mercialys

PRESS RELEASE

Paris, July 27, 2015

2015 half-year results: accelerated growth, development projects and innovation, FFO objective raised

Increase in rents invoiced on a like-for-like basis: +3.3%, as the indexation effect was null over the period

FFO growth: +7.8% (restated for the proceed on the sale of the Green Yellow shares in H1 2014) to €56.8m

Increase in NNNAV excluding transfer taxes: €18.6 € / share

Acquisition of **5 projects for €167m**. As a result of this transaction, the controlled development pipeline represents €236m, while Mercialys has also defined a potential development pipeline of €284m in the medium term

Innovation: development of a new group-wide identity to strengthen marketability

2015 Outlook: Mercialys is confident of its ability to achieve its organic growth target of at least +2% in rents excluding indexation and is raising its growth objective for FFO from +2% to +3%

Eric Le Gentil, Chairman and Chief Executive Officer of Mercialys, commented: "*In the first half of 2015, Mercialys accelerated its robust organic growth over 2014. The Mercialys shopping centers continued to outperform the sector in France, both in terms of footfall and in retailer sale trends. These excellent operating trends thus contributed to a steady rise in FFO. The Company also strengthened its controlled and potential pipeline, which means that it can continue to significantly expand the strength of its centers in the medium-term. Lastly, Mercialys continued to enhance the commercial appeal of its sites by transforming its concept and its brand.*"

Organic growth in rents was +3.3%, (null indexation over the period), better than the annual target of more than 2% excluding indexation. Mercialys benefited from a net decline in its cost of drawn debt, which was 2.1% at the end of June 2015 compared with 3.5% at the end of June 2014, as a result of the major refinancing transactions completed in the fourth quarter of 2014. The Company continues to offer a solid financial profile, with an LTV ratio of 39.2%. Thus, Funds from operations (FFO) totaled €56.8m, a change of +7.8% over 12 months on a 2014 H1 basis restated for the €4.3m net gain on the sale of the stake in Green Yellow. FFO fell by -0.4% on the reported 2014 H1 basis. EPRA NNNAV increased by 3.5% from 30 June 2014 to €18.6 per share.

In May 2015, Mercialys successfully completed the Toulouse Fenouillet retail park, the first phase of this large-scale project that will create a commercial center covering nearly 87,000 sq.m. Mercialys also pursued its growth strategy by acquiring 5 large food stores in order to implement real estate restructuring projects, improving its controlled pipeline, which now represents €236m, up to 2017. In addition, Mercialys has defined a potential pipeline of development projects that can be implemented by 2019, covering work estimated at €284m, and is intended to complete significant extension and renovation projects at the existing malls.
At the same time, the Company sold 49% of the stock in a company owning the buildings of 6 restructured large food stores for €106m.

Mercialys will continue this asset rotation strategy, which allows it to make investments that increase the commercial strength of its centers while maintaining a balanced balance sheet and a solid financial rating.

Based on this strong performance, Mercialys is confident in its ability to achieve its target for organic growth in rents of at least +2%, and is raising its target for growth in FFO from +2% to +3%, which represents a +7.5% increase on the basis of the 2014 results restated for the net gain on the disposal of the Green Yellow stake.

I. First-half 2015 activity

Acceleration of robust organic growth and FFO

- Organic growth in invoiced rents accelerated to **+3.3%** (vs. +2.8% in 2014), with a null indexation effect over the period, representing a level significantly higher than the annual objective of at least +2% excluding indexing. Casual Leasing contributed to this growth for 1.1%.

Rental income at €82.3m rose +5.3% under the impact of organic growth as well as investments that more than offset the effect of asset disposals.

- Funds from operations (FFO[1]) of **€56.8m**, or €0.62 per share were up +7.8%[2] on a 2014 H1 basis restated for the net gain on the sale of Green Yellow shares for €4.3m because of the growth in rental income and the significant improvement in net financial expense. On the basis of the reported 2014 H1, FFO was down -0.4%.

Ongoing outperformance of the market and a resilient operating profile

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

- On a cumulative basis at the end of May 2015, **retailers sales** for the Mercialys shopping centers[3] rose +3.2%, versus a -1.8% decline for the retail center market in the CNCC index[4].
- **Footfall** at the Mercialys shopping centers was up with a cumulative increase of **+1.3%** at the end of May 2015, compared with a decline of -1.1% for the centers in the CNCC index[5].
- The occupancy cost ratio[6] of Mercialys' tenants stood at 10.4%, slightly increasing compared to end-2014 (10.3%).

Rents from the Casual Leasing segment increased **+18.7%** in the first half 2015 on a like-for-like basis and **+45.8%** excluding the impact of disposals.

Management indicators remained at an excellent level: the current financial vacancy rate improved 20 basis points over one year to 2.3% and the recovery rate over 12 months remained high at 97.4%.

Mercialys continues to innovate and transform its identity in order to improve the commercial value of its sites

Mercialys has revised its concept, creating a group-wide brand for all its centers:

This renewed identity, which is both consistent with its DNA as a partner in daily life and supports the expansion of a national brand, strengthens the marketability of the Mercialys sites. The deployment of this brand has already been completed on approximately 50% of the portfolio and has been reflected in the new red and white colors adorning the facades and the renovated signage in order to improve the readability and visibility of the shopping centers.

At the same time, restructuring work will be performed within the shopping centers that have not been recently renovated (12 sites), in order to achieve effective visibility for the brand, and enhance customer comfort while highlighting the stores.

The work on this new identity is financed by the Mercialys maintenance budgets.

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[1] FFO: Funds From Operations = Net income Group share before depreciation & amortization, gains from disposals, asset write-downs
[2] Calculation on the basis of the weighted average number of fully diluted shares as of June 30
[3] Mercialys major shopping centers and main neighborhood shopping centers, on a like-for-like GLA basis
[4] CNCC index – all centers, comparable scope – cumulative at end of May 2015
[5] CNCC index – all centers, excluding the impact of Primark – cumulative at end of June 2015
[6] Ratio between rent and charges paid by retailers and their sales: (rent + charges gross of tax) / sales gross of tax, or retailers

Successful opening of the Toulouse Fenouillet retail park and continued letting of the extension of the shopping center

Phase 1 of the Toulouse Fenouillet project, the 24,000 sq.m retail park, opened its doors on May 20, 2015. Eight brands were already on the site at the end of June 2015, and 2 additional brands will open in the fall.
The annualized net rents for this first phase represent €2.3m, which is a net yield of 6.9% on the total investment amount of €33.5m.

At the same time, the letting and development of Phase 2 of this project - the extension of the existing mall - continued through the partnership signed in 2014 with Foncière Euris. The letting for this extension reached 50% at the end of June 2015. Mercialys holds an option to buy at fair value on phase 2, which can be exercised at the opening of the shopping center scheduled for late 2016.

Progress on the projects initiated in 2014 improved compared to initial forecasts

In 2014, Mercialys acquired 12 restructuring projects that included the installation of nonfood anchor tenants.

Significant progress was made in the first half of 2015. Thus, the Brest and Niort projects acquired in the first half of 2014 were let, in particular to H&M, and will be delivered in December 2015. In addition, the projects implemented in Rennes and Aix-en-Provence also made significant progress and will be delivered in the second half of 2016. These 4 projects will generate an average net yield of 9.1%, reflecting €2.8m in annualized rents, and a comprehensive IRR of 12.3%, higher than initial forecasts.

Optimization and letting of the other 8 projects are in progress for completion in 2016 and 2017, in line with the expected schedule.

Supplying the controlled development pipeline through the acquisition of 5 restructuring projects

On June 30, 2015, Mercialys acquired from Casino 5 large food stores in Besançon, Lanester, Dijon, Poitiers and Marseille (Plan de Campagne site) to develop extension projects, for total of €167m including transfer taxes and net annual rents before restructuring of €9.3m, offering an immediate yield of 5.6%.

Restructuring projects have been defined at these sites on the basis of expected IRRs ranging from 8% to 10%. The work planned at this stage on the large food stores excluding Plan de Campagne, which will represent a dedicated large project, would total €16.3m, creating approximately €1.2m in additional annualized rents, representing an expected yield of 7.5%. The openings at the Besançon, Lanester, Dijon and Poitiers sites are scheduled for 2017.

At end-June 2015, the controlled pipeline of Mercialys represents €236m in work, or 8% of the Company's portfolio, €193m of which is still to be incurred by 2018. This pipeline is expected to generate around €17m in net annualized rents, which is a total expected yield of 7.2%.

Mercialys has also defined a significant potential development pipeline of €284m intended to enhance the power of its shopping centers

In the context of its 360° analysis of its sites, Mercialys identified a potential development pipeline that can be implemented by 2019, which will cover work estimated at €284m and is expected to generate additional net rents of approximately €18m, representing a net yield of 6.2%.

First, Mercialys has positioned itself at the Marseille Plan de Campagne center, which is part of the first commercial areas in France, through the acquisition of the large food store, prior to a large project to extend the shopping center. This project will be developed around the installation of 2 nonfood anchor tenants, representing nearly 9,000 sq.m, and a 15,000 sq.m extension of the shopping center, which would be realized with a major partner.

Moreover, the other investments contributing to the potential pipeline are intended to strengthen the leadership of the shopping centers of Mercialys which is pursuing its strategy to create value at its existing sites in increasing the size of the centers in question, which will then offer a comprehensive daily-life merchandizing for visitors.

Disposal of 49% of the shares of a company that carries 6 reconfigured hypermarkets to a top-tier institutional investor

On June 26, 2015, Mercialys sold to OPCI SPF2, managed by BNP Paribas, 49% of the shares in Hyperthetis Participations that carries the buildings of 6 reconfigured large food stores for €106m DIH, reflecting a net equivalent yield of 4.8% from the disposal.

These 6 large food stores were acquired in 2014 by Mercialys, which conducts extension projects that integrate the placement of nonfood anchor tenants that will help improve the commercial value of the sites. These projects are not included in the assets carried by Hyperthetis Participations, which holds only the reconfigured large food stores, on the basis of comprehensive annualized net rents of €10.6m.

This transaction with a major investor contributes to financing the investments made by Mercialys over the six-month period. Mercialys achieved an IRR of 10.2% and a capital gain of €25m on this sale, which will be recorded in the parent company's accounts following the sale of the underlying real estate assets.

II. Portfolio and debt

Triple net Net Asset Value (EPRA format) rose +3.5% over 12 months

- The value of Mercialys' portfolio at the end of the first half of 2015 is **€3,097.7m**, including transfer taxes, an increase of +7.1% over six months, primarily driven by the increase in rents on a like-for-like basis (+€13m), the reduction in the average capitalization rate (+€24m) and changes in consolidation scope (+€167m). On a like-for-like basis, the value of Mercialys' assets rose **+1.3%** over six months.
- The average appraisal yield was **5.55%** as of June 30, 2015, versus a rate of 5.60% at December 31, 2014 and 5.70% as of June 30, 2014.
- **Triple net NAV (EPRA format) was up +3.5%** over June 30, 2014 to €18.6 per share, and slightly decreasing by -1.4% compared to December 31, 2014 as the dividend payment more than offset the positive impact of the half-year result.

The financial position is solid and benefits from the refinancing transactions completed in the fourth quarter of 2014

In addition to the sale of the stake previously mentioned, the Company financed its growth and its cash needs through the issue of commercial paper, with an outstanding amount of €145m as of June 30, 2015. The Company also continued an active interest rate hedging policy to optimize both the structure and cost of its debt.

- The amount of **debt drawn** by Mercialys as of June 30, 2015 totaled €1,174.7m versus €1,158.7m as of December 31, 2014. **Net debt** after deducting cash and taking hedging instruments into account amounted to €1,141.7m.
- The **average real cost of the debt drawn** in the first half of 2015 was **2.1%** (compared with 3.1% for 2014).
- The **LTV**[7] **ratio** was **39.2%** as of June 30, 2015 (versus 37.4% as of December 31, 2014).
- The **ICR**[8] was **5.5** as of June 30, 2015 (compared with 4.7 as of December 31, 2014), well above the bank covenant (ICR > 2).

III. Dividend and outlook

Dividend

As it did in 2014, and subject to approval by the Board of Directors, Mercialys will pay an interim dividend in the fourth quarter of 2015. The amount and payment date of this interim dividend will be determined as a function of the disposal and investment transactions for the full year, not just for the first half.

Outlook

Based on this strong performance for the first half of 2015, Mercialys is confident in its ability to achieve its annual objective for organic growth in rents excluding indexation of at least +2% and is raising its annual objective for growth in FFO from +2% to +3%, which represents a +7.5% increase on the basis of the 2014 results restated for the net gain on the disposal of the Green Yellow stake.

This press release is available on www.mercialys.com

Contact analystes / investisseurs :
Elizabeth BLAISE
Tél : + 33(0)1 53 65 64 44

Contact presse:
Communication
Tél : + 33(0)1 53 65 24 78

[7] LTV (Loan To Value): Net debt / Market value of the portfolio, excluding transfer taxes
[8] ICR (Interest Cost Ratio): EBITDA / Cost of net debt

About Mercialys

Mercialys is one of France's leading real estate companies, focused exclusively on retail property. At June 30, 2015, Mercialys had a portfolio of 2,217 leases, representing a rental value of 160.5 million euros on an annualized basis.
At June 30, 2015, it owned properties with an estimated value of 3.1 billion euros (including transfer taxes). Mercialys has had "SIIC" real estate investment trust (REIT) tax status since November 1, 2005 and has been listed on Euronext Paris Compartment A (ticker: MERY) since its initial public offering on October 12, 2005. At June 30,2015, there were 92,049,169 shares outstanding.

IMPORTANT INFORMATION
This press release contains certain forward-looking statements about future events, trends, projects or targets.
These forward-looking statements are subject to identified and unidentified risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements. Please refer to the Mercialys shelf registration document available at www.mercialys.com for the year to December 31, 2014 for more details regarding certain factors, risks and uncertainties that could affect Mercialys' business.
Mercialys makes no undertaking in any form to publish updates or adjustments to these forward-looking statements, nor to report new information, new future events or any other circumstances that might cause these statements to be revised.

APPENDIX TO THE PRESS RELEASE

Financial Report :

- Financial statements
- Main highlights
- Review of activity in H1 2015 and lease portfolio structure
- Review of consolidated results
- Outlook
- Subsequent events
- Main transactions with related parties
- EPRA indicators

Financial report

Accounting rules and methods

In accordance with EU regulation 1606/2002 of July 19, 2002 on international accounting standards, the interim consolidated financial statements have been prepared in accordance with international accounting standards IAS/IFRS (the "IFRS") published by the IASB, as adopted by the European Union, which were applicable as of June 30, 2015. They have been prepared in accordance with IAS 34 - Interim financial reporting.
The condensed interim consolidated financial statements 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, 2014.

NB: The financial statements for the six months ended June 30, 2015 take into account IFRIC 21 interpretation - Levies, leading to the recognition of tax liabilities on the date of the taxable event laid down by the legislature. The previously published financial statements were restated following the retrospective application of this standard.

1. Financial statements

Audit procedures have been conducted by the Statutory Auditors. Finalization of the Statutory Auditors' report on the consolidated financial statements is in progress.

1.1 Consolidated income statement

(in thousands of euros)	From January 1, 2015 to June 30, 2015*	From January 1, 2014 to June 30, 2014[9]
Rental income	**82,256**	**78,131**
Non-recovered property taxes	(1,110)	(1,367)
Non-recovered service charges	(1,272)	(1,421)
Property operating expenses	(2,669)	(2,271)
Net rental income	**77,205**	**73,072**
Income from management, administration and other activities	1,280	1,522
Property development margin	6	-
Other income	401	345
Other expenses	(2,806)	(3,664)
Staff costs	(5,638)	(4,950)
Depreciation and amortization	(11,470)	(11,999)
Reversals/(Allowance) for provisions for liabilities and charges	(25)	736
Other operating income	254	174,676
Other operating expenses	(4,186)	(117,121)
Net operating income	**55,021**	**112,617**
Income from cash and cash equivalents	115	77
Finance costs	(12,874)	(14,352)
(Net finance costs)/Income from net cash	**(12,759)**	**(14,275)**
Other financial income	641	4,916
Other financial expenses	(919)	(1,070)
Net financial income/(expense)	**(13,037)**	**(10,429)**
Income tax	(528)	56
Share of net income of associates	530	608
Consolidated net income	**41,986**	**102,852**
attributable to non-controlling interests	28	24
attributable to owners of the parent	**41,958**	**102,828**
Earnings per share**		
based on the weighted average number of outstanding shares Basic earnings per share attributable to owners of the parent (in euros)	0.46	1.12
Diluted earnings per share attributable to owners of the parent (in euros)	0.46	1.12

* The Statutory Auditors have performed a limited review of these financial statements

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

> Weighted average number of undiluted shares as of June 30, 2015 = number of fully diluted shares as of June 30, 2015 = 91,809,184 shares

(since the bonus share plans are covered by treasury shares)

[9] The previously published financial statements were restated following the retrospective application of the IFRIC 21Interpretation

1.2 Consolidated balance sheet

ASSETS (in thousands of euros)	June 30, 2015*	December 31, 2014[1]
Intangible assets	756	811
Property, plant and equipment other than investment property	356	434
Investment property	1,938,039	1,751,782
Investments in associates	19,964	20,880
Other non-current assets	33,437	33,579
Deferred tax assets	1,005	990
Total non-current assets	**1,993,557**	**1,808,476**
Trade receivables	19,138	18,687
Other current assets	55,115	64,762
Cash and cash equivalents	9,307	121,015
Investment property held for sale	5,496	5,666
Total current assets	**89,056**	**210,130**
TOTAL ASSETS	**2,082,612**	**2,018,606**

EQUITY AND LIABILITIES (in thousands of euros)	June 30, 2015*	December 31, 2014[1]
Share capital	92,049	92,049
Additional paid-in capital, treasury shares and other reserves	658,888	691,262
Equity attributable to owners of the parent	**750,937**	**783,311**
Non-controlling interests	**90,207**	**436**
Total equity	**841,144**	**783,748**
Non-current provisions	335	292
Non-current financial liabilities	1,022,381	1,022,424
Deposits and guarantees	23,050	22,555
Deferred tax liabilities	1	1
Total non-current liabilities	**1,045,767**	**1,045,272**
Trade payables	11,941	14,026
Current financial liabilities	150,165	143,330
Current provisions	1,462	1,426
Other current liabilities	31,990	30,456
Current tax liabilities	143	348
Total current liabilities	**195,701**	**189,586**
TOTAL EQUITY AND LIABILITIES	**2,082,612**	**2,018,606**

[1]The previously published financial statements were restated following the retrospective application of the IFRIC Interpretation 21

(*) The Statutory Auditors have performed a limited review of these financial statements

1.3 Consolidated cash flow statement

(in thousands of euros)	From January 1 2015 to June 30 2015*	From January 1, 2014 to June 30 2014[1]
Net income attributable to owners of the parent	41,958	102,828
Non-controlling interests	28	24
Consolidated net income	**41,986**	**102,852**
Depreciation, amortization, impairment allowances and provisions net of reversals	15,457	12,486
Unrealized gains and losses relating to changes in fair value	(1,333)	721
Income and expenses relating to stock options and similar	130	198
Other calculated income and expenses[(1)]	(802)	2,297
Share of income of associates	(530)	(608)
Dividends received from associates	1,446	1,502
Net gains and losses on disposals of assets	279	(65,610)
Cash flows from operating activities before change in working capital requirement	**56,633**	**53,838**
Net finance costs (excluding changes in fair value and depreciation/amortization)	12,304	13,073
Current and deferred tax expenses	528	(56)
Cash flows from operating activities before change in working capital requirement, net finance costs and tax	**69,465**	**66,855**
Taxes received/(paid)	(628)	2,051
Change in working capital requirement relating to operations, excluding deposits and guarantees[(2)]	(2,712)	(15,101)
Change in deposits and guarantees	497	420
Net cash flow from operating activities	**66,622**	**54,225**
Cash payments on acquisition of: • investment property and other fixed assets	(193,361)	(42,810)
Cash payments on acquisition of: • non-current financial assets	-	(323)
Cash receipts on disposal of: • investment property and other fixed assets[(4)]	36	7,716
Cash receipts on disposal of: • non-current financial assets	13	4,792
Effect of changes in the scope of consolidation with change of ownership[(3)]	-	(10,921)
Effect of changes in the scope of consolidation related to associates(3)	-	(70)
Net cash flow from investing activities	**(193,312)**	**(41,616)**
Dividend payments to shareholders	(80,756)	(75,293)
Interim dividends	-	-
Dividend payments to non-controlling interests	(51)	-
Transactions between the Group and non-controlling interests[(5)]	99,472	-
Changes in treasury shares	(3,319)	(248)
Increase in financial liabilities	317,000	185,500
Decrease in financial liabilities	(301,000)	(120,000)
Net interest paid	(16,345)	(16,528)
Net cash flow from financing activities	**15,000**	**(26,569)**
Net increase/(decrease) in cash and cash equivalents	**(111,690)**	**(13,960)**
Net cash and cash equivalents at beginning of year	120,994	10,479
Net cash and cash equivalents at end of year	9,304	(3,481)

[1]The previously published financial statements were restated following the retrospective application of the IFRIC Interpretation 21

(*) The Statutory Auditors have performed a limited review of these financial statements

(1) Other calculated income and expenses primarily comprise:	06/2015	06/2014
• discounting adjustments to construction leases	(314)	(266)
• lease rights received and spread out over the term of the lease	(964)	(974)
• financial expenses spread out	161	79
• losses on asset disposals	297	3 440

(2) The change in working capital requirement breaks down as follows:	(2,712)	(15,101)
Trade receivables	(2)	(3,792)
Trade payables	(2,396)	4,250
Other receivables and payables	(314)	(15,277)
Property development liabilities	-	(282)

(3) In 2014, the Group paid Euro 10,921,000 for the shares of Fenouillet Immobilier.

(4) As of December 31, 2014, cash payments and receipts on the acquisitions and disposals of assets were reduced on the basis of the legal form of the transactions (asset swaps) that resulted in the balancing payment and receipt only for each contract.

(5) On June 26, 2015, Mercialys sold 49% of the shares in Hyperthetis Participations to OPCI SPF2 for €99,472,000 net of costs.

2. Highlights of first-half 2015

Successful opening of the Toulouse Fenouillet retail park and continued letting of the extension of the shopping center

Phase 1 of the Toulouse Fenouillet project, the 24,000 sq.m retail park, opened its doors on May 20, 2015. Eight brands were already on the site as of the end of June 2015, and 2 additional brands will open in the fall.
The annualized net rents for this first phase represent Euro 2.3 million, which is a net rate of return of 6.9% on the total investment amount of Euro 33.5 million.

In 2014, Mercialys has entered into a partnership with Foncière Euris to carry out the work on Phase 2 of this project – the extension of the shopping mall - through a company which is majority-owned by Foncière Euris and consolidated using the equity method by Mercialys. The letting and development of phase 2 continued over the period, with letting reaching 50% as of the end of June 2015. Mercialys holds a purchase option to buy at fair value on phase 2, which can be exercised at the opening of the shopping center scheduled for late 2016.

Supplying the controlled development pipeline through the acquisition of 5 restructuration projects

As of 30 June 2015, Mercialys acquired from Casino 5 large food stores (GSA) in Besançon, Lanester, Dijon, Poitiers and Marseille (Plan de Campagne site) to develop extension projects, for a total of Euro 167 million including transfer taxes and net annual rents before restructuring of Euro 9.3 million, offering an immediate yield of 5.6%.

Restructuring projects have been defined at these sites on the basis of provisional IRRs ranging from 8% to 10%. The work planned at this stage on the large food stores excluding Plan de Campagne, which will represent a dedicated large project, would, total Euro 16.3 million, creating approximately Euro 1.2 million in additional annualized rents, representing an expected yield of 7.5%. The openings at the Besançon, Lanester, Dijon, and Poitiers sites are scheduled for 2017.

Following the delivery of phase 1 of the Toulouse Fenouillet project and the acquisition of 5 new restructuring projects, the controlled pipeline of Mercialys represents Euro 236 million in work, or 8% of the Company's portfolio, Euro 193 million of which is still to be incurred by 2018. This pipeline is expected to generate around Euro 17 million in net annualized rents, which is a total expected yield of 7.2%.

Mercialys has also defined a significant potential development pipeline of Euro 284 million intended to enhance the power of its centers

In the context of its 360° analysis of its sites, Mercialys defined a potential development pipeline that can be implemented by 2019, which will cover work estimated at Euro 284 million and is expected to generate additional net rents of approximately Euro 18 million, representing a net rate of return of 6.2%.

First, Mercialys has positioned itself at the Marseille Plan de Campagne center, which is part of the first commercial areas in France, through the acquisition of the large food store, prior to a large project to extend the shopping center to be developed over the medium term. This project will be developed around the installation of 2 nonfood anchor tenants, representing nearly 9,000 sq.m in the context of the restructuration of the large food store, and a 15,000 sq.m extension of the shopping center, to be carried out with a top-ranking partner.

Moreover, the other investments contributing to the potential pipeline are intended to strengthen the leadership of the shopping centers of Mercialys which is, as a result, pursuing its strategy to create value at its existing sites. Extension and consolidation projects will be completed in order to increase the size of the centers in question, which will then be able to house new nonfood anchor tenants and thus offer a comprehensive daily-life merchandizing for its visitors.

Disposal of 49% of the shares of a company that carries 6 reconfigured hypermarkets to a top-tier institutional investor

Mercialys has set up in June 2015 the company Hyperthetys Participations, and then sold it the buildings of 6 large food stores.

On June 26, 2015, Mercialys sold to OPCI SPF2, managed by BNP Paribas, 49% of the shares in Hypertethys Participations for Euro 106 million DIH, reflecting a net equivalent yield of 4.8% from the disposal.

These 6 large food stores were acquired in 2014 by Mercialys, which conducts restructuring projects that integrate the implementation of nonfood anchor tenants that will help improve the commercial value of the sites. These restructuring projects are not included in the assets carried by Hypertethys Participations, 51% owned by Mercialys, which holds only the reconfigured large food stores, on the basis of comprehensive annualized net rents of Euro 10.6 million.

Mercialys has the exclusive control of this company and holds a purchase option for a value of Euro 102 million over the stake owned by minority shareholders, which can be exercised in 2022.

In the parent company's accounts of Mercialys, a capital gain of Euro 25 million was recorded on the sale of the underlying real estate assets.

3. Review of operations and consolidated results

Summary of key indicators of the half-year

	June 30, 2015
Organic growth in invoiced rents	**+3.3%**
EBITDA (Euro millions)[10]	Euro 70.4m
EBITDA/Rental revenues	85.6%
Funds from operations (FFO[11])	**Euro 56.8m**
Funds from operations (FFO) per share (euros)	Euro 0.62
Market value of portfolio (including transfer taxes)	**Euro 3.1bn**
Change vs. 12/31/2014 (total scope)	+7.1%
Change vs. 12/31/2014 (like-for-like)	+1.3%
EPRA triple net asset value /share	**Euro 18.6**
Change vs. 12/31/2014	-1.4%
Loan to value (LTV) - excluding transfer taxes	39.2%

3.1 Main management indicators

➤ The Mercialys shopping centers continued to outperform the sector in France, both in terms of footfall and in retailer sales trends. Sales for retailers at Mercialys large and main neighborhood shopping centers were up +3.2% (like-for-like) on a cumulative basis as of the end of May 2015, compared with a decline of -1.8% for the entire shopping center market (CNCC). It should, however, be noted that the sales for provincial shopping centers in the CNCC index were more resilient, with a decline limited to -0.1%.
Footfall at the Mercialys large and main neighborhood shopping centers was up +1.3% on a cumulative basis as of the end of June 2015, compared with a decline of -1.1% for the centers in the CNCC index.

➤ Renewals and relets generated annualized growth of the annualized rental base of respectively +9% and +28%[12] in the first half of 2015.

➤ The recovery rate over 12 months remained high at 97.4% of the invoice.

➤ The number of tenants in liquidation as of June 30, 2015 remained low: 20 tenants out of 2,217 in-portfolio leases.

➤ The current vacancy rate - which excludes "strategic" vacancies designed to facilitate the implementation of redevelopment plans – improved by 20 bps in 12 months and totaled 2.3% as of June 30, 2015 (versus 2.4% as of December 31, 2014 and 2.5% as of June 30, 2014).
The total vacancy rate[13] was 4.0% as of June 30, 2015, up by +120 bps compared with December 31, 2014, due to the implementation of projects during the first half-year, a level which is however stable compared with 2013 and the
first-half of 2014.

➤ The occupancy cost ratio[14] for our tenants stood at 10.4%, slightly up compared with December 31, 2014 (10.3%). This ratio is still relatively low compared with that of Mercialys' peers. This reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

[10] Earnings before interest, taxes, depreciation and amortization and other operating income and expenses
[11] Funds From Operations: net income Group share before depreciation, amortization, asset write-downs and capital gains
[12] Vacant at last known rent
[13] [Rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)] in accordance with the EPRA calculation method
[14] Ratio between rent and charges paid by retailers and their sales: (rent + charges gross of tax) / sales gross of tax of retailers, excluding large food stores

➤ Rents received by Mercialys come from a very wide range of retailers. With the exception of Casino Group brands, H&M (2%) and Feu Vert (2%), no other tenant accounts for more than 2% of total rental income.

Casino's contribution to total rental income stood at 27% as of June 30, 2015 (vs. 25% as of December 31, 2015). The increase reflects the acquisition of redevelopment projects on large food stores in 2014 and the first-half of 2015, partly offset by the lesser contribution of Casino Cafeterias (1.6% of Mercialys' rental income for the half-year ended June 30, 2015 versus 3.0% for the full-year 2014). It must however be noted that the economic exposure of Mercialys to the Casino Group, i.e., restated to reflect the disposal of 49% of the shares of Hyperthetis Participations, the company that carries the buildings of six repositioned large food stores in the first-half of 2015, remained stable at 24% compared with December 31, 2014.

The table below shows the breakdown of rents between national and local retailers on an annualized basis:

	Number of leases	GMR*+ annual variable 06/30/2015 (in millions of euros)	12/31/2014 (in %)	06/30/2015 (in %)	06/30/2015 (in %)**
National and international retailers	1,447	94.7	61.0%	59.0%	61.2%
Local retailers	678	22.3	14.5%	13.9%	14.4%
Cafétérias Casino/Self-service restaurants	23	2.6	3.4%	1.6%	1.7%
Other Casino Group brands	69	40.9	21.2%	25.5%	22.7%
Total	**2,217**	**160.5**	**100%**	**100%**	**100%**

** GMR = Guaranteed minimum rent*
*** Rental income exposure to Casino Group restated of the disposal of 49% of the shares of Hyperthetis Participations, owner of the buildings of the six repositioned large food stores*

The breakdown of Mercialys' rental income by business sector also remained highly diversified.

Breakdown of rental income by business sector, excluding large food stores (% of rental income)	12/31/2014	06/30/2015
Personal items	42.1%	43.0%
Food and catering	11.7%	9.8%
Household equipment	9.8%	10.4%
Beauty and health	14.8%	15.2%
Culture, gifts and leisure	17.4%	17.4%
Services	4.1%	4.2%
Total	**100.0%**	**100.0%**

The structure of rental income as of June 30, 2015 confirmed the dominant share, in terms of rent, of leases with a variable component:

	Number of leases	In millions of euros	12/31/2014 in %	06/30/2015 in %
Leases with variable component	1,244	87.5	59%	54%
- of which guaranteed minimum rent		*86.5*	*58%*	*54%*
- of which variable rent		*0.9*	*1%*	*1%*
Leases without variable component	973	73.0	41%	46%
Total	**2,217**	**160.5**	**100%**	**100%**

Given the entry into scope of large food stores with leases based on guaranteed minimum rents with no variable component, the proportion of leases with a variable rent component as a percentage of total rental income was lower as of June 30, 2015 than the percentage as of December 31, 2014.

Leases linked to the ILC index (Retail rent index) made up the predominant share of rents as of June 30, 2015:

	Number of leases	In millions of euros	12/31/2014 in %	06/30/2015 in %
Leases linked to the ILC index (Retail rent index)	1,474	136.6	84%	85%
Leases linked to the CCI index (Construction cost index)	734	23.9	16%	15%
Leases linked to the ILAT index (INSEE retail rental index)	9	-	-	-
Total	**2,217**	**160.5**	**100%**	**100%**

3.2 Invoiced rents, rental revenues and net rental income

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

Invoiced rents amounted to **Euro 80.6 million** as of June 30, 2015, up **+6,0%**, due in particular to the organic growth generated in first-half 2015 and the impact of net investments made in 2014.

(in thousands of euros)	Six months ended 06/30/2014 proforma	Six months ended 06/30/2015
Invoiced rents	76,005	80,558
Lease rights	2,125	1,698
Rental revenues	**78,131**	**82,256**
Non-recovered service charges and property taxes	-2,788	-2,382
Property operating expenses	-2,271	-2,669
Net rental income	**73,072**	**77,205**

The increase in invoiced rents was driven by:
- faster organic growth in invoiced rents: **+3.3 points** (vs. +2.8% in 2014), i.e., Euro +2.5 million
- 2014 and 2015 investments: impact of **+14.7 points** on growth in invoiced rents, i.e., Euro +11.2 million
- the effect of asset sales carried out in 2014, reducing the rental base: **-10.6 points**, i.e., Euro -8.1 million
- other effects including primarily the strategic vacancy relating to current redevelopment programs: **-1.4 points**, i.e., Euro -1.1 million

On a like-for-like basis, invoiced rents were up +3.3%, including in particular:
+2.2 points reflecting actions taken on the portfolio
+1.1 points generated by the development of the Casual Leasing business, which contributed Euro 2.7 million to rental income in first-half 2015 (versus Euro 1.9 million in first-half 2014), representing a year-on-year increase of +18.7% despite the asset disposals. Excluding the impact of asset disposals, the sales for this business were up +45.8%.
The indexation effect is zero on the half-year.

As of June 30, 2015, rental revenues amounted to Euro 82.3 million, up **+5.3%** compared with the first half of 2014.

Lease rights and despecialization indemnities received in the first half of 2015 amounted to Euro 0.7 million, versus Euro 1.2 million in the first half of 2014, broken down as follows:

- Euro 0.5 million of lease rights related to ordinary re-letting business (versus Euro 1.0 million in first-half 2014),

- Euro 0.2 million of lease rights relating primarily to the letting of the extension programs of St Paul and Clermont Ferrand delivered in 2014 (versus Euro 0.2 million in the first half of 2014 relating mainly to the letting of the Albertville Retail Park and Lanester extension programs).

After the impact of deferrals required under IFRS, lease rights recognized in the first half of 2015 totaled Euro 1.7 million, compared with Euro 2.1 million in the first half of 2014.

Net rental income

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

Costs included in the calculation of net rental income were stable at Euro 5.1 million in first-half 2015, compared with first-half 2014, which was boosted by non-recurring income of Euro 0.2 million from the favorable settlement of a property dispute for Mercialys.

The ratio of non-recovered property operating expenses to invoiced rents stood at 6.3% in first-half 2015 versus 6.7% in first-half 2014.

Due to the increase in invoiced rents, net rental income rose +5.7% from Euro 73.1 million in the six months ended 30 June 2014 to Euro 77.2 million in the same period of 2015.

3.3 Management revenues, operating costs and operating income

Management, administrative and other activities income

Income from management, administrative and other activities comprises primarily fees charged in respect of services provided by certain Mercialys teams (whether within the framework of advisory services provided by the asset management team, which works on a cross-functional basis for Mercialys and the Casino Group, or within the framework of shopping center management services provided by teams), letting, asset management and advisory fees relating to the partnerships formed with Union Investment and Amundi Immobilier.

The fees charged in first-half 2015 amounted to Euro 1.3 million versus Euro 1.5 million for the six months ended June 30, 2014.

Property development margin

As a reminder, in 2011 Mercialys and Union Investment - a fund manager highly active in the real estate market - created an OPCI fund designed to invest in mature retail properties. The fund is 80%-owned by Union Investment and 20% by Mercialys. Mercialys operates the fund and is in charge of asset management and lettings. In 2011, the fund acquired an asset in Bordeaux-Pessac. Mercialys developed an extension to the shopping mall comprising 30 new stores, which was delivered to the fund in late November 2012.

Mercialys may receive further earnout payments once four remaining vacant lots have been let. In return for the payment of half of the price of these lots, Mercialys has given the OPCI fund a rental guarantee for a maximum of up to three years from completion of the extension.
Since Mercialys did not let any of these vacant lots during the first half of 2015, no earnout and no additional property development margin have been recognized.

Other recurring income

Other recurring income of Euro 0.4 million recognized in first-half 2015 include dividends received from the fund created in partnership with Union Investment (see previous paragraph) for Euro 0.4 million. As of June 30, 2014,

Mercialys had received Euro 0.3 million in dividends from the fund. These dividends, similar to net rental income, are recognized as net operating income.

Other expenses

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

In the first half of 2015, these costs amounted to Euro 2.8 million compared with Euro 3.7 million in first-half 2014.

Staff costs

Staff costs amounted to Euro 5.6 million in first-half 2015, versus Euro 5.0 million in first-half 2014, up Euro +0.7 million due in particular to the full-year impact of strengthening of teams decided in 2014 as part of rolling out new Mercialys projects.

A portion of staff costs are charged back to the Casino Group as part of the advisory services provided by the team dedicated to 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 income from management, administrative and other activities).

Depreciation, amortization and provisions

Depreciation, amortization and provisions for liabilities and charges rose slightly to Euro 11.5 million for the six months ended June 30, 2015 compared with Euro 11.3 million for the six months ended June 30, 2014, despite the net investments made over the period.

Other operating income and expenses

Other operating income and expenses include primarily:

- as income, the amount of asset sales and other income relating to asset sales;
- as expenses, the net book value of asset sold and costs associated with these asset sales.

Other operating income amounted to Euro 0.3 million for the six months ended June 30, 2015 compared with Euro 174.7 million for the six months ended June 30, 2014. This amount includes:

- an asset sale in the first half of 2015, with recognition of the ensuing income of Euro 0.1 million in the consolidated financial statements of Mercialys (Euro 174.2 million for the six months ended June 30, 2014). The impact of the sale of 49% of the shares of Hyperthetis Participations during the first-half of 2015 is cancelled in the consolidated accounts.

Other operating expenses totaled Euro 4.2 million for the six months ended June 30, 2015 (compared with Euro 117.1 million for the six months ended June 30, 2014). This amount mainly includes:

- the recognition of an asset impairment loss of Euro 2.2 million;
- the net carrying value of assets sold in first-half 2015 and costs associated with these asset sales: Euro 1.0 million versus Euro 115.5 million for the six months ended June 30, 2014; and
- the recognition of expenses linked to prior disposals for an amount of Euro 0.6 million.

Operating income

As a result of the above, net operating income came to Euro 55.0 million for the six months ended June 30, 2015 versus Euro 112.6 million for the six months ended June 30, 2014, down by 51.1%.

The ratio of EBITDA[15] to rental income was 86% for the six months ended June 30, 2015 compared with 85% for the six months ended June 30, 2014.

[15] E.B.I.T.D.A. (Earnings before interests, tax, depreciation, amortization and other operating income and expenses)

3.4 Net financial items and tax

Net financial items

Net financial items include:
- as expenses: mainly financial expenses relating to debt incurred by the Company net of income from the arrangements of the associated interest rate hedging policy (see section 3.6.1 Debt).
- as income: financial income from equity investments, as well as interest income on cash generated in the course of operations and deposits from tenants.

As of June 30, 2015, the net cash balance for Mercialys stood at Euro 9.3 million versus Euro 121.0 million as of December 31, 2014.
After deduction of financial liabilities, net debt was negative at Euro -1,141.7 million as of June 30, 2015, compared with negative net debt of Euro -1,017 million as of December 31, 2014.

Mercialys changed its debt structure in 2014. A new financing scheme was set up in December 2014, which included in particular a new bond issue of Euro 550 million (including a Euro 170.3 exchange on the existing bond) and a rearrangement of bank financing (increase in the size of the existing revolving credit facility (RCF) of Euro 240 million with maturity extended to December 2019, with the option to extend for a further year). Accordingly, the financial terms (margins and commitment fees reduced) were favorably revised for Mercialys.
To complete this arrangement and diversify its sources of liquidity, additional confirmed bank lines totaling Euro 60 million, maturing in three years (with a double option to extend for one year + one year) were also put in place.
At the same time, the Euro 100 million bank loan which matured in February 2015 was repaid early in December 2014.

Additionally, the Company adjusted its interest rate hedging policy as a result of setting up the new financing arrangement.

The table below shows a breakdown of net financial items for the six month-period ended June 30:

In millions of euros	**06/30/2014**	**06/30/2015**
Income from cash and cash equivalents (a)	0.1	0.1
Cost of debt taken out *(b)* (bonds and bank loans) Effect of hedging instruments *(c)* Net cost of commercial paper *(d)*	-15.1 0.7 -	-15.1 2.3 -
Finance costs, excluding non-recurring items	***-14.4***	***-12.9***
Non-recurring amortization of costs in relation to the partial early repayment of bank loans (e)	-	-
Finance costs *(f) = (b)+(c)+(d)+(e)*	**-14.4**	**-12.9**
Net finance costs *(g) = (a)+(f)*	**-14.3**	**-12.8**
Cost of RCF (undrawn) *(h)* Other financial expenses *(i)*	-0.6 -0.5	-0.9 -
Other financial expenses excluding non-recurring items *(j) = (h)+(i)*	**-1.1**	**-0.9**
Non-recurring amortization in relation to refinancing of the RCF (k)	-	-
Other financial expenses *(l) = (j)+(k)*	**-1.1**	**-0.9**
TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*	**-15.4**	**-13.8**
Income from equity investments Gains on disposals of equity investments Other financial income	- 4.8 0.1	- - 0.6
Other financial income *(n)*	**4.9**	**0.6**
TOTAL FINANCIAL INCOME *(o) = (a)+(n)*	**5.0**	**0.8**
NET FINANCIAL INCOME/(EXPENSE) = *(m)+(o)*	**-10.4**	**-13.0**

a) Financial expenses and average cost of debt

Financial expenses amounted to Euro -13.8 million for the six months ended June 30, 2015 versus Euro 15.4 million as of June 30, 2014, sharply down due to the favorable impact of hedging instruments and the favorable effect of lower interest rates thanks to the financing transactions completed in Q4 2014, which were nevertheless offset by a volume effect of the debt, as Mercialys issued a Euro 550 million bond in November 2014.

The average real cost of the debt drawn as of June 30, 2015 was 2.1%, sharply down compared to the real cost of debt drawn as of December 31, 2014 (3.1%) thanks to the positive impact of the refinancing transactions carried out in Q4 2014.

b) Financial income

Financial income amounted to Euro 0.8 million for the six months ended June 30, 2015 versus Euro 5.0 million for the six months ended June 30, 2014. The first half of 2014 was favorably impacted by the gain on the sale of Mercialys' interest in Green Yellow (a company that develops solar photovoltaic power plants) for an amount of Euro 4.8 million.

As a result, net financial items represented an expense of Euro -13.0 million for the six months ended June 30 versus an expense of Euro -10.4 million for the six months ended June 30, 2014.

Income tax

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

In the first-half 2015, the Company recorded a tax expense of Euro 0.5 million, mainly consisting of the corporate value-added tax (CVAE), versus a tax income of Euro 0.03 million for first-half 2014.

Share of net income of associates

Mercialys pre-empted the implementation of IFRS 10, 11 and 12 for the year ended December 31, 2013. Joint ventures (namely SCI Geispolsheim and Corin Asset Management), previously proportionally consolidated, qualified as associated companies according to the IFRS 11 definition and were therefore consolidated using the equity method.

Similarly SCI AMR, the company created in partnership with Amundi Immobilier in 2013, and Aix2, of which Mercialys acquired 50% in December 2013 and which is developing the extension of the Aix-en-Provence shopping mall, are also considered as associated companies and are therefore consolidated using the equity method.

Fenouillet Participations, a company created in partnership with Foncière Euris in late 2014, is also consolidated using the equity method.

Mercialys' share of the net income of associates for the six month-period ended June 30, 2015 was Euro 0.5 million versus Euro 0.6 million for the same period in 2014.

Net income

Net income totaled Euro 42.0 million for the six months ended June 30, 2015 compared with Euro 102.9 million for the six months ended June 30, 2014, down 59.2% primarily due to the disposals completed in first-half 2015, which were sharply down compared to first-half 2014.

Given that minority interests were immaterial, net income Group share was Euro 42.0 million for the first half of 2015, versus Euro 102.8 million for the first half of 2014, down by -59.2%.

Funds from operations (FFO)

Funds from operations, which correspond to net income adjusted for depreciation and amortization, capital gains on asset sales and associated costs, and asset write-downs totaled Euro 56.8 million, compared with Euro 57.0 million for first-half 2014, a limited decline of Euro -0.4% mainly due to the increase in rental income and the improvement of net financial items compared with the six-month period ended June 30, 2014, offset by the recognition in 2014 of the gain on the sale of Green Yellow shares for a net amount of Euro 4.3 million. On a 2014 basis restated for the gain on the disposal, FFO in first-half 2015 would be up +7.8% compared with the six months ended June 30, 2014.

On the basis of the weighted average number of shares (fully diluted) for the six months ended June 30, FFO amounted to Euro 0.62 per share for the six months ended June 30, 2015, compared with Euro 0.62 per share for the same period in 2014, representing a fall in funds from operations on a fully diluted per-share basis of -0.4%.

FFO can be broken down as follows:

In thousands of euros	**06/30/2014***	**06/30/2015**	**Var %**
Rental revenues	**78,131**	**82,256**	**5,3%**
Non-recovered service charge	-2,788	-2,382	-14,6%
Property operating expenses	-2,271	-2,669	17,5%
Net rental income	**73,072**	**77,205**	**5,7%**
Management, administrative and other activities income	1,522	1,280	-15,9%
Other income / expenses	-3,319	-2,425	-26,9%
Staff costs	-4,950	-5,638	13,9%
EBITDA	**66,324**	**70,423**	**6,2%**
Net financial items	-10,429	-13,037	25,0%
Allowance for provisions for liabilities and charges	736	0	na
Other operating income and expenses (excl. capital gains and impairment)	-264	-590	na
Tax	58	-528	na
Share of net income of associates	608	530	-12,8%
Minority interests excl. capital gains and depreciation	-19	-24	26,3%
FFO	**57,014**	**56,775**	**-0,4%**
Income related to the sale of Mercialys' stake in Green Yellow	-4,332		
FFO excluding the capital gain related to the sale of GreenYellow	**52,682**	**56,775**	**7,8%**

* The previously published financial statements were restated following the retrospective application of the IFRIC Interpretation 21

3.5 Number of shares outstanding

	2011	**2012**	**2013**	**2014**	**06/30/2015**
Number of shares outstanding					
- As of January 1	92,000,788	92,022,826	92,022,826	92,049,169	92,049,169
- At end of period	92,022,826	92,022,826	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,011,241	92,022,826	92,038,313	92,049,169	92,049,169
Average number of shares (basic)	**91,865,647**	**91,884,812**	**91,734,656**	**91,826,157**	**91,809,184**
Average number of shares (diluted)	**91,892,112**	**91,953,712**	**91,865,817**	**91,826,157**	**91,809,184**

As of June 30, 2015, Mercialys' ownership structure was as follows: Casino (40.16%[16]), Generali (8.01%), shares held in treasury and by employees (0.53%), other shareholders (51.30%).

3.6 Financial structure

3.6.1 Debt

a) The Group had cash and cash equivalents of Euro 9.3 million as of June 30, 2015, compared with Euro 121.0 million as of December 31, 2014. The main cash flows that impacted the change in Mercialys' net decrease in cash and cash equivalents over the period were as follows:
   - cash flows from operating activities before change in working capital requirements generated over the period: Euro +56.6 million,
   - cash inflows/outflows related to acquisitions/disposals of assets completed in the first half of 2015: Euro -193.3 million,
   - dividend payments to shareholders: Euro -80.8 million,
   - commercial paper issue for an amount of: Euro +16.0 million as of June 30, 2015,
   - disposal of 49% of the shares of Hyperthetis Participations to OPCI SPF2 for an amount net of expenses of: Euro +99.5 million
   - and net interest paid: Euro -16.3 million.

b) As of June 30, 2015, the amount of Mercialys' **drawn debt** was Euro 1,174.7 million, comprising:
   - a Euro 550 million bond issued on December 2, 2014 at a fixed rate of 1.787% with a maturity of eight years and four months (due in March 2023);
   - a residual bond of Euro 479.7 million (of the Euro 650 million bond issue in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019.
   - Euro 145 million of outstanding commercial paper, yielding an average rate of 0.04% as of June 30, 2015.

The average maturity of drawn debt was 5.2 years as of June 30, 2015 versus 5.7 years as of December 31, 2014.

c) Net debt stood at Euro -1,141.7 million as of June 30, 2015, compared with Euro -1,017.6 million as of December 31, 2014.

d) In addition, Mercialys set up **undrawn financial resources** that will be used to finance ordinary business activities and the cash requirements of Mercialys and its subsidiaries, and to ensure a comfortable level of liquidity:
   - a revolving bank loan of Euro 240 million, payable in five years (with an option to extend for a further year). This facility bears interest at 3-month Euribor + a margin of 115 bps; a non-use fee of 0.46% is payable on the undrawn portion of the facility (for a BBB financial rating).
   - confirmed bank lines for a total amount of Euro 60 million arranged in December 2014, payable in three years (with a double option for extending by one year + another year). These facilities bear interest at a rate lower than 100 bps above 3-month Euribor (for a BBB financial rating).
   - cash advances from Casino up to a threshold of Euro 50 million subject to an interest rate comprised between 60 and 85 bps above Euribor. This facility expires on December 30, 2017.
   - a commercial paper program of Euro 500 million was also set up in second-half 2012. Euro 145 million of it has been used (outstanding as of June 30, 2015).

e) In addition, Mercialys introduced an **interest rate hedging** policy in October 2012. Mercialys uses derivatives (swaps) to spread out its interest rate risk over time. The interest rate hedging was adapted in late 2014 following the refinancing operations carried out in December 2014.

[16] Besides 5.9% of economic exposure of Foncière Euris and Rallye

As of June 30, 2015, Mercialys' debt structure broke down as follows: 61% fixed-rate debt and 39% variable-rate debt.

f) The average real cost of debt drawn as of June 30, 2015 was 2.1% (compared with 3.1% as of December 31, 2014 and 3.5% as of June 30, 2014).

As of June 30, 2015, the loan to value (LTV) ratio was 39.2%, well below the covenant requirement (LTV < 50%):

(in millions of euros)	**06/30/2014**	**12/31/2014**	**06/30/2015**
Net debt	819.1	1,017.6	1,141.7
Appraisal value excluding transfer taxes	2,430.4	2,723.0	2,912.2
Loan To Value (LTV)	**33.7%**	**37.4%**	**39.2%**

Similarly, the EBITDA to cost of net debt (Interest Cost ratio) stood at 5.5, well above the contractual covenant (ICR > 2):

(in millions of euros)	**06/30/2014 proforma**	**12/31/2014**	**06/30/2015**
EBITDA	66.3	127.7	70.4
Cost of net debt	-14.3	-27.3	-12.8
Interest Cost Ratio (ICR)	**4.6**	**4.7**	**5.5**

Mercialys also complies with the two other covenant requirements:

- the market value of properties excluding transfer taxes as of June 30, 2015 amounted to Euro 2.9 billion (above the contractual covenant that sets a market value excluding transfer taxes of over Euro 1 billion);
- a ratio of secured debt to market value excluding transfer taxes of less than 20%. Mercialys had no secured debt as of June 30, 2015.

3.6.2 Change in shareholders' equity

Consolidated shareholders' equity was Euro 841.1 million as of June 30, 2015, versus Euro 783.7 million as of December 31, 2014. The main changes in this item during the period were as follows:
- transactions completed on treasury shares for Euro -3.4 million
- payment of the final dividend in respect of the 2014 financial year of Euro 0.88 per share for a total of Euro -80.8 million
- disposal of 49% of the shares of Hypertéthys Participations to OPCI SPF2 for Euro +99.5 million
- net income for first-half 2015: Euro +42.0 million

3.6.3 Dividends

The balance of the 2014 dividend was paid on May 11, 2015 and amounted to Euro 0.88 per share.
The total dividend paid in respect of 2014 amounted to Euro 1.24 per share for a total amount of Euro 113.8 million fully paid in cash, including an interim dividend of Euro 0.36 per share paid on October 14, 2014.

As it did in 2014, and subject to approval by its Board of Directors, Mercialys will pay an interim dividend in the fourth quarter of 2015. The amount and payment date of this interim dividend will be determined as a function of the disposal and investment transactions for the full year, not just the first half.

3.7 Changes in the scope of consolidation and valuation of the asset portfolio

3.7.1 Asset acquisitions

Acquisitions recognized in the first half of 2015 amounted to Euro 167 million, including transfer taxes.

Mercialys has launched new transformation projects for its shopping centers to create new stores in spaces currently dedicated to food retail, in line with its strategy to develop comprehensive and distinctive retail venues.

Accordingly, in first-half 2015 Mercialys acquired five large food stores located in Besançon, Lanester, Poitiers, Dijon and Marseille (Plan de Campagne site).
These acquisitions represent an amount of Euro 167 million, transfer taxes included, and Euro 9.3 million in full-year rental income prior to restructuring. Mercialys is aiming for a high internal rate of return target between 8% and 10% after the conversion of the assets.

3.7.2 Completion of extensions or redevelopment projects

Phase 1 of the Toulouse Fenouillet project, the 24,000 sq.m retail park, opened its doors on May 20, 2015. Eight brands were already on the site as of the end of June 2015, and two additional brands are expected to open in the fall.
The annualized net rents for this first phase represent Euro 2.3 million, which is a net rate of return of 6.9% on the total investment amount of Euro 33.5 million.

3.7.3 Sale of interest in subsidiaries

In June 2015, Mercialys created Hyperthetis Participations, a company to which it subsequently transferred the buildings of six large food stores. On June 26, 2015, Mercialys sold to OPCI SPF2, which is managed by BNP Paribas, 49% of the shares in Hypertethys Participations for Euro 106 million DIH, reflecting a net equivalent yield of 4.8% from the disposal.

In the parent company's accounts of Mercialys, a capital gain of Euro 25 million was recorded on the sale of the underlying real estate assets.

3.7.4 Appraisal valuations and changes in the scope of consolidation

As of June 30, 2015, BNP Real Estate Valuation, Catella and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 44 sites as of June 30, 2015, on the basis of visits to 11 of the sites during the first half of 2015, and on the basis of an update of the appraisals conducted as of December 31, 2014, for the other sites. Five onsite visits were carried out in the second half of 2014.
- Catella conducted the appraisal of 17 sites as of June 30, 2015, on the basis of an update to the appraisals made on December 31, 2014. An onsite visit had been carried out in the second half of 2014.
- Galtier conducted the appraisal of Mercialys' other assets, i.e. four sites as of June 30, 2015 on the basis of an update to the appraisals conducted as of December 31, 2014. Three onsite visits were carried out in the second half of 2014.

Sites acquired during the half year were valued as follows as of June 30, 2015:

- ✓ The valuation of the Toulouse Fenouillet project acquired in the first half of 2014 was based on an internal update.
- ✓ The five large food store acquired in June 2015 were valued at their purchase price.

On this basis, the portfolio was valued at Euro 3,097.7 million including transfer taxes as of June 30, 2015, compared with Euro 2,893.6 million as of December 31, 2014.
The portfolio value was therefore up +7.1% in the six months (and up +1.3% on a like-for-like basis[17]).
The average appraisal yield was 5.55% as of June 30, 2015, compared with 5.6% as of December 31, 2014 and 5.7% as of June 30, 2014.

The Euro +240 million increase in the market value of properties over six months therefore stemmed from:
- ✓ a Euro +13 million increase in rents on a like-for-like basis;
- ✓ a lower average capitalization rate: Euro +24 million;
- ✓ changes in scope for Euro +167 million.

The contribution of the Casual Leasing business to value creation is significant since it represents Euro 108 million of the appraisal value as of June 30, 2015, although it involves no counterparty investments.

	Average capitalization rate 06/30/2014	**Average capitalization rate 12/31/2014**	**Average capitalization rate 06/30/2015****
Large regional shopping centers	5.4%	5.3%	5.3%
Neighborhood shopping centers	6.5%	6.5%	6.4%
Total portfolio*	5.7%	5.6%	5.55%

** Including other assets (large food stores, large specialty stores, independent cafeterias and other standalone sites)*
*** Including extensions in progress acquired in 2009*

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset as of June 30, 2015, as well as corresponding appraised rents:

Type of property	**Number of assets as of 06/30/2015**	**Appraisal value as of 06/30/2015 incl. Transfer Taxes**		**Gross leasable area as of 06/30/2015**		**Appraised net rental income**	
		(in millions of euros)	**(%)**	**(sq.m)**	**(%)**	**(in millions of euros)**	**(%)**
Regional / large shopping centers	25	2,432.8	79%	614,832	75%	128.9	75%
Neighborhood shopping centers	34	645.7	21%	195,339	24%	41.5	24%
Sub-total shopping centers	**59**	**3,078.5**	**99%**	**810,171**	**99%**	**170.4**	**99%**
Other sites[(1)]	6	19.2	1%	8,982	1%	1.2	1%
Total	**65**	**3,097.7**	**100%**	**819,153**	**100%**	**171.6**	**100%**

(1) Large food stores, large specialty tores, independent cafeterias, other (service malls, convenience stores)
NB: Large food stores: gross leasable area of over 750 sq.m
Large specialty stores: gross leasable area of over 750 sq.m

4. Outlook

Based on the strong performance for the first half of 2015, Mercialys is confident in its ability to achieve its target for organic growth in rents excluding indexation of at least +2% and is raising its target for growth in FFO from +2% to +3%, which represents a +7.5% increase on the basis of the 2014 results restated for the net gain on the disposal of the Green Yellow shares.

[17] Sites on a like-for-like GLA basis

5. Events after the reporting period

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

6. Main related-party transactions

The main transactions with related parties are described in Note 20 to the interim consolidated financial statements.

7. EPRA performance measures

7.1 EPRA earnings and earnings per share

Calculation of EPRA earnings and earnings per share ***(in millions of euros)***	**06/30/2015**	**Proforma 06/30/2014***
FFO (see calculation in Section 3.4 Funds from operations)	56.8	57.0
Adjustments to calculate EPRA earnings exclude: Net gain on the sale of the Green Yellow equity interest	0	-4.3
EPRA earnings	**56.8**	**52.7**
EPRA earnings per share (in euros per share)	**0.62**	**0.57**

(*) Amount revised vs. June 30, 2014 disclosure

7.2 EPRA net asset value (NAV)

Calculation of EPRA net asset value / EPRA NAV ***(in millions of euros)***	**06/30/2015**	**2014**
Shareholder's equity – attributable to the Group (IFRS financial statements)	750.9	783.1
Add back deferred income and charges	6.0	4.1
Effect of exercising of options, convertible bonds and other equity securities	0	0
Fair value of financial instruments	-49.1	-66.9
Revaluation of investment properties (IAS 40)	959.8	957.0
EPRA NAV	**1,667.7**	**1,677.3**
EPRA NAV per share (in euro per share)	**18.16**	**18.27**

7.3 EPRA triple net asset value (NNNAV)

Calculation of the EPRA triple net asset value/EPRA NNNAV *(in millions of euros)*	**06/30/2015**	**2014**	**Comments**
EPRA NAV	1,667.7	1,677.3	
Fair value of financial instruments	49.1	66.9	*Difference between the fair value of the debt and the book value of the debt*
Fair value of unhedged debt	-11.3	-13.6	*Fair value of the unhedged portion of the bond debt*
EPRA NNNAV	**1,705.4**	**1,730.6**	
EPRA NNNAV per share *(in euros per share)*	**18.58**	**18.85**	*Average number of shares (diluted)*

7.4 EPRA net initial yield (NIY) and "topped-up" NIY disclosure

Calculation of EPRA net initial yield (NIY) and "topped-up" NIY disclosure *(in millions of euros)*	**06/30/2015**	**2014**	**Comments**
Investment property - wholly owned	2,942.3	2,752.8	*Market value (excl. transfer taxes)*
Less developments (-)	-30.0	-29.8	*Market value (excl. transfer taxes)*
Completed property portfolio (excl. transfer taxes)	**2,912.2**	**2,723.0**	
Allowance for estimated purchasers' costs	185.5	170.6	*Transfer taxes disclosed in the appraisals*
Gross up completed property portfolio valuation (incl. transfer taxes)	**3,097.7**	**2,893.6**	**(B)**
Annualized rental income	162.5	151.6	*Annualized current rents, revenue-based rents and revenues from casual leasing, excluding vacant spaces*
Property outgoings (-)	-2.4	-3.7	*Non-recovered expenses on assets held*
Annualized net rents	**160.1**	**147.8**	**(A)**
Add: notional rent expiration of rent free periods or other lease incentives	0.4	1.9	*Rents on rent-free periods, step-up rents and other ongoing incentives granted to tenants*
Topped-up net annualized rent	**160.5**	**149.7**	**(C)**
EPRA NET INITIAL YIELD (NIY)	**5.17%**	**5.11%**	**A/B**
EPRA "TOPPED-UP" NIY	**5.18%**	**5.17%**	**C/B**

7.5 EPRA cost ratios

Calculation of EPRA cost ratios (in millions of euros)	06/30/2015	06/30/2014 proforma*	Comments
Administrative/operating expense line per IFRS income statement	-9.6	-8.5	External expenses
Net service charge costs/fees	-2.4	-2.8	Property taxes + Non-recovered service charges (including vacancy cost)
Rental management fees	-1.1	-1.1	Rental management fees
Other operating income/recharges intended to cover overhead expenses less any related profits	-1.6	-1.2	Other property operating income and expenses excluding management fees
Share of joint venture expenses	-	-	None
Total	**-14.6**	**-13.7**	
Adjustments to calculate EPRA earnings exclude:			
Investment property depreciation	0	0	Depreciation, amortization and impairment of fixed assets
Ground rent costs	0.3	0.4	Non-Group rents paid
Service charges recovered through comprehensive invoicing (with the rent)	0	0	
EPRA Costs (including direct vacancy costs) (A)	**-14.3**	**-13.3**	
Direct vacancy costs**	2.4	2.8	
EPRA Costs (excluding direct vacancy costs) (B)	**-11.9**	**-10.5**	
Gross rental income less ground rent costs***	81.9	77.8	Less costs relating to construction leases/long-term leases
Service fee and service charge costs components of gross rental income	0	0	
Share of joint ventures (gross rental income less ground rent costs)	0	0	
Gross rental income (C)	**81.9**	**77.8**	
EPRA COST RATIO (INCLUDING DIRECT VACANCY COSTS)	**-17.47%**	**-17.10%**	**A/C**
EPRA COST RATIO (EXCLUDING DIRECT VACANCY COSTS)	**-14.57%**	**-13.52%**	**B/C**

(*) Amount revised vs. June 30, 2014 disclosure

(**) The EPRA cost ratio deducts all vacancy costs related to standing assets or to investment properties undergoing development/refurbishment if they have been included in expense lines. The costs that can be excluded are: property tax, service charge costs, marketing incentives, insurance premiums, carbon tax any other cost linked to the property.

(***) Gross rental income should be calculated after deducting any ground rent payable. All service charge fees/recharges/management fees and other income in respect of property expenses should not be added to gross rent but should be deducted from the related costs. If the rent covers service charge costs, then companies should make an adjustment to exclude these. Tenant incentives should be deducted from rental income, whereas any other costs should be included in costs. This is in line with IFRS requirements.

7.6 EPRA vacancy rate

See Section 3.1 of this financial report.