

MERCIALYS

2017 INTEGRATED REPORT
—
EXTRACT FROM THE REGISTRATION DOCUMENT



PRIME CONVENIENCE MALLS

2017 was another dynamic year for Mercialys, with excellent financial results and significant progress made in the operational roll-out of its MERY'21 CSR strategy.

In this Integrated Report, the Company is proud to present the factors that underpin its long term success and the fact that it is, more than ever, the French leader in convenience shopping centers.

MESSAGE FROM THE CHAIRMAN



Dear Shareholders,
2017 was another year of success and operational excellence for Mercialys, against a background of a gradual economic upturn.

Consumer spending in the first half of 2017 was indeed marked by a kind of wait-and-see attitude characteristic of pre-electoral periods, before the year started, in the summer, to experience a significant economic rebound against a backdrop of improved household confidence, which has since significantly contributed to French GDP growth and to the country's outlook for 2018.

In this context, your Company, thanks to its positioning as a convenience leader, has generated very good results throughout the year, demonstrating its resilience and placing itself in a powerful dynamic of outperformance.

Once again, the organic growth of Mercialys attained a very sustained level of +2.6%, fueled in particular by continuously steady reversion rate on renewals and re-letting and a dynamic Casual Leasing activity. Funds from operations (FFO) dipped slightly, by -0.4%, due to the effects of the asset arbitration strategy implemented by the Company.

Restated of these elements, FFO increased by +6.1%, thus reflecting the Company's robust fundamentals. In the light of these results, and in accordance with the objectives announced for 2017, management will propose to the

Annual General Meeting of April 26, 2018, the distribution of a dividend of Euro 1.09 per share, i.e. 88% of the 2017 FFO, offering a 5.9% yield on the share price at December 31, 2017.

This repeated robust performance of your Company was driven by the excellent command of its competitive advantages, which include the commercial expertise of its teams, its prime convenience shopping centers, and its ambitious CSR strategy.

The retailers in your shopping centers benefited again from a footfall that is significantly higher than the national index of the French Council of shopping centers (CNCC⁽¹⁾), allowing them to continue generating sales growth that is much higher than that of the market.

The improvement of the digital ecosystem, particularly with the ramp-up of services provided to tenants by *La Galerie des Services* and an intensification of personalized marketing offers, has strongly contributed to the commitment of the retail chains present in your centers and to the loyalty of end customers. The multiplicity and diversity of the activities organized in your shopping centers helped, on their side, to differentiate the sites, while adding a pleasant touch to the shopping journey.

Furthermore, in 2017, Mercialys continued the asset turnover strategy that it has been applying since 2010. As such, Euro 177 million of disposals, concerning eight sites, were re-allocated, mainly for the financing of development projects. Mercialys completed nine hypermarket transformation projects in 2017. These

reductions of large food stores allowed the installation of new shops and medium-sized stores which strengthened the appeal of your centers and their leadership in their catchment area. Your Company also opened, at the end of the year, three major shopping center extensions in Rennes, Morlaix and Saint-Étienne Monthieu, continuing the improvement of its real estate portfolio and the diversification of its retailing offer with the opening on 16,000 sq.m of 68 international, national and local retail chains, including 10 new ones in the Mercialis portfolio. All these projects will generate Euro 5.2 million of additional annualized rental income, for an average yield on costs of 7.4%.

At the same time, the financial structure of Mercialis has remained extremely robust, with a loan to value ratio (LTV excluding transfer taxes) of 39.9% at year end, including the acquisitions of the significant extension project for the Port site on Reunion Island for Euro 28 million in December 2017. Following an in-depth review of its assets portfolio, your Company has also considerably reinforced its portfolio of development projects, which now represents Euro 825 million by 2024 and Euro 50 million of potential additional rental income. This extended portfolio is a significant source

of medium and long-term growth for FFO and NAV, while providing Mercialis with a flexibility margin in the choice and rhythm of execution of its projects. Concerning CSR, in 2017, Mercialis continued the operational adaptation of its ambitious, pro-active strategy, with tangible progress both in terms of the carbon footprint of its centers, and for water consumption, local involvement and customer satisfaction. These results were recognized by the extra-financial community with significant improvement in the CSR ratings of your Company and progression in the classification of flagship CSR indexes, such as the GRESB⁽²⁾, CDP⁽³⁾ and the Gaia Index⁽⁴⁾.

Furthermore, Mercialis has bolstered its excellent governance standards again, with the appointment of a new female independent director, Pascale Roque, to replace Bernard Bouloc, who resigned, allowing the Board of Directors to achieve perfect gender equality and maintain its independence rate at 58.3%, in addition to its diversity of competencies. Lastly, in 2017, your Company won multiple awards for the transparency and quality of its publications, with in particular, a 3rd place obtained within the SBF

120 index at the Transparency Grands Prix Awards, and two EPRA Gold Awards for financial and extra-financial reporting. In 2018, Mercialis takes its continuous improvement process even further, by publishing this Integrated Report as a foreword to its Registration Document.

“**Mercialis’ long-term outperformance is made possible by the excellent command of its competitive advantages.**”

This report is modeled on the reference framework established by the International Integrated Reporting Council (IIRC), following its philosophy, main principles and guidelines, and reflects Mercialis’ commitment in the area of responsible long-term management that takes account of the expectations of all stakeholders.

Éric Le Gentil
Chairman and Chief Executive Officer
of Mercialis

**Euro 183.5
million**
of invoiced rents

+2.6%
of organic growth

**Euro 1.24
per share**
of funds from
operations (FFO)

**Euro 825
million**
of development
projects

**Euro 3,737
million**
of portfolio value
(including transfer
taxes)

**Euro 20.86
per share**
of EPRA NAV

(1) Conseil National des Centres Commerciaux: the French national council of shopping centers is a professional umbrella organization for all industry professionals, which publishes national performance indices on a regular basis.

(2) Global Real Estate Sustainability Benchmark: the benchmark international ranking that evaluates each year the CSR performance and policy of real-estate sector companies

(3) Carbon Disclosure Project: non-profit international organization which studies each year, the impact of major listed companies on CO₂ emissions and climate change.

(4) Ethifinance Gaia Index

IDENTITY CARD

Mercialys is a real estate company founded in 2005 and specialized in the management and enhancement of retail assets. The Company is a benchmark shopping center player in France with, at the end of December 2017, 50 centers that are leaders or co-leaders in their catchment area and 7 high-street assets. Mercialys' assets are rolled out over 878,288 sq.m and host more than 600 international, national and local retail chains.

Mercialys' asset portfolio was valued at Euro 3,736.7 million, including transfer taxes, at year end 2017, making the Company one of the sector leaders in France both by size and by the quality of the assets held, and an absolute reference on the convenience segment.

Mercialys' activity is primarily targeted at ensuring the profitability of its sites. The Company adopts an agile and proactive approach to the management of its portfolio, with all of its initiatives aimed at improving lettability, value and durability. To do so, Mercialys has developed, since its creation, a dynamic commercial strategy, precisely tailoring its retailer mix to each catchment area and to changes in consumer trends.

The Company also implements a continuous and selective investment and disposal strategy, developing on one hand, modular and environmentally friendly assets, and frequently disposing of, on the other hand, its mature sites to reinvest the funds particularly in its highly value-accretive pipeline.

Lastly, as a leading retailing real estate company, Mercialys plays an important role in interacting with retailers, end customers, local authorities and associations, in addition to shaping the urban fabric. This broad economic and social role encourages it to be constantly attentive to all of its stakeholders and to practice its activity with total respect for ethical and compliance principles.

MISSION

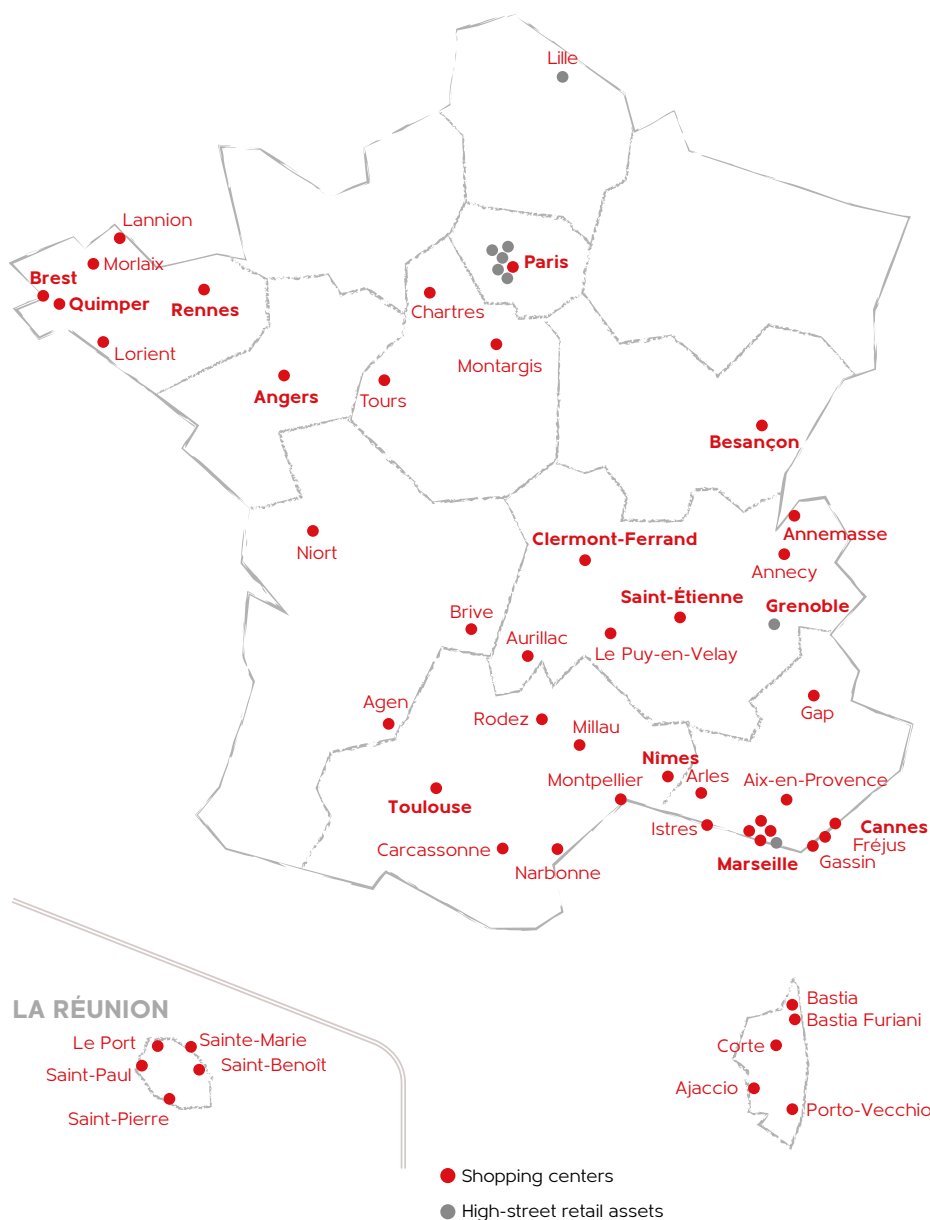
Making life easy for customers, every day

VISION

Shopping centers on a human scale, established as close as possible to the consumers and genuine partners of the daily life, sustainably create value for all stakeholders.

VALUES

Proximity
Agility
Commitment
Innovation



57
shopping centers
and high-street
assets

>600
retail chains

≈2,200
leases

878,288
sq.m
of gross leasable
area

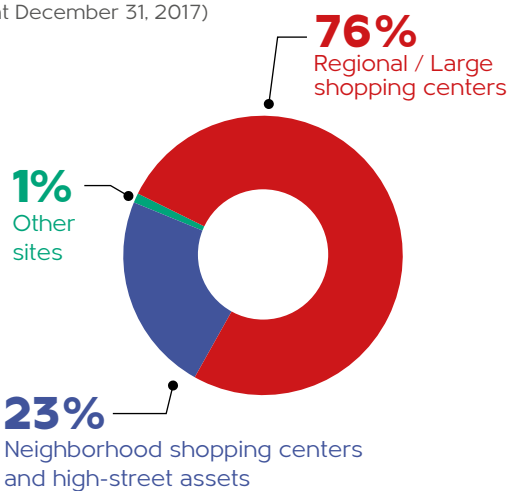
46%
of the portfolio
in value BREEAM
In-Use certified

38
installed solar
power units

50 M
of visitors per year in
the top 10 centers

51,736 MWh
of renewable
energy generation

BREAKDOWN OF THE PORTFOLIO
(as % of the appraisal value including transfer taxes
at December 31, 2017)



A WINNING CONVENIENCE RETAIL JOURNEY

As a retail real estate company, the Mercialys model is at the crossroads of two key sectors in the French economy: real estate properties and the retail trade.

The Company's operational and financial stakes are therefore linked to, first, its understanding and ability to adapt to the needs of its retail chain tenants in order to deal with the changing consumer trends, and second, to its command of its real estate properties and, more specifically, to its ability to improve these so as to match the new conception of urban spaces, the challenge of ecological transition and its positioning as a convenience real estate company.

SECTORS UNDER TRANSFORMATION

Under the effect of sociological, demographic and technological changes, which lead to new lifestyles, new habits and mentalities, the consumer and urban planning sectors are undergoing a deep transformation. For Mercialys, these transformations represent multiple opportunities to re-invent innovative retailing and real estate ideas, on a daily basis.

Impact on consumption

- Search for authentic, organic and natural products
- Search for distinctive products with good value for money
- Search for efficiency in purchasing
- Convergence of brick&mortar and e-commerce
- ...

Sustained demographics	Increase in the number of households	Single-parent families
Aging population	Diversity	Image and self-oriented culture
Connectivity and digitization	Mobility and nomadism	Reallocation of time
Internationalization of exchanges	Flexibility and adaptability	Collaborative economy
Aspirations towards responsible capitalism	Local anchorage within the regions	Ecological awareness and change in regulations

Impact on real estate assets and development

- De-compartmentalization of spaces and diversity in usage
- Modularity and reversibility of assets
- Energy and environmental efficiency
- Involvement in the local community
- ...

THE MERCIALYS VALUE PROPOSITION

Thanks to its proven retail and real estate experience, constant attention to stakeholders, and attentiveness to market changes, Mercialys' management is convinced of the durability of the convenience brick & mortar retailing model, which is the Company's specialty.

More than ever, the technological developments that have brought the world to our fingertips, are also feeding the need to find stable, structuring landmarks in our immediate environment and local community, areas in which Mercialys excels.

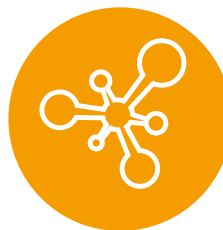
And this is Mercialys' value proposition in response to sectoral transformations: offer retail chain customers, through a network of convenience shopping centers firmly established in their local reality, the certainty of finding most of the products they need, in rapid and simple purchasing, with immediate gratification at a fair value for money.

THE SUCCESS OF THE MERCIALYS MODEL IS BASED ON THREE COMPETITIVE ADVANTAGES:

REAL ESTATE KNOW-HOW
A portfolio of prime convenience assets



RETAIL KNOW-HOW
An adaptative and omni-channel retail concept



CSR KNOW-HOW
A powerful territorial presence and development that takes account of all stakeholders' expectations



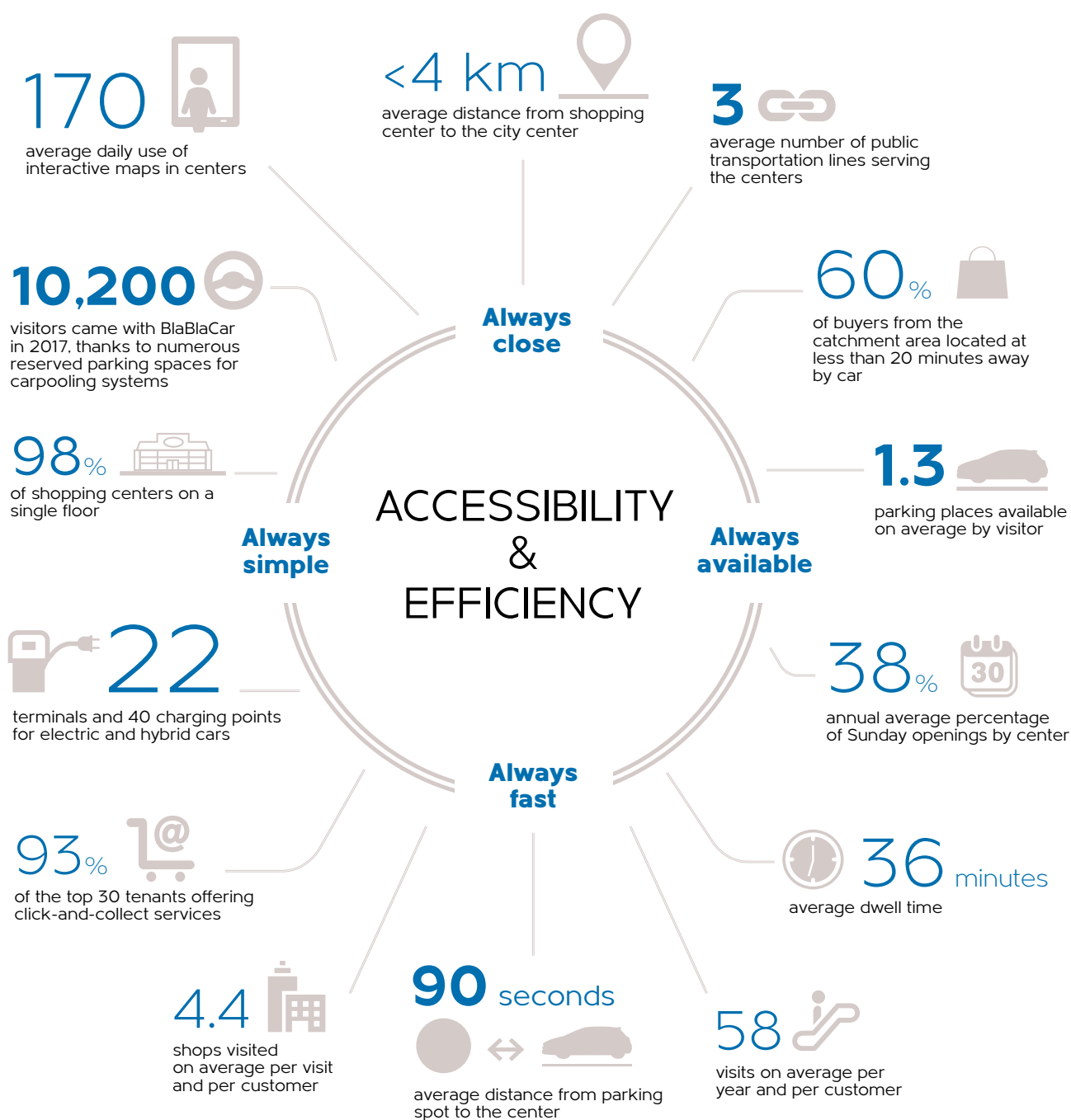
This winning model is applied to all our asset classes, whether located in the center of the city or on its outskirts. Convenience is in fact not defined by the nature of an asset or its geographic location, but by its design and intended use, namely being the path of least resistance between a customer need and a product.

A PORTFOLIO OF PRIME CONVENIENCE ASSETS



The first competitive advantage of Mercialys lies in its proven real estate know-how and the quality of its assets. The design of its shopping centers is specifically based on two key success factors characteristic of a winning convenience offering: accessibility and efficiency.

Mercialys' sites are always located at the heart of their primary catchment area, not far from city centers, and are for instance extremely well served by public transport, offer long opening hours, optimized parking facilities, clear signboards inside the shopping centers, etc.

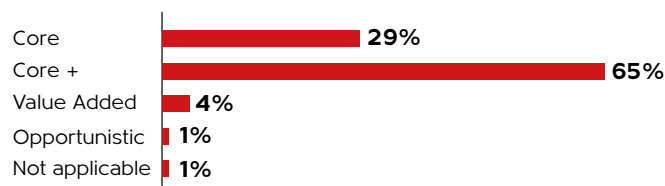


LEADING ASSETS LOCATED IN THE MOST DYNAMIC REGIONS

The Mercialis asset portfolio is focused on a range of prime assets, leaders or co-leaders in their catchment area. 94% of the Company's assets are classified in the Core or Core+ category by the independent real estate appraisers⁽¹⁾.

BREAKDOWN OF ASSETS BY CATEGORY

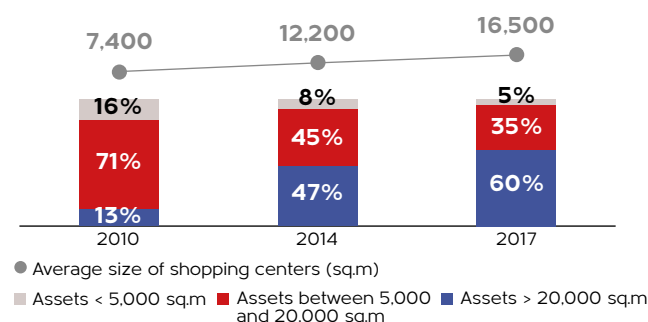
(AS % OF THE APPRAISAL VALUE, INCLUDING TRANSFER TAXES AT DECEMBER 31, 2017)



The result of several years of adjustment, Mercialis has, since 2010, reduced the number of assets in its portfolio by more than half, from 130 to 63 sites. The Company uses three criteria to decide whether to hold an asset or not: its competitive position, its geographic position, and its risk profile and development potential. 60% of all Mercialis' portfolio by value now comprises assets of more than 20,000 sq.m. The Mercialis⁽²⁾ shopping centers had, at the end of 2017, an average size of 16,500 sq.m, compared with 7,400 sq.m in 2010. Their average value stood at Euro 69.9 million compared with Euro 26.9 million seven years ago.

BREAKDOWN OF ASSETS BY SIZE

(AS % OF THE APPRAISAL VALUE, INCLUDING TRANSFER TAXES AT DECEMBER 31, 2017)



CHARACTERISTIC OF THE LOCATIONS OF MERCIALYS CENTERS

All these sites are located in regions of mainland and overseas France with more favorable demographic changes and disposable income than the national average, enabling Mercialis centers to benefit from positive underlying socio-economic factors.

	Geographic exposure of Mercialis ⁽⁴⁾	Demographic growth ⁽³⁾	Growth of gross disposable income per inhabitant ⁽³⁾
		+6.5%	+17.2%
France average ⁽⁵⁾		+4.7%	+14.8%
Outperformance		+173 bp	+237 bp

All the development projects carried out by Mercialis are aimed at strengthening the attractiveness of its sites and consolidating their leadership. At the end of 2017, the Company had a highly accretive pipeline of Euro 825 million, comprising:

- retail space requalification projects (reduction of spaces dedicated to hypermarkets and installation of new shops and medium-sized stores);
- new retail space creation projects (extension of shopping centers, construction of retail parks, food courts);
- mixed-use urban projects (renovation of high-street retail assets and development of projects in inhabited areas).

Since these developments are all on constructed brownfield sites, the risk profile of the Mercialis projects portfolio is completely under control.

PORTFOLIO OF MERCIALYS PROJECTS

	Total investment (€M)	Investment still to be initiated (€M)	Net rental income forecast (€M)	Net yield on cost forecast	Completion date
Committed projects	79.5	51.5	4.9	6.2%	2018
Controlled projects	327.2	322.6	19.8 ⁽⁶⁾	6.6% ⁽⁶⁾	2019/2021
Identified projects	417.8	417.8	25.1 ⁽⁶⁾	7.0% ⁽⁶⁾	2021/2024
Total projects	824.5	791.9	49.8 ⁽⁶⁾	6.7% ⁽⁶⁾	2018/2024

(1) Mapping, made by BNP Real Estate Valuation, Cushman & Wakefield and CBRE, of 94% of the Mercialis real estate portfolio, in appraisal value including transfer taxes and excluding high-street assets and other assets. The categories follow the usual methodological definitions and criteria.

(2) Excluding high-street assets.

(3) Over the 2005-2014 period, last available INSEE data.

(4) Weighted by surface area.

(5) Mainland France.

(6) Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins.

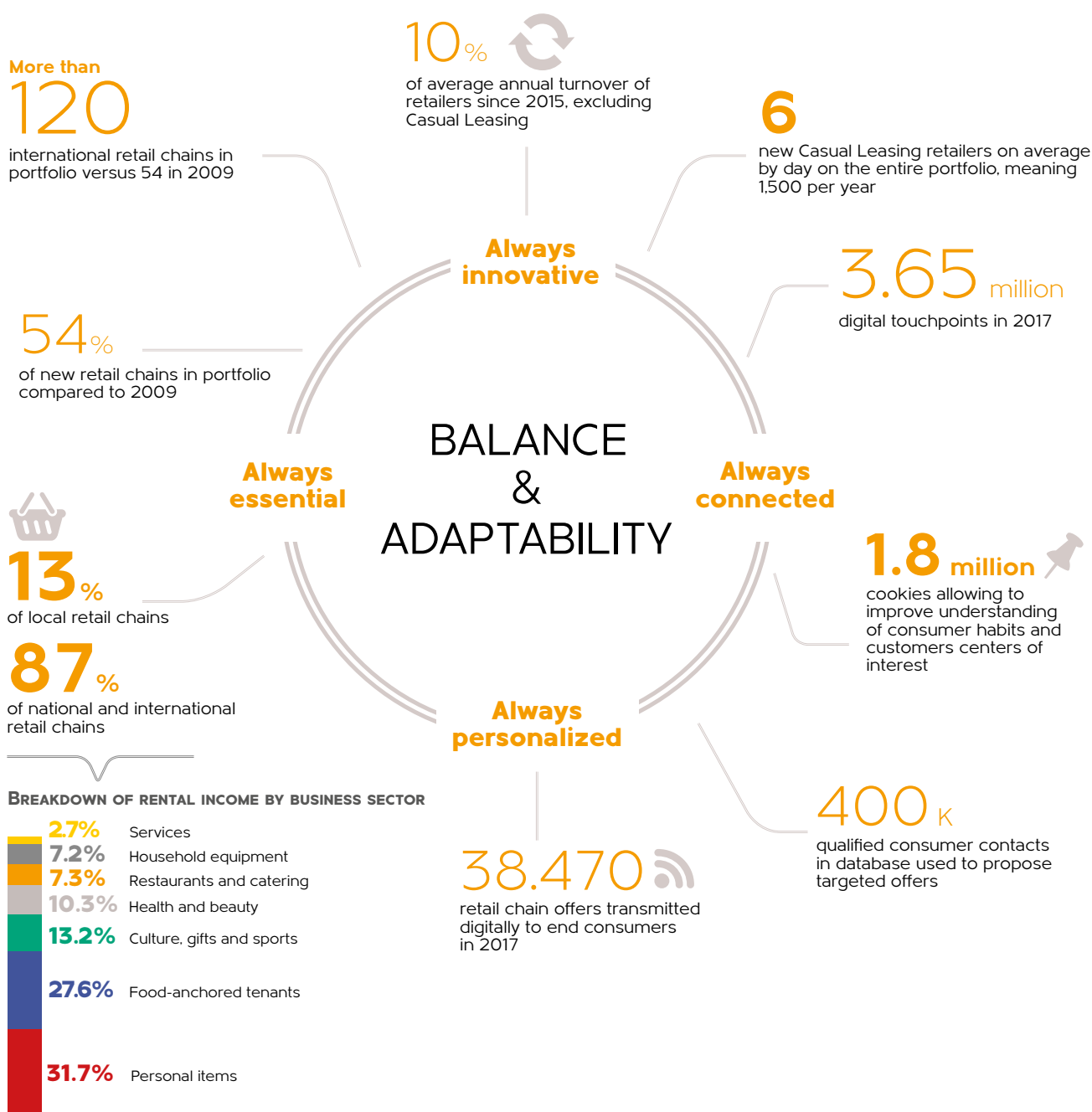
AN ADAPTABLE AND OMNI-CHANNEL CONCEPT



The second competitive advantage of Mercialys is its retail know-how, a skill acquired and honed over several years of exemplary initiatives and developments in the field. The omni-channel retailing concept developed by Mercialys for its centers perfectly addresses the needs of its retail chain clients and end customers and relies on two key factors to ensure absolute success: balance and adaptability.

Mercialys is primarily driven by the desire to constantly guarantee that its assets have a core offering of mass consumer goods. By using merchandising mixes adapted to the needs of the catchment areas, adaptable to consumption trends, and measured in terms of sector exposure, the Company strives to satisfy the bulk of customer needs.

In addition to this solid base, Casual Leasing represents an endless source of commercial innovation, shopping center differentiation and opportunities to renew the appeal of sites. Thanks to the high turnover of lessors and concepts, Casual Leasing helps to stimulate the merchandising mix, thereby guaranteeing new discoveries for customers at each visit and an offering that changes to reflect trends, seasons and events.



A UNIQUE B TO B AND B TO C OMNI-CHANNEL MARKETING ECOSYSTEM

In addition to its solid and adaptative merchandising mix, Mercialis also has a centralized marketing platform that offers services to retail chains and to end customers: *G la Galerie*.

This powerful ecosystem, which offers a convergence of the brick & mortar and digital purchasing channels, represents a potent tool for personalized communication, fine-tuning the customer experience, creating loyalty and fluidifying exchanges between Mercialis, retail chains and customers. It offers visitors an omni-channel, personalized and engaging shopping journey, designed to satisfy them and increase the footfall of shopping centers and the revenue of retail chains, and complete the numerous brick & mortar events and marketing actions carried out in shopping centers on a regular basis. All for a cost that is significantly lower than that of an individualized center-specific approach.

G LA GALERIE A unique ecosystem

A modern, identifiable architecture that blends into the environment of each center



The G La Galerie concept in Annecy.

All Mercialis' assets apply the colors of G La Galerie, in harmony with their environment.

National marketing campaigns around a strong brand and local implementation of events and activities



National campaigns and local activities.

294 targeted marketing activities and operations in 2017 of which 23 major activities carried out in centers, increasing their daily traffic twofold during the operation.

Services and an integrated B to C digital ecosystem



A range of services in all shopping centers.

A unique architecture for all the shopping centers websites, mobile applications and loyalty programs.

Significant improvement in understanding customer needs, in clients satisfaction and loyalty.

35,000 opinions collected on Facebook, TripAdvisor, Google... An average score of 4/5 in satisfaction surveys. Tens of thousands of registered people in our fully on-line loyalty program.

Services and an integrated B to B digital ecosystem



La Galerie des Services.

More than 30 services for retail chains, fully accessible online allowing them in particular to better communicate and address the needs of customers and participate in making shopping centers a vibrant part of local life.



A POWERFUL TERRITORIAL PRESENCE




The third competitive advantage of Mercialis lies in its very close proximity with the regions, placing it in a position where it can best understand their issues and needs. Thanks to its location in numerous territories and different municipalities throughout France, Mercialis is fully aware of the multiple local situations and the expectations of its numerous stakeholders (retailers, customers, suppliers, territorial players, etc.).

Boosted by this advantage, and considering the economic and social central positioning of its shopping centers, Mercialis has made Corporate Social Responsibility (CSR) an integral part of its development strategy and of its success. This choice is clearly reflected in the daily implementation of responsible and ethical management of its shopping centers and in the involvement of its retail assets in the socio-ecological dynamics of their region.

In 2015, Mercialis formalized its CSR strategy: *MERY'21*. The strategy is rolled out in 15 priorities and, for each of them, lays down clear quantitative and qualitative objectives to be achieved by 2020. It proposes an operational action plan to be implemented on the entire portfolio, while taking the specific characteristics of the different centers into account.

An organization and a team in charge of these topics have been set up under the direct supervision of the Chief Operating Officer. The operational deployment is based on a network of correspondents spread over all the Company's services and functions, and key indicators are monitored by a special tool accessible online: *MERY RSE*.

OBJECTIVES OF THE MERY'21 STRATEGY

ISSUES	2020 TARGET
 Centers' certification	Improve the certification level of all centers by one grade
 Energy	20% reduction in energy consumption per sqm compared to 2015
 Climate change	20% reduction in greenhouse gas emissions per visitor compared to 2015
 Water	15% reduction in water consumption compared to 2015
 Waste	55% of waste recovered
 Biodiversity	Being involved in the protection of ordinary biodiversity
 Connection and mobility	15% increase in visitors traveling to centers using a form of transport other than a petrol-engined car (compared to 2015)
 Employees	No ethical incident
	Implement the psychosocial risks prevention policy
	Make training a commitment driver for employees
	Combat all forms of discrimination
 Health and safety of consumers and retailers	100% of centers with high-level risk management
 Responsible purchasing	80% of contracts for more than Euro 10,000 have responsibility clauses
 Responsible investment	Become a leading SRI stock
 Local economic development	Contributing to local economic development
 Accessibility for all	80% of visitors have a positive perception of the accessibility of our centers
 Public life and citizenship	Facilitating social harmony
 Engaged and alternative consumption	15% more leases for these new forms of consumption compared to 2015

MERCIALYS' MATERIALITY MATRIX

MERY'21 is a major component of the identity and value proposal of Mercialys. This CSR strategy is, in particular, aimed at strengthening relations with all the business's stakeholders, by creating a climate of collaboration and mutual trust.

In order to better include the expectations of stakeholders in its CSR strategy, Mercialys conducted a cross analysis of their expectations with regard to its own strategic objectives. The purpose of this approach, which is formally recorded in a materiality matrix, is to rank the challenges and priorities of MERY'21 and sequence the implementation of action plans over time, in order to obtain a seamless integration of Mercialys sites in the territories and control the real-estate timescale.



The creation of this matrix in 2016 allowed Mercialys to rank its CSR challenges to determine its operational priorities. To do so, Mercialys called on a panel of different stakeholders representative of its ecosystem, and asked them to rate 20 proposed challenges by order of importance on a scale. The Company then compared these results with the internal perception of these challenges, determined with a representative panel of employees. The result was this matrix.

The process revealed the four priority challenges for Mercialys, which are:

- energy performance and renewable energy;
- deontology and ethics;
- risk management;
- governance.

This process will be repeated in 2018, to reflect the changes in the expectations of the Company's stakeholders.

A VALUE-CREATING BUSINESS MODEL

Mercialys' strategy is based on a continuous transformation of its retail offering and its real estate assets, in order to adapt them to changing purchasing habits and develop and consolidate rental revenues while respecting its environment. To do so, the Company relies on six types of resources, operated within a financial and extra-financial value-creating business model for all stakeholders.

RESOURCES TO SERVE THE STRATEGY



Motivated teams.

The operating and property management teams handle the functioning of sites on a daily basis. They are assisted in this task by the asset management and letting teams, which also play a major role in the asset transformation projects owing to their in-depth knowledge of shopping centers, the characteristics of their catchment areas, and the different types of retail chains. These projects are run jointly with delegated project management, which covers the technical aspects of developments.

The marketing and communication teams are in charge of applying the brand concept, organizing animations in centers and managing the digital strategy, to ensure the satisfaction of consumer needs and an omni-channel experience. The financial, CSR and legal departments guarantee the financial and extra-financial performance of the Company and the quality and compliance of published information. Lastly, the human resources department is in charge of the management, involvement and development of employees.

Human resources

Mercialys primarily relies on its employees. The management of 57 shopping centers and high-street assets and the implementation of an ambitious portfolio of development projects revolves around expert teams specialized in each stage of the life cycle of an asset.

114
employees

37 years
average age

55%
women

75%
executives

1.747
training hours

Intellectual resources

Mercialys also benefits from significant intellectual resources, organized around two objectives. First, its intangible capital, made up in particular of the *G La Galerie* ecosystem and the substantial qualified customer database. Second, the Company's organizational capital, which is concisely summed up in its four values:

■ **proximity:** understanding the multiple expectations of stakeholders through the territories and focused teams to efficiently address the needs of the catchment area;

■ **agility:** a flexible approach to the organization of work, assets and retail, allowing rapid change in an evolving world;

■ **commitment:** compliance with all regulations and stakeholders, the quest for balanced and responsible agreements;

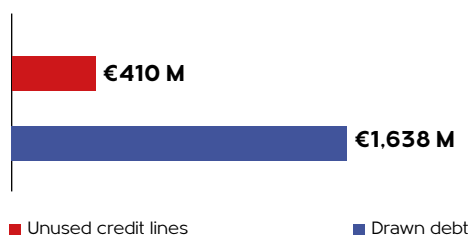
■ **innovation:** a continuous improvement approach to enable the uninterrupted renewal of the Mercialys retail offering and to consolidate its outperformance.

Financial resources

Given that the real estate business is capital intensive by definition, Mercialys resorts to significant financial resources to develop its strategy. The capital resources used by the Company are diversified and raised both on the bond market and directly from banks and financial institutions. Apart from its drawn debt, Mercialys always has unused credit lines available and therefore a comfortable level of liquidity. Thanks to this balanced and responsible financial policy, Mercialys has a moderate loan to value ratio and competitive finance costs.

Mercialys is rated BBB / stable outlook by Standard & Poor's.

FUNDING AT END-2017



38%
of participants
in teleworking

45%
of employees
work on site

1.9%
of average cost
of drawn debt

3.7 years
of average maturity
of drawn debt

39.9%
LTV
(excl. transfer taxes)⁽¹⁾

5.2 x
ICR⁽²⁾

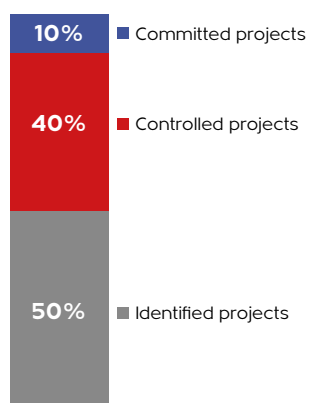


The *G La Galerie* concept in Besançon Chateaufarine.

(1) Loan To Value = net financial debt / (market value of the portfolio excluding transfer taxes + market value of investments in associates).

(2) Interest Coverage Ratio = EBITDA / net finance costs.

Euro 825 million
of development projects over the 2018 - 2024 period



Land resources

Mercialys also uses the many land resources at its disposal. First, thanks to the existing reserves of land at its sites, mainly locations in particularly attractive regions from an economic and demographic viewpoint, where it can plan extension projects. Mercialis' assets, located historically on the outskirts, are in fact often caught up by the development of dynamic urban areas with interesting property and commercial development opportunities. Second, the land reserves and projects that it can acquire off-market, at extremely competitive capitalization rates, from the Casino Guichard-Perrachon group, under the Partnership agreement existing between the two companies.

Social and societal resources

As part of its real estate developments, Mercialis collaborates with local authorities, institutions and economic partners in order to make its local shopping centers part of long-term urban policy and to develop partnerships with national and international retail chains as well as independent retailers. In this sense, it

uses corporate and social resources. Through its strategy, Mercialis positions itself as a genuine partner of its tenant retailers, to whom it aims to provide not only tailored and modular retail spaces, but also an ecosystem of services combined with a unique identity, at the service of end clients. Finally, Mercialis is also a local stakeholder for visitors, more than half of whom visit its centers more than once a week. In this respect, it pays special attention to operational excellence, the continuous improvement of the commercial offer and its regular renewal.

Environmental resources

The use of land is the main natural capital identified as necessary to the Mercialis business model. However, the Company has a limited direct use of natural capital as a resource, as Mercialis does not transform farmland nor greenfields, all its project being held on already existing property assets (brownfield).



Develop local employment.

A VALUE-CREATING VIRTUOUS CIRCLE THROUGHOUT THE REAL ESTATE CYCLE

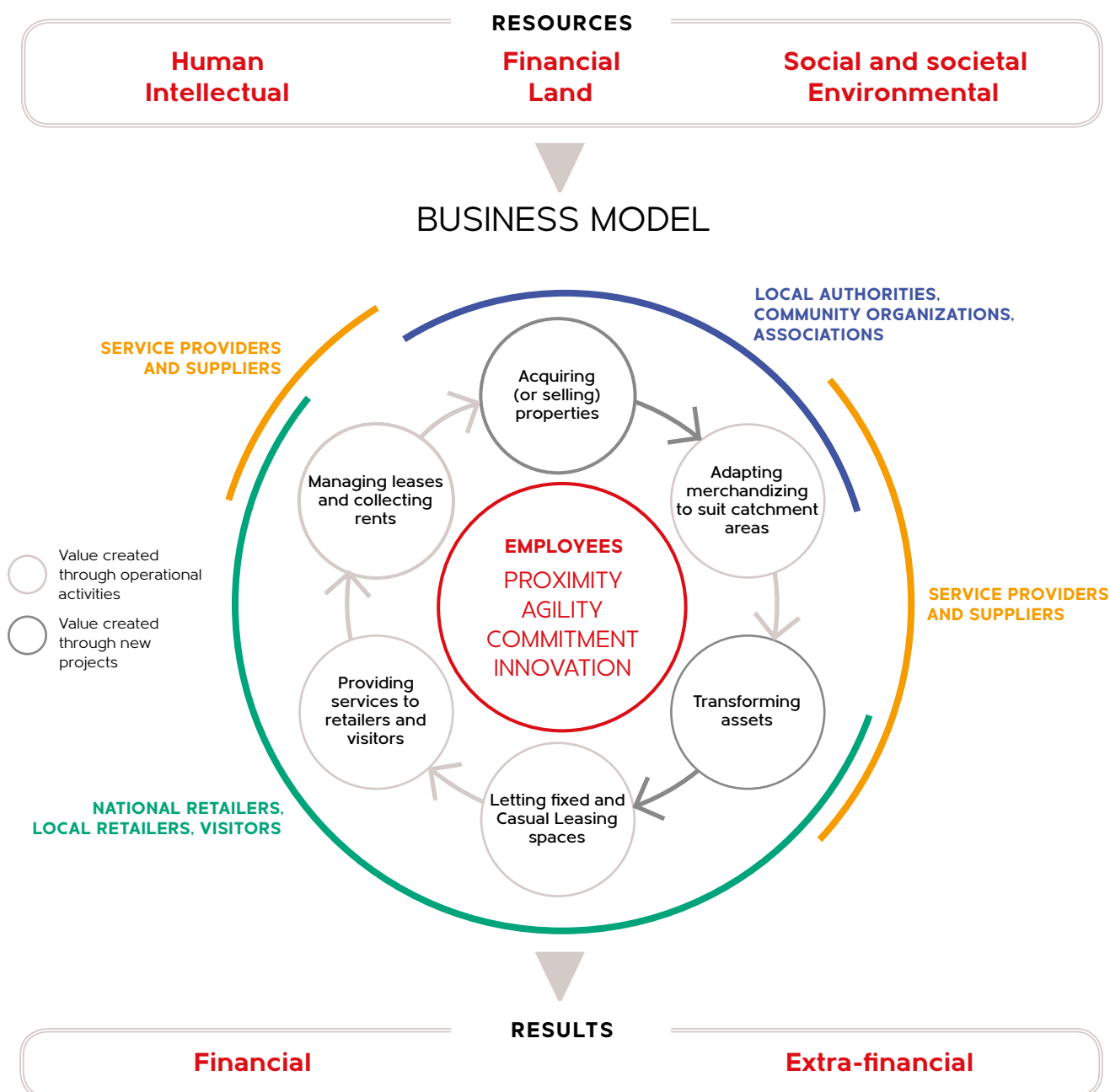
The Mercialys business model is based on a large portfolio of sites scattered throughout France, on which the Group simultaneously conducts value-creating development and operation activities.

This model primarily relies on the Company's skill in acquiring, selling and developing land areas. It continues with the ability of Mercialys to thoroughly understand the economic environment of its shopping centers, to design a locally balanced, adapted and attractive retail offer.

This know-how is supplemented by the capacity of teams to physically transform the assets and to let fixed and Casual Leasing spaces so as to provide customers with a continually renewed offer that truly reflects Mercialys "convenience DNA".

Throughout the period of their on-site presence, Mercialys then supplies services for the retail chains (and their end customers), assists them in their business, and supports their development, while ensuring sound management of its leases.

The income generated by the Company is used to re-initiate this virtuous circle of acquisitions and improvement of commercial spaces and assets, at the service of all stakeholders



CREATION OF SUSTAINABLE AND SHARED FINANCIAL AND EXTRA-FINANCIAL VALUE

Mercialys' performance levels are monitored daily using several key performance indicators, and produce excellent financial and extra-financial results that last over time. This long-lasting value creation is widely shared with all Mercialys stakeholders.



OPERATIONAL PERFORMANCE

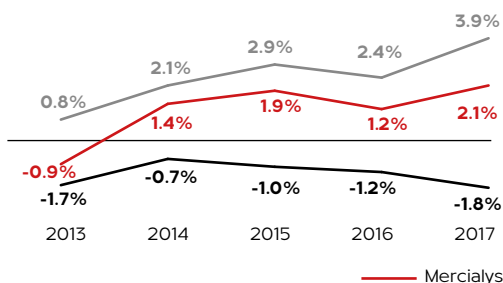
The operational performance of Mercialys centers is assessed first of all through their **footfall**, meaning the number of visitors counted at the entrance of shopping centers on all of the Company's major centers and in leading neighborhood shopping centers. The **sales generated by the retailers** of these centers is the second tracked management indicator, in order to monitor the attractiveness of sites. It is also a barometer of the operational performance of the retail chains and therefore of the financial strength of the tenants. The monitoring of the **occupancy cost ratio**⁽¹⁾ borne by the retailers in the centers is another resource, used for assessing the weight of the real estate cost in their operating accounts and by extension the sustainability of the rents payable. Finally, the current financial **vacancy rate** completes the key indicators used to assess the operational management of the centers.

(1) Ratio between rent and service charges paid by retailers and their sales revenue.

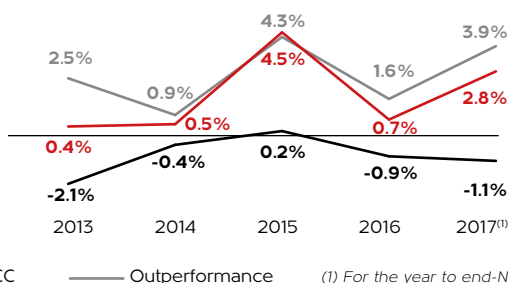
IN 2017

The operational excellence of Mercialys enabled its centers, once again, to outperform the indexes of the French council of shopping centers (CNCC) in 2017, both in footfall and in retailers' sales. This robust performance over a prolonged period of time reflects the expertise of the management teams, the relevance of investment decisions and the intrinsic quality of the assets portfolio, which confirms the long-term sustainability of the business model.

CHANGE IN SHOPPING CENTERS FOOTFALL

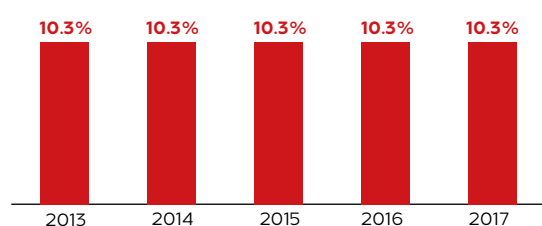


CHANGE IN RETAILERS' SALES

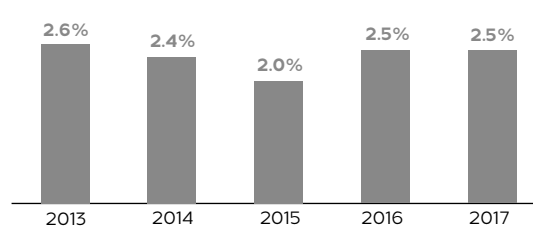


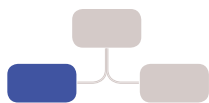
(1) For the year to end-November 2017.

CHANGE IN OCCUPANCY COST RATIO



CHANGE IN CURRENT FINANCIAL VACANCY RATE





FINANCIAL PERFORMANCE

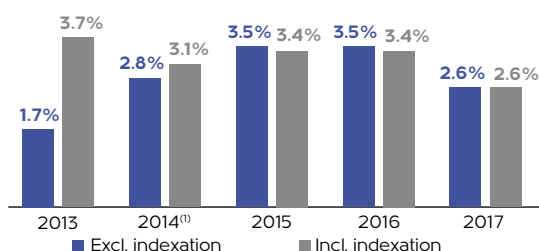
Financial performance is mainly assessed through the **organic growth** in rents, which measures the intrinsic growth in the Company's revenues, notably excluding any impact of acquisitions and disposals. The **EPRA cost ratio** is used to assess the efficiency of operational value creation. Finally, the **Funds from operations (FFO)** is used to assess the change in Mercialis recurring income.

The residual underlying value of Mercialis' assets, after repaying its creditors, is analyzed by means of the **Net asset value (NAV)**. The sustainability of the Company's debt is measured through the **LTV** and **ICR** ratios. Finally, Mercialis' shareholders receive a high **dividend yield**, since 95% of the recurring corporate income and 60% of capital gains are distributable in the form of dividends depending on the tax status applicable to French listed real estate companies (SIC), which Mercialis has enjoyed since 2005.

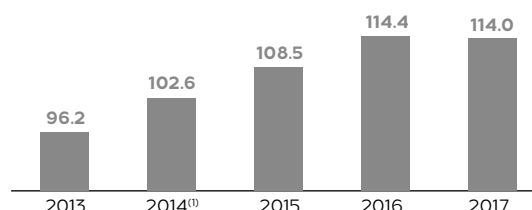
IN 2017

Mercialis posted a 13th consecutive year of organic growth in its invoiced rents, thereby confirming a proven capacity to adapt its assets over time. Once again, the results generated were excellent, allowing for the revaluation of the property portfolio, the maintenance of a balanced financial structure and an attractive dividend return.

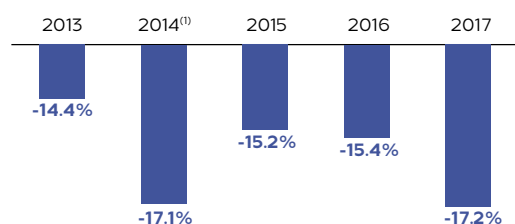
CHANGE IN THE ORGANIC GROWTH RATE OF INVOICED RENTS



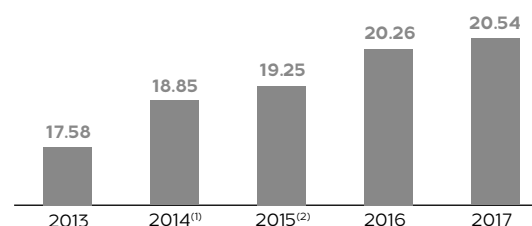
CHANGE IN FUNDS FROM OPERATIONS (FFO IN MILLIONS OF EUROS)



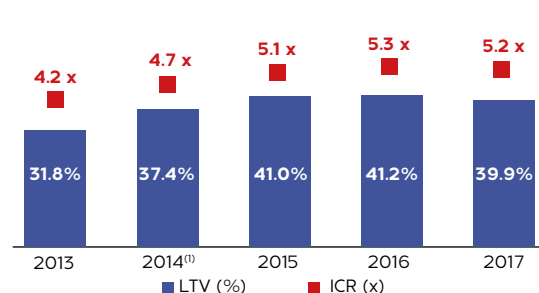
CHANGE IN EPRA COST RATIO



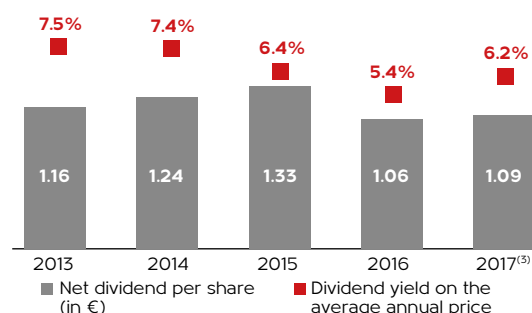
CHANGE IN EPRA NNNAV (IN EURO PER SHARE)



CHANGE IN LTV (EXCLUDING TRANSFER TAXES) AND ICR



CHANGE IN THE DIVIDEND YIELD



(1) Restated in 2015 following the retrospective application of the interpretation of IFRIC 21.

(2) Revalued compared to the publication on December 31, 2015 following a review of the calculation methodology.

(3) Subject to the approval by the Annual General Meeting to be held on April 26, 2018.



EXTRA-FINANCIAL PERFORMANCE

The energy performance of Mercialys centers is measured by the **areal energy intensity** (kWh/m²).

Carbon intensity and **renewable energy generation** are used respectively to measure the Company's impact on climate change and its contribution to energy transition.

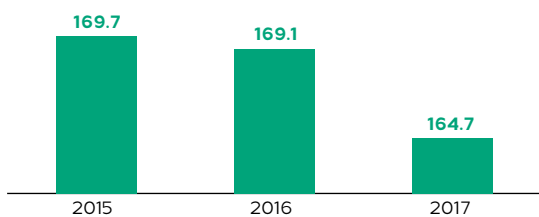
The systematic addition of environmental clauses to newly signed leases demonstrates the cooperation between Mercialys and its retailers on CSR issues.

In terms of human resources, performance appraisal is multi-dimensional. Mercialys is particularly attentive to **employee training** and the **diversity of its teams**.

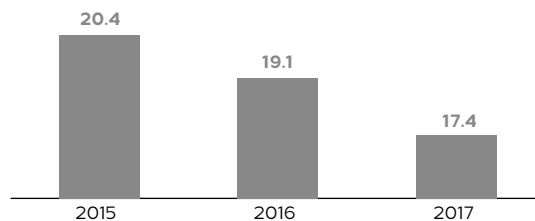
IN 2017

Thanks to its actions, Mercialys has reduced the areal energy intensity of its shopping centers by 3% between 2015 and 2017 and their carbon footprint per sq.m by 14%. At the same time, close to 52,000 MWh of green energy was generated on its sites in 2017, a symbol of the Company's contribution to the energy transition of territories.

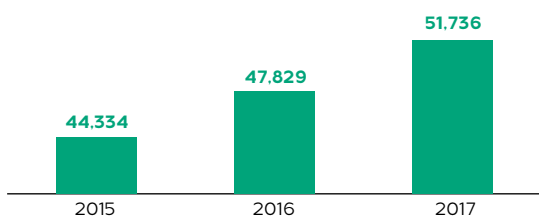
CHANGE OF THE ENERGY INTENSITY PER SQ.M
(IN kWh/SQ.M)



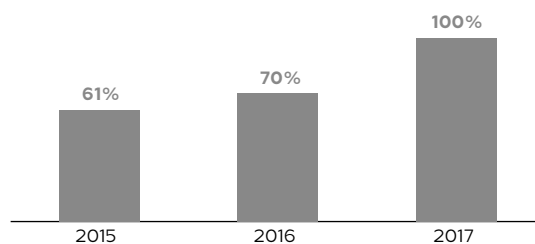
CHANGE IN CARBON INTENSITY PER SQ.M (IN CO₂/SQ.M)



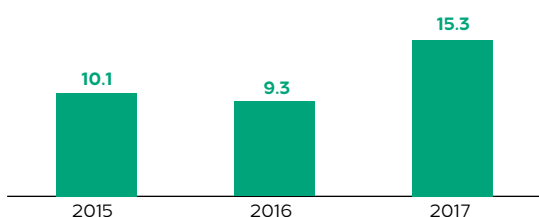
CHANGE IN RENEWABLE ENERGY GENERATION (IN MWh)



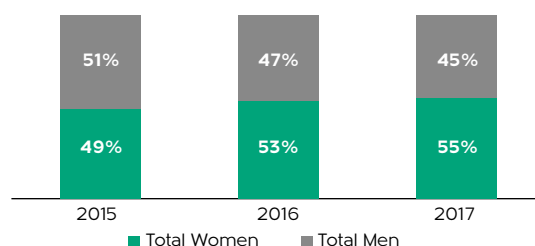
CHANGE IN THE PERCENTAGE OF LEASES SIGNED COVERED
BY AN ENVIRONMENTAL CLAUSE



CHANGE IN THE AVERAGE NUMBER OF TRAINING HOURS
PER EMPLOYEE

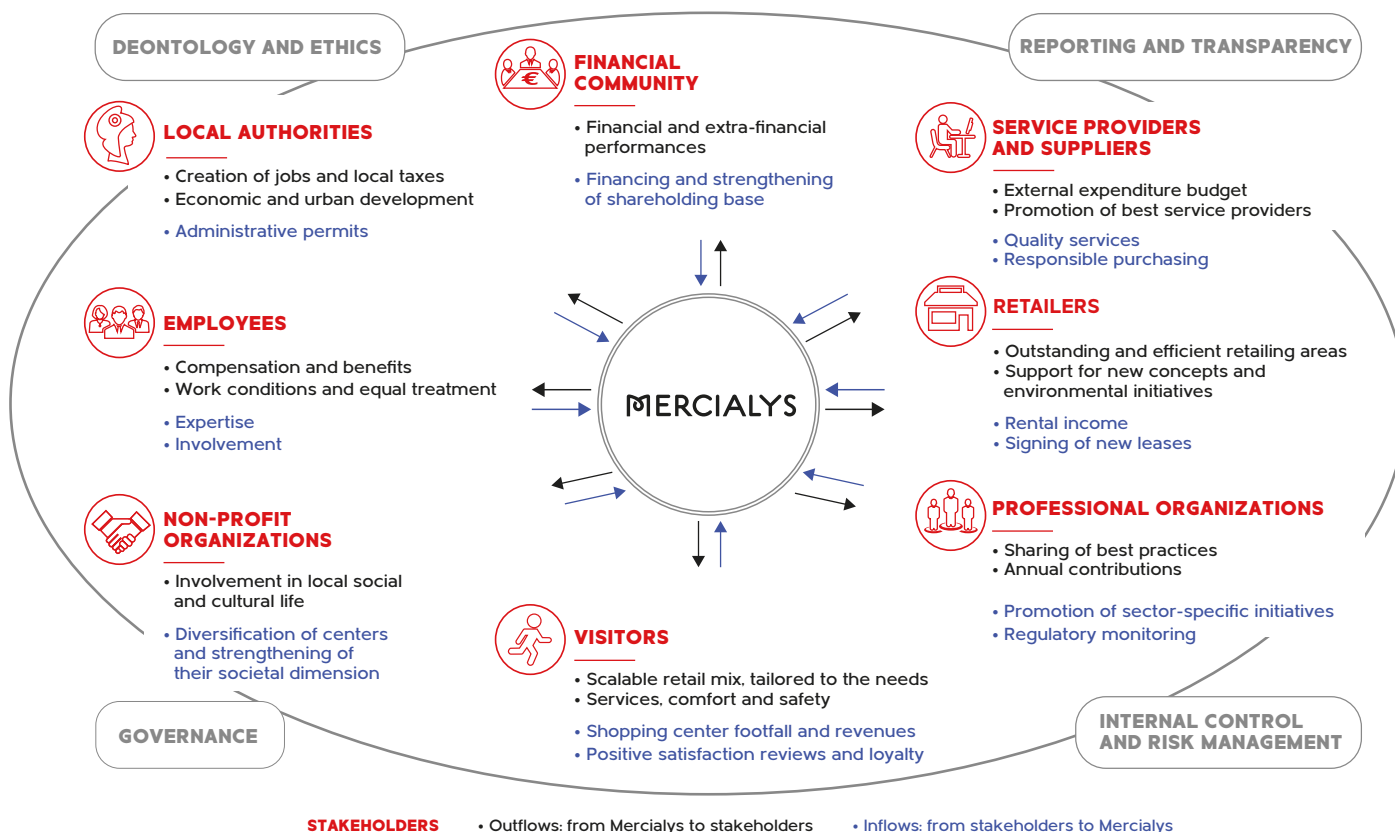


CHANGE IN THE DISTRIBUTION OF WORKFORCE BY GENDER



SHARING WITH STAKEHOLDERS

Mercialys' excellent performance is made possible by and beneficial to all stakeholders. This is reflected by numerous exchanges and both financial and extra-financial value creation inflows and outflows.

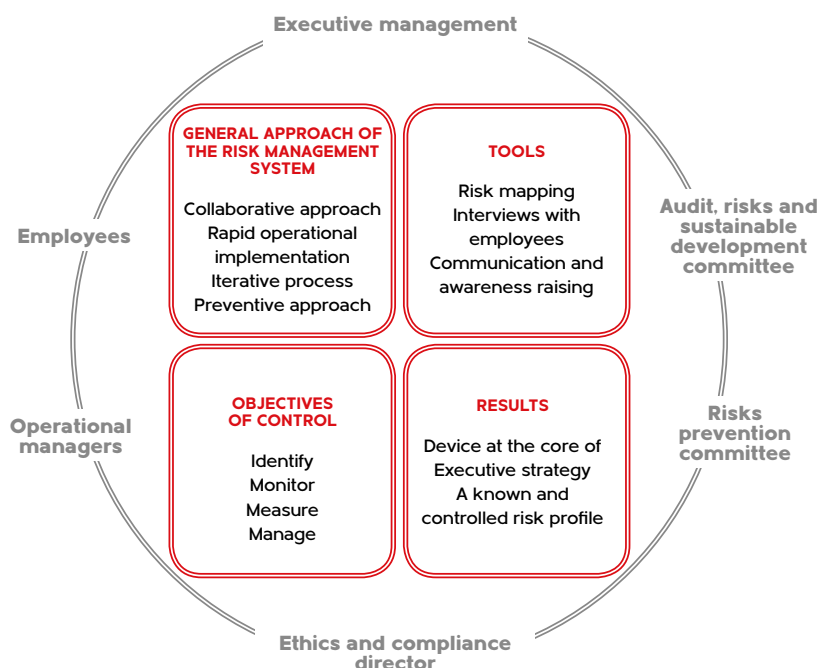


CONTROLLED RISK PROFILE

The entire Mercialys risk management and internal control system is aimed at ensuring the achievement of the objectives set by the executives without jeopardizing the future of the structure, and ensuring compliance with professional ethics and standards.

The system is organized around a Risks prevention committee, which reports to Executive management. The key management tool used by the Committee is the risk mapping, which breaks down Mercialys' exposure to risks into different families and assigns a score to each one of them depending on their impact and their probability of occurring.

As part of the risk prevention program relating to ethics and compliance, Mercialys has also appointed an Ethics and compliance director and developed a specific mapping. The director is a member of the Risks prevention committee and also serves as the Company's Ethics officer. His work is based on the Company's Charter of ethics and code of business conduct that can be easily accessed in French and English on the corporate website: www.mercialys.com.



GOVERNANCE AT THE SERVICE OF OUTPERFORMANCE

Mercialys' continual out-performance is explained by an organization fully devoted to the pursuit of

short, medium and long term operational excellence. Mercialys' strategy is indeed driven by management bodies aligned with the highest international standards. This high level of exigency also materializes in the objectives set for the Company's executives and associated compensations. This dynamic is supported by a stable, diversified and balanced shareholding structure.

MANAGEMENT BODIES ALIGNED WITH THE BEST STANDARDS

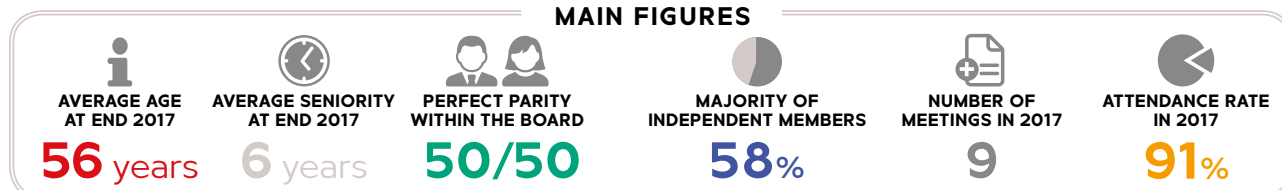
BOARD OF DIRECTORS

The Board of Directors went through changes in 2017 which led it to review its membership and enabled it to further consolidate the Company's excellent practices, thereby strengthening particularly its capacity to develop its proactive and responsible strategy.

The departure of Bernard Bouloc, independent director, in October, replaced by Pascal Roque, female independent director, enabled Mercialys to continue increasing the female

presence on the Board, which now has perfect gender equality in addition to an excellent proportion of 58.3% independent directors. This composition guarantees balanced management and without conflict of interests for the Company's affairs, the total number of members (12) being considered appropriate with respect to the size and geographic exposure of Mercialys. It should be noted that Mercialys complies with all the recommendations of the AFEP-MEDEF code.

MAIN FIGURES



COMPOSITION AT DECEMBER 31, 2017



(1) Renewal of the directorship proposed to the 2018 Annual General Meeting.

(2) Ratification proposed to the 2018 Annual General Meeting.

With the co-option of Pascale Roque, Mercialys has also confirmed its strong commitment to diversify and to renewing the competencies of its Board of Directors, which is made up of a panel of experienced members and with proven expertise. This composition guarantees a professional and skilled approach to all the issues encountered by Mercialys, well beyond the retailing and real estate aspects, and is a source of innovation and strategic foresight.

BOARD MEMBERS' COMPETENCIES

	Real Estate Construction Planning	Research	Legal Human Resources	Finance Accounting	New technologies	Company management	Insurance	Retail Hospitality	Others ⁽¹⁾
Éric Le Gentil	✓		✓	✓		✓	✓		✓
Victoire Boissier	✓			✓		✓		✓	
Anne-Marie de Chalambert	✓			✓		✓	✓		
Élisabeth Cunin-Diéterlé	✓		✓	✓		✓			✓
Jacques Dumas	✓		✓	✓		✓		✓	
Antoine Giscard d'Estaing	✓			✓		✓		✓	
Marie-Christine Levet	✓		✓	✓	✓				
David Lubek	✓			✓		✓	✓	✓	
Ingrid Nappi-Choulet	✓	✓		✓					✓
Pascale Roque	✓		✓	✓		✓		✓	
Michel Savart	✓		✓	✓		✓		✓	
Bruno Servant	✓			✓			✓		✓

(1) IT, Health, CSR...

Note that Anne-Marie de Chalambert, whose directorship expires in April 2018, did not wish to renew her mandate. The appointment of a new female director, Dominique Dudan, will also be proposed at the 2018 Annual General Meeting.

SPECIALIZED COMMITTEES

The composition of the three specialized committees which assist the Board of Directors, namely the Audit, risks and sustainable development committee, the Appointments and compensation committee and the Investment committee, is based on the same logic. All chaired by independent directors, they endeavor to guarantee balanced representation, independence and expertise of their members, to achieve an objective and enlightened management of Mercialys and a long-term, distinctive strategy.

Audit, risks and sustainable development committee

► 4 members

- Mrs Marie-Christine Levet 
- Mr David Lubek
- Mrs Ingrid Nappi-Choulet
- Mrs Pascale Roque


► 75% independent directors

► 4 meetings in 2017

► 75% attendance

Appointments and compensation committee

► 5 members

- Mrs Élisabeth Cunin-Diéterlé 
- Mrs Victoire Boissier
- Mrs Anne-Marie de Chalambert
- Mr Jacques Dumas
- Mr Michel Savart

► 60% independent directors

► 5 meetings in 2017

► 96% attendance

Investment committee

► 5 members

- Mrs Anne-Marie de Chalambert 
- Mr Antoine Giscard d'Estaing
- Mr Éric Le Gentil
- Mr Michel Savart
- Mr Bruno Servant

► 40% independent directors

► 5 meetings in 2017

► 96% attendance

 : Chairman / Chairwoman of the Committee

MANAGEMENT COMMITTEE

The Mercialys Management Committee consists of a tight-knit team of nine members, enough to run the Company considering its activities. All the members of the Committee have an excellent understanding of the business and sectoral challenges of Mercialys. Their varied professional backgrounds and experiences offer opportunities for numerous exchanges and ideas, and their complementary competencies, combined with the versatility of each one of them, strengthens the Committee's organizational flexibility. The Management Committee meets once a month, at a frequency considered appropriate given the rhythms of Mercialys' activity. At December 31, 2017, its members included:

ÉRIC LE GENTIL
Chairman and Chief Executive Officer

VINCENT RAVAT
Chief Operating Officer

NICOLAS JOLY
Executive Vice-President

ÉLIZABETH BLAISE
Chief Financial Officer

FABRICE HAURANI
Director of Asset Management
Galleries

STÉPHANE VALLEZ
Letting and B2B Marketing Director

DIDIER JACQUEL
Operations Director

THIERRY AUGÉ
Human Resources Director

JULIE SAVARY
Marketing and Communication
Director

A MEASURED AND RESPONSIBLE COMPENSATION POLICY

In accordance with the recommendations of the AFEP-MEDEF Code, the compensation policy for Mercialys' executives is under control and aligned with the interests of shareholders. It is reviewed annually by the Board of Directors, after consultation with the Appointments and compensation committee.

The compensation structure of the two executive corporate officers, Éric Le Gentil, Chairman and Chief Executive Officer, and Vincent Ravat, Chief Operating Officer, comprises a fixed portion, an annual variable portion, and a long-term incentive portion in the form of a bonus share award.

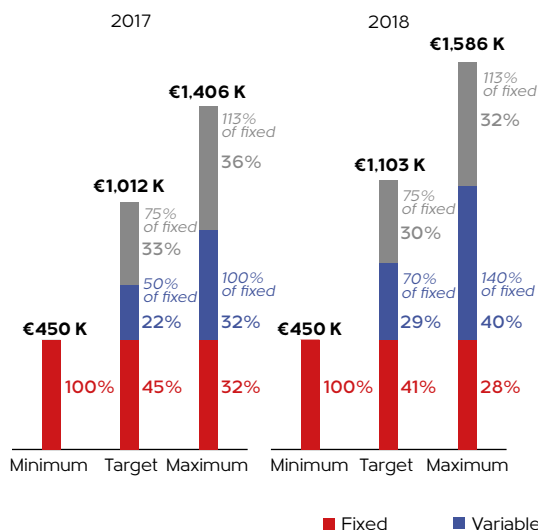
The level of fixed compensation paid at Mercialys to corporate officers is very reasonable in light of the excellent results generated every year by the Company, the experience and level of the executive corporate officers, and compared with industry practices. The fixed salary of the Chairman and Chief Executive Officer, set at Euro 450,000 on March 1, 2015 has not changed since that date and will remain the same in 2018. It ranks between the 1st quartile and the median of the market, which includes companies that are larger than Mercialys in size, or that are exposed to a higher number of geographic regions or business segments.

The criteria, objectives and thresholds used to determine the annual variable compensations are also logical and demanding. In 2017, they included 70% of quantitative criteria (individual and Group) and 30% of managerial criteria, allowing to assess the performance of executives on the basis of a large number of quantifiable elements. The 2018 compensation policy, which will be subject to the vote of the Annual General Meeting of April 26, 2018, will in particular see the portion of CSR criteria increased, in order to ensure coherent weighting between all of the Company's strategic development thrusts.

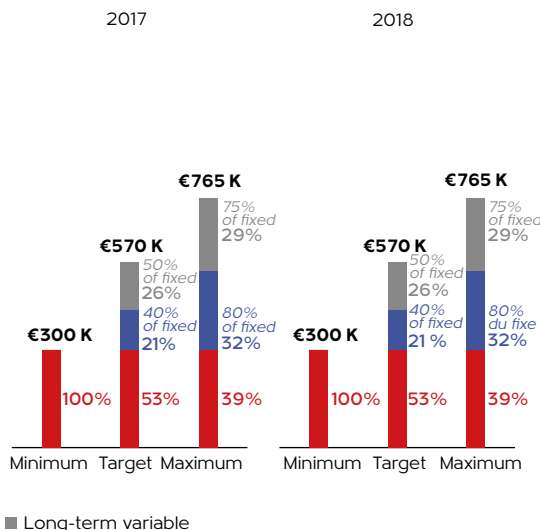
Finally, a multi-year long term incentive, in the form of a bonus share award, is designed to permanently associate executives with the Company's shareholding performance. In 2017, this share allotment was subject to the absolute and relative performance criteria of the Mercialys' share, dividend included (Total Shareholder Return) measured over three years. These shares are subject to a three year vesting period, with a condition of presence within the Company at the conclusion of these three years, as well as a two year holding period (of which at least 50% of the shares until termination of their corporate position). These time frames are in accordance with the recommendations of proxy agencies.

Note that Mercialys distributed no exceptional compensation to its executive corporate officers in 2017. The same policy will be proposed for 2018, as the Company considers that compensations should reward tangible results and are not discretionary.

COMPENSATION STRUCTURE FOR THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



COMPENSATION STRUCTURE FOR THE CHIEF OPERATING OFFICER



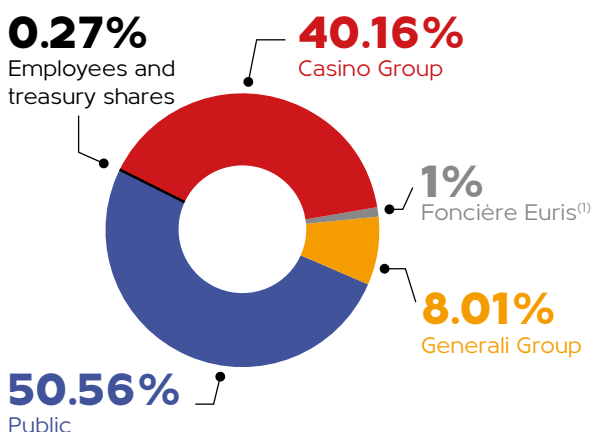
A STABLE, DIVERSIFIED AND BALANCED SHAREHOLDING

Mercialys has been traded on Euronext Paris, in compartment A, under the ticker MERY and ISIN FR0010241638 since its IPO on October 12, 2005. The Company is a member of SBF 120 and the Gaia SRI Index. The number of shares comprising its share capital at December 31, 2017 totaled 92,049,169 shares.

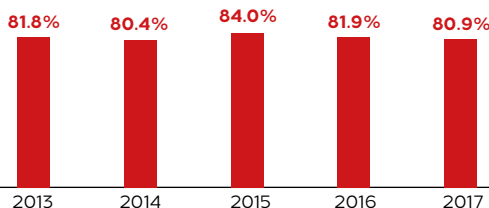
Mercialys' responsible strategy and sustainable outperformance are made possible by the nature of its shareholding. Indeed, the Company has a stable shareholding base, with in particular a large majority shareholder, which supports and encourages the development of actions that lead to long-term value creation. The presence of this industrial shareholder in Mercialys' capital is certainly a source of strength. It allows the Company to focus less on the short-term, improve its understanding of business and more specifically trade challenges, and give greater consideration to CSR and ethical issues and, more generally, to the expectations of all stakeholders.

Nevertheless, the Mercialys shareholding structure is still largely open, diversified and balanced. The 51% of free float provides significant liquidity to the Company's shares and the capacity to arrange significant positions. Especially since Mercialys guarantees equal treatment for all its shareholders, in accordance with the "one share, one vote" rule and facilitates voting at Annual General Meetings (electronically or on paper), and the submission of questions and motions. This leads to high voter participation each year at Annual General Meetings.

MERCIALYS SHAREHOLDING AT DECEMBER 31, 2017



HISTORY OF VOTER PARTICIPATION RATE AT ORDINARY GENERAL MEETINGS



(1) Foncière Euris also holds an option of 0.99% through a derivative instrument with physical settlement. In addition, with Rallye it is economically exposed on 4.5% with cash settlement only.

CONTINUING A SUSTAINABLE STRATEGY

Mercialys demonstrates an ambitious and proactive strategy that relies on its well-balanced governance and ownership, supported by three major compet-

itive advantages, and is implemented by skilled and dedicated teams. This approach has enabled the Company to adapt to the sectoral changes that continuously impact both real estate and retail, and to achieve excellent results for more than a decade.

A PROVEN IMPROVEMENT PROCESS

In 2017, in addition to its once again robust financial results, Mercialys distinguished itself by its excellent standards for transparency and by the remarkable progress achieved with its CSR strategy.

The Company has received several awards for the quality of its reporting, firstly from the EPRA⁽¹⁾ which awarded Mercialys two Gold Awards, one for its financial communications materials and the other for its extra-financial reporting materials. Mercialys also won the Best Improvement Award in 2017 at the eighth *Grands Prix de la Transparence*⁽²⁾ awards for transparent financial reporting. Mercialys moved up 80 places in one year to reach third position in the general ranking, showing remarkable progress and achieving the best position ever obtained by a real estate company since the awards were created.



At the same time, several extra-financial rating agencies significantly upgraded their assessment of the Company in 2017, recognizing the efforts made since 2015 by all Mercialys' teams involved in the roll-out of the *MERY'21* CSR strategy. In particular, Mercialys won awards from several of them in recognition of the remarkable progress made in sustainable development and the alignment of its strategy with the expectations of all its stakeholders.



At the 2017 SIEC⁽³⁾ award ceremony, the Company also received the CNCC's *Vivre Ensemble* (or Community Living) award in recognition of the environmental, social and societal approach of *La Galerie Cap Costières* shopping center, located in Nîmes. This asset, which received from the BRE⁽⁴⁾ a BREEAM In-Use⁽⁵⁾ "Outstanding" certification (the highest level) in 2015, is emblematic of the implementation of *MERY'21*. Indeed, the shopping center is the result of a strategy built on dialog with stakeholders and strict identification of the local sustainable development challenges.

Similarly, Mercialys also arranged for 21 of its shopping centers to be certified in 2017, enabling it to report a rate of 46% BREEAM In-Use certification for its portfolio (in value terms) at the end of December, compared with 28% the previous year and a target of 100% of the portfolio by 2020.



Finally, for the fourth year in a row, Mercialys leadership in gender equality was recognized by the Prize for the best feminization among the top 100 SBF 120 companies. These feminization rankings for the governing bodies of the major listed companies is organized every year by the French Secretary of State in charge of gender equality and Ethics & Boards.



On the strength of these awards, Mercialys faces the future with determination and the same confidence in its strategy and positioning as the leading convenience retail real estate company.

A CLEAR PATH FOR 2018

In 2018, Mercialys will continue with its initiatives to improve the commercial appeal of its sites, their footfall and the revenues generated by its retail chain tenants. The Company will continue, in particular, to execute its portfolio of value accretive projects.

As part of the balanced and responsible management of its liabilities, Mercialys will also finalize, in a still favorable credit market, the early refinancing of the Euro 480 million bond issue maturing in March 2019. The Company wants to maintain a strong financial profile, allowing it to keep its BBB financial rating.

The following objectives have been set for 2018:

- organic rental income growth of at least +2% above indexation relative to 2017;
- FFO per share up by at least +2% on 2017, excluding the impact of refinancing the bond maturing in 2019;
- a dividend of 85% to 95% of 2018 FFO, up at least +2% compared with 2017.

In the longer term, Mercialys' actions will continue to be guided by the quest to create value for itself and for all its stakeholders, always ensuring strict compliance with professional ethics and best practices, which is the hallmark of sustainable businesses.

Disclaimer

This integrated report is modeled on the reference framework established by the International Integrated Reporting Council (IIRC). It covers all the entities consolidated in the scope of Mercialys, and naturally contains forward-looking data and information.

This document contains certain statements that may be based on projections regarding future events, trends, projects or objectives. These projections include, by nature, identified and unidentified risks and uncertainties that could cause Mercialys' strategy and actual results to differ materially from the results anticipated in these statements.

Please refer to Mercialys Registration Document for the financial year ended December 31, 2017, found on the Company's website at www.mercialys.com, and more specifically to the Chapter 5 - Risk factors, for more details regarding certain significant factors, risks and uncertainties that may affect the Company's business.

Mercialys makes no commitment, in any form, to publish updates or adjustments to these forward-looking statements, nor to report new information, in case of new future events or any other circumstances that might cause these statements to be revised.

Financial Calendar



- **April 23, 2018:** First quarter activity after the market closes
- **April 26, 2018:** Annual General Meeting
- **April 30, 2018:** Ex-dividend date
- **May 03, 2018:** Dividend payment date
- **July 25, 2018:** Half-year earnings after the market closes
- **July 26, 2018:** Financial information meeting
- **October 17, 2018:** Activity at end-September after the market closes

(1) The European Public Real Estate Association.

(2) The Grands Prix de la Transparence awards are given to French companies listed on the SBF 120 for their regulatory reporting judged on the basis of 150 criteria regarding their main financial communication materials.

(3) Salon du Retail et de l'Immobilier Commercial: the leading European real estate trade show. It is held annually.

(4) BRE Environmental Assessment Method: the world's leading, and most widely used, environmental assessment method for buildings.

(5) Building Research Establishment: a private British building research organization that, in particular, develops methods for assessing the environmental performance of buildings.



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