MERCIALYS

Interim Financial Report
of the Board of Directors

First half of 2016

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1 Key Figures

In millions of euros	June 30, 2015	December 31, 2015	**June 30, 2016**
Invoiced rents	80.6	166.0	91.9
EBITDA	70.4	144.1	79.4
Funds from operations (FFO)	56.8	108.5	58.7

Operating performance	June 30, 2015	December 31, 2015	**June 30, 2016**
Organic growth of invoiced rents excluding indexation	3.3%	3.5%	2.9%
Recurring financial vacancy rate	2.3%	2.0%	2.4%
Occupancy cost ratio	10.4%	10.3%	**10.3%**

Per share data (in euros)	June 30, 2015	December 31, 2015	**June 30, 2016**
Funds from operations (FFO), diluted average number of shares	0.62	1.18	**0.64**
Triple net asset value (EPRA), diluted number of shares	18.53	19.42	**20.48**

Portfolio valuation and debt	June 30, 2015	December 31, 2015	**June 30, 2016**
Fair value of the portfolio (including transfer tax) (€m)	3,098	3,542	**3,689**
Fair value of the portfolio (excluding transfer tax) (€m)	2,912	3,322	**3,458**
Average appraisal capitalization rate	5.55%	5.36%	**5.28%**
LTV ratio	39.2%	41,0%	**40.6%**
ICR ratio[1]	5.5	5.1	**6.1**

[1] At June 30, 2016, this ratio reflects 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 would be 5.3x.

2 Activity report

2.2 Strong half-year results

Over the first half of 2016, Mercialys posted a robust rental performance, in the form of organic growth excluding the effect of indexation of +2.9%. Funds from operations (FFO) stood at Euro 58.7 million, up 3.3% compared to the first half of 2015. Over the same period, the EPRA triple net NAV increased by 5.4% over 6 months, reaching Euro 20.48/share.

Asset management and lettings activities have continued to make strong progress, reflecting on a like-for-like basis the ongoing transformation of the cafeterias vacated by the Casino Group, the letting of the new store units created by reducing the size of the hypermarkets that will be opening over the second half of 2016, as well as the reversionary potential realized on renewals and relettings. In addition, the letting of projects that will also be opening over the second half of 2016 is advancing very well. For instance, the extension of the Toulouse shopping center, on which Mercialys has a call option to acquire it at the opening in November 2016, has been 95% let to date. The Sainte Marie retail park (La Réunion), which will be opening in December, has been fully let.

Building on its excellent performance from 2015, Mercialys has continued rolling out its strategy to set up mid-size units which will represent new anchor tenants generating both additional rent and footfall. Since the start of 2016, agreements have been signed for over 13,000 sq.m of mid-size store units with French retailers (FNAC, Maisons du Monde, Districenter, Go Sport) and international firms (Mango, New Yorker, Pull & Bear, C&A, Black Store).

Over the first half of 2016, Mercialys rolled out a balanced investment policy, acquiring two sites for transformation from Monoprix with an immediate yield of 5.6%, which will be covered by mixed-use development projects. Through an asset transfer, Mercialys has transferred the Anglet site and the transformed hypermarket in Rennes to SCI Rennes Anglet, which is 70%-owned by an OPPCI investment fund subsidiary of a fund managed by Schroder REIM, delivering an exit rate of 5.0% and an average IRR of 9.0%.

The financial structure remained solid, with the debt ratio (LTV) amounting to 40.6% and the ICR standing at 6.1x[2]. Standard & Poor's reiterated its BBB/stable outlook rating in May 2016.

Mercialys is reconfirming its targets for 2016, with organic rental growth excluding indexation of +2% and FFO growth of +2% for 2016 versus 2015. Taking this outlook and these results into consideration, the Board of Directors has decided to pay out an interim dividend of Euro 0.43 per share in October 2016. For the full year, Mercialys expects its dividend to represent 85% to 95% of 2016 FFO.

2.2.1 Dynamic organic growth

Rental revenues mainly comprise **invoiced rents** 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).

(in thousands of euros)	06/30/2015	06/30/2016
Invoiced rents	80,558	91,869
Lease rights	1,698	1,155
Rental revenues	**82,256**	**93,025**
Non-recovered service charges and property taxes	-2,382	-2,910
Property operating expenses	-2,669	-3,042
Net rental income	**77,205**	**87,072**

[2] At June 30, 2016, this ratio reflects 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 would be 5.3x.

The **+14.0 points** increase in invoiced rents was driven by:

- sustained organic growth in invoiced rents: **+2.8 points**, i.e. Euro +2.3 million
- acquisitions and investments made in 2015: **+14.2 points**, i.e. Euro +11.5 million
- other impacts including the strategic vacancy linked to ongoing extension/restructuring programs: **-3.0 points**, i.e. Euro -2.4 million

On a like-for-like basis, invoiced rents were up +2.8%, including in particular:

- **+2.3 points** reflecting actions taken on the portfolio, with renewals and relets having generated an average growth of +16.1% in the annualized rental base[3] over the first half of 2016.
- **+0.6 point** generated by the growth in Casual Leasing activity, which amounted to Euro 3.4 million in rents in H1 2016, an increase of 16.9% in one year
- **-0.1 point** through the impact of indexation

Rental income stood at **Euro 93.0 million** as of June 30, 2016, up **13.1%**.

Lease rights and despecialization indemnities received over the first half of 2016 stood at Euro 0.2 million, versus Euro 0.7 million over the first half of 2015, broken down as follows:

- **Euro 0.1 million** of lease rights related to ordinary re-letting business (versus Euro 0.5 million in the first half of 2015);
- **Euro 0.1 million** of despecialization indemnities.

After the impact of deferrals required under IFRS, lease rights recognized in the first half of 2016 totaled Euro 1.2 million, compared with Euro 1.7 million in the first half of 2015.

Net rental income consists of rental revenues less costs directly chargeable 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 management fees paid to the property manager that are not rebilled, and various costs relating directly to the operation of sites.

The costs included in the calculation of net rental income amounted to Euro 6 million over the first half of 2016, versus Euro 5.1 million in the first half of 2015. The ratio of non-recovered property operating expenses to invoiced rents stood at 6.5% over the first half of 2016, up from 6.3% in the first half of 2015. Due to the increase in invoiced rents, net rental income rose by 12.8% from Euro 77.2 million in the six months ended June 30, 2015 to Euro 87.1 million in the same period of 2016.

In a difficult market situation, particularly as a result of adverse weather, Mercialys shopping centers continued to outperform the sector in France, in terms of both footfall and retailer sales trends.

- **sales** for retailers at Mercialys large and main neighborhood shopping centers were up +0.8% (at constant space) on a cumulative basis as of the end of May 2016, compared with a decline of -0.4% for the entire shopping center market (CNCC).
- **footfall** at Mercialys large and main neighborhood shopping centers was up +1.2% on a cumulative basis as of the end of June 2016, compared with a decline of -0.3% for the centers in the CNCC index.

2.2.2 Management indicators remain buoyant

The recovery rate over 12 months remained high at 97.6% of billing, in line with the rate recorded at end-2015 (97.7%). Meanwhile, the number of tenants in liquidation as of June 30, 2016 remained low: 28 tenants from 2,240 in-portfolio leases.

[3] Vacant at last known rent for reletting

The current financial vacancy rate – which excludes "strategic" vacancies designed to facilitate the implementation of extension/development plans – remained at a low level of 2.4% as of June 30, 2016, close to the rates recorded in 2015 (2.0% as of December 31, 2015 and 2.3% as of June 30, 2015).

The total vacancy rate[4] was 3.4% as of June 30, 2016, due to the implementation of projects during the half-year, remaining at a level close to the rates recorded as of June 30, 2015 (4.0%) and the end of 2015 (2.9%).

The occupancy cost ratio[5] for our tenants stood at 10.3%, unchanged from the level as of December 31, 2015. 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.

2.2.3 Change to the structure of leases

Rents received by Mercialys come from a very wide range of retailers. With the exception of Casino Group brands, H&M (2.6%) and Feu Vert (1.9%), no other tenant accounts for more than 2% of total rental income.

Casino's weighting in the total rental income is 32.7% as of June 30, 2016, the same level as of December 31, 2015. Géant Casino's share is in sharp decline, which is offset by increased exposure to Monoprix. This is explained by the rotation of assets and the investments made over the half-year.

The table below shows the breakdown of rents between national and local retailers and those linked to the Casino Group on an annualized basis:

	Number of leases	**GMR* + annual variable 06/30/2016 (in M€)**	**12/31/2015 (in%)**	**06/30/2016 (in%)**
National and international brands	1,499	97.4	54.9%	55.1%
Local brands	653	21.6	12.4%	12.2%
Cafeterias Casino/Self-service restaurants	13	1.7	1.2%	1.0%
Monoprix	9	11.3	4.3%	6.4%
Géant Casino	66	44.8	27.2%	25.4%
Total	**2,240**	**176.8**	**100.0%**	**100.0%**

** GMR = Guaranteed minimum rent*

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

Breakdown of rental income by business sector excl. large food stores – % of rental income	**12/31/2015**	**06/30/2016**
Personal items	43.5%	43.9%
Food and catering	9.5%	9.5%
Household equipment	10.8%	10.6%
Beauty and health	15.2%	15.3%
Cuture, gifts and leisure	16.9%	16.8%
Services	4.0%	3.9%
Total	**100.0%**	**100.0%**

[4] [Rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)] in accordance with the EPRA calculation method

[5] Ratio between rent and charges paid by retailers and their sales: (rent + charges gross of tax) /retailers' sales gross of tax, excluding large food stores

The structure of rental income as of June 30, 2016 demonstrated the dominant share, in terms of rent, of leases without a variable component, including those signed with large food stores and Monoprix stores.

	Number of leases	In millions of euros	12/31/2015 in %	06/30/2016 in %
Leases with variable component	1,174	84.9	49%	48%
- of which guaranteed minimum rent		*82.1*	*48%*	*46%*
- of which variable rent		*2.9*	*1%*	*2%*
Leases without variable component	1,066	91.9	51%	52%
Total	**2,240**	**176.8**	**100%**	**100%**

Leases linked to the ILC index (Retail rent index) made up the predominant share of rents as of June 30, 2016:

	Number of leases	In millions of euros	12/31/2015 in %	06/30/2016 in %
Leases linked to the ILC index	1,541	153.3	87%	88%
Leases linked to the CCI index	481	18.9	12%	11%
Leases linked to the ILAT index or non revisables leases	218	1.7	1%	1%
Total	**2,240**	**173.9**	**100%**	**100%**

2.2.4 Changes to EBITDA

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

The fees charged in first-half 2016 amounted to Euro 1.8 million, versus Euro 1.3 million for the six months ended June 30, 2015.

No **property development margin** was received in the first half of 2016.

Other recurring income of Euro 0.4 million recognized in the first half of 2016 includes dividends received from the real estate investment fund created in partnership with Union Investment in 2011. The fund is 80%-owned by Union Investment and 20% by Mercialys, and is recognized in the Mercialys accounts in the form of non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and lettings. Similar to net rental income, these dividends are recognized as net operating income.

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

Over the first half of 2016, these costs amounted to Euro 3.2 million, up from Euro 2.8 million in the first half of 2015.

Staff costs amounted to Euro 6.6 million over the first half of 2016, an increase of Euro 1 million from Euro 5.6 million in the same period of 2015. 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 income from management, administrative and other activities).

As a result of the above, earnings before interest, taxes, depreciation and amortization and other operating income and expenses (**EBITDA**) amounted to Euro 79.4 million at the end of June 2016, up 12.8% on the figure of

Euro 70.4 million for the first half of 2015. The EBITDA/rental income ratio stood at 85.4% as of June 30, 2016 (versus 85.6% as of June 30, 2015).

2.2.5 Change in income

2.2.5.1 Funds from operations (FFO)

Net financial expenses came to Euro 13.3 million at end-June 2016, virtually stable compared with the first half of 2015, primarily factoring in the favorable impact of hedging instruments offsetting the increase linked to the volume effect of the debt.

This meant that the average cost of debt drawn as of June 30, 2016 was 2.1%, stable with the average real cost of debt drawn as of June 30, 2015 and down 30 bps compared to December 31, 2015 (2.4%).

Restated for the non-recurring impact of the valuation of financial instruments, which represents an income of Euro 1.9 million over the half-year, net financial expenses amounted to Euro 15.3 million as of June 30, 2016, with the increase on the first half of 2015 being generated by the volume effect of the debt, and with Mercialys having issued a bond of Euro 200 million in November 2015 and accounting an outstanding position of Euro 258 million of commercial paper (up from Euro 145 million over the first six months of 2015).

The table below shows a breakdown of the changes in financial income:

(in millions of Euros)	**June 30, 2015**	**June 30, 2016**
Income from cash and equivalents *(a)*	0.1	0.1
Financial expenses in relation to financing operations after hedging *(b)*	-53.6	-82.1
Financial income in relation to financing operations after hedging *(c)*	40.8	68.9
Cost of finance leases *(d)*		
Gross finance costs excluding exceptional items	***-12.9***	***-13.2***
Gross finance costs *(f) = (b)+(c)+(d)*	**-12.9**	**-13.2**
Net finance costs *(g) = (a)+(f)*	**-12.8**	**-13.1**
Cost of Revolving Credit Facility and bilateral loans (undrawn) *(h)*	-0.9	-0.9
Other financial expenses *(i)*		
Other financial expenses excluding exceptional items (j) = (h)+(i)	***-0.9***	***-0.9***
Exceptional depreciation in relation to refinancing of the RCF *(k)*		
Other financial expenses *(l) = (j)+(k)*	**-0.9**	**-0.9**
TOTAL FINANCIAL EXPENSES (*m) = (f)+(l)*	**-13.8**	**-14.1**
Income from associates		
Other financial income	0.6	0.7
Other financial income (n)	**0.6**	**0.7**
TOTAL FINANCIAL INCOME (o) = (a)+(n)	**0.8**	**0.7**
NET FINANCIAL ITEMS = (m)+(o)	**-13.0**	**-13.3**

Mercialys' **share of the net income of associates** as of June 30, 2016 was Euro 0.3 million, versus Euro 0.5 million as of June 30, 2015, with the drop caused by SCI AMR's reduced contribution. In fact, the companies consolidated using the equity method in Mercialys' financial statements are SNC Fenouillet participation (created in partnership with Foncière Euris in late 2014), SCI AMR (created in partnership with Amundi Immobilier in 2013), SNC Aix2 (of which Mercialys acquired 50% of the shares in December 2013 and which is 50%-owned by Altaréa Cogedim), Corin Asset Management SAS (of which Mercialys owns 40% of the shares) and SCI Rennes Anglet (of which Mercialys owns 30% of the shares).

Mercialys recorded a **tax** expense of Euro 0.7 million over the first six months of 2016, versus a tax expense of Euro 0.5 million for the same period in 2015. This increase resulted primarily from the effect of the 3% contribution generated by the payment of capital gains not affected by the obligation to distribute under the SIIC tax regime for 2015. The balance consists mainly of corporate value-added tax (CVAE).

Non-controlling interests (excluding capital gains and amortization) amounted to Euro 5.2 million as of June 30, 2016 compared to an insignificant amount over the first half of 2015. This increase factors in the 49% interest in subsidiaries sold to real estate investment funds (OPCI) managed by BNP Paribas REIM France in 2015. Mercialys retains exclusive control and these subsidiaries are fully consolidated.

Consequently, **funds from operations**, which correspond to net income adjusted for depreciation and amortization, capital gains on assets disposals and associated expenses, as well as any asset write-downs, amounted to Euro 58.7 million, up 3.3% on the figure of Euro 56.8 million for the first six months of 2015.

On the basis of the weighted average number of shares (fully diluted) as of June 30, FFO amounted to Euro 0.64 per share as of June 30, 2016, compared with Euro 0.62 per share as of June 30, 2015, representing a growth in funds from operations on a fully diluted per-share basis of +3.3%.

The breakdown of the FFO calculation is as follows:

In thousands of euros	June 30, 2015	June 30, 2016
Invoiced rents	80,558	91,869
Lease rights	1,698	1,155
Rental revenues	**82,256**	**93,025**
Non-recovered service charges and property taxes	-2,382	-2,910
Property operating expenses	-2,669	-3,042
Net rental income	**77,205**	**87,072**
Management, administrative and other activities income	1,280	1,764
Other income and expenses	-2,425	-2,802
Staff costs	-5,638	-6,623
EBITDA	**70,423**	**79,411**
Net financial items (excluding impact of hedging ineffectiveness and banking default risk)	-13,037	-15,257
Allowance for provisions for liabilities and charges	0	72
Other operating income and expenses (excluding gains on disposals and impairment)	-590	-3
Tax charge	-528	-661
Share of net income of associates	530	308
Non-controlling interests excluding gains and amortization	-24	-5,195
FFO	**56,775**	**58,675**
FFO per share	**0.62**	**0.64**

2.2.5.2 Net income attributable to owners of the parent

Depreciation and amortization increased to Euro 14.8 million as of June 30, 2016, versus Euro 11.5 million as of June 30, 2015, against a backdrop of portfolio growth through net investments made over the period.

Other operating income and expenses correspond to the amount of asset disposals and other income relating to asset disposals (income) and to the net carrying value of assets sold and any costs relating to these sales (expenses).

Other operating income amounted to Euro 42 million for the six months ended June 30, 2016 compared with Euro 0.3 million for the six months ended June 30, 2015. This amount is mainly made up of:

- 70% of the proceeds linked to the transfer of a transformed hypermarket in Rennes (Euro 17.2 million) and the Anglet site (Euro 22.6 million) to SCI Rennes Anglet
- The recognition of income from previous sales for Euro 1.8 million, primarily including Euro 1.6 million for an earnout payment received through the company AMR

Other operating expenses totaled Euro 38.4 million for the six months ended June 30, 2016 (compared with Euro 4.2 million for the six months ended June 30, 2015). This amount mainly includes:

- the recognition of an asset impairment loss of Euro 0.8 million;
- the net carrying value of assets transferred in the first half of 2016 and costs associated with these asset disposals: Euro 37.4 million versus Euro 1.0 million as of June 30, 2015;
- the accounting of expenses linked to prior disposals amounting to Euro 0.2 million.

On this basis, the amount of net capital gains recorded on the Rennes and Anglet assets as of June 30, 2016 was Euro 2.8 million. The corresponding capital gain recorded in the parent company financial statements represents Euro 6.9 million.

Minority non-controlling interests stood at Euro 4.4 million, **Net income attributable to owners of the parent** therefore stood at Euro 50.3 million as of June 30, 2016, up 19.8% on the figure of Euro 42.0 million as of June 30, 2015.

The table below details how FFO is turned into Net income attributable to owners of the parent:

In thousands of euros	June 30, 2015	June 30, 2016
FFO	56,775	58,675
Depreciation and amortization	-11,470	-14,762
Other operating income and expenses	-3,341	3,629
Impact of hedging ineffectiveness and banking default risk	0	1,915
Non-controlling interests: capital gains and amortizations	-4	796
Net income, attributable to owners of the parent	**41,958**	**50,253**

2.3 Investments and disposals

An ever-dynamic investment policy...

Over the first six months of 2016, Mercialys completed two investment operations which allow the Company to benefit from significantly increased rents and supply the development pipeline in the medium term. Meanwhile, Mercialys has transferred the Anglet site and the transformed hypermarket in Rennes to SCI Rennes Anglet, which is 70%-owned by an OPPCI investment fund subsidiary of a fund managed by Schroder REIM, which will help secure the Company's key financial balances, while enabling Mercialys to set up an agreement with an outstanding anglo-saxon investor, following on from the agreements already in place with Amundi, Altaréa Cogedim, Union Investment and BNP Paribas REIM France.

As a result, on June 29, 2016, Mercialys acquired two sites from Monoprix for transformation located in the Parisian suburbs of Saint-Germain-en-Laye and La Garenne-Colombes.

This investment amounted to Euro 69.6 million including transfer taxes, offering an immediate yield on cost of 5.6% (on the basis of rents paid upon acquisition by Monoprix through fixed-rent leases) before the implementation of projects that will generate additional rent, as well as potential property development margins, particularly on sales of residential real estate developments.

Mercialys continues to develop its high street retail business line, which, following the acquisition of seven sites for transformations from Monoprix since end of last year, represents almost 5% of the asset value (including transfer taxes) published on June 30, 2016.

These two sites will be extensively redeveloped and discussions are already ongoing about potential residential development projects representing Euro 30 million of capex and with an IRR of around 9%. Through these sites, Mercialys has acquired volumes and parking facilities that are ideally located at the heart of these towns, which have a population whose purchasing power is increased by their proximity to Paris.

Mercialys continued with the implementation of its **controlled development** pipeline, representing an investment of Euro 220 million by 2018, with Euro 201.1 million still to be invested, with the end goal of creating Euro 16.2 million of additional annualized rent.

The Company will benefit from the following completions carried out in H2 2016:

- five transformed large food stores will be delivered in Q4 2016 at sites in Aix, Angers, Anglet, Nîmes (phase 1) and Rennes (phase 1), for a total amount of Euro 2.1 million in annualized rents;
- Mercialys will deliver a retail park in Sainte-Marie (Réunion Island) in Q4 2016 covering 3,600 sq.m and producing Euro 0.9 million in annualized rents. Meanwhile, as part of the partnership agreement, Mercialys will make a decision regarding the acquisition of the 1,200 sq.m extension to the Carcassonne Salvaza shopping center, which produces annualized rent of Euro 0.3 million;
- Mercialys has a purchase option at fair value with Foncière Euris, which is exercisable no later than the opening date of phase 2 of the extension of the Toulouse Fenouillet shopping center. The letting of this extension is currently being finalized, with 95% completed to date.

In millions of euros	Total investment	Investment still to be initiated	Forecasted net rental income	Forecasted net yield on cost	Date of completion
Transformation of 3 large food stores acquired in H1 2014	31.5	31.4	2.9	9.1%	2016 – 2017
Transformation of 8 large food stores acquired in H2 2014	24.0	22.4	2.9	12.1%	2016 – 2017
Transformation of 4 large food stores acquired in H1 2015	16.1	16.1	1.1	7.1%	2017 – 2018
Transformation of 5 large food stores acquired in H2 2015	16.7 (5)	16.7	1.2	6.9%	2017 – 2018
Toulouse Fenouillet Phase 2 (1)	118.0	101.2	7.0	5.9%	2016
Sainte-Marie Retail Park	8.6	8.3	0.9	10.3%	2016
Carcassonne Salvaza (2)	4.9	4.9	0.3	6.2%	2016
TOTAL controlled pipeline	**219.9**	**201.1**	**16.2**	**7.4%**	
Extensions and retail parks	330.9	330.2	22.3	6.7%	2019 - 2021
Mixed-use high-street retail projects	85.0	85.0	NA	NA	
Total potential pipeline (3)	**415.9**	**415.2**	**22.3**	**6.7%**	
TOTAL pipeline (4)	**635,8**	**616.2**	**38.6**	**7.0%**	

(1) Mercialys holds a purchase option at fair value on this project. The figures given correspond to the time when this partnership was implemented in 2014; they will be updated if the option is exercised
(2) Project presented by the Casino Group as part of the partnership agreement, subject to approval from Mercialys' Investment Committee and Board of Directors
(3) Yield excluding the impact of mixed-use high street retail projects, which can also generate property development margins
(4) Amounts and yields may change when projects are implemented
(5) Including Euro 11 million for Mercialys' share, with a 51% stake held in the Istres, Narbonne, Le Puy and Clermont-Ferrand projects

…balanced by a disposal through 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 of 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% stake in this SCI real estate investment company, with the OPPCI fund SEREIT France holding 70%.

This transaction is 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 this operation stands at 9.0%. The consolidated capital gain generated on the transfers was Euro 2.8 million (the distributable gains in the parent company financial statements stand at Euro 6.9 million).

This operation has enabled Mercialys to realize the value created on these assets, particularly following the extensive redevelopment of the hypermarkets, reflected in the medium-sized store units set up for the home appliance firm Boulanger (Anglet) and the DIY retailer Brico Dépôt (Rennes).

Mercialys' 30% stake is recognized as a share of income from equity associates.

2.4 Financial structure

2.4.1 Cost and structure of the debt

As of June 30, 2016, the **amount of Mercialys' drawn debt** was Euro 1,487.2 million, comprising:

- a bond with a total nominal value of Euro 750 million, yielding a fixed rate of 1.787%, maturing in March 2023
- a residual bond of Euro 479.7 million (of the Euro 650 million bond issued in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019
- Euro 258 million of outstanding commercial paper, yielding an average rate of 0.02%.

Net debt stood at Euro 1,415.3 million as of June 30, 2016, compared with Euro 1,361.1 million as of December 31, 2015.

The Group had **cash and cash equivalents** of Euro 45.1 million as of June 30, 2016, compared with Euro 13.0 million as of December 31, 2015. 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: Euro +60.0 million;
- cash inflows/outflows related to acquisitions/disposals of assets completed in the first half of 2015: Euro -44.1 million;
- dividend payments to shareholders: Euro -56.1 million;

- commercial paper issue for an outstanding amount of: Euro +91.5 million as of June 30, 2016;
- and net interest paid: Euro -18.3 million.

In 2016, Mercialys is benefitting across the whole year from Euro 200 million bond issuance in November 2015 maturing in 2023 for a cost of 2.203%. The Company has also issued commercial paper (outstanding position of Euro 258 million at the end of June 2016), with the favorable cost of 0.02% contributing to the fall in the **cost of the debt drawn** to 2.1%, down from 2.4% at the end of 2015.

Given the established **interest-rate hedging** policy, as of June 30, 2016, Mercialys' debt structure broke down as follows: 63% fixed-rate debt and 37% variable-rate debt.

2.4.2 Liquidity, maturity and schedule of the debt

The **average maturity of drawn debt** was 4.3 years as of June 30, 2016, versus 5 years as of December 31, 2015.

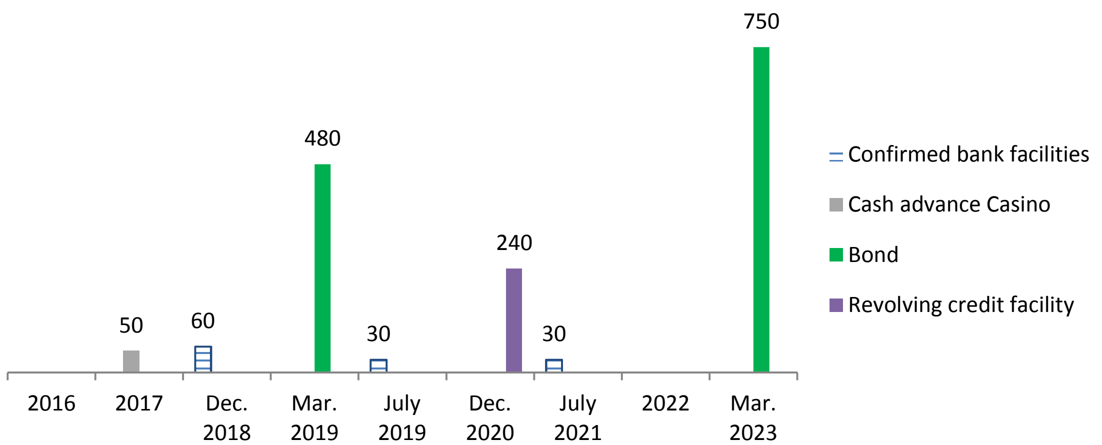
Mercialys has **undrawn financial resources** that are available to finance ordinary business activities and the cash requirements of Mercialys and its subsidiaries, and to ensure a comfortable level of liquidity:

- a revolving credit facility of Euro 240 million with maturity extended to December 2020. This facility bears interest at 3-month Euribor plus 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 facilities for a total amount of Euro 60 million with maturity extended to December 2018. These facilities bear interest at a rate less than 100 bps above Euribor (for a BBB financial rating);
- cash advances from Casino up to a threshold of Euro 50 million subject to an interest rate of between 60 and 85 bps above Euribor. This facility matures on December 31, 2017;
- a commercial paper program of Euro 500 million was also set up in the second half of 2012. Euro 258 million of it has been used (outstanding as of June 30, 2016).

Furthermore, in July 2016, Mercialys concluded two additional confirmed bank facilities of Euro 30 million each for a total amount of Euro 60 million maturing in July 2019 and in July 2021, with interest payable at rate less than 3-month Euribor plus 100 bps. These facilities have added further strength to the existing liquidity.

The graph below shows the timetable of Mercialys' debt as of June 30, 2016 (including undrawn financial resources at the end of June and those concluded in July 2016).

In millions of euros



2.4.3 Bank covenants and financial rating

Mercialys' financial position as of June 30, 2016 fulfilled all of the various covenants stipulated in the various loan agreements.

The ratio of net financial debt to appraisal value excluding transfer taxes (LTV: Loan To Value) stood at 40.6%, well below the contractual covenant (LTV <50%):

	06/30/2015	12/31/2015	06/30/2016
Net debt (in millions of euros)	1,141.7	1,361.1	1,415.3
Appraisal value excluding transfer taxes (in millions of euros)	2,912.2	3,321.6	3,486.7 [6]
Loan To Value (LTV)	**39.2%**	**41.0%**	**40.6%**

Similarly, the EBITDA/cost of net debt ratio (ICR: Interest Cost ratio) stood at 6.1x, well above the contractual covenant (ICR> 2).The ratio reflects the positive impact of Euro 1.9 million in gains linked to the fair value of financial instruments. Excluding this non-recurring income, the ratio would be 5.3x.

	06/30/2015	12/31/2015	06/30/2016
EBITDA (in millions of euros)	70.4	144.1	79.4
Net finance cost	-12.8	-28.2	-13.1
Interest Cost Ratio (ICR)	**5.5x**	**5.1x**	**6.1x**

Mercialys also complies with the two other covenant requirements:

- the fair value of properties excluding transfer taxes as of June 30, 2016 amounted to Euro 3.5 billion (above the contractual covenant that sets a fair value excluding transfer taxes of over Euro 1 billion)
- a ratio of secured debt to fair value excluding transfer taxes of less than 20%. Mercialys had no secured debt as of June 30, 2016.

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

2.5 Change in the portfolio value

Mercialys' portfolio is valued twice yearly by independent experts. The sites acquired during the half-year (two Monoprix sites for transformation) were valued at their acquisition price as of June 30, 2016.

On this basis, the portfolio was valued at Euro 3,688.9 million including transfer taxes as of June 30, 2016, compared with Euro 3,541.8 million as of December 31, 2015.

The portfolio value was therefore up +4.1% over the six months (and up +4.5% on a like-for-like basis[7]). Over 12 months, the value of the portfolio grew by +19.1%, +9.2% on a like-for-like basis.

The average appraisal yield on cost was 5.28% as of June 30, 2016, compared with 5.36% as of December 31, 2015 and 5.55% as of June 30, 2015.

[6] Including the balance sheet value of investments in associates, ie Euro 28.9 million; the value of property investments in associates are excluded.
[7] Sites on a like-for-like GLA basis

The Euro 147 million increase in the fair value of properties over six months therefore stemmed from:

- a Euro +102 million increase in rents on a like-for-like basis;
- a lower average capitalization rate: Euro +54 million;
- changes in scope for Euro -9 million.

	Average capitalization rate 06/30/2015	**Average capitalization rate 12/31/2015**	**Average capitalization rate 06/30/2016**
Large regional shopping centers	5.30%	5.12%	5.04%
Neighborhood shopping centers	6.43%	6.12%	6.02%
Total portfolio[8]	5.55%	5.36%	5.28%

The following table gives the breakdown of fair value and gross leasable area of Mercialys' real estate portfolio by type of asset as of June 30, 2016, as well as corresponding appraised rents:

	Number of assets at 06/30/2016	**Appraisal value As at 06/30/2016 incl. TT**		**Gross leasable area As at 06/30/2016**		**Appraised net rental income**	
Type of property		**(in millions of Euros)**	**(%)**	**(sq.m)**		**(in millions of Euros)**	**(%)**
Large regional shopping centers	25	2,745.5	74%	637,991	70%	138.5	71%
Neighborhood shopping centers and city-center assets	40	919.1	25%	262,658	29%	55.3	28%
Sub-total shopping centers	**65**	**3,664.7**	**99%**	**900,649**	**99%**	**193.8**	**100%**
Other sites[9]	7	24.3	1%	11,558	1%	0.9	0%
Total	**72**	**3,688.9**	**100%**	**912,207**	**100%**	**194.7**	**100%**

2.6 Number of shares and changes to the share ownership

	2013	**2014**	**2015**	**06/30/2016**
Number of shares outstanding				
- As at January 1	92,022,826	92,049,169	92,049,169	92,049,169
- At end of period	92,049,169	92,049,169	92,049,169	92,049,169
Average number of shares outstanding	92,038,313	92,049,169	92,049,169	92,049,169
Average number of shares (basic)	**91,734,656**	**91,826,157**	**91,767,764**	**91,885,549**
Average number of shares (diluted)	**91,865,817**	**91,826,157**	**91,767,764**	**91,885,549**

As of June 30, 2016, Mercialys' share ownership structure was as follows: Casino (40.16%), Generali (8.01%), Foncière Euris[10] (1.0%), shares held in treasury and by employees (0.37%), other shareholders (50.46%).

[8] Including other assets (large specialty stores, independent cafeterias and other standalone sites)
[9] Including other assets (large specialty stores, independent cafeterias and other standalone sites)
[10] Fonciere-Euris also holds a 0.99% option through a derivative instrument with physical settlement. In addition, with Rallye, it is economically exposed for 4.5% on an exclusive cash settlement basis

2.7 Distribution and outlook

Based on the results posted by Mercialys for the first half of 2016 and the outlook for the Company, the Mercialys Board of Directors, at its meeting on July 27, 2016, decided to **pay an interim dividend of Euro 0.43 per share**. This interim dividend will be paid on October 13, 2016, corresponding to 50% of the dividend distributed for 2015 on the recurring tax income.

For the year as whole, Mercialys will distribute a dividend representing **85% to 95% of its 2016 FFO**.

Given the good performance during H1, Mercialys reaffirms its 2016 objectives, namely organic growth in rents excluding indexation of +2% and a 2% increase in FFO in 2016 compared with 2015.

2.8 Events after the reporting period

There were no significant events subsequent to the balance sheet date.

3 EPRA performance measures

Mercialys applies the EPRA's recommendation[11] with regard to the indicators detailed below. The EPRA represents real estate companies listed in Europe and as part of its duties, it publishes recommendations on performance indicators to improve comparability of the financial statements published by various companies. Mercialys publishes all EPRA indicators defined by the "Best Practices Recommendations" in its Interim Financial Report and its Registration Document, and these indicators are also available on the EPRA website.

3.1 EPRA earnings and earnings per share

The table below provides the link between the "FFO" management indicator provided by Mercialys and the recurring income per share as defined by the EPRA:

Calculation of EPRA earnings and earnings per share (in millions of euros)	H1 2016	H1 2015	Comments
FFO	**58.7**	**56.8**	
No adjustments between FFO and Epra Earnings			
EPRA EARNINGS	**58.7**	**56.8**	
EPRA EARNINGS PER SHARE (in euros per share)	**0.64**	**0.62**	Average number of shares
DILUTED EPRA EARNINGS PER SHARE (in euros per share)	**0.64**	**0.62**	Average number of shares (diluted)

[11] European Public Real Estate Association

3.2 EPRA net asset value (NAV)

Calculation of EPRA net asset value (NAV) (in millions of euros)	H1 2016	H1 2015	Comments
Shareholder's equity - Attributable to the Group	**707.1**	**750.9**	
Effect of exercising of options, convertible bonds and other equity securities	0.0	0.0	
Add back deferred income and charges	3.1	6.0	
Revaluation of investment properties (IAS 40)	1,185.3	959.8	Cancellation of the asset net book values and integration of the asset fair values (incl. construction leases)
Fair value of financial investments	(76.6)	(49.1)	Difference between fair value of debt and book value of debt
EPRA NAV	**1,818.9**	**1,667.7**	
EPRA NAV PER SHARE (in euros per share)	**19.80**	**18.16**	Average number of shares (diluted)
EPRA NAV PER SHARE (in euros per share)	**19.76**	**18.12**	Number of shares at the end of the period

3.3 EPRA triple net asset value (NNNAV)

Calculation of EPRA triple net asset value (NNNAV) (in millions of euros)	H1 2016	H1 2015	Comments
EPRA NAV	**1,818.9**	**1,667.7**	
Fair value of financial instruments	76.6	49.1	Difference between fair value of debt and book value of debt
Fair value of unhedged debt	(10.2)	(11.3)	Integration of the impact related to the fair value of unhedged bond debt
EPRA NNNAV	**1,885.3**	**1,705.4**	
EPRA NNAV PER SHARE (in euros per share)	**20.52**	**18.58**	Average number of shares (diluted)
EPRA NNAV PER SHARE (in euros per share)	**20.48**	**18.53**	Number of shares at the end of the period

3.4 EPRA vacancy rate

See Section 2.2.2 of this financial report.

3.5 EPRA net initial yield on cost (NIY) rate and "topped-up" NIY disclosure rate

The table below shows how the yield on cost as published by Mercialys is turned into the yield on cost as defined according to the EPRA:

Calculation of EPRA net initial yiedl (NIY) and "topped-up" NIY disclosure (in millions of euros)	H1 2016	H1 2015	Comments
Completed property portfolio (excl. transfer taxes)	**3,457.8**	**2,912.2**	
Allowance for estimate purchasers' costs	231.2	185.5	Transfer taxes disclosed in the appraisals
Gross up completed property portfolio valuation (incl. transfer taxes)	**3,688.9**	**3,097.7**	**(B)**
Annualized rental income	179.5	162.5	Annualized current rents, turnover-based rents and revenues from Casual Leasing as of December 31, excluding vacant spaces
Property outgoings (-)	(4.3)	(2.4)	Non-recoverable current charges on assets held as of December 31
Annualised net rents	**175.2**	**160.1**	**(A)**
Add : notional rent expiration of rent free periods or other lease incentives	2.5	0.4	Rents on rent-free periods, step-up rents and other incentives ongoing on December 31
Topped-up net annualized rent	**177.8**	**160.5**	**(C)**
EPRA NET INITIALYIELD	**4.75%**	**5.17%**	**A/B**
EPRA "TOPPED-UP" NIY	**4.82%**	**5.18%**	**C/B**

3.6 EPRA cost ratios

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, and any other cost linked to the property.

Gross rental income should be calculated after deducting any ground rent payable. All service charges, management fees and other income in respect of property expenses should be netted against 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.

Calculation of EPRA cost ratios (in millions of euros)	H1 2016	H1 2015	Commentaires
Administrative / operating expense line per IFRS income statement	(9.8)	(9.6)	Staff cost and external expenses
Net service charge costs / fees	(2.9)	(2.4)	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	(2.0)	(1.6)	Other property operating income and expenses excluding management fees
Share of Joint Ventures expenses			
Total	**(15.8)**	**(14.6)**	
Adjustment to calculate EPRA Cost Ratio exclude :			
- Investment Property depreciation			Depreciation and provisions for fixed assets
- Ground rent costs	0.3	0.3	Non-group rents paid
- Service charge costs recovered through rents but not separately invoiced			
EPRA Costs (including direct vacancy costs) (A)	**(15.5)**	**(14.3)**	**A**
Direct vacancy costs [(1)]	1.8	2.4	
EPRA Costs (excluding direct vacancy costs) (B)	**(13.6)**	**(11.9)**	**B**
Gross rental income less ground rent costs [(2)]	92.7	81.9	Less costs relating to construction leases/long-term leases
Service fee and service charge costs components of gross rental income			
Share of Joint Ventures (Gross rental income less ground rent costs)			
Gross rental income (C)	**92.7**	**81.9**	
EPRA COST RATIO (including direct vacancy costs)	**-16.7%**	**-17.5%**	**A / C**
EPRA COST RATIO (excluding direct vacancy costs)	**-14.7%**	**-14.6%**	**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 which may be excluded are : property taxes, services charges, contribution to marketing costs, insurance premiums, carbon tax, and any other costs directly billed to the units
[(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 should not be added 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.

Summary consolidated financial statements

Six-month period ending June 30, 2016

The tables below include individually rounded figures. Consequently, there may be differences between the arithmetic totals of these figures and the aggregates or subtotals shown.

CONSOLIDATED INCOME STATEMENT

For the six-month periods ended June 30, 2016 and 2015 **(in thousands of euros)**		**From January 1, 2016 to June 30, 2016**	**From January 1, 2015 to June 30, 2015**
Rental income		**93,025**	**82,256**
Non-recovered property taxes		(1,081)	(1,110)
Non-recovered service charges		(1,828)	(1,272)
Property operating expenses		(3,042)	(2,669)
Net rental income		**87,072**	**77,205**
Income from management, administration and other activities		1,764	1,280
Property development margin		-	6
Other income	*Note 10*	392	401
Other expenses		(3,195)	(2,806)
Staff costs		(6,623)	(5,638)
Depreciation and amortization		(14,762)	(11,470)
Reversals/(Allowance) for provisions for liabilities and charges		72	(25)
Other operating income	*Note 11*	42,041	254
Other operating expenses	*Note 11*	(38,414)	(4,186)
Net operating income		**68,346**	**55,021**
Income from cash and cash equivalents	*Note 13.3.1*	82	115
Gross finance costs	*Note 13.3.1*	(13,162)	(12,874)
(Net finance costs)/Income from net cash		**(13,080)**	**(12,759)**
Other financial income	*Note 13.3.2*	663	641
Other financial expenses	*Note 13.3.2*	(925)	(919)
Net financial income/(expense)		**(13,342)**	**(13,037)**
Income tax	*Note 15*	(661)	(528)
Share of net income of associates	*Note 5*	308	530
Consolidated net income		**54,652**	**41,986**
attributable to non-controlling interests		4,399	28
attributable to owners of the parent		**50,253**	**41,958**
Earnings per share *based on the weighted average number of shares*			
Earnings per share attributable to owners of the parent (in euros)		0.55	0.46
Diluted earnings per share attributable to owners of the parent (in euros)		0.55	0.46

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

For the six-month periods ended June 30, 2016 and 2015 **(in thousands of euros)**	**From January 1, 2016 to June 30, 2016**	**From January 1, 2015 to June 30, 2015**
Net income for the period	**54,652**	**41,986**
Items that may subsequently be reclassified to profit or loss	**(49)**	**(5)**
Change in fair value of available-for-sale financial assets	(74)	(8)
Tax	25	3
Items that may not subsequently be reclassified to profit or loss	**(39)**	**(16)**
Actuarial gains or losses	(59)	(24)
Tax	20	8
Other comprehensive income (loss) for the period, net of tax	**(88)**	**(21)**
Consolidated comprehensive income	**54,564**	**41,965**
Attributable to owner of the parent	50,165	41,937
Attributable to non-controlling interests	4,399	28

CONSOLIDATED BALANCE SHEET

For the intermediary situation as of June 30, 2016 and the period ended December 31, 2015

ASSETS (in thousands of euros)		June 30, 2016	December 31, 2015
Intangible assets		1,363	974
Property, plant and equipment other than investment property		13	12
Investment property	*Note 9*	2,254,159	2,224,080
Investments in associates	*Note 5*	28,893	20,069
Other non-current assets	*Note 12*	68,073	34,154
Deferred tax assets		496	338
Total non-current assets		**2,352,997**	**2,279,627**
Inventories		4,378	4,358
Trade receivables		24,974	25,173
Other current assets		70,085	73,232
Cash and cash equivalents	*Note 13.1*	45,250	13,030
Investment property held for sale	*Note 9*	3,095	3,095
Current assets		**147,782**	**118,888**
TOTAL ASSETS		**2,500,779**	**2,398,515**

EQUITY AND LIABILITIES (in thousands of euros)		June 30, 2016	December 31, 2015
Share capital		92,049	92,049
Additional paid-in capital, treasury shares and other reserves		615,046	617,975
Shareholders' equity attributable to Group equity holders		**707,095**	**710,024**
Non-controlling interests		**206,771**	**206,159**
Equity		**913,866**	**916,183**
Non-current provisions		490	401
Non-current financial liabilities	*Note 13*	1,252,115	1,219,574
Deposits and guarantees		22,618	22,880
Total non-current liabilities		**1,275,223**	**1,242,855**
Trade payables		12,582	19,704
Current financial liabilities	*Note 13*	262,764	188,720
Current provisions		2,284	2,366
Other current liabilities		33,810	26,968
Current tax liabilities		250	1,719
Total current liabilities		**311,690**	**239,477**
TOTAL EQUITY AND LIABILITIES		**2,500,779**	**2,398,515**

CONSOLIDATED CASH FLOW STATEMENT

For the six-month periods ended June 30, 2016 and 2015 (in thousands of euros)				From January 1, 2016 to June 30, 2016	From January 1, 2015 to June 30, 2015
Net income attributable to Group equity holders				50,253	41,958
Non-controlling interests				4,399	28
Net income from consolidated companies				**54,652**	**41,986**
Depreciation, amortization, impairment allowances and provisions net of reversals				15,517	15,457
Unrealized gains and losses relating to changes in fair value				(1,916)	(1,333)
Income and expenses relating to stock options and similar				202	130
Other calculated income and expenses[1]				(1,096)	(802)
Share of income of associates				(308)	(530)
Dividends received from associates				583	1,446
Income from asset sales				(4,466)	279
Cash flow				**63,167**	**56,633**
Cost of net debt (excluding changes in fair value and depreciation)				14,996	12,304
Tax charge (including deferred tax)				661	528
Cash flow before cost of net debt and tax				**78,824**	**69,465**
Taxes received/(paid)				(2,433)	(628)
Change in working capital requirement relating to operations, excluding deposits and guarantees[2]				(16,106)	(2,712)
Change in deposits and guarantees				(263)	497
Net cash flow from operating activities				**60,022**	**66,622**
Cash payments on acquisition of:	•	investment property and other fixed assets	*Note 9*	(92,858)	(193,361)
	•	non-current financial assets		-	-
Cash receipts on disposal of:	•	investment property and other fixed assets	*Note 11*	60,047	36
	•	non-current financial assets		118	13
Effect of changes in the scope of consolidation with change of control				-	-
Effect of changes in the scope of consolidation related to associates[3]				(11,437)	-
Net cash flow from investing activities				**(44,130)**	**(193,312)**
Dividend payments to shareholders			*Note 7*	(52,329)	(80,756)
Interim dividends payments				-	-
Dividends payments to minority interests				(3,786)	(51)
Transactions between the Group and non-controlling interests[5]					99,472
Changes in treasury shares				(918)	(3,319)
Increase in borrowings and financial liabilities			*Note 13*	407,000	317,000
Decrease in borrowings and financial liabilities			*Note 13*	(315,500)	(301,000)
Financial interest received				24,891	18,369
Financial interest paid				(43,169)	(34,714)
Net cash flow from financing activities				**16,189**	**15,000**
Change in cash position				**32,081**	**(111,690)**
Opening cash position			*Note 13.1*	13,007	120,994
Closing cash position			*Note 3.1*	45,088	9,304

	06/2016	06/2015
(1) Other income and expenses primarily comprise:		
• discounting adjustments to construction leases	(318)	(314)
• lease rights received and spread out over the term of the lease	(981)	(964)
• financial expenses charged over several periods	173	161
• charges relating to asset sales	-	297

(2) The change in working capital requirement breaks down as follows:	**(16,106)**	**(2,712)**
Trade receivables	199	(2)
Trade payables	(7,235)	(2,396)
Other receivables and payables	(9,050)	(314)
Inventories on property development	(20)	-

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

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

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the six-month periods ended June 30, 2016 and 2015

(in thousands of euros)	Share capital	Reserves related to share capital (1)	Treasury shares	Consolidated reserves and retained earnings	Actuarial gains or losses	Available-for-sale financial assets	**Equity attributable to Group equity owners(2)**	**Non-controlling interests**	**Total equity**
As of January 1, 2015	**92,049**	**482,836**	**(3,195)**	**210,878**	**(41)**	**782**	**783,311**	**436**	**783,748**
Income and expenses recognized directly in equity	-	-	-	-	(16)	(5)	(21)	-	(21)
Net income for the period	-	-	-	41,958	-	-	41,958	28	41,986
Total income and expenses recognized	-	-	-	41,958	(16)	(5)	41,937	28	41,965
Treasury share transactions	-	-	(3,451)	87	-	-	(3,365)	-	(3,365)
Final dividends paid for 2014	-	-	-	(80,756)	-	-	(80,756)	(51)	(80,806)
Changes in percentage interest not resulting in the gain or loss of control of subsidiaries(3)	-	-	-	9,679	-	-	9,679	89,793	99,472
Share-based payments	-	-	-	132	-	-	132	-	132
As of June 30, 2015	**92,049**	**482,836**	**(6,645)**	**181,978**	**(57)**	**777**	**750,937**	**90,207**	**841,144**
As of January 1, 2016	**92,049**	**482,834**	**(3,311)**	**137,317**	**(93)**	**1,226**	**710,024**	**206,159**	**916,183**
Income and expenses recognized directly in equity	-	-	-	-	(39)	(49)	(88)	-	(88)
Net income for the period	-	-	-	50,253	-	-	50,253	4,399	54,652
Total income and expenses recognized	-	-	-	50,253	(39)	(49)	50,165	4,399	54,564
Treasury share transactions	-	-	(1,061)	94	-	-	(968)	-	(968)
Final dividends paid for 2015	-	-	-	(52,329)	-	-	(52,329)	(3,786)	(56,115)
Share-based payments	-	-	-	202	-	-	202	-	202
As of June 30, 2016	**92,049**	**482,834**	**(4,372)**	**135,537**	**(132)**	**1,177**	**707,095**	**206,772**	**913,866**

(1) Additional paid-in capital and legal reserves correspond to premiums on shares issued, acquisition and merger premiums and legal reserves.

(2) Attributable to Mercialys SA shareholders.

(3) On June 26, 2015, Mercialys sold 49% of the shares in Hyperthetis Participations to OPCI SPF2 for Euro 99,472,000 net of costs. Transaction expenses associated with this sale, in the amount of Euro 1,795,000, were recognized in equity.

Information relating to the Mercialys Group

Mercialys is a corporation (*société anonyme*) governed by French law, specializing in retail property. Its head office is located at 148, Rue de l'Université, 75007 Paris, France.
The Mercialys SA shares are listed on Euronext Paris, Compartment A.

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

The Interim Consolidated Financial Statements as of June 30, 2016 reflect the financial position of the Company, its subsidiaries and joint ventures, as well as the Group's interests in associates.

On July 27, 2016, the Board of Directors instigated and authorized the publication of the Mercialys Group Condensed Consolidated Financial Statements for the six months ending June 30, 2016.

Note 1 Basis of preparation of financial statements and accounting methods

Note 1.1 Declaration of compliance

Pursuant to regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's summary consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the European Union as of the date the financial statements were approved by the Board of Directors and applicable as of June 30, 2016.

Information about these standards is available on the European Commission website (http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

Note 1.2 Basis of preparation

The consolidated half-year financial statements, presented in summary form, have been prepared in accordance with IAS 34 - Interim Financial Reporting.

The 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, 2015, which are available upon request from the Communications department, 148, rue de l'Université, 75007 Paris, France at www.mercialys.com.

The Group's consolidated financial statements are stated in thousands of euros. The euro is the Group's functional currency. The statements have been prepared using the historical cost method, with the exception of available-for-sale financial assets and hedging derivatives, which are stated at fair value.
The tables include individually rounded figures. Consequently, there may be differences between the arithmetic totals of these figures and the aggregates or subtotals shown.

Note 1.3 Accounting policies

The accounting rules and policies applied for the preparation of the summary interim financial statements are identical to those used in the consolidated financial statements for the fiscal year ended December 31, 2015, after taking into account or at the exception of new standards and interpretations described below.

Standards, amendments to standards and interpretations adopted by the European Union and of mandatory application for the fiscal period beginning on or after January 1, 2016

The European Union adopted the following texts which have to be applied by the Group for its fiscal period starting on January 1, 2016. These new texts applicable to the Group, set out below, have no material impact on the Group's consolidated financial statements and unless indicated otherwise, they apply prospectively.

Amendments to IAS 1 – Disclosure Initiative:
These amendments further clarify the provisions on two points:

- the application of the concept of materiality, specifying that it applies to financial statements including the notes and that the inclusion of immaterial information may obscure the understanding;
- the application of professional judgment, changing certain wording that is considered to be prescriptive and thus does not leave room for judgment.

Annual improvements to IFRS – 2010-2012 Cycle: the standards concerned are:

- IFRS 2 – Share-based payment:

These amendments further clarify the definition of "vesting conditions" by providing separate definitions of "performance condition" and "service condition".

- IFRS 3 – Business combinations:

These amendments further clarify that changes in the fair value of any counterparty that are not adjustments within the assessment period are recognized as net income.

- IFRS 8 – Operating segments:

These amendments will be applied retrospectively. They require provision, in the notes to the financial statements, of the judgments on which management based its decision when the operating segments were *combined*.

- IAS 24 – Related party disclosures:

These amendments will be applied retrospectively. They further clarify that entities considered as related parties also include any entity, or any member of the group to which they belong, which provides management services to the reporting entity. In this case, the reporting entity is exempt from providing the amount of remuneration paid to the main company directors by the entity under paragraph 17, but it must state the amount of any fees paid to the service provider.

Annual improvements to IFRS – 2012-2014 Cycle: the standards concerned are:

IAS 34 – Interim financial reporting:
These amendments will be applied retrospectively. They clarify the expression "elsewhere in the interim financial report" from paragraph 16A, by requiring that it is cross-referenced with the interim financial statements, thereby allowing the reader to locate any information that they find in the interim financial report, but not in the notes to the financial statements.

Note 1.4 Use of estimates and judgments

In preparing the consolidated financial statements, the Management is required to make a number of judgments, estimates and assumptions that affect certain assets and liabilities, income and expense items, and certain information provided in the Notes to the financial statements. Because assumptions are inherently uncertain, actual results may differ from these estimates.
The Mercialys Group reviews its estimates and assessments on a regular basis to take past experience into account and incorporate factors considered relevant under current economic conditions.
For the preparation of the interim consolidated financial statements, the main judgments made by Management and the main assumptions made are the same as those used to prepare the consolidated financial statements for the fiscal year ended December 31, 2015.
The main line items in the financial statements that may depend on estimates and judgments are:

- fair value of available-for-sale assets;
- hedging instruments;
- fair value of investment properties.

Note 2 Significant events

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 amounted to Euro 69.6 million (including transfer taxes).

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 has sold the premises of the transformed hypermarkets in Rennes and Anglet, as well as the premises of the shopping center and the medium-sized unit let to Boulanger in Anglet, to the Rennes Anglet SCI. Following this transfer, Mercialys holds 30% of the SCI, with the SEREIT France OPPCI holding the other 70%.
This transaction is based on a 100% valuation of these assets for Euro 61.8 million (including transfer taxes). The consolidated capital gain on the transfers represents Euro 2.8 million.
Mercialys does not have full control over the Company by holding such assets, but it does have significant influence. Consequently, the 30% held by Mercialys is recognized by the equity method.

Note 3 Seasonal nature of activities

The Group's operations are not subject to any seasonal effects.

Note 4 Segment reporting

Segment reporting reflects Management’s view and is established on the basis of internal reporting used by the chief operational decision maker (the Chairman and Chief Executive Officer) to make decisions about resource allocation and assess the Group’s performance.
As the Group’s Executive Management does not use a breakdown of operations to review operational matters, no segment reporting is provided in the financial statements.

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

Note 5 Changes in the scope of consolidation

Note 5.1 List of consolidated companies

As of June 30, 2016, the Mercialys Group consolidates the following companies:

Name	June 30, 2016			December 31, 2015		
	Method	Interest %	Control %	Method	Interest %	Control %
Mercialys SA	FC	Parent company	Parent company	FC	Parent company	Parent company
Mercialys Management SAS	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Kerbernard	FC	98.31%	100.00%	FC	98.31%	100.00%
Point Confort SA	FC	100.00%	100.00%	FC	100.00%	100.00%
Corin Asset Management SAS	EM	40.00%	40.00%	EM	40.00%	40.00%
SCI La Diane	FC	100.00%	100.00%	FC	100.00%	100.00%
Société du Centre Commercial de Narbonne SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
FISO SNC	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS des Salins	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Timur	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Agout	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Géante Périaz	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Dentelle	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI GM Geispolsheim	-	-	-	EM	50.00%	50.00%
SCI Caserne de Bonne	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI AMR	EM	43.42%	43.42%	EM	43.42%	43.42%
SNC Aix2	EM	50.00%	50.00%	EM	50.00%	50.00%
SNC Alcudia Albertville	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Fenouillet participation	EM	10.00%	10.00%	EM	10.00%	10.00%
SAS Hyperthetis participations	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Immosiris	FC	51.00%	51.00%	FC	51.00%	51.00%
SAS Epicanthe	FC	100.00%	100.00%	FC	100.00%	100.00%
SARL Toutoune	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS Mercialys Exploitation	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Rennes – Anglet	EM	30.00%	30.00%	-	-	-

FC: Full consolidation *EM: Equity method*

SCI Rennes – Anglet, acquired by Mercialys as part of the agreement with the SEREIT France OPPCI, was consolidated at the end of June 2016 using the equity method.

GM Geispolsheim was liquidated on January 12, 2016.

Note 5.2 Assessment of joint control and significant influence

With the exception of SCI Rennes-Anglet, for which the assessment of the type of control is presented below, there are no events to report for the first half of 2016 that called into question the assessments of joint control and significant influence described at December 31, 2015 (Note 3.4 in the registration document).

SCI Rennes – Anglet:

SCI Rennes – Anglet is 70% owned by the SEREIT France OPPCI and 30% owned by the Mercialys Group.

This company's operational and strategic decisions are taken by the manager: the OPPCI investment fund SEREIT France. Mercialys has a seat on SCI Rennes-Anglet's strategic committee and has veto rights for certain decisions, with these veto rights considered to be protective and show that Mercialys exercises significant influence on the company. SCI Rennes Anglet is therefore consolidated using the equity method.

Note 6 Equity

As of June 30, 2016, share capital totaled Euro 92,049,169 and was made up of 92,049,169 fully paid up shares with a par value of Euro 1.

Note 7 Dividends paid, proposed or decided

As at December 31, 2015, out of the 92,049,169 shares, 91,803,835 shares were eligible for the dividend in respect of 2015 earnings (245,334 treasury shares are exempt from dividend payment).
The Company paid its shareholders a gross dividend of Euro 1.33 per share in respect of the fiscal year ended December 31, 2015. An interim dividend of Euro 0.76 per share was paid in 2015, and the final dividend of Euro 0.57 per share was paid on April 26, 2016.
Payment of the final dividend amounted to Euro 52,329,000.
The total dividend for the 2015 fiscal year therefore came to Euro 122,092,000.

Note 8 Business combinations

No business combinations were carried out during the period ended June 30, 2016, with all asset transactions relating to the acquisition or disposal of individual assets.

Note 9 Investment property, including property held for sale

Acquisitions and disposals

In June 2016, Mercialys acquired two Monoprix sites for transformation in Saint-Germain-en-Laye and La Garenne-Colombes close to Paris. This investment amounted to Euro 69.6 million.

Investment property held for sale

The total value of investment property held for sale amounted to Euro 3.1 million. This amount corresponds to the value of assets under preliminary sales agreements or for which a firm offer had been signed as of June 30, 2016.

Impairment of investment property

Additional impairments on investment properties were recognized at the end of June 2016, for a total amount of Euro 0.8 million, the total amount of impairments therefore amounted to Euro 3.2 million at end June 2016.

Fair value of investment property and investment property held for sale

Mercialys' portfolio is valued twice yearly by independent experts. The sites acquired during the half-year (two Monoprix sites for transformation) were valued at their acquisition price as of June 30, 2016.

On this basis, the portfolio was valued at Euro 3,688.9 million including transfer tax (Euro 3,457.8 million excluding transfer tax) as of June 30, 2016, compared with Euro 3,541.8 million (Euro 3,321.6 million excluding transfer tax) as at December 31, 2015.

The portfolio value was therefore up 4.1% over the six months (and up 4.5% on a like-for-like basis). Over 12 months, the value of the portfolio grew by +19.1%, +9.2% on a like-for-like basis.

The average appraisal yield was 5.28% as of June 30, 2016, compared with 5.36% as at December 31, 2015 and 5.55% as of June 30, 2015.

The Euro 147 million increase in the market value of properties over six months is therefore due to:
- the Euro 102 million increase in rents on a like-for-like basis;
- a lower average capitalization rate which had an impact of Euro 54 million;
- changes in the scope of consolidation in the amount of Euro -9 million.

The average capitalization rates from the appraisals were as follows:

	June 30, 2016	December 31, 2015	June 30, 2015
Large regional shopping centers:	5.0%	5.1%	5.3%
Neighborhood shopping centers:	6.0%	6.1%	6.4%
Total portfolio[12]:	5.3%	5.4%	5.5%

(i) including other assets (large food stores, independent cafeterias, other isolated assets

The following table gives the breakdown of appraised market value and gross leasable area (GLA) by type of asset as of June 30, 2016, as well as corresponding appraised rents:

	Number of assets as of 06/30/2016	**Appraisal value as of 06/30/2016 incl. Transfer Taxes**		**Gross leasable area as of 06/30/2016**		**Appraised net rental income**	
Type of property		**(millions of euros)**	**(%)**	**(m²)**	**(%)**	**(millions of euros)**	**(%)**
Regional/large shopping centers	25	2,745.5	74%	637,991	70%	138.5	71%
Neighborhood shopping centers	40	919.1	25%	262,658	29%	55.3	28%
Sub-total shopping centers	**65**	**3,664.7**	**99%**	**900,649**	**99%**	**193.8**	**100%**
Other sites(1)	7	24.3	1%	11,558	1%	0.9	0%
Total	**72**	**3,688.9**	**100%**	**912,207**	**100%**	**194.7**	**100%**

(1) including other assets (large food stores, independent cafeterias, other isolated assets

Thus, based on an assumption of annual appraised rents of Euro 194.7 million and a capitalization rate of 5.28%:

Sensitivity criteria	Impact on the appraised value (excl. transfer tax) (millions of euros)
Drop of 0.5% in the capitalization rate and 10% increase in rent	1,023.7
Drop of 0.5% in the capitalization rate and 10% drop in rent	208.9
Increase of 0.5% in the capitalization rate and 10% increase in rent	248.3
Increase of 0.5% in the capitalization rate and 10% drop in rent	(425.5)

Note 10 Other income

Other recurring income of Euro 392,000 recognized in the first half of 2016 corresponds to dividends received from UIR2, the OPCI fund created in partnership with Union Investment.

These dividends correspond to the management of the OPCI's retail property assets, which is similar to the business activity pursued by Mercialys. They are therefore presented under operating income.
In the six months ended June 30, 2015, these dividends totaled Euro 401,000.

Note 11 Other operating income and expenses

Other operating income and expenses came to Euro 3.6 million at end-June 2016, versus Euro (3.9) million at end-June 2015.
This income primarily includes the capital gain on the transfers of the Rennes and Anglet sites for Euro 2.8 million, the AMR earnout for Euro 1.6 million and the impairments recorded on investment properties for Euro (0.8) million.
For the first half of 2015, the Euro (3.9) million of expenses primarily included impairments on investment properties for Euro (2.2) million and costs relating to acquisitions of assets for Euro (0.9) million.

Note 12 Other non-current assets

As of June 30, 2016, other non-current assets were mainly comprised of non-current financial assets (hedging instruments) for Euro 48,242,000, accounts receivable from tenants under construction leases for Euro 9,485,000 and available-for-sale financial assets for Euro 10,318,000.

Note 13 Financial structure and financial costs

Note 13.1 Net cash

The “Net cash” aggregate breaks down as follows:

(in thousands of euros)	June 30, 2016	December 31, 2015
Cash	45,149	12,929
Cash equivalents	101	101
Gross cash and cash equivalent	**45,250**	**13,030**
Current bank borrowings	(162)	(23)
Cash and cash equivalent net of current bank borrowings	**45,088**	**13,007**

Under the share liquidity agreement with Oddo & Cie, the cash managed is invested in money-market mutual funds (OPCVM). These funds comply with the defined criteria for classification under cash equivalents, and are part of the net cash position.

Note 13.2 Borrowings and financial liabilities

13.2.1 Breakdown

	June 30, 2016			December 31, 2015		
(in thousands of euros)	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Bonds	(1,206,978)	(4,679)	(1,211,657)	(1,205,197)	(21,181)	(1,226,378)
Other borrowings and financial liabilities	-	(257,500)	(257,500)	-	(166,000)	(166,000)
Bank facilities		(162)	(162	-	(23)	(23)
Fair value hedging derivatives – liabilities	(45,137)	(423)	(45,560)	(14,377)	(1,516)	(15,893)
Gross debt	**(1,252,115)**	**(262,764)**	**(1,514,879)**	**(1,219,574)**	**(188,720)**	**(1,408,294)**
Fair value hedging derivatives – assets	48,242	6,069	54,311	14,449	19,718	34,167
Cash and cash equivalents	-	45,250	45,250	-	13,030	13,030
Cash and cash equivalents and other financial assets	**48,242**	**51,319**	**99,561**	**14,449**	**32,748**	**47,197**
NET DEBT	**(1,203,873)**	**(211,445)**	**(1,415,318)**	**(1,205,125)**	**(155,972)**	**(1,361,097)**

13.2.2 Change in financial liabilities

Outstanding commercial paper has increased by Euro 91.5 million since January 1, 2016. At the end of June 2016, it amounted to Euro 257.5 million.

13.2.3 Financial covenants:

Mercialys' financial liabilities are subject to default clauses (resulting in early repayment) in the event of failure to comply the following financial ratios:

- ✓ Loan To Value (LTV): consolidated net debt/consolidated fair value of investment properties excluding transfer taxes < 50%, at each reporting date;
- ✓ Interest Cost Ratio (ICR): consolidated EBITDA[(1)] /net finance costs > 2, at each reporting date;
- ✓ secured debt/consolidated fair value of investment properties excluding transfer taxes <20% at any time;
- ✓ consolidated fair value of investment properties excluding transfer taxes > Euro 1 billion at any time.

Change of ownership clauses are also applicable.

	Covenants	June 30, 2016	December 31, 2015
Loan To Value (LTV)	<50%	40.6%	41.0%
Interest Cost Ratio (ICR)	>2x	6.1x	5.1x

As of June 30, 2016, the other two contractual covenants (Secured debt and Consolidated fair value of investment properties excluding transfer taxes > Euro 1 billion at any time) are also being complied with, as are the commitment and default clauses.

(1) EBITDA: Earnings before interest, taxes, depreciation and amortization.

Note 13.3 Net financial income

13.3.1 Net finance costs

(in thousands of euros)	June 30, 2016	June 30, 2015
Interest expenses on financing operations after hedging	(82,088)	(53,634)
Interest income on financing operations after hedging	68,925	40,760
Gross finance costs	**(13,162)**	**(12,874)**
Net proceeds of sales of investment securities	82	115
Income from net cash/(Net finance costs)	**(13,080)**	**(12,759)**

13.3.2 Other financial income and expenses

(in thousands of euros)	June 30, 2016	June 30, 2015
Other financial income	663	641
Financial income	**663**	**641**
Other financial expenses	(925)	(919)
Financial expenses	**(925)**	**(919)**
Total other financial income and expenses	**(262)**	**(278)**

Other financial expenses are comprised of finance costs related to the company’s financial structure. Other financial income records remuneration on cash generated in the course of operations and deposits from tenants.

Note 13.4 Fair value hierarchy of financial instruments

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

As of June 30, 2016 *(in thousands of euros)*	*Book value*	*Fair value*	*Market price = level 1*	*Models with observable inputs = level 2*	*Models using non-observable inputs = level 3*
ASSETS					
Available-for-sale financial assets (i)	10,318	10,318	-	-	10,318
Fair value hedging derivatives – assets (current and non-current) (ii)	54,311	54,311	-	54,311	-
Cash equivalents	45,250	45,250	45,250	-	-
LIABILITIES					
Bonds	1,211,657	1,288,247	1,288,247	-	-
Fair value hedging derivatives – liabilities (current and non-current) (ii)	45,560	45,560	-	45,560	-

At December 31, 2015 ***(in thousands of euros)***	*Book value*	*Fair value*	*Market price = level 1*	*Models with observable inputs = level 2*	*Models using non-observable inputs = level 3*
ASSETS					
Available-for-sale financial assets (i)	10,392	10,392	-	-	10,392
Fair value hedging derivatives – assets (current and non-current) (ii)	34,167	34,167	-	34,167	-
Cash equivalents	13,030	13,030	13,030	-	-
LIABILITIES					
Bonds	1,226,378	1,247,153	1,247,153	-	-
Fair value hedging derivatives – liabilities (current and non-current) (ii)	15,893	15,893	-	15,893	-

(i) the assets available for sale (AFS) valued at their fair value are primarily comprised of units of OPCI funds. Their fair value was determined on the basis of their net asset value. This is a level 3 valuation.

(ii) Derivatives are valued externally using the usual valuation techniques for financial instruments of this kind. The valuation models include the observable market inputs (particularly the yield curve) and the quality of the counterparty. These fair value measurements are generally category 2.

Note 14 Contingent assets and liabilities

No event occurred in the first half of the year that could generate a contingent asset or liability.

Note 15 Tax

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

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

The tax expense of Euro (661,000) corresponds principally to corporate value-added tax in the amount of Euro (702,000) and to the taxation of the income of companies that are not subject to the SIIC tax regime for Euro (121,000). To that must be added deferred taxes for Euro 162,000.

Note 16 Off-balance sheet commitments

The Group's commitments as of June 30, 2016 are those stated in the annual financial statements as of December 31, 2015, in addition to the commitments described below.

The assets under sale agreements or binding offers signed as of June 30, 2016 represent a value of Euro 3.1 million (including transfer taxes). They are recorded under Investment property held for sale (Note 9).

Commitment as part of the Toulouse Fenouillet project:
A partnership was set up in 2014 with Foncière Euris to carry out work on the site, through a company in which Foncière Euris holds a majority interest. Mercialys has an option to buy phase 2 (shopping center extension), at fair value, that can be exercised when the shopping center opens with pricing conditions that are unchanged from the initial project.
If Mercialys decides to exercise its fair value option to buy phase 2, the investment, which represented Euro 118 million for Mercialys at December 31, 2015, with Euro 17 million already committed on this date, based on the conditions planned when the partnership was set up in 2014, would be reviewed in line with market conditions based on an independent appraisal that has been approved by both parties.

Commitment in connection with the disposal of SAS Hyperthetis participations:

In connection with the disposal of 49% of SAS Hyperthetis participations, Mercialys has a call option on the shares of the company or on the real estate assets held by minority shareholders at a minimum guaranteed price (the higher of the fair value and the IRR), which it may exercise in 2022. This option is valued at Euro 139.9 million as of June 30, 2016. This call option is up to Mercialys.

Related-party transactions

With SCI Rennes-Anglet:
Current account agreement:
Mercialys has granted SCI Rennes-Anglet a current account advance which represented Euro 10,753,000 at end-June 2016. This current account advance will be subject to interest based on the average annual effective rate applied by credit institutions and financing companies for variable-rate loans with an initial maturity of over two years. This agreement has been set up for the duration of the shareholders’ agreement, i.e. 15 years, with tacit renewal for successive five-year periods.

SCI Rennes-Anglet has set up several agreements:

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

With SCI AMR:

Mercialys has entered into the following agreements with SCI AMR:

- Real estate advisory service agreement: this is a five-year contract under which Mercialys will provide general property management assistance to SCI AMR;
- Five-year exclusive letting mandate.
  These transactions amounted to Euro 83,000.

With the Casino Group:

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

In the first half of 2016, Mercialys worked with the Casino Group to acquire 2 Monoprix sites for transformation.

During the first half of 2016, the following changes occurred to **the leases granted by the** Mercialys Group to Casino Group companies:

- -6 leases for Casino Restauration, with a total of 13 leases as of June 30, 2016, including 6 leases for premises operated under the Casino Caféteria brand and 7 leases for other brands (compared to 23 leases as of June 30, 2015);
- Other Casino Group entities – 11 leases, i.e., a total of 75 leases as of June 30, 2016 (compared to 69 leases as of June 30, 2015).

Rent charged in respect of these leases in the first half of 2016 amounted to:

- Euro 21,144,000 with Distribution Casino France (compared to Euro 12,693,000 as of June 30, 2015);
- Euro 4,263,000 for Monoprix (compared to Euro 545,000 as of June 30, 2015);
- Euro 1,078,000 for Casino Restauration (compared to Euro 3,114,000 as of June 30, 2015);
- Euro 3,254,000 for the other entities (compared to Euro 2,781,000 as of June 30, 2015).

As part of the **Property Management** activities, the fees paid by Mercialys and its subsidiaries to Sudeco, a wholly-owned subsidiary of the Casino Group, amounted to Euro 2,763,000 for the first half of 2016 (versus Euro 2,696,000 as of June 30, 2015).

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

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

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

> The principle of upside/downside being split 50/50 is maintained to take account of the effective conditions under which the properties will be let. Therefore, if there is a positive or negative difference (upside or downside) between effective rents resulting from letting and expected rents at the outset, the price will be adjusted up or down by 50% of the difference observed.

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

The term of the partnership, which was initially three-and-a-half years, was extended until December 31, 2017.

During the first half of 2016, the acquisitions of Monoprix sites were made within the framework of this agreement.

Furthermore, the amount paid by Mercialys under the Services Agreement was Euro 1,040,000 for the first half of 2016 (versus Euro 975,000 in the first half of 2015).

Under the **Advisory Service Agreement** between Mercialys and the Casino Group companies Immobilière Groupe Casino and Alcudia Promotion, a fee of Euro 171,000 was recognized in the first half of 2016, an amount identical to that recorded in the first half of 2015.

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

In 2012, after Casino reduced its stake in Mercialys, the two parties decided to terminate the existing Current Account and Cash Management Agreement and sign a new Current Account Advance Agreement. This new Agreement will enable Mercialys to keep a current account with Casino, allowing it to benefit from cash advances from Casino up to the current threshold of Euro 50 million.

The term of the Agreement is aligned with that of the new Partnership Agreement negotiated between the parties, i.e. expiring on December 31, 2017.

Furthermore, Casino Finance, a subsidiary of Casino dedicated to centralized cash and treasury management for the Casino Group, replaced Casino, Guichard-Perrachon in the Current Account Advance Agreement on July 25, 2012. The Agreement was also amended to include updated interest and a non-use fee.

The amendment to the Current Account Advance Agreement was signed on February 26, 2015.

Under this agreement, Casino Finance grants to Mercialys a credit facility with a maximum amount of Euro 50 million as A advance, which refers to any amount with a principal below Euro 10 million, and/or B advance, which refers to any amount with a principal equal or greater than Euro 10 million. These advances are intended solely for the short-term financing of the general needs of Mercialys.
The expiration date of this Agreement is set at December 31, 2017.
With regard to interest:
- Any A Advance will bear interest at 1-month Euribor plus Margin A of 0.70% per year.
- Any B Advance will bear interest at a Euribor interest rate applicable to the drawdown period plus Margin B of 1.20% per year.
Concerning the agreements entered into in relation to the contribution of assets to Mercialys, amounts were prepaid to Casino Group companies. As of June 30, 2016, the following amounts had not been used:

- **Delegated Project Management Agreements** signed with IGC Services: Euro 2,594,000

Under the **Property Development Agreements** signed with IGC Services, calls for funds have been made. These calls for funds, recognized as receivables, totaled Euro 587,000 as of June 30, 2016. The residual commitment under these property development contracts amounts to Euro 71.4 million.

Exclusive authority to sell agreements with IGC Services:
In connection with sales of its asset portfolios, Mercialys calls upon the expertise of IGC Services to find legal entities that may be interested in acquiring one or more assets. The remuneration for this service was Euro 280,000 in the first half of 2016.

Current Account Advance Agreement with SNC Fenouillet participation:
On December 30, 2014, Mercialys concluded a Current Account Advance Agreement with SNC Fenouillet participation. The amounts made available in the current accounts will depend on Mercialys' LTV ratio and will be subject to a maximum of Euro 19,560,000. This agreement is entered into for a period of six years.

Service agreement and brand licenses:
On June 26 2015, Hyperthetis participations and Mercialys entered into an Advisory Service and Brand Licensing Agreement concluded for eight years and automatically renewable. In the context of its asset development and operations activities, Hyperthetis decided to entrust Mercialys with assignments related to accounting, legal and public relations management, strategy advisory services and brand licensing. For services rendered, Mercialys will receive an annual flat fee of Euro 75,000.

Related-party transactions – summary

(in thousands of euros)	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**
Income/(Expenses)			
Invoiced rents			
Distribution Casino France	21,144	30,575	12,693
Monoprix	4,263	1,159	545
Casino Restauration	1,078	4,227	3,114
Other Casino Group entities	3,254	5,572	2,781
Advisory Service Agreement fees received by Mercialys	171	343	171
Short-term Occupancy Agreement fees charged by Mercialys to the Casino Group	-	308	127
Property Management service fees paid to the Casino Group	(2,763)	(5,391)	(2,696)
Advisory Service Agreement fees received by Mercialys paid to the Casino Group	(1,040)	(1,950)	(975)
Exclusive Authority to Sell Agreement fee to IGC Services	(280)	(2,233)	(918)
Project Management Agreement fees prepaid by Mercialys to:			
IGC Services	2,594	2,606	217
IGC Promotion/Alcudia Promotion	-	-	37
Calls for funds under Property Development Agreements	587	365	176
Current Account Advance Agreement with Fenouillet	16,800	16,800	16,800
Current Account Advance Agreement with SCI Rennes-Anglet	10,753	-	-
Acquisitions of fixed assets from the Casino Group	69,600	448,098	166,736

In the first half of 2016, Mercialys paid out a dividend of Euro 21,072,000 to the Casino Group companies for the year ended December 31, 2015, subject to the deduction of the interim dividend paid in December.

Note 17 Consolidation by another company

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

Note 18 Subsequent events

There have been no significant events subsequent to the reporting date.

Société anonyme au capital de 92.049.169 euros
Siège social : 148, rue de l'Université,
75007 Paris
424 064 707 R.C.S. Paris

STATEMENT BY THE PERSON RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

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

Paris, July 27, 2016

Eric LE GENTIL

Chairman and Chief Executive Officer

Statutory auditors' review report on the interim consolidated financial statements for 2016

This is a free translation into English of the statutory auditors' review report on the half-yearly consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France. This report also includes information relating to the specific verification of information given in the Group's interim management report.

Mercialys

Registered office: 148, rue de l'Université - 75007 Paris
Share capital: €.92,049,169

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the period from 1st January 2016 to 30 June 2016

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Mercialys, for the period from 1st January 2016 to 30 June 2016,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

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

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

The statutory auditors,

Paris La Défense, on the 27 July 2016	Lyon, on the 27 July 2016
KPMG Audit *A* division of KPMG S.A. Isabelle Goalec Partner	Ernst & Young et Autres Nicolas Perlier Partner