Board of Directors' half-year financial report

2014 first half

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Business report

Accounting rules and methods

In accordance with EU regulation 1606/2002 of July 19, 2002 on international accounting standards, the consolidated financial statements for the period to June 30, 2014 have been prepared under international accounting standards (IAS/IFRS) published by IASB, as applicable at this date and as approved by the European Union at the balance sheet date. The consolidated half-year financial statements have been prepared in accordance with IAS 34 ("Interim financial reporting"). The consolidated half-year financial statements, presented in summary form, do not contain all of the information and notes provided in the full-year financial statements. They should therefore be read in parallel with the Group's consolidated financial statements to December 31, 2013.

N.B. Mercialys pre-empted the implementation of IFRS 10, 11 and 12 for the year ended December 31, 2013. Jointly controlled subsidiaries (SCI Geispolsheim and Corin Asset Management), which were previously proportionally consolidated, qualify as associated companies as defined by IFRS 11 and have therefore been consolidated under the equity method. Figures for the first half 2013 have been adjusted to provide a comparable information.

1.1. Financial statements

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

1.1.1 Consolidated income statement

in thousands of euros	From January 1 to June 30, 2013* (**)	From January 1 to June 30, 2014*
Rental revenues	**76,680**	**78,131**
Non-recovered property taxes	(61)	-
Non-recovered service charges	(1,801)	(2,105)
Property operating expenses	(3,205)	(2,271)
Net rental income	**71,613**	**73,755**
Management, administration and other activities income	1,984	1,522
Property development margin	1,649	-
Other income	472	345
Other expenses	(3,299)	(3,585)
Staff costs	(4,186)	(4,950)
Depreciation and amortization	(11,632)	(11,999)
Allowance for provisions for liabilities and charges	53	736
Other operating income	138,380	174,676
Other operating expenses	(91,662)	(117,121)
Operating income	**103,371**	**113,379**
Revenues from cash and cash equivalents	449	77
Cost of debt, gross	(17,439)	(14,352)
Cost of debt, net	**(16,990)**	**(14,275)**
Other financial income	1,658	4,916
Other financial expenses	(1,212)	(1,070)
Net financial items	**(16,544)**	**(10,429)**
Tax	288	30
Share of net income of associated companies	217	608
Net income from consolidated companies	**87,332**	**103,588**
Attributable to minority interests	(25)	(24)
Attributable to Group equity holders	87,308	103,564
Earnings per share (in euros) [(1)]		
Earnings per share attributable to Group equity holders (in euros)	0.95	1.13
Diluted earnings per share attributable to Group equity holders (in euros)	0.95	1.13

(*) A limited review of these financial statements was performed by the Statutory Auditors.
(**) Adjusted data, see Nota above

(1) Based on the weighted average number of outstanding shares over the period, adjusted for treasury shares: Weighted average number of shares (non-diluted = fully-diluted) at June 30, 2014 = 91,806,777 shares (since the bonus shares plans are covered by treasury shares)

1.1.2 Consolidated balance sheet

Assets

(in thousands of euros)	12/31/2013	06/30/2014*
Intangible assets	1,022	919
Properly, plant and equipment other than investment properly	499	467
Investment property	1,423,463	1,524,658
Investments in associates (1)	21,405	20,596
Other non-current assets	20,703	33,538
Deferred tax assets	578	1,787
Total non-current assets	**1,467,670**	**1,581,965**
Trade receivables	21,716	25,508
Other current assets	41,794	43,892
Cash and cash equivalents	15,795	6,592
Investment property held for sale	27,647	18,793
Current assets	**106,952**	**94,785**
TOTAL ASSETS	**1,574,621**	**1,676,750**

Equity and liabilities

(in thousands of euros)	12/31/2013	06/30/2014*
Share capital	92,049	92,049
Reserves related to share capital	482,836	482,836
Consolidated reserves	162,006	163,677
Net income attributable to Group equity holders	123,351	103,564
Dividends	(120,320)	(75,293)
Equity attributable to Group equity holders	739,922	766,833
Minority interests	436	460
Total equity	**740,358**	**767,294**
Non-current provisions	231	249
Non-current financial liabilities	747,109	763,333
Deposits and guarantees	21,882	22,302
Non-current tax liabilities and deferred tax liabilities	563	7
Non-current liabilities	**769,785**	**785,891**
Trade payables	11,264	15,232
Current financial liabilities (2)	27,044	82,886
Short-term provisions	1,692	1,715
Other current liabilities	24,471	23,385
Current tax liabilities	7	347
Current liabilities	**64,478**	**123,565**
TOTAL EQUITY AND LIABILITIES	**1,574,621**	**1,676,750**

(*) A limited review of these financial statements was performed by the Statutory Auditors.

(1) Mercialys holds a stake in the company created in partnership with Amundi, to which four properties were transferred in April 2013. This stake is accounted for in Mercialys' consolidated financial statements using the equity method.

(2) The increase in current financial liabilities arises from the issue of commercial paper in the first half of 2014. Commercial paper outstanding amounted to Euro 65.5 million at June 30, 2014.

1.1.3 Consolidated cash flow statement

(in thousands of euros)	06/30/2013*	06/30/2014*
Net income attributable to Group equity holders	87,308	103,564
Net income attributable to minority interests	25	24
Net income from consolidated companies	**87,332**	**103,588**
Depreciation, amortization, impairment allowances and provisions net of reversals	13,752	12,486
Unrealized gains and losses relating to changes in fair value	429	721
Income and charges relating to stock options and similar	182	198
Other income and charges (1)	(1,478)	2,297
Income from asset sales	(48,699)	(65,610)
Share of net income of associated companies	(217)	(608)
Dividends received from associated companies	107	1,502
Cash flow	**51,408**	**54,574**
Cost of net debt (excluding changes in fair value and amortization)	14,221	13,073
Tax charge (including deferred tax)	(288)	(30)
Cash flow before cost of net debt and tax	**65,341**	**67,617**
Tax payments	(3,808)	2,051
Change in working capital requirement relating to operations (excluding deposits&guarantees) (2)	(5,113)	(15,863)
Change in deposits and guarantees	(1,278)	420
Net cash flow from operating activities	**55,142**	**54,225**
Cash payments on acquisition of investment property and other fixed assets	(7,863)	(42,810)
Cash payments on acquisition of non-current financial assets	(15)	(323)
Cash receipts on disposal of investment property and other non-current assets (4)	145,100	7,716
Cash receipts on disposal of non-current financial assets	439	4,792
Impact of changes in the scope of consolidation with change of ownership (3)		(10,921)
Impact of changes in the scope of consolidation with associated companies (3)		(70)
Net cash flow from investing activities	**137,661**	**(41,616)**
Dividend payments to shareholders	(89,085)	(75,293)
Interim dividend payments	(31,235)	-
Dividend payments to minority interests	(53)	-
Changes in treasury shares	(1,337)	(248)
Increase in financial liabilities (5)		185,500
Decrease in financial liabilities (5)	(156,959)	(120,000)
Net cost of debt	(30,817)	(16,528)
Net cash flow from financing activities	**(309,485)**	**(26,569)**
Change in cash position	**(116,682)**	**(13,960)**
Opening cash position	203,382	10,479
Closing cash position	86,700	(3,481)
Cash and cash equivalents	*87,072*	*6,592*
Bank facilities	*(372)*	*(10,073)*

(*) A limited review of these financial statements was performed by the Statutory Auditors.

(1) Other income and charges comprise primarily:		
Lease rights received and spread out over the term of the lease	(2,609)	(974)
Discounting adjustments to construction leases	(252)	(266)
Financial expense charged over several periods	343	79
Costs associated with asset sales	575	3,440
(2) The change in working capital requirement breaks down as follows:	**(5,113)**	**(15,863)**
Trade receivables	2,102	(3,792)
Trade payables	(1,271)	4,250
Other receivables and payables	2,831	(16,039)
Property development liabilities		(282)
Inventories on property development	(8,774)	

(3) The Group paid Euro 10,921 thousand for shares in Fenouillet Immobilier.

(4) Cash payments and cash receipts on acquisition and disposal of assets are limited due to the legal form of the contracts (exchange of assets) that generated the payment and receipt of a balancing payment for each contract.

(5) In the first half of 2014, Mercialys issued Euro 185.5 million of commercial paper and repaid Euro 120 million of commercial paper, resulting in Euro 65.5 million of commercial paper outstanding at June 30, 2014.

2. Main highlights of first half of 2014

Start of development at the Toulouse Fenouillet regional shopping mall

Within Mercialys' strategy to develop global and unique retail venues, aimed at offering all forms of commerce on a single site – a food store and "traditional" retail outlets within a shopping mall or retail park, distinctive offering including everyday services and restaurants open 7 days a week, complemented by a diversified offering of casual leasing activities – Mercialys has launched a project to redevelop and extend its Toulouse Fenouillet site in order to transform it into a leading regional shopping mall in the Toulouse area.

This regional shopping mall will become the largest site in the Mercialys portfolio with an estimated appraisal value of Euro 240 million.

This project will be completed in two phases:

- creation of a retail park comprising 9 medium-sized stores, adjacent to the existing site, with a GLA of 24,400 m². Work will start this summer. The opening of this retail park is scheduled in the spring of 2015.
- extension of the existing shopping mall and redevelopment of part of the large food store: 13 new medium-sized stores and 47 new small stores will be developed across a total area 24,300 m², along with 13 restaurants. This second phase is due to open in the fall of 2016.

The project represents an estimated investment of Euro 180 million including Euro 58 million already invested.

After those two phases are complete, the Toulouse Fenouillet regional shopping mall will comprise more than 120 stores and one hypermarket with total floorspace of 70,000 m². The retail park, the shopping mall and hypermarket will also feature a leisure area and an outdoor food court. The complex will be enhanced by 1,500-2,000 m² of space for additional services and casual retailers, both inside the mall and in the outside car parks.

Ten projects to be completed in 2014, including three in the first half of 2014

In the first half of 2014, redevelopment and extension programs continued, with the completion of three projects: a retail park in Albertville, a shopping mall extension in Lanester and the first phase of a shopping mall extension in Aix-en-Provence.
At the same time, works were underway on seven other sites, with the completion of projects scheduled in the second half of 2014.

These developments represent 116 new stores, a full-year rental value of Euro 8.1 million and a GLA of 26,100 m2 of newly created or redeveloped space, for a total investment of Euro 110 million.
These investments are helping to make the Company's shopping malls more attractive and to diversify its offering, and will be accompanied by the development of the casual leasing activity.

Launch of four new development projects and acquisition of a portfolio of service and restaurant areas for Euro 144 million

In the first half of 2014, Mercialys launched new projects to transform its shopping malls, aiming to install new stores in food storage areas, and to develop new retail areas in existing sites, in line with its strategy of developing global and unique retail venues.
As part of this effort, Mercialys bought from Casino the freeholds of four large food stores in the first half of 2014, along with a portfolio of service and restaurant areas for a total of Euro 144 million including transfer taxes.

Ongoing disposals of non-core assets: 11 assets and an investment stake sold in the first half of 2014 for Euro 179 million

In the first half of 2014, Mercialys sold:

- 11 mature assets, including five large food stores acquired in 2009 and six standalone lots, for a total of Euro 174 million including transfer taxes;
- A non-core investment stake held in GreenYellow (a company that develops photovoltaic power units) for an amount of Euro 4.8 million.

These transactions represent a continuation of the Company's policy of selling non-core assets.
The disposals also helped financed Mercialys' acquisitions during the first half of 2014.

3. Review of activity and consolidated results

Summary of the main key indicators for the period

	June 30, 2014
Organic growth in invoiced rents	**+3.0%**
EBITDA[1]	**Euro 67.1m**
EBITDA/Rental revenues	*86%*
Adjusted EBITDA[2] */Rental revenues*	*86%*
Funds from Operations (FFO)[3]**) per share**	**Euro 0.63**
Market value of portfolio (including transfer taxes)	**Euro 2.6bn**
Change vs 12/31/2013 (total scope)	*+4.7%*
Change vs. 12/31/2013 (like-for-like)	*+3.3%*
Net asset value (including transfer taxes) **per share**	**Euro 19.53**
Change vs. 12/31/2013	*+2.6%*
Net asset value (excl. transfer taxes) **per share**	**Euro 17.91**
Change vs. 12/31/2013	*+1.5%*
Loan to Value (LTV)	**33.7%**

3.1 Rental income and structure of leases

3.1.1 Invoiced rents, rental revenues and net rental income

Rental revenues mainly comprise **rent invoiced** by the Company plus a smaller contribution from lease rights paid by some tenants deferred over the firm period of the lease.

Invoiced rents totaled **Euro 76.0 million** in the first half of 2014, up **3.9%**, due in particular to organic growth in the first half of 2014.

(in thousands of euros)	First half 2013 (disclosed)	First half 2013 (proforma)	First half 2014
Invoiced rents	73,193	73,187	76,005
Lease rights	3,493	3,493	2,125
Rental revenues	**76,685**	**76,680**	**78,131**
Non-recovered service charges and property taxes	(1,862)	(1,862)	(2,105)
Property operating expenses	(3,100)	(3,205)	(2,271)
Net rental income	**71,723**	**71,613**	**73,755**

Growth in invoiced rents in the first half of 2014 was driven by:
- strong organic growth in invoiced rents: a positive impact of **+3.0 points** or Euro +2.2 million, including +2.6 points arising from action taken on the lease portfolio and +0.4 points relating to indexation[4].
- the addition of projects completed in 2013 and 2014, along with the freeholds of large food stores acquired in the first half of 2014: a positive impact of **+6.6 points** or Euro +4.8 million on invoiced rent growth.
- the impact of asset disposals in 2013 and 2014, which reduced the rental base with a negative impact of **-6.1 points** or Euro -4.5 million.
- other effects, mainly non-recurring income invoiced during the first-half period, along with strategic vacancies related to redevelopment programs: positive impact of **+0.4 points** or Euro +0.3 million.

[1] Earnings before interest, taxes, depreciation, amortization and other operating income and expenses
[2] Operating income before depreciation, amortization, provisions and other operating income and expenses adjusted for non-recurring items, i.e. the development margin and non-recurring fees relating to the Bordeaux-Pessac extension and the "Foncière Commerçante" ("Think and act as a retailer") fees. There were no non-recurring items in the first half of 2014.
[3] Funds from operations - net income attributable to Group equity holders before depreciation, amortization, impairment and disposal gains
[4] In 2014, for the majority of leases, rents were indexed either to the change in the construction cost index (CCI) or to the change in the retail rent index (ILC) between the second quarter of 2012 and the second quarter of 2013 (respectively +0.79% and -1.74%).

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.

In the first half of 2014, rental revenues came to Euro 78.1 million, **up +1.9%** relative to the first half of 2013.

Lease rights and despecialization indemnities received during the first half of 2014 amounted to Euro 1.2 million, compared with Euro 1.1 million in the first half of 2013, breaking down as follows:

- Euro 1.0 million in lease rights relating to ordinary reletting activities (compared with Euro 0.9 million in the first half of 2013);
- Euro 0.2 million in lease rights relating primarily to the letting of the extensions of Albertville Retail Park and Lanester, completed during the first half of 2014 (compared with Euro 0.2 million in the first half of 2013 relating chiefly to the extension of the Ste Marie de La Réunion site).

After the impact of deferrals required under IFRS, lease rights recognized in the first half of 2014 totaled Euro 2.1 million, compared with Euro 3.5 million in the first half of 2013. The figure for the first half of 2013 included the gradual recognition of large key money payments received in the three previous years.

Net rental income

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

Costs included in the calculation of net rental income came to Euro 4.4 million in the first half of 2014 compared with Euro 5.1 million in the first half of 2013, a decrease of -13.6%.
The first-half 2013 figure was adversely affected by non-recurring site maintenance charges totaling Euro 0.2 million. There was non-recurring income of Euro 0.2 million in the first half of 2014, arising from the favorable outcome of a property-related dispute.

The non-recovered property operating expenses/invoiced rents ratio stood at 5.8% in the first half of 2014 compared with 6.9% in the first half of 2013.
Due to the increase in invoiced rents, net rental income came to Euro 73.8 million in the first half of 2014, up +3.0% compared with Euro 71.6 million in the first half of 2013.

3.1.2 Main management indicators

➤ Despite a weak operating environment, footfall in Mercialys' major shopping malls were positive in the first half of 2014, rising +1.3% (compared to a -0.2% cumulative fall across all malls in the same period according to the CNCC panel). At the same time, neighborhood shopping malls[5] – the segment in which Mercialys has the strongest presence – saw a +0.7% increase on a cumulative basis to end-May 2014.
Against this backdrop, Mercialys performed well, with its major shopping malls achieving stronger business growth than the broad market. Tenants posted cumulative sales growth of +1.6% to end-May 2014 relative to the first five months of 2013, thanks to the mix within its lease portfolio, most of which is exposed to the most resilient business sectors, as well as its long-standing positioning in neighborhood shopping malls.

➤ Reletting, renewal and letting of new properties remained robust in the first half of 2014, with 171 leases signed (compared with 149 in the first half of 2013):

- 140 in respect of renewals and relets (compared with 105 leases signed in the first half of 2013), with growth in the annualized rental base of +18% and +29% respectively (vacant basis at the last known rent); and
- 31 in respect of new properties under development (compared with 44 leases signed in the first half of 2013).

➤ At the end of June 2014, Mercialys had a high level of expired leases, allowing it to continue with its efforts to create value from the portfolio over the next few years.

➤ The recovery rate over 12 months remained stable at 97.6%.

➤ The number of tenants in liquidation remained low at June 30, 2014: 26 tenants out of 2,170 leases in the portfolio at June 30, 2014.

[5] CNCC index - Neighborhood shopping malls, comparable scope - Cumulative to end-May 2014

➤ The current vacancy rate - which excludes "strategic" vacancies designed to facilitate redevelopment plans - remained at a low level. It was 2.5% at June 30, 2014, compared with 2.6% at December 31, 2013 and June 30, 2013.
The total vacancy rate[6] was 4.0% at June 30, 2014, stable relative to December 31, 2013.

➤ The occupancy cost ratio[7] for tenants stood at 10.1% in large shopping malls, unchanged compared with December 31, 2013.
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.

➤ Rents received by Mercialys come from a very wide range of retailers. With the exception of Cafétérias Casino (5%), Casino (13%), H&M (3%) and Feu Vert (3%), no tenant represents more than 2% of total rents. Casino accounted for 18% of total rents at June 30, 2014, stable relative to December 31, 2013.

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

	Number of leases	**GMR*+ annual variable 06/30/2014 (in millions of euros)**	**06/30/2014 %**	**12/31/2013 %**
National brands	1,382	87.5	64%	63%
Local brands	675	25.4	18%	19%
Cafeterias Casino / Self-service restaurants	55	7.4	5%	5%
Other Casino Group brands	58	17.2	13%	12%
Total	**2,170**	**137.5**	**100%**	**100%**

**GMR = Guaranteed minimum rent*

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

Breakdown of rental income by business sector – % of rental income	**06/30/2014**	**12/31/2013**
Personal items	34.4%	34.0%
Food and catering	11.7%	11.6%
Household equipment	8.1%	8.2%
Beauty and health	12.9%	13.0%
Culture, gifts and leisure	14.7%	14.8%
Services	3.6%	3.7%
Large food stores	14.6%	14.6%
Total	**100.0%**	**100.0%**

The structure of rental revenue at June 30, 2014 confirmed the dominant share, in terms of rent, of leases with a variable component.

	Number of leases	**In millions of euros**	**06/30/2014**	**12/31/2013**
Leases with variable component	1,240	89.4	65%	65%
- of which guaranteed minimum rent		*88.4*	*64%*	*64%*
- of which variable rent		*1.1*	*1%*	*1%*
Leases without variable component	930	48.0	35%	35%
Total	**2,170**	**137.5**	**100%**	**100%**

The proportion of leases with a variable component at June 30, 2014 was stable relative to December 31, 2013, having increased steadily during previous years, mainly as a result of the inclusion of new leases with a variable rent component in the portfolio.

[6] [Rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units)] in accordance with the EPRA calculation method
[7] Ratio between rent and service charges paid by a retailer and retail sales (rent + charges including tax)/tenant's retail sales gross of tax

Leases linked to the ILC index (retail rent index) made up most of rents in the first half of 2014:

	Number of leases	In millions of euros	06/30/2014 %	12/31/2013 %
Leases linked to the ILC index	1,357	111.6	81%	75%
Leases linked to the CCI index	804	25.9	19%	25%
Leases linked to the ILAT index	9	-	-	-
Total	**2,170**	**137.5**	**100%**	**100%**

3.2 Management revenues, operating costs and operating income

Revenue from management, administration and other activities

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

Fees charged in the first half of 2014 came to Euro 1.5 million compared with Euro 2.0 million in the first half of 2013.
In the first half of 2013, Mercialys received additional revenue relative to the first half of 2014: Euro 0.2 million of non-recurring consultancy fees received as part of the partnership with OPCI UIR, and Euro 0.4 million of revenue from services provided as part of the "Foncière Commerçante" business.

Property development margin

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

In the first half of 2013, Mercialys recognized an additional margin of Euro 1.6 million corresponding to earnout payments relating to the letting, during the first half of 2013, of lots that had been vacant when the extension was delivered to the fund at the end of 2012.
Mercialys may receive further earn-out payments once the remaining four vacant lots have been let. In return for the payment of half of the price of these lots, Mercialys has given the OPCI fund a rental guarantee for a maximum of up to three years from completion of the extension.
Mercialys relet none of these vacant lots during the first half of 2014. As a consequence, Mercialys did not recognize any earn-out payments or additional development margin at June 30, 2014.

Other recurring income

Other recurring income corresponds to dividends received from the OPCI fund created in partnership with Union Investment (see above paragraph). Those dividends - similar to net rental income - are recognized as operating income.
In the first half of 2014, Euro 0.3 million of dividends were received, versus Euro 0.5 million in the first half of 2013.

Other expenses

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

These costs came to Euro 3.6 million in the first half of 2014 compared with Euro 3.3 million in the first half of 2013, an increase of Euro 0.3 million, mainly as a result of fees incurred in the first half of 2014 as part of an occasional consultancy assignment. Excluding these non-recurring fees, other expenses remained stable in the first half of 2014 relative to the first half of 2013.

Staff costs

Staff costs include all costs relating to Mercialys' executive and management teams, which consisted of 73 permanent employees at June 30, 2014 (compared with 74 at June 30, 2013 and 72 at December 31, 2013).

Staff costs amounted to Euro 5.0 million in the first half of 2014 compared with Euro 4.2 million during the first half of 2013, an increase of Euro +0.8 million relating to staff arrivals and departures over the previous 12 months.

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 mall management services provided by Mercialys' teams (see paragraph above concerning revenue from management, administrative and other activities).

Depreciation, amortization and provisions

Depreciation, amortization and provisions for liabilities and charges were almost unchanged at Euro 11.3 million in the first half of 2014 compared with Euro 11.6 million in the first half of 2013.

Other operating income and expenses

Other operating income and expenses include primarily:

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

Other operating income came to Euro 174.7 million in the first half of 2014 compared with Euro 138.4 million in the first half of 2013. The amount for the first half of 2014 includes:

- asset sales carried out in the first half of 2014, representing income recognized in Mercialys' consolidated financial statements of Euro 174.2 million, compared with Euro 137.6 million in the first half of 2013;
- reversals of commitments given as part of asset sales carried out between 2010 and 2013 that now have no object, representing a total of Euro 0.3 million (Euro 0.5 million at June 30, 2013).

Other operating expenses totaled Euro 117.1 million in the first half of 2014 compared with Euro 91.7 million in the first half of 2013, and comprised mainly:

- the net book value of assets sold in the first half of 2014 and costs associated with these asset sales: Euro 115.5 million as opposed to Euro 89.9 million at June 30, 2013; and
- the recognition of expenses relating to previous sales, totaling Euro 1.1 million.

On this basis, the net capital gain recognized in the consolidated financial statements at June 30, 2014 was Euro 57.8 million, versus a net capital gain of Euro 48.1 million recognized at June 30, 2013.

Operating income

As a result of the above, operating income came to Euro 113.4 million in the first half of 2014 compared with Euro 103.4 million in the first half of 2013, an increase of +9.7%.

The ratio of EBITDA[8] to rental revenues was 86% in the first half of 2014 compared with 89% in the first half of 2013.
The ratio in the first half of 2013 was boosted by the positive impact of earn-out payments and non-recurring fees arising from the Pessac extension, which were recognized at June 30, 2013, along with revenue from services provided in the Foncière Commerçante business. Stripping out these non-recurring items, the ratio would have been 86% in the first half of 2013, the same as in the first half of 2014.

3.3 Net financial items and tax

Net financial items

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

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

At June 30, 2014, Mercialys had a negative net cash position of Euro 3.5 million compared with a positive position of Euro 10.5 million at December 31, 2013.
After deducting financial liabilities, the Company had a negative net debt position of Euro 819.1 million at June 30, 2014, compared with Euro 741.9 million at December 31, 2013.

Mercialys took out total financing of Euro 1.0 billion in the first half of 2012: a Euro 650 million bond issue on March 23, 2012 and a Euro 350 million bank loan drawn on April 19, 2012 (see section 3.6.1 Debt). During the first half of 2013, the Company made a number of early repayments of bank loans, reducing its outstanding loans from Euro 350 million to Euro 193 million at June 30, 2013, and then to Euro 100 million at July 5, 2013.
In addition, the Company introduced an interest rate hedging policy during the second half of 2012.
In the first half of 2014, Mercialys carried out its first issues of commercial paper. At June 30, 2014, it had Euro 65.5 million of commercial paper outstanding.

The table below shows the breakdown of financial items in the first half of 2013 and 2014:

(in millions of euros)	**First half 2013**	**First half 2014**
Revenues from cash and cash equivalents *(a)*	0.4	0.1
Cost of debt taken out in H1 2012 *(b)* (bank loans and bonds)	-17.2	-15.1
Impact of hedging instruments *(c)*	1.4	0.7
Net cost of commercial paper *(d)*	0.0	0.0
Cost of gross debt excluding non-recurring items	***-15.9***	***-14.4***
Non-recurring amortization of costs arising from the partial early redemption of bank debt *(e)*	-1.6	-
Cost of gross debt *(f) = (b)+(c)+(d)+(e)*	**-17.4**	**-14.4**
Cost of net debt *(g) = (a)+(f)*	**-17.0**	**-14.3**
Cost of revolving credit facilities (undrawn) *(h)*	-1.2	-0.6
Other financial expenses *(i)*	-	-0.5
Other financial expenses *(j) = (h)+(i)*	**-1.2**	**-1.1**
TOTAL FINANCIAL EXPENSES *(k) = (f)+(j)*	**-18.7**	**-15.4**
Income from equity investments (dividends)	1.6	-
Proceeds from disposals of equity investments	-	4.8
Other financial income	0.1	0.1
Other financial income (l)	**1.7**	**4.9**
TOTAL FINANCIAL INCOME (m) = (a)+(l)	**2.1**	**5.0**
FINANCIAL INCOME = (k)+(m)	**-16.5**	**-10.4**

a) Financial expenses and average cost of debt

Financial expenses totaled Euro 15.4 million in the first half of 2014, down from Euro 18.7 million in the first half of 2013. The sharp decline was mainly due to the early redemption of bank debt in 2013, with Euro 250 million of bank debt repaid during the year, including Euro 157 million in the first half. Those repayments pushed down the outstanding amount of bank debt and therefore interest expenses in the first half of 2014. Financial expenses in the first half of 2013 were also adversely affected by the non-recurring amortization of costs relating to bank loans (Euro 1.6 million) arising from early repayments. Costs paid at the time these loans were taken out are spread out over the term of the loan. In the event of early repayment, residual costs are amortized in proportion to the amount of debt repaid.
Besides, on January 20, 2014, the original revolving credit facility of Euro 200 million was replaced by a smaller Euro 150 million facility, negotiated with a reduction in the commitment fee. This reduced the cost of this undrawn facility in the first half of 2014.

The actual average cost of debt at June 30, 2014 was 3.5%, as opposed to 3.8% at December 31, 2013 and 3.6% excluding non-recurring items, i.e. costs relating to debt repayments in 2013.

b) Financial income

Financial income amounted to Euro 5.0 million in the first half of 2014, as opposed to Euro 2.1 million in the first half of 2013. In the first half of 2014, financial income was boosted by proceeds from the disposal of Mercialys' investment in GreenYellow (a company that develops photovoltaic power units) amounting to Euro 4.8 million.

In 2009, Mercialys had bought a 5.25% stake in GreenYellow for Euro 458 thousand. The stake had remained unchanged since that date, enabling Mercialys to benefit from the value created by GreenYellow in its business of developing photovoltaic power plants. Given the weaker growth outlook for that business, arising from less attractive tariffs, Mercialys took the view that it would be better to sell the stake, freeing up resources to be reinvested in its core business.

As a result, net financial items produced an expense of Euro 10.4 million in the first half of 2014 compared with Euro 16.5 million in the first half of 2013.

Tax

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

In the first half of 2014, the Company saw tax income of Euro 0.03 million, versus Euro 0.3 million in the first half of 2013. Tax income at June 30, 2013 came mainly from the repayment of tax after the liquidation of Mercialys subsidiary SNC Vendolonne in 2012.

Share of net income of associated companies

Mercialys pre-empted the implementation of IFRS 10, 11 and 12 for the year ended December 31, 2013. Jointly controlled subsidiaries (SCI Geispolsheim and Corin Asset Management), which were previously proportionally consolidated, qualify as associated companies under IFRS 11 and have therefore been consolidated under the equity method. Figures for the first half 2013, presented for comparison purposes, have been adjusted.
SCI AMR, a company created via a partnership with Amundi Immobilier in 2013, and Aix2, in which Mercialys acquired a 50% stake in December and that is developing the extension of the Aix-en-Provence mall, are also accounted for under the equity method and are designated as associated companies.

The amount recognized in the first half of 2014 as the Group's share in the net income of associated companies was Euro 0.6 million, versus Euro 0.2 million in the first half of 2013. In the first half of 2014, Mercialys benefited fully from its share of earnings from SCI AMR, which started operating in late April 2013 when it acquired its current assets.

Net income

Net income totaled Euro 103.6 million in the first half of 2014 compared with Euro 87.3 million in the first half of 2013, an increase of +18.6% mainly as a result of capital gains on asset sales carried out in the first half of 2014 and net financial items that were much better in the first half of 2014 than in the year-earlier period.
Minority interests were immaterial. Net income attributable to Group equity holders came to Euro 103.6 million in the first half of 2014, compared with Euro 87.3 million in the first half of 2013, an increase of +18.6%.

Funds from operations (FFO)

Funds from Operations, which correspond to net income adjusted for amortization, depreciation, impairment and capital gains on asset sales and associated costs, totaled Euro 57.7 million, compared with Euro 50.6 million in the first half of 2013. This represents an increase of +14.0%, mainly due to the positive impact of net financial items, which improved strongly year-on-year.
On the basis of the weighted average number of shares (diluted) at June 30, funds from operations amounted to Euro 0.63 per share at June 30, 2014, compared with Euro 0.55 per share at June 30, 2013, representing an increase of +14.4% on a fully diluted basis.

3.4 Cash flow

Cash flow is calculated by adding back depreciation, amortization and impairment charges and other non-cash items to net income. Income and expenses not representative of cash flow and net capital gains are not included in the calculation of cash flow.

Cash flow rose by +6.2% to Euro 54.6 million in the first half of 2014, compared with Euro 51.4 million in the first half of 2013, mainly due to the improvement in net financial items.

Cash flow per share came to Euro 0.59 in the first half of 2014, based on the weighted average number of shares outstanding on a fully diluted basis, compared with Euro 0.56 per share in the first half of 2013.

3.5 Number of shares outstanding

	2009	2010	2011	2012	2013	June 30, 2014
Number of shares outstanding						
- At January 1	75,149,959	91,968,488	92,000,788	92,022,826	92,022,826	92,049,169
- At December 31	91,968,468	92,000,788	92,022,826	92,022,826	92,049,169	92,049,169
Average number of shares outstanding	85,483,530	91,968,488	92,011,241	92,022,826	92,038,313	92,049,169
Average number of shares (basic)	**85,360,007**	**91,744,726**	**91,865,647**	**91,884,812**	**91,734,656**	**91,806,777**
Average number of shares (diluted)	**85,420,434**	**91,824,913**	**91,892,112**	**91,953,712**	**91,865,817**	**91,806,777**

At December 31, 2013, Mercialys' ownership structure was as follows: Casino (40.16%[9]), Generali (8.01%), treasury stock and employees (0.48%) and other shareholders (51.35%).
At June 30, 2014, Mercialys' ownership structure was as follows: Casino (40.16%[10]), Generali (8.01%), treasury stock and employees (0.41%) and other shareholders (51.41%).

3.6 Financial structure

3.6.1 Debt

The Group had a negative net cash position of Euro 3.5 million at June 30, 2014, compared with a positive position of Euro 10.5 million at December 31, 2013. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:

- cash flows generated over the period: Euro +54.6 million;
- inflows/outflows related to acquisitions, disposals and exchanges of assets in the first half of 2014: outflow of Euro -41.6 million;
- dividend payments to shareholders on May 9, 2014: Euro +75.3 million;
- issues of commercial paper, of which the outstanding amount at June 30, 2014 was Euro +65.5 million; and
- net interest paid: Euro -16.5 million.

After deducting financial liabilities, the Company had a negative net debt of Euro 819.1 million at June 30, 2014, compared with Euro 741.9 million at December 31, 2013.

The amount of Mercialys' drawn debt is now Euro 815.5 million, comprising:

- a Euro 100 million bank loan subject to interest at 3-month Euribor + 225bp. The amount of bank loans taken out on February 23, 2012 came to Euro 350 million. This was reduced to Euro 193 million at June 30, 2013, and then to Euro 100 million at July 5, 2013 as a result of a number of early repayments made over the period representing a total of Euro 250 million, mainly following asset sales carried out in 2012 and during the first half of 2013.

- Euro 650 million of bonds with a fixed interest rate of 4.125%.

- Euro 65.5 million of commercial paper outstanding, paying interest at between 0.10% and 0.40%.

In addition, Mercialys has obtained financial resources that will be used to finance ordinary business activities and the cash requirements of Mercialys and its subsidiaries, and to ensure a comfortable level of liquidity:

- a revolving bank credit facility of Euro 150 million, refinancing the original Euro 200 million facility on January 20, 2014, with a 5-year maturity, with drawings possible on 1-, 3- and 6-month maturities. This facility pays interest at 3-month Euribor +140bp. When undrawn, this facility gives rise to a commitment fee of 0.56% (based on a BBB credit rating). The facility was undrawn at June 30, 2014.
- cash advances from Casino up to a threshold of Euro 50 million subject to an interest rate comprised between 60 and 120 points above Euribor. This facility expires on December 31, 2015. It was undrawn at June 30, 2014.
- a commercial paper program of Euro 500 million was also set up in the second half of 2012. Commercial paper outstanding amounted to Euro 65.5 million at June 30, 2014.

The average maturity of drawn debt was 3.9 years at June 30, 2014.

In addition, Mercialys introduced an interest rate hedging policy in October 2012. Mercialys uses derivatives (swaps) to smooth out its interest rate risk over time.
After taking into account these instruments, Mercialys' debt broke down as follows at June 30, 2014: 69% of debt is at a fixed rate and 31% of debt is at a variable rate.

[9] Besides 3% of economic exposure (Foncière Euris and Rallye)
[10] Besides 4% of economic exposure (Foncière Euris and Rallye)

The actual average cost of debt at June 30, 2014 was 3.5%, compared with 3.8% at December 31, 2013 (3.6% excluding non-recurring items, i.e. costs relating to debt repayments in 2013).

At June 30, 2014, the LTV or Loan To Value ratio - the ratio of net debt to market value excluding transfer taxes - was 33.7%, well below the bank covenant requirement of 50%:

	06/30/2013 (unadjusted)	**06/30/2013 (proforma)**	**12/31/2013**	**06/30/2014**
Net debt (in millions of euros)	755.5	755.9	741.9	819.1
Appraisal value excluding transfer taxes (in millions of euros)	2,291.5	2,291,510	2,335.9	2,430.4
Loan To Value (LTV)	**33.0%**	**33.0%**	**31.8%**	**33.7%**

Meanwhile, the interest cost ratio (ratio of EBITDA to cost of net debt) was 4.7, well above the contractual covenant requirement of over 2.

	06/30/2013 (unadjusted)	**06/30/2013 (proforma)**	**12/31/2013**	**06/30/2014**
EBITDA (in millions of euros)	68.3	68.2	129.5	67.1
Cost of net debt	17.0	17.0	30.7	14.3
Interest Cost Ratio (ICR)	**4.0**	**4.0**	**4.2**	**4.7**

Mercialys also complies with the two other contractual covenants:

- the market value of properties excluding transfer taxes at June 30, 2014 amounted Euro 2.4 billion (above the bank covenant requirement for a market value excluding transfer taxes of over Euro 1 billion),
- a ratio of secured debt / market value excluding transfer taxes of less than 20%. There was no secured debt at June 30, 2014.

3.6.2 Change in shareholders' equity

Consolidated shareholders' equity was Euro 767.3 million at June 30, 2014 compared with Euro 740.4 million at December 31, 2013. The main changes in this item during the period were:
- payment of the final dividend in respect of 2013 of Euro 0.82 per share: Euro 75.3 million;
- net income for the first half of 2014: Euro 103.6 million.

3.6.3 Dividends

The final dividend for 2013 was paid on May 9, 2014 and amounted to Euro 0.82 per share or a total of Euro 75.3 million, paid entirely in cash.
The total dividend paid in respect of 2013 amounted to Euro 1.16 per share including an interim dividend of Euro 0.34 per share paid on June 28, 2013.

At its meeting of July 22, 2014, the Board of Directors decided to pay an interim dividend for the 2014 financial year of **Euro 0.36 per share**, corresponding to half of the ordinary dividend for 2013. The interim dividend will be paid on October 14, 2014.

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

3.7.1 Asset purchases

The amount of acquisitions recognized in the first half of 2014 amounted to Euro 202.0 million including transfer taxes.

> As part of its strategy to develop global and unique retail venues, in the first half of 2014 Mercialys launched a project to redevelop and extend its Toulouse Fenouillet site in order to transform it into a leading regional shopping mall in the Toulouse area.
This project will be completed in two phases:

- creation of a retail park comprising nine medium-sized stores, adjacent to the existing site, with a GLA of 24,400 m². Work will start this summer. The opening of this retail park is scheduled in the spring of 2015,
- extension of the existing shopping mall and redevelopment of part of the large food store: 13 new medium-sized stores and 47 stores will be developed across a total area 24,300 m², along with 13 restaurants. This second phase is due to open in the fall of 2016.

This project represents an estimated investment of Euro 180 million, of which Euro 58 million has already been committed for:

- acquiring from Casino the land needed to develop the retail park and obtain planning permission for the whole project (through the acquisition of shares of Fenouillet Immobilier),
- acquiring the freehold of the large food store, in order to bring together all ownership rights, with a view to making the site more marketable and facilitating the project (annual rental income of Euro 2.0 million).

Building work on the retail park will cost an estimated Euro 22 million and will start in the summer.
At the end of those two phases, the Toulouse Fenouillet regional shopping mall will comprise more than 120 stores and one Géant large food store with total floorspace of 70,000 m². A leisure area and an outdoor food court will join the retail park, the shopping mall, and the hypermarket that form the heart of the shopping complex. The complex will be enhanced by 1,500-2,000 m² of space for additional services and casual retailers, both inside the mall and in the outside car parks.

> Mercialys also launched new projects to transform its shopping malls, aiming to install new stores in food storage areas, and to develop new retail areas in existing sites, in line with its strategy of developing global and unique retail venues.
In the first half of 2014, Mercialys acquired:

- four large food stores on the Brest, Monthieu, Niort and Rennes sites, effective from January 1, 2014, and
- a portfolio of service and restaurant areas on the parking areas in 5 sites.

These acquisitions represented Euro 143.6 million including transfer taxes and full-year rental income of Euro 7.8 million before redevelopment. Mercialys target is to reach an internal rate of return up 10% after transformation of the assets.

3.7.2 Completions of extension and redevelopment projects

In the first half of 2014, the Group continued to realize plans to extend shopping malls. These developments have helped Mercialys to make its shopping malls more attractive and diversify its offering, with the addition of new retailers in 2014 (Naturalia, Kiabi, Concept Kids, Kiwi, Pandora, Eurekakids and Beauty Monop).

Growth in 2014 will be boosted by 10 new programs:

> Three projects have already been completed in the first half of the year.

- Albertville: A 2,200 m² retail park opened in February 2014. It features six new small and medium-sized stores including a Picard store, and is generating additional rent of Euro +0.4 million on a full-year basis. In the second half of 2014, the opening of this retail park will be accompanied by work to redevelop the shopping mall.
- Lanester: The shopping mall extension was opened on April 22, 2014, with 11 new stores strengthening the site. Additional rent represents a full-year figure of Euro +0.8 million.
- Aix-en-Provence: The shopping mall extension was opened on May 24, 2014. This first phase resulted in 21 new stores and restaurants including Promod, Devred, Yves Rocher, Swarovski, Orange, Armand Thiery and A la Bonne heure, complementing the existing retail offering. Additional rent represents a full-year figure of Euro +0.9 million. The second phase of the extension is scheduled for completion in March 2015, further enhancing the mall's appeal.

> Seven other projects will be completed in the second half of 2014:
- Albertville: redevelopment of the existing cafeteria into new small stores,
- Angers: redevelopment of the former But store into new small stores,
- Annemasse: extension of the Decathlon medium-sized store,
- Besançon: extension of the shopping mall using space acquired from the hypermarket,
- Clermont-Ferrand: extension of the shopping mall using space acquired from the hypermarket,
- Nîmes: redevelopment of the former Boulanger store into new small stores,
- St Paul à La Réunion: extension of the shopping mall.

These developments represent 116 new stores, a full-year rental value of Euro 8.1 million and a GLA of 26,100 m² of newly created or redeveloped space, for a total investment of Euro 110 million.
The investment is helping to make the Company's shopping malls more attractive and to diversify its offering, and will be accompanied by growth in the casual leasing business.

3.7.3 Asset sales

In the first half of 2014, Mercialys sold 11 assets and an investment stake for a total of Euro 179.0 million including transfer taxes.

The assets sold were as follows:
> Five large food stores acquired in 2009 and located in Paris and Marseille: Paris St Didier, Paris Masséna, Marseille La Valentine, Marseille Delprat and Marseille Michelet. Since these five stores had reached maturity and no longer held any strategic appeal for Mercialys, they were sold to Casino, which had expressed an interest in buying them.

> Six standalone lots in Arcis-sur-Aube, Exincourt, Gap, Millau, St Martin d'Hères and Grenoble.

> Mercialys also received a Euro 0.4 million earn-out payment from the 2013 sale of four shopping malls to the fund set up in partnership with Amundi Immobilier, following the sale of vacant lots in the first half of 2014.

Gross rent from the divested assets in the first half of 2014 amounted to Euro 9.7 million on a full-year basis.
The total net capital gain recognized at June 30, 2014 was Euro 57.8 million.

> In the first half of 2014, Mercialys also sold its investment in GreenYellow (a company that develops photovoltaic power units) for an amount of Euro 4.8 million (refer to part 3.3b) of this report).

These transactions represent a continuation of the Mercialys policy of selling non-core assets.
These disposals, combined with the completion of extensions and redevelopments, are helping to increase the intrinsic quality of the portfolio through the retention of assets presenting potential for value creation and efforts to refocus the portfolio on assets that fit with the Mercialys strategy.

3.7.4 Appraisal valuations and changes in the scope of consolidation

At June 30, 2014, BNP Real Estate Valuation, Catella and Galtier updated their valuations of Mercialys' portfolio:
- BNP Real Estate Valuation conducted the appraisal of 45 sites at June 30, 2014, on the basis of visits to seven of the sites during the first half of 2014, and on the basis of an update of the appraisals conducted at December 31, 2013, for the other sites.
- Catella conducted the appraisal of 29 sites at June 30, 2014, based an update of the appraisals conducted at December 31, 2013;
- Catella conducted the appraisal of the remaining Mercialys sites, i.e. 15 sites at June 30, 2014, based an update of the appraisals conducted at December 31, 2013.

On this basis, the portfolio was valued at Euro 2,579.6 million including transfer taxes at June 30, 2014, compared with Euro 2,464.9 million at December 31, 2013.
The value of the portfolio therefore rose by +4.7% over six months (up +3.3% on a like-for-like basis[11]).
The average appraisal yield was 5.7% at June 30, 2014, compared with 5.85% at December 31, 2013 and June 30, 2013.

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

Sites acquired during the first half of 2014 were valued as follows at June 30, 2014:

- ✓ The Toulouse Fenouillet project was valued at its purchase price,
- ✓ The four large food store freeholds, along with new retail space lots, were also valued at purchase price.

The Euro +115 million increase in the market value of properties over six months therefore stemmed from:

- ✓ an increase in rents on a like-for-like basis: Euro +36 million[12];
- ✓ a lower average capitalization rate: positive impact of Euro +40 million;
- ✓ changes in scope: positive impact of Euro +39 million.

	Average capitalization rate 06/30/2014	**Average capitalization rate 12/31/2013**	**Average capitalization rate 06/30/2013**
Large regional shopping malls	5.4%	5.5%	5.5%
Neighborhood shopping malls	6.5%	6.7%	6.7%
Total portfolio*	5.7%	5.85%	5.85%

** Including other assets (large food stores, large specialty stores, independent cafeterias and other standalone sites)*

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset at June 30, 2014, as well as corresponding appraised rents:

Type of property	**Number of assets at 06/30/2014**	**Appraisal value at 06/30/2014 inc. TT (in Euro million)**		**Gross leasable area at 06/30/2014 (m²)**		**Appraised net rental income (in Euro million)**	
Large regional shopping malls	25	1,976.9	77%	454,500	69%	104.8	71%
Neighborhood shopping malls	36	548.2	21%	166,600	25%	37.2	25%
Sub-total shopping malls	**61**	**2,525.0**	**98%**	**621,100**	**94%**	**142.0**	**97%**
Other sites [(1)]	28	54.6	2%	39,000	6%	4.6	3%
Total	**89**	**2,579.6**	**100%**	**660,100**	**100%**	**146.6**	**100%**

(1) Large food stores, large specialty stores, independent cafeterias, other (service malls, convenience stores)

N.B. *Large food stores: gross leasable area of over 750 m²*
Large specialty stores: gross leasable area of over 750 m²

3.8 Net asset value calculation

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 (in millions of euros)	**06/30/2014**	31/12/2013	Change 2014 vs. 2013
Consolidated shareholders' equity	**767.3**	**740.4**	
Add back deferred income and charges	2.6	6.6	
Unrealized gains on assets	**1,027.9**	**1,005.8**	
Updated market value (incl. transfer taxes)	*2,579.6*	*2,464.9*	
Consolidated net book value	*-1,551.7*	*-1,459.1*	
Replacement NAV	**1,797.9**	**1,752.8**	
Per share (in euros)	**19.53**	**19.04**	**+2.6%**
Transfer taxes	-149.2	-129.0	
Updated market value (excl. transfer taxes)	*2,430.4*	*2,335.9*	
Liquidation NAV	**1,648.6**	**1,623.8**	
Per share (in euros)	**17.91**	**17.64**	**+1.5%**

N.B. The EPRA NAV and EPRA triple net NAV calculations are detailed in section 7. of this financial report.

[12] Includes the revaluation of the projects to be redeveloped acquired in December 2013

4. Outlook

Mercialys is starting a new strategic phase in 2014. The Company intends to make its sites global and unique retail venues.

This new strategic phase involves a 360-degree vision of its sites, with the aim of developing retail approaches that are different from and complement existing "traditional" retail spaces, while continuing to redevelop shopping malls, and benefitting from its links with its partners, foremost among which is Groupe Casino.

Mercialys has two main objectives:

- Develop the commercial potential of each site by addressing the asset as a whole: continue projects to extend and redevelop existing spaces while optimizing adjacent land, move medium-sized stores to parking areas in order to create additional rental value, and create new, complementary retail concepts for retailers.
- Focus on the customer: attract new formats and concepts and new retailers, to diversify the retail offering and meet current and future customer needs.

The first half of 2014 was marked by the implementation of this strategy. Mercialys:

- continued to develop extensions in its shopping malls through redevelopments of large and medium-sized stores and by expanding into car parks. Three projects have been completed and a further seven should be completed in the second half of 2014. New projects have also been launched that will drive growth in the portfolio in 2015 and 2016.
- strengthened its Casual Leasing activity, tripling the floorspace available for casual retailers.
- launched the development of external spaces – named "Villages.Services©" – that focus on everyday services, combining modern and economical construction methods with rents appropriate to these activities which have for a long time been moving out of malls, lacking at being profitable enough. Mercialys has started building two Villages.Services© in Clermont-Ferrand and Niort.

Mercialys is a transformer of retail assets, aiming at optimizing space, enabling malls to attain critical mass by increasing their average size, but also developing a more dense and diverse retail offering. Through this policy, the Company is making its malls more appealing, driving higher footfall and revenue for retailers, and increasing rental income of the portfolio.

In this way, Mercialys will continue increasing the value of its portfolio and its cash flows, in order to generate long-term returns for shareholders.

Based on activity in the first half of 2014 and the current growth outlook, Mercialys' management:

- is maintaining its 2014 organic growth target of at least 2.0% above indexation;
- is raising its 2014 growth target for FFO (Funds from Operations). Management's initial target of growing FFO by at least 2% in 2014 relative to 2013, set in February 2014, will be exceeded. Mercialys is aiming at generating a FFO of over Euro 100 million, i.e. a growth of approximately +5% compared with 2013.
- has proposed an interim dividend of Euro 0.36 per share to the Board of Directors, payable on October 14, 2014.

5. Subsequent events

No significant event has taken place since the accounts closing date.

6. Main related-party transactions

The main related-party transactions are described in note 20 of the notes to the half-year consolidated financial statements.

7. EPRA Performance Measures

7.1 EPRA earnings and earnings per share

EPRA earnings and earnings per share *(in millions of euros)*	**06/30/2014**	06/30/2013	Comments
Earnings per share attributable to Group equity holders, taken from the IFRS financial statements	**103.6**	**87.3**	
Adjustments to calculate EPRA Earnings, exclude:			
Profits or losses on disposal of investment properties, development properties held for investment and other interests	-65.6	-48.7	*Reversal of net capital gains (incl. legal costs)*
Profits or losses on sales of trading properties including impairment charges in respect of trading properties	-	-1.7	*Reversal of the property development margin, net of tax*
Tax on profits or losses on disposals	0.2	0.6	*Reversal of the tax on the property development margin*
Changes in fair value of financial instruments and associated close-out costs	0.7	0.4	*Reversal of the income related to the ineffective portion of the swap (net of tax)*
EPRA EARNINGS	**38.8**	**37.9**	
EPRA EARNINGS PER SHARE *(in euros per share)*	**0.42**	**0.41**	*Considering the average number of shares (diluted)*

7.2 EPRA Net Asset Value (NAV)

Calculation of EPRA net asset value (NAV) *(in millions of euros)*	**06/30/2014**	2013	Comments
NAV per the financial statements	**766.8**	**739.9**	
Effect of exercising options, convertible bonds and other equity securities	-	-1.1	
Diluted NAV after exercising options, convertible bonds and other equity securities	**766.8**	**738.9**	
Include:			
Revaluation of investment properties (IAS 40)	878.7	876.8	*Reversal of the asset net book values and integration of the asset fair values (incl. construction leases)*
EPRA NAV	**1,645.5**	**1,615.7**	
EPRA NAV PER SHARE (in euro per share)	**17.92**	**17.59**	*Considering the average number of shares (diluted)*

7.3 EPRA triple net asset value (EPRA NNNAV)

Calculation of EPRA triple net asset value (EPRA NNNAV) *(in millions of euros)*	**06/30/2014**	2013	Comments
EPRA NAV	**1,645.5**	**1,615.7**	
Include:			
Fair value of debt	2.7	-0.4	*Integration of the impact related to the fair value of unhedged bond debt*
EPRA NNNAV	**1,648.2**	**1,615.3**	
EPRA NNNAV PER SHARE (in euro per share)	**17.95**	**17.58**	*Considering the average number of shares (diluted)*

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

Calculation of EPRA net initial yield (NIY) and "topped-up" NIY disclosure *(in millions of euros)*	**06/30/2014**	2013	Comments
Investment property - wholly owned	2,322.7	2,352.4	*Market value excl. transfer taxes*
Less developments (-)	-41.6	-16.5	*Market value excl. transfer taxes*
Completed property portfolio (excl. transfer taxes)	**2,281.2**	**2,335.9**	
Tansfer taxes	149.2	129.0	*Transfer taxes*
Gross up completed property portfolio valuation (incl. transfer taxes)	**2,430.4**	**2,464.9**	**(B)**
Annualized cash passing rental income	142.1	140.2	*Annualized current rents, turnover-based rents and revenues from Casual Leasing, excluding vacant spaces*
Property outgoings (-)	-4.4	-4.2	*Non recoverable current charges on assets held*
Annualized net rents	**137.7**	**136.0**	**(A)**
Add: notional rent expiration of rent free periods or other lease incentives	1.2	1.1	*Rents on rent-free periods, step-up rents and other incentives*
Topped-up net annualized rent	**138.8**	**137.1**	**(C)**
EPRA NET INITIAL YIELD (NIY)	**5.7%**	**5.5%**	**A/B**
EPRA "TOPPED-UP" NIY	**5.7%**	**5.6%**	**C/B**

7.5 EPRA cost ratios

Calculation of EPRA cost ratios *(in millions of euros)*	**06/30/2014**	06/30/2013	Comments
Administrative/operating expenses per IFRS income statement	-3.6	-3.3	*External expenses*
Net service charge costs/fees	-2.1	-1.9	*Property taxes + Non-recovered service charges (including vacancy cost)*
Management fees less actual/estimated profit element	-1.1	-1.1	*Rental management fees*
Other operating income/recharges intended to cover overhead expenses less any related profits	-1.2	-2.1	*Other property operating income and expenses excluding management fees*
Share of joint venture expenses	-	-	*None*
Total	**-8.0**	**-8.4**	
Adjustments to calculate EPRA earnings exclude:			
Investment property depreciation	-	-	*Depreciation and provisions for fixed assets*
Ground rent costs	0.4	0.4	*Non-Group rents paid*
Service charge costs recovered through rents but not separately invoiced	-	-	
EPRA costs (including direct vacancy costs) (A)	**-7.6**	**-8.0**	**A**
Direct vacancy costs*	2.1	1.8	
EPRA Costs (excluding direct vacancy costs) (B)	**-5.5**	**-6.2**	**B**
Gross rental income less ground rent costs**	77.8	76.3	*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)	**77.8**	**76.3**	
EPRA COST RATIO (INCLUDING DIRECT VACANCY COSTS)	**-9.8%**	**-10.5%**	**A/C**
EPRA COST RATIO (EXCLUDING DIRECT VACANCY COSTS)	**-7.0%**	**-8.1%**	**B/C**

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

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

7.6 EPRA vacancy rate

See section 3.1.2.

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Summary consolidated financial statements

Six months ended June 30, 2014

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

CONSOLIDATED INCOME STATEMENT

For the half-year periods to June 30, 2014 and 2013 (in thousands of euros)		From January 1, 2014 to June 30, 2014	From January 1, 2013 to June 30, 2013[13]
Rental revenues		**78,131**	**76,680**
Non-recovered property taxes		-	(61)
Non-recovered service charges		(2,105)	(1,801)
Property operating expenses		(2,271)	(3,205)
Net rental income		**73,755**	**71,613**
Revenue from management, administration and other activities		1,522	1,984
Property development margin		-	1,649
Other income	*Note 11*	345	472
Other expenses		(3,585)	(3,299)
Staff costs		(4,950)	(4,186)
Depreciation and amortization		(11,999)	(11,632)
Release/(allowance) for provisions for liabilities and charges		736	53
Other operating income	*Note 12*	174,676	138,380
Other operating expenses	*Note 12*	(117,121)	(91,662)
Operating income		**113,379**	**103,371**
Revenues from cash and cash equivalents	*Note 16*	77	449
Cost of gross debt	*Note 15* *Note 16*	(14,352)	(17,439)
(Cost of net debt) / income from net cash		**(14,275)**	**(16,990)**
Other financial income		4,916	1,658
Other financial expenses		(1,070)	(1,212)
Net financial income/(expense)		**(10,429)**	**(16,544)**
Tax	*Note 18*	30	288
Share of net income of associated companies	*Note 5*	608	217
Consolidated net income		**103,588**	**87,332**
Attributable to minority interests		24	25
Attributable to Group equity holders		**103,564**	**87,308**
Earnings per share			
based on the weighted average number of outstanding shares over the			
Earnings per share attributable to Group equity holders (in euros)		1.13	0.95
Diluted earnings per share attributable to Group equity holders (in euros)		1.13	0.95

[13] Following the early application of IFRS 10 and 11 at end-December 2013, the financial statements at June 30, 2014 have been adjusted accordingly (Note 1.4).

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

For the half-year periods to June 30, 2014 and 2013 (in thousands of euros)	From January 1, 2014 to June 30, 2014	From January 1, 2013 to June 30, 2013[14]
Net income for the period	**103,588**	**87,332**
Items that may be recycled as income	**(1,527)**	**188**
Change in fair value of available-for-sale financial assets	(2,329)	286
Tax	802	(98)
Items that may not be recycled as income	**-**	**13**
Actuarial gains or losses	-	20
Tax	-	(7)
Other comprehensive income for the period, net of tax	**(1,527)**	**201**
Consolidated comprehensive income	**102,061**	**87,533**
Attributable to Group equity holders	102,037	87,508
Attributable to minority interests	24	25

[14] Following the early application of IFRS 10 and 11 at end-December 2013, the financial statements at June 30, 2014 have been adjusted accordingly Note 1.4).

CONSOLIDATED BALANCE SHEET

For the half-year period to June 30, 2014 and financial year ended December 31, 2013

ASSETS (in thousands of euros)		June 30, 2014	December 31, 2013
Intangible assets		919	1,022
Property, plant and equipment other than investment property		467	499
Investment property	*Note 10*	1,524,658	1,423,463
Investments in associates	*Note 5*	20,596	21,405
Other non-current assets	*Note 13*	33,538	20,703
Deferred tax assets		1,787	578
Non-current assets		**1,581,965**	**1,467,670**
Trade receivables		25,508	21,716
Other current assets		43,892	41,794
Cash and cash equivalents	*Note 6*	6,592	15,795
Investment property held for sale	*Note 10*	18,793	27,647
Current assets		**94,785**	**106,952**
TOTAL ASSETS		**1,676,750**	**1,574,621**

EQUITY AND LIABILITIES (in thousands of euros)		June 30, 2014	December 31, 2013
Share capital		92,049	92,049
Additional paid-in capital, treasury shares and other reserves		674,784	647,873
Shareholders' equity attributable to Group equity holders		**766,833**	**739,922**
Minority interests		**460**	**436**
Total shareholders' equity		**767,294**	**740,358**
Non-current provisions		249	231
Non-current financial liabilities	*Note 14*	763,333	747,109
Deposits and guarantees		22,302	21,882
Deferred tax liabilities		7	563
Non-current liabilities		**785,891**	**769,785**
Trade payables		15,232	11,264
Current financial liabilities	*Note 14*	82,886	27,044
Short-term provisions		1,715	1,692
Other current liabilities		23,385	24,471
Current tax liabilities		347	7
Current liabilities		**123,565**	**64,478**
TOTAL EQUITY AND LIABILITIES		**1,676,750**	**1,574,621**

CONSOLIDATED CASH FLOW STATEMENT

For the half-year periods to June 30, 2014 and 2013 (in thousands of euros)		From January 1, 2014 to June 30, 2014	From January 1, 2013 to June 30, 2013[15]
Net income attributable to Group equity holders		103,564	87,308
Net income attributable to minority interests		24	25
Net income from consolidated companies		**103,588**	**87,332**
Depreciation, amortization, impairment allowances and provisions net of reversals		12,486	13,752
Unrealized gains and losses relating to changes in fair value		721	429
Income and charges relating to stock options and similar		198	182
Other income and charges (1)		2,297	(1,478)
Share of income from associates		(608)	(217)
Dividends received from associates		1,502	107
Income from asset sales		(65,610)	(48,699)
Cash flow		**54,574**	**51,408**
Cost of net debt (excluding changes in fair value and depreciation)		13,073	14,221
Tax charge (including deferred tax)		(30)	(288)
Cash flow before cost of net debt and tax		**67,617**	**65,341**
Tax payments		2,051	(3,808)
Change in working capital requirement relating to operations excluding deposits and guarantees (2)		(15,863)	(5,113)
Change in deposits and guarantees		420	(1,278)
Net cash flow from operating activities		**54,225**	**55,142**
Cash payments on acquisition of: • investment property and other fixed assets	*Note 10*	(42,810)	(7,863)
• non-current financial assets		(323)	(15)
Cash receipts on disposal of: • investment property and other fixed assets (4)	*Note 10*	7,716	145,100
• non-current financial assets		4,792	439
Impact of changes in the scope of consolidation with change of control (3)		(10,921)	-
Impact of changes in the scope of consolidation related to associates (3)		(70)	-
Net cash flows from investing activities		**(41,616)**	**137,661**
Dividend payments to shareholders	*Note 8*	(75,293)	(89,085)
Interim dividend payments		-	(31,235)
Dividend payments to minority interests		-	(53)
Changes in treasury shares		(248)	(1,337)
Increase in borrowings and financial liabilities	*Note 14*	185,500	-
Decrease in borrowings and financial liabilities	*Note 14*	(120,000)	(156,959)
Interest paid		(16,528)	(30,817)
Net cash flows from financing activities		**(26,569)**	**(309,485)**
Change in cash position		**(13,960)**	**(116,682)**
Opening cash position	*Note 6*	10,479	203,382
Closing cash position	*Note 6*	(3,481)	86,700

[15] Following the early application of IFRS 10 and 11 at end-December 2013, the financial statements at June 30, 2014 have been adjusted accordingly Note 1.4).

(1) Other income and charges comprise primarily:

• discounting adjustments to construction leases	(266)	(252)
• lease rights received and spread out over the term of the lease	(974)	(2,609)
• financial expense charged over several periods	79	343
• charges relating to asset sales	3,440	575

(2) The change in working capital requirement breaks down as follows:	**(15,863)**	**(5,113)**
Trade receivables	(3,792)	2,102
Trade payables	4,250	(1,271)
Other receivables and payables	(16,039)	2,831
Inventories on property developments	-	(8,774)
Property development liabilities	(282)	-

(3) The Group paid Euro 10,921 thousand for shares in Fenouillet Immobilier.

(4) Cash inflows and outflows relating to asset purchases and disposals are limited by the fact that they took the legal form of asset exchanges, which gave rise to the payment and receipt of only balancing amounts for each contract.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the half-year periods to June 30, 2014 and 2013

(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 holders (2)**	**Minority interests**	**Total equity**
At January 1, 2013	**92,023**	**482,857**	**(1,903)**	**163,086**	**(47)**	**1,480**	**737,497**	**442**	**737,939**
Income and expenses recognized directly in equity	-	-	-	-	13	188	201	-	201
Net income for the period	-	-	-	87,308	-	-	87,308	25	87,332
Total income and expenses recognized	-	-	-	87,308	13	188	87,508	25	87,533
Capital increase	26	(26)	-	-	-	-	-	-	-
Transactions in treasury shares	-	-	(1,328)	(6)	-	-	(1,334)	-	(1,334)
Final dividends paid for 2012	-	-	-	(62,451)	-	-	(62,451)	(53)	(62,504)
Special dividends	-	-	-	(26,634)	-	-	(26,634)	-	(26,634)
Interim dividends paid for 2013	-	-	-	(31,235)	-	-	(31,235)	-	(31,235)
Share-based payments	-	-	-	182	-	-	182	-	182
At June 30, 2013[16]	**92,049**	**482,831**	**(3,231)**	**130,250**	**(34)**	**1,668**	**703,533**	**414**	**703,947**
At January 1, 2014	**92,049**	**482,836**	**(3,771)**	**166,508**	**(26)**	**2,323**	**739,922**	**436**	**740,358**
Income and expenses recognized directly in equity	-	-	-	-	-	(1,527)	(1,527)	-	(1,527)
Net income for the period	-	-	-	103,564	-	-	103,564	24	103,588
Total income and expenses recognized	-	-	-	103,564	-	(1,527)	102,037	24	102,061
Transactions in treasury shares	-	-	385	(415)	-	-	(30)	-	(30)
Final dividends paid for 2013	-	-	-	(75,293)	-	-	(75,293)	-	(75,293)
Share-based payments	-	-	-	198	-	-	198	-	198
At June 30, 2014	**92,049**	**482,836**	**(3,386)**	**194,562**	**(26)**	**796**	**766,833**	**460**	**767,294**

(1) Reserves related to share capital correspond to premiums on shares issued for cash or assets, merger premiums and legal reserves.

(2) Attributable to Mercialys SA shareholders.

16 Following the early application of IFRS 10 and 11 at end-December 2013, the financial statements at June 30, 2014 have been adjusted accordingly Note 1.4). However, equity figures at June 1, 2013 and June 30, 2013 were not affected by these adjustments.

Information relating to the Mercialys group

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

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

The consolidated financial statements for the period ended June 30, 2014 reflect the accounting position of the company, its subsidiaries and joint ventures, as well as the Group's interests in affiliated companies. As with the financial statements to June 30, 2013, they are subject to a limited review by our statutory auditors.

The summary consolidated financial statements for the half-year period to June 30, 2014 were prepared and authorized by the Board of Directors on July 22, 2014.

Note 1 Basis of preparation of the financial statements and accounting policies

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 at the date the financial statements were approved by the Board of Directors, applicable at June 30, 2014.

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 consolidated half-year financial statements do not contain all of the information and notes provided in the full-year financial statements. They should therefore be read in parallel with the Group's consolidated financial statements to December 31, 2013, which are available on request from the Communications Department, 148 rue de l'Université, 75007 Paris, or on the www.mercialys.com website.

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

Note 1.3 Accounting policies

The accounting rules and policies used in preparing the summary consolidated interim financial statements are the same as those used in the consolidated financial statements for the fiscal year ended December 31, 2013, including or excluding the new standards and interpretations described below.

1.3.1 Standards, amendments and interpretations applicable for the financial year beginning January 1, 2014

The Group has adopted the following standards, amendments and interpretations that are applicable from January 1, 2014.

- IFRS 10 "Financial Statements" and IAS 27 revised "Separate Financial Statements".
  IFRS 10 replaces the current IAS 27 "Consolidated and Separate Financial Statements" and interpretation SIC 12 "Consolidation - Special Purpose Entities". It introduces a new definition of control based on power, exposure (and rights) to variable returns and the ability to exercise this power in order to influence returns.

- IFRS 11 "Joint Arrangements" and IAS 28 revised "Investments in Associates".
  IFRS 11 and IAS 28 revised replace IAS 31 "Interests in Joint Ventures" and IAS 28 "Investments in Associates", as well as interpretation SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The definition of joint control is based on the existence of a contractual agreement and unanimous consent of the controlling parties. These standards provide two separate accounting treatments, as IFRS 11 removes the proportional consolidation method applicable to jointly controlled entities:
  - ⇨ *joint arrangements that qualify as joint operations, because they give rights to assets and obligations with respect to liabilities, will be recognized proportionally to the share of assets, liabilities, income and expenses to which the Group has access in accordance with the contractual agreement. A joint operation may be conducted via a simple contract or via a jointly controlled legal entity,*
  - ⇨ *joint arrangements that qualify as joint ventures because they provide only a right to net assets will be consolidated using the equity method.*

- IFRS 12 "Disclosure of Interests in Other Entities";
  This standard covers all disclosures to be made when an entity holds interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities, irrespective of the level of control or influence exercised over the entity.

In 2013, the Group adopted IFRS 10 "Disclosure of Interests in Other Entities", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". The Group has therefore carried out exhaustive analysis of companies that have governance agreements with external investors in order to assess the Group's level of control over these companies. Related details are provided in the notes to the financial statements for the year ended December 31, 2013.

- Amendments to IFRS 10, 11 and 12: transition guidance:
  These amendments provide clarification regarding the transition guidance for IFRS 10 and reduce the comparative information that needs to be presented, by limiting adjustments to prior-period figures. In addition, as regards disclosures for unconsolidated structured entities, the amendments will remove the obligation to present comparative information for periods prior to the period in which IFRS 12 is applied for the first time.

- Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities".
  This amendment clarifies offsetting rules.

- Amendment to IAS 36 "Recoverable Amount Disclosures".
  This amendment concerns disclosures on the recoverable amount of impaired assets where that amount is based on fair value less costs of disposal.

- Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting".
  This amendment concerns the possibility of continuing hedge accounting in circumstances in which a derivative designated as a hedging instrument is required to be novated to a central counterparty as a result of new laws or regulations if certain conditions are met (in this context, the novation of a derivative is the replacement of the original counterparty with a new counterparty).

With the exception of IFRS 10 and 11, whose impact has been set out in Note 1.4 , these new standards have not had a material impact on the Group's results and financial position.

1.3.2 Standards and interpretations not yet in force in the European Union

Texts adopted by the European Union

- IFRIC 21 "Levies".
  This standard specifies that the obligating event for the recognition of a liability that does not fall within the scope of IAS 12 depends on the relevant legislation, irrespective of the calculation base period.

The European Union has stated that this text must be applied to annual periods beginning on or after June 17, 2014 as opposed to January 1, 2014 as set by the IASB.
This new text has not had a material impact on the Group's results and financial position.

Texts not adopted by the European Union

Subject to their being definitively adopted by the European Union, the standards, amendments and interpretations presented below apply on the following dates according to the IASB:

- IFRS 9 "Financial Instruments: Classification and Measurement" and subsequent amendments to IFRS 9 and IFRS 7: application date not yet known.
  This is the first of three parts of IFRS 9 "Financial Instruments" intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". The first part concerns the classification and measurement of financial instruments. The effects of the application of this standard cannot be analyzed independently of the other two parts that have not yet been published, which should address the impairment of financial assets and hedge accounting respectively.

- IFRS 15 "Revenue from Contracts with Customers", applicable from January 1, 2017.
  IFRS 15 will replace IAS 11 "Construction Contracts" and IAS 18 "Revenue" and the corresponding interpretations: IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services".
  IFRS 15 sets out the principles for recognizing revenue from contracts with customers, except contracts covered by specific standards such as leases, insurance contracts and financial instruments. The basic principle is that revenue recognition should describe the transfer of goods or services to a customer, in an amount that reflects the payment that the entity expects to receive in return for those goods or services. The accounting standards-setter has identified five stages for implementing IFRS 15:
  - ⇨ *Identify the contract(s) with a customer*
  - ⇨ *Identify the performance obligations in the contract*
  - ⇨ *Determine the transaction price*
  - ⇨ *Allocate the transaction price to the performance obligations in the contract*
  - ⇨ *Recognize revenue when (or as) the entity satisfies a performance obligation*

  IFRS 15 will also improve disclosures required in the notes, provide an application guide for transactions that were not fully dealt with before (e.g. revenue from services and contract adjustments) and improve the application arrangements for contracts with multiple elements.

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations": applicable from January 1, 2016.

  The amendment gives details about how to recognize acquisitions of interests in a joint venture whose activity constitutes a "business" within the meaning of IFRS 3 "Business Combinations".

  For these acquisitions, an entity must apply the accounting principles relating to business combinations under IFRS 3 and other IFRSs that do not contradict the provisions of IFRS 11. It must also provide information required for business combinations in the notes. This applies at the time of an interest is initially acquired, and at the time of any subsequent acquisitions. In that case, the entity must:

  - ⇨ *measure identifiable assets and liabilities at fair value,*
  - ⇨ *expense acquisition-related costs in the period in which these costs were incurred and the services received,*
  - ⇨ *recognize deferred tax generated by the initial recognition of assets and liabilities as required by IFRS 3 and IAS 12 "Income Taxes" for business combinations (except for deferred tax resulting from the initial recognition of goodwill),*
  - ⇨ *recognize under goodwill any surplus in the consideration transferred relative to the amount of identifiable assets acquired or liabilities assumed on the acquisition date,*
  - ⇨ *perform an impairment test at least once per year on the cash generating units to which goodwill has been allocated,*

- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation": applicable from January 1, 2016.

  IAS 16 and IAS 38 both involve the principle whereby the basis for depreciation/amortization corresponds to the consumption of future economic benefits embodied in an asset. The IASB has stated that using a revenue-based method for depreciation/amortization is not appropriate, because revenue generated by a business that includes the use of an asset involves factors other than the consumption of future economic benefits embodied in that asset.

  The IASB has also stated that revenue is, in general, presumed to be an inappropriate basis for measuring the consumption of future economic benefits embodied in an intangible asset. However, this presumption may be rebutted in certain limited circumstances.

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions": applicable from July 1, 2014.

  This amendment applies to contributions from employees or third parties to defined-benefit plans. The aim of the amendment is to simplify the recognition of contributions that are independent of the number of years of employee service, such as employee contributions calculated on the basis of a fixed percentage of salary. These contributions may be recognized as a reduction in employee benefit costs in the period in which the benefit is paid, instead of being attributed to periods of service.

- Annual improvements to IFRS - 2010-2012 and 2011-2013: applicable from July 1, 2014.

  In December 2013, the IASB published the Annual Improvements 2010-2012 and 2011-2013 as part of its annual process of reviewing and improving standards. The main amendments are as follows:

  - ⇨ *IFRS 2 "Share-based Payment": definition of vesting condition;*
  - ⇨ *IFRS 3 "Business Combinations": accounting for contingent consideration in a business combination;*
  - ⇨ *IFRS 8 "Operating Segments": disclosures regarding the criteria for the aggregation of operating segments and the reconciliation of the total of the reportable segments' assets to the entity's assets;*
  - ⇨ *IFRS 13 "Fair Value Measurement": clarification of the notion of fair value concerning short-term receivables and payables;*
  - ⇨ *IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": application of the revaluation method;*
  - ⇨ *IAS 24 "Related Party Disclosures": clarification of the notion of services performed by key management personnel;*
  - ⇨ *IFRS 3 "Business Combinations": scope exceptions for joint ventures;*
  - ⇨ *IFRS 13 "Fair Value Measurement": offsetting possibilities for a portfolio of financial assets and liabilities;*
  - ⇨ *IAS 40 "Investment Property": clarifying the interrelationship between IFRS 3 and IAS 40 to determine the extent to which the acquisition of a building can be analyzed as a business combination within the meaning of IFRS 3.*

The Group has not applied any of these new standards or amendments in advance and is in the process of assessing the impact resulting from their first-time application, with the exception of IFRS 9, since the Group is waiting for the final version of the standard to be published.

Note 1.4 Impact of the application of new standards IFRS 10, IFRS 11 and IFRS 12

In 2013, the Group adopted IFRS 10 "Disclosure of Interests in Other Entities", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

As part of the early adoption of IFRS 10 and 11 from December 31, 2013, the Group has carried out an exhaustive analysis of companies that have governance agreements with external investors in order to assess the Group's level of control over the assets concerned. Given these new standards, the analysis and conclusions regarding the investments concerned or investments subject to our judgment are set out in the notes to the consolidated financial statements for the year ended December 31, 2013. There were no changes at June 30, 2014.

Jointly controlled entities (Corin Asset Management and GM Geispolsheim) that were previously proportionally consolidated under IAS 31 have been designated as joint ventures within the meaning of IFRS 11. They have been accounted for under the equity method since January 1, 2013.

The financial statements to June 30, 2013 have been adjusted to reflect the impact of the application of these standards. The adjustments made do not impact "Comprehensive income attributable to Group equity holders" or total shareholders' equity. They affect primarily the presentation of the financial statements insofar as all profits and losses from the subsidiaries concerned are now presented on a net basis under "share of net income from associates", and those on the balance sheet are now recognized as "Investments in associates".

The impact on the Group's consolidated financial statements at June 30, 2013 is as follows:

(in thousands of euros)	06/2013 *reported*	Adjustment for IFRS 10-11	06/2013 *proforma*
Intangible assets	770	-	770
Property, plant and equipment other than investment property	535	-	535
Investment property	1,409,468	-	1,409,468
Investments in associates	13,669	90	13,758
Other non-current assets	20,280	-	20,280
Deferred tax assets	171	-	171
Non-current assets	**1,444,893**	**90**	**1,444,981**
Trade receivables	17,964	(213)	17,751
Other current assets	31,132	(282)	30,851
Cash and cash equivalents	87,466	(394)	87,072
Investment property held for sale	31,771	-	31,771
Current assets	**168,332**	**(888)**	**167,444**
TOTAL ASSETS	**1,613,225**	**(800)**	**1,612,425**

(in thousands of euros)	06/2013 *reported*	Adjustment for IFRS 10-11	06/2013 *proforma*
Total shareholders' equity	**703,947**	**-**	**703,947**
		-	
Non-current provisions	234	-	234
Non-current financial liabilities	747,950	-	747,950
Deposits and guarantees	22,287	-	22,287
Non-current tax liabilities and deferred tax liabilities	880	-	880
Non-current liabilities	**771,351**	**-**	**771,351**
Trade payables	11,303	(153)	11,150
Current financial liabilities	101,313	-	101,313
Short-term provisions	1,096	-	1,096
Other current liabilities	24,210	(646)	23,565
Current tax liabilities	5	(2)	3
Current liabilities	**137,927**	**(800)**	**137,127**
TOTAL EQUITY AND LIABILITIES	**1,613,225**	**(800)**	**1,612,425**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	06/2013 *reported*	Adjustment for IFRS 10-11	06/2013 *proforma*
Net rental income	71,723	(110)	71,613
Operating income	103,600	(229)	103,371
Net financial income/(expense)	(16,544)	-	(16,544)
Tax	276	12	288
Share of net income of associates	-	217	217
Consolidated net income	87,332	-	87,332

Note 1.5 Use of estimates and judgments

In preparing the consolidated financial statements, the Group 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 significantly 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.
In the context of preparing the consolidated interim financial statements, the main judgments made by Executive Management and the main assumptions made are the same as those applied when preparing the consolidated financial statements for the fiscal year ended December 31, 2013.

Note 2 Significant events

Start of development at the Toulouse Fenouillet regional shopping center

As part of its strategy to develop global and unique retail venues, Mercialys launched a project to redevelop and extend its Toulouse Fenouillet site in order to transform it into a leading regional shopping mall in the Toulouse area.
This regional shopping mall will become the largest site in the Mercialys portfolio with an eventual estimated appraisal value of Euro 240 million.

This project will be completed in two phases:

- creation of a retail park comprising nine medium-sized stores, adjacent to the existing site, with a GLA of 24,400 m². Work will start this summer. The opening of this retail park is scheduled in the spring of 2015,
- extension of the existing shopping mall and redevelopment of part of the large food store: 13 new medium-sized stores and 47 new small stores will be developed across a total area 24,300 m², along with 13 restaurants. This second phase is due to open in the fall of 2016.

The project represents an estimated investment of Euro 180 million including Euro 58 million already invested.

Ten projects to be completed in 2014, including three in the first half of 2014

In the first half of 2014, redevelopment and extension programs continued, with the completion of three projects: a retail park in Albertville, a shopping mall extension in Lanester and the first phase of a shopping mall extension in Aix-en-Provence.
At the same time, work began on seven other sites, with the completion of projects under the "L'Esprit Voisin" program due in the second half of 2014.

Launch of four new development projects and acquisition of a portfolio of service and restaurant areas for Euro 144 million

Mercialys bought from Casino the freeholds of four large food stores in the first half of 2014, along with a portfolio of service and restaurant areas for a total of Euro 144 million including transfer taxes.

Ongoing disposals of non-core assets: 11 assets and one financial investment sold in the first half of 2014 for Euro 179 million

In the first half 2014, Mercialys sold:

- 11 mature assets, including five large food stores acquired in 2009 and six standalone lots, for a total of Euro 174 million including transfer taxes.
- a non-strategic financial investment in GreenYellow (a company that develops photovoltaic power units) for Euro 4.8 million.

These transactions represent a continuation of the Group's policy of selling non-core assets.
The disposals also helped finance Mercialys' acquisitions during the first half of 2014.

Note 3 Seasonal nature of the business

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

Note 4 Information by operating segment

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

To date, there is only one geographic segment, given that the Group's asset portfolio consists entirely of properties located in France. In the future, however, the 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

As of June 30, 2014, the scope of consolidation included the following companies:

Name	June 30, 2014			December 31, 2013		
	Method	Interest %	Control %	Method	Interest %	Control %
Mercialys SA	FC	Parent company	Parent company	FC	Parent company	Parent company
Mercialys Gestion SAS	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Kerbernard	FC	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 de centre commercial de Lons SNC	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%
Kretiaux SAS	FC	100.00%	100.00%	FC	100.00%	100.00%
SAS des Salins	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI Timur	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Agout	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Géante Periaz	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Dentelle	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Chantecouriol	FC	100.00%	100.00%	FC	100.00%	100.00%
SCI GM Geispolsheim	EM	50.00%	50.00%	EM	50.00%	50.00%
SCI Caserne de Bonne	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Pessac2	FC	100.00%	100.00%	FC	100.00%	100.00%
SNC Agence d'ici	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 immobilier	FC	100.00%	100.00%	-	-	-

FC: full consolidation EM: equity method

As part of the redevelopment and extension of the Toulouse-Fenouillet shopping mall, Mercialys:

- acquired the land and buildings of the large food store from Casino for Euro 39.5 million;
- took control of SNC Fenouillet Immobilier, which mainly holds the building permits, for Euro 10,921 thousand.

These transactions were carried out together and treated as the acquisition of a standalone asset, i.e. a set of properties to be redeveloped.

Note 6 Cash, cash equivalents and net debt

The "net cash" and "net debt" aggregate items break down as follows for the half-year period to June 30, 2014 and the fiscal year ended December 31, 2013:

(in thousands of euros)	June 30, 2014	December 31, 2013
Cash	6,491	15,694
Cash equivalents	101	101
Gross cash	**6,592**	**15,795**
Current bank borrowings	(10,073)	(5,316)
Net cash	**(3,481)**	**10,479**

Under the terms of the liquidity agreement with Oddo & Cie, the cash managed is invested in money-market funds. These funds meet the criteria for cash equivalents and are part of the net cash position.

Note 7 Equity

At June 30, 2014, the share capital amounted to Euro 92,049,169, comprising 92,049,169 fully paid-up shares each with a par value of Euro 1.

Note 8 Dividends paid, proposed or decided

Of the 92,049,169 shares at December 31, 2013, 91,820,642 carried an entitlement to the dividend in respect of 2013 (228,527 treasury shares are exempt from payment).
The Company paid its shareholders a gross dividend of Euro 1.16 per share in respect of the financial year ended December 31, 2013. An interim dividend of Euro 0.34 per share was paid in 2013, and the final dividend of Euro 0.82 per share was paid on May 9, 2014.
Payment of the final dividend represented a total of Euro 75,293 thousand.
The total dividend for the 2013 financial year therefore came to Euro 106,528 thousand.

Note 9 Business combinations

No business combination was formed during the period ended June 30, 2014. Any asset transactions involved acquisitions or disposals of stand-alone assets.

Note 10 Investment property and investment property held for sale

Acquisitions and disposals

In June 2014, Mercialys carried out asset transactions with the Casino group which, in legal terms, took the form of asset exchanges.
Given the nature of the assets exchanged and the commercial substance of the transactions, the acquisitions and disposals were recognized separately.
As part of these exchanges with the Casino group, Mercialys acquired the Toulouse Fenouillet site for Euro 33.1 million (excluding transfer taxes), Rennes Saint-Grégoire for Euro 30.1 million (excluding transfer taxes), Saint-Etienne Monthieu for Euro 41.2 million (excluding transfer taxes), Niort for Euro 24.0 million (excluding transfer taxes) and Brest for Euro 36.1 million (excluding transfer taxes), and sold five assets for a net price of Euro 170.6 million (excluding transfer taxes).

Cash inflows and outflows relating to these exchanges correspond to balancing payments. The balancing payment relating to the disposals amounted to Euro 11.6 million, of which Euro 4.1 million had not been received by the end of June 2014.
Disbursements relating to the acquisitions in these exchanges amounted to Euro 16.9 million (balancing payment of Euro 6.9 million and Euro 10.0 million of transfer taxes).

As regards the Toulouse Fenouillet site, the Group also bought land for Euro 5.5 million and shares in SNC Fenouillet Immobilier from the Casino group (Note 5).

Work initiated in 2013 also continued. Work concerned the Angers site for Euro 5.7 million, Lanester for Euro 3.3 million, Besançon for Euro 3.5 million, Clermont for Euro 1.5 million and Annemasse for Euro 1.0 million.

Impairment of investment property

Impairment losses on investment properties were also recognized in the first half of 2014 in the amount of Euro 621 thousand. These impairment losses concerned the Brive La Gaillarde city-center site (Euro 343 thousand), Châteauroux (Euro 162 thousand) and Marseille Les Olives (Euro 117 thousand).

Fair value of investment property and investment property held for sale

At December 31, 2013, BNP Estate Valuation, Catella and Galtier updated valuations on all of the appraisals they had made previously:

- ✓ BNP Real Estate Valuation conducted the appraisal of 45 sites at December 31, 2013, on the basis of visits to nine of the sites during the second half of 2013, and on the basis of an update of the appraisals conducted at June 30, 2013, for the other sites. Fourteen site visits were carried out during the first half of 2013.
- ✓ Catella conducted the appraisal of 30 sites at December 31, 2013, on the basis of a visit to 11 of the sites during the second half of 2013, and on the basis of an update of the appraisals for the other sites. Ten site visits were carried out during the first half of 2013.
- ✓ Galtier conducted the appraisal of Mercialys' other assets, i.e. 16 sites at December 31, 2013, on the basis of an update of the appraisals conducted at June 30, 2013, for the other sites. Four site visits were carried out during the first half of 2013.

Sites acquired during 2013 were valued as follows at December 31, 2013:

- ✓ The H&M store extension in Clermont-Ferrand acquired in the fourth quarter of 2013 was valued at cost;
- ✓ The six assets acquired on an off-plan basis in December 2013 (the Albertville retail park and the Lanester, Besançon, Clermont-Ferrand, Aix-en-Provence and St Paul in La Réunion extensions) were also valued at cost.

At June 30, 2014, BNP Real Estate Valuation, Catella and Galtier updated their valuations of Mercialys' portfolio:

- ✓ BNP Real Estate Valuation conducted the appraisal of 45 sites at June 30, 2014, by visiting seven of the sites during the first half of 2014, and on the basis of an update of the appraisals conducted at December 31, 2013, for the other sites.
- ✓ Catella conducted the appraisal of 29 sites at June 30, 2014, based an update of the appraisals conducted at December 31, 2013.
- ✓ Galtier conducted the appraisal of the remaining Mercialys sites, i.e. 15 sites at June 30, 2014, based an update of the appraisals conducted at December 31, 2013.

On this basis, the portfolio was valued at Euro 2,579.6 million including transfer taxes and Euro 2,430.4 million excluding transfer taxes at June 30, 2014, compared with Euro 2,464.9 million including transfer taxes and Euro 2,335.9 million excluding transfer taxes at December 31, 2013.
According to IFRS 13, this is a level 3 valuation.
The value of the portfolio therefore rose by +4.7% over six months (up +3.3% on a like-for-like basis). The average appraisal yield was 5.7% at June 30, 2014, compared with 5.85% at December 31, 2013 and June 30, 2013.

Sites acquired during the first half of 2014 were valued as follows at June 30, 2014:

- ✓ The Toulouse Fenouillet project was valued at its purchase price,
- ✓ The four large food store freeholds, along with new retail space lots, were also valued at purchase price.

The Euro 115 million increase in the market value of properties over six months therefore stemmed from:

- ✓ an increase in rents on a like-for-like basis: Euro 36 million[17];
- ✓ a lower average capitalization rate: positive impact of Euro 40 million;
- ✓ changes in scope: positive impact of Euro 39 million.

[17] Including the revaluation of redevelopment projects acquired in December 2013.

The average capitalization rate on the basis of appraisal valuations was as follows:

	June 30, 2014	December 31, 2013	June 30, 2012
Large regional shopping centers	5.4%	5.5%	5.4%
Neighborhood shopping centers	6.5%	6.7%	6.5%
Total portfolio [18]	5.7%	5.85%	5.8%

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

The following table gives the breakdown of market value and gross leasable area (GLA) by type of asset at June 30, 2014, as well as corresponding appraised rents:

Type of property	Number of assets at 06/30/2014	Appraisal value at 06/30/2014 inc. TT (in millions of euros)	(%)	Gross leasable area at 06/30/2014 (m^2)	(%)	Appraised net rental income (in millions of euros)	(%)
Large regional shopping centers	25	1,976.9	77%	454,500	69%	104.8	71%
Neighborhood shopping centers	36	548.2	21%	166,600	25%	37.2	25%
Sub-total shopping centers	**61**	**2,525.0**	**98%**	**621,100**	**94%**	**142.0**	**97%**
Other (1)	28	54.6	2%	39,000	6%	4.6	3%
Total	**89**	**2,579.6**	**100%**	**660,100**	**100%**	**146.6**	**100%**

(1) Large food stores, large specialty stores, independent cafeterias, other (service malls, convenience stores)

N.B. Large food stores: gross leasable area of over 750 m2.

Large specialty stores: gross leasable area of over 750 m2.

Therefore, assuming annual rental income of Euro 146.6 million and a capitalization rate of 5.85%, a 0.5% reduction in the capitalization rate to 5.4% would result in an increase in the fair value of properties of Euro 161.2 million. A 0.5% increase in the capitalization rate to 6.4% would reduce the fair value of the portfolio by Euro 270.4 million. A 10% increase or decrease in rental income would have a positive or negative impact of Euro 177.6 million with a capitalization rate of 5.85%.

On the basis of these appraisals, impairment losses on investment properties were recognized at end-June 2014 in the amount of Euro 621 thousand. No impairment was recorded in the financial statements to June 30, 2013.

Note 11 Other income

Other recurring income of Euro 345 thousand recognized in the first half of 2014 corresponds to dividends received from the OPCI fund UIR2 created in partnership with Union Investment.
These dividends correspond to the management of the OPCI's retail property assets, similar to the business activity pursued by Mercialys. They are therefore presented as operating income.
In the first half of 2013, these dividends amounted to Euro 472 thousand.

Note 12 Other operating income and expenses

Other operating income totaled Euro 174.7 million in the first half of 2014 compared with Euro 138.4 million in the first half of 2013. They mainly related to asset sales in the first half of 2014 totaling Euro 174.2 million (Euro 137.6 million in the first half of 2013).
Other operating expenses totaled Euro 117.1 million in the first half of 2014 compared with Euro 91.7 million in the first half of 2013. In the first half of 2014, they mainly comprised the net book value of assets sold in the first half of 2014 and costs associated with these asset sales (Euro 115.5 million compared with Euro 89.9 million in the first half of 2013).

On this basis, the net capital gain recognized in the consolidated financial statements to June 30, 2014 relating to asset sales carried out in the first half of the year amounts to Euro 57.8 million.

Note 13 Other non-current assets

At June 30, 2014, other non-current assets mainly included non-current financial assets used for hedging (Euro 15,408 thousand), amounts receivable from tenants under building leases (Euro 8,235 thousand) and available-for-sale financial assets (Euro 9,735 thousand).

The fall in available-for-sale financial assets is due to the Group's sale of its stake in GreenYellow. The fair value of this available-for-sale financial asset was Euro 2,823 thousand. (0)

Note 14 Borrowings, debt and financial liabilities

Note 14.1 Net debt

(in thousands of euros)	June 30, 2014			December 31, 2013		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	(659,328)	(6,277)	(665,605)	(645,775)	(19,679)	(665,454)
Other borrowings and financial liabilities	(100,000)	(501)	(100,501)	(100,000)	(495)	(100,495)
Commercial paper	-	(65,500)	(65,500)	-	-	-
Bank facilities		(10,073)	(10,073)	-	(5,316)	(5,316)
Fair value hedging derivatives - liabilities	(4,005)	(535)	(4,540)	(1,334)	(1,554)	(2,888)
Gross debt	**(763,333)**	**(82,886)**	**(846,219)**	**(747,109)**	**(27,044)**	**(774,153)**
Fair value hedging derivatives - assets	15,407	5,147	20,554	-	16,493	16,493
Cash and cash equivalents		6,592	6,592	-	15,795	15,795
Available cash and other financial assets	**15,407**	**11,739**	**27,146**	**-**	**32,288**	**32,288**
NET DEBT	**(747,926)**	**(71,147)**	**(819,073)**	**(747,109)**	**5,244**	**(741,865)**

Note 14.2 Borrowings and debt

Financial covenants:

Mercialys' financial liabilities are subject to default clauses (resulting in early redemption) in the event that the Group fails to comply with the following financial ratios:

- ✓ Loan To Value (LTV): consolidated net debt/consolidated fair value of investment properties excluding transfer taxes < 50%, at each accounting date;
- ✓ interest Cost Ratio (ICR): consolidated EBITDA[19] /interest (net financial expenses) > 2, at each accounting 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.

The LTV ratio stood at 33.7% at end-June 2014.

(in millions of euros)	June 30, 2014	December 31, 2013
Consolidated net debt	819.1	741.9
Consolidated fair value of investment properties excluding transfer taxes	2,430.4	2,335.9
Loan To Value (LTV)	**33.7%**	**31.8%**

[19] EBITDA: earnings before interest, taxes, depreciation, and amortization.

Meanwhile, the interest cost ratio (ratio of EBITDA to cost of net debt) was 4.7, well above the contractual covenant requirement of over 2.

(in millions of euros)	**June 30, 2014**	**December 31, 2013**
Consolidated EBITDA	67.1	129.5
Cost of net debt	14.3	30.7
Interest Cost Ratio (ICR)	**4.7**	**4.2**

At June 30, 2014, the two other contractual covenants, as well as the commitment and default clauses, were also respected.

Note 15 Fair value of financial instruments

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). This classification is used as a basis for presenting the characteristics of financial instruments recognized in the balance sheet at fair value at the end of the reporting period:

- **level 1**: financial instruments traded in an active market;
- **level 2**: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;
- **level 3**: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs.

At June 30, 2014, available-for-sale (AFS) assets measured at fair value mainly comprised units in OPCI funds. Their fair value has been determined on the basis of their net asset value. This is a level 3 valuation.

Derivative financial instruments are measured externally using the customary valuation techniques for this type of instrument. Valuation models include observable market parameters – in particular the yield curve – and the quality of the counterparty. These fair value measurements are generally category 2.

Note 15.1 Carrying amount and fair value of financial assets and liabilities

The table below shows a comparison of the carrying amount of financial assets and liabilities with their fair value.

	June 30, 2014			
(in thousands of euros)	Carrying amount on balance sheet	Non-financial assets or liabilities	Value of financial assets or liabilities	Fair value
Financial assets				
Other non-current assets	33,538	8,395	25,143	**25,143**
Trade receivables	25,508	-	25,508	**25,508**
Other receivables	43,892	18,890	25,002	**25,002**
Cash and cash equivalents	6,592	-	6,592	**6,592**
Financial liabilities				
Bonds	665,605	-	665,605	**731,200**
Other borrowings and financial liabilities	166,001	-	166,001	**166,001**
Deposits and guarantees	22,302	-	22,302	**22,302**
Bank facilities	10,073	-	10,073	**10,073**
Fair value hedging derivatives - liabilities	4,540	-	4,540	**4,540**
Trade payables	15,232	-	15,232	**15,232**
Other current liabilities	23,385	9,590	13,795	**13,795**

Note 15.2 Fair value hierarchy for financial instruments

The tables below show financial assets and liabilities stated at fair value according to the following three categories:

	Fair value hierarchy			
(in thousands of euros)	Market price = level 1	Models using observable inputs = level 2	Models using non-observable inputs = level 3	June 30, 2014
ASSETS				
Available-for-sale financial assets	-	-	9,735	**9,735**
Fair value hedging derivatives - assets (current and non-current)	-	20,554	-	**20,554**
Cash equivalents	6,592	-	-	**6,592**
LIABILITIES				
Bonds	731,231	-	-	**731,231**
Fair value hedging derivatives - liabilities (current and non-current)	-	4,540	-	**4,540**

Note 16 Net financial income/(expense)

The cost of gross debt totaled Euro 14,352 thousand in the first half of 2014, down from Euro 17,439 million in the first half of 2013. The sharp decline was mainly due to the early redemption of bank debt in 2013.

The net financial income/(expense) item includes:
- as expenses: the net carrying amount of shares in GreenYellow, which were sold for Euro 458 thousand, and financial expenses relating to Company's financial structure, net of income from the implementation of the associated interest rate hedging policy.
- as income: proceeds from the disposal of Mercialys' stake in GreenYellow for Euro 4,790 thousand and dividends on equity investments, as well as interest income on cash generated in the course of operations and deposits from tenants.

As a result, the net financial expense amounted to Euro 10,429 thousand in the first half of 2014, as opposed to Euro 16,544 thousand in the first half of 2013. It was reduced by the disposal of Mercialys' stake in GreenYellow for Euro 4,332 thousand.

Note 17 Contingent assets and liabilities

No event in the first half of the year is likely to generate a contingent asset or liability.

Note 18 Tax

The amount of tax for the first half of 2014 is determined on the basis of actual results.
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 Euro 30 thousand tax charge mainly relates to taxes on the earnings of companies that are not covered by the SIIC regime (Euro 366 thousand) and the tax on business added-value (CVAE, Euro 350 thousand). This is in addition to deferred tax, which included the use of tax losses in an amount of Euro 937 thousand.

The tax charge for the first half of 2013 corresponded to taxation of the development margin generated on the Bordeaux-Pessac extension project, invoiced fees and financial income on cash holdings less a share of the Company's central costs allocated to its taxable income and financial expenses. This was in addition to deferred tax.

Note 19 Off-balance sheet commitments

The Group's commitments at June 30, 2014 are those mentioned in the annual financial statements to December 31, 2013, in addition to the commitments described below.

Assets subject to preliminary sales agreements or firm purchase offers signed at June 30, 2014 represent a value of Euro 5.3 million including transfer taxes. They are recorded under "Investment property held for sale".

Note 20 Related party transactions

With SCI AMR:

Mercialys has entered into the following agreements with SCI AMR:

- Real estate advisory service agreement: a 5-year agreement whereby Mercialys will provide SCI AMR with general assistance in the financial management of its real estate assets.
- 5-year exclusive letting mandate.
  The amount of these transactions is Euro 181 thousand.

With the Casino group:

The Mercialys group maintains contractual relations with various companies of the Casino group.

In the first half of 2014, Mercialys carried out a certain number of asset transactions with the Casino group, which are discussed in Note 10 , in the "acquisitions and disposals" section. Those transactions involved four asset exchange contracts. They also gave rise to the acquisition of SCCV Fenouillet Immobilier (Note 5).

Leases granted by the Mercialys group to Casino group companies developed as follows in the first half of 2014:

- - two leases for Casino Restauration, with a total of 55 leases at June 30, 2014, including 45 leases on premises operated under the Casino Cafétéria name and 10 leases on premises operated under other names (compared with 57 leases at June 30, 2013);
- Other Casino group entities – 12 leases, bringing the total to 58 leases at June 30, 2014 (compared with 70 leases at June 30, 2013).

Rents invoiced under these leases during the first half of 2014 amounted to:

- Euro 3,666 thousand for Casino Restauration (compared with Euro 4,107 thousand in the first half of 2013);
- Euro 8,648 thousand for other entities (compared with Euro 8,359 thousand in the first half of 2013).

The fees paid by Mercialys and its subsidiaries to Sudeco, a wholly-owned subsidiary of the Casino Group, in relation to **Property Management** activities amounted to Euro 2,684 thousand in the first half of 2014 (compared with Euro 2,645 thousand in the first half of 2013).

Within the framework of the **Partnership Agreement**, Casino and Mercialys have made a reciprocal upstream commitment concerning a pipeline of projects offering sufficient visibility.

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

> As before, the acquisition price of the projects developed by Casino will be determined on the basis of a capitalization rate defined according to a matrix updated twice a year depending on changes in appraisal rates of Mercialys' portfolio, and projected rents for the project. As before, the acquisition price will be paid by Mercialys on effective completion 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 upwards or downwards by 50% of the difference observed.

In return for the exclusivity clause, the new partnership agreement includes a non-compete clause in favor of Casino. Mercialys will therefore not be able to develop a new shopping center competing with a Casino or affiliated hypermarket without Casino's agreement.

The duration of the new Partnership Agreement is three and a half years. While the previous agreement expired on December 31, 2014, the new agreement will expire on December 31, 2015, with the possibility of the parties holding talks in 2014 about extending it beyond this date. The new agreement will continue to have effect beyond this date for any projects "validated" within the meaning of the agreement before December 31, 2015.

No acquisitions were made under this agreement during the first half of 2014.

The amount paid by Mercialys under the Service Agreement came to Euro 481 thousand in the first half of 2014 (compared with Euro 510 thousand in the first half of 2013).

Fees received by Mercialys under the **Advisory Services Agreement** between Mercialys and L'Immobilière Groupe Casino and Alcudia Promotion came to Euro 593 thousand in the first half of 2014 (compared with Euro 604 thousand in the first half of 2013).

On September 8, 2005, Mercialys signed a Current Account and Cash Management Agreement with Casino. Under the agreement, Mercialys and Casino set up a shareholders' current account that recorded all payments, withdrawals and advances of sums that may be made reciprocally between the two companies.
After Casino reduced its stake in Mercialys, the two parties decided to terminate the existing Current Account and Cash Management Agreement and sign a new Current Account Agreement. The 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 duration of the new agreement is aligned with that of the new Partnership Agreement negotiated between the parties, i.e. expiring on December 31, 2015.
Under this agreement, the Casino Guichard-Perrachon group granted Mercialys credit facilities for a maximum amount of Euro 50 million in the form of A Advance, which refers to any advance with a principal amount that is less than Euro 10 million, and/or B Advance, which refers to any advance with a principal amount that is equal to or greater than Euro 10 million. These advances are intended solely for the short-term financing of Mercialys' general needs.
This agreement will expire on December 31, 2015.
As regards interest:
- Any A Advance will bear interest at 1-month Euribor plus Margin A, it being specified that Margin A may change at each anniversary date depending on Casino Guichard Perrachon's updated re-financing costs. At July 25, 2013, Margin A was reduced from 0.70% per year to 0.60% 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.

As regards the agreements signed in relation to the contribution of assets to Mercialys in 2009, amounts were pre-paid to Casino Group companies. The following amounts were unused at June 30, 2014:

- **Delegated project management agreements** with IGC Services: Euro 7,419 thousand
- **Delegated project management and project management assistance agreements** with IGC Promotion and Alcudia Promotion: Euro 37 thousand

There were calls for funds relating to **property development agreements** with IGC Services. These calls for funds, recognized as receivables, represented an amount of Euro 8,568 thousand at June 30, 2014.
Amounts invoiced in the first half of 2014 in respect of **short-term occupancy agreements** with L'Immobilière Groupe Casino totaled Euro 776 thousand.

The rental guarantee that Mercialys had received from Opalodis and Plouescadis when acquiring shares in SCI Caserne de Bonne was terminated on April 18, 2014.
In relation to the termination, Plouescadis made a full and final compensation payment of Euro 1,400 thousand.

Other related-party transactions in addition to these agreements are summarized as follows:

(in thousands of euros)	Income	Expense	Payables	Receivables
		concerning related parties		
		June 30		
Transactions with subsidiaries of the Casino group				
2014	1,757	1,006	7,218	3,622
2013[20]	1,090	2,195	3,272	3,933

(in thousands of euros)	Income	Expense	Payables	Receivables
		concerning related parties		
		June 30		
Transactions with jointly controlled entities				
2014	38	290	13	7,161
2013[i]	-	269	13	-

During the first half of 2014, Mercialys paid Casino Group companies a dividend in respect of the financial year ended December 31, 2013, minus the interim dividend paid in October 2013, representing Euro 75,293 thousand.

Note 21 Consolidation by another company

Since June 21, 2013, Mercialys has been consolidated by the Casino group using the equity method.

Note 22 Subsequent events

No material events have taken place after June 30, 2014.

20 Following the early application of IFRS 10 and 11 at end-December 2013, the financial statements at June 30, 2014 have been adjusted accordingly Note 1.4).

Statement by the person responsible for the interim financial report

To the best of my knowledge, the 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 interim financial review gives a true and fair view of key events of the first six months of the year, their impact on the interim 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 22, 2014

Eric LE GENTIL
Chairman and Chief Executive Officer

Statutory auditors' review report on the first half-year consolidated financial statements for 2014

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 S.A.

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

Statutory Auditors' Review Report on the first half-yearly financial information

For the six-month period ended 30 June 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your annual 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 six-month period ended 30 June 2014,

- the verification of information contained in the interim 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 - the standard of the IFRS as adopted by the European Union applicable to interim financial statements.

II. Specific verification

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

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

Paris La Défense and Lyon, July 23, 2014

The statutory auditors

KPMG Audit *Département de KPMG S.A.*	ERNST & YOUNG et Autres
French original signed by Régis Chemouny	*French original signed by* Sylvain Lauria