

# MERCIALYS

## 2018 Integrated report

EXTRACT FROM THE REGISTRATION DOCUMENT



# REAL ESTATE AND RETAIL EXCELLENCE

2018 marked another year of success for Mercialys, with excellent financial, extra-financial and operational results. In this Integrated Report, the Company outlines the reasons behind this lasting success, which has seen Mercialys cement its position as one of France's leading shopping center operators.



Éric Le Gentil  
Chairman of the Mercialys  
Board of Directors

## 3 QUESTIONS FOR THE CHAIRMAN

### *Eric Le Gentil, how would you summarize 2018?*

Mercialys once again enjoyed excellent performance in 2018 in a difficult environment. The Company generated solid results, with organic growth in invoiced rents of +3.7% and Funds From Operations (FFO) up +4.5%, excluding the impact of the carrying cost linked to the early refinancing of the Euro 480 million bond issue maturing in March 2019. These results far exceed the targets Mercialys had set for 2018 and reflect the relevance of its strategy and the quality of its operations. The Board of Directors will propose to the Annual General Meeting of April 25, 2019 the payment of a dividend of Euro 1.12 per share (including the interim dividend of Euro 0.50 per share already paid in October 2018), up +2.8% compared with 2017 and offering a 5.3% yield on the EPRA<sup>(1)</sup> NNNNAV of Euro 21.14 per share at the end of 2018 and a 9.4% yield on the annual closing price.

More generally, from 2018 we can take away the following 3 points. First, the Company once again proved its operational excellence with footfall and retailer sales far above the national average. Second, the successful and swift completion of 4 development projects, namely 3 hypermarket transformations in Annecy, Besançon and Brest, and the major renovation-extension of the Cap Sacré-Cœur center on Reunion Island. Third, new progress in the governance of Mercialys, whose Board of Directors now has 64% of independent directors, following Casino Group disposal of 15% of the Company's share capital.

(1) European Public Real Estate Association.

“ From 2018, we take away three main points: the demonstration once again of Mercialis operational excellence, the successful and swift completion of four development projects and further progress in the governance of the Company ”

***In early 2019, you announced the separation of the roles of Chairman and Chief Executive Officer. Why is this change being made, and what are the strategic priorities you have set for 2019 and the coming years?***

I did indeed propose to the Board of Directors meeting of February 13, 2019 the dissociation of the roles of Chairman and Chief Executive Officer of the Company. In this way, we continue to ensure that Mercialis has the very best governance practices. Mr Vincent Ravat, previously Chief Operating Officer, was unanimously appointed Chief Executive Officer. He proposed

that Ms Elizabeth Blaise, Chief Financial Officer, became Deputy Chief Executive Officer, a proposal that was also unanimously approved by the Board.

In terms of strategic priorities, over the last quarters we have been working on the future of the shopping centers, by thinking about the form they may take to ensure they always closely meet consumer needs. Our reflections resulted in 5 major strategic pillars which will now shape the Company's operational dynamic, in addition to the economic fundamentals of the business model. Mercialis is also actively looking at new investment options and schemes to diversify its sources of projects while maintaining a solid financial profile.

***What is your CSR<sup>(2)</sup> strategy for the coming years?***

In 2015, Mercialis determined a CSR strategy up to 2020. Strong progress has been made in all priority issues, as shown by the Company's meteoric rise up the various CSR rankings. In 2019, Mercialis will review all of its projects and extend its objectives to continue making progress in these key areas.

Among Mercialis' many key recent CSR initiatives, the Company set up in 2018 a strategy to reduce its carbon emissions in line with the limitation of the increase in global temperature to 2°C by 2050. In 2019, it will submit it to the Science Based Target initiative (SBTi)<sup>(3)</sup> for approval. This year, the Company also repeated, in the preamble to its 2018 Registration Document, the Integrated Report, in line with the philosophy and the reference framework determined by the International Integrated Reporting Council (IIRC) and consistently with its status as a French leader in the transparency of financial and extra-financial publications.

Euro **185.2** million  
of invoiced rents

**+3.7%**  
of organic growth

Euro **1.25** per share  
of Funds From Operations

(2) Corporate social responsibility.

(3) Independent nonprofit association organization that checks the compatibility of carbon objectives set by companies with the aim of limiting the increase in global temperatures to 2°C by 2050.

“We have identified 5 new strategic pillars for development, to further build on the Company’s business model and the prime positions of its assets, and secure lasting value creation. Some of these areas may become strategic in the retail real estate dynamics of the future.”

### 3 QUESTIONS FOR THE CHIEF EXECUTIVE OFFICER

Vincent Ravat  
Mercialys Chief Executive  
Officer

*Vincent Ravat, you have just been appointed Chief Executive Officer. What dynamic do you plan to consolidate in the field of real estate?*

I will continue to capitalize on the Company’s three competitive advantages, namely a portfolio of evolving, modular real estate assets, an adaptative, omnichannel, retail concept and a powerful, CSR dynamic with a strong local presence.

We have identified 5 new strategic pillars for development, to further build on the Company’s business model and the prime positions of its assets, and secure lasting value creation.

First, we plan to position Mercialys’ sites as service hubs for their retailers and end customers, so that they are no longer merely places for shopping, but market places.

We also want to involve the centers in consolidating last-mile logistics flows, their central geographic position and their anchoring within their catchment areas helping to solve the problem of the cost of local delivery.



84.3%  
of EBITDA margin

Euro 20.86  
per share of EPRA NAV

We will also further improve our knowledge of each customer, to provide tailored responses and always more precisely address their changing needs.

We will then continue to anchor Mercialys' operations in a sustainable development and sharing narrative, encouraging people to consume better, not more.

Finally, we will work to go beyond the traditional use of shopping centers to make them real living places, with the development of mixed-use programs and the addition of leisure facilities.

Euro 3,780 million  
of portfolio value  
(including transfer taxes)

Euro 568 million  
of development  
projects

### ***What will be the impacts of this new strategic vision on the Company's organization and financial balances?***

These new focus areas are split into 35 operational priorities involving all Mercialys employees in an organization in project mode and with a test and learn approach. They rely on the proven ability of our teams to engage in cross-functional working, share experiences and innovate internally. They provide a powerful unifying dynamic to motivate human resources.

Some of these areas may become strategic in the retail real estate dynamics of the future. Through our initiatives we are preparing both the Company and its employees for these underlying changes. Employees have the opportunity to develop new skills, as we strongly encourage them to show initiative and put their ideas forward. Our aim is to most precisely respond to the new modes of consumption and the expectations of customers who are now taking many societal and environmental consi-

derations into account. On this point, the CSR strategy in place at Mercialys since years will form the foundations which employees can build on to ensure responsible growth for the Company.

In terms of financial balances, our employees are aware that each priority must strengthen the centers within their catchment area and meet the profitability criteria which has always driven Mercialys' growth, thence securing its future and the durability of its performance.

### ***What is the outlook for 2019?***

2019 will be a year of greater operational and financial discipline. Given the tension on the retail real estate assets market, Mercialys will seek to maintain its balance sheet position, by backing the value of its investments with that of its asset disposals. Depending on the level of disposals in 2019, the depth and flexibility of its development project portfolio will enable it to be highly responsive when launching projects.

Confident in the future and in its own expertise, Mercialys has set the following targets for 2019:

- organic growth in invoiced rents of around +3% including indexation, of which at least +1% excluding indexation;
- Fund From Operations (FFO) growth of at least +4%;
- dividend at least stable, within a range of 85% to 95% of 2019 FFO.

“2019 will be a year of greater operational and financial discipline.”

# MERCIALYS AND ITS ECOSYSTEM

Mercialys is a real estate company founded in 2005 and specialized in the management and enhancement of retail assets.

The Company is a key shopping center operator in France with 48 shopping centers and 7 city center assets at the end of December 2018<sup>(1)</sup>. Mercialys' assets are rolled out over 873,000 sq.m and host more than 600 international, national and local retail chains and over 100 million visitors a year.

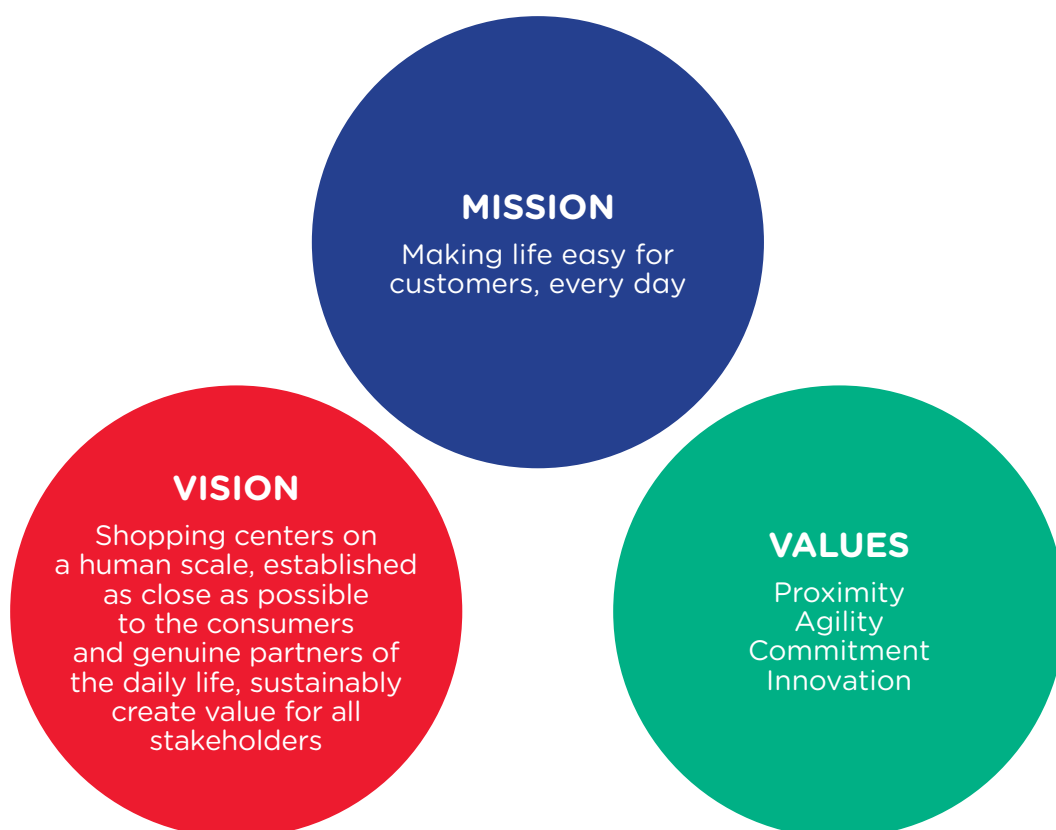
## IDENTITY CARD

Mercialys' activity is primarily targeted at ensuring the profitability of its sites. The Company adopts an agile and proactive approach to the management of its portfolio, with all of its initiatives aimed at improving lettable, value and durability.

To do so, Mercialys has developed, since its creation, a dynamic commercial strategy, precisely tailoring its retailer mix to each catchment area and to changes in consumer trends.

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

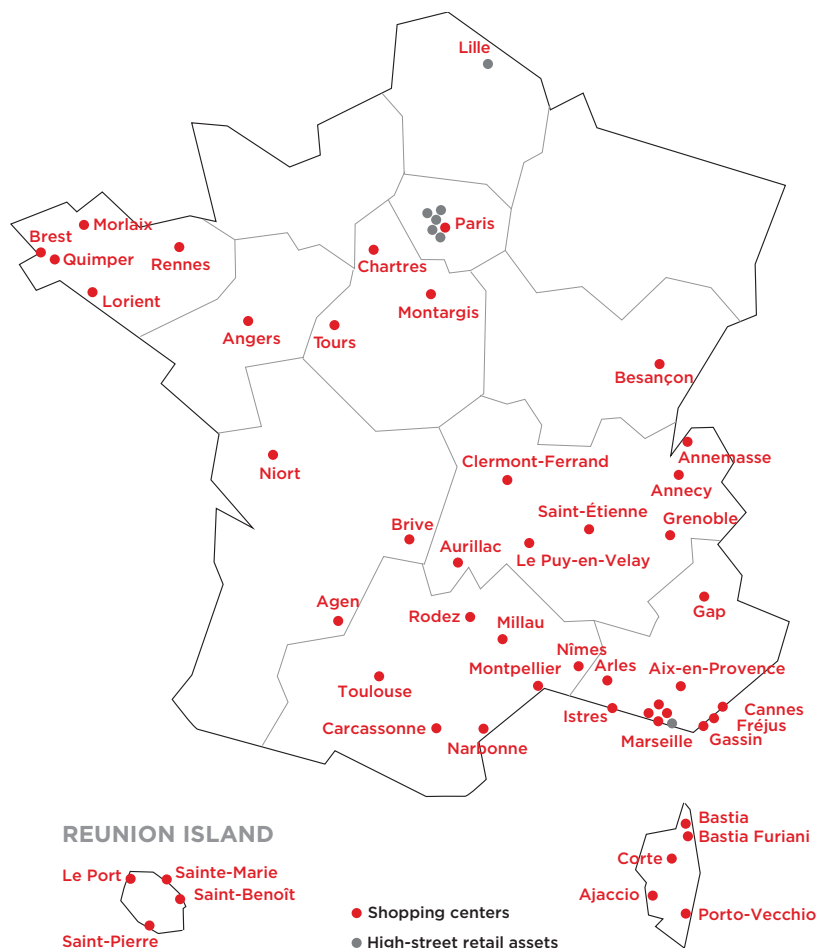
Lastly, as a leading retail real estate company, Mercialys plays an important role in interacting with retailers, end customers, local authorities and associations, in addition to shaping the urban fabric. This broad economic and social role encourages it to be constantly attentive to all of its stakeholders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



(1) In addition to 6 dispersed assets

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

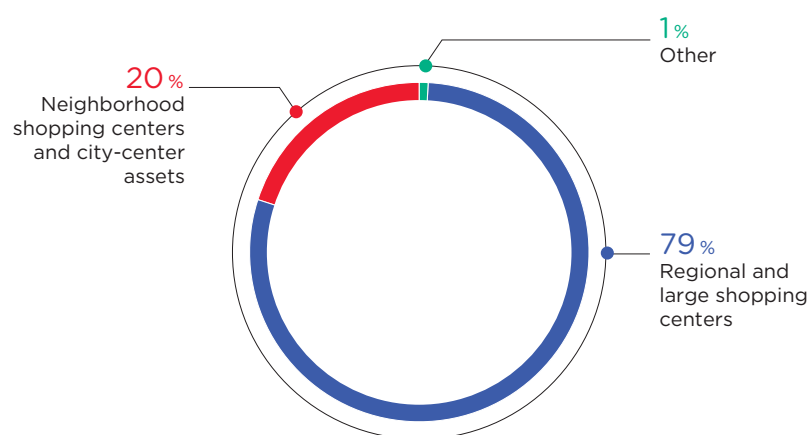
## Portfolio at the end of 2018<sup>(2)</sup>



(2) Excluding dispersed assets.

## Breakdown of portfolio

(as % of the appraisal value, including transfer taxes)



The Company has a mixed organization. It is structured around central functions at head office and employees at its various site, each site having at least one center manager, who works under a regional director.

Mercialis outsources, via mandates and a services agreement, some of its administrative activities, including the rental management of its centers.

**108** employees

**36%** of employees on site

**62%** of participants in teleworking

### Core business

- Letting
- Asset management
- Center management
- Property management
- Delegated project management

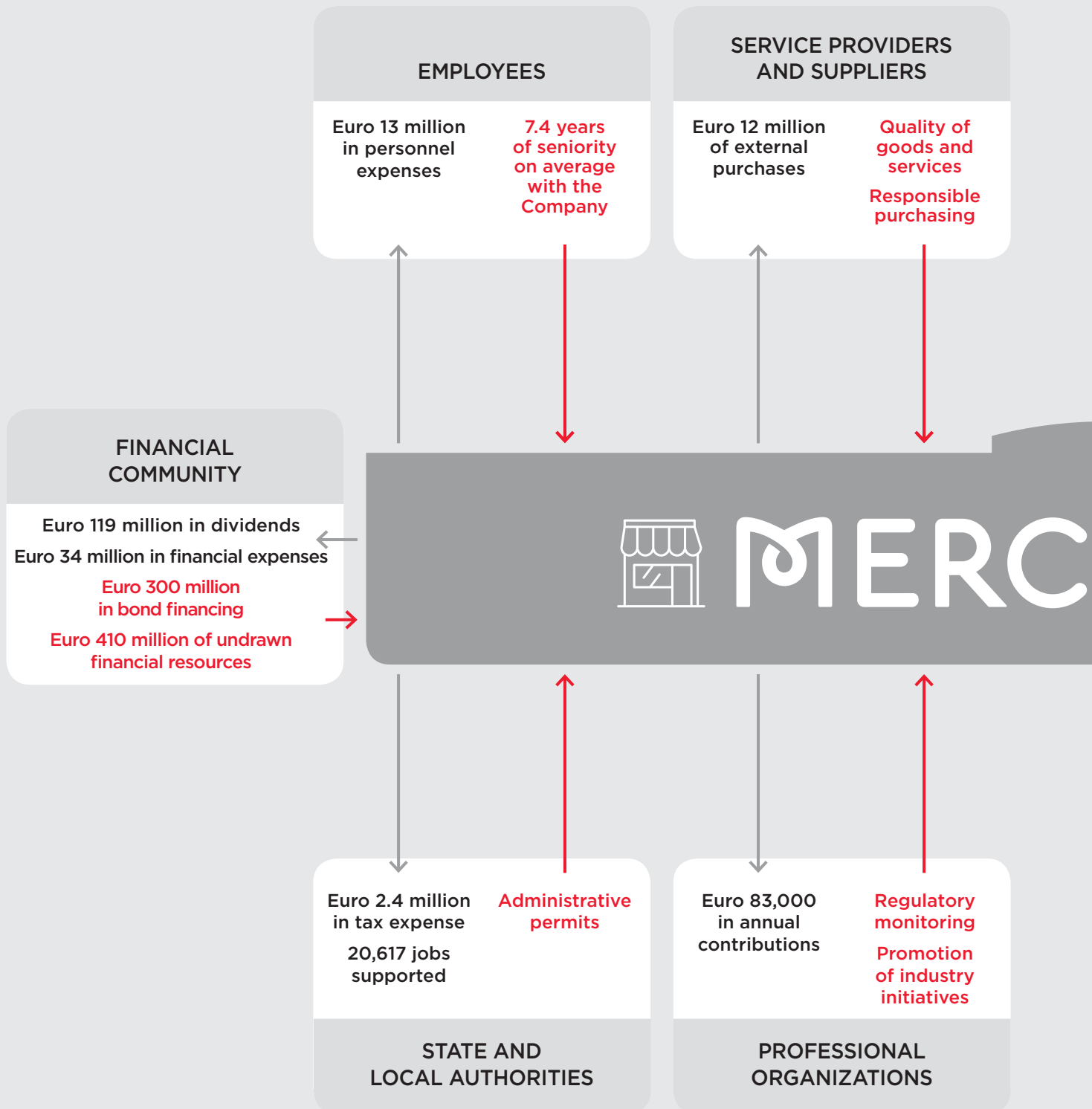
### Support services

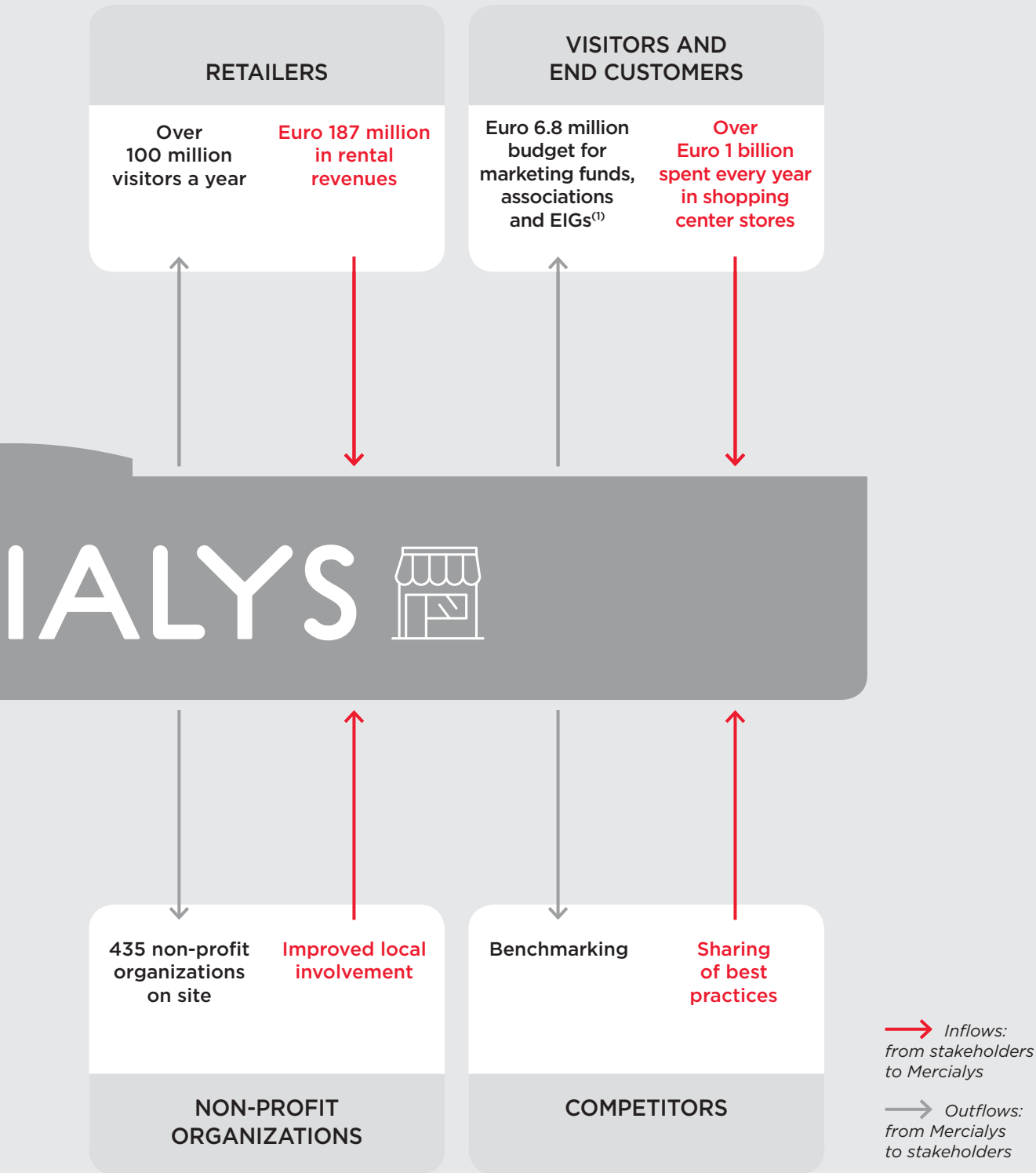
- CSR
- Marketing and Communication
- Finance
- Accounting and Management control
- Arbitrage
- Legal
- Human resources

- In-house operations
- Partially outsourced operations
- Fully outsourced operations

## COMPANY ECOSYSTEM

Mercialys' operations are part of an important stakeholder ecosystem with which it interacts regularly. These interactions take the form of dialogues and both incoming and outgoing flows, reflecting the sharing of value between all parties involved.





(1) Economic Interest Group.

# THE KEYS TO A WINNING OFFER

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

The Company's operational and financial stakes are therefore linked to, first, its understanding of the changing trends in end customer consumption habits and its ability to adapt accordingly to the needs of its retail chain tenants, and second, to its command of its real estate properties and, more specifically, to its ability to make evolve its properties in line with its positioning as a multi-local real estate company, the new conception of urban spaces and the challenge of ecological transition.

## SECTORS UNDER TRANSFORMATION

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

Under the effect of sociological, demographic and technological changes, which lead to new lifestyles, new habits and mentalities, the consumer and urban planning sectors are undergoing a deep transformation. For Mercialys, these transformations represent multiple opportunities to daily rethink and redesign retail and real estate.

### Impact on consumption

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

### Impact on real estate assets and development

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

The changes currently afoot in the retail sector are complex. While consumption habits are evolving, the breakdown of the consumption of French households has changed little over the last decade<sup>(1)</sup>, with half covered by the products available in shopping centers. These sites remain very widely preferred by consumers, with 65%<sup>(2)</sup> of French people preferring to purchase

their products, across all categories, in store. This trend is particularly marked for the latest generations. Further, across all generations, buyers who spend a lot online also spend large amounts in physical stores, which leads to question the opposition often made between e-commerce and traditional shopping.

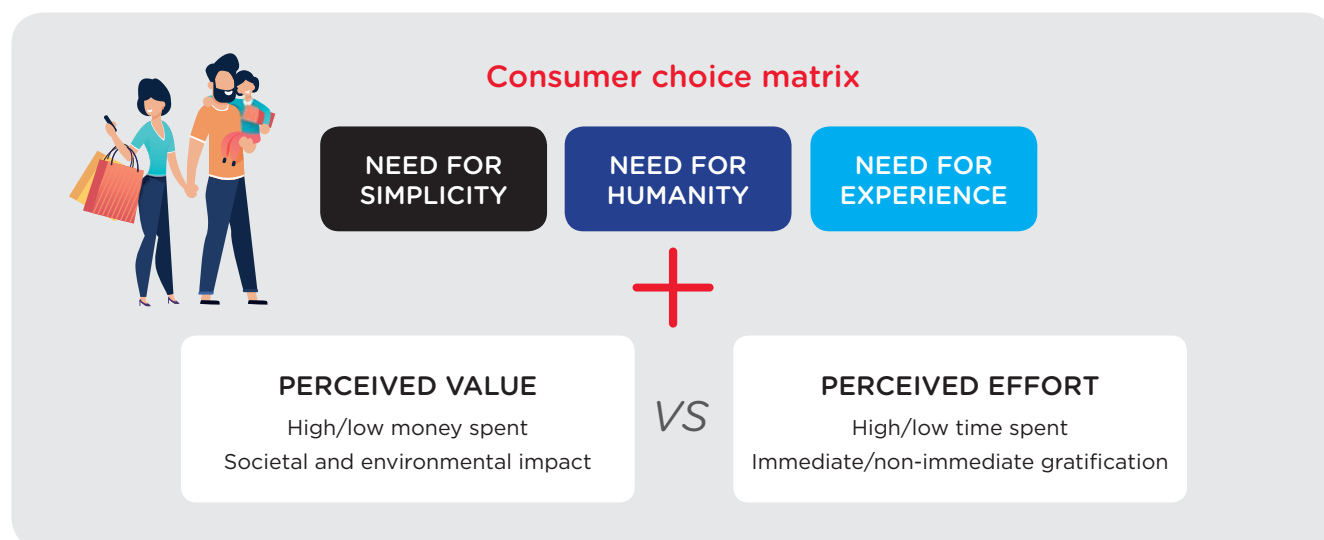
(1) Insee.

(2) PG Mediabrands, in partnership with Ipsos and Google, 11 European countries, 4,800 respondents per country.

## THE MERCIALYS VALUE PROPOSITION

Thanks to its proven retail and real estate experience, constantly listening to stakeholders and attentive to market changes, Mercialys has a fine understanding of the ongoing changes and their underlying factors.

Today's French consumers are polymorphous, with expectations that are sometimes paradoxical. Most of them find themselves confronted with a choice matrix combining 3 fundamental needs with a continuous arbitrage between value and effort. On this basis, they determine the path of least resistance between their need and a product that will meet it, irrespective of whether the distribution channel is physical or digital.



A polarization of the retailers and shopping centers is noted, without correlation to either their business segment or their size. While the customer journey fragments, winning operators set themselves apart by adopting a clear position and developing a strong identity, by focusing on transparency and product quality, by cultivating local connections for local, responsible trade, and by working on the fluidity of omnichannel logistics.

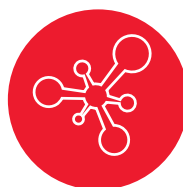
These are the retailers Mercialys selects in its centers and and this is the way it develops its assets since the Company was established, in order to build leading shopping destinations. Its value proposition can be resumed as follows: offer retail chains end customers, via a network of shopping centers with a solid footing in their local reality, the certainty of finding most of the products they are looking for to meet their needs immediately, in a quick and easy purchasing experience, with good value for money and a social interaction.

### To do this it relies on its three competitive advantages:

**REAL ESTATE KNOW-HOW**  
A portfolio of evolving, modular real estate assets



**RETAIL KNOW-HOW**  
An adaptive and omnichannel retail concept



**CSR KNOW-HOW**  
A powerful, responsible dynamic with a strong local presence

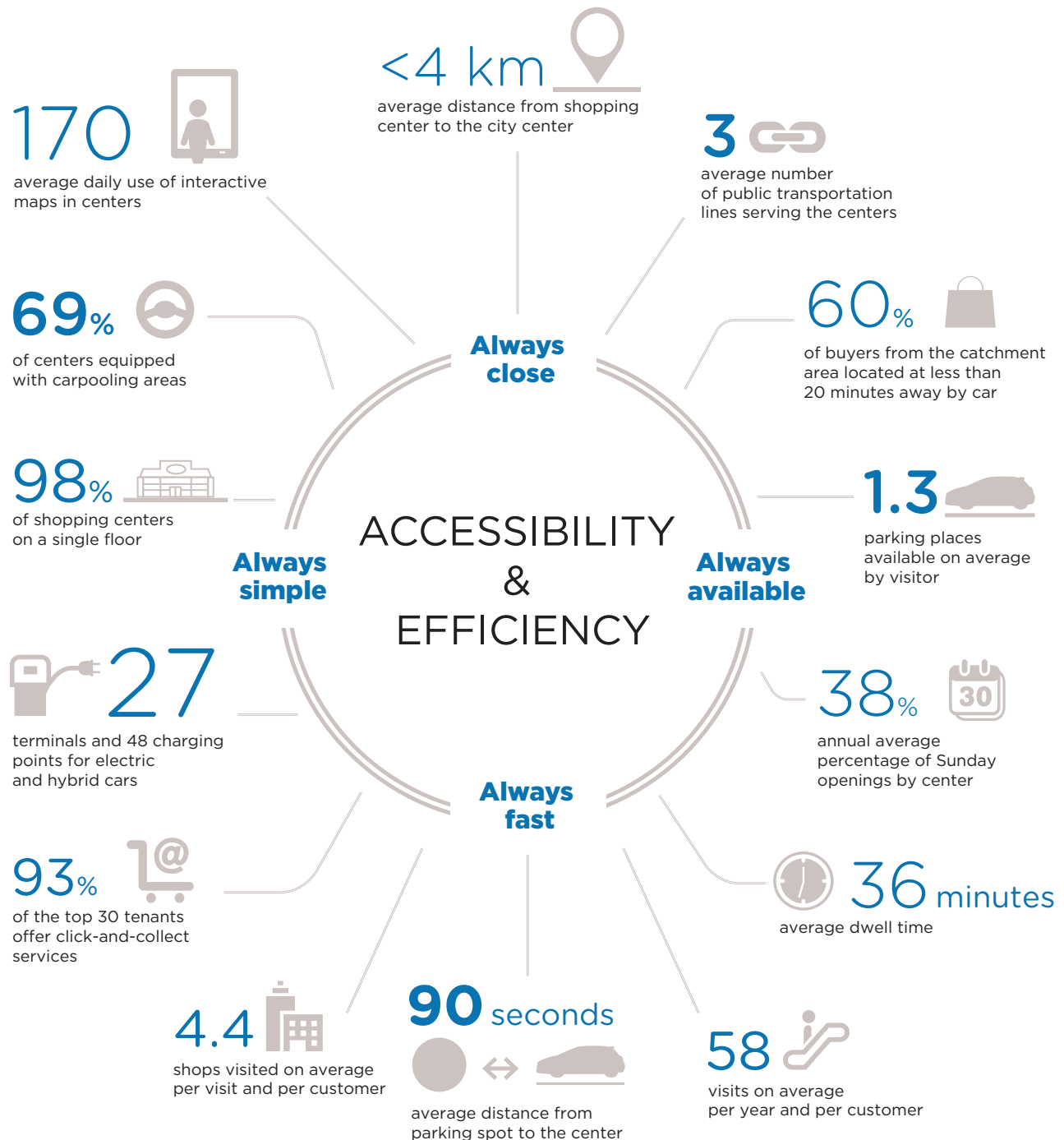


# A PORTFOLIO OF EVOLVING, MODULAR REAL ESTATE ASSETS

The first competitive advantage of Mercialys lies in its proven real estate know-how and the quality of its assets. The design of its shopping centers is based on two key success factors which make for a simple, smooth shopping journey: accessibility and efficiency.

**Accessibility** relies on asset design and prime geographic positions. Mercialys' sites are always located at the heart of their primary catchment area, not far from city centers, and are extremely well served by public transport. They offer long opening hours, optimized parking facilities and clear signboards inside the shopping centers, etc.

**Efficiency** refers both to efficient purchasing, but also the ability of Mercialys to rapidly make evolve its physical assets, to ensure they always respond appropriately to changing needs in their catchment areas and thus consolidate their competitive positions.

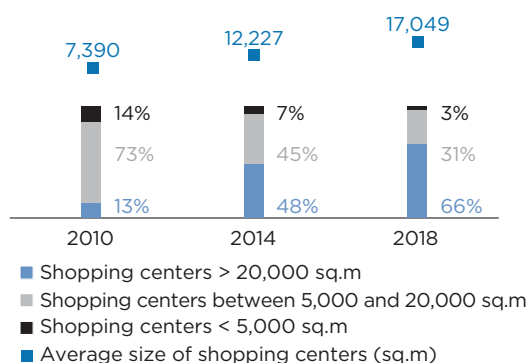


Valued at Euro 3,780 million including transfer taxes at the end of 2018, Mercialis' asset portfolio makes it one of France's leading retail real estate companies, both in terms of size and quality of its sites.

At the end of 2018, the average size of Mercialis shopping centers<sup>(1)</sup> was 17,000 sq.m and the average value was Euro 74 million including transfer taxes, a very significant increase since 2010 thanks to the Company's accretive investment strategy and regular arbitrage.

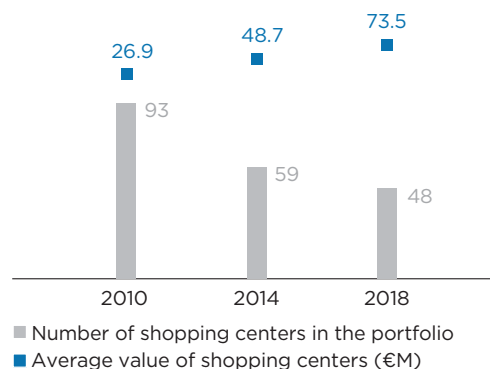
#### BREAKDOWN OF MERCIALYS ASSETS BY SIZE

(AS A % OF THE APPRAISAL VALUE INCLUDING TRANSFER TAXES)



At the end of 2018, the portfolio was refocused on a selective number of sites:

- leaders or co-leaders in their catchment areas;
- located in the most dynamic regions of mainland France and overseas territories;
- with a residual real estate and retail development potential.



#### FEATURES OF MERCIALYS SHOPPING CENTERS LOCATIONS

|  | Demographic growth <sup>(1)</sup> | Growth in gross disposable income per inhabitant <sup>(1)</sup> |
|--|-----------------------------------|---|
| Mercialys geographic exposure <sup>(2)</sup> | +6.5%                             | +17.2%  |
| France average <sup>(3)</sup>                | +4.7%                             | +14.8%  |
| <b>Outperformance</b>                        | <b>173 pb</b>                     | <b>237 pb</b>   |

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

(2) Weighted by surface area.

(3) Mainland France.

All the development projects carried out by Mercialis are aimed at strengthening the attractiveness of its sites and consolidating their leadership. At the end of 2018, the Company had a pipeline of Euro 568 million, comprising:

- retail space requalification projects (reduction of spaces dedicated to hypermarkets and installation of new shops and medium-sized stores);
- new retail space creation projects (extension of shopping centers, construction of retail parks, food courts);

#### PORTFOLIO OF MERCIALYS DEVELOPMENT PROJECTS

| <i>in Euro million</i> | Total investment | Investment still to be committed | Target net rental income  | Target net yield on cost  | Completion date  |
|------------------------|------------------|----------------------------------|---------------------------|---------------------------|------------------|
| Committed projects     | 12.1             | 11.7                             | 0.9                       | 7.1%                      | 2019             |
| Controlled projects    | 207.3            | 207.0                            | 10.4 <sup>(1)</sup>       | 6.7% <sup>(1)</sup>       | 2020/2022        |
| Identified projects    | 348.3            | 348.2                            | 21.6 <sup>(1)</sup>       | 7.0% <sup>(1)</sup>       | 2022/2025        |
| <b>TOTAL PROJECTS</b>  | <b>567.7</b>     | <b>566.9</b>                     | <b>32.9<sup>(1)</sup></b> | <b>6.9%<sup>(1)</sup></b> | <b>2019/2025</b> |

(1) Excluding impact of mixed-use high-street projects for Euro 85 million of investments, which could also generate property development margins

(1) Excluding high-street assets.

(2) In addition to 6 dispersed assets.

**84%** proportion of shopping centers located within the 1<sup>st</sup> or 2<sup>nd</sup> commercial zone of their catchment area<sup>(1)</sup>

(1) In proportion of the appraisal value including transfer taxes.

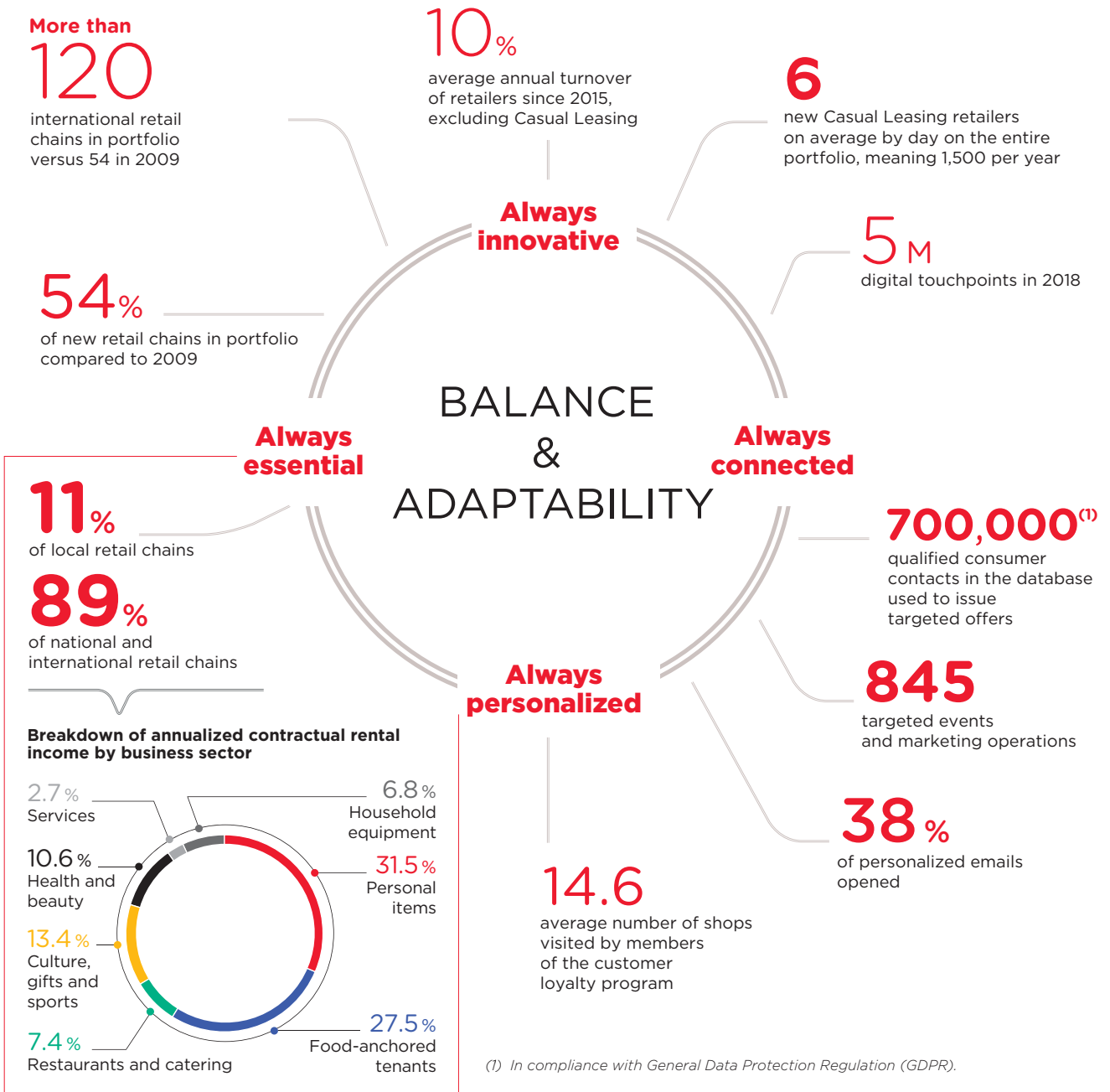
- mixed-use urban projects (renovation and redevelopment of high-street retail assets incorporating a mixture of functions and programs).

Mercialys project portfolio is extremely deep and flexible. First, it covers 30 out of the Company's 55 shopping centers and city-center assets<sup>(2)</sup>. Then, it is divisible and phasable, enabling very fast project launches and completion schedules. Furthermore, all of the developments take place on existing (brownfield) sites, thence their risk profile is fully controlled.



# AN ADAPTIVE AND OMNICHANNEL RETAIL CONCEPT

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



**Balance** refers, first, to the core of products and services offered by Mercialis sites, that are designed to meet the vast majority of customer requirements with a good price accessibility, central to arbitrages of consumption. It also means achieving a careful tenant mix, in terms of both segment exposure and exposure to a particular type of retailer, making the assets highly resilient.

**Adaptability** means the ability of these tenant mixes to evolve in response to changing requirements within the catchment areas, shopping habits, times of year, etc. Casual Leasing complements, on that point, the traditional leases, providing an endless source of retail innovation, and affording opportunities for centers to differentiate themselves and to renew their appeal. Thanks to the high turnover of tenants and concepts, Casual Leasing helps to stimulate the merchandising mix, thereby guaranteeing new discoveries for customers at each visit and an offering that changes to reflect trends, seasons and events. Adaptability also means the ability of Mercialis to identify and meet the individual requirements of its customers, thanks to its powerful omnichannel marketing and service ecosystem: G La Galerie.

## AN EVOLUTIONARY B TO B AND B TO C MARKETING AND SERVICE ECOSYSTEM

In addition to its solid and adaptive merchandising mixes, Mercialis also has a centralized marketing platform that offers services to retail chains and end customers. Called G La Galerie, this powerful ecosystem brings together the physical and digital shopping journeys to form a robust, personalized communication tool that refines the customer experience, builds loyalty, and makes exchanges between Mercialis, retailers and end customers more fluid.

It offers visitors an omnichannel, personalized and engaging shopping experience, designed to satisfy them, increase footfall at centers and boost retailer sales. It completes the raft of physical marketing events and initiatives which take place regularly at the shopping centers, all at a cost much lower than an approach on a center-by-center basis.

### G La Galerie

- An architectural concept and a unique brand
- National marketing campaigns around a strong identity and local implementation of events and activities
- Services and an integrated B to B and B to C digital ecosystem

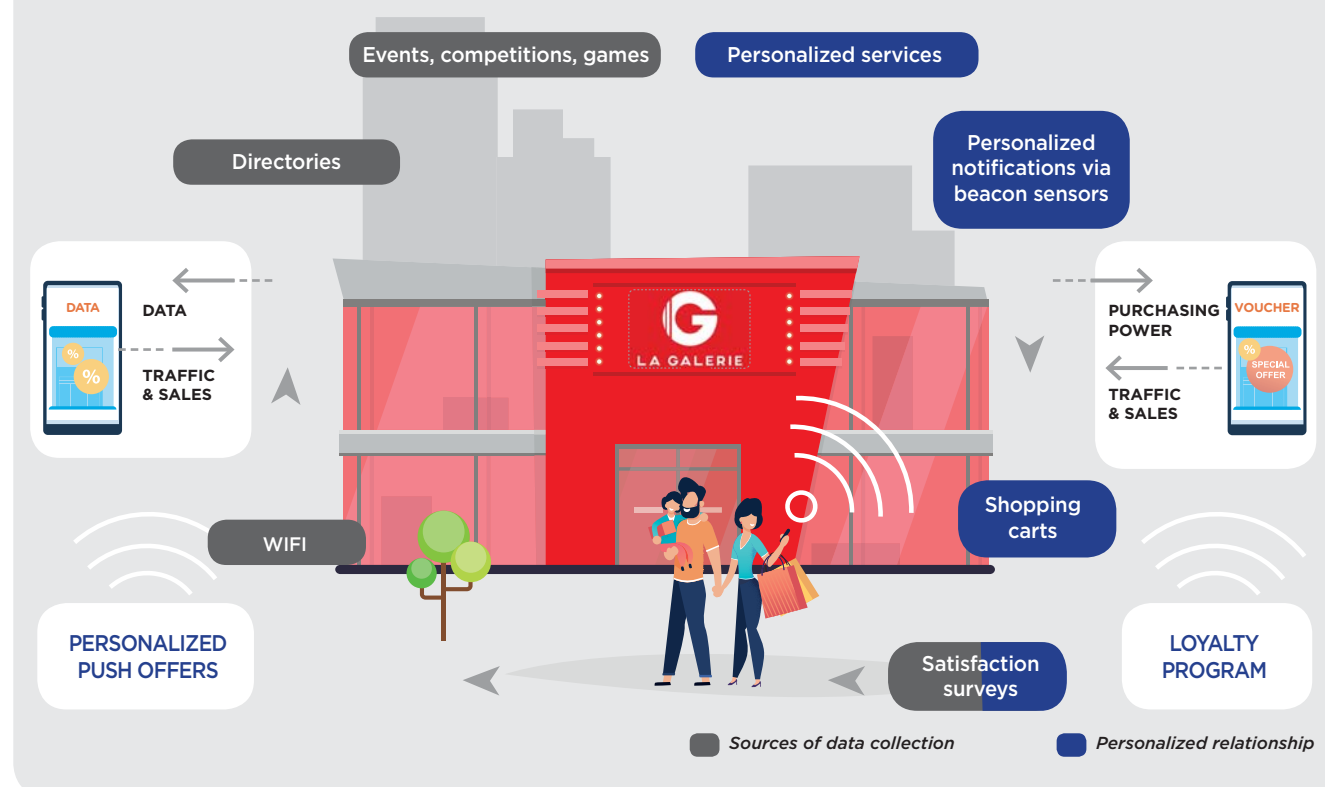
In the field of customer knowledge, the G La Galerie ecosystem makes it possible to develop an incredibly accurate knowledge of needs and thus tailor and differentiate the retail offer. As illustrated by the diagram below, Mercialis' marketing efforts are designed to benefit each touchpoint with a customer to collect information and enrich its profile. To date, Mercialis is aware of 20% of individual customers on average from each catchment area out of the approximately 40 centers fully equipped with the system.

This customer knowledge is based on dozens of criteria, such as the frequency of visits, level of satisfaction and the retailers visited. Since 2018, Mercialis can also access the average spend of customers, irrespective of the retailer.

This improved understanding of needs and habits is a powerful tool for boosting customer loyalty. All of this data enables precise targeting to notify customers about events at the centers and specific retailer offers to secure the best rates of return to stores.

Furthermore, the Mercialis database makes it possible to work on the shopping centers' traffic on a store-by-store basis. This is because each center is able to share with its tenants statistical analyses of its database, to plan relevant targeted marketing initiatives for each store, its customers or prospects, and in the end for the site as a whole.

All Mercialis marketing tools, developed since 2015, are proprietary, enabling the Company to free itself of the rising costs of purchasing traffic from the GAFAs<sup>(1)</sup>.



(1) Google, Apple, Facebook and Amazon.



## A POWERFUL, RESPONSIBLE DYNAMIC WITH A STRONG LOCAL PRESENCE

The third competitive advantage of Mercialys comes from its ability to listen and take into account all stakeholders. Its positioning at a very local level enables it to accurately grasp the problems and expectations of civil society. With a presence in a wide range of regions and cities across France, Mercialys is able to precisely determine multiple local realities and requirements, thus ensuring that it always acts in a responsible manner.

Given the central economic and social positioning of its shopping centers, Mercialys has made CSR an integral part of its growth and success, by formalizing its CSR strategy, called MERY'21, in 2015.

This strategy is reflected in particular in the day-to-day ethical management of the centers and in their commitments to the socio-environmental dynamics of their regions.

### MERY'21: a local response to global issues for each asset











Major global issues that Mercialys must confront include the following: creation of lasting value, pursuit of ethics and meaning, local involvement, climate change and dwindling resources. These issues underlie risks and opportunities that the Company has identified and ranked, defining 10 operational priorities which enable it to address them. Each priority in its CSR strategy covers one or several of these issues according to a scale that is presented in the diagram below.

|  | CREATION OF LASTING VALUE | PURSUIT OF ETHICS AND MEANING | LOCAL INVOLVEMENT | CLIMATE CHANGE | DWINDLING RESOURCES |
|--|---------------------------|-------------------------------|-------------------|----------------|---------------------|
| Customer well-being, health and safety   | ●●                        | ●                             | ●                 |                |                     |
| Accessibility and connectivity           | ●                         |                               | ●●                | ●              |                     |
| Adaptability and resilience of assets    | ●●                        |                               |                   | ●              |                     |
| Citizenship and local economy            | ●                         | ●●                            | ●                 |                |                     |
| Responsible value chain                  |                           | ●                             | ●●                |                |                     |
| Energy and greenhouse gas emissions      |                           |                               |                   | ●●             | ●                   |
| Circular economy                         |                           |                               |                   | ●              | ●●                  |
| Biodiversity                             |                           |                               | ●●                |                | ●                   |
| Talent and diversity                     | ●                         | ●●                            |                   |                |                     |
| Organization and quality of life at work |                           | ●●                            |                   |                |                     |

○○ Significant impact ○ Moderate impact

By doing this, the MERY'21 priorities cover the entire scope of risks associated with the Company's operations, created by its business relations or its products and services. They also make it possible to identify and develop opportunities for value creation and progress in the short and long-term, to further consolidate the domination of the centers within their catchment areas.

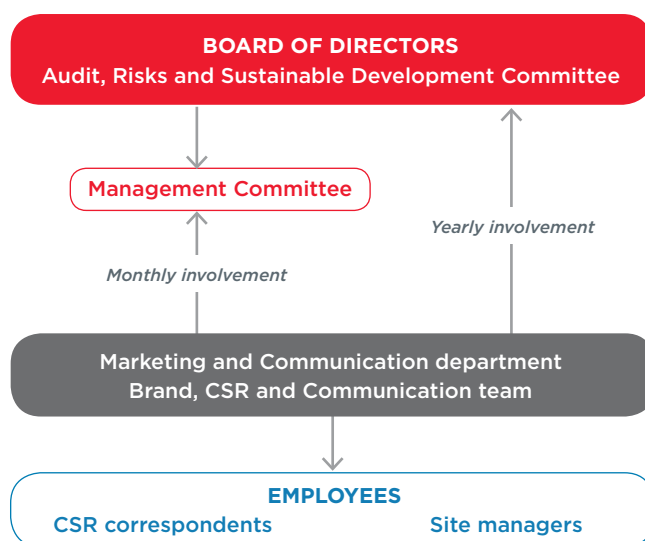
These priorities, as well as the solutions identified to attain their objectives (quantitative and qualitative) by 2020, are outlined in the table below. Although solutions are defined generally, most of them are implemented locally based on operational action plans tailored to the specific needs and realities of each site.

| PRIORITIES  | DESCRIPTION   | OBJECTIVES   |
|---|---|--|
|  <b>Customer well-being, health and safety</b>     | <ul style="list-style-type: none"> <li>Managing safety, health and environmental risks at the centers</li> <li>Develop ways to set Mercialys assets apart and make them the preferred choice</li> </ul>               | <ul style="list-style-type: none"> <li>100% of assets with high-level risk management</li> <li>Increase comfort and quality of life in the centers</li> <li>Boost visitor satisfaction</li> <li>Improve tenant satisfaction</li> </ul> |
|  <b>Accessibility and connectivity</b>             | <ul style="list-style-type: none"> <li>Offer responsible alternatives for retailers and customers</li> <li>Ensure accessibility for all</li> </ul>  | <ul style="list-style-type: none"> <li>15% increase in visitors traveling to centers using forms of transport other than a gasoline car</li> <li>80% of visitors have a positive image of the accessibility of the centers</li> </ul>  |
|  <b>Adaptability and resilience of assets</b>      | <ul style="list-style-type: none"> <li>Develop the ability of assets to adapt to environmental and societal factors</li> <li>Introduce measures to mitigate the impact of these factors</li> </ul>                    | <ul style="list-style-type: none"> <li>Increase the number of assets with BREEAM In-Use certification</li> <li>Ensure the adaptability of the assets</li> </ul>  |
|  <b>Citizenship and local economy</b>              | <ul style="list-style-type: none"> <li>Support local economic development</li> <li>Participate in local public life</li> </ul>  | <ul style="list-style-type: none"> <li>Promote local employment</li> <li>Facilitate social harmony</li> </ul>  |
|  <b>Responsible value chain</b>                    | <ul style="list-style-type: none"> <li>Include CSR clauses in contracts</li> <li>Work in partnership with retailers to reduce the environmental impact of the centers</li> <li>Make customers aware of CSR</li> </ul> | <ul style="list-style-type: none"> <li>80% of purchases over Euro 10,000 with CSR clauses</li> <li>Make the value chain aware of CSR</li> </ul>  |
|  <b>Energy and greenhouse gas emissions</b>        | <ul style="list-style-type: none"> <li>Decrease the carbon footprint of the centers by improving their energy performance and working on their energy mix</li> </ul>  | <ul style="list-style-type: none"> <li>Reduce energy consumption per sq.m by 20% by 2020</li> <li>Reduce scope 1 and 2 emissions per sq.m by 80% by 2050</li> </ul>  |
|  <b>Circular economy</b>                         | <ul style="list-style-type: none"> <li>Improve waste sorting and work on outlets to avoid sending waste to landfill or incinerating it without energy recovery</li> </ul>   | <ul style="list-style-type: none"> <li>Recover 55% of waste in 2020</li> <li>Reduce water consumption by 15%</li> </ul>  |
|  <b>Biodiversity</b>                             | <ul style="list-style-type: none"> <li>Protect ordinary biodiversity, by providing adapted spaces through a considered management of green spaces</li> </ul>  | <ul style="list-style-type: none"> <li>Be involved in the protection of ordinary biodiversity</li> </ul>   |
|  <b>Talent and diversity</b>                     | <ul style="list-style-type: none"> <li>Recruit, develop and retain talent</li> <li>Ensure equal opportunities via an adapted recruitment process, equal access to training and a similar evolution</li> </ul>         | <ul style="list-style-type: none"> <li>Identify, attract and retain talent</li> <li>Combat all forms of discrimination</li> </ul>  |
|  <b>Organization and quality of life at work</b> | <ul style="list-style-type: none"> <li>Ensure a safe, quality working environment</li> <li>Regular dialogue with employees</li> </ul>   | <ul style="list-style-type: none"> <li>Ensure employee health and safety</li> <li>Increase employee commitment</li> </ul>  |

To implement this CSR strategy, Mercialys has a dedicated team within the company's Marketing and Communication department. This team, called «Brand, CSR and Communication», is made up of experts, and reports to Senior management on a monthly basis. This organization ensures that decisions are made in line with the company's strategy and that the achievements, objectives and best practices are communicated and circulated more efficiently to all stakeholders.

The CSR team participate in each Management Committee meeting and, as a minimum yearly, in the meetings of the Audit, Risks and Sustainable Development Committee, to provide updates on the implementation of the CSR strategy.

The priorities are dealt with operationally by a network of correspondents spread over all the Company's services and functions, and key indicators are monitored using a dedicated online tool: MERY RSE.



# A VALUE-CREATING BUSINESS MODEL

Mercialys' strategy is based on a continuous transformation of its retail offering and its real estate assets, in order to adapt them to changing purchasing habits and develop and consolidate rental revenues while respecting its environment.

To do this, the Company relies on five types of resources, operated within a financial and extra-financial business model that creates value for all stakeholders.

## RESOURCES TO SERVE THE STRATEGY

### HUMAN RESOURCES

108 expert employees  
38.6 years average age  
53% women  
41% managers  
1,281 training hours

### INTELLECTUAL RESOURCES

Intangible capital, made up in particular of the G La Galerie ecosystem and the substantial qualified customer database  
Organizational capital, perfectly synthesized in the Company's four values: proximity, agility, commitment and innovation

### FINANCIAL RESOURCES

Euro 410 million in undrawn financial resources

A balanced financial profile:

- 1.8% average cost of drawn debt
- 3.7 years of average maturity of drawn debt
- 40.8% LTV excluding transfer taxes<sup>(1)</sup>
- 5.0x ICR<sup>(2)</sup> and 9.4x Net debt/EBITDA

### LAND RESOURCES

Euro 568 million in development projects for the 2019-2025 period

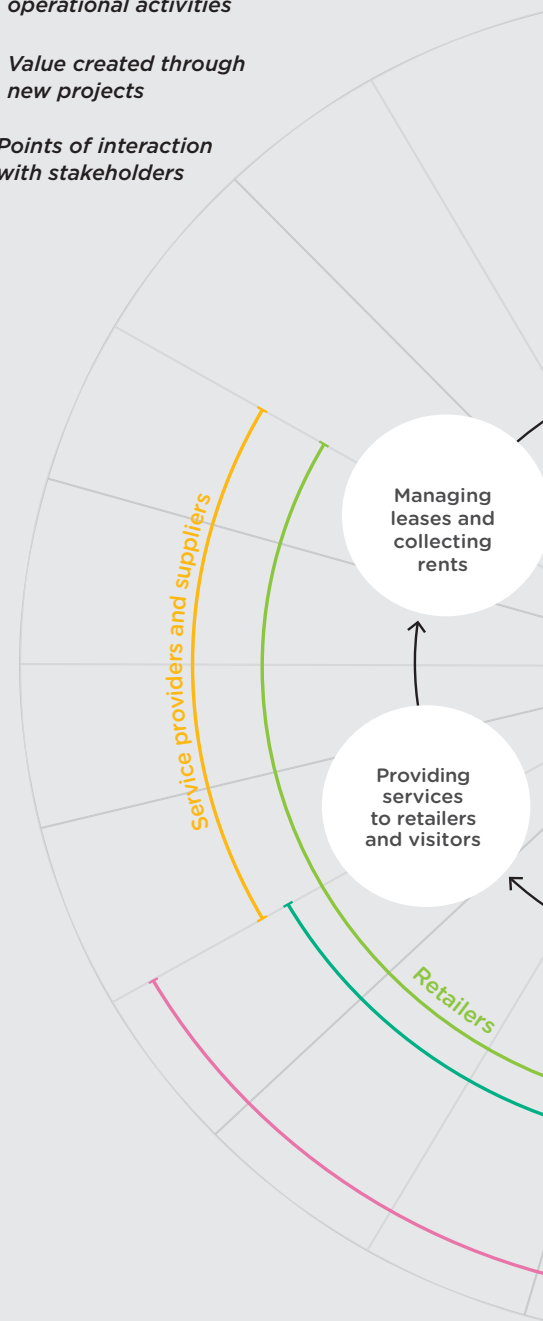
30 assets concerned, 55% of the portfolio<sup>(3)</sup>

### ENVIRONMENTAL, SOCIAL AND SOCIETAL RESOURCES

54,683 MWh of energy used  
134,028 m<sup>3</sup> of drinking water used  
20,617 local jobs supported by the activities of centers and stores  
1,474 job offers proposed by centers  
3 information meetings on major ongoing projects

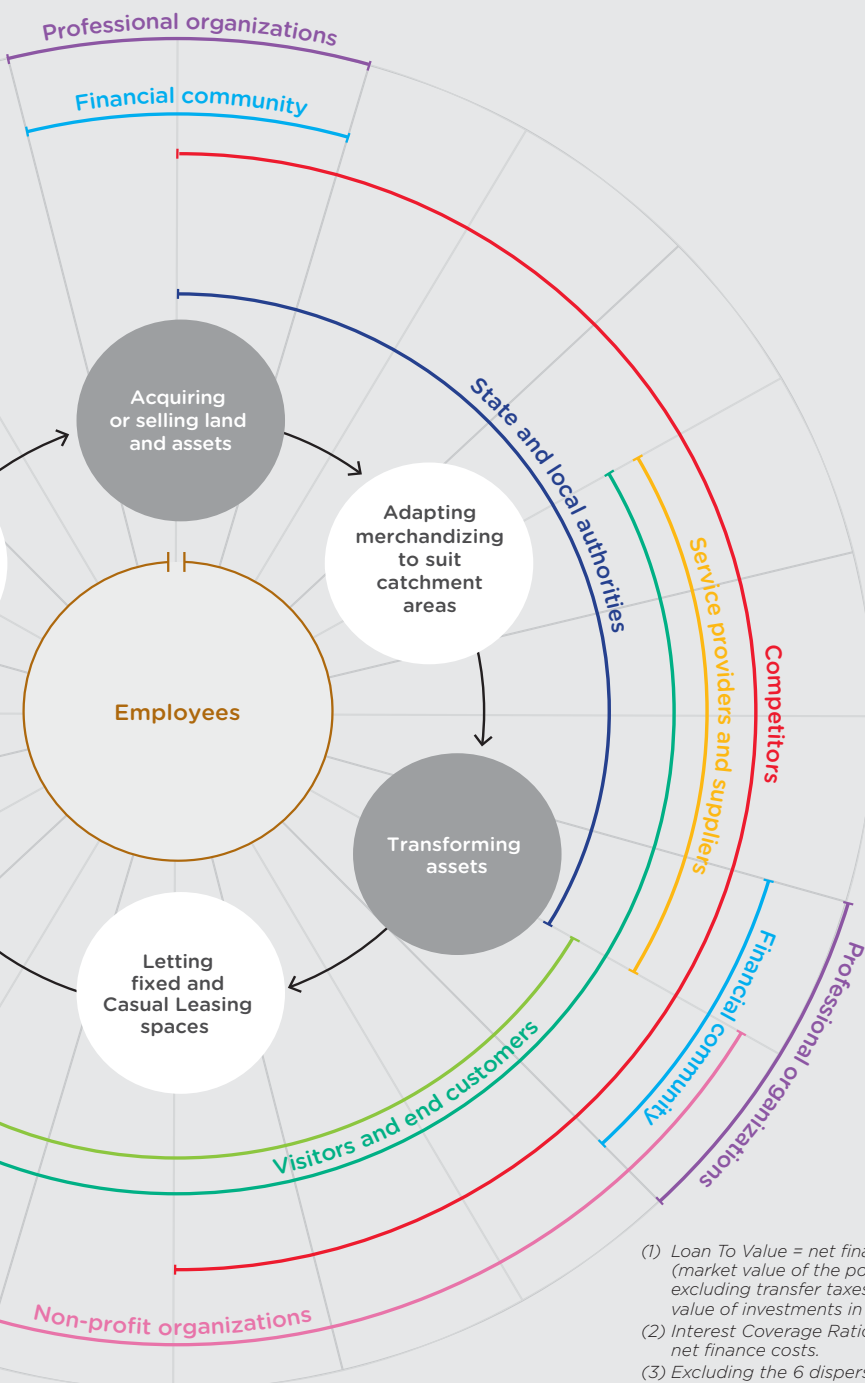
## A VIRTUOUS CIRCLE OF ACTIVITIES ACROSS

- Value created through operational activities
- Value created through new projects
- ↻ Points of interaction with stakeholders



ACROSS THE ENTIRE REAL ESTATE CYCLE

LASTING RESULTS



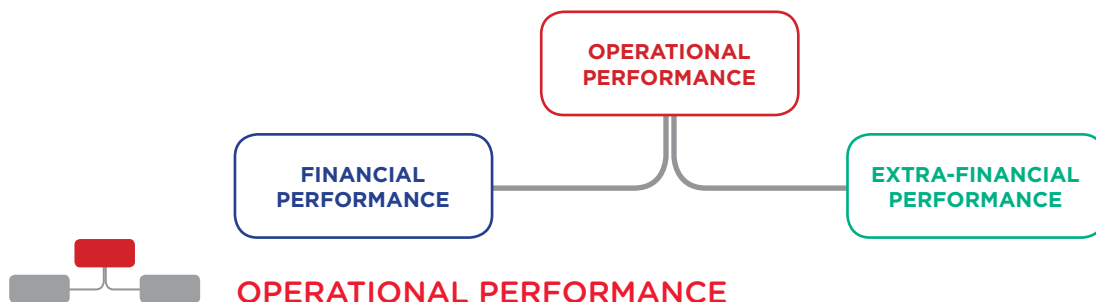
FINANCIAL RESULTS

EXTRA-FINANCIAL RESULTS

- (1) Loan To Value = net financial debt / (market value of the portfolio excluding transfer taxes + market value of investments in associates).
- (2) Interest Coverage Ratio = EBITDA / net finance costs.
- (3) Excluding the 6 dispersed assets.

# CREATION OF SUSTAINABLE FINANCIAL AND EXTRA-FINANCIAL VALUE

Mercialys creates lasting value thanks to an organization fully devoted to the pursuit of short, medium and long term excellence. Its performance is monitored on a daily basis using several key operational indicators, and has resulted in excellent financial and extra-financial results year after year.



Mercialys' centers operational performance is determined by:

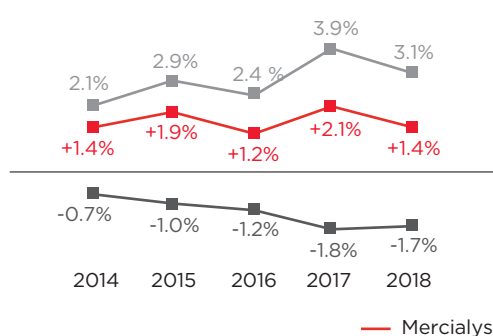
- their **footfall**, understood as the number of visitors counted at the entrance to the shopping centers across all of the Company's large centers and main neighborhood shopping centers;
- **retailer sales**, which is a measure of the sites' appeal and of retailers' operational performance, and thus tenants' financial health;
- the **occupancy cost ratio**<sup>(1)</sup> borne by the retailers in the centers, used to assess the weight of the real estate cost in their operating accounts and, by extension, the sustainability of the rents charged;
- the current financial **vacancy rate**<sup>(2)</sup>, which enables an assessment of the centers' operational management.

## In 2018

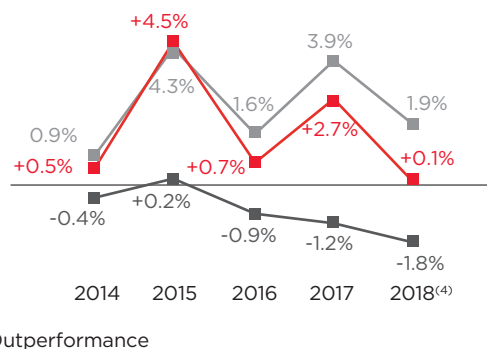
The operational excellence of Mercialys enabled its centers, once again, to outperform the indexes of the French council of shopping centers (CNCC) in 2018, both in terms of footfall and in retailer sales.

This robust performance over a prolonged period of time reflects the expertise of the management teams, the relevance of investment decisions and the intrinsic quality of the assets portfolio.

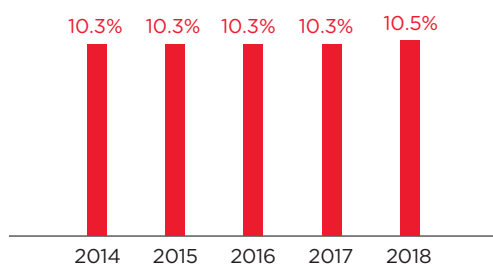
CHANGE IN SHOPPING CENTERS FOOTFALL <sup>(3)</sup>



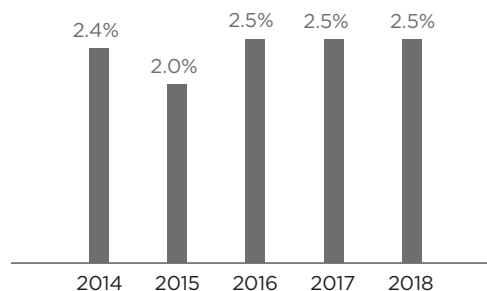
CHANGE IN RETAILER SALES <sup>(3)</sup>



CHANGE IN OCCUPANCY COST RATIO



CHANGE IN CURRENT FINANCIAL VACANCY RATE



(1) Ratio between rent, charges (included marketing funds) and re-invoiced works paid by retailers, including tax, and their sales revenue, including tax (excluding large food stores).

(2) Mercialys vacancy rate does not include agreements relating to the Casual Leasing activity.

(3) Mercialys' large centers and main neighborhood shopping centers based on a constant surface area, representing more than 80% of the value of the Company's shopping centers. The Le Port site on Reunion Island was excluded from the scope in 2018, given the significant non-recurring impact related firstly to extension work and secondly to the inauguration effect.

(4) For the year to end-November 2018.

## FINANCIAL PERFORMANCE

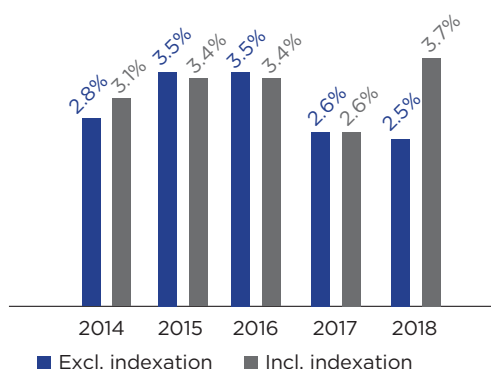
Mercialys financial performance is principally assessed via:

- the **organic growth** in rents, which is a measure of the intrinsic evolution of the Company's revenues excluding, notably, the impact of any acquisitions or disposals;
- the **EBITDA<sup>(1)</sup> margin**, which gauges the efficiency of its operational management;
- **Funds From Operations (FFO)**, which assesses changes in its recurring results;
- the **net asset value (NAV)**, or residual underlying value of the Company's assets, after repayment of its creditors;
- **LTV, ICR and Net debt to EBITDA** ratios, which make it possible to assess the sustainability of its debt;
- the **dividend yield**, 95% of the FFO and 60% of the capital gains being payable in the form of dividends depending on the tax status of the Real Estate Investment Trusts (SICs), a status from which Mercialys has benefited since 2005.

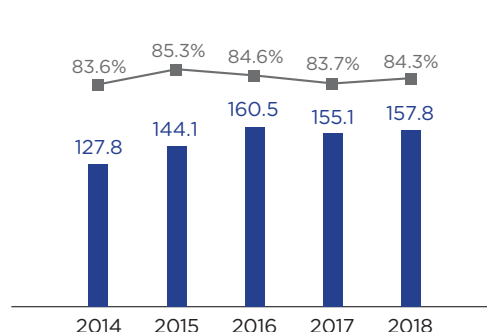
### In 2018

Mercialys posted a 14<sup>th</sup> consecutive year of organic growth in its invoiced rents, thereby confirming a proven capacity to adapt its assets over time. Once again, the results generated were excellent, allowing for the revaluation of the property portfolio, the maintenance of a balanced financial structure and an attractive dividend return.

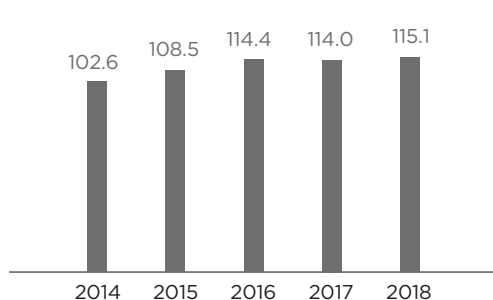
#### CHANGE IN THE ORGANIC GROWTH RATE OF INVOICED RENTS



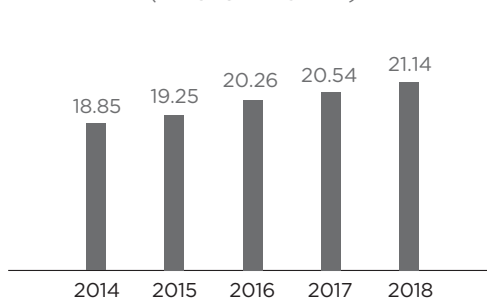
#### CHANGE IN EBITDA (IN EURO MILLION) AND EBITDA MARGIN



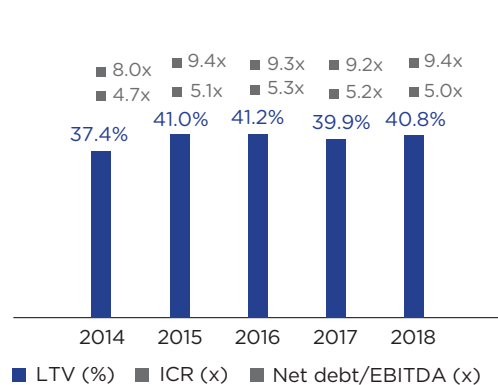
#### CHANGE IN FUNDS FROM OPERATIONS (IN EURO MILLION)



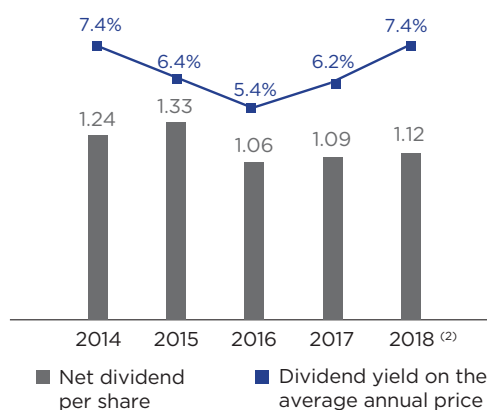
#### CHANGE IN EPRA NNAV (IN EURO PER SHARE)



#### CHANGE IN LTV (EXCLUDING TRANSFER TAXES), ICR AND NET DEBT TO EBITDA RATIO



#### CHANGE IN DIVIDEND (EURO PER SHARE) AND DIVIDEND YIELD



(1) Earnings before interest, taxes, depreciation, amortization and other operating income and expenses. Margin calculated on rental revenues

(2) Subject to the approval by the Annual General Meeting on April 25, 2019.



## EXTRA-FINANCIAL PERFORMANCE

Mercialys extra-financial performance is monitored via:

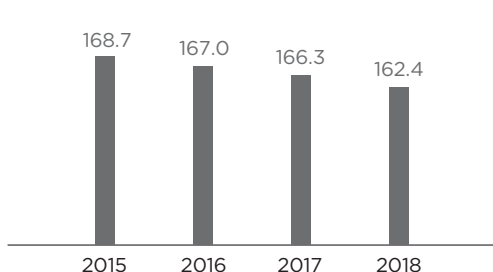
- the **areal energy intensity** of its centers, which is a gauge of their efficiency in the field of energy consumption;
- the **proportion of the portfolio that is BREEAM In-Use certified**, the leading international certification in the retail real estate sector;
- the **proportion of new leases signed in the year covered by environmental clauses**, which shows the cooperation between the Company and its retailers in the field of sustainable development;
- **direct and indirect carbon emissions (scopes 1 and 2)**, a key monitoring indicator to manage Mercialys' carbon footprint, connected to its commitment to tackling climate change;
- **employee training**, which ensures their professional development and the right match of their profiles with future skills needs;
- the **gender pay gap**, or the ability to ensure the equal treatment of all employees and recognize their unique talents and diversity.

### In 2018

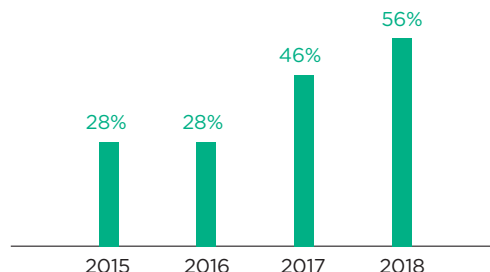
Mercialys continued its drive to reduce its environmental impact, further reducing the areal energy intensity of its shopping centers. 56% of its portfolio is now BREEAM In-Use certified.

The Company also continued its efforts to provide employees with equal working conditions, both via training programs and via compensation levels

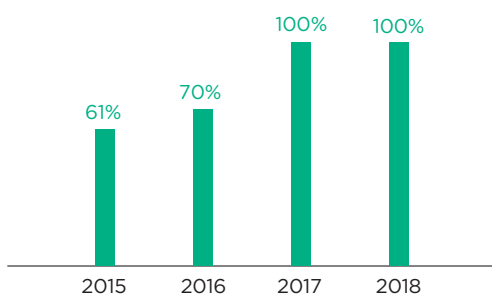
**CHANGE IN AREAL ENERGY INTENSITY**  
(IN KWH/SQ.M - LIKE-FOR-LIKE BASIS)



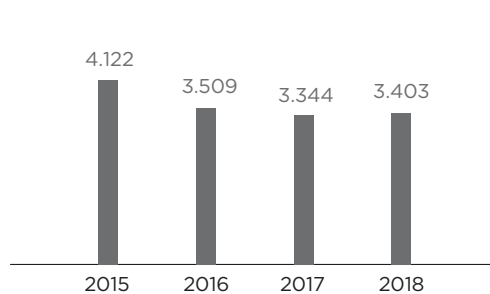
**CHANGE IN THE PROPORTION OF PORTFOLIO WITH BREEAM IN-USE CERTIFICATION**  
(IN % OF THE APPRAISAL VALUE INCLUDING TRANSFER TAXES)



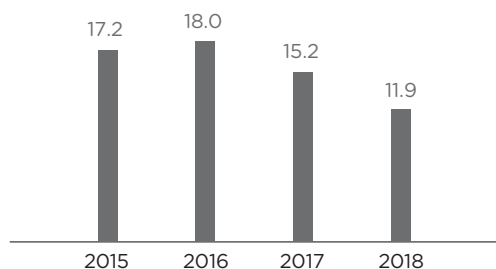
**CHANGE IN THE PROPORTION OF LEASES SIGNED DURING THE YEAR COVERED BY ENVIRONMENTAL CLAUSES**



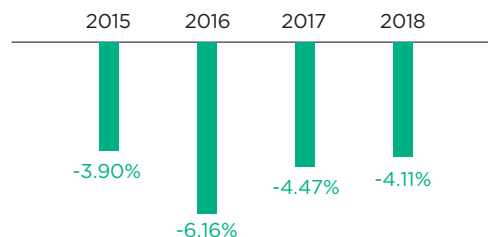
**CHANGE IN DIRECT AND INDIRECT CARBON EMISSIONS**  
(SCOPES 1 AND 2 - IN TONS CO2 EQUIVALENT - LOCATION-BASED METHOD - LIKE-FOR-LIKE BASIS)



**CHANGE IN THE AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE TRAINED**



**CHANGE IN THE PAY GAP BETWEEN MEN AND WOMEN <sup>(1)</sup>**



Mercialys 2018 extra-financial performance is in line with the targets of its MERY'21 CSR strategy and have once again been acknowledged by the best industry benchmarks and rating agencies.

Mercialys achieved *Prime* status from ISS-Oekom and was included on the CDP's<sup>(2)</sup> *A-list*, in recognition of its remarkable progress in the field of sustainable development, in taking into account the expectations of all of its stakeholders and in the pluralistic nature of its value creation.

In addition, for the fifth year in a row, Mercialis leadership in gender equality was recognized by the Prize for the best feminization among the top 100 SBF 120 companies. These feminization rankings for the governing bodies of the major

listed companies is organized every year by the French Secretary of State in charge of gender equality and Ethics & Boards.

Finally, Mercialis' firm commitment to the transparency of information was once again recognized, the Company being very widely applauded in 2018 for the quality and clarity of its reporting. First of all by the EPRA, which once again gave it two Gold Awards, one for its financial communications, the other for its extra-financial communications. Then, at the 9<sup>th</sup> ceremony of the Grands Prix de la Transparence<sup>(3)</sup>, where it was awarded the 2018 Grand Prix Toutes Catégories, naming the company leader among the SBF 120 in terms of the transparency of financial and extra-financial information and of regulatory reporting.



| Year | GRESB                                       | CDP                                  | Gaia  | vigeo                                | eiris                               | ISS-oekom   | MSCI  | SUSTAINALYTICS   | TRANSPARENCE                      | EPRA                            | ETHICS BOARDS |
|------|---|--------------------------------------|---|--------------------------------------|-------------------------------------|-------------|---|--|-----------------------------------|---------------------------------|---------------|
| 2015 | Score: 64/100                               | -                                    | Score: not comparable<br>Member of the Gaia index | Score: 47/100                        | Rating: D+                          | Rating: A   | -   | 79 <sup>th</sup> in the SBF 120  | BPR Gold award                    | 10 <sup>th</sup> in the SBF 120 |               |
| 2016 | Score: 64/100                               | -                                    | Score: 73/100<br>Member of the Gaia index         | Score: 47/100<br>(no review in 2016) | Rating: D+                          | Rating: A   | Score: 39/100 <sup>(4)</sup>                        | 83 <sup>rd</sup> in the SBF 120  | BPR Gold Award                    | 6 <sup>th</sup> in the SBF 120  |               |
| 2017 | Score: 84/100<br>Obtained Green Star status | Rating: A-                           | Score: 79/100<br>Member of the Gaia index         | Score: 51/100                        | Rating: C-                          | Rating: A   | Score: 67/100 <sup>(4)</sup>                        | 3 <sup>rd</sup> in the SBF 120<br>Price for the best improvement in the year | BPR Gold Award<br>sBPR Gold Award | 12 <sup>th</sup> in the SBF 120 |               |
| 2018 | Score: 87/100<br>Green Star status          | Rating: A<br>Inclusion on the A-List | Score: 82/100<br>Member of the Gaia index         | Score: 51/100<br>(no review in 2018) | Rating: B-<br>Obtained Prime status | Rating: BBB | Score: 67/100 <sup>(4)</sup><br>(no review in 2018) | 1 <sup>st</sup> in the SBF 120<br>Grand Prix Toutes Catégories               | BPR Gold Award<br>sBPR Gold Award | 4 <sup>th</sup> in the SBF 120  |               |

(1) Excluding senior executives.

(2) Carbon Disclosure Project: nonprofit international organization which studies each year the impact of major listed companies on CO<sub>2</sub> emissions and climate change.

(3) The Grands Prix de la Transparence awards are given each year to French companies listed on the SBF 120 for their regulatory reporting judged on the basis of 205 objective criteria regarding their main financial communication materials.

(4) Estimated.

# CONTROLLED RISK PROFILE

Mercialys excellent results are generated with a measured risk profile and complying with the best practices in the field of professional conduct. The entire Mercialys risk management and internal control system is aimed at ensuring the achievement of the objectives set by the executives without jeopardizing the future of the structure, and ensuring compliance with professional ethics and standards.

## Organization and approach

Mercialys risk prevention approach is community-based. The Company has indeed decided to place risk management at both the heart of its strategy and of its operations, entrusting its steering to a Risk Prevention Committee (RPC) that reports directly to Senior management and involves all employees in implementing the operational measures.

The RPC's main aim is to manage risks by:

- identifying and analyzing the risks borne by Mercialys;
- evaluating the existing procedures and implementing actions to complete or optimize risk mitigation;
- organizing checks on the correct application of procedures by operational staff.

The RPC works in direct liaison with the Mercialys Audit, risks and sustainable development committee, the prerogatives of which are to regularly acquaint itself with the features of the risk management and internal control mechanisms in place and make observations and recommendations on the completed audits.

The RPC also relies on all Company employees, who must ensure that the internal control and risk management procedures are effective. Employees play a preventive role in the strategy by engaging in frequent discussions with the head of internal control on possible improvements to the procedures and/or when new risks are identified.

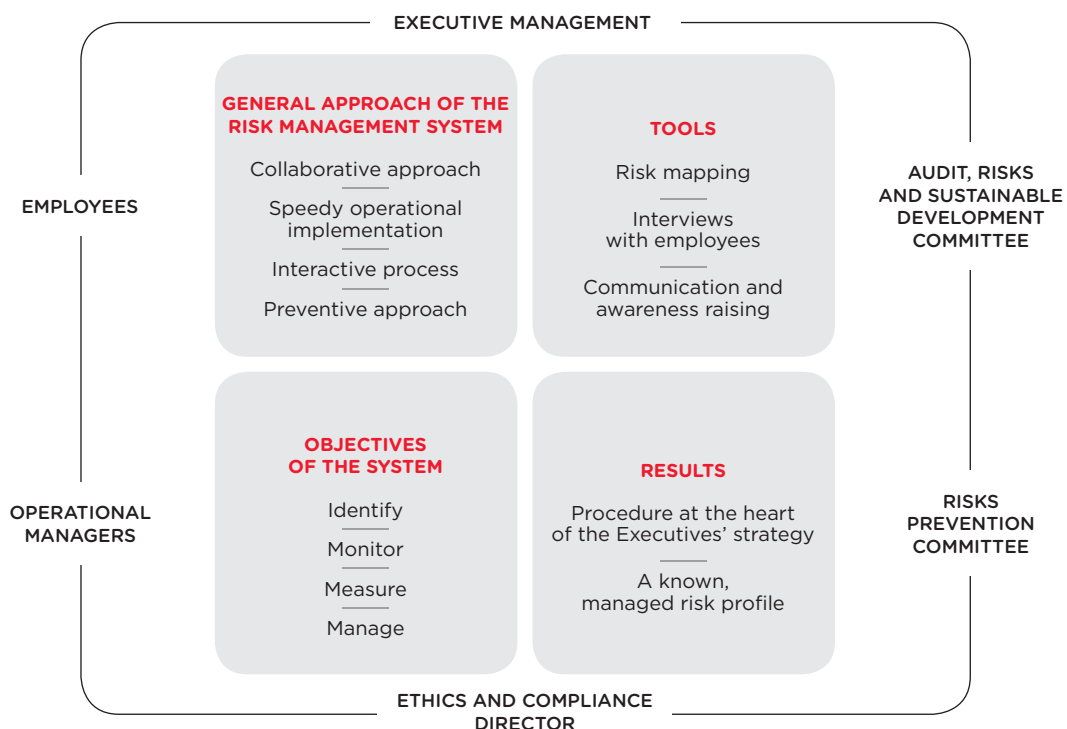
## Risk mapping

The essential tool the RPC uses to manage risks is risk mapping, which involves analyzing all risks to which Mercialys is exposed to. 67 risks of 3 major types have been identified to date and categorized into 10 categories. Each one is scored according to its impact (on the FFO if it is quantifiable) and likelihood of occurrence.

The mapping, which is regularly updated, is based on an iterative process of risk review depending on the situation Mercialys finds itself in at the time. Active oversight and regular discussions with employees make it possible to monitor trends and, if needed, quickly and effectively adapt hedging levels and tools.

As well as giving Mercialys a high-performance way of monitoring its risks, risk mapping is also an opportunity to communicate internally about these issues, and strengthen the culture of sharing, promoting an individual as well as a collective approach to managing risks.

### SUMMARY OF RISK MANAGEMENT STAKEHOLDERS AND SYSTEM



## List of priority risks

Following the publication in the Official Journal of the European Union on June 30, 2017 of (EU) Regulation 2017/1129 of June 14, 2017 reviewing the Prospectus directive, Mercialys decided to anticipate regulatory changes relating to the clarity and simplification of the way information about risks is presented.

To do this, the Company adopted a risk classification based on their relative importance, limiting itself to describing in chapter 5 «Risk factors» of its 2018 Registration Document the 12 risks deemed the highest priority out of the 67 risks of all kinds identified, and dealt with by its Risk Prevention Committee.

| RISK TYPE       | RISK CATEGORY        | RISK  | RISK TREND |
|-----------------|----------------------|---|------------|
| FINANCIAL       | Equity and financial | Risk concerning the capitalization rate and portfolio value                             | ↗          |
|                 | Equity and financial | Risk concerning the interest rates and cost of debt                                     | ↗          |
|                 | Business-related     | Insurance-related risk  | →          |
|                 | Business-related     | Suppliers' payment risk   | ↘          |
| EXTRA-FINANCIAL | Health and safety    | Risk related to health and safety   | →          |
|                 | Business-related     | Risk related to portfolio impairment/deterioration                                      | →          |
|                 | CSR                  | Risk linked to climate change   | →          |
| OPERATIONAL     | Business-related     | Risk linked to letting  | →          |
|                 | Equity and financial | Risk of financial counterparties (retailers)  | →          |
|                 | Business-related     | Risk related to rental management   | ↘          |
|                 | Business-related     | Risk related to Delegated Project Management  | →          |
|                 | IT                   | Risk related to the protection of the personal data of clients, suppliers and employees | ↘          |

↗ Rising   → Stable   ↘ Decreasing

In addition, although for triggering thresholds reasons Mercialys is not required to issue an extra-financial performance statement, the Company has decided to continue its approach of perfect transparency by adhering to the regulatory requirements relating to the European Directive on extra-financial reporting and continues to submit its information to the opinion of an Independent Third Party Body.

Chapter 2 «Corporate Social Responsibility» of its 2018 Registration Document, reorganized according to best industry practices, present all priorities of its CSR strategy and the way they comprehensively cover the 27 extra-financial risks that affect the Company (3 of them are among the 12 high-priority risks referred to above). Each priority is precisely described, and a limited number of relevant quantitative indicators was selected to measure the efficiency of the action plans introduced and the evolution of the residual risks over the years.

## Ethics, an integral part of the risk prevention system

Mercialys also has an Ethics and Compliance Director, also acting as DPO<sup>(1)</sup>, who has carried out specific preventive mapping of ethics and compliance risks. This director is a member of the Risks Prevention Committee and also serves as the Company's Ethics officer. His work is based on the Company's Charter of ethics and code of business conduct that is available in French and English on the corporate website: [www.mercialys.com](http://www.mercialys.com). Any employee can easily contact him as part of a whistleblowing process in accordance with applicable legislation. 84% of employees attended the ethics training session held in 2018 (vs 85% in 2017).

Mercialys also pays special attention to preventing insider trading. The Company has an Insider trading policy that specifically addresses these matters and systematically reminds the people concerned of the beginning of blackout periods<sup>(2)</sup>.

Finally, lobbying activities are exercised exclusively at national level by industry associations of which the Company is a member (EPRA, CNCC<sup>(3)</sup> and FSIF<sup>(4)</sup>).

(1) Data Protection Officer: person in charge of data protection within a company.

(2) Periods during which no transactions on Mercialys financial instruments are allowed.

(3) National Shopping Centre Council: French professional organization that brings together all professionals in the shopping center industry and regularly publishes national performance indicators.

(4) French Federation of Real Estate Companies: industry association, in touch with the administration, economic and social bodies and other associations in the real estate industry.

# GOVERNANCE AT THE SERVICE OF OUTPERFORMANCE

Mercialys' strategy is driven by management bodies that meet the best international standards. The composition of the Board of Directors and of the Specialized Committees reflects the structure of its shareholder base, both diverse and balanced. The constant pursuit of operational excellence is reflected in the ambitious targets set for the Company's Executives and the associated compensation structures.

## MANAGEMENT BODIES ALIGNED WITH THE BEST STANDARDS

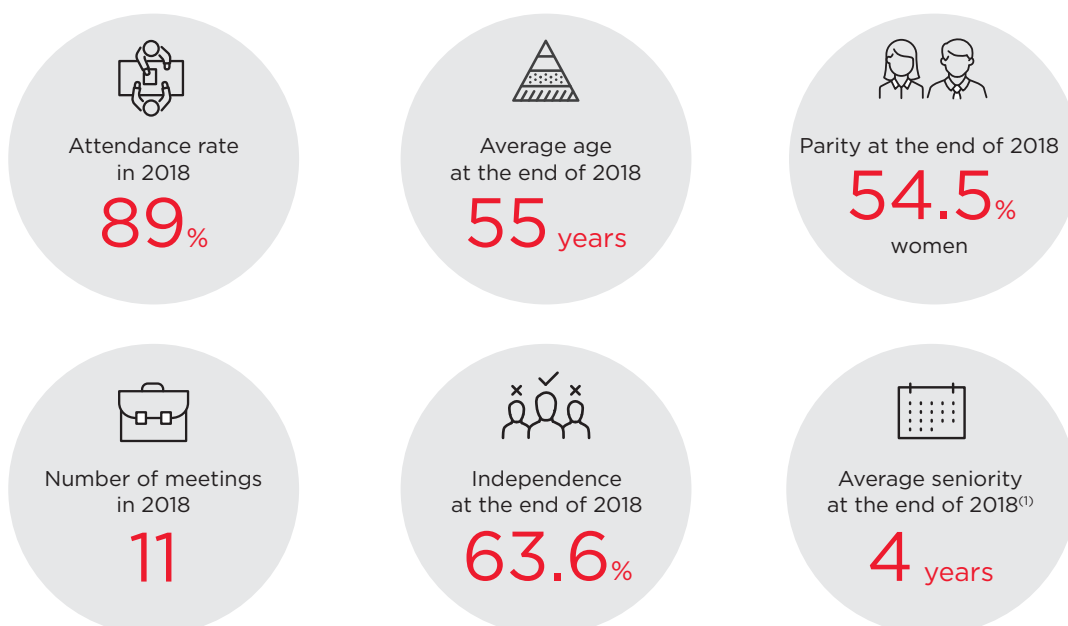
### Board of Directors

The Board of Directors went through changes in 2018 which led it to review its membership and enabled it to further consolidate the Company's excellent practices, thereby strengthening in particular its capacity to develop its proactive and responsible strategy.

Until February 13, 2019, the functions of Chairman of the Board of Directors and Chief Executive Officer were combined. Since this date and to further improve the quality of Mercialys' governance, a decision was made to separate the functions of Chairman of the Board of Directors and of Chief Executive Officer. Mr Éric Le Gentil remains Chairman of the Board of Directors and Mr Vincent Ravat was appointed Chief Executive Officer. Ms Elizabeth Blaise, on her side, was appointed Deputy Chief Executive Officer.

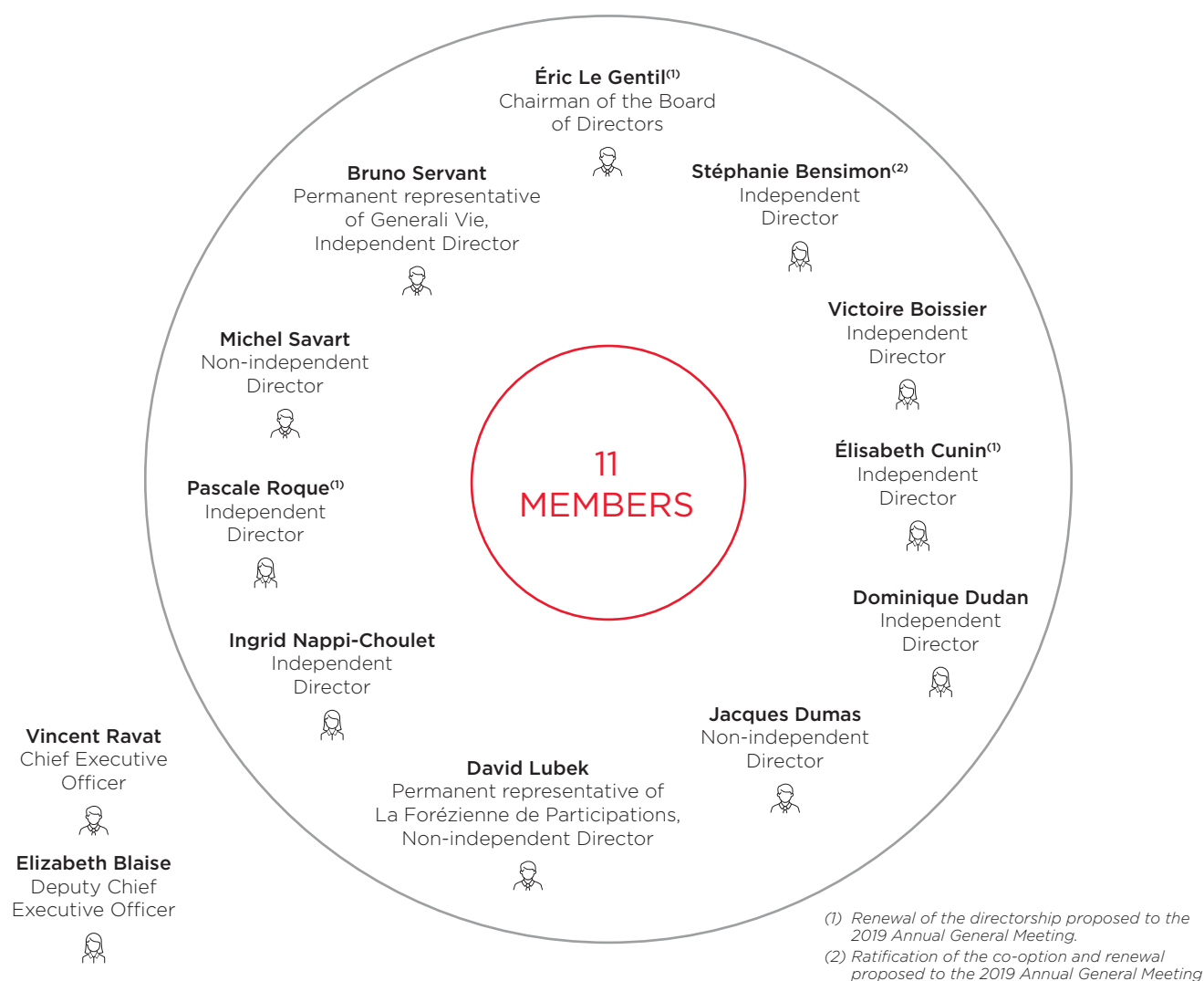
Further, following the disposal of 15% of Mercialys' capital, announced on July 26, 2018, Casino Group reduced its representation at Mercialys Board of Directors from four to three seats. Therefore, there are now 11 directors on the Board, 7 of which are independent and a majority of women.

The Board regularly surveys its members about the ideal balance of its composition and of its Specialized committees in order to assure its shareholders and the market at all times that its duties are accomplished with the required independence and objectivity.



(1) With Mercialys' Board of Directors.

## Composition of the Board of Directors as of February 13, 2019 - date of approval of the 2018 financial statements



With the co-option of Stéphanie Bensimon, Mercialys confirms its strong commitment to diversify and to renewing the competencies of its Board of Directors, which is made up of a panel of experienced members and with proven expertise. This

composition guarantees a professional and skilled approach to all the issues encountered by Mercialys, well beyond the retail and real estate aspects, and is a source of innovation and strategic foresight.

### Board members' competencies

|                      | Real Estate/<br>Construction/<br>Urban Planning | Research | Legal/<br>Human<br>Resources | Finance/<br>Accounting | Company<br>management | Insurance | Retail/<br>Hospitality | Others <sup>(1)</sup> |
|----------------------|---|----------|------------------------------|------------------------|-----------------------|-----------|------------------------|-----------------------|
| Éric Le Gentil       | ●   |          | ●                            | ●                      | ●                     | ●         |                        | ●                     |
| Stéphanie Bensimon   | ●   |          | ●                            | ●                      | ●                     |           |                        |                       |
| Victoire Boissier    | ●   |          |                              | ●                      | ●                     |           | ●                      |                       |
| Élisabeth Cunin      | ●   |          | ●                            | ●                      | ●                     |           | ●                      | ●                     |
| Dominique Dudan      | ●   |          | ●                            | ●                      | ●                     |           | ●                      | ●                     |
| Jacques Dumas        | ●   |          | ●                            | ●                      | ●                     |           | ●                      |                       |
| David Lubek          | ●   |          |                              | ●                      | ●                     | ●         | ●                      |                       |
| Ingrid Nappi-Choulet | ●   | ●        |                              | ●                      |                       |           |                        | ●                     |
| Pascale Roque        | ●   |          | ●                            | ●                      | ●                     |           | ●                      |                       |
| Michel Savart        | ●   |          | ●                            | ●                      | ●                     |           | ●                      |                       |
| Bruno Servant        | ●   |          |                              | ●                      |                       | ●         |                        | ●                     |

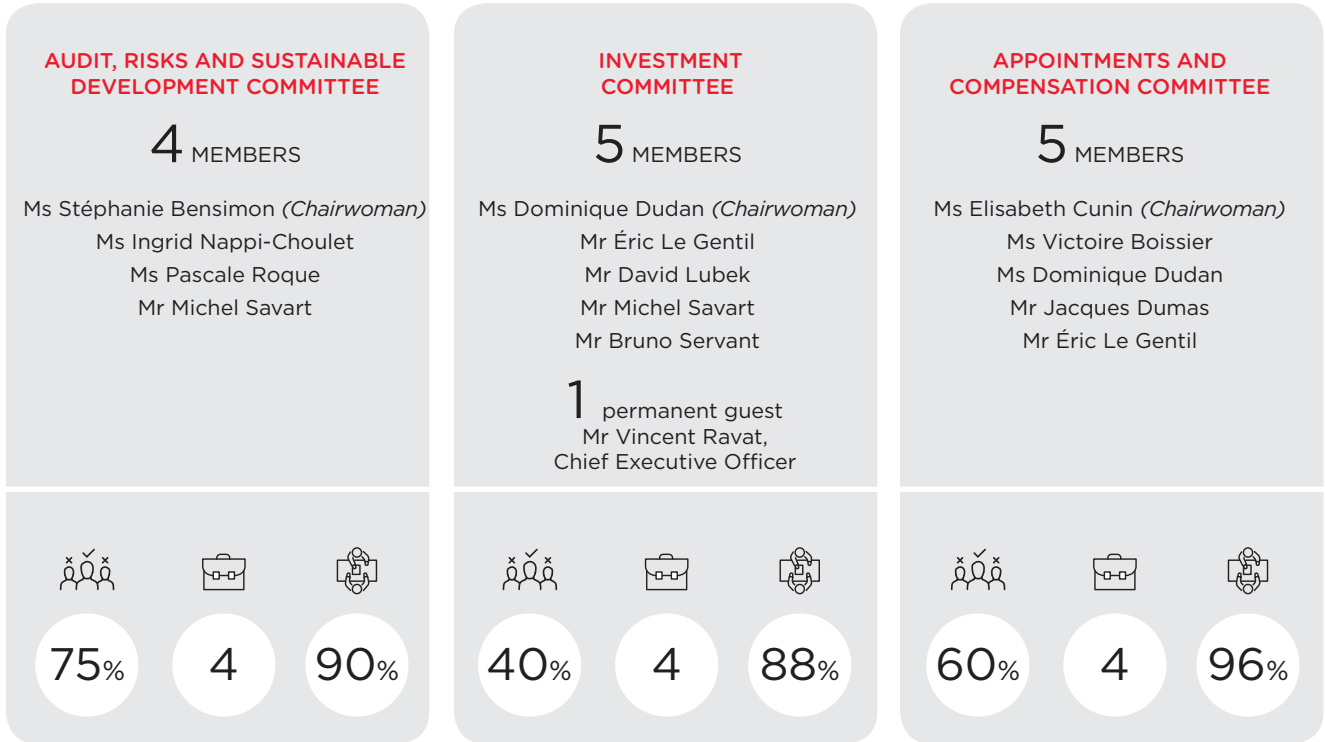
(1) IT, Health, CSR...

## Specialized Committees

The composition of the three Specialized Committees which assist the Board of Directors, namely the Audit, risks and sustainable development committee, the Investment committee and the Appointments and compensation committee is based on the same logic. All chaired by female

independent directors, they endeavor to guarantee balanced representation, independence and expertise of their members, to achieve an objective and enlightened management of the Company and a long-term, distinctive strategy.

### Composition of the Specialized Committees as of February 13, 2019 - date of approval of the 2018 financial statements



Independent members rate



Number of meetings in 2018

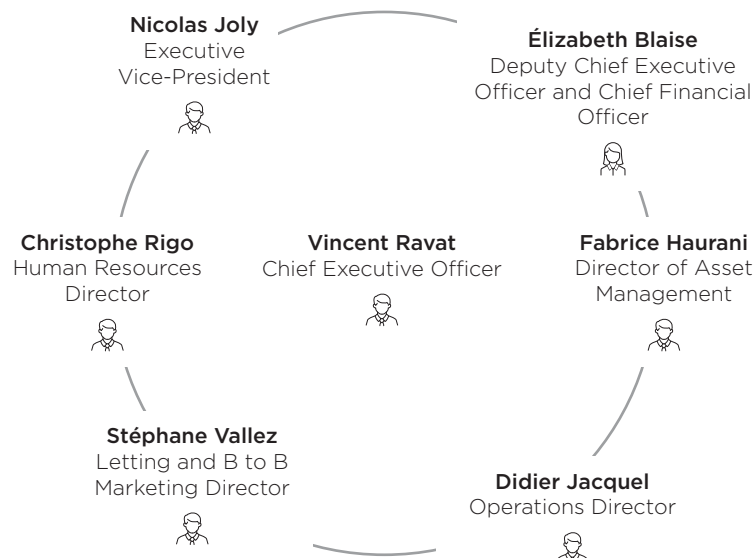


Attendance rate

## Management Committee

As of February 13, 2019, the Mercialys Management Committee was made up of a team of 7 members. All the members of the Committee have an excellent understanding of the business and sectoral challenges of Mercialys. Their varied professional backgrounds and experiences offer opportunities for numerous exchanges and ideas, and their complementary competencies,

combined with the versatility of each one of them, strengthens the Committee's organizational flexibility. The Management Committee meets once a month, at a frequency considered appropriate given the rhythms of Mercialys' activity. Its members as of February 13, 2019 included:



## A DIVERSE, BALANCED SHAREHOLDER BASE

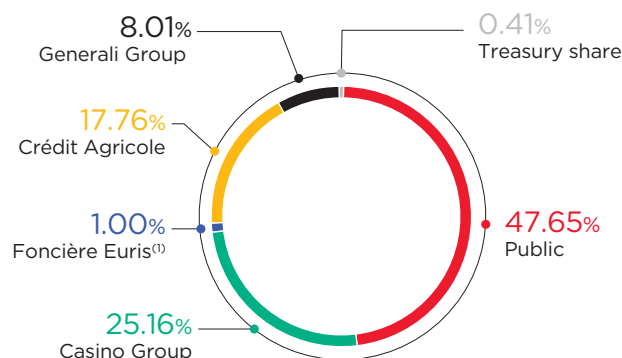
Mercialys has been listed on Euronext Paris, in compartment A, under the ticker MERY and ISIN FR0010241638 since its IPO on October 12, 2005. The Company is a member of SBF 120 and the Gaia SRI Index. The number of shares comprising its share capital at December 31, 2018 totaled 92,049,169 shares.

Mercialys' responsible strategy and sustainable outperformance are made possible by the nature of its shareholding. Historically, the Company has always had a stable shareholder base, marked by the presence of an industrial reference shareholder which supports and encourages the development of action plans which create value over the medium and long-term.

The presence of this industrial shareholder in the capital refocuses expectations toward a less short-termist attitude and develops a strategy more in step with the structurally long timescales in the real estate industry. By ensuring a good understanding of business priorities and more specifically retail, and by ensuring a better consideration of CSR issues, ethics and stakeholder expectations, this shareholder contributes to the Company's sustainable growth.

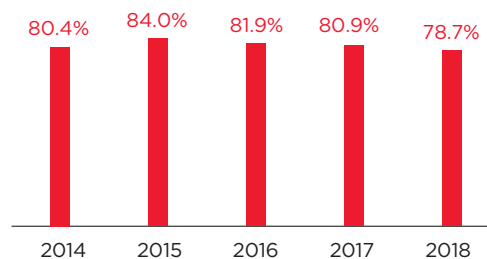
Nevertheless, Mercialys shareholding structure is still largely open, diversified and balanced. The 48% of free float provides significant liquidity to the Company's shares and the capacity to build up significant positions. Mercialys also guarantees equal treatment for all its shareholders, in accordance with the «one share, one vote» rule and facilitates voting at Annual General Meetings (electronically or on paper), as well as the submission of questions and motions. This leads to high voter participation rate each year at Annual General Meetings.

BREAKDOWN OF SHARE CAPITAL AT DECEMBER 31, 2018



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

HISTORY OF VOTER PARTICIPATION RATE AT ORDINARY GENERAL MEETINGS



## A MEASURED AND RESPONSIBLE COMPENSATION POLICY

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

### Chairman of the Board of Directors

Since the adoption of the two-tier governance structure on February 13, 2019, the compensation of the Chairman of the Board of Directors, Mr Éric Le Gentil, is made up of a fixed part, determined after taking into account benchmark studies conducted by the Appointments and compensation committee and in light of the roles conferred upon him outside of the general allocations provided for by law:

- maintain relations with major shareholders and with the Company's major financial and/or industrial partners;
- participate in the development of strategy and oversee its implementation;
- be the interface between the Board of Directors and the Senior management.

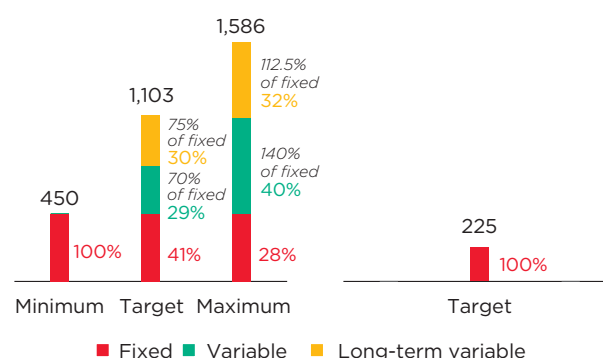
Éric Le Gentil does not receive, as President, any variable compensation either in cash or shares. He receives directors' fees as a Director and in respect of his participation in the Investment committee and the Appointments and compensation committee.

His compensation structure for 2019 is as follows:

- fixed yearly compensation: Euro 225,000, i.e. 50% of his 2018 fixed compensation as Chairman and Chief Executive Officer;
- directors' fees: as provided by the rules in force within the Company.

### Compensation structure of Mr Éric Le Gentil

2018 AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
2019 AS CHAIRMAN  
(IN EURO THOUSANDS)



## Chief Executive Officer and Deputy Chief Executive Officer

The compensation structure for the executive corporate officers, Mr Vincent Ravat, Chief Executive Officer, and Ms Elizabeth Blaise, Deputy Chief Executive Officer, since February 13, 2019, is made up of a fixed part, an annual variable part and a long-term incentive part in the form of a bonus share award.

The level of fixed compensation paid by Mercialis to corporate officers is very reasonable in light of the excellent results generated every year by the Company, the experience and level of the executive corporate officers, and compared with industry practices.

The fixed compensation of Mr Vincent Ravat, Chief Executive Officer, after taking into account the benchmarks produced by the Appointments and compensation committee, was raised from Euro 300,000 to Euro 360,000 in light of his new role. The fixed salary of Ms Elizabeth Blaise, Deputy Chief Executive Officer, was set at Euro 230,000 in light of her new role. As the Deputy Chief Executive Officer is continuing to perform her duties as Chief Financial Officer, her remuneration is divided as follows: half on the basis of her corporate function and half in respect of her contract of employment.

The criteria, objectives and thresholds used to determine the annual variable compensations are also logical and demanding. In 2018, 80% of the compensation depended on quantitative criteria (individual and Group) including 1 CSR target for 10%, and 20% on managerial criteria, in order to assess the performance

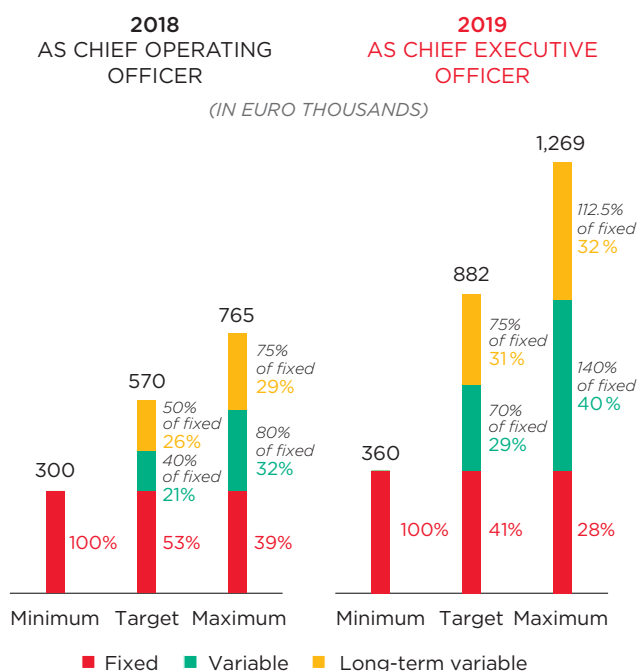
of executives on the basis of essentially quantifiable elements. It was decided to maintain the 2018 variable compensation mechanism for the 2019 compensation policy, which will be put to the vote of the Annual Shareholder Meeting to be held on April 25, 2019.

Finally, a multi-year long term incentive, in the form of a bonus share award, is designed to permanently associate executives with Mercialis shareholding performance. For 2019, this share allocation will be subject:

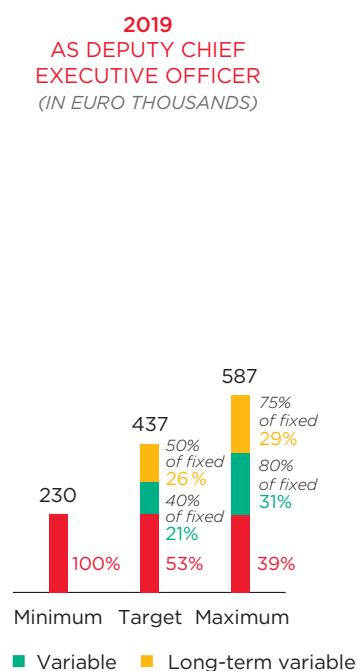
- for 40%, to a relative performance criteria of the Mercialis share including dividends (Total Shareholder Return - TSR) measured over 3 years, between January 1, 2019 and December 31, 2021;
- for 20%, to rental revenues organic growth measured as an annual average over 3 years between January 1, 2019 and December 31, 2021;
- for the remaining 40%, to a FFO growth criteria, measured as an annual average over 3 years between January 1, 2019 and December 31, 2021.

These shares are subject to a three year vesting period, with a condition of presence within the Company at the conclusion of these three years, as well as a two year holding period (of which at least 50% of the shares until termination of their corporate position). These time frames are in accordance with the recommendations of proxy agencies.

### Compensation structure for Mr Vincent Ravat



### Compensation structure for Ms Elizabeth Blaise



## FINANCIAL CALENDAR

**April 23, 2019<sup>(1)</sup>**

2019 first quarter activity

**April 25, 2019**

Annual General Meeting

**April 29, 2019<sup>(2)</sup>**

Ex-dividend date

**May 02, 2019<sup>(2)</sup>**

Dividend payment date

**July 24, 2019<sup>(1)</sup>**

2019 half-year earnings

**July 25, 2019**

Financial information meeting

**October 16, 2019<sup>(1)</sup>**

2019 activity at end-September

*(1) After market close.*

*(2) Subject to approval by the Annual General Meeting on April 25, 2019.*

## WARNING

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

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

Please refer to Mercialys Registration Document for the financial year ended December 31, 2018, found on the Company's website at [www.mercialys.com](http://www.mercialys.com), and more specifically to the chapter 5 "Risk Factors", for more details regarding certain significant factors, risks and uncertainties that may affect the Company's business.

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



PRIME CONVENIENCE MALLS

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