€1,102M
Net financial debt

2%
Average cost of drawn debt

5.1x
EBITDA/Net finance costs

5

RISK FACTORS

5.1 Organization of internal control and risk management

Mercialys' internal control and risk management systems presented in this chapter were developed in accordance with the reference framework set by the French Financial Markets Authority (AMF) [1]. The main due diligence carried out before writing the paragraphs below involved circulating AMF questionnaires and internal questionnaires or conducting in-house discussions to identify all the 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, analysis and handling, and 3/continuous management of this system.

They are based in particular on:

- a specific organization dedicated to risk management *via* the existence of a Risks Prevention Committee;
- internal dissemination of procedures, documentation and operating methods deemed to be areas for improvement;
- permanent monitoring *via* assessment (depending on the occurrence and impact) of the risks leading to the regular updating of the associated mapping.

These systems are an integral part of Mercialys' operational and strategic management. Their aim is to protect the Company against several families of identified risks, ensuring the Company's controlled and sustainable development. They also aim to identify the emergence of new risks and to plan for their coverage and management. In the event of a crisis, such as the Covid-19 pandemic which led to severe national restrictions in 2020 and 2021, these systems make it possible to immediately engage stakeholders and set up procedures that are key to ensuring business continuity.

5.1.1 Internal control and risk management bodies

Mercialys' risk management and internal control systems, as described in this chapter, apply to Mercialys and its controlled subsidiaries within the meaning of the French Commercial Code, in accordance with the AMF reference framework[1]. As indicated by the AMF, the systems are adapted to the specific characteristics of each company and the relationships between the parent company and its subsidiaries.

The internal control and risk management system is built on three lines of control, which operated and acted efficiently during the health crisis in 2020 and 2021.

5.1.1.1 Audit, Risks and Sustainable Development Committee (ARSDC)

Mercialys Senior Management defines, designs and implements internal control and risk management systems.

The Board of Directors is informed of the main characteristics of the systems put in place.

For this, it relies on the Audit, Risks and Sustainable Development Committee. The Committee checks that the Company has appropriate and structured resources in place to identify, detect and prevent risks, anomalies and irregularities in the management of its business. Among other duties, this Committee closely and regularly monitors the internal control and risk management systems.

It accordingly issues observations and recommendations on audit work, and carries out or commissions any analyses and reviews that it deems appropriate on any internal control and risk management issues.

The Audit, Risks and Sustainable Development Committee is notably responsible for overseeing the process of preparing financial information. In 2020 and 2021, the Committee was called upon, in particular, to help manage risks heightened by the Covid-19 crisis. An Audit, Risks and Sustainable Development Committee Charter, available on the Company's website, presents its responsibilities.

Details on the composition, duties and accomplishments of the Audit, Risks and Sustainable Development Committee are presented in chapter 4, § 4.1.4.1, p. 257 and 258.

5.1.1.2 Risks Prevention Committee (RPC)

A Risks Prevention Committee was set up in 2016 to specifically address the increased demand for risk monitoring by regulators. This Committee aims to secure Mercialys' operational and financial processes, offering increased visibility on the handling of its risks.

The Risks Prevention Committee's main mission is to manage the risk control system through a mapping process. It is primarily tasked to:

- identify the risks run by Mercialys;
- identify and assess existing procedures;
- implement a plan to supplement and optimize risk handling, and to organize the oversight of the proper application of procedures.

This Committee comprises the Chief Executive Officer, the Deputy Chief Executive Officer and Chief Financial Officer, the Corporate Secretary, the Head of Internal Control, the Head of CSR and the Director of Compliance and Ethics. Through its members, the Committee benefits from the expert position of each manager and can optimize its approach by having direct access to the Departments.

In addition, the Committee's direct reporting to Senior Management strengthens the link between Mercialys' strategy and risk management. This close link proved invaluable in light of health and economic instability in 2020 and 2021. It facilitated ongoing discussions between players in the risk management process and Senior Management, favoring rapid decision-making for the roll-out of on-site actions and head office initiatives.

(1) *AMF – Reference framework on risk management and internal control systems – July 22, 2010.*

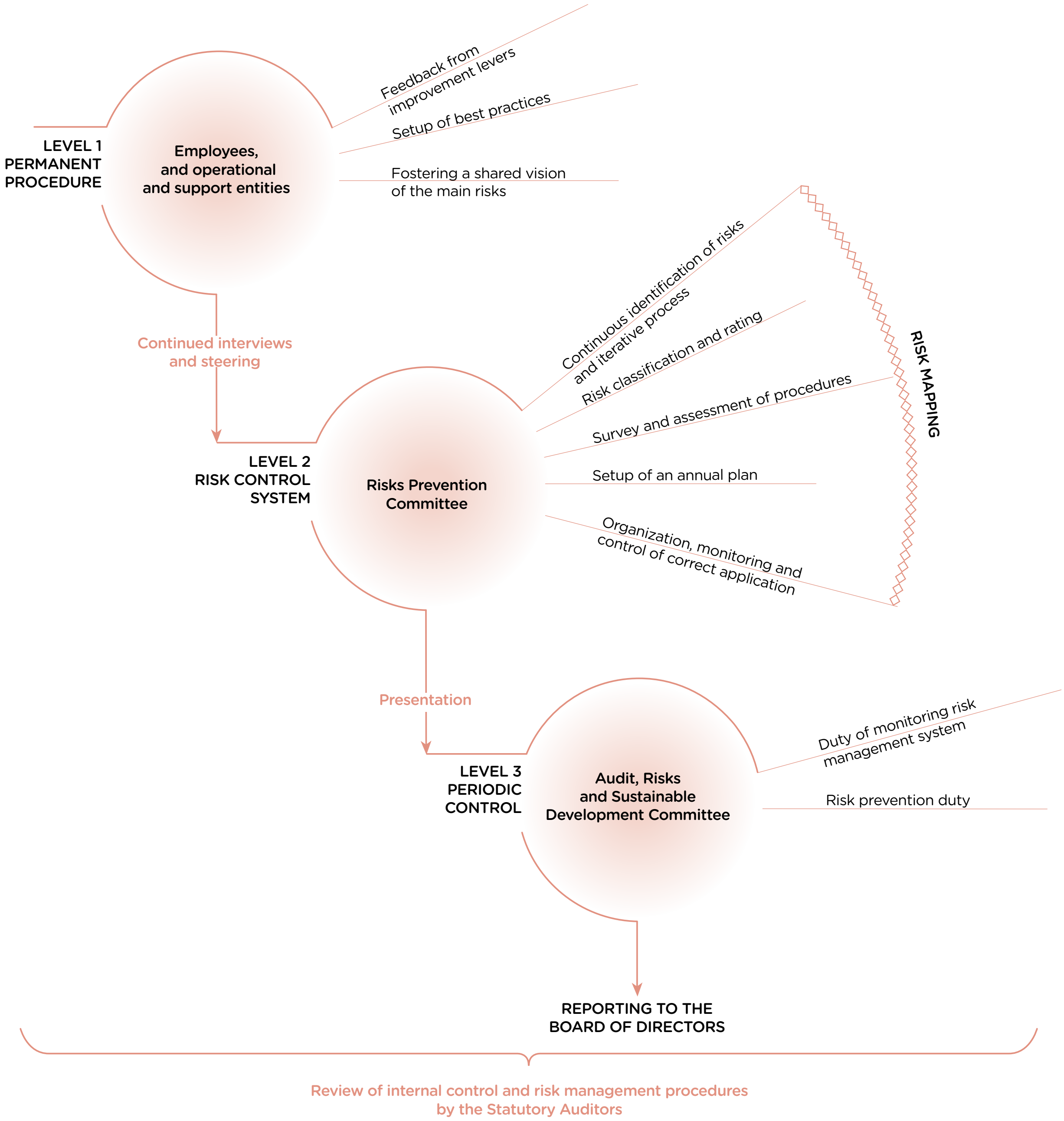
The Risks Prevention Committee meets once a quarter and reports on its work to the Audit, Risks and Sustainable Development Committee at least once a year. The Management Committee is also kept informed through regular presentations.

5.1.1.3 Employees

Employees and middle managers represent the third line in Mercialys' internal control and risk management system. They are tasked with making the internal control and risk management systems work by improving them continuously.

To this end, Mercialys ensures that all its employees are involved in the risk management process by running occasional presentations, sending out communications and informing on Risks Prevention Committee operations. Heads of Department and/or employees hold regular meetings with Risks Prevention Committee members on specific topics.

Employees also perform a preventative role through frequent discussions with the Head of Internal Control regarding potential improvements or the identification of new risks.



5.1.2 General principles of internal control and risk management

5.1.2.1 Approach and prerequisite

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

This was particularly true in 2020 and 2021 with the Covid-19 pandemic which led to unprecedented measures in France to combat the spread of the virus: repeated lockdowns of the population and closures of non-essential shops, widespread teleworking, social distancing measures, etc.

Mercialys is, however, working to minimize these risks and their effects. All its internal control and risk management systems are 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 prerequisites:

- setting and communicating the Company's strategic and financial objectives. Mercialys' strategic and financial objectives are set as part of a three-year plan, which is reviewed in full every year. The definition and updating of this plan are led by Mercialys' Senior Management, which is responsible for maintaining the Company's financial equilibrium, particularly in terms of investments and the allocation of financial resources, as well as monitoring the implementation of the plan;
- rules of conduct and integrity that are known and respected by everyone. Mercialys has an code of ethics and a code of conduct, as well as a Responsible Lobbying Charter, which formalizes its commitments in terms of professional ethics and the resulting guidelines for conduct to be followed by all its employees daily. The code of ethics and code of conduct are regularly enhanced and updated, and are signed by employees to reconfirm their commitment to respecting their principles. All employees also receive training each year on specific ethics-related topics. Lastly, a frame of reference for managerial attitudes and conduct has also been set up and distributed to all the Company's managers to guide their actions each day.

5.1.2.2 Operating procedures for internal control and risk management systems

	Internal control	Risk management
Definition	The Company is responsible for defining and implementing the internal control system, which contributes to the control of its business activities, the efficiency of its operations and the effective use of its resources. It is also designed to take appropriate account of the Company's significant risks that could prevent it from achieving its objectives.	Mercialys' risk management system consists of a set of resources, practices, procedures and actions relevant to the nature of the Company. It is designed to enable executives to eliminate these risks or to keep them at a level acceptable to the Company.
Objectives	Internal control is specifically intended to ensure: • legal and regulatory compliance; • application of the instructions and guidelines given by Senior Management; • correct implementation of procedures, particularly those contributing to the safeguarding of assets; • reliability of financial information.	Risk management is specifically intended to: • create and protect the Company's value, assets and reputation; • secure the Company's decision-making and processes in order to help it achieve its objectives; • help ensure that actions are aligned with the Company's values; • engage employees around a shared vision of the main risks.

	Internal control	Risk management
Organizational framework	Mercialys' internal control organization complies with the following principles: **1. Responsibility and powers:** each Department head is responsible for organizing its structure and functions to ensure that the separation of duties is respected. An internal organization chart sets out this organizational structure. Delegations of signature are requested by the proxy where a signature cannot be obtained for a specific transaction. Delegations of powers are managed and monitored by the Human Resources Department, liaising with the Casino group Corporate Legal Department, which operates in line with the Service agreement between Mercialys and the Casino group until the end of 2021. Following the insourcing of this function, the Mercialys Corporate Legal Department will be involved from 2022. **2. Human resources management policy:** Mercialys' human resources policy aims to ensure the effective allocation of its human capital through structured recruitment and career management policies in order to enable it to achieve the objectives set. The Company's Human Resources Department is responsible for its administrative management. Mercialys' training policies are focused in particular on management, personal development, human resources and the Company's business activities, as well as ethics and compliance. In order to ensure employee motivation, the Company's compensation policy is based on a market salary benchmark analysis and aligned with the principles of internal fairness (the equity ratios are shown in chapter 4, § 4.2.2.1, p. 274 and 275). In addition, every year, managers are assessed on their managerial attitudes and behaviors in line with a frame of reference used as part of the annual performance review. It partly determines the amount of their variable compensation. Lastly, a satisfaction survey on the environment and the organization of work within the Company is carried out on a regular basis. **3. Information systems:** In order to ensure the security of its data, Mercialys manages its IT network through an internal IT Department and dedicated service providers. Data are also managed by the Casino group in connection with the rental management and technical and administrative management agreements, as well as the accounting services provided. The Casino group uses integrated management software and aligns itself with IT industry standards and processes to ensure that the information systems are adapted to the Company's current and future objectives. They also make it possible to address issues such as physical security, the retention of archived information and the continuity of operations.	Mercialys' Senior Management and managerial staff are responsible for identifying the specific risks involved with its activities and analyzing their level in order to manage them effectively. The Risks Prevention Committee meets on a quarterly basis. Its activities aim to reduce the risks identified by managers that could prevent the Company from achieving its objectives. A special team is on standby should a particular crisis arise. This unit is made up of employees and members of Mercialys' Senior Management, as well as key staff and Senior Management representatives from the rental management company. This crisis unit was mobilized several times in 2020 and 2021, demonstrating its responsiveness and the relevance of its composition. During the 2021 fiscal year, Mercialys renewed its insurance policies for property damage, professional liability and the environment. These policies were previously included in the Casino group's centralized policies, as part of the service agreement between the two groups. Mercialys also has insurance policies to cover cyber risks, fraud and the civil liability of corporate officers. The main risks insured and the corresponding amounts are presented in the table below. Lastly, Mercialys controls all the service quality-related functions delegated as part of the Service agreement and updates its risk mapping on an annual basis.
Internal distribution of information	Managers or functional or operational management are responsible for distributing information. Procedures that are specific to Mercialys' activities are distributed on a regular basis to the relevant Company employees and to those concerned by subcontracting activities under the Service agreement. The timeframes for distributing information within Mercialys allow sufficient time for an effective and appropriate response. The production of reliable information on time is supported by information systems that are organized to make it possible to optimize activities for the stakeholders concerned.	

	Internal control	Risk management
Monitoring	Internal control and risk management are monitored under the authority of Senior Management and overseen by several bodies. Senior Management is regularly informed of potential failings in the internal control and risk management system, and its suitability for activities. It ensures that the necessary corrective measures are taken. The Company's Chief Financial Officer is responsible for monitoring Mercialys' internal control and risk management system, as well as the internal control system for the activities carried out by the Casino group for Mercialys. Managers perform a supervision role on a day-to-day basis to monitor the effective implementation of the internal control and risk management system. They are responsible for implementing corrective action plans and reporting any major failings to Senior Management.	

Main risks insured and amounts covered

The levels of insurance cover are adjusted to take into account the loss ratio, insurance market constraints or changes in Mercialys' risks. On the date of this Universal Registration Document, no major and/or significant claims had been recorded that were likely to change the current terms of insurance cover and the amounts of insurance premiums and/or the continuation of self-insurance. During 2021, in line with the insourcing of insurance services, Mercialys set up its own insurance policies for most risks. The contractual limits on compensation have been tailored to the levels of risks identified for the Group's portfolio and activities.

Property damage and/or operating loss insurance

The risks covered include property damage and/or operating losses due to fire, explosion, malicious act, collapse, natural event, natural disaster, political "violence" or rental liability within the limits negotiated on the insurance markets.

Main risks insured and amounts *(in millions of euros)*	
Fire, explosion, lightning (direct damage and subsequent operating losses) 36-month compensation period for loss of rental income or loss of use and 24 months for operating losses	115
Building collapse	115
Social unrest, riots	115
Terrorist attacks/Acts of terrorism	115
Natural disasters and events (wind or hail limit of Euro 10 million for sites in Reunion Island)	115
Excluding floods and natural disasters and ground movements (limit of Euro 10 million for sites in Reunion Island)	30
Neighbor/third-party claims	115
Tenant/occupant claims	115
Loss of rental income/Loss of use	115

Third-party liability

This mainly covers personal injury, property damage and/or financial losses caused to third parties through negligence, errors or omissions in services provided by Mercialys or in the operation of its business, subject to a maximum limit of Euro 20 million per claim per year. A specific insurance policy also covers environmental risks for a maximum of Euro 10 million.

Building insurance

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

The cover limits are consistent with construction industry practices and insurance requirements.

Cyber and fraud insurance

These insurance policies are now split and cover, respectively:

- for the cyber policy: specific risks of an IT nature or origin, in particular malicious acts by third parties and data loss, up to Euro 5 million;
- for the fraud policy: the risks of fraud to which Mercialys could be exposed, up to Euro 3 million, as well as its customers up to Euro 1.5 million.

5.1.3 Specific aspects of internal control relating to published accounting and financial information

Accounting and financial internal control is designed to ensure:

- compliance of the accounting and financial information published with the rules applicable;
- application of the instructions and policies set out by Senior Management regarding this information;
- reliability of the information distributed and used in-house for oversight or control purposes, whenever this information is used to produce the accounting and financial information published;
- reliability of the financial statements published and other information provided to the market;
- preservation of assets;
- prevention and detection of accounting and financial irregularities and fraud, insofar as possible.

The scope for accounting and financial internal control, as presented below, comprises the parent company Mercialys SA and the companies included in its consolidated accounts.

Mercialys uses the Casino group's accounting services to prepare its financial statements, in accordance with the Service agreement between the two groups.

5.1.3.1 Process for overseeing the accounting and financial organization

A. General organization

The Casino Real Estate Department shared accounting services center teams prepare the accounting and financial, separate and consolidated information published by Mercialys. This service is regulated by the Service agreement signed with the Casino group and is overseen by Mercialys' Administrative and Financial Department. This activity will be brought in-house by Mercialys from September 2022, *via* a dedicated accounting and consolidation team.

The Company's Audit, Risks and Sustainable Development Committee examines the annual and half-year financial statements and reviews the Statutory Auditors' conclusions on their work. It then issues an opinion to the Mercialys Board of Directors on the draft financial statements, which then approves said financial statements.

B. Application and control of accounting and tax rules

The arrangements put in place aim to ensure that the standards applied correspond to the regulations in force and are accessible to everyone involved in the process of preparing accounting and financial data.

The Casino group's Accounting Department monitors regulations, ensuring the understanding and anticipation of changes in accounting policy that may impact Mercialys' accounting standards, as part of the Service agreement in place until the end of August 2022, the date on which Mercialys will bring the accounting function in-house. From that date, the Company will rely on internal expertise and external consultants to ensure the proper application of accounting rules.

The impact of these changes on the financial statements and their presentation is assessed with Mercialys' Statutory Auditors.

In terms of taxation, analyses are performed on the tax position and at the time of specific transactions. These analyses are conducted by Mercialys with support from specialist external advisors. An external advisor conducts an annual tax review as well as work to monitor emerging developments in terms of legislation, legal precedents and regulations.

5.1.3.2 Processes supporting the preparation of published accounting and financial information

A. Identification of risks affecting the preparation of published accounting and financial information

Mercialys' Administrative and Financial Department is responsible for identifying risks affecting the preparation of the published accounting and financial information, and overseeing outsourced activities if applicable. It applies the principle for the separation of duties in the corresponding processes and positions the control activities in accordance with the level of risk.

B. Control activities aimed at ensuring the reliability of published accounting and financial information

Processes for the preparation and consolidation of accounting and financial information

The processes for producing accounting information and approving the financial statements are organized to ensure the quality of the accounting and financial information to be published. In addition, to produce information within short timeframes, early closing procedures are used with a view to securing the reliability of information.

Procedures have been put in place for closing the accounts, with the accounting information produced and controlled by the Casino group's accounting teams under the Service agreement and by Mercialys' Administrative and Financial Department. The accounting function will be brought in-house by Mercialys in September 2022.

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

In accordance with legal requirements, Mercialys has two Statutory Auditors, whose appointments were renewed in 2016. As part of their mission, they ensure 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 for the past accounting period, as well as the Company's financial position, assets and liabilities at year-end.

Mercialys' Administrative and Financial Department is in charge of liaising with external auditors. Procedures for appointing the Company's Statutory Auditors are organized in line with a process initiated and overseen by the Audit, Risks and Sustainable Development Committee. This organization complies with the recommendations of the AFEP/MEDEF Corporate Governance Code for listed companies and with European regulations (European regulation No. 537/2014 and Directive No. 2014/56), transposed into French law by the Order of March 17, 2016 and applicable since June 17, 2016.

Process for the management of external financial information

Mercialys' financial disclosures are based on compliance with the procedures set by the AMF, including the principle of equal treatment for shareholders. They aim to provide a clear view of the Company's strategy, business model and performance by distributing accurate, reliable and truthful information to the financial community.

More specifically, Mercialys adheres to the EPRA definition of operational, financial and extra-financial performance indicators [1], aligning itself with industry best practices and contributing to the comparability of results between the sector's various operators.

The latest version of the "EPRA Best Practices Recommendations Guidelines" can be found here: https://www.epra.com/finance/financial-reporting/guidelines.

And the "EPRA Sustainability Best Practices Recommendations Guidelines" here: https://www.epra.com/sustainability/sustainability-reporting/guidelines.

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

- the Universal Registration Document;
- the Half-Year financial report;
- the press releases on the Company's half-year and full-year results;
- the financial information meetings and conference calls (presentation of the half-year and full-year results);
- the press releases on business for the first and third quarters;
- the Annual General Meeting;
- relations with financial analysts, investors and the financial and general press through a Communication and Investor Relations Department.

5.2 Description and management of risks

5.2.1 Identification and classification of risks

On a recurring basis, Mercialys reviews the main risks that could have a material impact on its business activities, financial position or results. Risk management is integrated into the Company's decision-making and operational processes and feeds into the deployment of its strategy.

The Risks Prevention Committee identifies these risks on the basis of interviews with each of the Company's Departments, employees and service providers. The map prepared on this basis is presented to and approved by the Audit, Risks and Sustainable Development Committee, which ensures that all the risks are covered, monitored and managed.

The risk mapping is reviewed each year and may be modified to reflect the action plans put in place or the new risks identified. This iterative process makes it possible to integrate risks related to actual or potential changes, whether operational, regulatory or related to the dynamics of the retail real estate market.

5.2.1.1 Risk categories

Mercialys' Risks Prevention Committee has identified 51 risks, which it has broken down into categories in accordance with the ESMA guidelines [2]. The breakdown between the eight categories retained is presented in the following table, while noting that Mercialys does not use any subcategories.

	Number of risks
Risks related to the sector	3
Risks related to business activities	12
Risks related to the financial position	2
Risks related to internal control	15
Legal and regulatory risks	8
Governance risks	5
Environmental, social and societal risks	6
Risks related to financial operations underway	0

(1) EPRA: European Public Real Estate Association.
(2) ESMA: European Securities and Markets Authority.ESMA31-62-1293 "Guidelines on Risk Factors under the Prospectus Regulation".

5.2.1.2 Risk rating and prioritization

To ensure the pragmatic management and monitoring of its risks, Mercialys has rated them based on their priority. This prioritization system is based on a rating that includes the two dimensions from the risk mapping matrix, *i.e.* the risk's impact and its probability of occurrence.

The accuracy of these ratings was reassessed in 2021 notably through changes in the health and economic situation caused by the Covid-19 crisis. Its impact on the Company's priority risks involved is presented in detail for each risk and summarized in § 5.2.5, p. 340 and 341 of this chapter.

Impact

It measures the potential impact of a risk for the Company if it were to materialize. When it can be quantified, the impact is expressed as a percentage of Funds From Operations (FFO) or the Net Asset Value (NAV). When it cannot be quantified, it is assessed based on Mercialys' ability to continue rolling out its strategy and operations or in terms of reputational consequences. The impact is split into three levels: low, moderate and high.

Note that the assessment of the Company's environmental, social and societal risks is based on their materiality, after consultation with internal and external stakeholders, in line with the strategic CSR approach. The evaluation of Mercialys' other risks is based on internal stakeholders. In order to ensure consistency between these two methodologies, the Risks Prevention Committee rates the impact of environmental, social and societal risks on the basis of their reputational consequences, the rating level being directly taken from their positioning within the Company's materiality matrix.

	Low	Moderate	High
Change in FFO	Less than 1% of FFO	From 1% to 5% of FFO	More than 5% of FFO
Change in NAV	Less than 1% of NAV	From 1% to 5% of NAV	More than 5% of NAV
Implementation of the strategy and continuity of operations	Minor obstacles to the roll-out of the strategy and operations	Moderate obstacles to the roll-out of the strategy and operations	Major obstacles to the roll-out of the strategy and operations
Reputation	No media impact or impact on a limited number of stakeholders	Local media impact or impact on certain stakeholders	National media impact or impact on a high number of stakeholders

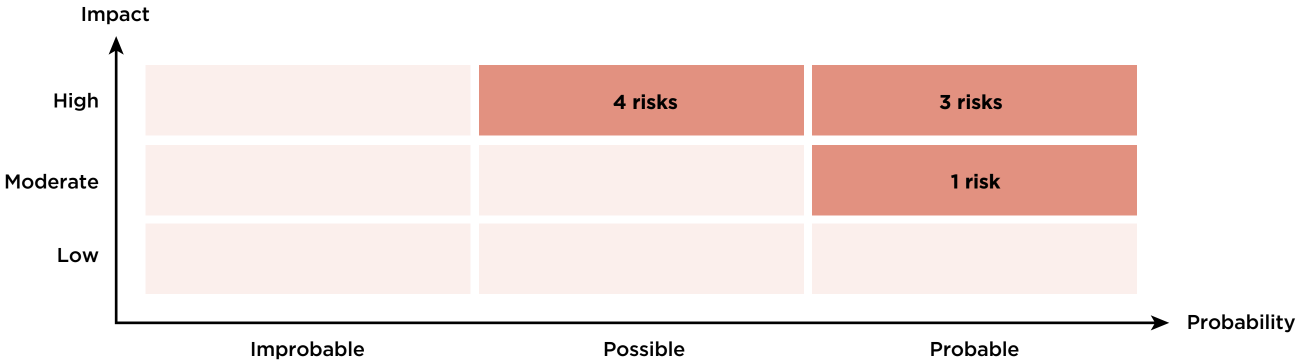
Probability

The probability is defined as the possibility of a risk occurring, at least once, over different timeframes. In other words, it assesses the plausibility of a risk-bearing event happening. The probability is split into three levels: improbable, possible and probable.

	Improbable	Possible	Probable
Probability of at least one occurrence of the risk	Within four to five years	Within two to three years	Within one year

The **priority risks** are those with:

- a “high” impact with a “probable” probability;
- a “high” impact with a “possible” probability;
- a “moderate” impact with a “probable” probability.



5.2.2 Summary of priority risks

Mercialys **rates net risks**. This means that it assesses the impact and probability of its gross risks, taking into account any potential mitigation measures and arrangements (insurance, cover, controls and procedures, policies, diversification, etc.).

Of the 51 risks identified by Mercialys, eight risks, from three categories, are classed as priority:

Category	Risks	Impact	Probability	Trend
Risks related to the sector	Risk related to the capitalization rate, the portfolio value and the liquidity of real estate assets on the market	High (NAV)	Probable	Stable
	Risk related to competition on the physical retail segment	High (FFO)	Possible	Stable
	Risk related to new forms of consumption	High (FFO)	Possible	Upward
Risks related to business activities	Risk related to retailer arbitrage and reletting	High (FFO)	Probable	Upward
	Risk related to the safety and security of operations and a deterioration in the portfolio	High (reputation)	Possible	Stable
	Risk related to acquisitions and construction operations	High (NAV)	Possible	Stable
	Risk related to providers, suppliers and subcontractors	Moderate (implementation of the strategy and continuity of operations)	Probable	Upward
Risks related to the financial position	Risk related to interest rates, the cost of debt, liquidity and financing	High (FFO)	Probable	Stable

5.2.2.1 Risks related to the sector

A. Risk related to the capitalization rate, the portfolio value and the liquidity of real estate assets on the market

Impact: high/Probability: probable/Trend: Stable

Description of the risk

The capitalization rate is a key element for calculating the appraisal value of the assets held by Mercialys. It is determined based on the deemed risk-free rate (*i.e.* the interest rate paid by the French state on its borrowings) and the risk premiums associated with the property investment concerned. As part of their twice-yearly valuation campaigns (in accordance with AMF recommendations), the independent real estate appraisers responsible for valuing the Company's portfolio also base their valuations on the rates seen for recent real estate transactions on the physical retail real estate property market.

The appraisal value of the Mercialys portfolio can thus be positively/negatively impacted *via* the capitalization rate:

- by a significant drop/rise in rates deemed risk-free or risk premiums;
- by the recognition of more favorable/lower rates within the context of physical real estate market transactions.

Appraisers' risk premium adjustments may also reflect changes in their perception of the sustainability of asset rental flows, based on their assumptions regarding rent changes, vacancy or even site investment costs.

The appraisal value is taken into account in the calculation of the Company's Net Asset Value (NAV) and the Loan To Value (LTV). A significant deterioration in Mercialys' portfolio value would likely have an unfavorable impact on its stock price, as well as potentially on its financial rating and the appraisal of its risk profile by finance market operators and, ultimately, on the cost of its debt.

Risk management and coverage

The factors that drive up capitalization rates are linked primarily to changes in central banks' monetary policies and trends for physical real estate investments. Mercialys anticipates the potential impacts of monetary policies (providing regular updates to members of Senior Management) and performs simulations to assess how interest rate changes will impact the value of its portfolio. It also closely monitors real estate transactions on the market. The portfolio value's sensitivity is updated every six months, based on a 0.5% decrease/increase in the capitalization rate and a 10% increase/decrease in appraised net rental income.

The risk of a deterioration in the appraisal value, through unfavorable changes in the underlying assumptions, is therefore regularly tracked through the monitoring methods applied and their frequency. In addition, all the assets in Mercialys' portfolio are valued by independent real estate appraisers every six months, which makes it possible to regularly adjust its value if required.

This risk is managed through the arbitrages that Mercialys carries out on a continuous basis on its portfolio of assets, in line with its market vision. The Company's arbitrage strategy is based, on the one hand, on the disposal of assets that have reached maturity or potentially become commercially vulnerable. It is also based on investments in its leading assets, in order to consolidate their dominance in their catchment area and strengthen their value. In line with this approach, the Company has drastically reduced the size of its portfolio in recent years, from 93 shopping centers at end-2010 to 50 at end-2021. Since 2020, it has also strengthened its specialist acquisitions and arbitrage team, by appointing the Company's former Head of Asset Management to manage it, thus attesting to the strategic and central nature of these topics.

Mercialys' portfolio value came to Euro 2,945.1 million excluding transfer taxes at end-December 2021, compared with Euro 2,996.6 million at end-June 2021 and Euro 3,065.6 million at end-December 2020. The value of the portfolio excluding transfer taxes therefore dropped -3.9% over twelve months (-3.1% like-for-like) and -1.7% over six months (-0.9% like-for-like). The average appraisal capitalization rate came to 5.71% at December 31, 2021, *versus* 5.74% at June 30, 2021 and 5.72% at December 31, 2020.

Due to the strong correlation between the capitalization rate and the discount rate in the real estate appraisers' model, the sensitivity test for changes in the capitalization rates also shows the sensitivity to changes in the discount rate. Based on the annual appraised potential net rental income of Euro 179.2 million and the average capitalization rate of 6.09% recorded at the end of December 2021, the sensitivity analysis is as follows:

Sensitivity criteria	Impact on the appraisal value excluding transfer taxes *(in millions of euros)*
-0.5% decrease in the capitalization rate	+263.6
+10% increase in rents	+294.5
+0.5% increase in the capitalization rate	(223.6)
-10% decrease in rents	(294.5)

Risk trend: stable

This risk is of major structural importance for Mercialys. Regularly selling some of its assets to reinvest part of the capital generated in its portfolio of value-enhancing projects enables it to maintain the commercial quality of its portfolio and protect its value. Asset liquidity is also needed to meet debt repayment deadlines in the event of a slowdown or pause in the finance markets.

The slowdown in physical retail real estate market transactions observed since 2018 has an overall impact on real estate companies' ability to quickly and easily sell their assets. An upward trend in capitalization rates was observed at Mercialys over the period, with a relatively moderate negative impact on the appraisal value of its portfolio. Over the past three years, the Company has been able to sell assets at rates that support its portfolio's valuation levels.

It is recalled that real estate appraisers value the Mercialys portfolio on a half-yearly basis.

Ultimately, the risk trend related to the capitalization rate, the portfolio value and the liquidity of real estate assets on the market is considered stable.

B. Risk related to competition on the physical retail segment

Impact: high/Probability: possible/Trend: stable

Description of the risk

Mercialys, through its activity operating shopping centers, captures part of the catchment areas of the cities where it is present. The level of footfall at its sites is a key indicator that has an upward or downward impact on the Company's economic and financial performance.

Extension, redevelopment or greenfield construction projects, on different scales, that may be launched in the medium term could have a potentially significant adverse impact on footfall for Mercialys' shopping centers, especially if these projects are located in major catchment areas for the Company. Particularly strong competition from companies already operating in these catchment areas, aiming to attract the retailers that stand out the most, could also make Mercialys' sites less attractive.

A decrease in the footfall at shopping centers would lead to a drop in the profitability for retailers and would ultimately lead to pressure on the rents invoiced by the Company.

Risk management and coverage

Mercialys manages this risk through two key pillars:

- a regular asset rotation policy, which may lead to sales of sites that are considered to be located in retail areas that are more sensitive to an increase in competition. The Company is therefore gradually focusing its positioning on key areas in cities with demographic and purchasing power trends that are higher than the national average;
- a commercial strategy aiming to further strengthen its sites through (i) medium-sized stores set up to generate additional traffic supporting the entire shopping center, (ii) a merchandising mix that is adapted to each catchment area, and (iii) the implementation of new uses of shopping centers (*e.g.* coworking, medical centers and first- and last-mile logistics services in particular), with a view to consolidate their foothold in their local areas within their communities.

Through these measures, Mercialys was able to ensure sustained growth in footfall for its shopping centers from 2014 to 2019, significantly outperforming the national index published by the French national shopping centers council (*Conseil National des Centres Commerciaux*, CNCC). In 2021, footfall at Mercialys sites during opening periods was 86% of the normalized level in 2019, despite major operational constraints related to the health crisis (namely curfews and health pass requirements). Retailer sales also demonstrated good resilience, illustrating the strength of the Company's shopping centers.

Risk trend: stable

Some real estate projects have historically had a localized impact on footfall trends at certain Mercialys sites. However, the Company has never observed any major, widespread increase in competition across its physical commercial real estate portfolio. In addition, following a moratorium initiated in 2020 by the French government on the construction of new retail space, Law No. 2021-1104 of August 22, 2021 (known as the "Climate and Resilience Law") includes the fight against the artificialization of soils among the principles referred to in Article L. 101-2 of the Urban Planning Code, as well as the establishment of a "Net Zero Artificialization" objective. The constraints concerning the implementation of *ex nihilo* new retail spaces should contribute to the sustainability of existing sites.

The resilience of business levels at Mercialys sites in 2020 and 2021, despite the health crisis, once again proves the Company's competitive edge. The fact that the shopping centers are leaders in their catchment areas means that they have relatively little exposure to retailers' rationalization of physical stores. The very limited current financial vacancy rate recorded by Mercialys at the end of 2021 (3.2%) was significantly lower than that at end-December 2020 (3.8%), end-June 2021 (4.0%) and end-September 2021 (3.4%), also illustrating the power of Mercialys sites in their catchment area.

Consequently, the risk related to physical retail competition is considered stable.

C. Risk related to new forms of consumption

Impact: high/Probability: possible/Trend: upward

Description of the risk

The breakdown of Mercialys' rents by business sector shows a high level of diversification. However, at December 31, 2021, two sectors account for more than 20% of contractual rents on an annualized basis – personal items and large food stores:

	Dec. 31, 2021	Dec. 31, 2020
Restaurants and catering	8.4%	8.6%
Health and beauty	12.6%	12.3%
Culture, gifts and sports	16.3%	16.0%
Personal items	30.5%	31.5%
Household equipment	7.2%	6.9%
Large food stores	21.8%	21.5%
Services	3.2%	3.2%
TOTAL	**100.0%**	**100.0%**

The risk associated with new forms of consumption is primarily reflected *via* the following elements:

- a structural contraction in revenues for the personal items sector from 2008 to 2016. After picking up slightly in 2017 (fashion and textiles consumption in France up +0.6% [1]), the downward trend continued in 2018 (-2.9% for clothing sales [1]) and in 2019 (-1.0% [1]). This crisis worsened during the Covid-19 epidemic, resulting in a -17% decrease in clothing retailer revenues in 2020, according to the Institut Français de la Mode. However, the same source announced that this indicator recovered by +5% in 2021.
- a paradigm shift in consumption affecting large retailers with: 1/in the food segment, a loss of market share by integrated hypermarket operators in favor of independent retailers and hard discounters, 2/in the non-food segment, a downward trend for non-food products as a percentage of total hypermarket revenues;
- steady growth in e-commerce revenues, which represented 9.8% of retail in France in 2020 [2].

The two main factors behind a downturn in consumption may affect textiles or clothing retailer profitability and result in pressure on Mercialys' rents or even contribute to an increase in its vacancy rate.

The development of e-commerce may impact on "physical" retailers which need to make significant investments in terms of IT (to develop their online distribution and improve their inventory management) and marketing.

Risk management and coverage

Mercialys is planning ahead to anticipate the risk related to new forms of consumption through:

- the projects carried out since 2015 to reduce the size of hypermarkets, partly floorspace allocated to non-food products, in coordination with the food operator. These projects have optimized the surface of hypermarkets to concentrate on food products, while providing the shopping centers with access to additional space, in order to accommodate a number of specialist retailers, restaurants, etc., helping drive growth in footfall at these sites;
- the constant adaptation of its merchandising mix, in keeping with the objective of a well-diversified portfolio across different sectors, as well as the identification of the most relevant retailers in each sector, particularly with respect to their price positioning;
- the development of customer knowledge, through marketing tools making it possible to provide visitors with offers and information that are aligned with their consumption profile, with a view to building loyalty;
- the ramping up of its proprietary first- and last-mile logistics solution, Ocitô, with the retail digitalization tool being rolled out in physical stores in 31 of its centers by the end of 2021. The Ocitô ecosystem incorporates three solutions for the convergence of physical and digital commerce:
  1/an online and mobile marketplace, enabling retailers in Mercialys' centers to benefit from an additional channel through which to offer food and non-food products to consumers,
  2/a logistics platform that groups together all centers' retailer services, facilitating the ship-from-store service which consolidates and ships parcels from their shops (dedicated logistics unit, provision of consumables, centralized postage franking and collection), and
  3/a transport offer that covers the full range of last-mile delivery solutions, for greater effectiveness and efficiency both for retailers and consumers (immediate delivery, home delivery within two days, Click & Collect, drive-through, and parcel collection lockers).

Risk trend: upward

While difficult to assess, the risk related to new modes of consumption is considered to be on the rise.

Retailer obsolescence has been a constant feature of the retail sector for the past decade, and the need to adapt the shopping centers is a major strategic element. This increased in 2020 and 2021 with the successive lockdown measures related to the health crisis which weakened many retailers, particularly in the textiles and catering/leisure sector. Some segments have, however, benefited from this particular environment, such as home equipment and digital products. All food distribution formats were also able to remain open throughout 2020 and 2021, constituting a major resilience factor for business at Mercialys shopping centers. However, it should be noted that the various assistance measures implemented by the French government, supplemented (particularly concerning fixed costs) or introduced (for the payment of rents) in 2021, have greatly reduced the number of shop and restaurant closures in shopping centers.

Similarly, although the health crisis has led to the repeated closure of all "non-essential" shops, prompting some consumers to make some of their purchases online, it is difficult to assess the sustainability of this trend. Statistics do not indicate that e-commerce players have benefited from a massive and structural shift in consumption over the 2020 and 2021 fiscal years, as illustrated by the rapid normalization of footfall in shopping centers as soon as the various lockdown measures were lifted. This also raises the question of the sustainability of the gains in market share achieved by e-commerce.

In any event, Mercialys believes that it has proven competitive advantages:

1. the difficulty in obtaining authorizations to open large food stores supports the Company's perception that it would be possible to welcome alternative tenants in hypermarket units, after potentially reducing the space allocated;
2. the classification by government decree, during the three periods of lockdown between 2020 and 2021, of nearly 40% of its rental base as "essential retail" shows how its shopping centers are an integral part of communities' daily lives, as illustrated by the rapid recovery in footfall and retailer sales after the lockdowns were lifted;
3. competition from e-commerce is less acute in medium-sized cities where Mercialys' assets are located and where visits are recurrent, short-lived, and involve limited average baskets, making delivery costs for online purchases comparatively high.

(1) Source: French Institute of Fashion (Institut Français de la Mode).
(2) Source: Fevad – Federation of e-commerce and distance selling.

5.2.2.2 Risks related to business activities

A. Risk related to retailer arbitrage and reletting

Impact: high/Probability: probable/Trend: upward

Description of the risk

Mercialys lets space in its shopping centers and medium-sized stores primarily to major national or local retailers.

The impacts associated with these risks concern two key aspects. On the one hand, the profitability of tenant retailers. This may, from time to time, adversely affect the recovery rate or rental reversion potential. It may also have a more structural negative impact on Mercialys' rental revenues if insufficient profitability leads to store closures in the centers owned by the Company, against a backdrop of regular arbitrage by retailers concerning their physical points of sale at national level. On the other hand, if retailers leave, the vacancy rate would impact rental revenues and the ability to pass on the centers' operating expenses during the reletting period. This could last longer when key retail sectors face difficulties, as seen for more than a decade with personal items in France, as mentioned in the previous risk.

In terms of diversification, with the exception of the Casino and H&M groups, no single retailer represents more than 2% of Mercialys' annual rents. Exposure to the Casino group accounted for a significant percentage of rents, amounting to 22.4% at the end of 2021. This exposure fell to 19.6% as a result of restating: 1/downwards BNP Paribas REIM's 49% minority interest in SAS Hyperthetis Participations and SAS Immosiris, which own a total of ten hypermarkets operated under the Géant Casino brand, and 2/upwards Mercialys' 25% minority interest in SCI AMR, which owns three Monoprix and two hypermarkets operated under the Géant Casino brand. The consolidated exposure is mainly divided between the Géant (21.1% of rents at the end of 2021) and Monoprix (0.7% of rents at the end of 2021) hypermarket brands. If events were to affect the activities of Géant hypermarkets or more generally the activities of Casino, Mercialys' rental revenues and asset values could be impacted.

Mercialys has carried out hypermarket transformations at a number of sites since 2015, reducing their floorspace and reletting the space vacated by the food operator to benefit the shopping center. Casino and Mercialys are discussing new operations of this type, in accordance with the terms of the leases binding the two companies. Under these negotiations, the hypermarket may be awarded a rent reduction, while the space vacated would, at the same time, make it possible to create value. If it was not possible to reach an agreement with the Casino group, it could exercise its option to vacate these units with the three-year breaks. As part of the re-letting of these premises, Mercialys would then look at reviewing the food offering in terms of both its operator and format, and increasing the space allocated to the shopping center.

The lease expiry schedule for Mercialys' two main tenants, *i.e.* the Casino group and H&M, is presented below.

Casino group lease schedule *(main leases: hypermarkets, supermarkets and Monoprix stores)*

Site	% held by Mercialys	Type	Lease start date	Lease end date	Lease characteristics
Grenoble	100%	Monoprix	02/2010	02/2022	3-6-9-12 commercial lease
Saint-Étienne	100%	Hypermarket	07/2014	06/2026	3-6-9-12 commercial lease
Quimper	100%	Hypermarket	12/2014	12/2026	3-6-9-12 commercial lease
Annecy	100%	Hypermarket	12/2014	12/2026	3-6-9-12 commercial lease
Aix-en-Provence	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Marseille	100%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Brest	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Nîmes	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Angers	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Lanester	100%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Niort	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Fréjus	51%	Hypermarket	06/2015	06/2027	3-6-9-12 commercial lease
Narbonne	51%	Hypermarket	11/2015	11/2027	3-6-9-12 commercial lease
Istres	51%	Hypermarket	11/2015	11/2027	3-6-9-12 commercial lease
Le Puy	51%	Hypermarket	11/2015	11/2027	3-6-9-12 commercial lease
Clermont-Ferrand	51%	Hypermarket	11/2015	11/2027	3-6-9-12 commercial lease
Annemasse	100%	Hypermarket	12/2015	12/2027	3-6-9-12 commercial lease
Ajaccio	60%	Hypermarket	07/2018	06/2030	12-year commercial lease, 9-year firm period
Corte	60%	Supermarket	07/2018	06/2030	12-year commercial lease, 9-year firm period
Furiani	60%	Hypermarket	07/2018	06/2030	12-year commercial lease, 9-year firm period
Porto-Vecchio	60%	Hypermarket	07/2018	06/2030	12-year commercial lease, 9-year firm period
Toga	60%	Hypermarket	07/2018	06/2030	12-year commercial lease, 9-year firm period

H&M group lease schedule

Site	Lease start date	Lease end date	Lease characteristics
Grenoble	05/2010	05/2020	3-6-9-10
Marseille	04/2011	04/2021	3-6-9-10
Angers	07/2011	07/2021	3-6-9-10
Clermont-Ferrand	08/2013	08/2023	3-6-9-10
Mandelieu	01/2016	01/2028	12-year commercial lease, 6-year firm period
Brest	02/2016	02/2028	12-year commercial lease, 6-year firm period
Lanester	07/2016	07/2028	12-year commercial lease, 6-year firm period
Toulouse	07/2016	07/2028	12-year commercial lease, 6-year firm period
Aix-en-Provence	08/2016	08/2028	12-year commercial lease, 6-year firm period
Besançon	12/2016	12/2028	12-year commercial lease, 6-year firm period
Quimper	05/2017	05/2029	3-6-9-12
Morlaix	07/2017	07/2029	12-year commercial lease, 6-year firm period
Narbonne	07/2017	07/2029	12-year commercial lease, 6-year firm period
Nîmes	08/2017	07/2029	12-year commercial lease, 6-year firm period

Risk management and coverage

Mercialys limits the insolvency risk and the risk relating to retailer chain closures primarily by diversifying its retailer mix which limits the impact of a cancellation at a three-year break.

Furthermore, the risk linked to potential difficulties affecting the food retailers of the Casino group operating on the Company's sites must be put into perspective with the options available for reletting the vacated space. Demand for space for food outlets remains strong in France, in a context where authorizations to open new physical retail stores are now very limited.

Mercialys has also put in place procedures to contain the retailer counterparty risk, including:

- a detailed analysis of achievements from a lettings perspective compared with the budget, carried out each month by the Administrative and Financial Department, Asset Management Department and Lettings Department. The findings are presented to the Management Committee and lead to specific action plans;
- an annual analysis of the occupational cost ratio (ratio between the amount of rent including tax, the costs including marketing funds and the works charged back to the retailer and its sales including tax) when assets' business plans are reviewed. Any change that differs from the rates usually recorded for activities is subject to a dedicated review of the context for the retailer and tenant. The Lettings and Asset Management teams then draw conclusions and make decisions on a case-by-case basis;
- the setting of rents on a primarily fixed basis (98% of Mercialys' contractual rents on an annualized basis are fixed or include a guaranteed minimum rent at December 31, 2021);
- very regular operational procedures for rent collection and monitoring, carried out jointly by the Rental Management, Asset Management, Lettings and Administrative and Financial Department teams.

In addition, Mercialys plans ahead to anticipate the reletting risk through:

- close tracking of the vacancy rate and associated reletting actions. The quality of the retailers selected is a decisive factor, focusing in particular on their financial health, the relevance of their offering in relation to the catchment area's needs, their locally differentiating features and their effective fit complementing the existing merchandising mix;
- the creation of a specialist Lettings team 1/for each geographical area, resulting in in-depth knowledge of local retailers, catchment areas and assets and 2/for each type of space, as the needs and constraints of retailers operating medium-sized stores are significantly different from those in small stores. The Asset Management team supports the Lettings team and ensures the financial soundness of negotiations, within the broader context of each shopping center's target profitability;
- the asset rotation strategy. Mercialys regularly analyzes the positioning of all of its assets within their catchment area. A shopping center's ability to continue to be very attractive in the long term in this area is one of the criteria that may lead to arbitrage of the site.

Risk trend: upward

Consumption in France is expected to remain buoyant in the long term, based on positive demographics and a high savings rate, which increased significantly in 2020 (21.4% at the end of December 2020 *versus* 14.9% in 2019 [1]). During the third quarter of 2021, this rate decreased to 17.5% with the easing of health restrictions, however it remains higher than the historical level.

In addition, the underlying demand for quality retail premises, such as those offered by Mercialys, should remain resilient in the long term. The Company benefits from its sites' strong foothold in their catchment areas, offering merchandising mixes that respond to daily needs. This is illustrated by the fact that, during the lockdowns, up to 40% of the Mercialys rental base was classified as "essential businesses". The French commercial property system, through lease rights, offers strong protection for landlords. These factors help to secure Mercialys' revenues.

(1) Source: INSEE - The National Institute of Statistics and Economic Studies.

The effects of the Covid-19 health crisis on the economic climate were mixed. By the end of 2021, State aid had helped to significantly limit the impact on unemployment rates and business failures. Nevertheless, the highly fluctuating trend in consumer confidence and consumption over the period 2020 and 2021 illustrates persistent uncertainties and could have a negative impact on Mercialys' tenant retailers. Lastly, at the end of December 2021, it cannot be determined whether the health situation will lead to new public health measures that could have an impact on the footfall at Mercialys sites or on retailer sales, as was the case with the lockdowns, or the temporary introduction of the "health pass" in shopping centers.

Mercialys greatly increased its monitoring of tenants' financial health in 2020 and 2021. The health and economic crisis exacerbated pre-existing profitability issues for some tenants, particularly in the textiles sector. In addition to business disruptions, the investments required from retailers for their marketing and digital strategy when faced with competition from online operators negatively impacted their profitability and balance sheets. These factors could negatively impact Mercialys' future revenue profile as a result of increased vacancy, reduced rental collection, a drop in variable rents (H&M in particular), or even pressure on minimum guaranteed rents.

Lastly, the Casino group's sales of its Géant business operations in recent years show that its Géant hypermarket brand may be considered less strategic by the Casino group. This may have potentially dilutive effects on Mercialys' rental revenues.

Thus, even if the recovery rates (rents and charges) for the fiscal years 2020 and 2021 were at acceptable levels of 90.1% (99.9% restated for credit notes to be issued and provisions for doubtful receivables) and 88.8% respectively, in view of the magnitude of the shock experienced, and the current financial vacancy rate of 3.2% at the end of 2021, this risk is estimated to be increasing.

B. Risk related to the safety and security of operations and a deterioration in the portfolio

Impact: high/Probability: possible/Trend: stable

Description of the risk

As a real estate company, the risk relating to the safety and security of operations and a deterioration in the portfolio may take various forms, including:

- operation of its centers (fire, theft, terrorist attack, assault, etc.);
- work carried out at its centers (fall, injury, etc.);
- activities of certain tenants which may affect the quality of soils, underground water, building structures through roof installations, resulting in an impairment of the assets due to pollution or related deterioration;
- extreme weather conditions or the presence of parasites (termites, dry rot, etc.) which may damage the structure of buildings;
- a health crisis, such as the one associated with Covid-19, which may generate health- and safety-related expenses and investments in shopping centers, or lead to partial, or total, site closures.

If it were to occur, this risk could result in very significant legal and reputational consequences for the Company.

Risk management and coverage

Several types of measures are taken to manage this risk:

- safety and security procedures are put in place and regularly reviewed across all the centers, coordinating operations with Mercialys' Property Manager. The providers associated with these procedures are audited each year by the Property Manager, and if the latter considers the results to be unsatisfactory, corrective measures are put in place and contracts may be terminated. Mercialys also conducts safety and security audits and ensures that the corrective measures are put in place by the Property Manager, where required;
- crisis management procedures are available and are tested on a regular basis. The Property Manager's teams also raise retailers' awareness of these issues;
- the Property Manager ensures the regulatory compliance of tenant activities;
- coordinating operations with Mercialys, the Property Manager ensures that preventive maintenance measures are rolled out for buildings under multi-year work plans and that works are carried out following specific events (*e.g.* weather events) in order to guarantee public safety and security;
- Mercialys' shopping centers are regularly audited by its insurers' "fire prevention" engineers, in line with annual priorities, notably determined based on the significance of the assets. All sites are audited at least once every five years. The reports of the insurers' fire prevention engineers are released after each on-site appraisal, accompanied by recommendations which are followed up on jointly by Mercialys and the Casino group Insurance Department, under the Service agreement between the two groups;
- in exceptional circumstances, such as social movements ("yellow vests", farmers, for example), or the Covid-19 pandemic, Mercialys also takes strong measures to ensure the health and safety of its visitors, retailers and employees, with the direct collaboration of the Property Manager's teams;
- lastly, Mercialys has cover through its various insurance policies, calibrated based on the cost of rebuilding assets and the operating losses that could be sustained depending on the various scenarios considered.

Risk trend: stable

Public safety at Mercialys shopping centers is part of the Company's core responsibility. It takes all necessary measures to ensure the highest level of safety for visitors. The Company remains vigilant in the context of recurring acts of terrorism on the national territory, despite the status of the Vigipirate plan having been revised downwards, from an "attack emergency" at the end of 2020 to "heightened security – risk of attack" in March 2021.

As part of the fight against the Covid-19 epidemic, Mercialys also implemented strict health measures to ensure the health and safety of its customers, traders and staff. These measures include real-time customer counting systems, organization of traffic flows, distribution of hydroalcoholic gel at entrances, continuous cleaning and disinfection of premises and equipment, the management and adaptation of communal areas and increased indoor air renewal.

On a more structural level, regular portfolio maintenance ensures business continuity and the cover offered by the insurance policies in place is deemed to be effectively calibrated in relation to the potential damages for the Company.

Consequently, this risk is considered stable.

C. Risk related to acquisitions and construction operations

Impact: high/Probability: possible/Trend: stable

Description of the risk

Mercialys implements a dynamic asset rotation strategy as part of its growth model. Assets deemed to have sub-optimal geographic exposure and growth potential, as well as those deemed to have reached their optimum value, are sold in order to finance the Company's development pipeline or acquisitions of assets.

Since its initial public offering in 2005, Mercialys has not built any greenfield sites (*ex nihilo* sites), and no such projects are included in its current project portfolio. This mainly comprises the restructuring and extension of existing spaces. The potential demolition and construction operations relating to these projects are carried out under different types of contracts: direct basis or delegated project management, property development contract, etc. These structures entail various levels of legal responsibility and various financial risks. Notably, these include possible exposure to budget overruns or the impact of delays in delivery.

In addition, Mercialys may acquire assets on the market. In this respect, the Company may be exposed to the consequences of incomplete diligence measures at the time of the acquisition, resulting in tax or financial consequences for instance.

Lastly, for both projects and acquisitions, Mercialys is exposed to the construction risk once the 10-year warranty period has expired. If applicable, this risk concerns the need to carry out costly works to bring the asset into line with standards or to refurbish it and ensure that it can operate under good conditions. Operating losses may represent an additional cost within this framework.

Risk management and coverage

As a principal for projects managed under delegated project management contracts, Mercialys carries out regular audits and controls to ensure:

- budgetary and financial monitoring: in addition to everyday management by the Asset Management and Delegated Project Management teams through regular project meetings, *ex-post* audits are conducted on the projects delivered the previous year to ensure that all cost overruns are effectively justified (request by the principal, program changes or unexpected constraints). Independent economists cost the most significant projects;
- operational and technical monitoring: joint meetings between the Asset Management and Delegated Project Management teams take place regularly to ensure that projects are moving forward correctly and the specifications are being met;
- monitoring of compliance for health and safety risks: while Mercialys holds no direct liability in the event of worksite incidents, there is an image-related risk associated with a financial impact. This risk is managed by both Mercialys and the Delegated Project Management team through the appointment of a health and safety coordinator. The latter is appointed to coordinate the activities of the various companies from a safety perspective. Note that the presence of this coordinator does not discharge the project manager from its legal responsibilities. Mercialys ensures that its teams regularly visit the projects underway at worksites. In the event of an incident, the Delegated Project Management team is alerted directly and the information is transmitted to Mercialys.

During acquisition procedures, Mercialys conducts audits on the assets or the companies holding the assets, covering real estate, tax, accounting and legal aspects, in order to limit the overvaluation risk for the purchase price. These audits are carried out by external advisors (*e.g.* legal advisors, tax experts, notaries), and coordinated by the Company's in-house teams (Corporate Legal, Real Estate Legal, Administrative and Financial Department and Asset Management).

Lastly, once the ten-year warranties have expired on sites acquired or under development, Mercialys ensures that the assets are properly maintained throughout their life through multi-year work plans. This vigilance makes it possible to guarantee that shopping centers are safe and to evenly distribute the investment expense needed to ensure their sustainability.

Risk trend: stable

At the end of 2021, Mercialys had a Euro 494-million project pipeline for 2027. Its depth and flexibility offer Mercialys the prospect of quick and sequenced building starts in line with opportunities at the various sites, and particularly emerging needs within their respective catchment areas.

Given the current climate, Mercialys has suspended its developments since 2019, limiting its commitments to strict maintenance investments and projects already under way, amounting to Euro 3.9 million in 2021.

The Company has all the legal expertise specific to project development. At the same time, it calls on recognized legal and tax advisors to support its development and acquisition projects. In 2020, the Company also strengthened its in-house technical skills, setting up a Technical Department capable of conducting critical reviews of maintenance and construction procedures. Lastly, partnerships with leading developers are put in place to help manage this risk.

In view of these procedures, the risk related to acquisitions and construction operations is considered stable.

D. Risk related to providers, suppliers and subcontractors

Impact: moderate/Probability: probable/Trend: upward

Description of the risk

To effectively carry out its day-to-day management and its development projects, Mercialys works with external providers. There are hundreds of providers, contributing to the high level of overheads of Euro 16.9 million in 2021 and Euro 16.2 million in 2020.

If one or more of them was to potentially default, this could disrupt the deployment of Mercialys' strategy and the continuity of its operations, particularly when certain services that were previously outsourced are gradually being brought back in-house.

For instance, Mercialys uses various accounting and management software and IT systems, which could result in disruptions if the suppliers of these services (solution vendors, hosting providers and IT consultants) were to experience difficulties concerning the security, management and recovery of data belonging to Mercialys.

Furthermore, due to Mercialys' historical organizational structure, services provided by Casino group entities still represent nearly 5.7% of Mercialys' overheads at this stage, resulting in a concentration of the risk related to providers and suppliers for the Company.

For reference, the Casino group provides services to Mercialys under the following agreements entered into between the two groups:

- the Service agreement, under which some of Mercialys' support functions are still performed by Casino group teams;
- the technical and administrative management and rental management mandates signed with Sudeco, a Casino group subsidiary;
- the non-exclusive framework agreement for delegated project management, entered into with another Casino group subsidiary.

Note that the Partnership agreement, under which Mercialys benefited from priority access to retail real estate development projects conducted by the Casino group, ended on December 31, 2020.

Lastly, although it puts in place all necessary due diligence measures in this area, owing to the large number of providers that it works with, Mercialys is still exposed to the risks relating to non-compliance with the General Data Protection regulation (GDPR) by one or more of them, or even risks linked to any failure to respect the principles of professional ethics and compliance.

Risk management and coverage

Mercialys protects itself against the risks relating to its suppliers by first of all working primarily with providers that have a solid reputation and leading position. This enables the Company to be supported by leaders on their respective markets, particularly for its accounting and management software. The tools used are those of the market's major players (including Microsoft, Sopra and SAP), whose long-term viability is established.

Mercialys has built clauses into its contracts concerning compliance with the GDPR regulation and business ethics. This is supported by its collaboration with established operators. Due to the legal obligations that these groups generally face, they have usually put in place the procedures and investments needed to ensure their own regulatory compliance. In connection with the outsourcing of its real estate management and technical and administrative management activities, Mercialys also receives regular reports from its provider Sudeco concerning the supplier audits that it conducts on behalf of Mercialys.

With regard to the relationship of service provision with the Casino group, the corresponding risk is managed through:

- regular spot-checks, supported by market consultations and benchmarks;
- a contractual commitment by the provider to continue with the technical and administrative management and rental management mandates until December 31, 2022. In case the agent were to default or terminate these agreements before this date, Mercialys took steps in 2019 to ensure that it would be able to appoint alternative providers under globally comparable pricing conditions (Euro 5.9 million paid in respect of 2021 and Euro 5.4 million for 2020);
- the gradual insourcing of the functions initially performed by the Casino group *via* the Service agreement:
  - the services relating to fund management, real estate development and real estate legal aspects ended on December 31, 2019,
  - IT, real estate management control and human resources support services ended in 2020,
  - services relating to insurance and corporate legal assistance ended in 2021,
  - financial accounting services are subject to notice at the end of 2021 and will be terminated in August 2022.

As a result, invoicing for the Service agreement is estimated at Euro 0.4 million for 2022, compared with Euro 1.0 million in 2021 and Euro 1.3 million in 2020.

Lastly, the technical and administrative management and rental management mandates signed with Sudeco, a subsidiary of the Casino group, will expire on December 31, 2022 and the related functions are already being brought in-house by Mercialys.

For the aspects relating to construction work on redevelopments or extensions, the delegated project management framework agreement entered into with the Casino group is not exclusive. Mercialys can therefore work with a number of providers nationwide, once again based on comparable pricing conditions. Mercialys did not make significant use of it in 2021. This framework agreement will expire on December 31, 2022.

Risk trend: upward

The risk related to providers, suppliers and subcontractors is estimated to be increasing.

While the concentration of service providers, suppliers and subcontractors continues to decrease as the activities hitherto outsourced to the Casino group are gradually brought back in-house, the insourcing of the accounting-finance and rental management functions in particular requires significant organizational and information system changes.

Beyond the aspects relating to the insourcing of functions, and while the context of the economic and health crisis could have weakened certain market players, the risk of default of service providers, suppliers and subcontractors appears to be low. Although Mercialys works with leading operators, its exposure to each individual operator is limited (outside the Casino group).

Lastly, it should be noted that diligence measures implemented by Mercialys since 2017 to ensure its value chain's compliance with the principles concerning professional ethics and personal data security in particular represent a moderating element.

5.2.2.3 Risks related to the financial position

A. Risk related to interest rates, the cost of debt, liquidity and financing

Impact: high/Probability: probable/Trend: stable

Description of the risk

The Covid-19 epidemic has increased debt market players' (particularly banks) aversion to risk in respect of the retail real estate sector, reducing the diversity of Mercialys' funding sources and increasing their cost. Nevertheless, the historically-low interest rate environment persisted in 2020 and 2021. A gradual or sudden rise in interest rates would potentially increase the Company's financing cost, through either the cost of existing debt or possible refinancing operations.

Mercialys' bond spreads have widened significantly compared with the levels observed for the financial instruments of leading French real estate companies in 2020. This trend may have reflected a perception, among investors, of a risk associated with the concentration of rental exposure around the Casino group and the financial issues facing the latter, which holds 16.9% of Mercialys' capital. The evolution of the Company's credit spreads normalized during 2021, with the Company having published operational and financial indicators deemed reassuring for 2020 and 2021.

Mercialys' financial position at end-2021 reflects the following elements:

Financial debt *(in millions of euros)*	**Dec. 31, 2021**	**Dec. 31, 2020**
Cash	257.1	464.6
Gross financial debt [1]	(1,358.6)	(1,653.4)
Net financial debt	**(1,101.5)**	**(1,188.8)**

(1) Including change in the fair value of financial debt, net book value of bond issue costs and premiums, and fair value of bond-backed derivatives.

At December 31, 2021, the amount of Mercialys' drawn debt stood at Euro 1,354.5 million, composed of:

- a bond for a total nominal amount of Euro 469.5 million, with a fixed coupon of 1.787%, maturing in March 2023;
- a bond for a nominal amount of Euro 300 million, with a fixed coupon of 1.80%, maturing in February 2026;
- a bond for a nominal amount of Euro 300 million, with a fixed coupon of 4.625%, maturing in July 2027;
- a private bond placement for a nominal amount of Euro 150 million, with a fixed coupon of 2.00%, maturing in November 2027;
- Euro 135 million of outstanding commercial paper at a slightly negative rate.

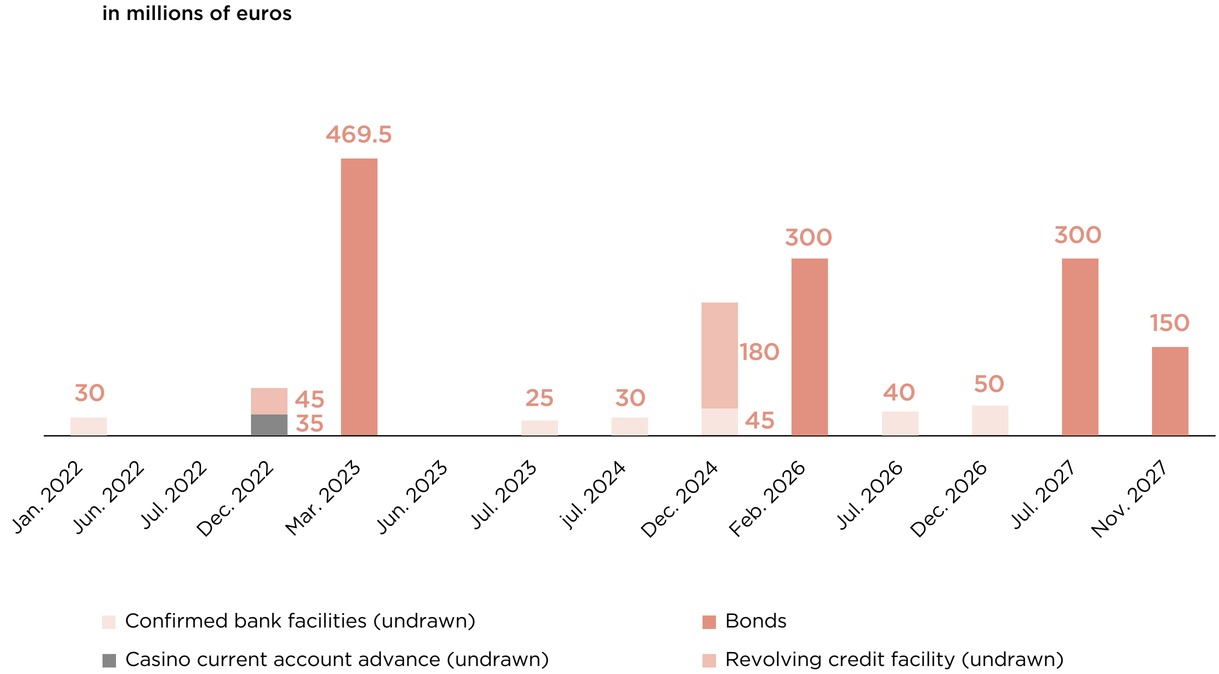
The average maturity of drawn debt was 3.2 years at December 31, 2021, virtually stable *versus* December 31, 2020 (3.5 years).

Mercialys also has Euro 480 million of undrawn financial resources, enabling it to benefit from a satisfactory level of liquidity:

- a Euro 225-million revolving bank credit facility, with 20% due in December 2022 and 80% in December 2024. This facility bears interest at EURIBOR with a margin of 125 basis points (for a BBB rating); if undrawn, it is subject to payment of a 40% commitment fee;
- six bilateral confirmed bank lines for a total amount of Euro 220 million, maturing between January 2022 and December 2026. Margins on EURIBOR are less than or equal to 150 basis points (for a BBB rating) or set at a fixed rate, and if undrawn these lines are subject to payment of commitment fees up to 40% of margins;
- a cash advance from Casino capped at Euro 35 million, maturing on December 31, 2022. The EURIBOR margin is progressive; if undrawn, this facility is subject to payment of a 40% non-use fee. It should be noted that in the first quarter of 2022, this cash advance was terminated early.

In addition, Mercialys has a Euro 500 million commercial paper program, set up during the second half of 2012. It has been used up to Euro 135 million (outstanding at December 31, 2021).

The chart below shows Mercialys' bond debt maturity schedule and undrawn financial resources (excluding commercial papers) at December 31, 2021:



Mercialys' financial position also shows that it is respecting its contractual covenants (commitments).

The Loan To Value (LTV) ratio is significantly lower than the limits set (LTV < 50% or < 55% depending on the different credit lines).

Loan To Value *(en millions d'euros)*	**Dec. 31, 2021**	**Dec. 31, 2020**
Dette financière nette	(1,101.5)	(1,188.8)
Valeur d'expertise hors droits des actifs [1]	3,000.9	3,122.0
Loan To Value **(LTV)**	**36.7%**	**38.1%**

(1) Incluant la valeur de marché des titres des sociétés mises en équivalence, soit 55,8 millions d'euros au titre de 2021 et 56,4 millions d'euros au titre de 2020, la valeur de patrimoine des sociétés mises en équivalence n'étant pas intégrée dans la valeur d'expertise.

Le ratio d'ICR (ICR: *Interest Coverage Ratio*) s'établit quant à lui à 5,1x, bien au-dessus du minimum fixé (ICR supérieur 2x).

Interest Coverage Ratio *(en millions d'euros)*	**Dec. 31, 2021**	**Dec. 31, 2020**
EBITDA	144,7	131,2
Coût de l'endettement financier net	(28,2)	(26,2)
Interest Coverage Ratio **(ICR)**	**5.1x**	**5.0x**

Risk management and coverage

As part of the management of the cost of its debt, Mercialys actively manages its interest rate hedging policy, with the support of a dedicated external advisor, with a view to:

- maintaining an optimal hedging rate and keeping the debt structure in line with its bank commitments. Fixed-rate debt stood at 86% at December 31, 2021, compared with the 66% required by the bank covenants. In connection with its Standard & Poor's financial rating (currently BBB/stable outlook), Mercialys adopts a cautious strategy by preserving significant leeway on its EBITDA/net finance cost ratio (ICR), which was 5.1x at December 31, 2021, *versus* the > 2.0x required by the bank covenant;
- limiting the risk on hedging instruments. Mercialys has defined a list of instruments that it can put in place in view of their associated risk profiles and hedging accounting constraints;
- anticipating the impacts of changes in interest rates. This involves close monitoring and keeping Senior Management regularly informed of changes in FED/ECB monetary policies and financial market developments. It also involves sensitivity tests, carried out at least once a year on interest rates in relation to the cost of debt.

The interest rate risk management system also includes provisions to:

- limit the choice of banking counterparties. Mercialys only deals with major banks;
- being able to react quickly in the event of significant changes in interest rates through the daily mark-to-market modeling of Mercialys' entire portfolio. The external modeling tools are immediate. As an external valuer, the Company Forex provides reports on the entire portfolio and the counterparty risk. Tests are carried out quarterly, with the fair-value modeling of debt based on interest rates.

The risk of an increase in interest rates must be analyzed in connection with the hedging policy put in place by Mercialys through derivative financial instruments. The sensitivity of the Company's pre-tax income to a change in rates is still significant:

Sensitivity criteria	**Impact on pre-tax income** *(in thousands of euros)*
Impact of a +1% change in interest rates	(3,063)
Impact of a -1% change in interest rates	1,802

Risk trend: stable

This risk is of major structural importance for Mercialys, due to the capital intensity of the real estate sector, and is estimated to be stabilizing.

The thus-far limited impacts of the health crisis on household consumption and retailer failures and, more generally, on the business model of shopping centers, helped to reassure the Company's financial stakeholders in 2021, after a period of perceived deterioration in 2020. Thus, the availability of financing appeared more positively oriented in 2021. This is illustrated by the fact that Mercialys was able to increase the amounts associated with its undrawn financing facilities by Euro 75 million in 2021.

However, the risk of inflationary pressures in France and in Europe could contribute to a rise in interest rates, which could negatively impact both the cost of existing debt and any refinancing operations that may be envisaged.

Similarly, although Mercialys' financial instruments are separate from the Casino group's situation, Mercialys bond spreads may be volatile depending on the news concerning this major shareholder and tenant. This situation could potentially result in less favorable credit conditions, in relative terms, than for other shopping center market players and, more generally, than for other companies of similar size or balance sheet.

In any event, close monitoring of the liquidity situation and a debt hedging strategy that can adapt to possible changes in interest rates are in place. Mercialys' proactive management of its financial policy plays an active role in controlling this risk.

5.2.3 Risks related to changes in the Casino shareholder's strategy

Mercialys was created in 1999 by the Casino group. In 2005, looking to manage its real estate portfolio more actively and grow its value, the Casino group transferred part of its real estate assets in France to Mercialys and listed Mercialys on the stock market (Euronext Paris). This partial transfer of assets to Mercialys concerned a number of premises of specialist large stores and shopping centers located at sites where Casino group hypermarkets and supermarkets had a strong foothold, as well as cafeterias and certain sites with franchise supermarkets or convenience stores leased to third parties.

Mercialys' initial public offering, by way of a capital increase with a public offering, marked the start of a gradual reduction, over the years, of the interest in Mercialys' capital held by Mr Jean-Charles Naouri and his controlled companies acting in concert.

The Casino group held 16.8% of Mercialys' share capital at the end of December 2021 and 10.3% at the end of February 2022.

As a result of Mercialys' history, there are still a certain number of contractual relations in place between Mercialys and the Casino group. These are presented in detail in chapter 6, § 6.2.4, p. 346 et seq. The priority risks that may arise due to the existing relations between Mercialys and the Casino group are presented by category in this chapter 5, in accordance with the ESMA methodology, with the following breakdown:

- **Risk related to retailer arbitrage and reletting** (covered in § 5.2.2.2, A, p. 330 et seq.): this section includes the elements relating to Mercialys' rental exposure to the Casino group (22.4% of annualized rental income at end-2021, 19.6% of economic exposure) and the potential impact of a change in Casino's positioning for its Géant chain on rents, asset values and financial ratios;
- **Risk related to providers, suppliers and subcontractors** (covered in § 5.2.2.2, D, p. 335 et seq.): this section includes the elements relating to Mercialys' organizational structure, including the fact that Casino group entities still perform certain support functions for Mercialys under a Service agreement, whose cost represents 5.7% of the Company's overheads at end-2021. It should be noted that the last functions remaining outsourced to the Casino group will be brought in-house by Mercialys at the end of August 2022. The technical and administrative management and rental management mandates between the two entities, due to expire at the end of 2022, are also discussed;
- **Risk related to interest rates, the cost of debt, liquidity and financing** (covered in § 5.2.2.3, A, p. 336 et seq.): this section explains the potential negative impact on Mercialys' bond spreads linked to certain news concerning the Casino group and so, by extension, on the Company's potential future refinancing operations. It is recalled that the Euro 35-million cash advance between Mercialys and the Casino group at December 31, 2021, has not been drawn down by Mercialys to date. This agreement was terminated with effect from February 3, 2022.

5.2.4 Legal risks

In carrying out its business of owning real estate assets in which shopping centers are, or will be, operated, Mercialys is required not only to comply with tax rules inherent to its status as a *Société d'Investissement Immobilier Cotée* (real estate investment trust), but also with common law. These concern the granting of building permits, as well as numerous other regulations of a specific or general application governing, among other things, commercial urban planning, public health, the environment, safety and commercial leases.

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

Additionally, as it 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. Any irregularities could result in Mercialys, as the property owner, suffering penalties which could adversely affect its earnings and financial position.

5.2.4.1 Risks related to regulations concerning commercial leases

Mercialys 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 indexation 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 bring it into line with the rental value but without exceeding the change in quarterly rent index recorded since the most recent rental adjustment.

Shopping center leases often include a variable rent clause. This provision sets the rent based on the tenant's sales, with a guaranteed minimum rent in order to limit risk for Mercialys in periods of economic recession. Indexation to the tenants' revenues therefore avoids the regulatory rules for setting the rent. The adjustment of the minimum guaranteed rent of a commercial lease based on changes in the ILC (commercial rent index) or ILAT (tertiary activities rent index) must then be provided for under the contract.

Law No. 2014-626 of June 18, 2014 concerning the craft and retail sectors and micro-enterprises (known as the "Pinel Law") and Decree No. 2014-1317 of November 3, 2014 changed some of the rules relating to commercial leases.

The public policy changes have been incorporated into the commercial leases entered into or renewed by Mercialys since the entry into force of these new rules.

Changes to the rules applicable to commercial leases could therefore have a negative impact on the valuation of the Company's portfolio, earnings, business or financial position.

5.2.4.2 Risks related to regulations on urban planning, construction, safety and operation of shopping centers

Mercialys' 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 prefectoral authorities, 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 prefectoral authorities may decide to close the site.

Any regulatory change concerning urban planning or safety requirements for establishments open to the public that increases the restrictions or constraints on shopping center development could limit Mercialys' growth opportunities and outlook. Likewise, any easing of commercial urban planning 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 (commercial licenses) could also have a negative impact on Mercialys' margins and operating profit by raising operating expense and maintenance and improvement costs, as well as administrative costs inherent in the shopping center business.

5.2.4.3 Risks related to the constraints generated by the tax regime applicable to listed real estate investment trusts, to a possible change in the rules regarding that status, or to the loss of that status

Mercialys has enjoyed the tax regime applicable to listed real estate investment trusts (REITs) since November 1, 2005. As such, it is exempt from corporate tax on most of its activities. Eligibility for this tax regime is conditional on compliance with the obligation to redistribute a large part of the profits. Non-compliance could entail the loss of this fiscal regime.

The amended Finance Act of 2006 makes eligibility for REIT tax regime 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 from January 1, 2010, in the event of non-respect of this holding threshold, Mercialys 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 REIT tax regime and the corresponding tax savings, or any substantial changes in the rules applicable to such listed property companies could, of course, affect the Company's business, earnings and financial position.

5.2.5 Risks relating to the coronavirus (Covid-19) epidemic

The year 2021 was widely marked by the effects of the Covid-19 health crisis, impacting the activity of Mercialys' shopping centers due to the measures imposed by the public authorities as part of efforts to tackle the epidemic. These measures were stricter for the shopping centers than those in force during the first lockdown in 2020. On the one hand, due to the very long period of government-ordered closures affecting the centers from January 31 to May 19, 2021, *i.e.* 3.5 months (compared with less than two months during the first half of 2020 and the entire month of November 2020). This closure period was preceded by curfews, which had already had a major impact on store footfall levels from January 2, 2021. On the other hand, due to its scale, with stronger restrictions than in 2020 concerning the scope of stores authorized to open and the gradual ban on click and collect activities between January 31 and May 19, 2021. Only 36% of Mercialys' rental base was able to continue trading during the strict lockdown period in 2021 (*i.e.* from April 3 to May 19), compared with 40% and 50% respectively during the first and second lockdowns in 2020.

On May 19, 2021, the French government authorized the reopening of "non-essential" stores. Mercialys' shopping centers were able to once again welcome members of the public across their entire retail space (excluding indoor sit-down dining), in accordance with strict health protocols and restrictions on minimum space ratios. Indoor restaurants have been able to reopen since June 9, 2021, subject to various health measures and minimum space ratios. These restrictions on minimum space ratios were lifted on June 30, 2021 for venues open to the public, and France has not been subject to any curfew measures since June 20, 2021. However, the operational activity of nine Mercialys shopping centers was negatively impacted for several weeks in the third quarter of 2021, mainly in August, due to the implementation by the State of an obligation to present a health pass to enter certain sites.

On November 16, 2021, a decree was published instituting aid relating to the rents or fees and charges of certain retail businesses and services closed to the public in order to combat the spread of the Covid-19 epidemic. This aim of this aid scheme is to enable retailers to honor the payment of their rents and charges for the period of closure of shopping centers during the first half of 2021, which will support the recovery rate of real estate companies.

As in 2020, a significant upturn was seen when “non-essential” stores reopened, reflecting French consumers’ strong expectations for a return to physical consumption at sites offering, through this relationship’s inherent human contact, a wide selection of products that are available immediately. Mercialys’ very strong performance at this time also reflects its commercial expertise, and notably illustrates its understanding of the stakes involved with providing reassurance, visibility and a welcoming environment for these reopening phases.

This unprecedented crisis could also have an impact on Mercialys’ other non-retail stakeholders, contributing to an increase in the average level of risk faced by the Company.

The priority risks that may arise as a result of the Covid-19 epidemic are broken down by category in this chapter 5, in accordance with the ESMA methodology, with the following breakdown:

- **Risk related to the capitalization rate, the portfolio value and the liquidity of the real estate assets on the market** (dealt with in § 5.2.2.1, A, p. 327 et seq.): this section deals with the impact of the Covid-19 crisis on physical retail real estate market transactions and on asset valuations by independent real estate appraisers is discussed;
- **Risk related to new forms of consumption** (dealt with in § 5.2.2.1, C, p. 328 et seq.): this section deals with the paradigm shift in consumption and arbitrages between distribution channels that may have been generated during periods of lockdown by the constraints imposed on physical stores;
- **Risk related to retailer arbitrage and reletting** (dealt with in § 5.2.2.2, A, p. 330 et seq.): this section shows items relating to Mercialys ‘rental exposure. The quality of its portfolio and the defensive nature of its merchandizing mix help to secure the Company’s income despite the difficulties encountered by some tenants;
- **Risk related to the safety and security of operations and a deterioration in the portfolio** (dealt with in § 5.2.2.2, B, p. 333 et seq.): this section includes the health measures put in place to ensure the health and safety of visitors, retailers and employees at the shopping centers, as well as to comply with Government protocols;
- **Risk related to providers, suppliers and subcontractors** (dealt with in § 5.2.2.2, D, p. 335 et seq.): although Mercialys only deals with leading partners and its individual exposure to each partner is limited (apart from the Casino group), this section points out the plausibility of default of certain service providers, suppliers or subcontractors in the current climate;
- **Risk related to interest rates, the cost of debt, liquidity and financing** (dealt with in § 5.2.2.3, A, p. 336 et seq.): this section points to an increase in risk premiums applied to some players in the retail real estate segment by financial stakeholders, due to their increased risk aversion against a backdrop of uncertainty.