MERCIALYS

HALF-YEAR FINANCIAL REPORT

OF THE BOARD OF DIRECTORS

First half of 2018

CONTENTS

KEY FIGURES

In millions of euros	06/30/2018	12/31/2017	06/30/2017
Invoiced rents	91.4	183.5	92.1
EBITDA	78.6	155.1	79.3
Funds from operations (FFO)	59.8	114.0	59.6

Operating performance	06/30/2018	12/31/2017	06/30/2017
Organic growth in invoiced rents excluding indexation	+2.5%	+2.6%	+2.8%
Current financial vacancy rate	2.5%	2.5%	2.2%
Occupancy cost ratio	10.5%	10.3%	10.2%

Per share data (in euros)	06/30/2018	12/31/2017	06/30/2017
Funds from operations (FFO), average basic number of shares	0.65	1.24	0.65
EPRA NNNAV, average diluted number of shares	20.81	20.54	20.37

Portfolio valuation and debt	06/30/2018	12/31/2017	06/30/2017
Fair value of portfolio (including transfer taxes) (in millions of euros)	3,796.6	3,736.7	3,698.9
Fair value of portfolio (excluding transfer taxes) (in millions of euros)	3,571.3	3,513.4	3,474.3
Average appraisal capitalization rate	5.07%	5.13%	5.14%
Loan To Value (LTV) ratio	40.2%	39.9%	39.6%
Interest Coverage Ratio (ICR)	5.1x	5.2x	4.9x

1. ACTIVITY REPORT

1.1. Strong half-year results confirm 2018 annual guidance

Once again, Mercialys has completed a new half-year of operational excellence, driven by its retail and property expertise. The strong outperformance of the Company's shopping centers compared to the national average, both in terms of footfall (+330 bps) and retailers' sales (+300 bps), proves once again the scalability of its prime convenience positioning, its know-how in the selection of retail brands aligned with the expectations of catchment areas and able to quickly respond to cyclical changes in business sectors, and its capacity to propose a range of best-in-class online and on-site services. The half-year results, characterized in particular by +3.8% organic growth in invoiced rents (+2.5% excluding indexation) and a +0.3% increase in Funds from operations (FFO) (+3.5% excluding the impact of refinancing the bond maturing in 2019), demonstrate the Company's disciplined management of its business activities.

During the half-year, Mercialys continued to enhance and expand its digital tools and services, enabling it to improve its database which now has 552,000 qualified profiles (i.e. doubled in one year) and to further customize its interactions with customers. This continual improvement in its knowledge of consumers enables the Company to more efficiently address the increasingly diverse and specific needs of its customers, satisfied during purchasing journeys increasingly fragmented.

During the half-year, Mercialys also completed the disposal of the Saint-Paul site on Reunion Island for an amount of €14.6 million including transfer taxes, and signed two preliminary sales agreements for the Gap and Lannion sites, for an additional aggregate amount of €19.1 million including transfer taxes. This rotation of assets, in line with the Company's divestment criteria and above appraisal values, will enable financing in particular its accretive portfolio of €825 million and consequently drive the growth of FFO and NAV in the medium term.

In terms of developments, Mercialys continued to work through its projects portfolio, with in particular, the signature of new differentiating medium-sized stores for the transformed hypermarkets at Annecy, Besançon and Brest (including the Fnac and New Yorker), and a pre-letting rate of 98% achieved on the extension of the Port shopping center on Reunion Island. The delivery of all these assets is planned for the fourth quarter of 2018.

Lastly, Mercialys finalized the refinancing of the €479.7 million bond maturing in March 2019. The 8-year €300 million bond issue completed last February on attractive terms, together with the 10-year private placement of €150 million completed in November 2017, will lead to substantial savings in financial expenses starting from March 2019. At end-June 2018, the LTV excluding transfer taxes was 40.2% (39.9% including the signed preliminary sales agreements). Standard & Poor's confirmed its BBB / stable outlook rating on June 11, 2018 and Mercialys will maintain a solid financial profile in the medium term aimed at keeping this financial rating.

Driven by this momentum, and more than ever prepared to respond to the intrinsically cyclical nature of the different consumer sectors, Mercialys confirms with confidence its 2018 annual guidance, namely: 1/ organic growth in invoiced rents expected to exceed +2% excluding indexation, the significant recovery in the latter being expected to lead to organic growth including indexation at a level significantly higher than +3%; 2/ FFO per share expected to increase by at least +2%, excluding the impact of the carrying cost linked to the refinancing of the bond maturing in 2019, for which the amount is estimated at €4 million after putting in place the hedging instruments (including the impact of the private placement completed in November 2017); 3/ a dividend up by at least +2%, within a range of 85% to 95% of the 2018 FFO.

1.2. Mercialys' property and retail solutions enhance the resilience of the retailers selected on its portfolio

Evolving consumer habits have led to a growing fragmentation of the customer journey, within which the shopping center model continues to be a relevant format for consumers and profitable solution for retailers.

As shown by A.T. Kearney[1], for the first time in history there are six generations of consumers together in the retail market. They include the baby-boomers (post-World War II generation) and Generation X (born between 1965 and 1980), who have considerable economic influence and are expected to continue being influential for the next 10 to 20 years, due to their above-average purchasing power and longer life expectancy. This phenomenon drives consumption patterns centered around brick & mortar retail outlets. As emphasized by the Odoxa 2017 Retailscope study, shopping centers continue to be by far the preferred shopping destination of French people, meaning that this format is built on solid medium and long-term fundamentals.

Furthermore, the stability of delivery costs for on-line orders (€7 per order on average in Paris, even though the most densely populated city in France[2]) coupled with the steady decline in the average e-commerce shopping basket since 2011 (from €91 to €65.5 per order[3]) is a powerful factor for the development of "ship from store"[4] and the consolidation of the profitability of the store format as a distribution channel.

Lastly, although retailers invariably have to cope with increasing cyclical factors and more diverse consumer habits, the favorite brands for the French continue to be solidly entrenched in brick & mortar retail outlets, led by brands such as Décathlon, Cultura, Picard and FNAC[5]. The key success factor common to these retailers, regardless of their business sector, is their capacity to renew their offers, services and concepts, an approach that Mercialys supports strongly by providing relevant property solutions to retailers.

Since 2015, Mercialys has capitalized, for instance, on the radical changes made by household appliance suppliers by offering them tailored retail spaces taking advantage of hypermarket spaces requalification.

In the textile sector, Mercialys selects winning concepts, namely concepts including the combination of both online and offline strategies, offering them modular spaces perfectly adapted to the "fast fashion" format.

Traditional beauty and health brands have, on their side, refreshed their concepts by offering more in-store services while strengthening their omnichannel exposure. This segment is very well represented in the Mercialys portfolio, not only through leading retail brands at the national level, but also through pharmacies which generally earn more than 10% of their revenues in carrying general drugstore products (parapharmacies)[6] and constitute powerful local anchor points for customers, as well as franchised retail brands which get to know their customers and catchment areas very well.

Lastly, in the catering sector, Mercialys has optimized its shopping centers offering, in particular by shutting down nearly all cafeterias, and bringing in fast food brands, pubs or dedicated concepts (burgers, bagels…) capable of attracting recurring footfall.

[1] The future of shopping centers
[2] Exane BNP Paribas
[3] FEVAD - average sales in online transactions
[4] Organization of the shipping of an online order to a consumer from the most appropriate neighborhood store, based, in particular, on its inventories and geographic situation
[5] 2018 OC&C ranking of French peoples' favorite brands (Les enseignes préférées des Français)
[6] KPMG Pharmacies moyennes professionnelles 2017 – 25th edition

Thanks to its dual expertise in property and in retail, Mercialys is able to pick successful brands and maintain its ability to outperform the national average in terms of both footfall and retailers' sales, thereby driving the rental reversion potential. Furthermore, the relevant geographic network offered by the portfolio contributes to the success and profitability of the retail brands, thus limiting the Company's exposure to defaults and to points of sale arbitrage.

1.3. Mercialys places consumers' main expectations at the heart of its marketing strategy

The Company is convinced that the main consumer expectations can be broken down into five structural needs:

- The need for simplicity: 50% of French people select their shopping center on ease of access and 78% of customers spend less than two hours on a shopping expedition [7]
- The need for recognition and reward: 56% of consumers would like to receive customized offers[8]
- The need for meaning: 53% of French people prefer ethically conscious brands and sustainable development[9]
- The need to refer to one's community: 92% of customers have more trust in what an influencer has to say than in a traditional advertisement or a celebrity[10]
- The need for immediacy: 88% of customers consider that the fact of receiving an instant response to a request for help enhances their loyalty[11]

To address these underlying expectations, Mercialys has set up a pragmatic marketing strategy and offers services that promote footfall recurrence. Among the numerous initiatives it has implemented in this respect, Mercialys specifically focuses on the digital visibility of its sites and their services, but also on the products and services offered by its retailers.

For example, in addition to the optimized referencing mechanism (Google, Waze, etc.), Mercialys has significantly improved the customization of its interactions with visitors to shopping centers, through its qualified database which currently contains 552,000 contacts (i.e. doubled in one year), with significant and qualified GDPR compliant information thanks to the loyalty program, and concentrates 10% on average of the unique customers of each catchment area. This has been enhanced with +11% of new registrations since January 2018 through the sponsorship system alone and has allowed the sending of 150,000 push notifications per month promoting the retailers and their deals. In the last six months, the opening rate of customized e-mails has increased by +30 percentage points to reach a very satisfactory level of 45%.

[7] LSA magazine May 2018
[8] L'Observatoire Cetelem 2017
[9] L'Observatoire Cetelem 2013
[10] Forbes research, Musefind
[11] Salesforce, State of the Connected Customer study

1.4. Detailed analysis of results

1.4.1. Particularly steady organic growth

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

(In thousands of euros)	06/30/2018	06/30/2017	% var
Invoiced rents	91,381	92,098	(0.8%)
Lease rights	771	1,020	(24.4%)
Rental revenues	**92,152**	**93,118**	**(1.0%)**
Non recovered service charges and property taxes	(3,411)	(3,508)	(2.8%)
Property operating expenses	(2,918)	(3,155)	(7.5%)
Net rental income	**85,823**	**86,455**	**(0.7%)**

The **-0.8 point** decrease in invoiced rents is the result of the following:

- extremely dynamic organic growth in invoiced rents[12]: **+3.8 points**, i.e. +€3.5 million
- disposals of assets carried out in 2017 and 2018: **-3.2 points**, i.e. -€3.0 million
- other effects, including notably the strategic vacancy relating to current extension and redevelopment programs: **-1.3 points**, i.e. -€1.2 million

On a like-for-like basis, invoiced rents were up **+3.8%**, including in particular:

- **+1.3 points** as a result of indexation[13]
- **+2.5 points** as a result of actions carried out on the portfolio, renewals and relettings having generated an average growth in the annualized rental base of +12.1%[14] in the first half of 2018

Lease rights and despecialization indemnities received during the period amounted to €0.4 million, versus €0.6 million in the first half of 2017, broken down as follows:

- €0.4 million of lease rights related to ordinary re-letting business (vs. €0.6 million in the first half of 2017)
- a non-significant amount of despecialization indemnities, just as in the first half of 2017

After the impact of deferrals over the firm period of the lease required under IFRS, lease rights recognized in the first half of 2018 totaled €0.8 million, compared to €1.0 million in the first half of 2017.

Rental revenues came to €92.2 million on June 30, 2018, down -1.0% versus the first half of 2017.

Net rental income consists of rental revenues less costs directly allocated to real estate assets. These costs include property taxes and rental expenses that are not rebilled to tenants, together with property operating

[12] Assets enter the like-for-like scope used to calculate organic growth after being held for 12 months
[13] In the first half of 2018, for the majority of leases, rents were indexed to the change in either the construction cost index (ICC) or in the retail rent index (ILC) between the second quarter of 2016 and the second quarter of 2017 (+2.6% and +1.5%, respectively)
[14] Vacant at last known rent for re-lettings

charges, which mainly comprise rental management fees paid to the property manager that are not rebilled and various charges relating directly to the operation of sites.

Costs included in the calculation of net rental income represent €6.3 million for the first half of 2018, versus €6.7 million in the first half of 2017. The ratio of non-recovered property operating charges to invoiced rents stood at 6.9% in the first half of 2018 versus 7.2% in the first half of 2017. Through the impact of asset disposals carried out in 2017 and the slight fall in lease rights, net rental income saw a slight decline of -0.7% at June 30, 2018 compared to June 30, 2017, at €85.8 million versus €86.5 million.

1.4.2. The format's resilience proven through excellent management indicators

The Mercialys shopping centers continued to outperform the sector in France, both in terms of footfall and retailer sales trends[15].

For the year to end-May 2018, **retailers sales** in Mercialys's large and main neighborhood shopping centers were up by +1.2% (at constant surface area), compared to a decline of -1.8% for the entire shopping center market (French National Council of Shopping Centers - CNCC[16]), representing a positive spread of +300 bps.

For its part, **footfall** at Mercialys' large and main neighborhood shopping centers rose by a cumulative +2.1% at end-June 2018, compared to a decline of -1.2% for the CNCC[16], i.e. an outperformance of +330 bps.

The **current financial vacancy rate** – which excludes “strategic” vacancies designed to facilitate expansion and redevelopment plans – remained at a very low level. It was 2.5% in the first half of 2018, unchanged compared to end-2017 (2.5% at December 31, 2017 and 2.2% at June 30, 2017). The total vacancy rate[17] was 3.4% at June 30, 2018, unchanged compared to December 31, 2017, and slightly down from June 30, 2017 (3.6%).

The **occupancy cost ratio**[18] for tenants was 10.5% in the large shopping centers, up slightly compared to December 31, 2017 (10.3%). This ratio remains at a modest level compared to 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 renewals or redevelopment of the premises.

The **recovery rate** over 12 months to the end of June 2018 remained high at 97.1% of billing, in line with the rates observed at the end of December (97.0%) and at end June 2017 (97.1%).

[15] Mercialys’ large centers and main neighborhood shopping centers based on a constant surface area, representing c. 85% of the Company’s shopping centers value (scope as reported to the CNCC by Mercialys)
[16] CNCC index – all centers, comparable scope
[17] In accordance with the EPRA calculation method: rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)
[18] Ratio between rent plus service charges paid by retailers and their sales revenue (excluding large food stores): (rent + service charges including tax) / sales revenue including tax

1.4.3. Changes in the lease structure

Rents received by Mercialys come from a very diversified range of retailers: with the exception of the Casino Group and H&M brands (3.1%), no other tenant represents more than 2% of total rental income.

Casino accounted for 29.4% of total rental income at June 30, 2018, versus 28.9% at December 31, 2017 and 30.3% at June 30, 2017. This trend during the half-year can be explained in particular by scope effects (the sale of the Saint-Paul shopping center on Reunion Island) and the application of indexing earlier on in the year on leases in the Casino scope compared to the portfolio average.

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

	Number of leases	Annual GMR* + variable 06/30/2018 (in millions of euros)	06/30/2018 (in %)	06/30/2017 (in %)
National and international retailers	1,486	106.4	59.9%	57.6%
Local retailers	573	19.0	10.7%	12.2%
Casino cafeterias/restaurants	6	1.1	0.6%	0.6%
Monoprix	8	11.6	6.5%	6.5%
Géant Casino and other entities	57	39.5	22.3%	23.2%
Total	**2,130**	**177.5**	**100.0%**	**100.0%**

** GMR = Guaranteed minimum rent*

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

	06/30/2018	06/30/2017
Restaurants and catering	7.4%	6.8%
Health and beauty	10.5%	10.2%
Culture, gifts and sports	13.4%	11.7%
Personal items	31.0%	32.1%
Household equipment	7.0%	7.5%
Food-anchored tenants	28.1%	29.1%
Services	2.6%	2.5%
Total	**100.0%**	**100.0%**

The **structure of rents** at June 30, 2018 shows that leases with a variable component represent the dominant share in terms of rent:

	Number of leases	In millions of euros	06/30/2018 (in %)	06/30/2017 (in %)
Leases with variable component	1,262	97.4	55%	53%
- of which guaranteed minimum rent		*92.4*	*52%*	*50%*
- of which variable rent		*5.0*	*3%*	*3%*
Leases without a variable component	868	80.2	45%	47%
Total	**2,130**	**177.5**	**100%**	**100%**

Furthermore, leases linked to the French Retail Rent Index (ILC) made up the predominant share of rents at June 30, 2018.

	Number of leases	In millions of euros	06/30/2018 (in %)	06/30/2017 (in %)
Leases index-linked to the Retail Rent Index (ILC)	1,632	159.3	92%	90%
Leases index-linked to the Construction Cost Index (ICC)	267	11.5	7%	8%
Leases index-linked to the Tertiary Activities Rent index (ILAT) or non-adjustable leases	231	1.8	1%	1%
Total	**2,130**	**172.5**	**100%**	**100%**

Lastly, the details of the lease schedule can be found in the table below:

	Number of leases	Annual GMR* + variable (in millions of euros)	Share of leases expiring (% annual GMR + variable)
Expired at 12/31/2017	301	13.9	7.8%
2018	160	5.5	3.1%
2019	127	6.3	3.6%
2020	190	13.2	7.5%
2021	161	9.6	5.4%
2022	176	11.2	6.3%
2023	121	8.7	4.9%
2024	152	10.5	5.9%
2025	150	9.4	5.3%
2026	248	26.1	14.7%
2027 and beyond	344	63.1	35.5%
Total	**2,130**	**177.5**	**100.0%**

** GMR = Guaranteed minimum rent*

1.4.4. Management revenues, operating costs and EBITDA

(In thousands of euros)	06/30/2018	06/30/2017	% var
Net rental income	**85,823**	**86,455**	**-0.7%**
Management, administrative and other activities income	1,609	2,537	(36.6%)
Other income and expenses	(2,934)	(3,262)	(10.1%)
Personnel expenses	(5,852)	(6,411)	(8.7%)
EBITDA	**78,647**	**79,319**	**(0.8%)**
% rental revenues	85.3%	85.2%	na

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 the teams – as well as letting, asset management and advisory fees relating to partnerships formed.

Fees charged at June 30, 2018 totaled €1.6 million compared to €2.5 million at June 30, 2017. The first half of 2017 had benefited from a one-time billing of fees for licenses to use the "G La Galerie" brand for €0.8 million.

No **property development margin** was recognized either in the first half of 2018 or in the first half of 2017.

The **other recurring income** of €0.3 million recognized in the first half of 2018 includes dividends received from the OPCI fund created in partnership with Union Investment in 2011. Ownership of this real estate investment fund is split between Union Investment (80%) and Mercialys (20%) and is recorded in Mercialys's accounts under non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and letting. These dividends, similar to net rental income, are recognized as operating income.

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

In the first half of 2018, these costs amounted to €3.2 million compared to €3.5 million in the first half of 2017. This change reflects in particular the Company's efforts to keep overhead under control.

The **personnel expenses** amounted to €5.9 million in the first half of 2018, down significantly from the amount recorded in the first half of 2017 (€6.4 million). A portion of these personnel expenses is charged back to the Casino Group as part of the advisory services provided by the asset management team, which works on a cross-functional basis for Mercialys and the Casino Group, or as part of the shopping center management services provided by Mercialys' teams (see paragraph above concerning management, administrative and other activities income).

As a result of the above, **EBITDA**[19] amounted to €78.6 million at June 30, 2018, slightly down compared to June 30, 2017 (€79.3 million). The EBITDA to rental revenues ratio was excellent at end-June 2018, at 85.3% compared to 85.2% at end-June 2017.

1.4.5. Net financial items

Mercialys has finalized the **early refinancing** of the €479.7 bond issue which will be repaid at maturity in March 2019 and has a coupon of 4.125%. Indeed, in February 2018, the Company successfully placed a bond issue maturing in February 2026 for an amount of €300 million with a coupon of 1.80%. This transaction followed up on the €150 million bond issue maturing in November 2027 and with a coupon of 2.00%, finalized in November 2017 within a private placement.

These new lines of funding, arranged on favorable terms, increase the average life of Mercialys's debt and, starting in March 2019, very significantly lower its cost of funding. After putting hedging instruments in place, the impact on 2018 Funds from operations (FFO) of the carrying cost of these new €450 million financing lines is estimated at €4.0 million. In this respect, the carrying cost recorded by Mercialys in the first half of 2018, taking into account the impact of hedging instruments, amounted to €1.9 million. Following the repayment of the €479.7 million bond in March 2019, Mercialys will, all things being equal, benefit from a noticeable fall in its financing costs that will continue, on a prorated basis, into 2020.

[19] Earnings before interest, tax, depreciation and amortization

Net financial items amounted to €16.2 million at June 30, 2018 versus €17.1 million at June 30, 2017. The non-recurring items (impact of hedging ineffectiveness and banking default risk) represent a non-significant amount at end-June 2018, versus an expense of €2.1 million at end-June 2017. The net financial items taken into account in the calculation of Funds from operations (FFO) amounted to €16.2 million at June 30, 2018 versus €15.1 million in the first half of 2017.

The **average real cost of drawn debt** at June 30, 2018 was 1.8%, down from the cost of 1.9% recorded at June 30 and December 31, 2017.

The table below shows the breakdown of net financial items:

(In thousands of euros)	06/30/2018	06/30/2017	% var
Income from cash and equivalents (a)	195	44	+343.2%
Cost of the debt put in place (b)	(21,391)	(18,274)	+17.1%
Impact of hedging instruments (c)	5,888	2,050	+187.2%
Cost of finance leases (d)			
Gross finance costs excluding exceptional items	**(15,503)**	**(16,224)**	**(4.4%)**
Exceptional depreciation of costs relating to early repayment of the bank loans (e)			
Gross finance costs (f) = (b)+(c)+(d)+(e)	**(15,503)**	**(16,224)**	**(4.4%)**
Net finance costs (g) = (a)+(f)	**(15,308)**	**(16,180)**	**(5.4%)**
Cost of the Revolving Credit Facility (RCF) and the bilateral loans (not drawn down) (h)	(1,058)	(1,057)	+0.1%
Other financial expenses (i)	(6)	(4)	+50.0%
Other financial expenses excluding exceptional items (j) = (h)+(i)	**(1,064)**	**(1,061)**	**+0.3%**
Exceptional depreciation in relation to refinancing of the RCF (k)			
Other financial expenses (l) = (j)+(k)	**(1,064)**	**(1,061)**	**+0.3%**
TOTAL FINANCIAL EXPENSES (m) = (f)+(l)	**(16,566)**	**(17,285)**	**(4.2%)**
Income from associates			
Other financial income	162	120	+35.5%
Other financial income (n)	**162**	**120**	**+35.5%**
TOTAL FINANCIAL INCOME (o) = (a)+(n)	**357**	**164**	**+118.2%**
NET FINANCIAL ITEMS = (m)+(o)	**(16,211)**	**(17,121)**	**(5.3%)**

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

1.4.6.1. Funds from operations (FFO)

(In thousands of euros)	06/30/2018	06/30/2017	% var
EBITDA	**78,647**	**79,319**	**(0.8%)**
Net financial items (excluding the impact of hedging ineffectiveness and banking default risk)	(16,194)	(15,064)	+7.5%
Reversals of / (allowance for) provisions	589	416	+41.5%
Other operating income and expenses (excluding gains on disposals and impairment)	838	(169)	na
Tax expense	(1,076)	(1,133)	(5.0%)
Share of net income from equity associates	2,170	1,343	+61.6%
Non-controlling interests excluding capital gains and amortization	(5,159)	(5,098)	+1.2%
FFO	**59,815**	**59,614**	**+0.3%**
FFO per share	***0.65***	***0.65***	***+0.4%***

The tax regime for French "SIIC" companies (REITs) 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 thus consists of French corporate value added tax (CVAE), income tax on activities that do not have SIIC status, deferred taxes and, where applicable, the 3% contribution on dividends on revenue or capital gains not subject to the distribution obligations under SIIC status.

In the first half of 2018, the Company recorded a **tax expense** of €1.1 million, primarily composed of €1.0 million in CVAE and €0.1 million in deferred tax. The tax expense for the first half of 2017 also amounted to €1.1 million.

The **share of net income from equity associates** taken into account at June 30, 2018 amounted to €2.2 million versus €1.3 million at June 30, 2017. SCI AMR benefited from particularly favorable trends through a portfolio supplemented by the fast-growing sites at Niort and Albertville, while SCI Rennes Anglet also recorded a very satisfactory performance. The companies consolidated under the equity method in Mercialys' consolidated financial statements include SCI AMR (created in partnership with Amundi Immobilier in 2013), SNC Aix2 (of which Mercialys acquired 50% in December 2013, with Altarea Cogedim owning the other 50%), Corin Asset Management SAS (of which Mercialys owns 40%) and SCI Rennes Anglet (of which Mercialys owns 30%).

Non-controlling interests (excluding capital gains and amortization) amounted to €5.2 million at June 30, 2018 versus €5.1 million at June 30, 2017. These are linked to BNP Paribas REIM France's 49% stake in Hyperthetis Participations and Immosiris. As Mercialys has full control of these subsidiaries, they are fully consolidated.

On the basis of these items, the **Funds from operations (FFO)**, which represents the net income before amortization, capital gains net of associated charges, any depreciation of assets, and other non-recurring effects, amounted to €59.8 million at June 30, 2018 versus €59.6 million at June 30, 2017, i.e. an increase of +0.3%. Excluding the impact of the cost of early refinancing the bond at maturity in March 2019, the increase in the FFO was +3.5%. Considering the weighted average number of fully diluted shares at the end of the half-year, FFO represented €0.65 per share at June 30, 2018, versus €0.65 per share at June 30, 2017, i.e. an increase of +0.4%.

Excluding the impact of refinancing the bond maturing in 2019, which was €1.9 million in the first half of 2018, the FFO was €61.7 million, i.e. an increase of +3.5% compared to June 2017.

1.4.6.2. Net income, Group Share

(In thousands of euros)	06/30/2018	06/30/2017	% var
FFO	59,815	59,614	+0.3%
Depreciation and amortization	(18,119)	(16,983)	+6.7%
Other operating income and expenses	3,116	8,599	(63.8%)
Hedging ineffectiveness and banking default risk	(18)	(2,057)	na
Non-controlling interests: capital gains and amortization	118	895	na
Net income, Group share	**44,913**	**50,067**	**(10.3%)**

Depreciation, amortization and provisions amounted to €18.1 million at June 30, 2018 versus €17.0 million at June 30, 2017. This change reflects the investments made by Mercialys during the period.

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

Other operating income amounted to €15.6 million at June 30, 2018 compared to €150.8 million at June 30, 2017. This amount mainly includes:

- the income of €14.0 million linked to the disposals completed over the period
- the earn-out payments recognized on previous disposals for an amount of €1.4 million

Other operating expenses totaled €12.4 million at June 30, 2018 compared to €142.2 million at June 30, 2017. This amount corresponds primarily to:

- the net book value of assets sold in the first half of 2018 and costs associated with these disposals (€10.8 million)
- impairments of investment properties (€1.5 million)

On this basis, the amount of net capital gains recorded on the disposal of the Saint-Paul site in the consolidated financial statements at June 30, 2018 was €3.3 million.

Consequently, the **net income, Group share**, as defined by IFRS standards, amounted to €44.9 million at June 30, 2018 versus €50.1 million at June 30, 2017, a drop of -10.3%.

1.5. Completions, investments and disposals

1.5.1. Continuing the momentum of disposals

In June 2018, Mercialys completed **the disposal of the Saint-Paul site on Reunion Island** for an amount, including transfer taxes, of €14.6 million, in line with the appraisal value and generating a capital gain of €3.3 million. This transaction is in line with the strategy to rebalance Mercialys' exposure to the catchment area located in the north-west of the Island, mainly composed of the municipalities of Saint-Paul and Le Port, where the Company is developing its major extension project.

Continuing with its asset rotation strategy, Mercialys also **signed two preliminary sales agreements** for the Gap and Lannion sites, representing an aggregate amount of €19.1 million including transfer taxes, above appraisal values. These two sites, well established in the local fabric, are limited in size compared to Mercialys' criteria.

These transactions contribute to the financing of the Company's accretive project portfolio.

1.5.2. Targeted value creating investments

In parallel, Mercialys **continued to implement the four projects scheduled for 2018** (delivery planned for the last quarter), namely three redevelopments of hypermarket space in Annecy, Besançon and Brest and the extension of the Port shopping center on Reunion Island.

Leases were signed with iconic retailers including the Fnac in Besançon and New Yorker in Brest. These distinctive footfall drivers will contribute fully to the diversification of the retail mix of the centers and to strengthen local leadership.

On Reunion Island, the pre-letting rate for the extension of the Port shopping center has now reached 98%. The 8,300 sq.m of new retail spaces will receive 44 new retailers of which five medium-sized stores, including in particular Koton, Sfera, American Vintage, Springfield, La Fée Maraboutée, Muy Mucho, Nespresso, Ïdkids and Courir.

All these projects, which represent €79.5 million of total investments, €25.0 million of which remained to be invested at June 30, 2018, will help generate €4.9 million in additional annualized rental income, representing a yield of 6.2%.

At end-June 2018, **Mercialys projects portfolio stood at €825 million**, i.e. 23% of the value of the assets excluding transfer taxes. Thirty-three shopping centers and high street retail assets out of the 56[20] held by the Company have identified projects, a depth that allows Mercialys to be very agile in the management of its assets and responsive to the changes in the different catchment areas. Furthermore, the Company has considerable financial control, since only investments inherent in the 2018 projects have been currently committed.

[20] Added to these are six geographically dispersed assets with an appraisal value including transfer taxes of €24.7 million

(in millions of euros)	Total investment (€ m)	Investment still to be committed (€ m)	Net rental income forecast (€ m)	Net yield on cost forecast	Completion date
COMMITTED PROJECTS	**79.5**	**25.0**	**4.9**	**6.2%**	**2018**
Le Port (extension)	**73.8**	**21.3**	**4.6**	**6.2%**	**2018**
Other projects	**5.7**	**3.6**	**0.4**	**6.1%**	**2018**
Annecy	0.5	0.4	-	-	-
Besançon	2.1	2.0	-	-	-
Brest	3.1	1.2	-	-	-
CONTROLLED PROJECTS	**353.0**	**348.2**	**19.8**[21]	**6.6%**[21]	**2019/2022**
Redevelopments and requalifications	**61.3**	**60.4**	**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	8.1	-	-	-
Extensions and retail parks	**239.5**	**235.6**	**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	**52.2**	**52.1**	**na**	**na**	**2021/2022**
o.w. Marcq-en-Barœul	18.0	18.0	-	-	-
o.w. Chaville	8.4	8.4	-	-	-
o.w. Puteaux	19.5	19.5	-	-	-
o.w. Saint-Denis	6.3	6.3	-	-	-
IDENTIFIED PROJECTS	**392.0**	**391.9**	**25.1**[21]	**7.0%**[21]	**2021/2024**
TOTAL PROJECTS	**824.5**	**765.0**	**49.8**[21]	**6.7%**[21]	**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*

1.6. Property asset appraisal and Net Asset Value

Mercialys' assets are appraised twice yearly by independent experts.

On this basis, **the portfolio was valued at** €3,796.6 million including transfer taxes at June 30, 2018, compared to €3,736.7 million at December 31, 2017. Excluding transfer taxes, the portfolio value amounted to €3,571.3 million at end-June 2018 versus €3,513.4 million at end-December 2017.

The value of the portfolio including transfer taxes therefore rose by +1.6% over 6 months (+1.4% on a like-for-like basis[22]) and rose by +2.6% over 12 months (+2.4% on a like-for-like basis). In terms of the portfolio's like-for-like growth for the first half of 2018, the positive impact of the investments made over the period represents +0.5%.

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

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

The **average appraisal yield rate** came to 5.07% at June 30, 2018, compared to 5.13% at December 31, 2017 and 5.14% at June 30, 2017. The 6bp contraction in the portfolio's yield rate over the first half of 2018 is linked primarily to the inclusion in the portfolio value of investments made on projects underway, while the value of future rental income taken into account for these projects is unchanged.

Note that the contribution of the Casual Leasing business to value creation is significant, since it accounts for €176 million of the portfolio value at June 30, 2018, although it involves no corresponding investments.

Type of property	Average yield 06/30/2018	Average yield 12/31/2017	Average yield 06/30/2017
Regional / large shopping centers	4.82%	4.82%	4.94%
Neighborhood shopping centers and city-center assets	5.88%	6.13%	5.79%
Total portfolio[23]	5.07%	5.13%	5.14%

The following table gives the breakdown of Mercialys' portfolio by fair value and gross leasable area (GLA) by type of property at June 30, 2018, as well as the corresponding appraised rental income:

Type of property	Number of assets at 06/30/2018	Appraisal value (excluding transfer taxes) at 06/30/2018		Appraisal value (including transfer taxes) at 06/30/2018		Gross leasable area at 06/30/2018		Appraised potential net rental income	
		(€ m)	(%)	(€ m)	(%)	(sq.m)	(%)	(€ m)	(%)
Regional / large shopping centers	24	2,714.1	76.0%	2,883.6	76.0%	633,450	72.3%	139.1	72.3%
Neighborhood shopping centers and city-center assets	32	834.2	23.4%	888.4	23.4%	233,388	26.6%	52.3	27.2%
Sub-total for shopping centers	**56**	**3,548.3**	**99.4%**	**3,771.9**	**99.4%**	**866,838**	**99.0%**	**191.4**	**99.4%**
Other sites[23]	6	23.0	0.6%	24.7	0.6%	9,102	1.0%	1.1	0.6%
Total	**62**	**3,571.3**	**100.0%**	**3,796.6**	**100.0%**	**875,940**	**100.0%**	**192.5**	**100.0%**

From there, **EPRA NNNAV is up +1.3%** in the first-half of 2018 and +2.2% over 12 months to € 20.81 per share. This € +0.26 per share change for the first half of the year takes into account the following impacts:

- Dividend payment: € -0.68
- FFO: € +0.65
- Change in unrealized capital gains (i.e. difference between the net book value of assets on the balance sheet and their appraisal value excluding transfer taxes): € +0.34, including a yield effect for € -0.02, a rent effect for € +0.38, and other effects[24] for € -0.02
- Change in fair value of financial instruments and other items: € -0.05

[23] Including the other assets (large specialty stores, independent cafeterias and other standalone sites)
[24] Including impact of revaluation of assets outside of organic scope, equity associates, maintenance capex and capital gains on asset disposals

After taking into account changes in the average yield in appraisals of Mercialys' portfolio compared to December 31, 2017, the **capitalization rates grid applicable in the second half of 2018** to investment transactions that come within the scope of the Partnership Agreement signed between Mercialys and Casino is as follows:

Type of property	Shopping centers		Retail parks		City center
	Mainland France	Corsica and Overseas departments & territories	Mainland France	Corsica and Overseas departments & territories	
> 20,000 sq.m	5.4%	6.0%	6.0%	6.3%	5.2%
5,000 to 20 000 sq.m	5.9%	6.3%	6.3%	6.7%	5.5%
< 5,000 sq.m	6.3%	6.7%	6.7%	7.3%	6.0%

1.7. Financial structure

1.7.1. Debt cost and structure

At June 30, 2018, the amount of Mercialys' **drawn debt** was €1,865 million, comprising:

- a residual bond of €479.7 million (remaining from the €650 million bonds issued in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019;
- a bond issue of a nominal amount of €750 million, yielding a fixed rate of 1.787% and maturing in March 2023;
- a bond issue of a nominal amount of €300 million, yielding a fixed rate of 1.80% and maturing in February 2026;
- a bond issue of a nominal amount of €150 million, within a private placement, yielding a fixed rate of 2.00% and maturing in November 2027;
- €185 million in outstanding commercial paper, yielding a slightly negative average rate.

Net financial debt stood at €1,465.5 million at June 30, 2018, compared to €1,427.0 million at December 31, 2017.

The Group had **cash and cash equivalents** of €383.1 million at June 30, 2018, compared to €196.5 million at December 31, 2017. The main cash flows that have impacted the change in Mercialys' cash position over the period were as follows:

- net cash flow from operating activities during the period: € +80.6 million
- cash receipts/payments related to disposals/acquisitions of assets completed in the first half of 2018: € -32.2 million
- dividend payments to shareholders and non-controlling interests: € -68.1 million
- new financing raised net from commercial paper repayment: € +225.0 million
- net interest paid: € -15.5 million

The **cost of drawn debt** was 1.8% at June 30, 2018, an improvement compared to December 31, 2017 and June 30, 2017 (1.9%). Mercialys continued to benefit from a slightly negative average rate on the issue of commercial paper over the period.

Taking into account the current rate hedging policy, Mercialys' **debt structure** at June 30, 2018 was as follows: 63% fixed-rate debt and 37% floating-rate debt compared to 65% and 35% respectively at end-2017. Mercialys has locked-in favorable rates as part of its hedging policy.

1.7.2. Liquidity and debt maturity

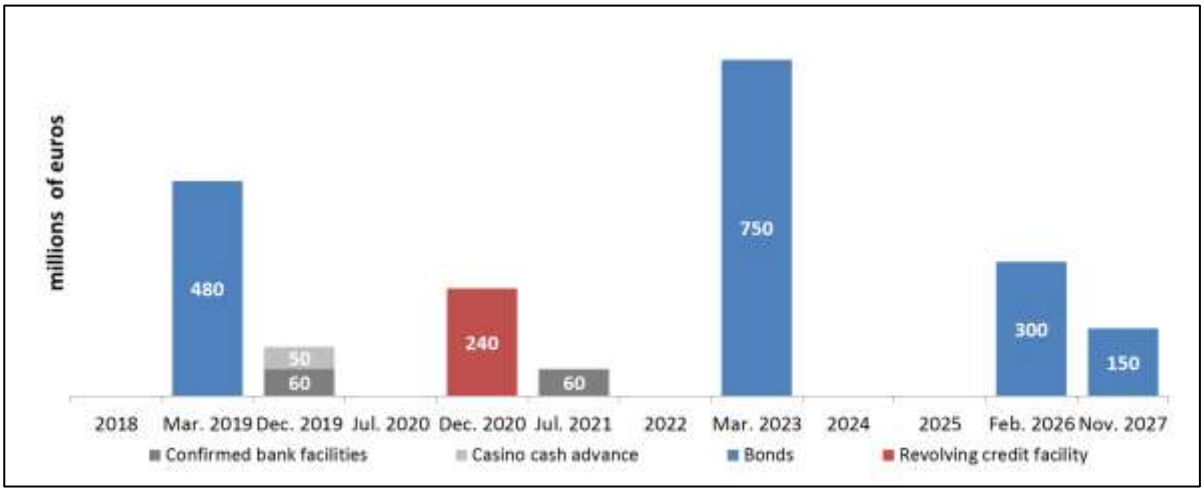
The **average maturity of the drawn debt** was 4.1 years at June 30, 2018 versus 3.7 years at December 31, 2017 and 3.4 years at June 30, 2017. The remaining €479.7m in bonds maturing in March 2019 weighs significantly on this average life.

Mercialys also has available **undrawn financial resources** of €410 million, enabling it to finance current business and the cash requirements of the Company and its subsidiaries, and to ensure a comfortable level of liquidity:

- a bank revolving credit facility of €240 million maturing in December 2020. The margin over Euribor is 115 basis points (bps); when not used, this facility is subject to payment of a 0.46% non-use fee (for a BBB rating),
- two confirmed banking facilities for a total amount of €60 million, maturing in December 2019. The margin over Euribor is lower than 100 basis points (for a BBB rating);
- two confirmed banking facilities for a total amount of €60 million, maturing in July 2021. The margin over Euribor is lower than 100 basis points (for a BBB rating);
- cash advances from Casino up to a limit of €50 million, maturing in December 2019, at a cost of between 40 bps and 95 bps above Euribor.

In addition, Mercialys benefits from a commercial paper program of €500 million that was arranged in the second half of 2012. €185 million of this amount has been used (outstanding at June 30, 2018).

The chart below shows the Group's **debt maturity schedule** at June 30, 2018 (including unused financial resources and excluding commercial paper).



1.7.3. Bank covenants and financial rating

Mercialys' financial position at June 30, 2018 satisfied all the different covenants included in the various credit agreements.

The ratio of net financial debt to appraised value excluding transfer taxes (**LTV: Loan To Value**) was at 40.2% at end-June 2018, well below the contractual covenant (LTV < 50%). Proforma for the Gap and Lannion sites, for which preliminary sales agreements were signed in July 2018, the LTV would stand at 39.9%.

	06/30/2018	12/31/2017	06/30/2017
Net financial debt (in millions of euros)	1,465.5	1,427.0	1,390.1
Appraisal value excluding transfer taxes (in millions of euros)[25]	3,644.2	3,580.6	3,513.1
Loan To Value (LTV)	**40.2%**	**39.9%**	**39.6%**

Likewise, the ratio of EBITDA to net finance costs (**ICR: Interest Coverage Ratio**) was at 5.1x, well above the contractual covenant (ICR > 2):

	06/30/2018	12/31/2017	06/30/2017
EBITDA (in millions of euros)	78.6	155.1	79.3
Net finance costs	(15.3)	(30.1)	(16.2)
Interest Coverage Ratio (ICR)	**5.1x**	**5.2x**	**4.9x**

The two other bank covenant requirements are also met:

- the **market value of assets excluding transfer taxes** at June 30, 2018 was €3,571.3 million (above the contractual covenant that sets a market value excluding transfer taxes of over €1 billion);
- a **ratio of secured debt/market value excluding transfer taxes** < 20%. Mercialys had no secured debt at June 30, 2018.

Mercialys is rated by Standard & Poor's. On June 11, 2018, this agency confirmed its rating of Mercialys as BBB/stable outlook.

1.8. Equity and ownership structure

Consolidated equity was €892.5 million at June 30, 2018, compared with €920.5 million at December 31, 2017.

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

- net income for the first half of 2018: € +49.3 million
- payment of the final dividend for the 2017 fiscal year of €0.68 per share and dividends paid to non-controlling interests: € -68.3 million
- transactions on treasury shares: € -1.6 million
- change in fair value of financial assets and derivatives: € -4.2 million

[25] Including the market value of investments in equity associates for €72.9 million at June 30, 2018, as the asset value of the equity associates is not taken into account in the appraisal value

The **number of shares outstanding** at June 30, 2018 amounted to 92,049,169, unchanged from December 31, 2017.

	06/30/2018	2017	2016	2015
Number of shares outstanding				
- At start of period	92,049,169	92,049,169	92,049,169	92,049,169
- At end of period	92,049,169	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,049,169	92,049,169	92,049,169	92,049,169
Average number of shares (basic)	**91,779,147**	**91,830,447**	**91,856,715**	**91,767,764**
Average number of shares (diluted)	**91,779,147**	**91,830,447**	**91,856,715**	**91,767,764**

At June 30, 2018, Mercialys' ownership structure was as follows: Casino group (40.16%), Generali group (8.01%), Foncière Euris[26] (1.00%), treasury shares and shares held by employees (0.47%), other shareholders (50.36%).

1.9. Risk factors and transactions with related parties

No new risk factors were identified during the first half of 2018.

A detailed description of the main risks to which Mercialys is exposed is provided in Section 5 of the 2017 Registration Document (pages 253 to 273).

Similarly, no significant change in relations with related parties took place during the first half of 2018.

A description and an update of the main contracts and agreements governing relationships with related parties is available in note 17 of this half-year financial report and in Section 6 of the 2017 Registration Document (pages 275 to 289).

1.10. Outlook and distribution

Based on the excellent results achieved by Mercialys for the first half of 2018 and the Company's outlook, Mercialys' Board of Directors, meeting on July 25, 2018, decided **to pay out an interim dividend** of €0.50 per share. This interim dividend, which will be paid on October 23, 2018, corresponds to 50% of the dividend distributed for 2017 in respect of the recurring tax profit.

As for the full year 2018, Mercialys' dividend will **increase by at least +2%** compared to 2017, ranging from 85% to 95% of its 2018 FFO.

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

Considering the very satisfactory performances in the first half of 2018, **Mercialys is confident of its ability to achieve its objectives in 2018**, i.e.:

- Organic growth in invoiced rents exceeding +2% excluding indexation, the significant recovery in the latter being expected to lead to organic growth including indexation at a level significantly higher than +3%;
- FFO per share up by at least +2%, excluding the impact of the carrying costs linked to refinancing the bond maturing in 2019, for which the amount is estimated at €4 million after putting in place the hedging instruments (including the impact of the private placement completed in November 2017).

1.11. Subsequent events

In July 2018, Mercialys signed two preliminary sales agreements for the Gap and Lannion sites, representing an aggregate amount of €19.1 million including transfer taxes, above appraisal values.

2. EPRA PERFORMANCE MEASURES

Mercialys applies the recommendations of the EPRA[27] 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 Half-year Financial Report and its Registration Document, Mercialys publishes all the EPRA indicators defined by the 'Best Practices Recommendations' which can be found on EPRA's website.

2.1. EPRA earnings and earnings per share

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

(in millions of euros)	06/30/2018	06/30/2017
Net income, Group share	**44.9**	**50.1**
Non-controlling interests: capital gains and amortization	(0.1)	(0.9)
Hedging ineffectiveness and banking default risk	0.0	2.1
Capital gains or losses on disposals and impairments included in other operating income and expenses	(3.1)	(8.6)
Depreciation and amortization	18.1	17.0
Property development margin	0.0	0.0
EPRA EARNINGS	**59.8**	**59.6**
Number of shares (average basic)	91,779,147	91,804,967
EPRA EARNINGS PER SHARE (in euros per share)	**0.65**	**0.65**

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

2.2. EPRA net asset value (EPRA NAV)

(in millions of euros)	06/30/2018	06/30/2017
Shareholders' equity attributable to owners of the parent	**692.0**	**718.5**
Unrealized gains on investment properties	1,226.1	1,177.1
Unrealized gains on non-consolidated investments and equity associates	33.6	28.0
Fair value of financial instruments	(5.2)	(4.6)
Deferred tax assets on the balance sheet	0.0	0.0
EPRA NAV	**1,946.5**	**1,919.1**
Number of shares (average diluted)	91,779,147	91,804,967
EPRA NAV per share (in euros per share)	**21.21**	**20.90**

[27] European Public Real Estate Association

2.3. EPRA triple net asset value (EPRA NNNAV)

(in millions of euros)	06/30/2018	06/30/2017
EPRA NAV	**1,946.5**	**1,919.1**
Fair value of financial instruments	5.2	4.6
Fair value of unhedged fixed-rate debt	(42.2)	(54.0)
EPRA NNNAV	**1,909.5**	**1,869.6**
Number of shares (average diluted)	91,779,147	91,804,967
EPRA NNNAV per share (in euros per share)	**20.81**	**20.37**

2.4. 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 EPRA:

(in millions of euros)	06/30/2018	06/30/2017
Investment property – wholly owned	3,571.3	3,474.3
Assets under development (-)	(54.6)	0.0
Completed property portfolio (excluding transfer taxes)	**3,516.7**	**3,474.3**
Transfer taxes	223.7	224.6
Completed property portfolio valuation (including transfer taxes)	**3,740.4**	**3,698.9**
Annualized rental income	181.4	176.9
Non-recoverable expenses (-)	(5.4)	(5.0)
Annualized net rents	**176.1**	**171.9**
Notional gain relating to expiration of step-up rents, rent-free periods or other lease incentives	3.1	3.7
Topped-up net annualized rent	**179.2**	**175.5**
EPRA NET INITIAL YIELD	**4.71%**	**4.65%**
EPRA "TOPPED-UP" NET INITIAL YIELD	**4.79%**	**4.75%**

2.5. EPRA cost ratios

(in millions of euros)	06/30/2018	06/30/2017	Comments
Administrative/operating expense line per IFRS income statement	(9.1)	(10.0)	Personnel expenses and other costs
Net service charge costs	(3.4)	(3.5)	Property taxes + non-recovered service charges (including vacancy costs)
Rental management fees	(1.3)	(1.5)	Rental management fees
Other income and expenses	(1.6)	(1.6)	Other property operating income and expenses excluding management fees
Share of Joint Ventures administrative and operating expenses	0.0	0.0	
Total	**(15.4)**	**(16.6)**	
Adjustments to calculate EPRA cost ratio exclude (if included above):			
- depreciation and amortization	0.0	0.0	Depreciation and provision for fixed assets
- ground rent costs	0.2	0.2	Non-group rents paid
- recovered service charges through comprehensive income (included in the rent)	0.0	0.0	
EPRA costs (including vacancy costs) (A)	**(15.2)**	**(16.4)**	**A**
Direct vacancy costs[28]	1.0	2.2	
EPRA costs (excluding vacancy costs) (B)	**(14.1)**	**(14.2)**	**B**
Gross rental income less ground rent costs[29]	91.9	92.9	Less costs relating to construction leases and long-term ground 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)	**91.9**	**92.9**	**C**
EPRA COST RATIO (including direct vacancy costs)	**(16.5%)**	**(17.6%)**	**A/C**
EPRA COST RATIO (excluding direct vacancy costs)	**(15.4%)**	**(15.3%)**	**B/C**

2.6. EPRA vacancy rate

See section 1.4.2 of this half-year financial report.

[28] 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

[29] 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

2.7. EPRA investments

The table below shows the investments evolution over the period:

(in millions of euros)	06/30/2018
Acquisitions	0.0
Development	24.0
Like-for-like portfolio	16.9
Other	4.9
TOTAL	**45.8**

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1. Consolidated income statement

Interim statements at June 30, 2018 and 2017

(in thousands of euros)		06/30/2018	06/30/2017
Rental revenues		**92,152**	**93,118**
Non-recovered property taxes		(1,275)	(1,336)
Non-recovered service charges		(2,137)	(2,172)
Property operating expenses		(2,918)	(3,155)
Net rental income		**85,823**	**86,455**
Management, administrative and other activities income		1,609	2,537
Other income	*Note 10*	285	277
Other expenses		(3,218)	(3,539)
Personnel expenses		(5,852)	(6,411)
Depreciation and amortization		(18,119)	(16,983)
Reversals of/(Allowances for) provisions		589	416
Other operating income	*Note 11*	16,757	150,831
Other operating expenses	*Note 11*	(12,803)	(142,402)
Operating income		**65,070**	**71,181**
Income from cash and cash equivalents		195	44
Gross finance costs		(15,503)	(16,225)
(Net finance costs)/Income from net cash		**(15,308)**	**(16,181)**
Other financial income	*Note 13.3.2*	162	120
Other financial charges	*Note 13.3.2*	(1,064)	(1,061)
(Net financial expense)/Income		**(16,211)**	**(17,122)**
Tax	*Note 15*	(1,076)	(1,133)
Share of net income from equity associates and joint ventures	*Note 5*	1,492	1,343
Consolidated net income		**49,276**	**54,270**
of which non-controlling interests		4,363	4,203
of which Group share		44,913	50,067
Earnings per share[30]			
Net income per share, Group share (in euros)		0.49	0.55
Diluted net income per share, Group share (in euros)		0.49	0.55

[30] Based on the weighted average number of shares over the period adjusted for treasury shares
- Weighted average number of non-diluted shares in H1 2018 = 91,779,147 shares
- Weighted average number of fully diluted shares in H1 2018 = 91,779,147 shares

3.2. Consolidated statement of comprehensive income

Interim statements at June 30, 2018 and 2017

(in thousands of euros)	06/30/2018	06/30/2017
Consolidated net income for the period	49,276	54,270
Items that may subsequently be recycled as income	**(2,000)**	**(46)**
Change in fair value of available-for-sale financial assets [1]	-	(70)
Tax effects	-	24
Cash flow hedge	(2,000)	-
Items that may not subsequently be reclassified as income	**(1,416)**	**(20)**
Change in fair value of financial assets measured at fair value through the other items of comprehensive income [1]	(2,195)	-
Actuarial gains or losses	35	(30)
Tax effects	744	10
Other items of comprehensive income for the period, net of tax	**(3,417)**	**(66)**
Consolidated comprehensive income	**45,859**	**54,204**
of which non-controlling interests	4,363	4,203
of which Group share	41,496	50,001

[1] The equity instruments previously classed as “available-for-sale financial assets” have been reclassified as financial assets at fair value through the other items of comprehensive income (OCI).

3.3. Consolidated balance sheet

Interim statement at June 30, 2018 and for the fiscal year ended December 31, 2017

ASSETS

(in thousands of euros)		06/30/2018	12/31/2017
Intangible assets		2,419	2,486
Property, plant and equipment		9	10
Investment property	*Note 9*	2,321,810	2,305,414
Investments in associates	*Note 5*	38,695	38,445
Other non-current assets	*Note 12*	36,090	37,529
Deferred tax assets		669	319
Non-current assets		**2,399,693**	**2,384,203**
Trade receivables		22,176	15,839
Other current assets		41,303	59,713
Cash and cash equivalents	*Note 13.1*	383,303	196,913
Investment property held for sale	*Note 9*	113	113
Current assets		**446,895**	**272,578**
TOTAL ASSETS		**2,846,588**	**2,656,781**

EQUITY AND LIABILITIES

(in thousands of euros)		06/30/2018	12/31/2017
Share capital		92,049	92,049
Additional paid-in capital, treasury shares and other reserves		599,938	626,468
Equity Group share		691,987	718,517
Non-controlling interests		200,485	202,023
Equity		**892,472**	**920,540**
Non-current provisions		949	857
Non-current financial liabilities	*Note 13*	1,199,471	1,377,454
Deposits and guarantees		21,287	22,694
Other non-current liabilities		2,257	-
Deferred tax liabilities		1	578
Non-current liabilities		**1,223,964**	**1,401,583**
Trade payables		10,711	12,516
Current financial liabilities	*Note 13*	677,528	281,396
Current provisions		5,812	6,265
Other current liabilities		36,073	34,432
Current tax liabilities		28	49
Current liabilities		**730,151**	**334,658**
TOTAL EQUITY AND LIABILITIES		**2,846,588**	**2,656,781**

3.4. Consolidated cash flow statement

Impact on the main aggregates of the consolidated cash flow statement

Interim statements at June 30, 2018 and 2017

(in thousands of euros)		**06/30/2018**	**06/30/2017**
Net income, Group share		44,913	50,067
Non-controlling interests		4,363	4,203
Consolidated net income		**49,276**	**54,270**
Depreciation, amortization and provisions, net of reversals		19,253	20,254
Expenses/(Income) relating to stock options and similar		49	149
Other calculated expenses/(income)[2]		(663)	(1,026)
Share of net income of associates		(1,492)	(1,343)
Dividends received from associates		1,280	1,669
Net gains and losses on disposals of assets		(5,616)	(12,158)
Cash flow		**62,088**	**61,814**
Cost of /(Revenue) from net financial debt		15,308	16,181
Tax charge (including deferred taxes)		1,076	1,133
Cash flow before cost of net financial debt and tax		**78,471**	**79,128**
Tax received/(paid)		592	(1,517)
Change in operating working capital requirement, excl. deposits and guarantees [3]		3,148	14,536
Change in deposits and guarantees		(1,407)	(250)
Net cash flow from operating activities		**80,806**	**91,897**
Cash payments linked to acquisitions of:			
investment property and other fixed assets	*Note 9*	(45,760)	(53,432)
Cash receipts on disposals of:			
investment property and other fixed assets	*Note 11*	14,595	138,996
Impact of changes in the scope of consolidation with change of ownership		(43)	-
Investments in associated companies[1]		(975)	-
Change in loans and advances granted		-	-
Net cash flow from investing activities		**(32,184)**	**85,565**
Dividends paid to shareholders of the parent company	*Note 7*	(62,403)	(57,829)
Dividends paid to non-controlling interests		(5,899)	(5,235)
Changes in treasury shares		(3,192)	(2,526)
Increase in borrowings and financial liabilities	*Note 13*	736,967	509,000
Reduction in borrowings and financial liabilities	*Note 13*	(512,000)	(527,500)
Net interest received		28,371	25,647
Net interest paid		(43,828)	(41,919)
Net cash flow from financing activities		**138,016**	**(100,362)**
Change in cash position		**186,638**	**77,100**
Net cash at beginning of year	*Note 13.1*	196,469	15,298
Net cash at end of year	*Note 13.1*	383,107	92,398
of which cash and cash equivalents		383,303	92,754
of which bank overdrafts		(195)	(356)

(1) In H1 2018, Mercialys participated in a capital increase of € 975,000 arranged by SCI AMR.

	06/30/2018	06/30/2017
(2) Other calculated expenses and income primarily comprise:		
discounting adjustments to construction leases	(225)	(305)
lease rights received from tenants and spread out over the term of the lease	(680)	(962)
financial expenses spread out	201	200
(3) The change in working capital requirement breaks down as follows:	**3,148**	**14,536**
trade receivables	(6,750)	11,218
trade payables	(2,310)	(8,605)
other receivables and payables	12,209	11,923

3.5. Change in consolidated equity

Interim statements at June 30, 2018 and 2017

(in thousands of euros)	Share capital	Reserves related to share capital[31]	Treasury share transactions	Consolidated reserves and retained earnings	Actuarial gains or losses	Change in financial assets through the other items of comprehensive income	Equity Group share[32]	Non-controlling interests	Total equity
At January 1, 2017	**92,049**	**482,834**	**(2,156)**	**154,757**	**(149)**	**1,283**	**728,618**	**205,597**	**934,215**
Income and expenses recognized directly in equity	-	-	-	-	(20)	(46)	(66)	-	(66)
Net income for the period	-	-	-	50,067	-	-	50,067	4,203	54,270
Total income and expenses recognized	-	-	-	50,067	(20)	(46)	50,001	4,203	54,204
Treasury share transactions	-	-	(2,203)	(211)	-	-	(2,414)	-	(2,414)
Final dividends paid for 2016	-	-	-	(57,829)	-	-	(57,829)	(5,235)	(63,064)
Share-based payments	-	-	-	149	-	-	149	-	149
At June 30, 2017	**92,049**	**482,834**	**(4,359)**	**146,933**	**(169)**	**1,237**	**718,525**	**204,565**	**923,091**
At December 31, 2017	**92,049**	**482,834**	**(2,943)**	**145,345**	**(297)**	**1,529**	**718,517**	**202,023**	**920,540**
IFRS 9 restatements (Note 1.4)	-	-	-	(2,690)		-	(2,690)	(2)	(2,692)
At January 1, 2018	**92,049**	**482,834**	**(2,943)**	**142,654**	**(297)**	**1,529**	**715,827**	**202,021**	**917,848**
Income and expenses recognized directly in equity	-	-	-	(2,000)	23	(1,439)	(3,417)	-	(3,417)
Net income for the period	-	-	-	44,913	-	-	44,913	4,363	49,276
Total recognized income and expenses	92,049	482,834	(2,943)	185,567	(274)	90	757,323	206,384	963,707
Treasury share transactions	-	-	(2,579)	(402)	-	-	(2,981)	-	(2,981)
Final dividends paid for 2017	-	-	-	(62,403)	-	-	(62,403)	(5,899)	(68,302)
Share-based payments	-	-	-	49	-	-	49	-	49
At June 30, 2018	**92,049**	**482,834**	**(5,521)**	**122,810**	**(274)**	**90**	**691,987**	**200,485**	**892,472**

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

4. NOTES TO THE CONSOLIDATE FINANCIAL STATEMENTS

Information relating to the Mercialys Group

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

The Mercialys SA shares are listed on Euronext Paris, Compartment A.

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

The half-year consolidated financial statements at June 30, 2018 reflect the accounting position of the Company, its subsidiaries and joint ventures, as well as the Group's interests in affiliated companies.

On July 25, 2018, the Board of Directors drew up and authorized publication of the summary consolidated financial statements for the Mercialys Group for the six months to June 30, 2018.

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

Note 1.1: Compliance statement

Pursuant to European regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's summary consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at the reporting date of the Board of Directors and applicable at June 30, 2018.

These standards are available on the European Commission website below: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

Note 1.2: Basis of preparation

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

They do not include all the information and notes presented in the annual financial statements. As such, they should be read together with the Group's consolidated financial statements for the year ended December 31, 2017.

They are available upon request from the Communication Department, 148 rue de l'Université, 75007 Paris, or on the website www.mercialys.com.

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

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

Note 1.3: Accounting principles

The accounting principles used for preparation of the condensed financial statements at June 30, 2018 are identical to those applied for the annual financial statements of the fiscal year ended December 31, 2017, with the exception of the accounting changes linked to the following new rules applicable on or after January 1, 2018:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts with customers
- IFRIC 22 – Foreign currency transactions and advance consideration
- Amendments to IAS 40 – Transfers of investment property
- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions
- Annual improvements to IFRS – cycle 2014-2016

Incidences linked to the application of IFRS 9 and IFRS 15 are detailed in Note 1.4. The other rules have no impact on the Group's consolidated financial statements.

Main standards not yet in force

IFRS 16 – Leases

The adoption of IFRS 16 will result in the recognition of nearly all leases in the balance sheet. An optional exemption exists for short-term leases with a low-value underlying asset. The standard has canceled the current distinction between operating leases and finance leases and requires the recognition of an asset (the right to use the leased property) and a financial liability to pay rents for practically all leases. The rent expense will be replaced by an amortization expense and a financial interest expense so that performance indicators such as current operating income and EBITDA will be impacted.

The adoption of IFRS 16 will mainly impact the recognition of the operating leases of the Group's stores and warehouses and will lead to the recognition of nearly all leases in the balance sheet. An optional exemption exists for short-term leases with a low-value underlying asset. The standard has canceled the current distinction between operating leases and finance leases and requires the recognition of an asset (the right to use the leased property) and a financial liability to pay rents for practically all leases. The rent expense will be replaced by an amortization expense and a financial interest expense so that performance indicators such as current operating income and EBITDA will be impacted. The Group considers that consolidated net income could also be affected since the rental income curve is higher in the early periods of a lease, in other words, the lease expense decreases, contrary to a straight-line expense recognized under the current standard. In addition, operating cash-flows will be higher, given that payments related to the main component of the financial liability and the associated interest will be presented in financing activities.

Lastly, the Group has not yet decided on the method of transition, i.e. either a simplified retrospective approach or a full retrospective approach.

Note 1.4: Changes of accounting methods

IFRS 15: "Revenue from Contracts with Customers":

IFRS 15 defines the principles for recognizing revenue and replaces IAS 18 – Revenue, and IAS 11 - Construction Contracts, and its related interpretations. IFRS 15 defines a unique model in five steps for revenue recognition. It introduces new concepts and principles in revenue recognition, in particular concerning the identification of performance obligations or the allocation of the transaction price for multiple item contracts. IFRS 15 had no impact on the financial statements of Mercialys group.

IFRS 9: "Financial Instruments":

This new standard defines the new principles regarding the classification and measurement of financial instruments, impairment for credit risk of financial assets and hedge accounting.

The Group has applied this standard according to the simplified retrospective method since January 1, 2018, by recording the aggregate impacts in equity at January 1, 2018.

The main changes caused by the application of the standard are as follows:

Equity instruments previously classified under "Available-for-sale financial assets" have been reclassified under financial assets at fair value through other items of comprehensive income (OCI).

The application of the new principles under IFRS 9 for the retrospective treatment of the bond exchange completed in 2014 and for the treatment of multi-layered hedges (fixed/floating rate resetting transactions for the bonds) resulted in raising the liabilities by € 2.4 million against equity on the 2018 opening balance sheet against.

The treatment of the bond exchange had a non-significant effect on interest expense in the H1 2018 (€0.1 million).

The application of the new impairment methodology recommended by IFRS 9, namely the recognition of losses expected on all receivables at the outset results, at January 1, 2018, in an increase in provisions of approximately € 0.4 million. The provisioning rate for trade receivables was determined on the basis of the invoicing of rents, expenses and works over a period of six years (between 2012 and 2017), as well as the losses and profits recognized over that same period.

The tables below present the impacts on the statement of consolidated financial position previously reported, resulting from the limited retrospective application (aggregate catchup without restating the prior fiscal years) of IFRS 9.

Impacts on the main aggregates of the statement of consolidated financial position

ASSETS

(in thousands of euros)		Dec. 31, 2017 reported	IFRS 9 restatements	Jan. 1, 2018 restated
Intangible assets		2,486		2,486
Property, plant and equipment		10		10
Investment property	*Note 9*	2,305,414		2,305,414
Investments in associates	*Note 5*	38,445		38,445
Other non-current assets	*Note 12*	37,529		37,529
Deferred tax assets		319	84	403
Non-current assets		**2,384,203**	**84**	**2,384,287**
Trade receivables		15,839	(408)	15,431
Other current assets		59,713		59,713
Cash and cash equivalents	*Note 13.1*	196,913		196,913
Investment property held for sale	*Note 9*	113		113
Current assets		**272,578**	**(408)**	**272,170**
TOTAL ASSETS		**2,656,781**	**(324)**	**2,656,457**

EQUITY AND LIABILITIES

(in thousands of euros)		Dec. 31, 2017 reported	IFRS 9 restatements	Jan. 1, 2018 restated
Share capital		92,049		92,049
Additional paid-in capital, treasury shares and other reserves		626,468		626,468
Equity Group share		718,517	(2,690)	715,827
Non-controlling interests		202,023	(2)	202,021
Equity		**920,540**	**(2,692)**	**917,848**
Non-current provisions		857		857
Non-current financial liabilities	*Note 13*	1,377,454	146	1,377,601
Deposits and guarantees		22,694		22,694
Other non-current liabilities		-	1,296	1,296
Deferred tax liabilities		578		578
Non-current liabilities		**1,401,583**	**1,443**	**1,403,026**
Trade payables		12,516		12,516
Current financial liabilities	*Note 13*	281,396	662	282,058
Current provisions		6,265		6,265
Other current liabilities		34,432	263	34,695
Current tax liabilities		49		49
Current liabilities		**334,658**	**925**	**335,583**
TOTAL EQUITY AND LIABILITIES		**2,656,781**	**(324)**	**2,656,457**

The application of IFRS 15 and IFRS 9 had no impact on the Group's income statements at December 31, 2017 and June 30, 2017.

Note 1.5: Use of estimates and judgment

In preparing the consolidated financial statements, the Management is required to make a number of judgments, estimates and assumptions that affect the amount of certain assets and liabilities, income and expense items, and certain information provided in the Notes to the financial statements. Because assumptions are inherently uncertain, actual results may differ significantly from these estimates.

The Group reviews its estimates and assessments on a regular basis to take past experience into account and incorporate factors considered relevant under current economic conditions.

The material judgments made by Management to apply the Group's accounting methods and the main sources of uncertainty linked to estimates are identical to those described in the latest annual financial statements, except with respect to the application of IFRS 9 (Note 1.4).

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

- financial assets stated at fair value through other items of comprehensive income whose fair value was determined on the basis of their net asset value,
- the fair value of investment property for which the valuations, determined by independent appraisers, is based on non-observable inputs,
- trade impairments.

Note 2: Significant events

On February 2018, Mercialys issued a new bond, with a nominal value of € 300 million, maturing in February 2026. This issue bears a coupon of 1.80%.

In June 2018, Mercialys sold the Saint-Paul site on Reunion Island for € 14 million excluding transfer taxes.

Note 3: Seasonality

The Group’s business is not affected by seasonality.

Note 4: Segment reporting

Segment reporting reflects Management’s view and is established on the basis of internal reporting used by the chief operating decision maker (the Chairman and Chief Executive Officer) to make decisions about resources to be allocated and to assess the Group’s performance.

As the Group’s Senior Management does not use a breakdown of operations to review operating matters, no segment reporting is provided in the financial statements.

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

Note 5: Scope of consolidation

Note 5.1: List of consolidated companies

At June 30, 2018, the Mercialys Group's scope of consolidation comprised the following companies:

Name	06/30/2018			12/31/2017		
	Method	% of interest	% of control	Method	% of interest	% of control
Mercialys SA	FC	Parent company	Parent company	FC	Parent company	Parent company
Mercialys Gestion SAS	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Kerbernard	FC	100.00%	100.00%	FC	100.00%	100.00%
Point Confort SA	FC	100.00%	100.00%	FC	100.00%	100.00%
Corin Asset Management SAS	EM	40.00%	40.00%	EM	40.00%	40.00%
SARL La Diane	FC	100.00%	100.00%	FC	100.00%	100.00%
Société du Centre Commercial de Narbonne SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
FISO SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS des salins	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Timur	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Agout	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Géante Periaz	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Dentelle	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Caserne de Bonne	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI AMR	EM	39.90%	39.90%	EM	39.90%	39.90%
SNC Aix2	EM	50.00%	50.00%	EM	50.00%	50.00%
SNC Alcudia Albertville	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Fenouillet Participation	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Fenouillet Immobilier	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Hyperthetis Participations	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Immosiris	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Epicanthe	FC	100.00%	100.00%	FC	100.00%	100.00%
SARL Toutoune	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Mercialys Exploitation	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Rennes-Anglet	EM	30.00%	30.00%	EM	30.00%	30.00%
SCI MS Investissement	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Astuy	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Sacré-Cœur	FC	100.00%	100.00%	FC	100.00%	100.00%

FC: Full consolidation/EM: Equity Method

The companies Agout and Alcudia Albertville were dissolved on June 30, 2018, resulting in all their assets and liabilities being transferred to Mercialys SA. These operations have not had any impact on the consolidated accounts.

Note 5.2: Assessment of control

No event that occured during the first half of 2018 called into question the assessments of the control of the entities within the scope of consolidation described on December 31, 2017.

Note 6: Shareholders' equity

At June 30, 2018 the share capital was € 92,049,169. It consists of 92,049,169 fully paid shares with a par value of € 1.

Note 7: Dividends paid, proposed or decided

Out of the 92,049,169 shares at December 31, 2017, 91,768,775 benefited from the dividend in respect of 2017 earnings (280,394 treasury shares give no entitlement to dividends).

The Company paid its shareholders a gross dividend of € 1.09 per share in respect of the fiscal year ended December 31, 2017. An interim dividend of € 0.41 per share was paid in 2017, and the final dividend of € 0.68 per share was paid on May 03, 2018.

Payment of the final dividend represented a total of € 62,403,000.

The total dividend for the 2017 fiscal year therefore came to € 100,040,000.

Note 8: Business combinations

No business combination transaction took place during the period ended on June 30, 2018. The asset transactions that took place relate to acquisitions or disposals of individual assets.

Note 9: Investment property and investment property held for sale

Acquisitions and disposals

Cash outflows linked to acquisitions of investment property mainly include the shopping center project Jumbo Sacré Coeur for € 25.5 million and works on the Rennes Saint-Grégoire site for € 5.1 million.

Mercialys also completed the sale of the Saint-Paul site on Reunion Island for an amount of € 14 million excluding transfer taxes.

Investment property held for sale

Investment property held for sale totaled € 113,000. This corresponds to assets under sale agreements or for which a binding offer has been signed as at June 30, 2018.

Impairment of investment property

Additional impairments on investment property were recognized at end-June 2018, because the carrying amount of the properties was higher than the appraisal value excluding transfer taxes, for € 1.5 million taking the total amount of impairments to € 13.5 million at end-June 2018.

Fair value of investment property and investment property held for sale

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

On these bases, the portfolio was valued at € 3,796.6 million including transfer taxes at June 30, 2018, compared to € 3,736.7 million at December 31, 2017. Excluding transfer taxes, this value was € 3,571.3 million at end-June 2018 versus € 3,513.4 million at end-December 2017.

The value of the portfolio including transfer taxes therefore rose by +1.6 % in six months (+1.4 % on a like-for-like basis[33]) and by +2.6% in 12 months (+2.4% on a like-for-like basis).

The value of the portfolio excluding transfer taxes therefore rose by +1.6% in six months (+1.4% on a like-for-like basis[33]) and by +2.8% in 12 months (+2.5 % on a like-for-like basis).

The average appraisal capitalization rate came to 5.07% at June 30, 2018, compared to 5.13% at December 31, 2017 and 5.14% at June 30, 2017.

The change in the fair value of assets excluding transfer taxes of € 58 million over six months is due to:

- an increase in rents on a like-for-like basis: € +35 million
- the contraction of the average capitalization rate: € -2 million
- changes in scope of consolidation: € +9 million
- investments: € +16 million

Note that the contribution of the Casual Leasing business[34] to value creation is significant, since it accounts for € 176 million of the portfolio value at June 30, 2018, while involving no investment expenditures in return.

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

Type of property	Average yield 06/30/2018	Average yield 12/31/2017	Average yield 06/30/2017
Regional / large shopping centers	4.8%	4.8%	4.9%
Neighborhood shopping centers and city-center assets	5.9%	6.1%	5.8 %
Total portfolio[35]	5.1%	5.1%	5.1%

[33] Sites on a like-for-like GLA basis
[34] Casual leasing: small stalls (6 to 8 sq.m) set up temporarily in the common areas at shopping centers
[35] Including other assets (large food stores, large specialty stores, independent cafeterias and other standalone sites)

The following table gives the breakdown of Mercialys' portfolio by fair value and gross leasable area (GLA) by type of property at June 30, 2018, as well as the corresponding appraised rental income:

Type of property	Number of assets at 06/30/2018	Appraisal value (excluding transfer taxes) at 06/30/2018		Appraisal value (including transfer taxes) at 06/30/2018		Gross leasable area at 06/30/2018		Appraised potential net rental income	
		(€ m)	(%)	(€ m)	(%)	(sq.m)	(%)	(€ m)	(%)
Regional / large shopping centers	24	2,714.1	76.0%	2,883.6	76.0%	633,450	72.3%	139.1	72.3%
Neighborhood shopping centers and city-center assets	32	834.2	23.4%	888.4	23.4%	233,388	26.6%	52.3	27.2%
Sub-total for shopping centers	**56**	**3,548.3**	**99.4%**	**3,771.9**	**99.4%**	**866,838**	**99.0%**	**191.4**	**99.4%**
Other sites[36]	6	23.0	0.6%	24.7	0.6%	9,102	1.0%	1.1	0.6%
Total	**62**	**3,571.3**	**100.0%**	**3,796.6**	**100.0%**	**875,940**	**100.0%**	**192.5**	**100.0%**

Assuming annual appraised rents of € 192.5 million and a capitalization rate of 5.4 %, the sensitivity of the appraisal value of Mercialys' portfolio is as follows:

Sensitivity criteria	Impact on appraisal value (excl. transfer taxes) (in millions of euros)
Decrease of 0.5% in capitalization rate	365.2
Increase of 10% in rents	357.1
Increase of 0.5% in capitalization rate	(303.2)
Decrease of 10% in rents	(357.1)

Note 10: Other income

Other recurring income of € 285.000 recognized at end-June 2018 corresponds mainly to dividends received from the OPCI fund created in partnership with Union Investment: UIR2.

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

At June 30, 2017, these dividends amounted to € 277,000.

Note 11: Other operating income and expenses

Other operating income and expenses amounted to € 4.0 million at end-June 2018 compared to € 8.4 million at end-June 2017.

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

This income mainly includes:

- the capital gain from the sale of the Saint-Paul site for € 3.3 million,
- the earn-out payment received from SCI AMR, on the Valence, Montauban, Niort and Albertville sites for € 1.4 million.

In H1 2017, the income of € 8.4 million mainly included the capital gain from the disposals of five service galleries for € 4.8 million, of the Toulouse Fenouillet transformed hypermarket for € 3.3 million, of the Poitiers Beaulieu site for € 3.1 million, of the exchange with GIE Grand Quartier on the Rennes site for € 1.8 million and the impairment of investment properties for € -4.2 million.

Note 12: Other non-current assets

At June 30, 2018, other non-current assets mainly included: the non-current hedging financial assets for € 13,786,000, the receivable income from tenants in connection with construction leases for € 5,573,000, loans and interest for € 5,905,000, and available-for-sale financial assets for € 8,660,000.

Note 13: Financial structure and financial expenses

Note 13.1: Net cash

Net cash is broken down as follows:

(in thousands of euros)	06/30/2018	12/31/2017
Cash	283,202	196,813
Cash equivalents	100,101	101
Gross cash and cash equivalents	**383,303**	**196,913**
Bank overdrafts	(195)	(444)
Cash and cash equivalents net of bank overdrafts	**383,107**	**196,469**

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

Note 13.2: Borrowings and financial liabilities

Note 13.2.1: Breakdown

(in thousands of euros)	06/30/2018			12/31/2017		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Bonds	(1,182,560)	(488,390)	(1,670,951)	(1,361,527)	(21,611)	(1,383,138)
Other borrowings and financial liabilities	-	(185,000)	(185,000)	-	(258,500)	(258,500)
Bank overdrafts	-	(195)	(195)	-	(444)	(444)
Fair value hedging derivatives – liabilities	(16,910)	(3,942)	(20,852)	(15,927)	(841)	(16,768)
Gross financial debt	**(1,199,471)**	**(677,528)**	**(1,876,998)**	**(1,377,454)**	**(281,396)**	**(1,658,850)**
Fair value hedging derivatives – assets	13,786	12,243	26,029	14,256	20,663	34,919
Other financial assets	-	2,141	2,141	-	-	-
Cash and cash equivalents	-	383,303	383,303	-	196,913	196,913
Cash and cash equivalents and other financial assets	**13,786**	**397,687**	**411,473**	**14,256**	**217,576**	**231,833**
NET FINANCIAL DEBT	**(1,185,685)**	**(279,841)**	**(1,465,526)**	**(1,363,198)**	**(63,819)**	**(1,427,017)**

The net financial debt definition is provided in the 2017 Registration Document in Note 14.

Note 13.2.2: Change in financial liabilities

In February 2018, Mercialys issued a new bond of € 300 million, paying a fixed coupon of 1.80% and maturing in February 2026.

This new bond issue resulted in the recognition of bond issuance expenses of € -1.5 million. As for the other bonds, these issuance costs are spread out in accordance with the effective interest method, over the life of the new issue.

Outstanding commercial paper has fallen by € 73.5 million since January 1, 2018. It amounted to € 185 million at end-June 2018.

Note 13.2.3: Financial covenants

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

- LTV (Loan To Value): Consolidated net financial debt/consolidated fair value of investment properties excluding transfer taxes < 50%, at each reporting date;
- Interest Coverage Ratio (ICR): Consolidated EBITDA[37]/Net finance costs > 2, at each reporting date;

[37] Earnings before interest, tax, depreciation, amortization and other operating income and expenses

- Secured debt/consolidated fair value of investment properties excluding transfer tax < 20% at any time;
- Consolidated fair value of investment properties excluding transfer taxes > €1 billion at any time.

Change of ownership clauses are also applicable.

	Covenants	06/30/2018	12/31/2017
LTV (Loan To Value)	<50%	40.2%	39.9%
ICR (Interest Coverage Ratio)	> 2x	5.1x	5.2x

At June 30, 2018, the two other contractual covenants (secured debt/consolidated fair value of investment properties excluding transfer taxes, and consolidated fair value of investment properties excluding transfer taxes), as well as the commitment and default clauses, were also complied with.

Note 13.3: Net financial items

Note 13.3.1: Net finance costs

(in thousands of euros)	06/30/2018	06/30/2017
Cost of the debt put in place	(21,391)	(18,274)
Impact of hedging instruments	5,888	2,050
Gross finance costs	**(15,503)**	**(16,225)**
Net proceeds of sales of investment securities	195	44
(Net finance costs)/Income from net cash	**(15,308)**	**(16,181)**

Note 13.3.2: Other financial income and expenses

(in thousands of euros)	06/30/2018	06/30/2017
Other financial income	162	120
Financial income	**162**	**120**
Other financial expenses	(1,064)	(1,061)
Financial expenses	**(1,064)**	**(1,061)**
Total other financial income and expenses	**(902)**	**(941)**

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

Note 13.4: Fair value of financial instruments

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

At June 30, 2018 *(in thousands of euros)*	Book value	Fair value	Market price = level 1	Models with observable inputs = level 2	Models with non-observable inputs = level 3
ASSETS					
Available-for-sale financial assets[38]	8,660	8,660	-	-	8,660
Fair value hedging derivatives – assets (current and non-current)[39]	26,029	26,029	-	26,029	-
Other derivative assets (current and non-current)[39]	21	21	-	21	-
Cash equivalents	383,303	383,303	383,303	-	-
LIABILITIES					
Bonds	1,670,951	1,712,453	1,712,453	-	-
Fair value hedging derivatives – liabilities (current and non-current)[39]	20,852	20,852	-	20,852	-
Other derivative liabilities (current and non-current)[39]	2,309	2,309	-	2,309	-

At December 31, 2017 *(in thousands of euros)*	Book value	Fair value	Market price = level 1	Models with observable inputs = level 2	Models with non-observable inputs = level 3
ASSETS					
Available-for-sale financial assets[38]	10,855	10,855	-	-	10,855
Fair value hedging derivatives – assets (current and non-current)[39]	34,919	34,919	-	34,919	-
Cash equivalents	196,913	196,913	196,913	-	-
LIABILITIES					
Bonds	1,383,138	1,433,804	1,433,804	-	-
Fair value hedging derivatives – liabilities (current and non-current)[39]	16,768	16,768	-	16,768	-

Note 14: Contingent assets and liabilities

No event that occurred in the first six months is likely to generate a contingent asset or liability.

[38] Available-for-sale financial assets (AFS) stated at fair value mainly include mutual fund shares. Their fair value was determined on the basis of their net asset value. This is a level 3 valuation

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

Note 15: Taxes

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

The tax regime for French "SIIC" (REIT) companies exempts them from paying tax on their income from real estate activities provided that at least 95% of net income from rental activities and 60% of gains on the disposal of real estate assets are distributed to shareholders.

The tax expense of € -1,076,000 corresponds mainly to the research tax credit (CVAE) for € -970,000 and deferred taxes for € -111,000.

Note 16: Off-balance sheet commitments

The Group's commitments at June 30, 2018 are those mentioned in the annual financial statements at December 31, 2017, in addition to the commitments described below. Are also included the pre-existing agreements for which the amounts are subject to change.

The assets under preliminary sales agreements or firm offers signed on June 30, 2018 represent a value of € 113,000 including transfer taxes. They are recorded under "Investment property held for sale" (Note 9).

Commitments made in connection with the disposal of SAS Hyperthetis Participations

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

This option was valued at € 141.7 million at June 30, 2018, corresponding to the company's NAV calculated on the basis of an appraised fair value of € 286.5 million excluding transfer taxes.

Note 17: Related-party transactions

With SCI Rennes-Anglet

Loan by Mercialys to SCI Rennes-Anglet

Mercialys granted a loan to SCI Rennes-Anglet which represents € 3,064,000 at end-June 2018. This overdraft will be subject to interest based on the average effective rate applied by credit institutions and financing companies for floating rate loans with an initial maturity of over two years. This agreement was entered into for the term of the shareholder's agreement, i.e. 15 years automatically renewable for successive periods of five years.

SCI Rennes-Anglet has entered into several agreements:

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

With SCI AMR

Mercialys has entered into the following agreements with SCI AMR:

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

These transactions amounted to € 309,000 in H1 2018.

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

With Sacré Coeur

A property development contract was signed between Sacré Coeur and Mercialys (project manager) and IGC Services (developer), a subsidiary of the Casino Group, for € 47.2 million excluding tax. The latter is responsible for the construction of the project in two phases according defined terms, timetable and cost:

- phase 1: extension, silo car park, food court for € 40.8 million excluding tax of which € 17.4 million of call for funds issued at end-June 2018;
- phase 2 optional: retail park for € 6.4 million excluding tax.

With the Casino Group

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

During the first half of 2018, the following changes occurred to the **leases granted** by the Mercialys Group to Casino Group companies:

- unchanged for Casino Restauration, with a total of 10 leases at June 30, 2018, of which four under the Casino Cafeteria name and six under other brands (compared to nine leases at June 30, 2017),
- decrease of three leases for the other entities of the Casino Group, being a total of 61 leases at June 30, 2018 (versus 64 leases at June 30, 2017).

Rent charged in respect of these leases during the first half of 2018 amounted to:

- € 16,904,000 with Distribution Casino France (compared to € 19,983,000 at June 30, 2017),
- € 4,776,000 for Monoprix (compared to € 4,661,000 at June 30, 2017),
- € 588,000 for Casino Restauration (compared to € 624,000 at June 30, 2017),
- € 3,776,000 for the other entities (compared to € 3,790,000 at June 30, 2017).

In connection with **Property Management** activities, the fees paid by Mercialys and its subsidiaries to Sudeco, a wholly owned subsidiary of Casino Group, amounted to € 3,089,000 for H1 2018 (compared to € 3,176,000 at June 30, 2017).

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

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

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

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

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

The partnership has been extended until December 31, 2020.

Furthermore, the amount paid by Mercialys under the Services agreement, amounted to € 1,104,000 for H1 2018 (compared to € 1,071,000 in H1 2017).

In connection with the **Consultancy Agreement** between Mercialys and IGC Services, a Casino Group company, a fee of € 259,000 was recognized in H1 2018 (versus € 140,000 in H1 2017).

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

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

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

Furthermore, Casino Finance, a subsidiary of Casino and the centralizing entity for financing and cash flow for the Casino Group, has replaced Casino Guichard-Perrachon as a party to the Current Account agreement of July 25, 2012. The level of remuneration was also amended and a commitment fee for non-utilization has been introduced.

An amendment to the Current Account agreement was signed on February 14, 2017.

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

This agreement expires on December 31, 2019.

As regards interest:

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

At end-June 2018, Mercialys had not benefited from any cash advances from Casino.

In connection with operations to acquire assets, various contracts and guarantees have been set up with the Casino group companies:

Delegated project management contracts

A non-exclusive framework delegated project management agreement has been entered into with the company IGC Services. At June 30, 2018, various orders had been placed under this framework agreement for projects concerning the Besançon, Brest and Annecy sites. Mercialys may stop placing orders at each stage planned with the framework agreement, subject to penalties concerning the payment of the provider's fees and compensation for companies if contracts have already been put in place.

Property development contracts

Property development contracts may be entered into with the company IGC Services. At June 30, 2018, the Le Port site on Reunion Island is covered by a property development contract.

Short-term occupancy agreements

Short-term occupancy agreements entered into with the company DCF guarantee the payment of rents to Mercialys before sites are opened to the public. These agreements have been cancelled in favor of an early cancellation protocol for several sites, with the overall amount invoiced remaining unchanged. There were no amounts invoiced for the first half of 2018.

Exclusive agency agreements with IGC Services

In connection with transactions for the sales of its portfolio assets, Mercialys relies on the expertise of IGC Services to find any legal entities that may be interested in acquiring one or more assets. There was no compensation for this service in the first half of 2018.

Summary of related-party transactions

(in thousands of euros)	06/30/2018	12/31/2017	06/30/2017
Income/-Expenses			
Invoiced rents			
Distribution Casino France	16,904	36,802	19,983
Monoprix	4,776	9,321	4,661
Other Casino group entities	4,364	8,573	4,414
Consultancy agreement received by Mercialys	259	280	140
Short-term occupancy agreement and early termination fees charged by Mercialys to the Casino Group	-	1,834	1,682
Property management service fees paid to the Casino Group	(3,089)	(6,122)	(3,176)
Services agreement paid to the Casino group	(1,104)	(2,142)	(1,071)
Exclusive agency agreement with IGC Services	-	(560)	(386)
Income from sale of fixed assets to SCI AMR	1,386	-	-
Earn-out payment by AMR	-	-	-
Income from the sale of five service galleries to the Casino Group	-	4,445	4,806
Income from the sale of the transformed hypermarket at Toulouse Fenouillet to the Casino Group	-	3,328	3,277
Assets/-Liabilities			
Project management agreements prepaid by Mercialys to the Casino Group:	1,690	1,690	1,690
Loan to SCI Rennes-Anglet	3,064	3,064	3,064
Earn-out fee paid by AMR	2,306	-	-
Earn-out fee paid on Angers to Casino	-	702	-
Call for funds of the Sacré Coeur property development contract signed with Casino	17,399	-	-
Acquisitions of fixed assets from the Casino group	-	3,118	-
Acquisition from Plouescadis of shares in Sacré Coeur	-	15,735	-
Sacré Coeur current account repayment to Plouescadis	-	11,221	-
Sale of five service galleries to the Casino Group	-	-	38,865
Sale of the transformed hypermarket at Toulouse Fenouillet to the Casino Group	-	-	32,773

In H1 2018, Mercialys distributed to the companies of the Casino Group a dividend for the year ended December 31, 2017, after deduction of the interim dividend paid in October 2017, of € 25,139,000.

Note 18: Identification of the consolidating company

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

Note 19: Subsequent events

In July 2018, Mercialys signed a preliminary sales agreements for two sites, amounting to € 19.1 million including transfer taxes.

5. STATUTORY AUDITORS’ REVIEW REPORT

Mercialys

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

Share capital: € 92,049,169

Statutory Auditors’ Review Report on the 2018 Half-yearly Financial Information

For the period from January 1, 2018 to June 30, 2018

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting and in accordance with the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Mercialys S.A., for the period from January 1, 2018 to June 30, 2018,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

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

Without calling into question the conclusion set out above, we would like to draw your attention to the change of accounting method presented in Note 1.4 “Changes in accounting methods” concerning the application of IFRS 9 - Financial Instruments based on the simplified retrospective method from January 1, 2018.

II. Specific verification

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

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris-La Défense and Lyon, July 25, 2018

KPMG Audit	Ernst & Young et Autres
Isabelle Goalec	Nicolas Perlier
Associée	*Associé*

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

MERCIALYS

Société anonyme au capital de 92.049.169 euros

Siège social : 148, rue de l'Université,

75007 Paris

424 064 707 R.C.S. Paris

STATEMENT BY THE PERSON RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

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

Paris, July 25, 2018

Eric LE GENTIL

Chairman and Chief Executive Officer

7. GLOSSARY

- **Cost of debt**

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

- **EBITDA**

Earnings before interest, taxes, depreciation and amortization.

- **EPRA NNNAV**

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

- **FFO (Funds From Operations)**

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

- **ICR (Interest Coverage Ratio)**

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

- **MGR (Minimum Guaranteed Rent)**

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

- **LTV (Loan To Value)**

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

- **Invoiced rents**

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

- **Net rental income**

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

- **Variable rents**

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

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

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

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

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

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

Mercialys splits its pipeline into two categories:

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

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

- **Rental revenues**

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

- **Occupation cost ratio or occupancy cost**

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

- **Capitalization rate**

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

- **Recovery rate**

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

- **Yield rate**

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

- **EPRA Net Initial Yield**

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

- **EPRA « Topped-up » Net Initial Yield**

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

- **Total vacancy rate**

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