COVIVIO HOTELS

PRESS RELEASE

Paris, 13 February 2019

2018 Annual Results

Covivio Hotels continues with its successful growth in Europe and the upmarket positioning of its hotel real estate portfolio

Main highlights of the year

Covivio Hotels, a subsidiary of Covivio, has completed another milestone in its development and the upmarket positioning of its hotel real estate portfolio while pursuing a strategy of growth in the United Kingdom and acceleration in the disposal of non-strategic assets.

Strengthening by focusing on major European cities:

In July 2018, Covivio Hotels completed its first acquisition in the United Kingdom for €895 million, with a premium portfolio of twelve 4 and 5* hotels located in the country's major cities. The first ten hotels were acquired in July and November 2018, the two remaining assets, located in Oxford, will be acquired in February 2019.

Simultaneously, Covivio Hotels signed long-term triple net variable payment leases, accompanied by a minimum guarantee, with InterContinental Hotels Group (IHG), which operates these hotels under several premium brands.

Covivio Hotels has thus established a foothold in the United Kingdom, the top market in terms of investments and fourth most popular tourist destination in Europe. This portfolio of excellent quality real estate includes 2,226 rooms and enjoys the benefit of prime locations in the heart of Britain's large cities. The assets, which have already benefitted from recent works projects, offer potential for significant growth and generate good profits (EBITDAR margin above 30%). Covivio Hotels and its partner are jointly supporting the upmarket positioning of its portfolio and rebranding under the Kimpton, Voco and Intercontinental brands, with a target of 6% yield when operating at full speed.

The assets acquired in 2018 have already created value in the order of 3% as of 31 December 2018, with respect to the acquisition price.

The annual financial statements have been audited. The Statutory Auditors' report on annual financial information is being prepared.

Investment data are presented including duties

Continued support of hotel operators:

Covivio Hotels is strengthening its partnership with NH Hotels with the acquisition of 3 NH 4* hotels, located in Berlin, Hamburg and Amsterdam, for €98 million, and the signing of an option to buy the NH Hotel Amersfoort (asset valued at €12 million). These hotels are operated by NH Hotel Group as part of a 20-year lease.

In terms of expansion, in 2018, Covivio Hotels delivered the Motel One Paris Porte Dorée, the first implantation of the European operator Motel One in France, totalling 255 rooms, and delivered in 2018. It also signed off on the development of a 4* hotel of 169 rooms, in the heart of Malaga's historic centre. It will be delivered in 2020 and leased to Room Mate.

Strengthening the portfolio's hotel business skills and upmarket positioning:

The General Meeting of 24 January 2018, approved the merger of Covivio Hotels and FDM Management. The absorption of its subsidiary, created in 2014, to acquire and manage hotel operating properties, allows Covivio Hotels to increase its exposure in 4* hotels in Germany, particularly in Berlin, and to strengthen its sources of value creation and its capacity for growth. The consolidation of operating properties increased the portfolio by €745 million, while simplifying the company's organisation.

All of these operations constitute major steps in the development strategy of Covivio Hotels, making it possible to form new partnerships and to accelerate the upmarket positioning and geographic diversification of its portfolio: 74% of the portfolio's hotels are thus classified as mid-range and upscale, compared to 54% in 2017, and 85% are located in major European cities, compared to 73% in 2017.

Continued disengagement from non-strategic assets

In 2018, Covivio Hotels signed divestment contracts or agreements to sale valued at €543 million. These divestments constitute a significant step in a strategy of upgrading its portfolio and disposing of non-strategic operations. These signings mainly concern:

- disposal of the portfolio of all the Quick restaurants for €163 million;
- the sale of 23 Jardiland assets (54% of the residual portfolio, assets located on the outskirts of French cities), for a total of €108 million;
- disposal of the Sunparks holiday resort, located in De Haan, Belgium, for €102 million; and
- an agreement to sell to an institutional investor, which concerns 59 B&B hotels located in the French provinces and scattered around the outskirts of Paris, for an amount totalling €137 million, Group Share.

These sales were completed on the basis of a yield of 6% and a margin of 3% with respect to the latest appraisal values. On 31 December 2018, Covivio Hotels still holds in its portfolio 3% of non-strategic assets, compared to 11% at the end of 2017.

Growth in value of 3.0% on a like for like basis

At end December 2018, the value of the real estate portfolio, Group share, reached €5,483 million (€6,009 million at 100%), compared with €4,013 million on 31 December 2017. At constant scope, the hotel portfolio grew by +3.0%, mainly driven by foreign assets, in Spain (+5.9%) and in Belgium (+8,9%). The assets generate an average yield of 5.3%, excluding duties.

The EPRA NAV, up by 40.6%, amounts to €3,406 million (or €28.9 /share – or +4.5% over one year), due to the positive effect of the appraised change in value. The EPRA Triple Net NAV is at €3,109 million compared to €2,226 million in 2017. Per share, it has increased by 4.2% over 12 months, to stand at €26.3 /share.

To finance the transaction in the United Kingdom, a capital increase of €298 million was realised in June 2018 and subscribed at 100%.

Growth in income of +4.7% on a like for like basis

€ millions	Income 2017 100%	Income 2017 Group Share	Income 2018 100%	Income 2018 Group Share	Change Group Share (%)	Change Group Share LFL (%) (1)
Hotel Lease properties (Rents)	174 M€	154 M€	208 M€	183 M€	19.1%	+4.2%
Hotel Operating properties (EBITDA)	68 M€	65 M€	74 M€	72 M€	9.4%	+5.6%
Total Hotel Revenues	**242 M€**	**219 M€**	**283 M€**	**254 M€**	**16.2%**	**+4.7%**
Non-strategic (Retail)	**35 M€**	**35 M€**	**21 M€**	**21 M€**	**-38.4%**	**+1.6%**

(1) On a like for like basis

The year was also marked by the continued growth of operating results in Europe, which was reflected in increases in rents at constant scope of 4.2% on the hotel business, driven by the increase in rents of the Accor portfolio, up 10% in Paris and Brussels. The progression of the EBITDA from hotel operating properties of 5.6% at constant scope is mainly driven by hotels in Belgium and Germany with an increase of 7.5% for hotels in Berlin.

At the end of December 2018, the firm residual duration of leases in the hotel portfolio amounted to 13.8 years (compared to 10.7 years at the end of 2017), while the occupancy rate remained at 100% across the portfolio.

Improvement of the financial structure

Diversification of financing sources:

In September 2018, the S&P Agency attributed a BBB rating and positive outlook to Covivio Hotels, which successfully proceeded with its first public bond issue of €350 million, to mature in 2025, with a coupon of 1.875%. This transaction allowed Covivio Hotels to diversify its sources of financing and reduce the cost of such financing.

Optimisation of the debt

The net debt of Covivio Hotels amounts to €2,208 million after integration of the operating property activity and the average interest rate on debt continues to improve (2.08% compared to 2.52% at the end of 2017). What is more, the Interest Cover Ratio (ICR) also improved to 5.82 (compared to 5.46 in 2017).

On 31 December 2018, the average maturity of debt stood at 5.6 years, a decrease of 0.2 years. The Loan To Value (LTV) ratio, including duties, is stable over the year and stands at 36.3%.

EPRA Earnings of €198.4 million

EPRA Earnings of €198.4 million (compared with €155.5 million on 31 December 2017) shows an increase of 27.6%, due to the effect of integration of the operating property business, an increase in variable income and improvement in the debt ratio.

Per share, EPRA Earnings reached €1.78 on 31 December 2018, compared with €1.85 on the same date in 2017, a decrease of 3.8%. This change can be mainly explained by the 2017 special dividend paid in shares.

Dividends

At the General Meeting on 5 April next, Covivio Hotels will propose to vote on distribution of a dividend of €1.55 per share paid in cash, stable for a year. This dividend represents a distribution rate of 87% of EPRA Earnings and a yield of 6.2% based on the closing price on 12 February 2019.

2019 Outlook

In 2019, Covivio Hotels intends to strengthen its hospitality leader position in the major European markets (especially in the United Kingdom, in Germany and in France). In order to do so, Covivio Hotels will rely on its ability to implement and develop partnerships with leading hotel operators.

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ABOUT COVIVIO HOTELS

Covivio Hotels, a subsidiary of Covivio, is today the leader of the investment in hotel real estate in Europe. With more than 400 million of hotels in its portfolio, valuated €6 billion (at 100% end of 2018), Covivio Hotels is the real estate partner of leading hotel operators in France and in Europe.

ABOUT COVIVIO

Thanks to its partnering history, its real estate expertise and its European culture, Covivio is inventing today's user experience and designing tomorrow's city. A preferred real estate player at the European level, Covivio is close to its end users, capturing their aspirations, combining work, travel, living, and co-inventing vibrant spaces.

A benchmark in the European real estate market with 23 Bn€ in assets, Covivio offers support to companies, hotel brands and territories in their pursuit for attractiveness, transformation and responsible performance.
Its living, dynamic approach opens up exciting project and career prospects for its teams.

Covivio's shares are listed in the Euronext Paris A compartment (FR0000064578 - COV) and on the MTA market (Mercato Telematico Azionario) of the Milan stock exchange, are admitted to trading on the SRD, and are included in the composition of the MSCI, SBF 120, Euronext IEIF "SIIC France" and CAC Mid100 indices, in the "EPRA" and "GPR 250" benchmark European real estate indices, EPRA BPRs Gold Awards (financial + Sustainability), CDP (A), Green Star GRESB and in the ESG FTSE4 Good, DJSI World & Europe, Euronext Vigeo (World 120, Eurozone 120, Europe 120 and France 20), Euronext® CDP Environment France EW, Oekom, Ethibel, Sustainalytics and Gaïa ethical indices.
Covivio is rated BBB/Positive outlook by Standard and Poor's.

Appendices

- Bridge table of the portfolio:

Portfolio (as of 31/12/2018)	**5,483 M€**
Fixed assets	+ 1 M€
Use rights on investment properties	+ 164 M€
Non-accrued goodwill of operating property assets	- 49 M€
Real Estate Assets Group Share	**5,599 M€**
The companies's fully consolidated non-controlling interest	+ 524 M€
100% Real estate assets - IFRS accounts	**6,123 M€**

- Bridge table of the NAV:

Shareholders' equity Group - IFRS Accounts	**3,039 M€**
Fair value of operating property assets net of deferred taxes	+ 39 M€
Fixed-rate debt	- 16 M€
Restatements of duties	+ 47 M€
EPRA Triple Net NAV	**3,109 M€**
Financial instruments and fixed-rate debt	+ 47 M€
Deferred tax liabilities	+ 250 M€
EPRA NAV	**3,406 M€**

- Bridge table of rental income:

€ millions	Rental income 2018 IFRS Accounts	Non-controlling interest	**Rental income 2018 Group Share Covivio Hotels**
Hotels	208 M€	- 26 M€	183 M€
Retail premises	21 M€	-	21 M€
Total Rental Income	**230 M€**	**-26 M€**	**204 M€**
Managed hotel EBITDA	**74 M€**	**3 M€**	**72 M€**

- Detail of Loan To Value calculation (LTV)

(€ millions) – Group Share	2017 *	2018
Net book debt	1,930	2,208
Receivables linked to associates (fully consolidated)	-24	-19
Pledges	-207	-154
Security deposits received	-59	-1
Purchase debt	107	18
Net debt Group Share	**1,747**	**2,051**
Appraised value of real estate assets (including duties)	4,931	5,712
Pledges	-207	-154
Financial assets	21	7
Receivables linked to associates (equity method)	7	7
Share of equity affiliates	79	84
Value of assets	**4,831**	**5,656**
LTV Excluding Duties	**37.7%**	**37.8%**
LTV Including Duties	**36.2%**	**36.3%**

** LTV proforma post FDM Management merger*

LTV Including duties published December 2017 = 31.2%

- Reconciliation with consolidated accounts:

Net debt

(€ millions)	Consolidated financial statements	Minority interests	Group Share
Bank Debt	2,825	251	**2,574**
Cash and cash equivalents	381	15	**366**
Net debt	**2,444**	**236**	**2,208**

Portfolio

(€ millions)	Consolidated financial statements	Portfolio of companies under equity method	Fair value of investment properties	Minority interests	Group Share
Investment & development properties	4,533	0	1,321	-524	**5,331**
Assets held for sale	288			-134	**153**
Total portfolio	**4,821**	**0**	**1,322**	**-659**	**5,483**

Duties	236
Portfolio Group Share Including Duties	5,718
(+) Advances and deposits on fixed assets	-7
Portfolio for LTV calculation	**5,712**

Interest Coverage Ratio (ICR)

€ millions	2017	**2018**
EBE (Net rents (-) operating expenses (+) results of other activities)	177	**261**
Cost of debt	-32	**-45**
ICR	**5.46**	**5.82**

- Bridge table of EPRA Earnings:

€ millions	**Net income 100% IFRS Accounts**	**Non-controlling interest**	**Net Income, Group Share**	**Restatements**	**EPRA Earnings**
Net Rental Income	**224.9**	**-25.4**	**199.4**	**0.0**	**199.4**
Managed hotel income	**74.5**	**-3.0**	**71.5**	**0.0**	**71.5**
Operating costs	**-19.8**	**2.5**	**-17.3**	**0.0**	**-17.3**
Depreciation of operating assets	-44.3	1.6	-42.8	36.2	-6.5
Net allowances to provisions and other	6.1	-0.1	6.0	-3.5	2.5
OPERATING PROFIT	**241.3**	**-24.4**	**216.9**	**32.7**	**249.6**
Income from disposals of assets	1,4	0.0	1.4	-1.4	0.0
Net valuation gains and losses	99,9	-16.1	83.8	-83.8	0.0
Income from disposal of securities	119,7	0.0	119.7	-119.7	0.0
Income from changes in scope	-149,2	0.0	-149.2	149.2	0.0
OPERATING PROFIT (LOSS)	**313.1**	**-40.5**	**272.6**	**-23.0**	**249.6**
Costs of net financial debt	-50.1	5.2	-44.9		-44.9
Interest charges on rental liabilities	-4.6	0.0	-4.6	4.6	0.0
Fair value adjustment on derivatives	-12.8	1.2	-11.6	11.6	0.0
Discounting of liabilities and receivables	-0,5	0.0	-0.5	0.0	-0.5
Net change in financial and other provisions	-9.9	0.6	-9.3	4.6	-4.7

Share in income of equity affiliates	8.7	0.0	8.7	-2.1	6.6
PRE-TAX NET INCOME (LOSS)	**243.9**	**-33.6**	**210.4**	**-4.3**	**206.1**
Deferred tax liabilities	-7.2	0.1	-7.2	7.2	0.0
Recurrent Tax	-9.4	0.2	-9.2	1.5	-7.7
NET INCOME FOR THE PERIOD	**227.2**	**-33.2**	**194.0**	**4.4**	**198.4**

- Glossary:

1) Definition of the acronyms and abbreviations used:

GS: Group Share

Chg: Change

LfL: Like-for-Like scope

2) Firm residual term of leases

Average outstanding term remaining of a lease calculated from the date a tenant first takes up an exit option.

3) Triple net lease

Lease contract reached between a landlord and a tenant A "triple net" lease means a lease for which all the taxes and expenses (work, maintenance) related to proper functioning of the building are at the expense of the tenant.

4) Loan To Value (LTV)

Calculation of the LTV is detailed in the Appendices:

5) Rental income

Recorded rent corresponds to gross rental income accounted for over the year by taking into account the deferment of any relief granted to tenants, in accordance with IFRS standards.

The like-for-like rental income posted allows comparisons to be made between rental income from one year to the next, before taking into account changes to the portfolio (e.g. acquisitions, disposals, building works and delivery of new projects…). This indicator is based on assets in operation, i.e. properties leased or available for rent and actively marketed.

6) EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

This is gross operating income after rent. The calculation can be described in the following manner:

(+) Total revenues (revenues)
(-) Purchases and External Expenses
(-) Personnel Expenses
= EBITDAR

(-) Rental income
= EBITDAR

7) EBITDAR Margin:

EBITDAR corresponds to the gross operating income before rent. It is used to compare companies with different ownership policies.

The EBITDAR margin corresponds to the following calculation: EBITDAR / Total revenue

The level of operating profits of hotels varies depending on the hotel category.

8) Portfolio

The portfolio presented includes investment properties and properties under development, as well as operating properties and properties in inventory for each of the entities, stated at their fair value.

9) Yield

The portfolio's returns are calculated according to the following formula:

$$\frac{\text{Annualised gross rental income}}{\text{Value excluding duties on the scope in question}}$$

10) Average annual rate of debt

$$\frac{\text{Financial cost of bank debt for the period} + \text{Financial cost of hedges for the period}}{\text{Average used financial net debt outstanding in the year}}$$

11) Occupancy rate

The occupancy rate corresponds to the spot financial occupancy rate at the end of the period and is calculated using the following formula:

$$1 - \frac{\text{Loss of rental income through vacancies (calculated at MRV)}}{\text{Rental income of occupied assets + loss of rental income}}$$

This indicator is calculated solely for properties on which asset management work *has* been done and therefore does not include assets available under pre-leasing agreements. Occupancy rate are calculated using annualised data solely on the strategic activities portfolio.

12) Like-for-like change in rent

This indicator compares rents recognised from one financial year to another without accounting for changes in scope: acquisitions, disposals, developments including the vacating and delivery of properties. The change is calculated on the basis of rental income under IFRS for strategic activities.

On hotel operating properties, the change in constant scope is calculated based on EBITDA.

<u>Restatements done:</u>

- Deconsolidation of acquisitions and disposals realised in the periods N and N-1;
- Restatements of assets undergoing work, i.e.:
    - Restatement of assets released for realisation of work (realised in years N and N-1),
    - Restatement of deliveries of assets undergoing work (realised in years N and N-1).

13) Like-for-like change in value

This indicator is used to compare asset values from one financial year to another without accounting for changes in scope: acquisitions, disposals, works, developments including the vacating and delivery of properties.

Restatements:

- Deconsolidation of acquisitions and disposals realised during the period;
- Restatement of work realised on assets during period N (including assets under development).