, tactical delays, etc.

[23] Earnings before interest, taxes, depreciation, amortization and other operating income and expenses
[24] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects
[25] Vacant at last known rent for re-lettings

- The 12-month **recovery rate** at the end of December 2019 remains high at 96.7%, broadly stable versus June 30, 2019 (96.6%) and December 31, 2018 (96.7%).

- The **current financial vacancy rate** - which excludes “strategic” vacancy designed to facilitate extension/redevelopment plans - remained at a very low level. It was 2.5%[26] at December 31, 2019, stable versus June 30, 2019 (2.6%) and December 31, 2018 (2.5%). The total vacancy rate[27] was 3.2% at December 31, 2019, comparable with the level observed at June 30, 2019 (3.0%) and December 31, 2018 (3.0%).

- The tenant **occupancy cost ratio**[28] was 10.4% for large shopping centers, comparable with the level observed at June 30, 2019 (10.6%) and December 31, 2018 (10.5%). This ratio thence remains at a fairly modest level compared with that of Mercialys' peers in France. It reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

Mercialys earns rental income from a wide range of retailers. With the exception of the Casino group (see below for more details) and H&M (2.7%) no other tenant represents more than 2% of total rental income.
The percentage of Casino in total rental income was 27.3% at December 31, 2019, down versus June 30, 2019 (28.9%) and December 31, 2018 (28.7%). This change is attributable to the sale of two Monoprix sites in July 2019, as well as to overall growth in rents. This exposure is calculated on the basis of all rents paid by the Casino group.
Adjusted for the 49% stake held by BNP Paribas REIM in two companies with a total of 10 hypermarkets operated under the Géant banner, Mercialys’ economic exposure to Casino group rents amounts to 24.2%.

The lease schedule for Mercialys’ two main tenants is presented below:

**Casino group main leases schedule**

| Site | % held by Mercialys | Type | Lease start date | Lease end date | Lease characteristics |
|---|---|---|---|---|---|
| Saint-Denis | 100% | Supermarket | 01/2000 | 12/2008 | 3 - 6 - 9 commercial lease |
| Grenoble | 100% | Monoprix | 02/2010 | 02/2022 | 3 - 6 - 9 - 12 commercial lease |
| Saint-Étienne | 100% | Hypermarket | 07/2014 | 06/2026 | 3 - 6 - 9 - 12 commercial lease |
| Quimper | 100% | Hypermarket | 12/2014 | 12/2026 | 3 - 6 - 9 - 12 commercial lease |
| Annecy | 100% | Hypermarket | 12/2014 | 12/2026 | 3 - 6 - 9 - 12 commercial lease |
| Saint-Tropez | 100% | Hypermarket | 12/2014 | 12/2026 | 3 - 6 - 9 - 12 commercial lease |
| Aix-en-Provence | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Marseille | 100% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Besançon | 100% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Brest | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Nîmes | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Angers | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Lanester | 100% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Niort | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Fréjus | 51% | Hypermarket | 06/2015 | 06/2027 | 3 - 6 - 9 - 12 commercial lease |
| Narbonne | 51% | Hypermarket | 11/2015 | 11/2027 | 3 - 6 - 9 - 12 commercial lease |
| Istres | 51% | Hypermarket | 11/2015 | 11/2027 | 3 - 6 - 9 - 12 commercial lease |
| Le Puy | 51% | Hypermarket | 11/2015 | 11/2027 | 3 - 6 - 9 - 12 commercial lease |
| Clermont-Ferrand | 51% | Hypermarket | 11/2015 | 11/2027 | 3 - 6 - 9 - 12 commercial lease |
| Annemasse | 100% | Hypermarket | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Puteaux | 100% | Monoprix | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Chaville | 100% | Monoprix | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Asnières | 100% | Monoprix | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Marcq-en-Baroeul | 100% | Monoprix | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Marseille Canebière | 100% | Monoprix | 12/2015 | 12/2027 | 3 - 6 - 9 - 12 commercial lease |
| Ajaccio | 60% | Hypermarket | 07/2018 | 06/2030 | 12-year commercial lease, 9-year firm period |
| Corte | 60% | Supermarket | 07/2018 | 06/2030 | 12-year commercial lease, 9-year firm period |
| Furiani | 60% | Hypermarket | 07/2018 | 06/2030 | 12-year commercial lease, 9-year firm period |
| Porto Vecchio | 60% | Hypermarket | 07/2018 | 06/2030 | 12-year commercial lease, 9-year firm period |
| Toga | 60% | Hypermarket | 07/2018 | 06/2030 | 12-year commercial lease, 9-year firm period |

[26] The occupancy rate, as with Mercialys’ vacancy rate, does not include agreements relating to the Casual Leasing activity
[27] In accordance with the EPRA calculation method: rental value of vacant units/(annualized minimum guaranteed rent on occupied units + rental value of vacant units)
[28] Ratio between rent, charges (included marketing funds) and re-invoiced works paid by retailers and their sales revenue (excluding large food stores): (rent + charges + reinvoiced works incl. tax) / sales revenue incl. tax

**H&M group lease schedule**

| Site | Lease start date | Lease end date | Lease characteristics |
|---|---|---|---|
| Grenoble | 05/2010 | 05/2020 | 3 - 6 - 9 - 10 |
| Marseille | 04/2011 | 04/2021 | 3 - 6 - 9 - 10 |
| Angers | 07/2011 | 07/2021 | 3 - 6 - 9 - 10 |
| Clermont-Ferrand | 08/2013 | 08/2023 | 3 - 6 - 9 - 10 |
| Mandelieu | 01/2016 | 01/2028 | 12-year commercial lease, 6-year firm period |
| Brest | 02/2016 | 02/2028 | 12-year commercial lease, 6-year firm period |
| Lanester | 07/2016 | 07/2028 | 12-year commercial lease, 6-year firm period |
| Toulouse | 07/2016 | 07/2028 | 12-year commercial lease, 6-year firm period |
| Aix-en-Provence | 08/2016 | 08/2028 | 12-year commercial lease, 6-year firm period |
| Besançon | 12/2016 | 12/2028 | 12-year commercial lease, 6-year firm period |
| Quimper | 05/2017 | 05/2029 | 3 - 6 - 9 - 12 |
| Morlaix | 07/2017 | 07/2029 | 12-year commercial lease, 6-year firm period |
| Narbonne | 07/2017 | 07/2029 | 12-year commercial lease, 6-year firm period |
| Nîmes | 08/2017 | 07/2029 | 12-year commercial lease, 6-year firm period |

The **breakdown by retailer** (national, local and retailers associated with the Casino group) of contractual rents on an annualized basis is as follows:

| | Number of leases | Annual MGR* + variable rents (in millions of euros) | Dec 31, 2019 (as a %) | Dec 31, 2018 (as a %) |
|---|---|---|---|---|
| National and international retailers | 1,472 | 110.5 | 61.2% | 60.1% |
| Local retailers | 609 | 20.8 | 11.5% | 11.2% |
| Casino cafeterias/restaurants | 6 | 1.1 | 0.6% | 0.6% |
| Monoprix | 6 | 7.8 | 4.3% | 6.4% |
| Géant Casino and other entities | 51 | 40.4 | 22.4% | 21.8% |
| **Total** | **2,144** | **180.6** | **100%** | **100.0%** |

**MGR = Minimum Guaranteed Rent*

The **breakdown by business sector** (including large food stores) of Mercialys' rents also remains very diversified, with a shift in 2019 towards the catering, health and beauty activities, as well as culture, gifts and sport:

| | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Restaurants and catering | 8.1% | 7.4% |
| Health and beauty | 11.3% | 10.6% |
| Culture, gifts and sports | 14.3% | 13.4% |
| Personal items | 31.0% | 31.5% |
| Household equipment | 6.4% | 6.8% |
| Food-anchored tenants | 26.0% | 27.5% |
| Services | 3.0% | 2.7% |
| **Total** | **100.0%** | **100.0%** |

The **structure of rents** at December 31, 2019 shows the predominance, in terms of overall rents, of leases incorporating a variable component, with the leases incorporating a minimum guaranteed rent or without variable clause nevertheless representing a very large majority (97.6% in terms of overall rents):

| | Number of leases | (in millions of euros) | Dec 31, 2019 (as a %) | Dec 31, 2018 (as a %) |
|---|---|---|---|---|
| Leases with variable component | 1,280 | 100.7 | 56% | 54% |
| *- of which MGR* | | *96.4* | *53%* | *52%* |
| *- of which variable rent with MGR* | | *1.1* | *1%* | *1%* |
| *- of which variable rent without MGR* | | *3.2* | *2%* | *2%* |
| Leases without variable component | 864 | 79.9 | 44% | 46% |
| **Total** | **2,144** | **180.6** | **100%** | **100%** |

Lastly, leases index-linked to the French Retail Rent Index (ILC) made up the predominant share of rents at December 31, 2019:

| | Number of leases | MGR (in millions of euros) | Dec 31, 2019 (as a %) | Dec 31, 2018 (as a %) |
|---|---|---|---|---|
| Leases index-linked to the Retail Rent Index (ILC) | 1,712 | 165.1 | 94% | 93% |
| Leases index-linked to the Construction Cost Index (ICC) | 182 | 8.8 | 5% | 6% |
| Leases index-linked to the Tertiary Activities Rent Index (ILAT) and non-adjustable leases | 238 | 2.5 | 1% | 1% |
| **Total** | **2,132** | **176.3** | **100%** | **100%** |

# 5. Review of consolidated results

## 5.1. Invoiced rents, rental revenues and net rental income

Rental revenues mainly comprise **rents invoiced** by the Company plus a smaller element of lease rights and despecialization indemnities paid by tenants and spread out over the firm period of the lease (usually 36 months).

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 | Change (%) |
|---|---|---|---|
| Invoiced rents | 188,849 | 185,213 | +2.0% |
| Lease rights and despecialization indemnities | 3,003 | 2,074 | +44.8% |
| **Rental revenues** | **191,853** | **187,287** | **+2.4%** |
| Property tax | -14,608 | -14,339 | +1.9% |
| Rebilling to tenants | 13,325 | 13,480 | -1.1% |
| **Non-recovered property taxes** | **-1,283** | **-860** | **+49.2%** |
| Service charges | -33,202 | -31,329 | +6.0% |
| Rebilling to tenants | 28,911 | 27,188 | +6.3% |
| **Non-recovered service charges** | **-4,291** | **-4,141** | **+3.6%** |
| Management fees | -6,888 | -6,688 | +3.0% |
| Rebilling to tenants | 4,530 | 3,921 | +15.5% |
| Losses on and impairment of receivables | -3,342 | -2,586 | +29.2% |
| Other expenses | -1,376 | -1,567 | -12.2% |
| **Property operating expenses** | **-7,076** | **-6,920** | **+2.3%** |
| **Net rental income** | **179,202** | **175,367** | **+2.2%** |

The change in invoiced rents of **+2.0 points** results from the following factors:
- sustained organic growth in invoiced rents:[29] **+3.6 points**, representing Euro +6.6 million;
- acquisitions made in 2018: **+0.6 point**, representing Euro +1.0 million;
- impact of asset disposals in 2018 and 2019: **-1.8 points** or Euro -3.4 million;
- other effects, primarily including strategic vacancy linked to current redevelopment programs: **-0.3 point**, i.e. Euro -0.6 million.

Like-for-like, invoiced rents are up **+3.6 points**, including in particular:
- **+1.9 points** for indexation[30];
- **+1.7 points** as a result of all the actions carried out on the portfolio, renewals and re-letting having generated an annual average growth in the rental base of +9.2%[31] over the fiscal year.

[29] Assets enter the like-for-like scope used to calculate organic growth once they have been held for 12 months
[30] In 2019, for the majority of leases, rents were indexed to the change in the retail rent index (ILC) between the second quarter of 2017 and the second quarter of 2018 (+2.4%) and between the third quarter of 2017 and the third quarter of 2018 (+2.4%)
[31] Vacant at last known rent for re-lettings

**Lease rights and despecialization indemnities**[32] received over the period amounted to **Euro 1.1 million**, versus Euro 5.4 million on December 31, 2018, and break down as follows:

- Euro 1.0 million in lease rights linked to re-letting activity (vs. Euro 5.3 million in 2018), including Euro 0.7 million collected on the Le Port site on Reunion Island, which opened a catering village in June 2019 and part of its new food court in November 2019;
- an insignificant amount of despecialization indemnities, as in 2018.

After taking into account the deferrals on the firm duration of leases specified by IFRS standards, the lease rights recognized in 2019 stand at Euro 3.0 million, against Euro 2.1 million in 2018.

**Rental revenues** stood at **Euro 191.9 million** at December 31, 2019, up by +2.4% versus the end of 2018.

**Net rental income** consists of rental revenues less costs directly allocated to real estate assets. These costs include property taxes and service charges that are not re-invoiced to tenants, together with property operating expenses (which mainly comprise fees paid to the property manager that are not re-invoiced and various charges relating directly to the operation of sites).

Expenses coming within the calculation of net rental income represented Euro 12.7 million for 2019, against Euro 11.9 million for 2018. The ratio of non-recovered property operating expenses to invoiced rents was 6.7% at December 31, 2019, versus 6.4% at December 31, 2018.

Through the increase in invoiced rents, the growth in lease rights and the good management of non-recovered service charges, net rental income rose by +2.2% versus December 31, 2018 to Euro 179.2 million.

### 5.2. Management income, operating costs and EBITDA

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 | Change (%) |
|---|---|---|---|
| **Net rental income** | **179,202** | **175,367** | **+2.2%** |
| Management, administrative and other activities income | 3,229 | 3,076 | +5.0% |
| Other income and expenses | -7,006 | -8,050 | -13.0% |
| Personnel expenses | -12,413 | -12,581 | -1.3% |
| **EBITDA** | **163,012** | **157,812** | **+3.3%** |
| % rental revenues | 85.0% | 84.3% | n/a |

**Management, administrative and other activities income** primarily comprises fees charged in respect of services provided by certain Mercialys staff – whether within the framework of advisory services provided by the asset management team or within the framework of shopping center management services provided by the teams – as well as letting, asset management and advisory fees relating to partnerships formed.

Fees invoiced in 2019 stood at Euro 3.2 million against Euro 3.1 million in 2018.

No **property development margin** was recorded in 2019.

**Other recurring income** of Euro 0.3 million recognized in 2019 was stable versus 2018. It includes dividends received from the OPCI created in partnership with the company Union Investment in 2011. Ownership of this real estate investment fund is split between Union Investment (80%) and Mercialys (20%) and is recorded in Mercialys' accounts under non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and letting. These dividends, similar to net rental revenues, are recognized as operating income.

**Other current expenses** mainly comprise structural costs. Structural costs primarily include financial communication costs, directors' compensation, corporate communication costs, shopping center communication costs, marketing survey costs, fees paid to the Casino group for services covered by the Services Agreement (accounting, financial management, human resources, IT management), professional fees (Statutory Auditors, consulting, research) and real estate asset appraisal fees.

In 2019, these expenses stood at Euro 7.3 million against Euro 8.3 million in 2018. This change is the result of the efforts made by the Company to control the cost structure.

[32] Compensation paid by a tenant to modify the purpose of his lease and be able to exercise an activity other than that originally specified in the lease contract

**Personnel expenses** amounted to Euro 12.4 million in 2019, slightly lower than in 2018 (Euro 12.6 million).

A portion of personnel expenses are charged back to the Casino group as part of the advisory services provided by the asset management team or as part of the shopping center management services provided by Mercialys' teams (see paragraph above concerning management, administrative and other activities income).

As a consequence of the aforementioned, **EBITDA**[33] for 2019 stood at Euro 163.0 million against Euro 157.8 million in 2018, up by +3.3%. The EBITDA / rental revenues ratio was 85.0% at December 31, 2019 (versus 84.3% at end-2018).

### 5.3. Net financial items

On March 26, 2019, Mercialys redeemed the Euro 479.7 million bond bearing a coupon of 4.125%.

**Net financial income** stood at Euro 24.8 million at December 31, 2019, versus Euro 33.2 million at December 31, 2018. Adjusted for the impact of non-recurring items (ineffective hedging and banking default risk), which represented an expense of Euro 1.3 million at December 31, 2019, vs. an expense of Euro 0.4 million at December 31, 2018, net financial income totaled Euro 23.5 million at end-2019, versus Euro 32.8 million at end-2018.

The **real average cost of drawn debt** for the year 2019 was 1.3%, comparable with the rate 1.4% observed in the first-half of 2019 and down sharply versus that of 1.8% observed in 2018, reflecting the impact of repayment of bond debt and the favorable effect of the commercial paper issue.

The table below shows a breakdown of net financial items:

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 | Change (%) |
|---|---|---|---|
| **Income from cash and equivalents *(a)*** | **190** | **430** | -55.8% |
| Cost of debt taken out *(b)* | -30,887 | -43,937 | -29.7% |
| Impact of hedging instruments *(c)* | 8,706 | 12,239 | -28.9% |
| Cost of property finance leases *(d)* | 0 | 0 | n/a |
| **Gross finance costs excluding exceptional items** | **-22,180** | **-31,697** | **-30.0%** |
| Exceptional depreciation of costs in relation to the early repayment of bank loans *(e)* | n/a | n/a | n/a |
| **Gross finance costs *(f) = (b)+(c)+(d)+*(e)** | **-22,180** | **-31,697** | **-30.0%** |
| **Net finance costs *(g) = (a)+*(f)** | **-21,990** | **-31,267** | **-29.7%** |
| Cost of Revolving Credit Facility and bilateral loans (undrawn*) (h)* | -2,487 | -2,154 | +15.4% |
| Other financial expenses *(i)* | -364 | -41 | n/a |
| **Other financial expenses excluding exceptional items *(j) = (h)+(i)*** | **-2,851** | **-2,195** | **+29.9%** |
| Exceptional depreciation in relation to refinancing of the RCF *(k)* | -259 | n/a | n/a |
| **Other financial expenses *(l) = (j)+(k)*** | **-3,111** | **-2,195** | **+41.7%** |
| **TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*** | **-25,291** | **-33,892** | **-25.4%** |
| Income from associates | 0 | 0 | n/a |
| Other financial income | 255 | 285 | -10.6% |
| **Other financial income *(n)*** | **255** | **285** | **-10.6%** |
| **TOTAL FINANCIAL INCOME *(o) = (a)+(n)*** | **444** | **715** | **-37.9%** |
| **NET FINANCIAL ITEMS = *(m)+(o)*** | **-24,846** | **-33,177** | **-25.1%** |

[33] Earnings before interest, tax depreciation and amortization.

## 5.4. Funds From Operations (FFO) and Net income attributable to owners of the parent

### 5.4.1. Funds From Operations (FFO)

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 | Change (%) |
|---|---|---|---|
| **EBITDA** | **163,012** | **157,812** | **+3.3%** |
| Net financial items (excluding the impact of hedging ineffectiveness and banking default risk) | -23,512 | -32,790 | -28.3% |
| Reversals of / (allowances for) provisions | -1,252 | -1,481 | -15.5% |
| Other operating income and expenses (excluding capital gains on disposals and impairment) | -3,978 | 91 | n/a |
| Tax expense | -3,270 | -2,402 | +36.1% |
| Share of net income from equity associates (excluding amortization and impairment) | 3,631 | 4,201 | -13.6% |
| Non-controlling interests (excluding capital gains and amortization) | -10,462 | -10,371 | +0.9% |
| **FFO** | **124,168** | **115,060** | **+7.9%** |
| ***FFO per share*** | ***1.35*** | ***1.25*** | ***+7.9%*** |

**Other operating income and expenses** mainly consisted of provisions in the amount of Euro 2.1 million relating to a dispute on a site on Reunion Island stemming from a road network issue, and Euro 1.2 million in reversals on fixed assets under construction relating to projects contemplated in recent years but ultimately shelved.

The tax regime for French SIIC (REIT) companies exempts them from paying tax on their income from real estate activities, provided that at least 95% of net income from rental activities and 70% of gains on the disposal of real estate assets are distributed to shareholders. The tax expense recognized by Mercialys consists of corporate value-added tax (CVAE), corporate tax on activities not covered by the SIIC status and deferred tax.

The 2019 **tax expense** of Euro 3.3 million was mainly composed of the corporate value-added contribution (Euro 2.3 million), corporate tax (Euro 0.8 million) and deferred tax (Euro 0.2 million). The tax expense amounted to Euro 2.4 million in 2018.

The amount taken into account at December 31, 2019 for the **share of income from equity associates (excluding amortization and impairment)** was Euro 3.6 million, versus Euro 4.2 million in 2018, notably through the effect of disposals carried out by SCI Rennes-Anglet on the premises of two hypermarkets. The companies consolidated under the equity method in Mercialys' consolidated financial statements include SCI AMR (created in partnership with Amundi Immobilier in 2013), SNC Aix2 (of which Mercialys acquired 50% in December 2013, with Altarea Cogedim owning the other 50%), Corin Asset Management SAS (of which Mercialys owns 40%) and SCI Rennes-Anglet (of which Mercialys owns 30%).

**Non-controlling interests (excluding capital gains and amortization)** stood at Euro 10.5 million at December 31, 2019 versus Euro 10.4 million at December 31, 2018. These are linked to the 49% stake held by BNP Paribas REIM France in the companies Hypertethis Participations and Immosiris. Since Mercialys retains exclusive control, these subsidiaries are fully consolidated.

Based on these items, **Funds From Operations (FFO)**, which correspond to the net income before depreciation and amortization, capital gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects, stood at Euro 124.2 million (against Euro 115.1 million for fiscal year 2018), up by +7.9%. Considering the average number of shares (basic) at the end of December, the FFO represented Euro 1.35 per share at December 31, 2019, against Euro 1.25 per share at December 31, 2018, i.e. an increase of +7.9%.

### 5.4.2. Net income attributable to owners of the parent

| *(In thousands of euros)* | Dec 31, 2019 | Dec 31, 2018 | Change (%) |
|---|---|---|---|
| FFO | 124,168 | 115,060 | +7.9% |
| Depreciation, amortization and provisions | -40,440 | -37,016 | +9.3% |
| Other operating income and expenses | 7,682 | 4,780 | +60.7% |
| Hedging ineffectiveness and banking default risk | -1,334 | -387 | n/a |
| Non-controlling interests and equity associates: capital gains, amortization and depreciation | 264 | -1,585 | n/a |
| **Net income attributable to owners of the parent** | **90,340** | **80,851** | **+11.7%** |

**Depreciation, amortization and provisions** increased significantly to Euro 40.4 million in 2019, versus Euro 37.0 million in 2018, in parallel with the investments made in 2018 and 2019.

**Other operating income and expenses** not included in the Funds From Operations (FFO) correspond notably to the net amount of capital gains on property disposals and provisions for impairment of assets.

In this regard, the amount of other operating income stood at Euro 101.4 million at December 31, 2019. This amount mainly includes the proceeds from asset disposals carried out over the period.

The amount of other operating expenses stood at Euro 93.7 million at December 31, 2019 (against Euro 25.6 million at December 31, 2018). This corresponds primarily to:
- the net book value of assets disposed of during 2019 and fees related to these disposals, representing Euro 84.0 million;
- impairment of investment property for Euro 9.7 million.

On this basis, the amount of net capital gains recognized in the consolidated financial statements at December 31, 2019, pursuant to the disposal of assets over 2019, stood at Euro 17.4 million (vs. Euro 6.3 million in 2018). The capital gain relating to asset sales made in 2019 and distributable in the proportion of 70% under SIIC rules amounted to Euro 14.2 million.

**Net income attributable to owners of the parent**, as defined in IFRS standards, stands at Euro 90.3 million for 2019, against Euro 80.9 million for 2018. This change is attributable chiefly to the favorable impact of net financial items and capital gains from disposals on the 2019 earnings.

## 5.5. Financial structure

### 5.5.1. Debt cost and structure

At December 31, 2019, the amount of Mercialys' **drawn debt** stood at Euro 1,450 million, composed of:
- a bond of a total nominal amount of Euro 750 million, bearing interest at a fixed-rate coupon of 1.787%, maturing in March 2023;
- a bond of a nominal amount of Euro 300 million, bearing interest at a fixed-rate coupon of 1.80%, maturing in February 2026;
- a private bond placement, of a nominal amount of Euro 150 million, bearing interest at a fixed-rate coupon of 2.00%, maturing in November 2027;
- Euro 250 million in outstanding commercial paper, with a slightly negative average rate.

**Net financial debt** stood at Euro 1,373.2 million at December 31, 2019, versus Euro 1,478.2 million at December 31, 2018.

The Group **cash and cash equivalents** stood at Euro 72.0 million at December 31, 2019, versus Euro 377.0 million at December 31, 2018. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:
- net cash flow from operating activities during the period: Euro +155.0 million;
- cash receipts / payments related to disposals / acquisitions of assets made in 2019: Euro +79.1 million;
- dividend payments to shareholders and non-controlling interests: Euro -106.7 million;
- repayment of borrowings net of commercial paper issued: Euro -412.7 million;
- net interest paid: Euro -20.0 million.

The **real average cost of drawn debt** at December 31, 2019 was 1.3%, comparable with the 1.4% rate observed at end-June 2019 and down sharply versus that of 1.8% observed at December 31, 2018, reflecting the positive impact of the repayment of the March 2019 bond and the favorable effect of the commercial paper issue at a slightly negative average rate.

At the same time, taking advantage of a very favorable market context, Mercialys increased its **debt coverage** over the fiscal year in order to optimize its sequence of financial expense. As such, fixed-rate debt (including commercial paper) represented 86% of total debt at December 31, 2019, versus 63% at December 31, 2018.

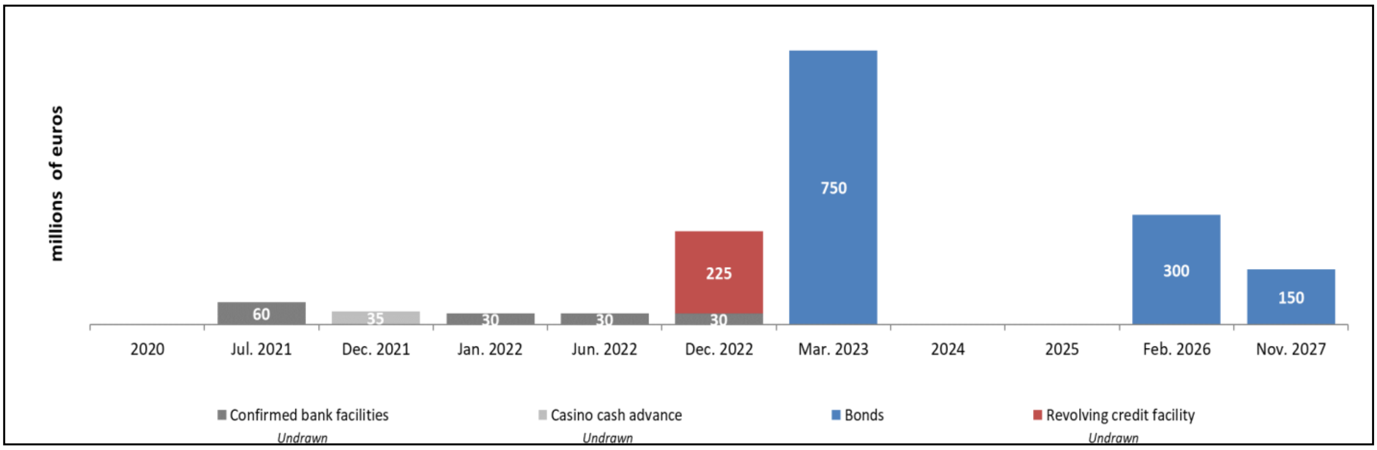
#### 5.5.2. Liquidity and debt maturity

The **average maturity of drawn debt** was 3.8 years at December 31, 2019, virtually stable versus December 31, 2018 (3.7 years).

Mercialys also has **undrawn financial resources** of up to Euro 410 million, enabling it to benefit from a satisfactory level of liquidity:
- a bank revolving credit facility of Euro 225 million maturing in December 2022. This facility bears interest at Euribor + a margin of 125bp (for a BBB rating); if undrawn, it is subject to payment of a non-use fee of 40% of the margin;
- five confirmed bilateral bank facilities in a total amount of Euro 150 million, maturing between July 2021 and December 2022. The margin on Euribor is less than or equal to 100bp (for a BBB rating);
- a current account cash advance from Casino capped at Euro 35 million, maturing on December 31, 2021, with a non-use fee of 40% of the margin.

In addition, Mercialys benefits from a commercial paper program of Euro 500 million that was arranged in the second half of 2012. It is used up to Euro 250 million (outstanding at December 31, 2019).

The graph below shows the Group's **debt maturity schedule** at December 31, 2019 and undrawn financial resources (excluding commercial paper):




#### 5.5.3. Bank covenants and credit rating

Mercialys' financial position at December 31, 2019 satisfied all the various covenants included in the different credit agreements.

As such, the debt ratio (**LTV: Loan To Value**) stands at 39.5% (vs. 40.8% at the end of 2018), well below the covenants. Accordingly, an LTV covenant of less than 55% applies to 60% of confirmed bank lines, the balance of these facilities implying an LTV covenant of less than 50%.

| | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Net financial debt (in millions of euros) | 1,373.2 | 1,478.2 |
| Property assets appraisal value excluding transfer taxes (in millions of euros)[34] | 3,479.3 | 3,621.2 |
| **Loan To Value (LTV)** | **39.5%** | **40.8%** |

[34] Including the fair value of investments in associates for Euro 59.7 million in 2019 and Euro 64.4 million in 2018, since the value of the portfolio held by associates is not included in the appraisal value

Likewise, the ratio of EBITDA/net finance costs (**ICR: Interest Coverage ratio**) stood at 7.4x, well beyond the contractual covenant (ICR > 2). This indicator was negatively impacted in 2018 by the carrying cost of the early refinancing of the bond maturing in March 2019.

| | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| EBITDA (in millions of euros) | 163.0 | 157.8 |
| Net finance costs | -22.0 | -31.3 |
| **Interest Coverage Ratio (ICR)** | **7.4x** | **5.0x** |

The two other bank covenants requirements are also met:

- the **fair value of assets excluding transfer taxes** at December 31, 2019 was Euro 3.4 billion, (above the contractual covenant, which sets a fair value excluding transfer taxes of investment properties of over Euro 1.0 billion);
- zero **pledged debt** at December 31, 2019 (below the covenant, which caps the pledged debt to fair value ratio excluding transfer taxes at 20%).

Mercialys is rated by Standard & Poor's. On June 7, 2019, the agency reiterated Mercialys' BBB rating (stable outlook). It subsequently revised the outlook to negative on September 25, 2019.

### 5.6. Equity and ownership structure

**Consolidated equity stood** at Euro 860.0 million at December 31, 2019, against Euro 879.5 million at December 31, 2018.

The main changes that affected this item during the period were as follows:

- net income for the 2019 fiscal year: Euro +99.2 million;
- payment of the final dividend for the 2018 fiscal year of Euro 0.62 per share and dividends paid to non-controlling interests: Euro -63.6 million;
- payment of an interim dividend for the fiscal year 2019 of Euro 0.47 per share: Euro -43.1 million;
- transactions on treasury shares: Euro +1.1 million;
- change in fair value of financial assets and derivatives: Euro -13.3 million.

The **number of outstanding shares** at December 31, 2019 stands at 92,049,169, unchanged versus December 31, 2018.

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Number of outstanding shares | | | |
| - At start of period | 92,049,169 | 92,049,169 | 92,049,169 |
| - At end of period | 92,049,169 | 92,049,169 | 92,049,169 |
| Average number of shares outstanding | 92,049,169 | 92,049,169 | 92,049,169 |
| **Average number of shares (basic)** | **91,789,610** | **91,733,866** | **91,830,447** |
| **Average number of shares (diluted)** | **91,789,610** | **91,733,866** | **91,830,447** |

As of December 31, 2019, the Mercialys' ownership structure was as follows: Casino Group (25.16%), Crédit Agricole SA (9.95%), Groupe Generali (8.01%), Foncière Euris (1.20%), own shares (0.32%), other shareholders (55.36%).
Following the equity swap established with the Casino group in 2018, Crédit Agricole declared to the AMF on January 14, 2020 that the threshold of 5% in capital and voting rights had been crossed downwards, and that it accordingly held 4.99% of Mercialys' share capital and voting rights.
Lastly, according to the disclosure threshold report filed with the AMF on January 31, 2020 by the concert structure comprising Mr. Jean-Charles Naouri and companies that he directly or indirectly controls, on this date the Casino Group held 25.16%, Foncière Euris held 0.32% and Crédit Agricole held 4.47% of Mercialys' capital and voting rights.

### 5.7. Dividends

The final dividend for 2018 paid on May 2, 2019 stood at Euro 0.62 per share, which represents a total amount of dividends distributed of Euro 56.9 million, fully paid in cash.

At its meeting of July 24, 2019, the Board of Directors decided to pay an interim dividend in respect of fiscal year 2019 of **Euro 0.47 per share**, which was paid on October 23, 2019, representing a total interim dividend of Euro 43.1 million, fully paid in cash.

Mercialys' Board of Directors will submit a recommendation to the Annual General Meeting on April 23, 2020 for a dividend of **Euro 1.15 per share** (including the Euro 0.47 per share interim dividend already paid in October 2019). The proposed dividend represents an increase of +2.7% from 2018, with a yield of 5.7% based on the EPRA NNNAV of Euro 20.01 per share at end-2019 and 9.3% based on the year's closing share price. The payout corresponds to 85% of 2019 FFO, in line with Mercialys' guidance (range of 85% to 95% of 2019 FFO and dividend at least stable versus 2018).

The ex-dividend date is April 27, 2020, and the dividend will be paid on April 29, 2020.

This payment corresponds to the distribution of 95% of the recurrent taxable profit excluding capital gains, in accordance with the SIIC rules (representing Euro 0.84 per share), as well as all capital gains available for distribution based on asset sales carried out in 2019 (Euro 0.11 per share), and Euro 0.20 per share of exempt income recorded on the Company's balance sheet.

## 6. Changes in the scope of consolidation and valuation of the asset portfolio

### 6.1. Asset acquisitions

No significant acquisitions were made in 2019.

### 6.2. Completion of extension or requalification projects

Project completions are described in part III, page 5 et seq. of this press release.

### 6.3. Disposals

Disposals are described in part III, page 5 et seq. of this press release.

### 6.4. Appraisal valuations and changes in consolidation scope

At December 31, 2019, BNP Real Estate Valuation, Catella, Cushman & Wakefield, CBRE and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 38 sites at December 31, 2019, based on an on-site inspection of five of these sites during the second half of 2019, and on an update of the appraisals carried out at June 30, 2019 for the other sites. An on-site inspection had been carried out on six sites during the first half of 2019;
- Catella Valuation conducted the appraisal of 17 sites at December 31, 2019, based on an on-site inspection of five of these sites during the second half of 2019, and an update of the appraisals carried out at June 30, 2019;
- Cushman & Wakefield conducted the appraisal of nine sites at December 31, 2019, on the basis of an update of the appraisals conducted at June 30, 2019;
- CBRE conducted the appraisal of one site at December 31, 2019, on the basis of an update of the appraisal conducted at June 30, 2019;
- Galtier conducted the appraisal for the rest of Mercialys' assets, i.e. two sites, at December 31, 2019, based on an on-site inspection.

On this basis, the valuation of the portfolio stands at Euro 3,634.4 million including transfer taxes at December 31, 2019, versus Euro 3,780.2 million at December 31, 2018. Excluding transfer taxes, this value was Euro 3,419.5 million at end-2019, vs. Euro 3,556.9 million at end-2018.

The value of the portfolio including transfer taxes therefore fell by -3.9% over 12 months (-1.4% like-for-like[35]) and by -3.1% versus June 30, 2019 (-0.7% like-for-like).

The average appraisal yield rate was 5.26% at December 31, 2019, versus a rate of 5.20% at June 30, 2019 and a rate of 5.10% as of December 31, 2018.

| Type of property | Average yield rate at Dec 31, 2019 | Average yield rate at June 30, 2019 | Average yield rate at Dec 31, 2018 |
|---|---|---|---|
| Regional and Large shopping centers | 5.07% | 5.04% | 4.93% |
| Neighborhood shopping centers and city-center assets | 6.12% | 5.84% | 5.78% |
| Total portfolio[36] | 5.26% | 5.20% | 5.10% |

The following table gives the breakdown of fair value and gross leasable area (GLA) of Mercialys' real estate portfolio by type of property at December 31, 2019, as well as the corresponding appraised rental income.

| Type of property | Number of assets At 12/31/2019 | Appraisal value (excluding transfer taxes) At 12/31/2019 | | Appraisal value (including transfer taxes) At 12/31/2019 | | Gross leasable area At 12/31/2019 | | Appraised potential net rental income | |
|---|---|---|---|---|---|---|---|---|---|
| | | (Euro million) | (%) | (Euro million) | (%) | (sq.m) | (%) | (Euro million) | (%) |
| Regional and Large shopping centers | 25 | 2,798.5 | 81.8% | 2,970.7 | 81.7% | 654,852 | 77.6% | 150.8 | 78.9% |
| Neighborhood shopping centers and city-center assets | 28 | 609.5 | 17.8% | 651.4 | 17.9% | 186,637 | 22.1% | 39.8 | 20.9% |
| **Sub-total** | **53** | **3,408.0** | **99.7%** | **3,622.0** | **99.7%** | **841,489** | **99.7%** | **190.6** | **99.8%** |
| Other sites[36] | 5 | 11.5 | 0.3% | 12.3 | 0.3% | 2,359 | 0.3% | 0.5 | 0.2% |
| **Total** | **58** | **3,419.5** | **100%** | **3,634.4** | **100%** | **843,848** | **100%** | **191.1** | **100%** |

After taking into account changes in the average appraisal yield of Mercialys' portfolio versus June 30, 2019, the rates applicable in the first half of 2020 to investment transactions that come within the scope of the partnership agreement signed between Mercialys and the Casino group are as follows:

| TYPE OF ASSETS | Shopping centers | | Retail parks | | High street |
|---|---|---|---|---|---|
| | Mainland France | Corsica and Overseas Departments & Territories | Mainland France | Corsica and Overseas Departments & Territories | |
| > 20,000 sq.m | 5.6% | 6.2% | 6.2% | 6.6% | 5.4% |
| 5,000 to 20,000 sq.m | 6.1% | 6.6% | 6.6% | 6.9% | 5.7% |
| < 5,000 sq.m | 6.6% | 6.9% | 6.9% | 7.6% | 6.2% |

[35] Sites on a like-for-like GLA basis
[36] Including other assets (independent cafeterias and other standalone sites)

## 7. Outlook

In 2020, Mercialys will continue to work on its portfolio, the retailer mix and the use of its sites by leveraging the development of its customer knowledge tools, in a context of polarization of retail sites in France and shifts in consumption patterns.

Mercialys has set the following objectives for 2020:
- organic growth in invoiced rents of around +2% including indexation;
- Funds From Operations (FFO) per share including the effect of disposals made in 2019 and 2020 at least stable versus 2019;
- dividend within a range of 85% to 95% of 2020 FFO and at least stable versus 2019.

## 8. Subsequent events

No significant events have occurred since the close of the year.

## 9. EPRA performance measurements

Mercialys applies the recommendations of the EPRA[37] for the indicators provided below. The EPRA is the representative body of listed real estate companies in Europe. As such, it issues recommendations on performance indicators to improve the comparability of the financial statements published by the various companies.

In its Half-year Financial Report and its Universal Registration Document, Mercialys publishes all the EPRA indicators defined by the "Best Practices Recommendations" which can be found on EPRA's website. The table below summarizes the EPRA indicators at the end of December 2018, the end of June 2019 and the end of December 2019:

| | Dec 31, 2019 | Jun 30, 2019 | Dec 31, 2018 |
|---|---|---|---|
| EPRA earnings – Euros per share | 1.35 | 0.69 | 1.25 |
| EPRA NAV – Euros per share | 20.53 | 20.86 | 20.86 |
| EPRA NNNAV – Euros per share | 20.01 | 20.40 | 21.14 |
| EPRA Net Initial Yield | 4.94% | 4.89% | 4.81% |
| EPRA Topped-up Net Initial Yield | 5.00% | 4.95% | 4.88% |
| EPRA vacancy rate | 3.2% | 3.0% | 3.0% |
| EPRA cost ratio (including direct vacancy costs) | 16.8% | 16.7% | 17.3% |
| EPRA cost ratio (excluding direct vacancy costs) | 15.6% | 15.6% | 16.2% |

[37] European Public Real Estate Association.

### 9.1. EPRA earnings and earnings per share

The table below shows the relationship between net income attributable to owners of the parent and "earnings per share" as defined by the EPRA:

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Net income attributable to owners of the parent** | **90.3** | **80.9** |
| Non-controlling interests and equity associates: capital gains, amortization and depreciation | -0.3 | 1.6 |
| Hedging ineffectiveness and banking default risk | 1.3 | 0.4 |
| Capital gains or losses and impairments included in other operating income and expenses | -7.7 | -4.8 |
| Depreciation and amortization | 40.4 | 37.0 |
| Property development margin | 0.0 | 0.0 |
| **EPRA EARNINGS** | **124.2** | **115.1** |
| Number of shares (average basic) | 91,789,610 | 91,733,866 |
| **EPRA EARNINGS PER SHARE (in euros)** | **1.35** | **1.25** |

The calculation of the FFO (Funds From Operations) communicated by Mercialys is identical to that of the EPRA earnings. There are no adjustments to be made between these two indicators.

### 9.2. EPRA Net Asset Value (EPRA NAV)

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Shareholders' equity attributable to owners of the parent** | **658.0** | **679.6** |
| Unrealized gain on investment property | 1,195.5 | 1,219.9 |
| Unrealized gain on non-consolidated investments and equity associates | 23.4 | 29.3 |
| Fair value of financial instruments | 7.7 | -15.3 |
| Deferred tax assets on the balance sheet | 0.0 | 0.0 |
| **EPRA NAV** | **1,884.6** | **1,913.4** |
| Number of shares (average diluted) | 91,789,610 | 91,733,866 |
| **EPRA NAV per share (in euros)** | **20.53** | **20.86** |

### 9.3. EPRA Triple Net Asset Value (EPRA NNNAV)

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **EPRA NAV** | **1,884.6** | **1,913.4** |
| Fair value of financial instruments | -7.7 | 15.3 |
| Fair value of fixed-rate debt | -40.0 | 10.7 |
| **EPRA NNNAV** | **1,836.8** | **1,939.5** |
| Number of shares (average diluted) | **91,789,610** | 91,733,866 |
| **EPRA NNNAV per share (in euros)** | **20.01** | **21.14** |

### 9.4. EPRA Net Initial Yield and EPRA "topped-up" Net Initial Yield

The table below shows the comparison between the yield as reported by Mercialys and the yield defined by the EPRA:

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Investment property – wholly owned | 3,419.5 | 3,556.9 |
| Assets under development (-) | -5.0 | 0.0 |
| **Completed property portfolio excluding transfer taxes** | **3,414.6** | **3,556.9** |
| Transfer taxes | 214.7 | 223.3 |
| **Completed property portfolio including transfer taxes** | **3,629.3** | **3,780.2** |
| Annualized rental revenues | 184.8 | 186.9 |
| Non-recoverable expenses (-) | -5.6 | -5.0 |
| **Annualized net rents** | **179.2** | **181.9** |
| Notional gain relating to expiration of step-up rents, rent-free periods or other lease incentives | 2.1 | 2.7 |
| **Topped-up net annualized rent** | **181.3** | **184.6** |
| **EPRA NET INITIAL YIELD** | **4.94%** | **4.81%** |
| **EPRA "TOPPED-UP" NET INITIAL YIELD** | **5.00%** | **4.88%** |

### 9.5. EPRA vacancy rate

The vacancy rate is calculated on the basis of the rental value of vacant units/(annualized minimum guaranteed rent on occupied units + rental value of vacant units).
The EPRA vacancy rate was 3.2% at the end of 2019, a level comparable with that observed at the end of 2018 (3.0%). "Strategic" vacancy designed to facilitate extension or restructuring plans represents 70bp within the vacancy rate of 3.2%.

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Rental value of vacant units | 6.0 | 5.6 |
| Rental value of the entire portfolio | 186.7 | 187.7 |
| **EPRA vacancy rate** | **3.2%** | **3.0%** |

### 9.6. EPRA cost ratios

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 | Comments |
|---|---|---|---|
| Administrative and operating expense line per IFRS income statement | -19.7 | -20.9 | Personnel expenses and other costs |
| Net service charge costs | -5.6 | -5.0 | Property taxes + non-recovered service charges (including vacancy costs) |
| Rental management fees | -2.4 | -2.8 | Rental management fees |
| Other income and expenses | -4.7 | -4.2 | Other property operating income and expenses excluding management fees |
| Share of joint venture administrative and operating expenses | 0.0 | 0.0 | |
| **Total** | **-32.3** | **-32.8** | |
| Adjustments to calculate the EPRA cost ratio exclude (if included above): | | | |
| - depreciation and amortization | 0.0 | 0.0 | Depreciation and provisions for fixed assets |
| - ground rent costs | 0.1 | 0.5 | Non-group rents paid |
| - service charges recovered through comprehensive invoicing (with rent) | 0.0 | 0.0 | |
| **EPRA costs (including vacancy costs) (A)** | **-32.3** | **-32.3** | **A** |
| Direct vacancy costs[38] | 2.3 | 2.0 | |
| **EPRA costs (excluding vacancy costs) (B)** | **-30.0** | **-30.3** | **B** |
| Gross rental revenues less ground rent costs[39] | 191.8 | 186.8 | Less costs relating to construction leases and long-term ground leases |
| Less: service fee and service charge cost components of gross rental revenues | 0.0 | 0.0 | |
| Plus: share of joint ventures gross rental revenues (less ground rent costs) | 0.0 | 0.0 | |
| **Rental revenues (C)** | **191.8** | **186.8** | **C** |
| **EPRA COST RATIO including direct vacancy costs** | **-16.8%** | **-17.3%** | **A / C** |
| **EPRA COST RATIO excluding direct vacancy costs** | **-15.6%** | **-16.2%** | **B / C** |

### 9.7. EPRA investments

The table below shows the investments made over the period:

| *(in millions of euros)* | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Acquisitions | 0.0 | 0.0 |
| Developments | 5.3 | 49.5 |
| Like-for-like portfolio | 11.6 | 21.1 |
| Others | 9.5 | 8.7 |
| **TOTAL** | **26.4** | **79.3** |

Investments relate to companies fully consolidated by Mercialys.

**Development** investments relate exclusively to work carried out on the retail park of the Le Port site (Reunion Island).

[38] The EPRA cost ratio deducts all vacancy costs for assets undergoing development/refurbishment if they have been expensed. The costs that can be excluded are property taxes, service charges, contributions to marketing costs, insurance premiums, carbon tax, and any other costs directly related to the property.
[39] Gross rental revenues should be calculated after deducting any ground rent payable. All service charges, management fees and other income in respect of property expenses must be added and not deducted. If the rent includes service charges, these should be restated to exclude them. Tenant incentives may be deducted from rental revenues, whereas any other costs should be recognized in line with IFRS requirements

Investments linked to the **portfolio at constant scope** notably include work relating to the project portfolio, but also to strategic projects implemented on various sites (coworking, "farmhouse" to sell local products, fit-outs), construction work for the health center in Furiani and improvements to the site (installation of optic fiber in several centers) and tenants' facilities.

Lastly, investments categorized as "**others**" mainly include maintenance, work carried out on the Company's new head office, IT investments (linked notably to the development of the digital platform and the development of the food delivery service from restaurants in shopping centers).