MERCIALYS

PRESS RELEASE

Paris, February 14, 2018

2017 results

- **+2.6% increase in invoiced rents on a like-for-like basis excluding indexation**, higher than the +2% objective
- **+6.1% growth in funds from operations (FFO)**, adjusted for disposals made in 2017. Slight -0.4% decline in FFO including these scope effects to Euro 114 million
- **EPRA NAV up +0.9% to Euro 20.86/share**. EPRA NNNAV up +1.4% to Euro 20.54/share
- **Mercialys increases its portfolio of development projects for the period 2018-2024 by +Euro 239 million compared with June 30, 2017**. This now represents investments of **Euro 825 million** and additional rental income of Euro 50 million[1], resulting in a highly accretive average yield on cost of 6.7%[1] and making a significant contribution to growth in FFO and NAV in the medium/long term
- **Euro 177 million of disposals** in 2017, resulting in a -130 bp reduction in LTV (excluding transfer taxes) to **39.9%** at the end of December 2017. At the same time, in a more readable economic and political environment, Mercialys was in a position to acquire a major extension project for its Le Port site in Reunion island in December 2017 for almost Euro 28 million (including transfer taxes), impacting LTV for 0.5%. Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%[2] at end 2017. Mercialys has thus restored funding flexibility for its projects, while continuing to streamline its portfolio. The Company will maintain a solid financial profile in the medium term to keep its credit rating at BBB
- Proposal for distribution of a **dividend of Euro 1.09 per share** for 2017, up **+2.8%** from 2016, representing 88% of FFO and a yield of 5.3% on EPRA NNNAV and 5.9% on the share price at the end of December 2017. 2017 FFO thus covers both the dividend payment (Euro 100.3 million) and maintenance capex (Euro 5.2 million)
- **2018 objectives**: organic growth excluding indexation is expected to exceed +2%. FFO is expected to increase by at least +2%, excluding the impact of refinancing the bond maturing in 2019, which is estimated at around Euro 6 million net of potential hedging (including the impact of the private placement from November 2017). The dividend will represent 85% to 95% of 2018 FFO, delivering growth of at least 2%

	12/31/2016	12/31/2017	Var. %
Organic growth in invoiced rents excluding indexation	+3.5%	+2.6%	-
Spread between the variation in footfall[3] at Mercialys centers and the CNCC index	+240bp	+390bp	-
Spread between the variation in revenues[3] of Mercialys retailers and the CNCC index	+160bp	+390bp	-
FFO (Euro million)	114.4	114.0	-0.4%
Change in FFO excluding impact of 2017 disposals	-	-	*+6.1%*
Portfolio of development projects (Euro million)	553.5	824.5	+49.0%
LTV (excluding transfer taxes)	41.2%	39.9%	-
EPRA NAV (Euro per share)[4]	20.68	20.86	+0.9%
EPRA NNNAV (Euro per share)[4]	20.26	20.54	+1.4%
Dividend (Euro per share)	1.06	1.09[5]	+2.8%

[1] Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins
[2] Unaudited figure
[3] Mercialys' large centers and main neighborhood shopping centers based on a constant surface area
[4] Calculated based on the average diluted number of shares, in accordance with EPRA guidelines
[5] Subject to approval by the Annual General Meeting on April 26, 2018

I. 2017 activity and results

Robust operational indicators

Invoiced rents are down -2.2% at **Euro 183.5 million**, driven by organic growth and acquisitions in 2016, the effects of which were offset by disposals in 2016 and 2017.

Organic growth in invoiced rents excluding indexation is a healthy **+2.6%**, well above the +2% objective, indexation having made a near-zero contribution in 2017.
This, once again, powerful underlying trend is the result of three major effects. First, a reversion impact of **+14%** driven mainly by the partial transformation of hypermarkets acquired in 2014 and 2015 as shopping center extensions. Second, a dynamic letting policy focused on diversification of the merchandising mix and types of retailers. Lastly, a targeted marketing strategy, mainly geared towards digital tools for the valuation of Mercialys' substantial qualified database, as well as local actions and events to drive footfall.
The Casual Leasing business also remains strong, contributing +0.3% to organic growth in rental income and totaling Euro 9.8 million. This segment is now fully integrated within Mercialys' letting strategy, as illustrated by the expected conversion of Euro 0.8 million in short-term leases into conventional commercial leases in 2017 and 2018, a trend which is set to continue over the medium term.

Mercialys' shopping centers continued to significantly outperform the sector in France, both in terms of **footfall and growth in retailer sales**[6].
For the year to end-November 2017, total retailer sales at Mercialys' large shopping centers and main neighborhood shopping centers was up +2.8%. This contrasted with the fall of -1.1% for the shopping center market as a whole (CNCC), corresponding to a positive spread of **+390 basis points**.
The same outperformance (**+390 basis points**) was recorded for footfall at Mercialys' large shopping centers and main neighborhood shopping centers, up +2.1% for the year at end-December 2017 compared with a fall of -1.8% for the CNCC.

A **current financial vacancy rate** of **2.5%** was recorded, unchanged from the end of 2016.

Rental revenues fell -2.4% to **Euro 185.3 million** after lease rights and despecialization indemnities.

+6.1% growth in FFO, excluding disposals completed in 2017

EBITDA came to Euro **155.1 million**, -3.4% lower than in 2016. This was similarly impacted by disposals. EBITDA margin remained satisfactory at 83.7%.

The average real cost of drawn debt fell to **1.9%** in 2017, versus 2.0% in 2016. This trend was essentially due to the relevance of the hedging strategy put in place, as well as the issuance of commercial paper for a net amount outstanding of Euro 258.5 million at December 31, 2017, at a slightly negative rate.

[6] Mercialys' large centers and main neighborhood shopping centers based on a constant surface area

At the same time, **net financial expenses** slipped -0.8% to **Euro 30.4 million** at the end of 2017, the positive effect of commercial paper issued during the year offsetting the impact of the private placement conducted in November 2017. This amount, used to calculate FFO, excludes the non-cash and non-recurring impact of hedging ineffectiveness and banking default risk, in line with EPRA recommendations[7].

Non-controlling interests (excluding amortization and capital gains) represented **Euro 10.0 million** in 2017, compared with Euro 10.3 million in 2016.

Income tax expense of **Euro 0.6 million** was mainly composed of the tax on company value added (Euro 1.7 million), corporate income tax (Euro 0.1 million liability offset by the claim for reimbursement of the 3% tax on dividend for Euro 1.3 million), and deferred tax on deficits and temporary differences (Euro 0.2 million).

Funds from operations (FFO[8]) slipped -0.4% to **Euro 114.0 million**, or Euro 1.24 per share[9]. Excluding the impact of disposals made in 2017, FFO saw significant growth of +6.1% (2016 FFO restated for assets sold in 2017 is Euro 107.6 million).

(in millions of euros)	12/31/2016	12/31/2017	% var.
Invoiced rents	**187.6**	**183.5**	**-2.2%**
Lease rights	2.2	1.8	-17.0%
Rental income	**189.8**	**185.3**	**-2.4%**
Non-recovered building service charges	-11.7	-13.1	11.9%
Net rental income	178.1	172.2	-3.3%
EBITDA	**160.5**	**155.1**	**-3.4%**
EBITDA margin	*84.6%*	*83.7%*	-
Net financial items (excluding impact of hedging ineffectiveness and bank default risk)	-30.6	-30.4	-0.8%
Reversals of/(Allowances for) provisions	-1.1	-1.5	+36.9%
Other operating income and expenses (excluding gains on disposals and impairment)	-2.0	-1.1	-47.5%
Tax expense	-2.7	-0.6	na
Share of net income from equity associates	0.7	2.5	na
Non-controlling interests excluding capital gains and amortization	-10.3	-10.0	-2.6%
FFO	**114.4**	**114.0**	***-0.4%***
FFO per share[9]	***1.25***	***1.24***	***-0.3%***

[7] EPRA: European Public Real Estate Association
[8] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects
[9] Calculated based on the average undiluted number of shares (basic), i.e. 91,830,447 shares

II. Completions, development portfolio and disposals

Mercialys completed 12 projects in 2017, generating Euro 5.2 million in annualized rental income and average net yield of 7.4%

Nine large food stores transformation projects were completed during the year. This represented annualized additional rental income of Euro 1.9 million and further improved the marketability of the sites with the installation of eight new medium-sized stores and 18 differentiating shops over an area of more than 18,000 sq.m. For example, Vib's and Armand Thiery opened stores at the Fréjus site, Kiabi joined the offering of the Rennes shopping center, New Yorker moved into the Poitiers shopping center, while Fnac opted for the Saint-Étienne Monthieu shopping center. The return on development costs was 7.5%.

In the fourth quarter of 2017, Mercialys also completed **three shopping center extensions** at the Morlaix, Rennes and Saint-Étienne Monthieu sites. These new retail spaces, which cover an area of 16,000 sq.m, have accommodated an extra 68 retailers, 10 of which are new to the Mercialys portfolio. They represent Euro 3.3 million of additional annualized rents, or an average return on development costs of 7.0%.

Mercialys strongly bolsters its portfolio of development projects

Mercialys has **increased its project portfolio for the period 2018-2024 by Euro +239 million** compared with 30 June 2017. This now represents a total investment of **Euro 825 million**. The projects involve 32 of the 57 shopping centers and high-street sites owned by the Company at the end of 2017. These developments will generate **Euro 50 million**[10] in additional rental income with a highly accretive average yield of **6.7%**[10], making a significant contribution to growth in FFO and NAV in the medium/long term.

The portfolio of "***committed***" projects is valued at Euro 80 million based on a target net yield of 6.2%. This includes projects that are already under way, mainly the extension of the Le Port site in Reunion island.
The portfolio of projects "***controlled***" represents Euro 327 million and a target net yield of 6.6%. The completion dates range from 2019 to 2021.
The portfolio of "***identified***" projects, scheduled for completion between 2021 and 2024, represents an investment of Euro 418 million and a target net yield of 7.0%.

Three **large food store transformations** will be completed in 2018 at the Annecy, Besançon and Brest sites, representing total annualized rental income of **Euro 0.4 million** and a yield of **6.1%**.

In addition, Mercialys **acquired the company Sacré Cœur, carrying a 9,600 sq.m extension project on the Le Port shopping center in Reunion island**. The acquisition was completed on December 28, 2017 for Euro 27.7 million including transfer taxes. The project represents a total investment of **Euro 74 million** in view of the work still to be carried out. The extension – which was included in Mercialys' portfolio of potential development projects – will open in November 2018. It will comprise 4 medium-sized stores and 43 shops, representing a target net rental income of Euro 4.6 million and a yield of **6.2%**. Mercialys will significantly boost the appeal of this site, where it already owns a shopping center with 3 medium-sized stores and 40 shops. The site has a large catchment area of 228,000 inhabitants and is targeting annual footfall of more than 6 million visitors.

[10] Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins

(in millions of euros)	Total investment (€M)	Investment still to be initiated (€M)	Net rental income forecast (€M)	Net yield on cost forecast	Completion date
COMMITTED PROJECTS	**79.5**	**51.5**	**4.9**	**6.2%**	**2018**
Le Port (extension)	**73.8**	**46.2**	**4.6**	**6.2%**	**2018**
Other projects	**5.7**	**5.3**	**0.4**	**6.1%**	**2018**
Annecy	0.5	0.5	-	-	-
Besançon	2.1	2.1	-	-	-
Brest	3.1	2.7	-	-	-
CONTROLLED PROJECTS	**327.2**	**322.6**	**19.8**[11]	**6.6%**[11]	**2019-2021**
Redevelopments and requalifications	**61.3**	**60.5**	**3.7**	**6.0%**	**2019-2021**
o.w. Le Port (food court)	0.8	0.8	-	-	-
o.w. Marseille La Valentine	16.3	16.3	-	-	-
o.w. Aix-Marseille Plan de Campagne (transformation)	8.2	8.2	-	-	-
Extensions and retail parks	**239.5**	**235.7**	**16.1**	**6.7%**	**2019-2021**
o.w. Le Port (retail park)	11.7	11.7	-	-	-
o.w. Aix-Marseille Plan de Campagne (extension)	40.0	40.0	-	-	-
o.w. Nîmes	40.9	40.9	-	-	-
Mixed-use high-street projects	**26.4**	**26.4**	**na**	**na**	**2021**
o.w. Marcq-en-Baroeul	17.0	17.0	-	-	-
o.w. Chaville	9.4	9.4	-	-	-
IDENTIFIED PROJECTS	**417.8**	**417.8**	**25.1**[11]	**7.0%**[11]	**2021-2024**
TOTAL PROJECTS	**824.5**	**791.9**	**49.8**[11]	**6.7%**[11]	**2018-2024**

- *Committed projects: projects fully secured in terms of land management, planning and related development permits*
- *Controlled projects: projects effectively under control in terms of land management, with various points to be finalized for regulatory urban planning (constructability), planning or administrative permits*
- *Identified projects: projects currently being structured, in emergence phase*

Euro 192 million of disposals and preliminary sales agreements further streamlined Mercialys' portfolio, to focus on 'prime' convenience retail assets, leaders within their catchment areas

In 2017, Mercialys stepped up its capital recycling strategy, disposing of eight assets for a total of Euro 177.2 million including transfer taxes. This strategy enabled the Company to crystallize the value of some of its mature sites or sites with limited development potential, reinvesting part of this in its projects.

In January, Mercialys sold **five service malls** covering a total area of around 14,600 sq.m for Euro 38.9 million including transfer taxes, corresponding to an exit yield of 5.8%. Those arbitrages involved dispersed assets that were unsuitable for global transformation projects owing to their individual size (less than 5,000 sq.m).

In the same month, the Company also sold the **transformed Toulouse Fenouillet hypermarket** for Euro 32.8 million including transfer taxes, with an exit yield of 5.0%. Mercialys had previously embarked on two projects to create 4,600 sq.m in additional retail space, on surfaces formerly occupied by the hypermarket.

[11] Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins

In June, Mercialys finalized the sale of the **Poitiers Beaulieu** site with a family office financed by HSBC for Euro 78.0 million including transfer taxes, corresponding to an exit yield of 5.8%. This shopping center was completely renovated in 2016. In the first half of 2017, New Yorker unveiled its new store concept at the site in a unit measuring over 1,100 sq.m.

In July, Mercialys sold the **Fontaine-lès-Dijon** site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes, generating an exit yield of 5.4%. This shopping center has been subjected to three waves of redevelopments and renovations since 2008.

Asset disposals continue in early 2018. Mercialys signed a **preliminary sales agreement** in January for **Euro 14.6 million including transfer taxes**.

III. Portfolio and debt

EPRA NNNAV is up +1.4% over 12 months

Mercialys' portfolio is valued at **Euro 3,736.7 million** including transfer taxes, down -1.6% over 12 months, but up +1.0% over 6 months. On a like-for-like basis[12], Mercialys' portfolio value has risen by **+2.2%** over 12 months and **+1.0%** over 6 months.

At the end of 2017, Mercialys' portfolio mainly comprised **57 shopping centers and high-street sites**[13], with 42% regional or large shopping centers and 58% leading local retail sites (neighborhood shopping centers and city-center assets).

The average size of these shopping centers (excluding high-street retail assets) was 16,500 sq.m at the end of 2017. This contrasts with an average size of 7,400 sq.m in 2010. Their average value was Euro 69.9 million including transfer taxes, compared with Euro 26.9 million in 2010.

The average appraisal capitalization rate came to **5.13%** at December 31, 2017, compared with 5.14% at June 30, 2017 and 5.25% at December 31, 2016.

Mercialys' EPRA NNNAV is up +1.4% over 12 months to Euro 20.54 per share. This year-on-year increase of Euro +0.28 per share factors in the following impacts:

- dividend payment: Euro -1.04
- net income: Euro +0.94
- change in portfolio fair value: Euro +0.28, including a yield effect for Euro +0.38, a rent effect for Euro +0.06, and a scope effect for Euro -0.16
- change in fair value of financial instruments and other items: Euro +0.10

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[12] Sites on a constant surface basis

[13] Added to these are six geographically dispersed assets with an appraisal value including transfer taxes of Euro 24.2 million

Mercialys anticipates still favorable terms for its debt refinancing

In November 2017, Mercialys issued a Euro 150 million bond as part of a private placement. This transaction covers the Company's general requirements, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019.
This new 10-year line of funding, arranged on favorable terms, has increased the average maturity of Mercialys' debt and maintained the Company's funding costs at extremely competitive levels. It offers a significant differential from the average capitalization rate of the Company's real estate assets and the target net yield of the portfolio of development projects.

In 2018, Mercialys will continue refinancing the bond maturing in March 2019. This will generate an additional carrying cost affecting FFO in addition to the private placement from 2017. The additional financing to be raised in 2018 is estimated at around Euro 300 million. As such, the total cost of refinancing in 2018, including the impact of the private placement from 2017, is therefore estimated at around Euro 9 million. The amount impacting the Company's financial expenses would represent around Euro 6 million after potential hedging. These impacts have been assessed based on current market conditions and assuming a maximum carrying period of 10 months in 2018.
Alongside this, the cost of the Euro 480 million bond issue maturing in March 2019 represents an annual coupon of Euro 19.8 million, with a Euro 16.3 million (2017 basis) impact on Mercialys' financial expenses after taking into account the hedging in place.
Following the redemption of the bond in March 2019, Mercialys will continue to roll out its financing strategy aimed at ensuring an excellent level of liquidity.

Overall, the **average real cost of drawn debt** for 2017 was **1.9%**, below the level recorded in 2016 (2.0%).

The **average maturity of drawn debt** was 3.7 years at December 31, 2017. This maturity is notably affected by the residual bond for Euro 479.7 million maturing in March 2019.

Mercialys' financial structure remains extremely solid. **LTV excluding transfer taxes** was **39.9%**[14] at December 31, 2017. This includes asset disposals of Euro 177 million in 2017, and translates into a -130 bp fall from the level of 41.2% at the end of December 2016. At the same time, in a more readable economic and political environment, Mercialys was in a position to acquire a major expansion project for its Le Port site in Reunion island in December 2017 for almost Euro 28 million including transfer taxes, impacting LTV for 0.5%. Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%[15] at end 2017.

Mercialys has thus restored funding flexibility for its projects, while continuing to streamline its portfolio. Mercialys will maintain a solid financial profile in the medium term to keep its credit rating at BBB.

The **ICR** stood at **5.2x**[16] at December 31, 2017, versus 5.3x at December 31, 2016.

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[14] Loan To Value (LTV): net financial debt/(market value of the portfolio excluding transfer taxes + market value of investments in associates for 2017), i.e. Euro 67.2 million, since the asset value of companies accounted for under the equity method is not taken into account in the appraisal value
[15] Unaudited figure
[16] ICR (Interest Coverage Ratio): EBITDA/net finance costs

IV. Dividend and outlook

Dividend

The Mercialys Board of Directors will recommend to the Annual General Meeting on April 26, 2018 the payment of a dividend of **Euro 1.09 per share** (including the interim dividend of Euro 0.41 per share already paid in October 2017). The proposed dividend is +2.8% higher than in 2016, offering a 5.3% yield on the EPRA NNNAV of Euro 20.54 per share at year-end 2017, and 5.9% over the annual closing share price. The payout corresponds to 88% of 2017 FFO, in line with the objective announced by Mercialys (within a range of 85% to 95% of 2017 FFO and a dividend at least unchanged from 2016).

The ex-dividend date is April 30, 2018, and the dividend will be paid on May 3, 2018.

This payment corresponds to the distribution of 95% of **recurring tax profit** excluding capital gains, as laid down by SIIC rules (or Euro 0.99 per share), the remainder corresponding to the mandatory residual distribution in respect of capital gains realized in 2016 (or Euro 0.10 per share). The capital gains available for distribution in respect of disposals made in 2017 will have to be distributed no later than 2019 under SIIC rules, and amount to Euro 12.3 million, or Euro 0.13 per share.

2018 outlook

In 2018, Mercialys will pursue its efforts to maintain the commercial appeal of its sites, their footfall and the revenues generated by tenants, and will continue to implement its portfolio of development projects. As part of the balanced management of its liabilities, the Company will also finalize the early refinancing of its bond maturing March 2019, in a still favorably oriented credit market.

Mercialys has set the following objectives for 2018:

- organic rental income growth of at least +2% above indexation relative to 2017,
- FFO per share up by at least +2% on 2017, excluding the impact of refinancing the bond maturing in 2019, which is estimated at around Euro 6 million net of potential hedging (including the effect of the private placement completed in November 2017),
- a dividend of 85% to 95% of 2018 FFO, up at least +2% compared with 2017.

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This press release is available on www.mercialys.com

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IMPORTANT INFORMATION

This press release contains certain forward-looking statements regarding future events, trends, projects or targets. These forward-looking statements are subject to identified and unidentified risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements. Please refer to the Mercialys shelf registration document available at www.mercialys.com for the year ended December 31, 2016 for more details regarding certain factors, risks and uncertainties that could affect Mercialys' business. Mercialys makes no undertaking in any form to publish updates or adjustments to these forward-looking statements, nor to report new information, new future events or any other circumstances that might cause these statements to be revised.

APPENDIX TO THE PRESS RELEASE

Financial report:

Financial report

Pursuant to Regulation (EC) No. 1606/2002 of July 19, 2002, the Mercialys Group consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union and applicable at December 31, 2017. These standards are available on the European Commission website at (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en). The significant accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, after taking into account, or with the exception of, the new standards and interpretations described below.

1. Financial statements

The audit procedures on the consolidated accounts have been completed. The certification report will be issued once the necessary procedures have been finalized for filing the registration document.

1.1. Consolidated income statement

(in thousands of euros)	12/31/2017	12/31/2016
Rental revenues	**185,318**	**189,795**
Non-recovered property taxes	-1,248	-1,159
Non-recovered service charges	-4,656	-3,165
Property operating expenses	-7,227	-7,407
Net rental income	**172,188**	**178,065**
Management, administrative and other activities income	4,066	3,359
Other income	277	400
Other expenses	-9,065	-8,813
Personnel expenses	-12,398	-12,520
Depreciation allowance	-34,822	-30,536
Reversals/(Allowances) for provisions	-1,528	-1,116
Other operating income	178,364	104,568
Other operating expenses	-172,005	-81,360
Operating income	**125,077**	**152,046**
Income from cash and cash equivalents	156	140
Gross finance costs	-30,219	-30,541
(Net finance costs) / income from net cash	**-30,063**	**-30,401**
Other financial income	254	1,159
Other financial charges	-2,173	-2,029
Net financial income/(expense)	**-31,982**	**-31,271**
Tax	-645	-2,736
Share of net income from associates and joint ventures	2,540	709
Consolidated net income	**94,991**	**118,748**
Attributable to non-controlling interests	8,324	8,699
Attributable to owners of the parent	86,666	110,049
Earnings per share[17]		
Net income, attributable to owners of the parent (in euros)	0.94	1.20
Diluted net income, attributable to owners of the parent (in euros)	0.94	1.20

[17] Based on the weighted average number of shares over the period adjusted for treasury shares
Weighted average number of shares (non-diluted) in 2017 = 91,830,447 shares
Weighted average number of shares (fully diluted) in 2017 = 91,830,447 shares

1.2. Consolidated balance sheet

ASSETS (in thousands of euros)	12/31/2017	12/31/2016
Intangible assets	2,486	2,016
Property, plant and equipment other than investment property	10	12
Investment property	2,305,414	2,325,268
Investments in associates	38,445	39,039
Other non-current assets	37,529	54,672
Deferred tax assets	319	422
Non-current assets	**2,384,203**	**2,421,429**
Trade receivables	15,839	29,793
Other current assets	59,713	56,931
Cash and cash equivalents	196,913	15,578
Investment property held for sale	113	60,949
Current assets	**272,578**	**163,251**
TOTAL ASSETS	**2,656,781**	**2,584,680**

EQUITY AND LIABILITIES (in thousands of euros)	12/31/2017	12/31/2016
Share capital	92,049	92,049
Additional paid-in capital, treasury shares and other reserves	626,468	636,569
Equity attributable to the Group	718,517	728,618
Non-controlling interests	202,023	205,597
Equity	**920,540**	**934,215**
Non-current provisions	857	551
Non-current financial liabilities	1,377,454	1,239,610
Deposits and guarantees	22,694	22,646
Deferred tax liabilities	578	578
Non-current liabilities	**1,401,583**	**1,263,385**
Trade payables	12,516	19,561
Current financial liabilities	281,396	312,849
Current provisions	6,265	5,048
Other current liabilities	34,432	49,338
Current tax liabilities	49	284
Current liabilities	**334,658**	**387,080**
TOTAL EQUITY AND LIABILITIES	**2,656,781**	**2,584,680**

1.3. Consolidated cash flows statement

(in thousands of euros)	12/31/2017	12/31/2016
Net income, attributable to owners of the parent	86,666	110,049
Non-controlling interests	8,324	8,699
Consolidated net income	**94,991**	**118,748**
Depreciation, amortization and provisions, net of reversals	43,590	37,074
Expenses/(income) relating to stock options and similar	421	147
Other calculated expenses/(income) (1)	-1,775	-2,984
Share of net income of associates	-2,540	-709
Dividends received from associates	2,625	881
Income from asset disposals	-14,965	-29,075
Cash flow	**122,346**	**124,082**
Expense/(Income) from net financial debt	30,063	30,401
Tax charge (including deferred tax)	645	2,736
Cash flow before cost of net financial debt and tax	**153,055**	**157,219**
Taxes received/(paid)	-2,547	-3,446
Change in working capital requirement relating to operations, excluding deposits and guarantees (2)	13,491	-2,980
Change in deposits and guarantees	48	-294
Net cash flow from operating activities	**164,046**	**150,499**
Cash payments on acquisitions of:		
investment property and other fixed assets	-102,808	-175,655
non-current financial assets	0	0
Cash receipts on disposals of:		
investment property and other fixed assets (3)	164,173	151,533
non-current financial assets	0	120
Impact of changes in the scope of consolidation with change of ownership (4)	-26,956	-80,170
Impact of changes in the scope of consolidation related to associates (5)	0	-37,363
Change in loans and advances granted (6)	-23	-3,100
Net cash flow from investing activities	**34,386**	**-144,636**
Dividends paid to shareholders of the parent company	-57,829	-52,328
Interim dividend	-37,637	-39,432
Dividends paid to non-controlling interests	-11,468	-9,259
Other transactions with shareholders (7)	-1,260	0
Changes in treasury shares	-1,100	466
Increase in borrowings and financial liabilities (8)	1,281,260	1,001,500
Decrease in borrowings and financial liabilities (8)	-1,164,500	-877,500
Net interest received	29,997	23,807
Net interest paid	-54,724	-50,827
Net cash flow from financing activities	**-17,260**	**-3,574**
Change in cash position	**181,171**	**2,291**
Net cash at beginning of year	15,298	13,007
Net cash at end of year	196,469	15,298
of which cash and cash equivalents	196,913	15,578
of which bank overdrafts	-444	-280

	12/31/2017	12/31/2016
(1) Other calculated expenses and income primarily comprise:		
discounting adjustments to construction leases	-546	-483
lease rights received from tenants and spread out over the term of the lease	-1,720	-2,049
financial expenses spread out	399	373
interest on non-cash loans	0	-894

(2) The change in working capital requirement breaks down as follows:		
trade receivables	13,935	-4,317
trade payables	-7,046	-2,377
other receivables and payables	6,602	3,650
property development work in progress	0	64
	13,491	**-2,980**

(3) In 2017, cash inflows related to disposals were mainly composed of five service malls sold to the Casino Group for Euro 36.0 million, the transformed Toulouse Fenouillet hypermarket sold to the Casino Group for Euro 30.6 million, the Poitiers Beaulieu site for Euro 69.7 million, the Fontaine-lès-Dijon site for Euro 24.9 million, and the Rennes Saint Grégoire site for Euro 2.3 million. These amounts are net of expenses.
In 2016, cash inflows related to disposals were mainly composed of hypermarket premises in Rennes and Anglet for Euro 57.0 million, net of expenses, and the Niort and Albertville shopping centers for Euro 87.9 million.

(4) In December 2017, La Diane bought shares in the company Sacré Cœur from the Casino Group, comprising the Le Port project in Reunion island for Euro 15.7 million and the shareholder current account for Euro 11.2 million.
In 2016, Mercialys exercised the call option it held on the planned extension of the Toulouse Fenouillet shopping center, resulting in full consolidation of the companies Fenouillet Immobilier and Fenouillet Participation. The impact of changes in scope of consolidation with a change of control for Euro -80.2 million were composed of cash acquired from the Fenouillet Immobilier and Fenouillet Participation companies for Euro -44.4 million, the repayment of Fenouillet Participation current account to the partner for Euro -25.5 million, and the purchase price for shares in Fenouillet Participation of Euro -11 million.
The total disbursement of Euro -97.9 million whose flows were presented in other items in the statement of cash flows specifically comprised Euro -23.8 million for the acquisition of investment properties and Euro 9.7 million for working capital requirements.

(5) On June 28, 2016, in connection with the transfer of property assets to SCI Rennes Anglet, Mercialys participated in the capital contribution for this SCI real estate investment company for Euro 7.7 million (representing a 30% interest), for the section of the transfers based exclusively on an exchange for shares.

(6) In the first half of 2016, Mercialys participated in a capital increase arranged by SCI AMR for Euro 3.8 million.

(7) In December 2017, Mercialys bought out the minority shareholder of SCI Kerbernard for Euro 1.3 million.
In December 2016, Mercialys participated in a further capital increase arranged by SCI AMR for Euro 25.9 million. This capital increase, which was unevenly subscribed, led to Mercialys' interest in SCI AMR being reduced to 39.9%.
Mercialys had granted a loan to SCI Rennes-Anglet totaling Euro 3,064,000 at the end of December 2016.

(8) Changes in borrowings and financial liabilities correspond to changes in commercial paper and to a new bond issuance for Euro 148,260,000 net of costs.
In 2016, changes in borrowings and other financial liabilities corresponded only to changes in commercial paper.

2. Main highlights of 2017

Sale of five service malls
In January 2017, Mercialys sold five service malls to the Casino Group for a total amount of Euro 38.9 million including transfer taxes and an exit yield of 5.8%. These sales involved geographically dispersed assets that are unsuitable for large-scale transformation projects owing to their individual size (less than 5,000 sq.m).

Sale of the transformed hypermarket in Toulouse
In January 2017, Mercialys sold the transformed Toulouse Fenouillet hypermarket to the Casino Group for Euro 32.8 million including transfer taxes, with an exit yield of 5.0%. Mercialys had previously embarked on two projects to create additional retail space on surfaces formerly occupied by the hypermarket, thereby enhancing the site's appeal.

Sale of the Poitiers shopping center
In June 2017, Mercialys finalized the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 78.0 million including transfer taxes, corresponding to an exit yield of 5.8%. This shopping center was completely renovated in 2016. In the first half of 2017, New Yorker unveiled its new store concept at the site in a unit measuring over 1,100 sq.m.

Sale of the Fontaine-lès-Dijon shopping center
In July, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes, generating an exit yield of 5.4%. This shopping center has been subjected to three waves of redevelopments and renovations since 2008.

Euro 150 million bond issue via a private placement
In November 2017, Mercialys issued a Euro 150 million bond (maturity 2027) as part of a private placement, offering a 10-year mid-swap rate of +110 basis points. This transaction is for general corporate purposes, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019 and bearing a coupon of 4.125%.

Completion of transformation projects for nine large food stores and extension projects for three shopping centers
In the first half of 2017, Mercialys completed four transformation projects for large food stores. The sites feature new medium-sized stores as well as French and international retailers, which will help to generate footfall in these shopping centers. H&M, Sostrene Grene and La Chaise Longue have moved into the redeveloped Quimper site, while Vib's and Armand Thiery have opened stores in Fréjus, FNAC in Saint-Étienne and New Yorker in Poitiers.
In the second half of 2017, Mercialys delivered five redeveloped large food stores at the Angers, Narbonne, Nîmes, Rennes and Toulouse sites.
In total, the nine large food store transformation projects delivered in 2017 generate total annualized rental income of Euro 1.9 million and a yield of 7.5%.
Lastly, in the fourth quarter of 2017, Mercialys completed three major extension projects at shopping centers in Rennes, Morlaix and Saint-Étienne. This attracted 68 retailers to the sites, 10 of which are new to the Mercialys portfolio. The extension projects generate Euro 3.3 million in rental income and a yield of 7.0%.

Acquisition of a more than 9,000 sq.m development project in Le Port (Reunion island)
In December 2017, Mercialys acquired the company Sacré Cœur and its project for a 9,600 sq.m extension of the Le Port shopping center in Reunion island. The acquisition was based on a price of Euro 27.7 million including transfer taxes. The project represents a total amount of Euro 74 million in view of the work still to be carried out. The extension, – which was included in Mercialys' portfolio of potential development projects – will open in November 2018. It will comprise 4 medium-sized stores and 43 shops, representing a target net rental income of Euro 4.6 million and a yield of 6.2%. Mercialys will significantly boost the appeal of this site, where it already owns a shopping center with 3 medium-sized stores and 40 shops. The site has a large catchment area of 228,000 inhabitants and is targeting annual footfall of more than 6 million visitors.

3. Summary of the main key indicators for the period

	12/31/2017
Organic growth in invoiced rents	**+2.6%**
EBITDA[18]	**Euro 155.1 million**
EBITDA/rental revenues	*83.7%*
Funds from operations (FFO)	**Euro 114.0 million**
Funds from operations (FFO[19]**) per share**	**Euro 1.24**
Fair value of the portfolio (including transfer taxes)	**Euro 3,736.7 million**
Change vs. 12/31/2016 (total scope)	*-1.6%*
Change vs. 12/31/2016 (excluding the impact of disposals in 2017)	*+2.2%*
EPRA NNNAV per share	**Euro 20.54**
Change vs. 12/31/2016	*+1.4%*
Loan to Value (LTV) – excluding transfer taxes	**39.9%**

4. Review of activity

4.1. Main management indicators

- **Renewals and re-lettings** generated average growth in the annualized rental base of +14.0%[20] for the period.

- The **Casual Leasing** business also remains buoyant, representing a total rental income of Euro 9.8 million. This segment is now fully integrated within Mercialys' letting strategy, as illustrated by the expected conversion of Euro 0.8 million in short-term leases into conventional commercial leases in 2017 and 2018, a trend which is set to continue over the medium term.

- Details of the **lease schedule** can be found in the table below:

	Number of leases	Annual MGR* + variable (in millions of euros)	Share of leases expiring (% annual MGR + variable)
Expired at 12/31/2017	364	15.5	8.7%
2018	191	6.9	3.8%
2019	123	6.3	3.5%
2020	200	13.9	7.8%
2021	165	9.8	5.5%
2022	185	12.1	6.8%
2023	118	8.4	4.7%
2024	165	11.0	6.2%
2025	160	9.7	5.5%
2026	244	25.5	14.3%
2027 and beyond	270	58.9	33.1%
Total	**2,185**	**178.0**	**100%**

**MGR = minimum guaranteed rent*

The number of expired leases at end-2017 is due to ongoing negotiations, non-renewal of leases with payment of eviction compensation, comprehensive negotiations by retailers, tactical delays, etc.

[18] Earnings before interest, taxes, depreciation, amortization and other operating income and expenses
[19] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects
[20] Vacant at last known rent for re-lettings

- The 12-month **recovery rate** at end-December 2017 remained high at 97.0%, virtually unchanged from June 30, 2017 (97.1%) and December 31, 2016 (97.1%).

- The **current vacancy rate** – which excludes “strategic” vacancy designed to facilitate extension/redevelopment plans – remained at a very low level. This was 2.5% at December 31, 2017, stable vs December 31, 2016 and down slightly from June 30, 2017 (2.2%). The total vacancy rate[21] was 3.4% at December 31, 2017, an improvement from June 30, 2017 (3.6%). This compares with a total vacancy rate at end-2016 of 3.9%.

- The **occupancy cost ratio**[22] for our tenants stood at 10.3% for large shopping centers, unchanged from December 31, 2016. Sales revenues of retailers in Mercialys’ shopping centers had risen by +2.8% on aggregate at end-November 2017. This ratio thence remains at a fairly 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.

Mercialys earns rental income from a wide range of retailers. With the exception of the Casino Group (see below for more details) and H&M (3.8%), no other tenant represents more than 2% of total rental income.

Casino accounted for 28.9% of total rental income at December 31, 2017 (versus 31.5% at December 31, 2016 and 30.3% at June 30, 2017). This change is mainly due to the overall growth in rental income and the asset disposal strategy.

The table below shows the **breakdown by retailer** (national, local and Casino Group retailers) of contractual rents on an annualized basis:

	Number of leases	Annual MGR* + variable 12/31/2017 (in millions of euros)	12/31/2017 in %	12/31/2016 in %
National and international retailers	1,437	103.9	58.4%	56.9%
Local retailers	674	22.7	12.7%	11.6%
Casino cafeterias/restaurants	6	1.0	0.6%	0.7%
Monoprix	9	11.4	6.4%	6.2%
Géant Casino and other entities	59	39.0	21.9%	24.5%
Total	**2,185**	**178.0**	**100.0%**	**100.0%**

**MGR = minimum guaranteed rent*

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

	12/31/2017	12/31/2016
Restaurants and catering	7.3%	6.7%
Health and beauty	10.3%	10.3%
Culture, gifts and sports	13.2%	11.2%
Personal items	31.7%	31.5%
Household equipment	7.2%	7.5%
Food-anchored tenants	27.6%	30.1%
Services	2.6%	2.7%
Total	**100.0%**	**100.0%**

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

[22] Ratio between rent and service charges paid by retailers and their sales revenue (excluding large food stores): (rent + service charges incl. tax) / sales revenue incl. tax

The **structure of rental income** at December 31, 2017 shows that leases with a variable component represent the dominant share in terms of rent:

	Number of leases	In millions of euros	12/31/2017 in %	12/31/2016 in %
Leases with variable component	1,245	96.6	54%	52%
- of which guaranteed minimum rent		*90.2*	*51%*	*50%*
- of which variable rent		*6.4*	*4%*	*3%*
Leases without variable component	940	81.4	46%	48%
Total	**2,185**	**178.0**	**100%**	**100%**

Given the inclusion in the portfolio of medium-sized stores, particularly for shopping center extension projects and large food store transformation projects, leases with a variable component represented a higher proportion of total rental income at December 31, 2017 than at December 31, 2016.

Lastly, leases index-linked to the French Retail Rent Index (ILC) made up the predominant share of rents at December 31, 2017:

	Number of leases	In millions of euros	12/31/2017 in %	12/31/2016 in %
Leases index-linked to the Retail Rent Index (ILC)	1,617	156.6	91%	89%
Leases index-linked to the Construction Cost Index (ICC)	300	12.4	7%	9%
Leases index-linked to the Tertiary Activities Rent Index (ILAT) and non-adjustable leases	268	2.6	2%	1%
Total	**2,185**	**171.6**	**100%**	**100%**

5. Review of consolidated results

5.1. Invoiced rents, rental revenues and net rental income

Rental revenues mainly comprise **rents invoiced** by the Company 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)	12/31/2017	12/31/2016	% var.
Invoiced rents	183,514	187,621	-2.2%
Lease rights	1,805	2,175	-17.0%
Rental revenues	**185,318**	**189,795**	**-2.4%**
Non-recovered service charges and property taxes	-5,904	-4,323	+36.6%
Property operating expenses	-7,227	-7,407	-2.4%
Net rental income	**172,188**	**178,065**	**-3.3%**

The **-2.2 point** evolution in invoiced rents is the result of the following:

- continued robust organic growth in invoiced rents[23]: **+2.6 points**, or Euro +4.9 million
- acquisitions in 2016: **+2.8 points**, or Euro +5.3 million
- the impact of asset sales carried out in 2016 and 2017: **-7.3 points**, or Euro -13.7 million
- other effects, primarily including strategic vacancy relating to current redevelopment programs: **-0.3 point**, or Euro -0.6 million.

[23] Assets enter the like-for-like scope used to calculate organic growth once they have been held for 12 months

Like for like, invoiced rents rose **+2.6 points**, of which in particular:

- **+0.1 point** as a result of indexation[24]
- **+2.3 points** as a result of actions carried out on the portfolio
- **+0.3 point** caused by growth in the Casual Leasing business. In addition, it should be noted that some additional revenues from Casual Leasing are excluded from the like-for-like measure. This chiefly concerns rental income from the extension of the Toulouse shopping center, acquired in the fourth quarter of 2016.

Lease rights and despecialization indemnities received over the period[25] after the impact of deferrals required under IFRS came to **Euro 1.8 million**, compared with Euro 2.2 million at December 31, 2016. These mainly corresponded to lease rights relating to ordinary re-letting business.

Rental revenues amounted to **Euro 185.3 million** at December 31 2017, down -2.4% compared with the end of 2016.

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

Costs included in the calculation of net rental income came to Euro 13.1 million in 2017, compared with Euro 11.7 million in 2016. The ratio of non-recovered property operating expenses to invoiced rents was 7.2% at December 31, 2017, compared with 6.3% at December 31, 2016. Due to the decrease in invoiced rents, net rental income fell by -3.3% compared with December 31, 2016, to Euro 172.2 million.

5.2. Management revenues, operating costs and EBITDA

(in thousands of euros)	12/31/2017	12/31/2016	% var.
Net rental income	**172,188**	**178,065**	**-3.3%**
Management, administrative and other activities income	4,066	3,359	+21.0%
Other income and expenses	-8,788	-8,414	+4.4%
Staff costs	-12,398	-12,520	-1.0%
EBITDA	**155,069**	**160,490**	**-3.4%**
% rental revenues	83.7%	84.6%	-

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.

Fees charged in 2017 came to Euro 4.1 million compared with Euro 3.4 million in 2016. This change was in large part generated by fees charged in respect of the G La Galerie trademark license.

No **property development margin** was recorded in 2017.

Other recurring income of Euro 0.3 million recognized in 2017 (compared with Euro 0.4 million in 2016) includes dividends received from the real estate investment fund (OPCI) created in partnership with Union Investment in 2011. Ownership of this 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 revenues, are recognized as operating income.

[24] In 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 0.0%, respectively).

[25] Lease rights received as cash before the impact of deferrals required under IFRS (deferral of lease rights over the firm period of the lease)

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

For 2017, these costs amounted to Euro 9.1 million compared with Euro 8.8 million in 2016. This change notably reflects the impact of communication costs and action plans to increase shopping center footfall.

Staff costs amounted to Euro 12.4 million in 2017, virtually unchanged from 2016 (Euro 12.5 million).

A portion of staff costs are 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**[26] came to Euro 155.1 million in 2017 compared with Euro 160.5 million in 2016, a decrease of -3.4%. The EBITDA ratio was 83.7% at December 31, 2017 (compared with 84.6% at end-2016).

5.3. Net financial items

Net financial items amounted to Euro 32.0 million at December 31, 2017, compared with Euro 31.3 million at December 31, 2016. Adjusted for the impact of non-recurring items (hedging ineffectiveness and banking default risk), which represent an expense of Euro 1.6 million (versus a cumulative expense of Euro 0.7 million at the end of December 2016), net financial items came to Euro 30.4 million, as against Euro 30.6 million at end-December 2016.

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

The table below shows a breakdown of net financial items:

(in millions of euros)	12/31/2017	12/31/2016	% var.
Income from cash and equivalents *(a)*	**156**	**140**	**+11.4%**
Cost of debt taken out *(b)*	-36,909	-38,781	-4.8%
Impact of hedging instruments *(c)*	6,690	8,240	-18.8%
Cost of finance leases *(d)*	0	0	na
Gross finance costs excluding exceptional items	**-30,219**	**-30,541**	**-1.1%**
Exceptional depreciation of costs in relation to the early repayment of bank loans *(e)*	0	0	na
Gross finance costs *(f) = (b)+(c)+(d)+(e)*	**-30,219**	**-30,541**	**-1.1%**
Net finance costs *(g) = (a)+(f)*	**-30,063**	**-30,401**	**-1.1%**
Cost of Revolving Credit Facility and bilateral loans (undrawn) *(h)*	-2,150	-2,012	+6.9%
Other financial expenses *(i)*	-23	-17	+35.3%
Other financial expenses excluding exceptional items *(j) = (h)+(i)*	**-2,173**	**-2,029**	**+7.1%**
Exceptional depreciation in relation to refinancing of the RCF *(k)*	0	0	na
Other financial expenses *(l) = (j)+(k)*	**-2,173**	**-2,029**	**+7.1%**
TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*	**-32,392**	**-32,570**	**-0.5%**
Income from associates	0	0	na
Other financial income	254	1,159	-78.1%
Other financial income *(n)*	**254**	**1,159**	**-78.1%**
TOTAL FINANCIAL INCOME *(o) = (a)+(n)*	**410**	**1,299**	**-68.4%**
NET FINANCIAL ITEMS = *(m)+(o)*	**-31,982**	**-31,271**	**+2.3%**

[26] E.B.I.T.D.A. (Earnings before interest, taxes, depreciation and amortization)

5.4. Funds From Operations (FFO) and net income attributable to owners of the parent

5.4.1. Funds from operations (FFO)

(in thousands of euros)	12/31/2017	12/31/2016	% var.
EBITDA	**155,069**	**160,490**	**-3.4%**
Net financial items (excluding impact of hedging ineffectiveness and banking default risk)	-30,375	-30,625	-0.8%
Reversals of/(Allowances for) provisions	-1,528	-1,116	+36.9%
Other operating income and expenses (excluding gains on disposals and impairment)	-1,057	-2,014	-47.5%
Tax expense	-645	-2,736	-76.4%
Share of net income of associates	2,540	709	na
Non-controlling interests excluding capital gains and amortization	-10,036	-10,307	-2.6%
FFO	**113,969**	**114,401**	**-0.4%**
FFO per share	***1.24***	***1.25***	***-0.3%***

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 recognized by Mercialys consisted of corporate value-added tax (CVAE), income tax on businesses that do not come under the SIIC status, and deferred taxes.

In 2017, Mercialys recorded a **tax expense** of Euro 0.6 million, mainly consisting of the tax on company value added (Euro 1.7 million), income tax (Euro 0.1 million liability offset by the claim for the reimbursement of the 3% dividend tax for Euro 1.3 million), and deferred tax on deficits and temporary differences (Euro 0.2 million).

The **share of net income from associates** recognized at December 31, 2017 came to Euro 2.5 million, compared with Euro 0.7 million at December 31, 2016. This change is linked to recognition of the contribution from SCI Rennes Anglet since June 2016 (this company owns the redeveloped hypermarkets of these two sites, as well as the gallery and a medium-sized store in Anglet), in addition to the contribution from the Niort and Albertville shopping center assets, acquired by SCI AMR in December 2016.

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% of the shares in December 2013, with Altaréa Cogedim owning the remaining 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 an associate until November 2016. Following the exercise of the fair-value call it held with Foncière Euris, Mercialys acquired 100% of the shares of SNC Fenouillet Participation, which has been fully consolidated since the opening of the Espaces Fenouillet shopping center extension.

Non-controlling interests (excluding gains and amortization) represented Euro 10.0 million at December 31, 2017, compared with Euro 10.3 million at December 31, 2016. These are linked to the 49% stake held by BNP Paribas REIM France in the companies Hypertethis Participations and Immosiris. Since Mercialys retains exclusive control, these subsidiaries are fully consolidated.

Based on these items, **funds from operations (FFO)**, which corresponds to net income before depreciation and amortization, capital gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects, amounted to Euro 114.0 million (versus Euro 114.4 million for 2016), the slight fall of -0.4% being mainly due to asset disposals. Excluding the effect of disposals in 2017, FFO would have risen by +6.1%.
Considering the weighted average basic number of shares at the end of December, FFO amounted to Euro 1.24 per share at December 31, 2017, compared with Euro 1.25 per share at December 31, 2016, a slight fall of -0.3%.

5.4.2. Net income attributable to owners of the parent

(in thousands of euros)	12/31/2017	12/31/2016	% var.
FFO	113,969	114,401	-0.4%
Depreciation and amortization	-34,822	-30,536	+14.0%
Other operating income and expenses	7,416	25,221	-70.6%
Hedging ineffectiveness/banking default risk	-1,607	-646	na
Non-controlling interests: capital gains and amortization	1,711	1,608	+6.4%
Net income attributable to owners of the parent	**86,667**	**110,049**	**-21.2%**

Depreciation, amortization and provisions rose sharply to Euro 34.8 million in 2017 compared with Euro 30.5 million in 2016, in parallel with the investments made in 2016 and 2017.

Other operating income and expenses correspond to the net amount of capital gains on the sale of real-estate assets and provisions for asset impairment.

Other operating income came to Euro 178.4 million at December 31, 2017 compared with Euro 104.6 million at December 31, 2016. This amount mainly includes:
- income of Euro 175.6 million from asset disposals in 2017, including five service malls, the transformed hypermarket at Toulouse Fenouillet and the Poitiers Beaulieu and Fontaine-lès-Dijon sites;
- reversal of the provision for impairment for Euro 0.7 million relating to a site that was sold.

Other operating expenses came to Euro 172.0 million at December 31, 2017 (compared with Euro 81.4 million at December 31, 2016). This corresponds primarily to:
- the net book value of assets sold in 2017 and costs related to these asset disposals for Euro 161 million;
- impairments of investment properties for Euro 7.6 million.

On this basis, the net capital gain recognized in the consolidated financial statements at December 31, 2017 on asset disposals in 2017 was Euro 14.3 million. Social capital gain of Euro 20.4 million will be 60% available for distribution in accordance with SIIC rules.

Net income attributable to owners of the parent, as defined by IFRS, totaled Euro 86.7 million for 2017, as against Euro 110.0 million for 2016. This change resulted mainly from the favorable impact on 2016 net income of capital gains on disposals.

5.5. Financial structure

5.5.1. Debt cost and structure

At December 31, 2017, the amount of Mercialys' **drawn debt** was Euro 1,638.2 million, comprising:
- a bond issue of a nominal amount of Euro 150 million, yielding a fixed rate of 2% and maturing in November 2027;
- a bond issue of a nominal amount of Euro 750 million, yielding a fixed rate of 1.787% and maturing in March 2023;
- a residual bond of Euro 479.7 million (of the Euro 650 million bond issued in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019;
- Euro 258.5 million of commercial paper outstanding yielding a slightly negative average rate.

Net financial debt amounted to Euro 1,427.0 million at December 31, 2017, compared with Euro 1,485.8 million at December 31, 2016.

The Group had **cash and cash equivalents** of Euro 196.5 million at December 31, 2017 compared with Euro 15.3 million at 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: Euro +164.0 million
- cash receipts/payments relating to assets sold/acquired in 2017: Euro +34.4 million
- dividend payments to shareholders and non-controlling interests: Euro -106.9 million
- net increase in borrowings and financial liabilities: Euro +116.8 million, mainly resulting from the redemption of commercial paper outstanding for Euro 31.5 million, offset by a private placement bond issue for Euro 150.0 million
- net interest paid: Euro -24.7 million

The **average real cost of drawn debt** was 1.9%, unchanged from the end of June 2017 and lower than at December 31, 2016 (2.0%).

Taking into account the current rate hedging policy, Mercialys' **debt structure** at December 31, 2017 was as follows: 65% fixed-rate debt and 35% floating-rate debt, virtually unchanged from the end of 2016 (64% and 36%, respectively).

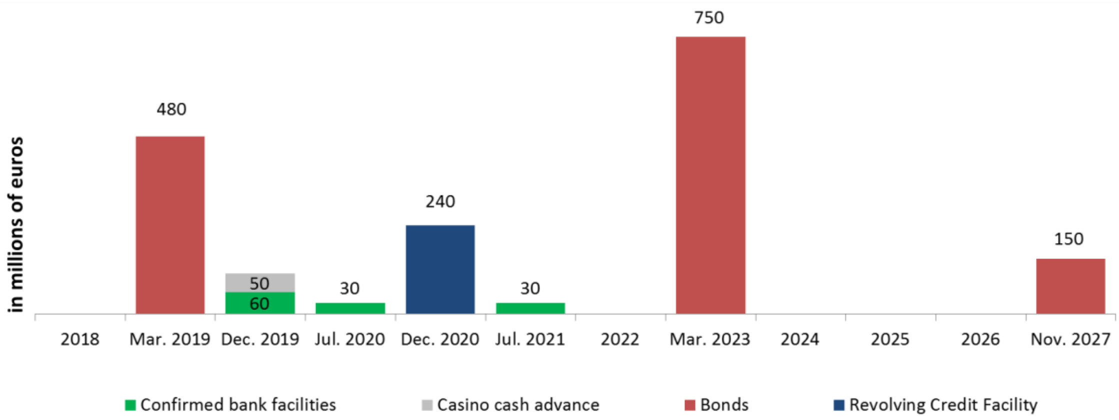
5.5.2. Liquidity and debt maturity

The **average maturity of drawn debt** was 3.7 years at 31 December 2017 (as against 3.8 years at December 31, 2016), benefiting from the Euro 150 million bond issued in November 2017 in the form of a private placement. This maturity is notably affected by the residual bond for Euro 479.7 million maturing in March 2019.

Mercialys also has **unused financial resources** of Euro 410 million that ensure a comfortable level of liquidity:

- a bank revolving credit facility of Euro 240 million with a maturity of December 2020. This facility bears interest at Euribor + a margin of 115 basis points; if unused, this facility is subject to payment of a 0.46% non-use fee (for a BBB rating);
- two confirmed bank facilities totaling Euro 60 million with a maturity that was extended to December 2019. These facilities bear interest at a rate lower than 100 basis points above the Euribor (for a BBB rating);
- two confirmed bank facilities of Euro 30 million each, maturing in July 2020 (maturity extended by one year in 2017) and July 2021. The margin over Euribor is less than 100 basis points for each of these facilities;
- cash advances from Casino of up to Euro 50 million, repayable on December 31, 2019, subject to an interest rate of between 60 and 85 basis points above Euribor;
- a Euro 500 million commercial paper program was also set up in the second half of 2012. Euro 258.5 million has been used (outstanding at December 31, 2017).

The graph below shows the Group's **debt maturities** at December 31, 2017 (including unused financial resources and excluding commercial paper).



5.5.3. Bank covenants and financial rating

Mercialys' financial position at December 31, 2017 satisfied all the various covenants included in the different credit agreements.

The **Loan To Value (LTV) ratio** was 39.9%, down -1.3 points, well below the contractual covenant (LTV <50%). Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%[27] at end 2017.

	12/31/2017	12/31/2016
Net financial debt (in millions of euros)	1,427.0	1,485.8
Appraisal value excluding transfer taxes (in millions of euros)	3,580.6[28]	3,604.4
Loan To Value (LTV)	**39.9%**	**41.2%**

Likewise, the ratio of EBITDA/ net finance costs (**ICR: Interest Coverage ratio**) was 5.2x, well above the bank covenant requirement (ICR > 2):

	12/31/2017	12/31/2016
EBITDA (in millions of euros)	155.1	160.5
Net finance costs	-30.1	-30.4
Interest Coverage Ratio (ICR)	**5.2x**	**5.3x**

The two other bank covenant requirements are also met:

- the **market value of properties excluding transfer taxes** at December 31, 2017 was Euro 3.5 billion (above the contractual covenant that sets a market value excluding transfer taxes of over Euro 1 billion);
- a **ratio of secured debt/market value excluding transfer taxes** of less than 20%. Mercialys had no secured debt at December 31, 2017.

Mercialys is rated by Standard & Poor's. On June 6, 2017, the agency confirmed its rating for Mercialys of BBB/stable outlook.

5.6. Equity and ownership structure

Consolidated equity was Euro 920.5 million at December 31, 2017, compared with Euro 934.2 million at December 31, 2016.

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

- net income for 2017: Euro +95.0 million
- payment of the final dividend for the 2016 financial year of Euro 0.63 per share and dividend paid to non-controlling interests: Euro -69.3 million
- payment of an interim dividend for the 2017 financial year of Euro 0.41 per share: Euro -37.6 million
- payment in respect of the buyout of minority shareholders of SNC Kerbernard: Euro -1.3 million
- transactions on treasury shares: Euro -1.0 million

[27] Unaudited figure

[28] Including the market value of investments in associates, i.e. Euro 67.2 million, since the asset value of companies accounted for under the equity method is not taken into account in the appraisal value

The **number of shares outstanding** at December 31, 2017 was 92,049,169, unchanged from December 31, 2016.

	2017	2016	2015
Number of shares outstanding			
- At start of period	92,049,169	92,049,169	92,049,169
- At end of period	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,049,169	92,049,169	92,049,169
Average number of shares (basic)	**91,830,447**	**91,856,715**	**91,767,764**
Average number of shares (diluted)	**91,830,447**	**91,856,715**	**91,767,764**

As at December 31, 2017, Mercialys' ownership structure was as follows: Casino Group (40.16%), Generali Group (8.01%), Foncière Euris[29] (1.00%), treasury shares and shares held by employees (0.27%), other shareholders (50.56%).

5.7. Dividend

The balance of the 2016 dividend was paid on May 4, 2017 and amounted to Euro 0.63 per share. This represents a total dividend of Euro 57.8 million fully paid in cash.

At its meeting of July 26, 2017, the Board of Directors decided to pay an interim dividend on 2017 earnings of **Euro 0.41 per share**. This dividend was paid out on October 23, 2017, representing a total amount of Euro 37.6 million of interim dividends fully paid in cash.

In accordance with SIIC rules, the minimum distribution requirement resulting from earnings reported in Mercialys' 2017 accounts is Euro 101.7 million, including Euro 12.3 million for gains on disposals which may be paid out over two years.

The Mercialys Board of Directors will recommend to the Annual General Meeting on April 26, 2018 the payment of a dividend of **Euro 1.09 per share** (including the interim dividend of Euro 0.41 per share already paid in October 2017). The proposed dividend corresponds to 88% of 2017 FFO, in accordance with the objective announced by Mercialys (within a range of 85% to 95% of FFO and at least unchanged from 2016), an increase of +2.8% on 2016.

The proposed dividend represents 5.3% yield on EPRA NNNAV of Euro 20.54 per share and 5.9% on the share price at year-end 2017. The ex-dividend date is April 30, 2018, and the dividend will be paid on May 3, 2018.

The dividend corresponds to the distribution of 95% of the parent company's **recurring tax profit**, on which the mandatory distribution is based according to SIIC tax rules, or Euro 0.99 per share, and Euro 0.10 per share corresponding to **capital gains** realized in 2016. The capital gains available for distribution in respect of 2017, to be distributed no later than 2019 under SIIC rules, amount to Euro 12.3 million.

[29] 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% with cash settlement only

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

6.1. Asset acquisitions

Acquisitions are described in Part II of this press release.

6.2. Completions of extension or reconstruction projects

Project completions are described in Part II of this press release.

6.3. Disposals

Disposals are described in Part II of this press release.

6.4. Appraisal valuations and changes in consolidation scope

As at December 31, 2017, BNP Real Estate Valuation, Catella, Cushman & Wakefield, CBRE and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 40 sites as at December 31, 2017, on the basis of 5 site visits during the second half of 2017, and on the basis of an update of the appraisals conducted as at June 30, 2017 for the other sites. 8 site visits were conducted during the first half of 2017.
- Catella Valuation conducted the appraisal of 20 sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017.
- Cushman & Wakefield conducted the appraisal of 9 assets as at December 31, 2017 on the basis of site visits.
- CBRE conducted the appraisal of 1 site as at December 31, 2017, on the basis of an update of the appraisal conducted as at June 30, 2017.
- Galtier conducted the appraisal of Mercialys' other assets, i.e. 2 sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017.

Sites acquired during 2017 were valued as follows as at December 31, 2017:

- The Le Port asset in Reunion island, acquired in the second half of 2017, was valued on the basis of its acquisition price.

On this basis, the portfolio was valued at Euro 3,736.7 million including transfer taxes at December 31, 2017, compared with Euro 3,797.3 million at December 31, 2016. Excluding transfer taxes, this value was Euro 3,513.4 million at end-2017, versus Euro 3,565.4 million at end-2016.

The value of the portfolio including transfer taxes therefore fell by -1.6% over 12 months (+2.2% like-for-like[30]) and rose by +1.0% compared with June 30, 2017 (+1.0% like-for-like).

The average appraisal yield was 5.13% at December 31, 2017, compared with 5.14% at June 30, 2017 and 5.25% at December 31, 2016.

[30] Sites on a constant surface basis

Note that the contribution of the Casual Leasing business to value creation is significant, since it accounts for Euro 178 million of the portfolio value as at December 31, 2017 (vs. Euro 170 million at end-2016), while involving no corresponding investment.

Type of property	Average yield 12/31/2017	Average yield 06/30/2017	Average yield 12/31/2016
Regional / Large shopping centers	4.82%	4.94%	5.02%
Neighborhood shopping centers and city-center assets	6.13%	5.79%	5.91%
Total portfolio[31]	5.13%	5.14%	5.25%

The following table gives the breakdown of fair value and gross leasable area (GLA) of Mercialys' real estate portfolio by type of property at December 31, 2017, as well as the corresponding appraised rental income:

Type of property	Number of assets at 12/31/2017	Appraisal value (excluding transfer taxes) at 12/31/2017		Appraisal value (including transfer taxes) at 12/31/2017		Gross leasable area at 12/31/2017		Appraised potential net rental income	
		(in €M)	(%)	(in €M)	(%)	(sq.m)	(%)	(in €M)	(%)
Regional / Large shopping centers	24	2,687.9	76.5%	2,856.0	76.4%	633,450	72.1%	137.8	71.8%
Neighborhood shopping centers and city-center assets	33	802.8	22.9%	856.5	22.9%	235,736	26.8%	52.5	27.4%
Sub-total shopping centers	**57**	**3,490.8**	**99.4%**	**3,712.5**	**99.4%**	**869,186**	**99.0%**	**190.3**	**99.2%**
Other sites[31]	6	22.7	0.6%	24.2	0.6%	9,102	1.0%	1.6	0.8%
Total	**63**	**3,513.4**	**100.0%**	**3,736.7**	**100.0%**	**878,288**	**100.0%**	**191.9**	**100.0%**

7. Outlook

In 2018, Mercialys will pursue its efforts to maintain the commercial appeal of its sites, their footfall and the revenues generated by tenants, and will continue to implement its portfolio of development projects. As part of the balanced management of its liabilities, the Company will also finalize the early refinancing of its bond maturing March 2019, in a still-buoyant credit market.

Mercialys has set the following objectives for 2018:

- organic rental income growth of at least +2% above indexation relative to 2017,
- FFO per share up by at least +2% on 2017, excluding the impact of refinancing the bond maturing in 2019, which is estimated at around Euro 6 million net of potential hedging (including the effect of the private placement completed in November 2017),
- a dividend of 85% to 95% of 2018 FFO, up at least +2% compared with 2017.

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

8. Subsequent events

Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

9. EPRA performance measures

Mercialys applies the recommendations of the EPRA[32] for the indicators provided below. The EPRA is the representative body of listed real estate companies in Europe. As such, it issues recommendations on performance indicators to improve the comparability of the financial statements published by the various companies.

In its Interim Financial Report and its Registration Document, Mercialys publishes all EPRA indicators defined by the "Best Practices Recommendations", which can be found on the EPRA website.

9.1. EPRA earnings and earnings per share

The table below shows the relationship between net income attributable to owners of the parent and "earnings per share" as defined by the EPRA:

(in millions of euros)	12/31/2017	12/31/2016
Net income attributable to owners of the parent	**86.7**	**110.0**
Non-controlling interests: capital gains and amortization	-1.7	-1.6
Hedging ineffectiveness and banking default risk	1.6	0.6
Capital gains or losses and impairments included in other operating income and expenses	-7.4	-25.2
Depreciation and amortization	34.8	30.5
Property development margin	0.0	0.0
EPRA EARNINGS	**114.0**	**114.4**
Number of shares (average basic)	91,830,447	91,856,715
EPRA EARNINGS PER SHARE (in euros)	**1.24**	**1.25**

9.2. EPRA Net Asset Value (NAV)

(in millions of euros)	12/31/2017	12/31/2016
Shareholders' equity attributable to owners of the parent	**718.5**	**728.6**
Unrealized gain on investment property	1,186.2	1,160.7
Unrealized gain on non-consolidated investments and associates	28.6	29.4
Fair value of financial instruments	-18.1	-19.2
Deferred tax assets on the balance sheet	0.0	0.0
EPRA NAV	**1,915.2**	**1,899.5**
Number of shares (average diluted)	91,830,447	91,856,715
EPRA NAV PER SHARE (in euros)	**20.86**	**20.68**

[32] European Public Real Estate Association

9.3. EPRA triple Net Asset Value (NNNAV)

(in millions of euros)	12/31/2017	12/31/2016
EPRA NAV	**1,915.2**	**1,899.5**
Fair value of financial instruments	18.1	19.2
Fair value of the fixed-rate debt	-46.9	-57.7
EPRA NNNAV	**1,886.4**	**1,861.0**
Number of shares (average diluted)	91,830,447	91,856,715
EPRA NNNAV PER SHARE (in euros)	**20.54**	**20.26**

9.4. EPRA net initial yield (NIY) and “topped-up” NIY

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

(in millions of euros)	12/31/2017	12/31/2016
Investment property - wholly owned	3,513.4	3,565.4
Assets under development (-)	-27.0	0.0
Completed property portfolio (excluding transfer taxes)	**3,486.5**	**3,565.4**
Transfer taxes	222.5	231.8
Completed property portfolio (including transfer taxes)	**3,709.0**	**3,797.3**
Annualized rental income	181.5	184.7
Non-recoverable expenses (-)	-5.6	-4.5
Annualized net rents	**176.0**	**180.2**
Notional gain relating to expiration of step-up rents, rent-free periods or other lease incentives	3.4	3.1
Topped-up net annualized rent	**179.4**	**183.3**
EPRA NET INITIAL YIELD	**4.74%**	**4.75%**
EPRA “TOPPED-UP” NET INITIAL YIELD	**4.84%**	**4.83%**

9.5. EPRA cost ratios

(in millions of euros)	12/31/2017	12/31/2016	Comments
Administrative/operating expense line per IFRS income statement	-21.5	-21.3	Staff costs and other costs
Net service charge costs	-5.9	-4.3	Property taxes + Non-recovered service charges (including vacancy cost)
Rental management fees	-2.9	-2.3	Rental management fees
Other income and expenses	-4.3	-5.1	Other property operating income and expenses excluding management fees
Share of joint venture administrative and operating expenses	0.0	0.0	
Total	**-34.6**	**-33.0**	
Adjustments to calculate EPRA cost ratio exclude (if included above):	0.0	0.0	
- depreciation and amortization	0.0	0.0	Depreciation and provisions for fixed assets
- ground rent costs	0.5	0.7	Non-group rents paid
- service charges recovered through comprehensive invoicing (with the rent)	0.0	0.0	
EPRA costs (including vacancy costs) (A)	**-34.1**	**-32.3**	**A**
Direct vacancy costs[33]	2.3	3.2	
EPRA costs (excluding vacancy costs) (B)	**-31.8**	**-29.1**	**B**
Gross rental income less ground rent costs[34]	184.8	189.1	Less costs relating to construction leases/long-term leases
Less: service fee and service charge cost 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)	**184.8**	**189.1**	**C**
EPRA COST RATIO (including direct vacancy costs)	**-18.4%**	**-17.1%**	**A / C**
EPRA COST RATIO (excluding direct vacancy costs)	**-17.2%**	**-15.4%**	**B / C**

9.6. EPRA vacancy rate

See section 4.1. of this financial report.

[33] The EPRA cost ratio deducts all vacancy costs for assets undergoing development/refurbishment if they have been expensed. The costs that can be excluded are property taxes, service charges, contributions to marketing costs, insurance premiums, carbon tax, and any other costs directly related to the property.

[34] Gross rental income should be calculated after deducting any ground rent payable. All service charges, management fees and other income in respect of property expenses must be added and not deducted. If the rent includes service charges, these should be restated to exclude them. Tenant incentives may be deducted from rental income, whereas any other costs should be recognized in line with IFRS requirements.