PRESS RELEASE

Paris, February 21, 2008

A year of strong growth in earnings and asset value for Mercialys

- ✓ **Strong growth of the results**
  - > Rental revenues up **+20.9%** to Euro 99.5 million
  - > Organic growth in invoiced rents of **+9.3%**
  - > Recurring operating cash flow[1] up +19.7%
  - > Cash flow increasing +13,3%
  - > Net income, Group share up +18.3% to Euro 71.5 million
- ✓ **Euro 183.5 million of acquisitions at an average yield of 7.0%**
- ✓ **Asset value doubled since the IPO**
  - > Assets valued at **Euro 1,913.8 million** at an average yield of **5.5%**
  - > Net asset value up +28% over 12 months to **Euro 25.7 per share**
- ✓ **Dividend of Euro 0.81 per share against Euro 0.71 for 2006, an increase of 14%**

Jacques Ehrmann, Chief Executive Officer of Mercialys commented: "2007 was an excellent year for Mercialys both in terms of earnings growth and laying the foundations for robust growth in the future. The Alcudia program has now entered an active rollout phase which will continue over the next five years and some high-quality new programs have been added to the pipeline, through bids won against best in class competitors".
He added: "Our outlook rely on our business fundamentals as a pure player in retail : our model is buoyant as correlated with retail industry and strong as sat on index-linked rents consolidated by leasehold rights."

[1] Cashflow excluding treasury income net of tax and non recurring items (Euro 2,0 million in 2006 and none in 2007)

In thousands of euros	2005 pro forma[2]	2006	2007	% change 2007/2006
Invoiced rents	**71,825**	**80,714**	**97,723**	**+21.1%**
Rental revenues	72,656	82,318	99,496	+20.9%
Net rental income	67,884	76,982	93,484	+21.4%
Operating costs	-4,378	-6,836	-8,326	
Depreciation, amortization and provisions	-12,889	-13,356	-15,454	
Operating income	**50,617**	**56,791**	**69,703**	**+22.7%**
Net financial income	656	6,140	3,202	
Income tax	-281	-2,425	-1,307	
Net income	**50,992**	**60,505**	**71,598**	**+18.3%**
Net income, Group share	**50,968**	**60,468**	**71,549**	**+18.3%**
Cashflow	63,881	76,404	86,562	+13.3%
Recurring operating cashflow[1]	63,268	70,070	83,840	+19.7%
Basic and diluted earnings per share *(Euro)*		0.83	0.98	+18.1%
Net asset value *(Euro per share)* (replacement value)	17.07	20.08	25.70	+17.6%

A year of strong growth in rental revenue

As expected, strong organic growth (+9.3%) was coupled with equally strong external growth (+13.2%), driven by the major acquisitions made in 2006 and 2007 (Euro 105.5 million and Euro 183.5 million respectively) and their favorable timing, with almost half made in the final quarter of 2006 or very early in 2007.

Operating income growing faster than revenues

Operating income grew faster than rental revenues, rising by +22.7% due to growth in rental revenue coupled with contained growth in property operating expenses and structural costs.

The cash balance fell to Euro 70.7 million at December 31, 2007 from Euro 128.3 million one year earlier due to acquisitions made in the year. This had the effect of decreasing net financial income and the related tax charge.

Under this combined effect, net income, Group share rose sharply by +18.3%, at Euro 71,549 thousand.

[2] Mercialys was created by way of a spin-off of assets in October 2005 and the 2005 figures presented in this press release are therefore pro forma historical figures taken from the separate financial statements of the companies that contributed to the spin-off.

Double-digit cash flow growth

In 2006, Mercialys recognized Euro 2.3 million in lease rights on new assets acquired in the second half. Despite this strong base for comparison, cash flow nonetheless grew by +13.3% in 2007.

Recurring operating cash flow which excludes interest income on cash net of tax and non recurring lease rights on new assets completed rose by +19.7%, in line with rental revenues.

Portfolio value doubled in two and half years

The portfolio value has risen by +42% in one year to reach **Euro 1,913.8 million**, including transfer taxes under the combined impact of

- acquisitions,
- higher average rental values due to realization of reversionary potential ,
- and lower appraisal yields in line with market rates on 2007 transactions.

Net asset value has also risen sharply by +28% over 12 months, to **Euro 25.70 per share**[3] against Euro 20.08 per share one year earlier and Euro 23.04 per share at June 30, 2007.

Acquisitions in the year represented a gross investment of **Euro 183.5 million**. They were made at a high average yield of **7%**. The assets acquired meet Mercialys's key criteria in terms of reversionary potential and/or major redevelopment potential which will create value in the medium-term. In December 2007, Mercialys acquired five assets in La Reunion, its first ever investment outside mainland France.

Total investment[4] recognized in 2007 amounted to Euro 198.0 million, almost double the annual level forecast at the time of the IPO.

A financial structure without debt allowing a steady investment policy

At December 31, 2007, Mercialys had a net cash position of Euro 35.4 million.

Mercialys can therefore maintain its ongoing steady growth policy.

The Alcudia program has now entered its rollout phase, with ten redevelopment projects already underway and five new extensions due to open in 2008. During 2008, Mercialys will also apply for administrative authorization for centers due to be developed over the period 2009-2012.

The Casino development pipeline, was enhanced by some high-quality programs following a number of successful bids in the first half of 2007.

Alcudia program and the Casino development pipeline together represent a large scope of investment opportunities valued at Euro 775 million[5] on which Mercialys has exclusive call options.

[3] Replacement NAV
[4] Acquisitions during the year + renovation and redevelopments + CAPEX
[5] Potential price of acquisition by Mercialys multipled by probability percentage for each project

Mercialys and Casino have agreed on the following yields applicable to value call options for 2008 under their Partnership Agreement:

- shopping malls: 6.0% versus 6.9% in 2007;
- isolated assets, retail parks: 6.4% versus 7.3% in 2007.

This evolution of rates is similar to the decrease in 2007 retail deal rates. Thus, 2008 rates includes a premium over market rates similar to the one existing in 2006 and 2007.

Due to the significant size of the the pipeline of new developments and Alcudia extensions, Mercialys can afford to be highly selective in terms of opportunities in the open market :

- focusing on assets with reversionary and/or redevelopment potential;
- purchasing additional co-ownership lots in centers where it already owns assets;
- not bidding in over-competitive open market tenders.

Dividend growth in line with growth in cash flow

2007 was not a typical year in certain respects:

- favorable timing of acquisitions made in 2006 and 2007, which had a significant impact on growth in rental revenue;
- high indexation effect;
- cash position still positive (Euro 70.6m).

2007 was also a year in which Mercialys confirmed its solid fundamentals and its effective organization:

- strong organic growth;
- investment outlook confirmed;
- recognised professional skills in management of shopping centers;
- Flexible organization focused on main issues.

Aware that 2007 was not a typical year but confident in the outlook for Mercialys and the robustness of its business model, the Board of Directors intends to pass on the entire growth in cash flow in the dividend. The dividend to be recommended for 2007 at the annual general meeting of May 6, 2008 has been set at Euro 0.81 per share, an increase of +14,.1% compared with the 2006 dividend of Euro 0.71 per share.

Outlook for shopping center sector is good

The fundamentals of the business model are closely correlated with those of the retail industry: long consumer spending cycles and supply and demand for prime retail space.
Strong development of national banners and scarcity of shopping malls boost rent increases.

Index-linked rent base and leasehold rights which enhance tenant loyalty are shocks absorbers of short term cycles of economic trends and consumer spending which should continue to increase.

In addition, Mercialys can capitalize on promising new growth drivers such as Alcudia and the development pipeline, together with a strong inancial structure debt-free at the end of 2007.

For 2008, Mercialys has set a growth target of +12% in rental revenues and recurring operating cash flow.

We are maintaining our double-digit growth target for rental revenues and operating cash flow for 2009.

2010 and beyond will see the completion and full impact of new projects (Alcudia extensions, development pipeline).

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This press release is available at www.mercialys.com

Next publications:

- April 21, 2008 (evening) — 1st quarter 2008 rental revenue
- July 24, 2008 (morning) — 2008 half-year results
- October 20, 2008 — 3rd quarter 2008 rental revenue

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About Mercialys

Mercialys is one of the few large French companies to focus entirely on shopping centers. Rental revenue in 2007 amounted to Euro 99,5 million and net earnings to Euro 71,5 million. Mercialys owns 167 assets with an estimated value of over Euro 1.9 billion December 31, 2007. It elected for "SIIC" (REIT) tax status on November 1, 2005 and has been listed on Eurolist by Euronext Paris, symbol *MERY*, since its initial public offering on October 12, 2005. There were 75,149,959 Mercialys shares in issue at December 31, 2007.

CAUTIONARY STATEMENT

This press release may contain forward-looking statements about future events, trends, projects or targets.

These forward-looking statements are by nature subject to identified and unidentified risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements. Please refer to the Mercialys shelf registration document for the year ended December 31, 2006, available at www.Mercialys.com, for a description of the key factors, risks and uncertainties liable to influence Mercialys's business operations and results.

Mercialys makes no undertaking to update or revise these forward-looking statements or to disclose new information, future events or circumstances that might affect them.

1. Business review

(Financial statements for the year ended December 31, 2007)

A year of strong growth

With 9.3% organic growth in invoiced rents in 2007, Mercialys has confirmed its ability to generate growth through targeted actions in lease renewal and reletting under merchandising plans designed to create momentum and value at its centers.
Mercialys has a unique strong organic growth profile:

- a portfolio of shopping centers mostly in the French provinces, comprising large shopping centers (62% of the portfolio value) and neighborhood shopping centers (28% of the portfolio value) which generate above-average growth in retail sales because of their local appeal and because Mercialys takes targeted actions to increase consumer traffic;
- an average rental value on its leases which, for historical reasons, is lower than market levels and therefore provides an opportunity for Mercialys to extract value.

2007 was also a year of strong external growth due to the major acquisitions made in 2006 and 2007 (Euro 105.5 million and Euro 183.5 million respectively) and their favorable timing, with almost half of them made in the final quarter of 2006 or very early in 2007, boosting 2007 growth compared with 2006.

Acquisitions made at an average yield of 7%

With the acquisitions made in 2007, Mercialys has confirmed its ability to implement a value-creating external growth policy.

In a market where prime retail assets are scarce and competition for deals is tough, Mercialys has been able to capitalize on its ability to negotiate deals privately, and therefore at better prices. Using the investment sourcing network it set up with the Casino Group, Mercialys has made some highly selective acquisitions.

Apart from the Corsican assets negotiated in 2006 and partly acquired in 2007, Mercialys has also acquired three shopping malls in Béziers, Villenave d'Ornon and Morlaix, and five shopping centers in La Reunion from the Vindémia Group, a subsidiary of Casino. All these assets offer attractive reversionary potential and/or redevelopment or extension potential.
Under the Partnership Agreement with Casino, Mercialys has also acquired three new medium-sized assets in Annecy Seynod, Canet en Roussillon and Besançon.

2007 acquisitions represented a gross investment of Euro 183.5 million at an average gross yield of 7%.

A year of strengthened fundamentals

The shopping center sector has an extremely dynamic and resilient performance profile. It is intrinsically correlated with trends in the retail industry, which itself is supported by relatively buoyant consumer spending (+3% growth in 2007[6]).
The sector therefore offers a dual advantage for Mercialys in terms of performance:

- exceptionally good visibility in terms of cash flow, with a solid base of index-linked rents, very low vacancy rates due to the practice of leasehold rights, a peculiarity of the French retail system which requires an outgoing tenant to find a replacement, and risks pooled over a large number of sites and leases;
- an ongoing ability to create value by working on a center's merchandising and events planning, negotiating lease renewals and relets, and pursuing a policy of renovating and redeveloping centers to improve their competitiveness.

Against this backdrop, Mercialys has created a flexible organization structure by combining and developing specialized skills in value-creating functions.

After two years of operation, Mercialys has confirmed its strengths in this sector.

- Strong organic growth supported by high reversionary potential and experienced letting teams;
- Continuous growth in consumer traffic due to the appeal of neighborhood centers to consumers;

[6] Consumer spending on manufactured products in the retail category - Source: INSEE

- Specialized asset management skills;
- Sustained, selective external growth supported by a large development pipeline of new assets under a highly attractive Partnership Agreement with Casino, and a robust balance sheet structure.

The most important event of 2007 was the preparation and launch of the Alcudia program, which aims to redevelop and renovate the entire portfolio by 2012. More than anything else, this has paved the way for strong future growth: new and/or renovated assets and new space to let, accompanied by a well thought out marketing approach which is both far-reaching and ambitious.

2. Financial review

In this document Mercialys Group is named Mercialys or The Company

2.1. Financial statements

2.1.1. Consolidated income statement

In Euro thousand	12/2005 *pro forma unaudited**	12/2006	12/2007
Rental revenues	**72,656**	**82,318**	**99,496**
Non-recovered property taxes	(146)	(124)	(252)
Non-recovered service charges	(1,124)	(1,418)	(1,691)
Property operating expenses	(3,502)	(3,794)	(4,070)
Net rental income	**67,884**	**76,982**	**93,484**
Management, administrative and other activities income	914	1,182	2,293
External cost	(2,637)	(3,774)	(4,776)
Depreciation, amortization and impairment of assets	(12,889)	(13,356)	(15,454)
Provisions	0	(5)	(286)
Staff costs	(2,655)	(4,239)	(5,557)
Operating income	**50,617**	**56,790**	**69,703**
Revenues of treasury		6,574	4,150
Cost of debt		(381)	(831)
Net cost of debt		**6,193**	**3,319**
Other financial income and costs		(53)	(117)
Net financial income	**656**	**6,140**	**3,202**
Tax	(281)	(2,425)	(1,307)
Net income	**50,992**	**60,505**	**71,598**
Minority interests	24	37	49
Net income, Group share	**50,968**	**60,468**	**71,549**
Net earnings per share (in Euro) [(1)]			
Basic earnings per share	0.81	0.83	0.98
Diluted earnings per share		0.83	0.98

(*) There are no pro forma financial statements within the meaning of IFRS. The pro forma information provided is therefore subject to a separate report from the auditors in application of EC regulation no. 809/2004, which is presented in the 2005 shelf-registration document approved by the AMF on May 11, 2006 under no. R06-054.
(1) Based on the weighted average number of outstanding shares over the period.

2.1.2. Consolidated balance sheet

Assets

In Euro thousand	12/2005	12/2006	12/2007
Intangible assets	0	11	26
Tangible fixed assets	0	36	925
Investment property	893,350	989,260	1,165,204
Non-current financial assets	9,656	10,287	10,989
Total fixed assets	**903,006**	**999,594**	**1,177,144**
Trade receivables	1,908	1,389	3,886
Other receivables	9,625	27,351	8,613
Casino current account	237,123	126,814	67,615
Cash and cash equivalents	770	1,631	3,064
Current assets	**249,426**	**157,185**	**83,177**
TOTAL ASSETS	**1,152,432**	**1,156,779**	**1,260,322**

Shareholders' equity and liabilities

In Euro thousand	12/2005	12/2006	12/2007
Share capital	72,919	72,919	75,150
Share premiums	1,022,351	987,679	1,045,169
Treasury shares and reserves	17,256	16,297	24,927
Net income, Group share	7,869	60,468	71,549
Interim dividend payments		(24,044)	(26,226)
Shareholders' equity, Group share	1,120,395	1,113,319	1,190,569
Minority interests	631	644	651
Total shareholders' equity	**1,121,026**	**1,113,963**	**1,191,221**
Long-term provisions	25	40	55
Non-current financial liabilities	21,215	22,872	32,352
Non-current tax liabilities	854	961	3,102
Non-current liabilities	**22,094**	**23,873**	**35,509**
Trade payables	2,917	3,533	4,143
Current financial liabilities	1,100	1,710	2,924
Short-term provisions		44	286
Other current liabilities	4,570	12,266	25,968
Current tax liabilities	725	1,390	271
Current liabilities	**9,312**	**18,943**	**33,592**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,152,432**	**1,156,779**	**1,260,322**

2.1.3. Consolidated cash flow statement

In Euro thousand	12/2005 *pro forma unaudited**	12/2006	12/2007
Net income, Group share	50,968	60,468	71,549
Minority interests	24	37	49
Net income from consolidated companies	**50,992**	**60,505**	**71,598**
Depreciation, amortization and impairment of assets	12,889	13,400	15,697
Calculated income and charges on stock options		135	245
Calculated income and charges including discount		2,364	(978)
Depreciation, amortization, provisions and other non-cash items	**14,964**	**12,889**	**14,964**
Cash flow	**63,881**	**76,404**	**86,562**
Net cost of debt		(6,193)	(3,319)
Tax charge		2,425	1,307
Cash flow before cost of net debt and tax charge	**84,550**		**84,550**
Tax payments		(2,794)	(3,797)
Change in working capital requirement relating to operations		(12,824)	13,155
Net cash flow from operations		**57,018**	**93,908**
Cash payments on acquisition of investment property and other fixed assets	(102,781)		(102,781)
Cash payments on acquisition of financial assets	(43)		(43)
Cash receipts on disposal of financial assets	31		31
Impact of changes in scope of consolidation		(6,787)	443
Change in loans and advances given		(48)	0
Net cash flow from investment operations	**(102,350)**		**(102,350)**
Dividend payments to shareholders		(42,976)	(27,679)
Interim dividends		(24,044)	(26,226)
Dividend payments to minority interests		(24)	(42)
Capital increase or decrease		0	0
Repurchase/resale of treasury shares		(661)	(315)
Increase in borrowings and debts		2,920	11,234
Reduction in borrowing and debts		(1,361)	(9,464)
Net cost of debt		6,193	3,319
Net cash flow from financing operations	**(49,172)**		**(49,172)**
Change in cash position		**(109,603)**	**(57,614)**
Opening cash position		237,893	128,290
Closing cash position		128,290	70,676
Of which:			
Casino SA current account		126,814	67,615
Balance sheet cash		1,631	3,064
Bank facilities		(155)	(3)

(*) There are no pro forma financial statements within the meaning of IFRS. The pro forma information provided is therefore subject to a separate report from the auditors in application of EC regulation no. 809/2004, which is presented in the 2005 shelf-registration document approved by the AMF on May 11, 2006 under no. R06-054.

2.2. Review of activity and consolidated results

2.2.1. Rental revenues and net rental income

Rental revenues mainly comprise rents billed by the company plus a smaller element of lease rights and despecialization indemnities paid by some tenants in addition to rent.

In 2007, invoiced rents amounted to Euro 97.7 million versus Euro 80.7 million in 2006, an increase of **+21.1%**.

(in Euro million)	2005 pro forma	2006	2007
Invoiced rents	71,825	80,714	97,723
Lease rights	831	1,604	1,773
Rental revenues	**72,656**	**82,318**	**99,496**
Non-recovered service charges and property taxes	-1,270	-1,542	-1,943
Property operating expenses	-3,502	-3,794	-4,070
Net rental income	**67,884**	**76,982**	**93,484**

Invoiced rents rose by **+21.1%** compared with 2006, driven by organic growth (+9.3%) and acquisitions made in 2006 and 2007 (+13.2%), partially offset by non-recurring items (-1.4%).

On a like-for-like basis, invoiced rents rose by Euro 7.5 million or **+9.3%**, driven by:

- ✓ lease renewals, relets and targeted efforts to obtain short-term lets in malls: Euro +3.6 million (+4.4 percentage points);
- ✓ rent indexation: Euro +3.9 million (+4.9 percentage points). For the vast majority of leases, the indexation applied in 2007 was based on the change in the CC[7] index between the second quarter of 2005 and the second quarter of 2006. The change was particularly significant over the period at +7.05%.

- ✓ These effects were offset by a non-recurring reduction in variable rents of Euro -1.1 million (-1.4 percentage points): 106 leases for which variable leases were invoiced annually until 2005 were invoiced on a quarterly basis in 2006. 2006 therefore benefited from both the invoicing of 2005 variable rents and quarterly invoicing in 2006.

2006 and 2007 acquisitions were mostly made in the second half of 2006 (Clermont Ferrand, Poitiers, two Corsican centers) and the first quarter of 2007 (three Corsican centers), resulting in a significant impact on rental revenue growth in the first half of 2007: Euro +10.6 million (+13.2 percentage points). Acquisitions made in the second half came at the very end of the year (La Reunion, Annecy, Béziers) and will therefore have a full-year impact in 2008.

During 2007, 184 lease renewals or relets generated additional rental revenue of Euro +3.4 million on an annualized basis.

	Annualized growth in rental base	
	In Euro million	In %
***78** relets*	+1.9	+115%
***106** lease renewals*	+1.2	+39%
Short-term lets	+0.3	+26%
	Euro +3.4 million	

Mercialys has considerable potential to increase rent levels over the next few years.

[7] Construction Cost Index

The occupancy cost ratio[8] for our tenants stood at 8.1% for the large shopping centers, an increase of +0.8 percentage points since the end of December 2006. The increase was driven by high indexation coupled with a strong drive in lease renewals and relets in 2006 and 2007 and the effect of changes in scope, with the number of tenants reporting their retail sales on a monthly basis increasing every year. The occupancy cost ratio is relatively low compared with that of Mercialys's peers. It reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

Lease expiry schedule		**Guaranteed minimum rent**	**Share of leases expiring/ Guaranteed minimum rent**
Expired	391 leases	10,031	9.9%
2008	135 leases	5,565	5.5%
2009	110 leases	4,202	4.2%
2010	173 leases	4,332	4.3%
2011	279 leases	10,505	10.4%
2012	283 leases	15,567	15.4%
2013	154 leases	6,356	6.3%
2014	148 leases	5,100	5.1%
2015	229 leases	9,577	9.5%
2016	272 leases	12,933	12.8%
2017	103 leases	4,825	4.8%
2018	121 leases	10,309	10.2%
Beyond	34 leases	1,592	1.6%
Total	**2,432 leases**	**100,893**	**100.0%**

The stock of expired leases includes ongoing negotiations and disputes (some renegotiations result in a hearing by a rents tribunal), lease renewal refusals with payment of eviction compensation, global negotiations by retail brands, tactical delaying, etc.

The rents received by Mercialys come from a broad, diversified base of retail brands. Apart from Casino Restauration (11%), Feu Vert (4%) and Casino (8% particularly in Corsica), no one tenant accounts for more than 2% of the total. The table below shows a breakdown of rents between national and local brands on an annualized basis:

	Number of leases	**GMR*+annual variable 12/31/07 (in Euro million)**	**%**
National brands	1,315	61.4	59%
Local brands	883	22.5	22%
Casino restauration (Self-service restaurants)	101	11.7	11%
Other Casino Group brands	133	8.6	8%
Total	**2,432**	**104.2**	**100%**

** GMR = Guaranteed minimum rent*

The structure of rental revenues at December 31, 2007 confirms the domination of leases with a variable component:

	Number of leases	**In Euro million**	**%**
Leases with variable component	1,091	61.5	59%
- of which guaranteed minimum rent		*58.2*	*56%*
- of which variable rent		*3.3*	*3%*
Leases without variable component	1,341	42.7	41%
Total	**2,432**	**93.5**	**100%**

Excluding "strategic" vacancies designed to facilitate redevelopment plans scheduled under the Alcudia project, the financial occupancy rate was 97.8% in 2007.
The total financial occupancy rate[9] came to 97.1% against 98.1% at end December 2006, down -1.0 percentage point mainly due to "strategic" vacancies.

[8] Ratio between rent and service charges paid by a retailer and retail sales (rent + charges including tax/tenant's retail sales gross of tax)

[9] 1- [Rental value of vacant units /(rental value of vacant units + annualized guaranteed minimum rent on occupied units)]

Rental revenues also include lease rights paid by tenants upon signing a new lease and despecialization indemnities paid by tenants that change their business activity during the course of the lease. Rental revenues rose by **+20.9%** in 2007 compared with 2006.

Lease rights and despecialization indemnities received totaled Euro 1.4 million. After the impact of deferring lease rights over the firm period of the lease, lease rights and despecialization indemnities recognized as rental revenues in 2007 amounted to Euro 1.8 million, an increase of Euro +0.2 million compared with 2006.

Net rental income

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

Costs included in the calculation of net rental income came to Euro 6.0 million in 2007 compared to Euro 5.3 million in 2006, an increase of +12.7% due to growth in the portfolio following acquisitions made in 2006 and 2007. The ratio of non-recovered property operating expenses to invoiced rents was 6.2% against 6.6% in 2006.

Consequently, rental income net of costs relating directly to real estate assets grew faster than invoiced rents, totaling Euro 93.5 million against Euro 77.0 million in 2006, an increase of **+21.4%.**

2.2.2. Operating costs and operating income

Staff costs

Staff costs include all costs relating to the executive and management team of 24 employees transferred to Mercialys in December 2005, together with those relating to employees recruited or left in 2006 and 2007, which took the total number of staff at Mercialys to 47 at December 31, 2007.
In 2007, staff costs came to Euro 5.6 million against Euro 4.2 million in 2006. Growth in staff costs was driven by the increase in staff numbers, mainly to set up and strengthen the team dedicated to the "Alcudia" project. This team works on a transversal basis for Mercialys and the Casino Group. The advice services provided are billed to Casino Group companies under an agreement signed in 2007 for an initial term of six years. The agreement is described in Chapter 7 of the 2007 *Document de reference* in the "Organization of the Mercialys Group and relations with other Casino Group companies" part.

Other expenses

Other expenses mainly comprise structural costs. Structural costs include investor relations costs, directors' fees, fees paid to the Casino Group for services covered by the Services Agreement (accounting, financial management, human resources, management, IT) and real estate asset appraisal fees.

In 2007, these costs came to Euro 4.8 million compared to Euro 3.8 million in 2006. The increase was mainly due to the company's expansion (marketing campaigns, project studies, etc.), as well as costs relating to various investment opportunities under review.

Depreciation, amortization and impairment of assets

Depreciation and amortization totaled Euro 15.5 million in 2007 versus Euro 13.4 million in 2006. This sharp increase was due to acquisitions made in 2006 and 2007. 2007 acquisitions represented a gross investment of Euro 183 million. Most of them were made in the first and final quarters of 2007.

Management, administrative and other activities income

Fees invoiced for ancillary activities (letting, sales of business operations, shopping center management, "Alcudia" advice services) rose sharply to Euro 2.3 million in 2007 compared to Euro 1.3 million in 2006. The increase was mainly due to the advice services agreement entered into by Mercialys Gestion and the Casino Group.

Operating income

Operating income therefore came to Euro 69.7 million in 2007 compared to Euro 56.8 million in 2006, an increase of +22.7% driven by:

- the increase in net rental income (+21.4%);
- contained growth in structural costs.

The ratio of EBITDA[10] to rental revenue improved to 86% from 85% in 2006.

2.2.3. Net financial income, tax and net income

Net financial income

Financial items include financial expenses relating to finance leases (Euro 16.6 million outstanding at December 31, 2007 on Tours La Riche Soleil, Porto-Vecchio, Toga, Furiani and Ste Marie Duparc in La Reunion) and interest income on cash generated in the course of operations, deposits from tenants and cash balances.

At December 31, 2007, Mercialys had a positive cash position of Euro 70.7 million compared with Euro 128.3 million at December 31, 2006.

In 2007, net financial income came to Euro 3.2 million compared with Euro 6.1 million in 2006. The decrease was due to the gradual use of cash to finance investments.

Tax

The tax regime for French 'SIIC' (REIT) companies exempts them from paying tax on their income from real estate activities provided that at least 85% of net income from rental activities and 50% of gains on the disposal of real estate assets are distributed to shareholders.

The tax charge recorded in the income statement corresponds to tax payable on interest income less a share of the company's central costs allocated to its taxable income.

The tax charge for 2007 was Euro 1.3 million compared with Euro 2.4 million in 2006.

Net income

Net income came to Euro 71.6 million in 2007 compared to Euro 60.5 million the previous year, an increase of +18.3%.

Minority interests were not material (Euro 49 thousand).

Net income, Group share, therefore came to Euro 71.5 million against Euro 60.5 million in 2006, an increase of +18.3%.

2.2.4. Cash flow

Cash flow is calculated by adding back depreciation, amortization and provisions and other non cash items to net income.

Cash flow rose by +13.3%, from Euro 76.4 million in 2006 to Euro 86.6 million in 2007. 2006 benefited from non recurring lease rights (Euro 2.3 million) on new extensions bought by Mercialys.

Recurring operating cash flow (cash flow adjusted for interest income on cash net of tax and non-recurring items including 2006 non recurring lease rights) rose by +19.7% to Euro 83.8 million.

[10] Earnings before interest, tax, depreciation and amortization.

2.2.5. Balance sheet structure

At December 31, 2007, the Group had cash of Euro 70.7 million compared with Euro 128.3 million at December 31, 2006. After deducting financial liabilities, net cash amounted to Euro 35.4 million at December 31, 2007 compared to Euro 103.9 million at December 31, 2006.

Consolidated shareholders' equity was Euro 1,191.2 million at December 31, 2007 against Euro 1,114.0 million one year earlier.

The Board of Directors intends to adopt a policy of paying a regular interim dividend representing half the total dividend paid in the previous year, barring exceptional circumstances which may lead to an increase or decrease in the amount of the interim dividend.
The Board of Directors therefore decided to pay an interim dividend of **Euro 0.36 per share** in respect of 2007, which was paid on October 4, 2007.

On February 20, 2007, the Board of Directors also decided, subject to approval at the annual general meeting of May 6, 2008, to raise the dividend in respect of 2007 by +14.1% to **Euro 0.81 per share** from Euro 0.71 per share in respect of 2006. After deducting the interim dividend already paid, the final dividend of Euro 0.45 per share will be paid on May 13, 2008. The dividend due, i.e. Euro 0.81 per share, on the 2.231.041 shares created as a payment for the contribution of 4 shopping centers by Vindemia, will be fully paid on May 13, 2008.

For the interim dividend of Euro 0.36 per share, the entire amount was distributed from tax-exempt income. For the final dividend of Euro 0.45 per share, the amount will comprise 90.90% distributed from tax-exempt income and 9.10% from taxable income.
In accordance with SIIC tax rules, the minimum distribution requirement in 2007 is Euro 57,016 thousand. Based on the number of outstanding shares, the total dividend payout for 2007 will be Euro 60,871 thousand, which is higher than the minimum requirement.

2.2.6. Valuation of the asset portfolio

In 2007, Mercialys acquired **Euro 183 million** of assets providing a gross yield of **7%.**

5 shopping malls in La Reunion[11] *(St Marie, St Benoit, St Pierre, Le Port Sacré Coeur, Savanna St Paul)*	Euro 73.8m
3 shopping malls *(Béziers, Bordeaux Villenave d'Ornon, Morlaix)*	Euro 27.4m
3 new assets from the Casino pipeline *(retail parks at Annecy and Canet en Roussillon, Go Sport at Besançon Châteaufarine)*	Euro 21.6m
5 co-ownership lots (*St Didier mall in Paris 16th, St Brieuc, Albi, Tarbes)*	Euro 5.8m
3 centers in Corsica *(Furiani, Porto Vecchio, Port Toga – 2006 undertaking)*	Euro 55.0m
	Euro 183.5m

For information, acquisitions accounted for in 2006 represented a gross investment of Euro 105.5 million.

The portfolio was valued at Euro 1,913.8 million including transfer taxes at December 31, 2007, up from Euro 1,346.9 million at December 31, 2006.
This represents an increase of +42% over the year (or +27% on a like-for-like basis). The average appraisal yield was 5.5% compared with 6.3% at December 31, 2006.

[11] Four shopping centers out of the five was contyributed to Mercialys by Vindemia and its subsidiaries. 2.231.041 new shares have been therefore created.

Growth in the market value of the portfolio in 2007 therefore came from:

- ✓ an increase in rents on a like-for-like basis: Euro +135 million;
- ✓ a decrease in the average yield: Euro +230 million;
- ✓ acquisitions made during the year: Euro +202 million[12].

2.2.7. Net asset value

Net asset value (NAV) is defined as consolidated shareholders' equity plus any unrealized capital gains or losses on the asset portfolio and any deferred expenses or income.

NAV is calculated in two ways: excluding transfer taxes (liquidation NAV) or including transfer taxes (replacement NAV).

NAV at December 31, 2007 (in Euro million)		For information NAV at 12/31/06
Consolidated shareholders' equity	**1,191.2**	**1,114.0**
Add back deferred income and charges	2.4	2.8
Unrealized gains on assets	**737.6**	**347.4**
Updated market value	*1,913.8*	*1,346.9*
Consolidated net book value	*-1,176.2*	*-999.5*
Replacement NAV	**1,931.3**	**1,464.1**
Per share (Euro)	**25.70**	**20.08**
Transfer taxes and disposal costs	**-111.7**	**-78.3**
Liquidation NAV	**1,819.5**	**1,385.8**
Per share (Euro)	**24.21**	**19.00**

2.3. Outlook

2.3.1. Investment outlook

Alcudia: a far-reaching, all-embracing asset management program

During 2007, the teams working on the Alcudia asset management program finalized their comprehensive review of all assets, which they began in 2006. This review will be used as the basis to prepare an ambitious strategic value-enhancement plan for each site.
109 sites have been analyzed and 100 value-creating development projects already finalized. The remaining 9 sites will undergo further review to ensure their optimization.

The Alcudia project is therefore entering its rollout phase, which should be completed in 2012.

The Casino development pipeline

Casino's new development pipeline was enhanced in the first half of 2007 with seven bids won (Millau - Aveyron, Castelnaudary - Aude, Muret "Porte des Pyrénées" - Haute Garonne, Quimper "Ilot du Chapeau Rouge" - Finistère, Aime La Plagne - Savoie, Susville-La Mure - Isère and Vals près Le Puy - Haute Loire).

[12] Acquisitions in the final quarter were valued at cost.

Partnership Agreement with Casino

A 5-year Partnership Agreement was signed with Casino in 2005. The Company thus has priority with respect to property developments carried by the Casino Group (New assets or new extension programs on existing sites). Mercialys has a right of first refusal over these projects under its Partnership Agreement with Casino.

- ✓ Acquisitions are carried out at an attractive yield rate determined at each year end for the following year, with a margin over market rates kept year after year similar to the one determined in 2005 at the beginning of the Agreement.
- ✓ Risks are shared : Casino bears the development risk and Mercialys the letting risk.

After taking into account the change in appraisal average yields of the portfolio, the Board of Directors has approved the yield rates for 2008 under the Partnership Agreement.

Yields applicable to options exercised by Mercialys in 2008 on the basis of forecasted rents set when building permission is obtained will be :

- ✓ For shopping malls : 6,0% versus 6,9% in 2007 ;
- ✓ For isolated lots, retail parks : 6,4% versus 7,3% in 2007.

Alcudia program and the Casino development pipeline together represent a large scope of investment opportunities valued at Euro 775 million, on which Mercialys has exclusive call options.

This information is based on assumptions which the Group believes to be reasonable. It should not be used to forecast results. It is also subject to the risks and uncertainties inherent in the Group's business activities and actual results may therefore differ from these targets and projections. For a more detailed description of risks and uncertainties, please refer to the Group's 2007 shelf-registration document.

2.3.2. Business outlook

The fundamentals of the business model are closely correlated with those of the retail industry: long consumer spending cycles and supply and demand for prime retail space.
Strong development of national banners and scarcity of shopping malls boost rent increases.

Index-linked rent base and leasehold rights which enhance tenant loyalty are shocks absorbers of short term cycles of economic trends and consumer spending which should continue to increase.

In addition, Mercialys can capitalize on promising new growth drivers such as Alcudia and the development pipeline, together with a strong financial structure debt-free at the end of 2007.

For 2008, Mercialys has set a growth target of +12% in rental revenues and recurring operating cash flow.

We are maintaining our double-digit growth target for rental revenues and operating cash flow for 2009.

2010 and beyond will see the completion and full impact of new projects (Alcudia extensions, development pipeline).

2.4. Subsequent events

No material event has occurred since the year end.

2.5. Review of the results of the parent company, Mercialys SA

In Euro million	**2007***	2006*
Rental revenues	**96.4**	79.6
Net income	**68,4**	59.2

(*) Statutory financial statements

2.5.1. Activity

Mercialys SA, the parent company of the Mercialys Group, is a real estate company that has opted for the *Sociétés d'Investissements Immobiliers Cotées* (S.I.I.C – Real Estate Investment Trust) tax regime. It owns 161 of the 167 retail assets owned by the Mercialys Group and holdings in seven companies, including five real estate companies (which own the remaining six assets) and two management companies, Mercialys Gestion and Corin Asset Management.

Mercialys SA's revenues consist primarily of rental revenues and interest earned on the company's cash under its current account agreement with Casino.

2.5.2. Review of the financial statements

In 2007, Mercialys SA generated Euro 96.4 million in rental revenues and Euro 68.4 million in net income.
As the company owns almost all the retail assets owned by the Mercialys Group as a whole, information on the main events affecting the company's activity in 2007 can be found in the business review section of the management report on the consolidated financial statements for the Mercialys Group.
The notes to the financial statements set out the significant accounting policies used by the company and provides disclosures on the main balance sheet and income statement items and their change over the year.

Total assets at December 31, 2007 amounted to Euro 1,237.3 million, including

- ✓ net fixed assets of Euro 1,140.9 million

and

- ✓ net cash of Euro 71.2 million, including a current account balance with Casino, Guichard-Perrachon of Euro 67.6 million. In order to optimize cash management, Mercialys has entered into a cash pooling agreement with Casino Guichard-Perrachon. The account earns interest at EONIA plus 0.10%, and total interest received in 2007 was Euro 4.1 million.

The company's shareholders' equity amounts to Euro 1,187.0 million.

The main changes in this item during the year were:

- A capital increase in consideration for the contribution of four shopping centers in La Reunion, net of contribution costs: Euro +59.7 million;
- Payment of the final dividend in respect of 2006: Euro -27.7 million;
- Payment in October 2007 of an interim dividend in respect of 2007: Euro -26.2 million;
- Net income for the year: Euro +68.4 million.