MERCIALYS

HALF-YEAR FINANCIAL REPORT

OF THE BOARD OF DIRECTORS

First half of 2017

CONTENTS

KEY FIGURES

In millions of euros	06/30/2017	12/31/2016	06/30/2016
Invoiced rents	92.1	187.6	91.9
EBITDA	79.3	160.5	79.4
Funds from operations (FFO)	59.6	114.4	58.7

Operating performance	06/30/2017	12/31/2016	06/30/2016
Organic growth in invoiced rents excluding indexation	+2.8%	+3.5%	+2.9%
Current financial vacancy rate	2.2%	2.5%	2.4%
Occupancy cost ratio	10.2%	10.3%	10.3%

Per share data (in euros)	06/30/2017	12/31/2016	06/30/2016
Funds from operations (FFO), diluted average number of shares	0.65	1.25	0.64
EPRA NNNAV, number of shares at end of period	20.31	20.22	19.89[1]

Portfolio valuation and debt	06/30/2017	12/31/2016	06/30/2016
Fair value of portfolio (including transfer taxes) (in millions of euros)	3,698.9	3,797.3	3,689.0
Fair value of portfolio (excluding transfer taxes) (in millions of euros)	3,474.3	3,565.4	3,457.8
Average appraisal capitalization rate	5.14%	5.25%	5.28%
Loan To Value (LTV) ratio	39.6%[2]	41.2%	40.6%
Interest Coverage Ratio (ICR)[3]	4.9x	5.3x	6.1x

[1] Value adjusted since publication for H1 2016 (€20.48/share). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

[2] The pro forma LTV ratio from the sale of the Fontaine-lès-Dijon site, concluded in July 2017, came to 39.1%

[3] At June 30, 2016, the ICR reflected the positive impact of €1.9 million in gains linked to the fair value of financial instruments. Excluding this non-recurring impact, the ratio was 5.3x. At June 30, 2017, it was negatively impacted by a charge of the same type of €2.1 million.

1. ACTIVITY REPORT

1.1. Effective deployment of the operationnal and arbitrage strategy

The half-year results are very satisfactory in a market environment affected by the run-up to the elections in France, the unfavorable calendar effects and a textiles sector that is under pressure. A number of operational drivers have been rolled out, delivering organic growth (excluding indexation) of +2.8%.

The strong outperformance achieved by Mercialys assets in terms of footfall and retailer sales reflects the impact of the various projects carried out across a number of sites. Footfall has also benefited from the first effects of the digital loyalty program. Lastly, organic growth has benefited from sustained reversion, generated primarily by relettings, while the Casual Leasing business has continued to drive strong progress, introducing a number of new commercial concepts.

Alongside this, to offer performance analysis, communications and development tools for retailers, Mercialys has put in place a digital ecosystem of dedicated services for its tenants with “La Galerie des Services”, deployed in line with the G La Galerie brand.

Funds from operations (FFO) climbed to Euro 59.6 million, up +1.6% from the first half of 2016. Underlying FFO excluding the impact of disposals from 2017 shows growth of +5.3%. At the same time, EPRA NNNAV increased by +0.5% over six months to Euro 20.31 per share.

In line with the target to reduce its loan to value (LTV) ratio, Mercialys sold eight assets at the end of July for Euro 177.2 million including transfer taxes. Sales have focused on sites (1) that are no longer suitable for structuring projects to be deployed, (2) that are located in less attractive areas as defined by the Company, or (3) whose limited size is not aligned with Mercialys’ asset management and digital strategy.

As a result, the LTV came to 39.6% at end-June, and 39.1% pro forma for the Dijon site’s sale, completed in July, compared with 41.2% at end-December 2016. Mercialys will continue moving forward with this deleveraging strategy, benefiting from an environment with positive capitalization rates within a bullish cycle, building up significant headroom again for financing the Euro 586 million accretive development pipeline. The LTV is expected to head towards 37% by the end of the year.

Mercialys is reconfirming its objective for organic rental income growth excluding indexation of over +2% for 2017. Considering the schedule for disposals over the year and the quality of the operational performance achieved, the contraction in FFO will be less than the -5% announced at the start of the year. Taking this outlook and these results into consideration, the Board of Directors has decided to pay out an interim dividend of Euro 0.41 per share in October 2017. For the full year, the dividend will represent 85% to 95% of FFO and will be stable as a minimum compared with 2016.

1.1.1. Organic growth remains at an excellent level

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

(In thousands of euros)	06/30/2017	06/30/2016	% var
Invoiced rents	92,098	91,869	+0.2%
Lease rights	1,020	1,155	-11.7%
Rental revenues	**93,118**	**93,025**	**+0.1%**
Non-recovered service charges and property taxes	-3,508	-2,910	+20.6%
Property operating expenses	-3,155	-3,042	+3.7%
Net rental income	**86,455**	**87,072**	**-0.7%**

The **+0.2 point** increase in invoiced rents is the result of the following:

- continued robust organic growth in invoiced rents[4]: **+2.9 points**, i.e. +€2.7 million
- acquisitions and investments made in 2016: **+4.2 points**, i.e. +€3.8 million
- disposals of assets carried out in 2016 and 2017: **-6.7 points**, i.e. -€6.1 million
- other effects, primarily the strategic vacancy relating to current extension and redevelopment programs: **-0.1 points**, i.e. -€0.1 million

On a like-for-like basis, invoiced rents were up **+2.9%**, including in particular:

- **+0.1 points** as a result of indexation[5]
- **+2.0 points** as a result of actions carried out on the portfolio, renewals and re-letting having generated an average growth in the annualized rental base of +16.7%[6] in the first half of 2017
- **+0.8 points** generated by the development in the Casual Leasing business, which represented €4.1 million in rents in the first half of 2017, i.e. an increase of +22.4% compared to the first half of 2016

Rental revenues came to €93.1 million on June 30, 2017, stable versus the first half of 2016.

Lease rights and despecialization indemnities received during the period amounted to €0.6 million, versus €0.2 million in the first half of 2016, broken down as follows:

- €0.6 million of lease rights related to ordinary re-letting business (vs. €0.1 million in the first half of 2016)
- a non-significant amount of despecialization indemnities (€0.1 million in the first half of 2016)

After the impact of deferrals over the firm period of the lease required under IFRS, lease rights recognized in the first half of 2017 totaled €1.0 million, compared with €1.2 million in the first half of 2016.

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

[4] Assets enter the like-for-like scope used to calculate organic growth after being held for 12 months.
[5] In the first half of 2017, for the majority of leases, rents were indexed either to the change in the construction cost index (ICC) or to the change in the retail rent index (ILC) between the second quarter of 2015 and the second quarter of 2016 (+0.5% and stable, respectively).
[6] Vacant at last known rent for re-lettings

Costs included in the calculation of net rental income represent €6.7 million for the first half of 2017, versus €6.0 million in the first half of 2016. The ratio of non-recovered property operating charges to invoiced rents stood at 7.2% in the first half of 2017 versus 6.5% in the first half of 2016. Through the slight fall in the effect of lease rights and the increase in property operating charges, net rental income saw a slight decline of -0.7% at June 30, 2017 compared to June 30, 2016, at €86.5 million versus €87.1 million.

1.1.2. Management indicators demonstrating the robustness of the model

The Mercialys shopping centers continued to outperform the sector in France, both in terms of footfall and in retailer sales trends[7].

In total, for the year to end-May 2017, **retailer sales** in Mercialys' large centers and main neighborhood shopping centers was up by 1.8% (at constant surface area), compared with a decline of 1.6% for the entire shopping center market (French National Council of Shopping Centers – CNCC), representing a positive spread of 340 bp.

Footfall at Mercialys' large and main neighborhood shopping centers, for its part, was up 0.8% on a cumulative basis as of the end of June 2017, compared with a decline of 2.5% for the centers in the CNCC index, i.e. a positive spread of 330 bp.

The **current financial vacancy rate** – which excludes "strategic" vacancies designed to facilitate expansion and redevelopment plans – remained at a very low level. It stood at 2.2% at June 30, 2017, slightly lower than the rates observed in 2016 (2.5% at December 31, 2016 and 2.4% at June 30, 2016). The total vacancy rate[8] stood at 3.6% at June 30, 2017, a level close to those observed at December 31, 2016 (3.9%) and at June 30, 2016 (3.4%), and is due to the significant number of redevelopment and extension projects currently in progress.

The **occupancy cost ratio**[9] for our tenants stood at 10.2% in large shopping centers, down slightly compared with December 31, 2016 (10.3%) following the disposals conducted over the six-month period. This ratio remains at a modest level compared with that of Mercialys' peers in France. It reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

The **recovery rate** over 12 months to the end of June 2017 remained high at 97.1% of billing, in line with the rates observed at the end of December (97.1%) and at the end of June 2016 (97.6%). In parallel to this, the number of tenants in liquidation at June 30, 2017 remained marginal at 34 tenants out of 2,108 leases in the portfolio (compared to 29 at December 31, 2016).

1.1.3. Changes in the lease structure

Rents received by Mercialys come from a wide range of retailers. With the exception of retailers in the Casino Group and H&M (3.2%), no other tenant represents more than 2% of total rental income.

[7] Mercialys' large centers and main market-leading local-format centers based on a constant surface area. The Quimper site was reintegrated in the panel following the completion of extensive work

[8] In accordance with the EPRA calculation method: rental value of vacant units/ (annualized guaranteed minimum rent on occupied units + rental value of vacant units)

[9] Ratio of rent and service charges paid by retailers to their sales figures (excluding large food stores): (rent + charges including tax)/sales including tax

Casino accounted for 30.3% of total rental income at June 30, 2017, versus 31.5% at December 31, 2016 and 32.7% at June 30, 2016. This trend is largely due to the gradual transformation of hypermarket lots in order to establish distinctive national and international retailers to generate store traffic.

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

	Number of leases	GMR* + annual variable 06/30/2017 (in millions of euros)	06/30/2017 (in %)	06/30/2016 (in %)
National and international retailers	1,410	100.5	57.6%	55.1%
Local retailers	625	21.2	12.2%	12.2%
Casino cafeterias/restaurants	5	1.0	0.6%	1.0%
Monoprix	9	11.4	6.5%	6.4%
Géant Casino and other entities	59	40.5	23.2%	25.4%
Total	**2,108**	**174.6**	**100.0%**	**100.0%**

** GMR = Guaranteed minimum rent*

The **breakdown by business sector** (including large food stores) of Mercialys rents also remains highly diversified:

	06/30/2017	06/30/2016
Restaurants and catering	6.8%	6.5%
Health and beauty	10.2%	10.5%
Culture, gifts and sports	11.7%	11.5%
Personal items	32.1%	30.2%
Household equipment	7.5%	7.3%
Food-anchored tenants	29.1%	31.3%
Services	2.5%	2.7%
Total	**100.0%**	**100.0%**

The **structure of rents** at June 30, 2017 shows that leases with a variable component represent the dominant share in terms of rent:

	Number of leases	In millions of euros	06/30/2017 (in %)	06/30/2016 (in %)
Leases with variable component	1,193	91.7	53%	48%
- of which guaranteed minimum rent		*87.2*	*50%*	*46%*
- of which variable rent		*4.5*	*3%*	*2%*
Leases without a variable component	915	82.9	47%	52%
Total	**2,108**	**174.6**	**100%**	**100%**

Given the inclusion in the scope of medium-sized stores, leases with a variable component represented a higher proportion of total rental income at June 30, 2017 than at June 30, 2016.

Furthermore, leases linked to the ILC (French Commercial Rent Index) made up the predominant share of rents as of June 30, 2017.

	Number of leases	In millions of euros	06/30/2017 (in %)	06/30/2016 (in %)
Leases linked to the ILC index (Retail rent index)	1,524	153.5	90%	88%
Leases linked to the ICC index (Construction cost index)	351	14.4	8%	11%
Leases linked to the ILAT index (Tertiary activities rent index) or non-revisable leases	233	2.2	1%	1%
Total	**2,108**	**170.1**	**100%**	**100%**

1.1.4. Management revenues, operating costs and EBITDA

(In thousands of euros)	06/30/2017	06/30/2016	% var
Net rental income	**86,455**	**87,072**	**-0.7%**
Management, administrative and other activities income	2,537	1,764	+43.9%
Other income and expenses	-3,262	-2,802	+16.4%
Staff costs	-6,411	-6,623	-3.2%
EBITDA	**79,319**	**79,411**	**-0.1%**
% rental revenues	85.2%	85.4%	-

Management, administrative and other activities income primarily comprises fees charged in respect of services provided by certain Mercialys staff – whether within the framework of advisory services provided by the asset management team, which works on a cross-functional basis for Mercialys and the Casino Group, or within the framework of shopping center management services provided by teams – as well as letting, asset management and advisory fees relating to partnerships formed.

The fees charged at June 30, 2017 amounted to €2.5 million, compared to €1.8 million at June 30, 2016, an increase resulting primarily from the billing of €0.8 million in fees for licenses to use the "G La Galerie" brand.

No **property development margin** was recognized either in the first half of 2017 or in the first half of 2016.

Other recurring income of €0.3 million recognized in the first half of 2017 includes dividends received from the OPCI fund created in partnership with Union Investment in 2011. Ownership of this real estate investment fund is split between Union Investment (80%) and Mercialys (20%) and is recorded in Mercialys' accounts under non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and letting. These dividends, similar to net rental income, are recognized as operating income.

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

In the first half of 2017, these costs amounted to €3.5 million compared with €3.2 million in the first half of 2016. This development particularly reflects the implementation of communication strategies and action plans aimed at increasing footfall in shopping centers and services to retailers.

Staff costs amounted to €6.4 million in the first half of 2017, down slightly from the amount recorded in the first half of 2016 (€6.6 million).

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

As a result of the above, **EBITDA**[10] amounted to €79.3 million at June 30, 2017, almost stable compared to June 30, 2016 (€79.4 million). The EBITDA to rental revenues ratio was excellent at the end of June 2017, at 85.2% compared with 85.4% at the end of June 2016.

1.1.5. Net financial items

Net financial expenses amounted to €17.1 million at June 30, 2017 versus €13.3 million at June 30, 2016. Adjusted for the impact of non-recurring items (hedging ineffectiveness and banking default risk), which represents an expense of €2.1 million (versus an income of €1.9 million at the end of June 2016), net financial expenses amounted to €15.1 million, vs. €15.3 million for the first half of 2016.

The **actual average cost** of debt drawn at June 30, 2017 was 1.9%, down from the cost recorded at June 30, 2016 (2.1%) and December 31, 2016 (2.0%).

The table below shows the breakdown of net financial items:

(in millions of euros)	06/30/2017	06/30/2016	% var
Income from cash and equivalents *(a)*	**0.0**	**0.1**	**-46.3%**
Cost of financing put in place *(b)*	-18.3	-19.9	-8.3%
Impact of hedging instruments *(c)*	2.1	6.8	-69.7%
Cost of finance leases *(d)*	0.0	0.0	n/a
Gross finance costs excluding exceptional items	**-16.2**	**-13.2**	**+23.3%**
Exceptional depreciation of costs in relation to early repayment of bank loans *(e)*	0.0	0.0	n/a
Gross finance costs *(f) = (b)+(c)+(d)+(e)*	**-16.2**	**-13.2**	**+23.3%**
Net finance costs *(g) = (a)+(f)*	**-16.2**	**-13.1**	**+23.7%**
Cost of Revolving Credit Facility and bilateral loans (undrawn) *(h)*	-1.1	-0.9	+14.6%
Other financial expenses *(i)*	0.0	0.0	n/a
Other financial expenses excluding exceptional items *(j) = (h)+(i)*	**-1.1**	**-0.9**	**+14.5%**
Exceptional depreciation in relation to refinancing of the RCF *(k)*	0.0	0.0	n/a
Other financial expenses *(l) = (j)+(k)*	**-1.1**	**-0.9**	**+14.5%**
TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*	**-17.3**	**-14.1**	**+22.7%**
Income from associates	0.0	0.0	n/a
Other financial income	0.1	0.7	-82.0%
Other financial income *(n)*	**0.1**	**0.7**	**-82.0%**
TOTAL FINANCIAL INCOME *(o) = (a)+(n)*	**0.2**	**0.7**	**-78.0%**
NET FINANCIAL ITEMS *(m)+(o)*	**-17.1**	**-13.3**	**+28.3%**

[10] Earnings before interests, tax, depreciation and amortization

1.1.6. Funds from operations (FFO) and Net income, Group share

1.1.6.1. Funds from operations (FFO)

(In thousands of euros)	06/30/2017	06/30/2016	% var
EBITDA	**79,319**	**79,411**	**-0.1%**
Net financial items (excluding impact of hedging ineffectiveness and banking default risk)	-15,064	-15,257	-1.3%
Reversals / (allowance) for provisions	416	72	n/a
Other operating income and expenses (excluding gains on disposals and impairment)	-169	-3	n/a
Tax charge	-1,133	-661	+71.5%
Share of income from equity associates	1,343	308	n/a
Non-controlling interests excluding capital gains and amortization	-5,098	-5,195	-1.9%
FFO	**59,614**	**58,675**	**+1.6%**
FFO per share	***0.65***	***0.64***	***+1.7%***

The tax regime for French REIT (SIIC) companies exempts them from paying tax on their income from real estate activities provided that at least 95% of income from rental activities and 60% of gains on the disposal of real estate assets are distributed to shareholders. The tax expense recognized by Mercialys thus consists of French corporate value-added tax (CVAE), income tax on activities that do not have SIIC status, deferred taxes and, where applicable, the 3% contribution on dividends on results or capital gains not subject to the distribution obligations under the SIIC status.

In the first half of 2017, the Company recorded a **tax charge** of €1.1 million, primarily composed of €0.8 million in CVAE and €0.3 million in income tax. The tax charge for the first half of 2016 amounted to €0.7 million.

Mercialys' **share of income from equity associates** at June 30, 2017 amounted to €1.3 million versus €0.3 million for the same period in 2016. This change is due to the recognition of the contribution of SCI Rennes Anglet since June 2016 (SCI Rennes Anglet owns the redeveloped hypermarkets of these two sites, as well as the gallery and a medium-sized unit in Anglet), and the contribution of the shopping center assets in Niort and Albertville acquired in December 2016 by SCI AMR.

Companies consolidated under the equity method in the Mercialys consolidated financial statements include SCI AMR (created in partnership with Amundi Immobilier in 2013), SNC Aix 2 (of which Mercialys acquired 50% in December 2013, with Altarea Cogedim owning the other 50%), Corin Asset Management SAS (of which Mercialys owns 40%) and SCI Rennes Anglet (of which Mercialys owns 30%).

SNC Fenouillet Participation was recognized as a partnership until November 2016. Following the exercise of the fair-value call it held with Foncière Euris, Mercialys acquired 100% of this company, which has been fully consolidated since the opening of the Espaces Fenouillet shopping center extension.

Non-controlling interests (excluding capital gains and amortization) amounted to €5.1 million at June 30, 2017 versus €5.2 million at June 30, 2016. These are linked to BNP Paribas REIM France's 49% stake in Hyperthetis Participations and Immosiris. As Mercialys has full control of these subsidiaries, they are fully consolidated.

On the basis of these items, the **Funds from operations (FFO)**, which correspond to the net income before amortization, capital gains net of charges, any depreciation of assets, and other non-recurring effects, amounted to €59.6 million at June 30, 2017, versus €58.7 million at June 30, 2016, a rise of 1.6%. Considering the weighted average number of fully diluted shares at the end of the half-year, FFO represented €0.65 per share at June 30, 2017, versus €0.64 per share at June 30, 2016, i.e., an increase of 1.7%. Excluding the effect of disposals made in the first half of 2017, FFO would be up by 5.3%.

1.1.6.2. Net income, Group Share

(In thousands of euros)	06/30/2017	06/30/2016	% var
FFO	59,614	58,675	+1.6%
Depreciation and amortization	-16,983	-14,762	+15.0%
Other operating income and expenses	8,599	3,629	n/a
Hedging ineffectiveness and banking default risk	-2,057	1,915	n/a
Non-controlling interests: capital gains and amortization	895	796	+12.4%
Net income, Group share	**50,067**	**50,253**	**-0.4%**

Depreciation, amortization and provisions amounted to €17 million at June 30, 2017 versus €14.8 million at June 30, 2016, reflecting investments made by Mercialys, particularly in development projects, as well as the acquisition of two Monoprix sites at the end of June 2016 and the extension of the Toulouse Fenouillet shopping center in the fourth quarter of 2016.

Other operating income and expenses correspond to the amount of capital gains on real estate asset sales net of costs associated and impairment of investment properties.

Other operating income amounted to €150.8 million at June 30, 2017 compared with €42 million at June 30, 2016. This amount mainly includes:

- the income of €149.9 million related to disposals made over the period, i.e., five service malls, the redeveloped Toulouse hypermarket and the Poitiers site
- provision reversal on impairment relating to a sold site for an amount of €0.7 million

Other operating expenses totaled €142.2 million at June 30, 2017 compared with €38.4 million at June 30, 2016. This amount corresponds primarily to:

- the net book value of assets sold in first half of 2017 and costs associated with these sales (€138.0 million)
- impairments of investment properties (€4.2 million).

On this basis, the amount of net capital gains recorded for asset disposals in the first half of 2017 in the consolidated financial statements at June 30, 2017 was €13.1 million.

Consequently, the **net income, Group share**, as defined by IFRS standards, amounted to €50.1 million at June 30, 2017 versus €50.3 million at June 30, 2016, a slight decline of -0.4%.

1.2. Completions, investments and disposals

1.2.1. The implementation of the development pipeline continues to yield results

Four large food store redevelopments were completed in the first half of 2017 to enable them to house medium-sized stores and national and international retailers which will increase footfall in these shopping centers. As a result, H&M, Sostrene Grene and Kiko have in particular opened in the newly transformed Quimper site, Vib's and Armand Thierry in Fréjus, FNAC in Saint-Etienne, and New Yorker in Poitiers.

Mercialys is moving forward with its **controlled development pipeline**, representing €97 million in investment between now and 2019, of which €62 million is yet to be spent, which will generate an additional €6.6 million in annualized rental income.

The Company will benefit from the following project completions scheduled for the second half of 2017:

- Five large food store redevelopments at the Angers, Narbonne, Nîmes, Rennes, and Toulouse sites. In total, the nine large food store redevelopments that will be completed in 2017 will generate annual rents of €1.9 million, representing a yield rate of 7.5%.
- Mercialys will deliver three major shopping center extensions in Rennes, Morlaix and Saint-Etienne in December 2017, generating €3.3 million in rental income for a yield of 7.0%.

Mercialys has also identified a **potential development pipeline** valued at €489 million, representing an additional €26.2 million in annualized rental income. This potential pipeline will be implemented by 2022 and focuses on major projects (such as the extension of the Marseille Plan-de-Campagne shopping center) and shopping center and retail parks extensions in metropolitan France and Réunion Island. Mercialys will also develop mixed-use city center projects on assets acquired from Monoprix. This will involve both the extension of retail spaces and the creation of residential areas (apartments, retirement properties, etc.), representing almost €85 million in works.

(in millions of euros)	Total investment	Investment still to be initiated	Net rental income forecast	Net yield on cost forecast	Completion date
Transformation of large food stores acquired in H1 2014	12.3	8.8	0.9	6.9%	2017 and 2018
Transformation of large food stores acquired in H2 2014	4.6	3.0	0.4	9.5%	2017 and 2018
Transformation of large food stores acquired in H1 2015	20.4	20.4	1.3	6.4%	2017 to 2019
Transformation of large food stores acquired in H2 2015	12.3	11.9	0.7	6.1%	2017 to 2019
Extensions (Rennes, Saint-Étienne, Morlaix)	47.0	18.4	3.3	7.0%	2017
TOTAL CONTROLLED PIPELINE	**96.6**	**62.4**	**6.6**	**6.9%**	
Extensions and Retail Parks	404.4	400.0	26.2	6.5%	2019 to 2022
High Street Retail mixed-use projects	85.0	84.0	n/a	n/a	
TOTAL POTENTIAL PIPELINE[11]	**489.4**	**484.0**	**26.2**	**6.5%**	
TOTAL[12]	**586.0**	**546.5**	**32.8**	**6.6%**	

[11] Yield excluding the impact of mixed-use high street retail projects, which may also generate property development margins
[12] The amounts and yields may change depending on the implementation of projects

1.2.2. Significant progress in the disposal plan: € 177 million in arbitrages at the end of July 2017

In 2017 Mercialys launched an arbitrage plan that aims to reduce the Loan-To-Value (LTV) significantly below 40% by the end of 2017. In this still favorable interest rate environment, the purpose of this plan is to generate value, particularly from mature assets or assets with limited development potential, while providing the company with the flexibility to finance a controlled and potential accretive pipeline.

At end-July 2017, Mercialys had sold eight assets for a combined total of €177.2 million including transfer taxes.

In January 2017, Mercialys sold **five service malls** to the Casino Group, representing a total of around 14,600 sq.m, for €38.9 million including transfer taxes for an exit yield of 5.8%. This arbitrage involved geographically dispersed assets that were unsuitable for large-scale redevelopment projects owing to their individual size (less than 5,000 sq.m). The Casino Group was the natural buyer for these assets, given their proximity to Géant hypermarkets.

Also in January 2017, Mercialys sold the **redeveloped hypermarket at Toulouse Fenouillet** to the Casino group for €32.8 million including transfer taxes for an exit yield of 5.0%. Mercialys had already undertaken two projects to create additional shopping retail spaces within the hypermarket to enhance the site's appeal. One the one hand, it has transformed 2,600 sq.m of storage space into medium-sized stores and retail outlets as part of its extension of the shopping center, letting the units to Terranova, Calliope, and Okaïdi & Obaïbi. On the other, it has also created a 2,000 sq.m medium-sized unit, which is still in the process of being let.

In June 2017, Mercialys concluded the sale of the **Poitiers Beaulieu** site with a family office financed by HSBC for €78 million including transfer taxes for an exit yield of 5.8%. This shopping center was fully renovated in 2016 and benefited from the arrival of New Yorker's new store concept on over 1,100 sq.m in the first half of 2017.

Lastly, in **July** 2017, Mercialys sold the **Fontaine-lès-Dijon** site to a fund created by Stam Europe on behalf of Helaba Invest, for a total of €27.5 million including transfer taxes for an exit yield of 5.4%. This shopping center has undergone three waves of restructuring and renovation since 2008.

1.3. Property asset appraisal

Mercialys' assets are appraised twice yearly by independent experts.

On this basis, **the portfolio was valued at** €3,698.9 million (including transfer taxes) as of June 30, 2017, compared with €3,797.3 million as of December 31, 2016. Excluding transfer taxes, the portfolio value amounted to €3,474.3 million at the end of June 2017 versus €3,565.4 million at the end of December 2016.

The value of the portfolio including transfer taxes was therefore down -2.6% over 6 months (+1.5% on a like-for-like basis[13]) and slightly up by 0.3% over 12 months (+2.9% on a like-for-like basis).

The **average appraisal yield rate** came to 5.14% at June 30, 2017, compared with 5.25% at December 31, 2016 and 5.28% at June 30, 2016. The compression by 11 basis points recorded in the first half of

[13] Sites on a like-for-like basis in terms of gross leasable area (GLA)

the year comes mostly from a mix effect following the sale of 5 service galleries and the Poitiers site for an exit yield of 5.8%.

The change in the fair value of assets including transfer taxes over six months (-€98.3 million) came from:

- an increase in rents on a like-for-like basis: +€18.3 million
- a decrease in the average capitalization rate: +€35.0 million
- changes in scope of consolidation: -€151.5 million

The contribution of the Casual Leasing business to value creation is significant since it represents €170.5 million of the appraisal value as of June 30, 2017 (+0.2% by comparison to December 31, 2016) although it involves no counterparty investments.

Type of property	Average capitalization rate 06/30/2017	Average capitalization rate 12/31/2016	Average capitalization rate 06/30/2016
Large/regional shopping centers	4.94%	5.02%	5.04%
Neighborhood shopping centers	5.79%	5.91%	6.02%
Total portfolio[14]	5.14%	5.25%	5.28%

The following table gives the breakdown of Mercialys' portfolio by market value and gross leasable area (GLA) by type of asset at June 30, 2017, as well as corresponding appraised rents:

Type of property	Number of assets as at 06/30/2017	Appraisal value excluding TT as at 06/30/2017		Gross leasable area as at 06/30/2017		Appraised potential net rental income	
		(in €mn)	(%)	(sq.m)	(%)	(in €mn)	(%)
Large/regional shopping centers	24	2,654.3	76%	628,302	72%	139.4	73%
Neighborhood shopping centers and city center assets	34	798.4	23%	238,263	27%	49.3	26%
Sub-total shopping centers	**58**	**3,452.6**	**99%**	**866,565**	**99%**	**188.7**	**99%**
Other sites[14]	6	21.7	1%	9,102	1%	1.6	1%
Total	**64**	**3,474.3**	**100%**	**875,667**	**100%**	**190.3**	**100%**

1.4. Financial structure

1.4.1. Debt cost and structure

As of June 30, 2017, the amount of Mercialys' **drawn debt** was €1,501.2 million, comprising:

- a bond issue of a nominal amount of €750 million, yielding a fixed rate of 1.787% and maturing in March 2023

[14] Including other assets (large specialty stores, independent cafeterias and other standalone sites)

- a residual bond of €479.7 million (of the €650 million bond issue in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019
- €272 million of commercial papers outstanding yielding a slightly negative average rate.

Net financial debt stood at €1,390.1 million as of June 30, 2017, compared with €1,485.8 million as of December 31, 2016.

The Group had **cash and cash equivalents** of €92.4 million as of June 30, 2017, compared with €15.3 million as of December 31, 2016. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:

- net cash flow from operating activities during the period: +€91.9 million
- cash receipts/payments related to disposals/acquisitions of assets completed in the first half of 2017: +€85.6 million
- dividend payments to shareholders and non-controlling interests: -€63.0 million
- the redemption of commercial papers for a net amount: -€18.5 million
- net interest paid: -€16.3 million

The **cost of drawn debt** was 1.9% at June 30, 2017, compared with 2.0% at December 31, 2016 and 2.1% at June 30, 2016, Mercialys benefited from a slightly negative average rate on the issue of commercial papers over the period.

Taking into account the current rate hedging policy, Mercialys' **debt structure** at June 30, 2017 was as follows: 71% fixed-rate debt and 29% variable-rate debt compared with 64% and 36% respectively at the end of 2016, Mercialys having achieved favorable rates as part of its hedging policy.

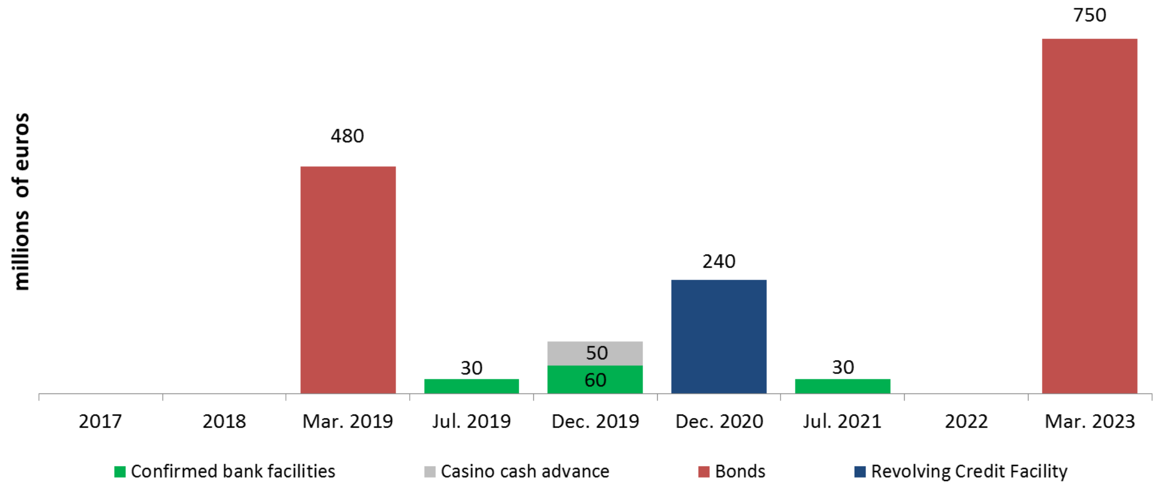
1.4.2. Liquidity and debt maturity

The **average maturity of drawn debt** was 3.4 years as of June 30, 2017 versus 3.8 years as of December 31, 2016 and 4.3 years as of June 30, 2016.

Mercialys also has **unused financial resources** of €410 million that will be used to finance ordinary business activities and the cash requirements of the Company and its subsidiaries, with a comfortable level of liquidity:

- a bank revolving credit facility of €240 million maturing in December 2020. The margin over Euribor is 115 basis points (bp); if unused, this facility is subject to payment of a 0.46% non-use fee (for a BBB rating),
- two confirmed bank facilities for a total amount of €60 million, maturing in December 2019. The margin over Euribor is lower than 100 bp (for a BBB rating),
- two confirmed bank facilities of €30 million each, maturing in July 2019 and July 2021. The margin over Euribor is lower than 100 bp for each of these lines,
- cash advances from Casino up to a threshold of €50 million, maturing in December 2019, subject to an interest rate comprised between 60 bp and 85 bp above Euribor,
- a commercial paper program of €500 million was set up in the second half of 2012. Of this sum, €272 million has been used (outstanding as of June 30, 2017).

The chart below shows the Group's **debt maturity schedule** as at June 30, 2017 (including undrawn financial resources and excluding commercial paper).



1.4.3. Bank covenants and financial rating

Mercialys' financial position at June 30, 2017 satisfied all the various covenants included in the various credit agreements.

The **Loan To Value (LTV) ratio** (net financial debt/assets appraisal value excluding transfer taxes) was 39.6% at the end of June 2017, significantly below the contractual covenant (LTV <50%). Pro forma from the sale of the Fontaine-lès-Dijon site, concluded in July 2017, LTV came to 39.1%.

	06/30/2017	12/31/2016	06/30/2016
Net financial debt (in millions of euros)	1,390.1	1,485.8	1,415.3
Appraisal value excluding transfer taxes (in millions of euros)[15]	3,513.1	3,604.4	3,486.7
Loan To Value (LTV)	**39.6%**	**41.2%**	**40.6%**

Likewise, the ratio of EBITDA to net finance cost (**ICR: Interest Coverage Ratio**) was 4.9x, well above the bank covenant requirement (ICR > 2):

	06/30/2017	12/31/2016	06/30/2016
EBITDA (in millions of euros)	79.3	160.5	79.4
Net finance cost	-16.2	-30.4	-13.1
Interest Coverage Ratio (ICR) [16]	**4.9x**	**5.3x**	**6.1x**

[15] Including the value on the balance sheet of investments in associates for €38.8 million at June 30, 2017, the asset value of the equity associates is not taken into account in the appraisal value.
[16] At June 30, 2016, the ICR reflected the positive impact of €1.9 million in gains linked to the fair value of financial instruments. Excluding this non-recurring impact, the ratio was 5.3x. At June 30, 2017, it was negatively impacted by a charge of the same type of €2.1 million.

The two other bank covenant requirements are also met:

- the **market value of properties excluding transfer taxes** as at June 30, 2017 was €3,474.3 million (above the contractual covenant that sets a market value excluding transfer taxes of over €1 billion)
- a **ratio of secured debt/market value excluding transfer taxes** of less than 20%. Mercialys had no secured debt as at June 30, 2017.

Mercialys is rated by Standard & Poor's. On June 6, 2017, this agency reiterated that it rated Mercialys as BBB/stable outlook.

1.5. Shareholders' equity and shareholding structure

Consolidated shareholders' equity was €923.1 million as of June 30, 2017, versus €934.2 million as of December 31, 2016.

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

- net income for the first half of 2017: +€54.3 million
- payment of the final dividend for the 2016 financial year of €0.63 per share and dividends paid to non-controlling interests: -€63.1 million
- transactions on treasury shares: -€1.1 million

The **number of shares outstanding** at June 30, 2017 amounted to 92,049,169, unchanged compared to December 31, 2016.

	06/30/2017	2016	2015	2014
Number of shares outstanding				
- At start of period	92,049,169	92,049,169	92,049,169	92,049,169
- At end of period	92,049,169	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,049,169	92,049,169	92,049,169	92,049,169
Average number of shares (basic)	**91,804,967**	**91,856,715**	**91,767,764**	**91,826,157**
Average number of shares (diluted)	**91,804,967**	**91,856,715**	**91,767,764**	**91,826,157**

As at June 30, 2017, Mercialys' ownership structure was as follows: Casino (40.16%), Generali (8.01%), Foncière Euris[17] (1.00%), treasury shares and shares held by employees (0.35%), other shareholders (50.48%).

1.6. Risk factors and transactions with related parties

No new risk factors were identified during the first half of 2017.

A detailed description of the main risks to which Mercialys is exposed is provided in Section 8 of the 2016 Registration Document (pages 193 to 205).

[17] Foncière Euris also holds an option of 0.99% through a derivative instrument with physical settlement. In addition, with Rallye it is economically exposed on 4.5% on an exclusive cash settlement basis.

Similarly, no significant change in relations with related parties took place during the first half of 2017.

A description and an update of the main contracts and agreements governing relationships with related parties is available in Note 17 of this half-year financial report and in Section 7 of the 2016 Registration Document (pages 177 to 191).

1.7. Outlook and distribution

Based on the excellent results achieved by Mercialys for the first half of 2017 and the Company's outlook, Mercialys' Board of Directors decided during its meeting on July 26, 2017 **to pay out an interim dividend** of Euro 0.41 per share. This interim dividend, which will be paid on October 23, 2017, corresponds to 50% of the dividend distributed for 2016 in respect of the recurring tax profit.

Mercialys' full year dividend will **as a minimum be stable** compared with 2016, ranging from 85% to 95% of its 2017 FFO.

Given the very satisfactory performance of the first half of 2017, **Mercialys' objectives for the full year 2017** are as follows:

- organic rental income growth excluding indexation to come in +2% compared with 2016, in line with the objective set in February 2017;
- FFO to contract by less than the -5% announced at the start of the year, considering the schedule for disposals over the year and the quality of the operational performance achieved.

1.8. Events after the reporting period

On July 19, 2017, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe on behalf of Helaba Invest, for €27.5 million including transfer taxes, representing an exit yield of 5.4%.

2. EPRA PERFORMANCE MEASURES

Mercialys applies EPRA's recommendations[18] to develop the following detailed indicators. The EPRA is the representative body of real estate companies listed in Europe, and in this capacity, it issues recommendations on performance indicators to improve the comparability of the financial statements published by the various companies. In its Half-year Financial Report and its Registration Document, Mercialys publishes all EPRA indicators defined by the "Best Practices Recommendations" which may be found on EPRA's website.

2.1. EPRA earnings and earnings per share

The table below shows the relationship between the net income, Group share and "earnings per share" as defined by EPRA:

(in millions of euros)	06/30/2017	06/30/2016
Net income, Group share	**50.1**	**50.3**
Non-controlling interests: capital gains and amortization	-0.9	-0.8
Hedging ineffectiveness and banking default risk	2.1	-1.9
Capital gains or losses on disposals and depreciations included in other operating income and expenses	-8.6	-3.6
Depreciation and amortization	17.0	14.8
Property development margin	0.0	0.0
EPRA EARNINGS	**59.6**	**58.7**
Number of shares (end of period)	92,049,169	92,049,169
EPRA EARNINGS PER SHARE (in euros per share)	**0.65**	**0.64**

The calculation of the FFO (funds from operations) communicated by Mercialys is identical to the EPRA earnings. There are no adjustments to be made between these two indicators.

2.2. EPRA net asset value (EPRA NAV)

(in millions of euros)	06/30/2017	06/30/2016
Shareholders equity attributable to owners of the parent	**718.5**	**707.1**
Unrealized gains on investment properties	1,177,1	1,186.8
Unrealized gains on non-consolidated investments and associates	28.0	13.8
Fair value of financial instruments	-4.6	-8.8
Deferred taxes on asset values on the balance sheet	0.0	0.0
EPRA NAV	**1,919.1**	**1,898.9**
Number of shares (end of period)	92,049,169	92,049,169
EPRA NAV per share (in euros per share)[19]	**20.85**	**20.63**

[18] European Public Real Estate Association

[19] The NAV has been revalued compared to the publication on June 30, 2016 (€20.63/share, compared with the published €19.76/share). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

2.3. EPRA triple net asset value (EPRA NNNAV)

(in millions of euros)	06/30/2017	06/30/2016
EPRA NAV	**1,919.1**	**1,898.9**
Fair value of financial instruments	4.6	8.8
Fair value of fixed debt	-54.0	-76.6
EPRA NNNAV	**1,869.6**	**1,831.0**
Number of shares (end of period)	92,049,169	92,049,169
EPRA NNNAV per share (in euros per share)[20]	**20.31**	**19.89**

2.4. EPRA net initial yield (NIY) and « topped-up » NIY

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

(in millions of euros)	06/30/2017	06/30/2016
Investment property – wholly owned	3,474.3	3,457.8
Assets under development (-)	0.0	0.0
Completed property portfolio (excl. transfer taxes)	**3,474.3**	**3,457.8**
Transfer taxes	224.6	231.2
Completed property portfolio valuation (incl. transfer taxes)	**3,698.9**	**3,688.9**
Annualized rental income	176.9	179.5
Non-recoverable expenses (-)	-5.0	-4.3
Annualized net rents	**171.9**	**175.2**
Notional rent expiration of step-up rents, rent-free periods or other lease incentives	3.7	2.5
Topped-up net annualized rent	**175.5**	**177.8**
EPRA NET INITIAL YIELD	**4.65%**	**4.75%**
EPRA “TOPPED-UP” NET INITIAL YIELD	**4.75%**	**4.82%**

[20] The triple net NAV has been revalued compared to the publication on June 30, 2016 (€19.89/share, compared with the published €20.48/share). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

2.5. EPRA cost ratios

(in millions of euros)	06/30/2017	06/30/2016	Comments
Administrative/operating expense line per IFRS income statement	-10.0	-9.8	Staff costs and other costs
Net service charge costs/fees	-3.5	-2.9	Property taxes + non-recovered rental expenses (including vacancy costs)
Rental management fees	-1.5	-1.1	Rental management fees
Other income and expenses	-1.6	-2.0	Other property operating income and expenses excluding management fees
Share of Joint Ventures expenses	0.0	0.0	
Total	**-16.6**	**-15.8**	
Adjustments to calculate EPRA cost ratio exclude (if included above):			
- depreciation and amortization	0.0	0.0	Depreciation and provision for fixed assets
- ground rent costs	0.2	0.3	Non-group rents paid
- rental expenses recovered through comprehensive invoicing (with in the rent)	0.0	0.0	
EPRA Costs (including vacancy costs) (A)	**-16.4**	**-15.5**	**A**
Direct vacancy costs[21]	2.2	1.8	
EPRA Costs (excluding vacancy costs) (B)	**-14.2**	**-13.6**	**B**
Gross rental income less ground rent costs[22]	92.9	92.7	Less costs relating to construction leases and long-term ground leases
Less: service fee and service charge costs components of Gross Rental Income	0.0	0.0	
Plus: share of Joint Ventures (Gross Rental Income less ground rent costs)	0.0	0.0	
Rental Income (C)	**92.9**	**92.7**	**C**
EPRA COST RATIO (including direct vacancy costs)	**-17.6%**	**-16.7%**	**A/C**
EPRA COST RATIO (excluding direct vacancy costs)	**-15.3%**	**-14.7%**	**B/C**

2.6. EPRA vacancy rate

See section 1.1.2 of this half-year financial report.

[21] 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 that can be excluded are property taxes, service charges, contributions to marketing costs, insurance premiums, carbon tax, and any other costs directly billed to the unit.

[22] 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 must be added and not deducted. If the rent covers service charge costs, they should be restated to exclude them. Tenant incentives should be deducted from rental income, whereas any other costs should be included in costs in line with IFRS requirements.

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1. Consolidated income statement

Interim statements as of June 30, 2017 and 2016

(in thousands of euros)		06/30/2017	06/30/2016
Rental revenues		**93,118**	**93,025**
Non-recovered property taxes		-1,336	-1,081
Non-recovered service charges		-2,172	-1,828
Property operating expenses		-3,155	-3,042
Net rental income		**86,455**	**87,072**
Management, administrative and other activities income		2,537	1,764
Property development margin		-	-
Other income	*Note 10*	277	392
Other expenses		-3,539	-3,195
Staff costs		-6,411	-6,623
Depreciation and amortization		-16,983	-14,762
Reversals/(Allowances) for provisions for liabilities and charges		416	72
Other operating income	*Note 11*	150,831	42,041
Other operating expenses	*Note 11*	-142,402	-38,414
Net operating income		**71,181**	**68,346**
Income from cash and cash equivalents		44	82
Gross finance costs		-16,225	-13,162
(Net finance costs)/Revenues from net cash		**-16,181**	**-13,080**
Other financial income	*Note 13.3.2*	120	663
Other financial expenses	*Note 13.3.2*	-1,061	-925
Net financial income/(expense)		**-17,122**	**-13,342**
Tax	*Note 15*	-1,133	-661
Share of net income from associates and joint ventures	*Note 5*	1,343	308
Consolidated net income		**54,270**	**54,652**
attributable to non-controlling interests		4,203	4,399
attributable to owners of the parent		50,067	50,253
Earnings per share[23]			
Net earnings per share, attributable to owners of the parent (in euros)		0.55	0.55
Diluted net earnings per share, attributable to owners of the parent (in euros)		0.55	0.55

[23] Based on the weighted average number of shares over the period adjusted for treasury shares:
- Weighted average number of shares (non-diluted) in the first half of 2017 = 91,804,967 shares
- Weighted average number of shares (fully diluted) in the first half of 2017 = 91,804,967 shares

3.2. Consolidated statement of recognized income and expense

Interim statements as of June 30, 2017 and 2016

(in thousands of euros)	06/30/2017	06/30/2016
Net income for the period	54,270	54,652
Items that may subsequently be recycled as income	**-46**	**-49**
Change in fair value of available-for-sale financial assets	-70	-74
Tax effects	24	25
Items that may not subsequently be recycled as income	**-20**	**-39**
Actuarial gains or losses	-30	-59
Tax effects	10	20
Other comprehensive income for the period, net of taxes	-66	-88
Consolidated comprehensive income	**54,204**	**54,564**
attributable to non-controlling interests	4,203	4,399
attributable to owners of the parent	50,001	50,165

3.3. Consolidated balance sheet

Interim statement as of June 30, 2017 and for the fiscal year ended December 31, 2016

ASSETS

(in thousands of euros)		06/30/2017	12/31/2016
Intangible assets		2,353	2,016
Property, plant and equipment other than investment property		10	12
Investment property	*Note 9*	2,258,069	2,325,268
Investments in associates	*Note 5*	38,806	39,039
Other non-current assets	*Note 12*	40,497	54,672
Deferred tax assets		8	422
Non-current assets		**2,339,743**	**2,421,429**
Trade receivables		18,551	29,793
Other current assets		38,978	56,931
Cash and cash equivalents	*Note 13.1*	92,754	15,578
Investment property held for sale	*Note 9*	21,764	60,949
Current assets		**172,048**	**163,251**
TOTAL ASSETS		**2,511,791**	**2,584,680**

EQUITY AND LIABILITIES

(in thousands of euros)		06/30/2017	12/31/2016
Share capital		92,049	92,049
Additional paid-in capital, treasury shares and other reserves		626,479	636,569
Equity attributable to the Group		718,528	728,618
Non-controlling interests		204,563	205,597
Equity		**923,091**	**934,215**
Non-current provisions		623	551
Non-current financial liabilities	*Note 13*	1,230,782	1,239,610
Deposits and guarantees		22,396	22,646
Deferred tax liabilities		0	578
Non-current liabilities		**1,253,800**	**1,263,385**
Trade payables		10,956	19,561
Current financial liabilities	*Note 13*	276,769	312,849
Current provisions		4,759	5,048
Other current liabilities		42,250	49,338
Current tax liabilities		165	284
Current liabilities		**334,899**	**387,080**
TOTAL EQUITY AND LIABILITIES		**2,511,791**	**2,584,680**

3.4. Consolidated cash flow statement

Interim statements as of June 30, 2017 and 2016

(in thousands of euros)		06/30/2017	06/30/2016
Net income, Group share		50,067	50,253
Non-controlling interests		4,203	4,399
Consolidated net income		**54,270**	**54,652**
Depreciation, amortization, impairment allowances and provisions net of reversals		20,254	15,517
Unrealized losses/(gains) relating to changes in fair value		-	-1,916
Expenses/(Income) relating to stock options and similar		149	202
Other calculated expenses/(income)(1)		-1,026	-1,096
Share of income from associates		-1,343	-308
Dividends received from associates		1,669	583
Net gains and losses on disposals of assets		-12,158	-4,466
Cash flow		**61,814**	**63,167**
Cost of net financial debt/(revenues) from net cash		16,181	14,996
Current and deferred tax expenses		1,133	661
Cash flow before cost of net financial debt and taxes		**79,128**	**78,824**
Taxes received/(paid)		-1,517	-2,433
Change in working capital requirement relating to operations, excluding deposits and guarantees(2)		14,536	-16,106
Change in deposits and guarantees		-250	-263
Net cash flow from operating activities		**91,897**	**60,022**
Cash payments on acquisitions of:			
investment property and other fixed assets	*Note 9*	-53,432	-92,858
non-current financial assets		-	-
Cash receipts on disposals of:			
investment property and other fixed assets	*Note 11*	138,996	60,047
non-current financial assets		-	118
Impact of changes in the scope of consolidation with change of ownership		-	-
Investments in associates		-	-11,437
Change in loans and advances granted		-	-
Net cash flow from investing activities		**85,565**	**-44,130**
Dividend payments to owners of the parent company	*Note 7*	-57,829	-52,329
Dividend payments to non-controlling interests		-5,235	-3,786
Changes in treasury shares		-2,526	-918
Increase in borrowings and financial liabilities	*Note 13*	509,000	407,000
Decrease in borrowings and financial liabilities	*Note 13*	-527,500	-315,500
Net financial interest received		25,647	24,891
Net financial interest paid		-41,919	-43,169
Net cash flow from financing activities		**-100,362**	**16,189**
Change in cash position		**77,100**	**32,081**
Net cash at beginning of year	*Note 13.1*	15,298	13,007
Net cash at end of year	*Note 13.1*	92,398	45,088
of which cash and cash equivalents		92,754	45,250
of which bank overdrafts		-356	-162

	06/30/2017	06/30/2016
(1) Other calculated expenses and income primarily comprise:		
discounting adjustments to construction leases	-305	-318
lease rights received from tenants and spread out over the term of the lease	-962	-981
financial expenses spread out	200	173
(2) The change in working capital requirement breaks down as follows:	**14,536**	**-16,106**
trade receivables	11,218	199
trade payables	-8,605	-7,235
other receivables and payables	11,923	-9,050
inventories on property development	-	-20

3.5. Change in consolidated shareholders' equity

Interim statements as of June 30, 2017 and 2016

(in thousands of euros)	Share capital	Reserves related to share capital[24]	Treasury share transactions	Consolidated reserves and retained earnings	Actuarial gains or losses	Available-for-sale financial assets	Shareholders' equity attributable to the Group[25]	Non-controlling interests	Total shareholders' equity
As of January 1, 2016	**92,049**	**482,834**	**-3,311**	**137,317**	**-93**	**1,226**	**710,024**	**206,159**	**916,183**
Income and expenses recognized directly in shareholders' equity	-	-	-	-	-39	-49	-88	-	-88
Net income for the period	-	-	-	50,253	-	-	50,253	4,399	54,652
Total income and expenses recognized	-	-	-	50,253	-39	-49	50,165	4,399	54,564
Treasury share transactions	-	-	-1,061	94	-	-	-968	-	-968
Final dividends paid for 2015	-	-	-	-52,329	-	-	-52,329	-3,786	-56,115
Share-based payments	-	-	-	202	-	-	202	-	202
As of June 30, 2016	**92,049**	**482,834**	**-4,372**	**135,537**	**-132**	**1,177**	**707,095**	**206,772**	**913,866**
As of January 1, 2017	**92,049**	**482,834**	**-2,156**	**154,757**	**-149**	**1,283**	**728,618**	**205,597**	**934,215**
Income and expenses recognized directly in shareholders' equity	-	-	-	-	-20	-46	-66	-	-66
Net income for the period	-	-	-	50,067	-	-	50,067	4,203	54,270
Total income and expenses recognized	-	-	-	50,067	-20	-46	50,001	4,203	54,204
Treasury share transactions	-	-	-2,203	-211	-	-	-2,414	-	-2,414
Final dividends paid for 2016	-	-	-	-57,829	-	-	-57,829	-5,235	-63,064
Share-based payments	-	-	-	149	-	-	149	-	149
As of June 30, 2017	**92,049**	**482,834**	**-4,359**	**146,933**	**-169**	**1,237**	**718,525**	**204,565**	**923,091**

[24] Reserves related to share capital correspond to premiums on shares issued for cash or assets, merger premiums and legal reserves
[25] Attributable to Mercialys SA shareholders

4. NOTES TO THE CONSOLIDATE FINANCIAL STATEMENTS

Information relating to the Mercialys Group

Mercialys is a société anonyme (corporation) governed by French law, specializing in retail property. Its head office is located at 148 rue de l'Université, 75007 Paris, France.

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 half-year consolidated financial statements as of June 30, 2017 reflect the accounting position of the Company, its subsidiaries and joint ventures, as well as the Group's interests in affiliated companies.

On July 26, 2017, the Board of Directors drew up the summary consolidated financial statements for the Mercialys Group for the six months to June 30, 2017 and authorized their publication.

Note 1: Basis of preparation of the financial statements and accounting methods

Note 1.1: Compliance statement

Pursuant to European regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's summary consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union as of the reporting date of the Board of Directors and applicable as of June 30, 2017.

Information about these standards is available on the European Commission website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

Note 1.2: Basis of preparation

The half-year consolidated financial statements, presented in summary form, have been prepared in accordance with the international financial information standard IAS 34 ("Interim Financial Reporting").

They do not include all the information and notes presented in the annual financial statements. As such, they should be read together with the Group's consolidated financial statements for the year ended December 31, 2016.

They are available on request from the Communications Department, 148 rue de l'Université, 75007 Paris, France, or online at www.mercialys.com.

The Group's consolidated financial statements are stated in thousands of euros. The euro is the Group's reporting and functional currency. The statements have been prepared based on the historical cost method, with the exception of available-for-sale financial assets and hedging derivatives, which are stated at fair value.

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

Note 1.3: Accounting principles

The accounting principles used for the preparation of the summary consolidated financial statements as of June 30, 2017 are identical to those applied for the annual consolidated financial statements for the fiscal year ended December 31, 2016.

Applicable standards on January 1, 2017 but not approved by the European Union

For accounting periods starting on or after January 1, 2017, the following amendments to standards will come into force once they have been approved by the European Union:

- Amendment to IAS 7 – Disclosure Initiative. This text imposes a financing reconciliation to be presented between reporting period start and end dates.
- Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses.
- Amendments to IFRS 12 – Disclosure of Interests in Other Entities as part of the 2014-2016 IFRS annual improvements cycle. These amendments clarified that when an interest in a subsidiary, joint-venture or associate is classed as an asset (or part of a group of assets) held for sale, the terms of IFRS 12 apply with the exception of those required by IFRS 12.B10-B16 for summarized information.

Applicable standards from January 1, 2018

IFRS 15 – Revenue from Contracts with Customers

The application of IFRS 15 is not expected to have any impact on the recognition of rental revenues. It could have an impact on the gradual recognition of property development revenues, which are not significant in Mercialys' profit and loss.

IFRS 9 – Financial Instruments

The Group's application of the IFRS 9 standards on January 1, 2018 will result in a change in the accounting treatment of the following matters:

i/ the treatment of the change in the fair value of non-consolidated securities (OPCI UIR II) recognized under asset available for sale in accordance with IAS 39

ii/ the methods for determining the depreciation of trade receivables

iii/ the treatment of changes in debt (bond exchange in 2014 of the issue maturing in 2023)

Analyses are in progress to determine the impacts. These standards should not have a significant impact on the financial statements.

Note 1.4: Use of estimates and judgments

In preparing the consolidated financial statements, the Management is required to make a number of judgments, estimates and assumptions that affect the amount of 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.

In the course of drawing up these half-year consolidated financial statements, the main judgments made by the management and the main assumptions applied are the same as those applied in drawing up the consolidated financial statements for the fiscal year ended December 31, 2016.

The main line items in the financial statements that may depend on estimates and judgments are:

- fair value of available-for-sale assets,
- hedging instruments,
- fair value of investment properties.

Note 2: Significant events

In January 2017, Mercialys sold five service malls to the Casino Group for a total of €38.9 million including transfer taxes, for an exit yield of 5.8% (see Note 17).

In January 2017, Mercialys sold the redeveloped hypermarket at Toulouse Fenouillet to the Casino Group for €32.8 million including transfer taxes, for an exit yield of 5.0% (see Note 17).

In June 2017, Mercialys concluded the sale of the Poitiers Beaulieu site with a family office financed by HSBC for €78 million including transfer taxes (taking into account a €2 million unrecorded earn-out, detailed in Note 16) for an exit yield of 5.8%.

Note 3: Seasonality

The Group's activity is not affected by seasonality.

Note 4: Segment reporting

Segment reporting 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 Senior 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.

Note 5: Scope of consolidation

Note 5.1: List of consolidated companies

As of June 30, 2017, the Mercialys Group's scope of consolidation comprised the following companies:

Name	06/30/17			12/31/16		
	Method	% interest	% control	Method	% interest	% control
Mercialys SA	FC	Parent company	Parent company	FC	Parent company	Parent company
Mercialys Gestion SAS	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Kerbernard	FC	98.31%	100.00%	FC	98.31%	100.00%
Point Confort SA	FC	100.00%	100.00%	FC	100.00%	100.00%
Corin Asset Management SAS	EM	40.00%	40.00%	EM	40.00%	40.00%
SCI La Diane	FC	100.00%	100.00%	FC	100.00%	100.00%
Société du Centre Commercial de Narbonne SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
Fiso SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Des Salins	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Timur	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Agout	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Géante Périaz	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Dentelle	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Caserne de Bonne	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI AMR	EM	39.90%	39.90%	EM	39.90%	39.90%
SNC Aix 2	EM	50.00%	50.00%	EM	50.00%	50.00%
SNC Alcudia Albertville	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Fenouillet Participation	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Fenouillet Immobilier	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Hyperthetis Participations	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Immosiris	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Epicanthe	FC	100.00%	100.00%	FC	100.00%	100.00%
SARL Toutoune	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Mercialys Exploitation	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Rennes-Anglet	EM	30.00%	30.00%	EM	30.00%	30.00%
SCI MS Investissement	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Astuy	FC	100.00%	100.00%	FC	100.00%	100.00%

FC: Full consolidation/EM: Equity method

Note 5.2: Assessment of control

No event that took place during the first half of 2017 called into question the assessments of the control of the entities within the consolidation perimeter described on December 31, 2016.

Note 6: Shareholders' equity

As of June 30, 2017 the share capital stood at €92,049,169. It consists of 92,049,169 fully paid shares of a nominal value of €1.

Note 7: Dividends paid, proposed or determined

As of December 31, 2016, out of the 92,049,169 shares, 91,792,082 benefited from the dividend in respect of 2016 earnings (257,087 treasury shares were exempted from dividend payment).

The Company paid its shareholders a gross dividend of €1.06 per share in respect of the fiscal year ended December 31, 2016. An interim dividend of €0.43 per share was paid in 2016, and the final dividend of €0.63 per share was paid on May 04, 2017.

Payment of the final dividend represented a total of €57,829,000.

The total dividend for the 2016 fiscal year therefore came to €97,261,000.

Note 8: Business combinations

No business combination transaction took place during the period ended on June 30, 2017. The asset transactions that took place relate to acquisitions or disposals of individual assets.

Note 9: Investment property and investment property held for sale

Acquisitions and disposals

In January 2017, Mercialys sold five service malls to the Casino Group for a total of €38.9 million including transfer taxes, and the redeveloped hypermarket at Toulouse Fenouillet for €32.8 million including transfer taxes.

In June 2017, Mercialys concluded the sale of the Poitiers Beaulieu site with a family office financed by HSBC for €78 million including transfer taxes (taking into account a €2 million unrecorded earn-out, detailed in Note 16).

Investment property held for sale

Investment property held for sale totaled €21.8 million. This corresponds to assets under sale agreements or for which a binding offer has been signed as of June 30, 2017.

Impairment of investment property

Additional impairment of investment properties was recorded at the end of June 2017, as the NBV of the properties is greater than the appraisal value excluding transfer taxes, for €4.2 million, bringing the total impairment to €8.6 million as of the end of June 2017.

An impairment reversal was recorded for €0.6 million following the sale of the Saint-Martin-d'Hères site.

Fair value of investment property and investment property held for sale

Mercialys' property portfolio is appraised twice yearly by independent experts.

On this basis, the portfolio was valued at €3,698.9 million including transfer taxes as of June 30, 2017, compared with €3,797.3 million as of December 31, 2016. Excluding transfer taxes, the portfolio value amounted to €3,474.3 million at the end of June 2017 versus €3,565.4 million at the end of December 2016.

The value of the portfolio including transfer taxes was therefore down 2.6% over 6 months (+1.5% on a like-for-like basis[26]) and up by 0.3% over 12 months (+2.9% on a like-for-like basis).

The value of the portfolio excluding transfer taxes was down 2.6% over 6 months (+1.5% on a like-for-like basis[26]) and up by 0.5% over 12 months (+2.9% on a like-for-like basis).

The average appraisal yield rate came to 5.14% as of June 30, 2017, compared with 5.25% at December 31, 2016 and 5.28% as of June 30, 2016.

The change in the fair value of assets over six months (-€98 million) came from:

- an increase in rents on a like-for-like basis: +€18 million
- compression of the average capitalization rate: +€35 million
- changes in scope of consolidation: -€152 million

Note that the contribution of the Casual Leasing[27] to value creation is significant, since it accounts for €170.5 million of the portfolio value as of June 30, 2017 (+0.2% compared with December 31, 2016), while involving no investment expenditure in return.

[26] Sites on a like-for-like basis in terms of gross leasable area (GLA)
[27] Casual leasing: small corners (6 to 8 sq.m) temporarily occupying common areas

The average capitalization rates emerging from the appraisals are as follows:

Type of property	Average capitalization rate 06/30/2017	Average capitalization rate 12/31/2016	Average capitalization rate 06/30/2016
Large/regional shopping centers	4.9%	5.0%	5.0%
Neighborhood shopping centers	5.8%	5.9%	6.0%
Total portfolio[28]	5.1%	5.3%	5.3%

The following table gives the breakdown of Mercialys' portfolio by fair value and gross leasable area (GLA) by type of property as of June 30, 2017, as well as corresponding appraised rents:

Type of property	Number of assets as of 06/30/2017	Appraisal value excluding TT as of 06/30/2017		Gross leasable area as of 06/30/2017		Appraised potential net rental income	
		(€ mn)	(%)	(sq.m)	(%)	(€ mn)	(%)
Large/regional shopping centers	24	2,654	76%	628,302	72%	139.4	73%
Neighborhood shopping centers and city center assets	34	798	23%	238,263	27%	49.3	26%
Sub-total shopping centers	**58**	**3,453**	**99%**	**866,565**	**99%**	**188.7**	**99%**
Other sites[29]	6	22	1%	9,102	1%	1.6	1%
Total	**64**	**3,474**	**100%**	**875,667**	**100%**	**190.3**	**100%**

Based on an assumption of annual appraised rents of €190.3 million and a capitalization rate of 5.48%, the sensitivity of the appraisal value of Mercialys' portfolio is as follows:

Sensitivity criteria	Impact on appraisal value (excluding transfer taxes) (in millions of euros)
Decrease of 0.5% in capitalization rate	+349
Increase of 10% in rents	+347
Increase of 0.5% in capitalization rate	-291
Decrease of 10% in rents	-347

Note 10: Other income

Other recurring income of €277,000 recognized in the first half of 2017 corresponds mainly to dividends received from the open-ended property fund (OPCI) created in partnership with Union Investment: UIR2.

These dividends correspond to the management of the OPCI's retail property assets, which is similar to the business activity pursued by Mercialys. They are therefore presented as operating income.

As of June 30, 2016, these dividends amounted to €392,000.

[28] Including other assets (large specialty stores, independent cafeterias and other standalone sites)
[29] Including other assets (large specialty stores, independent cafeterias and other standalone sites)

Note 11: Other operating income and expenses

Other operating income and expenses amounted to €8.4 million at the end of June 2017, versus €3.6 million at the end of June 2016.

This income primarily comprises:

- capital gains made on the disposals of the five service malls for €4.8 million, of the redeveloped hypermarket at Toulouse Fenouillet for €3.3 million, of the Poitiers Beaulieu site for €3.1 million and on the exchange of the Rennes site with GIE Grand Quartier for €1.8 million.
- impairment of investment properties for -€4.2 million.

In the first half of 2016 the income of €3.6 million consisted primarily of capital gains on the contributions of the Rennes and Anglet sites for €2.8 million, an earn-out on the assets sold to AMR for €1.6 million, and the impairment of investment properties for -€0.8 million.

Note 12: Other non-current assets

As of June 30, 2017, other non-current assets consisted primarily of non-current hedging instruments for €17,944,000, accounts receivable from tenants under construction leases for €6,275,000, and available-for-sale financial assets for €10,410,000.

Note 13: Financial structure and financial expenses

Note 13.1: Net cash

Net cash is broken down as follows:

(in thousands of euros)	06/30/2017	12/31/2016
Cash	92,654	15,477
Cash equivalents	101	101
Gross cash and cash equivalents	**92,754**	**15,578**
Bank overdrafts	-356	-280
Cash and cash equivalents net of bank loans	**92,398**	**15,298**

Under the liquidity contract with Oddo & Cie, the funds managed are invested in money market UCITS. These funds, which meet the defined criteria for classification as cash equivalents, form part of the net cash.

Note 13.2: Borrowings and financial liabilities

Note 13.2.1: Breakdown

(in thousands of euros)	06/30/2017			12/31/2016		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Bonds	-1,210,983	-4,630	-1,215,613	-1,209,020	-21,351	-1,230,371
Other borrowings and financial liabilities	-	-271,500	-271,500	-	-290,000	-290,000
Bank overdrafts	-	-356	-356	-	-280	-280
Fair value hedging derivatives – liabilities	-19,798	-283	-20,082	-30,590	-1,218	-31,808
Financial liabilities	**-1,230,782**	**-276,769**	**-1,507,551**	**-1,239,610**	**-312,849**	**-1,552,459**
Fair value hedging derivatives – assets	17,944	6,724	24,668	30,945	20,114	51,059
Cash and cash equivalents	-	92,754	92,754	-	15,578	15,578
Cash and cash equivalents and other financial assets	**17,944**	**99,478**	**117,422**	**30,945**	**35,692**	**66,637**
NET FINANCIAL DEBT	**-1,212,838**	**-177,291**	**-1,390,130**	**-1,208,665**	**-277,157**	**-1,485,822**

The net financial debt definition is provided in the Annual Report in Note 13.

Note 13.2.2: Change in financial liabilities

The outstanding amount on the commercial paper has decreased by €18.5 million since January 1, 2017. It stands at €271.5 million as of the end of June 2017.

Note 13.2.3: Financial covenants

Mercialys' financial liabilities are subject to default clauses (early redemption) in the event of failing to adhere to the following financial ratios:

- LTV (Loan To Value): Consolidated net financial debt/consolidated fair value of investment properties excluding transfer taxes < 50%, at each reporting date;
- Interest Coverage Ratio (ICR): Consolidated EBITDA[30]/Net finance cost > 2, at each reporting date;
- Secured debt/consolidated fair value of investment properties excluding transfer taxes < 20% at any time;
- Consolidated fair value of investment properties excluding transfer taxes > €1 billion at any time.

Change of ownership clauses are also applicable.

[30] Earnings before interest, taxes, depreciation and amortization and other operating income and expenses

	Covenants	06/30/2017	12/31/2016
Loan To Value (LTV)	< 50%	39.6%	41.2%
Interest Coverage Ratio (ICR)	> 2x	4.9x	5.3x

As of June 30, 2017, the two other contractual covenants (secured debt/consolidated fair value of investment properties excluding transfer taxes, and consolidated fair value of investment properties excluding transfer taxes), as well as the commitment and default clauses, were also complied with.

Note 13.3: Net financial income/(expense)

Note 13.3.1: Cost of net financial debt

(in thousands of euros)	06/30/2017	06/30/2016
Cost of debt in place	-18,274	-19,932
Impact of hedging instruments	2,050	6,770
Cost of gross financial debt	**-16,225**	**-13,162**
Net proceeds of sales of investment securities	44	82
Revenues from net cash/(cost of net financial debt)	**-16,181**	**-13,080**

Note 13.3.2: Other financial income and expenses

(in thousands of euros)	06/30/2017	06/30/2016
Other financial income	120	663
Financial income	**120**	**663**
Other financial expenses	-1,061	-925
Financial expenses	**-1,061**	**-925**
Total other financial income and expenses	**-941**	**-262**

Other financial expenses consist of financial expenses related to the financial structure of the company. Other financial income covers interest income on cash generated in the course of operations and deposits from tenants.

Note 13.4: Fair value of financial instruments

The tables below present a comparison of the book value and the fair value of financial assets and liabilities, other than those whose book values correspond to reasonable approximations of their fair values, such as trade receivables, trade payables and cash and cash equivalents.

As of June 30, 2017 *(in thousands of euros)*	Book value	Fair value	Market price = level 1	Models with observable inputs = level 2	Models with non-observable inputs = level 3
ASSETS					
Available-for-sale financial assets[31]	10,410	10,410	-	-	10,410
Fair value hedging derivatives – assets (current and non-current)[32]	24,668	24,668	-	24,668	-
Cash equivalents	92,754	92,754	92,754	-	-
LIABILITIES					
Bonds	1,215,613	1,283,720	1,283,720	-	-
Fair value hedging derivatives – liabilities (current and non-current)[32]	20,082	20,082	-	20,082	-

As of December 31, 2016 *(in thousands of euros)*	Book value	Fair value	Market price = level 1	Models with observable inputs = level 2	Models with non-observable inputs = level 3
ASSETS					
Available-for-sale financial assets [31]	10,480	10,480	-	-	10,480
Fair value hedging derivatives – assets (current and non-current)[32]	51,059	51,059	-	51,059	-
Cash equivalents	15,578	15,578	15,578	-	-
LIABILITIES					
Bonds	1,230,371	1,288,101	1,288,101	-	-
Fair value hedging derivatives – liabilities (current and non-current)[32]	31,808	31,808	-	31,808	-

Note 14: Contingent assets and liabilities

No event occurred in the first half of the year that could generate a contingent asset or liability.

[31] The assets available for sales (AFS) valued at fair value consist primarily of OPCI units. Their fair value was determined on the basis of their net asset value. This is a level 3 valuation.

[32] Derivative financial instruments are valued externally using the usual valuation techniques for financial instruments of this kind. Valuation models include observable market inputs – in particular the yield curve – and the quality of the counterparty. These fair value measurements are generally category 2.

Note 15: Taxes

The recorded income tax amount is determined on the basis of management’s best estimate of the expected annual average weighted tax for the full fiscal year, multiplied by the income before tax for the interim period.

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.

The tax expense of -€1,133,000 corresponds principally to French corporate value-added tax (CVAE) in the amount of -€828,000 and to income tax on companies that do not fall within the scope of the SIIC tax regime in the amount of -€323,000. To that must be added €18,000 in deferred taxes.

Note 16: Off-balance sheet commitments

The Group's commitments as of June 30, 2017 are those stated in the annual financial statements as of December 31, 2016, in addition to the commitments described below. Are also included the pre-existing agreements for which the amounts are subject to change.

The assets under sale agreements or binding offers signed as of June 30, 2017 represent a value of €21.8 million (including transfer taxes). They are recorded under “Investment property held for sale” (Note 9).

Commitments regarding the sale of the Poitiers site

The transaction for the sale of the Poitiers site was concluded for €78 million including transfer taxes, and also including an earn-out liability of €2 million.

The buyer will be liable to pay an earn-out liability of €2 million at any time until December 31, 2018, if the conditions of payment are met. These conditions of payment are primarily based on achieving net rents payable for premises that are vacant at the time of sale, which will be the subject of a lease that takes effect during the earn-out liability period.

Rental guarantee:

Mercialys has granted a rental guarantee on the Poitiers hypermarket and is committed to paying rents for the second three-year period (from June 30, 2020 to June 29, 2023) in the event of the departure of DCF at the end of the first three-year period.

Commitments made in connection with the disposal of SAS Hyperthetis Participations

In connection with the disposal of 49% of SAS Hyperthetis Participations, Mercialys has a call option on the shares of the company or on the real estate assets held by minority shareholders at a minimum guaranteed price (the higher of the fair value and the IRR), which it may exercise in 2022.

This option was valued at €143 million as of June 30, 2017, reflecting the Company's NAV calculated on the basis of an appraised fair value of €286 million (excluding transfer taxes).

This call option is up to Mercialys.

Note 17: Related-party transactions

With SCI Rennes-Anglet

Loan by Mercialys to SCI Rennes Anglet

Mercialys granted a loan to SCI Rennes-Anglet which represents €3,064,000 at end-June 2017. This current account advance will be subject to interest based on the average annual effective rate applied by credit institutions and financing companies for variable-rate loans with an initial maturity of over two years. This agreement was concluded for the term of the shareholder's agreement, i.e. 15 years automatically renewable for successive periods of five years.

SCI Rennes-Anglet has entered into several agreements:

- A marketing fund management agreement and a tenant research agreement with the company Mercialys Gestion;
- A brand licensing agreement with Mercialys;
- A rental management agreement (Sudeco) and a service delivery agreement (IGC Services) with Casino Group companies.

With SCI AMR

Mercialys has entered into the following agreements with SCI AMR:

- a real estate advisory service agreement: under this five-year agreement, SCI AMR entrusts Mercialys with general assistance in managing its property assets;
- a five-year exclusive letting mandate;
- a center animation agreement with Mercialys Gestion.

These transactions amounted to€363,000 in the first half of 2017.

AMR also signed a rental management agreement with Sudeco, a Casino group company.

With the Casino Group

The Group has contractual relationships with the various companies of the Casino group.

In the first half of 2017, Mercialys sold to the Casino Group five service malls for €38.9 million and the upgraded hypermarket at Toulouse Fenouillet for €32.8 million.

During the first half of 2017, the following changes occurred to the **leases granted** by the Mercialys Group to Casino Group companies:

- remaining stable for Casino Restauration, with a total of nine leases as of June 30, 2017, four of which are leases on premises operated under the Casino Cafétéria brand and five are leases for other brands (compared with 13 leases on June 30, 2016),
- six less leases for other Casino Group entities, i.e. a total of 64 leases as of June 30, 2017 (compared with 75 leases on June 30, 2016).

Rent charged in respect of these leases during the first half of 2017 amounted to:

- €19,983,000 to Distribution Casino France (compared with €21,144,000 as of June 30, 2016),
- €4,661,000 to Monoprix (compared with €4,263,000 as of June 30, 2016),
- €624,000 to Casino Restauration (compared with €1,078,000 as of June 30, 2016),
- €3,790,000 to other entities (compared with €3,254,000 as of June 30, 2016).

The fees paid by Mercialys and its subsidiaries to the company Sudeco, a wholly-owned subsidiary of the Casino Group, in respect of **Property Management**, amounted to €3,176,000 for the first half of 2017 (compared with €2,763,000 as of June 30, 2016).

Under their **Partnership Agreement**, Casino and Mercialys have made a reciprocal commitment at an early stage about a pipeline of projects offering sufficient visibility.

- Casino will only begin works once the order has been reiterated by Mercialys after definitive authorization is obtained and at least 60% of developments have been pre-let (as a percentage of projected rents – leases signed).

- The acquisition price of the projects developed by the Casino Group will be determined on the basis of a rent capitalization rate defined according to a matrix updated twice a year depending on changes in appraisal rates of Mercialys' portfolio, and projected rents for the project. This acquisition price may also be determined based on a projected selling price calculated on the basis of a projected IRR (8% to 10%). The acquisition price will be paid by Mercialys on effective delivery of the site.

- The principle of upside/downside being split 50/50 is maintained to take account of the actual conditions under which the properties will be let. Therefore, if there is a positive or negative difference (upside or downside) between effective rents resulting from letting and expected rents at the outset, the price will be adjusted upwards or downwards by 50% of the difference observed.

In return for the exclusivity clause, Mercialys has made a commitment not to invest in any operations that may have a significant competitive impact within the catchment area of a site with a Casino Group food store.

The partnership has been extended until December 31, 2020.

Furthermore, the amount paid by Mercialys under the Service Agreement was €1,071,000 for the first half of 2017 (compared with €1,040,000 in the first half of 2016).

Under the **Advisory Service Agreement** between Mercialys and IGC Services, a Casino Group company, a fee of €140,000 has been recognized for the first half of 2017 (compared with €171,000 for the first half of 2016).

On September 8, 2005, Mercialys signed a Current Account and Cash Management Agreement with Casino. Under the agreement, Mercialys and Casino set up a shareholders' current account that recorded all payments, withdrawals or advances of sums that may be made reciprocally between the two companies.

In 2012, after Casino reduced its stake in Mercialys, the two parties decided to terminate the existing Current Account and Cash Management Agreement and sign a new Current Account Agreement. The new Agreement will enable Mercialys to keep a current account with Casino allowing it to benefit from cash advances from Casino up to the current threshold of €50 million.

The term of the Agreement is aligned with that of the Partnership Agreement negotiated between the parties, i.e. it will expire on December 31, 2020.

Furthermore, the company Casino Finance, a subsidiary of Casino, and the centralizing entity for financing and cash flow for the Casino Group, replaced Casino Guichard-Perrachon in the Current Account Agreement of July 25, 2012. The level of remuneration was also amended and fees for non-use introduced.

A document amending the Current Account Agreement was signed on February 14, 2017.

Casino Finance granted Mercialys a credit facility of up to a maximum of €50 million in the form of A Advances, which refer to any advance with a principal of less than €10 million, and/or B Advances, which refer to any advance with a principal of €10 million or more. These advances are intended exclusively for the short-term financing of Mercialys' general requirements.

This agreement expires on December 31, 2019.

With regard to interest:

- Any A Advance will bear interest at 1-month Euribor plus Margin A of 0.40% per year,
- Any B Advance will bear interest at a Euribor interest rate applicable to the drawdown period plus Margin B of 0.95% per year.

Amounts relating to agreements entered into regarding the contribution of assets to Mercialys were prepaid to Casino Group companies. As of June 30, 2017, the following amounts had not been used:

- **Delegated Project Management Agreements** signed with IGC Services: €1,690,000

Under the **Property Development Agreements** signed with IGC Services, calls for funds have been made. These calls for funds, recognized as receivables, totaled €353,000 as of June 30, 2017. The residual commitment under these property development contracts amounts to €44,456,000.

The short-term occupancy agreements with DCF guarantee the payment of rents to Mercialys before the site is opened to the public. These agreements were terminated in favor of early termination protocols for severalsites, the amount charged overall remaining unchanged. The amounts charged as of June 30, 2017 stood at €1,682,000, €1,433,000 of which was for early termination.

Exclusive agency agreements with IGC Services

Within the framework of selling its asset portfolios, Mercialys calls upon the expertise of IGC Services to find any legal entities that may be interested in acquiring one or more assets. The remuneration for this service was €386,000 in the first half of 2017.

Current Account Agreement with SNC Fenouillet participation

On December 30, 2014, Mercialys concluded a Current Account Agreement with SNC Fenouillet Participation. The amounts made available in the current accounts will depend on Mercialys' LTV ratio and will be subject to a maximum of €19,560,000. This agreement was signed for a period of six years.

Summary of related-party transactions

(in thousands of euros)	06/30/2017	12/31/2016	06/30/2016
Income/-Expenses			
Invoiced rents			
Distribution Casino France	19,983	40,653	21,144
Monoprix	4,661	8,916	4,263
Casino Restauration	624	2,172	1,078
Other Casino group entities	3,790	7,367	3,254
Advisory Services Agreement received by Mercialys	140	208	171
Short-term occupancy agreement and early termination protocol fees charged by Mercialys to the Casino Group	1,682	1,125	-
Property management service fees paid to the Casino Group	3,176	-5,874	-2,763
Service Agreement paid to the Casino Group	-1,071	-2,080	-1,040
Exclusive Agency Agreement with IGC Services	-386	-946	-280
Income from sale of fixed assets to SCI AMR	-	24,035	-
Income from the sale of five services malls to the Casino Group	4,806	-	-
Income from the sale of the upgraded hypermarket at Toulouse Fenouillet to the Casino Group	3,277	-	-
Assets/-Liabilities			
Project management agreement fees prepaid by Mercialys to:			
IGC Services	1,690	2,594	2,594
IGC Promotion/Alcudia Promotion	-	-	-
Call for funds for property development contracts	353	347	587
Current Account Agreement with Fenouillet	-	-	16,800
Current account with SCI Rennes-Anglet	-	-	10,753
Loan to SCI Rennes-Anglet	3,064	3,064	-
Sale of fixed assets to SCI AMR	-	89,081	-
Current account reimbursement from Fenouillet Participation to Foncière Euris	-	25,528	-
Toulouse Fenouillet earn-out liability paid to Casino	-	18,187	-
Acquisitions of fixed assets from the Casino group	-	74,900	69,600
Acquisitions of shares in Fenouillet Participation from Foncière Euris	-	11,241	-
Sale of five service malls to the Casino Group	38,865	-	-
Sale of the upgraded hypermarket at Toulouse Fenouillet to the Casino Group	32,773	-	-

In the first half of 2017, Mercialys paid out a dividend of €23,290,000 to the Casino Group companies for the fiscal year ended December 31, 2016, less the interim dividend paid in October 2016.

Note 18: Consolidation by another company

Since June 21, 2013, Mercialys has been recorded in the Casino Group’s accounts on an equity basis.

Note 19: Subsequent events

On July 19, 2017, Mercialys sold the **Fontaine-lès-Dijon** site to a fund created by Stam Europe on behalf of Helaba Invest, for a total of €27.5 million including transfer taxes for an exit yield of 5.4%.

5. STATUTORY AUDITORS' REVIEW REPORT

Mercialys

Registered office: 148, rue de l'Université - 75007 Paris

Share capital: €.92,049,169

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the period from 1st January 2017 to 30 June 2017

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting and in accordance with the requirements of 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 S.A., for the period from 1st January 2017 to 30 June 2017,
- the verification of the information presented 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 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements 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.

Paris La Défense, on the 26 July 2017
KPMG Audit

Isabelle Goalec
Partner

Lyon, on the 26 July 2017
Ernst & Young et Autres

Nicolas Perlier
Partner

6. STATEMENT BY THE PERSON RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

MERCIALYS

Société anonyme au capital de 92.049.169 euros

Siège social : 148, rue de l'Université,

75007 Paris

424 064 707 R.C.S. Paris

STATEMENT BY THE PERSON RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

« To the best of my knowledge, the summarized 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 enclosed interim financial review gives a true and fair view of key events of the first six months of the year, their impact on the 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 26, 2017

Eric LE GENTIL

Chairman and Chief Executive Officer

7. GLOSSARY

- **Cost of debt**

The cost of debt is the average cost of debt drawn by Mercialys. It incorporates all financial instruments issued in the short and the long term.

- **EBITDA**

Earnings before interest, taxes, depreciation and amortization.

- **EPRA NNNAV**

Revalued net assets excluding transfer duties, after taking into account deferred taxes and market value of fixed-rate debt and financial instruments. This ratio aims to assess the net asset value of a real estate company.

- **FFO (Funds From Operations)**

The FFO is the result of the operations reported by Mercialys. This management indicator corresponds to net profit adjusted for amortization, net capital gains on disposals, impairment of any assets, and other non-recurring items.

- **ICR (Interest Coverage Ratio)**

Ratio indicating the rate of cover of financial expenses: relationship between EBITDA and net cost of financial debt.

- **MGR (Minimum Guaranteed Rent)**

This is the minimum guaranteed rent outlined in the lease agreement. The MGR is the fixed portion of the rent, to which variable rent clauses can be added.

- **LTV (Loan To Value)**

As its name suggests, this indicator is a measure of the loan-to-value ratio of real estate companies. It is calculated by dividing consolidated net debt by the appraisal value of total assets, including or excluding transfer taxes, plus the value of equity affiliates' securities.

- **Invoiced rents**

Rents invoiced by Mercialys to its lessees, excluding lease rights and despecialization indemnities.

- **Net rental income**

Rental income, net of expenses on buildings and rental charges and property taxes not rebillable to tenants.

- **Variable rents**

Rents that meet specific contractual clauses, generally established as a percentage of the revenue generated by the tenant. Variable rents are generally in addition to the minimum guaranteed rent (MGR) and are triggered if a lessee reaches certain performance thresholds.

- **Current scope/Like-for-like basis**

The current scope includes all of Mercialys' portfolio at a given date, that is to say all assets held in the portfolio over the period analyzed.

The like-for-like basis restates the impact of consolidations (acquisitions and disposals) over the period analyzed, to ensure a stable basis for comparison over time.

- **Development pipeline (Controlled pipeline / Potential pipeline)**

The development pipeline comprises all investments Mercialys plans to make over a given period. These may be extensions, renovations, creations or acquisitions of assets or companies holding assets.

Mercialys splits its pipeline into two categories:

- The controlled pipeline, which comprises projects in progress or at an advanced review stage over which Mercialys has land control and has obtained (or is on track to obtain) all the necessary administrative permits;

- The potential pipeline, which comprises identified projects for which arrangements and negotiations are in progress.

Rental revenues

Rents invoiced by Mercialys to its lessees, including lease rights and despecialization indemnities

Occupation cost ratio or occupancy cost

The occupation cost ratio, or occupancy cost, is the ratio between the rent amount including tax and the charges paid by a retailer and its revenues including tax.

Capitalization rate

The capitalization rate is the ratio between net rents of the premises leased + the rental value of vacant premises + income from casual leasing, relative to the fair value of assets portfolio excluding transfer taxes.

Recovery rate

The recovery rate corresponds, at the end of a period, to the proportion of rents, charges and work invoiced by Mercialys to its lessees that has actually been collected.

Yield rate

The yield rate is the ratio between net rent for premises leased + the rental value of vacant premises + income from casual leasing, relative to the fair value of assets portfolio including transfer taxes.

EPRA Net Initial Yield

The EPRA net initial yield is the ratio of annualized net rent in relation to the fair value of the asset portfolio including transfer taxes.

EPRA « Topped-up » Net Initial Yield

The EPRA “topped-up” net initial yield is annualized net rent adjusted for rental gains on rent-free periods, step-up rents and other benefits granted to tenants, relative to the fair value of the asset portfolio including transfer taxes.

Total vacancy rate

The total vacancy rate corresponds to the rental value of vacant premises relative to the annualized minimum guaranteed rent for occupied premises + the rental value of vacant premises.