# Board of Directors’ half-year financial report

# 2010 first half

mercialys
L'Esprit Voisin.

# Business report

## Accounting rules and methods

In accordance with EU regulation 1606/2002 of July 19, 2002 on international accounting standards, the consolidated financial statements for the period to June 30, 2010 have been prepared under IAS/IFRS ("IFRS") as applicable at this date and as approved by the European Union at the balance sheet date. The consolidated half-year financial statements have been prepared in accordance with IAS 34 ("Interim financial reporting").

The consolidated half-year financial statements, presented in summary form, do not contain all of the information and notes provided in the full-year financial statements. They should therefore be read in parallel with the Group's consolidated financial statements to December 31, 2009.

## 1. Financial statements

### 1.1 Consolidated income statement

For the period to June 30, 2010 (six months) and to June 30, 2009 (six months)

| **(in thousands of euros)** | **1H10*** | **1H09*** |
|---|---|---|
| **Rental revenues** | **72,390** | **64,518** |
| Non-recovered property taxes | -122 | -148 |
| Non-recovered service charges | -1,636 | -1,601 |
| Property operating expenses | -1,935 | -2,095 |
| **Net rental income** | **68,697** | **60,674** |
| Management, administration and other activities income | 1,446 | 1,966 |
| Other expenses | -2,592 | -2,416 |
| Depreciation and amortization | -12,141 | -9,965 |
| Allowance for provisions for liabilities and charges | -12 | -36 |
| Staff costs | -4,479 | -4,057 |
| Other operating income and expenses | -17 | 45 |
| **Operating income** | **50,902** | **46,211** |
| Revenues from cash and cash equivalents | 170 | 176 |
| Cost of debt, gross | -111 | -283 |
| **Cost of debt, net** | **59** | **-107** |
| Other financial income and expense | -26 | -31 |
| **Net financial income (expense)** | **33** | **-138** |
| Tax | -1 | -246 |
| **Net income** | **50,934** | **45,827** |
| | | |
| Attributable to minority interests | 32 | 17 |
| Attributable to Group equity holders | **50,902** | **45,810** |
| | | |
| Earnings per share (in euros) (1) | | |
| Basic earnings per share attributable to Group equity holders | 0.55 | 0.58 |
| Diluted earnings per share attributable to Group equity holders | 0.55 | 0.58 |

(*) A limited review of these financial statements was performed by the Statutory Auditors

(1) *Based on the weighted average number of outstanding shares over the period adjusted for treasury shares:*

> *Weighted average number of shares (non-diluted) at June 30, 2010 = 91,729,522 shares*

> *Weighted average number of shares (full diluted) at June 30, 2010 = 91,798,324 shares*

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## 1.2 Consolidated balance sheet

**ASSETS**

| (in thousands of euros) | 06/2010* | 12/2009 |
|---|---|---|
| Intangible assets | 21 | 26 |
| Property, plant and equipment other than investment property | 751 | 802 |
| Investment property | 1,576,663 | 1,573,139 |
| Non-current financial assets | 13,376 | 12,964 |
| Deferred tax assets | 372 | 221 |
| **Total non-current assets** | **1,591,183** | **1,587,152** |
| Trade receivables | 8,434 | 6,043 |
| Other receivables | 17,597 | 13,896 |
| Casino SA current account | 50,230 | 67,034 |
| Cash and cash equivalents | 479 | 2,869 |
| **Current assets** | **76,740** | **89,840** |
| **TOTAL ASSETS** | **1,667,923** | **1,676,994** |

**EQUITY AND LIABILITIES**

| (in thousands of euros) | 06/2010* | 12/2009 |
|---|---|---|
| Share capital | 91,968 | 91,968 |
| Reserves related to share capital | 1,423,739 | 1,422,410 |
| Consolidated reserves | 39,429 | 38,685 |
| Net income attributable to the Group | 50,902 | 93,029 |
| Interim dividend payments | - | (39,790) |
| Equity attributable to Group | 1,606,038 | 1,606,302 |
| Minority interests | 632 | 606 |
| **Total equity** | **1,606,670** | **1,606,908** |
| Non-current provisions | 146 | 125 |
| Non-current financial liabilities | 6,141 | 7,357 |
| Deposits and guarantees | 21,826 | 21,333 |
| Non-current tax liabilities | 612 | 603 |
| **Non-current liabilities** | **28,725** | **29,418** |
| Trade payables | 7,110 | 9,340 |
| Current financial liabilities | 2,761 | 3,784 |
| Short-term provisions | 897 | 888 |
| Other current payables | 21,120 | 26,029 |
| Current tax liabilities | 640 | 626 |
| **Current liabilities** | **32,528** | **40,667** |
| **Total equity and liabilities** | **1,667,923** | **1,676,994** |

(*) A limited review of these financial statements was performed by the Statutory Auditors

## 1.3 Consolidated cash flow statement

| (in thousands of euros) | 06/2010* | 06/2009* |
|---|---|---|
| Net income attributable to the Group | 50,902 | 45,810 |
| Net income attributable to minority interests | 32 | 17 |
| **Net income from consolidated companies** | **50,934** | **45,827** |
| Depreciation, amortization, impairment allowances and provisions net of reversals | 12,151 | 9,974 |
| Income and charges relating to share-based payments | 329 | 295 |
| Other non-cash income and charges | 980 | 748 |
| **Depreciation, amortization, impairment allowances and other non-cash items** | **13,460** | **11,017** |
| Income from asset sales | -2 | -40 |
| **Cash flow** | **64,391** | **56,803** |
| Cost of net debt | -59 | 118 |
| Tax charge (including deferred tax) | 1 | 246 |
| **Cash flow before cost of net debt and tax** | **64,333** | **57,167** |
| Tax payments | 570 | 490 |
| Change in working capital requirement relating to operations (1) | -7,982 | -8,890 |
| Change in deposits and guarantees | 493 | 1,697 |
| **Net cash flow from operating activities** | **57,414** | **50,464** |
| Cash payments on acquisition of investment property and other fixed assets | -18,175 | -15,134 |
| Cash payments on acquisition of financial assets | 0 | -9 |
| Cash receipts on disposal of investment property and other assets | 19 | 2,738 |
| Cash receipts on disposal of financial assets | 5 | 0 |
| Impact of changes in the scope of consolidation (2) | -4,433 | 1,923 |
| Change in loans and advances given | | - |
| **Net cash flow from investing activities** | **-22,584** | **-10,482** |
| Dividend payments to shareholders (3) | -51,380 | -11,698 |
| Dividend payments to minority interests | -8 | -41 |
| Capital increase or decrease (2) (3) | -440 | -980 |
| Changes in treasury shares | -18 | 1,605 |
| Reduction in financial liabilities | -1,176 | -1,319 |
| Net cost of debt | 59 | -118 |
| **Net cash flow from financing activities** | **-52,963** | **-12,551** |
| **Change in cash position** | **-18,132** | **-27,433** |
| Opening cash position | 67,858 | 8,867 |
| Closing cash position | 49,727 | 36,302 |
| **Closing cash position** | **49,727** | **36,302** |
| Of which: | | |
| Casino SA current account | 50,230 | 32,460 |
| Cash on balance sheet | 479 | 4,811 |
| Bank facilities | -982 | -969 |

(*) A limited review of these financial statements was performed by the Statutory Auditors

**(1)** The change in working capital requirement breaks down as follows (Euro thousand):

| | 1H10 | 1H09 |
|---|---|---|
| Trade receivables | -2,391 | -4,555 |
| Trade payables | -2,230 | -3,052 |
| Other receivables and payables | -3,361 | -1,283 |

**(2)** At the start of the year, the Group proceeded with the payment of GM Geispolsheim shares acquired at the end of 2009 in the amount of Euro 4,433 thousand. The contribution in kind made in the first half of 2009 of Euro 333.5 million had no impact on this cash flow statement except that of expenses related to the transaction (Euro 135 thousand) and the net cash position of the companies acquired (Euro 2,058 thousand).

**(3)** During the first half of 2009, the dividend payments financed through the issuing of shares had no impact on this cash flow statement except the impact of expenses related to the transaction, shown in "Capital increase". Additional costs of Euro 440 thousand were paid during the first half of 2010.

## 2. Review of activity and consolidated results

### 2.1 Rental revenues, net rental income and management indicators

Rental revenues mainly comprise **rent invoiced** by the Company plus a smaller contribution from lease rights paid by some tenants in addition to rent.

During the first half of 2010, invoiced rents came to Euro 70.5 million compared with Euro 62.9 million over the same period in 2009, representing an increase of **+12.2%**.

| (in millions of euros) | 1H10 | 1H09 |
|---|---|---|
| Invoiced rents | 70,547 | 62,875 |
| Lease rights | 1,842 | 1,643 |
| **Rental revenues** | **72,390** | **64,518** |
| Non-recovered service charges and property taxes | -1,758 | -1,749 |
| Property operating expenses | -1,935 | -2,095 |
| **Net rental income** | **68,697** | **60,674** |

**Invoiced rents** rose by Euro +7.7 million (**+12.2%**).This growth was driven by:
- growth related to the renegotiation of rents on leases in the portfolio: Euro +2.4 million (+3.8 points);
- external growth related primarily to the acquisition in 2009 of a Euro 334 million portfolio of 'Esprit Voisin' development projects: Euro +6.4 million (+10.2 points).

The effects of these two major growth drivers were attenuated by:

- indexation[1], which had a negative impact of Euro -0.4 million (-0.6 points) over the first half of the year, recurring over the course of the year;
- variable rents, which had a negative impact of Euro -0.6 million (-1.0 points); and
- to a lesser extent, the strategic vacancies relating to our current redevelopment programs: Euro -0.2 million (-0.3 points).

### 2.2 Main management indicators:

Mercialys's rental management indicators remained relatively stable in the first half of 2010.

➤ The recovery rate of invoiced rents remained high: 98.0% of rents and rental charges invoiced over 12 months were received by June 30, 2010 (compared with 98.1% by March 31, 2010 and 98.3% by December 31, 2009).

➤ The number of defaults during the first half of the year remained low, with ten liquidations over the period (out of 2,679 leases signed at June 30, 2010).
In addition, 4 units affected by liquidation were relet over the period.

➤ The vacancy rate remained low. The current vacancy rate - which excludes "strategic" vacancies designed to facilitate redevelopment plans scheduled under the 'Esprit Voisin' program - stood at 2.1% at June 30, 2010, compared with 2.3% at December 31, 2009. This constitutes an improvement of 0.2 points thanks to the reletting in the first half 2010 of certain vacant lots representing a significant amount in terms of value.

[1] In 2010, 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 2008 and the second quarter of 2009 (respectively -4.10% and +0.84%).

The strategic vacancy rate decreased to 0.6% (compared with 1.1% at December 31, 2009), mainly as a result of the letting of vacant lots at redeveloped sites partly or fully completed during the first half of 2010, namely Brest, Fontaine-Les-Dijon and Paris St Didier.

As a result of these effects, the total vacancy rate[2] decreased from 3.4% at December 31, 2009, to 2.6% at June 30, 2010.

➤ The occupancy cost ratio[3] for tenants stood at 8.6% at June 30, 2010 (rent + charges including tax/tenant's retail sales gross of tax), stable relative to December 31, 2009, which is still fairly moderate compared with Mercialys's peers.

➤ Mercialys has a significant stock of expired leases to work on. This is due to ongoing negotiations, disputes (some negotiations result in a hearing by a rents tribunal), lease renewal refusals with payment of eviction compensation, global negotiations by retailers, tactical delays etc.

| **Lease expiry schedule** | | **Guaranteed minimum rent** (in millions of euros) | **% of leases expiring/ Guaranteed minimum rent** |
|---|---|---|---|
| Expired at June 30, 2010 | 365 leases | 13.2 | 9.6% |
| 2010 (to expire) | 166 leases | 4.0 | 2.9% |
| 2011 | 294 leases | 10.7 | 7.8% |
| 2012 | 264 leases | 15.8 | 11.4% |
| 2013 | 158 leases | 6.9 | 4.9% |
| 2014 | 156 leases | 9.0 | 6.5% |
| 2015 | 235 leases | 11.4 | 8.3% |
| 2016 | 295 leases | 14.6 | 10.6% |
| 2017 | 166 leases | 8.2 | 6.0% |
| 2018 | 293 leases | 20.2 | 14.6% |
| 2019 | 153 leases | 8.1 | 5.8% |
| 2020 | 83 leases | 12.1 | 8.7% |
| Beyond | 51 leases | 3.8 | 2.7% |
| **Total** | **2,679 leases** | **137.9** | **100.0 %** |

➤ Rents received by Mercialys come from a very wide range of retailers. With the exception of Cafétérias Casino (9%), other Casino brands[4] (12%) and Feu Vert (4%), no tenant represents more than 2% of total revenue.

The table below shows a breakdown of rents between national and local brands on an annualized basis.

| | **Number of leases** | **GMR + annual variable June 30, 10 (in millions of euros)** | **June 30, 10 As a %** | **Dec 31, 09 As a %** |
|---|---|---|---|---|
| National brands[5] | 1,633 | 86.6 | 63% | 61% |
| Local brands | 809 | 22.1 | 16% | 18% |
| Cafétérias Casino / Self-service restaurants | 105 | 12.5 | 9% | 9% |
| Other Casino Group brands | 132 | 16.7 | 12% | 12% |
| *including 5 hyper/supermarkets acquired in H1 2009* | *5* | *8.1* | *6%* | *6%* |
| **Total** | **2,679** | **137.9** | **100%** | **100%** |

**GMR = Guaranteed minimum rent*

[2] [Rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)]
[3] Ratio of the rent and charges paid by a retailer to sales (rent + charges gross of taxes/sales gross of taxes)
[4] Includes rents from five hypermarkets and supermarkets acquired as part of the contribution of assets in the first half of 2009
[5] Includes rents from 10 hypermarkets surfaces acquired as part of the contribution of assets in the first half of 2009 to be converted into small stores (Casino rental guarantee until the end of redevelopment works)

| Breakdown of rental income by business sector<br>% of rental income | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Personal items | 27.0% | 25.8% |
| Food and catering | 14.7% | 14.8% |
| Household equipment | 12.1% | 12.7% |
| Beauty and health | 12.9% | 12.9% |
| Culture, gifts and leisure | 13.8% | 13.9% |
| Services | 4.8% | 5.1% |
| Large food stores | 14.7% | 15.0% |
| **Total** | **100 %** | **100 %** |

The structure of rental revenues at June 30, 2010 confirmed the dominant share, in terms of rent, of leases with a variable component:

| | Number of leases | Annual rental income (in millions of euros) | As a % |
|---|---|---|---|
| Leases with variable component | 1,372 | 81.3 | 59% |
| *- of which guaranteed minimum rent* | | *79.7* | *58%* |
| *- of which variable rent* | | *1.6* | *1%* |
| Leases without variable component | 1,307 | 56.6 | 41% |
| **Total** | **2,679** | **137.9** | **100%** |

**Rental revenues** also include lease rights paid by tenants upon signing a new lease and despecialization indemnities paid by tenants that change their business activity during the course of the lease.
At June 30, 2010, rental revenues rose by **+12.2%** compared with the first half of 2009.

**Lease rights and despecialization indemnities** received during the first half of 2010 amounted to Euro 3.2 million, up from Euro 2.7 million in the first half of 2009, breaking down as follows:

- Euro 1.6 million in lease rights relating to ordinary reletting activities (compared with Euro 1.5 million in the first half of 2009);
- Euro 1.6 million in lease rights relating to lettings of the Besançon La Faille, Brest, Castres and Fontaine Les Dijon extension/redevelopment programs completed during the first half of 2010 (compared with Euro 1.2 million in the first half of 2009 linked to the letting of the Besançon extension).

After the impact of deferrals required under IFRS (deferring of lease rights over the firm period of the lease), lease rights and despecialization indemnities recognized as rental revenues in the first half of 2010 amounted to Euro 1.8 million, an increase of +12.1% compared with Euro 1.6 million in the first half of 2009.

## 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 and not rebilled and various charges relating directly to the operation of sites.

Costs included in the calculation of net rental income came to Euro 3.7 million in the first half of 2010 compared with Euro 3.8 million in the first half of 2009, a reduction of -3.9% mainly due to a decrease in property fees.
The non-recovered property operating expenses/invoiced rents ratio came to 5.2% in the first half of 2010, down significantly compared with 6.1% in the first half of 2009.
Growth in net rental income exceeded growth in invoiced rents. During the first half of 2010, net rental income came to Euro 68.7 million compared with Euro 60.7 million in the first half of 2009, an increase of **+13.2%**.

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## 2.3 Operating costs and operating income

### Staff costs

Staff costs include all costs relating to Mercialys's executive and management teams, which consisted of a total of 65 people at June 30, 2010 (compared with 59 at June 30, 2009 and December 31, 2009, and 57 at December 31, 2008).

Staff costs increased by +10.4% during the first half of 2010 owing to the recruitment of new employees in 2009 and 2010, with six new arrivals during the first half of 2010 to bolster the shopping center marketing, operating and shopping centers management teams, in particular in relation to roll-out of the 'Esprit Voisin' program.
As a result, staff costs amounted to Euro 4.5 million, compared with Euro 4.1 million during the first half of 2009.

The services provided by some Mercialys teams are billed back: the fees billed came to Euro 1.4 million in the first half of 2010, compared with Euro 1.3 million in the first half of 2009. This includes in particular consulting services provided by the 'Esprit Voisin' project team - which works on a cross-functional basis for Mercialys and the Casino Group - that are billed by Mercialys to Casino Group under the 2007 consulting services agreement.
Remember that the first half of 2009 also benefited from non-recurring income of Euro 663 thousand relating to the billing back of cross-functional studies conducted as part of the 'Esprit Voisin' program.

### Other expenses

Other expenses mainly comprise structural costs. Structural costs include primarily investor relations costs, directors' fees, corporate 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.

These costs amounted to Euro 2.6 million during the first half of 2010 compared with Euro 2.4 million during the first half of 2009, up +7.3%, mainly as a result of the increase in back office expenses at Casino in relation to the ramp-up of business momentum.

### Depreciation, amortization and impairment of assets

Depreciation and amortization came to Euro 12.1 million during the first half of 2010, compared with Euro 10.0 million in the first half of 2009, an increase of +21.5%. The increase in depreciation and amortization was predominantly driven by the acquisitions completed in 2009, which came to a gross amount of Euro 342 million - including the acquisition of 25 properties on May 19, 2009 by means of a contribution for Euro 334 million - the full impact of which on depreciation and amortization was seen in the first half of 2010.

### Operating income

As a result of the above, operating income came to Euro 50.9 million in the first half of 2010, compared with Euro 46.2 million in the first half of 2009, up +10.2%.

The ratio of EBITDA[6] to rental revenues was 87.1% over 12 months, stable relative to June 30, 2009.

[6] Earnings Before Interest, Tax, Depreciation and Amortization

## 2.4 Net financial items and tax

### Net financial items

Net financial items include:
- as expenses: financial expenses relating to finance leases, representing Euro 7.9 million outstanding at June 30, 2010 concerning two sites: Tours La Riche and Port Toga;
- as income: interest income on cash generated in the course of operations, deposits from tenants and Mercialys's cash balances.

At June 30, 2010, Mercialys had a positive cash position of Euro 49.7 million compared with Euro 67.9 million at December 31, 2009.

Net financial income for the first half of 2010 totaled Euro 0.03 million compared with net financial expenses of Euro 0.1 million in the first half of 2009. This positive change is mainly due to the reduction in financial expenses relating to finance leases. Remember that two options were exercised in the second half of 2009 concerning the lease contracts for Furiani and Sainte Marie Duparc on La Reunion island.

### 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 85% of net income from rental activities and 50% of gains on the disposal of real estate assets are distributed to shareholders.

The tax charge recorded in the income statement corresponds to tax payable on financial income on cash holdings less a share of the Company's central costs allocated to its taxable income.
This is in addition to deferred tax. Net deferred tax totaled Euro +70 thousand during the first half of the year.

This resulted in a near-zero tax charge of just Euro 1 thousand for the first half of 2010 compared with Euro 0.3 million for the first half of 2009.

### Net income

Minority interests were not significant.
During the first half of 2010, net income and net income attributable to the Group rose by +11.1% to Euro 50.9 million from Euro 45.8 million in the first half of 2009.

## 2.5 Cash flow

Cash flow is calculated by adding back depreciation, amortization and impairment charges and other non-cash items to net income.

Over the first half of 2010, cash flow rose +13.4% to Euro 64.4 million compared with Euro 56.8 million in the equivalent period of 2009.

Recurring operating cash flow (cash flow adjusted from interest income on cash net of tax and non-recurring items) rose by +13.5% to Euro 63.0 million. Non-recurring items amounted to Euro 1.3 million in the first half of 2010, corresponding mainly to lease rights received on new properties acquired in the first half of 2010. Non-recurring items of Euro 1.2 million were recognized during the first half of 2009 representing lease rights relating to the Besançon extension.

## 2.6 Balance sheet structure

The Group had cash of Euro 49.7 million at June 30, 2010, compared with Euro 67.9 million at December 31, 2009. After deducting financial liabilities, net cash stood at Euro 41.8 million at June 30, 2010, compared with Euro 58.8 million in net debt at December 31, 2009.

Consolidated shareholders' equity was Euro 1,606.7 million at June 30, 2010, compared with Euro 1,606.9 million at December 31, 2009.
The main changes affecting consolidated shareholders' equity during the first half of year were as follows:
- Payment of the final dividend in respect of the 2009 financial year: Euro -51.4 million;
- Net income for the first half of 2010: Euro +50.9 million.

2009 final dividend paid on May 14, 2010, amounted to Euro 0.56 per share, representing a total dividend payout of Euro 51.4 million paid entirely in cash.

In 2007, the Board of Directors decided to adopt a policy of paying out a regular interim dividend representing half the total dividend paid in the previous year, barring exceptional or new circumstances which may lead to an increase or decrease in the amount of the interim dividend.

On July 27, 2010, the Board of Directors therefore decided to pay an interim dividend for 2010 of **Euro 0.50 per share**, payable in October 2010.

## 2.7 Valuation of the asset portfolio

At June 30, 2010, Atis Real, Catella and Galtier updated their valuation of Mercialys's portfolio:

- Atis Real conducted the appraisal of hypermarkets, i.e. 102 sites, based on an update of the appraisals conducted at December 31, 2009, except for 12 sites that were subject to an appraisal on the basis of a site visit in the first half of 2010;
- Catella conducted the appraisal of supermarkets, i.e. 19 sites, based an update of the appraisals conducted at December 31, 2009;
- Galtier conducted the appraisal of Mercialys's other assets, i.e. 47 sites, based on an update of the appraisals conducted at December 31, 2009.

No new properties were acquired during the first half of 2010.

On the basis of these appraisals, the portfolio was valued at Euro 2,467.8 million including transfer taxes at June 30, 2010, compared with Euro 2,437.2 million at December 31, 2009. This represents an increase of Euro 31 million in the value of the portfolio including transfer taxes over the last six months.
In percentage terms, the value of the portfolio therefore rose by +1.3% over six months, mainly due to the -10 basis point reduction in the average yield on the basis of appraisals between December 31, 2009 and June 30, 2010. The average yield was 6.0% at June 30, 2010 compared with 6.1% at December 31, 2010.

| | **Average yield** June 30, 2010** | **Average yield** Dec 31, 2009** | **Average yield** June 30, 2009** |
|---|---|---|---|
| Regional and Large shopping centers | 5.6% | 5.7% | 5.8% |
| Neighborhood shopping centers | 6.5% | 6.7% | 6.8% |
| Total portfolio* | 6.0% | 6.1% | 6.2% |

**** Including other assets (Large Food Stores, Large Specialty Stores, independent cafeterias and other isolated assets)***

***** Including extensions acquired in 2009 in progress***

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset at June 30, 2010, as well as the corresponding appraised net rental income:

| Classification | Number of assets at June 30, 2010 | Appraisal value at June 30, 2010 inc. TT (millions of euros) | (%) | Gross leasable area at June 30, 2010 ($m^2$) | (%) | Appraised net rental income (millions of euros) | (%) |
|---|---|---|---|---|---|---|---|
| Large regional shopping centers | 1 | 125.4 | 5% | 32,700 | 4% | 6.5 | 4% |
| Large shopping centers | 28 | 1,310.5 | 53% | 340,000 | 43% | 74.4 | 50% |
| Neighborhood shopping centers | 70 | 707.5 | 29% | 259,500 | 33% | 46.6 | 31% |
| Large food stores | 12 | 20.2 | 1% | 31,000 | 4% | 1.4 | 1% |
| Large specialty stores | 8 | 42.9 | 2% | 28,400 | 4% | 2.9 | 2% |
| Independent cafeterias | 22 | 52.5 | 2% | 32,500 | 4% | 3.6 | 2% |
| Other[(1)] | 27 | 85.8 | 3% | 35,300 | 4% | 6.2 | 4% |
| **Sub-total built assets** | **168** | **2,344.8** | **95%** | **759,400** | **96%** | **141.5** | **95%** |
| Assets under development (extensions) | | 123.0 | 5% | 28,900 [(2)] | 4% | 7.8 | 5% |
| **Total** | **168** | **2,467.8** | **100%** | **788,300** | **100%** | **149.3** | **100%** |

*(1) Primarily service malls and convenience stores*
*(2) Estimated surface area at time of contribution*

NB:
Large food stores: gross leasable area of over 750 $m^2$
Large specialty stores: gross leasable area of over 750 $m^2$

## 2.8 Net asset value calculation

Net asset value (NAV) is defined as consolidated shareholders' equity plus any unrealized capital gains or losses on the asset portfolio and any deferred expenses or income.

NAV is calculated in two ways: excluding transfer taxes (liquidation NAV) or including transfer taxes (replacement NAV).

| NAV (in millions of euros) | June 30, 2010 | For information NAV at Dec 31, 2009 |
|---|---|---|
| **Consolidated shareholders' equity** | **1,606.7** | **1,606.9** |
| Add back deferred income and charges | 6.9 | 4.9 |
| **Unrealized gains on assets** | **878.5** | **851.1** |
| Updated market value | 2,469.0 | 2,437.2 |
| Consolidated net book value | -1,590.5 | -1,586.1 |
| **Replacement NAV** | **2,492.0** | **2,463.0** |
| **Per share (in euros)** | **27.10** | **26.78** |
| Transfer taxes and disposal costs | -136.8 | -134.3 |
| **Liquidation NAV** | **2,355.2** | **2,328.7** |
| **Per share (in euros)** | **25.61** | **25.32** |
| **Number of shares** | **91,968,488** | **91,968,488** |

# 3. Outlook

## 3.1 Investment outlook

### Completions under the ‘Esprit Voisin’ program

The ‘Esprit Voisin’ program concerns the expansion and redevelopment of Mercialys’s shopping center portfolio. It is about putting the Company’s shopping centers in harmony with the spirit of the Group and its culture of proximity by developing the ‘Esprit Voisin’ theme, seizing all opportunities for architectural value creation (renovations, redevelopment, extensions).

The project entered its active phase in 2008 with the completion of the first developments.

The ‘Esprit Voisin’ program took a major step in the first half of 2009 with Mercialys’s acquisition from Casino of a portfolio of 25 ‘Esprit Voisin’ projects for close to Euro 334 million.

During the first half of 2010, the implementation of ‘Esprit Voisin’ development projects continued with:

- 3 completions of developments during the first half of 2010 at Castres (extension), Brest (redevelopment of the former Castorama shell as new stores), and Fontaine-Les-Dijon (new stores developed on space acquired from hypermarkets).
  A total of 44 new retailers opened stores during the first half of the year or are due to open stores, representing a rental value of Euro 2.6 million over the full year and a GLA of 8,300 m².
- A further 4 development projects will be completed in the second half of 2010 representing 88 new retailers, a full-year rental value of Euro 6.8 million and a GLA of 21,000 m².
- 13 completions of ‘Esprit Voisin’ extensions are also in preparation for 2011.

### The Casino development pipeline

At June 30, 2010, Casino’s overall pipeline - including new projects and ‘Esprit Voisin’ extensions - was valued at Euro 555 million compared with Euro 530 million at December 31, 2009, and Euro 505 million at June 30, 2009 (valuation weighted for investment programs, taking account of the probability of completion on a project-by-project basis).

The increase in value of the pipeline between December 31, 2009 and June 30, 2010 was mainly due to:

- the removal or disposal of programs: Euro -6 million;
- the inclusion of new programs: Euro +86 million;
- changes to probability of completion: Euro -30 million;
- changes to the configuration of certain projects (impact on potential rental income and yields): Euro -33 million;
- application of the new rate grid under the Partnership Agreement for the second half of 2010: Euro +9 million.

We remind you that Mercialys has exclusive options to buy all of these investment opportunities.

| In millions of euros | December 2009 | June 2010 |
|---|---|---|
| Renovation and redevelopment of existing shopping centers (*) | 33 | 34 |
| Acquisition of new developments and extension programs at existing sites (‘Esprit Voisin’) | 530 | 555 |

(*) Excluding ordinary maintenance works

*This information is based on objectives which the Group believes to be reasonable. It should not be used to forecast results. It is also subject to the risks and uncertainties inherent to the Company’s business activities and actual results may therefore differ from these targets and projections. For a more detailed description of risks and uncertainties, please refer to the Group's 2009 shelf-registration document. The presentation and assessment of those risks and uncertainties remained unchanged as of June 30, 2010.*

After taking account of the development of the average appraisal yield for Mercialys's portfolio at June 30, 2010 relative to December 31, 2009, representing a decrease of -1.6%, at its meeting of July 27, 2010, the Board of Directors approved the rates for the second half of 2010 in accordance with the partnership agreement between Mercialys and Casino.

Applicable capitalization rates for options exercised by Mercialys in the second half of 2010 will therefore be as follows:

| TYPE OF PROPERTY | Shopping centers | | Retail parks | | City center |
|---|---|---|---|---|---|
| | Mainland France | Corsica and overseas departments and territories | Mainland France | Corsica and overseas departments and territories | |
| Regional shopping centers / Large shopping centers (over 20,000 m²) | 6.5% | 7.1% | 7.1% | 7.5% | 6.2% |
| Neighborhood shopping centers 5,000 to 20,000 m²) | 7.0% | 7.5% | 7.5% | 8.0% | 6.6% |
| Other properties (less than 5,000 m²) | 7.5% | 8.0% | 8.0% | 8.7% | 7.1% |

### 3.2 Business outlook

In an economic climate characterized by signs of timid recovery, the shopping center rental market held up well during the first half of 2010, which was accompanied by a significant upturn in transactions and improved appetite for retail property in France.
Against this backdrop, Mercialys continued with the implementation of its 'Esprit Voisin' development projects at existing sites - which are therefore more secure for Mercialys and retailers - allowing the Company to reinforce its sites against its competitors.

More generally speaking, Mercialys plans to continue with the strategy it has successfully pursued for more than four years, based on both enhancing the value of the existing portfolio and selected targeted investments in properties offering potential. 2010 will also mark the end of the period of holding our properties, with the possibility of arbitrage operations concerning mature properties from the end of the year.

In the light of the Company's solid first-half performance, the visibility provided by the observation of business performance and economic conditions in the first half of the year, and planned completions in the second half of 2010, Management reiterates its target of year-on-year growth of close to +10% in rental revenues and recurring operating cash flow in 2010.

## 4. Subsequent events

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

## 5. Main related-party transactions

The main related-party transactions are described in Note 12 of the notes to the interim consolidated financial statements.

# Consolidated financial statements

*CONTENTS*

# Summary consolidated financial statements

Half-year period to June 30, 2010

Figures in the tables have been rounded individually. There may be differences between arithmetic totals of these figures and the aggregates or subtotals shown.

## CONSOLIDATED INCOME STATEMENT

For the half-year periods to June 30, 2010 and 2009

| **(in thousands of euros)** | **From January 1, 2010 to June 30, 2010 *** | **From January 1, 2009 to June 30, 2009 *** |
|---|---|---|
| **Rental revenues** | **72,390** | **64,518** |
| Non-recovered property taxes | (122) | (148) |
| Non-recovered service charges | (1,636) | (1,601) |
| Property operating expenses | (1,935) | (2,095) |
| **Net rental income** | **68,697** | **60,674** |
| Management, administration and other activities income | 1,446 | 1,966 |
| External costs | (2,592) | (2,416) |
| Staff costs | (4,479) | (4,057) |
| Depreciation, amortization and impairment of assets | (12,141) | (9,965) |
| Provisions | (12) | (36) |
| Other operating income | 17 | 492 |
| Other operating expenses | (34) | (447) |
| **Operating income** | **50,902** | **46,211** |
| Income from cash and cash equivalents | 170 | 176 |
| Cost of gross debt | (111) | (283) |
| Income from net cash (Cost of net debt) | 59 | (107) |
| Other financial income | – | – |
| Other financial expenses | (26) | (31) |
| **Net financial items** | **33** | **(138)** |
| Tax | (1) | (246) |
| **Consolidated net income** | **50,934** | **45,827** |
| | | |
| Minority interests | 32 | 17 |
| Net income, Group share | **50,902** | **45,810** |
| | | |
| **Earnings per share (in euros)** | | |
| *based on the weighted average number of outstanding shares over the period* | | |
| Basic net earnings per share, Group share | 0.55 | 0.58 |
| Diluted net earnings per share, Group share | 0.55 | 0.58 |

* A limited review has been performed by auditors on these results

## Consolidated statement of recognized income and expense

For the half-year periods to June 30, 2010 and 2009

| (in thousands of euros) | From January 1, 2010 to June 30, 2010 * | From January 1, 2009 to June 30, 2009 * |
|---|---|---|
| **Net income for the period** | **50,934** | **45,827** |
| Actuarial gains or losses | 1 | 3 |
| Tax on actuarial gains or losses | – | (1) |
| **Income and expenses recognized directly in equity, net of tax** | **1** | **3** |
| **Total income and expenses recognized for the period** | **50,935** | **45,829** |
| Attributable to Group | 50,903 | 45,813 |
| Attributable to minority interests | 32 | 17 |

* A limited review has been performed by auditors on these results

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# Consolidated balance sheet

For the half-year period to June 30, 2010 and financial year ended December 31, 2009

## ASSETS

| (in thousands of euros) | | June 30, 2010 * | December 31, 2009 |
|---|---|---|---|
| Intangible assets | | 21 | 26 |
| Property, plant and equipment other than investment property | | 751 | 802 |
| Investment property | *Note 8* | 1,576,663 | 1,573,139 |
| Other non-current assets | | 13,376 | 12,964 |
| Deferred tax assets | | 372 | 221 |
| **Total non-current assets** | | **1,591,183** | **1,587,152** |
| Trade receivables | | 8,434 | 6,043 |
| Other receivables | | 17,597 | 13,896 |
| Casino SA current account | *Note 5* | 50,230 | 67,034 |
| Cash and cash equivalents | *Note 5* | 479 | 2,869 |
| **Current assets** | | **76,740** | **89,842** |
| **TOTAL ASSETS** | | **1,667,923** | **1,676,994** |

## EQUITY AND LIABILITIES

| (in thousands of euros) | | June 30, 2010 * | December 31, 2009 |
|---|---|---|---|
| Share capital | | 91,968 | 91,968 |
| Share capital reserves | | 1,423,739 | 1,422,410 |
| Consolidated reserves | | 39,429 | 38,685 |
| Net income, Group share | | 50,902 | 93,029 |
| Interim dividend payments | | - | (39,790) |
| Shareholders' equity, Group share | | 1,606,038 | 1,606,302 |
| Minority interests | | 632 | 606 |
| **Total shareholders' equity** | | **1,606,670** | **1,606,908** |
| Long-term provisions | | 146 | 125 |
| Non-current financial liabilities | *Note 9* | 6,141 | 7,357 |
| Deposits and guarantees | | 21,826 | 21,333 |
| Non-current tax liabilities | | 612 | 603 |
| **Non-current liabilities** | | **28,725** | **29,418** |
| Trade payables | | 7,110 | 9,340 |
| Current financial liabilities | *Note 9* | 2,761 | 3,784 |
| Short-term provisions | | 897 | 888 |
| Other current liabilities | | 21,120 | 26,029 |
| Current tax liabilities | | 640 | 626 |
| **Current liabilities** | | **32,528** | **40,667** |
| **Total equity and liabilities** | | **1,667,923** | **1,676,994** |

* A limited review has been performed by auditors on these results.

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## CONSOLIDATED CASH FLOW STATEMENT

For the half-year periods to June 30, 2010 and 2009

| (in thousands of euros) | | From January 1, 2010 to June 30, 2010 * | From January 1, 2009 to June 30, 2009 * |
|---|---|---|---|
| **Net income from consolidated companies** | | **50,934** | **45,827** |
| Depreciation, amortization, impairment allowances and provisions net of reversals | | 12,151 | 9,974 |
| Calculated income and charges on share-based payments | | 329 | 295 |
| Other non-cash income and charges | | 980 | 748 |
| **Depreciation, amortization and other non-cash items** | | **13,460** | **11,017** |
| Income from asset sales | | (2) | (40) |
| **Cash flow** | | **64,391** | **56,803** |
| Cost of net debt | | (59) | 118 |
| Tax charge | | 1 | 246 |
| **Cash flow before cost of net debt and tax** | | **64,333** | **57,167** |
| Tax payments | | 570 | 490 |
| Change in working capital requirement excluding deposits and guarantees (1) | | (7,982) | (8,890) |
| Change in deposits and guarantees | | 493 | 1,697 |
| **Net cash flow from operating activities** | | **57,414** | **50,464** |
| Cash payments on acquisition of investment property and other fixed assets | | (18,175) | (15,134) |
| Cash payments on acquisition of financial assets | | - | (9) |
| Cash receipts on disposal of investment property and other assets | | 19 | 2,738 |
| Cash receipts on disposal of financial assets | | 5 | - |
| Impact of changes in the scope of consolidation (2) | | (4,433) | 1923 |
| Change in loans and advances given | | | - |
| **Net cash flow from investing activities** | | **(22,584)** | **(10,482)** |
| Dividend payments to shareholders (3) | | (51,380) | (11,698) |
| Dividend payments to minority interests | | (8) | (41) |
| Capital increase (2) (3) | | (440) | (980) |
| Other transactions with shareholders | | - | - |
| Changes in treasury shares | | (18) | 1,605 |
| Increase in financial liabilities | | - | - |
| Reduction in financial liabilities | | (1,176) | (1,319) |
| Net cost of debt | | 59 | (118) |
| **Net cash flow from financing activities** | | **(52,963)** | **(12,551)** |
| **Change in net cash position** | | **(18,132)** | **(27,433)** |
| Opening cash position | *Note 5* | 67,858 | 8,867 |
| Closing cash position | *Note 5* | 49,727 | 36,302 |

| | | | |
|---|---|---|---|
| (1) The change in working capital requirement breaks down as follows: | | <u>(7,982)</u> | <u>(8,890)</u> |
| | Trade receivables | (2,391) | (4,555) |
| | Trade payables | (2,230) | (3,052) |
| | Other receivables and payables | (3,361) | (1,283) |

(2) At the start of the year, the Group proceeded with the payment of GM Geispolsheim shares acquired at the end of 2009 in the amount of Euro 4,433 thousand. The contribution in kind made in the first half of 2009 of Euro 333.5 million had no impact on this cash flow statement except that of expenses related to the transaction (Euro 135 thousand) and the net cash position of the companies acquired (Euro 2,058 thousand).

(3) During the first half of 2009, the dividend payments financed through the issuing of shares had no impact on this cash flow statement except the impact of expenses related to the transaction, shown in "Capital increase". Additional costs of Euro 440 thousand were paid during the first half of 2010.

* A limited review has been performed by auditors on these results

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the half-year periods to June 30, 2010 and 2009

| (in thousands of euros) | Share capital | Reserves related to share capital (1) | Treasury shares | Consolidated reserves and retained earnings | Actuarial gains or losses | **Equity, Group share (3)** | **Minority interests** | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **At January 1, 2009** | **75,150** | **1,051,987** | **(2,631)** | **81,611** | **(1)** | **1,206,115** | **616** | **1,206,732** |
| Income and expenses recognized directly in equity | - | - | - | - | 3 | **3** | **-** | **3** |
| Net income for the period | - | - | - | 45,810 | - | **45,810** | **17** | **45,827** |
| Total income and expenses recognized | - | - | - | 45,810 | 3 | **45,813** | **17** | **45,829** |
| Capital increase (4) | 15,388 | 339,927 | - | - | - | **355,315** | **-** | **355,315** |
| Transactions in treasury shares | - | - | 1,727 | (79) | - | **1,648** | **-** | **1,648** |
| Final dividends paid for 2008 | - | - | - | (36,028) | - | **(36,028)** | **(43)** | **(36,072)** |
| Share-based payments | - | - | - | 295 | - | **295** | **-** | **295** |
| Other movements (2) | - | 697 | - | (697) | - | **-** | **-** | **-** |
| **At June 30, 2009** * | **90,538** | **1,392,611** | **(904)** | **90,913** | **2** | **1,573,163** | **590** | **1,573,753** |
| **At January 1, 2010** | **91,968** | **1,422,410** | **(6,855)** | **98,793** | **(14)** | **1,606,302** | **606** | **1,606,908** |
| Income and expenses recognized directly in equity | - | - | - | - | 1 | **1** | **-** | **1** |
| Net income for the period | - | - | - | 50,902 | | **50,902** | **32** | **50,934** |
| Total income and expenses recognized | - | - | - | 50,902 | 1 | **50,903** | **32** | **50,935** |
| Capital increase (4) | - | (352) | - | - | - | **(352)** | **-** | **(352)** |
| Transactions in treasury shares | - | - | 375 | (257) | - | **118** | **-** | **118** |
| Final dividends paid for 2009 | - | - | - | (51,380) | - | **(51,380)** | **(8)** | **(51,388)** |
| Share-based payments | - | - | - | 447 | - | **447** | **-** | **447** |
| Other movements (2) | - | 1,682 | - | (1,682) | - | **-** | **-** | **-** |
| **At June 30, 2010 *** | **91,968** | **1,423,739** | **(6,480)** | **96,823** | **(13)** | **1,606,038** | **632** | **1,606,670** |

(1) Reserves related to share capital correspond to premiums on shares issued for cash or assets, merger premiums and legal reserves.

(2) Other movements correspond to the appropriation of income to the legal reserve.

(3) Attributable to Mercialys SA shareholders.

(4) In the first half of 2009, a contribution of property assets to the Mercialys Group took place, paid for entirely through the issuing of newly created Mercialys shares. Costs relating to this transaction were deducted from additional paid-in capital. In the first half of 2010, an additional charge of Euro 352 thousand was recognized.

* A limited review has been performed by auditors on these results.

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# Notes to the consolidated financial statements

Half-year period to June 30, 2010

**Information relating to the Mercialys Group**

Mercialys is a *société anonyme* (corporation) governed by French law, created on October 12, 2005, specializing in retail property. Its head office is located at 10, Rue Cimarosa, 75116 Paris.
The Mercialys SA shares are listed on Euronext Paris, Compartment A.

The Company and its subsidiaries are hereinafter referred to as "the Group" or "the Mercialys Group".

The Mercialys Group's consolidated financial statements for the period ended June 30, 2010 reflect the accounting situation of the company and its subsidiaries and jointly controlled entities, as well as the Group's interests in affiliated companies. As with the financial statements to June 30, 2009, they are subject to a limited review by our statutory auditors.

The Mercialys Group's consolidated financial statements for the period ended June 30, 2010, were authorized by the Board of Directors on July 27, 2010.

## Note 1 Basis of preparation of the financial statements and accounting policies

### Note 1.1 Declaration of compliance

Pursuant to regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's consolidated financial statements have been prepared in accordance with the standards and interpretations applicable at June 30, 2010 published by the International Accounting Standards Board (IASB) adopted by the European Union at the date the financial statements were approved by the Board of Directors.

Information about these standards is available on the European Commission website (http://ec.europa.eu/internal_market/accounting/ias_en.htm). They include international accounting standards (IAS and IFRS) and interpretations of the Standing Interpretations Committee (SIC) and the International Financial Interpretations Committee (IFRIC)
(http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm).

### Note 1.2 Basis of preparation

The consolidated half-year financial statements, presented in summary form, have been prepared in accordance with IAS 34 ("Interim financial reporting").

The consolidated half-year financial statements do not contain all of the information and notes provided in the full-year financial statements. They should therefore be read in parallel with the Group's consolidated financial statements to December 31, 2009, which are available on request from the Communications Department, 10 Rue Cimarosa, Paris, or on the www.mercialys.com website.

The consolidated financial statements are stated in thousands of euros. The euro is the Group's functional currency. The statements have been prepared based on the historical cost method.
Figures in the tables have been rounded individually. There may be differences between arithmetic totals of these figures and the aggregates or subtotals shown.

## Note 1.3 Accounting methods

The accounting rules and methods used in preparing the summary half-year financial statements are the same as those used in the consolidated financial statements for the financial year ended December 31, 2009, including or excluding the new standards and interpretations described below.

### 1.3.1 Standards, amendments and interpretations applicable for the fiscal year beginning January 1, 2010

Application of the following revised standards, new standards and interpretations is compulsory for the 2010 fiscal year:

- IAS 27 as amended - Consolidated and Separate Financial Statements (prospective application);
- IFRS 3 as amended – Business Combinations (prospective application);
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement: Eligible Hedged Items (retrospective application);
- Amendments to IFRIC 9 and IAS 39 – Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement (retrospective application);
- IFRIC 17 – Distributions of Non-cash Assets to Owners (prospective application);
- Amendment to IFRS 2 - Share-based Payment: group cash-settled share-based payment transactions (retrospective application);
- Annual improvements to IFRS (April 16, 2009).

These new standards and interpretations have not had a material impact on the Group's financial statements on first-time application, it being specified that IAS 27 as amended and IFRS 3 as amended are applied prospectively, i.e. to transactions on or after January 1, 2010.

### 1.3.2 Standards for which application is mandatory after June 30, 2010 and not applied in advance

The Group is currently in the process of assessing the impacts following the first-time application of these new standards and interpretations but does not expect them to have a material impact:

- Amendment to IAS 32 – Classification of Rights Issues[*];
- IAS 24 as amended – Related Party Disclosures[*];
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments[*];
- Amendment to IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[1];
- IFRS 9 – Financial Instruments: Classification and Measurement[**];
- Annual improvements to IFRS (August 26, 2009)[**].

### 1.3.3 Changes in accounting methods

<u>IFRS 3 as amended – IAS 27 amended</u>
Application of the amended versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" is mandatory for the Group as of January 1, 2010. They are applied prospectively. Therefore, business combinations prior to January 1, 2010 are still recognized according to the accounting principles used when preparing the financial statements to December 31, 2009 and have not been affected by the application of these new standards.
The new IAS 27 as amended resulted in an amendment to IAS 7 "Statement of Cash Flows", applicable retrospectively. The application of this standard has not impacted the Group's financial statements to June 30, 2009.

[*] Adopted by the European Union
[**] Non adopted yet by the European Union

#### 1.3.4 Judgments and estimates

In preparing the consolidated financial statements, the Group is required to make a number of judgments, estimates and assumptions that affect certain assets and liabilities, income and expense items, and certain information provided in the notes to the financial statements. Because assumptions are inherently uncertain, actual results may differ significantly from these estimates. The Mercialys Group reviews its estimates and assessments on a regular basis to take past experience into account and incorporate factors considered relevant under current economic conditions.

The main line items in the financial statements that may depend on estimates are the following:
- Impairment allowances for doubtful receivables;
- Fair value of investment properties, as well as accounting treatment relating to the purchase of investment properties. For each transaction, the Group reviews whether the purchase should be treated as a business combination or as the purchase of a standalone asset on the basis of the assets and existing activity.

The financial statements reflect management's best estimates on the basis of information available at the reporting date.

All of these sources of judgments and/or estimates are described in more detail in the financial statements for the year ended December 31, 2009.

#### 1.3.5 Business combinations

IFRS 3 as amended changes the how the acquisition method is applied. The consideration transferred (acquisition cost) is measured at the fair value of the assets given, equity instruments issued and liabilities incurred at the date of exchange. The acquiree's identifiable assets and liabilities are measured at their fair value at the acquisition date. Any costs directly attributable to the acquisition are recognized as "other operating expenses".

The excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities results in the recognition of goodwill. At the date of the acquisition and for each combination, the Group can opt for the partial goodwill method (limited to the share acquired by the Group) or for the full goodwill method. If it opts for the full goodwill method, minority interests are measured at fair value and the Group recognizes goodwill on all identifiable assets and liabilities.

In the case of a business combination achieved in stages, the previously held equity interest is remeasured at fair value at the date of acquisition. The difference between the fair value and the net carrying value of this share is recognized directly in income for the year (as "other operating income" or "other operating expenses").

Amounts recognized at the acquisition date can result in adjustments, provided that the information allowing for these amounts to be adjusted corresponds to new information brought to the acquirer's knowledge and relating to facts and circumstances prior to the acquisition date. Goodwill cannot be adjusted after the end of the valuation period (a maximum period of 12 months from the date of acquisition). Subsequent acquisitions of minority interests shall not result in the recognition of additional goodwill.

In addition, earn-out payments are included in the acquisition cost at their fair value at the acquisition date and regardless of their probability. During the valuation period, subsequent adjustments are allowed against goodwill when they relate to facts and circumstances that existed at the acquisition date. After the end of this period, adjustments to earn-out payments are recognized directly in income ("other operating income" or "other operating expenses"), unless the earn-out payments are against an equity instrument.

IFRS 3 as amended changes the treatment of deferred tax assets, as it requires deferred tax assets that would not have been recognized at the acquisition date or during the valuation period to be recognized as income.

<u>Summary of changes: IAS 27 as amended</u>
IAS 27 as amended presents the consolidated financial statements of a group as those of a single economic entity with two ownership categories: owners of the parent company (Mercialys's shareholders) and owners of non-controlling interests (subsidiaries' minority shareholders). A non-controlling interest is defined as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent (hereinafter referred to as "minority interests").

As a result of this new approach, transactions with minorities resulting in a change of interests in the parent company without loss of control affect only equity, as control does not change within the economic entity.
As of January 1, 2010, in the case of the acquisition of an additional interest in a fully-consolidated subsidiary, the Group shall recognize the difference between the acquisition cost and the carrying value of minority interests as a change in equity attributable to Mercialys's shareholders.
Costs relating to such transactions are also recognized as equity. The same applies to disposals without loss of control.

As regards the sale of minority interests resulting in a loss of control, the Group records a disposal at 100% of the interests held followed, if applicable, by an acquisition at fair value of the share kept. The Group therefore recognizes a gain on the sale, presented as "Other operating income and expenses", for the entire interest (the portion sold and the portion kept), with remeasurement of the portion kept.

Impact of IAS 27 as amended on the Statement of Cash Flows (IAS 7)
The new IAS 27 as amended resulted in an amendment to IAS 7 "Statement of Cash Flows": cash flows resulting from the obtaining or loss of control in a subsidiary are allocated to net cash flow from investing activities, while cash flows resulting from changes in interests in a fully-consolidated subsidiary that do not result in a loss of control (encompassing increases in interests) are included in net cash flow from financing activities.

The change relative to the principle applied by the Group up to December 31, 2009 results from the presentation of cash flows relating to changes in the percentage interest held in a fully-consolidated subsidiary without change of control. These cash flows are now classified as cash flow from financing activities rather than cash flow from investing activities as previously.
This amendment is applied retrospectively. It has not impacted the figures in the cash flow statement to June 30, 2009, or the classification of transactions with equity affiliates or jointly-controlled companies, which are still classified as cash flow from investing activities.

### 1.3.6 Segment reporting

Since January 1, 2009, the Group has applied IFRS 8, the new standard relating to the presentation of segment reporting replacing IAS 14.

Segment reporting now reflects management's view and is established on the basis of internal reporting used by the chief operating decision maker (the Chairman and Chief Executive Officer) to make decisions about resources to be allocated and assess the Group's performance.
As the Group's Executive Management does not use a breakdown of operations to review operating matters, no segment reporting is provided in the financial statements.

To date, there is only one geographic segment, given that the Group’s asset portfolio consists entirely of properties located in France. In the future, however, the Mercialys Group does not rule out making investments outside France, in which case information would be disclosed for other geographic segments as well.

### 1.3.7 Tax

Mercialys has opted for SIIC tax status and therefore recognizes a tax charge only for its activities not exempt from tax.

**Note 2 Significant events**

There were no significant events in the first half of 2010.

**Note 3 Seasonal nature of activities**

The Group's activities are not subject to any seasonal effects.

**Note 4 Changes in the scope of consolidation**

As with the period to December 31, 2009, Mercialys Group's scope of consolidation consists of 21 companies, 19 of which are fully consolidated and two of which are proportionally consolidated.

**Note 5 Cash, cash equivalents and net debt**

The "net cash" and "net debt" aggregate items break down as follows for the half-year period to June 30, 2010 and the financial year ended December 31, 2009:

| **(in thousands of euros)** | | **June 30, 2010** * | **December 31, 2009** |
|---|---|---|---|
| Cash | | 378 | 2,768 |
| Cash equivalents | | 101 | 101 |
| Casino, Guichard-Perrachon current account | | 50,230 | 67,034 |
| **Gross cash** | | **50,709** | **69,903** |
| Bank facilities | | (982) | (2,045) |
| **Net cash** | | **49,727** | **67,858** |
| Debt (excluding bank overdrafts) | *Note 9* | (7,920) | (9,096) |
| **Net debt** | | **41,807** | **58,762** |

Under the terms of the liquidity agreement with Oddo & Cie, assets under management are invested in money-market funds. These funds meet the criteria for cash equivalents and are part of the net cash position.

**Note 6 Dividends paid, proposed or decided**

A gross dividend of Euro 1.00 per share in respect of the financial year ended December 31, 2009 was paid on May 14, 2010, minus the interim dividend of Euro 0.44 per share paid to shareholders in October 2009.

Payment of the final dividend represented an amount of Euro 51,380 thousand.

The dividend relating to the 2009 financial year therefore represented a total of Euro 91,170 thousand.

It will be proposed at the Board of Directors meeting in July 2010 to decide to pay an interim dividend for the 2010 financial year of Euro 0.50 per share, to be paid in October 2010.

**Note 7 Business combinations**

No business combinations were formed during the period ended June 30, 2010.

* A limited review has been performed by auditors on these results.

## Note 8 Investment property

### Acquisitions and disposals

The value of investment property increased by Euro 15 million in the first half of 2010. These investments correspond primarily to works carried out.

### Fair value of investment properties

At December 31, 2009, Atis Real, Catella and Galtier updated valuations on all of the appraisals they had made previously.
Concerning acquisitions made in 2009:

- ✓ The 25 properties acquired by means of a contribution of assets were valued as follows:
  - For the three buildings in Besançon and Arles forming part of lot 1 of the contribution transaction: Atis Real conducted the appraisal of these properties by including them in the overall valuation of the two sites in question.
  - For the 17 properties in lots 2 and 3 (seven properties to be developed and 10 hypermarkets to be redeveloped as shopping malls): the market values of these properties as determined by The Retail Consulting Group (RCG) at the time of the contribution were subject to an internal update as at December 31, 2009, validated by Atis Real.
  - For the five properties (store premises) in lot 4 of the contribution transaction: Catella Valuation conducted the appraisal of these properties by updating the appraisal conducted at the time of the contribution.
- ✓ The co-ownership lots in Villenave d'Ornon and Montélimar were valued by Atis Real by including them in the overall site valuation.
- ✓ The Geispolsheim shopping mall owned by SCI Geispolsheim - in which 50% of partnership shares were acquired by SAS Mery 2 - was valued at the purchase value of the shares by Mercialys.

Appraisers Atis Real, Catella and Galtier updated their valuation of Mercialys Group's portfolio at June 30, 2010. All sites were appraised on a like-for-like basis.

These appraisals, based on recurring rental revenues of Euro 149.3 million, value the property portfolio at Euro 2,467.8 million including transfer taxes at June 30, 2010, compared with a valuation of Euro 2,437.2 million at December 31, 2009 and Euro 2,381.0 million at June 30, 2009.
The portfolio value therefore rose by +3.6% over one year (+3.4% on a like-for-like basis), or by +1.3% over six months (+1.3% on a like-for-like basis).

Average capitalization rates on the basis of appraisal valuations are therefore:

| | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| Large shopping centers: | 5.6% | 5.7% | 5.8% |
| Neighborhood shopping centers: | 6.5% | 6.7% | 6.8% |
| Total portfolio: | 6.0% | 6.1% | 6.2% |

Therefore, assuming annual rental income of Euro 149.3 million and a capitalization rate of 6.0%, a 0.5% reduction in the capitalization rate would result in an increase in the fair value of properties of Euro 222.4 million. A 0.5% increase in the capitalization rate would reduce the fair value of the portfolio by Euro 188.4 million.

A 10% increase or decrease in rental income would have a positive or negative impact of Euro 246.8 million with a capitalization rate of 6.0%.
On the basis of these appraisals, no impairment was recorded in the financial statements to June 30, 2010, as in previous years.

**Note 9 Loans and borrowing**

In the first half of 2010, repayment of debt relating to all of the Group's financial leases amounted to Euro 1,176 thousand.

**Note 10 Contingent assets and liabilities**

No events in the first half of 2010 generated any contingent assets or liabilities.

**Note 11 Off-balance sheet commitments**

During the first half of the year, no options were exercised in relation to the Partnership Agreement between Mercialys and Casino, Guichard-Perrachon.

At the start of the year, Mercialys provided a guarantee for SCI GM Geispolsheim relating to a property development agreement. At June 30, 2010, this commitment concerned a maximum of Euro 3,820 thousand.

Mercialys has made a commitment by means of offer letters to acquire a number of co-ownership lots in Tarbes Laloubère for Euro 1,402 thousand.

Mercialys has made a commitment by means of memorandums of understanding to pay eviction and operating losses compensation to tenants. The balance of commitments given represents a total of Euro 1,033 thousand.

**Note 12 Related-party transactions**

The Mercialys Group maintains contractual relations with various companies of the Casino Group.

**Leases granted** by the Mercialys Group to companies of the Casino Group developed as follows in the first half of 2010:

- No change for Casino Restauration, with a total of 105 leases at June 30, 2010, including 94 relating to premises operated under the Casino Cafétéria name and 11 relating to premises operated under other names;
- Other Casino Group entities: +7 leases, representing a total of 132 leases at June 30, 2010.

Rents invoiced under these leases during the first half of 2010 amounted to:

- Euro 6,259 thousand for Casino Restauration;
- Euro 8,250 thousand for other entities.

Fees paid by Mercialys and its subsidiaries to Sudeco in respect of **Property Management** activities amounted to Euro 2,624 thousand in the first half of 2010.

No sites were acquired within the framework of the **Partnership Agreement** with the Casino Group in the first half of 2010.

The amount paid by Mercialys in respect of the **Service Agreement** came to Euro 455 thousand in the first half of 2010.

Compensation of Euro 571 thousand was recognized in the first half of 2010 in relation to the **Consulting Agreement** between Mercialys and L'Immobilière Groupe Casino and Alcudia Promotion.

In respect of the **Current Account and Cash Management Agreement** with Casino Guichard Perrachon, the Mercialys Group's current account balance stood at Euro 50,230 thousand and interest earned amounted to Euro 170 thousand in the first half of 2010.

As regards the agreements signed in relation to the contribution of assets to Mercialys in 2009, amounts were pre-paid to Casino Group companies. The following amounts were unused at June 30, 2010:

- **Delegated project management agreements** with IGC Services: Euro 46,401 thousand;
- **Delegated project management and project management assistance agreements** with IGC Promotion and Alcudia Promotion: Euro 604 thousand.

There were calls for funds relating to property development agreements with IGC Services. These calls for funds, recognized as receivables, represented an amount of Euro 898 thousand at June 30, 2010.
Amounts invoiced in the first half of 2010 in respect of short-term occupancy agreements with L'Immobilière Groupe Casino totaled Euro 2,442 thousand.

Other related-party transactions in addition to these agreements are summarized as follows:

| (in thousands of euros) | Income | Expense | Payables | Receivables |
|---|---|---|---|---|
| | | concerning related parties | | |
| | June 30 * | | | |
| ***Transactions with subsidiaries of the Casino Group*** | | | | |
| 2010 | 98 | 259 | 6,140 | 1,475 |
| 2009 | 1,135 | 1,563 | 2,552 | 808 |

| (in thousands of euros) | Income | Expense | Payables | Receivables |
|---|---|---|---|---|
| | | concerning related parties | | |
| | June 30 * | | | |
| ***Transactions with jointly controlled entities*** | | | | |
| 2010 | 0 | 142 | 5 | 532 |
| 2009 | 0 | 153 | 9 | 0 |

During the first half of 2010, Mercialys paid Casino Group companies the dividend in respect of the financial year ended December 31, 2009, minus the interim dividend paid in October 2009, representing Euro 26,310 thousand.

**Note 13 Identification of the consolidating company**

Mercialys is consolidated by the Casino Group under the full consolidation method.
The Casino Group held a 51.39% stake in the Company after elimination of treasury shares at June 30, 2010.

**Note 14 Subsequent events**

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

* A limited review has been performed by auditors on these results.

mercialys
L'Esprit Voisin.

# Statement by the person responsible for the interim financial report

To the best of my knowledge, the interim financial statements have been prepared in accordance with applicable accounting standards and give a fair view of the assets and financial position of the company and all subsidiaries included in the scope of consolidation and that the interim financial review gives a true and fair view of key events of the first six months of the year, their impact on the interim financial statements and the main related-party transactions, as well as a description of the main risks and uncertainties for the remaining six months of the year.

Paris, July 27, 2010

Jacques EHRMANN
Chairman and Chief Executive Officer

# Statutory auditors' review report on the first half-year consolidated financial statements for 2010

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

**Mercialys S.A.**
Registered office: 10, rue Cimarosa – 75116 Paris
Share capital: €.91 968 488
**Statutory Auditors' Review Report on the half-yearly consolidated financial statements**
For the six-month period ended 30 June 2010

To the Shareholders,

Following our appointment as statutory auditors by your shareholders' meeting and in accordance with article L.451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Mercialys for the six-month period ended 30 June 2010,
- the verification of information contained in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of directors. Our role is to express a conclusion on these financial statements based on our review.

**I. Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared in all material respects in accordance with IAS 34 - the standard of the IFRS as adopted by the European Union applicable to interim financial statements.

**II. Specific verification**

We have also verified information given in the half-yearly management report in respect of the condensed half-yearly consolidated financial statements that were subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

The Statutory Auditors

French original signed by

Paris La Défense, on the 27 July 2010
KPMG Audit
*A department of KPMG S.A.*

Régis Chemouny

Lyon, on the 27 July 2010
ERNST & YOUNG et Autres

Jean-Luc Desplat