MERCIALYS

PRESS RELEASE

Paris, February 14, 2017

Strong increase in 2016 results

A +3.4% increase in invoiced rents on a like-for-like basis, of which +3.5% excluding the impact of indexation, significantly outperforming the +2% objective. **Rental revenues** up significantly at +12.3% (Euro 189.8 million)

Strong growth in funds from operations (FFO) of +5.4%, adjusted to **+3.7%** to exclude the impact of adjusting for step-up rents and rent-free periods (IAS 17), in line with the revised objective of +3% to +4%

A +5.1% increase in NNNAV excluding transfer taxes to Euro 20.22 per share.

Euro 134 million of asset disposal completed between December 2016 and January 2017; this program is set to continue, with LTV expected to be significantly below 40% by end-2017. Ongoing strengthening of the financial profile and realization of optimum values

Proposed dividend distribution of **Euro 1.06 per share** for 2016, i.e. 85% of FFO per share, in line with the objective of 85% to 95% of FFO, representing a yield of 5.2%[1]

2017 outlook: organic growth in invoiced rents excluding indexation is expected to exceed +2%. FFO, reflecting asset disposals, should be down by about -5%, this trend could evolve based on the schedule of disposals. The dividend will correspond to 85% to 95% of 2017 FFO

Mercialys recorded excellent operational performance in 2016. Invoiced rents continued to see robust organic growth (+3.5% excluding indexation). FFO rose by +3.7%, in line with the objective of +3% to +4%, adjusted for step-up rents and rent-free periods in accordance with IAS 17, which for the first time has a significant impact on Mercialys' financial statements. Including this impact, FFO increased by +5.4%.

This performance illustrates the asset development levers existing at Mercialys' sites. In addition to reversion, organic growth was generated by the re-letting of cafeterias vacated by the Casino Group, another year of double-digit growth in Casual Leasing rents, and mall expansions carried out on released hypermarkets surfaces.

The expansion of the Espaces Fenouillet shopping center in Toulouse, the largest project carried out for Mercialys to date, was also delivered in 2016. Mercialys has proven its ability to let this site successfully. This achievement resulted in a footfall of more than a million visitors in the first two months of opening.

EPRA NNNAV rose by +5.1% in 2016 to Euro 20.22 per share. In accordance with the dividend policy announced in July 2016, the dividend to be proposed at the Annual General Meeting on April 27, 2017 is Euro 1.06 per share, or 85% of 2016 FFO.

In an economic context of relatively limited growth in 2017, Mercialys will implement proactive action plans to increase footfall at its sites, and will benefit once again from major project deliveries. Mercialys will also implement an asset disposal plan designed to strengthen its financial profile, achieve optimum values in a still-buoyant market, and finance its accretive pipeline of developments. Loan to value (LTV) should thus fall significantly below 40% by end-2017, compared with 41.2% at end-2016 and 39.1%[2] pro forma at end-January 2017.

Therefore, Mercialys' objectives for 2017 are organic rental growth of +2% above indexation relative to 2016, and a dividend of 85% to 95% of FFO. FFO is expected to decrease by around -5% reflecting the impact of asset disposals, this trend could evolve based on the schedule of disposals.

[1] Yield calculated on Mercialys EPRA NNNAV at end-2016 (Euro 20.22)
[2] Unaudited figure

I. 2016 activity and results

An excellent operational trend

Invoiced rents are up +13.1% to **Euro 187.6 million**, driven by organic growth and the impact of net acquisitions made in 2015 and 2016.

Organic growth in invoiced rents continues to reflect a solid trend of **+3.4%**, including **3.5% over indexation**, significantly higher than the objective of +2%. Note that the impact of adjusting for rent-free periods and step-up rents over the fixed lease term (IAS 17), historically insignificant, represented **0.6 points** of this change (versus 0.2 points at end-June and end-September 2016). This reflects changes in the structure of transactions with certain mid-sized stores. Organic growth continues to be boosted by significant reversion (+18.4% on renewals and re-lettings) and another year of strong growth in Casual Leasing rents (+13.0% to Euro 9.1 million).

The **current financial vacancy rate** is 2.5%, virtually unchanged from June 30, 2016 (2.4%) and up slightly from end-2015 (2.0%). The 12-month recovery rate remains high at 97.1%, down slightly on end-2015 (97.7%).

Rental revenues were up +12.3% to Euro 189.8 million.

EBITDA stood at **Euro 160.5 million**, up +11.4% on 2015, reflecting the positive trend in rents and firm control of operating costs. The EBITDA margin was 84.6%, relatively unchanged year on year after adjustment of the earn-out payment on the Pessac site of Euro 1.1 million recognized in 2015, and down slightly after taking this income into account (published 2015 EBITDA margin of 85.3%).

The average cost of drawn debt fell significantly to 2.0% in 2016 versus 2.4% in 2015. This trend mainly results from the full-year impact of the Euro 200 million in funding raised in November 2015 (increase in the bond issue maturing in 2023 at a cost of 2.203%) and commercial paper issuance for a net outstanding amount of Euro 290 million at a very favorable rate.
At the same time, **net financial expenses** increased by Euro 1.6 million over the year to Euro 30.6 million at end-2016, due to the higher volume of net debt. This amount, used to calculate FFO, excludes the non-cash and non-recurring impact of hedging ineffectiveness and banking default risk, in addition to the cost of early repayment of bank debt, in line with EPRA recommendations[3].

Non-controlling interests (excluding amortization and capital gains) represented Euro 10.3 million in 2016, compared with Euro 3.3 million in 2015. This change factors in the full-year impact of the sale of interest in subsidiaries to real estate investment funds (OPCI) managed by BNP Paribas REIM France and 49% held by the latter in 2015.

Income tax expense of Euro 2.7 million is mainly composed of the tax on company value added (Euro 1.5 million), corporate income tax (Euro 0.3 million) and deferred tax on deficits and temporary differences (Euro 0.7 million).

Funds from operations (FFO[4]) rose significantly by +5.4% to **Euro 114.4 million** or Euro 1.25 per share[5]. The impact of adjusting for rent-free periods and step-up rents over the fixed lease term (IAS 17), historically insignificant, amounted to Euro 1.8 million in 2016. This is a result of changes in the structure of transactions with certain mid-sized stores. Adjusted for this impact, the increase in FFO is +3.7%, in line with the revised objective published in October 2016 (+3% to +4%).

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[3] EPRA: European Public Real Estate Association
[4] FFO: Funds From Operations = net income attributable to owners of the parent before amortization, capital gains or losses on disposals and asset impairments
[5] Calculated based on the fully diluted weighted average number of shares at December 31

(in millions of euros)	12/31/2016	12/31/2015	Var %
Invoiced rents	**187.6**	**166.0**	**13.1%**
Lease rights	2.2	3.0	-27.5%
Rental revenues	**189.8**	**169.0**	**12.3%**
Non-recovered service charges	-11.7	-10.2	15.0%
Net rental income	178.1	158.8	12.2%
EBITDA	**160.5**	**144.1**	**11.4%**
EBITDA margin	*84.6%*	*85.3%*	*-70 bps*
Financial income (excluding non-recurring impact of hedging ineffectiveness and banking default risk & cost of early repayment of bank debt)	-30.6	-29.0	5.6%
Reversal of / (charge to) provisions	-1.1	-0.9	20.2%
Other operating income and expenses (excluding gains on disposals and impairment losses)	-2.0	-0.2	n.a.
Tax	-2.7	-3.1	-12.8%
Share in net income of associates	0.7	1.0	-30.9%
Non-controlling interests excluding capital gains and depreciation and amortization	-10.3	-3.3	n.a.
FFO	**114.4**	**108.5**	**5.4%**
FFO / share	**1.25**	**1.18**	**5.3%**

II. Completions, investments and disposals

Mercialys completed six projects in the second half of 2016, generating Euro 3 million in annualized rental income and a net yield of 11.0%

Five large food store transformation projects were completed in the second half of 2016, representing annualized rental income of Euro 2.1 million. These accommodate new mid-sized stores, representing a vehicle for strong improvement in the marketability of these assets. H&M has opened a store at the transformed Aix-en-Provence site, Calliope and Terranova in Angers, Boulanger in Anglet, and Go Sport, Courir and Izac in Nîmes (phase 1). Brico Dépôt has relocated to Rennes (phase 1).

Mercialys also delivered a 4,000 sq.m **retail park in Sainte-Marie** (La Réunion) in the fourth quarter of 2016, generating Euro 0.9 million of annualized rental income.

Significant investments made in 2016, sustaining growth in rental income and the development pipeline in the medium term

In **June 2016**, Mercialys acquired **two sites for transformation from Monoprix** in Saint-Germain-en-Laye and La Garenne-Colombes close to Paris, for Euro 69.6 million (including transfer taxes), representing an immediate yield of 5.6% (based on rents paid by Monoprix, following the acquisition, under fixed-rent leases). Redevelopment projects will be implemented in the medium term, generating additional rental income and potential development margins, particularly from the sale of residential property developments.
Mercialys is thus continuing to develop its high-street retail business line, which comprises a total of seven sites for transformation.

In **September 2016**, Mercialys exercised its fair-value call option with Foncière Euris and became the owner of the expansion of the **Espaces Fenouillet shopping center** from its opening in November 2016. The share price of SNC Fenouillet Participation, which holds this asset (10% of which was already owned by Mercialys) was determined on the basis of the valuation resulting from an independent appraisal, or Euro 133.7 million including transfer taxes for 100%, representing a yield of 5.4%. The milestone of one million visitors, which the mall exceeded in just two months, reflects the success of the site’s expansion.

In **December 2016**, Mercialys acquired, under the Partnership Agreement with the Casino Group, the expansion of its **Carcassonne Salvaza** shopping center for Euro 5.3 million. Annualized rental income totals Euro 0.3 million, representing a yield of 6.1%.

A substantial development pipeline generating significant completions in 2017

Mercialys is moving forward with its **controlled development pipeline**, representing Euro 106.5 million of investments by 2019, with Euro 92.4 million still to be committed, which will generate Euro 7.6 million of additional annualized rental income. In 2016, Mercialys added to this controlled pipeline with additional transformation phases for large food stores acquired in 2014 and 2015, following the success of the first projects delivered.

The Company will therefore benefit from new completions in 2017:

- nine transformed large food stores will be delivered in 2017 at the Quimper, Fréjus, Saint-Etienne, Poitiers, Toulouse, Angers, Nîmes, Narbonne and Rennes sites, generating total annualized rental income of Euro 1.9 million and a yield of 7.6%,
- Mercialys will deliver three major shopping center expansions in Rennes, Morlaix and Saint-Etienne in December 2017, generating Euro 3.1 million in rental income and a yield of 7.0%.

Mercialys has also identified a **potential development pipeline** valued at Euro 447.0 million, representing Euro 24.9 million of additional annualized rental income. This potential pipeline will be implemented by 2021 and focuses on major projects (Marseille Plan de Campagne and La Réunion), shopping center extensions and retail parks (La Réunion, Marseille La Valentine, Nîmes, Clermont-Ferrand, Bordeaux-Pessac and Fontaine les Dijon). Mercialys will also carry out mixed-use high street projects on assets acquired from Monoprix. This will involve both the addition of retail space and the creation of residential areas (apartments, retirement properties, etc.), representing almost Euro 85 million in work and an IRR of around 9%.

(in millions of euros)	Total investment	Investment still to be initiated	Net rental income forecast	Net yield on cost forecast	Completion date
Transformation of large food stores acquired in H1 2014	12.6	11.3	0.9	7.2%	2017
Transformation of large food stores acquired in H2 2014	14.1	12.8	1.3	9.3%	2017 to 2018
Transformation of large food stores acquired in H1 2015	22.1	21.3	1.5	6.7%	2018 to 2019
Transformation of large food stores acquired in H2 2015	12.8	12.6	0.8	6.0%	2017 to 2019
Shopping centers extensions (Rennes, Saint-Etienne, Morlaix)	44.8	34.4	3.1	7.0%	Dec. 2017
TOTAL controled pipeline	**106.5**	**92.4**	**7.6**	**7.1%**	
Extensions & Retail Parks	362.0	356.4	24.9	6.9%	2019 to 2021
High Street Retail mixed-use projects	85.0	84.0	n.a.	n.a.	
TOTAL potential pipeline[1]	**447.0**	**440.4**	**24.9**	**6.9%**	
TOTAL[2]	**553.5**	**532.8**	**32.5**	**6.9%**	

(1) yield excluding the impact of mixed-use high-street retail projects, which may also generate property development margins
(2) the amounts and yields may change depending on the implementation of projects

Partnership Agreement with the Casino Group extended until the end of 2020

Mercialys has extended its Partnership Agreement with the Casino Group for an additional three years, i.e. until the end of 2020. This expansion will allow the Company to continue sustaining its development pipeline, particularly at existing sites, which benefit from an excellent visibility.

Assets disposals helping to strengthen the financial structure and finance developments

In June 2016, Mercialys and the property investment fund OPPCI SEREIT France, (a subsidiary of a fund managed by Schroder REIM), signed an agreement under which Mercialys transferred the premises of the transformed hypermarkets in Rennes and Anglet to SCI Rennes Anglet, as well as the premises of the shopping mall and the mid-size unit leased to Boulanger in Anglet. Following this transfer, Mercialys holds a 30% interest in this SCI, with the remaining 70% held by OPPCI SEREIT France.

This transaction was based on a 100% valuation of these assets for Euro 61.8 million (including transfer taxes), or an exit yield of 5.0%, with Euro 3.1 million in annualized rental income. The overall IRR on these operations represents 9.0%. The consolidated capital gain generated came to Euro 2.8 million, with a capital gain available for distribution of Euro 6.9 million recorded in the parent company financial statements. This operation has enabled Mercialys to realize the value created on these assets, particularly following the extensive redevelopment of the hypermarkets, reflected in the mid-size store units set up for the home appliance firm Boulanger (Anglet) and the DIY retailer Brico Dépôt (Rennes). Mercialys’ 30% interest is accounted for by the equity method.

In December 2016, Mercialys introduced a new dynamic to the partnership formed in 2013 with **Amundi Immobilier** by selling the **Niort** and **Albertville** shopping centers to SCI AMR (accounted for by the equity method). This transaction was based on a 100% valuation of Euro 99.8 million (including transfer taxes), or an exit yield of 5.3%. The cash-in amount for Mercialys is Euro 62 million.
Since 2013, the Niort and Albertville sites have benefited from various phases of expansion and renovation, and represent a solid revenue base in the context of this partnership.
Following the sale, Mercialys owns 39.9% of SCI AMR, with Amundi Immobilier holding 60.1% through two SCPI and one OPCI (compared with 56.6% previously). The SCI now owns the Angoulême, Paris Saint-Didier, Valence 2, Montauban, Niort and Albertville shopping centers. Mercialys has retained the management mandates for the Niort and Albertville sites and has extended the existing mandates for the other assets.

A disposal plan taking LTV significantly below 40% at end-2017

Mercialys continued its arbitrage plan in January 2017 for Euro 72 million, with the aim of reducing its LTV to significantly below 40% at end-2017 (versus 41.2% at end-2016 and 39.1%[6] at end-January 2017). In a still-favorable interest rate environment, this objective seeks to realize values, particularly for mature assets or assets with limited development potential, while offering the leeway to finance an accretive controlled and potential pipeline.

Mercialys sold **five service malls** to the **Casino Group** representing a total area of approximately 14,600 sq.m, for a total amount of Euro 38.9 million (including transfer taxes) and an exit yield of 5.8%. Those arbitrages involve dispersed assets that are unsuitable for large-scale transformation projects owing to their individual size (less than 5,000 sq.m). The Casino Group is the natural buyer for these assets, given their proximity to Géant hypermarkets.

[6] Unaudited figure

In January 2017, Mercialys also sold the **transformed hypermarket** at Toulouse Fenouillet to the Casino Group for Euro 32.8 million (including transfer taxes), for an exit yield of 5.0%. Mercialys has carried out two projects to create additional retail space on the surface released by the hypermarket and enhance the appeal of the site. On the one hand, it has transformed 2,600 sq.m of storage space into mid-sized stores and retail outlets as part of the shopping mall expansion, letting the units to Terranova, Calliope, and Obaïdi & Okaïdi. On the other, it has created a 2,000 sq.m mid-sized unit in the vacated hypermarket's retail area, which is still in the process of being let.

III.Portfolio and debt

EPRA NNNAV is up +5.1% over 12 months

Mercialys' portfolio is valued at **Euro 3,797.3 million** (including transfer taxes), up +7.2% over 12 months, driven by like-for-like rental income growth (Euro +142 million), the compression of the average capitalization rate (Euro +68 million) and changes in scope (Euro +46 million). On a like-for-like basis, Mercialys' portfolio value has increased by **+6.2%** over 12 months and **+1.8%** compared with June 30, 2016.

At end-2016, Mercialys' portfolio comprised 71 assets, including **64 shopping centers and high-street retail assets**, with 75% large shopping centers, 24% leading neighborhood sites, and 0.7% other assets.

The average appraisal yield came to **5.25%** at December 31, 2016, compared with 5.28% at June 30, 2016 and 5.36% at December 31, 2015.

Mercialys' EPRA NNNAV is up +5.1% over 12 months to Euro 20.22 per share. This change of Euro 0.97 per share over one year factors in the following impacts:
- Dividends paid: Euro -1.0
- Net income: Euro +1.20
- Change in portfolio fair value: Euro +0.99
- Change in fair value of financial instruments and other items: Euro -0.22

The NNNAV has been reevaluated in relation to the publications from December 31, 2015 (€19.25 per share vs. reported figure of €19.48) and June 30, 2016 (€19.89 per share vs. reported figure of €20.48). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

Sound financial structure

Mercialys has benefited from the favorable full-year impact of the Euro 200 million in funding raised in November 2015 (increase in the bond issue maturing in 2023 at a cost of 2.203%) and efforts to optimize its interest rate hedging policy. In 2016, Mercialys also took advantage of excellent liquidity conditions to issue net Euro 290 million of commercial paper at a slightly negative average cost.
Overall, the **average real cost of drawn debt** for 2016 was **2.0%**, significantly lower than the level recorded in 2015 (2.4%).

In July 2016, Mercialys also set up two confirmed bank lines of Euro 30 million each, maturing in July 2019 and July 2021, with a margin of less than Euribor + 100 bp.

The maturity of the other two confirmed bank lines for a total of Euro 60 million, was extended from December 2018 to December 2019.

Finally, Mercialys also extended by two years the Euro 50 million current account advance agreement granted by the Casino Group to December 2019.

These facilities reinforce the existing liquidity arrangements, consisting of Euro 410 million in unused lines of credit at end-December 2016.

The **average maturity of drawn debt** was 3.8 years at December 31, 2016.

Mercialys' financial structure remains very sound. The **LTV** ratio stood at **41.2%**[7] at December 31, 2016 and 39.1%[8] pro-forma at January 31**,** 2017, as against 41.0% at December 31, 2015. The **ICR** closed 2016 at **5.3x**[9], versus 5.1x at December 31, 2015.

IV. Dividend and outlook

Dividend

The Mercialys Board of Directors will propose to the Annual General Meeting on April 27, 2017 the payment of a dividend of **Euro 1.06 per share** (including the interim dividend of Euro 0.43 per share already paid in October 2016). The proposed dividend corresponds to 85% of 2016 FFO, in accordance with the objective announced by Mercialys (within a range of 85% to 95% of 2016 FFO).

The proposed dividend represents a yield of 5.2% on EPRA NNNAV of Euro 20.22 per share at end-2016. The ex-dividend date will be May 2, 2017, with a payment date of May 4, 2017.

The dividend corresponds to the distribution of 95% of the parent company's **recurring tax profit** - the mandatory KPI and rate setting listed property companies' (SIIC) distribution obligations - or Euro 0.82 per share and Euro 0.24 per share corresponding to **capital gains** realized in 2016. The balance of capital gains available for distribution in respect of 2016, to be distributed no later than 2018 under SIIC rules, amounts to Euro 8.9 million.

Outlook for 2017

In an economic context of relatively limited growth, Mercialys will implement proactive action plans to increase footfall at its sites, and will benefit once again from major project deliveries. Mercialys will also implement an asset disposal plan designed to strengthen its financial profile, realize optimum values in a still-buoyant market, and finance its pipeline of accretive developments. Loan to value (LTV) should therefore fall significantly below 40% by end-2017.

As a result, Mercialys has set the following objectives for 2017:

- organic rental income growth of +2% above indexation relative to 2016,
- a decrease in FFO per share of roughly -5% compared with 2016 reflecting the impact of asset disposals, this trend could however evolve based on the schedule of the disposals,
- a dividend of 85% to 95% of 2017 FFO.

[7] LTV (Loan To Value): net financial debt/market value of the portfolio excluding transfer taxes + balance sheet value of investments in associates, i.e. Euro 39.0 million at December 31, 2016; the value of property investments in associates is excluded from the appraised value

[8] Unaudited figure

[9] ICR (Interest Cost Ratio): EBITDA / net finance costs. At June 30, 2016, this ratio reflected the positive impact of Euro 1.9 million in gains linked to the fair value of financial instruments. Excluding this non-recurring impact, the ratio was 5.3x.

APPENDIX TO THE PRESS RELEASE

- ***Financial report:***

Financial statements
Main highlights
Review of activity in 2016 and consolidated results
Outlook
Subsequent events
EPRA indicators

1. Financial report

Pursuant to regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the European Union as at December 31, 2016. Information about these standards is available on the European Commission website (http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm). The accounting methods set out in this note have been applied consistently to all periods presented in the Consolidated Financial Statements. The new standards and interpretations have been applied as noted.

1.1. Financial statements

Audit procedures have been conducted by the Statutory Auditors and the Statutory Auditors' report on the Consolidated Financial Statements is being finalized.

1.1.1. Consolidated income statement

(in thousands of euros)	12/31/2016	12/31/2015
Rental revenues	**189,795**	**168,956**
Non-recovered property taxes	-1,159	-1,081
Non-recovered service charges	-3,165	-3,048
Property operating expenses	-7,407	-6,069
Net rental income	**178,065**	**158,758**
Management, administrative and other activities income	3,359	2,893
Property development margin	0	1,099
Other income	400	401
Other expenses	-8,813	-6,891
Staff costs	-12,520	-12,179
Depreciation and amortization	-30,536	-24,844
Reversals/(Allowance) for provisions for liabilities and charges	-1,116	-928
Other operating income	104,568	3,755
Other operating expenses	-81,360	-9,020
Net operating income	**152,046**	**113,044**
Income from cash and cash equivalents	140	225
Finance costs	-30,541	-28,460
Net finance costs	**-30,401**	**-28,235**
Other financial income	1,159	1,287
Other financial expenses	-2,029	-1,884
Net financial income/(expense)	**-31,271**	**-28,832**
Tax	-2,736	-3,138
Share of net income of associates	709	1,026
Consolidated net income	**118,748**	**82,100**
Attributable to non-controlling interests	8,699	2,486
Attributable to owners of the parent	**110,049**	**79,614**
Earnings per share (in euros)[1]		
Net earnings per share, attributable to owners of the parent (in euros)	1.20	0.87
Diluted net earnings per share attributable to owners of the parent (in euros)	1.20	0.87

(1) Based on the weighted average number of shares over the period adjusted for treasury shares
- Weighted average number of shares (non-diluted) in 2016 = 91,856,175 shares
- Weighted average number of shares (fully diluted) in 2016 = 91,856,175 shares

1.1.2. Consolidated balance sheet

Assets

(in thousand euros)	12/31/2016	12/31/2015
Intangible assets	2,016	974
Property, plant and equipment other than investment property	12	12
Investment property	2,325,268	2,224,080
Investments in associates	39,039	20,069
Other non-current assets	54,672	34,154
Deferred tax assets	422	338
Non-current assets	**2,421,429**	**2,279,627**
Inventories	0	4,358
Trade receivables	29,793	25,173
Other current assets	56,931	73,232
Cash and cash equivalents	15,578	13,030
Investment property held for sale	60,949	3,095
Current assets	**163,251**	**118,888**
TOTAL ASSETS	**2,584,680**	**2,398,515**

Equity and liabilities

(in thousand euros)	12/31/2016	12/31/2015
Share capital	92,049	92,049
Bonus, treasury shares and other reserves	636,569	617,975
Equity attributable to the Group	728,618	710,024
Non-controlling interests	205,597	206,159
Equity	**934,215**	**916,183**
Non-current provisions	551	401
Non-current financial liabilities	1,239,610	1,219,574
Deposits & guarantees	22,646	22,880
Deferred tax liabilities	578	0
Non-current liabilities	**1,263,385**	**1,242,855**
Trade payables	19,561	19,704
Current financial liabilities	312,849	188,720
Current provisions	5,048	2,366
Other current liabilities	49,338	26,968
Current tax liabilities	284	1,719
Current liabilities	**387,080**	**239,477**
TOTAL EQUITY AND LIABILITIES	**2,584,680**	**2,398,515**

1.1.3. Consolidated cash flow statement

(in thousands of euros)	12/31/2016	12/31/2015
Net income attributable to owners of the parent	110,049	79,614
Non-controlling interests	8,699	2,486
Consolidated net income	**118,748**	**82,100**
Depreciation, amortization and provisions net of reversals	37,074	28,139
Unrealized gains and losses relating to changes in fair value	0	-181
Income and charges relating to stock options and similar	147	260
Other income and charges[1]	-2,984	-2,170
Share of income from associates	-709	-1,026
Dividends received from associates	881	1,838
Income from asset sales	-29,075	2,718
Cash flow	**124,082**	**111,677**
Net finance cost/income	30,401	28,416
Tax charge (including deferred tax)	2,736	3,138
Cash flow before net finance cost and tax	**157,219**	**143,231**
Tax payments	-3,446	-1,160
Change in working capital requirement relating to operations excluding deposits and guarantees[2]	-2,980	-9,024
Change in deposits and guarantees	-294	327
Net cash flow from operating activities	**150,499**	**133,374**
Cash payments:		
on acquisition of investment property and other fixed assets	-175,655	-498,102
on acquisition of non-current financial assets	0	0
Cash receipts:		
on disposal of investment property and other fixed assets[3]	151,533	656
on disposal of non-current financial assets	120	12
Impact of changes in the scope of consolidation with change of ownership[4]	-80,170	-534
Impact of changes in the scope of consolidation related to associates[5]	-37,363	0
Change in loans and advances granted[6]	-3,100	0
Net cash flow from investing activities	**-144,636**	**-497,966**
Dividend payments to shareholders	-52,328	-80,756
Interim dividends	-39,432	-69,764
Dividend payments to non-controlling interests	-9,259	-48
Other transactions with shareholders[7]	0	200,399
Changes in treasury shares	466	-165
Increase in borrowings and financial liabilities[8]	1,001,500	946,839
Decrease in borrowings and financial liabilities[8]	-877,500	-716,300
Net interest received	23,807	17,993
Net interest paid	-50,827	-41,593
Net cash flow from financing activities	**-3,574**	**256,605**
Change in cash position	**2,291**	**-107,987**
Net cash at beginning of year	13,007	120,994
Net cash at end of year	**15,298**	**13,007**
Of which:		
Cash and cash equivalents	15,578	13,030
Bank facilities	-280	-23

(1) Other income and expenses essentially comprise:		
- discounting adjustments to construction leases	-483	-629
- lease rights received and spread out over the term of the lease	-2,049	-1,918
- deferment of financial expenses	373	346
- non-cash interest on loans	-894	0
(2) The change in working capital requirement breaks down as follows:		
Trade receivables	-4,317	-6,176
Trade payables	-2,377	5,661
Other receivables and payables	3,650	-4,700
Property development inventories	64	-3,809
	2,980	**-9,024**

(3) Cash inflows related to disposals are mainly composed of hypermarket premises in Rennes and Anglet for Euro 57.0 million, net of expenses, and the Niort and Albertville shopping malls for Euro 87.9 million.

(4) Mercialys has exercised the call option it held on the planned expansion of the Toulouse Fenouillet shopping center, resulting in full consolidation of the companies Fenouillet Immobilier and Fenouillet Participation. The Euro (80.2) million reported for the impacts of changes in scope with a change of control concerns cash acquired from the companies Fenouillet Immobilier and Fenouillet Participation for Euro (44.4) million, the repayment of Fenouillet Participation's current account to its partner for Euro (25.5) million, and the acquisition price of the Fenouillet Participation securities for Euro (11) million. The total outlay represents Euro (97.9) million, presented under other items in the cash flow statement, primarily including Euro (23.8) million for the acquisition of investment properties and Euro 9.7 million in working capital.

At the end of 2015, the Group had acquired shares in SARL Toutoune for Euro 0.5 million.

(5) On June 28, 2016, in the context of the transfers of property assets to SCI Rennes Anglet, Mercialys made unconditional contributions to the SCI as part of the capital injection for Euro 7.7 million (representing a 30% interest).

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

In December 2016, Mercialys participated in a further capital increase arranged by SCI AMR for Euro 25.9 million. This capital increase, which was unevenly subscribed, led to Mercialys' interest in SCI AMR being reduced to 39.9%.

(6) Mercialys granted a loan to SCI Rennes-Anglet which amounted at Euro 3 064 thousands at end-2016

(7) On June 26, 2015, Mercialys sold 49% of its shares in Hyperthetis Participations to OPCI SPF2 for Euro 99.5 million net of expenses.

OPCI SPF2 had participated in the capital increase of Hyperthetis Participations on November 10, 2015 for Euro 34.0 million.

On the same date, Mercialys sold 49% of its shares in Immosiris to OPCI REAF for Euro 66.9 million net of expenses.

(8) Changes in borrowings and other financial liabilities correspond only to changes in confirmed lines of credit and commercial paper

1.2. Main highlights of 2016

Acquisition of two Monoprix assets for transformation for Euro 69.6 million, representing an immediate net yield of 5.6%

On June 29, 2016, Mercialys acquired two sites for transformation from Monoprix in Saint-Germain-en-Laye and La Garenne-Colombes close to Paris. This investment represents a total of Euro 69.6 million (including transfer taxes), with an immediate yield of 5.6% (based on rent paid by Monoprix under fixed-rent leases since the acquisition) before rolling out projects that will generate additional rent, as well as potential property development margins, particularly through sales of residential developments.

These two sites will be extensively redeveloped and residential development projects are already being looked into, with Euro 30 million of work and an IRR of around 9%. Through these sites, Mercialys has acquired volumes and parking facilities that are ideally located at the heart of these cities, with their demographics and purchasing power levels benefiting from their proximity to Paris.

Sale to an OPPCI, subsidiary of a fund managed by Schroder REIM

On June 28, 2016, Mercialys and the OPPCI investment fund SEREIT France (subsidiary of a fund managed by Schroder REIM) signed an agreement under which Mercialys transferred the premises for the transformed hypermarkets in Rennes and Anglet, as well as the premises of the shopping mall and the mid-size unit let to Boulanger in Anglet, to SCI Rennes Anglet. Following this transfer, Mercialys holds a 30% interest in this SCI real estate investment company, with 70% held by the OPPCI fund SEREIT France.

This transaction was based on a 100% valuation of these assets for Euro 61.8 million (including transfer taxes), delivering an exit rate of 5.0%, with Euro 3.1 million of full-year rent generated by these assets. The overall IRR on these operations represents 9.0%. The consolidated capital gain generated came to Euro 2.8 million (with a capital gain available for distribution of Euro 6.9 million recorded in the parent company financial statements).

This operation has enabled Mercialys to realize the value created on these assets, particularly following the extensive redevelopment of the hypermarkets, reflected in the mid-size store units set up for the home appliance firm Boulanger (Anglet) and the DIY retailer Brico Dépôt (Rennes). Mercialys′ 30% interest is accounted for by the equity method.

Acquisition of the Espaces Fenouillet mall expansion

Mercialys has exercised the call option it held on the planned expansion of the Toulouse Fenouillet shopping center with Foncière Euris. Mercialys has therefore benefited from the full effect of rental income since the expansion opened in November 2016. Under the agreements signed when the partnership was formed in 2014, the share price of SNC Fenouillet Participation, which owns this asset (10% of which was already property of Mercialys) was determined in the fourth quarter of 2016 on the basis of the valuation resulting from an independent appraisal, or Euro 133.7 million including transfer taxes for 100%, representing a yield of 5.4%.

Sale of two shopping centers to Amundi Immobilier via SCI AMR

In December 2016, Mercialys introduced a new dynamic to the partnership formed in 2013 with Amundi Immobilier by selling the Niort and Albertville malls to SCI AMR (accounted for by the equity method). This transaction was based on a 100% valuation of Euro 99.8 million (including transfer taxes), or an exit yield of 5.3%. The cash-in amount for Mercialys is Euro 62 million.

Since 2013, the Niort and Albertville sites have benefited from various phases of expansion and renovation, and represent a solid revenue base in the context of this partnership.

Following an unevenly subscribed capital increase that happened before the sale, Mercialys owns 39.9% of SCI AMR, with Amundi Immobilier holding 60.1% through two SCPI and one OPCI (compared with 56.6% previously). The SCI now owns the Angoulême, Paris Saint-Didier, Valence 2, Montauban, Niort and Albertville malls. As a result of the sale, Mercialys has retained the management mandates for the Niort and Albertville sites and has extended the existing mandates for the other assets.

Delivery of mall expansions in Aix-en-Provence, Angers, Anglet, Nîmes and Rennes and the Sainte-Marie retail park

Between September and December 2016, Mercialys completed the transformation of large food stores in Aix-en-Provence, Angers, Anglet, Nîmes and Rennes. The 4,000 sq.m retail park in Sainte-Marie (La Réunion) was also completed in December 2016. In total, these operations generated Euro 3.0 million in annualized net rental income and a yield of 11.0%.

1.3. Summary of the main key indicators for the period

	December 31, 2016
Organic growth in invoiced rents	**+3.4%**
EBITDA[10]	**€160.5 m**
EBITDA/Rental revenues	*84.6%*
Funds from operations (FFO)	**€114.4 m**
Funds from operations (FFO[11]**) per share**	**€1.25**
Fair value of portfolio (including transfer taxes)	**€3,797.3 m**
Change vs. 12/31/2015 (total scope)	*+7.2%*
Change vs. 12/31/2015 (like-for-like)	*+6.2%*
EPRA triple net asset value/share	**€20.22**
Change vs. 12/31/2015	*+5.1%*
Loan to Value (LTV) – excluding transfer taxes (note 1.5.7.3)	**41.2%**

1.4. Review of activity and consolidated results

1.4.1. Main management indicators

➤ Renewals and re-lettings generated average growth in the annualized rental base of +18.4%[12] for the period.

➤ The Casual Leasing business (short-term rentals) recorded another year of strong growth, with rental income up +13.0% to Euro 9.1 million, or 4.8% of Mercialys' total invoiced rents.

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

Lease expiry schedule	Number of leases	Annual guaranteed minimum rent + variable (€m)	Share of leases expiring/Guaranteed minimum rent
Expired at Dec-31-2016	475	18.5	10.2%
2017	164	6.8	3.7%
2018	163	7.8	4.3%
2019	118	7.3	4.0%
2020	210	15.4	8.5%
2021	198	11.6	6.4%
2022	203	18.6	10.2%
2023	128	8.8	4.8%
2024	182	11.3	6.2%
2025	146	9.0	4.9%
2026	176	24.1	13.3%
Beyond	66	42.7	23.5%
Total	**2,229**	**181.9**	**100%**

[10] Earnings before interest, taxes, depreciation, amortisation and other operating income and expenses
[11] Funds From Operations – net income attributable to owners of the parent before amortisation, gains or losses on disposals and asset impairments (per fully diluted share)
[12] Vacant at last known rent for relettings

The number of expired leases at end-2016 is due to ongoing negotiations, non-renewal of leases with payment of eviction compensation, comprehensive negotiations by retailers, tactical delays, etc.

➤ The 12-month recovery rate at end-December 2016 remained high at 97.1%, although down slightly from June 30, 2016 (97.6%) and December 31, 2015 (97.7%).

➤ The number of tenants in liquidation remained low: 29 tenants out of 2,229 leases in the portfolio at December 31, 2016 (compared with 24 at December 31, 2015).

➤ The current vacancy rate – which excludes "strategic" vacancies designed to facilitate expansion/redevelopment plans – remained at a very low level. This was 2.5% at December 31, 2016, virtually unchanged from June 30, 2016 (2.4%) and up slightly from December 31, 2015 (2.0%).
The total vacancy rate[13] was 3.9% at December 31, 2016, up slightly from June 30, 2016 (3.4%) as a result of ongoing projects. This compares with a total vacancy rate at end-2015 of 2.9%.

➤ The occupancy cost[14] of our tenants stood at 10.3% for large shopping centers, unchanged from December 31, 2015 (10.3%). Sales revenues of retailers in Mercialys' malls had risen by +0.7% on aggregate at end-December 2016.

This ratio remains at a fairly modest level compared with that of Mercialys' peers in France. It reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

➤ Rents received by Mercialys come from a wide range of retailers. With the exception of the Casino Group (see below for more details) and H&M (3.3%), no other tenant represents more than 2% of total rental income.

Casino accounted for 31.5% of total rental income at December 31, 2016 (versus 32.7% at December 31, 2015 and June 30, 2016). This change is mainly due to the overall growth in rental income, the continued transformation of Casino cafeterias and the transaction with Schroder REIM involving the Anglet and Rennes sites. Following the acquisition of two new sites to be transformed in the first half of 2016, Monoprix represented 6.2% of Mercialys' rental income at end-2016.

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

	Number of leases	**GMR*+ annual variable 12/31/2016 (in €m)**	**12/31/2016 in %**	**12/31/2015 in %**
National and international retailers	1,505	103.5	56.9%	54.9%
Local retailers	645	21.2	11.6%	12.4%
Casino Cafeterias / Catering	9	1.3	0.7%	1.2%
Monoprix	9	11.3	6.2%	4.3%
Géant Casino	61	44.6	24.5%	27.2%
Total	**2,229**	**181.9**	**100.0%**	**100.0%**

** GMR = Guaranteed minimum 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 service charges paid by a retailer and its sales revenue: (rent + service charges incl. tax) / revenue incl. tax of the retailer

The breakdown of Mercialys' rental income by business sector (including Hyper and supermarkets) also remained highly diversified.

	12/31/2016	12/31/2015
Personal items	31.5%	30.0%
Food and catering	6.7%	6.6%
Hyper and supermarkets	30.1%	31.0%
Culture, gifts, leisure	11.2%	11.7%
Health and beauty	10.3%	10.5%
Household equipment	7.5%	7.5%
Services	2.7%	2.8%
Total	**100.0%**	**100.0%**

The structure of fixed rents as at December 31, 2016 shows that leases with a variable component represent the dominant share in terms of rent:

	Number of leases	In millions of euros	12/31/2016 in %	12/31/2015 in %
Leases with variable component	1,266	94.7	52%	49%
- of which guaranteed minimum rent		*90.1*	*50%*	*48%*
- of which variable rent		*4.6*	*3%*	*1%*
Leases without a variable component	963	87.2	48%	51%
Total	**2,229**	**181.9**	**100%**	**100%**

Given the inclusion in the scope of mid-sized stores, leases with a variable component represented a higher proportion of total rental income at December 31, 2016 than at December 31, 2015.

Leases linked to the Retail Rent index (ILC) made up the predominant share of rents at December 31, 2016.

	Number of leases	In millions of euros	12/31/2016 in %	12/31/2015 in %
Leases linked to the ILC index (Retail rent index)	1,570	158.6	89%	87%
Leases linked to the ICC index (Construction cost index)	429	16.6	9%	12%
Leases linked to the ILAT index (Tertiary activities rent index) or non-revisable leases	230	2.1	1%	1%
Total	**2,229**	**177.3**	**100%**	**100%**

1.5. Review of consolidated results

1.5.1. Invoiced rents, rental revenues and net rental income

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

Rental revenues amounted to **Euro 189.8 million** at December 31 2016, up 12.3% compared to the end of 2015.

(in thousands of euros)	12/31/2016	12/31/2015	% var
Invoiced rents	187,621	165,958	13.1%
Lease rights	2,175	2,998	-27.5%
Rental revenues	**189,795**	**168,956**	**12.3%**
Non-recovered service charges and property taxes	-4,323	-4,129	4.7%
Property operating expenses	-7,407	-6,069	22.1%
Net rental income	**178,065**	**158,758**	**12.2%**

The **13.1 points** increase in invoiced rents is the result of the following:
- continued robust organic growth in invoiced rents[15]: **+3.4 points**, equal to a Euro 5.6 million increase
- 2015 and 2016 acquisitions: **+12.8 points**, equal to a Euro 21.3 million increase
- the impact of asset sales carried out in 2016: **-1.0 point**, equal to a Euro -1.6 million decrease
- other effects, primarily the strategic vacancy relating to current redevelopment programs: **-2.2 points**, equal to a Euro 3.6 million decrease

Like for like, invoiced rents rose **3.4 points**, of which in particular:
-0.1 point as a result of indexation[16]
+2.9 points as a result of actions carried out on the portfolio. Note that the impact of straight-lining rent-free periods and step-up rents over the firm period of the lease (IAS 17), historically not material, represents 0.6 points of this change (vs. 0.2 points at end-June and end-September 2016). This reflects the changing structure of transactions carried out with some mid-sized stores
+0.6 points resulting from the development of the Casual Leasing business, which accounted for Euro 9.1 million of rent in 2016. This represented a 13.0% increase in one year.

Lease rights and despecialization indemnities received over the period[17] after the impact of deferrals required under IFRS came to **Euro 2.2 million**, compared with Euro 3.0 million at December 31, 2015, broken down as follows:
- **Euro 1.3 million** in lease rights relating to ordinary re-letting business,
- **Euro 0.9 million** in lease rights relating primarily to the letting of the retail park in Sainte-Marie (La Réunion).

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 came to Euro 11.7 million in 2016 compared with Euro 10.2 million in 2015, an increase of 15.0%. The ratio of non-recovered property operating expenses to invoiced rents was 6.3% as at December 31, 2016, compared with 6.1% at December 31, 2015. Due to the increase in invoiced rents, net rental income rose by 12.2% compared to December 31, 2015, to Euro 178.1 million.

1.5.2. Management revenues, operating costs and operating income

Management, administrative and other activities income

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

Fees charged in 2016 came to Euro 3.4 million compared with Euro 2.9 million in 2015. This change was in large part generated by the mandate to let the Espaces Fenouillet expansion, for Euro 0.4 million.

Property development margin and earn-out payments

No property development margin was recorded in 2016.

[15] Assets enter the like-for-like perimeter used to calculate the l-f-l growth after 12 months of detention
[16] In 2016, for the majority of leases, rents were indexed either to the change in the construction cost index (ICC) or to the change in the retail rent index (ILC) between the second quarter of 2014 and the second quarter of 2015 (-0.4% and -0.1%, respectively).
[17] Lease rights received as cash before the impact of deferrals required under IFRS (deferring of lease rights over the firm period of the lease).

Other recurring income

Other recurring income of Euro 0.4 million recognized in 2016 (unchanged from 2015) includes dividends received from the OPCI fund created in partnership with Union Investment in 2011. Ownership of this real estate investment fund (OPCI) is split between Union Investment (80%) and Mercialys (20%) and is recorded in Mercialys' accounts under non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and letting. These dividends, similar to net rental revenues, are recognized as operating profit.

Other expenses

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

For 2016, these costs amounted to Euro 8.8 million compared with Euro 6.9 million in 2015. This change reflects in particular the impact of communication costs and action plans to increase shopping center footfall.

Staff costs

Staff costs amounted to Euro 12.5 million in 2016, compared with Euro 12.2 million in 2015, a modest increase of 2.8% mainly due to the strengthening of some teams for the deployment of major new Mercialys projects.

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

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

As a result of the above, EBITDA[18] came to Euro 160.5 million in 2016 compared with Euro 144.1 million in 2015, an increase of 11.4%.

The EBITDA ratio was 84.6% at December 31, 2016 (compared with 85.3% at December 31, 2015). It should be noted that the EBITDA margin is unchanged from a 2015 basis adjusted for the Euro 1.1 million earn-out payment.

1.5.3. Net financial items and tax

Net financial items

Net financial expenses amounted to Euro 31.3 million at December 31, 2016 compared with Euro 28.8 million at December 31, 2015, mainly due to a volume effect of the debt.

The actual average cost of debt drawn at December 31, 2016 was 2.0% (see section 1.5.7.1) down from the average cost of debt drawn at the end of June 2016 (2.1%) and end-December 2015 (2.4%).

Adjusted for non-recurring impact of hedging ineffectiveness and banking default risk, which represents an expense of Euro 0.3 million, and the cost of early repayment of bank debt (Euro 0.4 million) over the year, net financial expenses included in the calculation of funds from operations (FFO) amounted to Euro 30.6 million at December 31, 2016. The increase compared with end-December 2015 was generated by a volume effect of the debt.

[18] EBITDA (Earnings before interest, taxes, depreciation and amortization).

The table below shows a breakdown of net financial items:

(in millions of euros)	12/31/2016	12/31/2015
Income from cash and equivalents *(a)*	**0.1**	**0.2**
Financial expenses in relation to financing operations after hedging *(b)*	-77.4	-58.8
Financial income in relation to financing operations after hedging *(c)*	46.8	30.3
Cost of finance leases *(d)*	0.0	0.0
Gross finance costs excluding exceptional items	**-30.5**	**-28.5**
Exceptional depreciation of costs in relation to the early repayment of bank loans *(e)*	0.0	0.0
Gross finance costs *(f) = (b)+(c)+(d)+(e)*	**-30.5**	**-28.5**
Net finance costs *(g) = (a)+(f)*	**-30.4**	**-28.2**
Cost of Revolving Credit Facility and bilateral loans (undrawn) *(h)*	-2.0	-1.9
Other financial expenses *(i)*	0.0	0.0
Other financial expenses excluding exceptional items *(j) = (h)+(i)*	**-2.0**	**-1.9**
Exceptional depreciation in relation to refinancing of the RCF *(k)*	0.0	0.0
Other financial expenses *(l) = (j)+(k)*	**-2.0**	**-1.9**
TOTAL FINANCIAL EXPENSES *(m) = (f)+(l)*	**-32.6**	**-30.3**
Income from associates	0.0	0.0
Other financial income	1.2	1.3
Other financial income *(n)*	**1.2**	**1.3**
TOTAL FINANCIAL INCOME *(o) = (a)+(n)*	**1.3**	**1.5**
NET FINANCIAL ITEMS *(m)+(o)*	**-31.3**	**-28.8**

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. The tax expense recognized by Mercialys thus consisted of corporate value-added tax (CVAE), income tax on businesses that do not come under the SIIC status, deferred taxes and, where applicable, the 3% contribution on profit allocation or capital gains not subject to dividend obligations under the SIIC status.

In 2016, Mercialys recorded a tax expense of Euro 2.7 million, mainly consisting of the corporate value-added tax (Euro 1.5 million), income tax (Euro 0.3 million) and deferred income taxes in relation to deficits and time gap (Euro 0.7 million).

Share of net income of associates

At December 31, 2016, the carrying amount of the share of net income of associates was Euro 0.7 million, compared with Euro 1.0 million at December 31, 2015. This decline was caused by the recognition of expenses related to the opening of the Espaces Fenouillet expansion as well as by adjustments to current expenses on the SCI AMR in prior years.

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

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

1.5.4. Net income

Depreciation, amortization and provisions

Depreciation and amortization rose substantially to Euro 30.5 million in 2016 compared with Euro 24.8 million in 2015, parallel to the net investments made in 2015 and 2016.

Other operating income and expenses

Other operating income and expenses correspond to the amount of asset sales and other income related to asset sales (income), and the net book value of assets sold and the costs associated with these asset sales (expense).

Other operating income came to Euro 104.6 million at December 31, 2016 compared with Euro 3.8 million on December 31, 2015. This amount includes:

- asset sales in 2016 on the Rennes, Anglet, Niort and Albertville sites,
- an earn-out payment of Euro 1.6 million (amount including the impact of the change in Mercialys' stake in SCI AMR during the year) following the letting of vacant lots on the Valence, Saint-Didier and Montauban sites.

Other operating expenses came to Euro 81.4 million at December 31, 2016 compared with Euro 9.0 million at December 31, 2015, corresponding primarily to:

- the net book value of assets sold in 2016 and costs related to these asset disposals for Euro 76.7 million,
- impairment of investment properties for Euro 2.6 million.

On this basis, the net capital gain recognized in the consolidated financial statements as at December 31, 2016 following the sale of the Rennes, Anglet, Niort and Albertville assets, was Euro +26.8 million, compared with a net capital loss of Euro -2.7 million recognized in 2015. The distributable capital gain under SIIC tax rules (at a 60% rate) amounts to Euro 51.3 million.

Net income

Net income was thus Euro 118.7 million as at December 31, 2016 compared with Euro 82.1 million as at December 31, 2015. This evolution was primarily due to the favorable impact of capital gains recognized in the 2016 net income, whereas in 2015 capital gains had been recognized in Mercialys' parent company's accounts but eliminated in the consolidated financial statements given the structure of disposals completed during the year.

Non-controlling interests stood at Euro 8.7 million as at December 31, 2016, consisting in the 49% stake of BNP Paribas REIM France in the Hyperthetis Participations company and the 49% stake of BNP Paribas REIM France in the Immosiris company.

Given these non-controlling interests, net income attributable to owners of the parent was Euro 110.0 million in 2016, compared with Euro 79.6 million in 2015.

1.5.5. Funds from operations (FFO)

Funds from operations, which correspond to net income adjusted for depreciation, capital gains/losses on asset sales and associated costs, and any asset impairments, totaled Euro 114.4 million compared with Euro 108.5 million in 2015. This is a +5.4% increase, mainly as a result of the increase in rental revenues, which offset the increase in net financial expenses and the impact of non-controlling interests.

Note that the impact of straight-lining rent-free periods and step-up rents over the firm period of the lease (IAS 17), which is not material historically, represents Euro 1.8 million in 2016. This reflects the changing structure of transactions carried out with some mid-sized stores. Adjusted for this impact, funds from operations rose by 3.7%.

On the basis of the fully diluted weighted average number of shares, as at December 31, 2016 Funds from operations of Euro 114.4 million represent Euro 1.25 per share, compared with Euro 1.18 per share as at December 31, 2015, an increase of +5.3%.

FFO is broken down as follows:

(in thousands of euros)	12/31/2016	12/31/2015
Invoiced rents	187,621	165,958
Lease rights	2,175	2,998
Rental revenues	**189,795**	**168,956**
Non-recovered property taxes and service charges	-4,323	-4,129
Property operating expenses	-7,407	-6,069
Net rental income	**178,065**	**158,758**
Management, administrative and other activities income	3,359	2,893
Property development margin	0	1,099
Other income and expenses	-8,414	-6,490
Staff costs	-12,520	-12,179
EBITDA	**160,490**	**144,081**
Net financial items (excluding impact of hedging ineffectiveness and banking default risk & cost of early repayment of bank debt)	-30,625	-29,012
Allowance for provisions for liabilities and charges	-1,116	-928
Other operating income and expenses (excluding gains on disposals and impairment)	-2,014	-192
Tax charge	-2,736	-3,138
Share of net income of associates	709	1,026
Non-controlling interests excluding gains and amortization	-10,307	-3,309
FFO	**114,401**	**108,529**
FFO/share	*1.25*	*1.18*

The table below shows the comparison between the FFO and the Net income attributable to owners of the parent:

(in thousands of euros)	12/31/2016	12/31/2015
FFO	114,401	108,529
Depreciation and amortization	-30,536	-24,844
Capital gains or losses and depreciations included in the other operating income and expenses	25,221	-5,073
Impact of hedging ineffectiveness / banking default risk & one-off costs related to early repayment of debt	-646	180
Non-controlling interests: capital gains and amortizations	1,608	823
Net income, attributable to owners of the parent	**110,049**	**79,614**

1.5.6. Number of shares outstanding

	2016	2015	2014
Number of shares outstanding			
- As at January 1	92,049,169	92,049,169	92,049,169
- As at December 31	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,049,169	92,049,169	92,049,169
Average number of shares (basic)	**91,856,715**	**91,767,764**	**91,826,157**
Average number of shares (diluted)	**91,856,715**	**91,767,764**	**91,826,157**

As at December 31, 2016, Mercialys' ownership structure was as follows: Casino (40.16%), Generali (8.01%), Foncière Euris[19] (1.00%), treasury shares and shares held by employees (0.22%), other shareholders (50.61%).

[19] 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

1.5.7. Financial structure

1.5.7.1. Debt cost and structure

As at December 31, 2016, the amount of Mercialys' **drawn debt** was Euro 1,520 million, comprising:

- a bond issue of a nominal amount of Euro 750 million, yielding a fixed rate of 1.787% and maturing in March 2023,
- a residual bond of Euro 479.7 million (a Euro 650 million tranche issued in March 2012, partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019,
- Euro 290 million of commercial paper outstanding yielding a slightly negative average rate.

Net financial debt amounted to Euro 1,485.8 million at December 31, 2016, compared with Euro 1,361.1 million on December 31, 2015.

The Group had **cash and cash equivalents** of Euro 15.3 million at December 31, 2016 compared with Euro 13 million at December 31, 2015. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:

- net cash flow from operating activities during the period: Euro +150.5 million
- cash receipts / payments relating to assets sold / acquired in 2016: Euro -144.6 million
- dividend payments to shareholders and non-controlling interests: Euro -101.0 million
- outstanding commercial paper issuance: Euro +124.0 million
- net interest paid: Euro -27.0 million

In 2016 Mercialys had the full year impact of the funding of Euro 200 million which was raised in November 2015 through the supplemental bond issue maturing in 2023 for a cost of 2.203%. The company also issued commercial paper for a net outstanding amount of Euro 290 million, the slightly negative average cost of which further contributed to the drop in the **cost of debt drawn** to 2.0% compared with 2.4% at December 31, 2015.

Taking into account the current rate hedging policy, Mercialys' debt structure at December 31, 2016 was as follows: 64% fixed-rate debt and 36% floating-rate debt.

1.5.7.2. Liquidity and debt maturity

The **average maturity of drawn debt** was 3.8 years as at December 31, 2016 (versus 5 years as at December 31, 2015).

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

- a bank revolving credit facility of Euro 240 million with a maturity to December 2020. This facility bears interest at Euribor + a margin of 115 basis points; if unused, this facility is subject to payment of a 0.46% non-use fee (for a BBB rating),
- two confirmed bank facilities totaling Euro 60 million with a maturity that was extended to December 2019. These facilities bear interest at a rate lower than 100 basis points above the Euribor (for a BBB rating),
- two confirmed bank lines of Euro 30 million each, maturing in July 2019 and July 2021. The margin over Euribor is lower than 100 basis points for each of these lines.

- cash advances from Casino of up to Euro 50 million. The maturity of this facility was extended from December 31, 2017 to December 31, 2019, and is now subject to an interest rate of between 60 and 85 basis points above Euribor.
- a Euro 500 million commercial paper program was also set up in the second half of 2012. Euro 290 million has been used (outstanding as at December 31, 2016).

1.5.7.3. Bank covenants and financial ratings

Mercialys's financial position at December 31, 2016 satisfied all the various covenants included in the different credit agreements.

The loan to value ratio (net financial debt/assets appraisal value excluding transfer taxes) was 41.2%, well below the contractual covenant (LTV < 50%):

	12/31/2016	12/31/2015
Net debt (in millions of euros)	1,485.8	1,361.1
Appraisal value excluding transfer taxes (in millions of euros)	3,604.4[20]	3,321.6
Loan To Value (LTV)	**41.2%**	**41.0%**

Likewise, the interest cost ratio (ratio of EBITDA to cost of net debt) was 5.3x, well above the bank covenant requirement (ICR > 2):

	12/31/2016	12/31/2015
EBITDA (in millions of euros)	160.5	144.1
Net finance cost	-30.4	-28.2
Interest Cost Ratio (ICR)	**5.3x**	**5.1x**

The two other bank covenant requirements are also met:

- the market value of properties excluding transfer taxes as at December 31, 2016 was Euro 3.6 billion (above the contractual covenant that sets a market value excluding transfer taxes of over Euro 1 billion);
- a ratio of secured debt/market value excluding transfer taxes of less than 20%. Mercialys had no secured debt as at December 31, 2016.

Mercialys is rated by Standard & Poor's. On May 31, 2016, the agency reiterated the rating for Mercialys of BBB / stable outlook.

1.5.7.4. Change in shareholders' equity

Consolidated shareholders' equity was Euro 934.2 million as at December 31, 2016 compared with Euro 916.2 million as at December 31, 2015. The main changes that affected this item during the period were as follows:

- net income for 2016: Euro +118.7 million
- payment of the final dividend for the 2015 financial year of Euro 0.57 per share and dividend paid to non-controlling interests: Euro -61.6 million
- payment of an interim dividend for the 2016 financial year of Euro 0.43 per share: Euro -39.4 million
- transactions on treasury shares: Euro +0.7 million
- change in Mercialys' stake in SCI AMR: Euro -0.5 million

1.5.7.5. Dividend

The balance of the 2015 dividend was paid on April 26, 2016 and amounted to Euro 0.57 per share. This represents a total dividend of Euro 52.3 million fully paid in cash.

At its meeting of July 27, 2016, the Board of Directors decided to pay an interim dividend on 2016 earnings of **Euro 0.43 per share**. This dividend was paid out on October 13, 2016, representing a total amount of Euro 39.4 million of interim dividends fully paid in cash.

[20] Including the value of investments in associates, i.e. Euro 39.0 million, the asset value of the companies accounted by equity method is not taken into account in the appraisal value

In accordance with SIIC rules, the minimum distribution requirement in Mercialys 2016 accounts is Euro 103.0 million, including Euro 30.8 million for gains on asset sales which may be paid out over two years.

The Mercialys Board of Directors will propose to the General Meeting that will be held on April 27, 2017, a dividend payment of **Euro 1.06 per share** (including the interim dividend of Euro 0.43 per share already paid in October 2016). The proposed dividend corresponds to the distribution of 85% of FFO in 2016, in line with Mercialys' announced objective (range of 85% - 95% of 2016 FFO).

The proposed dividend represents 5.2% yield on the EPRA triple net asset value of Euro 20.22 per share at year-end 2016. The ex-dividend date is May 2, 2017, and the dividend will be paid on May 4, 2017.

The dividend corresponds to the distribution of 95% of the parent company's **recurring tax profit**, on which the mandatory distribution is based according to SIIC tax rules, or Euro 0.82 per share and Euro 0.24 per share corresponding to **capital gains** realized in 2016. The balance of capital gains available for distribution in respect of 2016, to be distributed no later than 2018 under SIIC rules, amounts to Euro 8.9 million.

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

1.6.1. Asset acquisitions

Acquisitions are described in Part II of this press release.

1.6.2. Completions of extension or reconstruction projects

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

1.6.3. Asset and share disposals

Disposals are described in Part II of this press release.

1.6.4. Appraisal valuations and changes in consolidation scope

As at December 31, 2016, BNP Real Estate Valuation, Catella, Cushman & Wakefield, CBRE and Galtier updated their valuation of Mercialys' portfolio:

- ✓ BNP Real Estate Valuation conducted the appraisal of 43 sites as at December 31, 2016, on the basis of 5 site visits during the second half of 2016, and on the basis of an update of the appraisals conducted at June 30, 2016 for the other sites. 6 site visits were conducted during the first half of 2016;
- ✓ Catella Valuation conducted the appraisal of 24 sites as at December 31, 2016, on the basis of 3 site visits during the second half of 2016, and on the basis of an update of the appraisals conducted at June 30, 2016 for the other sites. 5 site visits were carried out during the first half of 2016;
- ✓ Cushman & Wakefield conducted the appraisal of 9 assets as at December 31, 2016 on the basis of site visits;
- ✓ CBRE conducted the appraisal of 1 site as at December 31, 2016, on the basis of an update of the appraisals conducted as at June 30, 2016;

- ✓ Galtier conducted the appraisal of Mercialys' other assets, i.e. 3 sites as at December 31, 2016, on the basis of an update of the appraisals conducted as at June 30, 2016;

Sites acquired during 2016 were valued as follows as at December 31, 2016:

- ✓ The Carcassonne expansion acquired in the second half of 2016 was valued based on its acquisition price;
- ✓ The Toulouse Fenouillet expansion acquired in the second half of 2016 was valued based on its acquisition value;
- ✓ The premises of stores acquired as part of the consolidation of the jointly-owned Carcassonne and Aurillac properties were valued at their purchase price;
- ✓ The premises of a restaurant acquired in the second half of 2016 in Sainte-Marie (La Réunion) were valued at their acquisition cost.
- ✓ The freeholds of the 2 Monoprix stores acquired for redevelopment in the first half of 2016 were valued by external appraisers

On this basis, the portfolio was valued at Euro 3,797.3 million including transfer taxes at December 31, 2016, compared with Euro 3,541.8 million at December 31, 2015. Excluding transfer taxes, this value reaches Euro 3,565.4 million at end-2016 versus Euro 3,321.6 million at end-2015.

The value of the portfolio including transfer taxes therefore rose +7.2% over 12 months (+6.2% like-for-like[21]) and +2.9% compared with June 30, 2016 (+1.8% like-for-like).

The average appraisal yield was 5.25% at December 31, 2016, compared with 5.28% at June 30, 2016 and 5.36% at December 31, 2015.

The Euro 255 million increase in the market value of properties over 12 months is therefore due to:

- an increase in rents on a like-for-like basis of Euro 142 million;
- compression of the average capitalization rate, resulting in an increase of Euro 68 million;
- changes in the scope of consolidation for Euro 46 million.

Note that the contribution of the Casual Leasing business to value creation is significant, since it accounts for Euro 170 million of the portfolio value as at December 31, 2016 (vs. Euro 144 million at end 2015), while involving no investment expenditures.

Type of property	Average capitalization rate 12/31/2016	Average capitalization rate 06/30/2016	Average capitalization rate 12/31/2015
Large regional shopping centers	5.02%	5.04%	5.12%
Neighborhood shopping centers	5.91%	6.02%	6.12%
Total portfolio[22]	5.25%	5.28%	5.36%

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset at December 31, 2016, as well as corresponding appraised rents:

Type of property	Number of assets at 12/31/2016	Appraisal value As at 12/31/2016 excl. TT		Gross leasable area As at 12/31/2016		Appraised potential net rental income	
		(in € mn)	(%)	(sq.m)	(%)	(in € mn)	(%)
Large regional/shopping centers	25	2,689.8	75%	655,700	71%	143.8	72%
Neighborhood shopping centers and city-center assets	39	850.9	24%	253,900	28%	53.6	27%
Sub-total shopping centers	**64**	**3,540.7**	**99%**	**909,600**	**99%**	**197.4**	**99%**
Other sites[23]	7	24.7	1%	11,600	1%	1.8	1%
Total	**71**	**3,565.4**	**100%**	**921,200**	**100%**	**199.2**	**100%**

[21] Sites on a like-for-like GLA basis
[22] Including other assets (large specialty stores, independent cafeterias and other standalone sites)
[23] Including other assets (large specialty stores, independent cafeterias and other standalone sites)

1.7. Outlook

In an economic context of relatively limited growth, Mercialys will implement proactive action plans to increase footfall at its sites, and will benefit once again from major project deliveries. Mercialys will also implement an asset disposal plan designed to strengthen its financial profile, realize optimum values in a still-buoyant market, and finance its pipeline of accretive developments. Loan to value (LTV) should therefore fall significantly below 40% by end-2017.

As a result, Mercialys has set the following objectives for 2017:

- organic rental income growth of +2% above indexation relative to 2016,
- a decrease in FFO per share of roughly -5% compared with 2016 reflecting the impact of asset disposals, this trend could however evolve based on the schedule of the disposals,
- a dividend of 85% to 95% of 2017 FFO.

1.8. Subsequent events

In January 2017, Mercialys sold five service galleries to the Casino Group representing a total area of approximately 14,600 sq.m, for a total amount of Euro 38.9 million (including transfer tax) and an exit yield of 5.8%.

This arbitrage involves geographically dispersed assets that are unsuitable for large-scale transformation projects owing to their individual size (less than 5,000 sq.m). The Casino Group is the natural buyer for these assets, given their proximity to Géant hypermarkets.

In January 2017, Mercialys also sold the transformed hypermarket at Toulouse Fenouillet to the Casino Group for Euro 32.8 million (including transfer taxes), for an exit yield of 5.0%.

Mercialys has gone ahead with two projects to create additional retail space on the surface released by the hypermarket and enhance the appeal of the site. On the one hand, it has transformed 2,600 sq.m of reserved storage space into mid-sized stores and retail outlets as part of the shopping mall expansion, letting the units to Terranova, Calliope, and Obkaïidi & Okbaïidi. On the other, it has created a 2,000 sq.m mid-sized unit in the vacated hypermarket's retail area, which is still in the process of being let.

The cumulated capital gain recorded in the parent company's account on these disposals amounts to around Euro 11.0 million[24], of which 60% are distributable according to the SIIC tax rules.

1.9. EPRA performance measures

Mercialys applies the recommendations of the EPRA[25] for the indicators provided below. The EPRA is the representative body of real estate companies listed in Europe, and in this capacity, it issues recommendations on performance indicators to improve the comparability of the financial statements published by the various companies.

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

[24] Unaudited figure
[25] European Public Real Estate Association

1.9.1. EPRA earnings and earnings per share

The table below shows the relationship between the "FFO" management indicator reported by Mercialys and "earnings per share" as defined by the EPRA.

(in millions of Euros)	12/31/2016	12/31/2015
FFO	**114.4**	**108.5**
Adjustments to calculate EPRA earnings exclude:		
- property development margin	0.0	-1.1
- other items	0.0	0.0
EPRA EARNINGS	**114.4**	**107.4**
Number of share (end of period)	**92,049,169**	**92,049,169**
EPRA EARNINGS PER SHARE (EPS) (in euros per share)	**1.25**	**1.17**

1.9.2. EPRA Net Asset Value (NAV)

(in millions of Euros)	12/31/2016	12/31/2015
Shareholders equity attributable to owners of the parent	**728.6**	**710.0**
Revaluation of investment properties	1,160.7	1,069.7
Revaluation of the share of equity associates	29.4	12.6
Fair value of financial instruments	-19.2	-18.3
Add back of deferred income and charges	0.0	0.0
EPRA NAV	**1,899.5**	**1,774.0**
Number of share (end of period)	**92,049,169**	**92,049,169**
EPRA NAV per share[26]	**20.64**	**19.27**

1.9.3. EPRA triple net asset value (NNNAV)

(in millions of Euros)	12/31/2016	12/31/2015
EPRA NAV	**1,899.5**	**1,774.0**
Fair value of financial instruments	19.2	18.3
Fair value of the unhedged portion of the fixed-rate debt	-57.7	-20.8
EPRA NNNAV	**1,861.0**	**1,771.5**
Number of share (end of period)	**92,049,169**	**92,049,169**
EPRA NNNAV per share[27]	**20.22**	**19.25**

[26] The NAV has been reevaluated in relation to the publications from December 31, 2015 (€19.27 per share vs. reported figure of €19.36 per share) and June 30, 2016 (€20.63 per share vs. reported figure of €19.76). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

[27] The triple net NAV has been reevaluated in relation to the publications from December 31, 2015 (€19.25 per share vs. reported figure of €19.48) and June 30, 2016 (€19.89 per share vs. reported figure of €20.48). This adjustment follows a review of the calculation methodology, which did not previously take into account the fair value of fixed-rate debt in line with EPRA specifications.

1.9.4. EPRA net initial yield (NIY) and "topped-up" NIY

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

(in millions of Euros)	12/31/2016	12/31/2015
Investment property - wholly owned	3,565.4	3,321.6
Assets under development (-)	0.0	0.0
Completed property portfolio valuation (excl. transfer taxes)	**3,565.4**	**3,321.6**
Transfer taxes	231.8	220.2
Completed property portfolio valuation (incl. transfer taxes)	**3,797.3**	**3,541.8**
Annualized rental income	184.7	175.8
Non-recoverable expenses (-)	-4.5	-4.1
Annualized net rents	**180.2**	**171.7**
Notional rent expiration of step-up rents, rent-free periods or other lease incentives	3.1	2.4
Topped-up net annualized rent	**183.3**	**174.1**
EPRA NET INITIAL YIELD (NIY)	**4.75%**	**4.85%**
EPRA "TOPPED-UP" NIY	**4.83%**	**4.91%**

1.9.5. EPRA cost ratios

(in millions of Euros)	12/31/2016	12/31/2015	Comments
Administrative/operating expense line per IFRS income statement	-21.3	-19.1	Staff costs and other costs
Net service charge costs/fees	-4.3	-4.1	Property taxes + Non-recovered service charges (including vacancy cost)
Rental management fees	-2.3	-2.3	Rental management fees
Other income and expenses	-5.1	-3.7	Other property operating income and expenses excluding management fees
Share of Joint Ventures expenses	0.0	0.0	
Total	**-33.0**	**-29.2**	
Adjustments to calculate EPRA cost ratio exclude (if included above):	0.0	0.0	
-depreciation and amortization	0.0	0.0	Depreciation and provisions for fixed assets
- ground rent costs	0.7	0.7	Non-group rents paid
- service charges recovered through comprehensive invoicing (with the rent)	0.0	0.0	
EPRA Costs (including vacancy costs) (A)	**-32.3**	**-28.5**	**A**
Direct vacancy costs[1]	3.2	3.0	
EPRA Costs (excluding vacancy costs) (B)	**-29.1**	**-25.5**	**B**
Gross Rental Income less ground rent costs[2]	189.1	168.3	Less costs relating to construction leases/ long-term leases
Less: service fee and service charge costs components of Gross Rental Income	0.0	0.0	
Plus: share of Joint Ventures (Gross Rental Income less ground rent costs)	0.0	0.0	
Rental Income (C)	**189.1**	**168.3**	**C**
EPRA COST RATIO (including direct	**-17.1%**	**-16.9%**	**A/C**

vacancy costs)			
EPRA COST RATIO (excluding direct vacancy costs)	**-15.4%**	**-15.2%**	**B/C**

[1] The EPRA Cost Ratio deducts all vacancy costs related to standing assets or to investment properties undergoing development/refurbishment if they have been included in expense lines.
The costs that can be excluded are property taxes, service charges, contributions to marketing costs, insurance premiums, carbon tax, and any other costs directly billed to the unit.

[2] Gross rental income should be calculated after deducting any ground rent payable. All service charge fees/recharges/management fees and other income in respect of property expenses must be added and
not deducted. If the rent covers service charge costs, they should be restated to exclude them. Tenant incentives should be deducted from rental income, whereas any other costs should be
included in costs in line with IFRS requirements.

1.9.6. EPRA vacancy rate

See section 1.4.1. of this Financial report.