PRESS RELEASE

Paris, 11 February 2015

2014 results: performance above objectives, based on a combination of organic growth and developments

+3.1% increase in invoiced rents on a like-for-like basis, of which +2.8% excluding indexation, higher than the revised forecast of +2.5%

+6.5% growth in FFO to EUR 102.5 million, better than the revised forecast of +5%

+7.2% increase in NNNAV to EUR 18.85 per share

Mercialys completed 10 projects, re-launched its investments in 2014 and built a **3-year pipeline of developments of EUR 210 million**

Proposed **dividend distribution of EUR 1.24 per share** for 2014, representing a yield of 6.6%[1]

2015 Outlook: organic growth in invoiced rents excluding indexation is expected to exceed +2%, and FFO is expected up +2%

Eric Le Gentil, Chairman and CEO of Mercialys commented: "*Mercialys exceeded its objectives in a difficult economic context, proving the effectiveness of its model. 2014 saw a sharp shift in investment. Mercialys also rebuilt a significant 3-year controlled development pipeline while maintaining its financial profile.*"

Organic growth in rents was up +3.1% (+2.8% excluding indexation), better than the revised forecast of +2.5%. In 2014, the current financial vacancy rate improved by 20 bp to 2.4%.

In 2014, Mercialys completed 10 projects and returned to a strategy of dynamic external growth, creating a controlled development pipeline of EUR 210 million, which will generate over EUR 14 million in net rents. At the same time, the Company sold EUR 262 million in mature or non-strategic assets, which contributed to the efforts to finance growth and refocus the portfolio.

In addition, Mercialys successfully completed major refinancing transactions on its bank and bond debt. These transactions extended the maturity of its debt from 3.9 years at the end of June 2014 to 5.7 years at year-end 2014. By optimising the cost of debt, the "spot" rate on the debt drawn down at the end of 2014 was 2.2%. Mercialys continues to offer a strong financial position, with a LTV at 37.4%.

The funds from operations (FFO) was EUR 102.5 million, up +6.5% vs. 2013, significantly better than the revised forecast of +5%. Restated for the net proceeds of EUR 4.3 million from the sale of the stake in Green Yellow, FFO rose +2%, to EUR 98.2 million. At the same time, the EPRA NNNAV climbed +7.2% in 2014 to EUR 18.85 / share.

The dividend that will be proposed at the Shareholders' Meeting on 5 May 2015 is EUR 1.24 / share, corresponding to 100% of distributable earnings according to the SIIC status.

Mercialys is confident in its outlook for 2015, thanks to the effect of the completions and acquisitions made in 2014 and to the action taken on the portfolio, such as the development of Casual Leasing or the implementation of Villages.Services. The refinancing transactions will also have a positive impact on the cost of debt.
As a result, Management has set itself an objective of organic growth in rents excluding indexation of more than 2% and a +2% increase in FFO in 2015 vs. 2014.

[1] Yield calculated on the Mercialys EPRA NNNAV at year-end 2014 (EUR 18.85)

I. 2014 activity

Upbeat results for 2014, reflecting the effectiveness of the action taken on the Mercialys portfolio

- Organic growth in invoiced rents was sustained at **+3.1%,** including **2.8 points above indexation,** a level better than the revised objective of +2.5 points

The action taken on the portfolio, which included both the development of new concepts, such as Casual Leasing and events at our centres, enabled us to compensate for a market environment that remained difficult. Following the successes recorded in previous years, this performance demonstrates that Mercialys offers growth potential which is still significant.

Rental income at EUR 152.8 million was up +2.6% from organic growth but also from investments and project completions which more than offset the effect of asset disposals.

- Funds from operations (FFO[2]) of **EUR 102.5 million**, or EUR 1.12 per share, were up +6.6%[3] thanks to the growth in rental revenue and the substantial improvement in net financial result. Restated for the net proceeds of EUR 4.3 million from the sale of the stake in Green Yellow, FFO rose +2% to EUR 98.2 million.

Management indicators remain excellent

- In a weak operating macro-economic environment, **sales generated by retailers** at Mercialys shopping centres[4] remained steady, up **+0.5**% on a cumulative basis at the end of December 2014, compared with a total decrease of -0.6%[5] for the CNCC panel at the end of November 2014. **Footfall** at the Mercialys shopping centres also outperformed the market, with a cumulative increase of **+1.4**% at year-end 2014, versus a decline of -0.7% for the CNCC panel[6]
- Letting activity remained dynamic in 2014 with **293 leases signed** (vs. 261 leases signed in 2013).
- Growth of **+22%** in rents from the Casual Leasing business in 2014 on a current basis, and **+38%** excluding the impact of disposals.
- Strong **operating indicators**: the current financial vacancy rate improved 20 bp to 2.4% over one year, and the 12-month recovery rate remained high at 97.6%, stable from year-end 2013.

EUR 522 million in investments and acquisitions in 2014 and the creation of a controlled development pipeline of EUR 210 million

Mercialys invested EUR 522 million during 2014, in investments on projects, completed and in progress, and on acquisitions.

- Thus, EUR 37.1 million in construction work was performed in 2014 for 10 projects that were completed during the year. These developments strengthen the appeal of the centres, particularly with the implementation of medium-sized stores, and the diversification of offering with the addition of new retailers.
  These projects, the total cost of which was EUR 110 million, generate EUR 8.1 million in additional annualised net rents from 26,100 sq.m. The impact of these completions for 2014 represents EUR 3.5 million additional net rents.
- In addition, EUR 29.5 million was invested for the flagship project of Toulouse Fenouillet. In the first half of 2014, Mercialys also acquired the food store operating on the site for EUR 34.1 million, which will be transformed as part of the development project.

[2] FFO: Funds From Operations = Net income Group share before depreciation&amortization, gains from disposals, asset write-downs and the additional contribution to tax of 3%
[3] Calculation on the basis of the weighted average number of fully diluted shares at 31 December
[4] Mercialys' major shopping centres and main neighbourhood shopping centres
[5] CNCC Index – all centres, comparable scope – Year to date at the end of November 2014
[6] CNCC Index – all centres, excluding the impact of Primark– Year to date at the end of December 2014

Mercialys also rebuilt a significant controlled development pipeline in 2015 with a target IRR of 8% to 10%.

- Indeed, in the first half of 2014, the Company acquired four large food stores in Niort, Brest, Saint-Etienne Monthieu and Rennes to develop transformation projects, for a purchase price of EUR 140.4 million, including transfer taxes and net annual rents before redevelopment of EUR 7.4 million, representing an immediate yield of 5.3%. Mercialys also acquired a portfolio of services and catering spaces for EUR 3.2 million, including transfer taxes, which produce EUR 0.4 million in net annualised rents.

- In December 2014, Mercialys acquired an additional eight large food stores in Angers, Anglet, Fréjus, Nîmes, Quimper, Aix-en-Provence, Annecy and Gassin for a total of EUR 278 million, including transfer taxes. Net annual rents before redevelopment for these eight assets represent EUR 15.2 million, i.e. an immediate yield of 5.5%.

Transformation projects have been prepared for these sites. The works thus planned at this stage for the redevelopment projects represents approximately EUR 30 million for the four large food stores acquired in the first half of 2014, which will create more than 9,000 sq.m of additional stores and around EUR 2.6 million in additional net rents on an annual basis, representing an anticipated yield of 8.7%. The openings are planned in 2015 and 2016.
The works for the redevelopment projects for the eight large food stores acquired in December 2014 will amount to around EUR 28 million, creating nearly 20,000 sq.m of additional stores and approximately EUR 2.4 million in additional net rents on an annual basis, representing an expected yield of 8.3%. The openings are scheduled for 2016 and 2017.

In addition, the two development phases for the Toulouse Fenouillet site represent a total investment of EUR 152 million, EUR 122 million of which is still to be initiated if Mercialys decides to exercice its purchase option on the Phase 2.
Indeed, as the Phase 2 works (extension of the shopping mall) begin mid-2015, Mercialys formed a partnership with Foncière Euris in order to carry out the works, through a company majority-owned by Foncière Euris. Mercialys has a purchase option on Phase 2, which can be exercised when the mall opens under price terms unchanged from the initial project. This operation allows Mercialys to optimise its financial resources.
The estimated net rental income for the entire project represents EUR 9.3 million on an annual basis, or a total yield of 6.1%.

The total investments still to be made on the transformation works for the large food stores and the development of Phases 1 and 2 at Toulouse Fenouillet represent approximately EUR 210 million, EUR 180 million of which are still to be incurred, and should generate around EUR 14.3 million in annualized net rents, representing an anticipated yield of 6.8% of the controlled pipeline.

Disposals of mature or non-strategic assets for EUR 262 million in 2014

In 2014, Mercialys sold real estate assets for EUR 257 million and its financial stake in Green Yellow for EUR 4.8 million (gross amount) to the Casino group.

- In the first half of 2014, Mercialys sold 11 mature assets, including 5 large food stores acquired in 2009 and six individual lots for a total amount, transfer taxes included, of EUR 174 million. The property assets sold represented annual rents of EUR 9.7 million.

- In late 2014, Mercialys sold EUR 81.4 million worth of assets (including transfer taxes), in line with the appraisal values at the end of June 2014. Standalone lots were also sold for EUR 1.3 million.

The company also sold 17 cafeterias operated by the Casino group for EUR 31 million, including transfer taxes. The net rents invoiced for these assets represented EUR 2.1 million on an annual basis. These cafeterias offer limited reversion potential or are on sites from which Mercialys is also withdrawing.

Mercialys also sold 21 geographically dispersed assets for EUR 29 million including transfer taxes, which would generate EUR 1.1 million in annualized invoiced net rents. Those sites of limited size (average of 1,400 sq.m) did not allow for the implementation of global and distinctive projects and presented little reversion potential.

Finally, Mercialys transferred back 5 projects acquired in 2009 for a total of EUR 21 million including transfer taxes, corresponding to the contract conditions initially defined. The invoiced net rents for these assets represented EUR 2.4 million on an annual basis.

These arbitrages allowed Mercialys to refocus on its core business assets: large shopping centres and neighbourhood shopping centres leaders in their areas. The assets disposals also contribute to the financing of the Company's growth while maintaining a solid balance sheet.

After these disposals, the Mercialys portfolio consists of 66 assets, including 59 shopping centres, including 78% large shopping centres, 22% leading neighbourhood centres, and 0.6% other assets.

II. Portfolio and debt

Triple net asset value (EPRA format) was up +7.2% over 12 months

- The value of Mercialys' portfolio was **EUR 2,893.6 million**, including transfer taxes, an increase of +17.4% over 12 months, primarily driven by higher rents on a like-for-like basis (+EUR 128 million), the compression of the average capitalization rate (+EUR 80 million) and changes in scope of consolidation (+EUR 221 million). On a like-for-like basis, the value of the Mercialys assets rose **+9.4%** over 12 months.
- The average appraisal yield was **5.6%** at 31 December 2014, compared with 5.7% at 30 June 2014 and 5.85% at 31 December 2013.
- **The triple net asset value (EPRA format) increased +7.2%** over 12 months to EUR 18.85 per share.

Mercialys successfully completed major transactions to refinance its debt

- In November 2014, Mercialys completed a bond exchange operation. As part of this, the Company issued a EUR 550 million bond, with a maturity of more than 8 years and offering a coupon of 1.787%. At the same time, Mercialys repaid EUR 170.3 million of the 2019 bond issue for a total of EUR 195 million after exchange premium. This transaction extended the average maturity, while lowering the cost, of the Mercialys' bond debt.

- In December 2014, Mercialys repaid in advance its bank debt of EUR 100 million which was due in February 2015, the interest on which was 3-month Euribor +225 bp.

- At the same time, the Company set up a revolving bank credit line of EUR 240 million (increase, extension and amendment to the existing EUR 150 million RCF) at interest of 3-month Euribor + 115 bp. Mercialys also obtained confirmed bank lines for a total of EUR 60 million, on which the interest is less than 3-month Euribor + 100 bp. These bank facilities were undrawn at year-end 2014.

These measures strengthened the Company's balance sheet and ensure financing for its projects, while optimizing its financial costs.

- The **average real cost of debt drawn** in 2014 was **3.1%** (down from 3.8% for 2013; this rate was reduced to 3.6% excluding costs for debt redemptions in 2013). The cost of the debt calculated on the basis of the spot rates of the new financing and hedging mechanism established in late 2014 was **2.2%** at 31 December 2014.
- The **LTV** ratio was **37.4%**[7] at 31 December 2014 (compared with 31.8% at 31 December 2013).
- The **ICR** was **4.7**[8] at 31 December 2014 (compared with 4.2 at 31 December 2013), well above the bank covenant requirement (ICR > 2).

III. Dividend and outlook

Dividend

Mercialys Board of Directors will recommend to the Shareholders' Meeting of 5 May 2015 the payment of a dividend of EUR **1.24 per share** (including the interim dividend of EUR 0.36 per share already paid in October 2014). The recommended dividend is up +6.9%, in line with the FFO growth, reflecting the Company's good operating performance.

This recommendation corresponds to the full distributable income for 2014 according to the SIIC status, i.e. EUR 0.70 euro per share paid for **current income** and EUR 0.53 per share for the **distributable capital gains**. The recommended dividend represents a yield of 6.6% based on the triple net asset value at end-2014.
The ex-dividend date is 7 May 2015, and the dividend will be paid on 11 May 2015.

Outlook

In an economic environment that will remain difficult, Mercialys is confident in its outlook for 2015. The Company will continue its strategy to continually transform its assets to create global and unique retail venues, thus offering retailers efficient sites to support the renewal and the best expression of their concepts.

In 2015, Mercialys will benefit from the impact of the completions and acquisitions made in 2014 and the actions initiated on its portfolio, such as the development of Casual Leasing or the roll-out of Villages Services. The refinancing transactions will also have a positive impact on the cost of debt.

As a result, Mercialys has set the following objectives for 2015:

- Organic growth in rents of at least +2% (excluding extensions) above indexation compared with 2014;
- Growth in Funds from Operations (FFO) per share of +2% compared with 2014, corresponding to a +6.5% increase of the 2014 FFO restated for the proceeds from the sale of Green Yellow.

[7] Loan To Value (LTV) Net debt / Market value of the portfolio excluding transfer taxes
[8] Interest Cost Ratio (ICR) EBITDA / Cost of net debt

1. Business review

(Financial statements for the year ended December 31, 2014)

Mercialys exceeds its 2014 objectives

Rental revenues experienced solid growth of +2.6% in 2014.
Mercialys again achieved strong organic growth in invoiced rents of +3.1%, including 2.8 points above indexation, exceeding the revised objective of +2.5 points set by Management in October 2014.
This solid performance attests to the soundness of the Company's business model and the priority given to creating value by its teams, who have played an extremely active role and who are close to the client.
Funds from Operations (FFO) were up +6.5%, exceeding the revised objective set by Management in July 2014, i.e., FFO over Euro 100 million, with growth of approximately +5% compared with 2013.
Finally, the Mercialys key performance indicators demonstrate the resilience of the portfolio.

Mercialys owes this positive performance specifically to its ability to constantly innovate. Thus, Casual Leasing (short-term leases), which Mercialys pioneered in France, continued to increase sharply over the year, with posted rents growth of +22% versus December 31, 2013 (and +38% on a constant scope of consolidation), at Euro 6.1 million. The contribution of this activity to the creation of value is significant, since it represented an impact of Euro 107 million in appraisal value at December 31, 2014, while involving no counterparty investments. Similarly, at three locations in 2014 Mercialys launched its innovative Villages.Services© concept, a new form of complementary and unique retail venues that offers service activities that follow customer traffic paths.

Due to the momentum of its portfolio, Mercialys shopping centres have outperformed the French market. Footfall at large Mercialys shopping centres thus rose +1.4% in 2014, versus -0.7%[9] for the CNCC panel. Retailers at Mercialys' shopping centres[10] also held up well in terms of sales, up +0.5% in 2014 relative to 2013 compared with a decline of -0.6%[11] in sales for retailers at shopping centres on the CNCC index.

A year marked by a sharp shifting of investment

The year 2014 saw sharp shifts in external growth, with a record amount of gross investment totalling Euro 522 million, distributed across completions of projects, current projects and acquisitions.

Thus, during 2014, completions of new programmes continued at a steady pace.
After the 28 projects already completed between 2010 and 2013, 10 new projects opened in 2014, representing 116 new stores, with full-year rental value of Euro 8.1 million and GLA of 26,100 m^2 created or redeveloped. The Mercialys first three Villages.Services© also opened at year-end 2014.
These developments have helped Mercialys to make its shopping centres more attractive and diversify its offering, with the addition of new brands and new concepts.

In 2014 Mercialys also launched a major project to renovate and extend its Toulouse-Fenouillet shopping centre, which will thus become a top-tier regional site for the city of Toulouse. This regional shopping centre will be the largest in Mercialys portfolio, with a final market value estimated at Euro 240 million.

In fiscal year 2014, Mercialys also launched new plans to transform its shopping centres, aimed at establishing new shops in large food stores, as well as new shopping space at sites closely aligned with its strategy of developing global and unique retail venues.
Thus, Mercialys acquired from Casino 12 large food stores in 2014, as well as a portfolio of service and restaurant facilities.
All these assets will be redeveloped, thus contributing to a controlled development pipeline of 13 projects representing some Euro 210 million in investment (of which 180 million remain to be committed), nearly 80,000 m^2 in floor space and additional net rental income representing approximately Euro 14.3 million (on a full-year basis) over a three-year horizon.

[9] CNCC index of cumulative footfall at end-December 2014
[10] Mercialys' large shopping centres and main neighbourhood shopping centres
[11] CNCC index – All shopping centres, comparable scope – Cumulative at end-November 2014

At the same time, Mercialys sold Euro 262 million of mature or non-strategic assets during fiscal year 2014. These disposals contributed to Mercialys' refocus on its core business assets: large shopping centres and neighbourhood shopping centres that are leaders in their areas. Asset disposals also contributed to financing the Company's development, allowing it to maintain a sound balance sheet.

Finally, in the fourth quarter of 2014 Mercialys undertook major debt restructuring, allowing the Company to reduce its financing costs and lengthen its maturities, while ensuring the financing of its growth.

A resilient business model offering value creation, underpinned by both the fundamentals of the retail property sector and Mercialys' own strengths

The shopping centre sector has a dynamic and resilient performance profile.
It is intrinsically correlated with trends in the retail industry and therefore offers a dual advantage for Mercialys:

> exceptionally good visibility in terms of cash flow, with a solid base of index-linked rents and very low vacancy rates due to the practice of leasehold rights - a peculiarity of the French retail system (which requires an outgoing tenant to find a replacement) -;

> an ongoing ability to create value by working on a centre's merchandising and events planning, negotiating lease renewals and relets, and pursuing a policy of renovating and redeveloping centres to make them more competitive.

Against this backdrop, Mercialys has created a flexible organizational structure by combining and developing specialized skills in value-creating functions. It links with a major Company also enables Mercialys to pool its back-office functions.

Mercialys also offers its own strengths, based on dynamic development and tight control of risk:

> Mercialys is a pure-play operator specialising in retail properties located solely in France.

> Mercialys benefits from a favourable outlook in terms of organic growth thanks to the existing potential to increase rent levels in its rental portfolio.

> Mercialys' shopping centres enjoy a strong position, benefiting from both consumer appeal for local sites and a strong local footing, as well as a favourable geographical position in France, with centres located in the fastest-growing regions (Rhône-Alpes, Provence-Alpes-Côte d'Azur, Atlantic Arc).

> Mercialys has a team that specialises in the transformation of shopping centres, focusing on growth and rates of return, centred on a local- and customer-based strategy:

> Redevelopments/extensions carried out at existing sites; this significantly reduces the risks assumed by Mercialys and the store brands.

> Mercialys benefits from secure access to external growth. In 2014, Mercialys re-established a significant, three-year development pipeline. Further, the Partnership Agreement with the Casino Group, extended until end-2017, allows Mercialys to benefit from priority access to projects developed by the Casino Group's promotion teams at attractive rates relative to market prices.

Mercialys is capitalising on its extremely strong, customer-focused positioning centred on local presence.
The Company is thus pursuing a strategy of continuous innovation consistent with the momentum of its centres and partners, by continuously adapting to changes in types of customer consumption.
Mercialys' winning strategy is based on a unique value-creation approach based on extracting the existing value-enhancement potential of its lease portfolio, and a very ambitious programme aiming at transforming its portfolio. This programme is largely based on a 360º view of sites with the goal of developing ways to do distinct and complementary types of retail trade in existing "traditional" types of retail space, all while continuing to renovate its shopping centres, relying on its partners and especially the Casino Group.
Through this approach, Mercialys' aim is to make its sites more attractive and further optimize the value creation process.

2. Financial report

Mercialys Group is hereafter referred to as Mercialys or the Company.
The consolidated financial statements of the Mercialys Group to December 31 have been prepared in accordance with the standards and interpretations published by the International Accounting Standards Board (IASB) as approved by the European Union and as applicable at the balance sheet date.
Accounting policies have been applied consistently in all the periods shown in the consolidated financial statements.

NB: Mercialys pre-empted the implementation of IFRS 10, 11 and 12 for the year ended December 31, 2013. Joint-ventures (namely SCI Geispolsheim and Corin Asset Management), previously proportionally consolidated, were considered as associated companies according IFRS 11 definition and were therefore consolidated under the equity method.

2.1. Financial statements

Audit procedures have been conducted by the Statutory Auditors. Finalization of the statutory auditors' report on the consolidated financial statements is in progress.

2.1.1. Consolidated income statement

in thousands of euros	**12/2013**	**12/2014**
Rental revenues	**148,959**	**152,787**
Non-recovered property taxes	(105)	(75)
Non-recovered service charges	(4,231)	(4,536)
Property operating expenses	(5,220)	(5,072)
Net rental income	**139,403**	**143,104**
Management, administrative and other activities income	3,672	3,017
Property development margin	2,741	118
Other income	472	1,845
Other expenses	(7,887)	(9,997)
Staff costs	(8,929)	(10,424)
Depreciation and amortization	(23,931)	(23,968)
Allowance for provisions for liabilities and charges	(477)	126
Other operating income	172,005	270,278
Other operating expenses	(123,285)	(198,132)
Operating income	**153,783**	**175,967**
Revenues from cash and cash equivalents	402	348
Cost of debt, gross	(31,073)	(27,601)
Cost of debt, net	**(30,671)**	**(27,253)**
Other financial income	1,751	5,064
Other financial expenses	(3,172)	(1,666)
Net financial items	**(32,092)**	**(23,855)**
Tax	702	(1,016)
Share of net income of associates	1,005	1,346
Net income from consolidated companies	**123,398**	**152,442**
Attributable to minority interests	47	48
Attributable to Group equity holders	123,351	152,394
Earnings per share (in euros) (1)		
Earnings per share attributable to Group equity holders (in euros)	1.34	1.66
Diluted earnings per share attributable to Group equity holders (in euros)	1.34	1.66

(1) Based on the weighted average number of outstanding shares over the period adjusted for treasury shares:
> Weighted average number of shares (non-diluted) in 2014 = 91,826,157 shares
> Weighted average number of shares (fully diluted) in 2014 = 91,826,157 shares

2.1.2. Consolidated balance sheet

Assets

in thousands of euros	12/2013	12/2014
Intangible assets	1,022	811
Property, plant and equipment other than investment property	499	434
Investment property	1,423,463	1,751,782
Investments in associates	21,405	20,880
Other non-current assets	20,703	33,579
Deferred tax assets	578	1,098
Non-current assets	**1,467,670**	**1,808,584**
Trade receivables	21,716	18,687
Other current assets	41,794	64,442
Cash and cash equivalents (1)	15,795	121,015
Investment property held for sale	27,647	5,666
Current assets	**106,952**	**209,810**
TOTAL ASSETS	**1,574,621**	**2,018,394**

Equity and liabilities

in thousands of euros	12/2013	12/2014
Share capital	92,049	92,049
Reserves related to share capital	482,836	482,836
Consolidated reserves	162,006	164,109
Net income attributable to the Group	123,351	152,394
Dividend payments	(120,320)	(108,289)
Equity attributable to the Group	739,922	783,099
Net income attributable to minority interests	436	436
Total equity	**740,358**	**783,536**
Non-current provisions	231	292
Non-current financial liabilities (2)	747,109	1,022,424
Deposits and guarantees	21,882	22,555
Non-current tax liabilities and deferred tax liabilities	563	1
Non-current liabilities	**769,785**	**1,045,272**
Trade payables	11,264	14,026
Current financial liabilities (3)	27,044	143,330
Short-term provisions	1,692	1,426
Other current liabilities	24,471	30,456
Current tax liabilities	7	348
Current liabilities	**64,478**	**189,586**
TOTAL EQUITY AND LIABILITIES	**1,574,621**	**2,018,394**

(1) The increase in cash between 2013 and 2014 derived largely from the new bond issuance at end-2014.
(2) The increase in non-current financial debt derives from the implementation of additional debt (drawn) at end-2014
(3) The increase in current financial debt at December 31, 2014 derives largely from the issuance of commercial paper in 2014 (Euro 129 million outstanding at end-2014)

2.1.3. Consolidated cash flow statement

In thousands of euros	12/2013	12/2014
Net income attributable to the Group	123,351	152,394
Net income attributable to minority interests	47	48
Net income from consolidated companies	**123,398**	**152,442**
Depreciation, amortization, impairment allowances and provisions net of reversals	27,769	24,363
Unrealized gains and losses relating to changes in fair value	322	(209)
Income and charges relating to stock options and similar	434	406
Other income and charges (1)	(90)	1,448
Share of income from associates	(1,005)	(1,346)
Dividends received from associates	420	1,956
Income from asset sales	(53,569)	(80,092)
Cash flow	**97,679**	**98,968**
Cost of net debt (excluding changes in fair value and depreciation)	27,525	26,163
Tax charge (including deferred tax)	(702)	1,016
Cash flow before cost of net debt and tax	**124,502**	**126,147**
Tax payments	(5,340)	1,576
Change in working capital requirement relating to operations excl. deposits&guarantees	(11,257)	(12,207)
Change in deposits and guarantees	(1,683)	673
Net cash flow from operating activities	**106,222**	**116,189**
Cash payments on acquisitions of investment properties and other properties (4)	(54,401)	(298,239)
Cash payments on acquisition of non-current financial assets	(65)	(322)
Cash receipts on disposal of investment property and other fixed assets	176,949	37,486
Cash receipts on disposal of non-current financial assets	454	4,791
Impact of changes in the scope of consolidation with change of ownership (3)	(8,050)	(59)
Impact of the changes in scope of consolidation with associated companies (3)		(70)
Net cash flow from investing activities	**114,887**	**(256,412)**
Dividend payments to shareholders	(89,085)	(75,293)
Interim dividend payments	(31,235)	(32,996)
Dividend payments to minority interests	(52)	(49)
Changes in treasury shares	(1,926)	38
Increase in financial liabilities	-	1,147,223
Decrease in financial liabilities	(250,461)	(761,500)
Net cost of debt	(41,254)	(26,685)
Net cash flow from financing activities	**(414,012)**	**250,738**
Change in cash position	**(192,903)**	**110,515**
Opening cash position	203,382	10,479
Closing cash position	10,479	120,994
Cash and cash equivalents	*15,795*	*121,015*
Bank facilities	*(5,316)*	*(21)*

(1) Other income and charges comprise primarily:		
Lease rights received and spread out over the term of the lease	(3,419)	(727)
Discounting adjustments to construction leases	(500)	(569)
Financial expenses spread out	1,489	180
Costs associated with assets sales	1,865	2,526
(2) The change in working capital requirement breaks down as follows:		
Trade receivables	(1,853)	3,027
Trade payables	644	6,390
Other receivables and payables	(3,811)	(21,327)
Inventories on property developments	-	-
Property development liabilities	(6,237)	(297)
	(11,257)	**(12,207)**

(3) At the end of 2013, the Group proceeded with the payment of Aix2 and Alcudia Albertville shares totalling Euro 8,050 thousand.

(4) Cash payments and cash receipts relative to disposals of assets are limited given the legal form of the instruments (asset exchanges), which only gave rise to the payment and receipt of a balancing payment for each contract.

2.2. Main highlights of 2014

Launch of the development of a regional shopping centre at Toulouse Fenouillet

As part of its strategy of developing global and unique retail venues aimed at offering all forms of commerce within a site - food shopping, "traditional" retail activities consolidated around a shopping mall or retail park, offerings that stand out from day-to-day services and restaurants open 7 days a week, complemented by a diversified line of Casual Leasing activities - Mercialys launched a plan to redevelop and extend its Toulouse-Fenouillet shopping mall, which will thus become a top-tier regional shopping mall for the city of Toulouse.

This regional shopping centre will be the largest in the Mercialys portfolio, with a final market value estimated at Euro 240 million.

The project will be developed in two separate phases:
- the creation of a retail park comprising nine medium-sized stores, adjacent to the existing site, with GLA of 24,400 m^2, for which construction began in the summer of 2014 with scheduled opening in June 2015;
- extension of the existing shopping mall and redevelopment of part of the large food store: 13 new medium-sized stores and 47 new shops will be developed across a total area of 24,300m² along with 13 restaurants. This second phase is scheduled to open around year-end 2016. Note that administrative authorisation was obtained to implement a cinema, which will then complete the site's leisure offerings; administrative authorisation was also obtained for a retail park to be developed by a partner in the medium-term.

This represents an investment estimated at over Euro 180 million, including Euro 64 million already invested.
The work on phase 2 (extension of the shopping mall) will begin in mid-2015. Mercialys has entered into a partnership with Foncière Euris to carry out this work, through a company majority-owned by Foncière Euris. This operation thus allows Mercialys to optimize its financial resources. Mercialys has a purchase option on phase 2 – on a fair value basis – that may be exercised upon the opening of the shopping centre, under price conditions that remain unchanged relative to the initial plan. If Mercialys decides to exercise its purchase option, the investment relative to the phase 2 would represent an amount of Euro 118 million (of which Euro 17 million have already been committed).

Upon completion of these two rollout phases, the Toulouse Fenouillet regional shopping centre will have floor space of 70,000 m^2 and will include a Géant hypermarket and over 120 shops. At the heart of the retail facility comprising the retail park, it will host a shopping mall and the hypermarket, a leisure area and outdoor restaurants. The complex will be enhanced by 1,500 to 2,000 m^2 of space for additional services and Casual Leasing retailers, both inside the mall and in the outside car parks.

10 projects completed in 2014 and opening of the first 3 Villages.Services©

In 2014, the implementation of redevelopment and extensions programs continued with the completion of 10 projects: One retail park at Albertville, six extensions of shopping centres at Lanester, Aix-en-Provence (Phase 1), Annemasse, Besançon, Clermont-Ferrand, St Paul in La Réunion island, and three redevelopments of former medium-sized stores in new shops at Albertville, Nîmes and Angers.
In total, these developments represent 116 new stores, a rental value of Euro 8.1 million over the full-year and a GLA of 26,100 m² of newly created or redeveloped space, for a total investment of Euro 110 million.

At year-end 2014, Mercialys had also inaugurated its innovative Villages.Services© concept at Clermont-Ferrand, Niort and Sainte Marie in La Réunion island. A new, complementary and distinctive form of retail trade, these service villages allow for the implementation of over 300 m^2 of additional retail space at each site, and offer service activities that follow customer traffic paths.
These investments contribute to enhancing the attractiveness of the centres and diversifying the offerings, and will be accompanied by the development of the Casual Leasing business.

Launch of 12 new development projects and acquisition of a portfolio of services and restaurant assets for a total of Euro 421 million

Mercialys acquired 12 large food stores from Casino in 2014, as well as a portfolio of services and restaurant facilities totalling Euro 421 million, including transfer taxes.

Transformation plans will be applied to these 12 assets, with a view to implementing new shops on space currently dedicated to food retail, as well as new retail space at sites tied to its strategy of developing global and unique retail venues. Overall, this represents Euro 58 million in construction, for additional targeted rents of Euro +5 million.

Ongoing disposal of mature or non-strategic assets: 56 assets and an investment stake sold in 2014 for a total of Euro 262 million

Mercialys sold:
- 5 large food stores (acquired in 2009): since these 5 assets had matured, in the first half of 2014 they were sold to Casino, which demonstrated its interest in acquiring them for a total of Euro 170.7 million.

- a portfolio of 43 assets sold to Casino in December 2014 for a total of Euro 81.4 million, including:
  - 17 cafeterias operated by the Casino group. These cafeterias displayed a limited reversionary potential or were part of sites which Mercialys was in any case disposing of.
  - 21 geographically dispersed assets at sites of limited size (average of 1,400 m^2) that did not allow for the implementation of global and distinctive projects, and had little reversion potential.
  - 5 projects acquired in 2009 and transferred back under initially fixed contractual conditions.

- 8 standalone lots located at Arcis-sur-Aube, Exincourt, Gap, Millau, St Martin d'Hères, Grenoble, Roanne and Albertville, representing a total disposal value of Euro 4.4 million

- Mercialys also received a Euro 0.4 million earn-out payment from the 2013 sale of four shopping centres to the fund set up in partnership with Amundi Immobilier, following the sale of vacant lots in the first half of 2014.

- a non-strategic investment held in GreenYellow (a company that develops photovoltaic power units) for an amount of Euro 4.8 million

Mercialys is thus continuing its arbitrage policy of selling mature or non-strategic assets.
These disposals contributed to Mercialys' refocus on its core business assets: large shopping centres and neighbourhood centres that are leaders in their areas. The asset disposals also contributed to financing the Company's development, allowing it to maintain a sound balance sheet.

Strengthening of the Mercialys financial structure

A new financing structure was implemented in the fourth quarter of 2014.
First of all, Mercialys undertook a bond exchange. The Company successfully implemented a bond issuance totalling Euro 550 million, with maturity of more than eight years and a maturity date at March 31, 2023. The issuance carries a spread of 98bp over the mid-swap rate, and a coupon of 1.787%. This bond issue was oversubscribed by a factor of 4, demonstrating the interest of French investors as well as of investors all across Europe who accounted for more than half of the placement.
At the same time, Mercialys announced the opening of a public offering on its bond issue maturing in March 2019. The offering closed on November 25, 2014.
The nominal amount contributed to the offering totalled Euro 170.3 million.
This bond exchange permitted Mercialys to lengthen its average bond debt maturity.

Moreover, Mercialys restructured its bank financing: increase in the size of the existing RCF to Euro 240 million (with maturity extended to December 2019 as well as a one-year extension option) and improvement in the financial conditions (lower margins and commitment fees). To complete this transaction and diversify its sources of cash, confirmed bank lines totalling Euro 60 million, maturing in three years (with double extension option of one year + one year) were also put in place.
At the same time, Mercialys repaid in advance its Euro 100 million bank debt, which was maturing in February 2015.

These transactions formed part of Mercialys' strategy of strengthening its financial structure, aiming both at extending the maturity of its resources and optimising their costs, while ensuring the repayment of its debt coming due and financing its growth.

2.3. Summary of the main key indicators for the period

	December 31, 2014
Organic growth in invoiced rents	**+4.1%**
EBITDA[12] (in millions of euros)	**Euro 127.7m**
EBITDA/Rental revenues	*84%*
Funds from operations (FFO)	**Euro 102.5m**
Funds from operations (FFO[13]**) per share** (euros)	**Euro 1.12**
Market value of portfolio (including transfer taxes)	**Euro 2,894m**
Change vs. 31/12/2013 (total scope)	*+17.4%*
Change vs. 31/12/2013 (like-for-like)	*+9.4%*
EPRA triple net asset value per share	**18.85 euros**
Change vs. 31/12/2013	*+7.2%*
Loan to Value (LTV) – excluding transfer taxes	**37.4%**

2.4. Review of activity in 2014 and lease portfolio structure

2.4.1 Main management indicators

Mercialys' management indicators remained satisfactory in 2014.

➤ Despite a weak operating environment, footfall at Mercialys' large shopping centres was positive in 2014, up by +1.4% (compared with a cumulative drop of -0.7% for all shopping centres according to the CNCC panel in the same period).
Mercialys again demonstrated the strength of its model. Mercialys shopping centres showed higher levels of activity than the market with a +0.5% growth in sales by retailers at its large shopping centres over the full-year 2014 relative to 2013 (versus -0.6% for the CNCC index for all centres at end-November 2014) thanks to its lease portfolio mix, mainly exposed to the most resilient sectors, and to its long-standing positioning in leading neighbourhood shopping centres in their areas.

➤ Relets, renewals and lettings of new properties remained robust in 2014 with 293 leases signed (compared with 261 in 2013).
Renewals and relets in 2014 generated growth in the annualized rental base of 14% and 28% respectively[14].

➤ The Casual Leasing business (short-term leases) continued to grow strongly over the year, despite asset sales, with invoiced rents up +22% relative to December 31, 2013. Invoiced rents of Euro 6.1 million were recognized in 2014 (compared with Euro 5.0 million in 2013 and Euro 4.3 million in 2012).

[12] Earnings before interest, taxes, depreciation, amortization and other operating income and expenses
[13] Funds from operations – Net income, Group share before depreciation and amortization, capital gains and asset write-downs (per share - fully diluted)
[14] Vacant at last known rent

At the end of 2014, Mercialys had a high level of expired leases, allowing it to continue with its efforts to create value from the portfolio over the next few years.

Lease expiry schedule		**Guaranteed minimum rent (in millions of euros)**	**Share of leases expiring/Guaranteed minimum rent**
Expired at Dec. 31, 2014	375 leases	14.2	9.4%
2015	205 leases	7.4	4.9%
2016	179 leases	9.0	5.9%
2017	125 leases	6.7	4.4%
2018	156 leases	10.3	6.8%
2019	122 leases	7.5	4.9%
2020	247 leases	17.7	11.7%
2021	221 leases	13.8	9.1%
2022	234 leases	19.9	13.1%
2023	145 leases	9.5	6.2%
2024	158 leases	9.7	6.4%
Beyond	51 leases	25.9	17.1%
Total	**2,218 leases**	**151.6**	**100%**

The significant stock of expired leases is due to ongoing negotiations, lease renewal refusals with payment of eviction compensation, global negotiations by retailers, tactical delays, etc.

➤ The recovery rate over 12 months at end-December 2014 remained high at 97.6%, stable relative to June 30, 2014 and December 31, 2013.

➤ The number of tenants in liquidation remained low: 21 tenants out of 2,218 leases in the portfolio at December 31, 2014 (compared with 20 at December 31, 2013).

➤ The current vacancy rate – which excludes "strategic" vacancies designed to facilitate extension/redevelopment plans – remained at a low level. It was 2.4% at December 31, 2014, a 0.1 point improvement relative to June 30, 2014 and 0.2 points relative to December 31, 2013. The rate includes the positive impact of the sale of geographical dispersed assets in late 2014 that included vacant lots.
The total vacancy rate[15] was 2.8% at December 31, 2014, down -1.2 points relative to December 31, 2013 (4.0%) due to the strategic reduction in vacancies resulting from the completion of projects over the course of 2014.

➤ The occupancy cost ratio[16] for tenants stood at 10.3% in large shopping centres, stable relative to December 31, 2013.
This ratio is still relatively low compared with that of Mercialys' peers in France. This 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.

➤ The average gross rental value of Mercialys' portfolio declined by Euro -20 per m^2 over 12 months to Euro 222 per m^2 at December 31, 2014 (versus Euro 242 m^2 at December 31, 2013), as a result of asset sales and mainly the entry into scope of large food stores whose rents per m², given their nature, are lower than those of shopping malls.
Excluding asset acquisitions and sales in 2014, the average gross rental value on a like-for-like basis rose by Euro +18 per m^2 over the 12 months to Euro 260 m^2.

➤ Rents received by Mercialys come from a very wide range of retailers. With the exception of Cafétérias Casino (3%), Casino (21%), Feu Vert (2%) and H&M (2%), no other tenant represents more than 2% of total rental income.
Casino's contribution to total rental income rose from 18% at December 31, 2013 to 25% at December 31, 2014, mainly reflecting acquisitions at Casino in 2014 of large food outlets for transformation (see section 2.6.1 of this report).

[15] [Rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)] in accordance with the EPRA calculation method

[16] Ratio between rent and charges paid by retailers and their sales: (rent + charges gross of tax) / sales gross of tax, of retailers

The table below shows the breakdown of rents between national and local retailers on an annualized basis:

	Number of leases	GMR*+ annual variable 31/12/2014 (in millions of euros)	31/12/2014 in %	31/12/2013 in %
National retailers	1,435	92.4	61%	63%
Local retailers	679	21.9	14%	19%
Cafeterias Casino / Self-service restaurants	39	5.2	3%	5%
Other Casino Group brands	65	32.1	21%	12%
Total	**2,218**	**151.6**	**100%**	**100%**

** GMR = Guaranteed minimum rent*

The breakdown of Mercialys' rental income by business sector also remained highly diversified.
This breakdown at December 31, 2014 was different from that of December 31, 2013, particularly in personal items (+2.2 points) and food/restaurants (-1.9 point), reflecting project completions and disposals in the second half of 2014 – Casino cafeterias in particular – which had an impact on rental mix by business sector.

Breakdown of rental income by business sector excl. food-retail areas (% of rental income)	**31/12/2014**	**31/12/2013**
Personal items	42.1%	39.8%
Food and catering	11.7%	13.6%
Household equipment	9.8%	9.6%
Beauty and health	14.8%	15.3%
Culture, gifts and leisure	17.4%	17.4%
Services	4.1%	4.3%
Total	**100.0%**	**100.0%**

The structure of rental income at December 31, 2014 confirmed the dominant share, in terms of rent, of leases with a variable component:

	Number of leases	In millions of euros	31/12/2014 in %	31/12/2013 in %
Leases with variable component	1,250	89.0	59%	65%
- of which Guaranteed Minimum Rent		*88.0*	*58%*	*64%*
- of which Variable Rent		*1.0*	*1%*	*1%*
Leases without variable component	968	62.6	41%	35%
Total	**2,218**	**151.6**	**100%**	**100%**

Given the entry into scope of large food stores with leases based on guaranteed minimum rents with no variable component, the proportion of leases with a variable rent component as a percentage of total rental income was lower at December 31, 2014 than the same date the previous year.

Leases linked to the ILC index (Retail rent index) made up the predominant share of rents in 2014. The weight of ILC-linked leases as a percentage in total rental income increased sharply from 75% at December 31, 2013 to 84% at December 31, 2014 under the combined effect of sales of geographical dispersed assets that still included a certain number of ICC-linked leases (Construction cost index), and the entry into scope of large food stores whose leases are linked to the ILC.

	Number of leases	In millions of euros	31/12/2014 in %	31/12/2013 in %
Leases linked to the ILC index *(Retail rent index)*	1,419	126.8	84%	75%
Leases linked to the CCI index *(Construction cost index)*	789	24.8	16%	25%
Leases linked to the ILAT index	10	-	-	-
Total	**2,218**	**151.6**	**100%**	**100%**

2.5. Review of consolidated results

2.5.1 Invoiced rents, rental revenues and net rental income

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

Invoiced rents amounted to **Euro 148.8 million** at December 31, 2014, **up +4.1%** due in particular to the organic growth generated in 2014.
On a like-for-like basis, invoiced rents rose by **+3.1%** thanks to the ongoing attention paid by staff to renegotiating higher rents and the development of the Casual Leasing business.

(in thousands of euros)	2014	2013
Invoiced rents	148,755	142,951
Lease rights	4,032	6,008
Rental revenues	**152,787**	**148,959**
Non-recovered service charges and property taxes	-4,611	-4,336
Property operating expenses	-5,072	-5,220
Net rental income	**143,104**	**139,403**

The **+4.1%** improvement in invoiced rents was driven by:
- strong organic growth in invoiced rents: **+3.1 points**, equal to Euro +4.4 million;
- investments and completions of 2013 and 2014 projects: impact of **+7.9 points** on growth in invoiced rents, equal to Euro +11.2 million;
- the effect of asset sales carried out in 2013 and 2014, reducing the rental base: **-6.5 points**, equal to Euro -9.3 million;
- other effects including primarily the strategic vacancy relating to redevelopment programs: **-0.4 point**, equal to Euro -0.6 million.

On a like-for-like basis, invoiced rents rose by **+3.1%,** including:
+0.3 point due to indexation[17]
+1.7 point reflecting actions arising from action taken on the lease portfolio;
+1.2 point reflecting the development of the Casual Leasing business, which accounted for Euro 6.1 million in rents in 2014 (versus Euro 5.0 million in 2013), a +22% improvement over the year despite assets sales. Excluding the impact of asset disposals, sales in this business line rose by +38%.

Cumulative **rental revenues** at December 31, 2014 totaled **Euro 152.8 million**, up **+2.6%** relative to December 31, 2013.

Lease rights and despecialization indemnities received over the period[18] amounted to **Euro 3.3 million,** versus Euro 3.1 million the previous year, broken down as follows:
- **Euro 2.1 million** in lease rights relating to ordinary re-letting business (versus Euro 2.8 million in 2013);
- **Euro 1.2 million** in lease rights relating primarily to the letting of the extensions/redevelopments projects completed at Albertville, Besançon, Clermont and Lanester in 2014 (compared with Euro 0.3 million at December 31, 2013 received primarily from the extension of Ste Marie in La Réunion).

After the impact of deferrals required under IFRS, lease rights recognized in 2014 amounted to Euro 4.0 million compared with Euro 6.0 million in 2013. 2013 benefited in particular from the effect of the deferral of significant lease rights received in both 2011 and 2010.

[17] In 2014, for the majority of leases, rents were indexed either to the change in the construction cost index (CCI) or to the change in the retail rent index (ILC) between the second quarter of 2012 and the second quarter of 2013 (respectively -1.74% and +0.79%).
[18] Lease rights received as cash before the impact of deferrals required under IFRS (deferring of lease rights over the firm period of the lease)

Net rental income

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 rebilled to tenants, together with property operating expenses, which mainly comprise fees paid to the property manager that are not rebilled and various charges relating directly to the operation of sites.

Costs included in the calculation of net rental income came to Euro 9.7 million in 2014 compared with Euro 9.6 million in 2013, up slightly by +1.3%, compared with an increase in gross rents of +4.1%.
The ratio of non-recovered property operating expenses to invoiced rents thus improved to 6.5% at December 31, 2014 versus 6.7% at December 31, 2013. This is attributable to various factors mainly linked to the intrinsic quality of Marcialys' portfolio thanks to its active arbitrage policy on assets.
Due to the increase in invoiced rents, net rental income rose by +2.7% to Euro 143.1 million at December 31, 2014, from Euro 139.4 million at December 31, 2013.

2.5.2 Management revenues, operating costs and operating income

Management, administrative and other activities income

Management, administrative and other activities income comprises primarily fees charged in respect of services provided by certain Mercialys staff - whether within the framework of advisory services provided by the team dedicated to extensions/redevelopments projects that works on a cross-functional basis for Mercialys and the Casino Group, or within the framework of shopping centre management services provided by teams - as well as letting, asset management and advisory fees relating to the partnerships formed with Union Investment and Amundi Immobilier.

Fees charged in 2014 came to Euro 3.0 million versus Euro 3.7 million in 2013.
The year 2013 benefitted from additional income relative to 2014: Euro 0.2 million relating to non-recurring consultancy fees received within the framework of the partnership with the UIR OPCI fund, and Euro 0.5 million of revenue from services provided as part of the "Foncière Commerçante" business.

Property development margin

At December 31, 2014, Mercialys recognized a property development margin of Euro 0.1 million, versus Euro 2.7 million at December 31, 2013.
In 2011, Mercialys and Union Investment - a fund manager highly active in the real estate market - created an OPCI fund designed to invest in mature retail properties. The fund is 80%-owned by Union Investment and 20% by Mercialys. Mercialys operates the fund and is in charge of asset management and lettings.
In 2011, the fund acquired its first asset in Bordeaux-Pessac. Mercialys developed an extension to the shopping mall, comprising 30 new stores, which was delivered to the fund in late November 2012.

At December 31, 2013, Mercialys had recognized an additional margin of Euro 2.7 million corresponding chiefly to earn out payments relating to the letting in 2013 of lots that had been vacant when the extension was delivered to the fund at the end of 2012. In 2014, Mercialys recognized an additional margin of Euro 0.1 million corresponding to reversals of provisions that had no more object.
Mercialys may receive further earn out payments once the remaining lots have been let. The amount of these earn outs will depend on the rent conditions that Mercialys may obtain when those lots are let.
In return for the payment of half of the price of these lots, Mercialys has given the OPCI fund a rental guarantee for a maximum of up to three years from completion of the extension, expiring at the end of 2015.

Other recurring income

Other current income of Euro 1.8 million recognized in 2014 include:
- An indemnity in the amount of Euro 1.5 million in line with contractual obligations in the MOD UB agreement of April 9, 2009 signed with Casino at the Puy site as part of the contribution of assets worth Euro 334 million completed in May 2009. Mercialys received this indemnity given the difference between initially forecast and actual rents and the partial completion of the project;
- dividends received from the OPCI fund created in partnership with Union Investment in the amount of Euro 0.3 million.

In 2013, Mercialys received Euro 0.5 million in dividends from the OPCI fund.
These dividends, similar to net rental revenues, are recognized as operating income.

Other expenses

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

In 2014, these expenses amounted to Euro 10.0 million, versus Euro 7.9 million the previous year, up Euro 2.1 million mainly due to the launch of various projects to boost communication and events at our centres, boost footfall and customer loyalty by using new digital tools, roll out the BREEAM certification programme which adds value to the portfolio, and to strengthen Mercialys' image and positioning.

Staff costs

Staff costs amounted to Euro 10.4 million in 2014, versus Euro 8.9 million in 2013, up +16.7% mainly reflecting the strengthening of teams as part of rolling out new Mercialys projects.

A portion of staff costs are charged back to the Casino Group as part of the advisory services provided by the team dedicated to the extensions/redevelopments programmes, which works on a cross-functional basis for Mercialys and the Casino Group, or as part of the shopping centre management services provided by Mercialys' teams (see paragraph above concerning management, administrative and other activities income).

Depreciation, amortization and provisions

Depreciation and amortization totalled Euro 23.8 million in 2014, versus Euro 24.4 million in 2013. This reduction was mainly due to asset sales carried out in 2013 and 2014.

Other operating income and expenses

Other operating income and expenses include primarily:

- as income, the amount of asset sales and other income relating to asset sales;
- as expenses, the net book value of assets sold and costs associated with these asset sales.

Other operating income came to Euro 270.3 million at December 31, 2014 (versus Euro 172.0 million at December 31, 2013), as a result of:
- sales of assets and shares held in companies carried out in 2014, representing income recognized in Mercialys' consolidated financial statements of Euro 268.5 million (versus Euro 170.5 million at December 31, 2013);
- reversals of commitments given within the framework of asset sales carried out between 2010 and 2013, that have now no object, in the amount of Euro 1.3 million.

Other operating expenses amounted to Euro 198.1 million at December 31, 2014 (versus Euro 123.3 million at December 31, 2013), corresponding primarily to:

- the net book value of assets and shares held in companies sold in 2014 and costs associated with these assets sales: Euro 193.9 million, versus Euro 119.4 million at December 31, 2013; and
- the recognition of other non-recurring expenses in the amount of Euro 1.8 million including severance and structuring costs.

On this basis, the net capital gain recognized in the consolidated financial statements at December 31, 2014 amounted to Euro 73.9 million, versus a net capital gain of Euro 51.7 million the previous year.

Operating income

As a result of the above, operating income came to Euro 176.0 million in 2014, versus Euro 153.8 million in 2013, up +14.4%.
The ratio of EBITDA[19] to rental revenues was 84% as at December 31, 2014 (versus 87% at the end of 2013).
The 2013 ratio benefited from the positive effect of the property development margin of Euro 2.7 million recognized for the year.

[19] E.B.I.T.D.A. (Earnings before interests, tax depreciation, amortization and other operating income and expenses)

2.5.3 Net financial items and tax

Net financial items

Net financial items include:
- as expenses: mainly financial expenses connected with Company's financial structure, net of income from the implementation of the associated interest rate hedging policy (see section 2.5.6.1 Debt).
- as income: financial income from equity investments, as well as interest income on cash generated in the course of operations and deposits from tenants.

At December 31, 2014, Mercialys had a positive cash position of Euro 121.0 million compared with Euro 10.5 million at December 31, 2013.
Net debt was Euro -1,017.6 million at December 31, 2014, versus Euro -741.9 million at the same time the previous year.

It should be noted that Mercialys has changed its debt structure over the course of 2014. A new financing scheme was set up in December 2014, which included a new bond issue in the amount of Euro 550 million (including a Euro 170.3 million exchange on the existing bond) and a rearrangement of bank financing (the size of the existing revolving credit facility increased to Euro 240 million with maturity extended to December 2019, plus the option to extend for a further year). Accordingly, financing terms (margins and commitment fees reduced) have been revised favourably for Mercialys.
To complete this arrangement and diversify its sources of liquidity, additional confirmed bank lines have been set up totalling Euro 60 million maturing in 3 years (with a double option to extend for 1 year + 1 year).
At the same time, the bank loan in the amount of Euro 100 million maturing in February 2015 was repaid early, in December 2014.

Additionally, the Company has adjusted its interest rate hedging policy as a result of setting up the new financing arrangement described above.

It should also be noted that in the first half of 2014, the Company for the first time ever issued commercial paper to optimize its short-term financing. Mercialys' outstanding commercial paper at December 31, 2014 amounted to Euro 129 million.

The table below shows a breakdown of net financial items to 31 December:

in millions of euros	**2014**	**2013**
Income from cash and equivalents *(a)*	0.3	0.4
Cost of debt set up *(b)* (bank loans and bonds) Impact of hedging instruments *(c)* Cost of finance leases *(d)*	-30.6 3.1 -	-32.5 3.0 -0.0
Cost of debt, gross excluding exceptional items	**-**	***-29.5***
Non-recurring amortization of costs due to early repayment of bank loans *(e)*	-0.1	-1.6
Cost of debt, gross *(f) = (b)+(c)+(d)+(e)*	**-27.6**	**-31.1**
Cost of debt, net *(g) = (a)+(f)*	**-27.3**	**-30.7**
Cost of RCF (undrawn) *(h)* Other financial expenses *(i)*	-1.2 -0.5	-2.3 -0.0
Other financial expenses excluding exceptional items (j) = (h)+(i)	***-1.7***	***-2.3***
Non-recurring amortization of costs in relation to refinancing of the RCF *(k)*	-	-0.8
Other financial expenses *(l) = (j)+(k)*	**-1,7**	**-3.2**
TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*	**-29.3**	**-34.2**
Income from equity investments Other financial income	4.8 0.3	1.6 0.2
Other financial income (n)	**5.1**	**1.8**
TOTAL FINANCIAL INCOME (o) = (a)+(n)	**5.4**	**2.2**
NET FINANCIAL ITEMS = (m)+(o)	**-23.9**	**-32.1**

a) Financial expenses and average cost of debt

Financial expenses amounted to Euro 29.3 million at December 31, 2014 versus Euro 34.2 million at December 31, 2013, the reduction mainly due to the impact of early repayments of bank loans in 2013 (Euro 250 million of bank loans was repaid in 2013, of which Euro 157 million in the first half of the year). These repayments reduced the outstanding debt and therefore the interest recognized in 2014. The year 2013 was also adversely impacted by the non-recurring amortization of costs related to bank debt (Euro 1.6 million) arising from early repayments of that debt. Costs paid at the time of these loans were taken out are spread out over the term of the loan. In the event of early repayment, residual costs are amortized in proportion to the amount of debt repaid.
Financial expenses in 2013 were also adversely impacted by the non-recurring costs relating to the revolving credit facility (Euro 0.8 million), in connection with the early refinancing of this facility on January 20, 2014 (see section 2.5.6.1 Debt).

Additionally, the replacement on January 20, 2014 of the original Euro 200 million revolving bank line of credit by a lower limit of Euro 150 million plus the negotiation of lower fees for the commitment fee has reduced the cost of this line (undrawn) in 2014. This revolving bank line was up-scaled to Euro 240 million (ie +Euro 90 million) at end-2014.

The average real cost of debt drawn during 2014 amounted to 3.1% (versus 3.5% at June 30, 2014, and 3.6% at December 31, 2013 excluding non-recurring items, ie costs relating to early debt repayments in 2013).
The new financing arrangement set up in December 2014 (see section 2.5.6.1 Debt), that includes a new bond issue and a rearranged bank financing, enables to optimize the average cost of debt.
The cost of debt calculated on the basis of the spot rates of the new financing and hedging arrangement set up in 2014 was 2.2% at December 31, 2014.

b) Financial income

Financial income amounted to Euro 5.4 million at December 31, 2014, versus Euro 2.2 million at December 31, 2013. It was favourably impacted in 2014 by the proceeds of the sale of Mercialys' stake in Green Yellow (a company that develops photovoltaic power plants) in the amount of Euro 4.8 million.
Mercialys bought a 5.25% stake in Green Yellow in 2009; the amount invested was Euro 458 thousand. This stake remained unchanged since that date and allowed Mercialys to benefit from the value creation generated by Green Yellow as part of its business developing photovoltaic power plants. In the less favourable context for the development of that business due to less attractive tariff terms, Mercialys considered it timely to sell its stake, which allows it to release resources that can be reinvested in its core business.

As a result, net financial items represented a net financial expense of Euro 23.9 million at December 31, 2014 compared with a net financial expense of Euro 32.1 million at December 31, 2013.

Tax

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 60% of gains on the disposal of real estate assets are distributed to shareholders. To that must be added deferred taxes.
Tax expense in 2014 was recorded as Euro 1.0 million mainly consisting of the Business Value Added Contribution (CVAE), versus a net tax income of Euro 0.7 million for 2013.

Share of net income of associates

Mercialys pre-empted the implementation of IFRS 10, 11 and 12 for the year ended December 31, 2013. Joint-ventures (namely SCI Geispolsheim and Corin Asset Management), which were previously proportionally consolidated, qualify as associated companies according to the IFRS 11 definition and have therefore been consolidated under the equity method.
Similarly, SCI AMR, the company created in partnership with Amundi Immobilier in 2013, and Aix2, of which Mercialys acquired 50% in December 2013 and that is developing the extension of the Aix-en-Provence shopping mall, are also considered as associated companies and are therefore consolidated under the equity method. Fenouillet Participations, a company created in partnership with Foncière Euris at end-2014, is also consolidated under the equity method.

Mercialys' share of the profits of associates at December 31, 2014 amounted to Euro 1.3 million, versus Euro 1.0 million at December 31, 2013. In 2014 Mercialys benefitted fully from its share of earnings from SCI AMR which started operating in late April 2013 when it acquired its current assets, and from its share in SNC Aix2 which launched its rental business in May 2014 with the completion of the first phase of the project.

Net income

Net income amounted to Euro 152.4 million at December 31, 2014, versus Euro 123.4 million at December 31, 2013, mainly as a result of the capital gains on asset sales in 2014 and the positive impact of the sharply improved net financial items at December 31, 2014 compared to December 31, 2013.
Minority interests were not significant. Net income, Group share, was Euro 152.4 million in 2014, versus Euro 123.4 million in 2013.

Funds from operations (FFO)

Funds from operations, which corresponds to net income adjusted for depreciation and amortization, capital gains on asset sales and associated costs, any asset write-downs, as well as the additional contribution to tax of 3%, amounted to Euro 102.5 million (versus Euro 96.2 million in 2013) up +6.5%, chiefly due to the improvement in net financial items compared with 2013, mainly due to the recognition of proceeds from the disposal of Green Yellow in the net amount of Euros 4.3 million. Excluding those proceeds, FFO grew by +2.0%.

On the basis of the weighted average number of shares (fully diluted) at December 31, funds from operations per share amounted to Euro 1.12 per share at December 31, 2014, versus Euro 1.05 per share at December 31, 2013, representing an increase in funds from operations per share on a fully diluted basis of +6.6%.

FFO can be broken down as follows:

in thousands of euros	**At 31/12/2014**	**At 12/31/2013**	**Change**
Rental revenues	152,787	148,959	
Property operating expenses	(9,683)	(9,556)	
Management revenues	3,017	3,672	
Allowance for provisions for liabilities and charges	126	(477)	
Staff costs	(10,424)	(8,929)	
Other expenses	(9,997)	(7,887)	
Property development margin	118	2,741	
Other recurring income and expenses	1,845	472	
Other operating income (not linked to asset sales and excluding reversals of asset impairments)	94	165	
Other operating expenses (not linked to asset sales and excluding reversals of asset impairments)	(1,824)	(2,511)	
Net financial items (excluding proceeds from the sale of Green Yellow)	(28,187)	(32,092)	
Tax	(1,016)	702	
Share of net income of associates	1,346	1,005	
Minority interests excluding depreciation&amortization and capital gains	(38)	(37)	
FFO Excluding proceeds from the sale of Green Yellow stake	**98,165**	**96,227**	**+2.0%**
Net income from the proceed of Green Yellow stake	4,332		
FFO	**102,497**	**96,227**	**+6.5%**
FFO / share (Euro)- Fully diluted	***1.12***	***1.05***	***+6.6%***

2.5.4 Cash flow

Cash flow is calculated by adding back depreciation, amortization and impairment charges and other non-cash items to net income. Income and expenses not representative of cash flow and net capital gains are not included in the calculation of cash flow.

Cash flow rose by +1.3% to Euro 99.0 million at December 31, 2014, from Euro 97.7 million at December 31, 2013.

Cash flow per share was Euro 1.08 at December 31, 2014, based on the weighted average number of shares on a fully diluted basis, versus Euro 1.06 per share at December 31, 2013, an increase of +1.4%.

2.5.5 Number of shares outstanding

	2009	2010	2011	2012	2013	2014
Number of shares outstanding - At January 1 - At December 31 Average number of shares outstanding	 75,149,959 91,968,468 85,483,530	 91,968,488 92,000,788 91,968,488	 92,000,788 92,022,826 92,011,241	 92,022,826 92,022,826 92,022,826	 92,022,826 92,049,169 92,038,313	 92,049,169 92,049,169 92,049,169
Average number of shares (basic)	**85,360,007**	**91,744,726**	**91,865,647**	**91,884,812**	**91,734,656**	**91,826,157**
Average number of shares (diluted)	**85,420,434**	**91,824,913**	**91,892,112**	**91,953,712**	**91,865,817**	**91,826,157**

2.5.6 Financial structure

2.5.6.1 Debt

a) The Group had **cash** of Euro 121.0 million at December 31, 2014, versus Euro 10.5 million at the same time the previous year. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:

- the change in gross debt: Euro +409 million. The main components of the change being bond issue: Euro +550 million; bond exchange on the existing line: Euro -170 million; repayment of bank debt: Euro -100 million; issues of commercial paper net of repayments: Euro +129 million
- bond redemption premium: Euro -25 million;
- cash flows generated over the period: Euro +99 million;
- cash receipts on asset sales carried out in 2014: Euro +37 million;
- cash payments relating to assets acquired in 2014: Euro -298 million;
- dividend payments to shareholders: Euro -108 million;
- net interest paid: Euro -27 million;

b) At December 31, 2014, **debt drawn** by Mercialys amounted to Euro 1,158.7 million, consisting of:

> Euro 1,029.7 million in the form of bond financing split into 2 lines:

- a bond issue in the amount of Euro 550 million at December 2, 2014 at a fixed 1.787% maturing in 8 years 4 months (March 2023);

- a residual bond issue in the amount of Euro 479.7 million (Euro 650 million offered in March 2012, partially redeemed in December 2014) at a fixed 4.125% maturing March 2019.

On November 18, 2014, Mercialys launched a bond exchange offer. The Company successfully placed a Euro 550 million bond issue. This bond issue was oversubscribed by a factor of 4, demonstrating the interest of French investors as well as of investors all across Europe who accounted for more than half of the placement.
At the same time, Mercialys announced the opening of an offer to redeem its bond maturing in March 2019 (Euro 650 million). The redemption offer closed on November 25, 2014.
The nominal value of the offer amounted to Euro 170.3 million, and Euro 195 million after the exchange premium.
This bond exchange transaction extends the average maturity of Mercialys' bond debt by 4.2 years to 6.4 years.

> Euro 129 million, outstanding commercial paper paying between 0.1% and 0.3%.

It should be noted that Mercialys early-repaid its bank debt of Euro 100 million in December 2014. This bank debt was due in February 2015 and carried interest at the 3-month Euribor rate + 225bp.

The bank loan originally set up on February 23, 2012 was Euro 350 million. This was reduced to Euro 193 million on June 30, 2013, and then to Euro 100 million on July 5, 2013 as a result of a number of early repayments made over the period totalling Euro 250 million, mainly following asset sales carried out in 2012 and during the first half of 2013. After an early repayment of Euro 100 million in December 2014, bank debt drawn was zero at December 31, 2014.

The average maturity of drawn debt was 5.7 years at December 31, 2014 (versus 3.9 years at June 30, 2014 and 4.7 years at December 31, 2013).

c) **Net debt** was Euro -1,017.6 million at December 31, 2014, versus Euro -741.9 million at the same time the previous year.

d) Additionally, Mercialys set up **financial resources** that will be used to finance ordinary business activities and the cash requirements of Mercialys and its subsidiaries, and to ensure a comfortable level of liquidity:

- a Euro 240 million revolving bank line of credit (increasing, extending and amending the Euro 150 million RCF set up in January 2014) maturing in 5 years (with the option to extend for 1 year). This line carries interest at the 3-month Euribor rate + 115bp. When not drawn, it carries a non-use fee of 0.46% (for a BBB credit rating).
- confirmed bank lines of credit in the amount of Euro 60 million set up in December 2014 maturing in 3 years (with double extension option of one year + one year). These lines carry interest at a rate inferior to 100bp above the 3-month Euribor rate (for a BBB credit rating).
- cash advances from Casino up to a threshold of Euro 50 million subject to an interest rate comprised between 60 and 85 basis points above Euribor. This line, originally expiring on December 31, 2015, has been extended to December 31, 2017.
- a commercial paper program of Euro 500 million was set up in the second half of 2012. As at December 31, 2014, the amount issued was Euro 129 million.

With the exception of the commercial paper issue, no financial resources had been used as at December 31, 2014.

Note that the revolving banking credit line of Euro 200 million on December 31, 2013 was subject to early refinancing on January 20, 2014 and replaced by a new line of revolving credit for an amount of Euro 150 million with a maturity of 5 years. This facility bore interest at 3-month Euribor + 140bp. It gave rise to the payment of a commission of 0.56% in case of non-drawing (for a financial rating of BBB). This resource was not used in 2014.

e) In addition, Mercialys introduced an **interest rate hedging policy** in October 2012. Mercialys uses derivatives (swaps) to spread out its interest rate risk over time. The rate hedging system was adapted at the end of 2014 following the refinancing operations conducted in December 2014 described above. Mercialys' debt structure broke down as follows as at December 31, 2014: 60% fixed-rate debt and 40% variable-rate debt.

f) The **average real cost of debt drawn** in the financial year 2014 amounted to 3.1% (versus 3.5% at June 30, 2014, and 3.6% at December 31, 2013 excluding non-recurring items, namely the costs relating to early debt repayments occurred in 2013).
The cost of the debt calculated on the basis of spot rates of the new financing and hedging mechanism set up at the end of 2014 was 2.2% at December 31, 2014.

g) **Covenants:** At December 31, 2014, the net debt ratio/market value of assets excluding transfer taxes (LTV: Loan To Value) stood at 37.4%, well below the contractual covenant (LTV < 50%):

	31/12/2014	**31/12/2013**
Net debt (in millions of euros)	1,017.6	741.9
Appraisal value excluding transfer taxes (in millions of euros)	2,723.0	2,335.9
Loan To Value (LTV)	**37.4 %**	**31.8 %**

Similarly, the ratio of EBITDA / cost of net debt (ICR: Interest Cost ratio) stood at 4.7, well above the contractual covenant (ICR > 2):

	31/12/2014	31/12/2013
EBITDA (in millions of euros)	127.7	129.5
Cost of net debt	-27.3	30.7
Interest Cost Ratio (ICR)	**4.7**	**4.2**

The two other bank covenant requirements are also respected:

- the market value of properties excluding transfer taxes as of December 31, 2014 amounted Euro 2.7 billion (above the contractual covenant that sets a market value excluding transfer taxes of over Euro 1 billion)
- a ratio of secured debt / market value excluding transfer taxes of less than 20%. Mercialys had no secured debt as at December 31, 2014.

2.5.6.2 Change in shareholders' equity

Consolidated shareholders' equity was Euro 783.5 million at December 31, 2014 compared with Euro 740.4 million at December 31, 2013. The main changes in this item during the year were:
- Net income for 2014: Euro +152.4 million
- Payment of the final dividend in respect of the 2013 financial year of Euro 0.82 per share: Euro -75.3 million
- Payment of a 2014 interim dividend of 0.36 euro/share: Euro -33.0 million

2.5.6.3 Dividends

The balance of the 2013 dividend paid on May 9, 2014 amounted to Euro 0.82 per share, for a total amount of distributed dividends of Euro 75.3 million fully paid in cash.

On July 22, 2014, the Board of Directors decided to pay an interim dividend for the financial year 2014 of **Euro 0.36 per share** which was paid on October 14, 2014, for a total interim distributed dividend of Euro 33.0 million fully paid in cash.

In accordance with SIIC tax rules, the minimum distribution requirement in 2014 is Euro 113.8 million.

On February 11, 2015, the Board of Directors proposed, subject to approval by the general shareholders' meeting of May 5, 2015, to pay a dividend in respect of 2014 amounting **Euro 1.24 per share**, including the interim dividend of Euro 0.36 per share already paid in october 2014, ie 100% of distributable earnings according to the SIIC status.
This dividend represents a yield of 6.6% relative to the Mercialys NAV per share on December 31, 2014 (Euro 18.85 per share).

2.6. Changes in the scope of consolidation and valuation of the asset portfolio

2.6.1 Acquisitions of assets

2014 has also been a year of sharp shifting in external growth.
The acquisitions made in 2014 amounted to Euro 485 million inclusive of transfer taxes.

> As part of its strategy to develop global and unique retail venues, Mercialys launched in the first half of 2014 a project to redevelop and extent its Toulouse-Fenouillet shopping centre which will thus become a leading regional site in the city of Toulouse.
This development project will be completed in two phases:

- the creation of a retail park of 9 medium sized stores, adjacent to the existing site, with a GLA of 24,400 m². Work started in the summer of 2014 for a scheduled opening in June 2015;

- the extension of the existing shopping mall and the redevelopment of a part of the large food store: 13 medium sized stores and 47 new shops will be developed across a total area of 24,300 m², along with 13 restaurants. This second phase is due to open around year-end 2016. Note that administrative authorisation was obtained to implement a cinema, which will then complete the site's leisure offerings; administrative authorisation was also obtained for a retail park to be developed by a partner in the medium-term.

This project represents an estimated investment of over Euro 180 million including Euro 64 million already invested by Mercialys in 2014 to:

- acquire from Casino the land necessary to develop the retail park and the rights to build for the whole project (through the acquisition of the company Fenouillet Immobilier),
- acquire the freehold of the large food store in order to bring together all ownership rights with a view to making the site more marketable and facilitating the completion of the project (annual rent: Euro 2.0 million)

At the end of these two phases, the regional shopping centre in Toulouse de Fenouillet will cover an area of 70 000 m² and will include a Géant large food store and over 120 shops. An outdoor recreational and dining area will be provided at the heart of the commercial centre consisting of the retail park, the shopping mall and the hypermarket. The commercial complex will be enhanced by 1,500 to 2,000 m² of space for additional services and casual retailers, both inside the mall and in the outdoor car parks.

The work on phase 2 (extension of the shopping mall) will begin in mid-2015. Mercialys has entered into a partnership with Foncière Euris to carry out this work, through a company majority-owned by Foncière Euris. This operation thus allows Mercialys to optimize its financial resources. Mercialys has a purchase option on phase 2 – on a fair value basis – that may be exercised upon the opening of the shopping centre, under price conditions that remain unchanged relative to the initial plan. If Mercialys decides to exercise its purchase option, the investment relative to the phase 2 would represent an amount of Euro 118 million (of which Euro 17 million have already been committed).

> Mercialys has also launched new projects to transform its shopping centres for the purpose of setting up new shops in the areas dedicated to food retail, as well as new trade areas on the sites in line with its strategy to develop global and unique retail venues.

Thus in the first half of 2014, Mercialys acquired:

- 4 large food stores at the sites of Brest, Monthieu, Niort and Rennes, effective from January 1st, 2014, and
- a portfolio of service and restaurant areas on the parking areas in 5 sites.

These acquisitions amount to Euro 144 million inclusive of transfer taxes and Euro 7.8 million in rents for a full year before redevelopment.

At the end of 2014, Mercialys purchased 8 new large food stores to be transformed on the sites of Aix-en-Provence, Angers, Anglet, Annecy, Fréjus, Gassin, Nîmes and Quimper. These acquisitions represented an amount of Euro 278 million inclusive of transfer taxes and Euro 15.2 million in rents on a full-year basis before redevelopment.

Mercialys target is to reach an internal rate of return of 8% to 10% after redeveloping the assets.

2.6.2 Completions of extensions or redevelopment projects and Villages.Services©

In the course of 2014, the implementation of projects to extend shopping malls has continued. These developments have helped Mercialys to make its shopping centres more attractive and diversify its offering, with the addition of new retailers and new concepts in 2014.

Ten programs were completed in 2014 representing an amount of work invested in 2014 of Euro 37 million. These project completions fuel the growth of Mercialys:

- A retail park, developed on 2,200 m², opened in Albertville. It hosts 6 new shops and medium sized stores including a Picard store. The opening of this retail park was accompanied in the second half of 2014 by a redevelopment of the shopping mall.
- The sites of Lanester, Aix-en-Provence, Besancon, Clermont-Ferrand and St Paul in La Réunion island also benefited from an extension of their shopping mall which boosted the commercial strength of these sites.

Note that the completion of a second extension phase is planned in March 2015 on the site of Aix-en-Provence to further strengthen the attractiveness of the shopping centre.

- The sites of Nîmes, Albertville and Angers were enhanced by new shops thanks to the redevelopment of former medium sized stores (former Boulanger in Nîmes, former cafeteria in Albertville and former But in Angers).
- Finally, in Annemasse, Décathlon was extended on space acquired from the anchored hypermarket.

These developments represent 116 new stores, a full-year rental value of Euro 8.1 million and a GLA of 26,100 m² of newly created or redeveloped space, and a total investment of Euro 110 million.
These investments contribute to make the Company's shopping malls more attractive and to diversify its offering, and will be accompanied by a development in the Casual Leasing business.

In November and December 2014, Mercialys also inaugurated in Clermont-Ferrand, Niort and Sainte Marie in La Réunion island its innovative concept of Villages.Services©. These service villages are a new type of additional and differentiating retail offering, they allow for the implementation of over 300 m² of additional commercial areas on each of the sites facing the main entrance of the centres, and offer service activities on the customer pathway.
The concept has several objectives:
- to create around ten complementary small sized areas
- continue to provide traditional service activities on the site: dry-cleaning, florist, caterer, automotive services...
- establish differentiating activities: automated online order collection such as InPost, food truck...
- provide development opportunities for local independent contractors
- strengthen the societal dimension of the centres by establishing several Maisons des Associations (Associations)
- enhance the customer experience with a new format that creates a link between the area outside the centre and the shopping mall.

The plan for opening the Villages.Services© will continue in 2015, with the implementation of around 10 sites.

2.6.2 Asset disposals

During the year 2014, Mercialys sold 56 assets and an investment stake for a total amount of Euro 262 million (inclusive of transfer taxes). The Company also sold shares hold in the company SNC Fenouillet for an amount of Euro 10.9 million in the framework of the partnership with Foncière Euris to develop the Toulouse Fenouillet project (refer to part 2.6.1).

Mercialys has continued its arbitrage policy of mature or non-strategic assets.
This program of asset sales coupled with the completions of extensions/redevelopments projects has helped to increase the intrinsic quality of the portfolio by keeping assets presenting potential for value creation and refocusing the portfolio on assets that fit in with the company's strategy. These assets sales have contributed to refocusing Mercialys on its core business assets: large shopping centres and neighbourhood shopping centres leaders in their areas. The disposals of assets also contribute to financing the development of the Company, enabling to maintain a sound balance sheet.

These disposals are broken down into:
> 5 large food stores (acquired in 2009) located in Paris and Marseilles sold in the first half of 2014: Paris St Didier, Paris Massena, Marseille La Valentine, Marseille Delprat and Marseille Michelet. These 5 assets having reached maturity, they have been sold to Casino which expressed its interest to acquire them for an amount of Euro 170.7 million.

> A portfolio of 43 assets sold to Casino in December 2014 for a total amount of Euro 81.4 million and including:
- 17 cafeterias operated by the Casino Group. These cafeterias displayed a limited reversionary potential or were part of sites which Mercialys was in any case disposing of.
- 21 assets distributed on sites of limited size (1,400 m² on average) that do not allow the development of global and unique retail projects, and have limited reversionary potential.
- 5 projects acquired in 2009 transferred back under the contractual conditions originally laid down.

> 8 standalone lots located in Arcis-sur-Aube, Exincourt, Gap, Millau, St Martin d'Heres, Grenoble, Roanne and Albertville for a total disposal amount of Euro 4.4 million

> Mercialys also received a Euro 0.4 million earn-out payment from the 2013 sale of four shopping centres to the fund set up in partnership with Amundi Immobilier, following the sale of vacant lots in the first half of 2014.

> In addition, during the first half year, Mercialys sold its investment stake in GreenYellow (a company that develops photovoltaic power units) for an amount of Euro 4.8 million (refer to section 3.3 b. of this report).

The assets sold in 2014 represent an amount of gross rents of Euro 16.2 million on a full-year basis.
The total net capital gain recognized at December 31, 2014 amounted to Euro 73.9 million.

> Finally, in the course of the second half of 2014, Mercialys sold the shares of the company SNC Fenouillet Immobilier (holder of the rights to build on the Toulouse Fenouillet project) to the company created in partnership with Foncière Euris (refer to part 2.6.1 of this report) for an amount of Euro 10.9 million in the Mercialys consolidated accounts.

2.6.3 Appraisal valuations and changes in the scope of consolidation

At December 31, 2014, BNP Real Estate Valuation, Catella and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 44 sites as at December 31, 2014, on the basis of a visit to 5 of the sites during the second half of 2014, and on the basis of an update of the appraisals conducted at June 30, 2014, for the other sites. 7 site visits were carried out during the first half of 2014.
- Catella conducted the appraisal of 17 sites as at December 31, 2014, on the basis of a visit to 1 of the sites during the second half of 2014, and on the basis of an update of the appraisals conducted at June 30, 2014, for the other sites.
- Galtier conducted the appraisal of 5 sites as at December 31, 2014, on the basis of a visit to 3 of the sites during the second half of 2014, and on the basis of an update of the appraisals conducted at June 30, 2014, for the other sites.

Sites acquired during 2014 were valued as follows as at December 31, 2014:

- ✓ The Toulouse Fenouillet project acquired in the first half of 2014 has been valued on an internal update basis.
- ✓ The 5 large food stores freeholds (Brest, Monthieu, Niort, Rennes and Toulouse) as well as the lots of new retail areas acquired in the first half of 2014 have been valued by means of inclusion in the overall valuation of the site.
- ✓ The 8 large food store freeholds acquired in December 2014 have been valued at their purchase price.

On this basis, the portfolio was valued at Euro 2,893.6 million including transfer taxes at December 31, 2014, compared with Euro 2,464.9 million at December 31, 2013.
The value of the portfolio therefore increased by +17.4% over 12 months (+9.4% on a like-for-like basis[20]).
The average appraisal yield was 5.6% on December 31, 2014, compared to a rate of 5.7% at June 30, 2014 and 5.85% at December 31, 2013.

The Euro +429 million rise in the market value of properties over 12 months therefore stemmed from:

- ✓ an increase in rents on a like-for-like basis: Euro +128 million[21];
- ✓ a lower average capitalization rate: Euro +80 million;
- ✓ changes in the scope of consolidation: Euro +221 million.

Note that the contribution of the Casual Leasing activity to value creation is significant since it represents Euro 107 million in the appraisal value at December 31, 2014 while involving no counterparty investments.

	Average capitalization rate 31.12.14	**Average capitalization rate** 30.06.14**	**Average capitalization rate** 31.12.13**
Regional/Large shopping centres	5.3%	5.4 %	5.5 %
Neighbourhood shopping centres	6.5%	6.5 %	6.7 %
Total portfolio*	5.6%	5.7 %	5.85 %

(*) Including other assets (large food stores, large specialty stores, independent cafeterias and other standalone sites)
(**) Including extensions in progress acquired in 2009

[20] Sites on a like-for-like GLA basis
[21] Includes the revaluation of the projects to be redeveloped acquired in December 2013

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset at December 31, 2014, as well as corresponding appraised rents:

Type of property	Number of assets at Dec. 31, 2014	Appraisal value at Dec 31, 2014 (in Euro million)	(%)	GLA at Dec. 31, 2014 (m²)	(%)	Appraised net rental income (in Euro million)	(%)
Regional/Large shopping centres	25	2,247.0	78%	539,700	74%	119.6	74%
Neighbourhood shopping centres	34	628.5	22%	181,700	25%	40.8	25%
Sub-total shopping centres	**59**	**2,875.6**	**99%**	**721,400**	**99%**	**160.4**	**99%**
Other sites(1)	7	18.0	1%	10,400	1%	1.2	1%
Total	**66**	**2,893.6**	**100%**	**731,800**	**100%**	**161.6**	**100%**

(1) Large food stores, large specialty stores, independent cafeterias, other (service malls, convenience stores)

NB: Large food stores: gross leasable area of over 750 m2
Large specialty stores: gross leasable area of over 750 m²

2.7. Net asset value calculation

NAV is calculated as follows:

NAV (in millions of euros)	**31/12/2014**	31/12/2013	Change 2014 vs 2013
Shareholders' equity – Attributable to the Group	**783.1**	**739.9**	
Effect of exercising of options, convertible bonds and other equity securities	-	-1.1	
Add back deferred income and charges	4,1		
Unrealized gains on assets (excluding transfer taxes)	**957.0**	**876.8**	
Updated market value (excluding transfer taxes)	*2,723.0*	*2,335.9*	
Consolidated net book value	*-1,766.0*	*-1,459.1*	
Fair value of unhedged debt	**-13.6**	**-0.4**	
EPRA NNNAV	**1,730.6**	**1,615.3**	
Per share (in euros) – fully diluted	**18.85**	**17.58**	**+7.2%**

NB: Details of how EPRA NAV and EPRA triple net NAV are calculated are provided in section 2.11.

2.8 Outlook

In 2014 Mercialys was starting a new strategic phase based on a 360-degree vision of its sites with the objective of developing different retail approaches that are different from and complement existing "traditional" retail areas, while continuing to redevelop its shopping centres, and benefitting from its links with its partners, foremost among which is Casino Group.

Mercialys has two main objectives:

- Develop the commercial potential of each site by addressing the asset as a whole: continue developing projects to extend and redevelop existing areas while optimizing adjacent land, move medium sized stores to parking areas in order to create additional rental value, and create new, complementary retail concepts for retailers.
- Focus on the customer: attract new formats and concepts and new retailers, to diversify the retail offering and meet current and future customer needs.

The year 2014 was marked by the implementation of this strategy. Mercialys has thus:

- continued the development of extensions of its shopping malls through redevelopments of large and medium sized stores and by expanding into car parks. Ten projects have been completed and new projects have been launched which will fuel growth in rents in 2015;
- strengthened its Casual Leasing activity whose rents increased by +22% in 2014 relative to 2013 and reached Euro 6.1 million at December 31, 2014;
- launched the development of outdoor areas, the Villages.Services©, dedicated to daily service activities combining a modern and economical construction method with rents appropriate to these activities which have for a long time been moving out of malls, lacking at being profitable enough. Three Villages.Services© thus opened in late 2014 in Clermont-Ferrand, Niort and in Ste Marie in La Réunion island.

Mercialys is a transformer of retail assets, aiming at optimizing space, enabling malls to reach critical mass by increasing their average size, but also developing a more dense and diverse retail offering. Through this policy, the Company is making its malls more appealing, driving higher footfall and revenue for retailers, and increasing rental income of the portfolio.

Mercialys will continue to increase the value of its portfolio and its cash flows, in order to generate long-term returns for shareholders.

2.8.1 Investment outlook

After the 38 projects already completed from 2010 to 2014, Mercialys has reconstituted a substantial 3-year development pipeline - including the launch of 13 projects of extensions, redevelopments and renovations - with an objective of internal rate of return of 8% to 10%.

Several redevelopment projects have thus been defined for the large food stores acquired during 2014.
In this framework, the proposed works at this stage under the redevelopment projects amount to approximately Euro 30 million for the 4 large food stores acquired in the first half of 2014, creating more than 9,000 m² of additional shopping areas and approximately Euro 2.6 million of additional net rents on an annual basis, with an expected rate of return of 8.8%. The openings are planned in 2015 and 2016.
The works under the redevelopment projects for the 8 large food stores acquired in December 2014 should amount to approximately Euro 28 million, creating almost 20,000 m² of additional space shopping and approximately Euro 2.4 million of additional net rents on an annual basis, with an expected rate of return of 8.3%. The openings are planned for 2016 and 2017.

In addition, the 2 development phases of the Toulouse Fenouillet site amount to a total investment of Euro 152 million if Mercialys exercises its option to purchase the shares of the society created in partnership with Foncière Euris (refer to part 2.6.1), including Euro 122 million to be committed. The net rents estimated under the project as a whole amount to Euro 9.3 million on an annual basis, for an overall rate of return of 6.1%.

In total, the investments to be completed under the large food stores operations and the development of phases 1 and 2 of Toulouse Fenouillet amount to approximately Euro 210 million if Mercialys exercises its purchase option, including Euro 180 million to be committed and should generate about Euro 14.3 million of annualized net rents, for an expected total rate of return of the controlled pipeline of 6.8%.

In 2015, 2 project completions are planned on the Brest and Niort sites in the fourth quarter. The offer of these centres will be enhanced by the implementation of new anchors, which will develop even more the attractiveness of these centres.

2.8.2 Business Outlook

The solid performance achieved in 2014 confirms the relevance of Mercialys' business model:

- A strong positioning around the proximity to customers and brands
- Growth and resilience thanks to a favorable mix in terms of potential for increasing rents and secured external growth through the reconstitution of a substantial controlled development pipeline

In 2015, Mercialys has set the following objectives:

- continuing robust organic growth with an objective of like-for-like growth in invoiced rents of at least +2.0% above indexation compared with 2014;
- growth in funds from operations (FFO) per share of +2% compared with 2014.

2.9 Subsequent events

There have been no significant events subsequent to the balance sheet date.

2.10 Review of the results of the parent company, Mercialys SA

(in millions of euros)	**2014***	Financial Year 2013*
Rental revenues	**129. 2**	126. 1
Net income	**126. 6**	146. 0

(*) Parent company financial statements

2.10.1 Activity of society

Mercialys SA, the parent company of the Mercialys Group, is a real estate company that has opted for the Sociétés d'Investissements Immobiliers Cotées (SIIC - Real Estate Investment Trust) tax regime. It owns 62 of the 66 retail properties owned by the Mercialys Group and holdings in:
- real estate subsidiaries of the Company (holding 4 retail properties: Brest, Caserne de Bonne, Istres, Narbonne, 6 extensions on existing sites: Annecy, Castres, Le Puy, Ste Marie and Fréjus, Albertville),
- two management companies: Mercialys Gestion and Corin Asset Management;
- 50% of rights in a company acquired in December 2013 concerning an asset under development at an existing site (Aix-en-Provence);
- 20% of rights in an OPCI fund created in 2011 in partnership with Union Investment;
- 43% of rights in a SCI company created in 2013 in partnership with Amundi Immobilier owning four shopping malls.

Mercialys SA's revenues consist primarily of rental revenues from properties and its equity investments and subsidiaries, as well as interest earned on the Company's cash, to a marginal extent.

2.10.2 Review of the financial statements

In 2014, Mercialys SA generated Euro 129.2 million in rental revenues and Euro 126.6 million in net income.
As the Company owns almost all the retail assets owned by the Mercialys Group as a whole, information about the main events affecting the Company's activity in 2014 can be found in the business review section of the management report on the consolidated financial statements for the Mercialys Group.
The notes to the financial statements set out the significant accounting policies used by the Company and provide disclosures on the main balance sheet and income statement items and their change over the year.

Total assets at December 31, 2014 amounted to Euro 2,023.5 million, including

- ✓ net fixed assets of Euro 1,671.1 million; and
- ✓ net cash of Euro 124.2 million

Shareholders' equity was Euro 727.1 million at December 31, 2014 compared with Euro 707.9 million at December 31, 2013.

The main changes in this item during the year were:
- Net income for 2014: Euro +126.6 million
- Payment of the final dividend in respect of the 2013 financial year of Euro 0.82 per share: Euro -75.3 million
- Payment of an interim dividend of 0.36 euro/share for 2014: Euro -33.0 million

The table below gives a breakdown of current trade payables, in thousands of euros, established in accordance with the provisions of article L. 441-6-1 of the French Commercial Code:

At December 31, 2014	1 to 30 days before due date	From 31 to 60 days before due date	From 61 to 90 days before due date	> than 91 days before due date	Due	Total
Trade accounts payable and accruals						**24,579**
Trade payables	*6,194*	*1,131*	*-*	*-*	*1,043*	***8,368***
Accruals						***16,211***
Total trade payables and accruals on assets						**6,193**
Trade payables on assets	*2,029*	*51*	*-*	*-*	*292*	***2,372***
Accruals						***3,821***

The breakdown of current trade payables at end-2013 is available in the Group's 2013 shelf-registration document.

2.11 EPRA performance measures

2.11.1 EPRA earnings and earnings per share

EPRA earnings was up +2.2% at December 31, 2014 relative to December 31, 2013.

Calculation of EPRA earnings and earnings per share *(in millions of euros)*	**2014**	2013[22]	Comments
FFO (see calculation on part 2.5.3)	**102.5**	**96.2**	
Adjustments to calculate EPRA earnings exclude:			
One-off costs related to early repayment of debt	0.1	0.8	*Euro250m of bank loan early repaid in 2013 and Euro100m in 2014*
Development property margin	-0.1	-0.8	*Cancellation of reversals*
Sale of Mercialys' stake in Green Yellow (net)	-4.3	-	*Cancellation of net income resulting from the sale of stake in GY (financial income)*
Other items	-	-0.2	*Cancellation of non-recurring items recognized in other operating income/expenses*
EPRA EARNINGS	**98.1**	**96.1**	***+2,2%***
EPRA EARNINGS PER SHARE *(in euros per share)*	**1.07**	**1.05**	*Average number of shares (diluted)*

[22] Amount revised vs 2013 disclosure

2.11.2 EPRA Net Asset Value (NAV)

Calculation of EPRA net asset value (NAV) *(in millions of euros)*	2014	2013	Comments
Shareholders' equity – Attributable to the Group	**783.1**	**739.9**	
Effect of exercising of options, convertible bonds and other equity securities	-	-1.1	
Add back deferred income and charges	4,1		
Revaluation of investment properties (IAS 40)	957.0	876.8	*Cancellation of the asset net book values and integration of the asset fair values (incl. construction leases)*
Fair value of financial instruments	-66.9		*Difference between Fair value of debt and book value of debt*
EPRA NAV	**1,677.3**	**1.615.7**	
EPRA NAV per share *(in euros per share)*	**18.27**	**17.59**	*Average number of shares (diluted)*

2.11.3 EPRA triple net asset value (NNNAV)

Calculation of EPRA triple net asset value (NNNAV) *(in millions of euros)*	2014	2013	Comments
EPRA NAV	**1,677.3**	**1,615.7**	
Fair value of financial instruments	66.9		*Difference between Fair value of debt and book value of debt*
Fair value of unhedged debt	-13.6	-0.4	*Integration of the impact related to the fair value of unhedged bond debt*
EPRA NNNAV	**1,730.6**	**1.615.3**	
EPRA NNNAV per share *(in euros per share)*	**18.85**	**17.58**	*Average number of shares (diluted)*

2.11.4 EPRA net initial yield (NIY) and "topped-up" NIY disclosure

Calculation of EPRA net initial yield (NIY) and "topped-up" NIY disclosure *(in millions of euros)*	2014	2013	Comments
Investment property - wholly owned	2,752.8	2,352.4	*Market value excl. transfer taxes*
Less developments (-)	-29.8	-16.5	*Market value excl. transfer taxes*
Completed property portfolio (excl. transfer taxes)	**2,723.0**	**2,335.9**	
Allowance for estimated purchasers' costs	170.6	129.0	*Transfer taxes disclosed in the appraisals*
Gross up completed property portfolio valuation (incl. transfer taxes)	**2,893.6**	**2,464.9**	**(B)**
Annualized rental income	151.6	140.2	*Annualized current rents, turnover-based rents and revenues from Casual Leasing as of December 31, excluding vacant spaces*
Property outgoings (-)	-3.7	-4.2	*Non-recoverable current charges on assets held as of December 31*
Annualized net rents	**147.8**	**136.0**	**(A)**
Add: notional rent expiration of rent free periods or other lease incentives	1.9	1.1	*Rents on rent-free periods, step-up rents and other incentives ongoing on December 31*
Topped-up net annualized rent	**149.7**	**137.1**	**(C)**
EPRA NET INITIAL YIELD	**5.1%**	**5.5%**	**A/B**
EPRA "TOPPED-UP" NIY	**5.2%**	**5.6%**	**C/B**

2.11.5 EPRA cost ratios

Calculation of EPRA cost ratios *(in millions of euros)*	**2014**	2013[23]	Comments
Administrative/operating expense line per IFRS income statement	-20.4	-16.8	*Staff cost and external expenses*
Net service charge costs/fees	-4.6	-4.3	*Property taxes + Non-recovered service charges (including vacancy cost)*
Rental management fees	-2.4	-2.2	*Rental management fees*
Other operating income/recharges intended to cover overhead expenses less any related profits	-2.7	-3.0	*Other property operating income and expenses excluding management fees*
Share of Joint Ventures expenses	-	-	*None*
Total	**-30.1**	**-26.4**	
Adjustments to calculate EPRA earnings exclude:			
Investment Property depreciation	-	-	*Depreciation and provisions for fixed assets*
Ground rent costs	0.8	0.8	*Non-group rents paid*
Service charge costs recovered through rents but not separately invoiced	-	-	
EPRA Costs (including direct vacancy costs) (A)	**-29.4**	**-25.6**	**A**
Direct vacancy costs*	4.5	4.2	
EPRA Costs (excluding direct vacancy costs) (B)	**-24.8**	**-21.4**	**B**
Gross rental income less ground rent costs**	152.0	148.2	*Less costs relating to construction leases / long-term leases*
Service fee and service charge costs components of gross rental income	-	-	
Share of Joint Ventures (Gross rental income less ground rent costs)	-	-	
Gross Rental Income (C)	**152.0**	**148.2**	
EPRA COST RATIO (INCLUDING DIRECT VACANCY COSTS)	**-19.3%**	**-17.3%**	**A/C**
EPRA COST RATIO (EXCLUDING DIRECT VACANCY COSTS)	**-16.3%**	**-14.4%**	**B/C**

(*) The EPRA Cost Ratio deducts all vacancy costs related to standing assets or to investment properties undergoing development/refurbishment if they have been included in expense lines. The costs which may be excluded are: property taxes, service charges, contribution to marketing costs, insurance premiums, carbon tax, and any other costs directly billed to the units.

(**) Gross rental income should be calculated after deducting any ground rent payable. All service charge fees/recharges/management fees and other income in respect of property expenses should not be added to gross rent but should be deducted from the related costs. If the rent covers service charge costs, then companies should make an adjustment to exclude these. Tenant incentives should be deducted from rental income, whereas any other costs should be included in costs. This is in line with IFRS requirements.

2.11.6 EPRA vacancy rate

See section 2.4.1.

[23] Amount revised vs 2013 disclosure