MERCIALYS

PRESS RELEASE

Paris, July 26, 2017

Effective deployment of the operational and disposals strategy

Strong growth in invoiced rents, up **+2.8% like-for-like excluding indexation** and +0.2% on a current basis to Euro 92.1 million, despite the impact of the disposals from January 2017

Clear outperformance in terms of center **footfall levels** and retailer **sales**

FFO up **+1.6%** to Euro 59.6 million, with **+5.3%** growth in underlying FFO excluding the impact of disposals in 2017

EPRA NNNAV up +2.1% over 12 months: Euro 20.31 per share

Successful deployment of the development pipeline: four hypermarket transformations opened, with their positive impact on earnings to be further strengthened by the delivery of five new hypermarket transformations and three shopping center extensions over the second half of the year

Financial structure further strengthened, with Euro 177 million of assets sold through to end-July, with a pro forma LTV of **39.1%**, -210 bp from end-2016. The LTV will head towards **37%** at the end of the year

Outlook for 2017: objective confirmed for organic rental income growth excluding indexation of over +2%. 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. An **interim dividend** of Euro 0.41 per share will be paid out in October 2017. The **dividend** will represent 85% to 95% of FFO and will **be stable as a minimum** compared with 2016.

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 +2.1% over twelve months and +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, Mercialys expects its dividend to range from 85% to 95% of 2017 FFO, and to be stable as a minimum compared with 2016.

I. 2017 first-half business and results

Positive trends for operational indicators contributing to the significant increase in FFO excluding the impact of disposals for the first half of 2017

Invoiced rents are up +0.2% to **Euro 92.1 million**, driven by organic growth and the impact of the acquisitions made in 2016, offsetting the impact of the disposals carried out in 2016 and 2017.

Organic growth in invoiced rents has continued to show a very positive trend, up **+2.9%**, coming in **+2.8% higher than indexation**. This robust performance has been achieved thanks primarily to the positive impact of relettings within the operational portfolio, as well as the transformation of cafeterias and hypermarkets. The Casual Leasing business still represents a significant driving force for organic growth (contribution +0.8%), while making it possible to continuously renew the offering and deploy innovative concepts at the sites.

Mercialys' shopping centers have continued to outperform the sector in France in terms of both footfall and retailer sales growth[1]. For the year to end-May 2017, **retailer sales** in Mercialys' large centers and main neighborhood shopping centers are up +1.8%, while the overall shopping center market is down -1.6% (CNCC), representing a positive spread of 340 bp. **Footfall levels** for Mercialys' large centers and main neighborhood shopping centers show +0.8% growth for the year to end-June 2017, compared with a -2.5% contraction for the CNCC panel, i.e. a positive spread of 330 bp.

The **current financial vacancy rate** came to 2.2% for the first half of 2017, slightly lower than the rate from end-2016 (2.5%). The 12-month recovery rate remains high at 97.1%, in line with the trend from end-2016 (97.1%).
The **occupancy cost ratio** represents 10.2%, down slightly from December 31 and June 30, 2016 (10.3%) following the disposals carried out over the half-year period. The reasonable level of real estate costs in retailers' profit and loss statements allows for a potential increase in rent levels upon lease renewal or redevelopment of the premises.

Rental revenues totaled Euro 93.1 million, stable compared with the first half of 2016.

EBITDA represents **Euro 79.3 million**, also stable compared with the first half of 2016, with an EBITDA margin of 85.2% (vs. 85.4% at June 30, 2016).

Net financial expenses, restated for the non-recurring impact of the marking-to-market of derivative instruments (Euro -2.1 million), are down Euro -0.2 million from June 30, 2016 to Euro 15.1 million at end-June 2017. This decrease is linked primarily to a reduction in the cost of commercial paper over the period. On this basis, the average cost of drawn debt came to 1.9%, compared with 2.0% at December 31, 2016 and 2.1% at June 30, 2016.

Share of income from equity associates at June 30, 2017 amounted to Euro 1.3 million versus Euro 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, and the contribution of the shopping center assets in Niort and Albertville acquired in December 2016 by SCI AMR.

Non-controlling interests excluding amortization and capital gains represent Euro 5.1 million at June 30, 2017, down slightly from the first half of 2016 (Euro 5.2 million).

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[1] 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

Tax charge represents a Euro 1.1 million expense at end-June 2017, compared with Euro 0.7 million for the first half of 2016. This amount primarily includes Euro 0.8 million for corporate value-added tax (CVAE) and Euro 0.3 million for corporate income tax.

Funds from operations (FFO[2]) are up +1.6% to **Euro 59.6 million**, with Euro 0.65 per share[3]. Excluding the impact of disposals from the first half of 2017, FFO growth comes out at +5.3%.

(In thousands of euros)	Jun 30, 2017	Jun 30, 2016	Change (%)
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	(6,663)	(5,952)	+11.9%
Net rental income	86,455	87,072	-0.7%
EBITDA	**79,319**	**79,411**	**-0.1%**
EBITDA margin	*85.2%*	*85.4%*	*na*
Net financial items (excl. impact of hedging ineffectiveness and banking default risk)	(15,064)	(15,257)	-1.3%
Reversal of / (charge to) provisions	416	72	na
Other operating income and expenses (excluding gains on disposals and impairment)	(169)	(3)	na
Tax charge	(1,133)	(661)	+71.5%
Share of income from equity associates	1,343	308	na
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%***

II. Investments and disposals

Development pipeline's deployment continuing to move forward successfully

Four projects to transform large food stores were delivered during the first half of 2017, making it possible to set up medium-sized stores, as well as national and international retailers, which will help generate footfall at these shopping centers.
For instance, H&M, Sostrene Grene and Kiko have opened stores following the transformation of the Quimper site, with 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**, based on Euro 97 million of investments by 2019, with Euro 62 million still to be initiated, which will make it possible to generate Euro 6.6 million of additional annualized rental income.

The Company will benefit from the following deliveries over the second half of 2017:

- Five projects to transform large food stores at the Angers, Narbonne, Nîmes, Rennes and Toulouse sites. In total, the nine large food store transformation projects delivered in 2017 will generate a combined total of Euro 1.9 million of annualized rental income, with a yield rate of 7.5%.

- Mercialys will be delivering three major shopping center extension projects in Rennes, Morlaix and Saint-Etienne in December 2017, generating Euro 3.3 million of rental income and a yield rate of 7.0%.

[2] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains on disposals, asset impairments and other non-recurring items
[3] Calculated based on the fully diluted weighted average number of shares at June 30

In millions of euros	Total investment	Investment still to be initiated	Net rental income forecast	Net yield on cost forecast	Completion dates
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	na	na	
TOTAL POTENTIAL PIPELINE[4]	**489.4**	**484.0**	**26.2**	**6.5%**	
TOTAL[5]	**586.0**	**546.5**	**32.8**	**6.6%**	

Significant progress with the disposal plan: Euro 177.2 million of asset sales at end-July 2017

In 2017, Mercialys launched a disposal plan aiming to bring down its loan to value (LTV) ratio to significantly less than 40% by the end of 2017. In a still favorable interest rate environment, it aims to realize values, particularly on mature assets or assets with limited development potential, while offering the headroom to finance an accretive controlled and potential pipeline.

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

In **June** 2017, Mercialys signed an agreement to sell the **Poitiers Beaulieu** site to a family office financed by HSBC for Euro 78 million including transfer taxes, delivering an exit yield of 5.8%. This shopping center was fully renovated in 2016 and has benefited from New Yorker's deployment of its new store concept over more than 1,100 sq.m during the first half of 2017.

In **July** 2017, 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, with an exit yield of 5.4%. This shopping center has been subject to three waves of redevelopments and renovations since 2008.

These disposals follow the assets sold in **January** 2017.

Mercialys previously sold **five service malls** to the Casino Group for a total of Euro 38.9 million including transfer taxes, with an exit yield of 5.8%. These sales have focused on assets that are geographically dispersed, with an individual scale (less than 5,000 sq.m) that is not suitable for global transformation projects. The Casino Group represents their natural buyer considering their locations close to Géant hypermarkets.
In addition, Mercialys previously 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 previously carried out two projects to create additional retail space in the area freed up by the hypermarket and enhance this site’s appeal.

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

III. Portfolio and financial structure

EPRA NNNAV up +2.1% over 12 months and +0.5% over six months

Mercialys' portfolio is valued at **Euro 3,698.9 million** (including transfer taxes), contracting -2.6% over six months, linked primarily to the changes in scope (Euro -151.5 million), offsetting the impacts of the compression of the average capitalization rate (Euro +35.0 million) and like-for-like rental income growth (Euro +18.3 million). On a like-for-like basis, Mercialys' portfolio value shows an increase of **+2.9%** year-on-year and **+1.5%** compared with December 31, 2016.

At end-June 2017, Mercialys' portfolio comprised 64 assets, including **58 shopping centers and high-street sites**, with 76% large shopping centers, 23% market-leading neighborhood and high-street sites, and 1% other assets.

The average appraisal capitalization 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 11 bp compression recorded over the first half of the year mostly factors in a mix effect following the disposal of five service centers and the Poitiers site, with an exit yield of 5.8%.

Mercialys' EPRA NNNAV is up +2.1% over 12 months and +0.5% from December 31, 2016 to Euro 20.31 per share. The change for the first half of this year takes into account the following impacts:
- dividends paid: Euro -0.63
- net income: Euro +0.54
- change in portfolio fair value: Euro +0.18
- change in fair value of financial instruments: Euro +0.04
- other elements: Euro -0.04

Financial structure further strengthened

The rate environment remained positive for the financing of Mercialys' investments over the first half of 2017. The Company had Euro 272 million (net) of commercial paper issues outstanding at end-June 2017, with a negative average cost. The breakdown of the Euro 1,501 million of drawn debt is unchanged from end-2016, based on two bond issues and commercial paper.

In addition, Mercialys had Euro 410 million of undrawn bank lines at June 30, 2017, unchanged from the end of 2016, alongside its Euro 500 million commercial paper program (with Euro 272 million used at end-June 2017).

The **average real cost of drawn debt** for the first half of 2017 came to **1.9%**, down -10 bp from the level recorded for 2016 (2.0%) and -20 bp versus the cost for the first half of 2016 (2.1%). Mercialys benefited from a slightly negative average rate on the commercial paper issue over the period.

Mercialys' financial structure remains very sound, with an **LTV** ratio of **39.6%**[6] at June 30, 2017 (versus 41.2% at December 31, 2016 and 40.6% at end-June 2016). The **ICR** ratio came to **4.9x**[7] at June 30, 2017 (versus 5.3x at December 31, 2016 and 6.1x at end-June 2016).

On June 6, 2017, Standard & Poor's confirmed its **BBB / stable outlook** rating for Mercialys.

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[6] LTV (Loan To Value) : net financial debt / portfolio's market value excluding transfer taxes + balance sheet value of investments in associates, i.e. Euro 38.8 million at June 30, 2017, while the value of the portfolio held by associates is not included in the appraisal value

[7] ICR (Interest Coverage Ratio): EBITDA / net finance costs. At June 30, 2016, the ICR reflects the positive impact of Euro 1.9 million in gains linked to the fair value of financial instruments. Excluding this non-recurring impact, this ratio comes out at 5.3x. At June 30, 2017, it was negatively affected by a Euro 2.1 million cost for the marking-to-market of financial instruments.

IV. Dividend and outlook

Dividend

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**.

Outlook

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.

The press release is available on www.mercialys.com.

Analysts / Investors contact:
Alexandre Leroy
Tel: +33(0)1 53 65 24 39

Press contact:
Communications
Tel: +33(0)1 53 70 23 34

About Mercialys

Mercialys is one of France's leading real estate companies, focused exclusively on retail property. At June 30, 2017, Mercialys had a portfolio of 2,108 leases, representing a rental value of Euro 174.6 million on an annualized basis.
At June 30, 2017, it owned properties with an estimated value of Euro 3.7 billion (including transfer taxes). Mercialys has had "SIIC" real estate investment trust (REIT) tax status since November 1, 2005 and has been listed on Euronext Paris Compartment A (ticker: MERY) since its initial public offering on October 12, 2005. At June 30, 2017, there were 92,049,169 shares outstanding.

APPENDIX TO THE PRESS RELEASE: FINANCIAL STATEMENTS

Consolidated income statement

(In thousands of euros)	Jun 30, 2017	Jun 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	0	0
Other income	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	150,831	42,041
Other operating expenses	(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) / Income from net cash	**(16,181)**	**(13,080)**
Other financial income	120	663
Other financial expenses	(1,061)	(925)
Net financial income/(expense)	**(17,122)**	**(13,342)**
Tax	(1,133)	(661)
Share of net income from associates and joint ventures	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 [8]		
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

[8] 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

Consolidated balance sheet

ASSETS (in thousand euros)	Jun 30, 2017	Dec 31, 2016
Intangible assets	2,353	2,016
Property, plant and equipment other than investment property	10	12
Investment property	2,258,069	2,325,268
Investments in associates	38,806	39,039
Other non-current assets	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	92,754	15,578
Investment property held for sale	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)	Jun 30, 2017	Dec 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	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	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**