



€1,638 M

Drawn debt
at end-2017

39.9%

LTV excluding
transfer taxes

1.9%

Average cost
of drawn debt

5

RISK FACTORS

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5.1 ORGANIZATION OF INTERNAL CONTROL AND RISK MANAGEMENT

Mercialys internal control and risk management systems described in this chapter were developed according to the reference framework of the AMF, the French financial markets regulator. The main due diligence carried out before writing the paragraphs below involved circulating AMF questionnaires and internal questionnaires or interviews in order to survey all internal control and risk management systems.

These systems constitute an organizational framework defining: 1/ the stakeholders, roles and responsibilities; 2/ a risk management process based on their identification, their analysis and their treatment, and 3/ a continuous oversight of this system.

They essentially rely on a specific organization which is dedicated to risk management through the establishment of a Risks Prevention Committee in 2016, the internal dissemination of procedures, documentation and operating methods considered as improvement levers, and permanent monitoring through risk assessment (depending on occurrence and impact) leading to a regular update of the associated risk mapping.

These systems are an integral part of the operational and strategic management of the Mercialis Group, and aim to protect Mercialis from the 11 identified risk families, thereby guaranteeing controlled and sustainable development for the Company.

5.1.1 Internal control and risk management structures and bodies

Mercialys' risk management and internal control systems, as described in this section, apply to Mercialis and its subsidiaries controlled within the meaning of the French Commercial Code, in accordance with the AMF reference framework. As specified by the AMF, the systems are adapted to the specific characteristics of each company and the relationships between the parent company and subsidiaries.

5.1.1.1 AUDIT, RISKS AND SUSTAINABLE DEVELOPMENT COMMITTEE

The Executive Management, via the Management Committee, is responsible for defining and implementing internal control and risk management systems.

Mercialys Board of Directors is informed of the main characteristics of the risk management and internal control procedures.

The Audit, Risks and Sustainable Development Committee is responsible for checking that Mercialis has structured and relevant resources to identify, detect and prevent risks, anomalies or irregularities in the management of its business activities. Among other duties, this committee conducts close and regular monitoring of risk management and internal control systems.

In this context, it issues observations and recommendations on audit work performed, while carrying out or commissioning any risk management or internal control analyses and reviews that it deems appropriate.

The Audit, Risks and Sustainable Development Committee is specifically responsible for monitoring the preparation of financial information and monitoring the efficiency of the Company's internal control and risk management systems. The appointment of this Committee is defined and governed by an «Audit, Risks and Sustainable Development Committee Charter».

Details about the membership, appointment and achievements of the Audit, Risks and Sustainable Development Committee are found in chapter 4, page 201 and following.

5.1.1.2 RISKS PREVENTION COMMITTEE

A Risks Prevention Committee was created in 2016 to specifically address the strong demand for risk monitoring by regulators and to secure Mercialis' underlying operational and financial processes, thereby offering an enhanced visibility on risk management.

The Committee is primarily tasked with managing the risk control system through a risk mapping. Its specific duties include identifying the risks of Mercialis, surveying and assessing existing procedures, implementing a plan to complete or optimize risk management and to control that procedures have been applied correctly.

The members of this Committee include the Chairman and Chief Executive Officer, the Chief Operating Officer, the Executive Vice-President, the Chief Financial Officer, the Director of Human Resources, the Internal Control Manager, the CSR Manager, and the Director of Compliance and Ethics. Through its members, the Committee has direct access within departments in order to not only benefit from the expert position of each head of department, but also to optimize the procedures for risk identification, analysis and treatment. Furthermore, the fact that the Committee reports directly to Executive Management strengthens Mercialis' policy of making risk management an integral part of its strategy.

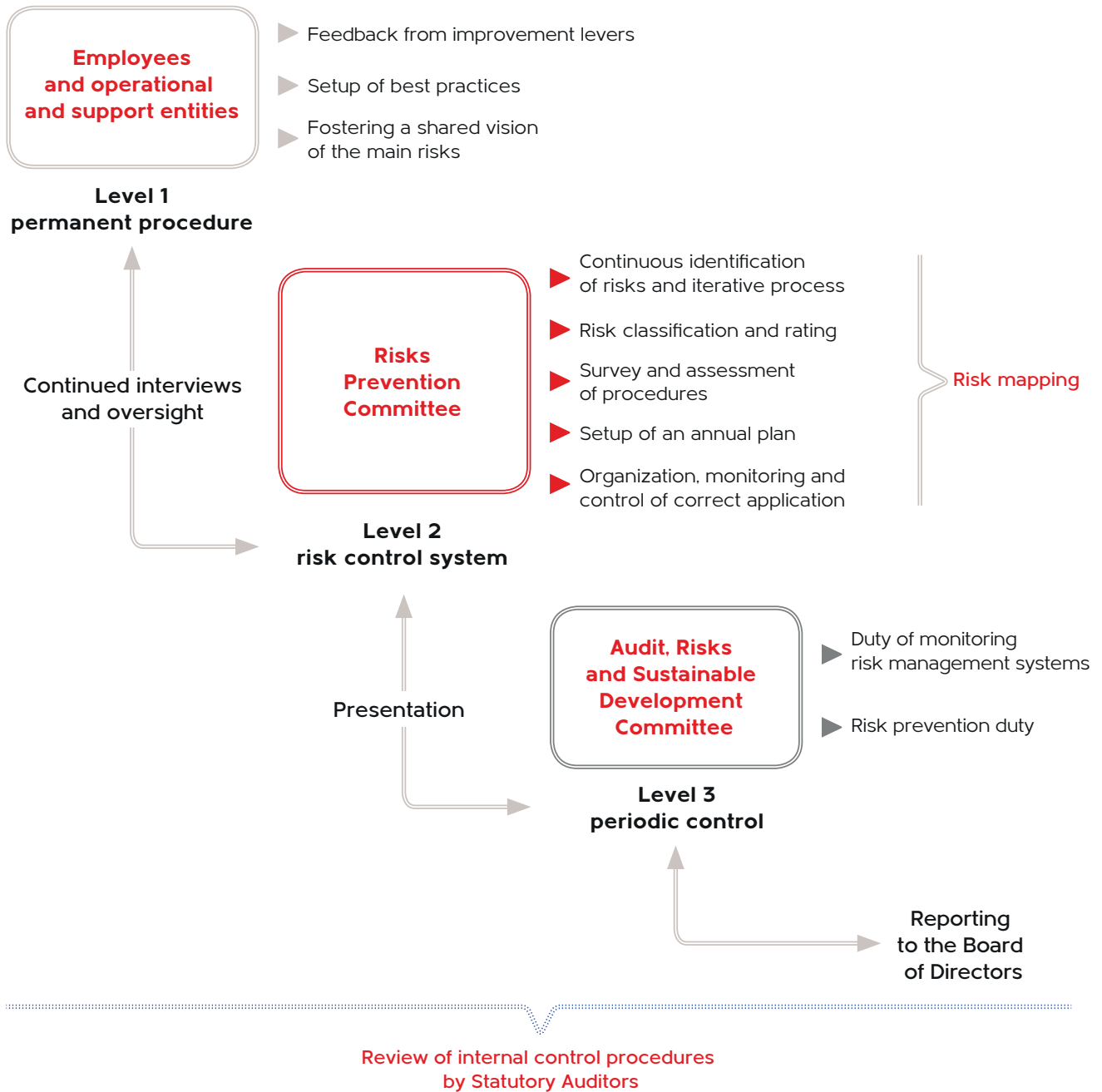
The Committee meets once a month and reports to the Audit, Risks and Sustainable Development Committee. It makes regular *ad hoc* presentations to the Management Committee.

5.1.1.3 EMPLOYEES

Employees and middle management represent the third line in Mercialys' internal control and risks management system. Mercialys endeavors to include all employees in the risk control system through ad hoc presentations, communications to teams, and through the Risk Prevention Committee itself which operates by interviewing heads of departments and/or employees.

They are tasked with making the risk management and internal control systems work by improving them continually. Employees also play a preventive role through frequent dialogue with the Internal Control manager about possible improvements or identifications of new risks.

A summary of the organization's stakeholders is provided below:



5.1.2 General principles of internal control and risk management

5.1.2.1 PROCESS AND PRIOR REQUIREMENT

As highlighted by the AMF reference framework, risk management and internal control systems cannot provide an absolute guarantee that the Company's objectives will be met. There are inherent limitations in any system, which may result from many internal and external factors.

However, Mercialys strives to minimize these risks, its risk management and internal control systems being part of a continuous improvement process aimed at ensuring the implementation of best practices within the Company.

Effective internal control and risk management require two preliminary stages:

- Firstly, setting and communicating the Company's strategic and financial objectives. Mercialys' strategic and financial objectives are set by Executive Management in a three-year plan that is fully reviewed and updated every year. This plan is put together under the leadership of Mercialys' Executive Management,

which is responsible for checking that the Company's overall structure is in balance, particularly in terms of investments and allocation of financial resources, as well as monitoring implementation of the plan.

- Secondly, rules of conduct and integrity known and respected by all. In this respect, Mercialys has defined a Charter of Ethics and Code of Business Conduct which formally sets out its ethical commitments and resulting rules of conduct to be followed by all its employees daily. The charter is sent annually to all employees, who by signing it, undertake to strictly comply with its principles. Standards for managerial attitudes and behavior have also been set up and distributed to the Company's entire Management, as guidelines for their daily actions.

5.1.2.2 OPERATING METHODS

	Internal control	Risk management
Definition	Internal control is a set of procedures, defined and implemented under the Company's responsibility allowing it to maintain control over its business activities, carrying out its transactions effectively, and using its resources efficiently. It is also designed to take appropriate account of significant risks that could prevent the Company from achieving its objectives.	Mercialys' risk management system consists of a series of methods, behavioral practices, procedures and actions suited to its characteristics. The aim is to enable managers, if they cannot make these risks disappear, at least to keep them at an acceptable level for the Company.
Objectives	Internal control is specifically designed to ensure: <ul style="list-style-type: none"> - compliance with legal and regulatory requirements; - application of instructions and guidelines given by Executive Management; - correct implementation of procedures, particularly those contributing to the safeguarding of the assets; - reliability of financial information. 	Risk management aims in particular to help to: <ul style="list-style-type: none"> - create and protect value, assets and the Company's reputation; - secure decision-making and company processes in order to help achieve objectives; - help to ensure that initiatives are in line with the Company's values; - foster a shared vision among employees of the principal risks.

	Internal control	Risk management
<p>Organizational framework</p>	<p>The organization of internal control at Mercialys complies with the principles below:</p> <p>1/ responsibility and powers:</p> <ul style="list-style-type: none"> - Each department head is responsible for organizing its own structure, functions and activities to ensure that the separation of duties is respected. This organizational structure is set out in an organization chart. - Delegations of signatures are requested by the proxy to resolve a situation where a signature cannot be obtained for a specific transaction. - Delegations of powers are managed and monitored by the entity's Human Resources Department in conjunction with the Casino group's Legal Department pursuant to the service agreement. <p>2/ human resources management policy:</p> <ul style="list-style-type: none"> - The administration of Mercialys' human resources policy is handled by Mercialys' Human Resources Department, which is supported by the Casino group's Human Resources Shared Services Centers as part of the aforementioned service agreement. The policy aims to ensure the correct allocation of resources via structured recruitment and career management policies to allow the Company to achieve its current and future objectives. - Mercialys is also in charge of training policies primarily in the areas of management, personal development and the Company's business activities. - In order to ensure employee motivation, the compensation policy for the Group's business entities is dependent on an analysis of wage positioning relative to the market and based on the principles of internal fairness. - The compliance of managerial practices with the standards of management attitudes and managerial behaviors is evaluated each year as part of the annual performance review, and has a partial effect on the variable compensation paid. <p>3/ IT systems:</p> <ul style="list-style-type: none"> - Mercialys subcontracts its IT operations to the Casino group, which focuses on the implementation of integrated management software packages and use of professional IT standards and baselines, with the aim of ensuring that the information systems are relevant for the Company's current and future objectives and addressing issues such as physical and software security, preservation of archived information, and operational continuity. 	<p>Mercialys' Executive Management and managerial staff are responsible for identifying risks specific to its activities, and analyzing the level of risk so as to manage it in the best way possible.</p> <p>The Risks Prevention Committee meets once a month. Its activities aim to reduce risks identified by management that may prevent the Company from achieving its objectives.</p> <p>As part of the service agreement, Mercialys may, where appropriate, call upon the Casino group's specialist crisis management unit, which, depending on the circumstances, gathers all internal or external expertise necessary to ensure its smooth functioning, in coordination with the Executive Management and Mercialys' teams.</p> <p>Within the framework of the service agreement between Mercialys and the Casino group, Mercialys informs the Casino group Insurance Department of changes likely to impact risk assessment. Under the service agreement, the Casino group's Insurance Department is in charge of subscribing to and managing Mercialys' insurance policies. Such insurance coverage is either incorporated into the Casino group's centralized programs or subscribed to through dedicated insurance policies. The Casino group's Insurance Department also handles the management of claims as explained in paragraph 5.5, page 269.</p> <p>All functions delegated as part of the service agreement between Mercialys and the Casino group are subject to a control process carried out by Mercialys to verify the quality of the delegated services and accordingly update its risk mapping on a yearly basis.</p>
<p>Internal dissemination of information</p>	<p>Managers are responsible for disseminating relevant information to employees and to functional or operational management.</p> <p>Procedures specific to Mercialys activities are disseminated on a regular basis to the concerned Mercialys employees and to those concerned by sub-contracting activities under the service agreement.</p> <p>The time frames for disseminating information throughout the Company are established such that the parties concerned have the opportunity to take appropriate action.</p> <p>Furthermore, the rapid production of reliable information depends on IT systems, organized in order to help the parties concerned perform their activities in an optimal manner.</p>	
<p>Monitoring</p>	<p>Internal control and risk management procedures are monitored under the aegis of the Executive Management via a number of bodies. The Executive Management is regularly informed of any potential failings in the internal control and risk management procedures and of whether such procedures are suitable to the Company's activities, and also monitors the implementation of the necessary corrective measures.</p> <p>Managers play a day-to-day role in the on-going supervision of the effective implementation of the internal control and risk management system. They are responsible for implementing corrective action plans or reporting any major failings to the Executive Management, where necessary. The Company's Chief Financial Officer is responsible for monitoring Mercialys' existing internal control and risk management procedures as well as the internal control procedures applicable to the activities carried out by the Casino group.</p>	

5.2 INTERNAL CONTROL RELATING TO PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION

Internal control relating to accounting and financial information is designed to ensure:

- compliance of published accounting and financial information with applicable rules;
- application of Executive Management instructions and guidelines related to this information;
- reliability of information distributed and used internally for oversight or control purposes, as much as it forms part of the published accounting and financial information;
- reliability of the published financial statements and other information provided to the market;

- preservation of assets;
- prevention and detection of fraud or any accounting and financial irregularities, to the extent possible.

The scope of accounting and financial internal control described below comprises the parent company Mercialys SA and companies included in its consolidated financial statements.

Under the aforementioned service agreement, the Mercialys Group relies on the Casino group's Finance Department to prepare its financial statements.

5.2.1 Process for the oversight of accounting and financial organization

5.2.1.1 GENERAL ORGANIZATION

Under the service agreement with the Casino group and under the control of Mercialys' Financial Department, staff on the Shared Accounting Services team and Management Control team of Casino's Real Estate Department prepare the parent company and consolidated financial and accounting information published by Mercialys.

In order to be able to provide the Mercialys Board of Directors with an opinion on the proposed financial statements, the Mercialys Audit, Risks and Sustainable Development Committee examines the full-year and half-year financial statements and is informed of the conclusions of the Statutory Auditors regarding their work.

5.2.1.2 APPLICATION AND CONTROL OF ACCOUNTING AND TAX RULES

The system in place aims to ensure that the standards applied correspond to regulations in force and that they can be accessed by all persons involved in the process of preparing accounting and financial information.

The regulatory environment is monitored by the Casino group's Accounting Department as part of the service agreement signed with Casino so that the Company is in a position to understand and anticipate the changes in accounting doctrine that might impact its accounting standards.

Changes of accounting standards are analyzed with Mercialys' Statutory Auditors to determine their impact on financial statements and on their presentation.

In terms of taxation, analyses are performed on both the tax position and at the time of specific transactions by Mercialys, assisted by the Tax Department as stated in the service agreement and by specialist external consultants. Major transactions are analyzed from a tax standpoint by the Group's Tax Department and external service providers, if necessary. Finally, monitoring of new developments in legislation, case law and regulations, results in the dissemination of internal memos on current tax issues.

5.2.2 Process for the preparation of published accounting and financial information

5.2.2.1 IDENTIFICATION OF RISKS AFFECTING THE PREPARATION OF PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION

Mercialys' management is responsible for identifying risks affecting the preparation of published accounting and financial information, by overseeing outsourced activities if appropriate. Management applies the principle of separation of duties in the corresponding processes and applies control procedures commensurate with the level of risk.

5.2.2.2 CONTROL ACTIVITIES AIMING TO ENSURE THE RELIABILITY OF PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION

A. Processes for the preparation and consolidation of accounting and financial information

The processes for producing accounting information and financial statements are organized in such way as to ensure the quality of published accounting and financial information. In addition, in order to produce information within short lead times, early closing procedures are used so as to preserve the reliability of information.

Accounts closing procedures have been implemented involving the production and control performed by Casino group accounting teams, under the service agreement, and Mercialys Financial Department.

The IT system is reviewed on a yearly basis by the Statutory Auditors, as part of their audit, with particular attention paid to the production of Mercialys' accounting and financial information.

In accordance with legal requirements, Mercialys has two Statutory Auditors, whose office was renewed in 2016. They are responsible for ensuring that the annual financial statements are

accurate, comply with accounting rules and principles and give a true and fair view of the results of operations in the past accounting period and of the Company's financial position, assets and liabilities at year-end.

Mercialys Financial Department is in charge of liaising with external auditors. Appointment of the Group's Statutory Auditors is a process initiated and monitored by the Audit, Risks and Sustainable Development Committee, in accordance with the recommendations of the AFEP-MEDEF Corporate Governance Code for listed companies and with the new EU regulation (EU Regulation number 537/2014 and Directive 2014/56) implemented into French law via an order dated March 17, 2016 and applicable since June 17, 2016.

B. Management of external financial information

The Company's financial disclosures comply with the procedures laid down by the AMF (*Autorité des marchés financiers*) and with the principle of equal treatment of shareholders. It aims at providing a clear view of the Company's strategy, business model and performance by disseminating accurate, reliable and truthful information to the financial community.

Financial information is disclosed to the parties concerned in various ways:

- registration document;
- press releases on the Company's results;
- financial information meetings and conference calls (presentation of half-year and full-year results);
- press releases on revenue and business activity;
- half-year Financial Report;
- General Shareholders' Meeting;
- contact with financial analysts, investors and the press, both financial and mainstream, through a dedicated investor relations officer.

5.3 DESCRIPTION AND MANAGEMENT OF RISKS

5.3.1 Identification and classification of risks

On a recurring basis, Mercialys carries out a review of the main risks that could have a material impact on its business activities, financial position or results. Risk management is integrated in the Company's decision-making and operational procedures.

Risk identification is the result of work carried out by the Risk Prevention Committee on the basis of interviews with each head of department and all employees. It is presented and validated in the Audit, Risk and Sustainable Development Committee in order to verify the existence of comprehensive coverage of all risks and monitor risk management procedures. This iterative methodology is likely to identify new risks depending on any operational and regulatory changes as well as changes on the commercial property market. The risk families are described in paragraph 5.3.1.1 here after.

To ensure the preparation and monitoring of the risk mapping, Mercialys uses a rating system based on impact and probability to classify risks. This probability is defined as number of occurrences per year. The impact, where measurable, is defined as a percentage of FFO.

The mapping is reviewed annually and can be modified to reflect implementation of action plans or identification of new risks.

5.3.1.1 RISK FAMILIES

The risk mapping has identified 11 risk families:

- Equity and financial risks;
- Contextual risks;
- Governance risks;

- Corporate Social Responsibility risks;
- Image and reputation risks;
- IT risks;
- Human Resources risks;
- Compliance risks;
- Health and Safety risks;
- Ethical risks;
- Operational risks.

5.3.1.2 DEFINITION OF MATERIALITY

Mercialys prioritizes the management and monitoring of its risks based on their materiality. This is defined according to the impact and probability. As mentioned above, when measurable, impact is defined as a percentage of FFO (Fund From Operations). When the impact is not measurable, members of the Risks Prevention Committee are responsible for defining the impact on a different criterion (other financial indicator, reputational impact, impact on CSR strategy, etc.). It is divided into three categories (low, moderate, high). Probability, which is a function of the occurrence over a number of years, is also divided into three types of occurrence: improbable, possible, probable.

Material risks are risks considered as having one of the combinations below: moderate impact with a probable occurrence, strong impact with a possible or probable occurrence.

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I. MARKET ABUSE RISK

Description of the risk

As defined by EU regulations (market abuse regulation no. 596/2014, also known as «MAR»), market abuse is a concept that encompasses any unlawful behavior on financial markets.

This concept includes insider dealing, unlawful disclosure of inside information and market manipulation.

The risks linked to cases of market abuse are either criminal or administrative sanctions, which may be punishable by prison sentences and pecuniary sanctions.

Risk management and coverage

- The first type of measures taken in the context of market abuse risk management, concerns compliance measures and recommendations of the regulatory text and primarily, abstention and notification requirements specific to management, directors and their close relations.**

Abstention requirement

In addition to the general abstention requirement, the MAR prohibits Management, Directors and High-level Managers from carrying out any transaction on their own behalf or on behalf of third parties, either directly or indirectly, related to the Company's financial instruments, during the 30 calendar days preceding the dissemination date by the Company of a statement announcing its annual and half-year results and the day of the said dissemination ("legal blackout periods"). In accordance with the AMF's recommendations, the Company extends this abstention requirement to 15 calendar days preceding the dissemination date where the Company provides a statement of its quarterly results. Compliance with this abstention requirement during the blackout period is further extended to all persons who have regular or occasional access to insider information.

Furthermore, the Company may decide by precaution to extend the application of these blackout periods, to any person working for Mercialis and with access to sensitive information even if they do not meet the criteria of Insider Information.

The provisional schedule for the dissemination is published on the Company's website. This schedule includes the embargo periods during which the Company will not provide financial analysts or investors with new information regarding its ongoing business operations and earnings. Furthermore, the provisional schedule of blackout periods is submitted by the Chief Financial Officer by email to persons with regular access to sensitive information, prior to business and earnings publications.

The beneficiaries of the Company's bonus share plans, whether or not they are considered as insiders, shall also be subject to the specific abstention period resulting from the regulation applicable to bonus share plans. Procedures concerning options for the subscription and acquisition of shares in accordance with the French Commercial Code also exist.

Notification requirements specific to management, directors and their close relations

Management, Directors, High-level Managers and their close relations (persons closely associated with them) shall notify the Company and the AMF by email of any transaction carried out by them, or by a third-party acting on their behalf, related to the Company's financial instruments, within a period of three business days following the date of the transaction, when the total amount of the transactions made during the calendar year exceeds Euro 20,000. The notifications shall be made public by the AMF.

Directors shall inform the Company of the number of shares in the Company they hold at December 31 of each year, at the time of any financial transaction, or at any time upon request of the Company.

The list of persons with regular or occasional access to insider information, according to the terms and format prescribed by the regulation in force, is updated on a regular basis. Any person registered on the list shall be informed of its registration. Where the person is a legal entity, the latter shall draw up a list internally of employees likely to hold insider information.

- The second type of measures for managing market abuse risk entails the operational set up of prevention and control means.**

An Insider trading policy was drafted on March 20, 2017 and published online on the Company's website. A copy was given to each employee in 2017. This policy compiles all applicable regulations and obligations, together with preventive measures implemented by the Company in accordance with AMF recommendations.

To facilitate the application of the policy, a Stock Market Ethics Committee has been set up. Its members include the Chief Financial Officer, the Director of Human Resources and the Secretary of the Board of Directors. The Committee shall primarily be tasked with informing insiders and other persons concerned with sufficient notice on blackout periods resulting from the publication of annual, quarterly or semi-annual financial statements, overseeing measures to raise awareness, such as training and communication on stock market ethics, answering questions from employees and giving advice on ethics. The Committee shall immediately inform the Company's Chairman and Chief Executive Officer about any recorded violation of the provisions of this policy.

The Board Secretary is tasked with receiving notifications of transactions reported to the AMF, drawing up the list of insiders and notifying the persons registered on such lists and giving, at request, an advisory opinion prior to any transaction on the Company's securities.

Awareness-raising, training, communication initiatives on stock market ethics were carried out during the year for all Mercialis internal employees, and employees of Sudeco and L'Immobilière Groupe Casino, as service providers.

Procedures on this topic are updated on a regular basis.

II. RISK SPECIFIC TO THE PROPERTY MARKET

Description of the risk

Fluctuations on the property market can have a significant unfavorable impact on the Company's investment and divestment policy and more generally on its future outlook and financial position.

Cyclical and structural risks such as socio-economic modifications or change in the economic environment may foster or curb demand and therefore impact on rental income or property value.

Two sub-risks have been identified under cyclical risk:

1. scarcity of supply on the property market (limited assets or strong competitive environment) and the lack of liquidity of assets (limited disposal opportunities);
2. potential increase in competition.

Risk management and coverage

Mercialys continues to strengthen its risk control system for property market risk. The entire system seeks to implement measures allowing the Company to best anticipate possible changes on this market, adjust its strategy in the event of an economic downturn, for example, and control the exposure of Mercialis' portfolio.

This system is made up of:

- procedures linked to anticipation through watch initiatives formalized on macroeconomic, legal and regulatory levels for the Management and heads of departments for each service. These oversight initiatives allow Mercialis to monitor the market of property asset transactions, market conditions and regulatory aspects;
- procedures linked to vigilance and knowledge of the sector. This monitoring is formalized internally by *ad-hoc* reviews on specific sectors depending on the economic environment; watch initiatives presented to Management and heads of departments. Furthermore, Mercialis may call on external experts for *ad-hoc* presentations. The Mercialis Board of Directors also offers a vital macroeconomic perspective to determine its strategy through different profiles, skills and business sectors of its different members;
- procedures linked to the risk control system for reviewing the financial stability of its tenants depending on their economic sector (this system is described in more detail in the financial counterparty risk section).

III. PROTECTION OF IT DATA OF CUSTOMERS, SUPPLIERS AND EMPLOYEES

Description of the risk

Mercialys employees are required to handle several types of IT data: data concerning other employees (human resources, internal communication), data on visitors to centers via the

development of digital tools (apps for centers, *Challenge Fidélité* loyalty program, etc.) and data on retailers via the development of the "La Galerie des Services" service platform and the use of a CRM tool.

This risk therefore exists in different forms:

- financial risk linked to the loss of IT data;
- regulatory risk linked to the protection of personal data, in a context of stricter personal data protection laws after the EU regulation has been enforced in 2018;
- reputational risk linked to data hacking.

Risk management and coverage

Several actions are carried out to manage this risk:

- as part of the service agreement, Mercialis delegates the task of Data Protection Officer (DPO) to the Casino group which oversees the use of IT resources or Cloud-type services. A dedicated employee within Mercialis is appointed as DPO correspondent;
- upon their arrival at Mercialis, each employee is given an IT charter on the best practices for the use of IT resources;
- when needed, employees are provided with dedicated training programs on the protection and use of personal data (this applies especially to the marketing department teams);
- should any problems arise, a data backup and archiving policy is implemented to ensure regular and complete backup of data used to maintain activity.
A specific procedure recalls the use of the network and document archiving is duplicated in order to address any contingency;
- data hosting is subject to strict security rules. In particular, data hosting outside the European Union is prohibited;
- procedures are implemented to ensure respect of personal data protection in the context of their recovery and use (CNIL and future EU regulation).

IV. RISK LINKED TO LETTING

Description of the risk

Mercialys rents out the surface areas of its majority-owned hypermarkets and medium-sized stores to major national or local retailers.

The main risk inherent in letting resides in the appeal potential of some retailers and the latter's risk of defaulting. As such, the performance of major retailers, strong generators of footfall, or retailers present on several sites, may represent a risk in the event of an economic downturn.

The second risk linked to letting comes from the fact that the commercial real estate business on which Mercialis exercises its activity is characterized by steady changes in the consumer behavior and habits of the environment and by changing customer demand. This could potentially lead Mercialis to tailor

the design of its centers and the breakdown of tenant retailers to consumer expectations to ensure that it can efficiently anticipate and respond to changes in the sector.

Lastly, there are specific risks such those relating to inappropriate rents, risks relating to non-letting and non-renewals of leases and the risk of a high vacancy rate.

Risk management and coverage

The risk of dependence on certain international, national or local retailers, that may impact the performance of a center of one or several assets and therefore ultimately the earnings of Mercialis, is managed by implementing a counterparty risk control system, described below (management of both the retailer's solvency and Mercialis' economic dependence with this retailer).

The second risk of efficient anticipation and response in the event of a change in the economic environment and more specifically the change of consumer habits, is detailed within the risk specific to the property market (described above). This system aims at anticipating, quantifying changes in the sector, and responding in an efficient and rapid manner. Mercialis has implemented procedures to protect itself from these risks:

- an analysis detailing rent-related achievements with respect to the budget is done on a monthly basis between the Financial Department, the Asset Management Department and the Letting Department. The findings are presented to the Management Committee and result in specific action plans;
- while assets business plans are performed annually, an analysis of the occupational cost ratio is carried out by units (the ratio between the rent amount including tax and the charges paid by a retailer and its revenues including tax). Any change that may not be in line with the rates usually recorded is specifically studied. The findings and decisions are then taken individually by the Letting and Asset Management Departments.

V. RENTAL MANAGEMENT RISK

Description of the risk

The administration and rental management of nearly all of Mercialis' shopping centers has been outsourced to Sudeco, a subsidiary of the Casino group. It handles rental activity at shopping centers (billing and rent collection, review of contractual commitments, dealing with tenant requests and problems).

The first risk lies in a potential replacement of Sudeco, the service provider. The consequence may be potential additional costs, or may have a one-off impact on the quality of recovery of expenses and works by the sites' rental management.

The second risk lies in activities specific to rental management such as comprehensive invoicing and recovery of rents as well the quality of tenant relations, directly impacting the activity of Mercialis.

A third risk lies in the fact that Sudeco also manages communal service charges for shopping centers held in co-ownership or as part of an AFUL (*Association Financière Urbaine Libre*, a private landowners' management association) arrangement with Casino, the owner and operator of certain adjoining hypermarkets. In such a context, Sudeco's management responsibilities may lead to conflicts of interest.

Risk management and coverage

The inherent risk linked to replacement of the service provider Sudeco appears limited. On one hand, the five-year term contract (with six months' notice in case of serious misconduct) would allow Mercialis to find a new property manager in the event of breach of service. On the other hand, Mercialis would benefit from a large choice of service providers given the structure of the French Property Management market.

Mercialis has strengthened its system for managing risks linked to the property management activity itself:

- Reciprocal controls are carried out between Mercialis and Sudeco particularly on the subjects of renewal of leases, invoicing and recovery between the Financial Department, the Letting Department, the Asset Management Department and service provider Sudeco. These controls are primarily used to monitor the amount of arrears and actions implemented by the Sudeco recovery unit (coordinated with Mercialis' Financial Department), monitor lease invoices overseen by Sudeco (together with Mercialis' Letting and Financial Departments), and closely monitor the renewals and lettings.
- Furthermore, Sudeco performs occasional audits on retail leases and vacant units and presents the findings and action plans to Asset Management and the Letting Departments. Audits are also performed on the quality of managed units.

Lastly, pursuant to Sudeco's mandate, the system requires that all decisions regarding rental management are taken under the guidance of Mercialis. The controls made by Mercialis are aimed at ensuring the absence of conflict of interest.

VI. RISK LINKED TO CLIMATE CHANGE

Description of the risk

Serious weather hazards have been observed, due to climate change. The retail sector and certain activities in particular, such as ready-to-wear are particularly «weather sensitive». As such, climate change represents a risk for the activity of Mercialis' lessors, which may represent a financial risk for the Company (risk of discontinued activity, payment defaults, etc.).

The responsiveness of retailers is crucial for managing and controlling this risk, both in terms of adapting supply and commercial operations to «offset» climatic effects.

Risk management and coverage

Mercialys manages this risk in different ways:

- by monitoring the percentage of textile shops in the Company's leases, in order to ensure a weather-resistant retailer mix;
- by establishing a watch of commercial policies and the turnover of retailer collections upstream of commercial negotiations in order to assess the retailer's "capacity to withstand" climate change;
- by regularly monitoring the commercial performances of its centers in order to carry out corrective actions where necessary.

VII. SECURITY/SAFETY RISK**Description of the risk**

As a property company, Mercialis' risk linked to security or safety is manifested:

- through the operation of its centers (theft, attack, assault, etc.);
- through construction work at its centers (fall, injury, etc.).

This risk is essentially a reputation risk for the Company, although the risk is also of legal (liability issues) and financial (e.g., victim compensation) nature.

Risk management and coverage

Several types of actions are carried out to manage this risk, both on centers and during works:

- safety procedures are put in place at all centers and reviewed on a regular basis;
- companies in charge of the safety of centers are audited on a yearly basis. In the event of results deemed unsatisfactory by the Mercialis Property Manager, corrective actions shall be implemented, subject to termination of the contract;
- crisis management procedures are available and tested on a regular basis;
- retailers are made aware of these issues by the Property Management teams.

VIII. NATURAL AND TECHNOLOGICAL RISK ON A SIGNIFICANT PORTION OF THE PORTFOLIO**Description of the risk**

A natural risk is a natural hazard combined with human, economic or environmental challenges. This mainly includes avalanches, forest fires, floods, land movements, cyclones, etc. Technological risks are linked to the handling, transportation or storage of substances that are dangerous for health and the environment (such as industrial, nuclear or biological risks).

A natural or technological risk may occur on a significant portion of the portfolio through the occurrence of the same risk on a

large number of property assets (such as an earthquake or floods affecting a large area), or in the event of simultaneous occurrences of several types of risks affecting a large number of assets (i.e. flood combined with a technological risk).

The risk occurs when it affects a significant portion of the portfolio, i.e. several centers representing a significant proportion of the market value of Mercialis' portfolio.

This risk mainly constitutes a financial risk for Mercialis, considering the damage to the portfolio.

Risk management and coverage

Several actions are carried out to manage this risk:

- anticipation actions through mapping allowing identification of "hot spots" in which a large number of assets are affected by the same risk and the "sensitive" assets concerned by several risks;
- management actions with the implementation of a suitable insurance policy and arrangement of crisis management procedures to manage the situation at the centers.

IX. INSURANCE COVERAGE RISK**Description of the risk**

The risk linked to insurance coverage is defined as the risk that the Company may not be able to maintain its insurance coverage at an acceptable cost, that it may no longer be fully or partially covered for certain types of risks or that it may be confronted with the risk of default by one of its insurers.

The insurance policy implemented by Mercialis' aims to ensure the durability of its portfolio and resulting revenue, and to hedge the risks likely to trigger its professional civil liability linked to its corporate representatives and to construction operations.

Paragraph 5.5, page 269, details the main insurance covers purchased by the Casino group Insurance Department, as part of the service agreement.

Risk management and coverage

The risk mapping, implemented by Mercialis, was presented to the Casino group Insurance Department in order to check the coverage of risks.

The shopping centers are routinely audited by fire prevention engineers from insurance companies, in accordance with annual priorities, depending on the importance of assets (all sites are audited at least once every five years). The reports of the insurers' loss prevention engineers are submitted after each on-site assessment, accompanied by recommendations that are monitored jointly by Mercialis and the Insurance Department.

Furthermore, the Casino group Insurance Department is informed by Mercialis of any changes to the Group's structure (acquisition, disposal, extension, redevelopment) and annual statements are prepared and communicated in May of each year.

During Management Committee, Mercialys and the Casino group Insurance Department review the main insurance programs, draft recommendations and monitor changes.

Regular tender offers, from leading insurers, are organized by the Casino group Insurance Department to optimize the balance between insurance costs and coverage.

Under the service agreement, Mercialys considers that it benefits from guarantee levels generally subscribed by companies with sizes equivalent to that of the Casino group, taking advantage of synergies to subscribe, under advantageous conditions, to guarantees that are more specific to the activity of Mercialys.

X. RISK LINKED TO INTEREST RATE AND COST OF DEBT

Description of the risk

2017 was marked by a context of historically low interest rate passed on to the risk-free rate. A gradual or more pronounced rise in the interest rate would potentially lead to an increase in the Company's cost of debt and impact the capitalization rates of appraisals which may not be offset by an increase in the rental income.

Risk management and coverage

As part of the optimization of its cost of debt, the Company dynamically manages its rate coverage policy. This policy seeks to:

- retain an optimal coverage rate and comply with a debt structure compliant with bank covenants. In a logic to retain the Standard and Poor's financial rating, Mercialys retains a prudent strategy by preserving sufficient leeway with respect to its bank covenants and the ratios determined by the agency in the context of a BBB / stable outlook rating. As such, the loan to value (LTV) fixed by the covenants at < 50% was at 39.9% at December 31, 2017, and the ratio indicating cover of financial expenses by the EBITDA, or interest coverage ratio (ICR), set by the covenants at > 2x amounted to 5.2x at December 31, 2017. Lastly, the amount of the debt at fixed rate amounts to 65% at December 31, 2017 versus 55% at fixed rate required by the bank covenants;
- limit the hedging instruments risk. Mercialys has a choice of hedging instruments which is limited by risks of loss and the constraint of hedge accounting;
- anticipate the impacts of interest rate fluctuations: this anticipation is made by setting up a watch (weekly note for the Management dealing with changes in FED and ECB monetary policies and financial markets evolutions) and by performing sensitivity tests at least once a year between the interest rate, cost of debt and capitalization rate (see chapter 3, note 8.1.3, p. 130 et seq., and note 19, p. 144 et seq.).

Furthermore, the interest rate risk management system also provides for:

- limiting the choice of banking counterparties: Mercialys only deals with major banks;
- being in a position to demonstrate strong responsiveness in case of significant interest rate fluctuations through daily modeling of the entire Mercialys portfolio in mark to market. External modeling tools are applied instantly. As an external valuer, Forex provides reports on the entire portfolio and on counterparty risk. Monthly tests with fair value modeling of the debt according to rates are carried out.

XI. CAPITALIZATION RATE AND PORTFOLIO VALUE RISK

The capitalization rate is key to determining the appraisal value of assets held by Mercialys. Its determination depends on the so-called risk-free rate (i.e. the rate paid by States upon borrowing) and premiums valuing the risk associated with property investment.

Furthermore, these assumptions are taken into account in the modeling of appraisals on the property, including in particular rent variation factors or capital expenditure. Any deterioration of these assumptions would negatively impact the appraisal value.

Therefore, a sharp increase in interest rates would result in a reduction in the appraisal value of the portfolio. A significant deterioration in the portfolio value would consequently have an unfavorable impact on the stock market value, but also potentially on the financial rating and ultimately on the cost of debt.

Risk management and coverage

The catalysts triggering an increase in interest rate are essentially any change in monetary policies of central banks. Mercialys anticipates the potential impacts of monetary policies (weekly watch intended for members of Management), and performs simulations of the impact of interest rate changes on its portfolio value. The portfolio appraisal value is updated biannually based on a decrease/increase of 0.5% of the capitalization rate and an increase/decrease of 10% of rents.

The risk of impairment of the appraisal value through negatively oriented underlying assumptions appears controlled through frequently applied methodologies.

As such, all assets comprising the Mercialys portfolio are valued on a half-yearly basis, in accordance with the AMF recommendations, allowing continuous adjustment if necessary. Two valuation approaches have been selected by experts. First, the capitalization of income method, which consists of taking the rental revenues generated by the asset and dividing it by a market yield for similar assets, taking into account the actual rent level compared with market levels. Second, the discounted cash

flow (DCF) method, which takes into account expected year-after-year increases in provisional rent, vacancies, and other provisional factors, such as expected letting periods and investment expenses borne by the lessor.

XII. RISK OF FINANCIAL COUNTERPARTIES (RETAILERS)

Description of the risk

The counterparty risk is represented by the credit quality of the tenant retailers and their capacity to recover invoiced rents, which has an impact on the operational performance of Mercialys and its cash position.

This risk may also be aggravated by the exposure of Mercialys rents to a business sector or tenant.

Risk management and coverage

1. Mercialys diversifies its tenant portfolio

Concentration with respect to a tenant or retailer

- The Company's top 5, 10 and 30 tenants (excluding subsidiaries of the Casino group) represented at December 31, 2017, 8.5%, 12.7% and 23.5%, respectively, of the total annualized gross rental income (with a higher dispersion compared to 2015). With the exception of H&M and the Casino group brands, no single tenant represents more than 2% of total rental income. For information, Casino's weight in total rental income came to 28.9% at December 31, 2017 (versus 31.5% at December 31, 2016).
- The concentration of tenants with respect to total rents is monitored semi-annually. Furthermore, considering the historic partnership and the weight of Casino's rents in total gross rental income, specific monitoring is performed on the Casino brand. This analysis is made on both Casino's financial results and its operational level. Improvement of the Casino group's profitability, the sharp drop in its debt and the absence of arrears are all indicators used to guarantee the retailer's strength.

Concentration with respect to a sector

- Mercialys steadily monitors its exposure to business activity sectors in order to manage its exposure and determine, through the Management Committee, potential actions to implement.
- A watch carried out by both the Letting and Asset Management departments allows Mercialys to anticipate market fluctuations as much as possible.

2. Mercialys reduces the risks of deterioration of rent recovery rate as much as possible as a result of the financial difficulties of tenants

- Mercialys carefully selects its tenants by implementing selection procedures. The latter mainly aim to appreciate the quality of the retailer's concept, its financial stability, its digitalization strategy enabling it to address competition from online trade, alternative offers available, and the overall retailing mix of each shopping center compared to its catchment area. Furthermore, the financial stability of the top 10 tenants is monitored on a regular basis.
- There are also operational procedures relating to rent monitoring and recovery in order to minimize the risk of loss of receivables.

XIII. RISKS RELATED TO MACRO-ECONOMIC ENVIRONMENT

Description of the risk

- Since the Mercialys portfolio consists of shopping centers, changes to the economic environment may have a more or less direct and rapid impact on rental revenues, the Mercialys portfolio value, the long-term investment strategy and Mercialys' ability to borrow on markets. The main factors likely to lead to an unfavorable economic environment for Mercialys are primarily a decline in the property market and an unfavorable economic situation for retailers with a direct impact on their revenues.

Risk management and coverage

Mercialys covers this risk through:

- anticipation: as indicated in the description of the property market risk, a weekly watch is formalized and distributed to members of Management. This concerns the economic situation in general and the property market in particular;
- an effective risk control system concerning:
 - the setting of rents and Mercialys' ability to maintain or raise them (system described in the Letting risk),
 - the control of vacancy rates and the quality of retailers selected particularly in terms of financial health. In the event of an economic downturn where tenants are unable to pay their rents and there is a surge in outstanding payments borne by Mercialys on non-invoiced costs, rental revenues would decrease and Mercialys share of expenses would increase.
 - this risk control system is described in more detail in the letting risk as well as the financial counterparty risk (retailers) above.

XIV. SUPPLIERS' PAYMENT RISK

Description of the risk

The legislative and regulatory arrangements adopted since 2014 have strengthened the sanctions and powers of controls. In effect, the Consumer law, the law for growth, activity and equal economic opportunities (also known as the "Macron Act") and the law for transparency and modernization of economic life (also known as the "Sapin 2 Act") strengthen the legal framework against late payments, in particular with raising the maximum ceiling of a fine to Euro 2 million for legal entities and systematically publicizing administrative fine decisions.

Apart from regulatory risks that may lead to a financial sanction, Mercialys is in a partnership process with its suppliers, meaning a relationship of trust and durability of collaboration with its suppliers.

Risk management and coverage

Mercialys has strengthened its risk control system concerning supplier payment risk by distributing procedures to all employees.

Mercialys has a standardized invoice validation process, a systematic referencing method of its suppliers and a monitoring of commitments and budgets for the main expenditure items. Not only do these systems and procedures seek to reduce invoice processing times; they also seek to provide knowledge of the progress of the invoice processing.

XV. RISK OF SUPPLIER OR SUB-CONTRACTOR DEFAULT

Description of the risk

Corporate default is defined as the situation in which a company is no longer able to meet its financial obligations. Supplier default can also be understood as failure to meet the contract service or regulatory obligations.

A supplier's default may constitute a financial and legal risk for Mercialys in several situations:

- in the event of Mercialys' dependence on this supplier;
- in the event where the supplier finds itself in a situation of economic dependence towards Mercialys and holds the Company liable after a breach of contract;
- in the event where a supplier does not comply with the regulation.

Risk management and coverage

Several actions are implemented to manage this risk:

- monitoring of the financial strength of key service providers;
- for each significant service provider, at the time of signing the contract, the Company searches for an "equivalent" alternative service provider;

- the contracts and legal provisions in particular are monitored and a breach of contract procedure is available.

XVI. REPUTATIONAL RISK AND IMPACT ON LESSORS, SUPPLIERS AND EMPLOYEES

Description of the risk

Reputational risk, or image risk, refers to the impact a management error may have on the image of a company.

Reputation is a strategic asset for development (recruitment and loyalty of customers and employees, access to markets, relations with lawmakers, etc.) and value of the Company.

Several consequences of a reputation problem are possible: decrease in revenues, reduction in brand value, etc.

For Mercialys, this kind of reputational risk exists for the Corporate brand and for the «G La Galerie» center brands.

Risk management and coverage

Several actions are carried out to manage the risk linked to the Mercialys brand and to the "G La Galerie" brand:

- brands are protected and registered;
- a watch is carried out on the use of the Company's brands and reputation;
- there are crisis management procedures in the event of an incident;
- operational teams are formed in customer relations and e-reputation management.

XVII. PORTFOLIO IMPAIRMENT/ DETERIORATION RISK

Description of the risk

The risk of deterioration of Mercialys' portfolio, which represents a financial risk for the Company, may be linked to:

- the activities of some tenants which may damage the quality of soils, underground water, structure of buildings through roof installations, and therefore impair the assets due to pollution or related deterioration;
- extreme weather conditions or presence of parasites (termites, dry rot, etc.) which may deteriorate the structure of the building.

Risk management and coverage

Mercialys manages this risk in two different ways:

- by asking its Property Management to implement the audits required to ensure the regulatory compliance of tenants activities;
- by implementing preventive maintenance measures, particularly on the structure of buildings.

5.4 RELATIONS WITH THE CASINO GROUP

5.4.1 Risks related to agreements made with the Casino group

As a result of changes in its shareholding structure, Mercialys has adapted its corporate governance in accordance with the commitments made when announcing its new strategic plan on February 9, 2012. A partnership agreement was signed with the Casino group on July 2, 2012. Mercialys' strategy changed from a single standardized model based on the expansion of shopping malls to a much larger model, one that provides more differentiation and is specific to each site. In order to be fully implemented it must be thought out upstream and incorporated within the project design. Then, in 2014, Mercialys and Casino saw fit to extend their partnership agreement until December 31, 2017. On January 31, 2017, while maintaining the overall balance of 2012 and 2014, Mercialys and Casino, Guichard-Perrachon decided to further amend the agreement, bringing in some adjustments, and extending it until December 2020.

The fundamental principle of the Partnership Agreement, under which Casino develops and manages a pipeline of development projects that are acquired by Mercialys to fuel its growth, has been kept in the new Partnership Agreement under the same financial terms.

However, the non-renewal of this agreement could limit growth opportunities in a market where possibilities to create or acquire new shopping centers are relatively limited at present. Any significant change in the Casino group's strategy or the impossibility of implementing such operations could also affect the Company's development prospects.

On March 11, 2015, the Company also entered into a new service agreement (the "Service Agreement") with the Casino group,

which replaces the agreement signed on September 8, 2005. This Service Agreement defines the terms for the provision of necessary support functions for the Company (administrative management, mainly for legal issues and human resources, accounting and financial assistance, IT services and services in connection with the property business). These services concern the Company's support functions. They also provide access, for the Company's property activities, to the expertise and technical resources of the Casino group's development team, particularly for development and restructuring projects the Company conducts on its own behalf. Although the Casino group no longer controls the Company, the service agreements between the two companies have been maintained. The non-renewal of such contracts on expiry could give rise to extra costs for the replacement and training of alternative service providers, or for creating in-house services. This could generate additional costs and potential delays in setting up these services, and could have an adverse effect on the Company's business and earnings.

Furthermore, by amendment no. 1 to the amending act of the present Account Advance Agreement signed on February 14, 2017, Mercialys and Casino decided to extend this agreement until December 2019. Within this framework, the Company could be subject to early repayment of any advances still outstanding if Casino ceases to be a board member of Mercialys and no longer holds a direct or indirect stake of at least 5%.

Details of the various contracts and agreements between Mercialys and the Casino group or its subsidiaries are provided in chapter 6, page 275 and following.

5.4.2 Main shareholder risk

The loss of control by the Casino group, the majority shareholder, of the majority of voting rights at shareholders meetings was recognized at the Annual general meeting on June 21, 2013. However, in the event of a very low attendance rate by other

shareholders, the Casino group may make important decisions at its sole discretion, in particular concerning the members of the Board of directors, approval of annual financial statements and dividend payouts.

5.5 INSURANCE AND LEGAL RISK

5.5.1 Insurance and risk coverage

5.5.1.1 GENERAL DESCRIPTION OF INSURANCE POLICIES

Under the Service Agreement between Mercialys and Casino, Mercialys is named as additional insured under the insurance programs set up by the Casino group Insurance Department.

This assistance primarily concerns:

- analysis and quantification of insurable risks, including technical risk prevention and protection;
- negotiation and arrangement of insurance under the Casino group's programs with leading insurers;
- arbitrage between the transfer of risk financing to the insurance market and self-insurance;
- administrative management of insurance policies and overseeing claims management.

The technical risk prevention and protection policy set up by Mercialys is linked to the Casino group policy, with the support of the technical departments of the Group's insurers. Shopping centers undergo regular appraisals, depending on the sum insured and appraisal frequency. The reports of the insurers' loss prevention engineers are accompanied by recommendations that are monitored jointly by Mercialys, Casino group Insurance Department, and the insurers' loss prevention engineers.

5.5.1.2 PRINCIPAL INSURANCE COVERAGE IN PLACE

Mercialys takes advantage of the synergies and discounted premiums available from pooling insurance coverage, while enjoying the same protection as other similar-sized companies in the sector. This insurance is subject to variations and/or adjustments to take account of the claims rate, insurance market constraints or changes in Mercialys' risks.

Mercialys is in particular covered for property damage, professional liability, building liability, and directors' and corporate officers' liability.

At the time of writing, no major and/or significant claim liable to affect current terms of insurance and the cost of insurance premiums and/or the continuation of self-insurance had been made in 2017.

5.5.1.3 SELF-INSURANCE

Self-insurance is a strategic risk management and funding decision. It is designed to streamline and control insurance costs by smoothing fluctuations in the insurance market.

Self-insurance is used to finance small, infrequent claims.

5.5.1.4 INSURANCE COVERAGE

For major, intensive claims, the financing of these risks is transferred to the insurance market. The nature and limits of coverage are determined with the help of external consultants and insurance brokers, based on the market practices of insurers, risk analysis models, and the associated financial implications.

A. Property damage and/or operating loss insurance

The policies negotiated on the insurance market mainly cover property damage and/or operating losses due to fire, explosion, malicious act, collapse, natural event, natural disaster, political violence or tenant liability. Mercialys' insurance coverage limits have been increased, particularly the compensation period and the coverage amount for loss of rents:

Principal insured risks and amounts (in millions of euros)	
Fire, explosion, lightning (direct damage and consequential operating losses - 24 to 48-month compensation period in loss of rents)	400
Building collapse	400
Social unrest, riots	400
Acts of terrorism	148
Natural disasters	400
Neighbor/third party claims	20
Tenant/occupant claims	20
Loss of use/compliance expenses	50
Loss of rents	50

B. Third-party liability

This mainly covers personal injury, property damage and/or financial losses caused to third parties through negligence, errors or omissions in a service provided by Mercialys or in the operation of its business, subject to a maximum limit of Euro 75 million per claim per year. These programs also cover pollution risks.

Mercialys' insurance coverage limits are identical, on the whole, to those available to the Casino group.

C. Building insurance

This covers the risks to which Mercialys could be exposed as project manager, in compliance with the regulations and legal requirements for insurance.

The coverage limits are consistent with the practices and insurance obligations for the building industry.

5.5.1.5 CLAIMS MANAGEMENT

Claims management is entrusted to the Casino group Insurance Department, with the support of Mercialys' management and operational staff. The Casino group Insurance Department oversees the processing and settlement of insurance claims, liaising with insurers, claims adjusters and advisors.

5.5.2 Legal risks

Mercialys holds property in which shopping malls and cafeterias are or will be operated. The Company is therefore obligated to comply not only with tax rules with regard to its corporate status as a listed property company (SIIC), but also with the ordinary rules of French law on building permits, and several specific regulations governing areas such as urban planning for commercial property, public health, the environment, security and commercial leases.

Any substantial modification of the regulations applicable to the Company may affect its operating results and its development and growth potential.

Additionally, as is customary for owners of shopping centers, the Company cannot guarantee that all its tenants, particularly for properties it has recently acquired, will comply with all applicable regulations relating to, among other things, public health, the environment, safety, commercial planning and operating permits. The Company, as the property owner, could suffer penalties as a result of the failure of its tenants to comply with applicable regulations, and this could affect its earnings and financial position.

5.5.2.1 RISKS RELATING TO REGULATIONS CONCERNING COMMERCIAL LEASES

The Company is subject to regulations concerning commercial leases as part of its business. French legislation on commercial leases is very strict with regard to the lessor. Certain contractual clauses relating to the term, termination, renewal and rent indexing are matters of public policy in France, and owners have only limited leeway to adjust rents according to market conditions.

The parties set the initial rent at their discretion when making the lease agreement. Unless yearly indexation is provided for in the lease, the rent can only be adjusted every three years to correspond to the rental value, but it cannot vary by more than

the quarterly applicable index indicates since the most recent rental adjustment.

Leases for shopping centers often include a variable portion of rents based on the tenants' sales, with a minimum guaranteed rent in order to limit risk for the Company in periods of economic recession. This indexation to the tenants' revenues therefore avoids the regulatory rules for setting or adjusting rents. The adjustment of the minimum guaranteed rent based on changes in the ILC (commercial rent index) or ILAT (tertiary rent index) is thence only possible if expressly stipulated in the terms of the contract.

Act No. 2014-626 of June 18, 2014 concerning the craft and retail sectors and micro-enterprises (the "Pinel Act"), published in the Official Journal on June 19, 2014, and Decree No. 2014-1317 of November 3, 2014, published in the Official Journal on November 5, 2014, changed some of the rules concerning commercial leases.

The changes to public policy have been incorporated into the commercial leases entered into or renewed by Mercialys since the new rules took effect.

Changes to applicable regulations concerning commercial leases could therefore have a negative impact on the valuation of the portfolio, as well as the Company's earnings, business and financial position.

5.5.2.2 RISKS RELATING TO THE REGULATIONS ON PLANNING, CONSTRUCTION, SAFETY AND OPERATION OF SHOPPING CENTERS

The Company's activities are subject to city planning regulations, in particular the system of authorizations for commercial operation. In addition to administrative sanctions for failing to comply with these requirements - such as formal notice from the

local governor, subject to a daily fine, to bring the site concerned into line with the authorization given, or a decision to close illegally operating sites to the public until the situation is resolved, also subject to a daily fine - penal sanctions may also be imposed.

Furthermore, as establishments open to the public, certain buildings and shopping centers are subject to fire safety regulations. The city mayor therefore only authorizes sites to open upon receipt of a favorable report by the fire safety commission following a site visit. In addition, the safety commission performs biennial inspections to check on compliance with safety standards, and issues a formal report. If regulations are breached, the city mayor or local governor may decide to close the site.

Any regulatory change concerning city planning or safety requirements for establishments open to the public that increases the restrictions or constraints on shopping center development could limit the Company's growth opportunities and outlook. Conversely, any easing of commercial zoning regulations could depress the value of the Company's real estate assets.

The Company, its suppliers, and subcontractors are also bound to comply with various regulations which, if modified, could have significant financial consequences. Tougher building codes, safety regulations, or criteria for obtaining planning permission, building permits or commercial licenses, could also have a negative impact on the Company's margins and operating profit by raising operating expense and maintenance and improvement costs, as well as administrative costs inherent in the shopping center business.

5.5.2.3 RISKS RELATED TO FISCAL CONSTRAINTS ON LISTED PROPERTY INVESTMENT COMPANIES, CHANGES IN THE APPLICABLE TAX STATUS OR LOSS THEREOF

Mercialys has enjoyed the tax status applicable to listed property companies (SIIC) since November 1, 2005. It is thus exempt from corporate income tax on most of its business income. Eligibility for this status is conditional on compliance with the obligation to redistribute a large part of its profits. Non-compliance could entail the loss of this fiscal regime.

In addition, the amended Finance Act of 2006 makes eligibility for SIIC tax status conditional on limiting to 60% the portion of the Company's capital and voting rights held, continuously over the fiscal year, by one or several entities acting in concert. As of January 1, 2010, the Company could be liable to corporate income tax under French law if it exceeds this threshold in a given fiscal year. Since these provisions took effect, the stake held by the Casino group has remained below this threshold.

The loss of SIIC tax status and the corresponding tax savings, or any substantial changes in the rules applicable to such listed property companies, could affect the Company's business, earnings and financial position.

5.5.2.4 LEGAL AND ARBITRATION PROCEEDINGS

In the normal course of its business, the Mercialys Group is involved in various legal or administrative proceedings and is subject to administrative control. The Group sets aside provisions whenever a serious risk threatens to materialize before the end of the fiscal year, and it is possible to estimate its financial impact.

In the asset contributions made to the Company in October 2005, the Company was substituted for the contributing companies in connection with disputes involving such assets. In accordance with the contribution agreements entered into with the Company, the contributing companies concerned shall compensate Mercialys for any prejudice, loss, charge or damage compensation the latter might incur in connection with such disputes.

The main dispute concerns a challenge by a tenant in respect of sums and work rebilled between 2010 and 2016. The case is currently pending, and a subpoena was received in December 2016. Nevertheless, the risk seems insignificant, given that the amount to which the dispute relates makes up less than 1.5% of net earnings attributable to owners of the parent for 2017.

To the best of the Company's knowledge, there are no other governmental, arbitration or legal proceedings, including any outstanding or threatened proceedings, which are or were in the past 12 months liable to have significant effects on the financial situation or the profitability of the Company and/or the Group.

5.6 CLIMATE CHANGE SYSTEM

Climate change may represent a financial risk for Mercialys' business operations: higher insurance premiums, financial impact of claims associated with exceptional natural events that are more frequent and more intensive, costs of adaptation measures, and so on.

The Company is very much aware of this challenge and is thus striving to reduce the carbon footprint of its business by 20%, by

slashing its power consumption, limiting refrigerant leaks, working on the carbon impact of its works and encouraging visitors to use low-carbon transport solutions.

For more details on Mercialys' carbon strategy, please see chapter 2, page 63 and following.

5.7 CORRUPTION RISK CONTROL SYSTEM

All of Mercialys' assets are located in France, a country with a strict legal environment with regards to the fight against corruption. According to the corruption perception index published by Transparency International for 2016, France ranks 23rd out of 176. However, the property sector contains potentially corrupt situations and the Company may be concerned by this risk across all of its functions. Therefore, Mercialys implements control procedures, together with awareness-raising and information measures for its employees, in order to preserve the integrity of its financial statements and its reputation with all stakeholders. The Company applies a strict policy to control this risk, even though it is not subject to the Sapin 2 Act on this topic given the trigger thresholds applicable in this respect.

As such, the fight against corruption represents a major focus point for Mercialys and is built on the pillars below:

First, measuring the risk through **risk mapping** which is analyzed and updated on a regular basis by the Risks Prevention Committee chaired by the Chairman and Chief Executive Officer of Mercialys, and which reports to the Audit, Risks and Sustainable Development Committee. At-risk functions and the implemented procedures are identified through this mapping, *via* interviews with the different managers.

Secondly, **internal control procedures at operational and financial level**. These procedures include in particular (i) the limitation of the power to make commitments on behalf of the Company, (ii) the multi-department validation process for

expenditure and transactions with tenants, and (iii) the capacity to make payments on behalf of Mercialys, which is restricted to four persons within executive management (no cash payment may be made nor accepted by employees).

Furthermore, the Company distributes to its employees **information** concerning ethical conduct and recommended anti-corruption practices through the Charter of Ethics and Code of Business Conduct distributed in 2017, and **sanctions** in the event of a breach. In this respect, 85% of employees were trained in 2017.

Lastly, under the risk prevention program concerning ethics and compliance, Mercialys appointed a Director of Compliance and Ethics. In this respect, a dedicated risk mapping was implemented, aimed at reducing the Company's level of non-compliance risk, concerning hard law (laws and regulations) or soft law (international commitments), and ensuring the application of values defined and upheld by the Company. This risk may translate into legal sanctions and impact in terms of reputation. The Director of Compliance and Ethics relies on the Charter of Ethics and Code of Business Conduct and regular exchanges with all Mercialys' departments and service providers for the monitoring of mapping, and organizes training for employees. Lastly, the Director of Compliance and Ethics is also the Mercialys Compliance Officer, especially regarding the law on protection of whistleblowers, effective as of January 1, 2018.