MERCURY FINANCE

MERCURY PROJECTS FINANCE p.l.c.

1400, Block 14, Portomaso, St. Julian's, Malta
Co. Reg. No. C89117

COMPANY ANNOUNCEMENT

Publication of Financial Analysis Summary

It is being announced that the updated Financial Analysis Summary of the Company dated 31 August 2020, has been approved for publication and is attached herewith. It is also available for viewing on the Company's website: www.mercuryfinance.com.mt

Joseph Saliba

Company Secretary

31st August 2020

FINANCIAL ANALYSIS SUMMARY
Mercury Projects Finance p.l.c.
31st August 2020

Calamatta Cuschieri
YOUR PARTNER IN FINANCIAL SERVICES

The Directors
Mercury Projects Finance p.l.c.
J Portelli Projects,
1400, Block 14, Portomaso,
St. Julian's, Malta

31 August 2020

Dear Sirs,

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary (the "**Analysis**") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Mercury Projects Finance p.l.c. (the "**Issuer**") and Mercury Towers Ltd (the "**Guarantor**"), where the latter is the parent company of the "**Group**". The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended 31 December 2017, 2018 and 2019 has been extracted from the audited financial statements of the Issuer and Guarantor for the three years in question.

(b) The forecast data for the current financial year 2020 has been provided by management.

(c) Our commentary on the Issuer and Guarantor's results and financial position is based on the explanations provided by management.

(d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.

(e) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as the web sites of the companies concerned or financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Issuer's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Issuer and should not be interpreted as a recommendation to invest in any of the Issuer's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Issuer's securities.

Yours sincerely,

Nick Calamatta
Director

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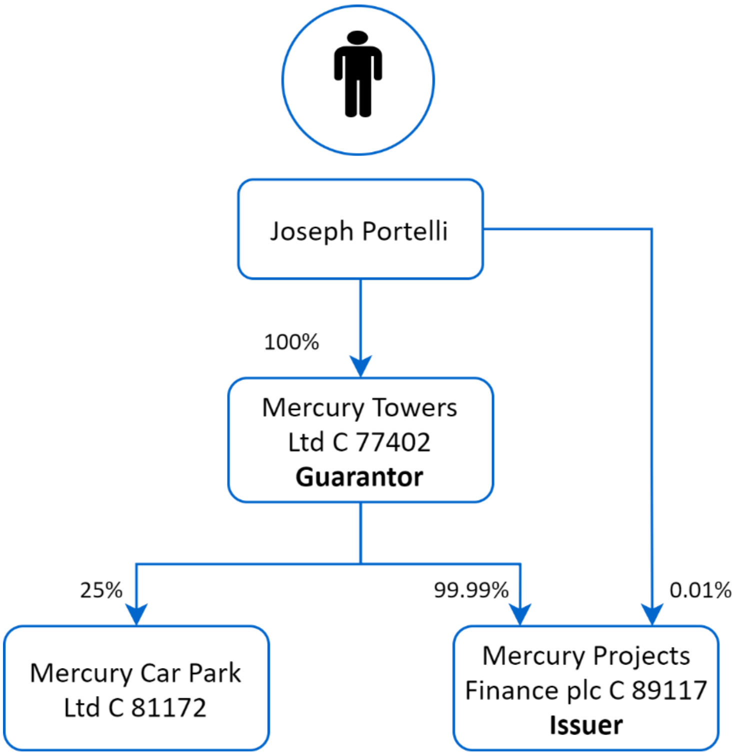
Part 1 - Information about the Group

1.1 Issuer and Guarantor's Key Activities and Structure

The Group structure is as follows:



The Group of companies consists of the Issuer, the Guarantor and Mercury Car Park Limited.

The Issuer, Mercury Projects Finance plc, with company registration number C 89117, is a limited liability company registered in Malta on 16 January 2019. The Issuer is, except for one share that is held by Mr Joseph Portelli, a wholly owned subsidiary of the Guarantor, which latter entity is the parent company of the Group. The Issuer, which was set up and established to act as a finance vehicle, has as at the date hereof an authorised share capital of €500,000 dividend into 500,000 ordinary shares of €1 each and has an issued share capital of €250,000 divided into 250,000 ordinary shares of €1 each, all fully paid up.

The Guarantor, Mercury Towers Ltd, is a private limited liability company incorporated and registered in Malta on 28 September 2016, with company registration number C 77402. The Guarantor, which is the parent company of the group, owns land in the heart of St. Julian's measuring c. 7,702 sqm, which it acquired on a freehold title over two stages, in December 2016 and June 2017 respectively. The land is currently being developed into a mixed use development project (the "**Project**") comprising, amongst others, a tower (incl. apartments), a boutique hotel, retail and commercial activity, as well as an underlying car park. The authorised and issued share capital of the Guarantor is €500,000 divided into 500,000 ordinary shares having a nominal value of €1 each. The sole shareholder of the Guarantor is Mr Joseph Portelli.

Mercury Car Park Limited in which the Group holds a 25% equity interest (equivalent to a €1,500 investment), owns and will operate the car park, which is part of the Project and will give access to over 400 parking spaces situated on levels -3 to -6 of the property.

1.2 Directors and Key Employees

Board of Directors - Issuer

As at the date of this Analysis, the Issuer is constituted by the following persons:

Name	Office Designation
Joseph Portelli	Chairman and Executive Director
Stephen Muscat	Independent non-executive Director
Mario Vella	Independent non-executive Director
Peter Portelli	Independent non-executive Director

The business address of all of the directors is the registered office of the Issuer. Dr Joseph Saliba is the company secretary of the Issuer.

Board of Directors – Guarantor

As at the date of this Analysis, the Guarantor is constituted by the following persons:

Name	Office Designation
Joseph Portelli	Executive Director

The business address of the director is the registered office of the Issuer. Dr Ian Stafrace is the company secretary of the Guarantor.

The sole executive director is responsible for the executive management of the Issuer and the Group, and together with other senior members of the executive team is responsible for the Issuer's and the other Group companies' day to day management. The executive director is responsible for the general executive management and sales and business development as well as for eventual hotel operations. Other members of the Group's management team, apart from the executive director are; Silvan Mizzi who acts as the Guarantor's Chief Financial Officer, and Lorraine Ellul Bonavia, who is responsible for the general legal and administrative affairs of the Guarantor and the Group.

As at the date of this Analysis, the Issuer does not have any employees of its own and the Group has two full-time employees.

1.3 Major Assets owned by the Group

The Issuer does not have any substantial assets other than the loans receivable from the Guarantor since it is essentially a special purpose vehicle set up to act as a financing company.

The Group is currently principally involved in the real estate sector, with a view of entering the hospitality and leisure sector in the near future by operating the areas to be retained by the Guarantor. The Guarantor owns land in the heart of St. Julian's measuring c. 7,702 sqm, which it acquired on a freehold title over two stages, in December 2016 and June 2017 respectively. The land is currently being developed into a mixed use development Project comprising, amongst others, a tower (incl. apartments), a boutique hotel, retail and commercial activity, as well as an underlying car park. In February 2018, the Planning Authority approved the Group's plans for the above-mentioned development, and issued a development permit for the Project.

Mercury Car Park Limited owns and will operate the car park, which is part of the Project and will give access to over 400 parking spaces situated on levels -3 to -6 of the property.

The major asset of the Group is the underlying land on which the Project is being constructed. The land, the constructed portion of the Project and the airspace has been classified as "*property*" and "*investment property*" in the audited financials. In FY19, the *property* represents the value of the land and the constructed portion of the Project to be retained by the Group and held for operations, while the value of the airspace of units to be held by the Group as an investment has been classified as *investment property*. This is summarised in the below table:

Asset	Jan-2018	Dec-2018[1]	Dec-2019
Property	n/a	n/a	€22.3m
Investment Property	€9.4m	€16.6m	€0.4m

1.4 Operational Developments

The Group was set up in view and for the purposes of, and will principally operate by reference to, the Project. The Group has a limited operational history and is of recent origin, with the longest existing member of the Group being the Guarantor, set up in 2016. Albeit, the ultimate beneficial owner of the Group, Mr. Joseph Portelli has a long trading history in the acquisition, development, management and operation of real estate developments including hotels, residential, office and retail property and entertainment projects and outlets. The most recent developments of the Group are described hereunder:

- **Impact of COVID-19 on the Group's business**

The Group has been closely monitoring the developments ensuing from the outbreak of the COVID-19 pandemic and the impact on both the local and global economy, with specific reference to the real estate industry.

[1] The opening and closing figures for 2018 has been restated in the FY19 financials. The Group was incorporated in early 2019, accordingly balances for 2018 capture the Guarantor's performance at a company level.

The pandemic, which is a rapidly evolving situation, has adversely impacted global and local commercial activities. Even at this time, when the outbreak appears to have subsided, the current situation precludes any prediction of its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global and local economic slowdown.

However, to date, the Group has continued to operate without disruptions, even during the more challenging months of the pandemic. Construction has been limitedly impacted, if at all, and at this point in time, given that the Government relaxed the strict COVID-19 related restrictions experienced during the first half of the year, management is confident that the Group can continue to manage the situation without any significant impact.

The Group will continue monitoring developments in relation to the COVID-19 pandemic and is coordinating its operation response based on its business continuity plan and on guidance from health organisations, Government, and general pandemic response best practices. Management is confident that, notwithstanding the current circumstances, the Group will be able to operate through the prevalent market conditions.

Notwithstanding the above, it is worth noting that currently certain works are being negatively impacted by restrictions on the availability of imported skilled workforce for specialised work. This may result in the Group experiencing a delay in terms of the Project's completion date.

A detailed update on the development and sale of the Project is found further below in section 1.4.

FY20 Projections

The Group has prepared forecasts to measure the impact of COVID-19 on the Group's operations.

The projections were prepared on the basis of a number of assumptions, which was deemed by management to be as realistic in view of the information and data currently in hand. The salient assumptions on which the projections have been prepared are illustrated below:

- The Group will sell 134 apartments during FY20, which when combined with the units sold during FY19 (106), amounts to 240 apartments by end of year. The units expected to be sold during FY20 are contracts entered into already, or will be entered into by end of 2020;
- The Group expects the remaining 27 apartments to be sold during FY21. It is worth noting that some of these units are already under promise of sale (POS), however management opted for a conservative approach and excluded such units in the forecasts for FY20;
- Management expects cost of sales to be in line with prior projections, and these will vary depending on the number of units sold;
- Given that currently the Group is predominantly focused on real estate development, administrative expenses are not material and are forecasted to remain in line with prior projections;
- The Group enjoys a number of bank relationships which can provide bridge financing from time to time that can supplement the funding from the Bonds and provide the necessary short-term liquidity;
- In October 2019, the Guarantor obtained a bridge loan of €10 million, which was revolved in July 2020;
- Despite the current economic downturn caused by the pandemic, management does not anticipate the need of further financing, however, should the need arise, management confirmed they have in place the necessary banking facilities.

The Issuer has settled its first bond coupon which was due by the end of the first quarter of 2020. Additionally, the forecasts prepared by the Group indicate that sufficient cash will be generated throughout this financial year and the Group should be in a position to meet its financial commitments, including the next bond interest due on 27 March 2021.

The Group's forecasts for FY20 capture the actual trading results for the 6-month period (1 January to 30 June 2020) and the financial projections for the remaining 6-month period (1 July to 31 December 2020).

- **Mercury Project**

As described above the mercury site was acquired in two stages, for the total price of €24.3 million. The first acquisition in December 2016 was made for the total price of €17.4 million and was mainly financed through the deposits received by the Guarantor on the preliminary agreements for the sale of airspaces for development of apartments within the Tower. The second acquisition was made on June 2017 for the price of €6.8 million, excluding the interest accrued on the payments due between the first and second deed amounting to €305,385, which were financed through a bank loan advanced to the Guarantor. In accordance with the bond's prospectus, this loan was refinanced from the bond's net proceeds, with the remaining proceeds amounting to circa €16.4m utilised for the construction and finishing of Project elements owned by the Guarantor.

The Project is designed by internationally renowned architectural firm Zaha Hadid Architects and is one of the final projects signed off by Zaha Hadid herself. The Project was awarded full development permit by the Malta Planning Authority on 7 February 2018 – REF. Planning Authority Permit PA 06955/17.

The finished complex will include a mix of historical and ultra-modern edifices on its site. At its heart is a 19th century heritage building, also known as 'Mercury House', which will be flanked by a 31-storey Tower as well as 2 underground storeys with a boutique hotel situated in its podium and in parts of the said Tower, and will also be serviced by an underlying 4-storey car parking facility.

The construction of the Project was limitedly interrupted by the COVID-19 outbreak. Management explained that the majority of workers continued to work during the local partial lockdown, except for a few workers who could not work either due to health restrictions or partial lockdowns imposed by the Government. In fact, the Mercury Tower is now almost built in shell form, with the commencement of finishing works in Mercury House and in the lower levels of the tower. The cladding of the tower, which was contracted to a Turkish company, has now commenced after experiencing some delays.

These interruptions were a result of the travel restrictions imposed by the Government to contain the outbreak, which led to the delay of the workers' arrival. To date, only a fraction of the fitters are currently on-site and started working on the cladding installation. Consequently, the opening date of the project is expected to be impacted by these developments. It is too early to assess the length of the delay and the Group will be in a better position to assess the situation during the last quarter of this year. However, the Project may also be affected if local and overseas suppliers and contractors would not be in a position to provide the material and personnel when due.

Apart from the minor interruptions caused by the pandemic, the construction of the tower was interrupted due to some delays in the construction of the section where the tower twists on itself. However, as noted above this has been completed and the tower is now built in shell.

The following are the main features of the Project:

➢ Tower

As noted above, the Tower is now going to be spread over 31-stories above ground level, and 6-stories underground, four of which are designated as parking spaces. The gross floor area of the tower (excluding parking spaces) is of 19,754 square meters. The tower will consist of 279 branded serviced apartments (an increase of 4 apartments due to the redesign of the gym to other areas), the majority of which are intended for sale to third parties (267 apartments), with the remaining 12 apartments intended to be retained by the Guarantor. As at the date of this Analysis, only 23 units are still available for sale out of the 267 apartments, with 8 of these units currently put on hold for interested clients.

The Group plans to convert the above mentioned 12 units into a lesser number of apartments, which will be much larger in size. The Guarantor will predominantly retain these apartments at the uppermost level, which is intended to be used as part of the hotel accommodation pooling arrangement explained below, and levels 10 to 12 and -2 to 2 thereof, which are allocated to be used as an integral part of the Hotel and its amenities.

The owners of the apartments will have the choice to either keep such apartments for their personal purposes (including rental in their personal capacity), or else to pool these as part of an extended 5-star serviced accommodation for the hotel users. The latter will also be operated as part of the hotel, with these being let to the Guarantor for pre-agreed periods under a pre-agreed rental consideration arrangement.

As described above, the Group is the sole owner of the land on which the tower is being built. The construction, development and finishing of the apartments, as per the prospectus dated 4 March 2019, is being performed by Mercury Contracting Projects Limited (MCPL), a related party to the Group.

In this respect, potential owners seeking to purchase units shall initially enter into a promise of sale agreement with the Guarantor for the sale of the airspace in relation to a particular unit within the tower. The final deed of sale for the airspace will be entered into as soon as the construction of the underlying floor has been completed for units sold as airspace, following which the purchaser shall concurrently enter into a Contract of Works with MCPL for the development and finishing of the said units.

➢ Hotel

Another major element of the Project will be a 5-star branded hotel, consisting of a 52-room stand-alone building at the podium of the Tower and connected and joined to such Tower, and extending into levels -2 to 2 and 10 to 12 of the said Tower. Its accommodation capacity will extend by virtue of the serviced apartments whose owners sign up to the hotel accommodation pooling arrangement mentioned above.

The Hotel will be owned and operated by the Guarantor which has entered into a hotel management agreement dated 14 August 2018 with the internationally renowned hotel chain Meliá, in particular with

Meliá Hotels International S.A. (as Manager) and Prodigios Interactivos S.A. (as Provider), in respect of the Hotel and its facilities.

The Group is currently in discussions with Meliá with respect to timelines and expected dates of opening. It is expected that the serviced apartments in the tower will be finished next year. As stated above, the Group is still assessing the extent of the delay brought about by COVID-19.

- **Commercial Outlets**

The Project will also comprise a mix of retail and catering outlets, situated across the open large piazza onto which the Tower and the Hotel will abut. It is currently planned that the commercial outlets will consist of nine shops with a total floor area exceeding 1,120 square meters and four catering establishments with a total floor area exceeding 1,500 square meters, although such plans may change from time to time by joining or further splitting such elements or otherwise.

- **Open areas and amenities**

The buildings will be located around several open and landscaped areas, including piazzas, which will occupy approximately half of the total floor area. Moreover, the entire complex will sit on and be serviced by a 4-storey underground car park with over 400 parking spaces, which are generally meant for use by owners and users of the various components of the Project and the public. As noted earlier, the car park will be owned and operated by a company in which the Guarantor has 25% ownership.

- **Phase II – Mercury Project**

Phase I of Mercury Project will be complemented by phase II. Phase II will consist of a 9-storey block, linked to the existing Tower via the Podium. The project will consist of a re-design of the hotel which will now include 130 rooms, further commercial spaces and other units which will be sold to third parties. Permits (Permit no: PA1892/19) have been applied for and are currently undertaking the process for approval. Additionally, should these permits be approved, the main Tower will increase by an additional 8 metres, which will host an amenity floor at level 32, and a bar and swimming pools at roof level. The Group is currently discussing the financing options for this development and management will keep the market informed of any material developments, as appropriate.

Part 2 – Historical Performance and Forecasts

The Issuer was incorporated on 16 January 2019 and, accordingly, the year under review captures the period from incorporation to 31 December 2019. Furthermore, the Issuer itself does not have any substantial assets and is essentially a special purpose vehicle set up to act as a financing company solely for the needs of the Group, and, as such, its assets are intended to consist primarily of loans issued to Group companies. For the purpose of this document, the focus is on a review of the performance of the Guarantor, which constitutes the entire group of companies. The Guarantor's consolidated historical financial information for the three years ended 31 December, 2017, 2018 and 2019 as audited by KPMG, is set out in section 2.4 to 2.6 of this Analysis. Forecasts for 2020 are based on projections provided by management.

2.1 Issuer's Income Statement

Income statement for the years ended 31 Dec	FY19A	FY20F
	€000s	**€000s**
Finance income	825	1,121
Finance costs	(690)	(899)
Net finance income	**135**	**222**
Administrative expenses	(57)	(78)
Profit before tax	**78**	**144**
Taxation	(44)	(73)
Profit after tax	**34**	**71**

Ratio Analysis	FY19A	FY20F
Gross Profit Margin (Net finance income / Finance income)	16.4%	19.8%
Net Margin (Profit for the year / Finance Income)	4.1%	6.3%

In FY19, the Issuer reported a positive performance, with net financing income totalling €135k. This positive income reflects the spread between the interest rate charged by the Issuer to the Guarantor over the Issuer's bond interest costs. In view of the limited trading activities of the Issuer, administrative expenses were minimal at €57k. This combined with the tax charge of €44k, yielded a profit after tax of €34k.

The Issuer's finance income and finance costs were lower than previously forecasted in last year's FAS and this was a result of a delay in the bond issue which previously was expected to be issued at the start of last year, however it was actually issued on 27 March 2019. Additionally, the bond issue costs were borne by the Guarantor, which resulted in the Issuer to report healthier profitability than previous expected.

The Issuer is forecasting an improvement in its financial performance for FY20, as unlike FY19, this year will capture the full year performance of the Group's financing vehicle. Accordingly, net finance income is expected to increase to €222k, with both administrative expenses and the tax change increasing pro-rata. Based on this, the Issuer is forecasting an improved profit after tax of €71k in FY20.

2.2 Issuer's Statement of Financial Position

Statement of Financial Position as at 31 Dec	FY19A	FY20F
	€000s	**€000s**
Assets		
Non-current assets		
Loans and receivables	22,444	22,444
Current assets		
Other receivables	828	1,049
Cash and cash equivalents	257	134
	1,085	**1,183**
Total Assets	**23,529**	**23,627**
Equity and liabilities		
Share capital	250	250
Retained earnings	34	105
Total equity	**284**	**355**
Non-current liabilities		
Interest bearing borrowings	22,500	22,500
Current liabilities		
Other payables	701	699
Current tax liability	44	73
	745	**772**
Total liabilities	**23,245**	**23,272**
Total Equity & Liabilities	**23,529**	**23,627**

The Issuer's major assets mostly comprises of the loans advanced to the Guarantor, where in FY19 this represented circa 95% of the total assets. The remaining 5% mainly represent accrued interest due on the aforementioned loans, in addition to cash and cash equivalents. Total equity in FY19 stood at €284k, with this reflecting the Issuer's share capital of €250k, coupled with the profitability recorded for the year under review. Total liabilities amounted to €23.2m with the majority of this being the Series I Bond and Series II Bond totalling €22.5m (coupon rate: 3.75% and 4.25% respectively), followed by the interest due on these bond (classified under other payables), which was subsequently settled by the end of Q1 2020.

The Issuer's financial position was in line with last year's forecasts, with the main difference being attributable to the bond issue costs, which previously were expected to be paid by the Issuer, however these were borne by the Guarantor. This resulted in loans and receivables to be marginally higher at almost €22.5m, rather than €22.0m (i.e. net of the bond issue costs). Correspondingly, interest bearing borrowings also amounted to €22.5m in FY19, as the bond issue costs are not being amortised.

Given the limited trading activity of the Issuer, its financial position in FY20 is not expected to differ materially. The most notable change is that the Issuer is forecasting a €0.2m working capital movement, pertaining to the Guarantor, which will increase other receivables and deplete cash reserves by circa the same amount.

2.3 Issuer's Cash Flows Statement

Statement of Cash Flows for the years ended 31 Dec	FY19A	FY20F
	€000s	€000s
Cash flows from operating activities		
Profit before tax	78	144
Movement in finance income	(825)	
Movement in finance expense	694	
Movement in other receivables	(3)	(222)
Movement in other payables	7	28
Taxes paid	-	(73)
Net cash used in operating activities	**(49)**	**(123)**
Cash flows from investing activities		
Loans advanced to related parties	(22,444)	-
Net cash used in investing activities	**(22,444)**	**-**
Cash flows from financing activities		
Issue of share capital	250	-
Proceeds from bond issue	22,500	-
Net cash generated from financing activities	**22,750**	**-**
Net movements in cash and cash equivalents	**257**	**(123)**
Opening cash and cash equivalents	-	257
Closing cash and cash equivalents	**257**	**134**

The bond was issued during FY19, consequently at year-end both finance income and finance expense were still accrued. This resulted in the Issuer to utilise €49k in operating activities. The net cash flows from investing and financing activities reflect the bond issue of €22.5m and the subsequent distribution to the Guarantor. Additionally, financing activities capture the €0.25m share capital of the Issuer. This resulted in the Issuer to close the year with a positive cash balance of €257k.

As noted above, the financial performance of the Issuer was in line with prior forecasts, except for the bond issue costs which were paid by the Guarantor instead of the Issuer. Accordingly, loans advanced and proceeds from the bond issue reflect the full principal value of the bond amounting to €22.5m.

Given the limited trading activities of the Issuer, the only cash flows movement during FY20 is expected to be from operating activities. As noted earlier, the Issuer is forecasting a €0.2m working capital movement, pertaining to the Guarantor, thus the movement in other receivables is forecasted to be negative. This, combined with the financing operations of the Issuer, is expected to result in negative net movement in cash and cash equivalents of €123k. Based on the above, the Issuer forecasts a closing cash balance of €134k for FY20.

2.4 Group's Income Statement

The Guarantor, Mercury Towers Ltd was incorporated on 28 September 2016 and hence the first year of operations capture the period from incorporation up till 31 December 2017. The Group was set up in 2019, consequently the historical performance for years ended 31 December 2017 and 2018 capture the financial performance of the Guarantor on a standalone basis. Accordingly, the historical financial performance for the year ended 31 December 2019, coupled with the financial forecast for the ending 31 December 2020 illustrate the consolidated performance of the Group.

Income statement for the years ended 31 Dec	FY17A	FY18A[2]	FY19A	FY20F
	€000s	**€000s**	**€000s**	**€000s**
Revenue	1,300	4,011	9,047	21,362
Cost of sales	(1,300)	(2,904)	(7,428)	(13,185)
Gross profit	**-**	**1,107**	**1,619**	**8,177**
Other income	8	-	5	-
Total operating costs	(51)	(268)	(1,101)	(2,027)
Impairment loss on financial assets	-	(81)	(127)	-
EBITDA	**(43)**	**758**	**396**	**6,150**
Depreciation	-	-	-	-
EBIT	**(43)**	**758**	**396**	**6,150**
Net finance costs	(115)	(174)	(1,096)	(1,000)
Loss/(Profit) before taxes	**(158)**	**584**	**(700)**	**5,150**
Taxation	-	(265)	(741)	(1,782)
Loss/(Profit) for the period/year	**(158)**	**319**	**(1,441)**	**3,368**

Ratio Analysis	FY17A	FY18A	FY19A[3]	FY20F
Profitability				
Growth in Total Revenue (YoY Revenue Growth)	n/a	208.5%	125.6%	136.1%
Gross Profit Margin (Gross Profit / Revenue)	0.0%	27.6%	17.9%	38.3%
EBITDA Margin (EBITDA / Revenue)	-3.3%	18.9%	4.4%	28.8%
Operating (EBIT) Margin (EBIT / Revenue)	-3.3%	18.9%	4.4%	28.8%
Net Margin (Profit for the year / Revenue)	-12.2%	8.0%	-15.9%	15.8%
Return on Common Equity (Net Income / Average Equity)	-46.2%	54.3%	237.0%	313.0%
Return on Assets (Net Income / Average Assets)[4]	-0.5%	0.9%	-2.3%	6.6%

Revenue analysis (based on management accounts)	FY18A	FY19A	FY20F	Total
Sale of airspace on units:				
Airspace on units sold		106	134	240
Total		**106**	**134**	**240**
	€000s	**€000s**	**€000s**	**€000s**
Sales on airspace units sold (to date)	4,011	9,400	16,463	29,874
Sales on airspace units subject to POS	-	-	4,899	4,899
Total	**4,011**	**9,400**	**21,362**	**34,773**

[2] FY18 figures have been restated in the FY19 financials, accordingly these (including the ratio analysis) do not agree with the FY18 financials figures presented in last year's FAS.

[3] Given that FY18 captures the Guarantor's performance on a standalone basis, the return on common equity and return on assets for FY19, were worked out on the respective total equity and total assets ending balances as at FY19.

[4] The calculation methodology of this year takes into account the average assets rather than the end of year assets as calculated in the previous FAS.

The Group operations in FY17 were minimal. Revenue which amounted to €1.3m was netted off with cost of sales representing the cost to acquire the Car Park Site, as part of the mercury site acquisition, and the subsequent sale of the said car park to TTRS Holdings Limited. TTRS Holdings Limited was subsequently acquired by amalgamation by the Group's associate, Mercury Car Park Limited.

In FY18 and FY19, the Group started to recognise the revenue from the sale of its units, which as explained earlier pertains to the airspace of these units within the tower. By the end of FY19, the Group sold in total 106 units. This resulted in the Group generating a revenue of €4.0m and €9.0m in FY18 and FY19, respectively.

In FY20, the Group estimates the sale of a further 134 units, translating into a revenue of €21.4m, representing a growth of 136.1% over FY19. Cost of sales is directly related to the sale of units, with this expected to amount to €13.2m in FY20, which yields a gross profit of €8.2m.

The operating costs are not material to the Group and stood at €1.1m in FY19. Apart from the day-to-day expenses, this includes a one-off cost amounting to €0.5m, which relates to a one-off fee paid on the cancellation of a POS by a potential client of Phase II of the Project. The POS cancelled by the Group was a result of the re-design of Phase II during the permit application process.

In FY20, total operating costs are expected to amount to €2.0m, with the majority of this (circa €1.5m) being the selling fees incurred in selling the units. Impairment loss on financial assets stood at €0.1m in FY19, while in FY20 this is expected to be nil.

Based on the above, the Group expects to generate an EBITDA of €6.2m in FY20, with an EBITDA margin of 28.8%. This is an improvement over FY19, where the Group generated an EBITDA of €0.4m, with an EBITDA margin of 4.4%.

The Project is currently in its construction phase, accordingly no depreciation charges have been recognised to date. The Group expects the development to continue throughout 2020, thus no depreciation charge is forecasted for FY20.

Financing costs amounted to €1.1m in FY19, out of which €0.7m represents the interest due on the Issuer's bonds. In 2019, the Issuer issued two tranches, €11.5m and €11.0m, incurring a coupon of 3.75% and 4.25%, respectively. In FY20, finance costs are expected to amount to €1.0m, whereby €0.9m relates to the bonds (FY20 captures a full-year of operations) and the rest reflects the interest that has been incurred on a bridge loan taken by the Guarantor, which has been renewed in July 2020;

The Group's income tax rate is based on a final withholding tax on sale of immovable property as per current legislation. In FY19, income tax amounted to €0.8m. Given that the Group expects to generate a higher revenue in FY20, taxation is forecasted to be higher at €1.8m.

Based upon the above considerations, the Group expects to generate a profit of €3.4m in FY20, an improvement of circa €4.9m over FY19, where the Group reported a loss of €1.4m. Consequently, net margin is expected to improve to 15.8% in FY20 (FY19: -15.9%).

A variance analysis on the Group's income statement is found below in section 2.4.1 of this Analysis.

2.4.1 Group's Variance Analysis

Income Statement	Dec-2019F	Dec-2019A	Variance
	€000s	€000s	€000s
Revenue	26,205	9,047	(17,158)
Cost of sales	(15,593)	(7,428)	8,165
Gross Profit	**10,612**	**1,619**	**(8,993)**
Other income	-	5	5
Operating expenses	(2,220)	(1,101)	1,119
Impairment loss on financial assets	-	(127)	(127)
EBITDA	**8,392**	**396**	**(7,996)**
Depreciation	(3)	-	3
EBIT	**8,389**	**396**	**(7,993)**
Finance costs	(164)	(1,096)	(932)
Profit/(loss) before tax	**8,225**	**(700)**	**(8,925)**
Income tax credit/(expense)	(2,079)	(741)	1,338
Profit/(loss) after tax	**6,146**	**(1,441)**	**(7,587)**

The Group's actual results for FY19 fall short of prior forecasts, however management explained that this does not relate to a decrease in the Project's profitability, but due to delay in construction, which is naturally expected in a highly complex development such as the Mercury Towers.

In fact, the forecasted revenue included sale of units up to level 29 whereas only contracts until level 17 were entered into by end of FY19. As explained earlier, in view of the engineering challenge involved in the construction of the Tower's mid-section, the development was delayed, which contributed to a lower revenue generation. Inherently, cost of sales was much lower than expected given this correlates directly with the number of units sold. Management confirmed that, given the tower is now complete in shell, the net difference from prior forecasts between revenue and cost of sales of €9.0m (i.e. gross profit) will be accounted for in FY20.

In view of the above, the Group incurred lower commissions on sales and did not incur all the projected expenditure, thus operating expenses were lower than previously expected. Given the inherent unpredictability of impairment losses, the €0.1m impairment loss on financial assets was not anticipated in last year's forecasts. Additionally, the tower is still in its construction, thus depreciation charge for FY19 was nil.

Prior year's forecast assumed that the Group would capitalise portion of the borrowing costs pertaining to property, plant and equipment. This was done at company level, where in FY19 the Guarantor capitalised €0.8m of the borrowing costs payable on its intra-group loan with the Issuer. However, due to consolidation adjustments as per the accounting rules, this adjustment had to be eliminated, thus actual FY19 results capture the aggregated balance of finance costs due by the Group.

Given that the Group reported lower than expected sale of units in FY19, the tax charge was lower than previously forecasted. In view of the matters discussed above, the Group reported a loss for the year of €1.4m, which translates into a variance of €7.6m from forecasts. This profitability variance is now expected to be recognised during FY20.

2.5 Group's Statement of Financial Position

Statement of Financial Position as at 31 Dec	FY17A	FY18A[5]	FY19A	FY20F
	€000s	**€000s**	**€000s**	**€000s**
Assets				
Non-current assets				
Property, plant and equipment	-	-	22,294	28,850
Investment property	9,374	16,593	401	1,630
Investment in associate	-	1	1	1
Other receivables		233	689	-
Restricted Cash		21	21	-
Deferred tax asset	-	99	143	144
	9,374	**16,947**	**23,549**	**30,625**
Current assets				
Inventories	21,114	20,839	18,023	7,669
Trade and other receivables	1,532	1,447	20,380	789
Cash and cash equivalents	69	222	267	244
	22,715	**22,508**	**38,670**	**8,702**
Total Assets	**32,089**	**39,455**	**62,219**	**39,327**
Equity and liabilities				
Share capital	500	500	500	500
Retained earnings	(158)	333	(1,108)	3,084
Total equity	**342**	**833**	**(608)**	**3,584**
Non-current liabilities				
Borrowings	5,900	1,159	-	-
Bonds Payable	-	-	22,500	22,500
	5,900	**1,159**	**22,500**	**22,500**
Current liabilities				
Borrowings	1,244	5,066	10,566	-
Trade and other payables	24,603	32,397	29,761	13,243
	25,847	**37,463**	**40,327**	**13,243**
Total liabilities	**31,747**	**38,622**	**62,827**	**35,743**
Total equity & liabilities	**32,089**	**39,455**	**62,219**	**39,327**

Ratio Analysis	FY17A	FY18A	FY19A	FY20F
Financial Strength				
Gearing 1 (Net Debt / Net Debt and Total Equity)[6]	95.4%	87.8%	101.9%	89.0%
Gearing 2 (Total Liabilities / Total Assets)	98.9%	97.9%	101.0%	93.0%
Net Debt / EBITDA	(164.5)x	7.9x	82.8x	3.6x
Current Ratio (Current Assets / Current Liabilities)	0.9x	0.6x	1.0x	0.6x
Quick Ratio (Current Assets - Inventory / Current Liabilities)	0.1x	0.0x	0.5x	0.1x
Interest Coverage (EBITDA / Cash interest paid)	(0.4)x	4.4x	0.4x	6.2x

[5] FY18 figures have been restated in the FY19 financials, accordingly these (including the ratio analysis) do not agree with the FY18 financials figures presented in last year's FAS.

[6] Change in ratio methodology.

The Group's assets are principally made up of property, plant and equipment, inventories and trade and other receivables. As at FY19, the Group's total assets stood at €62.2m, of which €22.3m related to property, plant and equipment. This relates to property which will be retained by the Group to be used in the supply of its services. Inventories amounted to €18.0m and this captures the cost of land, together with the cost of construction and development of the spaces to be sold. Once the Group recognises the sale of the airspace on a unit, the respective cost portion of this unit is transferred to cost of sales. Trade and other receivables amounted to €20.4m, the majority of which (€18.2m) represents the advances by the Group to MCPL for contracting works which MCPL will be delivering to the Guarantor in the foreseeable future.

In FY19, the Group's liabilities amounted to €62.9m, which mainly consist of; financial debt and trade and other payables. Financial debt is made up of the Issuer's €22.5m bonds, in addition to €10.5m borrowings, of which €10m relate to a bridge loan granted in October 2019. Trade and other payables amounted to €29.8m, the majority of which (€20.3m) reflects deposits received by potential buyers of the units, as per the POS agreements which is currently being transferred to revenue upon signature of deed of sale

The Group's financial position as at FY19 mainly deviated from last year's forecasts for two main reason; (i) as explained above the construction of the Tower's twist was delayed accordingly non-current assets were €6.3m lower than previously forecasted, and (ii) advances to MCPL for the contracting works that MCPL will be delivering to the Guarantor were not taken into consideration when the forecasts were being prepared, thus trade and other receivables exceeded expectations. Additionally, inventories exceeded expectations by €12.3m as these include units to be sold in 2020, which were not previously included in the forecasts. The delay in the construction of the tower, resulted in a lower cash generation (circa €7.6m from expectations), which now will be recognised during FY20.

Furthermore, the Group took a €10m bridge loan which was not previously anticipated and trade and other payables failed to include deposits received by potential buyers of the units, which resulted in trade and other payables exceeding forecasts by €17.6m

In FY20, the Group expects non-current assets to increase to €30.6m in FY20, which reflects the additional capital expenditure that will be incurred on the Project during this year. Current assets are expected to decrease to €8.7m as the Group confirms the sale of more units during 2020, which will result in the decrease of the respective units from inventories. Additionally, trade and other receivables are expected to decrease significantly as MCPL will be delivering its contracting works to the Guarantor, thus crystallising the advances made by the Group in FY19.

Total liabilities are expected to remain constant in FY20, except for the repayment of the €10.5 borrowings and the crystallisation of part of the trade and other payables, which reflects the deposits received by potential buyers of the units. In FY20, total equity will increase to €2.8m, which is based on the forecasted profit of €3.4m, as further discussed in detail above.

2.6 Group's Cash Flows Statement

Statement of Cash Flows for the years ended 31 Dec	FY17A	FY18A[7]	FY19A	FY20F
	€000s	€000s	€000s	€000s
Cash flows from operating activities				
Operating profit/(loss) before working capital movements	(43)	574	(218)	5,150
Movement in inventory	(21,114)	274	2,817	10,353
Movement in trade and other receivables	(1,533)	(200)	(19,517)	20,302
Movement in trade and other payables	24,603	7,257	(1,821)	(15,694)
Contract liability	-	-	136	-
Tax paid	-	(294)	(741)	(1,782)
Net cash generated from/ (used in) operating activities	**1,913**	**7,611**	**(19,344)**	**18,329**
Cash flows from investing activities				
Acquisition of investment property		(7,220)	-	-
Acquisition of property		-	(6,101)	(7,785)
Acquisition of subsidiary		(250)	-	-
Acquisition of other investments	(9,374)	(1)	-	-
Net cash used in investing activities	**(9,374)**	**(7,471)**	**(6,101)**	**(7,785)**
Cash flows from financing activities				
Issue of shares	1	302	-	-
Advances by shareholder	499	-	-	-
Movements in borrowings	7,144	(1,639)	4,340	(10,566)
Movements from loans from related companies	-	1,350	(1,350)	-
Interest paid	(115)	-	-	-
Net proceeds of bond	-	-	22,500	-
Net cash generated from/(used in) financing activities	**7,529**	**13**	**25,490**	**(10,566)**
Net movements in cash and cash equivalents	**69**	**153**	**45**	**(23)**
Opening cash and cash equivalents	-	69	222	267
Closing cash and cash equivalents	**69**	**222**	**267**	**244**

Ratio Analysis	FY17A	FY18A	FY19A	FY20F
Cash Flow				
Free Cash Flow (Net cash from operations - Capex)	€1,913	€391	€(25,445)	€10,544

In FY19, the Group utilised €19.3m in cash flows from operating activities, which mainly was a result of an investment in working capital related to the development of the Project. Investing activities of €6.1m represents the capex performed during FY19 on the project. The Group generated €25.5 from financing activities, which relates to the €22.5m bonds and €3.0m movement in other borrowings.FY19 performance mainly deviated from prior forecasts due to movement in working capital and operations which are explained in detail above. Additionally, the delay in the Tower's construction resulted in less capex being recognised during FY19 when compared to the forecasts. Lastly, the Group took a €10m bridge loan, which resulted in cash from financing activities to exceed forecasts.

Based on the positive performance in FY20 and the realisation of further unit sales during this year, the Group expects to generate €18.3m cash from operating activities. This will be utilised in €7.8m of additional capex on the project and the repayment of €10.5m borrowings, which will result in a breakeven cash movement and a closing cash reserve balance of €0.2m.

[7] As noted earlier, FY18 figures have been restated in the FY19 financials.

Part 3 – Key Market and Competitor Data

3.1 General Market Conditions

The Group is subject to general market and economic risks that may have a significant impact on its current and future property developments and their timely completion within budget and their profitable operation. These include factors such as the health of the local property market, inflation and fluctuations in interest rates, exchange rates, property prices and rental rates. In the event that general economic conditions and property market conditions experience a downturn, which is not contemplated in the Group's planning during development, this shall have an adverse impact on the financial condition of the Group and may therefore affect the ability of the Issuer to meet its obligations under the Bonds.

▪ Economic Update[8]

In July, the Central Bank of Malta's Business Conditions' Index (BCI) improved slightly when compared with the previous month, suggesting that economic conditions may have reached their trough. However, it remained significantly below its long-term average. The European Commission's Economic Sentiment Indicator (ESI) rose, but remained well below the level recorded before the onset of COVID-19. The increase in sentiment largely reflects improved confidence in the services sector and in industry. Sentiment also improved in the construction sector and among consumers, but reached a new historical low among retailers. The below average reading for the overall ESI mainly reflects weaker than usual sentiment in services and industry. In all other sectors, sentiment is either above or only marginally below the long-term average.

In June, the volume of retail trade and industrial production contracted again in annual terms, though at a slower pace when compared with May. The number of registered unemployed and the unemployment rate fell when compared with a month earlier, with the latter remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up to 1.0% in June, from 0.9% in May, while inflation based on the Retail Price Index (RPI) stood unchanged at 0.7%. Maltese residents' deposits expanded by an annual rate of 7.6% over the year to June, while annual growth in credit to Maltese residents eased to 8.8%. In June, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant increase in government expenditure and, to a lesser extent, a drop in revenue.

▪ Economic Outlook[9]

Latest data suggest that the Maltese economy is likely to have recorded an unprecedented contraction in the second quarter of 2020, though there are signs of some stabilisation in the third quarter. Nevertheless, the Central Bank of Malta (CBM) expects Malta's Gross Domestic Product (GDP) to contract by 6.6% in 2020. Subsequently it should grow by around 6.1% and 4.2% in the following two years. While this projection is significantly better than that for other euro area countries, Malta's level of economic activity is expected to be around 7% lower in 2022 compared to the projections that had been made prior to the outbreak of COVID-19. In fact, it will take until mid-2022 for Malta's GDP to return to its 2019 level. Compared with the CBM's previous projections, GDP growth has been revised downwards in 2020, due to weaker tourism exports that offset a stronger positive impulse from fiscal measures that were announced in June. In total, Government

[8] Central Bank of Malta – Economic Update 8/2020
[9] Central Bank of Malta – Economic Projections 2020 – 2022 (2020:3)

fiscal and liquidity measures are estimated to boost GDP by 3 percentage points, reducing the decline in GDP by a third.

Given the persistent uncertainty surrounding the pandemic, particularly in respect of timelines for the availability of a vaccine, the CBM has also published a more severe scenario in which health protocols in Malta and overseas would have to be enhanced and extended to contain the spread of the virus. In such a scenario, the contraction in GDP could reach 9.3% this year. GDP growth should then rebound to 5.5% and 3.7%, respectively, in 2021 and 2022. In this case, the level of GDP would remain below 2019 levels by the end of 2022. Moreover, the unemployment rate would rise further, and inflation would be slightly weaker. In addition, the government deficit would reach 11.3% in 2020 before narrowing to 5.4% in the following two years, while the government debt-to-GDP ratio would rise to 66.0% by the end of 2022.

- **Hospitality**[10]

The tourism industry in Malta has been progressively growing over the years, benefiting from a surge in tourism with records broken year-on-year. This trend is summarised in the below table, illustrating the number of tourist arrivals over the last three years.

	2017	2018	2019	Change 2019/18
Inbound tourists	2,273,837	2,598,690	2,753,239	5.9%
Tourist guest nights	16,509,141	18,569,716	19,338,860	4.1%
Average length of stay	7.3	7.1	7.0	-1.4%
Tourist expenditure (€'000s)	1,946,894	2,101,765	2,220,627	5.7%
Tourist expenditure per capita (€)	856	809	807	-0.2%

Unfortunately, the tourism sector both locally and internationally, has been severely impacted by the COVID-19 outbreak. As from early March, Malta started to introduce several confinement measures, with the eventual suspension of all passenger flights as from 21 Mar. This obliterated the local tourism market, in fact in March alone, inbound tourists fell by 56.5% on a comparative basis.

However, since the outbreak, Governments around Europe, including Malta, has started to ease restrictions, including the opening of airports and ports to countries that are deemed as safe destinations. Although Europe is currently experiencing a second spike in COVID-19 cases similar to that witnessed at the start of the pandemic in the first half of the year, it is expected that borders will remain open, except for specific travel restrictions on countries experiencing a spike in COVID-19 cases. The consensus is that the current global health crisis will significantly impact the European tourism, with growth expected to remain below 2019 levels until 2023.

Given that the Group's hotel is currently being constructed, the current pandemic has not impacted its operations. Additionally, during this period the Group will still be earning cash flows from the sale of the airspace on its apartments within the Mercury Tower. In fact, as reported by the Group the development of the Project was limitedly impacted by the COVID-19 pandemic, with currently 86% of the available for sale units either sold or subject to a promise of sale agreement. This is further substantiated by the improvement in the CBM's construction sector sentiment during July, with the Malta Developers' Association issuing a statement saying that property sales boomed last month, making it one of the best months at least since 2017.

[10] Inbound Tourism December 2019 and March 2020 (NSO), and European Tourism – Trends & Prospects Q2/2020

3.2 Comparative Analysis

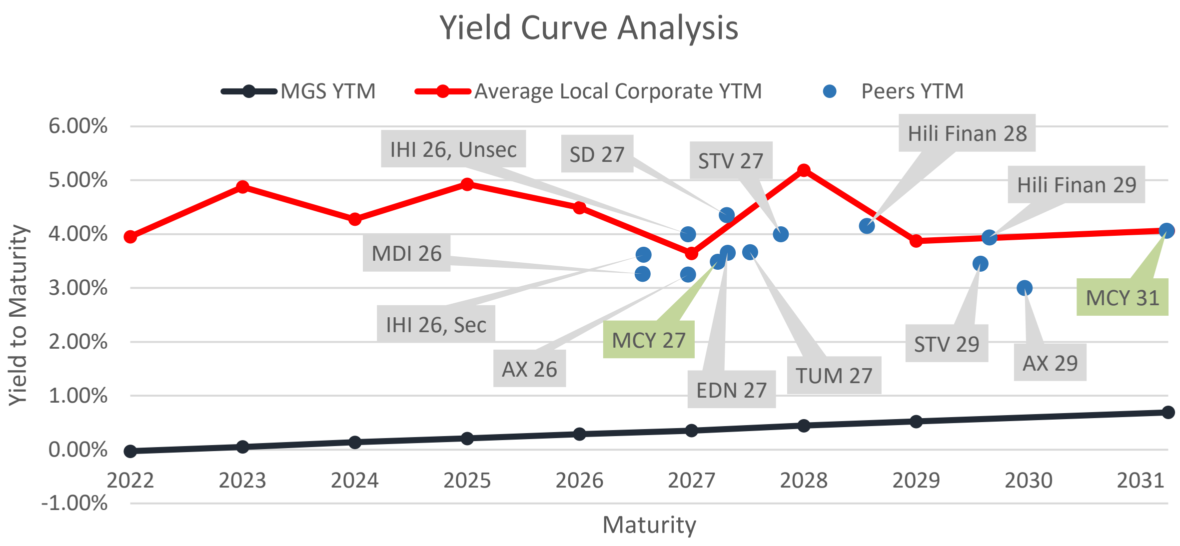
The purpose of the below table is to compare the debt issuance of the Group to other debt instruments. One must note that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore also different.

Security	Nom Value	Yield to Maturity	Interest coverage (EBITDA)	Total Assets	Total Equity	Total Liabilities / Total Assets	Net Debt / Net Debt and Total Equity	Net Debt / EBITDA	Current Ratio	Return on Common Equity	Net Margin	Revenue Growth (YoY)	Last Closing Price *
	€000's	(%)	(times)	(€'millions)	(€'millions)	(%)	(%)	(times)	(times)	(%)	(%)	(%)	
5.8% International Hotel Investments plc 2021	20,000	5.77%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
6% Pendergardens Developments plc Secured € 2022 Series II	26,781	3.26%	3.7x	81.5	28.3	65.2%	54.3%	5.3x	1.5x	0.1x	0.0x	1.0x	105.00
5.8% International Hotel Investments plc 2023	10,000	5.10%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	102.00
6% AX Investments Plc € 2024	40,000	3.67%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	107.50
4.4% Von der Heyden Group Finance plc Unsecured € 2024	25,000	3.93%	1.1x	147.8	44.3	70.1%	66.4%	36.6x	0.7x	-4.9%	-8.5%	8.6%	101.50
6% International Hotel Investments plc € 2024	35,000	5.45%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	101.75
5% Tumas Investments plc Unsecured € 2024	25,000	4.57%	9.1x	244.6	131.5	46.2%	16.5%	1.0x	2.2x	8.6%	20.6%	-52.6%	101.51
5.75% International Hotel Investments plc Unsecured € 2025	45,000	5.74%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
4.5% Hili Properties plc Unsecured € 2025	37,000	4.28%	1.8x	150.5	57.6	61.7%	57.7%	12.7x	1.1x	9.9%	62.4%	20.0%	101.00
4% MIDI plc Secured € 2026	50,000	3.26%	6.1x	234.6	104.0	55.7%	33.0%	4.2x	3.0x	8.2%	29.6%	-47.2%	103.90
4% International Hotel Investments plc Secured € 2026	55,000	3.62%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	102.00
4% International Hotel Investments plc Unsecured € 2026	60,000	4.00%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
3.25% AX Group plc Unsec Bds 2026 Series I	15,000	3.25%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	100.00
3.75% Mercury Projects Finance plc Secured € 2027	11,500	3.49%	0.4x	62.2	(.6)	101.0%	101.9%	82.9x	1.0x	236.9%	-15.9%	125.6%	101.49
4.35% SD Finance plc Unsecured € 2027	65,000	4.35%	6.8x	324.4	137.6	57.6%	43.3%	4.1x	1.4x	9.0%	20.5%	5.7%	99.97
4% Eden Finance plc Unsecured € 2027	40,000	3.65%	6.6x	199.3	113.1	43.2%	29.0%	3.4x	1.1x	11.7%	28.1%	9.7%	102.00
3.75% Tumas Investments plc Unsecured € 2027	25,000	3.66%	9.1x	244.6	131.5	46.2%	16.5%	1.0x	2.2x	8.6%	20.6%	-52.6%	100.50
4% Stivala Group Finance plc Secured € 2027	45,000	4.00%	4.0x	225.3	123.1	45.4%	40.6%	7.4x	0.7x	5.0%	26.0%	19.5%	100.00
3.85% Hili Finance Company plc Unsecured € 2028	40,000	4.15%	5.0x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	23.0%	4.6%	14.8%	97.99
3.65% Stivala Group Finance plc Secured € 2029	15,000	3.45%	4.0x	225.3	123.1	45.4%	40.6%	7.4x	0.7x	5.0%	26.0%	19.5%	101.50
3.8% Hili Finance Company plc Unsecured € 2029	80,000	3.94%	5.0x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	23.0%	4.6%	14.8%	98.99
3.75% AX Group plc Unsec Bds 2029 Series II	10,000	3.00%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	106.00
4.25% Mercury Projects Finance plc Secured € 2031	11,000	**4.06%**	0.4x	62.2	(.6)	101.0%	101.9%	82.9x	1.0x	236.9%	-15.9%	125.6%	101.56
Average**		**4.10%**	**4.6x**	**689.8**	**346.5**	**51.6%**	**39.6%**	**7.1x**	**1.3x**	**6.0%**	**13.1%**	**3.1%**	

* Last price as at 28/08/2020

** Average figures do not capture the financial analysis of the Group

Source: Latest available audited financial statements



Source: Malta Stock Exchange, Central Bank of Malta and Calamatta Cuschieri Workings

The above graph illustrates the average yearly yield of all local issuers as well as the corresponding yield of MGSs (Y-axis) vs the maturity of both Issuers and MGSs (X-axis), in their respective maturity bucket, to which the spread premiums can be noted.

The graph plots the entire MGS yield curve, thus taking into consideration the yield of comparable issuers. The graph illustrates on a stand-alone basis, the yield of comparable issuers having a maturity between 6-8 years and 9-11 years, respectively (Peers YTM).

As can be witnessed in the comparative analysis, the Group's leverage is above the average of its comparable issuers on the Malta Stock Exchange at a gearing (net debt / net debt and total equity) of 101.9% compared to an average of 39.6% for the industry, while the net debt / EBITDA gearing stood at 82.9x in FY19, with the average of selected comparatives being 7.1x. It is worthy to note that the Group's Project is currently under construction, hence the high leverage. In fact, in FY20 the Group is forecasting net debt / EBITDA to fall to 3.6x (FY19: 82.9x[11]).

As at 28 August 2020, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 6-8 years was 344 basis points. The 3.75% Mercury 2027 bond is currently trading at a YTM of 3.49%, meaning a spread of 314 basis points over the equivalent MGS. This means that this bond is trading at a marginal discount of 30 basis points in comparison to its peers.

As at 28 August 2020, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 9-11 years was 294 basis points. The 4.25% Mercury 2031 bond is currently trading at a YTM of 4.06%, meaning a spread of 337 basis points over the equivalent MGS. This means that this bond is trading at a premium of 43 basis points in comparison to its peers.

[11] Marginally different to the ratio analysis provided in section 2.5 of this Analysis due to rounding variances.

Part 4 - Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
Costs	Costs are expenses incurred by the Group/Company in the production of its revenue.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
Gross Profit Margin	Gross profit as a percentage of total revenue.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by the average total assets (average assets of two years financial performance).
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/Company less any interest incurred on debt.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.
Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Group/Company owns which can de further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.

Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Group/Company owes which can de further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All interest bearing debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Net Debt and Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
Other Definitions	
Yield to Maturity (YTM)	YTM is the rate of return expected on a bond which is held till maturity. It is essentially the internal rate of return on a bond and it equates the present value of bond future cash flows to its current market price.
Occupancy Level	The occupancy level is expressed as a percentage and indicates the number of rooms occupied to the total number of available rooms in a given time period.
Average Daily Rate (ADR)	Average Daily Rate (ADR) is a performance metric used in the hotel industry and it represents the average rental income per paid occupied room in a given time period.
Revenue per Available Room (Rev/PAR)	Revenue per available room (RevPAR) is a performance metric used in the hotel industry. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate or by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.